

Axis Bank (AXSB IN)

Recovery/upgrades prop asset quality

INDIA | FINANCIALS | Quarterly Update

23 January 2018

Top takeaways from Q3FY18

- ✓ Net profit at Rs 7.3bn (+25% yoy) was above expectation due to lower NPA provisions.
- ✗ Despite 21% growth in loan book, NII growth was moderate at Rs 47.3bn (+9% yoy) due to compression in NIM to 3.38% (-5bps yoy & -7bps qoq).
- ✓ Slippages declined sequentially to Rs 44.3bn (Rs 89.4bn in Q2FY18) but remained high as BB & below rated pool continued to slip. Slippages from the watch list were Rs 7.4bn, suggesting higher slippages from the non watch-list. However, upgrades and recovery were strong at Rs 40bn (write off Rs 28.2bn) leading to 8.8% absolute decline in GNPA. Consequently GNPA% declined 62bps qoq to 5.28%, while NNPA declined 56bps qoq to 2.56%. PCR improved to 66% (+600 bps qoq).
- ✓ Loan growth momentum picked up (+21% yoy) driven by retail loans (+29% yoy) and SME loans (+27% yoy). Growth in corporate loans was relatively weak at 12% yoy.

Management comments / concall takeaways

- During the quarter, the bank upgraded two accounts (IT/ITES and steel account), which were classified as NPA in Q2 due to RBI's risk-based supervision. Similarly, bank sold NPA worth Rs20bn on cash basis with ~40% haircut.
- Unrecognised stressed asset at Rs 221bn (4.8% of customer assets), watch list (FB+NFB) at Rs 61.2bn (Rs 71.5bn in Q2FY18). BB & below pool of loan witnessed net increase. The addition to the pool was Rs20bn.
- Exposure to NCLT cases at Rs 60.7bn with PCR of 68%. There was reduction in the NCLT exposure due to reduction in balance for one account and exclusion of three accounts in the second list due to implementation of resolution plan.
- Corporate slippages at Rs 29.8bn (from watch list Rs 7.4bn), slippages in retail and SME at Rs 9.4bn and Rs 5.1bn respectively.
- In FY18, NIM could compress by 20bps on yoy basis while credit-cost will be 220-260bps; PCR should be 60-65%. Credit cost to converge to long-term average in H2FY19.

Outlook and valuation: Axis Bank's earnings are on a recovery path, although pressures due to higher credit cost and deteriorating NIM may be seen in the rest of FY18 and in H1FY19. Given its strong retail franchise, improving low-cost deposit base, and stable PCR, the bank is well placed to generate enough operating profit. This, coupled with recent capital infusion, will be sufficient to provide for the remaining stressed loans and to pursue growth opportunities. We expect earnings growth of 88%/57% in FY19/20 and rebound in RoE to 13.2% in FY20 from 5.6% in FY18. Given the strong recovery, we maintain BUY with a revised target of 770 (Rs 580 earlier) valuing the stock at 2.5x FY20 BV of Rs 308.

BUY (Maintain)

CMP RS 612/ TARGET RS 770 (+26%)

COMPANY DATA

O/S SHARES (MN) :	2564
MARKET CAP (RSBN) :	1269
MARKET CAP (USDBN) :	19.6
52 - WK HI/LO (RS) :	548 / 424
LIQUIDITY 3M (USDMMN) :	58.0
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Dec 17	Sep 17	Jun 17
PROMOTERS :	28.0	30.4	30.1
FII / NRI :	51.7	49.1	50.2
FI / MF :	10.7	9.6	9.1
NON PRO :	2.8	3.0	2.9
PUBLIC & OTHERS :	6.8	7.9	7.8

Key Financials

Rs mn	FY18E	FY19E	FY20E
Pre-prov ROE (%)	26.4	26.5	27.7
Pre-prov ROA (%)	2.7	2.7	2.7
Net Profit	34,526	64,950	1,01,851
% growth	-6.2	88.1	56.8
EPS (Rs)	13.4	24.7	38.5
Adj BVPS (Rs)	219.8	247.7	285.9
ROE (%)	5.6	9.3	13.2
P/E (x)	45.7	24.8	15.9
Adj P/BV (x)	2.8	2.5	2.1

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
NII	188.5	224.2	2.4	8.1
PPP	161.7	185.6	2.8	11.7
Core PAT	34.5	64.9	-3.0	17.7
EPS (Rs)	13.4	24.7	-9.3	8.3

Manish Agarwalla, Pradeep Agrawal, Paresh Jain

(Rs bn)	Q3FY18	Q3FY17	yoy %	Q2FY17	qoq %	vs. expect. %	Comments
Net interest income	47.3	43.3	9.2	45.4	4.2	1.1	Moderate NII growth due to yoy decline in NIM
NIM (%)	3.4	3.4	(5bps)	3.5	(7bps)	8bps	Domestic NIM at 3.6%
Advances	4209.2	3471.7	21.2	4101.7	2.6	0.7	Growth in retail, SME and corporate at 29%, 27%, and 12% respectively
Corporate advances	1727.4	1544.3	11.9	1732.0	-0.3		Working capital loans grew 49% yoy, term loans grew 1% yoy.
Retail advances	1933.0	1495.4	29.3	1842.6	4.9		Mortgage grew at 15% yoy, personal loan 44% yoy, auto loans 34% yoy
Deposit	4089.7	3707.9	10.3	4164.3	-1.8		Term deposit declined 6.6yoy, while CASA grew 14% yoy
CASA	2017.1	1764.5	14.3	2100.6	-4.0		Growth aided by 11% yoy growth in savings and 21% yoy current accounts
CASA %	49.0	47.6	141bps	50.0	(100bps)		Daily average CASA ratio comprises of 46% of deposits
Core fee	22.5	18.0	24.5	21.7	3.5		Retail fee income grew 35%, comprises of 49% of total fee income
Trading gain	2.0	15.3	-86.9	3.8	-46.9		
Operating expenses	34.7	30.9	12.2	33.5	3.7	2.2	Employee exp. and other opex increased 7% yoy and 15% yoy respectively
Cost to income ratio (%)	48.7	49.8	(111bps)	49.6	(90bps)		
Provision	28.1	38.0	-25.9	31.4	-10.5	-12.2	Rs 27.5bn for loans losses, Rs 600mn for standard assets
PAT	7.3	5.8	25.3	4.3	68.0	58.2	PAT was above estimates due to lower provisions
Slippage	20.8	7.1	194.1	26.0	-20.0		Corporate slippages at Rs 29.8bn, retail at Rs 6bn, and SME at Rs 1.7bn
GNPA	5.3	5.2	6bps	5.9	(62bps)		
NNPA	2.6	2.2	38bps	3.1	(56bps)		PCR at 66% (+600 bps qoq)
Tier 1 Capital %	13.6	12.4	120bps	12.4	127bps		The bank raised capital amounting to Rs 86.8bn taking tier-1 to 14.1%

Result update

(Rs mn)	Q3FY18	Q3FY17	yoy growth	Q2FY18	qoq growth
Interest Earned	1,17,216	1,11,010	5.6	1,12,351	4.3
Interest Expended	69,900	67,673	3.3	66,955	4.4
Net interest income	47,315	43,337	9.2	45,396	4.2
Net interest margins	3.4	3.4	-0.05	3.5	-0.07
Non-interest income	25,931	34,002	-23.7	25,855	0.3
Total Income	73,246	77,339	-5.3	71,252	2.8
Total operating expenses	34,708	30,937	12.2	33,478	3.7
Payroll costs	10,629	9,919	7.2	10,828	-1.8
Others	24,079	21,018	14.6	22,650	6.3
Pre-provision Profit	38,538	46,402	-16.9	37,773	2.0
Provisions & Contingencies	28110	37958	-25.9	31404	-10.5
% Operating income	72.9	81.8	-8.9	83.1	-10.2
PBT	10,428	8,444	23.5	6,369	63.7
Provision for Taxes	3,163	2,649	19.4	2,045	54.7
% of PBT	30.3	31.4	-1.0	32.1	-1.8
Net Profit	7,264	5,796	25.3	4,324	68.0
Equity	5,128	4,780	7.3	4,795	6.9
EPS, Rs	14.2	12.1	16.8	9.0	57.1
Advances	42,09,230	34,71,747	21.2	41,01,708	2.6
Deposits	40,89,670	37,07,901	10.3	41,64,306	-1.8
Advances / Deposits (%)	102.9	93.6	9.3	98.5	4.4
Gross NPAs	250005	204668	22.2	274023	-8.8
Gross NPAs (%)	5.28	5.22	0.06	5.90	-0.6
Net NPAs	117695	82948	41.9	140523	-16.2
Net NPAs (%)	2.56	2.18	0.38	3.12	-0.56
CAR – Total	17.5	16.0	1.5	16.3	1.2

Source: Company, PhillipCapital India Research

Portfolio at risk, Rs bn	Q3FY18
Loan portfolio rated BB & below	80.5
Security Receipts	30.0
watch list	53.1
Restructuring dispensation	41.0
Corporate bond - BBB & below	28.5
Total	221.0
% of gross customer asset	4.8

Source: Company, PhillipCapital India Research

Slippage break up (Rs bn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Slippage	46	48	35	89	44
Watch list	27	36	13	24	7
outside watch list	19	12	23	65	37
corporate slippage outside watch list	11	7	11	57	22
Retail+sme+agri	7	5	12	8	14

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY17	FY18E	FY19E	FY20E
Interest on Loans	3,31,250	3,47,812	4,03,462	4,80,120
Interest on Investments	96,228	98,153	1,06,005	1,18,726
Others	17,944	19,738	21,120	22,598
Total Interest Earned	4,45,422	4,65,703	5,30,587	6,21,444
Total Interest Expended	2,64,490	2,77,218	3,06,355	3,53,062
Net Interest Income	1,80,931	1,88,485	2,24,231	2,68,381
Total non-interest income	1,16,913	1,09,705	1,15,601	1,23,665
Total Income	2,97,844	2,98,191	3,39,832	3,92,046
Personnel Expenses	38,919	43,589	50,127	57,646
Other Expenses	83,080	92,902	1,04,112	1,19,545
Total Op expenses	1,21,999	1,36,491	1,54,239	1,77,191
Net Inc (Loss) before prov	1,75,845	1,61,700	1,85,593	2,14,856
Provision & cont.	1,21,170	1,09,780	87,924	61,697
Net Inc (Loss) before tax	54,676	51,920	97,669	1,53,159
Provision for Income Tax	17,883	17,393	32,719	51,308
Net Profit	36,793	34,526	64,950	1,01,851

Balance Sheet

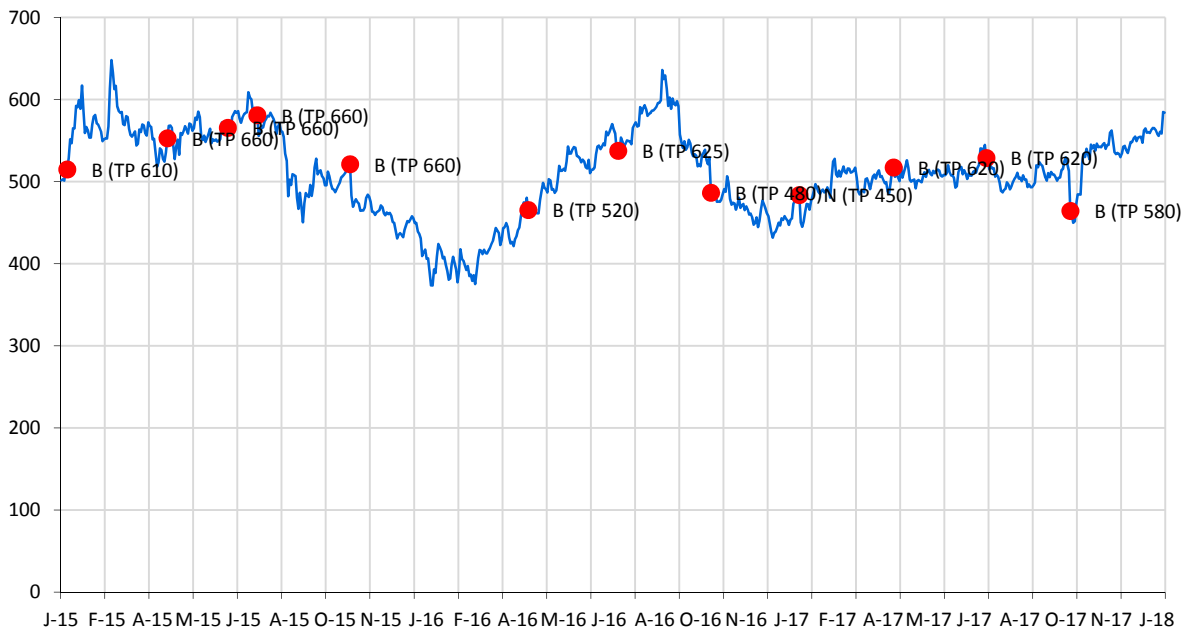
Y/E Mar, Rs mn	FY17	FY18E	FY19E	FY20E
Assets				
Cash & Bal with RBI	5,02,562	5,52,818	6,08,100	6,68,910
Loans, Adv & Int accrued	37,30,693	43,50,701	51,33,827	60,57,916
Investments	13,40,374	14,13,951	15,84,043	17,78,725
Fixed Assets (Net)	37,469	39,469	41,469	43,469
Other assets	4,03,578	4,52,008	5,19,809	5,97,780
Total Assets	60,14,677	68,08,947	78,87,248	91,46,801
Liabilities				
Share capital	4,790	5,145	5,261	5,287
Reserves and Surplus	5,52,835	6,61,173	7,29,470	8,09,021
Hybrid Capital	3,891	38,891	68,891	98,891
Debt	1,97,050	2,47,050	2,87,050	3,27,050
Borrowing	8,49,368	9,74,430	11,18,693	12,99,380
Total Deposits	41,63,403	45,69,648	53,03,816	61,60,841
Other liab incld prov	2,43,340	3,12,611	3,74,067	4,46,331
Total Liabilities	60,14,677	68,08,947	78,87,248	91,46,801

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY17	FY18E	FY19E	FY20E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	32.3	26.4	26.5	27.7
RoAE (%)	6.8	5.6	9.3	13.2
Pre-provision Operating ROA (%)	3.1	2.5	2.5	2.5
RoAB (%)	0.70	0.58	0.95	1.29
EPS (Rs.)	15.4	13.4	24.7	38.5
Dividend per share (Rs.)	5.0	4.0	7.0	7.0
Book Value (Rs.)	232.8	259.0	279.3	308.0
Adj BV (Rs.)	207.6	219.8	247.7	285.9
Revenue Analysis				
Interest income on IBA (%)	8.4	7.8	7.8	7.9
Interest cost on IBL (%)	5.4	5.0	4.9	4.8
NIM on IBA / AWF (%)	3.4	3.2	3.3	3.4
Core fee Inc / AWF (%)	1.4	1.3	1.3	1.3
Portfolio gains / Total Inc (%)	11.9	5.3	3.3	2.1
Op.Exp / TI (%)	45.8	48.2	46.9	46.1
Op.Exp / AWF (%)	2.3	2.3	2.3	2.2
Employee exps / Op exps (%)	31.9	31.9	32.5	32.5
Tax / Pre-tax earnings (%)	32.7	33.5	33.5	33.5
Asset Quality				
GNPAs / Gr Adv (%)	5.7	6.1	4.7	3.1
NNPAs / Net Adv (%)	2.4	3.0	2.0	1.1
Growth Ratio				
Loans (%)	10.1	16.6	18.0	18.0
Investments (%)	6.0	5.5	12.0	12.3
Deposits (%)	15.5	9.8	16.1	16.2
Networth (%)	4.9	19.5	10.3	10.8
Net Int Income (%)	7.5	4.2	19.0	19.7
Non-fund based income (%)	2.1	11.1	10.4	10.6
Non-Int Exp (%)	20.8	11.9	13.0	14.9
Profit Before Tax (%)	(55.9)	(5.0)	88.1	56.8
Net profit (%)	(55.3)	(6.2)	88.1	56.8
Asset / Liability Profile				
Avg CASA/ Deposits (%)	49.2	51.0	50.5	49.8
Avg Adv / Avg Dep (%)	88.1	87.1	90.9	93.8
Avg Invst / Avg Dep (%)	33.5	31.5	30.4	29.3
Incr Adv / Deposits (%)	61.4	152.6	106.7	107.8
Avg Cash / Avg Dep (%)	10.8	12.1	11.8	11.1
Capital Adequacy Ratio:				
Tier I (%)	15.0	16.7	16.5	16.1
CET1 (%)	12.0	13.3	13.1	12.8
CET1 (%)	11.2	11.9	11.3	10.8
NNPAs to Equity (%)	15.5	18.9	13.7	8.0

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.

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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