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Ratings

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Axis Bank Downgraded On Worsening Operating Conditions; Indian Bank On CreditWatch Negative; BICRA Lowered To Group '6'

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- We believe risks stemming from challenging operating conditions following COVID-19 have increased for Indian banks. We now expect the Indian economy to fall into recession in the current fiscal year.
- We anticipate Indian banks' asset quality will deteriorate, credit costs will rise, and profitability will decline over the next 12 months. We have revised our banking industry country risk assessment (BICRA) for India to group '6 'from group '5'. We assess the economic risk trend as stable.
- We are lowering our ratings on Axis Bank Ltd. At the same time, we are placing our ratings on Indian Bank on CreditWatch with negative implications. We are affirming the ratings on the seven other Indian banks we rate.
- Our expectations of a very high likelihood of government support underpins our ratings on the government-owned banks.

SINGAPORE (S&P Global Ratings) June 26, 2020--S&P Global Ratings said today that it had lowered its ratings on Axis Bank, reflecting our view that economic risks have increased for banks operating in India. We placed our ratings on Indian Bank on CreditWatch because we see a high risk that the public sector bank's credit profile could weaken over the coming quarters due to COVID-19 as well as the merger with the weaker Allahabad Bank. We affirmed

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the ratings on the other banks we rate in India.

RATINGS LIST

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Downgraded; CreditWatch/Outlook Action
                                        To                  From
Axis Bank Ltd.
 Issuer Credit Rating                   BB+/Stable/B        BBB-/Negative/A-3

Downgraded
                                        To                  From
Axis Bank Ltd. (Dubai International Financial Centre Branch)
 Senior Unsecured                       BB+                 BBB-

Axis Bank Ltd. (GIFT City Branch)
 Senior Unsecured                       BB+                 BBB-

Axis Bank Ltd. (Hong Kong Branch)
 Senior Unsecured                       BB+                 BBB-

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Ratings Affirmed; CreditWatch/Outlook Action
                                        To                  From
Indian Bank
 Issuer Credit Rating                   BBB-/Watch Neg/A-3 BBB-/Negative/A-3

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Ratings Affirmed

Bank of India
 Issuer Credit Rating                   BB+/Stable/B
 Senior Unsecured                       BB+

Bank of India (New Zealand) Ltd.
 Issuer Credit Rating                   BB+/Stable/B

Bank of India (London Branch)
 Senior Unsecured                       BB+

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Ratings Affirmed

HDFC Bank Ltd.
 Issuer Credit Rating                   BBB-/Stable/A-3
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HDFC Bank Ltd.
 Senior Unsecured                        BBB-

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Ratings Affirmed

ICICI Bank Ltd.
 Issuer Credit Rating
  Foreign Currency                       BBB-/Negative/A-3

ICICI Bank Ltd. (Dubai Branch)
 Senior Unsecured                        BBB-

ICICI Bank Ltd. (Hong Kong Branch)
 Senior Unsecured                        BBB-

ICICI Bank Ltd. (New York Branch)
 Senior Unsecured                        BBB-

ICICI Bank Ltd. (Singapore Branch)
 Senior Unsecured                        BBB-

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Ratings Affirmed

IDBI Bank Ltd.
 Issuer Credit Rating
  Foreign Currency                       BB/Negative/B

IDBI Bank Ltd. (Dubai International Financial Centre Branch)
 Senior Unsecured                        BB

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Ratings Affirmed

Kotak Mahindra Bank
 Issuer Credit Rating                    BBB-/Stable/A-3

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Ratings Affirmed

State Bank of India
 Issuer Credit Rating                    BBB-/Stable/A-3
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State Bank of India	
Senior Unsecured	BBB-
State Bank Of India (Dubai Branch)	
Junior Subordinated	BB-
State Bank of India (London Branch)	
Senior Unsecured	BBB-
State Bank of India (Tokyo Branch)	
Senior Unsecured	BBB-

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Ratings Affirmed

Union Bank of India	
Issuer Credit Rating	BB+/Stable/B

We affirmed our ratings on the government-owned banks because we continue to see a very high likelihood of government support for these banks. This reflects our view that these banks have a very strong link with, and play a very important role for, the government. We expect the government to provide capital support, even though it has not specifically allocated capital in the budget for fiscal 2021 (year ending March 31, 2021).

Among the private sector banks, we affirmed our ratings on HDFC Bank Ltd. and Kotak Mahindra Bank because we believe these banks have stronger asset quality and would be able to withstand the weakness in operating conditions. We affirmed our ratings on ICICI Bank Ltd. because we expect a likely improvement in the bank's capitalization will offset the impact of deteriorating operating conditions.

In our view, economic conditions have turned adverse for Indian banks due to COVID-19. Drastic efforts to curtail the spread of the coronavirus have resulted in a sharp economic contraction. The government's stimulus package, with a headline amount of 10% of GDP, has about 1.2% of direct stimulus measures, which is low relative to countries with similar economic impacts from the pandemic. The remaining 8.8% of the package includes liquidity support measures and credit guarantees that will not directly support growth. We now forecast a 5.0% contraction in the economy in fiscal 2021.

We expect the tough operating conditions to lead to a rise in nonperforming loans (NPLs), credit costs, and delays in recoveries for the banking system. In our base case, we expect the weak assets of Indian banks to shoot up to 13%-14% of gross loans by March 31, 2021. Our forecast is higher than the peak of 11.6% witnessed in fiscal 2018, and about 8.5% estimated as on March 31, 2020. Credit costs will likely rise to about 3.7% of gross loans, from 2.9%

estimated for March 31, 2020.

Moreover, we anticipate the resolution of weak assets will be delayed until at least fiscal 2022. Consequently, banks will likely be saddled with a large stock of weak loans in fiscal 2022 too. We have assumed only an about 100 basis points (bps) improvement in NPLs. Steps taken by the government and the central bank should provide some respite by delaying recognition of some of the weaker loans, in our view.

AXIS BANK LTD.
(Primary credit analyst: Michael Puli)

We lowered our ratings on Axis to reflect our expectation that heightened economic risks facing India's banking system will affect the bank's asset quality and financial performance. While Axis' asset quality is superior to the Indian banking sector average, its level of nonperforming assets (NPAs) will likely remain high compared to international peers'. Nevertheless, we expect the bank to maintain its strong market position and adequate capitalization.

The stable outlook reflects our view that our ratings on Axis already factor in some deterioration in the bank's asset quality and performance over the next 12 months.

We could lower the ratings on Axis if the bank's stressed assets rise significantly beyond the system average over the next few quarters.

We could raise our ratings on Axis if the bank's performance, particularly its asset quality, is significantly superior to that of domestic peers and commensurate with international peers' over the next 18 months.

INDIAN BANK
(Primary credit analyst: Nikita Anand)

The CreditWatch placement reflects our view of a one-in-two chance of a downgrade of Indian Bank over the next three to six months. We believe deteriorating operating conditions could lead to a higher rate of NPL formation and increase in credit costs for the bank over the next few quarters. Moreover, we believe the merger with Allahabad Bank will be an overhang on Indian Bank's credit profile because of the former's sizable stock of stressed assets and weak capital levels. Indian Bank will continue to benefit from a very high likelihood of government support.

We aim to resolve the CreditWatch over the next three to six months as we get greater clarity on the actual impact of the merger on Indian Bank's credit profile.

We will lower the rating by a notch if Indian Bank's: (a) risk-adjusted capital (RAC) ratio falls below 5% on a sustained basis; or (b) NPL ratio or credit costs rise sharply and we believe they are likely to remain at that level or increase further.

We would affirm the ratings if we believe Indian Bank's credit profile will largely remain unchanged after the merger.

BANK OF INDIA (BOI)
(Primary credit analyst: Primary: Amit Pandey)

We affirmed the ratings on BOI to reflect a very high likelihood that the government of India will continue to provide timely and sufficient extraordinary support to the bank. BOI has a good deposit franchise and liquidity, with a sizable branch network. The bank's moderate capitalization and weak asset quality temper these strengths.

The stable outlook on BOI reflects our expectation that the likelihood of government support for the bank will remain very high over the next 12-18 months. The ratings and outlook on BOI's subsidiary Bank of India (New Zealand) Ltd. will move in tandem with those on BOI.

We may lower the ratings on BOI if our assessment of the bank's SACP weakens by two notches to 'b+'. We could lower the SACP if the bank's capitalization weakens such that the RAC ratio falls below 5% on a sustainable basis, possibly due to continually weak internal capital generation. We could also revise downward our assessment of BOI's SACP due to delays in resolution of the bank's bad loans, weakness in the group's finance companies, or an economic slowdown in India that leads to sharp deterioration in BOI's asset quality. We also expect a weaker SACP assessment if the bank is unable to sustain the qualitative and quantitative improvements in its funding profile.

We may upgrade BOI if the bank's asset quality and operating conditions improve significantly, a scenario that we view as unlikely over the next 12 months.

HDFC BANK LTD.
(Primary credit analyst: Nikita Anand)

We affirmed the ratings on HDFC Bank to reflect the bank's strong business franchise, low credit costs, and better funding and liquidity profile than industry peers'. HDFC Bank's capitalization is comfortable, in our view, supported by strong earnings and regular capital raising to fund above-average growth. The bank's asset quality remains among the best in the Indian banking industry due to its better risk management and portfolio diversity. We have therefore revised our assessment of HDFC Bank's risk position to strong from adequate. Overall, we believe the bank's individual creditworthiness is significantly stronger than the average of the Indian banking sector. We assess HDFC Bank's stand-alone credit profile (SACP) as 'bbb+'.

The stable outlook on HDFC Bank reflects our view that the bank will maintain its strong market position, low credit costs, and favorable funding and liquidity metrics over the next 24 months.

The ratings on HDFC Bank are capped by our sovereign credit ratings on India (BBB-/Stable/A-3). The ratings on the bank will therefore move in tandem with that on the sovereign. S&P Global Ratings does not rate Indian banks above the sovereign because of the direct and indirect influence that a sovereign has on banks operating in the country.

We could lower the ratings on HDFC Bank if we downgrade India. We will lower our assessment of the bank's SACP if the challenging operating conditions in India lead to a sharp rise in the bank's NPLs and credit costs. We could also lower the SACP if we lower our assessment of economic or industry risks in the Indian banking sector, leading to a downward revision in our starting point for rating banks in India. Outside of a change to the sovereign rating, the bank's SACP would have to drop by three notches to result in a downgrade, which is unlikely over the next two years, in our view.

We would raise our ratings on HDFC Bank if we upgrade the sovereign.

ICICI BANK LTD.
(Primary credit analyst: Michael Puli)

We affirmed our ratings on ICICI to reflect our expectation that the bank will structurally improve its capital position and balance sheet over the next 12-18 months. The bank has recently divested its stake in some of its insurance subsidiaries. Other capital accretion strategies may include internal capital generation, external capital raising, and sale of stakes in subsidiaries.

As a result, while operating conditions have worsened, we believe the likely improvement in the bank's capitalization will offset the impact. We now assess ICICI's capital as strong. Our base case is that the bank will maintain its strong market position, better-than-system asset quality, and good funding and liquidity over the next 12-18 month. That said, the bank's NPAs will likely remain high compared to that of international peers.

The negative outlook reflects our view that the structural improvement in ICICI's capitalization is ongoing and that the bank's asset quality and earnings could dip over the next 18 months. We see a one-in-three risk that the bank's capitalization, earnings, and asset quality will deteriorate more than we expect over this period.

We could lower the ratings on ICICI if the bank does not maintain a RAC ratio above 10% on a sustained basis. This could happen if credit costs rise sharper than our expectation or if the bank's capital strengthening is less than we expect.

We could revise the outlook on ICICI to stable if we have greater certainty that the bank will raise and structurally maintain higher capitalization.

IDBI BANK LTD.
(Primary credit analyst: Nikita Anand)

We affirmed our ratings on IDBI Bank based on our view of a very high likelihood that the government of India will continue to provide timely and sufficient extraordinary support to the bank.

The negative outlook on IDBI Bank reflects the uncertainty over the sustainability of the bank's capital owing to challenging operating conditions. This uncertainty will increase residual stress on the balance sheet and delay resolution of large accounts, resulting in continued weak earnings.

We will lower our ratings on IDBI Bank by two notches if the bank's capitalization erodes, possibly due to weak earnings and an inability to raise capital. These factors could bring IDBI Bank close to breaching the regulatory minimum requirements for the third time in the past two years.

We could also downgrade IDBI Bank if we believe government support for the bank has weakened. That could happen as government shareholding in the bank declines following a government proposal to sell its stake in the bank and in Life Insurance Corp. of India (which holds a 51% stake in IDBI Bank). However, we believe a stake sale will be tough over the next 12 months, given the sharp correction in equity markets.

We could revise the outlook on IDBI Bank to stable if the bank's operating performance improves. This could be due to: (a) removal of the bank from "prompt corrective action" and lifting of associated restrictions on growth and expansion; (b) higher recoveries from legacy NPLs and lower credit costs, leading to the bank reporting profits on a sustained basis; and (c) capital raising through sale of non-core assets.

For revising the outlook to stable, we would look for signs that IDBI Bank's capital will not again be at risk of breaching minimum capital requirements. This will most likely occur if the bank's capital reverts to a prudent buffer above minimum regulatory guidelines, and we are confident that this buffer can be sustained.

KOTAK MAHINDRA BANK
(Primary credit analyst: Amit Pandey)

We affirmed the ratings on Kotak Mahindra Bank because we expect the bank's strengthening funding base to offset the impact of a deterioration in operating conditions on its credit profile. In our view, Kotak Mahindra Bank has a robust capitalization, strong management, and better asset quality than peers'. We believe the bank's funding profile is sustainably improving on the back of an increasing distribution network and deposit franchise, and a greater share of granular and low-cost domestic deposits. As such, we have revised our assessment of Kotak Mahindra Bank's funding to average from below average.

The stable outlook on Kotak Mahindra Bank reflects the view that the bank will be able to withstand our current expectation of a deterioration in operating conditions over the next 12-24 months. This is due to the bank's above-industry-average risk management, and earnings and capitalization buffers.

We would lower the ratings if Kotak Mahindra Bank's RAC ratio declines below 10% on a sustained basis. We could also downgrade the bank if its asset quality deteriorates sharply, possibly due to a prolonged and deeper economic slowdown in India.

An upgrade of Kotak Mahindra Bank is unlikely in the next one to two years because that would require an improvement in the bank's operating conditions as well as a raising of the sovereign credit rating on India.

STATE BANK OF INDIA (SBI)
(Primary credit analyst: Michael Puli)

We affirmed the ratings on SBI to reflect our expectation of a very high likelihood of government support for the bank.

In our view, SBI's performance is better than the domestic system average, but at the weaker end when compared with international peers with similar system risks. High customer confidence is likely to keep the bank's funding and liquidity strong.

The stable outlook over the next 18 months reflects our expectation that SBI will remain the undisputed market leader in India's banking sector and receive capital from the government, if needed. We believe SBI will be hit by the current economic headwinds, and have factored the impact in our capital forecasts.

We would downgrade SBI if we lower our sovereign credit rating on India. Government support would offset a deterioration in the bank's stand-alone creditworthiness. We could lower our assessment of SBI's SACP if we expect the bank's capitalization to reduce over the next 18 months such that the RAC ratio drops below 5% on a sustained basis. This may arise from higher credit costs, faster loan growth, or lower capital generation than we anticipate.

We are unlikely to raise the ratings on SBI over the next 18 months. Ratings uplift would require the creditworthiness of both SBI and the India sovereign to improve. This is because of the likely impact the sovereign in distress would have on the bank's operations, including its ability to service foreign currency obligations.

UNION BANK OF INDIA
(Primary credit analyst: Nikita Anand)

We affirmed the ratings on Union Bank to reflect our expectation of a very high likelihood of government support for the bank. Union Bank's weak asset quality, capitalization, and earnings constrain the rating.

The stable outlook on Union Bank reflects our view that the bank's financial profile following its merger with Andhra Bank and Corporation Bank will be similar to the current level. We believe the benefits from the increase in the bank's size and franchise will be balanced by its weak profitability and drag on earnings from provisioning costs over the next 12 months.

Given the government's support, Union Bank's SACP would need to weaken by two notches for a downgrade of the issuer credit rating. We would lower the SACP if: (a) the bank's RAC ratio falls below 5% on a sustained basis; (b) its asset quality deteriorates significantly; or (c) Union Bank's funding profile weakens relative to peers'.

In our view, the merged bank's ability to mobilize low-cost deposits will be key to maintaining its funding profile, which could weaken following the merger of Union Bank with banks that have a lower current and savings account deposit ratio.

We do not see any upside to the ratings on Union Bank over the next 12-18 months.

BICRA SCORE SNAPSHOT

	To	From
BICRA	6	5
Economic Risk*	7	6
Economic Risk Trend	Stable	Negative
Economic Resilience**	4	4
Economic Imbalances**	4	2
Credit Risk In The Economy**	5	5
Industry Risk*	5	5
Industry Risk Trend	Stable	Stable
Institutional Framework**	4	4
Competitive Dynamics**	4	4
Systemwide Funding**	2	2

*On a scale of 1 (lowest risk) to 10 (highest risk). **On a scale of 1 (lowest risk) to 6 (highest risk).

RELATED CRITERIA

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating, May 11, 2012
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.