

# Axis Bank (AXSB)

**BUY**

Asset quality improved led by writeoffs; BB & below down 10% QoQ

## Summary

Axis Bank' asset quality improved (surprised positively) sequentially with GNPA declined to 3.7% vs 4.55% QoQ (as per IRAC norms) led by higher write offs (Rs.55.5bn vs 42.6bn QoQ) and decline in slippage ratio (3.4% vs 5.5% QoQ). BB & below book declined by 10% QoQ and restructured assets stood at 0.3% of customer assets as against earlier estimates of 1.7% are key positives during the quarter. PAT grew by 140% QoQ (vs loss of Rs.13.9bn YoY) led by lower provisions (down 28% QoQ). NII grew by 11% YoY led by slight improvement in NIMs at 3.56% (3.55% YoY). PPOP grew by 17% YoY (up 13% QoQ) led by decline in cost to income ratio (44% vs 46% YoY). With management change behind, strong capital in place and focus on secured retail portfolio, AXISB would see better revival in growth within the sector. With improvement in credit growth and better credit quality, we revised our earning upwards (FY23E ABV up 6%). We re-iterate our 'BUY' rating with new TP of Rs. 810 (earlier Rs.735) valuing it at 2.0x (earlier 1.8x) P/ABV FY23 as valuation difference with its peer (ICICI bank) expected to decline.

## Key Highlights and Investment Rationale

- Credit growth improved led by across the segments:** Credit growth improved to 9% YoY (6% YoY Q3FY21) due to better growth across the segments. Retail portfolio growth improved to 10% YoY vs 9% Q3FY21; corporate book (including TLTRO) grew at 16% YoY (vs 1% YoY Q3FY21). Retail disbursements for the quarter were at all-time highs. Disbursements in Consumer segment were up 45% YoY & 44% QoQ, Rural disbursements grew 47% YoY & 47% QoQ. Retail book accounted for 54% of the net advances of the Bank. The corporate lending portfolio continues to shift towards better rated clients with 85% of corporate exposure now rated 'A' or better with 94% of incremental sanctions in FY21 being to corporates rated A- and above. Deposits during the quarter grew by 10% with CASA at 42% vs 42% QoQ. CASA+RTD now form 86% of deposits.
- Higher write offs; BB & below book down 10% QoQ:** Asset quality improved with GNPA (as per IRAC norms) at 3.7% vs 4.5% QoQ; led by higher write offs (Rs.55.5bn vs 42.6bn QoQ). Slippage ratio declined to 3.4% (annualized) vs 5.5% QoQ. PCR (excluding technical write offs) declined to 72% vs 75% QoQ. BB & below book declined by 10% QoQ and restructured assets stood at 0.3% of customer assets as against earlier estimates of 1.7% are key positives during the quarter. Bank has prudently built up a cumulative provision (standard + additional other than NPA) translate to 1.95% of standard loans, which provides a little comfort. On an aggregated basis (specific+ standard+ additional + Covid), coverage ratio stands at 120% of GNPA as of FY21.
- Outlook:** Management has proactively written off the stress assets (no sale to ARC) impacted by Covid-19. Post near term stress taking shape, we expect the book to normalize and improve thereon. Bank has one of the better liability franchises with strong CASA ratio at ~40% which suffices well in current environment.

## Q4FY21 Result Review

<b>TP</b>	<b>Rs810</b>	
<b>CMP</b>	<b>Rs699</b>	
Potential upside / downside	16%	
Previous Rating	BUY	
<b>V/s Consensus</b>		
<b>EPS (Rs)</b>	<b>FY22E</b>	<b>FY23E</b>
IDBI Capital	40.3	53.6
Consensus	44.6	57.0
% difference	(9.6)	(5.9)

## Shareholding Pattern (%)

Promoters	13.6
FII	51.4
DII	19.7
Public	15.3

## Price Performance (%)

	<b>-1m</b>	<b>-3m</b>	<b>-12m</b>
Absolute	0.2	6.2	73.1
Rel to Sensex	0.3	4.9	16.8

<b>Key Stock Data</b>	
Bloomberg / Reuters	AXSB IN / AXBK.BO
Sector	Banking
Shares o/s (mn)	3,064
Market cap. (Rs mn)	2,142,716
Market cap. (US\$ mn)	28,700
3-m daily avg Trd value (Rs mn)	5,931.9
52-week high / low	Rs800/333
Sensex / Nifty	48,944 / 14,653

## Relative to Sensex (%)



## Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	217,082	252,062	292,392	333,733	375,455
Net Profit	46,771	16,273	65,886	123,602	164,095
EPS (Rs)	18.2	5.8	21.5	40.3	53.6
ABV (Rs)	215.4	276.2	314.5	352.1	402.8
PER (x)	38.5	121.4	32.6	17.4	13.1
P/ABV (x)	3.2	2.5	2.2	2.0	1.7
ROE (%)	7.2	2.1	7.1	11.5	13.5
ROA (%)	0.6	0.2	0.7	1.2	1.4
GNPA (%)	5.8	5.1	3.9	3.4	3.0
NNPA (%)	2.3	1.6	1.1	1.0	1.0
CAR (%)	15.8	17.5	19.1	17.4	17.3

Source: Company; IDBI Capital Research

### Conference Call Highlights

- Under Risk management framework, strong underwriting resulted in lower BB book.
- Increased investments in technology (79% increase in capex over last 2 yrs) and signed up with leading cloud provider and also invested in security and data privacy.
- **Loan loss provision-** Rs8.03bn to improve PCR of CBG book to 80%, Rs10.79bn for security receipts (fully provided for all SRs).
- Fee income stood at Rs33.76bn. 64% fee comprises from retail and 36% comes from wholesale business.
- Impact of Interest on Interest waiver aggregate to Rs1.63bn and this has been debited from interest income.
- Made Additional Investment depreciation provision amounted to Rs18.8bn which impacted in PBT (Rs14.0bn) and PAT (Rs18.8bn) in Q4FY21.
- Retail disbursements grew mainly on account of secured business, however, secured retail disbursements are 85% of total disbursements and branch sourcing on retail loans comprise of 59%.
- Completed stake acquisition of Max life Insurance and together with the subsidiaries (Axis Capital and Axis Securities) owns 12.9% stake in the Company and is a co-promoter of the Company.
- Current account from CBG business grew by 27% YoY.
- Opened 1.8mn (up 10% QoQ) new liability account in Q4FY21 which leads to 6.7mn accounts in FY21. Added 337 new relationship in corporate led to total 789 relationship in FY21.
- 94% corporate loans are A- and better and will continue to remain same while Average ticket size for new to bank is Rs0.35-0.40bn and existing to bank is 0.60-0.65bn.
- Fund based restructuring is Rs18.48bn i.e. 0.3% of GCA.
- Under BB book, fund based is 1.09% and 38% of book is better by externally rated agency.
- Average ticket size of fund based to BBB+ and BBB- is down to Rs0.40bn, however, on aggregate basis collected Rs14.0bn from BB pool, upgraded Rs0.92bn, slipped- Rs9.20bn, downgraded into BB are Rs9.61bn.
- Demand resolution for Retail stands 98% which is higher than pre-covid level.
- Under ECLGS, disbursed Rs104bn within that provided to 26000 Exiting bank customers.
- Retail restructuring stands at 0.14%, corporate are 0.6% and SME are 0.02% of the respective book, however, during FY21 didn't sell any portfolio to ARC.
- Currently LCR is back to 100% on daily basis while expect to have in range of 115-125% on daily basis.
- CBG portfolio amounted to Rs700bn.

- For CV business, strategy remains to target to strategic customers as well as intend to grow this business, however, CV+ CE book consists of Rs140bn.
- **Slippages**
  - Rs79.93bn is slippage for Q3FY21 and Rs52.85bn is for Q4FY21 while 64% is from retail.
  - Net slippages in retail stood at Rs13.24bn for Q4FY21 as retail slippages high during the quarter as restructuring is low in retail.
  - On annualized basis retail slippage is 3.73%, comprise of reasonable mix of secured while unsecured is coming from cards largely.
  - SME net slippage stood at Rs0.94bn and for corporate it was Rs6.90bn.
- **Axis finance**
  - Disbursement grew 50% YOY and around 25% of incremental disbursement comprise of Retail.
  - Retail book constituted 17% of total loans while the wholesale business delivered ROE of 19%+.
  - Net NPA stood at 2%, however, no account had been restructured under the scheme.

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

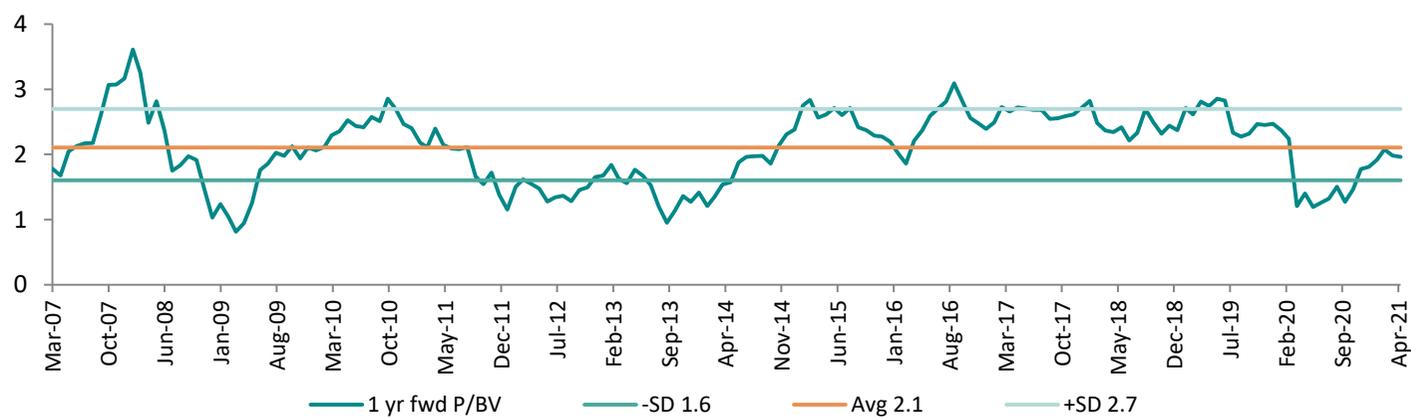
Year-end: March	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Interest Income	155,452	162,341	154,984	(4.2)	0.3
Interest Expenses	79,902	94,264	81,256	(15.2)	(1.7)
<b>Net Interest Income</b>	<b>75,550</b>	<b>68,077</b>	<b>73,728</b>	<b>11.0</b>	<b>2.5</b>
<b>NIM (%)</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>1 bps</b>	<b>(3 bps)</b>
Non-Interest Income	46,683	39,855	37,760	17.1	23.6
<b>Operating Income</b>	<b>122,233</b>	<b>107,932</b>	<b>111,488</b>	<b>13.3</b>	<b>9.6</b>
Staff Cost	16,676	13,740	16,774	21.4	(0.6)
Other Op Exp	36,910	35,681	33,759	3.4	9.3
Total Operating Expenses	53,586	49,421	50,533	8.4	6.0
<i>Cost to Income (%)</i>	<i>43.8</i>	<i>45.8</i>	<i>45.3</i>	<i>(195 bps)</i>	<i>(149 bps)</i>
<b>Operating Profit</b>	<b>68,647</b>	<b>58,511</b>	<b>60,955</b>	<b>17.3</b>	<b>12.6</b>
Provisions	32,950	77,300	46,043	(57.4)	(28.4)
<b>PBT</b>	<b>35,697</b>	<b>(18,789)</b>	<b>14,912</b>	<b>NA</b>	<b>139.4</b>
Tax	8,926	(4,911)	3,746	NA	138.3
<i>-effective tax rate</i>	<i>25.0</i>	<i>26.1</i>	<i>25.1</i>	<i>(113 bps)</i>	<i>(12 bps)</i>
<b>PAT</b>	<b>26,771</b>	<b>(13,878)</b>	<b>11,166</b>	<b>NA</b>	<b>139.8</b>
EPS (Rs)	8.7	(4.9)	3.6	NA	139.6
BV (Rs)	331.6	301.1	322.8	10.1	2.7
Deposits	7,073,061	6,401,049	6,541,403	10.5	8.1
Advances	6,237,202	5,714,242	5,827,539	9.2	7.0

Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	2.91	2.94	3.06	3.17	3.21
Fees	1.66	1.56	1.29	1.32	1.33
Other Income	0.10	0.25	0.27	0.25	0.25
Net Revenue	4.67	4.75	4.61	4.75	4.79
Op.Exp	2.12	2.02	1.92	1.95	1.93
Op.Profit	2.55	2.73	2.69	2.80	2.85
Provisions	1.61	2.16	1.77	1.22	0.98
PBT	0.93	0.57	0.92	1.57	1.87
Tax	0.31	0.38	0.23	0.40	0.47
ROA	0.63	0.19	0.69	1.18	1.40
Leverage (x)	11.47	11.32	10.25	9.78	9.66
ROE	7.19	2.15	7.06	11.50	13.53

Source: Company; IDBI Capital Research

**Exhibit 3: One-year forward P/ABV**


Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net interest income</b>	<b>252,062</b>	<b>292,392</b>	<b>333,733</b>	<b>375,455</b>
Fee Income	133,688	122,912	138,840	155,501
Treasury Gains	21,678	25,470	26,281	29,259
Operating Income	407,428	440,774	498,855	560,215
Operating expenses	(173,046)	(183,751)	(204,929)	(2,26,218)
Employee expenses	(53,210)	(61,640)	(69,395)	(74,420)
Other expenses	(119,836)	(122,111)	(135,534)	(151,799)
<b>Pre-Provision Profit</b>	<b>234,382</b>	<b>257,023</b>	<b>293,926</b>	<b>333,997</b>
Provision	(185,339)	(168,964)	(128,748)	(114,706)
Loan loss Provisions	(127,555)	(121,910)	(99,172)	(88,858)
Other Provisions	(57,784)	(47,054)	(29,577)	(25,848)
<b>PBT</b>	<b>49,043</b>	<b>88,059</b>	<b>165,177</b>	<b>219,291</b>
Taxes	(32,770)	(22,173)	(41,575)	(55,195)
<b>Net profit</b>	<b>16,273</b>	<b>65,886</b>	<b>123,602</b>	<b>164,095</b>

### Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	5,643	6,128	6,128	6,128
Reserves	843,835	1,009,902	1,127,376	1,285,343
<b>Networth</b>	<b>849,478</b>	<b>1,016,030</b>	<b>1,133,504</b>	<b>1,291,471</b>
Deposits	6,401,049	7,073,061	7,971,218	8,935,240
Borrowings	1,479,541	1,428,732	1,492,977	1,667,008
<b>Total Liab. &amp; Equity</b>	<b>9,151,648</b>	<b>9,961,184</b>	<b>11,061,666</b>	<b>12,353,651</b>
Cash & Bank with RBI	972,682	617,299	628,710	704,155
Investments	1,567,343	2,261,196	2,517,254	2,802,511
Advances	5,714,242	6,237,202	6,985,666	7,823,946
Other Assets	854,252	803,037	883,341	971,675
<b>Total assets</b>	<b>9,151,648</b>	<b>9,961,184</b>	<b>11,061,666</b>	<b>12,353,651</b>

### Growth

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Growth</b>				
Deposits	16.7	10.5	12.7	12.1
Advances	15.5	9.2	12.0	12.0
NII	16.1	16.0	14.1	12.5
Pre-Provision Profit	23.3	9.7	14.4	13.6
Net Profit	(65.2)	304.9	87.6	32.8
<b>Spreads</b>				
Yield on Assets	8.4	7.6	7.6	7.6
Cost of Funds	4.8	4.0	4.0	4.0
NIM	3.4	3.5	3.6	3.6
CASA	41.2	45.1	44.0	44.0
<b>Operating Efficiency</b>				
Cost-to-Income	42.5	41.7	41.1	40.4
Cost-to-Assets	2.0	1.9	1.9	1.9
<b>Asset Quality</b>				
GNPA	5.1	3.9	3.4	3.0
NNPA	1.6	1.1	1.0	1.0
Provision Coverage	69.0	72.4	69.6	68.0
Credit Cost	3.5	2.8	1.9	1.5
<b>Capital Adequacy</b>				
CAR	17.5	19.1	17.4	17.3
Tier I	14.5	15.4	14.3	14.6
<b>Valuation</b>				
EPS	5.8	21.5	40.3	53.6
ABV	276.2	314.5	352.1	402.8
P/E	121.4	32.6	17.4	13.1
P/ABV	2.5	2.2	2.0	1.7
ROE	2.1	7.1	11.5	13.5
ROA	0.2	0.7	1.2	1.4
RORWA	0.3	1.1	1.8	2.0

Source: Company; IDBI Capital Research



# Notes

Dealing

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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