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THE COMPASS

Axis Bank: Sentiment improving

Stable credit cost guidance, retail loan growth are positives

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The Axis Bank stock has been a laggard among its private sector peers following the June quarter (Q1) results. With the stock once again testing the ₹480-level, the bank has lost nearly nine per cent of its market capitalisation since July 25.

However, despite the underperformance, the sentiment seems to be gradually improving, because of three factors — credit cost guidance maintained at 175-225 basis points for FY18 despite fresh asset quality pangs likely from loans to the power sector, improving performance of its retail franchise and the Street getting a taste of its subsidiaries.

The bank's asset quality concerns are expected to subside only towards March 2018. Likewise, the watch list, or accounts which require monitoring, slid to ₹7,941 crore in Q1 of 2017-18, from ₹13,789 crore in the September 2016 quarter. Even gross slippages (loans that turned bad) in Q1 was curtailed at ₹3,520 crore — about three per cent lower than the year-ago slippages and 27 per cent lower sequentially.

Compared to the four quarters' average of ₹5,450 crore, Q1 slippages seem to be on the mend, analysts at BNP Paribas note. The only worry factor is that slippages outside the watch list remained elevated at ₹1,500 crore even in Q1. This, perhaps, justifies the underperformance of the stock.

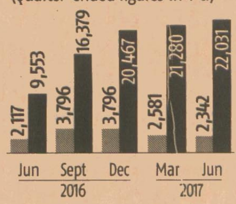
With the asset quality concerns getting priced in, the focus turns to the two improving factors — Axis Bank's retail business and the performance of its subsidiaries. The retail loan book grew 22 per cent year-on-year (y-o-y) in Q1, which was among the best growth rates posted by a corporate-facing bank. The bank's focus to drive growth by catering to its existing customers is yielding the desired results. In Q1, about 73 per cent of the retail growth was from existing customers. Incremental growth from high-margin products such as credit cards and personal loans (though unsecured in nature) was also good. The share of low-cost current account-savings account (Casa) deposits was maintained at 49 per cent. The bank's move to reduce interest rates on savings accounts with balance of more than ₹50 lakh by 50 basis points to 3.5 per cent should cushion profitability.

Also, Q1 was the first time when Axis Bank revealed the quarterly performance of its subsidiaries such as its asset management and capital markets businesses. When financial services companies are of late witnessing a leg-up in valuations due to the performance of their subsidiaries, Axis Bank's disclosure is a step in the right direction. While the Street isn't ascribing significant value to its ancillary business for now, Asutosh Mishra of Reliance Securities feels it could change in two-three quarters if their performance is consistently revealed.

For now, 16 of the 40 analysts polled on *Bloomberg* after the bank's results have a "buy" rating on its stock, with a target price of ₹540 (number of 'Sell' ratings were down to 11), indicating a 10 per cent upside in the next 12 months.

ASSET QUALITY STABILISING

■ Provisioning ■ Gross NPA
(Quarter-ended figures in ₹ cr)



Source: Bank