

Strong Contender!

17th March, 2016

CMP: Rs. 428
Target Price: Rs. 518
Recommendation: BUY

Stock Info

BSE Group	A
BSE Code	532215
NSE Symbol	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
BSE Sensex	24,677
NSE Nifty	7,513

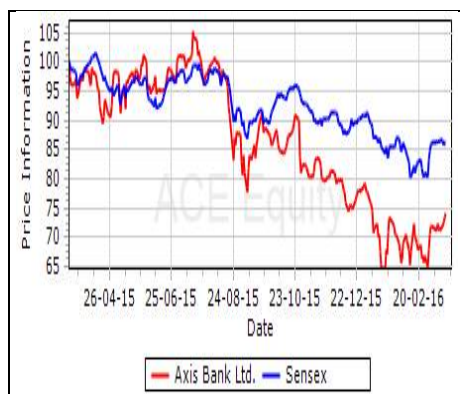
Market Info

Market Capital(Rs Cr)	1,01,941
Equity Capital(Rs Cr)	476
Avg. Trading Vol.	95,551
52 Wk High/ Low	613/367
Face Value	2

Shareholding Pattern (%) (Dec 2015)

Promoters	31.0
Domestic Institutions	16.5
Foreign Institutions	42.2
Public & Others	10.3

Price Chart:



Background:

Axis Bank established in 1993 was the first of the new private banks to have begun operations in 1994 after the Government of India allowed new private banks to be established. The Bank was promoted jointly by Specified Undertaking of Unit Trust of India (SUUTI) (then known as Unit Trust of India), Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd. and United India Insurance Company Ltd. Bank is the third largest private sector bank in India. The Bank offers the entire spectrum of financial services to customer segments covering Large and Mid-Corporate, MSME, Agriculture and Retail Businesses. Services offered by the bank include Personal Banking, Corporate Banking, NRI Banking, Priority Banking, VBV - Online purchases using Credit Card, VBV / MSC - Online purchases using Debit Card & is a leader in digital strategy. The overseas operations of the Bank are spread over nine international offices. International offices focus on corporate lending, trade finance, syndication, investment banking and liability businesses.

Investment Argument:

- The bank has diversified loan book with mounting share of the Retail Advances. As on Q3 FY 16 retail advances grew by 27% YoY & account for 40% of the net advances.
- The bank stays capital adequate. The total capital ratio (Basel III) for the bank in Q3 FY 16 stood at 15.47% with CAR of 12.35% under Tier 1. The bank stays well capitalised for future growth.
- The return on equity for the bank has been mounting over the years with consistent growth in net profits. Net profit for Q3 FY 16 grew by 14.5% YoY. Over the years the profit growth for the bank has nearly been over 20%.
- The NIM for the bank has been on uptrend over the years. As on Q3 FY 16 the NIM for the bank stood at 3.8%.

SNAPSHOT

(RS. Cr)	2013	2014	2015	2016E	2017E
Net Interest Income	9666	11952	14224	17753	20256
Operating Income	16217	19357	22589	27002	30483
Profit After Tax	5179	6218	7358	8538	9955
ROE	15.6	16.3	16.5	17.1	17.2
P / EPS (x)	11.8	11.0	18.0	11.9	10.2
P / ABV (x)	1.9	1.8	3.1	2.1	1.8

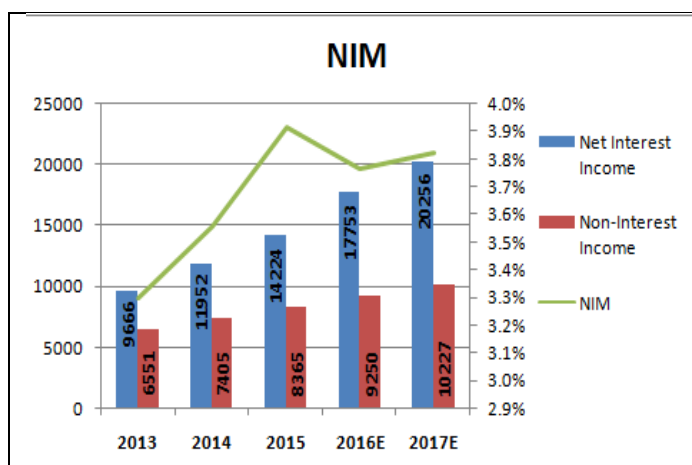
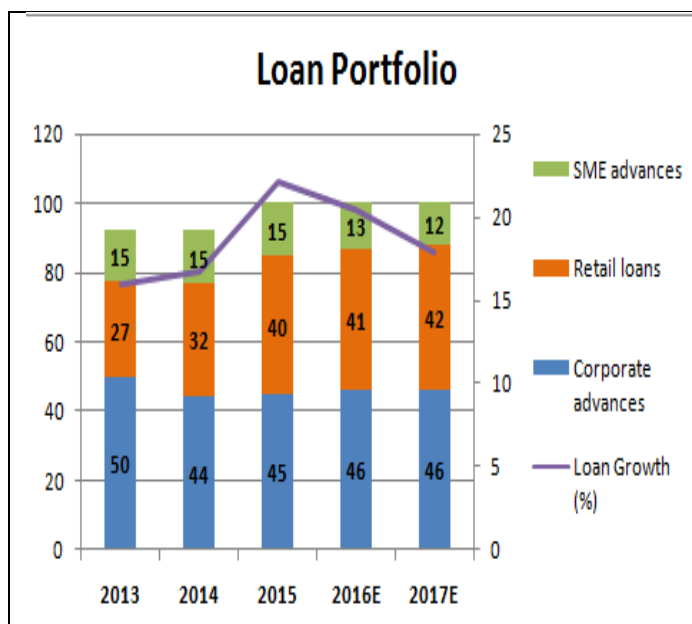
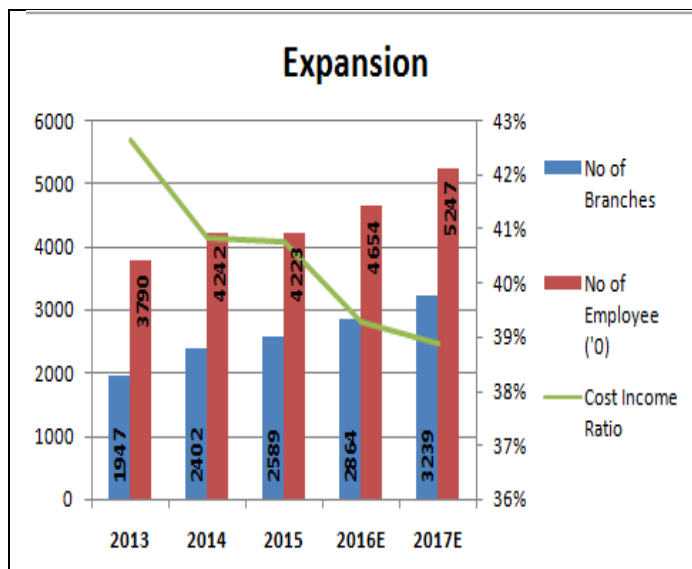
Source: - Company Data Ace Equity, Arianth Research



The Bank has grown robustly over the years. For the years FY 11-13 the CAGR for branches stood at 18.5%. Employee strength for the same period grew at CAGR of 19.7% & growth in ATM's was 34%. The growth has however moderated thereafter. For the period FY 13-15 the growth in branches came down to CAGR of 15.3% while CAGR for employee strength & ATM's dropped to 5.6% & 4.8% respectively. The moderated growth led to the improved cost-income ratio for the bank which dropped from 42.6 in FY 13 to 40.7 in FY 15. For 9M of FY 16 the bank has further improved its presence to 2805 branches with Number of ATM's & Employee strength at 12631 & 47876 respectively. We expect the branches to grow further at CAGR of 12% for FY 15-17E with cost income ratio falling to 38.9.

The bank has shown vigorous loan growth over the years. For the period FY 11-13 the CAGR for advances stood at 17.6%. This further augmented to 19.5% for the period FY 13-15 being supported by the improving share of retail advances which grew from 27% in FY 13 to 40% in FY 15. Retail advances have continued to grow robustly this year also. For Q3 FY 16 it grew by 27% YoY. Housing loans account for 47% of retail loans followed by agriculture loans constituting 15% as on Q3 FY 16. Share of corporate advances for FY 13-15 dropped from 50% to 45%. Major portion of corporate advances have ratings of "A" & higher. Industry wise, infrastructure holds a greater share in the portfolio, however the portfolio stays well diversified. Unsecured portion of the loans comprises of 10% which is expected to go up to 15%. We expect a CAGR of 19% in advances over FY 15-17E backed by strong share of retail advances progressing to 42%.

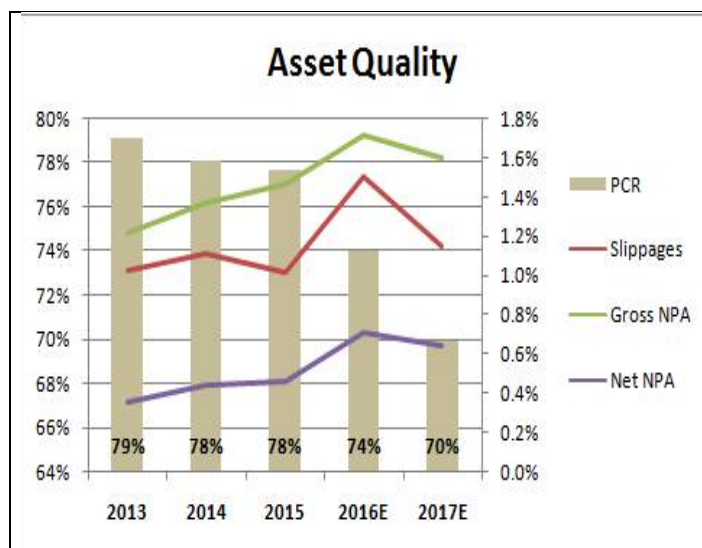
The bank has healthy NIM ascending over the years. The NIM in FY 07 stood at 1.9. From there the NIM has consistently headed North to 3.0 in FY 13 & further to 3.9 in FY 15. This year too, the NIM remained steady with a minor descent. The net interest income for the bank has grown at a sturdy growth rate. For FY 13 the growth rate in net interest income stood at 21%. The growth moderated in FY 15 to 19%. We further expect a moderate growth in net interest income growing at CAGR of 19% for FY 15-17E with a continued support from non interest income growing at a CAGR of 11% for FY 15-17E.



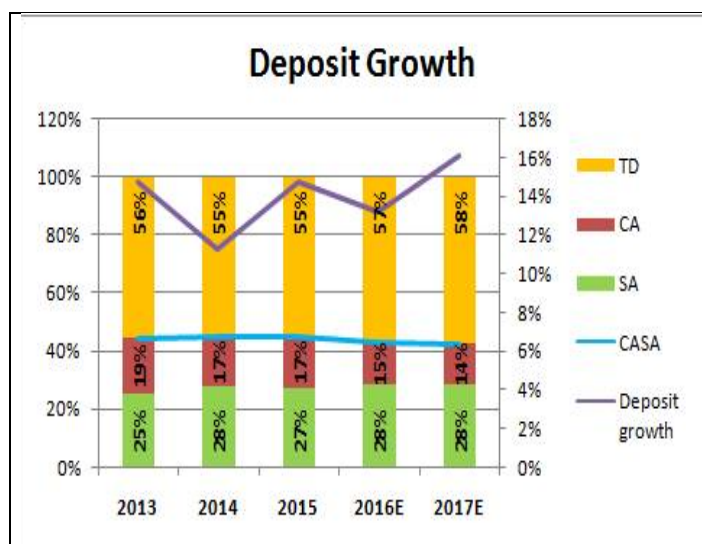
Source: - Company Data Ace Equity, Arianth Research



The NPA ratios for the bank have been in uptrend. For FY 13 the Gross NPA for the bank stood at 1.2%. It further increased to 1.4% in FY 14 & 1.5% in FY 15. The slippages have however remained steady at about 1%. This year however the slippages have amplified. The slippage ratio for FY 16E is expected to be around 1.5%. The Provision coverage ratio has remained in the band of 78%-80% over the years. This year too, the ratio continued to remain that band for the first 2 quarters, however the ratio dropped to 72% in Q3 FY 16. This further led to the rising Net NPA levels for the bank which ascended from 0.4% in FY 15 to 0.75% as on Q3 FY 16. We expect the GNPA & NNPA levels at 1.6% & 0.65% respectively for FY 17E.

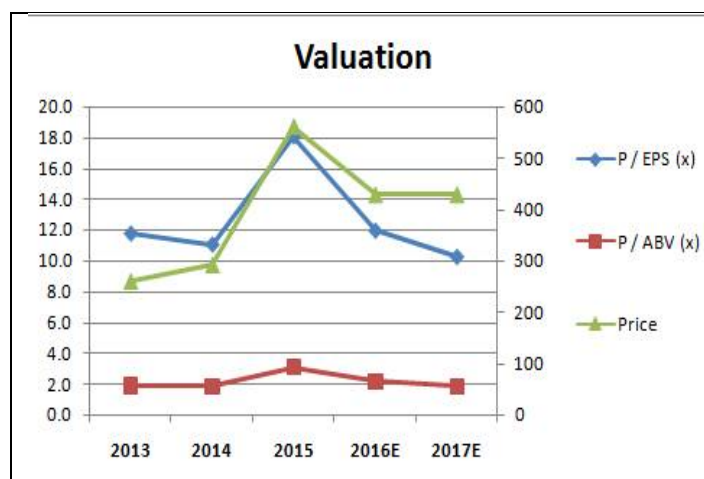


The bank has witnessed a balanced deposit growth. The deposits grew at a CAGR of 15.5% over FY 11-13 backed by improved growth in CASA deposits. Thereafter the growth of deposits slipped to 13% for FY 13-15. CASA deposits for FY 13 stood at 44.4% growing marginally to 44.8% in FY 15. As on Q3 FY 16 the CASA deposits constitute about 43% of total deposits with CA holding a share of 36.6% of the CASA portion (rising by 30bps YoY). Retail term deposits grew at 18.1% YoY for Q3 FY 16. Share of retail term deposits constitutes 63% in the total term deposits as on Q3 FY 16. We expect the deposits to grow further at a CAGR of 15% for FY 15-17E backed by moderate growth in CASA deposits of growing at CAGR of 12%.



Valuation:

Some difficulties in terms of stressed assets are expected to be there going ahead. However we expect the bank to continue to perform fine going ahead. We have valued the bank at its P / ABV multiple of **2.2 (x)** to its FY 17E adjusted book value per share. We have arrived at a fair value of **518** per share at which the valuations look reasonable. At CMP of **428** the stock is trading at the FY 17E P/EPS & P/ABV of **10.2** & **1.8** respectively. We have **"BUY"** rating on the stock with upside potential of **21%**.





Income Statement					
(Rs Cr)	2013	2014	2015	2016E	2017E
Interest Earned	27183	30641	35479	43456	48726
Interest Expended	17516	18690	21254	25703	28469
Net Interest Income	9666	11952	14224	17753	20256
Other Income	6551	7405	8365	9250	10227
Fee Income	5025	5394	6121	6654	7319
Treasury Income	586	328	995	1205	1397
Operating Income	16217	19357	22589	27002	30483
Operating Expenses	6914	7901	9204	10605	11851
Employee Expenses	2377	2601	3115	3421	3935
Profit before provision & tax	9303	11456	13385	16397	18632
Provisions and Contingencies	1750	2107	2328	3401	3640
Profit Before Tax	7553	9349	11058	12996	14992
Provision for tax	2374	3131	3700	4458	5037
Exp. Items	0	0	0	0	0
Profit After Tax	5179	6218	7358	8538	9955

Ratios %					
	2013	2014	2015	2016E	2017E
Asset Quality					
Gross NPA	1.2	1.4	1.5	1.7	1.6
Net NPA	0.4	0.4	0.5	0.7	0.6
PCR	79.2	78.1	77.7	74.0	70.0
Growth					
Advances Growth	16.0	16.8	22.2	20.5	18.0
Deposit growth	14.8	11.2	14.8	13.2	16.1
Net Profit Growth	22.1	20.0	18.3	16.0	16.6
Liquidity					
C-D Ratio	78.0	81.9	87.2	92.8	94.3
CASA	44.4	45.0	44.8	42.9	42.5
Capital Adequacy	17.0	16.1	15.1	15.4	15.5
Efficiency					
Cost Income Ratio	42.6	40.8	40.7	39.3	38.9
Operating Costs to Assets	2.0	2.1	2.0	2.0	2.0

Balance Sheet					
(Rs Cr)	2013	2014	2015	2016E	2017E
Sources of funds					
Share Capital	468	470	474	476	476
Total Reserves	32640	37751	44202	49435	57419
Shareholder's Fund	33108	38220	44677	49911	57895
Deposits	252614	280945	322442	364872	423681
Borrowings	43951	50291	79758	94115	103526
Other Liabilities & provisions	10888	13789	15056	15041	15711
Total Liabilities	340561	383245	461932	523938	600814
Application of Funds					
Cash & Bank	20435	28239	36099	33864	34862
Investments	113738	113548	132343	121755	131496
Advances	196966	230067	281083	338705	399672
Fixed Assets	2356	2410	2514	2654	2730
Other Assets	7067	8981	9893	26960	32054
Total Assets	340561	383245	461932	523938	600814

	2013	2014	2015	2016E	2017E
Spread Analysis					
Yield on Advances	9.7	9.5	9.2	9.1	9.1
Yield on Investments	6.8	7.3	6.9	9.0	8.5
Cost of Funds	5.9	5.6	5.3	5.6	5.4
Cost of Deposits	5.9	5.5	5.3	5.5	5.2
NIM	3.3	3.6	3.9	3.8	3.8
Interest Spread	3.8	3.9	3.9	3.5	3.7
Profitability					
ROE	15.6	16.3	16.5	17.1	17.2
Earnings Per Share (Rs)	22.1	26.5	31.0	35.9	41.8
Dividend Per Share (Rs)	18.0	20.0	4.6	5.7	6.9
Adjusted Book Value (Rs)	138.5	158.3	182.9	199.6	232.5
Valuation					
P/EPS (x)	11.8	11.0	18.0	11.9	10.2
P/ABV (x)	1.9	1.8	3.1	2.1	1.8

Source: - Company Data Ace Equity, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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