

Stable margins, though higher opex hurts earningsBFSI - Banks ▶ Result Update ▶ **October 25, 2023****TARGET PRICE (Rs): 1,300**

Even with stable margins vs contraction seen across peers, Axis Bank reported a 4% miss on PAT, at Rs58.6bn/1.8% RoA, mainly due to higher opex. Bank claims the higher opex included a one-off cost towards re-valuation of card rewards and IT/infra expenses that led to cost-to-assets (C/A) of 2.4%. That said, Bank aspires for 2% C/A in the medium term which looks challenging, given the retail portfolio & infra build-up. Though credit growth has been healthy at 18% YoY/5% QoQ (adjusted for the Citi portfolio acquisition) in 2Q, deposit growth has been slow, at 18% YoY/1% QoQ, which the bank claims is been due to balance-sheet management, reflecting in stable margins. But given the higher LDR @93% and moderate LCR at 118%, Bank needs to accelerate deposit growth in 2H which should thus weigh on NIMs. We fine-tune FY24-26E earnings, factoring-in the frontloading of opex, but expect the bank to log healthy RoA of ~1.8% in FY24-26E, albeit lower than peers (≥2%). Given the <15% CET 1 vs peers, Bank will need to shore-up its capital buffer at some point, if not sooner. We retain BUY, with new TP of Rs1,300/sh (earlier Rs1,260), rolling forward on 2xSep-25E ABV & subs value of Rs83/sh.

AXIS Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	1,30,255	95,797	2,48,993	2,90,889	3,37,587
Loan growth (%)	15.2	19.4	17.5	16.7	18.1
NII growth (%)	13.3	29.6	16.5	13.9	14.1
NIM (%)	3.3	3.7	3.8	3.7	3.6
PPOP growth (%)	7.0	(20.0)	84.3	25.9	20.6
Adj. EPS (Rs)	42.5	31.2	80.9	94.4	109.5
Adj. EPS growth (%)	89.7	(26.6)	159.4	16.7	16.1
Adj. BV (INR)	364.0	391.2	468.8	560.1	664.5
Adj. BVPS growth (%)	10.8	7.5	19.8	19.5	18.6
RoA (%)	1.2	0.8	1.8	1.8	1.8
RoE (%)	12.0	8.0	18.1	17.7	17.3
P/E (x)	21.5	29.2	11.3	9.7	8.3
P/ABV (x)	2.5	2.3	1.9	1.6	1.4

Source: Company, Emkay Research

Slower deposit growth, better portfolio mix stabilize NIMs vs peers

Bank reported healthy credit growth at 18% YoY/5% QoQ (23%, without factoring-in the Citi portfolio in the base quarter), with retail (including VF and unsecured loans) growing at a faster pace. Housing-loan growth remains sub-par at 9% YoY, while share of ETB customers in the cards business has fallen due to acquisitions coming in more through the partner channel. Deposit growth was relatively weak at 18% YoY/1% QoQ, which the bank claims was mainly owing to balance-sheet management leading to higher LDR of 94%. This, coupled with continued improvement in retail portfolio share/product mix and reduction in the RIDF drag, helped the bank to report stable NIMs at 4.1% vs most peers reporting >20bps contraction in 2Q. Management did not provide any guidance on near-term NIM, but we believe that seasonal acceleration in deposits for the bank during 2H coupled with rising CoF could keep near-term margins under pressure.

Lower slippages, higher write-off sharply drive down NPAs

GNPA declined sharply, by 23bps QoQ to 1.7% in Q2FY24, aided by contained fresh slippages at Rs33bn/1.8% of loans and higher write-offs during the quarter. However, specific PCR declined a bit to 79%. Bank maintains its Covid contingent buffer at Rs50bn/0.6% of loans amid rising stress in low-value unsecured loans. Bank claims that it has negligible exposure in the low-value PL segment and should thus not pose any asset-quality risk. Bank would take a call on reclassifying the Covid buffer or reducing/shoring it up by year-end. The RSA pool declined to Rs17.6bn/0.2% of loans. The BB & Below corporate watch-list has marginally increased to Rs58bn/0.6% of loans, similar to ICICI Bank, but does not carry any risk.

Outlook & Valuations

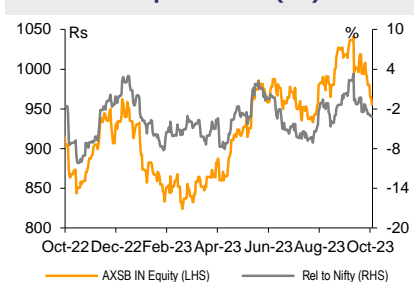
After a sharp dip in RoA to a low of 0.8% due to the hit from the Citi portfolio acquisition in FY23, we expect Bank to clock healthy RoA of 1.8% (though lower vs peers at ≥2%). Bank should also report healthy RoE of ~17-18% over FY24-26E (partly inflated due to the Citi acquisition goodwill w-off) on merged basis. Given the <15% CET 1 vs peers, we believe the bank will need to shore-up its capital buffer at some point ahead, if not sooner. At the CMP, valuations remain reasonable vs peers at 1.6x Sep-25E ABV. Thus, we retain BUY on Axis Bank with revised TP of Rs1,300/share (earlier Rs1,260), rolling forward on 2x Sep-25E ABV and subsidiary value of Rs83/share. **Key risks:** Macro-dislocation leading to slower-than-expected growth/higher NPAs and KMP attrition.

Target Price – 12M	Sep-24
Change in TP (%)	3.2
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	36.1
CMP (25-Oct-23) (Rs)	955.5

Stock Data	Ticker
52-week High (Rs)	1,048
52-week Low (Rs)	814
Shares outstanding (mn)	3,082.0
Market-cap (Rs bn)	2,945
Market-cap (USD mn)	35,397
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	10
ADTV-3M (Rs mn)	9,494.0
ADTV-3M (USD mn)	114.1
Free float (%)	89.0
Nifty-50	19,122
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	8.0
FPIs/MFs (%)	51.2/28.1

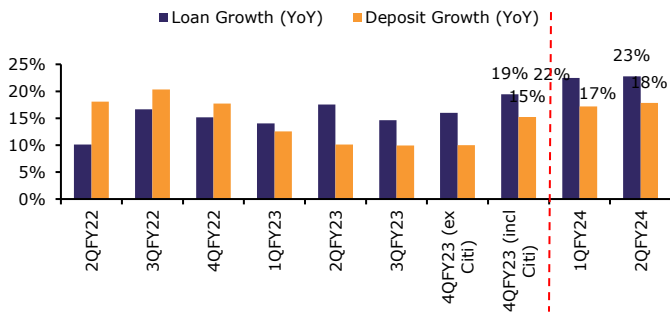
Price Performance

(%)	1M	3M	12M
Absolute	(6.2)	(0.7)	5.8
Rel. to Nifty	(3.5)	2.1	(1.9)

1-Year share price trend (Rs)**Anand Dama**anand.dama@emkayglobal.com
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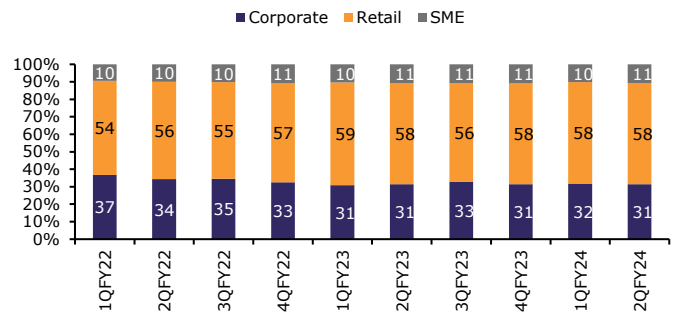
Story in Charts

Exhibit 1: Loan growth driven by healthy traction in the retail portfolio



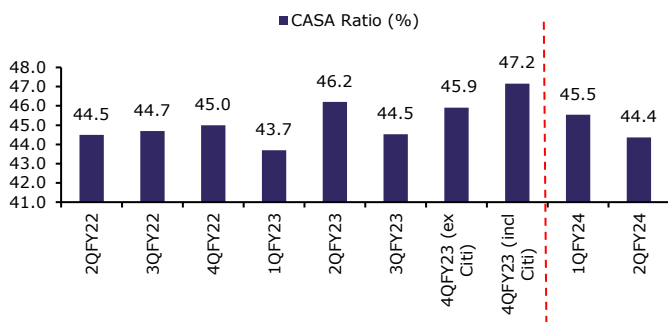
Source: Company, Emkay Research

Exhibit 2: Retail share on the rise, resulting in better yields



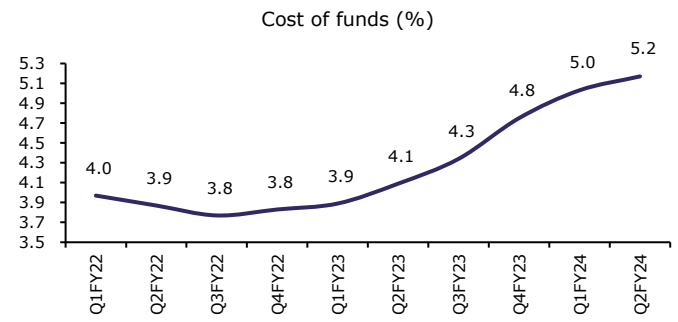
Source: Company, Emkay Research

Exhibit 3: CASA ratio continues to moderate...



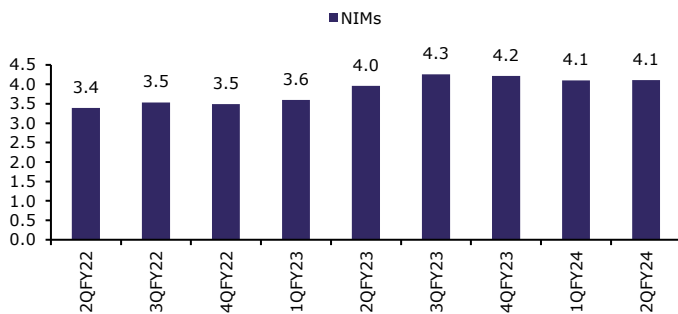
Source: Company, Emkay Research

Exhibit 4: ...which, coupled with rising deposit cost, led to higher CoF



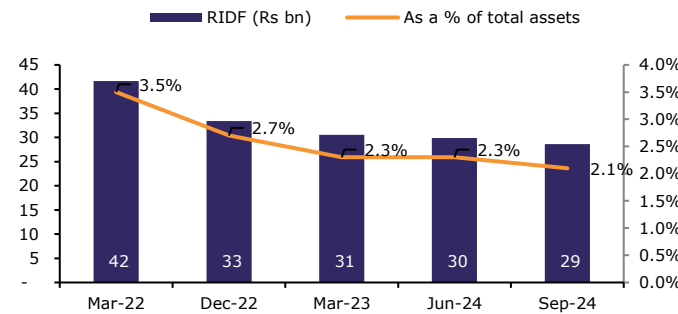
Source: Company, Emkay Research

Exhibit 5: NIMs remain flattish due to an improved retail portfolio/product mix, higher LDR, and lower drag from RIDF



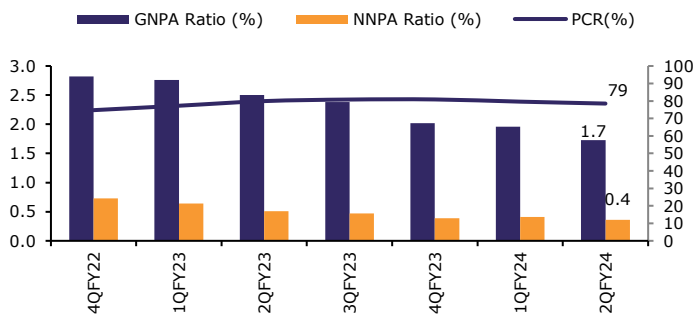
Source: Company, Emkay Research

Exhibit 6: RIDF book continues to shrink



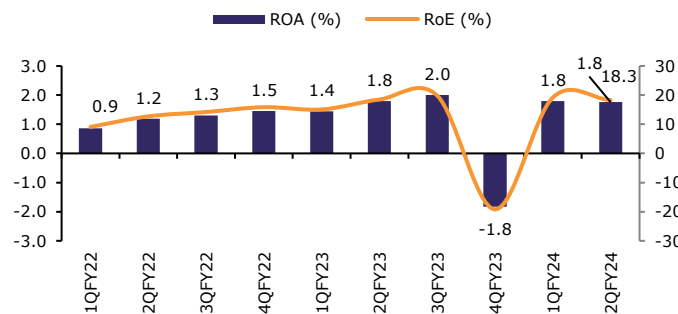
Source: Company, Emkay Research

Exhibit 7: NPA decline persists due to lower slippages, higher write-offs



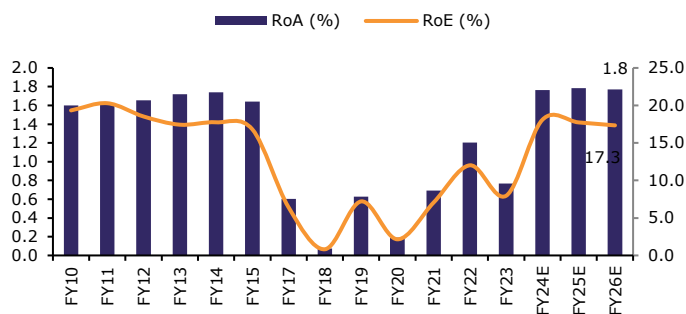
Source: Company, Emkay Research

Exhibit 8: Higher opex hurts return ratios



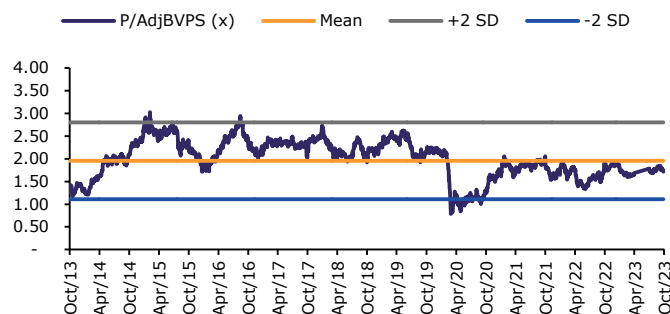
Source: Company, Emkay Research

Exhibit 9: We expect RoA/RoE to improve to 1.8%/17% by FY26E



Source: Company, Emkay Research

Exhibit 10: Bank continues to trade at lower valuations



Source: Company, Bloomberg, Emkay Research

Exhibit 11: Actuals vs Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,73,486	1,74,089	1,66,018	0%	4%	Higher NII offset by lower 'other income' led to in-line net income
PPOP	86,319	90,449	88,379	-5%	-2%	Higher Opex (primarily investments in IT infra) led to miss
PAT	58,636	60,450	58,057	-3%	1%	Shortfall in PPOP, partially offset by lower provisions, led to a miss on PAT

Source: Company, Emkay Research

Exhibit 12: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	2,02,389	2,22,264	2,39,698	2,55,568	2,66,262	32	4	8,51,638	11,01,219	29
Interest Exp	98,787	1,07,671	1,22,276	1,35,980	1,43,116	45	5	4,22,180	6,00,976	42
Net Interest Income	1,03,603	1,14,593	1,17,422	1,19,588	1,23,146	19	3	4,29,457	5,00,243	16
Global NIMs (reported)	3.96	4.26	4.22	4.10	4.11	15bps	1bps	3.69	3.77	8bps
Non-interest Income	39,412	46,654	48,953	50,873	50,341	28	-1	1,65,009	2,13,596	29
Operating Expenses	65,852	68,473	74,699	82,317	87,168	32	6	3,96,560	3,49,107	-12
Pre Provisioning Profit	77,162	92,775	91,676	88,144	86,319	12	-2	1,97,906	3,64,731	84
Provision & Contingencies	5,498	14,377	3,058	10,349	8,146	48	-21	28,848	31,757	10
PBT	71,664	78,398	88,618	77,795	78,173	9	0	1,69,059	3,32,974	97
Income Tax Expense (Gain)	18,367	19,867	21,004	19,824	19,537	6	-1	73,262	83,981	15
Net Profit/(Loss)	53,298	58,531	-57,284	57,971	58,636	10	1	95,797	2,48,993	160
Gross NPA (%)	2.50	2.38	2.02	1.96	1.73	-77bps	-23bps	1.98	1.55	-43bps
Net NPA (%)	0.51	0.47	0.39	0.41	0.36	-15bps	-5bps	0.41	0.41	0bps
Deposits (Rs bn)	8,108	8,482	9,469	9,417	9,556	18	1	9,469	10,926	15
Net Advances (Rs bn)	7,309	7,621	8,453	8,585	8,973	23	5	8,453	9,934	18

Source: Company, Emkay Research

Exhibit 13: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	7,19,431	7,13,838	-0.8%	8,31,747	8,31,479	0.0%	9,84,084	9,69,345	-1.5%
PPOP	3,81,808	3,64,731	-4.5%	4,50,280	4,59,254	2.0%	5,53,281	5,53,742	0.1%
PAT	2,59,874	2,48,993	-4.2%	2,81,680	2,90,889	3.3%	3,42,120	3,37,587	-1.3%
EPS (Rs)	84.5	80.9	-4.3%	91.5	94.4	3.1%	111.2	109.5	-1.5%
BV (Rs)	490.5	486.6	-0.8%	579.8	578.4	-0.3%	688.2	685.1	-0.5%

Source: Emkay Research

Exhibit 14: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	19.4	17.5	16.7	16.7
Deposit Growth (%)	15.2	15.4	17.5	17.5
NIM (%)	3.7	3.8	3.7	3.7
GNPA (%)	2.0	1.5	1.3	1.3
Credit Cost (%)	0.4	0.5	0.7	0.7

Source: Emkay Research

Exhibit 14: Quarterly Summary

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs bn)	6,217	6,649	7,077	7,011	7,309	7,621	8,453	8,585	8,973
growth YoY (%)	10.1	16.7	15.2	14.0	17.6	14.6	19.4	22.4	22.8
Composition (%)									
- Corporate	34.4	34.5	33.0	31.1	31.4	32.9	31.4	31.8	31.4
- SME/BB	10.0	10.2	10.9	10.1	10.7	10.8	11.0	10.2	10.7
- Retail	55.6	55.3	56.5	58.9	57.9	56.3	57.7	58.0	57.9
Liability Profile (%)									
CASA	44.5	44.7	45.0	43.7	46.2	44.5	47.2	45.5	44.4
CA	14.2	15.1	15.5	13.5	15.1	14.9	15.7	14.2	13.8
SA	30.3	29.6	29.5	30.3	31.1	29.6	31.4	31.4	30.6
NIM	3.4	3.5	3.5	3.6	4.0	4.3	4.2	4.1	4.1
NIM - Domestic	3.5	3.7	3.6	3.7	4.1	4.4	4.4	4.2	4.2
Asset Quality (%)									
GNPA	3.8	3.4	3.0	2.9	2.7	2.6	2.2	2.1	1.8
NNPA	1.1	0.9	0.7	0.6	0.5	0.5	0.4	0.4	0.4
PCR - Specific	70.2	72.0	74.7	77.3	79.9	80.8	80.9	79.6	78.5
Slippages (Rs bn)	54.6	41.5	39.8	36.8	33.8	38.1	37.7	39.9	32.5
Slippages	3.87	2.91	2.59	2.40	2.18	2.29	2.13	2.28	1.78
Capital Adequacy									
CAR (%)	20.0	18.7	18.5	17.8	17.7	19.5	17.6	17.7	17.8
Tier I (%)	17.5	16.5	16.3	15.8	15.8	16.2	14.6	14.9	15.1
ROE Decomposition (on total assets; %)									
NII	3.2	3.4	3.3	3.5	3.7	3.9	3.8	3.9	3.9
Other Income (Ex Treasury)	1.4	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.6
Treasury	0.2	0.1	0.1	(0.2)	(0.0)	0.1	0.0	0.2	(0.0)
Net income	4.8	4.9	4.8	4.6	5.1	5.5	5.3	5.6	5.5
Opex	2.4	2.5	2.4	2.4	2.4	2.3	2.4	2.7	2.8
PPOP	2.4	2.4	2.4	2.2	2.8	3.2	2.9	2.9	2.7
Provisions	0.7	0.5	0.4	0.1	0.2	0.5	0.1	0.3	0.3
PBT	1.7	1.9	2.0	2.0	2.6	2.7	2.8	2.5	2.5
Tax	0.4	0.5	0.5	0.5	0.7	0.7	0.7	0.6	0.6
ROA	1.3	1.4	1.5	1.5	1.9	2.0	(1.8)	1.9	1.9
Leverage (x)	9.4	9.8	10.0	9.7	9.6	9.7	10.4	9.8	9.6
ROE	12.1	13.8	15.2	14.8	18.2	19.4	(19.0)	18.5	17.9

Source: Company, Emkay Research

AXIS Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6,73,768	8,51,638	11,01,219	12,36,806	13,93,995
Interest Expense	3,42,446	4,22,180	6,00,976	6,67,129	7,44,072
Net interest income	3,31,322	4,29,457	5,00,243	5,69,678	6,49,923
NII growth (%)	13.3	29.6	16.5	13.9	14.1
Other income	1,52,205	1,65,009	2,13,596	2,61,801	3,19,422
Total Income	4,83,528	5,94,466	7,13,838	8,31,479	9,69,345
Operating expenses	2,36,108	3,96,560	3,49,107	3,72,225	4,15,603
PPOP	2,47,420	1,97,906	3,64,731	4,59,254	5,53,742
PPOP growth (%)	7.0	(20.0)	84.3	25.9	20.6
Core PPOP	2,33,643	2,00,657	3,55,114	4,47,715	5,41,048
Provisions & contingencies	73,595	28,848	31,757	70,345	1,02,485
PBT	1,73,826	1,69,059	3,32,974	3,88,910	4,51,257
Extraordinary items	0	0	0	0	0
Tax expense	43,571	73,262	83,981	98,021	1,13,670
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,30,255	95,797	2,48,993	2,90,889	3,37,587
PAT growth (%)	97.7	(26.5)	159.9	16.8	16.1
Adjusted PAT	1,30,255	95,797	2,48,993	2,90,889	3,37,587
Diluted EPS (Rs)	45.9	31.1	80.6	94.1	109.2
Diluted EPS growth (%)	90.3	(32.3)	159.4	16.7	16.1
DPS (Rs)	1.0	1.0	1.6	2.2	2.8
Dividend payout (%)	2.4	3.2	2.0	2.3	2.6
Effective tax rate (%)	25.1	43.3	25.2	25.2	25.2
Net interest margins (%)	3.3	3.7	3.8	3.7	3.6
Cost-income ratio (%)	48.8	66.7	48.9	44.8	42.9
Shares outstanding (mn)	3,069.7	3,076.9	3,081.8	3,081.8	3,081.8

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	1,85,655.6	1,70,190.2	1,55,619.3	1,52,107.2	1,74,210.0
Net NPLs	47,452.3	34,390.4	40,461.0	42,590.0	52,263.0
GNPA ratio (%)	2.6	2.0	1.5	1.3	1.3
NNPA ratio (%)	0.7	0.4	0.4	0.4	0.4
Provision coverage (%)	74.4	79.8	74.0	72.0	70.0
Gross slippages	1,89,156.8	1,42,535.8	1,45,709.5	1,75,605.0	2,21,028.2
Gross slippage ratio (%)	2.6	1.7	1.5	1.5	1.6
LLP ratio (%)	0.9	0.4	0.5	0.7	0.8
NNPA to networth (%)	3.9	2.6	2.5	2.3	2.3
Capital adequacy					
Total CAR (%)	18.5	17.6	16.6	16.5	16.2
Tier-1 (%)	16.3	14.6	14.5	14.6	14.5
CET-1 (%)	15.2	14.1	14.1	14.3	14.3
RWA-to-Total Assets (%)	61.0	68.3	72.6	74.2	75.7
Miscellaneous					
Total income growth (%)	9.2	23.1	29.3	14.0	14.3
Opex growth (%)	28.5	68.0	(12.0)	6.6	11.7
Core PPOP growth (%)	5.5	(14.1)	77.0	26.1	20.8
PPOP margin (%)	30.0	19.5	27.7	30.6	32.3
PAT/PPOP (%)	52.6	48.4	68.3	63.3	61.0
LLP-to-Core PPOP (%)	31.5	14.4	8.9	15.7	18.9
Yield on advances (%)	7.6	8.4	9.6	9.2	8.9
Cost of funds (%)	3.7	3.9	5.0	4.8	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	6,139	6,154	6,164	6,164	6,164
Reserves & surplus	11,45,600	12,48,013	14,92,075	17,76,184	21,05,142
Net worth	11,51,740	12,54,167	14,98,239	17,82,348	21,11,306
Deposits	82,19,715	94,69,452	109,26,243	128,36,207	153,11,590
Borrowings	18,51,339	18,63,000	19,78,206	22,56,125	25,74,791
Interest bearing liab.	100,71,054	113,32,452	129,04,449	150,92,332	178,86,381
Other liabilities & prov.	5,31,495	5,86,636	6,69,235	6,36,050	5,97,673
Total liabilities & equity	117,54,288	131,73,255	150,71,922	175,10,730	205,95,361
Net advances	70,79,466	84,53,028	99,33,771	115,97,485	136,92,316
Investments	27,55,972	28,88,148	32,59,100	37,79,426	43,75,586
Cash, other balances	11,09,871	10,64,108	10,32,356	11,31,925	13,41,479
Interest earning assets	109,45,309	124,05,285	142,25,227	165,08,836	194,09,380
Fixed assets	45,724	47,339	99,157	1,10,301	1,22,735
Other assets	7,63,255	7,20,632	7,47,538	8,91,593	10,63,246
Total assets	117,54,288	131,73,255	150,71,922	175,10,730	205,95,361
BVPS (Rs)	375.6	408.1	486.6	578.4	5.6
Adj. BVPS (INR)	364.0	399.7	476.7	568.0	672.4
Gross advances	72,17,669	85,88,828	100,48,929	117,07,002	138,14,263
Credit to deposit (%)	86.1	89.3	90.9	90.3	89.4
CASA ratio (%)	45.0	47.2	45.5	43.9	43.5
Cost of deposits (%)	3.5	3.6	4.7	4.6	4.4
Loans-to-Assets (%)	60.2	64.2	65.9	66.2	66.5
Net advances growth (%)	15.2	19.4	17.5	16.7	18.1
Deposit growth (%)	17.8	15.2	15.4	17.5	19.3
Book value growth (%)	8.8	8.7	19.2	18.9	(99.0)

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	21.5	29.2	11.3	9.7	8.3
P/B (x)	2.4	2.2	1.9	1.6	1.4
P/ABV (x)	2.4	2.2	1.9	1.6	1.3
P/PPOP (x)	12.3	15.4	8.4	6.7	5.5
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
DuPont-RoE split (%)					
NII/avg assets	3.1	3.4	3.5	3.5	3.4
Other income	1.4	1.3	1.5	1.6	1.7
Fee income	1.1	1.2	1.2	1.3	1.4
Opex	2.2	3.2	2.5	2.3	2.2
PPOP	2.3	1.6	2.6	2.8	2.9
Core PPOP	2.2	1.6	2.5	2.7	2.8
Provisions	0.7	0.2	0.2	0.4	0.5
Tax expense	0.4	0.6	0.6	0.6	0.6
RoA (%)	1.2	0.8	1.8	1.8	1.8
Leverage ratio (x)	10.0	10.4	10.3	9.9	9.8
RoE (%)	12.0	8.0	18.1	17.7	17.3
Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24E
NII	1,03,603	1,14,593	1,17,422	1,19,588	1,23,146
NIM (%)	4.0	4.3	4.2	4.1	4.1
PPOP	77,162	92,775	91,676	88,144	86,319
PAT	53,298	58,531	67,614	57,971	58,636
EPS (Rs)	17.35	19.03	21.98	18.82	19.04

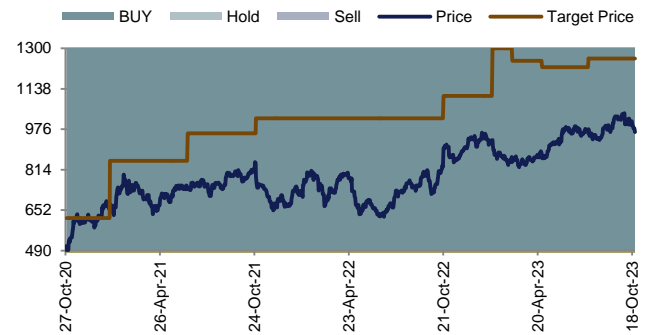
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
26-Jul-23	977	1,260	Buy	Anand Dama
28-Apr-23	860	1,225	Buy	Anand Dama
09-Mar-23	868	1,250	Buy	Anand Dama
02-Mar-23	845	1,250	Buy	Anand Dama
23-Jan-23	933	1,300	Buy	Anand Dama
25-Nov-22	888	1,110	Buy	Anand Dama
21-Oct-22	900	1,110	Buy	Anand Dama
25-Jul-22	727	1,020	Buy	Anand Dama
29-Apr-22	729	1,020	Buy	Anand Dama
31-Mar-22	761	1,020	Buy	Anand Dama
25-Jan-22	752	1,020	Buy	Anand Dama
27-Oct-21	788	1,020	Buy	Anand Dama
27-Jul-21	732	960	Buy	Anand Dama
18-Jun-21	736	960	Buy	Anand Dama
28-Apr-21	708	850	Buy	Anand Dama
28-Jan-21	671	850	Buy	Anand Dama
20-Jan-21	676	850	Buy	Anand Dama
29-Oct-20	494	620	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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