Axis Bank

BUY

DART
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Result Update

Encouraging credit and operating metrics; Upgrade to BUY

- Axis bank reported NII and PPoP growth of 14% and 6% YoY respectively, impacted by reversal of interest and fee income, adjusted for which growth would stand at 19%/14% respectively. NIM were stable QoQ at 3.6% despite a 30 bps impact of interest reversals, benefitting from improving spreads.
- Pro forma NPAs increased by 27 bps QoQ to 4.55%, **with pro-forma PCR at 75%, amongst the highest in industry**. Slippages (pro forma) were contained at 2.5% for 9MFY21 and 4.7% for Q3FY21 (annualized) against 4% for FY20.
- Management estimates ~0.4% of customer assets (~Rs27bn) to be restructured, below industry levels and **better than their earlier guidance of Rs75bn.** Provision coverage on overall restructured book was at 26%, with 100% provision made on unsecured retail restructured book. Over 60% of restructuring is from the corporate book.
- **COVID related provisions remained unutilized and the bank continues to hold 1.65%** of net advances or Rs10.3 bn of excess standard provision buffers (ex of general provisions). Collection efficiency were at 98% for Dec against 94% in Sep, and is higher than pre-COVID levels of 97%.
- BB and below declined to 2.4% of loans, with all corporate restructured loans being classified as 'BB and below'.
- We lower our slippage estimate for FY21E to 2.8% from 4% earlier, upgrading earnings by ~30% for FY21E/22E. With encouraging asset quality trends, declining concentration risk in wholesale book, improving core operating metrics ex of the one-offs this quarter, increased traction in retail liabilities, we upgrade our rating **to BUY from ACCUMULATE with revised TP of Rs840, implying a multiple of 2.1x Dec-22E P/ABV.**
- High standard loan cover also gives us confidence that any corporate book related surprises can well be taken care of and that **RoAs should normalize at ~1.5% from FY22E.**

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q2FY20	YoY (%)	Q2FY21	QoQ (%)
Net interest income	73,728	61,018	(78.8)	73,261	0.6
Other income	37,760	38,958	(78.1)	38,072	(0.8)
Total Net Income	111,488	99,976	(78.5)	111,333	0.1
Operating expenses	50,533	40,460	(77.5)	42,356	19.3
Pre-provision profits	60,955	59,516	(79.3)	68,976	(11.6)
Provisions	46,043	35,184	(29.7)	45,807	0.5
Tax expense	3,746	25,453	(94.3)	6,343	(40.9)
Reported Net Profit	11,166	(1,121)	(93.2)	16,827	(33.6)
			(bps)		(bps)
Advances Growth (%)	5.9	15.8	(986)	10.5	(457)
NIM (%)	3.6	3.5	359	3.6	1
RoA (%)	0.5	(0.1)	(91)	0.7	(26)
RoE (%)	4.9	(0.6)	(829)	7.4	(251)
Gross NPA (%)	3.4	5.0	68	4.2	(74)

CMP	Rs 632
Target / Upside	Rs 840 / 33%
NIFTY	13,968

Scrip Details

Equity / FV	Rs 6,119mn / Rs 2
Market Cap	Rs 1,934bn
	USD 27bn
52-week High/Low	Rs 761/ 286
Avg. Volume (no)	21,190,500
Bloom Code	AXSB IN

Price Performance	1M	3M	12M
Absolute (%)	2	25	(14)
Rel to NIFTY (%)	2	6	(30)

Shareholding Pattern

	Mar'20	Sep'20	Dec'20
Promoters	16.0	14.8	13.9
MF/Banks/FIs	22.0	23.9	25.1
FIIs	45.5	49.2	49.8
Public / Others	16.5	12.1	11.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	27.1	12.4	10.0
P/ABV	2.0	1.8	1.5
ROAA	0.7	1.5	1.6
ROAE	7.6	14.3	15.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	303,741	344,651	377,444
PPOP	262,733	296,170	324,734
PAT	71,351	155,381	194,017
Adj BV	309.6	354.6	414.6

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Other Important Highlights:

- Loan growth at 1% QoQ and 6% YoY was tad lower. Including TLTRO, loan book grew by 9% YoY. Disbursals under ECLGS stood at Rs89bn or 1.4% of loans. The bank has been very selective in its lending towards ECLGS and have lend only to those where they feel survival chances are high
- Management highlighted that it will not compromise on spreads for a higher loan growth.
- Liability traction remains healthy with 20% YoY growth in retail SA and 14%/15% growth in SA and CA balances YoY on a QAB basis.
- High write-offs during the quarter mainly came from corporate book

Risks to our view: Lagged impact of COVID-19 on asset quality, higher-than-expected slippages from corporate/SME portfolio

Exhibit 1: Restructuring Breakup

Segment	% of respective loan book
Corporate	0.8
Retail	0.3
SME	0.02
Total	0.42

Source: Company, DART

Exhibit 2: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance
NII	73,728	75,173	*(1.9)*
Operating Profit	60,955	65,219	*(6.5)*
PAT	11,166	26,667	*(58.1)*

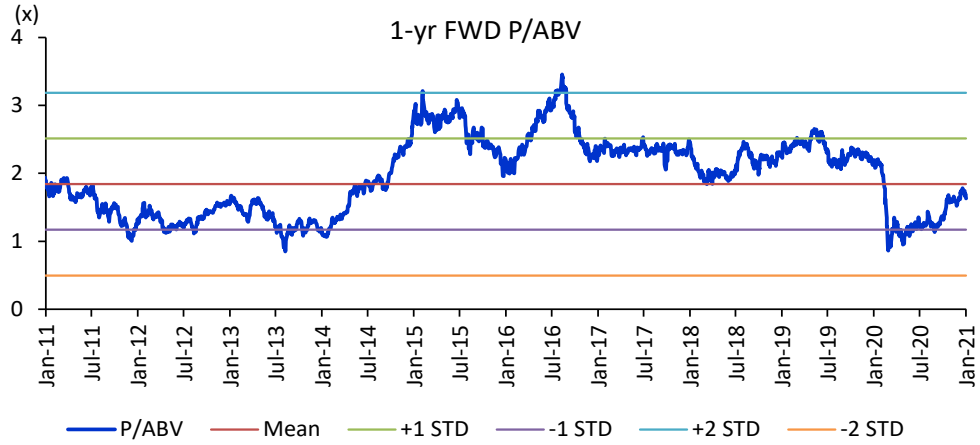
Source: Company, DART

Exhibit 3: Change in estimates

	Previous			Revised			Change %		
(Rs mn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Operating Revenue	425,946	475,378	534,502	444,562	496,808	549,506	4.4	4.5	2.8
Pre Provision Profits	243,850	274,401	309,276	262,733	296,170	324,734	7.7	7.9	5.0
PAT	55,053	116,997	174,773	71,351	155,381	194,017	29.6	32.8	11.0

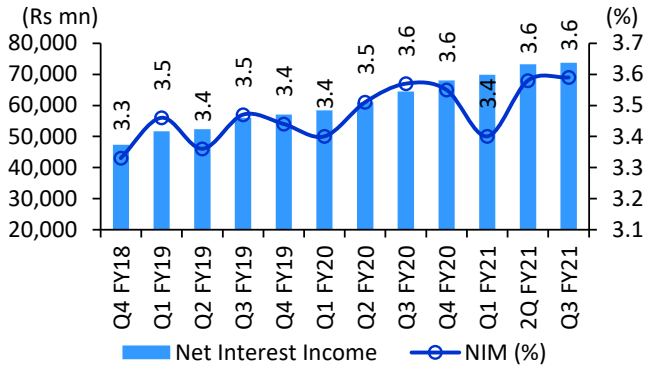
Source: Company, DART

Exhibit 4: The stock currently trades at 1.6x 1-yr forward P/ABV



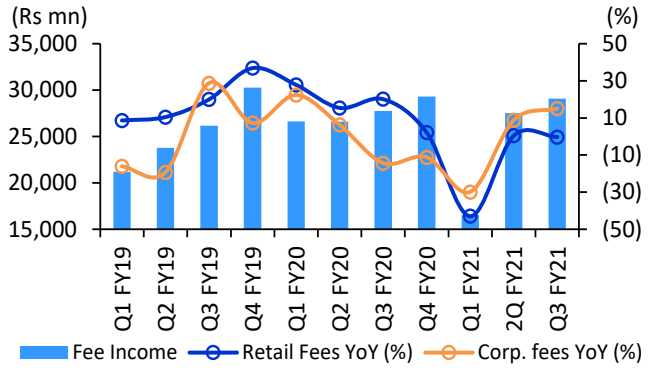
Source: Company, DART

Exhibit 5: NIM stable despite impact of high interest reversals



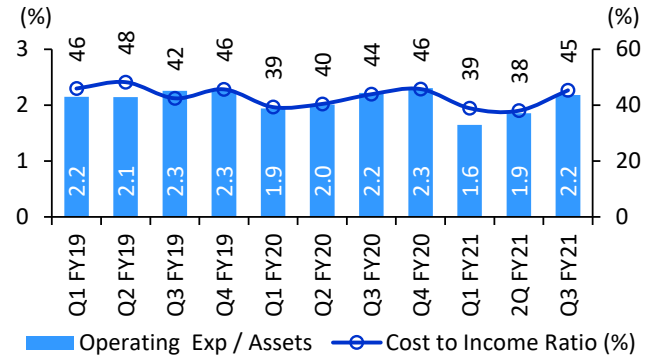
Source: Company, DART

Exhibit 6: Fee traction remains strong



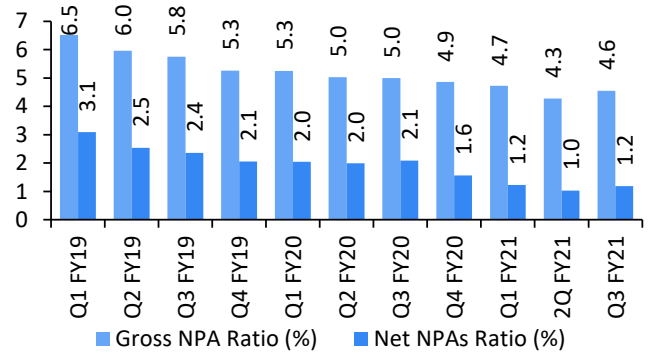
Source: Company, DART

Exhibit 7: Opex rise was led by increments and social security related liability



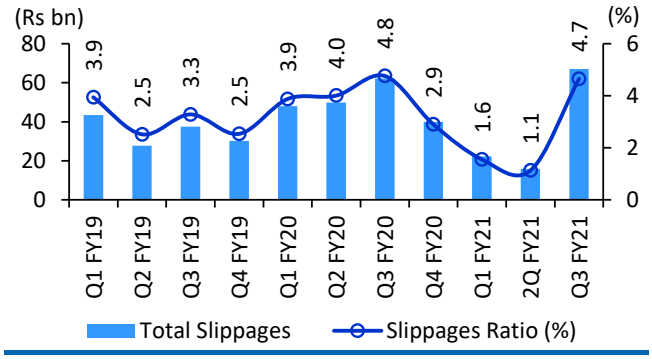
Source: Company, DART

Exhibit 8: High write-offs and contained slippages ensured limited rise in pro forma NPAs



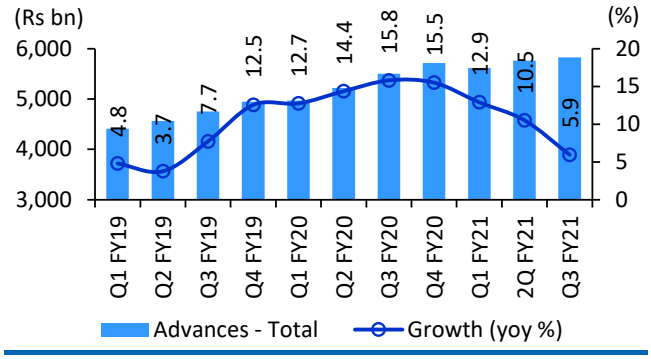
Source: Company, DART

Exhibit 9: Pro forma slippages were contained



Source: Company, DART

Exhibit 10: Advances growth moderates



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q3FY21	Q3FY20	% yoy / bps	Q2FY21	% qoq / bps	9MFY21	9MFY20	% yoy / bps
Interest Inc.	154,984	157,083	(1.3)	160,629	(3.5)	481,001	464,011	3.7
Interest Expenses	81,256	92,553	(12.2)	87,368	(7.0)	264,160	280,026	(5.7)
Cost of Fund (%)	4.3	5.4	(112)	4.6	(30)	4.6	5.5	(88)
Net Interest Income	**73,728**	**64,530**	**14.3**	**73,261**	**0.6**	**216,841**	**183,985**	**17.9**
NII to Net Operative Income	66.1	63.0	311	65.8	33	68.1	61.4	664
NIM (%)	3.59	3.57	2	3.6	1	3.5	3.5	3
Dom. NIM (%)	**3.7**	**3.7**	**2**	**3.7**	**1**	**3.7**	**3.6**	**4**
Fee Income	29,060	27,750	4.7	27,520	5.6	73,090	80,870	(9.6)
Profit on Sale / Rev of Investments	3,670	5,150	(28.7)	7,690	(52.3)	17,580	21,560	(18.5)
Miscellaneous Income	5,030	4,970	1.2	2,860	75.9	11,020	13,080	(15.7)
Other Income - Total	**37,760**	**37,866**	**(0.3)**	**38,072**	**(0.8)**	**101,699**	**115,511**	**(12.0)**
Other Inc. / Net Operative Income	33.9	37.0	(311)	34.2	(33)	31.9	38.6	(664)
Net Operating Revenue	**111,488**	**102,396**	**8.9**	**111,333**	**0.1**	**318,540**	**299,496**	**6.4**
Employee Expenses	16,774	13,652	22.9	14,129	18.7	44,964	39,470	13.9
Empl. Cost/Oper. Exps.	15.0	13.3	171	12.7	235	14.1	13.2	94
Other Opex	33,759	31,316	7.8	28,227	19.6	85,201	84,155	1.2
Other Opex/ Assets	0.4	0.4	(2)	0.3	5	0.9	1.0	(12)
Total Opex	**50,533**	**44,969**	**12.4**	**42,356**	**19.3**	**130,165**	**123,625**	**5.3**
Cost to Income Ratio (%)	45.3	43.9	141	38.0	728	40.9	41.3	(41)
Pre-Provision Profits	**60,955**	**57,427**	**6.1**	**68,976**	**(11.6)**	**188,375**	**175,870**	**7.1**
Provisions & Contingencies - Total	**46,043**	**34,709**	**32.7**	**45,807**	**0.5**	**136,014**	**108,039**	**25.9**
Credit Cost (%)	0.72	2.15	(143)	0.4	31	1.21	2.18	(97)
NPA Provisions as % Operating Inc.	75.5	60.4	1,509	66.4	913	72.2	61.4	1,077
Profit Before Tax	**14,912**	**22,718**	**(34.4)**	**23,170**	**(35.6)**	**52,362**	**67,832**	**(22.8)**
Tax	**3,746**	**5,148**	**(27.2)**	**6,343**	**(40.9)**	**13,247**	**37,681**	**(64.8)**
Effective Tax Rate (%)	25.1	22.7	246	27.4	(225.4)	25.3	55.6	(3,025)
Reported Profits	**11,166**	**17,570**	**(36.4)**	**16,827**	**(33.6)**	**39,114**	**30,150**	**29.7**
RoA (%)	**0.5**	**0.9**	**(38)**	**0.7**	**(25.0)**	**0.6**	**0.5**	**6**
RoE (%)	4.9	8.8	(392)	8.0	(304)	6.1	5.9	27
Basic EPS	3.7	6.2	(41.4)	5.7	(36.0)	13.3	11.1	19.8
Diluted EPS	3.7	6.2	(41.2)	5.7	(35.9)	13.3	11.0	20.3

Source: Company, DART

Balance Sheet Analysis (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Net Worth	861,978	849,479	860,710	976,638	988,167	1.2	14.6
RoE (%)	8.8	(7.1)	5.7	8.0	4.9	(304)	(392)
CET1 (%)	**14.3**	**13.3**	**13.5**	**15.4**	**15.4**	**(2)**	**103**
Total CAR (%)	**18.2**	**17.5**	**17.3**	**18.9**	**16.7**	**(224)**	**(152)**
RWA - Total	5,815,176	6,131,604	6,100,540	6,093,403	6,191,125	1.6	6.5
Advances - Total	5,501,377	5,714,242	5,613,408	5,763,725	5,827,539	1.1	5.9
Investments	1,559,792	1,567,343	1,873,231	2,002,899	1,983,460	(1.0)	27.2
Total Assets	8,190,389	9,151,648	8,971,382	9,094,631	9,380,492	3.1	14.5
RoA (%)	**0.86**	**(0.62)**	**0.48**	**0.73**	**0.48**	**(25)**	**(38)**
Deposits	5,916,755	6,401,049	6,281,503	6,354,543	6,541,403	2.9	10.6
Saving Deposit	1,653,530	1,735,920	1,763,180	1,806,890	1,898,140	5.1	14.8
Current Deposit	783,950	901,140	804,390	1,000,990	925,780	(7.5)	18.1
CASA Deposits	2,437,480	2,637,060	2,567,570	2,807,880	2,823,920	0.6	15.9
CASA Ratio (%)	**41.2**	**41.2**	**41.0**	**40.0**	**43.2**	**320**	**200**
Term Deposits	3,479,275	3,763,989	3,713,933	3,546,663	3,717,483	4.8	6.8

Source: Company, DART

Asset Quality (Rs mn)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	QoQ % / bps	YoY % / bps
Gross Advances	6,014,604	6,220,951	6,262,744	6,419,053	6,394,738	(0.4)	6.3
Gross NPA	300,730	302,338	295,602	268,316	219,979	(18.0)	(26.9)
Gross NPA Ratio (%)	**5.00**	**4.86**	**4.72**	**4.18**	**3.44**	**(74)**	**(156)**
PCR - Calculated (%)	59.6	69.0	74.8	77.2	79.0	181	1,948
Net Advances	5,818,316	6,000,263	6,055,276	6,232,531	6,229,500	(0.0)	7.1
Net NPA	121,603	93,604	74,480	61,079	46,098	(24.5)	(62.1)
Net NPAs Ratio (%)	**2.09**	**1.56**	**1.23**	**0.98**	**0.74**	**(24)**	**(135)**

Source: Company, DART

Loan Book Analysis (Rs mn)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	QoQ % / bps	YoY % / bps
Corporate Credit	1,968,430	2,041,030	2,055,560	2,101,140	2,008,910	(4.4)	2.1
SME	617,410	619,210	571,480	606,000	639,690	5.6	3.6
Retail Loans	2,915,540	3,054,000	2,986,360	3,057,000	3,178,940	4.0	9.0
- Home loans	1,049,594	1,068,900	1,075,090	1,100,520	1,144,418	4.0	9.0
- Rural Lending	349,865	366,480	358,363	366,840	381,473	4.0	9.0
- Auto loans	379,020	397,020	388,227	397,410	413,262	4.0	9.0
- PL	349,865	397,020	388,227	397,410	381,473	(4.0)	9.0
- LAP	262,399	274,860	268,772	275,130	286,105	4.0	9.0
- CC	145,777	152,700	149,318	152,850	158,947	4.0	9.0
- SBB	116,622	122,160	119,454	122,280	158,947	30.0	36.3
- Others	262,399	274,860	238,909	244,560	254,315	4.0	(3.1)
Advances - Total	**5,501,377**	**5,714,242**	**5,613,408**	**5,763,725**	**5,827,539**	**1.1**	**5.9**

Source: Company, DART

Conference Call Highlights

Business Performance

- The bank opened ~1.79mn **liability accounts** in Q3 and ~4.8mn in 9M. Digital acquisitions were 2.5x of 2Q.
- **CASA + RTD** improved 175bps QoQ and 574bps YoY.
- Share of premium segments stood at 37% (vs 34% last year) across the book. Salary and NRI segments are also growing well.
- **TAT** has been reduced significantly by leveraging technology enabled solutions
- The bank has repaid a significant part of **wholesale term deposits** and market **borrowings** as a part of balance sheet optimization which has led to a flat C/D ratio
- **Retail disbursements** growth was led by secured retail loans (HL, LAP and BBB). **Rural** growth was driven by commodities, gold, crops, and farm equipment.
- **Retail fees** ex of cards grew 35% QoQ while TPT fees grew 6% QoQ
- **Credit Card** spends grew 35% QoQ led by festive spends and digital relationships. CC market share has declined as the bank rationalized non profitable and high risk segment of the commercial card business.
- **Corporate and Commercial** segment continues to focus on high quality customers on the One Axis platform. FIG group deepened its relationships leading to CA and advances growth in the segment. The group added 452 relationships in 9MFY21
- **SME** growth remains focused in highly collateralized segments. Large part of incremental disbursements were secured.
- Interest and fee **reversals** are reflected in respective income lines and stood at Rs 6140mn (30bps impact on NIMs vs 4bps in Q2FY21 and 15bps in Q3FY20) and Rs 1340mn respectively.
- **Fee income** was also impacted by reversals due to slippages in the cards business.
- **8bps impact** on capital due to provisions taken on the liabilities side instead of netting off against advances
- **Costs** increased due to rise in headcount by 804 QoQ and salary increments; and due to voluntary contribution on social security of employees. This led to 131bps impact on C/I and 1bps impact on opex to assets). Spends on technology and digital agenda led to increase in other opex

Asset Quality –

- The bank has not utilized any COVID related provisions and holds 116bps of overall provision cover.
- Pro-forma **slippages** breakup –
  - **Wholesale** 10%;
  - **Commercial Business Banking** 6%;
  - **Retail** 84%; split equally between secured (led by mortgages due to inability to enforce legal action) and unsecured (on which the bank has provided 100%). However, low LTV of 60% on mortgages provides comfort on recoveries. Most of the pain from accounts in moratorium has been absorbed in the current quarter.

- **Axis finance** asset quality is holding well and no accounts were restructured.
- **Collection efficiency** back to or above pre-COVID levels across all segments. Collections have doubled from 90DPD+ customers as the bank ramped up its efforts by deploying tech based solutions.
- **Demand resolution** across retail segment stood at 98% in Dec vs 94% in Sept, and 97% pre-COVID. However, bounce rates remain slightly higher than pre-covid levels.
- **W/offs** were predominantly from the wholesale book. Recoveries from w/off pool improved 17% YoY; and gives confidence on recoveries from incremental slippages in the retail book
- **BB and below book** declined across categories: Rs 3.96bn fund based, Rs 1.32bn non-fund based and Rs 1.88bn investments. Downgrades across fund, non-fund and investments stood at Rs 15.43bn, Rs 1.13bn, and Rs 1.89bn respectively. Collections stood at Rs 11.3bn while upgrades were Rs 6.12bn.
- BB and below pool consists of ~Rs 8.19bn of pro-forma slippages
- Post the downgrades in the fund based book, average ticket size across BBB ratings declined to Rs 50crs
- **Overall stress** stands at 2.7% (0.9% net of provisions) of customer assets with 69% provisions cover on the pool
- **Credit costs** stood at 3.3% on a pro-forma basis
- **Restructuring** stood at Rs 27.09bn or 0.42% of gross customer assets (much lower than expectations). The bank has approved ~52% of overall requests for restructuring as of Dec'20.
    - The bank holds 26% of provisions on restructured loans vs 19% in the last quarter, and holds 100% provisions on restructured unsecured retail loans.
    - The bank does not expect any further restructuring and will not grant requests to any fresh proposals going forward.
- Continued **stress tests** have revealed a 45-50% reduction in slippages estimates vs April'20 estimates. The bank has used the same to proactively recognize and provide on the potential slippages. The bank expects significantly lower incremental slippages in Q4FY21.

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	626,352	647,286	729,606	831,627
Interest expenses	374,290	343,545	384,955	454,182
Net interest income	**252,062**	**303,741**	**344,651**	**377,444**
Other incomes	155,366	140,821	152,156	172,061
Total expenses	173,046	181,828	200,637	224,771
- Employee cost	53,210	59,595	64,959	71,455
- Other	119,836	122,233	135,679	153,317
Pre provisioning profit	**234,382**	**262,733**	**296,170**	**324,734**
Provisions	185,339	167,382	88,525	65,458
Profit before taxes	49,043	95,351	207,646	259,277
Tax provision	32,770	24,000	52,264	65,260
Profit after tax	16,273	71,351	155,381	194,017
Adjusted profit	**16,273**	**71,351**	**155,381**	**194,017**

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,643	6,119	6,119	6,119
Reserves & Surplus	843,835	1,014,710	1,151,519	1,326,964
Minority Interest	0	0	0	0
Net worth	849,478	1,020,830	1,157,639	1,333,083
Borrowings	1,479,541	1,440,776	1,514,701	1,616,972
- Deposits	6,401,049	7,034,375	7,952,181	9,162,843
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	421,579	414,805	404,748	393,081
Total Liabilities	**9,151,648**	**9,910,786**	**11,029,268**	**12,505,979**
Application of Funds				
Cash and balances with RBI	972,683	692,765	729,993	781,021
Investments	1,567,343	1,978,795	2,151,258	2,324,172
Advances	5,714,242	6,171,381	6,973,660	8,089,446
Fixed assets	43,129	42,743	46,745	48,414
Other current assets, loans and advances	854,252	1,025,102	1,127,612	1,262,926
Total Assets	**9,151,648**	**9,910,786**	**11,029,268**	**12,505,979**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	9.1	8.2	8.5	8.7
Yields on interest earning assets	8.0	7.6	7.8	7.9
Yield on investments	6.9	6.8	7.1	6.9
Costs of funds	5.0	4.2	4.3	4.5
Cost of deposits	4.7	4.9	4.2	4.3
NIMs	3.2	3.6	3.7	3.6
(B) Asset quality and capital ratios (%)				
GNPA	4.9	4.3	3.7	2.8
NNPA	2.1	1.2	1.0	0.8
PCR	69.0	75.0	75.0	75.0
Slippages	4.0	2.8	2.5	2.0
NNPA to NW	11.0	7.2	6.3	4.8
CASA	41.5	40.0	40.0	40.0
CAR	17.3	18.6	18.7	18.7
Tier 1	14.3	15.6	15.8	15.9
Credit - Deposit	89.3	87.7	87.7	88.3
(C) Dupont as a percentage of average assets				
Interest income	7.3	6.8	7.0	7.1
Interest expenses	4.4	3.6	3.7	3.9
Net interest income	2.9	3.2	3.3	3.2
Non interest Income	1.8	1.5	1.5	1.5
Total expenses	2.0	1.9	1.9	1.9
- cost to income	42.5	40.9	40.4	40.9
Provisions	2.2	1.8	0.8	0.6
Tax	0.4	0.3	0.5	0.6
RoA	0.2	0.7	1.5	1.6
Leverage	10.8	9.7	9.5	9.4
RoE	2.1	7.6	14.3	15.6
RoRwa	0.8	0.3	1.1	2.1
(D) Measures of Investments				
EPS - adjusted	5.8	23.3	50.8	63.4
BV	301.1	333.6	378.3	435.7
ABV	267.4	309.6	354.6	414.6
DPS	0.0	5.0	5.0	5.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	16.1	20.5	13.5	9.5
PPoP	23.3	12.1	12.7	9.6
Adj PAT	(65.2)	338.5	117.8	24.9
Advances	15.5	8.0	13.0	16.0
Total borrowings	(3.2)	(2.6)	5.1	6.8
Total assets	14.3	8.3	11.3	13.4
(F) Valuation Ratios				
Market Cap (Rs. mn)	1,934,047	1,934,047	1,934,047	1,934,047
CMP (Rs.)	632	632	632	632
P/E (x)	109.6	27.1	12.4	10.0
P/BV (x)	2.1	1.9	1.7	1.5
P/ABV (x)	2.4	2.0	1.8	1.5
Div Yield (%)	0.0	0.8	0.8	0.8

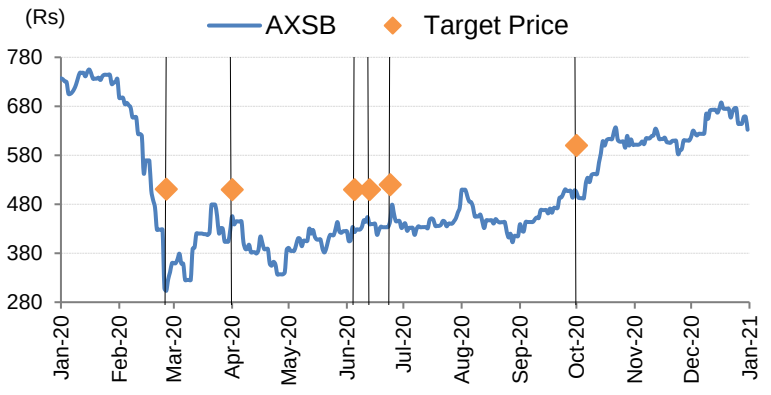
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Accumulate	511	303
Apr-20	BUY	510	455
Jul-20	Accumulate	510	423
Jul-20	Accumulate	510	440
Jul-20	Accumulate	520	446
Oct-20	Accumulate	600	505

**Price as on recommendation date*

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