



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

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## Result update@ Dalal & Broacha

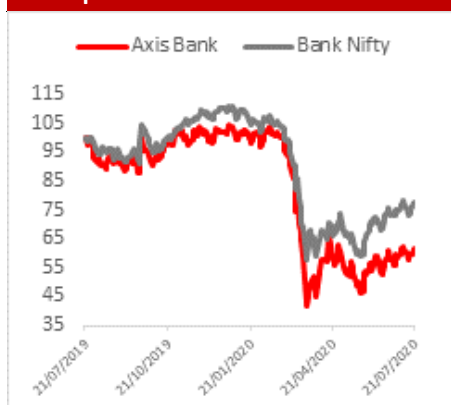
### BUY

Current Price (Rs)	446
52 Week Range	285/766
Target Price (Rs)	549
Upside (%)	23

### Key Share Data

Market Cap (Rs.bn)	1259.19
Market Cap (US\$ mn)	16901.88
No of o/s shares (Cr)	2822.02
Face Value	2
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB:IN

### Price performance



% Shareholding	Jun-20	Mar-20
Promoters	15.99	16.20
Institutions	70.37	69.30
Non-Institutions	13.64	12.10
Total	100	100

Axis Bank's Q1FY21 performance was better than our estimates. While moratorium book declined to 9.7% (eased some concerns on asset quality) from 25-28% in morat 1, collection is key going ahead.

- NII came in at INR 69.85 Bn, +2.6% QoQ / +19.5% YoY and 0.2% above our est.
- Other Income came in at INR 25.87 Bn, -35.1% QoQ / -33.1% YoY and 17% below our est.
- PPOP came in at INR 58.44 Bn, -0.1% QoQ / -0.8% YoY and 11% above our est.
- Provisions came in at INR 44.16 Bn, -42.9% QoQ / +15.8% YoY and 11.7% above our est.
- PAT came in at INR 11.12 Bn, -18.8% YoY and 13% above our est.
- EPS stood at INR 3.9 vs INR -4.9 / INR 5.3 in Q4FY20 / Q1FY20 respectively.

### Financial Highlights

- **Bank's Asset quality improved, with GNPA's at 4.72%, down by 53 bps YoY / 14 bps QoQ, while NNPA's at 1.23% (down by 81 bps YoY and up by 33 bps QoQ).** PCR stood at 74.8% (up by 1234 bps YoY/576 bps QoQ). Slippages stood at Rs. 22.18 Bn down by 54% YOY and 43% QoQ. Out of which, 21% have been considered as NPA based on credit & risk assessment criteria and not ageing and 100% provision has been created on these assets. 42% related to a single group on which the Bank has created 100% provision. **Credit cost for the quarter is 2.26% vs to 2.06% QoQ. Higher credit cost is due to improvement in PCR (~1.09%) and higher provision on net slippages.**
- Advances grew by 12.9% YoY/-1.8% QoQ to Rs 5613.40 Bn. Retail loan increased by 15.7% YoY/ -2.2% QoQ to Rs 2986.36 Bn (accounted for 53.2% of Net Advances), while SME loan down by 7.3% YoY/ (7.7% QoQ) to Rs 571.48 Bn (accounted for 10.2% of the Net Advances). Corporate loan increased by 15.8% YoY/0.7% QoQ to Rs 2055.56 in Q1FY21.
- **Bank's focus towards building a granular, stable and low-cost liability franchise has been progressing well with CASA plus RTD deposits growth of 20% YoY.** Overall, deposits growth during the quarter came in at 16.2% YoY/-1.9% QoQ. CASA grew by 14.9% YoY/ (-2.6% QoQ) to Rs 2567.6 Bn. The share of CASA stood at 40.9% vs 41.3% in Q1FY20.
- Bank has taken proactive steps to shore up the liquidity position with average LCR at 120%, with excess SLR of Rs 266.40 Bn. Bank's capital position is healthy, with both total Capital at 17.47% and CET1 at 13.50%, being at one of the highest levels in Bank's history.
- **Bank's operational efficiency remained strong, with cost to income ratio falling by 685 bps QoQ to 38.9%, largely due to de-growth of 2.4% YoY/24.6% QoQ in opex in Q1FY21.**

### Valuation and outlook

Overall the quarter has been decent for the bank, with steady core operating profits, healthy deposit growth and cautious loan disbursements. There are going to be few challenges for the sector related to surplus liquidity, muted loan growth and general risk aversion. In such an environment, large banks such as Axis Bank, with healthy operational performance, better capital position and superior operational capabilities are better placed to withstand the challenges.

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 75%, while standard assets provision stood at 1.5% (including all additional reserves) of total loan book.

Although uncertainty related to moratorium (9.7% of total portfolio) and its 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. Thus, we have maintained a 'Buy' rating on Axis Bank with a price target of Rs 549, valuing the stock at 1.7x FY22E P/ABV.

### Key Financials (Rs Bn)

Year	NII	PPOP	PAT	RoA	RoE	ABVPS	P/ABVPS (X)
FY20	252	234	16	0.2	2.1	268	1.7
FY21	276	261	64	0.7	7.3	287	1.6
FY22	317	311	113	1.0	11.8	323	1.4



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### Highlights of the Conference Call

- Adopted a more conservative accounting approach (aggregate impact of changes on PPOP/PBT/PAT is Rs 307 Cr/Rs 660 Cr & Rs 513 Cr respectively)
  - Changes in accounting policies related to fee recognition
  - Increase in provisioning on Standard Investments, Red flagged account, Covid related provisions
  - Conservative stance on interest recognition for NII
- Fee income was down 38% YoY
  - ~60% of the decline was due to lower processing fees on retail loan disbursements (down 74%) and card fees (down 53%) impacted by lower new card issuance related fees and interchange income.
  - Other fee items which also got impacted are service charge waivers pursuant to regulations, cash management and syndication fees.

### Loan disbursements

#### Corporate loan disbursements; quality remains focus area

- Top 30 loan disbursements during the quarter were spread out evenly over all three months - 2/3rd of which were short term Working Capital loans, 20% related to Capex, rest refinancing and general purpose loans. The disbursals were well diversified across sectors.
- 82% of corporate book is now rated A- and above with 95% of incremental sanctions in the last 12-15 months being to corporates rated A- & above.
- Bank has added 51 new relationships during Q1, spread across strategic clients, large corporate mid-corporate, MNC and Govt coverage group.
- 37% of its book is for a tenor less than 1 year

#### Retail loan disbursements; focusing on secured lending

- Bank has been tightening credit underwriting standards over the last 12 months given the market conditions pre-Covid.
- The new acquisitions were down by 80% in April-May from March levels across retail products. Post partial lifting of lockdown in some parts in June, there has been a marginal increase in acquisitions primarily in secured businesses of Mortgages and rural lending.
- ~80% of the retail portfolio is secured consisting of Mortgages, Wheels & rural portfolio. LTVs on mortgage and LAP are 61% and 37% respectively.
- About unsecured portfolio,
  - 84% is from salaried segment and ~80% is existing customers having banking relationship providing comfort over cash flow and relationship visibility.
  - Over 67% of the salaried are from premium corporates, government and MNCs and majority are corporate salary relationships with the Bank and have not seen any significant job losses or salary cuts so far.
- Asset quality performance (for 90+dpd) is 10-20% better than industry for unsecured portfolio and by 50-80% for secured portfolios and better than peer banks across most retail products based on bureau information.

#### SME loan disbursements; further strengthening the risk framework

- Bank is focusing on further strengthening the risk framework and driving collections while deepening relationships through liability and transaction banking products.
- SME portfolio is 88% secured by hard collateral and 91% self-funded, with 76% of outstanding being working capital loans.
- The book is also very well diversified across 35 sectors and 120 SME centres spread across the country
- The book was down 7% as the overall utilisation rates of working capital limits remain low.
- The portfolio is granular with avg ticket size of around Rs. 3.5 cr.

#### Conservative Provisioning Philosophy

- The bank has been stepping up provision charges sequentially (26% Q-on-Q increase in ECL on entire Loan Book)
  - 14% increase in provision charge on Standard Assets
  - 37% increase in provision charge on Stage III Assets
- Provided 100% on accrued interest in Stage 3 A/cs till Mar 20, further no interest is being accrued on these accounts post Mar 20
- For FY20, provided 100% of the accrued interest in standstill A/cs over and above 10% provision charge on principal amount

#### Moratorium update

- Bank has adopted an approach of recovery of Moratorium 1 rather than extension of Moratorium. Only customers impacted by the Covid crisis and through a review/approval based approach have been extended the benefit of Moratorium 2
- Total portfolio under Moratorium as of 30th June is 9.7% (by value)
- 90% of customers in Moratorium 2 are common from Moratorium 1 across all the segments
- The overall value reduction of portfolio under Moratorium is largely due to the active customer connect of the RM on Commercial Banking side and focus on collections and recovery in retail
- The borrower profiles of customers in moratorium are across all rating categories, industry, income bands, scores and geography; ~78% of the portfolio under Moratorium is secured



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- Collections from Morat 1 customers has been over 80% in Corporate & CBG and ~ 70% in Retail in June. In Retail, collections from non-moratorium customers has been over 95%

<b>P&amp;L (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY	QoQ	Q1FY21
Interest Earned	133	141	148	153	154	157	162	8.4%	1.9%	165
Interest Expended	80	85	91	94	93	93	94	1.5%	1.3%	96
<b>NII</b>	<b>52</b>	<b>56</b>	<b>57</b>	<b>58</b>	<b>61</b>	<b>65</b>	<b>68</b>	19.5%	2.6%	<b>70</b>
Other Income	27	40	35	39	39	38	40	-33.1%	-35.1%	26
<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>	-1.4%	-11.3%	<b>96</b>
Opex	38	41	42	38	40	45	49	-2.4%	-24.6%	37
<b>PPOP</b>	<b>41</b>	<b>55</b>	<b>50</b>	<b>59</b>	<b>60</b>	<b>57</b>	<b>59</b>	-0.8%	-0.1%	<b>58</b>
Provisions	29	31	27	38	35	35	77	15.8%	-42.9%	44
<b>PBT</b>	<b>12</b>	<b>25</b>	<b>23</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>-19</b>	-31.3%	-	<b>14</b>
Tax	4	8	8	7	25	5	-5	-55.4%	-	3
<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>	-18.8%	-	<b>11.1</b>
<b>BS (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY	QoQ	Q1FY21
Networth	651	667	667	712	839	862	849	20.8%	1.3%	861
Deposits	4797	5141	5485	5407	5840	5917	6401	16.2%	-1.9%	6282
Borrowings	1484	1447	1528	1301	1089	1120	1480	9.8%	-3.5%	1428
Other Liabilities	374	307	331	325	325	292	422	23.2%	-4.9%	401
<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>15.8%</b>	<b>-2.0%</b>	<b>8971</b>
Cash & Bank	487	557	672	383	571	413	973	57.0%	-38.2%	601
Investments	1557	1610	1750	1758	1617	1560	1567	6.6%	19.5%	1873
Advances	4561	4751	4948	4973	5216	5501	5714	12.9%	-1.8%	5613
Other Assets	700	643	640	632	689	716	897	39.8%	-1.5%	884
<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>15.8%</b>	<b>-2.0%</b>	<b>8971</b>
<b>BS (Rs Bn)</b>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY	QoQ	Q1FY21
Corporate	1741	1805	1834	1775	1870	1968	2041	15.8%	0.7%	2056
SME	603	622	656	616	614	617	619	-7.3%	-7.7%	571
Retail	2217	2324	2458	2582	2732	2916	3054	15.7%	-2.2%	2986
<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>12.9%</b>	<b>-1.8%</b>	<b>5613</b>
GNPA (%)	5.96	5.75	5.26	5.25	5.03	5.00	4.86	(31 bps)	(14 bps)	4.72
NNPA (%)	2.54	2.36	2.06	2.04	1.99	2.09	1.56	(76 bps)	(33 bps)	1.23
PCR (%)	58.9	60.4	62.1	62.5	61.7	59.6	69.0	1312 bps	576 bps	74.8
CASA (%)	47.7	45.8	44.4	41.3	41.1	41.2	41.2	(23 bps)	(32 bps)	40.9



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Profit & Loss Account				
Rs in Bn	FY19	FY20	FY21	FY22
Interest Earned	550	626	699	799
Interest expended	333	374	423	481
<b>NII</b>	<b>217</b>	<b>252</b>	<b>276</b>	<b>317</b>
Other Income	131	155	170	201
<b>Net Income</b>	<b>348</b>	<b>407</b>	<b>446</b>	<b>518</b>
Operating Exp	158	173	185	207
<b>PPOP</b>	<b>190</b>	<b>234</b>	<b>261</b>	<b>311</b>
Provisions	120	185	175	160
<b>PBT</b>	<b>70</b>	<b>49</b>	<b>86</b>	<b>151</b>
Tax	23	33	22	38
<b>PAT</b>	<b>47</b>	<b>16</b>	<b>64</b>	<b>113</b>

Balance Sheet				
Rs in Bn	FY19	FY20	FY21	FY22
<b>CAPITAL &amp; LIABILITIES</b>				
Capital	5	6	6	6
Reserves & Surplus	662	844	902	1003
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>10271</b>	<b>11519</b>
<b>ASSETS</b>				
Cash & Balances	672	973	1209	1151
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>10271</b>	<b>11519</b>

Ratios (%)	FY19	FY20	FY21	FY22
<b>Growth</b>				
NII	16.6	16.1	9.6	14.8
PPOP	21.9	23.3	11.3	19.1
Net profit	1597	-65	296	75
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	1.0
ROE	7.2	2.1	7.3	11.8

Ratios (%)	FY19	FY20	FY21	FY22
<b>Valuation</b>				
BV (Rs)	259	301	322	358
ABV (Rs)	215	268	287	323
EPS (Rs)	18	6	23	40
P/ABV (x)	2.1	1.7	1.6	1.4
P/EPS (x)	25	77	20	11
<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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