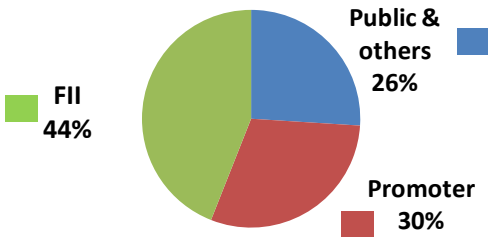


AXIS BANK

BUY

Target Rs 500

CMP: Rs388 22 Jan 2016

Company details	
Price target	Rs500
Market cap	Rs 92468 cr
52 Week high/low	Rs 655/367
NSE Volume	88.0 lakh
No of shares	
BSE Code	532215
NSE Code	Axisbank
Sharekhan code	Axisbank
Free float	167.5 cr
No of shares	
Shareholding pattern	
 <p>A pie chart illustrating the shareholding pattern of Axis Bank. The chart is divided into three segments: FII (Foreign Institutional Investors) at 44% (green), Promoter at 30% (red), and Public & others at 26% (blue). A legend to the right of the chart identifies each segment with a colored square and text label.</p>	
Price performance	
%	1m 3m 6m 12m
Absolute	-14.2 -25 -35.9 -26.6
Relative to sensex	-11.1 -17.3 -26.4 -16.9

Key points

Healthy operating performance: Axis Bank reported a healthy set of numbers at operating level as net interest income increased by 15.9% YoY largely supported by strong growth in advances (up 21% YoY). While operating expenses were under check (up 8.7% YoY), the provisions increased by 40.5% YoY which partially affected earnings growth (up 14.5% YoY). The reported net interest margin declined by 6BPS QoQ to 3.85% despite a 35BPS rate cut as cost of fund contracted by 13BPS QoQ. **Asset quality deteriorates:** During Q3FY2016, the bank reported gross NPA additions of Rs2,082 crore of which Rs724 crore came from restructured portfolio. According to the management, the bank has not sold any account to asset reconstruction company (ARC) in Q3FY2016 and around 50% of the reported slippages in Q3FY2016 were based on RBI's asset quality assessment. The bank has refinanced Rs1,600- crore-worth of loans under 5:25 scheme and strategic debt restructuring (SDR) in one account worth Rs500 crore. Further, the bank has utilised Rs220-crore-worth of contingent provisions in Q3FY2016 (outstanding balance of Rs180 crore). The bank has guided for slippages of Rs1,300 crore in Q4FY2016 (resulting in stress of Rs7,000 crore for FY2016E) and Rs2,500-crore-worth of loans in pipeline for 5:25 refinancing.

Earnings and price target revised downward: In view of higher-than-expected slippages and stress on corporate exposures (infrastructure, iron and steel, construction etc), we have raised our provisioning estimates and revised our earnings downwards by 7% and 11% respectively for FY2016 and FY2017. We value the bank at 2x its FY2017 BV resulting in a price target of Rs500. We have maintained our Buy rating due to consistent improvement in liability profile, strong growth in retail business, sturdy capital ratios (tier-1 CAR at 12.4%) and attractive valuation after recent correction

(trading at 1.6x its FY2017 BV).

Results					
Particulars	Q3FY16	Q3FY15	Yoyo%	Q2FY16	QOQ %
Interest income	10193.3	8889.7	14.7	9959.6	2.3
Interest expense	6031.3	5300.2	13.8	5897.5	2.3
net interest income	4162.1	3589.6	15.9	4062.1	2.5
non interest income	2337.8	2039.1	14.6	2041.4	14.5
Net total income	6499.8	5628.6	15.5	6103.5	6.5
operating expenses	2514.8	2314	8.7	2475.5	1.6
employee expenses	829.5	778.5	6.6	829.5	0
other operating expenses	1685.2	1535.6	9.7	1646.2	2.4
pre provisioning profit	3985.1	3314.6	20.2	3628	9.8
provisions	712.6	507.2	40.5	707.2	0.8
profit before tax	3272.5	2807.5	16.6	2920.8	12
tax	1097.2	907.7	20.9	1005.1	9.2
profit after tax	2175.3	1899.8	14.5	1915.6	13.6
asset quality					
gross NPLs	5724.1	3901.6	46.7	4451.1	28.6
Gross NPLs	1.68	1.34	34	1.38	30
Net NPLs	2514.1	1250.7	101	1543.6	62.9
Net NPLs	0.75	0.44	31	0.48	27
capital adequacy					
CAR	15.47	15.64	-17	15.42	5
Tier 1	12.35	12.44	-9	12.21	14
Key reported ratios					
NIM	3.79	3.93	-14	3.85	-6
CASA	43.25	43.13	12	44.25	-100

Strong growth in advances, traction in retail book continues:

Axis Bank reported a healthy operating performance as strong growth in advances aided growth in net interest income (up 15.9% year on year [YoY], in line with estimates). The corporate loans was the key driver as it grew by 20.7% YoY largely towards better rated corporate (rated A and above). On the other hand, retail loans showed a strong growth of 26.8% YoY contributed by segments like housing (up 22% YoY), personal loans (up 55% YoY). On the liability front also the bank reported an improvement as current account and savings account (CASA) deposits grew by 16.5% YoY (higher than aggregate deposit growth), whereas average CASA balances were maintained at 40% of deposit

Provisions to rise in coming period:

During the quarter, provisioning increased by 40.5% YoY excluding Rs220 crore drawn from contingent provisions (outstanding balance of Rs180 crore). Consequently, the provision coverage declined to 72% (vs 78% in Q2FY2016). According to the bank, it is required to make an additional Rs250-crore standard asset provisions towards select restructured account in FY2017. The management has guided for a credit cost of 125 basis points (BPS; including contingent provisions) for FY2016. We have raised our credit cost estimates in view of emerging stress in certain corporate exposures. Non-interest income up 14.6%, restrained growth in opex: The non-interest income increased by 14.6% YoY aided by steady growth in fee income (up 11.8%) with retail fees growing by 14.0% YoY. The treasury profit in Q3FY2016 was Rs338 crore of which Rs119 crore came from partial stake sale in Max Life. The bank also booked Rs76 crore of income by way of exchange gain on repatriation of profits from overseas branches. The operating expenses were under control as it grew by 8.7% YoY and the management expects to sustain cost-to-income ratio in range of 38-40%.

Asset quality deteriorates:

The bank reported gross nonperforming asset (NPA) additions of Rs2,082 crore of which Rs724 crore came from restructured portfolio. According to the management, the bank has not sold any account to ARC in Q3FY2016 and around 50% of the reported slippages in Q3FY2016 were based on RBI's asset quality assessment. The bank has refinanced Rs1,600-crore-worth of loans under 5:25 scheme and SDR in one account worth Rs500 crore. The bank has guided for slippages of Rs1,300 crore in Q4FY2016 (resulting in stressed assets of Rs7,000 crore for FY2016E) and Rs2,500-crore-worth of loans in pipeline for 5:25 refinancing. The bank also reported that around Rs3,000- crore-worth of restructured loans will exit moratorium period over the next five quarters.

Valuation and outlook:

In view of higher-than-expected slippages and stress on corporate exposures (infrastructure, iron and steel, construction etc), we have raised our provisioning estimates and revised our earnings downwards by 7% and 11% respectively for FY2016 and FY2017. We value the bank at 2x its FY2017 book value (BV) resulting in a price target of Rs500. We have maintained our Buy rating due to consistent improvement in liability profile, strong growth in retail business, sturdy capital ratios (tier-1 capital adequacy ratio [CAR] at 12.4%) and attractive valuation after recent correction (trading at 1.6x its FY2017 BV)

Profit and loss statement

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net interest income	9666	11952	14224	16412	18622
non interest income	6551	7405	8365	9338	10806
net total income	16217	19357	22589	25750	29428
operating expenses	6914	7901	9203	10542	11971
pre provisioning profit	9303	11456	13386	15208	17457
Provisions	1750	2107	2331	3247	3651
profit before tax	7553	9349	11055	11962	13806
Tax	2374	3131	3699	3947	4556
profit after tax	5179	6218	7356	8014	9250

Balance sheet

Particulars	FY13	FY14	FY15	FY16E	FY17E
Liabilities					
Networth	33108	38220	44677	51248	58833
Deposits	252614	280945	322442	374033	440610
Borrowings	43951	50291	79758	89342	102824
other liabilities and provisions	10888	13789	15056	13451	16250
total liabilities	340561	383245	461932	528074	618518
Assets					
cash and balances	14792	17041	19819	17954	19607
with RBI					
Balance with	5643	11197	16280	15709	16743
banks and money					
at call					
Investments	113738	113548	132343	150354	172666
Advances	196966	230067	281083	331678	393039
fixed assets	2356	2410	2514	2766	3042
other assets	7067	8981	9893	9613	13420
total assets	340561	383245	461932	528074	618518

Key ratios

Particulars	FY13	FY14	FY15	FY16E	FY17E
Per share data					
Earnings	22.1	26.5	31	33.8	39
Dividend	3.6	4	5.5	6.1	7
book value	141.5	162.7	188.5	216.2	248.2
Adj.book value	138.5	158.3	182.9	204.7	236.5
spreads					
yield on advnaces	10.5	10.3	10.1	9.9	9.8
cost of deposits	6.4	5.8	5.7	5.6	5.6
net interest margings	3.3	3.6	3.6	3.5	3.4
operating ratios%					
credit to deposit	78	81.9	87.2	88.7	89.2
cost to income	42.6	40.8	40.7	40.9	40.7
CASA	44.4	45	44.8	44.2	43.6
Non interest income					
total income	40.4	38.3	37	36.3	36.7
assets/equity	11.2	10.1	10.2	10.3	10.4
Return ratios					
ROE	18.5	17.4	17.7	16.7	16.8
Road	1.7	1.7	1.7	1.6	1.6
Asset quality ratios					
Gross NPA	1.2	1.4	1.4	2	1.7
Net NPA	0.4	0.4	0.4	0.8	0.7
Growth ratios					
Net interest income	20.6	23.6	19	15.4	13.5
Pre provisioning	25.2	23.1	16.8	13.6	14.8
profit					
profit after tax	22.1	20	18.3	9	15.4
advances	16	16.8	22.2	18	18.5
deposits	14.8	11.2	14.8	16	17.8
valuation ratios					
P/E	17.5	14.7	12.5	11.5	9.9
P/BV	2.7	2.4	2.1	1.8	1.6
P/ABV	2.8	2.5	2.1	1.9	1.6