

Business growth strong; slippage remains dragger...

Axis Bank reported a healthy balance sheet growth with advances up 15.8% YoY to ₹ 550138 crore. Domestic credit growth came in higher at 18% YoY. Growth in retail continued to remain robust at 25% YoY to ₹ 291554 crore, led by healthy growth in unsecured portfolio, auto & small business banking, while SME witnessed a marginal blip. The corporate segment grew 9% YoY. Deposit increased 15.1% YoY to ₹ 591676 crore, though incremental absolute accretion remained weak as the bank deployed capital raised in Q2FY20. CASA ratio remained stable at 41.2%.

The operational performance remained healthy with NII growth at 15.2% YoY to ₹ 6453 crore. Deployment of capital led to margin expansion of 6 bps QoQ (10 bps YoY) to 3.57%. Retail fee business, which constitutes 85% of fee, grew 46% YoY led by traction in the card business. Addition of branches and human resource led to a rise in opex. This led to an uptick in CI ratio to 43.9% in Q3FY20 compared to 40.5% in Q2FY20. Opex constituted one-time expense of ₹ 120 crore recognised in the quarter.

Slippages came in higher at ₹ 6214 crore vs. ₹ 4983 crore in Q2FY20, led by accretion from corporate book at ₹ 3891 crore and ₹ 1090 related to housing finance company. Retail slippages also remained higher at ₹ 1754 crore. Recoveries and write-off came in higher YoY to ₹ 2422 crore and ₹ 2790 crore, respectively. Accordingly, GNPA ratio remained steady QoQ at 5%. PCR broadly remained steady at 78%. The bank has recognised one telecom and one broking account as stressed with BB and below rated book closing lower at ₹ 5128 crore. Higher opex and provision at ~63 bps of advances led to lower than estimated PAT at ₹ 1757 crore, up 5% YoY.

Better risk assessment to confine credit cost, going ahead

Total ~94% of incremental lending was to corporates with rating 'A- & above'. The bank's 'BB & below' rated book continued to fall to ₹ 5128 crore; 0.9% of gross customer assets. Corporate slippages were at ₹ 3891 crore out of which large chunk came from 'BB & below' account. However, slippages are expected to stay higher in near term. Accordingly, credit cost moderation is seen taking a while before falling to ~1.3-1.5% in FY22E.

Valuation & Outlook

The management's continuous determination to improve operationally & focus on offering loans with higher risk adjusted return is poised to aid future profitability. Decline in BB and below book bodes well for asset quality. However, credit cost in the near term is expected to remain elevated thereby impacting return ratios. Factoring in higher credit cost, we cut our earnings estimates for FY20-21E. However, we remain positive on fundamentals given strong operational performance and focus on risk adjusted return oriented business. Rolling over to FY22E and valuing core bank at 2.2x FY22E ABV, we maintain our target price at ₹ 865 (post adding ₹ 35 for subsidiaries post 20% holding company discount). We maintain **BUY**.



Particulars

Particulars	Amount
Market Capitalisation	₹ 203982 crore
GNPA (Q3FY20)	₹ 30073 crore
NNPA (Q3FY20)	₹ 12160 crore
NIM (Q3FY20)	3.57
52 week H/L	827 / 622
Net worth	₹ 83875 Crore
Face value	₹ 2
DII Holding (%)	23.1
FII Holding (%)	48.4

Key Highlights

- Healthy balance sheet growth on the back of retail segment
- Slippages came in higher; elevated credit cost remained negative
- Maintain BUY recommendation with unchanged target price of ₹ 865

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Key Financial Summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	18618	21708	25017	29982	34602	17%
PPP	15594	19005	23690	28080	32010	19%
PAT	-263	4677	5229	12115	15810	50%
ABV (₹)	182.5	215.4	274.3	315.1	369.4	
P/E	-695.4	39.1	37.8	16.3	12.5	
P/ABV	3.9	3.3	2.6	2.3	1.9	
RoA	0.0	0.6	0.6	1.2	1.4	
RoE	-0.4	7.2	6.8	13.0	14.9	

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
NII	6,453	6,513	5,604	15.2	6,102	5.8	Healthy domestic credit growth & expansion in margin led to healthy NII growth
NIM (%)	3.57	3.55	3.47	10 bps	3.51	6 bps	Deployment of capital raised in Q2FY20 led to margin improvement
Other Income	3,787	3,804	4,001	-5.4	3,896	-2.8	Corporate fee remained laggard; healthy traction in retail fees
Net Total Income	10,240	10,317	9,604	6.6	9,998	2.4	
Staff cost	1,365	1,307	1,203	13.5	1,275	7.1	
Other Operating Expenses	3,132	2,854	2,877	8.8	2,771	13.0	One-time expense of ₹ 120 crore recognised in the quarter
PPP	5,743	6,156	5,525	3.9	5,952	-3.5	
Provision	3,471	2,732	3,055	13.6	3,518	-1.3	Higher slippages led to elevated credit cost
PBT	2,272	3,424	2,470	-8.0	2,433	-6.6	
Tax Outgo	515	890	789	-34.8	2,545	-79.8	
PAT	1,757	2,534	1,681	4.5	-112	-1,667.6	Higher provision impacted earnings growth

Key Metrics

GNPA	30,073	27,327	30,855	-2.5	29,071	3.4	Slippages remained higher at ₹ 6214 crore; ₹ 1090 crore from housing finance company, ₹ 3891 crore from corporate book
NNPA	12,160	10,693	12,233	-0.6	11,138	9.2	
Credit	550,138	546,371	475,105	15.8	521,594	5.5	Domestic credit growth continues to remain healthy at 18% YoY, led by 25% YoY traction in retail book
Deposit	591,676	624,017	514,092	15.1	583,958	1.3	CASA ratio remained steady QoQ at 41.2%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	25,254	25,017	-0.9	30,475	29,982	-1.6	34,602
Pre Provision Profit	23,465	23,690	1.0	28,396	28,080	-1.1	32,010
NIM(%) (calculated)	3.4	3.3	-3 bps	3.5	3.5	-5 bps	3.4
PAT	5,913	5,229	-11.6	13,588	12,115	-10.8	15,810
ABV per share (₹)	276.8	274.3	-0.9	322.9	315.1	-2.4	369.4

Source: Company, ICICI Direct Research

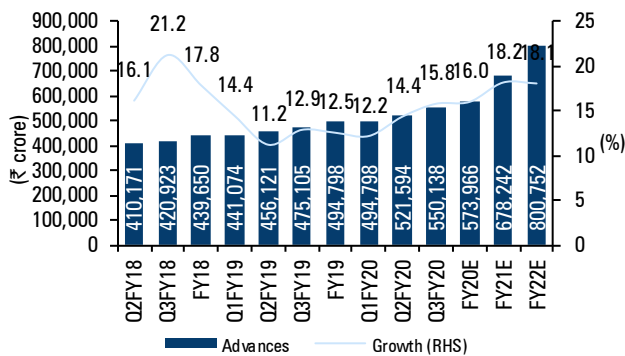
Exhibit 3: Assumption

	Current		Introduced		Earlier	
	FY19	FY20E	FY21E	FY22E	FY20E	FY21E
Credit growth (%)	12.5	16.0	18.2	18.1	16.0	18.0
Deposit Growth (%)	20.9	13.6	17.0	17.2	16.0	17.0
CASA ratio (%)	44.4	41.5	39.2	37.0	41.3	39.0
NIM Calculated (%)	3.4	3.3	3.5	3.4	3.4	3.5
Cost to income ratio (%)	45.4	41.2	40.6	41.0	41.4	39.4
GNPA (₹ crore)	29,789	31,788	31,266	30,642	31,788	31,258
NNPA (₹ crore)	11,276	11,458	11,275	11,057	11,458	11,272
Slippage ratio (%)	3.2	2.7	2.4	2.4	2.7	2.4
Credit cost (%)	2.4	2.4	1.7	1.3	2.2	1.5

Source: Company, ICICI Direct Research

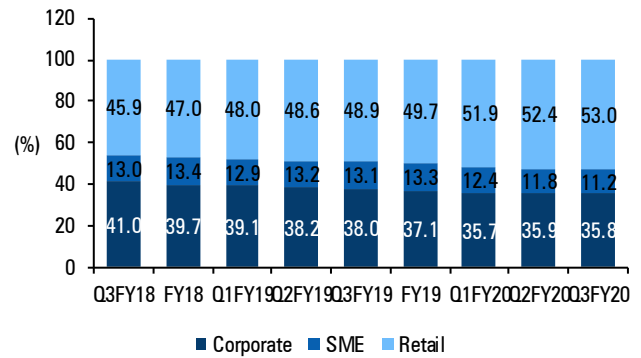
Story in Charts

Exhibit 4: Domestic growth to remain above industry



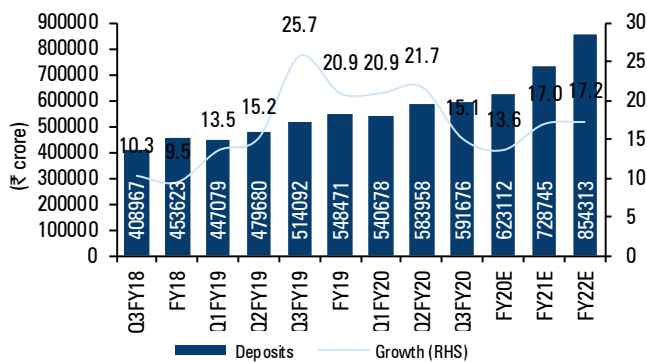
Source: Company, ICICI Direct Research

Exhibit 5: Retail sector to drive further earning



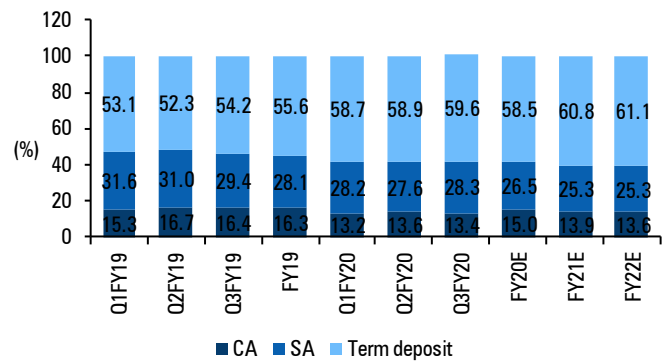
Source: Company, ICICI Direct Research

Exhibit 6: Deposit traction to remain higher



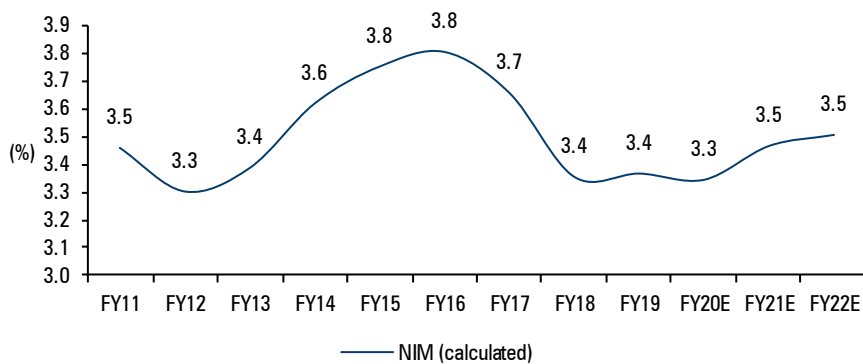
Source: Company, ICICI Direct Research

Exhibit 7: CASA ratio to remain steady



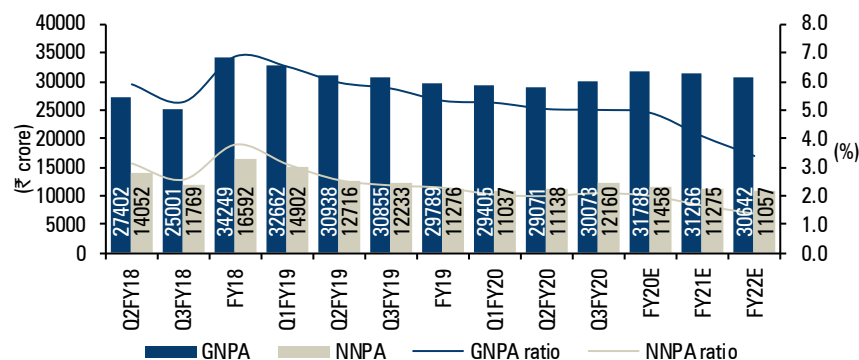
Source: Company, ICICI Direct Research

Exhibit 8: Margins to improve, going ahead



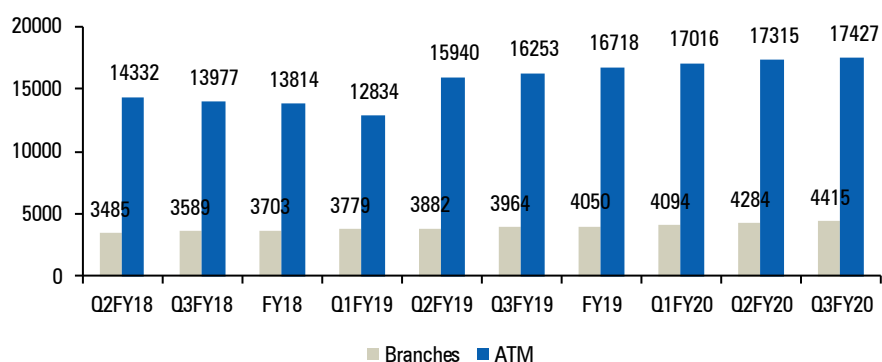
Source: Company, ICICI Direct Research

Exhibit 9: Gradual improvement in asset quality



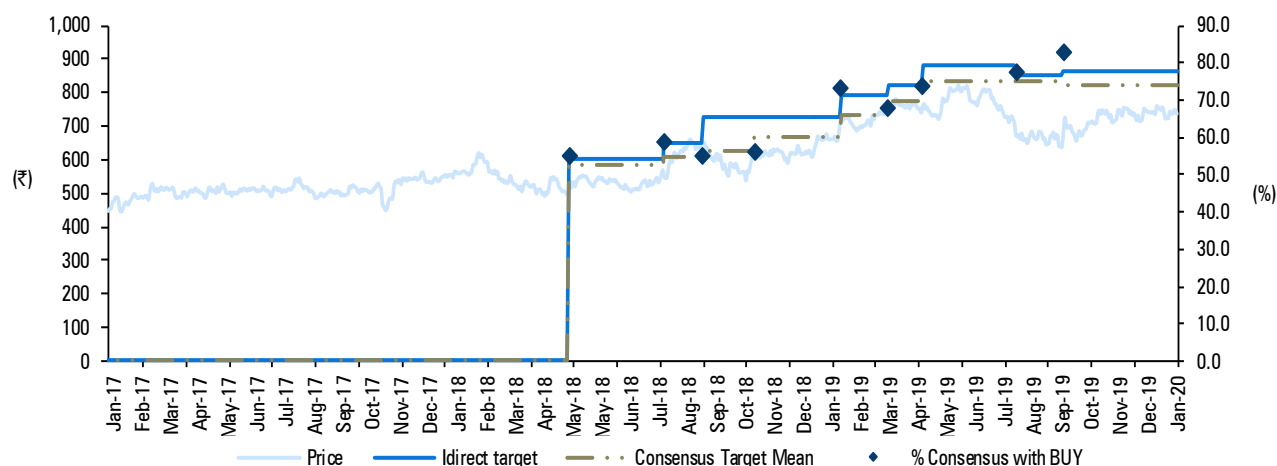
Source: Company, ICICI Direct Research

Exhibit 10: Branch network increasing at consistent pace



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	LIFE INSURANCE CORP	20-12-2019	8.82	248.58M	-3.49M
2	UNIT TRUST OF INDIA	10-10-2019	4.60	129.65M	-7.24M
3	SBI FUNDS MANAGEMENT	31-12-2019	3.67	103.39M	+1.25M
4	BLACKROCK	13-01-2020	2.68	75.58M	-0.31M
5	VANGUARD GROUP	31-12-2019	2.55	71.84M	+1.05M
6	CAPITAL GROUP COMPAN	31-10-2019	2.50	70.39M	-5.51M
7	DODGE & COX	30-09-2019	2.42	68.34M	+15.99M
8	ICICI PRUDENTIAL ASS	31-12-2019	2.38	67.06M	-2.01M
9	BANK OF NEW YORK MEL	30-06-2019	2.36	66.62M	-1.72M
10	BC ASIA INVESTMENTS	30-06-2019	1.97	55.60M	+15.60M

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	23.7	18.7	18.1	16.6	16.1
FII	47.2	49.6	48.2	48.2	48.4
DII	19.5	21.2	21.4	22.7	23.1
Others	9.6	10.4	12.2	12.5	12.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement

₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Interest Earned	54,986	64,632	75,370	88,111
Interest Expended	33,278	39,614	45,387	52,872
Net Interest Income	21,708	25,017	29,982	35,239
growth (%)	16.6	15.2	19.8	17.5
Non Interest Income	13,130	15,249	17,296	19,683
Fees and advisory	8,854	10,890	12,959	15,292
Trading Gains	758	910	1,001	1,101
Other income	3,519	3,450	3,337	3,290
Net Income	34,839	40,267	47,279	54,921
Staff cost	4,747	5,142	5,845	6,657
Other operating Expense	11,086	11,434	13,354	15,619
Operating Profit	19,005	23,690	28,080	32,646
Provisions	12,031	14,007	11,818	10,788
PBT	6,974	9,684	16,262	21,858
Taxes	2,297	4,455	4,147	5,574
Net Profit	4,677	5,229	12,115	16,284
growth (%)	-1879.9	11.8	131.7	34.4
EPS (₹)	18.2	18.8	43.7	58.7

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Valuation				
No. of Equity Shares	257.2	277.5	277.5	277.5
EPS (₹)	18.2	18.8	43.7	58.7
BV (₹)	259.3	315.6	355.8	410.9
ABV (₹)	215.4	274.3	315.1	371.1
P/E	39.1	37.8	16.3	12.1
P/BV	2.7	2.3	2.0	1.7
P/ABV	3.3	2.6	2.3	1.9
Yields & Margins (%)				
Net Interest Margins	3.4	3.3	3.5	3.5
Yield on assets	8.5	8.6	8.7	8.8
Avg. cost on funds	5.1	5.4	5.4	5.5
Yield on average advances	8.8	9.3	9.3	9.4
Avg. Cost of Deposits	4.7	5.3	5.6	5.6
Quality and Efficiency				
Cost to income ratio	45	41	41	41
Credit/Deposit ratio	90.2	92.1	93.1	94.5
GNPA	5.3	4.9	4.1	3.4
NNPA	2.3	2.0	1.7	1.4
ROE	7.2	6.8	13.0	15.3
ROA	0.6	0.6	1.2	1.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet

₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Sources of Funds				
Capital	514	555	555	555
Reserves and Surplus	66162	87037	98178	113488
Networth	66676	87592	98733	114043
Deposits	548471	623112	728745	847037
Borrowings	152776	151451	166962	184124
Other Liabilities & Provision:	33073	41457	50605	61922
Total	800997	903613	1045045	1207126
Application of Funds				
Fixed Assets	4037	4339	5124	6085
Investments	174969	195564	214741	235956
Advances	494798	573966	678242	800752
Other Assets	59988	56496	61312	64166
Cash with RBI & call mone	67205	73249	85626	100168
Total	800997	903613	1045045	1207126

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios

(%)

(Year-end March)	FY19	FY20E	FY21E	FY22E
Total assets	15.9	12.8	15.7	15.5
Advances	12.5	16.0	18.2	18.1
Deposit	20.9	13.6	17.0	16.2
Total Income	20.0	17.3	16.0	16.3
Net interest income	16.6	15.2	19.8	17.5
Operating expenses	13.2	4.7	15.8	16.0
Operating profit	21.9	24.7	18.5	16.3
Net profit	-1879.9	11.8	131.7	34.4
Net worth	5.1	31.4	12.7	15.5
EPS	(1,876.4)	3.6	131.7	34.4

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
BoB (BANBAR)	95	130	Buy	439	1.8	5.0	18.0	53.1	19.0	5.3	1.1	1.0	0.8	0.1	0.2	0.6	0.9	2.9	9.4
SBI (STABAN)	315	400	Buy	2809	1.0	18.4	31.1	324.4	17	10.1	2.2	1.7	1.5	0.0	0.5	0.7	0.5	8.5	12.5
Indian Bank (INDIBA)	106	130	Buy	64	6.7	21.7	40.1	15.7	4.9	2.6	0.5	0.5	0.4	0.1	0.3	0.6	1.7	5.3	9.3
Axis Bank (AXIBAN)	727	865	Buy	2050	18.2	18.8	43.7	40	38.6	16.7	3.4	2.7	2.3	0.6	0.6	1.2	0.6	0.6	1.2
City Union (CITUNI)	238	240	Buy	175	9.3	10.4	12.0	25.6	22.9	19.8	4.0	3.5	3.0	1.6	1.6	1.6	15.3	14.8	14.8
DCB Bank (DCB)	191	220	Buy	59	10.5	12.6	16.7	18.2	15.1	11.4	2.2	2.0	1.7	1.0	1.0	1.2	12.2	12.9	14.8
HDFC Bank (HDFBAN)	1,246	1,550	Buy	6822	38.7	49.3	61.9	32.2	25.3	20.1	4.7	4.1	3.5	1.8	2.0	2.1	16.5	16.8	18.3
IndusInd Bank (INDBA)	1,341	1,700	Buy	929	60.9	80.3	107.5	22.0	16.7	12.5	3.2	2.6	2.2	1.6	1.8	2.1	14.5	16.4	18.4
J&K (JAMKAS)	30	48	Hold	17	8.3	9.4	14.5	3.6	3.2	2.0	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0
Kotak Bank (KOTMAH)	1,609	1,700	Hold	3074	25.5	33.0	37.4	63.1	48.7	43.0	7.5	6.6	5.8	1.7	1.9	1.8	12.1	13.8	13.6
Bandhan (BANBAN)	478	650	Buy	770	16.4	21.4	27.1	2.4	1.8	1.4	0.4	0.4	0.3	3.9	4.6	4.1	19.0	26.5	25.9
IDFC First (IDFBAN)	43	54	Buy	208	-3.4	-2.3	1.1	-12.6	-18.9	38.5	1.2	1.3	1.3	-1.1	-0.6	0.3	-9.8	-6.2	3.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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