



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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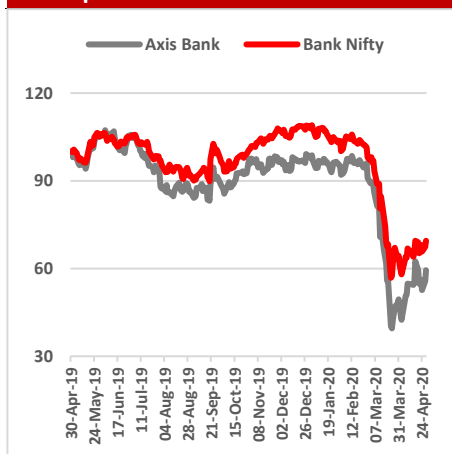
BUY

Current Price (Rs)	456
52 Week Range	285/826
Target Price (Rs)	537
Upside (%)	18%

Key Share Data

Market Cap (Rs.bn)	1285
Market Cap (US\$ mn)	16873
No of o/s shares (mn)	282.2
Face Value	2
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB:IN

Price performance



% Shareholding	Mar-20	Dec-19
Promoter	16.2	16.2
Institutions	69.3	69.3
Non-Institutions	12.2	12.1
Custodian	2.3	2.4
Total	100	100

Axis Bank reported its Q4FY20 performance which was below our estimates on the profitability front due to higher provisions, though operating performance was largely in line with our estimates. During the quarter, the bank has made provisions of Rs 77.30 Bn, including Rs 30 Bn related to Covid-19. As of March 31, 2020, the bank holds in aggregate additional provisions of Rs 59.83 Bn. Bank's PPOP up by 16.7% YoY / +1.9% QoQ at Rs 58.51 Bn, supported by strong growth in NII (+19.3% YoY & +5.5% QoQ) and healthy traction in other income (+13% YoY/5.3% QoQ). Opex grew by 9.9% QoQ, with staff costs growing 0.6% QoQ & other opex growing 13.9%, the C-I ratio up by 187bps QoQ to ~45.8%. Fee income down by 3% YoY. Bank's retail asset fees remained robust (comprising 64% of total fees), but segments like card fees and 3rd party distribution income got impacted in March.

Asset quality improves; NNPA at 1.6%

Bank's asset quality improved during the quarter, with GNPA's at 4.86%, down by 40 bps YoY / -14 bps QoQ, while NNPA's at 1.56% (-50 bps YoY and -53 bps QoQ). Bank's Slippages during the quarter stood at Rs 39.20 Bn Vs Rs 62.14 Bn in Q3FY20. Slippages from the loan book were at Rs 34.18 Bn and that from investment exposures stood at Rs 5.02 Bn. Corporate slippages stood at Rs 18.39 Bn. Excluding one account of Rs 7.50 Bn which got upgraded during the quarter and downgraded again out of total corporate slippages, 84% of this came from previously disclosed BB & below rated clients (fund based loans, non-fund based loans and investment holdings).

Healthy credit growth at 15% YoY

Loan growth remain healthy (+15.5%YoY, +3.9% QoQ), mainly due to higher growth in the retail segment (+24.2% YoY/ 4.7% QoQ) and stable growth in corporate loans (11.3% YOY/3.7% QoQ). The growth in Retail advances was driven by all product segments across home loans, auto loans, personal loans, small business loans etc. The share of secured loans was 80% with home loans comprising 35% of the Retail book. SME loan book stood at Rs 619.21 Bn (-5.6% YoY/0.3%QoQ). 85% of the SME book is secured with predominantly working capital financing, and is well diversified across geographies and sectors.

Strong liability franchise; Deposit grew at 17%

Bank's focus towards building a granular, stable and low-cost liability franchise has been progressing well with CASA plus RTD deposits growth of 22% for the quarter. Overall, Deposits growth during the quarter came in at 16.7% YoY/8.2% QoQ. CASA grew by 8.3% YoY/ (8.2% QoQ) to Rs 2637.06 Bn. The share of CASA stood at 41.2% vs 44.4% in Q4FY19. Bank has taken proactive steps to shore up the liquidity position with average LCR at 112% during the quarter. Currently our LCR is at a comfortable level of 120% and are carrying excess SLR of over Rs 480 Bn (6-7% over requirements). Having raised equity capital last year, capital position is healthy, with both total Capital at 17.53% and CET1 at 13.34%, being at the one of the highest levels in the Bank's history.

Valuation and outlook

While bank is keeping higher provisions than regulatory requirement, what is to be noted is that about 10-12% of the bank's customers have sought the relief (moratorium), which forms 25-28 % of the bank's total book in value term. It may be too soon to critic, but in the worst-case scenario, such a large portion of the book comes under stress, the impact could well be far higher than Rs 30 Bn provisioning.

Although uncertainty 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. Thus, we have maintained a 'Buy' rating on Axis Bank with a price target of Rs 537, valuing the stock at 1.6x FY22E P/ABV.

Key Financials (Rs in Bn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	P/B (X)
FY20	252	16	234	23	16	(65)	268	1.7
FY21E	288	14	273	16	70	333	291	1.6
FY22E	334	16	326	19	129	83	333	1.4



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Highlights of the Conference Call

Covid-19

- More than 3/4th of employees handling Operations, who are unable to attend work are either operating from home or distributed locations. Over 96% of our ATMs have remained operational and stocked up, while 99% of branches are operational.
- In Retail banking, team of relationship managers, CSOs, liability sales executives, retail lending team along with outbound contact centre team are interacting with nearly 3 lakh clients daily on an average basis.
- From a Risk mitigation stand point, Bank is adopting different interventions designed for various business lines in Wholesale and Retail, on a broad basis the approach includes - further tightening of the portfolio risk thresholds, enhancing origination standards & increasing frequency of monitoring.
- Covid induced slowdown will delay the normalization of corporate stress pool and management expect that there would be further downgrades into the BB pool during FY21.

Moratorium Status

- As of April 25, at an Overall Bank level, customers opting for moratorium by number is 10-12% & by value is approximately 25-28%.
- The retail customers opting for moratorium reveals that opt-ins are across all income bands, geographies, industries and category of customers. Majority of customers opted in have enough money in their bank account to pay their EMI. The trend seems to be to conserve liquidity and protect immediate cash flows. Bank has not given any moratorium to NBFCs
- Of total Rs 34.75 bn COVID related provision, Rs 0.73 Bn provisions for asset classification benefits; Rs 11.18 bn for all overdue accounts as on 31st March'20 (made entire 10% regulatory provision) & remaining Rs 18.82 bn unallocated provisions for larger COVID stress.

Risk Analytics

- The Bank has invested heavily in risk analytics over the years to build proprietary scorecards that provide a significant edge in decision making. On an average it displays 2 to 3 times more discriminatory power over bureau score across various product segments.
- Bank's incremental sourcing strategy will be based on its 'Macro Covid risk model' and "geography micro segment score". These models factor incremental risk variables, like bounce information, moratorium data, Covid intensity in a geography and business impact and will be used for portfolio action and calibrated sourcing strategy during these times.

SME Loans

- Bank been cautious in growing SME book and have in fact de-risked the book over the last year given the weakness in underlying economy.
- The book is 85% secured by hard collaterals and 80% self-funded, with high proportion of 78% working capital loans, and 59% qualifies for PSL lending. The book is also very well diversified across 35 sectors and geographies.
- 84% SME3 or above (equivalent A-) rated and 75% book with tenure less than 1 year

Retail Loans

- The portfolio is dominated by secured portfolio which is close to 80%, primarily consisting of the Mortgages, Vehicle loans and rural portfolio. Out of unsecured portfolio, 82% book is from salaried segment which has a very low default rate and over 80% of borrowers are existing to bank customers. 67% of the salaried are from premium corporates, government and MNCs and majority are corporate salary relationships with the Bank.
- Asset quality performance for unsecured customer is between 20-50% better than industry based on bureau information

Wholesale Banking

- 83% of the book is now in the rating category of A- and better, while ~38% of book is for a tenor less than 1 year and 95% of incremental sanction in FY 20 were from A- and above rating category.
- Bank has also taken steps to reduce borrower concentration risk and today, exposure to top 20 borrowers as % of Tier 1 capital has come down to less than 90%, Vs 112% in FY19.
- Total standard fund, non-fund and investments outstanding to NBFCs is Rs 235 Bn (83% of the same is rated A or above), MFI is Rs 57.9 Bn, and Real estate is Rs177.3 Bn (50% of which is Lease Rental Discounting).



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Asset quality

- Bank's asset quality improved during Q4FY20, with GNPA's at 4.86%, down by 40 bps YoY / -14 bps QoQ, while NNPA's at 1.56% (-50 bps YoY / -53 bps QoQ). PCR stood at 69% vs 59% QoQ
- Bank's NNPA + BB book as a percentage of customer assets, has improved 0.7% YOY, from 3.4% at March 19 to 3.0% at Q3FY20 and stands at 2.7% at Q4FY20.
- Additional provisions held of Rs 59.83 bn as on Q4FY20 translated to standard asset coverage of 1.3%.
- Excluding COVID moratorium, there would have been increase of Rs 6.91 Bn in Slippages, Rs 3.40 Bn in provision, while Gross NPA and Net NPA would have been higher by 11 bps and 6 bps respectively.
- On the retail side, Bank has adopted stringent rule-based provisions norms, which are stricter than regulatory provisioning norms. Bank recognise NPAs on daily basis and fully provide for NPAs on 90 days on Personal Loans and Credit Cards.

P&L (Rs Bn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY	QoQ	Q4FY20
Interest Earned	133	141	148	153	154	157	10%	3%	162
Interest Expended	80	85	91	94	93	93	4%	2%	94
NII	52	56	57	58	61	65	19%	5%	68
Other Income	27	40	35	39	39	38	13%	5%	40
Net Income	79	96	92	97	100	102	17%	5%	108
Opex	38	41	42	38	40	45	17%	10%	49
PPOP	41	55	50	59	60	57	17%	2%	59
Provisions	29	31	27	38	35	35	185%	123%	77
PBT	12	25	23	21	24	23	-	-	-19
Tax	4	8	8	7	25	5	-	-	-5
PAT	8	17	15	14	-1.1	17.6	-	-	-14
BS (Rs Bn)									
Networth	651	667	667	712	839	862	27%	-1%	849
Deposits	4797	5141	5485	5407	5840	5917	17%	8%	6401
Borrowings	1484	1447	1528	1301	1089	1120	-3%	32%	1480
Other Liabilities	374	307	331	325	325	292	27%	45%	422
Total Liabilities	7305	7562	8010	7746	8093	8190	14%	12%	9152
Cash & Bank	487	557	672	383	571	413	45%	135%	973
Investments	1557	1610	1750	1758	1617	1560	-10%	0%	1567
Advances	4561	4751	4948	4973	5216	5501	15%	4%	5714
Other Assets	700	643	640	632	689	716	40%	25%	897
Total Assets	7305	7562	8010	7746	8093	8190	14%	12%	9152
BS (Rs Bn)									
Corporate	1741	1805	1834	1775	1870	1968	11%	4%	2041
SME	603	622	656	616	614	617	-6%	0%	619
Retail	2217	2324	2458	2582	2732	2916	24%	5%	3054
Total	4561	4751	4948	4973	5216	5501	-100%	-100%	5714
GNPA (%)	5.96	5.75	5.26	5.25	5.03	5.00	(39 bps)	(14 bps)	4.86
Ratios (%)									
NNPA (%)	2.54	2.36	2.06	2.04	1.99	2.09	(48 bps)	(53 bps)	1.56
PCR (%)	58.9	60.4	62.1	62.5	61.7	59.6	658 bps	948 bps	69.0
CASA (%)	47.7	45.8	44.4	41.3	41.1	41.2	(13 bps)	-	41.2



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Profit & Loss Account				
Rs in Bn	FY19	FY20	FY21	FY22
Interest Earned	550	626	717	819
Interest expended	333	374	429	485
NII	217	252	288	334
Other Income	131	155	175	205
Net Income	348	407	464	538
Operating Exp	158	173	191	212
PPOP	190	234	273	326
Provisions	120	185	179	154
PBT	70	49	94	172
Tax	23	33	24	43
PAT	47	16	70	129

Balance Sheet				
Rs in Bn	FY19	FY20	FY21	FY22
CAPITAL & LIABILITIES				
Capital	5	6	6	6
Reserves & Surplus	662	844	907	1023
Deposits	5485	6401	7339	8445
Borrowings	1528	1480	1591	1622
Other Liabilities	331	422	434	445
TOTAL	8010	9152	10277	11540
ASSETS				
Cash & Balances	672	973	1100	1084
Investments	1750	1567	1760	1993
Advances	4948	5714	6389	7334
Fixed Assets	40	43	45	49
Other Assets	600	854	982	1081
TOTAL	8010	9152	10277	11540

Ratios (%)	FY19	FY20	FY21	FY22
Growth				
NII	16.6	16.1	14.3	15.8
PPOP	21.9	23.3	16.5	19.4
Net profit	1597	-65	333	83
Deposits	20.9	16.7	14.7	15.1
Advances	12.5	15.5	11.8	14.8
Returns				
ROA	0.6	0.2	0.7	1.2
ROE	7.2	2.1	8.0	13.3

Ratios (%)	FY19	FY20	FY21	FY22
Valuation				
BV (Rs)	259	301	324	365
ABV (Rs)	215	268	291	333
EPS (Rs)	18	6	25	46
P/ABV (x)	2.1	1.7	1.6	1.4
P/EPS (x)	25	79	18	10
Asset quality				
GNPA	5.8	5.1	5.3	4.8
NNPA	2.3	1.6	1.6	1.5



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