

Axis Bank Ltd.



Axis Bank Ltd.

Earnings boosted by strong margin expansion & lower operating costs

CMP INR 909	Target INR 1,120	Potential Upside 23.2%	Market Cap (INR Mn) INR 27,86,514	Recommendation BUY	Sector Banking
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Result Highlights of Q2 FY23

- AXSB's Net Interest Income (NII) grew 31.1% YoY to INR 1,03,603 Mn in Q2FY23. Net interest margin (NIM) for Q2FY23 stood at 3.96%, improved 36 bps QoQ and 57 bps YoY.
- The bank's PPOP for the quarter was INR 77,162 Mn, a growth of 30.2% YoY/ 31.1% QoQ led by healthy operating income and lower operating cost.
- Net profit grew 70.1% YoY (+29.2% QoQ) from INR 31,333 Mn in Q2FY22 to INR 53,298 Mn in Q2FY23 owing to lower provisions & robust growth in operating profits.
- AXSB's advances grew 17.6% YoY to INR 7,309 Bn as of September 30, 2022. The total deposits grew by 10.1% YoY at INR 8,109 Bn.
- As of September 30, 2022, the bank's reported Gross NPA and Net NPA levels were 2.50% and 0.51% respectively as against 2.76% and 0.64% as of June 30, 2022. Overall capital adequacy ratio (CAR) stood at 17.7% with CET-1 ratio at 15.1%.

MARKET DATA

Shares outs (Mn)	3,072
Equity Cap (INR Mn)	12,45,642
Mkt Cap (INR Mn)	27,86,514
52 Wk H/L (INR)	918/618
Volume Avg (3m K)	9,848
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	4,13,749	4,99,588
PPOP	2,34,381	2,57,022	2,47,420	3,05,923	3,76,200
PAT	16,272	65,885	1,30,255	2,04,921	2,43,810
EPS	5.97	21.5	42.5	66.7	79.4
NIM	3.5%	3.7%	3.6%	3.9%	4.1%
Advances Growth	15.5%	7.5%	15.2%	15.5%	18.0%

Source: Company, KRChoksey Research

Expansion of NIMs supporting robust growth in operating profits: AXSB reported the best-ever NIMs of 3.96% in Q2FY23, with an expansion of 57 bps YoY/ 36 bps QoQ. The domestic NIMs crossed 4.0% during the quarter. The expansion was driven by improvement in the balance sheet mix to loans & investments, which comprised 86% of the total assets as of September 30, 2022. On the advances front, the retail & Commercial Banking Group segment contribution increased to 69% from 65% last year. Another driver for NIM expansion was declining low-yielding RIDF bonds from 4.08% to 3.09%. The result of this NIM expansion is reflected in the NII growth of 31.1% YoY/ 10.4% QoQ at INR 1,03,603 Mn. On the overall operating side, the PPOP for the quarter grew by 30.2% YoY/ 31.1% QoQ at INR 77,162 Mn, driven by healthy growth in granular fee income & lower operating costs. The fee income grew 20.0% YoY, led by retail fees & Digital and mobile banking fees. The cost-to-income ratio stood at 46.0% for Q2FY23, an improvement of 328 bps YoY/ 641 bps QoQ. These metrics with lower provisions boosted profit growth by 70.1% YoY.

Retail segment drives credit growth: The credit growth for Q2FY23 was led by increasing granularity & retail mix, contributing 58% of the total advances. The retail loan book for the quarter ended grew by 22.0% YoY, where unsecured disbursement constituted ~24.0% of the total disbursements. The cards & personal loan segment increased 47.0% YoY. The credit card spending in Q2FY23 grew 70.0% YoY. As a pickup in commercial card spending drove the industry's growth, AXSB has consciously focused on increasing the profitable retail cards segment. On the corporate side, the loan book grew by 7.0% YoY/ 6.6% QoQ, while the commercial segment grew 28.0% YoY/ 7.0% QoQ. We expect AXSB to continue focusing on the retail & SME segments which will aid in maintaining healthy growth momentum. We expect the loan book to grow by 16.7% CAGR over FY22-24E.

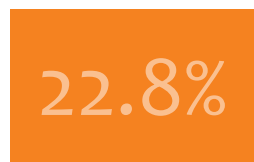
Asset Quality improves: The GNPA & NNPA for the quarter improved by 103 bps & 57 bps YoY, respectively. The recoveries for the quarter stood at INR 7,090 Mn. The net slippage in the quarter adjusted for recoveries from written of pool was negative INR 1,520 Mn. BB and Below pool of the bank declined 26.0% YoY.

MARKET INFO

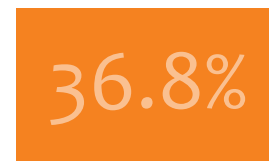
SENSEX	59,307
NIFTY	17,576

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	9.7	9.7	9.7
FIIs	43.5	46.6	46.9
DIIIs	34.9	31.5	30.5
Others	11.9	12.3	12.9
Total	100.0	100.0	100.0



NII CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

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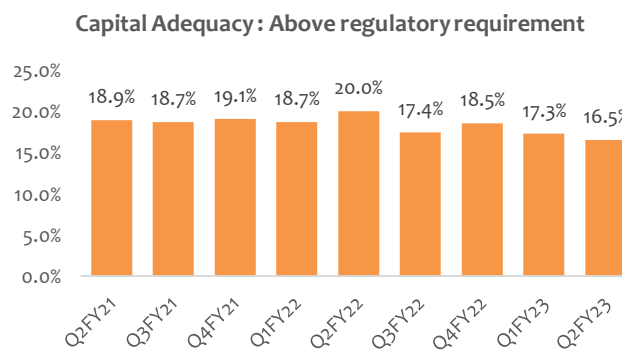
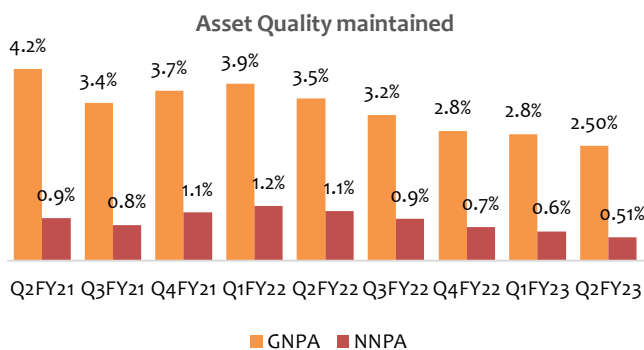
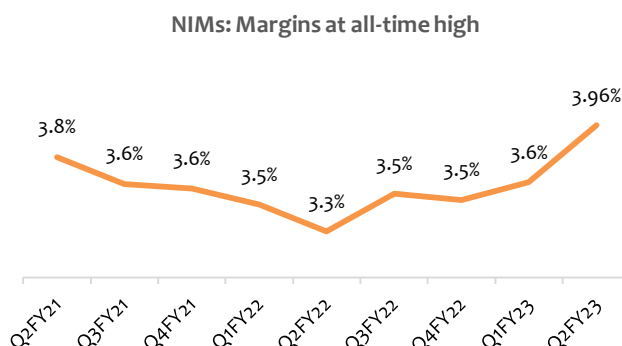
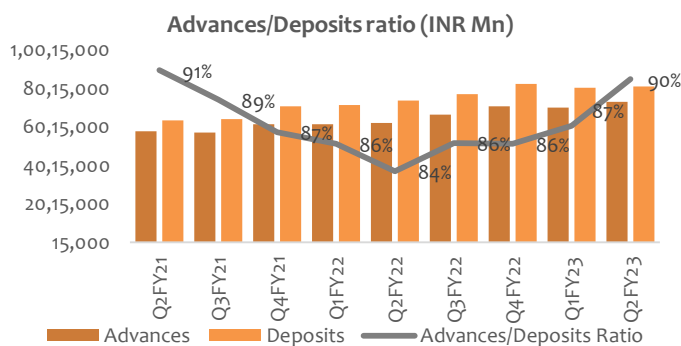
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Key Concall Highlights:

- The growth momentum in India continues to hold up well at a time when the majority of the world is staring at a slowdown. This is reflected in several macro indicators. The system of credit growth and domestic consumption remains strong.
- AXSB saw continued momentum in granularisation and premiumisation of deposits, market share gains in Bharat and SME segments, industry-leading performance in Cards, further strengthening of its transaction banking franchise and acceleration on digital banking outcomes.
- AXSB continue to grow faster than the industry, with an incremental market share of 7.0% in the last 3 years and a closing market share of 5.7% as of September 30, 2022.
- The bank will focus on growth segments like retail, SME, and Mid Corporate with better RAROC and continues to grow faster at 22%, 28% and 49%, respectively as of September 30, 2022.
- The balance sheet resilience is visible through strong capital adequacy and returns ratios reported for the quarter. Overall coverage at 138.35% of GNPA and limited covid restructuring at 0.38% of GCA, placing it in a good position in the macro environment.
- The CASA ratio at 46% on an MEB basis as of September 30, 2022, and early improvement in the quality of granular liability growth, visible through a reduction in outflow rates, gives the bank comfort that it has laid a strong liability foundation.
- On Citibank Consumer business integration, the CCI approval is in place, and it expects to complete the transaction by Q4FY23.
- Trading Loss for Q2FY23 stood at INR 0.86 Bn compared to a loss of INR 6.67 Bn in Q1FY23 and a profit of INR 4.73 Bn for Q2FY22. The MTM is mainly in the corporate bond book.
- Technology and digital spending grew 19% YoY and constituted ~8% of total operating expenses.
- 68% of AXSB's loans are floating rates which position it well in a rising interest rate environment. ~45% of its fixed rate book matures in 12 months.

Valuation and view: Q2FY23 for AXSB was a robust quarter led by strong earnings and overall business momentum. AXSB has been focusing on building a strong retail portfolio. AXSB has performed strongly in terms of NII & operating profits led by multiple key drivers. We expect AXSB to sustain the current NIMs led by focusing on improving the balance sheet mix. As 68% of the loan mix is floating in nature, the bank is well-positioned to benefit from the rising interest rate scenario. The fee income will continue to remain healthy with improving business momentum. We expect the bank to invest in branch expansion, manpower & digital capabilities to maintain tight cost control, which will drive the operating performance. We do not expect any negative surprises on the asset quality front. The earnings growth momentum will continue, driven by healthy operating profits & lower provisions, resulting in improved returns ratios for the bank. **We expect ROE/ ROA to reach 16.5%/ 1.8% by FY24E from 12.0%/ 1.2%, respectively in FY22, led by consistent performance. We have factored CAGR of 16.7% in advances, 22.8% in NII, 23.3% in PPOP, and 36.8% in PAT over FY22-24E, driven by strong trends in business momentum & improving operating performance. We revise our target price to INR 1,120 per share (earlier INR 936), applying 2.2x P/ABV multiple to an adjusted book value of INR 509.5. This implies an upside of 23.2% over the CMP. We maintain our rating on the share of AXSB at "BUY".**



Source: Company, KRChoksey Research

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Exhibit 1: Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	6,26,352	6,36,453	6,73,768	8,24,289	9,90,307
Interest Expense	3,74,290	3,44,062	3,42,446	4,10,540	4,90,719
Net Interest Income	2,52,062	2,92,391	3,31,322	4,13,749	4,99,588
Non interest income	1,55,366	1,48,382	1,52,205	1,59,816	1,88,582
Operating income	4,07,428	4,40,773	4,83,528	5,73,564	6,88,171
- Employee expense	53,210	61,640	76,126	81,454	87,156
- Other operating expense	1,19,836	1,22,111	1,59,982	1,86,187	2,24,815
Operating Expense	1,73,046	1,83,752	2,36,108	2,67,641	3,11,971
PPOP	2,34,381	2,57,022	2,47,420	3,05,923	3,76,200
Provisions	1,85,339	1,68,963	73,595	32,696	51,119
PBT	49,042	88,058	1,73,826	2,73,228	3,25,080
Tax Expense	32,770	22,173	43,571	68,307	81,270
PAT	16,272	65,885	1,30,255	2,04,921	2,43,810
Diluted EPS (INR)	6.0	21.5	42.5	66.8	79.4

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	6,145	6,145
Reserves & Surplus	8,43,840	10,09,225	11,45,601	13,50,522	15,94,332
Net worth	8,49,480	10,15,345	11,51,734	13,56,666	16,00,477
Borrowings	14,79,540	14,28,732	18,51,339	17,58,772	19,34,649
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	2,98,099	5,17,318
Total Equity & Liabilities	91,51,650	98,67,981	1,12,84,035	1,27,50,440	1,47,00,327
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	81,73,888	96,45,188
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	1,27,50,440	1,47,00,327

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%	15.5%	18.0%
Deposits (%)	16.7%	9.0%	17.7%	13.6%	14.0%
Total assets (%)	14.3%	7.8%	14.3%	13.0%	15.3%
NII (%)	16.1%	16.0%	13.3%	24.9%	20.7%
Pre-provisioning profit (%)	23.3%	9.7%	-3.7%	23.6%	23.0%
PAT (%)	-65.2%	304.9%	97.7%	57.3%	19.0%
B/S Ratios					
Credit/Deposit (%)	89.3%	88.0%	86.1%	87.5%	90.6%
CASA (%)	39.9%	38.5%	40.2%	43.1%	46.2%
Advances/Total assets (%)	62.4%	62.3%	62.7%	64.1%	65.6%
Leverage - Total Assets to Equity	10.8	9.7	9.8	9.4	9.2
Operating efficiency					
Cost/income (%)	42.5%	41.7%	48.8%	46.7%	45.3%
Opex/total assets (%)	1.9%	1.9%	2.1%	2.1%	2.1%
Opex/total interest earning assets	2.4%	2.2%	2.4%	2.4%	2.4%
Profitability					
NIM (%)	3.5%	3.7%	3.6%	3.9%	4.1%
RoA (%)	0.2%	0.7%	1.2%	1.7%	1.8%
RoE (%)	2.1%	7.1%	12.0%	16.3%	16.5%
Asset quality					
Gross NPA (%)	4.9%	3.7%	2.82%	2.4%	2.4%
Net NPA (%)	1.6%	1.1%	0.73%	0.4%	0.4%
PCR (%)	67.9%	71.6%	75.0%	83.2%	84.6%
Slippage (%)	2.8%	3.2%	1.6%	1.6%	1.5%
Credit cost (%)	3.5%	2.8%	1.1%	1.0%	0.4%
Per share data / Valuation					
EPS (INR)	5.8	21.5	42.4	66.7	79.4
BVPS (INR)	301.1	331.8	375.2	441.6	520.9
ABVPS (INR)	267.9	308.9	357.2	430.8	509.5
P/E (x)	128.2	33.8	21.2	13.5	11.3
P/BV (x)	2.5	2.2	2.4	2.0	1.7
P/ABV (x)	2.8	2.4	2.5	2.1	1.8

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
24-Oct-22	909	1,120	BUY	Buy	More than 15%
26-Jul-22	706	936	BUY		
02-May-22	729	936	BUY	Accumulate	5% – 15%
25-Jan-22	752	936	BUY		
27-Oct-21	787	936	BUY	Hold	0 – 5%
31-Aug-21	783	807	Hold		
27-July-21	732	807	ACCUMULATE	Reduce	-5% – 0
	745	770	Hold		
				Sell	Less than – 5%

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