

Axis Bank

Strong operating performance; new set of stressed loan disclosed

Particulars (₹ cr)	Q1FY20	Q4FY19	% chg (qoq)	Q1FY19	% chg (yoy)
NII	5,844	5,706	2	5,167	13
Pre-prov. profit	5,893	5,014	18	4,372	35
PAT	1,370	1,505	(9)	701	95

Source: Company, Angel Research

For Q1FY2020, Axis Bank reported PAT of ₹1,370cr, which is lower than our estimates owing to higher provision, however the positives were other income and pre-provision profit surged by 35% yoy. Bank disappointed on asset quality front due to (1) higher slippages, (2) addition to BB & below (₹2,242cr), (3) exposure to new 8 stressed groups revealed.

Provision, slippages surge; New set of potential stressed asset disclosed: Provisions during the quarter increased by 41%/14% qoq/yoy primarily owing to higher slippages and additional provision (land held as non banking asset and non fund based outstanding in NPA/ weak asset). Key disappointment was new list of potential stressed loan in 8 stressed corporate groups. Total exposure to above corporate was ₹12,200cr of which ₹7,000cr was through advances, ₹2,200cr through investment in bonds and non-fund based exposure worth of ₹3,000cr (Exhibit 4). Out of this, exposure worth ₹6,700cr is not part of BB & below book and NPA. However, bank has taken additional contingent provision worth ₹2,358cr over last few quarters. Overall stress asset (BB & Below+SR+NFB) went up by 140bps qoq to 3.94%.

Jump in other income, contained Opex aids pre-provision profit: During the quarter, other income jumped by 32% yoy led by treasury gain worth ₹832cr, and 26% jump in core fee income supported by healthy growth (28% yoy) in retail fees. Opex grew at 3% yoy aided by rationalisation of outsourced services, digital initiatives and lower promotion spends. Management expects Opex to remain contained for FY2020.

Retail loans drive momentum; NIM improved: During Q1FY2020, the bank's advances grew by 13% yoy, led by retail, up 22% yoy. However, overseas book de-grew 34% yoy. NIMs improved by 11bps yoy (adjusted for one-offs) to 3.6%. Management guided NIM for FY2020 in the range on 3.5-3.8%. Deposit grew at healthy rate of 21% yoy; however, CASA grew 7% yoy while declined 8% sequentially. CASA ratio plunged by 555bps/304bps yoy/qoq to 41%, however other banks are also witnessing decline in CASA ratio.

Capital Adequacy Ratio: Bank's total CAR stands at 16.06% of which 11.68% is CET-1; 45bps of capital was infused through conversion of warrants. During the quarter, 31bps CET-1 was absorbed by 2 RBI regulatory changes.

Outlook & Valuation: Axis Bank currently trades at 2x its FY2021E price to book value (after adjusting value of subsidiaries). We expect the stock to get re-rated owing to (1) new leadership, (2) limited stressed loan pool, and (3) improvement in return ratios (ROA/ROE – 1.22%/14.2% by FY2021E). We recommend Buy on the stock with a Target Price of ₹850.

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	18,093	18,618	21,708	24,849	29,274
% chg	7	3	17	14	18
Net profit	3,679	276	4,677	8,273	11,940
% chg	(55)	(93)	1,596	77	44
NIM (%)	3.4	3.1	3.2	3.2	3.3
EPS (₹)	14	1	18	32	46
P/E (x)	57	763	45	25	18
P/ABV (x)	3.9	3.7	3.3	2.8	2.4
RoA (%)	0.6	0.0	0.6	1.0	1.2
RoE (%)	7	0.5	7	11	14

Source: Company, Valuation done on closing price of 31/7/2019

Please refer to important disclosures at the end of this report

BUY

CMP	₹674
Target Price	₹850

Investment Period 12 Months

Stock Info

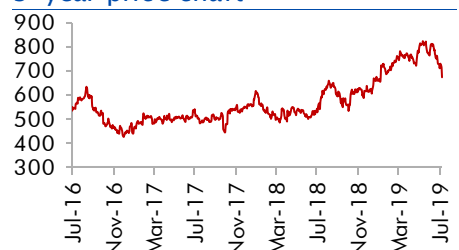
Sector	Banking
Market Cap (₹ cr)	1,76,679
Beta	1.1
52 Week High / Low	827/543
Avg. Daily Volume	2,71,058
Face Value (₹)	2
BSE Sensex	37,481
Nifty	11,118
Reuters Code	AXBK.BO
Bloomberg Code	AXSB IN

Shareholding Pattern (%)

Promoters	17.6
MF / Banks / Indian Fls	17.6
FII / NRIs / OCBs	52.1
Indian Public / Others	10.1

Abs. (%)	3m	1yr	3yr
Sensex	(2.1)	(0.1)	33.9
Axis Bank	(9.2)	23.8	22.7

3-year price chart



Source: Company, Angel Research

Jaikishan Parmar

Research Analyst

022 – 39357600 Ext: 6810

Jaikishan.parmar@angelbroking.com

Exhibit 1 : Quarterly Performance

Particulars (₹ cr)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% chg (qoq)	% chg (yoy)
Interest Earned	11,722	11,771	12,777	13,281	14,130	14,798	15,255	3	19
on Advances / Bills	8,768	8,753	9,612	9,955	10,628	11,127	11,461	3	19
on investments	2,559	2,574	2,682	2,802	2,894	2,971	3,119	5	16
on bal with RBI & others	81	108	125	162	183	224	192	(14)	54
on others	314	336	358	363	424	476	483	1	35
Interest Expended	6,990	7,041	7,610	8,049	8,526	9,092	9,411	4	24
Net Interest Income	4,732	4,730	5,167	5,232	5,604	5,706	5,844	2	13
Other Income	2,593	2,789	2,925	2,678	4,001	3,526	3,869	10	32
Operating income	7,325	7,519	8,092	7,910	9,604	9,232	9,712	5	20
Operating Expenses	3,471	3,847	3,720	3,816	4,080	4,217	3,820	(9)	3
Employee expenses	1,063	1,079	1,228	1,175	1,203	1,142	1,307	14	6
Other Opex	2,408	2,768	2,492	2,642	2,877	3,075	2,513	(18)	1
Pre.Prov Profit	3,854	3,672	4,372	4,094	5,525	5,014	5,893	18	35
Provisions & Contingencies	2,811	7,180	3,338	2,927	3,055	2,711	3,815	41	14
PBT	1,043	(3,507)	1,034	1,167	2,470	2,303	2,078	(10)	101
Provision for Taxes	316	(1,319)	333	377	789	798	708	(11)	112
Tax rate	30	38	32	32	32	35	0		
PAT	726	(2,189)	701	790	1,681	1,505	1,370	(9)	95

Balance sheet

Advance (₹ cr)	4,20,923	4,39,650	4,41,074	4,56,121	4,75,105	4,94,798	4,97,276	1	13
Deposit (₹ cr)	4,08,967	4,53,623	4,47,079	4,79,680	5,14,092	5,48,471	5,40,678	(1)	21
Credit-to-Deposit Ratio (%)	103	97	99	95	92	90	92	175.9bp	(668.4)bp
CA (₹ cr)	70,492	95,650	68,278	80,128	84,172	89,265	71,211	(20)	4
SA (₹ cr)	1,31,219	1,48,202	1,41,359	1,48,742	1,51,380	1,54,129	1,52,263	(1)	8
CASA deposits (₹ cr)	2,01,711	2,43,852	2,09,637	2,28,870	2,35,552	2,43,394	2,23,474	(8)	7
CASA %	49	54	47	48	46	44	41.3	(304.5)bp	(555.8)bp
CAR (%)	18	15	15	15	15	15	16.1	149bp	71bp
Tier 1 CAR (%)	14	12	12	12	12	11	12.9	163bp	104bp

Profitability Ratios (%)

Yield Advance	8.44	8.14	8.73	8.88	9.13	9.18	9.24	6.4bp	51.2bp
COF REPO	5.08	5.11	5.23	5.34	5.44	5.69	5.70	1bp	47bp
Reported NIM - Domestic	3.60	3.59	3.50	3.59	3.61	3.61	3.56	(5)bp	6bp
Cost-to-income ratio	0.47	0.51	0.46	0.48	0.42	0.46	0.39	(6.4)bp	(6.6)bp

Asset quality

Gross NPAs (₹ cr)	25,001	34,249	32,662	30,938	30,855	29,789	29,405	(1)	(10)
Gross NPAs (%)	5.28	6.77	6.52	5.96	5.75	5.26	5.25	(1)bp	(127)bp
Net NPAs (₹ cr)	11,769	16,592	14,902	12,716	12,233	11,276	11,037	(2)	(26)
Net NPAs (%)	2.56	3.40	3.09	2.54	2.36	2.06	2.04	(2)bp	(105)bp
PCR (%)	52	50	53	57	59	61	61	30.6bp	853.5bp
Slippage ratio (%)	1.1	3.8	1.0	0.6	0.8	0.6	1.0	35.6bp	(1.8)bp
Credit Cost on Adv (%)	0.7	1.6	0.8	0.6	0.6	0.5	0.8	21.9bp	1bp

Source: Company

Exhibit 2: Advance led by retail segment

Particular (₹ cr)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% chg (qoq)	% chg (yoy)
Retail	2,11,648	2,21,710	2,32,397	2,45,812	2,58,205	5	22
Home Loan	84,659	86,467	90,635	93,409	98,118	5	16
Rural Lending	29,631	28,822	32,536	34,414	30,985	(10)	5
Auto Loan	23,281	24,388	25,564	27,039	30,985	15	33
PL	21,165	24,388	25,564	29,497	30,985	5	46
LAP	16,932	19,954	18,592	22,123	20,656	(7)	22
CC	8,466	8,868	11,620	12,291	12,910	5	52
SBB	6,349	6,651	6,972	7,374	10,328	40	63
Other	21,165	22,171	20,916	19,665	23,238	18	10
Corporate Banking	1,72,443	1,74,149	1,80,469	1,83,402	1,77,455	(3)	3
Term Loan	1,21,948	1,19,520	1,24,698	1,21,122	1,19,379	(1)	(2)
WC	50,495	54,629	55,771	62,279	58,076	(7)	15
SME	56,983	60,262	62,238	65,584	61,616	(6)	8
Term Loan	12,348	12,496	12,846	13,475	12,757	(5)	3
WC	44,635	47,766	49,392	52,109	48,859	(6)	9
Total	4,41,074	4,56,121	4,75,104	4,94,798	4,97,276	1	13

Source: Company

Exhibit 3: GNPA Movement; Slippages surged

Particular (₹ cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
GNPA Opening	21,280	22,031	27,402	25,001	34,249	32,662	30,938	30,855	29,790
Fresh Slippage	3,519	8,936	4,428	16,536	4,337	2,777	3,746	3,012	4,798
Slippage	0.9%	2.2%	1.1%	3.8%	1.0%	0.6%	0.8%	0.6%	1.0%
Slippage Annul	3.7%	8.7%	4.2%	15.0%	3.9%	2.4%	3.2%	2.4%	3.9%
Upgrade & Recovery	306	1,048	4,008	3,401	2,917	2,186	1,622	2,376	2,177
Write off	2,462	2,517	2,821	3,887	3,007	2,315	2,207	1,701	3,005
Closing GNPA	22,031	27,402	25,001	34,249	32,662	30,938	30,855	29,790	29,406
Prov	12,265	13,350	13,232	17,657	17,760	18,222	18,622	18,513	18,367
NPA	9,766	14,052	11,769	16,592	14,902	12,716	12,233	11,277	11,039
Provision	2,342	3,140	2,811	7,180	3,338	2,927	3,055	2,711	3,815
CC	0.6%	0.8%	0.7%	1.6%	0.8%	0.6%	0.6%	0.5%	0.8%
CC Ann	2.4%	3.1%	2.7%	6.5%	3.0%	2.6%	2.6%	2.2%	3.1%

Source: Company, Angel Research

Exhibit 4: Non-NPL stress

Particular (₹ cr)	Q1FY20
BB & Below rated loans as on 1QFY20	7,504
Non-Fund based stress pool (NFB to BB & Below & NPLs)	2,500
Security Receipt	2,940
Total of existing stress (1)	12,944
New list (After removing overlap)	
New loan addition (Exposure 7,000cr and 3,900cr considered in NPA & BB & Below)	3,100
New Non-Fund based addition (Actual 3,000cr and 1,000cr considered in NPA)	2,000
New Investment addition (Exposure 2,200cr and NPA/MTM taken 200cr/400cr)	2,000
Total of new list (2)	7,100
Total stress on loans (1)+(2)	20,044
Provisions on non-NPL stress	2,358
Total stress loans	17,686
Total stress loans (%)	3.56

Source: Company

Exhibit 5: SOTP

Sum of the parts	Stake in Company%	Valuation Methodology	Value/Share ₹
Core Business	100.0	2.5x FY21E ABV	826.6
Axis Capital Ltd	100	15x FY21E PAT	9.8
Axis MF	75	20x FY21E PAT	3.7
Axis Fin	100	1.5x FY21E Book Value	10.5
Axis Sec	100	15x FY21E PAT	5.2
holding value post 20% disc			23.4
Sum of Parts			850

Source: Company, Angel Research, Valuation done on closing price of 31/7/2019

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	18,093	18,618	21,708	24,849	29,274
- YoY Growth (%)	7	3	17	14	18
Other Income	11,691	10,967	13,130	15,180	17,409
- YoY Growth (%)	25	(6)	20	16	15
Operating Income	29,784	29,585	34,839	40,029	46,684
- YoY Growth (%)	14	(1)	18	15	17
Operating Expenses	12,200	13,990	15,833	17,566	20,304
- YoY Growth (%)	21	15	13	11	16
Pre - Provision Profit	17,585	15,594	19,005	22,463	26,380
- YoY Growth (%)	9	(11)	22	18	17
Prov. & Cont.	12,117	15,473	12,031	9,926	8,289
- YoY Growth (%)	227	28	(22)	(17)	(16)
Profit Before Tax	5,468	122	6,974	12,537	18,091
- YoY Growth (%)	-56	(98)	5,637	80	44
Prov. for Taxation	1,788	(154)	2,297	4,264	6,151
- as a % of PBT	33	-	33	34	34
PAT	3,679	276	4,677	8,273	11,940
- YoY Growth (%)	(55)	(93)	1,596	77	44

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Equity	479	513	513	524	524
Reserve & Surplus	55,284	62,932	66,676	77,785	89,128
Net worth	55,763	63,445	67,190	78,309	89,652
Deposits	4,14,379	4,53,623	5,48,471	6,36,227	7,50,748
- Growth (%)	16	9	21	16	18
Borrowings	1,05,031	1,48,016	1,52,776	1,74,164	1,98,547
Other Liab. & Prov.	26,387	26,373	28,733	13,379	10,398
Total Liabilities	6,01,559	6,91,458	7,97,169	9,02,079	10,49,345
Cash Balances	30,858	35,481	35,099	45,641	46,349
Bank Balances	19,398	7,974	32,630	13,119	15,386
Investments	1,28,793	1,53,876	1,74,969	2,00,132	2,28,648
Advances	3,73,069	4,39,650	4,94,798	5,73,966	6,77,279
- Growth (%)	10	18	13	16	18
Fixed Assets	3,747	3,972	4,827	5,599	6,607
Other Assets	45,693	50,505	54,847	63,623	75,075
Total Assets	6,01,559	6,91,458	7,97,169	9,02,079	10,49,345
- Growth (%)	11	15	15	13	16

Key Ratio

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability ratios (%)					
NIMs	3.43	3.13	3.16	3.16	3.25
Cost to Income Ratio	41	47	45	44	43
RoA	0.6	0.0	0.6	1.0	1.2
RoE	7	0	7	11	14
B/S ratios (%)					
CASA Ratio	51.4	53.8	44.4	44.4	44.4
Credit/Deposit Ratio	90	97	90	90	90
Asset Quality (%)					
Gross NPAs	5.04	6.77	5.0	4.0	3.8
Net NPAs	2.11	3.40	2.3	1.6	1.5
Credit Cost	3.2	3.5	2.4	1.7	1.2
Provision Coverage	0.58	0.50	0.54	0.60	0.61
Per Share Data (₹)					
EPS	14	1	18	32	46
ABVPS (70% cover.)	204	218	241	290	333
DPS	5	5	5	5	5
Valuation Ratios					
PER (x)	48	641	38	21	15
P/ABVPS (x)	3.3	3.1	2.8	2.3	2.0
Dividend Yield (%)	0.8	0.8	0.7	0.7	0.7
DuPont Analysis					
NII	3.2	2.9	2.9	2.9	3.0
- Prov	2.1	2.4	1.6	1.2	0.8
Adj NII	1.0	0.5	1.3	1.8	2.2
Other Income					
Total Income	3.1	2.2	3.1	3.5	3.9
Opex	2.1	2.2	2.1	2.1	2.1
PBT	1.0	0.0	0.9	1.5	1.9
TAX	0.3	-0.0	0.3	0.5	0.6
RoA	0.6	0.0	0.63	0.97	1.22
Leverage	10.5	10.8	11.4	11.7	11.6
RoE	6.8	0.5	7.2	11.4	14.2

Valuation done on closing price of 31/7/2019

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	Axis Bank
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
--	-----------------------	--	---