

AXIS Bank

Refer to important disclosures at the end of this report

Core earnings dragged by NIMs/opex; Citi retail portfolio acquisition looks expensive

- Despite retail-driven healthy credit growth at 15% yoy, Axis Bank continued to report subdued core earnings growth at 9% yoy, mainly led by subdued margins and higher opex, including a one-time expense related to the Citi portfolio acquisition and business/collection-related spends. However, lower LLP led to a slight beat on PAT at Rs41bn (est: Rs40bn).
- Axis has taken back earlier exit cost/asset guidance of 2% in Q4FY23 (~2% in FY22), as it may look at accelerated investments in the near-to-medium term, and thus may hurt core earnings. However, Axis retains medium-term RoE guidance of 16-16.5% and long-term RoE aspiration of 18%. We have slightly trimmed our earnings estimates, factoring in higher costs but expect RoE to gradually improve to ~14-16% over FY23-25E from ~7%/12% in FY21/22E.
- Axis has signed a definitive agreement to acquire Citi Bank's retail portfolio, including cards, CASA rich deposit pool and nearly 3,600 employees, at a higher price of USD1.6bn/Rs123bn (ex-integration cost of Rs15bn). We believe the acquisition will boost the bank's retail/card portfolios, but the payback period could be longer and would also dilute the CET 1 ratio by 230bps to ~13%, calling for equity/RoE dilution post the acquisition (Q4FY23).
- We retain our long-term Buy rating on the stock with a TP of Rs1,020 (value standalone bank at 1.9x FY24E ABV vs. 2x Dec'23 ABV due to higher CoE and subs valuation at Rs73) given steady improvement in RoEs and reasonable valuations. However, the bank's recent opex conundrum (risk of upward revision in cost/asset guidance for FY23) and the potential impact on core profitability in the near term will impact the stock's performance.
- Higher opex could largely offset any structural improvement in NIM:** Overall credit growth was in line with the expectation at 15% yoy/6% qoq (vs. 17% yoy/7%qoq in Q3FY22). Retail growth was healthy at 21% yoy/9% qoq but was mainly driven by SBB, rural loans (including MFI/gold loans), cards and LAP. SME growth was also strong at 26% yoy/13% qoq, while corporate growth moderated to 4% yoy. However, the bank's margin was sub-par (down 4bps qoq to 3.5%) mainly due to unfavorable spread, reversal of interest on a corporate account under arbitration (impact 4bps) and continued negative carry of higher PSL deposits. The bank expects margins to improve structurally in the long run, led by higher retail/SME/mid-corporate mix and reduced drag from RIDF bonds. However, opex is likely to remain high in the near-to-medium term, given the bank's higher digital spends, and accelerated investment to ramp up the retail business could largely offset the margin gains.
- Healthy asset quality trends leading to lower LLP:** Gross slippages, including non-performing investments, were lower at Rs39.8bn (2.6% of loans), which, coupled with higher recoveries/w-offs at Rs37.6bn, led to a further 35bps qoq reduction in the GNPA ratio to 2.8%. The overall restructuring pool declined marginally to 0.6% of loans, while the bank continues to carry a 24% PCR on these loans. The bank did not reverse its Covid provision buffer, which remains slightly lower at Rs50bn/0.7% of loans vs. peers at 0.8% of loans. We expect NPAs to trend down, subject to no fresh Covid wave, which, coupled with gradual utilization of the Covid buffer, should bring down LLP to 0.8% from 1% in FY22E.
- Outlook & Valuations:** We retain our long-term Buy rating on the stock with a TP of Rs1,020 (value standalone bank at 1.9x FY24E ABV v/s 2x Dec'23 ABV due to higher CoE and subs valuation at Rs73) given steady improvement in RoEs and reasonable valuations. However, the bank's recent opex conundrum (risk of upward revision in cost/asset guidance for FY23) and the potential impact on core profitability in the near term will be a drag on the stock's performance. **Key risks:** 1) Higher-than-expected NPA formation and expenses; 2) any signs of management instability, which has moderated a bit recently.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	440,773	483,528	571,918	676,078	805,933
Net profit	65,885	130,255	173,937	221,339	281,124
EPS (Rs)	22.4	42.5	56.7	72.1	91.6
ABV (Rs)	353.3	386.6	453.6	538.6	648.5
RoA (%)	0.7	1.2	1.4	1.5	1.6
RoE (%)	7.1	12.0	13.9	15.0	16.0
PE (x)	31.2	16.4	12.3	9.7	7.6
P/ABV	2.1	1.9	1.6	1.4	1.1

Source: Company, Emkay Research

CMP	Target Price
Rs 780 as of (April 28, 2022)	Rs 1,020 (■) 12 months
Rating	Upside
BUY (■)	30.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	56.7	72.1
Consensus	55.2	66.9
Mean Consensus TP (12M)	Rs 942	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,070
52 Week H/L	881 / 621
M Cap (Rs bn/USD bn)	2,394 / 31.30
Daily Avg Volume (nos.)	11,449,330
Daily Avg Turnover (US\$ mn)	112.9

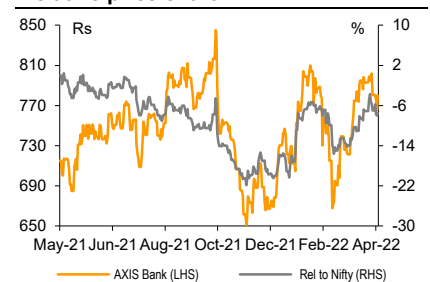
Shareholding Pattern Mar '22

Promoters	9.5%
FIIs	45.9%
DIIs	29.9%
Public and Others	14.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	2	3	10
Rel. to Nifty	6	1	6	(5)

Relative price chart



Source: Bloomberg

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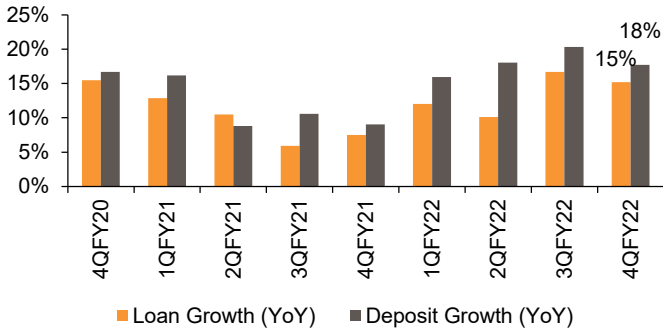
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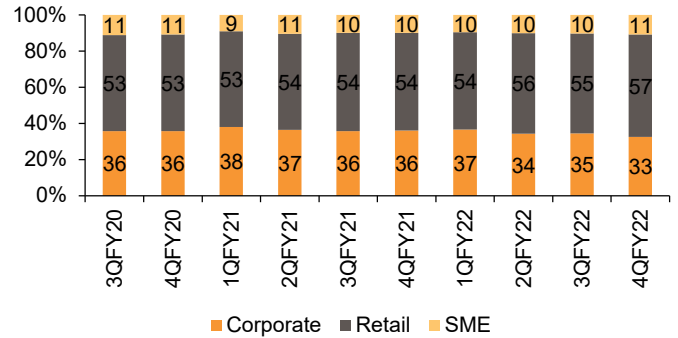
Story in Charts

Exhibit 1: Healthy credit growth led by continued traction in retail/SME book...



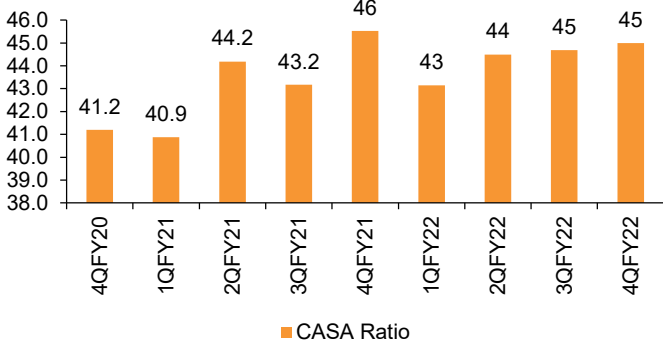
Source: Company, Emkay Research

Exhibit 2: ...leading to steady increase in share of retail/SME portfolios



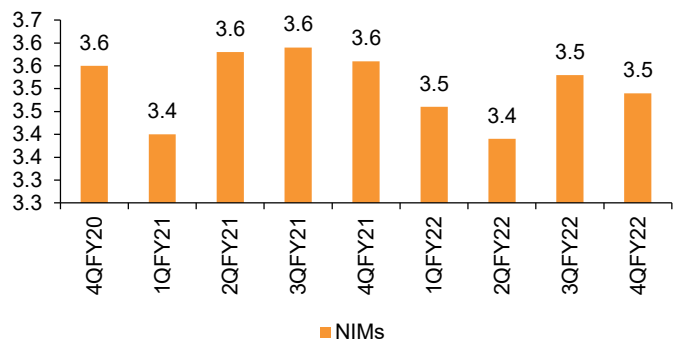
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains healthy at 45%, but could face headwinds amid rising interest rate scenario and competition



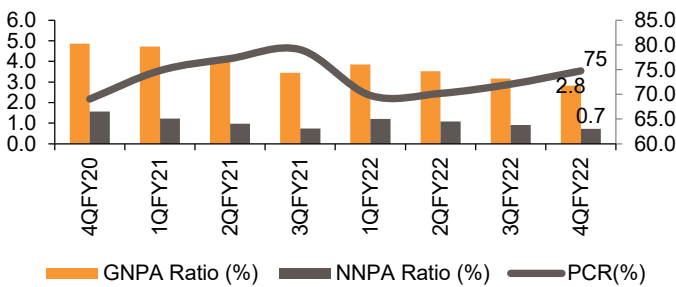
Source: Company, Emkay Research

Exhibit 4: NIM declined marginally due to interest reversal on one corporate and unfavorable spreads



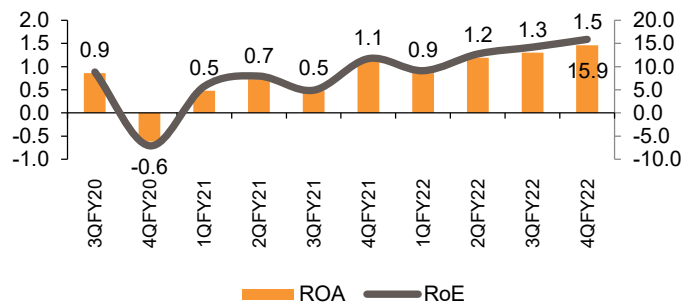
Source: Company, Emkay Research

Exhibit 5: Asset quality continues to improve, with PCR now high and healthy at 75%



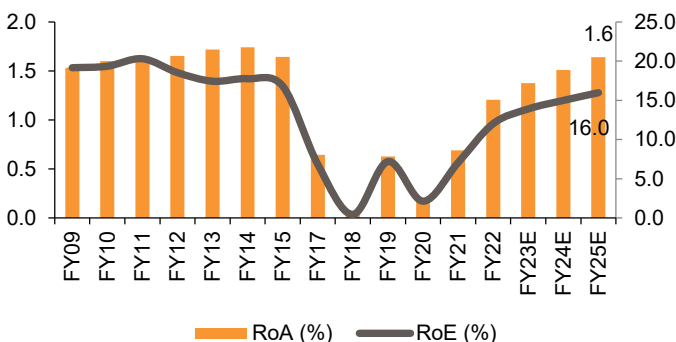
Source: Company, Emkay Research

Exhibit 6: Improvement in RoA mainly driven by lower provisions, partly offset by higher opex and subdued margins



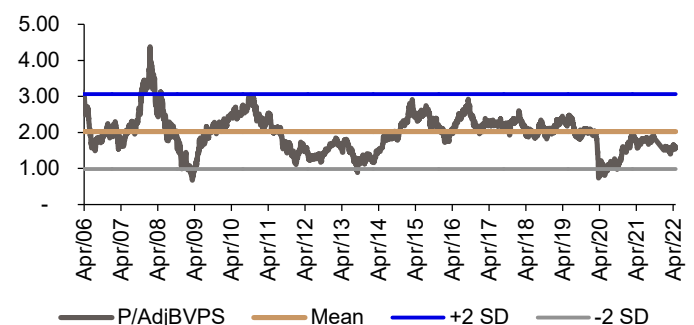
Source: Company, Emkay Research

Exhibit 7: Return ratios to normalize over FY23-25E



Source: Emkay Research

Exhibit 8: The stock currently trades at 1.6x one-year forward ABV, adjusted for subsidiaries' valuation



Source: Bloomberg, Emkay Research

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Exhibit 9: Actual vs. Estimates (Q4FY22)

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,30,426	1,31,407	1,33,631	-1%	-2%	Lower margins and other income led to miss
PPOP	64,661	65,898	67,013	-2%	-4%	Higher other opex led to miss on PPOP
PAT	41,179	40,438	38,513	2%	7%	Lower LLP led to PAT beat

Source: Company, Bloomberg, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	568,505	571,918	0.6%	674,231	676,078	0.3%	805,933
PPOP	304,339	303,914	-0.1%	379,547	371,434	-2.1%	455,039
PAT	174,343	173,937	-0.2%	224,792	221,339	-1.5%	281,124
EPS (Rs)	56.8	56.7	-0.3%	73.3	72.1	-1.6%	91.6
BV (Rs)	435.0	440.5	1.3%	511.6	521.7	2.0%	625.1

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

Rs (mn)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	154,984	154,945	160,035	163,359	172,611	177,762	15	3	673,768	819,776	22
Interest Exp	81,256	79,395	82,432	84,357	86,086	89,571	13	4	342,446	424,679	24
Net Interest Income	73,728	75,550	77,603	79,002	86,525	88,191	17	2	331,322	395,097	19
Global NIMs (reported)	3.59	3.56	3.46	3.39	3.53	3.49	-7bps	-4bps	3.34	3.37	4bps
Non-interest Income	37,760	35,407	33,585	37,984	38,404	42,233	19	10	152,205	176,821	16
Operating Expenses	50,533	53,586	49,324	57,705	63,314	65,765	23	4	236,108	268,004	14
Pre Provisioning Profit	60,955	57,370	61,863	59,281	61,615	64,660	13	5	247,420	303,914	23
Provision & Contingencies	46,043	21,673	33,023	17,351	13,348	9,872	-54	-26	73,595	71,471	-3
PBT	14,912	35,697	28,840	41,930	48,267	54,788	53	14	173,826	232,443	34
Income Tax Expense (Gain)	3,746	8,926	7,239	10,598	12,125	13,610	52	12	43,571	58,506	34
Net Profit/(Loss)	11,166	26,771	21,602	31,332	36,142	41,178	54	14	130,255	173,937	34
Gross NPA (%)	3.44	3.70	3.85	3.53	3.17	2.82	-88bps	-35bps	2.66	2.19	-47bps
Net NPA (%)	0.74	1.05	1.20	1.08	0.91	0.73	-32bps	-18bps	0.68	0.62	-6bps
Deposits (Rs in bn)	6,412	6,980	7,139	7,363	7,717	8,217	18	6	8,217	9,480	15
Net Advances (Rs in bn)	5,698	6,144	6,149	6,217	6,649	7,077	15	6	7,077	8,279	17

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	15.2	17.0	19.3	20.3
Deposit Growth %	17.7	15.4	17.0	19.3
NIM %	3.3	3.4	3.4	3.5
GNPA %	2.7	2.2	1.9	1.5
Credit Cost %	1.0	0.8	0.8	0.8

Source: Company, Emkay Research

Exhibit 13: Key trends and ratios

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Loans (Rs mn)	57,14,242	54,88,455	56,45,848	56,98,285	61,43,994	61,48,737	62,17,193	66,48,656	70,76,960
growth YoY %	15.5	10.4	8.2	3.6	7.5	12.0	10.1	16.7	15.2
Composition %									
- Corporate	35.7	38.1	37.2	35.7	36.2	36.6	34.4	34.5	32.6
- SME/BB	10.8	9.0	10.7	9.9	9.9	9.5	10.0	10.2	10.9
- Retail	53.4	52.9	54.1	54.4	53.9	53.9	55.6	55.3	56.5
Liability Profile %									
Deposit (Rs mn)	64,01,049	61,56,550	62,36,666	64,12,150	69,79,853	71,38,620	73,62,855	77,16,702	82,17,209
growth YoY %	16.7	13.9	6.8	8.4	9.0	16.0	18.1	20.3	17.7
CASA	41.2	41.7	45.0	44.0	45.5	43.1	44.5	44.7	45.0
CA	14.1	13.1	16.1	14.4	16.2	13.6	14.2	15.1	15.5
SA	27.1	28.6	29.0	29.6	29.3	29.6	30.3	29.6	29.5
NIM %	3.6	3.4	3.6	3.6	3.6	3.5	3.4	3.5	3.5
NIM %- Domestic	3.7	3.6	3.7	3.7	3.7	3.6	3.5	3.7	3.6
Asset Quality									
GNPA %	5.1	5.2	4.6	3.7	4.0	4.1	3.8	3.4	3.0
NNPA %	1.6	1.2	1.0	0.7	1.1	1.2	1.1	0.9	0.7
PCR % - Specific	69.0	74.8	77.2	79.0	72.4	69.8	70.2	72.0	74.7
Capital Adequacy	3.17	1.78	0.71	0.02	8.63	4.75	3.87	2.91	2.59
CAR %	17.5	17.5	19.4	18.7	19.1	19.0	20.0	18.7	18.5
Tier I %	14.5	14.6	16.5	15.9	16.5	16.5	17.5	17.5	16.3
ROE Decomposition % (on total assets)									
NII	3.2	3.4	3.4	3.4	3.2	3.3	3.2	3.4	3.3
Other Income (Ex Treasury)	1.7	0.9	1.3	1.6	1.5	1.1	1.4	1.4	1.5
Treasury	0.1	0.3	0.4	0.2	0.0	0.3	0.2	0.1	0.1
Net income	5.0	4.6	5.1	5.1	4.7	4.7	4.8	4.9	4.8
Opex	2.3	1.8	2.0	2.3	2.3	2.1	2.4	2.5	2.4
PPOP	2.7	2.8	3.1	2.8	2.4	2.6	2.4	2.4	2.4
Provisions	3.6	2.1	2.0	2.1	0.9	1.4	0.7	0.5	0.4
PBT	(0.9)	0.7	1.1	0.7	1.5	1.2	1.7	1.9	2.0
Tax	(0.2)	0.2	0.3	0.2	0.4	0.3	0.4	0.5	0.5
ROA	(0.6)	0.5	0.8	0.5	1.1	0.9	1.3	1.4	1.5
Leverage (x)	11.3	10.5	9.4	9.5	10.2	10.0	9.4	9.8	10.0
ROE	(7.3)	5.7	7.4	4.8	11.5	9.1	12.1	13.8	15.2

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	292,391	331,322	395,097	467,557	559,432
Other income	148,382	152,205	176,821	208,521	246,501
Fee income	93,589	110,334	131,298	158,870	190,644
Net income	440,773	483,528	571,918	676,078	805,933
Operating expenses	183,751	236,108	268,004	304,644	350,894
Pre provision profit	257,021	247,420	303,914	371,434	455,039
PPP excl treasury	233,998	231,160	288,467	356,760	440,364
Provisions	168,963	73,595	71,471	75,645	79,356
Profit before tax	88,058	173,826	232,443	295,790	375,683
Tax	22,173	43,571	58,506	74,450	94,559
Tax rate	25	25	25	25	25
Profit after tax	65,885	130,255	173,937	221,339	281,124

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	6,128	6,140	6,140	6,140	6,140
Reserves	1,009,903	1,144,115	1,346,188	1,595,234	1,912,872
Net worth	1,016,030	1,150,255	1,352,327	1,601,374	1,919,011
Deposits	6,979,850	8,217,209	9,479,824	11,091,753	13,229,583
Borrowings	1,183,832	1,569,704	1,648,189	1,730,598	1,817,128
Total liabilities	9,867,975	11,751,781	13,518,625	15,782,200	18,524,797
Cash and bank	518,086	940,345	1,034,380	1,137,818	1,251,599
Investments	2,261,196	2,755,972	3,097,669	3,518,944	4,022,933
Loans	6,143,994	7,076,960	8,279,335	9,879,002	11,883,519
Others	803,037	763,255	897,056	1,021,153	1,179,711
Total assets	9,867,975	11,751,781	13,518,625	15,782,200	18,524,797

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.4	3.3	3.4	3.4	3.5
Non-ll/avg assets	1.6	1.4	1.4	1.4	1.4
Fee income/avg assets	1.0	1.0	1.0	1.1	1.1
Opex/avg assets	1.9	2.2	2.1	2.1	2.0
Provisions/avg assets	1.8	0.7	0.6	0.5	0.5
PBT/avg assets	0.9	1.6	1.8	2.0	2.2
Tax/avg assets	0.2	0.4	0.5	0.5	0.6
RoA	0.7	1.2	1.4	1.5	1.6
RoAE	7.1	12.0	13.9	15.0	16.0
GNPA (%)	3.6	2.7	2.2	1.9	1.5
NNPA (%)	1.0	0.7	0.6	0.6	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.4	42.5	56.7	72.1	91.6
BVPS	345.3	375.1	440.5	521.7	625.1
ABVPS	353.3	386.6	453.6	538.6	648.5
DPS	0.0	1.0	5.0	9.0	11.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	31.2	16.4	12.3	9.7	7.6
P/BV	2.0	1.9	1.6	1.3	1.1
P/ABV	2.1	1.9	1.6	1.4	1.1
P/PPOP	9.2	9.6	7.8	6.4	5.2
Dividend Yield (%)	0.0	0.1	0.6	1.2	1.4

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	16.0	13.3	19.2	18.3	19.7
PPOP	9.7	(3.7)	22.8	22.2	22.5
PAT	304.9	97.7	33.5	27.3	27.0
Loans	7.5	15.2	17.0	19.3	20.3

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
NII	75,550	77,603	79,002	86,525	88,192
NIM(%)	3.6	3.5	3.4	3.5	3.5
PPOP	57,370	61,863	59,281	61,615	64,661
PAT	26,771	21,602	31,332	36,142	41,179
EPS (Rs)	8.74	7.05	10.22	11.79	13.43

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	13.3	11.4	11.4	9.5	9.5
FII	52.7	53.7	52.6	48.6	48.0
DII	22.7	23.7	24.7	29.6	29.9
Public and Others	11.4	11.3	11.3	12.4	12.6

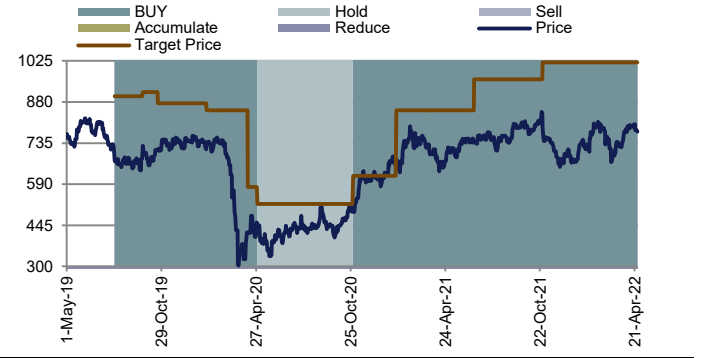
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
31-Mar-22	761	1,020	12m	Buy	Anand Dama
25-Jan-22	752	1,020	12m	Buy	Anand Dama
27-Oct-21	788	1,020	12m	Buy	Anand Dama
27-Jul-21	732	960	12m	Buy	Anand Dama
18-Jun-21	736	960	12m	Buy	Anand Dama
28-Apr-21	708	850	12m	Buy	Anand Dama
28-Jan-21	671	850	12m	Buy	Anand Dama
20-Jan-21	676	850	12m	Buy	Anand Dama
29-Oct-20	494	620	12m	Buy	Anand Dama
22-Jul-20	479	520	12m	Hold	Anand Dama
29-Apr-20	439	520	12m	Hold	Anand Dama
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
9-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.13	19.12	0.0%	0	100.00	
Axis Bank	2.08	2.19	5%	11	11.45	0
AU Small Finance Bank	0.31	0.25	-17%	-5	1.32	0
Bandhan Bank	0.22	0.22	0%	0	1.17	0
Bank of Baroda	0.21	0.21	0%	0	1.12	0
Canara Bank	0.13	0.06	-54%	-7	0.31	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.19	0.27	39%	7	1.40	0
HDFC Bank	5.97	6.04	1%	8	31.60	0
ICICI Bank	5.08	5.23	3%	15	27.36	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.58	0.58	0%	0	3.05	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.26	2.02	-11%	-24	10.58	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.89	2.03	7%	14	10.64	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.05	0.00	-100%	-5	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base						Latest
	1-Apr-19	27-Apr-21	27-Oct-21	27-Jan-22	28-Mar-22	27-Apr-22	
EAP - BFSI-Banks	100.0	112.4	140.2	130.1	122.3	123.0	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	110.1	137.5	127.6	119.9	120.6	

*Performance measurement base date 1st April 2019

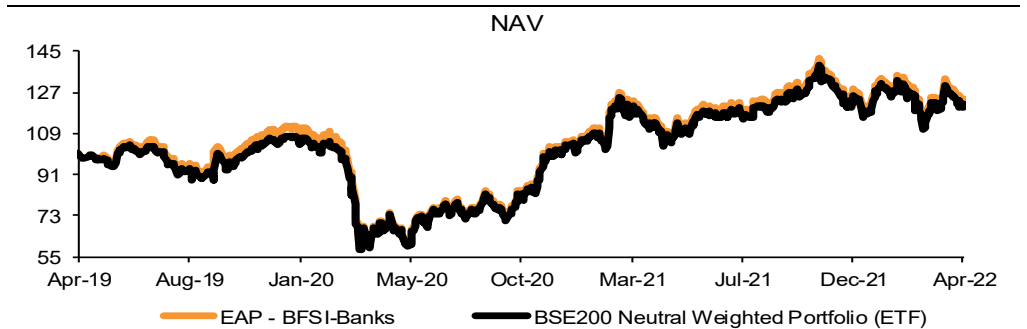
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	0.5%	-5.4%	-12.3%	9.5%
BSE200 Neutral Weighted Portfolio (ETF)	0.6%	-5.5%	-12.3%	9.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Apr 2022 12:05:05 (SGT)
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