

## Axis Bank

### Performance Highlights

Particulars (₹ cr)	Q3FY19	Q2FY19	% chg (qoq)	Q3FY18	% chg (yoy)
NII	5,604	5,232	7.1	4,732	18.4
Pre-prov. profit	5,525	4,094	34.9	2,811	96.5
PAT	1,681	790	112.8	726	131.3

Source: Company, Angel Research

For Q3FY2019, Axis Bank reported PAT of ₹1,681cr, which is the highest in past 11 quarters. This was supported by steady NII growth (18.4% yoy), and recovery of ₹998cr from written off accounts.

**Retails loan drive loan growth momentum; NIM improved marginally:** During Q3FY2019, the bank's advances grew by 13% yoy, with retail and SME growing at 20% yoy and 13.4% yoy respectively. The NII during this period grew by 18.4% yoy, led by advances growth and improvement in NIM. Uptrend in NIM over last 3 quarters was led by corporate book coupled with re-pricing of marginal cost of funds based lending rate (MCLR) linked loans (60bps increase in MCLR in 3Q). The return of pricing power owing to lesser competition from NBFCs and improving asset quality will support NIM.

**Elevated slippages; fresh accretion of NPA to be moderate going ahead:** Annualised slippages for Q3FY2019 was tad higher at 3.2%. However, we expect fresh accretion of NPA to be lower owing to (1) sub investment book has declined by 72% from Q1FY2017 and now stands 1.6% of advances; (2) management stated elevated downward cycle is nearing an end; (3) PCR including technical write-offs at 75%, bank has taken additional contingent provisions of ₹600cr for potential downgrade from sub investment book.

**Management guides for 18% ROE in the medium term:** The bank's MD & CEO has given ROE target of 18% in medium term, which will be driven by strong growth momentum in the retail segment and pick up in its corporate book through improved product mix, better operating efficiency, and reduction in credit costs to below its long-term average via improvement in asset quality.

**Outlook & Valuation:** Axis Bank currently trades at 2.1x 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; (3) improvement in return ratios (ROA/ROE – 1.1%/12.2% by FY2020E). We recommend Buy on the stock with a Target Price of ₹860.

#### Exhibit 1: Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
NII	18,093	18,618	21,882	25,878	32,134
% chg	7	3	18	18	24
Net profit	3,679	276	4,694	8,678	10,784
% chg	-55	(93)	1,603	85	24
NIM (%)	3.4	3.1	3.2	3.3	3.6
EPS (₹)	14	1	18	34	42
P/E (x)	49	649	38	21	17
P/ABV (x)	3.3	3.1	2.8	2.4	2.1
RoA (%)	0.6	0.0	0.6	1.0	1.1
RoE (%)	7	0	7	12	13

Note: CMP as of 13/2/19

Please refer to important disclosures at the end of this report

## BUY

CMP	₹697
Target Price	₹860

Investment Period	12 Months
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#### Stock Info

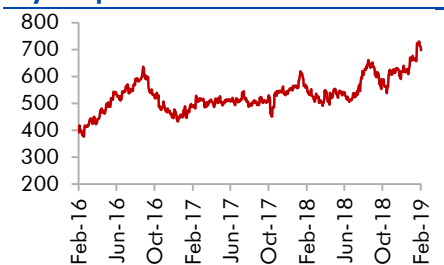
Sector	Banking
Market Cap (₹ cr)	1,79,205
Beta	1.1
52 Week High / Low	734/477
Avg. Daily Volume	1,84,725
Face Value (₹)	2
BSE Sensex	36,034
Nifty	10,793
Reuters Code	AXBK:NS
Bloomberg Code	AXSB:NATL

#### Shareholding Pattern (%)

Promoters	23.7
MF / Banks / Indian Fls	15.8
FII / NRIs / OCBs	47.2
Indian Public / Others	13.2

Abs. (%)	3m	1yr	3yr
Sensex	4.5	6.1	58.6
Axis Bank	14.2	28.7	78.4

#### 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	YoY	QoQ
Interest Income	11,052	11,235	11,722	11,771	12,777	13,281	14,130	20.5	6.4
Interest Expenses	6,436	6,695	6,990	7,041	7,610	8,049	8,526	22.0	5.9
<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>18.4</b>	<b>7.1</b>
Other Income	3,000	2,586	2,593	2,789	2,925	2,678	4,001	54.3	49.4
Other income as % of TOI	39.39	36.29	35.40	37.09	36.15	33.86	41.65	625.3	779.6
Total Income	14,052	13,821	14,315	14,560	15,702	15,959	18,130	26.7	13.6
Net Income	7,616	7,125	7,325	7,519	8,092	7,910	9,604	31.1	21.4
Operating Expenses	3,325	3,348	3,471	3,847	3,720	3,816	4,080	17.5	6.9
Employee Expenses	1,088	1,083	1,063	1,079	1,228	1,175	1,203	13.1	2.4
Other Operating Expenses	2,237	2,265	2,408	2,768	2,492	2,642	2,877	19.5	8.9
Cost / Income %	43.66	46.99	47.39	51.16	45.97	48.25	42.48	-490.8	-576.8
Operating Profit	4,291	3,777	3,854	3,672	4,372	4,094	5,525	43.4	34.9
Provisions	2,342	3,140	2,811	7,180	3,338	2,927	3055	8.7	4.3
PBT	1,949	637	1,043	-3,507	1,034	1,167	2,470	136.9	111.7
Provisions for Tax	644	205	316	-1,319	333	377	789	149.5	109.4
Tax Rate %	33.0	32.1	30.3	37.6	32.2	32.3	34.0	366.5	168.4
<b>PAT</b>	<b>1,306</b>	<b>432</b>	<b>726</b>	<b>-2,189</b>	<b>701</b>	<b>790</b>	<b>1,681</b>	<b>131.4</b>	<b>112.9</b>

Profitability								YoY	QoQ
								Change	bps
Yield Advance	8.66	8.45	8.44	8.14	8.73	8.88	9.13	69.1	25.4
Yield on Investment	7.15	6.80	7.14	6.95	6.96	7.22	7.31	16.7	8.8
Yield on RBI	1.63	1.37	1.36	1.52	1.58	1.94	1.89	53.4	-4.2
Yield on MM	9.24	18.22	19.26	17.96	14.25	13.40	12.52	-674.3	-88.6
Cost of Fund	4.94	4.98	5.08	4.89	5.07	5.25	5.30	22.5	5.4
NIM Cal	3.32	3.17	3.21	3.08	3.25	3.23	3.31	10.2	8.5
Spread	3.72	3.47	3.36	3.25	3.66	3.63	3.83	46.6	20.0
<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>	1.0	2.0
<b>NIM Global Reported</b>			<b>3.38</b>	<b>3.33</b>	<b>3.29</b>	<b>3.36</b>	<b>3.42</b>	4.0	6.0
ROE	9.25	3.05	4.77	-13.57	4.39	4.89	10.21	543.1	531.8
Asset Quality								YoY	QoQ
GNPA%	5.03	5.90	5.28	6.77	6.52	5.96	5.75	47.0	-21.0
NPA%	2.30	3.12	2.56	3.40	3.09	2.54	2.36	-20.0	-18.0
Capital Adequacy								YoY	QoQ
<b>Tier - 1</b>	12.60	12.36	14.13	13.04	13.22	13.0	12.5	-165.0	-56.0
<b>Tier - 2</b>	4.03	3.96	3.87	3.53	3.49	3.4	3.3	-54.0	-8.0
<b>Total</b>	16.6	16.3	18.0	16.6	16.71	16.45	15.81	-219.0	-64.0

Source: Company

**Exhibit 2: GNPA Movement**

Particular (₹ cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19E	YoY	QoQ
<b>Advance Mix %</b>									
Corporate Banking	42.1	42.2	41.0	39.7	39.1	38.2	38.0	-300bp	-20bp
SME	12.4	12.9	13.0	13.4	12.9	13.2	13.0	0.0	-20bp
Retail	45.5	44.9	45.9	47.0	48.0	48.6	49.0	310bp	40bp
<b>Advance Mix</b>									
Corporate Banking	1,62,284	1,73,197	1,72,744	1,74,446	1,72,443	1,74,149	1,80,469	4.5	3.6
SME	47,918	52,718	54,884	58,740	56,983	60,262	62,238	13.4	3.3
Retail	1,75,278	1,84,256	1,93,295	2,06,464	2,11,648	2,21,710	2,32,397	20.2	4.8
Total Advance	3,85,480	4,10,171	4,20,923	4,39,650	4,41,074	4,56,121	4,75,104	12.9	4.2
Placement & Debt Syndic	42,749	28,663	45,305	74,887	16,678	38,785	74,641	64.8	92.4
<b>Balance Sheet</b>									
Total Advance	3,85,480	4,10,171	4,20,923	4,39,650	4,41,074	4,56,121	4,75,104	12.9	4.2
Deposits	3,93,741	4,16,431	4,08,967	4,53,623	4,47,079	4,79,680	5,14,092	25.7	7.2
Savings	1,22,010	1,30,265	1,31,219	1,48,202	1,41,359	1,48,742	1,51,380	15.4	1.8
Current	71,573	79,792	70,492	95,650	68,278	80,128	84,172	19.4	5.0
<b>CASA</b>	<b>1,93,583</b>	<b>2,10,057</b>	<b>2,01,711</b>	<b>2,43,852</b>	<b>2,09,637</b>	<b>2,28,870</b>	<b>2,35,552</b>	16.8	2.9
CASA%	49.17	50.44	49.32	53.76	46.89	47.71	45.82	-350bp	-189bp
SA%	63.03	62.01	65.05	60.78	67.43	64.99	64.27	-78bp	-72bp
CA%	36.97	37.99	34.95	39.22	32.57	35.01	35.73	78bp	72bp
Term	2,00,158	2,06,374	2,07,256	2,09,771	2,37,442	2,50,810	2,78,540	34.4	11.1
Borrowings	1,29,527	1,35,405	1,40,874	1,48,016	1,52,227	1,48,399	1,44,669	2.7	-2.5

Source: Company

**Exhibit 3: GNPA Movement**

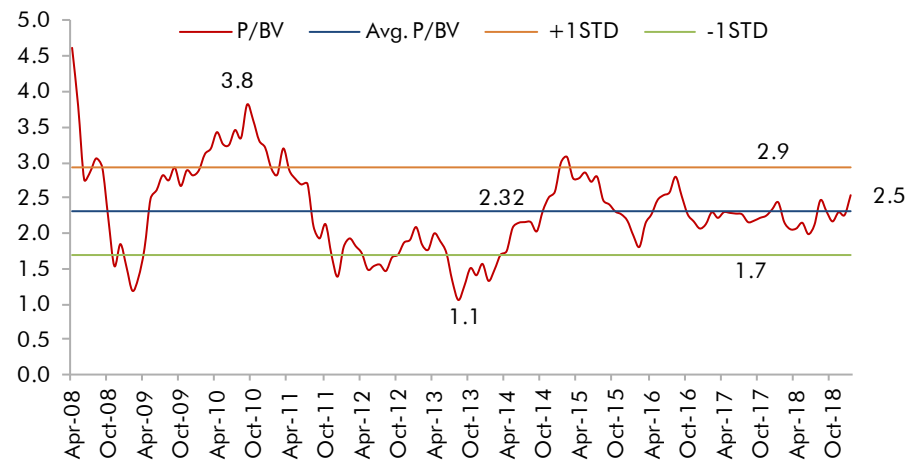
Axis Bank	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
<b>GNPA Opening</b>	<b>9,553</b>	<b>16,379</b>	<b>20,467</b>	<b>21,280</b>	<b>22,031</b>	<b>27,402</b>	<b>25,001</b>	<b>34,249</b>	<b>32,662</b>	<b>30,938</b>
<b>Fresh Slippage</b>	<b>8,772</b>	<b>4,560</b>	<b>4,811</b>	<b>3,519</b>	<b>8,936</b>	<b>4,428</b>	<b>16,536</b>	<b>4,337</b>	<b>2,777</b>	<b>3,746</b>
Slippage	2.5%	1.3%	1.3%	0.9%	2.2%	1.1%	3.8%	1.0%	0.6%	0.8%
Slippage Anl	9.9%	5.3%	5.2%	3.7%	8.7%	4.2%	15.0%	3.9%	2.4%	3.2%
Upgrade & Rec	1,073	350	2,804	306	1,048	4,008	3,401	2,917	2,186	1,622
Write off	873	122	1,194	2,462	2,517	2,821	3,887	3,007	2,315	2,207
<b>Closing GNPA</b>	<b>16,379</b>	<b>20,467</b>	<b>21,280</b>	<b>22,031</b>	<b>27,402</b>	<b>25,001</b>	<b>34,249</b>	<b>32,662</b>	<b>30,938</b>	<b>30,855</b>
Prov	8,618	12,172	12,654	12,265	13,350	13,232	17,657	17,760	18,222	18,622
NPA	7,761	8,295	8,626	9,766	14,052	11,769	16,592	14,902	12,716	12,233
Prov for Qtr	3,623	3,796	2,581	2,342	3,140	2,811	7,180	3,338	2,927	3,055
CC	1.0%	1.1%	0.7%	0.6%	0.8%	0.7%	1.6%	0.8%	0.6%	0.6%
CC Ann	4.1%	4.4%	2.8%	2.4%	3.1%	2.7%	6.5%	3.0%	2.6%	2.6%

Source: Company

**Exhibit 4: SOTP Valuation Summary**

Particular	Stake in Company%	Target Multiple	Value/Share ₹
Core Business	100	2.5x FY21E ABV	829.4
Axis Capital Ltd	100	15x FY21E PAT	9.9
Axis MF	75	15x FY21E PAT	3.0
Axis Fin	100	1.5x FY21E BV	10.8
Axis Sec	100	15x FY21E PAT	5.3
<b>Sum of Parts Value</b>			<b>860</b>

Source: Company

**Exhibit 5: 1 year Forward P/ABV Band**


Source: Company

**Exhibit 6: DuPont Analysis**

Particular	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8.3	8.7	8.5	8.4	8.2	7.8	7.1	7.5	7.8	8.1
Interest Expenses	5.3	5.6	5.2	5.0	4.8	4.6	4.2	4.5	4.7	4.8
NII	3.0	3.1	3.3	3.4	3.4	3.2	2.9	3.0	3.1	3.3
- Prov	0.4	0.6	0.6	0.6	0.7	2.1	2.4	1.6	1.0	1.0
Adj NII	2.6	2.5	2.7	2.8	2.6	1.0	0.5	1.4	2.1	2.3
<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>1.7</b>	<b>1.7</b>	<b>1.6</b>
Total Income	4.7	4.6	4.8	4.8	4.5	3.1	2.2	3.1	3.8	3.9
Opex	2.3	2.2	2.2	2.2	2.0	2.1	2.2	2.2	2.2	2.3
Emp	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other	1.5	1.4	1.5	1.4	1.3	1.5	1.5	1.5	1.5	1.6
PBT	2.4	2.4	2.6	2.6	2.5	1.0	0.0	0.9	1.6	1.7
TAX	0.8	0.8	0.9	0.9	0.8	0.3	-0.0	0.3	0.5	0.6
RoA	<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>1.0</b>	<b>1.1</b>
Leverage	12.6	11.2	10.1	10.2	10.2	10.5	10.8	11.2	11.5	11.8
RoE	<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>7.1</b>	<b>12.0</b>	<b>13.2</b>

Source: Company

**Income Statement**

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Interest Income</b>	18,093	18,618	21,882	25,878	32,134
- YoY Growth (%)	7	3	18	18	24
<b>Other Income</b>	11,691	10,967	12,777	13,866	15,575
- YoY Growth (%)	25	(6)	17	9	12
<b>Operating Income</b>	29,784	29,585	34,660	39,743	47,710
- YoY Growth (%)	14	(1)	17	15	20
<b>Operating Expenses</b>	12,200	13,990	15,956	18,411	21,712
- YoY Growth (%)	21	15	14	15	18
<b>Pre - Provision Profit</b>	17,585	15,594	18,703	21,332	25,997
- YoY Growth (%)	9	(11)	20	14	22
<b>Prov. &amp; Cont.</b>	12,117	15,473	11,725	8,184	9,657
- YoY Growth (%)	227	28	-24	-30	18
<b>Profit Before Tax</b>	5,468	122	6,978	13,148	16,340
- YoY Growth (%)	-56	(98)	5,640	88	24
<b>Prov. for Taxation</b>	1,788	-154	2,284	4,470	5,556
- as a % of PBT	33	-127	33	34	34
<b>PAT</b>	3,679	276	4,694	8,678	10,784
- YoY Growth (%)	(55)	(93)	1,603	85	24

**Balance Sheet**

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	479	513	513	513	513
Reserves & Surplus	55,284	62,932	67,764	76,007	86,253
<b>Net Worth</b>	<b>55,763</b>	<b>63,445</b>	<b>68,277</b>	<b>76,521</b>	<b>86,766</b>
Deposits	4,14,379	4,53,623	5,17,130	5,99,871	7,07,848
- Growth (%)	16	9	14	16	18
Borrowings	1,05,031	1,48,016	1,68,738	1,94,049	2,27,037
Other Liab & Prov.	26,387	26,373	24,180	20,337	15,217
<b>Total Liabilities</b>	<b>6,01,559</b>	<b>6,91,458</b>	<b>7,78,325</b>	<b>8,90,778</b>	<b>10,36,868</b>
Cash balances	30,858	35,481	42,269	43,033	43,701
Bank balances	19,398	7,974	10,751	12,389	14,527
Investments	1,28,793	1,53,876	1,67,840	1,88,696	2,15,583
<b>Advances</b>	<b>3,73,069</b>	<b>4,39,650</b>	<b>5,01,201</b>	<b>5,81,393</b>	<b>6,86,044</b>
- Growth (%)	10	18	14	16	18
Fixed Assets	3,747	3,972	4,551	5,279	6,229
Other Assets	45,693	50,505	51,713	59,987	70,785
<b>Total Assets</b>	<b>6,01,559</b>	<b>6,91,458</b>	<b>7,78,325</b>	<b>8,90,778</b>	<b>10,36,868</b>
- Growth (%)	11	15	13	14	16

**Key Ratio**

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability ratios (%)</b>					
NIMs	3.43	3.1	3.22	3.3	3.6
Cost to Income Ratio	41	47	46	46	46
RoA	0.6	0.0	0.6	1.0	1.1
RoE	7	0	7	12	13
<b>B/S ratios (%)</b>					
CASA Ratio	51.4	53.8	53.8	53.8	53.8
Credit/Deposit Ratio	90	97	97	97	97
<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	2.3	1.4	1.4
Provision Coverage	0.58	0.50	0.54	0.58	0.58
<b>Per Share Data (₹)</b>					
EPS	14	1	18	34	42
ABVPS (70% cover.)	208	222	250	287	338
DPS	5	5	5	5	5
<b>Valuation Ratios</b>					
PER (x)	49	649	38	21	17
P/ABVPS (x)	3.3	3.1	2.8	2.4	2.1
Dividend Yield (%)	0.8	0.8	0.7	0.7	0.7
<b>DuPont Analysis</b>					
Interest Income	7.8	7.1	7.5	7.8	8.1
Interest Expenses	4.6	4.2	4.5	4.7	4.8
NII	3.2	2.9	3.0	3.1	3.3
- Prov	2.1	2.4	1.6	1.0	1.0
Adj NII	1.0	0.5	1.4	2.1	2.3
Other Income	2.0	1.7	1.7	1.7	1.6
Total Income	3.1	2.2	3.1	3.8	3.9
Opex	2.1	2.2	2.2	2.2	2.3
PBT	1.0	0.0	0.9	1.6	1.7
TAX	0.3	-0.0	0.3	0.5	0.6
RoA	0.6	0.0	0.6	1.0	1.12
Leverage	10.5	10.8	11.2	11.5	11.8
RoE	6.8	0.5	7.1	12.0	13.2

Valuation done on closing price of 13/2/19

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4. Broking relationship with company covered under Research	No

<b>Ratings (Based on expected returns over 12 months investment period):</b>	<b>Buy (&gt; 15%)</b>	<b>Accumulate (5% to 15%)</b>	<b>Neutral (-5 to 5%)</b>
		<b>Reduce (-5% to -15%)</b>	<b>Sell (&lt; -15%)</b>