

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	AXSB IN
Equity Shares (m)	3075
M.Cap.(INRb)/(USDb)	2711.1 / 33.1
52-Week Range (INR)	970 / 618
1, 6, 12 Rel. Per (%)	0/-5/10
12M Avg Val (INR M)	8424

### Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	429.5	523.2	610.1
OP	320.5	398.8	488.4
NP*	219.3	263.6	319.6
NIM (%)	3.7	3.9	3.9
EPS (INR)	71.4	83.7	99.3
EPS Gr. (%)	68.0	17.3	18.6
BV/Sh. (INR)	408	502	593
ABV/Sh. (INR)	392	487	577

### Ratios

RoE (%)	18.2	18.4	18.1
RoA (%)	1.8	1.8	1.9

### Valuations

P/E(X)	11.1	9.5	8.0
P/BV (X)	1.9	1.6	1.3
P/ABV (X)	2.0	1.6	1.4

\*Adjusted for exceptional item

### Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	8.0	8.0	9.5
DII	31.2	30.7	29.9
FII	50.3	50.8	48.1
Others	10.5	10.6	12.6

FII Includes depository receipts

**CMP: INR881**

**TP: INR1,100 (+25%)**

**Buy**

**Citi's acquisition completed; business performance to remain healthy**

### Consolidated RoE improves to 21.6% on an adjusted basis

- Axis Bank (AXSB) reported a loss of INR57.3b led by an exceptional item of INR123.5b (net of tax) towards Citi's acquisition, policy harmonization and other related costs. Excluding these one-offs, adjusted PAT came in at INR66.3b (+61% YoY, 10% beat), largely driven by a sharp reduction in provisions. NII/PPoP witnessed a miss with margin moderating 4bp QoQ to 4.22% (almost flat on an adjusted basis) in 4QFY23.
- Loan growth was healthy at 16% YoY and 7% QoQ (ex-Citi), fueled by strong growth across segments. Deposit growth too was healthy with an increase in CASA and retail deposits during the quarter.
- Fresh slippages moderated to INR33.8b, which coupled with healthy recoveries and upgrades led to an improvement in asset quality ratios. Restructured book was under control at 0.22% of customer assets in 4QFY23.
- We tweak our estimates slightly and expect AXSB to deliver RoA/RoE of 1.9%/18.1% in FY25. **Retain BUY with a TP of INR1,100 (based on 1.8x Sep'24E BV).**

### PPoP miss led by a miss on NII; margins moderate slightly

- AXSB's 4QFY23 adjusted PAT grew 61% YoY to INR66.3b (10% beat), largely driven by lower provisions. In FY23, adjusted PAT grew 68% YoY to INR219.3b (reported PAT came in at INR95.8b).
- NII grew 33% YoY (+2.5% QoQ) to INR117.4b (6% miss) even as loan growth remained healthy. Reported margin contracted 4bp QoQ to 4.22% (flat on an adjusted basis). Other income grew 16% YoY (in line), driven by 24% YoY growth in fee income while treasury gains stood modest at INR830m.
- Opex grew at a healthy pace as the bank continued to invest in the business. As a result, the C/I and cost-to-assets ratios (annualized) increased to 44.9% and 2.4% (2.25% adjusted for one-offs) in 4QFY23. PPoP grew 42% YoY to INR91.7b (6% miss). In FY23, PPoP rose 30% YoY to INR320.5b.
- Total provisions declined sharply to INR3.06b. The annualized credit cost (net) declined to 22bp. The bank did not utilize any Covid-related provisions and held an additional provision buffer (including standard asset provisions) of INR119.3b (1.4% of loans).
- The loan book grew 16% YoY and 7% QoQ in 4QFY23, with Retail/SME loans up 7%/13% QoQ and corporate loans growing healthy at 6% QoQ. On the liability front, deposits grew 10% YoY and 7% QoQ led by CASA deposits, which rose 10% YoY. The CASA ratio, thus, increased to 46%, while CASA plus retail term deposits stood at 79% during the quarter.
- On the asset quality front, fresh slippages moderated to INR33.8b (v/s INR38.1b in 3QFY23), which coupled with healthy recoveries and upgrades led to a 36bp/8bp QoQ improvement in GNPA/NNPA ratios. The net NPA ratio declined to 0.39%, while PCR was stable at 81%. Restructured loans stood at 0.22% of customer assets with PCR of 22%. BB and below pool fell to 0.65% in 4QFY23 (v/s 0.93% in 3QFY23).

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**Highlights from the management commentary**

- The bank has a strong pipeline in the corporate book and thus expects healthy traction in corporate growth to continue.
- AXSB remains committed to bring down the cost-to-assets ratio to 2% in the medium term.
- Loan growth for FY24 is expected to be 400-600bp higher than the industry.
- The bank is planning to add ~500 branches in FY24E.

**Valuation and view**

AXSB delivered a stable performance in 4QFY23, with earnings being driven by lower provisions and higher fee income even as margin remained range-bound. AXSB completed the Citi acquisition, which included a one-off cost of INR123.5b that resulted in a loss. Business growth was healthy led by strong traction across segments. Asset quality continued to improve with moderation in slippages and healthy trends in recoveries and upgrades. The restructured book was controlled, which coupled with a higher provisioning buffer provided comfort on credit cost. We tweak our estimates slightly and expect AXSB to deliver an RoA/RoE of 1.9%/18.1% in FY25. **Reiterate BUY with a TP of INR1,100 (premised on 1.8x Sep'24E BV).**

**Quarterly performance****(INR b)**

	FY22				FY23				FY22	FY23	FY23E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est.
<b>Net Interest Income</b>	<b>77.6</b>	<b>79.0</b>	<b>86.5</b>	<b>88.2</b>	<b>93.8</b>	<b>103.6</b>	<b>114.6</b>	<b>117.4</b>	<b>331.3</b>	<b>429.5</b>	<b>124.7</b>	<b>-6%</b>
% Change (Y-o-Y)	11.1	7.8	17.4	16.7	20.9	31.1	32.4	33.1	13.3	29.6	41.4	
Other Income	33.6	38.0	38.4	42.2	30.0	39.4	46.7	49.0	152.2	165.0	49.1	0%
<b>Total Income</b>	<b>111.2</b>	<b>117.0</b>	<b>124.9</b>	<b>130.4</b>	<b>123.8</b>	<b>143.0</b>	<b>161.2</b>	<b>166.4</b>	<b>483.5</b>	<b>594.5</b>	<b>173.8</b>	<b>-4%</b>
Operating Expenses	49.3	57.7	63.3	65.8	65.0	65.9	68.5	74.7	236.1	274.0	75.9	-2%
<b>Operating Profit</b>	<b>61.9</b>	<b>59.3</b>	<b>61.6</b>	<b>64.7</b>	<b>58.9</b>	<b>77.2</b>	<b>92.8</b>	<b>91.7</b>	<b>247.4</b>	<b>320.5</b>	<b>97.9</b>	<b>-6%</b>
% Change (Y-o-Y)	5.9	-11.0	17.4	12.7	-4.8	30.2	50.6	41.8	7.0	29.5	51.4	
Provisions	33.0	17.4	13.3	9.9	3.6	5.5	14.4	3.1	73.6	26.5	18.3	-83%
<b>Profit before Tax</b>	<b>28.8</b>	<b>41.9</b>	<b>48.3</b>	<b>54.8</b>	<b>55.3</b>	<b>71.7</b>	<b>78.4</b>	<b>88.6</b>	<b>173.8</b>	<b>294.0</b>	<b>79.6</b>	<b>11%</b>
Tax	7.2	10.6	12.1	13.6	14.0	18.4	19.9	22.4	43.6	74.6	19.7	14%
<b>Net Profits</b>	<b>21.6</b>	<b>31.3</b>	<b>36.1</b>	<b>41.2</b>	<b>41.3</b>	<b>53.3</b>	<b>58.5</b>	<b>66.3</b>	<b>130.3</b>	<b>219.3</b>	<b>60.0</b>	<b>10%</b>
% Change (Y-o-Y)	94.2	86.2	223.7	53.8	91.0	70.1	61.9	60.9	97.7	68.4	45.6	
Extraordinary exp.	-	-	-	-	-	-	-	123.5	-	123.5	116.0	6%
<b>Adjusted Net Profit</b>	<b>21.6</b>	<b>31.3</b>	<b>36.1</b>	<b>41.2</b>	<b>41.3</b>	<b>53.3</b>	<b>58.5</b>	<b>-57.3</b>	<b>130.3</b>	<b>95.8</b>	<b>-56.0</b>	<b>2%</b>
% Change (Y-o-Y)	94.2	86.2	223.7	53.8	91.0	70.1	61.9	NM	97.7	-26.5	NM	
<b>Operating Parameters</b>												
Deposit (INR t)	7.1	7.4	7.7	8.2	8.0	8.1	8.5	9.5	8.2	9.5	9.3	2%
Loan (INR t)	6.1	6.2	6.6	7.1	7.0	7.3	7.6	8.5	7.1	8.5	8.4	1%
Deposit Growth (%)	16.0	18.1	20.3	17.8	12.6	10.1	9.9	15.2	17.7	15.2	13.4	185
Loan Growth (%)	12.0	10.1	16.7	15.2	14.0	17.6	14.6	19.4	15.2	19.4	18.1	134
<b>Asset Quality</b>												
Gross NPA (%)	3.9	3.5	3.2	2.8	2.8	2.5	2.4	2.0	3.0	2.0	2.4	(33)
Net NPA (%)	1.2	1.1	0.9	0.7	0.6	0.5	0.5	0.4	0.8	0.4	0.5	(7)
PCR (%)	69.8	70.2	72.0	74.7	77.3	79.9	80.8	80.9	74.3	80.9	80.8	3

## Quarterly snapshot

	FY21				FY22				FY23				Change (%)	
INR b	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Profit and Loss</b>														
<b>Interest Income</b>	164.5	159.8	154.3	154.9	160.0	163.4	172.6	177.8	187.3	202.4	222.3	239.7	35	8
Loans	124.9	121.1	114.7	115.5	118.8	119.9	126.8	130.7	138.9	152.6	170.9	183.1	40	7
Investment	29.7	31.0	31.9	32.9	34.3	35.2	37.7	39.0	42.8	44.8	45.8	48.3	24	5
<b>Interest Expenses</b>	94.6	86.5	80.5	79.4	82.4	84.4	86.1	89.6	93.4	98.8	107.7	122.3	37	14
<b>Net Interest Income</b>	69.9	73.3	73.7	75.5	77.6	79.0	86.5	88.2	93.8	103.6	114.6	117.4	33	2
<b>Other Income</b>	25.9	35.7	29.3	35.4	33.6	38.0	38.4	42.2	30.0	39.4	46.7	49.0	16	5
Trading profits	6.2	7.4	-0.3	0.2	5.6	4.7	3.7	2.3	-6.7	-0.9	4.3	0.8	-64	-81
Fee Income	16.5	27.5	29.1	33.8	26.7	32.3	33.4	37.6	35.8	38.6	41.0	46.8	24	14
<b>Total Income</b>	95.7	109.0	103.0	111.0	111.2	117.0	124.9	130.4	123.8	143.0	161.2	166.4	28	3
<b>Operating Expenses</b>	37.3	42.4	50.5	53.6	49.3	57.7	63.3	65.8	65.0	65.9	68.5	74.7	14	9
Employee	14.1	14.1	16.8	16.7	18.5	19.4	19.4	18.9	21.9	21.7	22.8	21.6	15	-5
Others	23.2	28.2	33.8	36.9	30.8	38.3	43.9	46.9	43.1	44.2	45.7	53.1	13	16
<b>Operating Profits</b>	58.4	66.6	52.5	57.4	61.9	59.3	61.6	64.7	58.9	77.2	92.8	91.7	42	-1
<b>Core Operating Profits</b>	52.2	59.2	52.8	57.2	56.3	54.6	57.9	62.3	65.5	78.0	88.5	90.8	46	3
Provisions	44.2	43.4	37.6	21.7	33.0	17.4	13.3	9.9	3.6	5.5	14.4	3.1	-69	-79
<b>PBT</b>	14.3	23.2	14.9	35.7	28.8	41.9	48.3	54.8	55.3	71.7	78.4	88.6	62	13
Taxes	3.2	6.3	3.7	8.9	7.2	10.6	12.1	13.6	14.0	18.4	19.9	22.4	64	13
<b>PAT</b>	11.1	16.8	11.2	26.8	21.6	31.3	36.1	41.2	41.3	53.3	58.5	66.3	61	13
<b>Balance Sheet (INR t)</b>														
Deposit	6.2	6.2	6.4	7.0	7.1	7.4	7.7	8.2	8.0	8.1	8.5	9.5	15	12
Loans	5.5	5.6	5.7	6.1	6.1	6.2	6.6	7.1	7.0	7.3	7.6	8.5	19	11
<b>Asset Quality (INR b)</b>														
GNPA	295.6	268.3	220.0	253.1	259.5	241.5	233.0	218.2	210.4	198.9	199.6	186.0	-15	-7
NNPA	74.5	61.1	46.1	69.9	78.5	72.0	65.1	55.1	47.8	40.0	38.3	35.6	-35	-7
Slippages	22.2	17.5	79.9	52.9	65.2	54.6	41.5	39.8	36.8	33.8	38.1	33.8	-15	-11
<b>Ratios (%)</b>														
<b>Asset Quality Ratios</b>														
GNPA	4.7	4.2	3.4	3.7	3.9	3.5	3.2	2.8	2.8	2.5	2.4	2.0	-80	-36
NNPA	1.2	1.0	0.7	1.1	1.2	1.1	0.9	0.7	0.6	0.5	0.5	0.4	-34	-8
PCR (Calculated)	74.8	77.2	79.0	72.4	69.8	70.2	72.0	74.7	77.3	79.9	80.8	80.9	613	6
PCR (Reported)	87.0	88.0	91.0	88.0	87.0	88.0	89.0	91.0	92.0	93.0	93.0	94.0	300	100
Slippage Ratio	1.7	1.3	5.7	3.6	4.5	3.7	2.7	2.4	2.2	2.0	2.1	1.7	-67	-40
Credit Cost	3.4	3.2	3.2	1.6	2.3	0.6	0.5	0.4	0.2	0.4	0.8	0.1	-23	-61
<b>Business Ratios (%)</b>														
Fees to Total Income	17.3	25.3	28.2	30.4	24.0	27.6	26.8	28.8	28.9	27.0	25.4	28.1	-71	267
Cost to Core Income	43.2	42.0	49.2	49.0	47.3	51.8	52.8	52.3	50.1	46.3	44.0	45.5	-679	149
Tax Rate	22.1	27.4	25.1	25.0	25.1	25.3	25.1	24.8	25.4	25.6	25.3	25.2	40	-10
CASA (Calculated)	41.7	45.0	44.0	45.5	43.1	44.5	44.7	45.0	43.7	46.2	44.5	47.2	214	262
Loan/Deposit	89.1	90.5	88.9	88.0	86.1	84.4	86.2	86.1	87.3	90.1	89.8	89.3	314	-58
<b>Profitability Ratios (%)</b>														
Yield on loans	9.6	8.9	8.2	7.8	8.2	8.1	8.2	7.9	8.4	9.0	9.6	9.4	153	-15
Yield On Investments	6.5	6.9	7.2	6.9	6.4	6.3	6.5	6.2	6.4	6.7	6.4	6.9	63	44
Yield on Funds	9.2	8.7	8.3	7.8	8.0	7.9	8.0	7.7	8.0	8.4	8.7	8.8	113	10
Cost of funds	4.9	4.6	4.3	4.1	4.0	3.9	3.8	3.8	3.9	4.1	4.3	4.8	92	41
Margins	3.4	3.6	3.6	3.6	3.5	3.4	3.5	3.5	3.6	4.0	4.3	4.2	73	-4
RoA	0.5	0.7	0.5	1.1	0.9	1.2	1.3	1.5	1.4	1.8	1.9	2.1	64	18
RoE	5.7	8.0	4.9	11.7	9.1	12.7	14.2	15.9	15.1	18.5	19.3	21.1	525	178
<b>Loan Mix (%)</b>														
Large/mid corp.	38.1	37.6	35.7	36.2	36.9	34.6	34.8	32.9	30.9	31.4	32.9	31.4	-150	-153
SME	9.0	9.4	9.9	9.9	9.2	9.8	10.0	10.6	10.3	10.7	10.8	11.0	34	19
Retail Advances	52.9	53.0	54.4	53.9	53.9	55.6	55.2	56.5	58.9	57.9	56.3	57.7	116	134
<b>Other Details</b>														
Branches	4,528	4,568	4,586	4,594	4,600	4,679	4,700	4,758	4,759	4,760	4,849	4,903	145	54
ATM	11,971	11,821	11,629	11,333	11,061	10,970	11,060	10,990	10,161	16,043	15,674	15,953	4,963	279



## Highlights from the management commentary

### Balance sheet and P&L

- The bank continues to remain focus on GPS strategy and gaining market share in the chosen segments
- AXSB successfully delivered its aspirational RoE of 18.8% for FY23 (on adj. basis)
- The bank added ~3m new liability relationships in 4QFY23 (+23% YoY/3% QoQ). A total of 10.8m new liability relationships were added in FY23 (+26% YoY)
- The bank saw a 33% YoY increase in new salary labels
- AXSB saw an increase of 870bp in the mix of Retail premium savings accounts while outflows were lower by 550bp
- Mid-Corporate segment grew strongly at 38% YoY and 10% QoQ. Mid-Corporate + SME + SBB grew 32% YoY and formed 20% of the total loan book
- The bank has a strong pipeline in the corporate book and thus expects healthy traction in corporate growth to continue
- AXSB saw its largest issuance of credit cards that stood at 1.13m in 4QFY23 with a total of 4.2m cards being added in FY23
- The bank had a market share of 26% in the merchant acquiring business in FY23
- Retail disbursements stood at an all-time high in 4QFY23
- NIM included an impact of 3bp due to interest on income tax refund. 2QFY23 had a one-off impact of 5bp on NIMs
- LCR stood at 129% in 4QFY23 v/s 116% in 3Q. The bank had an excess LCR amounting to INR750b in 4QFY23. LCR will come to normal level in next quarter
- Cost of funds is expected to inch up further in 1QFY24
- RIDF deposits stood at 2.3% of total assets v/s 3.5% in Mar'22
- AXSB is completely PSL compliant across all segments and at total level in FY23
- Increase in opex mix YoY: Volume related (28%), Tech and growth related (34%), Integration related (16%) and BAU (22%)
- Technology expenses grew 27% YoY and formed 8.7% of total opex
- AXSB remains committed to bring down the cost-to-assets ratio to 2%
- Loan growth for FY24 is expected to be 400-600bp higher than the industry
- The bank is planning to add ~500 branches in FY24E
- ~42% of the fixed rate book matures in the next 12 months

### Asset quality

- Adoption by the customers of Citi has been encouraging. Deposits from these customers have grown 4% since Jan'23
- Integration progress in underway. The bank has contacted all the 1,600 corporates with whom salary accounts are present and are now fully integrated
- Management has identified 60 synergy possibilities of which work has started on 20 opportunities
- Total expenses of INR124.9b for Citi's acquisition included the below which have been charged as one-off via P&L
  - Amortization of Intangibles and Goodwill of INR 119.5b
  - Harmonization of policies in provisions and contingencies of INR2.32b
  - Harmonization of policies in operating expenses of INR1.29b
  - One-time acquisition costs recognized in operating expenses of INR1.79b

**PCR healthy at ~81%; asset quality (GNPL/NNPL) improves to 2.0%/0.4%**

- AXSB's reported slippages declined to INR33.8b in 4QFY23, while recoveries/upgrades stood at INR27b and write-offs amounted to INR24.3b.
- As a result, asset quality improved as the GNPL/NNPL ratios declined 36bp/8bp QoQ to 2.02%/0.39%. PCR was healthy at 80.9% during the quarter.
- The funded/non-funded BB and below pool declined to INR34.8b/INR13.7b. BB and below-rated investments stood at INR6.7b. The total funded and non-funded BB and below pool stood at ~0.65% of loans.
- Overall, implemented restructuring declined to INR20.5b (0.22% of gross customer assets). The bank is carrying a provision of ~22% of the restructured book and holds total additional provisions (standard + other than NPAs) of INR119.3b.

**Exhibit 1: Net stressed loans are negligible, including standard + additional other than NPA provisions**

INR b	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23
GNPA	301	302	296	268	220	253	259	241	233	218	210	199	200	186
OSRL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	10	6	6	8	6	7	6	6	7	8	8	8	7	7
Security receipts	22	22	22	22	22	17	17	17	17	17	17	17	17	17
BB and below (fund based)	51	65	64	91	87	74	80	67	65	58	49	49	45	35
<b>Stress loans</b>	<b>384</b>	<b>396</b>	<b>388</b>	<b>390</b>	<b>336</b>	<b>351</b>	<b>363</b>	<b>332</b>	<b>322</b>	<b>301</b>	<b>284</b>	<b>273</b>	<b>268</b>	<b>245</b>
Less: Overlap	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross stress loans</b>	<b>384</b>	<b>396</b>	<b>388</b>	<b>390</b>	<b>336</b>	<b>351</b>	<b>363</b>	<b>332</b>	<b>322</b>	<b>301</b>	<b>284</b>	<b>273</b>	<b>273</b>	<b>245</b>
Specific provisions	205	269	290	316	292	303	305	299	302	287	281	275	278	270
<b>Net stress loans</b>	<b>179</b>	<b>127</b>	<b>98</b>	<b>74</b>	<b>43</b>	<b>48</b>	<b>58</b>	<b>33</b>	<b>20</b>	<b>14</b>	<b>3</b>	<b>-2</b>	<b>-9</b>	<b>-25</b>
<b>Gross stress loans (as a % of loans)</b>	<b>7.0</b>	<b>6.9</b>	<b>6.9</b>	<b>6.8</b>	<b>5.8</b>	<b>5.7</b>	<b>5.9</b>	<b>5.3</b>	<b>4.8</b>	<b>4.3</b>	<b>4.0</b>	<b>3.7</b>	<b>3.5</b>	<b>2.9</b>
<b>Net stress loans (as a % of loans)</b>	<b>3.3</b>	<b>2.2</b>	<b>1.7</b>	<b>1.3</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.0</b>	<b>-0.1</b>	<b>-0.3</b>
BB and below (non-fund based)	37	39	37	49	48	46	44	44	43	28	25	23	19	14

**Loan book up ~19% YoY (16% ex-Citi); deposits up 15% YoY (10% ex-Citi)**

- The loan book grew 19% YoY (16% YoY/7% QoQ – ex-Citi), with Retail loans up 15% YoY and 7% QoQ. Retail loans accounted for ~57.7% of total loans. Retail disbursements witnessed healthy traction across segments.
- Within Retail loans, Home loans and LAP grew 5% and 13% YoY (+2% and 8% QoQ), while Credit Cards and Personal loans grew 42% and 18% YoY, respectively.
- The SME portfolio grew 23% YoY (13% QoQ), while corporate book rose 14% YoY (+6% QoQ). Around 89% of AXSB's corporate book is now rated A- and above, with 89% of the incremental sanctions in FY23 being made to corporates rated A- and above.
- Deposits grew ~15% YoY (10% YoY/7% QoQ – ex-Citi), within which CASA deposits rose 12% YoY (10% QoQ). TD growth was 4% QoQ, resulting in an increase in the CASA ratio to 46%. CASA and Retail TD made up 79% of total deposits.

## Valuation and view

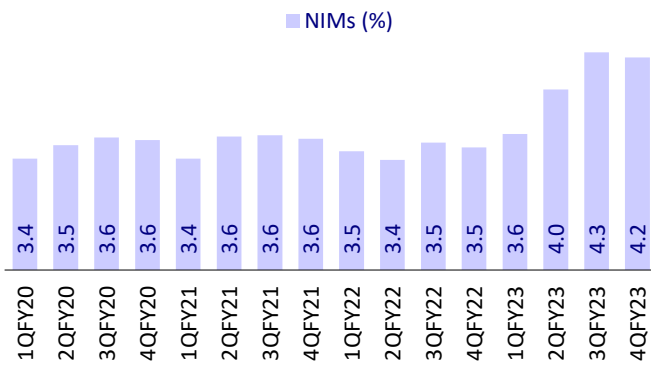
- **Strengthening the Retail franchise:** The Retail business has strengthened with the share of Retail loans improving to ~58% of total loans, led by Home loans. 100% of personal loans and 71% of credit card debt were toward salaried customers. On the liability side, the share of CASA and Retail term deposits stood at ~79%, ensuring relatively stable funding costs.
- **Asset quality outlook improving:** AXSB reported an improvement in its asset quality, with its GNPA/NNPA ratios declining 36bp/8bp QoQ to ~2.0%/0.4%. Slippages moderated, while the BB and below book too witnessed a decline. The restructuring book was controlled at 0.22% of gross customer assets (22% provided). The bank did not utilize any Covid-related provisions in 4QFY23 and held a cumulative provision (standard + additional other than NPA) of INR119b, which should support its credit costs. Over FY23-25, we expect slippages to moderate to 1.9% and the credit cost to be ~40-50bp.
- **Fee income highly granular, likely to pick up gradually:** Retail fees accounted for ~69% 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 INR1,100:** AXSB delivered a stable performance in 4QFY23, with earnings being driven by lower provisions and higher fee income even as margin remained range-bound. AXSB completed the Citi acquisition, which included a one-off cost of INR123.5b that resulted in a loss. Business growth was healthy led by strong traction across segments. Asset quality continued to improve with moderation in slippages and healthy trends in recoveries and upgrades. The restructured book was controlled, which coupled with a higher provisioning buffer provided comfort on credit cost. We tweak our estimates slightly and expect AXSB to deliver an RoA/RoE of 1.9%/18.1% in FY25. **Reiterate BUY with a TP of INR1,100 (premised on 1.8x Sep'24E BV).**

### Exhibit 2: SoTP-based pricing

Name	Stake	Attributed Value (INR b)	Value per Share	% of total value	Rationale
<b>Axis Bank</b>	<b>100</b>	<b>3,112.1</b>	<b>1,011</b>	<b>92.0</b>	❖ <b>1.8x P/BV Sep-24E</b>
Axis Finance	100	95.7	31	2.8	❖ 2.5x Net worth Sep-24E
Axis Capital	100	27.8	9	0.8	❖ 15x PAT Sep-24E
Axis Securities	100	47.8	16	1.4	❖ 15x PAT Sep-24E
Axis Mutual Fund	75	124.8	41	3.7	❖ 30x PAT Sep-24E
Max Life Insurance	20	44.4	14	1.3	❖ 2.0x EV Sep'24E
<b>Total Value of Subs</b>		<b>340.5</b>	<b>111</b>	<b>10.1</b>	
Less: 20% holding disc		68.1	22	2.0	
<b>Value of Subs (Post Holding Disc)</b>		<b>272.4</b>	<b>89</b>	<b>8.0</b>	
<b>Target Price</b>		<b>3,384.5</b>	<b>1,100</b>		

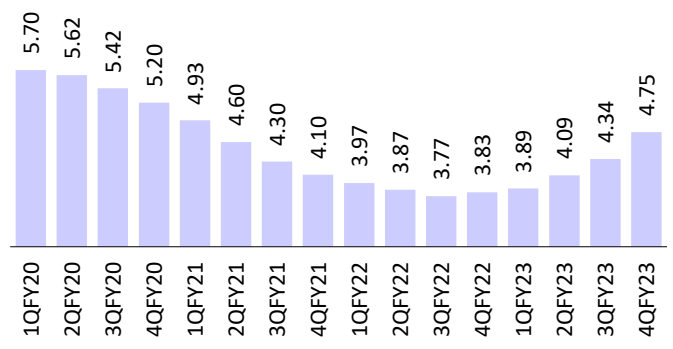
## Story in charts

**Exhibit 3: Margin moderates 4bp QoQ to 4.22%**



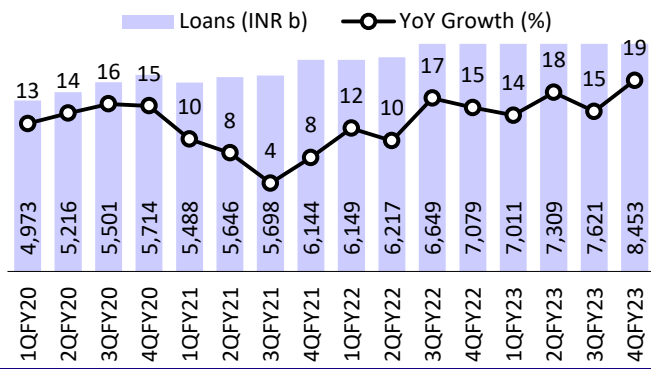
Source: MOFSL, Company

**Exhibit 4: Cost of funds rises 41bp QoQ to 4.75%**



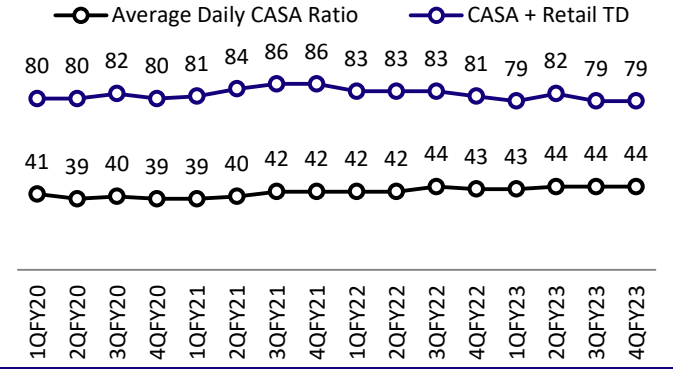
Source: MOFSL, Company

**Exhibit 5: Loan book up 19% YoY (16% YoY/7% QoQ – ex-Citi)**



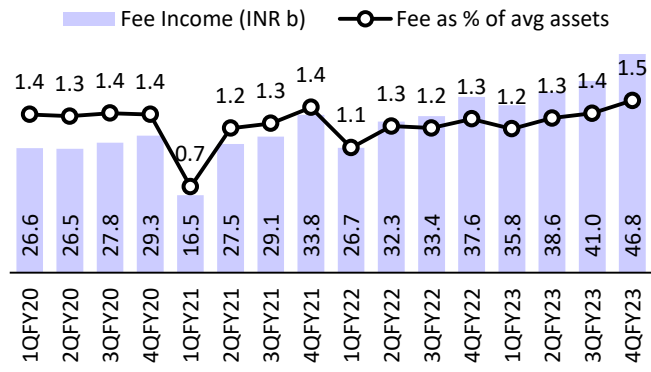
Source: MOFSL, Company

**Exhibit 6: CASA + Retail TD form 79% of total deposits**



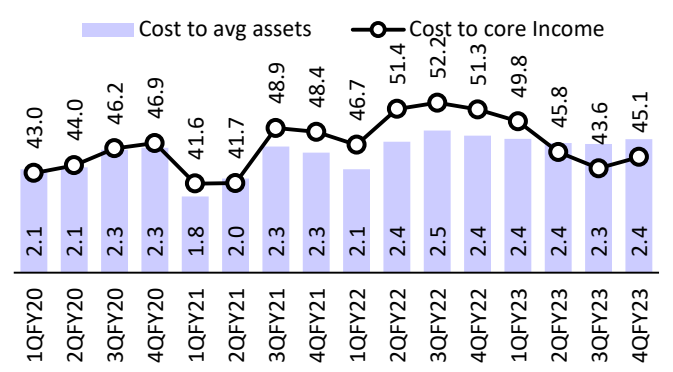
Source: MOFSL, Company

**Exhibit 7: Fee income as a % of assets improves to 1.5%**



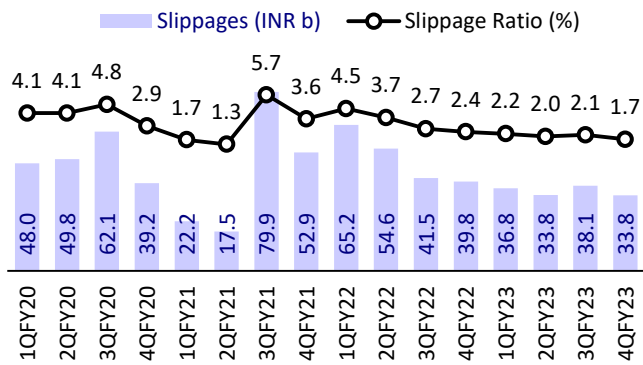
Source: MOFSL, Company

**Exhibit 8: Cost-to-average assets ratio stands at 2.4%**



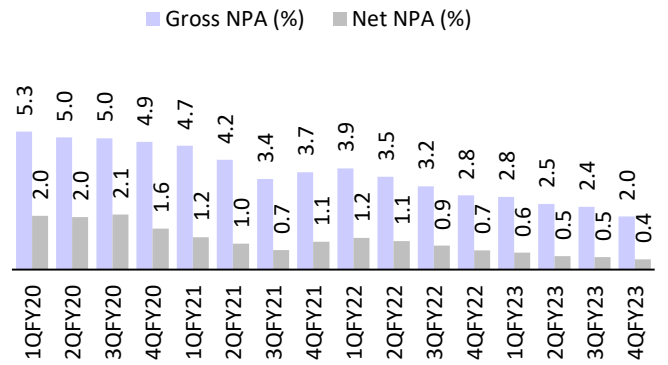
Source: MOFSL, Company

**Exhibit 9: Slippages moderates to INR33.8b**



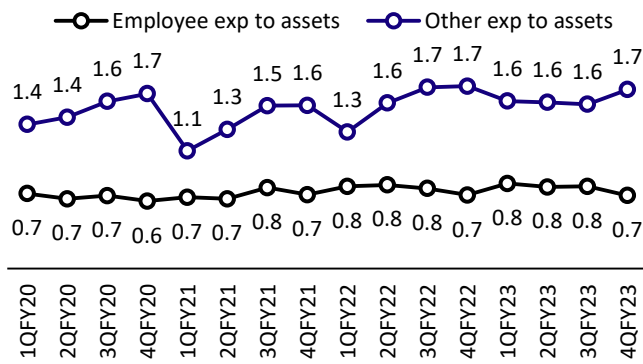
\*2Q/3QFY21 includes pro forma slippages Source: MOFSL, Company

**Exhibit 10: GNPA/NNPA ratios moderate to 2.0%/0.4%**



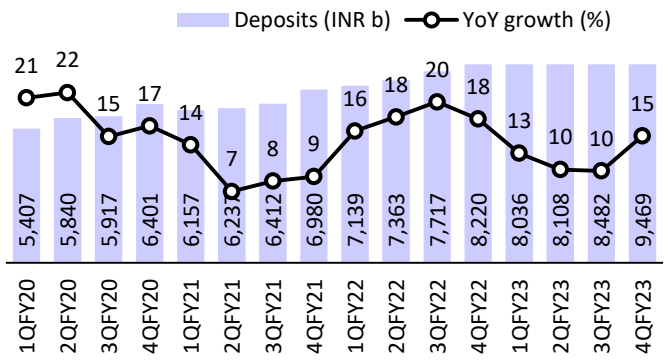
Source: MOFSL, Company

**Exhibit 11: Employee expenses moderate to 0.7% QoQ**



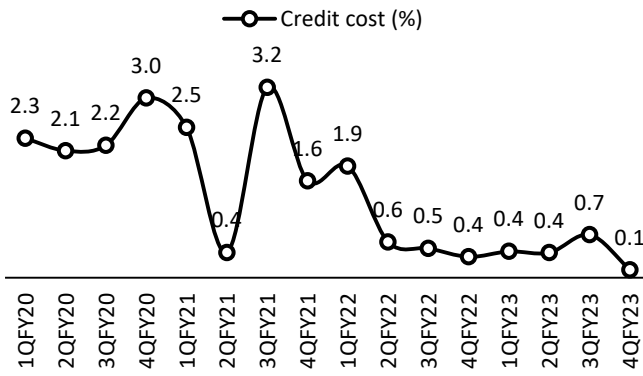
Source: MOFSL, Company

**Exhibit 12: Deposits rise 15% YoY (10%/7% YoY/QOQ - ex-Citi)**



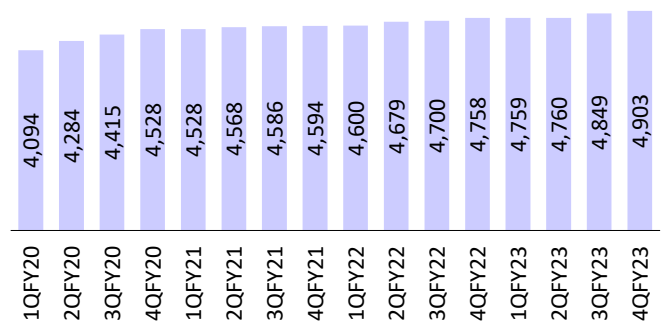
Source: MOFSL, Company

**Exhibit 13: Core credit cost moderates sharply**



Source: MOFSL, Company

**Exhibit 14: Total number of branches at 4,903**



Source: MOFSL, Company



**Exhibit 15: DuPont Analysis – Return ratios to witness continuous increase**

<b>Y/E MARCH</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
Interest Income	7.08	7.37	7.30	6.66	6.23	6.83	7.51	7.48
Interest Expense	4.20	4.46	4.36	3.59	3.17	3.39	3.84	3.79
<b>Net Interest Income</b>	<b>2.88</b>	<b>2.91</b>	<b>2.94</b>	<b>3.07</b>	<b>3.06</b>	<b>3.45</b>	<b>3.67</b>	<b>3.70</b>
Fee income	1.49	1.66	1.56	1.19	1.28	1.27	1.31	1.34
Trading and others	0.21	0.10	0.25	0.10	0.13	0.06	0.06	0.06
<b>Non-Interest income</b>	<b>1.70</b>	<b>1.76</b>	<b>1.81</b>	<b>1.29</b>	<b>1.41</b>	<b>1.32</b>	<b>1.37</b>	<b>1.40</b>
<b>Total Income</b>	<b>4.58</b>	<b>4.67</b>	<b>4.75</b>	<b>4.36</b>	<b>4.47</b>	<b>4.77</b>	<b>5.04</b>	<b>5.10</b>
<b>Operating Expenses</b>	<b>2.16</b>	<b>2.12</b>	<b>2.02</b>	<b>1.93</b>	<b>2.18</b>	<b>2.20</b>	<b>2.24</b>	<b>2.14</b>
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	1.49	1.53	1.45
<b>Operating Profit</b>	<b>2.41</b>	<b>2.55</b>	<b>2.73</b>	<b>2.43</b>	<b>2.29</b>	<b>2.57</b>	<b>2.80</b>	<b>2.96</b>
<b>Core Operating Profit</b>	<b>2.21</b>	<b>2.45</b>	<b>2.48</b>	<b>2.33</b>	<b>2.16</b>	<b>2.52</b>	<b>2.74</b>	<b>2.90</b>
<b>Provisions</b>	<b>2.39</b>	<b>1.61</b>	<b>2.16</b>	<b>1.51</b>	<b>0.68</b>	<b>0.21</b>	<b>0.33</b>	<b>0.37</b>
NPA	2.57	1.37	1.49	1.15	0.48	0.21	0.28	0.33
Others	-0.17	0.24	0.67	0.35	0.20	0.00	0.04	0.04
<b>PBT</b>	<b>0.02</b>	<b>0.93</b>	<b>0.57</b>	<b>0.93</b>	<b>1.61</b>	<b>2.36</b>	<b>2.47</b>	<b>2.59</b>
Tax	-0.02	0.31	0.38	0.23	0.40	0.60	0.62	0.65
<b>RoA</b>	<b>0.04</b>	<b>0.63</b>	<b>0.19</b>	<b>0.69</b>	<b>1.20</b>	<b>1.76</b>	<b>1.85</b>	<b>1.94</b>
Leverage (x)	10.8	11.5	11.3	10.2	10.0	10.4	9.9	9.4
<b>RoE</b>	<b>0.5</b>	<b>7.2</b>	<b>2.1</b>	<b>7.1</b>	<b>12.0</b>	<b>18.2</b>	<b>18.4</b>	<b>18.1</b>

## Financials and valuations

Income Statement								(INRb)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	457.8	549.9	626.4	633.5	673.8	851.6	1,070.4	1,235.7
Interest Expense	271.6	332.8	374.3	341.1	342.4	422.2	547.2	625.6
<b>Net Interest Income</b>	<b>186.2</b>	<b>217.1</b>	<b>252.1</b>	<b>292.4</b>	<b>331.3</b>	<b>429.5</b>	<b>523.2</b>	<b>610.1</b>
Growth (%)	2.9	16.6	16.1	16.0	13.3	29.6	21.8	16.6
Non-Interest Income	109.7	131.3	155.4	122.6	152.2	165.0	194.7	231.7
<b>Total Income</b>	<b>295.8</b>	<b>348.4</b>	<b>407.4</b>	<b>415.0</b>	<b>483.5</b>	<b>594.5</b>	<b>717.9</b>	<b>841.8</b>
Growth (%)	(0.7)	17.8	16.9	1.9	16.5	22.9	20.8	17.3
Operating Expenses	139.9	158.3	173.0	183.8	236.1	274.0	319.2	353.4
<b>Pre Provision Profits</b>	<b>155.9</b>	<b>190.1</b>	<b>234.4</b>	<b>231.3</b>	<b>247.4</b>	<b>320.5</b>	<b>398.8</b>	<b>488.4</b>
Growth (%)	(11.3)	21.9	23.3	(1.3)	7.0	29.5	24.4	22.5
<b>Core PPP</b>	<b>142.7</b>	<b>182.5</b>	<b>212.7</b>	<b>221.5</b>	<b>233.6</b>	<b>313.6</b>	<b>390.5</b>	<b>478.5</b>
Growth (%)	0.3	27.9	16.5	4.2	5.5	34.2	24.5	22.5
Provisions (excl. tax)	154.7	120.3	185.3	143.2	73.6	26.5	46.4	61.0
<b>PBT</b>	<b>1.2</b>	<b>69.7</b>	<b>49.0</b>	<b>88.1</b>	<b>173.8</b>	<b>294.0</b>	<b>352.4</b>	<b>427.3</b>
Tax	(1.5)	23.0	32.8	22.2	43.6	74.6	88.8	107.7
Tax Rate (%)	(126.8)	32.9	66.8	25.2	25.1	25.4	25.2	25.2
Extraordinary expense	-	-	-	-	-	123.5	-	-
<b>PAT</b>	<b>2.8</b>	<b>46.8</b>	<b>16.3</b>	<b>65.9</b>	<b>130.3</b>	<b>95.8</b>	<b>263.6</b>	<b>319.6</b>
Growth (%)	(92.5)	NM	(65.2)	304.9	97.7	(26.5)	175.1	21.3
<b>Balance Sheet</b>								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5.1	5.1	5.6	6.1	6.1	6.2	6.4	6.4
Reserves & Surplus	629.3	661.6	843.8	1,009.9	1,144.1	1,248.0	1,609.6	1,903.3
<b>Net Worth</b>	<b>634.5</b>	<b>666.8</b>	<b>849.5</b>	<b>1,016.0</b>	<b>1,150.3</b>	<b>1,254.2</b>	<b>1,616.0</b>	<b>1,909.8</b>
<b>Deposits</b>	<b>4,536.2</b>	<b>5,484.7</b>	<b>6,401.0</b>	<b>6,979.9</b>	<b>8,217.2</b>	<b>9,469.5</b>	<b>10,984.6</b>	<b>12,851.9</b>
Growth (%)	9.5	20.9	16.7	9.0	17.7	15.2	16.0	17.0
<b>of which CASA Deposits</b>	<b>2,438.5</b>	<b>2,433.9</b>	<b>2,637.1</b>	<b>3,177.5</b>	<b>3,697.6</b>	<b>4,465.4</b>	<b>5,063.9</b>	<b>5,911.9</b>
Growth (%)	14.5	-0.2	8.3	20.5	16.4	20.8	13.4	16.7
Borrowings	1,480.2	1,527.8	1,479.5	1,428.7	1,851.3	1,863.0	2,104.0	2,235.8
Other Liabilities & Prov.	262.5	330.7	421.6	443.4	531.5	586.6	627.7	690.5
<b>Total Liabilities</b>	<b>6,913.3</b>	<b>8,010.0</b>	<b>9,151.6</b>	<b>9,868.0</b>	<b>11,750.3</b>	<b>13,173.3</b>	<b>15,332.3</b>	<b>17,688.0</b>
Current Assets	434.5	672.0	972.7	617.3	1,109.9	1,064.1	1,099.4	1,086.3
<b>Investments</b>	<b>1,538.8</b>	<b>1,749.7</b>	<b>1,567.3</b>	<b>2,261.2</b>	<b>2,756.0</b>	<b>2,888.1</b>	<b>3,350.3</b>	<b>3,886.3</b>
Growth (%)	19.5	13.7	-10.4	44.3	21.9	4.8	16.0	16.0
<b>Loans</b>	<b>4,396.5</b>	<b>4,948.0</b>	<b>5,714.2</b>	<b>6,144.0</b>	<b>7,077.0</b>	<b>8,453.0</b>	<b>9,974.6</b>	<b>11,740.1</b>
Growth (%)	17.8	12.5	15.5	7.5	15.2	19.4	18.0	17.7
Fixed Assets	39.7	40.4	43.1	42.5	45.7	47.3	51.1	55.2
Other Assets	503.8	599.9	854.3	803.0	763.3	720.6	856.9	920.1
<b>Total Assets</b>	<b>6,913.3</b>	<b>8,010.0</b>	<b>9,151.6</b>	<b>9,868.0</b>	<b>11,751.8</b>	<b>13,173.3</b>	<b>15,332.3</b>	<b>17,688.0</b>
<b>Asset Quality</b>								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA	342.5	297.9	302.3	253.1	218.2	186.0	191.8	215.9
NNPA	165.9	112.8	93.6	70.6	56.1	35.6	34.4	38.4
GNPA Ratio	7.5	5.8	5.1	4.0	3.0	2.0	1.9	1.8
NNPA Ratio	3.8	2.3	1.6	1.1	0.8	0.4	0.3	0.3
Slippage Ratio	8.2	3.0	3.7	2.9	3.0	1.8	1.9	1.9
Credit Cost	4.1	2.2	2.4	1.8	0.8	0.3	0.4	0.5
PCR (Excl. Tech. write off)	51.6	62.1	69.0	72.1	74.3	80.9	82.0	82.2

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>7.7</b>	<b>8.0</b>	<b>8.0</b>	<b>7.3</b>	<b>6.7</b>	<b>7.3</b>	<b>8.0</b>	<b>7.9</b>
Avg. Yield on loans	8.4	8.8	9.1	8.0	7.5	8.3	8.9	8.7
Avg. Yield on Investments	7.2	7.0	6.9	6.7	5.9	6.5	6.9	7.1
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>4.8</b>	<b>5.1</b>	<b>5.0</b>	<b>4.2</b>	<b>3.7</b>	<b>3.9</b>	<b>4.5</b>	<b>4.4</b>
Avg. Cost of Deposits	4.4	4.7	4.9	4.0	3.5	3.9	4.3	4.3
Avg. Cost of Borrowings	6.3	6.4	5.4	5.2	4.6	4.7	5.5	5.2
<b>Interest Spread</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.5</b>
<b>Net Interest Margin</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>

### Capitalisation Ratios (%)

CAR	16.6	15.9	17.6	19.2	18.5	17.6	18.0	17.5
Tier I	13.0	12.7	14.6	16.6	16.4	14.6	16.5	16.2
Tier II	3.5	3.2	3.0	2.6	2.1	3.1	1.6	1.3

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	96.9	90.2	89.3	88.0	86.1	89.3	90.8	91.3
CASA Ratio	53.8	44.4	41.2	45.5	45.0	47.2	46.1	46.0
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	44.5	42.0
Cost/Core Income	49.5	46.5	44.9	45.3	50.3	46.6	45.0	42.5
Int. Expense/Int. Income	59.3	60.5	59.8	53.8	50.8	49.6	51.1	50.6
Fee Income/Total Income	27.8	31.2	28.9	23.4	24.7	22.4	21.9	22.3
Non Int. Inc./Total Income	37.1	37.7	38.1	29.5	31.5	27.8	27.1	27.5
Investment/Deposit Ratio	33.9	31.9	24.5	32.4	33.5	30.5	30.5	30.2

### Profitability Ratios and Valuation

RoE	0.5	7.2	2.1	7.1	12.0	18.2	18.4	18.1
RoA	0.0	0.6	0.2	0.7	1.2	1.8	1.8	1.9
RoRWA	0.1	0.8	0.3	1.0	1.7	2.6	2.6	2.6
Book Value (INR)	247.2	259.3	301.1	331.6	375.2	407.6	502.2	593.5
Growth (%)	6.2	4.9	16.1	10.2	13.1	8.6	23.2	18.2
<b>Price-BV (x)</b>	<b>3.2</b>	<b>3.1</b>	<b>2.6</b>	<b>2.4</b>	<b>2.1</b>	<b>1.9</b>	<b>1.6</b>	<b>1.3</b>
Adjusted BV (INR)	193.8	219.7	269.7	308.0	354.1	391.8	487.0	577.1
<b>Price-ABV (x)</b>	<b>4.1</b>	<b>3.6</b>	<b>2.9</b>	<b>2.6</b>	<b>2.2</b>	<b>2.0</b>	<b>1.6</b>	<b>1.4</b>
EPS (INR)	1.1	18.2	6.0	22.4	42.5	71.4	83.7	99.3
Growth (%)	-92.8	NM	-66.9	271.0	89.7	68.0	17.3	18.6
<b>Price-Earnings (x)</b>	<b>NM</b>	<b>43.5</b>	<b>NM</b>	<b>35.4</b>	<b>18.7</b>	<b>11.1</b>	<b>9.5</b>	<b>8.0</b>

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NOTES

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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