

AXIS Bank

Refer to important disclosures at the end of this report

RoE improvement story faces Covid-19-led disruption; downgrade to Hold

CMP: Rs 455
as of (April 28, 2020)

TP: Rs 520 (▼)
12 months

Rating: HOLD (▼)

Upside: 14.2 %

- Despite healthy NIM and lower NPAs qoq, Axis reported a loss of Rs13.9bn due to higher opex and LLP, including Rs35bn toward Covid-19 (>RBI norms) and Rs30bn to improve its PCR to 69%. Axis' contingent provision pool is now healthy at Rs59.8bn (~1% of loans).
- Nearly 10-12% of borrowers in numbers/25% in value (Rs1.4trn) availed the moratorium till now, including large corporates. Factoring in lower growth, continued higher corporate NPA formation and expected acceleration in retail/SME stress due to the Covid-19 impact, we build higher LLP at 310/180bps and thus, cut earnings by 35%/7% for FY21/FY22E.
- Axis entered into JV arrangement to hold a 30% stake (existing 1%) in Max Life Insurance at favorable valuations being its sole banca-partner, in line with its long-standing stance to participate in value-added insurance manufacturing apart from the distribution business.
- We believe that Covid-19-led disruptions would dislocate Axis' guided RoE improvement trajectory (7%/12% over FY21/FY22E). Thus, we cut our TP to Rs520 (valuing core bank at 1.4x FY22ABV + subs value of Rs22) and downgrade to Hold.

Retail, a key growth driver, should see moderation: Overall credit growth was healthy at 15% yoy/4% QoQ, led by strong growth in the retail book (24% yoy). However, accelerated growth in the unsecured pool, LAF and VF is little concerning in current times. The bank has been trimming SME pool (down 6% yoy) for a year now, given higher concerns in the supply chain finance business. Factoring in the impact of Covid-19-related disruptions on credit growth, we trim our growth estimate further to 10%/14% in FY21/FY22E. Reported NIM was largely stable at 3.55% due to strong loan yields (partly benefiting from interest recognition) and higher interest from the reverse repo with the RBI.

Building higher credit reserves to absorb incoming asset quality shock: Headline asset quality improved further in Q4, with the GNPA ratio at 4.9% due to moderate slippages at Rs39.2bn, but adjusted for moratorium, slippages would have been higher at Rs45bn and GNPA ratio at 5%. Despite heavy slippages from BB & Below corporate stress pool, it inched up qoq to Rs110bn (1.7% of loans, including NFB on NPAs at 2.2% of loans). As per management, nearly 10-12% borrowers in numbers/25% in value (Rs1.4trn) have availed the moratorium till now, a trend which should be seen in other banks. The bank made Rs35bn Covid-19-related provisions, including Rs11.2bn on overdue loans benefiting from standstill classification @ 10% vs. RBI required norms of 5%, thereby cushioning Q1 profits and balance towards unidentified stress. The bank now carries higher specific PCR at 69% (3.5% of loans) vs. 59% a quarter ago on existing stock of NPAs and additional contingent provisions to the tune of Rs59.8bn (~1% of loans) to battle the incoming asset quality storm.

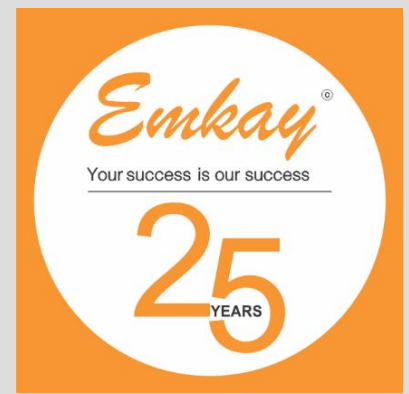
Outlook and valuations: Factoring in lower growth, continued higher corporate NPA formation and expected acceleration in retail/SME stress due to Covid-19's impact, we build higher LLP at 310/180bps and thus, cut earnings by 35%/7% for FY21/FY22E. Accordingly, we cut our TP to Rs520 (valuing core bank at 1.4x FY22ABV + subs value of Rs22) and lower the rating to Hold. Key risks to our call include higher-than-expected NPAs and prolonged management transition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Net income	295,848	348,385	407,427	453,334	493,377
Net profit	2,757	46,766	16,272	59,597	121,361
EPS (Rs)	1.1	18.2	6.0	21.1	43.0
ABV (Rs)	222.1	242.3	301.0	306.8	346.6
RoA (%)	0.0	0.6	0.2	0.6	1.2
RoE (%)	0.5	7.2	2.2	6.8	12.6
PE (x)	409.9	25.0	75.5	21.6	10.6
P/ABV	2.0	1.8	1.4	1.4	1.3

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(35)/(7)
Target Price change (%)	(10.3)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	21.1	43.0
Consensus	39.5	53.1
Mean Consensus TP (12M)	Rs 585	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	2,821
52 Week H/L	828 / 285
M Cap (Rs bn/USD bn)	1,285 / 16.87
Daily Avg Volume (nos.)	24,670,330
Daily Avg Turnover (US\$ mn)	149.9

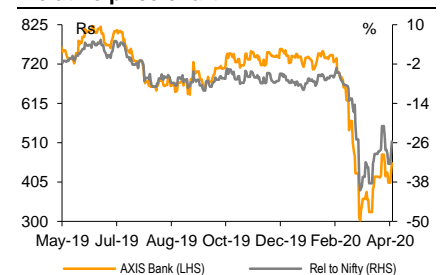
Shareholding Pattern Mar '20

Promoters	15.7%
FIIIs	44.6%
DIIIs	24.5%
Public and Others	15.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	27	(38)	(36)	(40)
Rel. to Nifty	17	(21)	(21)	(25)

Relative price chart



Source: Bloomberg

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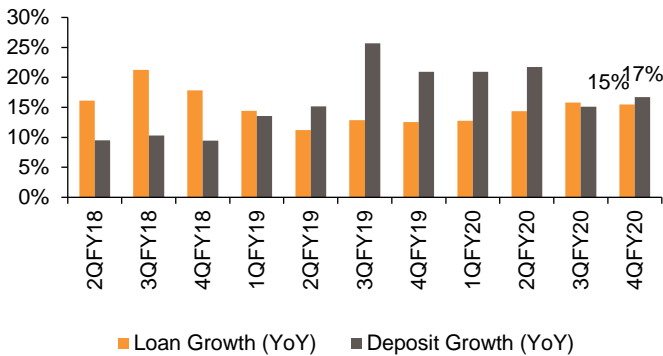
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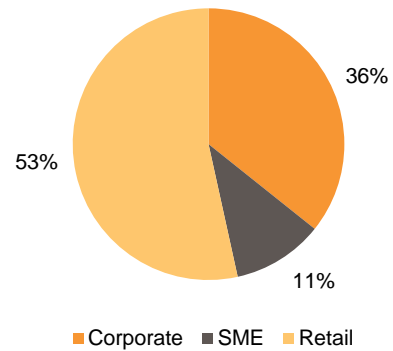
Story in Charts

Exhibit 1: Loan growth remains healthy led by retail, while flight to safety from small private banks benefitted deposit growth



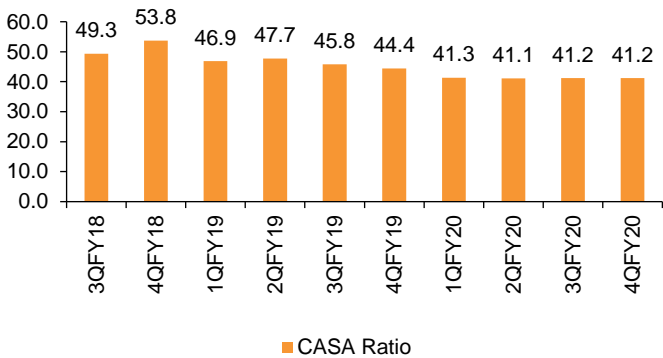
Source: Company, Emkay Research

Exhibit 2: Retail continues to dominate as bank cuts SME and corporate growth



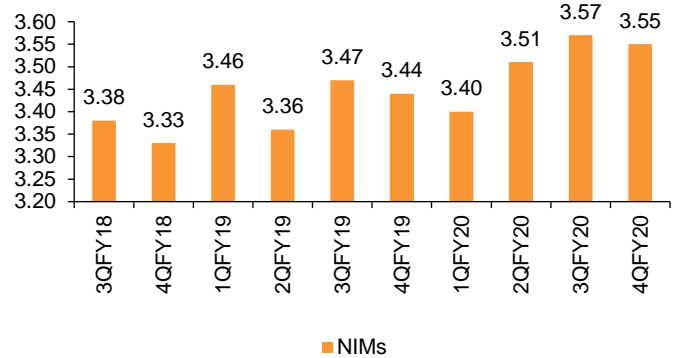
Source: Company, Emkay Research

Exhibit 3: CASA remains steady



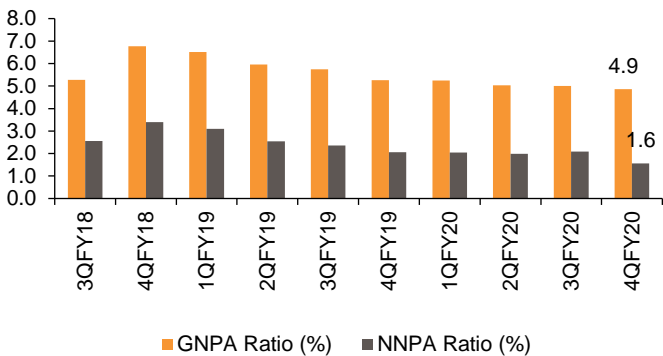
Source: Company, Emkay Research

Exhibit 4: NIM largely stable due to strong loan yields



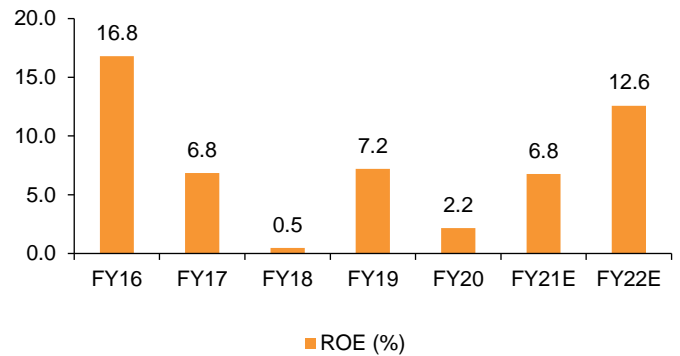
Source: Company, Emkay Research

Exhibit 5: GNPA/ NNPA ratio moderates qoq due to lower slippages, partly benefiting due to moratorium



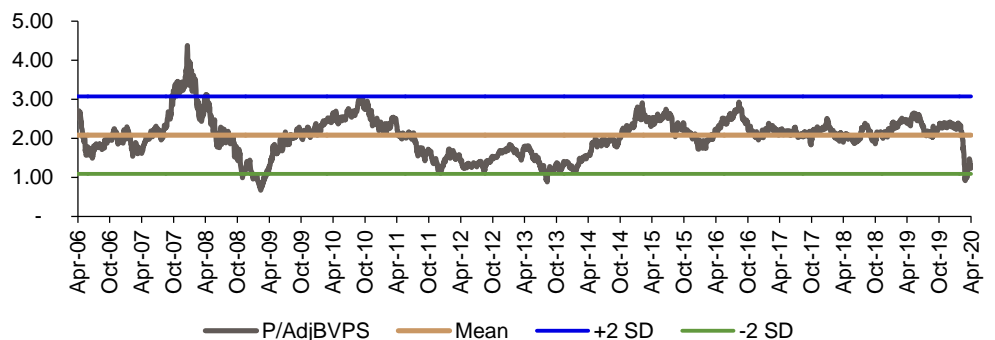
Source: Company, Emkay Research

Exhibit 6: Covid-19-led disruption to delay bank's RoE target of >15%



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at 1.3x- 1 year forward ABV adjusting for subsidiaries valuation



Source: Company, Emkay Research

Exhibit 8: Actual vs Estimates- Q4FY20

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	107,932	103,765	104,336	4%	3%	Healthy NIM led to a beat
PPOP	58,511	60,215	58,285	-3%	0%	Higher opex led to a miss
PAT	-13,878	19,338	14,782	-172%	-194%	Higher LLP led to a miss

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs (mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	147,980	152,550	154,378	157,083	162,341	10	3	626,351	663,884	6
Interest Exp	90,924	94,113	93,360	92,553	94,264	4	2	374,289	381,945	2
Net Interest Income	57,056	58,437	61,018	64,530	68,077	19	5	252,062	281,939	12
Global NIMs (reported)	3.44	3.40	3.51	3.57	3.55	11bps	-2bps	3.27	3.33	6bps
Non-interest Income	35,263	38,688	38,958	37,866	39,855	13	5	155,366	171,396	10
Operating Expenses	42,175	38,197	40,460	44,969	49,421	17	10	173,046	185,741	7
Pre Provisioning Profit	50,144	58,928	59,516	57,427	58,511	17	2	234,381	267,594	14
Provision & Contingencies	27,114	38,146	35,184	34,709	77,300	185	123	185,339	187,950	1
PBT	23,030	20,782	24,332	22,718	-18,789	-182	-183	49,042	79,643	62
Income Tax Expense (Gain)	7,979	7,081	25,453	5,148	-4,911	-162	-195	32,770	20,046	-39
Net Profit/(Loss)	15,051	13,701	-1,121	17,570	-13,878	-192	-179	16,272	59,597	266
Gross NPA (%)	5.26	5.25	5.03	5.00	4.86	-40bps	-14bps	5.10	5.35	25bps
Net NPA (%)	2.06	2.04	1.99	2.09	1.56	-50bps	-53bps	1.64	1.67	3bps
Deposits (Rs in bn)	5,485	5,407	5,840	5,917	6,401	17	8	6,401	7,055	10
Net Advances (Rs in bn)	4,948	4,973	5,216	5,501	5,714	15	4	5,714	6,279	10

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E Mar (Rs mn)	FY21E			FY22E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net income	442,111	453,334	2.5%	491,554	493,377	0.4%
PPOP	255,239	267,594	4.8%	277,166	285,331	2.9%
PAT	91,572	59,597	-34.9%	130,148	121,361	-6.8%
EPS (Rs)	32.5	21.1	-35.0%	46.2	43.0	-6.8%
BV (Rs)	333.8	322.2	-3.5%	373.4	361.2	-3.3%

Source: Company, Emkay Research

We cut our earnings estimates for FY21/FY22E by 35/7% factoring in lower growth, continued higher NPA formation and higher LLP.

Exhibit 11: Key Assumptions

	FY20	FY21E	FY22E
Loan Growth %	15.5	9.9	14.4
Deposit Growth %	16.7	10.2	14.3
NIM %	3.3	3.3	3.3
GNPA %	5.1	5.4	4.9
Credit Cost %	3.2	3.1	1.8

Source: Company, Emkay Research

Exhibit 12: Key Ratios and Trends

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Loans (Rs mn)	4,396,503	4,410,745	4,561,213	4,751,049	4,947,980	4,972,760	5,215,937	5,501,377	5,714,242
growth YoY %	17.8	14.4	11.2	12.9	12.5	12.7	14.4	15.8	15.5
Composition %									
- Corporate	39.7	39.1	38.2	38.0	37.1	35.7	35.9	35.8	35.7
- SME/BB	13.4	12.9	13.2	13.1	13.3	12.4	11.8	11.2	10.8
- Retail	47.0	48.0	48.6	48.9	49.7	51.9	52.4	53.0	53.4
Liability Profile %									
Deposit (Rs mn)	4,536,227	4,470,793	4,796,796	5,140,921	5,484,713	5,406,777	5,839,585	5,916,755	6,401,049
growth YoY %	9.5	13.5	15.2	25.7	20.9	20.9	21.7	15.1	16.7
CASA	53.8	46.9	47.7	45.8	44.4	41.3	41.1	41.2	41.2
CA	21.1	15.3	16.7	16.4	16.3	13.2	13.6	13.2	14.1
SA	32.7	31.6	31.0	29.4	28.1	28.2	27.6	27.9	27.1
NIM %	3.3	3.5	3.4	3.5	3.4	3.4	3.5	3.6	3.6
NIM %- Domestic	3.6	3.7	3.6	3.7	3.6	3.6	3.6	3.7	3.7
Asset Quality (Rs mn)									
GNPA %	7.5	7.1	6.5	6.2	5.8	5.7	5.4	5.3	5.1
NNPA %	3.4	3.1	2.5	2.4	2.1	2.0	2.0	2.1	1.6
PCR % - Specific	51.6	54.4	58.9	60.4	62.1	62.5	61.7	59.6	69.0
Slippages %	17.73	4.50	2.71	3.56	2.74	4.35	4.37	5.23	3.17
Capital Adequacy									
CAR %	16.6	16.6	16.5	15.8	15.8	16.1	18.2	18.2	17.5
Tier I %	13.0	13.1	13.0	12.5	12.5	12.9	15.0	15.0	14.5
ROE Decomposition % (on total assets)									
NII	3.3	3.5	3.4	3.6	3.5	3.4	3.5	3.7	3.8
Other Income (Ex Treasury)	1.8	1.9	1.7	2.3	1.9	1.8	1.8	1.9	2.1
Opex	2.7	2.5	2.5	2.6	2.6	2.2	2.3	2.6	2.8
PPOP	2.6	2.9	2.7	3.5	3.0	3.4	3.4	3.3	3.3
PBT	(2.4)	0.7	0.8	1.6	1.4	1.2	1.4	1.3	(1.0)
Tax	(0.9)	0.2	0.2	0.5	0.5	0.4	1.5	0.3	(0.3)
ROA	(1.3)	0.4	0.4	0.9	0.8	0.7	(0.1)	0.9	(0.6)
Leverage (x)	10.4	10.8	11.0	11.3	11.7	11.4	10.2	9.6	10.1
ROE	(13.6)	4.4	4.9	10.2	9.0	7.9	(0.6)	8.3	(6.5)

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	186,177	217,082	252,062	281,939	306,094
Other income	109,671	131,303	155,366	171,396	187,282
Fee income	77,299	88,537	97,390	103,234	115,622
Net income	295,848	348,385	407,427	453,334	493,377
Operating expenses	139,903	158,334	173,046	185,741	208,045
Pre provision profit	155,945	190,051	234,381	267,594	285,331
PPP excl treasury	142,693	182,470	210,181	244,604	263,491
Provisions	154,729	120,310	185,339	187,950	123,149
Profit before tax	1,216	69,741	49,042	79,643	162,183
Tax	(1,541)	22,975	32,770	20,046	40,821
Tax rate	(127)	33	67	25	25
Profit after tax	2,757	46,766	16,272	59,597	121,361

Balance Sheet

Y/E Year End (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity	5,133	5,143	5,643	5,643	5,643
Reserves	629,320	658,605	843,835	903,432	1,013,507
Net worth	634,453	663,748	849,478	909,075	1,019,150
Deposits	4,536,227	5,484,713	6,401,049	7,054,903	8,063,931
Borrowings	1,268,111	1,262,708	1,201,239	1,081,115	1,027,059
Total liabilities	6,913,296	8,009,965	9,151,648	9,767,080	10,892,097
Cash and bank	354,811	350,990	849,592	977,031	1,123,586
Investments	1,538,761	1,749,693	1,567,343	1,843,532	2,038,640
Loans	4,396,503	4,947,980	5,714,242	6,279,287	7,183,457
Others	503,766	599,880	854,252	842,031	827,252
Total assets	6,913,296	8,009,965	9,151,648	9,767,080	10,892,097

Key Ratios (%)

Y/E Year End	FY18	FY19	FY20	FY21E	FY22E
NIM	3.2	3.2	3.3	3.3	3.3
Non-ll/avg assets	1.7	1.8	1.8	1.8	1.8
Fee income/avg assets	1.2	1.2	1.1	1.1	1.1
Opex/avg assets	2.2	2.1	2.0	2.0	2.0
Provisions/avg assets	2.4	1.6	2.2	2.0	1.2
PBT/avg assets	0.0	0.9	0.6	0.8	1.6
Tax/avg assets	0.0	0.3	0.4	0.2	0.4
RoA	0.0	0.6	0.2	0.6	1.2
RoAE	0.5	7.2	2.2	6.8	12.6
GNPA (%)	6.8	5.3	5.1	5.4	4.9
NNPA (%)	3.6	2.2	1.6	1.7	1.5

Per Share Data (Rs)	FY18	FY19	FY20	FY21E	FY22E
EPS	1.1	18.2	6.0	21.1	43.0
BVPS	255.7	258.4	315.0	322.2	361.2
ABVPS	222.1	242.3	301.0	306.8	346.6
DPS	0.0	1.0	0.0	0.0	4.0

Valuations (x)	FY18	FY19	FY20	FY21E	FY22E
PER	409.9	25.0	75.5	21.6	10.6
P/BV	2.1	1.9	1.5	1.5	1.3
P/ABV	2.0	1.8	1.4	1.4	1.3
P/PPOP	7.1	5.9	5.2	4.6	4.3
Dividend Yield (%)	0.0	0.2	0.0	0.0	0.9

Source: Company, Emkay Research

Growth (%)	FY18	FY19	FY20	FY21E	FY22E
NII	2.9	16.6	16.1	11.9	8.6
PPOP	(11.3)	21.9	23.3	14.2	6.6
PAT	(92.5)	1,596.4	(65.2)	266.3	103.6
Loans	17.8	12.5	15.5	9.9	14.4

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	57,056	58,437	61,018	64,530	68,077
NIM(%)	3.4	3.4	3.5	3.6	3.6
PPOP	50,144	58,928	59,516	57,427	58,511
PAT	15,051	13,701	(1,121)	17,570	(13,878)
EPS (Rs)	5.85	5.23	(0.40)	6.23	(4.92)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Sep-19	Dec-19	Mar-20
Promoters	17.6	16.2	16.2	15.7	15.7
FII	47.0	47.1	46.4	47.2	44.6
DII	17.6	22.2	22.9	22.6	24.5
Public and Others	17.8	14.5	14.5	14.5	15.3

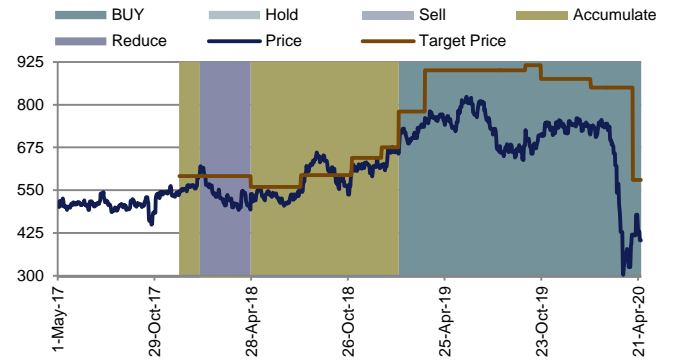
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
9-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama
25-Apr-19	741	900	12m	Buy	Anand Dama
20-Mar-19	756	900	12m	Buy	Anand Dama
19-Mar-19	761	900	12m	Buy	Anand Dama
29-Jan-19	661	780	12m	Buy	Anand Dama
28-Dec-18	625	675	12m	Accumulate	Anand Dama
2-Nov-18	611	645	12m	Accumulate	Jignesh Shial
30-Jul-18	570	594	12m	Accumulate	Jignesh Shial
21-May-18	527	560	12m	Accumulate	Ravikant Bhat
27-Apr-18	539	560	12m	Accumulate	Ravikant Bhat
22-Jan-18	612	591	12m	Reduce	Ravikant Bhat
14-Dec-17	541	591	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.40	20.40	0.0%	0	100.00
Axis Bank	1.98	2.07	5%	9	10.17
AU Small Finance Bank	0.06	0.00	-100%	-6	0.00
Bandhan Bank	0.12	0.22	77%	9	1.06
Bank of Baroda	0.12	0.00	-100%	-12	0.00
Canara Bank	0.03	0.00	-100%	-3	0.00
City Union Bank	0.18	0.24	33%	6	1.19
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.18	0%	0	0.88
HDFC Bank	8.00	8.22	3%	22	40.29
ICICI Bank	4.53	5.00	10%	47	24.52
Indian Bank	0.01	0.00	-100%	-1	0.00
IndusInd Bank	0.50	0.50	0%	0	2.43
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.12	2.43	-22%	-70	11.89
Punjab National Bank	0.07	0.00	-100%	-7	0.00
RBL Bank	0.09	0.07	-29%	-3	0.33
State Bank of India	1.38	1.48	7%	10	7.24
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.02	0.00	-100%	-2	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

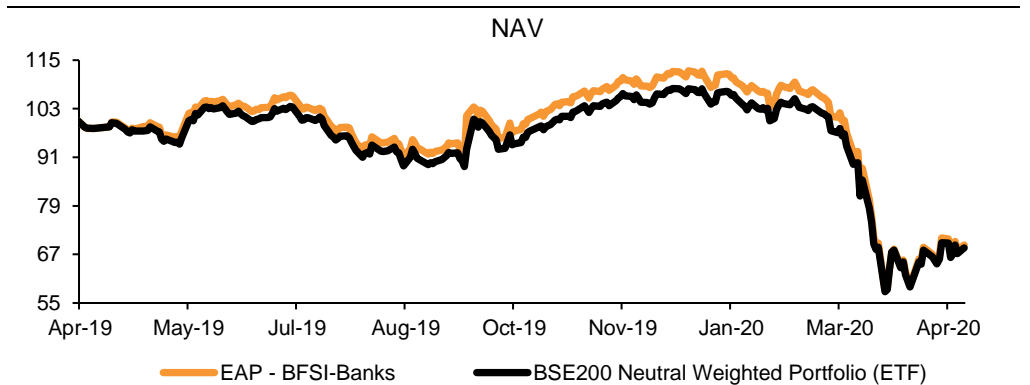
Sector portfolio NAV

	Base					Latest
	01-Apr-19	26-Jul-19	29-Oct-19	27-Jan-20	27-Mar-20	27-Apr-20
EAP - BFSI-Banks	100.0	98.4	104.1	107.4	68.3	69.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	96.2	100.1	103.0	68.0	68.6

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Apr 2020 03:58:53 (SGT)
 Dissemination Date: 29 Apr 2020 03:59:53 (SGT)

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