

# Axis Bank Limited

BUY

CMP Rs505

Target Rs586

Upside 16.0%

## Impressive core revenue growth in Q2. Risk-reward attractive; Retain BUY

We retain BUY on Axis Bank and increase price target to Rs586 (Rs550 before) underpinned by earnings/BV upgrade. Earnings have been revised upwards by lifting NIM and core fee growth assumptions. Considering management's assessment of probable restructuring pool and encouraging collection trends (demand resolution at 97% in Oct), we believe that downside risks to our prevailing credit cost estimates has diminished. Hence, bank's return ratios will most likely recover sharply in FY22. The stand-alone bank trades at 1.4x FY22 P/ABV, and represents an attractive risk-reward.

### Key highlights of standalone bank performance

- ✓ Axis Bank delivered a substantial 19% beat on our core PPOP estimate driven by strong core revenue (NII + Core Fees) growth delivery.
- ✓ NII growth was at 5% qoq and 20% yoy despite continued conservative stance of not recognizing interest income on weaker/stressed accounts. Despite 5 bps negative impact of this, the NIM improved by 18 bps qoq to stand at multi-quarter high of 3.6%.
- ✓ Margin expansion aided by core spread expansion with material decline in cost of deposits on the back of SA & TD rate reductions and improved granularity.
- ✓ Core fee income recovered sharply from the lower level of Q1 (66% qoq growth), and even stood marginally higher on yoy basis. Retail fees (62% of overall fees) grew 82% qoq, aided by material recovery in all fee streams (cards, distribution, assets-related, etc.).
- ✓ Loan growth was better-than-expected at 3% qoq and 11% yoy. Corporate portfolio expansion was driven A & Above rated loans, SME book growth was aided by disbursements under ECLGS scheme (Rs60bn+) and retail loan growth was led by secured products of mortgages and auto finance.
- ✓ Credit cost was high (annualized 3.2%), largely on account of bank making additional provisions of Rs31.4bn (of which Rs18.6bn towards probable restructuring pool). Resultantly, the stock of additional provisions rose to Rs108bn (now at 1.8% of adv. v/s 1.2% as of Q1).
- ✓ Core PCR on GNPLs also improved to 77% with the bank making some specific provisions and net slippages (excl. w/off) in Q2 being negative due asset classification stand still.

### Exhibit 1: Financial Summary

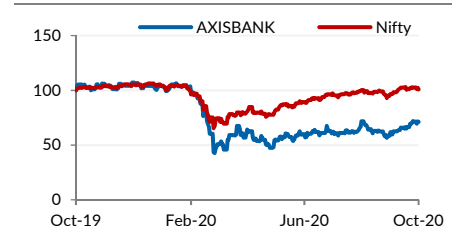
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	348,385	407,429	442,029	500,628
PPOP	190,051	234,382	265,522	297,645
Net profit	46,766	16,273	79,167	149,234
yoy growth (%)	1,596.4	(65.2)	386.5	88.5
EPS (Rs)	18.2	5.8	25.9	48.8
Adj. BVPS (Rs)	215.4	267.9	296.2	339.4
P/E (x)	27.8	87.6	19.5	10.4
P/adj. BV (x)	2.3	1.9	1.7	1.5
ROE (%)	7.2	2.1	8.4	13.5
ROA (%)	0.6	0.2	0.8	1.4
CAR (%)	15.8	17.5	18.3	18.3

Source: Company, YES Sec - Research

### Stock data (as on October 28, 2020)

Nifty	11,730
52 Week h/l (Rs)	766 / 286
Market cap (Rs/USD mn)	1544463 / 20907
Outstanding Shares (mn)	3,060
6m Avg t/o (Rs mn)	14,154
Div yield (%)	-
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

### Stock performance



	1M	3M	1Y
Absolute return	14.9%	15.5%	-28.9%

### Shareholding pattern

Promoter	16.0%
FII+DII	70.4%
Others	26.5%

### Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	5.8	25.9	48.8
EPS (Old)	5.8	16.3	45.6
% change	0.0%	58.7%	7.0%

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# Axis Bank Limited

- ✓ BB & Below o/s increased from Rs64bn to Rs91bn on sequential basis – 75% of this increase is on account of estimated probable restructuring. Besides this, management conservatively assesses probable restructuring of Rs31bn in non-BB Corporate portfolio and Rs25bn in retail and commercial banking combined. SMA 1&2 comprises 2.3% of advances, but would largely be overlapping with above-mentioned exposures.
- ✓ The current susceptible pool (FB + NFB + Inv.) which is BB & Below and probable restructuring aggregate stands at Rs205bn (3.2% of customers assets). The stock of additional provisions (1.7% of customer assets) seems adequate to address this.
- ✓ Having raised Rs100bn equity capital during Q2 FY21, the CET-1 ratio of the bank improved 190 bps qoq to 15.4%.

## Exhibit 2: Result Table

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total Interest Income	160,629	165,389	(2.9)	154,378	4.0
Interest expended	(87,368)	(95,536)	(8.5)	(93,360)	(6.4)
Net Interest Income	73,261	69,853	4.9	61,018	20.1
Other income	38,072	25,867	47.2	38,958	(2.3)
Total Income	111,333	95,720	16.3	99,976	11.4
Operating expenses	(42,356)	(37,276)	13.6	(40,460)	4.7
PPOP	68,976	58,444	18.0	59,516	15.9
Provisions	(45,807)	(44,164)	3.7	(35,184)	30.2
PBT	23,170	14,280	62.3	24,332	(4.8)
Tax	(6,343)	(3,158)	100.8	(25,453)	(75.1)
PAT	16,827	11,122	51.3	(1,121)	(1,601.3)

Source: Company, YES Sec – Research

## Exhibit 3: Business Data

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Advances	5,763,725	5,613,408	2.7	5,215,937	10.5
Large/Mid-corporate	2,101,140	2,055,560	2.2	1,870,000	12.4
SME	605,730	571,480	6.0	613,710	(1.3)
Retail	3,056,850	2,986,360	2.4	2,732,230	11.9
Home Loans	1,100,466	1,075,090	2.4	1,010,925	8.9
Rural Lending	366,822	358,363	2.4	355,190	3.3
Auto Loans	397,391	388,227	2.4	327,868	21.2
PL + CC	550,233	537,545	2.4	464,479	18.5
Others	641,939	627,136	2.4	573,768	11.9
Total Deposits	6,354,543	6,281,503	1.2	5,839,585	8.8
CA	1,000,990	804,390	24.4	791,380	26.5
SA	1,806,890	1,763,180	2.5	1,609,160	12.3
Others	3,546,663	3,713,933	(4.5)	3,439,045	3.1
Investments	2,002,899	1,873,231	6.9	1,617,154	23.9
Borrowings	1,312,073	1,428,361	(8.1)	1,089,454	20.4

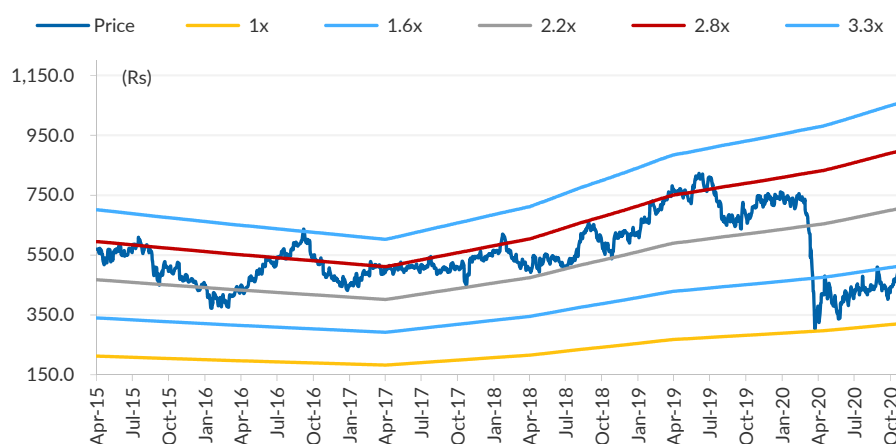
Source: Company, YES Sec – Research

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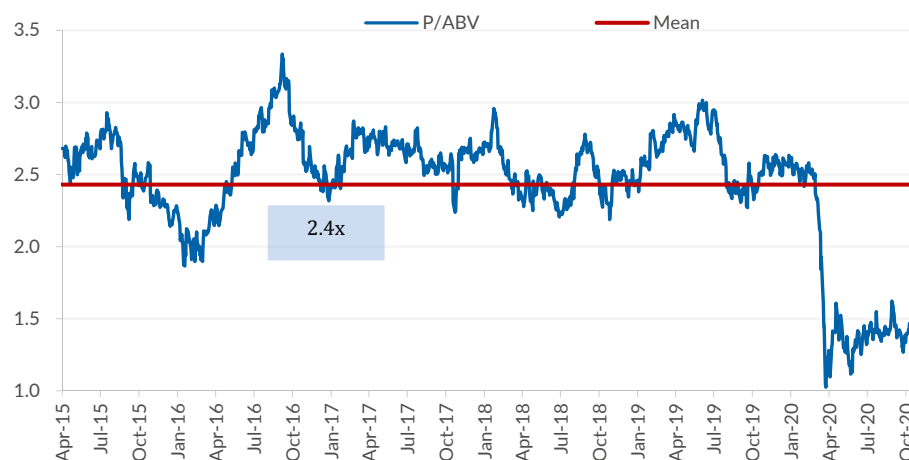
**Exhibit 4: Key Ratios**

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	3.6	3.4	0.2	3.5	0.1
Yield on advances	8.6	8.9	(0.3)	9.4	(0.8)
Yield on investments*	6.4	6.9	(0.5)	6.8	(0.4)
Cost of Funds*	4.5	4.9	(0.4)	5.5	(0.9)
CASA	44.2	40.9	3.3	41.1	3.1
C/D (x)	90.7	89.4	1.3	89.3	1.4
Non-int. inc./Int. exp.	43.6	27.1	16.5	41.7	1.8
Cost to Income	38.0	38.9	(0.9)	40.5	(2.4)
RoE	8.0	5.7	2.2	(0.7)	8.6
RoA	0.7	0.5	0.3	(0.1)	0.8
CAR	18.9	17.3	1.6	18.2	0.7
Gross NPA	4.2	4.7	(0.5)	5.0	(0.9)
Net NPA	1.0	1.2	(0.3)	2.0	(1.0)

Source: Company, YES Sec – Research; \* Calculated

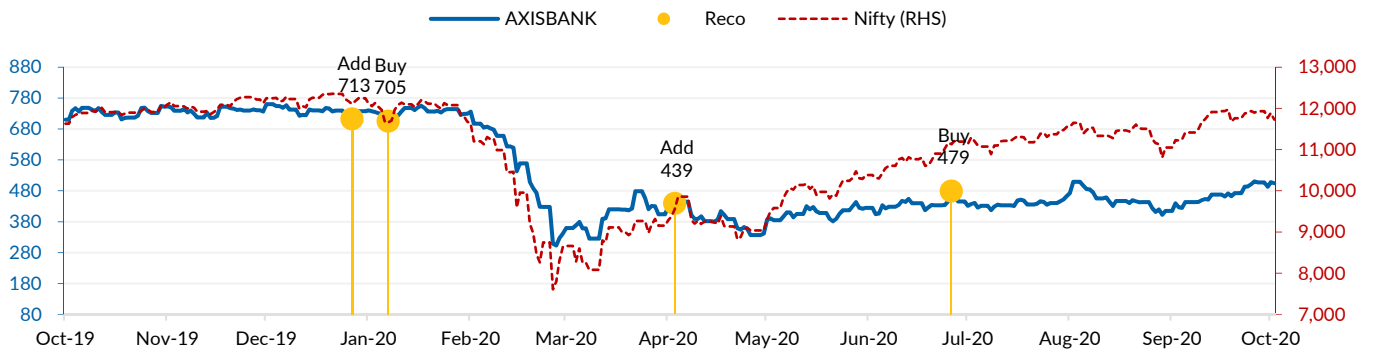
**Exhibit 5: 1-year rolling P/ABV band\***


Source: Company, YES Sec – Research; \*Price not adjusted for subsidiaries value

**Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean\***


Source: Company, YES Sec – Research; \*Price not adjusted for subsidiaries value

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