

Axis Bank

23 October 2019

Reuters: AXSB.BO; Bloomberg: AXSB IN

Corporate slippages from known source; cautious on SME

Axis Bank (ABL) reported 2QFY20 results with the key pointers being: (1) Corporate slippages were mainly from the BB and below pool; retail asset quality remains stable (2) NIM guidance has been increased to being better than FY19 (3) Overall global bank loan growth was 14% YoY driven by domestic loan growth of 19% YoY (See *comprehensive* conference call takeaways on page 2 for *significant incremental colour*). Per se, on the key P&L items, ABL posted 17% YoY NII growth at Rs61,018mn, PPOP growth of 45% YoY at Rs59,516mn and a loss of Rs1,121mn. We have revised our estimates for FY20/FY21/FY22 and retained Accumulate rating on ABL, revising our target price to Rs725 (from Rs727 earlier), valuing the stock at 1.7x H1FY22E standalone P/BV and ascribing a value of Rs36 to the subsidiaries.

Corporate slippages were mainly from the BB and below pool; retail asset quality remains stable: Total fresh slippages were Rs. 49.83 bn, of which Rs. 28.62 bn were corporate in nature. Of the total corporate slippages, 97% were from the BB and below pool. Going forward, the bank has stated that this pool of stressed assets would continue to throw up elevated slippages. Further, exposure to 8 stressed corporate groups has reduced significantly, post slippage into NPA bucket during the quarter. The BB and below book, at Rs. 62.91 bn, now forms 3.4% of the total corporate loan book. In the retail segment, the asset quality continues to be stable with NNPA's at 0.6%. However, the bank is exercising caution in the SME segment, where it is witnessing some delays in payments. We broadly reiterate our earlier stance that the decline in slippage quantum post 4QFY18 is a durable shift to a lower stress regime since (a) the sub-investment grade stock of corporate assets continues to remain limited (b) majority of the net corporate slippages continues to be from the sub-investment grade stock. Whole bank PCR improved to 79% (+100 bps qoq). In line with its guided strategy of being conservative in provisioning, the bank holds Rs. 26 bn worth of contingent provisions, apart from NPA provisions.

NIM guidance has been increased to being better than FY19: Till last quarter, management was stating that NIM in FY20 would be similar or slightly better than in FY19. However, the bank is now guiding for FY20 NIM to be better than FY19, partly driven by the bank's focus on garnering retail deposits. During the quarter, the bank delivered a NIM of 3.51% (domestic NIM: 3.63%), improving 11 bps QoQ on account of decline in cost of funds, which in turn, improved due to de-growth in borrowings which cost ~100 bps higher than deposits. We see further levers to NIM expansion in the form of reduction in stock of non-performing assets and increasing share of unsecured loans. For the medium term, the bank is guiding for a NIM of 3.5-3.8%.

Overall global bank loan growth was 14% YoY driven by domestic loan growth of 19% YoY: Overseas loan book de-grew 25% YoY to Rs 376.36bn. Retail loans grew 23% YoY, SME book grew 2% YoY and corporate book grew 7% YoY. Domestic corporate book grew 18% YoY. Going forward, the bank expects to grow 5-7% higher than the industry.

Valuation and outlook: We have revised our NII estimates by -1.5%/-5.6%/-6.9%, PPOP estimates by -1.7%/-6.1%/-7.5% and PAT estimates by -2.5%/-8.3%/-9.1%, for FY20/FY21/FY22, respectively. We have retained Accumulate rating on ABL, revising our target price to Rs725 (from Rs727 earlier), valuing the stock at 1.7x H1FY22E standalone P/BV, and ascribing a value of Rs 36 to the subsidiaries.

ACCUMULATE

Sector: Banking

CMP: Rs713

Target Price: Rs725

Upside: 2%

Shivaji Thapliyal

Research Analyst

shivaji.thapliyal@nirmalbang.com

+91-22-6273 8068

Raghav Garg

Research Analyst

raghav.garg@nirmalbang.com

+91-22-6273 8192

Key Data

Current Shares O/S (mn)	2,819.2
Mkt Cap (Rsbn/US\$bn)	2,000.3/28.1
52 Wk H / L (Rs)	828/534
Daily Vol. (3M NSE Avg.)	13,417,850

Price Performance (%)

	1 M	6 M	1 Yr
Axis Bank	4.3	(6.1)	26.2
Nifty Index	3.4	(0.8)	13.2

Source: Bloomberg

Y/E March (Rsmn)	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)
Interest Income	154,378	132,810	152,550	16.2	1.2
Interest Expenses	93,360	80,489	94,113	16.0	(0.8)
Net Interest Income	61,018	52,321	58,437	16.6	4.4
NIM (%)	3.51	3.36	3.40	15 bps	11 bps
Non-Interest Income	38,958	26,784	38,688	45.5	0.7
Total Income	99,976	79,105	97,124	26.4	2.9
Staff costs	12,750	11,747	13,068	8.5	(2.4)
Other operating expenses	27,711	26,418	25,128	4.9	10.3
Total operating expenses	40,460	38,165	38,197	6.0	5.9
Cost-to-income (%)	40.5	48.2	39.3	-778 bps	114 bps
Pre-provisioning operating profit	59,516	40,940	58,928	45.4	1.0
Provisions	35,184	29,274	38,146	20.2	(7.8)
PBT	24,332	11,666	20,782	108.6	17.1
Tax	25,453	3,770	7,081	575.1	259.5
-Effective tax rate	104.6	32.3	34.1	7229 bps	7053 bps
PAT	(1,121)	7,896	13,701	NA	NA
EPS (Rs)	(0.4)	3.1	5.2	NA	NA
BV (Rs)	298.0	253.2	272.0	17.7	9.6
Deposits	5,839,585	4,796,796	5,406,777	21.7	8.0
Advances	5,215,937	4,561,213	4,972,760	14.4	4.9

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

Asset Quality

- Corporate slippages came mainly from the previously disclosed stressed book.
- Going forward, the bank expects slippages from the BB and below book to remain elevated.
- In the SME segment, the bank is seeing some stress in the form of delayed payments. Hence, the bank is cautious on this segment.
- Of the total net slippages, Rs. 18.06 bn were from the corporate book, Rs. 4.96 bn were from the retail and agri book and the remaining were from the SME book.
- Net NPAs in the retail segment stand at 0.6%, largely stable over the last 2 years.
- SMA2 is under 0.5% of total loans.
- Credit costs will depend on the progress of NCLT resolutions.
- Amongst the stressed groups disclosed in the last quarter, the bank has seen some movement in terms of slippages. All the individual entities which are part of the 8 stressed corporate groups are part of the BB and below book.
- MTM on investment during the quarter was Rs. 0.65 bn.
- As per the bank, exposure to 8 stressed corporate groups is coming down.
- During the quarter, the bank added Rs 11 bn worth of exposure to the stock of BB and below book.
- During the quarter, there were significant amount of slippages from the 8 stressed groups disclosed earlier. Total exposure to these groups has come down by 25%.
- As per the bank, there are some NBFC exposures in the investment book which are in the BB and below book.
- Rs. 26 bn worth of contingent provisions does not include land related provisions and is over and above the NPA provisions.
- Non-funded exposure towards NPA accounts is Rs. 25 bn.

Business and Loan Growth

- In car and home loans, the bank is witnessing increase in credit applications. Overall, the bank sees good opportunity in retail banking in India.
- In terms of the bank's retail strategy, focus would continue to be around existing customers. 93% of the credit cards and 88% of personal loan originations were from existing customers of the bank.
- 79% of the SME loan book is working capital based. 86% of the non-NPA SME book is rated SME3 or better.
- In terms of loan book growth, the bank expects to grow 5-7% higher than the industry growth rate.
- The bank stated that it is not fixated about a particular business mix that it wants to achieve but it is rather guided by RAROC approach whereby it chases the business with the best risk-adjusted return.
- The bank sees retail as a space where demand has been higher than supply.
- Mortgages growth, which has picked up in last few quarters, is all organic.
- Auto loans is a business which is focused on internal deposit customers. The bank is seeing robust growth in this portfolio since its market share is low. The bank is also building some used car business capabilities, which is now reaching contribution levels of 10% on incremental basis.
- In terms of hiring at the senior management level, the bank stated that most of the management and other team members are in place and the bank should now see stability from here. There could be one or two positions where the bank might make some changes. The bank has hired a very senior person in Axis Finance.

Margin, Liabilities and Liquidity

- As per the bank, focus on retail customers had to led growth in granular deposits. Despite this, the bank feels it needs to do better on CASA.
- As per the bank, it is too early to predict the impact of linking retail loan rates to an external benchmark on the banking industry. However, the management expects banks to innovate products on asset as well as liability side to manage the balance sheet impact.
- NIM for FY20 will be higher than FY19; guidance is for 3.5-3.8% in the medium term.
- Reason for decline in cost of fund was de-growth in borrowings. Cost of borrowings was 100 bps higher than cost of deposits.

Operating Expenses

- Cost to assets over long term will be at 2%.

Fee & Other Income

- Fee income was driven by growth in retail, especially on the cards front.

Capital Adequacy

- Equity capital raise of Rs. 125 bn boosted capital adequacy by 225 bps.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19E	FY20E	FY21E	FY22E
Net interest income	186,177	217,082	247,920	285,279	339,782
Pre-provisioning operating profit	155,945	190,051	223,709	263,453	319,748
PAT	2,757	46,766	85,759	122,527	170,125
EPS (Rs)	1.1	18.2	33.3	44.1	61.3
BV (Rs)	247.2	259.3	287.8	370.4	426.8
P/E (x)	663.6	39.2	21.4	16.2	11.6
P/BV (x)	2.9	2.7	2.5	1.9	1.7
Gross NPAs (%)	7.5	5.8	4.5	3.6	2.8
Net NPAs (%)	3.8	2.3	0.9	0.4	0.3
RoA (%)	0.0	0.6	1.0	1.2	1.4
RoE (%)	0.5	7.2	12.2	13.9	15.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)	2QFY20E	Devi. (%)
Net interest income	61,018	52,321	58,437	16.6	4.4	60,781	0.4
Pre-provisioning operating profit	59,516	40,940	58,928	45.4	1.0	53,280	11.7
PAT	(1,121)	7,896	13,701	(114.2)	(108.2)	21,860	(105.1)

Source: Company, Nirmal Bang Institutional Equities Research. N.B. We were expecting a DTA Reduction of Rs 21,365mn and an adjusted PAT of Rs 495mn.

Exhibit 3: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY20E	FY21E	FY21E	FY20E	FY21E	FY21E	FY20E	FY21E	FY21E
Net Interest Income (Rs mn)	247,920	285,279	339,782	251,613	302,086	364,921	(1.5)	(5.6)	(6.9)
NIMs	3.26	3.19	3.22	3.29	3.33	3.36	-3 bps	-13 bps	-14 bps
Operating Profit (Rs mn)	223,709	263,453	319,748	227,485	280,678	345,755	(1.7)	(6.1)	(7.5)
Profit after tax (Rs mn)	85,759	122,527	170,125	87,998	133,598	187,221	(2.5)	(8.3)	(9.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	457,803	549,858	649,873	760,806	897,810
Interest expenses	271,626	332,776	401,953	475,527	558,028
Net interest income	186,177	217,082	247,920	285,279	339,782
Fee income	77,299	88,537	112,220	130,778	153,715
Other income	32,372	42,767	33,462	48,913	58,554
Net revenues	295,848	348,385	393,602	464,970	552,051
Operating expenses	139,903	158,334	169,894	201,517	232,303
-Employee expenses	43,130	47,473	52,330	58,284	63,948
-Other expenses	96,774	110,861	117,564	143,233	168,355
Pre-provisioning operating profit	155,945	190,051	223,709	263,453	319,748
Provisions	154,729	120,310	109,363	100,084	92,914
-Loan loss provision	164,637	110,313	108,363	99,084	91,914
-Investment depreciation	(2,110)	3,000	0	0	0
-Other provisions	(7,798)	6,997	1,000	1,000	1,000
PBT	1,216	69,741	114,346	163,369	226,834
Tax	(1,541)	22,975	28,586	40,842	56,708
PAT	2,757	46,766	85,759	122,527	170,125

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY21E
Equity capital	5,133	5,143	5,143	5,555	5,555
Reserves & surplus	629,319	661,620	734,986	1,023,116	1,179,857
Shareholders' funds	634,452	666,763	740,130	1,028,671	1,185,412
Deposits	4,536,227	5,484,713	6,355,558	7,428,874	8,758,522
Borrowings	1,480,161	1,527,758	1,744,322	2,034,517	2,390,713
Other liabilities	262,455	330,731	367,201	387,765	385,286
Total liabilities	6,913,295	8,009,965	9,207,211	10,879,827	12,719,934
Cash/cash equivalent	434,549	672,046	688,759	805,848	950,900
Advances	4,396,503	4,947,980	5,739,656	6,715,398	7,924,170
Investments	1,538,761	1,749,693	2,074,524	2,583,883	2,992,696
Fixed assets	39,717	40,366	44,403	48,843	53,728
Other assets	503,766	599,880	659,868	725,855	798,440
Total assets	6,913,295	8,009,965	9,207,211	10,879,827	12,719,934

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

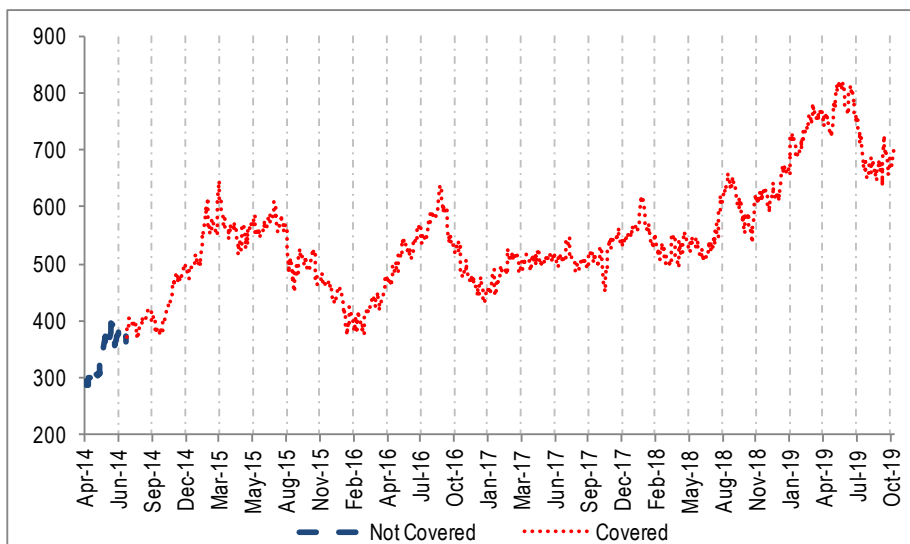
Y/E March	FY18	FY19	FY20E	FY21E	FY21E
Growth (%)					
NII growth	2.9	16.6	14.2	15.1	19.1
Pre-provision profit growth	-11.3	21.9	17.7	17.8	21.4
PAT growth	-92.5	1596.4	83.4	42.9	38.8
Business (%)					
Deposit growth	9.5	20.9	15.9	16.9	17.9
Advance growth	17.8	12.5	16.0	17.0	18.0
Business growth	13.4	16.8	15.9	16.9	17.9
CD	96.9	90.2	90.3	90.4	90.5
CASA	53.8	44.4	40.0	40.0	40.0
Operating efficiency (%)					
Cost-to-income	47.3	45.4	43.2	43.3	42.1
Cost-to-assets	2.2	2.1	2.0	2.0	2.0
Productivity (Rsmn)					
Business per branch	2,412.3	2,576.0	2,845.9	3,178.5	3,587.7
Business per employee	149.8	168.4	186.0	205.1	231.5
Profit per branch	0.7	11.5	20.2	27.5	36.6
Profit per employee	0.0	0.8	1.3	1.8	2.4
Spreads (%)					
Yield on advances	8.4	8.8	9.1	9.1	9.1
Yield on investments	7.1	6.9	7.1	7.1	7.1
Cost of deposits	4.4	4.7	5.0	5.1	5.1
Yield on assets	8.0	8.3	8.5	8.5	8.5
Cost of funds	4.6	4.9	5.1	5.2	5.2
NIMs	3.3	3.3	3.3	3.2	3.2
Capital adequacy (%)					
Tier I	13.0	12.5	11.9	13.4	12.8
Tier II	3.5	3.3	2.2	2.1	2.0
Total CAR	16.6	15.8	14.0	15.4	14.9
Asset Quality (%)					
Gross NPA	7.5	5.8	4.5	3.6	2.8
Net NPA	3.8	2.3	0.9	0.4	0.3
Provision coverage	65.0	77.0	89.0	93.6	94.5
Slippage	8.2	3.0	2.0	1.5	1.1
Credit-cost	4.1	2.2	1.9	1.5	1.2
Return (%)					
ROE	0.5	7.2	12.2	13.9	15.4
ROA	0.0	0.6	1.0	1.2	1.4
RORWA	0.1	0.9	1.4	1.7	2.0
Per share					
EPS	1.1	18.2	33.3	44.1	61.3
BV	247.2	259.3	287.8	370.4	426.8
ABV	182.5	215.4	267.4	359.6	417.8
Valuation					
P/E	663.6	39.2	21.4	16.2	11.6
P/BV	2.9	2.7	2.5	1.9	1.7
P/ABV	3.9	3.3	2.7	2.0	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 July 2014	Buy	404	472
20 October 2014	Buy	403	490
8 January 2015	Accumulate	502	490
19 January 2015	Accumulate	515	550
30 April 2015	Accumulate	559	590
27 July 2015	Accumulate	581	590
28 October 2015	Accumulate	518	575
21 January 2016	Accumulate	392	435
27 April 2016	Accumulate	478	470
25 July 2016	Accumulate	537	525
26 October 2016	Accumulate	530	510
20 January 2017	Accumulate	481	490
14 February 2017	Accumulate	491	530
27 April 2017	Accumulate	516	515
26 July 2017	Accumulate	545	515
18 October 2017	Accumulate	513	525
23 January 2018	Accumulate	611	671
27 April 2018	Accumulate	495	473
31 July 2018	Accumulate	570	556
9 October 2018	Accumulate	557	604
5 November 2018	Accumulate	611	667
13 December 2018	Buy	609	761
30 January 2019	Buy	661	762
25 March 2019	Accumulate	749	819
8 April 2019	Accumulate	762	819
26 April 2019	Accumulate	741	818
8 July 2019	Accumulate	806	806
31 July 2019	Accumulate	708	786
7 October 2019	Accumulate	656	727
23 October 2019	Accumulate	713	725

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010