

Strong performance beating estimates...

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 11.8 lakh crore as on September 2022.

- The bank has a large footprint across India with 4760 branches
- Retail and SME comprise ~69% of total loans

Q2FY23 Results: Healthy growth & uptick in NIM boosted earnings.

- Loan growth at 17.6% YoY to ₹ 7.3 lakh crore. Retail book up 22% YoY
- NII up 31% YoY, 10.4% QoQ, NIMs up 36 bps QoQ to 3.96%
- Steady opex led to decline in CI ratio; provisions at 38 bps (annualised)
- GNPA down 26 bps QoQ to 2.5%. R/s book was at 0.38% of GCA

What should investors do? Axis Bank's stock has given ~1.7x returns over past two years. Focus on risk adjusted business growth and improving margin trajectory to aid return ratios and sustainability of performance to drive valuation ahead. Raise estimates for FY23E, FY24E by 24%, 11.4%, respectively.

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

Target Price and Valuation: We maintain our multiple at 2.3x FY24E ABV and revise our target price from ₹ 970 to ₹ 1000.

Key triggers for future price performance:

- Focus on risk adjusted business & unsecured segment to aid growth
- Improvement in business mix & faster asset repricing to aid yields. However, acceleration in deposit mobilisation to keep margins at current level
- Efforts to keep cost to asset at 2-2.5% and adequate cumulative provisions of 160% of GNPA provide comfort on earnings volatility
- RoA at 1.8% in Q2FY23; sustenance of performance to aid re-rating

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

- Kotak Mahindra Bank 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 ₹ 2200



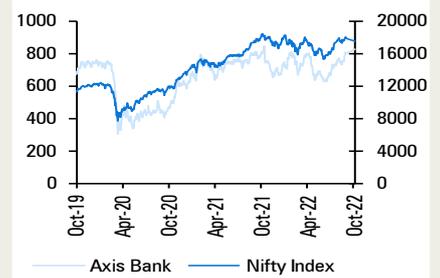
Particulars

Particulars	Amount
Market Capitalisation	₹253841 crore
52 week H/L	867 / 618
Net worth	₹ 116152 crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	11.6	9.7	9.7	9.7
FII	51.4	47.4	46.9	46.6
DII	25.3	30.2	30.5	31.5
Others	11.7	12.6	12.9	12.3

Price Chart



Recent Event & Key risks

- NIM up ~36 bps QoQ. GNPA down 26 bps to 2.5%, credit cost 0.38%
- **Key Risk:** (i) Accretion of liabilities and impact on margin (ii) Retention of business post acquisition

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	25206	29239	33132	15%	40544	47577	20%
PPP	23438	25702	24742	9%	29600	34734	18%
PAT	1627	6588	13025	41%	20279	22381	31%
ABV (₹)	267.9	308.8	347.8		408.2	434.8	
P/E	143.2	38.4	19.5		12.5	11.3	
P/ABV	3.1	2.7	2.4		2.0	1.9	
RoA	0.2	0.7	1.2		1.6	1.6	
RoE	2.1	7.1	12.0		16.3	16.2	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Robust business & operational performance

- The bank posted better than estimated numbers. Both business and operational performance were robust, asset quality trend continued to improve. Net interest income was up 31.1% YoY and 10.4% QoQ to ₹ 10360 crore on the back of 36 bps sequential improvement in net interest margins (NIMs). On a sequential basis, other income reported significant growth of 31.4% and ~4% YoY to ₹ 3941 crore, mainly aided by fee income, which grew 20% YoY. Trading loss was at ₹ 86 crore in Q2FY23 vs. a loss of ₹ 84 crore in Q1FY23
- Controlled opex and higher income levels resulted in decline in C/I ratio at ~46% vs. 49% a year ago and 52.5% in previous quarter. Provisions for the quarter increased 53% QoQ and declined ~68% YoY to ₹ 550 crore. Credit cost declined 3 bps QoQ, 16 bps YoY to 0.38%. Thus, PAT for the quarter came in at ₹ 5330 crore (up 70% YoY, 29% QoQ) and was ahead of our estimates
- Asset quality has improved as GNPA, NNPA ratio declined 26 bps, 13 bps QoQ to 2.50% and 0.51%, respectively. The standard Covid-19 restructuring implemented loans was at 0.38% of GCA vs. 0.45% of GCA in Q1FY23. Slippages for the quarter were at ₹ 3383 crore compared to ₹ 3684 crore in the previous quarter. Recoveries and upgrades were at ₹ 2826 crore vs. ₹ 2957 crore (QoQ) while write-offs were at ₹ 1700 crore
- Credit growth for the quarter was at 17.6% YoY at ₹ 7.30 lakh crore and was slightly above industry average on a yearly basis. Mid corporate book grew 49% YoY, SME grew 28% YoY and retail grew 22% YoY. Within the retail segment personal loans, credit cards and rural loans saw healthy uptick. Deposit growth was at 10.1% YoY at ₹ 8.10 lakh crore, in which CASA growth was at 14% YoY. CASA ratio increased to ~46% vs. ~44% in Q2FY22 and Q1FY23

Q2FY23 Earnings Conference Call highlights

- Witnessed market share gain in SME segment, industry leading performance in cards business and acceleration on digital banking outcomes
- Government business performance remains strong. It continues to add new mandates and gain market share. This also gives confidence about continued traction and sustainable CA balances
- NIMs trajectory to be maintained at current levels led by improvement in business mix, higher yields and asset repricing
- The bank is expected to see steady opex as investments have already been made and benefit to come on revenue side going ahead. The management has guided opex to asset ratio of around 2%
- MTM was largely from corporate book and the bank does not expect any economic loss on this book
- Covid provisions of ₹ 5012 crore are not included in CRAR calculation, providing cushion of 55 bps. The bank holds cumulative provisions of ₹ 11625 crore. Has not utilised Covid provisions in Q2FY23. Outstanding provision at ~23% on restructured loans
- Recoveries from written off accounts were up 32% at ₹ 709 crore. No sale to ARC during Q2FY23
- Also, 68% of loans are floating (39% repo linked, 22% MCLR linked, 32% is fixed). Substantial floating rate book makes transmission of rate faster
- SME segment has a granular business across multiple sector and multiple geographies. The management sees no concerns in terms of asset quality in SME sector
- In corporate segment, the bank's focus will be on Indian corporates that have international presence.
- Also, ~10.4 lakh credit cards issued during Q2FY23 while incremental share in spends was at 13%
- Citi bank integration – CCI approval is in place. Expect to complete the transaction by end of Q4FY23. The progress is trending in line with expectations. Decision on capital raising to be taken post completion of acquisition

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	826	1,000	Buy	2,538	21.5	42.4	66.1	72.9	38	19.5	12.5	11.3	2.7	2.4	2.0	1.9	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	130	155	Buy	274	8.0	9.0	12.0	14.6	16	14.5	10.8	8.9	1.8	1.6	1.4	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,449	1,750	Buy	8,071	56.4	66.7	76.9	94.1	26	21.7	18.8	15.4	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,161	1,350	Buy	900	36.7	59.5	91.3	107.0	32	19.5	12.7	10.9	2.1	2.0	1.7	1.5	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,864	2,200	Buy	3,702	35.1	43.0	50.7	58.8	53.0	43.3	36.7	31.7	6.1	5.2	4.5	4.0	12.4	12.6	13.0	13.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	10,360	8,967	7,900	31.1	9,384	10.4	Driven by healthy business accretion & NIM expansion
NIM (%)	3.96	3.80	3.39	57 bps	3.60	36 bps	Effective transmission of rate hike & reduction in RIDF investment
Other Income	3,941	4,002	3,798	3.8	2,999	31.4	Retail fee income up 28% YoY and 10% QoQ
Net Total Income	14,301	12,969	11,699	22.2	12,383	15.5	
Staff cost	2,167	2,236	1,936	11.9	2,186	-0.9	
Other Operating Expenses	4,419	4,602	3,835	15.2	4,310	2.5	C/I down ~650 bps QoQ to 46%
PPP	7,716	6,131	5,928	30.2	5,887	31.1	
Provision	550	536	1,735	-68.3	359	53.0	Annualized credit cost for Q2FY23 at 0.38%
PBT	7,166	5,595	4,193	70.9	5,528	29.6	
Tax Outgo	1,837	1,399	1,060	73.3	1,402	31.0	
PAT	5,330	4,196	3,133	70.1	4,125	29.2	Healthy NII and steady provision boosted PAT
Key Metrics							
GNPA	19,894	21,492	24,149	-17.6	21,037	-5.4	Slippages slightly lower than previous quarter
NNPA	3,996	4,320	7,200	-44.5	4,781	-16.4	
Credit	7,30,875	7,14,977	6,21,719	17.6	7,01,130	4.2	Retail & SME contributed to YoY growth
Deposit	8,10,807	8,09,914	7,36,286	10.1	8,03,572	0.9	CASA growth higher than overall deposit trajectory

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	39,470	40,544	2.7	47,395	47,577	0.4
Pre Provision Profit	28,530	29,600	3.7	34,598	34,734	0.4
NIM(%) (calculated)	3.7	3.8	9 bps	3.9	3.9	0 bps
PAT	16,320	20,279	24.3	20,090	22,381	11.4
ABV per share (₹)	396.7	408.2	2.9	418.5	434.8	3.9

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	16.2	17.0	15.5	17.0
Deposit Growth (%)	14.1	15.6	14.3	15.6
CASA ratio (%)	44.0	45.2	44.1	45.2
NIM Calculated (%)	3.8	3.9	3.7	3.9
Cost to income ratio (%)	47.3	47.3	48.2	47.4
GNPA (₹ crore)	20,446	22,738	19,595	19,959
NNPA (₹ crore)	4,962	5,879	4,621	4,767
Slippage ratio (%)	1.86	2.34	1.73	2.11
Credit cost (%)	0.31	0.51	0.83	0.82

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	62,635	63,645	67,377	81,885	95,125
Interest Expended	37,429	34,406	34,245	41,342	47,548
Net Interest Income	25,206	29,239	33,132	40,544	47,577
growth (%)	16.1	16.0	13.3	22.4	17.3
Non Interest Income	15,537	14,838	15,221	15,614	18,376
Net Income	40,743	44,077	48,353	56,157	65,953
Staff cost	5,321	6,164	7,613	9,176	10,268
Other operating Expense	11,984	12,211	15,998.19	17,381	20,951
Operating Profit	23,438	25,702	24,742	29,600	34,734
Provisions	18,534	16,896	7,359	2,562	4,892
PBT	4,904	8,806	17,383	27,038	29,842
Taxes	3,277	2,217	4,357	6,760	7,460
Net Profit	1,627	6,588	13,025	20,279	22,381
growth (%)	-65.2	304.9	97.7	55.7	10.4
EPS (₹)	5.8	21.5	42.4	66.1	72.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	282.2	306.4	307.0	307.0	307.0
EPS (₹)	5.8	21.5	42.4	66.1	72.9
BV (₹)	301.1	331.6	374.7	434.8	465.1
ABV (₹)	267.9	308.8	347.8	408.2	434.8
P/E	143.2	38.4	19.5	12.5	11.3
P/BV	2.7	2.5	2.2	1.9	1.8
P/ABV	3.1	2.7	2.4	2.0	1.9
Yields & Margins (%)					
Net Interest Margins	3.5	3.7	3.6	3.8	3.9
Yield on assets	8.7	8.1	7.4	7.8	7.7
Avg. cost on funds	5.0	4.2	3.7	3.9	4.0
Yield on average advances	9.1	8.1	7.5	8.3	8.3
Avg. Cost of Deposits	4.9	4.0	3.5	3.7	3.8
Quality and Efficiency					
Cost to income ratio	42	42	49	47	47
Credit/Deposit ratio	89.3	88.0	86.1	87.7	88.8
GNPA	4.7	3.7	2.8	2.2	2.1
NNPA	1.6	1.1	0.8	0.6	0.6
ROE	2.1	7.1	12.0	16.3	16.2
ROA	0.2	0.7	1.2	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	564	613	614	614	614
Reserves and Surplus	84397	100990	114411	132855	142159
Networth	84961	101603	115025	133469	142773
Deposits	640105	697985	821721	937569	1083518
Borrowings	147954	142873	185134	188002	190920
Other Liabilities & Provisions	42158	44336	53298	56285	58545
Total	915178	986798	1175178	1315325	1475756
Application of Funds					
Fixed Assets	4313	4245	4572	5021	5791
Investments	156734	226120	275597	300517	351503
Advances	571424	614399	707696	822635	962583
Other Assets	85439	80304	76325	115104	85413
Cash with RBI & call money	97268	61730	110987	72049	70467
Total	915178	986798	1175178	1315325	1475756

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	14.3	7.8	19.1	11.9	12.2
Advances	15.5	7.5	15.2	16.2	17.0
Deposit	16.7	9.0	17.7	14.1	15.6
Total Income	14.8	0.4	5.2	18.0	16.4
Net interest income	16.1	16.0	13.3	22.4	17.3
Operating expenses	9.3	6.2	28.5	12.5	17.6
Operating profit	23.3	9.7	-3.7	19.6	17.3
Net profit	-65.2	304.9	97.7	55.7	10.4
Net worth	27.4	19.6	13.2	16.0	7.0
EPS	-68.3	272.9	97.3	55.7	10.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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