

Axis Bank Buy

9th December, 2019

CMP :723
Target Price :890
Upside : 23%+
Stop Loss :621 (Closing basis)

Investment Thesis

Asset quality remained stable on sequential basis, Deposit growth was decent and CASA de-growth

Asset quality remained stable during the quarter with absolute GNPA's decreased by 1.1% qoq and absolute NNPA's increasing by 0.9% qoq. Whereas %GNPA's and %NNPA's decreased by 22 bps qoq and 5 bps qoq respectively. The fresh accretions for the quarter increased by 5.9% qoq at ₹ 50 bn (slippage rate of 3.9%) as compared to ₹ 48 bn (slippage rate of 3.9%) in Q1FY20. Provision coverage ratio including PWO improved to 79% at the end of Q2FY20. Slippages for the quarter stood elevated at Rs 49.8 vs Rs 48 Bn QoQ. Corporate slippages were Rs 2862 cr and 97% of corporate slippages came the BB & Below portfolio and BB & below rated book declined to Rs 62.9 Bn vs Rs 75.05 QoQ, accounting for 1.1% of the customer assets. From its peak level of 7.3% the low rated pool of assets has been coming down meaningfully. Deposit growth was at 21.7% compared to 20.9% growth in Q1FY20. However, CASA growth has moderated in the last few quarters and in Q2FY20 the growth was only 4.9%. In the last six quarters the bank's CASA ratio has declined by 580 bps and from its peak post demonetization it has declined by more than 1200 bps. CASA ratio stood at 41.1% flat QoQ

NII growth remained healthy, however one time Deferred Tax Assets adjustment led to the loss at net level; NII grew by 16.6%. Though PPP growth was impressive at 45%, the bank had to write off DTA worth Rs2,137 cr, as per the new tax regime announced by the Govt. This led to a reported loss of Rs 112 cr. However, the upfronting of DTA adjustment should be appreciated as it gives much clarity for coming quarters. the bank is now guiding for FY20 NIM to be better than FY19, partly driven by the bank's focus on garnering retail deposits. During the quarter, the bank delivered a NIM of 3.51% (domestic NIM: 3.63%), improving 11 bps QoQ on account of decline in cost of funds, which in turn, improved due to de-growth in borrowings which cost 100 bps higher than deposits.

Financials

- During the past 5 years, Interest Income of Axis Bank has grown at CAGR of 18%.
- Axis Bank has reported 18.4% YoY growth in net interest income to Rs.56,037mn in Q3FY19 as improvement in margins and healthy credit offtake led to continued pick-up in NII growth.

Particulars	FY18	FY19	FY20E	FY21E	FY22E
NII	18618	21708	24572	30741	36252
PPOP	15594	19005	21746	27209	34012
PAT	276	4677	7651	12164	17678
EPS (Rs)	1.1	18.2	27.1	43.1	62.7
ABVPS (Rs)	182.6	214.8	272.0	311.2	360.3
P/ABV	2.79	3.61	2.65	2.31	2.00

Stock Data

Market Cap (Rs. Mn)	1,814,163
Market Cap (\$ Mn)	25,660.0
Shares O/S (in Mn)	2,266.5
Avg. Volume (3 month)	11,153,000
52-Week Range (Rs.)	735 / 481

Shareholding Pattern

Promoters	23.71%
FII's	47.19%
Institutions	19.53%
Others (incl. body corporate)	9.57%

Performance (%)	1M	6M	1Yr
Absolute	7.0%	16.6%	25.1%
BSE Bankex	-0.5%	-3.1%	4.6%

Key Ratios

Div Yield	0.0%
TTM PE	184.8x
ROE	1.8%
TTM EPS (Rs.)	3.8/-

- Credit growth of Axis Bank was healthy at 12.9% YoY to Rs.4,751bn in Q3FY19. Domestic growth was higher at 18% YoY, with retail portfolio growth at 20% YoY while growth in corporate book witnessed a dip at 4% YoY.
- Asset quality of Axis Bank was improved with slippages at Rs.37,460mn in Q3FY19 as against Rs.27,770 in Q2FY19. Corporate slippages were at Rs.18,870mn, of which ~98% came from BB & below account.

Key Business Highlights

- Axis Bank, third largest private bank in India, provides a suite of corporate and retail banking products. Its services include treasury, retail banking, corporate banking and other banking business.
- Axis Bank's corporate banking includes corporate relationships not included under Retail Banking, corporate advisory services, placements and syndication, project appraisals, capital market related services and cash management services.
- Axis Bank's retail banking constitutes lending to individuals/small businesses and activities include liability products, card services, internet banking, mobile banking and financial advisory services, among others.

Valuation

- Axis Bank is the third largest private bank in terms of loans and profitability in India. The loan book as on Q3FY19 was at Rs.4,751bn. Due to its growing network and strong corporate relationships, the loan book grew at 30% CAGR earlier, higher than 19% CAGR in industry. Until FY12, the corporate segment accounted for 54% of total loans. However, owing to higher risk in the corporate portfolio and reduced demand as a fallout, Axis Bank has increased its focus on retail (49% of loans) segment. We expect loan book will grow at high double digit to reach ~7,000bn by FY21E, with major driver being loans (retail and corporate) with high return on risk weighted basis.
- Axis Bank's biggest strengths is its strong liability franchise. Its CASA deposits at Rs.2,355.5bn, account for ~46% of deposits. Axis Bank has maintained its CASA ratio at ~45% for almost a decade. This has been due to constant investment in branches & ATMs, strong brand recognition and quality services. The savings account has increased more than 18x since FY05 to Rs.1,513.8bn Q3FY19. This has enabled it to maintain healthy NIM of >3% since FY08. Going ahead, recoveries in stressed assets, hike in MCLR and change in product mix is seen to kept margins at current level.
- In the past, the GNPA ratio of Axis Bank has been in the range of 1-1.3% until Q3FY16 wherein it rose to 1.7%. It rose to 6.9% by FY18, led by incremental slippages from corporate book. Lower exposure to IL&FS and declining BB & below rated exposure augurs well for asset quality. With bulk of the pain recognized, anticipated recovery of large stressed cases referred to NCLT, expect GNPA ratio to improve at ~4% levels by FY21E.
- With shift of focus towards the retail & SME segments, multiple changes in its top management team, strong liability franchise and CASA ratio and lower exposure to IL&FS and declining BB & below rated exposure, we value Axis Bank at 2.85x FY20E ABV of Rs.311.2 to arrive at target price of Rs.890, an upside of 23%.

Risk & Concern

- Any downturn in economic growth may impact the earnings of the bank and its asset quality.
- Any increase in interest rates will affect the margins of the bank and hence the operating matrix.
- Axis Bank is planning to increase its presence in the rural areas. However, competition from the existing local players in those regions may affect business growth of the bank.

Graphs & Charts

Figure 1: Interest Income Trend

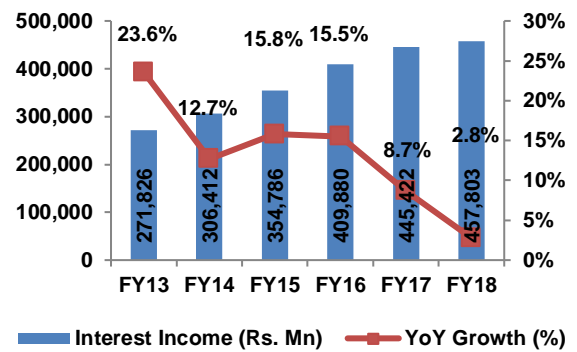


Figure 2: Net Interest Income Trend

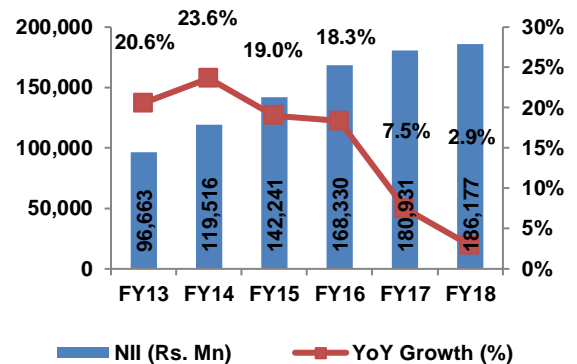


Figure 3: PAT Trend

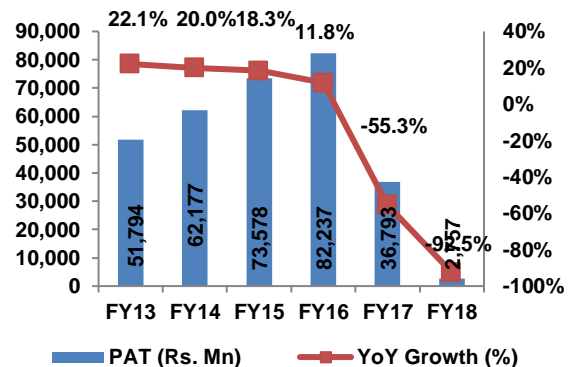
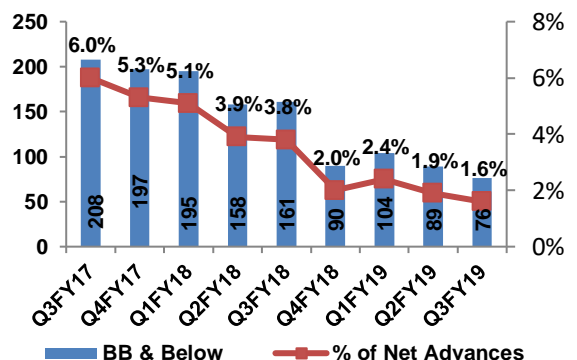


Figure 4: BB & below rated Assets Trends



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