

## Huge moratorium to remain overhang...

Axis Bank reported a steady operational performance. However, building up of floating provision led the bottomline to the red. GNPA declined ~10 bps QoQ to 4.9% while NNPA reduced ~50 bps QoQ to 1.6%. Higher provisioning at ₹ 7730 crore led to ~900 bps QoQ increase in PCR to 69%. Significant provision was made of ₹ 3000 crore, for Covid-19. Floating provision is now at ₹ 5983 crore. As of April 25, 2020, 10-12% of total customers by number and 25-28% by loan value have opted for moratorium.

Slippages moderated to ₹ 3920 crore (~3% of advance). Adding back accounts opted for moratorium, slippages would be up 50 bps. Corporate slippages were at ₹ 1839 crore with ₹ 502 crore from the investment book. With downgrade of three accounts (cement, medical devices, auto ancillary sector), stressed book rose ~20 bps QoQ to ₹ 6530 crore.

Credit growth was at 15.5% YoY to ₹ 571424 crore. Growth in retail segment remained robust at 24% YoY, led by unsecured portfolio. Corporate book remained slower at 11% YoY while SME witnessed a blip. Deposit increased 16.7% YoY to ₹ 640105 crore, led by strong accretion in term deposit growth (23.4% YoY). CASA remained stable sequentially at 41.2%.

Steady growth of 19.3% YoY in NII and ~13% YoY in other income kept operational performance steady with PPP at ₹ 5851 crore, up ~16.7% YoY. Margin remained stable QoQ (+11 bps YoY) at ~3.6%, with a decline in yield and costs. Non-employee cost led to marginal increase in CI ratio to 45.8%.

**Axis Bank entered into a transaction with Max Financial (MFS), which post completion will become a 70:30 JV in Max Life Insurance. This transaction is seen strengthening the relationship with Max Life. The partnership with other insurers (Bajaj, LIC) is set to continue unaffected.**

## Covid inflicts high moratorium – outlook on slippage uncertain

We saw moderation in slippages in Q4 with slowdown in accretion in corporate segment. Majority of incremental lending to corporates was rated 'A- & above'. Apart from slippage moderation, outstanding floating provision of ₹ 5983 crore provides comfort. However, with moratorium being opted for ~28% of loans, NPA trend ahead would stay key monitorable. Hence, we factor credit cost at 2.61%, 1.82% for FY21, FY22E, respectively.

## Valuation & Outlook

Given uncertainty led by Covid-19, the management has refrained from providing any guidance until clarity emerges. Covid-19 and related lockdown would delay a revival in RoE. Slippages, credit cost are expected to remain volatile in near term. However, given healthy asset mix, liability strength, adequate capital and superior customer profile, we believe the bank is poised to face near term challenges and benefit in the phase of normalisation. Hence, we remain positive on the fundamentals. We value the bank at 1.6x FY22E ABV and arrive at a target price of ₹ 500 (post adding ₹ 35 for subsidiaries with 20% holding company discount). Maintain **BUY**.



### Particulars

Particulars	Amount
Market Capitalisation	₹123534 crore
GNPA (Q4FY 20)	₹302338 crore
NNPA (Q4FY 20)	₹93604 crore
NIM (Q4FY 20)	3.55
52 week H/L	827 /285
Net worth	₹84004 Crore
Face value	₹2
DII Holding (%)	24.9
FII Holding (%)	45.5

### Key Highlights

- Credit growth came in at 15.5% YoY to ₹571424 crore driven by retail segment.
- Higher provisioning at ₹ 7730 crore, led to ~900 bps QoQ increase in PCR to 69%. The bank provided ₹ 3000 crore for Covid-19.
- Axis Bank have entered into a transaction with Max Financial, which post completion will become 70:30 JV in Max Life Insurance.
- Maintain our BUY recommendation with a unchanged target price of ₹ 500

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### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	18618	21708	24300	26870	27576	8%
PPP	15594	19005	22973	24968	24984	10%
PAT	-263	4677	5040	8922	9132	25%
ABV (₹)	182.5	215.4	268.5	290.0	314.8	
P/E	-299.9	16.9	16.9	9.5	9.3	
P/ABV	1.7	1.4	1.1	1.1	1.0	
RoA	0.0	0.6	0.6	0.9	0.9	
RoE	-0.4	7.2	6.5	9.8	9.2	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19 /oY (%)	Q3FY20 loQ (%)	Comments	
NII	6,808	6,641	5,706 19.3	6,453 5.5	Healthy domestic credit growth & ~11 bps YoY expansion in margin led to healthy NII growth	
NIM (%)	3.55	3.53	3.44 11 bps	3.57 -2 bps	Reduction of ~49 bps YoY in cost of funds led to improvement in margin	
Other Income	3,985	3,118	3,526 13.0	3,787 5.3	Higher recovery of ₹654 crore supported other income. Traction in retail fee income remained muted at 2% YoY	
Net Total Income	10,793	9,759	9,232 16.9	10,240 5.4		
Staff cost	1,374	1,399	1,142 20.3	1,365 0.6		
Other Operating Expen	3,568	3,226	3,075 16.0	3,132 13.9	Expense related to PSL of ~₹400 crore included in opex	
PPP	5,851	5,134	5,014 16.7	5,743 1.9		
Provision	7,730	3,714	2,711 185.1	3,471 122.7	Covid related additional provision of ₹3526 crore kept credit cost elevated	
PBT	-1,879	1,420	2,303 -181.6	2,272 -182.7		
Tax Outgo	-491	369	798 -161.6	515 -195.4		
PAT	-1,388	1,051	1,505 -192.2	1,757 -179.0	Higher provision led to loss in the quarter	
Key Metrics						
GNPA	30,234	28,269	29,789 1.5	30,073 0.5	Slippages came in lower at ₹3920 crore; ₹1839 crore from corporate book, retail slippages at ₹305 crore	
NNPA	9,360	11,674	11,276 -17.0	12,160 -23.0	PCR improved ~9% QoQ to 69%	
Credit	5,71,424	5,71,424	4,94,798 15.5	5,50,138 3.9	Domestic credit growth continued to remain healthy at 15% YoY, led by 24% YoY traction in retail book	
Deposit	6,40,105	6,32,223	5,48,472 16.7	5,91,676 8.2	CASA ratio remained steady QoQ at ~41%	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹Crore	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	26,870	24,507	-8.8	27576	26,016	-5.7
Pre Provision Profit	24,968	23,022	-7.8	24984	23,506	-5.9
NIM(%) (calculated)	3.3	3.2	-8 bps	3.0383	3.0	1 bps
PAT	8,922	4,830	-45.9	9132.3	7,729	-15.4
ABV per share ₹	290.0	260.0	-10.3	314.77	281.1	-10.7

Source: Company, ICICI Direct Research

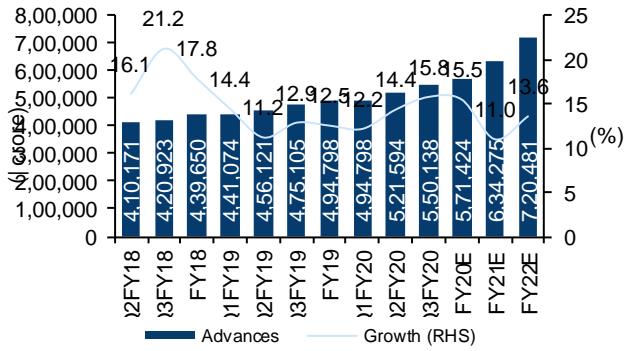
Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	12.5	15.5	11.0	13.6	9.9	11.8
Deposit Growth (%)	20.9	16.7	16.0	16.2	12.9	17.1
CASA ratio (%)	44.4	44.4	44.4	43.0	40.7	39.7
NIM Calculated (%)	3.4	3.7	3.2	3.0	3.3	3.0
Cost to income ratio	45.4	40.4	45.5	48.7	43.5	47.1
GNPA (₹crore)	29,789	31,223	39,243	40,019	35,620	37,624
NNPA (₹crore)	11,276	12,977	15,700	16,581	14,873	16,155
Slippage ratio (%)	3.2	2.7	2.8	2.0	2.2	2.2
Credit cost (%)	2.4	3.2	2.6	1.8	2.1	1.8

Source: Company, ICICI Direct Research

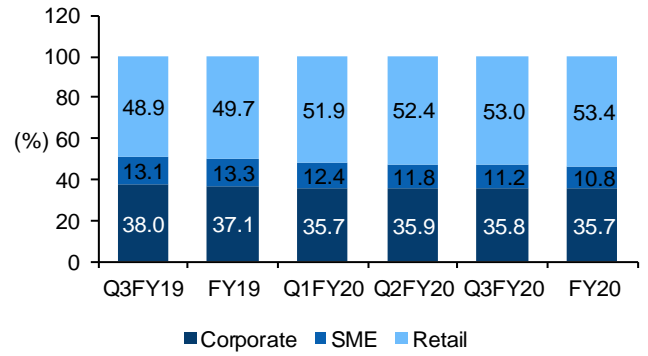
Story in Charts

Exhibit 4: Domestic growth to remain steady



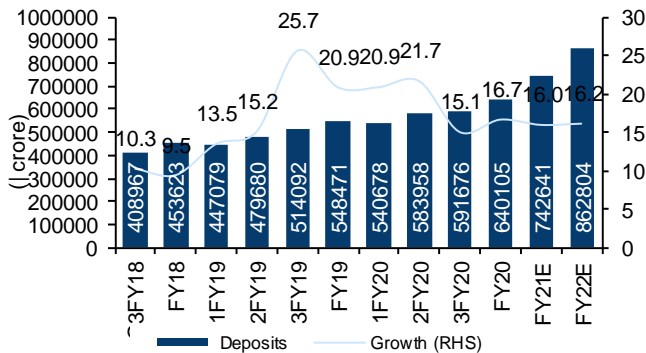
Source: Company, ICICI Direct Research

Exhibit 5: Retail sector to drive further earning



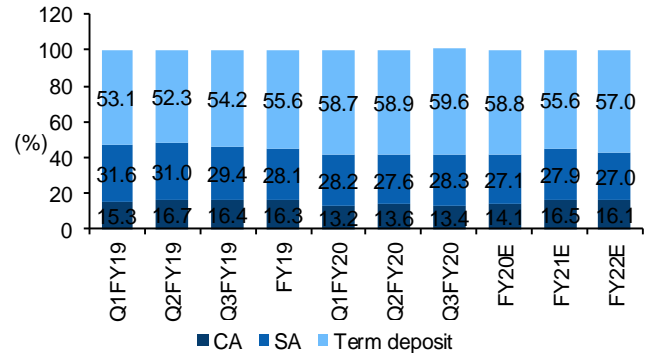
Source: Company, ICICI Direct Research

Exhibit 6: Deposit traction to remain higher



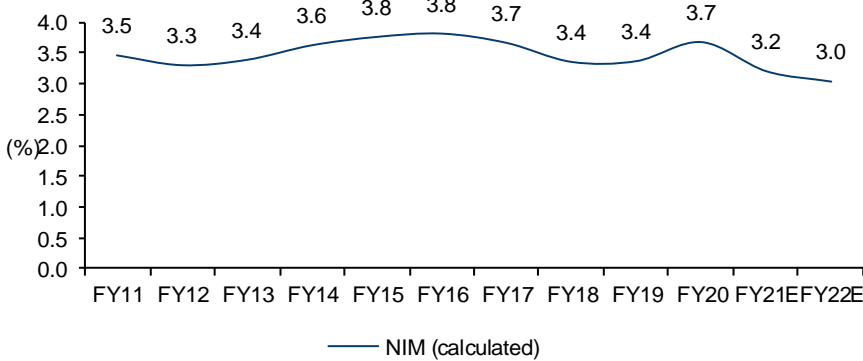
Source: Company, ICICI Direct Research

Exhibit 7: CASA ratio to remain steady



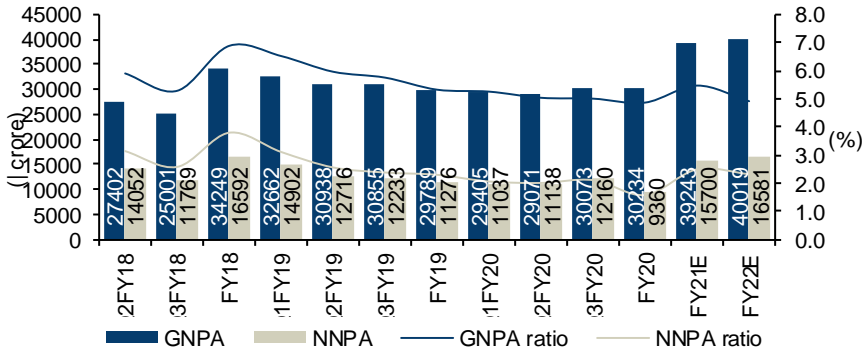
Source: Company, ICICI Direct Research

Exhibit 8: Margins to stabilise, going ahead



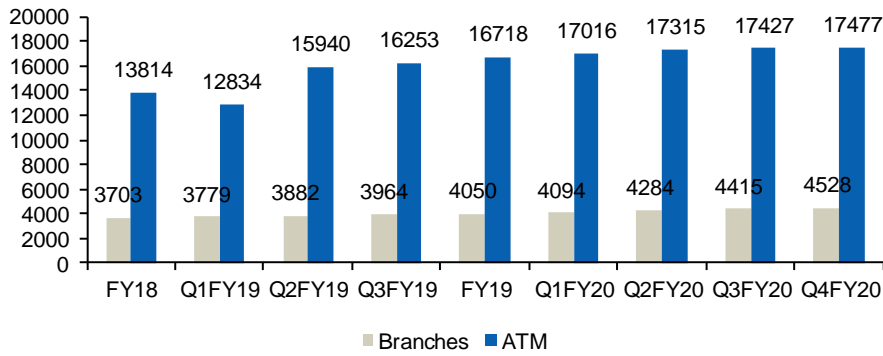
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality could dip in near term



Source: Company, ICICI Direct Research

Exhibit 10: Branch network increasing at consistent pace



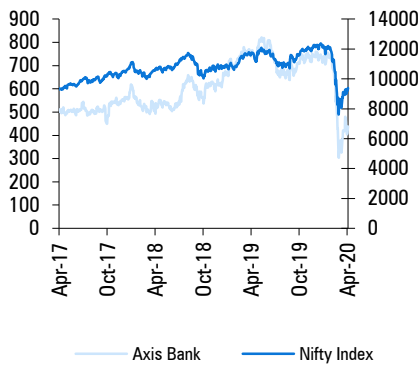
Source: Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	18.7	18.1	16.6	16.1	16.0
FII	49.6	48.2	48.2	48.4	45.5
DII	21.2	21.4	22.7	23.1	24.9
Others	10.5	12.3	12.5	12.4	13.6

Source: Company, ICICI Direct Research

Exhibit 12: Price Chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	54,986	62,635	69,283	77,280
Interest Expended	33,278	37,429	44,776	51,264
Net Interest Income	21,708	25,206	24,507	26,016
growth (%)	16.6	16.1	(2.8)	6.2
Non Interest Income	13,130	15,537	17,712	19,763
Fees and advisory	8,854	11,864	13,288	15,281
Trading Gains	758	910	1,001	1,101
Other income	3,519	2,763	3,424	3,382
Net Income	34,839	40,743	42,219	45,779
Staff cost	4,747	5,321	5,845	6,657
Other operating Expens	11,086	11,434	13,352	15,616
Operating Profit	19,005	23,988	23,022	23,506
Provisions	12,031	18,534	16,539	13,131
PBT	6,974	5,454	6,483	10,375
Taxes	2,297	3,826	1,653	2,646
Net Profit	4,677	1,627	4,830	7,729
growth (%)	-1879.9	-65.2	196.8	60.0
EPS (₹)	18.2	5.8	17.4	27.9

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	257.2	282.2	277.5	277.5
EPS (₹)	18.2	5.8	17.4	27.9
BV (₹)	259.3	297.7	316.6	340.9
ABV (₹)	215.4	251.7	260.0	281.1
P/E	16.9	53.2	17.6	11.0
P/BV	1.2	1.0	1.0	0.9
P/ABV	1.4	1.2	1.2	1.1
Yields & Margins (%)				
Net Interest Margins	3.4	3.7	3.2	3.0
Yield on assets	8.5	9.1	9.1	9.0
Avg. cost on funds	5.1	5.1	5.3	5.3
Yield on average advan	8.8	9.2	9.1	9.1
Avg. Cost of Deposits	4.7	6.4	5.3	5.4
Quality and Efficiency				
Cost to income ratio	45	40	45	49
Credit/Deposit ratio	90.2	89.3	85.4	83.5
GNPA	5.3	4.8	5.5	4.9
NNPA	2.3	2.3	2.5	2.3
ROE	7.2	2.2	5.6	8.5
ROA	0.6	0.2	0.5	0.7

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	514	564	555	555
Reserves and Surplus	66162	83440	87295	94050
Networth	66676	84004	87850	94605
Deposits	548471	640105	742641	862804
Borrowings	152776	147954	160371	176720
Other Liabilities & Provis	33073	42216	51495	62990
Total	800997	914279	1042358	1197120
Application of Funds				
Fixed Assets	4037	4313	5071	6021
Investments	174969	156734	170339	187078
Advances	494798	571424	634275	720481
Other Assets	59988	83970	119763	153205
Cash with RBI & call mc	67205	97838	112909	130335
Total	800997	914279	1042358	1197120

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total assets				
Total assets	15.9	14.1	14.0	14.8
Advances	12.5	15.5	11.0	13.6
Deposit	20.9	16.7	16.0	16.2
Total Income	20.0	15.8	10.3	11.6
Net interest income	16.6	16.1	-2.8	6.2
Operating expenses	13.2	5.8	14.6	16.0
Operating profit	21.9	26.2	-4.0	2.1
Net profit	-1879.9	-65.2	196.8	60.0
Net worth	5.1	26.0	4.6	7.7
EPS	(1,876.4)	(68.3)	201.7	60.0

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	48	65	Hold	22,756.3	-0.4	-1.9	-4.3	NA	NA	NA	0.6	0.6	0.5	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	187	250	Buy	1,66,310	16.8	24.2	33.7	11.2	7.7	5.5	1.1	1.0	0.9	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	52	50	Hold	2,810	-27.2	8.5	13.0	-1.9	6.1	4.0	0.4	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	436	500	Buy	1,10,439	5.8	17.4	27.9	75.6	25.1	15.7	1.7	1.7	1.6	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	129	171	Buy	8,711	8.7	10.1	11.4	14.9	12.8	11.3	2.0	1.8	1.6	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	81	92	Hold	2,524	13.0	13.5	15.0	6.2	6.0	5.4	0.8	0.8	0.7	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	47	47	Hold	8,355	7.7	7.9	12.5	6.1	5.9	3.8	0.7	0.7	0.6	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	950	1,100	Buy	4,99,198	47.9	57.1	69.6	19.8	16.6	13.6	3.1	2.9	2.5	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	481	400	Hold	27,461	63.7	54.9	66.7	7.6	8.8	7.2	1.0	0.9	0.8	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	15	12	Sell	671	-12.7	-0.1	-6.1	-1.2	NA	NA	0.2	0.3	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,324	1,700	Buy	2,28,664	29.9	29.0	31.3	44.3	45.6	42.3	5.5	4.9	4.4	1.7	1.4	1.3	12.5	10.8	10.5
Bandhan Bank (BANBAN)	233	260	Buy	30,740	18.6	23.3	29.3	12.5	10.0	7.9	2.7	2.2	1.8	4.1	3.7	3.6	23.5	23.3	23.5
IDFC First (IDFBAN)	22	29	Buy	10,221	-5.7	1	2	NA	NA	9.3	0.7	0.7	0.7	-1.6	0.3	0.6	-15.9	3.4	7.0

Source: Company, ICICI Direct Research

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