

Provisioning buffer increases; On track towards normalization in credit cost

CMP: Rs 671

Rating: ACCUMULATE

Target Price: Rs 794

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	612
Mkt Cap (Rs Cr)	2,05,350
52w H/L (Rs)	761 / 286
Avg Yearly Vol (in 000')	28,048

Shareholding Pattern %

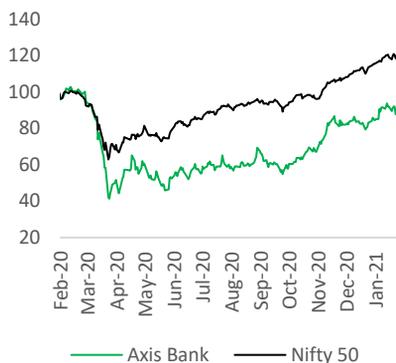
(As on December, 2020)

Promoters	13.9
FII	51.0
DII	23.6
Public & Others	11.5

Stock Performance (%)

	3m	6m	12m
Axis Bank	32.9	53.5	-9.0
Nifty	17.8	22.3	14.6

Axis Bank Vs Nifty



Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Axis Bank has reported 36% YoY decline in net profit due to higher provision and high OPEX which has impacted the earnings adversely. NII for the quarter grew by 14% YoY to Rs 7,373 cr was impacted by interest reversal during the quarter adjusted for which NII was up 19% YoY. Operating profit growth was lower at 6% YoY due to flat other income growth and higher OPEX. Cost-income ratio increased sharply due to few one-off charges along with gradual recovery in business volumes and collection cost. Provisioning buffer of the bank continues to remain high at 33% YoY/0.5% QoQ to Rs 4,604 cr. On the business front, loan book growth was lower at +6% YoY/+1% QoQ to Rs 5.82 lakh cr while deposits grew smoothly to Rs 6.54 lakh cr by +11% YoY. Despite having 18bps interest reversal impact, NIM stood flat at 3.59% QoQ.

Loan growth slowed down: Overall, loan book growth slowed down to 6% YoY vs. 11% in Q2FY21. Within segments, retail book grew by 9% YoY, comprising ~55% of the total loans. SME grew by 4% YoY and 6% QoQ. Corporate loan book growth was lower at 2% YoY and -4% QoQ. Corporate loan book including TLTRO investments grew by 11% YoY. Deposits during the quarter grew by 11% YoY with CASA ratio sequentially rising to 42% from 40%.

Asset quality outlook encouraging, provisions strengthened further:

Asset quality of the bank improved led by SC interim order with GNPA/NNPA at 3.44%/0.74% vs. 4.18%/0.98% QoQ. Adjusted for the impact of the SC order, Proforma GNPA/NNPA was at 4.55%/1.19% (+27bps/+16bps QoQ). Proforma gross slippages for the quarter was higher at Rs 6,736 cr, primarily from Retail portfolio (84%). Management stated that collections have gradually improved and demand resolutions stood at 98% in Dec'20 (vs 94% in Sep'20 and 97% pre-covid). Restructuring pool was at 0.42% of loans which is much lower than earlier expectations. The bank has shored up its provisions and currently hold cumulative provision (standard + additional) of Rs 11,856 cr (2.1% of loans), which makes the balance sheet further stronger.

Valuation & View: We maintain our Accumulate rating on the stock with a revised TP of Rs 794, valuing the bank at 2.0x FY23E ABV. Considering significant provision buffers which makes balance sheet stronger, superior liability profile, lower restructuring and strong capital position (CAR at 18.7%), we continue to keep our positive stance on Axis Bank. We are seeing covid impact on asset quality of the bank is much under control and believe Axis Bank to come out from this situation strongly. Management indicated that FY22E should be a look forward year with focus on growth and profitability.

Axis Bank Ltd. (Rs Cr)	FY19A	FY20	FY21E	FY22E	FY23E
NII	21,708	25,206	30,055	32,367	37,284
PPOP	19,005	23,438	26,782	29,142	34,298
PAT	4,677	1,627	7,159	12,506	16,841
EPS (INR / Share)	18.2	5.8	23.4	40.9	55.0
ABVPS (INR / Share)	215.4	261.4	276.6	315.3	396.9
NIM (%)	3.2	3.5	3.5	3.5	3.5
ROA (%)	0.6%	0.2%	0.7%	1.1%	1.3%
ROE (%)	7.0%	1.9%	7.8%	11.9%	13.9%
P / ABV (x)	3.1	2.6	2.4	2.1	1.7

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Particulars	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ
Interest Earned	15498	15708	-1.3%	16063	-3.5%
Interest Expended	8126	9255	-12.2%	8737	-7.0%
NII	7373	6453	14.3%	7326	0.6%
Other Income	3776	3787	-0.3%	3807	-0.8%
Operating Expenses	5053	4497	12.4%	4236	19.3%
Operating Profit before Prov.& Cont.	6096	5743	6.1%	6898	-11.6%
Provisions and Contingencies	4604	3471	32.7%	4581	0.5%
PBT	1491	2272	-34.4%	2317	-35.6%
Provision for tax	375	515	-27.2%	634	-40.9%
Net Profit (after Extraordinary Items)	1117	1757	-36.4%	1683	-33.6%
Return on Assets (Annualised)	0.5	0.9	-44.2%	0.7	NA
Earnings Per Share	3.7	6.2	-41.4%	5.7	-35.9%
Cost-income ratio	45.3	43.9	141bps	38.0	728bps
Advances	582754	550138	5.9%	576372	1.1%
Deposits	654140	591676	10.6%	635454	2.9%
C-D Ratio (%)	89.1	93.0	-389bps	90.7	-162bps
Amount of Gross NPA	21998	30073	-27%	26832	-18%
Amount of Net NPA	4610	12160	-62%	6108	-25%
% of Gross NPAs	3.44	5.00	-156bps	4.18	-74bps
% of Net NPAs	0.74	2.09	-135bps	0.98	-24bps
Provisions Coverage%	79.0	60.0	1900bps	77.0	200bps
NIM %	3.6	3.6	2bps	3.6	1bps
CASA%	42.0	40.0	200bps	40.0	200bps
Capital Adequacy Ratio Basel III	18.7%	18.2%		18.9%	
Tier I Basel III	15.9%	15%		16%	

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Conference Call Highlights:

- Proforma GNPA/NNPA for the quarter stood at 4.55%/1.19% vs. 4.28%/1.03% QoQ. Proforma gross slippages for the quarter was Rs 6,736 cr, of which 10% is from corporate banking, 6% from SME and 84% is from retail assets. Management has stated that slippages in Q4FY21 will be lower than Q3FY21.
- The restructured loans stood at Rs 2,709 cr that translates to 0.42% of the gross loans. Since, bank is not granting any restructuring request now, the restructured book is expected to remain same at current level. The bank has made 26% PCR on overall restructured book.
- The Bank has made provisions on 90+ DPD accounts not classified as NPA pursuant to SC judgment, amounting to Rs 3,899 cr during the quarter. The bank has not utilized any covid provision for the quarter (remained same at Q2 level).
- The bank holds cumulative provisions (standard + additional other than NPA) of Rs 11,856 cr at the end of Q3FY21 (2.08% of gross loans). On an overall basis, PCR stands at 116% of proforma GNPA.
- Recoveries and upgrades from NPAs per IRAC norms during the quarter was Rs 905 cr while write-offs was higher at Rs 4,258 cr.
- The bank has opened 1.7 mn new liability accounts during the quarter.
- Interest reversal for the quarter stood at Rs 614 cr which has impacted the margins by 18bps.
- Operating expenses for the quarter grew sharply due to increase in staff cost due to increment, normalization of business volumes, investment in technology and social security expense.
- Management has stated that FY22E will be look forward year.
- The bank has sanctioned Rs 10,583 cr under ECLGS, out of which, Rs 8,875 cr has been disbursed (Rs 8289 cr under ECLGS 1.0 and Rs 586 cr under ECLGS 2.0).- 83% incremental retail credit growth is coming from secured book.

Income Statement					
(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	54986	62635	66991	74428	85546
Interest Expended	33278	37429	36936	42061	48261
Net Interest Income	21708	25206	30055	32367	37284
Other Income	13130	15537	15989	17888	20161
Fee Income	10127	11849	12441	13685	15327
Treasury Income	971	1350	1072	1453	1672
Operating Income	34839	40743	46044	50256	57445
Operating Expenses	15833	17305	19261	21114	23147
Employee Expenses	4747	5321	5960	6615	7343
Profit before provision & tax	19005	23438	26782	29142	34298
Provisions and Contingencies	12031	18534	17527	12973	12526
Profit Before Tax	6974	4904	9256	16168	21772
Provision for tax	2297	3277	2096	3662	4931
Exp. Items	0	0	0	0	0
Profit After Tax	4677	1627	7159	12506	16841

Balance Sheet					
(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Sources of funds					
Share Capital	514	564	612	612	612
Total Reserves	66162	84384	91543	104049	120890
Shareholder's Fund	66676	84948	92155	104661	121502
Deposits	548471	640105	697714	802372	930751
Borrowings	152776	147954	161270	175784	191605
Other Liabilities & provisions	33073	42158	45867	48160	50568
Total Liabilities	800997	915165	997006	1130977	1294426
Application of Funds					
Cash & Bank	67205	97268	106995	117695	129464
Investments	174969	156734	178677	201786	232218
Advances	494798	571424	608567	693766	797831
Fixed Assets	4037	4313	4529	4755	4993
Other Assets	59988	85425	98239	112975	129921
Total Assets	800997	915165	997006	1130977	1294426

Ratios %					
	FY19	FY20	FY21E	FY22E	FY23E
Asset Quality					
Gross NPA	5.3	5.3	4.5	4.3	3.8
Net NPA	2.1	2.0	1.2	1.2	1.1
PCR	62.0	76.0	80.0	78.0	78.0
Growth					
Advances Growth	12.5	18.0	6.5	14.0	15.0
Deposit growth	20.9	16.0	9.0	15.0	16.0
Net Profit Growth	1596.4	-65.2	340.0	74.7	34.7
Liquidity					
C-D Ratio	90.2	89.3	87.2	86.5	85.7
CASA	44.4	41.2	42.0	42.0	42.0
Capital Adequacy	16.6	16.6	16.6	16.6	16.6
Efficiency					
Cost Income Ratio	45.4	42.5	41.8	42.0	40.3
Operating Costs to Assets	2.0	1.9	1.9	1.9	1.8

Spread Analysis (%)					
	FY19	FY20	FY21E	FY22E	FY23E
Spread Analysis					
Yield on Advances	8.4	8.6	8.7	8.8	8.8
Yield on Investments	6.5	6.0	6.0	6.0	6.0
Cost of Funds	4.7	4.9	4.3	4.3	4.3
Cost of Deposits	5.3	5.7	5.7	5.7	5.7
NIM	3.2	3.5	3.5	3.5	3.5
Interest Spread	3.6	3.8	4.4	4.5	4.5
Profitability					
ROE	7.0%	1.9%	7.8%	11.9%	13.9%
ROA	0.6%	0.2%	0.7%	1.1%	1.3%
Earnings Per Share (Rs)	18.2	5.8	23.4	40.9	55.0
Adjusted Book Value (Rs)	215	261	277	315	397
Valuation					
P / EPS (x)	36.9	116.4	28.7	16.4	12.2
P / ABV (x)	3.1	2.6	2.4	2.1	1.7

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880