

Sector: Banks & Finance  
Company Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 648</b>	
Price Target: <b>Rs. 860</b>	↔

↑ Upgrade ↔ No change ↓ Downgrade

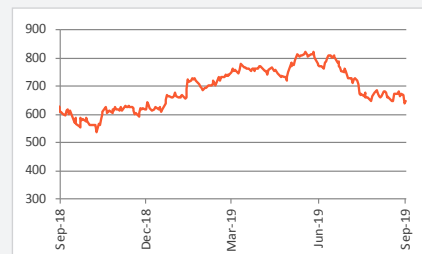
## Company details

Market cap:	Rs. 1,69,844 cr
52-week high/low:	Rs. 827/534
NSE volume: (No of shares)	89.4 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (No of shares)	215.7 cr

## Shareholding (%)

Promoters	18.1
FII	48.2
DII	15.8
Others	17.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-17.5	-12.8	2.4
Relative to Sensex	-3.0	-12.4	-9.8	4.2

Sharekhan Research, Bloomberg

We continue to view Axis Bank as a potential candidate for re-rating, with headroom to catch up with other peers in the private banking space in terms of valuation, buoyed by its improving fundamentals. We believe that factors like incremental addition to better rated clients (in the corporate segment) and its own client driven retail strategy, augur well. While the recent corporate stressed pool and slowing economy pose near term risks, we believe that some long term positives offer comfort. Hence asset sale deals by borrowers, risk weights reduction by RBI for retail loans, its own robust franchise, adequate capitalization, and de-risking strategy make it an attractive franchise. A probable capital raise not only allows the bank to explore growth opportunities, but also an ability to raise adequate capital at attractive price will provide investor comfort. The recent price correction (~10% in last 2-months) make the risk-reward favorable. We maintain our BUY rating with an unchanged Price target of Rs 860.

**Well positioned, with long term Positives in place:** With new management at the helm Axis bank implemented the new strategy of achieving better risk management, pragmatic growth and sustained profitability. Consequently, the bank has taken significant strides towards building better book quality, with a higher focus on incrementally better rated corporate borrowers (A and above). Retail segment has been the key driver of loan growth for Axis Bank led by segments like credit card, personal loan, etc. Not only RBI's reducing risk weight for consumer credit is helpful, but focus on RAROC, these high yielding loan segments would support margins and granularity benefits. Axis Bank is adequately capitalized (Tier-1 at 12.9%) and thus the proposed capital infusion will strengthen its capital position further, but also provide growth opportunities. Though the road to recovery could be fraught with hurdles (rising risk of slippages from new areas of business), the direction in terms of structural improvement in its balance sheet is expected to remain positive.

## Our Call

**Valuation:** Axis Bank stock has recently corrected by ~10% in past two months which we believe factors in near term concerns. The bank now trades at ~2.1x times FY21E book value which we believe is reasonable. Amidst a weak competitive landscape, Axis bank is well positioned to benefit from the available opportunities. Its improving fundamentals make it a probable candidate for potential re-rating, since its valuations offer significant headroom as compared to other peers in private banking space. Its robust franchise, adequate capitalization, and de-risking book make it attractive franchise, and the recent price correction make the risk-reward favorable. We maintain our BUY rating with an unchanged Price target of Rs 860.

## Key Risks

Possible rise in near term credit costs are likely to impact and prolong the ROE recovery trajectory.

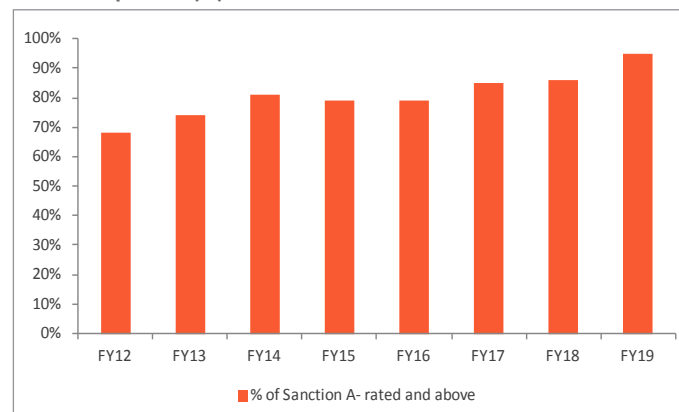
## Valuation

	Rs cr			
Particulars	FY18	FY19	FY20E	FY21E
Net interest income	18,618	21,708	25,587	30,005
Net profit	276	4,676	6,946	9,629
EPS (Rs)	1.1	18.2	27.0	37.4
PE (x)	603.3	35.6	24.0	17.3
Book value (Rs/share)	247.2	256.9	279.1	309.8
P/BV (x)	2.6	2.5	2.3	2.1
RoE (%)	0.5	7.2	10.0	12.6
RoA (%)	0.0	0.6	0.8	0.9

Source: Company, Sharekhan Research

**Wholesale segment incrementally, is of much better quality:** Axis Bank began implementation of its transformation strategy early this year, heralded with the new management at helm. We believe that while a clear strategy, a credible roadmap with a view to achieve better risk management are positives, a lot depends on the successful implementation of the same. Despite the strong business growth seen over years, the past three years have been challenging especially due to stress in the wholesale and corporate loan segments. In light of this, the bank has re-calibrated its strategy for FY20–22 with a segmental focus to strengthen coverage and growth, quantified by RAROC parameters. Consequently, Axis Bank has re-calibrated its risk measures and internal processes to ensure the incremental book is of better quality. Hence, it focused on fresh originations predominantly from entities rated A and above; and a significant reduction in concentration risk from peak by going more granular in its business strategy.

Sanction profile (%)



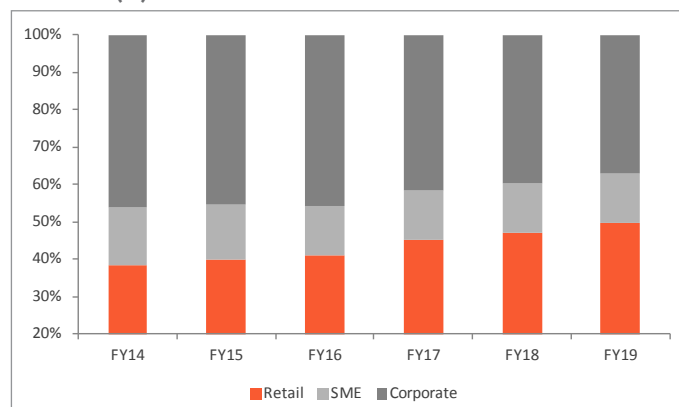
Source: Company, Sharekhan Research

We believe that the NPA recognition from its legacy exposure has already been peaking, but with the recent developments, a fresh pipeline of stressed pool is emerging. In this vein, the increasing proportion of A- and above exposure by the bank, is a positive cushion for the incremental book.

We believe that in the near term we could see increased credit cost and some spike fresh NPA accretion thus affecting/delaying RoE improvement cycle. However, on a long term basis we believe healthy retail growth, especially in the high yielding retail segment along with increased focus on CASA would enable margin improvement and measures like branch rationalization, investment on technology to aid cost reduction.

**Opportunity in the Retail segment to continue:** Axis Bank has been steadily growing its retail lending portfolio with a view to improve granularity of its book. While issues like asset quality and credit-offtake in the wholesale/corporate segment continue to fox the industry in general, retail loan segments like personal loans, credit cards, home loans etc have been growing at a faster pace than overall loan book for Axis Bank and now retail advances contribute 51.9% to total loan mix. We believe high yielding retail book shall remain in focus for Axis Bank going ahead and shall drive overall credit growth. The much depleted competition from NBFC (facing liquidity, risk aversion challenges) and PSU Banks (busy with integration process) also provide cherry picking opportunities.

Loan mix (%)



Source: Company, Sharekhan Research

Recently RBI has reduced risk weight for consumer credit (including personal loans but not for Credit cards) from 125% to 100%. Risk weight refers to the capital banks keep aside as provisioning to cover any loan defaults. The RBI's move will be positive for banks like Axis as it will enable it to reduce the capital cost for growth in this segment.

However, industry reports, and our own channel checks indicate that though the stress in the retail segment has increased incrementally, the stress currently is primarily in the vehicle loans, and that too in the smaller tenure loans. Intuitively, we opine that banks having more of its own sourced customers to be better placed on the retail segment, and Axis with its strong retail client base, will not see meaningful impact.

**Credit cost may see near term weakness but positive levers available too:** In the recent quarter gone by, Axis Bank reported a stable overall asset quality. However, the management disclosed a new list of potentially stressed accounts across 8 sectors - media, plastics, infra, infra finance, telecom, travel, power and HFC. The bank disclosed a pool of Rs ~10,000 crores which comprise of Fund based exposure of Rs 7,000 crores + Non Fund based exposure of Rs 3000. The quantum of materialization of these exposure into NPA would be key to watch and we could see some rise in credit cost for the Bank. However, considering the recent turn of events, we believe that possible exposures to an entity in the restaurant business as well as a Infrastructure Financial conglomerate may see some improvement/resolution due to possible proceeds from asset sale deals. We however believe apprehensions regarding asset quality have been largely factored in the price, while there are other positive levers for margin improvement like cost management and margins play that will provide support to the bottom-line performance.

**Capital raising to be book value accretive:** Axis Bank is adequately placed in terms of its capital requirements (Total CAR: 16.06%, Tier-1: 12.90%). However, the bank is likely to raise further equity capital, probably via QIP (likely to be ~Rs 14,000 cr as per media reports). A probable capital raising initiative would further strengthen balance sheet for Axis Bank and would be book value accretive (if done at current valuations). Healthy capital adequacy will further enable the bank to push for higher growth.

#### Loan Mix (%)

Particulars	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Overseas Loans	13.9	12.9	12.2	12.2	11.1	9.2	7.7	7.2
Domestic loans	86.1	87.1	87.8	87.8	88.9	90.8	92.3	92.8
Corporate Credit	42.2	41.0	39.7	39.1	38.2	38.0	37.1	35.7
SME	12.9	13.0	13.4	12.9	13.2	13.1	13.3	12.4
Retail Advances	44.9	45.9	47.0	48.0	48.6	48.9	49.7	51.9

Source: Company; Sharekhan Research

#### Reported Margins, Cost of funds and Cost of Deposits

Particulars	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
NIM (%)	3.3%	3.5%	3.4%	3.5%	3.4%	3.4%
Domestic NIM (%)	3.6%	3.7%	3.6%	3.7%	3.6%	3.6%
Cost Of Funds (%)	5.1%	5.2%	5.3%	5.4%	5.7%	5.7%
Cost of Deposit (%)	4.9%	4.9%	5.0%	5.0%	5.1%	5.4%

Source: Company; Sharekhan Research

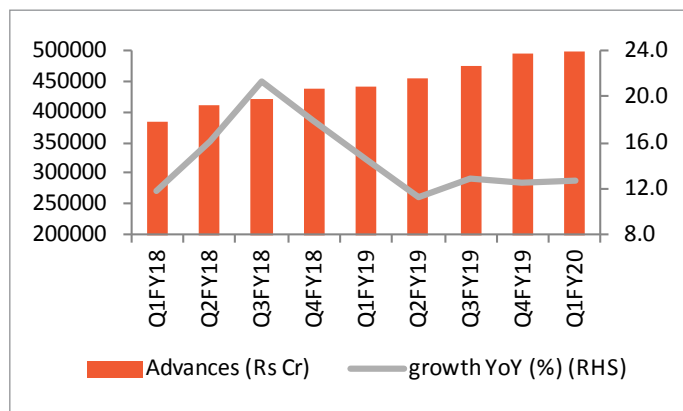
#### Movement in NPAs

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Gross NPAs	32,662	30,938	30,855	37,944	47,924
Additions	4,337	2,777	3,746	3,012	4,798
Recovery	(2,917)	(2,186)	(1,622)	2,376	2,177
Written off	(3,007)	(2,315)	(2,207)	1,701	3,005
Net slippages	(1,587)	(1,724)	(83)	7,089	2,621
Net NPAs	14,902	12,716	12,233	11,276	11,037

Source: Company; Sharekhan Research

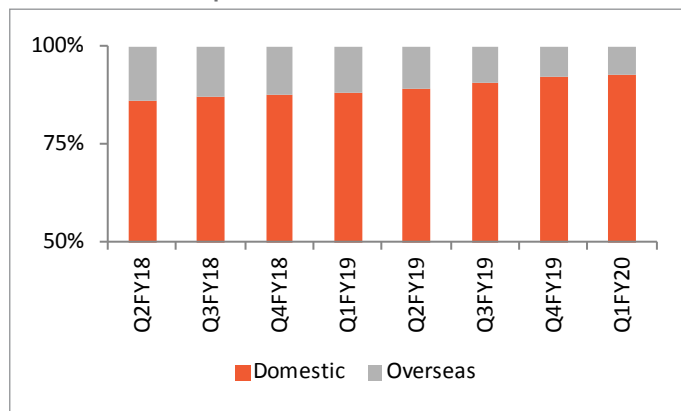
## Financials in charts

### Advances trend



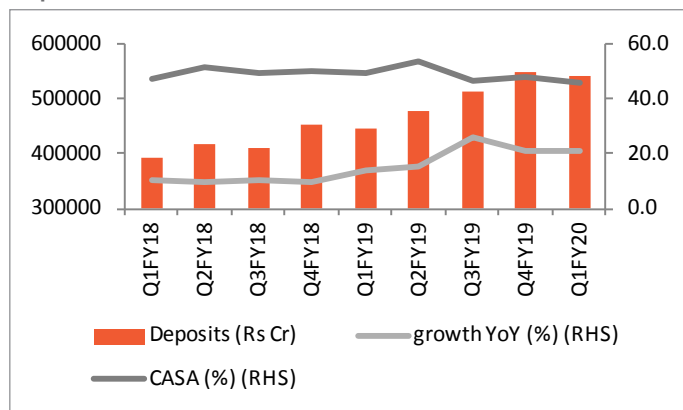
Source: Company, Sharekhan Research

### Loan book break-up



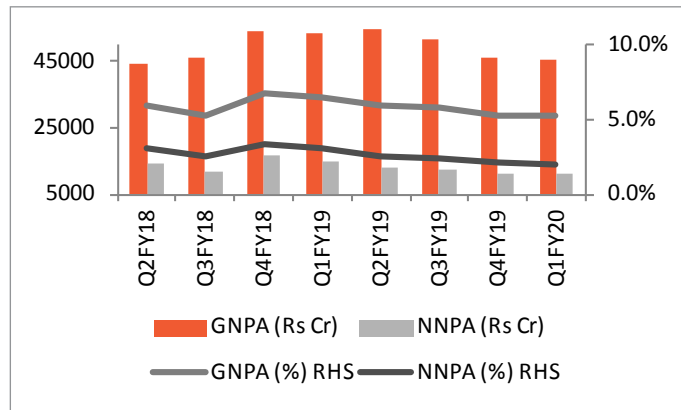
Source: Company, Sharekhan Research

### Deposits trend



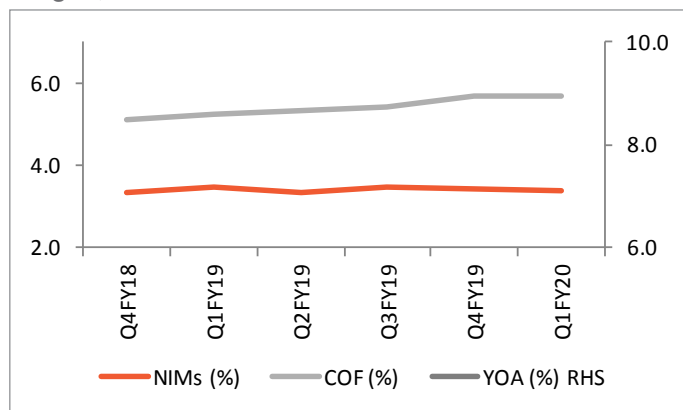
Source: Company, Sharekhan Research

### Asset Quality Movement



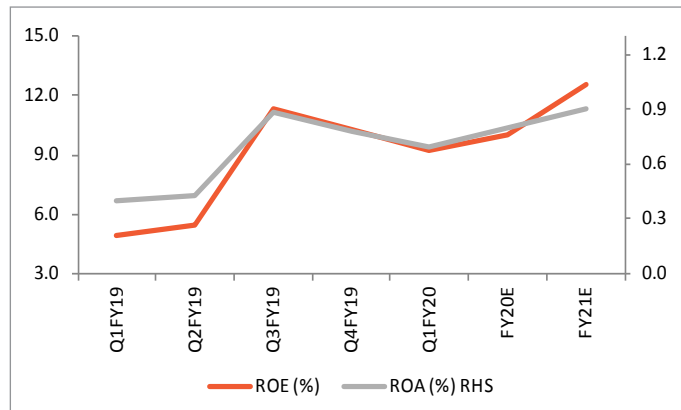
Source: Company, Sharekhan Research

### Margins, Cost of Funds and Yields on Advances



Source: Company, Sharekhan Research

### Return Ratios



Source: Company, Sharekhan estimates

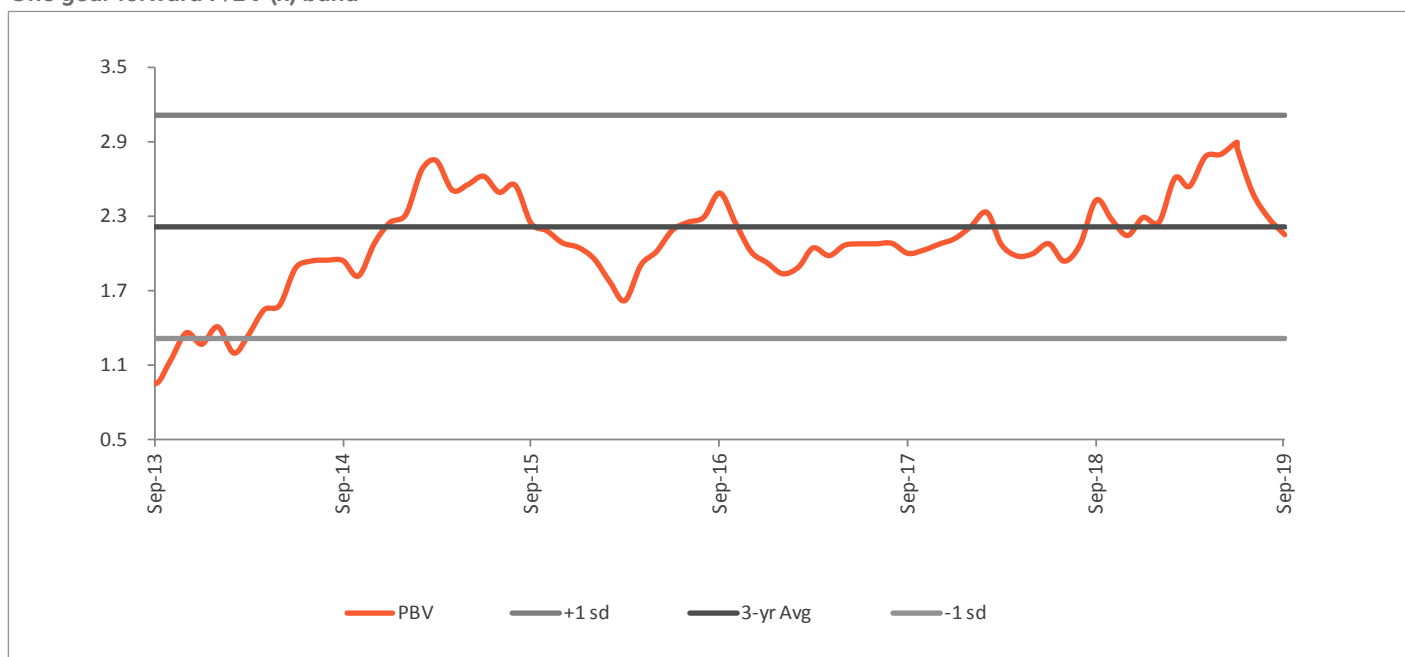
## Outlook

We believe overall long term outlook for the bank remains positive with potential levers available for performance improvement, competitive scenario turning favorable and better risk management practices leading to better asset quality performance. The bank disclosed Rs ~10,000 crores addition to the stressed pool, along with possible exposures to an entity in the Restaurant business (which will likely add to the above) making asset quality performance a key monitorable in near term. However, structurally we find that the bank is getting stronger. This, along with the weakened competitive scenario, and strong franchise, affords value for the long term. Axis Bank is comfortably capitalized (CET 1 at 11.68%, Tier-1 at 12.66%) for now. The bank is likely to raise capital of around Rs14,000 crore (as per media reports) will further strengthen its capital position and also enable it to pursue growth opportunities. Consequently, we suggest to use the aberrations like the correction in past few months to accumulate the stock.

## Valuation

Axis Bank stock has recently corrected by ~10% in past two months which we believe factors in near term concerns. The bank now trades at ~2.1x times FY21E book value which we believe is reasonable. Amidst a weak competitive landscape, Axis bank is well positioned to benefit from the opportunities. Its improving fundamentals make it a probable candidate for potential re-rating, since its valuations offer significant headroom as compared to other peers in private banking space. Its robust franchise, adequate capitalization, and de-risking book make it attractive franchise, and the recent price correction make the risk-reward favorable. We maintain our BUY rating with an unchanged Price target of Rs 860.

One year forward P/BV (x) band



Source: Sharekhan Research

## Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Axis Bank	648	2.3	2.1	24.0	17.3	0.8	0.9	10.0	12.6
ICICI Bank	399	2.3	2.1	21.5	16.3	1.1	1.2	10.6	12.9
HDFC Bank	2187	3.6	3.1	23.4	18.5	1.9	2.0	16.1	17.9
Kotak Mahindra Bank	1460	5.6	5.0	49.5	41.4	1.7	1.7	12.2	12.8

Source: Company, Sharekhan research

## About company

Axis bank is promoted by SUUTI (an entity established in 2003) and today is the third largest private sector bank in India. The Bank offers the entire spectrum of financial services to customer segments covering Large and Mid-Corporates, MSME, Agriculture and Retail Businesses. The bank has 11 subsidiaries, amongst which Axis Capital Ltd., Axis Securities Ltd. (ASL), Axis Asset Management Company Ltd. (AAMC), and Freecharge are some of the notable ones. The bank may explore opportunities in the Insurance business, as the new leadership settles down.. Bank has achieved consistent growth and with a 5 year CAGR (2012-13 to 2017-18) of 15% in Total Assets, 12% in Total Deposits, 17% in Total Advances. Bank have strong market position across most digital payment products.

## Investment theme

Axis Bank has a well-diversified loan book having strengths in both retail and corporate segments. The bank's liability profile has improved significantly, which would be helpful in sustaining margins at healthy levels. Of late, asset quality is improving, which we believe is positive for its profitability and growth going forward. Business restructuring as well as drivers such as normalisation of corporate fee income and growth coming from retail plus midmarket group are steps in the right direction, which will augment sustainability and profitability. We expect earnings growth to remain reasonably strong, driven by healthy operating performance. Asset-quality pressure has peaked out and we expect long-term outlook to improve.

## Key Risks

Possible rise in near term credit costs are likely to impact and prolong the ROE recovery trajectory.

## Additional Data

### Key management personnel

Mr Amitabh Chaudhry	MD & CEO
Mr Rajesh Dahiya	Executive Director
Mr Rajiv Anand	Executive Director
Mr Jairam Sridharan	Group Executive & CFO
Mr Deepak Maheshwari	Group Executive & CCO
Mr Ganesh Sankaran	Group Executive & Wholesale Banking
Mr Pralay Mondal	Group Executive & Head of Retail Banking

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.9
2	Unit Trust of India	5.2
3	Capital Group Cos Inc/The	2.9
4	BlackRock Inc	2.8
5	BANK OF NEW YORK MELLON CORP/THE	2.6
6	SBI Funds Management Pvt Ltd	2.5
7	Vanguard Group Inc/The	2.5
8	BC ASIA INVESTMENTS	2.1
9	Dodge & Cox	2.0
10	ICICI Prudential Life Insurance Co	1.9

Source: Bloomberg

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