

**BSE Code: 532215**
**NSE Code: AXISBANK**
**Reuters Code:**
**AXBK.NS**
**Bloomberg Code: AXSB:IN**
**Transition phase continues**

Axis Bank is the third largest private sector bank in India. The Bank has a large footprint of 3,385 domestic branches (including extension counters) and 14,311 ATMs spread across the country.

**Investment Rationale**
**Strong retail momentum supported business growth:**

Axis Bank reported moderate loan book growth of 12% YoY mainly driven by retail advances ( $\uparrow$ 25% YoY) however, corporate advances growth stood muted ( $\uparrow$ 2% YoY). Thus, the share of retail advances in total loans increased to 46% as compared to 41% in Q1FY17. The retail loan growth was led by unsecured loans ( $\uparrow$ 48% YoY) and auto loans ( $\uparrow$ 39% YoY). In the corporate segment, incremental sanctions have been to better rated corporates with 93% of these rated A and above. Going forward, we expect retail to continue to drive future business growth while corporate side will remain sluggish. We estimate bank's advances and deposits to increase at a CAGR of 14% and 13%, respectively over FY17-19E.

**Decent operating performance:**

Net interest income (NII) increased marginally by 2% YoY (in line with our expectation) due to relatively moderate growth in advances and contraction in the net interest margin (NIM). NIM contracted 30 bps YoY to 3.6% due to increasing proportion of high rated but low yielding corporate advances. Non-interest income increased by 10% YoY largely driven by a healthy growth in fee income ( $\uparrow$ 17% YoY). Growth in fee income was supported mainly by a strong growth of 32% YoY in retail fees. Operating expenses increased at a much faster pace of 19% YoY owing to addition of 81 branches coupled with increasing employees count. Going forward, we expect net profit to grow by a CAGR of 48% (albeit on a lower base) over FY17-19E supported by declining credit cost.

**Slippages from outside watchlist remains a concern:**

Slippages ratio declined to 3.8% from 5.5% in Q4FY17 and 4.3% in Q1FY17. Majority of total slippages, continued to be from corporate loan book (66% of slippages). However, 66% of corporate slippages came from outside watchlist. Notably, the bank also witnessed higher slippages from the Agri segment mainly due to the impact of farm loan waivers. While Gross non-performing assets (NPA) ratio declined marginally by 1 bp QoQ to 5.0% due to higher write-offs, Net NPA ratio increased by 19 bps QoQ to 2.3%. Although management continues to maintain its credit cost guidance range of 1.75-2.25% for FY18, any lumpy slippages outside the watchlist remains a major concern given the current fragile macro-environment. We expect Gross/Net NPA ratios to improve to 3.9%/1.5% by FY19E.

**Valuation:**

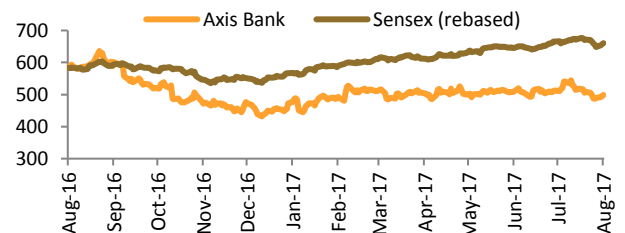
Axis Bank reported an in-line operating as well as business performance during Q1FY18 while continuing to focus on consolidation of balance sheet. Though asset quality overhang still persists, we expect the bank to complete the clean-up of its balance sheet by FY19E. Further, the bank continues to deliver superior performance across its retail franchise while the corporate segment remains the pain point across parameters. Thus, we maintain BUY rating on the stock with a revised target price (TP) of Rs. 543 (P/ABV of 2.2x for FY19E).

**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	491
<b>Target (Rs.)</b>	<b>543</b>
<b>Potential Upside</b>	11%
<b>Duration</b>	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	638/425
Adj. all time High (Rs.)	638
Decline from 52WH (%)	23.0
Rise from 52WL (%)	15.5
Beta	1.2
Mkt. Cap (Rs.Cr)	117,639

**Fiscal Year Ended**

Y/E	FY16	FY17	FY18E	FY19E
Net Interest Income	16,833	18,093	19,766	22,422
Pre Pro Profit	16,104	17,585	18,600	20,770
Net Profit	8,224	3,679	5,916	8,059
EPS	34.5	15.4	24.7	33.6
P/E	14.2	31.9	19.9	14.6
P/BV	2.2	2.1	2.0	1.8
P/ABV	2.3	2.5	2.3	2.0
RoE (%)	16.8	6.8	10.2	12.7
RoA (%)	1.7	0.7	0.9	1.1

**One year Price Chart**

**Shareholding Pattern**

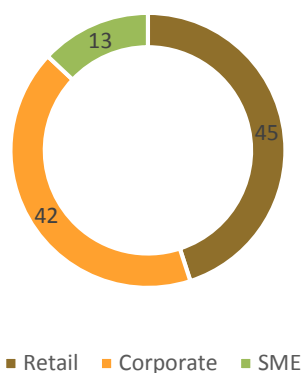
	Jun-17	Mar-17	Chg.
Promoters	30.1	30.1	-
FII's	50.2	50.5	(0.3)
MFs/Insti	9.1	8.8	0.3
Public	10.7	10.5	0.2
Others	-	-	-

## Axis Bank Ltd: Business overview

Axis Bank is the third largest private sector bank in India. The Bank has a large footprint of 3,385 domestic branches (including extension counters) and 14,311 ATMs spread across the country as on June 30, 2017. Axis Bank is one of the first new generation private sector banks to have begun operations in 1994. With a balance sheet size of Rs601,468cr as on FY17, Axis Bank has achieved consistent growth with 5 years CAGR (FY11-16) of 16% in Total Assets, 14% in Total Deposits, 17% in Total Advances and 18% in Net Interest Income (NII). Moreover, Axis Bank has a diversified business mix divided into two broad segments – Corporate Banking and Retail Banking. Axis Bank has adopted a consolidation approach in its corporate loan portfolio in the last four years considering the prevalent macro headwinds. Further, the bank has increased its presence in high yielding segment like Retail which helped it in diversifying loan portfolio and maintaining margins. As a result, the bank's share of corporate loans in total loan book consistently came down from 54% in FY12 to 42% as on FY17 whereas share of retail loans increased to 45% as on FY16 from 32% in FY12.

### Business mix shifting in favour of retail segment

Loans and Advances Mix (%)



Source: Company, In-house research

### Quarterly Financials (Standalone)

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Interest Income	11,052	11,114	(0.6)	11,168	(1.0)
Interest Expense	6,436	6,597	(2.4)	6,440	(0.0)
<b>Net Interest Income</b>	<b>4,616</b>	<b>4,517</b>	<b>2.2</b>	<b>4,729</b>	<b>(2.4)</b>
Non-Interest Income	3,000	2,738	9.6	3,013	(0.4)
<b>Total Net Income</b>	<b>7,616</b>	<b>7,255</b>	<b>5.0</b>	<b>7,742</b>	<b>(1.6)</b>
Operating Expenses	3,325	2,786	19.3	3,367	(1.3)
Employee Cost	1,088	963	13.0	948	14.8
Other Operating Exp.	2,237	1,823	22.7	2,419	(7.5)
<b>Total Income</b>	<b>14,052</b>	<b>13,852</b>	<b>1.4</b>	<b>14,181</b>	<b>(0.9)</b>
<b>Total Expenditure</b>	<b>9,761</b>	<b>9,383</b>	<b>4.0</b>	<b>9,807</b>	<b>(0.5)</b>
<b>Pre-Provisioning profit</b>	<b>4,291</b>	<b>4,469</b>	<b>(4.0)</b>	<b>4,375</b>	<b>(1.9)</b>
Provisions	2,342	2,117	10.6	2,581	(9.3)
<b>Profit Before Tax</b>	<b>1,949</b>	<b>2,352</b>	<b>(17.1)</b>	<b>1,793</b>	<b>8.7</b>
Tax	644	797	(19.2)	568	13.2
<b>Net Profit</b>	<b>1,306</b>	<b>1,556</b>	<b>(16.1)</b>	<b>1,225</b>	<b>6.6</b>
EPS - Diluted (Rs)	6.5	6.5	0.0	5.1	27.3

**Business Performance (Rs cr)**

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Advances	385,481	344,925	11.8	373,069	3.3
Deposits	393,741	357,858	10.0	414,379	(5.0)
Business	779,221	702,783	10.9	787,448	(1.0)
Gross NPA	22,031	9,553	130.6	21,281	3.5
Net NPA	9,766	4,010	143.5	8,627	13.2

Source: Company

**Strong retail momentum supported business growth**

Axis Bank reported moderate loan book growth of 12% YoY mainly driven by retail advances (↑25% YoY) however, corporate advances growth stood muted (↑2% YoY). Thus, the share of retail advances in total loans increased to 46% as compared to 41% in Q1FY17. The retail loan growth was led by unsecured loans (↑48% YoY) and auto loans (↑39% YoY). In the corporate segment, incremental sanctions have been to better rated corporates with 93% of these rated A and above. Strong traction in CASA deposit continues as it reported 25% YoY growth led by sharp 30% YoY surge in current account deposits and 22% YoY growth in saving account deposits, thus enabling 574 bps YoY increase in CASA ratio to 49%. Going forward, we expect retail to continue to drive future business growth while corporate side will remain sluggish. We estimate bank's advances and deposits to increase at a CAGR of 14% and 13%, respectively over FY17-19E.

**Decent operating performance**

Net interest income (NII) increased marginally by 2% YoY (in line with our expectation) due to relatively moderate growth in advances and contraction in the net interest margin (NIM). NIM contracted 30 bps YoY to 3.6% due to increasing proportion of high rated but low yielding corporate advances. We expect NIM to stay around 3.7% over FY17-19E. Non-interest income increased by 10% YoY largely driven by a healthy growth in fee income (↑17% YoY). Growth in fee income was supported mainly by a strong growth of 32% YoY in retail fees. Operating expenses increased at a much faster pace of 19% YoY owing to addition of 81 branches coupled with increasing employees count. Provisions increased by 11% YoY as the bank made enhanced standard asset provisions in troubled sectors like power, Infra, telecom etc. Going forward, we expect net profit to grow by a CAGR of 48% (albeit on a lower base) over FY17-19E supported by declining credit cost.

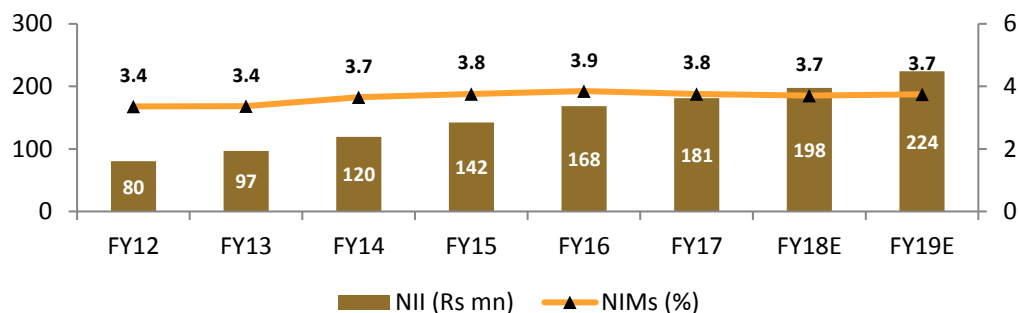
**Slippages from outside watchlist remains a concern**

Slippages ratio declined to 3.8% from 5.5% in Q4FY17 and 4.3% in Q1FY17. Majority of total slippages, continued to be from corporate loan book (66% of slippages). However, 66% of corporate slippages came from outside watchlist. Notably, the bank also witnessed higher slippages from the Agri segment mainly due to the impact of farm loan waivers. While Gross non-performing assets (NPA) ratio declined marginally by 1 bp QoQ to 5.0% due to higher write-offs, Net NPA ratio increased by 19 bps QoQ to 2.3%. Although management continues to maintain its credit cost guidance range of 1.75-2.25% for FY18, any lumpy slippages outside the watchlist remains a major concern given the current fragile macro-environment. We expect Gross/Net NPA ratios to improve to 3.9%/1.5% by FY19E.

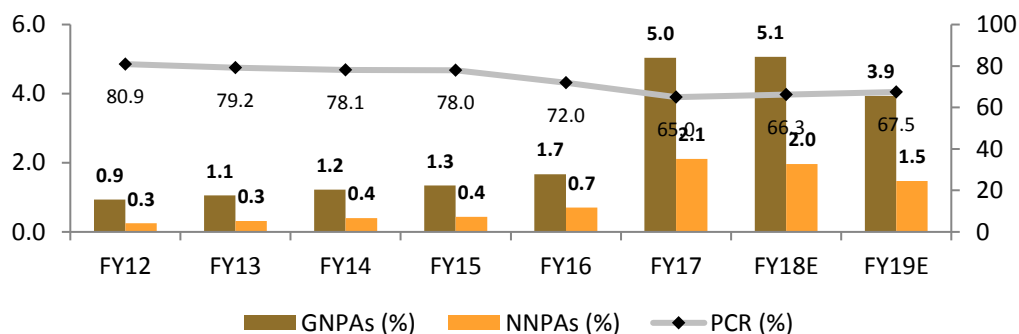
## Valuation

Axis Bank reported an in-line operating as well as business performance during Q1FY18 while continuing to focus on consolidation of balance sheet. Though asset quality overhang still persists, we expect the bank to complete the clean-up of its balance sheet by FY19E. Further, the bank continues to deliver superior performance across its retail franchise while the corporate segment remains the pain point across parameters. Thus, we maintain BUY rating on the stock with a revised target price (TP) of Rs. 543 (P/ABV of 2.2x for FY19E).

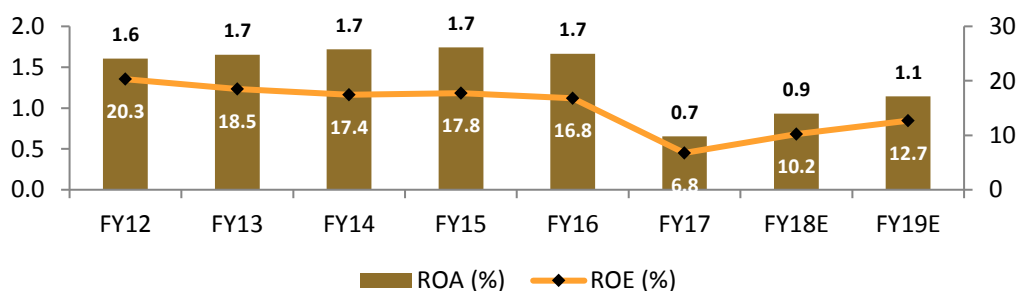
### NIM to remain stable at ~3.7% over FY17-19E



### Asset quality to improve from FY19E



### Return ratios to improve gradually over FY17-19E



Source: Company, In-house research

### Key risks:

- **Increase in slippages:** We have factored in the slippages of 4.2% and 3.1% for FY18E and FY19E, respectively. Increase in slippages beyond our estimates will deteriorate asset quality and will increase credit cost and hence affect the bottom line.
- **Spike in Interest rates:** We expect the interest rate (repo rate) to reduce over FY17-19E. However, any further increase in interest rates will affect the margins of the bank and hence the operating matrix. Additionally, it will have negative impact on investments in capex, which may also impact asset quality of the bank adversely.

## Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY16	FY17	FY18E	FY19E
Interest Income	40,988	44,542	48,353	54,206
Interest Expense	24,155	26,449	28,587	31,784
<b>Net Interest Income</b>	<b>16,833</b>	<b>18,093</b>	<b>19,766</b>	<b>22,422</b>
Non-Interest Income	9,371	11,691	12,218	13,428
<b>Net Income</b>	<b>26,204</b>	<b>29,784</b>	<b>31,984</b>	<b>35,849</b>
Operating Expenses	10,101	12,200	13,383	15,079
<b>Total Income</b>	<b>50,360</b>	<b>56,233</b>	<b>60,571</b>	<b>67,634</b>
<b>Total Expenditure</b>	<b>34,256</b>	<b>38,649</b>	<b>41,970</b>	<b>46,863</b>
<b>Pre-Provisioning Profit</b>	<b>16,104</b>	<b>17,585</b>	<b>18,600</b>	<b>20,770</b>
Provisions	3,710	12,117	9,638	8,652
<b>Profit Before Tax</b>	<b>12,394</b>	<b>5,468</b>	<b>8,962</b>	<b>12,118</b>
Tax	4,170	1,788	3,046	4,060
<b>Net Profit</b>	<b>8,224</b>	<b>3,679</b>	<b>5,916</b>	<b>8,059</b>

## Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY16	FY17	FY18E	FY19E
<b>Liabilities</b>				
Capital	477	479	479	479
Reserves & Surplus	52,688	55,284	59,762	66,095
Deposits	357,968	414,379	464,924	527,809
Borrowings	99,226	105,031	111,690	114,177
Other Liabilities & Provisions	15,109	26,295	31,220	35,361
<b>Total Liabilities</b>	<b>525,468</b>	<b>601,468</b>	<b>668,076</b>	<b>743,922</b>
<b>Assets</b>				
Cash & Balances	33,325	50,256	50,974	51,725
Investments	122,006	128,793	144,503	153,493
Advances	338,774	373,069	419,050	480,681
Fixed Assets	3,523	3,747	3,908	4,076
Other Assets	27,839	45,602	49,640	53,947
<b>Total Assets</b>	<b>525,468</b>	<b>601,468</b>	<b>668,076</b>	<b>743,922</b>

## Key Ratios (Standalone)

Y/E	FY16	FY17	FY18E	FY19E
EPS	34.5	15.4	24.7	33.6
DPS	5.0	5.0	6.0	7.2
BV	223.1	232.8	251.3	277.7
ABV	212.5	196.8	209.4	245.8
<b>Valuation (%)</b>				
P/E	14.2	31.9	19.9	14.6
P/BV	2.2	2.1	2.0	1.8
P/ABV	2.3	2.5	2.3	2.0
Div. Yield	1.0	1.0	1.2	1.5
<b>Spreads (%)</b>				
Yield on Advances	9.7	9.3	9.1	9.1
Yield on Investments	7.4	7.7	7.5	7.5
Yield on Funds	8.7	8.5	8.3	8.3
Cost of Funds	5.6	5.4	5.2	5.2
<b>Capital (%)</b>				
CAR	15.3	15.0	13.3	13.2
Tier I	12.5	11.9	10.6	10.5
Tier II	2.8	3.1	2.7	2.7
<b>Asset (%)</b>				
GNPA	1.7	5.0	5.1	3.9
NNPA	0.7	2.1	2.0	1.5
PCR	72.0	65.0	66.3	67.5
<b>Management (%)</b>				
Credit/ Deposit	94.6	90.0	90.1	91.1
Cost/ Income	38.5	41.0	41.8	42.1
CASA	47.3	51.4	50.6	50.4
<b>Earnings (%)</b>				
NIM	3.9	3.8	3.7	3.7
ROE	16.8	6.8	10.2	12.7
ROA	1.7	0.7	0.9	1.1

## Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Axis Bank is a large cap bank

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