



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

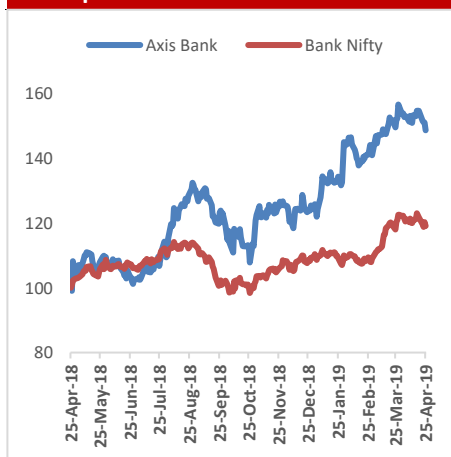
BUY

Current Price (Rs)	760
52 Week Range	781/479
Target Price (Rs)	905
Upside (%)	19%

Key Share Data

Market Cap (Rs.bn)	1955
Market Cap (US\$ mn)	27836
No of o/s shares (mn)	2572
Face Value	2
Monthly Avg. vol (BSE+NSE) Nos'000	3134
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB: IN

Price performance



% Shareholding	Mar-19	Dec-18
Promoter	18.7	23.7
DIIs	21.2	19.5
FIIs	49.6	47.2
Others	10.4	9.6
Total	100	100

Supported by strong growth in NII (+21% YoY), better other income (+26% YoY) and further improvement in assets quality (GNPA & NNPA stood at 5.26% & 2.06% v/s 5.75% & 2.36% in 3QFY19), **Axis bank has reported net profit of Rs 1505 Cr as against net loss of Rs 2189 Cr in Q4FY18**. Slippages during the quarter stood at Rs 3012 Cr Vs Rs 3,746 Cr in Q3FY19 & Rs 16,536 Cr in Q4FY18. Advances grew by 13% YoY/4% QoQ to Rs 494,798 Cr. The slow growth in advances was mainly due to 29% fall in overseas loans, which constituted 7.7% of total advances in Q4FY19 vs 12.2% in Q4FY18. Bank expects that this loan book to stabilize in absolute terms in the next two quarters.

Bank's retail advances is continually growing at a faster pace, increased by 19% YoY/ 6% QoQ at Rs 245,812 Cr. Bank's strategy on retail loans is centered around existing customers. Around 83% of retail assets originated in Q4FY19 was from existing customers. Bank's overall penetration in its own deposit customer for personal loans is in high single digit, while for credit cards it is in lower double-digit. So, there's enough headroom to grow for the Bank. Going forward, we expect that the growth in retail loans will continue to outpace corporate loans.

Improving its business franchise: Bank is continuously working on improving its business franchise, by reorienting its organisation structure in both Retail and Wholesale businesses, which not only streamline and simplify its functioning but also bring greater business focus, improve profitability, productivity and efficiency. Bank has created separate verticals on the retail liabilities side, where branches will focus on relationship management and driving growth from existing customers, while there would be a separate liability sales team to drive new customer acquisition. Furthermore, the underwriting function has been separated from both businesses (Retail and wholesale) and has been made an independent function. Product specialists and business relationship responsibilities have also been segregated to ensure sharper focus on client coverage and product groups.

Increase conservatism in provisioning: Bank is improving its provisioning norm, by following a formula-based approach for putting aside provisions on weak standard assets. During Q4, Bank has added two more sectors to the list of 'stressed sectors' and made an incremental provision of Rs 160 Cr against them. Bank has also provided for a security receipts on its books (Rs 221 Cr provisions on a SR book value of Rs 2910 Cr). PCR has improved to 62.1% in Q4FY19 (vs 51.6 % in Q4FY18). With the incremental lending to better companies & decreasing proportion of the BB & below rated book, the pace of slippages is likely to be lower & the overall asset quality will improve in the near-term.

Margins to remain stable in near term: Bank's Net Interest Margin for the quarter stood at 3.44% Vs 3.47% in Q3FY19. Excluding the one-off impact in Q3FY19 NIM on account of write-back of interest reversals on one large recovery, the NIM on QoQ basis improved by 2 bps. For FY20, bank expects margins to remain broadly flat YoY, with an upward bias. Bank's Non-interest income grew by 26% YoY to Rs 3526 Cr, supported by strong fee income growth of 23% YoY, which was led by a healthy 37% growth in Retail fee income. Within Retail, fees from Cards business grew strongly by 40% YoY. Cards business constituted 23% of total Bank level fees in Q4FY19. However, corporate credit related fees, which constituted 23% of total Bank level fees, down by 2% YOY.

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 expect total business to grow at CAGR 18% in FY19-21E, with growth in advances and deposits at ~18% and ~19% respectively. Thus, we have maintained a 'Buy' rating on Axis Bank with a price target of Rs 905, valuing the stock at 2.9x FY21E standalone P/BV and ascribing a value of Rs 42 for subsidiaries.

Key Financials (Rs in Bn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	P/B (X)
FY19	217	17	190	22	47	1596	259	2.9
FY20E	257	18	229	21	95	103	293	2.6
FY21E	305	19	281	23	131	39	326	2.3



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P&L (Rs Bn)	FY17	FY18	FY19	FY20	FY21
Interest Earned	445	458	550	672	797
Interest expended	264	272	333	415	492
NII	181	186	217	257	305
Other Income	117	110	131	151	179
Net Income	298	296	348	408	484
Operating Exp	122	140	158	179	203
PPOP	176	156	190	229	281
Provisions	121	155	120	91	89
PBT	55	1	70	139	192
Tax	18	-2	23	44	61
PAT	37	3	47	95	131

Balance sheet (Rs Bn)	FY17	FY18	FY19	FY20	FY21
CAPITAL & LIABILITIES					
Capital	5	5	5	5	5
Reserves & Surplus	553	629	662	762	848
Deposits	4144	4536	5485	6478	7702
Borrowings	1050	1480	1528	1623	1741
Other Liabilities	263	262	331	353	388
TOTAL	6015	6913	8010	9221	10684
ASSETS					
Cash & Balances	503	435	672	657	585
Investments	1288	1539	1750	2043	2411
Advances	3731	4397	4948	5817	6911
Fixed Assets	37	40	40	45	50
Other Assets	456	504	600	660	727
TOTAL	6015	6913	8010	9221	10684

Ratios (%)	FY17	FY18	FY19	FY20	FY21
Growth					
NII	7	3	17	18	19
PPOP	9	-11	22	21	23
Net profit	-55	-93	1596	103	39
Deposits	15.8	9.5	20.9	18.1	18.9
Advances	10.1	17.8	12.5	17.6	18.8
Returns					
ROA	0.6	0.0	0.6	1.1	1.3
ROE	6.6	0.4	7.0	12.4	15.4

Ratios (%)	FY17	FY18	FY19	FY20	FY21
Valuation					
BV (Rs)	233	247	259	293	326
ABV (Rs)	197	183	215	257	296
EPS (Rs)	15	1	18	36	50
P/ABV (x)	3.9	4.2	3.5	2.9	2.6
P/EPS (x)	49	708	42	21	15
Asset quality					
GNPA	5.5	7.5	5.8	4.2	3.0
NNPA	2.3	3.8	2.3	1.6	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 67141439	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 67141432	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