

CMP: Rs 715

Rating: HOLD

Target Price: Rs 797

Stock Info

INDEX	
BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	564
Mkt Cap (Rs Cr)	201,515
52w H/L (Rs)	827/ 534
Avg Weekly Vol (BSE+NSE)	10,464,680

Shareholding Pattern

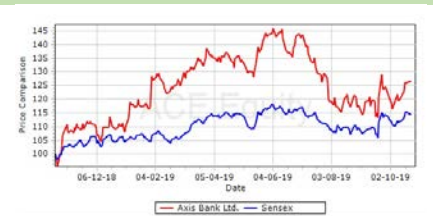
	%
(As on June, 2019)	
Promoters	16.6
FII	48.2
DII	22.7
Public & Others	12.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Axis Bank	-1.6	-5.1	27.0
SENSEX	2.8	1.3	15.4

Source: ACE Equity, Arihant Research

Axis Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Q2FY20 Highlights:

- Axis Bank reported earnings Excluding-one off tax impact was above our estimates. The bank has reported net loss of Rs 112 cr due to markdown of deferred tax assets (DTA). NII for the quarter grew by 17% YoY to Rs 6,102 cr vs. our estimate of Rs 6,027 cr supported by healthy growth in advances at 14% YoY. NIM improved by 11bps sequentially to 3.5% vs. 3.4%.
- The banks operating profit growth was robust at 45% YoY to Rs 5952 cr vs. our estimate of Rs 5293 cr, largely due to strong growth in other income and improvement in cost income ratio. Other income during the quarter grew by 46% YoY, driven by sharp jump in trading income at Rs 809 cr vs. Rs 136 cr. Core fee income grew by 11% YoY to Rs 2649 cr.
- Bank has recorded healthy loan book growth of 14% YoY, driven by retail credit growth of 23% YoY. Domestic loan growth remained strong at 19% YoY to Rs 4,83,958 cr. SME advances growth remained muted at 2% YoY. Corporate loan book grew by 7% YoY. Share of corporate loan in the total loan book stood at 36%.
- Deposit growth was robust at 22% YoY/8% QoQ led by higher share of term deposits. Within term deposits, retail term deposits grew sharply at 39% YoY. CASA ratio stood flat at 41% QoQ.
- Slippages continue to be elevated with gross slippages at Rs 4983 cr vs. Rs 4798 cr QoQ. However, 57% slippages were from the corporate portfolio, 97% of which came from BB & Below pool. Fund based BB & below rated pool declined to 1.1% vs 1.3% of total loans. Headline asset quality of the bank improved sequentially with GNPA/NNPA at 5%/2% vs. 5.3%/2% due to write-offs and recovery of loans.
- Managements prudent provisioning practices against stressed assets exposure provides comfort. The Bank holds Rs 2,600 cr of additional provisions for various contingencies. PCR ratio of the bank further improved to 79% vs. 78% QoQ.

Valuation and View

Axis Bank's Q2FY20 performance was fared well and it is mostly in line with our expectation. Though Slippages remained elevated during the quarter, most are from the early-identified groups. Hence, no negative surprise on Slippages front. Operating performance of the bank continued to be strong with healthy domestic loan growth. Improving operating metrics along with improvement in asset quality and strong capital position with CAR at 18.45% (Post QIP) makes us positive on the stock. In addition to this, improving liability franchise and rising NIM outlook of the bank would be positive aspect for further re-rating in the stock. We cut our FY20E PAT by 15% to factoring one-off tax impact and raised FY21E PAT by 12% with revised tax rate. We value the stock at the P/ABV of 3x to its FY21E BVPS and arrive at a fair value of Rs797 per share, having an upside of 12%. At CMP of Rs715 the stock is available at its FY21E P/ABV of 2.7(x). We maintain our 'Hold' rating on the stock.

Q2FY20 Concall Highlights:

- Given the improving liability mix and capital structure, management believe upward bias in NIM in H2FY20. NIM should be higher in FY20 as compared to FY19.
- Management is focusing to improve its CASA ratio.
- Linking of floating retail loans lead to volatility in margins, but there is not much changes is expected in interest rate cycle.
- On economy front, NBFCs and HFCs grappling with liquidity issue faced by certain promoters create significant uncertainties for the banking business.
- Recovery and resolution in stressed accounts has not seen any material improvement.
- In SME segment, there are some signs of stress seen in terms of delayed payments.
- Management said significant amount of slippages have happened from the 8 groups which were mentioned in Q1FY20. (The 8 stressed group were Infra finance, Power, Telecom, HFC, travel & tourism, commodity, plastic and media sector)
- Going forward, the banks focus areas will be strengthening balance sheet, maintaining margins, controlled OPEX and steady asset quality with decline in corporate stress book.

Q2FY20 Financial Snapshot

Particulars	Q2FY20	Q2FY19	YoY	Q1 FY20	QoQ
Interest Earned	15438	13281	16.2%	15255	1.2%
Interest Expended	9336	8049	16.0%	9411	-0.8%
NII	6102	5232	16.6%	5844	4.4%
Other Income	3896	2678	45.5%	3869	0.7%
Operating Expenses	4046	3816	6.0%	3820	5.9%
Operating Profit before Prov.& Cont.	5952	4094	45.4%	5893	1.0%
Provisions and Contingencies	3518	2927	20.2%	3815	-7.8%
PBT	2433	1167	108.6%	2078	17.1%
Provision for tax	2545	377		708	
Net Profit (after Extraordinary Items)	-112	790	NA	1370	NA
Cost-income ratio	40.5	48.2		39.3	
Advances	521594	456121	14.4%	497276	4.9%
Deposits	583958	479680	21.7%	540678	8.0%
C-D Ratio (%)	89.3	95.1		92.0	
Amount of Gross NPA	29071	30938	-6%	29405	-1%
Amount of Net NPA	11138	12716	-12%	11037	1%
% of Gross NPAs	5.0	6.0		5.3	
% of Net NPAs	2.0	2.5		2.0	
Provisions Coverage%	79	73		78	
NIM %	3.51	3.36		3.40	
CASA%	41.0	48.0		41.0	
Capital Adequacy Ratio Basel III	18.2%	16.5%		16.06%	
Tier I Basel III	15.3%	13.0%		12.90%	

Income Statement			
(Rs Cr)	FY19	FY20E	FY21E
Interest Earned	54986	63465	74155
Interest Expended	33278	39540	46397
Net Interest Income	21708	23926	27759
Other Income	13130	15580	18128
Fee Income	10127	11849	13863
Treasury Income	971	1386	1524
Operating Income	34839	39505	45886
Operating Expenses	15833	17733	19861
Employee Expenses	4747	5317	5955
Profit before provision & tax	19005	21772	26025
Provisions and Contingencies	12031	9891	8095
Profit Before Tax	6974	11881	17930
Provision for tax	2297	5132	4518
Exp. Items	0	0	0
Profit After Tax	4677	6749	13411

Balance Sheet			
(Rs Cr)	FY19	FY20E	FY21E
Sources of funds			
Share Capital	514	564	564
Total Reserves	66162	72911	86323
Shareholder's Fund	66676	73475	86886
Deposits	548471	647196	763691
Borrowings	152776	168053	183178
Other Liabilities & provisions	33073	36380	38199
Total Liabilities	800997	925105	1071956
Application of Funds			
Cash & Bank	67205	73925	81319
Investments	174969	192466	211713
Advances	494798	583862	691876
Fixed Assets	4037	4590	4865
Other Assets	59988	70262	82184
Total Assets	800997	925105	1071956

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	44.3	98.7
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	43.3
Operating Costs to Assets	2.0	1.9	1.9

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	9.2	15.4
Earnings Per Share (Rs)	18.2	23.9	47.6
Dividend Per Share (Rs)	0.0	5.0	5.0
Adjusted Book Value (Rs)	215	222	266
Valuation			
P / EPS (x)	39.3	29.9	15.0
P / ABV (x)	3.3	3.2	2.7

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Stock Rating Scale

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

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