

Axis Bank

Performance Highlights

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)
NII	4,553	4,162	9.4	3,799	19.8
Pre-prov. profit	4,399	3,985	10.4	4,013	9.6
PAT	2,154	2,175	(1.0)	2,181	(1.2)

Source: Company, Angel Research

Axis Bank has come out with a mixed set of numbers for 4QFY2016. The NII grew 19.8% yoy to ₹4,553cr, in line with our expectations. However, higher than expected provision led to a 1.2% decline in PAT to ₹2,154cr.

Advances growth remains healthy; During 4QFY2016, the bank reported an advance growth of 21.0% yoy, while deposits grew by 11% yoy. The retail book grew by 24% yoy and accounted for 41% of the advances as on March 31, 2016. For FY2017, the bank expects credit growth to be of around 18-20%.

CASA ratio came in at 47.3%, increasing by 409bp qoq and 255bp on a yoy basis. NIM jumped by 18bp qoq and stood at 3.97% while the cost of funds fell by 2bp qoq to 5.84%. The bank expects its NIM to remain above 3.6% for FY2017. The bank created contingency provision to the extent of ₹300cr during the quarter, thereby taking the outstanding contingency provision to ₹480cr.

Corporate lending watch list a concern, asset quality likely to be under pressure; Asset quality for the quarter remained stable with GNPA & NNPA ratios to 1.67% and 0.7% vs 1.68% & 0.75% qoq. Slippages came in at ₹1,474cr, whereas the bank transferred 1 account worth ₹170cr under 5/25 scheme and conducted strategic debt restructuring in 4 accounts worth ₹205cr. The bank had already recognized AQR accounts in 3QFY16. In a significant development the bank has come out with a disclosure where in it has mentioned ₹22,600 cr worth of loans from the corporate loan book are under stress and ~60% of the same can fall into NPAs over the next eight quarters. This will keep the provisions on a higher side over the next 2 years.

Outlook and valuation: Though the incremental slippages can remain high over the next two years, the disclosure by the bank gives better clarity on earnings going ahead. On a positive side, the core business of the bank continues to grow strong. With higher credit cost we don't expect FY17 to be a good year with sluggish earnings growth, but remain upbeat on FY18. The stock currently trades at 1.7x P/ABV FY2017E. **We maintain our Accumulate rating on the stock with a price target of ₹494.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	14,224	16,833	18,872	21,601
% chg	19.0	18.3	12.1	14.5
Net profit	7,358	8,224	8,441	10,380
% chg	18.3	11.8	2.6	23.0
NIM (%)	3.5	3.6	3.5	3.3
EPS (₹)	31.0	34.5	35.4	43.4
P/E (x)	13.2	13.6	13.3	10.8
P/ABV (x)	2.2	2.1	1.7	1.6
RoA (%)	1.7	1.7	1.5	1.5
RoE (%)	17.9	16.8	14.9	16.0

Source: Company, Angel Research; Note: CMP as of May 3, 2016

ACCUMULATE

CMP	₹470
Target Price	₹494

Investment Period	12 Months
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Stock Info

Sector	Banking
Market Cap (₹ cr)	111,986
Beta	1.4
52 Week High / Low	613/366
Avg. Daily Volume	12,803,997
Face Value (₹)	2
BSE Sensex	25,230
Nifty	7,747
Reuters Code	AXBK.BO
Bloomberg Code	AXSB@IN

Shareholding Pattern (%)

Promoters	29.7
MF / Banks / Indian Fls	15.7
FII / NRIs / OCBs	44.6
Indian Public / Others	10.0

Abs. (%)	3m	1yr	3yr
Sensex	4.2	(6.6)	28.9
Axis Bank	23.4	(17.3)	59.3

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance summary (Standalone)

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)	FY2016	FY2015	% chg
Interest earned	10,899	10,193	6.9	9,697	12.4	40,988	35,479	15.5
- on Advances / Bills	8,093	7,529	7.5	7,025	15.2	30,041	25,868	16.1
- on investments	2,421	2,293	5.6	2,530	(4.3)	9,378	9,117	2.9
- on balance with RBI & others	64	69	(7.2)	67	(4.8)	312	231	35.0
- on others	321	302	6.1	75	326.9	1,258	262	379.2
Interest Expended	6,346	6,031	5.2	5,898	7.6	24,155	21,254	13.6
Net Interest Income	4,553	4,162	9.4	3,799	19.8	16,833	14,224	18.3
Other income	2,694	2,338	15.2	2,687	0.2	10,866	12,732	(14.7)
Other income excl. treasury	2,694	2,000	34.7	2,412	11.7	9,619	11,597	(17.1)
- Fee Income	2,254	1,885	19.6	2,124	6.1	7,502	6,779	10.7
- Trading gains	95	338	(71.9)	275	(65.5)	1,247	1,135	9.9
- Others	440	115	282.7	288	52.6	623	451	38.0
Operating income	7,247	6,500	11.5	6,487	11.7	26,204	22,589	16.0
Operating expenses	2,848	2,515	13.3	2,474	15.1	10,101	9,204	9.7
- Employee expenses	908	830	9.4	799	13.7	3,376	3,115	8.4
- Other Opex	1,940	1,685	15.1	1,675	15.8	6,725	6,089	10.4
Pre-provision Profit	4,399	3,985	10.4	4,013	9.6	16,104	13,385	20.3
Provisions & Contingencies	1,168	713	64.0	710	64.6	3,710	2,329	59.3
PBT	3,230	3,272	(1.3)	3,303	(2.2)	12,394	11,057	12.1
Provision for Tax	1,076	1,097	(1.9)	1,122	(4.1)	4,170	3,699	12.7
PAT	2,154	2,175	(1.0)	2,181	(1.2)	8,224	7,358	11.8

Source: Company, Angel Research

Exhibit 2: 4QFY2016 performance analysis (Standalone)

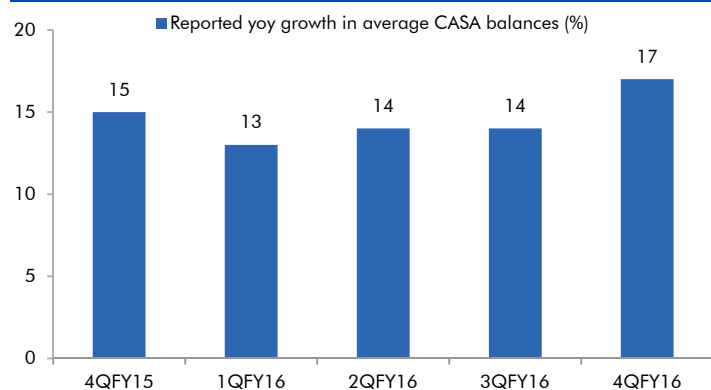
Particulars	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	3,38,774	3,15,367	7.4	2,81,083	20.5
Deposits (₹ cr)	3,57,968	3,38,343	5.8	3,22,442	11.0
Credit-to-Deposit Ratio (%)	94.6	93.2	143bp	87.2	746bp
Current deposits (₹ cr)	63,652	53,564	18.8	56,108	13.4
Saving deposits (₹ cr)	1,05,793	92,758	14.1	88,292	19.8
CASA deposits (₹ cr)	1,69,445	1,46,322	15.8	1,44,400	17.3
CASA ratio (%)	47.3	43.2	409bp	44.8	255bp
CAR (%)*	15.3	15.5	(18)bp	15.1	20bp
Tier 1 CAR (%)*	12.5	12.4	16bp	12.1	44bp
Profitability Ratios (%)					
Cost of funds	5.8	5.9	(2)bp	6.3	(42)bp
Reported NIM	4.0	3.8	18bp	3.8	16bp
Cost-to-income ratio	39.3	38.7	61bp	38.1	117bp
Asset quality					
Gross NPAs (₹ cr)	6,088	5,724	6.3	4,110	48.1
Gross NPAs (%)	1.7	1.7	(1)bp	1.3	33bp
Net NPAs (₹ cr)	2,522	2,514	0.3	1,317	91.5
Net NPAs (%)	0.7	0.8	(5)bp	0.4	26bp
Provision Coverage Ratio (%)	72.0	72.0	0bp	78.0	(600)bp
Slippage ratio (%)	2.1	3.0	(87)bp	1.1	103bp
Loan loss prov. to avg. assets (%)	0.5	0.5	(4)bp	0.4	14bp

Source: Company, Angel Research *Basel III excluding profits

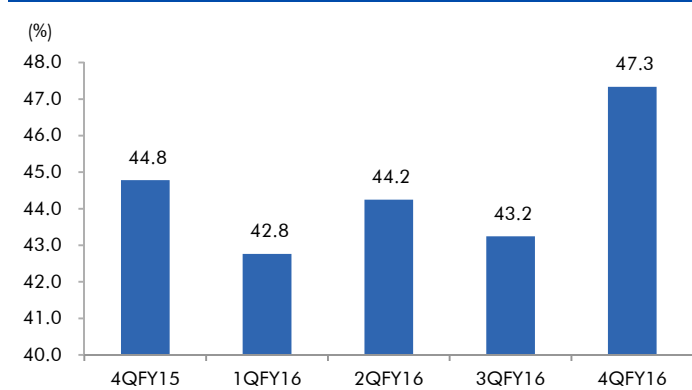
Advances growth remains healthy; NIM declines qoq

During 4QFY2016, the bank reported an advance growth of 21.0% yoy, while deposits grew by 11% yoy. The retail book grew by 24% yoy and accounted for 41% of the advances as on March 31, 2016. Overall, for the current financial year (FY2017), the bank expects credit growth to be of around 18-20%.

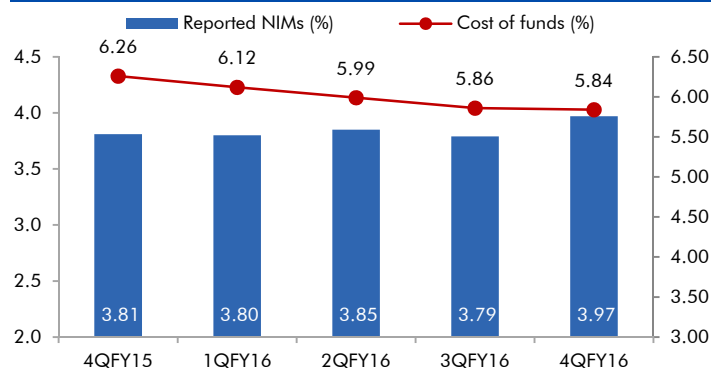
The CASA ratio came in at 47.3%, increasing by 409bp qoq and 255bp on a yoy basis. The NIM jumped by 18bp qoq and stood at 3.97% while the cost of funds fell by 2bp qoq to 5.84%. The bank created contingency provision to the extent of ₹300cr during the quarter, thereby taking the outstanding contingency provision to ₹480cr.

Exhibit 3: CASA balances grew at 17% yoy


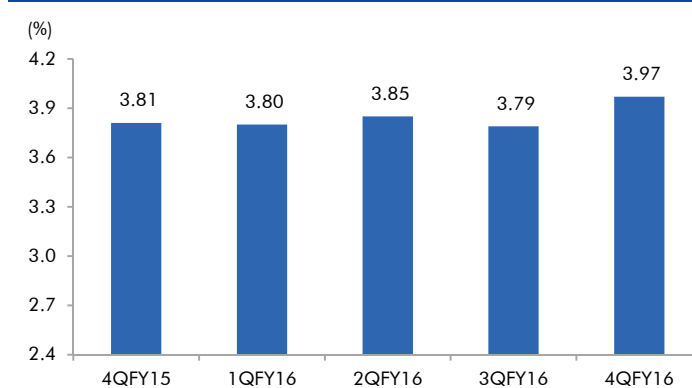
Source: Company, Angel Research

Exhibit 4: Period-end CASA ratio at 47.3%


Source: Company, Angel Research

Exhibit 5: Cost of funds declines qoq


Source: Company, Angel Research

Exhibit 6: NIM at 3.97%


Source: Company, Angel Research

Slow growth in other income

Fees growth was muted at 6% yoy which constituted 31% of operating revenue. This was due to decline in corporate fees and flatish transaction banking fees, which restricted the overall fee growth. However, retail fees grew 15% yoy and treasury fees grew 12% yoy.

During the quarter, miscellaneous income was up 20% yoy, mainly due to receipt of dividend from subsidiaries and on account of the bank booking ₹169cr of exchange gains from repatriation of profits from its foreign branches compared to ₹156cr in 4QFY2015. The sharp sequential jump in miscellaneous income was also due to higher cash recoveries of ₹83cr.

Corporate watch list a cause of concern

The asset quality improved marginally with a dip in Gross and Net NPA ratios to 1.67% and 0.7% from 1.68% and 0.75% in the sequential previous quarter. Slippages came in at ₹1,474cr, whereas the bank transferred 1 account worth ₹170cr under 5/25 scheme and conducted strategic debt restructuring in 4 accounts worth ₹205cr. The bank has stated that it has taken into account the full impact of asset quality review conducted by the RBI, which accounted for ~50% of the total slippages during 3QFY2016.

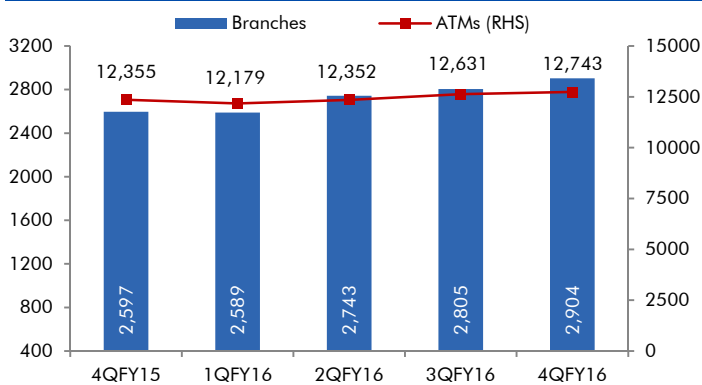
The bank has come out with strong disclosure this time in which, the management has outlined that ~₹22,600 worth of loans are under stress of which ~60% can fall into NPA over the next eight quarters. Further large part of the incremental NPA from this accounts are likely to come up in FY17 itself and hence we believe slippages to remain high in the 1Q and 2Q of FY17.

24% of the said loans are from metal sector while ~23% are from power and in the absence of major revival in the above two sector we believe it is fair to assume that large part of this combined 47% of the loans to turn NPAs over the next few quarters.

Assuming 60% of the said accounts turns NPAs, it can fairly be said ~₹13,500cr of incremental slippages over the next eight quarters and since the management has indicated it intends to keep its provisioning coverage ratio at 70%, we can look towards ~₹9,500cr of provisions from this itself over the same period.

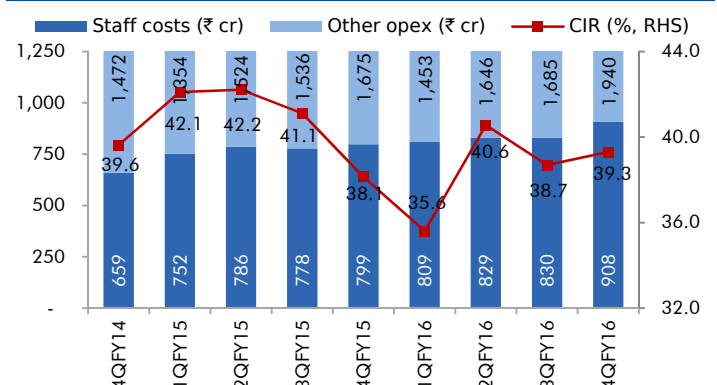
Though the slippages numbers indicated by the managements looks like, what we like is the disclosure and the management's confidence that no much of other slippages to come other than from the said accounts.

Exhibit 7: Steady network expansion continues



Source: Company, Angel Research;

Exhibit 8: Cost-to-income ratio at 39.3%



Source: Company, Angel Research

Outlook and valuation: Though the incremental slippages expected remains high over the next two years, the disclosure by the bank gives better clarity on earnings going ahead. On a positive side the core business of the bank continues to grow strong. With higher credit cost we don't expect FY17 to be a good year with sluggish earnings growth, but remain upbeat on FY18. The stock currently trades at 1.7x P/ABV FY2017E. **We maintain our Accumulate rating on the stock with a price target of ₹494.**

Exhibit 9: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Accumulate	1,117	1,262	12.9	3.4	3.8	18.2	22.7	2.0	20.0
ICICIBk*	Accumulate	221	254	14.7	1.5	1.4	9.1	13.5	1.6	14.7
YesBk	Neutral	932	-	-	2.4	2.0	13.4	20.5	1.6	19.6
AxisBk	Accumulate	470	494	5.1	1.9	2.0	10.8	18.4	1.7	18.9
SBI*	Neutral	184	-	-	1.0	0.7	8.9	8.3	0.6	11.2
FedBk	Neutral	47	-	-	0.9	0.9	8.5	(2.9)	0.9	10.8
SIB	Neutral	18	-	-	0.6	0.6	5.4	21.6	0.7	11.6
BOB	Neutral	153	-	-	1.0	1.0	11.8	(7.9)	0.4	7.3
PNB	Neutral	83	-	-	0.5	0.5	3.8	14.4	0.6	10.0
BOI	Neutral	88	-	-	0.2	0.9	2.6	14.0	0.3	7.6
IndBk	Neutral	96	-	-	0.3	0.2	3.2	19.4	0.6	8.6
Vijaya Bank	Neutral	31	-	-	0.4	0.4	4.7	14.1	0.4	8.8
OBC	Neutral	87	-	-	0.2	0.3	1.9	65.5	0.5	9.4
Allahabad Bank	Neutral	56	-	-	0.3	0.2	2.1	56.2	0.6	11.9
UnionBk	Neutral	124	-	-	0.4	0.3	3.2	18.1	0.6	11.4
CanBk	Neutral	196	-	-	0.3	0.3	2.8	12.0	0.6	11.2
IDBI#	Neutral	68	-	-	0.4	0.5	4.8	61.6	0.6	9.3
DenaBk	Neutral	29	-	-	0.2	0.3	2.9	45.6	0.4	7.9

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

Axis Bank is India's third-largest private sector bank after ICICI Bank and HDFC Bank. The bank is promoted by government institutions, led by UTI (SUUTI currently holds 12% stake in the bank). The bank has an extensive network of 2,743 branches and 12,352 ATMs spread across 1,796 centers (~51% in metro and urban regions). The bank's strong growth has been backed by robust retail branch expansion, strong corporate relationships and a wide range of fee income products.

Income statement (Standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Interest Income	8,018	9,666	11,952	14,224	16,833	18,872	21,601
- YoY Growth (%)	22.2	20.6	23.6	19.0	18.3	12.1	14.5
Other Income	5,420	6,551	7,405	8,365	9,371	10,866	12,732
- YoY Growth (%)	17.0	20.9	13.0	13.0	12.0	15.9	17.2
Operating Income	13,438	16,217	19,357	22,589	26,204	29,738	34,332
- YoY Growth (%)	20.0	20.7	19.4	16.7	16.0	13.5	15.5
Operating Expenses	6,007	6,914	7,901	9,204	10,101	11,834	13,869
- YoY Growth (%)	25.7	15.1	14.3	16.5	9.7	17.2	17.2
Pre - Provision Profit	7,431	9,303	11,456	13,385	16,104	17,904	20,464
- YoY Growth (%)	15.8	25.2	23.1	16.8	20.3	11.2	14.3
Prov. & Cont.	1,143	1,750	2,107	2,329	3,710	5,306	4,971
- YoY Growth (%)	(10.7)	53.1	20.4	10.5	59.3	43.0	(6.3)
Profit Before Tax	6,288	7,553	9,349	11,057	12,394	12,598	15,493
- YoY Growth (%)	22.4	20.1	23.8	18.3	12.1	1.6	23.0
Prov. for Taxation	2,046	2,373	3,131	3,699	4,170	4,157	5,113
- as a % of PBT	32.5	31.4	33.5	33.5	33.6%	33.0%	33.0%
PAT	4,242	5,179	6,218	7,358	8,224	8,441	10,380
- YoY Growth (%)	25.2	22.1	20.0	18.3	11.8	2.6	23.0

Balance sheet (Standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Share Capital	413	468	470	474	477	477	478
Reserve & Surplus	22,395	32,640	37,751	43,463	52,688	59,863	68,686
Deposits	2,20,104	2,52,614	2,80,945	3,22,442	3,57,968	4,29,561	5,15,473
- Growth (%)	16.3	14.8	11.2	14.8	11.0	20.0	20.0
Borrowings	34,072	43,951	50,291	79,758	99,226	1,18,129	1,41,755
Other Liab. & Prov.	8,643	10,888	13,789	15,795	15,109	18,042	23,196
Total Liabilities	2,85,628	3,40,561	3,83,245	4,61,932	5,25,468	6,26,071	7,49,589
Cash Balances	10,703	14,792	17,041	19,819	22,361	21,478	25,774
Bank Balances	3,231	5,643	11,197	16,280	10,964	17,182	20,619
Investments	93,192	1,13,738	1,13,548	1,32,343	1,22,006	1,46,051	1,75,261
Advances	1,69,760	1,96,966	2,30,067	2,81,083	3,38,774	4,06,528	4,87,834
- Growth (%)	19.2	16.0	16.8	22.2	20.5	20.0	20.0
Fixed Assets	2,259	2,356	2,410	2,514	3,523	4,323	5,123
Other Assets	6,483	7,067	8,981	9,893	27,839	30,509	34,978
Total Assets	2,85,628	3,40,561	3,83,245	4,61,932	5,25,468	6,26,071	7,49,589
- Growth (%)	17.7	19.2	12.5	20.5	13.8	19.1	19.7

Ratio analysis (Standalone)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Profitability ratios (%)							
NIMs	3.1	3.2	3.4	3.5	3.6	3.5	3.3
Cost to Income Ratio	44.7	42.6	40.8	40.7	38.5	39.8	40.4
RoA	1.6	1.7	1.7	1.7	1.7	1.5	1.5
RoE	20.3	18.5	17.4	17.9	16.8	14.9	16.0
B/S ratios (%)							
CASA Ratio	41.5	44.4	45.0	44.8	47.3	48.0	48.0
Credit/Deposit Ratio	77.1	78.0	81.9	87.2	94.6	94.6	94.6
CAR	13.7	17.0	16.3	16.0	15.4	14.9	14.0
- Tier I	9.4	12.2	12.8	12.2	12.6	12.4	11.8
Asset Quality (%)							
Gross NPAs	1.1	1.2	1.4	1.4	1.7	2.8	2.9
Net NPAs	0.3	0.4	0.4	0.5	0.7	1.1	1.0
Slippages	1.3	1.2	1.3	1.2	2.5	1.6	0.8
Loan Loss Prov. /Avg. Assets	0.3	0.4	0.4	0.5	1.1	1.3	1.0
Provision Coverage	73.8	70.6	77.2	68.0	58.6	62.0	65.0
Per Share Data (₹)							
EPS	20.5	22.1	26.5	31.0	34.5	35.4	43.4
ABVPS (75% cover.)	110.3	141.0	161.7	184.1	218.9	246.9	283.4
DPS	3.2	3.6	4.0	5.9	5.0	6.0	6.5
Valuation Ratios							
PER (x)	19.9	18.5	15.4	13.2	13.6	13.3	10.8
P/ABVPS (x)	3.7	2.9	2.5	2.2	2.1	1.7	1.6
Dividend Yield	0.8	0.9	1.0	1.4	1.1	1.3	1.4
DuPont Analysis							
NII	3.0	3.1	3.3	3.4	3.4	3.3	3.1
(-) Prov. Exp.	0.4	0.6	0.6	0.6	0.8	0.9	0.7
Adj. NII	2.6	2.5	2.7	2.8	2.7	2.4	2.4
Other Inc.	2.0	1.9	2.0	1.7	1.9	1.9	1.9
Op. Inc.	4.7	4.6	4.8	4.8	4.6	4.2	4.3
Opex	2.3	2.2	2.2	2.2	2.0	2.1	2.0
PBT	2.4	2.4	2.6	2.6	2.5	2.2	2.3
Taxes	0.8	0.8	0.9	0.9	0.8	0.7	0.7
RoA	1.6	1.7	1.7	1.7	1.7	1.5	1.5
Leverage	12.6	11.2	10.1	10.3	10.1	10.1	10.6
RoE	20.3	18.5	17.4	17.9	16.8	14.9	16.0

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Disclosure of Interest Statement

Axis Bank

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)