

# FIRST LIGHT

## RESEARCH

### Axis Bank | Target: Rs 525 | +15% | BUY

Fortifying the balance sheet

## SUMMARY

### Axis Bank

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.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Reliance Industries</a>	Buy	1,550

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	255
<a href="#">Ashok Leyland</a>	Reduce	43

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.66	6bps	(1bps)	(186bps)
India 10Y yield (%)	6.15	(2bps)	1bps	(126bps)
USD/INR	76.24	0.3	(1.8)	(8.9)
Brent Crude (US\$/bbl)	19.99	(6.8)	(19.8)	(72.3)
Dow	24,134	1.5	11.5	(9.1)
Shanghai	2,815	0.2	1.6	(8.1)
Sensex	31,743	1.3	6.5	(18.7)
India FII (US\$ mn)	24 Apr	MTD	CYTD	FYTD
FII-D	(109.1)	(737.2)	(10,496.7)	(737.2)
FII-E	(16.4)	(408.6)	(7,011.6)	(408.6)

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**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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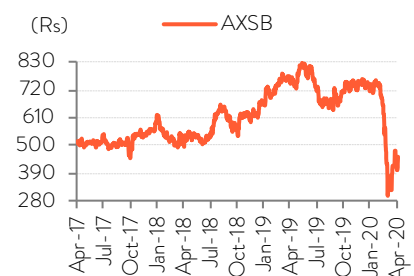
**One-fourth of customers deferring loan repayments:** As per management, 10-12% of customers by number and 25-28% by value have opted for the RBI's three-month moratorium as on 25 April. GNPA/NNPA ratio stood at 4.9%/1.6% in Q4 which includes an 11bps/6bps forbearance impact. The bank has offered an '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



## 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)

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