7 February 2019
Update | Sector: Financials

Axis Bank

BSE SENSEX	S&P CNX
36,971	11,069

CMP: INR729 TP: INR850 (+17%) Buy

Clear vision, strong execution to drive re-rating

Three-pronged strategy to achieve 18% RoE by FY22

- **With a new CEO at its helm, AXSB has charted a three pronged strategy of growth, profitability, and sustainability for FY20-22. The bank has identified credit cost, opex and business mix as the three key growth drivers to enable it to achieve 18% RoE by FY22.**
- **Our long-term analysis of provisioning indicates that credit cost moved to the other extreme following the turnaround in the NPL cycle. After a bad credit cycle in FY00-04, AXSB reported a sharp improvement in credit cost from 2.9% in FY04 to 13bp in the following year.**
- **We believe in AXSB's focus to deliver long-term sustainable growth, expecting earnings to accelerate from FY20. We, thus, expect RoA/RoE to improve to 1.3%/16.1% by FY21. We revise our PT to INR850 (2.5x FY21E ABV + INR44 per share for subs). Reiterate Buy.**

New CEO – new cycle – new valuation ride

AXSB has witnessed multiple changes in its top management team (including shuffling of existing roles and responsibilities); right from the time Mr. Amitabh Chaudhry came on board as the new MD & CEO. AXSB recently highlighted that all required vacancies would be filled by FY19 and thereon, the bank will be fully equipped for growth and to deliver superior returns to stakeholders. We believe that the de-risked loan portfolio, a competent and young CEO (one of the youngest amongst large banks) with a very credible track record at HDFC Life, along with reversal in provisioning cycle will drive sharp expansion in valuation multiples for AXSB over the next few years.

Changing contours — retail mix improves to ~50% (30% a decade ago)

AXSB started its journey as a corporate bank and has made significant progress in building a strong retail franchise. A decade ago, Corporate/SME segments accounted for ~70% of total loans. Currently, the share of these two segments has steadily declined to ~50%, as the bank is focused on retail assets and has added significant granularity to its loan book. The growth in retail assets was driven by smaller ticket sized loans such as vehicle loans, personal loans and credit cards, even as AXSB consciously slowed growing its housing portfolio owing to lower profitability in the segment.

Retail franchise strengthens; business metrics set to improve

- On the liability side, share of CASA and retail term deposits were largely stable at ~80%, which helped the bank to better control its funding cost, particularly in a rising interest rate scenario.
- The migration of loan book to MCLR has stabilized with ~56% of the book now linked to MCLR. Moreover, 64% of the MCLR book is linked to 3m/6m MCLR, enabling quicker re-pricing of the lending portfolio and driving margin expansion.

Stock Info

Bloomberg	AXSB IN
Equity Shares (m)	2,570
M.Cap.(INRb)/(USDb)	1874.5 / 26.2
52-Week Range (INR)	734 / 478
1, 6, 12 Rel. Per (%)	11/21/22
12M Avg Val (INR M)	6021
Free float (%)	77.0

Financials Snapshot (INR b)

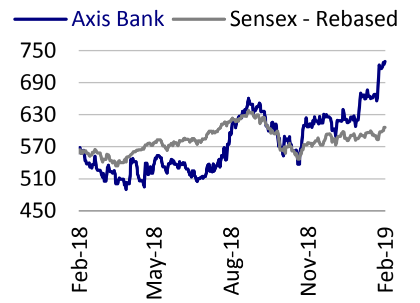
Y/E March	FY19E	FY20E	FY21E
NII	215.5	254.8	305.3
OP	184.9	228.4	282.6
NP	48.0	103.4	136.4
NIM (%)	3.1	3.1	3.1
EPS (INR)	18.5	39.6	52.2
EPS Gr. (%)	NM	113.5	32.0
BV/Sh. (INR)	266.2	301.2	347.7
ABV/Sh. (INR)	228.4	270.5	322.0
RoE (%)	7.2	13.9	16.1
RoA (%)	0.6	1.2	1.3
Valuations			
P/E(X)	39.3	18.4	14.0
P/BV (X)	2.7	2.4	2.1
P/ABV (X)	3.2	2.7	2.3

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	23.1	25.0	26.7
DII	19.0	14.8	13.8
FII	48.7	51.7	50.5
Others	9.3	8.5	9.1

FII Includes depository receipts

Stock Performance (1-year)



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- Retail/transaction banking fees now forms ~80% of AXSB's total fees, signifying the granularity of fee income. This is driven by cards/third party distribution fees, which together constitutes 34% of total fees. This coupled with the gradual revival in corporate banking fees is likely to further boost overall fees.
- AXSB has been focusing on the cross-selling strategy with ~96%/93% of credit cards/personal loans being extended to existing customers. The efficient use of data analytics has helped to increase volumes in several retail segments, and to maintain strong control on delinquencies and operating expenses.

Ushering a new provisioning cycle; will we move to the other extreme?

Our long-term analysis of provisioning indicates that credit cost has moved to the other extreme following the turnaround in the NPL cycle. We note that after a bad credit cycle in FY00-04, AXSB reported a sharp improvement in credit cost from 2.9% in FY04 to 13bp in the following year. The moderation in credit cost is generally accompanied by a pick-up in loan growth and vice-versa. While the current credit cycle is already showing signs of peaking out, the street estimate on credit cost (including us, details in exhibit 24) still remains elevated at ~110bp, which is far higher than the credit cost seen in benign cycle periods.

Asset quality continues to improve; power NPLs are well provided

BB and below pool that accounts for ~90% of corporate slippage (98% in 3QFY19) has declined to INR76.5b (1.6% of loans, lowest amongst peers). AXSB has recognised higher stress in power sector vs peers (details inside) and it also carries healthy PCR of 58% on such assets. The overall coverage ratio has improved to 75% (86% coverage on NCLT assets) which will further curb incremental requirement. AXSB has also made contingent provisions of INR6b, which gives it an added cushion to provide for incremental slippages without disrupting the credit cost trajectory.

Warrant conversion to aid capitalization levels; scenario analysis shows up to 11% boost to BV from potential capital raise

AXSB currently has Tier-1 ratio of ~13% (CET 1 of 11.7%) while total CAR stands at 16.5%. Post warrant conversion (conversion price is INR565, due date: 1QFY20), Tier-1 levels will increase by ~40bp, but, will still remain lower than peers. The banks RWA/Total assets continue to improve from ~80% in 1QFY18 to 71% in 3QFY19, as 94% of sanctions in 9MFY19 were to corporates rated A- and above. Our scenario analysis suggests that capital levels could increase by ~216bp/180bp for FY20/FY21, resulting in 11%/8% increase in the book values (details – exhibit 30).

Clear vision and strong execution to drive re-rating

AXSB disclosed its FY20-22 strategy with the key vectors being **(i) Growth, (ii) Profitability,** and **(iii) Sustainability.** The bank aims to deliver 18% RoE over the medium term, led by reducing credit cost below its long-term average, improving operating efficiency and optimizing business mix. We believe in the management's focus of delivering long-term sustainable growth, expecting earnings to accelerate from FY20 onwards, driving further re-rating of the stock.

Valuation and view

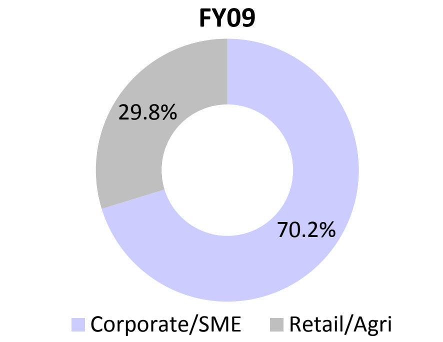
AXSB has delivered a strong performance with multi-quarter high earnings. With a capable management team in place and an improving credit cost/margins outlook, we believe the bank is likely to see earnings acceleration in the coming years. AXSB has already increased PCR to 75%, which should curb incremental provisioning requirement. We, thus, expect RoA/RoE to improve to 1.3%/16.1% by FY21. We roll forward our estimates to FY21 and revise our target price to INR850 (2.5x FY21E ABV for the bank + INR44 per share for subsidiaries). We reiterate AXSB as one of our top **Buys** in the banking sector.

Changing contours — retail mix improves to ~50% (30% a decade ago)

AXSB started its journey as a corporate bank and has made significant progress in building a strong retail franchise. A decade back, Corporate/SME segments accounted for ~70% of total loans. Currently, the share of these two segments has steadily declined to ~50%, as the bank is focused on retail assets and on adding significant granularity to its loan book. The growth in retail assets was driven by smaller ticket sized loans such as vehicle loans, personal loans and credit cards, even as AXSB consciously slowed growing its housing portfolio owing to lower profitability in the segment.

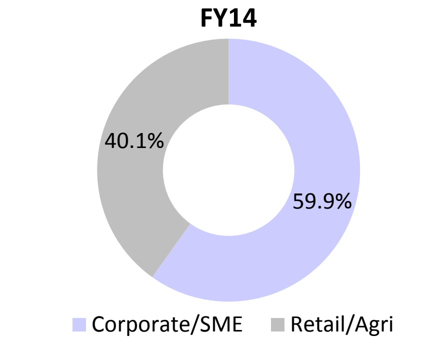
Changing face of the loan mix

Exhibit 1: Corporate/SME constituted ~70% of the total loan mix in FY09…



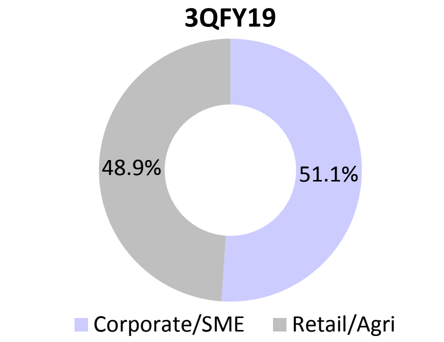
Source: MOSL, Company

Exhibit 2: …which declined gradually to ~60% in FY14…



Source: MOSL, Company

Exhibit 3: …while retail/SME mix increased to ~49% in 3QFY19



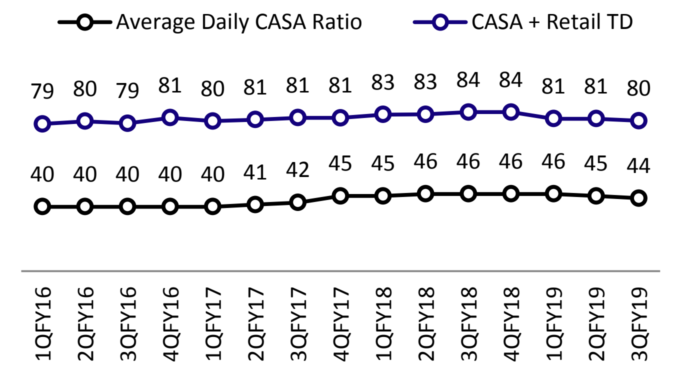
Source: MOSL, Company

~64% of the MCLR book is linked to 3m/6m MCLR

Retail franchise strengthens; margin cycle exhibits recovery signs

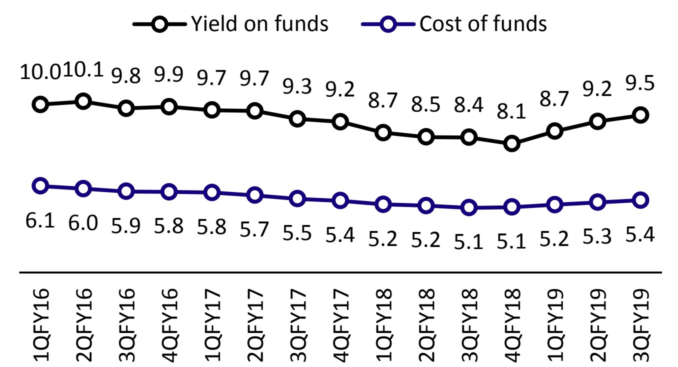
On the liability side, share of CASA and retail term deposits have been largely stable at ~80%, which has helped the bank to better control its funding cost, particularly in a rising interest rate scenario. The migration of loan book to MCLR has stabilized with ~56% of the book now linked to MCLR v/s 12% on base rate. Moreover, 64% of the MCLR book is linked to 3m/6m MCLR, enabling quicker re-pricing of the lending portfolio and driving margin expansion. AXSB has raised its one-year MCLR by 60bp in the last 12 months.

Exhibit 4: CASA + Retail TD constitutes ~80% of the total deposits, enabling stronger control over cost of funds



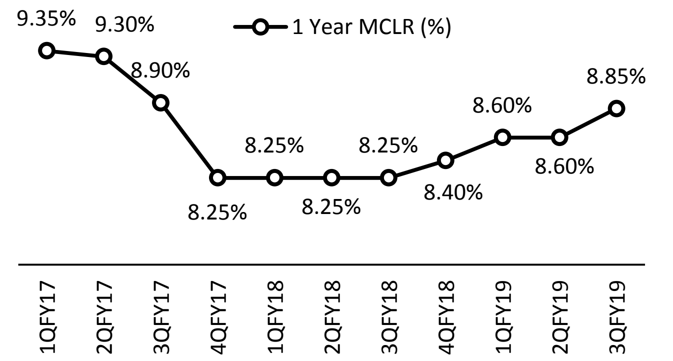
Source: Company, MOSL

Exhibit 5: Spreads have started rising on the back of MCLR increase, change in asset mix and controlled CoF



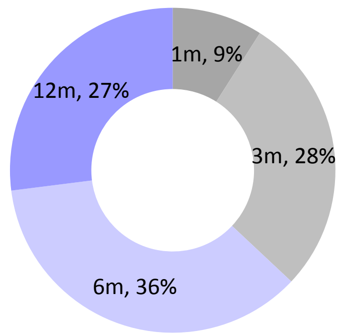
Source: Company, MOSL

Exhibit 6: Bank has raised its 1-year MCLR by 60bp in the last 12 months (56% of the book is linked to MCLR)



Source: Company, MOSL

Exhibit 7: ~64% of the MCLR book is linked to 3m/6m MCLR, thus enabling quicker re-pricing of the portfolio

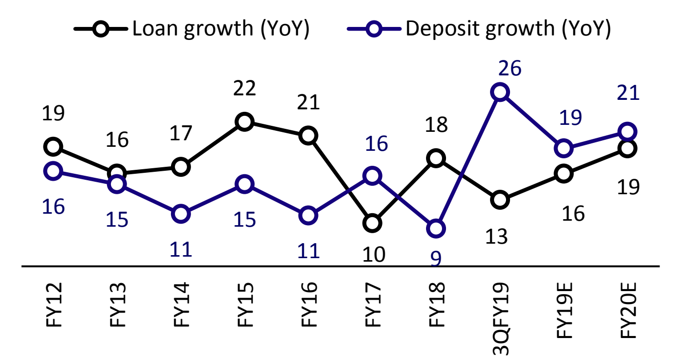


Source: Company, MOSL

Loan growth driven by retail segment; overseas mix declines to ~9%

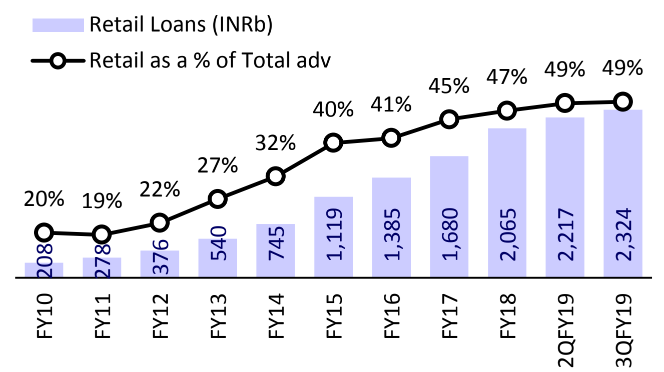
- AXSB grew its loan book at a CAGR of 16% over FY15-18, driven largely by its retail book that grew at a CAGR of 23% over the same period, while corporate growth was muted at 11%.
- The contribution of retail book to total book increased to 49% (300bp YoY increase) as against 32% in FY14, even as it consciously lowered housing loan mix in the overall retail mix to 47% v/s 50% last year.
- Growth in retail loans was driven by personal loans/vehicle loans, which grew at a CAGR of 38%/36% over FY15-18, while credit cards grew at a robust rate of 55%. Growth in home loans was muted at 17%.
- **Retail loan growth (ex-home loans)** for AXSB stood higher in comparison to its peers (Refer exhibit 7). Thus, with increased contribution from the high yielding book, we expect margins to improve.
- Mix of overseas loans has declined from 16.3% in FY15 to 9.2% in 3QFY19.

Exhibit 8: We expect 19%/20% loan/deposit CAGR over FY18-21E



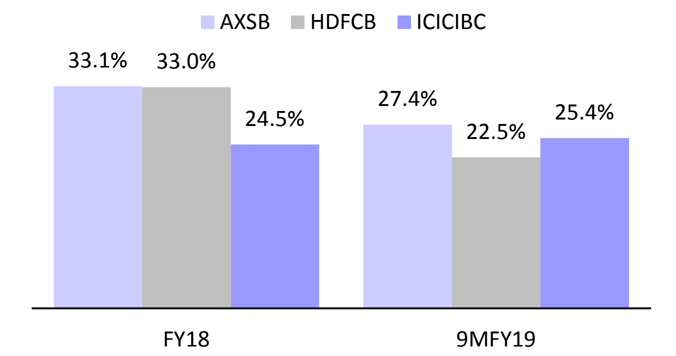
Source: Company, MOSL

Exhibit 9: Retail loans have grown at 23% CAGR over FY15-FY18 as against 16% CAGR in total loans



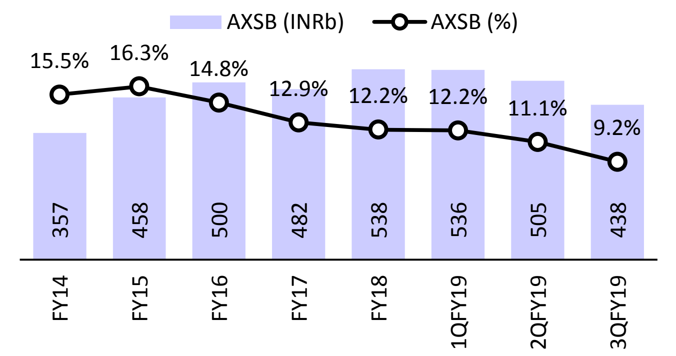
Source: Company, MOSL

Exhibit 10: AXSB has reported one of the fastest growth in retail assets (excluding home loans)



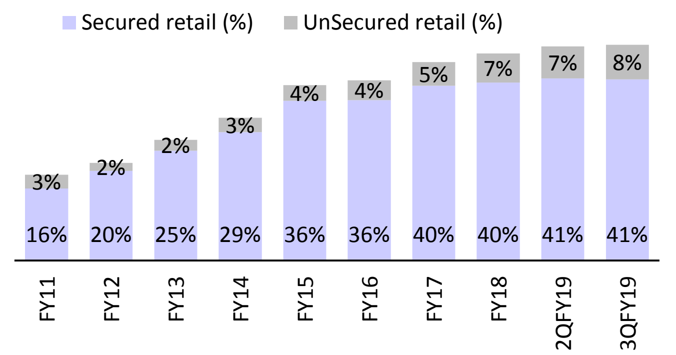
Source: Company, MOSL

Exhibit 11: Proportion of overseas loans has declined to 9.2% v/s 16.3% in FY15



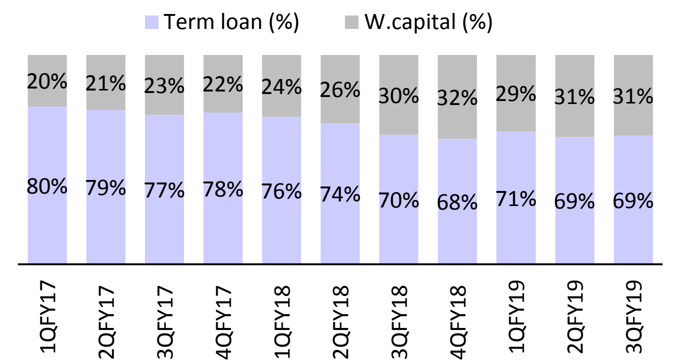
Source: Company, MOSL

Exhibit 12: Within retail, majority of the loans are secured in nature



Source: Company, MOSL

Exhibit 13: Proportion of term loans (large & mid corporate) has declined significantly to 69% from 80% in 1QFY17



Source: Company, MOSL

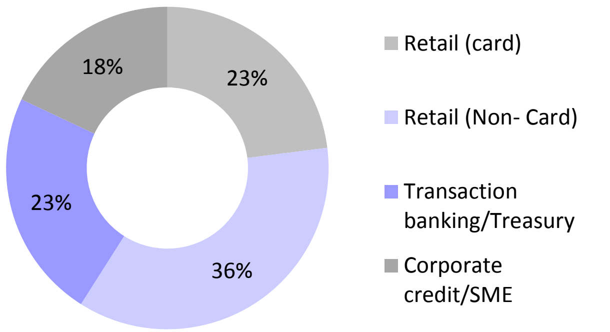
AXSB is the fourth largest credit card issuer with a market share of 12.1%

Fee income highly granular; credit cards constitute ~23% of total fees

Retail and transaction banking fees now contribute ~82% to the total fees, signifying the granularity of the fee income. This is primarily driven by cards that grew at 23% YoY and third party distribution fees that grew at 13% YoY; constituting 34% of the total fees (Cards + third party distribution). Fees from transaction banking/treasury grew at 18% YoY. The gradual revival in corporate banking fees along with a pick-up in credit cycle is likely to further boost overall fees.

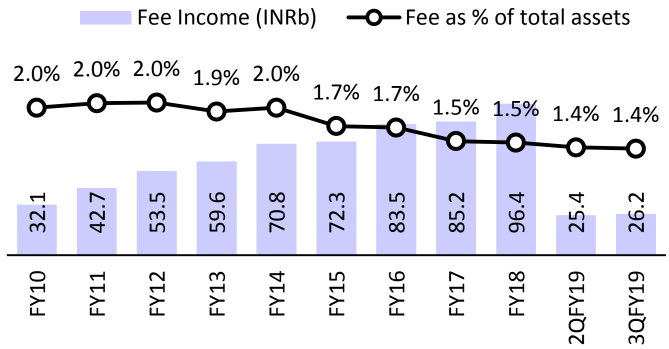
AXSB's credit card business is exhibiting robust performance with its market share almost 2x in the last five years. It currently is the fourth largest issuer with a total card base of 5.2m (market share of 12.1%). Spends grew 43% YoY in 3QFY19 with a total market share of 10.2% as at Nov'18. AXSB currently has a market share of ~46% in forex cards (ranked 1st) while its market share in POS terminal stood at 14% (ranked 3rd). We expect further traction in the credit cards business, which should contribute significantly to the overall ROA of the bank.

Exhibit 14: 82% of the total fee income is now driven by retail/transaction banking



Source: Company, MOSL

Exhibit 15: Total fee income constitutes ~1.4% of average assets



Source: Company, MOSL

AXSB has ~46% market share in the forex cards business

Exhibit 16: Currently, AXSB is the fourth largest issuer in terms of outstanding credit cards

Market Share (%)	FY13	FY14	FY15	FY16	FY17	FY18	Nov'18
HDFCB	33.6%	26.8%	28.3%	29.7%	28.6%	28.5%	27.9%
SBIN	13.2%	14.9%	15.0%	14.8%	15.3%	16.7%	16.9%
ICICIBC	14.7%	16.6%	15.8%	14.9%	14.3%	13.3%	13.5%
AXSB	5.6%	7.2%	8.2%	9.8%	11.2%	12.0%	12.1%
CITIBANK	12.1%	12.6%	11.4%	9.8%	8.5%	7.1%	6.2%

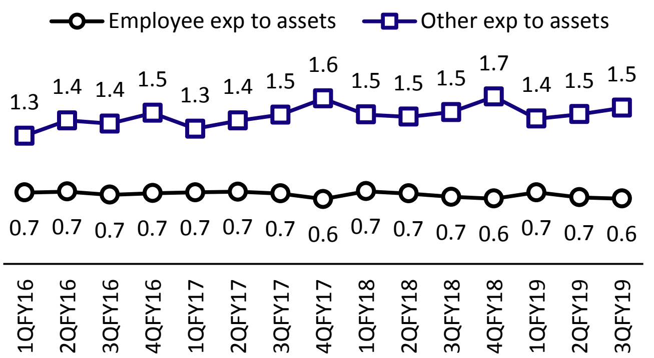
Source: Company, MOSL

We expect C/I ratio to decline to ~41.6% by FY21E

Operating leverage set to improve; strong digital sourcing and cross-selling opportunities to be key drivers

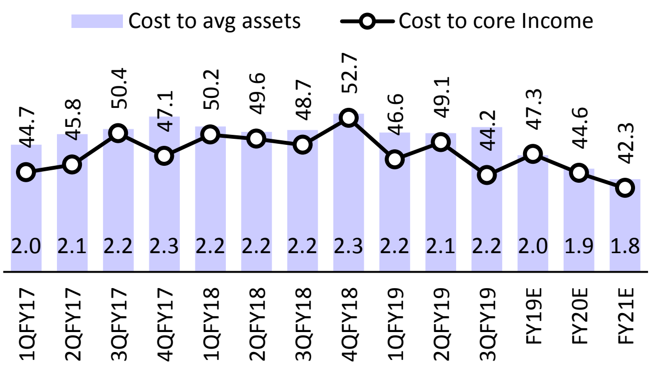
AXSB has been focusing on the cross-selling strategy with ~96%/93% of credit cards/personal loans being extended to existing customers. The efficient use of data analytics and increase in digital transaction volumes has helped the bank to increase volumes in several retail segments and to maintain strong control on delinquencies and operating expenses. We expect operating leverage to improve gradually to 41.6% by FY21E (47% in FY18).

Exhibit 17: Cost to average assets stable over recent years



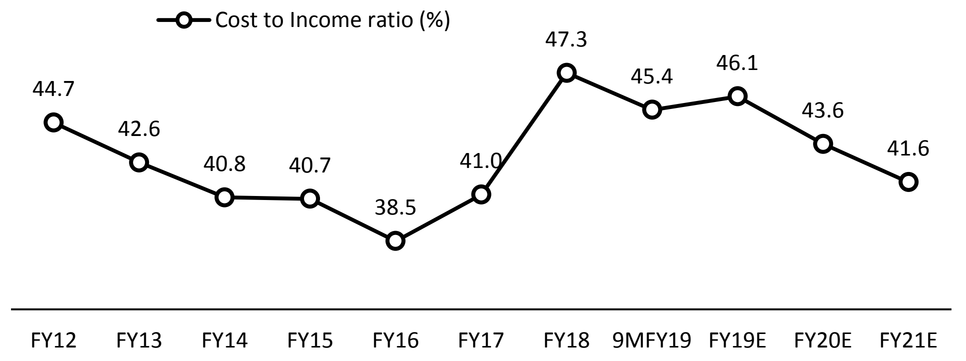
Source: Company, MOSL

Exhibit 18: Expect core-cost income ratio to improve as revenue growth picks up further



Source: Company, MOSL

Exhibit 19: We expect cost to income ratio to decline to 41.6% by FY21E



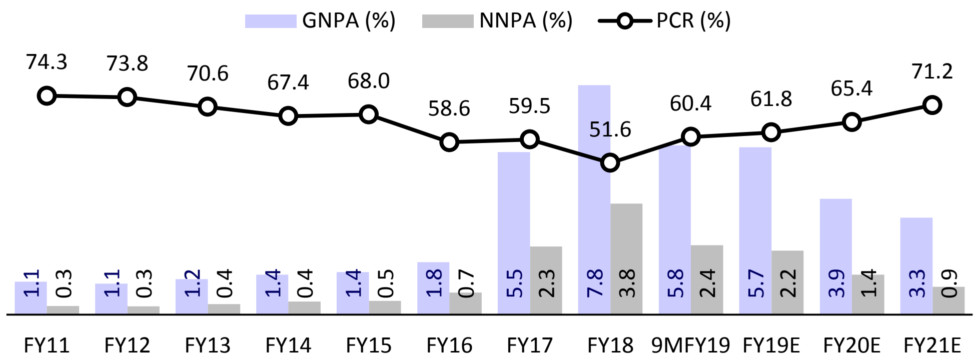
Source: Company, MOSL

Asset quality continues to improve; expect credit cost to decline sharply

AXSB has reported an improvement in slippage trend, while BB and below pool that accounts for ~90% of total corporate slippage (98% in 3QFY19) has declined to INR76.5b (1.6% of loans, lowest amongst peers). Fresh slippages too have moderated to INR37.5b in 3QFY19 (v/s FY18 quarterly average: INR83.5b). Slippages as a % of loans moderated to 3.3% in 3QFY19, which when coupled with healthy recoveries led to a decline in GNPAs from INR342.5b (6.8%) in 4QFY18 to INR308.5b (5.8%). During the same period, the bank raised its PCR from 51.6% (65% including tech. w/off) to 60.4% (75% including tech. w/off) resulting in an improvement in NNPL ratio from 3.4% in FY18 to 2.4% as at 3QFY19.

As a result, net stressed loans declined from 10.8% of total loans (INR374b) to 5.2% (INR248b), lowest amongst the past 15 quarters. AXSB's performance underscores the asset quality recovery, which is evident across corporate banks. AXSB has already increased reported PCR to 75% (86% coverage on NCLT assets), which will further curb incremental provisioning requirement. AXSB has also made contingent provisions of INR6b, which gives it an added cushion to provide for incremental slippages without disrupting the credit cost trajectory. We estimate credit cost will moderate to 1.1% by FY21E and are mindful of further improvement here (FY11-15 credit cost of ~66bp).

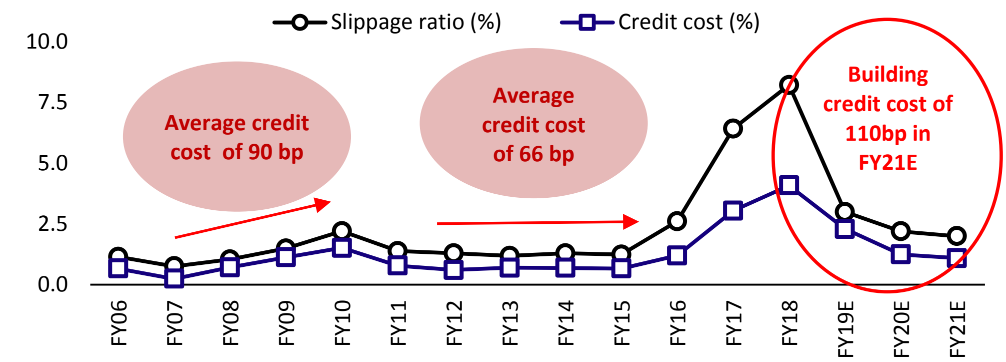
Exhibit 20: Asset quality continues to improve; expect GNPL/NNPL ratio to decline to 3.3%/0.9% by FY21E



Source: MOSL, Company

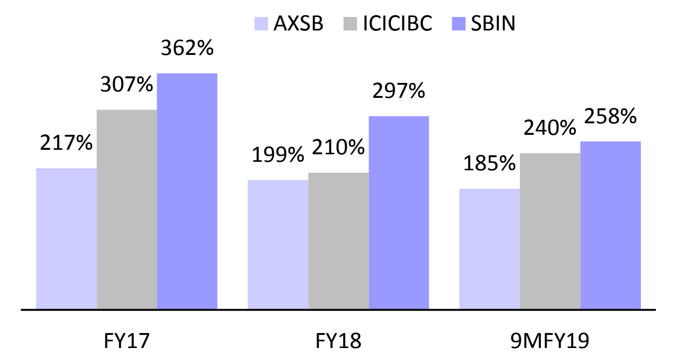
Expect slippage to decline to less than 2% by FY21E

Exhibit 21: Slippages and credit costs are expected to revert to their normalized levels



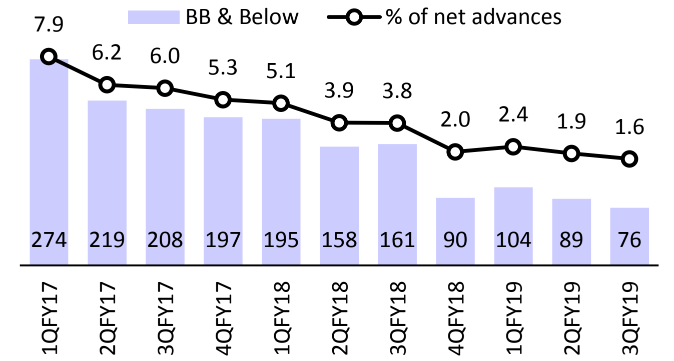
Source: MOSL, Company

Exhibit 22: Net stressed assets as % of Core PPoP remains lowest for AXSB amongst peers



Source: MOSL, Company

Exhibit 23: Proportion of BB and below rated assets has declined to 1.6%



Source: MOSL, Company

Ushering the new provisioning cycle; will we move to other extreme?

Our long-term analysis of provisioning indicates that credit cost has moved to the other extreme following the turnaround in the NPL cycle. We note that after a bad credit cycle in FY00-04, AXSB reported a sharp improvement in credit cost from 2.9% in FY04 to 13bp in the following year. The moderation in credit cost is generally accompanied by a pick-up in loan growth and vice-versa. While the current credit cycle is already showing signs of peaking out, the street estimate on credit cost (including us, details in exhibit 24) still remains elevated at ~110bp, which is far higher than the credit cost seen in benign cycle periods.

Exhibit 24: Consensus v/s MOSL – We are slightly conservative and building a credit cost of ~110bp for FY21E

(INRb)	AXSB			ICICIBC			SBIN		
Consensus	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**	**FY21E**
Provisions	113.1	64.7	68.5	152.6	75.2	71.3	465.4	331.0	321.2
Loans	5,078.0	5,986.0	7,079.0	5,850.0	6,760.0	7,860.0	21,305.0	23,931.0	26,566.0
Credit Cost (%)	2.2%	1.1%	1.0%	2.6%	1.1%	0.9%	2.2%	1.4%	1.2%
vs MOSL									
Provisions	114.3	74.1	78.9	168.2	93.2	87.6	480.1	327.5	370.1
Loans	5,099.9	6,068.9	7,343.4	5,866.9	6,864.3	8,134.2	21,051.5	23,682.9	26,951.2
Credit Cost (%)	2.2%	1.2%	1.1%	2.9%	1.4%	1.1%	2.3%	1.4%	1.4%

Source: MOSL, Company

Significant stress recognized in the power sector; healthy PCR on power assets provides comfort

Bulk of the BB & below book comprises power assets, which contribute ~32% (INR24.5b) to the total stress book. We note that the power NPLs have remained largely stable over the past quarters from INR78.3b in 4QFY18 to INR77.2b in 3QFY19. AXSB's GNPA in power assets stood at ~41%, higher than its peers (ICICIBC at ~28%, SBIN at ~16%) indicating higher recognition of stress. Further, the bank is carrying healthy PCR on its power exposure at 58% (SBIN at 50%), which provides comfort.

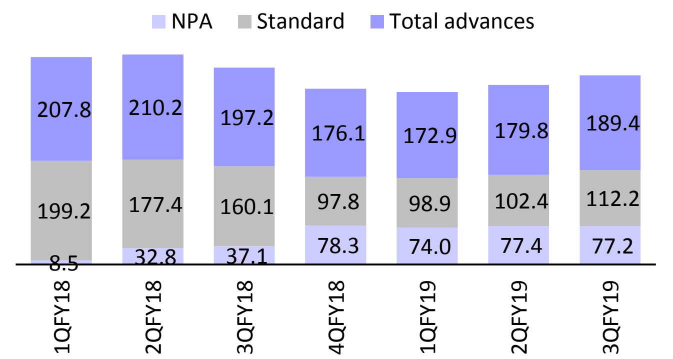
Power comprises ~32% of the total BB & below book

Exhibit 25: Top-4 sectors comprise 71% of the BB & below book

BB & Below (INR m)	3QFY19
Power	24,464
Infra	18,348
Shipping, Transport & Logistics	6,116
Real Estate	5,352
Others	22,171
Total Exposure	**76,450**

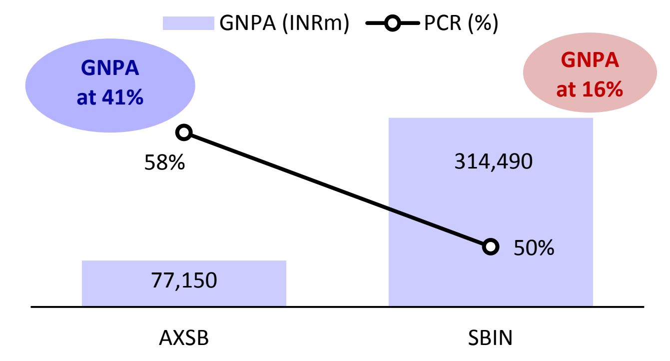
Source: MOSL, Company

Exhibit 26: Power NPAs stable over the past four quarters



Source: MOSL, Company

Exhibit 27: Power GNPAs at ~41% with healthy PCR of 58% (highest amongst peers)

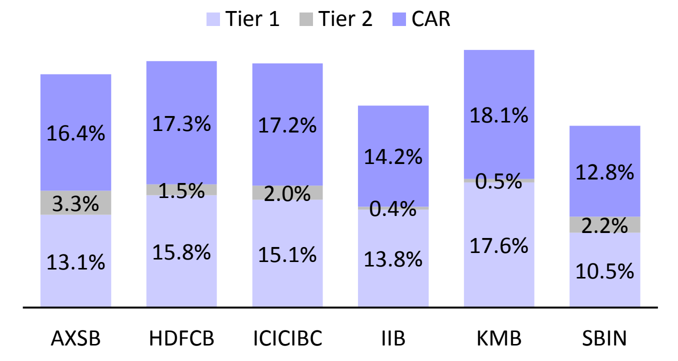


Source: MOSL, Company

Warrant conversion to aid capitalization levels; scenario analysis shows up to 11% boost to BV from potential capital raise

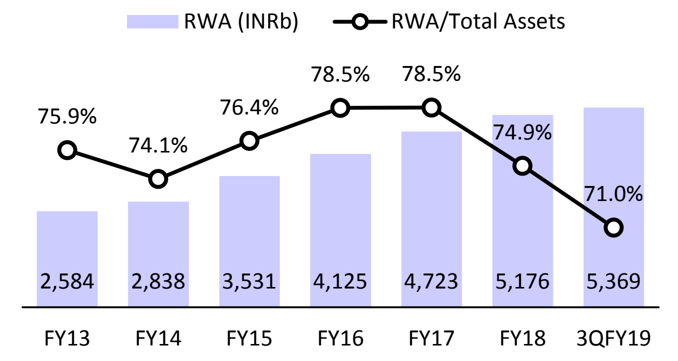
AXSB currently has Tier-1 ratio of ~13% (CET 1 of 11.7%) while total CAR stands at 16.5%. Post warrant conversion (conversion price is INR565, due date: 1QFY20), Tier-1 levels will increase by ~40bp, but will still remain lower than most peers. The bank's RWA/Total assets continue improving from ~80% in 1QFY18 to 71% in 3QFY19 as 94% of the sanctions in 9MFY19 were to corporates rated A- and above. Though the bank made significant investments to ride the next growth cycle (with strong capitalization and expanding liability franchise - 3,964 branches), the amount of capital invested is still lower in comparison to other private banks. Thus, we expect the bank to raise capital by FY20/21.

Exhibit 28: AXSB has one of the lowest Tier-1 amongst major peers



Source: MOSL, Company

Exhibit 29: RWA/total Assets has declined to ~71% in 3QFY19



Source: MOSL, Company

We have carried a scenario analysis, considering a capital raise of INR120b and INR150b at a price of INR750.

- In case of a capital raise of INR120b, capital levels could increase by ~173bp/144bp for FY20/FY21, resulting in an increase in book value (BV) by 9%/7%, while adjusted book value (ABV) will increase by 10%/8%.
- In case of a capital raise of INR150b, capital level could increase by ~216bp/180bp for FY20/FY21, resulting in an increase in BV by 11%/8%, while ABV will increase by 13%/9%.

Exhibit 30: Capital raise sensitivity (taking INR750 as the issue price)

	Pre-capital raise		Post-capital raise INR120bn		Post-capital raise INR150bn	
	FY20	FY21	FY20	FY21	FY20	FY21
Tier 1	11.9%	11.5%	13.6%	12.9%	14.1%	13.3%
CAR	15.1%	14.4%	16.8%	15.9%	17.3%	16.2%
bps increase			173	144	216	180
Book Value	301.2	347.7	327.0	370.5	333.0	375.7
% Change			9%	7%	11%	8%
Adjusted Book Value	270.5	320.2	298.0	344.5	304.4	350.2
% Change			10%	8%	13%	9%
P/BV	2.4	2.1	2.2	2.0	2.2	1.9
P/ABV	2.5	2.1	2.3	2.0	2.2	2.0

Source: MOSL, Company

Clear vision and strong execution to drive re-rating; aiming for 18% RoE

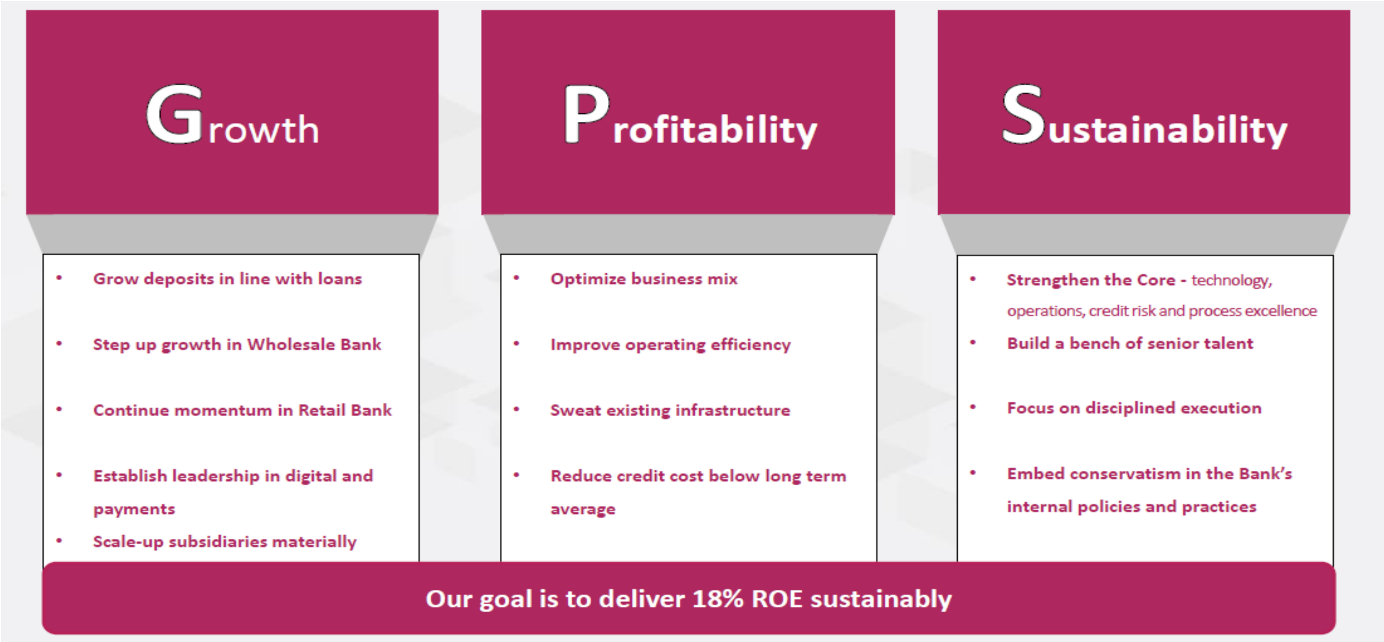
AXSB has disclosed its FY20-22 strategy with the key vectors being:

(i) **Growth**,

(ii) **Profitability,** and

(iii) **Sustainability**…

Exhibit 31: Three–pronged strategy of the bank for the next three years



Source: MOSL, Company

…and aim to deliver 18% RoE over the medium term, led by the following key drivers:

a) **Risk normalization by** reducing credit cost below its long-term average,
b) **Improving operating efficiency** by reducing cost-to-average assets to ~2%, and
c) **Optimizing business mix** portfolio.

We believe in management's focus to deliver long-term sustainable growth and expect earnings to accelerate from FY20 onwards, driving further re-rating of the stock.

Exhibit 32: Trend in opex and provisions as % of total assets

Y/EMARCH	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Opex	2.22	2.26	2.26	2.27	2.21	2.18	2.18	2.02	2.14	2.16	2.11	2.01	1.92
Provisions	0.73	0.85	0.60	0.43	0.56	0.58	0.55	0.74	2.12	2.39	1.53	0.84	0.75
RoA	**1.41**	**1.53**	**1.60**	**1.61**	**1.65**	**1.72**	**1.74**	**1.64**	**0.64**	**0.04**	**0.64**	**1.18**	**1.30**

Source: MOSL, Company

Subsidiaries gaining scale; to make healthy contribution to overall profitability

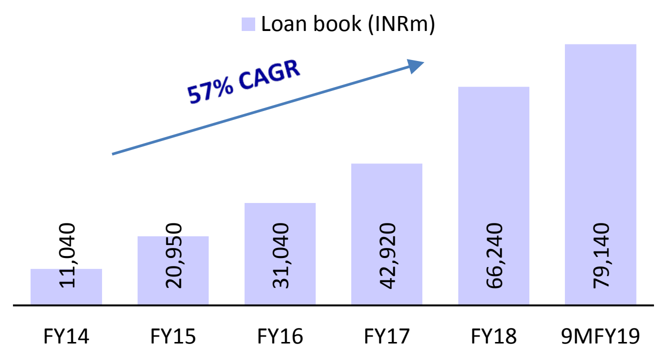
AXSB's subsidiaries – Axis Finance, Axis AMC, Axis Securities and Axis Capital have displayed robust performance in the last few years. The subsidiaries have demonstrated strong growth and amassed critical size to contribute to overall profitability of the bank. AXSB has further highlighted in its FY20-22 strategy that it aims to materially scale-up its subsidiaries, thus creating value for its stakeholders.

Axis Finance: Strong loan growth continues

Loan book grew at a CAGR of 57% while PAT grew at a CAGR of 58% over FY14-18

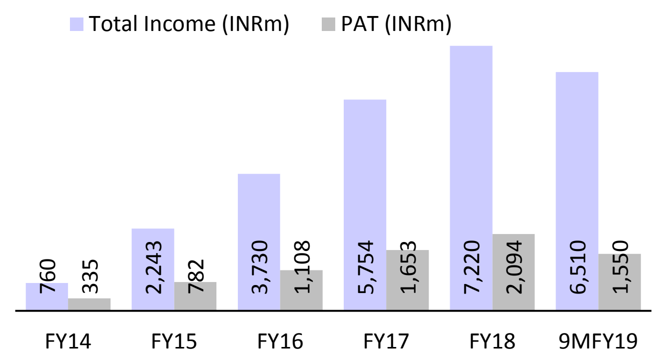
- Axis Finance Ltd., the bank's fast growing NBFC, is engaged in providing loan against shares, margin funding, IPO financing, etc., catering to financing requirements of retail and wholesale customers.
- Axis Finance Ltd. has grown its loan book at a CAGR of 57% over FY14-18 with the total loan book at INR79.1b as at 3QFY19 (Wholesale: Retail mix at 83%:17%).
- PAT grew from INR330m in FY14 to INR2.1b in FY18 at a CAGR of 58%. The bank reported a PAT of INR1.55b for 9MFY19 with margins of 4.21%.
- NPA ratio for the bank stood at 0.36% while return ratios remained healthy with RoE at 21.6% and RoA at 3.5% for FY18.

Exhibit 33: Loan book grew at a CAGR of 57% over FY14-18…



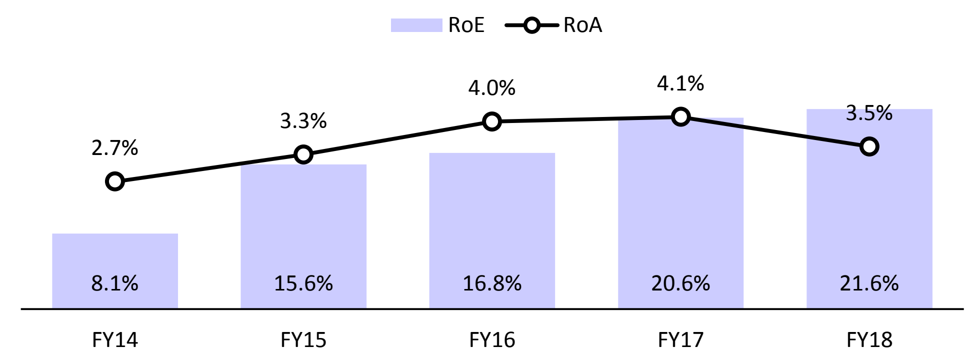
Source: MOSL, Company

Exhibit 34: …while Total income/PAT grew at CAGR of 76%/58% over FY14-18



Source: MOSL, Company

Exhibit 35: RoA/RoE remain at healthy levels



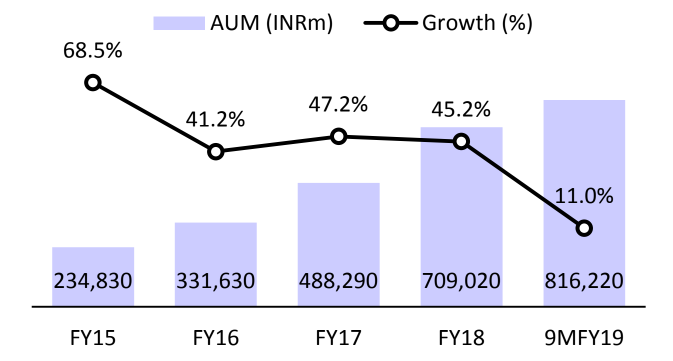
Source: MOSL, Company

Axis AMC: Gaining market share in the MF industry

Total investor folio stood at 3.6m with market share of 3.46%

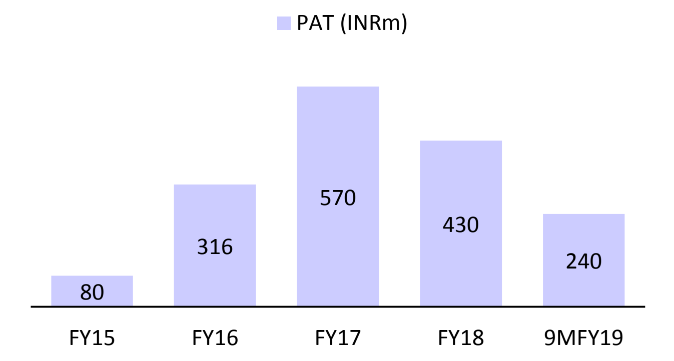
- Axis Asset Management Company Ltd. is engaged in the mutual fund business.
- In FY18, Axis AMC reported 45% YoY growth in average AUM with 26% growth in total number of folios. AUMs grew at a CAGR of 50% over FY14-FY18 and stood at INR816.2b as at 3QFY19.
- Profit for 9MFY19 stood at INR240m. It reported RoA of 9.8% with a RoE of 18.3% for FY18.
- Axis AMC added ~1m customers in the past one year, taking its overall investor folios to 3.6m. It has a market share of 3.46% as at 3QFY19.

Exhibit 36: AUM grew at a CAGR of 45% over FY15-18 and stood at INR816.2b as at 9MFY19



Source: MOSL, Company

Exhibit 37: While PAT grew at a CAGR of 75% over a similar period



Source: MOSL, Company

Axis AMC currently ranks as the 10th largest AMC

Exhibit 38: Axis AMC has improved its market share to 3.4% in the MF industry

Average AUM - Market Share (%)	FY15	FY16	FY17	FY18	9MFY19
ICICI Prudential Mutual Fund	12.2%	12.7%	13.4%	13.2%	13.1%
HDFC Mutual Fund	13.4%	13.1%	13.1%	12.9%	13.2%
Aditya Birla Sun Life Mutual Fund	9.8%	10.1%	10.5%	10.7%	10.5%
SBI Mutual Fund	6.7%	7.2%	8.4%	9.1%	10.3%
Reliance Mutual Fund	11.5%	11.7%	11.5%	11.0%	10.2%
UTI Mutual Fund	7.9%	7.8%	7.7%	7.0%	6.7%
Kotak Mahindra Mutual Fund	3.5%	4.2%	4.7%	5.3%	5.6%
Franklin Templeton Mutual Fund	5.6%	5.6%	4.6%	4.6%	4.6%
DSP Black Rock Mutual Fund	3.4%	2.9%	3.3%	3.8%	3.7%
Axis Mutual Fund	2.2%	2.5%	3.0%	3.3%	3.4%

Source: MOSL, Company

Axis Securities: Exhibiting strong growth in customer additions

PAT grew at a CAGR of 49% over FY14-18

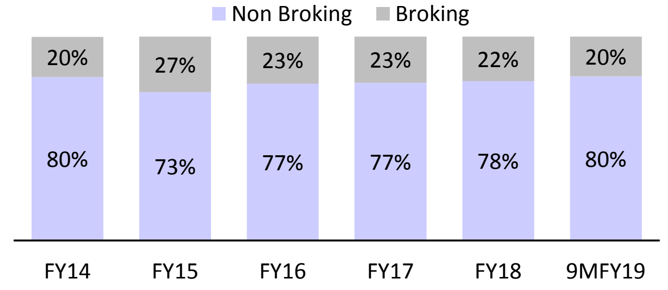
- Axis Securities Ltd. is primarily in the business of marketing credit cards, retail asset products and providing retail broking services. Axis Securities also contributes to the bank's retail franchise building strategy, further strengthening the bond with its customers.
- In FY18, Axis Securities reported 33% growth in its cumulative client base to 1.84m (2.02m as at 3QFY19).
- Revenue/PAT grew at a CAGR of 32%/49% over FY14-18. Axis Securities reported healthy RoA/ RoE of 12.3%/ 24.6% in FY18.
- ~80% of the total income is contributed by the non-broking business, helping it to ride against the cyclicality and volatile nature of the business.

Exhibit 39: Total income grew at 32% CAGR over FY14-18

	FY14	FY15	FY16	FY17	FY18	9MFY19
Total Income (INRm)	3,145	4,549	5,619	7,561	9,505	7,690
PAT (INRm)	122	441	357	515	604	NA

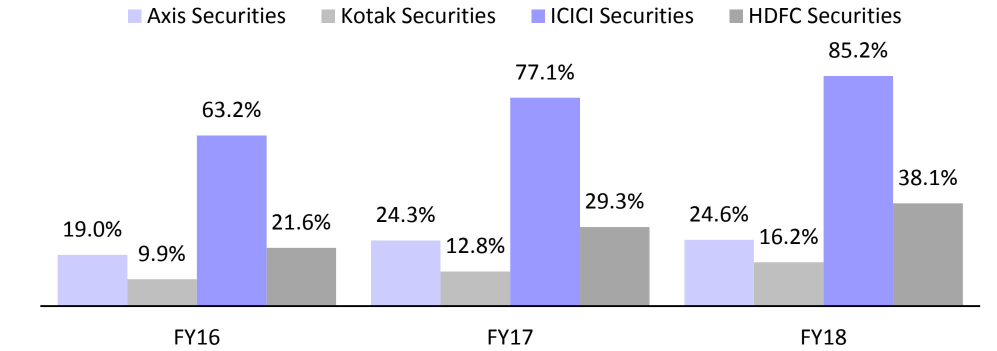
Source: MOSL, Company

Exhibit 40: ~80% of the income comes from the non-broking business



Source: MOSL, Company

Exhibit 41: Axis Securities is maintaining healthy RoE



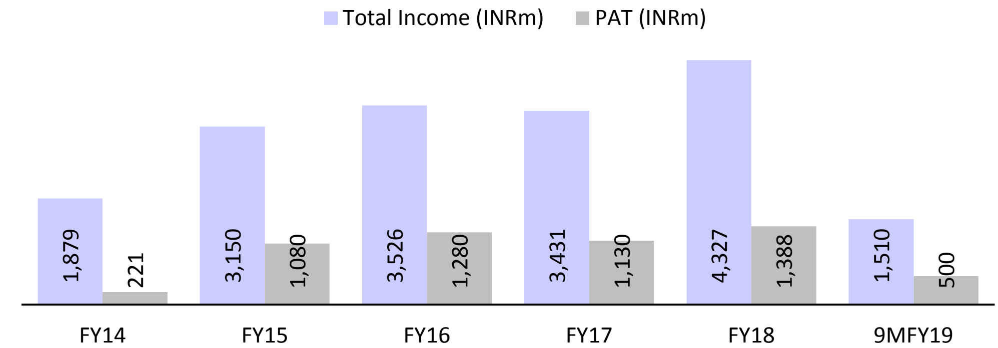
Source: MOSL, Company

Axis Capital: Maintaining leadership in a challenging market

Axis Capital maintained its leadership in terms of number of deals closed; it successfully closed eight deals during 3QFY19

- Axis Capital Ltd. provides services relating to investment banking, equity capital markets, institutional stock broking, mergers and acquisition advisory, etc.
- Axis Capital has maintained its leadership in equity and equity-linked deals over the last decade. It had another great year in FY18 with 42% market share in the IPO market.
- Income grew at a CAGR of 23% over FY14-18 while PAT grew at a CAGR of 58% over the same period. Over 9MFY19, its performance was slightly muted, but it has maintained its leadership despite volatile capital markets.
- Axis Capital delivered a RoA of 10.8% with RoE of 33.2% in FY18.

Exhibit 42: Axis Capital's healthy performance; 9MFY19 performance impacted due to muted activity and volatility in capital markets



Source: MOSL, Company

Valuation and view

- With the base effect playing out in 2HFY19, loan growth is likely to revert to healthy levels. Tier 1 ratio at ~13% should provide enough capital for growth.
- We expect its balance sheet clean-up to conclude by FY19 and earnings to return to normalcy, while warrant conversion should provide additional capital to support growth thereafter. The bank has made significant investments to ride the next growth cycle (post near-term asset quality challenges), with strong capitalization and expansion of its liability franchise (3,964 branches).
- **Valuation and view:** AXSB has delivered a strong performance with multi-quarter high earnings. With a capable management team in place and an improving credit cost/margins outlook, we believe the bank is likely to deliver earnings acceleration in the coming years. AXSB has already increased PCR to 75%, which will curb incremental provisioning requirement. We, thus, expect RoA/RoE to improve to 1.3%/16.1% by FY21. We roll forward our estimates to FY21 and revise our target price to INR850 (2.5x FY21E ABV for the bank + INR44 per share for subsidiaries). We reiterate AXSB as one of our top **Buys** in the banking sector.

Exhibit 43: SOTP-based valuation

Name	Stake	Total Value (INR)	Value per Share	% of total value	Rationale
Axis Bank	**100**	**20,69,989**	**805**	**94.8**	❖ **2.5x P/ABV FY21E**
Axis Finance	100	67,520	26	3.1	❖ 3.5x Net worth FY21E
Axis Capital	100	33,236	13	1.5	❖ 20x PAT FY21E
Axis Securities	100	24,304	9	1.1	❖ 20x PAT FY21E
Axis Mutual Fund	75	17,626	7	0.8	❖ 20x PAT FY21E
Total Value of Subs		**1,42,687**	**56**	**6.5**	
Less: 20% holding disc		28,537	11	1.3	
Value of Subs (Post Holding Disc)		**1,14,149**	**44**	**5.2**	
Target Price		**21,84,138**	**850**		

Source: MOSL, Company

Exhibit 44: DuPont — Return ratios to improve FY20E onwards

Y/E MARCH	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8.42	7.09	7.16	8.33	8.68	8.47	8.40	8.18	7.81	7.08	7.32	7.48	7.52
Interest Expense	5.56	4.04	4.06	5.29	5.59	5.16	5.03	4.82	4.63	4.20	4.44	4.58	4.61
NII	**2.87**	**3.05**	**3.10**	**3.04**	**3.09**	**3.30**	**3.37**	**3.36**	**3.17**	**2.88**	**2.88**	**2.90**	**2.92**
Fee income	1.90	1.78	1.79	1.79	1.76	1.65	1.60	1.50	1.38	1.49	1.58	1.61	1.63
Trading & others	0.35	0.62	0.40	0.26	0.33	0.39	0.38	0.37	0.67	0.21	0.12	0.10	0.08
Other income	**2.25**	**2.40**	**2.19**	**2.05**	**2.09**	**2.05**	**1.98**	**1.87**	**2.05**	**1.70**	**1.70**	**1.71**	**1.71**
Total Income	**4.77**	**4.83**	**4.89**	**4.82**	**5.18**	**5.35**	**5.35**	**5.23**	**5.22**	**4.58**	**4.58**	**4.61**	**4.62**
Operating Exp.	**2.22**	**2.26**	**2.26**	**2.27**	**2.21**	**2.18**	**2.18**	**2.02**	**2.14**	**2.16**	**2.11**	**2.01**	**1.92**
Employee cost	0.78	0.76	0.76	0.79	0.76	0.72	0.74	0.67	0.68	0.67	0.63	0.60	0.57
Others	1.45	1.49	1.50	1.49	1.45	1.46	1.44	1.34	1.46	1.50	1.48	1.41	1.35
Operating Profit	**2.90**	**3.19**	**3.03**	**2.81**	**2.97**	**3.17**	**3.17**	**3.22**	**3.08**	**2.41**	**2.47**	**2.60**	**2.70**
Core PPoP	**2.55**	**2.57**	**2.63**	**2.55**	**2.64**	**2.77**	**2.79**	**2.84**	**2.41**	**2.21**	**2.35**	**2.50**	**2.62**
Provisions	**0.73**	**0.85**	**0.60**	**0.43**	**0.56**	**0.58**	**0.55**	**0.74**	**2.12**	**2.39**	**1.53**	**0.84**	**0.75**
NPA	0.70	0.86	0.54	0.42	0.47	0.49	0.50	0.82	1.96	2.57	1.46	0.79	0.70
Others	0.03	-0.01	0.07	0.02	0.09	0.09	0.05	-0.08	0.16	-0.17	0.07	0.05	0.05
PBT	**2.16**	**2.35**	**2.43**	**2.38**	**2.41**	**2.58**	**2.62**	**2.47**	**0.96**	**0.02**	**0.94**	**1.76**	**1.94**
Tax	0.75	0.81	0.83	0.77	0.76	0.87	0.88	0.83	0.31	-0.02	0.30	0.58	0.64
RoA	**1.41**	**1.53**	**1.60**	**1.61**	**1.65**	**1.72**	**1.74**	**1.64**	**0.64**	**0.04**	**0.64**	**1.18**	**1.30**
Leverage (x)	13.6	12.5	12.1	12.6	11.2	10.1	10.2	10.4	10.8	10.8	11.2	11.9	12.4
RoE	**19.1**	**19.2**	**19.3**	**20.3**	**18.5**	**17.4**	**17.8**	**17.1**	**6.9**	**0.5**	**7.2**	**13.9**	**16.1**

Source: MOSL, Company

Exhibit 45: Valuation summary

Val summary	Rating	CMP (INR)	TP (INR)	Upside (%)	M cap (USDb)	ABV (INR) FY19E	ABV (INR) FY20E	RoA (%) FY19E	RoA (%) FY20E	RoE (%) FY19E	RoE (%) FY20E	P/E (x) FY19E	P/E (x) FY20E	P/BV (x) FY19E	P/BV (x) FY20E	P/ABV (x) FY19E	P/ABV (x) FY20E
Pvt Banks																	
ICICIBC*	Buy	359	450	25	32.4	134	152	0.5	1.2	4.7	11.8	34.2	12.4	1.6	1.4	1.9	1.7
HDFCB	Buy	2,117	2,500	18	80.8	518	589	1.8	1.8	16.7	16.5	26.5	22.1	3.9	3.4	4.1	3.6
AXSB	Buy	729	850	17	26.0	228	271	0.6	1.2	7.2	13.9	39.3	18.4	2.7	2.4	3.2	2.7
KMB*	Neutral	1,283	1,350	5	34.2	201	229	1.7	1.7	12.1	13.3	25.5	20.0	4.4	3.7	4.8	4.0
YES	Buy	177	270	53	5.7	116	138	1.2	1.2	15.5	16.7	9.6	7.8	1.4	1.2	1.5	1.3
IIB	Buy	1,514	1,900	25	12.8	430	544	1.7	2.1	16.5	20.2	22.0	15.1	3.4	2.7	3.5	2.8
FB	Buy	86	115	33	2.4	59	66	0.8	1.0	9.5	12.5	14.0	9.7	1.3	1.1	1.5	1.3
DCBB	Neutral	180	175	-3	0.8	92	104	0.9	1.0	11.6	13.4	17.7	13.6	1.9	1.7	2.0	1.7
SIB	Buy	14	20	46	0.3	21	23	0.3	0.5	5.6	8.6	8.3	5.1	0.5	0.4	0.7	0.6
EQUITAS	Buy	119	150	26	0.6	69	76	1.5	1.6	9.7	12.4	17.6	12.5	1.6	1.5	1.7	1.6
AUBANK	Buy	594	720	21	2.4	107	138	1.5	1.3	13.8	13.9	46.0	34.8	5.5	4.3	5.5	4.3
RBK	Buy	580	650	12	3.5	170	190	1.2	1.3	12.3	14.9	28.1	20.7	3.3	2.9	3.4	3.0
PSU Banks																	
SBIN*	Buy	288	340	18	36.0	169	202	0.1	0.6	1.8	11.5	32.6	7.2	0.9	0.8	1.3	1.1
PNB	Neutral	76	80	6	4.0	40	62	-0.6	0.4	-11.0	6.6	-5.3	9.4	0.7	0.6	1.9	1.2
BOI	Neutral	92	90	-2	2.2	76	87	-0.9	0.2	-15.0	2.7	-3.8	24.8	0.7	0.7	1.2	1.1
BOB	Buy	109	140	NA	4.0	113	135	0.3	0.5	5.3	8.8	12.3	6.9	0.7	0.6	1.0	0.8
CBK	Neutral	237	278	17	2.4	185	259	0.2	0.4	3.5	8.2	13.9	5.6	0.5	0.5	1.3	0.9
UNBK	Neutral	79	80	2	1.3	98	120	0.1	0.3	2.1	5.5	17.6	6.1	0.3	0.3	0.8	0.7
INBK	Buy	219	300	37	1.4	245	278	0.3	0.5	4.6	8.6	14.3	7.2	0.6	0.6	0.9	0.8
Life Insurance																	
HDFCLIFE**	Buy	368	475	29	10.4	NA	NA	NA	NA	18.6	19.1	57.1	48.2	4.1	3.4	NA	NA
IPRULIFE**	Buy	312	430	38	5.8	NA	NA	NA	NA	15.7	14.9	39.0	35.1	2.1	1.8	NA	NA

* Multiples adj. for value of key ventures/Investments; For ICICIBC, SBIN and KMB ABV is adjusted for investment in subsidiaries

**BV represents EV, RoE represents ROEV and P/BV represents P/EV

Source: MOSL, Bloomberg, Company

Financials and Valuations

Income Statement							(INRb)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	354.8	409.9	445.4	457.8	547.7	657.7	787.7
Interest Expense	212.5	241.6	264.5	271.6	332.1	402.9	482.4
Net Interest Income	**142.2**	**168.3**	**180.9**	**186.2**	**215.5**	**254.8**	**305.3**
Growth (%)	19.0	18.3	7.5	2.9	15.8	18.2	19.8
Non-Interest Income	83.7	93.7	116.9	109.7	127.2	150.1	178.6
Total Income	**225.9**	**262.0**	**297.8**	**295.8**	**342.8**	**404.9**	**483.9**
Growth (%)	16.7	16.0	13.7	(0.7)	15.9	18.1	19.5
Operating Expenses	92.0	101.0	122.0	139.9	157.9	176.5	201.4
Pre Provision Profits	**133.9**	**161.0**	**175.8**	**155.9**	**184.9**	**228.4**	**282.6**
Growth (%)	16.8	20.3	9.2	(11.3)	18.5	23.6	23.7
Core PPP	**122.2**	**149.2**	**142.3**	**142.7**	**175.6**	**219.6**	**274.2**
Growth (%)	11.7	22.1	(4.7)	0.3	23.1	25.1	24.9
Provisions (excl. tax)	23.3	37.1	121.2	154.7	114.3	74.1	78.9
PBT	**110.6**	**123.9**	**54.7**	**1.2**	**70.6**	**154.3**	**203.6**
Tax	37.0	41.7	17.9	(1.5)	22.6	50.9	67.2
Tax Rate (%)	33.5	33.6	32.7	(126.8)	32.0	33.0	33.0
PAT	**73.6**	**82.2**	**36.8**	**2.8**	**48.0**	**103.4**	**136.4**
Growth (%)	18.3	11.8	(55.3)	(92.5)	1,641.2	115.3	32.0

Balance Sheet							
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	5	5	5	5	5	5	5
Reserves & Surplus	442	513	539	629	690	782	903
Net Worth	**447**	**518**	**544**	**634**	**695**	**787**	**908**
Deposits	**3,224**	**3,580**	**4,144**	**4,536**	**5,398**	**6,532**	**7,903**
Growth (%)	14.8	11.0	15.8	9.5	19.0	21.0	21.0
of which CASA Dep.	**1,444**	**1,694**	**2,131**	**2,439**	**2,521**	**3,142**	**3,928**
Growth (%)	14.2	17.3	25.7	14.5	3.4	24.6	25.0
Borrowings	798	1,086	1,050	1,480	1,620	1,824	2,115
Other Liabilities & Prov.	151	215	277	262	328	394	480
Total Liabilities	**4,619**	**5,398**	**6,015**	**6,913**	**8,042**	**9,537**	**11,407**
Current Assets	361	333	503	435	625	744	892
Investments	**1,176**	**1,315**	**1,288**	**1,539**	**1,770**	**2,053**	**2,381**
Growth (%)	3.5	11.9	-2.1	19.5	15.0	16.0	16.0
Loans	**2,811**	**3,388**	**3,731**	**4,397**	**5,100**	**6,069**	**7,343**
Growth (%)	22.2	20.5	10.1	17.8	16.0	19.0	21.0
Fixed Assets	25	35	37	40	43	46	51
Other Assets	247	327	456	504	505	625	740
Total Assets	**4,619**	**5,398**	**6,015**	**6,913**	**8,042**	**9,537**	**11,407**

Asset Quality	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
GNPA	41.1	60.9	212.8	342.5	289.7	238.7	234.9
NNPA	13.2	25.2	86.3	165.9	110.5	82.7	62.9
GNPA Ratio	1.4	1.8	5.5	7.8	5.68	3.93	3.20
NNPA Ratio	0.5	0.7	2.3	3.8	2.17	1.36	0.86
Slippage Ratio	1.2	2.6	6.4	8.2	3.0	2.2	1.9
Credit Cost	0.7	1.2	3.1	4.1	2.3	1.3	1.1
PCR (Excl. Tech. write off)	68.0	58.6	59.5	51.6	61.8	65.4	73.2

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	**9.2**	**9.1**	**8.9**	**7.7**	**7.9**	**8.0**	**8.1**
Avg. Yield on loans	10.1	9.7	9.3	8.4	8.9	9.2	9.2
Avg. Yield on Investments	7.3	7.5	7.4	7.2	7.3	7.4	7.4
Avg. Cost-Int. Bear. Liab.	**5.8**	**5.6**	**5.4**	**4.8**	**5.1**	**5.2**	**5.3**
Avg. Cost of Deposits	5.7	5.4	5.1	4.4	4.6	4.9	4.8
Avg. Cost of Borrowings	6.3	6.3	6.7	6.3	6.6	6.5	6.8
Interest Spread	**3.4**	**3.6**	**3.5**	**2.9**	**2.8**	**2.8**	**2.8**
Net Interest Margin	**3.7**	**3.8**	**3.6**	**3.1**	**3.1**	**3.1**	**3.1**
Capitalisation Ratios (%)							
CAR	15.1	15.3	15.0	16.6	15.8	15.1	14.4
Tier I	12.1	12.5	11.9	13.0	12.4	11.9	11.5
Tier II	3.0	2.8	3.1	3.5	3.4	3.2	2.9
Business and Efficiency Ratios (%)							
Loans/Deposit Ratio	87.2	94.6	90.0	96.9	94.5	92.9	92.9
CASA Ratio	44.8	47.3	51.4	53.8	46.7	48.1	49.7
Cost/Avg. Assets	2.2	2.0	2.1	2.2	2.1	2.0	1.9
Cost/Total Income	40.7	38.5	41.0	47.3	46.1	43.6	41.6
Cost/Core Income	42.9	40.1	45.8	49.5	47.3	44.6	42.3
Int. Expense/Int. Income	59.9	58.9	59.4	59.3	60.6	61.3	61.2
Fee Income/Total Income	30.0	27.0	25.0	27.8	28.7	29.2	29.4
Non Int. Inc./Total Income	37.0	35.8	39.3	37.1	37.1	37.1	36.9
Investment/Deposit Ratio	36.5	36.7	31.1	33.9	32.8	31.4	30.1
Profitability Ratios and Valuation							
RoE	17.8	16.8	6.8	0.5	7.2	13.9	16.1
RoA	1.7	1.7	0.7	0.0	0.6	1.2	1.3
RoRWA	2.1	2.0	0.8	0.1	0.8	1.5	1.7
Book Value (INR)	188.5	223.1	232.8	247.2	266.2	301.2	347.7
Growth (%)	15.8	18.4	4.4	6.2	7.7	13.1	15.4
Price-BV (x)	**3.9**	**3.3**	**3.1**	**3.0**	**2.7**	**2.4**	**2.1**
Adjusted BV (INR)	180.6	211.2	200.6	193.8	228.4	270.5	322.0
Price-ABV (x)	**4.0**	**3.5**	**3.6**	**3.8**	**3.2**	**2.7**	**2.3**
EPS (INR)	31.2	34.6	15.4	1.1	18.5	39.6	52.2
Growth (%)	17.6	11.0	-55.5	-92.8	NM	113.5	32.0
Price-Earnings (x)	**23.4**	**21.1**	**47.4**	**NM**	**39.3**	**18.4**	**14.0**
Dividend Per Share (INR)	4.6	5.0	5.0	5.5	3.9	4.6	5.8
Dividend Yield (%)	**0.6**	**0.7**	**0.7**	**0.8**	**0.5**	**0.6**	**0.8**

Source: Company, MOSL

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Investment Rating	**Expected return (over 12-month)**
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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