

AXIS Bank

Refer to important disclosures at the end of this report

More prudence, higher provisioning buffer is comforting

CMP: Rs 446

as of (July 21, 2020)

TP: Rs 520 (■)

12 months

Rating: HOLD (■)

Upside: 16.5 %

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- In Q4, Axis Bank did heavy lifting in terms of Covid-19-related contingent provisions and reported a loss, but it returned to profitability in Q1 with Rs11bn in PAT despite reserving interest on potentially stressed loans and accelerating specific PCR as a prudent measure.
- The bank has adopted a conservative stance in extending the moratorium in Phase 2 (June'20) with a low moratorium rate of 9.7% and initiate collections. The collection rate is 72% in the book under the Phase 1 moratorium (25-28% of loans) and the rest is either part of the Phase 2 book (9.7% of loans) or in the SMA 1 pool, which may lead to higher NPAs in Q2 instead of deferring it for a prolonged period.
- The bank now carries a high specific PCR at 75%, at par with HDFCB and ICICI, while contingent provisioning buffer is far higher at 1.2% of loans. Its CET 1 stands at 13.5%, and has approval in place to raise Rs150bn to shore up the capital buffer.
- We like Axis' increasingly prudent stance in the wake of the ensuing asset quality storm, but it needs to keep the frequent management rejig in check. We retain Hold/OW stance in EAP, with a TP of Rs520 (valuing core bank at 1.4x FY22ABV + subs value of Rs21).

Slower growth, lower margins: Overall credit growth further slowed down to 13% yoy/down 2% qoq, mainly due to continued contraction in the SME book and negative retail growth amid the lockdown. The bank has been slow in disbursements (Rs13.3bn till now) in granting the emergency credit line under the government guaranteed scheme. Deposit growth too has been relatively slow at 16% yoy/down 2% qoq, due to the seasonal run down in CA deposits. Despite lower CoF, Axis reported lower NIM at 3.4%, down 15 bps qoq, mainly due to the excess liquidity on the balance sheet and conservative approach on reserving interest income on potentially stressed loans in the wake of Covid-19.

Builds strong provisioning buffer to withstand incoming asset quality storm: Fresh slippages were moderate at Rs22bn, which coupled with higher write-offs led to a 14bps qoq reduction in the GNPA ratio (on customer assets) to 4.7%. The moratorium rate has improved to 9.7% from 25-28% of value but is not comparable with other banks as Axis has adopted a conservative approach of not extending the moratorium to ineligible customers. It has instead initiated collections from customers in the Phase 1 of the moratorium with a success rate of 72% and the rest is either part of Phase 2 (90% of 9.7% i.e 8.7% carried forward from Phase 1) or part of the SMA 1 book (if not collected). Thus, Axis may start reporting higher NPAs from Q2 instead of Q3 as maybe the case for other lenders who may continue with liberal moratorium policy. As a matter of prudence, Axis now carries higher specific PCR of 75%, in line with HDFCB/ICICI, while contingent provisioning buffer is far higher at 1.2% of loans.

Outlook and valuations: We have trimmed our estimates for FY21-FY22 by 0.4-9%, factoring in lower fees and elevated provisions. We have also factored in capital infusion of Rs150bn, which will keep RoEs moderate at around 7-13% over FY21-23E. We retain Hold /OW stance in EAP, with a TP of Rs520 (valuing core bank at 1.4x FY22ABV + subs value of Rs21). Key risks to our call include higher-than-expected NPAs and prolonged management transition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	348,385	407,428	435,640	483,185	548,234
Net profit	46,766	16,272	59,271	116,884	164,785
EPS (Rs)	18.2	6.0	21.0	39.1	52.2
ABV (Rs)	242.3	306.1	303.0	367.5	396.3
RoA (%)	0.6	0.2	0.6	1.1	1.4
RoE (%)	7.2	2.2	6.7	11.3	13.3
PE (x)	24.5	73.9	21.2	11.4	8.5
P/ABV	1.8	1.4	1.4	1.2	1.1

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(0.4)/(9)-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	21.0	39.1
Consensus	25.2	41.9
Mean Consensus TP (12M)	Rs 529	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	2,822
52 Week H/L	766 / 285
M Cap (Rs bn/USD bn)	1,259 / 16.85
Daily Avg Volume (nos.)	42,966,740
Daily Avg Turnover (US\$ mn)	235.1

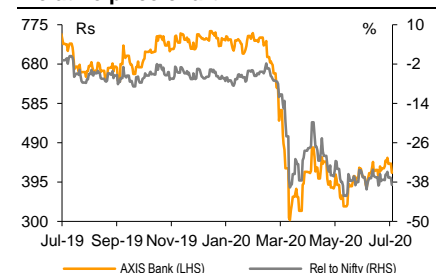
Shareholding Pattern Jun '20

Promoters	15.7%
FIIIs	45.1%
DIIIs	24.0%
Public and Others	15.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	6	(38)	(39)
Rel. to Nifty	(2)	(15)	(32)	(37)

Relative price chart



Source: Bloomberg

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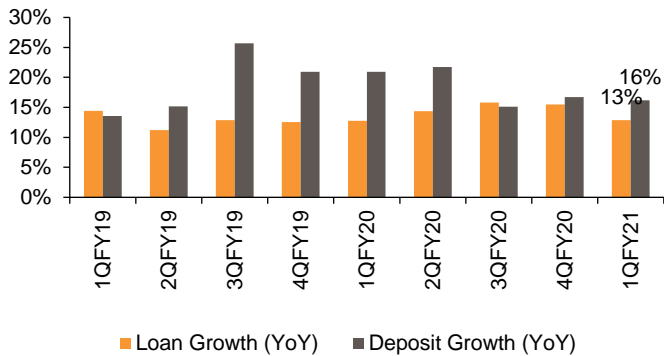
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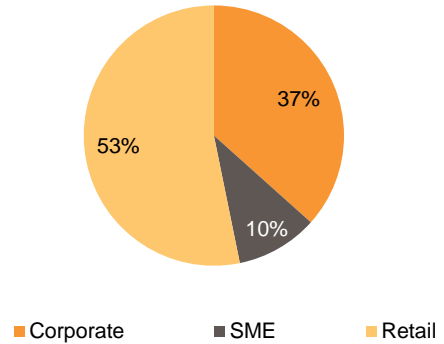
Story in Charts

Exhibit 1: Credit growth slows down across business segments



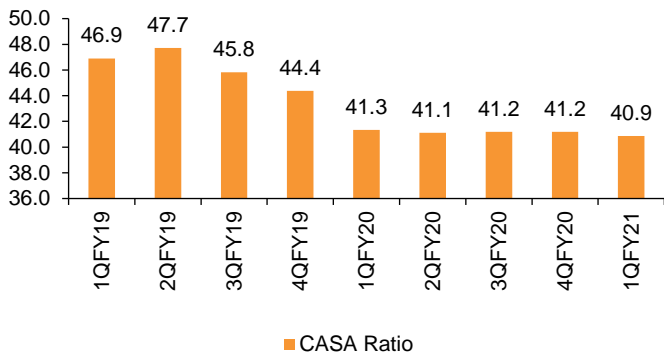
Source: Company, Emkay Research

Exhibit 2: Retail/SME qoq de-growth marginally increased corporate share



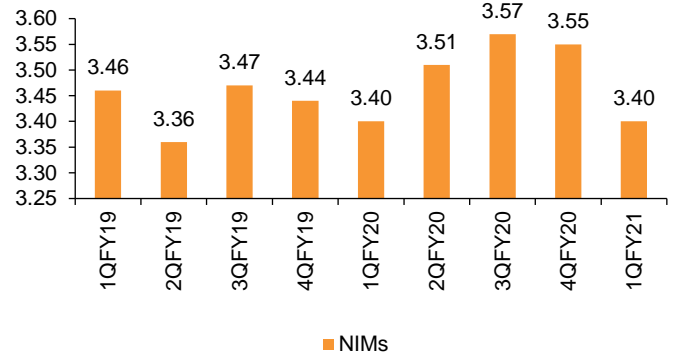
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains largely stable at 41%



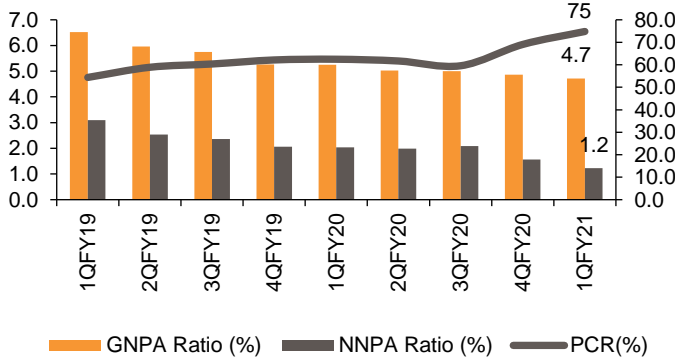
Source: Company, Emkay Research

Exhibit 4: NIM falls 15bps qoq due to excess liquidity on balance sheet



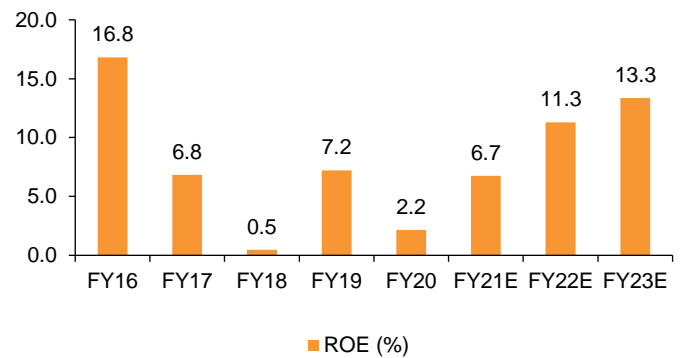
Source: Company, Emkay Research

Exhibit 5: PCR rises to 75 % from 69% qoq



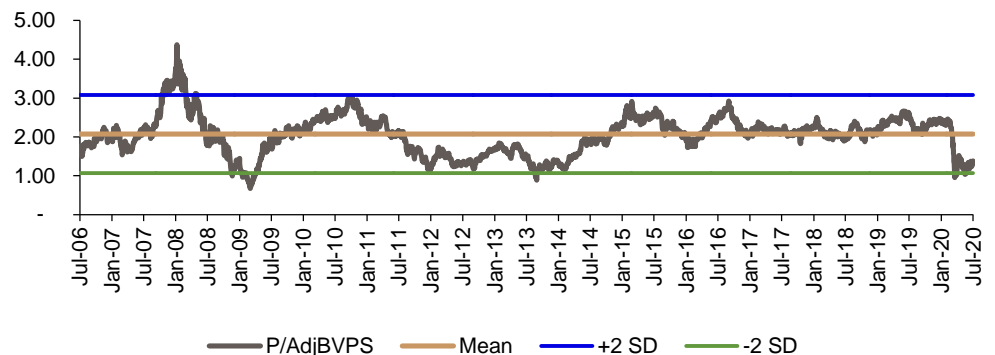
Source: Company, Emkay Research

Exhibit 6: : Covid-19-led disruption and capital raise to delay bank's RoE target of >15% beyond FY23E



Source: Company, Emkay Research

Exhibit 7: The stocks trades at 1.3x-1 Year forward ABV adjusted for subsidiary valuation



Source: Company, Emkay Research

Exhibit 8: Actuals vs Estimates – Q1FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	95,720	105,869	103,298	-10%	-7%	Lower NIM and other income led to a miss
PPOP	58,444	62,989		-7%		Lower net income impacted PPOP
PAT	11,122	14,496	11,651	-23%	-5%	Higher provisions dragged overall earnings

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs (mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	152,550	154,378	157,083	162,341	165,389	8	2	626,352	669,224	7
Interest Exp	94,113	93,360	92,553	94,264	95,536	2	1	374,290	387,059	3
Net Interest Income	58,437	61,018	64,530	68,077	69,853	20	3	252,062	282,166	12
Global NIMs (reported)	3.40	3.51	3.57	3.55	3.40	0bps	-15bps	3.27	3.35	8bps
Non-interest Income	38,688	38,958	37,866	39,855	25,867	-33	-35	155,366	153,474	-1
Operating Expenses	38,197	40,460	44,969	49,421	37,276	-2	-25	173,046	176,615	2
Pre Provisioning Profit	58,928	59,516	57,427	58,511	58,444	-1	0	234,382	259,025	11
Provision & Contingencies	38,146	35,184	34,709	77,300	44,164	16	-43	185,339	179,817	-3
PBT	20,782	24,332	22,718	-18,789	14,280	-31	-176	49,042	79,208	62
Income Tax Expense (Gain)	7,081	25,453	5,148	-4,911	3,158	-55	-164	32,770	19,937	-39
Net Profit/(Loss)	13,701	-1,121	17,570	-13,878	11,122	-19	-180	16,272	59,271	264
Gross NPA (%)	5.25	5.03	5.00	4.86	4.72	-53bps	-14bps	4.52	6.48	196bps
Net NPA (%)	2.04	1.99	2.09	1.56	1.23	-81bps	-33bps	1.62	1.90	28bps
Deposits (Rs in bn)	5,407	5,840	5,917	6,401	6,282	16	-2	6,401	7,055	10
Net Advances (Rs in bn)	4,973	5,216	5,501	5,714	5,613	13	-2	5,714	6,220	9

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	453,334	435,640	-3.9%	493,377	483,185	-2.1%	548,234
PPOP	267,594	259,025	-3.2%	285,331	287,552	0.8%	326,454
PAT	59,597	59,271	-0.5%	121,361	116,884	-3.7%	164,785
EPS (Rs)	21.1	21.0	-0.4%	43.0	39.1	-9.0%	52.2
BV (Rs)	322.2	322.1	0.0%	361.2	388.5	7.5%	414.8

Source: Company, Emkay Research

Exhibit 11: Key assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	15.5	8.8	14.5	17.6
Deposit Growth %	16.7	10.2	14.3	18.3
NIM %	3.3	3.3	3.3	3.3
GNPA %	4.5	6.5	6.1	5.4
Credit Cost %	2.6	4.0	1.9	1.3

Source: Company, Emkay Research

Exhibit 12: Key ratio and trends

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Loans (Rs mn)	4,410,745	4,561,213	4,751,049	4,947,980	4,972,760	5,215,937	5,501,377	5,714,242	5,613,408
growth YoY %	14.4	11.2	12.9	12.5	12.7	14.4	15.8	15.5	12.9
Composition %									
- Corporate	39.1	38.2	38.0	37.1	35.7	35.9	35.8	35.7	36.6
- SME/BB	12.9	13.2	13.1	13.3	12.4	11.8	11.2	10.8	10.2
- Retail	48.0	48.6	48.9	49.7	51.9	52.4	53.0	53.4	53.2
Liability Profile %									
Deposit (Rs mn)	4,470,793	4,796,796	5,140,921	5,484,713	5,406,777	5,839,585	5,916,755	6,401,049	6,281,503
growth YoY %	13.5	15.2	25.7	20.9	20.9	21.7	15.1	16.7	16.2
CASA	46.9	47.7	45.8	44.4	41.3	41.1	41.2	41.2	40.9
CA	15.3	16.7	16.4	16.3	13.2	13.6	13.2	14.1	12.8
SA	31.6	31.0	29.4	28.1	28.2	27.6	27.9	27.1	28.1
NIM %	3.5	3.4	3.5	3.4	3.4	3.5	3.6	3.6	3.4
NIM %- Domestic	3.7	3.6	3.7	3.6	3.6	3.6	3.7	3.7	3.6
Asset Quality (Rs mn)									
GNPA %	7.1	6.5	6.2	5.8	5.7	5.4	5.3	5.1	5.1
NNPA %	3.1	2.5	2.4	2.1	2.0	2.0	2.1	1.6	1.2
PCR % - Specific	54.4	58.9	60.4	62.1	62.5	61.7	59.6	69.0	74.8
Slippages %	4.50	2.71	3.56	2.74	4.35	4.37	5.23	3.17	1.78
Capital Adequacy									
CAR %	16.6	16.5	15.8	15.8	16.1	18.2	18.2	17.5	17.5
Tier I %	13.1	13.0	12.5	12.5	12.9	15.0	15.0	14.5	14.6
ROE Decomposition % (on total assets)									
NII	3.5	3.4	3.6	3.5	3.4	3.5	3.7	3.8	3.8
Other Income (Ex Treasury)	1.9	1.7	2.3	1.9	1.8	1.8	1.9	2.1	1.1
Opex	2.5	2.5	2.6	2.6	2.2	2.3	2.6	2.8	2.0
PPOP	2.9	2.7	3.5	3.0	3.4	3.4	3.3	3.3	3.2
PBT	0.7	0.8	1.6	1.4	1.2	1.4	1.3	(1.0)	0.8
Tax	0.2	0.2	0.5	0.5	0.4	1.5	0.3	(0.3)	0.2
ROA	0.4	0.4	0.9	0.8	0.7	(0.1)	0.9	(0.6)	0.5
Leverage (x)	10.8	11.0	11.3	11.7	11.4	10.2	9.6	10.1	10.6
ROE	4.4	4.9	10.2	9.0	7.9	(0.6)	8.3	(6.5)	5.2

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	282,166	309,847	352,851
Other income	131,303	155,366	153,474	173,337	195,382
Fee income	88,537	96,919	100,796	108,860	125,189
Net income	348,385	407,428	435,640	483,185	548,234
Operating expenses	158,334	173,046	176,615	195,633	221,780
Pre provision profit	190,051	234,382	259,025	287,552	326,454
PPP excl treasury	182,470	212,659	238,388	265,883	304,785
Provisions	120,310	185,339	179,817	131,353	106,241
Profit before tax	69,741	49,042	79,208	156,199	220,212
Tax	22,975	32,770	19,937	39,315	55,427
Tax rate	33	67	25	25	25
Profit after tax	46,766	16,272	59,271	116,884	164,785

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	5,143	5,643	5,643	6,310	6,310
Reserves	658,605	843,835	903,106	1,154,527	1,302,297
Net worth	663,748	849,478	908,750	1,160,837	1,308,607
Deposits	5,484,713	6,401,049	7,054,903	8,063,931	9,541,745
Borrowings	1,262,708	1,201,238	1,081,114	1,027,059	975,706
Total liabilities	8,009,965	9,151,648	9,756,724	10,946,947	12,611,031
Cash and bank	350,990	849,592	722,154	830,477	955,048
Investments	1,749,693	1,567,343	1,843,530	2,038,638	2,266,429
Loans	4,947,980	5,714,242	6,219,523	7,118,402	8,373,597
Others	599,880	854,252	891,441	947,228	1,006,697
Total assets	8,009,965	9,151,648	9,756,724	10,946,947	12,611,031

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.2	3.3	3.3	3.3	3.3
Non-II/avg assets	1.8	1.8	1.6	1.7	1.7
Fee income/avg assets	1.2	1.1	1.1	1.1	1.1
Opex/avg assets	2.1	2.0	1.9	1.9	1.9
Provisions/avg assets	1.6	2.2	1.9	1.3	0.9
PBT/avg assets	0.9	0.6	0.8	1.5	1.9
Tax/avg assets	0.3	0.4	0.2	0.4	0.5
RoA	0.6	0.2	0.6	1.1	1.4
RoAE	7.2	2.2	6.7	11.3	13.3
GNPA (%)	5.3	4.5	6.5	6.1	5.4
NNPA (%)	2.2	1.6	1.9	1.9	1.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	18.2	6.0	21.0	39.1	52.2
BVPS	258.4	315.0	322.1	388.5	414.8
ABVPS	242.3	306.1	303.0	367.5	396.3
DPS	1.0	0.2	0.0	4.2	4.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	24.5	73.9	21.2	11.4	8.5
P/BV	1.8	1.5	1.5	1.2	1.1
P/ABV	1.8	1.4	1.4	1.2	1.1
P/PPOP	5.8	5.1	4.6	4.7	4.1
Dividend Yield (%)	0.2	0.0	0.0	0.9	1.0

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	16.6	16.1	11.9	9.8	13.9
PPOP	21.9	23.3	10.5	11.0	13.5
PAT	1,596.4	(65.2)	264.2	97.2	41.0
Loans	12.5	15.5	8.8	14.5	17.6

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21E
NII	58,437	61,018	64,530	68,077	69,853
NIM(%)	3.4	3.5	3.6	3.6	3.4
PPOP	58,928	59,516	57,427	58,511	58,444
PAT	13,701	(1,121)	17,570	(13,878)	11,122
EPS (Rs)	5.23	(0.40)	6.23	(4.92)	3.94

Source: Company, Emkay Research

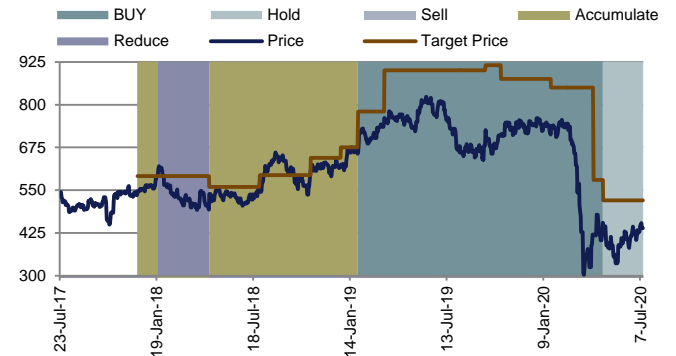
Shareholding Pattern (%)	Sep-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	16.2	16.2	15.7	15.7	15.7
FII	47.1	46.4	47.2	44.6	45.1
DII	22.2	22.9	22.6	24.5	24.0
Public and Others	14.5	14.5	14.5	15.3	15.3

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Apr-20	439	520	12m	Hold	Anand Dama
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
9-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama
25-Apr-19	741	900	12m	Buy	Anand Dama
20-Mar-19	756	900	12m	Buy	Anand Dama
19-Mar-19	761	900	12m	Buy	Anand Dama
29-Jan-19	661	780	12m	Buy	Anand Dama
28-Dec-18	625	675	12m	Accumulate	Anand Dama
2-Nov-18	611	645	12m	Accumulate	Jignesh Shial
30-Jul-18	570	594	12m	Accumulate	Jignesh Shial
21-May-18	527	560	12m	Accumulate	Ravikant Bhat
27-Apr-18	539	560	12m	Accumulate	Ravikant Bhat
22-Jan-18	612	591	12m	Reduce	Ravikant Bhat
14-Dec-17	541	591	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	19.21	19.17	-0.2%	-4	100.00
Axis Bank	1.68	1.82	9%	15	9.48
AU Small Finance Bank	0.07	0.05	-35%	-2	0.24
Bandhan Bank	0.17	0.17	0%	0	0.89
Bank of Baroda	0.10	0.00	-100%	-10	0.00
Canara Bank	0.05	0.00	-100%	-5	0.00
City Union Bank	0.15	0.15	0%	0	0.80
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	28%	5	1.21
HDFC Bank	8.13	8.40	3%	27	43.73
ICICI Bank	3.94	4.12	5%	18	21.46
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.54	0.61	14%	7	3.19
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.74	2.28	-17%	-46	11.86
Punjab National Bank	0.09	0.00	-100%	-9	0.00
RBL Bank	0.12	0.12	0%	0	0.64
State Bank of India	1.21	1.21	0%	0	6.28
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.04	NA	4	0.2

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

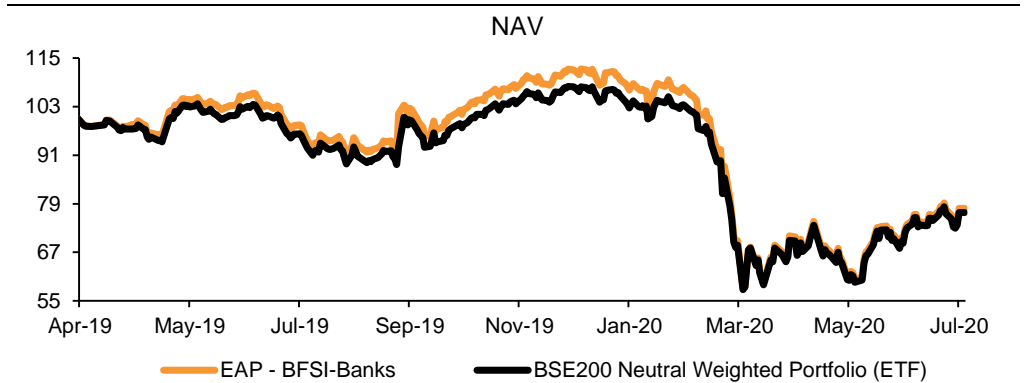
Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-Oct-19	20-Jan-20	20-Apr-20	19-Jun-20	20-Jul-20
EAP - BFSI-Banks	100.0	100.5	108.6	70.8	73.9	77.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	97.5	104.1	69.8	73.0	76.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 22 Jul 2020 03:27:01 (SGT)
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