

**NPA WOES!**

 23<sup>rd</sup> Oct, 2017

**CMP:** Rs. 460  
**Target Price:** Rs. 470  
**Recommendation:** NEUTRAL

**Stock Info**

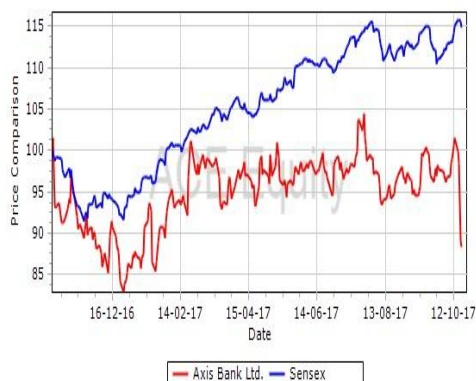
<b>BSE Group</b>	A
<b>BSE Code</b>	532215
<b>NSE Symbol</b>	AXISBANK
<b>Bloomberg</b>	ASXB IN
<b>Reuters</b>	AXBK.BO
<b>BSE Sensex</b>	32,390
<b>NSE Nifty</b>	10,146

**Market Info**

<b>Market Capital(Rs Cr)</b>	1,08,338
<b>Equity Capital(Rs Cr)</b>	479
<b>Avg. Trading Vol.</b>	69,80,290
<b>52 Wk High/ Low</b>	638/424
<b>Face Value</b>	2

**Shareholding Pattern (%) (Sept. 2017)**

<b>Promoters</b>	30.35
<b>Domestic Institutions</b>	9.61
<b>Foreign Institutions</b>	49.13
<b>Public &amp; Others</b>	10.91

**Price Chart:**


Axis Bank Ltd. reported major increase in Q2FY18 net profit of 35%. The net profit stood at Rs 432 cr for the quarter ended September, 2017 vs. Rs 319 cr for the same quarter in the previous year on account of lower provisioning for bad loans. However, total income of the bank has grown marginally to Rs 11,235 cr for quarter under review vs. Rs. 11,053 cr for the quarter ended June, 2017.

**Net Interest Income and Net Interest Margin:**

The Bank's Net Interest Income (NII) grew 0.6% YOY to Rs.4,540 crores during Q2FY18 from Rs.4,514 crores in Q2 FY17. Net interest margin for Q2FY18 stood at 3.5%.

**Other Income:**

Other income (comprising fee, trading profit and miscellaneous income) for Q2FY18 grew by 2% YOY to Rs.2,586 crores as against Rs.2,540 crores during the same period last year. Fee income for Q2FY18 grew 12% YOY to Rs. 2,170 crores. The key driver of fee income growth was Retail Banking, which grew strongly 23% YOY and constituted 48% of the Bank's total fee income. Transaction Banking fees grew 13% YOY and constituted 26% of the total fee income of the Bank. Trading profits for the quarter stood at Rs. 377 crores.

**Asset Quality:**

The bank reported feeble asset quality. GNPA climbed to 5.90% from 4.17% a year earlier. NNPA rose to 3.12% from 2.02% YoY. Slippages for the quarter stood at Rs.8,936 cr. The Watch List reduced in September and stood at Rs.6,052 cr vs Rs.7,941 QoQ. The RBI has pointed out certain reclassifications in the Bank's asset classification and provisioning as on 31st March 2017, subsequent to the annual Risk Based Supervision (RBS) exercise conducted for fiscal 2017. The Bank has duly recorded the impact of such reclassifications in the results for the quarter ended 30th September 2017.

**Other information:**

The bank's retail advances grew by 23% YoY. The bank's capital adequacy ratio as per Basel-III norms stood at 16.32% of which Tier-1 stood at 12.36%. The bank added 100 branches in the Q2 FY18 and 21 ATM's, taking the total to 3485 branches and 14332 ATM's.

**Valuation:**

We have valued the stock at the P/ABV of 2.0x to its FY19E and arrived at a fair value of Rs 470 per share. At CMP of Rs 460 the stock is available at its FY 19E P/ABV of 1.96(x). We have 'NEUTRAL' rating on the stock.

SNAPSHOT			
(RS. Cr)	2017	2018E	2019E
<b>Net Interest Income</b>	18043	19830	22277
<b>Operating Income</b>	29784	30719	35139
<b>Profit After Tax</b>	3679	4981	6260
<b>ROE</b>	7.2	8.0	9.1
<b>P / EPS (x)</b>	32.0	22.2	17.6
<b>P / ABV (x)</b>	2.5	2.1	1.96

**Q2 FY18 Earnings Snapshot:**

Quarterly P&L					
	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Interest Earned	11235	11159	0.7%	11053	1.7%
Interest Expended	6695	6645	0.8%	6436	4.0%
NII	4540	4514	0.6%	4616	-1.7%
Other Income	2586	2540		3000	
Operating Expenses	3348	2953	13.4%	3325	0.7%
Operating Profit before Prov.& Cont.	3777	4100	-7.9%	4291	-12.0%
Provisions and Contingencies	3140	3623		2342	
PBT	637	477	33.4%	1949	-67.3%
Provision for tax	205	158		644	
Net Profit (after Extraordinary Items)	432	319	35.5%	1306	-66.9%
Return on Assets	0.3	0.2		0.9	
Earnings Per Share	1.8	1.3		5.5	
Advances	410171	353170	16.1%	385481	6.4%
Deposits	416431	380187	9.5%	393741	5.8%
C-D Ratio	98.5	92.9		97.9	
Amount of Gross NPA	27402	16379	67%	22031	24%
Amount of Net NPA	14052	7761	81%	9766	44%
% of Gross NPAs	5.9	4.2		5.0	
% of Net NPAs	3.1	2.0		2.3	
Provisions Coverage%	60	60		65	
NIM %	3.5	3.6	-0.2	3.6	-0.2
CASA%	50.0	45.0		49.0	
Capital Adequacy Ratio Basel III	16.3	15.2		16.4	
Tier I Basel III	12.4	12.0		12.3	

### Income Statement

(Rs Cr)	2017	2018E	2019E
Interest Earned	44542	47899	55827
Interest Expended	26499	28068	33550
<b>Net Interest Income</b>	<b>18043</b>	<b>19830</b>	<b>22277</b>
Other Income	11691	10889	12862
Fee Income	7474	8221	9290
Treasury Income	1443	1015	1618
<b>Operating Income</b>	<b>29784</b>	<b>30719</b>	<b>35139</b>
Operating Expenses	12200	12605	13856
Employee Expenses	4013	5298	5819
<b>Profit before provision &amp; tax</b>	<b>17585</b>	<b>18114</b>	<b>21284</b>
Provisions and Contingencies	12117	10451	11653
<b>Profit Before Tax</b>	<b>5468</b>	<b>7663</b>	<b>9631</b>
Provision for tax	1788	2682	3371
Exp. Items	0	0	0
<b>Profit After Tax</b>	<b>3679</b>	<b>4981</b>	<b>6260</b>

### Balance Sheet

(Rs Cr)	2017	2018E	2019E
<b>Sources of funds</b>			
Share Capital	479	480	480
Total Reserves	55284	62128	68386
<b>Shareholder's Fund</b>	<b>55763</b>	<b>62608</b>	<b>68866</b>
Deposits	414379	443735	507551
Borrowings	105031	117635	137632
Other Liabilities & provisions	26295	20224	21620
<b>Total Liabilities</b>	<b>601468</b>	<b>644201</b>	<b>735669</b>
<b>Application of Funds</b>			
Cash & Bank	50256	21791	13122
Investments	128793	139097	170537
Advances	373069	429030	493384
Fixed Assets	3747	4122	4451
Other Assets	45602	50162	54175
<b>Total Assets</b>	<b>601468</b>	<b>644201</b>	<b>735669</b>

### Ratios %

	2017	2018E	2019E
<b>Asset Quality</b>			
Gross NPA	5.7	5.5	5.7
Net NPA	2.3	2.2	2.5
PCR	64.8	70.0	70.0
<b>Growth</b>			
Advances Growth	10.0	15.0	15.0
Deposit growth	16.0	7.1	14.4
Net Profit Growth	-59.3	35.4	25.7
<b>Liquidity</b>			
C-D Ratio	90.0	96.7	97.2
CASA	51.5	48.1	49.2
Capital Adequacy	14.4	17.3	16.7
<b>Efficiency</b>			
Cost Income Ratio	41.0	41.0	39.4
Operating Costs to Assets	2.0	2.0	1.9

	2017	2018E	2019E
<b>Spread Analysis</b>			
Yield on Advances	8.9	8.5	8.5
Yield on Investments	7.5	7.3	7.3
Cost of Funds	5.6	5.0	5.2
Cost of Deposits	5.0	5.2	5.1
NIM	3.4	3.5	3.5
Interest Spread	3.3	3.5	3.3
<b>Profitability</b>			
ROE	7.2	8.0	9.1
Earnings Per Share (Rs)	15.4	20.8	26.1
Dividend Per Share (Rs)	5.0	0.0	0.0
Adjusted Book Value (Rs)	197	222	235
<b>Valuation</b>			
P / EPS (x)	32.0	22.2	17.6
P / ABV (x)	2.5	2.1	2.0

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