

AXIS Bank

Refer to important disclosures at the end of this report

Growth falters again, but asset quality trends better

- Despite slower growth, lower NIMs and higher opex weighing on PPOp (down 11% yoy), Axis reported a PAT beat at Rs31.3bn (est: Rs27.5bn) mainly due to contained provisions. Growth disappointed again, but asset quality trends were better vs. peers. GNPA ratio was down 32bps qoq at 3.5%, while restructured pool stood at 0.64% (+31bps qoq) of loans.
- Credit growth remains an irritant (+10% yoy), lagging peers like ICICI (17%)/HDFCB/KMB (15%). However, Axis expects to improve the growth trajectory with the help of retail/SME businesses and a gradual pickup in large corporates. NIM too remains an irritant, but Axis pins hope on better growth/change in the product mix and declining PSL drag.
- We believe the bank has undergone a major transformational journey in the past few years, fortifying the balance sheet, building strong capital/provision buffers and revving up the digital banking platform and even the subsidiaries. However, it will have to deliver on growth/core-profitability to re-rate from hereon.

Factoring in slower-than-expected growth/NIMs, we trim our earnings estimates for FY22-24 by 1-3%. However, we still expect the bank's RoA/RoE to improve from a low of 0.7%/7% to 1.7%/17% in FY24E. Retain Buy with a revised TP of Rs1020 (Rs960 earlier), valuing the core bank at 2x Dec'23E ABV and subs/investment at Rs75.

Growth falters again and so do NIMs, but Axis assures of better outcomes in 2H: Overall credit growth was moderate at +10% yoy/1% qoq to Rs6.2trn, mainly due to the corporate drag. Retail growth improved to 16% yoy (14% yoy in Q1), while SME/Mid-corporate saw healthy 18%/32% yoy growth. Corporate book declined 5% qoq, owing to continued corporate deleveraging and lower working capital utilization. Management believes that the private capex cycle has bottomed out and H2FY22 onward, its focus will be on growing granular working capital and better-rated corporate book. Further, it plans to accelerate growth in high-margin unsecured products like MFI/Cards/PL to drive up NIMs, which otherwise remain an irritant (down 7bps qoq) to 3.4%.

Axis continues to prefer to recognize stress instead of deferring and holding up provision buffers: Gross slippages were high at Rs55bn (3.9% of loans) but were largely offset by better recoveries/w-offs, leading to a 32bps qoq decline in GNPA ratio to 3.5%. Overall restructuring pool increased by 31bps qoq but remained low at 0.64% (vs. 1.3% for ICICI, 1.7% for HDFCB and 0.54% for Kotak) as Axis followed the strategy of recognising the pain upfront. The incremental restructuring pipeline is negligible at Rs1.2bn (0.02%). Axis carries a provision of Rs15.3bn/24% PCR on the restructured pool in addition to a Covid provision buffer of Rs50bn/0.8% of loans. The corporate watchlist (BB & Below) book, including non-fund exposure to NPAs, declined marginally by 10bps qoq to 2.1% of loans.

Outlook and valuations: Factoring in slower-than-expected growth/NIMs, we trim our earnings estimates for FY22-24 by 1-3%. However, we still expect its RoA/RoE to improve from a low of 0.7%/7% to 1.7%/17% in FY24E. Retain Buy with a revised TP of Rs1020 (Rs960 earlier), valuing the core bank at 2x Dec'23E ABV and subs/investment at Rs75. Key risks to our call include 1) slower growth and higher NPA formation due to Covid-induced disruption, and 2) any sign of management instability, which has moderated a bit recently.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	407,428	440,773	484,381	562,664	673,403
Net profit	16,272	65,886	129,232	176,497	227,692
EPS (Rs)	6.0	22.4	42.2	57.6	74.3
ABV (Rs)	306.1	353.3	372.2	433.6	513.0
RoA (%)	0.2	0.7	1.2	1.5	1.7
RoE (%)	2.2	7.1	11.9	14.2	15.7
PE (x)	139.5	37.6	20.0	14.6	11.3
P/ABV	2.6	2.2	2.1	1.8	1.5

Source: Company, Emkay Research

CMP	Target Price
Rs 842 as of (October 26, 2021)	Rs 1,020 (▲) 12 months
Rating	Upside
BUY (■)	21.2 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(3.3)/(3.0)
Target Price change (%)	6.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	42.2	57.6
Consensus	42.8	56.4
Mean Consensus TP (12M)	Rs 885	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,067
52 Week H/L	881 / 482
M Cap (Rs bn/USD bn)	2,582 / 34.44
Daily Avg Volume (nos.)	8,474,926
Daily Avg Turnover (US\$ mn)	88.2

Shareholding Pattern Sep '21

Promoters	11.4%
FIIs	50.1%
DIIIs	25.4%
Public and Others	13.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	11	20	71
Rel. to Nifty	3	(4)	(4)	11

Relative price chart



Source: Bloomberg

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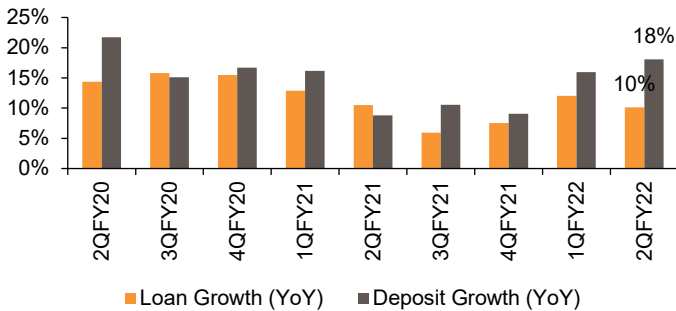
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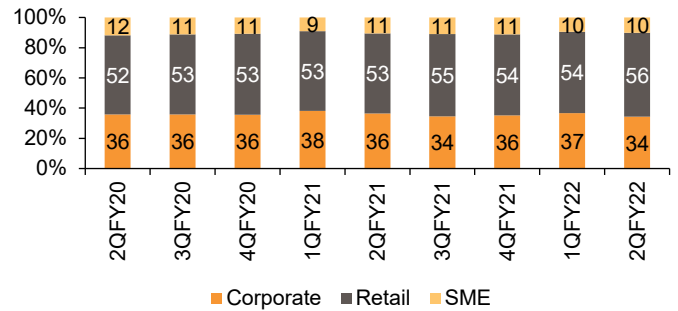
Story in Charts

Exhibit 1: Credit growth moderates due to corporate drag



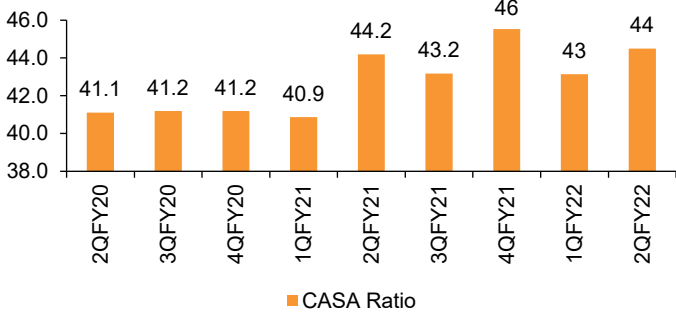
Source: Company, Emkay Research

Exhibit 2: Retail share improves to 56%, but product mix remains tilted toward secured loans



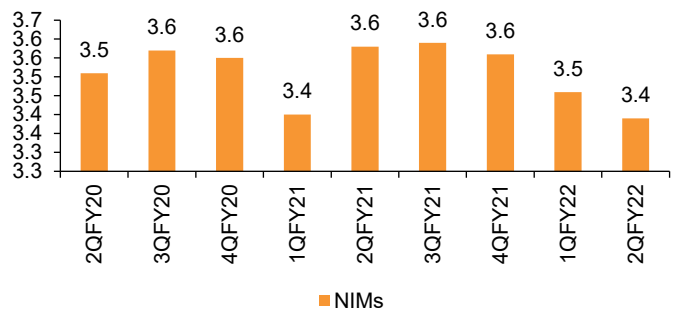
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains healthy at 44%



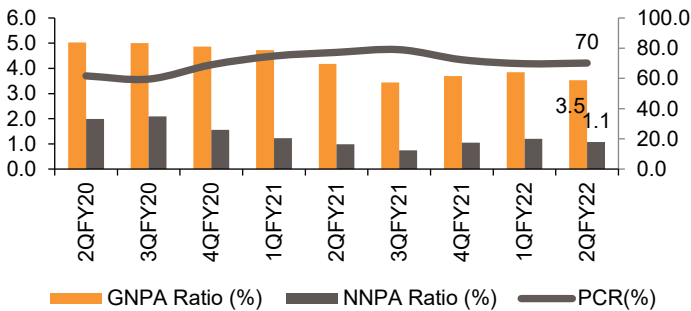
Source: Company, Emkay Research

Exhibit 4: Excess B/sheet liquidity, unfavorable portfolio mix and PSL drag continue to weigh on NIMs



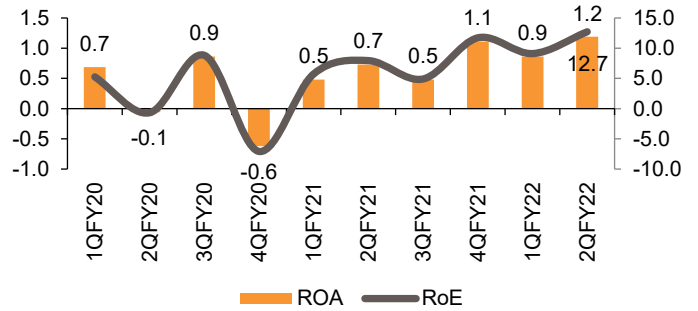
Source: Company, Emkay Research

Exhibit 5: Better recoveries offset slippages, leading to 32bps decline in GNPA ratio



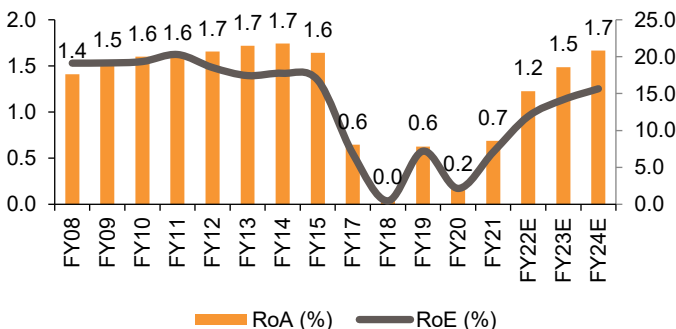
Source: Company, Emkay Research

Exhibit 6: Contained provisions offset higher opex and lower NIM delivering better return ratios



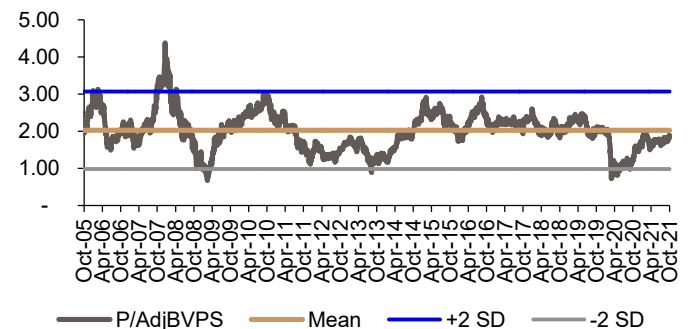
Source: Company, Emkay Research

Exhibit 7: Expect return ratios to meaningfully improve led by better growth in FY23-24E



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.9x one year forward ABV, adjusted for subsidiaries valuation



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	116,986	123,254	112,199	-5%	4%	Lower NIM/growth leads to a miss on net income
PPOP	59,281	71,720	68,015	-17%	-13%	Higher opex drives further miss on PPOP
PAT	31,332	27,549	29,578	14%	6%	However, lower LLP leads to a PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	507,377	484,381	-4.5%	587,684	562,664	-4.3%	698,628	673,403	-3.6%
PPOP	296,483	258,828	-12.7%	344,445	309,703	-10.1%	419,248	391,615	-6.6%
PAT	133,644	129,232	-3.3%	181,904	176,497	-3.0%	230,187	227,692	-1.1%
EPS (Rs)	43.6	42.2	-3.3%	59.3	57.6	-3.0%	75.1	74.3	-1.1%
BV (Rs)	378.1	376.2	-0.5%	440.2	436.0	-1.0%	518.1	512.8	-1.0%

Source: Emkay Research

Exhibit 11: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	9.2	13.4	17.3	20.3
Deposit Growth %	10.5	12.9	15.8	19.7
NIM %	3.4	3.4	3.4	3.5
GNPA %	3.5	3.2	2.8	2.4
Credit Cost %	2.5	1.3	0.9	0.9

Source: Emkay Research

Exhibit 12: Key trends and ratios

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Loans (Rs mn)	5,215,937	5,501,377	5,714,242	5,488,455	5,645,848	5,827,539	6,143,994	6,148,737	6,217,193
growth YoY %	14.4	15.8	15.5	10.4	8.2	5.9	7.5	12.0	10.1
Composition %									
- Corporate	35.9	35.8	35.7	38.1	37.2	34.5	35.7	36.6	34.4
- SME/BB	11.8	11.2	10.8	9.0	10.7	11.0	11.4	9.5	10.0
- Retail	52.4	53.0	53.4	52.9	54.1	54.6	54.4	53.9	55.6
Liability Profile %									
Deposit (Rs mn)	5,839,585	5,916,755	6,401,049	6,156,550	6,236,666	6,541,403	6,979,853	7,138,620	7,362,855
growth YoY %	21.7	15.1	16.7	13.9	6.8	10.6	9.0	16.0	18.1
CASA	41.1	41.2	41.2	41.7	45.0	43.2	45.5	43.1	44.5
CA	13.6	13.2	14.1	13.1	16.1	14.2	16.2	13.6	14.2
SA	27.6	27.9	27.1	28.6	29.0	29.0	29.3	29.6	30.3
NIM %	3.5	3.6	3.6	3.4	3.6	3.6	3.6	3.5	3.4
NIM %- Domestic	3.6	3.7	3.7	3.6	3.7	3.7	3.7	3.6	3.5
Asset Quality (Rs mn)									
GNPA %	5.4	5.3	5.1	5.2	4.6	3.7	4.0	4.1	3.8
NNPA %	2.0	2.1	1.6	1.2	1.0	0.7	1.1	1.2	1.1
PCR % - Specific	61.7	59.6	69.0	74.8	77.2	79.0	72.4	69.8	70.2
Slippages %	4.37	5.23	3.17	1.78	0.71	0.02	8.63	4.75	3.87
Capital Adequacy									
CAR %	18.2	18.2	17.5	17.5	19.4	18.7	19.1	19.0	20.0
Tier I %	15.0	15.0	14.5	14.6	16.5	15.9	16.5	16.5	17.5
ROE Decomposition % (on total assets)									
NII	3.5	3.7	3.8	3.8	3.9	3.8	3.8	3.7	3.7
Other Income (Ex Treasury)	1.8	1.9	2.1	1.1	1.5	1.8	1.9	1.3	1.5
Opex	2.3	2.6	2.8	2.0	2.3	2.6	2.7	2.4	2.7
PPOP	3.4	3.3	3.3	3.2	3.6	3.2	3.4	3.0	2.8
PBT	1.4	1.3	(1.0)	0.8	1.2	0.8	1.8	1.4	1.9
Tax	1.5	0.3	(0.3)	0.2	0.3	0.2	0.4	0.3	0.5
ROA	(0.1)	0.9	(0.6)	0.5	0.8	0.5	1.1	0.9	1.2
Leverage (x)	10.2	9.6	10.1	10.5	9.7	9.3	9.6	9.7	9.7
ROE	(0.6)	8.3	(6.5)	5.2	7.3	4.5	10.7	8.4	11.7

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	252,062	292,391	324,183	373,600	446,232
Other income	155,366	148,382	160,198	189,064	227,170
Fee income	96,919	93,589	106,691	128,030	157,477
Net income	407,428	440,773	484,381	562,664	673,403
Operating expenses	173,046	183,751	225,553	252,962	281,788
Pre provision profit	234,382	257,022	258,828	309,703	391,615
PPP excl treasury	212,659	233,999	238,108	287,946	368,770
Provisions	185,339	168,963	86,127	73,839	87,336
Profit before tax	49,042	88,059	172,701	235,864	304,279
Tax	32,770	22,173	43,469	59,367	76,587
Tax rate	67	25	25	25	25
Profit after tax	16,272	65,886	129,232	176,497	227,692

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,643	6,128	6,133	6,133	6,133
Reserves	843,835	1,009,903	1,146,911	1,330,734	1,566,285
Net worth	849,478	1,016,030	1,153,044	1,336,867	1,572,418
Deposits	6,401,049	7,073,061	7,983,727	9,241,432	11,066,595
Borrowings	1,201,238	1,183,832	1,243,023	1,180,872	1,121,828
Total liabilities	9,151,648	9,961,183	11,146,834	12,608,516	14,730,876
Cash and bank	849,592	518,086	595,798	685,168	787,943
Investments	1,567,343	2,261,196	2,463,588	2,579,508	2,910,665
Loans	5,714,242	6,237,202	7,072,211	8,296,580	9,983,895
Others	854,252	803,037	854,533	939,678	976,912
Total assets	9,151,648	9,961,183	11,146,834	12,608,516	14,730,876

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.3	3.4	3.4	3.4	3.5
Non-ll/avg assets	1.8	1.6	1.5	1.6	1.7
Fee income/avg assets	1.1	1.0	1.0	1.1	1.2
Opex/avg assets	2.0	1.9	2.1	2.1	2.1
Provisions/avg assets	2.2	1.8	0.8	0.6	0.6
PBT/avg assets	0.6	0.9	1.6	2.0	2.2
Tax/avg assets	0.4	0.2	0.4	0.5	0.6
RoA	0.2	0.7	1.2	1.5	1.7
RoAE	2.2	7.1	11.9	14.2	15.7
GNPA (%)	4.5	3.5	3.2	2.8	2.4
NNPA (%)	1.6	1.0	1.0	0.9	0.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.0	22.4	42.2	57.6	74.3
BVPS	315.0	345.3	376.2	436.0	512.8
ABVPS	306.1	353.3	372.2	433.6	513.0
DPS	0.2	0.0	8.0	12.0	16.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	139.5	37.6	20.0	14.6	11.3
P/BV	2.8	2.4	2.3	1.9	1.6
P/ABV	2.6	2.2	2.1	1.8	1.5
P/PPOP	9.5	9.4	9.4	7.8	6.2
Dividend Yield (%)	0.0	0.0	1.0	1.4	1.9

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.1	16.0	10.9	15.2	19.4
PPOP	23.3	9.7	0.7	19.7	26.4
PAT	(65.2)	304.9	96.1	36.6	29.0
Loans	15.5	9.2	13.4	17.3	20.3

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
NII	73,261	73,728	75,549	77,603	79,002
NIM(%)	3.6	3.6	3.6	-	-
PPOP	66,598	60,955	68,646	61,863	59,281
PAT	16,828	11,166	26,771	21,602	31,332
EPS (Rs)	5.50	3.65	8.74	7.05	10.22

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	14.5	13.6	13.3	11.4	11.4
FII	48.2	49.8	50.2	51.2	50.1
DII	23.4	23.0	22.7	23.7	25.4
Public and Others	13.9	13.7	13.9	13.8	13.2

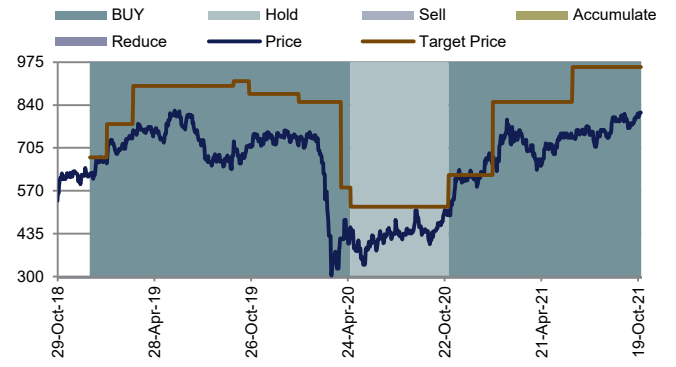
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
27-Jul-21	732	960	12m	Buy	Anand Dama
18-Jun-21	736	960	12m	Buy	Anand Dama
28-Apr-21	708	850	12m	Buy	Anand Dama
28-Jan-21	671	850	12m	Buy	Anand Dama
20-Jan-21	676	850	12m	Buy	Anand Dama
29-Oct-20	494	620	12m	Buy	Anand Dama
22-Jul-20	479	520	12m	Hold	Anand Dama
29-Apr-20	439	520	12m	Hold	Anand Dama
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
9-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama
25-Apr-19	741	900	12m	Buy	Anand Dama
20-Mar-19	756	900	12m	Buy	Anand Dama
19-Mar-19	761	900	12m	Buy	Anand Dama
29-Jan-19	661	780	12m	Buy	Anand Dama
28-Dec-18	625	675	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	21.37	21.37	0.0%	0	100.00
Axis Bank	2.21	2.32	5%	10	10.85
AU Small Finance Bank	0.26	0.20	-23%	-6	0.94
Bandhan Bank	0.20	0.20	0%	0	0.95
Bank of Baroda	0.17	0.17	0%	0	0.80
Canara Bank	0.11	0.00	-100%	-11	0.00
City Union Bank	0.13	0.13	1%	0	0.59
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20
Federal Bank	0.20	0.26	32%	6	1.21
HDFC Bank	6.95	7.09	2%	14	33.17
ICICI Bank	5.60	5.77	3%	18	27.01
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.68	0.78	15%	10	3.67
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.71	2.36	-13%	-35	11.04
Punjab National Bank	0.13	0.00	-100%	-13	0.00
RBL Bank	0.10	0.07	-26%	-3	0.34
State Bank of India	1.87	1.97	6%	11	9.23
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.05	0.00	-100%	-5	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	26-Oct-20	26-Apr-21	26-Jul-21	24-Sep-21	25-Oct-21
EAP - BFSI-Banks	100.0	84.4	110.7	119.5	130.0	141.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	83.0	108.6	117.0	127.2	138.6

*Performance measurement base date 1st April 2019

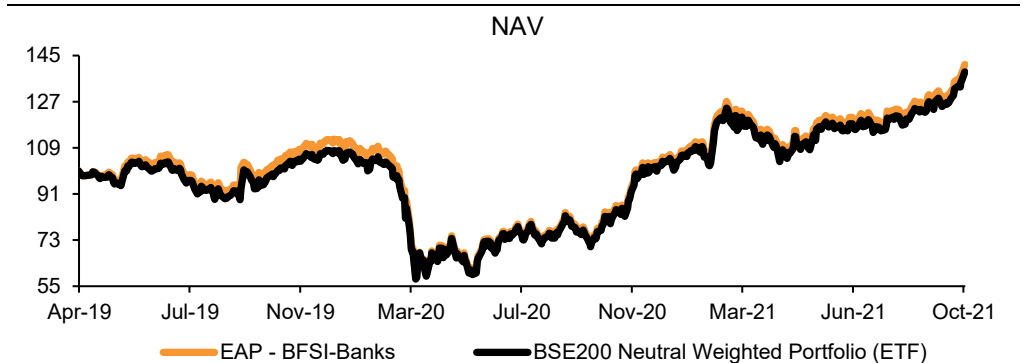
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.9%	18.4%	27.8%	67.6%
BSE200 Neutral Weighted Portfolio (ETF)	9.0%	18.5%	27.7%	67.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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