

BUY

TP: Rs 815 | ▲ 17%

AXIS BANK

| Banking

| 27 April 2021

Good show on asset quality

Axis Bank (AXSB) delivered strong Q4FY21 PAT of Rs 27bn (+2.4x QoQ) on 17% YoY growth in operating profit. GNPA ratio reduced sharply by 85bps QoQ to 3.7% on lower slippages and better recoveries. Loan growth picked up 7% QoQ and NIM was largely stable. AXSB maintains a healthy 72% PCR and contingent buffer at 0.8% of loans, implying credit costs could normalise by FY22-FY23. We raise FY22-FY23 EPS 9-18% to build in better loan growth and lower credit cost assumptions. Our Mar'22 TP stands revised to Rs 815 (vs. Rs 760). BUY.

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Strong asset quality, healthy buffers: AXSB's Q4 GNPA ratio declined 85bps QoQ to 3.7% (vs. 4.6% proforma in Q3FY21), as slippages were lower at Rs 53bn (vs. Rs 80bn in Q3). About 64% of slippages were fuelled by the retail segment where management believes a large part of the stress has been recognised in FY21. AXSB has unutilised Covid provisions worth Rs 50bn (0.8% of loans) which provide a strong buffer against the second wave of the pandemic. Demand resolution stood at >98% in Q4, higher than pre-pandemic levels, but cheque bounce rates too were marginally higher than normal.

Loan growth picks up across segments: Loan growth was strong at 7% QoQ in Q4 supported by healthy traction across retail (+5% QoQ), corporates (+9%) and SMEs (+9%). Retail disbursements rebounded in Q4 aided by higher contribution from secured loan segments such as home loans (+45% QoQ), LAP (+51%) and Small business banking (+42%).

Maintain BUY: Based on the robust Q4 performance, we raise FY22-FY23 EPS estimates by 9-18% to build in higher loan growth and lower credit cost assumptions. We retain BUY on AXSB with a revised Mar'22 SOTP-based TP of Rs 815, which comprises Rs 742/sh for the core business based on an unchanged 1.7x FY23E P/BV and Rs 73/sh for subsidiaries.

| | |
|------------------|----------------|
| Ticker/Price | AXSB IN/Rs 700 |
| Market cap | US\$ 24.5bn |
| Shares o/s | 2,620mn |
| 3M ADV | US\$ 181.1mn |
| 52wk high/low | Rs 799/Rs 333 |
| Promoter/FPI/DII | 26%/50%/24% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21P | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|---------|
| Net interest income | 217,082 | 252,062 | 292,291 | 366,185 | 449,827 |
| NII growth (%) | 16.6 | 16.1 | 16.0 | 25.3 | 22.8 |
| Adj. net profit (Rs mn) | 46,766 | 16,272 | 65,785 | 162,365 | 209,734 |
| EPS (Rs) | 18.2 | 6.0 | 22.4 | 53.0 | 68.5 |
| P/E (x) | 38.4 | 115.9 | 31.3 | 13.2 | 10.2 |
| P/BV (x) | 2.7 | 2.3 | 2.1 | 1.8 | 1.6 |
| ROA (%) | 0.6 | 0.2 | 0.7 | 1.5 | 1.7 |
| ROE (%) | 7.2 | 2.1 | 7.1 | 14.9 | 16.8 |

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

| (Rs mn) | Q4FY21 | Q3FY21 | Q4FY20 | YoY (%) | QoQ (%) | FY21 | FY20 | YoY (%) |
|------------------------------------|----------------|----------------|----------------|-------------|------------|----------------|----------------|------------|
| Income Statement | | | | | | | | |
| Interest income | 155,352 | 154,983 | 162,341 | (4.3) | 0.2 | 636,353 | 626,352 | 1.6 |
| Interest expense | 79,902 | 81,256 | 94,264 | (15.2) | (1.7) | 344,062 | 374,290 | (8.1) |
| Net interest income | 75,450 | 73,727 | 68,077 | 10.8 | 2.3 | 292,291 | 252,062 | 16.0 |
| Non-interest income | 46,683 | 37,760 | 39,855 | 17.1 | 23.6 | 148,382 | 155,366 | (4.5) |
| Net total income | 122,133 | 111,488 | 107,932 | 13.2 | 9.5 | 440,673 | 407,428 | 8.2 |
| Staff expenses | 16,676 | 16,774 | 13,740 | 21.4 | (0.6) | 61,640 | 53,210 | 15.8 |
| Other operating expenses | 36,910 | 33,759 | 35,681 | 3.4 | 9.3 | 122,111 | 119,836 | 1.9 |
| Operating expenses | 53,586 | 50,533 | 49,421 | 8.4 | 6.0 | 183,752 | 173,046 | 6.2 |
| Pre-provisioning profit | 68,547 | 60,955 | 58,511 | 17.2 | 12.5 | 256,922 | 234,381 | 9.6 |
| Total provisions | 32,950 | 46,043 | 77,300 | (57.4) | (28.4) | 168,963 | 185,339 | (8.8) |
| Profit before tax | 35,597 | 14,912 | (18,789) | NM | 138.7 | 87,958 | 49,042 | 79.4 |
| Tax | 8,926 | 3,746 | (4,911) | NM | 138.3 | 22,173 | 32,770 | (32.3) |
| Profit after tax | 26,671 | 11,166 | (13,878) | NM | 138.9 | 65,785 | 16,272 | 304.3 |
| Balance Sheet | | | | | | | | |
| Advances | 6,237,202 | 5,827,539 | 5,714,242 | 9.2 | 7.0 | 6,237,202 | 5,714,242 | 9.2 |
| Deposits | 7,073,061 | 6,541,403 | 6,401,049 | 10.5 | 8.1 | 7,073,061 | 6,401,049 | 10.5 |
| CASA ratio (%) | 44.9 | 43.2 | 41.2 | 373bps | 175bps | 44.9 | 41.2 | 373bps |
| Yields and margins (%) | | | | | | | | |
| Net interest margin | 3.6 | 3.6 | 3.6 | 1bps | (3bps) | - | - | - |
| Yield on advances | 7.7 | 8.0 | 9.0 | (132bps) | (28bps) | - | - | - |
| Cost of funds | 4.1 | 4.2 | 5.2 | (110bps) | (10bps) | - | - | - |
| Key ratios (%) | | | | | | | | |
| Cost/Income | 43.9 | 45.3 | 45.8 | (191bps) | (145bps) | 41.7 | 42.5 | (77bps) |
| Tax rate | 25.1 | 25.1 | 26.1 | (106bps) | (5bps) | 25.2 | 66.8 | (4161bps) |
| Loan to Deposit ratio | 88.2 | 89.1 | 89.3 | (109bps) | (90bps) | 88.2 | 89.3 | (109bps) |
| Capital adequacy ratios (%) | | | | | | | | |
| Tier 1 | 16.5 | 16.5 | 14.5 | 198bps | (1bps) | 16.5 | 14.5 | 198bps |
| Total CAR | 19.1 | 19.3 | 17.5 | 159bps | (19bps) | 19.1 | 17.5 | 159bps |
| Asset quality (Rs mn) | | | | | | | | |
| Gross NPAs | 253,148 | 219,979 | 302,338 | (16.3) | 15.1 | 253,148 | 302,338 | (16.3) |
| Net NPAs | 69,935 | 46,098 | 93,604 | (25.3) | 51.7 | 69,935 | 93,604 | (25.3) |
| Gross NPA ratio (%) | 3.7 | 3.4 | 4.9 | (116bps) | 26bps | 3.7 | 4.9 | (116bps) |
| Net NPA ratio (%) | 1.1 | 0.7 | 1.6 | (51bps) | 31bps | 1.1 | 1.6 | (51bps) |
| Credit costs (%) | 1.7 | 0.7 | 2.8 | (107bps) | 105bps | 2.0 | 2.4 | (35bps) |
| Coverage ratio (%) | 72.4 | 79.0 | 69.0 | 333bps | (667bps) | 72.4 | 69.0 | 333bps |

Source: Company, BOBCAPS Research

Valuation methodology

We believe AXSB has fortified its balance sheet well with a provisioning buffer that is one of the highest among private banks. In our view, the bank’s earnings trajectory is likely to improve as credit costs normalise and growth gathers pace. We raise our FY22-FY23 EPS estimates by 9-18% to factor in lower credit costs and higher loan growth.

Our FY22-FY23 loan growth estimates stand revised to 16-18% from 15-17% expected earlier on the back of strong sequential growth in Q4FY21. Moreover, we lower our credit cost forecast for these years by 10-25bps as we believe AXSB has a healthy PCR of 72% on GNPA’s while its non-NPA provisions are strong at Rs 50bn (0.8% of loans), offering a buffer against the second wave of Covid-19. This coupled with contained slippages in Q4 paves the way for return ratios to normalise in FY22-FY23, in our view.

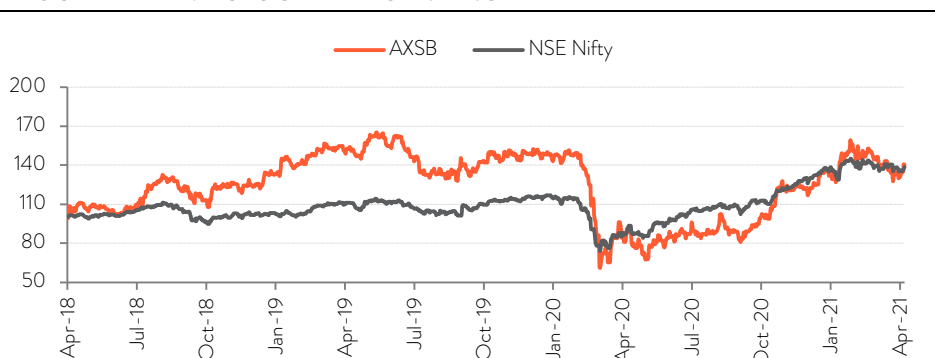
Estimate revision yields a higher Mar’22 SOTP-based target price of Rs 815 (Rs 760 earlier). We now value the core business at Rs 742/sh (Rs 687/sh earlier) based on an unchanged 1.7x FY23E core P/BV, arrived at using the Gordon Growth Model. The value of subsidiaries remains at Rs 73/sh. Maintain BUY.

FIG 2 – REVISED ESTIMATES

| Particulars | New | | Old | | Change (%) | |
|---------------------------------|---------|---------|---------|---------|------------|-------|
| | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Net interest income (Rs mn) | 366,185 | 449,827 | 364,852 | 435,461 | 0.4 | 3.3 |
| Pre-provisioning profit (Rs mn) | 321,451 | 393,085 | 311,870 | 369,643 | 3.1 | 6.3 |
| Profit after tax (Rs mn) | 162,365 | 209,734 | 148,293 | 178,323 | 9.5 | 17.6 |
| EPS (Rs) | 53 | 68 | 48 | 58 | 9.4 | 17.6 |

Source: BOBCAPS Research

FIG 3 – 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 | FY21P | FY22E | FY23E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Net interest income | 217,082 | 252,062 | 292,291 | 366,185 | 449,827 |
| NII growth (%) | 16.6 | 16.1 | 16.0 | 25.3 | 22.8 |
| Non-interest income | 131,303 | 155,366 | 148,382 | 161,950 | 182,828 |
| Total income | 348,385 | 407,428 | 440,673 | 528,134 | 632,656 |
| Operating expenses | (158,334) | (173,046) | (183,752) | (206,683) | (239,571) |
| Operating profit | 190,051 | 234,381 | 256,922 | 321,451 | 393,085 |
| Operating profit growth (%) | 21.9 | 23.3 | 9.6 | 25.1 | 22.3 |
| Provisions | (120,310) | (185,339) | (168,963) | (103,218) | (111,184) |
| PBT | 69,741 | 49,042 | 87,958 | 218,232 | 281,901 |
| Tax | (22,975) | (32,770) | (22,173) | (55,868) | (72,167) |
| Reported net profit | 46,766 | 16,272 | 65,785 | 162,365 | 209,734 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 46,766 | 16,272 | 65,785 | 162,365 | 209,734 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21P | FY22E | FY23E |
|---------------------------------------|------------------|------------------|------------------|-------------------|-------------------|
| Equity capital | 5,143 | 5,643 | 6,128 | 6,128 | 6,128 |
| Reserves & surplus | 661,620 | 843,835 | 1,009,903 | 1,156,031 | 1,334,305 |
| Net worth | 666,763 | 849,478 | 1,016,030 | 1,162,159 | 1,340,433 |
| Deposits | 5,484,713 | 6,401,049 | 7,073,061 | 8,152,871 | 9,576,879 |
| Borrowings | 1,527,758 | 1,479,541 | 1,428,732 | 1,585,619 | 1,759,878 |
| Other liabilities & provisions | 330,731 | 421,579 | 443,362 | 576,370 | 749,281 |
| Total liabilities and equities | 8,009,965 | 9,151,648 | 9,961,184 | 11,477,019 | 13,426,471 |
| Cash & bank balance | 672,046 | 972,683 | 617,298 | 683,473 | 757,599 |
| Investments | 1,749,693 | 1,567,343 | 2,261,196 | 2,580,039 | 2,943,907 |
| Advances | 4,947,980 | 5,714,242 | 6,237,202 | 7,235,154 | 8,537,482 |
| Fixed & Other assets | 640,246 | 897,381 | 845,488 | 978,352 | 1,187,483 |
| Total assets | 8,009,965 | 9,151,648 | 9,961,184 | 11,477,019 | 13,426,471 |
| Deposit growth (%) | 20.9 | 16.7 | 10.5 | 15.3 | 17.5 |
| Advances growth (%) | 12.5 | 15.5 | 9.2 | 16.0 | 18.0 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21P | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| EPS | 18.2 | 6.0 | 22.4 | 53.0 | 68.5 |
| Dividend per share | 0.0 | 1.0 | 0.0 | 5.3 | 10.3 |
| Book value per share | 259.3 | 301.1 | 331.6 | 379.3 | 437.5 |

Source: Company, BOBCAPS Research

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21P | FY22E | FY23E |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 38.4 | 115.9 | 31.3 | 13.2 | 10.2 |
| P/BV | 2.7 | 2.3 | 2.1 | 1.8 | 1.6 |
| Dividend yield (%) | 0.0 | 0.1 | 0.0 | 0.8 | 1.5 |

DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | FY21P | FY22E | FY23E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income | 2.9 | 2.9 | 3.1 | 3.4 | 3.6 |
| Non-interest income | 1.8 | 1.8 | 1.6 | 1.5 | 1.5 |
| Operating expenses | 2.1 | 2.0 | 1.9 | 1.9 | 1.9 |
| Pre-provisioning profit | 2.5 | 2.7 | 2.7 | 3.0 | 3.2 |
| Provisions | 1.6 | 2.2 | 1.8 | 1.0 | 0.9 |
| PBT | 0.9 | 0.6 | 0.9 | 2.0 | 2.3 |
| Tax | 0.3 | 0.4 | 0.2 | 0.5 | 0.6 |
| ROA | 0.6 | 0.2 | 0.7 | 1.5 | 1.7 |
| Leverage (x) | 11.5 | 11.3 | 10.2 | 9.8 | 10.0 |
| ROE | 7.2 | 2.1 | 7.1 | 14.9 | 16.8 |

Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21P | FY22E | FY23E |
|--|--------|--------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Net interest income | 16.6 | 16.1 | 16.0 | 25.3 | 22.8 |
| Pre-provisioning profit | 21.9 | 23.3 | 9.6 | 25.1 | 22.3 |
| EPS | 1538.1 | (66.9) | 270.5 | 137.1 | 29.2 |
| Profitability & Return ratios (%) | | | | | |
| Net interest margin | 3.2 | 3.2 | 3.4 | 3.7 | 4.0 |
| Fees / Avg. assets | 1.2 | 1.1 | 0.9 | 0.9 | 1.0 |
| Cost-Income | 45.4 | 42.5 | 41.7 | 39.1 | 37.9 |
| ROE | 7.2 | 2.1 | 7.1 | 14.9 | 16.8 |
| ROA | 0.6 | 0.2 | 0.7 | 1.5 | 1.7 |
| Asset quality (%) | | | | | |
| GNPA | 5.8 | 5.1 | 3.9 | 3.6 | 3.2 |
| NNPA | 2.3 | 1.6 | 1.1 | 1.2 | 1.3 |
| Credit cost | 2.2 | 2.4 | 2.0 | 1.4 | 1.3 |
| Provision coverage | 62.1 | 69.0 | 72.4 | 67.2 | 60.4 |
| Ratios (%) | | | | | |
| Credit-Deposit | 90.2 | 89.3 | 88.2 | 88.7 | 89.1 |
| Investment-Deposit | 31.9 | 24.5 | 32.0 | 31.6 | 30.7 |
| CAR | 15.8 | 17.5 | 19.1 | 16.9 | 16.5 |
| Tier-1 | 12.5 | 14.5 | 16.5 | 14.7 | 14.4 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

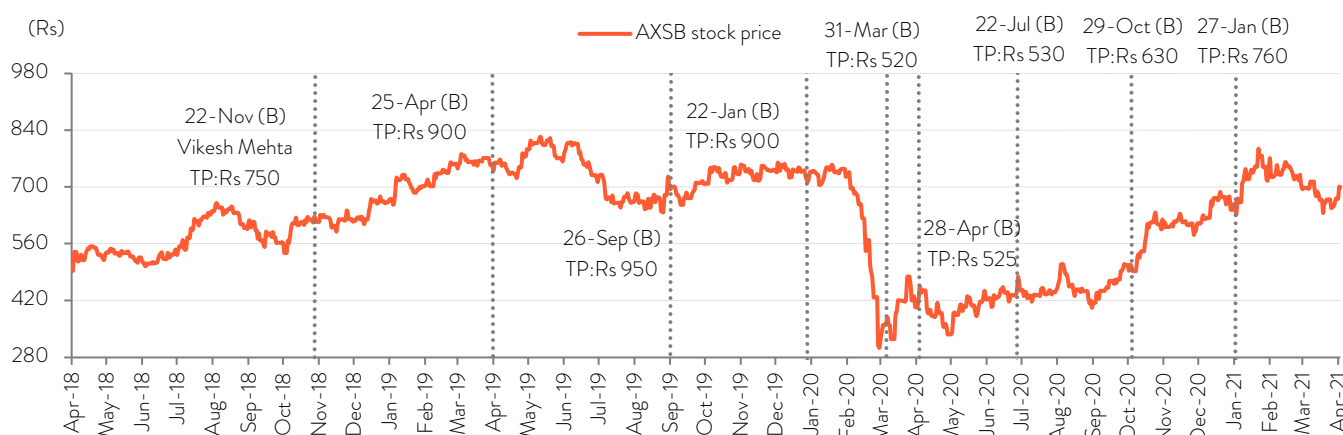
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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