

**BUY**

TP: Rs 530 | ▲ 19%

**AXIS BANK**

| Banking

| 22 July 2020

## Balance sheet continues to strengthen

**Axis Bank's (AXSB) Q1FY21 PAT declined 19% YoY to Rs 11bn owing to weak fee income (-38% YoY/-44% QoQ) and accounting policy changes (~Rs 5bn hit).**

**Moratorium share reduced to 9.7% of loans under phase-2 as approvals were given only after review and the bank focused on collections. Slippages at ~Rs 22bn were largely driven by corporate slippages worth Rs 13.6bn (incl. a single group account worth ~Rs 10bn). We cut FY21-FY22 EPS by 13-20% to reflect weak NIM and fee income, and roll forward to a Sep'21 TP of Rs 530 (vs. Rs 525). BUY.**

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**Moratorium book at ~10% of loans:** AXSB's loans under phase-2 of the moratorium declined to 9.7% by value (vs. 25-28% in Q4FY20), with 90% continuing from phase-1. Only customers affected by the crisis were approved moratorium post review by the bank in phase-2. This apart, customer connect and a focus on collections helped lower the moratorium share. Collections under phase-1 were at ~80%/70% levels for the corporate/SME & retail segments in June. About 78% of loans under moratorium are secured while collections from non-moratorium retail customers stood at ~95%.

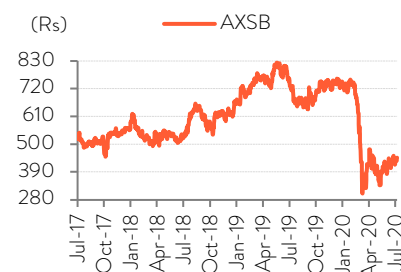
**Prudent NPA recognition and provisioning buffer:** Gross slippages stood at Rs 22bn (vs. Rs 39bn in Q4FY20), with ~21% being recognised as NPA on a prudent basis (100% provided) and ~Rs 10bn belonging to a single group (100% provided) being downgraded from the BB-&-below book. The bank made provisions worth ~Rs 10bn on standard assets while PCR improved to 75% (vs. 69% in Q4). Early bucket resolution rates and recoveries from written-off accounts have reached 60-70% and 60-65% of pre-Covid levels respectively.

**Loan growth hit marginally, NIM dips 15bps:** Loan growth stood at ~13% YoY, and management is cautiously optimistic on growth. NIM declined 15bps QoQ to 3.4% due to the impact of prudence (5bps) and surplus liquidity (9bps).

Ticker/Price	AXSB IN/Rs 446
Market cap	US\$ 15.7bn
Shares o/s	2,620mn
3M ADV	US\$ 227.8mn
52wk high/low	Rs 766/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	274,467	321,418	371,348
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Adj. net profit (Rs mn)	46,766	16,272	96,221	125,580	145,158
EPS (Rs)	18.2	6.0	34.1	44.5	51.4
P/E (x)	24.5	73.9	13.1	10.0	8.7
P/BV (x)	1.7	1.5	1.4	1.2	1.1
ROA (%)	0.6	0.2	1.0	1.1	1.2
ROE (%)	7.2	2.1	10.8	12.8	13.3

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
<b>Income Statement</b>					
<b>Interest income</b>	<b>165,389</b>	<b>152,550</b>	<b>162,341</b>	<b>8.4</b>	<b>1.9</b>
Interest expense	95,536	94,113	94,264	1.5	1.3
<b>Net interest income</b>	<b>69,853</b>	<b>58,437</b>	<b>68,077</b>	<b>19.5</b>	<b>2.6</b>
Non-interest income	25,867	38,688	39,855	(33.1)	(35.1)
Net total income	95,720	97,124	107,932	(1.4)	(11.3)
Staff expenses	14,061	13,068	13,740	7.6	2.3
Other operating expenses	23,215	25,128	35,681	(7.6)	(34.9)
Operating expenses	37,276	38,197	49,421	(2.4)	(24.6)
Pre-provisioning profit	58,444	58,928	58,511	(0.8)	(0.1)
<b>Total provisions</b>	<b>44,164</b>	<b>38,146</b>	<b>77,300</b>	<b>15.8</b>	<b>(42.9)</b>
<b>Profit before tax</b>	<b>14,280</b>	<b>20,782</b>	<b>(18,789)</b>	<b>(31.3)</b>	<b>(176.0)</b>
Tax	3,158	7,081	(4,911)	(55.4)	(164.3)
<b>Profit after tax</b>	<b>11,122</b>	<b>13,701</b>	<b>(13,878)</b>	<b>(18.8)</b>	<b>(180.1)</b>
<b>Balance Sheet</b>					
Advances	5,613,408	4,972,760	5,714,242	12.9	(1.8)
Deposits	6,281,503	5,406,777	6,401,049	16.2	(1.9)
CASA ratio (%)	40.9	41.3	41.2	(46bps)	(32bps)
<b>Yields and margins (%)</b>					
Net interest margin	3.4	3.4	3.6	0bps	(15bps)
Yield on advances	8.9	9.2	9.0	(35bps)	(12bps)
Cost of funds	4.9	5.7	5.2	(77bps)	(27bps)
<b>Key ratios (%)</b>					
Cost/Income	38.9	39.3	45.8	(38bps)	(685bps)
Tax rate	22.1	34.1	26.1	(1,196bps)	(402bps)
Loan to Deposit ratio	89.4	92.0	89.3	(261bps)	9bps
<b>Capital adequacy ratios (%)</b>					
Tier 1	14.6	12.9	14.5	172bps	13bps
Total CAR	17.5	16.1	17.5	141bps	(6bps)
<b>Asset quality (Rs mn)</b>					
Gross NPAs	295,602	294,049	302,338	0.5	(2.2)
Net NPAs	74,480	110,375	93,604	(32.5)	(20.4)
Gross NPA ratio (%)	4.7	5.3	4.9	(53bps)	(14bps)
Net NPA ratio (%)	1.2	2.0	1.6	(81bps)	(33bps)
Coverage ratio (%)	74.8	62.5	69.0	1,234bps	576bps

Source: Company, BOBCAPS Research

## Valuation methodology

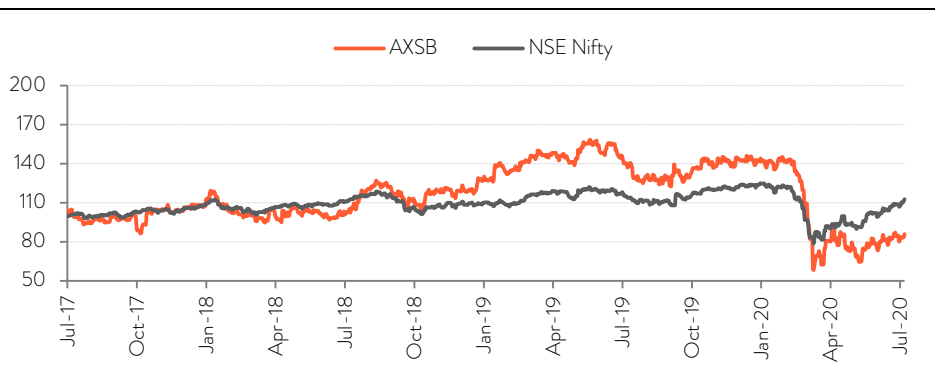
We lower our FY21-FY22 EPS estimates by 13-20% to reflect lower fee income and NIM. Rolling valuations forward, we have a revised Sep'21 SOTP-based target price of Rs 530 (vs. Rs 525). For our SOTP model, we value (a) the core book at Rs 460/sh based on a two-stage Gordon Growth Model, assigning an unchanged 1.2x multiple on Sep'22E P/BV, and (b) subsidiaries at Rs 70/sh. Maintain BUY.

**FIG 2 – REVISED ESTIMATES**

Particulars	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income (Rs mn)	274,467	321,418	278,340	330,760	(1.4)	(2.8)
Pre-provisioning profit (Rs mn)	244,516	286,252	270,280	327,459	(9.5)	(12.6)
Profit after tax (Rs mn)	96,221	125,580	110,903	156,238	(13.2)	(19.6)
EPS (Rs)	34	45	39	55	(13.2)	(19.6)

Source: BOBCAPS Research

**FIG 3 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- A worsening economic environment can affect our loan growth and credit cost assumptions and lead to deterioration in AXSB's asset quality.
- Slower capital markets activity can mute the performance of subsidiaries.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>217,082</b>	<b>252,062</b>	<b>274,467</b>	<b>321,418</b>	<b>371,348</b>
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Non-interest income	131,303	155,366	153,764	169,565	188,713
Total income	348,385	407,428	428,231	490,983	560,060
Operating expenses	(158,334)	(173,046)	(183,715)	(204,731)	(231,448)
Operating profit	190,051	234,381	244,516	286,252	328,612
Operating profit growth (%)	21.9	23.3	4.3	17.1	14.8
Provisions	(120,310)	(185,339)	(115,187)	(117,462)	(133,507)
PBT	69,741	49,042	129,329	168,790	195,105
Tax	(22,975)	(32,770)	(33,108)	(43,210)	(49,947)
<b>Reported net profit</b>	<b>46,766</b>	<b>16,272</b>	<b>96,221</b>	<b>125,580</b>	<b>145,158</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>46,766</b>	<b>16,272</b>	<b>96,221</b>	<b>125,580</b>	<b>145,158</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	5,143	5,643	5,643	5,643	5,643
Reserves & surplus	661,620	843,835	922,736	1,025,711	1,144,741
Net worth	666,763	849,478	928,379	1,031,355	1,150,384
Deposits	5,484,713	6,401,049	7,157,815	8,139,793	9,256,866
Borrowings	1,527,758	1,479,541	1,627,495	1,805,003	2,002,031
Other liabilities & provisions	330,731	421,579	548,053	712,469	926,209
<b>Total liabilities and equities</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>10,261,743</b>	<b>11,688,618</b>	<b>13,335,491</b>
Cash & bank balance	672,046	972,683	1,064,641	1,165,795	1,277,064
Investments	1,749,693	1,567,343	1,734,062	1,979,106	2,258,844
Advances	4,947,980	5,714,242	6,399,951	7,359,943	8,463,935
Fixed & Other assets	640,246	897,381	1,063,089	1,183,774	1,335,649
<b>Total assets</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>10,261,743</b>	<b>11,688,618</b>	<b>13,335,491</b>
Deposit growth (%)	20.9	16.7	11.8	13.7	13.7
Advances growth (%)	12.5	15.5	12.0	15.0	15.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	18.2	6.0	34.1	44.5	51.4
Dividend per share	0.0	1.0	6.1	8.0	9.3
Book value per share	259.3	301.1	329.0	365.5	407.7

Source: Company, BOBCAPS Research

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	24.5	73.9	13.1	10.0	8.7
P/BV	1.7	1.5	1.4	1.2	1.1
Dividend yield (%)	0.0	0.2	1.4	1.8	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	2.9	2.8	2.9	3.0
Non-interest income	1.8	1.8	1.6	1.5	1.5
Operating expenses	2.1	2.0	1.9	1.9	1.8
Pre-provisioning profit	2.5	2.7	2.5	2.6	2.6
Provisions	1.6	2.2	1.2	1.1	1.1
PBT	0.9	0.6	1.3	1.5	1.6
Tax	0.3	0.4	0.3	0.4	0.4
ROA	0.6	0.2	1.0	1.1	1.2
Leverage (x)	11.5	11.3	10.9	11.2	11.5
ROE	7.2	2.1	10.8	12.8	13.3

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	16.6	16.1	8.9	17.1	15.5
Pre-provisioning profit	21.9	23.3	4.3	17.1	14.8
EPS	1538.1	(66.9)	465.1	30.5	15.6
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.2	3.2	3.1	3.3	3.3
Fees / Avg. assets	1.2	1.1	1.0	1.0	1.0
Cost-Income	45.4	42.5	42.9	41.7	41.3
ROE	7.2	2.1	10.8	12.8	13.3
ROA	0.6	0.2	1.0	1.1	1.2
<b>Asset quality (%)</b>					
GNPA	5.8	5.1	4.7	3.9	3.4
NNPA	2.3	1.6	1.5	1.1	0.9
Provision coverage	62.1	69.0	68.7	72.0	73.4
<b>Ratios (%)</b>					
Credit-Deposit	90.2	89.3	89.4	90.4	91.4
Investment-Deposit	31.9	24.5	24.2	24.3	24.4
CAR	15.8	17.5	16.2	15.5	15.0
Tier-1	12.5	14.5	13.4	12.8	12.5

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

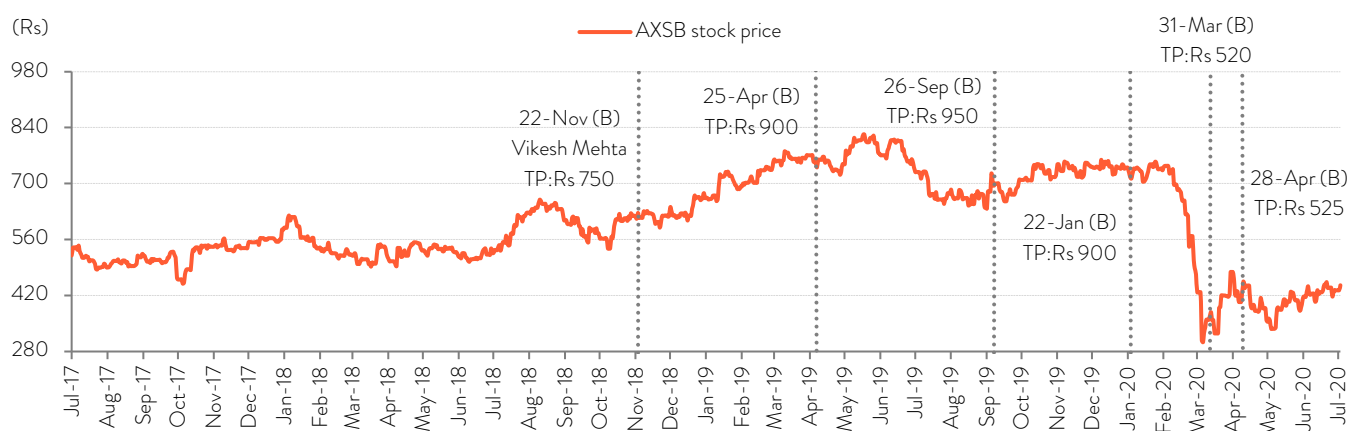
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): AXIS BANK (AXSB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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