

CMP: INR 780

Rating: ACCUMULATE

Target Price: INR 927

Stock Info

| | |
|--------------------------|-----------|
| BSE | 532215 |
| NSE | AXISBANK |
| Bloomberg | ASXB IN |
| Reuters | AXBK.BO |
| Sector | Banks |
| Face Value (INR) | 2 |
| Equity Capital (INR Cr) | 612 |
| Mkt Cap (INR Cr) | 2,39,455 |
| 52w H/L (INR) | 867 / 637 |
| Avg Yearly Vol (in 000') | 10,041 |

Shareholding Pattern %

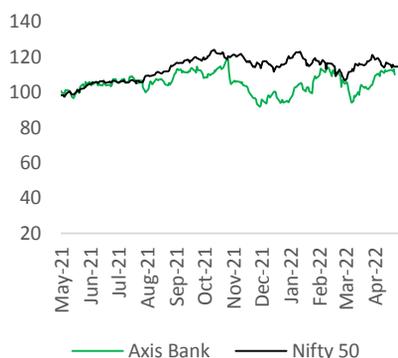
(As on December, 2021)

| | |
|-----------------|------|
| Promoters | 9.7 |
| FII | 46.9 |
| DII | 30.5 |
| Public & Others | 12.9 |

Stock Performance (%)

| | 1m | 3m | 12m |
|-----------|-----|-----|------|
| Axis Bank | 6.0 | 2.0 | 10.1 |
| Nifty | 0.1 | 0.8 | 16.0 |

Axis Bank Vs Nifty



Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Axis Bank has reported mixed performance during Q4FY22 with strong profit growth, improvement in asset quality, marginal contraction in margins and lower than expected operating performance. Bank has reported 54% YoY growth in profit at INR 4,118 cr was higher than our estimate of INR 4,016 cr, driven by 70% YoY/26% QoQ decline in provisions. Advances growth for the quarter was healthy at 15% YoY/6% QoQ, led by growth across focused business segments. NII for the quarter increased by 17% YoY/2% QoQ to INR 8,819 cr was lower than our estimate of INR 9,196 cr. Operating profit for the quarter grew by 4.5% QoQ and declined by 5.8% YoY to INR 6,466 cr as compared to our estimate of INR 6,953 cr. Credit cost for the quarter declined from 0.9% to 0.7% QoQ. Asset quality of the bank improved as GNPA/NNPA decreased by 35bps/17bps QoQ respectively at 2.8%/0.7%, led by strong upgrades and recoveries. Restructuring pool of the bank declined from 0.63% to 0.52% QoQ, which continues to be lower than the other large private sector banks. NIM declined marginally by 4bps QoQ at 3.49%.

Loan growth remained strong sequentially: Overall, loan book of the bank increased by 15% YoY/6% QoQ (vs. 17% YoY in Q3FY22) driven by Retail and SME portfolio. Retail book grew by 21% YoY/9% QoQ and SME loan portfolio grew by 26% YoY/13% QoQ. Corporate book growth was lower at 4% YoY/0.3% QoQ. Home loans, Small business Banking and Rural loans portfolio grew by 18% YoY, 60% YoY, & 29% YoY respectively. Unsecured personal loans and credit card advances grew by 15% YoY and 19% YoY respectively. Total deposits during the quarter grew by 17.7% YoY/6.5% QoQ with CASA ratio of 45%.

Asset quality improved led by strong upgrades and recoveries: Slippages for the quarter stood at INR 3,981 cr vs. INR 4,147 cr QoQ (Gross slippage ratio at 2.4% vs. 2.6% QoQ). Upgrades and recoveries was higher at INR 3,763 cr vs. INR 3,288 cr QoQ as a result net slippage ratio of the bank declined to 0.13% vs. 0.55% QoQ. Bank has not utilized any covid provision during the quarter. The bank continue to hold higher provision with cumulative provision (standard + additional non-NPA) of INR 12,428 cr (1.8% of loans), which provides cushion to the balance sheet.

Valuation & View: Axis Bank's Q4FY22 performance was mix as business growth was strong, asset quality saw an improvement and operating income was lower due to miss on margins. However, it has delivered strong earnings driven by lower NPA provisioning. Management's aspiration to achieve ~16% RoE seems little challenging in the medium term as OPEX may remain elevated and margin will be key monitorable. We lower our FY24 earnings estimate by 4% and maintain our Accumulate rating on the stock with a revised target price of INR 927 (earlier INR 942), valuing the bank at 2x FY24E ABV. We expect bank to deliver 1.2%/12.5% RoA/RoE by FY24E.

| Axis Bank Ltd. (Rs Cr) | FY21 | FY22E | FY23E | FY24E |
|------------------------|--------|--------|--------|--------|
| NII | 29,239 | 33,132 | 39,155 | 46,597 |
| PPOP | 25,702 | 24,742 | 32,025 | 37,749 |
| PAT | 6,588 | 13,025 | 15,792 | 18,625 |
| EPS (INR / Share) | 21.5 | 42.4 | 51.4 | 60.7 |
| ABVPS (INR / Share) | 308.1 | 349.4 | 405.7 | 463.5 |
| NIM (%) | 3.4 | 3.3 | 3.3 | 3.4 |
| ROA (%) | 0.7% | 1.1% | 1.2% | 1.2% |
| ROE (%) | 6.5% | 11.3% | 12.1% | 12.5% |
| P / ABV (x) | 2.5 | 2.2 | 1.9 | 1.7 |

Q4FY22 - Quarterly Performance (Standalone)

(in INR Cr)

| Particulars | Q4FY22 | Q4FY21 | YoY | Q3FY22 | QoQ |
|---|-------------|-------------|--------------|-------------|--------------|
| Interest Earned | 17776 | 15494 | 14.7% | 17286 | 2.8% |
| Interest Expended | 8957 | 7939 | 12.8% | 8609 | 4.0% |
| NII | 8819 | 7555 | 16.7% | 8678 | 1.6% |
| Other Income | 4223 | 4668 | -9.5% | 3840 | 10.0% |
| Operating Expenses | 6576 | 5359 | 22.7% | 6331 | 3.9% |
| Operating Profit before Prov.& Cont. | 6466 | 6865 | -5.8% | 6187 | 4.5% |
| Provisions and Contingencies | 987 | 3295 | -70.0% | 1335 | -26.0% |
| PBT | 5479 | 3570 | 53.5% | 4852 | 12.9% |
| Provision for tax | 1361 | 893 | 52.5% | 1212 | 12.2% |
| Net Profit (after Extraordinary Items) | 4118 | 2677 | 53.8% | 3639 | 13.1% |
| Return on Assets (Annualised) | 1.5 | 1.1 | 31.5% | 1.3 | NA |
| Earnings Per Share | 13.4 | 8.7 | 53.4% | 11.8 | 13.9% |
| Cost-income ratio | 50.4 | 43.8 | 658bps | 50.6 | -15bps |
| Advances | 707696 | 614399 | 15.2% | 664866 | 6.4% |
| Deposits | 821721 | 697985 | 17.7% | 771670 | 6.5% |
| C-D Ratio (%) | 86.1 | 88.0 | -190bps | 86.2 | -4bps |
| Amount of Gross NPA | 21822 | 25315 | -14% | 23301 | -6% |
| Amount of Net NPA | 5512 | 6994 | -21% | 6513 | -15% |
| % of Gross NPAs | 2.8 | 3.7 | -88bps | 3.2 | -35bps |
| % of Net NPAs | 0.7 | 1.1 | -32bps | 0.9 | -17bps |
| Provisions Coverage% | 70.0 | 72.0 | -200bps | 72.0 | -200bps |
| NIM % | 3.5 | 3.6 | -7bps | 3.5 | -4bps |
| CASA% | 45.0 | 42.0 | 300bps | 44.0 | 100bps |
| Capital Adequacy Ratio Basel III | 18.5% | 19.1% | -58bps | 18.7% | 0bps |

Source: Arianth Research, Company Filings

Conference Call Highlights:

- The bank has achieved all-time high retail disbursement growth of 21% YoY and it was the highest ever quarterly disbursement in Mar'22.
- Focus of the bank remain on granular liability franchise. For SA Deposits growth, bank has been moving towards acquisition of premier customers and to grow corporate salary accounts.
- Bank has opened 2.4 mn new liability relationships account during the quarter (+ 30% YoY).
- The Bank maintained its strong positioning in the UPI space with a market share of 15% as Payer PSP (by volume) and ~19% in UPI P2M Acquiring (by throughput) in Q4FY22. And, it has over 80+ partnerships and 300+ APIs.
- The bank has issued highest ever quarterly credit Card of over 1.1 mn. Bank has collaborated with Airtel for its co-branded card and aspires to issue ~2mn card in the near term, the same as its Flipkart card.
- Of the total OPEX, 38% is for volume, 24% is due to investing into future tech spends & others, 11% is for collection expenses and balance is attributable to growth. Management has revised its earlier guidance of 2% cost ratio (OPEX/ATA) and have not given new guidance.
- Fee income grew 11% YoY and 12% QoQ. Granular fee constituted ~91% of overall fees.
- INR 84 cr of NII was prudently reserved related to realize interest on NPA investment accounts, which has an impact of 4bps on the margin. In near term, better assets mix, granularity of liability franchisee, and reduced share of low-yielding RIDF bonds should drive improvement in NIMs.
- Corporate book growth was muted at 4% YoY/0.6% QoQ. ~92% incremental sanctions to A- & above rated clients. Focus will continue to be on growing mid-corporate segment.
- Slippages for the quarter stood at INR 3,981 cr vs. INR 4,147 cr QoQ (Gross slippage ratio at 2.4% vs. 2.6% QoQ). Of the Gross Slippages, retail slippages account for 63% and balance from Corporate and SME Segment.

| Income Statement | | | | |
|--|--------------|--------------|--------------|--------------|
| (Rs Cr) | FY21E | FY22 | FY23E | FY24E |
| Interest Earned | 63645 | 67377 | 85655 | 99065 |
| Interest Expended | 34406 | 34245 | 46500 | 52468 |
| Net Interest Income | 29239 | 33132 | 39155 | 46597 |
| Other Income | 14838 | 15221 | 20198 | 22807 |
| Fee Income | 10686 | 13001 | 14561 | 16308 |
| Treasury Income | 2547 | 1627 | 2468 | 2833 |
| Operating Income | 44077 | 48353 | 59353 | 69404 |
| Operating Expenses | 18375 | 23611 | 27328 | 31655 |
| Employee Expenses | 6164 | 7613 | 8450 | 9379 |
| Profit before provision & tax | 25702 | 24742 | 32025 | 37749 |
| Provisions and Contingencies | 16896 | 7359 | 10918 | 12856 |
| Profit Before Tax | 8806 | 17383 | 21107 | 24893 |
| Provision for tax | 2217 | 4357 | 5315 | 6268 |
| Exp. Items | 0 | 0 | 0 | 0 |
| Profit After Tax | 6588 | 13025 | 15792 | 18625 |

| Ratios % | | | | |
|---------------------------|-------|------|-------|-------|
| | FY21E | FY22 | FY23E | FY24E |
| Asset Quality | | | | |
| Gross NPA | 3.7 | 2.8 | 2.6 | 2.5 |
| Net NPA | 1.1 | 0.7 | 0.8 | 0.8 |
| PCR | 80.0 | 70.0 | 70.0 | 70.0 |
| Growth | | | | |
| Advances Growth | 9.2 | 15.0 | 16.0 | 16.0 |
| Deposit growth | 10.5 | 14.0 | 15.0 | 15.0 |
| Net Profit Growth | 304.9 | 97.7 | 21.2 | 17.9 |
| Liquidity | | | | |
| C-D Ratio | 88.2 | 86.1 | 86.9 | 87.6 |
| CASA | 42.0 | 45.0 | 45.0 | 45.0 |
| Capital Adequacy | 19.1 | 19.1 | 19.1 | 19.1 |
| Efficiency | | | | |
| Cost Income Ratio | 41.7 | 48.8 | 46.0 | 45.6 |
| Operating Costs to Assets | 1.8 | 2.0 | 2.0 | 2.1 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

| Balance Sheet | | | | |
|--------------------------------|---------------|----------------|----------------|----------------|
| (Rs Cr) | FY21E | FY22 | FY23E | FY24E |
| Sources of funds | | | | |
| Share Capital | 613 | 614 | 614 | 614 |
| Total Reserves | 100990 | 114560 | 130352 | 148977 |
| Shareholder's Fund | 101603 | 115174 | 130966 | 149591 |
| Deposits | 707306 | 821721 | 944979 | 1086726 |
| Borrowings | 142873 | 185134 | 204042 | 225987 |
| Other Liabilities & provisions | 44336 | 53149 | 61738 | 72430 |
| Total Liabilities | 996118 | 1175178 | 1342837 | 1535846 |
| Application of Funds | | | | |
| Cash & Bank | 61730 | 110987 | 122086 | 134294 |
| Investments | 226120 | 275597 | 316408 | 363261 |
| Advances | 623720 | 707696 | 820927 | 952276 |
| Fixed Assets | 4245 | 4572 | 4801 | 5041 |
| Other Assets | 80304 | 76325 | 78615 | 80974 |
| Total Assets | 996118 | 1175178 | 1342837 | 1535846 |

| Spread Analysis (%) | | | | |
|--------------------------|-------|-------|-------|-------|
| | FY21E | FY22 | FY23E | FY24E |
| Spread Analysis | | | | |
| Yield on Advances | 7.7 | 8.0 | 8.0 | 8.0 |
| Yield on Investments | 5.6 | 6.0 | 6.0 | 6.0 |
| Cost of Funds | 4.0 | 4.1 | 4.0 | 4.0 |
| NIM | 3.4 | 3.3 | 3.3 | 3.4 |
| Interest Spread | 3.6 | 3.9 | 3.9 | 4.0 |
| Profitability | | | | |
| ROE | 6.5% | 11.3% | 12.1% | 12.5% |
| ROA | 0.7% | 1.1% | 1.2% | 1.2% |
| Earnings Per Share (Rs) | 21.5 | 42.4 | 51.4 | 60.7 |
| Book Value (Rs) | 332 | 375 | 427 | 487 |
| Adjusted Book Value (Rs) | 308 | 349 | 406 | 463 |
| Valuation | | | | |
| P / EPS (x) | 36.3 | 18.4 | 15.2 | 12.9 |
| P / ABV (x) | 2.5 | 2.2 | 1.9 | 1.7 |

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|--|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|--------------------------------------|-------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | instresearch@arihantcapital.com |

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880