

Axis Bank

Searching for a new normal

Axis Bank (AXSB) reported a one-time loss from accounting for its merger with Citi Bank's India consumer business, ex of which it delivered a beat, led by strong loan growth (+16% YoY standalone), healthy fee income and lower credit costs (22bps annualised). NIMs moderated marginally (-4bps QoQ) on account of excess liquidity on the balance sheet (LCR at 129%) and catch-up in funding costs following accelerated deposit mobilisation. That said, the loan-to-deposit ratio (~89%) continues to remain high and we believe AXSB will have to further accelerate efforts to match its targeted loan growth (management has guided for loan growth of 400-600bps above industry), which is likely to impede medium-term NIMs. We tweak our FY24/FY25E earnings estimates by +3% each to adjust for normalised credit costs and higher opex on continued investments in growth. Maintain BUY with a revised SOTP-based target price of INR1,130 (standalone bank at 2.0x Mar-25 ABVPS).

- **Healthy loan growth, fee income drive beat on a steady-state basis:** AXSB reported strong NII growth (+33% YoY), despite slight moderation in margins (4.3%) due to higher liquidity on the balance sheet and disproportionate growth in the corporate and SME loans, in addition to the repricing of deposits. Further, overall loan growth print was healthy (+16% YoY ex of Citi portfolio), driven by business banking (+50%) and credit cards (+42%).
- **Impressive asset quality:** Gross slippages, despite a higher base, continue to remain elevated to 1.9%, largely from the retail book, which was partly offset by higher write-offs resulting in optically better GNPA at ~2%. The sub-investment grade and the restructured portfolio moderated (33bps and 9bps respectively), as AXSB continued to hold surplus provisions (1.4% of loans). PCR was strong (>80%), providing comfort on credit cost trajectory.
- **RoA accretive elements in place; but margins may be difficult:** With the Citi portfolio acquisition, Axis Bank remains committed to its narrative around sustainable growth through additional investments into tech, people and phygital distribution. Multiple levers are now in play around the change in book composition, adequate liquidity and drawdown in RIDF for margins to improve from here on, partly getting offset by higher incremental deposit rates.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	117.4	88.2	33.1%	114.6	2.5%	331.3	429.5	479.0	536.2
PPOP	91.7	64.7	41.8%	92.8	-1.2%	247.4	320.5	378.1	441.0
PAT	(57.3)	41.2	-239.1%	58.5	-197.9%	130.3	95.8	246.7	282.5
EPS (INR)	(18.6)	13.4	-239.0%	18.8	-198.9%	42.4	31.1	80.2	91.8
ROAE (%)						12.0	8.0	18.1	17.6
ROAA (%)						1.2	0.8	1.8	1.8
ABVPS (INR)						350.0	389.0	459.9	541.8
P/ABV (x)						2.5	2.3	1.9	1.6
P/E (x)						20.8	28.3	11.0	9.6

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Net advances	9,158	9,315	1.7%	10,425	10,641	2.1%
NIM (%)	3.99	3.99	1 bps	3.88	4.02	13 bps
NII	465.9	479.0	2.8%	509.3	536.2	5.3%
PPOP	370.5	378.1	2.1%	429.6	441.0	2.7%
PAT	239.5	246.7	3.0%	274.2	282.5	3.0%
Adj. BVPS (INR)	489.6	459.9	-6.1%	566.7	541.8	-4.4%

Source: Company, HSIE Research

BUY

CMP (as on 27 Apr 2023)	INR 881
Target Price	INR 1,130
NIFTY	17,915

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR1,118	INR1,130
EPS %	FY24E	FY25E
	3.0%	3.0%

KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	3,077
MCap (INR bn) / (\$ mn)	2,712/33,142
6m avg traded value (INR mn)	9,532
52 Week high / low	INR 970/618

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.9	(3.7)	15.1
Relative (%)	(1.3)	(5.2)	8.3

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	8.2	8.2
FIs & Local MFs	31.5	32.0
FPIs	49.5	49.1
Public & Others	10.8	10.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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