

# AXIS Bank

Refer to important disclosures at the end of this report

## Fortifying balance sheet for better tomorrow

- Axis reported a lower PAT of Rs11bn (vs. estimate of Rs19bn) mainly due to higher opex and elevated provisions. The bank has maintained a provisioning buffer of 2.1% of loans (best among peers) to largely absorb the asset quality pain in FY21 and walk into FY22 with a stronger balance sheet to ride the ensuing growth wave.
- Overall credit growth continues to disappoint (up 6% yoy) due to corporate drag, but clocks better growth in retail/SME. The bank resisted giving numerical guidance on growth in FY22, but we expect a better growth trajectory on the back of the strong balance sheet and reviving retail/corporate credit demand.
- Overall proforma GNPA ratio of 4.6% was in line with the expectation, while restructuring pool at 0.4% (with no major risk of spill over in Q4) was far lower than management's own guidance, pointing to lower LLP in FY22/FY23 (160/110bps vs. 260bps in FY21).
- We like Axis' aggressive stance to front-load provisions, which could depress RoA/RoE at 0.7%/7% in FY21E but should improve to 1.5%/15% by FY23E, aided by better growth, cost ratios and moderate provisions. Retain Buy with a TP of Rs850, valuing core bank at 1.9x FY23 ABV and subs at Rs40.

**Growth remains elusive, but outlook better:** Overall credit growth was muted at 6% yoy/1% qoq due to a continued drag in corporate book as the bank consciously onboarding corporates at a lower rates. However, disbursements in secured retail segments like HL, LAP & Auto grew 23%/11%/10% yoy, while SBB disbursements grew 35% yoy, indicating accelerating growth momentum in retail. SME growth continued its positive stance with ECLGS disbursements amounting to Rs89bn. Reported NIM stood at 3.6% as the bank continued to reverse interest on proforma NPAs. Axis resisted giving numerical guidance on growth in FY22, but we expect a better growth trajectory for the bank on the back of the strong balance sheet and reviving retail/corporate credit demand.

**Asset quality well in control, but prudently maintains higher provisioning buffer:** The bank's reported GNPA level is low at 3.4% (down 74bps qoq) but proforma NPA stands at 4.6% (up 27bps qoq from 4.3% in Q2). Gross slippages as per IRAC norms were higher but in line at Rs67bn (4.9% of loans), mainly from retail including unsecured loans. However, overall restructuring pool turned out to be far lower at 0.4% of loans compared to an earlier estimate of 1.7%. That said, the bank continues to build a healthy provisioning buffer to meet any eventuality, with the specific PCR now at 79% and the overall contingent provisioning buffer at Rs118bn (2.1% of loans), including Rs50bn specifically for Covid-19.

**Outlook and valuations:** We like Axis' aggressive stance to front-load provisions, which could depress RoA/RoE at 0.7%/7% in FY21E but should improve to 1.5%/15% by FY23E, aided by better growth, cost ratios and moderate provisions. Retain Buy with a TP of Rs850, valuing core bank at 1.9x FY23 ABV and subs at Rs40. Key risks to our call include higher-than-expected NPAs and 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)	FY19	FY20	FY21E	FY22E	FY23E
Net income	348,385	407,428	432,208	489,957	566,482
Net profit	46,766	16,272	61,464	121,796	181,561
EPS (Rs)	18.2	6.0	20.9	39.8	59.3
ABV (Rs)	242.3	306.1	343.0	364.3	429.5
RoA (%)	0.6	0.2	0.7	1.2	1.5
RoE (%)	7.2	2.2	6.6	11.2	14.5
PE (x)	34.7	104.8	30.3	15.9	10.7
P/ABV	2.6	2.1	1.9	1.7	1.5

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 632</b> as of (January 27, 2021)	<b>Rs 850 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>34.5 %</b>

### Change in Estimates

EPS Chg FY21E/FY22E (%)	(10)/(1.5)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	20.9	39.8
Consensus	25.0	41.0
Mean Consensus TP (12M)	Rs 693	

### Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,062
52 Week H/L	761 / 285
M Cap (Rs bn/USD bn)	1,935 / 26.54
Daily Avg Volume (nos.)	21,749,610
Daily Avg Turnover (US\$ mn)	178.2

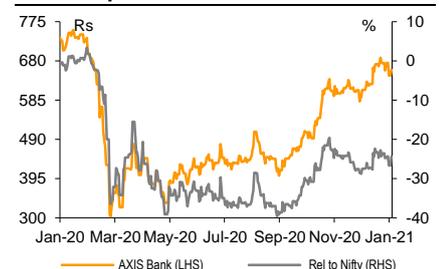
### Shareholding Pattern Dec '20

Promoters	13.6%
FIIIs	49.8%
DIIIs	23.0%
Public and Others	13.7%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	4	24	46	(15)
<b>Rel. to Nifty</b>	2	5	17	(25)

### Relative price chart



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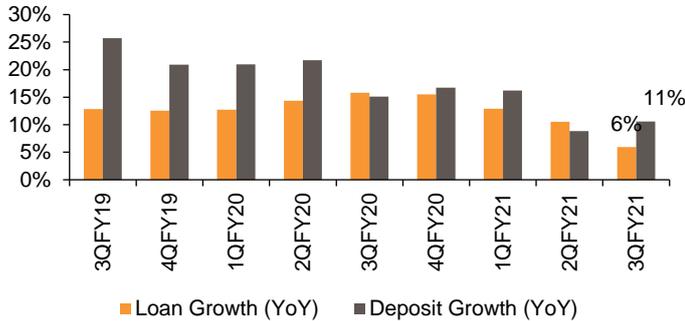
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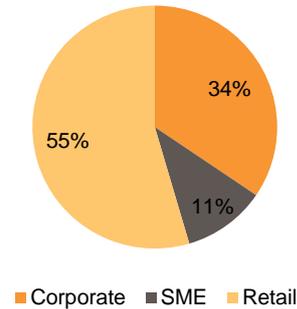
## Story in charts

**Exhibit 1: Overall credit growth remains moderate while deposits trajectory improves**



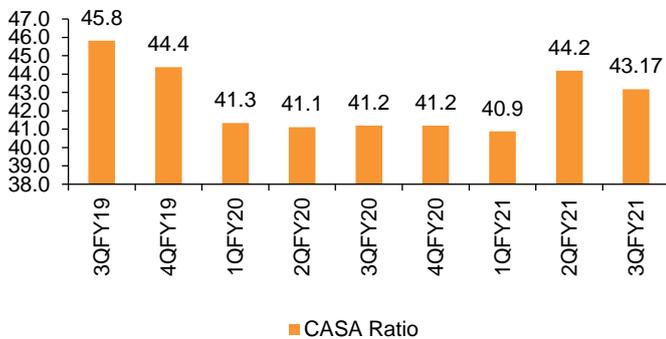
Source: Company, Emkay Research

**Exhibit 2: Corporate remains a significant part of the book which bank intends to cut down**



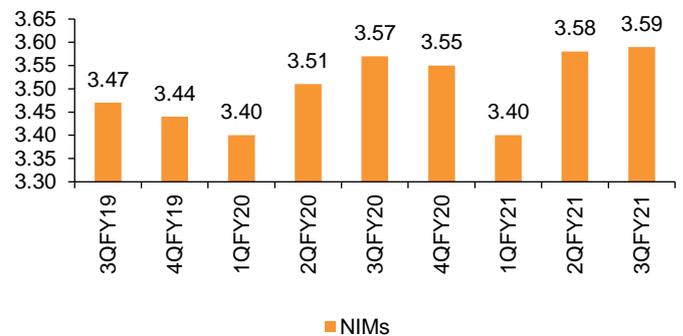
Source: Company, Emkay Research

**Exhibit 3: CASA though lower qoq is still healthy at 43.2%**



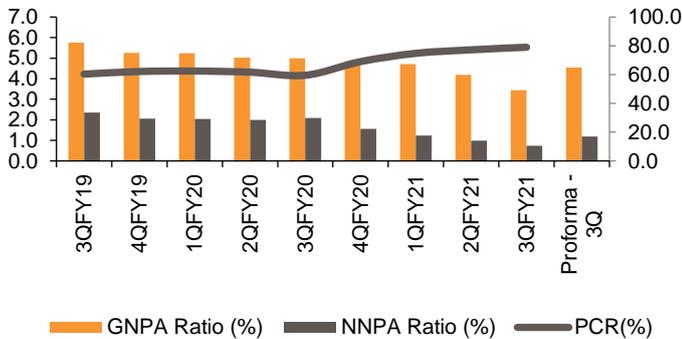
Source: Company, Emkay Research

**Exhibit 4: NIM impacted by interest reversals was flattish QoQ**



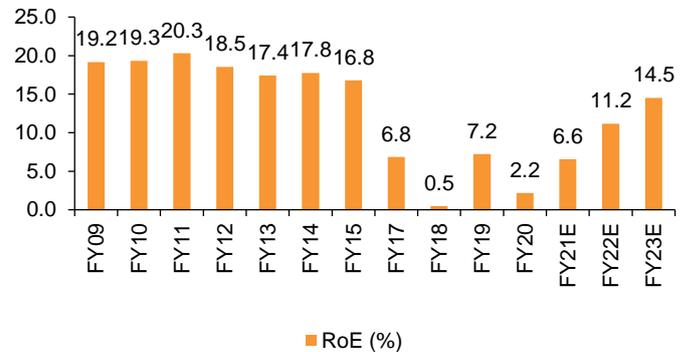
Source: Company, Emkay Research

**Exhibit 5: GNPA improved QoQ due to continued SC stay on NPA tagging**



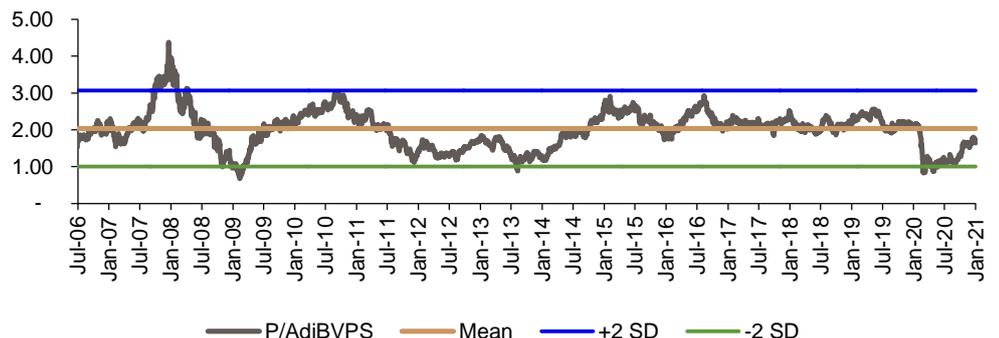
Source: Company, Emkay Research

**Exhibit 6: Covid-19-led disruption and capital raise to delay bank's RoE target of >15% beyond FY23E**



Source: Company, Emkay Research

**Exhibit 7: The stock currently trades at 1.6x - 1 year forward ABV, adjusted for subsidiaries valuation**



Source: Emkay Research

**Exhibit 8: Actuals vs. estimates**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	111,488	116,422	111,062	-4%	0%	Flattish NIM and lower other income led to a miss
PPOP	60,955	69,245	67,370	-12%	-10%	Higher opex led to a miss
PAT	11,166	18,819	23,564	-41%	-53%	Higher provisions dragged overall earnings

Source: Emkay Research, Company

**Exhibit 9: Quarterly summary**

Rs (mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	157,083	162,341	165,389	160,629	154,984	-1	-4	626,352	635,488	1
Interest Exp	92,553	94,264	95,536	87,368	81,256	-12	-7	374,290	344,755	-8
Net Interest Income	64,530	68,077	69,853	73,261	73,728	14	1	252,062	290,733	15
Global NIMs (reported)	3.57	3.55	3.40	3.58	3.59	2bps	1bps	3.27	3.47	20bps
Non-interest Income	37,866	39,855	25,867	38,072	37,760	0	-1	155,366	141,476	-9
Operating Expenses	44,969	49,421	37,276	42,356	50,533	12	19	173,046	181,377	5
Pre Provisioning Profit	57,427	58,511	58,444	68,977	60,955	6	-12	234,382	250,831	7
Provision & Contingencies	34,709	77,300	44,164	45,807	46,043	33	1	185,339	168,693	-9
PBT	22,718	-18,789	14,280	23,170	14,912	-34	-36	49,042	82,138	67
Income Tax Expense (Gain)	5,148	-4,911	3,158	6,343	3,746	-27	-41	32,770	20,674	-37
Net Profit/(Loss)	17,570	-13,878	11,122	16,827	11,166	-36	-34	16,272	61,464	278
Gross NPA (%)	5.00	4.86	4.72	4.18	3.44	-156bps	-74bps	4.52	4.73	21bps
Net NPA (%)	2.09	1.56	1.23	0.98	0.74	-135bps	-24bps	1.62	1.13	-49bps
Deposits (Rs in bn)	5,917	6,401	6,282	6,355	6,541	11	3	6,401	6,695	5
Net Advances (Rs in bn)	5,501	5,714	5,613	5,764	5,828	6	1	5,714	6,070	6

Source: Company, Emkay Research

**Exhibit 10: Revision in estimates**

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced	Revised	% change
Net income	443,087	432,208	-2.5%	509,267	489,957	-3.8%	583,544	566,482	-2.9%
PPOP	265,907	250,831	-5.7%	303,393	281,259	-7.3%	348,057	330,152	-5.1%
PAT	68,281	61,464	-10.0%	123,567	121,796	-1.4%	184,800	181,561	-1.8%
EPS (Rs)	23.2	20.9	-10.0%	40.4	39.8	-1.5%	60.4	59.3	-1.8%
BV (Rs)	351.9	348.9	-0.8%	380.7	377.0	-1.0%	444.1	439.1	-1.1%

Source: Emkay Research

**Exhibit 11: Key assumptions**

	FY20	FY21E	FY22E	FY23E
Loan Growth %	15.5	6.2	16.2	20.9
Deposit Growth %	16.7	4.6	15.7	20.4
NIM %	3.3	3.5	3.6	3.6
GNPA %	4.5	4.7	4.9	3.9
Credit Cost %	2.6	2.6	1.6	1.1

Source: Emkay Research

**Exhibit 12: Key ratios and trends**

	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
<b>Loans (Rs mn)</b>	<b>4,751,049</b>	<b>4,947,980</b>	<b>4,972,760</b>	<b>5,215,937</b>	<b>5,501,377</b>	<b>5,714,242</b>	<b>5,613,408</b>	<b>5,763,725</b>	<b>5,827,539</b>
<i>growth YoY %</i>	12.9	12.5	12.7	14.4	15.8	15.5	12.9	10.5	5.9
<b>Composition %</b>									
- Corporate	38.0	37.1	35.7	35.9	35.8	35.7	36.6	36.5	34.5
- SME/BB	13.1	13.3	12.4	11.8	11.2	10.8	10.2	10.5	11.0
- Retail	48.9	49.7	51.9	52.4	53.0	53.4	53.2	53.0	54.6
<b>Liability Profile %</b>									
<b>Deposit (Rs mn)</b>	<b>5,140,921</b>	<b>5,484,713</b>	<b>5,406,777</b>	<b>5,839,585</b>	<b>5,916,755</b>	<b>6,401,049</b>	<b>6,281,503</b>	<b>6,354,543</b>	<b>6,541,403</b>
<i>growth YoY %</i>	25.7	20.9	20.9	21.7	15.1	16.7	16.2	8.8	10.6
CASA	45.8	44.4	41.3	41.1	41.2	41.2	40.9	44.2	43.2
CA	16.4	16.3	13.2	13.6	13.2	14.1	12.8	15.8	14.2
SA	29.4	28.1	28.2	27.6	27.9	27.1	28.1	28.4	29.0
NIM %	3.5	3.4	3.4	3.5	3.6	3.6	3.4	3.6	3.6
NIM %- Domestic	3.7	3.6	3.6	3.6	3.7	3.7	3.6	3.7	3.7
<b>Asset Quality (Rs mn)</b>									
GNPA %	6.2	5.8	5.7	5.4	5.3	5.1	5.1	4.5	3.7
NNPA %	2.4	2.1	2.0	2.0	2.1	1.6	1.2	1.0	0.7
PCR % - Specific	60.4	62.1	62.5	61.7	59.6	69.0	74.8	77.2	79.0
Slippages %	3.56	2.74	4.35	4.37	5.23	3.17	1.78	0.71	0.02
<b>Capital Adequacy</b>									
CAR %	15.8	15.8	16.1	18.2	18.2	17.5	17.5	19.4	18.7
Tier I %	12.5	12.5	12.9	15.0	15.0	14.5	14.6	16.5	15.9
<b>ROE Decomposition % (on total assets)</b>									
NII	3.6	3.5	3.4	3.5	3.7	3.8	3.8	3.9	3.8
Other Income (Ex Treasury)	2.3	1.9	1.8	1.8	1.9	2.1	1.1	1.6	1.8
Opex	2.6	2.6	2.2	2.3	2.6	2.8	2.0	2.2	2.6
PPOP	3.5	3.0	3.4	3.4	3.3	3.3	3.2	3.6	3.1
PBT	1.6	1.4	1.2	1.4	1.3	(1.0)	0.8	1.2	0.8
Tax	0.5	0.5	0.4	1.5	0.3	(0.3)	0.2	0.3	0.2
ROA	0.9	0.8	0.7	(0.1)	0.9	(0.6)	0.5	0.7	0.5
Leverage (x)	11.3	11.7	11.4	10.2	9.6	10.1	10.6	9.8	9.4
ROE	10.2	9.0	7.9	(0.6)	8.3	(6.5)	5.2	7.3	4.5

Source: Company, Emkay Research

## Key Financials (Standalone)

### Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>217,082</b>	<b>252,062</b>	<b>290,733</b>	<b>327,465</b>	<b>380,387</b>
<b>Other income</b>	<b>131,303</b>	<b>155,366</b>	<b>141,476</b>	<b>162,492</b>	<b>186,095</b>
Fee income	88,537	96,919	94,981	102,580	121,044
<b>Net income</b>	<b>348,385</b>	<b>407,428</b>	<b>432,208</b>	<b>489,957</b>	<b>566,482</b>
Operating expenses	158,334	173,046	181,377	208,698	236,330
<b>Pre provision profit</b>	<b>190,051</b>	<b>234,382</b>	<b>250,831</b>	<b>281,259</b>	<b>330,152</b>
<b>PPP excl treasury</b>	<b>182,470</b>	<b>212,659</b>	<b>230,194</b>	<b>261,654</b>	<b>312,508</b>
Provisions	120,310	185,339	168,693	118,495	87,522
<b>Profit before tax</b>	<b>69,741</b>	<b>49,042</b>	<b>82,138</b>	<b>162,764</b>	<b>242,631</b>
Tax	22,975	32,770	20,674	40,968	61,070
Tax rate	33	67	25	25	25
<b>Profit after tax</b>	<b>46,766</b>	<b>16,272</b>	<b>61,464</b>	<b>121,796</b>	<b>181,561</b>

### Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	5,143	5,643	6,123	6,123	6,123
Reserves	658,605	843,835	1,020,189	1,147,943	1,338,156
<b>Net worth</b>	<b>663,748</b>	<b>849,478</b>	<b>1,026,312</b>	<b>1,154,066</b>	<b>1,344,279</b>
Deposits	5,484,713	6,401,049	6,694,978	7,747,593	9,326,506
Borrowings	1,262,708	1,201,238	1,021,053	970,000	921,500
<b>Total liabilities</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>9,596,442</b>	<b>10,845,142</b>	<b>12,765,832</b>
Cash and bank	350,990	849,592	722,154	830,477	955,048
Investments	1,749,693	1,567,343	1,907,759	2,034,216	2,285,236
Loans	4,947,980	5,714,242	6,070,314	7,052,605	8,529,442
Others	599,880	854,252	894,453	947,877	1,010,271
<b>Total assets</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>9,596,442</b>	<b>10,845,142</b>	<b>12,765,832</b>

### Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.2	3.3	3.5	3.6	3.6
Non-ll/avg assets	1.8	1.8	1.5	1.6	1.6
Fee income/avg assets	1.2	1.1	1.0	1.0	1.0
Opex/avg assets	2.1	2.0	1.9	2.0	2.0
Provisions/avg assets	1.6	2.2	1.8	1.2	0.7
PBT/avg assets	0.9	0.6	0.9	1.6	2.1
Tax/avg assets	0.3	0.4	0.2	0.4	0.5
RoA	0.6	0.2	0.7	1.2	1.5
RoAE	7.2	2.2	6.6	11.2	14.5
GNPA (%)	5.3	4.5	4.7	4.9	3.9
NNPA (%)	2.2	1.6	1.1	1.5	1.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	18.2	6.0	20.9	39.8	59.3
BVPS	258.4	315.0	348.9	377.0	439.1
ABVPS	242.3	306.1	343.0	364.3	429.5
DPS	1.0	0.2	0.0	8.0	12.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	34.7	104.8	30.3	15.9	10.7
P/BV	2.6	2.1	1.8	1.7	1.5
P/ABV	2.6	2.1	1.9	1.7	1.5
P/PPOP	8.6	7.7	7.8	6.9	5.9
Dividend Yield (%)	0.2	0.0	0.0	1.3	1.9

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	16.6	16.1	15.3	12.6	16.2
PPOP	21.9	23.3	7.0	12.1	17.4
PAT	1,596.4	(65.2)	277.7	98.2	49.1
Loans	12.5	15.5	6.2	16.2	20.9

<b>Quarterly (Rs mn)</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>
NII	64,530	68,077	69,853	73,261	73,728
NIM (%)	3.6	3.6	3.4	3.6	3.6
PPOP	57,427	58,511	58,444	68,977	60,955
PAT	17,570	(13,878)	11,122	16,827	11,166
EPS (Rs)	6.23	(4.92)	3.94	5.50	3.65

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Aug-20</b>	<b>Sep-20</b>	<b>Dec-20</b>
Promoters	15.7	15.7	14.5	14.5	13.6
FIIIs	44.6	45.1	47.5	48.2	49.8
DIIIs	24.5	24.0	23.5	23.4	23.0
Public and Others	15.3	15.3	14.5	13.9	13.7

Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
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	Accumulate	Anand Dama
2-Nov-18	611	645	12m	Accumulate	Jignesh Shial
30-Jul-18	570	594	12m	Accumulate	Jignesh Shial
21-May-18	527	560	12m	Accumulate	Ravikant Bhat
27-Apr-18	539	560	12m	Accumulate	Ravikant Bhat

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 12 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)
<b>BFSI-Banks</b>	<b>20.66</b>	<b>20.66</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.19	2.34	7%	15	11.33
AU Small Finance Bank	0.23	0.20	-13%	-3	0.98
Bandhan Bank	0.28	0.41	44%	12	1.97
Bank of Baroda	0.12	0.12	1%	0	0.59
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.16	0.16	-1%	0	0.77
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.18	0%	0	0.87
HDFC Bank	7.51	7.69	2%	18	37.25
ICICI Bank	4.69	4.88	4%	20	23.64
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.61	0.70	15%	9	3.39
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.96	2.38	-20%	-58	11.54
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.14	0.12	-14%	-2	0.59
State Bank of India	1.36	1.47	8%	10	7.09
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

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

**Sector portfolio NAV**

	Base					Latest
	01-Apr-19	27-Jan-20	27-Jul-20	26-Oct-20	24-Dec-20	25-Jan-21
EAP - BFSI-Banks	100.0	107.4	75.9	84.4	104.8	107.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.0	74.9	83.0	103.2	105.6

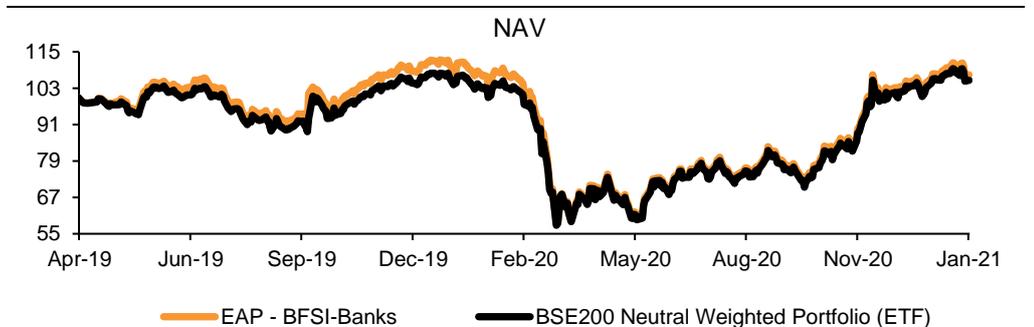
\*Performance measurement base date 1<sup>st</sup> April 2019 | Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - BFSI-Banks	2.5%	27.3%	41.6%	0.1%
BSE200 Neutral Weighted Portfolio (ETF)	2.3%	27.3%	41.1%	2.5%

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%

Completed Date: 28 Jan 2021 04:09:18 (SGT)  
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