

Axis Bank (AXSB IN)

Macro headwinds pose a challenge

INDIA | FINANCIALS | Quarterly Update

22 Jan 2020

Top takeaways from Q3FY20

- ✓ NII of Rs 64.5bn (+15% yoy) was driven by strong domestic loan growth (+25%) and higher NIM of 3.57% (+7bps qoq). Other income at Rs 37.8bn (-5% yoy) was lower than our estimate on lower fee and commission income. Opex were higher and Provisions were inline. Over all PBT at Rs 22.7bn was marginally below our estimate
- ✗ Slippages increased sequentially to Rs 62.1bn (2Q20: 49.8bn) including Rs 10.9 bn slippage from investment book (HFC). Gross slippages from Corporate were Rs 38.9 bn (81% from disclosed BB & below).
- ✓ GNPA at 5.0% (-3bps qoq) while NNPA at 2.09% (+10bps). PCR declined 1% qoq to 78%.
- ✓ Loan growth grew by +16% yoy, driven by retail loans (+25% yoy) and Corporate loans (+9.0% yoy). SME loans were relatively flat yoy.

Management comments / concall takeaways

- **BB and Below book:** NFB exposure in BB and below book increased by Rs 14 bn qoq to Rs 36.7bn largely due to telecom a/c. In FB exposure to BB and below book gross addition were around Rs 12-13bn and net addition was around Rs 9bn. BB and below Investment book declined by Rs9.0bn due to slippage of one large HFC account
- **Opex:** Higher opex was on account of increase in investment in branches and one time front loading of Rs 1.2bn of expense. Expense in 4Q20 will be impacted by PSLs & expenditure towards branch expansion. Cost to asset to consolidate in near term before coming down to 2% in medium terms
- **NIM:** Increase in NIM was due to higher spread impact of capital raise partly offset by interest reversal. Going forward NIM is likely to be impacted by new LCR calculations as run-off rate of certain category of deposits have been changed by RBI which could lead to higher buffer thus impacting NIMs. For FY20 NIM is expected to be higher than FY19
- **Credit Cost:** Credit cost in 4Q20 will be driven by few large recoveries and increase in coverage as bank would want to use some of the proceeds to ramp up coverage

Outlook and valuation: Performance on various guided vectors like 1. Risk Normalisation 2. Business Optimization and 3. Operating efficiency has been tepid given macro headwinds. However we draw comfort from the declining pool of stress asset, elevated coverage and visible NPA resolution. We believe that the near term challenges are priced in and expect improvement in above mentioned vectors in medium term. We expect ROA of 1.3%/1.6% in FY21/22 and ROE to rebound to 12%/15%. At CMP, the stock trades at 2.3x/2x FY21/FY22 ABVPS of Rs 315/361. Maintain Buy with a TP of Rs 800 valuing at 2.5x FY21 ABVPS of Rs 315.

BUY (Maintain)

CMP RS 710 / TARGET RS 800 (+13%)

SEBI CATEGORY: LARGE CAP

COMPANY DATA

O/S SHARES (MN) :	2820
MARKET CAP (RSBN) :	2024
MARKET CAP (USDBN) :	28.5
52 - WK HI/LO (RS) :	828 / 623
LIQUIDITY 3M (USDMN) :	90.2
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Dec 19	Sep 19	Jun 19
PROMOTERS :	16.1	16.6	18.1
FII / NRI :	50.5	52.5	48.4
FI / MF :	21.0	20.4	17.9
NON PRO :	7.7	7.6	8.2
PUBLIC & OTHERS :	4.8	4.8	7.4

KEY FINANCIALS

Rs mn	FY20E	FY21E	FY22E
Pre-prov ROE (%)	30.0	26.2	28.3
Pre-prov ROA (%)	3.0	2.8	3.0
Net Profit	47	107	153
% growth	1.4	126.6	42.8
EPS (Rs)	16.8	37.8	53.7
BVPS (Rs)	277.1	314.6	360.8
ROE (%)	6.2	11.7	14.9
P/E (x)	42.3	18.8	13.2
Adj P/BV (x)	2.6	2.3	2.0

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY20E	FY21E	FY20E	FY21E
Revenue	247.3	284.9	-0.9	-1.3
EBITDA	229.8	239.7	1.9	-2.0
Core PAT	47.4	107.4	-14.7	-5.9
EPS (Rs)	16.8	37.8	-14.9	-6.0

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(Rs bn)	Q3FY20	Q3FY19	yoy %	Q2FY20	qoq %	vs. expect. %	Comments
Net interest income	64.5	56.0	15.2	61.0	5.8	1.9	Driven by 18% growth in domestic loan and higher NIM
NIM (%)	3.6	3.5	10bps	3.5	7bps	4bps	NIM improved 7bps qoq
Advances	5501.4	4751.0	15.8	5215.9	5.5	1.6	Growth driven by 26%/9% in retail/Corporate, SME was flat yoy
Corporate advances	2585.8	2427.1	6.5	2483.7	4.1		Domestic corporate 18% yoy & overseas -32% yoy
Retail advances	2915.5	2324.0	25.5	2732.2	6.7		
Deposit	5916.8	5140.9	15.1	5839.6	1.3		Term deposit grew 25% yoy(Retail Term: 37%) and CASA grew by 3% yoy
CASA	2437.5	2355.5	3.5	2400.5	1.5		Growth aided by 9% and -7% growth in savings and current respectively
CASA %	41%	46%	(5bps)	41%	bps		
Core fee	28.0	26.2	7.0	26.5	5.6		Retail fee income grew 20%, comprising 67% of total fee income
Trading gain	5.2	3.8	35.9	8.1	-36.3		
Operating exp	45.0	40.8	10.2	40.5	11.1	5.0	Employee exp. increased 13.5% yoy, other opex increased 8.8% yoy
C/I (%)	46.2	44.2	202bps	44.0	221bps		
Provision	34.7	30.5	13.6	35.2	-1.3	-1.8	Specific provision Rs29.6bn
PAT	17.6	16.8	4.5	-1.1	-1667.6	-2.2	
Slippage	62.1	49.8	24.7	37.5	65.9		Corporate Slippage 38.9bn, 81% from BB and below book
GNPA	5.0	5.8	(75bps)	5.0	(3bps)		PCR at 78%
NNPA	2.1	2.4	(27bps)	2.0	10bps		
Tier 1 Capital %	15.5	13.1	247bps	15.0	51bps		

Result update

(Rs Bn)	Q3FY20	Q3FY19	yoy growth	Q2FY20	qoq growth
Interest earned	157	141	11.2	154	1.8
Interest expended	93	85	8.6	93	-0.9
Net interest income	65	56	15.2	61	5.8
Net interest margins	3.6	3.5	0.10	3.5	0.07
Non-interest income	38	40	-5.4	39	-2.8
Total Income	102	96	6.6	100	2.4
Total operating expenses	45	41	10.2	40	11.1
Payroll costs	14	12	13.5	13	7.1
Others	31	29	8.8	28	13.0
Pre-provision Profit	57	55	3.9	60	-3.5
Provisions & Contingencies	35	31	13.6	35	-1.3
<i>% Operating income</i>	60.4	55.3	5.2	59.1	1.3
PBT	23	25	-8.0	24	-6.6
Provision for Taxes	5	8	-34.8	25	-79.8
<i>% of PBT</i>	22.7	32.0	-9.3	104.6	-81.9
Net Profit	18	17	4.5	-1	NA
Equity	6	5	9.7	6	0.0
EPS, Rs	31.2	32.7	-4.7	-2.0	NA
Advances	5,501	4,751	15.8	5,216	5.5
Deposits	5,917	5,141	15.1	5,840	1.3
Advances / Deposits (%)	93.0	92.4	0.6	89.3	3.7
Gross NPAs	301	309	-2.5	291	3.4
Gross NPAs (%)	5.00	5.75	-0.75	5.03	0.0
Net NPAs	122	122	-0.6	111	9.2
Net NPAs (%)	2.09	2.36	-0.27	1.99	0.10
CAR - Tier I	15.5	13.1	2.5	15.0	0.5
CAR - Tier II	3.2	3.3	-0.2	3.2	0.0
CAR – Total	18.7	16.4	2.3	18.2	0.5

Source: Company, PhillipCapital India Research

Particulars, Rs bn	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20E	Q3FY20E
<i>opening BB and below</i>	104	89	76	75	75	63
<i>less: slippage from BB and below pool</i>	10	18	10	12	16	21
<i>Less: Repayment and upgrades</i>	6	0	1	10	7	3
<i>Add: Fresh addition to BB and below pool</i>	0	6	9	22	11	12
(A) Closing BB & below rated exposure	89	76	75	75	63	51
(B) Non Fund based exposure to BB & Below plus NPA	56	54	53	53	47	62
<i>Loan</i>				31	29	26
<i>Investment</i>				20	18	10
<i>non fund based exposure</i>				30	30	30
(C) Additional disclosure (excluding overlaps and NPAs)				81	77	66
Gross total stress book (A+B+C)	145	130	128	209	187	179
Less: Outstanding provision	0	6	19	24	26	26
Net total stress book	145	124	109	185	161	153
Gross customer asset	5191	5366	5663	5601	5780	6015
% of gross customer asset	2.8	2.3	1.9	3.3	2.8	2.5

Source: Company, PhillipCapital India Research

E = Estimated

Financials

Income Statement

Y/E Mar, Rs mn	FY19	FY20	FY21e	FY22e
Interest on Loans	413	483	566	667
Interest on Investments	113	111	113	128
Others	23	28	29	31
Total Interest Earned	550	622	708	826
Total Interest Expended	333	375	423	486
Net Interest Income	217	247	285	340
Total non-interest income	131	154	146	164
Total Income	348	401	431	504
Personnel Expenses	47	53	58	66
Other Expenses	111	119	132	147
Total Op expenses	158	171	191	212
Net Inc (Loss) before prov	190	230	240	291
Provision & cont.	120	138	96	87
Net Inc (Loss) before tax	70	92	143	205
Provision for Income Tax	23	44	36	51
Net Profit	47	47	107	153

Balance Sheet

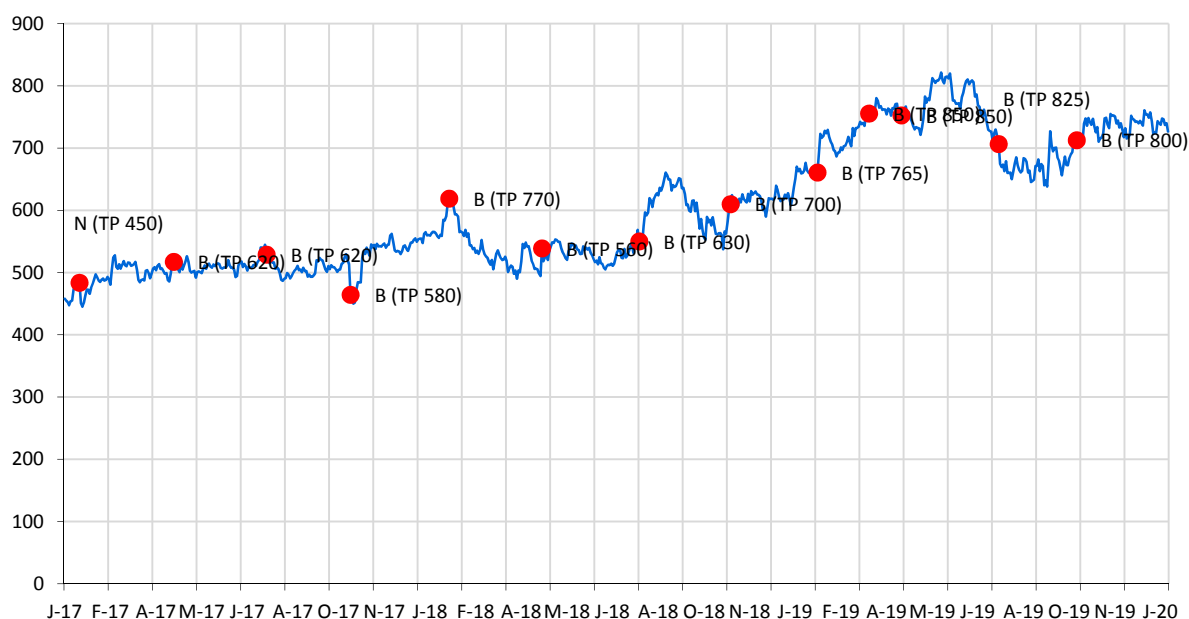
Y/E Mar, Rs mn	FY19	FY20	FY21e	FY22e
Assets				
Cash & Bal with RBI	672	546	600	660
Loans, Adv & Int accrued	4948	5708	6636	7697
Investments	1807	1651	1860	2092
Fixed Assets (Net)	40	42	44	46
Other assets	542	623	717	803
Total Assets	8,010	8,571	9,857	11,299
Liabilities				
Share capital	5	6	6	6
Reserves and Surplus	662	862	956	1089
Hybrid Capital	44	48	52	56
Debt	267	307	347	387
Borrowing	1217	791	919	1099
Total Deposits	5517	6187	7118	8105
Other liab incld prov	299	370	460	558
Total Liabilities	8,010	8,571	9,857	11,299

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY19	FY20	FY21e	FY22e
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	29.2	30.0	26.2	28.3
RoAE (%)	7.2	6.2	11.7	14.9
Pre-provision Operating ROA (%)	2.5	2.8	2.6	2.8
RoAB (%)	0.68	0.62	1.26	1.57
EPS (Rs.)	18.2	16.8	37.8	53.7
Dividend per share (Rs.)	1.0	2.0	4.0	6.0
Book Value (Rs.)	259.4	306.9	338.4	383.2
Adj BV (Rs.)	228.7	277.1	314.6	360.8
Revenue Analysis				
Interest income on IBA (%)	7.9	8.1	8.3	8.5
Interest cost on IBL (%)	5.1	5.2	5.4	5.4
NIM on IBA / AWF (%)	3.1	3.2	3.4	3.5
Core fee Inc / AWF (%)	1.5	1.5	1.5	1.5
Portfolio gains / Total Inc (%)	2.9	6.9	2.9	3.1
Op.Exp / TI (%)	46.8	45.7	45.6	43.5
Op.Exp / AWF (%)	2.3	2.2	2.2	2.2
Employee exps / Op exps (%)	30.0	30.7	30.6	30.8
Tax / Pre-tax earnings (%)	32.9	48.2	25.0	25.0
Asset Quality				
GNPAs / Gr Adv (%)	5.3	4.7	4.0	3.3
NNPAs / Net Adv (%)	2.1	1.9	1.3	1.1
Growth Ratio				
Loans (%)	12.5	15.4	16.2	16.0
Investments (%)	13.5	(8.7)	12.7	12.4
Deposits (%)	20.8	12.1	15.1	13.9
Networth (%)	5.1	30.1	10.8	13.8
Net Int Income (%)	16.6	13.9	15.2	19.3
Non-fund based income (%)	30.0	5.2	4.4	11.5
Non-Int Exp (%)	13.2	8.3	11.4	11.3
Profit Before Tax (%)	5,636.7	31.3	56.4	42.8
Net profit (%)	1,596.4	1.4	126.6	42.8
Asset / Liability Profile				
Avg CASA / Deposits (%)	48.3	42.6	40.0	37.9
Avg Adv / Avg Dep (%)	86.3	85.9	88.2	90.3
Avg Invst / Avg Dep (%)	33.7	29.5	26.4	26.0
Incr Adv / Deposits (%)	58.1	113.5	99.5	107.6
Avg Cash / Avg Dep (%)	11.0	10.4	8.6	8.3
Capital Adequacy Ratio:				
Tier I (%)	15.8	18.9	18.6	18.6
	12.5	15.3	15.0	15.0
CET1 (%)	11.3	13.9	13.6	13.7
NNPAs to Equity (%)	16.9	13.9	10.0	8.4

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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