



# stock update



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April 26, 2016

## Axis Bank

Business growth remains healthy; asset quality stable; PT revised to Rs590

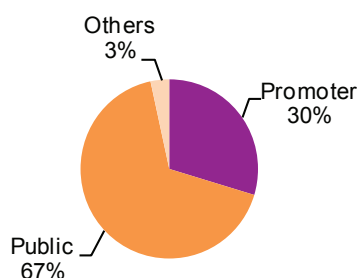
Reco: Buy

CMP: Rs480

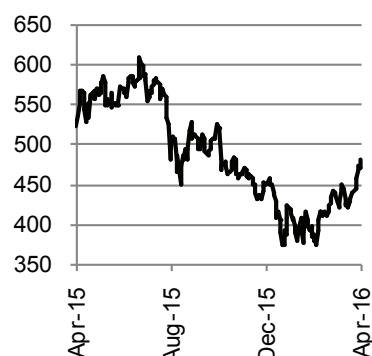
### Company details

Price target:	Rs590
Market cap:	Rs114,511 cr
52-week high/low:	Rs613/367
NSE volume: (No of shares)	106.6 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (No of shares)	167.4 cr

### Shareholding pattern



### Price chart



### Price performance

(%)				
Absolute	7.4	11.7	-10.6	-10.2
Relative to Sensex	6.0	6.1	-4.8	-5.5

### Key points

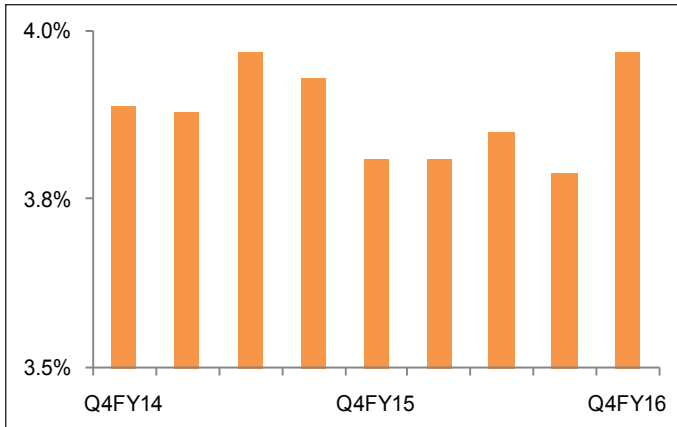
- NII up 19.8%; margins expand:** Axis Bank reported a strong 19.8% growth in net interest income (NII) for Q4FY2016 owing to 20.5% jump in the advances and expansion in net interest margin (up 16BPS YoY and 18BPS QoQ). The non-interest income growth was flat as treasury profit declined by 65.4% YoY, however retail fee income showed a growth of 15.1% YoY. Provisions for Q4FY2016 surged by 64.6% YoY owing to Rs300-crore contingent provisions made during the quarter.
- Loan book growth remains healthy, asset quality remains stable:** For Q4FY2016 advances grew by 20.5% YoY owing to strong growth in retail advances (23.8% YoY) and corporate advances (21.7% YoY). Growth in retail advances was mainly driven by higher growth in personal loans and credit card segment. Asset quality remained largely stable as GNPA was stable (down 1BPS QoQ to 1.67%). Slippages during the quarter were lower on sequential basis (Rs1,474 crore versus Rs2,082 crore QoQ). The bank invoked SDR in 4 accounts worth Rs205 crore and undertook 5:25 refinancing in 1 account amounting to Rs130 crore. Accounts worth Rs400 crore slipped from restructured category to NPA during Q4FY2016. The bank has created a watchlist of stressed accounts amounting to Rs22,600 crore which it feels could slip into NPA over the next two years.
- Valuation and outlook:** Axis Bank has delivered a better-than-expected performance during the quarter and has all the ingredients to grasp opportunities during an economic revival. Liability franchisee of the bank remains strong (CASA at 47%) while it is well capitalised to sustain healthy loan book growth. Though the management has guided for some stress in the corporate portfolio we feel retail segment would continue to drive growth and corporate loan growth would be tilted towards better rated category. We have rolled over our valuations to FY2018E leading to a revised price target of Rs590 by valuing the bank at 2.0x its FY2018E BV. We have maintained our Buy rating on the stock.

### Results

Particulars	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)
Interest income	10,899.0	9,697.1	12.4	10,193.3	6.9
Interest expense	6,346.4	5,897.8	7.6	6,031.3	5.2
<b>Net interest income</b>	<b>4,552.6</b>	<b>3,799.2</b>	<b>19.8</b>	<b>4,162.1</b>	<b>9.4</b>
Non-interest income	2,694.0	2,687.3	0.2	2,337.8	15.2
Net total income	7,246.6	6,486.6	11.7	6,499.8	11.5
Operating expenses	2,848.1	2,473.7	15.1	2,514.8	13.3
-Employee expenses	907.9	798.8	13.7	829.5	9.4
-Other operating expenses	1,940.2	1,674.9	15.8	1,685.2	15.1
<b>Pre-provisioning profit</b>	<b>4,398.5</b>	<b>4,012.9</b>	<b>9.6</b>	<b>3,985.1</b>	<b>10.4</b>
Provisions	1,168.3	709.8	64.6	712.6	64.0
Profit before tax	3,230.2	3,303.1	-2.2	3,272.5	-1.3
Tax	1,075.9	1,122.5	-4.1	1,097.2	-1.9
<b>Profit after tax</b>	<b>2,154.3</b>	<b>2,180.6</b>	<b>-1.2</b>	<b>2,175.3</b>	<b>-1.0</b>
<b>Asset quality</b>					
Gross NPLs	6,088.0	4,110.2	48.1	5,724.1	6.4
Gross NPLs (%)	1.67	1.34	33 BPS	1.68	-1 BPS
Net NPLs	2,522.1	1,316.7	91.5	2,514.1	0.3
Net NPLs (%)	0.70	0.44	26 BPS	0.75	-5 BPS
<b>Capital adequacy (%)</b>					
CAR	15.29	15.09	20 BPS	15.47	-18 BPS
Tier I	12.51	12.07	44 BPS	12.35	16 BPS
<b>Key reported ratios (%)</b>					
NIM	3.97	3.81	16 BPS	3.79	18 BPS
CASA	47.34	44.78	255 BPS	43.25	409 BPS

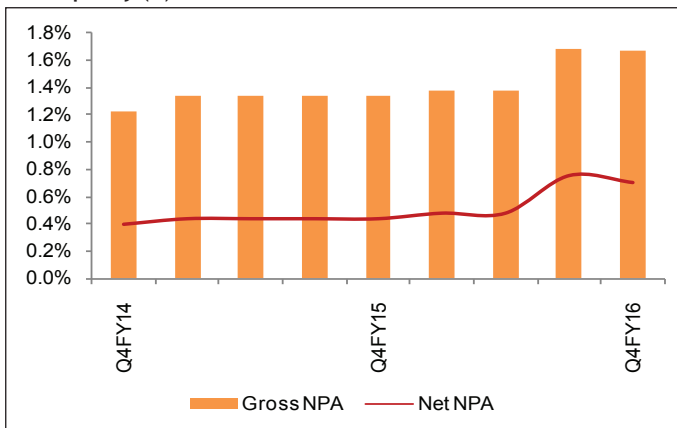
**Healthy operational performance:** For Q4FY2016, Axis Bank reported a strong 19.8% growth in NII owing to a 20.5% jump in the advances and expansion in NIM (up 16 basis points [BPS] year on year [YoY] and 18BPS quarter on quarter [QoQ]). The expansion in NIM was due to decline in cost of funds as a result of surge in current account and savings account (CASA) ratio (up 255BPS YoY to 47.3%). The non-interest income growth was flat (up 0.2% YoY) however retail fee income reported a steady growth of 15.1% YoY.

Net interest margin (%)



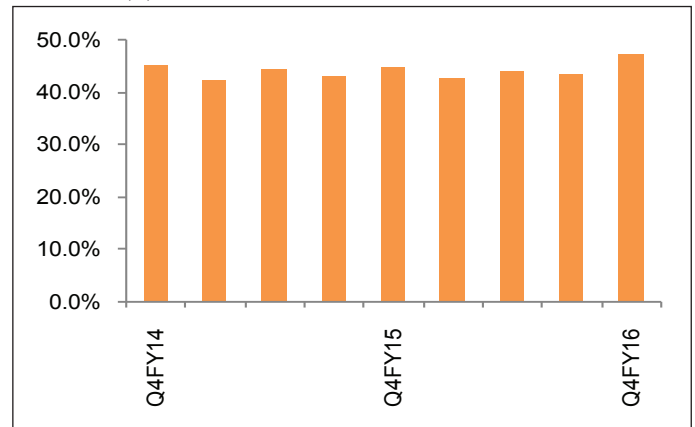
**Asset quality remains stable:** Asset quality remained largely stable as gross non-performing asset (NPA) was stable (down 1BPS QoQ to 1.67%). Slippages during the quarter were lower on sequential basis (Rs1,474 crore versus Rs2,082 crore QoQ). Accounts worth Rs400 crore slipped from restructured category to NPA during Q4FY2016. The bank invoked strategic debt reconstruction (SDR) in 4 accounts worth Rs205 crore and undertook 5:25 refinancing in 1 account amounting to Rs130 crore. The bank has created a watchlist of stressed accounts amounting to Rs22,600 crore which it feels could slip into NPA over the next two years. Iron and steel sector comprises of about 50% of this watchlist. The bank undertook fresh restructuring for an account worth Rs927 crore due to shift of DCCO in one project.

Asset quality (%)



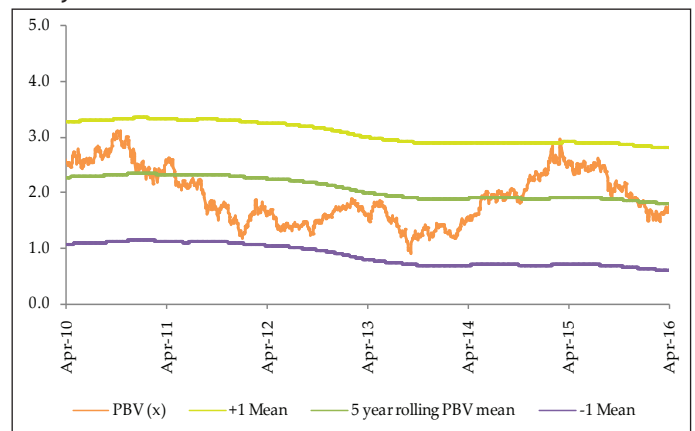
**Advances growth shows good traction; liability franchisee improves:** Axis Bank reported a loan book growth of 20.5% YoY driven by 23.8% Y-o-Y growth in the retail advances and 21.7% growth in the corporate advances. Growth in retail advances was aided by higher growth in personal loans and credit card segment. In the corporate book out of the new sanctions 79% were attributed to better rated companies (rating A and above). The bank continues to focus on increasing its retail contribution to the overall loan book and expects advances to grow by 18 to 20%. Liability franchisee showed further improvement as CASA ratio surged to 47.3% against 44.7% YoY and retail term deposits now form 64.7% of the total term deposits.

CASA ratio (%)



**Valuation:** Axis Bank has delivered a better-than-expected performance during the quarter and has all the ingredients to grasp opportunities during in case on an economic revival. Liability franchisee of the bank remains strong (CASA at 47%) while it is well capitalised to sustain a healthy loan book growth. Though the management has guided for some stress in the corporate portfolio, yet we feel that the retail segment would continue to drive growth and corporate loan growth would be tilted towards better rated category. We have rolled over our valuations to FY2018E leading to a revised price target of Rs590 by valuing the bank at 2.0x its FY2018E book value (BV). We have maintained our Buy rating on the stock.

One-year forward P/BV SD band



## Profit and loss statement

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	11,952	14,224	16,833	19,607	23,219
Non-interest income	7,405	8,365	9,371	10,836	12,402
Net total income	19,357	22,589	26,204	30,442	35,622
Operating expenses	7,901	9,203	10,101	11,662	13,566
Pre-provisioning profit	11,456	13,386	16,104	18,780	22,056
Provisions	2,107	2,331	3,710	4,587	5,252
Profit before tax	9,349	11,055	12,394	14,193	16,804
Tax	3,131	3,699	4,170	4,755	5,545
Profit after tax	6,218	7,356	8,224	9,439	11,258

## Balance sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E
<b>Liabilities</b>					
Networth	38,220	44,677	53,165	60,905	70,137
Deposits	280,945	322,442	357,968	417,033	492,099
Borrowings	50,291	79,758	99,226	118,724	137,741
Other liabilities & provisions	13,789	15,056	15,109	14,698	17,725
<b>Total liabilities</b>	<b>383,245</b>	<b>461,932</b>	<b>525,468</b>	<b>611,360</b>	<b>717,701</b>
<b>Assets</b>					
Cash & balances with RBI	17,041	19,819	22,361	22,103	25,589
Balances with banks & money at call	11,197	16,280	10,964	16,681	14,763
Investments	113,548	132,343	122,006	151,633	169,981
Advances	230,067	281,083	338,774	409,916	495,999
Fixed assets	2,410	2,514	3,523	3,875	4,263
Other assets	8,981	9,893	27,839	7,151	7,107
<b>Total assets</b>	<b>383,245</b>	<b>461,932</b>	<b>525,468</b>	<b>611,360</b>	<b>717,701</b>

## Key ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
<b>Per share data (Rs)</b>					
Earnings	26.5	31.0	34.5	39.6	47.2
Dividend	4.0	4.6	5.0	7.1	8.5
Book value	162.7	188.5	223.1	255.6	294.3
Adj. book value	158.3	182.9	212.5	244.0	281.7
<b>Spreads (%)</b>					
Yield on advances	10.3	10.1	9.7	9.5	9.4
Cost of deposits	5.8	5.7	5.6	5.3	5.3
Net interest margins	3.6	3.6	3.7	3.6	3.7
<b>Operating ratios (%)</b>					
Credit to deposit	81.9	87.2	94.6	98.3	100.8
Cost to income	40.8	40.7	38.5	38.3	38.1
CASA	45.0	44.8	47.3	47.2	46.6
Non-interest income / Total income	38.3	37.0	35.8	35.6	34.8
Assets/Equity (x)	10.1	10.2	10.1	10.0	10.1
<b>Return ratios (%)</b>					
RoE	17.4	17.7	16.8	16.5	17.2
RoA	1.7	1.7	1.7	1.7	1.7
<b>Asset quality ratios (%)</b>					
Gross NPA	1.4	1.4	1.7	1.8	1.7
Net NPA	0.4	0.4	0.7	0.7	0.6
<b>Growth ratios (%)</b>					
Net interest income	23.6	19.0	18.3	16.5	18.4
Pre-provisioning profit	23.1	16.8	20.3	16.6	17.4
Profit after tax	20.0	18.3	11.8	14.8	19.3
Advances	16.8	22.2	20.5	21.0	21.0
Deposits	11.2	14.8	11.0	16.5	18.0
<b>Valuation ratios (x)</b>					
P/E	18.2	15.5	13.9	12.1	10.2
P/BV	3.0	2.5	2.2	1.9	1.6
P/ABV	3.0	2.6	2.3	2.0	1.7

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