

Slow Down in Slippages!

25th January, 2018

CMP: Rs. 607
Target Price: Rs. 669
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	532215
NSE Symbol	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
BSE Sensex	36,161
NSE Nifty	11,086

Market Info

Market Capital(Rs Cr)	1,57,348
Equity Capital(Rs Cr)	512
Avg. Trading Vol.	85,67,740
52 Wk High/ Low	627/447
Face Value	2

Shareholding Pattern (%) (Dec. 2017)

Promoters	28.04
Domestic Institutions	14.33
Foreign Institutions	48.06
Public & Others	9.57

Price Chart:



Axis Bank Ltd. reported major increase in Q3FY18 net profit of 25% YoY. The net profit stood at Rs 726 cr for the quarter ended December, 2017 vs. Rs 580 cr for the same quarter in the previous year on account of lower provisioning for bad loans. However, Operating profit increased 4.3% to Rs 11,722 cr for quarter under review vs. Rs.11,235 cr for the quarter ended September, 2017.

Net Interest Income and Net Interest Margin:

The Bank's Net Interest Income (NII) grew 9% YOY to Rs.4,732 crores during Q3FY18 from Rs.4,334 crores in Q3 FY17. Net interest margin for Q3FY18 stood at 3.4%.

Other Income:

Other income (comprising fee, trading profit and miscellaneous income) for Q3FY18 decreased by 24% YOY to Rs.2,593 crores as against Rs.3,400 crores during the same period last year. Fee income for Q3FY18 grew 24% YOY to Rs. 2,246 crores. The key driver of fee income growth was Retail Banking, which grew strongly 35% YOY and constituted 49% of the Bank's total fee income. Transaction Banking fees grew 23% YOY and constituted 28% of the total fee income of the Bank. Trading profits for the quarter stood at Rs. 200 crores.

Asset Quality:

The bank reported feeble asset quality. GNPA climbed to 5.28% from 5.22% a year earlier. NNPA rose to 2.6% from 2.2% YoY. Slippages for the quarter stood at Rs.4,428 cr vs. 8936 last quarter. Corporate slippages predominantly driven by low rated BB and below pool. The Bank has increased PCR by 600 bps to 66% during the quarter.

Other information:

The bank's retail advances grew by 23% YoY. The bank's capital adequacy ratio as per Basel-III norms stood at 18% of which Tier-1 stood at 14.13%. The bank added 104 branches in the Q3 FY18 and reduced 355 ATM's, taking the total to 3589 branches and 13977 ATM's.

Valuation:

We have valued the stock at the P/ABV of 2.9x to its FY19E and arrived at a fair value of Rs 669 per share. At CMP of Rs 607 the stock is available at its FY 19E P/ABV of 2.7(x). We have 'HOLD' rating on the stock.

SNAPSHOT

(RS. Cr)	2017	2018E	2019E
Net Interest Income	18043	19830	22277
Operating Income	29784	30719	35139
Profit After Tax	3679	4981	6260
ROE	7.2	8.0	9.1
P / EPS (x)	32.0	22.2	17.6
P / ABV (x)	2.5	2.9	2.7

Q3 FY18 Earnings Snapshot:

Quarterly P&L					
	Q3 FY18	Q3FY17	YoY	Q2 FY18	QoQ
Interest Earned	11722	11101	6%	11235	4%
Interest Expended	6990	6767	3%	6695	4%
NII	4732	4334	9%	4540	4%
Other Income	2593	3400	-24%	2586	0.3%
Operating Expenses	3471	3094	12%	3348	4%
Operating Profit before Prov.& Cont.	3854	4640	-17%	3777	2%
Provisions and Contingencies	2811	3796	-26%	3140	-10%
PBT	1043	844	23%	637	64%
Provision for tax	316	265	19%	205	55%
Net Profit (after Extrodinary Items)	726	580	25%	432	68%
Return on Assets	0.4	0.4	13%	0.3	63%
Earnings Per Share	3.0	2.4	24%	1.8	67%
Advances	420923	347175	21%	410171	3%
Deposits	437253	370790	18%	416431	5%
C-D Ratio	96.3	93.6	3%	98.5	-2%
Amount of Gross NPA	25001	20467	22%	27402	-9%
Amount of Net NPA	11769	8295	42%	14052	-16%
% of Gross NPAs	5.3	5.2	1%	5.9	-11%
% of Net NPAs	2.6	2.2	17%	3.1	-18%
Provisions Coverage%	66.0	64	3%	60	10%
NIM %	3.4	3.4	-1%	3.5	-2%
CASA%	49.0	48.0	2%	50.0	-2%
Capital Adeqacy Ratio Basel III	18.0	16.6	8%	16.3	10%
Tier I Basel III	14.1	13.0	9%	12.4	14%

Income Statement

(Rs Cr)	2017	2018E	2019E
Interest Earned	44542	47899	55827
Interest Expended	26499	28068	33550
Net Interest Income	18043	19830	22277
Other Income	11691	10889	12862
Fee Income	7474	8221	9290
Treasury Income	1443	1015	1618
Operating Income	29784	30719	35139
Operating Expenses	12200	12605	13856
Employee Expenses	4013	5298	5819
Profit before provision & tax	17585	18114	21284
Provisions and Contingencies	12117	10451	11653
Profit Before Tax	5468	7663	9631
Provision for tax	1788	2682	3371
Exp. Items	0	0	0
Profit After Tax	3679	4981	6260

Balance Sheet

(Rs Cr)	2017	2018E	2019E
Sources of funds			
Share Capital	479	513	513
Total Reserves	55284	63322	70678
Shareholder's Fund	55763	63835	71191
Deposits	414379	443735	507551
Borrowings	105031	117635	137632
Other Liabilities & provisions	26295	18736	20333
Total Liabilities	601468	643941	736707
Application of Funds			
Cash & Bank	50256	17637	9682
Investments	128793	139097	170537
Advances	373069	432923	497861
Fixed Assets	3747	4122	4451
Other Assets	45602	50162	54175
Total Assets	601468	643941	736707

Ratios %

	2017	2018E	2019E
Asset Quality			
Gross NPA	5.7	5.5	5.7
Net NPA	2.3	2.2	2.5
PCR	64.8	70.0	70.0
Growth			
Advances Growth	10.0	15.0	15.0
Deposit growth	16.0	7.1	14.4
Net Profit Growth	-59.3	35.4	25.7
Liquidity			
C-D Ratio	90.0	96.7	97.2
CASA	51.5	48.1	49.2
Capital Adequacy	14.4	17.3	16.7
Efficiency			
Cost Income Ratio	41.0	41.0	39.4
Operating Costs to Assets	2.0	2.0	1.9

	2017	2018E	2019E
Spread Analysis			
Yield on Advances	8.9	8.5	8.5
Yield on Investments	7.5	7.3	7.3
Cost of Funds	5.6	5.0	5.2
Cost of Deposits	5.0	5.2	5.1
NIM	3.4	3.5	3.5
Interest Spread	3.3	3.5	3.3
Profitability			
ROE	7.2	8.0	9.1
Earnings Per Share (Rs)	15.4	20.8	26.1
Dividend Per Share (Rs)	5.0	0.0	0.0
Adjusted Book Value (Rs)	197	222	235
Valuation			
P / EPS (x)	32.0	22.2	17.6
P / ABV (x)	2.5	2.9	2.7

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