

Balance sheet strength to curb earnings volatility...

For Q3FY21, Axis Bank posted a mixed set of results on the operating front as profits were slightly below our estimates owing to higher opex and provisions. Asset quality saw a small blip but the bank has sufficient provisions to absorb any shock and smoothen earnings.

NII for the bank was up 14.3% YoY at ₹ 7373 crore, a slightly slower trajectory than past few quarters. This was account of modest credit growth and interest reversal. **Margins were steady at 3.59%. Excluding interest reversal, the same would have been at 3.89%.** Other income was flattish at ₹ 3776 crore, owing to tepid fee income growth (5% YoY) and 29% YoY decline in treasury income. Operating expenses for the quarter were up 19.3% YoY mainly due to increments in salary and, thus, gratuity adjustments. **Provisions were at ₹ 4604 crore (up 32.7% YoY) of which ₹ 3899 crore was towards proforma NPA.** As a result of higher provisions and opex, PAT for Q3FY21 was down 36.4% YoY to ₹ 1117 crore.

Asset quality performance was slightly weak though headline NPA numbers showed improvement, due to Supreme Court order. Proforma NPA increased sequentially reflecting true picture with proforma **GNPA and NNPA increasing 27 bps and 16 bps QoQ to 4.55% & 1.19%**, respectively. This was despite a higher write-off of ₹ 4242 crore. Also, ~84% of proforma slippages came from retail book. **Restructured book was at ₹ 2709 crore (0.45% of loans).** The bank holds provisions worth ₹ 631 crore towards loans restructured under resolution framework for Covid-19 **while cumulative contingent provisions are at 2.08% of standard assets.** Retail collection efficiency has improved QoQ from 95% to 98% (ahead of pre-Covid level).

Business growth was a tad slower with loan book growth at 5.9% YoY to ₹ 582754 crore, as the bank continues to take a cautious approach towards corporate lending. Retail loan growth grew 9% YoY, which was, in turn, driven by home loans and small business loans. Majority of the sourcing has been done from existing bank customers and is largely salaried. SME book was up 6% QoQ, led by disbursement under ECLGS. Deposits were up 7.4% YoY to ₹ 635454 crore, led by CASA growth of 15.9% YoY. As a result, CASA ratio improved from 41.2% to 43.2% YoY. The bank's liability profile continued to remain granular **with CASA + retail term at 86% of total deposits compared to 80% a year ago.**

Valuation & Outlook

Though the current quarter results showed some blips, we believe the bank's focus on calibrated approach on growth, balance sheet strengthening, strong liability profile along with healthy capitalisation make it well placed to accrue earnings growth ahead. The management has also indicated that they would like to avoid any spillover impact on the next fiscal, thus suggesting normalisation from FY22E onwards. Healthy provision coverage, including contingent provision, provides comfort on smoothening earnings trajectory ahead. We expect earnings to grow at ~55% CAGR in FY21-23E and improvement in RoE at ~15% in FY23E. Therefore, we remain positive on the stock and arrive at a target price of ₹ 800 (₹ 710 earlier), valuing the stock at ~2x FY23E ABV. We maintain **BUY** rating.



Particulars

Particulars	Amount
Market Capitalisation	₹202269 crore
GNPA (Q3FY21)	₹ 21997 crore
NNPA (Q3FY21)	₹ 4609 crore
NIM (Q3FY21)	3.59
52 week H/L	760 /285
Net worth	₹ 98201 crore
Face value	₹ 2
DII Holding (%)	24.4
FII Holding (%)	46.0

Key Highlights

- Proforma NPA increased 27 bps QoQ to 4.5%
- Retail collection efficiency up to 98% from ~95% QoQ
- Maintain BUY recommendation with revised target price of ₹ 800

Risk to our call

- Increase in proforma slippage may keep credit cost elevated
- Continued slow loan growth may elongate recovery time

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	18618	21708	25206	29362	33086	36741	12%
PPP	15594	19005	23438	25770	29755	33729	14%
PAT	-263	4677	1629	7115	13457	17112	55%
ABV (₹)	182.5	215.4	267.9	283.7	334.7	400.3	
P/E	-630.1	35.5	111.7	25.6	13.5	10.6	
P/ABV	3.5	3.0	2.4	2.3	1.9	1.6	
RoA	0.0	0.6	0.2	0.8	1.3	1.5	
RoE	-0.4	7.2	2.1	8.1	13.8	15.3	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	7,373	7,403	6,453	14.3	7,326	0.6	Decent growth on account of steady margins
NIM (%)	3.59	3.60	3.57	2 bps	3.58	1 bps	Stable QoQ and YoY helped by lower cost of funds
Other Income	3,776	3,731	3,787	-0.3	3,807	-0.8	
Net Total Income	11,149	11,134	10,240	8.9	11,133	0.1	
Staff cost	1,677	1,484	1,365	22.9	1,413	18.7	Sequential rise due to increment in salary and gratuity
Other Operating Expenses	3,376	3,020	3,132	7.8	2,823	19.6	Pick up in sales, ad and promo expenses
PPP	6,096	6,630	5,743	6.1	6,898	-11.6	
Provision	4,604	3,175	3,471	32.7	4,581	0.5	Higher provision due to rising proforma NPA
PBT	1,491	3,455	2,272	-34.4	2,317	-35.6	
Tax Outgo	375	898	515	-27.2	634	-40.9	
PAT	1,117	2,556	1,757	-36.4	1,683	-33.6	Higher opex and credit cost impact PAT
Key Metrics							
GNPA	21,998	26,027	30,073	-26.9	26,832	-18.0	Proforma NPA increased 27 bps QoQ to 4.55%
NNPA	4,610	5,802	12,160	-62.1	6,108	-24.5	
Credit	582,754	610,653	550,138	5.9	576,372	1.1	Calibrated approach in corporate lending led to modest growth
Deposit	635,454	680,427	591,676	7.4	635,454	0.0	CASA and retail TD drive growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	27,650	29,362	6.2	31,192	33,086	6.1	36,741
Pre Provision Profit	22,330	25,770	15.4	25,708	29,755	15.7	33,729
NIM(%) (calculated)	3.6	3.9	28 bps	3.4	4.0	58 bps	3.9
PAT	6,360	7,115	11.9	10,407	13,457	29.3	17,112
ABV per share (₹)	336.8	283.7	-15.8	364.4	334.7	-8.1	400.3

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	12.5	15.5	6.6	13.6	13.6	10.3	13.6
Deposit Growth (%)	20.9	16.7	7.3	14.4	14.5	13.4	15.7
CASA ratio (%)	44.4	41.2	43.0	42.1	41.2	42.4	42.8
NIM Calculated (%)	3.4	3.5	3.9	4.0	3.9	3.6	3.6
Cost to income ratio (%)	45.4	42.5	40.6	38.8	37.6	46.2	43.5
GNPA (₹ crore)	29,789	30,234	34,797	34,158	32,647	33,285	34,055
NNPA (₹ crore)	11,276	9,360	11,010	9,094	6,722	10,553	11,428
Slippage ratio (%)	3.2	4.0	2.5	1.8	1.7	2.4	2.0
Credit cost (%)	2.4	3.2	2.7	1.7	1.4	2.2	1.6

Source: Company, ICICI Direct Research

Conference Call Highlights

Asset quality & moratorium

- Proforma NPA was ~₹ 6700 crore of which 84% came in from retail segment, 10% from corporate and 6% from SME
- Now the bank is not entertaining new restructuring. As a result, the restructured book could remain at same levels next quarter
- Slippage from BB and below rated book was at ₹ 819 crore
- Unsecured restructured retail book is 100% provided
- Collection efficiency in retail segment is at 98% vs. ~95% in Q2FY21 and 97% in pre-Covid
- Credit cost for next quarter could remain elevated as the bank does not want the impact of pandemic related stress to spill over to next year
- Check bounce rate remains slightly higher compared to pre-Covid numbers but is declining on a monthly basis

Business growth

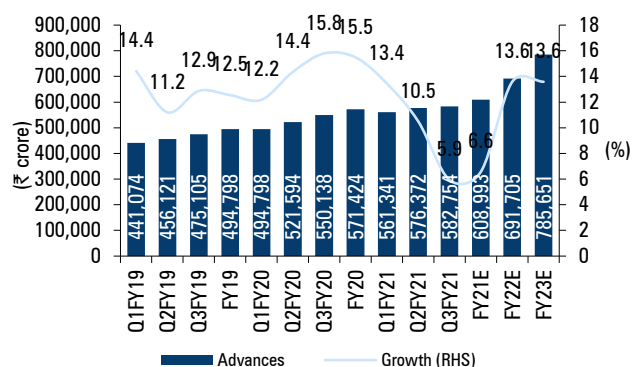
- Loan growth at 5.9% owing to selective lending in new business and tightening underwriting standards
- In corporate banking, the focus is on top rated corporates while in commercial banking cautious approach has been taken
- Corporate loan book including TLTRO investments grew 11% YoY
- Retail disbursements were at all-time high in Q3, disbursement in home loans was up 23% YoY
- 19% market share in UPI transactions and 17% in mobile banking
- 71% of cards are sourced through digital channels
- In the corporate segment, 94% of incremental lending is to corporates with A- and above rating

Operational performance

- NIMs negatively impacted by 30 bps due to interest reversals on proforma NPA
- Sequential increase in other operating cost on account of revival in business volumes and salary hike. Moreover, the bank has made provision for social security code based on actuarial valuation

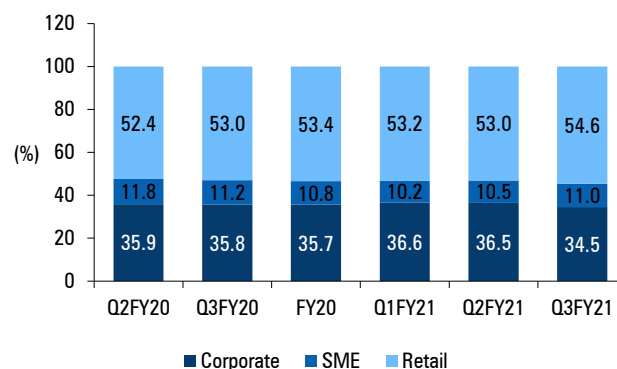
Story in Charts

Exhibit 4: Loan growth to pick up in medium term



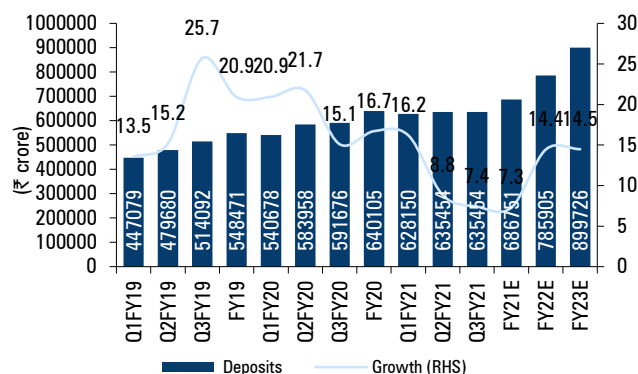
Source: Company, ICICI Direct Research

Exhibit 5: Retail remains major contributor



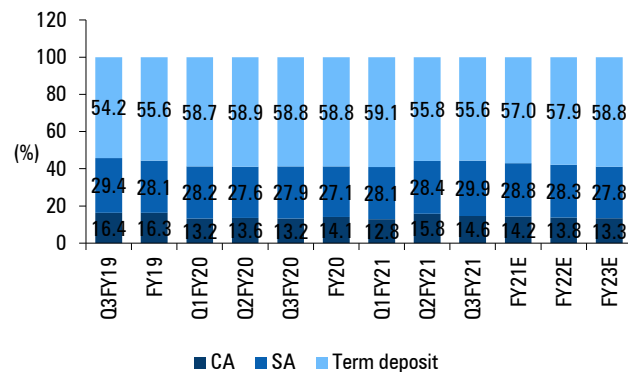
Source: Company, ICICI Direct Research

Exhibit 6: Deposit traction to garner momentum



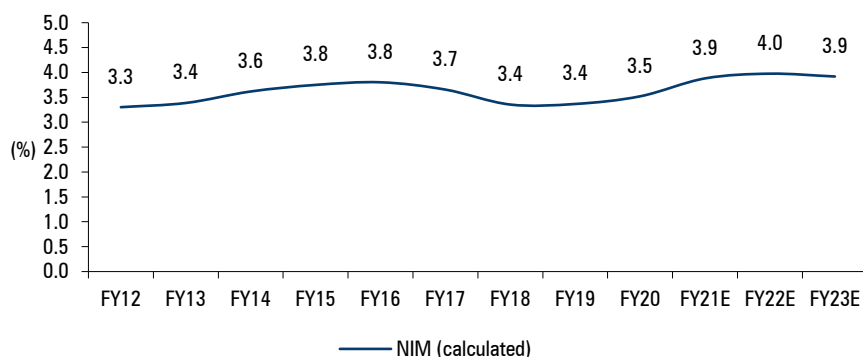
Source: Company, ICICI Direct Research

Exhibit 7: Healthy CASA levels



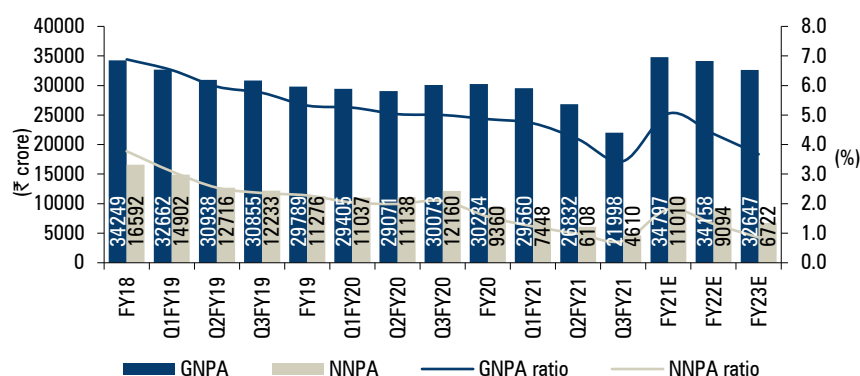
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain rangebound



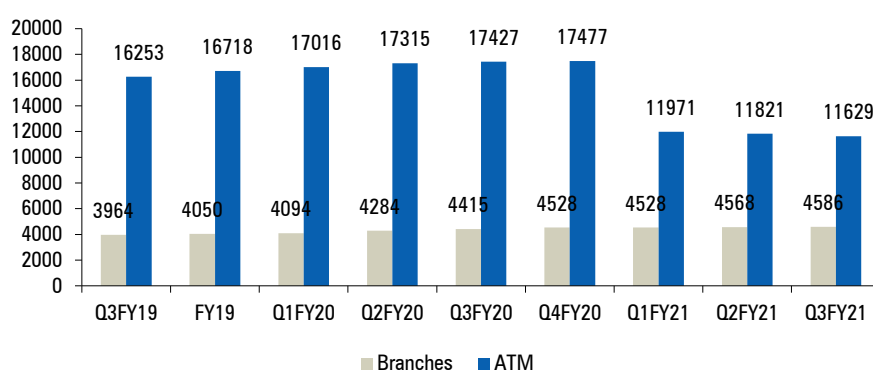
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality



Source: Company, ICICI Direct Research

Exhibit 10: Moderation in branch network



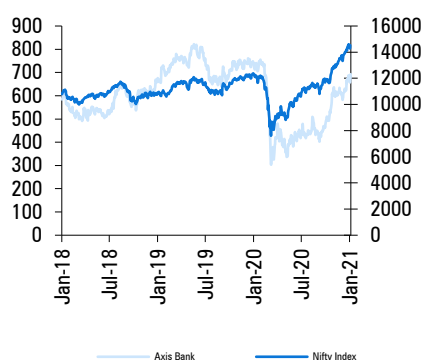
Source: Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	16.1	16.0	16.0	16.0	16.0
FII	48.4	45.5	46.0	46.0	46.0
DII	23.1	24.9	24.4	24.4	24.4
Others	12.4	13.6	13.6	13.6	13.6

Source: Company, ICICI Direct Research

Exhibit 12: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement

₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	54,986	62,635	64,643	73,828	83,315
Interest Expended	33,278	37,429	35,281	40,742	46,574
Net Interest Income	21,708	25,206	29,362	33,086	36,741
growth (%)	16.6	16.1	16.5	12.7	11.0
Non Interest Income	13,130	15,537	14,048	15,569	17,324
Net Income	34,839	40,743	43,411	48,654	54,064
Staff cost	4,747	5,321	5,259	5,906	6,665
Other operating Expense	11,086	11,984	12,382	12,993	13,670
Operating Profit	19,005	23,438	25,770	29,755	33,729
Provisions	12,031	18,532	16,219	11,692	10,759
PBT	6,974	4,906	9,551	18,062	22,970
Taxes	2,297	3,277	2,435	4,606	5,857
Net Profit	4,677	1,629	7,115	13,457	17,112
growth (%)	-1879.9	-65.2	336.9	89.1	27.2
EPS (₹)	18.2	5.8	25.2	47.7	60.6

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares	257.2	282.2	282.2	282.2	282.2
EPS (₹)	18.2	5.8	25.2	47.7	60.6
BV (₹)	259.3	301.1	322.8	366.9	424.1
ABV (₹)	215.4	267.9	283.7	334.7	400.3
P/E	35.5	111.7	25.6	13.5	10.6
P/BV	2.5	2.1	2.0	1.8	1.5
P/ABV	3.0	2.4	2.3	1.9	1.6
Yields & Margins (%)					
Net Interest Margins	3.4	3.5	3.9	4.0	3.9
Yield on assets	8.5	8.7	8.5	8.9	8.9
Avg. cost on funds	5.1	5.0	4.3	4.6	4.7
Yield on average advances	8.8	9.1	8.7	9.1	9.1
Avg. Cost of Deposits	4.7	4.9	4.4	4.6	4.7
Quality and Efficiency					
Cost to income ratio	45	42	41	39	38
Credit/Deposit ratio	90.2	89.3	88.7	88.0	87.3
GNPA	5.3	4.7	5.0	4.4	3.7
NNPA	2.3	1.6	1.8	1.3	0.9
ROE	7.2	2.1	8.1	13.8	15.3
ROA	0.6	0.2	0.8	1.3	1.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet

₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital	514	564	564	564	564
Reserves and Surplus	66162	84384	90508	102975	119096
Networth	66676	84948	91073	103539	119661
Deposits	548471	640105	686751	785905	899726
Borrowings	152776	147954	148493	150902	153353
Other Liabilities & Provision:	33073	42158	52288	63489	77240
Total	800997	915165	978604	1103835	1249980
Application of Funds					
Fixed Assets	4037	4313	5965	6771	7754
Investments	174969	156734	170924	186488	203571
Advances	494798	571424	608993	691705	785651
Other Assets	59988	85425	145118	163937	189582
Cash with RBI & call money	67205	97268	47603	54934	63422
Total	800997	915165	978604	1103835	1249980

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios

(%)

(Year-end March)	FY19	FY20E	FY21E	FY22E	FY23E
Total assets	15.9	14.3	6.9	12.8	13.2
Advances	12.5	15.5	6.6	13.6	13.6
Deposit	20.9	16.7	7.3	14.4	14.5
Total Income	20.0	14.8	0.7	13.6	12.6
Net interest income	16.6	16.1	16.5	12.7	11.0
Operating expenses	13.2	9.3	1.9	7.1	7.6
Operating profit	21.9	23.3	9.9	15.5	13.4
Net profit	-1879.9	-65.2	336.9	89.1	27.2
Net worth	5.1	27.4	7.2	13.7	15.6
EPS	(1,876.4)	(68.3)	336.9	89.1	27.2

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector/ Company	CMP		M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BoB (BANBAR)	76	70	Hold	307	1.2	4.3	7.1	64.3	17.7	10.7	0.7	0.6	0.6	0.1	0.2	0.3	0.9	2.7	4.4
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	645	800	Buy	2042	5.8	25.2	47.7	112	25.6	13.5	2.4	2.3	1.9	0.2	0.8	1.3	2.1	8.1	13.8
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	940	1,050	Hold	728	63.7	32.5	50.9	14.8	28.9	18.5	2.0	1.9	1.8	1.5	0.8	1.1	14.4	6.6	9.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3527	20.4	23.5	27.2	86.2	75.0	64.6	10.8	8.8	7.8	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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