

Axis Bank Ltd.



RESULT UPDATE

28th October 2021

Axis Bank Ltd.

Decline in provisions improves profitability for the quarter

CMP INR 787	Target INR 936	Potential Upside 18.9%	Market Cap (INR Cr) INR 2,41,464	Recommendation BUY	Sector Banking
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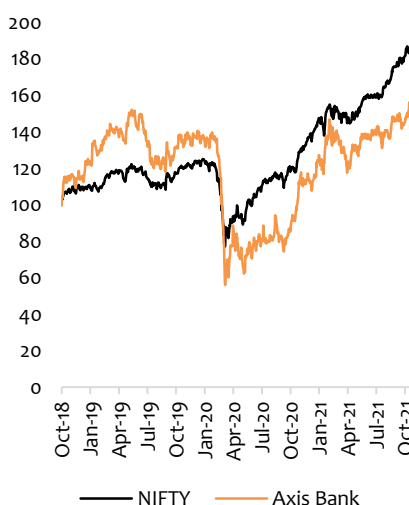
Result Highlights of Q2 FY22

- The Bank's Net Interest Income (NII) grew 8% YoY to INR 7,900 Cr from INR 7,326 Cr in Q2FY21. Net interest margin (NIM) for Q2FY22 stood at 3.39%.
- The Bank's operating profit for the quarter was INR 5,928 Cr while the core operating profit was INR 5,456 Cr. Net profit grew 86% from INR 1,683 Cr in Q2FY21 to INR 3,133 Cr in Q2FY22.
- The total deposits grew by 18% YOY, both on period end basis and quarterly average balance (QAB) basis. The Bank's advances grew 10% YoY to INR 6,21,719 Cr as on 30th September 2021.
- As on 30th September 2021, the Bank's reported Gross NPA and Net NPA levels were 3.53% and 1.08% respectively as against 3.85% and 1.20% as on 30th June 2021.
- Overall capital adequacy ratio (CAR) including profit for H1FY22 stood at 20.04% with CET 1 ratio of 15.81%.

MARKET DATA

Shares outs (Cr)	307
Equity Cap (INR CR)	1,07,083
Mkt Cap (INR Cr)	2,41,464
52 Wk H/L (INR)	867/482
Volume Avg (3m K)	8,518
Face Value (INR)	2
Bloomberg Code	AXSB IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

Particulars (INR Crores)	FY20	FY21	FY22E	FY23E	FY24E
NII	25,206	29,239	31,891	36,986	44,095
PPOP	23,438	25,702	27,484	31,715	37,019
PAT	1,627	6,588	12,754	16,619	20,143
EPS	5.97	21.53	41.68	54.31	65.82
NIM	3.5%	3.7%	3.5%	3.6%	3.8%
Advances Growth	15.5%	9.2%	12.0%	14.0%	16.0%

Source: Company, KRChoksey Research

Slippages moderates sequentially: The Gross slippages for Q2FY22 were INR 5,464 Cr, lower than Q1FY22 slippages but higher than Q2FY21 slippages of INR 1,751 Cr. Slippages in Q2FY21 were moderated due to regulatory forbearances that do not exist in the current quarter. The GNPA and NNPA ratios of the bank have improved at 3.53% and 1.08%, respectively lower on a sequential basis. The bank's PCR remains stable at 70% as of 30th Sept 2021. AXSB expects moderation if the slippages from H2FY22E lead to improvement in asset quality ratios. We expect GNPA/NNPA moderation to result in a decline in credit cost in the coming quarters.

Liability franchise strengthened further with improvement in loan book growth: The liabilities strategy is driven through premiumization, granularisation, and deepening for AXSB. Total deposits in Q2FY22 grew 18% YoY. CASA grew 21.4% YoY and 4.7% QoQ basis, CASA ratio stood at 44%, improving by 100 bps YoY. The overall loan book grew by 10% YoY. The Bank's loan to deposit ratio stood at 84%. Retail loans grew 16% YoY and 4% QoQ. The share of secured retail loans was ~ 80%, with home loans comprising 37% of the retail book. We expect the liability franchise to strengthen further with a growth of 14% CAGR over FY21-23E. We anticipate the loan book to grow at 14.0%, in line with the deposit growth over FY21-24E with strong growth momentum in the retail business.

Healthy NII growth with further stable in cost to income ratio: NII for Q2FY22 grew 8% YoY/ 1.8% QoQ with a decline in cost of funds. PPOP saw a decline by 14.1% YoY and 7.6% QoQ due to higher other operating expenses during Q2FY22. The fee income growth stood at INR 3,231 Cr, increasing 17% YoY/21% QoQ. We expect the fee income show healthy growth in the long term with a gradual recovery in the economic activities. NIMs are expected to be at a show slight improvement in H2FY22. We expect operating expenses to remain higher in the near term with pickup in business activity.

MARKET INFO

SENSEX	61,143
NIFTY	18,211

SHARE HOLDING PATTERN (%)

Particulars	Sep-21	Jun-21	Mar-21
Promoters	11.6	11.7	13.6
FIIIs	51.4	52.5	51.4
DIIIs	25.4	24.2	23.3
Others	11.6	11.6	11.7
Total	100.0	100.0	100.0

14.7%

NII CAGR between FY21 and FY24E

45.1%

PAT CAGR between FY21 and FY24E

ANALYST

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Key Concall Highlights:

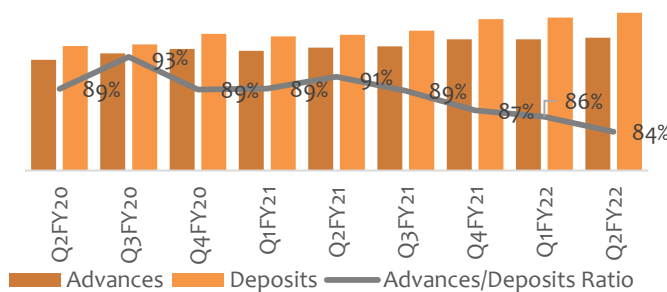
- The rapid pace of vaccination, continued support from the regulator and the government and the receding threat of a third wave gives confidence that the strong pace of economic recovery to continue in second half of this year.
- AXSB will continue to invest in the franchise and is seeing a short-term cost escalation. The pace of growth in cost will moderate in H2FY22 as basic corrections like salary costs take place.
- The bank is well equipped to capitalize on opportunities and is investing in the franchise to deal with contingencies.
- The management expects FY22E net margins to remain at or marginally above H1 level but will improve structurally over the medium- to long-term.
- The current capital adequacy ratio is best that the bank had. The balance sheet is resilient, visible through declining NPA ratio, stable provision cover, buildup of non-NPA provisions, prudent, limited and largely secured restructuring.
- The bank has undertaken prudent limited and largely secured restructuring. The outstanding implemented fund-based restructuring 1 and 2 stand at INR 4,342 Cr.
- The linked nonfunded exposure on restructured loans is INR 1,002 Cr.
- The fund-based investment and investment BB book stood at INR 7,307 Cr, declining to INR 1,370 Cr on a QoQ basis, which is a 16% QoQ decline.
- Corporate disbursements were up 24% QoQ and flat YoY. The Mid Corporate segment grew 32% YoY, 10% QoQ. The Commercial Banking segment grew 18% YoY, 7% QoQ. These segments are helping AXSB bring greater granularity to its books, reduce risks and meet its RAROC criteria.
- The bank has become more comfortable in growing retail unsecured book on an incremental basis.

Valuation and view

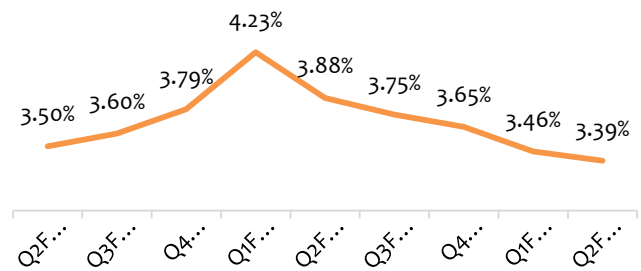
The Q2FY22 earning for AXSB was a mixed bag. Asset quality for the quarter was stable, whereas the operating performance was sluggish with margin contraction impacted by product mix, higher expenses, and slow growth pace. Provision coverage remained steady at 70%. We expect, in the long run, AXSB to benefit on the back of its expansion of branches, strengthening the loan book mix, gaining market share, and lowering credit costs. We expect the asset quality to improve from H2FY22 onwards with additional buffer provisions made by the bank.

We have factored in a CAGR of 14.0% in advances, 14.7% in NII, 12.9% in PPOP, and 45.1% in PAT driven by healthy financial metrics on all fronts over FY21-24E. We revise our target price to INR 936 per share (earlier INR 807 per share), applying a P/ABV multiple of 2x to its FY24E adj. Book Value. The revision is based on roll forward from FY23E Adj BVPS to FY24E adj. BVPS. As a result, we upgrade our rating on the share of AXSB to “BUY” (previously HOLD).

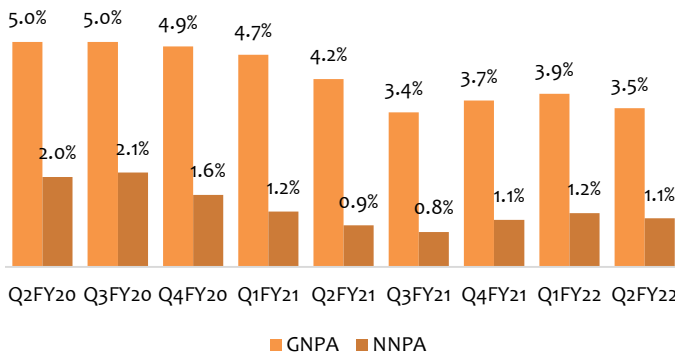
Advances/Deposits ratio (In INR Cr)



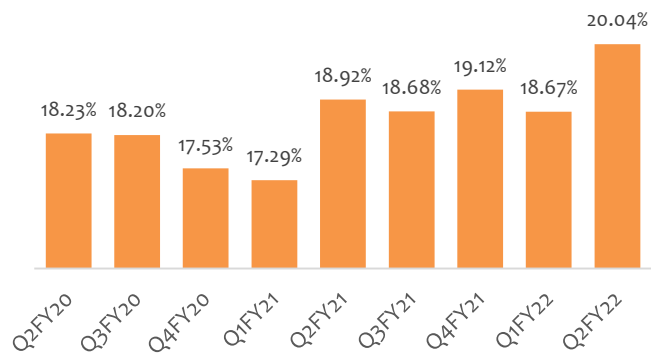
NIMs fell in Q2FY22



Asset Quality improved



Capital Adequacy : Strong



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	62,635	63,645	70,980	80,940	93,549
Interest Expense	37,429	34,406	39,089	43,954	49,455
Net Interest Income	25,206	29,239	31,891	36,986	44,095
Non interest income	15,537	14,838	16,322	18,770	21,586
Operating income	40,743	44,077	48,214	55,756	65,680
- Employee expense	5,321	6,164	6,472	6,861	7,272
- Other operating expense	11,984	12,211	14,653	17,584	21,101
Operating Expense	17,305	18,375	20,729	24,041	28,661
PPOP	23,438	25,702	27,484	31,715	37,019
Provisions	18,534	16,896	10,478	9,556	10,162
PBT	4,904	8,806	17,006	22,159	26,857
Tax Expense	3,277	2,217	4,251	5,540	6,714
PAT	1,627	6,588	12,754	16,619	20,143
Diluted EPS (INR)	5.97	21.53	41.68	54.31	65.82

Forecast is based on merged financials of BFIL; Historical numbers are not comparable
 Source: Company, KRChoksey Research

Axis Bank Ltd.

Exhibit 2: Balance Sheet

INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Source of Funds					
Share capital	564	612	613	613	613
Reserves & Surplus	84,384	1,00,923	1,13,677	1,30,296	1,50,439
Networth	84,948	1,01,535	1,14,290	1,30,909	1,51,052
Borrowings	1,47,954	1,42,873	1,54,303	1,66,647	1,79,979
Deposits	6,40,105	7,07,306	7,99,084	9,05,393	10,26,232
Other liabilities & provisions	42,158	44,405	27,897	34,328	57,091
Total Equity & Liabilities	9,15,165	9,96,119	10,95,575	12,37,278	14,14,354
Uses of Funds					
Balance w/ banks & others	97,268	61,730	64,213	66,710	69,589
Net investments	1,56,734	2,26,120	2,55,707	2,89,726	3,28,394
Loans & advances	5,71,424	6,23,720	6,98,567	7,96,366	9,23,784
Fixed assets	4,313	4,245	4,815	4,976	5,136
Other assets	85,426	80,304	72,273	79,501	87,451
Total Assets	9,15,165	9,96,119	10,95,575	12,37,278	14,14,354

Source: Company, KRChoksey Research

Axis Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21E	FY22E	FY23E	FY24E
Growth Rates					
Advances (%)	15.5%	9.2%	12.0%	14.0%	16.0%
Deposits (%)	16.7%	10.5%	13.0%	13.3%	13.3%
Total assets (%)	14.3%	8.8%	10.0%	12.9%	14.3%
NII (%)	16.1%	16.0%	9.1%	16.0%	19.2%
Pre-provisioning profit (%)	23.3%	9.7%	6.9%	15.4%	16.7%
PAT (%)	-65.2%	304.9%	93.6%	30.3%	21.2%
B/S Ratios					
Credit/Deposit (%)	89.3%	88.2%	87.4%	88.0%	90.0%
CASA (%)	43.5%	42.7%	41.9%	41.1%	40.2%
Advances/Total assets (%)	62.4%	62.6%	63.8%	64.4%	65.3%
Leverage - Total Assets to Equity	10.77	9.81	9.59	9.45	9.36
Operating efficiency					
Cost/income (%)	42.5%	41.7%	43.0%	43.1%	43.6%
Opex/total assets (%)	1.9%	1.8%	1.9%	1.9%	2.0%
Opex/total interest earning assets	2.4%	2.2%	2.2%	2.2%	2.3%
Profitability					
NIM (%)	3.5%	3.7%	3.5%	3.6%	3.8%
RoA (%)	0.2%	0.7%	1.2%	1.4%	1.5%
RoE (%)	2.1%	7.1%	11.8%	13.6%	14.3%
Asset quality					
Gross NPA (%)	4.9%	3.7%	3.5%	3.0%	2.8%
Net NPA (%)	1.6%	1.1%	1.1%	1.0%	0.8%
PCR (%)	67.9%	71.6%	75.0%	75.0%	75.0%
Slippage (%)	2.8%	3.2%	2.0%	1.8%	1.6%
Credit cost (%)	3.5%	2.8%	2.7%	1.5%	1.2%
Per share data / Valuation					
EPS (INR)	5.77	21.53	41.68	54.31	65.82
BVPS (INR)	301.08	331.80	373.48	427.79	493.62
ABVPS (INR)	267.91	308.95	347.95	400.62	468.08
P/E (x)	136.52	36.57	18.89	14.50	11.96
P/BV (x)	2.62	2.37	2.11	1.84	1.60
P/ABV (x)	2.94	2.55	2.26	1.97	1.68

Source: Company, KRChoksey Research

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Axis Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-21	787	936	BUY	Buy	More than 15%
31-Aug-21	783	807	Hold	Accumulate	5% – 15%
27-July-21	732	807	ACCUMULATE	Hold	0 – 5%
30-Apr-21	712	750	Hold	Reduce	-5% – 0
22-Apr-19	2,293	2,683	BUY	Sell	Less than – 5%
22-Oct-18	2,000	2,350	BUY		

ANALYST CERTIFICATION:

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