



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2022

27.33

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

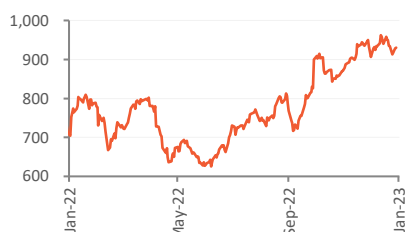
Company details

Market cap:	Rs. 2,87,044 cr
52-week high/low:	Rs. 970 / 618
NSE volume: (No of shares)	90.9 lakh
BSE code:	532215
NSE code:	AXISBANK
Free float: (No of shares)	264.7 cr

Shareholding (%)

Promoters	-
FII	49.5
DII	39.7
Others	10.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.1	3.7	30.3	30.9
Relative to Sensex	0.3	0.9	20.9	27.7

Sharekhan Research, Bloomberg

Axis Bank

Strong Q3, retail deposits mobilisation remains key monitorable

Banks	Sharekhan code: AXISBANK			
Reco/View: Buy	↔	CMP: Rs. 933	Price Target: Rs. 1,140	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- Axis Bank reported strong earnings growth of 62% y-o-y/10% q-o-q, with RoA at 1.9%. Core PPOP grew 53% y-o-y/ 13% q-o-q. NIM expanded by 30 bps q-o-q to 4.26% (highest ever). However, there was a positive impact of 5 bps on NIM due to interest recovery on restructured NPA account (one-off).
- Loan growth remained healthy, up 15% y-o-y and 4% q-o-q, led by Retail, SME, and mid-corporate segments. However, retail loan growth was muted sequentially at 1%. Total deposits grew by 10% y-o-y/5% q-o-q, driven by non-retail term deposits (31% y-o-y/22% q-o-q), while CASA deposits growth was tepid at 10% y-o-y/1% q-o-q. CASA ratio moderated to 44.5% vs. 46.2% q-o-q.
- Slippages were higher by 13% q-o-q (2.3% annualised vs. 2.2% q-o-q), as slippages amounting to Rs. 400 crore were attributed from an account that bank considered prudent to downgrade despite the account was not overdue past 90 days.. Thus, core credit cost was also higher at 74 bps of average advances (annualised) vs. 42 bps q-o-q. With healthy recoveries along with contained write-offs, asset quality saw improvement with both GNPA and NNPA ratios declining by 12 bps q-o-q and 4 bps q-o-q to 2.38% and 0.47%. PCR at ~81%.
- The stock currently trades at 2.0x/1.7x/1.4x its FY2023E/FY2024E/FY2025E core BV estimates. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,140. Pick-up in retail deposits mobilisation remains the key monitorable going forward.

Axis Bank reported strong performance in Q3FY2023, beating consensus and our estimates. Net interest income (NII) grew by ~32% y-o-y and ~11% q-o-q, led by healthy loan growth along with margin improvement of 30 bps q-o-q to 4.26%. There was a positive impact of 5 bps on NIM due to interest recovery from restructured NPA account (one-off). Core fee income was strong, growing by 23% y-o-y/6% q-o-q. Retail assets (excluding cards and payments) fee grew by 22% y-o-y/14% q-o-q. Retail cards and payments fee grew by 44% y-o-y/1% q-o-q. Corporate and commercial banking fees together grew by 8% y-o-y/3% q-o-q. The bank reported treasury profit of Rs. 428 crore during the quarter vs. loss of Rs. 86 crore in the last quarter. Total operating expenses growth moderated, grew by ~8% y-o-y/4% q-o-q. Opex to average assets stood at 2.3%, stable q-o-q. Operating profit (PPoP) grew at a healthy pace by 51% y-o-y/20% q-o-q, driven by strong NII growth, higher core fee income, and operating leverage. Core credit cost stood at 72 bps (annualised) vs. 42 bps q-o-q. PAT grew by 62% y-o-y/10% q-o-q. Asset quality saw marginal improvement with both GNPA and NNPA ratios declining by 12 bps q-o-q and 4 bps q-o-q to 2.38% and 0.47%, respectively. PCR stood at ~81% vs. 80% in last quarter. Slippages were higher by 13% q-o-q (2.3% annualised vs. 2.2% q-o-q) as slippages amounting to Rs. 400 crore were attributed from an account that bank considered prudent to downgrade despite the account was not overdue past 90 days. Thus, core credit cost was also higher. Restructured book stood at 0.33% of advances vs. 0.41% q-o-q. BB and below-rated book reduced sequentially to 0.9% of advances vs. 1.1% q-o-q. Total provision buffers stood at 1.5% of advances. Advances grew by ~15% y-o-y and ~4% q-o-q. Retail loans and SME book grew by 17% y-o-y and 24% y-o-y, respectively. Corporate book grew by 8% y-o-y. Deposits growth outpaced advances growth mainly led by strong growth in non-retail term deposits. Total deposits grew by 10% y-o-y/5% q-o-q. CASA deposits growth was tepid at 10% y-o-y/1% q-o-q. CASA ratio moderated to 44.5% vs. 46.2% q-o-q. Overall term deposits grew by 10% y-o-y/8% q-o-q. Non-retail term deposits grew by 31% y-o-y/22% q-o-q. Retail term deposits were flat y-o-y/up 1% q-o-q.

Key positives

- Strong PPOP growth led by improved NIM, higher core fee income, and lower opex growth.
- Strong return ratios – ROA ~1.7% and ROE ~ 17.6% in 9MFY2023.

Key negatives

- CASA growth was tepid.
- Retail term deposits growth continues to disappoint.

Management Commentary

- The bank is confident of sustaining healthy asset growth in identified key focus areas, i.e. Retail, SME, and mid-corporate segments, with granularity.
- Management guided that its asset mix is improving. This along with effective pricing of assets could cushion NIM against the sharp increase in cost of deposits.
- The bank maintained its stance of delivering cost-to-average asset ratio (at ~2%) over the medium term (ex – Citi portfolio integration cost).

Our Call

Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,140: Axis Bank currently trades at 2.0x/1.7x/1.4x its FY2023E/FY2024E/FY2025E core BV estimates. We remain positive on the bank as at least in the near to medium term, there are no asset-quality concerns. The bank has additional contingency buffers of 150 bps of advances over and above the PCR. As far as sustainability of NIM is concerned, we believe the balance sheet mix is improving both on the assets as well as liability side, which should partly offset the increase in cost of funds. However, pick-up in retail deposits mobilisation remains the key monitorable going forward. We also expect operating leverage to start to kick in and lend support to PPOP growth in the medium term. Near-term focus would be on Citi's portfolio integration.

Key Risks

Economic slowdown because of slower loan growth, higher-than-anticipated credit cost, slower growth in retail deposit franchise, lower-than-expected margins, Citi's portfolio integration progress is not on expected lines.

Valuation (Standalone)

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	33,132	44,023	50,485	57,054
Net profit	13,026	21,539	24,706	28,372
EPS (Rs.)	42.4	70.2	80.5	92.4
P/E (x)	20.8	12.5	10.9	9.5
P/BV (x)	2.3	2.0	1.7	1.4
RoE	12.0	17.1	16.6	16.2
RoA	1.2	1.7	1.8	1.8

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **Strong NII growth aided by margin improvement:** NII grew by ~32% y-o-y and ~11% q-o-q, aided by margin improvement of 30 bps q-o-q reported at 4.26% along with healthy advances growth. Margin improvement is coming from an improvement in balance sheet mix, reduction in lower-yielding RIDF book, rundown of lower-yield overseas corporate book, and repricing of floating rate book – partly offsetting the increase in cost of deposits. Management guided that its balance sheet mix is improving along with effective pricing of assets, which could cushion NIM against the sharp increase in cost of deposits.
- ♦ **Capitalizing on the benign credit cycle:** Opex growth moderated this quarter; however, the bank continues to make significant investments in building digital and new-age tech capabilities. Overall, tech spends form 8-9% of total opex. The bank has maintained its stance of higher costs-to-assets ratio of >2% in the near term, and it would moderate over the medium term. However, this will not affect the bank's profitability, as it intends to capitalise on the benign credit cycle rather than pass lower credit costs to the bottom line. We believe accelerated investments in building digital capabilities bode well for future growth and moderation of opex over the medium is positive.
- ♦ **Higher core credit cost sequentially:** Core credit cost stood at 72 bps (annualised) vs. 42 bps q-o-q. Slippages were higher by 13% q-o-q (2.3% annualised vs. 2.2% q-o-q), as slippages amounting to Rs. 400 crore were attributed from an account that bank considered prudent to downgrade despite the account was not overdue past 90 days. Thus, core credit cost was also higher. Total provision buffers stand at 1.5% of advances. Overall asset quality continues to remain benign across the portfolio.
- ♦ **Confident of sustaining advances growth:** Net advances grew by 15% y-o-y/4% q-o-q, with the retail book growing by 17% y-o-y/1% q-o-q. The share of secured retail loans was ~79%, with home loans comprising 34% of the retail book. Home loans, small business banking, and the rural loans portfolio grew 9% y-o-y, 60% y-o-y, and 27% y-o-y, respectively. Unsecured personal loans and credit card advances grew by 21% y-o-y and 39% y-o-y, respectively. However, overall retail loan growth moderated sequentially to 1% q-o-q. SME book grew by 24% y-o-y, while the wholesale corporate book grew by 8% y-o-y. Mid-corporate book grew by 42% y-o-y and 11% q-o-q. 89% of the corporate book is now rated 'A and above' with 89% of incremental sanctions in 9MFY2023 being to corporates rated A- and above. Average LCR during the quarter was ~116%. The bank continues to witness better demand in SME, mid-corporate, and consumption-driven sectors.
- ♦ **Mobilisation of low-cost granular liability is key for sustaining healthy advances growth:** Deposits growth outpaced advances growth, mainly led by non-retail term deposits (up 31% y-o-y/22% qoq). Total deposits grew by 10% y-o-y/5% q-o-q. CASA deposits growth was tepid at 10% y-o-y/1% q-o-q. Overall term deposits grew by 10% y-o-y/8% q-o-q.
- ♦ **Asset quality gets better:** Asset quality has been continuously improving for the bank, with both GNPA and NNPA ratios falling by 12 bps q-o-q and 4 bps q-o-q to 2.38% and 0.47%, respectively, in Q3FY2023. PCR stood at ~81% in Q3FY2023 vs. 80% in Q2FY2023. Gross slippages were reported at Rs. 3,807 crore in Q3FY2023 vs. Rs. 3,383 crore in Q2FY2023. Recoveries and upgrades stood at Rs. 2,088 crore vs. Rs. 2,826 crore in Q2FY2023. Write-offs were at Rs. 1,652 crore vs. Rs.1,700 crore in Q2FY2023. The restructured book stood at 0.3% of advances vs. 0.4% q-o-q. BB and below-rated book reduced sequentially to Rs. 7,076 crore vs. Rs. 7,987 crore q-o-q.
- ♦ **Progress on Citi's retail business acquired:** The bank guided that asset portfolio is trending in line with expectations. The acquisition is expected to consume ~180 bps of capital.

Result Table (standalone)

Particulars	3QFY23	3QFY22	2QFY23	Y-o-Y	Rs cr Q-o-Q
Interest Inc.	22,226	17,261	20,239	29%	10%
Interest Expenses	10,767	8,609	9,879	25%	9%
Net Interest Income	11,459	8,653	10,360	32%	11%
NIM (%)	4.26	3.53	3.96	21%	8%
Core Fee Income	4,101	3,344	3,862	23%	6%
Other Income	564	496	79	14%	613%
Net Income	16,125	12,493	14,301	29%	13%
Employee Expenses	2,281	1,939	2,167	18%	5%
Other Opex	4,566	4,393	4,419	4%	3%
Total Opex	6,847	6,331	6,585	8%	4%
Cost to Income Ratio	42.5%	50.7%	46.0%		
Pre-Provision Profit	9,277	6,162	7,716	51%	20%
Provisions & Contingencies - Total	1,438	1,335	550	8%	162%
Profit Before Tax	7,840	4,827	7,166	62%	9%
Tax	1,987	1,212	1,837	64%	8%
Effective Tax Rate	25%	25%	26%		
Reported Profits	5,853	3,614	5,330	62%	10%
Basic EPS (Rs.)	19.04	11.78	17.35	62%	10%
Diluted EPS (Rs.)	18.80	11.75	17.23	60%	9%
RoA (%)	1.9	1.3	1.8		
Advances	7,62,075	6,64,866	7,30,875	15%	4%
Deposits	8,48,173	7,71,670	8,10,807	10%	5%
Gross NPA	19,961	23,301	19,894	-14%	0%
Gross NPA Ratio (%)	2.38	3.17	2.50		
Net NPA	3,830	6,513	3,996	-41%	-4%
Net NPAs Ratio (%)	0.47	0.91	0.51		
PCR – Calculated	80.8%	72.0%	79.9%		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Deposit mobilisation to be in focus; Banks with strong deposit franchise placed better

System-level credit offtake grew by ~17.4% y-o-y in the fortnight ending December 16, 2022, indicating loan growth has been sustaining, given distinct signs of an improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.4% but are trailing advances growth. We should see sustained acceleration in loan growth. Margins are likely to improve, but momentum is expected to moderate and margins are expected to peak out by H1FY2024. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals. In the past few years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate loan portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks with a strong capital base, robust deposit franchise, and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company Outlook – Structural improvement visible in franchise

We believe the bank is looking for a sustainable growth path in terms of advances growth, led by retail, SME, and mid-corporate segments in a granular manner along with a focus on mobilisation of low-cost granular liability and higher spending on tech. The key is the higher mobilisation of granular retail liability in the near to medium term to support sustainable growth. The bank's continuous efforts of growing asset franchise in a granular manner (retail loans account for 56% of the total book), focus on mobilisation of low-cost granular deposits, benign credit costs environment, and sustaining improved return ratios matrix bode well for good earnings compounding going ahead, which makes it an attractive franchise.

■ Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,140

Axis Bank currently trades at 2.0x/1.7x/1.4x its FY2023E/FY2024E/FY2025E core BV estimates. We remain positive on the bank as, at least in the near to medium term, there are no asset-quality concerns. The bank has additional contingency buffers of 150 bps of advances over and above the PCR. As far as sustainability of NIM is concerned, we believe the balance sheet mix is improving both on the assets as well as liability side, which should partly offset the increase in cost of funds. However, pick-up in retail deposits mobilisation remains the key monitorable going forward. We also expect operating leverage to start to kick in and lend support to PPOP growth in the medium term. Near-term focus would be on Citi's portfolio integration.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Axis Bank	933	2,87,044	12.5	10.9	2.0	1.7	17.1	16.6	1.7	1.8
ICICI Bank	872	6,08,148	15.9	14.0	2.5	2.1	16.9	16.2	2.1	2.1

Source: Company, Sharekhan estimates

About company

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments, covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank has 11 subsidiaries, which contribute and benefit from the bank's strong market position across categories. The bank had a network of 4,849 domestic branches as of December 2022. Capital adequacy ratio (CAR) stands at 17.6%.

Investment theme

Axis Bank is looking for sustainable growth path in terms of advances growth, led by retail, SME, and mid-corporate segments in a granular manner along with focus on mobilisation of low-cost granular liability and higher spending on tech. New digital product initiatives, both in assets and liability segments, are growing well, as reflected in the strong acquisition growth. Balance sheet mix is also improving, which we believe is positive for its profitability and sustainable growth going forward. We believe the bank will have benign credit cost over the medium term along high PCR and contingent buffers, which are likely to bode well for earnings compounding going ahead.

Key Risks

Economic slowdown because of slower loan growth, higher-than-anticipated credit cost, slower growth in retail deposit franchise, lower-than-expected margins, Citi's portfolio integration progress is not on expected lines.

Additional Data

Key management personnel

Mr. Amitabh Chaudhary	MD and CEO
Mr. Rajiv Anand	Executive Director
Mr. Puneet Sharma	CFO and President

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIFE INSURANCE CORP OF INDIA	7.96
2	SBI FUNDS MANAGEMENT LTD.	4.64
3	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	3.45
4	DODGE & COX	3.23
5	BLACKROCK INC.	2.98
6	VANGUARD GROUP INC.	2.51
7	REPUBLIC OF SINGAPORE	2.29
8	FIL LTD.	2.23
9	BANK OF NEW YORK MELLON CORP	2.07
10	NPS TRUST AC	2.02

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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