

BUY

TP: Rs 760 | ▲ 20%

AXIS BANK

| Banking

| 27 January 2021

Prudent provisioning dampens earnings but fortifies balance sheet

Axis Bank's (AXSB) Q3FY21 PAT of Rs 11.2bn (-36% YoY) was marred by high provisions. Its standard asset coverage ratio at ~2.1% of loans is one of the highest among large private banks. Slippages rose to ~Rs 67bn as the bank absorbed most of the pain post moratorium but are guided to be lower in Q4. The Covid-specific restructuring book at ~Rs 27bn (0.4% of customer assets) is unlikely to increase. We raise our TP to Rs 760 (vs. Rs 630) as we hike FY22-FY23 EPS 9-13%, roll to Mar'23 valuations and now value the core book at 1.7x P/BV.

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Q4 likely to see lower slippages: AXSB's proforma GNPA ratio increased to 4.55% (vs. 4.28% in Q2) given slippages worth ~Rs 67bn. About 84% of the slippages stemmed from retail lending and was evenly split between secured and unsecured products. The bank has absorbed most of the post moratorium pain and expects slippages to be lower in Q4. Collection resolution rates across products are back at pre-Covid levels and retail demand resolution has risen to 98% in Dec'20 vs. 94% in Sep'20. Covid-specific restructuring at 0.4% of gross customer assets was far lower than the 1.7% levels anticipated in Q2 and is unlikely to increase further.

Retail disbursements above pre-Covid levels: The loan book grew ~6% YoY largely led by 9% growth in retail loans. Management highlighted that the bank will not chase growth at the expense of margins – corporates are currently demanding steeply discounted loan rates but the bank is not encouraging disbursements at overly competitive levels. Retail loan disbursements grew 37% QoQ aided by secured segments such as home, LAP and auto loans.

Maintain BUY: We cut our FY21 EPS by 43% but raise FY22-FY23 estimates 9-13% to bake in lower credit costs. We value the core book at 1.7x P/BV (vs. 1.5x earlier) and roll forward to a new Mar'22 SOTP-based TP of Rs 760.

Ticker/Price	AXSB IN/Rs 632
Market cap	US\$ 22.7bn
Shares o/s	2,620mn
3M ADV	US\$ 174.8mn
52wk high/low	Rs 761/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	298,282	364,852	435,461
NII growth (%)	16.6	16.1	18.3	22.3	19.4
Adj. net profit (Rs mn)	46,766	16,272	57,075	148,293	178,323
EPS (Rs)	18.2	6.0	19.4	48.4	58.2
P/E (x)	34.7	104.8	32.6	13.1	10.9
P/BV (x)	2.4	2.1	1.9	1.7	1.5
ROA (%)	0.6	0.2	0.6	1.4	1.4
ROE (%)	7.2	2.1	6.2	14.0	15.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q2FY21	Q3FY20	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	154,983	160,629	157,083	(1.3)	(3.5)	481,001	464,011	3.7
Interest expense	81,256	87,368	92,553	(12.2)	(7.0)	264,160	280,026	(5.7)
Net interest income	73,727	73,261	64,530	14.3	0.6	216,841	183,985	17.9
Non-interest income	37,760	38,072	37,866	(0.3)	(0.8)	101,699	115,511	(12.0)
Net total income	111,488	111,333	102,396	8.9	0.1	318,540	299,496	6.4
Staff expenses	16,774	14,129	13,652	22.9	18.7	44,964	39,470	13.9
Other operating expenses	33,759	28,227	31,316	7.8	19.6	85,201	84,155	1.2
Operating expenses	50,533	42,356	44,969	12.4	19.3	130,165	123,625	5.3
Pre-provisioning profit	60,955	68,976	57,427	6.1	(11.6)	188,375	175,870	7.1
Total provisions	46,043	45,807	34,709	32.7	0.5	136,014	108,039	25.9
Profit before tax	14,912	23,170	22,718	(34.4)	(35.6)	52,361	67,831	(22.8)
Tax	3,746	6,343	5,148	(27.2)	(40.9)	13,247	37,681	(64.8)
Profit after tax	11,166	16,827	17,570	(36.4)	(33.6)	39,114	30,150	29.7
Balance Sheet								
Advances	5,827,539	5,763,725	5,501,377	5.9	1.1	5,827,539	5,501,377	5.9
Deposits	6,541,403	6,354,543	5,916,755	10.6	2.9	6,541,403	5,916,755	10.6
CASA ratio (%)	43.2	44.2	41.2	197bps	(102bps)	43.2	41.2	197bps
Yields and margins (%)								
Net interest margin	3.6	3.6	3.6	2bps	1bps	-	-	-
Yield on advances	8.0	8.6	9.2	(120bps)	(60bps)	-	-	-
Cost of funds	4.2	4.6	5.4	(122bps)	(40bps)	-	-	-
Key ratios (%)								
Cost/Income	45.3	38.0	43.9	141bps	728bps	40.9	41.3	(41bps)
Tax rate	25.1	27.4	22.7	246bps	(225bps)	25.3	55.6	(3025bps)
Loan to Deposit ratio	89.1	90.7	93.0	(389bps)	(162bps)	89.1	93.0	(389bps)
Capital adequacy ratios (%)								
Tier 1	16.5	16.5	15.5	94bps	(4bps)	16.5	15.5	94bps
Total CAR	19.3	19.4	18.7	59bps	(7bps)	19.3	18.7	59bps
Asset quality (Rs mn)								
Gross NPAs	219,979	268,316	300,730	(26.9)	(18.0)	219,979	300,730	(26.9)
Net NPAs	46,098	61,079	121,603	(62.1)	(24.5)	46,098	121,603	(62.1)
Gross NPA ratio (%)	3.4	4.2	5.0	(156bps)	(74bps)	3.4	5.0	(156bps)
Net NPA ratio (%)	0.7	1.0	2.1	(135bps)	(24bps)	0.7	2.1	(135bps)
Coverage ratio (%)	79.0	77.2	59.6	1.948bps	181bps	79.0	59.6	1.948bps

Source: Company, BOBCAPS Research

Valuation methodology

We believe AXSB has fortified its balance sheet adequately with a strong provisioning buffer that is one of the highest among private banks. In our view, the bank’s earnings trajectory is likely to improve as credit costs normalise and growth gathers pace.

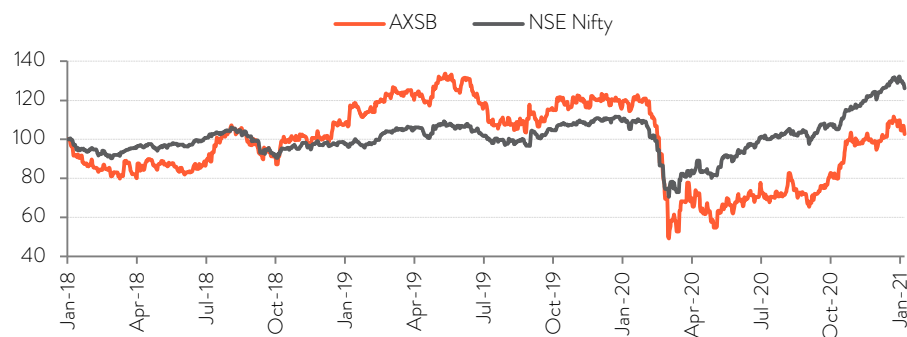
We cut our FY21 EPS estimate by 43% but raise FY22-FY23 EPS by 9-13% to bake in lower credit costs. We now value the core book at 1.7x P/BV (vs. 1.5x) and roll forward to a new Mar’22 SOTP-based target price of Rs 760 (vs. Rs 630). Maintain BUY.

FIG 2 – REVISED ESTIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	298,282	364,852	435,461	274,467	321,418	371,348	8.7	13.5	17.3
Pre-provisioning profit (Rs mn)	260,952	311,870	369,643	244,516	286,252	328,612	6.7	8.9	12.5
Profit after tax (Rs mn)	57,075	148,293	178,323	96,221	125,580	145,158	(40.7)	18.1	22.8
EPS (Rs)	19	48	58	34	45	51	(43.1)	8.8	13.2

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.
- The bank has been witnessing churn in the top management which needs to be managed well.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	298,282	364,852	435,461
NII growth (%)	16.6	16.1	18.3	22.3	19.4
Non-interest income	131,303	155,366	144,756	154,169	170,637
Total income	348,385	407,428	443,037	519,021	606,098
Operating expenses	(158,334)	(173,046)	(182,085)	(207,150)	(236,456)
Operating profit	190,051	234,381	260,952	311,870	369,643
Operating profit growth (%)	21.9	23.3	11.3	19.5	18.5
Provisions	(120,310)	(185,339)	(184,239)	(112,552)	(129,961)
PBT	69,741	49,042	76,713	199,318	239,681
Tax	(22,975)	(32,770)	(19,639)	(51,025)	(61,358)
Reported net profit	46,766	16,272	57,075	148,293	178,323
Adjustments	0	0	0	0	0
Adjusted net profit	46,766	16,272	57,075	148,293	178,323

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	5,143	5,643	6,124	6,124	6,124
Reserves & surplus	661,620	843,835	990,160	1,111,760	1,257,985
Net worth	666,763	849,478	996,285	1,117,885	1,264,110
Deposits	5,484,713	6,401,049	7,114,527	8,200,667	9,633,024
Borrowings	1,527,758	1,479,541	1,382,686	1,534,048	1,702,118
Other liabilities & provisions	330,731	421,579	548,053	712,469	926,209
Total liabilities and equities	8,009,965	9,151,648	10,041,550	11,565,068	13,525,460
Cash & bank balance	672,046	972,683	977,898	1,070,378	1,172,106
Investments	1,749,693	1,567,343	2,099,816	2,396,066	2,734,178
Advances	4,947,980	5,714,242	6,285,666	7,228,516	8,457,363
Fixed & Other assets	640,246	897,381	678,170	870,109	1,161,814
Total assets	8,009,965	9,151,648	10,041,550	11,565,068	13,525,460
Deposit growth (%)	20.9	16.7	11.1	15.3	17.5
Advances growth (%)	12.5	15.5	10.0	15.0	17.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	18.2	6.0	19.4	48.4	58.2
Dividend per share	0.0	1.0	3.4	8.7	10.5
Book value per share	259.3	301.1	325.3	365.1	412.8

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	34.7	104.8	32.6	13.1	10.9
P/BV	2.4	2.1	1.9	1.7	1.5
Dividend yield (%)	0.0	0.2	0.5	1.4	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	2.9	3.1	3.4	3.5
Non-interest income	1.8	1.8	1.5	1.4	1.4
Operating expenses	2.1	2.0	1.9	1.9	1.9
Pre-provisioning profit	2.5	2.7	2.7	2.9	2.9
Provisions	1.6	2.2	1.9	1.0	1.0
PBT	0.9	0.6	0.8	1.8	1.9
Tax	0.3	0.4	0.2	0.5	0.5
ROA	0.6	0.2	0.6	1.4	1.4
Leverage (x)	11.5	11.3	10.4	10.2	10.5
ROE	7.2	2.1	6.2	14.0	15.0

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	16.6	16.1	18.3	22.3	19.4
Pre-provisioning profit	21.9	23.3	11.3	19.5	18.5
EPS	1538.1	(66.9)	221.5	149.6	20.3
Profitability & Return ratios (%)					
Net interest margin	3.2	3.2	3.4	3.6	3.8
Fees / Avg. assets	1.2	1.1	0.9	0.9	0.9
Cost-Income	45.4	42.5	41.1	39.9	39.0
ROE	7.2	2.1	6.2	14.0	15.0
ROA	0.6	0.2	0.6	1.4	1.4
Asset quality (%)					
GNPA	5.8	5.1	4.7	4.0	3.4
NNPA	2.3	1.6	1.1	0.7	0.6
Provision coverage	62.1	69.0	77.8	81.7	83.3
Ratios (%)					
Credit-Deposit	90.2	89.3	88.3	88.1	87.8
Investment-Deposit	31.9	24.5	29.5	29.2	28.4
CAR	15.8	17.5	17.5	16.7	16.0
Tier-1	12.5	14.5	14.7	14.0	13.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

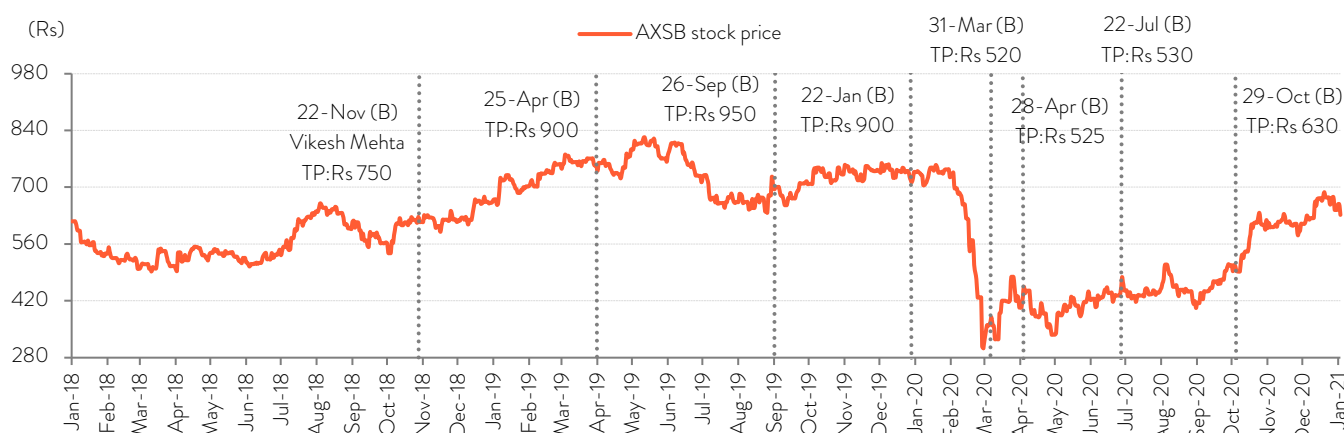
ADD – Expected return from >+5% to +15%

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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