

**BUY**

TP: Rs 525 | ▲ 15%

**AXIS BANK**

| Banking

| 28 April 2020

## Fortifying the balance sheet

**Axis Bank (AXSB)** reported a loss of ~Rs 14bn in Q4FY20 as it built added provisions of Rs 35bn towards Covid-19. Management highlighted that ~25% of loans is under moratorium and that its forbearance impact on GNPA/NNPA ratio was 11bps/6bps in Q4. Asset quality was stable with slippages declining to Rs 39bn, but the BB-&-below pool inched up to 1.1% of gross customer assets. We pare FY21/FY22 EPS by 4-8% on higher credit costs, but our Mar'21 TP rises to Rs 525 (from Rs 520) as we add in the value of the Max Life stake purchase.

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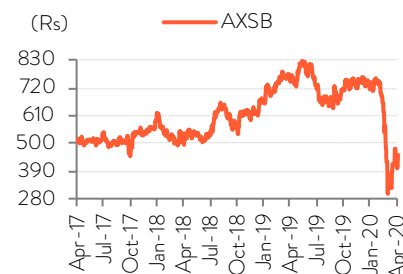
**One-fourth of customers deferring loan repayments:** As per management, 10-12% of customers by number and 25-28% by value have opted for the RBI's three-month moratorium as on 25 April. GNPA/NNPA ratio stood at 4.9%/1.6% in Q4 which includes an 11bps/6bps forbearance impact. The bank has offered an 'opt-in' moratorium for all its wholesale/SME customers. Barring a few MFIs, AXSB has neither been approached nor extended moratorium to NBFCs and HFCs.

Ticker/Price	AXSB IN/Rs 455
Market cap	US\$ 15.7bn
Shares o/s	2,620mn
3M ADV	US\$ 149.6mn
52wk high/low	Rs 828/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

**Building buffer to cushion impact:** The bank made additional provisions worth ~Rs 35bn towards Covid-19 during the quarter. This includes Rs 11bn for RBI's 10% provision requirement on extending the asset classification benefit, Rs 4.8bn towards wholesale and ~Rs 19bn unallocated to any segment.

## STOCK PERFORMANCE



Source: NSE

**Asset quality stable:** Gross slippages declined to Rs 39bn (vs. Rs 62bn in Q3) and included corporate slippages worth Rs 18bn. The BB-&-below book increased marginally to Rs 110bn (vs. Rs 98bn in Q3) given downgrades from sectors such as cement, medical products and auto.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	186,177	217,082	252,062	278,340	330,760
NII growth (%)	2.9	16.6	16.1	10.4	18.8
Adj. net profit (Rs mn)	2,757	46,766	16,272	110,903	156,238
EPS (Rs)	1.1	18.2	6.0	39.3	55.4
P/E (x)	409.9	25.0	75.5	11.6	8.2
P/BV (x)	1.8	1.8	1.5	1.4	1.2
ROA (%)	0.0	0.6	0.2	1.1	1.4
ROE (%)	0.5	7.2	2.1	12.5	15.8

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20P	FY19A	YoY (%)
<b>Income Statement</b>								
Interest income	162,341	147,980	157,083	9.7	3.3	626,352	549,858	13.9
Interest expense	94,264	90,924	92,553	3.7	1.8	374,290	332,776	12.5
Net interest income	68,077	57,056	64,530	19.3	5.5	252,062	217,082	16.1
Non-interest income	39,855	35,263	37,866	13.0	5.3	155,366	131,303	18.3
Net total income	107,932	92,319	102,396	16.9	5.4	407,428	348,385	16.9
Staff expenses	13,740	11,423	13,652	20.3	0.6	53,210	47,473	12.1
Other operating expenses	35,681	30,752	31,316	16.0	13.9	119,836	110,861	8.1
Operating expenses	49,421	42,175	44,969	17.2	9.9	173,046	158,334	9.3
Pre-provisioning profit	58,511	50,144	57,427	16.7	1.9	234,381	190,051	23.3
Total provisions	77,300	27,114	34,709	185.1	122.7	185,339	120,310	54.1
Profit before tax	(18,789)	23,030	22,718	(181.6)	(182.7)	49,042	69,741	(29.7)
Tax	(4,911)	7,979	5,148	(161.6)	(195.4)	32,770	22,975	42.6
Profit after tax	(13,878)	15,051	17,570	(192.2)	(179.0)	16,272	46,766	(65.2)
<b>Balance Sheet</b>								
Advances	5,714,242	4,947,980	5,501,377	15.5	3.9	5,714,242	4,947,980	15.5
Deposits	6,401,049	5,484,713	5,916,755	16.7	8.2	6,401,049	5,484,713	16.7
CASA ratio (%)	41.2	44.4	41.2	(318bps)	0bps	41.2	44.4	(318bps)
<b>Yields and margins (%)</b>								
Net interest margin	3.6	3.4	3.6	11bps	(2bps)	-	-	-
Yield on advances	9.0	9.2	9.2	(17bps)	(16bps)	-	-	-
Cost of funds	5.2	5.7	5.4	(49bps)	(22bps)	-	-	-
<b>Key ratios (%)</b>								
Cost/Income	45.8	45.7	43.9	11bps	187bps	42.5	45.4	(298bps)
Tax rate	26.1	34.6	22.7	(851bps)	348bps	66.8	32.9	3,388bps
Loan to Deposit ratio	89.3	90.2	93.0	(94bps)	(371bps)	89.3	90.2	(94bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	14.5	12.5	15.5	195bps	(105bps)	14.5	12.5	195bps
Total CAR	17.5	15.8	18.7	169bps	(119bps)	17.5	15.8	169bps
<b>Asset quality (Rs mn)</b>								
Gross NPAs	30,233,820	29,789,440	30,073,020	1.5	0.5	30,233,820	29,789,440	1.5
Net NPAs	9,360,410	11,275,600	12,160,280	(17.0)	(23.0)	9,360,410	11,275,600	(17.0)
Gross NPA ratio (%)	4.9	5.3	5.0	(40bps)	(14bps)	4.9	5.3	(40bps)
Net NPA ratio (%)	1.6	2.1	2.1	(50bps)	(53bps)	1.6	2.1	(50bps)
Coverage ratio (%)	69.0	62.1	59.6	689bps	948bps	69.0	62.1	689bps

Source: Company, BOBCAPS Research

## Valuation methodology

AXSB and Max Financial Services (MFS) today signed a definitive agreement to become joint venture partners in Max Life Insurance (Max Life). The bank will hold 30% stake in Max Life post transaction closure. Both players have had a successful bancassurance arrangement for nearly a decade, with AXSB generating 55-60% of total individual APE (annual premium equivalent) for Max Life over the past several years. In our view, this acquisition gives AXSB an opportunity to foray more meaningfully into the life insurance business and adds a key missing piece to its portfolio.

We pare our FY21/FY22 EPS estimates for the bank by 4-8% to reflect higher credit costs, but raise our Mar'21 target price slightly to Rs 525 (from Rs 520) as we incorporate the value of its stake acquisition in Max Life Insurance, valuing this investment at 3x current EV.

Our target price for the bank is derived using the SOTP method wherein (a) the core book has been adjusted for investment in subsidiaries and valued at Rs 455/sh based on a two-stage Gordon Growth Model (given that we expect the business to continue growing much faster than the industry for the next few years), and (b) subsidiaries are valued 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)	278,340	330,760	278,908	332,095	(0.2)	(0.4)
Pre-provisioning profit (Rs mn)	270,280	327,459	259,466	313,997	4.2	4.3
Profit after tax (Rs mn)	110,903	156,238	120,746	162,409	(8.2)	(3.8)
EPS (Rs)	39	55	43	58	(8.3)	(4.0)

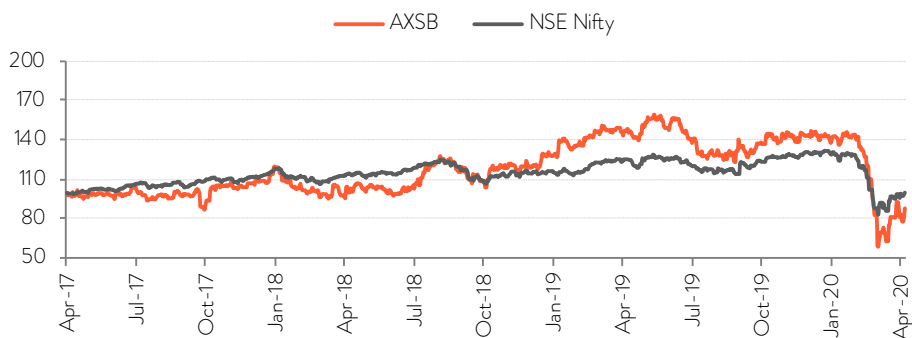
Source: BOBCAPS Research

**FIG 3 – SOTP VALUATION**

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for AXSB (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	1,285	100	1,285	455	87	Valued at 1.2x FY22E P/BV on Gordon Growth Model
Axis AMC	74	75	55	20	4	6% of Q3FY20 AAUM
Axis Finance	43	100	43	15	3	2x FY22E P/BV
Axis Capital	13	100	13	5	1	12x FY22E P/E
Axis Securities	13	100	13	5	1	12x FY22E P/E
Max Life	302	30	73	26	5	3x current EV
Sum of Parts			1,482	525		

Source: Bloomberg, BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- A worsening economic environment can impact 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)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Net interest income</b>	<b>186,177</b>	<b>217,082</b>	<b>252,062</b>	<b>278,340</b>	<b>330,760</b>
NII growth (%)	2.9	16.6	16.1	10.4	18.8
Non-interest income	109,671	131,303	155,366	174,192	202,038
Total income	295,848	348,385	407,428	452,532	532,798
Operating expenses	(139,903)	(158,334)	(173,046)	(182,253)	(205,339)
Operating profit	155,945	190,051	234,381	270,280	327,459
Operating profit growth (%)	(11.3)	21.9	23.3	15.3	21.2
Provisions	(154,729)	(120,310)	(185,339)	(121,216)	(117,462)
PBT	1,216	69,741	49,042	149,064	209,997
Tax	1,541	(22,975)	(32,770)	(38,160)	(53,759)
<b>Reported net profit</b>	<b>2,757</b>	<b>46,766</b>	<b>16,272</b>	<b>110,903</b>	<b>156,238</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,757</b>	<b>46,766</b>	<b>16,272</b>	<b>110,903</b>	<b>156,238</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	5,133	5,143	5,643	5,643	5,643
Reserves & surplus	629,320	661,620	846,764	918,971	1,047,086
Net worth	634,453	666,763	852,407	924,615	1,052,730
Deposits	4,536,227	5,484,713	6,401,049	7,159,103	8,141,001
Borrowings	1,410,661	1,458,258	1,576,891	1,754,050	1,974,758
Other liabilities & provisions	331,955	400,231	324,229	421,498	547,947
<b>Total liabilities and equities</b>	<b>6,913,296</b>	<b>8,009,965</b>	<b>9,154,577</b>	<b>10,259,266</b>	<b>11,716,436</b>
Cash & bank balance	434,549	672,046	972,683	1,065,185	1,166,938
Investments	1,538,761	1,749,693	1,567,343	1,739,261	1,985,097
Advances	4,396,503	4,947,980	5,714,242	6,399,951	7,359,943
Fixed & Other assets	543,483	640,246	900,310	1,054,869	1,204,458
<b>Total assets</b>	<b>6,913,296</b>	<b>8,009,965</b>	<b>9,154,577</b>	<b>10,259,266</b>	<b>11,716,436</b>
Deposit growth (%)	9.5	20.9	16.7	11.8	13.7
Advances growth (%)	17.8	12.5	15.5	12.0	15.0

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	1.1	18.2	6.0	39.3	55.4
Dividend per share	5.5	0.0	0.0	7.1	10.0
Book value per share	247.2	259.3	302.1	327.7	373.1

Source: Company, BOBCAPS Research

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	409.9	25.0	75.5	11.6	8.2
P/BV	1.8	1.8	1.5	1.4	1.2
Dividend yield (%)	1.2	0.0	0.0	1.6	2.2

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	2.9	2.9	2.9	2.9	3.0
Non-interest income	1.7	1.8	1.8	1.8	1.8
Operating expenses	2.2	2.1	2.0	1.9	1.9
Pre-provisioning profit	2.4	2.5	2.7	2.8	3.0
Provisions	2.4	1.6	2.2	1.2	1.1
PBT	0.0	0.9	0.6	1.5	1.9
Tax	0.0	0.3	0.4	0.4	0.5
ROA	0.0	0.6	0.2	1.1	1.4
Leverage (x)	10.8	11.5	11.3	10.9	11.1
ROE	0.5	7.2	2.1	12.5	15.8

### Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Net interest income	2.9	16.6	16.1	10.4	18.8
Pre-provisioning profit	(11.3)	21.9	23.3	15.3	21.2
EPS	(92.8)	1538.1	(66.9)	551.4	40.9
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.1	3.2	3.2	3.2	3.4
Fees / Avg. assets	1.2	1.2	1.2	1.2	1.2
Cost-Income	47.3	45.4	42.5	40.3	38.5
ROE	0.5	7.2	2.1	12.5	15.8
ROA	0.0	0.6	0.2	1.1	1.4
<b>Asset quality (%)</b>					
GNPA	7.5	5.8	5.1	4.7	3.6
NNPA	3.8	2.3	1.6	1.1	0.5
Provision coverage	51.6	62.1	69.0	76.8	87.0
<b>Ratios (%)</b>					
Credit-Deposit	96.9	90.2	89.3	89.4	90.4
Investment-Deposit	33.9	31.9	24.5	24.3	24.4
CAR	16.6	15.8	17.5	16.4	15.9
Tier-1	13.0	12.5	14.5	13.7	13.3

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

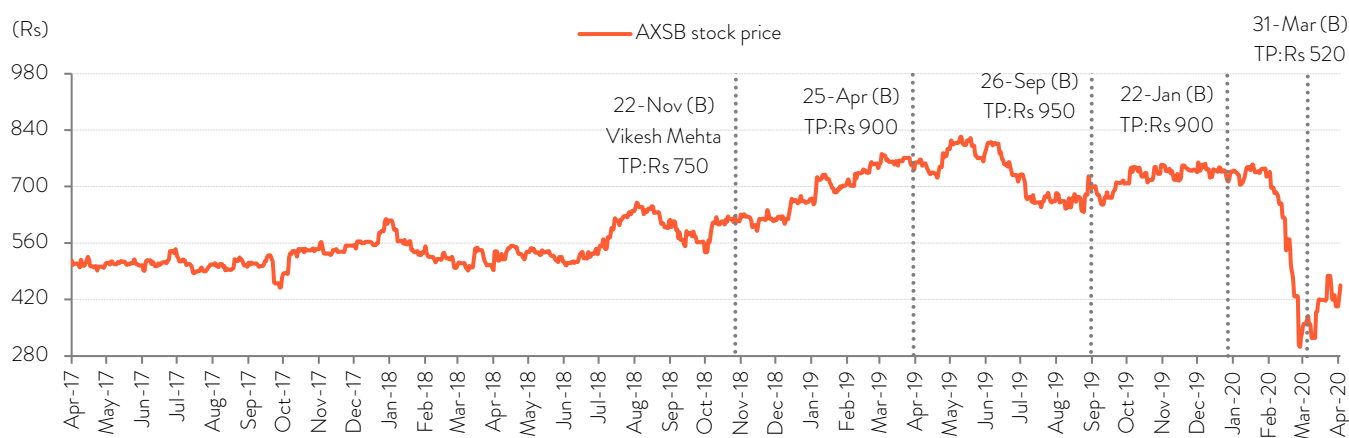
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: AXIS BANK (AXSB IN)



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

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