

Axis Bank Buy

10th December, 2019

CMP :715
Target Price :890
Upside : 24%+
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

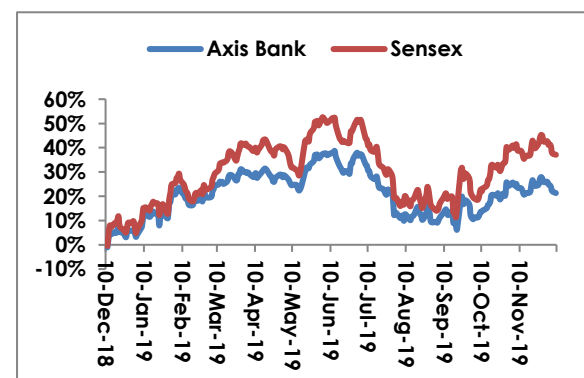
- Q2FY20:** Asset quality remained stable during the quarter with absolute GNPA's decreased by 1.1% qoq and absolute NNPA's increasing by 0.9% qoq. Whereas %GNPA's and %NNPA's decreased by 22 bps qoq and 5 bps qoq respectively.

Particulars(cr)	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 Details	
Market Cap (RsCr)	2,03,585.83
BSE Code	500,469
NSE Code	AXISBANK
Sector/Index	Bank/S&P BSE SENSEX
Year End	March
52 w.High/Low	828/581
Shares in Issue (cr)	282
BSE Sensex	40,487.43
NSE Nifty	11,937.50

Shareholding Pattern	
Promoters	16.60%
DIs	22.72%
FIs	48.16%
Others	12.52%

Key Ratios	
Div Yield	0.14%
TTM PE	46.44
ROE	7.19%
TTM EPS (Rs.)	15.76



- 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. The bank's BB and below rated book stood at Rs 6300 Cr down 16% qoq.

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 6,894 bn 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.2,394.4bn, account for 41% of deposits. Axis Bank has maintained its CASA ratio at 41% 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 keep 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 7.5% 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 3.7% 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.
- Any deterioration in macro environment may result in higher slippages and slow down business growth of IndusInd Bank.
- Any spike in short-term rates may create headwinds for margins of

Graphs & Charts

Figure 1: Net Interest Income Trend

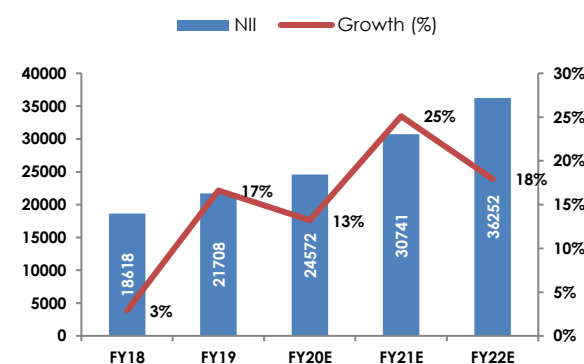


Figure 2: CASA and Deposit (Cr) Growth

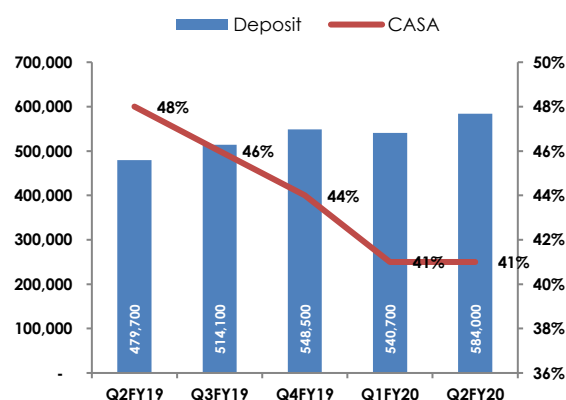


Figure 3: GNPA and NNPA (%)

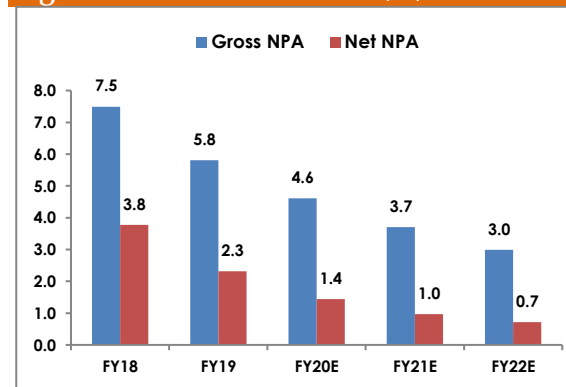
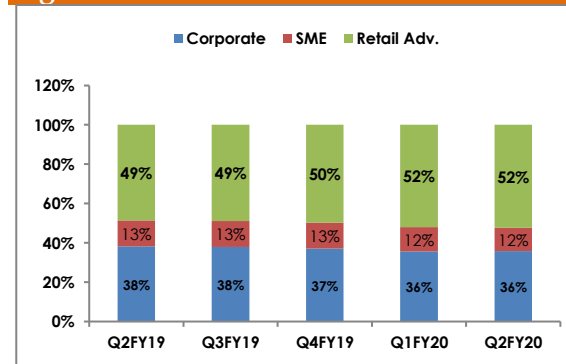


Figure 4: Share of Retail Advances Grows



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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063 Web site:

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