

BUY

TP: Rs 525 | ▲ 21%

AXIS BANK

| Banking

| 02 July 2020

Capital raising to fortify balance sheet

Proposed fund raise amounts to ~13% dilution: Axis Bank's (AXSB) board today **approved a proposal to raise funds** not exceeding Rs 150bn – this is equivalent to 12.5% of current market capital and 17.6% of Mar'20 net worth. The capital raise could be via QIP/ADR/GDR, preferential allotment, or a combination thereof, and is subject to shareholder approval at the upcoming AGM on 31 July.

Capital infusion would increase tier-1 ratio by 185bps...: Should the bank raise capital up to the fully approved limit of Rs 150bn, it would imply dilution of 12.5%. At the current price, the fresh capital would increase our estimated FY21 proforma tier-1 ratio by 186bps. Also, proforma BVPS for FY21 would increase by 3%, per our calculations.

...and strengthen the balance sheet: A capital infusion would strengthen AXSB's balance sheet and increase its ability to absorb loan losses. At the same time, it would weigh on ROE progression, reducing our FY21 estimate by ~100bps to 11.5%.

FIG 1 – POTENTIAL IMPACT OF CAPITAL RAISE

Particulars	Pre-capital raise	Post-capital raise	Change (%)
Amount of equity capital raised (Rs bn)	-	150	-
Equity dilution (%)	-	12.5	-
FY21E			
Tier-1 ratio (%)	13.7	15.5	186bps
ROE (%)	12.5	11.5	(97bps)
EPS (Rs)	39.3	37.0	(5.9)
BVPS (Rs)	328	338	3.3
P/E (x)	10.8	11.5	-
FY22E			
Tier-1 ratio (%)	13.3	15.0	161bps
ROE (%)	15.8	13.7	(208bps)
EPS (Rs)	55.4	49.2	(11.1)
BVPS (Rs)	373	379	1.5
P/E (x)	7.7	8.6	-

Source: Company, BOBCAPS Research

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Ticker/Price	AXSB IN/Rs 433
Market cap	US\$ 15.0bn
Shares o/s	2,620mn
3M ADV	US\$ 235.7mn
52wk high/low	Rs 813/Rs 286
Promoter/FPI/DII	26%/50%/24%

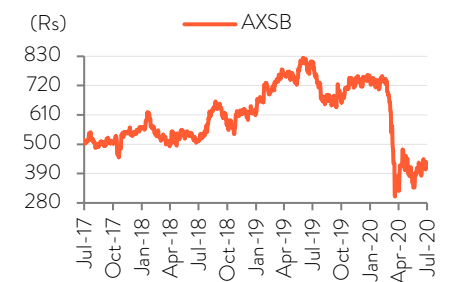
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Net interest income	252,062	278,340	330,760
NII growth (%)	16.1	10.4	18.8
Adj. net profit (Rs mn)	16,272	110,903	156,238
EPS (Rs)	6.0	39.3	55.4
P/E (x)	71.8	11.0	7.8
P/BV (x)	1.4	1.3	1.2
ROA (%)	0.2	1.1	1.4
ROE (%)	2.1	12.5	15.8

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

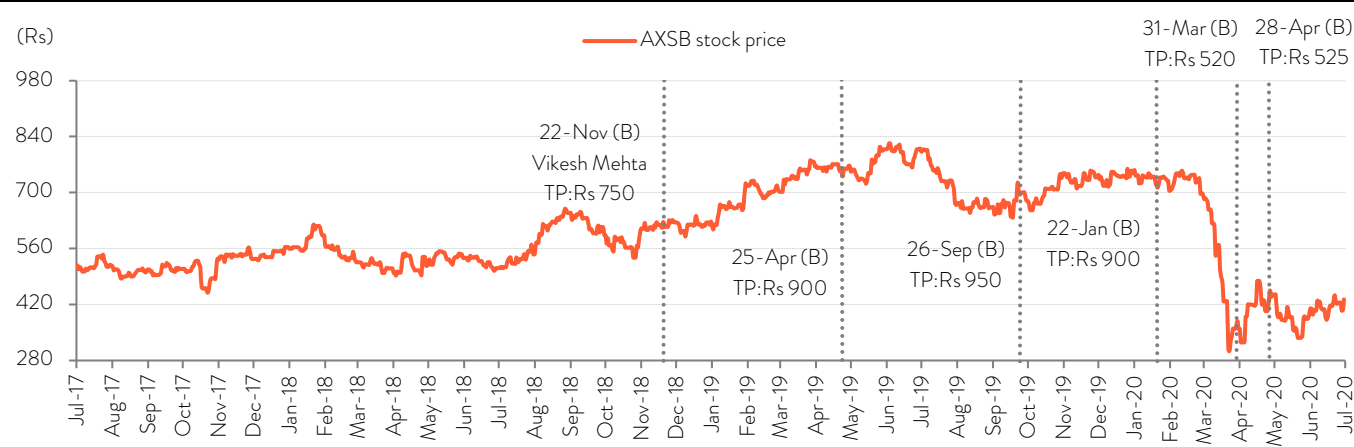
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: AXIS BANK (AXSB IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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