

### Sturdy Provision and Capital Buffer

**Axis Bank reported its Q3FY21 performance which was below our estimates on the profitability front due to lower other income (led by sharp decline in Trading Income) and higher operating cost.**

- NII came in at INR 73.73 Bn, +14.3% YoY/+0.6% QoQ and 0.9% above our est.
- Other Income came in at INR 37.76 Bn, -0.3% YoY/-0.8% QoQ and 7% below our est.
- PPOP came in at INR 60.96 Bn, +6.1% YoY/-11.6% QoQ and 11% below our est.
- Provisions came in at INR 46.04 Bn, +32.7% YoY/+0.5% QoQ and 2% above our est.
- PAT came in at INR 11.17 Bn, -36.4% YoY/-33.6% QoQ and 37% below our est.
- EPS stood at INR 3.65 vs INR 5.7 / INR 6.23 in Q2FY21 / Q3FY20 respectively.

#### Financial Highlights

- Bank's GNPA's stood at 3.4%, down by 74 bps QoQ, while NNPA's at 0.7% (down by 24 bps QoQ). Including the proforma slippages, GNPA & NNPA would have been 4.6% & 1.2% respectively. Management stated that slippage for 4QFY21 would be sequentially lower. PCR including the proforma slippages would have been 75% in Q3FY21.
- Over the past few months, bounce rates have continued to improve and the bank's demand resolution in December stood at 98% in line with the best in the industry. With standard assets coverage ratio of 2.08%, strong capital position of 18.7% and adequate liquidity position of 119%, Axis Bank is well positioned and it can take advantage of a potential economic rebound.
- Loan growth of 5.9% YoY/1.1% QoQ was largely driven by retail segment (+9% YoY/4%QoQ), which comprise 81% secured loans. Disbursements in secured segments like HL, LAP & Auto grew 23% YOY, 11% YOY and 10% YOY respectively, while SBB disbursements grew 35% YOY. While SME book grew by 3.6% YoY/5.6% QoQ, Corporate loan book increased by 2.1% YOY (down 4.4% QoQ)

#### Financial Summary

Y/E Mar (Rs Bn)	FY 20	FY 21E	FY 22E	FY 23E
NII	252	290	329	386
Adjusted net profit	16	54	88	112
Networth	849	1001	1081	1181
Adj BVPS	268	299	326	358
EPS (Rs)	6	18	29	37
growth (%)	-65	231	64	27
P/ABV (x)	2	2	2	2
P/E (x)	110	36	22	17
C/D Ratio	89	86	87	87
RoA (%)	0.2	0.6	0.8	1.0
RoE (%)	2.1	5.8	8.5	9.9

Source: Dalal & Broacha Research

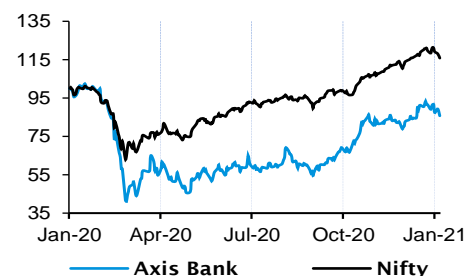
Rating	TP (Rs)	Up/Dn (%)
<b>ACCUMULATE</b>	<b>716</b>	<b>13</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>632</b>
Market Cap (Rs.Bn)	(Rs Bn)	1935
Market Cap (US\$ Mn)	(US\$ Mn)	26463
Face Value	Rs	2
52 Weeks High/Low	Rs	151/50
Average Daily Volume	('000)	21784
BSE Code		532215
<b>Bloomberg</b>		<b>AXSB:IN</b>

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	13.93	14.78
Public	86.07	85.22
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- Despite interest reversal negatively impacting NIM by 30 bps, Bank's NIM for Q3FY21 was broadly stable, inching up 1 bps QoQ to 3.59%. The bank is remain focused on balancing growth with NIMs rather than just chasing growth in the corporate book.
- The bank's fee income stood at Rs 29.06 Bn up by 5% YoY and 6% QoQ, which was adversely impacted by fee reversal mainly on account of slippages in cards business. 64% of the bank's fees come from its retail business and 36% of the fees comes from its wholesale franchise. Trading income stood at Rs 3.67 Bn, which was down by 29% YoY and 52% QoQ. The decline in trading profits on a YOY basis is attributable mainly on account of profit to sale of a strategic investment aggregating Rs 2.37 Bn in the same quarter last year, with no similar item in the current quarter.
- Stress book of BB & below as a percentage of gross customer assets, stood at 1.37%, down by 5 bps QoQ, with fund based, non-fund based and investments declined by Rs 3.96 Bn, Rs 1.32 Bn and Rs 1.88 Bn respectively. During Q3, Bank collected Rs 11.30 Bn and upgraded Rs. 6.12 Bn from BB & Below book. The average ticket size of fund based loans across BBB+, BBB and BBB- is ~ Rs 50 Bn, with no individual fund based exposure that is four digit crore.
- On liabilities, Deposits grew by 10.6% YoY/2.9% QoQ in Q3FY21 led by CASA growth of 16% YoY/0.6% QoQ taking CASA ratio at 43.2% (Vs 41.2% YoY). The bank's CASA + RTD continues to grow at a healthy rate and as a proportion of total deposits improved by 574 bps and 175 bps YOY & QOQ to 86% in Q3FY21.

## Valuation & Outlook

With better capital adequacy and healthy provisioning buffer, Axis Bank is well position to navigate the current challenges and capture any resurgent growth. Impressive recovery in retail segment and collection efficiency from covid lows adds to positivity. Furthermore, the bank's portfolio choices made in favour of secured lending in retail, higher rated book in Corporate and higher share of salaried in unsecured book provide comfort in this crisis. At CMP the stock trades at 1.9x its FY22E ABV and 1.8x its FY23E ABV. We have assigned an 'Accumulate' rating on Axis Bank with a price target of Rs 716, valuing the stock at 2x FY23E P/ABV.

## Highlights of the Conference Call

### Strong deposit franchise

- Bank opened 1.7 million new liabilities' accounts taking the overall number of new liabilities' accounts opened so far in 9MFY21 to 4.8 million.
- The Bank's savings and current account acquisition grew by 11% and 9% QOQ during Q3 over Q2. It includes digital acquisition for Q3 which was 2.5x of Q2 numbers.

### Recovery in loan growth

- **Corporate & commercial banking segment**
  - a. The bank has added 452 new relationships during 9MFY21, spread across large corporates, mid corporates, FIG and Strategic clients group.
  - b. ~ 83% of the standard book continues to remain in the rating category of A- and better. Bank has maintained this approach through q3 also with almost 94% of incremental sanctions having rating of A- and above and almost 71% having rating of AA and above.
  - c. In SME, the bank's portfolio continues to be well diversified and granular targeted at better rated SMEs - Over 80% of the portfolio is SME 3 and better (equivalent of A- and above). The portfolio is spread over 35 broad sectors and geographically well diversified in over 120 locations across the country with an average ticket size of Rs. 3.5 Cr.
- **Retail Segment**
  - a. The scoring models and polices have been recalibrated to incorporate variables like moratorium, payment behaviour during last 9 months and bureau performance
  - b. Most of the new acquisitions during the quarter are in Mortgages to credit tested customers with average LTVs being around 58%
  - c. The bank continue to remain cautious in the unsecured products and sourcing is largely restricted to existing bank customers based on tightened risk frameworks. Salaried and Existing bank customers, which have historically seen lower default rates, contributing over 80% of unsecured book.
- **Credit Cards**
  - a. Festive season has helped spends recover sharply, further the bank saw the share of travel, dining and entertainment expenses gradually inching back towards pre-Covid levels. Overall credit cards spends grew 31% QOQ with retail spends up 26% QOQ
  - b. The bank continue to focus on growing this segment profitably, with share of affluent business in overall mix increasing to over 10%. The bank's known to Bank strategy and partnerships with major players like Flipkart and Google have resulted in 101% QOQ growth in new KTB sourcing during Q3FY21.

### Conservatism and Asset Quality

- The bank is consistently adhered to its prudent and conservative approach when it comes to provisioning norms, accounting policies and ratings downgrades.
- Bank has not utilized any COVID-19 provisions held as on Sep 2020 in the current quarter. On an aggregated basis (specific + standard + additional + Covid), the bank's provision coverage ratio stands at 116% of IRAC GNPA at Dec 31, 2020 as against 74% in Dec 2019.
- The bank had significantly beefed up its collections infrastructure by adding more agents and staff (over 10000+ strong now) to handle the incremental volumes, which is paying off now with Demand-Resolution back to pre-Covid levels.
- The demand resolution across Retail segment (which is current month resolution vs current month demand) is 98% in December as compared to 94% in September and Over 97% in pre-Covid.
- While bounce rates still remain at slightly higher than pre-Covid levels as customers adapt to post-moratorium payment habits, improving Demand-Resolution and collections efficiency provide clear indication of reduced slippages going forward

## ECLGS

- The disbursement under ECLGS 1.0 was Rs 82.89 bn.
- The disbursement under ECLGS 2.0 was Rs 5.86bn.
- The funding under this scheme has been provided selectively based on eligibility under the scheme.

## Higher Operating expenses (up by 12% YoY and 19% QoQ)

- Increase in staff operating expenses is attributable to release on increments in Q3 and prudence driven cost accruals. Bank decided to roll out increments for all its employees effective Oct 1, 2020.
- The bank has accrued on an estimated basis the liability that may arise on the notification of the rules pursuant to the social security code and other employee benefits. This impacts its overall cost income adversely by 131 bps, cost to assets ratio adversely by 1 bps and contributes 3% to the YOY and QOQ growth in total costs.
- The increase in non-staff costs can be attributed to normalization of business volumes resulting in higher sourcing costs, promotion expenses, collection expenses and technology expenses.

## Digital revolution

- The performance on the digital front remains encouraging; e.g. on liability accounts, the bank saw a significant improvement on customer metrics – time to open an account is down 75%, customer satisfaction up 31%; documentation is down to 0.
- while saving accounts sourced digitally improved to 71% from 59%, Proportion of personal loans disbursed digitally improved to 56% from 43%
- The bank continue to be one of the leading players with 19% market share by transaction volumes for 9MFY21
- Going forward, the bank will focus is on reimagining end to end journeys, transforming its core and becoming a partner of choice for ecosystems. 0 based redesign, putting customer at the centre and rebuilding the entire journey with a 0 operations orientation.

## Financials

<b>P&amp;L (Rs Bn)</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>YoY</b>	<b>QoQ</b>	<b>Q3FY21</b>
Interest Earned	153	154	157	162	165	161	-1.3%	-3.5%	155
Interest Expended	94	93	93	94	96	87	-12.2%	-7.0%	81
<b>NII</b>	<b>58</b>	<b>61</b>	<b>65</b>	<b>68</b>	<b>70</b>	<b>73</b>	<b>14.3%</b>	<b>0.6%</b>	<b>74</b>
Other Income	39	39	38	40	26	38	-0.3%	-0.8%	38
<b>Net Income</b>	<b>97</b>	<b>100</b>	<b>102</b>	<b>108</b>	<b>96</b>	<b>111</b>	<b>8.9%</b>	<b>0.1%</b>	<b>111</b>
Opex	38	40	45	49	37	42	12.4%	19.3%	51
<b>PPOP</b>	<b>59</b>	<b>60</b>	<b>57</b>	<b>59</b>	<b>58</b>	<b>69</b>	<b>6.1%</b>	<b>-11.6%</b>	<b>61</b>
Provisions	38	35	35	77	44	46	32.7%	0.5%	46
<b>PBT</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>-19</b>	<b>14</b>	<b>23</b>	<b>-34.4%</b>	<b>-35.6%</b>	<b>15</b>
Tax	7	25	5	-5	3	6	-27.2%	-40.9%	4
<b>PAT</b>	<b>14</b>	<b>-1.1</b>	<b>17.6</b>	<b>-13.9</b>	<b>11.1</b>	<b>16.8</b>	<b>-36.4%</b>	<b>-33.6%</b>	<b>11.2</b>
<b>BS (Rs Bn)</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>YoY</b>	<b>QoQ</b>	<b>Q3FY21</b>
Networth	712	839	862	849	861	977	14.6%	1.2%	988
Deposits	5407	5840	5917	6401	6282	6355	10.6%	2.9%	6541
Borrowings	1301	1089	1120	1480	1428	1312	21.1%	3.4%	1357
Other Liabilities	325	325	292	422	401	451	69.5%	9.5%	494
<b>Total Liabilities</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>9095</b>	<b>14.5%</b>	<b>3.1%</b>	<b>9380</b>
Cash & Bank	383	571	413	973	601	475	76.0%	53.1%	727
Investments	1758	1617	1560	1567	1873	2003	27.2%	-1.0%	1983
Advances	4973	5216	5501	5714	5613	5764	5.9%	1.1%	5828
Other Assets	632	689	716	897	884	850	17.7%	-0.9%	843
<b>Total Assets</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>9092</b>	<b>14.5%</b>	<b>3.2%</b>	<b>9380</b>
<b>BS (Rs Bn)</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>YoY</b>	<b>QoQ</b>	<b>Q3FY21</b>
Corporate	1775	1870	1968	2041	2056	2101	2.1%	-4.4%	2009
SME	616	614	617	619	571	606	3.6%	5.6%	640
Retail	2582	2732	2916	3054	2986	3057	9.0%	4.0%	3179
<b>Total</b>	<b>4973</b>	<b>5216</b>	<b>5501</b>	<b>5714</b>	<b>5613</b>	<b>5764</b>	<b>5.9%</b>	<b>1.1%</b>	<b>5828</b>
GNPA (%)	5.25	5.03	5.00	4.86	4.72	4.18	(156 bps)	(74 bps)	3.44
NNPA (%)	2.04	1.99	2.09	1.56	1.23	0.98	(135 bps)	(24 bps)	0.74
PCR (%)	62.5	61.7	59.6	69.0	74.8	77.2	1948 bps	181 bps	79.0
CASA (%)	41.3	41.1	41.2	41.2	40.9	44.2	197 bps	(102 bps)	43.2

Source: Dalal & Broacha Research, Company

## Exhibit 1:

Profit & Loss Account				
Rs in Bn	FY20	FY21	FY22	FY23
Interest Earned	626	656	742	863
Interest expended	374	367	413	478
<b>NII</b>	<b>252</b>	<b>290</b>	<b>329</b>	<b>386</b>
Other Income	155	150	179	211
<b>Net Income</b>	<b>407</b>	<b>440</b>	<b>508</b>	<b>597</b>
Operating Exp	173	187	217	253
<b>PPOP</b>	<b>234</b>	<b>253</b>	<b>291</b>	<b>344</b>
Provisions	185	181	173	194
<b>PBT</b>	<b>49</b>	<b>72</b>	<b>118</b>	<b>150</b>
Tax	33	18	30	38
<b>PAT</b>	<b>16</b>	<b>54</b>	<b>88</b>	<b>112</b>

Source: Dalal &amp; Broacha Research, Company

## Exhibit 2:

Balance Sheet				
Rs in Bn	FY20	FY21	FY22	FY23
<b>CAPITAL &amp; LIABILITIES</b>				
Capital	6	6	6	6
Reserves & Surplus	844	995	1074	1175
Deposits	6401	7140	8190	9519
Borrowings	1480	1329	1220	1119
Other Liabilities	422	434	440	456
<b>TOTAL</b>	<b>9152</b>	<b>9904</b>	<b>10931</b>	<b>12275</b>
<b>ASSETS</b>				
Cash & Balances	973	826	800	725
Investments	1567	1927	2025	2238
Advances	5714	6124	7094	8266
Fixed Assets	43	46	50	55
Other Assets	854	982	963	992
<b>TOTAL</b>	<b>9152</b>	<b>9904</b>	<b>10931</b>	<b>12275</b>

Source: Dalal &amp; Broacha Research, Company

## Exhibit 3:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Growth</b>				
NII	16.1	14.9	13.6	17.3
PPOP	23.3	7.8	15.2	18.2
Net profit	-65	231	64	27
Deposits	16.7	11.5	14.7	16.2
Advances	15.5	7.2	15.9	16.5
<b>Returns</b>				
ROA	0.2	0.6	0.8	1.0
ROE	2.1	5.8	8.5	9.9
<b>Efficiency</b>				
C/I Ratio	42.5	42.5	42.7	42.3
CASA	41.2	42.0	42.3	42.8

Source: Dalal &amp; Broacha Research, Company

## Exhibit 4:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Per Share</b>				
BV (Rs)	301	327	353	386
ABV (Rs)	268	299	326	358
EPS (Rs)	6	18	29	37
<b>Valuation</b>				
P/BV (x)	2.1	1.9	1.8	1.6
P/ABV (x)	2.4	2.1	1.9	1.8
P/EPS (x)	110	36	22	17
<b>Asset quality</b>				
GNPA	4.9	4.7	3.8	3.3
NNPA	1.6	1.3	1.1	1.0
PCR	69	73	72	71

Source: Dalal &amp; Broacha Research, Company

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