Equity Research
April 28, 2021
BSE Sensex: 48944

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Q4FY21 results review and earnings revision

Banking

Target price Rs942

Earnings revision

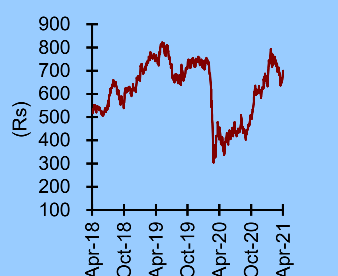
(%)	FY22E	FY23E
PAT	↑ 1	↑ 2

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	14.8	13.9	13.6
Institutional investors	73.2	74.5	74.7
MFs and others	18.6	20.9	17.8
FIs/Banks	0.1	0.1	0.0
Insurance Cos.	5.1	2.1	4.9
FPI	49.4	51.4	52.0
Others	12.0	11.5	11.7

Source: CMIE

Price chart



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INDIA

Axis Bank

BUY
Maintained

Earnings beat reinforces confidence; on a path to deliver superior RoEs

Rs700

Axis Bank's Q4FY21 earnings beat reaffirms our view that besides strengthening the balance sheet (through prudent and conservative buffers), it is equally focusing on building granularity to drive sustainable growth and deliver superior RoE.

Key positives: 1) Growth momentum after failing to cheer in Q3FY21, caught up pace with peers growing at 8% QoQ (9% YoY) and was broad-based across retail, SME and corporate; 2) slippages of Rs52.9bn (<4% run rate for Q4FY21 and <3% for FY21) with restructuring restricted to a mere 0.32%; 100% provisioning on unsecured retail and SRs; 3) credit cost contained at 2.2% - much lower than 3% plus for 9MFY21; and 4) fee income gained traction to 15% YoY growth and Rs7.9bn of treasury profits.

What encourages: i) Not utilising or creating any further contingency buffer (unlike peers) and carrying additional provisioning of Rs120bn (~2% of advances); ii) BB' & below declining to <2% (down >35bps QoQ).

What failed to cheer: 1) Despite 20bps QoQ/110bps YoY benefit of funding cost, NIMs were stable; incremental business written at lower yields; 2) retail slippages are running higher at ~4% in FY21.

We expect earnings CAGR of >65% over FY21-FY23E and RoE of >15% by FY23E. Maintain BUY with a target price of Rs942. Key risks: 1) Covid resurgence unfolding further stress; 2) lower-than-anticipated growth can cap RoE improvement.

- **Gross slippages settle at <3% for FY21, lowest in 3 years:** In Q4, gross slippages came in exactly in-line with expectations at Rs52.85bn (<4% run-rate). This quarter as well it was primarily dominated by retail segment (65%) and downgrades from BB & below. Consequently, gross slippages in FY21 were contained at <3% (Rs172bn), lower than in 3 years. Retail stress - a mix of secured as well as unsecured lending (primarily cards) - ran higher at ~4% (similar to peers). Lower set of retail restructuring at 0.1% could be the rationale for elevated retail slippages. However, these are adequately provided for and written-off to the extent required. BB & below pool, after remaining sticky for few quarters, showed downward trajectory to <2% (from 2.3-2.4% in past few quarters). More so, 38% of this pool is rated better by at least one credit rating agency.

- **Credit cost settles lower at 2.2%; cumulative provisions at ~2% of advances:** One of the key drivers of earnings beat was credit cost being contained at 2.2% - much lower than 3% plus in 9MFY21. This is despite the bank making additional provision aggregating Rs8.0bn on accounting change in provisioning rates on loans to commercial banking segment. Plus, it has completely marked down security receipts from Rs16.8bn to zero (100% provided by FY21). Specific loan loss provisions in Q4 were Rs70.4bn (including provision of Rs42.7bn on pro forma slippages provided earlier).

  Positively, the bank has neither utilised nor created any further contingency buffer (unlike peers). Overall, it holds cumulative provisions (standard + additional other than NPA) of Rs120bn (~2% of standard asset coverage or 120% of GNPA), including covid buffer of Rs50bn. We, therefore, estimate credit cost of 1.4%/1.2% for FY22E/FY23E.

Market Cap	Rs2143bn/US$28.7bn
Reuters/Bloomberg	AXBK.BO/AXSB IN
Shares Outstanding (mn)	3,063.8
52-week Range (Rs)	794/337
Free Float (%)	86.4
FII (%)	52.0
Daily Volume (US$'000)	1,79,629
Absolute Return 3m (%)	10.7
Absolute Return 12m (%)	63.7
Sensex Return 3m (%)	3.4
Sensex Return 12m (%)	55.8

Year to Mar	FY20	FY21E	FY22E	FY23E
NII (Rs bn)	252	292	340	380
Net Profit (Rs bn)	16	66	156	186
EPS (Rs)	5.8	21.5	50.8	60.6
% Change YoY	-68.3	272.7	136.1	19.4
P/E (x)	111.1	29.8	12.6	10.6
P/BV (x)	2.1	1.9	1.7	1.5
P/ABV (x)	2.3	2.0	1.8	1.6
GNPA (%)	5.1	3.9	3.4	2.8
RoA (%)	0.2	0.7	1.5	1.6
RoE (%)	2.1	7.1	14.4	15.2

- **Restructuring settles at 0.3% of GCA, much lower than 1.5% anticipated in Q2:** Restructuring for the overall portfolio settled at 0.3% of gross customer assets, much lower than anticipated at 1.7% in Q2FY21 by the company. Furthermore, 100% of corporate restructuring is from BB & below pool, 74% of Rs18.5bn restructuring overlaps with BB & below. In terms of provisioning, bank has provided 26% towards the restructured portfolio and 100% on unsecured retail under restructuring.

- **Buffers created to strengthen balance sheet and be future-ready:** Management has highlighted that the buffer at ~2% of balance sheet is to strengthen it and make the bank well prepared for future uncertainties, if any, and doesn't imply any expectation of higher stress. Axis Bank sticks to its prudent and conservative approach, which is demonstrated through the strategic choice made on the balance sheet. We are of the view that bank is providing higher than required, thereby, leaving no backlog of provisions for FY22. Overall, as per the current approach, the bank is moving towards a clean slate and hence, its goal of 15-18% RoE looks achievable in medium term.

- **Growth momentum catches up after failing to cheer in Q3FY21:** Advance growth momentum after failing to cheer in Q3FY21, caught up pace with peers - loan book surprised positively growing at 8% QoQ that aided the bank to exit FY21 with 9% YoY growth. Domestic retail loans grew up 11% YoY/7% QoQ; 81% of the retail book is secured. Retail disbursements for the quarter were at new all-time highs. Disbursements in consumer segment were up 45% YoY / 44% QoQ, rural disbursements grew 47% YoY/ 47% QoQ. Corporate loans too contributed to the growth with a jump of 13% YoY / 9% QoQ. Within corporate segment, Axis Bank is significantly gaining strides in government sector, MNC and mid-corporate and de-risking from concentration around large corporates. SME loan book, too, grew 13% YoY and 10% QoQ. Also, it is to be noted that such a hefty growth is leveraging its digital capabilities and strengthening leadership team with thorough focus on RaRoc framework to deliver operating profit growth. Overall, blend of right pricing and strong underwriting should result in a better risk-adjusted return portfolio. We expect loan growth of 13%/18% for FY22E/FY23E, respectively.

- **Margins stay put – incremental business at lower spreads:** Margin was negatively impacted by following factors: 1) Interest income was net of ~Rs1.63bn (~8bps) of interest on interest reversals for loans above Rs20mn; 2) average LCR during the quarter was 111% vs 106% QoQ; 3) reversal of interest on incremental slippages (running at <4% run-rate); 4) Q3FY21 margins have a positive impact of 8bps on account of interest on income tax refund.

  Despite 20bps QoQ/110bps YoY benefit of funding cost, NIMs were stable at 3.53%. This suggests negative carry due to PSL and competitive pricing weighed on margins. However, the bank is targeting margins around 370-380bps.

- **Robust fee income and higher treasury gains support 'cost to income' ratio:** Another lever surprising positively was fee income - up 16% QoQ and 15% YoY. Not only retail that constitutes 64% of the fee income grew 16% YoY / 17% QoQ, but corporate & commercial banking provided further boost with 14% YoY / 15% QoQ growth. Also, treasury gains were strong which doubled QoQ and were up 2x YoY on the back of sale of strategic investments wherein it earned Rs3bn. On the contrary, opex was up 8% YoY and 6% QoQ. Higher opex can be attributed to rise in staff costs (up 22% YoY, one-off item of provision for social security codes amounting to Rs2.2bn, higher IT spend and rise in variable costs linked to disbursements. Overall, ‘cost to income’ ratio was down 1.5% QoQ and 2.0% YoY as higher share of fee income & treasury gains outweigh rise in opex.

- **Subsidiaries doing exceptionally well, PAT up 75% YoY:** Axis AMC average AUM was up 42% YoY while PAT doubled YoY to Rs2.42bn. Axis Capital continues to maintain its leadership in ECM segment with 60 deals during FY21, thereby, generating PAT of Rs1.66bn, up 66% YoY. Axis Securities’ revenue more than doubled YoY, while PAT grew 10x YoY in FY21 led by strong traction in broking business and acquisition of Karvy Stock Broking clients. Axis Finance has been investing on building strong customer franchise which led to 50% YoY uptick in FY21 disbursements. Retail comprised 17% of the total loan book while wholesale is also doing well with 19% RoE. Asset quality is manageable with net NPA at 2% and overall PAT up 9% YoY.

Table 1: Q4FY21 result review

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	% Change YoY	Q3FY21	% Change QoQ
Net Interest Income	75,550	68,077	11	73,728	2
% Growth	11	19		14	
Fee income	33,760	29,310	15	29,060	16
Add: Other income	12,923	10,540	23	8,700	49
Total Net Income	1,22,233	1,07,927	13	1,11,488	10
% Growth	13	17		9	
Less: Operating Expenses	(53,586)	(49,421)	8	(50,533)	6
Pre-provision operating profit	68,647	58,507	17	60,955	13
NPA Provisions	(27,540)	(42,040)	(34)	(49,520)	(44)
Other provisions	(5,410)	(35,251)	(85)	3,480	(255)
PBT	35,697	(18,785)	(290)	14,915	139
Less: taxes	(8,926)	4,911	(282)	(3,746)	138
PAT	26,771	(13,873)	(293)	11,168	140
% Growth	293	(192)		(36)	
Balance sheet (Rs mn)					
Advances	62,37,202	57,14,242	9	58,27,539	7
Deposits	70,73,061	64,01,049	10	65,41,403	8
Asset quality					
Gross NPL	2,53,148	3,02,338	(16.3)	2,90,961	(13.0)
Net NPL	69,935	93,604	(25.3)	74,131	(5.7)
Gross NPL ratio (Change bps)	3.70	4.86	(116)	4.55	(85)
Net NPL ratio (Change bps)	1.05	1.56	(51)	1.19	(14)
CredIt cost (Change bps)	2.18	2.90	(71)	3.18	(99)
Coverage ratio (Change bps)	72.4	69.0	333	74.5	(215)
Business ratio (Change bps)					
RoA	1.1	(0.6)	175	0.5	62
RoE	10.7	(6.5)	1,717	4.5	614
CASA	44.9	41.2	373	43.2	175
Credit / Deposit ratio	88.2	89.3	(109)	89.1	(90)
Cost-Income ratio	43.8	45.8	(195)	45.3	(149)
Earning ratios (Change bps)					
Yield on advances	7.69	9.01	(132)	7.97	(28)
Cost of deposits	3.90	5.01	(111)	4.09	(19)
NIM	**3.56**	**3.55**	**1**	**3.59**	**(3)**

Source: Company data

Table 2: Total stress pool at Rs 215bn (NNPA + Restructuring + BB & below)

(Rs bn, year ending March 31)

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Gross NPA	300.7	302.3	295.6	274.7	291.0	253.1	(49.2)	(37.8)
Net NPA	121.6	93.6	74.5	64.2	74.1	69.9	(23.7)	(4.2)
BB & below	97.8	110.0	107.5	148.5	141.4	126.8	16.9	(14.6)
BB & below (fund based)	51.3	65.3	64.2	91.2	87.2	74.4	*9.2*	*(12.8)*
BB & below (non-fund based)	36.7	39.1	37.2	49.3	48.0	45.7	*6.7*	*(2.2)*
BB & below (investments)	9.9	5.6	6.1	8.1	6.2	6.7	*1.0*	*0.5*
Restructuring (ex-BB & below pool)	-	-	-	-	27.1	18.5	18.5	(8.6)
GNPA + Restructuring + BB & below	**398.6**	**412.3**	**403.1**	**423.3**	**459.4**	**398.5**	**(13.8)**	**(61.0)**
NNPA + Restructuring + BB & below	**219.4**	**203.6**	**182.0**	**212.7**	**242.6**	**215.2**	**11.7**	**(27.4)**

Note: Q2FY21 & Q3FY21 GNPA & NNPA are proforma
Source: Company data

Table 3: Total stress pool shrinks considerably in the current quarter

(%, year ending March 31)

Particulars (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (bps)	QoQ (bps)
Gross NPA	5.00	4.86	4.72	4.28	4.55	3.70	(116)	(85)
Net NPA	2.09	1.56	1.23	1.03	1.19	1.05	(51)	(14)
BB & below	1.62	1.77	1.71	2.31	2.22	1.86	9	(36)
BB & below (fund based)	0.85	1.05	1.02	1.42	1.37	1.09	*4*	*(28)*
BB & below (non-fund based)	0.61	0.63	0.59	0.77	0.75	0.67	*4*	*(8)*
BB & below (investments)	0.16	0.09	0.10	0.13	0.10	0.10	*1*	*0*
Restructuring	-	-	-	-	0.42	0.30	30	(12)
GNPA + Restructuring + BB & below	**6.62**	**6.63**	**6.43**	**6.59**	**7.19**	**5.86**	**(77)**	**(133)**
NNPA + Restructuring + BB & below	**3.71**	**3.33**	**2.94**	**3.34**	**3.83**	**3.21**	**(12)**	**(62)**

Note: Q2FY21 & Q3FY21 GNPA & NNPA are proforma
Source: Company data

Table 4: Subsidiaries value at 6% of SOTP valuation

Subsidiary	Valuation method	Company Value (Rs mn)	Axis Stake	Axis stake value (Rs mn)	SoTP Value (Rs per share)
Axis MF	7% of AUM	1,48,971	75	1,11,714	40
Axis Capital	15x PE	21,780	100	21,780	8
Axis Securities	15x PE	26,862	100	26,862	10
Axis Finance	2x P/BV	33,063	100	33,063	12
Total					**69**
After holding company discount of 20%					**58**

Source: Company data, I-Sec research

Axis Bank – Q4FY21 concall – key takeaways

CEO remarks:

- ***Strong sequential growth in advances and deposits – granular growth*** and staying close to customers' needs and aspirations
- ***On a path to sustainable growth and is well positioned for future credit cycles and uncertainties***
- Requisite strength in balance sheet and well prepared for future. Prudence is demonstrated through strategic choice made on the balance sheet

On slippages and movement of NPLs

- Gross slippages: Rs52.8bn – 65% is from retail book; annualized slippages is 3.7%. There is fair mix of secured and unsecured (primarily cards). Its one time as portfolio is cleansed.
- Retail slippages slipped as it has not resorted to restructuring at all (merely 2.14% of retail book was restructured)
- Rs18bn net slippages – in retail it was Rs13.24bn for Q4FY21 (Rs70bn for full year FY21). SME net slippages were Rs940mn (Rs6.7bn for FY21)
- Recoveries/upgrades – no one-off to call out except for one large accounts that was resolved

On provisioning

- ***Specific loan loss provisions for Q4FY21 were Rs70.4bn*** (including reclassification of NPA provision of Rs42.7bn on account of Supreme Court judgment), compared to Rs42bn in Q4FY20.
- During the quarter, the Bank has made ***additional provision aggregating Rs8.03bn crores on account change in NPA provision rates on loans to commercial banking segment.***
- Net of the above 2 adjustments, specific loan loss provision for Q4 FY21 would have been Rs20bn.
- Rs1.79bn provided towards security receipts to completely mark it down – now carrying value is NIL
- ***Bank holds cumulative provisions (standard + additional other than NPA) of Rs120bn (1.9% of advances) at the end of Q4FY21.*** Rs120bn of contingency buffer includes Covid buffer of Rs50bn

Other asset quality related metrics

- ***BB & below pool (fund-based + non-fund + investments) came down QoQ from Rs142bn (2.2% of advances) to Rs127bn (1.9%).***
- ***Movement of BB & below pool:*** Collected Rs14bn, 9bn slipped and Rs9.2 were downgraded
- ***38% of BB & below is rated better by atleast one rating agency***
- Security receipts of Rs16.8 bn – 100% provided now – quantitative as well as qualitative assessment. Quantitative assessment still has mark down value of Rs14bn. On qualitative basis,

- Restructuring has been used very judiciously – fund-based restructuring is Rs18bn or 0.3% - of that the invoked amount is Rs6bn that is implemented
- Non-fund based exposure to GNPA – Rs18bn (0.3% of advances)

On collection efficiency and cheque bounce

- ***Demand resolution for retail portfolio was 98%***
- Cheque bounce trends are above pre-Covid levels but resolutions have improved

Disbursement growth

- Liability branches origination has gone up to 58% (from less than 50% earlier)
- On retail book, it represents balance sheet gross up for FCNR deposits

On NIMs

- 8bps on account of interest on income tax refund in Q3FY21 – so if that is axed, NIMs would have been up QoQ. LCR related drag is the other reason.
- Will continue to push margins up from where they are – 3.7-3.8% is the targeted levels
- Negative carry due to PSL, competitive pricing is leading to lower than targeted levels

On operating expenses

Employee cost – one off item – provision for social security codes – Rs2.2bn.

Corporate Banking

- Like every other industry, ***there is a consolidation of banking relationship amongst banks and Axis is one of them.*** Not walking away from corporate banking business.
- Large corporates are concerned are in process of deleveraging and repayments – now what it is seeing strong corporate growth in other segments and focus on MSE sectors.
- ***Derisking business away from concentrated exposure – building mid-corporate and SME business***
- Government, MNC and commercial banking business – put together this would be 25-30% of advances
- Want to participate in lower margin business of corporate if it gives other opportunities to achieve targeted RaRoC
- Natural market share in many of the products – that is driving fee income as well
- LCR – back to maintaining 100% on daily basis – internal target is 105% and aims at 115-120%

Accounting changes

- Cumulative PBT impact is Rs2.32 due accounting policy changes and it has tightened well

Trading profits

- Trading profits is from sale of strategic investments wherein it gained Rs3bn

Write-offs – underlying policy

- Follow a rule based write-off policy - No discretion left with the management team
- For unsecured business, provide 100% early and write-offs would happen soon
- Coming back on corporate cycle – so something unresolved for longer term would be provided 100% soon and written off
- For FY21 – with respect to write-offs, the mix was broadly 50:50 ratio between corporate : retail

Strengthen the quality of bank's balance sheet significantly

- Risk management is more matured and stringent today
- Reducing legacy stress book: BB & below has declined
- Embedded conservatism and prudence in the Bank's underwriting, accounting and provisioning policies, enhanced capital levels

Technology is at the core

- Opex and capex spends ramped up (79% increase in last 2 years) to modernize the core systems, scale up Cloud portfolio, deliver engineering excellence and digital risk-proofing
- Employees trained in Agile and next gen tech skills
- Multi year technology transformation programme
- Cloud First approach – 50 apps now on cloud environment
- One of the largest WFH enablement in BFSI with 75K staff on productivity and collaboration apps

Act with relentless focus on making Axis digital

- Fundamental relook and reimagine customer journey and deliver market leading products
- Significant progress under silent revolution: 16 initiatives live
- Buy now Pay Later (Freecharge) – 400 merchants online and offline
- Digital Forex card

Build granularity for sustainable growth

- 18mn in Q4FY21 6.7 mn new liability relationships opened in a year
- Average savings balance higher 11% YoY
- 1500 VRMs across Axis Virtual Centre (AVC) channel and 3 mn + customer connects every month by AVC
- Now present in 6 key centers
- Growth in advances from all segments – retail sees strong momentum with higher ever quarterly disbursements. Q4FY21 retail disbursements were up 47% QoQ – home logins touched highest ever quarterly numbers
- Expand reach in semi-urban and rural areas – 600 CSCs rolled out
- Commercial banking segment – remains a priority and a profitable segment
- Lean and digital enabled processed has reduced turnaround time. Collaboration between branch and origination team has increased manifold.

- ***Corporate segment – grow profitably with focus RaRoC. Corporate loan book grew 16% YoY/9% QoQ***
- Added 337 new corporate relationships
- Wallet share in new corporate relationships getting similar to bank level average.
- New card issuances have started to grow from Q4FY22. Flipkart-Axis credit card crossed 1 mn mark
- Wealth management burgundy continues to gain scale

Create significant value among our key subsidiaries

- Rs8.3bn profits from subsidiaries and H2FY22 would have been anuulised at Rs10bn
- Networth accretion was 17%
- Return on investments on subsidiaries stands at 39%
- Will have stronger alignment with Max Life Insurance
- Strong operating performance
- Value in subsidiaries

Axis Bank – Q3FY21 concall – key takeaways

CEO remarks:

- Domestic economic recovery better than expected – in December activity levels are back to pre-Covid levels
- Very well poised to support, grow and participate in recovery.
- Transform operations bringing digital to the core following OPEN stack
- Large banks with healthy operating performance, adequate capitalization, digital capabilities would capitalize on reviving economy.

Near-to-medium term strategy

- ***Following a path of prudence and strengthening the balance sheet - approach is to move towards the path of sustainably and conservatism***
- ***Will continue to provide for fresh slippages next quarter as well*** though the run-rate of slippages will be lower in Q4FY21 (than Q3FY21).
- **Prudence and conservatism should not be a reflection of behaviour of asset quality - Results of stress test encouraging and is 45-50% lower (compared to 25%) than what was expected in April**
- ***Most of the provisions are rule-based or based on certain formula for restructuring – will take the call at the end of Q4, if this provisioning needs to be carried forward.*** There are guardrails around reversals of this provisioning.
- ***RoA and RoE is an important goal post and want to attain it going forward (in near term) with FY22 being a look forward year towards that goal post.***
- ***Do not want to chase growth just for the sake of it but should not be margin dilutive*** – corporates are demanding much lower rates and is not encouraging disbursements at very competitive rates.

On proforma slippages and movement of GNPLs

- Absence of standstill, GNPAs would have been 4.55% - reported provisioning coverage is 79% and IRAC norms is 75%.
- ***Gross slippages Rs67bn – break up - wholesale was 10%, retail was 84% and SME was 6%.*** Retail proforma slippages are equally split between secured and unsecured – 100% provisioning made on unsecured retail slippages
- Moratorium got over in September – flow through on unsecured as anticipated has happened.
- ***Unsecured retail has largely slipped into proforma slippages in Q3FY21 and residual portion will be there in Q4 – though will be lower than Q3***
- Write-offs were higher at Rs42.6bn – There are rule-based write-off policy and don't exercise any judgement – write-offs this quarter is predominantly from wholesale book
- Recoveries are higher than pre-Covid levels. ***Not sold any NPAs to ARC in Q3FY21***
- ***Fee and interest income related to proforma slippages have also been reversed from respective income lines.***

Provisioning break-up

- Prepared accounts with extant IRAC norms – borrower-wise classification and not individual account classification
- Rs39bn is proforma slippages, Rs10bn – is specific loan loss provisioning
- Not used any overlay whatsoever held as at September - provisioning coverage stands at 116% of IRAC GNPLs or 2.05% of advances

On stress scenario analysis and collection efficiency

- Structured and analytical based collections – reach out delinquent customers
- ***Resolutions are at par with pre-Covid levels and even better. Demand resolution in retail is 98% in Dec (94% in Sept and 97% pre-Covid)***
- Bounce rates still remain bit elevated
- ***Collections have doubled from customers overdue more than 90-days***
- Recovery from written-offs accounts has improved 70%
- Stress testing ***with external validation through knowledge partner. Results of stress test encouraging and is 45-50% lower (compared to 25%) than what was expected in April***
- Recognized slippages this quarter with lower residual impact in Q4FY21
- Reference date for moratorium reporting is different than RBI

On restructured pool

- Judicious and selective around restructuring loans – Rs27bn – 0.42% of advances
- Carries provisioning of Rs6.3bn on restructured loans at 26%

- Restructuring requests remain lower than earlier anticipated indicating stress in lower than anticipated

On BB & below pool

- Fund-based BB & below is now at 1.37%
- Flow of BB & below pool - Collected Rs11.3bn, upgraded Rs3.12bn; flow into slippages were Rs8.2bn and downgrades were Rs10.4bn
- Net NPA + BB & below + restructuring is at 2.7% and has provisions of 69% on this pool

On operating metrics

- Net interest income with interest reversal would have been Rs79bn – compared to reported NII of Rs73.7bn (Rs6.14bn of interest reversals – 18 bps impact on NIMs)
- ***Rs1.53bn of interest on income tax refund***
- ***Fee income before reversal grew 5% YoY and 6% QoQ – reversal on cards business of Rs1.34bn***
- Cautious and not monetized MTM gain on SLR book – hence not much support from treasury profits
- Other income grew to Rs5.03 bn – recovery from written-off has increased 17% YoY.
- Operating expenses to assets stood at 1.95%, cost to income at 41%
- Increase in opex are attributed to the following
  - Staff count at 77015 (added 6425 in last 12 months and 804 in Q3FY21) – increments were rolled out in September 2020
  - Social security code liability ((gratuity equivalent catch up happens at one point in time and then is based on actuarial valuation) already provided contributed to increase by 3% in expenses
  - Increase in non-staff cost is due to revival of disbursals, promotional expenses, IT spends

On digitization

- Reimagining end to end customer journey – O (zero based redesign), P – proprietary in-house capabilities, E – ecosystem capability, N – Numbers and metrics driven
- Freecharge – now distributes financial services products

Deposit growth

- ***Deposit on QAB grew 13%; SA grew 14%/4% QoQ, CA – 15% YoY/4% QoQ, retail TD grew 25% YoY/2% QoQ***
- 1.7mn new liability accounts to 4.8mn in 9mFY19. Savings bank acquisition improved 9% QoQ – deposits (on QAB basis) grew 8% YoY
- CASA has improved 574 bps YoY and 175 bps QoQ

- Salary and NRI within savings few by 24% and 22% respectively

On credit growth

- Retail loan disbursements were up 37% QoQ
- Corporate and commercial banking – continues to deepen relationship with clients – added 452 new relationships in wholesale banking segment
- Corporate loan book grew 11% YoY – get NIMs into business at certain level – need right pricing and want to balance NIM versus growth
- Share of transaction banking and forex fees stood at 40%
- SME loan grew 6% QoQ – targeting collateralized segments

In SME

- Capitalized on opportunities and grew better
- Incremental sanctions 84% has SME-3 and above rated customers
- New lending platform called Sankalp for quicker turnaround and
- ECLGS has helped with short term liquidity – sanctioned over Rs105.83bn and disbursed Rs88.75bn – ECLGS 1.0 Rs82.91bn and 5.86bn
- Selectively based on due-diligence of the customers.

On subsidiaries

- **Axis Capital** completed 37 transactions in 9MFY21 that include 6 IPOs, 10 QIPs, 7 Rights issue, 2 OFS, 6 Buybacks, 3 M&A, 1 Preferential, 1 ECM Advisory and 1 PE deal
- **Axis Securities** - full service broker focusing on building an advisory model, with customer acquisitions for the 9MFY21 period up 99% YOY to 233,763 customers. Total PAT for 9MFY21 period at Rs1.2bn was over 7X of full year FY20 PAT.
- **Axis AMC** remains one of the fastest growing AMC in the country across debt and equity product categories with average AuM growth of 44% in the last 12 months. The growth was driven by fund performance and Axis AMC improved its market share to 6%, up from 4.6% at the end of Dec'19
- **Axis Finance** - investments in retail business has started to yield results, Retail disbursements now account for 30%+ of incremental disbursements. No accounts were required to restructured in Axis Finance. Now well poised for growth with CAR of 21.7%. Overall ROE for Q3FY21 stood at 17.5% with wholesale ROE at ~24%

Chart 1: Credit growth after failing to cheer in Q3FY21 gains traction

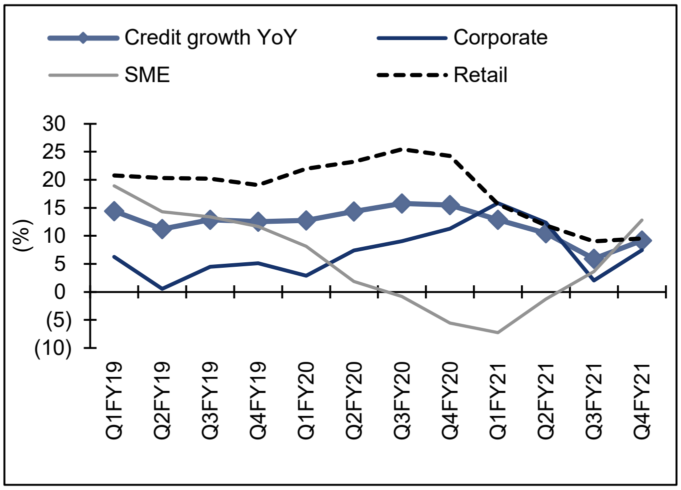


Chart 2: Growth was broad-based - Corporate pie at 35%, SME 11% and Retail at 54%

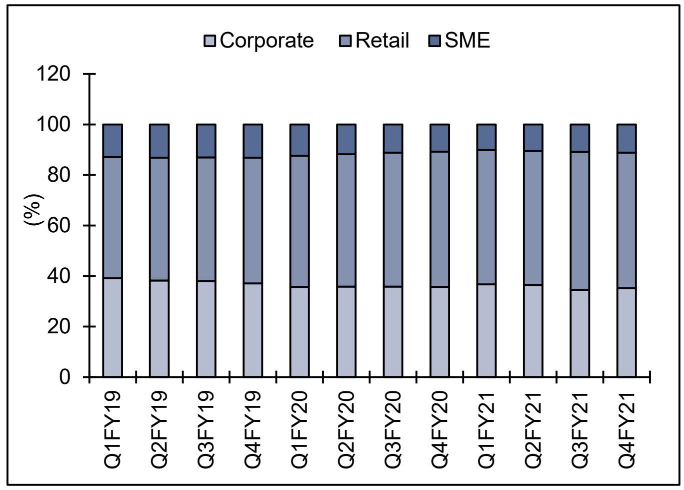


Chart 3: Deposit growth stable at 11% YoY; CASA improves 170 bps QoQ

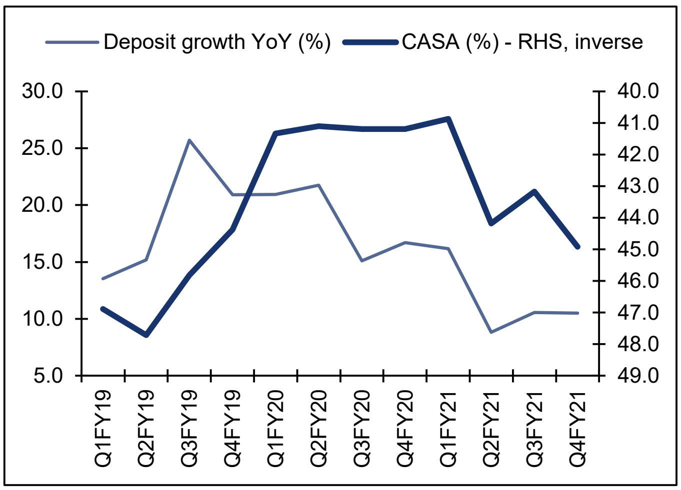


Chart 4: NIMs stay put despite interest reversals and higher liquidity levels

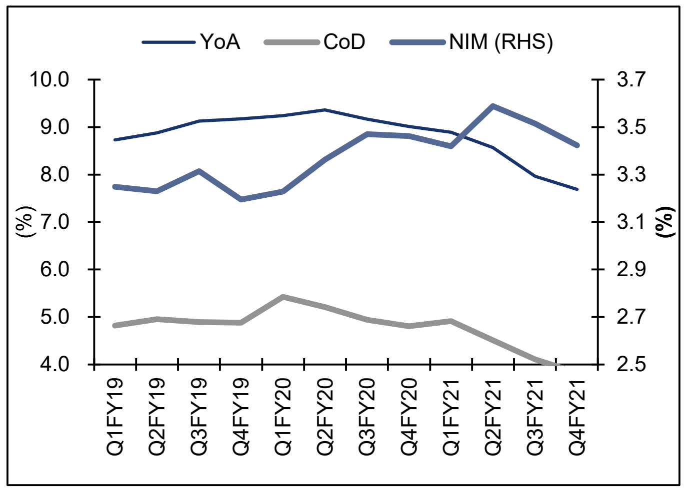


Chart 5: Opex/assets spike as staff as well as other cost surges QoQ%

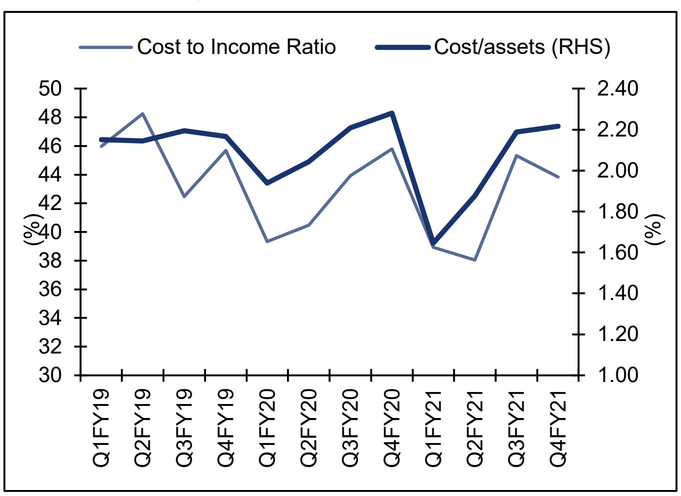


Chart 6: Higher coverage ratio on account of NPL classification standstill

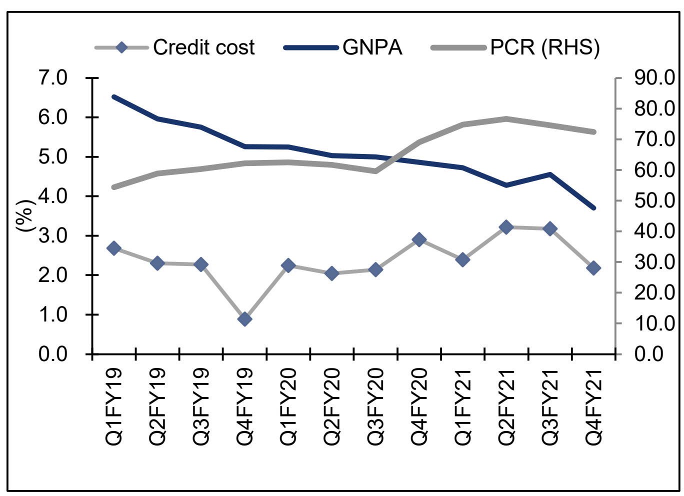


Chart 7: Credit cost well-managed which resulted in high RoA

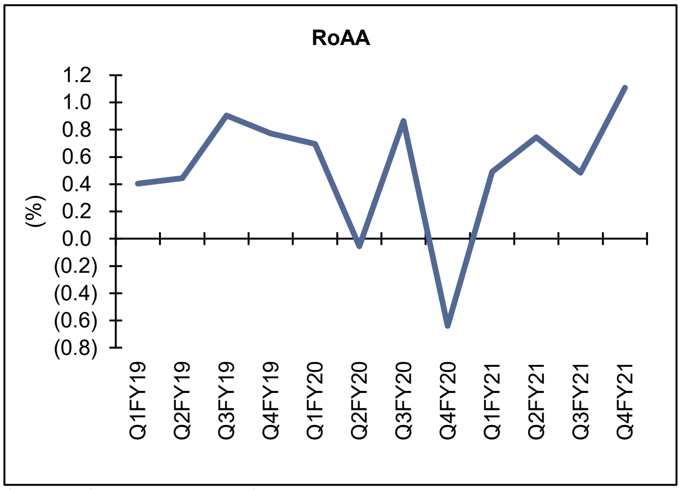
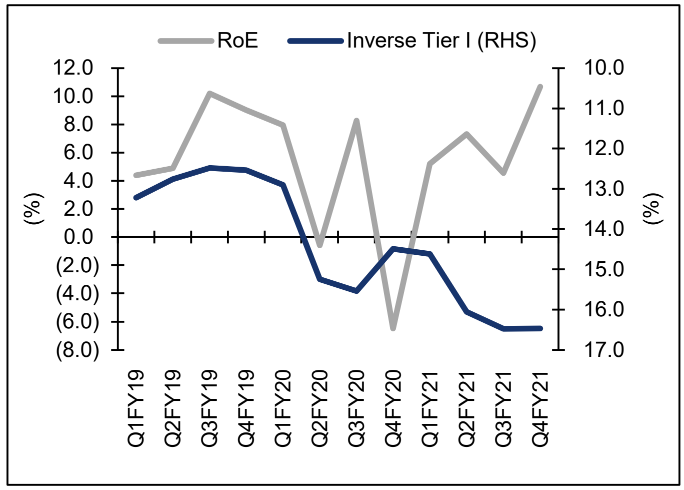


Chart 8: RoE at multi-quarter high



Source: Company data, I-Sec research

Financial summary

Table 5: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Interest Income	1,68,330	1,80,931	1,86,177	2,17,082	2,52,062	2,92,391	3,40,247	3,80,354
% Growth	18	7	3	17	16	16	16	12
Fee income	67,076	70,283	77,299	88,537	96,919	1,06,860	1,22,889	1,43,780
Add: Other income	26,639	46,630	32,372	42,767	58,446	41,522	39,978	42,495
Total Net Income	**2,62,044**	**2,97,844**	**2,95,848**	**3,48,385**	**4,07,428**	**4,40,773**	**5,03,115**	**5,66,629**
% Growth	16	14	(1)	18	17	8	14	13
Less: Operating Expenses	(1,01,008)	(1,21,999)	(1,39,903)	(1,58,334)	(1,73,046)	(1,83,752)	(2,00,894)	(2,25,001)
Pre-provision operating profit	**1,61,036**	**1,75,845**	**1,55,945**	**1,90,051**	**2,34,381**	**2,57,022**	**3,02,221**	**3,41,628**
NPA Provisions	**(38,005)**	**(1,11,571)**	**(1,65,987)**	**(1,02,215)**	**(1,27,530)**	**(1,21,910)**	**(80,556)**	**(76,623)**
Other provisions	906	(9,599)	11,258	(18,095)	(57,800)	(47,053)	(13,760)	(16,750)
PBT	**1,23,937**	**54,676**	**1,216**	**69,741**	**49,051**	**88,058**	**2,07,905**	**2,48,255**
Less: taxes	(41,700)	(17,883)	1,541	(22,975)	(32,770)	(22,173)	(52,330)	(62,486)
PAT	**82,237**	**36,793**	**2,757**	**46,766**	**16,281**	**65,885**	**1,55,575**	**1,85,769**
% Growth	12	(55)	(93)	1,596	(65)	305	136	19

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Capital	4,766	4,790	5,133	5,143	5,643	6,128	6,128	6,128
Reserve & Surplus	5,26,883	5,52,835	6,29,320	6,61,620	8,43,835	10,09,903	11,38,151	12,91,290
Deposits	35,79,676	41,43,788	45,36,227	54,84,713	64,01,049	70,73,061	79,21,828	92,68,539
Borrowings	9,92,264	10,50,309	14,80,161	15,27,758	14,79,541	14,28,732	13,65,496	13,65,496
Other liabilities	1,51,088	2,62,955	2,62,455	3,30,731	4,21,579	4,43,362	4,87,698	5,36,468
Total liabilities	**52,54,676**	**60,14,677**	**69,13,296**	**80,09,965**	**91,51,648**	**99,61,184**	**1,09,19,301**	**1,24,67,920**
Cash & Bank Balances	3,33,254	5,02,562	4,34,549	6,72,046	9,72,683	6,17,298	6,82,964	7,75,032
Investment	12,20,062	12,87,934	15,38,761	17,49,693	15,67,343	22,61,196	22,83,808	23,06,646
Advances	33,87,737	37,30,693	43,96,503	49,47,980	57,14,242	62,37,202	70,73,389	83,08,429
Fixed Assets	35,232	37,469	39,717	40,366	43,129	42,450	51,797	58,612
Other Assets	2,78,391	4,56,019	5,03,766	5,99,880	8,54,252	8,03,038	8,27,343	10,19,201
Total Assets	**52,54,676**	**60,14,677**	**69,13,296**	**80,09,965**	**91,51,648**	**99,61,184**	**1,09,19,301**	**1,24,67,920**
% Growth	14	14	15	16	14	9	10	14

Source: Company data, I-Sec research

Table 7: Dupont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest income	8.3	7.9	7.1	7.4	7.3	6.7	6.8	6.8
Interest expense	(4.9)	(4.7)	(4.2)	(4.5)	(4.4)	(3.6)	(3.6)	(3.5)
NII	**3.4**	**3.2**	**2.9**	**2.9**	**2.9**	**3.1**	**3.3**	**3.3**
Other income	0.5	0.8	0.5	0.6	0.7	0.4	0.4	0.4
Fee income	1.4	1.2	1.2	1.2	1.1	1.1	1.2	1.2
Total income	**5.3**	**5.3**	**4.6**	**4.7**	**4.7**	**4.6**	**4.8**	**4.8**
Operating expenses	(2.0)	(2.2)	(2.2)	(2.1)	(2.0)	(1.9)	(1.9)	(1.9)
Operating profit	**3.3**	**3.1**	**2.4**	**2.5**	**2.7**	**2.7**	**2.9**	**2.9**
NPA provision	**(0.8)**	**(2.0)**	**(2.6)**	**(1.4)**	**(1.5)**	**(1.3)**	**(0.8)**	**(0.7)**
Total provisions	(0.8)	(2.2)	(2.4)	(1.6)	(2.2)	(1.8)	(0.9)	(0.8)
PBT	2.5	1.0	0.0	0.9	0.6	0.9	2.0	2.1
Tax	(0.8)	(0.3)	0.0	(0.3)	(0.4)	(0.2)	(0.5)	(0.5)
PAT	**1.7**	**0.7**	**0.0**	**0.6**	**0.2**	**0.7**	**1.5**	**1.6**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	34.6	15.4	1.1	18.2	5.8	21.5	50.8	60.6
% Growth	10.9	-55.5	-92.7	1519.6	-68.3	272.7	136.1	19.4
DPS (Rs)	5.0	5.0	-	1.0	0.9	3.2	7.6	9.1
Book Value per share (BVPS) (Rs)	224	233	258	259	301	332	373	423
% Growth	18.7	4.4	10.7	0.3	16.1	10.2	12.6	13.4
Adjusted BVPS (Rs)	217	209	213	230	276	315	358	409
% Growth	17.2	-3.4	1.9	7.9	20.1	13.9	13.7	14.4
Valuations								
Price / Earnings (x)	18.5	41.6	571.1	35.3	111.1	29.8	12.6	10.6
Price / Book (x)	2.9	2.7	2.5	2.5	2.1	1.9	1.7	1.5
Price / Adjusted BV (x)	3.0	3.1	3.0	2.8	2.3	2.0	1.8	1.6
Asset Quality								
Gross NPA (Rs mn)	58,484	2,00,456	3,42,485	2,97,895	3,02,335	2,53,165	2,46,620	2,38,941
Gross NPA (%)	1.7	5.2	7.5	5.8	5.1	3.9	3.4	2.8
Net NPA (Rs mn)	25,186	86,266	1,65,917	1,12,756	93,604	69,940	64,940	58,940
Net NPA (%)	0.7	2.3	3.8	2.3	1.6	1.1	0.9	0.7
NPA Coverage ratio (%)	57	57	52	62	69	72	74	75
Gross Slippages (%)	2.6	5.9	8.4	3.3	4.1	3.1	2.3	1.8
Credit Cost (%)	1.2	3.3	3.7	2.5	3.4	2.7	1.4	1.2
Net NPL/Networth	4.7	15.5	26.2	16.9	11.0	6.9	5.7	4.5
Business ratios (%)								
ROAA	1.7	0.7	0.0	0.6	0.2	0.7	1.5	1.6
ROAE	16.8	6.8	0.5	7.2	2.1	7.1	14.4	15.2
Credit Growth	20.5	10.1	17.8	12.5	15.5	9.2	13.4	17.5
Deposits Growth	11.0	15.8	9.5	20.9	16.7	10.5	12.0	17.0
CASA	47.3	51.4	53.8	44.4	41.2	44.9	46.5	48.0
Credit / Deposit Ratio	94.6	90.0	96.9	90.2	89.3	88.2	89.3	89.6
Cost-Income ratio	38.5	41.0	47.3	45.4	42.5	41.7	39.9	39.7
Operating Cost / Avg. Assets	2.0	2.2	2.2	2.1	2.0	1.9	1.9	1.9
Fee Income / Avg. Assets	1.4	1.2	1.2	1.2	1.1	1.1	1.2	1.2
Earning ratios								
Yield on Advances	9.7	9.3	8.4	8.8	9.1	8.0	8.0	7.9
Yield on Earning Assets	8.8	8.5	7.7	8.0	8.0	7.3	7.4	7.4
Cost of Deposits	5.4	5.1	4.4	4.7	4.9	4.2	4.1	4.1
Cost of Funds	5.6	5.4	4.8	5.1	5.0	4.2	4.2	4.1
NIM	3.6	3.5	3.1	3.2	3.2	3.4	3.6	3.5
Capital Adequacy (%)								
RWA (Rs mn)	40,39,492	47,23,132	51,76,308	55,26,876	61,31,604	67,44,765	75,54,136	84,60,633
Tier-1	12.5	11.9	13.0	12.9	14.2	15.3	15.4	15.6
CAR	15.3	14.9	16.6	16.1	16.6	17.4	17.5	17.5

Source: Company data, I-Sec research

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