AFL/2023–24/148

11th December 2023

To
BSE Limited,
Listing Department,
P J. Towers,
Dalal Street,
Fort,
Mumbai – 400 001

Sub: Intimation under regulation 55 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Rating

Dear Sir / Ma'am,

Pursuant to regulation 55 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please note that CARE Ratings Limited has reaffirmed the ratings for the Short Term and Long-Term Instruments of the Company as mentioned below:

Rating Agency	Instruments	Existing Ratings	Reaffirmed Ratings
CARE Ratings Limited	Long Term / Short Term Bank Facilities	CARE AAA; Stable / CARE A1+	CARE AAA; Stable / CARE A1+
	Subordinate Debt	CARE AAA; Stable	CARE AAA; Stable
	Perpetual Debt	CARE AAA; Stable	CARE AAA; Stable
	Market Linked Debentures	CARE PP-MLD AAA; Stable	CARE PP-MLD AAA; Stable
	Non – Convertible Debentures	CARE AAA; Stable	CARE AAA; Stable

Please find enclosed the letter received from CARE Ratings Limited.

Kindly take the above on record and oblige.

Sincerely,
For **Axis Finance Limited**

RAJNEESH KUMAR
Digitally signed by RAJNEESH KUMAR
Date: 2023.12.11 11:25:25 +05'30'

Rajneesh Kumar
Company Secretary
Membership No. A31230
Email id – rajneesh.kumar@axisfinance.in

Axis Finance Limited

December 07,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	10,000.00	CARE AAA; Stable / CARE A1+	Reaffirmed
Subordinate Debt	3,500.00	CARE AAA; Stable	Reaffirmed
Perpetual Debt	2,000.00	CARE AAA; Stable	Reaffirmed
Market Linked Debentures	1,500.00	CARE PP-MLD AAA; Stable	Reaffirmed
Non-Convertible Debentures	23,000.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the various debt instruments and bank facilities of Axis Finance Limited (AFL) factor in the strong parentage of Axis Bank Limited (ABL; rated 'CARE AAA; Stable') and the demonstrated financial support, as reflected in the periodic equity infusion, the operational and management linkages, along with the shared brand identity by way of shared name and logo.

The ratings continue to factor in AFL's comfortable capitalisation, diversification in asset profile, improvement in profitability, along with improved asset quality performance and the diversified funding profile. The company has been focusing on diversifying its asset profile towards more granular products over the past few years; however, the inherent concentration risk in the wholesale lending business continues.

The ratings also take into consideration AFL's strategic importance to ABL along with the financial flexibility of AFL being a subsidiary of ABL. CARE Ratings Limited (CARE Ratings) expects AFL to continue to derive support from the parent in future as well.

Going forward, the ability of the company to continue to diversify its presence across its granular product profile while maintaining the asset quality and profitability will be key to improve its standalone credit profile.

The rating assigned to the perpetual debt factors in the capital buffer and profitability maintained by AFL, in addition to the parentage of ABL. AFL has been maintaining adequate cushion over the minimum regulatory requirement, supported by periodic capital infusion by ABL as well as accretion of profits and has indicated to maintain a capital adequacy ratio (CAR) above 17% over the next year. CARE Ratings expects AFL to continue to maintain the capital cushion at similar levels, going forward.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable

Negative factors

- Deterioration in the credit profile of the parent, ABL.
- Material changes in the ownership structure, dilution in the expected support from ABL or significant changes in the strategic importance of AFL to ABL.
- Significant decline in the profitability or deterioration in the asset quality parameters.

Analytical approach: AFL has been assessed based on the standalone credit profile, factoring in the parentage of ABL, the managerial and operational linkages, and the expected financial support on account of 100% shareholding and shared brand name.

Outlook: Stable

The stable outlook takes into consideration AFL's strong parentage of ABL (rated 'CARE AAA; Stable'), demonstrated by the financial support in terms of periodic equity infusion, operational and management linkages, along with the shared brand identity by way of shared name and logo, along with the comfortable capitalisation, diversified product profile, and continued improvement in the profitability and asset quality performance.

Detailed description of the key rating drivers:

Key strengths

Strategic importance and strong linkages with the parent, ABL

The ratings factor in the strong operational and financial linkages between AFL and ABL and the credit strength of ABL. AFL is a wholly owned subsidiary of ABL. AFL is a company having strategic importance for the Axis group by being part of the group's 'One Axis' strategy, providing various financial services. Furthermore, the bank has extended its brand identity in terms of shared name and logo to AFL, which creates a moral obligation on the bank to provide support in terms of need. Also, the company has access to the branch network of the bank, through co-shared branches.

ABL has been infusing equity capital periodically to meet the growth capital requirement of AFL. The bank has infused ₹400 crore during FY23, and additionally, around ₹300 crore is envisaged for FY24. Apart from the capital infusion, the bank has also provided funding lines to AFL.

The Managing Director and Chief Executive Officer (MD & CEO) of ABL, Amitabh Chaudhry, is the Non-Executive Chairman of the Board of Directors of AFL, and Deepak Maheshwari, the former Group Executive and Chief Credit Officer of ABL, is the Non-Executive Director of AFL. The formulation and monitoring of policies related to credit, risk, and human resources of AFL are approved under the supervision of the bank.

Going forward too, AFL is expected to be of strategic importance to the parent and is expected to continue to have strong linkages with ABL.

Comfortable capital position with periodic equity infusion and steady profitability

AFL has maintained comfortable capitalisation levels over the years, while it has significantly scaled up its business, supported by periodic capital infusion by the parent.

The company reported a total CAR of 20.10% and Tier-I CAR of 14.79% as on March 31, 2023 (March 31, 2022: CAR – 19.18%, Tier-1 – 14.03%). As on September 30, 2023, the total CAR stood at 17.77% and Tier-I CAR stood at 13.78%. On account of the capital infusion during FY23, the overall gearing of the company improved to 6.50x as on March 31, 2023, as compared to 7.06x as on March 31, 2022. As on September 30, 2023, the gearing stood at 6.89x. The company plans to maintain a leverage under 7.5x on a steady state basis; nevertheless, the company enjoys financial flexibility in raising resources due to the parentage of ABL. Going forward, CARE Ratings expects AFL to continue to receive capital support from ABL as it scales up its portfolio.

Diversification in asset under finance (AUF) with focus on retail lending

AFL started its business as a wholesale lender, and in order to diversify its asset profile, entered into retail lending from FY19. Under the retail segment, AFL introduced products like loan-against-property (LAP), business loans, housing loans, and personal loans. During FY22, the company further diversified its wholesale lending portfolio by introducing a segment of funding 'emerging market' entities. Under this segment, AFL lends to small and medium enterprise (SME) and micro, small and medium enterprise (MSME) entities, leading to granularisation of the lending book.

The assets under management (AUM) of the company has witnessed a growth of 47% during FY23 and stood at ₹24,995 crore as on March 31, 2023 (March 31, 2022: ₹17,059 crore). As on September 30, 2023, the AUM stood at ₹29,449 crore. The company has witnessed a growth in the AUF (excluding treasury book) of 36% during FY23 and it stood at ₹22,528 crore as on March 31, 2023 (March 31, 2022: ₹16,624 crore). As on September 30, 2023, the AUF stood at ₹26,393 crore, witnessing a growth of 32% on a y-o-y basis. Of the AUF as on September 30, 2023, wholesale book forms 49%, emerging markets – 7%, and the retail book constitutes 45%, largely comprising of LAP.

The proportion of the wholesale lending book has been reducing since March 2020, with focus towards granular retail book (86% of the total AUF as on March 31, 2020, to 55% of the total AUF as on September 30, 2023). Around 70% of the retail AUF is secured in nature. The company has been focusing on further granularisation of the loan portfolio and plans to have equal proportion of retail and wholesale mix of the AUF in the near to medium term.

Under corporate lending, the company focuses on well-rated firms with strong cash flows and track record, collateralised loans where the company follows a cluster-based approach lending to non-cyclical sectors, and real estate loans which are generally inventory-backed funding to top developers in select micro markets. The rating distribution of the top exposures have remained fairly stable, with incremental disbursements during FY23 towards companies rated 'A-' or above and cash-backed deals. The exposure to real estate developers remained low at 6% of the AUF as on March 31, 2023, and the company intends to keep it below 10% of the AUF.

Diversified funding profile

AFL has a diversified funding profile, deriving strength from being a subsidiary of a large private bank. Over the years, AFL has managed to develop relationships with large banks and continues to actively raise funds from capital markets at competitive rates. AFL's borrowings mainly consist of bank loans (term loans), non-convertible debentures (NCDs, including subordinate debt), and commercial paper (CP), constituting 55%, 36%, and 9%, respectively, of the total borrowings as on September 30, 2023. The average cost of funds stood at 6.88% as on March 31, 2023, as compared to 5.71% as on March 31, 2022, on account of the rising interest rate scenario during FY23. Going forward, the ability of the company to raise funds at competitive rates will be a key rating monitorable.

Improved financial performance[2]

The improvement in the financial performance of the company is led by a stable net interest margin (NIM), higher other income led by income from direct assignment of the portfolio during FY23, and lower credit costs. During FY23, AFL

[2] All the ratios are based on CARE Rating's calculation.

reported a NIM of 4.61% (FY22: 4.74%), slightly moderated due to the higher cost of funds as compared to the lower rise in the yield-on-advances. The other income rose to 0.92% during FY23 (FY22: 0.43%), led by a rise in the income from direct assignment and higher-fee income due to the growth in retail advances.

Despite the growth in branches and a rise in employees, the operating expenses stood stable at 1.40% during FY23 (FY22: 1.38%) due to digitalisation, which helps in improving the operating efficiency with lower turnaround time and lower costs. Due to the improved collection efforts and the robust underwriting policies, the credit costs improved during FY23 and stood at 0.31% for FY23 (FY22: 0.51%). During FY23, the company has written off ₹46 crore of loans as compared to ₹30 crore during FY22. On account of the above, the return on total assets (ROTA) of AFL stood at 2.78% during FY23 (FY22: 2.40%). The return on net worth (RONW) stood at 22.41% during FY23 as compared to 20.09% during FY22.

During H1FY24 (H1 refers to the period from April 01 to September 30), the company reported a profit-after-tax (PAT) of ₹280.9 crore on a total income of ₹1,434.1 crore as compared to a PAT of ₹257.5 crore on a total income of ₹1,032.8 crore during H1FY23.

Going forward, CARE Ratings expects the NIM of the company to contract on account of the rising interest rates due to regulatory changes related to the risk weights, which will be offset by an improvement in the operating efficiency and lower credit costs due to better asset quality parameters, and so, the ROTA is expected to remain stable. However, as the company has started to grow the retail loans in the past few years, the asset quality performance of the same is yet to be established. Hence, the impact of the same on the company's profitability will be a key rating monitorable.

Comfortable asset quality metrics
AFL witnessed substantial improvement in the asset quality over the past few years, post witnessing headwinds due to the COVID-19 infused stress in the wholesale book, led by robust credit underwriting process and stringent collection efforts. The Gross Stage 3 (GS3) and Net Stage 3 (NS3) assets improved to 0.61% and 0.26%, respectively, as on March 31, 2023, as compared to the GS3 and NS3 as on March 31, 2022, which stood at 1.24% and 0.42%, respectively, on account of lower slippages and higher write offs. The company has written-off loans aggregating to ₹46 crore as on March 31, 2023, as compared to ₹30 crore as on March 31, 2022, however, the GS3, including write-offs, stood comfortable at 0.82% as on March 31, 2023 (March 31, 2022: 1.43%). The NS3 to tangible net worth (TNW) stood at 1.90% as on March 31, 2023 (March 31, 2022: 3.33%).

As on September 30, 2023, the asset quality performance further improved, as the GS3 and NS3 stood at 0.53% and 0.27%, respectively. The company has written-off loans amounting to ₹38 crore during H1FY24 and the GS3 including write-offs stood at 0.67% as on September 30, 2023. The NS3/TNW stood at 2.08% as on September 30, 2023. Going forward, CARE Ratings will monitor the performance of the retail loan book, which the company has grown over the past few years, as the asset quality performance of the same is yet to be established.

Key weaknesses

Concentration risk due to exposure towards wholesale book, albeit improvement
AFL's AUF (excluding treasury book) consists of around 58% of corporate banking, which includes corporate loans, collateralised loans, real estate funding, and emerging market funding as on March 31,2023. The wholesale loan book is exposed to concentration risk due to the chunky nature of the loans, however, the same is backed by adequate collateral. The top 20 wholesale loans, as a proportion of the total advances, stood at 15% as on March 31, 2023. The company has reduced the wholesale loan book from 82% of the total AUF as on March 31, 2021, to 55% as on September 30, 2023. This has been achieved through granularisation in the overall loan book, with focus towards retail lending and as AFL has ventured into a new product 'emerging markets' from FY22 onwards, providing loans to the SME and MSME segment across various sectors, backed by collateral with a ticket size ranging from ₹5 crore to ₹25 crore for an average tenure of 11 years. Going forward, the ability of the company to scale up these granular products over the medium term, along with maintaining the asset quality performance, will be a key rating monitorable.

Liquidity: Adequate

The liquidity profile of AFL remains adequate, with no negative cumulative mismatches in any of the time buckets for up to one year as on September 30, 2023, supported by the undrawn line of credit from the parent. The company has contractual debt repayment obligations of ₹6,744 crore up to one year, against which it has inflow from advances of ₹7,373 crore as on September 30, 2023. Over the above mentioned positive mismatch, the company has liquidity in the form of cash and cash equivalents and liquid investments to the tune of ₹582 crore as on September 30, 2023. Furthermore, the company also enjoys liquidity support from the parent in the form of an undrawn line of credit of ₹2,000 crore as on September 30, 2023. Apart from the support from the parent, the company also has undrawn lines of credit of ₹3,458 crore as on September 30, 2023.

The company has maintained a liquidity coverage ratio (LCR) of 149% as on September 30, 2023, as against the Reserve Bank of India (RBI) regulatory LCR of 70% up to December 01, 2023. CARE Ratings expects continued liquidity support from the parent, if the need arises.

Environment, social, and governance (ESG) risks – Not applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Market Linked Notes
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

AFL, incorporated in 2013, is a wholly owned subsidiary of ABL. The company is a systemically important non-deposit-accepting non-banking financial company (NBFC-ND-SI) and is registered with the RBI. The company has been categorised as NBFC-Middle Layer under the scale-based regulation of the RBI. AFL is engaged in providing corporate lending, collateralised loans, real estate loans under the wholesale segment, and the company has forayed into providing retail loans since FY19 onwards, which comprise home loans, LAP, business loans, and personal loans. The company had around 45 standalone branches and 20 co-share branches with ABL and around 94% of the origination of the retail is through direct selling agents (DSAs).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total income	1,433.4	2,326.6	1,434.1
PAT	346.3	579.1	280.9

Total Assets*	17,212.6	23,913.6	27,084.2
Net NPA (%)	0.42	0.26	0.27
ROTA (%)	2.45	2.82	2.20

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Total assets are adjusted for deferred tax asset and intangibles. ^annualised
All the ratios are based on CARE's calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Perpetual debt	INE891K08158	26-Dec-22	8.15%	31-Dec-99	125.00	CARE AAA; Stable
Perpetual debt	Proposed	-	-	-	1875.00	CARE AAA; Stable
Non-convertible debenture	INE891K07820	23-Feb-23	8.07%	23-Feb-28	263.0	CARE AAA; Stable
Non-convertible debenture	INE891K07838	20-Mar-23	8.35%	20-May-26	385.0	CARE AAA; Stable
Non-convertible debenture	INE891K07846	03-May-23	7.99%	03-Aug-26	300.0	CARE AAA; Stable
Non-convertible debenture	INE891K07853	26-May-23	7.95%	26-May-28	500.0	CARE AAA; Stable
Non-convertible debenture	INE891K07861	30-Jun-23	7.95%	30-Jun-26	350.0	CARE AAA; Stable
Non-convertible debenture	INE891K07879	13-Sep-23	8.00%	11-Dec-26	150.0	CARE AAA; Stable
Non-convertible debenture	Proposed	-	-	-	21052.0	CARE AAA; Stable
Subordinate debt	Proposed	-	-	-	3500.0	CARE AAA; Stable

Market linked debenture	Proposed	-	-	-	1500.0	CARE PP-MLD AAA; Stable
Long Term / Short Term Bank Facilities	-	-	-	Dec-29	10,000.0	CARE AAA; Stable/CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debt-Subordinate Debt	LT	3500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Dec-22)	-	-
2	Debentures-Non Convertible Debentures	LT	23000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Dec-22)	-	-
3	Debentures-Market Linked Debentures	LT	1500.00	CARE PP-MLD AAA; Stable	-	1)CARE PP-MLD AAA; Stable (08-Dec-22)	-	-
4	Debt-Perpetual Debt	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Dec-22)	-	-
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	10000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (08-Dec-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex
2	Debentures-Non-Convertible Debentures	Simple
3	Debt-Perpetual Debt	Highly Complex
4	Debt-Subordinate Debt	Simple
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help

corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in