

## Feeble Asset Quality!

28<sup>th</sup> April, 2017

**CMP:** Rs. 506  
**Target Price:** Rs. 540  
**Recommendation:** HOLD

### 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>	1,21,825
<b>Equity Capital(Rs Cr)</b>	478
<b>Avg. Trading Vol.</b>	98,14,300
<b>52 Wk High/ Low</b>	638/424
<b>Face Value</b>	2

### Shareholding Pattern (%) (March 2017)

<b>Promoters</b>	30.13
<b>Domestic Institutions</b>	8.84
<b>Foreign Institutions</b>	50.54
<b>Public &amp; Others</b>	10.49

### Price Chart:



Axis Bank Ltd. reported major drop in Q4 FY17 net profit of 43%. The net profit stood at Rs 1225 cr for the quarter ended March, 2017 vs. Rs 2,154 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 2% to Rs 11,168 cr for quarter under review vs. Rs 10,899 cr for the quarter ended March, 2017.

### Net Interest Income and Net Interest Margin:

The Bank's Net Interest Income (NII) grew 4% YOY to 4,729 crores during Q4FY17 from 4,553 crores in Q4FY16. Net interest margin for Q4FY17 stood at 3.83%. NII for FY17 too rose 7% YOY to 18,093 crores from 16,833 crores in FY16.

### Other Income:

Other income (comprising fee, trading profit and miscellaneous income) for Q4FY17 grew by 12% YOY to 3,013 crores as against 2,694 crores during the same period last year. Trading profits for the quarter grew 350% YOY and stood at 428 crores.

### Asset Quality:

The bank reported feeble asset quality. GNPA climbed to 5.0% from 1.7% a year earlier. NNPA rose to 2.1% from 0.7% YoY. Slippages for the quarter stood at Rs.4,811 cr. The Watch List reduced to 2.2% of customer assets in March from 2.8% in December 2016 and 6.2% as on 31st March 2016.

### Other information:

The bank's retail advances grew by 21% YoY and 12% QoQ. The bank's capital adequacy ratio as per Basel-III norms stood at 14.95% of which Tier-1 stood at 11.87. The bank added 93 branches in the Q4 FY 17 and 437 ATM's, taking the total to 3304 branches and 14163 ATM's.

### Valuation:

We have valued the stock at the P/ABV of 2.3x to its FY19E based on its 5 years average and arrived at a fair value of Rs 540 per share. We have 'Hold' rating on the stock.

### SNAPSHOT

(RS. Cr)	2016	2017	2018E	2019E
<b>Net Interest Income</b>	16833	18043	19916	22657
<b>Operating Income</b>	26204	29784	31161	35746
<b>Profit After Tax</b>	8224	3679	5160	6546
<b>ROE</b>	15.5	6.6	8.3	9.5
<b>P / EPS (x)</b>	12.9	29.4	21.0	16.5
<b>P / ABV (x)</b>	2.1	2.3	2.1	1.9

Source: Ace Equity, Arianth Research



## Q4 FY 17 Earnings Snapshot:

Quarterly P&L					
	Q4 FY17	Q4 FY16	YoY	Q3 FY17	QoQ
Interest Earned	11168	10899	2.5%	11101	0.6%
Interest Expended	6440	6346	1.5%	6767	-4.8%
NII	4729	4553	3.9%	4334	9.1%
Other Income	3013	2694		3400	
Operating Expenses	3367	2848	18.2%	3094	8.8%
Operating Profit before Prov.& Cont.	4375	4399	-0.5%	4640	-5.7%
Provisions and Contingencies	2581	1168		3796	
PBT	1793	3230	-44.5%	844	112.4%
Provision for tax	568	1076		265	
Net Profit (after Extraordinary Items)	1225	2154	-43.1%	580	111.4%
Return on Assets	0.8	1.7		0.4	
Earnings Per Share	5.1	9.1		2.4	
Advances	371248	338774	9.6%	347175	6.9%
Deposits	389250	357968	8.7%	370790	5.0%
C-D Ratio	95.4	94.6		93.6	
Amount of Gross NPA	21280	6088	250%	20467	4%
Amount of Net NPA	8627	2522	242%	8295	4%
% of Gross NPAs	5.0	1.7		5.2	
% of Net NPAs	2.1	0.7		2.2	
% of Net restructured assets	1.3	2.3		1.6	
Provisions Coverage%	65	83		64	
NIM %	3.8	4.0	-0.1	3.4	0.4
CASA%	21.0	0.0		48.0	
Capital Adequacy Ratio Basel III	15.0	15.3		16.6	
Tier I Basel III	11.9	12.5		13.0	

Source: Ace Equity, Arian Research



Income Statement				
(Rs Cr)	2016	2017E	2018E	2019E
Interest Earned	40988	44542	47985	56207
Interest Expended	24155	26499	28068	33550
<b>Net Interest Income</b>	<b>16833</b>	<b>18043</b>	<b>19916</b>	<b>22657</b>
Other Income	9371	11691	11245	13089
Fee Income	6794	7474	8371	9459
Treasury Income	1032	1443	1218	1663
<b>Operating Income</b>	<b>26204</b>	<b>29784</b>	<b>31161</b>	<b>35746</b>
Operating Expenses	10101	12200	12605	13856
Employee Expenses	3376	4013	5298	5819
<b>Profit before provision &amp; tax</b>	<b>16104</b>	<b>17585</b>	<b>18556</b>	<b>21890</b>
Provisions and Contingencies	3710	12117	10618	11819
<b>Profit Before Tax</b>	<b>12394</b>	<b>5468</b>	<b>7938</b>	<b>10071</b>
Provision for tax	4170	1788	2778	3525
Exp. Items	0	0	0	0
<b>Profit After Tax</b>	<b>8224</b>	<b>3679</b>	<b>5160</b>	<b>6546</b>

Balance Sheet				
(Rs Cr)	2016	2017E	2018E	2019E
<b>Sources of funds</b>				
Share Capital	477	479	480	480
Total Reserves	52688	55284	61527	68071
<b>Shareholder's Fund</b>	<b>53165</b>	<b>55763</b>	<b>62007</b>	<b>68551</b>
Deposits	357968	414379	443735	507551
Borrowings	108580	105031	117635	137632
Other Liabilities & provisions	20108	26295	20390	21787
<b>Total Liabilities</b>	<b>539821</b>	<b>601468</b>	<b>643767</b>	<b>735521</b>
<b>Application of Funds</b>				
Cash & Bank	33325	50256	21357	12974
Investments	131524	128793	139097	170537
Advances	338774	373069	429030	493384
Fixed Assets	3523	3747	4122	4451
Other Assets	32675	45602	50162	54175
<b>Total Assets</b>	<b>539821</b>	<b>601468</b>	<b>643767</b>	<b>735521</b>

Ratios %				
	2016	2017E	2018E	2019E
<b>Asset Quality</b>				
Gross NPA	1.7	5.8	5.6	5.8
Net NPA	0.7	2.5	2.2	2.5
PCR	72.0	102.0	70.0	70.0
<b>Growth</b>				
Advances Growth	20.5	10.0	15.0	15.0
Deposit growth	11.0	16.0	7.1	14.4
Net Profit Growth	11.8	-55.3	40.2	26.9
<b>Liquidity</b>				
C-D Ratio	94.6	90.0	96.7	97.2
CASA	47.3	51.5	48.1	49.2
Capital Adequacy	15.3	14.4	17.1	16.6
<b>Efficiency</b>				
Cost Income Ratio	38.5	41.0	40.5	38.8
Operating Costs to Assets	1.9	2.0	2.0	1.9

	2016	2017E	2018E	2019E
<b>Spread Analysis</b>				
Yield on Advances	8.9	8.9	8.5	8.5
Yield on Investments	7.1	7.5	7.3	7.5
Cost of Funds	5.2	5.6	5.0	5.2
Cost of Deposits	5.3	5.0	5.0	5.0
NIM	3.6	3.4	3.5	3.6
Interest Spread	3.7	3.3	3.5	3.3
<b>Profitability</b>				
ROE	15.5	6.6	8.3	9.5
Earnings Per Share (Rs)	34.5	15.4	21.5	27.3
Dividend Per Share (Rs)	5.0	5.0	0.0	0.0
Adjusted Book Value (Rs)	213	195	220	235
<b>Valuation</b>				
P / EPS (x)	12.9	29.4	21.0	16.5
P / ABV (x)	2.1	2.3	2.1	1.9

Source: Ace Equity, Arianth Research

**Arihant Research Desk**

E. research@arihantcapital.com  
T. 022-42254800

**Head Office**

#1011, Solitaire Corporate park,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road,  
Chakala, Andheri (E).  
Mumbai - 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Stock Rating Scale**

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

**Research Analyst Registration No.**

INH000002764

**Contact**

SMS: 'Arihant' to 56677

**Website**[www.arihantcapital.com](http://www.arihantcapital.com)**Email Id**[research@arihantcapital.com](mailto:research@arihantcapital.com)**Disclaimer:**

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