

CMP: Rs 669

Rating: HOLD

Target Price: Rs 712

Stock Info

INDEX	
BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	524
Mkt Cap (Rs Cr)	176,679
52w H/L (Rs)	826/ 534
Avg Weekly Vol (BSE+NSE)	13,26,350

Shareholding Pattern

	%
(As on June, 2019)	
Promoters	18.1
FII	48.2
DII	23.3
Public & Others	10.4

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Axis Bank	-12.1	-6.7	22.6
SENSEX	-4.0	3.4	-0.3

Source: ACE Equity, Arihant Research

Axis Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Q1FY20 Highlights:

- Axis Bank reported strong operating profit growth of 35% YoY on the back of strong trading income and lower operating expenses but due to 14% YoY/41% QoQ rise in provisioning led to a lower PAT of Rs 1370 cr.
- NII for the quarter grew by 13% YoY/2.4% QoQ to Rs 5844 cr while other income grew by 32% YoY to Rs 3869 cr. Other income growth was mainly driven by healthy treasury gain and strong fee income growth. Cost-income ratio declined by ~640bps QoQ primarily, due to pullback in non-employee cost.
- Total Advances grew by 13% YoY to Rs 4.98 tn, driven by the retail loan book. Retail loans continued to deliver strong growth on the back of growth in unsecured lending. During the quarter retail loan growth was 22% YoY. Share of retail loans to total loans increased from 48% to 52% YoY. Corporate loan growth was muted at 3% YoY.
- Deposit growth was robust at 21% YoY led by term deposits. CASA ratio was moderated during the quarter to 41% from 47% YoY.
- Asset quality of the bank remained stable with GNPA at 5.3% and NNPA at 2% QoQ. However, Fresh slippages were higher at Rs 4798 cr vs. Rs 3012 cr QoQ. Increase in slippages was on account of corporate slippages of Rs 2128 cr. 79% of net corporate slippages were from the BB and below rated book. Annualised credit cost inched up to 2.06% (up 80 bps QoQ) driven by an increase in provisioning.

Valuation and View

Operating performance of the bank remained strong but asset quality continued showing some sign of stress. However, Banks prudent provisioning and disclosures outside the 'BB & below' pool led to increase in credit cost. Management has maintained its RoE guidance of 18% over the medium term. Any material improvement in return ratios will be a lay to rollout in stock performance. We cut our FY20 PAT estimates by 11% and expect RoE to be 14% for FY21E, factoring in higher provisioning and increase in credit cost. We have valued the stock at the P/ABV of 2.5x to its FY21E and arrived at a fair value of Rs 712 per share giving an upside of 7%. **At CMP of Rs 669 the stock is available at its FY21E P/ABV of 2.3(x). We have a 'Hold' rating on the stock.**

Financial Snapshot

Particulars				
(RS. Cr)	FY18	FY19	FY20E	FY21E
Net Interest Income	18618	21708	23926	27676
Operating Income	29585	34839	39505	45804
Profit After Tax	276	4677	7960	11958
ROE	0.4	7.0	10.7	13.8
ABV	182.7	215.4	243.8	284.9
P / EPS (x)	622.2	36.8	22.0	14.7
P / ABV (x)	3.7	3.1	2.7	2.3

Q1FY20 Concall Highlights:

- Domestic loan growth remains soft with weakness seen in multiple indicators like Auto sales are weak, demand for capital goods remain slack. Management expects loan growth of 5-7% over the industry growth rate.
- Bank expects NIMs to settle 3.5-3.7% over the medium term while for FY20 they are expecting it will remain flat with an upward bias.
- The bank stated exposure to 8 stressed group from the Infra finance, Power, Telecom, HFC, travel & tourism, commodity, plastic and media sector in which loan outstanding is Rs 7000 cr, out of which Rs 1000 is NPA, Rs 2900 cr is in BB & below book and remaining two third is with one operating media account.
- Investments outstanding to above 8 stressed group is Rs 2200 cr out of which Rs 200 is NPA and out of the remaining Rs 400 cr is MTM provision.
- Out of the total gross slippages, corporate slippages were Rs 2128 cr. Bank had two chunky accounts from power and shipping sector totalling worth Rs 850 cr which were downgraded to NPA. Out of the net slippages of Rs 2621 cr, Rs 1318 cr from corporate, Rs 414 cr from SME and Rs 889 cr is from retail and Agri.
- Bank has downgraded Rs 2242 cr into BB book during the quarter, largely from group that have shown new sign of stress in recent month. There was also Rs 1007 cr reduction in this account.
- Bank has started making specific provision against its non funded exposure which are NPA or showing stress under BB & below book. Bank holds additional provision of Rs 2358 cr towards various contingencies.

Q1FY20 Financial Snapshot

Particulars	Q1FY20	Q1FY19	YoY	Q4 FY19	QoQ
Interest Earned	15255	12777	19.4%	14798	3.1%
Interest Expended	9411	7610	23.7%	9092	3.5%
NII	5844	5167	13.1%	5706	2.4%
Other Income	3869	2925	32.3%	3526	9.7%
Operating Expenses	3820	3720	2.7%	4217	-9.4%
Operating Profit before Prov.& Cont.	5893	4372	34.8%	5014	17.5%
Provisions and Contingencies	3815	3338	14.3%	2711	40.7%
PBT	2078	1034	101.0%	2303	-9.8%
Provision for tax	708	333		798	
Net Profit (after Extraordinary Items)	1370	701	95.5%	1505	-9.0%
Return on Assets (Annualized)	0.7	0.4		0.8	
Earnings Per Share	5.3	2.7		5.9	
Cost-income ratio	39.3	46.0		45.7	
Advances	497276	441074	12.7%	494798	0.5%
Deposits	540678	447079	20.9%	548471	-1.4%
C-D Ratio (%)	92.0	98.7		90.2	
Amount of Gross NPA	29405	32662	-10%	29789	-1%
Amount of Net NPA	11037	14902	-26%	11276	-2%
% of Gross NPAs	5.3	6.5		5.3	
% of Net NPAs	2.0	3.1		2.1	
Provisions Coverage%	78	69		77	
NIM %	3.40	3.46		3.43	
CASA%	41.0	47.0		44.0	

Income Statement			
(Rs Cr)	FY19	FY20E	FY21E
Interest Earned	54986	63465	74155
Interest Expended	33278	39540	46479
Net Interest Income	21708	23926	27676
Other Income	13130	15580	18128
Fee Income	10127	11849	13863
Treasury Income	971	1386	1524
Operating Income	34839	39505	45804
Operating Expenses	15833	17733	19861
Employee Expenses	4747	5317	5955
Profit before provision & tax	19005	21772	25942
Provisions and Contingencies	12031	9891	8095
Profit Before Tax	6974	11881	17847
Provision for tax	2297	3921	5890
Exp. Items	0	0	0
Profit After Tax	4677	7960	11958

Balance Sheet			
(Rs Cr)	FY19	FY20E	FY21E
Sources of funds			
Share Capital	514	524	524
Total Reserves	66162	74122	86080
Shareholder's Fund	66676	74646	86604
Deposits	548471	647196	763691
Borrowings	152776	168053	184859
Other Liabilities & provisions	33073	36380	40018
Total Liabilities	800997	926276	1075173
Application of Funds			
Cash & Bank	67205	73925	81318
Investments	174969	192466	211713
Advances	494798	583862	691876
Fixed Assets	4037	4590	5204
Other Assets	59988	71433	85062
Total Assets	800997	926276	1075173

Ratios %			
	FY19	FY20E	FY21E
Asset Quality			
Gross NPA	5.3	4.8	4.3
Net NPA	2.1	1.8	1.7
PCR	62.0	77.0	78.0
Growth			
Advances Growth	12.5	18.0	18.5
Deposit growth	20.9	16.0	17.5
Net Profit Growth	1596.4	70.2	50.2
Liquidity			
C-D Ratio	90.2	90.2	90.6
CASA	44.4	52.0	52.0
Capital Adequacy	16.6	16.6	16.6
Efficiency			
Cost Income Ratio	45.4	44.9	43.4
Operating Costs to Assets	2.0	1.9	1.8

Spread Analysis (%)			
	FY19	FY20E	FY21E
Spread Analysis			
Yield on Advances	8.4	8.5	8.5
Yield on Investments	6.5	6.0	6.0
Cost of Funds	4.7	4.9	4.9
Cost of Deposits	5.3	5.7	5.7
NIM	3.2	3.5	3.5
Interest Spread	3.6	3.7	3.6
Profitability			
ROE	7.0	10.7	13.8
Earnings Per Share (Rs)	18.2	30.4	45.6
Dividend Per Share (Rs)	0.0	5.0	5.0
Adjusted Book Value (Rs)	215	244	285
Valuation			
P / EPS (x)	36.8	22.0	14.7
P / ABV (x)	3.1	2.7	2.3

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880