

Strong performance; Provision buffer increases

CMP: Rs 494

Rating: ACCUMULATE

Target Price: Rs 554

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	564
Mkt Cap (Rs Cr)	1,51,081
52w H/L (Rs)	766 / 286
Avg Yearly Vol (in 000')	24,907

Shareholding Pattern %

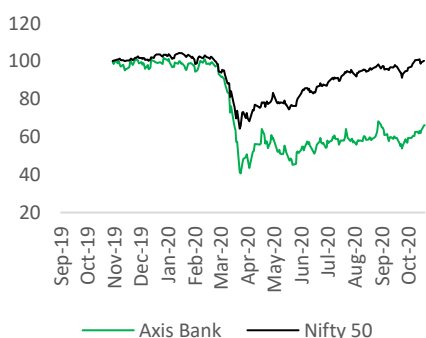
(As on September, 2020)

Promoters	14.8
FII	49.0
DII	23.9
Public & Others	12.3

Stock Performance (%)

	3m	6m	12m
Axis Bank	16.9	25.3	-31.7
Nifty	5.9	26.2	-0.5

Axis Bank Vs Nifty



Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Axis Bank has reported good performance during Q2FY21 with strong NII growth of 20% YoY to Rs 7,326 cr, driven by advances growth of 11% YoY. Due to strong rebound in other income at 47% QoQ and controlled cost, operating profit of the bank grew by 16% YoY/18% QoQ at Rs 6,898 cr. Provisioning buffer of the bank continues to remain high at 30% YoY/4% QoQ to Rs 4,581 cr. Profit for the quarter increased by 51% QoQ to Rs 1,683 cr vs. our estimates of Rs 1615 cr. On the business front, the bank's loan book grew by +10.5% YoY/+3% QoQ to Rs 5.76 lakh Cr while deposits grew smoothly to Rs 6.35 lakh Cr by +9% YoY.

Loan growth slowed down: Overall, loan book growth slowed down to 11% YoY vs. 13% in Q1FY21, due to lower growth in retail portfolio and decline in SME portfolio on YoY basis. However, SME portfolio of the bank grew by 6% QoQ (90% of SME book is secured), which in turn was led by disbursals under ECLGS (Rs 6000 cr disbursed). Retail loan for the quarter grew by 12% YoY vs. 16% in Q1FY21 while corporate book grew by 12% YoY vs. 16% in Q1FY21. Share of retail and corporate portfolio stood at 53% & 36%. Deposits during the quarter grew by 9% YoY with CASA ratio sequentially rising to 40% from 39%.

Margins improved 18bps QoQ: Overall, NIM was improved by ~18 bps QoQ to 3.6% led by 5 bps due to lower interest income reversal, 3 bps due to the capital raise and 10 bps due to spread benefits.

Asset Quality improved and provisions strengthened: Asset quality of the bank improved led by SC interim order and lower slippages which has declined by 58% QoQ to Rs 931 cr. The banks GNPA/NNPA fell down to 4.18%/0.98% in Q2FY21 as against 4.72%/1.23% in Q1FY21. Adjusted for the impact of the SC order, GNPA's were 4.28%. In addition to specific provisions, the bank holds provisions of Rs 10,839 cr, including contingent provisions, provisions against anticipated restructuring (Rs 1864 cr), and COVID related provisions of Rs 5012 cr. Cumulative provisions (standard + additional other than NPA) translate to 2.20% of standard assets.

Valuation & View

Considering significant provision buffers that bank has made for future contingencies, strong liability franchise, visibility of lower restructuring in the book, strong capital position (CAR at 19%) and improving operating efficiency, we continue to keep our positive stance on Axis Bank. We continue to value the bank at 1.9x P/ABV multiple to its FY22 ABVPS of Rs 292 for a target price of Rs 554 per share. We maintain our Accumulate rating on the stock.

Axis Bank Ltd. (Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	21,708	25,206	27,431	29,940
PPOP	19,005	23,438	25,754	28,758
PAT	4,677	1,627	8,130	12,969
EPS (INR / Share)	18.2	5.8	28.8	46.0
ABVPS (INR / Share)	215.4	257.8	273.5	291.6
NIM (%)	3.2	3.5	3.5	3.5
Advances Growth (%)	12.5	18.0	14.0	18.0
Deposits Growth (%)	20.9	16.0	14.5	17.0
P / ABV (x)	2.3	1.9	1.8	1.7

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

Q2FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Particulars	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Interest Earned	16063	15438	4.0%	16539	-2.9%
Interest Expended	8737	9336	-6.4%	9554	-8.5%
NII	7326	6102	20.1%	6985	4.9%
Other Income	3807	3896	-2.3%	2587	47.2%
Operating Expenses	4236	4046	4.7%	3728	13.6%
Operating Profit before Prov.& Cont.	6898	5952	15.9%	5844	18.0%
Provisions and Contingencies	4581	3518	30.2%	4416	3.7%
PBT	2317	2433	-4.8%	1428	62.3%
Provision for tax	634	2545	-75.1%	316	100.8%
Net Profit (after Extraordinary Items)	1683	-112	NA	1112	51.3%
Return on Assets (Annualised)	0.7	-0.1	NA	0.5	NA
Earnings Per Share	5.7	-0.4	NA	3.9	44.4%
Cost-income ratio	38.0	40.5	-242bps	38.9	-90bps
Advances	576372	521594	10.5%	561341	2.7%
Deposits	635454	583958	8.8%	628150	1.2%
C-D Ratio (%)	90.7	89.3	138bps	89.4	134bps
Amount of Gross NPA	26832	29071	-8%	29560	-9%
Amount of Net NPA	6108	11138	-45%	7448	-18%
% of Gross NPAs	4.2	5.0	-85bps	4.7	-54bps
% of Net NPAs	1.0	2.0	-101bps	1.2	-25bps
Provisions Coverage%	77.0	60.0	1700bps	75.0	200bps
NIM %	3.6	3.5	7bps	3.4	18bps
CASA%	40.0	41.0	-100bps	39.0	100bps
Capital Adequacy Ratio Basel III	18.9%	18.2%	1bps	17.3%	2bps
Tier I Basel III	16%	15%	1bps	14%	2bps

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

Conference Call Highlights:

- Collection efficiency in September month was at 94% while in October end these levels have improved to 97%, which is almost similar to pre-covid level.
- There has been no restructuring upto September 2020. Management believes that restructuring pool would be a smaller percentage of loan book.
- Net NPA + BB & Below (fund based) + probable corporate Restructuring Pool (fund based), net of provisions held is 2.51% of net customer assets.
- BB & Below (fund based) increased by 0.4% QoQ. ~ 75% of increase is on account of estimated probable restructuring (0.3% of 0.4%) and ~ 25% is on account of internal reviews, moratorium etc. (0.1% of 0.4%).
- In the current quarter there have been no upgrades from BB and below book.
- In wholesales banking, bank has tightened customer selection and underwriting standards. 82% of the book is rated A- or better. 72% of the book is rated AA- and above.
- Bank is cautious towards SME segment and focusing more on diversification and granularity in the book.
- In retail segment, bank is sourcing business from existing customers and using leveraging analytics from partnership with various vendors.
- There was a 5 bps impact on NIM due to NII reserve which bank has created.
- Government guarantee scheme has helped the borrower to meet short term working capital loan. The bank has sanctioned around Rs 7000 cr under ECLGS, out of which, Rs 6000 cr has been disbursed.
- Check bounce rate are slightly higher but it is on expected lines given that it is a second month post moratorium. 30 DPD+ accounts for 2.3% of the book.

Income Statement				
(Rs Cr)	FY19	FY20	FY21E	FY22E
Interest Earned	54986	62635	70352	79539
Interest Expended	33278	37429	42921	49598
Net Interest Income	21708	25206	27431	29940
Other Income	13130	15537	17704	20524
Fee Income	10127	11849	13863	16220
Treasury Income	971	1350	1241	1365
Operating Income	34839	40743	45135	50465
Operating Expenses	15833	17305	19381	21707
Employee Expenses	4747	5321	5960	6675
Profit before provision & tax	19005	23438	25754	28758
Provisions and Contingencies	12031	18534	15243	11991
Profit Before Tax	6974	4904	10511	16766
Provision for tax	2297	3277	2381	3798
Exp. Items	0	0	0	0
Profit After Tax	4677	1627	8130	12969

Ratios %				
	FY19	FY20	FY21E	FY22E
Asset Quality				
Gross NPA	5.3	5.3	6.2	5.9
Net NPA	2.1	2.1	2.4	3.1
PCR	62.0	76.0	78.0	78.0
Growth				
Advances Growth	12.5	18.0	14.0	18.0
Deposit growth	20.9	16.0	14.5	17.0
Net Profit Growth	1596.4	-65.2	399.6	59.5
Liquidity				
C-D Ratio	90.2	89.3	88.9	89.6
CASA	44.4	41.2	42.0	42.0
Capital Adequacy	16.6	16.6	16.6	16.6
Efficiency				
Cost Income Ratio	45.4	42.5	42.9	43.0
Operating Costs to Assets	2.0	1.9	1.9	1.8

Balance Sheet				
(Rs Cr)	FY19	FY20	FY21E	FY22E
Sources of funds				
Share Capital	514	564	564	564
Total Reserves	66162	84384	92514	105482
Shareholder's Fund	66676	84948	93078	106047
Deposits	548471	640105	732920	857517
Borrowings	152776	147954	161270	175784
Other Liabilities & provisions	33073	42158	46326	54405
Total Liabilities	800997	915165	1033594	1193753
Application of Funds				
Cash & Bank	67205	97268	106995	117695
Investments	174969	156734	172408	189649
Advances	494798	571424	651424	768680
Fixed Assets	4037	4313	4529	4755
Other Assets	59988	85425	98239	112975
Total Assets	800997	915165	1033594	1193753

Spread Analysis (%)				
	FY19	FY20	FY21E	FY22E
Spread Analysis				
Yield on Advances	8.4	8.6	8.7	8.7
Yield on Investments	6.5	6.0	6.0	6.0
Cost of Funds	4.7	4.9	4.8	4.8
Cost of Deposits	5.3	5.7	5.7	5.7
NIM	3.2	3.5	3.5	3.5
Interest Spread	3.6	3.8	3.9	3.9
Profitability				
ROE	7.0	1.9	8.7	12.2
Earnings Per Share (Rs)	18.2	5.8	28.8	46.0
Dividend Per Share (Rs)	0.0	5.0	5.0	5.0
Adjusted Book Value (Rs)	215	258	274	292
Valuation				
P / EPS (x)	27.2	85.7	17.1	10.7
P / ABV (x)	2.3	1.9	1.8	1.7

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

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880