

Pick of the week



Axis Bank Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 444

Target Price

₹ 600

Potential Upside

35.13%

Investment Argument

- The Bank reported a 19% yoy decline in 1QFY21 earnings due to higher provision for bad loans. Impact on revenue growth was higher given the lower activity level. Net NPLs (Non-performing loans) are at a four-year low 1.2% qoq in 1QFY21.
- Loan growth was 13% yoy while NII (Net interest Income) grew at 20% & NIMs (Net Interest Margins) declined ~0.15% qoq largely on higher liquidity in 1QFY21.
- We see a gradual shift in discussion by investors towards collections as a better benchmark to understand impairments.
- We expect loan growth of 13.6% along with NII growth of 14.2% in FY22E. NIM to remain stable at ~3% by FY22E as we see marginally better pricing. We expect gross NPLs & Net NPLs to decline 4.2% & 1.2%, respectively in FY22E.
- Axis Bank is well positioned given its lower exposure in the SME and self-employed segment. It is quite likely that Axis Bank would emerge stronger relative to its peers.
- We are valuing the bank at 1.9x book and ~15x March 2022E EPS for RoEs (Return on equities) of ~12%. Near-term outlook is hazy for all banks, we believe a healthy asset mix, superior customer profile, liability strength and capital comfort will allow Axis Bank to ride this challenging period.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 21st July, 2020, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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