

AXIS Bank

Refer to important disclosures at the end of this report

Growth accelerates, asset quality improves, but sustainability is key

- Axis Bank reported a beat on PAT at Rs26.8bn (up 182% yoy) vs. estimate of Rs22.3bn, mainly due to higher trading gains. Core operating profit growth was relatively moderate at 9% yoy (20% for ICICI), mainly due to moderate NII growth and higher opex.
- The bank surprised positively with healthy credit growth of 9% yoy/7% qoq, mainly led by strong traction in corporate/SME book. Retail too picked up at 10% yoy/5% qoq with historical high disbursements in Q4. Axis has not given any specific guidance on growth, but indicated that it will incrementally focus on sustainable growth and granular portfolio.
- The headline GNPA ratio improved qoq to 3.7% from 4.6% (pro forma) in Q3, mainly due to moderate slippages/higher w-offs. The bank retained Covid-19 provisions of Rs50bn (0.8% of loans vs. 1% for ICICI/0.6% for HDFCB) given remerging stress from the second Covid wave, but indicates that elevated stress formation/provisioning is largely behind.
- We expect RoA/RoE to improve from a low of 0.7%/7% in FY21 to 1.5-1.6%/15% by FY23-24E, mainly driven by better growth trajectory and moderating credit cost. Retain Buy with a TP of Rs850, valuing the core bank at 1.9x FY23E ABV and subs at Rs56.

Healthy growth but margins remain subdued: Overall credit growth was healthy at 9% yoy/7% qoq, mainly led by growth in corporate (7% yoy/9% qoq), SME (13% yoy/10% qoq) as well as retail (10% yoy/5% qoq). The bank clocked historically high disbursements, within which HL, LAP & Auto grew 73%/53%/20% yoy, respectively, while small business loans disbursements grew 71% yoy. However, reported NIM was largely flat and subdued at 3.56%, mainly due to the hit on interest-on-interest waiver income of Rs1.6bn, higher LCR and portfolio mix tilting toward corporate a bit. Although management has not given any guidance on growth, it believes with the major risk on asset quality largely behind and adequate provisioning buffer, the bank would look at accelerating growth once the impact of the second Covid wave recedes.

Headline asset quality improves but retains provisioning buffer to withstand any shock from second Covid wave: The bank reported moderate slippages at Rs53bn (3.7% of loans), which coupled with heavy w-offs, led to a lower GNPA ratio of 3.7% on customer assets/3.9% on loans. The bank's cumulative Covid provision stands at Rs50.1bn (0.8% of loans vs. 1% for ICICI/0.6% for HDFCB) in addition to standard/weak asset provisioning of another 1% of loans. Overall fund-based corporate stress pool declined to Rs74bn qoq (1.1% of loans), but including non-fund/investment pool, it stands at Rs155bn (2.3% of loans).

Outlook and valuations: We expect the bank's RoA/RoE to improve from a low of 0.7%/7% in FY21 to 1.5-1.6%/15% by FY23-24E, mainly driven by better growth/moderate credit cost. Valuations after the recent correction look attractive at 1.4x FY23E ABV, post stripping-off subs valuation. We retain Buy with a TP of Rs850, valuing the core bank at 1.9x FY23E ABV and subs at Rs56. Key risks to our call include slower growth/higher NPA formation due to Covid-induced disruption and returning of management instability, which has moderated a bit recently.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	407,428	440,773	501,082	580,872	689,464
Net profit	16,272	65,886	133,632	181,876	226,500
EPS (Rs)	6.0	22.4	43.6	59.4	73.9
ABV (Rs)	306.1	339.5	372.3	436.0	513.1
RoA (%)	0.2	0.7	1.3	1.5	1.6
RoE (%)	2.2	7.1	12.3	14.5	15.4
PE (x)	115.9	31.2	16.0	11.8	9.5
P/ABV	2.0	1.8	1.7	1.4	1.2

Source: Company, Emkay Research

CMP	Target Price
Rs 699 as of (April 27, 2021)	Rs 850 (■) 12 months
Rating	Upside
BUY (■)	21.6 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	9.6/0.1
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	Buy

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	43.6	59.4
Consensus	44.6	57.0
Mean Consensus TP (12M)	Rs 804	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,064
52 Week H/L	800 / 333
M Cap (Rs bn/USD bn)	2,143 / 28.70
Daily Avg Volume (nos.)	19,397,300
Daily Avg Turnover (US\$ mn)	185.3

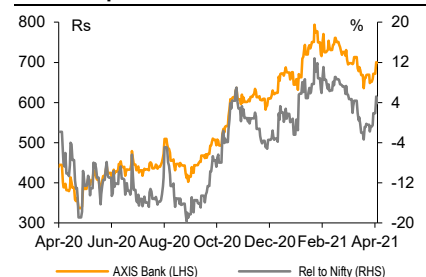
Shareholding Pattern Mar '21

Promoters	13.3%
FIIIs	50.2%
DIIIs	22.7%
Public and Others	13.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	11	38	64
Rel. to Nifty (1)		5	12	4

Relative price chart



Source: Bloomberg

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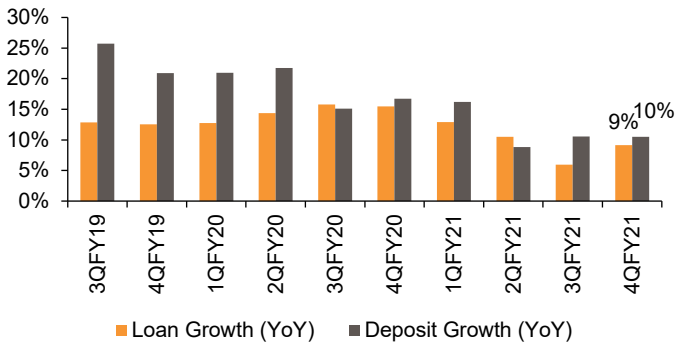
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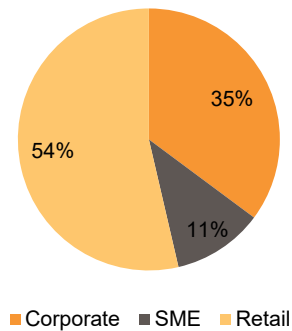
Story in Charts

Exhibit 1: Credit growth picks up led by broad-based growth in retail, SME and corporate



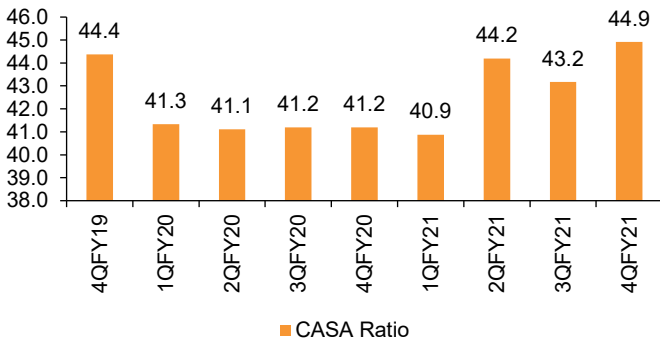
Source: Company, Emkay Research

Exhibit 2: The bank is now focused on growing secured Retail, SME and mid-corporate loans to increase granularity of book



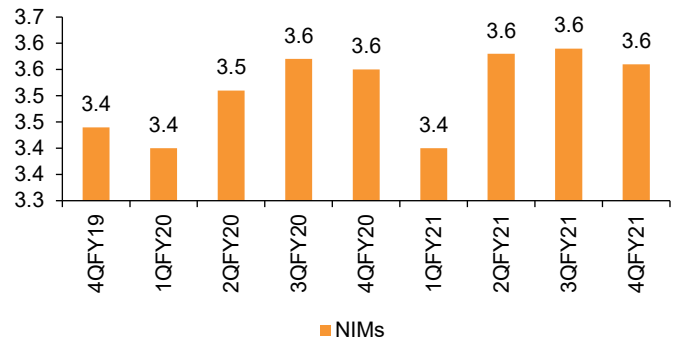
Source: Company, Emkay Research

Exhibit 3: CASA improved qoq due to increase in current account balances



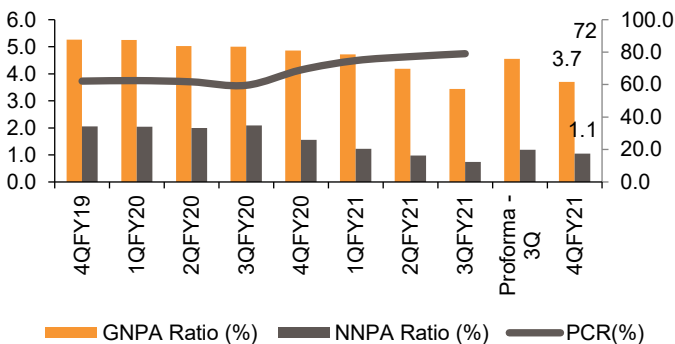
Source: Emkay Research, Company

Exhibit 4: NIM were lower due to impact on interest on interest waiver of Rs1.6bn and lower investment yields



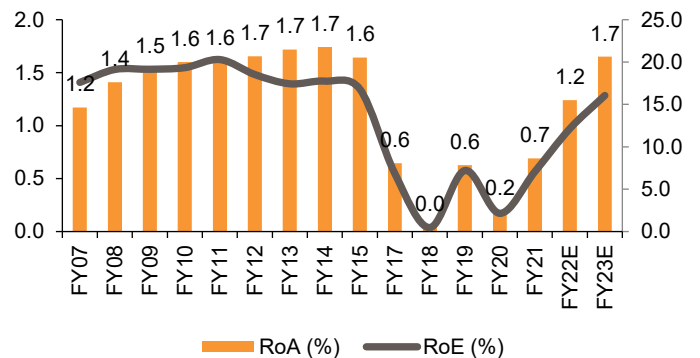
Source: Emkay Research, Company

Exhibit 5: GNPA ratio improved mainly due to higher w-off



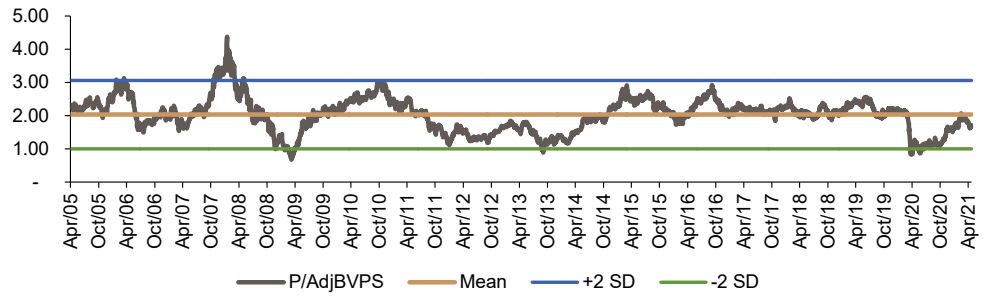
Source: Company, Emkay Research

Exhibit 6: Return ratios to improve on growth and moderating provisions



Source: Company, Emkay Research

Exhibit 7: The stock is trading at 1.4x 1-year forward ABV, adjusted for subsidiaries valuation



Source: Emkay Research, Bloomberg

Exhibit 8: Asset quality - Peer Comparison- 4QFY21

	Axis	ICICI	HDFCB
GNPA Ratio (%)	3.7	5.0	1.3
NNPA Ratio (%)	1.1	1.1	0.5
Specific Provisions (Rs mn)	183,213	321,932	105,312
PCR (%)	72	78	70
Restructured Book (Rs mn)	18,480	39,270	65,084
-% of net advances	0.3	0.5	0.6
Provision on Restructured Book (Rs mn) *	4,805	7,160	6,508
-% of restructured book	26.0	18.2	10.0
Fund based BB & Below Corporate Book (Rs mn)	74,430	130,980	-
-% of net advances	1.2	1.8	-
Covid Contingent Provision (Rs mn)	50,120	74,750	68,120
-% of net advances	0.8	1.0	0.6

Source: Company, Emkay Research, Note: * Provision on restructured book for HDFCB is only the amount provided in Q4FY21, previous period figure not available.

Exhibit 9: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	162,341	165,389	160,629	154,984	155,451	-4	0	636,452	720,945	13
Interest Exp	94,264	95,536	87,368	81,256	79,902	-15	-2	344,062	383,425	11
Net Interest Income	68,077	69,853	73,261	73,728	75,549	11	2	292,391	337,521	15
Global NIMs (reported)	3.55	3.40	3.58	3.59	3.56	1bps	-3bps	3.40	3.51	11bps
Non-interest Income	39,855	25,867	38,072	37,760	46,683	17	24	148,382	163,561	10
Operating Expenses	49,421	37,276	42,356	50,533	53,586	8	6	183,751	206,975	13
Pre Provisioning Profit	58,511	58,444	68,977	60,955	68,646	17	13	257,022	294,107	14
Provision & Contingencies	77,300	44,164	45,807	46,043	32,950	-57	-28	168,963	115,527	-32
PBT	-18,789	14,280	23,170	14,912	35,697	-290	139	88,059	178,580	103
Income Tax Expense (Gain)	-4,911	3,158	6,343	3,746	8,926	-282	138	22,173	44,949	103
Net Profit/(Loss)	-13,878	11,122	16,827	11,166	26,771	-293	140	65,886	133,632	103
Gross NPA (%)	4.86	4.72	4.18	3.44	3.70	-116bps	26bps	3.90	3.76	-14bps
Net NPA (%)	1.56	1.23	0.98	0.74	1.05	-51bps	31bps	1.11	1.08	-3bps
Deposits (Rs in bn)	6,401	6,282	6,355	6,541	7,073	10	8	7,073	8,139	15
Net Advances (Rs in bn)	5,714	5,613	5,764	5,828	6,237	9	7	6,237	7,181	15

Source: Company, Emkay Research

Exhibit 10: Actual vs. Estimates (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	122,232	113,668	118,454	8%	3%	Higher trading gains lead to a beat
PPOP	68,646	62,455	67,241	10%	2%	Higher net income supported PPOP
PAT	26,771	22,349	19,124	20%	40%	In-line provisioning led to a beat

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	489,346	501,082	2.4%	565,099	580,872	2.8%	689,464
PPOP	280,648	294,107	4.8%	328,770	344,407	4.8%	413,370
PAT	121,796	133,632	9.7%	181,561	181,876	0.2%	226,500
EPS (Rs)	39.8	43.6	9.6%	59.3	59.4	0.1%	73.9
BV (Rs)	377.0	378.2	0.3%	439.1	440.4	0.3%	516.8

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	9.2	15.1	20.4	20.4
Deposit Growth %	10.5	15.1	18.3	20.4
NIM %	3.4	3.5	3.6	3.6
GNPA %	3.9	3.8	3.3	2.9
Credit Cost %	2.5	1.5	1.2	1.1

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans (Rs mn)	4,947,980	4,972,760	5,215,937	5,501,377	5,714,242	5,613,408	5,763,725	5,827,539	6,237,202
growth YoY %	12.5	12.7	14.4	15.8	15.5	12.9	10.5	5.9	9.2
Composition %									
- Corporate	37.1	35.7	35.9	35.8	35.7	36.6	36.5	34.5	35.2
- SME/BB	13.3	12.4	11.8	11.2	10.8	10.2	10.5	11.0	11.2
- Retail	49.7	51.9	52.4	53.0	53.4	53.2	53.0	54.6	53.6
Liability Profile %									
Deposit (Rs mn)	5,484,713	5,406,777	5,839,585	5,916,755	6,401,049	6,281,503	6,354,543	6,541,403	7,073,061
growth YoY %	20.9	20.9	21.7	15.1	16.7	16.2	8.8	10.6	10.5
CASA	44.4	41.3	41.1	41.2	41.2	40.9	44.2	43.2	44.9
CA	16.3	13.2	13.6	13.2	14.1	12.8	15.8	14.2	16.0
SA	28.1	28.2	27.6	27.9	27.1	28.1	28.4	29.0	28.9
NIM %	3.4	3.4	3.5	3.6	3.6	3.4	3.6	3.6	3.6
NIM %- Domestic	3.6	3.6	3.6	3.7	3.7	3.6	3.7	3.7	3.7
Asset Quality (Rs mn)									
GNPA %	5.8	5.7	5.4	5.3	5.1	5.1	4.5	3.7	3.9
NNPA %	2.1	2.0	2.0	2.1	1.6	1.2	1.0	0.7	1.1
PCR % - Specific	62.1	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4
Slippages %	2.74	4.35	4.37	5.23	3.17	1.78	0.71	0.02	8.63
Capital Adequacy									
CAR %	15.8	16.1	18.2	18.2	17.5	17.5	19.4	18.7	19.1
Tier I %	12.5	12.9	15.0	15.0	14.5	14.6	16.5	15.9	16.5
ROE Decomposition % (on total assets)									
NII	3.5	3.4	3.5	3.7	3.8	3.8	3.9	3.8	3.7
Other Income (Ex Treasury)	1.9	1.8	1.8	1.9	2.1	1.1	1.6	1.8	1.9
Opex	2.6	2.2	2.3	2.6	2.8	2.0	2.2	2.6	2.7
PPOP	3.0	3.4	3.4	3.3	3.3	3.2	3.6	3.1	3.4
PBT	1.4	1.2	1.4	1.3	(1.0)	0.8	1.2	0.8	1.8
Tax	0.5	0.4	1.5	0.3	(0.3)	0.2	0.3	0.2	0.4
ROA	0.8	0.7	(0.1)	0.9	(0.6)	0.5	0.7	0.5	1.1
Leverage (x)	11.7	11.4	10.2	9.6	10.1	10.6	9.8	9.4	9.7
ROE	9.0	7.9	(0.6)	8.3	(6.5)	5.2	7.3	4.5	10.7

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	252,062	292,391	337,521	394,599	467,236
Other income	155,366	148,382	163,561	186,273	222,228
Fee income	96,919	106,860	119,683	138,833	163,822
Net income	407,428	440,773	501,082	580,872	689,464
Operating expenses	173,046	183,751	206,975	236,465	276,094
Pre provision profit	234,382	257,022	294,107	344,407	413,370
PPP excl treasury	212,659	231,552	273,731	326,069	395,948
Provisions	185,339	168,963	115,527	101,356	110,684
Profit before tax	49,042	88,059	178,580	243,052	302,685
Tax	32,770	22,173	44,949	61,176	76,186
Tax rate	67	25	25	25	25
Profit after tax	16,272	65,886	133,632	181,876	226,500

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,643	6,128	6,128	6,128	6,128
Reserves	843,835	1,009,903	1,152,432	1,343,011	1,577,116
Net worth	849,478	1,016,030	1,158,560	1,349,139	1,583,243
Deposits	6,401,049	7,073,061	8,138,724	9,625,443	11,586,067
Borrowings	1,201,238	1,087,515	1,033,139	981,482	932,408
Total liabilities	9,151,648	9,961,184	11,186,241	13,005,098	15,352,001
Cash and bank	849,592	518,086	595,798	685,168	787,943
Investments	1,567,343	2,261,196	2,398,407	2,644,590	3,024,665
Loans	5,714,242	6,237,202	7,181,334	8,646,076	10,412,249
Others	854,252	803,039	852,662	907,336	968,592
Total assets	9,151,648	9,961,184	11,186,241	13,005,098	15,352,001

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.3	3.4	3.5	3.6	3.6
Non-ll/avg assets	1.8	1.6	1.5	1.5	1.6
Fee income/avg assets	1.1	1.1	1.1	1.1	1.2
Opex/avg assets	2.0	1.9	2.0	2.0	1.9
Provisions/avg assets	2.2	1.8	1.1	0.8	0.8
PBT/avg assets	0.6	0.9	1.7	2.0	2.1
Tax/avg assets	0.4	0.2	0.4	0.5	0.5
RoA	0.2	0.7	1.3	1.5	1.6
RoAE	2.2	7.1	12.3	14.5	15.4
GNPA (%)	4.5	3.9	3.8	3.3	2.9
NNPA (%)	1.6	1.1	1.1	1.0	0.9

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.0	22.4	43.6	59.4	73.9
BVPS	315.0	345.3	378.2	440.4	516.8
ABVPS	306.1	339.5	372.3	436.0	513.1
DPS	0.2	0.0	8.0	12.0	16.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	115.9	31.2	16.0	11.8	9.5
P/BV	2.3	2.1	1.9	1.6	1.4
P/ABV	2.0	1.8	1.7	1.4	1.2
P/PPOP	7.5	7.4	6.5	5.5	4.6
Dividend Yield (%)	0.0	0.0	1.1	1.7	2.3

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.1	16.0	15.4	16.9	18.4
PPOP	23.3	9.7	14.4	17.1	20.0
PAT	(65.2)	304.9	102.8	36.1	24.5
Loans	15.5	9.2	15.1	20.4	20.4

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	68,077	69,853	73,261	73,728	75,549
NIM(%)	3.6	3.4	3.6	3.6	3.5
PPOP	58,511	58,444	68,977	60,955	68,646
PAT	(13,878)	11,122	16,827	11,166	26,771
EPS (Rs)	(4.92)	3.94	5.50	3.65	8.74

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Aug-20	Sep-20	Dec-20	Mar-21
Promoters	15.7	14.5	14.5	13.6	13.3
FII	45.1	47.5	48.2	49.8	50.2
DII	24.0	23.5	23.4	23.0	22.7
Public and Others	15.3	14.5	13.9	13.7	13.9

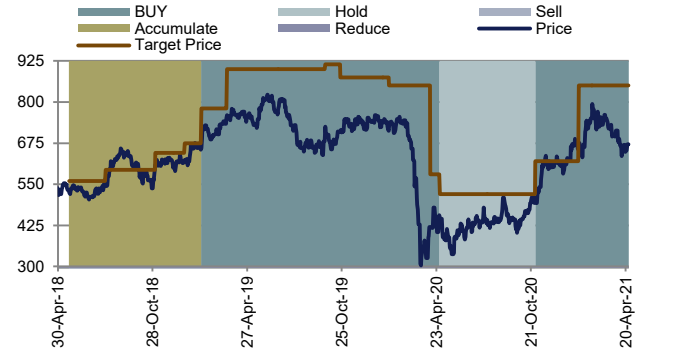
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Jan-21	671	850	12m	Buy	Anand Dama
20-Jan-21	676	850	12m	Buy	Anand Dama
29-Oct-20	494	620	12m	Buy	Anand Dama
22-Jul-20	479	520	12m	Hold	Anand Dama
29-Apr-20	439	520	12m	Hold	Anand Dama
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
9-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama
25-Apr-19	740	900	12m	Buy	Anand Dama
20-Mar-19	755	900	12m	Buy	Anand Dama
19-Mar-19	760	900	12m	Buy	Anand Dama
29-Jan-19	660	780	12m	Buy	Anand Dama
28-Dec-18	624	675	12m	Accumulate	Anand Dama
2-Nov-18	610	645	12m	Accumulate	Jignesh Shial
30-Jul-18	569	594	12m	Accumulate	Jignesh Shial
21-May-18	526	560	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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