

Axis Bank Ltd.



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Higher Opex hurts operating profits; earnings boosted by lower provisions

CMP INR 729	Target INR 936	Potential Upside 28.5%	Market Cap (INR Mn) INR 22,41,435	Recommendation BUY	Sector Banking
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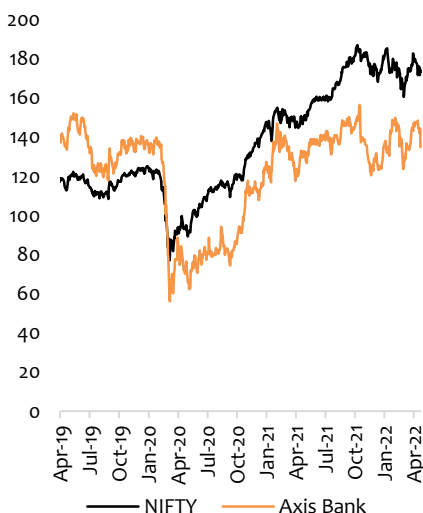
Result Highlights of Q4 FY22

- AXSB's Net Interest Income (NII) grew 16.7% YoY to INR 88,191 Mn in Q4FY22. Net interest margin (NIM) for Q4FY22 stood at 3.49%.
- The bank's operating profit for the quarter was INR 64,660 Mn, grew 12.7% YoY. Net profit grew 53.8% YoY from INR 26,771 Mn in Q4FY21 to INR 41,178 Mn in Q4FY22.
- Its balance sheet grew 19% YoY and stood at INR 1,17,51,781 Mn as on 31st March 2022. The total deposits grew by 17.7% YoY. The advances grew 15.2% YoY to INR 70,76,960 Mn as on 31st March 2022.
- As on 31st March 2022, the Bank's reported Gross NPA and Net NPA levels were 2.83% and 0.73% respectively as against 3.17% and 0.91% as on 31st December 2022.
- Overall capital adequacy ratio (CAR) including profit for FY22 stood at 18.5%.

MARKET DATA

Shares outs (Mn)	3,070
Equity Cap (INR Mn)	11,45,601
Mkt Cap (INR Mn)	22,41,435
52 Wk H/L (INR)	867/637
Volume Avg (3m K)	11,018
Face Value (INR)	2
Bloomberg Code	AXSB IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
NII	2,52,062	2,92,391	3,31,322	3,77,707	4,44,598
PPOP	2,34,381	2,57,022	2,47,420	2,98,333	3,55,024
PAT	16,272	65,885	1,30,255	1,65,763	1,99,583
EPS	5.97	21.5	42.5	54.0	65.0
NIM	3.5%	3.7%	3.6%	3.6%	3.7%
Advances Growth	15.5%	7.5%	15.2%	15.0%	15.0%

Source: Company, KRChoksey Research

Asset quality stays strong with lower slippages: The Gross slippages for Q4FY22 were INR 39,810 Mn, lower by 4% QoQ and 25% YoY. The gross loan slippage ratio for the quarter stood at 2.38%, improving 121 bps YoY and 21 bps QoQ. The net slippage Q4FY22 was negative at INR 5,020 Mn adjusted for recoveries and upgrades of INR 37,630 Mn and recoveries from written-off accounts of INR 7,190 Mn. The GNPA and NNPA ratios of the bank have improved at 2.83% and 0.73%, respectively, lower on a sequential basis. The bank's PCR stood at 75% as of 31st March 2022. The BB and Below pool of the bank declined 26% YoY and 18% sequentially. We see slippages to remain stable, leading to stability in the asset quality. We expect credit costs to be around 1.0%/0.9% for FY23E/FY24E, respectively.

Strong loan book with robust growth in liability franchise: AXSB continues to focus on a liabilities' strategy driven by premiumization and granularization. The total deposits in Q4FY22 grew 17.7% YoY with CASA growth of 16%/ 7% YoY/QoQ, respectively. CASA ratio stood at 45% in Q4FY22. The overall loan book grew by 15.2% YoY, led by healthy growth across the focused business segments. The retail loans grew 21% YoY, SBB & rural loans grew 60% YoY, while SME books grew 26% YoY. The mid-corporate segment saw 45% YoY growth during the quarter. The retail disbursements for Q4FY22 were the highest ever, growing 21% YoY. The acquisition of Citi's consumer banking franchise will further build on growth momentum and focus on customer segments. We expect deposits to grow at 15.1% CAGR over FY21-24E, further strengthening the CASA ratio. We see the loan book to grow in line with the deposits at 15% CAGR over FY21-24E with continued strong growth momentum in the retail segment and focus on a balanced portfolio.

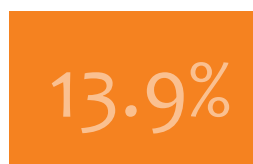
Operating profits impacted with higher opex: NII for Q4FY22 grew 16.7% YoY/ 2% QoQ on improving business growth momentum. PPOP declined ~6% YoY, despite non-interest income growing by 19% YoY, owing to higher other expenses. The other expenses were higher by 27% YoY in Q4FY22. We expect the fee income to show healthy growth owing to improvement in overall business growth and credit card business. We expect operating expenses to remain higher in the near term with increasing spending on technology.

MARKET INFO

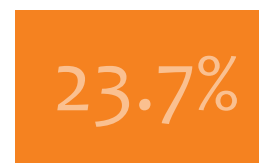
SENSEX	57,061
NIFTY	17,103

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	9.7	9.7	11.6
FIIIs	46.9	47.4	51.4
DIIIs	30.5	30.2	25.4
Others	12.9	12.6	11.6
Total	100.0	100.0	100.0



NII CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

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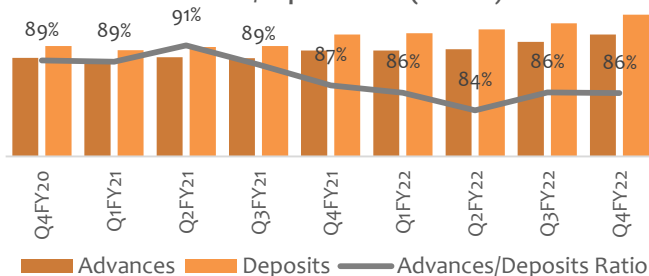
Key Concall Highlights:

- AXSB gained significant incremental market share of 31% in 11MFY22 on merchant acquiring business.
- On advances, the bank continued to grow faster than the industry with overall advances growing at a CAGR of 13% in last 3 years while the growth in its focus segments (comprising Mid corporate, SME, Small Business Banking and Rural) has been higher at 17% CAGR in last 3 yrs.
- CASA deposits on period end basis have grown at a CAGR of 15% in last 3 years and 16% YoY in FY22, led by its focus on granularization and premiumization of deposit franchise.
- The balance sheet resilience is visible through strong capital adequacy, legacy NPA issues behind with NNPA at 0.73%, limited covid restructuring at 0.52% of GCA.
- AXSB continues to closely monitor two key variables (i) Geopolitical risk and its impact on inflation, liquidity and growth and (ii) the potential future Covid waves and resultant government policy action.
- The other operating expenses grew 27% YoY and 7% QoQ in Q4FY22- mainly attributed to higher business volumes, higher collection expenses & one-time transaction expenses relating to business purchase transaction. The technology spends grew by 56% YoY.
- The cumulative social security provision in the books of the bank stood at INR 2,250 Mn.
- AXSB expects improvement in NIMs over the medium term driven by; (i) Balance sheet mix shift from investments to loans and within loans the currency / segmental / product composition towards better-yielding assets; (ii) continued improvement in low-cost deposit base and quality of deposit, and (iii) reduced share of low-yielding RIDF bonds (at 3.54% of assets in March 22, down from 4.75% of assets on March 21).
- AXSB has a strong momentum going into FY23E and it will continue its steady upward movement on business and financial metrics.

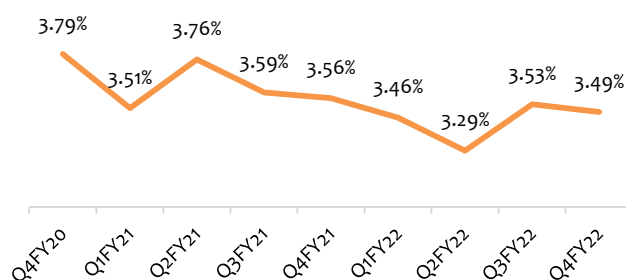
Valuation and view

The Q4FY22 earnings for AXSB were mixed performance with lower operating profits on one side and strong improvement in asset quality on the other. The asset quality improves for Q4FY22, led by lower slippages and substantial recoveries/ upgrades of accounts. However, the operating profit growth was under pressure due to higher other expenses. Going ahead, we expect AXSB to benefit from its expansion of branches, the strength of the balance sheet with improving contribution from the retail segment, further improvement of the market share, and stable asset quality. We expect the asset quality to remain stable, gradually lowering slippages in FY23E/FY24E. However, the strong earnings growth will improve its return ratios as targeted by the bank. **We have factored CAGR of 15% in advances, 15% in NII, 11% in PPOP, and 45% in PAT, driven by healthy financial metrics on all fronts over FY21-24E. Since our last update, the share price of AXSB has been corrected by 3%. We maintain our target price of INR 936 per share, applying 2x FY24E P/ABV with an adjusted book value of INR 475. This implies an upside of 28.5% over the CMP. We maintain our rating on the share of AXSB at “BUY”.**

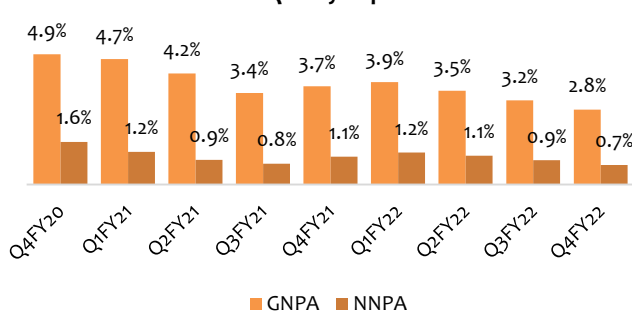
Advances/Deposits ratio (INR Mn)



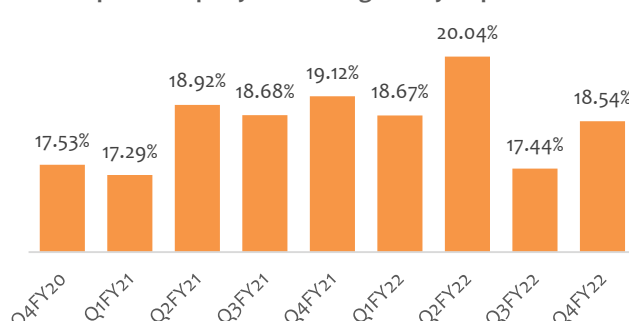
NIMs: Stable NIMs with lower cost of funds



Asset Quality improved



Capital Adequacy : Above regulatory requirement



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	6,26,352	6,36,453	6,73,768	7,60,508	8,73,841
Interest Expense	3,74,290	3,44,062	3,42,446	3,82,801	4,29,243
Net Interest Income	2,52,062	2,92,391	3,31,322	3,77,707	4,44,598
Non interest income	1,55,366	1,48,382	1,52,205	1,79,602	2,06,543
Operating income	4,07,428	4,40,773	4,83,528	5,57,309	6,51,141
- Employee expense	53,210	61,640	76,126	81,454	87,156
- Other operating expense	1,19,836	1,22,111	1,59,982	1,77,522	2,08,961
Operating Expense	1,73,046	1,83,752	2,36,108	2,58,977	2,96,117
PPOP	2,34,381	2,57,022	2,47,420	2,98,333	3,55,024
Provisions	1,85,339	1,68,963	73,595	77,316	88,913
PBT	49,042	88,058	1,73,826	2,21,017	2,66,110
Tax Expense	32,770	22,173	43,571	55,254	66,528
PAT	16,272	65,885	1,30,255	1,65,763	1,99,583
Diluted EPS (INR)	6.0	21.5	42.5	54.0	65.0

Forecast is based on merged financials of BFIL; Historical numbers are not comparable

Source: Company, KRChoksey Research

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Exhibit 2: Balance Sheet

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	5,640	6,120	6,133	6,133	6,133
Reserves & Surplus	8,43,840	10,09,225	11,45,601	13,11,364	15,10,947
Net worth	8,49,480	10,15,345	11,51,734	13,17,497	15,17,080
Borrowings	14,79,540	14,28,732	18,51,339	17,58,772	17,93,947
Deposits	64,01,050	69,79,853	82,17,209	93,36,904	1,06,47,884
Other liabilities & provisions	4,21,580	4,44,051	63,753	3,01,883	4,55,508
Total Equity & Liabilities	91,51,650	98,67,981	1,12,84,035	1,27,15,056	1,44,14,418
Uses of Funds					
Balance w/ banks & others	9,72,680	6,17,303	6,42,126	6,67,099	6,95,887
Net investments	15,67,340	22,61,196	27,55,972	30,81,178	35,13,802
Loans & advances	57,14,240	61,43,994	70,76,960	81,38,503	93,59,279
Fixed assets	43,130	42,450	45,724	49,755	51,360
Other assets	8,54,260	8,03,038	7,63,255	7,78,520	7,94,090
Total Assets	91,51,650	98,67,981	1,12,84,035	1,27,15,056	1,44,14,418

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
Growth Rates					
Advances (%)	15.5%	7.5%	15.2%	15.0%	15.0%
Deposits (%)	16.7%	9.0%	17.7%	13.6%	14.0%
Total assets (%)	14.3%	7.8%	14.3%	12.7%	13.4%
NII (%)	16.1%	16.0%	13.3%	14.0%	17.7%
Pre-provisioning profit (%)	23.3%	9.7%	-3.7%	20.6%	19.0%
PAT (%)	-65.2%	304.9%	97.7%	27.3%	20.4%
B/S Ratios					
Credit/Deposit (%)	89.3%	88.0%	86.1%	87.2%	87.9%
CASA (%)	39.9%	38.5%	40.2%	43.1%	46.2%
Advances/Total assets (%)	62.4%	62.3%	62.7%	64.0%	64.9%
Leverage - Total Assets to Equity	10.8	9.7	9.8	9.7	9.5
Operating efficiency					
Cost/income (%)	42.5%	41.7%	48.8%	46.5%	45.5%
Opex/total assets (%)	1.9%	1.9%	2.1%	2.0%	2.1%
Opex/total interest earning assets	2.4%	2.2%	2.4%	2.3%	2.3%
Profitability					
NIM (%)	3.5%	3.7%	3.6%	3.6%	3.7%
RoA (%)	0.2%	0.7%	1.2%	1.4%	1.5%
RoE (%)	2.1%	7.1%	12.0%	13.4%	14.1%
Asset quality					
Gross NPA (%)	4.9%	3.7%	2.8%	2.8%	2.7%
Net NPA (%)	1.6%	1.1%	0.7%	0.7%	0.6%
PCR (%)	67.9%	71.6%	75.0%	75.0%	75.0%
Slippage (%)	2.8%	3.2%	1.6%	1.6%	1.5%
Credit cost (%)	3.5%	2.8%	1.1%	1.0%	0.9%
Per share data / Valuation					
EPS (INR)	5.8	21.5	42.4	54.0	65.0
BVPS (INR)	301.1	331.8	375.2	429.2	494.2
ABVPS (INR)	267.9	308.9	357.2	410.2	475.2
P/E (x)	128.2	33.8	17.2	13.5	11.2
P/BV (x)	2.5	2.2	1.9	1.7	1.5
P/ABV (x)	2.8	2.4	2.0	1.8	1.5

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
02-May-22	729	936	BUY	Buy	More than 15%
25-Jan-22	752	936	BUY	Accumulate	5% – 15%
27-Oct-21	787	936	BUY		
31-Aug-21	783	807	Hold	Hold	0 – 5%
27-July-21	732	807	ACCUMULATE		
	745	770	Hold	Reduce	-5% – 0
30-Apr-21	712	750	Hold		
	731	750	Hold	Sell	Less than – 5%

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