

CMP : Rs 723

Rating : Hold

Target : Rs 789

STOCK INFO

INDEX	
BSE	532215
NSE	BAXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	514
Mkt Cap (Rs cr.)	185804
52w H/L (Rs)	726/477
Monthly Avg Vol (BSE+NSE)	9780860

SHAREHOLDING PATTERN

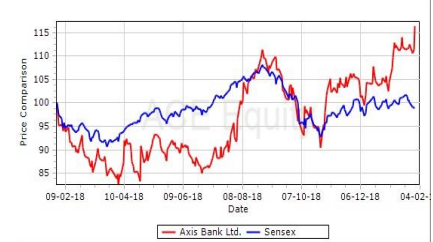
	%
(As on December, 2018)	
Promoters	23.7
FII	47.2
DII	16.0
Public & Other	13.1

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Axis bank	22.8	21.5	16.4
SENSEX	6.3	-1.7	0.1

Source: ACE Equity, Arihant Research

Axis bank v/s SENSEX



Source: ACE Equity, Arihant Research

Axis Bank reported strong operating performance in Q3FY19. PAT surged by 131% at Rs. 1681cr driven by higher other income, which includes fee, treasury and miscellaneous income. Operating Profit for the quarter grew by 43% YOY to Rs 5,525 cr. Advances for the quarter grew by 13% YoY at Rs. 4,751 bln leading to higher NII growth of 18% to Rs. 5604 cr resulting into 9 bps improvement in NIM at 3.47%. Other income for the quarter grew by 54% YoY at Rs. 4001 cr. Treasury income for the quarter grew sharply by 90%. OPEX for the quarter grew by 18% YoY at Rs. 4080 cr taking CI ratio to 42.5% from 47.4% YoY.

Asset quality metrics is progressing well

Corporate lending slippages stood at Rs 1,887 cr out of total 3,746cr, 98% of this came from disclosed BB & below accounts. The Bank's BB and below rated book stood at Rs7,645 cr. It is 1.4% of the Bank's Gross Customer Assets, significantly down from 7.3% at peak. Provision coverage, as a proportion of Gross NPAs including prudential write-offs, stood at 75% up from 73% in Q2FY19.

Strategy going forward

Axis Bank has laid out its strategy for the next three financial years that involves focus on Growth, profitability and sustainability with a goal to deliver ROE of 18% with focus on wholesale banking, while continuing its momentum in retail.

Valuation and View

Loan book growth across segments has seen a pickup and bank will continue to reduce its stressed asset portfolio. We have valued the stock at the P/ABV of 3.0x to its FY20E and arrived at a fair value of Rs 789 per share giving an upside of 9.0%. At CMP of Rs 723 the stock is available at its FY 20E P/ABV of 2.8(x). We have an '**HOLD**' rating on the stock.

Financial Snapshot

Particulars			
(RS. Cr)	FY18	FY19E	FY20E
Net Interest Income	18618	21941	25049
Operating Income	29585	34601	39662
Profit After Tax	276	4929	9330
ROE	0.4	7.2	12.0
ABV	182.7	225.8	262.9
P / EPS (x)	672.5	37.6	19.9
P / ABV (x)	4.0	3.2	2.8

Q3FY19 Concall Highlights**Asset Quality**

- During this quarter, in addition to the regular provisions for NPA, the Bank has also made a contingent provision of Rs600 crores towards any potential slippages from the BB & below pool of corporate loans. Contingent provision of Rs 600cr is one time but going forward conservative provision will remain under both retail and wholesale.
- The Bank's BB and below rated book stood at Rs 7,645 crores amounting to 1.4% of the customer Assets, significantly down from 7.3% at peak. Today 85% of the incremental lending is done to AA rated pool.
- Recoveries from NPAs during the quarter were Rs 1,622 cr and out of which 718cr were recovered from steel sector while write-offs were Rs 2,207 crores.
- The Bank has been asked to classify 2 accounts as NPA, with an outstanding amount of Rs 225 crores.

Loan Book

- Ideal business Mix: retail is 49% of the total and it will grow faster than wholesale and it can go to 55% of the total loan book.
- Profit accretion is sufficient to grow and funding for growth perspective is not in plan.
- Fee income grew 15% yoy and it is more from retail.

Other

- Major recovery from Steel & iron sector will help NIMs to improve
- Shift in focus from term loan to working capital loans.
- Exposure to the IL&FS group for the bank stands at Rs800cr out of which 250cr is fund based which recorded as NPA during the quarter.

Quarterly P&L (Rs. In Cr.)					
	Q3FY19	Q3FY18	YoY	Q2 FY19	QoQ
Interest Earned	14130	11722	20.5%	13281	6.4%
Interest Expended	8526	6990	22.0%	8049	5.9%
NII	5604	4732	18.4%	5232	7.1%
Other Income	4001	2593	54.3%	2678	49.4%
Operating Expenses	4080	3471	17.5%	3816	6.9%
Operating Profit before Prov.& Cont.	5525	3854	43.4%	4094	34.9%
Provisions and Contingencies	3055	2811		2927	
PBT	2470	1043	136.9%	1167	111.7%
Provision for tax	789	316		377	
Net Profit (after Extraordinary Items)	1681	726	131.3%	790	112.8%
Return on Assets (Annualised)	0.9	0.4		0.4	
Earnings Per Share	6.5	3.0		3.1	
Advances	475105	420923	12.9%	456121	4.2%
Deposits	514092	437253	17.6%	479680	7.2%
C-D Ratio	92.4	96.3		95.1	
Amount of Gross NPA	30855	25001	23%	30938	0%
Amount of Net NPA	12233	11769	4%	12716	-4%
% of Gross NPAs	5.8	5.3		6.0	
% of Net NPAs	2.4	2.6		2.5	
Provisions Coverage%	75.0	66		73	
NIM %	3.47	3.38		3.36	
CASA%	46.0	49.0		48.0	
Capital Adequacy Ratio Basel III	16.71%	16.36%		16.45%	
Tier I Basel III	13.22%	12.33%		13.04%	

Financials Summary

Income Statement				Balance Sheet			
(Rs Cr)	FY18	FY19E	FY20E	(Rs Cr)	FY18	FY19E	FY20E
Interest Earned	45780	55902	65757	Sources of funds			
Interest Expended	27163	33961	40708	Share Capital	513	513	513
Net Interest Income	18618	21941	25049	Total Reserves	62932	67861	77191
Other Income	10967	12661	14613	Shareholder's Fund	63445	68374	77704
Fee Income	8867	10108	11726	Deposits	453623	544347	647773
Treasury Income	998	1207	1305	Borrowings	148016	153009	166381
Operating Income	29585	34601	39662	Other Liabilities & provisions	26245	29969	34563
Operating Expenses	13990	15460	15877	Total Liabilities	691330	795699	926421
Employee Expenses	4313	4960	6200	Application of Funds			
Profit before provision & tax	15594	19141	23785	Cash & Bank	43455	47800	54880
Provisions and Contingencies	15473	11785	9859	Investments	153876	176957	197653
Profit Before Tax	122	7356	13926	Advances	439650	512325	609666
Provision for tax	-154	2428	4596	Fixed Assets	3972	4210	4463
Exp. Items	0	0	0	Other Assets	50377	54407	59759
Profit After Tax	276	4929	9330	Total Assets	691330	795699	926421
					0	0	0
Ratios %				Spread Analysis			
	FY18	FY19E	FY20E		FY18	FY19E	FY20E
Asset Quality				Spread Analysis			
Gross NPA	6.8	5.5	3.8	Yield on Advances	7.8	8.4	8.5
Net NPA	3.4	2.0	2.0	Yield on Investments	6.5	6.2	6.0
PCR	65.0	75.0	75.0	Cost of Funds	4.5	4.9	5.0
Growth				Cost of Deposits	5.4	5.4	5.7
Advances Growth	17.8	16.5	19.0	NIM	3.1	3.5	3.5
Deposit growth	9.5	20.0	19.0	Interest Spread	3.2	3.6	3.5
Net Profit Growth	-92.5	1687.9	89.3	Profitability			
Liquidity				ROE	0.4	7.2	12.0
C-D Ratio	96.9	94.1	94.1	Earnings Per Share (Rs)	1.1	19.2	36.4
CASA	53.8	52.0	52.0	Dividend Per Share (Rs)	0.0	5.0	5.0
Capital Adequacy	16.6	16.6	16.6	Adjusted Book Value (Rs)	183	226	263
Efficiency				Valuation			
Cost Income Ratio	47.3	44.7	40.0	P / EPS (x)	672.5	37.6	19.9
Operating Costs to Assets	2.0	1.9	1.7	P / ABV (x)	4.0	3.2	2.8

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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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