

# Retail Equity Research

## Axis Bank Limited

Banking

BSE CODE: 532215

NSE CODE: AXISBANK

Bloomberg CODE: AXSB:IN

SENSEX: 59,307

**BUY**

 12Months Investment Period Rating as per Large cap  
 CMP Rs. 742 TARGET Rs. 889 RETURN 20% ↑  
 (Closing: 29-10-21)

**KEY CHANGES:**
**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

### Asset quality stable; Recoveries at an all-time high

Axis Bank offers a wide range of banking services in India that includes cash and credit management services, retail banking, investment management and treasury services amongst others.

- Pre-provisioning profit down 11.0% YoY to Rs. 5,928cr as operating expense grew 36.2% YoY due to higher volumes and collection expenses.
- CASA deposits grew by 18.6% YoY as CASA ratio stood at 42.0%; Total loans increased 7.9% YoY.
- Although the quarter saw inflated costs and stress on margins, we remain positive on the stock with solid balance sheet and necessary steps taken to make product mix favourable. Hence we reiterate our BUY rating on the stock based on 2.1x FY23E BVPS with a revised target price of Rs. 889.

### Lower provisioning boosts PAT

The quarter saw a muted growth in interest income to Rs. 16,336cr (+2.2% YoY) and on the other hand the interest expense took a small dip to Rs. 8,436cr (-2.5% YoY) as cost of deposits slid down 68bps YoY to 3.69% this quarter. As a result, Net interest income stood at Rs. 7,900cr (7.8% YoY; 1.8% QoQ) with Net interest margin at 3.39% in Q2FY22. Non-interest income up by 6.4% YoY on the back of 17.0% YoY growth in Fees and commission. However, the other operating expense grew by 36.2% YoY to Rs. 5,771cr mainly due to higher business volumes, higher collection expense and IT statutory costs. Hence, Pre-provision profit was down 11.0% YoY to Rs. 5,928cr. Provisions were set at Rs. 1,735cr (-60.0% YoY) boosting PAT to 86.2% YoY growth this quarter to Rs. 3,133cr.

### Asset quality strengthens as net slippages decline

Strong growth in granular CASA deposits continues to drive loan growth as CASA (on QAB basis) grew by 18.6% YoY with CASA ratio at 42% (+201bps YoY). Led by retail loans (+13.1% YoY), total loans and advances grew by 7.9% YoY. GNPA/NNPA stood at 3.53%/1.08% (vs. 3.85%/1.2% in Q1FY22) as net slippages decline 82% on sequential basis. Overall restructuring stood at 0.64% of gross customer assets and retail at 0.80% as the overall provision coverage ended at 24% on the restructured book. Liquidity Coverage ratio (LCR) improved 617bps on a sequential basis to 124% as overall Capital adequacy ratio stood at 20.04% at the end of the quarter.

### Key concall highlights

- Management has mentioned that margins have been impacted due to a product mix change which will become favourable in the upcoming quarters.
- Out of the overall operating expense, ~7.5% increase on sequential basis is due to one-off expense which is unlikely to be repeated in the future.
- The quarter saw 64% increase in recoveries from written off retail accounts, making Q2FY22 the best quarter in terms of recoveries in the last 18 months.

### Outlook and valuation

The quarter saw weak operational performance and stressed margins due to increase in opex. The proposed change in the product mix is expected to reduce the operational costs and strong granular deposits is expected to aid loan growth. We remain positive on the stock as the bank witness strong collections and improved asset quality. Hence we reiterate our BUY rating on the stock based on 2.1x FY23E BVPS with a revised target price of Rs. 889.

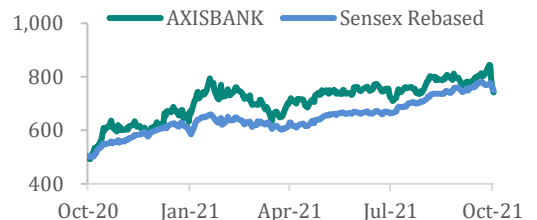
### Company Data

Market Cap (cr)	Rs. 233,016
Outstanding Shares (cr)	282
Free Float	84.0%
Dividend Yield	0.0%
52 week high	Rs. 867
52 week low	Rs. 482
6m average volume (lacs)	5.1
Beta	1.4
Face value	Rs. 2

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	13.6	11.7	11.4
FII's	51.4	52.5	50.1
MFs/Insti	23.3	24.3	27.2
Public	4.9	5.0	4.8
Others	6.9	6.6	6.5
Total	100.0	100.0	100.0
Promoters' Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	59.0%	58.4%	130.9%
Absolute Sensex	12.6%	19.2%	49.2%
Relative Return*	46.3%	39.3%	81.7%

\*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Net Interest Income	29,239	34,564	39,536
Growth (%)	16.0	18.2	14.4
NIM (%)	3.7	3.9	4.0
Pre-Provision Profit	25,702	30,296	34,135
Net Profit	6,589	13,076	15,704
Growth (%)	304.9	98.5	20.1
Adj. EPS	22.1	43.8	52.7
Growth (%)	65.6	98.5	20.1
BVPS	340.7	378.4	423.1
P/E	31.6	16.9	14.1
P/B	2.0	2.0	1.8
ROE (%)	7.1	12.2	13.1
ROA (%)	0.7	1.3	1.4

## Quarterly Financials (Standalone)

### Profit & Loss Account

(Rs. cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Interest Income	16,336	15,981	2.2	16,003	2.1	32,339	32,426	(0.3)
Interest Expense	8,436	8,655	(2.5)	8,243	2.3	16,679	18,115	(7.9)
<b>Net Interest Income</b>	<b>7,900</b>	<b>7,326</b>	<b>7.8</b>	<b>7,760</b>	<b>1.8</b>	<b>15,661</b>	<b>14,311</b>	<b>9.4</b>
Non-Interest Income	3,798	3,569	6.4	3,358	13.1	7,157	5,794	23.5
<b>Total Income</b>	<b>20,134</b>	<b>19,550</b>	<b>3.0</b>	<b>19,362</b>	<b>4.0</b>	<b>39,496</b>	<b>38,220</b>	<b>3.3</b>
Operating Expenses	5,771	4,236	36.2	4,932	17.0	10,703	7,963	34.4
<b>Total Expenditure</b>	<b>14,206</b>	<b>12,890</b>	<b>10.2</b>	<b>13,176</b>	<b>7.8</b>	<b>27,382</b>	<b>26,078</b>	<b>5.0</b>
<b>Pre-Provisioning profit</b>	<b>5,928</b>	<b>6,660</b>	<b>(11.0)</b>	<b>6,186</b>	<b>(4.2)</b>	<b>12,115</b>	<b>12,142</b>	<b>(0.2)</b>
Provisions	1,735	4,343	(60.0)	3,302	(47.5)	5,037	8,397	(40.0)
<b>Profit Before Tax</b>	<b>4,193</b>	<b>2,317</b>	<b>81.0</b>	<b>2,884</b>	<b>45.4</b>	<b>7,077</b>	<b>3,745</b>	<b>89.0</b>
Tax	1,060	634	67.1	724	46.4	1,784	950	87.7
<b>Net Profit</b>	<b>3,133</b>	<b>1,683</b>	<b>86.2</b>	<b>2,160</b>	<b>45.1</b>	<b>5,293</b>	<b>2,795</b>	<b>89.4</b>
Adj.	0	0	-	0	-	0	0	n.m.
<b>Adj. PAT</b>	<b>3,133</b>	<b>1,683</b>	<b>86.2</b>	<b>2,160</b>	<b>45.1</b>	<b>5,293</b>	<b>2,795</b>	<b>89.4</b>
Adj. EPS - Diluted (Rs.)	10.2	5.7	79.1	7.7	33.2	17.2	9.5	82.2

### Change in Estimates

Change in estimates	Old Estimates		New Estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income	33,444	39,043	34,564	39,536	3.4	1.3
Pre-Provisioning Profit	32,994	40,227	30,296	34,135	(8.2)	(15.1)
Net Profit	13,320	17,595	13,076	15,704	(1.8)	(10.7)
EPS (Rs.)	44.7	59.0	43.8	52.7	(1.8)	(10.7)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	54,986	62,635	63,346	75,678	85,559
Interest Exp.	33,278	37,429	34,107	41,114	46,023
<b>Net Int. Income</b>	<b>21,708</b>	<b>25,206</b>	<b>29,239</b>	<b>34,564</b>	<b>39,536</b>
% Change	16.6	16.1	16.0	18.2	14.4
Non-Int. Income	13,130	15,537	14,838	15,580	16,359
<b>Net Income</b>	<b>34,839</b>	<b>40,743</b>	<b>44,077</b>	<b>50,144</b>	<b>55,895</b>
<b>Total Income</b>	<b>68,116</b>	<b>78,172</b>	<b>78,184</b>	<b>91,258</b>	<b>101,918</b>
Operating Exp.	15,833	17,305	18,375	19,849	21,759
<b>Total Exp.</b>	<b>49,111</b>	<b>54,734</b>	<b>52,482</b>	<b>60,962</b>	<b>67,783</b>
<b>Pre-Prov. Profit</b>	<b>19,005</b>	<b>23,438</b>	<b>25,702</b>	<b>30,296</b>	<b>34,135</b>
Provisions	12,031	18,534	16,896	12,819	13,146
PBT	6,974	4,904	8,806	17,476	20,989
Tax	2,297	3,277	2,217	4,401	5,285
Tax Rate (%)	32.9	66.8	25.2	25.2	25.2
<b>Net Profit</b>	<b>4,677</b>	<b>1,627</b>	<b>6,589</b>	<b>13,076</b>	<b>15,704</b>
% Change	1,596.4	(65.2)	304.9	98.5	20.1
Adj.	0	2,138	0	0	0
<b>Adj. Net Profit</b>	<b>4,677</b>	<b>3,765</b>	<b>6,589</b>	<b>13,076</b>	<b>15,704</b>
No. of Shares (cr)	258	282	298	298	298
Adj. EPS (Rs.)	18.1	13.3	22.1	43.8	52.7
% Change	1,509.6	(26.3)	65.6	98.5	20.1
DPS (Rs.)	1.0	0.0	0.0	6.1	7.9

## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	67,205	97,268	61,730	58,272	80,527
Investments	174,969	156,734	226,120	241,948	254,045
Advances	494,798	571,424	614,399	700,415	801,976
Fixed Assets	4,037	4,313	4,245	4,330	4,546
Other Assets	59,988	85,425	80,304	81,910	86,005
<b>Total Assets</b>	<b>800,997</b>	<b>915,165</b>	<b>986,798</b>	<b>1,086,875</b>	<b>1,227,099</b>
Capital	514	564	613	613	613
Reserves Surplus	66,162	84,384	100,990	112,235	125,584
Deposits	548,471	640,105	697,985	781,744	899,005
Borrowings	152,776	147,954	142,873	145,731	153,017
Other Liabilities	33,073	42,158	44,336	46,553	48,881
<b>Total Liabilities</b>	<b>800,997</b>	<b>915,165</b>	<b>986,798</b>	<b>1,086,875</b>	<b>1,227,099</b>
<b>BVPS (Rs.)</b>	<b>258.0</b>	<b>300.9</b>	<b>340.7</b>	<b>378.4</b>	<b>423.1</b>
<b>Adj. BPS (Rs.)</b>	<b>221.7</b>	<b>276.2</b>	<b>290.9</b>	<b>354.2</b>	<b>423.1</b>
% Change	4.2	24.5	5.3	12.9	19.5

## RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Valuation</b>					
P/E (x)	43.1	28.4	31.6	16.9	14.1
P/BV (x)	3.0	1.3	2.0	2.0	1.8
Div. Yield (%)	0.1	0.0	0.0	0.8	1.1
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	8.8	9.1	8.0	8.5	8.6
Cost of Deposits	5.1	5.0	4.2	4.7	4.7
Spread	3.7	4.0	3.8	3.9	3.9
NIM	3.4	3.6	3.7	3.9	4.0
ROE	7.2	2.1	7.1	12.2	13.1
ROA	0.6	0.2	0.7	1.3	1.4
<b>Capital Adequacy (%)</b>					
CAR	15.8	17.5	17.5	18.3	18.0
Tier I	12.5	14.5	14.5	15.2	15.3
Tier II	3.3	3.0	3.0	3.1	2.8
<b>Asset Quality (%)</b>					
GNPA	5.3	4.9	4.9	3.5	3.3
NNPA	2.1	1.6	1.6	1.2	0.9
<b>Operating Ratios (%)</b>					
Credit/ Deposit	90.2	89.3	88.0	89.6	89.2
Cost/ Income	72.1	70.0	67.1	66.8	66.5
CASA	44.4	41.2	39.6	39.8	40.1

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
30-Jan-18	HOLD	650
30-Nov-18	HOLD	650
30-Aug-19	HOLD	717
1-Nov-19	HOLD	797
31-Jan-20	HOLD	794
9-Apr-20	BUY	474
10-Aug-20	BUY	528
3-Nov-20	BUY	603
1-Feb-21	BUY	789
29-Jul-21	BUY	815
01-Nov-21	BUY	889

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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