



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

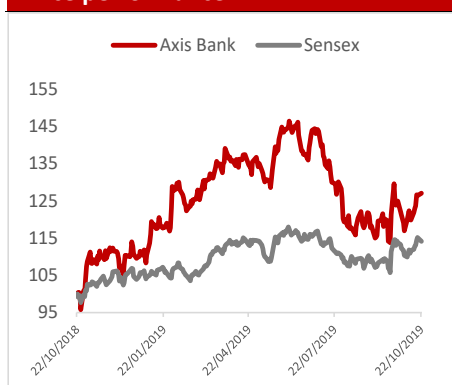
### HOLD

|               |         |
|---------------|---------|
| Current Price | 713     |
| 52 Week Range | 534/827 |
| Target Price  | 823     |
| Upside (%)    | 15      |

### Key Share Data

|                       |          |
|-----------------------|----------|
| Market Cap (Rs.bn)    | 2009.23  |
| Market Cap (US\$ Mn)  | 28299.01 |
| No of o/s shares (Mn) | 2819.15  |
| Face Value            | 2        |
| BSE Code              | 532215   |
| NSE Code              | AXISBANK |
| Bloomberg             | AXSB:IN  |

### Price performance



| % Shareholding | Sep-19 | June-19 |
|----------------|--------|---------|
| FII            | 48.74  | 48.19   |
| DII            | 20.86  | 19.86   |
| Others         | 30.40  | 31.95   |
| Total          | 100    | 100     |

Axis Bank has reported a net loss of around Rs 1121 Mn for the quarter ended September 30, 2019, driven by a one-time tax impact of Rs 21376 Mn due to changes in the corporate tax rate. Ex of this extraordinary item, net profit would have surged 157% YoY/48% QoQ. Bank has reported strong operating performance, with NII growth of 16.6% YoY/ 4.4% QoQ at Rs 61018 Mn & PPOP growth of 45% YoY/1% QoQ at Rs 59516 Mn in Q2FY20. Besides, Bank's opex grew by 6% - significantly lower than net income growth of 26% YoY, resulting a further improvement in cost to assets ratio to 2.06% from 2.08% in Q1FY20. The net interest margin was highest in the last nine quarters at 3.51% (up 11 bps on QoQ). With improving margin, better operating efficiency and sturdy loan growth, we expect that the bank will maintain healthy operating performance in medium to long term.

#### Asset quality improves; NNPA at 1.99%

Bank's Asset quality improved during the quarter, with GNPA stood at 5.03% Vs 5.25% QoQ, while NNPA stood at 1.99% Vs 2.04% QoQ. Slippages during the quarter stood at Rs 49.83 Bn Vs Rs 47.98 Bn in Q1FY20 & Rs 27.77 Bn in Q2FY19. Out of which, Corporate slippages stood at Rs 28.62 Bn (97% came from disclosed BB & below accounts). Bank's BB & below rated book continued to decline and stood at ~1.1% of customer assets (vs.1.3% QoQ). Bank's slippages from its retail and SME portfolio were Rs 13.55 Bn and Rs 7.66 Bn, respectively. Bank's PCR for the quarter stood at 79%, compared to 73% in Q2FY19 and 78% in Q1FY20. Given the current macro environment and in order to make balance sheet more resilient, bank has created an additional contingent provision of Rs 26.00 Bn, which is not considered in PCR. Asset quality ratios in Retail continue to be modest. Net NPA ratios in Retail remain around the 0.6% mark, similar to where they have been through most of the last two years.

#### Loan Book Remains Healthy

Bank's growth momentum continued as advances grew by 14% YoY / 5% QoQ, mainly driven by retail loans, which grew 23% YoY/6% QoQ, while corporate loan growth stood at 7% YoY/5% QoQ. Bank's strategy on retail loans is centered around existing customers. 85% of retail assets originations in Q2 were from existing customers, while 93% of the Bank's credit card and 88% of personal loan originations in the quarter were from existing customers of the bank. However, bank remained cautious on the SME space, which reflected in its growth numbers. SME loan book grew by 2% YoY to Rs 613.7 Bn in Q2FY20. Out of which, 79% of SME loan book is working capital, while 86% of non NPA outstanding is to clients rated SME3 or better. On the liability side, deposits growth during the quarter came in at 22% YoY/8% QoQ, driven by term deposits which grew by 37% YoY/8% QoQ. CASA deposits grew by a slower pace of 5% YoY/ 7%, taking CASA ratio to 41.1% from 41.3% in Q1FY20.

#### Outlook & Valuation

We believe stable margin, a strong growth profile, low cost of funds and RAROC (Risk-adjusted return on capital) based credit pricing strategy will help Axis bank to deliver robust performance in the near-to-medium term. Besides, increased operating efficiency and declining credit cost are likely to aid the bank's operating performance going forward. We expect total business to grow at CAGR 17% in FY19-21E, with growth in advances and deposits at ~17% and ~18% respectively. Thus, we have maintained a 'Buy' rating on Axis Bank with a price target of Rs 823, valuing the stock at 2.5x FY21E standalone P/ABV and ascribing a value of Rs 39 for subsidiaries.

### Key Financials (Rs Bn)

| Year | NII | Growth (%) | PPOP | Growth (%) | PAT | Growth (%) | BVPS | P/AB (X) |
|------|-----|------------|------|------------|-----|------------|------|----------|
| FY19 | 217 | 17         | 190  | 22         | 47  | 1597       | 215  | 3.3      |
| FY20 | 252 | 16         | 224  | 18         | 75  | 61         | 277  | 2.6      |
| FY21 | 296 | 17         | 271  | 21         | 137 | 81         | 313  | 2.3      |



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| <b>P&amp;L (Rs Bn)</b>   | Q2FY19      | Q3FY19      | Q4FY19      | Q1FY20      | YoY         | QoQ        | Q2FY20       |
|--------------------------|-------------|-------------|-------------|-------------|-------------|------------|--------------|
| Interest Earned          | 132.8       | 141.3       | 148.0       | 152.5       | 16%         | 1%         | 154.4        |
| Interest Expended        | 80.5        | 85.3        | 90.9        | 94.1        | 16%         | -1%        | 93.4         |
| <b>NII</b>               | <b>52.3</b> | <b>56.0</b> | <b>57.1</b> | <b>58.4</b> | <b>17%</b>  | <b>4%</b>  | <b>61.0</b>  |
| Other Income             | 26.8        | 40.0        | 35.3        | 38.7        | 45%         | 1%         | 39.0         |
| <b>Net Income</b>        | <b>79.1</b> | <b>96.0</b> | <b>92.3</b> | <b>97.1</b> | <b>26%</b>  | <b>3%</b>  | <b>100.0</b> |
| Opex                     | 38.2        | 40.8        | 42.2        | 38.2        | 6%          | 6%         | 40.5         |
| <b>PPOP</b>              | <b>40.9</b> | <b>55.3</b> | <b>50.1</b> | <b>58.9</b> | <b>45%</b>  | <b>1%</b>  | <b>59.5</b>  |
| Provisions               | 29.3        | 30.6        | 27.1        | 38.1        | 20%         | -8%        | 35.2         |
| <b>PBT</b>               | <b>11.7</b> | <b>24.7</b> | <b>23.0</b> | <b>20.8</b> | <b>109%</b> | <b>17%</b> | <b>24.3</b>  |
| Tax                      | 3.8         | 7.9         | 8.0         | 7.1         | 575%        | 259%       | 25.5         |
| <b>PAT</b>               | <b>7.9</b>  | <b>16.8</b> | <b>15.1</b> | <b>13.7</b> | -           | -          | <b>-1.1</b>  |
| <b>BS (Rs Bn)</b>        | Q2FY19      | Q3FY19      | Q4FY19      | Q1FY20      | YoY         | QoQ        | Q2FY20       |
| Networth                 | 651         | 667         | 667         | 712         | 29%         | 18%        | 839          |
| Deposits                 | 4797        | 5141        | 5485        | 5407        | 22%         | 8%         | 5840         |
| Borrowings               | 1484        | 1447        | 1528        | 1301        | -27%        | -16%       | 1089         |
| Other Liabilities        | 374         | 307         | 331         | 325         | -13%        | 0%         | 325          |
| <b>Total Liabilities</b> | <b>7305</b> | <b>7562</b> | <b>8010</b> | <b>7746</b> | <b>11%</b>  | <b>4%</b>  | <b>8093</b>  |
| Cash & Bank              | 487         | 557         | 672         | 383         | 17%         | 49%        | 571          |
| Investments              | 1557        | 1610        | 1750        | 1758        | 4%          | -8%        | 1617         |
| Advances                 | 4561        | 4751        | 4948        | 4973        | 14%         | 5%         | 5216         |
| Other Assets             | 700         | 643         | 640         | 632         | -2%         | 9%         | 689          |
| <b>Total Assets</b>      | <b>7305</b> | <b>7562</b> | <b>8010</b> | <b>7746</b> | <b>11%</b>  | <b>4%</b>  | <b>8093</b>  |
| <b>BS (Rs Bn)</b>        | Q2FY19      | Q3FY19      | Q4FY19      | Q1FY20      | YoY         | QoQ        | Q2FY20       |
| Corporate                | 1741        | 1805        | 1834        | 1775        | 7%          | 5%         | 1870         |
| SME                      | 603         | 622         | 656         | 616         | 2%          | 0%         | 614          |
| Retail                   | 2217        | 2324        | 2458        | 2582        | 23%         | 6%         | 2732         |
| <b>Total</b>             | <b>4561</b> | <b>4751</b> | <b>4948</b> | <b>4973</b> | <b>14%</b>  | <b>5%</b>  | <b>5216</b>  |
| GNPA (%)                 | 5.96        | 5.75        | 5.26        | 5.25        | (93 bps)    | (22 bps)   | 5.03         |
| NNPA (%)                 | 2.54        | 2.36        | 2.06        | 2.04        | (55 bps)    | (5 bps)    | 1.99         |
| PCR (%)                  | 58.9        | 60.4        | 62.1        | 62.5        | 279 bps     | (77 bps)   | 61.69        |
| CASA (%)                 | 47.7        | 45.8        | 44.4        | 41.3        | (660 bps)   | (22 bps)   | 41.1         |



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| Rs in Bn          | FY17       | FY18       | FY19       | FY20       | FY21       |
|-------------------|------------|------------|------------|------------|------------|
| Interest Earned   | 445        | 458        | 550        | 660        | 773        |
| Interest expended | 264        | 272        | 333        | 407        | 477        |
| <b>NII</b>        | <b>181</b> | <b>186</b> | <b>217</b> | <b>252</b> | <b>296</b> |
| Other Income      | 117        | 110        | 131        | 153        | 182        |
| <b>Net Income</b> | <b>298</b> | <b>296</b> | <b>348</b> | <b>405</b> | <b>478</b> |
| Operating Exp     | 122        | 140        | 158        | 181        | 207        |
| <b>PPOP</b>       | <b>176</b> | <b>156</b> | <b>190</b> | <b>224</b> | <b>271</b> |
| Provisions        | 121        | 155        | 120        | 95         | 88         |
| <b>PBT</b>        | <b>55</b>  | <b>1</b>   | <b>70</b>  | <b>129</b> | <b>183</b> |
| Tax               | 18         | -2         | 23         | 54         | 46         |
| <b>PAT</b>        | <b>37</b>  | <b>3</b>   | <b>47</b>  | <b>75</b>  | <b>137</b> |

| Rs in Bn                         | FY18        | FY19        | FY20        | FY21         |
|----------------------------------|-------------|-------------|-------------|--------------|
| <b>CAPITAL &amp; LIABILITIES</b> |             |             |             |              |
| Capital                          | 5           | 5           | 6           | 6            |
| Reserves & Surplus               | 629         | 662         | 866         | 956          |
| Deposits                         | 4536        | 5485        | 6416        | 7607         |
| Borrowings                       | 1480        | 1528        | 1593        | 1676         |
| Other Liabilities                | 262         | 331         | 353         | 384          |
| <b>TOTAL</b>                     | <b>6913</b> | <b>8010</b> | <b>9234</b> | <b>10629</b> |
| <b>ASSETS</b>                    |             |             |             |              |
| Cash & Balances                  | 435         | 672         | 784         | 739          |
| Investments                      | 1539        | 1750        | 1998        | 2313         |
| Advances                         | 4397        | 4948        | 5732        | 6772         |
| Fixed Assets                     | 40          | 40          | 42          | 45           |
| Other Assets                     | 504         | 600         | 678         | 760          |
| <b>TOTAL</b>                     | <b>6913</b> | <b>8010</b> | <b>9234</b> | <b>10629</b> |

| Ratios (%)     | FY18 | FY19 | FY20 | FY21 |
|----------------|------|------|------|------|
| <b>Growth</b>  |      |      |      |      |
| NII            | 3    | 17   | 16   | 17   |
| PPOP           | -11  | 22   | 18   | 21   |
| Net profit     | -93  | 1597 | 61   | 81   |
| Deposits       | 9    | 21   | 17   | 19   |
| Advances       | 18   | 13   | 16   | 18   |
| <b>Returns</b> |      |      |      |      |
| ROA            | 0.0  | 0.6  | 0.9  | 1.4  |
| ROE            | 0.4  | 7.0  | 8.6  | 14.2 |

| Ratios (%)           | FY18 | FY19 | FY20 | FY21 |
|----------------------|------|------|------|------|
| <b>Valuation</b>     |      |      |      |      |
| BV (Rs)              | 247  | 259  | 309  | 341  |
| ABV (Rs)             | 183  | 215  | 277  | 313  |
| EPS (Rs)             | 1    | 18   | 27   | 49   |
| P/ABV (x)            | 3.9  | 3.3  | 2.6  | 2.3  |
| P/EPS (x)            | 664  | 39   | 27   | 15   |
| <b>Asset quality</b> |      |      |      |      |
| GNPA                 | 6.8  | 5.3  | 3.8  | 2.7  |
| NNPA                 | 3.6  | 2.2  | 1.5  | 1.1  |



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