

CMP: Rs 713

Rating: HOLD

Target Price: Rs 793

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)	200,982
52w H/L (Rs)	827/ 623
Avg Weekly Vol (BSE+NSE)	7,292,050

Shareholding Pattern

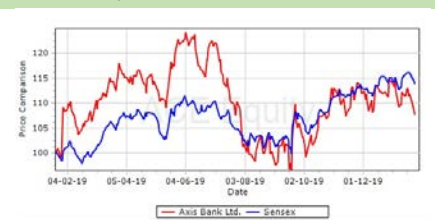
	%
(As on December, 2019)	
Promoters	16.1
FII	48.3
DII	23.2
Public & Others	12.4

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Axis Bank	0.0	-2.0	7.7
SENSEX	5.5	8.1	12.8

Source: ACE Equity, Arihant Research

Axis Bank v/s SENSEX



Source: ACE Equity, Arihant Research

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Axis Bank Q3FY20 earnings came in line with street as well as our expectations in terms of core banking performance as the NII increased by 5.8% QoQ / 15.2%. There was a miss on profitability due to elevated credit cost. The bank has maintained superior margins. Capital position of the bank continues to remain strong with CAR at 18.2%.

Q3FY20 Highlights:

- Axis Bank Q3FY20 earnings came slightly below our estimates as provisions increased on account of fresh slippages. The bank has reported net profit of Rs 1,757 cr.
- Operating profit for the quarter came in at Rs 5,743 cr, +4% YoY. Operating profit growth was healthy at 22% YoY (excluding the one-off large recovery in Q3FY19) as NII and retail fee income growth was +15% YoY and +20% YoY respectively. OPEX growth was remained steady. NII for the quarter grew by 15% YoY to Rs 6,453 cr vs. our estimate of Rs 6,290 cr. NIM continued to be on an upward trajectory standing at 3.6%, + 6bps QoQ.
- Bank has recorded strong domestic loan book growth of 18% YoY, driven by retail credit growth of 25% YoY. Corporate loan book grew by 9% YoY while SME loan book fell by 1% YoY. Overseas book of the bank declined by 7% YoY as a result of which overall advances growth came at 16% YoY to Rs 550,138 cr.
- Deposit growth was robust at 15% YoY/1% QoQ led by higher share of Term Deposit growth of 25% YoY. Within term deposits, retail term deposits grew sharply at 37% YoY. CASA ratio stood flat at 41% QoQ.
- Slippages continued to remain elevated with gross slippages at Rs 6,214 cr, of which corporate slippages were Rs 3891 cr (81% of which came from BB & below rated). BB & below rated pool further declined to 0.9% from 1.1% in Q3FY19 of loans (2.6% of corporate loans). GNPA/NNPA for the quarter stood at 5.0%/2.1% vs. 5.03%/2% QoQ. PCR fell to 78% from 79% QoQ. The Bank holds Rs 2,558 cr of additional provisions for various contingencies.

Valuation and View

In a midst of challenging environment and economic slowdown, Axis Bank recorded strong loan growth, led by retail credit business. Slippages remained elevated during the quarter as BB & below rated book formed the bulk of the corporate slippages. Operating performance of the bank was in-line with our estimates. With rising stress in the system and higher slippages, we believe near term prospect remain challenging for the bank on asset quality front. Hence, we increased the provisioning and lowered our PAT estimates. At CMP of Rs 713 the stock is available at its FY21E P/ABV of 2.9(x). We maintain our Hold rating on the stock assigning P/ABV of 3.2x to its FY21E BVPS to arrive at a fair value of Rs 793 per share, an upside of 11%.

(RS. Cr)	FY18	FY19	FY20E	FY21E
Net Interest Income	18618	21708	24509	28450
Operating Income	29585	34839	40111	46604
Profit After Tax	276	4677	4874	12336
ROE	0.4	7.0	6.8	14.7
ABV	182.7	215.4	211.7	247.8
P / EPS (x)	622.2	39.2	41.2	16.3
P / ABV (x)	3.7	3.3	3.4	2.9

Q3FY20 Concall Highlights

1. The management stated that the elevated slippages were in line with earlier guidance on asset quality of BB & below rated portfolio. The bank however still holds Rs 2,558 Cr of additional provisions for various contingencies, which are not yet included in the PCR.
2. The management also mentioned of their primary focus on strengthening its balance sheet with a very conservative approach towards asset classification.
3. The bank has opened 365 branches in the 9MFY20 and intends to open total of 550 for FY20 taking its branch network total to 4,415.
4. The bank has dedicated 400 technically skilled employees towards the digitization of the banking operations with the aim of targeting the retail customers.
5. On the retail fee income front which grew by 20% YoY and constituted 67% of the bank's total fee income, the bulk came from the fee income from credit cards business which grew by 26% YoY.
6. The bank's management provided a full year NIM guidance of 3.5-3.85% for FY20.

Q3FY20 Financial Snapshot

Particulars	Q3FY20	Q3FY19	YoY	Q2 FY20	QoQ
Interest Earned	15708	14130	11.2%	15438	1.8%
Interest Expended	9255	8526	8.6%	9336	-0.9%
NII	6453	5604	15.2%	6102	5.8%
Other Income	3787	4001	-5.4%	3896	-2.8%
Operating Expenses	4497	4080	10.2%	4046	11.1%
Operating Profit before Prov.& Cont.	5743	5525	3.9%	5952	-3.5%
Provisions and Contingencies	3471	3055	13.6%	3518	-1.3%
PBT	2272	2470	-8.0%	2433	-6.6%
Provision for tax	515	789		2545	
Net Profit (after Extraordinary Items)	1757	1681	4.5%	-112	NA
Return on Assets (Annualized)	0.9	0.9		-0.1	
Cost-income ratio	43.9	42.5		40.5	
Advances	550138	475105	15.8%	521594	5.5%
Deposits	591676	514092	15.1%	583958	1.3%
C-D Ratio (%)	93.0	92.4		89.3	
Amount of Gross NPA	30073	30855	-3%	29071	3%
Amount of Net NPA	12160	12233	-1%	11138	9%
% of Gross NPAs	5.00	5.8		5.03	
% of Net NPAs	2.1	2.4		2.0	
Provisions Coverage%	78	75		79	
NIM %	3.57	3.47		3.51	
CASA%	41.0	46.0		41.0	
Capital Adequacy Ratio Basel III	18.2%	15.8%		18.23%	
Tier I Basel III	15.0%	12.5%		15.25%	

Income Statement			
(Rs Cr)	FY19	FY20E	FY21E
Interest Earned	54986	64049	74847
Interest Expended	33278	39540	46397
Net Interest Income	21708	24509	28450
Other Income	13130	15601	18153
Fee Income	10127	11849	13863
Treasury Income	971	1386	1524
Operating Income	34839	40111	46604
Operating Expenses	15833	17733	19861
Employee Expenses	4747	5317	5955
Profit before provision & tax	19005	22377	26742
Provisions and Contingencies	12031	13312	10793
Profit Before Tax	6974	9065	15949
Provision for tax	2297	4191	3612
Exp. Items	0	0	0
Profit After Tax	4677	4874	12336

Balance Sheet			
(Rs Cr)	FY19	FY20E	FY21E
Sources of funds			
Share Capital	514	564	564
Total Reserves	66162	71036	83372
Shareholder's Fund	66676	71600	83936
Deposits	548471	647196	763691
Borrowings	152776	168053	183178
Other Liabilities & provisions	33073	36628	37885
Total Liabilities	800997	923478	1068691
Application of Funds			
Cash & Bank	67205	73925	81318
Investments	174969	192466	211713
Advances	494798	583862	691876
Fixed Assets	4037	4238	4450
Other Assets	59988	68986	79334
Total Assets	800997	923478	1068691

Ratios %			
	FY19	FY20E	FY21E
Asset Quality			
Gross NPA	5.3	5.2	4.9
Net NPA	2.1	2.0	2.0
PCR	62.0	76.0	78.0
Growth			
Advances Growth	12.5	18.0	18.5
Deposit growth	20.9	16.0	17.5
Net Profit Growth	1596.4	4.2	153.1
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	44.2	42.6
Operating Costs to Assets	2.0	1.9	1.9

Spread Analysis (%)			
	FY19	FY20E	FY21E
Spread Analysis			
Yield on Advances	8.4	8.6	8.6
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	3.8	3.7
Profitability			
ROE	7.0	6.8	14.7
Earnings Per Share (Rs)	18.2	17.3	43.8
Dividend Per Share (Rs)	0.0	5.0	5.0
Adjusted Book Value (Rs)	215	212	248
Valuation			
P / EPS (x)	39.2	41.2	16.3
P / ABV (x)	3.3	3.4	2.9

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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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