



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

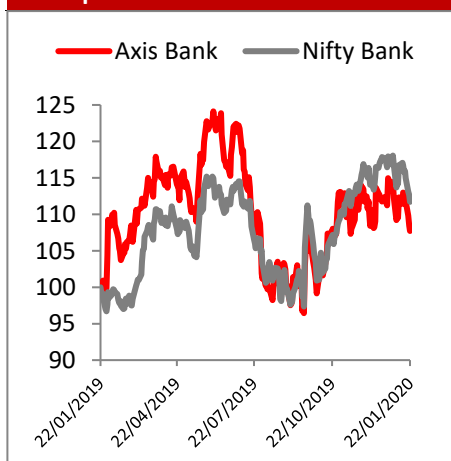
BUY

Current Price (Rs)	723
52 Week Range	622/826
Target Price (Rs)	828
Upside (%)	15

Key Share Data

Market Cap (Rs.bn)	2009.78
Market Cap (US\$ mn)	28653
No of o/s shares (Cr)	281.98
Face Value	2
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB:IN

Price performance



% Shareholding	Dec-19	Sep-19
Promoters	16.08	16.60
FII	48.35	48.16
DII	23.10	22.72
Others	12.47	12.52
Total	100	100

Axis Bank reported its Q3FY20 performance which was below our estimates on the profitability front

- NII came in at INR 64.53 Bn, +6% QoQ / +15% YoY and 1% above our est.
- Other Income came in at INR 37.87 Bn, -3% QoQ / -5% YoY and 10% below our est.
- PPOP came in at INR 57.43 Bn, -4% QoQ / +4% YoY and 7% below our est.
- Provisions came in at INR 34.71 Bn, -1% QoQ / +14% YoY and 5% below our est.
- PAT came in at INR 17.57 Bn, +4% YoY and 7% below our est.

Financial Highlights

Slippage remain elevated; higher write-offs & recoveries led to stable asset quality

Bank's Asset quality remains stable, with GNPA's at 5.00%, down by 75 bps YoY / 3 bps QoQ, while NNPA's at 2.09% (down by 27 bps YoY and up by 8 bps QoQ). PCR stood at 59.6% (down 79 bps YoY/212 bps QoQ). Slippages during the quarter stood at Rs 62.14 Bn (Vs Rs 4,983 Bn QoQ/ Rs 3,746 Bn YoY), with slippage from loan book being Rs 51.24 bn and INR 10.9 bn from Investment book (largely from housing finance company). Out of total slippage, corporate slippages stood at Rs 38.91 bn (81% came from disclosed BB & below accounts). Bank's BB & below rated book (Fund based) continued to decline and stood at ~0.9% of customer assets (vs.1.1% QoQ), which is now in line with normalized levels. The management is expecting a large power account to be resolved in 4QFY20 and does not see any material unrecognized stress. Bank now holds Rs 25.58 n of additional provisions for various contingencies which is not considered in PCR. SMA 2 level at the bank is under 0.35% of loans.

Strong retail credit growth

Advances grew by 15.8% YoY/5.5% QoQ to Rs 5501.38 Bn (Domestic loan up by 18% YoY, while overseas book de-grew by 7% YoY). Retail loan increased by 25% YoY/ 7% QoQ to Rs 2915.54 Bn (accounted for 53.0% of the Net Advances of the Bank), while SME loan down by 0.8% YoY/ (up by 0.6% QoQ) to Rs 617.41 Cr (accounted for 11.2% of the Net Advances).

Bank's strategy on retail loans is centered around existing customers. Around 79% of retail assets originated in Q3FY20 was from existing customers. 92% of the Bank's credit card and 87% of personal loan originations in the quarter were from existing customers of the bank. We believe that the growth in the retail portfolio will be higher than overall loan portfolio, which will eventually increase the proportion of retail loans. Management is confident of achieving credit growth of 5%-7% higher than industry growth rates.

On the liability side, Deposits +15% YoY/(1.3% QoQ) to Rs 5916.76 Bn (Loan to deposit ratio stood at 93% Vs 89% in Q2 FY20/92% in Q3FY19). CASA grew by 3.5% YoY/ (1.5% QoQ) to Rs 2437.48 Bn. The share of CASA in the Total Deposits stood at 41.2% vs 45.8% in Q3FY19.

Operating Performance

During the quarter, NIM improved 6 bps QoQ and stood at 3.57%, mainly due to improvement in average lending spreads and higher capitalization levels. In the near term, the management expects some pressure on NIM to change in regulatory guidance over LCR calculation. Cost to income ratio increased to 43.9 % (up 345 bps QoQ /145 bps YoY), largely due to higher Opex, mainly due to increased investment on branch expansion, employee addition & change in internal process on cost accruals.

Outlook & Valuation

Given high PCR and contingent provisions, we believe that the incremental credit costs will remain under control. Besides, stable NIMs, 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 medium to long term. We expect total business to grow at CAGR 16% in FY19-21E, with growth in advances and deposits at ~17% and ~16% respectively. Thus, we have maintained a 'Buy' rating on Axis Bank with a price target of Rs 828, 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 (%)	ABVPS	PB (X)
FY19	217	17	190	22	47	1597	215	3.4
FY20E	248	14	218	15	61	30	277	2.6
FY21E	286	16	259	19	118	94	316	2.3



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P&L (Rs Bn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY	QoQ	Q3FY20
Interest Earned	133	141	148	153	154	11%	2%	157
Interest Expended	80	85	91	94	93	9%	-1%	93
NII	52	56	57	58	61	15%	6%	65
Other Income	27	40	35	39	39	-5%	-3%	38
Net Income	79	96	92	97	100	7%	2%	102
Opex	38	41	42	38	40	10%	11%	45
PPOP	41	55	50	59	60	4%	-4%	57
Provisions	29	31	27	38	35	14%	-1%	35
PBT	12	25	23	21	24	-8%	-7%	23
Tax	4	8	8	7	25	-35%	-80%	5
PAT	8	17	15	14	-1.1	4%	-	17.6
BS (Rs Bn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY	QoQ	Q3FY20
Networth	651	667	667	712	839	29%	3%	862
Deposits	4797	5141	5485	5407	5840	15%	1%	5917
Borrowings	1484	1447	1528	1301	1089	-23%	3%	1120
Other Liabilities	374	307	331	325	325	-5%	-10%	292
Total Liabilities	7305	7562	8010	7746	8093	8%	1%	8190
Cash & Bank	487	557	672	383	571	-26%	-28%	413
Investments	1557	1610	1750	1758	1617	-3%	-4%	1560
Advances	4561	4751	4948	4973	5216	16%	5%	5501
Other Assets	700	643	640	632	689	11%	4%	716
Total Assets	7305	7562	8010	7746	8093	8%	1%	8190
BS (Rs Bn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY	QoQ	Q2FY20
Corporate	1741	1805	1834	1775	1870	9%	5%	1968
SME	603	622	656	616	614	-1%	1%	617
Retail	2217	2324	2458	2582	2732	25%	7%	2916
Total	4561	4751	4948	4973	5216	16%	5%	5501
GNPA (%)	5.96	5.75	5.26	5.25	5.03	(75 bps)	(3 bps)	5.00
NNPA (%)	2.54	2.36	2.06	2.04	1.99	(27 bps)	10 bps	2.09
PCR (%)	58.9	60.4	62.1	62.5	61.7	(79 bps)	(212 bps)	59.6
CASA (%)	47.7	45.8	44.4	41.3	41.1	(462 bps)	9 bps	41.2



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Rs in Bn	FY17	FY18	FY19	FY20	FY21
Interest Earned	445	458	550	657	765
Interest expended	264	272	333	409	479
NII	181	186	217	248	286
Other Income	117	110	131	152	179
Net Income	298	296	348	399	465
Operating Exp	122	140	158	181	207
PPOP	176	156	190	218	259
Provisions	121	155	120	108	101
PBT	55	1	70	110	158
Tax	18	-2	23	49	40
PAT	37	3	47	61	118

Rs in Bn	FY18	FY19	FY20	FY21
CAPITAL & LIABILITIES				
Capital	5	5	6	6
Reserves & Surplus	629	662	866	961
Deposits	4536	5485	6324	7413
Borrowings	1480	1528	1593	1676
Other Liabilities	262	331	353	383
TOTAL	6913	8010	9141	10439
ASSETS				
Cash & Balances	435	672	756	650
Investments	1539	1750	1969	2254
Advances	4397	4948	5695	6730
Fixed Assets	40	40	42	45
Other Assets	504	600	678	760
TOTAL	6913	8010	9141	10439

Ratios (%)	FY18	FY19	FY20	FY21
Growth				
NII	3	17	14	16
PPOP	-11	22	15	19
Net profit	-93	1597	30	94
Deposits	9	21	15	17
Advances	18	13	15	18
Returns				
ROA	0.0	0.6	0.7	1.2
ROE	0.5	7.2	7.9	12.8

Ratios (%)	FY18	FY19	FY20	FY21
Valuation				
BV (Rs)	247	259	309	343
ABV (Rs)	183	215	277	316
EPS (Rs)	1	18	22	42
P/ABV (x)	4.0	3.4	2.6	2.3
P/EPS (x)	673	40	34	17
Asset quality				
GNPA	6.8	5.3	3.8	2.7
NNPA	3.6	2.2	1.5	1.1



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141435	Midcaps
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T.
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021
Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com