

CMP: Rs 741

Rating: HOLD

Target Price: Rs 811

Stock Info

INDEX	
BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	514
Mkt Cap (Rs Cr)	190,572
52w H/L (Rs)	788/ 479
Avg Weekly Vol (BSE+NSE)	5,942,230

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	18.7
FII	49.6
DII	21.2
Public & Others	10.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Axis Bank	11.0	32.3	48.6
SENSEX	7.5	15.0	12.3

Source: ACE Equity, Arihant Research

Axis Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Axis Bank reported healthy performance during Q4FY19. Profit for the quarter came in at Rs 1505 cr against a loss of Rs 2189 cr in Q4FY18, largely due to sharp fall in provisions. Advances for the quarter grew 12.5% YoY leading to robust NII growth of 21% on YoY basis to Rs 5706 cr. Retail loan growth was 19% YoY which forms 50% of the total advances. Core operating profit growth was robust at 36% YoY to Rs 5014 cr, led by growth in NII and other income (27% YoY), while opex moderated to +10% YoY from +18% earlier. Fee-income for the quarter grew by 23% and contributed 86% in other income. Adjusted for one-off recovery in Q3FY19, NIMs were flat on sequential basis at 3.4% and management expects this would be in the range of 3.5-3.8% with an upward bias in FY20E. Management re-iterated medium term strategy to achieve 18% ROE by reducing credit costs, improving business mix and cost-asset ratio below ~2% over the next three years. Axis Bank remains our top pick amongst private banks. Maintain Hold with revised target price of Rs 811, giving an upside potential of 10%.

Asset quality metrics improving continuously

Slippages trend continued to lower from its peak level. Slippages for the quarter came in at Rs 3012 cr, out of which corporate slippages stood at Rs 1369 cr. 72% of corporate slippage came from BB & below rated book. GNPA's/NNPA's improved by 49bps/30bps QoQ to 5.26%/2.06 respectively. Bank has taken conservative stance on provisioning front and made Rs 1300 cr additional provisioning towards non-NPL assets over and above the normal NPA provisioning.

Healthy loan growth, supported by retail assets

Domestic loan book of the bank grew 18% YoY supported by retail growth (+19% YoY) and domestic corporate book (17% YoY). However, overall loan growth moderated at 12.5% YoY largely due to overseas book which declined by 29%. Retail & SME form 63% of total loan. Deposit growth remained strong at 7% QoQ / 21% YoY led by a 45% growth in Term Deposits. Though the CASA ratio has come down to 44% from 46% QoQ, the retail deposits (CASA + retail TD) ratio was sustained around 81% supported by a strong growth in retail TDs. Bulk of the bank's deposits come from granular and retail sources. We expect a loan book and deposit growth CAGR of 18% and 19% respectively over FY19-21E.

Valuation and View

We believe Axis Bank is on a right path to achieve its journey and meaningful changes in top management will make Axis to improve efficiency. The bank is well positioned to deliver RoE of ~14% by FY21E. We have valued the stock at the P/ABV of 2.8x to its FY21E and arrived at a fair value of Rs 811 per share giving an upside of 10%. **At CMP of Rs 741 the stock is available at its FY 21E P/ABV of 2.6(x). We have a 'Hold' rating on the stock.**

Q4FY19 Concall Highlights:

- Management re-iterated their medium term execution strategy, to achieve 18% ROE over the next 3 years. ROE as on FY19 were at 8.19%.
- NIM for the quarter stood at 3.45% a marginal compression of 3bps QoQ. Management expect NIM to be stable at current level in FY20 or there will be marginal uptick.
- The bank's strategy on retail loans continue to be centred from existing customers. 83% of total retail assets originated from internal customers.
- Management stated that deposit growth is the key challenge in banking sector with that in mind bank has created a separate vertical for retail liability franchise.
- Domestic loan growth for the quarter grew by 18% yoy however its international book de-grew. Management targets to grow its book 5-6% ahead then industry growth rate.
- Slippages for the quarter moderated on QoQ basis. In corporate slippages, 72% slippages are from BB rated & below book. There was one account with outstanding of Rs. 335 cr in engineering and electronic sector.

Q4FY19 Financial Snapshot

Particulars	Q4FY19	Q4FY18	YoY	Q3 FY19	QoQ
Interest Earned	14798	11771	25.7%	14130	4.7%
Interest Expended	9092	7041	29.1%	8526	6.6%
NII	5706	4730	20.6%	5604	1.8%
Other Income	3526	2789	26.5%	4001	-11.9%
Operating Expenses	4217	3847	9.6%	4080	3.4%
Operating Profit before Prov.& Cont.	5014	3672	36.6%	5525	-9.2%
Provisions and Contingencies	2711	7180		3055	
PBT	2303	-3507	NA	2470	-6.8%
Provision for tax	798	-1319		789	
Net Profit (after Extraordinary Items)	1505	-2189	NA	1681	-10.5%
Earnings Per Share (in Rs.)	5.9	-8.5		6.5	
Cost-income ratio	45.7	51.2		42.5	
Advances	494798	439650	12.5%	475105	4.1%
Deposits	548471	453623	20.9%	514092	6.7%
C-D Ratio (%)	90.2	96.9		92.4	
Amount of Gross NPA	29789	34249	-13%	30855	-3%
Amount of Net NPA	11276	16592	-32%	12233	-8%
% of Gross NPAs	5.3	6.8		5.8	
% of Net NPAs	2.1	3.4		2.4	
Provisions Coverage%	77	65		75	
NIM %	3.43	3.33		3.47	
CASA%	44.0	54.0		46.0	
Capital Adequacy Ratio Basel III	16.71%	16.36%		15.81%	
Tier I Basel III	13.22%	12.33%		12.48%	

Income Statement			
(Rs Cr)	FY19	FY20E	FY21E
Interest Earned	54986	63645	74552
Interest Expended	33278	39712	46917
Net Interest Income	21708	23933	27635
Other Income	13130	15608	18190
Fee Income	10127	11849	13863
Treasury Income	971	1407	1572
Operating Income	34839	39541	45824
Operating Expenses	15833	17733	19861
Employee Expenses	4747	5317	5955
Profit before provision & tax	19005	21808	25963
Provisions and Contingencies	12031	8568	8284
Profit Before Tax	6974	13239	17679
Provision for tax	2297	4369	5834
Exp. Items	0	0	0
Profit After Tax	4677	8870	11845

Balance Sheet			
(Rs Cr)	FY19	FY20E	FY21E
Sources of funds			
Share Capital	514	514	514
Total Reserves	66162	75032	86877
Shareholder's Fund	66676	75547	87392
Deposits	548471	652681	776690
Borrowings	152776	166124	180808
Other Liabilities & provisions	33073	37977	43372
Total Liabilities	800997	932329	1088262
Application of Funds			
Cash & Bank	67205	76225	86215
Investments	174969	195466	218313
Advances	494798	583862	691876
Fixed Assets	4037	4344	4605
Other Assets	59988	72433	87253
Total Assets	800997	932329	1088262

Ratios %			
	FY19	FY20E	FY21E
Asset Quality			
Gross NPA	5.3	4.3	3.8
Net NPA	2.1	2.0	1.9
PCR	62.0	75.0	75.0
Growth			
Advances Growth	12.5	18.0	18.5
Deposit growth	20.9	16.0	17.5
Net Profit Growth	1596.4	89.7	33.5
Liquidity			
C-D Ratio	90.2	89.5	89.1
CASA	44.4	52.0	52.0
Capital Adequacy	16.6	16.6	16.6
Efficiency			
Cost Income Ratio	45.4	44.8	43.3
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	11.7	13.6
Earnings Per Share (Rs)	18.2	34.5	46.1
Dividend Per Share (Rs)	0.0	5.0	5.0
Adjusted Book Value (Rs)	215	245	288
Valuation			
P / EPS (x)	40.7	21.5	16.1
P / ABV (x)	3.4	3.0	2.6

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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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