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DEMOCRATIZING WEALTH CREATION



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Company Name	: AXIS BANK
BSE Code	: 532215
Time Duration	: 2 year
CMP	: ₹508.70 (as on 06 April, 2017)
Target Price	: ₹740

Our Upstream Pick for the month of April, 17 is Axis Bank Ltd. The bank embraced growth after privatisation and became the third largest of the private sector banks in India. It is engaged in gamut of banking services, including retail banking, personal banking, corporate banking, treasury and many other banking related services. It now boasts of a network of 2904 branches and 12,743 ATMs. Around 20% of the bank's branches are in rural areas and 74% of the bank's rural branches are in unbanked locations.

Post privatisation, the bank was able to manage its NIMs better due to growth in retail base. In 2009, under the leadership of Shikha Sharma, the focus on retail got a new high. Retail loans now comprise 45% of the advances as against 15% in 2009. This also helped the bank to reduce dependence on corporate loans and maintain the GNPA's at a fair level.

The bank currently faces key challenges of deteriorating asset quality and integrity issues of fair banking practices. We believe the bank with its capitalisation and high penetration in urban areas will be able to tide over these challenges. With banking sector witnessing consolidations, any merger can provide it with much-needed growth push. We believe the year FY18 will be a year of restoring the bank's image and consolidating the growth already achieved. With its foot firmly in place once again, FY19 will see another growth momentum.

We recommend investors to invest in the stock at the current levels and we expect upside of 45% in stock price from current level over period of two years.

Key Drivers

Digital Drive

Axis Bank is making steady strides in the direction of digital banking. It is retooling its core business to cope with the demands of the new age customer. It has launched LIME – a mobile app and also Ping Pal, a multi-social payment app. Mobile transactions have galloped 113% year-on-year. About 30% of the customers operate through the mobile app and around 80,000 customers are added on a monthly basis. Between internet and mobile channels, over Rs 100,000 crore of transactions were carried out last year, and this too is set to grow exponentially. With its high presence in urban markets, an audience which has more smart phones, the digital transactions will get a push and will reduce the operating costs per customer for the bank.

Growth in NIM & CAR

After the change in management since 2009, the growth in NIM has been commendable. In the period of eight years, the NIM has grown to 3.41% in FY16 from 1.8% in 2009. For 9MFY17, in a low interest rate regime, the NIM inched up to 3.62%.

On the capitalisation front, we believe the bank is well-capitalised. Its key ratio of capital adequacy strengthened during Q3FY17 to 16.6% from 13.9% on a YoY basis. Its Tier I Basel III capital adequacy ratio (CAR) was at 12.43% and Tier II Basel III CAR was at 3.60%. On a YoY basis, it has grown by 112 bps. Comparing against its peers, we believe it has the penetration levels better than Kotak Mahindra bank and higher retail base.

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Banks	CAR	Tier I	Tier II	P/B	NIM (TTM)
Axis	15.3	12.62	2.68	2.3	3.4
ICICI	16.6	13.13	3.47	1.8	4.5
Kotak Mahindra	16.3	15.31	0.99	4.9	4.1

Agri advances GNPA's to smoothen by FY19E

We see that retail and corporates constitute ~45% of the total advances currently. Within retail, home loans comprises of 47% followed by retail agriculture (14%) and personal loans (12%). We see that 14% exposure to higher GNPA category is acting as a drag on its earnings. We expect with better refinancing options, support from Mudra Bank and eventual introduction of crop insurance will reduce these going forward.

Asset quality challenges in the corporate loan book have led to a re-rating of the stock despite strong profitability. However the bank's exposure to stressed sectors and corporates implies that asset quality challenges are manageable.

The gross and net NPAs stood at 5.22% and 2.18%, respectively, for Q3FY17.

Post demonetisation effects

During the demonetisation phase, the IT department had carried out raid on the bank, following which strict action was taken by the management and 19 officials were suspended. In spite of this crisis, the bank came out of it with flying colours. The bank has also managed to maintain its profit post demonetisation in Q3 of FY17. The electronic payments have increased significantly post demonetisation.

Financial Performance

The operating profit had a healthy growth of 20.31%. Also, the net profit increased by 11.76% in FY 16. The cost to net income reduced to 39.27 from 41.38. Advances have grown up by 10% on a YoY basis.

The total income has increased by 15.72% in last nine months as compared to the same period last year. The provisions too increased to Rs 3795.80. Its CAR improved to 16.03 from 13.90. CASA also has shown growth of 11.63%.

Valuation & Outlook

The bank is trading at TTM P/E of 14.08x and TTM EPS of Rs 34.87, which looks attractive as compared to its peer ICICI Bank (TTM P/E 15.85x, EPS 17.48). The Price/BV is 2.19 as against peer ICICI's 1.77. Its ROE and ROCE have improved to 16.97 and 12.88, respectively. Considering the attractive valuations and fine growth as per the financials, we recommend investors to buy this scrip. We expect the stock price to reach Rs.740 over a period of two years giving return of 45%.

We urge investors to investment in three tranches and buy on dips.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Interest Earned	40988.04	35478.60	30641.16	27182.57	21994.65
Total Income	50359.50	43843.64	38046.38	33733.68	27414.86
Interest Expended	24155.07	21254.46	18689.52	17516.31	13976.90
Operating Profit	16103.61	13385.44	11456.08	9303.13	7430.86
PAT	8223.66	7357.82	6217.67	5179.43	4242.21
Dividend %	250.00	230.00	200.00	180.00	160.00
Adj. EPS(Rs)	34.51	31.04	26.47	22.14	20.53

Assets and Liabilities (Standalone) as on 201612(U) (Rs in Crore)

Share Capital	478.28	Cash and Bal. With RBI	44200.15
Reserve	53978.74	Balances with Banks	7526.35
Share Holder's Funds	54457.02	Investments	136484.91
Deposits	370790.07	Advances	347174.69
Borrowings	132370.74	Net Block	3609.48
Other Liabilities & Prov.	21145.15	Other Assets	39767.40

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Interest Earned	11101.00	11159.11	-0.52	10193.33	8.90
Total Income	14501.21	13698.77	5.86	12531.11	15.72
Interest Expended	6767.27	6645.24	1.84	6031.27	12.20
Operating Profit	4640.23	4100.18	13.17	3985.06	16.44
PAT	579.57	319.08	81.64	2175.30	-73.36
OPM%	41.80	36.74	13.77	39.09	6.93
PATM%	5.22	2.86	82.52	21.34	-75.54
Adj. EPS(Rs)	2.42	1.34	80.60	9.14	-73.52

