

Adequate provisions offer comfort on earnings trend

In Q2FY21, Axis Bank reported net interest income (NII) growth of 20% YoY to ₹ 7326 crore. Strong NII growth was driven by expansion in net interest margin (NIM), which jumped 7 bps YoY, 18 bps QoQ to 3.58%. Sequential 18 bps expansion in NIM was due to 3 bps from capital raise, 5 bps from lower interest reversals and 10 bps from better liquidity management. From Q1FY21, the bank is adding some amount in NII reserve. As a result, NIM was negatively impacted by 5 bps. Other income for the quarter increased 47% sequentially to ₹ 3807 crore, which was on account of 67% QoQ rise in the fee income (insurance distribution surged). Cost to income ratio declined 90 bps QoQ to 38.0%. Part of this can be attributed to relatively lower business volumes as a result of less cost. PAT for the quarter increased 51.3% QoQ to ₹ 1683 crore compared to a loss of ₹ 112 crore.

Credit growth was at 10.5% YoY with retail and corporate segment growing 12% YoY while SME book fell 1% YoY. The bank has been taking a cautious approach in lending towards commercial banking and SME segment while focusing on secured retail loans and highly rated corporates. Over the medium term, the bank expects loan growth to be 500-600 bps higher than the industry growth. Total 80% of retail loans is secured while 82% of incremental loan to corporate are to A- and above category. Deposits grew 8.8% YoY driven by 17% YoY rise in CASA deposit.

Provisioning for the quarter was at ₹ 4581 crore vs. ₹ 4416 crore in the previous quarter. Total provision held for Covid-19 as on September 2020 now amounts to ₹ 5012 crore of which ₹ 1.882 crore represents prudent provision over and above regulatory requirement and balance ₹ 3130 crore is provision for loans under moratorium. During the quarter, the bank made provisions worth ₹ 1279 crore and ₹ 1864 crore towards moratorium loans and probable restructuring, respectively. Total cumulative provisions are at 2.2% of standard loans while on aggregate basis the coverage ratio was at 124% of its GNPA and PCR is at 77%.

Overall asset quality improved as GNPA, NNPA for the quarter fell 54 bps, 25 bps QoQ to 4.18%, 0.98%, respectively. Even on a standstill asset qualification basis, GNPA would have been at 4.28%, reflecting a 44 bps decline on a QoQ basis. Slippages during the quarter were lower at ₹ 931 crore vs. ₹ 2218 crore in the previous quarter while recoveries and upgrades came in at ₹ 1848 crore. **The bank expects 1.6% of loans to undergo restructuring while total stress including net NPA may remain around 2.5% of total loans. The bank witnessed improving demand resolution, proxy indicator of improving collection efficiency. For September 2020, the demand resolution was at 94% and by end of October it may reach 97%.**

Valuation & Outlook

The management held its guidance to remain well above industry credit growth, though it is currently cautious on certain segments. It can see minimal loans going for restructuring (estimated 1.6% of loans). Strong capital position, healthy operating metrics and reasonable prudence in provisioning provides comfort for steady earnings visibility and return ratios reaching 0.9% RoA and ~9% RoE by FY22. We value the bank at 1.6x FY22E ABV to arrive at a revised TP of ₹ 600 (from ₹ 530). We maintain **BUY**.

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	18618	21708	25206	27650	31192	13%
PPP	15594	19005	23438	22330	25708	11%
PAT	-263	4677	1629	6360	10407	31%
ABV (₹)	182.5	215.4	267.9	336.8	364.4	
P/E	-493.3	27.8	87.5	24.3	14.8	
P/ABV	2.8	2.3	1.9	1.5	1.4	
RoA	0.0	0.6	0.2	0.6	0.9	
RoE	-0.4	7.2	2.1	6.4	8.8	



Particulars

Particulars	Amount
Market Capitalisation	₹154492 crore
GNPA (Q2FY21)	₹26832 crore
NNPA (Q2FY21)	₹6108 crore
NIM (Q2FY21)	3.58
52 week H/L	765 / 285
Net worth (FY 20)	₹84506 crore
Face value	₹2
DII Holding (%)	23.9
FII Holding (%)	49.2

Key Highlights

- Asset quality improved sequentially even on a standstill basis
- Probable 1.6% of loan to go for restructuring
- As on September 2020, the bank has provisions worth ₹ 5012 crore for Covid-19
- Maintain BUY recommendation with revised target price of ₹ 600

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	7,326	7,186	6,102	20.1	6,985	4.9	Healthy growth on yearly basis driven by improvement in net interest margins
NIM (%)	3.58	3.50	3.51	7 bps	3.40	18 bps	
Other Income	3,807	3,226	3,896	-2.3	2,587	47.2	Fee income jumped 67% QoQ which lead to strong sequential rise in other income
Net Total Income	11,133	10,412	9,998	11.4	9,572	16.3	
Staff cost	1,413	1,476	1,275	10.8	1,406	0.5	
Other Operating Expense	2,823	2,438	2,771	1.9	2,321	21.6	Lower on yearly basis as a result of cost control measures and relatively lower business activity
PPP	6,898	6,498	5,952	15.9	5,844	18.0	
Provision	4,581	4,016	3,518	30.2	4,416	3.7	marginal increase sequentially due to prudent covid, restructuring and other stress related provisioning
PBT	2,317	2,482	2,433	-4.8	1,428	62.3	
Tax Outgo	634	645	2,545	-75.1	316	100.8	
PAT	1,683	1,837	-112	NA	1,112	51.3	Profit on the back of strong operating performance
Key Metrics							
GNPA	26,832	27,491	29,071	-7.7	29,560	-9.2	Asset quality saw improvement even on standstill basis, slippages decline
NNPA	6,108	6,778	11,138	-45.2	7,448	-18.0	
Credit	576,372	573,753	521,594	10.5	561,341	2.7	loan growth driven by retail and corporate , while sme book growth was subdued
Deposit	635,454	671,552	583,958	8.8	628,150	1.2	Lead by decent 17% YoY in CASA deposits

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	27,747	27,650	-0.4	31,250	31,192	-0.2
Pre Provision Profit	23,099	22,330	-3.3	26,675	25,708	-3.6
NIM(%) (calculated)	3.7	3.6	-9 bps	3.7	3.6	-5 bps
PAT	6,585	6,360	-3.4	10,536	10,407	-1.2
ABV per share (₹)	270.3	336.8	24.6	301.6	364.4	20.8

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	12.5	15.5	10.3	13.6	9.4	13.6
Deposit Growth (%)	20.9	16.7	13.4	15.7	14.5	16.2
CASA ratio (%)	44.4	41.2	42.4	42.8	44.6	43.2
NIM Calculated (%)	3.4	3.5	3.6	3.6	3.7	3.7
Cost to income ratio	45.4	42.5	46.2	44.5	43.5	41.8
GNPA (₹crore)	29,789	30,234	33,285	34,055	37,278	38,043
NNPA (₹crore)	11,276	9,360	10,553	11,428	15,106	15,974
Slippage ratio (%)	3.2	4.0	2.4	2.0	2.7	2.0
Credit cost (%)	2.4	3.2	2.2	1.6	2.2	1.7

Source: Company, ICICI Direct Research

Conference Call Highlights

Asset quality & moratorium

- According to the internal stress test of the bank, there is 25% reduction from its April 2020 estimates
- As of September 2020, restructured amount was nil. However, 1.6% of the loans is expected to come for restructuring, which includes ₹ 2500 crore from retail loans and ₹ 3053 crore from non-BB corporate pool
- Demand resolution for September 2020 was at 94%. The bank is on track to reach 97% resolution level by October end
- Collections are improving on a monthly basis but contain some backlog
- Overall stress including net NPA is expected to remain around 2.5% of loans
- Total 30 plus overdue at 2.3% as of September 2020
- Early bucket resolution rate was 80% of pre-Covid levels
- Check bounce rate slightly higher compared to pre-Covid numbers

Business growth & capital

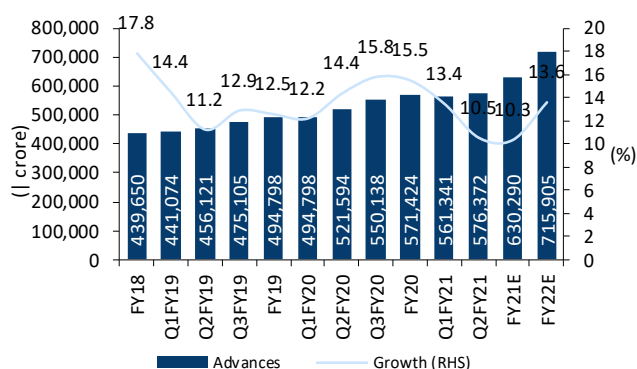
- Loan growth at 10.5% owing to selective lending in new business and tightening underwriting standards
- In corporate banking, the focus is on top rated corporates while in commercial banking cautious approach has been taken due to external environment
- Average ticket size in commercial banking is ₹ 3.3 crore
- Disbursement under ECLGS was at ₹6000 crore
- Corporate loan book including TLTRO investments grew 22% YoY
- Within the retail segment, 80% of new acquisitions are in secured products while unsecured retail portfolio is targeted at salaried customers and existing customers of the bank
- In the corporate segment, 95% of incremental lending is to corporates with A- and above rating

Operational performance

- NIM positively benefitted by 3 bps due to capital raise, 5 bps due to low interest reversal and 10 bps due to better liquidity management
- The company has created NII reserve, which impacted NIM by 5 bps or else the NIM would have been 3.63% for Q2FY21
- Sequential increase in other operating cost on account of revival in business volumes
- Third party distribution fee income has reached 1.4x pre Covid levels while transaction banking fee has reached 1.2x pre-Covid

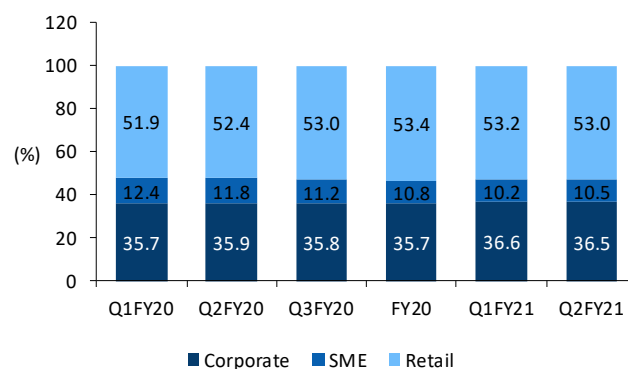
Story in Charts

Exhibit 4: Gradual pick-up in loan growth in medium term



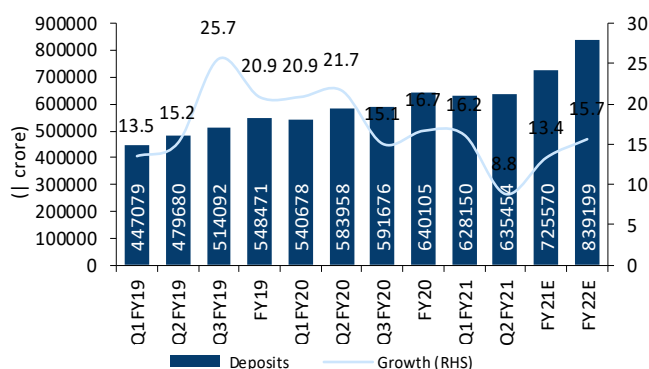
Source: Company, ICICI Direct Research

Exhibit 5: Retail segment to remain key contributor



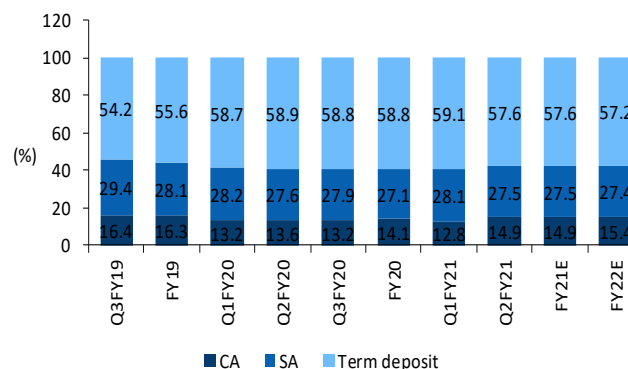
Source: Company, ICICI Direct Research

Exhibit 6: Deposit traction to garner momentum



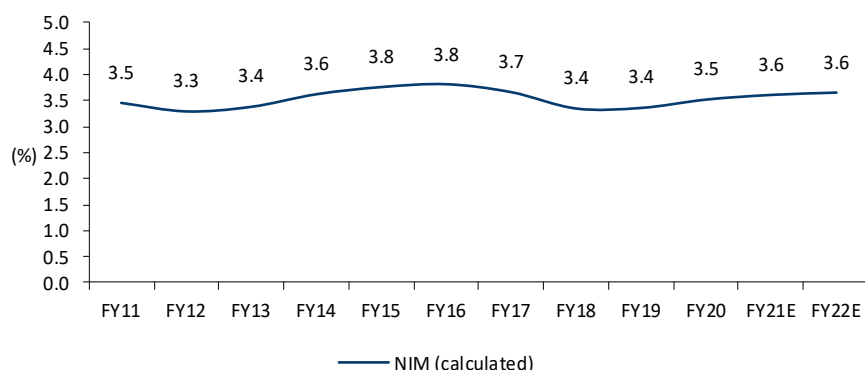
Source: Company, ICICI Direct Research

Exhibit 7: Healthy CASA ratio to be maintained



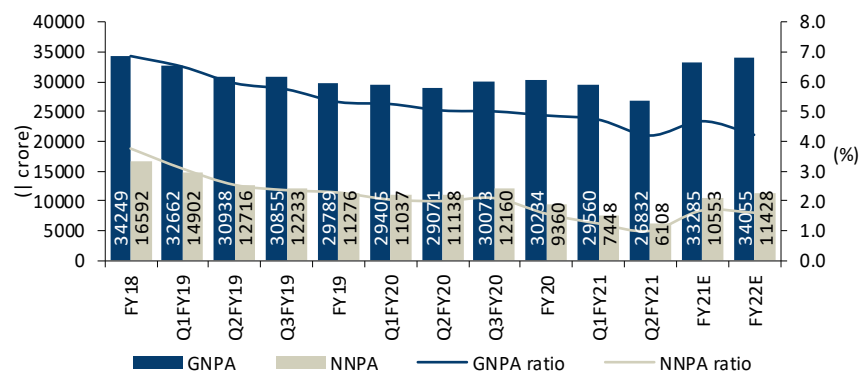
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain rangebound



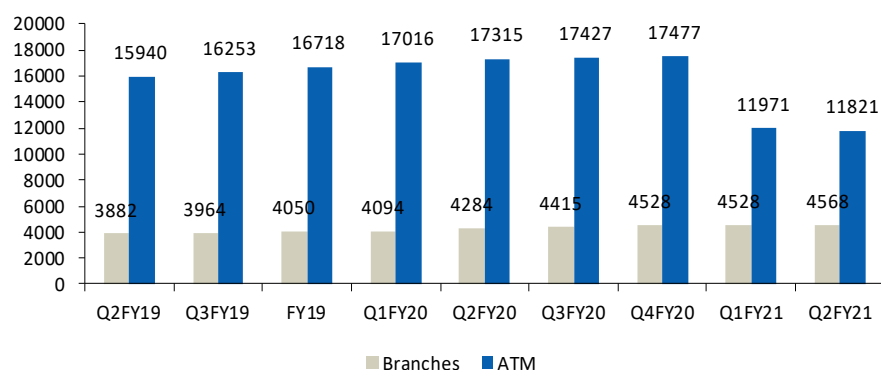
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality scenario



Source: Company, ICICI Direct Research

Exhibit 10: Moderation in branch network



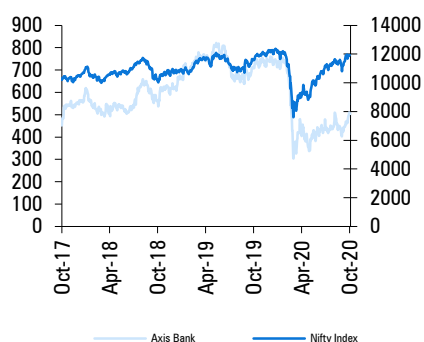
Source: Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	16.6	16.1	16.0	16.0	14.8
FII	48.2	48.4	45.5	46.0	49.2
DII	22.7	23.1	24.9	24.4	23.9
Others	12.5	12.4	13.6	13.6	12.1

Source: Company, ICICI Direct Research

Exhibit 12: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Interest Earned	54,986	62,635	67,705	75,898	
Interest Expended	33,278	37,429	40,056	44,706	
Net Interest Income	21,708	25,206	27,650	31,192	
growth (%)	16.6	16.1	9.7	12.8	
Non Interest Income	13,130	15,537	13,826	15,111	
Fees and advisory	8,854	9,692	7,754	8,917	
Trading Gains	758	2,172	2,216	2,437	
Other income	3,519	3,672	3,857	3,757	
Net Income	34,839	40,743	41,476	46,303	
Staff cost	4,747	5,321	6,938	7,829	
Other operating Expense	11,086	11,984	12,208	12,765	
Operating Profit	19,005	23,438	22,330	25,708	
Provisions	12,031	18,532	13,793	11,740	
PBT	6,974	4,906	8,537	13,969	
Taxes	2,297	3,277	2,177	3,562	
Net Profit	4,677	1,629	6,360	10,407	
growth (%)	-1879.9	-65.2	290.5	63.6	
EPS (₹)	18.2	5.8	20.8	34.0	

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	257.2	282.2	306.0	306.0
EPS (₹)	18.2	5.8	20.8	34.0
BV (₹)	259.3	301.1	371.3	401.8
ABV (₹)	215.4	267.9	336.8	364.4
P/E	27.8	87.5	24.3	14.8
P/BV	1.9	1.7	1.4	1.3
P/ABV	2.3	1.9	1.5	1.4
Yields & Margins (%)				
Net Interest Margins	3.4	3.5	3.6	3.6
Yield on assets	8.5	8.7	8.8	8.9
Avg. cost on funds	5.1	5.0	4.8	4.8
Yield on average advance	8.8	9.1	9.0	9.1
Avg. Cost of Deposits	4.7	4.9	4.8	4.8
Quality and Efficiency				
Cost to income ratio	45	42	46	44
Credit/Deposit ratio	90.2	89.3	86.9	85.3
GNPA	5.3	4.7	4.7	4.2
NNPA	2.3	1.6	1.7	1.6
ROE	7.2	2.1	6.4	8.8
ROA	0.6	0.2	0.6	0.9

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Sources of Funds					
Capital	514	564	612	612	
Reserves and Surplus	66162	84384	112985	122317	
Networth	66676	84948	113596	122929	
Deposits	548471	640105	725570	839199	
Borrowings	152776	147954	151109	154456	
Other Liabilities & Provisi	33073	42158	51877	62936	
Total	800997	915165	1042153	1179519	
Application of Funds					
Fixed Assets	4037	4313	5267	6022	
Investments	174969	156734	170924	186488	
Advances	494798	571424	630290	715905	
Other Assets	59988	85425	121020	134964	
Cash with RBI & call mo	67205	97268	114652	136140	
Total	800997	915165	1042153	1179519	

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios					(%)
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Total assets	15.9	14.3	13.9	13.2	
Advances	12.5	15.5	10.3	13.6	
Deposit	20.9	16.7	13.4	15.7	
Total Income	20.0	14.8	4.3	11.6	
Net interest income	16.6	16.1	9.7	12.8	
Operating expenses	13.2	9.3	10.6	7.6	
Operating profit	21.9	23.3	-4.7	15.1	
Net profit	NA	-65.2	290.5	63.6	
Net worth	5.1	27.4	33.7	8.2	
EPS	NA	(68.3)	260.1	63.6	

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	42	52	Hold	19,429.0	1.2	1.8	5.8	35.6	NA	NA	0.5	0.5	0.4	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	170,013	16.2	15.3	26.1	11.7	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	59	70	Hold	6,697	-27.2	8.5	13.0	-2.2	6.9	4.5	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	505	600	Buy	154,492	5.8	20.8	34.0	87.5	24.3	14.8	1.9	1.5	1.4	0.2	0.6	0.9	2.1	6.4	8.8
City Union Bank (CITUNI)	153	130	Hold	11,330	6.5	7.5	9.7	23.7	20.3	15.7	2.5	2.3	2.0	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	78	90	Hold	2,413	10.9	9.8	13.5	7.2	8.0	5.8	0.8	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,406	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,205	1,450	Buy	663,388	47.9	52.3	63.3	25.2	23.0	19.0	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	593	580	Hold	44,839	63.7	33.7	52.2	9.3	17.6	11.4	1.3	1.2	1.1	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,053	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,552	1,634	Buy	307,241	31.1	26.0	32.1	49.9	59.6	48.3	6.2	5.1	4.7	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	289	400	Hold	46,499	18.1	17.7	25.2	16.0	16.3	11.4	3.1	2.9	2.4	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	31	34	Buy	17,527	-4.6	0.7	2.1	NA	45.4	14.4	1.0	1.0	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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