

AXIS Bank

Refer to important disclosures at the end of this report

High-octane margin; core-profit delivery

CMP	Target Price
Rs 826 as of (October 20, 2022)	Rs 1,110 (▲) 12 months
Rating	Upside
BUY (■)	34.4 %

- Despite the relatively-moderate credit growth, Axis Bank reported strong core profit growth at 43% YoY/19% QoQ, on the back of robust margin expansion and contained opex, albeit partly offset by a subdued treasury performance. This, coupled with continued lower LLP, led to the 24% beat on PAT, which came in at Rs53.3bn.
- Credit growth was comparatively modest at 18% YoY/4% QoQ vs peers' (23% YoY/6% QoQ), due to sluggish growth in the retail book at 23% YoY/3% QoQ despite a lower base. However, NIM expanded 57bps YoY/36bps QoQ to 3.96%, mainly on higher growth in the SME/mid-corporate book, higher LDR & re-pricing benefit. Mgmt aims to sustain margins at current levels, but reckons that cost pressure will increase as deposit growth accelerates.
- Factoring-in the better & faster than expected delivery on margins, coupled with contained opex, we expect the bank to clock healthy core-profitability CAGR at 25% over FY23-25E. This along with continued lower LLP, given higher specific + contingent provision buffer, should drive-up earnings. Thus, we revise our earnings by 15%/11%/6% for FY23E/24E/25E.
- We retain our long-term BUY rating on the stock. We revise our TP to Rs1,110/share (vs Rs1,020 earlier) valuing the standalone bank at 1.8x Sep-24E ABV and subsidiaries at Rs82/share, given the potential steady improvement in FY23-25E RoA/RoE to 1.6-1.7%/16% (without factoring-in any capital-raise), respectively. That said, the bank will need to consistently deliver on growth/core profitability and maintain management stability for a re-rating.
- Results – What we liked:** Sharp uptick in margins (57bps YoY/ 36bps QoQ) to 3.96%, leading to strong core PPOP growth (43% YoY/19% QoQ) and meaningful reduction in GNPA ratio (29bps QoQ) to 2.5%. **What we did not like:** Slower Retail loan & deposit growth.
- Moderate credit growth, but NIM at multi-quarter high:** Overall credit growth was relatively moderate vs peers, at 18% YoY/4% QoQ, largely due to slower growth in the large corporate and secured retail book. Mortgage growth continued to be slower than peers', at 13% YoY/1% QoQ. However, SME growth was strong at 28% YoY/7% QoQ, leading to better yields. CASA ratio improved to 46% (vs 44% in Q1) mainly owing to slower TD growth and healthy CASA momentum. Thus, increase in CoF was contained at 20bps QoQ. This, coupled with higher LDR (90%), improved portfolio mix and repricing of asset, led to a 57bps YoY/36bps QoQ expansion in NIM to 3.96%. However, the bank will need to accelerate deposit growth in H2, for supporting higher credit growth which it has managed till now, by utilizing excess liquidity on the balance sheet and running down the investment book. Thus, sustaining margins at the current high levels will be slightly testing. That said, Management retains medium-term margin improvement guidance, led by change in portfolio mix and reduction in the RIDF drag (now 3.1% of loans).
- Asset quality trending well:** Gross slippages moderated to Rs34bn/2.2% of loans which, coupled with the higher w-offs/recoveries and growth, led to 26bps QoQ reduction in GNPA ratio to 2.5%. The RSA pool continues its downward trend and declined to 0.38% of loans from 0.45% in Q1, while the bank continues to carry 23% PCR on such loans. The BB & Below corporate watch-list has marginally reduced to Rs79.9bn/1.1% of loans. The bank has not reversed the Covid Provision during the quarter which remains at Rs50bn/0.7% of loans, and should keep LLP in check.

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	4,15,027	4,83,528	5,72,064	6,88,176	8,26,679
Net profit	65,886	1,30,255	2,00,757	2,48,266	2,99,332
EPS (Rs)	22.4	42.5	65.4	80.8	97.4
ABV (Rs)	329.3	364.1	439.6	530.3	638.3
RoA (%)	0.7	1.2	1.6	1.7	1.7
RoE (%)	7.1	12.0	15.8	16.2	16.3
P/E (x)	33.2	17.5	11.4	9.2	7.6
P/ABV	2.3	2.0	1.7	1.4	1.2

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	14.9/11.4
Target Price change (%)	8.8
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	65.4	80.8
Consensus	56.5	65.8
Mean Consensus TP (12M)	Rs 955	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,072
52 Week H/L	881 / 618
M Cap (Rs bn/USD bn)	2,537 / 30.66
Daily Avg Volume (nos.)	97,71,413
Daily Avg Turnover (USD mn)	89.6

Shareholding Pattern Jun '22

Promoters	9.5%
FIIIs	45.6%
DIIIs	30.8%
Public and Others	14.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	17	4	3
Rel. to Nifty	3	10	1	7

Relative price trend



Source: Bloomberg

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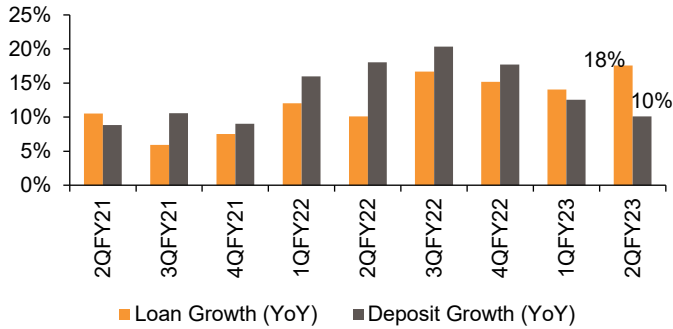
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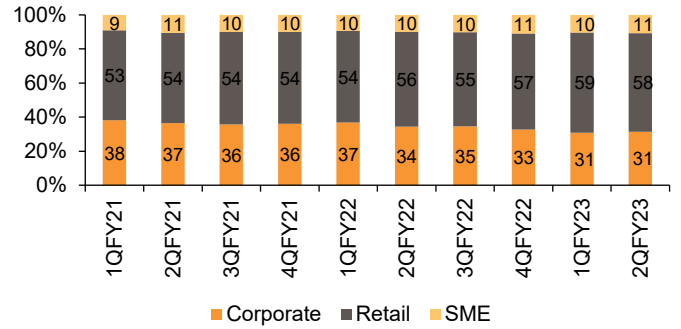
Story in charts

Exhibit 1: Relatively-moderate credit growth, due to slower growth in large corporate and secured retail...



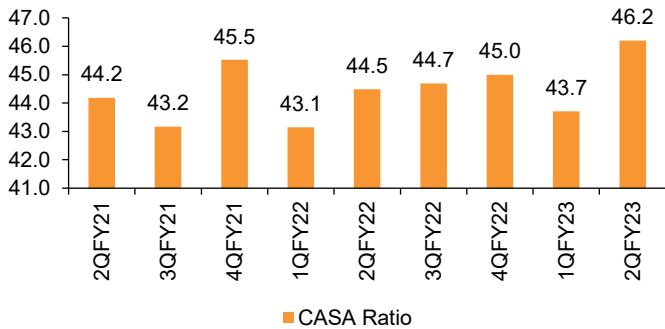
Source: Company, Emkay Research

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



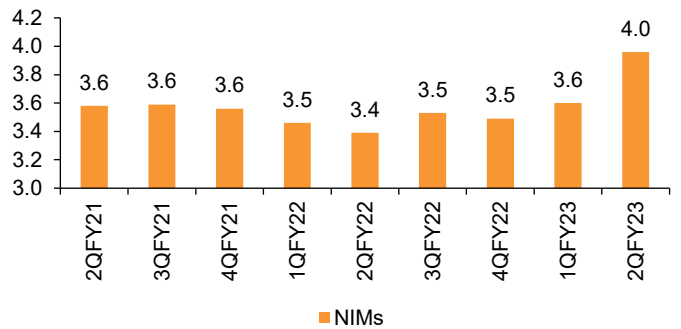
Source: Company, Emkay Research

Exhibit 3: CASA ratio improved mainly owing to slower TD growth and healthy CASA momentum



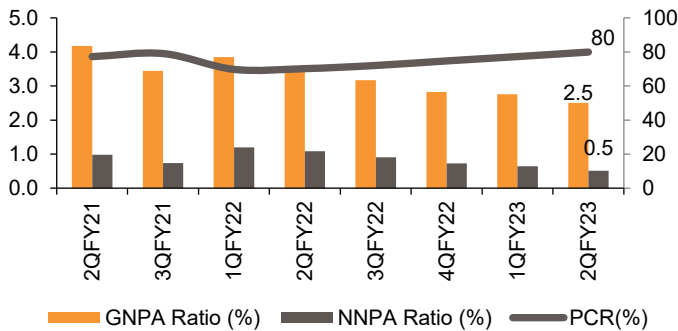
Source: Company, Emkay Research

Exhibit 4: Higher LDR, improved portfolio mix and repricing of asset led to expansion in NIM



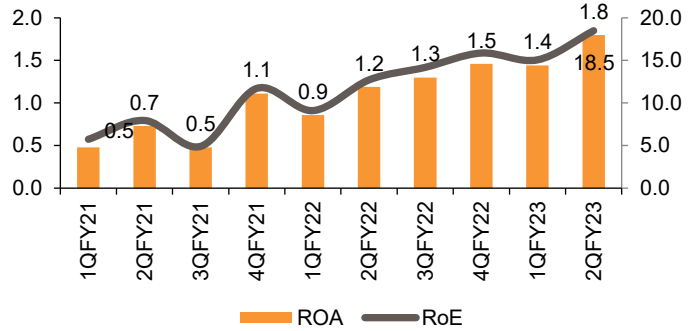
Source: Company, Emkay Research

Exhibit 5: Asset quality continues to improve, with specific PCR now at a healthy at 80%



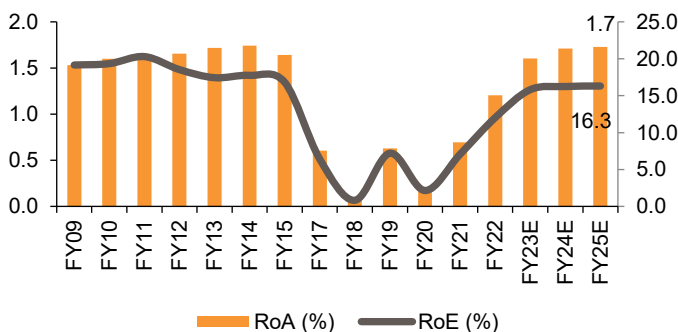
Source: Company, Emkay Research

Exhibit 6: Improvement in RoA mainly driven by improved margins and contained provisions



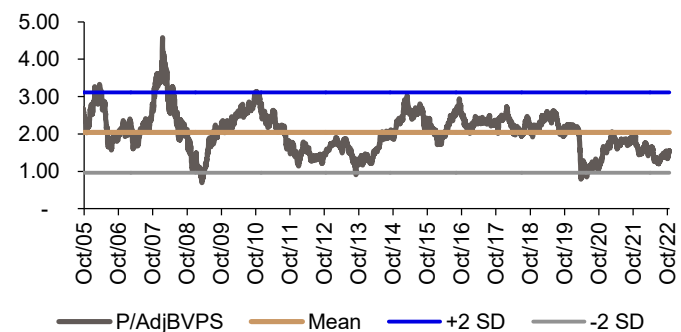
Source: Company, Emkay Research

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



Source: Emkay Research

Exhibit 8: The stock currently trades at 1.5x one-year forward ABV, adjusted for subsidiaries' valuation



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs Estimates (2QFY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,43,014	1,35,886	1,37,170	5%	4%	Margin expansion led to a beat
PPOP	77,162	69,146	63,080	12%	22%	Lower opex resulted in a beat
PAT	53,298	43,153	44,205	24%	21%	Lower than expected provisions led to a beat

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	5,55,434	5,72,064	3.0%	6,70,696	6,88,176	2.6%	8,14,029	8,26,679	1.6%
PPOP	2,84,718	3,01,348	5.8%	3,60,546	3,81,835	5.9%	4,60,455	4,75,179	3.2%
PAT	1,74,754	2,00,757	14.9%	2,22,737	2,48,266	11.5%	2,81,459	2,99,332	6.3%
EPS (Rs)	56.9	65.4	14.9%	72.5	80.8	11.4%	91.6	97.4	6.3%
BV (Rs)	441.2	451.7	2.4%	522.8	543.6	4.0%	626.3	651.4	4.0%

Source: Emkay Research

Exhibit 11: Quarterly summary

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	1,63,359	1,72,611	1,77,762	1,87,287	2,02,389	24	8	6,73,768	8,38,513	24
Interest Exp	84,357	86,086	89,571	93,446	98,787	17	6	3,42,446	4,21,039	23
Net Interest Income	79,002	86,525	88,191	93,840	1,03,603	31	10	3,31,322	4,17,475	26
Global NIMs (reported)	3.39	3.53	3.49	3.60	3.96	57bps	36bps	3.34	3.62	28bps
Non-interest Income	37,984	38,404	42,233	29,990	39,412	4	31	1,52,205	1,54,590	2
Operating Expenses	57,705	63,314	65,765	64,960	65,852	14	1	2,36,108	2,70,716	15
Pre Provisioning Profit	59,281	61,615	64,660	58,870	77,162	30	31	2,47,420	3,01,348	22
Provision & Contingencies	17,351	13,348	9,872	3,594	5,498	-68	53	73,595	33,064	-55
PBT	41,930	48,267	54,788	55,276	71,664	71	30	1,73,826	2,68,284	54
Income Tax Expense (Gain)	10,598	12,125	13,610	14,024	18,367	73	31	43,571	67,527	55
Net Profit/(Loss)	31,332	36,142	41,178	41,253	53,298	70	29	1,30,255	2,00,757	54
Gross NPA (%)	3.53	3.17	2.82	2.76	2.50	-103bps	-26bps	2.57	2.12	-45bps
Net NPA (%)	1.08	0.91	0.73	0.64	0.51	-57bps	-13bps	0.66	0.60	-6bps
Deposits (Rs bn)	7,363	7,717	8,217	8,036	8,108	10	1	8,217	9,318	13
Net Advances (Rs bn)	6,217	6,649	7,077	7,011	7,309	18	4	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	13.4	18.1	19.8
NIM	3.3	3.6	3.7	3.7
GNPA	2.6	2.1	1.8	1.5
Credit Cost	0.9	0.4	0.5	0.7

Source: Emkay Research

Exhibit 13: Key ratios and trends

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs mn)	56,45,848	56,98,285	61,43,994	61,48,737	62,17,193	66,48,656	70,76,960	70,11,299	73,08,748
- % growth YoY	8.2	3.6	7.5	12.0	10.1	16.7	15.2	14.0	17.6
Composition (%)									
- Corporate	37.2	35.7	36.2	36.9	34.4	34.5	33.0	30.9	31.4
- SME/BB	10.7	9.9	9.9	9.5	10.0	10.2	10.9	10.3	10.7
- Retail	54.1	54.4	53.9	53.9	55.6	55.3	56.5	58.9	57.9
Liability Profile (%)									
Deposit (Rs mn)	62,36,666	64,12,150	69,79,853	71,38,620	73,62,855	77,16,702	82,17,209	80,35,717	81,08,067
growth YoY	6.8	8.4	9.0	16.0	18.1	20.3	17.7	12.6	10.1
CASA	45.0	44.0	45.5	43.1	44.5	44.7	45.0	43.7	46.2
CA	16.1	14.4	16.2	13.6	14.2	15.1	15.5	13.5	15.1
SA	29.0	29.6	29.3	29.6	30.3	29.6	29.5	30.3	31.1
NIM	3.6	3.6	3.6	3.5	3.4	3.5	3.5	3.6	4.0
NIM - Domestic	3.7	3.7	3.7	3.6	3.5	3.7	3.6	3.7	4.1
Asset Quality (%)									
GNPA	4.6	3.7	4.0	4.1	3.8	3.4	3.0	2.9	2.7
NNPA	1.0	0.7	1.1	1.2	1.1	0.9	0.7	0.6	0.5
PCR - Specific	77.2	79.0	72.4	69.8	70.2	72.0	74.7	77.3	79.9
Slippages	0.71	0.02	8.63	4.75	3.87	2.91	2.59	2.40	2.18
Capital Adequacy (%)									
CAR	19.4	18.7	19.1	19.0	20.0	18.7	18.5	17.8	17.7
Tier I	16.5	15.9	16.5	16.5	17.5	17.5	16.3	15.8	15.8
ROE Decomposition (%; on total assets)									
NII	3.4	3.4	3.2	3.3	3.2	3.4	3.3	3.5	3.7
Other Income (Ex Treasury)	1.3	1.6	1.5	1.2	1.4	1.4	1.5	1.4	1.4
Treasury	0.4	0.2	0.0	0.2	0.2	0.1	0.1	(0.2)	(0.0)
Net income	5.1	5.1	4.7	4.7	4.8	4.9	4.8	4.6	5.1
Opex	2.0	2.3	2.3	2.1	2.4	2.5	2.4	2.4	2.4
PPOP	3.1	2.8	2.4	2.6	2.4	2.4	2.4	2.2	2.8
Provisions	2.0	2.1	0.9	1.4	0.7	0.5	0.4	0.1	0.2
PBT	1.1	0.7	1.5	1.2	1.7	1.9	2.0	2.0	2.6
Tax	0.3	0.2	0.4	0.3	0.4	0.5	0.5	0.5	0.7
ROA	0.8	0.5	1.1	0.9	1.3	1.4	1.5	1.5	1.9
Leverage (x)	9.4	9.5	10.2	10.0	9.4	9.8	10.0	9.7	9.6
ROE (Calculated)	7.4	4.8	11.5	9.1	12.1	13.8	15.2	14.8	18.2

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	2,92,391	3,31,322	4,17,475	4,84,471	5,74,701
Other income	1,22,636	1,52,205	1,54,590	2,03,705	2,51,978
Fee income	93,589	1,13,586	1,36,303	1,66,290	2,06,200
Net income	4,15,027	4,83,528	5,72,064	6,88,176	8,26,679
Operating expenses	1,83,751	2,36,108	2,70,716	3,06,341	3,51,500
Pre provision profit	2,31,275	2,47,420	3,01,348	3,81,835	4,75,179
PPP excl treasury	2,21,543	2,33,643	3,10,254	3,79,163	4,69,836
Provisions	1,43,217	73,595	33,064	50,062	75,163
Profit before tax	88,059	1,73,826	2,68,284	3,31,773	4,00,016
Tax	22,173	43,571	67,527	83,507	1,00,684
Tax rate	25	25	25	25	25
Profit after tax	65,886	1,30,255	2,00,757	2,48,266	2,99,332

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	6,128	6,139	6,145	6,145	6,145
Reserves	10,09,903	11,45,601	13,81,186	16,63,867	19,95,020
Net worth	10,16,030	11,51,741	13,87,330	16,70,012	20,01,164
Deposits	69,79,850	82,17,209	93,17,912	110,03,886	131,80,648
Borrowings	11,83,832	16,75,689	17,59,473	19,35,420	21,28,962
Total liabilities	98,67,975	117,51,781	132,91,291	157,50,168	188,84,289
Cash and bank	5,18,086	9,40,345	10,34,380	11,37,818	12,51,599
Investments	22,61,196	27,55,972	28,28,838	32,07,593	37,48,566
Loans	61,43,994	70,76,960	82,78,639	98,78,325	118,81,969
Others	8,03,037	7,63,253	10,12,558	13,01,138	16,47,371
Total assets	98,67,975	117,51,780	132,91,291	157,50,168	188,84,289

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.4	3.3	3.6	3.7	3.7
Non-II/avg assets	1.3	1.4	1.2	1.4	1.5
Fee income/avg assets	1.0	1.1	1.1	1.1	1.2
Opex/avg assets	1.9	2.2	2.2	2.1	2.0
Provisions/avg assets	1.5	0.7	0.3	0.3	0.4
PBT/avg assets	0.9	1.6	2.1	2.3	2.3
Tax/avg assets	0.2	0.4	0.5	0.6	0.6
RoA	0.7	1.2	1.6	1.7	1.7
RoAE	7.1	12.0	15.8	16.2	16.3
GNPA (%)	3.6	2.6	2.1	1.8	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	65.4	80.8	97.4
BVPS	345.3	375.6	451.7	543.6	651.4
ABVPS	329.3	364.1	439.6	530.3	638.3
DPS	0.0	1.0	5.0	9.0	14.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	33.2	17.5	11.4	9.2	7.6
P/BV	2.2	2.0	1.6	1.4	1.1
P/ABV	2.3	2.0	1.7	1.4	1.2
P/PPOP	10.9	10.2	8.4	6.6	5.3
Dividend Yield (%)	0.0	0.1	0.6	1.1	1.7

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	16.0	13.3	26.0	16.0	18.6
PPOP	(0.7)	7.0	21.8	26.7	24.4
PAT	304.9	97.7	54.1	23.7	20.6
Loans	7.5	15.2	17.0	19.3	20.3

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	79,002	86,525	88,191	93,840	1,03,603
NIM (%)	3.4	3.5	3.5	3.6	4.0
PPOP	59,281	61,615	64,660	58,870	77,162
PAT	31,332	36,142	41,178	41,253	53,298
EPS (Rs)	10.22	11.78	13.41	13.43	17.35

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	11.4	11.4	9.5	9.5	9.5
FIIIs	51.2	50.1	46.4	45.9	45.6
DIIIs	23.7	24.7	29.6	29.9	30.8
Public and Others	13.8	13.8	14.6	14.7	14.2

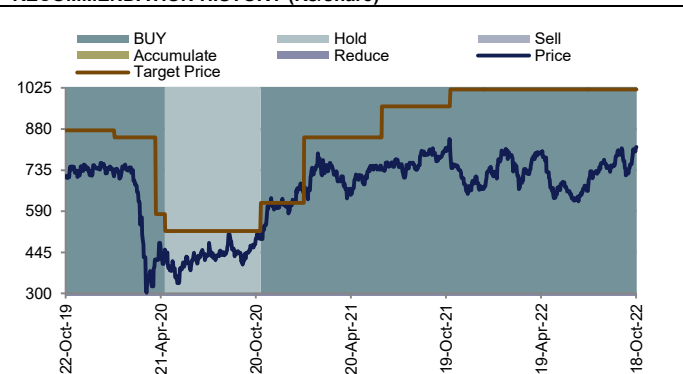
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
25-Jul-22	727	1,020	12m	Buy	Anand Dama
29-Apr-22	729	1,020	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



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	20.95	20.95	0.0%	0	100.00	
Axis Bank	2.20	2.32	5%	12	11.06	0
AU Small Finance Bank	0.28	0.28	0%	0	1.35	0
Bandhan Bank	0.20	0.19	0%	0	0.93	0
Bank of Baroda	0.25	0.21	-15%	-4	1.00	0
Canara Bank	0.16	0.22	37%	6	1.05	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	0.25	0.25	0%	0	1.20	0
HDFC Bank	6.14	6.19	1%	4	29.52	0
ICICI Bank	5.95	6.13	3%	18	29.26	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.76	0.83	9%	7	3.95	0
Karur Vysya Bank	0.00	0.08	NA	8	0.38	0
Kotak Mahindra Bank	2.56	2.03	-21%	-53	9.70	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.99	2.18	10%	19	10.40	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	0.05	0.05	-2%	0	0.22	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	18-Oct-21	20-Apr-22	21-Jul-22	19-Sep-22	19-Oct-22
EAP - BFSI-Banks	100.0	135.8	124.0	124.4	139.5	137.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	133.0	121.5	121.8	136.7	134.6

*Performance measurement base date 1st April 2019

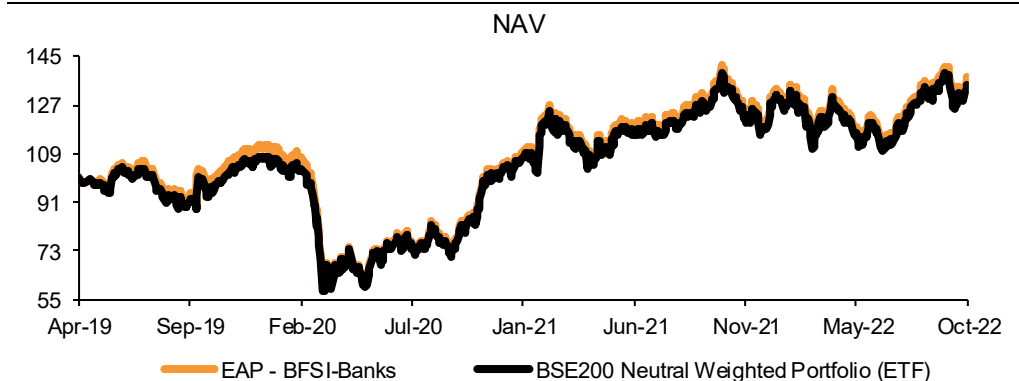
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-1.4%	10.5%	10.9%	1.2%
BSE200 Neutral Weighted Portfolio (ETF)	-1.5%	10.4%	10.7%	1.1%

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”

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HOLD	Between -5% to 15%
SELL	Below -5%

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