27 December 2022

Company Update | Sector: Financials

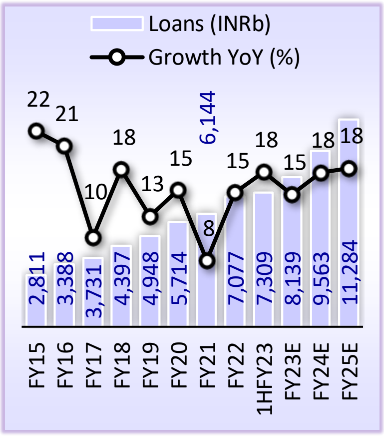
Axis Bank

BSE SENSEX	S&P CNX
60,927	18,132

Stock Info

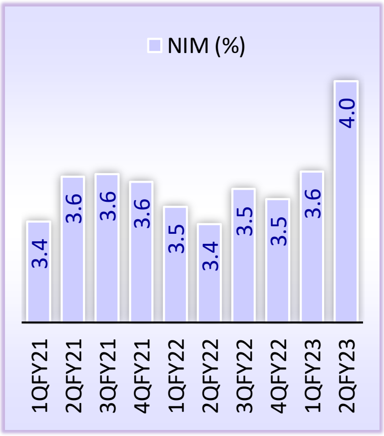
Bloomberg	AXSB IN
Equity Shares (m)	3,072
M.Cap.(INRb)/(USDb)	2866.8 / 34.6
52-Week Range (INR)	959 / 618
1, 6, 12 Rel. Per (%)	7/32/33
12M Avg Val (INR M)	8053
Free float (%)	90.5

We expect loans to grow at 17% CAGR over FY22-25



Source: MOFSL, Company

Margins saw a sharp improvement in 2QFY23 driven by improving product mix and rising interest rates



Source: MOFSL, Company

CMP: INR933 TP: INR1,130 (+21%) BUY

Growth outlook gaining traction

Opex ratios to moderate; Improving granularity to drive sustainable RoE

- **AXSB has progressed well over past few years and has strengthened its balance sheet by making it granular, increasing the mix of retail loans and improving its PCR. As a result, its key metrics such as loan growth, margins and profitability have improved.**
- **Loan growth is witnessing a healthy recovery with 14-18% growth over the past four quarters (vs 13% CAGR over FY19-22), driven by retail loans (18% CAGR). Small business banking (SBB)/rural loans posted a robust CAGR of 49%/23%. The rural and semi-urban market remains a key focus area, which should enable sustainable loan growth over the medium term. We, thus, expect a 17% CAGR in loans over FY22-25.**
- **AXSB has multiple levers in place to offset the rise in the funding cost as 68% of loans are floating, which, coupled with the rising mix of high-yielding loans and a gradual reduction in low-yielding RIDF bonds (3% of assets), should help margins.**
- **AXSB remains focused on building a stronger, consistent, and sustainable franchise. Since asset quality issues are behind, slippages and credit cost will be under control. While the bank will continue to make investments, it expects to bring down the cost-to-assets ratio to ~2% by FY25-end. The bank achieved its target of a consolidated RoE of 18% in 2QFY23 and remains on track to deliver a sustainable RoE of 18% in the medium term. We estimate AXSB to deliver FY25 RoA/RoE of 1.8%/16.9%. AXSB is our top pick for CY23 with a TP of INR1,130 (2.0x Sep'24E ABV + INR94 for subs).**

Growth outlook recovering; retail & SBB/rural segments to be key drivers

After reporting a modest growth till 1HFY22, AXSB is witnessing a healthy recovery as loan growth has improved to 14-18% in the past four quarters vs a 13% CAGR over FY19-22. The loan growth was driven by the retail book, which saw an 18% CAGR over FY19-22. SBB/rural loans registered a robust CAGR of 49%/23%. AXSB is focused on improving the product mix, and consequently, the mix of high-yielding retail loans (including personal loans, credit cards, SBB and rural loans) stands at 22.6% in 2QFY23. The rural and semi-urban market remains a key focus area, which we believe should enable sustainable loan growth over the medium term. We, thus, estimate a 17% CAGR in loans over FY22-25.

Building a granular liability franchise; margins to exhibit positive bias

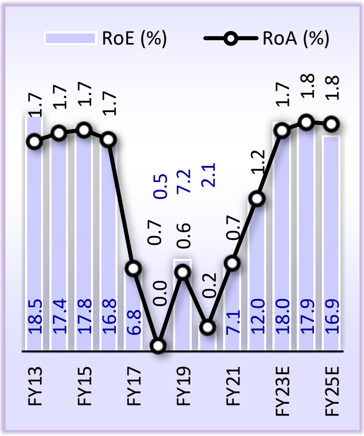
AXSB is focusing on building a granular liability franchise, with 'CASA + retail term deposits' forming 82% of total deposits. Further, the mix of retail deposits as per LCR rose to 55% in 1HFY23 from 52% in FY22. An improving liability franchise has, thus, helped AXSB maintain strong control on its funding cost. As a result, CoD/CoF moderated gradually to 3.8%/4.1%, which is comparable vs peers. AXSB has multiple levers in place to offset the rise in the funding cost as 68% of loans are floating-rate loans, which, coupled with the rising mix of high-yielding loans and a gradual reduction in low-yielding RIDF bonds (3% of assets), should help margins.

Improving operating efficiency; cost-to-assets to moderate to ~2% by FY25

AXSB has been continuously investing in business and building digital capabilities to support growth. As a result, ~51% of incremental opex over the past one year has been made toward investment in technology and business.

Nitin Aggarwal – Research analyst (Nitin.Aggarwal@MotilalOswal.com)
Yash Agarwal – Research analyst (Yash.Agarwal@motilaloswal.com)

Exhibit 40: We estimate AXSB to deliver FY25 RoA/RoE of 1.8%/16.9%



Source: MOFSL, Company

The bank added ~7,500 employees and 164 branches in FY22. The retail loan mix has increased to 58%, which, coupled with the expansion in the credit cards business, has resulted in elevated opex (cost-to-assets at ~2.2% in FY22). While the bank will continue to make investments, it expects revenues to grow faster than opex, which, coupled with improving efficiency, should reduce opex ratios gradually. Thus, the bank expects to bring down the cost-to-assets ratio to ~2% by FY25-end.

Fee income getting granular; credit card forms ~30% of total fees

Retail and transaction banking fees now form ~93% of total fees, signifying the granularity of fee income. This was primarily driven by card fees (+53% YoY) and other retail assets related fees (+29% YoY), which together constituted ~68% of total fees. On the other hand, fees from transaction banking too grew at healthy 30% YoY. The gradual revival in corporate banking fees, along with a pickup in the credit cycle, is likely to further boost overall fee intensity. AXSB's credit card business is reporting a robust performance and we believe that its partnership with Flipkart and its acquisition of Citi cards business will increase traction in the credit cards business, which will further boost the bank's profitability.

Asset quality outlook robust; credit cost to undershoot long-term average

Asset quality has improved significantly over the past few years, with slippages moderating to 3% in FY22 (2.1% in 1HFY23), which led to a decline in the GNPA ratio to 2.5% in 1HFY23 vs 5.1% in FY20. The net slippage ratio was also low at 0.8%/0.4% in FY22/1HFY23. PCR has improved significantly to ~80% in 2QFY23 (93% incl. TWO), thereby closing the gap with peers. The restructured book remains negligible at 0.38% of loans, which, along with lower BB & below book, will keep the slippages in control. Further, AXSB is carrying a total additional provision of INR116.3b (1.6% of loans; the highest among peers), which will keep the credit cost benign. We, thus, estimate credit costs to undershoot its long-term average at 0.4-0.6% over FY22-25.

GPS strategy in play; consolidated RoE reaches 18% in 2QFY23

AXSB remains focused on its articulated strategy of **G**rowth, **P**rofitability, and, **S**ustainability with an aim to deliver a consolidated RoE of 18% on a sustainable basis. We believe that AXSB has progressed well over the past few years and has strengthened its balance sheet by making it granular, increasing the mix of retail loans and improving its PCR. The bank achieved its target of a consolidated RoE of 18% in 2QFY23 and we believe that it remains on track to deliver a sustainable RoE of 18% over the medium term.

Valuation and view

AXSB remains focused on building a stronger, consistent, and sustainable franchise. Since asset quality issues are now behind, slippages and credit costs should be under control. NIMs have improved significantly and the bank believes that it has sufficient levers in place to offset the rise in deposit costs. While the bank will continue to make investments, it expects to bring down the cost-to-assets ratio to ~2% by FY25-end. Loan growth is likely to remain 4-6% higher than the industry growth over the medium term, with an aim to reach a consolidated RoE of 18%. We estimate AXSB to deliver FY25 RoA/RoE of 1.8%/16.9%. AXSB is our top pick for CY23 with a TP of INR1,130 (2.0x Sep'24E ABV + INR94 for subs).

Snippets from Mr. Amitabh Chaudhry's conversation in MOSL 27th Wealth Creation Study

- **Differentiating oneself** from the market place is not only important for success, but also for delivering consistent performance. Further, identifying the don'ts of doing a business is equally essential for long-term consistency.
- **GPS strategy** is focused on delivering a sustainable performance. Elements of sustainability includes – Become more conservative, move toward process excellence, improving execution, creating a pristine asset quality, tightening the risk guard rails, and segregating the credit and business teams.
- **Credit cycles** are likely to be shorter than historical levels and we do not expect it to last for 10 years or so. However, India is well placed and the credit cycles are expected to be better than seen in the past years.
- Although the **quality of retail book** has been a worrying phenomenon for long but most large banks including AXSB is playing on the lower end of the curve which is less riskier
- Further, the **use of technology and analytics** is providing a lot of information, aiding in better underwriting. Further, the use of Account Aggregators and GST-related information is further helping with the underwriting.

Growth outlook recovering; healthy traction to continue

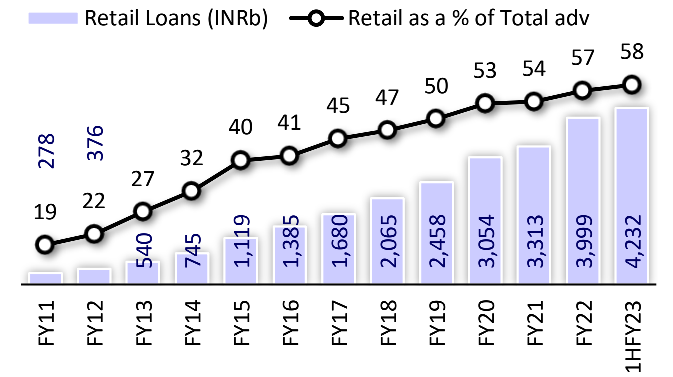
Retail and SBB/Rural banking to be key growth drivers

Post reporting a modest growth till 1HFY22, AXSB has been witnessing a healthy recovery in loan growth, which improved to 14-18% over the past four quarters vs a 13% CAGR over FY19-22. The loan growth was primarily driven by the retail book, which saw an 18% CAGR over the similar period, driving 72% of incremental growth. SBB/rural loans registered a robust CAGR of 49%/23%. Corporate book growth was muted at 7% over this period.

Retail loans have driven ~79%/~71% of the incremental loan growth over the past 18months/one year

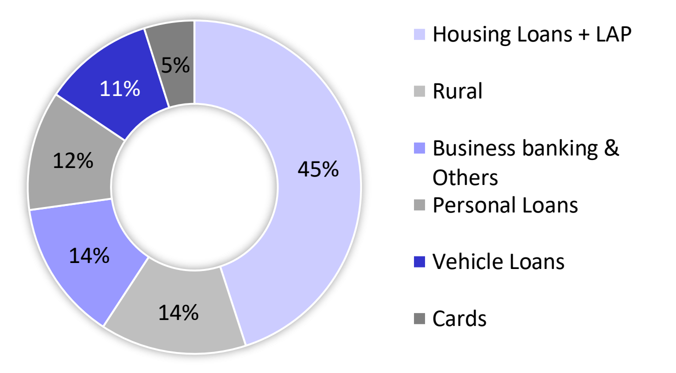
AXSB has been focusing on improving the granularisation of its retail portfolio with an aim to improve the high-yielding and unsecured segment. As a result, the mix of high-yielding retail loans (comprising personal loans, credit cards, SBB and rural loans) has increased consistently to 22.6% in 2QFY23. Overall, the mix of the retail book has increased to 58% in 1HFY23 from 50% in FY19, even as it has consciously lowered the share of housing loans to 45% from 55% in FY15. Furthermore, unsecured loans make up 16.5% of the total retail portfolio (9.5% of total loans).

Exhibit 1: Retail loan book saw 18% CAGR over FY19-22 vs 13% in total loans, driving 72% of incremental growth



Source: Company, MOFSL

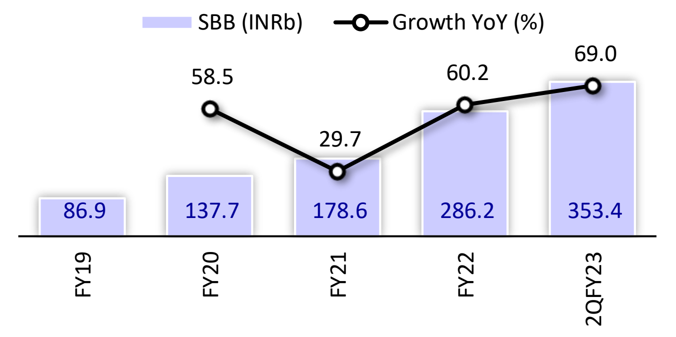
Exhibit 2: Retail loan mix as on 1HFY23: Mix of unsecured loans gradually increasing; stands at 16% of retail loans



Source: Company, MOFSL

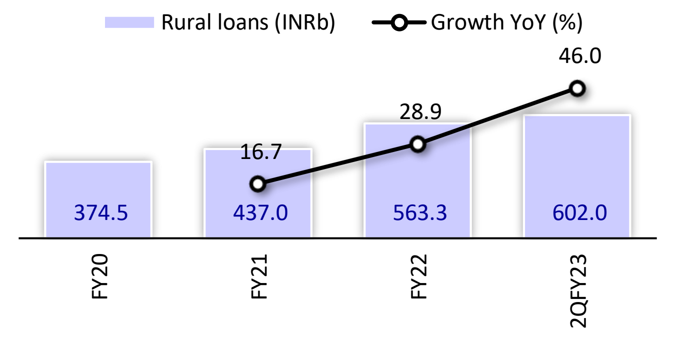
The bank expects that the rural and semi-urban market offers a strong growth opportunity with an increased focus from the government. Thus, MSME and business banking segments remain the key focus area for the bank. AXSB has adopted Bharat banking, a customer-centric framework, to provide the best-in-class products, services, and advisories to its customers. It has ~2,065 Bharat banking branches across 659 districts and has witnessed a strong 49% CAGR (+69% YoY in 1HFY23) in SBB loans over FY19-22 and a 23% CAGR over FY20-22 (+46% YoY in 1HFY23). Overall, the bank aims to double its balance sheet in the next three to four years.

Exhibit 3: SBB loans posted robust 49% CAGR over FY19-22



Source: Company, MOFSL

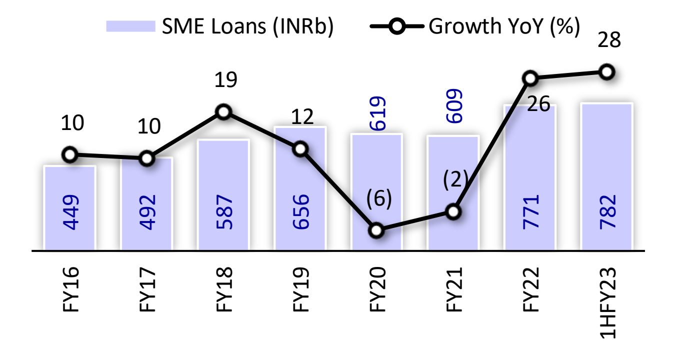
Exhibit 4: Rural loans saw healthy 23% CAGR over FY20-22



Source: Company, MOFSL

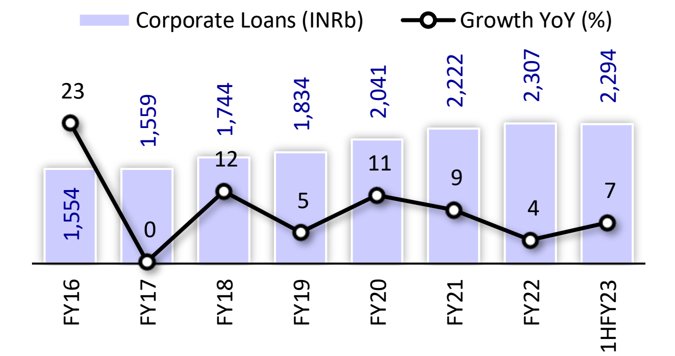
Further, AXSB is also aspiring to be the banker of choice for corporates by providing comprehensive solutions with a focus on building a strong relationship-led franchise rather than an asset-focused model. With improved coverage and risk underwriting standards over the past three years, AXSB is set to see a pickup in loan growth. Among segments, mid corporates have grown by 43% over the past three years and would continue to be the key growth driver.

Exhibit 5: SME loan growth over past few years; witnessing a pickup post FY21



Source: Company, MOFSL

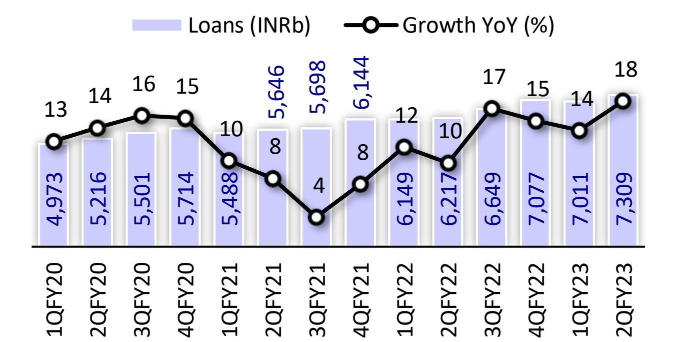
Exhibit 6: Corporate loan growth has been muted over the past few years; likely to see an uptick going ahead



Source: Company, MOFSL

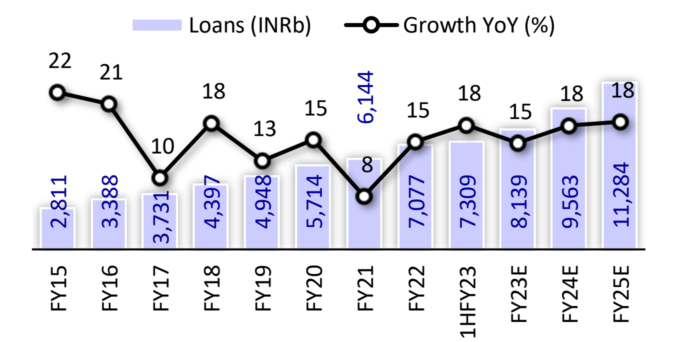
Overall, AXSB is witnessing a recovery in loan growth, led by healthy trends in retail and business banking/rural loans. Management has highlighted that the focus remains on growing these segments to drive loan growth. We, thus, expect the bank to sustain traction in loan growth and expect a 17% CAGR in loans over FY22-25.

Exhibit 7: Loan growth recovered during 2QFY23; expect traction to be sustained over the medium term



Source: Company, MOFSL

Exhibit 8: We thus expects 17% CAGR in total loans over FY22-25 vs 13% CAGR over FY19-22



Source: Company, MOFSL

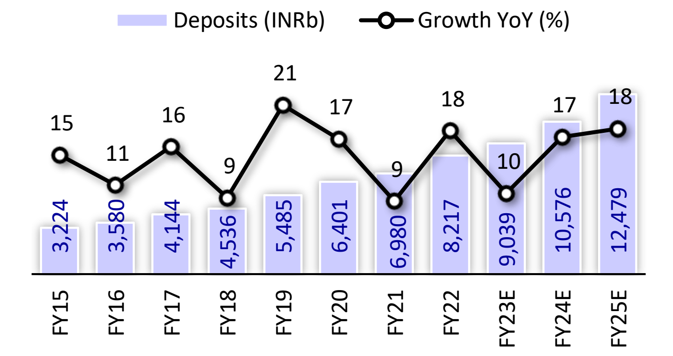
Building a granular and premium liability franchise

CoD comparable to other banks; margins to exhibit positive bias

AXSB has been making a strong progress toward building a granular and premium liability franchise. The focus remains on adding new liability relationships, which grew 43% YoY, with a 31% increase in the number of districts having a market share of >5%. Further, the mix of the premium segment in retail SA has increased by 220bp and there is a 60% increase in the acquisition of priority accounts since Apr'22. The focus remains on growing CASA + retail term deposits, which stand stable at 82% of total deposits as of 1HFY23. Further, the mix of retail deposits as per LCR too has increased to 55% in 1HFY23 post witnessing a drop to 52% in FY22.

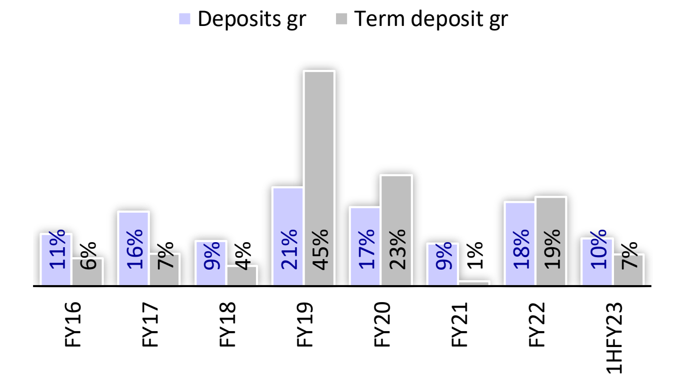
The focus remains on top 50 districts, which account for 61% of total deposits for the industry. Lendable deposits (as per LCR) too grew by 10%, suggesting improving quality of the liability franchise. The mix of quarterly average balance (QAB) vs period-end balances too saw an improvement, suggesting lower volatility. Post the completion of the Citi deal, the quality of customers and the talent pool of Citi would further add value to the liability franchise of the bank. We estimate a 15% CAGR in deposits over FY22-25.

Exhibit 9: We estimate 15% CAGR in deposits over FY22-25



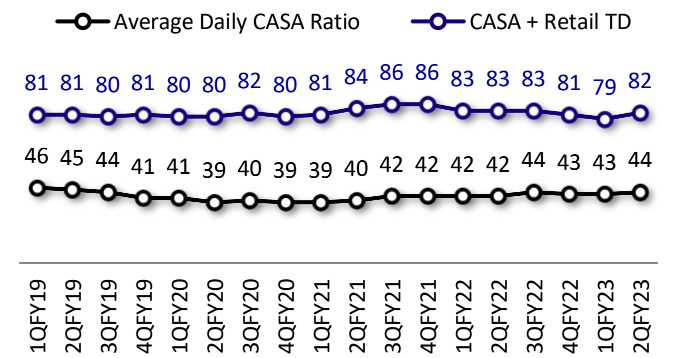
Source: Company, MOFSL

Exhibit 10: Strong growth in CASA + retail deposits post FY21



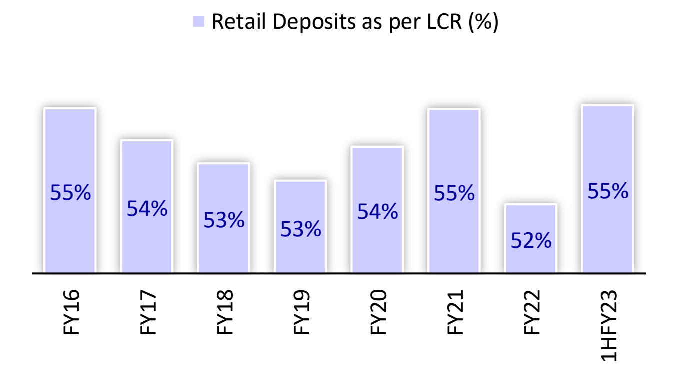
Source: Company, MOFSL

Exhibit 11: CASA + retail TD make up ~82% of total deposits, enabling strong control on cost of funds



Source: Company, MOFSL

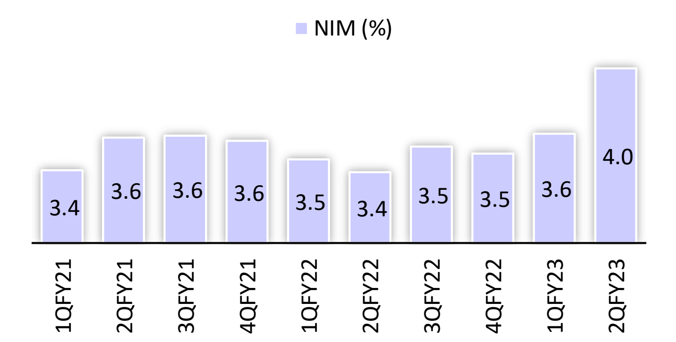
Exhibit 12: Retail deposits as per LCR increased to 55% in 1HFY23 from 52% in FY22



Source: Company, MOFSL

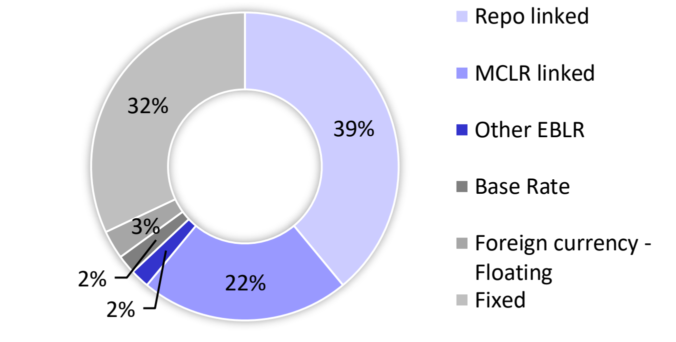
Improving liability franchise has enabled the bank to maintain strong control on its funding cost. As a result, the cost of deposits and the cost of funds have moderated gradually to 3.8% and 4.1%, respectively, which is broadly comparable to its peers. We believe that the cost of deposit is likely to increase over the medium term as banks compete for garnering incremental deposits, which has resulted in a rise in deposit rates. However, AXSB has multiple levers in place to offset the rise in funding costs. The floating rate book stands at 68% of total loans, which, coupled with the increasing mix of high-yielding loans and a gradual reduction in low-yielding RIDF bonds (3% of assets), should support margins, in our view.

Exhibit 13: Margins saw a sharp improvement in 2QFY23 driven by improving product mix and rising interest rates



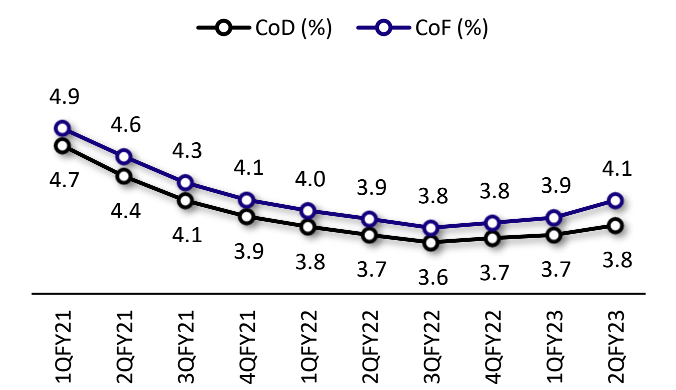
Source: Company, MOFSL

Exhibit 14: Loan mix as of 2QFY23 – Floating-rate loans account for 68% of total loans



Source: Company, MOFSL

Exhibit 15: Cost of deposits have been largely controlled



Source: Company, MOFSL

Exhibit 16: CoD and CoF trends across banks

2QFY23 (%)	CoF	YoY	QoQ	CoD	YoY	QoQ
AXSB	4.1	22	20	3.8	11	11
HDFCB*	4.1	34	23	NA	NA	NA
ICICIBC	3.8	7	11	3.6	2	9
IIB	4.4	4	27	5.1	25	31
KMB*	3.6	30	32	NA	NA	NA
FB**	4.3	15	25	4.4	4	16
SBIN**	4.0	18	17	3.8	-	4
BoB**	3.9	41	16	3.6	7	13
CBK	3.8	8	11	4.1	11	10
INBK	4.1	16	22	4.0	16	17
PNB	3.4	(7)	1	3.9	(12)	11
UNBK	3.7	12	14	4.2	7	20

*Calculated **CoF is calculated

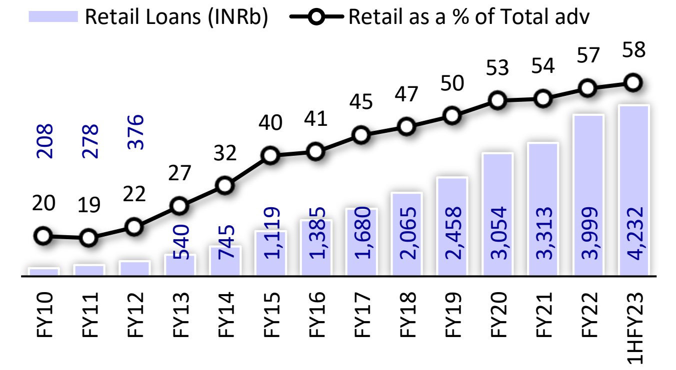
Source: Company, MOFSL

Operating efficiency to improve gradually

AXSB expects cost-to-assets ratio to moderate to ~2% by FY25-end

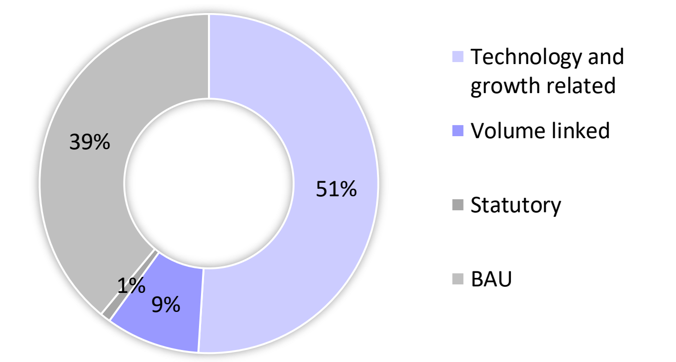
Over the past few years, AXSB has been continuously investing in business and building technology capabilities to support business growth. As a result, ~51% of incremental opex over the past one year has been toward investment in technology and for future growth. The bank added ~7,500 employees and 164 branches in FY22. The mix of retail loans has increased to 58% as of 1HFY23, which, coupled with the expansion in the credit cards business, has resulted in elevated opex. As a result, the cost-to-assets ratio rose to ~2.2% over FY22. While the bank will continue to make investments, it expects core operating revenue to grow faster than opex, which should gradually reduce opex. Thus, the bank is committed to bring down the cost-to-assets ratio to ~2% by the end of FY25.

Exhibit 17: Mix of Retail book has increased to 58%



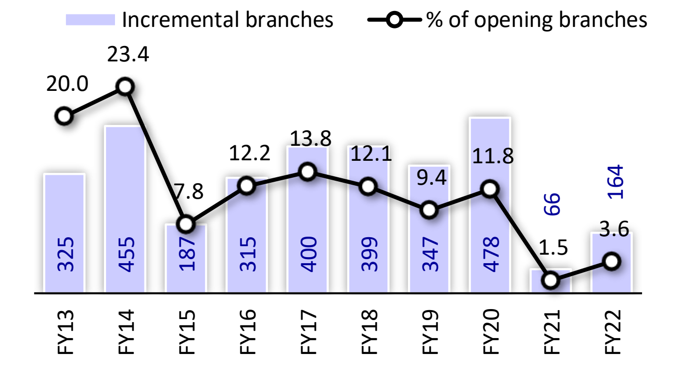
Source: Company, MOFSL

Exhibit 18: Incremental opex mix (%)



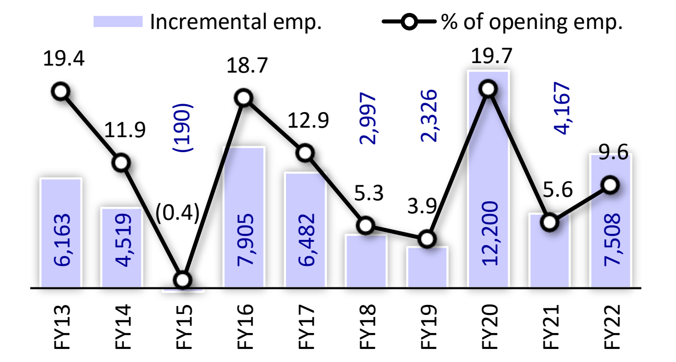
Source: Company, MOFSL

Exhibit 19: Pace of branch expansion to increase



Source: Company, MOFSL

Exhibit 20: The pace of employee addition also picks up



Source: Company, MOFSL

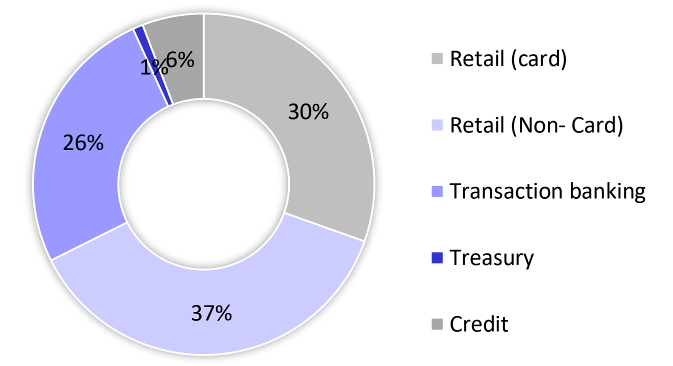
AXSB is the fourth largest credit card issuer with a market share of 11.4%

Fee income getting granular; credit card forms ~30% of total fees

Retail and transaction banking fees form ~93% of total fees in 2QFY23, signifying the granularity of fee income. This was primarily driven by card fees (+53% YoY) and other retail assets related fees (+29% YoY), which together constituted ~68% of total fees. On the other hand, fees from transaction banking grew by 30% YoY. The gradual revival in corporate banking fees, along with a pickup in the credit cycle, is likely to further boost overall fee intensity.

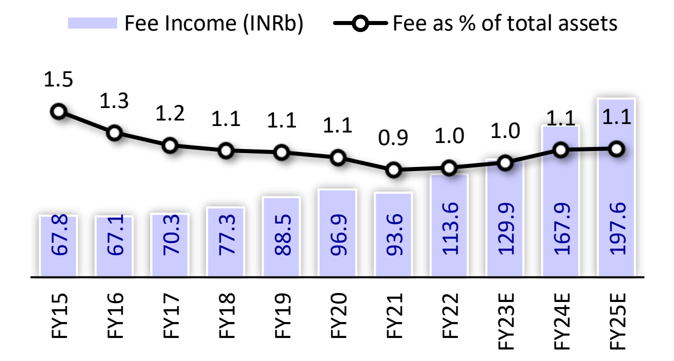
AXSB's credit card business is posting a robust performance over the past one year as the bank has renewed its focus on expanding the business. AXSB is currently the fourth largest credit card issuer, with a total card base of 9.1m (market share of 11.4%). Spending grew by 79% YoY in 2QFY23, with a market share of 9.1%. However, the incremental market share has been healthy at 13% for the past nine months. Moreover, AXSB commands the highest market share in forex cards and 17% in POS terminals (ranks 2nd; 21% over the past twelve months). We believe that its partnership with Flipkart and the acquisition of Citi's cards business should increase traction in the credit card business, which will boost the bank's profitability.

Exhibit 21: 93% of total fee income was driven by retail and transaction banking during 2QFY23



Source: Company, MOFSL

Exhibit 22: Core fee income constitutes ~1.0% of average assets; likely to increase to 1.1% of total assets



Source: Company, MOFSL

Exhibit 23: Net monthly card issuance across major players; AXSB witnessing a strong traction

Nos. (In 000)	Mar'22	Apr'22	May'22	Jun'22	Jul'22	Oct'22
HDFCB	263.9	297.0	385.3	386.5	344.4	218.0
SBIN	245.1	179.7	202.2	167.0	218.9	339.2
ICICIBC	205.4	149.5	212.4	190.5	194.2	221.3
AXSB	434.0	226.4	214.5	228.9	227.6	261.4
KMB	161.9	229.0	181.2	262.9	182.6	219.6

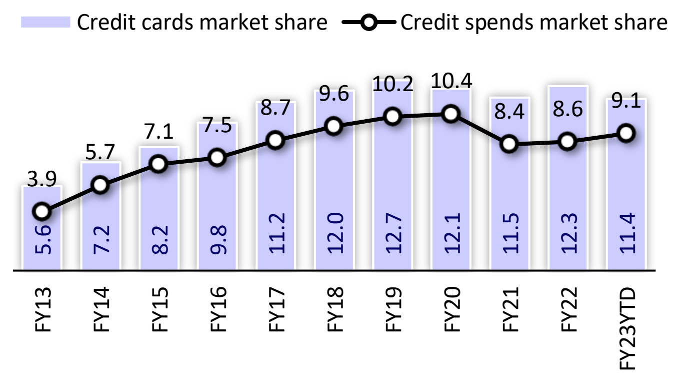
Source: Company, MOFSL

Exhibit 24: AXSB is the fourth largest issuer in terms of outstanding credit cards

Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Oct'22
HDFCB	29.7	28.6	28.5	26.5	25.1	24.2	22.5	20.8
SBIN	14.8	15.3	16.7	17.6	18.3	19.1	18.7	19.1
ICICIBC	14.9	14.3	13.3	14.1	15.8	17.1	17.6	17.1
AXSB	9.8	11.2	12.0	12.7	12.1	11.5	12.3	11.4
KMB	3.0	3.5	3.9	4.3	4.0	3.9	4.3	5.7

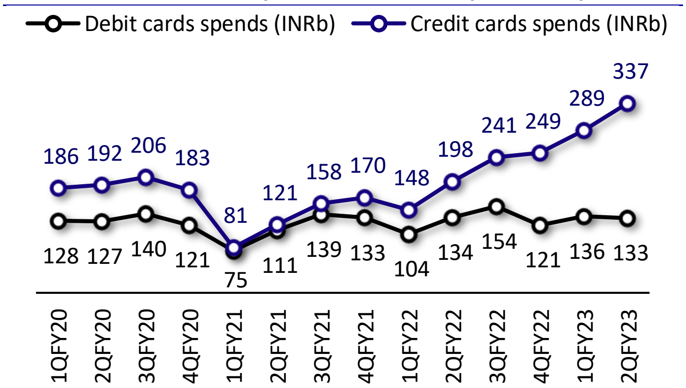
Source: Company, MOFSL

Exhibit 25: Credit card spends market share stood at 9.1%...



Source: Company, MOFSL

Exhibit 26: Debit card spends trends over past few quarters



Source: Company, MOFSL

Asset quality outlook remains robust

Credit cost undershooting long period; robust contingency provision provides further comfort

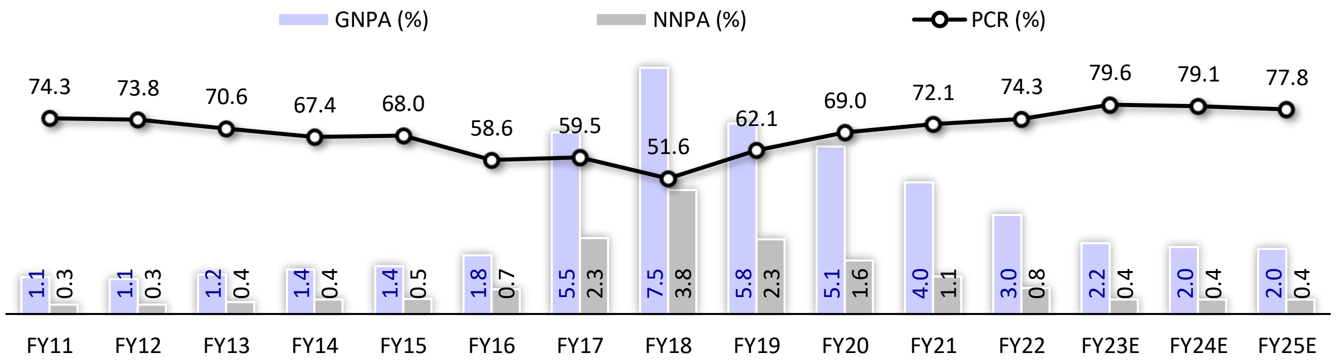
Asset quality has improved significantly over the past few years with slippages moderating to ~INR201b in FY22 (INR71b in 1HFY23) vs INR334b in FY18. Slippages ratio moderated to 3% in FY22 (2.1% in 1HFY23), which coupled with healthy reductions, led to a decline in GNPA ratio to 2.5% in 1HFY23 vs 5.1% in FY20. We further note that net slippage ratio has moderated sharply to 0.8%/0.4% in FY22/1HFY23 vs 1.5% in FY21, which has further supported the asset quality. Over the past few years, AXSB has significantly improved its PCR to ~80% in 2QFY23 (93% including TWO) vs ~62% in FY19, closing the gap with its peers. As a result, NNPA ratio has moderated to 0.51% in 1HFY23 vs 1.6% in FY20.

Credit cost to remain controlled at 0.4-0.6% over FY22-25

In terms of segmental asset quality, GNPA ratio in the Commercial banking segment improved sharply to 1.7% in 2QFY23 vs 5% in FY21 with PCR up at 74%. Even in the wholesale segment, GNPA improved to 4.2% in 2QFY23 vs 5.7% in FY21 with a robust PCR of 88%. GNPA in retail segment stands at 1.5% with PCR of 65% in 2QFY23.

Restructuring book for the bank remains negligible at 0.38% of loans, which along with lower BB & below book will keep the slippages controlled. We thus estimate slippages ratio of ~2% over FY22-25. Further, AXSB is carrying a total additional provision of INR116.3b (1.6% of loans) – the highest among its peers. This coupled with a healthy PCR of 80% will keep the credit cost benign. We thus estimate GNPA/NNPA ratio to moderate to 2.0%/0.4% by FY25 and estimate credit cost to undershoot its long-term average at 0.4-0.6% over FY22-25E.

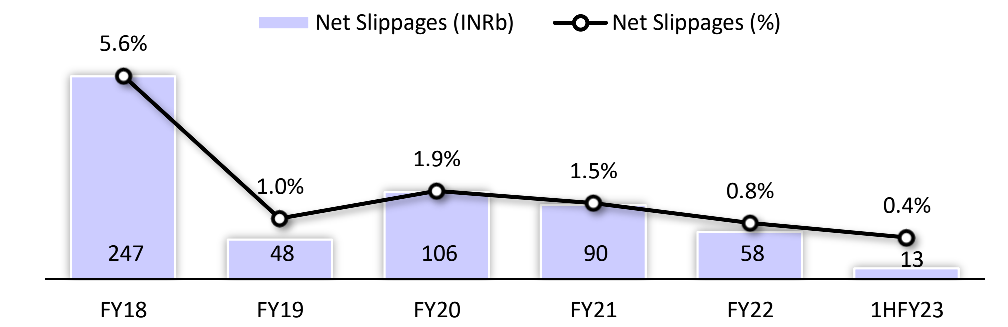
Exhibit 27: We estimate GNPA/NNPA ratio to improve to 2.0%/0.4% by FY25 with a healthy PCR of ~78%



Source: MOFSL, Company

Net slippages stands controlled at 0.8%/0.4% over FY22/1HFY23, supporting the asset quality

Exhibit 28: Trends in net slippages over the past few years; standing benign over the past 4-6 quarters



*Net slippages = Gross slippages – Recoveries – Upgrades Source: MOFSL, Company

Exhibit 29: Segmental GNPA: GNPAs witnessing gradual improvement; PCR raised sharply across segments

Segmental GNPA (%)	GNPA				NNPA				PCR (%)			
	FY20	FY21	FY22	2QFY23	FY20	FY21	FY22	2QFY23	FY20	FY21	FY22	2QFY23
Retail	1.0	1.8	1.4	1.5	0.5	0.9	0.6	0.5	55	53	61	65
CBG	5.8	5.0	2.2	1.7	2.9	1.0	0.6	0.4	52	80	75	74
WBG	9.3	5.7	4.9	4.2	2.6	1.3	1.0	0.5	74	78	80	88

Source: Company, MOFSL, Basel III disclosures

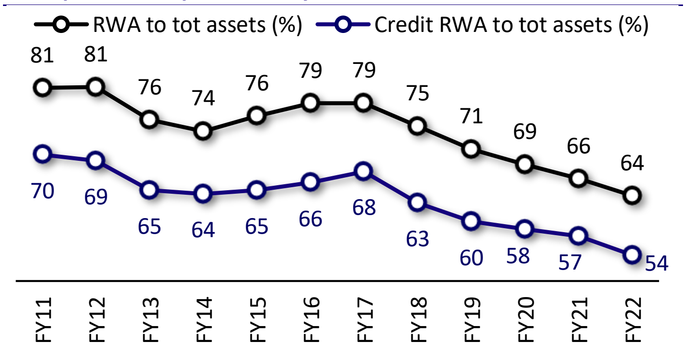
BB & below book controlled at ~1.1%; 39% of NPA in Loss and D3 category

BB and below book has declined to multi-quarter low of 1.1% of total loans vs 5.3% in FY17. Further, the total net stressed loan stands negligible for the bank, boding well for the incremental slippages to remain controlled. About 25% of the NPAs lie in the D2 and D3 category, as against 19% in FY21. Also, the proportion of loss assets has increased to 38% in 2QFY23 vs 14% in FY19, suggesting ageing provisions to remain limited. We thus expect credit cost to remain benign.

Capitalization level remains healthy; RWA density constantly improving

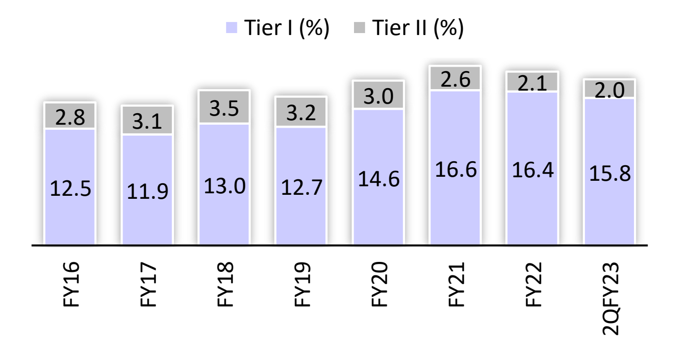
AXSB's capitalization level remains healthy with a Tier-1 ratio of 15.8% (CET 1 of 15.1%) and total CAR of 17.7%. Further, it has shifted its focus on increasing the proportion of low risk-weighted assets on its balance sheet. Consequently, RWA density improved ~750bp over the past three years and stands at 64% as on FY22. We believe that while AXSB is well capitalized for growth opportunities, the completion of Citi deal will result in cash outlay, thereby bringing down the CET ratio. Thus, we have built in a capital raise of INR125b in FY24 and expect Tier 1 ratio to remain healthy at ~15% by FY25.

Exhibit 30: RWA density constantly improving; improved 750bp over the past three years



Source: MOFSL, Company

Exhibit 31: Capital level remains healthy with a Tier I ratio of 15.8%



Source: MOFSL, Company

Subsidiaries performance remains healthy

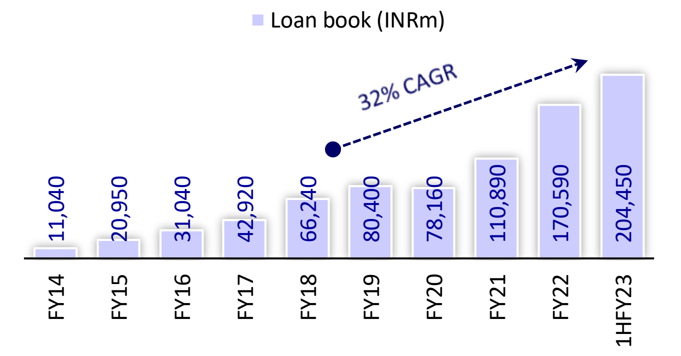
AXSB's subsidiaries have exhibited a healthy performance over the past few years and have witnessed some moderation in the recent past. These subsidiaries have demonstrated strong growth, though their contribution to overall profitability continues to remain lower than its peers. The bank aims to scale up its subsidiaries and create significant value with increased profitability.

Axis Finance: Loan growth remains strong; profitability remains modest

Delivered loan book CAGR of 32% and modest PAT CAGR of 17% over FY17-22

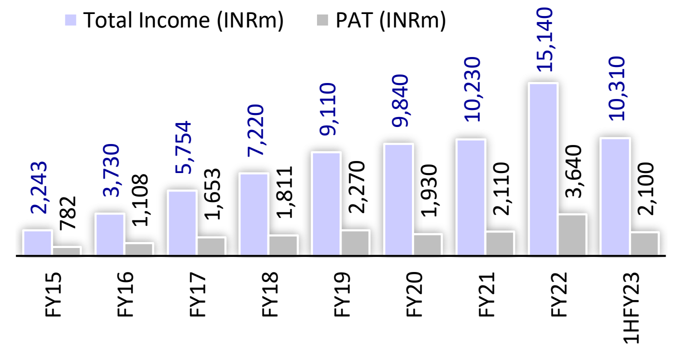
- Axis Finance Limited – the bank's fast growing NBFC catering to the unique financing requirement of retail and wholesale customers – carries on the activities of loan against shares, margin funding, and IPO financing.
- Axis Finance Limited delivered a loan book CAGR of 32% over FY17-22 to reach INR170.6b (INR204b in 1HFY23; wholesale: retail mix at 61%:39%).
- PAT registered a 17% CAGR over FY17-22 to INR3.6b (INR2.1b in 1HFY23) vs INR1.6b in FY17. NPA ratio stood at 0.42%, while the return ratios remained healthy.

Exhibit 32: Loan book CAGR of 32% over FY17-22…



Source: MOFSL, Company

Exhibit 33: …with total income/PAT CAGR of 21%/17% over the similar period



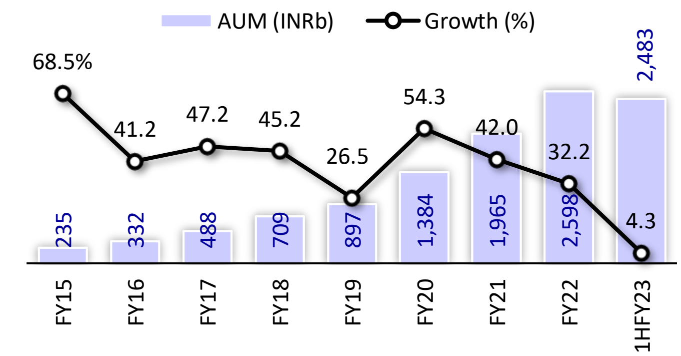
Source: MOFSL, Company

Axis AMC: Gaining market share in MF industry

Total investor folio stood at 13.2m

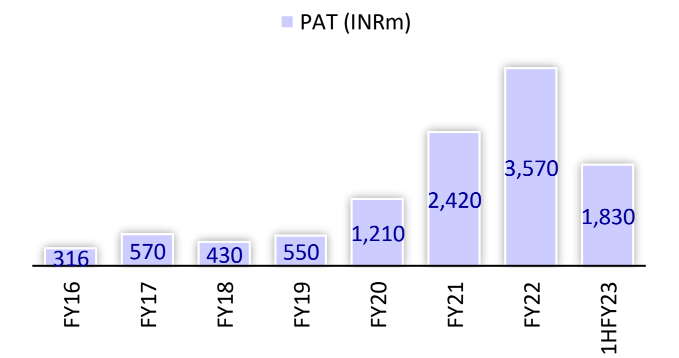
- Axis AMC undertakes the activities of managing the mutual fund business.
- In FY22, Axis AMC reported 32% YoY growth in average AUM and reported an AUM CAGR of 40% to INR2.6t over FY17-22 (INR2.48t as on 1HFY23).
- Profit came in at INR3.57b in FY22 (INR1.8b in 1HFY23) – a CAGR of 44% over FY17-22.

Exhibit 34: AUM CAGR of 40% over FY17-22



Source: MOFSL, Company

Exhibit 35: PAT CAGR of 44% over the similar period



Source: MOFSL, Company

Axis Securities: Exhibiting strong growth in customer additions

PAT CAGR of 44% over FY14-19

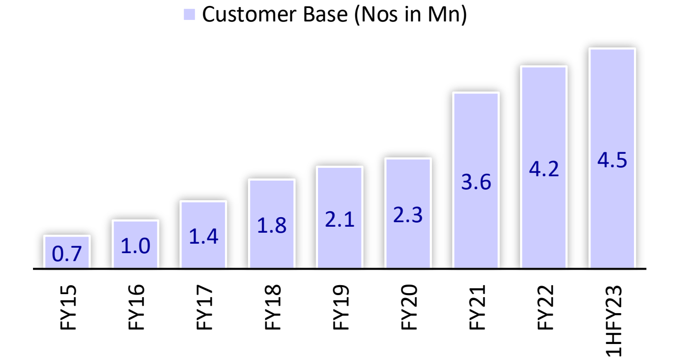
- Axis Securities is primarily engaged in the business of broking, providing margin trading funding, and distribution of financial products and advisory services.
- In FY22, Axis Securities reported 15% growth in its cumulative client base to 4.17 million (4.54m as on 2QFY13).
- It delivered a PAT CAGR of 35% over FY17-22 to INR2.3b in FY22.

Exhibit 36: PAT grew 35% CAGR over FY17-22

INRm	FY17	FY18	FY19	FY20	FY21	FY22	1HFY23
Total Income	7,561	9,505	10,860	5,309	4,270	6,636	NA
PAT	515	604	770	160	1,660	2,320	1,000

Source: MOFSL, Company

Exhibit 37: Customer base grew 15% in FY22 to 4.2m



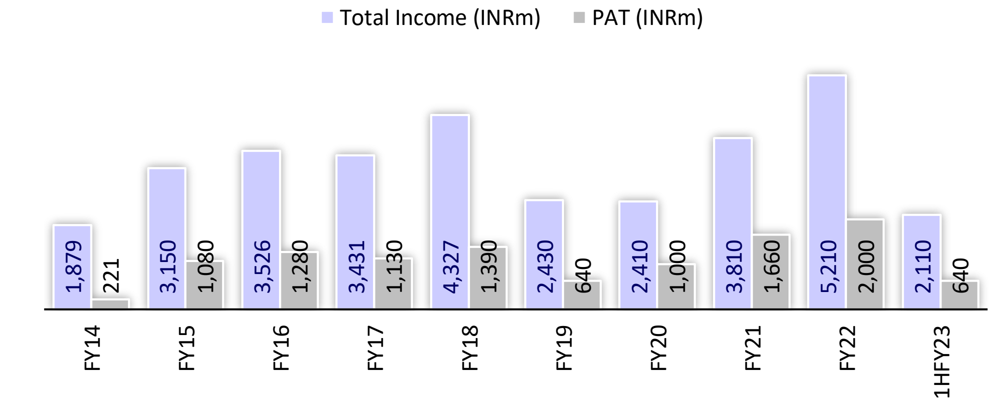
Source: MOFSL, Company

Axis Capital: Maintaining leadership position with healthy profitability

Axis Capital maintained its leadership in terms of number of deals; successfully closed 39 deals in FY22.

- Axis Capital provides services relating to investment banking, equity capital markets, institutional stock broking, mergers and acquisition advisory, etc.
- This subsidiary has been the leader in equity and equity-linked deals over the last decade and had another great year with 39 deals in FY22.
- It delivered a CAGR of 9% in income and 12% in PAT over FY17-22.

Exhibit 38: Healthy performance over the years, but FY19 was adversely impacted by muted activity and volatility in capital markets



Source: MOFSL, Company

GPS Strategy: On track to achieve medium-term targets

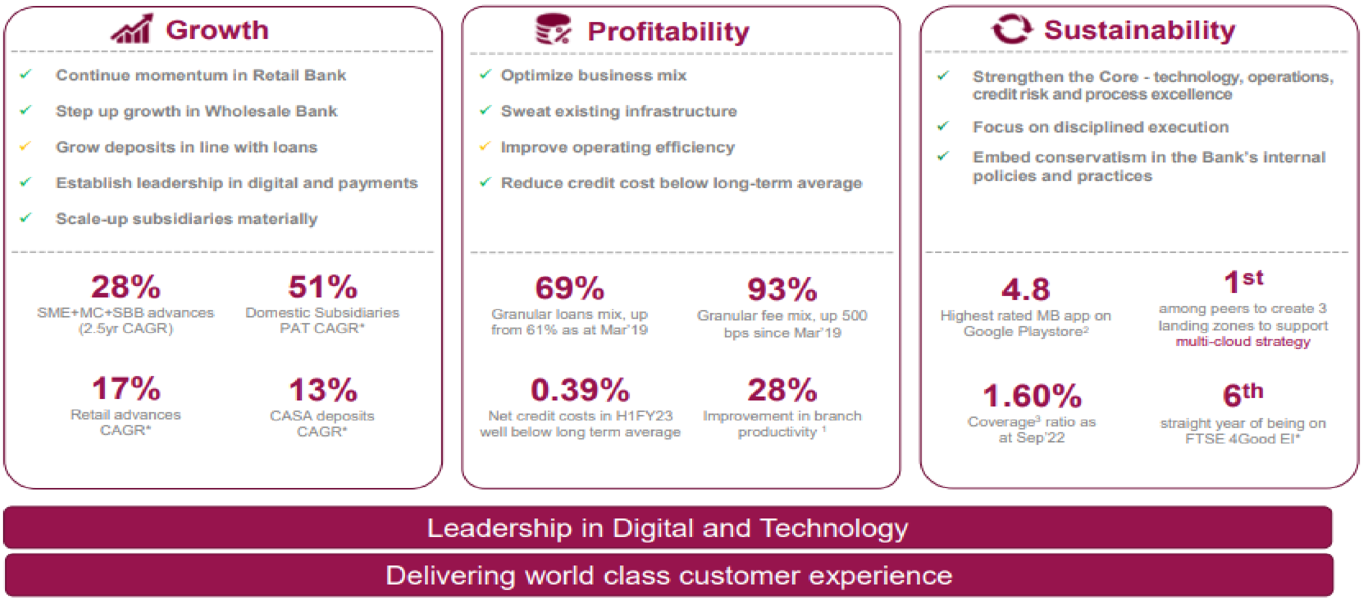
AXSB articulated its FY20-22 strategy in 2019 with the key vectors being:

(i) **Growth**,

(ii) **Profitability,** and

(iii) **Sustainability**…

Exhibit 1: Three-pronged strategy of the bank and progress being made thereon



Source: MOFSL, Company

…and aims to deliver 18% RoE over the medium term, led by the following drivers:

a) **Risk normalization by** reducing credit cost below its long-term average,

b) **Improving operating efficiency** by reducing cost-to-average assets to ~2%, and

c) **Optimizing business mix** portfolio

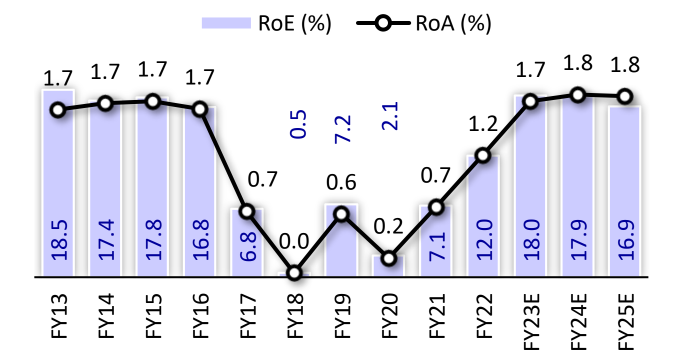
We believe that AXSB has progressed well and has strengthened its balance sheet by making it more granular, increasing the mix of retail loans and strengthened its PCR. The bank has surpassed its aspiration of reaching a consolidated RoE of 18% in 2QFY23 and we believe that it is well on track to report a sustainable RoE of 18% over the medium term.

Exhibit 39: GPS strategy and targets over the medium term

GPS strategy	Structural target
Net Interest Margin (%)	3.7-3.8%
Consolidated RoE (%)	Visibility of 16-16.5% with aspiration of 18%
Advances growth (%)	4-6% better than industry over medium term
Cost to assets (%)	Around 2% by exit of FY25

Source: MOFSL, Company

Exhibit 40: We estimate AXSB to deliver FY25 RoA/RoE of 1.8%/16.9%



Source: MOFSL, Company

Valuation and view

- **Strengthening of the Retail franchise:** The retail business has strengthened, with the share of retail loans improving to ~58% of total loans, led by Home loans. 100% of personal loans and 71% of credit card debt were toward salaried customers. On the liability side, the share of CASA and retail term deposits stood at ~82%, ensuring relatively stable funding costs.
- **Asset quality outlook improving:** AXSB reported an improvement in its asset quality, with its GNPA/NNPA ratio declining to 2.5%/0.5%. Slippages moderated, while the BB and below book too witnessed a decline. Restructuring book stood at 0.38% of gross customer assets (23% provided). The bank continues to holds a cumulative provision (standard + additional other than NPA) of INR116b, which should support credit costs. We expect slippages to moderate to 2% over FY22-25 and credit costs to moderate to 0.4-0.6% over FY22-25.
- **Fee income highly granular, expect it to pick up gradually:** Retail fees constituted ~93% of the bank's fees, indicating granularity in fee income. It was driven by cards/third-party distribution. Fee income witnessed a slight uptick, and we expect it to pick up gradually as economic activity revives further.
- **Buy with a TP of INR1,130:** AXSB has been delivering an improving performance, driven by sharp margin expansion and significant decline in provisions along with improving trends in cost metrics. Business growth recovered in 2Q and is likely to sustain over the medium term. Asset quality continues to improve, aided by moderation in slippages and healthy recoveries and upgrades. Restructured book stands negligible while higher provisioning buffer provides further comfort. We estimate AXSB to deliver FY25 RoA/RoE of 1.8%/16.9%. We project AXSB as our Top Pick for CY23 with a TP of INR1,130 (2.0x Sep'24E ABV+INR94 for subsidiaries).

Exhibit 41: SOTP-based valuation

Name	Stake	Attributed Value (INR b)	Value per Share	% of total value	Rationale
Axis Bank	100	3,322.9	1,036	91.7	2.0x P/ABV Sep-24E
Axis Finance	100	84.6	26	2.3	2.5x Net worth Sep-24E
Axis Capital	100	41.4	13	1.1	15x PAT Sep-24E
Axis Securities	100	50.0	16	1.4	15x PAT Sep-24E
Axis Mutual Fund	75	161.4	50	4.5	32x PAT Sep-24E
Max Life Insurance	20	39.5	12	1.1	2.2x EV FY24E
Total Value of Subs		**377.0**	**118**	**10.4**	
Less: 20% holding disc		75.4	24	2.1	
Value of Subs (Post Holding Disc)		**301.6**	**94**	**8.3**	
Target Price		**3,624.5**	**1,130**		

Source: MOFSL, Company

Exhibit 42: DuPont: Return ratios to improve from FY23

Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	7.08	7.37	7.30	6.66	6.23	6.91	7.45	7.22
Interest Expense	4.20	4.46	4.36	3.59	3.17	3.38	3.80	3.76
Net Interest Income	**2.88**	**2.91**	**2.94**	**3.07**	**3.06**	**3.52**	**3.65**	**3.47**
Fee income	1.49	1.66	1.56	1.19	1.28	1.21	1.31	1.38
Trading and others	0.21	0.10	0.25	0.10	0.13	0.06	0.06	0.06
Non-Interest income	**1.70**	**1.76**	**1.81**	**1.29**	**1.41**	**1.26**	**1.36**	**1.44**
Total Income	**4.58**	**4.67**	**4.75**	**4.36**	**4.47**	**4.79**	**5.01**	**4.91**
Operating Expenses	**2.16**	**2.12**	**2.02**	**1.93**	**2.18**	**2.21**	**2.21**	**2.12**
Employee cost	0.67	0.64	0.62	0.65	0.70	0.71	0.71	0.69
Others	1.50	1.49	1.40	1.28	1.48	1.50	1.49	1.43
Operating Profit	**2.41**	**2.55**	**2.73**	**2.43**	**2.29**	**2.58**	**2.81**	**2.79**
Core Operating Profit	**2.21**	**2.45**	**2.48**	**2.33**	**2.16**	**2.53**	**2.75**	**2.73**
Provisions	**2.39**	**1.61**	**2.16**	**1.51**	**0.68**	**0.26**	**0.40**	**0.40**
NPA	2.57	1.37	1.49	1.15	0.48	0.22	0.35	0.35
Others	-0.17	0.24	0.67	0.35	0.20	0.04	0.05	0.04
PBT	**0.02**	**0.93**	**0.57**	**0.93**	**1.61**	**2.32**	**2.41**	**2.39**
Tax	-0.02	0.31	0.38	0.23	0.40	0.58	0.61	0.60
RoA	**0.04**	**0.63**	**0.19**	**0.69**	**1.20**	**1.74**	**1.81**	**1.79**
Leverage (x)	10.8	11.5	11.3	10.2	10.0	10.4	9.9	9.5
RoE	**0.5**	**7.2**	**2.1**	**7.1**	**12.0**	**18.0**	**17.9**	**16.9**

Source: MOFSL, Company

Financials and Valuations

Income Statement								(INRb)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Interest Income	457.8	549.9	626.4	633.5	673.8	848.9	1,033.5	1,167.6
Interest Expense	271.6	332.8	374.3	341.1	342.4	415.9	526.9	607.1
Net Interest Income	**186.2**	**217.1**	**252.1**	**292.4**	**331.3**	**433.0**	**506.6**	**560.4**
Growth (%)	2.9	16.6	16.1	16.0	13.3	30.7	17.0	10.6
Non-Interest Income	109.7	131.3	155.4	122.6	152.2	155.2	189.4	233.0
Total Income	**295.8**	**348.4**	**407.4**	**415.0**	**483.5**	**588.3**	**696.0**	**793.4**
Growth (%)	(0.7)	17.8	16.9	1.9	16.5	21.7	18.3	14.0
Operating Expenses	139.9	158.3	173.0	183.8	236.1	271.1	306.1	342.9
Pre Provision Profits	**155.9**	**190.1**	**234.4**	**231.3**	**247.4**	**317.2**	**389.9**	**450.5**
Growth (%)	(11.3)	21.9	23.3	(1.3)	7.0	28.2	22.9	15.6
Core PPP	**142.7**	**182.5**	**212.7**	**221.5**	**233.6**	**310.3**	**381.6**	**440.6**
Growth (%)	0.3	27.9	16.5	4.2	5.5	32.8	23.0	15.5
Provisions (excl. tax)	154.7	120.3	185.3	143.2	73.6	32.1	54.9	64.3
PBT	**1.2**	**69.7**	**49.0**	**88.1**	**173.8**	**285.1**	**334.9**	**386.2**
Tax	(1.5)	23.0	32.8	22.2	43.6	71.8	84.4	97.3
Tax Rate (%)	NM	32.9	66.8	25.2	25.1	25.2	25.2	25.2
PAT	**2.8**	**46.8**	**16.3**	**65.9**	**130.3**	**213.3**	**250.5**	**288.9**
Growth (%)	(92.5)	NM	(65.2)	NM	97.7	63.7	17.5	15.3

Balance Sheet								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Equity Share Capital	5.1	5.1	5.6	6.1	6.1	6.1	6.4	6.4
Reserves & Surplus	629.3	661.6	843.8	1,009.9	1,144.1	1,216.7	1,570.3	1,833.4
Net Worth	**634.5**	**666.8**	**849.5**	**1,016.0**	**1,150.3**	**1,222.9**	**1,576.7**	**1,839.8**
Deposits	**4,536.2**	**5,484.7**	**6,401.0**	**6,979.9**	**8,217.2**	**9,038.9**	**10,575.5**	**12,479.1**
Growth (%)	9.5	20.9	16.7	9.0	17.7	10.0	17.0	18.0
of which CASA Deposits	**2,438.5**	**2,433.9**	**2,637.1**	**3,177.5**	**3,697.6**	**3,995.2**	**4,600.4**	**5,528.3**
Growth (%)	14.5	-0.2	8.3	20.5	16.4	8.1	15.1	20.2
Borrowings	1,480.2	1,527.8	1,479.5	1,428.7	1,851.3	1,949.1	2,087.4	2,274.0
Other Liabilities & Prov.	262.5	330.7	421.6	443.4	531.5	611.2	696.8	801.3
Total Liabilities	**6,913.3**	**8,010.0**	**9,151.6**	**9,868.0**	**11,750.3**	**12,822.1**	**14,936.4**	**17,394.3**
Current Assets	434.5	672.0	972.7	617.3	1,109.9	769.2	899.1	1,010.6
Investments	**1,538.8**	**1,749.7**	**1,567.3**	**2,261.2**	**2,756.0**	**3,141.8**	**3,675.9**	**4,300.8**
Growth (%)	19.5	13.7	-10.4	44.3	21.9	14.0	17.0	17.0
Loans	**4,396.5**	**4,948.0**	**5,714.2**	**6,144.0**	**7,077.0**	**8,138.5**	**9,562.7**	**11,284.0**
Growth (%)	17.8	12.5	15.5	7.5	15.2	15.0	17.5	18.0
Fixed Assets	39.7	40.4	43.1	42.5	45.7	48.0	51.9	54.4
Other Assets	503.8	599.9	854.3	803.0	763.3	724.7	746.9	744.4
Total Assets	**6,913.3**	**8,010.0**	**9,151.6**	**9,868.0**	**11,751.8**	**12,822.1**	**14,936.4**	**17,394.3**

Asset Quality	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
GNPA	342.5	297.9	302.3	253.1	218.2	178.3	198.4	227.3
NNPA	165.9	112.8	93.6	70.6	56.1	36.3	41.4	50.4
GNPA Ratio	7.5	5.8	5.1	4.0	3.0	2.2	2.0	2.0
NNPA Ratio	3.8	2.3	1.6	1.1	0.8	0.4	0.4	0.4
Slippage Ratio	8.2	3.0	3.7	2.9	3.0	2.0	2.0	2.0
Credit Cost	4.1	2.2	2.4	1.8	0.8	0.4	0.6	0.6
PCR (Excl. Tech. write off)	51.6	62.1	69.0	72.1	74.3	79.6	79.1	77.8

Source: Company, MOFSL

Financials and Valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**7.7**	**8.0**	**8.0**	**7.3**	**6.7**	**7.4**	**7.9**	**7.6**
Avg. Yield on loans	8.4	8.8	9.1	8.0	7.5	8.3	8.7	8.3
Avg. Yield on Investments	7.2	7.0	6.9	6.7	5.9	6.4	7.0	7.0
Avg. Cost-Int. Bear. Liab.	**4.8**	**5.1**	**5.0**	**4.2**	**3.7**	**4.0**	**4.5**	**4.4**
Avg. Cost of Deposits	4.4	4.7	4.9	4.0	3.5	3.8	4.2	4.3
Avg. Cost of Borrowings	6.3	6.4	5.4	5.2	4.6	4.7	5.5	5.2
Interest Spread	**2.9**	**2.9**	**3.0**	**3.1**	**3.0**	**3.4**	**3.4**	**3.2**
Net Interest Margin	**3.1**	**3.2**	**3.2**	**3.4**	**3.3**	**3.8**	**3.9**	**3.7**
Capitalisation Ratios (%)								
CAR	16.6	15.9	17.6	19.2	18.5	16.3	16.9	16.1
Tier I	13.0	12.7	14.6	16.6	16.4	14.5	15.4	14.9
Tier II	3.5	3.2	3.0	2.6	2.1	1.8	1.5	1.2
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	96.9	90.2	89.3	88.0	86.1	90.0	90.4	90.4
CASA Ratio	53.8	44.4	41.2	45.5	45.0	44.2	43.5	44.3
Cost/Avg. Assets	2.2	2.1	2.0	1.9	2.2	2.2	2.2	2.1
Cost/Total Income	47.3	45.4	42.5	44.3	48.8	46.1	44.0	43.2
Cost/Core Income	49.5	46.5	44.9	45.3	50.3	46.6	44.5	43.8
Int. Expense/Int. Income	59.3	60.5	59.8	53.8	50.8	49.0	51.0	52.0
Fee Income/Total Income	27.8	31.2	28.9	23.4	24.7	21.1	22.0	24.0
Non Int. Inc./Total Income	37.1	37.7	38.1	29.5	31.5	26.4	27.2	29.4
Investment/Deposit Ratio	33.9	31.9	24.5	32.4	33.5	34.8	34.8	34.5
Profitability Ratios and Valuation								
RoE	0.5	7.2	2.1	7.1	12.0	18.0	17.9	16.9
RoA	0.0	0.6	0.2	0.7	1.2	1.7	1.8	1.8
RoRWA	0.1	0.8	0.3	1.0	1.7	2.4	2.3	2.2
Book Value (INR)	247.2	259.3	301.1	331.6	375.2	398.4	491.4	573.4
Growth (%)	6.2	4.9	16.1	10.2	13.1	6.2	23.4	16.7
Price-BV (x)	**3.4**	**3.2**	**2.8**	**2.5**	**2.2**	**2.1**	**1.7**	**1.5**
Adjusted BV (INR)	193.8	219.7	269.7	308.0	354.1	381.6	473.9	553.5
Price-ABV (x)	**4.3**	**3.8**	**3.1**	**2.7**	**2.4**	**2.2**	**1.8**	**1.5**
EPS (INR)	1.1	18.2	6.0	22.4	42.5	69.5	79.8	90.0
Growth (%)	-92.8	NM	-66.9	NM	89.7	63.6	14.9	12.8
Price-Earnings (x)	**NM**	**46.1**	**NM**	**37.5**	**19.7**	**12.1**	**10.5**	**9.3**

Source: Company, MOFSL

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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