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Axis Bank

Strong Performance

Banks & Finance	Sharekhan code: AXISBANK	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 699**	
Price Target: **Rs. 900**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

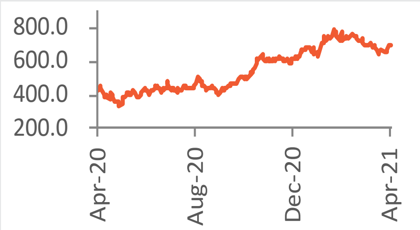
Company details

Market cap:	Rs. 214256 cr
52-week high/low:	Rs. 800/333
NSE volume: (No of shares)	226.8 lakh
BSE code:	532215
NSE code:	AXISBANK
Free float: (No of shares)	264.4 cr

Shareholding (%)

Promoters	13.5
FII	51.4
DII	17.7
Others	17.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	4.8	48.3	-6.3
Relative to Sensex	-0.6	6.8	27.3	-23.0

Sharekhan Research, Bloomberg

Summary

- Axis Bank results for Q4FY2021 were strong with operational results ahead of expectations. Asset quality improved sequentially compared to proforma GNPA/NNPA and is a key positive.
- The front-loading of provisions of previous quarters showing good results, hence there was sequential decline in provisions which indicates well-placed asset quality. Bank's coverage ratio stands at 120% of GNPA
- Management's commentary on growth and asset quality for FY2022E offers confidence; the stock trades at 2.2x/2.0x its FY2022E/FY2023E ABVPS.
- We maintain a Buy rating on the stock with an unchanged PT of Rs. 900.

Axis Bank's results for Q4FY2021 were strong with operational results ahead of expectations. Asset quality improved sequentially compared to proforma GNPA/NNPA and is a key positive. Net interest income (NII) grew by 11% y-o-y to Rs. 7,554 crore and was in-line with estimates. Operating profit grew by 17% y-o-y to Rs. 6,864 crore, up 12.6% q-o-q, better than estimates. The front-loading of provisions seen in Q3FY2021 helped; and the sequential decline in provisions, indicates well-placed asset quality. Therefore, PAT at Rs. 2,677 crore, up 140% q-o-q, in Q4FY2020 was a loss, but ahead of expectations. Net interest margin declined marginally at 3.56% (down 3 bps from 3.59% for Q3FY2021). Advances growth is improving, but is still at sub-par levels. Loan book (including TLTRO investments) grew by 12% y-o-y, of which retail loans grew by 10% y-o-y and 7% q-o-q. Retail disbursements rose to all-time highs. Retail disbursements for the quarter were at new all-time highs. Axis Bank's GNPA improved sequentially from proforma GNPAs, which is a positive. Reported GNPA/NNPA at 3.7%/1.05% versus proforma GNPA/NNPA of 4.6%/1.2% for FY2021. Credit cost for Q4FY2021 (net of CBG provisioning policy change) stands at 1.21% as compared to 2.77% at Q4FY2020. Cumulative provisions (standard + additional other than NPA) translate to 1.95% of the bank's standard loans. On an aggregated basis (specific + standard + additional + COVID-19), the bank's coverage ratio stands at 120% of GNPA at the end of March 2021. 85% of corporate book is now rated A- and above with 94% of incremental sanctions in FY2021 being to corporates rated A- and above. Management commentary was positive and indicated FY2022E to be a strong year for growth and profitability. The bank has completed in FY2021 with minimal residual provisions. Axis Bank is well-capitalised with a strong CRAR (Tier1 at 15.4%), helped by lower growth in Risk Weighted Assets (RWA) and the recent fund-raising. Its digital prowess, improving business traction across segments, normalised collection efficiency, and business strengths indicate an improving outlook. We maintain Buy on the stock with an unchanged price target (PT) of Rs. 900.

Key Positives:

- Healthy asset-quality performance, with lower fresh slippages at Rs. 5,285 crore (was Rs. 7,993 crore in Q3) and upgrades and recovery at Rs. 3,462 crore (versus Rs. 2,162 crorein Q3). This is despite the bank reverting back to IRAC-based NPA recognition in present quarter.
- Healthy traction seen in fee income for Q4FY2021, which was up 15% y-o-y and 16% q-o-q. Retail fees grew by 16% y-o-y and 17% q-o-q and constituted 64% of the bank's total fee income. The corporate and commercial banking fee grew by 14% y-o-y and 15% q-o-q.
- Disbursements in the consumer segment were up 45% y-o-y and 44% q-o-q, rural disbursements grew by 47% y-o-y and 47% q-o-q. Corporate loans (including TLTRO investments) grew by 16% y-o-y and 9% q-o-q, while SME loan book grew by 13% y-o-y and 10% q-o-q.

Key Negatives:

- NIMs declined marginally (by 3 bps) on a sequential basis, even though asset-quality performance was strong for the bank as NIM for Q3FY2021 had 8 bps benefit (due to Income Tax refund), hence there was not relative basis NIM improvement.

Our Call

Valuation – Axis Bank is available at 2.2x/2.0x its FY2022E/FY2023E ABVPS. We believe valuations are reasonable and there is potential for re-rating as earnings pickup and economic scenario normalises. A conservative provisioning policy, comfortable capitalisation, overall franchise value, and a high provision coverage ratio (PCR) are positives, which will help the bank ride over medium-term challenges and provide support to growth and valuations. Completion of the deal with Max Financial Services and other bancassurance partnerships augur well for fee income sustainability and growth in the long run. We maintain Buy on the stock with an unchanged PT of Rs. 900.

Key Risks

Prolonged uncertainty due to intermittent lockdowns may impact growth, and rise in NPAs in unsecured and other retail segments can pose a risk to profitability.

Valuation Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Net interest income	21,708	25,206	24,934	27,330	30,155
Net profit	4,676	1,627	5,485	9,392	10,024
EPS (Rs)	18.2	5.8	19.4	33.3	35.5
PE (x)	38.5	121.4	36.0	21.0	19.7
Adj. book value (Rs./share)	213.3	263.1	297.3	321.9	347.9
P/ABV (x)	3.3	2.7	2.4	2.2	2.0
RoE (%)	7.2	2.1	6.1	9.5	9.4
RoA (%)	0.6	0.2	0.5	0.8	0.7

Source: Company Data; Sharekhan estimates;

Key Concall highlights of Axis Bank

Pandemic impact: The bank's building blocks are in place and can continue to gain market share. The pandemic will have a near to medium-term impact on the company, but the bank has more robust preparedness than earlier.

Security receipts: The bank has provided for all security receipts (SRs) and the carrying value is NIL now.

Guidance: The bank has not provided guidance as the pandemic situation is still dynamic.

Retail slippages: The bank did not restructure most of the retail slippages during 9MFY2021 as they were due to COVID-19. Annualised slippages is 2.73% and more came from the cards business. Moreover, bank has not sold of any portfolio to any ARC etc.

Employee cost: There were one-off items due to social security code (Rs. 218 crore). The bank may be the only bank that has taken that since the changes have not been gazetted as of yet.

Asset quality for retail: Net slippage for retail is Rs. 7,000 crore for FY2021 and ~Rs. 3,000 crore for Q4.

SME slippages: SME slippages for Q4FY2021 was Rs. 94 crore.

NIMs had one-off for Q4FY2020: NIM had 8 bps benefit in Q3 due to Income Tax refund, hence there was not relative basis NIM improvement.

Retail business growth: Focus on growing retail business form branches continues, and retail liability business from branches stood at 58% for FY2021 compared to 47% in FY2020.

LCR Ratio: The bank will maintain LCR above the regulatory limit.

Margins: It is a matter of time, when industry credit demand comes back. The bank will participate for some low-margin business in the corporate book, but it will try to gain on fee income (more granular fees for services such as FX and LCs, where the bank wants to gain market share).

NIM levers: The bank has levers on marginal cost of deposits as well as product mix lever with which it will look to manage its margins. Moreover, tailwinds such as CASA, repricing, and asset-quality improvement will provide NIM support.

Max Life: Axis Bank completed the stake acquisition in Max Life Insurance Company Limited (Max Life) earlier this month and now together with its subsidiaries, Axis Capital and Axis Securities, owns 12.99% stake in the company and is a co-promoter of the company. The bank has three nominee directors on the board of Max Life. It is too early to comment on the changes to be done.

Credit Card: The bank wants to grow with its own as well as partner customers (such as Google and Flipkart).

Provision: The bank currently carries provisions of Rs. 12,000 crore, Rs. 5,000 for COVID-19 risk, Rs. 6,5000 for standard assets. The bank will be top-up or release depending on the performance of the asset quality.

Other retail book: The others segment includes gold loan, loan against business etc. loans.

SME book: It is diversified book and average ticket size is Rs. 5crore, sourced across India. The book has held up well despite challenges of the pandemic etc. The bank is comfortable in growing the book.

Corporate banking: The bank originates 90+% loans at A- or better. Hence, the health is good. Ticket size is Rs. 40 crore-45 crore for the segment and Rs. 60 crore-65 crores for existing customers.

Results Rs cr

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %
Interest income	15,545.2	16,234.1	-4.2	15,498.4	0.3
Interest expense	7,990.2	9,426.4	-15.2	8,125.5	-1.7
Net interest income	7,555.0	6,807.7	11.0	7,372.9	2.5
Non-interest income	4,668.3	3,985.5	17.1	3,776.0	23.6
Net total income	12,223.3	10,793.2	13.2	11,148.9	9.6
Operating expenses	5,358.6	4,942.1	8.4	5,053.3	6.0
Pre-provisioning profit	6,864.7	5,851.1	17.3	6,095.6	12.6
Provisions	3,295.0	7,730.0	-57.4	4,604.3	-28.4
Profit before tax	3,569.7	-1,878.9	NA	1,491.3	139.4
Tax	892.6	-491.1	NA	374.6	138.3
Profit after tax	2,677.1	-1,387.8	NA	1,116.7	139.7

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Credit growth yet to pick up, private banks placed better

System-level credit offtake, which is still subdued, is now improving, with credit growth of over 6% in the latest fortnight. On the other hand, deposits rose by ~12%, which indicate a healthier economic scenario. Moreover, the accommodative stance of the Reserve Bank of India (RBI), resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, CE is likely to be a function of book quality, client profile, as well as economic pickup. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with improved capitalisation and strong asset quality (with high coverage and provisions buffers), are structurally better placed to take-off once the situation normalises.

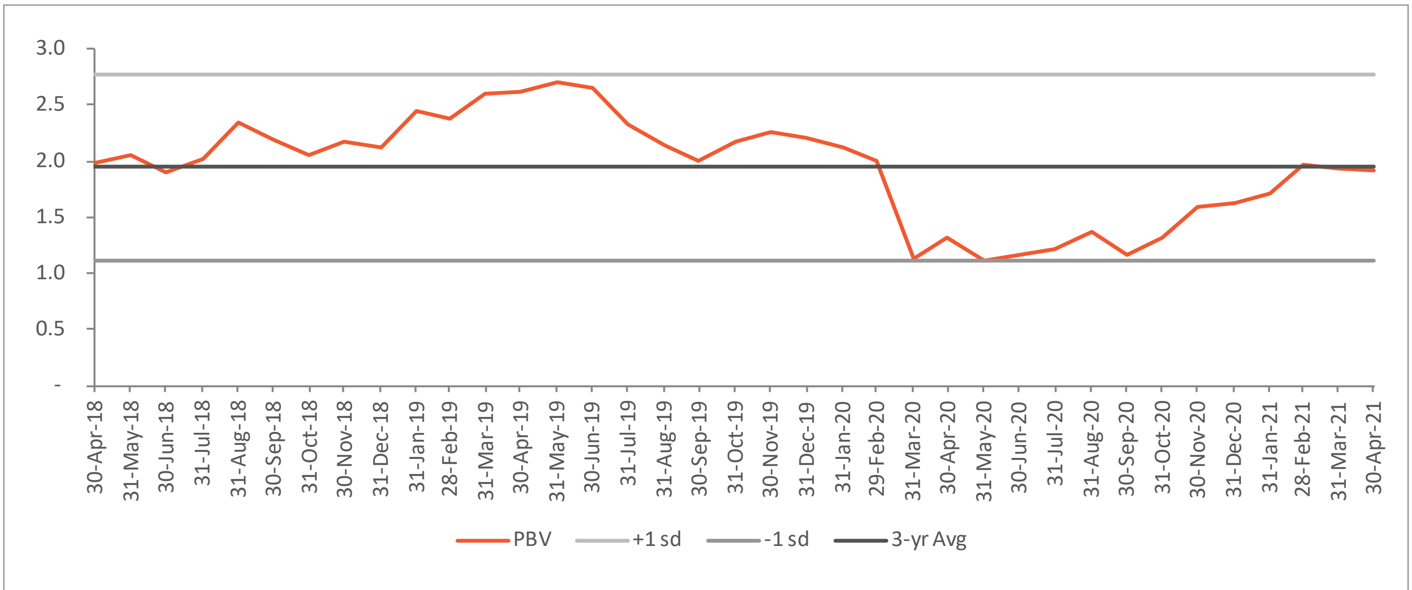
■ Company outlook - Looks promising

We believe with Axis Bank's strong positioning, across retail, business banking, and corporate with a pan-India presence, we expect the bank is likely to see lesser growth challenges as and when it starts to unwind its cautious stance. Axis Bank has tightened underwriting standards and oversight and has now been front-loading the provisions, which we believe is a positive and allows it to target growth in FY2022E, unburdened from legacy issues. In the retail segment too, along with tighter underwriting criteria across product lines, CE has been strengthened. The strong liabilities segment (led with retail term and CASA deposits) places it at a strong position with margin cushions. We believe while Axis Bank is being prudent with a provision buffer, it is a long-term positive and will help to provide investor comfort.

■ Valuation - Maintain Buy with a price target of Rs. 900

Axis Bank is available at 2.2x/2.0x its FY2022E/FY2023E ABVPS. We believe valuations are reasonable and there is potential for re-rating as earnings pick up and the economic scenario normalises. A conservative provisioning policy, comfortable capitalisation, the overall franchise value, and a high PCR are positives, which will help the bank ride over medium-term challenges and provide support to growth and valuations. The completion of the deal with Max Financial Services and other bancassurance partnerships augurs well for fee income sustainability and growth in the long run. We maintain Buy on the stock with an unchanged PT of Rs. 900.

One-year forward P/BV (x) band



Source: Bloomberg, Sharekhan Research

Peer Comparison

Particulars	CMP (Rs / Share)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Axis Bank	699	1.9	1.8	21.0	19.7	0.8	0.7	9.5	9.4
ICICI Bank	599	2.5	2.2	20.4	16.4	1.3	1.4	12.7	14.0
HDFC Bank	1439	3.5	3.0	20.2	18.1	2.0	1.9	18.2	17.8

Source: Company, Sharekhan Research

About company

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments, covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank has 11 subsidiaries, which contribute and benefit from the bank's strong market position across categories.

Investment theme

Axis Bank has a well-diversified loan book having strengths in both retail and corporate segments. The bank's liability profile has improved significantly, which would be helpful in sustaining margins at healthy levels. Of late, loan book quality is improving, which we believe is positive for its profitability and growth going forward. However, we believe given the comfortable liquidity, overall franchise value, healthy capitalisation levels, and a high PCR (PCR), Axis Bank will be able to ride over medium-term challenges. The deal with MFS is also a long-term positive that can yield considerable benefits. At present, we believe risk reward is favourable for long-term investors. Axis Bank has shared a strong business relationship with Max Life for over a decade now distributing the long-term savings and protection products to nearly 20 lakh customers, generating aggregate total premium of over Rs. 40,000 crore through this partnership. Both companies have already invested extensively in product and need-based sales training. We believe this strategic partnership would further strengthen and deepen its relationship, leading to better integration and alignment of teams..

Key Risks

Prolonged uncertainty due to intermittent lockdowns may impact growth, and rise in NPAs in unsecured and other retail segments can pose a risk to profitability.

Additional Data

Key management personnel

Mr Amitabh Chaudhry	MD & CEO
Mr Rajiv Anand	Excecutive Director
Mr Puneet Sharma	President & CFO
Mr Deepak Maheshwari	Group Excecutive & CCO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.29
2	Dodge & Cox	3.57
3	Unit Trust of India	3.37
4	SBI Funds Management Pvt Ltd	3.22
5	BC ASIA INVESTMENTS	3.12
6	BlackRock Inc	2.94
7	ICICI Prudential Asset Management	2.57
8	BANK OF NEW YORK MELLON CORP/THE	2.45
9	Vanguard Group Inc/The	2.44
10	FMR LLC	2.43

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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