

# Axis Bank Ltd.



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**CITI business integration boosts the retail segment; Opex to remain elevated**

CMP <b>INR 860</b>	Target <b>INR 1,160</b>	Potential Upside <b>34.9%</b>	Market Cap (INR Mn) <b>INR 26,46,731</b>	Recommendation <b>BUY</b>	Sector <b>Banking</b>
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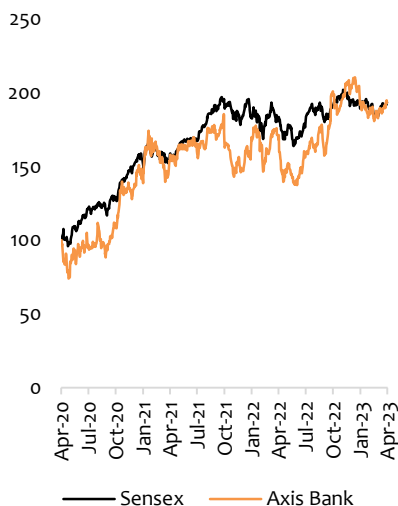
## Result Highlights of Q4 FY23

- AXSB's Net Interest Income (NII) grew 33.1% YoY/ 2.5% QoQ to INR 1,17,422 Mn in Q4FY23. Net interest margin (NIM) for Q4FY23 stood at 4.22%, improving 73 bps YoY but declining 4 bps QoQ.
- The bank's PPOP for the quarter was INR 91,676 Mn, a growth of 41.8% YoY, whereas it declined on a sequential basis by 1.2%.
- The bank has reported a loss of INR 57,284 Mn due to one-time non-recurring expenses of INR 1,24,898 Mn.
- The total deposits grew by 15.2% YoY to INR 9,469 Bn. AXSB's advances grew 119.4% YoY/ 10.9% QoQ to INR 8,453 Bn as of March 31, 2023.
- As of March 31, 2023, the bank's reported Gross NPA and Net NPA levels were 2.02% and 0.39%, respectively, as compared to 2.38% and 0.47% as of December 31, 2022.
- Overall capital adequacy ratio (CAR) stood at 17.64% with the CET-1 ratio at 14.02% as of March 31, 2023.

## MARKET DATA

Shares outs (Mn)	3,077
Equity Cap (INR Mn)	12,54,167
Mkt Cap (INR Mn)	26,46,731
52 Wk H/L (INR)	970/618
Volume Avg (3m K)	12,346
Face Value (INR)	2
Bloomberg Code	AXSB IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	60,793
NIFTY	18,065

## KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
NII	2,92,391	3,31,322	4,29,458	5,22,432	6,11,899
PPOP	2,57,022	2,47,420	3,20,483	3,92,538	4,71,919
PAT	65,885	1,30,255	95,797	2,59,139	3,08,206
EPS	21.5	42.5	31.1	84.2	100.2
ABVPS (INR)	308.9	357.2	396.0	480.8	580.1
NIM	3.7%	3.5%	4.0%	4.0%	4.0%
Advances Growth	7.5%	15.2%	19.4%	18.2%	17.9%

Source: Company, KRChoksey Research

**One-time non-recurring expenses impact profitability; a slight impact of a higher cost of funds on NIMs:** AXSB reported Net Interest Margins (NIMs) of 4.22% in Q4FY23, a decline of 4 bps from its peak in Q3FY23. On a YoY basis, NIMs expanded by 73 bps. NIMs were impacted QoQ as the bank maintained its 13.0% average LCR in Q4FY23. The quarter also saw a rise in the cost of deposits, which is expected to increase further in Q1FY24E. NII for the quarter grew by 33.1% YoY/ 2.5% QoQ. The NII includes interest on income tax refund aggregating to INR 850 Mn, which has contributed ~3 bps to the NIM. YoY expansion in NIM was led by multiple reasons: a) improvement in the balance sheet mix; b) INR denominated loans comprising 95.0% of total advances; c) low-yielding RIDF bonds declined by INR 110.9 Bn YoY; and d) composition of liabilities. The retail fees contributed 69.0% to the overall fee income, with a growth of 31.0% YoY/ 14.0% QoQ. Trading gains stood at INR 830 Mn vs a gain of INR 4,280 Mn in Q3FY23 vs a gain of INR 2,310 Mn for Q4FY22. The operating expenses increased by 13.6% YoY/ 9.1% QoQ on account of: a) higher spends on technology; and b) an increase in rupee core expenses, which were attributed to 16% integration expenses, 34% technology, and 28% linked to volumes. This led to an elevated cost-to-income ratio of 44.9% in Q4FY23 as compared to 42.5% in Q3FY23. AXSB reported a net profit (excluding exceptional items) of INR 66,250 Mn, a jump of 60.9% YoY/ 13.2% QoQ, led by a lower provision of INR 3,058 Mn in Q4FY23. The bank has taken a one-time, non-recurring expense that was related to CITI business transaction.

**Credit & deposit growth driven by CITI business integration:** As of March 31, 2023, credit growth stood at 20.7% YoY/ 10.9% QoQ, primarily a reflection of the inclusion of CITI business. The bank also saw strong pick-up across all segments. The retail disbursements for the quarter reported new highs. The retail loans grew by 22.0% YoY/ 14.0% QoQ, while the Bharat loan portfolio saw a growth of 26.0% YoY/ 19.0% QoQ. Domestic corporate loans grew 24.0% YoY and 11.0% QoQ, with a healthy pickup in demand for corporate loans. The demand is seen across the capital structure. On the deposits side, the growth stood at 15.2% YoY/ 11.6% QoQ with CASA at 47.2%, an improvement of 213 bps YoY/ 262 bps QoQ. Deposit growth was owing to a) strong customer acquisition; b) initiatives to strengthen the corporate salary segment; and c) premiumization strategy and recent acquisition of CITI, which led to an 870 bps YoY increase in the premium segment.

## SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	8.2	8.2	9.7
FIIIs	49.1	49.5	43.5
DIIIs	32.0	31.5	34.9
Others	10.8	10.8	11.9
Total	100.0	100.0	100.0

# 19.4%

NII CAGR between FY23 and FY25E

# 79.4%

PAT CAGR between FY23 and FY25E

## ANALYST

 Abhishek Agarwal [research5@krchoksey.com](mailto:research5@krchoksey.com), +91-22-6696 5575

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 Phone: +91-22-6696 5555, Fax: +91-22-6691 9576  
[www.krchoksey.com](http://www.krchoksey.com)

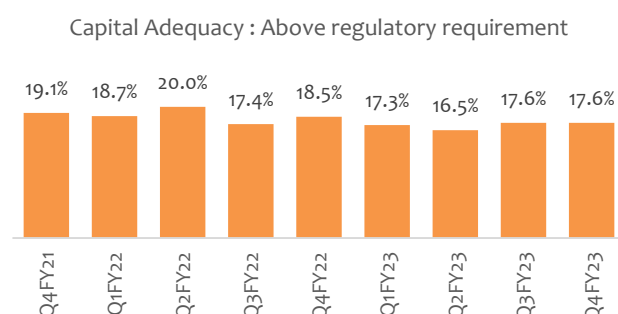
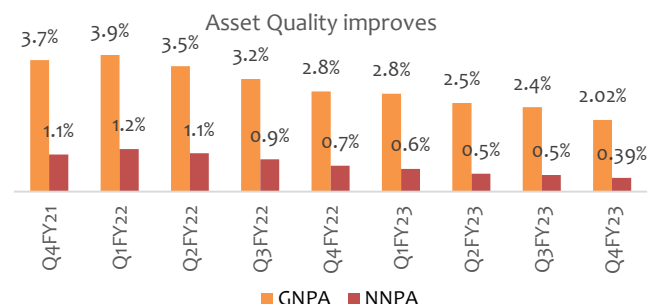
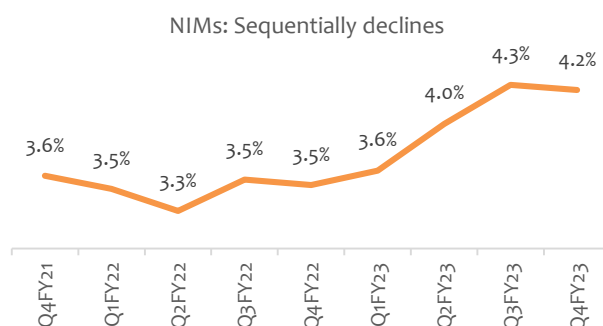
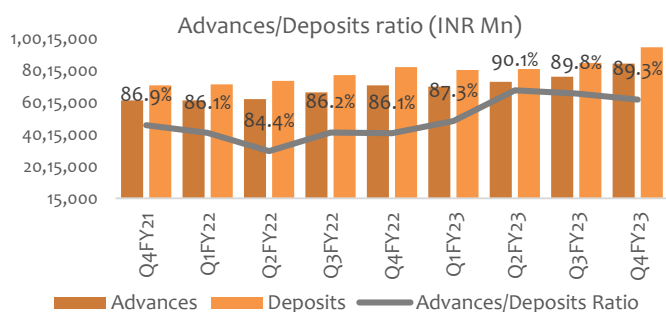
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**Slippages continues to moderate improving asset quality:** The GNPA & NNPA for the quarter improved by 80 bps & 34 bps YoY, respectively. The recoveries from written off accounts for Q4FY23 stood at INR 8,230 Mn. Net slippages adjusted for recoveries from written-off accounts were negative at INR 1,470 Mn. The gross slippages, including one-time day-1 impact of CITI Consumer Business was INR 33.75 Bn, lower by 15.0% YoY and 11% QoQ. The gross/net slippages ratio stood at 1.76%/ 0.38% in Q4FY23. Annualised credit cost for Q4FY23 stood at 0.22%, an improvement of 10 bps YoY/ 43 bps QoQ.

### Key Concall Highlights:

- A charge to P&L emanating from prudent accounting choices aggregating to INR 124.9 bn comprises: (i) full amortization of intangibles and goodwill, which is equal to the value of the purchase consideration paid or payable for the acquisition of the Citibank India Consumer Business; (ii) the impact of policy harmonization on operating expenses and provisions; and (iii) one-time stamp duty on acquisition. These are non-recurring and one-time items that have been charged to the P&L in Q4FY23 and reported as exceptional items.
- The sequential increase in the cost-to-income ratio was attributed in large part to lower trading income and the incurring of integration expenses relating to the acquisition in the month of March-23.
- AXSB remains committed to consciously investing in its focused business segments. The lower credit costs over the past few quarters have provided some headroom to run operating costs at a slightly elevated level.
- The acquired CITI business is entirely retail, which understandably runs at a higher cost and return ratio. The CITI business is ROE-accretive post integration. The cost ratios will remain sticky until the CITI integration phase is over. This doesn't impede the bank's ability to deliver its aspirational ROE.
- The bank has proposed a dividend rate of 50%, or INR 1 per share, in line with the dividend rate declared in FY22.
- ~68.0% of its loans are floating rate, while 42% of the fixed rate book matures in 12 months.
- The organic Axis business accreted 69 bps of CET-1 for FY23. The bank consumed 191 bps for the Citibank India Consumer Business Purchase transaction after accounting for the purchase price, harmonization costs, and stamp duty.
- AXSB has scaled its Account Aggregator linked business significantly through the year, and it has also launched the Central Bank Digital Currency offering. The bank continues to enter strategic partnerships to expand its presence in the digital space.

**Valuation and view:** Strong business momentum and the consolidation of the acquired CITI business were the driving factors in AXSB's Q4FY23 reporting a successful quarter. The management is confident of growing its business, further reaping benefits from the acquired business, and focusing on the core business segments. The bank has strengthened its retail segment, led by an aggressive focus on customer acquisition as well as improved granularity. CITI business integration will further boost the overall business momentum, especially in the retail segment, and also aid in capturing market share in the retail segment. On the NIM side, AXSB holds a 40-bps cushion over the structural NIM guidance, and the bank expects to retain this cushion. Fee income to be healthy in line with the business momentum. We expect some moderation in NIMs given the increase in the cost of funds, despite the cushion. The operating cost will continue to remain elevated for the next few quarters owing to higher integration costs and investment in branch expansion. Asset quality continued to improve, led by lower slippages and healthy recoveries of accounts. AXSB has not yet utilised contingent provisions and has a sufficient buffer that helps manage the credit costs. **We expect ROE/ ROA to reach 18.5%/ 1.8% by FY25E from 8.0%/ 0.8%, respectively in FY23, led by consistent performance. We have factored CAGR of 18.1% in advances, 19.4% in NII, 21.3% in PPOP, and 79.4% in PAT over FY23-25E, driven by strong trends in business momentum & improving operating performance. We revise our target price to INR 1,160 per share (earlier INR 1,210), applying 2.0x P/ABV multiple to an adjusted book value of INR 580.1 per share. This implies an upside of 34.9% over the CMP. We maintain our rating on the share of AXSB at "BUY".**



Source: Company, KRChoksey Research

**ANALYST**

Abhishek Agarwal [research5@krchoksey.com](mailto:research5@krchoksey.com), +91-22-6696 5575

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576 [www.krchoksey.com](http://www.krchoksey.com)

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Interest Income	6,36,453	6,73,768	8,51,638	10,63,599	12,45,211
Interest Expense	3,44,062	3,42,446	4,22,180	5,41,168	6,33,312
<b>Net Interest Income</b>	<b>2,92,391</b>	<b>3,31,322</b>	<b>4,29,458</b>	<b>5,22,432</b>	<b>6,11,899</b>
Non interest income	1,48,382	1,52,205	1,65,009	1,91,938	2,26,487
Operating income	4,40,773	4,83,528	5,94,466	7,14,369	8,38,386
- Employee expense	61,640	76,126	87,974	93,233	1,02,376
- Other operating expense	1,22,111	1,59,982	1,86,009	2,28,598	2,64,092
Operating Expense	1,83,752	2,36,108	2,73,983	3,21,832	3,66,467
<b>PPOP</b>	<b>2,57,022</b>	<b>2,47,420</b>	<b>3,20,483</b>	<b>3,92,538</b>	<b>4,71,919</b>
Provisions	1,68,963	73,595	26,526	47,019	60,977
PBT	88,058	1,73,826	2,93,957	3,45,519	4,10,941
Tax Expense	22,173	43,571	73,262	86,380	1,02,735
<b>PAT</b>	<b>65,885</b>	<b>1,30,255</b>	<b>1,24,898</b>	<b>0</b>	<b>0</b>
Diluted EPS (INR)	21.5	42.5	95.797	2,59,139	3,08,206

Source: Company, KRChoksey Research

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## Exhibit 2: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Source of Funds</b>					
Share capital	6,120	6,140	6,154	6,154	6,154
Reserves & Surplus	10,09,225	11,45,601	12,48,013	15,07,152	18,15,358
Net worth	10,15,345	11,51,741	12,54,167	15,13,305	18,21,511
Borrowings	14,28,732	18,51,339	18,63,000	21,46,650	24,51,765
Deposits	69,79,853	82,19,716	94,69,452	1,10,08,464	1,29,04,024
Other liabilities & provisions	4,44,051	5,31,493	5,86,636	9,08,330	9,71,239
<b>Total Equity &amp; Liabilities</b>	<b>98,67,981</b>	<b>1,17,54,288</b>	<b>1,31,73,255</b>	<b>1,55,76,750</b>	<b>1,81,48,540</b>
<b>Uses of Funds</b>					
Balance w/ banks & others	6,17,303	20,50,212	17,25,286	21,04,023	22,32,138
Net investments	22,61,196	27,55,972	28,88,148	33,57,581	40,00,248
Loans & advances	61,43,994	70,79,466	84,53,028	99,94,191	1,17,79,977
Fixed assets	42,450	45,724	47,339	50,339	53,339
Other assets	8,03,038	7,63,257	7,20,632	7,64,853	8,11,787
<b>Total Assets</b>	<b>98,67,981</b>	<b>1,17,54,288</b>	<b>1,31,73,255</b>	<b>1,55,76,750</b>	<b>1,81,48,540</b>

Source: Company, KRChoksey Research

# Axis Bank Ltd.

## Exhibit 3: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
<b>Growth Rates</b>					
Advances (%)	7.5%	15.2%	19.4%	18.2%	17.9%
Deposits (%)	9.0%	17.8%	15.2%	16.3%	17.2%
Total assets (%)	7.8%	19.1%	12.1%	18.2%	16.5%
NII (%)	16.0%	13.3%	29.6%	21.6%	17.1%
Pre-provisioning profit (%)	9.7%	-3.7%	29.5%	22.5%	20.2%
PAT (%)	304.9%	97.7%	-26.5%	170.5%	18.9%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.0%	86.1%	89.3%	90.8%	91.3%
CASA (%)	38.5%	45.0%	47.2%	47.3%	47.4%
Advances/Total assets (%)	62.3%	60.2%	64.2%	64.2%	64.9%
Leverage - Total Assets to Equity	9.7	10.2	10.5	10.3	10.0
<b>Operating efficiency</b>					
Cost/income (%)	41.7%	48.8%	46.1%	45.1%	43.7%
Opex/total assets (%)	1.9%	2.0%	2.1%	2.1%	2.0%
Opex/total interest earning assets	2.2%	2.4%	2.4%	2.4%	2.3%
<b>Profitability</b>					
NIM (%)	3.7%	3.5%	4.0%	4.0%	4.0%
RoA (%)	0.7%	1.2%	0.8%	1.8%	1.8%
RoE (%)	7.1%	12.0%	8.0%	18.7%	18.5%
<b>Asset quality</b>					
Gross NPA (%)	3.7%	2.82%	2.0%	2.0%	1.9%
Net NPA (%)	1.1%	0.73%	0.4%	0.3%	0.3%
PCR (%)	71.6%	75.0%	80.7%	82.7%	83.9%
Slippage (%)	3.2%	2.4%	1.8%	1.4%	1.3%
Credit cost (%)	2.8%	1.1%	1.0%	0.3%	0.5%
<b>Per share data / Valuation</b>					
EPS (INR)	21.5	42.4	31.1	84.2	100.2
BVPS (INR)	331.8	375.2	407.6	491.8	592.0
ABVPS (INR)	308.9	357.2	396.0	480.8	580.1
P/E (x)	41.6	20.3	27.6	10.2	8.6
P/BV (x)	2.7	2.3	2.1	1.7	1.5
P/ABV (x)	2.9	2.4	2.2	1.8	1.5

Source: Company, KRChoksey Research

**ANALYST**

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Axis Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
29-Apr-23	860	1,160	BUY	Buy	More than 15%
27-Jan-23	892	1,210	BUY	Accumulate	5% – 15%
24-Oct-22	909	1,120	BUY	Hold	0 – 5%
26-Jul-22	706	936	BUY	Reduce	-5% – 0
02-May-22	729	936	BUY	Sell	Less than – 5%
25-Jan-22	752	936	BUY		
27-Oct-21	787	936	BUY		
31-Aug-21	783	807	Hold		

#### ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

#### ANALYST

Abhishek Agarwal [research5@krchoksey.com](mailto:research5@krchoksey.com), +91-22-6696 5575

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576  
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