

**Better acknowledgement of potential stress; able to drive growth**

**CMP: Rs 455**

**Rating: ACCUMULATE**

**Target Price: Rs 535**

**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)	1,20,577
52w H/L (Rs)	827 / 286
Avg Yearly Vol (in 000')	12,150

**Shareholding Pattern %**

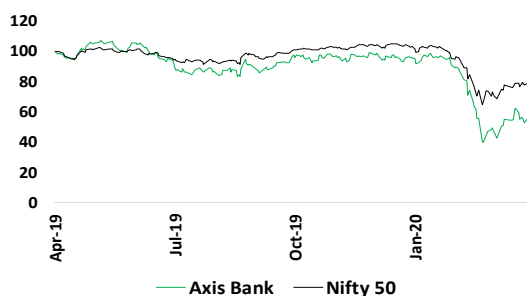
(As on March, 2020)

Promoters	16.0
FII	45.5
DII	13.6
Public & Others	25.0

**Stock Performance (%)**

	3m	6m	12m
Axis Bank	-42.0	-38.8	-44.3
Nifty	-27.2	-22.7	-24.6

**Axis Bank Vs Nifty**



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Axis Bank posted Q4FY20 results with Net Interest Income increasing by +19.3% YoY/+5.5% QoQ, PPOP increasing by +16.7% YoY/+1.9% QoQ and Net Loss of Rs 1,388 Cr against Rs 1,505 Cr profit in Q4 FY19. However, provisions increased by 185% to Rs 7,730 Cr against Rs 2,711 Cr last year corresponding quarter, of which Rs 3,475 Cr as provisioning for Covid-19 impact over and above RBI guidelines. On the business front, the bank's loan book grew by +15.5% YoY/+3.9% QoQ to Rs 5.71 lakh Cr while deposits grew smoothly to Rs 6.40 lakh Cr by +16.7% YoY/+8.2% QoQ on account of the bank's strong customer attraction capability and several large government accounts being transferred from other banks to Axis Bank. The advances growth was driven primarily by the retail loans, driven primarily by personal loans, credit cards and auto loans.

**Key Highlights of Q4 FY20:**

**NIMs remained high on account of fallen interest rates:** NIMs remained stable at 3.55% as the year-round interest rate cuts by RBI helped bring down interest costs, which only increased by 3.7% YoY/1.8% QoQ.

**CASA and retail term deposits increased significantly:** Both the CASA and retail term deposits increased by 22% YoY. The share of CASA stood at 39% of total deposits while CASA+Retail Deposits constituted 80% of total deposits.

**Asset Quality improved along with prudent provisioning:** The bank's management can take credit for this in the future with severe prudent provisioning of Rs 3,475 Cr for Covid-19. The GNPA/NNPA fell down to 4.86%/1.56% in March 2020 against 5.00%/2.09% at the end of Dec 2019.

**Valuation & View**

Axis Bank's core banking business grew sharply over the last year with branch network increasing to 4,528 branches as of March 2020 against 4,050 branches by March 2019. If the proposed deal with Max Life Insurance gets the regulator approval, we expect the bank to have a further profitable and cash flow rich source of income as well. Also, the proposed capital infusion of Rs 35,000 Cr will add additional buffer to the bank's books. We however have reduced the P/BV multiple to 1.9x (2.2 earlier) for FY22 BVPS of Rs 281 for a target price of Rs 535 per share and maintain our positive outlook with Accumulate (BUY earlier) rating.

Axis Bank Ltd. (Rs Cr)	FY18A	FY19A	FY20	FY21E	FY22E
NII	18,618	21,708	25,206	25,755	27,984
PPOP	15,594	19,005	23,438	24,049	26,768
PAT	276	4,677	1,627	6,811	11,430
EPS (INR / Share)	1.1	18.2	5.8	24.1	40.5
BVPS (INR / Share)	182.7	215.4	257.8	268.8	281.5
NIM (%)	3.1	3.2	3.5	3.5	3.5
Advances Growth (%)	17.8	12.5	18.0	14.0	18.0
Deposits Growth (%)	9.5	20.9	16.0	14.5	17.0
P / ABV (x)	3.7	1.9	1.6	1.6	1.5

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

## Q4 FY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Particulars	Q4FY20	Q4FY19	YoY	Q3 FY20	QoQ
Interest Earned	16234	14798	9.7%	15708	3.3%
Interest Expended	9426	9092	3.7%	9255	1.8%
<b>NII</b>	<b>6808</b>	<b>5706</b>	<b>19.3%</b>	<b>6453</b>	<b>5.5%</b>
Other Income	3985	3526	13.0%	3787	5.3%
Operating Expenses	4942	4217	17.2%	4497	9.9%
Operating Profit before Prov.& Cont.	5851	5014	16.7%	5743	1.9%
Provisions and Contingencies	7730	2711	185.1%	3471	122.7%
<b>PBT</b>	<b>-1879</b>	<b>2303</b>	<b>NA</b>	<b>2272</b>	<b>NA</b>
Provision for tax	-491	798		515	
<b>Net Profit (after Extraordinary Items)</b>	<b>-1388</b>	<b>1505</b>	<b>NA</b>	<b>1757</b>	<b>NA</b>
Return on Assets (Annualised)	-0.6	0.8		0.9	
<b>Earnings Per Share</b>	<b>-4.9</b>	<b>5.9</b>	<b>NA</b>	<b>6.2</b>	<b>NA</b>
Cost-income ratio	45.8	45.7		43.9	
Advances	571424	494798	15.5%	550138	3.9%
Deposits	640105	548471	16.7%	591676	8.2%
C-D Ratio (%)	89.3	90.2		93.0	
Amount of Gross NPA	30234	29789	1%	30073	1%
Amount of Net NPA	9360	11276	-17%	12160	-23%
% of Gross NPAs	4.86	5.3		5.00	
% of Net NPAs	1.6	2.1		2.1	
Provisions Coverage%	69	62		60	
NIM %	3.55	3.43		3.57	
CASA%	39.0	44.0		40.0	
Capital Adequacy Ratio Basel III	17.5%	15.8%		18.20%	
Tier I Basel III	14.5%	12.5%		15.02%	

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

## Q4 FY20 – Key Concall Highlights

- The bank's management acknowledged these as unprecedented times for the bank as well as the economy.
- The bank's management attributed the increased provisioning of Rs 3,475 Cr towards Covid-19.
- LCR stands at excess of 120%.
- SLR in excess of Rs 48,463 Cr.
- Operationally, the bank's 92% of credit cards are towards existing customers, 78% of personal loans towards existing customers, with +70% of the credit cards towards salaried employees. The bank has 29 lakh accounts opened in the fiscal year. Currently, despite the Covid-19 lockdown, 99% of the bank's branches are operational.
- To facilitate the customer's online banking practices, the bank had waived off the transactional charges levied earlier, a week before the lockdown started. Also, the bank stated of more than 4,500 employees working on maintaining the best online services to the customers in the analytics and online services department.
- As a measure of check on its customers, the bank is in touch with more than 3 lakh customers on a daily basis.
- The recently launched Private Wealth Management services of the Axis Bank, Burgundy Wealth has been growing strong with more than 850 families joining it. The AUM size of this Private Wealth management service stood at Rs +14,700 Cr as of March 2020.
- Going ahead, the management expects, Fee Income growth to moderate in FY21. Also, the bank management stressed on the focus of diversifying the wholesale portfolio of the bank from the top 10 sectors to reduce risk profile of the bank along with reap benefits of new & evolving sectors. In the wholesale asset portfolio, the bank disclosed that 80% of the wholesale book is of A- & above credit rated. As of March 2020, the bank has a small micro-finance portfolio of Rs 5,791 Cr.
- For the current corona crisis, the bank management mentioned of several stress testing being carried out on the bank's asset portfolio. As of now, the bank has provided for 10% of all the 90 day overdue loans of the book during the quarter leading to the spike in provisioning. However, we find it more comfortable for the management to provide large chunks now as the ground reality numbers have only worsened since March 31<sup>st</sup> 2020.

Income Statement					Balance Sheet				
(Rs Cr)	FY19	FY20	FY21E	FY22E	(Rs Cr)	FY19	FY20	FY21E	FY22E
Interest Earned	54986	62635	69571	78616	<b>Sources of funds</b>				
Interest Expended	33278	37429	43815	50632	Share Capital	514	564	564	564
<b>Net Interest Income</b>	<b>21708</b>	<b>25206</b>	<b>25755</b>	<b>27984</b>	Total Reserves	66162	84384	91195	102625
Other Income	13130	15537	17675	20490	<b>Shareholder's Fund</b>	66676	84948	91759	103189
Fee Income	10127	11849	13863	16220	Deposits	548471	640105	732920	857517
Treasury Income	971	1350	1241	1365	Borrowings	152776	147954	161270	175784
<b>Operating Income</b>	<b>34839</b>	<b>40743</b>	<b>43431</b>	<b>48475</b>	Other Liabilities & provisions	33073	42158	47644	57263
Operating Expenses	15833	17305	19381	21707	<b>Total Liabilities</b>	<b>800997</b>	<b>915165</b>	<b>1033594</b>	<b>1193753</b>
Employee Expenses	4747	5321	5960	6675	<b>Application of Funds</b>				
<b>Profit before provision &amp; tax</b>	<b>19005</b>	<b>23438</b>	<b>24049</b>	<b>26768</b>	Cash & Bank	67205	97268	106995	117695
Provisions and Contingencies	12031	18534	15243	11991	Investments	174969	156734	172408	189649
<b>Profit Before Tax</b>	<b>6974</b>	<b>4904</b>	<b>8806</b>	<b>14776</b>	Advances	494798	571424	651424	768680
Provision for tax	2297	3277	1995	3347	Fixed Assets	4037	4313	4529	4755
Exp. Items	0	0	0	0	Other Assets	59988	85425	98239	112975
<b>Profit After Tax</b>	<b>4677</b>	<b>1627</b>	<b>6811</b>	<b>11430</b>	<b>Total Assets</b>	<b>800997</b>	<b>915165</b>	<b>1033594</b>	<b>1193753</b>

Ratios %					Spread Analysis (%)				
	FY19	FY20	FY21E	FY22E		FY19	FY20	FY21E	FY22E
<b>Asset Quality</b>					<b>Spread Analysis</b>				
Gross NPA	5.3	5.3	6.2	5.9	Yield on Advances	8.4	8.6	8.6	8.6
Net NPA	2.1	2.1	2.4	3.1	Yield on Investments	6.5	6.0	6.0	6.0
PCR	62.0	76.0	78.0	78.0	Cost of Funds	4.7	4.9	4.9	4.9
<b>Growth</b>					Cost of Deposits	5.3	5.7	5.7	5.7
Advances Growth	12.5	18.0	14.0	18.0	NIM	3.2	3.5	3.5	3.5
Deposit growth	20.9	16.0	14.5	17.0	Interest Spread	3.6	3.8	3.7	3.7
Net Profit Growth	1596.4	-65.2	318.6	67.8	<b>Profitability</b>				
<b>Liquidity</b>					ROE	7.0	1.9	7.4	11.1
C-D Ratio	90.2	89.3	88.9	89.6	Earnings Per Share (Rs)	18.2	5.8	24.1	40.5
CASA	44.4	39.0	52.0	52.0	Dividend Per Share (Rs)	0.0	5.0	5.0	5.0
Capital Adequacy	16.6	16.6	16.6	16.6	Adjusted Book Value (Rs)	215	258	269	281
<b>Efficiency</b>					<b>Valuation</b>				
Cost Income Ratio	45.4	42.5	44.6	44.8	P / EPS (x)	23.1	72.8	17.4	10.4
Operating Costs to Assets	2.0	1.9	1.9	1.8	P / ABV (x)	1.9	1.6	1.6	1.5

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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