



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING
Updated Jan 08, 2022

28.68

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

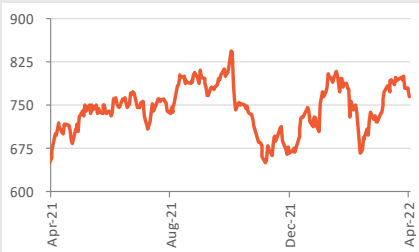
Company details

Market cap:	Rs. 2,39,480 cr
52-week high/low:	Rs. 867 / 637
NSE volume: (No of shares)	111 lakh
BSE code:	532215
NSE code:	AXISBANK
Free float: (No of shares)	264 cr

Shareholding (%)

Promoters	9.7
FII	46.9
DII	30.5
Others	12.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	2.4	-2.7	11.1
Relative to Sensex	7.4	3.3	3.2	-7.3

Sharekhan Research, Bloomberg

Axis Bank

Asset quality improves, higher opex dents operating profit

Bank	Sharekhan code: AXISBANK		
Reco/View: Buy	↔	CMP: Rs. 780	Price Target: Rs. 940 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Axis Bank reported a PAT of Rs. 4,118 crore, above the consensus' and our expectations of Rs. 3,864 crore, primarily on account of lower credit cost (0.32%).
- However, operating profits grew by 5% q-o-q and declined by 6% y-o-y mainly due to higher opex growth (23% y-o-y; 4% q-o-q) in Q4FY22.
- Asset quality has been continuously improving for the bank with both GNPA and NNPA ratios falling by 35 bps q-o-q and 18 bps q-o-q to 2.82% and 0.73% in Q4FY22.
- The stock trades at 1.8x/1.6x its FY2023E and FY2024E core ABV. We maintain a Buy rating on the stock with an unchanged price target of Rs. 940.

Axis Bank reported weak operating performance. Net interest income (NII) grew by ~17% y-o-y and ~2% q-o-q, aided by loan book growth (~14% yoy/ 6% qoq). However, Net interest margin (NIMs) declined by 4 bps q-o-q to 3.49% due to interest reversal on NPA. Core fee income grew by 11% y-o-y/12% q-o-q. Total operating expenses grew by ~23% yoy/4%qoq primarily on account of higher business volumes, higher tech spends and higher collection expenses. Operating profits grew by 5% q-o-q and declined by 6% y-o-y mainly due to higher opex growth. Provisions declined by ~70% y-o-y/~26% q-o-q. PAT grew by 54% y-o-y/ 14% q-o-q mainly due to lower provisions. Asset quality has been continuously improving for the bank with both GNPA and NNPA ratios falling by 35 bps q-o-q and 18 bps q-o-q to 2.82% and 0.73% in Q4FY22. PCR at 75%. Advances grew by ~14% y-o-y and ~6% q-o-q. Retail loans grew by 21% y-o-y while SME and corporate portfolio grew by 26% y-o-y and 4% y-o-y, respectively. Deposits grew by 16% y-o-y. Average CASA grew by 19% y-o-y vs 25% in Q3FY22. CASA ratio stands at 45%. Retail term deposits growth was muted at 4% y-o-y.

Key positives

- Lower credit cost and improvement in asset quality with both GNPA and NNPA ratios falling by 35 bps q-o-q and 18 bps q-o-q to 2.82% and 0.73%.

Key negatives

- Higher operating expenses growth (23% y-o-y/4% q-o-q) led by tech spends, volumes and collection expenses.

Management Commentary

- RoE guidance of 18% rolled over from FY23E to FY25E.
- Bank continues to see higher tech spends going forward, which would keep cost to asset ratio >2% mark, which was earlier guided at 2% for FY23E onwards.

Our Call

Valuation – We maintain our Buy rating with an unchanged PT of Rs. 940: Axis Bank trades at 1.8x/1.6x its FY2023E/2024E core ABV. We believe its valuations are reasonable. The bank is on an accelerated growth path with high double digit advances growth led by retail, SME and mid corporate segment. New digital products both in assets & liability segments are growing well, as is reflected in the strong retail franchise growth. Focus is on sustainable, granular growth leaving behind the legacy burden and higher spending on technology. The bank's continuous building up of its digital initiatives, franchise with improving asset quality is likely to bode well for growth going ahead. With a high PCR, strong balance sheet, the bank can absorb shocks from any unanticipated future risk.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from the 'BB and below'-rated corporate portfolio and unsecured retail book could affect earnings.

Valuation

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	29,239	33,132	37,932	43,422
Net profit	6,589	13,025	16,578	17,901
EPS (Rs)	21.5	42.5	54.1	58.4
P/E (x)	36.0	18.4	14.5	13.4
P/ABV (x)	2.5	1.9	1.8	1.6
RoE	7.1	12.9	13.7	13.1
RoA	0.7	1.2	1.4	1.4

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **Healthy NII & fee income growth:** NII grew by 17% y-o-y / 2% q-o-q reported at Rs. 8,819 crore on the back of advances growth of ~14% y-o-y. NIMs declined by 4 bps q-o-q at 3.49% due to interest reversal on NPA. Core fee income grew by ~11% y-o-y / ~12% q-o-q. Going forward, an improvement in margins could come from higher share of unsecured loans in product mix and reduction of the RIDF book.
- ♦ **Higher opex due to rise in tech spends:** Total operating expenses grew by 23% y-o-y on account of increased spends in retail franchise, accelerated investments in technology, integration costs and higher collection expenses. Cost-to-income ratio reported at 50% versus 44% in Q4FY21.
- ♦ **Lower credit cost a positive surprise:** Provisions declined by ~70% y-o-y/~26% q-o-q reported at Rs. 987 cr on the back of higher upgrades and recoveries. Total COVID-19 provisions stood at Rs. 5,012 crore as at March 2022.
- ♦ **Digital initiatives speed up retail advances growth:** Advances grew by 14% y-o-y with the retail book growing by 21% y-o-y. The share of secured retail loans was ~ 80%, with home loans comprising 36% of the retail book. Home loans, Small business banking and the rural loans portfolio grew 18% y-o-y, 60% y-o-y, & 29% y-o-y respectively. Unsecured personal loans and credit card advances grew 15% y-o-y and 19% y-o-y respectively. SME and wholesale corporate book grew by 26% y-o-y /4% y-o-y respectively. Robust growth in retail and SME portfolio can be fully attributed to digital initiatives. Digital sourcing has increased significantly across products. Bank has negligible exposure to Russia & Ukraine in its overseas book. Approx. 1.1 million credit cards were issued in Q4FY22, highest ever for any quarter. To facilitate higher acquisition and market share gains, bank announced a strategic partnership with Bharti Airtel offering Airtel Axis Bank Credit Card with exclusive benefits for Airtel's 340 million plus customers.
- ♦ **Slower growth in retail term deposits:** Deposits grew by 16% y-o-y. Average CASA grew by 19% y-o-y vs 25% in Q3FY22. CASA ratio stands at 45%. Retail term deposits growth was muted at 4% y-o-y. Focus on granular retail liability franchise.
- ♦ **Asset quality gets better:** Asset quality has been continuously improving for the bank with both GNPA and NNPA ratios falling by 35 bps q-o-q and 18 bps q-o-q to 2.82% and 0.73% in Q4FY22. PCR at 75%.vs 72% in Q3FY22. Gross slippages were reported at Rs.3981 crore vs Rs 4,147 crore in Q3FY22. Recoveries & upgrades stood at Rs. 3,763 cr vs Rs. 3,288 cr in Q3FY22. Write offs were at Rs.1,697 crore vs Rs.1,707 crore in Q3FY22. BB & below corporate book stands at 1.3% vs 1.7% in Q3FY22. Restructured book stands at 0.52% of gross customer assets.
- ♦ **Withdrawal of guidance and rollover:** Took back the guidance on Cost to assets ratio of 2% by FY23E given earlier. It will be > 2% on the back of higher digital spends. ROE guidance of 18% rolled over from FY23 to FY25.
- ♦ **Dividend:** The bank has also recommended a dividend of Rs. 2 per share.

Results

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Rs cr Q-o-Q %
Interest Income	17,776	15,545	17,261	14.4%	3.0%
Interest Expenses	8,957	7,990	8,609	12.1%	4.0%
Net Interest Income	8,819	7,555	8,653	16.7%	1.9%
NIM (%)	3.5	3.6	3.53		
Core Fee Income	3,758	3,376	3,344	11.3%	12.4%
Other Income	465	1,292	496	-64.0%	-6.2%
Net Operating Revenue	13,042	12,223	12,493	6.7%	4.4%
Employee Expenses	1,887	1,668	1,939	13.1%	-2.7%
Other Opex	4,690	3,691	4,393	27.1%	6.8%
Total Opex	6,576	5,359	6,331	22.7%	3.9%
Cost to Income Ratio (%)	50%	44%	51%		
Pre Provision Profits	6,466	6,865	6,162	-5.8%	4.9%
Provisions & Contingencies - Total	987	3,295	1,335	-70.0%	-26.0%
Profit Before Tax	5,479	3,570	4,827	53.5%	13.5%
Tax	1,361	893	1,212	52.5%	12.2%
Effective Tax Rate (%)	25%	25%	25%		
Reported Profits	4,118	2,677	3,614	53.8%	13.9%
Basic EPS	13.4	8.7	11.8	53.5%	13.9%
Diluted EPS	13.4	8.7	11.8	53.4%	13.9%
RoA (%)	1.5	1.1	1.3		
ROE (%)	15.9	11.7	14.2		
Advances	7,07,696	6,23,720	6,64,866	13.5%	6.4%
Deposits	8,21,721	7,07,306	7,71,670	16.2%	6.5%
Gross NPA	21,822	25,315	23,301	-13.8%	-6.3%
Gross NPA Ratio (%)	2.82	3.70	3.17		
PCR - Calculated (%)	74.7%	72.4%	72.0%		
Net NPA	5,512	6,994	6,513	-21.2%	-15.4%
Net NPAs Ratio (%)	0.73	1.05	0.91		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Credit growth accelerating, Top private banks placed better

System-level credit offtake grew by ~10% y-o-y in the fortnight ending April 8, 2022, indicating a gradual pick-up in loans given the distinct signs of an improvement in the economy and a revival of investments and loan demand. On the other hand, deposits rose by ~9%, which reflect a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succor in terms of easy availability of funds. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as an economic recovery. At present, we believe the banking sector is likely to see higher risk-off behavior, with tactical market share gains for well-placed players. We believe that large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

■ Company outlook – Looks promising in long run

We believe with Axis Bank's strong positioning across retail, business banking, and corporate with improving return matrix, makes it an attractive business available at reasonable valuations. Bank is likely to see lesser growth challenges as it took over Citi's retail assets and as it starts to unwind its overall cautious stance. Axis Bank has tightened underwriting standards and oversight and has frontloaded the provisions, which we believe is positive and allows it to target growth ahead, unburdened from legacy issues. The strong liabilities segment (led by retail term and CASA deposits) places it at a strong position. We believe Bank is being prudent with the additional provision buffers. Its a long-term positive and will help to provide investor comfort and cushion against any future risk.

■ Valuation – We maintain our Buy rating with an unchanged PT of Rs. 940

Axis Bank trades at 1.8x/1.6x its FY2023E/2024E core ABV. We believe its valuations are reasonable. The bank is on an accelerated growth path with high double digit advances growth led by retail, SME and mid corporate segment. New digital products both in assets & liability segments are growing well, as is reflected in the strong retail franchise growth. Focus is on sustainable, granular growth leaving behind the legacy burden and higher spending on technology. The bank's continuous building up of its digital initiatives, franchise with improving asset quality is likely to bode well for growth going ahead. With a high PCR, strong balance sheet, the bank can absorb shocks from any unanticipated future risk.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Axis Bank	780	2,39,480	14.5	13.4	1.8	1.6	13.7	13.1	1.4	1.4
ICICI Bank	747	5,19,368	18.3	16.2	2.7	2.3	14.7	15.5	1.8	2.0
Kotak Mahindra Bank	1766	3,50,392	43.0	37.0	4.4	3.9	10.7	11.3	1.7	1.8

Source: Company, Sharekhan estimates

About company

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments, covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank has 11 subsidiaries, which contribute and benefit from the bank's strong market position across categories.

Investment theme

Axis Bank has a well-diversified loan book having strengths in both retail and corporate segments. The bank's liability profile has improved significantly, which would be helpful in sustaining margins at healthy levels. Of late, loan book quality is improving, which we believe is positive for its profitability and growth going forward. However, we believe given comfortable liquidity, overall franchise value, healthy capitalization levels, and a high PCR (PCR), Axis Bank will be able to ride over medium-term challenges.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from the 'BB and below'-rated corporate portfolio and unsecured retail book could affect earnings.

Additional Data

Key management personnel

Mr Amitabh Chaudhary	MD & CEO
Mr Rajesh Dahiya	Executive Director (Corporate Centre)
Mr Rajiv Anand	Executive Director
Mr. Puneet Sharma	CFO & President

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.0
2	SBI Funds Management Pvt Ltd	4.1
3	Dodge & Cox	3.9
4	ICICI Prudential Asset Management Co Ltd	3.7
5	BlackRock Inc	3.3
6	Vanguard Group Inc/The	2.4
7	FIL Ltd	2.2
8	Bank of New York Mellon Corp.	2.1
9	Nippon Life India Asset Management Ltd	2.0
10	Republic of Singapore	1.9

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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