

# Axis Bank

BSE SENSEX

33,315

S&amp;P CNX

10,322



## Stock Info

Bloomberg	AXSB IN
Equity Shares (m)	2,395.0
M.Cap.(INR b)/(USD b)	1,303 / 20.2
52-Week Range (INR)	556/425
1, 6, 12 Rel. Per (%)	2/-2/-14
12M Avg Val (INR M)	4273
Free float (%)	71.4

## Financials & Valuation (INR b)

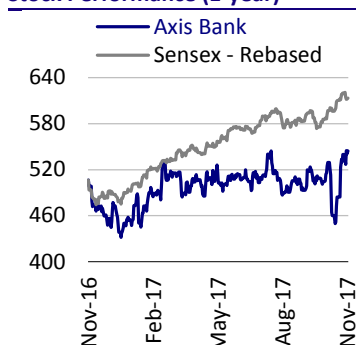
Y/E March	2018E	2019E	2020E
NII	190.1	219.1	256.6
OP	179.9	206.9	244.2
NP	45.6	79.8	105.1
NIM (%)	3.2	3.2	3.2
EPS (INR)	18.4	30.8	40.2
BV/Sh. (INR)	268.3	299.1	334.7
RoE (%)	7.3	10.8	12.7
RoA (%)	0.7	1.1	1.2
P/E(X)	29.6	17.7	13.5
P/BV (X)	2.0	1.8	1.6

## Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	28.6	28.7	28.9
DII	9.1	8.7	9.5
FII	52.1	52.4	52.9
Others	10.3	10.2	8.8

FII Includes depository receipts

## Stock Performance (1-year)


**CMP: INR545**
**TP: INR680 (+25%)**
**Upgrading to Buy**

## Strong capitalization to fast-track recovery; Upgrading to Buy

- **Event:** Axis Bank's (AXSB) board has approved a capital raising plan amounting to USD1.79b (INR116.26b) to provide the necessary growth capital to the bank and support asset quality clean-up. Of the approved amount, USD1.4b (INR90.63b) is proposed to be raised via preferential issue of equity shares at INR525/share, while the remaining USD396.1m (INR25.63b) would be raised via warrants, which can be converted into equity shares at INR565/share.
- **Investing entities:** Bain Capital will invest USD1.06b (INR68.54b) – USD710m (INR45.94b) would be in the form of equity and the balance USD349.3m (INR22.6b) via warrants. LIC will invest USD244.7m (INR15.83b) directly via the equity route. The balance USD446.1m (INR28.86b) via equity and USD46.8m (INR3.03b) via warrants would be invested by several other institutional funds.
- **Impact: FY19E BV (increase by 10%), Tier-1 (increase by 170bp) and dilution of 9.1% on existing equity base:** We expect warrant conversion to take place in FY19, and thus, estimate AXSB's FY18E/19E book value to increase by 9%/10%. This will also help improve the bank's Tier-I ratio by 170bp to 13.8% by FY18E, providing it with the necessary growth capital to pursue business opportunities. The entire capital raising will eventually result in dilution of 9.1% on the existing capital base (8.3% on post-issue basis).
- **Corporate slippages account for >80% of total slippages; expect normalcy to return from 2HFY19:** We expect continued pressure on asset quality in the near term, as AXSB further purges its books. However, we note that the corporate slippages over the past six quarters have been accounting for >80% of the total slippages, with a majority of it originating from the watch-list assets. AXSB has INR158.1b of BB & below-rated assets, of which ~64% are lying under the watch-list plus other dispensations. We estimate slippages to remain high over the near term – as AXSB aggressively cleanses its books – and then moderate sharply from 2HFY19E, driving a sharp decline in the net NPL ratio. AXSB has exposure of INR70.41b toward IBC accounts under both the RBI lists, on which it already carries a provision of INR38.86b (~55% coverage).
- **12.6% RoE by FY20E v/s ~7% in FY18E; see scope of positive surprise:** We revise our numbers, as we build in the proposed capital raising, and fine-tune our slippage/credit cost estimates. We thus project ~42% earnings CAGR over FY17-20, even as we factor in credit cost of 2.7%/1.8%/1.5% over FY18-20E. This compares conservatively to AXSB's average credit cost of 0.7% over FY11-15, leaving scope of a positive surprise on earnings/multiple expansion. We thus expect RoA/RoE of 1.2%/12.6% in FY20E v/s 0.7%/7.3% in FY18E.
- **Valuation view:** We believe that the capital raising will be an important step in taking AXSB closer to its historical level of return ratios, albeit the journey will take a few years to complete. We believe that the growing proportion of retail franchise, de-risking of loan book and pursuing growth opportunities in the corporate working capital loan segment (+36% YoY in 2QFY18) will enable steady re-rating of the stock. We turn positive on AXSB from a medium-term perspective, and revise our PT to INR680, based on 2.3x Mar-20E ABV. We thus upgrade our rating to **Buy**.

## Exhibit 1: Old vs New estimates

INR b	Old Est.			Revised Est.			Estimates Chg		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	186.4	210.7	246.4	190.1	219.1	256.6	2.0	4.0	4.2
Other Income	127.6	143.5	165.0	127.6	143.5	165.0	0.0	0.0	0.0
<b>Total Income</b>	<b>314.0</b>	<b>354.2</b>	<b>411.4</b>	<b>317.7</b>	<b>362.6</b>	<b>421.6</b>	<b>1.2</b>	<b>2.4</b>	<b>2.5</b>
Operating Expenses	137.8	155.7	177.4	137.8	155.7	177.4	0.0	0.0	0.0
<b>Operating Profits</b>	<b>176.2</b>	<b>198.5</b>	<b>234.0</b>	<b>179.9</b>	<b>206.9</b>	<b>244.2</b>	<b>2.1</b>	<b>4.3</b>	<b>4.4</b>
Provisions	111.4	91.5	97.0	111.7	87.8	87.3	0.3	-4.0	-10.1
<b>PBT</b>	<b>64.7</b>	<b>107.0</b>	<b>136.9</b>	<b>68.1</b>	<b>119.1</b>	<b>156.9</b>	<b>5.2</b>	<b>11.4</b>	<b>14.6</b>
Tax	21.4	35.3	45.2	22.5	39.3	51.8	5.2	11.4	14.6
<b>PAT</b>	<b>43.4</b>	<b>71.7</b>	<b>91.8</b>	<b>45.6</b>	<b>79.8</b>	<b>105.1</b>	<b>5.2</b>	<b>11.4</b>	<b>14.6</b>
Loans	4,260	4,963	5,897	4,279	5,028	5,973	0.4	1.3	1.3
Deposits	4,620	5,341	6,324	4,620	5,341	6,324	0.0	0.0	0.0
Margins (%)	3.17	3.10	3.10	3.21	3.19	3.19	4	8	9
Credit Cost (%)	2.70	1.19	1.07	2.70	1.12	0.95	0	-7	-12
<b>RoA (%)</b>	<b>0.7</b>	<b>1.0</b>	<b>1.1</b>	<b>0.7</b>	<b>1.1</b>	<b>1.2</b>	<b>3.1</b>	<b>9.7</b>	<b>14.2</b>
<b>RoE (%)</b>	<b>7.6</b>	<b>11.6</b>	<b>13.3</b>	<b>7.3</b>	<b>10.8</b>	<b>12.7</b>	<b>-25.3</b>	<b>-72.9</b>	<b>-59.7</b>

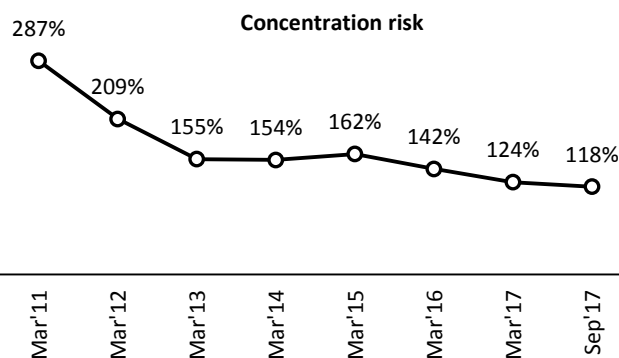
Source: Company, MOSL

## Exhibit 2: DuPont

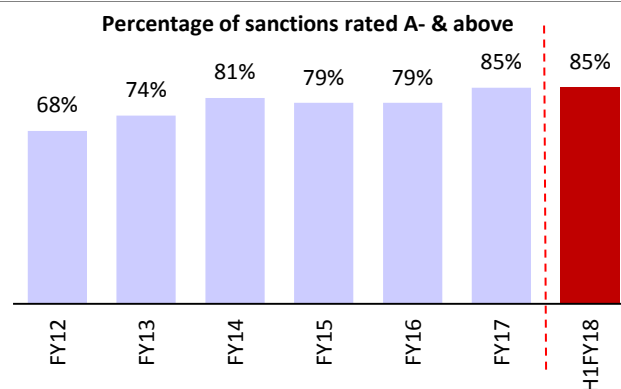
Y/E MARCH	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Interest Income</b>	<b>3.09</b>	<b>3.30</b>	<b>3.37</b>	<b>3.36</b>	<b>3.17</b>	<b>2.94</b>	<b>2.93</b>	<b>2.95</b>
Fee income	1.76	1.65	1.60	1.50	1.38	1.57	1.68	1.70
<b>Core Income</b>	<b>4.85</b>	<b>4.96</b>	<b>4.97</b>	<b>4.86</b>	<b>4.55</b>	<b>4.51</b>	<b>4.61</b>	<b>4.64</b>
<b>Operating Expenses</b>	<b>2.21</b>	<b>2.18</b>	<b>2.18</b>	<b>2.02</b>	<b>2.14</b>	<b>2.13</b>	<b>2.08</b>	<b>2.04</b>
Employee cost	0.76	0.72	0.74	0.67	0.68	0.68	0.66	0.65
Others	1.45	1.46	1.44	1.34	1.46	1.45	1.42	1.39
<b>Core Operating Profit</b>	<b>2.64</b>	<b>2.77</b>	<b>2.79</b>	<b>2.84</b>	<b>2.41</b>	<b>2.38</b>	<b>2.53</b>	<b>2.61</b>
<b>Non Interest income</b>	<b>2.09</b>	<b>2.05</b>	<b>1.98</b>	<b>1.87</b>	<b>2.05</b>	<b>1.97</b>	<b>1.92</b>	<b>1.89</b>
Trading and others	0.33	0.39	0.38	0.37	0.67	0.40	0.24	0.20
<b>Operating Profit</b>	<b>2.97</b>	<b>3.17</b>	<b>3.17</b>	<b>3.22</b>	<b>3.08</b>	<b>2.78</b>	<b>2.77</b>	<b>2.80</b>
<b>Provisions</b>	<b>0.56</b>	<b>0.58</b>	<b>0.55</b>	<b>0.74</b>	<b>2.12</b>	<b>1.73</b>	<b>1.17</b>	<b>1.00</b>
<b>PBT</b>	<b>2.41</b>	<b>2.58</b>	<b>2.62</b>	<b>2.47</b>	<b>0.96</b>	<b>1.05</b>	<b>1.59</b>	<b>1.80</b>
Tax	0.76	0.87	0.88	0.83	0.31	0.35	0.53	0.59
<b>RoA</b>	<b>1.65</b>	<b>1.72</b>	<b>1.74</b>	<b>1.64</b>	<b>0.64</b>	<b>0.71</b>	<b>1.07</b>	<b>1.21</b>
Leverage (x)	11.2	10.1	10.2	10.4	10.8	10.4	10.2	10.5
<b>RoE</b>	<b>18.5</b>	<b>17.4</b>	<b>17.8</b>	<b>17.1</b>	<b>6.9</b>	<b>7.3</b>	<b>10.8</b>	<b>12.7</b>

Source: Company, MOSL

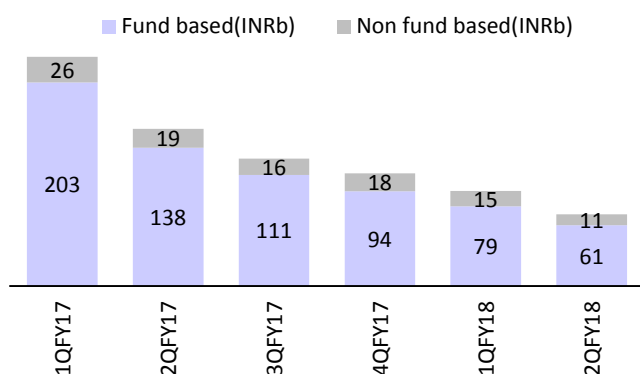
## Key charts

**Exhibit 3: Exposure to top 20 borrowers as % of Tier 1 capital has reduced significantly...**

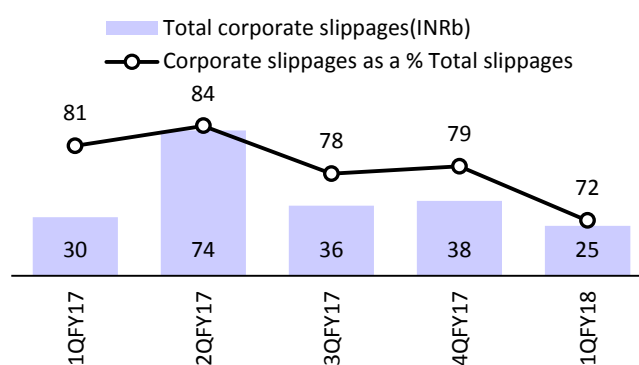
Source: Company, MOSL

**Exhibit 4: ...with incremental sanctions to better rated corporates**

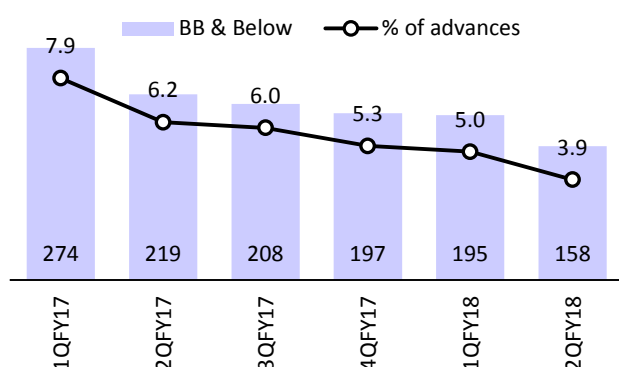
Source: Company, MOSL

**Exhibit 5: Watch-list has been declining successively since its inception**

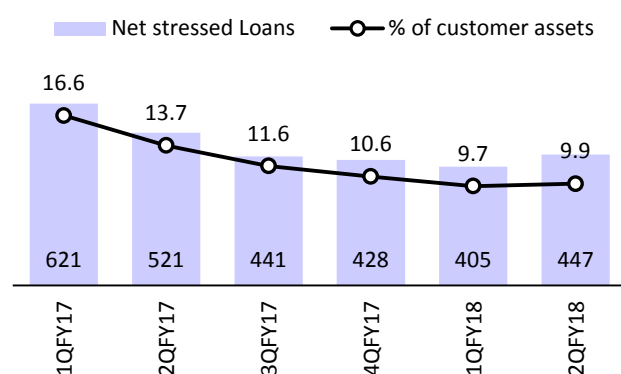
Source: Company, MOSL

**Exhibit 6: Trend in corporate slippage as % of total slippages**

Source: Company, MOSL

**Exhibit 7: BB and below pool has declined in last six quarters**

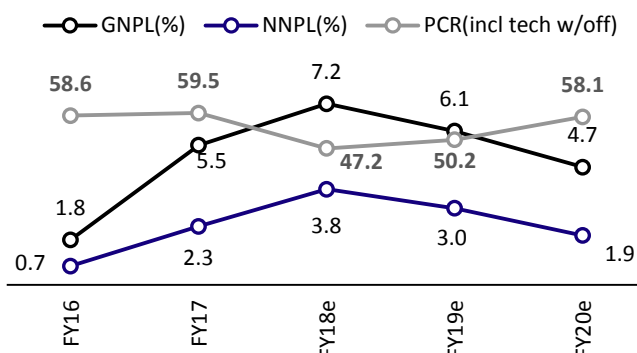
Source: Company, MOSL

**Exhibit 8: Trend in net stressed loans**

Source: Company, MOSL

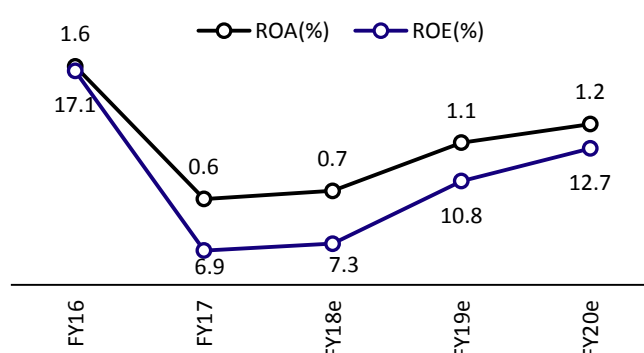
## Key charts

Exhibit 9: We expect NNPL ratio to decline to 1.9% by FY20E



Source: Company, MOSL

Exhibit 10: We expect RoA/RoE to recover to 1.2%/12.7% by FY20E, despite building in conservative credit cost



Source: Company, MOSL

Exhibit 11: Present shareholding

Shareholding	Mar'17	Sept'17
Promoter	28.8%	30.4%
SUUTI	11.5%	12.2%
LIC	13.8%	14.6%
GIC	1.7%	1.8%
New India assurance	1.1%	1.1%
National insurance co.	0.1%	0.1%
Oriental insurance co.	0.3%	0.3%
United India insurance	0.3%	0.3%
Foreign Investor	53.1%	54.9%
Overseas investors (including FII's/OCB's/NRI's)	48.5%	49.1%
FDI (GDR)	4.5%	5.8%
Domestic financial investor	6.9%	9.6%
Financial institutions/banks/MF's/NBFC	6.9%	9.6%
Others	11.3%	5.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company, MOSL

Exhibit 12: Issue of equity/ equity linked securities to prospective investors

Issue of new shares(Nos m)	Shares	warrants	Total
BC Asia investments	56	0	56
Integral investments South Asia	32	0	32
BC Asia investments III	0	40	40
New world fund Inc	6	3	9
Capital group new world fund (Lux)	0	0	0
American funds insurance series- Intl fund	5	2	8
Euro Pacific growth fund	43	0	43
American funds insurance series- Intl growth and income fund	1	0	1
LIC	30	0	30
<b>Total</b>	<b>173</b>	<b>45</b>	<b>218</b>

Source: Company, MOSL

## Financials and Valuation

Income Statement						(INR m)		
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	271,826	306,412	354,786	409,880	445,422	467,827	527,858	611,263
Interest Expense	175,163	186,895	212,545	241,551	264,490	277,688	308,731	354,673
<b>Net Interest Income</b>	<b>96,663</b>	<b>119,517</b>	<b>142,241</b>	<b>168,330</b>	<b>180,931</b>	<b>190,139</b>	<b>219,128</b>	<b>256,590</b>
Change (%)	20.6	23.6	19.0	18.3	7.5	5.1	15.2	17.1
Non Interest Income	65,511	74,052	83,650	93,715	116,913	127,552	143,496	165,021
<b>Net Income</b>	<b>162,174</b>	<b>193,569</b>	<b>225,892</b>	<b>262,044</b>	<b>297,844</b>	<b>317,691</b>	<b>362,624</b>	<b>421,610</b>
Change (%)	20.7	19.4	16.7	16.0	13.7	6.7	14.1	16.3
Operating Expenses	69,142	79,008	92,037	101,008	121,999	137,837	155,705	177,409
<b>Pre Provision Profits</b>	<b>93,031</b>	<b>114,561</b>	<b>133,854</b>	<b>161,036</b>	<b>175,845</b>	<b>179,854</b>	<b>206,919</b>	<b>244,202</b>
Change (%)	25.2	23.1	16.8	20.3	9.2	2.3	15.0	18.0
Provisions (excl tax)	17,504	21,075	23,286	37,099	121,170	111,732	87,800	87,267
<b>PBT</b>	<b>75,527</b>	<b>93,486</b>	<b>110,568</b>	<b>123,938</b>	<b>54,676</b>	<b>68,122</b>	<b>119,120</b>	<b>156,934</b>
Tax	23,733	31,310	36,991	41,701	17,883	22,480	39,309	51,788
Tax Rate (%)	31.4	33.5	33.5	33.6	32.7	33.0	33.0	33.0
<b>PAT</b>	<b>51,794</b>	<b>62,177</b>	<b>73,577</b>	<b>82,237</b>	<b>36,793</b>	<b>45,642</b>	<b>79,810</b>	<b>105,146</b>
Change (%)	22.1	20.0	18.3	11.8	-55.3	24.1	74.9	31.7
<b>Equity Dividend (Incl tax)</b>	<b>9,872</b>	<b>11,011</b>	<b>13,090</b>	<b>28</b>	<b>14,074</b>	<b>7,994</b>	<b>10,139</b>	<b>12,032</b>
<b>Core PPP*</b>	<b>84,383</b>	<b>109,446</b>	<b>122,207</b>	<b>149,245</b>	<b>142,288</b>	<b>140,793</b>	<b>165,663</b>	<b>202,701</b>
Change (%)	19.4	29.7	11.7	22.1	-4.7	-1.1	17.7	22.4

\*Core PPP is (NII+Fee income-Opex)

Balance Sheet						(INR m)		
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	4,680	4,698	4,741	4,766	4,790	5,141	5,231	5,231
Reserves & Surplus	326,399	377,506	442,024	512,837	538,795	684,543	777,188	870,302
<b>Net Worth</b>	<b>331,079</b>	<b>382,205</b>	<b>446,765</b>	<b>517,603</b>	<b>543,586</b>	<b>689,333</b>	<b>781,978</b>	<b>875,092</b>
<b>Deposits</b>	<b>2526,136</b>	<b>2809,446</b>	<b>3224,419</b>	<b>3579,676</b>	<b>4143,788</b>	<b>4620,324</b>	<b>5341,094</b>	<b>6323,855</b>
Change (%)	14.8	11.2	14.8	11.0	15.8	11.5	15.6	18.4
<b>of which CASA Dep</b>	<b>1120,998</b>	<b>1264,623</b>	<b>1444,003</b>	<b>1694,450</b>	<b>2130,500</b>	<b>2291,680</b>	<b>2681,229</b>	<b>3199,871</b>
Change (%)	22.6	12.8	14.2	17.3	25.7	7.6	17.0	19.3
Borrowings	439,511	502,909	797,583	1,085,804	1,050,309	1,305,960	1,549,569	1,780,003
Other Liabilities & Prov.	108,881	137,889	150,557	215,128	276,995	305,027	353,832	410,445
<b>Total Liabilities</b>	<b>3405,607</b>	<b>3832,449</b>	<b>4619,324</b>	<b>5398,210</b>	<b>6014,677</b>	<b>6920,644</b>	<b>8026,473</b>	<b>9389,395</b>
Current Assets	204,350	282,387	360,990	333,254	502,562	527,439	613,269	721,243
<b>Investments</b>	<b>1,137,375</b>	<b>1,135,484</b>	<b>1,175,502</b>	<b>1,315,241</b>	<b>1,287,934</b>	<b>1,562,493</b>	<b>1,768,328</b>	<b>2,004,845</b>
Change (%)	22.0	-0.2	3.5	11.9	-2.1	21.3	13.2	13.4
<b>Loans</b>	<b>1,969,660</b>	<b>2,300,668</b>	<b>2,810,830</b>	<b>3,387,737</b>	<b>3,730,693</b>	<b>4,279,105</b>	<b>5,027,949</b>	<b>5,973,203</b>
Change (%)	16.0	16.8	22.2	20.5	10.1	14.7	17.5	18.8
Fixed Assets	23,556	24,102	25,143	35,232	37,469	41,216	45,337	49,871
Other Assets	70,666	89,808	246,858	326,746	456,019	510,741	572,030	640,674
<b>Total Assets</b>	<b>3,405,607</b>	<b>3,832,449</b>	<b>4,619,324</b>	<b>5,398,210</b>	<b>6,014,677</b>	<b>6,920,995</b>	<b>8,026,914</b>	<b>9,389,836</b>

Asset Quality								
GNPA (INR m)	23,934	31,464	41,102	60,875	212,805	306,647	305,827	278,217
NNPA (INR m)	7,041	10,246	13,167	25,221	86,266	161,898	152,276	116,434
GNPA Ratio	1.21	1.36	1.45	1.78	5.52	7.17	6.08	4.66
NNPA Ratio	0.36	0.45	0.47	0.74	2.31	3.78	3.03	1.95
Slippage Ratio	1.19	1.29	1.24	2.61	6.43	5.00	2.75	2.00
PCR (Excl Tech. write off)	70.6	67.4	68.0	58.6	59.5	47.2	50.2	58.1

Source: Company, MOSL

## Financials and Valuation

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Spreads Analysis (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>9.3</b>	<b>9.1</b>	<b>9.2</b>	<b>9.1</b>	<b>8.9</b>	<b>7.9</b>	<b>7.7</b>	<b>7.6</b>
Avg. Yield on loans	10.5	10.3	10.1	9.7	9.3	9.1	8.8	8.7
Avg. Yield on Investments	7.5	7.3	7.3	7.5	7.4	7.0	6.8	6.7
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>6.4</b>	<b>6.0</b>	<b>5.8</b>	<b>5.6</b>	<b>5.4</b>	<b>5.0</b>	<b>4.8</b>	<b>4.7</b>
Avg. Cost of Deposits	6.4	5.8	5.7	5.4	5.1	4.7	4.7	4.6
<b>Interest Spread</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>
<b>Net Interest Margin</b>	<b>3.3</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.6</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Profitability Ratios (%)</b>								
RoE	18.5	17.4	17.8	17.1	6.9	7.3	10.8	12.7
RoA	1.7	1.7	1.7	1.6	0.6	0.71	1.1	1.2
Int. Expense/Int.Income	64.4	61.0	59.9	58.9	59.4	59.4	58.5	58.0
Non Int. Inc./Net Income	40.4	38.3	37.0	35.8	39.3	40.1	39.6	39.1
<b>Efficiency Ratios (%)</b>								
Cost/Income*	44.2	41.5	42.6	40.1	45.8	47.2	45.2	43.9
Empl. Cost/Op. Exps.	34.4	32.9	33.8	33.4	31.9	32.0	31.9	31.8
* ex treasury and Recoveries from written off a/c								
<b>Asset-Liability Profile (%)</b>								
Loans/Deposit Ratio	78.0	81.9	87.2	94.6	90.0	92.6	94.1	94.5
CASA Ratio	44.4	45.0	44.8	47.3	51.4	49.6	50.2	50.6
Investment/Deposit Ratio	45.0	40.4	36.5	36.7	31.1	33.8	33.1	31.7
G-Sec/Investment Ratio	63.5	60.9	69.1	71.9	70.3	72.2	72.2	72.2
CAR	17.0	16.1	15.1	15.3	15.0	17.7	16.8	15.6
Tier 1	12.2	12.6	12.1	12.5	11.9	13.8	13.2	12.3

### Valuation

Book Value (INR)	140.0	161.8	187.9	216.8	226.5	268.3	299.1	334.7
Change (%)	27.8	15.6	16.1	15.4	4.5	18.4	11.5	11.9
<b>Price-BV (x)</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>
Adjusted BV (INR)	138.0	158.9	184.3	209.9	203.1	205.3	240.9	290.2
<b>Price-ABV (x)</b>	<b>3.6</b>	<b>3.2</b>	<b>2.7</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>	<b>1.9</b>
EPS (INR)	22.1	26.5	31.0	34.5	15.4	18.4	30.8	40.2
Change (%)	7.8	19.6	17.3	11.2	-55.5	19.7	67.4	30.6
<b>Price-Earnings (x)</b>	<b>22.6</b>	<b>18.9</b>	<b>16.1</b>	<b>14.5</b>	<b>32.6</b>	<b>29.6</b>	<b>17.7</b>	<b>13.5</b>
Dividend Per Share (INR)	3.6	4.0	4.6	5.0	5.0	3.1	3.9	4.6
<b>Dividend Yield (%)</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>

Source: Company, MOSL

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