

CMP: INR 842

Rating: ACCUMULATE

Target Price: INR 942

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	612
Mkt Cap (INR Cr)	2,14,327
52w H/L (INR)	800 / 333
Avg Yearly Vol (in 000')	26,791

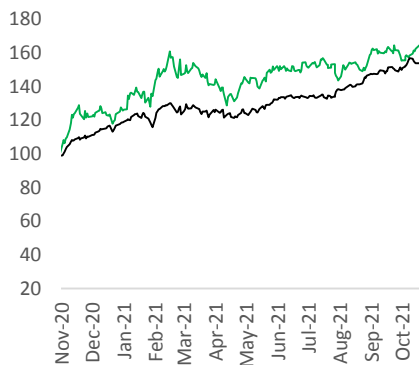
Shareholding Pattern %

(As on September, 2021)

Promoters	11.64
FII	51.38
DII	25.32
Public & Others	11.66

Stock Performance (%)	3m	6m	12m
Axis Bank	4.3	38.6	53.6
Nifty	6.1	24.9	56.2

Axis Bank Vs Nifty



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Axis Bank has reported another quarter of mixed performance during Q2FY22 with lower operating profit growth, contraction in margins and improvement in asset quality. Profit growth for the quarter came higher at 86% YoY/45% QoQ to INR 3,133 cr vs. our estimate of INR 3,011 cr, largely due to 62% YoY/51% QoQ decline in provisions. Advances growth for the quarter was lower at 10% YoY/1% QoQ, led to 8% YoY growth in NII at INR 7,900 cr. Operating profit of the bank declined by 14% YoY/8% QoQ to INR 5,928 cr due to higher operating expenses (+36% YoY/+17% QoQ). Credit cost for the quarter declined from 1.7% to 0.54% QoQ. Asset quality of the bank improved as GNPA/NNPA decreased by 32bps/12bps respectively at 3.5%/1.1%. Restructuring pool of the bank increased from 0.3% to 0.64% QoQ, which is relatively lower than the other large private sector banks. NIM of the bank declined further by 7bps QoQ at 3.4% was impacted due to change in loan mix, higher RIDF bond in the balance sheet and higher LCR compared to previous quarter.

Loan growth of the bank moderated: Overall, loan book growth of the bank moderated to 10% YoY/1% QoQ (vs. 12% YoY in Q1FY22). Moderation in loan growth was mainly due to run off in corporate book which has declined by 5% QoQ while growth in retail and SME portfolio was quite strong. Retail book of the bank grew by 16% YoY/4% QoQ and SME loan portfolio grew by 18% YoY/7% QoQ. The share of secured retail loans was ~80%, with home loans comprising 37% of the retail book. Deposits during the quarter grew by 16% YoY/3% QoQ with stable CASA ratio of 42%.

Slippages remained elevated while strong recoveries has led to an improvement in asset quality: Slippages for the quarter stood at INR 5,464 cr vs. INR 6,518 cr QoQ (Slippage ratio at 3.5% vs. 4.2% QoQ). Management has stated that 30% of slippages has been downgraded and upgraded in the same quarter. Upgradation and recoveries stood higher at INR 4,757 cr vs. INR 2,543 cr QoQ as a result net slippage ratio of the bank declined to 0.45% vs. 3% QoQ. Bank has not utilized any covid provision during the quarter. The bank continue to hold higher provision with cumulative provision (standard + additional non-NPA) of INR 12,951 bn (2.1% of loans), which keeps the balance sheet stronger.

Valuation & View: We marginally cut our FY22/23E by 3%/7% respectively and roll forward our estimates to FY24E and maintain Accumulate rating on the stock with a revised TP of INR 942 (earlier INR 853), valuing the bank at 2.1x FY24E ABV. Bank has reported weak operating performance but controlled credit cost has resulted good earnings growth and healthy PCR has cushioned balance sheet well. We remain watchful on loan growth and operating performance front. We expect bank to deliver 1.3%/13% RoA/RoE by FY24E.

Axis Bank Ltd. (Rs Cr)	FY21	FY22E	FY23E	FY24E
NII	29,239	33,535	39,931	47,479
PPOP	25,702	28,713	35,346	43,058
PAT	6,588	12,467	15,501	19,520
EPS (INR / Share)	21.5	40.7	50.6	63.7
ABVPS (INR / Share)	308.1	348.7	390.2	448.4
NIM (%)	3.4	3.4	3.6	3.7
ROA (%)	0.7%	1.1%	1.2%	1.3%
ROE (%)	6.5%	10.9%	12.0%	13.1%
P / ABV (x)	2.7	2.4	2.2	1.9

Q4FY21 - Quarterly Performance (Standalone)

(in INR Cr)

Particulars	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
Interest Earned	16336	16063	1.7%	16003	2.1%
Interest Expended	8436	8737	-3.4%	8243	2.3%
NII	7900	7326	7.8%	7760	1.8%
Other Income	3798	3807	-0.2%	3588	5.9%
Operating Expenses	5771	4236	36.2%	4932	17.0%
Operating Profit before Prov.& Cont.	5928	6898	-14.1%	6416	-7.6%
Provisions and Contingencies	1735	4581	-62.1%	3532	-50.9%
PBT	4193	2317	81.0%	2884	45.4%
Provision for tax	1060	634	67.1%	724	46.4%
Net Profit (after Extraordinary Items)	3133	1683	86.2%	2160	45.1%
Return on Assets (Annualised)	1.2	0.7	63.0%	0.9	NA
Earnings Per Share	10.2	5.7	79.6%	7.0	45.4%
Cost-income ratio	49.3	38.0	1128bps	43.5	586bps
Advances	621719	564585	10.1%	614874	1.1%
Deposits	736286	635454	15.9%	713862	3.1%
C-D Ratio (%)	84.4	90.7	-626bps	86.1	-169bps
Amount of Gross NPA	24149	26832	-10%	25950	-7%
Amount of Net NPA	7200	6108	18%	7846	-8%
% of Gross NPAs	3.5	4.2	-65bps	3.9	-32bps
% of Net NPAs	1.1	1.0	10bps	1.2	-12bps
Provisions Coverage%	70.0	77.0	-700bps	70.0	0bps
NIM %	3.4	3.6	-19bps	3.5	-7bps
CASA%	42.0	40.0	200bps	42.0	0bps
Capital Adequacy Ratio Basel III	20.0%	18.9%	112bps	19.0%	1bps
Tier I Basel III	17.5%	16%	148bps	16%	1bps

Source: Arianth Research, Company Filings

Conference Call Highlights:

- Focus of the bank remain on granular liability franchise.
- Bank has opened highest ever 2.3 mn new liability account during the quarter.
- Staff cost of the bank increased by 37% YoY. Q2 number is not comparable due to the increment impact.
- 30% of opex was driven by volumes, 20% towards future growth and tech, 30% towards collection expenses and rest is others.
- Flipkart-Axis co branded credit card has helped to increase monthly acquisition and there has been uptick in credit card spends as well.
- Disbursement momentum is coming back strongly.
- There will be an improvement in credit cost metrics going ahead as bank has consciously decided to take pain early.
- Corporates have started thinking of their capital structure mechanism. Axis bank participating in all these opportunities. Only Indian bank focusing on the offshore debt capital market.
- Given the high festive demand, working capital limit of the corporate are expected to improve.
- Capex cycle in corporate has bottomed out. Capex cycle are expected to revive in the next 6-12 month.
- Drivers for NIM improvement:
 - i. Loan mix change with pick up in advances growth
 - ii. Improving low cost deposit profile
 - iii. RIDF investment book run off in 3-4 years.
- Bank has not utilized any covid provision.
- Bank has made 100% provision against unsecured book GNPA.
- Cheque bounce rate and collection are improving month by month.

Income Statement				
(Rs Cr)	FY21	FY22E	FY23E	FY24E
Interest Earned	63645	73069	84541	97819
Interest Expended	34406	39534	44611	50340
Net Interest Income	29239	33535	39931	47479
Other Income	14838	16063	18316	20693
Fee Income	10686	11541	12926	14477
Treasury Income	2547	1822	2266	2602
Operating Income	44077	49598	58247	68172
Operating Expenses	18375	20885	22901	25114
Employee Expenses	6164	6842	7595	8430
Profit before provision & tax	25702	28713	35346	43058
Provisions and Contingencies	16896	12050	14627	16968
Profit Before Tax	8806	16663	20718	26090
Provision for tax	2217	4196	5217	6570
Exp. Items	0	0	0	0
Profit After Tax	6588	12467	15501	19520

Balance Sheet				
(Rs Cr)	FY21	FY22E	FY23E	FY24E
Sources of funds				
Share Capital	613	613	613	613
Total Reserves	100990	113457	128958	148479
Shareholder's Fund	101603	114070	129571	149092
Deposits	707306	806329	927278	1066370
Borrowings	142873	158646	175052	193098
Other Liabilities & provisions	44336	47972	55784	65583
Total Liabilities	996118	1127017	1288797	1475254
Application of Funds				
Cash & Bank	61730	67903	74693	82162
Investments	226120	253059	290532	333554
Advances	623720	717278	832043	965170
Fixed Assets	4245	4457	4680	4914
Other Assets	80304	84319	86849	89454
Total Assets	996118	1127016	1288797	1475254

Ratios %				
	FY21	FY22E	FY23E	FY24E
Asset Quality				
Gross NPA	3.7	3.7	3.6	3.6
Net NPA	1.1	1.0	1.2	1.2
PCR	80.0	78.0	74.0	74.0
Growth				
Advances Growth	9.2	15.0	16.0	16.0
Deposit growth	10.5	14.0	15.0	15.0
Net Profit Growth	304.9	89.2	24.3	25.9
Liquidity				
C-D Ratio	88.2	89.0	89.7	90.5
CASA	42.0	42.0	42.0	42.0
Capital Adequacy	19.1	19.1	19.1	19.1
Efficiency				
Cost Income Ratio	41.7	42.1	39.3	36.8
Operating Costs to Assets	1.8	1.9	1.8	1.7

Spread Analysis (%)				
	FY21	FY22E	FY23E	FY24E
Spread Analysis				
Yield on Advances	7.7	8.0	8.0	8.0
Yield on Investments	5.6	6.0	6.0	6.0
Cost of Funds	4.0	4.1	4.0	4.0
NIM	3.4	3.4	3.6	3.7
Interest Spread	3.6	3.9	3.9	4.0
Profitability				
ROE	6.5%	10.9%	12.0%	13.1%
ROA	0.7%	1.1%	1.2%	1.3%
Earnings Per Share (Rs)	21.5	40.7	50.6	63.7
Book Value (Rs)	332	372	423	487
Adjusted Book Value (Rs)	308	349	390	448
Valuation				
P / EPS (x)	39.2	20.7	16.6	13.2
P / ABV (x)	2.7	2.4	2.2	1.9

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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