

Industry
Bloomberg
BSE CODE

Financial
AXSB IN
532215

RATING	ACCUMULATE
CMP	712
Price Target	779
Potential Upside	9%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	826.55/622.60
Mkt Capital (Rs Cr)	200,998
Free float (%)	74%
Avg. Vol 1M (,000)	8,114
No. of Shares (Crs)	282
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	21708	24994	29681
PPP	19005	23372	26911
PAT	4677	5019	13286
NIM %	3.2	3.2	3.4
EPS (Rs)	18	18	47
EPS growth (%)	1593	-2	165
ROE (%)	7	6	14
ROA (%)	0.6	0.6	1.4
BV	259	313	354
P/B (X)	3.0	2.3	2.0
P/E (x)	43	40	15

RESEARCH ANALYST

DEEPAK KUMAR

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

KETAN MEHROTRA

ketan.mehrotra@narnolia.com

Spike in slippages and Elevated credit cost Dampened the Profitability

3QFY20 Result Update

- Net Interest Income grew 15% YOY to Rs 6,453 Cr backed by advances growth of 16%/6% YoY/QoQ. NIM was 3.57%, driven by high yield and lower cost of fund. Other income was down by 5% YoY in 3QFY20. PAT during the quarter grew by meagre 4% on account high provisioning and operating expense.
- GNPA and NNPA ratios were 5.00% and 2.09%, compared to 5.03% and 1.99% in Q2FY20. The slippages during the quarter were Rs 6214 Cr vs Rs 4983 Cr in 3Q FY20. Slippages include Rs 1090 Cr from investment book. Watchlist stands at Rs 9783 Cr vs Rs 10262 Cr. There was downgrade from telecom and brokerage client to the watchlist.
- Advance during the quarter grew by 16%/6% on YoY/QoQ basis with domestic advances growing by 18% YoY and overseas book degrowing by 21% YoY. Retail book grew by 25% YoY. Deposits grew by 15% while CASA growth was at 3.5% YoY.

Higher Provisions and strong increase in opex drag profitability

NII during the quarter grew by 15% YoY on account of Healthy growth in advance which grew by 16% YoY along with better yield and reducing cost of fund. The NIM during the quarter stood at 3.57% v/s 3.37% YoY while the cost of fund was 5.42% v/s 5.44% YoY. The Fee income during the quarter grew by 6% YoY. The pre provisioning profit during the quarter grew by just 4% mainly on account of higher operating cost. The operating expense during the quarter 10 % YoY with employee expense increasing by 13% YoY and Other expenses growing by 9% YoY. The Provisions during the quarter were Rs 3471 Cr vs Rs 3055 Cr in Q3FY19 which in turn impacted the profitability with PAT growing by meagre 4% YoY.

Healthy Advance growth/ Deposit Growth moderated

Advance during the quarter grew by 16%/6% on YoY/QoQ basis with domestic advances growing by 16% YoY and overseas book degrowing by 21% Yo. Corporate loan book grew by 9%, with domestic corporate loan book up 16%. The growth in the retail advance stood at 25% YoY with Auto loans growing 48%/16% on YoY/QoQ basis and LAP book which grew by 41%/7% on YoY/QoQ basis. The Deposit growth during the quarter moderated to 15%/1% on YoY/QoQ basis mainly on account of CA deposits which degrew by 7% YoY while SA deposit grew by 9% YoY.

High Level of slippages

Asset quality during the quarter was affected with GNPA and NNPA ratios were 5.00% and 2.09%, compared to 5.03% and 1.99% in Q2FY20. The slippages during the quarter were Rs 6214 Cr. Slippages from the loan book were Rs 5124 Cr. Slippages from the Investment book were at Rs 1090 Cr largely from one Housing Finance Company account. The outstanding BB & Below corporate loans declined by 18% QOQ to Rs 5128 Cr. The Corporate slippages stood at Rs 3891 Cr out of which 81% came from previously disclosed BB and below rated clients. Recoveries and upgrades during the quarter were Rs 2422 Cr while write-offs were Rs 2790 Cr.

View and Valuation

Growth remained intact amid the slowdown in industry largely driven by strong momentum in retail side of the business. NIM continues to hold well despite interest reversal from chunky slippages. Going ahead loan growth will be driven by majorly high yield credit card and personal loan segment as the incremental growth is coming majorly from internal customer. However, slowdown in the economy will continue give pressure in assets quality. Despite huge slippages, total watchlist reduced by only 4% and remained around Rs 10000 Cr due to fresh downgrades from telecom and brokerage industry. We Reduce our target price to Rs 774 at 2.2x BV FY21E and recommend to ACCUMULATE.

Key Risks to our rating and target

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

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3QFY20 Results

PAT Below Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	14,130	14,798	15,255	15,438	15,708	11.2%	1.8%	45,780	54,986	20.1%
Interest Exp.	8,526	9,092	9,411	9,336	9,255	8.6%	-0.9%	27,163	33,278	22.5%
NII	5,604	5,706	5,844	6,102	6,453	15.2%	5.8%	18,618	21,708	16.6%
Other Income	4,001	3,526	3,869	3,896	3,787	-5.4%	-2.8%	10,967	13,130	19.7%
Total Income	9,604	9,232	9,713	9,998	10,240	6.6%	2.4%	29,585	34,839	17.8%
Ope Exp.	4,080	4,217	3,820	4,046	4,497	10.2%	11.1%	13,990	15,833	13.2%
PPP	5,525	5,014	5,893	5,952	5,743	3.9%	-3.5%	15,594	19,005	21.9%
Provisions	3,055	2,711	3,815	3,518	3,471	13.6%	-1.3%	15,473	12,031	-22.2%
PBT	2,470	2,303	2,078	2,433	2,272	-8.0%	-6.6%	122	6,974	5637%
Tax	789	798	708	2,545	518	-34.4%	-79.7%	(154)	2,297	NA
Net Profit	1,681	1,505	1,370	(112)	1,754	NA	NA	276	4,677	1596%

Concall Highlights

- Sector Update Financial sector remains subject to headwinds from credit quality issue, The RBI easy monetary policy stance along with various reforms by government should partly offset risk to growth and the structural changes in the corporate taxes are likely to help boost pattern investment and consumption. The environment has remained challenging with the advance and deposit growth of industry at 8%, 10% respectively.
- Loan growth is expected to be 5-7% above industry level.
- NIM is expected to be higher than FY19 level. However, NIM for 4Q FY20 will have some impact due to LCR accounting change.
- Cost to asset ratio is likely to be impacted on the account of the accelerated investment in branch network during Q4FY20 and buying of PSLC certificate will also impact in 4Q FY20. Over the medium term it expects to reach cost to asset of 2%.
- Credit cost for Q4FY20 will hinge on two factors one recovery from the large accounts and on choices bank makes towards increasing PCR. Management is confident of credit cost moderating over the medium term.
- Bank has additional provisions of Rs 2558 Cr towards various risk contingencies, over and above the regular NPA provisioning and the 0.4% standard assets provisioning requirement which are not counted in PCR calculation.
- Banks has opened 365 branches in 9MFY20 which is highest in last 6 years to take Domestic branch network to Rs 4415. Bank is looking to open 550 branches during the current year.
- Banks AMC business is doing really good with 37% growth in AUM backed by over 50% growth in CIB book and 30% growth in client portfolio.
- During the quarter bank launched burgundy private which caters to high and ultra-high net worth client.
- Total slippages stood at Rs 6214 Cr of which corporate slippages is at Rs 3,891 crores out of which 81% of this came from BB and below rated clients. Retail slippages moderately increased due to risk in CV segment. Management states that in retail risk might increase in CV and MFI segment. The microfinance trouble is limited to two states Assam and Karnataka where together bank has less than 10% of microfinance book. The Net NPA in the retail book is around 0.5% and below.
- The increase in Non-fund-based BB & Below book was due to downgrade of an account in telecom sector to BB rating in light of recent development in AGR News. The bank has also downgraded one brokerage space account in loan book on account of recent development.
- During the quarter bank received regulatory guidance on LCR calculation leading to reduction in LCR which might put slight pressure in NIM going forward.
- Coming into the Q4FY20 important determinant of the expense growth would be banks participation in PSL certificate market.
- Management expects SME loan growth to pick up in next financial year.
- On the news of leaving of Rs 15000 employees management said it is wrong. Bank has had net hire of Rs 12000 for 9MFY20 in comparison to 3000 for 9MFY19. Attrition rate has increased but it is marginally below the industry.
- With provisions during the quarter bank has taken 100% provisioning of Rs 2209 Cr for 300-acre land parcel.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	46.0	48.2	42.5	45.7	39.3	40.5	43.9	1.44	3.45
Empl. Cost/ Tot. Exp. %	33.0	30.8	29.5	27.1	34.2	31.5	30.4	0.88	-1.15
Other Exp/Tot. Exp.%	67.0	69.2	70.5	72.9	65.8	68.5	69.6	-0.88	1.15
Provision/PPP %	76.3	71.5	55.3	54.1	64.7	59.1	60.4	5.15	1.32
Tax Rate %	31.4	34.0	34.0	35.0	34.1	104.6	22.8	-11.21	-81.81
Int Exp./Int Inc. (%)	59.6	60.6	60.3	61.4	61.7	60.5	58.9	-1.42	-1.55
Other Inc./Net Inc. %	36.1	33.9	41.7	38.2	39.8	39.0	37.0	-4.68	-1.99
PAT/ Net Income %	9.6	10.4	20.5	17.2	16.1	(1.3)	19.0	-1.44	20.27
PAT Growth %	(46.3)	82.6	131.4	(168.8)	95.5	(114.2)	4.4	-127.03	118.55
NII Growth % (YoY)	11.9	15.3	18.4	20.6	13.1	16.6	15.2	-3.28	-1.47
Op. Profit Growth YoY %	1.9	8.4	43.4	36.6	34.8	45.4	3.9	-39.41	-41.43
RoE %	4.9	5.2	11.3	10.3	9.2	(0.7)	8.8	-2.50	9.51
RoA %	0.4	0.4	0.9	0.8	0.7	(0.1)	0.9	-0.02	0.92

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on advances	9.0	9.1	9.4	9.5	9.5	9.6	9.5	0.14	-0.07
Avg Yield on Earning Assets	8.2	8.2	8.5	8.5	8.6	8.5	8.4	-0.08	-0.11
Cost of Funds	5.2	5.3	5.4	5.7	5.7	5.6	5.4	-0.02	-0.20
NIM	3.5	3.4	3.5	3.4	3.4	3.5	3.6	0.10	0.06

Exhibit: Yield and Cost

Both cost of fund /Yield on earning asset decreased

■ Avg Yield on Earning Assets ■ Cost of Fund

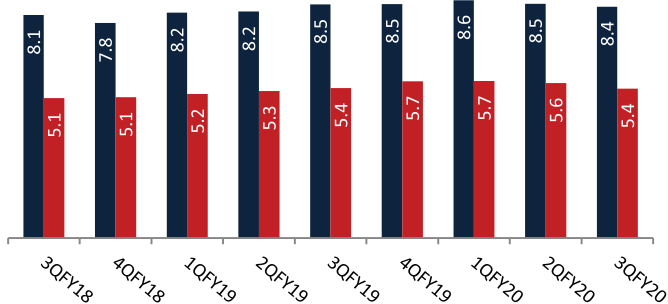
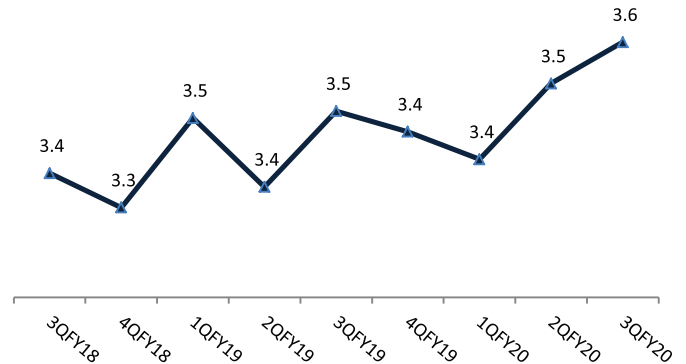


Exhibit: Net Interest Margin

NIM increased

▲ NIM



Other Income Break: healthy growth in retail business

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Retail Business	1101	1187	1291	1473	1549	1829	1651	1704	1861
Corporate Credit	382	446	275	285	370	415	267	321	278
Treasury & DCM	22	26	42	48	72	84	230	41	22
SME	112	148	85	95	112	162	79	103	110
Transaction Banking	629	641	423	475	512	530	437	480	503
Total Fee-Based Income	2246	2448	2117	2376	2615	3020	2663	2649	2775
Growth YoY %	24%	1%	6%	9%	16%	23%	26%	11%	6%
Trading Income	200	216	103	136	379	354	832	809	515
Miscellaneous Income	147	125	705	166	1007	152	373	397	497
Total Other Income	2593	2789	2925	2678	4001	3526	3868	3855	3787
Growth YoY %	-24%	-7%	-2%	4%	54%	26%	32%	44%	-5%

Exhibit: Fee Income/Advances %

Fee income as a % of total advance decreased

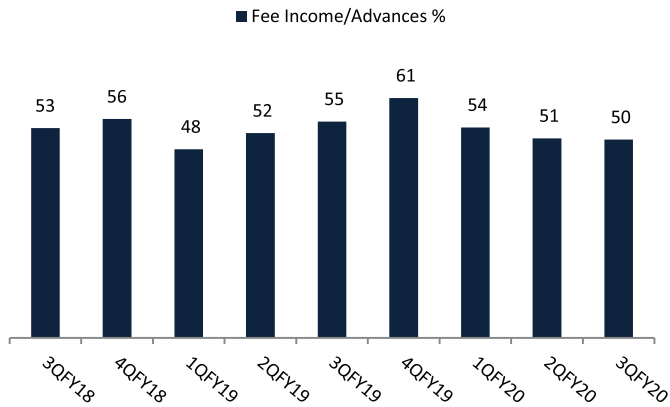
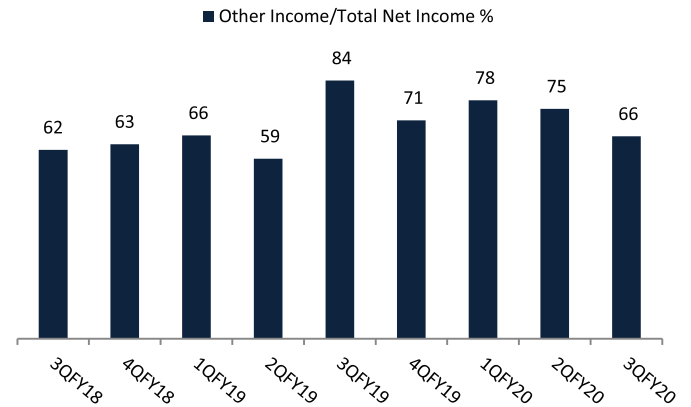


Exhibit: Other Income/ Total Income %

Other income as % of Total income increased



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	25,001	34,249	30,855	29,790	29,406	29,072	30,074	-3%	3%
GNPA %	6.5	6.0	5.8	5.3	5.3	5.0	5.0	-0.75	-0.03
NNPA (Rs in Cr)	11,769	16,592	12,233	11,276	11,037	11,138	12,160	-1%	9%
NNPA %	3.1	2.5	2.4	2.1	2.4	2.0	2.1	-0.27	0.10
Slippages (Rs in Cr)	4,428	16,536	3,746	3,012	4,798	4,983	6,214	66%	25%
Specific PCR %	54.4	58.9	60.4	62.1	62.5	61.7	59.6	62.15	-2.12

Exhibit: Asset Quality

Assets quality impacted

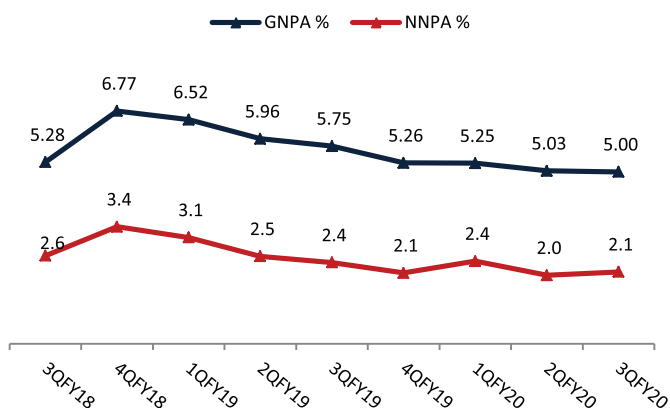


Exhibit: Provisions

PCR decreased

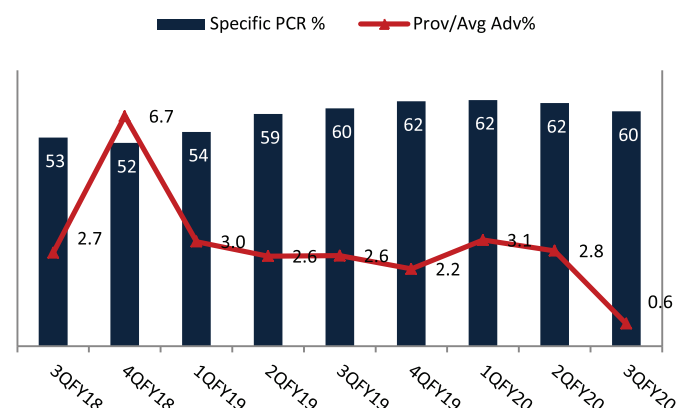


Exhibit: Advances Performance

Steady Advances growth

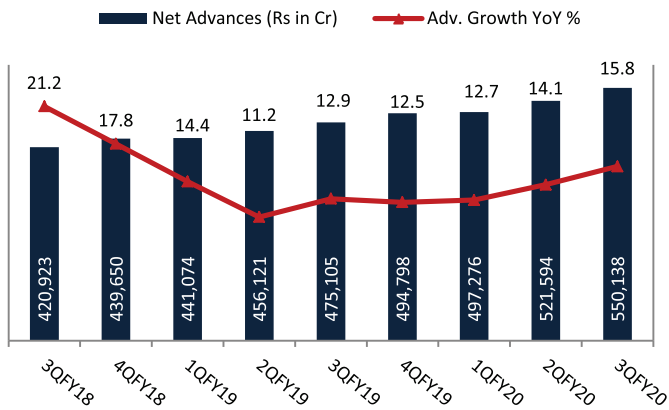


Exhibit: Advances Breakup%

Portfolio has tilted towards retail profile

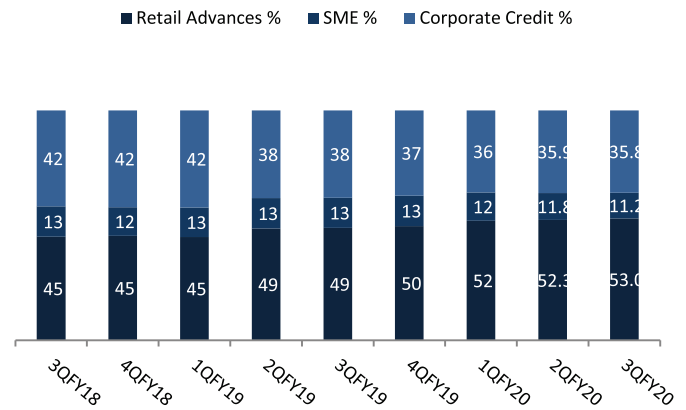


Exhibit: Deposits Performance

Weak Deposits growth

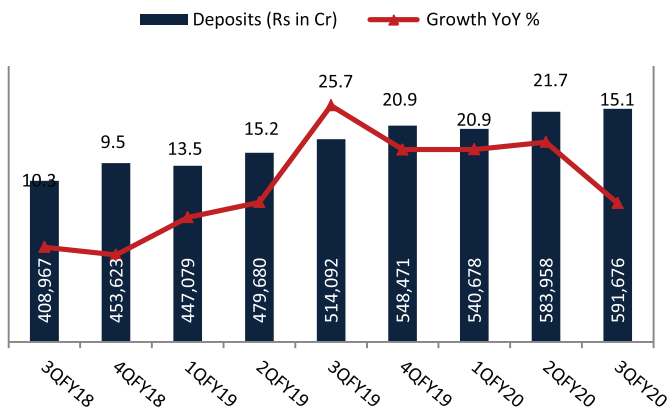


Exhibit: CASA Performance

Moderate CASA growth

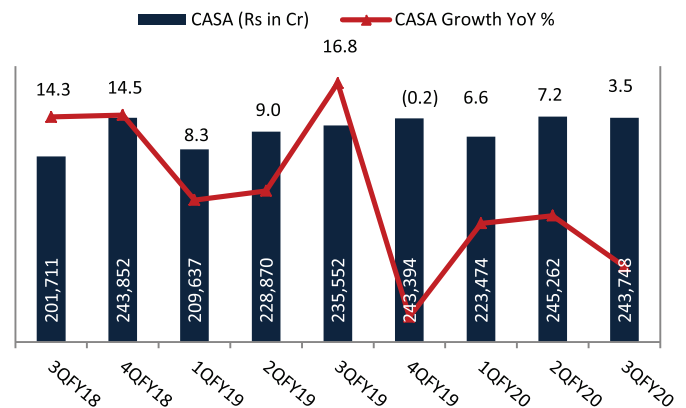


Exhibit: Credit Deposit Ratio

CD ratio declined.

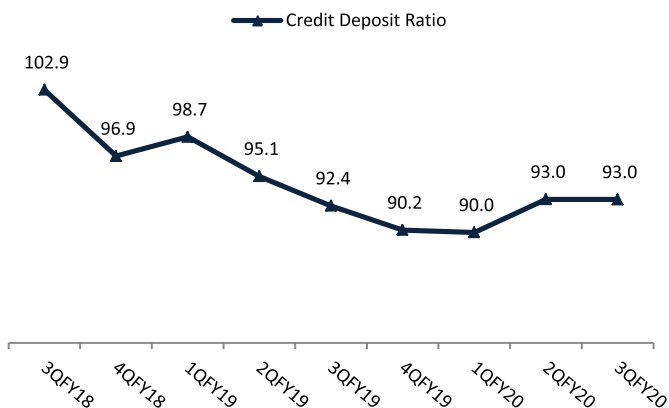
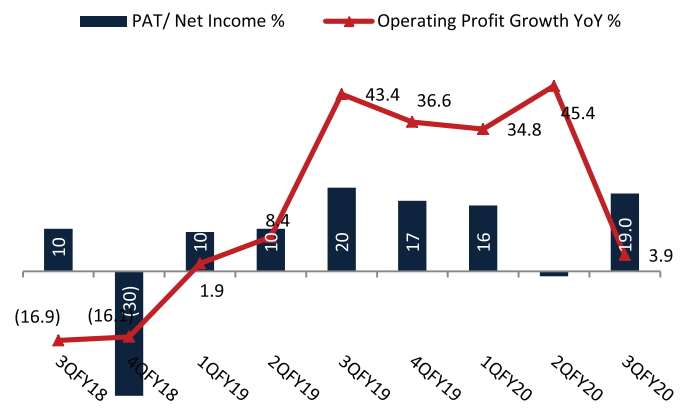


Exhibit: Operating Profit.

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	87491	99088
Networth	38220	44677	53165	55763	63445	66676	88054	99651
Deposits	280945	322442	357968	414379	453623	548471	630732	748090
Change (%)	11	15	11	16	9	21	15	19
CASA Deposits	126462	144400	169445	213050	243852	243394	258600	314198
Change (%)	13	14	17	26	14	0	6	21
Borrowings	50291	79758	99226	105031	148016	152776	119082	131290
Other Liabilities & Prov.	13789	15056	15109	26295	26245	33073	36042	39898
Total Liabilities	383245	461932	525468	601468	691330	800997	873910	1018929
Cash & Bank	28239	36099	33325	50256	43455	67205	54766	57269
Investments	113548	117550	122006	128793	153876	174969	170298	209465
Change (%)	0	4	4	6	19	14	-3	23
Advances	230067	281083	338774	373069	439650	494798	573966	665800
Change (%)	17	22	21	10	18	13	16	16
Fixed Assets	2410	2514	3523	3747	3972	4037	4238	4450
Other Assets	8981	24686	27839	45602	50377	59988	70642	81945
Total Assets	383245	461932	525468	601468	691330	800997	873910	1018929

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	62,489	70,601
Interest expended	18,690	21,254	24,155	26,449	27,163	33,278	37,495	40,921
Net Interest Income	11,952	14,224	16,833	18,093	18,618	21,708	24,994	29,681
Change (%)	24	19	18	7	3	17	15	19
Other Income	7,405	8,365	9,371	11,691	10,967	13,130	15,454	15,967
Change (%)	13	13	12	25	-6	20	18	3
Core Fee Income	5,985	6,779	7,503	7,882	8,867	10,128	11,321	13,148
Treasury Income	696	1,135	1,247	3,401	1,617	972	2,475	1,619
Others	724	451	622	408	483	2,030	1,658	1,200
Total Net Income	19,357	22,589	26,204	29,784	29,585	34,839	40,448	45,648
Operating Expenses	7,901	9,204	10,101	12,200	13,990	15,833	17,076	18,737
Change (%)	14	16	10	21	15	13	8	10
Employee Expenses	2,601	3,115	3,376	3,892	4,313	4,747	5,354	5,956
Pre-provisioning Profit	11,456	13,385	16,104	17,585	15,594	19,005	23,372	26,911
Change (%)	23	17	20	9	-11	22	23	15
Provisions	2,107	2,329	3,710	12,117	15,473	12,031	13,895	9,077
Change (%)	20	10	59	227	28	-22	15	-35
PBT	9,349	11,057	12,394	5,468	122	6,974	9,477	17,834
Tax	3,131	3,699	4,170	1,788	(154)	2,297	4,458	4,548
Profit After Tax	6,218	7,358	8,224	3,679	276	4,677	5,019	13,286
Change (%)	20	18	12	-55	-93	1596	7	165

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	16	16
Deposit Growth (%)	11	15	11	16	9	21	15	19
C/D Ratio (%)	82	87	95	90	97	90	91	89
CASA (%)	45	45	47	51	54	44	41	42
Investment/Deposit (%)	40	36	34	31	34	32	27	28
CRAR (%)	16.1	15.1	15.3	15.0	16.6	15.8	18.3	17.5
Tier 1 (%)	12.6	12.1	12.5	11.9	13.0	12.5	14.9	14.6
Tier 2 (%)	3.5	3.0	2.8	3.1	3.5	3.3	3.4	2.9

Assets Quality Metrics								
Gross NPA (Rs)	3,146	4,110	6,088	21,281	34,249	29,790	30,376	30,378
Gross NPA (%)	1.2	1.3	1.7	5.0	6.8	5.3	4.7	4.1
Net NPA(Rs)	1,025	1,317	2,522	8,627	16,592	11,276	12,058	12,552
Net NPA (%)	0.4	0.4	0.7	2.1	3.4	2.1	2.0	1.7
Slippages (%)	1.3	1.2	2.6	6.5	9.2	3.3	4.3	2.5
Provision Coverage (%)	78	78	72	65	65	77	72	70
Provision/Average Advances (%)	1.0	0.9	1.2	3.4	3.8	2.6	2.6	1.5

Margin Metrics								
Yield On Advances (%)	10.3	10.1	9.7	9.3	8.4	8.8	9.1	9.0
Yield On Investment (%)	7.3	7.9	7.8	7.7	7.1	6.9	6.6	6.4
Yield on Earning Assets (%)	9.0	9.0	8.8	8.6	7.8	8.0	8.1	8.1
Cost Of Deposits (%)	5.8	5.7	5.4	5.1	4.4	4.7	5.1	4.9
Cost Of Funds (%)	6.0	5.8	5.6	5.4	4.8	5.1	5.2	5.0
Spread (%)	3.1	3.2	3.2	3.2	3.0	2.9	2.9	3.1
NIM (%)	3.5	3.6	3.6	3.5	3.2	3.2	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	58.0
Fee Income/NII (%)	50.1	47.7	44.6	43.6	47.6	46.7	45.3	44.3
Cost to Income (%)	40.8	40.7	38.5	41.0	47.3	45.4	42.2	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	47.0	25.5

Valuation Ratio Metrics								
EPS (Rs)	26.5	31.0	34.5	15.4	1.1	18.2	17.8	47.2
Change (%)	19.6	17.3	11.2	(55.5)	(93.0)	1,593	(2)	164.7
ROAE (%)	17.4	17.8	16.8	6.8	0.5	7.2	6.5	14.2
ROAA (%)	1.7	1.7	1.7	0.7	0.0	0.6	0.6	1.4
Dividend Payout (%)	15.1	14.8	14.5	32.5	-	5.5	28.1	12.7
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	313	354
Change (%)	15	16	18	4	6	5	21	13
P/B (X)	3	2	2	2	3	2	2	309
P/E (X)	18.1	12.9	31.9	473.9	42.7	39.9	15.1	2.0

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.4	8.3	7.9	7.1	7.4	7.5	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	3.1
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	1.4
Trading and Other Income	0.4	0.4	0.7	0.3	0.4	0.5	0.3
Core Operating Income	5.0	4.9	4.6	4.3	4.3	4.3	4.5
Total Income	5.3	5.3	5.3	4.6	4.7	4.8	4.8
Total Operating Expenses	2.2	2.0	2.2	2.2	2.1	2.0	2.0
Employee Expenses	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Other Expenses	1.4	1.4	1.5	1.5	1.5	1.4	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	1.7	1.0
Others	-	-	-	-	-	-	-
PBT	2.6	2.5	1.0	0.0	0.9	1.1	1.9
Tax	0.9	0.8	0.3	(0.0)	0.3	0.5	0.5
PAT/RoAA	1.7	1.7	0.7	0.0	0.6	0.6	1.4
Equity Multiplier (x)	10.2	10.1	10.3	10.8	11.5	10.8	10.1
ROAE	17.8	16.8	6.8	0.5	7.2	6.5	14.2

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Disclosure of Interest Statement-

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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