

CMP: ₹ 780

Target: ₹ 970 (24%)

Target Period: 12 months

April 29, 2022

BUY

Comfort on asset quality with growth pick-up...

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 11.7 lakh crore as on March 2022.

- The bank has a large footprint across India with 4758 branches
- Retail and SME comprise ~68% of total loans

Q4FY22 Results: Axis Bank reported a good operating performance.

- NII up 17% YoY and 2% QoQ, NIMs down 4 bps QoQ to 3.49%
- Provisions down 26% QoQ, PAT up 54% YoY ₹ 4118 crore
- Loan growth at 15% YoY to ₹ 7.07 lakh crore. Retail book up 21% YoY
- GNPA down 88 bps QoQ to 2.82%. R/s book was at 0.52%

What should investors do? Axis Bank's share price has given ~8% return in the past one year. This was post some correction in the past few months. We believe its healthy capitalisation and provision buffer would aid smooth earnings traction. Also, the recent proposed Citi acquisition will give a competitive advantage by gaining market share and improve return profile of the bank.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value Axis Bank at ~2.3x FY24E ABV and maintain our target price at ₹ 970.

Key triggers for future price performance:

- Cumulative provisions of 132% of GNPA provide comfort on asset quality and earnings
- Strong capitalisation levels (CRAR at 18.5%, Tier-1 at 16.3%) in place to support future growth
- Fund raising for CITI acquisition possible as time arrives

Alternate Stock Idea: Apart from Axis, in our coverage we also like Kotak Bank.

- Kotak Mahindra Bank (KMB) is a powerful banking franchise with strong promoter led management. It has a presence across financial services value chain
- BUY with a target price of ₹ 2500



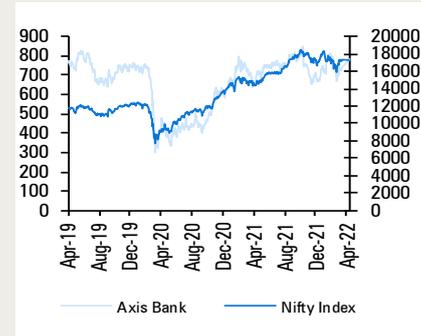
Particulars

Particulars	Amount
Market Capitalisation	₹239480 crore
52 week H/L	866 /637
Net worth	₹ 115025 crore
Face value	₹ 2

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	13.6	11.7	11.6	9.7	9.7
FII	51.4	52.5	51.4	47.4	46.9
DII	24.4	24.3	25.3	30.2	30.5
Others	10.6	11.6	11.7	12.6	12.9

Price Chart



Recent Event & Key risks

- GNPA down 88 bps to 2.82%, R/s book stood at 0.52%
- **Key Risk:** Any further wave of pandemic could impact asset quality and pause growth momentum

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	21708	25206	29239	33132	15%	39323	47228	19%
PPP	19005	23438	25702	24742	9%	31570	38454	25%
PAT	4677	1627	6588	13025	41%	16152	19524	22%
ABV (₹)	215.4	267.9	308.8	350.0		396.8	416.7	
P/E	42.9	135.3	36.3	18.4		14.8	12.2	
P/ABV	3.6	2.9	2.5	2.2		2.0	1.9	
RoA	0.6	0.2	0.7	1.2		1.4	1.5	
RoE	7.2	2.1	7.1	12.0		13.3	14.8	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Higher other income and lower provisions beat PAT estimates.

- NII growth was 1.9% QoQ and 16.7% YoY at ₹ 8819 crore. NIMs were at 3.49% vs. 3.53% in Q3FY22, declining 4 bps QoQ. Other income grew 10% QoQ and declined 10% YoY to ₹ 4223 crore, wherein fee income was up 11% YoY and 12% QoQ. Opex was largely steady on a QoQ basis, which resulted in steady C/I ratio at 50.4% vs. 50.7% in the previous quarter. PPP has declined
- Provisions declined 26% QoQ to ₹ 987 crore, with improvement in asset quality. The bank has not utilised Covid provisions during Q4FY22. Thus, net profit for the quarter was up 54% YoY and 14% QoQ to ₹ 4117 crore
- The bank holds cumulative provisions of ₹ 12,428 crore. On an aggregated basis, provision coverage ratio was at 132% of GNPA
- Asset quality has improved as GNPA and NNPA ratio declined 35 bps and 18 bps QoQ to 2.82% and 0.73%, respectively. The standard Covid-19 restructuring implemented loans were at 0.52% of GCA. Slippages for the quarter were at ₹ 3981 crore compared to ₹ 4147 crore in Q3FY22. Recoveries and upgrades from NPAs were ₹ 3763 crore vs. ₹ 3,288 crore (QoQ) while write-offs were ₹1697 crore
- Credit growth for the quarter was healthy at 15% YoY and 6% QoQ to ₹ 7.07 lakh crore, mainly driven by 21% YoY uptick in retail loans (which accounted for 57% of total loan book) and 26% YoY rise in SME book, while corporate segment reported moderate growth of 4% YoY growth. Deposit growth was healthy at 18% YoY at ₹ 8.2 lakh crore, in which CASA growth was at 16% YoY. As a result, CASA ratio was up by 70 bps to 45% YoY. And 20bps QoQ.

Q4FY22 Earnings Conference Call highlights

- The management expects improvement in margins will be driven by shift from investments to advances. Key focus segments would be wholesale (mid-corporate), retail (mostly unsecured loans)
- Retail fees comprise 66% of total fees. The bank added 24 lakh new liability relationships in Q4FY22 (up 30% YoY & 11% QoQ)
- Credit card spends grew 46% YoY and 3% QoQ and grew faster than industry. With the acquisition of 11 lakh credit cards, the bank achieved its highest ever acquisition run-rate
- The bank continues to invest on building its digital capabilities, which is expected to keep opex to assets ratio higher
- Breakup of incremental opex during Q4FY22: Increase in volumes (38%), investment in future growth and technology (28%), collections related (11%) and balance 14% is due to a general increase in operating expenses. Tech expenses grew 2x YoY in Q4FY22
- During the quarter, the bank has not utilised Covid provisions. The bank made 100% provisions for unsecured retails loans
- During the quarter the bank sold one NPA account of ₹ 215 crore to ARC and realised ₹ 63.4 crore from the sale
- It has 18% RoE target for FY23-25

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	780	970	Buy	2394	42.4	52.7	63.7	18.4	14.8	12.2	2.2	2.0	1.9	1.2	1.4	1.5	12.0	13.3	14.8
Federal Bank (FEDBAN)	98	120	Buy	205	8.8	10.6	13.1	11.1	9.2	7.5	1.3	1.2	1.0	0.9	1.0	1.1	10.9	11.9	13.3
IndusInd Bank (INDBA)	987	1,150	Buy	764	58.0	72.3	85.8	17.0	13.7	11.5	1.7	1.6	1.5	1.2	1.3	1.4	10.1	11.8	13.0
Kotak Bank (KOTMAH)	1,766	2,500	Buy	3503	40.0	46.8	55.3	44.1	37.7	31.9	5.1	4.5	3.9	1.9	2.0	2.1	11.7	12.2	12.7
CSB Bank (CSBBAN)	217	320	Buy	38	24.6	27.6	33.8	8.8	7.9	6.4	1.7	1.4	1.2	1.8	1.8	1.8	17.9	16.9	17.5
Bandhan (BANBAN)	336	300	Hold	541	-5.0	21.1	31.3	-66.6	15.9	10.7	4.0	3.2	2.5	-0.7	2.5	3.1	-4.8	19.0	23.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	8,819	9,193	7,555	16.7	8,653	1.9	Sequential NII growth subdued with NIM contraction
NIM (%)	3.49	3.39	3.56	-7 bps	3.53	-4 bps	
Other Income	4,223	3,952	4,668	-9.5	3,840	10.0	Other income growth driven by growth in fee income
Net Total Income	13,042	13,145	12,223	6.7	12,493	4.4	
Staff cost	1,887	2,055	1,668	13.1	1,939	-2.7	
Other Operating Expenses	4,690	4,612	3,691	27.1	4,393	6.8	Increase due to spends on tech and digital transformations
PPP	6,466	6,478	6,865	-5.8	6,162	4.9	operating profit decline slightly disappointed as NIM moderates
Provision	987	1,354	3,295	-70.0	1,335	-26.0	Decline due to lower slippage
PBT	5,479	5,123	3,570	53.5	4,827	13.5	
Tax Outgo	1,361	1,281	893	52.5	1,212	12.2	
PAT	4,118	3,843	2,677	53.8	3,614	13.9	Ahead of estimates due to lower provisions
Key Metrics							
GNPA	21,822	24,000	25,315	-13.8	23,301	-6.3	
NNPA	5,512	6,643	6,994	-21.2	6,513	-15.4	
Credit	7,07,696	7,12,736	6,14,399	15.2	6,64,866	6.4	Driven by retail and SME book
Deposit	8,21,721	8,17,970	6,97,986	17.7	7,71,670	6.5	CASA up 16% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	39,699	39,323	-0.9	48,109	47,228	-1.8
Pre Provision Profit	31,946	31,570	-1.2	39,334	38,454	-2.2
NIM(%) (calculated)	3.9	3.8	-4 bps	4.0	3.9	-7 bps
PAT	16,409	16,152	-1.6	20,184	19,524	-3.3
ABV per share (₹)	400.1	396.8	-0.8	422.1	416.7	-1.3

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	13.5	19.3	14.7	16.0
Deposit Growth (%)	10.2	20.0	14.3	14.5
CASA ratio (%)	44.8	46.2	44.8	44.5
NIM Calculated (%)	3.8	3.9	3.9	4.0
Cost to income ratio (%)	44.2	44.4	43.9	42.9
GNPA (₹ crore)	20,480	20,992	20,480	17,973
NNPA (₹ crore)	3,939	4,144	3,939	2,936
Slippage ratio (%)	1.70	2.15	1.72	1.70
Credit cost (%)	1.13	1.16	1.14	1.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement						
	₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	54,986	62,635	63,645	67,377	79,288	93,394
Interest Expended	33,278	37,429	34,406	34,245	39,965	46,165
Net Interest Income	21,708	25,206	29,239	33,132	39,323	47,228
growth (%)	16.6	16.1	16.0	13.3	18.7	20.1
Non Interest Income	13,130	15,537	14,838	15,221	17,268	21,931
Net Income	34,839	40,743	44,077	48,353	56,591	69,160
Staff cost	4,747	5,321	6,164	7,613	9,800	10,958
Other operating Expense	11,086	11,984	12,211	15,998.20	15,221	19,748
Operating Profit	19,005	23,438	25,702	24,742	31,570	38,454
Provisions	12,031	18,534	16,896	7,359	10,034	12,422
PBT	6,974	4,904	8,806	17,383	21,536	26,032
Taxes	2,297	3,277	2,217	4,357	5,384	6,508
Net Profit	4,677	1,627	6,588	13,025	16,152	19,524
growth (%)	-1879.9	-65.2	304.9	97.7	24.0	20.9
EPS (₹)	18.2	5.8	21.5	42.4	52.7	63.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of Equity Shares	257.2	282.2	306.4	307.0	306.4	306.4
EPS (₹)	18.2	5.8	21.5	42.4	52.7	63.7
BV (₹)	259.3	301.1	331.6	374.7	419.8	440.9
ABV (₹)	215.4	267.9	308.8	350.0	396.8	416.7
P/E	42.9	135.3	36.3	18.4	14.8	12.2
P/BV	3.0	2.6	2.4	2.1	1.9	1.8
P/ABV	3.6	2.9	2.5	2.2	2.0	1.9
Yields & Margins (%)						
Net Interest Margins	3.4	3.5	3.7	3.7	3.8	3.9
Yield on assets	8.5	8.7	8.1	7.5	7.7	7.8
Avg. cost on funds	5.1	5.0	4.2	4.1	4.1	4.1
Yield on average advances	8.8	9.1	8.1	8.0	8.2	8.3
Avg. Cost of Deposits	4.7	4.9	4.0	3.8	3.9	3.9
Quality and Efficiency						
Cost to income ratio	45	42	42	49	44	44
Credit/Deposit ratio	90.2	89.3	88.0	86.1	88.8	88.2
GNPA	5.3	4.7	3.7	2.9	2.3	2.0
NNPA	2.3	1.6	1.1	0.7	0.5	0.4
ROE	7.2	2.1	7.1	12.0	13.3	14.8
ROA	0.6	0.2	0.7	1.2	1.4	1.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet						
	₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	514	564	613	614	613	613
Reserves and Surplus	66162	84397	100990	114412	128015	134463
Networth	66676	84961	101603	115025	128628	135076
Deposits	548471	640105	697985	821721	905155	1086192
Borrowings	152776	147954	142873	185134	133148	135395
Other Liabilities & Provisions	33073	42158	44336	53298	45517	47672
Total	800997	915178	986798	1175178	1212448	1404335
Application of Funds						
Fixed Assets	4037	4313	4245	4572	3534	3964
Investments	174969	156734	226120	275597	292402	342289
Advances	494798	571424	614399	707696	803339	958043
Other Assets	59988	85439	80304	76325	52289	41994
Cash with RBI & call money	67205	97268	61730	110987	60885	58045
Total	800997	915178	986798	1175178	1212448	1404335

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	15.9	14.3	7.8	19.1	3.2	15.8
Advances	12.5	15.5	7.5	15.2	13.5	19.3
Deposit	20.9	16.7	9.0	17.7	10.2	20.0
Total Income	20.0	14.8	0.4	5.2	16.9	19.4
Net interest income	16.6	16.1	16.0	13.3	18.7	20.1
Operating expenses	13.2	9.3	6.2	28.5	6.0	22.7
Operating profit	21.9	23.3	9.7	-3.7	27.6	21.8
Net profit	NA	-65.2	304.9	97.7	24.0	20.9
Net worth	5.1	27.4	19.6	13.2	11.8	5.0
EPS	NA	-68.3	272.9	97.3	24.2	20.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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