

## Feeble Asset Quality!

1<sup>st</sup> Nov, 2016

**CMP:** Rs. 485  
**Target Price:** Rs. 457  
**Recommendation:** REDUCE

### Stock Info

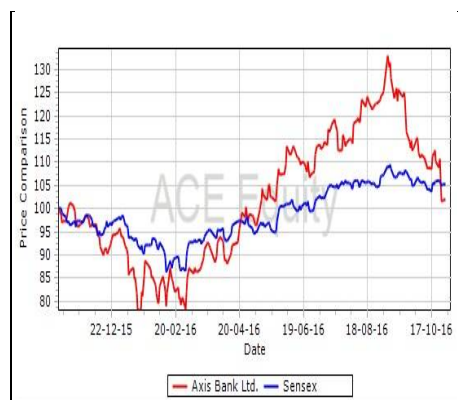
<b>BSE Group</b>	A
<b>BSE Code</b>	532215
<b>NSE Symbol</b>	AXISBANK
<b>Bloomberg</b>	ASXB IN
<b>Reuters</b>	AXBK.BO
<b>BSE Sensex</b>	27,930
<b>NSE Nifty</b>	8,625

### Market Info

<b>Market Capital(Rs Cr)</b>	1,16,600
<b>Equity Capital(Rs Cr)</b>	478
<b>Avg. Trading Vol.</b>	1,10,94,920
<b>52 Wk High/ Low</b>	638/366
<b>Face Value</b>	2

Shareholding Pattern (%)	(Sep 2016)
<b>Promoters</b>	30.2
<b>Domestic Institutions</b>	9.9
<b>Foreign Institutions</b>	50.8
<b>Public &amp; Others</b>	9.2

### Price Chart:



Axis Bank Ltd. reported major drop in Q2 FY 17 net profit of 83%. The net profit stood at Rs 319 cr for the quarter ended Sep 30, 2016 vs. Rs 1,916 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 14% to Rs 13,699 cr for quarter under review vs. Rs 12,001 cr for the quarter ended Sep 30, 2015.

### Revenue mix:

The bank has reported decent revenue growth across the segments. The bank registered a growth in revenue from Retail Banking segment of 13% to Rs 9,586 cr vs. Rs 8,469 cr in Q2 FY16, while Corporate Banking segment witnessed a growth of 8% to Rs 6,079 cr vs. Rs 5,649 cr in the corresponding quarter previous year. Revenue from Treasury segment stood steady at Rs 15,749 cr vs. Rs 15,686 cr in Q2 FY16.

### Earnings Quality:

The bank's earnings quality slowed down with net interest income (NII) for the quarter growing by 11.1% YoY to Rs 4,514 cr for the quarter. NIM stood at 3.6 vs. 3.9 YoY.

### Asset Quality:

The bank reported feeble asset quality. GNPA climbed to 4.2% from 1.4% a year earlier. NNPA rose to 2.0% from 0.5% YoY. Slippages from the corporate lending book stood at Rs 8,193 crores of which 89% was from the WL portfolio. The Watch List reduced to 3.5% of customer assets in September from 5.4% in June and 6.2% in March.

### Other information:

The bank's retail advances grew by 25% and constitute 42% of the net advances portfolio. The bank's capital adequacy ratio as per Basel-III norms stood at 15.2 of which Tier-1 stood at 12.03. The bank added 100 branches in the Q2 FY 17 and 667 ATM's, taking the total to 3106 branches and 13448 ATM's.

### Valuation:

We have valued the stock at the P/ABV of 2.2x to its FY18E based on its 5 years average and arrived at a fair value of Rs 457 per share. We have 'Reduce' rating on the stock.

SNAPSHOT				
(RS. Cr)	2015	2016	2017E	2018E
<b>Net Interest Income</b>	14224	16833	18469	21368
<b>Operating Income</b>	22589	26204	28570	32686
<b>Profit After Tax</b>	7358	8224	4746	5453
<b>ROE</b>	16.5	15.5	8.0	8.9
<b>P / EPS (x)</b>	18.0	12.9	24.4	21.3
<b>P / ABV (x)</b>	3.1	2.1	2.5	2.3

Source: Ace Equity, Arian Research



## Q2 FY 17 Earnings Snapshot:

Quarterly P&L					
	Q2 FY17	Q2 FY16	YoY	Q1 FY17	QoQ
Interest Earned	11159	9960	12.0%	11114	0.4%
Interest Expended	6645	5898	12.7%	6597	0.7%
NII	4514	4062	11.1%	4517	-0.1%
Other Income	2540	2041		2738	
Operating Expenses	2953	2476	19.3%	2786	6.0%
Operating Profit before Prov.& Cont.	4100	3628	13.0%	4469	-8.3%
Provisions and Contingencies	3623	707		2117	
PBT	477	2921	-83.7%	2352	-79.7%
Provision for tax	158	1005		797	
Net Profit (after Extraordinary Items)	319	1916	-83.3%	1556	-79.5%
Return on Assets	0.2	1.6		1.2	
Earnings Per Share	1.3	8.1		6.5	
Advances	353170	298066	18.5%	344925	2.4%
Deposits	380187	324101	17.3%	357858	6.2%
C-D Ratio	92.9	92.0		96.4	
Amount of Gross NPA	16379	4451	268%	9553	71%
Amount of Net NPA	7761	1544	403%	4010	94%
% of Gross NPAs	4.2	1.4		2.5	
% of Net NPAs	2.0	0.5		1.1	
% of Net restructured assets	1.7	2.7		2.0	
Provisions Coverage%	60	78		69	
NIM %	3.6	3.9	-0.2	3.8	-0.2
CASA%	45.0	44.0		43.0	
Capital Adequacy Ratio Basel III	15.2	15.4		15.7	
Tier I Basel III	12.0	12.2		12.4	

Source: Ace Equity, Arian Research



Income Statement				
(Rs Cr)	2015	2016	2017E	2018E
Interest Earned	35479	40988	46304	54646
Interest Expended	21254	24155	27835	33278
<b>Net Interest Income</b>	<b>14224</b>	<b>16833</b>	<b>18469</b>	<b>21368</b>
Other Income	8365	9371	10101	11319
Fee Income	6121	6794	7338	8218
Treasury Income	995	1032	1142	1215
<b>Operating Income</b>	<b>22589</b>	<b>26204</b>	<b>28570</b>	<b>32686</b>
Operating Expenses	9204	10101	11442	12931
Employee Expenses	3115	3376	4013	5625
<b>Profit before provision &amp; tax</b>	<b>13385</b>	<b>16104</b>	<b>17128</b>	<b>19755</b>
Provisions and Contingencies	2328	3710	9826	11365
<b>Profit Before Tax</b>	<b>11058</b>	<b>12394</b>	<b>7302</b>	<b>8390</b>
Provision for tax	3700	4170	2556	2936
Exp. Items	0	0	0	0
<b>Profit After Tax</b>	<b>7358</b>	<b>8224</b>	<b>4746</b>	<b>5453</b>

Balance Sheet				
(Rs Cr)	2015	2016	2017E	2018E
<b>Sources of funds</b>				
Share Capital	474	477	478	478
Total Reserves	44202	52688	58515	61071
<b>Shareholder's Fund</b>	<b>44677</b>	<b>53165</b>	<b>58993</b>	<b>61550</b>
Deposits	322442	357968	412235	486437
Borrowings	79758	99226	104188	117524
Other Liabilities & provisions	15056	15109	23390	25205
<b>Total Liabilities</b>	<b>461932</b>	<b>525468</b>	<b>598805</b>	<b>690715</b>
<b>Application of Funds</b>				
Cash & Bank	36099	33325	20964	22284
Investments	117550	122006	126886	133231
Advances	281083	338774	399753	479704
Fixed Assets	2514	3523	3875	4385
Other Assets	24686	27839	47326	51113
<b>Total Assets</b>	<b>461932</b>	<b>525468</b>	<b>598805</b>	<b>690715</b>

Ratios %				
	2015	2016	2017E	2018E
<b>Asset Quality</b>				
Gross NPA	1.5	1.7	6.0	5.6
Net NPA	0.5	0.7	3.3	2.5
PCR	77.7	72.0	70.0	70.0
<b>Growth</b>				
Advances Growth	22.2	20.5	18.0	20.0
Deposit growth	14.8	11.0	15.2	18.0
Net Profit Growth	18.3	11.8	-42.3	14.9
<b>Liquidity</b>				
C-D Ratio	87.2	94.6	97.0	98.6
CASA	44.8	47.3	46.0	46.0
Capital Adequacy	15.1	15.3	14.7	13.3
<b>Efficiency</b>				
Cost Income Ratio	40.7	38.5	40.0	39.6
Operating Costs to Assets	2.0	1.9	1.9	1.9

	2015	2016	2017E	2018E
<b>Spread Analysis</b>				
Yield on Advances	9.2	8.9	8.9	9.0
Yield on Investments	7.8	7.7	7.5	7.6
Cost of Funds	5.3	5.3	5.4	5.5
Cost of Deposits	5.3	5.3	5.3	5.4
NIM	4.0	3.6	3.5	3.6
Interest Spread	3.9	3.6	3.5	3.5
<b>Profitability</b>				
ROE	16.5	15.5	8.0	8.9
Earnings Per Share (Rs)	31.0	34.5	19.9	22.8
Dividend Per Share (Rs)	4.6	5.0	2.8	3.5
Adjusted Book Value (Rs)	183	213	191	208
<b>Valuation</b>				
P / EPS (x)	18.0	12.9	24.4	21.3
P / ABV (x)	3.1	2.1	2.5	2.3

Source: Ace Equity, Arihant 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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