



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

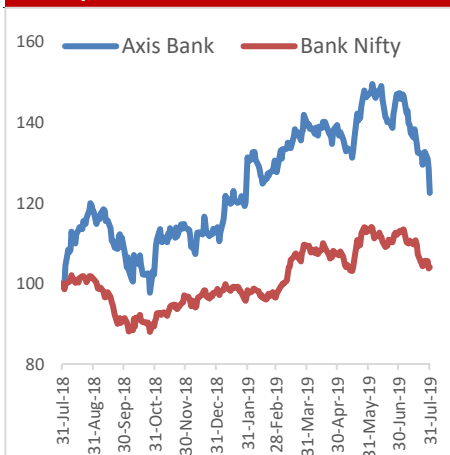
BUY

Current Price (Rs)	670
52 Week Range	827/ 534
Target Price (Rs)	830
Upside (%)	24%

Key Share Data

Market Cap (Rs.bn)	1754
Market Cap (US\$ mn)	25502
No of o/s shares (mn)	2620
Face Value	2
Monthly Avg. vol (BSE+NSE) Nos'000	4665
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB: IN

Price performance



% Shareholding	Jun-19	Mar-18
Promoter	18.1	18.7
DIIs	18.1	21.2
FIIIs	48.2	49.6
Others	15.6	10.4
Total	100	100

Axis bank has reported a mixed set of numbers for the quarter ended June 2019. While operating profit in line with expectations, higher slippages in retail & SME loans coupled with additions of Rs 2240 Cr into BB & below pool and newly disclosed exposure to eight stressed corporate accounts, indicates somewhat higher credit costs in near-term. However, with the additional contingent provision and expected recovery of large stressed cases referred to NCLT, we expect the overall impact on asset quality to be limited. Bank holds additional Provisions of around Rs 2,358 Cr for various contingencies, which includes Rs 510 Cr for BB & Below or SMA 2 accounts, Rs 459 Cr for NFB exposures, Rs 1,389 Cr for stressed sectors, & other situational provisions.

Operating performance remained healthy: Bank's operating profit grew by 35% YoY and 18% QoQ to Rs 5893 Cr, supported by strong growth in NII (up by 13% YoY & 2% QoQ) and healthy traction in other income (up by 32% YoY/10% QoQ). Fee income for Q1FY20 grew at 26% YOY, led by Retail Fees, which grew 28% YoY. Operating expenses increased by 3%, significantly lower than growth in Net income, resulted in a further improvement in Cost to Assets ratio to 2.08% from 2.13% in Q4FY19. Domestic NIM stood to 3.56% (vs 3.61% in Q4FY19 /3.67% in Q1FY19). The slow growth of opex is a result of rationalization of outsourced manpower and security expenses (expanded use of command center technology). Higher use of digital initiatives in sourcing also helps in lowering mid-office and back-office expenses. Share of digital channels in personal loan disbursements increased to 46% from 31% in Q1FY19.

Strong retail credit growth: Advances grew by 13% YOY to Rs 497,276 Cr (Domestic loan up by 19% YoY, while overseas book de-grew by 34% YoY). Retail loan increased by 22% YoY/ 5% QoQ to Rs 258,205 Cr (accounted for 51.9% of the Net Advances of the Bank), while SME loan up by 8% YoY/ (down by 6% QoQ) to Rs 61,616 Cr (accounted for 12.4% of the Net Advances). Bank's strategy on retail loans is centered around existing customers. Around 83% of retail assets originated in Q1FY20 was from existing customers. 98% of the Bank's credit card and 93% of personal loan originations in the quarter were from existing customers of the bank. Auto loans portfolio grew by 36% YOY to Rs 30,900 Cr. About 45% of incremental car loans are originated from branches. 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.

Asset quality remains stable: Bank's Asset quality remained stable, with GNPA's at 5.25%, down by 10 bps YoY / 1 bps QoQ, while NNPA's at 2.04% (down by 105 bps YoY and 2 bps QoQ). PCR stood at 62.5% (+809 bps YoY/ +31 bps QoQ). Net Slippages stood at Rs 2,621 Cr (vs Rs 1,420 Cr in Q1FY19/ Rs 636 Cr in Q4FY19. Out of the total Net Slippages, Rs 1,318 Cr came from Corporate, Rs 414 Cr from SME and Rs 889 Cr from Retail and Agri segments. 79% of the Net slippages in the corporate book came from the BB & Below portfolio. Bank downgraded Rs 2,242 Cr into the BB pool this quarter, mostly from groups that have shown new signs of stress in recent months. Post this action, Bank's BB & below rated book remained largely stable QoQ and stood at Rs 7,504 Cr (1.3% of Gross Customer Assets, significantly down from 7.3% at peak).

Outlook & Valuation

We believe 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 near-to-medium term. We maintain BUY rating on the stock but given the current weak economic environment and considering its impact on the bank's performance, we reduce target price to Rs 830 (from Rs 905 earlier).

Key Financials (Rs in Bn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	P/B (X)
FY19	217	17	190	22	47	1596	259	2.6
FY20E	252	16	224	18	87	85	291	2.3
FY21E	296	17	271	21	123	42	321	2.1


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P&L (Rs Bn)	FY18	FY19	FY20	FY21
Interest Earned	458	550	660	773
Interest expended	272	333	407	477
NII	186	217	252	296
Other Income	110	131	153	182
Net Income	296	348	405	478
Operating Exp	140	158	181	207
PPOP	156	190	224	271
Provisions	155	120	95	88
PBT	1	70	129	183
Tax	-2	23	43	60
PAT	3	47	87	123

Ratios (%)	FY18	FY19	FY20	FY21
Growth				
NII	3	17	16	17
PPOP	-11	22	18	21
Net profit	-93	1597	85	42
Deposits	9	21	17	19
Advances	18	13	16	18
Returns				
ROA	0.0	0.6	1.0	1.2
ROE	0.4	7.0	11.4	14.6

Balance sheet (Rs Bn)	FY18	FY19	FY20	FY21
CAPITAL & LIABILITIES				
Capital	5	5	5	5
Reserves & Surplus	629	662	757	837
Deposits	4536	5485	6416	7607
Borrowings	1480	1528	1593	1676
Other Liabilities	262	331	353	384
TOTAL	6913	8010	9123	10509
ASSETS				
Cash & Balances	435	672	673	619
Investments	1539	1750	1998	2313
Advances	4397	4948	5732	6772
Fixed Assets	40	40	42	45
Other Assets	504	600	678	760
TOTAL	6913	8010	9123	10509

Ratios (%)	FY18	FY19	FY20	FY21
Valuation				
BV (Rs)	247	259	291	321
ABV (Rs)	183	215	256	292
EPS (Rs)	1	18	33	47
P/ABV (x)	3.7	3.1	2.6	2.3
P/EPS (x)	623	37	20	14
Asset quality				
GNPA	6.8	5.3	3.8	2.7
NNPA	3.6	2.2	1.5	1.1



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