

AXIS BANK LIMITED

Stable results; however PPOP de-growth and high CDR are concerning

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Result and Price Analysis

Axis Bank reported a decent result with positive takeaways being 1) Accomplishing the aspirational ROE of more than 18% for 1QFY24, 2) Credit growth (22.4% YoY, 1.6% QoQ) stood strong. 2) NII growth stable at 27% YoY and 1.8% QoQ, on the back of 12bps reduction in NIMs to 4.1 (expected). 3) Disbursement in wholesale and SME loans up, 4) Strong contingent provision buffer (1.4% of gross loans), 5) NPA (GNPA/NNPA ratio 1.96%/0.41%) numbers stable sequentially despite higher slippages and steady recoveries. 6) restructuring (22bps of GCA) squeezed further and at manageable level with 22% coverage. However, negatives are 1) Sequential de-growth in PPOP because of higher opex (way above our estimates).

GNPA ratio declined; restructuring narrowed down further: Axis Bank's total slippages came higher at ₹39.9bn v/s ₹37.7bn in the previous quarter. The up-gradation & recovery stood steady at ₹23bn v/s ₹27bn in 4QFY23. The write-offs were ~₹21.3bn. A stable asset quality show resulted in 2.4% sequential decline in GNPA amount. GNPA/NNPA/PCR stood at 1.96%/0.41%/93% against 2.02%/0.39%/94% in the previous quarter. GNPA ratio stable across segments. Retail GNPA at 1.4%, where SME and corporate GNPA ratio is at 3% and 1.1% respectively. The restructured pool reported lower meaningfully at ₹19bn (22bps of GCA) largely from retail book, v/s ₹21bn in the previous quarter.

Axis Bank carries a provision of ~22% on restructured loans, which is in excess of regulatory limits. Around 96% of retail restructured book is secured (with LTV of 40% - 70%) and 100% provision made on unsecured retail restructured book. BB & below rated pool stable at 0.39% of gross customer assets. Fund based BB & below outstanding up by 4.8% sequentially. Moreover, Non fund based outstanding in BB & below pool was stable. 100% of restructured corporate book classified as BB & Below. The provision expenses were sequentially higher at ₹10.4bn (v/s ₹3bn in the previous quarter).

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	292,391	331,322	429,458	485,274	567,390
Operating Profit	257,022	247,420	195,585	357,402	417,814
Reported Profits	65,885	130,255	95,797	245,207	287,569
Net Worth	1,016,030	1,150,255	1,249,932	1,495,139	1,782,708
Loan & Advances	6,237,202	7,076,960	8,453,028	9,974,574	11,869,742
Int. Bearing Liabilities	8,501,792	10,068,548	11,332,453	12,930,373	14,894,327

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	3.4	3.3	3.7	3.6	3.7
C/I	41.7	48.8	46.1	46.2	45.1
Gross NPA	3.7	2.8	2.0	1.9	1.7
PCR	72.4	74.7	80.9	78.5	77.3
Adj. RoA	0.7	1.2	(1.2)	1.7	1.8
Adj. RoE	7.1	12.0	(12.8)	17.9	17.5

Rating :	BUY
Current Market Price (₹) :	952
12M Price Target (₹) :	1,090
Potential upside (%) :	14

Stock Data

Sector :	Banking
Face Value (₹) :	2
Total Market Cap (₹ bn) :	2,929
Free Float Market Cap (₹ bn) :	2,607
52-Week High / Low (₹) :	990 / 702
BSE Code / NSE Symbol :	532215 / AXISBANK
Bloomberg :	AXSB:IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	8.19	8.16	8.19	9.69
FPIs	52.00	49.05	49.45	46.11
MFs	21.71	23.63	23.22	23.69
Insurance	5.05	5.35	5.47	5.70
Others	13.05	13.81	13.67	14.81

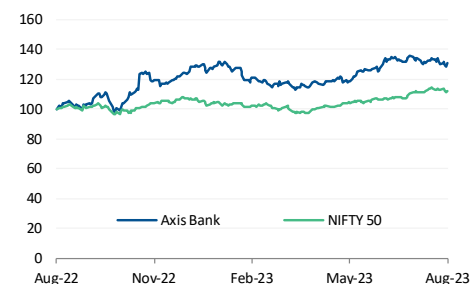
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Axis Bank	-1.9%	10.0%	7.9%	30.7%
Nifty 50	0.7%	6.9%	9.3%	12.2%

* To date / current date : August 4, 2023

Axis Bank vs Nifty 50



The bank's PCR stood higher sequentially stable at 80%. PCR (including tech. write offs) stood at 93% and Aggregate PCR (Specific provision + covid provision + General Provision + Contingency Provision) stood at 145% of reported GNPLs and the contingent provisioning (covid + standard asset) stood 1.4% of the net loans.

Healthy credit growth: The bank's advances stood at ~₹8.6tn (post acquisition); 22.4% YoY and 1.6% sequentially. Corporate book (31.8% of book) grew healthy by 3% QoQ. Retail book (58% of book) growth was at 2.1% sequentially. SME book (10% of book) were down by 5.4% QoQ. The bank's deposit stood at ₹9.5tn and grew at 17.2% YoY and de-grew by 0.6% QoQ. The CASA stood at 45.5%. The bank's CRAR stood at 17.08% with CET 1 of 14.24%. Additionally LCR of 123% with excess SLR of ₹571bn. The RWA to asset sequentially flat at 67%. The bank is operating at a higher CDR of 91% where retail term deposit share of total deposit (LCR eligible fund) stood at 27%.

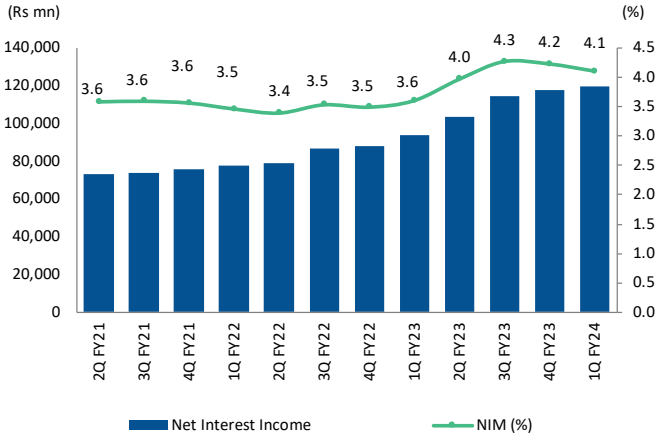
Higher opex led to PPOP decline: The bank's NII stood at ₹119bn; grew by 27.4% YoY & 1.8% QoQ. The bank's NIMs contracted by 12bps to 4.1% on the back of higher cost of fund (5.03%) and cost of deposit (4.62%). Non-interest income grew by 3.9% QoQ. Management hopes to achieve stable NIM going forward, owing to i) improvement in mix of loans versus investments on the assets side, ii) higher share of low cost deposits and iii) reduction in RIDF bonds (which have negative spread) as incremental allocations have stopped as the bank is PSL compliant. A stable growth and higher opex (C/I ratio: 48% v/s 45% in the previous quarter) led to PPOP sequential de-growth of 3.9%. Additionally, the sequentially higher provisioning expenses (₹10.4bn v/s ₹3.1bn) has resulted in net profit of ₹58bn. The bank's quarterly ROA/ROE stood at 1.8%/19.2%.

Outlook & Valuations

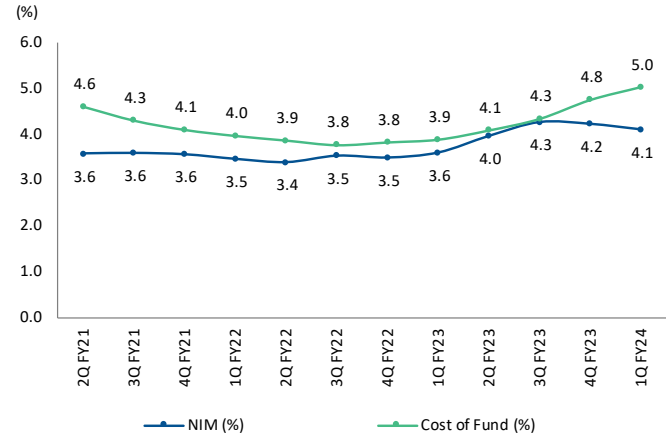
We value the standalone bank at PBV of 1.9x FY25E Adj. BVPS of ₹574 and arrive at a price target of ₹1,090. We recommend BUY with potential upside of 14% from current level.

Quarterly story in charts

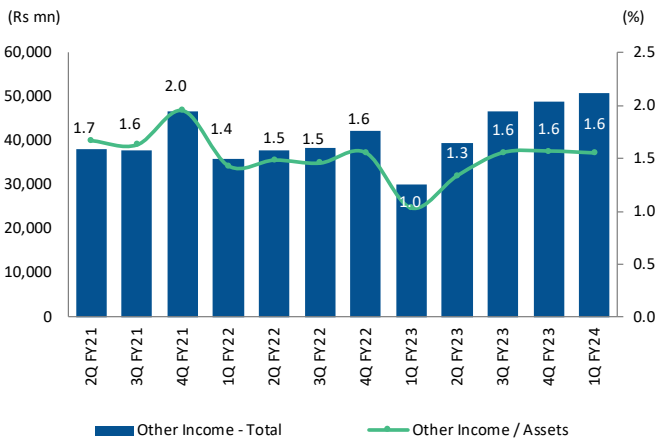
NII Trend



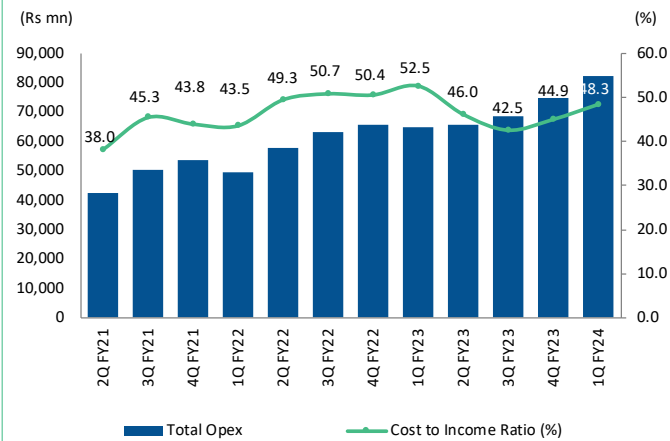
Yields and Margin Trend



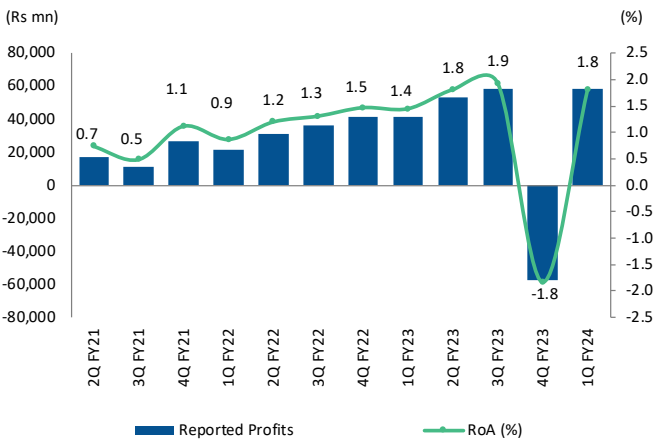
Other Income Trend



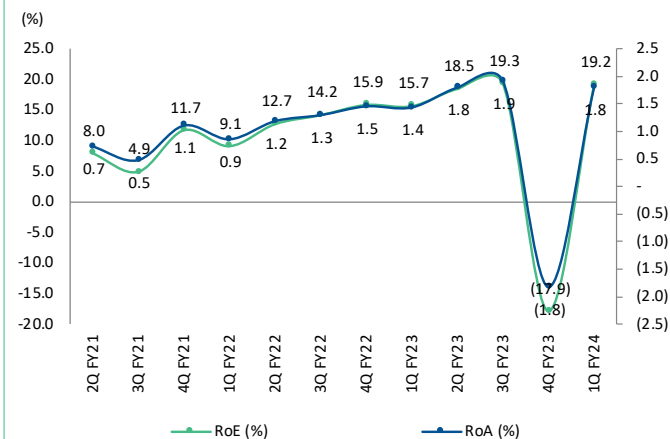
Total OPEX Trend



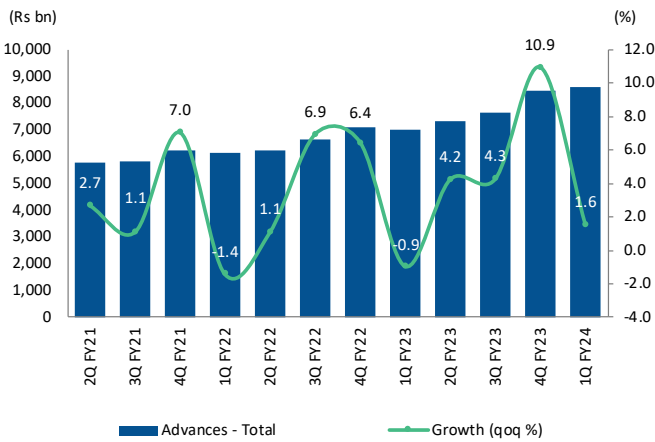
Reported Profit Trend



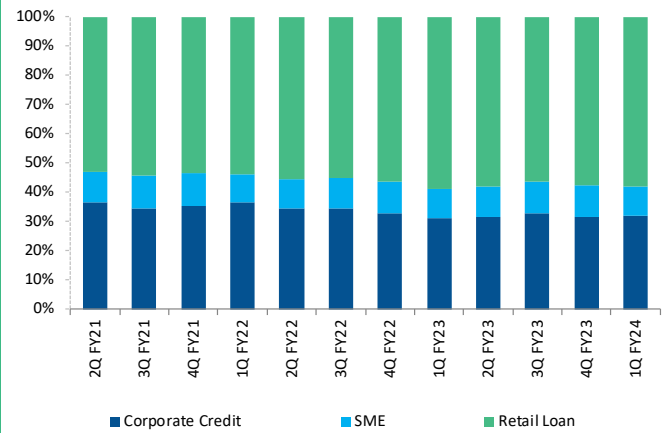
Return Ratio Trend



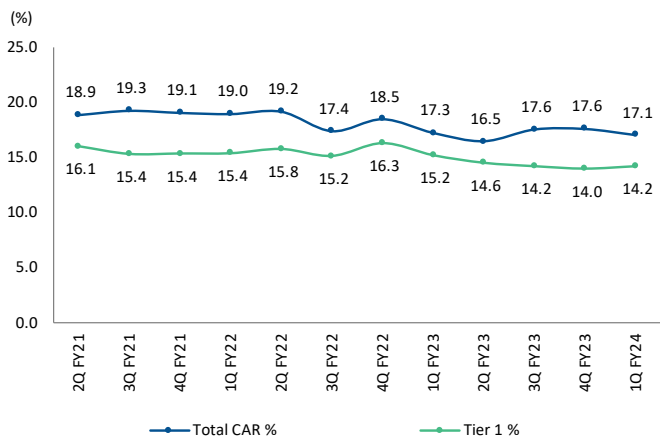
Loan Book Trend



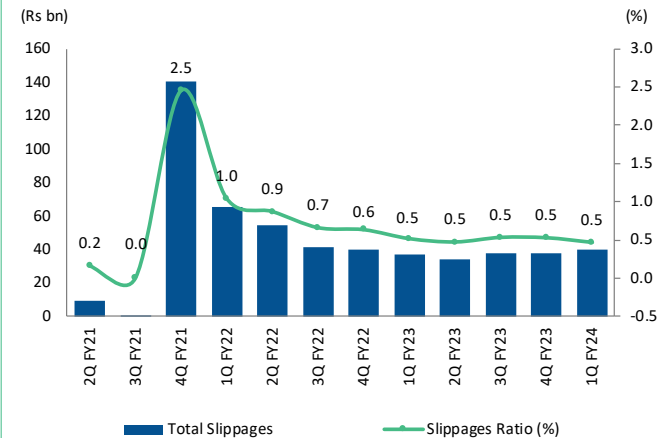
Loan Book Mix



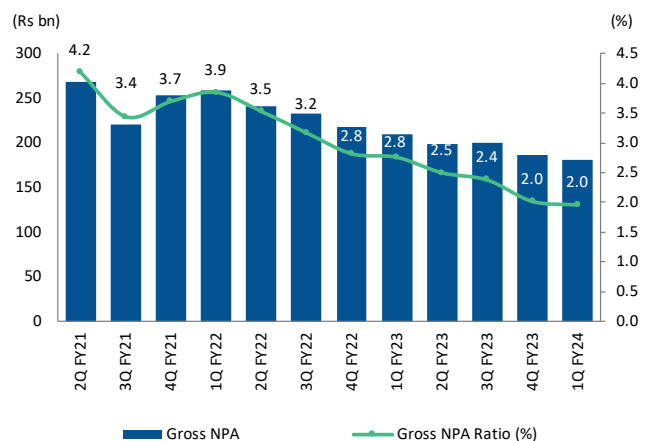
CRAR & Tier 1 Ratio Trend



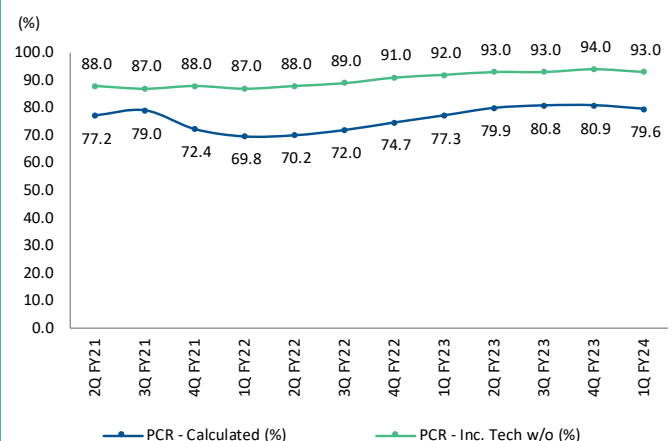
Slippages



Gross NPA Trend



PCR Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	1Q FY24	1Q FY23	% yoy / bps	4Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	255,568	187,287	36.5	239,698	6.6	851,638	673,768	26.4
Interest Expenses	135,980	93,446	45.5	122,276	11.2	422,180	342,446	23.3
Net Interest Income	119,588	93,840	27.4	117,422	1.8	429,458	331,322	29.6
NII to Net Operative Income	70.2	75.8	(563)	70.6	(42)	72.2	68.5	372
NIM (%)	4.10	3.6	50	4.2	(12)	3.7	3.3	38
Other Income - Total	50,873	29,990	69.6	48,953	3.9	165,009	152,205	8.4
Other Income to Net Operative Income	29.8	24.2	563	29.4	42	27.8	31.5	(372)
Net Operating Revenue	170,460	123,830	37.7	166,375	2.5	594,466	483,528	22.9
Employee Expenses	26,885	21,861	23.0	21,636	24.3	87,974	76,126	15.6
Other Opex	55,432	43,099	28.6	53,063	4.5	186,009	159,982	16.3
Total Opex	82,317	64,960	26.7	74,699	10.2	273,983	236,108	16.0
Cost to Income Ratio (%)	48.3	52.5	(417)	44.9	339	46.1	48.8	(274)
Pre Provision Profits	88,144	58,870	49.7	91,676	(3.9)	320,483	247,420	29.5
Provisions & Contingencies - Total	10,349	3,594	188.0	3,058	238.5	26,526	73,595	(64.0)
NPA Provisions as % Operating Income	11.7	6.1	564	(9.2)	2,094	13.6	29.7	(1,618)
Profit Before Tax	77,795	55,276	40.7	(36,280)	(314.4)	169,059	173,826	(2.7)
Tax	19,824	14,024	41.4	21,004	(5.6)	73,262	43,571	68.1
Effective Tax Rate (%)	25.5	25.4	11	(57.9)	8,338	43.3	25.1	1,827
Reported Profits	57,971	41,253	40.5	(57,284)	(201.2)	95,797	130,255	(26.5)
RoA (%)	1.8	1.4	36	(1.8)	363	0.8	1.2	(43)
RoE (%)	19.2	15.7	351	(17.9)	3,710	8.0	12.0	(404)

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Net Worth	1,150,255	1,193,778	1,245,642	1,306,449	1,249,932	1,309,497	4.8	9.7
RoE (%)	15.9	15.7	18.5	19.3	(17.9)	19.2	3,710	351
Tier 1 %	16.3	15.2	14.6	14.2	14.0	14.2	22	(100)
Total CAR %	18.5	17.3	16.5	17.6	17.6	17.1	(56)	(20)
RWA - Total	7,521,140	7,491,772	7,822,798	7,952,808	8,562,616	8,729,018	1.9	16.5
Advances - Total	7,076,960	7,011,299	7,308,748	7,620,755	8,453,028	8,585,114	1.6	22.4
Investments	2,755,972	2,977,655	2,876,207	3,051,031	2,888,148	2,853,967	(1.2)	(4.2)
Total Assets	11,751,781	11,525,803	11,852,725	12,235,089	13,173,255	13,028,386	(1.1)	13.0
RoA (%)	1.46	1.44	1.80	1.92	(1.83)	1.80	363	36
Deposits	8,217,209	8,035,717	8,108,067	8,481,733	9,469,452	9,416,897	(0.6)	17.2
CASA Deposits	3,697,550	3,511,930	3,746,380	3,777,130	4,465,360	4,287,990	(4.0)	22.1
CASA Ratio (%)	45.0	43.7	46.2	44.5	47.2	45.5	(170)	180
Interest Bearing Liabilities - Total	10,068,548	9,741,769	9,922,067	10,309,181	11,332,453	11,138,658	(1.7)	14.3

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Deposits	8,217,209	8,035,717	8,108,067	8,481,733	9,469,452	9,416,897	(0.6)	17.2
CASA Deposits	3,697,550	3,511,930	3,746,380	3,777,130	4,465,360	4,287,990	(4.0)	22.1
Saving Deposit	2,424,490	2,430,930	2,522,440	2,513,920	2,974,160	2,955,300	(0.6)	21.6
Current Deposit	1,273,060	1,081,000	1,223,940	1,263,210	1,491,200	1,332,690	(10.6)	23.3
Term Deposits	4,519,659	4,523,787	4,361,687	4,704,603	5,004,092	5,128,907	2.5	13.4
Borrowings	1,851,339	1,706,052	1,814,000	1,827,448	1,863,000	1,721,761	(7.6)	0.9
Interest Bearing Liabilities - Total	10,068,548	9,741,769	9,922,067	10,309,181	11,332,453	11,138,658	(1.7)	14.3

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	39,810	36,840	33,830	38,070	37,710	39,900	5.8	8.3
Slippages Ratio (%)	0.64	0.52	0.48	0.54	0.53	0.47	(6)	(5)
Gross NPA	218,223	210,368	198,937	199,610	186,042	181,582	(2.4)	(13.7)
Gross NPAs Ratio (%)	2.82	2.76	2.50	2.38	2.02	1.96	(6)	(80)
PCR - Calculated (%)	74.7	77.3	79.9	80.8	80.9	79.6	(127)	233
Net NPA	55,122	47,806	39,955	38,301	35,589	37,036	4.1	(22.5)
Net NPAs Ratio (%)	0.73	0.64	0.51	0.47	0.39	0.41	2	(23)
Standard Restructured	40,290	34,020	29,960	24,820	20,470	19,070	(6.8)	(43.9)
Std. Rest. Adv. as % of Advances	0.5	0.5	0.41	0.33	0.24	0.22	(2)	(26)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income	636,453	673,768	851,638	982,032	1,137,075
Interest Expenses	344,062	342,446	422,180	496,758	569,684
Net Interest Income	292,391	331,322	429,458	485,274	567,390
<i>NIM (%)</i>	3.37	3.30	3.68	3.65	3.70
Other Income - Total	148,382	152,205	165,009	178,889	193,937
Net Operating Revenue	440,773	483,528	594,466	664,162	761,327
Employee Exp.	61,640	76,126	87,974	100,290	114,331
Other Opex	122,111	159,982	186,009	206,470	229,182
Total Opex	183,751	236,108	273,983	306,760	343,513
<i>C/I Ratio</i>	41.69	48.83	46.09	46.19	45.12
Pre Provision Profits	257,022	247,420	320,483	357,402	417,814
<i>PPP Growth (yoy %)</i>	9.7	(3.7)	29.5	11.5	16.9
Provisions & Contingencies - Total	168,963	73,595	26,526	30,023	33,877
<i>Credit Cost (As % of Op. AUM)</i>	2.14	1.15	0.36	0.32	0.32
Profit Before Tax	88,059	173,826	169,059	327,379	383,937
Tax	22,174	43,571	73,262	82,172	96,368
<i>Effective Tax Rate</i>	25.2	25.1	165.9	25.1	25.1
Reported Profits	65,885	130,255	95,797	245,207	287,569
<i>PAT Growth (yoy %)</i>	304.9	97.7	(26.5)	156.0	17.3

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	6,127	6,140	6,154	6,154	6,154
Reserves (ex Revel. Reserve)	1,009,903	1,144,115	1,243,779	1,488,985	1,776,554
Net Worth - Ex Revaluation	1,016,030	1,150,255	1,249,932	1,495,139	1,782,708
Deposits	7,073,061	8,217,209	9,469,452	10,804,682	12,445,771
Borrowings	1,428,732	1,851,339	1,863,000	2,125,691	2,448,555
Interest Bearing Liabilities	8,501,792	10,068,548	11,332,453	12,930,373	14,894,327
Other Lia. & Prov.	443,362	531,493	586,636	639,968	707,981
Total Liabilities	9,961,184	11,751,781	13,173,255	15,069,714	17,389,249
Assets					
Cash & Cash Equivalent	617,298	1,109,871	1,064,108	1,219,867	1,411,304
Investments	2,261,196	2,755,972	2,888,148	3,026,664	3,171,822
Loan & Advances	6,237,202	7,076,960	8,453,028	9,974,574	11,869,742
<i>Growth (yoy %)</i>	9.2	13.5	19.4	18.0	19.0
Fixed Assets	42,450	45,724	47,339	55,915	64,415
Other Assets	803,038	763,255	720,632	792,695	871,965
Total Assets	9,961,184	11,751,781	13,173,255	15,069,714	17,389,249

Exhibit 7: Detailed ROA Tree

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	8.0	7.5	8.3	8.3	8.3
Yield on Funds	7.3	6.7	7.3	7.4	7.4
Cost of Funds (CoF)	4.2	3.7	3.9	4.1	4.1
Interest Spread	3.1	3.0	3.3	3.3	3.3
NIM's	3.4	3.3	3.7	3.6	3.7
Interest Income / Assets	6.7	6.2	6.8	7.0	7.0
Interest Exp. / Assets	3.6	3.2	3.4	3.5	3.5
NII / Assets	3.1	3.1	3.4	3.4	3.5
Fee Income / Assets	1.0	1.0	1.0	0.9	0.9
Other Non Core Income / Assets	-	-	-	-	-
Other Income / Assets	1.6	1.4	1.3	1.3	1.2
Net Operating Income / Assets	4.6	4.5	4.8	4.7	4.7
Operating Ratios					
NII to Net Operative Income	66.3	68.5	72.2	73.1	74.5
Other Income to Net Operative Income	33.7	31.5	27.8	26.9	25.5
Empl. Cost/Oper. Exps.	33.5	32.2	32.1	32.7	33.3
Other Op. Exps./Oper. Exps.	66.5	67.8	67.9	67.3	66.7
C/I Ratio	41.7	48.8	46.1	46.2	45.1
Provisions as % PPP	38.3	15.2	4.5	4.5	4.4
Credit Cost (As % of Op. AUM)	2.1	1.1	0.4	0.3	0.3
Effective Tax Rate	25.2	25.1	165.9	25.1	25.1
Employee Exp. / Assets	0.6	0.7	0.7	0.7	0.7
Other Opex/ Assets	1.3	1.5	1.5	1.5	1.4
Total Opex / Assets	1.9	2.2	2.2	2.2	2.1
Operating Profits / Assets	2.7	2.3	2.6	2.5	2.6
Exceptional Items / Assets	-	-	(1.0)	-	-
Op Profit ex Except Items / Assets	2.7	2.3	1.6	2.5	2.6
Provisions / Assets	1.8	0.7	0.2	0.2	0.2
Profit Before Tax / Assets	0.9	1.6	1.4	2.3	2.4
Tax Expenses / Assets	0.2	0.4	0.6	0.6	0.6
RoA	0.7	1.2	0.8	1.7	1.8
Leverage (x)	9.8	10.2	10.5	10.1	9.8
RoE	7.1	12.0	8.0	17.9	17.5
Adj. RoA	0.7	1.2	(1.2)	1.7	1.8
Adj. RoE	7.1	12.0	(12.8)	17.9	17.5

Exhibit 8: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	2	2	2	2	2
Adjusted Share O/S (mn)	3,064	3,070	3,077	3,077	3,077
Earnings Per Share	21.5	42.4	31.1	79.7	93.5
EPS (% YoY)	272.9	97.3	(26.6)	156.0	17.3
P/E (x)	44.3	22.4	30.6	11.9	10.2
Book Value (₹)	331.6	374.7	406.2	485.9	579.4
BVPS (% YoY)	10.2	13.0	8.4	19.6	19.2
P/BV (x)	2.9	2.5	2.3	2.0	1.6
Adj. BV (₹)	331.6	365.7	400.5	480.1	573.6
Adj. BV (% YoY)	10.2	10.3	9.5	19.9	19.5
P/ABV (x)	2.9	2.6	2.4	2.0	1.7

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	88.2	86.1	89.3	92.3	95.4
Incremental C/D Ratio	77.8	73.4	109.9	114.0	115.5
Investment Deposit Ratio	32.0	33.5	30.5	28.0	25.5
Dom. SLR Investment / Deposits	25.6	26.7	24.3	22.3	20.3
CASA Ratio	45.1	45.1	47.3	47.3	47.3

Exhibit 10: Credit Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio	3.0	3.2	2.1	2.0	2.0
Gross NPA (Cl Bal)	253,148	218,223	186,042	185,535	206,980
Gross NPAs Ratio (%)	3.7	2.8	2.0	1.9	1.7
PCR (%)	72.4	74.7	80.9	78.5	77.3
Net NPA (Cl. Bal.)	69,935	55,122	35,589	39,851	47,028
Net NPAs Ratio (%)	1.1	0.7	1.7	0.4	0.4
Total Impaired Loans	253,148	218,223	186,042	185,535	206,980
Impaired Loan as % of Loan / AUM	3.8	2.9	2.1	1.8	1.7
Total Risk Reserves	183,246	163,102	150,453	145,684	159,952
Total Risk As % of Loan Book	2.8	2.2	1.7	1.4	1.3

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances	6,237,202	7,076,960	8,453,028	9,974,574	11,869,742
<i>Growth (yoy %)</i>		13.5	19.4	18.0	19.0
Interest Bearing Liabilities	8,501,792	10,068,548	11,332,453	12,930,373	14,894,327
<i>Growth (yoy %)</i>		18.4	12.6	14.1	15.2
Yield on Funds	7.3	6.7	7.3	7.4	7.4
Cost of Funds (CoF)	4.2	3.7	3.9	4.1	4.1
Interest Spread	3.1	3.0	3.3	3.3	3.3
NIM's	3.4	3.3	3.7	3.6	3.7
Other Income Growth	(4.5)	2.6	8.4	8.4	8.4
C/I Ratio	41.7	48.8	46.1	46.2	45.1
Effective Tax Rate	25.2	25.1	165.9	25.1	25.1
Return Ratios					
Adj. RoA	0.7	1.2	(1.2)	1.7	1.8
Adj. RoE	7.1	12.0	(12.8)	17.9	17.5
Asset Quality Metrics					
<i>Credit Cost (As % of Op. AUM)</i>	2.1	1.1	0.4	0.3	0.3
<i>Gross NPAs Ratio (%)</i>	3.7	2.8	2.0	1.9	1.7
<i>Net NPAs Ratio (%)</i>	1.1	0.7	1.7	0.4	0.4

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