Sector	Banking
Recommendation	BUY
Upside	45%

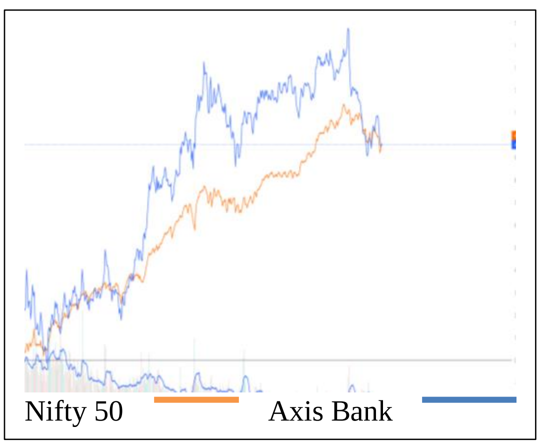
Stock Data	
Sensex	56319
52 Week h/l (₹)	867/568
Market cap (`Cr)	205,300
BSE code	532215
NSE code	AXISBANK
FV (₹)	2.0
Div. yield (%)	0.0%

Shareholding Pattern

	Mar-21	Jun-21	Sep-21
FII+DII	74.70	76.76	76.70
Promoter	13.58	11.69	11.64
Public	11.72	11.55	11.66

Source: www.bseindia.com

Share Price Data



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21st December, 2021

Axis Bank | CMP: ₹665-675 | Target: ₹970

Profile

Axis Bank is the third-largest private bank in India with a ~5.7% market share in loans as of FY21. The bank has a wide distribution reach, comprising 4,954 branches and 11,333 ATMs as of March 2021. It has built an impressive deposit franchise over the past ten years, with a ~45% CASA ratio. Its well-diversified loan book of Rs6.2tn, as of March 2021, is spread across retail, SME, and mid and large corporates. It retains a strong market position in corporate lending due to its capability to intermediate through banking channels and debt capital market services.

Investment Rationale

Increase in loan disbursements: Corporate loan Disbursements were up 24% QoQ, flat YoY. Mid-corporate segment grew 32% YoY / 10% QoQ. The QoQ decline in corporate loans was attributed to deleveraging by corporates, certain prepayments and corporates accessing sources of funds other than bank loans. Capex cycle has bottomed out and a pick-up could be postponed by 6-12 months. Festive demand had been strong, so working capital utilisation (which has so far been weal) should improve going forward. Retail disbursements grew 54% YoY and 54% QoQ. Home loan disbursements were up 86% YoY and 54% QoQ. SBB disbursements were up 103% YoY / 72% QoQ. AXSB has become more comfortable in growing its unsecured retail book off-late. Disbursements in the Personal loan segment were up 72% YoY and 21% QoQ. Credit card spends were up 54% YoY and 34% QoQ, and are trending above pre-COVID levels. The bank intends to grow unsecured retail loans faster over the next few years.

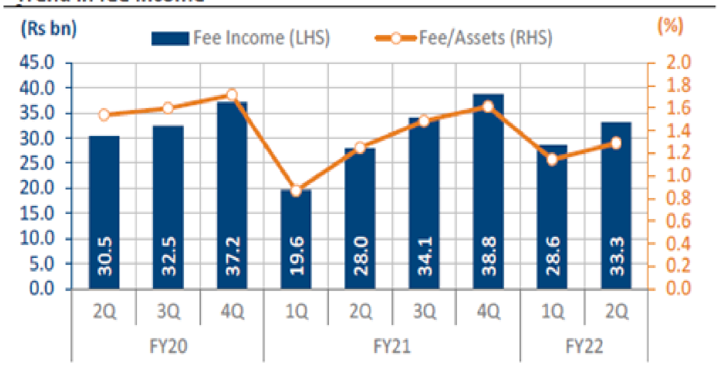
Margins: Management hopes to achieve a structural improvement in NIM going forward, owing to i) improvement in mix of loans versus investments on the assets side, ii) higher share of low-cost deposits and iii) reduction in RIDF bonds (which have negative spread) as incremental allocations have stopped as the bank is PSL compliant. The bank had excess SLR of ~856bn.

Asset quality Restructuring: AXSB's restructured book stood at Rs44.6bn or 0.72% of loans. AXSB has a PCR of ~24% on the restructured book, including 100% PCR for unsecured retail loans. Restructuring is unlikely to exceed current levels (in terms of % of loans) going forward. Of the total loans restructured, ~93% are secured. LTV in the restructured retail book stood at ~40-70%. Restructuring by segment: i) corporate at 0.68%, ii) retail at 0.80%; SME at 0.02%. Non-fund-based exposure linked to this book is Rs10.02bn

Improvement in collection efficiency: For 2QFY22, retail collection efficiency stood at 98.8% in Sep-2021, better than pre-COVID levels. Cheque bounce trends have remained slightly higher than pre-COVID levels.

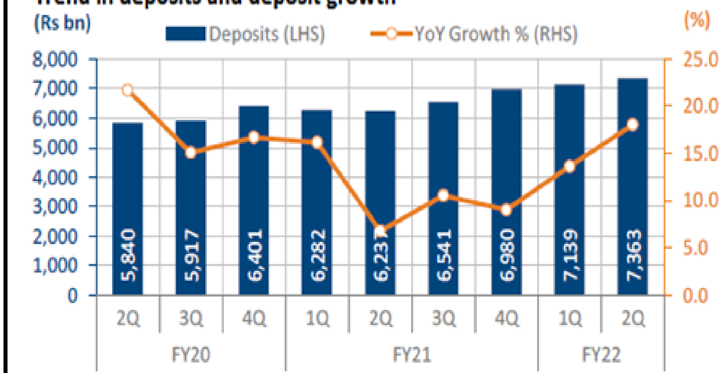
Slippages are expected to reduce: Of the total gross slippage in the quarter, ~28% was upgraded in the same quarter and another 23% was on account of linked accounts, which remained standard. Of corporate gross slippage, 79% was from the BB & below book. Slippage in the retail and CBG segments declined 23 and 46% QoQ respectively. Net slippage in the quarter was largely from the retail segment

Trend in fee income



Source: Company, IIFL Research; Note: Fee income = Non-interest income – (trading gains + income from recoveries + dividend income)

Trend in deposits and deposit growth



Source: Company, IIFL Research

with near nil net slippage from the wholesale and SME segments. Retail net slippage was Rs6.97bn (total net slippage - Rs7.07bn). Slippages are expected to moderate in 2HFY22.

New Covid wave: Lockdowns related to new wave of covid due to increase in new omicron variant cases could have an impact on the asset quality of the company.

Outlook & Valuation:

Strong liability franchise with highly granular share of retail deposits (~83%) is the key strength of the bank. Bank is effectively capitalizing its vast customer base of ~27mn to increase granular retail and SME loans and grow fee income. We expect AXSB's operating expenses to remain elevated in the near term, like other large private banks, to invest in tech and franchise to capture emerging growth opportunities. Asset quality is stabilizing and lower credit cost should provide support to earnings. Bank is sitting with strong CET1 of ~15.8% which should provide dilution free growth in ensuing years. Asset quality surprised positively with sharp fall in net slippages (Rs7.1bn) and limited restructuring (0.72%). Operating expenses increased sharply (13.4% miss) led by strong 24% QoQ growth in other operating expenses. Bank continues to maintain COVID provisions on balance sheet and with improving economic outlook credit cost can surprise positively. Thus, we recommend a BUY to the stock with a long-term target of ₹970.

Financial Summary

Consolidated (INR in bn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Net Interest Income	252.1	292.4	321.0	370.1	431.0
Total Asset growth (%)	14.3	8.8	11.9	11.9	13.8
Net Interest margin (%)	3.5	3.7	3.5	3.6	3.7
PAT	16.3	65.9	125.0	172.4	207.0
ROE (%)	2.2	7.1	11.7	14.4	15.3
P/B (x)	2.8	2.5	2.3	2.0	1.8
Cost to income ratio (%)	42.5	44.3	47.9	46.8	45.5
Total prov charges/avg loans (%)	3.5	2.4	1.2	0.9	0.9

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