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<http://www.asiamoney.com/brokers>

**CMP: INR 756**

**Rating: Accumulate**

**Target Price: INR 853**

**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)	2,31,790
52w H/L (INR)	800 / 400
Avg Yearly Vol (in 000')	18,692

**Shareholding Pattern %**

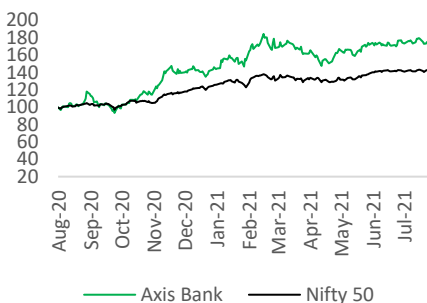
(As on June, 2021)

Promoters	11.7
FII	52.5
DII	24.3
Public & Others	11.5

**Stock Performance (%)**

	1m	3m	12m
Axis Bank	-0.7	8.0	69.7
Nifty 50	-0.2	9.3	41.4

**Axis Bank Vs Nifty**



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Axis Bank has reported mixed performance during Q4FY21 with healthy operating profit growth and contraction in margins. Profit for the quarter came lower than our estimate at INR 2,160 cr vs. our estimate of INR 2,880 cr, due to elevated credit cost. Advances for the quarter grew by 12% YoY/flat QoQ, which led to 11% YoY growth in NII at INR 7,760 cr. Core operating profit for the quarter grew strongly by 13% YoY to INR 5,896 cr, driven by non-interest income growth of 39% YoY. Cost-income ratio for the quarter decreased by 38 bps QoQ to 43.5%. Credit cost for the quarter increased to 1.9% from 1.7% in the previous quarter. Asset quality of the bank deteriorated as GNPA/NNPA increased by 15bps each at 3.9%/1.2% respectively. On the business front, loan book growth was at +12% YoY to INR 6.14 lakh cr while deposits grew strongly to INR 7.13 lakh cr by 16% YoY. NIM of the bank decreased by 10bps QoQ at 3.5% due to change in asset mix and NII reversal.

**Advances growth was healthy:** Overall, loan book growth increased to 12% YoY vs. 6% YoY in the previous quarter. Within segments, retail book grew by 14% YoY/flat QoQ, comprising ~54% of the total loans. SME book seen strong growth of 18% YoY, led by tech driven transformation initiatives. Corporate loan book growth was at 8% YoY/1% QoQ. Deposits during the quarter grew by 16% YoY/2% QoQ with stable CASA ratio of 42%.

**Asset quality deteriorated led by high retail slippages:** Slippages for the quarter came in at INR 6,518 cr vs. INR 5,285 cr QoQ (Nearly ~83% slippages was from Retail portfolio). On segmental basis, Corporate and SME saw negligible net slippages and stress addition was mainly from Retail portfolio. Recoveries and write off for the quarter was at INR 2,543 cr vs. INR 3,463 cr QoQ. Restructuring pool was quite low at 0.3% of loans at INR 2,192 cr. The bank continue to hold higher provision with cumulative provision (standard + additional non-NPA) of INR 124 bn (2.05% of loans vs 1.95% in Q4FY21), which keeps the balance sheet stronger. Management stated that demand resolution and check bounce rates has reached nearly to Mar'21 level in Jul'21, which should lead to normalization in retail slippages from H2FY22E onwards.

**Valuation & View:** We cut our earnings estimates by 9%/4% for FY22/23E to factor in higher credit cost. We maintain our Accumulate rating on the stock with a revised TP of INR 853 (earlier INR 798), valuing the bank at 2.2x FY23E ABV. The bank is well poised to grow at higher than industry average given it's a) strong capital position with CRAR of 19%, b) Strong provision buffers which makes balance sheet stronger, c) superior liability profile and d) increasing granularity in its book.

Axis Bank Ltd. (Rs Cr)	FY20	FY21	FY22E	FY23E
NII	25,206	29,239	33,535	39,931
PPOP	23,438	25,702	29,323	36,011
PAT	1,627	6,588	11,668	15,999
EPS (INR / Share)	5.8	21.5	38.1	52.2
ABVPS (INR / Share)	261.4	308.1	344.5	387.7
NIM (%)	3.2	3.4	3.4	3.6
ROA (%)	0.2%	0.7%	1.0%	1.2%
ROE (%)	1.9%	6.5%	10.3%	12.4%
P / ABV (x)	2.9	2.5	2.2	2.0

## Q1FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Particulars	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Interest Earned	16003	16539	-3.2%	15494	3.3%
Interest Expended	8243	9554	-13.7%	7939	3.8%
<b>NII</b>	<b>7760</b>	<b>6985</b>	<b>11.1%</b>	<b>7555</b>	<b>2.7%</b>
Other Income	3588	2587	38.7%	4668	-23.1%
Operating Expenses	4932	3728	32.3%	5359	-8.0%
<b>Operating Profit before Prov.&amp; Cont.</b>	<b>6416</b>	<b>5844</b>	<b>9.8%</b>	<b>6865</b>	<b>-6.5%</b>
Provisions and Contingencies	3532	4416	-20.0%	3295	7.2%
<b>PBT</b>	<b>2884</b>	<b>1428</b>	<b>102.0%</b>	<b>3570</b>	<b>-19.2%</b>
Provision for tax	724	316	129.2%	893	-18.9%
<b>Net Profit (after Extraordinary Items)</b>	<b>2160</b>	<b>1112</b>	<b>94.2%</b>	<b>2677</b>	<b>-19.3%</b>
Return on Assets (Annualised)	0.9	0.5	79.2%	1.1	NA
<b>Earnings Per Share</b>	<b>7.0</b>	<b>3.9</b>	<b>78.4%</b>	<b>8.7</b>	<b>-19.4%</b>
Cost-income ratio	43.5	38.9	452bps	43.8	-38bps
Advances	614874	548846	12.0%	614399	0.1%
Deposits	713862	615655	16.0%	697985	2.3%
C-D Ratio (%)	86.1	89.1	-301bps	88.0	-189bps
Amount of Gross NPA	25950	29560	-12%	25315	3%
Amount of Net NPA	7846	7448	5%	6994	12%
% of Gross NPAs	3.9	4.7	-87bps	3.7	15bps
% of Net NPAs	1.2	1.2	-3bps	1.1	15bps
Provisions Coverage%	70.0	75.0	-500bps	72.0	-200bps
NIM %	3.5	3.4	6bps	3.6	-10bps
CASA%	42.0	39.0	300bps	42.0	0bps
Capital Adequacy Ratio Basel III	19.0%	17.3%	172bps	19.1%	0bps
Tier I Basel III	16.5%	14%	204bps	16%	0bps

Source: Arianth Research, Company Filings

## Conference Call Highlights:

- Management indicated that collections were impacted in April and May due to covid restrictions. However, the bank saw improvements in the months of June and July. Demand resolution for Q1FY22 stood at ~98% which is lower than Q4FY21. However, demand resolution for June reached 99.5% of March levels.
- Check bounce rates improved to March levels by the month of July. Management guided that collections should improve substantially by Q3FY22, unless there is another Covid wave.
- New issuance of card has been impacted in the short term due to RBI's restrictions on Mastercard. Management indicated that it will take some time to resume issuances with new card network partners.
- Covid restructuring book is quite low at just 0.3% of loans. Restructured loans as % of respective loans segments are 0.6% for corporate, 0.2% for retail and 0% for SME. The entire restructured book from corporate segment is part of the BB and below book. Provision coverage on overall restructured book is 23% with 100% cover on all unsecured retail.
- The bank has disbursed a total of ~Rs121 bn under the ECLGS scheme, which amounts to ~2% of advances.
- The corporate book loan growth quality has been good with 94% of incremental sanctions to those rated A- and above. Corporate disbursements grew 63% YoY and declined by 52% QoQ.
- The bank Continue to focus on six-point strategy (i) Strengthening core of bank (ii) Invest in technology (iii) Making Axis digital (iv) granularity in loans/deposits/exposures (v) Strong focus on PPOP growth and (vi) Improve reach & scale up subsidiaries.
- Staff cost was higher because of (i) the bank added ~5,000 new employees over the last year and (ii) the bank had delayed increment. Other expenses was higher on the low base of Q1FY21 because of higher business volumes, collection expenses and IT-related spends during 1QFY22.

Income Statement				
(Rs Cr)	FY20	FY21	FY22E	FY23E
Interest Earned	62635	63645	73069	84541
Interest Expended	37429	34406	39534	44611
<b>Net Interest Income</b>	<b>25206</b>	<b>29239</b>	<b>33535</b>	<b>39931</b>
Other Income	15537	14838	16063	18316
Fee Income	11019	10686	11541	12926
Treasury Income	2420	2547	1822	2266
<b>Operating Income</b>	<b>40743</b>	<b>44077</b>	<b>49598</b>	<b>58247</b>
Operating Expenses	17305	18375	20274	22236
Employee Expenses	5321	6164	6842	7595
<b>Profit before provision &amp; tax</b>	<b>23438</b>	<b>25702</b>	<b>29323</b>	<b>36011</b>
Provisions and Contingencies	18534	16896	13729	14627
<b>Profit Before Tax</b>	<b>4904</b>	<b>8806</b>	<b>15595</b>	<b>21384</b>
Provision for tax	3277	2217	3927	5385
Exp. Items	0	0	0	0
<b>Profit After Tax</b>	<b>1627</b>	<b>6588</b>	<b>11668</b>	<b>15999</b>

Balance Sheet				
(Rs Cr)	FY20	FY21	FY22E	FY23E
<b>Sources of funds</b>				
Share Capital	564	613	613	613
Total Reserves	84384	100990	112658	128657
<b>Shareholder's Fund</b>	<b>84948</b>	<b>101603</b>	<b>113271</b>	<b>129270</b>
Deposits	640105	707306	806329	927278
Borrowings	147954	142873	158646	175052
Other Liabilities & provisions	42158	44336	48770	56085
<b>Total Liabilities</b>	<b>915165</b>	<b>996118</b>	<b>1127016</b>	<b>1288797</b>
<b>Application of Funds</b>				
Cash & Bank	97268	61730	67903	74693
Investments	156734	226120	253059	290532
Advances	571424	623720	717278	832043
Fixed Assets	4313	4245	4457	4680
Other Assets	85425	80304	84319	86849
<b>Total Assets</b>	<b>915165</b>	<b>996118</b>	<b>1127016</b>	<b>1288797</b>

Ratios %				
	FY20	FY21	FY22E	FY23E
<b>Asset Quality</b>				
Gross NPA	4.9	3.7	4.0	3.9
Net NPA	1.6	1.1	1.1	1.3
PCR	76.0	80.0	78.0	74.0
<b>Growth</b>				
Advances Growth	15.5	9.2	15.0	16.0
Deposit growth	16.7	10.5	14.0	15.0
Net Profit Growth	-65.2	304.9	77.1	37.1
<b>Liquidity</b>				
C-D Ratio	89.3	88.2	89.0	89.7
CASA	41.2	42.0	42.0	42.0
Capital Adequacy	17.5	19.1	19.1	19.1
<b>Efficiency</b>				
Cost Income Ratio	42.5	41.7	40.9	38.2
Operating Costs to Assets	1.9	1.8	1.8	1.7

Spread Analysis (%)				
	FY20	FY21	FY22E	FY23E
<b>Spread Analysis</b>				
Yield on Advances	8.5	7.7	8.0	8.0
Yield on Investments	7.2	5.6	6.0	6.0
Cost of Funds	4.7	4.0	4.1	4.0
NIM	3.2	3.4	3.4	3.6
Interest Spread	3.7	3.6	3.9	3.9
<b>Profitability</b>				
ROE	1.9%	6.5%	10.3%	12.4%
ROA	0.2%	0.7%	1.0%	1.2%
Earnings Per Share (Rs)	5.8	21.5	38.1	52.2
Book Value (Rs)	301	332	370	422
Adjusted Book Value (Rs)	261	308	345	388
<b>Valuation</b>				
P / EPS (x)	131.1	35.2	19.9	14.5
P / ABV (x)	2.9	2.5	2.2	2.0

Source: Arian 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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