BUY (Maintained)

CMP: **INR 977** Target Price: **INR 1,150** ▲ 18%

ICICI Securities

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27 July 2023

India | Equity research | Q1FY24 results review

Axis Bank

Banking

Mixed quarter; sustains strong RoA aided by treasury gains, but QoQ biz growth soft

Axis Bank (Axis) reported mixed Q1FY24 earnings with in-line PAT at INR 57.97bn and annualised RoA at 1.8% though aided by healthy treasury gains (INR 5.19bn) while business growth QoQ was somewhat soft. We point out that due to Citi integration, most numbers are not directly comparable on either QoQ or YoY basis. While retail term deposits growth at ~5% QoQ was healthy, overall loan growth at 1.6% QoQ was weaker than expected, while NIM contraction (down 12bps QoQ) was in line with our estimates. Core PPOP too, adjusted for Citi integration costs, was soft QoQ. Healthy 36bps net CET-1 accretion (CET-1 now at 14.38%) despite rise in RWA density is a key positive. We estimate the bank to deliver a loan CAGR of 16%, RoA of ~1.6-1.65% and RoE of ~17.0% for FY24E/FY25E. Maintain **BUY** with an unchanged target price of INR 1,150, valuing the stock at ~2.0x FY25E core banking book.

Overall growth reasonable, but strong in chosen products

Overall loans grew 2% QoQ (22% YoY; positively impacted by the Citi deal) and was a tad lower than our estimates. On QoQ basis, growth was healthy in corporate segment (up 3%) and non-mortgage retail, while SME loans declined 5.5%. Axis continues to stage strong growth in its chosen segments – SBB + SME + mid corporate – which grew at a healthy pace and whose combined share has increased to ~20% of overall loans, up 600bps over the past 3 years. On home loans, the bank acknowledged slower growth (possibly due to competitive pricing), but sounded confident of improving traction in the coming quarters. We are building-in a loan CAGR of ~16% for FY24E-FY25E.

Deposits growth flattish QoQ though retail TDs up 5% QoQ

Overall deposits were flattish QoQ and up 17% YoY. On 'quarterly average basis' (QAB), overall deposits grew 6% QoQ, within which, term deposits were up 5% QoQ. However, QAB balances have been influenced by the Citi acquisition. CA was down 11% QoQ and SA down 0.6%. Nevertheless, term deposits grew 2.5% within which, retail term deposits (key parameter for Axis) grew ~5% QoQ. On QAB basis, CASA stood at 44%, up 150bps YoY and 31 bps QoQ. Bank mentioned that the focus on productivity and micro-market strategy continued to aid with 52% increase in the number of districts with total deposit market share of over 5% in past 3 years. Quality of deposits as measured by outflow rates (down 460bps to 23.7% over past 2 years) also improved. Average LCR was 123% vs 129% QoQ.

Financial summary

Y/E Mar	FY22A	FY23A	FY24E	FY25E
NII (INR bn)	331.3	429.5	483.0	534.8
Op. profit (INR bn)	247.4	320.5	354.6	412.9
Net Profit (INR bn)	130.3	219.3	232.9	267.2
EPS (INR)	42.5	71.4	75.7	86.8
EPS % change YoY	91.8	68.0	6.1	14.7
ABV (INR)	363.6	399.2	463.5	536.7
P/BV (x)	2.6	2.4	2.1	1.8
P/ABV (x)	2.5	2.3	2.0	1.7
Return on Assets (%)	1.2	1.8	1.6	1.6
Return on Equity (%)	12.0	18.2	17.2	17.1

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Market Data

Market Cap (INR)	3,009bn
Market Cap (USD)	36,683mn
Bloomberg Code	AXSB IN
Reuters Code	AXBK.BO
52-week Range (INR)	990 /702
Free Float (%)	89.0
ADTV-3M (mn) (USD)	130

Price Performance (%)	3m	6m	12m
Absolute	10.2	9.6	38.4
Relative to Sensex	11.4	11.8	22.2

ESG Disclosure	2021	2022	Change
ESG score	50.4	50.4	0.0
Environment	25.3	25.3	0.0
Social	35.8	35.8	0.0
Governance	89.9	89.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
PAT	(2)	(4)

Previous Reports

28-04-2023: Q4FY23 results review
02-03-2023: Company Update

NIM down 12 bps QoQ; expect <10 bps YoY dip in FY24E

Cost of deposits increased by 31bps QoQ to 4.62%, which was partly offset by rise in yields. Spread was lower by 5bps QoQ. Overall NIM fell by 12bps QoQ (9bps adjusted for 3bps interest on IT refund in base quarter) to 4.10%. Bank mentioned the cost of deposits would continue to rise though the pace could moderate. Management has not given any guidance on NIM though it highlighted structural drivers favourably impacting NIM apart from the rate cycle. We estimate <10bps YoY decline in calculated NIMs for FY24E to ~3.6% and ~15bps YoY decline in FY25E to ~3.5%.

Other income boost from treasury; reported core operating earnings declined ~9% QoQ

Fee income declined 4% QoQ (rose 28% YoY) to INR 44.9bn. Retail fee income grew 37% YoY and 1% QoQ within which, retail cards and payments fee grew 53% YoY and 17% QoQ. Overall, other income got a INR 5.19bn boost from treasury gains vs INR 830mn QoQ and a loss of INR 6.67bn YoY. Staff costs jumped 24% QoQ on full Citi integration and rise in staff count QoQ. Overall opex increased 12% QoQ (28% YoY) and included INR 3.85bn of Citi integration charges. Axis reiterated total Citi integration charges at INR 20bn (INR 15bn post tax). It also remains committed to achieve a cost-to-asset ratio (excluding Citi expenses and integration costs) of ~2.0% by Q4FY25. We have increased our operating expenses estimate and now factor-in total 'opex to assets' at 2.4%/2.3% for FY24E/FY25E.

Stable headline ratios and credit cost; seasonal agri stress lead to rise in net slippages

Gross slippages stood at INR 39.9bn, up 18% QoQ, or 1.86% annualised. Recoveries and upgrades stood at INR 23.1bn, translating into net slippages of INR 16.9bn or 80bps. Net slippages were entirely from retail, flowing from seasonal rise in agri segment, while net slippages in SME (negative INR 100mn) and corporate (negative INR 4.98bn) were negative. Axis had write-offs of INR 21.3bn, which effectively resulted in 2% QoQ decline in gross NPA; GNPA ratio declined by 6bps QoQ to 1.92%. Net NPA saw a minor 2bps QoQ rise to 41bps.

Credit cost came in at 74bps vs 60bps QoQ. Net credit costs stood at 50bps for the quarter. Bank has not utilised covid provisions, which stand unchanged at INR 50.1bn. Overall, coverage ratio stood at 79.6% and the bank's provision coverage ratio (including specific + standard + additional + covid provisions) is at 145% of GNPA. Covid-restructured loans were benign at 0.21% of assets where the bank carries >20% PCR. BB and below outstanding (FB+NFB+investments) was up 5% QoQ to ~INR 58bn.

Subsidiaries' Q1FY24 PAT at INR 3.03bn, up 16% YoY

Q1FY24 PAT for subsidiaries came at INR 3.0bn and was up 16% YoY. For Q1FY24, consolidated RoE stood at 19.44% vs 15.56% YoY and consolidated RoA stood at 1.83% vs 1.48% YoY.

Axis Finance: Axis Finance's AUM rose 28% YoY led by 50% YoY growth in retail. Its retail book now constitutes 43% of total loans vs 6% three years ago. Asset quality remains strong with net NPA at 0.38% and nil restructuring. Axis Finance's Q1FY24 PAT was at INR 1.23bn, up 29% YoY.

Axis AMC: Axis AMC's AUM in Q1FY24 stood at INR2.52trn, up 13% YoY. It commands a market share of 6% as of Jun'23 and 63% of its overall AUM consists of equity and hybrid funds. For Q1FY24, PAT was up 4% YoY to INR 910mn.

Axis Capital: Revenue was lower YoY at INR 920mn vs INR 1.03bn. PAT was lower at INR 150mn vs INR 340mn YoY. There was 19% YoY growth in revenue from the institutional equity business.

Axis Securities: Axis Securities' Q1FY24 broking revenue was up 24% YoY and PAT up 14% YoY to INR 450mn. Customer base also expanded by 15% YoY.

Valuations and risks:

We estimate Axis to deliver a loan CAGR of 16%. We also model-in <10bps decline in NIM for FY24E and ~15bps dip for FY25E. We see comfortable asset quality with 50-60bps credit cost. We estimate the bank to deliver ~1.60-1.65% RoA and ~17.0% RoE for FY24E-FY25E. Maintain **BUY** with an unchanged target price of INR 1,150 valuing the stock at ~2.0x FY25E core banking book. Key risk: higher than expected NIM compression and rise in costs.

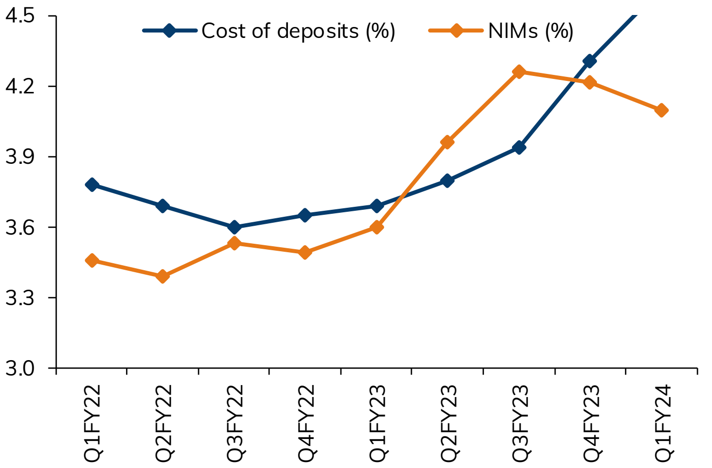
Exhibit 1: Q1FY24 result snapshot

Financial Highlights (INR mn)	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)
Interest Earned	1,87,287	2,55,568	36.5	2,39,698	6.6
Interest Expended	93,446	1,35,980	45.5	1,22,276	11.2
Net Interest Income	**93,840**	**1,19,588**	**27.4**	**1,17,422**	**1.8**
Other Income	29,284	50,873	73.7	47,878	6.3
Total Income	2,16,570	3,06,440	41.5	2,87,576	6.6
Total Net Income	**1,23,124**	**1,70,460**	**38.4**	**1,65,300**	**3.1**
Staff Expenses	21,861	26,885	23.0	21,636	24.3
Other operating expenses	42,393	55,432	30.8	51,987	6.6
Operating Profit	**58,870**	**88,144**	**49.7**	**91,676**	**(3.9)**
Provision & Contingencies	3,594	10,349	188.0	3,058	238.5
Provision for tax	14,024	19,824	41.4	21,004	(5.6)
Reported Profit	**41,253**	**57,971**	**40.5**	**(57,284)**	**(201.2)**

Other Highlights (INR bn)	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)
Advances	7,013	8,585	22.4	8,453	1.6
Deposits	8,037	9,417	17.2	9,469	-0.6
Gross NPA	210	182	-13.7	186	-2.4
Gross NPA (%)	2.8	2.0	-80 bps	2.0	-6 bps
Net NPA	48	37	-22.5	36	4.1
Net NPA (%)	0.6	0.4	-23 bps	0.4	2 bps
Provision Coverage (%)	77.3	79.6	233 bps	80.9	-127 bps

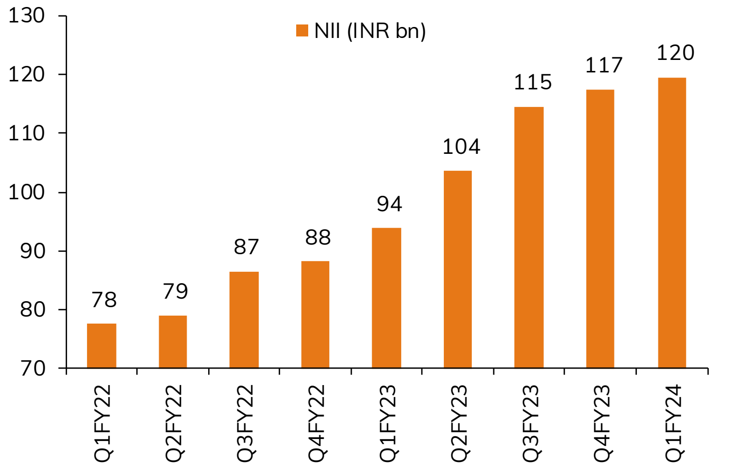
Source: Company data, I-Sec research

Exhibit 2: NIMs down 10bps QoQ



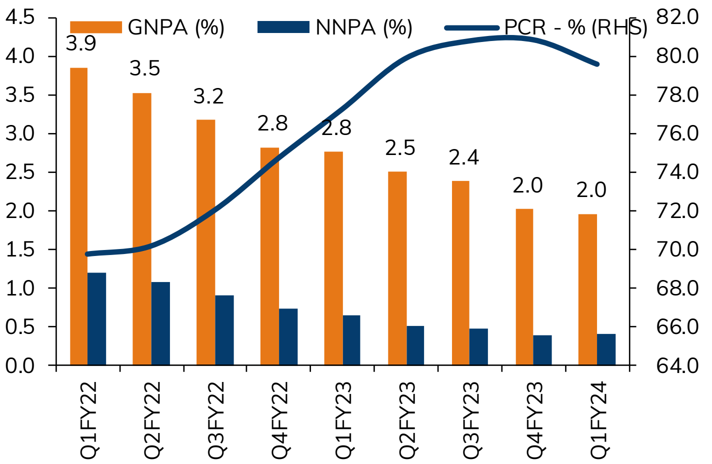
Source: Company data, I-Sec research

Exhibit 3: NII up 27% YoY and 2% QoQ



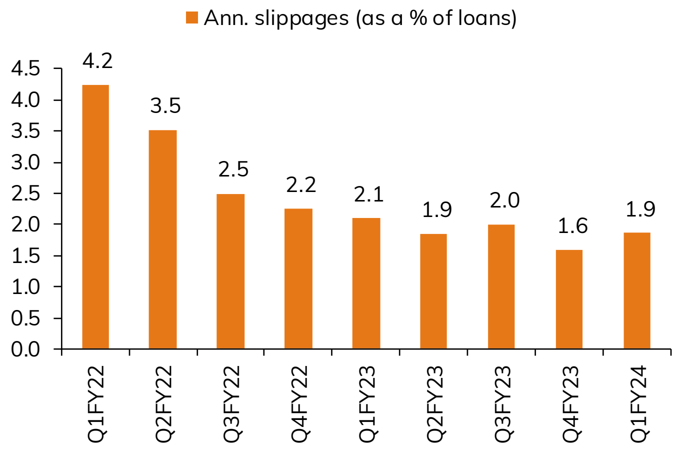
Source: Company data, I-Sec research

Exhibit 4: Stable headline ratios and credit cost



Source: Company data, I-Sec research

Exhibit 5: Seasonal agri stress led to rise in net slippages



Source: Company data, I-Sec research

Exhibit 6: Loanbook over the past 9 quarters

(INR mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Corporate Loans	**22,71,000**	**21,59,000**	**23,16,000**	**23,25,820**	**21,77,570**	**22,94,310**	**25,05,720**	**26,50,090**	**27,30,430**
SME	**5,65,290**	**6,02,000**	**6,64,380**	**7,52,230**	**7,06,900**	**7,82,090**	**8,21,910**	**9,27,230**	**8,76,580**
Retail	**33,12,420**	**34,56,030**	**36,74,940**	**39,98,910**	**41,26,830**	**42,32,350**	**42,93,130**	**48,75,710**	**49,78,100**
Home Loans	12,30,480	12,94,050	13,53,010	14,31,330	14,51,710	14,65,250	14,94,040	15,73,920	15,66,460
LAP	3,42,950	3,64,100	3,90,800	4,24,720	4,32,370	4,39,220	4,24,530	5,07,560	5,06,260
Auto Loans	3,94,150	4,07,470	4,20,850	4,44,210	4,50,660	4,53,970	4,68,340	5,22,780	5,35,130
Rural Lending	4,13,230	4,11,500	4,67,280	5,63,320	5,87,510	6,01,990	5,95,270	7,09,180	7,16,260
PL+CC	5,19,010	5,42,010	5,74,230	6,10,890	6,50,760	6,97,010	7,12,550	8,62,450	9,16,260
PL	3,92,110	4,01,740	4,19,400	4,52,420	4,70,310	4,90,660	5,06,880	5,45,610	5,68,950
CC	1,26,900	1,40,270	1,54,830	1,58,470	1,80,450	2,06,350	2,05,670	3,16,840	3,47,310
SBB	1,82,250	2,09,000	2,39,190	2,86,170	3,16,450	3,53,410	3,83,190	4,29,820	4,62,740
Others	2,30,340	2,27,890	2,29,580	2,38,270	2,37,370	2,21,500	2,15,210	2,70,000	2,74,990
Total Advances	**61,48,710**	**62,17,030**	**66,55,320**	**70,76,960**	**70,11,300**	**73,08,750**	**76,20,760**	**84,53,030**	**85,85,110**

Source: I-Sec research, Company data

Exhibit 7: Loanbook – sector-wise YoY growth over the past 9 quarters

YoY % change	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Corporate Loans	**8.7**	**1.7**	**14.0**	**4.7**	**(4.1)**	**6.3**	**8.2**	**13.9**	**25.4**
SME	**14.0**	**13.4**	**17.7**	**23.5**	**25.1**	**29.9**	**23.7**	**23.3**	**24.0**
Retail	**14.2**	**15.5**	**18.5**	**20.7**	**24.6**	**22.5**	**16.8**	**21.9**	**20.6**
Home Loans	14.1	18.8	19.6	18.4	18.0	13.2	10.4	10.0	7.9
LAP	22.3	24.2	28.5	28.7	26.1	20.6	8.6	19.5	17.1
Auto Loans	4.1	4.9	5.7	9.0	14.3	11.4	11.3	17.7	18.7
Rural Lending	18.4	13.1	20.8	28.9	42.2	46.3	27.4	25.9	21.9
PL+CC	(1.1)	1.8	5.8	16.0	25.4	28.6	24.1	41.2	40.8
PL	1.2	3.3	6.6	14.9	19.9	22.1	20.9	20.6	21.0
CC	(7.4)	(2.5)	3.7	19.0	42.2	47.1	32.8	99.9	92.5
SBB	34.7	43.0	50.9	60.2	73.6	69.1	60.2	50.2	46.2
Others	48.2	28.2	27.1	6.3	3.1	(2.8)	(6.3)	13.3	15.8
Total Advances	**12.0**	**10.1**	**16.8**	**15.2**	**14.0**	**17.6**	**14.5**	**19.4**	**22.4**

Source: Company data, I-Sec research

Exhibit 8: Loanbook – sector-wise QoQ growth over the past 9 quarters

QoQ % change	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Corporate Loans	**2.2**	**(4.9)**	**7.3**	**0.4**	**(6.4)**	**5.4**	**9.2**	**5.8**	**3.0**
SME	**(7.2)**	**6.5**	**10.4**	**13.2**	**(6.0)**	**10.6**	**5.1**	**12.8**	**(5.5)**
Retail	**(0.0)**	**4.3**	**6.3**	**8.8**	**3.2**	**2.6**	**1.4**	**13.6**	**2.1**
Home Loans	1.8	5.2	4.6	5.8	1.4	0.9	2.0	5.3	(0.5)
LAP	3.9	6.2	7.3	8.7	1.8	1.6	(3.3)	19.6	(0.3)
Auto Loans	(3.3)	3.4	3.3	5.6	1.5	0.7	3.2	11.6	2.4
Rural Lending	(5.4)	(0.4)	13.6	20.6	4.3	2.5	(1.1)	19.1	1.0
PL+CC	(1.5)	4.4	5.9	6.4	6.5	7.1	2.2	21.0	6.2
PL	(0.4)	2.5	4.4	7.9	4.0	4.3	3.3	7.6	4.3
CC	(4.7)	10.5	10.4	2.4	13.9	14.4	(0.3)	54.1	9.6
SBB	2.0	14.7	14.4	19.6	10.6	11.7	8.4	12.2	7.7
Others	2.7	(1.1)	0.7	3.8	(0.4)	(6.7)	(2.8)	25.5	1.8
Total Advances	**0.1**	**1.1**	**7.0**	**6.3**	**(0.9)**	**4.2**	**4.3**	**10.9**	**1.6**

Source: Company data, I-Sec research

Exhibit 9: Loanbook – sector-wise mix over the past 9 quarters

Mix (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Corporate Loans	**36.9**	**34.7**	**34.8**	**32.9**	**31.1**	**31.4**	**32.9**	**31.4**	**31.8**
SME	**9.2**	**9.7**	**10.0**	**10.6**	**10.1**	**10.7**	**10.8**	**11.0**	**10.2**
Retail	**53.9**	**55.6**	**55.2**	**56.5**	**58.9**	**57.9**	**56.3**	**57.7**	**58.0**
Home Loans	20.0	20.8	20.3	20.2	20.7	20.0	19.6	18.6	18.2
LAP	5.6	5.9	5.9	6.0	6.2	6.0	5.6	6.0	5.9
Auto Loans	6.4	6.6	6.3	6.3	6.4	6.2	6.1	6.2	6.2
Rural Lending	6.7	6.6	7.0	8.0	8.4	8.2	7.8	8.4	8.3
PL+CC	8.4	8.7	8.6	8.6	9.3	9.5	9.4	10.2	10.7
PL	6.4	6.5	6.3	6.4	6.7	6.7	6.7	6.5	6.6
CC	2.1	2.3	2.3	2.2	2.6	2.8	2.7	3.7	4.0
SBB	3.0	3.4	3.6	4.0	4.5	4.8	5.0	5.1	5.4
Others	3.7	3.7	3.4	3.4	3.4	3.0	2.8	3.2	3.2
Total Advances	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company data, I-Sec research

Exhibit 10: Seasonal agri stress leads to rise in net slippages

Net slippages (INR mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Retail	37,410	6,970	-940	1,930	8,690	10,030	13,550	8,070	16,390
SME	840	160	400	850	380	490	830	260	-100
Corporate	1,510	-60	9,140	-600	-1,800	-4,950	2,810	-9,800	-4,980
Total	**39,760**	**7,070**	**8,600**	**2,180**	**7,270**	**5,570**	**17,190**	**-1,470**	**11,310**

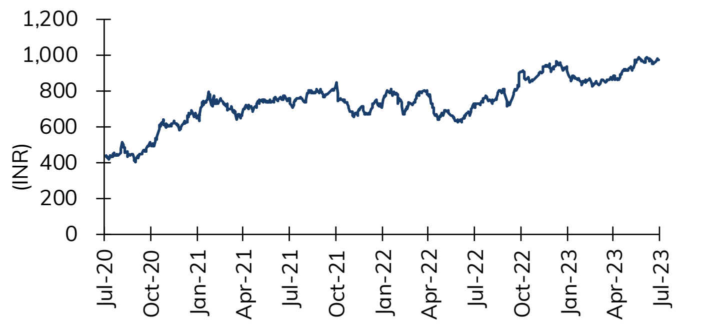
Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	8.2	8.2	8.2
Institutional investors	81.0	81.1	81.9
MFs and others	23.9	23.6	21.7
Insurance Cos	6.5	6.2	5.2
FIIs	50.6	51.3	55.0
Others	10.9	10.7	9.9

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart



Source: Bloomberg, I-Sec research

Q1FY24 earnings call - key takeaways

Opening remarks

- Began Q1 with strong operating performance
- *Fine-tuning strategy to deliver sustainable and consistent performance*

Margins

- *3bps QoQ delta in margins is due to interest on income tax refund (3 bps positive impact in 4Q vs none in Q1) and 9bps QoQ decline in margins is due to rise in cost of funds being offset by increase in yield (business as usual)*
- Bank has seen an improvement in credit yield as well as yield on incremental disbursements. However, market is competitive.
- *42% of fixed rate loans mature over the next 12 months*
- Saw an increase in funding cost YoY as well as QoQ. The cost of deposits should rise though the pace should come down.
- LCR at 123% and as bank runs down excess SLR, its LCR will come down

Opex

- *Integration expenses of INR 3.85bn for the quarter*
- Expect integration expense of INR 20bn pre-tax and INR 15bn post tax in 18 months
- Some of the integration expenses would be upfronted in 12 months
- Continue to look at white spaces across the country in urban markets as well as Bharat
- *Looking at opening incrementally 400 branches across the country for the current FY*

Advances

- *Share of unsecured disbursements in the past 4 quarters has been in 20-25% range*
- Bank has a plan in place now to grow its home loan book.
- *Trend wise across industry, revolve rates have been coming down; while EMI loans have been inching up*

Deposits

- It has made significant progress in improving quality of its deposits franchise. Quality of deposits as measured by outflow rate improved by 460bps to 23.7% over the last 2 years. Further scope of improvement may be limited.
- *Focus on productivity and micro-market strategy continues to deliver with 52% increase in numbers of districts with total deposits market share of over 5% in last 3 years.*
- *On Quarterly Average Basis (QAB), overall deposits grew 6% QoQ, within which, term deposits grew 5% QoQ. However, the QAB balances are influenced by Citi acquisition. On QoQ basis, CA was down 11% QoQ and SA was down 0.6%. However, term deposits grew 2.5%, within which, Retail Term deposits grew 5% QoQ*
- Bank has its eyes on its CD ratio and is making all efforts to ensure that this ratio is under control

Capital

- Bank net accredited CET1 of 36bps during the quarter

- *Citi business would be RoE accretive post integration*

Asset quality

- *Typically, rural NPA is May November cycle and hence rural slippages tend to be higher in Q1 as well as Q3*
- Bank has not utilised any covid-19 provisions
- *Gross slippages were higher QoQ, mainly due to slippages from retail book*

Digital

- *Early leadership in Account Aggregator, ONDC, CBDC, OCEN*
- *Have launched 'One View' on Axis mobile.*
- *Sparsh, its customer obsession program, is making an impact on its customer experience scores*

Miscellaneous

- *Citi bank customers have seamlessly shifted to Axis bank*
- Bank is working towards composition and quality of franchise.

Q4FY24 earnings call - key takeaways

Q4FY23 and FY23 performance

- *Axis bank is progressing well to become stronger, consistent and sustainable franchise*
- *Solid year of performance built on GPS strategy*
- ***Consolidated Annualised RoE (ex-exceptional) was at 21.58%, up 177bps QoQ and 18.84% RoE for FY23***
- Bank has delivered above its aspirational RoE target for FY23

Citi acquisition

- *During the quarter, bank completed successful acquisition of Citi. This was a landmark in Indian banking industry.*
- *Bank completed acquisition within 7 months after CCI approval*
- ***Deposits from Citi Bank is up 4% since 31st January 2023***
- ***Business team has started implementation of 20+ synergies (synergy benefits are largely around 3 things namely deposits, revenue and expenses)***
- ***Bank made prudent accounting choices in relation to one-time non-recurring items aggregating to INR 124.90bn*** comprising (i) full amortisation of Intangibles and Goodwill which is equal to the value of purchase consideration paid/payable on the acquisition of Citibank India Consumer Business; (ii) charged completely to the P&L account, the impact of policy harmonization on operating expenses and provisions; and (iii) one-time stamp duty on the acquisition.
- ***Bank will incur integration expenses of INR 15bn post tax (only expense now pending pertaining to Citi acquisition) and they will come under opex heading in P&L***

Margins

- FY23 margins at 4.02%. up 55bps YoY
- **Average LCR** during Q4FY23 was ~129%, growing 13% QoQ and YoY which impacted ***NIM negatively by 6bps***
- Historically, bank has maintained LCR in the range of 116%-121%. However, during this quarter, it had to pay for Citi transaction and hence it was carrying higher liquidity. ***LCR is expected to normalise over the next 2 quarters.***
- NII included Interest on income tax refund amounting to INR 0.85bn, which impacted ***NIM positively by 3bps***
- ***RIDF bonds reduced by INR 111.89bn YoY and now comprise 2.3% of total assets vs. 3.5% YoY***
- *There would be a lag impact on margins due to rise in deposit cost*
- ***42% of fixed rate book matures in the next 12 months***

Deposits

- ***Premiumisation strategy*** resulted in 870bps YoY growth in premium SA QAB deposits
- Bank is ***building focus on corporate salary acquisitions*** - 33% YoY growth in new salary labels acquired in FY23
- Retail TD up 5% QoQ

Opex

- C/I excluding exceptional is 45% for Q4, improving 553bps YoY

- Opex to assets at 2.25% and 2.40% post annualisation of all costs booked for one month
- Given the strong momentum across its businesses; bank remains committed to consciously invest in its focus business segments.
- ***Citi business is entirely retail and hence runs at a higher cost to assets ratio***
- ***Bank remain committed to achieving a cost to asset ratio of ~2% in the medium term***
- ***Tech spends comprise 8.7% of total opex***
- ***Expect to add upto 500 branches in FY24***

Loanbook

- ***Bank is expecting 12-13% credit growth for the system for FY24 and deposit growth is also expected to grow in similar range***
- ***Believe that franchise would continue to grow 4%-6% higher than industry***
- Bharat Banking' strategy has been scaling up well with ***26% YoY growth in Rural advances, 37% YoY growth in disbursements (ex IBPC) and 15% YoY growth in deposits***.
- Growth rate on the wholesale side was quite muted in H2FY23, since bank saw that it didn't get the desired pricing which it was looking for. Similarly, mortgage growth was also slow in H1FY23 since it saw lower than expected yields in mortgage. As a result, loan growth was quite muted
- Demand continues to be strong from corporate side. Bank is seeing demand from sectors namely Iron and steel, commercial real estate, infra, roads and NBFCs. Also, banks is seeing uptick on private capex side.
- ***Highest ever credit cards issued (~1.13 mn) in Q4, spends at all-time high, up 57% YoY, spends mkt share at 10%***

Capital

- Balance sheet is strong with self-sustaining structure. ***Organic business generated 69bps in FY23 and consumed 191bps for Citi transaction.***
- Total CRAR at 17.64% and CET-1 at 14.02%

Subsidiaries

- Strong relationship led franchise driving synergies across One Axis entities
- Subsidiaries contribute 46bps to consolidated RoE

Asset quality

- ***On an aggregated basis, its PCR (including specific + standard + additional + Covid provisions) stands at 145% of GNPA***
- Credit cost for the quarter ended 31st March, 2023 stood at 0.22%, declined 10 bps YoY and 43 bps QoQ
- *Gross slippage ratio (annualised) at 1.76%, declined 62bps YoY & 27bps QoQ*
- *Net slippage ratio (annualised) at 0.38%, declining 55bps QoQ*

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Interest income	673,768	851,638	1,056,460	1,222,904
Interest expense	342,446	422,180	573,413	688,119
Net interest income	**331,322**	**429,457**	**483,047**	**534,785**
Non-interest income	152,205	165,009	209,794	253,585
Operating income	**483,528**	**594,466**	**692,842**	**788,370**
Operating expense	236,108	273,983	338,239	375,485
Staff expense	76,126	87,601	111,253	123,490
Operating profit	**247,420**	**320,483**	**354,603**	**412,885**
Core operating profit	**233,643**	**323,233**	**343,603**	**397,385**
Provisions & Contingencies	73,595	28,848	43,242	55,714
Pre-tax profit	**173,826**	**169,058**	**311,360**	**357,171**
Tax (current + deferred)	43,571	73,262	78,463	90,007
Net Profit	**130,255**	**95,797**	**232,897**	**267,164**
Adjusted net profit	**130,255**	**219,334**	**232,897**	**267,164**

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Cash and balance with RBI/Banks	1,109,871	1,064,108	1,238,892	1,528,147
Investments	2,755,972	2,888,148	3,306,102	3,747,331
Advances	7,076,960	8,453,028	9,781,544	11,407,560
Fixed assets	45,724	47,339	119,205	130,684
Other assets	763,255	720,632	856,600	1,019,118
Total assets	**11,751,781**	**13,173,255**	**15,302,342**	**17,832,840**
Deposits	8,217,209	9,469,452	10,946,630	12,926,835
Borrowings	1,851,339	1,863,000	2,094,342	2,354,635
Other liabilities and provisions	531,493	586,636	809,240	872,151
Share capital	6,139	6,154	6,154	6,154
Reserve & surplus	1,145,601	1,248,013	1,445,976	1,673,065
Total equity & liabilities	**11,751,781**	**13,173,255**	**15,302,342**	**17,832,840**
% Growth	19.1	12.1	16.2	16.5

Source Company data, I-Sec research

Exhibit 15: Growth ratios (%)

	FY22A	FY23A	FY24E	FY25E
Net Interest Income	13.3	29.6	12.5	10.7
Operating profit	7.0	29.5	10.6	16.4
Core operating profit	5.5	38.3	6.3	15.7
Profit after tax	97.7	68.4	6.2	14.7
EPS	91.8	68.0	6.1	14.7
Advances	15.2	19.4	15.7	16.6
Deposits	17.7	15.2	15.6	18.1
Book value per share	13.1	8.6	15.8	15.6
Adj Book value per share	15.2	9.8	16.1	15.8

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
No. of shares and per share data				
No. of shares (mn)	3,070	3,077	3,077	3,077
Adjusted EPS	42.5	71.4	75.7	86.8
Book Value per share	375	408	472	546
Adjusted BVPS	364	399	464	537
Valuation ratios				
PER (x)	23.0	13.7	12.9	11.2
Price/ Book (x)	2.6	2.4	2.1	1.8
Price/ Adjusted book (x)	2.5	2.3	2.0	1.7
Dividend Yield (%)	0.1	0.1	1.2	1.3
Profitability ratios (%)				
Yield on advances	7.5	8.3	9.1	9.1
Yields on Assets	6.2	6.8	7.4	7.4
Cost of deposits	3.5	3.6	4.4	4.6
Cost of funds	3.2	3.4	4.0	4.2
NIMs	3.3	3.7	3.6	3.5
Cost/Income	48.8	46.1	48.8	47.6
Dupont Analysis (as % of Avg Assets)				
Interest Income	6.2	6.8	7.4	7.4
Interest expended	3.2	3.4	4.0	4.2
Net Interest Income	**3.1**	**3.4**	**3.4**	**3.2**
Non-interest income	1.4	1.3	1.5	1.5
Trading gains	0.1	0.0	0.1	0.1
Fee income	1.3	1.3	1.4	1.4
Total Income	**4.5**	**4.8**	**4.9**	**4.8**
Total Cost	**2.2**	**2.2**	**2.4**	**2.3**
Staff costs	0.7	0.7	0.8	0.7
Non-staff costs	1.5	1.5	1.6	1.5
Operating Profit	**2.3**	**2.6**	**2.5**	**2.5**
Core Operating Profit	2.2	2.6	2.4	2.4
Non-tax Provisions	0.7	0.2	0.3	0.3
PBT	**1.6**	**2.3**	**2.2**	**2.2**
Tax Provisions	0.4	0.6	0.6	0.5
Return on Assets (%)	**1.2**	**1.8**	**1.6**	**1.6**
Leverage (x)	10.0	10.4	10.5	10.6
Return on Equity (%)	**12.0**	**18.2**	**17.2**	**17.1**
Asset quality ratios (%)				
Gross NPA	2.6	2.0	1.7	1.6
Net NPA	0.7	0.4	0.4	0.3
PCR	74.4	79.8	80.0	80.0
Gross Slippages	3.1	2.0	1.7	1.6
LLP / Avg loans	0.8	0.4	0.9	0.8
Total provisions / Avg loans	1.1	0.4	0.5	0.5
Net NPA / Networth	4.1	2.7	2.4	2.2
Capitalisation ratios (%)				
Core Equity Tier 1	15.2	14.0	13.5	13.2
Tier 1 cap. adequacy	16.3	14.6	13.9	13.5
Total cap. adequacy	18.5	17.6	16.6	16.0

Source Company data, I-Sec research

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