

# Retail Equity Research

## Axis Bank Limited

Banking

BSE CODE: 532215

NSE CODE: AXISBANK

Bloomberg CODE: AXSB:IN

SENSEX: 40,129

**HOLD**

12M Investment Period

Rating as per Large cap

CMP Rs.736 TARGET Rs.797 RETURN 8% ↑  
(Closing: 31-10-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Momentum in line with improving operating metrics

Axis Bank provides wide range of banking services in India. The bank's offerings include cash and credit management services, retail banking, investment management and treasury services among various others.

- Double digit growth continued in Q2FY20, with loans and advances up 14.4% YoY (retail loan book registering 23.2% YoY growth and corporate loan book growing 7.4% YoY). Deposit base also increased 21.7% YoY with CASA growth of 8.5% YoY.
- Net interest margin (NIM) increased 11bps QoQ to 3.51%, and net interest income rose 16.6% YoY to Rs. 6,102cr.
- GNPA/NNPA ratio stood at 5.03%/1.99% in Q2FY20 compared with 5.96%/2.54% in Q2FY19.
- We believe the strong performance of the bank will continue in FY20-21E and hence value the bank at 2.2x FY21E BVPS of Rs 362 leading to a revised target price of Rs. 797 and we maintain HOLD.

### Maintaining the robust growth in advances and deposits

In Q2FY20, loans and advances continued its double digit growth at 14.4% YoY to Rs. 521,594cr, with retail loan book growing at an impressive rate of 23.2% YoY (contributing 52.4%) followed by corporate loan book growing 7.4% YoY (contributing 35.9%). Domestic loan book grew by 19.0% YoY. The bank added 190 branches to its domestic network, the highest in the last 24 quarters. Deposits continued the momentum from Q4 last year and grew 21.7% YoY to Rs. 583,958cr, supported by CASA and retail term deposits which were up 21.0% YoY. The loan to deposit ratio for the quarter stood at 89.3% (vs. 90.0% in Q1FY20).

### Robust operating results

NIM improved 11bps sequentially to 3.51% in Q2FY20 (highest in the last 9 quarters), as net interest income grew 16.6% YoY to Rs. 6,102cr. Pre-provision profit came in very strong at Rs. 5,952cr with 45.4% YoY growth, supported by 45.5% increase in non-interest income, while adj. net profit rose 156.5% YoY to Rs 2,026cr in Q2FY20. Reported net profit declined 114% YoY on one-time tax impact of Rs. 2,138cr due to changes in corporate tax rate.

### Key concall highlights

- The bank holds Rs. 2,600cr of provisions as of Q2FY20 for various contingencies thus enhancing the PCR sequentially to 79% from 78%.
- The management expect net interest margin for FY20 to be in the range of 3.5% to 3.8% (Higher than NIM in FY19).

### Asset quality – Largely stable

The bank's Gross NPA and Net NPA moderated by 22bps and 5bps QoQ to 5.03% and 1.99% respectively in Q2FY20, which marked the 6<sup>th</sup> consecutive quarter of declining NPA ratios amid challenging business environment.

### Outlook & valuation

The bank's resilient growth trajectory along with the focus on asset quality metrics, strengthening of balance sheet and healthy margins will be the key to drive value. Hence, we maintain our HOLD rating on the stock with a revised target price of Rs. 797 based on 2.2x FY21E BVPS.

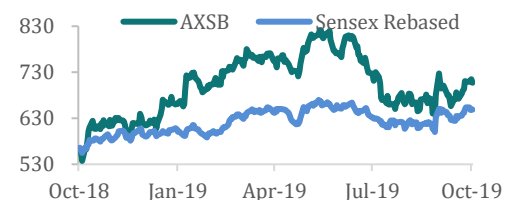
### Company Data

Market Cap (cr)	Rs. 207,478
Outstanding Shares (cr)	282
Free Float	65.0%
Dividend Yield	0.1%
52 week high	Rs. 827
52 week low	Rs. 580
6m average volume (cr)	0.4
Beta	1.3
Face value	Rs. 2

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	18.7	18.1	16.6
FII's	48.3	48.2	48.2
MFs/Insti	22.6	18.1	22.7
Public	5.1	5.1	5.0
Others	5.3	10.5	7.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.1%	-3.9%	26.6%
Absolute Sensex	7.1%	2.8%	16.5%
Relative Return*	2.0%	-6.7%	10.1%

\*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	21,708	25,460	30,307
Growth (%)	16.6	17.3	19.0
NIM (%)	3.4	3.6	3.8
Pre-Provision Profit	19,005	22,467	27,819
Net Profit	4,677	6,885	14,488
Growth (%)	1,596.4	47.2	110.4
Adj. EPS	18.1	32.0	51.4
Growth (%)	1,515.2	76.9	60.6
BVPS	257.9	317.4	362.3
P/E	43.1	23.0	14.3
P/B	3.0	2.3	2.0
ROE (%)	7.2	8.8	15.1
ROA (%)	0.6	0.8	1.5

## Quarterly Financials (Standalone)

### Profit & Loss Account

(Rs cr)	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	15,438	13,281	16.2	15,255	1.2	30,693	26,058	17.8
Interest Expense	9,336	8,049	16.0	9,411	(0.8)	18,747	15,659	19.7
<b>Net Interest Income</b>	<b>6,102</b>	<b>5,232</b>	<b>16.6</b>	<b>5,844</b>	<b>4.4</b>	<b>11,945</b>	<b>10,399</b>	<b>14.9</b>
Non-Interest Income	3,896	2,678	45.5	3,869	0.7	7,765	5,603	38.6
<b>Total Income</b>	<b>19,334</b>	<b>15,959</b>	<b>21.1</b>	<b>19,124</b>	<b>1.1</b>	<b>38,457</b>	<b>31,661</b>	<b>21.5</b>
Operating Expenses	4,046	3,816	6.0	3,820	5.9	7,866	7,536	4.4
<b>Total Expenditure</b>	<b>13,382</b>	<b>11,865</b>	<b>12.8</b>	<b>13,231</b>	<b>1.1</b>	<b>26,613</b>	<b>23,195</b>	<b>14.7</b>
<b>Pre-Provisioning profit</b>	<b>5,952</b>	<b>4,094</b>	<b>45.4</b>	<b>5,893</b>	<b>1.0</b>	<b>11,844</b>	<b>8,466</b>	<b>39.9</b>
Provisions	3,518	2,927	20.2	3,815	(7.8)	7,333	6,265	17.0
<b>Profit Before Tax</b>	<b>2,433</b>	<b>1,167</b>	<b>108.6</b>	<b>2,078</b>	<b>17.1</b>	<b>4,511</b>	<b>2,201</b>	<b>105.0</b>
Tax	2,545	377	575.1	708	259.5	3,253	710	358.1
<b>Net Profit</b>	<b>(112)</b>	<b>790</b>	<b>(114.2)</b>	<b>1,370</b>	<b>(108.2)</b>	<b>1,258</b>	<b>1,491</b>	<b>(15.6)</b>
Adj.	2,138	0	-	0	-	2,138	0	-
<b>Adj. PAT</b>	<b>2,026</b>	<b>790</b>	<b>156.5</b>	<b>1,370</b>	<b>47.8</b>	<b>3,396</b>	<b>1,491</b>	<b>127.8</b>
Adj. EPS - Diluted (Rs)	7.8	3.1	153.1	5.3	47.7	13.0	5.8	125.1

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	26,844	33,165	25,460	30,307	(5.2)	(8.6)
Pre-Provision Profit	23,616	29,237	22,467	27,819	(4.9)	(4.9)
Net Profit	9,435	14,464	9,023	14,488	(4.4)	0.2
<b>Adj. EPS (Rs)</b>	<b>36.2</b>	<b>55.5</b>	<b>32.0</b>	<b>51.4</b>	<b>(11.6)</b>	<b>(7.4)</b>



**PROFIT & LOSS**

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	44,542	45,780	54,986	64,256	71,992
Interest Exp.	26,449	27,163	33,278	38,796	41,685
<b>Net Int. Income</b>	<b>18,093</b>	<b>18,618</b>	<b>21,708</b>	<b>25,460</b>	<b>30,307</b>
% Change	7.5	2.9	16.6	17.3	19.0
Non-Int. Income	11,691	10,967	13,130	15,559	17,115
<b>Net Income</b>	<b>29,784</b>	<b>29,585</b>	<b>34,839</b>	<b>41,020</b>	<b>47,423</b>
<b>Total Income</b>	<b>56,233</b>	<b>56,747</b>	<b>68,116</b>	<b>79,816</b>	<b>89,107</b>
Operating Exp.	12,200	13,990	15,833	18,553	19,604
<b>Total Exp.</b>	<b>38,649</b>	<b>41,153</b>	<b>49,111</b>	<b>57,349</b>	<b>61,288</b>
<b>Pre-Prov. Profit</b>	<b>17,585</b>	<b>15,594</b>	<b>19,005</b>	<b>22,467</b>	<b>27,819</b>
Provisions	12,117	15,473	12,031	10,991	8,450
PBT	5,468	122	6,974	11,476	19,369
Tax	1,788	(154)	2,297	4,590	4,881
Tax Rate (%)	32.7	(126.8)	32.9	40.0	25.2
<b>Net Profit</b>	<b>3,679</b>	<b>276</b>	<b>4,677</b>	<b>6,885</b>	<b>14,488</b>
% Change	(55.3)	(92.5)	1,596.4	47.2	110.4
Adj.	0	0	0	2,138	0
<b>Adj. Net Profit</b>	<b>3,679</b>	<b>276</b>	<b>4,677</b>	<b>9,023</b>	<b>14,488</b>
No. of Shares (cr)	240	245	258	282	282
Adj. EPS (Rs)	15.3	1.1	18.1	32.0	51.4
% Change	(55.4)	(92.7)	1,509.6	76.9	60.6
DPS (Rs)	5.0	0.0	1.0	4.2	6.4

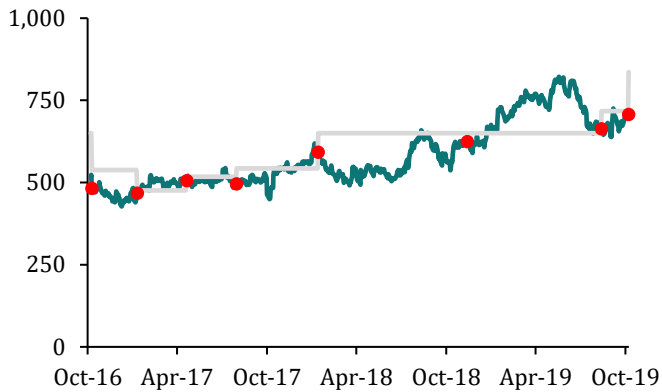
**BALANCE SHEET**

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	50,256	43,455	67,205	63,811	94,612
Investments	128,793	153,876	174,969	191,591	195,423
Advances	373,069	439,650	494,798	564,070	643,039
Fixed Assets	3,747	3,972	4,037	4,097	4,159
Other Assets	45,602	50,377	59,988	62,388	64,883
<b>Total Assets</b>	<b>601,468</b>	<b>691,330</b>	<b>800,997</b>	<b>885,956</b>	<b>1002,116</b>
Capital	479	513	514	564	564
Reserves & Surplus	55,284	62,932	66,162	88,902	101,579
Deposits	414,379	453,623	548,471	625,257	725,299
Borrowings	105,031	148,016	152,776	137,498	140,248
Other Liabilities	26,295	26,245	33,073	33,735	34,426
<b>Total Liabilities</b>	<b>601,468</b>	<b>691,330</b>	<b>800,997</b>	<b>885,956</b>	<b>1,002,116</b>
<b>BVPS (Rs)</b>	<b>232.5</b>	<b>257.8</b>	<b>257.9</b>	<b>317.4</b>	<b>362.3</b>
<b>Adj. BPS (Rs)</b>	<b>163.3</b>	<b>212.7</b>	<b>209.9</b>	<b>267.2</b>	<b>311.2</b>
% Change	(12.3)	30.2	(1.3)	27.3	16.5

**RATIOS**

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Valuation</b>					
P/E (x)	31.6	452.6	43.1	23.0	14.3
P/BV (x)	2.1	2.0	3.0	2.3	2.0
Div. Yield (%)	1.0	0.0	0.1	0.6	0.9
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	9.3	8.4	8.8	9.3	9.3
Cost of Deposits	5.4	4.8	5.1	5.3	5.1
Spread	3.9	3.6	3.7	4.0	4.2
NIM	3.7	3.4	3.4	3.6	3.8
ROE	6.8	0.5	7.2	8.8	15.1
ROA	0.7	0.0	0.6	0.8	1.5
<b>Capital Adequacy (%)</b>					
CAR	14.9	16.6	15.8	15.8	15.9
Tier I	11.9	13.0	12.5	12.8	13.2
Tier II	3.1	3.5	3.3	3.0	2.6
<b>Asset Quality (%)</b>					
GNPA	5.0	6.8	5.3	5.5	5.0
NNPA	2.1	3.4	2.1	2.2	2.2
<b>Operating Ratios (%)</b>					
Credit/ Deposit	90.0	96.9	90.2	90.2	88.7
Cost/ Income	68.7	72.5	72.1	71.9	68.8
CASA	58.8	53.8	44.4	43.9	43.4

## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
26-Oct-16	BUY	538
27-Jan-17	HOLD	476
8-May-17	HOLD	518
17-Aug-17	HOLD	543
30-Jan-18	HOLD	650
30-Nov-18	HOLD	650
30-Aug-19	HOLD	717
1-Nov-19	HOLD	797

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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