

Sturdy Provision and Capital Buffer



Axis Bank reported its Q1FY22 performance which was below our estimates on the profitability front.

- **NII came in at INR 77.60 Bn**, +11.1% YoY/+2.7% QoQ and 0.1% above our est.
- **Net Income came in at INR 113.48 Bn**, 18.6% YoY/-7.2% QoQ and 7% below our est.
- **PPOP came in at INR 64.16 Bn**, +9.8% YoY/-6.5% QoQ and 5% below our est.
- **Provisions came in at INR 35.32 Bn**, -20% YoY/+7.2% QoQ and 13% above our est.
- **PAT came in at INR 21.60 Bn**, 94.2% YoY/-19.3% QoQ and 21% below our est.
- **EPS stood at INR 7.05** vs INR 8.74 / INR 3.94 in Q4FY21 / Q1FY21 respectively

Financial Highlights

- Bank's domestic NIMs stood at 3.46% (+6 bps YoY/-10 bps QoQ), impacted by product mix change, interest reversals, CRR increase and market pricing pressure in the wholesale segment and mortgages business.
- Operational efficiency remained stable, with cost to income ratio stood at 43.5% (+452 bps YoY), increase in Staff costs by 32% YoY and Other operating expenses by 33% YoY. Staff costs has impact of 2 years increments, higher gratuity due to increments & change in interest rates and have added ~ 5,000 new people. Other operating expenses impacted by higher business volumes, grater IT expenses (+63% YoY) and statutory costs in PSLC & DICGC premium (+ 30% YoY).
- Bank's asset quality worsened, with GNPA's stood at 3.85%, up by 15 bps QoQ, while NNPA's at 1.20% (up by 15 bps QoQ). Slippages remained elevated at Rs 65.18 Bn in Q1FY22 vs Rs 52.85 Bn QoQ and Rs 22.18 Bn YoY. 22% of Q1FY22 slippages downgraded and upgraded in same quarter.
- Cheque bounces remained marginally elevated in Q1FY22, but July 21 cheque bounce rate is back to March 21 levels. Demand resolution came down in the first two months of the quarter but improved in June 21 and reached 99.5% of the March 21 levels.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	252	292	323	372
Adjusted net profit	16	66	124	161
Net worth	849	1016	1128	1273
Adj BVPS	268	309	344	390
EPS (Rs)	6	22	41	53
P/ABV (x)	2.8	2.4	2.2	1.9
P/E (x)	131	35	19	14
RoA (%)	0.2	0.7	1.2	1.4
RoE (%)	2.1	7.1	11.6	13.4

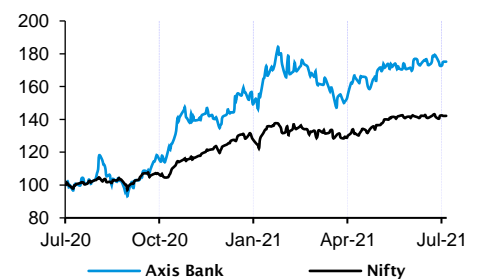
Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	840	11

Market data

Current price	Rs	756
Market Cap (Rs.Bn)	(Rs Bn)	2318
Market Cap (US\$ Mn)	(US\$ Mn)	31146
Face Value	Rs	2
52 Weeks High/Low	Rs	800/400
Average Daily Volume	('000)	5886
BSE Code		532215
Bloomberg		AXSB:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	11.7	13.6
FII	52.5	51.4
DII	24.3	23.3
Others	11.6	11.7
Total	100	100

Source: BSE

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- While Asset quality on the wholesale book is holding up well with net slippage ratio on an annualized basis stood at 0.27%, amongst the lowest in last 11 quarters, Retail collections were most impacted, with Net slippage ratio on an annualized basis stood at 4.53%. ~ 55% of the slippage for the quarter has come from secured products where bank has LTV in the range of 35% to 50%.
- Bank maintained a strong PCR ratio of 70% and total COVID contingent provision of Rs 50.12 Bn. Cumulative provisions (standard + additional other than NPA) translate to 2.05% of our standard loans. The standard COVID-19 related restructured loans stood at Rs 21.92 Bn (0.36% of Advances). Bank carries a provision of ~ 23% on restructured loans, which is in excess of regulatory limits. On a segmental basis the restructured loans were 0.62% of the Wholesale Banking group book, 0.21% of the retail book and 0.03% of the CBG book.
- Loan growth of 12% YoY/0.1% QoQ was largely driven by retail segment (14% YoY/flat QoQ), which comprise 80% secured loans. SME book grew by 17.9% YoY/-3.9% QoQ; Out of which, 96% is secured with predominantly working capital financing, and is well diversified across geographies and sectors. Corporate loan book increased by 7.7% YOY /1.3% QoQ; Out of which, 94% of incremental sanctions to those rated A- and above. while Retail disbursements grew around 3.3X YOY but (-48% QoQ), Corporate disbursements grew 63% YOY (-52% QoQ).
- On liabilities, Deposits grew by 16% YoY/2.3% QoQ in Q1FY22 led by CASA growth of 20% YoY taking CASA ratio at 43.15% (Vs 41.7% YoY). Bank has steadily improved its liability franchise performance with granular retail deposit book (CASA + RTD) growing 15% YoY and 3% QoQ on quarterly average balances. Bank's capital adequacy ratio stood at 19.01% (vs 19.12% QoQ), of which Tier I capital was 16.48% (vs 16.47% QoQ) and Tier II capital was 2.65% (vs flat QoQ).

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Cumulative provisions (standard + additional other than NPA) translate to 2.05% of our standard loans.

Loan growth of 12% YoY/0.1% QoQ was largely driven by retail segment (14% YoY/flat QoQ), which comprise 80% secured loans.

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Valuation and outlook

With better capital adequacy (Tier I 16.5%) and a healthy provisioning buffer (SACR 2.05%), Axis Bank is well positioned to navigate the current challenges. Besides, improved underwriting and an increasing retail mix will help the bank in maintaining strong control on credit cost in the near to medium term. Going forward, the bank's earnings trajectory is likely to improve as credit costs normalise and growth gathers pace. At CMP the stock trades at 2.2x its FY22E ABV and 1.9x its FY23E ABV. We have assigned a 'ACCUMULATE' rating to Axis Bank with a price target of Rs 840, valuing core bank at 2.0x FY23 ABV and subs at Rs 60.

Highlights of the Conference Call

(Bank continued to strengthen its five focus areas; 1) granular, risk calibrated growth, 2) strengthening the balance sheet 3) technology and digital leadership 4) focus on profitability and 5) One Axis)

Operating performance

- NIMs stood at 3.46% (+6 bps YoY/-10 bps QoQ) (NIMs were impacted by product mix change, interest reversals, CRR increase and market pricing pressure in the wholesale segment and mortgages business.)
- The recoveries from written off retail assets pool improved 26% on a YOY basis, giving some comfort that recoveries could hold up even on fresh slippages, though with a lag.
- Staff costs has increased by 32% YoY. (Staff costs has impact of 2 years increments, higher gratuity due to increments & change in interest rates and have added ~ 5,000 new people.)
- Other operating expenses grew by 33% YoY (impacted by higher business volumes, grater IT expenses (+63% YoY) and statutory costs comprising PSLC and DICGC premium (+ 30% YoY).
- Operating expenses to average assets stood at 2.05% +5 bps YoY/+9 bps QoQ. (looking to keep this ratio below 2%).
- Yield on loans given to AAA rated government entity is 4.5%, while yield on loans given to commercial banking customers is 7-9%.

NIMs were impacted by product mix change, interest reversals, CRR increase and market pricing pressure in the wholesale segment and mortgages business

The endeavor is to reduce to cost to assets below 2%.

Asset Quality

- Bank's collections and recoveries got impacted in most part of April and May, but saw quick recovery in June and July post lockdown restrictions eased in respective states.
- Credit Cost stood at 1.88%, -38 bps YoY and +18 bps QoQ.
- Cumulative non NPA provisions of Rs 124.25 Bn includes Covid19 related at Rs 50.12 Bn; (ii) Restructuring provisions of Rs 7.03 Bn, (iii) weak assets & other provisions of Rs 67.10 Bn.
- Standard assets cover (all non NPA provisions / standard advances) stood at 2.05% (+10 bps QoQ and 49 bps YoY)
- The overall provision coverage on restructured loans stands at 23%, with 100% cover on unsecured retail loans.
- ~22% of the gross slippages are upgraded in the same quarter (in terms of segments, Retail 19%, Corporate 37% and CBG 41%). Besides, 7.5% of reported gross slippages represent linked accounts that remained standard through the quarter.

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Collection efficiency

- The demand resolution for the retail portfolio was ~ 98% through Q1 FY22, a tad lower than Q4FY21. Demand resolution came down in the first two months of the quarter but improved in June 21 demand and reached 99.5% of the March 21 levels.
- Cheque bounces remained marginally elevated in Q1FY22, but July 21 cheque bounce rate is back to March 21 levels. They however remain higher than pre-covid levels.
- Early bucket resolutions in June 21 across all asset classes in Retail and Credit Cards are either at par or slightly better than March 21.
- Recoveries from written-off retail accounts have picked up in June 21 and are ~85% of March levels.

Demand resolution came down in the first two months of the quarter but improved in June 21 demand and reached 99.5% of the March 21 levels.

Restructuring

- 95% of the loans restructured under Covid 1 and 2 have security, the LTV for the secured restructured retail loans range from 40% to 60%
- On a segmental basis the restructured loans were 0.62% of the Wholesale Banking group book, 0.21% of the retail book and 0.03% of the CBG book

BB & below book

- ~21% of the BB and Below book is rated better by at least one external rating agency.
- All accounts downgraded in the current quarter were less than Rs 1 Bn and the average ticket size of accounts downgraded is ~ Rs 0.16 Bn.

Balanced loan book (retail at 54%, Corporate at 36% and CBG at 10%)

- Retail book**
 - Retail disbursements grew around 3.3X YOY but declined sequentially by 48%.
 - ~ 80% of the retail book being secured
 - The secured to unsecured retail disbursements mix has started trending back to pre-covid levels
- Corporate book**
 - Corporate disbursements grew 63% YOY and de-grew 52% QOQ basis.
 - ~94% of the incremental sanctions were to A- and above rates corporates
 - While mid corporate segment grew 36% YoY, commercial banking segment grew 18% YOY. These segments bring greater granularity, reduce risks and meet the bank's RAROC criteria.
 - Total outstanding to NBFCs stood at Rs 315.34 Bn (99% is rated A or above), MFI book stood at Rs 36.84 Bn, and Real estate is Rs 175.63 Bn [60% of which is Lease Rental Discounting].

Strong customer additions across segments

- 143% - YOY growth in number of new retail savings customers
- 69% - YOY growth in number of new current account customers
- 85% - YOY growth in number of new corporate relationships
- 39% - YOY growth in number of new SME customers added during the quarter

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Total outstanding to NBFCs stood at Rs 315.34 Bn (99% is rated A or above), MFI book stood at Rs 36.84 Bn, and Real estate is Rs 175.63 Bn [60% of which is Lease Rental Discounting].

Financials

<i>P&L (Rs Bn)</i>	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Interest Earned	162	165	161	155	155	160	-3.2%	2.9%
Interest Expended	94	96	87	81	80	82	-13.7%	3.2%
NII	68	70	73	74	76	78	11.1%	2.7%
Other Income	40	26	38	38	47	36	38.7%	-23.1%
Net Income	108	96	111	111	122	113	18.6%	-7.2%
Opex	49	37	42	51	54	49	32.3%	-8.0%
PPOP	59	58	69	61	69	64	9.8%	-6.5%
Provisions	77	44	46	46	33	35	-20.0%	7.2%
PBT	-19	14	23	15	36	29	102%	-19%
Tax	-5	3	6	4	9	7	129%	-19%
PAT	-14	11	17	11	27	22	94.2%	-19.3%
<i>BS (Rs Bn)</i>	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Networth	849	861	977	988	1016	1039	20.7%	2.3%
Deposits	6401	6157	6355	6541	6980	7139	16.0%	2.3%
Borrowings	1480	1428	1312	1357	1429	1509	5.7%	5.6%
Other Liabilities	422	401	451	494	443	434	8.2%	-2.2%
Total Liabilities	9152	8846	9095	9380	9868	10120	14.4%	2.6%
Cash & Bank	973	601	478	727	617	730	21.5%	18.3%
Investments	1567	1873	2003	1983	2261	2399	28.1%	6.1%
Advances	5714	5488	5764	5828	6144	6149	12.0%	0.1%
Other Assets	897	884	850	843	845	843	-4.7%	-0.3%
Total Assets	9152	8846	9095	9380	9868	10120	14.4%	2.6%
<i>BS (Rs Bn)</i>	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Corporate	2041	2090	2101	2009	2222	2251	7.7%	1.3%
SME	619	497	606	640	609	585	17.9%	-3.9%
Retail	3054	2902	3057	3179	3313	3312	14.2%	0.0%
Total	5714	5488	5764	5828	6144	6149	12.0%	0.1%
GNPA (%)	4.86	4.72	4.18	3.44	3.70	3.85	-87 bps	15 bps
NNPA (%)	1.56	1.23	0.98	0.74	1.05	1.20	-3 bps	15 bps
PCR (%)	69.0	74.8	77.2	79.0	72.4	69.8	-504 bps	-261 bps
CASA (%)	41.2	41.7	44.2	43.2	45.5	43.1	145 bps	-237 bps

Source: Dalal & Broacha Research, Company

Exhibit 1:

Profit & Loss Account				
Rs in Bn	FY20	FY21	FY22	FY23
Interest Earned	626	636	721	842
Interest expended	374	344	398	469
NII	252	292	323	372
Other Income	155	148	169	196
Net Income	407	441	492	568
Operating Exp	173	184	210	242
PPOP	234	257	282	326
Provisions	185	169	116	111
PBT	49	88	166	215
Tax	33	22	42	54
PAT	16	66	124	161

Source: Dalal & Broacha Research, Company

Exhibit 2:

Ratios (%)	FY20	FY21	FY22	FY23
Growth				
NII	16.1	16.0	10.5	15.2
PPOP	23.3	9.7	9.8	15.6
Net profit	-65	305	89	29
Deposits	16.7	10.5	14.7	16.4
Advances	15.5	9.2	14.9	17.1
Returns				
ROA	0.2	0.7	1.2	1.4
ROE	2.1	7.1	11.6	13.4
Efficiency				
C/I Ratio	42.5	41.7	42.6	42.6
CASA	41.2	44.9	46.6	47.2

Source: Dalal & Broacha Research, Company

Exhibit 3:

Balance Sheet				
Rs in Bn	FY20	FY21	FY22	FY23
CAPITAL & LIABILITIES				
Capital	6	6	6	6
Reserves & Surplus	844	1010	1122	1267
Deposits	6401	7073	8112	9441
Borrowings	1480	1429	1312	1342
Other Liabilities	422	443	432	441
TOTAL	9152	9961	10983	12497
ASSETS				
Cash & Balances	973	617	530	482
Investments	1567	2261	2468	2732
Advances	5714	6237	7165	8390
Fixed Assets	43	42	51	55
Other Assets	854	803	769	839
TOTAL	9152	9961	10983	12497

Source: Dalal & Broacha Research, Company

Exhibit 4:

Ratios (%)	FY20	FY21	FY22	FY23
Per Share				
BV (Rs)	301	332	368	415
ABV (Rs)	268	309	344	390
EPS (Rs)	6	22	41	53
Valuation				
P/BV (x)	2.5	2.3	2.1	1.8
P/ABV (x)	2.8	2.4	2.2	1.9
P/EPS (x)	131	35	19	14
Asset quality				
GNPA	4.9	3.7	3.4	2.9
NNPA	1.6	1.0	0.9	0.9
PCR	69	72	73	71

Source: Dalal & Broacha Research, Company

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