

Axis Bank

BUY

CMP Rs699

Target Rs825

Upside 18.0%

Result Highlights

- ✓ AXSB's Q4 FY21 had many pleasant surprises viz, headline loan growth accelerated significantly (from 6% yoy to 9% qoq, with 7% qoq accretion).
- ✓ The growth was pervasive across segments and products (sequential pick-up in corporate and SME lending was heartening + disbursements in retail products stood substantially higher yoy).
- ✓ Core fee growth far exceeded loan growth aided by an all-round robust retail fee growth.
- ✓ Impressive core PPOP growth of 16% yoy (despite Rs1.6bn impact for refund of interest on interest).
- ✓ Material correction in Gross NPL ratio on the back of lower net slippages due to improved demand/bucket resolution and higher collections from recovery buckets.

Our view – Stronger on growth and asset quality: Adjusted for catch-up provisions on the commercial banking portfolio and full provisions made on security receipts investments, the annualized core credit cost stood at 1.2% for Q4. This depicts structural improvement and a sustainable trajectory reflecting various initiatives taken by the bank in recent years, such as focus on high-rated customers across segments, tightening of underwriting, strengthening of provisioning policies, etc. AXSB did not augment nor utilized its Covid buffer standing at 80 bps of loans; which implies a significant cushion for any potential impact on asset quality from the second wave of pandemic. With only minor tweaks in our growth and asset quality assumptions, we continue to expect sizeable improvement in return ratios from the current fiscal. The core bank trades at 1.6x FY23 P/ABV. We retain BUY with 12m PT of Rs825.

Exhibit 1: Result table

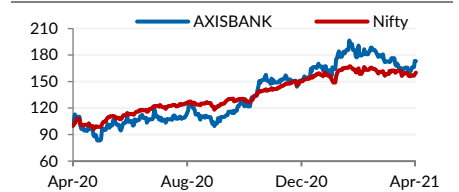
| (Rs mn) | Q4 FY21 | Q3 FY21 | % yoy | Q4 FY20 | % qoq |
|-----------------------|----------|----------|--------|----------|---------|
| Total Interest Income | 155,452 | 154,984 | 0.3 | 162,341 | (4.2) |
| Interest expended | (79,902) | (81,256) | (1.7) | (94,263) | (15.2) |
| Net Interest Income | 75,550 | 73,728 | 2.5 | 68,078 | 11.0 |
| Other income | 46,683 | 37,760 | 23.6 | 39,855 | 17.1 |
| Total Income | 122,233 | 111,488 | 9.6 | 107,933 | 13.2 |
| Operating expenses | (53,586) | (50,533) | 6.0 | (49,421) | 8.4 |
| PPOP | 68,647 | 60,955 | 12.6 | 58,512 | 17.3 |
| Provisions | (32,950) | (46,043) | (28.4) | (77,300) | (57.4) |
| PBT | 35,697 | 14,912 | 139.4 | (18,788) | (290.0) |
| Tax | (8,926) | (3,746) | 138.3 | 4,911 | (281.8) |
| PAT | 26,771 | 11,166 | 139.8 | (13,877) | (292.9) |

Source: Company, YES Sec – Research

Stock data (as on Apr 27, 2021)

| | |
|------------------------|-----------------|
| Sensex: | 14,653 |
| 52 Week h/l (Rs) | 799 / 333 |
| Market cap (Rs/USD mn) | 2143277 / 28708 |
| Outstanding Shares | 3,064 |
| 6m Avg t/o (Rs mn): | 12,922 |
| Div yield (%): | - |
| Bloomberg code: | AXSB IN |
| NSE code: | AXISBANK |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|------|-------|-------|
| Absolute return | 0.2% | 10.7% | 63.7% |

Shareholding pattern

| | |
|----------|-------|
| Promoter | 14.8% |
| FII+DII | 73.2% |
| Others | 12.1% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-----|-----|
| Rating | BUY | BUY |
| Target Price | 825 | 775 |

Financial Summary

| | FY22E | FY23E | FY24E |
|--------------|---------|---------|---------|
| Op. income | 489,032 | 560,007 | 647,342 |
| PPOP | 279,556 | 323,298 | 377,494 |
| Net profit | 137,231 | 173,805 | 203,460 |
| Growth (%) | 108.3 | 26.7 | 17.1 |
| EPS (Rs) | 44.8 | 56.7 | 66.4 |
| ABVPS (Rs) | 351.2 | 406.6 | 468.7 |
| P/E (x) | 15.6 | 12.3 | 10.5 |
| P/adj.BV (x) | 2.0 | 1.7 | 1.5 |
| ROE (%) | 12.7 | 14.0 | 14.2 |
| ROA (%) | 1.3 | 1.4 | 1.5 |
| CAR (%) | 17.2 | 17.1 | 17.0 |

Δ in earnings estimates

| | FY22e | FY23e | FY24e |
|-----------|-------|-------|-------|
| EPS (New) | 44.8 | 56.7 | 66.4 |
| EPS (Old) | 47.5 | 58.3 | - |
| % change | -5.7% | -2.7% | - |

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CON-CALL HIGHLIGHTS

- ✓ 94% of Corporate loan sanctions in FY21 were to those rated A- and above - 85% of the book is rated A- or better.
- ✓ SME loans grew 10% qoq led by tech-driven transformation initiatives and better co-ordination with branch banking team – the book is well-diversified, 89% is secured and predominantly working capital financing.
- ✓ TPP distribution fees in Q4 FY21 grew 43% yoy and 41% qoq - of which, insurance distribution fees grew 49% yoy.
- ✓ Retail Card fees grew 10% qoq, reflecting sequential pick up in card spends.
- ✓ 100% of PL and 63% of Credit Cards portfolio is to salaried segment.
- ✓ Average LTV at 52% in home loan portfolio and 35% in LAP portfolio.
- ✓ Branches contributed 59% to overall Retail book sourcing in Q4 FY21 - retail disbursements grew 40%+ yoy (Home Loans up 73%, SBB up 70% and Rural up 47%).
- ✓ Limited Covid-19 restructured loans at 0.3% of GCA, overall provision coverage of 26%, unsecured retail provided at 100%.
- ✓ 100% of restructured corporate book classified as BB & below - 74% of the 0.3% invoked restructured book as a % of GCA overlaps with BB and below - linked but not restructured non-fund based facilities Rs9.2bn.
- ✓ Restructuring as a % to respective loan books - Corporate 0.6%, Retail 0.1%, SME 0.02% - 100% of restructured corporate book classified as BB & below.
- ✓ Provision coverage on overall restructured book 26% - 100% provision made on unsecured retail restructured book, though classified as standard.
- ✓ Gross slippages at Rs53bn v/s Rs80bn in Q3 as per IRAC norms.
- ✓ Raised PCR to Commercial Business Book to 80% - also adopted rule based w/off policy.
- ✓ Rs10.8bn additional provisions done towards SRs in Q4 – now SRs are fully provided, and the net carrying value on the BS is Nil.
- ✓ Neither added nor utilized Covid provisions in Q4- COVID provision buffer at Rs50bn (80 bps of loans).
- ✓ Core credit cost at 1.2% excluding the catch-up provisions – even lower at 1% adjusted for recoveries.
- ✓ No material accounting policy changes expected in FY22 that can have an impact on profits.
- ✓ Retail demand resolution at 98%+ in Q4 FY21, higher than pre-Covid level.
- ✓ Cheque bounce were marginally higher than pre-pandemic level – however, same month collection resolution is better due to collection capacity augmentation.
- ✓ Only 26000 customers were disbursed loans under the ECLGS facilities.
- ✓ Annualized retail slippages at 3.7% in Q4 - however, retail restructuring and ECLGS loans are negligible.

Exhibit 2: Business Data

| (Rs mn) | Q4 FY21 | Q3 FY21 | % qoq | Q4 FY20 | % yoy |
|---------------------|-----------|-----------|-------|-----------|-------|
| Advances | 6,237,202 | 5,827,539 | 7.0 | 5,714,240 | 9.2 |
| Large/Mid-corporate | 2,193,560 | 2,008,910 | 9.2 | 2,041,030 | 7.5 |
| SME | 698,500 | 639,690 | 9.2 | 619,210 | 12.8 |
| Retail | 3,345,140 | 3,178,940 | 5.2 | 3,054,000 | 9.5 |
| Home Loans | 1,204,250 | 1,144,418 | 5.2 | 1,068,900 | 12.7 |
| Rural Lending | 434,868 | 381,473 | 14.0 | 366,480 | 18.7 |
| Auto Loans | 401,417 | 413,262 | (2.9) | 397,020 | 1.1 |
| PL + CC | 535,222 | 540,420 | (1.0) | 549,720 | (2.6) |
| Others | 769,382 | 699,367 | 10.0 | 671,880 | 14.5 |
| Total Deposits | 7,073,061 | 6,541,403 | 8.1 | 6,401,049 | 10.5 |
| CA | 1,132,760 | 925,780 | 22.4 | 901,140 | 25.7 |
| SA | 2,044,730 | 1,898,140 | 7.7 | 1,735,920 | 17.8 |
| Others | 3,895,571 | 3,717,483 | 4.8 | 3,763,989 | 3.5 |
| Investments | 2,261,196 | 1,983,460 | 14.0 | 1,567,343 | 44.3 |
| Borrowings | 1,428,732 | 1,356,658 | 5.3 | 1,479,541 | (3.4) |

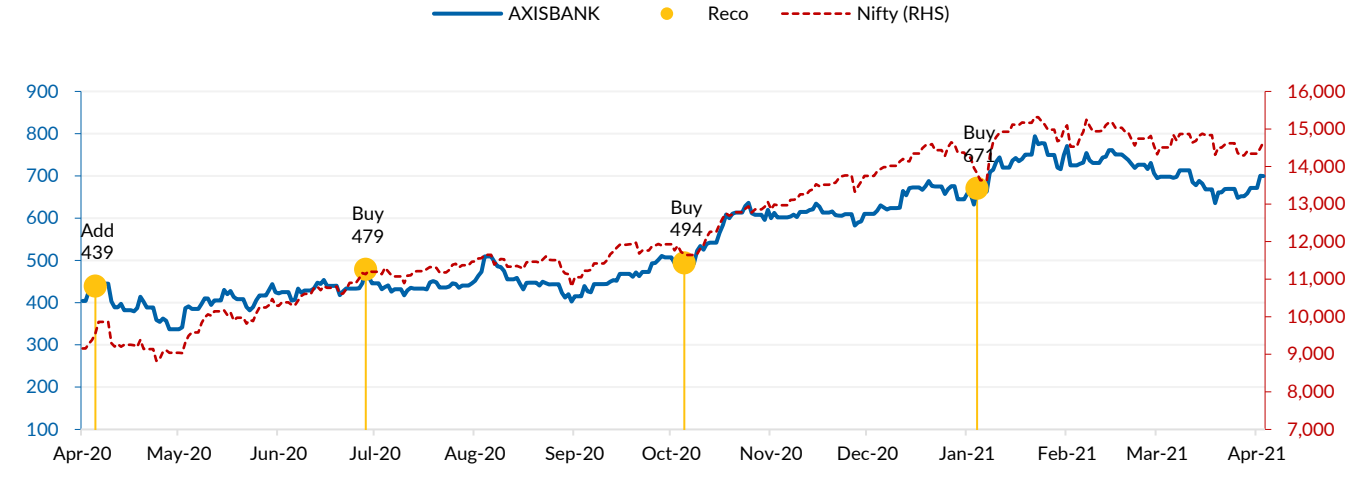
Source: Company, YES Sec - Research

Exhibit 3: Key Ratios

| (%) | Q4 FY21 | Q3 FY21 | chg qoq | Q4 FY20 | chg yoy |
|---------------------------|---------|---------|---------|---------|---------|
| NIM | 3.6 | 3.6 | (0.0) | 3.6 | 0.0 |
| Yield on advances | 7.7 | 8.0 | (0.3) | 9.0 | (1.3) |
| Yield on investments* | 6.2 | 6.4 | (0.2) | 6.7 | (0.5) |
| Cost of Funds* | 3.9 | 4.2 | (0.3) | 5.1 | (1.2) |
| CASA | 44.9 | 43.2 | 1.8 | 41.2 | 3.7 |
| C/D (x) | 88.2 | 89.1 | (0.9) | 89.3 | (1.1) |
| Non-int. income/Int. exp. | 58.4 | 46.5 | 12.0 | 42.3 | 16.1 |
| Cost to Income | 43.8 | 45.3 | (1.5) | 45.8 | (1.9) |
| RoE | 11.7 | 4.9 | 6.8 | (7.1) | 18.8 |
| RoA | 1.1 | 0.5 | 0.6 | (0.6) | 1.7 |
| CAR | 19.1 | 18.7 | 0.4 | 17.5 | 1.6 |
| Gross NPA | 3.7 | 3.4 | 0.3 | 4.9 | (1.2) |
| Net NPA | 1.1 | 0.7 | 0.3 | 1.6 | (0.5) |

Source: Company, YES Sec - Research; * Calculated5

Recommendation Tracker



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