

**Axis Bank has reported its Q4 FY21 performance which beat our estimates on almost all front. The bank's profitability was supported by lower provisions, stable margin and stronger growth in other income.**

- **NII came in at INR 75.55 Bn**, 11% YoY/2.5% QoQ and 2.5% above our est.
- **Other Income came in at INR 46.68 Bn**, 17% YoY/23.6% QoQ and 17% above our est.
- **PPOP came in at INR 68.65 Bn**, 17% YoY/12.6% QoQ and 10% above our est.
- **Provisions came in at INR 32.95 Bn**, -57% YoY/-28.4% QoQ and 32% below our est.
- **PAT came in at INR 26.77 Bn** (vs loss of Rs 13.88 Bn YoY)/ 140% QoQ and 160% above our est.
- **EPS stood at INR 8.74** vs INR 3.65 / INR -4.92 in Q3FY21 / Q4FY20 respectively.

### Financial Highlights

- Bank has shown a strong improvement on its asset quality, with GNPA & NNPA stood at 3.7% & 1.05% as against 4.6% & 1.2% on a proforma basis in the previous quarter. Furthermore, the bank has built strong provision buffer, which is on an aggregated basis (specific+ standard+ additional + Covid), stood at 120% of GNPA as of Mar 31, 2021.
- Bank's slippages stood at Rs 52.85 Bn, translating to a gross slippage ratio of 3.59% (down by 175 bps QOQ). Credit cost stood at 1.70% (Annualised), down by 107 bps YoY and 160 bps QoQ. Even BB & below book also down by 28 bps QoQ at 1.09% at March 31, 2021. We see the back-to-near normalcy on collections and higher provisioning buffer as a positive outcome, which indicates that the Covid-related adverse impact on Axis Bank could come off quite sharply in the next few quarters
- On liabilities, Deposits grew by 10.5% YoY/8.1% QoQ in Q4FY21 led by CASA growth of 20% YoY/13% QoQ taking CASA ratio at 44.9% (Vs 41.2% YoY). SA and CA QAB deposits have sequentially grown on an average by 4% and 5%, respectively for each of the last 6 quarters as against average of 3% for the last 16 quarters.

### Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	252	292	334	389
Adjusted net profit	16	66	123	162
Networth	849	1016	1127	1272
Adj BVPS	268	309	344	390
EPS (Rs)	6	22	40	53
P/ABV (x)	2.6	2.3	2.0	1.8
P/E (x)	121	33	17	13
RoA (%)	0.2	0.7	1.2	1.4
RoE (%)	2.1	7.1	11.5	13.5

Source: Company

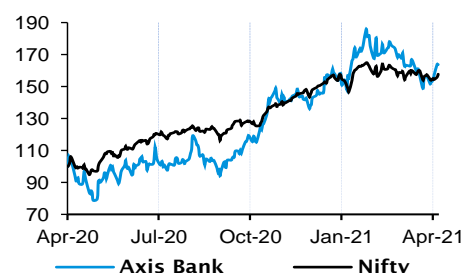
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>833</b>	<b>19</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>699</b>
Market Cap (Rs.Bn)	(Rs Bn)	2143
Market Cap (US\$ Mn)	(US\$ Mn)	28631
Face Value	Rs	2
52 Weeks High/Low	Rs	800/333
Average Daily Volume	('000)	23002
BSE Code		532215
Bloomberg		AXSB:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	13.58	13.59
FII	51.43	49.77
DII	23.27	22.96
Others	11.72	11.23
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- Advances stood at Rs 6237 Bn (9.2% YoY/7% QoQ), mainly led by retail segment (9.5% YoY/weightage 54%) and SME segment (12.8% YoY/weightage 11%). Corporate segment too showed good recovery (7.5% YoY/ weightage 35%). The bank is witnessing improving growth momentum across segments of retail and wholesale.
- Disbursements in Q4FY21 touched new record highs led by higher contribution from retail secured loan segments. Disbursements in Consumer segment were up 45% YoY & 44% QoQ, Rural up 47% YoY & 47% QoQ; Secured up 70% YoY & 48% QoQ, and Wholesale grew by 8% YoY and 48% QoQ.
- Operational efficiency remained strong, with cost to income ratio stood at 43.8% (-195 bps YoY), backed by higher net income (NII + other income) growth of 17% YoY vs opex growth of 8% YoY in Q4FY21.
- Overall efficiency of the bank also improved during FY21, reflected through reduction in cost to average assets down from 2.09% to 1.96%, an improvement of 13 bps YOY.

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## Valuation and outlook

With better capital adequacy (Tier I 16.5%) and a healthy provisioning buffer (SACR 1.95%), Axis Bank is well positioned to navigate the current challenges and capture any resurgent growth. 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 2.0x its FY22E ABV and 1.8x its FY23E ABV. We have assigned a 'Buy' rating to Axis Bank with a price target of Rs 833, valuing core bank at 2.0x FY23 ABV and subs at Rs 54.

## Highlights of the Conference Call

### ASSET QUALITY

- Legacy asset quality being proactively dealt with, reflected in full provision for SRs, PCR improving by 340 bps on a YOY basis.
- Credit cost at 1.87%, improving 28 bps YOY, despite FY 21 seeing Covid -19 stress related slippages

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### Restructuring

- Restructuring under Covid -19 resolution framework stood at 0.3% of GCA. Bank carry provision of Rs 4.99 Bn against these assets against a regulatory minimum of Rs 0.79 Bn.
- Restructuring as a % to respective loan books - Corporate 0.6%, Retail 0.1%, SME 0.02%

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### Collections and ECLGS update

- The demand resolution for the retail portfolio was over ~ 98% through Q4 FY21, improving substantially from Sep 2020 and was higher than pre covid levels.
- The cheque bounce stays marginally above pre covid levels, however same month resolutions have improved due to focused and strengthened collections efforts - both physical and digitaly.
- Total amount disbursed under ECLGS is ~ Rs 104 Bn, lower than its loan market share. ECLGS was given to ~ 26k customers, ~ 99% of these customers by number, were sanctioned under ECLGS 1.

**The cheque bounce stays marginally above pre covid levels, however same month resolutions have improved due to focused and strengthened collections efforts - both physical and digitaly.**

### BB & Below Book

- 38% of the BB & Below book is rated better by at least one external rating agency.
- Rs 4.19 Bn (5.63%) of the BB & Below book could have been upgraded as borrowers did not seek restructuring.
- The average ticket size of fund based loans across BBB+, BBB and BBB- is now down to ~ Rs 0.40 Bn, with no individual fund based exposure that is two digit Bn.
- During Q4, aggregate collected Rs 14.04 Bn, upgraded Rs 0.92 Bn, Rs 9.20 Bn slipped and Rs 9.61 Bn was downgraded to the BB & below pool.

## STRONG GROWTH MOMENTUM IN ADVANCES

### Retail Segment

- The retail segment continues to see strong momentum with highest ever quarterly retail disbursements (up by 47% QOQ) during Q4 FY21.
- Domestic secured retail loans grew 48% QOQ, out of which Home loan, LAP and SBB continued to grow strongly with 45% QOQ, 51% QOQ and 42% QOQ growth in disbursements, respectively.

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### Rural Banking

- Deep Geo strategy continues to progress well with focus on expanding reach in rural and semi urban areas. During Q4 FY21, Bank has enrolled over 6300 Common Service Centre's (CSCs) taking the overall CSC count to over 13,500.
- Overall rural loan book disbursements grew 47% QOQ, driven by farmer funding, gold and farm equipment loans.

**Corporate Segment**

- Focus has been to grow the book profitably, emphasizing on segments that offer high growth opportunities and better RAROC (Risk Adjusted Return on Capital).
- Added 337 new relationships taking the overall relationships added in FY21 to 789.
- 85% of corporate book is now rated A- and above with 94% of incremental sanctions in FY21 being to corporates rated A- and above
- Wholesale disbursements grew 8% YoY and 48% QOQ

**SME book**

- The book characteristics are well diversified, 89% secured, 71% shorter tenor

**ROBUST DEPOSIT Franchise**

- Bank has taken a conscious decision not to renew FCNR deposits, which impacted YoY & QoQ retail deposit growth by 3%. Overall, Retail deposits grew 16% YoY and 5 % QoQ.
- 1.8 million new liabilities accounts were opened in Q4 up 10% QOQ, taking the overall number of new liabilities' accounts opened in FY21 to 6.7 million
- New savings and current account acquisition grew 12% and 7% QOQ, respectively
- New salary relationships added during the year grew 55% to 2700+ names

**P&L**

- The impact of the interest on interest, from the SC judgement, is ~ Rs 1.60 Bn.
- Trading income stood at Rs 7.9 Bn, grew 198% YoY and 115% QoQ on account of profit to sale of strategic investments aggregating Rs 3 Bn in Q4FY21, with no similar item in the Q4FY20.
- The recoveries from written off retail assets improved 78% YoY, giving some comfort that recoveries could hold up even on fresh slippages, though with a lag.

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## Financials

<i>P&amp;L (Rs Bn)</i>	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Earned	153	154	157	162	165	161	155	155	-4%	0%
Interest Expended	94	93	93	94	96	87	81	80	-15%	-2%
<b>NII</b>	<b>58</b>	<b>61</b>	<b>65</b>	<b>68</b>	<b>70</b>	<b>73</b>	<b>74</b>	<b>76</b>	<b>11%</b>	<b>2%</b>
Other Income	39	39	38	40	26	38	38	47	17%	24%
<b>Net Income</b>	<b>97</b>	<b>100</b>	<b>102</b>	<b>108</b>	<b>96</b>	<b>111</b>	<b>111</b>	<b>122</b>	<b>13%</b>	<b>10%</b>
Opex	38	40	45	49	37	42	51	54	8%	6%
<b>PPOP</b>	<b>59</b>	<b>60</b>	<b>57</b>	<b>59</b>	<b>58</b>	<b>69</b>	<b>61</b>	<b>69</b>	<b>17%</b>	<b>13%</b>
Provisions	38	35	35	77	44	46	46	33	-57%	-28%
<b>PBT</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>-19</b>	<b>14</b>	<b>23</b>	<b>15</b>	<b>36</b>	<b>NA</b>	<b>139%</b>
Tax	7	25	5	-5	3	6	4	9	NA	138%
<b>PAT</b>	<b>14</b>	<b>-1</b>	<b>18</b>	<b>-14</b>	<b>11</b>	<b>17</b>	<b>11</b>	<b>27</b>	<b>NA</b>	<b>140%</b>
<i>BS (Rs Bn)</i>	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Networth	712	839	862	849	861	977	988	1016	20%	3%
Deposits	5407	5840	5917	6401	6282	6355	6541	7073	10%	8%
Borrowings	1301	1089	1120	1480	1428	1312	1357	1429	-3%	5%
Other Liabilities	325	325	292	422	401	451	494	443	5%	-10%
<b>Total Liabilities</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>9095</b>	<b>9380</b>	<b>9961</b>	<b>9%</b>	<b>6%</b>
Cash & Bank	383	571	413	973	601	478	727	617	-37%	-15%
Investments	1758	1617	1560	1567	1873	2003	1983	2261	44%	14%
Advances	4973	5216	5501	5714	5613	5764	5828	6237	9%	7%
Other Assets	632	689	716	897	884	850	843	845	-6%	0%
<b>Total Assets</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>9095</b>	<b>9380</b>	<b>9961</b>	<b>9%</b>	<b>6%</b>
<i>BS (Rs Bn)</i>	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Corporate	1775	1870	1968	2041	2056	2101	2009	2194	7%	9%
SME	616	614	617	619	571	606	640	699	13%	9%
Retail	2582	2732	2916	3054	2986	3057	3179	3345	10%	5%
<b>Total</b>	<b>4973</b>	<b>5216</b>	<b>5501</b>	<b>5714</b>	<b>5613</b>	<b>5764</b>	<b>5828</b>	<b>6237</b>	<b>9%</b>	<b>7%</b>
GNPA (%)	5.25	5.03	5.00	4.86	4.72	4.18	3.44	3.70	-116 bps	26 bps
<b>NNPA (%)</b>	<b>2.04</b>	<b>1.99</b>	<b>2.09</b>	<b>1.56</b>	<b>1.23</b>	<b>0.98</b>	<b>0.74</b>	<b>1.05</b>	<b>-51 bps</b>	<b>31 bps</b>
PCR (%)	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4	333 bps	-667 bps
CASA (%)	41.3	41.1	41.2	41.2	40.9	44.2	43.2	44.9	373 bps	175 bps

Source: Dalal &amp; Broacha Research, Company

## Exhibit 1:

Profit & Loss Account				
Rs in Bn	FY20	FY21	FY22	FY23
Interest Earned	626	636	717	842
Interest expended	374	344	383	452
<b>NII</b>	<b>252</b>	<b>292</b>	<b>334</b>	<b>389</b>
Other Income	155	148	171	198
<b>Net Income</b>	<b>407</b>	<b>441</b>	<b>505</b>	<b>587</b>
Operating Exp	173	184	210	242
<b>PPOP</b>	<b>234</b>	<b>257</b>	<b>296</b>	<b>345</b>
Provisions	185	169	131	129
<b>PBT</b>	<b>49</b>	<b>88</b>	<b>164</b>	<b>216</b>
Tax	33	22	41	54
<b>PAT</b>	<b>16</b>	<b>66</b>	<b>123</b>	<b>162</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	1010	1120	1266
Deposits	6401	7073	8112	9441
Borrowings	1480	1429	1312	1342
Other Liabilities	422	443	432	441
<b>TOTAL</b>	<b>9152</b>	<b>9961</b>	<b>10982</b>	<b>12496</b>
<b>ASSETS</b>				
Cash & Balances	973	617	529	481
Investments	1567	2261	2468	2732
Advances	5714	6237	7165	8390
Fixed Assets	43	42	51	55
Other Assets	854	803	769	839
<b>TOTAL</b>	<b>9152</b>	<b>9961</b>	<b>10982</b>	<b>12496</b>

Source: Dalal &amp; Broacha Research, Company

## Exhibit 3:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Growth</b>				
NII	16.1	16.0	14.4	16.4
PPOP	23.3	9.7	15.0	16.8
Net profit	-65	305	86	32
Deposits	16.7	10.5	14.7	16.4
Advances	15.5	9.2	14.9	17.1
<b>Returns</b>				
ROA	0.2	0.7	1.2	1.4
ROE	2.1	7.1	11.5	13.5
<b>Efficiency</b>				
C/I Ratio	42.5	41.7	41.5	41.2
CASA	41.2	44.9	46.6	47.2

Source: Dalal &amp; Broacha Research, Company

## Exhibit 4:

Ratios (%)	FY20	FY21	FY22	FY23
<b>Per Share</b>				
BV (Rs)	301	332	368	415
ABV (Rs)	268	309	344	390
EPS (Rs)	6	22	40	53
<b>Valuation</b>				
P/BV (x)	2.3	2.1	1.9	1.7
P/ABV (x)	2.6	2.3	2.0	1.8
P/EPS (x)	121	33	17	13
<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 &amp; Broacha Research, Company

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