

AXIS Bank

Refer to important disclosures at the end of this report

Moderate growth, but margin sparkles

- Axis Bank continued to report strong core profitability (up 53% YoY), supported by robust margin expansion (+30bps QoQ/70bps YoY) and healthy core fees. This, coupled with reversal of MTM losses, led to a 9% beat on PAT at Rs58.5bn (up 62% YoY). Overall LLP was higher than expected, as the bank made prudent provision of Rs3.4bn on a specific account, showing early signs of weakness.
- Overall Credit growth was moderate at 15% YoY/4% QoQ vs peers' (>20% YoY), mainly due to sluggish growth in the retail book at 17% YoY/1% QoQ, in turn dragged by mortgage and card book. However, NIM expanded 30bps QoQ to 4.3%, due to better portfolio mix, asset re-pricing and interest recognition in a restructured account. Bank expects NIM to remain structurally healthy, as the full benefit of portfolio mix and RIDF run-down is yet to reflect.
- As per Management, the Citi retail portfolio acquisition deal is well on track and should be consummated within the guided timeline. Bank's internal RoE generation remains stronger than consumption (due to moderate growth), with CET 1 at 15.6%; thus, it may not need to raise capital in the near term.
- We revise our earnings estimate upward for FY23/FY24/FY25 by 7%/4%/2%, and expect the bank to deliver 1.7-1.8%/17% RoA/RoE by FY25E. Given the improving core-profitability, RoE profile and Management stability, we revise our TP multiple to 2.1x Dec-24E ABV (from 1.8x) and, thus, our TP to Rs1,300/share (vs Rs1,110 earlier); retain BUY.
- Moderate growth, but NIM at all-time high:** Overall credit growth was relatively moderate vs peers at 15% YoY/4% QoQ, largely due to slower growth in mortgages and card book. However, corporate/SME growth paced-up well during 3Q. Deposit/CASA growth remains a struggle area for most banks, as also for Axis Bank, the CASA ratio of which has declined to 44% (vs 46% in Q2). However, Bank continues to consume on-balance sheet liquidity (average LCR fell down to 116%) that, coupled with asset re-pricing, better portfolio mix and interest recognition on an earlier restructured loan, led to a 30bps QoQ jump in NIM to 4.3%, similar to peers like ICICI Bank and Kotak Bank. Management did not provide any guidance on the near-term NIM, but reiterated that NIM should structurally remain healthy due to better portfolio mix (including unsecured retail loans) and run-down of the RIDF book (2.7% of loans)
- Pace of NPA deceleration moderates a tad:** Gross slippages were elevated at Rs38bn/2.3% of loans but so were recoveries, leading to only a 12bps QoQ contraction in the GNPA ratio to 2.4%. Bank also made a prudent provision, of Rs3.4bn on a specific corporate account, showing early signs of stress, although remains standard as of now. The RSA pool remains on downward trend, and declined to 0.3% of loans from 0.4% in Q2, while the bank continues to carry 23% PCR on such loans. The BB & Below corporate watch-list has marginally reduced to Rs71bn/0.8% 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.
- Outlook and valuations:** We revise our earnings estimates upward for FY23/FY24/FY25 by 7%/4%/2%, and expect the bank to deliver 1.7-1.8%/17% RoA/RoE by FY25E. Given its improving core-profitability, RoE profile and Management stability, we revise our TP multiple for the bank to 2.1x Dec-24E ABV and, thus, our TP to Rs1,300/share (vs Rs1,110 earlier). We retain BUY on the stock. **Key risks:** Macro-dislocation leading to slower than expected growth/higher NPA formation, and top-Management attrition.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	4,15,027	4,83,528	5,92,865	6,92,112	8,20,334
Net profit	65,886	1,30,255	2,14,065	2,53,578	3,00,170
EPS (Rs)	22.4	42.5	69.7	82.5	97.6
ABV (Rs)	329.3	364.1	433.2	511.7	604.7
RoA (%)	0.7	1.2	1.7	1.8	1.8
RoE (%)	7.1	12.0	17.0	17.1	17.1
PE (x)	38.0	20.0	12.2	10.3	8.7
P/ABV	2.6	2.3	2.0	1.7	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 933 as of (January 23, 2023)	Rs 1,300 (▲) 12 months
Rating	Upside
BUY (■)	39.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	7/4
Target Price change (%)	17.1
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	69.7	82.5
Consensus	64.6	72.3
Mean Consensus TP (12M)	Rs 1,074	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,075
52 Week H/L	970 / 618
M Cap (Rs bn/USD bn)	2,868 / 35.24
Daily Avg Volume (nos.)	99,63,796
Daily Avg Turnover (USD mn)	110.3

Shareholding Pattern Dec '22

Promoters	8.0%
FII	54.0%
DII	30.7%
Public and Others	7.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	4	28	31
Rel. to Nifty	1	-	18	27

Relative price trend



Source: Bloomberg

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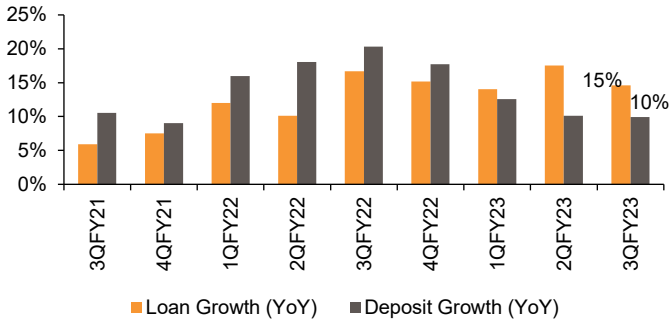
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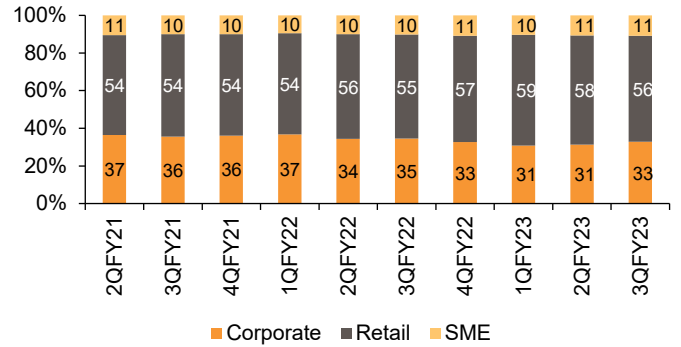
Story in charts

Exhibit 1: Relatively moderate credit growth, due to slower growth in retail...



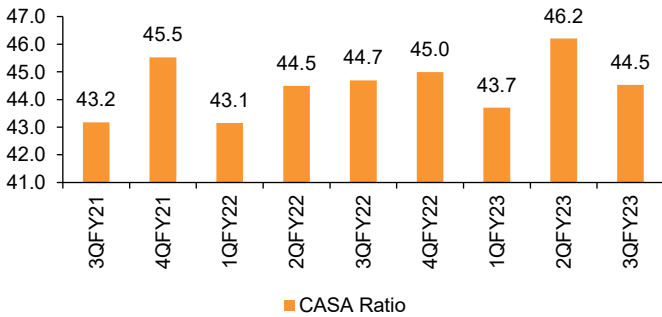
Source: Company, Emkay Research

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



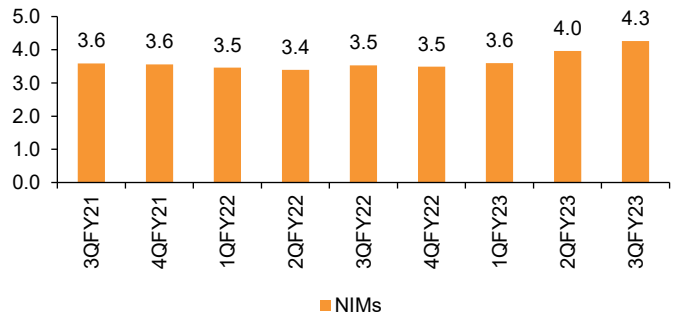
Source: Company, Emkay Research

Exhibit 3: CASA growth remains a struggle for Axis Bank, like most banks, leading to a decline in CASA ratio



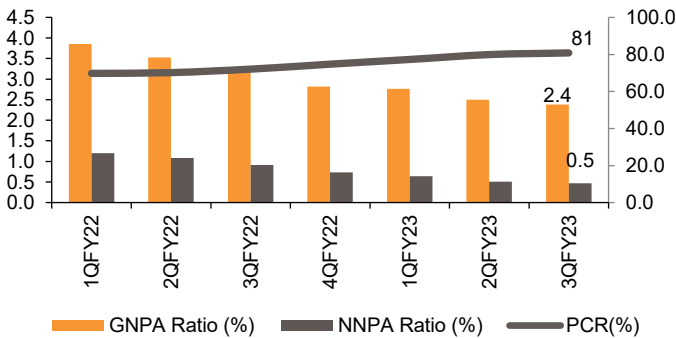
Source: Company, Emkay Research

Exhibit 4: Improved portfolio mix, repricing of asset and interest reversal on a restructured account led to expansion in NIM



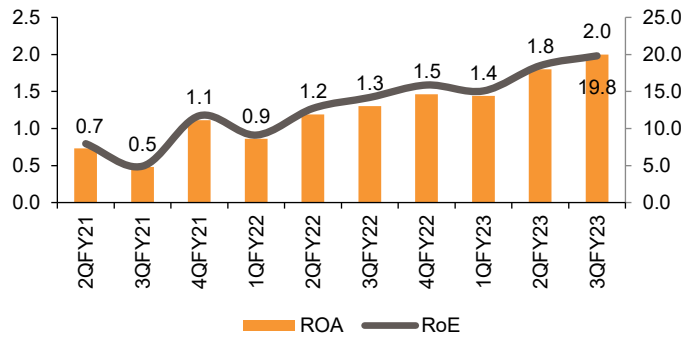
Source: Company, Emkay Research

Exhibit 5: Pace of NPA deceleration moderates a bit



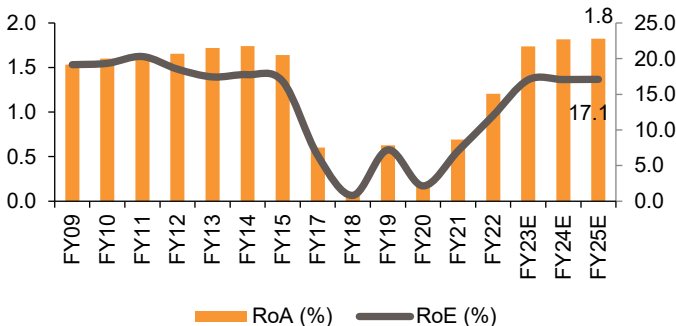
Source: Company, Emkay Research

Exhibit 6: Improvement in RoA mainly driven by improved margins



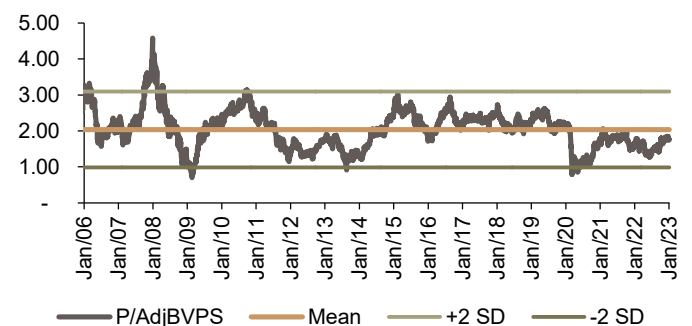
Source: Company, Emkay Research

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



Source: Emkay Research

Exhibit 8: The stock currently trades at 1.8x one-year forward ABV, adjusted for subsidiaries' valuation



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs estimates (3QFY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,61,248	1,49,051	1,50,988	8%	7%	Higher margins led to a beat
PPOP	92,775	80,388	82,254	15%	13%	Higher net income coupled with lower opex led to a beat
PAT	58,531	53,576	53,654	9%	9%	Higher PPOP partly offset by higher provisions led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	1,72,611	1,77,762	1,87,287	2,02,389	2,22,264	29	10	6,73,768	8,48,464	26
Interest Exp	86,086	89,571	93,446	98,787	1,07,671	25	9	3,42,446	4,19,735	23
Net Interest Income	86,525	88,191	93,840	1,03,603	1,14,593	32	11	3,31,322	4,28,729	29
Global NIMs (reported)	3.53	3.49	3.60	3.96	4.26	73bps	30bps	3.34	3.78	44bps
Non-interest Income	38,404	42,233	29,990	39,412	46,654	21	18	1,52,205	1,64,136	8
Operating Expenses	63,314	65,765	64,960	65,852	68,473	8	4	2,36,108	2,72,404	15
Pre Provisioning Profit	61,615	64,660	58,870	77,162	92,775	51	20	2,47,420	3,20,461	30
Provision & Contingencies	13,348	9,872	3,594	5,498	14,377	8	162	73,595	34,393	-53
PBT	48,267	54,788	55,276	71,664	78,398	62	9	1,73,826	2,86,068	65
Income Tax Expense (Gain)	12,125	13,610	14,024	18,367	19,867	64	8	43,571	72,003	65
Net Profit/(Loss)	36,142	41,178	41,253	53,298	58,531	62	10	1,30,255	2,14,065	64
Gross NPA (%)	3.17	2.82	2.76	2.50	2.38	-79bps	-12bps	2.57	2.31	-26bps
Net NPA (%)	0.91	0.73	0.64	0.51	0.47	-44bps	-4bps	0.66	0.52	-15bps
Deposits (Rs bn)	7,717	8,217	8,036	8,108	8,482	10	5	8,217	9,018	10
Net Advances (Rs bn)	6,649	7,077	7,011	7,309	7,621	15	4	7,077	8,078	14

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	5,72,064	5,92,865	3.6%	6,88,176	6,92,112	0.6%	8,26,679	8,20,334	-0.8%
PPOP	3,01,348	3,20,461	6.3%	3,77,150	3,81,916	1.3%	4,72,438	4,67,495	-1.0%
PAT	2,00,757	2,14,065	6.6%	2,44,760	2,53,578	3.6%	2,95,036	3,00,170	1.7%
EPS (Rs)	65.4	69.7	6.6%	79.7	82.5	3.5%	96.0	97.6	1.7%
BV (Rs)	439.3	443.3	0.9%	517.6	523.4	1.1%	612.3	618.6	1.0%

Source: Emkay Research

Exhibit 12: Key assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	15.2	14.1	16.3	18.9
Deposit Growth	17.7	9.7	15.1	18.0
NIM	3.3	3.8	3.8	3.8
GNPA	2.6	2.3	2.0	1.7
Credit Cost	0.9	0.6	0.5	0.7

Source: Emkay Research

Exhibit 13: Key ratios and trends

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Loans (Rs mn)	56,98,285	61,43,994	61,48,737	62,17,193	66,48,656	70,76,960	70,11,299	73,08,748	76,20,755
growth YoY (%)	3.6	7.5	12.0	10.1	16.7	15.2	14.0	17.6	14.6
Composition (%)									
- Corporate	35.7	36.2	36.9	34.4	34.5	33.0	30.9	31.4	32.9
- SME/BB	9.9	9.9	9.5	10.0	10.2	10.9	10.3	10.7	10.8
- Retail	54.4	53.9	53.9	55.6	55.3	56.5	58.9	57.9	56.3
Liability Profile (%)									
Deposit (Rs mn)	64,12,150	69,79,853	71,38,620	73,62,855	77,16,702	82,17,209	80,35,717	81,08,067	84,81,733
YoY growth	8.4	9.0	16.0	18.1	20.3	17.7	12.6	10.1	9.9
CASA	44.0	45.5	43.1	44.5	44.7	45.0	43.7	46.2	44.5
CA	14.4	16.2	13.6	14.2	15.1	15.5	13.5	15.1	14.9
SA	29.6	29.3	29.6	30.3	29.6	29.5	30.3	31.1	29.6
NIM - Overall	3.6	3.6	3.5	3.4	3.5	3.5	3.6	4.0	4.3
NIM - Domestic	3.7	3.7	3.6	3.5	3.7	3.6	3.7	4.1	4.4
Asset Quality (Rs mn)									
GNPA (%)	3.7	4.0	4.1	3.8	3.4	3.0	2.9	2.7	2.6
NNPA (%)	0.7	1.1	1.2	1.1	0.9	0.7	0.6	0.5	0.5
PCR – Specific (%)	79.0	72.4	69.8	70.2	72.0	74.7	77.3	79.9	80.8
Slippages (%)	0.02	8.63	4.75	3.87	2.91	2.59	2.40	2.18	2.29
Capital Adequacy									
CAR (%)	18.7	19.1	19.0	20.0	18.7	18.5	17.8	17.7	19.5
Tier I (%)	15.9	16.5	16.5	17.5	16.5	16.3	15.8	15.8	16.2
ROE Decomposition (on total assets) - %									
NII	3.4	3.2	3.3	3.2	3.4	3.3	3.5	3.7	3.9
Other Income (Ex Treasury)	1.6	1.5	1.2	1.4	1.4	1.5	1.4	1.4	1.5
Treasury	0.2	0.0	0.2	0.2	0.1	0.1	(0.2)	(0.0)	0.1
Net income	5.1	4.7	4.7	4.8	4.9	4.8	4.6	5.1	5.5
Opex	2.3	2.3	2.1	2.4	2.5	2.4	2.4	2.4	2.3
PPOP	2.8	2.4	2.6	2.4	2.4	2.4	2.2	2.8	3.2
Provisions	2.1	0.9	1.4	0.7	0.5	0.4	0.1	0.2	0.5
PBT	0.7	1.5	1.2	1.7	1.9	2.0	2.0	2.6	2.7
Tax	0.2	0.4	0.3	0.4	0.5	0.5	0.5	0.7	0.7
ROA	0.5	1.1	0.9	1.3	1.4	1.5	1.5	1.9	2.0
Leverage (x)	9.5	10.2	10.0	9.4	9.8	10.0	9.7	9.6	9.7
ROE	4.8	11.5	9.1	12.1	13.8	15.2	14.8	18.2	19.4

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	4,28,729	4,81,629	5,59,130
Other income	1,22,636	1,52,205	1,64,136	2,10,483	2,61,203
Fee income	93,589	1,13,586	1,38,007	1,69,749	2,08,791
Net income	4,15,027	4,83,528	5,92,865	6,92,112	8,20,334
Operating expenses	1,83,751	2,36,108	2,72,404	3,10,196	3,52,839
Pre provision profit	2,31,275	2,47,420	3,20,461	3,81,916	4,67,495
PPP excl treasury	2,21,543	2,33,643	3,22,687	3,75,237	4,54,136
Provisions	1,43,217	73,595	34,393	43,044	66,359
Profit before tax	88,059	1,73,826	2,86,068	3,38,872	4,01,135
Tax	22,173	43,571	72,003	85,294	1,00,966
Tax rate	25	25	25	25	25
Profit after tax	65,886	1,30,255	2,14,065	2,53,578	3,00,170

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	6,128	6,139	6,150	6,150	6,150
Reserves	10,09,903	11,45,601	13,55,976	16,03,404	18,95,886
Net worth	10,16,030	11,51,741	13,62,126	16,09,554	19,02,036
Deposits	69,79,850	82,17,209	90,17,598	103,75,739	122,41,273
Borrowings	11,83,832	16,75,689	17,59,473	20,23,394	24,28,073
Total liabilities	98,67,975	117,51,781	128,88,866	150,48,969	178,68,685
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	27,68,175	31,68,668	36,58,358
Loans	61,43,994	70,76,960	80,77,702	93,97,260	111,74,571
Others	8,03,037	7,63,253	10,11,380	12,99,874	16,42,127
Total assets	98,67,975	117,51,780	128,88,866	150,48,969	178,68,685

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.4	3.3	3.8	3.8	3.8
Non-Il/avg assets	1.3	1.4	1.3	1.5	1.6
Fee income/avg assets	1.0	1.1	1.1	1.2	1.3
Opex/avg assets	1.9	2.2	2.2	2.2	2.1
Provisions/avg assets	1.5	0.7	0.3	0.3	0.4
PBT/avg assets	0.9	1.6	2.3	2.4	2.4
Tax/avg assets	0.2	0.4	0.6	0.6	0.6
RoA	0.7	1.2	1.7	1.8	1.8
RoAE	7.1	12.0	17.0	17.1	17.1
GNPA (%)	3.6	2.6	2.3	2.0	1.7
NNPA (%)	1.0	0.7	0.5	0.5	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.4	42.5	69.7	82.5	97.6
BVPS	345.3	375.6	443.3	523.4	618.6
ABVPS	329.3	364.1	433.2	511.7	604.7
DPS	0.0	1.0	1.2	2.0	2.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	38.0	20.0	12.2	10.3	8.7
P/BV	2.5	2.3	1.9	1.6	1.4
P/ABV	2.6	2.3	2.0	1.7	1.4
P/PPOP	12.3	11.5	8.9	7.5	6.1
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.3

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	16.0	13.3	29.4	12.3	16.1
PPOP	(0.7)	7.0	29.5	19.2	22.4
PAT	304.9	97.7	64.3	18.5	18.4
Loans	7.5	15.2	14.1	16.3	18.9

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII	86,525	88,191	93,840	1,03,603	1,14,593
NIM (%)	3.5	3.5	3.6	4.0	4.3
PPOP	61,615	64,660	58,870	77,162	92,775
PAT	36,142	41,178	41,253	53,298	58,531
EPS (Rs)	11.78	13.41	13.43	17.35	19.03

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	9.5	9.5	9.5	9.5	8.0
FIIIs	53.1	52.6	52.3	51.8	54.0
DIIIs	29.6	29.9	30.8	31.6	30.7
Public and Others	7.8	8.1	7.4	7.2	7.3

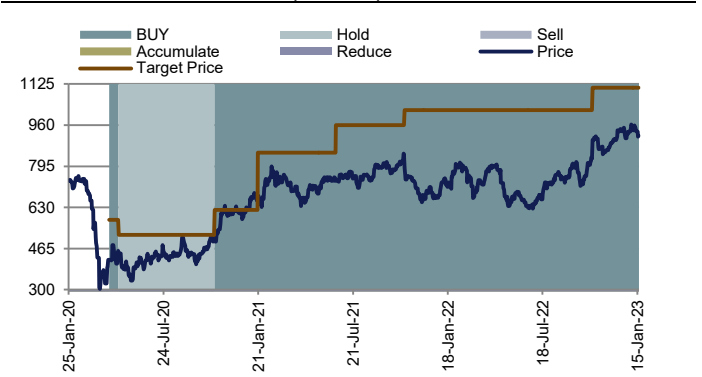
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
25-Nov-22	888	1,110	12m	Buy	Anand Dama
21-Oct-22	900	1,110	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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