

# Retail Equity Research

## Axis Bank Limited

Banking

BSE CODE: 532215

NSE CODE: AXISBANK

Bloomberg CODE: AXSB:IN

SENSEX: 38,041

**BUY**

12M Investment Period

Rating as per Large cap

CMP Rs. 433 TARGET Rs. 528 RETURN 22% ↑  
(Closing: 07-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Steady operating performance; Outlook positive

Axis Bank provides wide range of banking services in India. The bank's offerings include cash and credit management services, retail banking, investment management and treasury services among various others.

- Digital channels has served the customers well during COVID period with activity and transaction volumes on digital channels now back to pre-COVID levels after an initial dip in April and May.
- 9.7% of loan book was under moratorium at the end of Q1FY21 (vs. 28% at the end of Q4FY20).
- We believe the strong performance of the bank will continue in FY21-22E. Given attractive valuation and upside potential, we reiterate our BUY rating on the stock with a revised TP of Rs. 528 based on 1.5x FY22E BVPS.

### Higher provisioning weighs on bottomline

Interest income registered a moderate growth of 8.4% YoY at Rs. 16,539cr this quarter albeit having muted collections in the months of April and May. Due to lower business volumes and velocity of throughput of transactions, fee income de-grew by 38.0% YoY which dragged down non-interest income to Rs. 2,587cr (-33.1% YoY) this quarter. Net interest income grew by 19.5% YoY to Rs. 6,985cr this quarter, with NIM remaining stable at 3.4% as compared to Q1FY20. The company had brought about 3 changes to their framework in order to become a more prudent and conservative franchise. First, changes in accounting policies related to fee recognition; second, increase in provisioning on standard investments, red flagged accounts and COVID-related provisions and third, a conservative stance on the interest recognitions for net interest income. In Q1FY21, the effects of these changes amounted to Rs. 307cr for pre-provisioning profit, Rs. 660cr for PBT and Rs. 513cr for PAT. With provisions rising to Rs. 4,416cr (+15.8% YoY), the PAT fell 18.8% YoY to Rs. 1,112cr.

### Loan book remains strong despite weak economic activity

Total deposits saw a 16.2% YoY growth to Rs. 6,282cr and CASA ratio was up 400bps to 40.9%. CASA + RTD deposits grew 19.8% this quarter. With healthy growth in deposits continuing to drive loan growth, net advances rose to Rs. 5,613cr (+12.9% YoY). Credit costs for the quarter was 2.26% as compared to 2.06% in Q1FY20. GNPA/NNPA improved 14bps and 33bps respectively on a sequential basis to 4.72%/1.23%. The bank remains well capitalised at 17.5% in Q1FY21 (vs. 16.1% in Q1FY20).

### Key concall highlights

- Opex to average assets ratio stood at 2.0% (improved 9bps YoY) and cost-to-income ratio at 36.9% (improved 241bps YoY).
- The Board passed a resolution enabling the bank to raise funds over the next 1 year pending approval from its shareholders.

### Outlook and valuation

The bank's resilient growth trajectory along with the focus on asset quality metrics, strengthening of balance sheet and healthy margins will be the key to drive value in the long-term. We believe current valuations are justified and hence reiterate our BUY rating on the stock with a revised target price of Rs. 528 based on 1.5x FY22E BVPS.

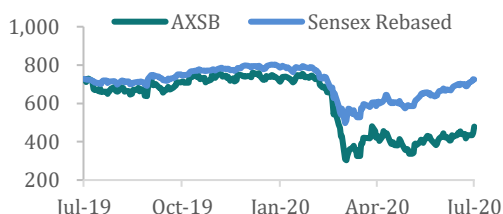
### Company Data

Market Cap (cr)	Rs. 1,30,053
Outstanding Shares (cr)	273
Free Float	78.0%
Dividend Yield	0.0%
52 week high	Rs. 766
52 week low	Rs. 285
6m average volume (cr)	0.1
Beta	1.3
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	16.1	16.1	16.0
FII's	48.4	45.5	46.0
MFs/Insti	23.1	24.9	24.4
Public	4.9	5.1	5.3
Others	7.6	8.4	8.3
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	7.2%	-36.2%	-36.6%
Absolute Sensex	19.7%	-7.8%	0.4%
Relative Return*	-12.5%	-28.4%	-37.0%

\*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	25,206	26,974	31,186
Growth (%)	16.1	7.0	15.6
NIM (%)	3.5	3.5	3.6
Pre-Provision Profit	23,438	25,783	29,555
Net Profit	3,765	7,110	9,307
Growth (%)	(19.5)	88.8	30.9
Adj. EPS	13.3	25.2	33.0
Growth (%)	(26.3)	88.8	30.9
BVPS	300.9	323.0	351.8
P/E	28.4	18.3	14.0
P/B	1.3	1.4	1.3
ROE (%)	2.1	8.1	9.8
ROA (%)	0.2	0.7	0.8

## Quarterly Financials (Standalone)

### Profit & Loss Account

(Rs. cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	16,539	15,255	8.4	16,234	1.9
Interest Expense	9,554	9,411	1.5	9,426	1.3
<b>Net Interest Income</b>	<b>6,985</b>	<b>5,844</b>	<b>19.5</b>	<b>6,808</b>	<b>2.6</b>
Non-Interest Income	2,587	3,869	(33.1)	3,985	(35.1)
<b>Total Income</b>	<b>19,126</b>	<b>19,124</b>	<b>0.0</b>	<b>20,220</b>	<b>(5.4)</b>
Operating Expenses	3,728	3,820	(2.4)	4,942	(24.6)
<b>Total Expenditure</b>	<b>13,281</b>	<b>13,231</b>	<b>0.4</b>	<b>14,368</b>	<b>(7.6)</b>
<b>Pre-Provisioning profit</b>	<b>5,844</b>	<b>5,893</b>	<b>(0.8)</b>	<b>5,851</b>	<b>(0.1)</b>
Provisions	4,416	3,815	15.8	7,730	(42.9)
<b>Profit Before Tax</b>	<b>1,428</b>	<b>2,078</b>	<b>(31.3)</b>	<b>(1,879)</b>	<b>n.m.</b>
Tax	316	708	(55.4)	(491)	n.m.
<b>Net Profit</b>	<b>1,112</b>	<b>1,370</b>	<b>(18.8)</b>	<b>(1,388)</b>	<b>n.m.</b>
Adj.	-	-	-	-	-
<b>Adj. PAT</b>	<b>1,112</b>	<b>1,370</b>	<b>(18.8)</b>	<b>(1,388)</b>	<b>n.m.</b>
Adj. EPS - Diluted (Rs.)	3.9	5.3	(25.1)	(4.9)	n.m.

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	25,553	30,103	26,974	31,186	5.6	3.6
Pre-Provision Profit	25,572	30,218	25,783	29,555	0.8	(2.2)
Net Profit	7,554	9,228	7,110	9,307	(5.9)	0.9
Adj. EPS (Rs)	26.8	32.7	25.2	33.0	(6.0)	0.8

## PROFIT & LOSS

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	45,780	54,986	62,635	68,432	80,452
Interest Exp.	27,163	33,278	37,429	41,459	49,266
<b>Net Int. Income</b>	<b>18,618</b>	<b>21,708</b>	<b>25,206</b>	<b>26,974</b>	<b>31,186</b>
% Change	2.9	16.6	16.1	7.0	15.6
Non-Int. Income	10,967	13,130	15,537	16,469	18,445
<b>Net Income</b>	<b>29,585</b>	<b>34,839</b>	<b>40,743</b>	<b>43,443</b>	<b>49,631</b>
<b>Total Income</b>	<b>56,747</b>	<b>68,116</b>	<b>78,172</b>	<b>84,901</b>	<b>98,897</b>
Operating Exp.	13,990	15,833	17,305	17,659	20,076
<b>Total Exp.</b>	<b>41,153</b>	<b>49,111</b>	<b>54,734</b>	<b>59,118</b>	<b>69,343</b>
<b>Pre-Prov. Profit</b>	<b>15,594</b>	<b>19,005</b>	<b>23,438</b>	<b>25,783</b>	<b>29,555</b>
Provisions	15,473	12,031	18,534	16,278	17,112
PBT	122	6,974	4,904	9,505	12,443
Tax	(154)	2,297	3,277	2,395	3,136
Tax Rate (%)	(126.8)	32.9	66.8	25.2	25.2
<b>Net Profit</b>	<b>276</b>	<b>4,677</b>	<b>1,627</b>	<b>7,110</b>	<b>9,307</b>
% Change	(92.5)	1,596.4	(65.2)	336.9	30.9
Adj.	-	-	2,138	0	0
<b>Adj. Net Profit</b>	<b>276</b>	<b>4,677</b>	<b>3,765</b>	<b>7,110</b>	<b>9,307</b>
No. of Shares (cr)	245	258	282	282	282
Adj. EPS (Rs)	1.1	18.1	13.3	25.2	33.0
% Change	(92.7)	1,509.6	(26.3)	88.8	30.9
DPS (Rs)	0.0	1.0	0.0	3.1	4.1

## BALANCE SHEET

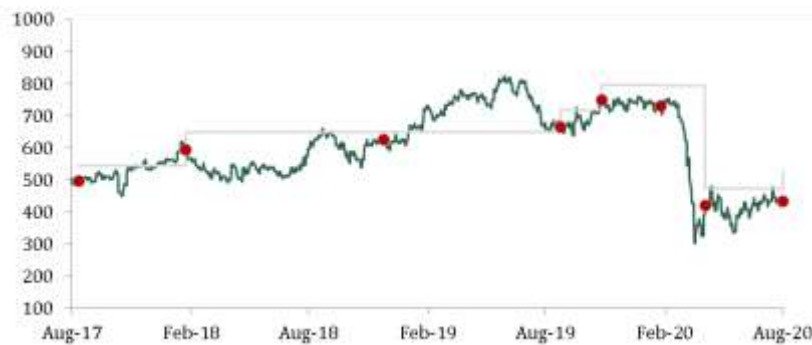
Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	43,455	67,205	97,268	121,735	148,722
Investments	153,876	174,969	156,734	159,869	163,066
Advances	439,650	494,798	571,424	657,138	768,851
Fixed Assets	3,972	4,037	4,313	4,378	4,465
Other Assets	50,377	59,988	85,425	88,842	90,619
<b>Total Assets</b>	<b>691,330</b>	<b>800,997</b>	<b>915,165</b>	<b>1,031,962</b>	<b>1,175,724</b>
Capital	513	514	564	564	564
Reserves & Surplus	62,932	66,162	84,384	90,604	98,748
Deposits	453,623	548,471	640,105	736,121	853,900
Borrowings	148,016	152,776	147,954	150,913	153,931
Other Liabilities	26,245	33,073	42,158	53,759	68,580
<b>Total Liabilities</b>	<b>691,330</b>	<b>800,997</b>	<b>915,165</b>	<b>1,031,962</b>	<b>1,175,724</b>
<b>BVPS (Rs)</b>	<b>258.7</b>	<b>258.0</b>	<b>300.9</b>	<b>323.0</b>	<b>351.8</b>
<b>Adj. BPS (Rs)</b>	<b>212.7</b>	<b>221.7</b>	<b>251.1</b>	<b>263.1</b>	<b>290.7</b>
% Change	30.2	4.2	13.2	4.8	10.5

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Valuation</b>					
P/E (x)	452.6	43.1	28.4	18.3	14.0
P/BV (x)	2.0	3.0	1.3	1.4	1.3
Div. Yield (%)	0.0	0.1	0.0	0.7	0.9
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	8.4	8.8	9.1	8.9	9.2
Cost of Deposits	4.8	5.1	5.0	5.0	5.2
Spread	3.6	3.7	4.0	3.9	4.0
NIM	3.4	3.4	3.5	3.5	3.6
ROE	0.5	7.2	2.1	8.1	9.8
ROA	0.0	0.6	0.2	0.7	0.8
<b>Capital Adequacy (%)</b>					
CAR	16.6	15.8	17.5	17.0	16.4
Tier I	13.0	12.5	14.5	14.0	13.4
Tier II	3.5	3.3	3.0	3.1	3.0
<b>Asset Quality (%)</b>					
GNPA	6.8	5.3	4.9	5.8	5.9
NNPA	3.4	2.1	1.6	2.1	2.2
<b>Operating Ratios (%)</b>					
Credit/ Deposit	96.9	90.2	89.3	89.3	90.0
Cost/ Income	72.5	72.1	70.0	69.6	70.1
CASA	53.8	44.4	41.2	40.7	40.2



## Recommendation Summary



Source: Geojit, Bloomberg research

Dates	Rating	Target
17-Aug-17	HOLD	543
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

## 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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