

Strong Quarter with Strengthening Core Metrics

- Axis bank reported better than expected NII and PPOP growth of 20% and 16% YoY respectively led by higher NIM, robust fee income and elevated treasury gains.
- Bank made additional COVID provisions of Rs31 bn in Q2FY21, taking the overall standard provision buffer to 1.9% of loans or Rs108bn (ex of specific and general provisions).
- Management estimates ~1.2% of customer assets (~Rs75bn) to be restructured, 2/3 of which is expected to come from corporate portfolio and rest from retail/SME. The bank has provided ~20% against this (part of the 1.9% above). Of the corporate restructuring, over half is likely to come from non 'BB and below' loans.
- We lower our slippage estimate for FY21E and factor in incremental stress (RSA+ slippage) of ~5% over the next few quarters. While improving operational metrics and superior growth trend in 2QFY21 were encouraging, we look for signs of receding corporate risks before a stronger stance. **Rolling over our estimates to Sep-22E, we maintain ACCUMULATE rating with revised TP of Rs600, implying an unrevised multiple of 1.7x Sep-22E P/ABV.**

Higher spreads and fee traction aid core profitability

Helped by improving spreads and stronger fee lines, core operating profits/assets were at their highest in the last 18 quarters at ~2.7%. Fee growth had a strong comeback with 20% YoY growth in retail non-card fees led by third party distribution fees (+38% YoY) and 10% YoY growth in corporate and CoB fees (led by strong CA and CMS fees). Driven by bank's one-Axis strategy and digital execution, these granular retail fee lines provide strong comfort on earnings quality.

Asset quality trends encouraging; corporate surprise not ruled out

Including NPAs under standstill, gross NPA would have declined by 40 bps QoQ to 4.28%, aided by robust recoveries. Improved collection efficiency (to 94% in Sep and ~97% in Oct), 30+ dpd at 2.3% of loans, and reduction in stress from April estimates by 25% provide further comfort. Nonetheless, we remain cognizant of risks from increased downgrades to 'BB and below' pool (including FB, NFB and inv), which was higher by 70 bps QoQ to 2.6% of loans.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Net interest income	73,261	61,018	20.1	69,853	4.9
Other income	38,072	38,958	(2.3)	25,867	47.2
Total Net Income	1,11,333	99,976	11.4	95,720	16.3
Operating expenses	42,356	40,460	4.7	37,276	13.6
Pre-provision profits	68,976	59,516	15.9	58,444	18.0
Provisions	45,807	35,184	30.2	44,164	3.7
Tax expense	6,343	25,453	(75.1)	3,158	100.8
Reported Net Profit	16,827	(1,121)	(1601.3)	11,122	51.3
			(bps)		(bps)
Advances growth (%)	10.5	14.4	(385)	12.9	(238)
NIM (%)	3.6	3.5	7	3.4	18
RoA	0.7	(0.1)	79	0.5	25
RoE	7.4	(0.6)	797	5.2	217
Gross NPA (%)	4.2	5.0	(85)	4.7	(54)

CMP	Rs 505
Target / Upside	Rs 600 / 19%
NIFTY	11,730

Scrip Details

Equity / FV	Rs 6,119mn / Rs 2
Market Cap	Rs 1,544bn
	USD 21bn
52-week High/Low	Rs 766/ 286
Avg. Volume (no)	2,41,28,400
Bloom Code	AXSB IN

Price Performance	1M	3M	12M
Absolute (%)	18	14	(32)
Rel to NIFTY (%)	13	9	(32)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	16.0	16.0	14.8
MF/Banks/FIs	22.0	22.0	23.9
FIIIs	45.5	47.0	49.2
Public / Others	16.5	15.1	12.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	28.1	13.2	8.8
P/ABV	1.7	1.6	1.3
ROAA	0.6	1.1	1.5
ROAE	5.9	11.1	14.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	2,91,847	3,29,208	3,69,124
PPOP	2,43,850	2,74,401	3,09,276
PAT	55,053	1,16,997	1,74,773
Adj BV	293.4	324.4	377.2

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Other Important Highlights:

- Advances grew by 11% YoY and 2.7% QoQ. Sequential advances growth was led by SME (+6% QoQ), followed by retail and corporate (+2% QoQ each). Corporate growth was led by higher rated names, but the bank gained market share in non- credit incomes, making the proposition Raroc accretive.
- Collection efficiency is also being supported by a mix of ECLGS disbursements and increase in savings due to non-payment of EMI over previous quarters. However, collection trends exceed management expectations and cash flows seem to be returning.

Risks to our view: Higher than expected impact of COVID-19 on asset quality and growth, fee and recoveries, higher-than-expected slippages from corporate/SME portfolio.

Exhibit 1: Restructuring Estimates by Axis Bank

	Rs bn	% of customer assets
Corp- BB and below	20	0.3
Corp- non-BB and below	31	0.5
CBG and Retail	25	0.4
Total	75	1.2

Source: Company, DART

Exhibit 2: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	73,261	68,863	6.4	Lower CoF, robust fees and elevated treasury gains
Operating Profit	68,976	53,183	29.7	
PAT	16,827	9,754	72.5	

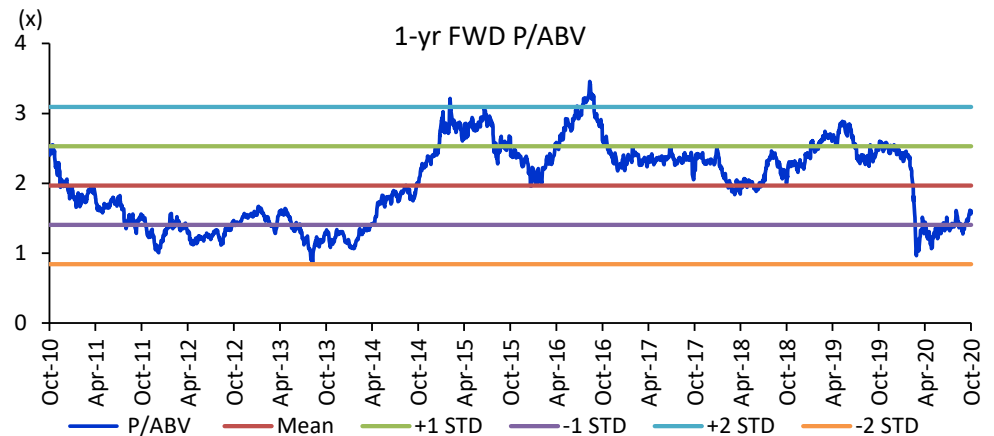
Source: Company, DART

Exhibit 3: Change in estimates

Particulars	Previous		Revised		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Operating Revenue	4,17,064	4,75,375	4,25,946	4,75,378	2.1	0.0
Pre-Provision Profits	2,32,571	2,69,771	2,43,850	2,74,401	4.8	1.7
PAT	49,762	1,18,697	55,053	1,16,997	10.6	(1.4)

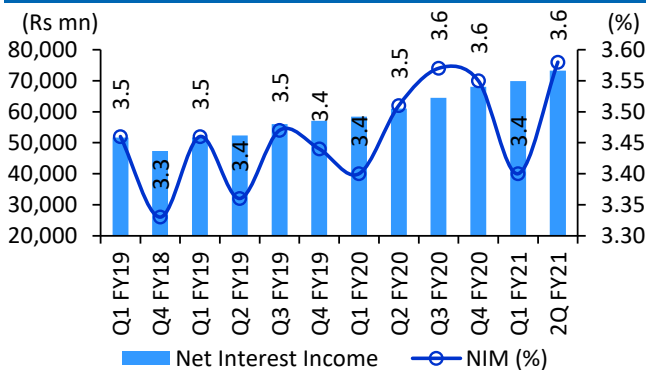
Source: Company, DART

Exhibit 4: The stock currently trades at 1.6x 1-yr forward P/ABV



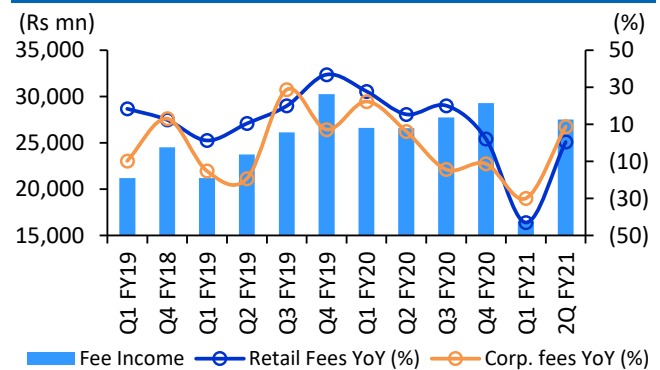
Source: Company, DART

Exhibit 5: NIM accretion led by lower CoF and capital raise



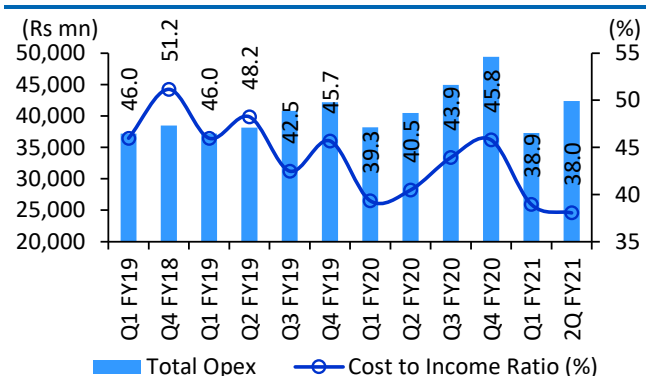
Source: Company, DART

Exhibit 6: Fee income improvement across retail and corporate segments



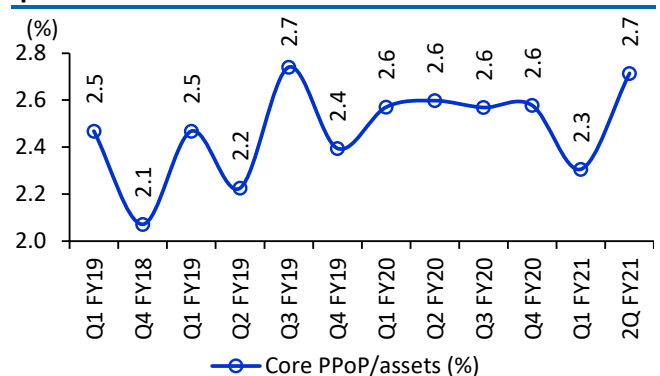
Source: Company, DART

Exhibit 7: Opex remains under control

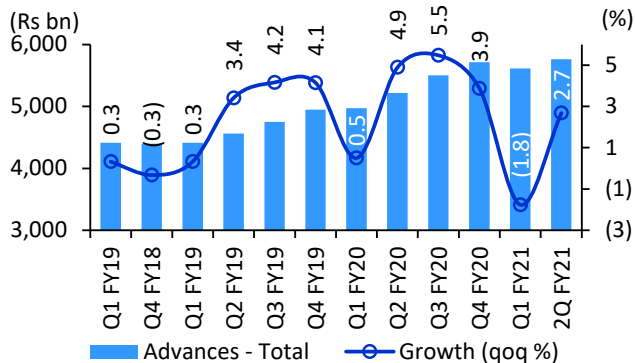


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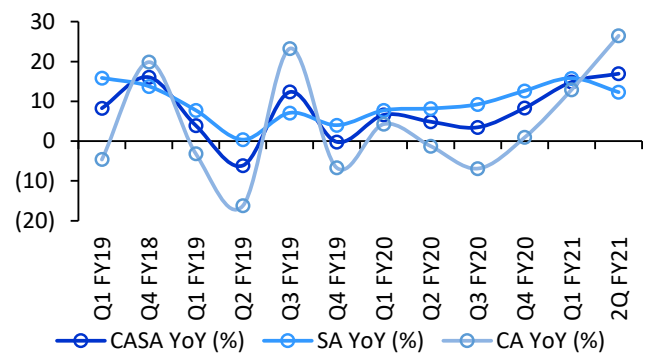
Exhibit 8: Core PPOP / Assets highest in the last 18 quarters



Source: Company, DART

Exhibit 9: Loan growth revived across segments


Source: Company, DART

Exhibit 10: Strong improvement in CASA growth


Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q2 FY21	Q2 FY20	% yoy / bps	Q1 FY21	% qoq / bps	H1 FY21	H1 FY20	% yoy / bps
Interest Inc.	1,60,629	1,54,378	4.0	1,65,389	(2.9)	3,26,018	3,06,928	6.2
Interest Expenses	87,368	93,360	(6.4)	95,536	(8.5)	1,82,904	1,87,473	(2.4)
Cost of Fund (%)	4.6	5.6	(102)	4.9	(33)	4.8	5.7	(90)
Net Interest Income	73,261	61,018	20.1	69,853	4.9	1,43,114	1,19,455	19.8
NII to Net Operating Income	65.8	61.0	477	73.0	(717)	69.1	60.6	851
NIM (%)	3.58	3.51	7	3.4	18	3.5	3.5	4
Dom. NIM (%)	3.7	3.6	8	3.6	13	3.6	3.6	5
Fee Income	27,520	26,490	3.9	16,510	66.7	44,030	53,120	(17.1)
Profit on Sale / Rev of Investments	7,690	8,090	(4.9)	6,220	23.6	13,910	16,410	(15.2)
Miscellaneous Income	2,860	4,380	(34.7)	3,130	(8.6)	5,990	8,110	(26.1)
Other Income - Total	38,072	38,958	(2.3)	25,867	47.2	63,939	77,645	(17.7)
Other Inc. / Net Operating Income	34.2	39.0	(477)	27.0	717	30.9	39.4	(851)
Net Operating Revenue	1,11,333	99,976	11.4	95,720	16.3	2,07,052	1,97,100	5.0
Employee Expenses	14,129	12,750	10.8	14,061	0.5	28,191	25,818	9.2
Empl. Cost/Oper. Exps.	12.7	12.8	(6)	14.7	(200)	13.6	13.1	52
Other Opex	28,227	27,711	1.9	23,215	21.6	51,442	52,839	(2.6)
Other Opex/ Assets	0.3	0.3	(3)	0.3	5	0.6	0.7	(9)
Total Opex	42,356	40,460	4.7	37,276	13.6	79,632	78,657	1.2
Cost to Income Ratio (%)	38.0	40.5	(242)	38.9	(90)	38.5	39.9	(145)
Pre-Provision Profits	68,976	59,516	15.9	58,444	18.0	1,27,420	1,18,443	7.6
Provisions & Contingencies - Total	45,807	35,184	30.2	44,164	3.7	89,971	73,330	22.7
Credit Cost (%)	1.10	2.07	(97)	2.5	(140)	1.42	2.14	(72)
NPA Provisions as % Operating Inc.	66.4	59.1	729	75.6	(916)	70.6	61.9	870
Profit Before Tax	23,170	24,332	(4.8)	14,280	62.3	37,450	45,114	(17.0)
Tax	6,343	25,453	(75.1)	3,158	100.8	9,501	32,534	(70.8)
Effective Tax Rate (%)	27.4	104.6	(7,723)	22.1	526.0	25.4	72.1	(4,674)
Reported Profits	16,827	(1,121)	NA	11,122	51.3	27,949	12,580	122.2
RoA (%)	0.7	0.1	67	0.5	25.0	0.6	0.3	29
RoE (%)	8.0	(0.7)	NA	5.7	221	6.9	4.0	288
Basic EPS	5.7	(0.4)	NA	3.9	44.7	9.6	4.9	98.4
Diluted EPS	5.7	(0.4)	(NA	3.9	44.4	9.6	4.8	99.4

Source: Company, DART

Balance Sheet Analysis (Rs mn)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	QoQ % / bps	YoY % / bps
Net Worth	8,38,754	8,61,978	8,49,479	8,60,710	9,76,638	13.5	16.4
RoE (%)	-0.7	8.8	-7.1	5.7	8	221	863
CET1 (%)	14	14.3	13.3	13.5	15.4	188	134
Tier 1 (%)	15	15	14.5	14.4	16.1	162	103
Total CAR (%)	18.2	18.2	17.5	17.3	18.9	163	69
RWA - Total	57,45,990	58,15,176	61,31,604	61,00,540	60,93,403	-0.1	6
Advances - Total	52,15,937	55,01,377	57,14,242	56,13,408	57,63,725	2.7	10.5
Investments	16,17,154	15,59,792	15,67,343	18,73,231	20,02,899	6.9	23.9
Total Assets	80,92,944	81,90,389	91,51,648	89,71,382	90,94,631	1.4	12.4
RoA (%)	0.06	0.86	-0.62	0.48	0.73	25	67
Deposits	58,39,585	59,16,755	64,01,049	62,81,503	63,54,543	1.2	8.8
Saving Deposit	16,09,160	16,53,530	17,35,920	17,63,180	18,06,890	2.5	12.3
Current Deposit	7,91,380	7,83,950	9,01,140	8,04,390	10,00,990	24.4	26.5
CASA Deposits	24,00,540	24,37,480	26,37,060	25,67,570	28,07,880	9.4	17
CASA Ratio (%)	41.1	41.2	41.2	41	40	-100	-111
Term Deposits	34,39,045	34,79,275	37,63,989	37,13,933	35,46,663	-4.5	3.1

Source: Company, DART

Asset Quality (Rs mn)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	QoQ % / bps	YoY % / bps
Gross Advances	57,79,600	60,14,604	62,20,951	62,62,744	64,19,053	2.5	11.1
Gross NPA	2,90,714	3,00,730	3,02,338	2,95,602	2,68,316	-9.2	-7.7
Gross NPA Ratio (%)	5.03	5	4.86	4.72	4.18	-54	-85
PCR - Calculated (%)	61.7	59.6	69	74.8	77.2	243	1,555
Net Advances	55,97,136	58,18,316	60,00,263	60,55,276	62,32,531	2.9	11.4
Net NPA	1,11,383	1,21,603	93,604	74,480	61,079	-18	-45.2
Net NPAs Ratio (%)	1.99	2.09	1.56	1.23	0.98	-25	-101

Source: Company, DART

Loan Book Analysis (Rs mn)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	QoQ % / bps	YoY % / bps
Corporate Credit	18,70,000	19,68,430	20,41,030	20,55,560	21,01,000	2.2	12.4
SME	6,13,710	6,17,410	6,19,210	5,71,480	6,06,000	6	-1.3
Retail Loans	27,32,230	29,15,540	30,54,000	29,86,360	30,57,000	2.4	11.9
- Home loans	10,10,925	10,49,594	10,68,900	10,45,226	11,00,520	5.3	8.9
- Rural Lending	3,55,190	3,49,865	3,66,480	3,58,363	3,66,840	2.4	3.3
- Auto loans	3,27,868	3,79,020	3,97,020	3,88,227	3,97,410	2.4	21.2
- PL	3,27,868	3,49,865	3,97,020	3,88,227	3,97,410	2.4	21.2
- LAP	2,45,901	2,62,399	2,74,860	2,68,772	2,75,130	2.4	11.9
- CC	1,36,612	1,45,777	1,52,700	1,49,318	1,52,850	2.4	11.9
- SBB	1,09,289	1,16,622	1,22,160	1,19,454	1,22,280	2.4	11.9
- Others	2,18,578	2,62,399	2,74,860	2,38,909	2,75,130	15.2	25.9
Advances - Total	52,15,937	55,01,377	57,14,242	56,13,408	57,63,725	2.7	10.5

Source: Company, DART

Conference Call Highlights

- Fees improved during the quarter due to incremental focus on granularizing fee lines. Within retail, fees from insurance distribution (TPP) improved 38% YoY
- 6.91 lakh new liability accounts were added during the. New CA additions improved by 29% YoY.
- On the CA circular the bank expects two strategies to play out in next 6 months - defend the existing CA customers balances and become aggressive on gaining market share
- NII reserves that were created (including that in the previous quarter) had a net impact of 5bps on margins.
- Opex increase was largely due to higher levels of business activity
- While management refrained from providing guidance, they expect the bank to continue growth at ~600bps above the industry in the long term

Asset Quality:

- Of the total downgrades (0.4% of customer assets) to the BB and below pool, 25% are routine downgrades while 75% were proactively downgraded on account of estimated probable restructuring
- ~Rs 4.16bn of collections from the BB and below book during the quarter. There were no upgrades from BB and below book during the quarter. Slippages from the BB and below book stood at Rs 3.16bn (of which Rs 980mn were fund based).
- Downgrades into BB and below were Rs 30.25bn from funded facilities, Rs 15.31bn from non-fund-based facilities and Rs 3.85bn from investments.
- Bank's net stress stands at ~2.51% of customer assets including NNPA's, BB and below book and probable restructuring

Collections:

- Level of collections have been improved using analytics and on-ground inputs
- Collections infra comprises of 10,000-member team with ~8,000 employees on the ground and 2,000 employees involved in tele-calling
- 30+ overdues of the overdues (excluding GNPA's) stood at ~2.3% as of September
- Demand resolution stood at ~97% in Oct (94% in Sep) with improving bounce rates over the last 6 months
- Focus on recoveries from w/off accounts has improved and have doubled compared to pre-COVID levels.

Restructuring:

- The bank is anticipating only a small % of restructuring, or ~1.6% of fund-based exposures (including overlaps with BB and below book)
- ~Rs 16.83bn or ~20% of provisions created against expected restructuring, assuming that the entire pool gets restructured.
- Ticket size of probable restructuring book is expected to be small – no lumpy exposures in the probable pool.
- ~Rs 25bn of retail restructuring expected over and above the corporate pool estimates

- Demand for restructuring however remains low.
- Enhanced internal stress tests were conducted using various parameters and have seen a 25% reduction over April scenarios. The bank remains cautious on corporate and SME lending and will be incrementally focusing on secured loans
- While bank's estimates remain conservative, ~Rs 12bn of related provisions were made during the quarter.

Wholesale Book:

- The bank is tightening customer selection and underwriting standards. ~95% of incremental advances were to those rated to A- and above
- Repayments have been higher compares to last year.
- Given the liquidity in the system, opportunity/ability to price loans will be limited but once liquidity comes down, banks should re-gain pricing power
- 26 new relationships added during the quarter

SME Book:

- Bank is cautious on SME lending and is focused on building a diversified and granular book
- > 84% of the portfolio is rated SME 3 and better and is spread over 35 sectors and geographically well diversified with an ATS of Rs 33mn and ~70% exposures being <Rs 50mn
- ECLGS has helped in short term liquidity management. The bank sanctioned ~Rs 70bn and disbursed ~Rs 60bn to existing borrowers including those part of retail SBB (of ~Rs 20bn of Rs60bn).
- ECLGS money largely utilized to repay existing WCL lines and to reduce interest costs
- Overall, utilizations are down 4-5% vs March and 1-2% vs Q1.

Retail Book:

- The bank has been cautious on unsecured retail book. 85% of new acquisitions were primarily in mortgages book in the last 6 months
- Unsecured Retail comprises ~11% of the overall book and ~20% of retail portfolio – and is targeted at salaried and ETB customers (>80% exposure). Sourcing is currently restricted to ETB customers only
- Retail strategy continues to be focused on ETB customers. ~70% of retail asset originations by count were from ETB customers. 77% of cards originations and 93% of PL originations during the quarter were from ETB customers.
- Disbursements in the retail segment reached 95% of last year levels. Unsecured PL disbursements trending 40% below pre covid levels

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	6,26,352	6,58,849	7,33,541	8,30,554
Interest expenses	3,74,290	3,67,002	4,04,333	4,61,430
Net interest income	2,52,062	2,91,847	3,29,208	3,69,124
Other incomes	1,55,366	1,34,099	1,46,170	1,65,378
Total expenses	1,73,046	1,82,096	2,00,978	2,25,226
- Employee cost	53,210	57,467	62,639	68,903
- Other	1,19,836	1,24,630	1,38,339	1,56,323
Pre provisioning profit	2,34,382	2,43,850	2,74,401	3,09,276
Provisions	1,85,339	1,70,279	1,18,051	75,717
Profit before taxes	49,043	73,570	1,56,350	2,33,559
Tax provision	32,770	18,518	39,353	58,787
Profit after tax	16,273	55,053	1,16,997	1,74,773
Adjusted profit	16,273	55,053	1,16,997	1,74,773

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,643	6,119	6,119	6,119
Reserves & Surplus	8,43,835	9,98,412	10,96,836	12,53,036
Minority Interest	0	0	0	0
Net worth		10,04,531	11,02,955	12,59,155
Borrowings	14,79,541	14,40,776	15,14,701	16,16,972
- Deposits	64,01,049	70,34,375	79,52,181	91,62,843
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	4,21,579	4,31,104	4,59,431	4,67,008
Total Liabilities	91,51,648	99,10,786	1,10,29,268	1,25,05,979
Application of Funds				
Cash and balances with RBI	9,72,683	6,92,765	7,29,993	7,81,021
Investments	15,67,343	19,78,795	21,51,258	23,24,172
Advances	57,14,242	61,71,381	69,73,660	80,89,446
Fixed assets	43,129	42,743	46,745	48,414
Other current assets, loans and advances	8,54,252	10,25,102	11,27,612	12,62,926
Total Assets	91,51,648	99,10,786	1,10,29,268	1,25,05,979

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	9.1	8.4	8.6	8.7
Yields on interest earning assets	8.0	7.7	7.8	7.9
Yield on investments	6.9	6.8	6.8	6.6
Costs of funds	5.0	4.5	4.5	4.6
Cost of deposits	4.7	4.9	4.5	4.5
NIMs	3.2	3.4	3.5	3.5
(B) Asset quality and capital ratios (%)				
GNPA	4.9	5.3	4.8	3.9
NNPA	2.1	1.7	1.6	1.3
PCR	69.0	69.0	70.0	70.0
Slippages	4.0	4.0	3.0	2.0
NNPA to NW	11.0	10.6	10.0	8.3
CASA	41.5	40.0	40.0	40.0
CAR	17.3	18.4	18.0	17.9
Tier 1	14.3	15.4	15.1	15.0
Credit - Deposit	89.3	87.7	87.7	88.3
(C) Dupont as a percentage of average assets				
Interest income	7.3	6.9	7.0	7.1
Interest expenses	4.4	3.9	3.9	3.9
Net interest income	2.9	3.1	3.1	3.1
Non interest Income	1.8	1.4	1.4	1.4
Total expenses	2.0	1.9	1.9	1.9
- cost to income	42.5	42.8	42.3	42.1
Provisions	2.2	1.8	1.1	0.6
Tax	0.4	0.2	0.4	0.5
RoA	0.2	0.6	1.1	1.5
Leverage	10.8	9.9	10.0	9.9
RoE	2.1	5.9	11.1	14.8
RoRwa	0.8	0.3	0.8	1.6
(D) Measures of Investments				
EPS - adjusted	5.8	18.0	38.2	57.1
BV	301.1	328.3	360.5	411.5
ABV	267.4	293.4	324.4	377.2
DPS	0.0	5.0	5.0	5.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	16.1	15.8	12.8	12.1
PPoP	23.3	4.0	12.5	12.7
Adj PAT	(65.2)	238.3	112.5	49.4
Advances	15.5	8.0	13.0	16.0
Total borrowings	(3.2)	(2.6)	5.1	6.8
Total assets	14.3	8.3	11.3	13.4
(F) Valuation Ratios				
Market Cap (Rs. mn)	15,44,239	15,44,239	15,44,239	15,44,239
CMP (Rs.)	505	505	505	505
P/E (x)	87.5	28.1	13.2	8.8
P/BV (x)	1.7	1.5	1.4	1.2
P/ABV (x)	1.9	1.7	1.6	1.3
Div Yield (%)	0.0	1.0	1.0	1.0

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Accumulate	800	713
Mar-20	Accumulate	511	303
Apr-20	BUY	510	455
Jul-20	Accumulate	510	423
Jul-20	Accumulate	510	440
Jul-20	Accumulate	520	446

*Price as on recommendation date

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