

**October 27, 2015**

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Rating	Accumulate
Price	Rs522
Target Price	Rs615
Implied Upside	17.8%
Sensex	27,253
Nifty	8,233

*(Prices as on October 27, 2015)*
**Trading data**

Market Cap. (Rs bn)	1,236.9
Shares o/s (m)	2,370.5
3M Avg. Daily value (Rs m)	4454.3

**Major shareholders**

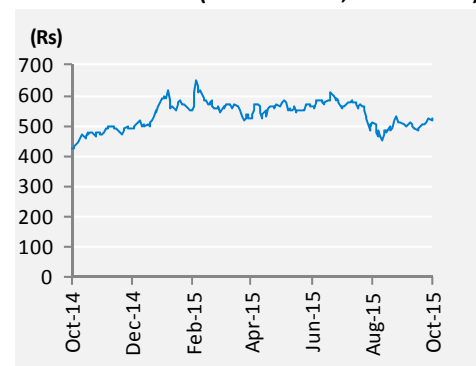
Promoters	29.19%
Foreign	44.51%
Domestic Inst.	13.35%
Public & Other	12.95%

**Stock Performance**

(%)	1M	6M	12M
Absolute	1.5	(0.5)	22.3
Relative	(3.8)	(0.7)	20.4

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2016	35.8	36.7	-2.6
2017	42.2	43.6	-3.0

**Price Performance (RIC: AXBK.BO, BB: AXSB IN)**


Source: Bloomberg

**Axis Bank (AXSB) reported steady quarter with PAT growing 19% YoY at Rs19.2bn (in line with our estimates) led by stable revenue growth and controlled provisions – aided by drawdown on floating provisions. Daily average CASA mix remained stable while margins surprisingly improved by 4bp QoQ to 3.85% led by improvement in international margins. Asset quality remained vulnerable with bank selling loans worth Rs18.2bn to ARC for Rs6.5bn while GNPLs/NNPLs increased by 5%/6% QoQ respectively. We expect stock to remain under pressure in near term but maintain positive stance from a medium term perspective.**

- NII growth on track; margins remain resilient:** AXSB reported 15% YoY growth in NII on the back of steady loan growth and buoyant margins at 3.85% (4bp QoQ expansion). NIM expansion was completely led by 30bp QoQ improvement in overseas NIM while domestic margins remain flat. Other income stood tepid at 5% YoY growth (adversely affected by 39% YoY decline in capital gains) while core fee income grew 14% YoY largely led by retail fees.
- Loan growth picks-up; retail mix remains stable at ~40%:** AXSB's retail franchise has grown stronger over the last two years on higher product penetration and focus on digital banking. The proportion of retail in the overall loan mix remains largely stable at 40.1% (40.5% in Q1FY16). Large corporate segment continues to report healthy growth trend (32% YoY).
- ARC sale helped preserve asset quality:** AXSB reported strong improvement in fresh slippages at Rs5.83 bn (Rs11.85 bn in Q1FY16) though ARC sale of Rs18.2bn (Rs6.5bn of sale consideration) diluted asset quality performance. AXSB did fresh restructuring of Rs4.63 bn (restructured book at 2.65%) and 5/25 refinancing of ~Rs15 bn while slippages from restructured assets amounted to Rs900 mn. Management maintained its credit cost guidance of 90bp, while has guided for lower stressed asset formation in FY16 (excluding the ARC sale). We maintain PT at Rs615; retain "ACCUMULATE".

Key financials ( Y/e March)	2014	2015	2016E	2017E
Net interest income (Rs m)	119,516	142,241	169,231	199,876
Growth (%)	23.6	19.0	19.0	18.1
Operating profit (Rs m)	114,561	133,854	164,805	195,944
PAT (Rs m)	62,177	73,578	84,750	100,109
EPS (Rs)	26.5	31.2	35.8	42.2
Growth (%)	12.8	17.6	14.7	18.1
Net DPS (Rs)	4.0	4.6	5.0	5.5

Profitability & Valuation	2014	2015	2016E	2017E
NIM (%)	3.30	3.37	3.35	3.28
RoAE (%)	17.4	17.8	17.6	17.8
RoAA (%)	1.72	1.74	1.68	1.64
P / BV (x)	3.2	2.8	2.4	2.0
P / ABV (x)	3.4	2.9	2.5	2.2
PE (x)	19.7	16.7	14.6	12.4
Net dividend yield (%)	0.8	0.9	1.0	1.1

Source: Company Data; PL Research

**Exhibit 1: Core performance in-line; asset sale to ARC helped preserve asset quality**

(Rs m)	Q2FY16	Q2FY15	YoY gr. (%)	Q1FY16	QoQ gr. (%)
Interest Income	99,596	86,024	15.8	99,361	0.2
Interest Expenses	58,975	50,775	16.1	58,799	0.3
<b>Net interest income (NII)</b>	<b>40,621</b>	<b>35,249</b>	<b>15.2</b>	<b>40,562</b>	<b>0.1</b>
Treasury income	1,675	2,750	(39.1)	6,460	(74.1)
Other income exc. Treasury	18,739	16,726	12.0	16,523	13.4
<b>Total income</b>	<b>61,035</b>	<b>54,725</b>	<b>11.5</b>	<b>63,545</b>	<b>(4.0)</b>
Operating expenses	24,755	23,102	7.2	22,624	9.4
-Staff expenses	8,293	7,860	5.5	8,093	2.5
-Other expenses	16,462	15,242	8.0	14,532	13.3
<b>Operating profit</b>	<b>36,280</b>	<b>31,623</b>	<b>14.7</b>	<b>40,921</b>	<b>(11.3)</b>
<b>Core operating profit</b>	<b>34,605</b>	<b>28,873</b>	<b>19.9</b>	<b>34,461</b>	<b>0.4</b>
Total provisions	7,072	7,250	(2.5)	11,218	(37.0)
<b>Profit before tax</b>	<b>29,208</b>	<b>24,373</b>	<b>19.8</b>	<b>29,703</b>	<b>(1.7)</b>
Tax	10,051	8,266	21.6	9,919	1.3
<b>Profit after tax</b>	<b>19,156</b>	<b>16,107</b>	<b>18.9</b>	<b>19,784</b>	<b>(3.2)</b>
<b>Balance sheet (Rs m)</b>					
Deposits	3,241,011	2,837,276	14.2	3,077,839	5.3
Advances	2,980,656	2,421,981	23.1	2,846,491	4.7
Gross NPL	44,511	36,135	23.2	42,512	4.7
Net NPL	15,436	11,798	30.8	14,613	5.6
Restructured Assets (Rs m)	84,260	66,900	25.9	85,150	(1.0)
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
RoaA	1.6	1.7	(9)	1.8	(14)
NIM	3.9	4.0	(12)	3.8	4
Yield on Advances	10.1	10.6	(45)	10.0	14
Cost of Funds	6.0	6.2	(20)	6.1	(13)
<b>Asset Quality</b>					
Gross NPL ratio	1.4	1.3	4	1.4	-
Net NPL ratio	0.5	0.4	4	0.5	-
Coverage ratio	65.3	67.4	(203)	65.6	(31)
Rest. assets/ Total adv.	2.8	2.8	6	3.0	(16)
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	44.0	45.0	(100)	43.0	100
Cost-income ratio	40.6	42.2	(165)	35.6	496
Non int. inc / total income	33.4	35.6	(214)	36.2	(272)
Credit deposit ratio	92.0	85.4	660	92.5	(52)
CAR	15.4	15.9	(48)	15.1	37
Tier-I	12.2	12.6	(36)	12.2	6

Source: Company Data, PL Research

## Key Q2FY16 Concall Highlights:

### Assets & Liability franchise:

- **Loan book – Outlook** – Continue to maintain 20% loan growth for FY16.
- **Retail loan book** – 40% of retail business driven from branches, while 2/3<sup>rd</sup> of existing liability customer contributes to cross sell of retail assets.
- **Corporate loan book** – Seen good demand towards refinancing of loans as 80% of fresh sanctions happening in “A & above” rating. **Iron & Steel** – Have 3.8% exposure to this sector and 65% of which are rated “A & Above”. Increase in iron & steel has been to quality corporate with strong balance sheet.
- **Liabilities** – Seeing some outflows from Government business in the CASA profile but should stabilize. Government share in CASA has gone <15%.
- **Other B/s highlights** – (i) Average LCR at 78% in domestic business (ii) Overseas advances share at 16% in total advances

### NIMs:

- Margins were at 3.85% in Q2FY16. **Composition of margins** - Domestic NIMs at 4.11%, while International NIMs at 1.60%. **Outlook** - Margins in FY16 are likely to be well above the medium term target of 3.5%, despite base rate cut effect to reflect in Q3FY16 (has cut base by 35bps in Oct’15).

### Fees:

- Continue to see traction from retail which contributes 40% to total fee income. **Outlook** – Fee income likely to grow in mid-teens for FY16.

### Opex & Branches:

- Added 154 branches in Q2FY16 and maintain guidance to add 250-300 branches in FY16. Branch expansion strategy has helped maintain CASA growth and grow retail assets.

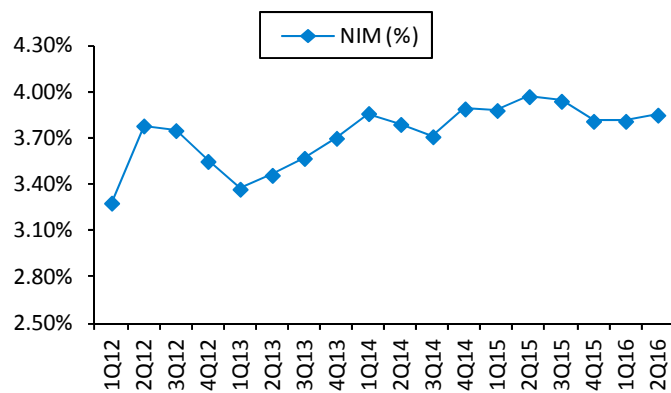
### Asset Quality:

- **Stressed asset accretion** – Slippages were Rs 5.83bn in Q2FY16 of which Rs900mn slipped from restructured book and another a/c of Rs1.66bn had slipped into NPA but recovered assets in Q2FY16 and does not reflect in fresh slippages. Credit cost for H1FY16 is at 92bps.
- **Sale to ARC** – Sold two a/c to ARC for Rs6.5bn (SRs & Cash) with exposure of Rs18.2bn as Bank did not see near term solution for reviving the assets. Provided Rs3.36bn as NPA provision & utilized Rs8bn of floating provisions on asset sold to ARC and now holding contingent provisions of Rs4.0bn. **Restructured book** – Restructured Rs4.63bn mainly on DCCO movement, while upgraded Rs5.0bn of assets. **Refinancing of loans** – Refinanced Rs15bn of two assets.
- **Outlook & guidance** – Continue to maintain 90bps of credit cost in FY16 (guidance excl. utilization of contingent provisions)

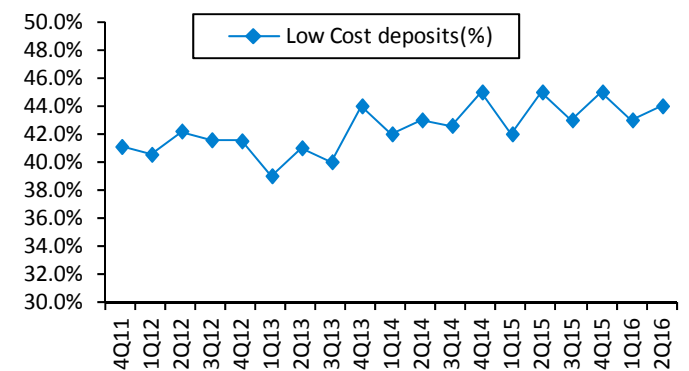
**Exhibit 2: Corporate & Retail continue to drive growth**

(Rs m)	Q2FY16	Q2FY15	YoY gr. (%)	Q1FY15	QoQ gr. (%)
Large & mid-corporate	1,385,490	1,101,760	25.8	1,295,660	6.9
SME Advances	400,680	377,010	6.3	398,790	0.5
Retail	1,194,480	902,770	32.3	1,152,040	3.7
- Housing Loans & LAP	668,909	550,690	21.5	645,142	3.7
- Personal loans	119,448	67,708	76.4	115,204	3.7
- Auto loans	95,558	81,249	17.6	92,163	3.7

Source: Company Data, PL Research

**Exhibit 3: Margins have held up well on benefit from cost of funds despite bank cutting base rate**


Source: Company Data, PL Research

**Exhibit 4: CASA on daily average basis remains stable at 40% with growth of ~14% YoY**


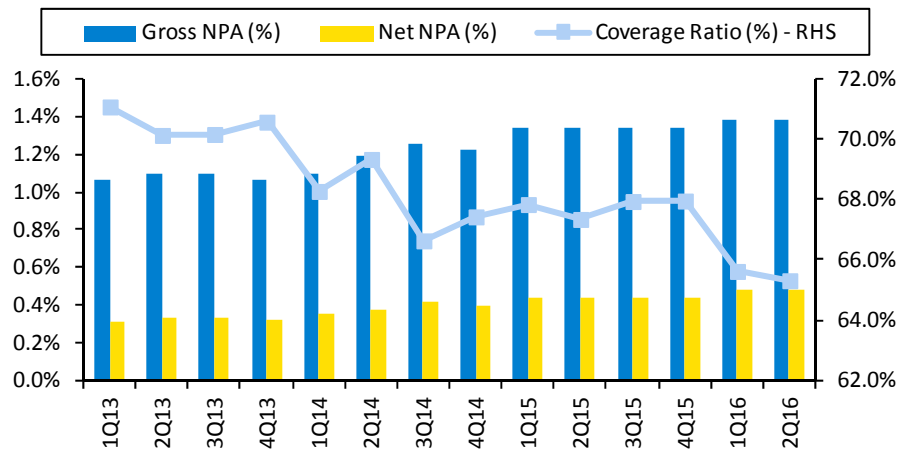
Source: Company Data, PL Research

**Exhibit 5: Stressed asset accretion was lower than Q1FY16 (excl. ARC asset sold of Rs18.2bn); bank continues to guide lower stress assets accretion than FY15**

(Rs M)	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Gross slippages	5,890	3,010	6,260	9,110	7,080	6,650	11,850	5,830
Recoveries+ Up gradations	1,220	1,490	970	1,640	2,250	1,880	1,200	1,800
Write-offs	1,930	140	2,120	5,970	1,940	2,140	9,250	2,574
<b>Slippages (%)</b>	<b>1.14%</b>	<b>0.52%</b>	<b>1.09%</b>	<b>1.54%</b>	<b>1.13%</b>	<b>0.98%</b>	<b>1.68%</b>	<b>0.80%</b>
<b>O/s Restructured book</b>	<b>49,000</b>	<b>60,790</b>	<b>62,890</b>	<b>66,900</b>	<b>68,080</b>	<b>81,660</b>	<b>85,150</b>	<b>84,260</b>
Addition in the qtr	6,700	11,150	4,800	5,700	1,320	15,400	7,400	4,630
% of loan book	2.37%	2.64%	2.73%	2.83%	2.40%	2.7%	2.8%	2.7%
<b>Stressed asset accretion</b>	<b>12,590</b>	<b>14,160</b>	<b>11,060</b>	<b>14,810</b>	<b>8,400</b>	<b>22,050</b>	<b>19,250</b>	<b>10,460</b>

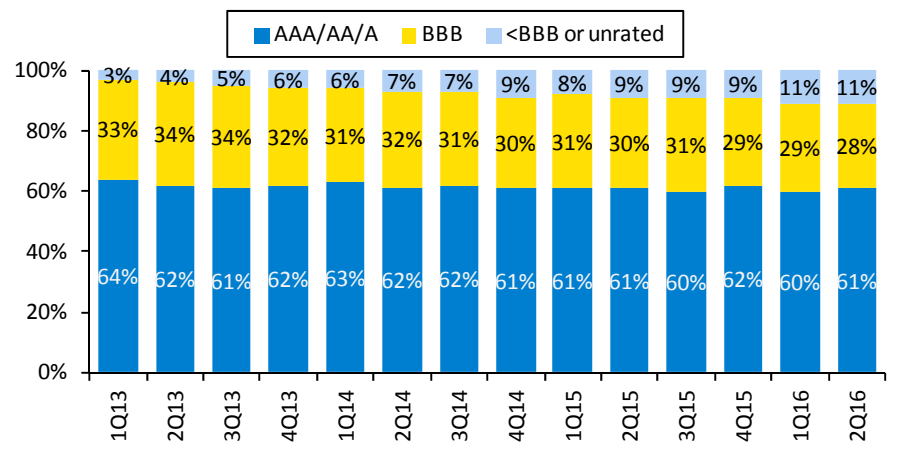
Source: Company Data, PL Research

**Exhibit 6: Asset quality largely stable on lower slippages & sale to ARC**



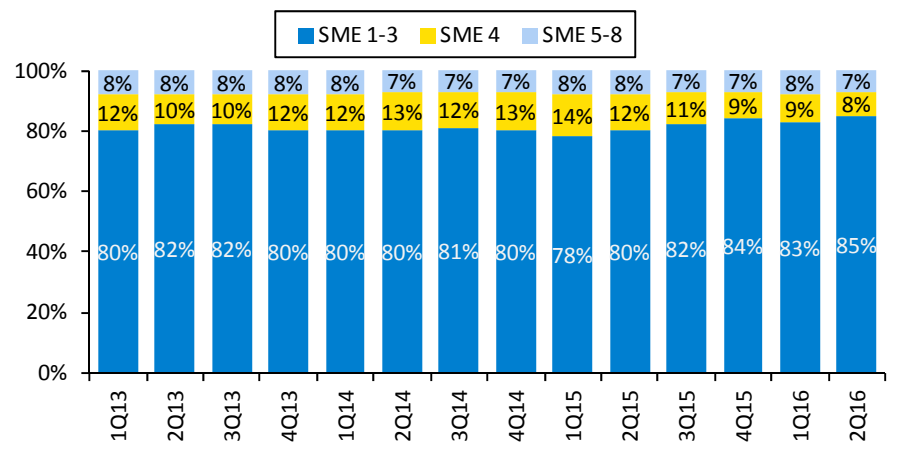
Source: Company Data, PL Research

**Exhibit 7: Marginal improvement in rating profile from BBB to AAA/AA/A**



Source: Company Data, PL Research

**Exhibit 8: SME profile also sees rating profile improvement**

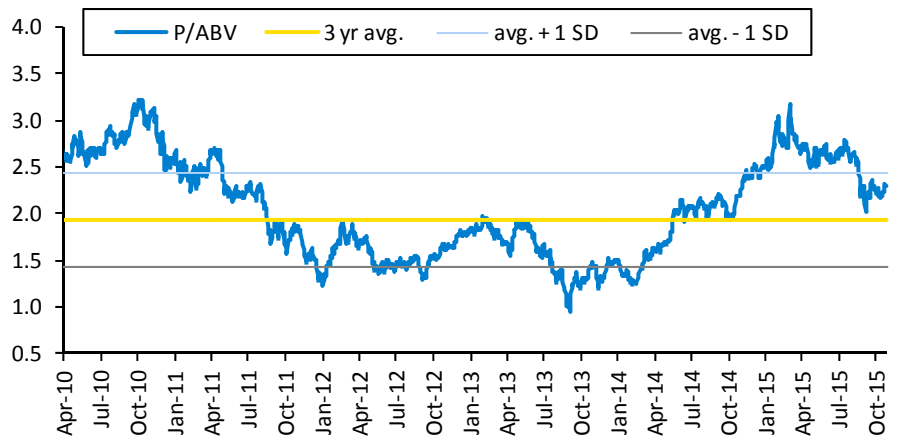


Source: Company Data, PL Research

**Exhibit 9: We maintain our target price to Rs615 based on 2.6x Mar-17 ABV**
**PT calculation and upside**

Fair price - EVA	606
Fair price - P/ABV	625
<b>Average of the two</b>	<b>615</b>
<b>Target P/ABV</b>	<b>2.6</b>
<b>Target P/E</b>	<b>14.6</b>
Current price, Rs	521
<b>Upside (%)</b>	<b>18%</b>
Dividend yield (%)	0.9%
<b>Total return (%)</b>	<b>19%</b>

Source: Company Data, PL Research

**Exhibit 10: AXSB – Historical P/ABV trends**


Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2014	2015	2016E	2017E
Int. Earned from Adv.	219,504	258,678	305,821	366,963
Int. Earned from Inv.	83,431	91,171	106,673	128,379
Others	3,476	4,937	5,818	6,994
Total Interest Income	306,412	354,786	418,312	502,336
Interest expense	186,895	212,545	249,082	302,460
<b>NII</b>	<b>119,516</b>	<b>142,241</b>	<b>169,231</b>	<b>199,876</b>
<i>Growth (%)</i>	23.6	19.0	19.0	18.1
Treasury Income	3,276	9,949	—	—
NTNII	70,776	73,701	102,890	123,468
Non Interest Income	74,052	83,650	102,890	123,468
Total Income	380,464	438,436	521,203	625,804
<i>Growth (%)</i>	12.8	15.2	18.9	20.1
Operating Expense	79,008	92,037	107,315	127,400
<b>Operating Profit</b>	<b>114,561</b>	<b>133,854</b>	<b>164,805</b>	<b>195,944</b>
<i>Growth (%)</i>	23.1	16.8	23.1	18.9
NPA Provisions	12,960	17,886	23,168	26,212
Investment Provisions	(1,003)	(510)	(204)	(82)
Total Provisions	21,075	23,286	38,312	46,528
<b>PBT</b>	<b>93,486</b>	<b>110,568</b>	<b>126,493</b>	<b>149,416</b>
Tax Provisions	31,310	36,990	41,743	49,307
<i>Effective Tax Rate (%)</i>	33.5	33.5	33.0	33.0
<b>PAT</b>	<b>62,177</b>	<b>73,578</b>	<b>84,750</b>	<b>100,109</b>
<i>Growth (%)</i>	20.0	18.3	15.2	18.1

**Balance Sheet (Rs m)**

Y/e March	2014	2015	2016E	2017E
Par Value	2	2	2	2
No. of equity shares	2,349	2,371	2,371	2,371
Equity	4,698	4,741	4,741	4,741
Networth	382,205	446,765	518,661	603,776
Adj. Networth	371,604	432,586	499,911	582,188
Deposits	2,809,446	3,224,419	3,753,224	4,545,154
<i>Growth (%)</i>	11.2	14.8	16.4	21.1
Low Cost deposits	1,264,623	1,444,003	1,580,107	1,913,510
<i>% of total deposits</i>	45.0	44.8	42.1	42.1
<b>Total Liabilities</b>	<b>3,832,449</b>	<b>4,619,324</b>	<b>5,486,594</b>	<b>6,705,861</b>
Net Advances	2,300,668	2,810,830	3,367,375	4,121,667
<i>Growth (%)</i>	16.8	22.2	19.8	22.4
Investments	1,135,484	1,323,428	1,555,093	1,906,858
<b>Total Assets</b>	<b>3,832,449</b>	<b>4,619,324</b>	<b>5,486,594</b>	<b>6,705,861</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Interest Income	88,897	96,971	99,361	99,596
Interest Expense	53,002	58,978	58,799	58,975
<b>Net Interest Income</b>	<b>35,896</b>	<b>37,992</b>	<b>40,562</b>	<b>40,621</b>
Non Interest Income	20,391	26,873	22,983	20,414
CEB	16,864	21,240	15,510	18,130
Treasury	3,290	2,750	6,460	1,675
<b>Net Total Income</b>	<b>56,286</b>	<b>64,866</b>	<b>63,545</b>	<b>61,035</b>
Operating Expenses	23,140	24,737	22,624	24,755
Employee Expenses	7,785	7,988	8,093	8,293
Other Expenses	15,356	16,749	14,532	16,462
<b>Operating Profit</b>	<b>33,146</b>	<b>40,129</b>	<b>40,921</b>	<b>36,280</b>
Core Operating Profit	29,856	37,379	34,461	34,605
Provisions	5,072	7,098	11,218	7,072
Loan loss provisions	4,460	4,990	8,700	6,340
Investment Depreciation	(190)	(120)	270	732
<b>Profit before tax</b>	<b>28,075</b>	<b>33,031</b>	<b>29,703</b>	<b>29,208</b>
Tax	9,077	11,225	9,919	10,051
<b>PAT before EO</b>	<b>18,998</b>	<b>21,806</b>	<b>19,784</b>	<b>19,156</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>18,998</b>	<b>21,806</b>	<b>19,784</b>	<b>19,156</b>

**Key Ratios**

Y/e March	2014	2015	2016E	2017E
CMP (Rs)	522	522	522	522
Equity Shrs. Os. (m)	2,349	2,371	2,371	2,371
Market Cap (Rs m)	1,225,825	1,236,938	1,236,938	1,236,938
<i>M/Cap to AUM (%)</i>	32.0	26.8	22.5	18.4
EPS (Rs)	26.5	31.2	35.8	42.2
Book Value (Rs)	163	188	219	255
Adj. BV (100%) (Rs)	155	179	207	241
P/E (x)	19.7	16.7	14.6	12.4
P/BV (x)	3.2	2.8	2.4	2.0
P/ABV (x)	3.4	2.9	2.5	2.2
DPS (Rs)	4.0	4.6	5.0	5.5
<i>Dividend Yield (%)</i>	0.8	0.9	1.0	1.1

**Profitability (%)**

Y/e March	2014	2015	2016E	2017E
NIM	3.3	3.4	3.3	3.3
RoAA	1.7	1.7	1.7	1.6
RoAE	17.4	17.8	17.6	17.8

**Efficiency**

Y/e March	2014	2015	2016E	2017E
<i>Cost-Income Ratio (%)</i>	40.8	40.7	39.4	39.4
<i>C-D Ratio (%)</i>	81.9	87.2	89.7	90.7
Business per Emp. (Rs m)	120	124	127	134
Profit per Emp. (Rs lacs)	14.7	15.1	15.1	15.5
Business per Branch (Rs m)	2,127	2,185	2,242	2,372
Profit per Branch (Rs m)	26	27	27	27

**Asset Quality**

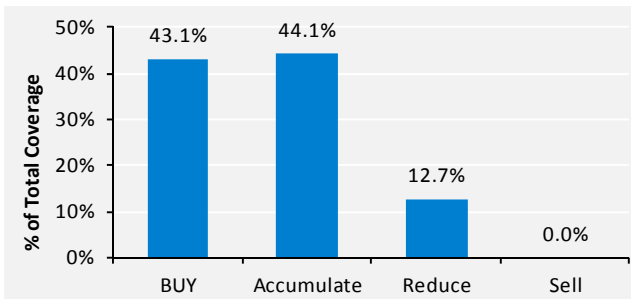
Y/e March	2014	2015	2016E	2017E
Gross NPAs (Rs m)	31,464	41,102	49,400	57,882
Net NPAs (Rs m)	10,601	14,179	18,750	21,588
<i>Gr. NPAs to Gross Adv. (%)</i>	1.4	1.5	1.5	1.4
<i>Net NPAs to Net Adv. (%)</i>	0.5	0.5	0.6	0.5
<i>NPA Coverage (%)</i>	66.3	65.5	62.0	62.7

Source: Company Data, PL Research.

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**Rating Distribution of Research Coverage****PL's Recommendation Nomenclature**

<b>BUY</b>	:	Over 15% Outperformance to Sensex over 12-months
<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
<b>Reduce</b>	:	Underperformance to Sensex over 12-months
<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	:	Over 10% absolute upside in 1-month
<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
<b>Under Review (UR)</b>	:	Rating likely to change shortly

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