

## Asset Quality Deteriorates!

23<sup>rd</sup> July, 2016

**CMP:** Rs. 538  
**Target Price:** Rs. 516  
**Recommendation:** Neutral

### Stock Info

<b>BSE Group</b>	A
<b>BSE Code</b>	532215
<b>NSE Symbol</b>	AXISBANK
<b>Bloomberg</b>	ASXB IN
<b>Reuters</b>	AXBK.BO
<b>BSE Sensex</b>	27,803
<b>NSE Nifty</b>	8,541

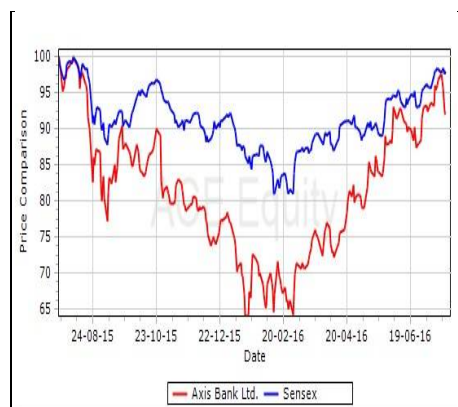
### Market Info

<b>Market Capital(Rs Cr)</b>	1,28,344
<b>Equity Capital(Rs Cr)</b>	477
<b>Avg. Trading Vol.</b>	1,02,26,730
<b>52 Wk High/ Low</b>	598/366
<b>Face Value</b>	2

### Shareholding Pattern (%) (June 2016)

<b>Promoters</b>	30.8
<b>Domestic Institutions</b>	13.6
<b>Foreign Institutions</b>	45.8
<b>Public &amp; Others</b>	9.8

### Price Chart:



Axis Bank Ltd. reported major fall in Q1 FY 17 net profit of 21%. The net profit stood at Rs 1,556 cr for the quarter ended June 30, 2016 vs. Rs 1,978 cr for the same quarter in the previous year on account of higher provisioning for bad loans. However, total income of the bank has increased by 13% to Rs 13,852 cr for quarter under review vs. Rs 12,234 cr for the quarter ended June 30, 2015.

### Revenue mix:

The bank has reported decent revenue growth across all segments. The company registered a growth in revenue of 25% from Treasury segment to Rs 16801 cr vs. Rs 12,898 cr in Q1 FY16. Revenue from Retail Banking segment grew by 16% to Rs 9,123 cr vs. Rs 7,846 cr in Q1 FY16, while Corporate Banking segment witnessed a growth of 11% to Rs 6,123 cr vs. Rs 5,530 cr in the corresponding quarter previous year.

### Earnings Quality:

The bank's earnings quality slowed down with net interest income (NII) for the quarter growing by 11.4% YoY to Rs 4,517 cr for the quarter.

### Asset Quality:

The bank's asset quality weakened. GNPA climbed to 2.5% from 1.4% a year earlier. NNPA rose to 1.1% from 0.5%. Stress realisation continued. Most slippages in corporate lending were from watch list (92%). Power and iron & steel constitute 27% & 26% respectively of the watch list.

### Provisions:

Provisions for the quarter rose robustly. For Q1 FY 17 provisions stood at Rs 2,117 cr vs. Rs 1,122 cr in the corresponding quarter of previous year and Rs 1,168 cr sequentially.

### Other information:

The bank's retail advances grew by 24% and constitute 42% of the net advances portfolio. The bank's capital adequacy ratio as per Basel-III norms stood at 15.67% of which Tier-1 stood at 12.38%. The bank added 102 branches in the Q1 FY 17 and 38 ATM's, taking the total to 3,006 branches and 12781 ATM's.

### Valuation:

At CMP of Rs 538, the stock is trading at P/E & P/ABV of 16 (x) & 2.3 (x) respectively, based on the FY 17 estimates. We have pegged a multiple of 2.2 (x) to its FY 17E ABV and arrived at fair value of Rs 516 per share. We have "NEUTRAL" rating on the stock.

SNAPSHOT					
(RS. Cr)	2013	2014	2015	2016	2017E
<b>Net Interest Income</b>	9666	11952	14224	16833	18628
<b>Operating Income</b>	16217	19357	22589	26204	29017
<b>Profit After Tax</b>	5179	6218	7358	8224	8011
<b>ROE</b>	15.6	16.3	16.5	15.5	13.0
<b>P / EPS (x)</b>	11.8	11.0	18.0	12.9	16.0
<b>P / ABV (x)</b>	1.9	1.8	3.1	2.1	2.3

Source: Ace Equity, Arianth Research



## Q1 FY 17 Earnings Snapshot:

Quarterly P&L					
	Q1 FY17	Q1 FY16	YoY	Q4 FY16	QoQ
<b>Interest Earned</b>	<b>11114</b>	<b>9936</b>	<b>11.9%</b>	<b>10899</b>	<b>2.0%</b>
Interest Expended	6597	5880	12.2%	6346	3.9%
<b>NII</b>	<b>4517</b>	<b>4056</b>	<b>11.4%</b>	<b>4553</b>	<b>-0.8%</b>
Other Income	2738	2298		2694	
Operating Expenses	2786	2262	23.1%	2848	-2.2%
<b>Operating Profit before Prov.&amp; Cont.</b>	<b>4469</b>	<b>4092</b>	<b>9.2%</b>	<b>4399</b>	<b>1.6%</b>
Provisions and Contingencies	2117	1122		1168	
<b>PBT</b>	<b>2352</b>	<b>2970</b>	<b>-20.8%</b>	<b>3230</b>	<b>-27.2%</b>
Provision for tax	797	992		1076	
<b>Net Profit (after Extraordinary Items)</b>	<b>1556</b>	<b>1978</b>	<b>-21.4%</b>	<b>2154</b>	<b>-27.8%</b>
Capital Adequacy Ratio Basel III	15.3	14.5		15.3	
% of Gross NPAs	2.5	1.4		1.7	
% of Net NPAs	1.1	0.5		0.7	
<b>Return on Assets</b>	<b>1.2</b>	<b>1.8</b>		<b>1.7</b>	
<b>Earnings Per Share</b>	<b>6.5</b>	<b>8.3</b>	<b>-21.8%</b>	<b>9.1</b>	<b>-28.0%</b>

Source: Ace Equity, Arihant Research



Income Statement					
(Rs Cr)	2013	2014	2015	2016	2017E
Interest Earned	27183	30641	35479	40988	46780
Interest Expended	17516	18690	21254	24155	28151
<b>Net Interest Income</b>	<b>9666</b>	<b>11952</b>	<b>14224</b>	<b>16833</b>	<b>18628</b>
Other Income	6551	7405	8365	9371	10389
Fee Income	5025	5394	6121	6794	7610
Treasury Income	586	328	995	1032	1142
<b>Operating Income</b>	<b>16217</b>	<b>19357</b>	<b>22589</b>	<b>26204</b>	<b>29017</b>
Operating Expenses	6914	7901	9204	10101	11624
Employee Expenses	2377	2601	3115	3376	4013
<b>Profit before provision &amp; tax</b>	<b>9303</b>	<b>11456</b>	<b>13385</b>	<b>16104</b>	<b>17393</b>
Provisions and Contingencies	1750	2107	2328	3710	5069
<b>Profit Before Tax</b>	<b>7553</b>	<b>9349</b>	<b>11058</b>	<b>12394</b>	<b>12324</b>
Provision for tax	2374	3131	3700	4170	4313
Exp. Items	0	0	0	0	0
<b>Profit After Tax</b>	<b>5179</b>	<b>6218</b>	<b>7358</b>	<b>8224</b>	<b>8011</b>

Balance Sheet					
(Rs Cr)	2013	2014	2015	2016	2017E
<b>Sources of funds</b>					
Share Capital	468	470	474	477	478
Total Reserves	32640	37751	44202	52688	60930
<b>Shareholder's Fund</b>	<b>33108</b>	<b>38220</b>	<b>44677</b>	<b>53165</b>	<b>61408</b>
Deposits	252614	280945	322442	357968	412171
Borrowings	43951	50291	79758	99226	109149
Other Liabilities & provisions	10888	13789	15056	15109	15864
<b>Total Liabilities</b>	<b>340561</b>	<b>383245</b>	<b>461932</b>	<b>525468</b>	<b>598592</b>
<b>Application of Funds</b>					
Cash & Bank	20435	28239	36099	33325	36598
Investments	113738	113548	117550	122006	126886
Advances	196966	230067	281083	338774	399753
Fixed Assets	2356	2410	2514	3523	4228
Other Assets	7067	8981	24686	27839	31127
<b>Total Assets</b>	<b>340561</b>	<b>383245</b>	<b>461932</b>	<b>525468</b>	<b>598592</b>

Ratios %					
	2013	2014	2015	2016	2017E
<b>Asset Quality</b>					
Gross NPA	1.2	1.4	1.5	1.7	2.6
Net NPA	0.4	0.4	0.5	0.7	1.3
PCR	79.2	78.1	77.7	72.0	70.0
<b>Growth</b>					
Advances Growth	16.0	16.8	22.2	20.5	18.0
Deposit growth	14.8	11.2	14.8	11.0	15.1
Net Profit Growth	22.1	20.0	18.3	11.8	-2.6
<b>Liquidity</b>					
C-D Ratio	78.0	81.9	87.2	94.6	97.0
CASA	44.4	45.0	44.8	47.3	44.7
Capital Adequacy	17.0	16.1	15.1	15.3	15.5
<b>Efficiency</b>					
Cost Income Ratio	42.6	40.8	40.7	38.5	40.1
Operating Costs to Assets	2.0	2.1	2.0	1.9	1.9

	2013	2014	2015	2016	2017E
<b>Spread Analysis</b>					
Yield on Advances	9.7	9.5	9.2	8.9	9.0
Yield on Investments	6.8	7.3	7.8	7.7	7.5
Cost of Funds	5.9	5.6	5.3	5.3	5.4
Cost of Deposits	5.9	5.5	5.3	5.3	5.3
NIM	3.3	3.7	4.0	3.6	3.5
Interest Spread	3.8	3.9	3.9	3.6	3.6
<b>Profitability</b>					
ROE	15.6	16.3	16.5	15.5	13.0
Earnings Per Share (Rs)	22.1	26.5	31.0	34.5	33.5
Dividend Per Share (Rs)	18.0	20.0	4.6	5.0	5.8
Adjusted Book Value (Rs)	138.5	158.3	182.9	212.5	234.8
<b>Valuation</b>					
P / EPS (x)	11.8	11.0	18.0	12.9	16.0
P / ABV (x)	1.9	1.8	3.1	2.1	2.3

Source: Ace Equity, Arianth Research

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**Stock Rating Scale**

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

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