

Stock Update

Improvement in performance continues, outlook bright

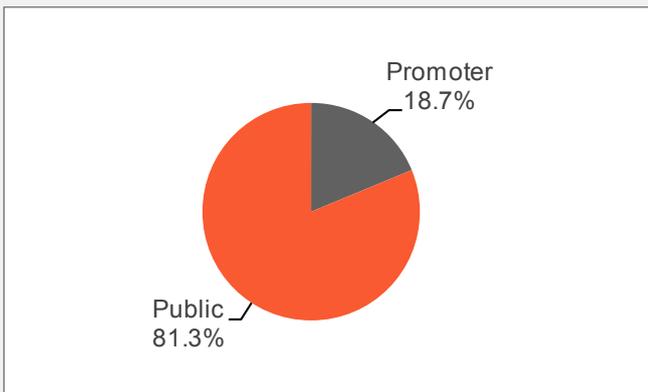
Axis Bank

Reco: Buy | CMP: Rs741

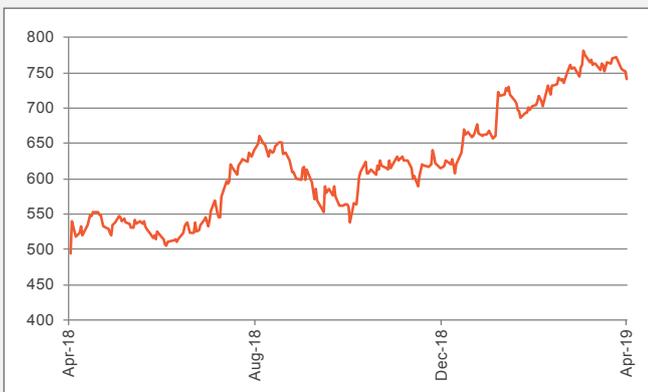
Company details

Price target:	Rs900
Market cap:	Rs190,560 cr
52-week high/low:	Rs788/479
NSE volume: (No of shares)	99.4 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (No of shares)	210.36 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.6	13.4	33.5	49.1
Relative to Sensex	-2.8	4.9	15.8	30.5

Key points

- Healthy operating performance, fee income too contributes:** Axis Bank posted strong results for Q4FY19 where not only its operational performance was strong, but its asset quality performance too was sequentially improved. Also, it continued to improve its other parameters like business traction and fee income performance which indicate that the worst is behind for the bank.

The net interest income (NII) increased by 20.6% y-o-y to Rs 5,705 crore on the back of 12.5% growth in overall advances but more importantly, a change in business mix which has more retail contribution and also due to lower incremental slippages. Net interest margins (NIMs) during the quarter declined slightly by 3BPS on a sequential basis to 3.44% but given the operating environment, we believe it is reasonable.

The non-interest income (OI) too posted strong growth of 26.5% y-o-y growth. The growth in non-interest income was driven by strong fee income growth (~86% of total OI; up by 23.4% y-o-y) along with Treasury Income (~10% of OI, up by 64% y-o-y). Notably, the retail fee in Q4FY19 grew 37% y-o-y and now constitutes 61% of the total fee income which indicates the revenue diversification of Axis Bank and is a positive sign. We believe that retail fees are more sustainable in nature and indicate the bank's retail franchise strength. As a result of the strong operating performance and lower costs, the bank has reported a net profit for the quarter of Rs. 1,505.1 crore as against loss of Rs 2188.7 crore in Q4FY18.

- Retail business growth entuses, both on loans and deposits:** Though Axis Bank's overall loan book grew by 12.5% y-o-y, its domestic loan book growth was stronger at ~18% y-o-y helped by strong retail growth of 19% y-o-y (49.7% of total loans) while the corporate book growth was still relatively tepid at 5% y-o-y. The SME portfolio too grew by 12% y-o-y. Notably, despite an intensely competitive environment for retail deposits, Axis Bank's performance was strong, where its total Deposits grew 21% y-o-y. Hence, while the Savings Bank Deposits (SA), traction slowed and on a quarterly average balance (QAB) basis as it grew by 13%, notably on a QAB basis, CASA + Retail Term Deposits together posted a healthy growth of 21% y-o-y and constituted 81% of total deposits. The share of CASA in the Total Deposits stood at 44%.

- ◆ **Asset quality trend continues to improve:** Continuing from its strong asset quality performance since Q1FY19, Axis bank reported an improvement in its overall asset quality in Q4 FY19 as well. Its GNPA ratio and net NPA ratio declined by 49 BPS and 30 BPS sequentially to 5.26% and 2.06% respectively which is a positive performance. Notably, the fresh NPA accretion was at Rs 3012 crore, as against Rs 3746 crores in Q3FY19. Corporate slippages stood at Rs 1,369 crore and ~72% of this came from the disclosed BB & below accounts. There was one chunky exposure (Rs ~330 crore) from the engineering & electronics sector which slipped into NPA during the quarter. During the quarter, the recoveries and upgrades were at Rs 2,376 crores, much better than Rs1622 crores in Q3 FY19.

Indicating a healthy trend, the outstanding BB & Below corporate loans have reduced marginally by 2.3% q-o-q to Rs 7,467 crores and now are 1.3% of customer assets from 1.4% in Q3FY19 (1.8% in Q4FY18)

- ◆ **PCR improves, additional provision added comfort on book quality:** During Q4 FY19, the bank made a few changes to increase conservatism in provisioning. Going forward, the bank will make additional provisions on standard assets. Axis Bank has added two more sectors in stressed sector as a prudent step and has made additional provisions towards standard assets. Overall additional provisions of Rs ~ 1300 crore over and above the normal NPA provisioning

during the quarter was made. Though bank has made additional provisions, PCR continue to improve to 77% from 75% in Q3 FY19 which we believe is a positive sign. Notably, despite additional provisions, overall provisions stood at Rs 2,711 crore which de grew by 11.2% on q-o-q basis and 62.2% on y-o-y basis.

- ◆ **Outlook:** The bank has continued its strong performance since the last quarter with an overall asset quality improvement and higher provisions coverage which have added to investor confidence. Also, Axis Bank was able to grow its deposits at a healthy pace, including retail deposits (RTD) which is notable especially during a period of intense competition for liquidity and deposits. This along with high quality of new loans has built strong earnings outlook for Axis Bank. We believe, there is room for further valuation upsides provided the bank is able to maintain its performance trajectory along with pragmatic and sustainable incremental growth. Axis bank is comfortably placed (Tier I – 15.84%) for now, however, we expect significant probability of a capital raise in the medium term.
- ◆ **Valuation:** The Bank currently trades at attractive valuations of 2.4x FY2021E BV. Considering the renewed focus on business and organizational improvement along with NPA peaking (due to exogenous and internal factors), we find that Axis Bank fundamentals and business model strength have improved. We therefore maintain our BUY rating with a revised PT of Rs 900.

Result	Rs cr				
Particulars	Q4FY2019	Q4FY2018	YoY (%)	Q3FY2019	QoQ (%)
Interest income	14,798.0	11,771.2	25.7	14,129.7	4.7
Interest expense	9,092.4	7,040.7	29.1	8,526.1	6.6
Net interest income	5,705.6	4,730.5	20.6	5,603.7	1.8
Non-interest income	3,526.3	2,788.7	26.5	4,000.0	-11.8
Net total income	9,231.9	7,519.1	22.8	9,603.7	-3.9
Operating expenses	4,217.5	3,846.9	9.6	4,079.7	3.4
- Employee cost	1,142.3	1,078.9	5.9	1,202.6	-5.0
- Other Costs	3,075.2	2,768.0	11.1	2,877.1	6.9
Pre-provisioning profit	5,014.4	3,672.2	36.6	5,524.0	-9.2
Provisions	2,711.4	7,179.5	-62.2	3,054.5	-11.2
Profit before tax	2,303.0	-3,507.3	NA	2,469.5	-6.7
Tax	797.9	-1,318.6	NA	789.3	1.1
Profit after tax	1,505.1	-2,188.7	NA	1,680.2	-10.4
NIM (%)	3.44	3.33	11 bps	3.47	-3 bps
Gross NPA (%)	5.26	6.77	-151 bps	5.75	-49 bps
Net NPA (%)	2.06	3.40	-134 bps	2.36	-30 bps

Profit and loss statement

	Rs cr					
Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E
Net interest income	16,833	18,093	18,618	21,708	24,364	28,757
Non-interest income	9,371	11,691	10,967	13,130	15,281	18,741
Net total income	26,204	29,784	29,585	34,838	39,646	47,499
Operating expenses	10,101	12,200	13,990	15,833	17,405	18,720
Pre-provisioning profit	16,104	17,585	15,594	19,004	22,241	28,778
Provisions	3,710	12,145	15,473	12,031	12,693	14,107
Profit before tax	12,394	5,440	122	6,973	9,548	14,672
Tax	4,170	1,788	(154)	2,297	3,199	4,915
Profit after tax	8,224	3,652	276	4,676	6,350	9,757

Balance sheet

	Rs cr					
Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E
Liabilities						
Networth	53,165	55,763	63,445	66,676	72,486	80,487
Deposits	357,968	414,379	453,623	548,471	610,395	714,162
Borrowings	108,580	105,031	148,016	152,776	213,638	249,957
Other liabilities & provisions	20,108	26,295	26,245	33,073	43,196	51,370
Total liabilities	539,821	601,468	691,330	800,997	939,715	1,095,975
Assets						
Cash & balances with RBI	22,361	30,858	35,481	35,099	31,741	37,136
Balances with banks & money at call	10,964	19,398	7,974	32,106	12,208	14,283
Investments	131,524	128,793	153,876	174,969	172,620	201,965
Advances	338,774	373,069	439,650	494,798	630,459	756,550
Fixed assets	3,523	3,747	3,972	4,036	4,806	5,286
Other assets	32,675	45,602	50,377	59,988	87,883	80,754
Total assets	539,821	601,468	691,330	800,997	939,715	1,095,975

Key Ratios

	Rs cr					
Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E
Per share Data (Rs)						
Earnings	34.5	15.2	1.1	18.2	24.7	38.0
Dividend	5.0	5.0	0.2	3.3	4.5	6.8
Book value	223.1	232.8	247.2	259.8	282.4	313.6
Spreads (%)						
Yield on Advances	9.7	9.3	8.4	9.0	9.2	9.2
Cost of Deposits	5.4	5.1	4.4	4.7	4.8	5.0
Net interest margins	3.8	3.4	3.3	3.3	3.2	3.2
Operating ratios (%)						
Credit to Deposit	94.6	90.0	96.9	99.8	103.3	105.9
Cost to income	38.5	41.0	47.3	44.8	43.9	39.4
CASA	47.3	51.4	53.8	44.4	43.3	41.9
Non interest income / Total income	35.8	39.3	37.1	37.7	38.5	39.5
Assets/Equity (x)	10.2	10.5	10.8	11.5	12.5	13.3
Return ratios (%)						
RoE	16.8	6.7	0.5	7.2	9.1	12.8
RoA	1.6	0.6	0.0	0.6	0.7	1.0
Asset quality ratios (%)						
Gross NPA	1.8	5.0	6.7	4.8	4.3	4.2
Net NPA	0.7	2.1	3.4	2.9	2.5	2.2
Growth ratios (%)						
Net interest income	18.3	7.5	2.9	16.6	12.2	18.0
Pre-provisioning profit	20.3	9.2	-11.3	21.9	17.0	29.4
Profit after tax	11.8	-55.6	-92.4	1,596.1	35.8	53.7
Advances	20.5	10.1	17.8	12.5	27.4	20.0
Deposits	11.0	15.8	9.5	20.9	11.3	17.0
Valuation ratios (x)						
P/E	21.5	48.6	689.7	40.7	29.9	19.5
P/BV	3.3	3.2	3.0	2.9	2.6	2.4

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