



# AXIS BANK

## RoE target: Long road ahead

India Equity Research | Banking and Financial Services



Given management's roadmap to achieve 18% RoE target, Axis Bank was expected to deliver strong Q1FY20 numbers. However, earnings were qualitatively soft with some disappointment in asset quality and softer core revenue momentum. Key highlights: a) high slippages (even outside of watchlist); b) overall stress pool at INR175bn (~2% of exposure) due to identification of further eight stressed accounts and downgrades to watchlist; and c) despite higher specific provisions (>2.3% credit cost), net stress pool and provisioning coverage remained steady rendering near-term credit cost outlook cautious. The only silver lining was operating leverage benefit (cost/income down <40%) and strong growth in retail TD (39% YoY). Despite structural changes, we see a few impediments to meeting RoE target: a) NIM improvement; b) asset quality volatility; and c) impending capital raise. Therefore, we believe current valuations (2.3x FY21E P/ABV) capture upside risks and steady execution is warranted for sustainable re-rating of the stock. Hence, maintain 'HOLD' with INR761 TP.

### Incremental stress elevated; volatility a concern

Asset quality in Q1FY20 was soft, reflected in: a) elevated slippages (INR48bn, 3.9% versus run rate of 3.0% over past four quarters); b) higher non-watch list slippage run rate of 2.5%; and c) increased downgrades to BB & below pool. Moreover, the bank identified exposure to eight accounts as stressed, including which the standard watch list rose to >INR175bn, warranting cautious credit cost outlook. Management conservatively enhanced contingency buffer further (added INR10bn). However, credit cost towards specific loans was also higher at 2.3%. Given higher coverage and contingent provisions (INR23bn) we believe credit cost will ebb going forward, but volatility is a concern.

### Some impediments to RoE improvement

The new management has taken a few strategic initiatives to strengthen the bank's franchise. However, limited NIM levers, volatile asset quality and impending capital raise portend fair challenge to RoE target of 18% plus. Even without factoring any capital raise, we peg Axis Bank's RoE at 17% in FY21.

### Outlook and valuation: Disciplined execution key; maintain 'HOLD'

Valuations capture upside risks and improved visibility on 18% RoE in current challenging environment is crucial for sustainable re-rating of the stock. At 2.3x FY21E P/ABV for RoE of 17% by FY21E we perceive limited upside. Hence, we maintain 'HOLD/SP'.

Financials	(INR mn)							
	Year to March	Q1FY20	Q1FY19	Growth %	Q4FY19	Growth %	FY19	FY20E
Net revenue	97,124	80,918	20.0	92,319	5.2	348,385	412,000	487,691
Net profit	13,701	7,011	95.4	15,051	(9.0)	46,766	96,650	138,013
Dil. EPS (INR)	5.3	2.7	93.4	5.8	(9.6)	18.2	36.9	52.7
Adj. BV (INR)						228.6	269.0	324.7
Price/Adj book (x)						3.1	2.6	2.2
Price/Earnings (x)						38.6	19.0	13.3

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: AXBK.BO, B: AXSB IN)	
CMP	: INR 708
Target Price	: INR 761
52-week range (INR)	: 828 / 534
Share in issue (mn)	: 2,619.7
M cap (INR bn/USD mn)	: 1,854 / 27,447
Avg. Daily Vol.BSE/NSE('000)	: 10,796.4

SHARE HOLDING PATTERN (%)			
	Current	Q4FY19	Q3FY19
Promoters *	17.6	18.2	23.0
MF's, FI's & BK's	22.7	20.7	19.0
FII's	47.0	48.3	45.9
Others	12.7	12.8	12.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Banks and Financial Services Index
1 month	(13.1)	(6.0)	(6.8)
3 months	(8.4)	(5.7)	(2.2)
12 months	23.3	(2.1)	4.6

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### Growth momentum soft; steady NIM supports revenue traction

Loan growth momentum was below trend at sub-13% given 34% YoY dip in international book; domestic book grew 19% YoY (retail up 22%). That said, steady NIM at 3.4% cushioned revenue. While management has guided for stable NIM in the near term and aims to achieve 3.5-3.7% NIMs in two-three years, we perceive limited levers to achieve the target.

**Table 1: Key takeaways from Q1FY20 earnings**

(INR mn)	Q1FY20	Q1FY19	Growth (%)	Q4FY19	Growth (%)	Comments
Net interest income	58,437	51,668	13.1	57,056	2.4	Core revenue traction softer given lower loan growth, even as steady NIMs lent cushion
Other income	38,688	29,250	32.3	35,263	9.7	Non-interest income was supported by treasury income
Operating expenses	38,197	37,198	2.7	42,175	(9.4)	Cost efficiency started to play out, cost/income at sub 40% levels
Staff expense	13,068	12,278	6.4	11,423	14.4	
Other opex	25,128	24,920	0.8	30,752	(18.3)	
Pre prov Op profit (PPP)	58,928	43,720	34.8	50,144	17.5	
Provisions	38,146	33,377	14.3	27,114	40.7	Despite proactive provisioning of INR 9.9bn credit cost continues to be higher
Profit before tax	20,782	10,343	100.9	23,030	(9.8)	
Provision for tax	7,081	3,333	112.5	7,979	(11.3)	
Profit after tax	13,701	7,011	95.4	15,051	(9.0)	
EPS (INR)	5.3	2.7	93.4	5.8	(9.6)	
<b>Balance sheet (INR bn)</b>						
Advances	4,973	4,411	12.7	4,948	0.5	Loan growth was softer due to 39% YoY de-growth in international book. Encouragingly, retail segment grew at 22% YoY
Deposits	5,407	4,471	20.9	5,485	(1.4)	Retail TD grew 39% while CASA growth remained softer at sub-7% levels
CD Ratio (%)	92.0	98.7		90.2		
<b>Asset quality</b>						
Gross NPA	2,94,049	3,26,624	(10.0)	2,97,894	(1.3)	Slippages spiked to INR48bn(vs ~30bn in last quarter), however higher write offs kept GNPLs broadly steady.
Net NPA	1,10,375	1,49,016	(25.9)	1,12,756	(2.1)	
Gross NPA (%)	5.3	6.5		5.3		
Net NPA (%)	2.0	3.1		2.1		
Provision coverage	62.5	54.4		62.1		

Source: Company, Edelweiss research

**Table 2: Including exposure to stress group overall stress pool at >INR200bn**

INR mn	Q1FY20
<b>BB &amp; below</b>	
Loans (Fund based)	75,040
Loans (Non-fund based)	25,000
Investments	8,789
<b>Existing watchlist (a)</b>	<b>108,829</b>
<b>Exposure to 8 stressed accounts</b>	
Loans (Fund based)	70,000
Already NPL	(10,000)
BB & below	(29,000)
<b>Net additions (b)</b>	<b>31,000</b>
Loans (Non-fund based)	30,000
Already NPL and BB & below	(10,000)
<b>Net additions (c)</b>	<b>20,000</b>
Investment	22,000
Already NPL	(2,000)
MTM provisioning	(4,000)
<b>Net additions (d)</b>	<b>16,000</b>
<b>BB &amp; below and 8 stressed accounts (a+b+c+d)</b>	<b>175,829</b>
Non fund Based to existing NPL	28,000
<b>Overall stress pool</b>	<b>203,829</b>

**Table 3: Movement in BB and below book: Higher downgrades keep book steady**

INR mn	Q1FY20
Opening	74,670
Upgrades	(10,070)
Downgrades	22,420
Slippages	(11,980)
Closing	75,040

**Table 4: GNPLs remained steady as higher slippages set off against higher write-offs**

	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Gross NPA (INR bn)	212.8	220.3	274.0	250.0	342.5	326.6	309.4	308.5	297.9	294.0
Growth Q-o-Q (%)	4.0	3.5	24.4	(8.8)	37.0	(4.6)	(5.3)	(0.3)	(3.5)	(1.3)
Gross NPA (%)	5.0	5.0	5.9	5.3	6.8	6.5	6.0	5.8	5.3	5.3
Net NPA (INR bn)	86.3	97.7	145.0	117.7	165.9	149.0	127.2	122.3	112.8	110.4
Growth Q-o-Q (%)	4.0	13.2	48.5	(18.8)	41.0	(10.2)	(14.7)	(3.8)	(7.8)	(2.1)
Net NPA (%)	2.1	2.3	3.1	2.6	3.4	3.1	2.5	2.4	2.1	2.0
Provision coverage (%)	59.5	55.7	47.1	52.9	51.6	54.4	58.9	60.4	62.1	62.5

**Table 5: Slippages spiked, volatility is concerning**

(INR mn)	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Incremental slippage	48,110	35,190	89,360	44,280	165,360	43,370	27,770	37,460	30,120	47,980
Incremental slippage (%)	5.5	3.8	9.3	4.3	15.7	3.9	2.5	3.3	2.5	3.9
Recoveries and upgrades	28,040	3,060	10,480	40,080	34,010	29,170	21,860	16,220	23,760	21,770
Writeoffs	11,940	24,620	25,170	28,220	38,870	30,070	23,150	22,070	17,010	30,050

Source: Company

## Banking and Financial Services

**Table 6: Advance growth at ~12.7%; CD ratio at 92% levels**

	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Advances (INR bn)	3,731	3,855	4,102	4,209	4,397	4,411	4,561	4,751	4,948	4,973
Advances growth Q-o-Q (%)	7.5	3.3	6.4	2.6	4.4	0.3	3.4	4.2	4.1	0.5
Advances growth Y-o-Y (%)	10.1	11.8	16.1	21.2	17.8	14.4	11.2	12.9	12.5	12.7
Deposits (INR bn)	4,144	3,937	4,164	4,090	4,536	4,471	4,797	5,141	5,485	5,407
Deposit growth Q-o-Q (%)	11.8	(5.0)	5.8	(1.8)	10.9	(1.4)	7.3	7.2	6.7	(1.4)
Deposit growth Y-o-Y (%)	15.8	10.0	9.5	10.3	9.5	13.5	15.2	25.7	20.9	20.9
CD ratio (%)	90.0	97.9	98.5	102.9	96.9	98.7	95.1	92.4	90.2	92.0

**Table 7: CASA momentum soft, that said retail traction is strong - retail deposits forming ~80% of deposits**

	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
CASA (%)	51.0	49.0	50.0	49.0	54.0	47.0	48.0	46.0	44.0	41.0
Retail deposits (% of total dep.)	60.3	64.7	63.6	66.5	63.0	81.0	82.0	80.0	81.0	80.0
Retail dep. / branch (INR mn)	757	753	760	757	772	774	804	823	872	887
Retail bus. / branch (INR mn)	1,184	1,270	1,288	1,296	1,330	1,335	1,375	1,409	1,479	1,518

**Table 8: NIMs steady, sustenance key**

(%)	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Cost of funds	5.4	5.2	5.2	5.1	5.1	5.2	5.3	5.4	5.7	5.7
NIM	3.8	3.6	3.5	3.4	3.3	3.5	3.4	3.5	3.4	3.4
CASA	51.0	49.0	50.0	49.0	54.0	47.0	48.0	46.0	44.0	41.0

**Table 9: Core fee income supported by retail fee income growth**

As % of total fee income	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Corporate banking	22.2	16.4	20.2	15.5	16.5	12.8	11.2	10.2	13.7	10.0
Agri and SME Banking	5.5	3.5	4.3	4.4	6.0	3.7	4.0	3.1	5.4	3.0
Business banking	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking	48.1	50.1	53.8	53.2	51.9	61.0	58.1	42.8	60.6	62.0
Others	24.2	30.0	21.7	26.9	25.6	22.5	26.8	43.9	20.3	25.0
Q-o-Q growth in non int. inc. (%)	(11.4)	(0.4)	(13.8)	0.3	7.5	4.9	(8.4)	49.4	(11.9)	9.7
Fee inc. to total inc. (%)	38.9	39.4	36.3	35.4	37.1	36.1	33.9	41.7	38.2	39.8

**Table 10: Cost efficiency playing through, Cost/Income at < 40% levels**

(%)	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120
Cost-income ratio	43.5	43.7	47.0	47.4	51.2	46.0	48.2	42.5	45.7	39.3
Tax rate	31.7	33.0	32.1	30.3	37.6	32.2	32.3	32.0	34.6	34.1

Source: Company

**Table 11: SoTP (FY21)**

Particulars	AUMs / earnings / book	Multiple (x)	Value of business (INR mn)	Axis Bank's holding	Value of Axis Bank's interest (INR mn)	Value per share (INR)
Axis Bank	782,938	2.5	1,918,197	100.0%	1,918,197	732
Axis AMC	989,155	5.0	49,458	75.0%	37,093	14
Axis Capital	863	15.0	12,938	100.0%	12,938	5
Axis Securities	460	15.0	6,898	100.0%	6,898	3
Axis Finance	15,498	2.0	30,996	100.0%	30,996	12
<b>Value of subsidiaries</b>			<b>100,289</b>		<b>87,924</b>	<b>34</b>
Value of subs (after 15% holding company discount)						29
<b>Total</b>						<b>761</b>

Source: Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Interest income	152,550	127,770	19.4	147,980	3.1	549,858	605,934	694,881
Interest exp	94,113	76,102	23.7	90,924	3.5	332,776	354,010	393,394
Net int. inc. (INR mn)	58,437	51,668	13.1	57,056	2.4	217,082	251,925	301,487
Other income	38,688	29,250	32.3	35,263	9.7	131,303	160,076	186,205
Net revenues	97,124	80,918	20.0	92,319	5.2	348,385	412,000	487,691
Operating expenses	38,197	37,198	2.7	42,175	(9.4)	158,334	169,916	186,549
Staff expense	13,068	12,278	6.4	11,423	14.4	47,473	53,424	58,942
Other opex	25,128	24,920	0.8	30,752	(18.3)	110,861	116,492	127,608
Pre prov op profit(ppop)	58,928	43,720	34.8	50,144	17.5	190,051	242,084	301,142
Provisions	38,146	33,377	14.3	27,114	40.7	120,310	104,012	103,980
Profit before tax	20,782	10,343	100.9	23,030	(9.8)	69,741	138,072	197,162
Provision for taxes	7,081	3,333	112.5	7,979	(11.3)	22,975	41,422	59,149
PAT	13,701	7,011	95.4	15,051	(9.0)	46,766	96,650	138,013
Diluted EPS (INR)	5.3	2.7	93.4	5.8	(9.6)	18.2	36.9	52.7

## Ratios

NII/GII (%)	38.3	40.4		38.6		39.5	41.6	43.4
Cost/income (%)	39.3	46.0		45.7		45.4	41.2	38.3
Provisions / PPOP	64.7	76.3		54.1		63.3	43.0	34.5
Tax rate (%)	34.1	32.2		34.6		32.9	30.0	30.0

## Bal. sheet data (INR bn)

Advances	4,973	4,411	12.7	4,948	0.5	4,948	5,839	7,152
Deposits	5,407	4,471	20.9	5,485	(1.4)	5,485	6,310	7,731
Investments	1,758	1,546	13.7	1,750	0.5	1,750	1,946	2,214

## Asset quality

Gross NPA	294,049	326,624	(10.0)	297,894	(1.3)	297,894	312,645	306,209
Gross NPA (%)	5.3	6.5		5.3		5.3	4.9	3.9
Net NPA	110,375	149,016	(25.9)	112,756	(2.1)	112,756	103,193	83,777
Net NPA (%)	2.0	3.1		2.1		2.1	1.8	1.2
Provision coverage (%)	62.5	54.4		62.1		62.1	67.0	72.6
B/V per share (INR)						259.3	296.6	347.1
Adj book value / share						228.6	269.0	324.7
Price/ Adj. book (x)						3.1	2.6	2.2
Price/ Earnings						38.6	19.0	13.3

## Change in Estimates

	FY20E			FY21E			Comments
	New	Old	% change	New	Old	% change	
NII	251,925	258,804	(2.7)	301,487	317,325	(5.0)	
PPOP	242,084	237,163	2.1	301,142	296,169	1.7	
Provisions	104,012	90,355	15.1	103,980	99,910	4.1	Factoring in higher than expected credit cost.
PAT	96,650	102,765	(6.0)	138,013	137,381	0.5	
NIMs	3.2	3.2		3.3	3.3		

### Q1FY20 earnings call takeaways

#### With respect to guidance

- While the domestic conditions are seeing multiple pressure points reflected in auto sales etc. That said management maintained that domestic loan growth will continue to be 5-7 percentage point higher than industry loan growth.
- **Cost to asset will continue to trend down and will be at 2% level over next 3 years – this quarter was a major step towards that**
- **NIMs in near to medium term will range from 3.5-3.8% and for FY20 the bank expect NIMs to be broadly stable with upward bias.**
- Credit cost will settle below long term average (of 115bps)

#### Updation on execution - Comments from MD & CEO Mr. Amitabh Chaudhry

- The bank continued to state the focus is to deliver growth and profitability on sustainable basis with intention to get to RoE of 18% . To that extent the bank a) build on extra provisions this quarter (additional provisions of > INR23bn) and b) refurbished team ( this is now done).
- Deposit garner was one of the focus area (formed separate vertical) and there has been strong 30% plus growth in term deposit (39% growth in retail-TD)
- **The bank had already highlighted earlier that their focus on improving cost efficiency and have conservative provisions – this quarter performance is testimony to that .**
  - On track to achieve cost/asset of 2% over next 3 years

#### With respect to asset quality

- Slippages during the quarter came in at INR48bn, of this corporate slippages was INR21.3bn largely driven by 2 accounts in power and ship building segment which was already in BB & below book. Of the net corporate slippage during the quarter 79% of this came from disclosed BB & below accounts.
  - The Bank's BB and below rated book stood at INR75.04bn (versus INR74.67bn in FY19). There was addition of INR22.42bn during the quarter (pertaining to groups that are in news). But also there was also a reduction in balances to the tune of INR10.07bn during the quarter. These cumulatively have kept BB and below book steady.
  - Of the net slippages of INR26.21bn –corporate is INR13.8bn (79% from BB and below list) , SME- INR4.14bn and retail/agri – INR8.89bn.
- **With respect to 8 stressed groups (talked about/ in news) – namely in Infra, Infra Finance, Telecom, HFC, Travel, Commodity trading, molded plastics, media – These cumulatively forms Loan outstanding of INR70bn, NFB of INR30bn and Investment of INR22bn**
  - Of this loan outstanding (INR70bn) – INR10bn is NPL , further INR29bn is BB & below book, and of the balance INR31bn – 66% is one operating media account
  - Of the Investments of INR22bn – INR2bn is NPLs and INR4bn is MTM
  - Of the non-funded exposure of INR30bn – 33% is already in NPL or BB and below book . Of the balance 66% largely it is telecom which has expired BG.

- Of the contingent provision of INR23.6bn – INR5.1bn is toward BB and below book, INR4.59bn is towards NFB and INR13.9bn is towards stressed sectors (provisions for land bank is not included in this)
- Have not seen any signs in the axis bank portfolio that lead to believe stress in unsecured segment. That said there are concerns in ecosystem which are highlighting that there are some red flags.
- During the quarter the bank **created additional provisions of INR9.94bn**, taking total provision buffer to INR23.6bn. During the quarter, the bank made a change in internal guidelines to continue increasing conservatism in its provisioning. The bank has now introduced a process of making systematic provisions towards non-fund based facilities in NPA and in stressed accounts outside NPA. **This change created a one-time provisioning impact of INR4.6bn during the quarter**
- Exposure to real estate is largely towards LRD or loans to top notch builders. Also the bank doesn't do construction finance and thus are very confident of retail estate exposure.
  - Under construction residential project exposure is very small at INR15bn.
- NFB and NPL is INR28bn

#### **With respect to business growth**

- Domestic loan growth 19% and international book de-grew 34%. ***Retail continues to be key growth driver particularly personal loans, education loans and small business loans*** . Retail franchise is coming from existing-to-bank customers and will continue to leverage on this strength.
- Deposit franchise had a strong quarter – >20% YoY growth supported by 39% YoY growth retail-TD.
- This was a significant step towards building operational efficiencies largely on 4 counts  
a) rationalising manforce b) digital leverage and c) lower promotion cost

#### **Other highlights**

- The bank has taken an approval for the raising of INR180bn the permission for which will be validated
- There was an impact of 31bps on capital during the quarter due to RBI regulation on higher risk weight for unrated exposures. This was in addition to 9bps impact due to higher operational risk. That said the conversion to warrants supported 45bps addition to capital during the quarter

### Key highlights from Q4FY19 concall

#### With respect to guidance

- Domestic loan growth will continue to be 5-7 percentage point higher than industry loan growth.
- **Cost to asset will continue to trend down and will be at 2% level over next 3 years**
- **NIMs in near to medium term will range from 3.5-3.8% and for FY20 the bank expects NIMs to be steady/upward bias.**
- Credit cost will settle below long term average (of 115bps)

#### Update on execution - Comments from MD & CEO Mr. Amitabh Chaudhry

- The bank continued to state the focus is to deliver growth and profitability on a sustainable basis with intention to get to RoE of 18%. To this effect, it has taken several steps over the last few months viz. a) entire execution team in place (Pralay Mondal, Ganesh Shankaran has joined), b) Re-organised the structure in retail and wholesale segment among others.
- **The bank has earlier already highlighted the focus on improving cost efficiency and has conservative provisions – this quarter performance is testimonial to that.**
  - On track to achieve cost/asset of 2% over next 3 years
- **Deposit growth is key challenge with this separate vertical is created on retail liability business.**

#### With respect to business growth

- Domestic loan growth 18% and international book de-grew 29%. ***Retail continues to be key growth driver particularly personal loans, credit cards and auto loans.*** Retail franchise is coming from existing-to-bank customers and will continue to leverage on this strength.
  - The bank highlighted that international book will now become stable in absolute terms on QoQ basis over next 2 quarters. That said, on YoY basis the de-growth shall continue till Q3FY20.
  - The penetration of personal loans and credit cards is still very low – single digit for personal loans. Also management highlighted that there are no credit concerns on unsecured portfolio thus the growth should ideally continue.
- Deposit franchise had a strong quarter – >20% YoY growth. CASA + retail TD grew by >20% (now accounting for 81% of deposit base). Branch head KRAs were reviewed to include retail TD as well compared to focus on CASA earlier. Retail TD needs to play an active part of overall deposit base – competes with traditional competitors & new banks with higher rates as well.
  - SA growth has been softer while the period end figures are lower on a quarterly average basis the growth has been relatively better (SA up 13% and CA up 10%). That said, the bank has also focussed on retail-TD and in the interim there could be some cannibalisation from savings balances.



- Non-interest income led by strong growth in fee income (up 23%) this was largely driven by retail fee ( up 37% YoY) within which card fee grew 40% YoY and distribution fee grew (32%, albeit on lower base).
- NIMs during the quarter came in at 3.44% with domestic NIMs of 3.61% (excluding one-off in Q3FY19 this was broadly steady)
  - The bank also highlighted that while on corporate side given the incremental nature of higher rated book, the incremental delta from this segment is limited. Meanwhile, the focus on retail ( more on unsecured business), rising SME and mid-corporate segment will help the NIMs.
  - The bank is focussing on retail-TD but the bank have to pay higher on that . That said the bank highlighted that pricing power is there with bank also reflected in rising MCLR over period of time.
  - There could be positive impact following conversion of warrants – likely in Q1FY20.

#### With respect to asset quality

- Slippages during the quarter came in at INR30.12bn, of this corporate slippages was INR13.7bn - 72% of this came from disclosed BB & below accounts and one account of INR3.35bn slipped outside of BB and below pool (Engineering & electronics segment).
  - The Bank's BB and below rated book stood at INR76.67bn (versus INR76.45bn in Q2FY19).
  - While most of the slippages has been granular few sectors that contrinuted are Infra, power and real estate.
- As was targeted earlier bank continues to strengthen provisions reflected in a) strengthening the provision on NPLs, b) increased coverage on SRs (INR2.21bn made during the quarter) , c) **provision on standard stressed sectors – added 2 more sectors and made additional provision of INR1.6bn on these sectors** and d) with referral to transaction in March, 2017 of land bank, based on the discussion with RBI the bank chose to make 100% provision on this asset over 4 quarters (the bank made INR5.35bn during the quarter)
  - The bank continues to review of BB and below book – **INR9.2bn was downgraded (dominated by 2 large groups which has been under stress).**
- The bank made contingent provisions of INR6bn (earlier in Q3FY19) , but the bank during the quarter adopted a formulae based approach and thus this provisions has been done away with.
- The total SR stands at INR29.1bn, against which the bank has provisions of INR2.5bn.

#### Other highlights

- Capital position is strong and sufficiently adequate to pursue growth opportunities. There could be warrant conversions (45mn shares at INR565 per share) which could further add 46bps to CET-1.
- The bank highlighted that performance of subsidiary has been fairly good during the quarter. The bank maintained that they will continues to invest in subsidiaries to achieve scale as per the aspirations.

### Company Description

Axis is the third-largest private sector bank in India in terms of asset size, with a balance sheet of >INR7.9tn. It has a network of over 4,094 branches and extension counters across the country. The bank earns substantial fee income from transaction and merchant banking activities.

### Investment Theme

Valuations capture upside risks and improved visibility on 18% RoE in current challenging environment is crucial for sustainable re-rating of the stock. At 2.3x FY21E P/ABV for RoE of 17% by FY21E we perceive limited upside. Hence, we maintain **'HOLD/SP'**

### Key Risks

Deterioration of macro environment can result in higher slippages and slow down business growth. Softer growth in CASA could increase the cost of funds and impact margins.

## Financial Statements

### Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Sector</b>				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	19.5	19.0	19.0
G-sec yield	6.5	7.0	7.1	7.1
<b>Company</b>				
<b>Op. metric assumpt. (%)</b>				
Yield on advances	8.4	8.8	8.5	8.3
Yield on investments	7.1	6.9	6.8	6.5
Yield on asset	7.7	8.0	7.7	7.5
Cost of funds	4.6	4.9	4.5	4.3
Net interest margins	3.1	3.2	3.2	3.3
Cost of deposits	4.4	4.7	4.3	4.2
Cost of borrowings	6.7	6.7	6.3	6.0
Spread	3.1	3.1	3.2	3.2
Tax rate (%)	(126.8)	32.9	30.0	30.0
<b>Balance sheet assumption (%)</b>				
Credit growth	17.7	13.6	17.0	21.3
Deposit growth	9.5	20.9	15.0	22.5
SLR ratio	17.3	17.1	17.3	17.0
Low-cost deposits	53.8	44.4	42.9	44.1
Gross NPA ratio	7.1	5.4	4.9	3.9
Net NPA ratio	3.8	2.3	1.8	1.2
Net NPA / Equity	26.2	16.9	13.3	9.2
Capital adequacy	17.4	15.8	15.4	15.0
Incremental slippage	8.3	2.9	2.8	2.8
Provision coverage	51.6	62.1	67.0	72.6

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	457,803	549,858	605,934	694,881
Interest expended	271,626	332,776	354,010	393,394
Net interest income	186,177	217,082	251,925	301,487
Non interest income	109,671	131,303	160,076	186,205
- Fee & forex income	94,146	104,715	122,368	144,049
- Misc. income	2,437	19,237	12,708	17,156
- Investment profits	13,088	7,352	25,000	25,000
Net revenue	295,848	348,385	412,000	487,691
Operating expense	139,904	158,334	169,916	186,549
- Employee exp	43,130	47,473	53,424	58,942
- Other opex	96,774	110,861	116,492	127,608
Preprovision profit	155,945	190,051	242,084	301,142
Provisions	154,729	120,310	104,012	103,980
Loan loss provisions	165,987	102,215	103,012	102,980
Investment depreciation	(2,110)	3,000	-	-
Other provisions	(9,148)	15,095	1,000	1,000
Profit Before Tax	1,216	69,741	138,072	197,162
Less: Provision for Tax	(1,541)	22,975	41,422	59,149
Profit After Tax	2,757	46,766	96,650	138,013
Shares o /s (mn)	2,567	2,572	2,620	2,620
Adj. Diluted EPS (INR)	1.1	18.2	36.9	52.7
Dividend per share (DPS)	0.0	1.0	2.0	2.0
Dividend Payout Ratio(%)	0.0	0.0	6.0	4.2

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
NII growth	2.9	16.6	16.1	19.7
Fees growth	13.5	11.2	16.9	17.7
Opex growth	14.7	13.2	7.3	9.8
PPOP growth	(0.9)	27.9	18.8	27.2
PPP growth	(11.3)	21.9	27.4	24.4
Provisions growth	27.7	(22.2)	(13.5)	-
Adjusted Profit	(92.5)	1,596.5	106.7	42.8

### Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	8.4	8.8	8.5	8.3
Yield on investments	7.1	6.9	6.8	6.5
Yield on assets	7.7	8.0	7.7	7.5
Cost of funds	4.6	4.9	4.5	4.3
Net interest margins	3.1	3.2	3.2	3.3
Cost of deposits	4.4	4.7	4.3	4.2
Cost of borrowings	6.7	6.7	6.3	6.0
Spread	3.1	3.1	3.2	3.2
Cost-income	47.3	45.4	41.2	38.3
Tax rate	(126.8)	32.9	30.0	30.0

## Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	5,133	5,143	5,239	5,239	
Reserves & Surplus	629,320	661,620	771,648	903,888	
Net worth	634,453	666,763	776,887	909,127	
Sub bonds/pref cap	-	-	5,000	10,000	
Deposits	4,536,227	5,484,714	6,309,736	7,730,932	
Total Borrowings	1,480,161	1,527,758	1,628,177	1,763,898	
Other liabilities	262,455	330,731	390,263	478,072	
<b>Total liabilities</b>	<b>6,913,296</b>	<b>8,009,966</b>	<b>9,110,063</b>	<b>10,892,029</b>	
Loans	4,396,503	4,947,980	5,838,616	7,152,305	
Cash and Equivalents	434,549	672,046	633,003	747,350	
Gilts	1,040,530	1,202,394	1,373,259	1,614,121	
Others	498,231	547,299	573,041	600,070	
Fixed assets	39,717	40,366	35,806	30,970	
Other Assets	503,766	599,881	656,338	747,212	
<b>Total assets</b>	<b>6,913,296</b>	<b>8,009,966</b>	<b>9,110,063</b>	<b>10,892,029</b>	
Credit growth	17.7	13.6	17.0	21.3	
Deposit growth	9.5	20.9	15.0	22.5	
EA growth	15.4	15.7	14.2	20.1	
SLR ratio	17.3	17.1	17.3	17.0	
C-D ratio	104.1	97.8	99.4	98.4	
Low-cost deposits	53.8	44.4	42.9	44.1	
Provision coverage	51.6	62.1	67.0	72.6	
Gross NPA ratio	7.1	5.4	4.9	3.9	
Net NPA ratio	3.8	2.3	1.8	1.2	
Incremental slippage	8.3	2.9	2.8	2.8	
Net NPA / Equity	26.2	16.9	13.3	9.2	
Capital adequacy	17.4	15.8	15.4	15.0	
- Tier 1	14.3	12.5	12.1	11.7	

RoE decomposition (%)					
Year to March	FY18	FY19	FY20E	FY21E	
Net int. income/assets	3.1	3.2	3.2	3.3	
Fees/Assets	1.6	1.8	1.7	1.7	
Invst. profits/Assets	0.2	0.1	0.3	0.3	
Net revenues/assets	5.0	5.1	5.2	5.3	
Operating expense/assets	(2.4)	(2.3)	(2.2)	(2.0)	
Provisions/assets	(2.6)	(1.8)	(1.3)	(1.1)	
Taxes/assets	0.0	(0.3)	(0.5)	(0.6)	
Total costs/assets	(4.9)	(4.4)	(4.0)	(3.8)	
ROA	0.0	0.7	1.2	1.5	
Equity/assets	10.0	9.5	9.1	9.1	
ROAE (%)	0.5	7.2	13.4	16.4	

Valuation parameters					
Year to March	FY18	FY19	FY20E	FY21E	
Adj. Diluted EPS (INR)	1.1	18.2	36.9	52.7	
Y-o-Y growth (%)	(93.0)	1,593.1	102.9	42.8	
BV per share (INR)	247.2	259.3	296.6	347.1	
Adj. BV per share (INR)	201.9	228.6	269.0	324.7	
Diluted P/E (x)	654.0	38.6	19.0	13.3	
Price/ BV (x)	2.8	2.7	2.4	2.0	
Price/ Adj. BV (x)	3.5	3.1	2.6	2.2	
Dividend Yield (%)	0.0	0.1	0.3	0.3	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Axis Bank	27,447	19.0	13.3	2.6	2.2	13.4	16.4
DCB Bank	882	15.2	12.2	1.9	1.7	12.9	14.2
Federal Bank	2,702	10.6	8.2	1.3	1.2	12.9	14.2
HDFC Bank	89,265	24.1	19.2	3.7	3.2	15.9	17.4
ICICI Bank	40,302	16.9	13.6	2.1	1.8	14.5	16.1
IndusInd Bank	14,437	15.1	11.3	2.8	2.3	18.4	20.6
Karnataka Bank	494	3.8	3.0	0.5	0.5	11.7	13.6
Kotak Mahindra Bank	41,734	34.7	29.0	4.4	3.9	14.0	14.7
Yes Bank	3,196	54.9	15.2	1.0	1.1	1.5	5.2
Median	-	16.9	13.4	2.6	2.2	13.4	14.7
AVERAGE	-	20.4	13.0	2.2	1.9	12.8	14.7

Source: Edelweiss research

## Additional Data

### Directors Data

Sanjiv Misra	Director & Non Executive Chairman	Amitabh Chaudhry	Managing Director & CEO
Rajiv Anand	Executive Director	Rajesh Dahiya	Executive Director
Samir K. Barua	Director	Som Mittal	Director
Rohit Bhagat	Director	Usha Sangwan	Director
S. Vishwanathan	Director	Rakesh Makhija	Director
Ketki Bhagwati	Director	B. Babu Rao	Director
Stephen Pagliuca	Director	Girish Paranjpe	Director

Auditors - HARIBHAKTI & CO. LLP

*\*as per last annual report*

### Holding - Top 10

	Perc. Holding		Perc. Holding
Capital Group Cos	2.89	BlackRock	2.83
Bank of New York Mellon	2.61	SBI Funds Management	2.52
Vanguard Group	2.52	BC ASIA INVESTMENTS	2.12
Dodge & Cox	2.00	ICICI Prudential Asset Management	1.89
Reliance Nippon Life Asset Management	1.89	HDFC Asset Management Company	1.76

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Jul 2019	Life Insurance Corporation Of India	Sell	877969.00
01 Jul 2019	Life Insurance Corporation Of India	Sell	1821470.00
26 Jun 2019	Life Insurance Corporation Of India	Sell	1430203.00
24 Jun 2019	Anuradha Balsekar	Sell	33855.00
24 Jun 2019	Sashikant Rathi	Sell	16000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	HOLD	SP	M	Bajaj Finserv	HOLD	SP	L
Bank of Baroda	REDUCE	SU	M	DCB Bank	HOLD	SP	M
Dewan Housing Finance	BUY	SP	H	Equitas Holdings Ltd.	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	BUY	SO	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC Bank	BUY	SP	L	Indiabulls Housing Finance	BUY	SU	M
IndusInd Bank	BUY	SO	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SP	M	L&T Finance Holdings	HOLD	SU	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram General Finance	BUY	SP	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SO	M
Punjab National Bank	REDUCE	SU	M	Reliance Capital	BUY	SP	M
Repc Home Finance	HOLD	SU	M	Rural Electrification Corporation	BUY	SP	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	HOLD	SU	M	Yes Bank	HOLD	SU	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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### Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

#### Recent Research

Date	Company	Title	Price (INR)	Recos
30-Jul-19	<b>Shriram City Union Finance</b>	Growth softer, asset quality steady; <i>Result Update</i>	1,400	Buy
29-Jul-19	<b>Punjab National Bank</b>	Better, but not out of the woods; <i>Result Update</i>	68	Reduce
27-Jul-19	<b>ICICI Bank</b>	Transformation at multiple levels reaffirmed; <i>Result Update</i>	416	Buy

#### Distribution of Ratings / Market Cap

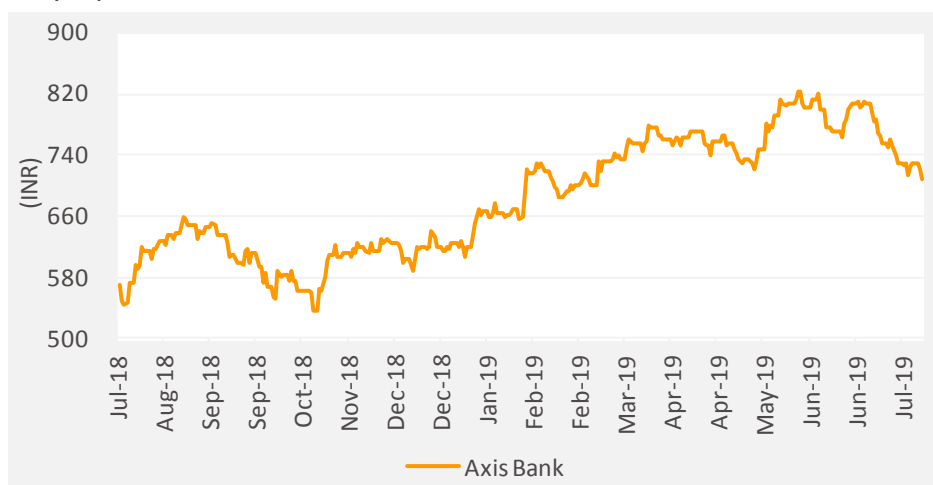
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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