

Sturdy Provision and Capital Buffer



Axis Bank's numbers were above our estimates on the profitability front mainly due to lower provisions (Credit Cost stood at 0.54% vs 1.7% QoQ), though the operating performance was below our expectations, mainly due to higher operating expenses (opex to assets stood at 2.2% vs 1.95% QoQ) and lower margin (NIM 3.39% vs 3.46% QoQ).

- NII came in at Rs 79.00 Bn, 1.8% QoQ / 7.8% YoY
- Other Income came in at Rs 37.98 Bn, 13.1% QoQ / 6.4% YoY
- PPOP came in at Rs 59.28 Bn, -4.2% QoQ / -11.0% YoY
- Provisions came in at Rs 17.35 Bn, -47.5% QoQ / -60% YoY
- PAT came in at Rs 31.33 Bn, 45.1% QoQ / 86.2% YoY
- EPS stood at Rs 10.22 vs INR 7.05 / INR 5.7 in Q1FY22 / Q2FY21 respectively

Financial Highlights

- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 32 bps at 3.53% and NNPA's down by 12 bps to 1.08%. Slippages moderated at Rs 54.64 Bn in Q2FY22 vs Rs 65.18 Bn QoQ. PCR stood at 70.2% vs 69.8% QoQ. Overall provision coverage of 24% on restructured book.
- On an aggregated basis (specific+ standard+ additional + Covid), the bank's coverage ratio stands at 124%. The bank's restructured book stood at Rs 44.6 Bn (~0.7% of loans). 96% of restructured pool is standard as of Sep'2021.
- Loan growth of 10.1% YoY/1.1% QoQ was largely driven by retail segment (15.5% YoY/ weightage 55.6%) and SME segment (17.7% YoY/weightage 10%). Disbursements in the retail segment were up 54% both YoY and QoQ. On the other hand, 96% of the SME book is secured with predominantly working capital financing, and is well diversified across geographies and sectors. However, Corporate loan growth was slower at 0.6% YOY (weightage 34.4%). 86% of corporate book is now rated A- & above with 93% of incremental sanctions in Q2FY22 being to corporates rated A- & above. Mid-corporate book grew by 32% YoY and 10% QoQ.
- On the liability front, deposits growth was stable at 18.1% YoY/3.1% QoQ with CASA deposits grew by 16.7% YoY/6.3% QoQ. On QAB basis, Retail term deposits grew 11% YOY and 3% QOQ. Overall capital adequacy ratio stood at 20.04% with CET 1 ratio of 15.81% as at the end of Sep'21.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	252	292	324	383
Net profit	16	66	125	160
Net worth	849	1016	1135	1287
Adj BVPS	268	309	347	395
P/ABV (x)	3.1	2.7	2.4	2.1
P/E (x)	146	39	21	16
RoA (%)	0.2	0.7	1.2	1.4
RoE (%)	2.1	7.1	11.7	13.2

Source: Dalal & Broacha Research, Company

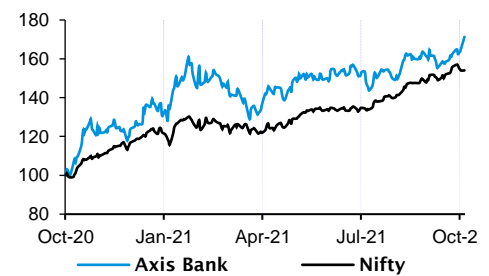
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	933	11

Market data

Current price	Rs	842
Market Cap (Rs.Bn)	(Rs Bn)	2578
Market Cap (US\$ Mn)	(US\$ Mn)	34306
Face Value	Rs	2
52 Weeks High/Low	Rs	867/482
Average Daily Volume	('000)	8468
BSE Code		532215
Bloomberg		AXSB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	11.6	11.7
FII	54.5	52.5
DII	22.2	24.3
Others	11.7	11.6
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- Operational efficiency deteriorated during the quarter, with cost to income ratio stood at 49.3% (+496 bps QoQ), backed by higher opex growth of 17% QoQ vs net income (NII + other income) growth of 1.8% QoQ in Q2FY22. Higher growth in operating expenses is mainly due to high business volumes, collection expenses, and investments in technology. We believe that cost to income ratio will start tapering off in the coming quarters as the COVID situation improves.
- NIM (-90 bps YoY/-7 bps QoQ at 3.39%) was adversely impacted by growth in overseas book and increase in LCR by 5% QoQ. However, Fees income up 17% YOY and 21% QOQ, with granular fee constituted 90% of overall fees.

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## Valuation and outlook

Axis Bank's Q2FY22 performance was adversely impacted by higher opex, drop in margin and sluggish business growth. However, profitability was supported by lower provisions (Credit Cost stood at 0.54% vs 1.7% QoQ). Bank's asset quality also improved during the quarter, supported by higher recoveries & upgrades. With capital adequacy (Tier I 16.7%) and a healthy provisioning buffer (SACR 2.11%), Axis Bank is well position 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 2.4x its FY22E ABV and 2.1x its FY23E ABV. We have assigned a 'ACCUMULATE' rating to Axis Bank with a price target of Rs 933, valuing core bank at 2.2x FY23 ABV and subs at Rs 65.

## Highlights of the Conference Call

### Business momentum

- 2.3 Mn new liability relationships added in Q2FY22, highest ever in a quarter
- Disbursements in Retail segment were up 54% both YOY and QOQ. Bank has added 5.5 lakh credit cards, a growth 132% QoQ during Q2FY22, highest in last 10 quarters.
- The demand for home loans remained strong, with home loan disbursements were up 86% YOY and 54% QOQ. Furthermore, Bank's Asha loan portfolio, which is affordable housing segment, cross Rs 100 Bn mark in Q2FY22.
- SME loan book grew 18% YOY (7% QOQ). 96% of the SME book is secured with predominantly working capital financing, and is well diversified across geographies and sectors.
- 86% of corporate book is now rated A- and above with 93% of incremental sanctions in Q2FY22 being to corporates rated A- and above.

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### P&L related highlights

- 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.
- NIM stood at 3.39% (-90 bps YoY/-7 bps QoQ), which was impacted by growth in overseas book, Interest Reversal (YoY basis) and increase in LCR by 5% QoQ (3% YoY).
- Three structural drivers to NIMs 1) loan mix change (improvement in its product mix), 2) low cost of deposits (granular liability franchise) and; 3) reduction in the mix of RIDF bonds.
- Higher growth in operating expenses is mainly due to high retail business volumes, collection expenses, PSLC purchase costs, and investments in technology. ~30% of the sequential increase in opex was driven by origination volumes, ~20% by investments in future growth & technology, 30% by collections & statutory expenses, and 20% was due to a general increase.
- Retail fee grew 19% YOY and 23% QOQ; and constituted 63% of the overall fees

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### Asset quality

- Covid-19 restructuring implemented loans at 0.64% of GCA, retail at 0.80%, 93% of retail restructuring is secured with low LTV in the range of ~ 40% - 70%. 96% of restructured pool is standard as of Sep'21. Overall provision coverage of 24% on restructured book.
- 28% of the gross slippages were upgraded during the quarter itself.
- BB & below pool declined from Rs131 Bn to Rs117 Bn. Of the BB & below as of Jun'21, Rs 6.8 Bn slipped during the quarter and balance were recoveries & upgrades. ~98% of restructured corporate book classified in BB & below. BB & below pool had an average ticket size ~ Rs. 600 Mn
- Slippages are likely to decline over H2FY22 v/s H1FY22.

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## Financials

P&L (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Interest Earned	159.8	155.0	155.5	160.0	163.4	2.2%	2.1%
Interest Expended	86.5	81.3	79.9	82.4	84.4	-2.5%	2.3%
<b>NII</b>	<b>73.3</b>	<b>73.7</b>	<b>75.5</b>	<b>77.6</b>	<b>79.0</b>	<b>7.8%</b>	<b>1.8%</b>
Other Income	35.7	37.8	46.7	33.6	38.0	6.4%	13.1%
<b>Net Income</b>	<b>109.0</b>	<b>111.5</b>	<b>122.2</b>	<b>111.2</b>	<b>117.0</b>	<b>7.4%</b>	<b>5.2%</b>
Opex	42.4	50.5	53.6	49.3	57.7	36.2%	17.0%
<b>PPOP</b>	<b>66.6</b>	<b>61.0</b>	<b>68.6</b>	<b>61.9</b>	<b>59.3</b>	<b>-11.0%</b>	<b>-4.2%</b>
Provisions	43.4	46.0	32.9	33.0	17.4	-60.0%	-47.5%
<b>PBT</b>	<b>23.2</b>	<b>14.9</b>	<b>35.7</b>	<b>28.8</b>	<b>41.9</b>	<b>81%</b>	<b>45%</b>
Tax	6.3	3.7	8.9	7.2	10.6	67%	46%
<b>PAT</b>	<b>16.8</b>	<b>11.2</b>	<b>26.8</b>	<b>21.6</b>	<b>31.3</b>	<b>86.2%</b>	<b>45.1%</b>
BS (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Networth	977	988	1,016	1,039	1,072	9.7%	3.2%
Deposits	6,237	6,541	6,980	7,139	7,363	18.1%	3.1%
Borrowings	1,312	1,357	1,429	1,509	1,587	21.0%	5.1%
Other Liabilities	451	494	443	434	486	7.6%	12.0%
<b>Total Liabilities</b>	<b>8,977</b>	<b>9,380</b>	<b>9,868</b>	<b>10,120</b>	<b>10,507</b>	<b>17.1%</b>	<b>3.8%</b>
Cash & Bank	478	727	617	730	970	102.9%	32.8%
Investments	2,003	1,983	2,261	2,399	2,498	24.7%	4.1%
Advances	5,646	5,828	6,144	6,149	6,217	10.1%	1.1%
Other Assets	850	843	845	843	822	-3.3%	-2.4%
<b>Total Assets</b>	<b>8,977</b>	<b>9,380</b>	<b>9,868</b>	<b>10,120</b>	<b>10,507</b>	<b>17.1%</b>	<b>3.8%</b>
BS (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Corporate	2,124	2,009	2,222	2,251	2,136	0.6%	-5.1%
SME	531	640	609	585	625	17.7%	6.7%
Retail	2,991	3,179	3,313	3,312	3,456	15.5%	4.3%
<b>Total</b>	<b>5,646</b>	<b>5,828</b>	<b>6,144</b>	<b>6,149</b>	<b>6,217</b>	<b>10.1%</b>	<b>1.1%</b>
GNPA (%)	4.18	3.44	3.70	3.85	3.53	-65 bps	-32 bps
<b>NNPA (%)</b>	<b>0.98</b>	<b>0.74</b>	<b>1.05</b>	<b>1.20</b>	<b>1.08</b>	<b>10 bps</b>	<b>-12 bps</b>
PCR (%)	77.2	79.0	72.4	69.8	70.2	-705 bps	42 bps
CASA (%)	45.0	43.2	45.5	43.1	44.5	-53 bps	134 bps

Source: Dalal & Broacha Research, Company

## Financials

Profit & Loss Account				
(Rs in Bn)	FY20	FY21	FY22	FY23
Interest Earned	626	636	713	855
Interest expended	374	344	389	472
<b>NII</b>	<b>252</b>	<b>292</b>	<b>324</b>	<b>383</b>
Other Income	155	148	169	197
<b>Net Income</b>	<b>407</b>	<b>441</b>	<b>494</b>	<b>579</b>
Operating Exp	173	184	218	253
<b>PPOP</b>	<b>234</b>	<b>257</b>	<b>276</b>	<b>327</b>
Provisions	185	169	108	113
<b>PBT</b>	<b>49</b>	<b>88</b>	<b>168</b>	<b>214</b>
Tax	33	22	42	54
<b>PAT</b>	<b>16</b>	<b>66</b>	<b>125</b>	<b>160</b>

Ratios (%)				
	FY20	FY21	FY22	FY23
<b>Growth</b>				
NII	16.1	16.0	10.9	18.0
PPOP	23.3	9.7	7.2	18.6
Net profit	-65	305	90.2	27.6
Deposits	16.7	10.5	15.8	16.4
Advances	15.5	9.2	14.2	18.3
<b>Returns</b>				
ROA	0.2	0.7	1.2	1.4
ROE	2.1	7.1	11.7	13.2
<b>Efficiency</b>				
C/I Ratio	42.5	41.7	44.18	43.6
CASA	41.2	44.9	46.1	46.7

Balance Sheet				
(Rs in Bn)	FY20	FY21	FY22	FY23
<b>CAPITAL &amp; LIABILITIES</b>				
Capital	6	6	6	6
Reserves & Surplus	844	1,010	1,129	1,281
Deposits	6,401	7,073	8,190	9,531
Borrowings	1,480	1,429	1,312	1,342
Other Liabilities	422	443	432	441
<b>TOTAL</b>	<b>9,152</b>	<b>9,961</b>	<b>11,068</b>	<b>12,600</b>
<b>ASSETS</b>				
Cash & Balances	973	617	624	524
Investments	1,567	2,261	2,507	2,770
Advances	5,714	6,237	7,121	8,423
Fixed Assets	43	42	47	53
Other Assets	854	803	769	830
<b>TOTAL</b>	<b>9,152</b>	<b>9,961</b>	<b>11,068</b>	<b>12,600</b>

Ratios (%)				
	FY20	FY21	FY22	FY23
<b>Per Share</b>				
BV (Rs)	301	332	370	420
ABV (Rs)	268	309	347	395
EPS (Rs)	6	22	41	52
<b>Valuation</b>				
P/BV (x)	2.8	2.5	2.3	2.0
P/ABV (x)	3.1	2.7	2.4	2.1
P/EPS (x)	146	39	21	16
<b>Asset quality</b>				
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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