28 April 2021

4QFY21 Results Update | Sector: Financials

Axis Bank

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	AXSB IN
Equity Shares (m)	3,061
M.Cap.(INRb)/(USDb)	2142.5 / 28.7
52-Week Range (INR)	800 / 333
1, 6, 12 Rel. Per (%)	0/17/9
12M Avg Val (INR M)	14071

Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E
NII	292.4	360.2	433.5
OP	257.0	319.5	384.9
NP	65.9	157.6	206.1
NIM (%)	3.4	3.7	3.8
EPS (INR)	22.4	51.5	67.3
EPS Gr. (%)	271.0	129.8	30.7
BV/Sh. (INR)	331.6	379.6	442.3
ABV/Sh. (INR)	306.0	355.9	417.7
Ratios			
RoE (%)	7.1	14.5	16.4
RoA (%)	0.7	1.5	1.7
Valuations			
P/E(X)	27.2	11.9	9.1
P/BV (X)	1.8	1.6	1.4
P/ABV (X)	2.0	1.7	1.5

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	13.3	13.6	15.7
DII	22.7	23.0	24.5
FII	52.6	52.2	46.5
Others	11.4	11.2	13.3

FII Includes depository receipts

CMP: INR699 TP: INR925 (+32%) Buy

Improving asset quality outlook; earnings set to gain momentum

PCR steady at >70%; additional provisioning buffer provides comfort

- Axis Bank (AXSB) reported a strong quarter, with PAT above our estimates, aided by lower provisions. Business growth was strong across segments, with retail disbursements at an all-time high.
- On the asset quality front, the slippage trend subsided sequentially (INR52.8b v/s INR67.4b in 3Q) and total restructuring stood at 0.3% of loans. Also, the total funded and non-funded book declined to 2.0% of loans (v/s 2.4% in 3QFY21). Also, AXSB has ~72% coverage on GNPL and additionally holds a provision buffer of 2% (including standard provisions) to protect the balance sheet against any potential stress. However, the resurgence of COVID and state-wise lockdown would be a key monitorable in the near term. We increase our FY22/FY23E earnings by 12%/6% and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. **Maintain Buy.**

PAT beat aided by lower provisions; robust growth trends across segments

- 4QFY21 PAT stood at INR26.8b (significantly above our estimate), largely aided by lower provisions. PPoP growth stood at 9% YoY. For FY21, NII/PPoP/PAT was up 16%/10%/305% YoY.
- NII grew 11% YoY (+2.5% QoQ), impacted by interest-on-interest refund and higher LCR. Thus, NIMs stood at 3.56% (v/s 3.59 in 3QFY21).
- Other income grew 17% YoY, with fee income rising 15% YoY to INR33.8b and higher treasury gains (INR7.9b). Opex grew 8% YoY on an increase in staff cost (+21% YoY). Hence, the C/I ratio declined to 43.8% (v/s 45.3% in 3QFY21). Therefore, Core PPoP grew 9% YoY to ~INR60.8b.
- Provisions stood at INR32.9b (28% QoQ decline, 21% below our estimate). The bank currently holds an additional provision buffer of ~2% of loans. It approved total restructuring of INR18.5b (0.3% of loans) with 26% PCR.
- The loan book grew 7% QoQ with strong growth across segments. This was led by retail loans growing at 5% QoQ and retail disbursements rising at an all-time high of 44% QoQ. Also, the corporate/SME portfolio grew 9%/9%. On the liability front, deposits were up ~8% QoQ, led by 13% QoQ growth in CASA deposits; thus, the CASA ratio improved to 45% (quarterly avg. CASA stood at 42%).
- On the asset quality front, slippages stood at INR52.8b; along with higher recovery and write-offs, this resulted in improvement in the GNPA/NNPA ratio by 85bp/14bp QoQ to 3.70%/1.05%. As a result, PCR stood at 72.4%. The funded/non-funded BB & below pool declined to INR74.4b/INR45.7b (~2.0% of loans). Standard restructured loans under the COVID resolution framework stood at INR18.5b, corresponding to 0.3% of gross customer assets; the bank carries a provision of 26% on this.

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Highlights from management commentary

- The total COVID-related provision buffer stood at INR50b (0.8% of loans), while the total additional provision buffer (COVID, standard and restructured) stood at ~2% of loans.
- Gross slippages were in line with expectations. 64% of gross slippages were from the retail book. Thus, the annualized retail slippage ratio stood at 3.7%.
- The sourcing of retail loans from branches stood at 59% in 4QFY21.

Valuation and view

AXSB has delivered a strong performance and appears well-positioned to report robust earnings traction. Moreover, moderation in fresh slippages, coupled with improved underwriting and an increasing retail mix, would help maintain strong credit cost control. On the business front, retail disbursements reached an all-time high during the quarter, with strong disbursements seen in Home Loans (+45% QoQ) and LAP (+51% QoQ). AXSB delivered strong sequential growth across segments. On the asset quality front, total restructuring stood at 0.3% of loans. Furthermore, the bank has ~72% coverage on GNPL and also holds an additional provision buffer of 2% to protect the balance sheet against any potential stress. We expect credit cost to decline to 1.5%/1.3% over FY22/FY23. We increase our FY22/FY23E earnings by 12%/6% and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. **Maintain Buy, with revised TP of INR925 (2.0x FY23E ABV).**

Quarterly performance **(INR b)**

	FY20				FY21				FY20	FY21	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Interest Income	**58.4**	**61.0**	**64.5**	**68.1**	**69.9**	**73.3**	**73.7**	**75.5**	**252.1**	**292.4**	**76**	**-1%**
% Change (Y-o-Y)	13.1	16.6	15.2	19.3	19.5	20.1	14.3	11.0	16.1	16.0	12.3	
Other Income	38.7	39.0	37.9	39.9	25.9	38.1	37.8	46.7	155.4	148.4	41	15%
Total Income	**97.1**	**100.0**	**102.4**	**107.9**	**95.7**	**111.3**	**111.5**	**122.2**	**407.4**	**440.8**	**117**	**4%**
Operating Expenses	38.2	40.5	45.0	49.4	37.3	42.4	50.5	53.6	173.0	183.8	54	0%
Operating Profit	**58.9**	**59.5**	**57.4**	**58.5**	**58.4**	**69.0**	**61.0**	**68.6**	**234.4**	**257.0**	**63**	**9%**
% Change (Y-o-Y)	34.8	45.4	3.9	16.7	-0.8	15.9	6.1	17.3	23.3	9.7	8.0	
Provisions	38.1	35.2	34.7	77.3	44.2	45.8	46.0	32.9	185.3	169.0	42	-21%
Profit before Tax	**20.8**	**24.3**	**22.7**	**-18.8**	**14.3**	**23.2**	**14.9**	**35.7**	**49.0**	**88.1**	**22**	**64%**
Tax	7.1	25.5	5.1	-4.9	3.2	6.3	3.7	8.9	32.8	22.2	5	65%
Net Profit	**13.7**	**-1.1**	**17.6**	**-13.9**	**11.1**	**16.8**	**11.2**	**26.8**	**16.3**	**65.9**	**16**	**64%**
% Change (Y-o-Y)	95.4	NM	4.5	NM	-18.8	NM	-36.4	NM	-65.2	304.9	NM	
Operating Parameters												
Deposit (INR t)	5.4	5.8	5.9	6.4	6.3	6.4	6.5	7.1	6.4	7.1	7	2%
Loan (INR t)	5.0	5.2	5.5	5.7	5.6	5.8	5.8	6.2	5.7	6.2	6	2%
Deposit Growth (%)	20.9	21.7	15.1	16.7	16.2	8.8	10.6	10.5	16.7	10.5	8.0	250
Loan Growth (%)	12.7	14.4	15.8	15.5	12.9	10.5	5.9	9.2	15.5	9.2	7.1	205
Asset Quality												
Gross NPA (%)	5.3	5.0	5.0	4.9	4.7	4.2	3.4	3.7	4.9	3.7	4.7	(100)
Net NPA (%)	2.0	2.0	2.1	1.6	1.2	1.0	0.7	1.1	1.6	1.1	1.2	(11)
PCR (%)	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4	69.0	72.4	76.2	(385)

E:MOFSL Estimates

Quarterly snapshot

INR b	FY19 1Q	FY19 2Q	FY19 3Q	FY19 4Q	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	FY21 1Q	FY21 2Q	FY21 3Q	FY21 4Q	Change (%) YoY	Change (%) QoQ
Profit and Loss														
Interest Income	**127.8**	**132.8**	**141.3**	**148.0**	**152.5**	**154.4**	**157.1**	**162.3**	**165.4**	**160.6**	**155.0**	**155.5**	**-4**	**0**
Loans	96.1	99.5	106.3	111.3	114.6	119.2	122.8	126.3	125.9	121.9	115.4	116.0	-8	0
Investment	26.8	28.0	28.9	29.7	31.2	28.7	26.5	26.1	29.7	31.0	31.9	32.9	26	3
Interest Expenses	**76.1**	**80.5**	**85.3**	**90.9**	**94.1**	**93.4**	**92.6**	**94.3**	**95.5**	**87.4**	**81.3**	**79.9**	**-15**	**-2**
Net Interest Income	**51.7**	**52.3**	**56.0**	**57.1**	**58.4**	**61.0**	**64.5**	**68.1**	**69.9**	**73.3**	**73.7**	**75.5**	**11**	**2**
Other Income	**29.2**	**26.8**	**40.0**	**35.3**	**38.7**	**39.0**	**37.9**	**39.9**	**25.9**	**38.1**	**37.8**	**46.7**	**17**	**24**
Trading profits	1.0	1.4	3.8	3.5	8.3	8.1	5.2	2.6	6.2	7.7	3.7	7.9	199	115
Fee Income	21.2	23.8	26.2	30.2	26.6	26.5	27.8	29.3	16.5	27.5	29.1	33.8	15	16
Total Income	**80.9**	**79.1**	**96.0**	**92.3**	**97.1**	**100.0**	**102.4**	**107.9**	**95.7**	**111.3**	**111.5**	**122.2**	**13**	**10**
Operating Expenses	**37.2**	**38.2**	**40.8**	**42.2**	**38.2**	**40.5**	**45.0**	**49.4**	**37.3**	**42.4**	**50.5**	**53.6**	**8**	**6**
Employee	12.3	11.7	12.0	11.4	13.1	12.7	13.7	13.7	14.1	14.1	16.8	16.7	21	-1
Others	24.9	26.4	28.8	30.8	25.1	27.7	31.3	35.7	23.2	28.2	33.8	36.9	3	9
Operating Profits	**43.7**	**40.9**	**55.2**	**50.1**	**58.9**	**59.5**	**57.4**	**58.5**	**58.4**	**69.0**	**61.0**	**68.6**	**17**	**13**
Core Operating Profits	**42.7**	**39.6**	**51.5**	**46.6**	**50.6**	**51.4**	**52.3**	**55.9**	**52.2**	**61.3**	**57.3**	**60.8**	**9**	**6**
Provisions	33.4	29.3	30.5	27.1	38.1	35.2	34.7	77.3	44.2	45.8	46.0	32.9	-57	-28
PBT	**10.3**	**11.7**	**24.7**	**23.0**	**20.8**	**24.3**	**22.7**	**-18.8**	**14.3**	**23.2**	**14.9**	**35.7**	**NM**	**139**
Taxes	3.3	3.8	7.9	8.0	7.1	25.5	5.1	-4.9	3.2	6.3	3.7	8.9	NM	138
PAT	**7.0**	**7.9**	**16.8**	**15.1**	**13.7**	**-1.1**	**17.6**	**-13.9**	**11.1**	**16.8**	**11.2**	**26.8**	**NM**	**140**
Balance Sheet (INR t)														
Deposit	4.5	4.8	5.1	5.5	5.4	5.8	5.9	6.4	6.3	6.4	6.5	7.1	10	8
Loans	4.4	4.6	4.8	4.9	5.0	5.2	5.5	5.7	5.6	5.8	5.8	6.2	9	7
Asset Quality (INR b)														
GNPA	326.6	309.4	308.5	297.9	294.0	290.7	300.7	302.3	295.6	268.3	220.0	253.1	-16	15
NNPA	149.0	127.2	122.3	112.8	110.4	111.4	121.6	93.6	74.5	61.1	46.1	69.9	-25	52
Slippages	43.4	27.8	37.5	30.1	48.0	49.8	62.1	39.2	22.2	9.3	0.3	126.3	222	NM
Ratios (%)	**FY19**				**FY20**				**FY21**				**Change (bps)**	
Asset Quality Ratios	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**YoY**	**QoQ**
GNPA	6.5	6.0	5.8	5.3	5.3	5.0	5.0	4.9	4.7	4.2	3.4	3.7	-116	26
NNPA	3.1	2.5	2.4	2.1	2.0	2.0	2.1	1.6	1.2	1.0	0.7	1.1	-51	31
PCR (Calculated)	54.4	58.9	60.4	62.1	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4	333	-667
PCR (Reported)	69.0	73.0	75.0	77.0	78.0	79.0	78.0	83.0	87.0	88.0	91.0	88.0	500	-300
Slippage Ratio	4.2	2.6	3.3	2.6	4.1	4.1	4.8	2.9	1.7	0.7	0.0	8.4	544	836
Credit Cost	2.5	2.7	3.0	1.0	3.3	2.2	2.3	3.2	3.3	3.3	0.7	1.8	-131	110
Business Ratios (%)														
Fees to Total Income	26.2	30.0	27.2	32.7	27.4	26.5	27.1	27.2	17.3	24.7	26.1	27.6	46	155
Cost to Core Income	51.1	50.2	49.6	48.3	44.9	46.2	48.7	50.7	43.2	42.0	49.2	49.0	-172	-14
Tax Rate	32.2	32.3	32.0	34.6	34.1	104.6	22.7	26.1	22.1	27.4	25.1	25.0	-113	-12
CASA (Calculated)	46.9	47.7	45.8	44.4	41.3	41.1	41.2	41.2	40.9	44.2	43.2	44.9	373	175
Loan/Deposit	98.7	95.1	92.4	90.2	92.0	89.3	93.0	89.3	89.4	90.7	89.1	88.2	-109	-90
Profitability Ratios (%)														
Yield on loans	8.7	9.2	9.5	9.5	9.8	9.8	9.6	9.5	9.5	8.9	8.2	7.8	-172	-39
Yield On Investments	7.0	7.5	7.6	7.2	7.6	7.2	6.7	6.3	6.5	6.9	7.2	6.9	59	-32
Yield on Funds	8.5	9.0	9.2	9.1	9.5	9.4	9.2	9.0	9.2	8.7	8.2	7.8	-123	-45
Cost of funds	5.2	5.3	5.4	5.7	5.7	5.6	5.4	5.2	4.9	4.6	4.3	4.1	-110	-20
Margins	3.5	3.4	3.5	3.4	3.4	3.5	3.6	3.6	3.4	3.6	3.6	3.6	1	-3
RoA	0.4	0.4	0.9	0.8	0.7	-0.1	0.9	-0.6	0.5	0.7	0.5	1.1	173	63
RoE	4.9	5.4	11.3	10.3	9.2	0.0	8.8	-7.1	5.7	8.0	4.9	11.7	1880	681
Loan Mix (%)														
Large/mid corp.	39.1	38.2	38.0	37.1	35.7	35.9	35.8	35.7	36.6	36.5	34.5	35.2	-55	70
SME	12.9	13.2	13.1	13.3	12.4	11.8	11.2	10.8	10.2	10.5	11.0	11.2	36	22
Retail Advances	48.0	48.6	48.9	49.7	51.9	52.4	53.0	53.4	53.2	53.0	54.6	53.6	19	-92
Other Details														
Branches	3,779	3,882	3,964	4,050	4,094	4,284	4,415	4,528	4,528	4,568	4,586	4,594	66	8
ATM	12,834	12,660	12,705	11,801	11,950	12,191	12,173	12,044	11,971	11,821	11,629	11,333	-711	-296

CONFERENCE CALL

Highlights from management commentary

Balance sheet related

- In the past two years, the focus has been on a) improving underwriting practices, b) reducing the BB & below pool (94% of incremental loans are sanctioned to corporates rated A & above), and c) building a high cumulative provision buffer to protect the balance sheet.
- It has sharply ramped up capex by investing in technology infrastructure such as cloud solutions, data & IT security solutions, etc. IT spends grew 79% YoY.
- Around 1.8m new liability accounts were opened during the quarter. Furthermore, it launched "Liberty Savings Account" in Aug'20, including Prime SA accounts. Over 200k new accounts were opened in this category up to Mar'21.
- Strong sequential growth in the corporate portfolio was led by higher growth in mid-corporates (added 337 new corporate relationships), MNCs, and government institutions.
- In the credit card book, AXSB's partnership with Flipkart, Google Pay, and Freecharge resulted in the sourcing of over 200k credit cards, which contributed 21% to the overall credit card sourcing in FY21.
- Retail disbursements were at an all-time high, with strong disbursements seen in Home Loans (+45% QoQ) and LAP (+51% QoQ).
- The sourcing of retail loans from branches stood at 59% in 4QFY21. This is expected to continue to improve going forward.
- **Overseas book**: 95% of the book is India Linked and 92% is rated A and above.
- MNCs and government businesses formed 15–20% of the total corporate book.
- The total CV and CE portfolio stood at INR140b.

P&L related

- The impact of interest-on-interest refund is ~INR1.63b. NIMs were further impacted by a higher LCR ratio. It aims to improve NIMs to 3.75–3.8%.
- ECLGS disbursements at were INR104b, with 99% towards ECLGS 1.0.
- It aims to maintain the daily LCR ratio in the range of 115–125%.

Asset quality related

- Credit cost for 4Q (net of CBG provisioning policy change) stood at 1.21%.
- The COVID-related provision buffer stands at INR50.1b.
- Gross slippages were in line with the bank's expectations. 64% of gross slippages were from the retail book.
- **Retail slippage breakup:** The annualized retail slippage ratio stood at 3.7%. Unsecured slippages were largely reported from the card portfolio.
- **Segmental restructuring:** This stood as follows – Corporate (0.6%), Retail (0.14%), and SME (0.02%).
- The avg. ticket size in the BB & below portfolio is INR400m.
- Total security receipts stand at INR16.8b – 100% provided.
- In the unsecured portfolio, the bank provides 100% as soon the loan becomes an NPA (i.e., on the 91st day).
- Non-fund based exposure to NPAs remains minuscule at INR18b.
- Net slippages in the retail portfolio came in at INR13.24b in 4QFY21 (INR70b for FY21). Furthermore, in the SME book, net slippages stood at INR940m (INR6.9b for FY21).

PCR at 72%; asset quality improves sharply to 3.7%/1.05%

- Reported slippages for 4QFY21 (excluding proforma) came in at INR52.85b; recoveries/upgrades stood at INR34.6b and write-offs amounted to INR55.5b.
- Asset quality improved sharply as the GNPL/NNPL ratio improved 85bp/14bp QoQ to 3.7%/1.05% v/s the proforma GNPA/NNPA ratio of 4.55%/1.19% as of Dec'20. PCR stood at 72.4%.
- The funded/non-funded BB & below pool declined to INR74.4b/INR45.7b. BB & below rated investments stood at INR6.7b. The total funded and non-funded BB & below pool stood at ~2% of loans.
- Overall, the total restructuring stands at INR18.48b (0.3% of loans), on which the bank carries provisions of ~26%. The bank holds total additional provisions (standard + excl. NPAs) of INR120b.

Exhibit 1: Net stressed loans form 0.8% of total loans

INR b	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21
GNPA	342	327	309	309	298	294	291	301	302	296	268	220	253
OSRL	11	28	28	20	-	-	-	-	-	-	-	-	-
Watch-list	4	-	-	-	-	-	-	-	-	-	-	-	-
SDR (Includes 5:25)	11	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	9	18	10	6	6	8	6	7
Security Receipts	29	29	29	29	29	29	29	22	22	22	22	22	17
BB and below (Fund based)	90	104	89	76	75	75	63	51	65	64	91	87	74
Stress loans	**487**	**488**	**455**	**434**	**402**	**407**	**400**	**384**	**396**	**388**	**390**	**336**	**351**
Less: Overlap	25	10	7	-	-	-	-	-	-	-	-	-	-
Gross stress loans	**463**	**478**	**448**	**434**	**402**	**407**	**400**	**384**	**396**	**388**	**390**	**336**	**351**
Specific Provisions	179	180	182	186	185	207	205	205	269	290	316	292	303
Net Stress loans	**284**	**298**	**265**	**248**	**217**	**200**	**195**	**179**	**127**	**98**	**74**	**43**	**48**
Gross stress loans (% of loans)	**10.5**	**10.8**	**9.8**	**9.1**	**8.1**	**8.2**	**7.7**	**7.0**	**6.9**	**6.9**	**6.8**	**5.8**	**5.6**
Net Stress Loans (% of loans)	**6.4**	**6.7**	**5.8**	**5.2**	**4.4**	**4.0**	**3.7**	**3.3**	**2.2**	**1.7**	**1.3**	**0.7**	**0.8**
BB and below (Non-Fund based)	NA	28	28	25	22	25	22	37	39	37	49	48	46

Loan growth picks up sequentially, driven by healthy growth across segments

- The loan book grew 9% YoY (7% QoQ), with retail loans up 5% QoQ, comprising ~54% of total loans. Retain disbursements have surpassed pre-COVID levels and are at an all-time high. Disbursements in the Consumer segment were up 45% YoY / 44% QoQ, with secured segments such as Home Loans up 73% YoY / 45% QoQ and LAP up 53% YoY / 51% QoQ. SBB disbursements grew 71% YoY / 42% QoQ. Rural disbursements were up 47% YoY / 47% QoQ.
- Retail growth was led by a 5% QoQ increase in housing and personal loans; rural lending was up 14% QoQ.
- The SME portfolio grew 9% QoQ, led by disbursements under the ECLGS scheme. Growth in the corporate book was also strong at 9% QoQ (+8% YoY). The corporate loan book, including TLTRO investments, grew 16% YoY / 9% QoQ. 85% of the corporate book is now rated A- and above, with 94% of incremental sanctions in FY21 being to corporates rated A- and above.
- Deposits grew ~11% YoY, led by 21% YoY growth in CASA deposits; thus, the CASA ratio improved to 45% (quarterly average CASA stood at 42%). Retail TD grew 12% YoY, with CASA + Retail TD forming 86% of total deposits.

Valuation and view

- **Strengthening retail franchise:** The Retail business franchise has strengthened, with the share of retail loans improving to ~54% of total loans – led by home loans. Furthermore, over 80% of unsecured loans are toward salaried customers. On the liability side, the share of CASA + retail term deposits stands at ~86%, ensuring relatively stable funding costs.
- **Asset quality improves sharply:** AXSB reported a sharp improvement in its asset quality, with the GNPA/NNPA ratio increasing to 3.7%/1.1% (v/s proforma of 4.55%/1.19% as of Dec'20). Slippages subsided in 4QFY21 (v/s 3QFY21); the bank further witnessed decline in the BB & below book, with the overall restructuring book controlled at 0.3% of loans. While we remain watchful of the impact of the second COVID wave, we expect slippages to moderate over FY22–23 and estimate credit cost to moderate to 1.5%/1.3% for FY21E/FY22E.
- **Fee income highly granular; expected to pick up gradually:** Retail fees form ~64% of the bank's fees, signifying the granularity in fee income. This is driven by cards / third-party distribution. However, fee income remains moderate and is likely to pick up gradually as economic activity revives.
- **Buy, with Target Price of INR925:** AXSB has delivered a strong performance and appears well-positioned to report robust earnings traction. Moreover, moderation in fresh slippages, coupled with improved underwriting and an increasing retail mix, would help maintain strong credit cost control. On the business front, 4Q retail disbursements reached all-time highs, led by robust disbursements in Home Loans (+45% QoQ) and LAP (+51% QoQ). AXSB delivered strong sequential growth across segments. On the asset quality front, total restructuring stood at 0.3% of loans. Furthermore, the bank has ~72% coverage on GNPL and holds an additional provision buffer of 2% to protect the balance sheet against any potential stress. We expect credit cost to decline to 1.5%/1.3% over FY22/FY23. We increase our FY22/FY23E earnings by 12%/6% and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. **Maintain Buy, with revised TP of INR925 (2.0x FY23E ABV).**

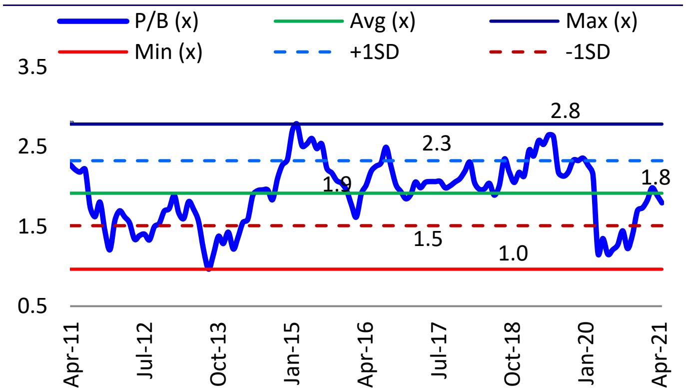
Exhibit 2: SOTP-based pricing

Name	Stake	Attributed Value (INR m)	Value per Share	% of total value	Rationale
Axis Bank	**100**	**2,559,234**	**835**	**90.3**	**2.0x P/ABV FY23E**
Axis Finance	100	48,658	16	1.7	2.5x Net worth FY23E
Axis Capital	100	41,791	14	1.5	20x PAT FY23E
Axis Securities	100	41,808	14	1.5	20x PAT FY23E
Axis Mutual Fund	75	102,755	34	3.6	5.5% AUM FY23E
Max Life Insurance	20	107,763	35	3.8	3.3x EV FY23E
Total Value of Subs		**342,775**	**112**	**12.1**	
Less: 20% holding disc		68,555	22	2.4	
Value of Subs (Post Holding Disc)		**274,220**	**90**	**9.7**	
Target Price		**2,833,454**	**925**		

Exhibit 3: We increase our FY22/FY23 estimates by 12%/6%, factoring in higher NII, improving other income, and moderation in provisioning expense

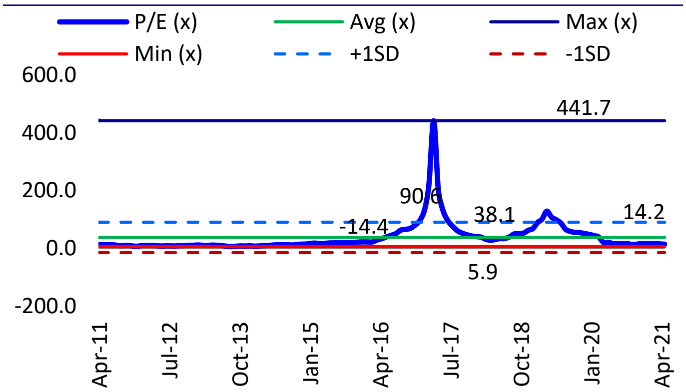
INR b	Old Est.		Revised Est.		Chg %/bps	
	FY22	FY23	FY22	FY23	FY22	FY23
Net Interest Income	345.6	414.0	360.2	433.5	4.2	4.7
Other Income	167.9	194.8	173.6	201.4	3.4	3.4
Total Income	**513.5**	**608.8**	**533.8**	**634.8**	**4.0**	**4.3**
Operating Expenses	212.0	244.6	214.3	250.0	1.1	2.2
Operating Profits	**301.5**	**364.3**	**319.5**	**384.9**	**6.0**	**5.7**
Provisions	113.7	104.9	108.8	109.3	-4.3	4.2
PBT	**187.8**	**259.4**	**210.7**	**275.5**	**12.2**	**6.2**
Tax	47.3	65.4	53.1	69.4	12.2	6.2
PAT	**140.4**	**194.0**	**157.6**	**206.1**	**12.2**	**6.2**
Loans	7,007	8,178	7,110	8,284	1.5	1.3
Deposits	7,860	9,102	8,028	9,296	2.1	2.1
Margins (%)	3.7	3.8	3.7	3.8	1	0
Credit Cost (%)	1.6	1.3	1.5	1.3	(10)	4
RoA (%)	**1.35**	**1.65**	**1.49**	**1.72**	**14**	**7**
RoE (%)	**13.2**	**15.9**	**14.5**	**16.4**	**126**	**44**
EPS	45.9	63.4	51.5	67.3	12.1	6.1
BV	368.7	427.5	379.6	442.3	3.0	3.5
ABV	342.2	400.0	355.9	417.7	4.0	4.4

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

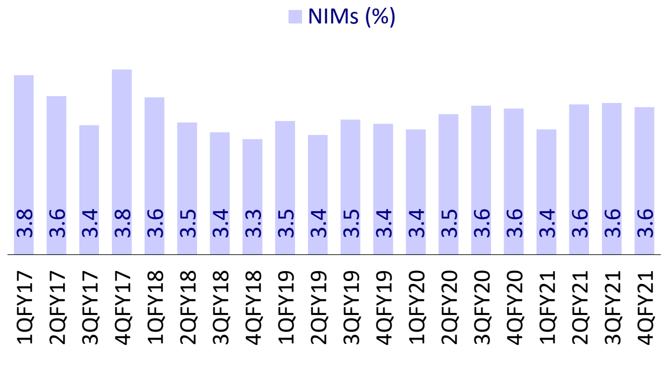
Exhibit 5: One-year forward P/E



Source: MOFSL, Company

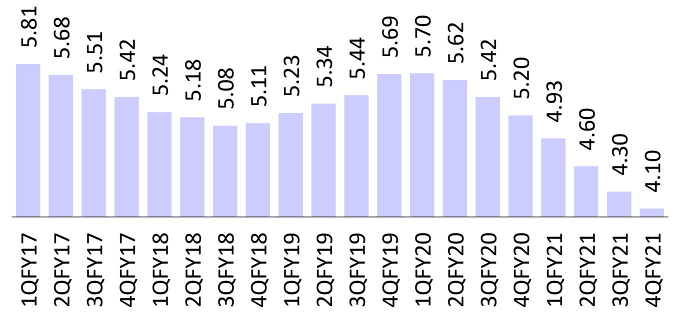
Story in charts

Exhibit 6: Margins down 3bp QoQ to 3.56%



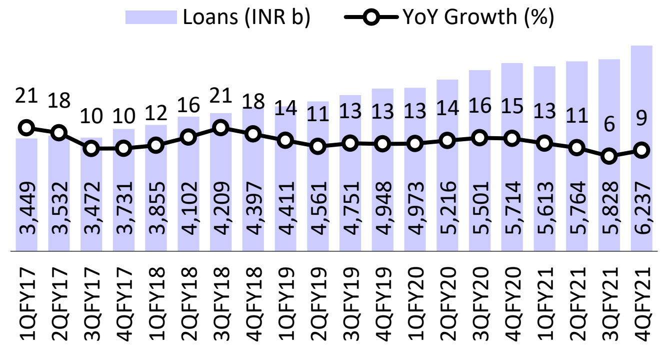
Source: MOFSL, Company

Exhibit 7: Cost of funds down 20bp QoQ to 4.1%



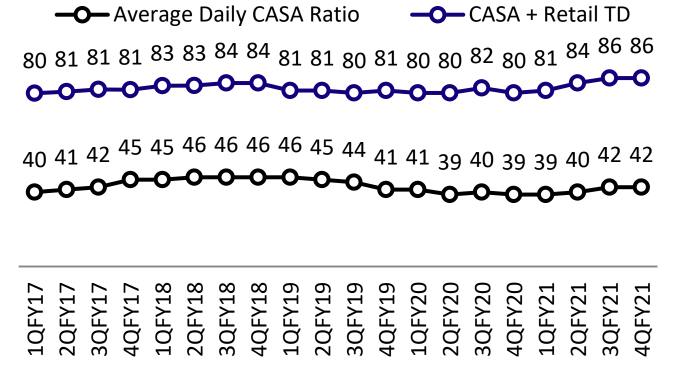
Source: MOFSL, Company

Exhibit 8: Loan growth picks up to 9% YoY



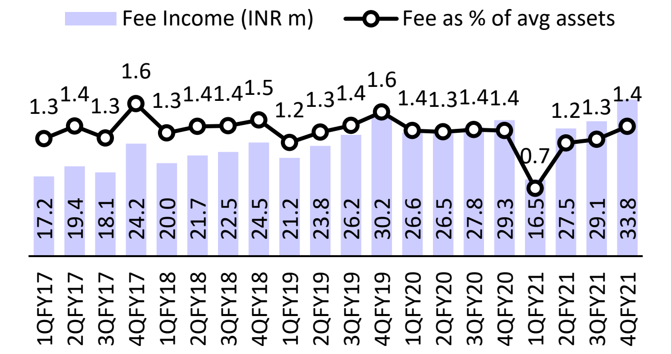
Source: MOFSL, Company

Exhibit 9: CASA + retail TD form 86% of total deposits



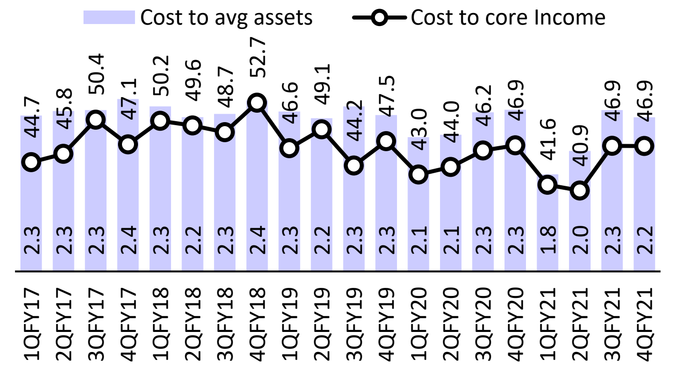
Source: MOFSL, Company

Exhibit 10: Fee income to assets improves to 1.4%



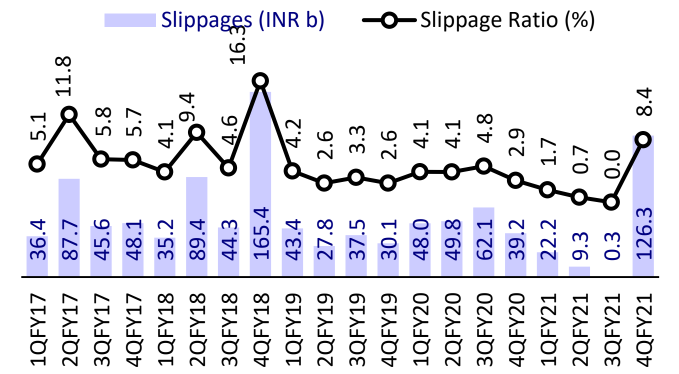
Source: MOFSL, Company

Exhibit 11: Cost to average assets down to 2.2%



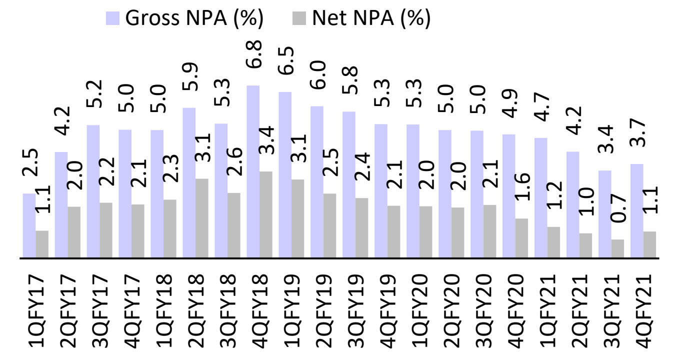
Source: MOFSL, Company

Exhibit 12: Slippages at INR52.85b (excl. proforma slippages)



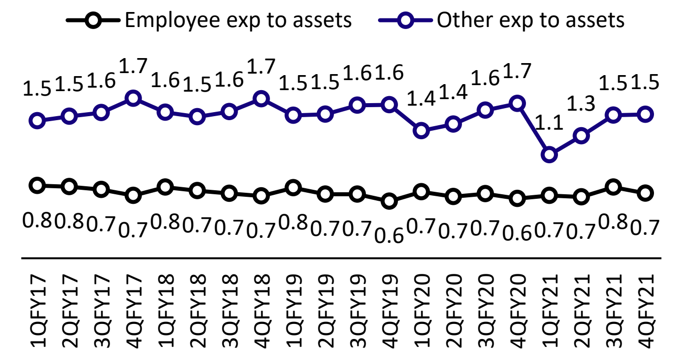
Source: MOFSL, Company

Exhibit 13: GNPA/NNPA ratio down 85bp/14bp QoQ to 3.7%/1.1% v/s proforma GNPA/NNPA of 4.55%/1.19% as of Dec'20



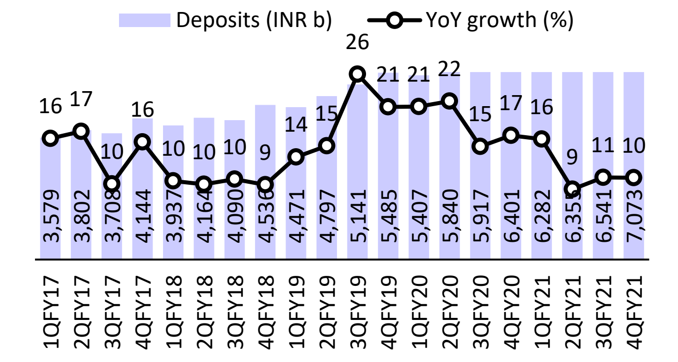
Source: MOFSL, Company

Exhibit 14: Employee expense down to 0.7%p QoQ, while other expense stable at 1.5%



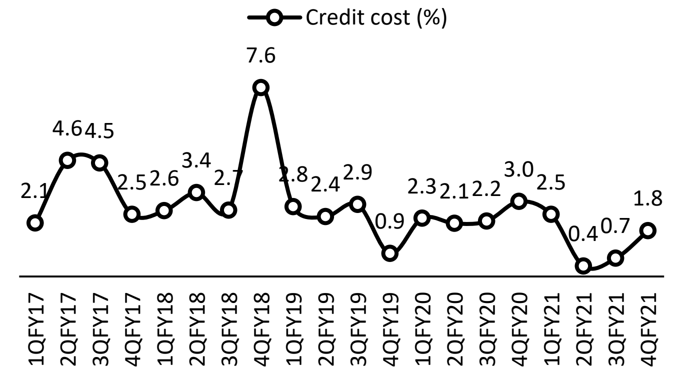
Source: MOFSL, Company

Exhibit 15: Deposit growth healthy at ~11% YoY



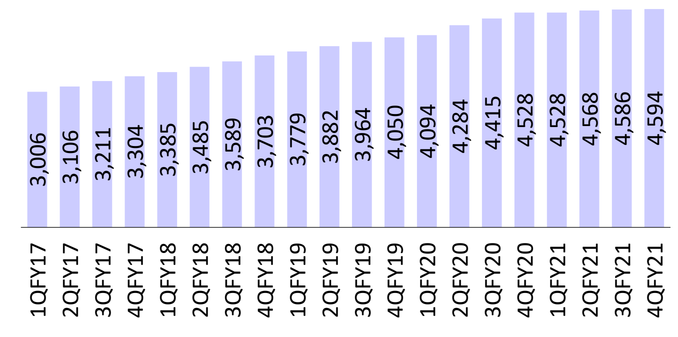
Source: MOFSL, Company

Exhibit 16: 4Q core credit cost at 1.8%



Source: MOFSL, Company

Exhibit 17: Branche count at 4,594



Source: MOFSL, Company

Exhibit 18: DuPont Analysis: Return ratios to pick up from FY22

Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest Income	8.18	7.81	7.08	7.37	7.30	6.66	7.20	7.26
Interest Expense	4.82	4.63	4.20	4.46	4.36	3.60	3.79	3.64
Net Interest Income	**3.36**	**3.17**	**2.88**	**2.91**	**2.94**	**3.06**	**3.41**	**3.62**
Fee income	1.50	1.38	1.49	1.66	1.56	1.34	1.46	1.53
Trading and others	0.37	0.67	0.21	0.10	0.25	0.22	0.19	0.16
Non Interest income	**1.87**	**2.05**	**1.70**	**1.76**	**1.81**	**1.55**	**1.64**	**1.68**
Total Income	**5.23**	**5.22**	**4.58**	**4.67**	**4.75**	**4.61**	**5.05**	**5.30**
Operating Expenses	**2.02**	**2.14**	**2.16**	**2.12**	**2.02**	**1.92**	**2.03**	**2.09**
Employee cost	0.67	0.68	0.67	0.64	0.62	0.65	0.67	0.68
Others	1.34	1.46	1.50	1.49	1.40	1.28	1.36	1.41
Operating Profit	**3.22**	**3.08**	**2.41**	**2.55**	**2.73**	**2.69**	**3.02**	**3.21**
Core Operating Profit	**2.84**	**2.41**	**2.21**	**2.45**	**2.48**	**2.47**	**2.84**	**3.06**
Provisions	**0.74**	**2.12**	**2.39**	**1.61**	**2.16**	**1.77**	**1.03**	**0.91**
NPA	0.82	1.96	2.57	1.37	1.49	1.77	0.97	0.86
Others	-0.08	0.16	-0.17	0.24	0.67	0.00	0.06	0.05
PBT	**2.47**	**0.96**	**0.02**	**0.93**	**0.57**	**0.92**	**1.99**	**2.30**
Tax	0.83	0.31	-0.02	0.31	0.38	0.23	0.50	0.58
RoA	**1.64**	**0.64**	**0.04**	**0.63**	**0.19**	**0.69**	**1.49**	**1.72**
Leverage (x)	10.4	10.8	10.8	11.5	11.3	10.2	9.7	9.5
RoE	**17.1**	**6.9**	**0.5**	**7.2**	**2.1**	**7.1**	**14.5**	**16.4**

Financials and valuations

Income Statement								(INR b)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Interest Income	409.9	445.4	457.8	549.9	626.4	636.5	760.9	870.2
Interest Expense	241.6	264.5	271.6	332.8	374.3	344.1	400.7	436.7
Net Interest Income	**168.3**	**180.9**	**186.2**	**217.1**	**252.1**	**292.4**	**360.2**	**433.5**
Growth (%)	18.3	7.5	2.9	16.6	16.1	16.0	23.2	20.3
Non Interest Income	93.7	116.9	109.7	131.3	155.4	148.4	173.6	201.4
Total Income	**262.0**	**297.8**	**295.8**	**348.4**	**407.4**	**440.8**	**533.8**	**634.8**
Growth (%)	16.0	13.7	(0.7)	17.8	16.9	8.2	21.1	18.9
Operating Expenses	101.0	122.0	139.9	158.3	173.0	183.8	214.3	250.0
Pre Provision Profits	**161.0**	**175.8**	**155.9**	**190.1**	**234.4**	**257.0**	**319.5**	**384.9**
Growth (%)	20.3	9.2	(11.3)	21.9	23.3	9.7	24.3	20.4
Core PPP	**149.2**	**142.3**	**142.7**	**182.5**	**212.7**	**236.4**	**299.9**	**366.2**
Growth (%)	22.1	(4.7)	0.3	27.9	16.5	11.2	26.9	22.1
Provisions (excl tax)	37.1	121.2	154.7	120.3	185.3	169.0	108.8	109.3
PBT	**123.9**	**54.7**	**1.2**	**69.7**	**49.0**	**88.1**	**210.7**	**275.5**
Tax	41.7	17.9	(1.5)	23.0	32.8	22.2	53.1	69.4
Tax Rate (%)	33.6	32.7	NM	32.9	66.8	25.2	25.2	25.2
PAT	**82.2**	**36.8**	**2.8**	**46.8**	**16.3**	**65.9**	**157.6**	**206.1**
Growth (%)	11.8	(55.3)	(92.5)	NM	(65.2)	304.9	139.3	30.7

Balance Sheet								
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Equity Share Capital	4.8	4.8	5.1	5.1	5.6	6.1	6.1	6.1
Reserves & Surplus	512.8	538.8	629.3	661.6	843.8	1,009.9	1,157.0	1,349.0
Net Worth	**517.6**	**543.6**	**634.5**	**666.8**	**849.5**	**1,016.0**	**1,163.1**	**1,355.1**
Deposits	**3,579.7**	**4,143.8**	**4,536.2**	**5,484.7**	**6,401.0**	**7,073.1**	**8,027.9**	**9,296.3**
Growth (%)	11.0	15.8	9.5	20.9	16.7	10.5	13.5	15.8
of which CASA Dep	**1,694.5**	**2,130.5**	**2,438.5**	**2,433.9**	**2,637.1**	**3,177.5**	**3,395.8**	**3,988.1**
Growth (%)	17.3	25.7	14.5	-0.2	8.3	20.5	6.9	17.4
Borrowings	1,085.8	1,050.3	1,480.2	1,527.8	1,479.5	1,428.7	1,476.5	1,562.7
Other Liabilities & Prov.	215.1	277.0	262.5	330.7	421.6	443.4	505.4	581.2
Total Liabilities	**5,398.2**	**6,014.7**	**6,913.3**	**8,010.0**	**9,151.6**	**9,961.2**	**11,172.9**	**12,795.3**
Current Assets	333.3	502.6	434.5	672.0	972.7	617.3	798.4	803.6
Investments	**1,315.2**	**1,287.9**	**1,538.8**	**1,749.7**	**1,567.3**	**2,261.2**	**2,668.2**	**3,121.8**
Growth (%)	11.9	-2.1	19.5	13.7	-10.4	44.3	18.0	17.0
Loans	**3,387.7**	**3,730.7**	**4,396.5**	**4,948.0**	**5,714.2**	**6,237.2**	**7,110.4**	**8,283.6**
Growth (%)	20.5	10.1	17.8	12.5	15.5	9.2	14.0	16.5
Fixed Assets	35.2	37.5	39.7	40.4	43.1	42.5	45.8	49.5
Other Assets	326.7	456.0	503.8	599.9	854.3	803.0	550.1	536.8
Total Assets	**5,398.2**	**6,014.7**	**6,913.3**	**8,010.0**	**9,151.6**	**9,961.2**	**11,172.9**	**12,795.3**

Asset Quality	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
GNPA	60.9	212.8	342.5	297.9	302.3	253.1	261.4	279.3
NNPA	25.2	86.3	165.9	112.8	93.6	69.9	59.0	61.0
GNPA Ratio	1.8	5.5	7.5	5.8	5.1	3.7	3.6	3.3
NNPA Ratio	0.7	2.3	3.8	2.3	1.6	1.1	0.8	0.7
Slippage Ratio	2.6	6.4	8.2	3.0	3.7	3.0	2.4	2.1
Credit Cost	1.2	3.1	4.1	2.2	2.4	2.8	1.5	1.3
PCR (Excl Tech. write off)	58.6	59.5	51.6	62.1	69.0	72.4	77.4	78.2

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**9.1**	**8.9**	**7.7**	**8.0**	**8.0**	**7.3**	**7.7**	**7.6**
Avg. Yield on loans	9.7	9.3	8.4	8.8	9.1	8.0	8.8	8.7
Avg. Yield on Investments	7.5	7.4	7.2	7.0	6.9	6.7	6.4	6.2
Avg. Cost-Int. Bear. Liab.	**5.6**	**5.4**	**4.8**	**5.1**	**5.0**	**4.2**	**4.5**	**4.3**
Avg. Cost of Deposits	5.4	5.1	4.4	4.7	4.9	4.4	4.2	4.1
Avg. Cost of Borrowings	6.3	6.7	6.3	6.4	5.4	6.0	5.7	5.5
Interest Spread	**3.6**	**3.5**	**2.9**	**2.9**	**3.0**	**3.1**	**3.3**	**3.3**
Net Interest Margin	**3.8**	**3.6**	**3.1**	**3.2**	**3.2**	**3.4**	**3.7**	**3.8**
Capitalization Ratios (%)								
CAR	15.3	15.0	16.6	15.9	17.6	19.1	18.7	17.9
Tier I	12.5	11.9	13.0	12.7	14.6	16.5	16.3	15.9
Tier II	2.8	3.1	3.5	3.2	3.0	2.7	2.4	2.0
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	94.6	90.0	96.9	90.2	89.3	88.2	88.6	89.1
CASA Ratio	47.3	51.4	53.8	44.4	41.2	44.9	42.3	42.9
Cost/Avg Assets	2.0	2.1	2.2	2.1	2.0	1.9	2.0	2.1
Cost/Total Income	38.5	41.0	47.3	45.4	42.5	41.7	40.1	39.4
Cost/Core Income	40.1	45.8	49.5	46.5	44.9	43.7	41.7	40.6
Int. Expense/Int.Income	58.9	59.4	59.3	60.5	59.8	54.1	52.7	50.2
Fee Income/Total Income	27.0	25.0	27.8	31.2	28.9	23.2	23.5	23.6
Non Int. Inc./Total Income	35.8	39.3	37.1	37.7	38.1	33.7	32.5	31.7
Investment/Deposit Ratio	36.7	31.1	33.9	31.9	24.5	32.0	33.2	33.6
Profitability Ratios and Valuation								
RoE	16.8	6.8	0.5	7.2	2.1	7.1	14.5	16.4
RoA	1.7	0.7	0.0	0.6	0.2	0.7	1.5	1.7
RoRWA	2.0	0.8	0.1	0.8	0.3	1.0	2.1	2.3
Book Value (INR)	223.1	232.8	247.2	259.3	301.1	331.6	379.6	442.3
Growth (%)	18.4	4.4	6.2	4.9	16.1	10.2	14.5	16.5
Price-BV (x)	**2.7**	**2.6**	**2.5**	**2.4**	**2.0**	**1.8**	**1.6**	**1.4**
Adjusted BV (INR)	211.2	200.6	193.8	219.7	269.7	306.0	355.9	417.7
Price-ABV (x)	**2.9**	**3.0**	**3.1**	**2.8**	**2.3**	**2.0**	**1.7**	**1.5**
EPS (INR)	34.6	15.4	1.1	18.2	6.0	22.4	51.5	67.3
Growth (%)	11.0	-55.5	-92.8	NM	-66.9	271.0	129.8	30.7
Price-Earnings (x)	**17.6**	**39.6**	**NM**	**33.5**	**101.1**	**27.2**	**11.9**	**9.1**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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