

AXIS Bank Limited

Industry Financial
Bloomberg AXSB IN
BSE CODE 532215

Stellar Operating performance dragged by one -time DTA Impact

RATING	BUY
CMP	713
Price Target	782
Potential Upside	10%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	826/534
Mkt Capital (Rs Cr)	200,923
Free float (%)	65%
Avg. Vol 1M (,000)	14,679
No. of Shares (Cr)	282
Promoters Pledged %	

fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	21708	25300	30954
PPP	19005	24241	27984
PAT	4677	8774	15300
NIM %	3.1	3.2	3.4
EPS (Rs)	18	31	54
EPS growth	1593	71	74
ROE (%)	7	11	16
ROA (%)	0.6	1.0	1.5
BV	259	324	372
P/B (X)	3.0	2.2	1.9
P/E (x)	43	23	13

Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

2QFY20 Result Update

- Net Interest Income grew 17% YOY to Rs 6,102 Cr backed by advances growth of 14%/5% YoY/QoQ. NIM was 3.51%, highest in the last 9 quarters driven by high yield. Other income grew by 45% YoY in 2QFY20. Operating expenses growth was 6% - significantly lower than growth in revenue.
- One time fully adjusted DTA impact of Rs 2138 Cr impacted the profitability. Bank reported net loss of Rs 112 Cr.
- GNPA and NNPA ratios were 5.03% and 1.99%, compared to 5.25% and 2.04% after Q1FY20. GNPA and NNPA book both fell for the 6th straight quarter. Provision Coverage Ratio of the Bank improved to 79% from 78%. Gross slippages stood at Rs 4983 Cr vs Rs 4798 QoQ. BB & Below reduced by 16% to Rs 6291 Cr.
- Capital Adequacy Ratio has strengthened post capital raise: Common Equity Tier 1 ratio stood at 14.04% compared to 11.68% at the end of Q1FY20.

Healthy NII growth

The Bank's NII grew 17% YOY to Rs 6,102 Cr during Q2FY20 from Rs 5232 Cr in Q2FY19. NIM increased by 15/11 bps YoY/QoQ to 3.51% driven by high yield. Yield on advances grew by 54/7 bps YoY/QoQ to 9.60% in 2QFY20 whereas cost declined by 8 bps QoQ. Management said that the NIM for FY20 is expected to be better for the bank than FY19 Linking of retail product with external benchmark may lead to some volatility in margin during the transition phase but management does not think significant change.

Steady advances growth

Advances grew by 14%/5% YoY/QoQ driven by growth in retail segment. SME segment reported low growth of 2% YoY in 2QFY20. The portfolio composition moves towards the retail as retail stood at 52% as against 51% last quarter. Deposits grew by 22% YoY. CASA ratio has been stable at 41% QoQ. The retail advances during the quarter grew by 23% YoY with the auto and personal loans growing 34% YoY. On the auto loans management said it continuous to focus on the internal deposit customers of the banks and banks is seeing decent penetration. The management is seeing some stress in the MSME segment and is cautious on the same.

Improvement in asset quality

Asset quality improved as GNPA/NNPA both declined. GNPA and NNPA ratios were 5.03% and 1.99%, compared to 5.25% and 2.04% after Q1FY20. Gross slippages for the quarter stood at Rs 4983 Cr. Corporate slippages were Rs 2862 Cr of which 97% came from BB and below rated clients (loan and investment exposures). Outstanding BB & Below corporate loans declined by 16% and stood at 1.1% of customer assets. Reductions also increased by 3% QoQ in 2QFY20. Specific Loan Loss Provisions for Q2FY20 were Rs 2,701 Cr, compared to Rs 2,686 Cr in Q2 last year and Rs 2,886 Cr in Q1FY20.

View and Valuation

Banks continued to perform well on the operating parameter with pick up in advances growth, control in opex, NIM expansion as well as improvement in assets quality. Management seems confidence on growth and reminded positive towards margin with upward bias. NIM is likely to improve materially in the 2nd half given decline in cost of fund as well as increase in high yielding assets. On the asset quality, stressed pool continues to decline and BB & Below book remained at 1.1% of the book. Management also clarified that exposure towards 8 stress group disclosed in previous quarter is majorly included in stress pool. Bank hold Rs 2600 Cr of contingent provisions and specific PCR at 62% gives comfort for improving credit cost going ahead. Continued strong performance will re-rate the stock. We remain BUY on our previous target price of Rs 782 at 2.1x BV FY21e.

Key Risks to our rating and target

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

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2Q FY20 Results PAT Below expectations due to DTA Impact

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	fig in Rs cr
										YoY %
Interest Inc.	13,281	14,130	14,798	15,255	15,438	16.2%	1.2%	45,780	54,986	20.1%
Interest Exp.	8,049	8,526	9,092	9,411	9,336	16.0%	-0.8%	27,163	33,278	22.5%
NII	5,232	5,604	5,706	5,844	6,102	16.6%	4.4%	18,618	21,708	16.6%
Other Income	2,678	4,001	3,526	3,869	3,896	45.5%	0.7%	10,967	13,130	19.7%
Total Income	7,910	9,604	9,232	9,713	9,998	26.4%	2.9%	29,585	34,839	17.8%
Ope Exp.	3,816	4,080	4,217	3,820	4,046	6.0%	5.9%	13,990	15,833	13.2%
PPP	4,094	5,525	5,014	5,893	5,952	45.4%	1.0%	15,594	19,005	21.9%
Provisions	2,927	3,055	2,711	3,815	3,518	20.2%	-7.8%	15,473	12,031	-22.2%
PBT	1,167	2,470	2,303	2,078	2,433	108.6%	17.1%	122	6,974	5637%
Tax	377	789	798	708	2,545	575.1%	259.5%	(154)	2,297	NA
Net Profit	790	1,681	1,505	1,370	(112)	NA	NA	276	4,677	1596%

Concall Highlights:

- On the macro front management said a slowing economy, NBFCs and HFCs grappling with funding issues, leverage issues faced by certain promoters, certain other promoters under the lens of enforcement agencies etc create significant uncertainties for the banking business.
- Recovery and resolution in stressed accounts has not seen material progress. Large IBC cases have remained unresolved for a considerable time.
- Movement in BB & Below Book- Rs 1100 Cr addition, Rs 1600 Cr slippages and rest were decline.
- 97% of the corporate slippages were from BB & Below rated book. Management said that the current macro environment is not enabling a quick run-down of the pool and expect expects slippages from this stock to remain elevated but slippages from this book are likely to be recovered in the next quarter.
- Of the Net Slippages Rs 1806 Cr came from Corporate, Rs 468 Cr from SME and Rs 496 Cr from Retail and Agri segments.
- Banks said that significant amount of slippages have happened from the 8 groups which were mentioned in Q1FY20. All the exposure is included in the BB & Below pool declared.
- The Bank currently holds additional provisions of around Rs 2600 Cr towards various contingencies, up from Rs 2358 Cr at the end of June quarter.
- In car loans and home loans, the number of credit applications are increasing on a sequential M-o-M basis.
- In the small business and MSME segment, there are some signs of stress in terms of delayed payments.
- Management restated the Deferred Tax Assets held on the Bank's Balance Sheet at the previously higher tax rate. In Q2, the Bank has recognized a one-time Tax Provision of Rs 2138 Cr which led to loss. Excluding DTA related tax provision, adjusted Net Profit of the Bank would have been Rs 2026 Cr, a growth of 157% YoY.
- Linking of retail product with external benchmark can lead to volatility in margin during the transition phase but management don't think significant change in the current interest rate cycle and expect banks to innovate on product design, both on the asset and liability side, to manage balance sheet impacts.
- Given the capital structure and liability mix, management thinks upwards bias in NIM is likely to play in 2H FY20 and now expect that the NIM for FY20 is likely to be higher than NIM in FY19.
- Management expect the cost to assets ratio to consolidate at current level before declining to the guided path in medium term.
- Regulatory changes in Q2 pertaining to lowering of risk weight in personal loans drove further 26 bps of CET1.
- Management feels it needs to improve its CASA and the team is working towards that goal during the quarter bank opened 190 branches to take banks branch network to 4284 .
- MTM on investment during the quarter was Rs 65 Cr.
- on the auto loans management said it continuous to focus on the internal deposit customers of the banks and banks is seeing decent penetration.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.2	46.0	48.2	42.5	45.7	39.3	40.5	-7.78	1.14
Empl. Cost/ Tot. Exp. %	28.0	33.0	30.8	29.5	27.1	34.2	31.5	0.73	-2.70
Other Exp/Tot. Exp.%	72.0	67.0	69.2	70.5	72.9	65.8	68.5	-0.73	2.70
Provision/PPP %	195.5	76.3	71.5	55.3	54.1	64.7	59.1	-12.39	-5.61
Tax Rate %	31.4	31.4	34.0	34.0	35.0	34.1	104.6	70.61	70.54
Int Exp./Int Inc. (%)	59.8	59.6	60.6	60.3	61.4	61.7	60.5	-0.13	-1.22
Other Inc./Net Inc. %	37.1	36.1	33.9	41.7	38.2	39.8	39.0	5.11	-0.86
PAT/ Net Income %	(30.5)	9.6	10.4	20.5	17.2	16.1	(1.3)	-11.64	-17.37
PAT Growth %	(278.7)	(46.3)	82.6	131.4	(168.8)	95.5	(114.2)	-196.81	-209.66
NII Growth %	0.0	11.9	15.3	18.4	20.6	13.1	16.6	1.37	3.52
Op. Profit	(16.1)	1.9	8.4	43.4	36.6	34.8	45.4	36.99	10.58
RoE %	(15.3)	4.9	5.2	11.3	10.3	9.2	(0.7)	-5.86	-9.87
RoA %	(1.3)	0.4	0.4	0.9	0.8	0.7	(0.1)	-0.47	-0.75

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on advances	8.5	9.0	9.1	9.4	9.5	9.5	9.6	0.54	0.06
Avg Yield on	7.8	8.2	8.2	8.5	8.5	8.6	8.5	0.29	-0.12
Cost of Funds	5.1	5.2	5.3	5.4	5.7	5.7	5.6	0.28	-0.08
NIM	3.3	3.5	3.4	3.5	3.4	3.4	3.5	0.15	0.11

Exhibit: Yield and Cost

cost of fund increased/ Yield on earning asset increased

■ Avg Yield on Earning Assets ■ Cost of Fund

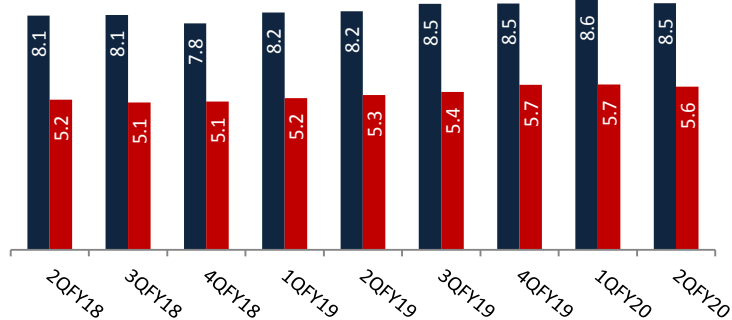


Exhibit: Net Interest Margin

NIM increased

▲ NIM

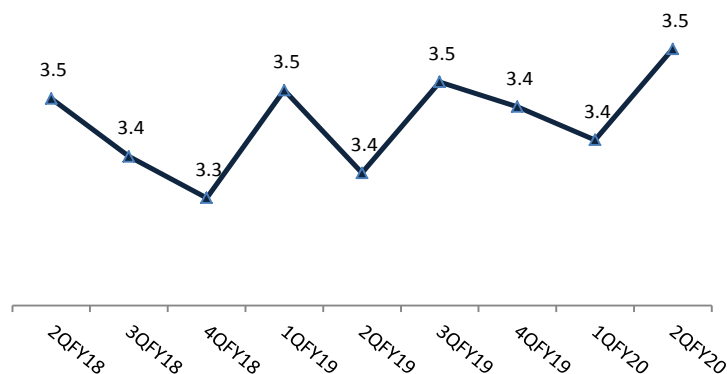


fig in Rs cr

Other Income Break: healthy growth in retail business

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Retail Business	1188	1274	1336	1291	1476	1549	1829	1651	1704
Corporate Credit	447	370	425	271	285	370	415	267	321
Treasury & DCM	36	51	65	70	65	89	101	230	41
SME	94	106	154	78	101	112	162	79	103
Transaction Banking	405	444	467	408	449	495	513	437	480
Total Fee-Based Income	2170	2246	2448	2117	2376	2615	3020	2663	2649
Growth YoY %	12%	24%	1%	6%	9%	16%	23%	26%	11%
Trading Income	377	200	216	103	136	379	354	832	809
Miscellaneous Income	39	147	125	705	166	1007	152	373	397
Total Other Income	2586	2593	2789	2925	2678	4001	3526	3868	3855
Growth YoY %	2%	-24%	-7%	-2%	4%	54%	26%	32%	44%

Exhibit: Fee Income/Advances %

Fee income as a % of total advance decreased

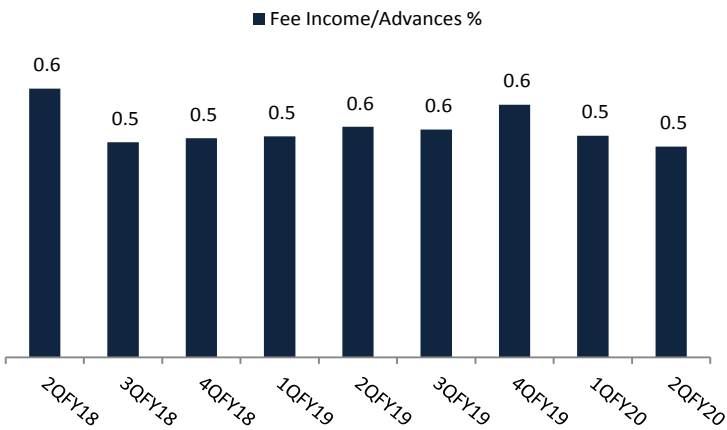
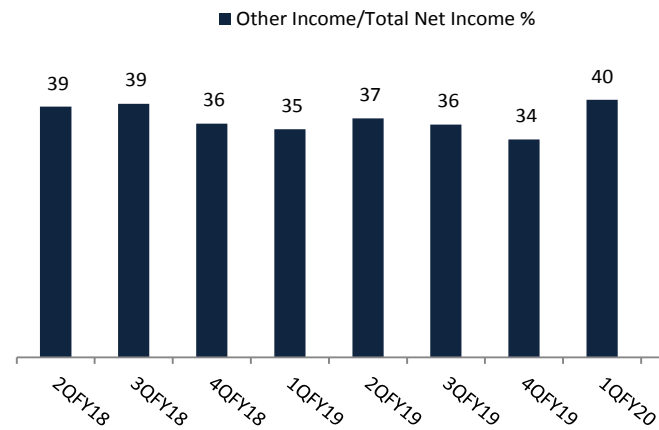


Exhibit: Other Income/ Total Income %

increase in % of other income increased



Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	27,403	25,001	34,249	30,855	29,790	29,406	29,072	-15%	-1%
GNPA %	6.8	6.5	6.0	5.8	5.3	5.3	5.0	-0.93	-0.22
NNPA (Rs in Cr)	14,052	11,769	16,592	12,233	11,276	11,037	11,138	-33%	1%
NNPA %	3.4	3.1	2.5	2.4	2.1	2.4	2.0	-0.55	-0.41
Slippages (Rs in Cr)	8,936	4,428	16,536	3,746	3,012	4,798	4,983	-70%	4%
Specific PCR %	51.6	54.4	58.9	60.4	62.1	62.5	61.7	62.15	-0.78

Exhibit: Asset Quality

Assets quality improved.

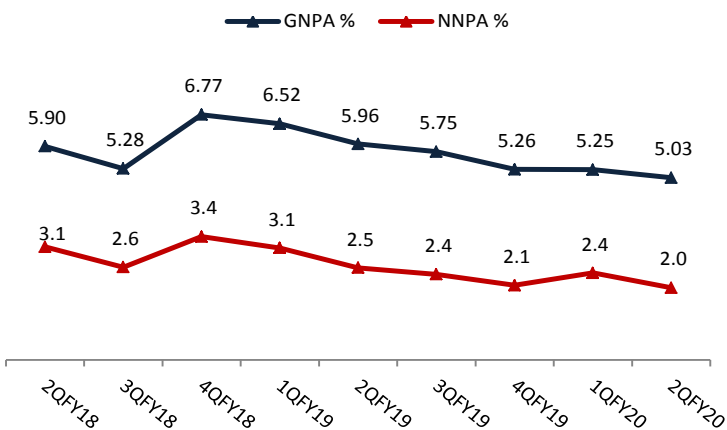


Exhibit: Provisions

PCR Increased.

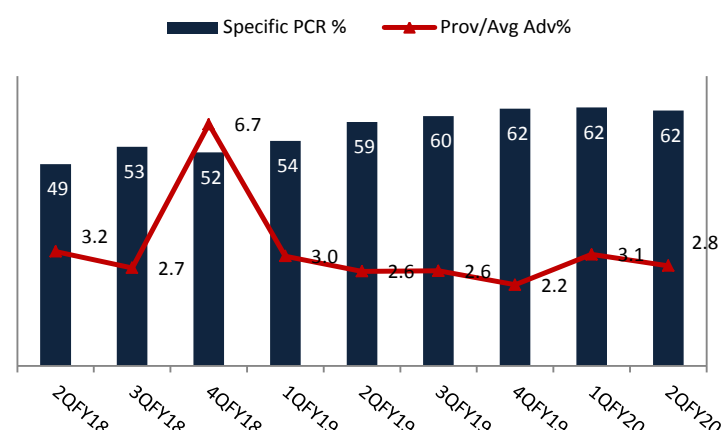


Exhibit: Advances Performance

Steady Advances growth

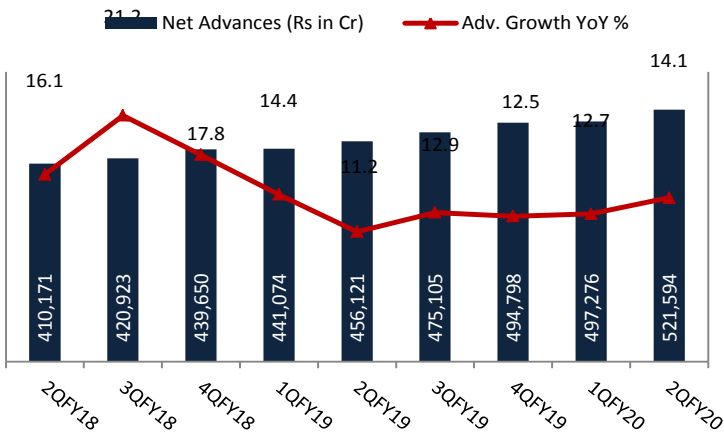


Exhibit: Advances Breakup%

Portfolio has tilted towards retail profile

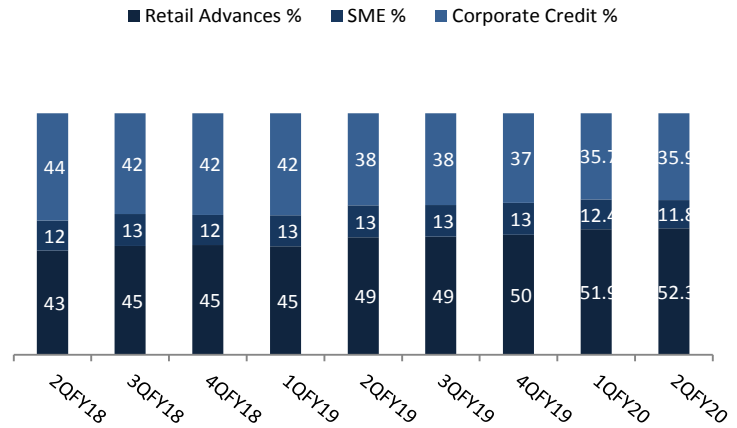


Exhibit: Deposits Performance

Healthy Deposits growth

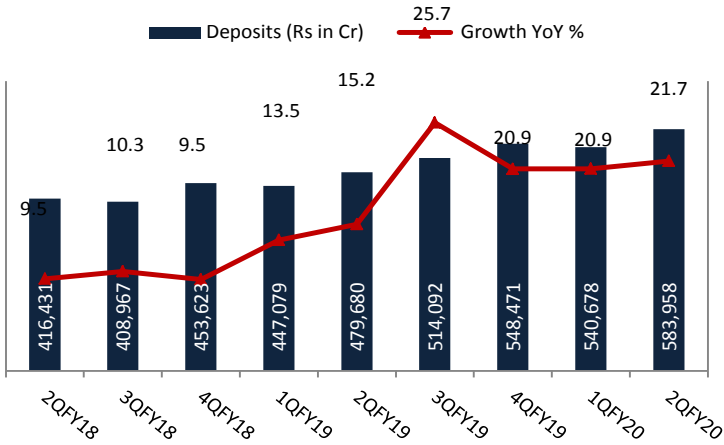


Exhibit: CASA Performance

Moderate CASA growth

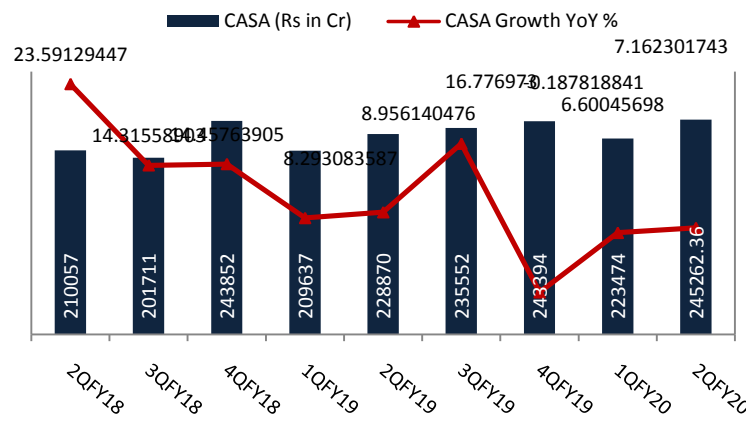


Exhibit: Credit Deposit Ratio

CD ratio declined.

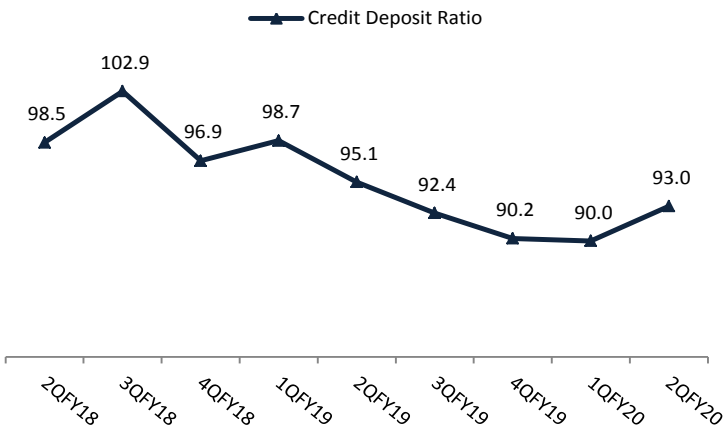
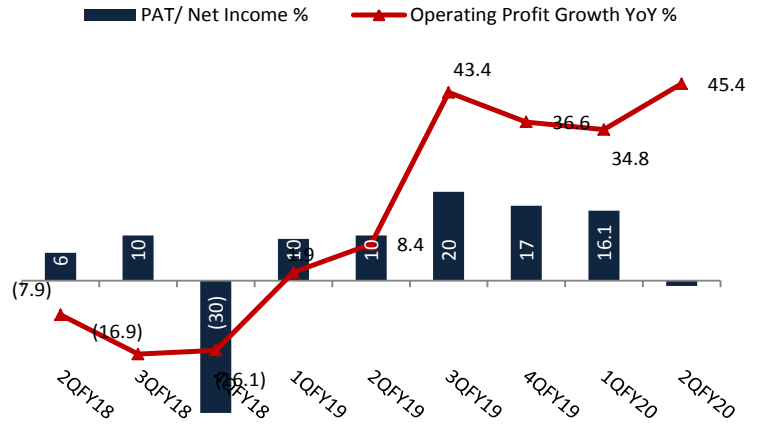


Exhibit: Operating Profit.

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	563	563
>> Equity Capital	470	474	477	479	513	514	563	563
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	37751	44202	52688	55284	62932	66162	90606	104216
Networth	38220	44677	53165	55763	63445	66676	91169	104779
Deposits	280945	322442	357968	414379	453623	548471	648735	765507
Change (%)	11	15	11	16	9	21	18	18
>> CASA Deposits	126462	144400	169445	213050	243852	243394	272469	329168
Change (%)	13	14	17	26	14	0	12	21
Borrowings	50291	79758	99226	105031	148016	152776	132342	156164
Other Liabilities & Prov.	13789	15056	15109	26295	26245	33073	37071	40827
Total Liabilities	383245	461932	525468	601468	691330	800997	909316	1067278
Cash & Bank	28239	36099	33325	50256	43455	67205	63775	74482
Investments	113548	117550	122006	128793	153876	174969	194621	229652
Change (%)	0	4	4	6	19	14	11	18
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	909316	1067278

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	62,958	72,428
Interest expended	18,690	21,254	24,155	26,449	27,163	33,278	37,659	41,474
Net Interest Income	11,952	14,224	16,833	18,093	18,618	21,708	25,300	30,954
Change (%)	24	19	18	7	3	17	17	22
Other Income	7,405	8,365	9,371	11,691	10,967	13,130	15,646	16,476
Change (%)	13	13	12	25	-6	20	19	5
>> Core Fee Income	5,985	6,779	7,503	7,882	8,867	10,128	11,962	14,256
>> Treasury Income	696	1,135	1,247	3,401	1,617	972	2,103	1,020
>> Others	724	451	622	408	483	2,030	1,581	1,200
Total Net Income	19,357	22,589	26,204	29,784	29,585	34,839	40,946	47,430
Operating Expenses	7,901	9,204	10,101	12,200	13,990	15,833	16,705	19,446
Change (%)	14	16	10	21	15	13	6	16
>> Employee Expenses	2,601	3,115	3,376	3,892	4,313	4,747	5,447	6,166
Pre-provisioning Profit	11,456	13,385	16,104	17,585	15,594	19,005	24,241	27,984
Change (%)	23	17	20	9	-11	22	28	15
Provisions	2,107	2,329	3,710	12,117	15,473	12,031	12,420	7,447
Change (%)	20	10	59	227	28	-22	3	-40
PBT	9,349	11,057	12,394	5,468	122	6,974	11,821	20,537
Tax	3,131	3,699	4,170	1,788	(154)	2,297	3,047	5,237
Profit After Tax	6,218	7,358	8,224	3,679	276	4,677	8,774	15,300
Change (%)	20	18	12	-55	-93	1596	88	74

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	18	18
C/D Ratio (%)	82	87	95	90	97	90	90	90
CASA (%)	45	45	47	51	54	44	42	43
Investment/Deposit (%)	40	36	34	31	34	32	30	30
CRAR (%)	16.1	15.1	15.3	15.0	16.6	15.8	17.2	16.4
>> Tier 1 (%)	12.6	12.1	12.5	11.9	13.0	12.5	13.9	13.6
>> 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	30,144	33,736
Gross NPA (%)	1.2	1.3	1.7	5.0	6.8	5.3	4.5	4.3
Net NPA (Rs)	1,025	1,317	2,522	8,627	16,592	11,276	10,902	11,907
Net NPA (%)	0.4	0.4	0.7	2.1	3.4	2.1	1.7	1.6
Slippages (%)	1.3	1.2	2.6	6.5	9.2	3.3	3.7	2.2
Provision Coverage (%)	78	78	72	65	65	77	76	77
Provision/Average Advances (%)	1.0	0.9	1.2	3.4	3.8	2.6	2.3	1.2

Margin Metrics

Yield On Advances (%)	10.3	10.1	9.7	9.3	8.4	8.8	9.0	8.9
Yield On Investment (%)	7.3	7.9	7.8	7.7	7.1	6.9	6.6	6.3
Yield on Earning Assets (%)	9.0	9.0	8.8	8.5	7.7	7.9	7.9	7.9
Cost Of Deposits (%)	5.8	5.7	5.4	5.1	4.4	4.7	5.0	4.7
Cost Of Funds (%)	6.0	5.8	5.6	5.4	4.8	5.1	5.1	4.9
Spread (%)	3.1	3.2	3.2	3.1	2.8	2.8	2.8	3.0
NIM (%)	3.5	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	59.8	57.3
Fee Income/NII (%)	50.1	47.7	44.6	43.6	47.6	46.7	47.3	46.1
Cost to Income (%)	40.8	40.7	38.5	41.0	47.3	45.4	40.8	41.0
Cost on Average Assets (%)	2.2	2.2	2.0	2.2	2.2	2.1	2.0	2.0
Tax Rate (%)	33.5	33.5	33.6	32.7	(126.8)	32.9	25.8	25.5

Valuation Ratio Metrics

EPS (Rs)	26.5	31.0	34.5	15.4	1.1	18.2	31.2	54.3
Change (%)	19.6	17.3	11.2	(55.5)	(93.0)	1,593	71	74.4
ROAE (%)	17.4	17.8	16.8	6.8	0.5	7.2	11.1	15.6
ROAA (%)	1.7	1.7	1.7	0.7	0.0	0.6	1.0	1.5
Dividend Payout (%)	15.1	14.8	14.5	32.5	-	5.5	16.0	11.0
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	324	372
Change (%)	15	16	18	4	6	5	25	15
P/B (X)	2	3	2	2	2	3	2	2
P/E (X)	11.0	18.1	12.9	31.9	473.9	42.7	22.8	13.1

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	8.4	8.3	7.9	7.1	7.4	7.4	7.3
<i>Interest expended</i>	5.0	4.9	4.7	4.2	4.5	4.4	4.2
<i>Net Interest Income</i>	3.4	3.4	3.2	2.9	2.9	3.0	3.1
<i>Non-Fund Based Income</i>	2.0	1.9	2.1	1.7	1.8	1.8	1.7
>> <i>Core Fee Income</i>	1.6	1.5	1.4	1.4	1.4	1.4	1.4
>> <i>Trading and Other Income</i>	0.4	0.4	0.7	0.3	0.4	0.4	0.2
<i>Core Operating Income</i>	5.0	4.9	4.6	4.3	4.3	4.4	4.6
<i>Total Income</i>	5.3	5.3	5.3	4.6	4.7	4.8	4.8
<i>Total Operating Expenses</i>	2.2	2.0	2.2	2.2	2.1	2.0	2.0
>> <i>Employee Expenses</i>	0.7	0.7	0.7	0.7	0.6	0.6	0.6
>> <i>Other Expenses</i>	1.4	1.4	1.5	1.5	1.5	1.3	1.3
<i>Operating Profit</i>	3.2	3.3	3.1	2.4	2.5	2.8	2.8
<i>Provisions</i>	0.6	0.8	2.2	2.4	1.6	1.5	0.8
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	2.6	2.5	1.0	0.0	0.9	1.4	2.1
<i>Tax</i>	0.9	0.8	0.3	(0.0)	0.3	0.4	0.5
<i>PAT/RoAA</i>	1.7	1.7	0.7	0.0	0.6	1.0	1.5
<i>Equity Multiplier (x)</i>	10.2	10.1	10.3	10.8	11.5	10.8	10.1
<i>ROAE</i>	17.8	16.8	6.8	0.5	7.2	11.1	15.6

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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