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No near-term sign of relief in Credit cost. Slippages remain elevated

1QFY20 Result Update

- NII grew by 13% YoY to Rs 5844 Cr v/s Rs 5167 Cr in Q1FY19. The NIM stood at 3.40% v/s 3.46% in Q1FY19. Fee income grew by 26% YoY. Opex grew by 3% YoY with C/I ratio at 39% vs 46% YoY. The PAT for the quarter was below our expectation standing at Rs 1370 Cr v/s 701 Cr in Q1FY19. The provisions were Rs 3815 Cr v/s the Rs 3338 Cr in Q1FY19.
- Advances grew by 13%/0.5% on YoY/QoQ basis with retail advances growing 22% YoY and SME growing 8% YoY. The deposits grew by 21% YoY/-1.4% on YoY/QoQ basis with term deposits growing 34% YoY.
- GNPA stood at 5.25% v/s 5.26% in Q4FY19 while the NNPA was 2.04% v/s 2.06% in Q4FY19. The gross slippages stood at Rs 4798 Cr vs Rs 3012 Cr in 4Q FY19.
- BB & Below book remained flat at 1.3% of the book at Rs 7504 Cr. There were new downgrades of Rs 2242 Cr into BB & below from the groups that have newly exhibited signs of stress in recent months

Moderate NII growth

The NII during the quarter grew by NII grew by 13% YoY to Rs 5844 Cr v/s Rs 5167 Cr in Q1FY19. The NIM stood at 3.40% v/s 3.46% in Q1FY19 and 3.44% in Q4FY19. Management expects the NIM to be Flat for FY20 while over the medium-term management expects NIM to be in the range of 3.5%-3.8%. The cost of deposits was 5.39% v/s 5.12% in Q4FY19. The Cost of fund stood at 5.70% v/s 5.23% in Q1FY19.

Steady Advance/Deposit growth

The Advance during the quarter grew by 13%/0.5% on YoY/QoQ basis with Retail advances growing 22% YoY and SME growing 8% YoY. The Domestic advance grew by 19% YoY. The growth in the retail advance was led by the personal loan segment which grew by 46%/5% on YoY/QoQ basis and credit card segment which grew by 52.50%/5% on YoY/QoQ basis. The retail loan book now constitutes 52% of the loan book.

The Deposits grew by 21%/-1.40% on YoY/QoQ basis led by term deposits which grew by term deposits growing 34% YoY. The CASA ratio stood at 41.3%. The CASA deposits grew by 6% YoY however it declined by 8% sequentially.

Slippages remained elevated

The Asset quality during the quarter was stable with GNPA at 5.25% v/s 5.26% in Q4FY19 and NNPA at 2.04% v/s 2.06% in Q4FY19. The gross slippages were Rs 4798 Cr v/s the Rs 4337 Cr in Q1FY19. The provision coverage ratio of the bank improved from 77% in Q4FY19 to 78% in Q1FY20. The bank has downgraded Rs 2,242 Cr into BB book during the quarter, largely from groups that have shown new signs of stress in recent month. The BB & Below book stands at 1.3% of the Advances. The 83% of corporate exposure is rated 'A' or better.

View and Valuation

Due to continuous rise in stress in the economy, the pace of improvement in assets quality is likely to get reduced. Stress pool of Axis bank remained flat at 1.3% of the book with addition of Rs 2242 Cr. Slippages during the quarter remained elevated with major portion of gross slippages from outside the watchlist. Management being prudent has been aggressive in provisioning and building contingent provisions pool for stronger balance sheet. With rise of stress in the economy, growth and asset quality is likely to impacted. We increase our credit cost estimate and reduce the loan growth expectations which compels us to cut EPS by 13% for FY20. Bank has plan to raise to raise Rs 18000 Cr of capital which will reduce the RoE level in near to midterm. We have not factored the capital dilution in our estimate and reduce the target price to Rs 794 at 2.3x BV FY21e. ACCUMULATE.

Key Risks to our rating and target

- Stress rising in macro will increase the delinquencies
- Slower uptick in credit growth

RATING	ACCUMULATE
CMP	715
Price Target	782
Potential Upside	9%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	826.55/534.15
Mkt Capital (Rs Cr)	185,096
Free float (%)	65%
Avg. Vol 1M (,000)	7,923
No. of Shares (Cr)	261
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	21708	25286	31045
PPP	19005	23883	27444
PAT	4677	9655	14436
NIM %	3.1	3.2	3.4
EPS (Rs)	18	37	55
EPS growth (%)	1593	103	50
ROE (%)	7	13	17
ROA (%)	0.6	1.1	1.5
BV	259	304	353
P/B (X)	3.0	2.3	2.0
P/E (x)	43	19	13

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1QFY20 Results

PAT Below Expectation

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	12,777	13,281	14,130	14,798	15,255	19.4%	3.1%	45,780	54,986	20.1%
Interest Exp.	7,610	8,049	8,526	9,092	9,411	23.7%	3.5%	27,163	33,278	22.5%
NII	5,167	5,232	5,604	5,706	5,844	13.1%	2.4%	18,618	21,708	16.6%
Other Income	2,925	2,678	4,001	3,526	3,869	32.3%	9.7%	10,967	13,130	19.7%
Total Income	8,092	7,910	9,604	9,232	9,713	20.0%	5.2%	29,585	34,839	17.8%
Ope Exp.	3,720	3,816	4,080	4,217	3,820	2.7%	-9.4%	13,990	15,833	13.2%
PPP	4,372	4,094	5,525	5,014	5,893	34.8%	17.5%	15,594	19,005	21.9%
Provisions	3,338	2,927	3,055	2,711	3,815	14.3%	40.7%	15,473	12,031	-22.2%
PBT	1,034	1,167	2,470	2,303	2,078	100.9%	-9.8%	122	6,974	5637%
Tax	333	377	789	798	708	112.5%	-11.3%	(154)	2,297	NA
Net Profit	701	790	1,681	1,505	1,370	95.5%	-9.0%	276	4,677	1596%

Concall Highlights

- Domestic growth conditions remain soft with weakness seen in multiple high frequency indicators: auto sales are weak and demand for capital goods remains slack. That said, there are enough high-quality market opportunities available for the bank to deliver domestic loan growth 5% to 7% over the industry growth rate for the next couple of years.
- To drive greater focus on new customer acquisition on the CASA and RTD side, bank created a new vertical structure in Liability Sales in April 2019. During the quarter, Narendra Kumar Dixit has joined the Bank to head this function as Head, Liability Sales.
- Sameer Shetty, joined to lead the Digital Banking initiatives. Neeraj Gambhir joined during the quarter as Head of Treasury & Markets. With this, management said that Axis bank now has the full team in place to turn the aspirations into reality over the next few years. Bank expects NIM to settle to 3.5%-3.8% over the medium term, while for FY20 they are expected to be broadly flat with slightly upward bias.
- Cost to assets came down significantly in the quarter, to 2.08% key source for improvement being- Rationalization of outsourced manpower, Rationalization of security expenses, through expanded use of command center technology, Digital initiatives in sourcing, resulting in lower mid-office and back-office expenses; and Seasonal elements - like lower expenses on business promotion and advertising.
- Out of the total Gross slippages corporate segment slippages were Rs 2128 Cr. The bank had two chunky accounts one from power sector and other from the shipping sectors totalling worth Rs 850 Cr which were downgraded into the NPA, both the accounts were in BB & below books previously. Out of the net slippages of Rs 2621 Cr, Rs 1318 Cr came from corporate, Rs 414 Cr came from SME, 889 Cr came from retail and agri. 79% of the net corporate slippages came from BB & Below book.
- Bank has downgraded Rs 2,242 Cr into BB book during the quarter, largely from groups that have shown new signs of stress in recent month. There was also Rs 1007 Cr of reduction in this account
- The Bank stated exposure to the 8 stressed group from the infrastructure finance, infrastructure, power, telecom, housing finance, travel and tourism, commodity, plastic, media related sector in which the loan outstanding is Rs 7000 Cr, out of which Rs 1000 Cr is NPA, Rs 2900 Cr is in BB & below book and out of the remaining two third is with one operating media account and rest exposure is with various entities. Investment outstanding to these groups is Rs 2200 Cr out of which Rs 200 Cr is NPA and out of remaining bank has mark to market provision of Rs 400 Cr. The NFB exposure is worth Rs 3000 Cr to the 8 groups out of which 1/3 is NPA remaining 2/3 is to an account from telecom sector. The exposure to the given telecom client and media company is 0.75% of the customer assets and this is out of given stress pool.
- The Bank has started making specific provisions for Non fund-based exposure towards the borrowers that are already NPA or are showing weakness under BB & Below Pool thus making and additional provision of Rs 459 Cr during the quarter. Bank now holds additional provision pool of Rs 2358 Cr towards the various contingencies which is not calculated under PCR.
- On retail unsecured book management said they are not seeing any real challenges however external factor suggest there might be signs of stress.
- The Real estate book exposure worth Rs 12947 Cr is all standard. The exposure is largely towards LRD and top-notch entity. Bank don't do construction finance.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	47.4	51.2	46.0	48.2	42.5	45.7	39.3	-6.64	-6.36
Empl. Cost/ Tot. Exp. %	30.6	28.0	33.0	30.8	29.5	27.1	34.2	1.21	7.13
Other Exp/Tot. Exp.%	69.4	72.0	67.0	69.2	70.5	72.9	65.8	-1.21	-7.13
Provision/PPP %	72.9	195.5	76.3	71.5	55.3	54.1	64.7	-11.61	10.66
Tax Rate %	31.4	31.4	31.4	34.0	34.0	35.0	34.1	2.70	-0.93
Int Exp./Int Inc. (%)	59.6	59.8	59.6	60.6	60.3	61.4	61.7	2.13	0.25
Other Inc./Net Inc. %	35.4	37.1	36.1	33.9	41.7	38.2	39.8	3.68	1.64
PAT/ Net Income %	10.4	(30.5)	9.6	10.4	20.5	17.2	16.1	6.48	-1.14
PAT Growth %	25.3	(278.7)	(46.3)	82.6	131.4	(168.8)	95.5	141.77	264.23
NII Growth % (YoY)	9.2	0.0	11.9	15.3	18.4	20.6	13.1	1.18	-7.51
Op. Profit Growth YoY %	(16.9)	(16.1)	1.9	8.4	43.4	36.6	34.8	32.90	-1.76
RoE %	5.5	(15.3)	4.9	5.2	11.3	10.3	9.2	4.25	-1.11
RoA %	0.4	(1.3)	0.4	0.4	0.9	0.8	0.7	0.29	-0.09

Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on advances	8.8	8.5	9.0	9.1	9.4	9.5	9.5	0.55	0.00
Avg Yield on Earning Assets	8.1	7.8	8.2	8.2	8.5	8.5	8.6	0.45	0.13
Cost of Funds	5.1	5.1	5.2	5.3	5.4	5.7	5.7	0.47	0.01
NIM	3.4	3.3	3.5	3.4	3.5	3.4	3.4	-0.06	-0.04

Exhibit: Yield and Cost

cost of fund increased/ Yield on earning asset increased

■ Avg Yield on Earning Assets ■ Cost of Fund

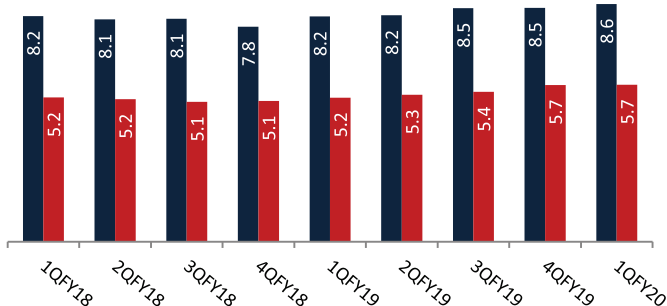
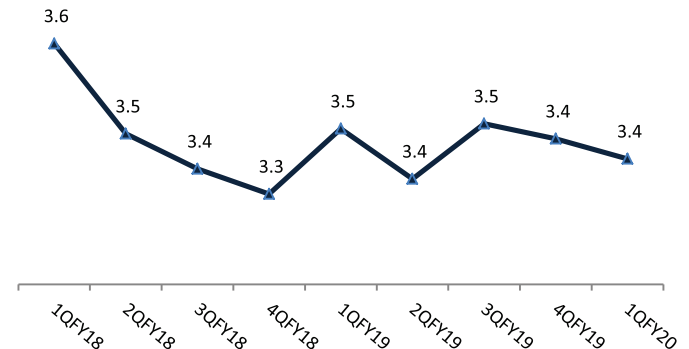


Exhibit: Net Interest Margin

NIM went down sequentially

▲ NIM



Other Income Break: healthy growth in retail business

Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Retail Business	961	1042	1101	1187	1291	1473	1549	1829	1651
Corporate Credit	361	456	382	446	275	285	370	415	267
Treasury & DCM	80	22	22	26	42	48	72	84	230
SME	80	87	112	148	85	95	112	162	79
Transaction Banking	521	564	629	641	423	475	512	530	437
Total Fee-Based Income	2003	2170	2246	2448	2117	2376	2615	3020	2663
Growth YoY %	17%	12%	24%	1%	6%	9%	16%	23%	26%
Trading Income	824	377	200	216	103	136	379	354	832
Miscellaneous Income	173	39	147	125	705	166	1007	152	373
Total Other Income	3000	2586	2593	2789	2925	2678	4001	3526	3868
Growth YoY %	10%	2%	-24%	-7%	-2%	4%	54%	26%	32%

Exhibit: Fee Income/Advances %

Fee income as a % of total advance decreased

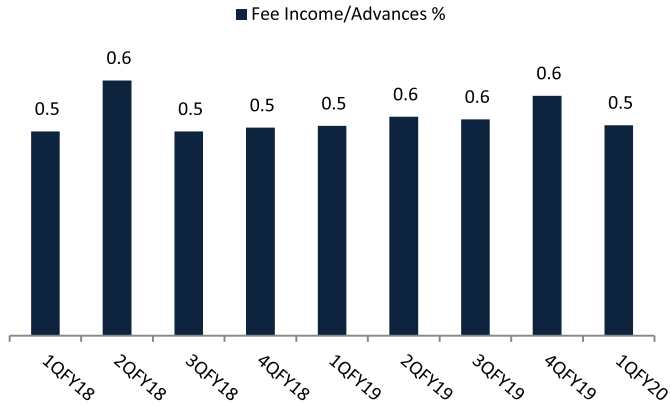
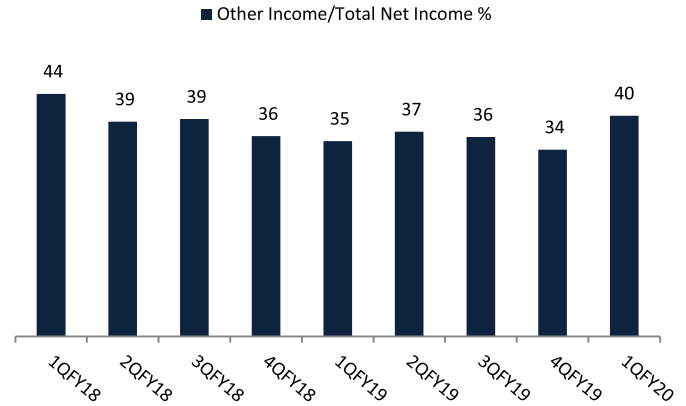


Exhibit: Other Income/ Total Income %

increase in % of other income



Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	22,032	27,403	25,001	34,249	30,855	29,790	29,406	18%	-1%
GNPA %	5.3	6.8	6.5	6.0	5.8	5.3	5.3	-1.27	-0.01
NNPA (Rs in Cr)	9,766	14,052	11,769	16,592	12,233	11,276	11,037	-6%	-2%
NNPA %	2.6	3.4	3.1	2.5	2.4	2.1	2.0	-1.05	-0.02
Slippages (Rs in Cr)	3,519	8,936	4,428	16,536	3,746	3,012	4,798	8%	59%
Specific PCR %	52.9	51.6	54.4	58.9	60.4	62.1	62.5	62.15	0.32

Exhibit: Asset Quality

Assets quality improved.

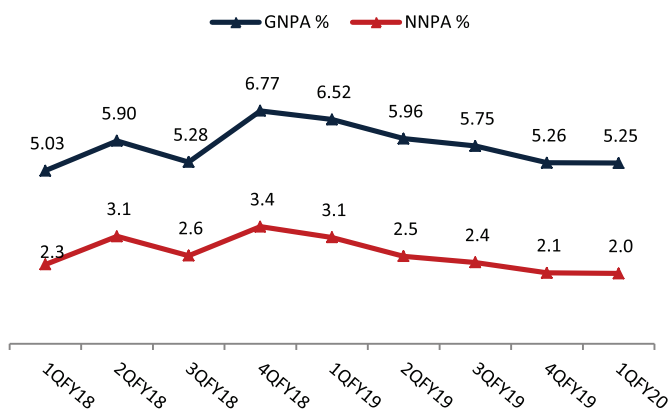


Exhibit: Provisions

PCR Increased.

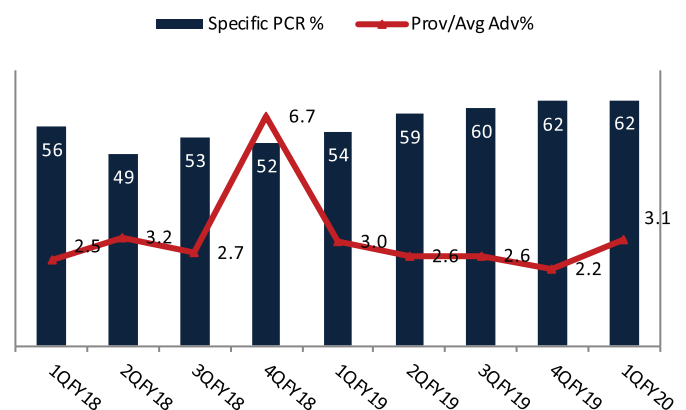


Exhibit: Advances Performance

Steady Advances growth

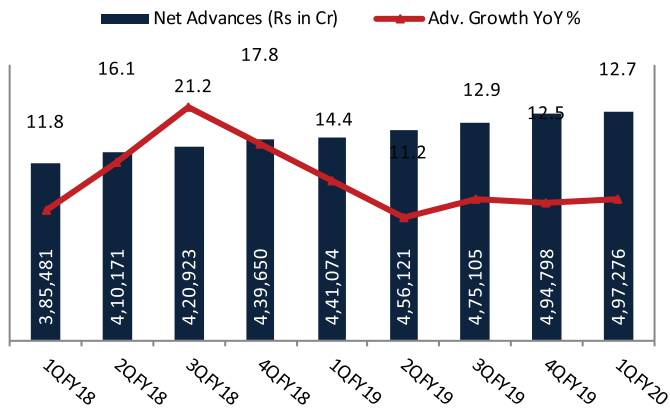


Exhibit: Advances Breakup%

Portfolio has tilted towards retail profile

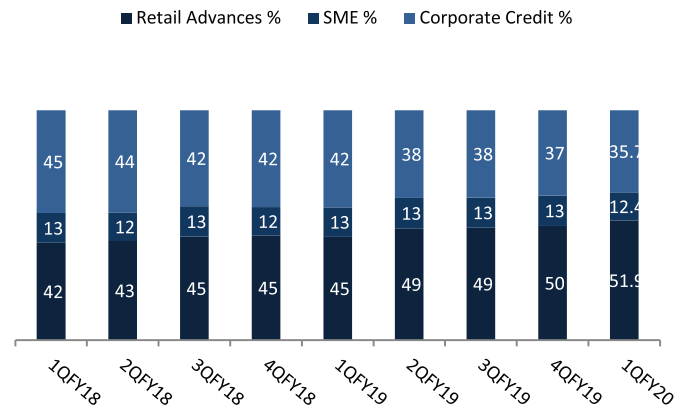


Exhibit: Deposits Performance

Healthy Deposits growth

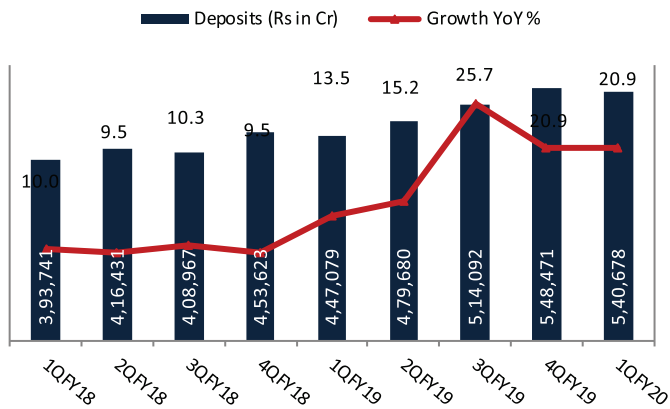


Exhibit: CASA Performance

Moderate CASA growth

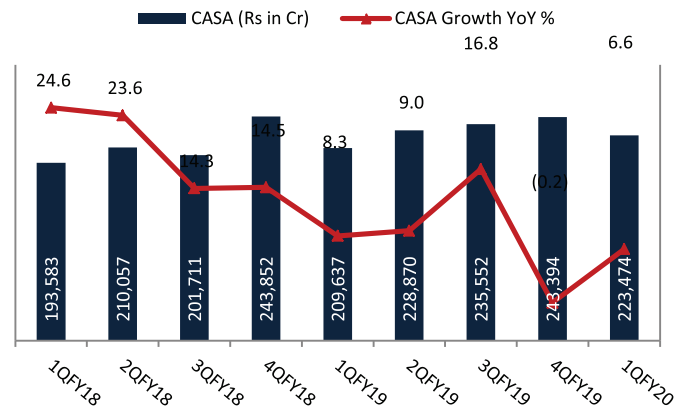


Exhibit: Credit Deposit Ratio

CD ratio declined.

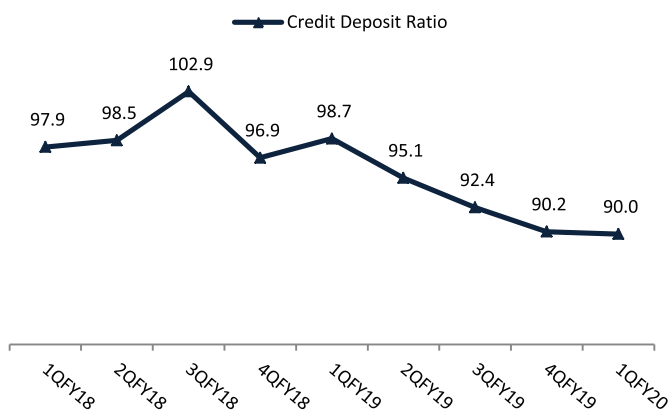
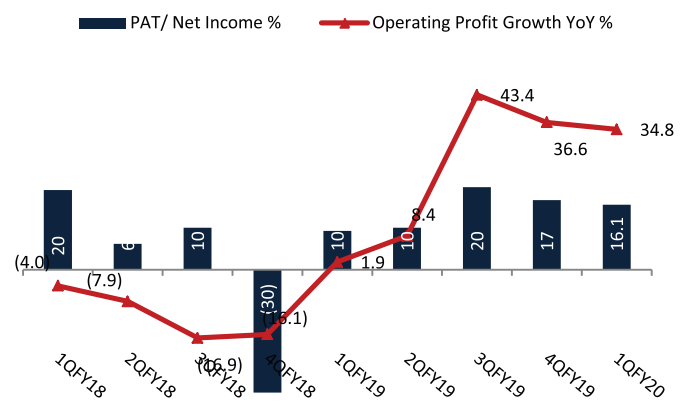


Exhibit: Operating Profit.

Strong operating profit growth



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	470	474	477	479	513	514	524	524
Equity Capital	470	474	477	479	513	514	524	524
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	37751	44202	52688	55284	62932	66162	79027	91891
Networth	38220	44677	53165	55763	63445	66676	79550	92415
Deposits	280945	322442	357968	414379	453623	548471	634632	748866
Change (%)	11	15	11	16	9	21	16	18
CASA Deposits	126462	144400	169445	213050	243852	243394	266546	322012
Change (%)	13	14	17	26	14	0	10	21
Borrowings	50291	79758	99226	105031	148016	152776	148314	173587
Other Liabilities & Prov.	13789	15056	15109	26295	26245	33073	36265	39940
Total Liabilities	383245	461932	525468	601468	691330	800997	898761	1054808
Cash & Bank	28239	36099	33325	50256	43455	67205	51104	67005
Investments	113548	117550	122006	128793	153876	174969	196736	224660
Change (%)	0	4	4	6	19	14	12	14
Advances	230067	281083	338774	373069	439650	494798	583862	688957
Change (%)	17	22	21	10	18	13	18	18
Fixed Assets	2410	2514	3523	3747	3972	4037	4238	4450
Other Assets	8981	24686	27839	45602	50377	59988	62821	69736
Total Assets	383245	461932	525468	601468	691330	800997	898761	1054808

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	30,641	35,479	40,988	44,542	45,780	54,986	63,253	73,054
Interest expended	18,690	21,254	24,155	26,449	27,163	33,278	37,966	42,009
Net Interest Income	11,952	14,224	16,833	18,093	18,618	21,708	25,286	31,045
Change (%)	24	19	18	7	3	17	16	23
Other Income	7,405	8,365	9,371	11,691	10,967	13,130	15,646	16,436
Change (%)	13	13	12	25	-6	20	19	5
Core Fee Income	5,985	6,779	7,503	7,882	8,867	10,128	12,093	14,223
Treasury Income	696	1,135	1,247	3,401	1,617	972	1,979	1,014
Others	724	451	622	408	483	2,030	1,574	1,200
Total Net Income	19,357	22,589	26,204	29,784	29,585	34,839	40,932	47,482
Operating Expenses	7,901	9,204	10,101	12,200	13,990	15,833	17,050	20,037
Change (%)	14	16	10	21	15	13	8	18
Employee Expenses	2,601	3,115	3,376	3,892	4,313	4,747	5,582	6,268
Pre-provisioning Profit	11,456	13,385	16,104	17,585	15,594	19,005	23,883	27,444
Change (%)	23	17	20	9	-11	22	26	15
Provisions	2,107	2,329	3,710	12,117	15,473	12,031	9,252	5,571
Change (%)	20	10	59	227	28	-22	-23	-40
PBT	9,349	11,057	12,394	5,468	122	6,974	14,631	14,436
Tax	3,131	3,699	4,170	1,788	(154)	2,297	4,976	7,437
Profit After Tax	6,218	7,358	8,224	3,679	276	4,677	9,655	14,436
Change (%)	20	18	12	-55	-93	1596	106	50

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	17	22	21	10	18	13	18	18
Deposit Growth (%)	11	15	11	16	9	21	16	18
C/D Ratio (%)	82	87	95	90	97	90	92	92
CASA (%)	45	45	47	51	54	44	42	43
Investment/Deposit (%)	40	36	34	31	34	32	31	30
CRAR (%)	16.1	15.1	15.3	15.0	16.6	15.8	15.5	15.0
Tier 1 (%)	12.6	12.1	12.5	11.9	13.0	12.5	12.2	12.1
Tier 2 (%)	3.5	3.0	2.8	3.1	3.5	3.3	3.3	2.8

Assets Quality Metrics

Gross NPA (Rs)	3,146	4,110	6,088	21,281	34,249	29,790	29,868	29,631
Gross NPA (%)	1.2	1.3	1.7	5.0	6.8	5.3	4.5	3.8
Net NPA(Rs)	1,025	1,317	2,522	8,627	16,592	11,276	10,454	10,371
Net NPA (%)	0.4	0.4	0.7	2.1	3.4	2.1	1.6	1.4
Slippages (%)	1.3	1.2	2.6	6.5	9.2	3.3	2.6	1.7
Provision Coverage (%)	78	78	72	65	65	77	77	77
Provision/Average Advances (%)	1.0	0.9	1.2	3.4	3.8	2.6	1.7	0.9

Margin Metrics

Yield On Advances (%)	10.7	10.1	9.7	9.3	8.4	8.8	8.9	8.9
Yield On Investment (%)	7.3	7.9	7.8	7.7	7.1	6.9	6.9	6.8
Yield on Earning Assets (%)	9.3	9.0	8.8	8.5	7.7	7.9	7.9	8.0
Cost Of Deposits (%)	5.8	5.7	5.4	5.1	4.4	4.7	4.9	4.7
Cost Of Funds (%)	5.9	5.7	5.5	5.3	4.7	5.0	5.0	4.8
Spread (%)	3.4	3.2	3.3	3.2	3.0	3.0	3.0	3.2
NIM (%)	3.6	3.6	3.6	3.4	3.1	3.1	3.2	3.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	61.0	59.9	58.9	59.4	59.3	60.5	60.0	57.5
Fee Income/NII (%)	50.1	47.7	44.6	43.6	47.6	46.7	47.8	45.8
Cost to Income (%)	40.8	40.7	38.5	41.0	47.3	45.4	41.7	42.2
Cost on Average Assets (%)	2.2	2.2	2.0	2.2	2.2	2.1	2.0	2.1
Tax Rate (%)	33.5	33.5	33.6	32.7	(126.8)	32.9	34.0	51.5

Valuation Ratio Metrics

EPS (Rs)	26.5	31.0	34.5	15.4	1.1	18.2	36.9	55.1
Change (%)	19.6	17.3	11.2	(55.5)	(93.0)	1,593	103	49.5
ROAE (%)	17.4	17.8	16.8	6.8	0.5	7.2	13.2	16.8
ROAA (%)	1.7	1.7	1.7	0.7	0.0	0.6	1.1	1.5
Dividend Payout (%)	15.1	14.8	14.5	32.5	-	5.5	13.6	10.9
Dividend yield (%)	0.3	0.8	1.1	1.0	-	0.1	0.7	0.8
Book Value (Rs)	163	188	223	233	247	259	304	353
Change (%)	15	16	18	4	6	5	17	16
P/B (X)	1.8	3.0	2.0	2.1	2.1	3.0	2.3	2.0
P/E (X)	11	18.1	12.9	31.9	473.9	42.7	19.2	12.8

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.4	8.3	7.9	7.1	7.4	7.4	7.5
Interest expended	5.0	4.9	4.7	4.2	4.5	4.5	4.3
Net Interest Income	3.4	3.4	3.2	2.9	2.9	3.0	3.2
Non-Fund Based Income	2.0	1.9	2.1	1.7	1.8	1.8	1.7
Core Fee Income	1.6	1.5	1.4	1.4	1.4	1.4	1.5
Trading and Other Income	0.4	0.4	0.7	0.3	0.4	0.4	0.2
Core Operating Income	5.0	4.9	4.6	4.3	4.3	4.4	4.6
Total Income	5.3	5.3	5.3	4.6	4.7	4.8	4.9
Total Operating Expenses	2.2	2.0	2.2	2.2	2.1	2.0	2.1
Employee Expenses	0.7	0.7	0.7	0.7	0.6	0.7	0.6
Other Expenses	1.4	1.4	1.5	1.5	1.5	1.3	1.4
Operating Profit	3.2	3.3	3.1	2.4	2.5	2.8	2.8
Provisions	0.6	0.8	2.2	2.4	1.6	1.1	0.6
Others	-	-	-	-	-	-	-
PBT	2.6	2.5	1.0	0.0	0.9	1.7	2.2
Tax	0.9	0.8	0.3	(0.0)	0.3	0.6	0.8
PAT/RoAA	1.7	1.7	0.7	0.0	0.6	1.1	1.5
Equity Multiplier (x)	10.2	10.1	10.3	10.8	11.5	11.6	11.4
ROAE	17.8	16.8	6.8	0.5	7.2	13.2	16.8

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