



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Reco: Buy	↔
CMP: Rs. 775	
Price Target: Rs. 900	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

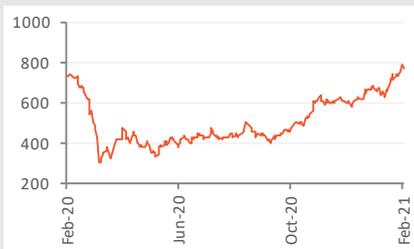
Company details

Market cap:	Rs. 2,37,422 cr
52-week high/low:	Rs. 800/285
NSE volume: (No of shares)	226.8 lakh
BSE code:	532215
NSE code:	AXISBANK
Free float: (No of shares)	264.4 cr

Shareholding (%)

Promoters	13.4
FII	56.8
DII	23.0
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.7	26.4	78.0	3.7
Relative to Sensex	9.6	7.0	40.5	-22.0

Sharekhan Research, Bloomberg

Summary

- Axis Bank has a strong asset-quality position, with the bank having front-loaded of provisions (on a proforma basis), which dovetail into an improved balance sheet and provide impetus for growth in FY2022E and FY2023E.
- For Q3FY2021, asset quality improved q-o-q; front-loading of provisions (on proforma basis) augurs well for the long term; aggregate basis provision coverage is at 116% of GNPA.
- Management's growth commentary on FY2022E growth offers confidence; the stock trades at 2.4x/2.2x its FY2022E/FY2023E ABVPS; improving tailwinds are positive, we have accordingly fine tuned our target multiples.
- We maintain Buy on the stock with a revised PT of Rs. 900.

Axis Bank has a strong asset-quality position, with the bank having front-loaded of provision (on a proforma basis), which dovetail into an improved balance sheet and provides impetus for growth in FY2022E and FY2023E. The bank's cumulative provisions (standard + additional other than NPAs) translate to 2.08% of standard loans; aggregate provision coverage ratio (specific+ standard+ additional + COVID-19 provisions) stood at healthy 116% of GNPA. Around 81% of the retail book is secured. Moreover, reasonable restructuring book (26% Provision cover; 100% provisions cover for unsecured retail restructured book) are positive cushions for the asset quality. Management commentary was positive and indicated that FY2022E is likely to be a strong year for growth and profitability, and most of the residual asset-quality recognition is likely to be completed in FY2021, with minimal impact on provisions. Axis Bank is well-capitalised with a strong CRAR (Tier1 at 15.6%), helped by the recent fund-raising. The bank's digital prowess, improving business traction across segments, near-normal collection efficiency, and business strengths indicate an improving outlook. We believe improved economic growth (helped by a progressive and growth-oriented government policy and Union Budget) is positive for the banking sector, and strong players such as Axis Bank are well placed to benefit from it. We have accordingly fine-tuned our target multiples. We maintain Buy on the stock with a revised price target (PT) of Rs. 900.

Our Call

Valuation - Axis Bank is available at 2.4x/2.2x its FY2022E/FY2023E ABVPS. We believe valuations are reasonable and there is potential for re-rating once earnings and the economic scenario normalise. A conservative provisioning policy, comfortable capitalisation, overall franchise value, and a high provision coverage ratio (PCR) are positives, which will help the bank ride over medium-term challenges and provide support to growth and valuations. The deal with Max Financial Services and other bancassurance partnerships augur well for fee income sustainability and growth in the long run. We have accordingly fine-tuned our target multiples. We maintain Buy on the stock with a revised PT of Rs. 900.

Key risk

Prolonged uncertainty due to intermittent lockdowns may impact growth and rise in NPAs in unsecured and other retail segments can pose a risk to profitability.

Valuation

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	21,708	25,206	24,934	27,330	30,155
Net profit	4,676	1,627	5,485	9,392	10,024
EPS (Rs)	18.2	5.8	19.4	33.3	35.5
PE (x)	42.6	134.4	39.9	23.3	21.8
Adj book value (Rs/share)	213.3	263.1	297.3	321.9	347.9
P/ABV (x)	3.6	2.9	2.6	2.4	2.2
RoE (%)	7.2	2.1	6.1	9.5	9.4
RoA (%)	0.6	0.2	0.5	0.8	0.7

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector View – Credit growth yet to pick up, private banks placed better

System-level credit offtake, which is still subdued, is now improving, with credit growth of over 6% in the latest fortnight. On the other hand, deposits rose by ~12%, which indicate relatively healthy economic scenario. Moreover, the accommodative stance of the Reserve Bank of India (RBI), resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, collection efficiency is likely to be a function of book quality, client profile, as well as economic pickup. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with improved capitalisation and strong asset quality (with high coverage and provisions buffers) are structurally better placed to take-off once the situation normalises.

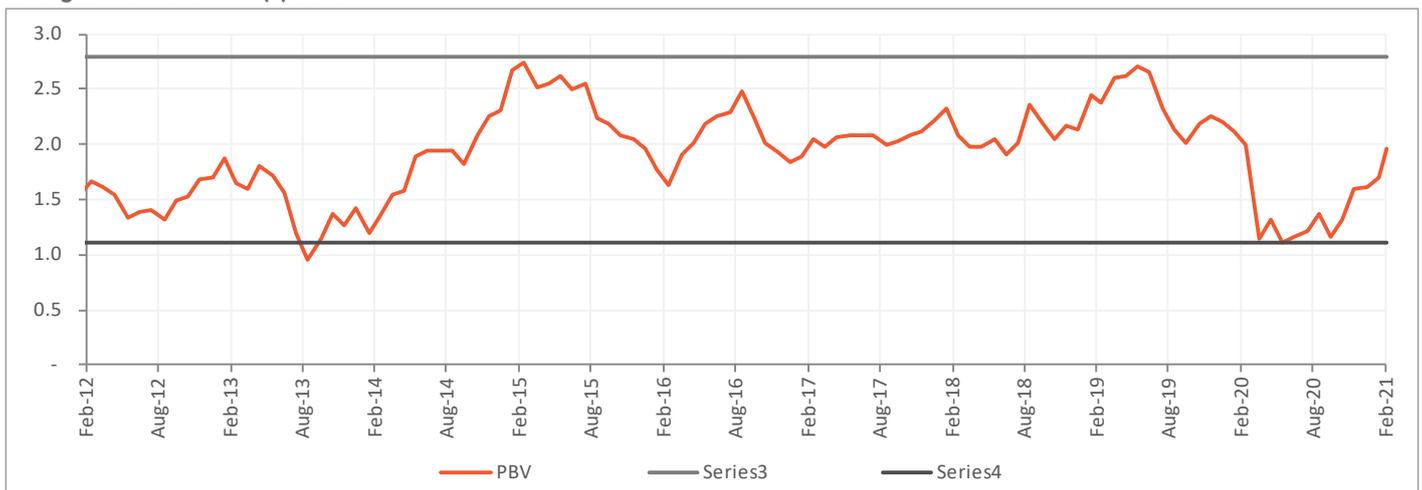
■ Company Outlook – Looks promising

We believe with Axis Bank's strong positioning, across retail, business banking, and corporate with a pan-India presence, we expect the bank is likely to see lesser challenges to growth as and when it starts to unwind its cautious stance. Axis Bank has tightened underwriting standards and oversight and is now front-loading the provisions, which we believe is positive and allows it to target growth in FY2022E unburdened from legacy issues. In the retail segment too, along with tighter underwriting criteria across product lines, collection efficiency has also been strengthened. The strong liabilities segment (led by retail term and CASA deposits) places it at a strong position with margin cushions. We believe while Axis Bank is being prudent with a provision buffer, it is a long-term positive and will help to provide investor comfort.

■ Valuation – Maintain Buy with a revised PT of Rs. 900

Axis Bank is available at 2.4x/2.2x its FY2022E/FY2023E ABVPS. We believe valuations are reasonable and there is potential for re-rating once earnings and economic scenario normalise. A conservative provisioning policy, comfortable capitalisation, overall franchise value, and a high PCR are positives, which will help the bank ride over medium-term challenges and provide support to growth and valuations. The deal with Max Financial Services and other bancassurance partnerships augur well for fee income sustainability and growth in the long run. We believe improved economic growth (helped by a progressive and growth-oriented government policy and Union Budget) are positives for the banking sector, and strong players such as Axis Bank are well placed to benefit from it. We have accordingly fine-tuned our target multiples. We maintain Buy on the stock with a revised PT of Rs. 900.

One-year forward PBV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Axis Bank	775	2.3	2.2	39.9	23.3	0.5	0.8	6.1	9.5
HDFC Bank	1626	4.5	3.9	29.3	24.2	1.9	2.0	16.5	17.2
ICICI Bank	658	3.2	2.9	32.4	24.3	1.2	1.4	10.7	12.3
Kotak Mahindra Bank	2020	2.9	2.6	36.5	23.9	1.7	1.7	6.6	8.6

Source: Company, Sharekhan Research

About company

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank has 11 subsidiaries, which contribute and benefit from the bank's strong market position across categories.

Investment theme

Axis Bank has a well-diversified loan book having strengths in both retail and corporate segments. The bank's liability profile has improved significantly, which would be helpful in sustaining margins at healthy levels. Loan book quality is improving, with greater emphasis on the granular and retail business, which we believe is positive for its profitability and growth going forward. We believe comfortable liquidity, overall franchise value, healthy capitalisation levels, and a high (PCR) enable Axis Bank to ride over medium-term challenges. The deal with MFS is also a long-term positive that can yield considerable benefits. At present, we believe risk reward is favourable for long-term investors.

Key Risks

Prolonged uncertainty due to intermittent lockdowns may impact growth and rise in NPAs in unsecured and other retail segments can pose a risk to profitability.

Additional Data

Key management personnel

Mr Amitabh Chaudhry	MD & CEO
Mr Rajiv Anand	Executive Director
Mr Puneet Sharma	President & CFO
Mr Deepak Maheshwari	Group Executive & CCO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.3
2	Dodge & Cox	3.59
3	Unit Trust of India	3.37
4	SBI Funds Management Pvt Ltd	3.19
5	BC ASIA INVESTMENTS	3.12
6	Vanguard Group Inc/The	2.67
7	ICICI Prudential Asset Management	2.59
8	BlackRock Inc	2.47
9	FMR LLC	2.37
10	HDFC Trustee Co Ltd/India	2.13

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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