

CMP: ₹ 842

Target: ₹ 970 (15%)

Target Period: 12 months

October 27, 2021

BUY

## Gradual loan growth pick-up to aid recovery...

**About the stock:** Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 10.5 lakh crore as on September 2021.

- The bank has a large footprint across India with 4679 branches
- Retail and SME comprise ~66% of total loans

**Q2FY22 Results:** Axis reported mixed results. The outlook remains positive.

- NII up 7.8% YoY and 1.8% QoQ, NIMs down 7 bps QoQ to 3.39%
- Provisions down 60% YoY, PAT up 86% YoY ₹ 3133 crore
- Loan growth at 10.1% YoY to ₹ 6.2 lakh crore. Retail book up 17% YoY
- GNPA down 32 bps QoQ to 3.53%. R/S book up 31 bps at 0.64%

**What should investors do?** Axis Bank's share price has given over 65% return in past one year. We believe the bank's healthy capitalisation and provision buffer would aid smooth earnings traction.

- We retain our BUY rating on the stock

**Target Price and Valuation:** We value Axis Bank at ~2.4x FY23E ABV and revise target price at ₹ 970 from ₹ 900 earlier.

### Key triggers for future price performance:

- Strong capitalisation (CRAR at 19.2%, Tier-1 at 16.7%) to aid business growth
- Healthy cumulative provisions of 124% of GNPA provide comfort
- Stable performance on asset quality is a positive
- Expect RoA and RoE to reach 1.4% and 13% by FY23E, respectively

**Alternate Stock Idea:** Apart from Axis, in our coverage we also like HDFC Bank.

- HDFC Bank is a steady performer even during turbulent times and offers consistency along with strong operational matrix
- BUY with a target price of ₹ 2000



AXIS BANK

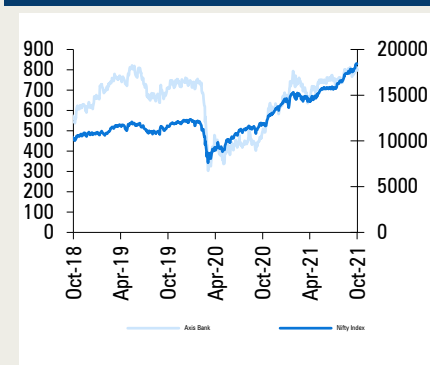
### Particulars

Particulars	Amount
Market Capitalisation	₹258300 crore
52 week H/L	866 /481
Net worth	₹ 103890 crore
Face value	₹ 2
DII Holding (%)	25.3
FII Holding (%)	51.4

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	14.8	16.0	13.6	11.7	11.6
FII	49.2	46.0	51.4	52.5	51.4
DII	23.9	24.4	24.4	24.3	25.3
Others	12.1	13.6	10.6	11.6	11.7

### Price Chart



### Recent Event & Key risks

- GNPA, NNPA down 32 bps and 12 bps QoQ to 3.53%, 1.08%, respectively
- Key Risk:** Prolonged impact of second Covid-19 wave may hurt asset quality

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### Key Financial Summary

₹ crore	FY19	FY20	FY21	4 year CAGR (FY17-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	21708	25206	29239	27%	33563	38936	15%
PPP	19005	23438	25702	21%	27592	32251	12%
PAT	4677	1627	6588	34%	12546	16148	57%
ABV (₹)	215.4	267.9	308.8		342.8	400.0	
P/E	46.3	146.0	39.2		20.6	16.0	
P/ABV	3.9	3.1	2.7		2.5	2.1	
RoA	0.6	0.2	0.7		1.2	1.4	
RoE	7.2	2.1	7.1		11.7	13.4	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Asset quality largely steady

- NII was up modestly at 7.8% YoY to ₹ 7900 crore on account of 19 bps YoY and 7 bps QoQ fall in NIMs to 3.39%. Margins were impacted negatively by 13 bps sequentially due to change in mix
- Other income was up 13% QoQ to ₹ 3798 crore, mainly due to 21% sequential rise in fee income
- C/I jumped sequentially to 49.3% vs. 44.4% QoQ due to rise in business activity
- Provisions during the quarter declined 60% YoY and 47.5% QoQ due to lower slippages and also partly helped by recoveries from bad debts. Thus PAT came in at ₹ 3133 crore, up 86% YoY
- Asset quality was largely steady as GNPA and NNPA declined QoQ by 32 bps and 12 bps, respectively, to 3.53% and 1.08%, but restructured book was up from 0.33% to 0.64%
- Covid-19 provisions were at ₹ 5012 crore. On an aggregated basis, provision coverage ratio (including specific + standard + additional + Covid provisions) stands at 124% of GNPA
- Credit growth for the quarter was at 10.1% YoY to ₹ 6.2 lakh crore, mainly driven by 16% YoY uptick in retail loans and 18% YoY rise in SME book, while corporate growth remained tepid
- Deposit growth was healthy at 18.1% YoY and 3.1% QoQ at ₹ 7.3 lakh crore

### Q2FY22 Earnings Conference Call highlights

- Added ~10300 staff in past one year, mostly for growth and technology
- A 30% opex rise due to volumes, 20% rise due to investment in technology,
- NIMs impacted by change in mix and increased LCR sequentially
- The management expects NIMs to improve led by low cost deposits, low slippages, slight reduction in LCR, etc
- Have not utilised any Covid-19 provisions
- Net slippages in retail was zero in September
- Total ~4% of balance sheet in RIDF, which has very low yield
- Also, 93% retail restructuring is secured
- Restructured book has overall provisions 24% with 100% provisions on unsecured lending
- Net slippages for SME book are negative for the quarter
- Check bounce rates were slightly higher than pre-Covid levels

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
BoB (BANBAR)	96	120	Buy	489	2.5	8.9	13.4	38.6	10.8	7.2	0.9	0.8	0.7	0.1	0.4	0.5	1.7	5.8	8.2		
SBI (STABAN)	506	540	Buy	4488	22.9	30.5	35.8	22	16.6	14.1	2.1	1.9	1.7	0.5	0.6	0.6	8.4	10.2	10.8		
Indian Bank (INDIBA)	187	180	Buy	174	26.6	32.9	46.7	7.0	5.7	4.0	0.9	0.9	0.8	0.6	0.6	0.8	9.9	10.4	13.5		
Axis Bank (AXIBAN)	842	970	Buy	2583	21.5	41.0	52.7	39.2	20.6	16.0	2.7	2.5	2.1	0.7	1.2	1.4	7.1	11.7	13.4		
City Union (CITUNI)	176	200	Buy	126	8.8	9.3	11.7	20.0	18.9	15.1	2.7	2.4	2.0	1.3	1.2	1.4	11.9	11.3	12.4		
Federal Bank (FEDBAN)	104	120	Buy	218	8.0	8.8	11.3	13.1	11.8	9.2	1.4	1.4	1.2	0.8	0.9	1.0	10.4	10.9	12.7		
HDFC Bank (HDFBAN)	1,656	2,000	Buy	9335	47.9	56.4	66.1	34.6	29.3	25.0	5.4	4.6	4.0	1.9	1.9	1.9	16.4	16.6	16.7		
IndusInd Bank (INDBA)	1,177	1,150	Buy	936	36.7	69.1	76.1	32.1	17.0	15.5	2.2	2.1	2.0	0.8	1.4	1.4	7.3	12.1	12.8		
CSB Bank (CSBBAN)	307	380	Buy	53	12.6	19.7	24.7	24.4	15.6	12.4	2.9	2.5	2.1	0.1	1.0	1.4	10.5	14.6	15.8		
Bandhan (BANBAN)	310	310	Hold	519	13.7	19.0	29.5	22.6	16.3	10.5	3.4	2.9	2.3	2.1	2.5	3.2	13.5	16.3	21.1		
IDFC First (IDFBAN)	49	60	Buy	306	0.8	0.6	2.9	61.5	83.0	16.8	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3		

Source: Company, ICICI Direct Research

We believe Axis Bank is poised to show steady improvement in operational parameters with selective and calibrated approach. Thus, we remain positive on the same.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
NII	7,900	8,047	7,326	7.8	7,760	1.8	Modest growth due to fall in margins
NIM (%)	3.39	3.60	3.58	-19 bps	3.46	-7 bps	NIMs impacted by 13 bps due to change in mix
Other Income	3,798	3,728	3,569	6.4	3,358	13.1	Fee income shows healthy 17% YoY growth
Net Total Income	11,699	11,775	10,895	7.4	11,119	5.2	
Staff cost	1,936	1,907	1,413	37.0	1,852	4.5	
Other Operating Expenses	3,835	3,142	2,823	35.9	3,081	24.5	Rise in Opex due to increased business activity
PPP	5,928	6,725	6,660	-11.0	6,186	-4.2	
Provision	1,735	2,878	4,343	-60.0	3,302	-47.5	Decline due to lower slippages and better recoveries
PBT	4,193	3,848	2,317	81.0	2,884	45.4	
Tax Outgo	1,060	851	634	67.1	724	46.4	
PAT	3,133	2,997	1,683	86.2	2,160	45.1	Lower credit cost aids profitability
Key Metrics							
GNPA	24,149	25,690	26,832	-10.0	25,950	-6.9	Decline sequentially with lower slippages and higher recoveries
NNPA	7,200	7,193	6,108	17.9	7,846	-8.2	
Credit	6,21,719	6,39,469	5,64,585	10.1	6,14,874	1.1	Largely driven by retail book
Deposit	7,36,286	7,42,416	6,23,667	18.1	7,13,862	3.1	CASA up sequentially by 6%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	33,731	33,563	-0.5	38,551	38,936	1.0
Pre Provision Profit	29,825	27,592	-7.5	34,305	32,251	-6.0
NIM(%) (calculated)	3.8	3.8	-1 bps	3.8	3.9	5 bps
PAT	14,104	12,546	-11.0	17,827	16,148	-9.4
ABV per share (₹)	347.8	342.8	-1.4	406.1	400.0	-1.5

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	11.6	14.7	12.1	15.0
Deposit Growth (%)	11.5	14.3	11.5	14.3
CASA ratio (%)	45.6	44.7	45.6	44.7
NIM Calculated (%)	3.8	3.9	3.8	3.8
Cost to income ratio (%)	42.4	41.3	39.4	38.5
GNPA (₹ crore)	23,934	21,746	23,954	21,766
NNPA (₹ crore)	5,344	2,442	5,347	3,769
Slippage ratio (%)	1.8	1.7	1.8	1.7
Credit cost (%)	1.5	1.2	1.5	1.2

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	54,986	62,635	63,645	74,378	83,875
Interest Expended	33,278	37,429	34,406	40,814	44,939
Net Interest Income	21,708	25,206	29,239	33,563	38,936
growth (%)	16.6	16.1	16.0	14.8	16.0
Non Interest Income	13,130	15,537	14,838	14,348	15,975
Net Income	34,839	40,743	44,077	47,912	54,911
Staff cost	4,747	5,321	6,164	7,078	8,737
Other operating Expense	11,086	11,984	12,211	13,241	13,923
Operating Profit	19,005	23,438	25,702	27,592	32,251
Provisions	12,031	18,534	16,896	10,752	10,576
PBT	6,974	4,904	8,806	16,841	21,675
Taxes	2,297	3,277	2,217	4,294	5,527
Net Profit	4,677	1,627	6,588	12,546	16,148
growth (%)	-1879.9	-65.2	304.9	90.4	28.7
EPS (₹)	18.2	5.8	21.5	41.0	52.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	257.2	282.2	306.4	306.4	306.4
EPS (₹)	18.2	5.8	21.5	41.0	52.7
BV (₹)	259.3	301.1	331.6	369.1	418.3
ABV (₹)	215.4	267.9	308.8	342.8	400.0
P/E	46.3	146.0	39.2	20.6	16.0
P/BV	3.2	2.8	2.5	2.3	2.0
P/ABV	3.9	3.1	2.7	2.5	2.1
Yields & Margins (%)					
Net Interest Margins	3.4	3.5	3.7	3.8	3.9
Yield on assets	8.5	8.7	8.1	8.3	8.3
Avg. cost on funds	5.1	5.0	4.2	4.7	4.7
Yield on average advances	8.8	9.1	8.1	8.8	8.9
Avg. Cost of Deposits	4.7	4.9	4.0	4.5	4.5
Quality and Efficiency					
Cost to income ratio	45	42	42	42	41
Credit/Deposit ratio	90.2	89.3	88.0	88.1	88.4
GNPA	5.3	4.7	3.7	3.1	2.5
NNPA	2.3	1.6	1.1	0.8	0.3
ROE	7.2	2.1	7.1	11.7	13.4
ROA	0.6	0.2	0.7	1.2	1.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	514	564	613	613	613
Reserves and Surplus	66162	84397	100990	112461	127534
Networth	66676	84961	101603	113074	128146
Deposits	548471	640105	697985	778362	889362
Borrowings	152776	147954	142873	130941	133148
Other Liabilities & Provisions	33073	42158	44336	43552	45369
Total	800997	915178	986798	1065929	1196026
Application of Funds					
Fixed Assets	4037	4313	4245	3217	3534
Investments	174969	156734	226120	268249	292402
Advances	494798	571424	614399	685548	786313
Other Assets	59988	85439	80304	55981	52891
Cash with RBI & call money	67205	97268	61730	52934	60885
Total	800997	915178	986798	1065929	1196026

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	15.9	14.3	7.8	8.0	12.2
Advances	12.5	15.5	7.5	11.6	14.7
Deposit	20.9	16.7	9.0	11.5	14.3
Total Income	20.0	14.8	0.4	13.1	12.5
Net interest income	16.6	16.1	16.0	14.8	16.0
Operating expenses	13.2	9.3	6.2	10.6	11.5
Operating profit	21.9	23.3	9.7	7.4	16.9
Net profit	NA	-65.2	304.9	90.4	28.7
Net worth	5.1	27.4	19.6	11.3	13.3
EPS	NA	-68.3	272.9	90.4	28.7

Source: Company, ICICI Direct Research

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Buy: >15%

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