



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

## Q2FY21 Result update@ Dalal & Broacha

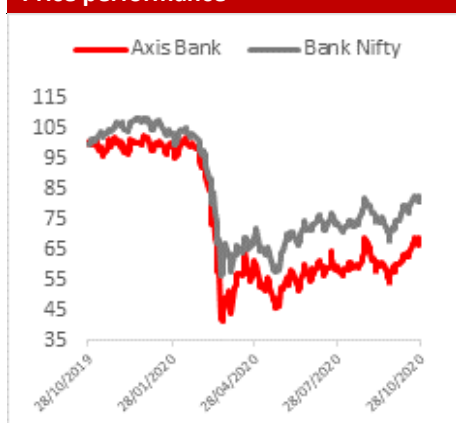
### BUY

Current Price (Rs)	505
52 Week Range	285/766
Target Price (Rs)	596
Upside (%)	18

### Key Share Data

Market Cap (Rs.bn)	1544
Market Cap (US\$ mn)	20863
No of o/s shares (Cr)	3060
Face Value	2
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB:IN

### Price performance



% Shareholding	Sep-20	Jun-20
Promoters	14.78	14.75
FII	49.24	48.47
DII	23.92	23.94
Others	12.06	12.84
<b>Total</b>	<b>100</b>	<b>100</b>

### Axis Bank's Q2FY21 performance was better than our estimates.

- NII came in at INR 73.26 Bn, +4.9% QoQ / +20.1% YoY.
- Other Income came in at INR 38.07 Bn, +47.2% QoQ / -2.3% YoY.
- PPOP came in at INR 68.98 Bn, +18% QoQ / +15.9% YoY.
- Provisions came in at INR 45.81 Bn, 3.7% QoQ / 30.2% YoY.
- PAT came in at INR 16.83 Bn, 51.3% QoQ / Rs 1.12 Bn loss YoY.
- EPS stood at INR 5.7 vs INR 3.94 / INR -0.43 in Q1FY21 / Q2FY20 respectively

### Financial Highlights

- Bank's loan book grew by 10.5% YoY/2.7% QoQ, supported by corporate loan growth of 12.4% YoY/ 2.2% QoQ and retail loan growth of 11.9% YoY/ 2.4% QoQ, while SME saw declined of 1.3% YoY. Disbursements in secured segments like HL, LAP & Auto revert to 85-95% of Q2FY20, while Rural & SBB disbursement up 19% and 17% YOY.
- On liabilities, Deposits grew by 8.8% YoY/1.2% QoQ in Q2FY21 led by CASA growth of 17% YoY/9.4% QoQ taking CASA ratio at 44.2% (Vs 41.1% YoY). Continued focus on strong deposits franchise helped the bank in the maintaining LCR of 117%, well above the regulatory requirement.
- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 54 bps at 4.18% and NNPA's down by 25 bps to 0.98% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 4.28% and NNPA would have been 1.03% as per the proforma approach (recognition of NPA using analytical models).
- Over & above 1.2% contingency buffer, the bank built further provisions Rs12.8bn towards loans under moratorium and Rs18.6bn towards probable restructuring, taking cumulative provision buffer of Rs108 bn (1.9% of loans).
- The fund based BB & below book as a percentage of customer assets, stands at 1.4% at Sep 2020 as compared to 1.1% at Sep 2019 & 1% at Jun 2020. Provisions held on BB & Below and probable restructuring aggregate to Rs 26.71 Bn.
- The bank's operational efficiency remained strong, with cost to income ratio falling by 242 bps YoY to 38%, backed by higher net income (NII + other income) growth of 11.4% vs opex growth of 4.7% in Q2FY21.

### Valuation and outlook

Overall the quarter has been decent for the bank, with steady core operating profits, healthy deposit growth and cautious loan disbursements. While it is difficult to ascertain the exact impact of economic slowdown on asset quality, 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. Bank has well provided in its asset quality, with PCR stood at 77%, while standard assets provision stood at 1.9% (including all additional reserves) of total loan book.

Although uncertainty related Covid's impact on asset quality will keep the stock under pressure in the near term, we see attractive risk reward given a stable NIMs, a strong growth profile, low cost of funds and RAROC (Risk adjusted return on capital) based credit pricing strategy. At CMP, stock trades at 1.7x its FY21E ABV and 1.5x its FY22E ABV. We have maintained a 'Buy' rating on Axis Bank with a price target of Rs 596, valuing the stock at 1.8x FY22E P/ABV.

### Key Financials (Rs Mn)

Year	NII	PPOP	PAT	RoA	RoE	ABVPS	P/ABVPS (X)
FY20	252	234	16	0.2	2.1	268	1.9
FY21E	276	261	64	0.7	6.9	297	1.7
FY22E	322	316	116	1.1	11.0	331	1.5



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### Highlights of the Conference Call

#### Asset quality

- The bank has proactively downgraded accounts into BB & below pool and made further Rs 31.43 Bn of additional provisioning. Higher downgrades was due to its conservative judgement and assessing all accounts into high and low likelihood of availing restructuring. ~ 25 % is based on routine downgrades.
- The 30+ overdue (excluding GNPA's) for the total portfolio level of the Bank stands at around 2.30% as of Sep 2020.
- The overall stress book comprising net NPA + BB & Below (fund based) and probable restructuring (fund based) net of provisions stands at 2.51% of net customer assets as compared to BB & below (fund based) and Net NPA of 2.2% in Q1FY21 and 3.1% at September 2019.
- The gross slippage without availing the benefit of the standstill to asset classification would have been Rs. 15.72 Bn (vs reported Rs 9.31 Bn) and the gross slippage ratio would have been 1.07%.
- For the month of Sep, Demand resolution stood at 94% and with October closing a few days away, the bank is on track for resolution ~ 97% levels which would be just short of pre-Covid levels.
- The bank continued strengthening its collection infrastructure which comprises of almost 10,000 strong force – 8,000 of which are on field & a 2,000-member tele-calling team.
- Estimated fund based restructuring translates to around 1.6% of loan book. Bank created a provision for restructuring over and above COVID-19 provisions for an amount of Rs 18.64 Bn.

#### Operating performance

- On a sequential basis, the NIMs grew by 18 bps, which attributed as 3 bps to capital raise, 5 bps on account of lower NPAs and 10 bps to normal business and better liquidity management.
- The operating expenses to average assets ratio on September 30, 2020 stood at 1.97% lower by 9 bps as compared to 2.06% YoY and 3 bps QoQ. This quarter is not a completely normalized quarter, some part of savings is attributable to lower volumes, which will come back as business environment improves.

#### Fees

- Bank is focusing on building granularity across its various fee generating businesses and have seen positive momentum continue this quarter with some fee lines doing even better than pre covid levels.
- In retail segment, Third party distribution fees grew 38% YOY, while Card fees and retail loan processing fees recovered with 76% and 237% QoQ growth, reflecting sequential pick up in spends and disbursements.
- Share of transaction banking and forex fees has been steadily rising and stood at 57%, highest in the last 10 quarters.

#### Deposits

- The bank's salary SA deposits grew 28% YOY as it continue to work towards leveraging its corporate lending relationships with top corporates to gain higher share in salary segment.
- Bank added 6.91 lakhs new SA accounts; launched 'Liberty Savings Account' with industry first offering of 'balance vs spends' that provide customers host of valued added features. Bank has witnessed pick up in current account growth on QAB to 18% YOY, while the new CA customer acquisitions improved to 29% YoY

#### Advances

- Retail Banking continue to saw improvement in loan originations led by secured products. Q2 disbursements reached 95% of disbursements of same period last year and 75% of Q4FY20
- Disbursements trends in unsecured personal loans are still trending around 40% lower than pre-covid levels. Branches continue to be major contributor to secured retail lending business with loan originations from branches in Q2 growing to 57% from 48% levels in Q2FY20.
- In its corporate segment, the bank continues to see significant change over the last 18 months with tightening customer selection and underwriting standards. ~ 95% of incremental advances in the last 18 months were in the A- & above rating category with around 72% being in the AA- and above category. ~38% of its corporate book is for a tenor less than 1 year
- Bank has added 276 new relationships during H1FY21, spread across large corporates, mid corporates, FIG and Strategic clients group.
- In SME segment, the bank has a diversified and granular portfolio targeted at better rated SMEs - Over 84% of the portfolio is SME 3 and better (equivalent of A- and above for SME lending). The portfolio is spread over 35 broad sectors and geographically well diversified in over 120 locations across the country. The avg ticket size is Rs. 3.3 Cr and with approximately 70% of borrowers with exposures less than Rs. 5 Cr.



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<b>P&amp;L (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Interest Earned	133	141	148	153	154	157	162	165	4.0%	-2.9%	161
Interest Expended	80	85	91	94	93	93	94	96	-6.4%	-8.5%	87
<b>NII</b>	<b>52</b>	<b>56</b>	<b>57</b>	<b>58</b>	<b>61</b>	<b>65</b>	<b>68</b>	<b>70</b>	<b>20.1%</b>	<b>4.9%</b>	<b>73</b>
Other Income	27	40	35	39	39	38	40	26	-2.3%	47.2%	38
<b>Net Income</b>	<b>79</b>	<b>96</b>	<b>92</b>	<b>97</b>	<b>100</b>	<b>102</b>	<b>108</b>	<b>96</b>	<b>11.4%</b>	<b>16.3%</b>	<b>111</b>
Opex	38	41	42	38	40	45	49	37	4.7%	13.6%	42
<b>PPOP</b>	<b>41</b>	<b>55</b>	<b>50</b>	<b>59</b>	<b>60</b>	<b>57</b>	<b>59</b>	<b>58</b>	<b>15.9%</b>	<b>18.0%</b>	<b>69</b>
Provisions	29	31	27	38	35	35	77	44	30.2%	3.7%	46
<b>PBT</b>	<b>12</b>	<b>25</b>	<b>23</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>-19</b>	<b>14</b>	<b>-4.8%</b>	<b>62.3%</b>	<b>23</b>
Tax	4	8	8	7	25	5	-5	3	-	100.8%	6
<b>PAT</b>	<b>8</b>	<b>17</b>	<b>15</b>	<b>14</b>	<b>-1.1</b>	<b>17.6</b>	<b>-13.9</b>	<b>11.1</b>	<b>-</b>	<b>51.3%</b>	<b>16.8</b>
<b>BS (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Networth	651	667	667	712	839	862	849	861	16.4%	13.5%	977
Deposits	4797	5141	5485	5407	5840	5917	6401	6282	8.8%	1.2%	6355
Borrowings	1484	1447	1528	1301	1089	1120	1480	1428	20.4%	-8.1%	1312
Other Liabilities	374	307	331	325	325	292	422	401	38.8%	12.6%	451
<b>Total Liabilities</b>	<b>7305</b>	<b>7562</b>	<b>8010</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>12.4%</b>	<b>1.4%</b>	<b>9095</b>
Cash & Bank	487	557	672	383	571	413	973	601	-16.3%	-20.5%	478
Investments	1557	1610	1750	1758	1617	1560	1567	1873	23.9%	6.9%	2003
Advances	4561	4751	4948	4973	5216	5501	5714	5613	10.5%	2.7%	5764
Other Assets	700	643	640	632	689	716	897	884	23.4%	-3.8%	850
<b>Total Assets</b>	<b>7305</b>	<b>7562</b>	<b>8010</b>	<b>7746</b>	<b>8093</b>	<b>8190</b>	<b>9152</b>	<b>8971</b>	<b>12.4%</b>	<b>1.4%</b>	<b>9095</b>
<b>BS (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Corporate	1741	1805	1834	1775	1870	1968	2041	2056	12.4%	2.2%	2101
SME	603	622	656	616	614	617	619	571	-1.3%	6.0%	606
Retail	2217	2324	2458	2582	2732	2916	3054	2986	11.9%	2.4%	3057
<b>Total</b>	<b>4561</b>	<b>4751</b>	<b>4948</b>	<b>4973</b>	<b>5216</b>	<b>5501</b>	<b>5714</b>	<b>5613</b>	<b>10.5%</b>	<b>2.7%</b>	<b>5764</b>
GNPA (%)	5.96	5.75	5.26	5.25	5.03	5.00	4.86	4.72	(85 bps)	(54 bps)	4.18
NNPA (%)	2.54	2.36	2.06	2.04	1.99	2.09	1.56	1.23	(101 bps)	(25 bps)	0.98
PCR (%)	58.9	60.4	62.1	62.5	61.7	59.6	69.0	74.8	1555 bps	243 bps	77.2
CASA (%)	47.7	45.8	44.4	41.3	41.1	41.2	41.2	40.9	308 bps	331 bps	44.2

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Profit & Loss Account				
Rs in Bn	FY19	FY20	FY21E	FY22E
Interest Earned	550	626	699	804
Interest expended	333	374	423	481
<b>NII</b>	<b>217</b>	<b>252</b>	<b>276</b>	<b>322</b>
Other Income	131	155	170	201
<b>Net Income</b>	<b>348</b>	<b>407</b>	<b>446</b>	<b>523</b>
Operating Exp	158	173	185	207
<b>PPOP</b>	<b>190</b>	<b>234</b>	<b>261</b>	<b>316</b>
Provisions	120	185	175	160
<b>PBT</b>	<b>70</b>	<b>49</b>	<b>86</b>	<b>156</b>
Tax	23	33	22	39
<b>PAT</b>	<b>47</b>	<b>16</b>	<b>64</b>	<b>116</b>

Balance Sheet				
Rs in Bn	FY19	FY20	FY21E	FY22E
<b>CAPITAL &amp; LIABILITIES</b>				
Capital	5	6	6	6
Reserves & Surplus	662	844	1001	1106
Deposits	5485	6401	7339	8445
Borrowings	1528	1480	1591	1622
Other Liabilities	331	422	434	443
<b>TOTAL</b>	<b>8010</b>	<b>9152</b>	<b>10371</b>	<b>11622</b>
<b>ASSETS</b>				
Cash & Balances	672	973	1309	1254
Investments	1750	1567	1760	1993
Advances	4948	5714	6274	7245
Fixed Assets	40	43	45	49
Other Assets	600	854	982	1081
<b>TOTAL</b>	<b>8010</b>	<b>9152</b>	<b>10371</b>	<b>11622</b>

Ratios (%)	FY19	FY20	FY21E	FY22E
<b>Growth</b>				
NII	16.6	16.1	9.6	16.6
PPOP	21.9	23.3	11.3	21.1
Net profit	1597	-65	296	81
Deposits	20.9	16.7	14.7	15.1
Advances	12.5	15.5	9.8	15.5
<b>Returns</b>				
ROA	0.6	0.2	0.7	1.1
ROE	7.2	2.1	6.9	11.0

Ratios (%)	FY19	FY20	FY21E	FY22E
<b>Valuation</b>				
BV (Rs)	259	301	329	363
ABV (Rs)	215	268	297	331
EPS (Rs)	18	6	21	38
P/ABV (x)	2.3	1.9	1.7	1.5
P/EPS (x)	28	87	24	13
<b>Asset quality</b>				
GNPA	5.3	4.9	5.2	4.7
NNPA	2.2	1.6	1.5	1.3



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