

Axis Bank Limited

BUY

CMP Rs446

Target Rs550

Upside 23.2%

HIGHLIGHTS

- ✓ Strong operating performance adjusted for conservative changes in accounting policies in areas of fee and expenditure recognition, provisioning for std. investments and red flagged accounts and NII reserving on std. advances.
- ✓ Bur for the impact of these changes, the reported PPOP and PAT would have been 12% and 240% higher than our estimate. Conservatism was also reflected in the bank adding Rs7.3bn to its contingent provisions balance which now stands at 1.2% of std. adv. and raising PCR on NPLs by 6 ppt.
- ✓ Axis Bank accreted capital during the quarter as the incremental asset growth was driven by high-rated corporate lending and investments (95% disbursement rated A- and above). CET-1 ratio stood at 13.5% and planned capital raising will improve it by 200-250 bps.
- ✓ Loan growth moderated to 13% yoy on lower retail/SME disbursements. But including TLTRO investments, credit growth stood at 17% yoy. On avg. basis, SA and RTD growth was strong at 15% yoy and 27% yoy respectively.
- ✓ Portfolio under moratorium stands at ~10% in second phase. Morat book largely comprises retail customers who had opted for first moratorium. Retail morat portfolio in majority represents secured loans (HL & LAP) and ETB customers with prime bureau scores. On the first morat portfolio (not taken/offered second morat), the collection rate is 70-80%.

Our View

- ✓ Upgrading reco to BUY. Resilient PPOP, sizeable provisioning buffer, announced capital raise and reduction in morat pool to soften the Covid impact in coming quarters.
- ✓ Expect sharp recovery in RoA/RoE during FY22 as growth and credit cost near normalizes. Core bank trades at 1.3x FY22E P/ABV; valuation more sensitive to FY22 outcomes and not FY21.

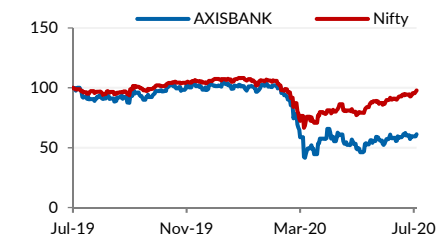
Risk to our call

- ✓ Prolonged Covid episode and its deeper impact

Stock data (as on Jul 21, 2020)

Nifty	11,170
52 Week h/l (Rs)	766 / 286
Market cap (Rs/USD mn)	1259187 / 16846
Outstanding Shares (mn)	2,822
6m Avg t/o (Rs mn):	13,827
Div yield (%):	-
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

Stock performance



	1M	3M	1Y
Absolute return	7.0%	6.1%	-38.8%

Shareholding pattern (As of Jun'19 end)

Promoter	16.0%
FII+DII	70.4%
Others	13.4%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	5.8	16.3	45.6
EPS (Old)	5.8	21.4	49.9
% change	(1.9)	(23.1)	(8.5)

Exhibit 1: Financial Summary

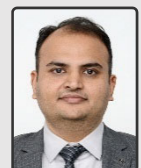
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	348,385	407,429	419,630	485,463
yoy growth (%)	17.8	16.9	3.0	15.7
Net profit	46,766	16,273	50,976	142,500
yoy growth (%)	1,596.4	(65.2)	213.3	179.5
EPS (Rs)	18.2	5.8	16.3	45.6
Adj.BVPS (Rs)	215.4	267.9	287.5	328.6
P/E (x)	24.5	77.3	27.3	9.8
P/adj.BV (x)	2.1	1.7	1.6	1.4
ROE (%)	7.2	2.1	5.4	12.7
ROA (%)	0.6	0.2	0.5	1.3

Source: Company, YES Sec – Research

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in
 +91 98925 92827



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 99675 80733

Exhibit 2: Result Table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Total Interest Income	165,389	162,341	1.9	152,550	8.4
Interest expended	(95,536)	(94,263)	1.4	(94,113)	1.5
Net Interest Income	69,853	68,078	2.6	58,437	19.5
Other income	25,867	39,855	(35.1)	38,688	(33.1)
Total Income	95,720	107,933	(11.3)	97,124	(1.4)
Operating expenses	(37,276)	(49,421)	(24.6)	(38,197)	(2.4)
PPOP	58,444	58,512	(0.1)	58,928	(0.8)
Provisions	(44,164)	(77,300)	(42.9)	(38,146)	15.8
PBT	14,280	(18,788)	(176.0)	20,782	(31.3)
Tax	(3,158)	4,911	(164.3)	(7,081)	(55.4)
PAT	11,122	(13,877)	(180.1)	13,701	(18.8)

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Advances	5,613,408	5,714,240	(1.8)	4,972,760	12.9
Large/Mid-corporate	2,055,560	2,041,030	0.7	1,774,550	15.8
SME	571,480	619,210	(7.7)	616,160	(7.3)
Retail	2,986,360	3,054,000	(2.2)	2,582,050	15.7
Home Loans	1,075,090	1,068,900	0.6	981,179	9.6
Rural Lending	358,363	366,480	(2.2)	335,667	6.8
Auto Loans	388,227	397,020	(2.2)	309,846	25.3
PL + CC	537,545	549,720	(2.2)	438,949	22.5
Others	627,136	671,880	(6.7)	516,410	21.4
Total Deposits	6,281,503	6,401,049	(1.9)	5,406,780	16.2
CA	804,390	901,140	(10.7)	712,110	13.0
SA	1,763,180	1,735,920	1.6	1,522,630	15.8
Others	3,713,933	3,763,989	(1.3)	3,172,040	17.1
Investments	1,873,231	1,567,343	19.5	1,757,915	6.6
Borrowings	1,428,361	1,479,541	(3.5)	1,301,214	9.8

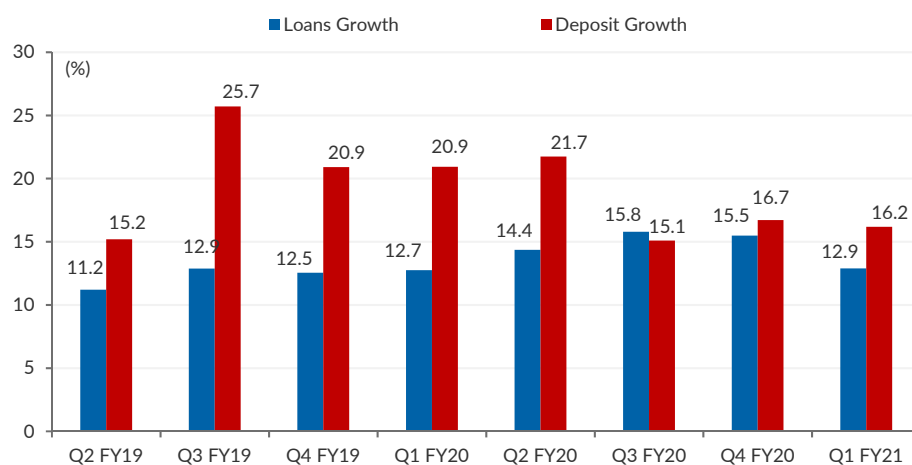
Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
NIM	3.4	3.6	(0.2)	3.4	-
Yield on advances	8.9	9.0	(0.1)	9.2	(0.4)
Yield on investments*	6.9	6.7	0.2	7.1	(0.2)
Cost of Funds*	4.9	5.1	(0.2)	5.5	(0.6)
CASA	40.9	41.2	(0.3)	41.3	(0.5)
C/D (x)	89.4	89.3	0.1	92.0	(2.6)
Non-int. inc./Int. exp	27.1	42.3	(15.2)	41.1	(14.0)
Cost to Income	38.9	45.8	(6.8)	39.3	(0.4)
RoE	5.7	(7.1)	12.8	9.2	(3.5)
RoA	0.5	(0.6)	1.1	0.7	(0.2)
CAR	17.3	17.5	(0.2)	15.8	1.5
Gross NPA	4.7	4.9	(0.1)	5.3	(0.5)
Net NPA	1.2	1.6	(0.3)	2.0	(0.8)

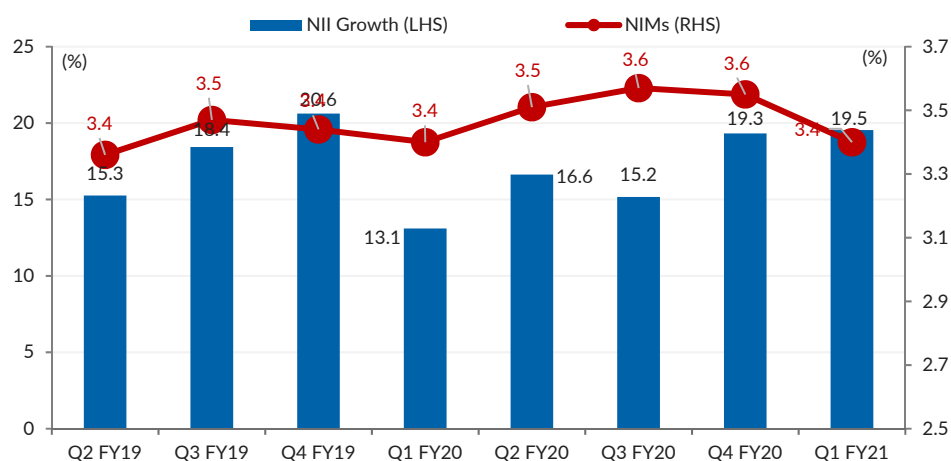
Source: Company, YES Sec – Research; *Calculated

Exhibit 5: Loan growth moderates; deposit growth resilient



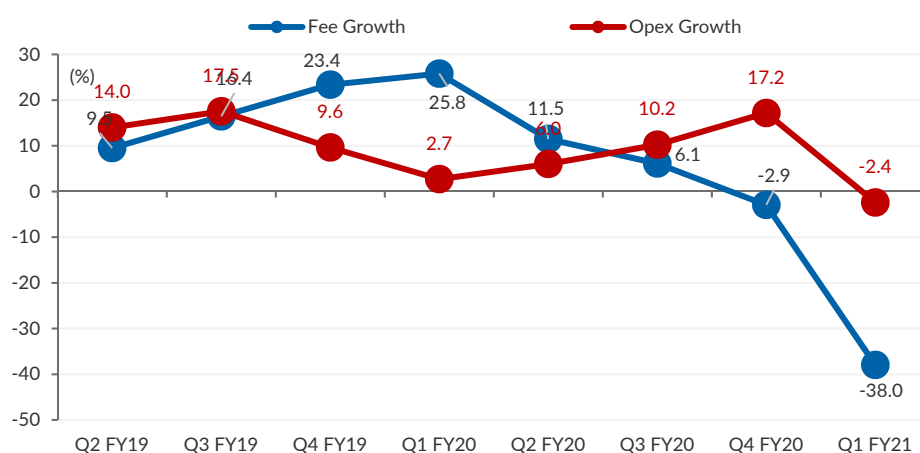
Source: Company, YES Sec – Research

Exhibit 6: NIM impacted by excess liquidity and reserving



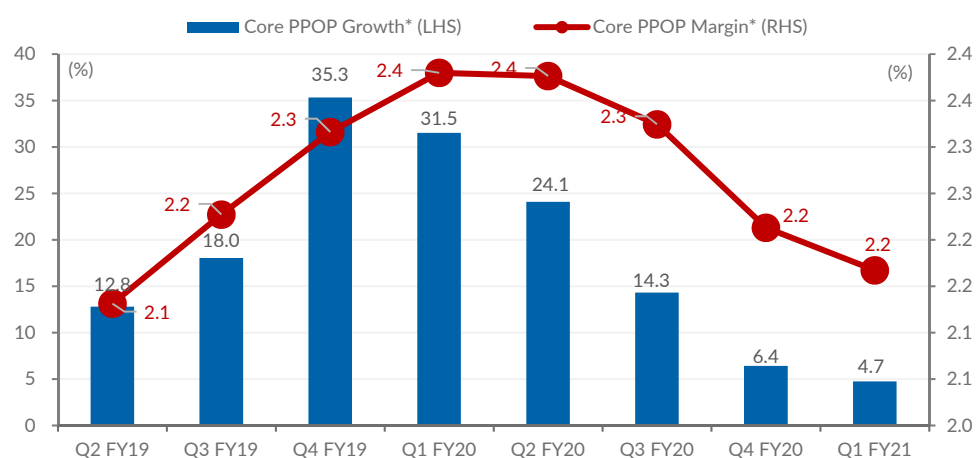
Source: Company, YES Sec – Research

Exhibit 7: Both fee and opex decline sharply



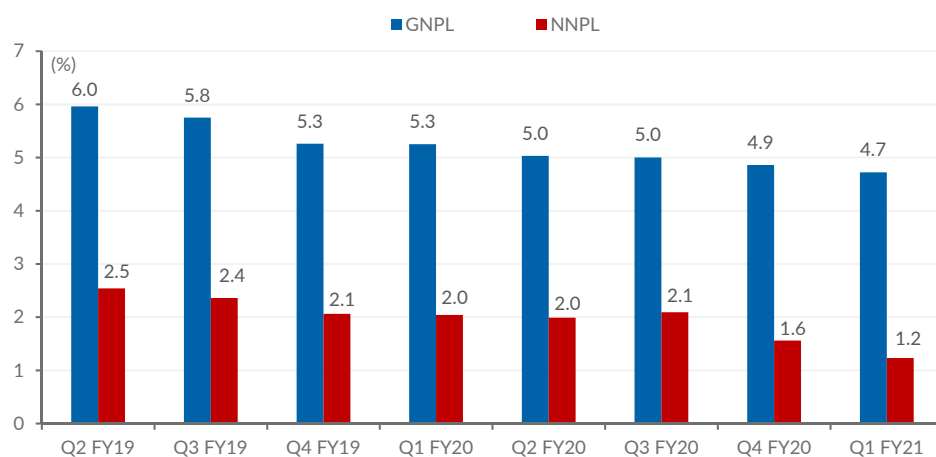
Source: Company, YES Sec – Research

Exhibit 8: PPOP margin being largely maintained



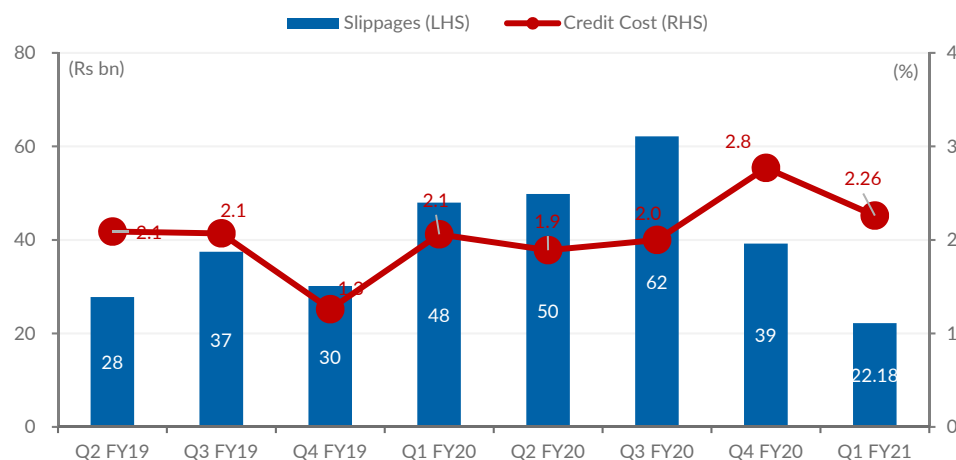
Source: Company, YES Sec – Research; *Calculated

Exhibit 9: NPA levels come down



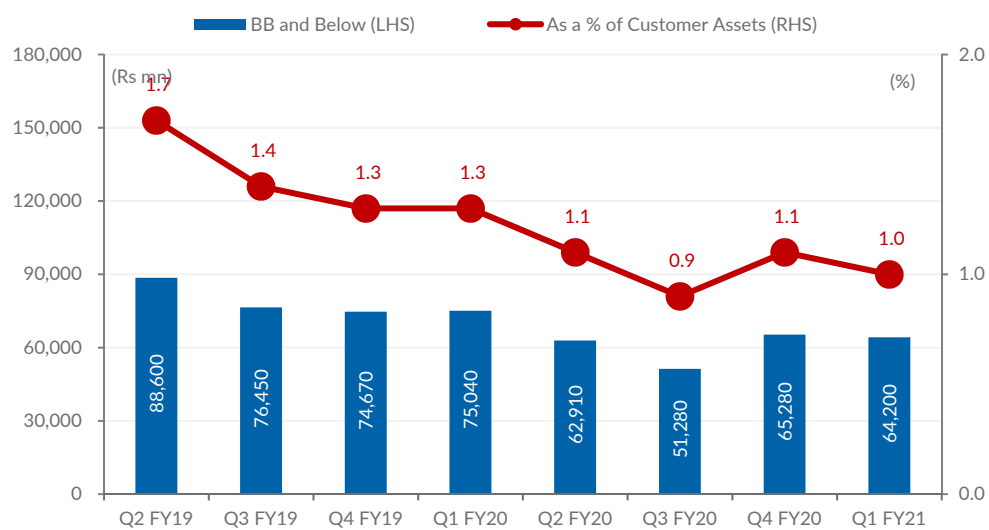
Source: Company, YES Sec – Research

Exhibit 10: Lower slippages, but credit remains elevated due to PCR augmentation



Source: Company, YES Sec – Research

Exhibit 11: BB & Below corporate loans continue to reduce



Source: Company, YES Sec – Research

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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road,
Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: https://yesinvest.in

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INH000002376 | INVESTMENT ADVISER: INA000007331 |
AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

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