

Axis Bank

A soft start to integration; rerating catalysts distant

Axis Bank (AXSB) reported a marginal beat on estimates, led by a modest loan growth (+1.6% QoQ on merged numbers) and higher trading gains. Muted recoveries from written-off accounts resulted in elevated net credit costs (50bps annualised). NIMs moderated 12bps sequentially on account of catch-up in funding costs following accelerated TD mobilisation. In addition, given muted sequential growth in overall deposits (CASA down 160bps QoQ to 45.5%), the loan-to-deposit ratio further increased to (~91%), calling for utilisation of excess SLR towards funding the loan growth. We marginally tweak our FY24/25E estimates for higher opex, partly offset by lower credit cost; maintain BUY with a target price of INR1,150 (standalone bank at 2.0x Mar-25 ABVPS).

- **Loan growth offsets NIM compression:** AXSB reported an NII growth of ~2% QoQ, despite 12bps sequential moderation in margins from a continued higher mix of corporate and SME loans and catch-up in deposit repricing. Modest growth in home loans (+8% YoY) was offset by stronger disbursements in PL/CC (21%/92% YoY growth respectively) and business banking (+46%).
- **Impressive asset quality:** Gross slippages, despite a higher base, remained elevated at ~1.9%, largely from the retail book, which was partly offset by healthy recovery/ write-offs that led to an optically better GNPA at ~2%. The sub-investment grade and the restructured portfolio were stable at 0.7% and 0.2% respectively, even as the bank continued to hold surplus provisions (~1.4% of loans).
- **Elevated opex/margin pressure to keep medium-term RoAs in check:** Axis remains committed to sustainable growth through investments in people, tech, and distribution, resulting in a higher opex in addition to the overheads from the acquired business (contributing to 28% of the sequential growth in opex). Despite multiple levers at play such as a focused micro-market strategy, premiumisation, Bharat banking, and transformational partnerships, we believe that Axis Bank's RoAs will take longer to converge with peers, as the bank navigates through the transition.

Financial summary

(INR bn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	119.6	93.8	27.4%	117.4	1.8%	331.3	429.5	475.3	528.8
PPOP	88.1	58.9	49.7%	91.7	-3.9%	247.4	197.9	380.4	446.0
PAT	58.0	41.3	40.5%	(57.3)	-201.2%	130.3	95.8	249.7	290.5
EPS (INR)	18.8	13.4	39.9%	(18.6)	-200.8%	42.4	31.1	81.2	94.4
ROAE (%)						12.0	8.0	18.4	18.2
ROAA (%)						1.2	0.8	1.8	1.8
ABVPS (INR)						350.0	387.5	453.3	538.6
P/ABV (x)						2.8	2.5	2.1	1.8
P/E (x)						22.9	31.2	12.0	10.3

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Net advances	9,315	9,315	0.0%	10,641	10,630	-0.1%
NIM (%)	3.99	3.87	-13 bps	4.02	3.88	-14 bps
NII	479.0	475.3	-0.8%	536.2	528.8	-1.4%
PPOP	378.1	380.4	0.6%	441.0	446.0	1.1%
PAT	246.7	249.7	1.2%	282.5	290.5	2.8%
Adj. BVPS (INR)	459.9	453.3	-1.4%	541.8	538.6	-0.6%

Source: Company, HSIE Research

BUY

CMP (as on 26 Jul 2023)	INR 977
Target Price	INR 1,150
NIFTY	19,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,130	INR 1,150
	FY24E	FY25E
EPS %	1.2%	2.8%

KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	3,080
MCap (INR bn) / (\$ mn)	3,009/36,788
6m avg traded value (INR mn)	10,466
52 Week high / low	INR 990/702

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.0	9.5	38.3
Relative (%)	(0.6)	(1.3)	17.6

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	8.2	7.9
FIs & Local MFs	32.0	31.2
FPIs	49.1	52.0
Public & Others	10.8	8.9
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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