

## Axis Bank

### Operating performance improves

Particulars (₹ cr)	Q4FY19	Q3FY19	% chg (qoq)	Q4FY18	% chg (yoy)
NII	5,706	5,604	1.82	4,730	20.61
Pre-prov. profit	5,014	5,525	-9.24	3,672	36.55
PAT	1,505	1,681	-10.46	-2,189	-

Source: Company, Angel Research

For Q4FY2019, Axis Bank reported PAT of ₹1,505cr driven by healthy NII growth (20.6% yoy), strong traction in fees income (15% yoy), contained Opex (11.1% yoy). Further, higher recoveries & upgrades and lower slippages led to a fall in GNPA (declined 151bps yoy & 50bps qoq).

**Retail loans drive momentum; NIM improved marginally:** During Q4FY2019, the bank's advances grew by 13% yoy, with retail and SME growing at 19% yoy and 11.7% yoy respectively. However, overseas book de-grew 29% yoy in Q4FY2019. Unsecured products such as PL (43% yoy) and cards (49% yoy) were the primary drivers for retail loan book. NIM for the quarter remained flat (3.61%) despite increased share of higher yielding retail, primarily owing to rising CoF and decline in C/D. Despite aggressive competition and subdued industry deposit growth, bank has been able to grow deposits at 21% yoy. The share of CASA in the Total Deposits stood at 44%.

**Traction noted in fees income:** Retail fees grew ~37%/18% yoy/qoq to form ~61% of total fees and the share of corporate fees was flat qoq at 14%. Corporate fees witnessed a declining trend since Q4FY2017, however from last two quarter it has moderated.

**Slippages moderated; fresh accretion of NPA to be moderate going ahead:** Annualised slippages moderated at 2.4% for Q4FY2019. However, we expect fresh accretion of NPA to be lower owing to (1) decline in sub investment book, (2) 82% of corporate exposure to A or better rated and 95% incremental lending to A & better rated corporate, and (3) PCR including technical write-offs at 77%.

**Outlook & Valuation:** Axis Bank currently trades at 2.2x its FY2021E price to book value (after adjusting value of subsidiaries). We expect the stock to get re-rated owing to (1) new leadership, (2) limited stressed loan pool, and (3) improvement in return ratios (ROA/ROE – 1.23%/114.7% by FY2020E). We recommend Buy on the stock with a Target Price of ₹860.

### Exhibit 1: Key Financials

Y/E March (' cr)	FY17	FY18	FY19	FY20E	FY21E
NII	18,093	18,618	21,708	25,101	29,149
% chg	7	3	17	16	16
Net profit	3,679	276	4,677	9,269	11,998
% chg	-55	(93)	1,596	98	29
NIM (%)	3.4	3.1	3.2	3.2	3.2
EPS (`)	14	1	18	36	47
P/E (x)	53	701	41	21	16
P/ABV (x)	3.6	3.4	3.1	2.6	2.2
RoA (%)	0.6	0.0	0.6	1.1	1.2
RoE (%)	7	0	7	13	15

Note: CMP as of 02/05/2019

Please refer to important disclosures at the end of this report

### BUY

CMP	₹753
Target Price	₹864

Investment Period 12 Months

### Stock Info

Sector	Banking
Market Cap (₹ cr)	1,97,273
Beta	1.2
52 Week High / Low	788/499
Avg. Daily Volume	3,85,908
Face Value (₹)	2
BSE Sensex	39,032
Nifty	11,035
Reuters Code	AXBK.BO
Bloomberg Code	AXSB IN

### Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian FIs	38.4
FII / NRIs / OCBs	21.2
Indian Public / Others	40.4

Abs. (%)	3m	1yr	3yr
Sensex	7.1	12.4	53.4
HDFC Bank	15.9	55.1	62.5

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly Summary**

Particular (₹ Cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	yoY	qoq
Interest Income	11,052	11,235	11,722	11,771	12,777	13,281	14,130	14,798	26	5
Interest Expenses	6,436	6,695	6,990	7,041	7,610	8,049	8,526	9,092	29	7
<b>Net Interest Income (NII)</b>	<b>4,616</b>	<b>4,540</b>	<b>4,732</b>	<b>4,730</b>	<b>5,167</b>	<b>5,232</b>	<b>5,604</b>	<b>5,706</b>	<b>21</b>	<b>2</b>
% Growth YoY	2.2%	0.6%	9.2%	0.0%	11.9%	15.3%	18.4%	20.6%		
% Growth QoQ	-2.4%	-1.7%	4.2%	0.0%	9.2%	1.3%	7.1%	1.8%		
Other Income	3,000	2,586	2,593	2,789	2,925	2,678	4,001	3,526	26	(12)
Other income as % of TOI	39%	36%	35%	37%	36%	34%	42%	38%	3	(8)
Total Income	14,052	13,821	14,315	14,560	15,702	15,959	18,130	18,324	26	1
Net Income	7,616	7,125	7,325	7,519	8,092	7,910	9,604	9,232	23	(4)
Operating Expenses	3,325	3,348	3,471	3,847	3,720	3,816	4,080	4,217	10	3
Employee Expenses	1,088	1,083	1,063	1,079	1,228	1,175	1,203	1,142	6	(5)
Other Operating Expenses	2,237	2,265	2,408	2,768	2,492	2,642	2,877	3,075	11	7
Cost / Income %	43.7%	47.0%	47.4%	51.2%	46.0%	48.2%	42.5%	45.7%	(5)	3
Operating Profit	4,291	3,777	3,854	3,672	4,372	4,094	5,525	5,014	37	(9)
Provisions	2,342	3,140	2,811	7,180	3,338	2,927	3,055	2,711	(62)	(11)
PBT	1,949	637	1,043	-3,507	1,034	1,167	2,470	2,303	(166)	(7)
Provisions for Tax	644	205	316	-1,319	333	377	789	798	(161)	1
Tax Rate %	33.0%	32.1%	30.3%	37.6%	32.2%	32.3%	34.0%	34.0%		-
PAT	1,306	432	726	-2,189	701	790	1,681	1,505	(169)	(10)
<b>Profitability</b>	<b>Q1FY18</b>	<b>Q2FY18</b>	<b>Q3FY18</b>	<b>Q4FY18</b>	<b>Q1FY19</b>	<b>Q2FY19</b>	<b>Q3FY19</b>	<b>Q4FY19</b>	<b>bps</b>	<b>bps</b>
Yield Advance	8.7	8.5	8.4	8.1	8.7	8.9	9.1	9.2	104.1	4.7
Yield on Investment	7.1	6.8	7.1	7.0	7.0	7.2	7.3	7.1	12.1	(23.8)
Cost of Fund	4.9	5.0	5.1	4.9	5.1	5.2	5.3	5.3	45.7	4.8
NIM Cal	3.3	3.2	3.2	3.1	3.2	3.2	3.3	3.2	11.5	(12.0)
Spread	3.7	3.5	3.4	3.2	3.7	3.6	3.8	3.8	58.4	(0.1)
<b>NIM Domestic Reported</b>			<b>3.60</b>	<b>3.59</b>	<b>3.50</b>	<b>3.59</b>	<b>3.61</b>	<b>3.61</b>	2.0	-
ROE	0.09	0.03	0.05	-0.14	0.04	0.05	0.10	0.09	22.6	(1.2)
<b>Asset Quality</b>										
GNPA%	5.03	5.90	5.28	6.77	6.52	5.96	5.75	5.26	(151)	(49)
NPA%	2.30	3.12	2.56	3.40	3.09	2.54	2.36	2.06	(134)	(30)
PCR Calculated	54	47	52	50	53	57	59	61	1,106	188
<b>Tier - 1</b>	12.60	12.36	14.13	11.68	11.86	11.71	11.77	11.27	(41)	(50)
<b>AT - 1</b>				1.36	1.36	1.33	1.30	1.27	(9)	(3)
<b>Tier - 2</b>	4.03	3.96	3.87	3.53	3.49	3.41	3.33	3.30	(23)	(3)
<b>Total</b>	16.6	16.3	18.0	16.6	16.71	16.45	16.40	15.84	(73)	(56)

Source: Company

**Exhibit 2: Advances movement**

Particular (₹ cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	yoY%	qoq%
<b>Retail</b>	<b>175278</b>	<b>184256</b>	<b>193295</b>	<b>206464</b>	<b>211648</b>	<b>221710</b>	<b>232397</b>	<b>245812</b>	<b>19</b>	<b>6</b>
Home Loan	77122	79230	81184	82586	84659	86467	90635	93409	13	3
Rural Lending	26292	27638	27061	30970	29631	28822	32536	34414	11	6
Auto Loan	17528	18426	19330	22711	23281	24388	25564	27039	19	6
PL	15775	16583	19330	20646	21165	24388	25564	29497	43	15
LAP	14022	14740	15464	16517	16932	19954	18592	22123	34	19
CC	7011	7370	7732	8259	8466	8868	11620	12291	49	6
SBB	3506	3685	3866	6194	6349	6651	6972	7374	19	6
Other	14022	16583	19330	18582	21165	22171	20916	19665	6	(6)
<b>Corporate Banking</b>	<b>162284</b>	<b>173197</b>	<b>172744</b>	<b>174446</b>	<b>172443</b>	<b>174149</b>	<b>180469</b>	<b>183402</b>	<b>5</b>	<b>2</b>
Term Loan	123909	128049	120700	118418	121948	119520	124698	1,21,122	2	(3)
WC	38375	45148	52674	56028	50495	54629	55771	62,279	11	12
<b>SME</b>	<b>47918</b>	<b>52718</b>	<b>54884</b>	<b>58740</b>	<b>56983</b>	<b>60262</b>	<b>62238</b>	<b>65584</b>	<b>12</b>	<b>5</b>
Term Loan	11124	11725	12170	13264	12348	12496	12846	13,475	2	5
WC	36795	40993	42714	45476	44635	47766	49392	52,109	15	6
<b>Total</b>	<b>385480</b>	<b>410171</b>	<b>420923</b>	<b>439650</b>	<b>441074</b>	<b>456121</b>	<b>475104</b>	<b>494798</b>	<b>13</b>	<b>4</b>
<b>Advance Mix (%)</b>									<b>pbs</b>	<b>pbs</b>
<b>Retail</b>	<b>45.47</b>	<b>44.92</b>	<b>45.92</b>	<b>46.96</b>	<b>47.98</b>	<b>48.61</b>	<b>48.91</b>	<b>49.68</b>	<b>272</b>	<b>76</b>
Home Loan	20.01	19.32	19.29	18.78	19.19	18.96	19.08	18.88	9	(20)
Rural Lending	6.82	6.74	6.43	7.04	6.72	6.32	6.85	6.96	(9)	11
Auto Loan	4.55	4.49	4.59	5.17	5.28	5.35	5.38	5.46	30	8
PL	4.09	4.04	4.59	4.70	4.80	5.35	5.38	5.96	127	58
LAP	3.64	3.59	3.67	3.76	3.84	4.37	3.91	4.47	71	56
CC	1.82	1.80	1.84	1.88	1.92	1.94	2.45	2.48	61	4
SBB	0.91	0.90	0.92	1.41	1.44	1.46	1.47	1.49	8	2
Other	3.64	4.04	4.59	4.23	4.80	4.86	4.40	3.97	(25)	(43)
<b>Corporate Banking</b>	<b>42.10</b>	<b>42.23</b>	<b>41.04</b>	<b>39.68</b>	<b>39.10</b>	<b>38.18</b>	<b>37.99</b>	<b>37.07</b>	<b>(261)</b>	<b>(92)</b>
Term Loan	32.14	31.22	28.68	26.93	27.65	26.20	26.25	24.48	(246)	(177)
WC	9.96	11.01	12.51	12.74	11.45	11.98	11.74	12.59	(16)	85
<b>SME</b>	<b>12.43</b>	<b>12.85</b>	<b>13.04</b>	<b>13.36</b>	<b>12.92</b>	<b>13.21</b>	<b>13.10</b>	<b>13.25</b>	<b>(11)</b>	<b>15</b>
Term Loan	2.89	2.86	2.89	3.02	2.80	2.74	2.70	2.72	(29)	2
WC	9.55	9.99	10.15	10.34	10.12	10.47	10.40	10.53	19	14
<b>Total</b>	<b>100.00</b>	-	-							

Source: Company

**Exhibit 3: GNPA Movement, slippages are moderating**

Particular (₹ Cr)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
GNPA Opening	21,280	22,031	27,402	25,001	34,249	32,662	30,938	30,855
Fresh Slippage	3,519	8,936	4,428	16,536	4,337	2,777	3,746	3,746
Slippage	0.9%	2.2%	1.1%	3.8%	1.0%	0.6%	0.8%	0.8%
Slippage Annual	3.7%	8.7%	4.2%	15.0%	3.9%	2.4%	3.2%	3.0%
Upgrade & Rec	306	1,048	4,008	3,401	2,917	2,186	1,622	1,622
Write off	2,462	2,517	2,821	3,887	3,007	2,315	2,207	2,207
Closing GNPA	22,031	27,402	25,001	34,249	32,662	30,938	30,855	30,772
Prov	12,265	13,350	13,232	17,657	17,760	18,222	18,622	18,622
NPA	9,766	14,052	11,769	16,592	14,902	12,716	12,233	12,150
Prov	2,342	3,140	2,811	7,180	3,338	2,927	3,055	2,711
CC	0.6%	0.8%	0.7%	1.6%	0.8%	0.6%	0.6%	0.5%
CC Ann	2.4%	3.1%	2.7%	6.5%	3.0%	2.6%	2.6%	2.2%

Source: Company

**Exhibit 4: Additional standard asset provisions made in 4QFY2019**

Particular	₹ cr
Provision on non-banking asset (land bank) received through debt resolution process. Residual ₹1600cr adjusted directly to reserves. This is to be charged to P&L over next 3 quarters	540
Higher provisions on standard corporate loans rated BB & below and all SMA 2 loans led by adoption of formula driven process for making provisions	380
Provisions on security receipts (book value ₹ 2900cr)	220
Higher provision on self identified stressed asset	170
	1310

Source: Company

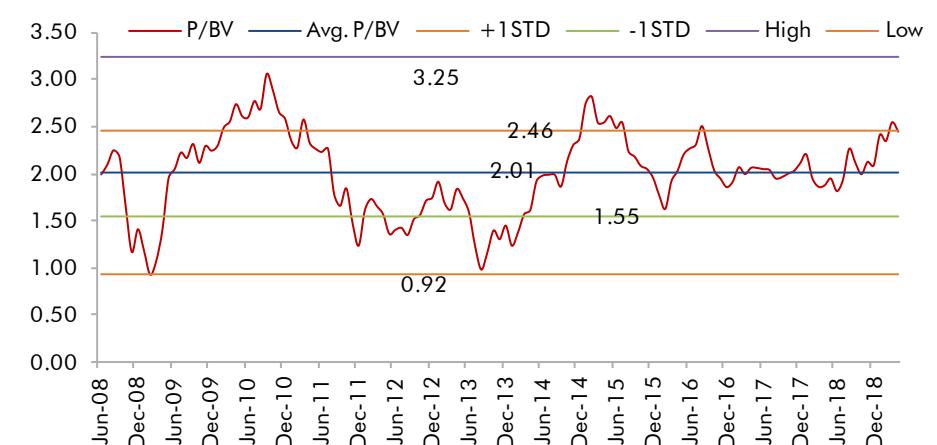
**Exhibit 5: SOTP Valuation Summary**

Sum of the parts	Stake in Company%	Valuation Methodology	Value/Share ₹
Core Business	100.0	2.5x FY21E ABV	834.4
Axis Capital Ltd	100	15x FY21E PAT	9.9
Axis MF	75	20x FY21E PAT	3.8
Axis Fin	100	1.5x FY21E BV	10.7
Axis Sec	100	15x FY21E PAT	5.3

Sum of Parts

864.2

Source: Company

**Exhibit 6: 1 year Froward P/ABV Band**


Source: Company

**Exhibit 7: DuPont Analysis**

DuPont Analysis (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.3	8.7	8.5	8.4	8.2	7.8	7.1	7.4	7.6	7.7
Interest Expenses	5.3	5.6	5.2	5.0	4.8	4.6	4.2	4.5	4.6	4.7
<b>NII</b>	<b>3.0</b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>
- Prov	0.4	0.6	0.6	0.6	0.7	2.1	2.4	1.6	1.0	0.9
Adj NII	2.6	2.5	2.7	2.8	2.6	1.0	0.5	1.3	2.0	2.1
<b>Other Income</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
Total Income	4.7	4.6	4.8	4.8	4.5	3.1	2.2	3.1	3.7	3.9
Opex	2.3	2.2	2.2	2.2	2.0	2.1	2.2	2.1	2.1	2.1
Emp	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Other	1.5	1.4	1.5	1.4	1.3	1.5	1.5	1.5	1.5	1.5
PBT	2.4	2.4	2.6	2.6	2.5	1.0	0.0	0.9	1.7	1.9
TAX	0.8	0.8	0.9	0.9	0.8	0.3	-0.0	0.3	0.6	0.6
<b>RoA</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>0.6</b>	<b>0.0</b>	<b>0.6</b>	<b>1.1</b>	<b>1.23</b>
Leverage	12.6	11.2	10.1	10.2	10.2	10.5	10.8	11.4	11.9	11.9
<b>RoE</b>	<b>20.3</b>	<b>18.5</b>	<b>17.4</b>	<b>17.8</b>	<b>16.8</b>	<b>6.8</b>	<b>0.5</b>	<b>7.2</b>	<b>12.9</b>	<b>14.7</b>

Source: Company

**Income Statement**

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
<b>Net Interest Income</b>	<b>18,093</b>	<b>18,618</b>	<b>21,708</b>	<b>25,101</b>	<b>29,149</b>
- YoY Growth (%)	7	3	17	16	16
<b>Other Income</b>	<b>11,691</b>	<b>10,967</b>	<b>13,130</b>	<b>14,884</b>	<b>17,528</b>
- YoY Growth (%)	25	(6)	20	13	18
<b>Operating Income</b>	<b>29,784</b>	<b>29,585</b>	<b>34,839</b>	<b>39,985</b>	<b>46,677</b>
- YoY Growth (%)	14	(1)	18	15	17
<b>Operating Expenses</b>	<b>12,200</b>	<b>13,990</b>	<b>15,833</b>	<b>17,783</b>	<b>20,150</b>
- YoY Growth (%)	21	15	13	12	13
<b>Pre - Provision Profit</b>	<b>17,585</b>	<b>15,594</b>	<b>19,005</b>	<b>22,202</b>	<b>26,527</b>
- YoY Growth (%)	9	(11)	22	17	19
<b>Prov. &amp; Cont.</b>	<b>12,117</b>	<b>15,473</b>	<b>12,031</b>	<b>8,158</b>	<b>8,349</b>
- YoY Growth (%)	227	28	-22	-32	2
<b>Profit Before Tax</b>	<b>5,468</b>	<b>122</b>	<b>6,974</b>	<b>14,044</b>	<b>18,179</b>
- YoY Growth (%)	-56	(98)	5,637	101	29
<b>Prov. for Taxation</b>	<b>1,788</b>	<b>-154</b>	<b>2,297</b>	<b>4,775</b>	<b>6,181</b>
- as a % of PBT	33	-127	33	34	34
<b>PAT</b>	<b>3,679</b>	<b>276</b>	<b>4,677</b>	<b>9,269</b>	<b>11,998</b>
- YoY Growth (%)	(55)	(93)	1,596	98	29

**Balance Sheet**

Y/E March (' cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	479	513	513	513	513
Reserves & Surplus	55,284	62,932	66,676	75,482	86,880
<b>Net Worth</b>	<b>55,763</b>	<b>63,445</b>	<b>67,190</b>	<b>75,995</b>	<b>87,393</b>
Deposits	4,14,379	4,53,623	5,48,471	6,36,227	7,50,748
- Growth (%)	16	9	21	16	18
Borrowings	1,05,031	1,48,016	1,52,776	1,74,164	1,98,547
Other Liab & Prov.	26,387	26,373	28,723	15,684	12,647
<b>Total Liabilities</b>	<b>6,01,559</b>	<b>6,91,458</b>	<b>7,97,160</b>	<b>9,02,070</b>	<b>10,49,335</b>
Cash balances	30,858	35,481	35,099	45,641	46,349
Bank balances	19,398	7,974	32,620	13,110	15,377
Investments	1,28,793	1,53,876	1,74,969	2,00,132	2,28,648
<b>Advances</b>	<b>3,73,069</b>	<b>4,39,650</b>	<b>4,94,798</b>	<b>5,73,966</b>	<b>6,77,279</b>
- Growth (%)	10	18	13	16	18
Fixed Assets	3,747	3,972	4,827	5,599	6,607
Other Assets	45,693	50,505	54,847	63,623	75,075
<b>Total Assets</b>	<b>6,01,559</b>	<b>6,91,458</b>	<b>7,97,160</b>	<b>9,02,070</b>	<b>10,49,335</b>
- Growth (%)	11	15	15	13	16

**Key Ratio**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Profitability ratios (%)</b>					
NIMs	3.43	3.1	3.16	3.2	3.2
Cost to Income Ratio	41	47	45	44	43
RoA	0.6	0.0	0.6	1.1	1.2
RoE	7	0	7	13	15
<b>B/S ratios (%)</b>					
CASA Ratio	51.4	53.8	44.4	44.4	44.4
Credit/Deposit Ratio	90	97	90	90	90
<b>Asset Quality (%)</b>					
Gross NPAs	5.04	6.77	5.0	4.0	4.0
Net NPAs	2.11	3.40	2.3	1.7	1.7
Credit Cost	3.2	3.5	2.4	1.4	1.2
Provision Coverage	0.58	0.50	0.54	0.58	0.58
<b>Per Share Data (₹)</b>					
EPS	14	1	18	36	47
ABVPS (70% cover.)	208	222	246	285	340
DPS	5	5	5	5	5
<b>Valuation Ratios</b>					
PER (x)	53	701	41	21	16
P/ABVPS (x)	3.6	3.4	3.1	2.6	2.2
Dividend Yield (%)	0.7	0.7	0.7	0.7	0.7
<b>DuPont Analysis</b>					
Interest Income	7.8	7.1	7.4	7.6	7.7
Interest Expenses	4.6	4.2	4.5	4.6	4.7
<b>NII</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>
- Prov	2.1	2.4	1.6	1.0	0.9
Adj NII	1.0	0.5	1.3	2.0	2.1
Other Income	2.0	1.7	1.8	1.8	1.8
Total Income	3.1	2.2	3.1	3.7	3.9
Opex	2.1	2.2	2.1	2.1	2.1
PBT	1.0	0.0	0.9	1.7	1.9
TAX	0.3	-0.0	0.3	0.6	0.6
<b>RoA</b>	<b>0.6</b>	<b>0.0</b>	<b>0.6</b>	<b>1.1</b>	<b>1.23</b>
Leverage	10.5	10.8	11.4	11.9	11.9
<b>RoE</b>	<b>6.8</b>	<b>0.5</b>	<b>7.2</b>	<b>12.9</b>	<b>14.7</b>

Valuation done on closing price of 02/05/2019

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Axis Bank

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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

Buy (&gt; 15%)

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

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