

BSE Code: 532215
NSE Code: AXISBANK
Reuters Code:
AXBK.NS
Bloomberg Code: AXSB:IN

On a cusp of turnaround...

Axis Bank is the third largest private sector bank in India. The Bank has a large footprint of 3,779 domestic branches (including extension counters) and 12,834 ATMs spread across the country.

Investment Rationale

🌀 Growth momentum in loan book to continue led by Retail/SME:

Axis Bank reported healthy loan growth of 14% YoY in Q1FY19 led by strong traction in SME (↑19% YoY) and retail (↑21% YoY) segments. Corporate loan growth was muted at 6% YoY largely driven by working capital loans as management is focused on growing better rated corporates. On liabilities front, deposits grew at a similar pace of 14% YoY mainly led by savings and retail term deposits (↑16% YoY each). Going forward, we estimate the bank's advances and deposits to increase at a CAGR of 16% and 12%, respectively over FY18-20E.

🌀 Profitability to normalized by FY20E:

Net interest income (NII) increased at a modest pace of 12% YoY in Q1FY19 mainly due to 11 bps YoY decline in net interest margin (NIM) to 3.5%. However, we expect NIM to improve marginally (~10 bps) to 3.6% in FY20E with improvement in asset quality along with increasing proportion of unsecured retail lending. Lower other income and higher provisions dragged the profitability by 46% YoY. We expect operating profit to grow at a CAGR of 20% over FY18-20E supported by higher NII coupled with lower operating expenses. With an improving outlook on fresh slippages and credit cost, we expect the bank to clock RoA of 1.2% and RoE of 14% by FY20E.

🌀 Asset quality improvement in sight:

While fresh slippages moderated to 3.9% as compared to 15.7% in Q4FY18 and 3.8% in Q1FY18 enabling a sequential decline in Gross/Net non-performing asset (GNPA). As a result, Gross/Net NPA ratios improved by 25/31 bps QoQ to 6.5%/3.1%. Provision coverage ratio (PCR) improved by 400 bps QoQ to 69% on higher provisions. We believe that fresh slippages may remain elevated for one more quarter and normalise from H2FY19 onwards. Hence, we expect Gross/Net NPA ratios to improve to 3.4%/1.2% by FY20E.

🌀 Adequately capitalized for next phase of growth:

Axis Bank's capital adequacy ratio stood at 16.6% as of Q1FY19, with Tier I ratio at 13.1%. We believe that the bank is well placed for next growth cycle and recent capital infusion will take care of 3 years of growth.

Valuation:

We believe that the bank is approaching the end of recognition of stressed loan cycle. With an improving outlook on fresh slippages and credit cost, we expect the bank to clock RoA of 1.2% and RoE of 14% by FY20E. Further, Axis Bank has fundamental strengths such as high CASA ratio, distribution network and high and growing share of retail loans. Thus, we maintain 'BUY' rating on the stock with a revised upward target price (TP) of Rs637. (P/ABV of 2.4x for FY20E). Key thing to watch out will be an appointment outside Axis Bank as MD & CEO which can lead to some disruption/slowdown before stability.

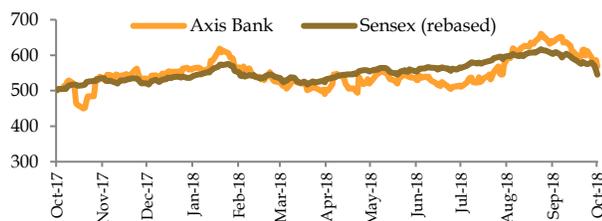
Market Data

Rating	BUY
CMP (Rs.)	556
Target (Rs.)	637
Potential Upside	15%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	677/448
Adj. all time High (Rs.)	677
Decline from 52WH (%)	16.0
Rise from 52WL (%)	26.9
Beta	1.7
Mkt. Cap (Rs.Cr)	142,975

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Net Int. Income	18,093	18,618	21,917	25,959
Pre Pro Profit	17,585	15,594	18,364	22,260
Net Profit	3,679	276	5,052	9,999
EPS	15.4	1.1	19.7	38.9
P/E	36.2	518.1	28.3	14.3
P/BV	2.4	2.3	2.1	1.9
P/ABV	2.8	3.2	2.5	2.1
RoE (%)	6.8	0.5	7.6	13.7
RoA (%)	0.7	0.0	0.7	1.2

One year Price Chart



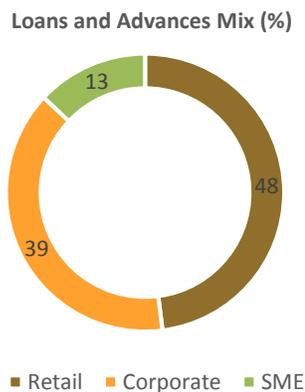
Shareholding Pattern

	Jun-18	Mar-18	Chg.
Promoters	26.2	27.6	(1.4)
FII's	50.3	49.9	0.4
MFs/Insti	14.7	13.4	1.3
Public	8.8	9.1	(0.3)
Others	-	-	-

Axis Bank Ltd: Business overview

Axis Bank is the third largest private sector bank in India. The Bank has a large footprint of 3,779 domestic branches (including extension counters) and 12,834 ATMs spread across the country as on June 30, 2018. Axis Bank is one of the first new generation private sector banks to have begun operations in 1994. With a balance sheet size of Rs691,330cr as on FY18, Axis Bank has achieved consistent growth with 5 years CAGR (FY13-18) of 15% in Total Assets, 12% in Total Deposits, 17% in Total Advances and 14% 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 39% as on FY18 whereas share of retail loans increased to 48% as on FY18 from 32% in FY12.

Business mix shifting in favour of retail segment



Source: Company, In-house research

Quarterly Financials (Standalone)

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Interest Income	12,777	11,052	15.6	11,771	8.5
Interest Expense	9,612	8,211	17.1	8,753	9.8
Net Interest Income	2,682	2,418	10.9	2,574	4.2
Non-Interest Income	483	424	13.9	444	8.8
Total Net Income	7,610	6,436	18.2	7,041	8.1
Operating Expenses	5,167	4,616	11.9	4,730	9.2
Employee Cost	2,925	3,000	(2.5)	2,789	4.9
Other Operating Exp.	8,092	7,616	6.2	7,519	7.6
Total Income	3,720	3,325	11.9	3,847	(3.3)
Total Expenditure	1,228	1,088	12.8	1,079	13.8
Pre-Provisioning profit	2,492	2,237	11.4	2,768	(10.0)
Provisions	15,702	14,052	11.7	14,560	7.8
Profit Before Tax	11,330	9,761	16.1	10,888	4.1
Tax	4,372	4,291	1.9	3,672	19.1
Net Profit	3,338	2,342	42.5	7,180	(53.5)
EPS - Diluted (Rs)	1,034	1,949	(46.9)	(3,507)	(129.5)

Business Performance (Rs cr)

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Advances	441,074	385,481	14.4	439,650	0.3
Deposits	447,079	393,741	13.5	453,623	(1.4)
Business	888,154	779,221	14.0	893,273	(0.6)
Gross NPA	32,662	22,031	48.3	34,249	(4.6)
Net NPA	14,902	9,766	52.6	16,592	(10.2)

Source: Company

Growth momentum in loan book to continue led by Retail/SME

Axis Bank reported healthy loan growth of 14% YoY in Q1FY19 led by strong traction in SME (↑19% YoY) and retail (↑21% YoY) segments. These segments cumulatively account for 61% of total loans. Growth in retail was driven largely by vehicle loans (↑33% YoY), personal loans (↑34% YoY) and credit cards (↑21% YoY). Corporate loan growth was muted at 6% YoY largely driven by working capital loans as management is focused on growing better rated corporates. Notably, 78% of outstanding corporate exposure is now rated 'A' or better. On liabilities front, deposits grew at a similar pace of 14% YoY mainly led by savings and retail term deposits (↑16% YoY each). Going forward, we estimate the bank's advances and deposits to increase at a CAGR of 16% and 12%, respectively over FY18-20E.

Profitability to normalized by FY20E

Net interest income (NII) increased at a modest pace of 12% YoY in Q1FY19 mainly due to 11 bps YoY decline in net interest margin (NIM) to 3.5%. However, we expect NIM to improve marginally (~10 bps) to 3.6% in FY20E with improvement in asset quality along with increasing proportion of unsecured retail lending. Other income declined by 2% YoY even though treasury income declined by 87% YoY as it was supported by some good recovery from written off accounts. Provisions increased by 43% YoY as the bank continued to provide aggressively against its stressed assets portfolio. Besides, the bank also recognized the entire Rs135cr of mark to market (MTM) provisions on investments. Lower other income and higher provisions dragged the profitability by 46% YoY. We expect operating profit to grow at a CAGR of 20% over FY18-20E supported by higher NII coupled with lower operating expenses. With an improving outlook on fresh slippages and credit cost, we expect the bank to clock RoA of 1.2% and RoE of 14% by FY20E.

Asset quality improvement in sight

While fresh slippages moderated to 3.9% as compared to 15.7% in Q4FY18 and 3.8% in Q1FY18 enabling a sequential decline in Gross/Net non-performing asset (GNPA). As a result, Gross/Net NPA ratios improved by 25/31 bps QoQ to 6.5%/3.1%. Notably, more than 50% of slippages were driven by corporate slippages, of which 88% were from BB and below rated pool. Provision coverage ratio (PCR) improved by 400 bps QoQ to 69% on higher provisions. Though the incremental NPA addition trend is stabilizing, the BB & below rated loans (2.1% of loans) have been an area of concern. We believe that fresh slippages may remain elevated for one more quarter and normalise from H2FY19 onwards. Hence, we expect Gross/Net NPA ratios to improve to 3.4%/1.2% by FY20E.

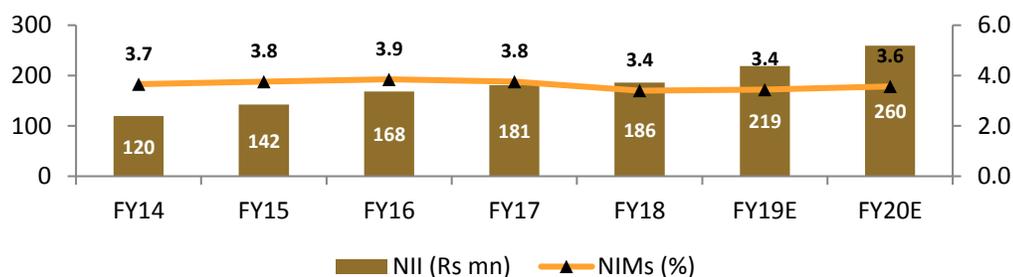
Adequately capitalized for next phase of growth

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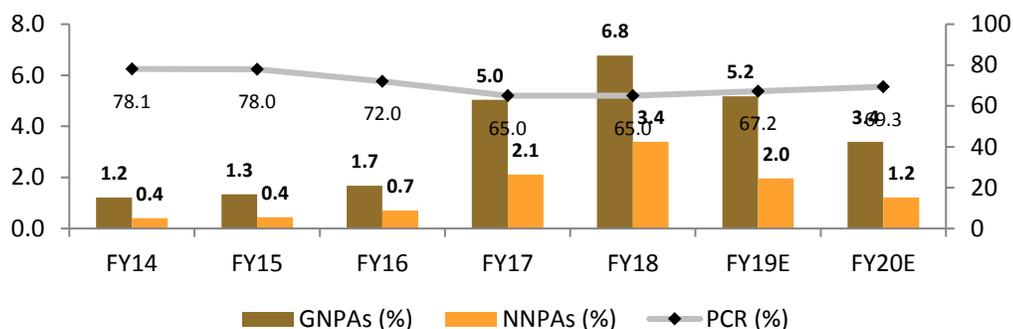
Valuation

We believe that the bank is approaching the end of recognition of stressed loan cycle. With an improving outlook on fresh slippages and credit cost, we expect the bank to clock RoA of 1.2% and RoE of 14% by FY20E. Further, Axis Bank has fundamental strengths such as high CASA ratio, distribution network and high and growing share of retail loans. Thus, we maintain 'BUY' rating on the stock with a revised upward target price (TP) of Rs637. (P/ABV of 2.4x for FY20E). Key thing to watch out will be an appointment outside Axis Bank as MD & CEO which can lead to some disruption/slowdown before stability.

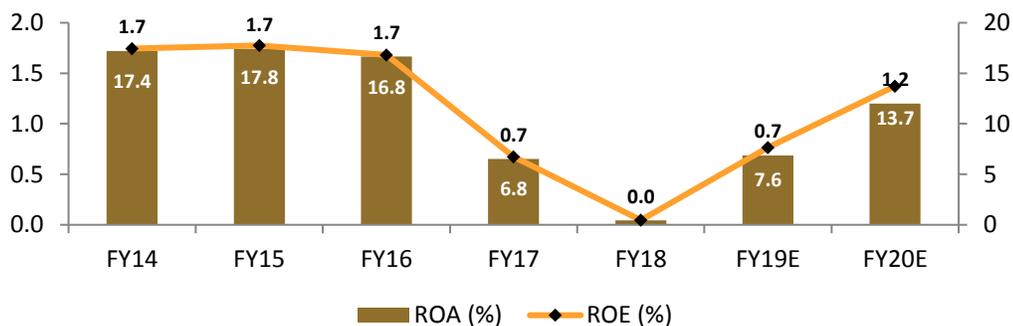
NIM to improve to ~3.6% by FY20E



Asset quality to improve from FY19E



Return ratios to improve gradually over FY18-20E



Source: Company, In-house research

Key risks:

- **Increase in slippages:** We have factored in the slippages of 4.8% and 3.2% for FY19E and FY20E, 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 remain broadly stable over FY19-20E. However, any further increase in interest rates will affect the margins of the bank and hence the operating matrix.

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Interest Income	44,542	45,780	52,960	61,196
Interest Expense	26,449	27,163	31,044	35,237
Net Interest Income	18,093	18,618	21,917	25,959
Non-Interest Income	11,691	10,967	12,649	15,155
Net Income	29,784	29,585	34,565	41,114
Operating Expenses	12,200	13,990	16,201	18,854
Total Income	56,233	56,747	65,609	76,351
Total Expenditure	38,649	41,153	47,245	54,091
Pre-Provisioning Profit	17,585	15,594	18,364	22,260
Provisions	12,117	15,473	10,710	7,112
Profit Before Tax	5,468	122	7,654	15,148
Tax	1,788	(154)	2,602	5,149
Net Profit	3,679	276	5,052	9,999

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Liabilities				
Capital	479	513	514	514
Reserves & Surplus	55,284	62,932	68,225	76,375
Deposits	414,379	453,623	501,092	567,276
Borrowings	105,031	148,016	178,498	207,427
Other Liabilities & Provisions	26,295	26,245	32,624	34,969
Total Liabilities	601,468	691,330	780,952	886,560
Assets				
Cash & Balances	50,256	43,455	48,002	54,342
Investments	128,793	153,876	170,371	181,528
Advances	373,069	439,650	509,994	592,649
Fixed Assets	3,747	3,972	4,210	4,463
Other Assets	45,602	50,377	48,374	53,579
Total Assets	601,468	691,330	780,952	886,560

Key Ratios (Standalone)

Y/E	FY17	FY18	FY19E	FY20E
EPS	15.4	1.1	19.7	38.9
DPS	5.0	5.0	6.6	7.2
BV	232.8	247.2	267.7	299.4
ABV	196.8	175.2	218.6	263.7
Valuation (%)				
P/E	36.2	518.1	28.3	14.3
P/BV	2.4	2.3	2.1	1.9
P/ABV	2.8	3.2	2.5	2.1
Div. Yield	0.9	0.9	1.2	1.3
Spreads (%)				
Yield on Advances	9.3	8.4	8.4	8.5
Yield on Investments	7.7	7.1	7.1	7.1
Yield on Funds	8.5	7.7	7.8	7.9
Cost of Funds	5.4	4.8	4.8	4.8
Capital (%)				
CAR	15.0	14.7	15.0	14.8
Tier I	3.1	3.1	3.1	3.0
Tier II	5.0	6.8	5.2	3.4
Asset (%)				
GNPA	2.1	3.4	2.0	1.2
NNPA	65.0	65.0	67.2	69.3
PCR	90.0	96.9	101.8	104.5
Management (%)				
Credit/ Deposit	41.0	47.3	46.9	45.9
Cost/ Income	51.4	53.8	52.6	52.5
CASA	3.8	3.4	3.4	3.6
Earnings (%)				
NIM	6.8	0.5	7.6	13.7
ROE	0.7	0.0	0.7	1.2
ROA	15.4	1.1	19.7	38.9
ROA	5.0	5.0	6.6	7.2

Rating criteria

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