

BUY

TP: Rs 630 | ▲ 25%

AXIS BANK

| Banking

| 29 October 2020

Positive readthrough on asset quality parameters

Axis Bank's (AXSB) Q2FY21 PAT was healthy at Rs 17bn driven by 20% YoY growth in NII and a 16% uptick in operating profit. Proforma GNPA ratio declined 75bps QoQ to 4.3%. Demand resolution trends are strong (97% in Oct), 30dpd is encouraging at 2.3% as of Q2, and restructuring is expected to be manageable. AXSB is seeing some traction in retail business with disbursements in select secured segments reaching 95% of last year. Given improving asset trends, we value the core book at 1.5x (vs. 1.2x) which yields a higher Sep'21 TP of Rs 630 (vs. Rs 530).

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Demand resolution encouraging: AXSB's demand resolution trend in Sep'20 stood at 94% and has improved to 97% currently. Further, its 30dpd stands at 2.3% as of Q2FY21, which in our view indicates a potential return to normalcy for the bank. No loans were restructured in Q2 but based on an internal assessment, management believes this book would be manageable and has already made a provision of ~20% on the same. The BB- &-below rated pool rose 70bps to 2.6% of loans largely due to probable restructuring. Cumulative specific, standard, additional and Covid-related provisions are at 124% of GNPA.

Strong corporate growth; NIM surprises positively: Corporate loan growth (including TLTRO investments) stood at 22% YoY. SME loans increased 6% QoQ and management expects this book to grow as working capital utilisation limits will increase once demand picks up. NIM improved 18bps QoQ to 3.6% largely due to better spreads and lower interest reversals.

Maintain BUY: Deriving comfort from the improved credit cover, higher collection efficiency and manageable restructuring expectations, we now value the core book at 1.5x vs. 1.2x earlier – this yields a higher Sep'21 SOTP-based TP of Rs 630 (vs. Rs 530 earlier). BUY.

Ticker/Price	AXSB IN/Rs 505
Market cap	US\$ 17.9bn
Shares o/s	2,620mn
3M ADV	US\$ 148.9mn
52wk high/low	Rs 766/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	274,467	321,418	371,348
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Adj. net profit (Rs mn)	46,766	16,272	96,221	125,580	145,158
EPS (Rs)	18.2	6.0	34.1	44.5	51.4
P/E (x)	27.7	83.6	14.8	11.3	9.8
P/BV (x)	1.9	1.7	1.5	1.4	1.2
ROA (%)	0.6	0.2	1.0	1.1	1.2
ROE (%)	7.2	2.1	10.8	12.8	13.3

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

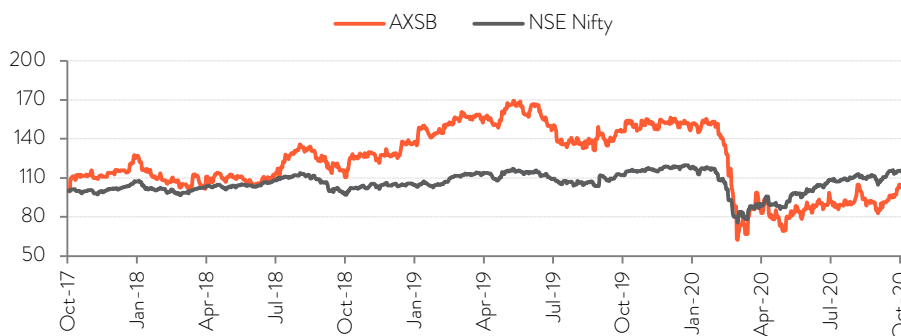
(Rs mn)	Q2FY21	Q1FY21	Q2FY20	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Income Statement								
Interest income	160,629	165,389	154,378	4.0	(2.9)	326,018	306,928	6.2
Interest expense	87,368	95,536	93,360	(6.4)	(8.5)	182,904	187,473	(2.4)
Net interest income	73,261	69,853	61,018	20.1	4.9	143,114	119,455	19.8
Non-interest income	38,072	25,867	38,958	(2.3)	47.2	63,939	77,645	(17.7)
Net total income	111,333	95,720	99,976	11.4	16.3	207,052	197,100	5.0
Staff expenses	14,129	14,061	12,750	10.8	0.5	28,191	25,818	9.2
Other operating expenses	28,227	23,215	27,711	1.9	21.6	51,442	52,839	(2.6)
Operating expenses	42,356	37,276	40,460	4.7	13.6	79,632	78,657	1.2
Pre-provisioning profit	68,976	58,444	59,516	15.9	18.0	127,420	118,443	7.6
Total provisions	45,807	44,164	35,184	30.2	3.7	89,971	73,330	22.7
Profit before tax	23,170	14,280	24,332	(4.8)	62.3	37,449	45,114	(17.0)
Tax	6,343	3,158	25,453	(75.1)	100.8	9,501	32,534	(70.8)
Profit after tax	16,827	11,122	(1,121)	NM	51.3	27,948	12,580	122.2
Balance Sheet								
Advances	5,763,725	5,613,408	5,215,937	10.5	2.7	5,763,725	5,215,937	10.5
Deposits	6,354,543	6,281,503	5,839,585	8.8	1.2	6,354,543	5,839,585	8.8
CASA ratio (%)	44.2	40.9	41.1	308bps	331bps	44.2	41.1	308bps
Yields and margins (%)								
Net interest margin	3.6	3.4	3.5	7bps	18bps	-	-	-
Yield on advances	8.6	8.9	9.4	(79bps)	(32bps)	-	-	-
Cost of funds	4.6	4.9	5.6	(102bps)	(33bps)	-	-	-
Key ratios (%)								
Cost/Income	38.0	38.9	40.5	(242bps)	(90bps)	38.5	39.9	(145bps)
Tax rate	27.4	22.1	104.6	NM	526bps	25.4	72.1	NM
Loan to Deposit ratio	90.7	89.4	89.3	138bps	134bps	90.7	89.3	138bps
Capital adequacy ratios (%)								
Tier 1	16.5	14.6	15.3	127bps	192bps	16.5	15.3	127bps
Total CAR	19.4	17.5	18.5	93bps	188bps	19.4	18.5	93bps
Asset quality (Rs mn)								
Gross NPAs	268,316	295,602	290,714	(7.7)	(9.2)	268,316	290,714	(7.7)
Net NPAs	61,079	74,480	111,383	(45.2)	(18.0)	61,079	111,383	(45.2)
Gross NPA ratio (%)	4.2	4.7	5.0	(85bps)	(54bps)	4.2	5.0	(85bps)
Net NPA ratio (%)	1.0	1.2	2.0	(101bps)	(25bps)	1.0	2.0	(101bps)
Coverage ratio (%)	77.2	74.8	61.7	1,555bps	243bps	77.2	61.7	1,555bps

Source: Company, BOBCAPS Research

Valuation methodology

Deriving comfort from the improved credit cover, higher collection efficiency and manageable restructuring expectations, we now value the core book at 1.5x vs. 1.2x earlier – this yields a higher Sep’21 SOTP-based target price of Rs 630 (vs. Rs 530 earlier). Maintain BUY.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A worsening economic environment can affect our loan growth and credit cost assumptions and lead to deterioration in AXSB’s asset quality.
- Slower capital markets activity can mute the performance of subsidiaries.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	274,467	321,418	371,348
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Non-interest income	131,303	155,366	153,764	169,565	188,713
Total income	348,385	407,428	428,231	490,983	560,060
Operating expenses	(158,334)	(173,046)	(183,715)	(204,731)	(231,448)
Operating profit	190,051	234,381	244,516	286,252	328,612
Operating profit growth (%)	21.9	23.3	4.3	17.1	14.8
Provisions	(120,310)	(185,339)	(115,187)	(117,462)	(133,507)
PBT	69,741	49,042	129,329	168,790	195,105
Tax	(22,975)	(32,770)	(33,108)	(43,210)	(49,947)
Reported net profit	46,766	16,272	96,221	125,580	145,158
Adjustments	0	0	0	0	0
Adjusted net profit	46,766	16,272	96,221	125,580	145,158

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	5,143	5,643	5,643	5,643	5,643
Reserves & surplus	661,620	843,835	922,736	1,025,711	1,144,741
Net worth	666,763	849,478	928,379	1,031,355	1,150,384
Deposits	5,484,713	6,401,049	7,157,815	8,139,793	9,256,866
Borrowings	1,527,758	1,479,541	1,627,495	1,805,003	2,002,031
Other liabilities & provisions	330,731	421,579	548,053	712,469	926,209
Total liabilities and equities	8,009,965	9,151,648	10,261,743	11,688,618	13,335,491
Cash & bank balance	672,046	972,683	1,064,641	1,165,795	1,277,064
Investments	1,749,693	1,567,343	1,734,062	1,979,106	2,258,844
Advances	4,947,980	5,714,242	6,399,951	7,359,943	8,463,935
Fixed & Other assets	640,246	897,381	1,063,089	1,183,774	1,335,649
Total assets	8,009,965	9,151,648	10,261,743	11,688,618	13,335,491
Deposit growth (%)	20.9	16.7	11.8	13.7	13.7
Advances growth (%)	12.5	15.5	12.0	15.0	15.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	18.2	6.0	34.1	44.5	51.4
Dividend per share	0.0	1.0	6.1	8.0	9.3
Book value per share	259.3	301.1	329.0	365.5	407.7

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	27.7	83.6	14.8	11.3	9.8
P/BV	1.9	1.7	1.5	1.4	1.2
Dividend yield (%)	0.0	0.2	1.2	1.6	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	2.9	2.8	2.9	3.0
Non-interest income	1.8	1.8	1.6	1.5	1.5
Operating expenses	2.1	2.0	1.9	1.9	1.8
Pre-provisioning profit	2.5	2.7	2.5	2.6	2.6
Provisions	1.6	2.2	1.2	1.1	1.1
PBT	0.9	0.6	1.3	1.5	1.6
Tax	0.3	0.4	0.3	0.4	0.4
ROA	0.6	0.2	1.0	1.1	1.2
Leverage (x)	11.5	11.3	10.9	11.2	11.5
ROE	7.2	2.1	10.8	12.8	13.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	16.6	16.1	8.9	17.1	15.5
Pre-provisioning profit	21.9	23.3	4.3	17.1	14.8
EPS	1538.1	(66.9)	465.1	30.5	15.6
Profitability & Return ratios (%)					
Net interest margin	3.2	3.2	3.1	3.3	3.3
Fees / Avg. assets	1.2	1.1	1.0	1.0	1.0
Cost-Income	45.4	42.5	42.9	41.7	41.3
ROE	7.2	2.1	10.8	12.8	13.3
ROA	0.6	0.2	1.0	1.1	1.2
Asset quality (%)					
GNPA	5.8	5.1	4.7	3.9	3.4
NNPA	2.3	1.6	1.5	1.1	0.9
Provision coverage	62.1	69.0	68.7	72.0	73.4
Ratios (%)					
Credit-Deposit	90.2	89.3	89.4	90.4	91.4
Investment-Deposit	31.9	24.5	24.2	24.3	24.4
CAR	15.8	17.5	16.2	15.5	15.0
Tier-1	12.5	14.5	13.4	12.8	12.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

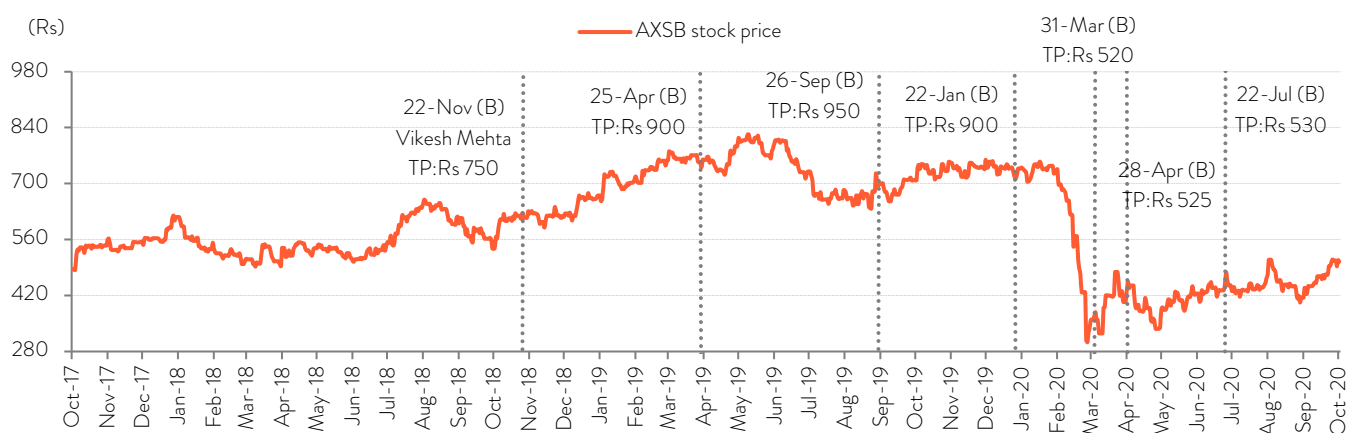
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): AXIS BANK (AXSB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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