

Axis Bank

Strong operating performance; Slippages elevated

Particulars (₹ Cr)	Q2FY20	Q1FY20	% chg (qoq)	Q1FY20	% chg (yoy)
NII	6,102	5,844	4	5,232	17
Pre-prov. profit	5,952	5,893	1	4,094	45
PAT	(106)	1,370	-	790	-

Source: Company, Angel Research

For Q1FY2020, Axis Bank reported loss of ₹106Cr primarily driven by one time impact of deferred tax asset of ₹2,140Cr and higher provision of ₹3,512Cr (Against Estimation of ₹2,063Cr). The key positives for the quarter were, increase in pre-provision profit by 45% yoy and domestic loan growth by 19% yoy coupled with an improvement in NIM.

Provision and slippages remained elevated: Higher slippages (3.8%) and credit cost (2.7%) coupled with no clarity on watch list outside the BB & Below book declared in Q1FY2020 (₹6,700Cr) marred the performance of Q2. Out of the total slippages of ₹4,983Cr, ₹2,862Cr slipped from corporate book and 97% is from BB & Below book (₹1,920Cr pertains to loan and ₹940Cr to investment book). Notably, in Q1FY20, the management had given a new list of potential stressed loans in 8 stressed corporate groups. Total exposure to above corporate was ₹12,200Cr, of which exposure worth ₹6,700Cr is not part of BB & below book, however no clarity has been in Q2FY2020. Nevertheless, the bank has taken additional contingent provision worth ₹2,600Cr. We expect banks credit cost to remain on higher side till overall stressed asset (BB&B book & Stressed asset declared in Q1FY20) recognise as NPA.

Jump in other income, contained Opex aids pre-provision profit: During the quarter, other income jumped by 45% yoy led by treasury gain worth ₹809Cr. The key driver of core fee income growth was Retail fees, which grew 16% yoy and constituted 64% of the Bank's total fee income. Card fees grew strongly by 21% yoy. Opex grew at 6% yoy aided by rationalisation of outsourced services, digital initiatives and lower promotion spends. Management expects Opex to remain contained for FY2020.

Retail loans drive momentum; NIM improves: During Q2FY2020, the bank's advances grew by 14% yoy, led by retail, up 23% yoy. However, overseas book de-grew 25% yoy. Domestic NIMs improved by 11bps yoy to 3.51%. Management guided NIM for FY2020 in the range on 3.5-3.8%. Deposit grew at a healthy rate of 22% yoy; however, CASA grew 5% yoy. CASA ratio plunged by 660bps/22bps yoy/qoq to 41.1%, however other banks are also witnessing decline in CASA ratio.

Outlook & Valuation: Axis Bank currently trades at 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) receding stressed loan pool, and (3) improvement in return ratios (ROA/ROE – 1.5%/15% by FY2021E). 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	24,940	30,040
% chg	7	3	17	15	20
Net profit	3,679	276	4,677	6,626	14,465
% chg	-55	(93)	1,596	42	118
NIM (%)	3.4	3.1	3.2	3.2	3.3
EPS (₹)	13	1	17	24	51
P/E (x)	24	55	730	43	30
P/ABV (x)	3.8	3.8	3.5	3.2	2.3
RoA (%)	0.6	0.0	0.6	0.8	1.5
RoE (%)	7	0.5	7	8	15

Source: Company, Valuation done on closing price of 23/10/2019

BUY

CMP	₹714
Target Price	₹860

Investment Period	12 Months
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Stock Info

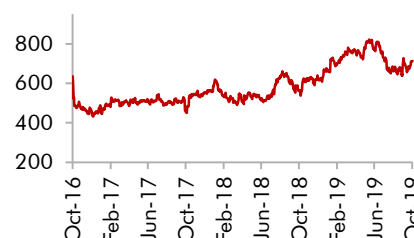
Sector	Banking
Market Cap (₹ cr)	2,00,923
Beta	1.3
52 Week High / Low	827/543
Avg. Daily Volume	2,71,058
Face Value (₹)	2
BSE Sensex	39,058
Nifty	11,604
Reuters Code	AXBK.BO
Bloomberg Code	AXSB IN

Shareholding Pattern (%)

Promoters	16.2
MF / Banks / Indian Fls	22.2
FII / NRIs / OCBs	47.1
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	1.6	13.5	40.1
Axis Bank	(2.3)	26.8	(6.7)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Performance

Particulars (₹ cr)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% chg (qoq)	% chg (yoy)
Interest Earned	12,777	13,281	14,130	14,798	15,255	15,438	1	16
on Advances / Bills	9,612	9,955	10,628	11,127	11,461	11,924	4	20
on investments	2,682	2,802	2,894	2,971	3,119	2,868	(8)	2
on bal with RBI & others	125	162	183	224	192	195	2	21
on others	358	363	424	476	483	451	(7)	24
Interest Expended	7,610	8,049	8,526	9,092	9,411	9,336	(1)	16
Net Interest Income	5,167	5,232	5,604	5,706	5,844	6,102	4	17
Other Income	2,925	2,678	4,001	3,526	3,869	3,896	1	45
Operating income	8,092	7,910	9,604	9,232	9,712	9,998	3	26
Operating Expenses	3,720	3,816	4,080	4,217	3,820	4,046	6	6
Employee expenses	1,228	1,175	1,203	1,142	1,307	1,275	(2)	9
Other Opex	2,492	2,642	2,877	3,075	2,513	2,771	10	5
Pre.Prov Profit	4,372	4,094	5,525	5,014	5,893	5,952	1	45
Provisions & Contingencies	3,338	2,927	3,055	2,711	3,815	3,512	(8)	20
PBT	1,034	1,167	2,470	2,303	2,078	2,440	17	109
Provision for Taxes	333	377	789	798	708	2,545	259	575
Tax rate	32	32	32	35	34	104	206	223
PAT	701	790	1,681	1,505	1,370	(106)	-	-

Balance sheet

Advance (₹ Cr)	4,41,074	4,56,121	4,75,105	4,94,798	4,97,276	5,21,594	5	14
Deposit (₹ Cr)	4,47,079	4,79,680	5,14,092	5,48,471	5,40,678	5,83,958	8	22
Credit-to-Deposit Ratio (%)	99	95	92	90	92	89	(265.2)bp	(576.8)bp
CA (₹ Cr)	68,278	80,128	84,172	89,265	71,211	79,138	11	(1)
SA (₹ Cr)	1,41,359	1,48,742	1,51,380	1,54,129	1,52,263	1,60,916	6	8
CASA deposits (₹ Cr)	2,09,637	2,28,870	2,35,552	2,43,394	2,23,474	2,40,054	7	5
CASA %	47	48	46	44	41.3	41.1	(22.4)bp	(660.5)bp
CAR (%)	15	15	15	15	16.1	18	239bp	333bp
Tier 1 CAR (%)	12	12	12	11	12.9	14	114bp	233bp

Profitability Ratios (%)

Yield Advance	8.73	8.88	9.13	9.18	9.24	9.23	(1.4)bp	35.1bp
COF REPO	5.23	5.34	5.44	5.69	5.70	5.6	(8)bp	28bp
Reported NIM - Domestic	3.50	3.59	3.61	3.61	3.56	3.6	7bp	4bp
Cost-to-income ratio	0.46	0.48	0.42	0.46	0.39	0.40	1.1bp	(7.8)bp

Asset quality

Gross NPAs (₹ Cr)	32,662	30,938	30,855	29,789	29,405	29,071	(1)	(10)
Gross NPAs (%)	6.52	5.96	5.75	5.26	5.25	5.03	(22)bp	(93)bp
Net NPAs (₹ Cr)	14,902	12,716	12,233	11,276	11,037	11,138	(2)	(26)
Net NPAs (%)	3.09	2.54	2.36	2.06	2.04	2	(5)bp	(55)bp
PCR (%)	53	57	59	61	61	60	(70.5)bp	305.5bp
Slippage ratio (%)	1.0	0.6	0.8	0.6	1.0	1.0	(1)bp	34.7bp
Credit Cost on Adv	0.8	0.6	0.6	0.5	0.8	0.7	(9.4)bp	3.2bp

Source: Company, Angel Research

Exhibit 2: Advance

Particular (₹ Cr)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% chg (qoq)	% chg (yoy)
Retail	211648	221710	232397	245812	258205	273223	6	23
Home Loan	84659	86467	90635	93409	98118	101093	3	17
Rural Lending	29631	28822	32536	34414	30985	35519	15	23
Auto Loan	23281	24388	25564	27039	30985	32787	6	34
PL	21165	24388	25564	29497	30985	32787	6	34
LAP	16932	19954	18592	22123	20656	24590	19	23
CC	8466	8868	11620	12291	12910	13661	6	54
SBB	6349	6651	6972	7374	10328	10929	6	64
Other	21165	22171	20916	19665	23238	21858	(6)	(1)
Corporate Banking	172443	174149	180469	183402	177455	187000	5	7
Term Loan	121948	119520	124698	1,21,122	119379	1,27,096	6	6
WC	50495	54629	55771	62,279	58076	59,904	3	10
SME	56983	60262	62238	65584	61616	61371	(0)	2
Term Loan	12348	12496	12846	13,475	12757	13,047	2	4
WC	44635	47766	49392	52,109	48859	48,324	(1)	1
Total	441074	456121	475104	494798	497276	521594	5	14

Source: Company, Angel Research

Exhibit 3: GNPA Movement

Particular	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
GNPA Opening	27,402	25,001	34,249	32,662	30,938	30,855	29,790	29,406
Fresh Slippage	4,428	16,536	4,337	2,777	3,746	3,012	4,798	4,983
Slippage (%)	1.1%	3.8%	1.0%	0.6%	0.8%	0.6%	1.0%	1.0%
Slippage Annual	4.2%	15.0%	3.9%	2.4%	3.2%	2.4%	3.9%	3.8%
Upgrade & Recovery	4,008	3,401	2,917	2,186	1,622	2,376	2,177	2,213
Write off	2,821	3,887	3,007	2,315	2,207	1,701	3,005	3,104
Closing GNPA	25,001	34,249	32,662	30,938	30,855	29,790	29,406	29,072
Provision	13,232	17,657	17,760	18,222	18,622	18,513	18,367	17,933
NPA	11,769	16,592	14,902	12,716	12,233	11,277	11,039	11,139
Prov	2,811	7,180	3,338	2,927	3,055	2,711	3,815	3,512
Credit Cost (%)	0.7%	1.6%	0.8%	0.6%	0.6%	0.5%	0.8%	0.7%
CC Ann (%)	2.7%	6.5%	3.0%	2.6%	2.6%	2.2%	3.1%	2.7%

Source: Company, Angel Research

Exhibit 4: Non-NPL stress declared in Q1FY20

Particular (₹ cr)	Q1FY20
BB & Below rated loans as on 1QFY20	7,504
Non-Fund based stress pool (NFB to BB & Below & NPLs)	2,500
Security Receipt	2,940
Total of existing stress (1)	12,944
New list (After removing overlap)	
New loan addition (Exposure 7,000cr and 3,900cr considered in NPA & BB & Below)	3,100
New Non-Fund based addition (Actual 3,000cr and 1,000cr considered in NPA)	2,000
New Investment addition (Exposure 2,200cr and NPA/MTM taken 200cr/400cr)	2,000
Total of new list (2)	7,100
Total stress on loans (1)+(2)	20,044
Provisions on non-NPL stress	2,358
Total stress loans	17,686
Total stress loans (%)	3.56

Source: Company

Exhibit 5: SOTP

Sum of the parts	Stake in Company%	Valuation Methodology	Value/Share ₹
Core Business	100.0	2.4x FY21E ABV	836
Axis Capital Ltd	100	15x FY21E PAT	9.1
Axis MF	75	20x FY21E PAT	3.9
Axis Fin	100	1.5x FY21E Book Value	9.8
Axis Sec	100	15x FY21E PAT	4.9
holding value post 20% disc			22.1
Sum of Parts			860

Source: Company, Angel Research, Valuation done on closing price of 23/10/2019

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	18,093	18,618	21,708	24,940	30,040
- YoY Growth (%)	7	3	17	15	20
Other Income	11,691	10,967	13,130	15,457	17,347
- YoY Growth (%)	25	(6)	20	18	12
Operating Income	29,784	29,585	34,839	40,396	47,388
- YoY Growth (%)	14	(1)	18	16	17
Operating Expenses	12,200	13,990	15,833	17,339	19,799
- YoY Growth (%)	21	15	13	10	14
Pre - Provision Profit	17,585	15,594	19,005	23,058	27,589
- YoY Growth (%)	9	(11)	22	21	20
Prov. & Cont.	12,117	15,473	12,031	11,375	8,259
- YoY Growth (%)	227	28	(22)	(5)	(27)
Profit Before Tax	5,468	122	6,974	11,683	19,330
- YoY Growth (%)	-56	(98)	5,637	68	65
Prov. for Taxation	1,788	(154)	2,297	5,057	4,865
- as a % of PBT	33	(127)	33	43	25
PAT	3,679	276	4,677	6,626	14,465
- YoY Growth (%)	(55)	(93)	1,596	42	118

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Equity	479	513	513	524	524
Reserve & Surplus	55,284	62,932	66,676	88,969	1,02,711
Net worth	55,763	63,445	67,190	89,493	1,03,235
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	1,60,415	1,76,456
Other Liab. & Prov.	26,387	26,373	28,733	15,985	18,946
Total Liabilities	6,01,559	6,91,458	7,97,169	9,02,119	10,49,384
Cash Balances	30,858	35,481	35,099	45,641	46,349
Bank Balances	19,398	7,974	32,630	13,159	15,426
Investments	1,28,793	1,53,876	1,74,969	2,00,132	2,28,648
Advances	3,73,069	4,39,650	4,94,798	5,73,966	6,77,279
- Growth (%)	10	18	13	16.0	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
Total Assets	6,01,559	6,91,458	7,97,169	9,02,119	10,49,384
- Growth (%)	11	15	15	13	16

Key Ratio

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability ratios (%)					
NIMs	3.43	3.13	3.16	3.18	3.34
Cost to Income Ratio	41	47	45	43	42
RoA	0.6	0.0	0.6	0.8	1.5
RoE	7	0	7	8	15
B/S ratios (%)					
CASA Ratio	51.4	53.8	44.4	44.4	44.4
Credit/Deposit Ratio	90	97	90	90	90
Asset Quality (%)					
Gross NPAs	5.04	6.77	5.0	4.0	3.8
Net NPAs	2.11	3.40	2.3	1.6	1.5
Credit Cost	3.2	3.5	2.4	2.0	1.2
Provision Coverage	0.58	0.50	0.54	0.60	0.61
Per Share Data (₹)					
EPS	13	1	17	24	51
ABVPS (70% cover.)	190	203	224	309	358
DPS	5	5	5	5	7
Valuation Ratios					
PER (x)	24	55	730	43	30
P/ABVPS (x)	3.8	3.8	3.5	3.2	2.3
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7
DuPont Analysis					
NII	3.2	2.9	2.9	2.9	3.1
- Prov	2.1	2.4	1.6	1.3	0.8
Adj NII	1.0	0.5	1.3	1.6	2.2
Other Income	2.0	1.7	1.8	1.8	1.8
Total Income	3.1	2.2	3.1	3.4	4.0
Opex	2.1	2.2	2.1	2.04	2.0
PBT	1.0	0.0	0.9	1.4	2.0
TAX	0.3	-0.0	0.3	0.6	0.5
RoA	0.6	0.0	0.63	0.78	1.48
Leverage	10.5	10.8	11.4	10.8	10.1
RoE	6.8	0.5	7.2	8.5	15.0

Valuation done on closing price of 23/10/2019

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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 (> 15%)

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

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