BUY (Maintained)

CMP: **INR 955** Target Price: **INR 1,150** ▲ 20%

ICICI Securities

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26 October 2023

India | Equity Research | Q2FY24 result review

Axis Bank

Banking

Positive surprise on NIM

Despite higher non-staff opex, Axis Bank (Axis) reported better-than-expected Q2FY24 PAT of INR 58.6bn (6% beat) led by stable NIM QoQ and strong loan growth (up 4.5% QoQ). Unlike its peers, which saw 25–35bps QoQ decline, stable NIM at Axis was a key surprise (NII beat of 4%). However, we highlight that there is a sharp differential in deposits growth FYTD at Axis (~1%) versus peers (9–10%). We note that the bank has levers on opex going ahead; that said, envisaged growth and competition could keep opex elevated, in our view. Overall, we see the bank reporting stable RoE of ~17% for FY23-26. Maintain BUY with an unchanged target price of INR 1,150, valuing the stock at ~2x FY25E core banking book and INR 80 for subs value. Key risks are elevated cost ratio impacting RoAs.

Healthy quarter with stable NIM and reported RoE of >18%

Despite higher non-staff opex, Axis reported better-than-expected Q2FY24 PAT of INR 58.6bn (6% beat) led by stable NIM QoQ and strong loan growth (up 4.5% QoQ). Yet, muted deposits growth (1% YTD) and declining market share in home loans are a tad disappointing. Standalone RoA came in at 1.76% (vs. 1.8% QoQ) while reported RoE remains at >18%. CET 1 stands at 14.56% (up 18bps QoQ). Asset quality continues to improve with sharp decline in slippages and GNPA/NNPA. The bank reiterates its view of outpacing systemic credit growth by 400–600bps over the medium term.

Visibility of ~17% RoE (calculated) led by easing opex despite likely pressure on NIM; Retain BUY

We envisage Axis delivering ~17% FY23–26 loan CAGR with deposits growth outpacing loans. We appreciate bank's efforts towards structural improvement in business mix (lower RIDF, favourable loan, healthy CASA and receding liquidity), which has aided improvement in NIM, apart from tailwinds from the rate cycle. Despite YoY expansion in NIM so far, we build-in flattish NIM for FY24E as we see pressure due to lower LDR and competition. Despite likely pressure on NIM YoY in FY25, we estimate broadly stable RoA due to opex pressure easing. Overall, we see Axis delivering broadly stable ~1.65% RoA and ~17% RoE for FY24-26. Maintain BUY and target price at INR 1,150, valuing the stock at ~2.0x FY25 ABV and INR 80 per share of subs value.

Financial Summary

Y/E March	FY23A	FY24E	FY25E	FY26E
NII (INR bn)	429.5	491.0	535.8	621.6
Op. profit (INR bn)	320.5	351.6	401.2	484.2
Net Profit (INR bn)	219.3	233.6	266.2	305.9
EPS (INR)	71.4	75.9	86.5	99.4
EPS % change YoY	68.0	6.4	14.0	14.9
ABV (INR)	399.2	464.5	537.5	621.0
P/BV (x)	2.3	2.0	1.8	1.5
P/ABV (x)	2.3	1.9	1.6	1.4
Return on Assets (%)	1.8	1.7	1.7	1.6
Return on Equity (%)	18.2	17.3	17.0	16.9

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Market Data

Market Cap (INR)	2,945bn
Market Cap (USD)	35,409mn
Bloomberg Code	AXSB IN
Reuters Code	AXBK.BO
52-week Range (INR)	1,048 /814
Free Float (%)	90.0
ADTV-3M (mn) (USD)	114.2

Price Performance (%)	3m	6m	12m
Absolute	(0.7)	8.9	5.9
Relative to Sensex	2.4	1.2	(3.1)

ESG Disclosure	2021	2022	Change
ESG score	50.4	53.1	2.7
Environment	25.3	33.3	8.0
Social	35.8	35.8	-
Governance	89.9	89.9	-

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

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
PAT	-	-

Previous Reports

27-07-2023: Q1FY24 results review

28-04-2023: Q4FY23 results review

Growth bounce-back, led by SME+SBB+MC; HL remains muted

Loan growth rebounded sharply to ~4.5% QoQ versus 1.6% QoQ, taking YTD growth to ~6.2%, translating into ~23% YoY growth. Growth was broad-based across segments with SME, SBB and mid-corporate being at the forefront delivering 9% QoQ growth each. Post the ~5.5% QoQ deceleration in Q1, SME book re-bounded with ~9% QoQ growth. Despite tightening its risk standards, the focused segments – SBB, SME and mid-corporate – have grown at ~28% CAGR since FY20 with share in overall loans at ~21% versus 14% as of FY20. Within retail, home loan growth remains muted at ~9% YoY (and ~2% QoQ) and the bank seems to be losing market share here. It expects FY24 systemic growth at ~13% YoY and maintained its view of outpacing the system by 400-600bps. We are building-in loan CAGR at ~17% for FY23-26.

Slower deposits growth (<1% YTD) disappoints; Stable NIM surprises positively, partly aided by rise in LDR

Despite low base (flattish QoQ growth in Q1), deposits growth remained muted at 1.5% QoQ. Retail TD growth has picked up pace (up 15% YoY) though the growth on QoQ basis was similar to overall TD at ~4%. CASA ratio stood at 44.4% versus 45.5% QoQ. Average LCR for Q2 stood at 118%. Average LCR outflow rates have improved by ~550bps in the last two years.

Cost of deposits increased by 17bps QoQ to 4.79% while cost of funds rose 14bps QoQ to 5.17%. Positively, reported yields on interest earnings assets increased by ~14bps QoQ. This, along with better LDR and interest on IT refunds (2bps positive impact) led to stable NIMs (up 1 bps QoQ) at 4.11%. NII grew by ~3.0% QoQ, in-line with assets growth (~3%) and slightly lower than loan growth (~4.5%).

Axis reiterated that the incremental cost of term deposits has broadly stabilised. While the back book repricing will continue for a few more quarters, the pace of incremental rise in cost of deposits should moderate, as per the bank. We highlight that at ~1% YTD, deposits growth at the bank is notably muted versus peers at ~9–10%; similarly LDR at ~94% at Axis is relatively higher. We are building-in 10–15bps dip in NIM per quarter for the next two quarters due to pressure on LDR and competition though see FY24 NIM being broadly flattish YoY.

Opex remains elevated; includes one-offs towards card business

Opex came in at INR 87bn, up 34% YoY and 6% QoQ. While staff cost declined 3% QoQ; non-staff costs jumped ~10% QoQ. Without quantifying, Axis mentioned that QoQ rise in opex could partly be attributed to the cards business, including non-recurring expenses incurred for cards benefit rationalisation and increased prudence in actuarial valuation of cards reward points. The bank also clarified that the acquired Citi business is entirely retail, which runs at a higher cost as well as higher return ratios. Hence, cost ratios are expected to remain sticky till the Citi integration phase is over.

Axis mentioned, basis the current level of NIM and credit costs, it has chosen to accelerate investment in franchise as it continues to see strong opportunities (without diluting stated RoE). The bank reiterated its medium-term goal of ~achieving ~2.1% cost to assets, led by enhanced productivity, operating leverage and more cost efficient loan mix.

Improvement in slippages/GNPAs; Net NPA now at 36bps

Gross slippages came in at INR 32.5bn (1.45% annualized vs 1.86% QoQ and 1.85% YoY). Net slippages remained comfortable at INR 12.7bn or ~0.6% versus 0.8% QoQ. Overall, GNPA declined sharply by ~8% QoQ; ratio down 23bps QoQ to 1.73%. PCR was flattish at 79.5% and thus Net NPA ratio declined 5bps QoQ to 36bps. Bank has ~0.2% of gross customer assets under restructuring and carries 21% provision towards the same. Fund-based BB and below pool stands at 35bps.

Gross credit costs were stable at 70bps and net of technical w-offs, reported credit cost was even lower at 42bps (vs. 50bps QoQ). Bank continues to hold INR 50.12bn of covid-19 contingent provisions. While the covid-19 uncertainties are over, the bank does not intend to w-back these provisions as of now though would take a final call during or post FY24. Including specific and all other provisions, total PCR stood at ~150% of GNPAs.

The bank is cognizant of rising stress in low-ticket-size personal loans (ticket size below INR 50k) though clarified that it has negligible / nil exposure towards such loans. We are building-in gross slippages at ~1.7/1.5 for FY24E/25E and stable PCR at ~80%. We see credit costs staying benign at 40–45bps for FY24E/25E. Important to note that the bank adjusts the recovery in technical written-off loans in provisions (vs. other income).

Other highlights

Axis remains well capitalised with self-sustaining capital structure wherein its CET-1 stands at 14.56%, translating into net accretion of 18bps in Q2. The bank has added 207 branches. It issued 1.2mn credit cards in Q2. It has CIF market share of 14.1%. The bank has incremental market share of 23% in the merchant acquiring business. Overall, consolidated RoA stood at 1.83% with 7bps contributed by subs. Reported consolidated RoE came at 18.67% (18.90% YoY).

Exhibit 1: Q2FY24 result review

	Q2FY23	Q2FY24	YoY (%)	Q1FY24	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	202,389	266,262	31.6	255,568	4.2
Interest Expended	98,787	143,116	44.9	135,980	5.2
Net Interest Income	**103,603**	**123,146**	**18.9**	**119,588**	**3.0**
Other Income	38,554	50,341	30.6	50,873	(1.0)
Total Income	240,943	316,603	31.4	306,440	3.3
Total Net Income	**142,157**	**173,486**	**22.0**	**170,460**	**1.8**
Staff Expenses	21,667	26,098	20.5	26,885	(2.9)
Other operating expenses	43,328	61,070	40.9	55,432	10.2
Operating Profit	**77,162**	**86,319**	**11.9**	**88,144**	**(2.1)**
Provision & Contingencies	5,498	8,146	48.2	10,349	(21.3)
Provision for tax	18,367	19,537	6.4	19,824	(1.4)
Net Profit	**53,298**	**58,636**	**10.0**	**57,971**	**1.1**
Other Highlights (INR bn)					
Advances	7,311	8,973	22.7	8,585	4.5
Deposits	8,110	9,556	17.8	9,417	1.5
Gross NPA	199	168	-15.8	182	-7.7
Gross NPA (%)	2.5	1.7	-77 bps	2.0	-23 bps
Net NPA	40	34	-13.9	37	-7.1
Net NPA (%)	0.5	0.4	-15 bps	0.4	-5 bps
Provision Coverage (%)	79.9	79.5	-45 bps	79.6	-14 bps

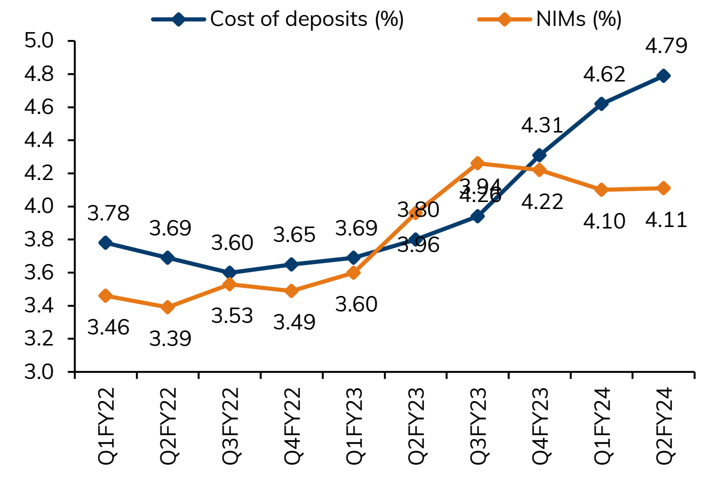
Source: Company data, I-Sec research

Exhibit 2: Deposit mix

Deposit mix	Q2FY23		Q3FY23		Q4FY23		Q1FY24		Q2FY24			
	INR bn	% of total	INR bn	% of total	INR bn	% of total	INR bn	% of total	INR bn	% of total	YoY % chg	QoQ % chg
Total Deposits	**8,110**	**100%**	**8,482**	**100%**	**9,469**	**100%**	**9,417**	**100%**	**9,556**	**100%**	**18%**	**1%**
CA	1,224	15%	1,263	15%	1,491	16%	1,333	14%	1,316	14%	7%	-1%
SA	2,522	31%	2,514	30%	2,974	31%	2,955	31%	2,923	31%	16%	-1%
CASA	3,746	46%	3,777	45%	4,465	47%	4,288	46%	4,239	44%	13%	-1%
Term Deposits	4,364	54%	4,705	55%	5,004	53%	5,129	54%	5,317	56%	22%	4%

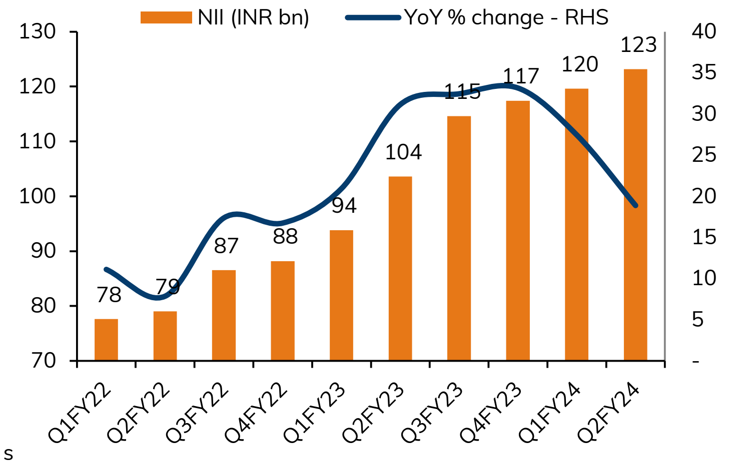
Source: Company data, I-Sec research

Exhibit 3: Despite rising cost of deposits, NIM surprised positively and were stable QoQ.



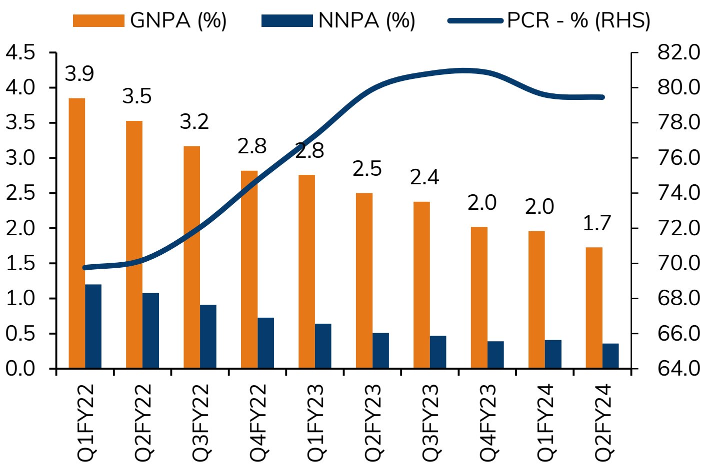
Source: Company data, I-Sec research

Exhibit 4: NII YoY growth was strong at 19% YoY and 3% QoQ.



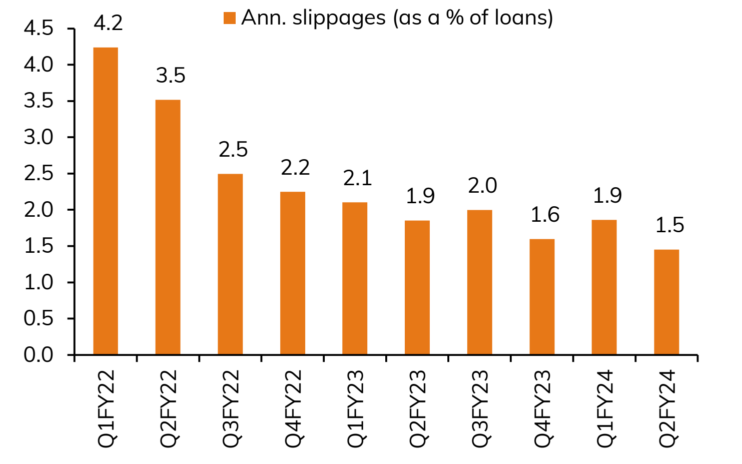
Source: Company data, I-Sec research

Exhibit 5: Asset quality continues to improve



Source: Company data, I-Sec research

Exhibit 6: Slippage ratio declined QoQ as well as YoY



Source: Company data, I-Sec research

Exhibit 7: Strong loan growth of >20% YoY led by all segments namely corporate, SME and retail. However, home loan growth remains lacklustre

(INR bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	Mix (%)
Corporate Loans	**2,271**	**2,159**	**2,316**	**2,326**	**2,178**	**2,319**	**2,506**	**2,650**	**2,730**	**2,817**	**21.5**	**3.2**	**31%**
SME	**565**	**602**	**664**	**752**	**707**	**758**	**822**	**927**	**877**	**960**	**26.6**	**9.5**	**11%**
Retail	**3,312**	**3,456**	**3,675**	**3,999**	**4,127**	**4,232**	**4,293**	**4,876**	**4,978**	**5,197**	**22.8**	**4.4**	**58%**
Home Loans	1,230	1,294	1,353	1,431	1,452	1,465	1,494	1,574	1,566	1,592	8.6	1.6	18%
LAP	343	364	391	425	432	439	425	508	506	539	22.6	6.4	6%
Auto Loans	394	407	421	444	451	454	468	523	535	556	22.4	3.9	6%
Rural Lending	413	412	467	563	588	602	595	709	716	747	24.0	4.2	8%
PL+CC	519	542	574	611	651	697	713	862	916	970	39.2	5.9	11%
PL	392	402	419	452	470	491	507	546	569	612	24.7	7.5	7%
CC	127	140	155	158	180	206	206	317	347	358	73.7	3.2	4%
SBB	182	209	239	286	316	353	383	430	463	503	42.3	8.7	6%
Others	230	228	230	238	237	222	215	270	275	292	31.7	6.1	3%
Total Advances	**6,149**	**6,217**	**6,655**	**7,077**	**7,011**	**7,309**	**7,621**	**8,453**	**8,585**	**8,973**	**22.8**	**4.5**	**100%**

Source: Company data, I-Sec research

Exhibit 8: YoY growth above 20% across segment barring home loans

YoY % change	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Corporate Loans	**8.7**	**1.7**	**14.0**	**4.7**	**(4.1)**	**7.4**	**8.2**	**13.9**	**25.4**	**21.5**
SME	**14.0**	**13.4**	**17.7**	**23.5**	**25.1**	**25.9**	**23.7**	**23.3**	**24.0**	**26.6**
Retail	**14.2**	**15.5**	**18.5**	**20.7**	**24.6**	**22.5**	**16.8**	**21.9**	**20.6**	**22.8**
Home Loans	14.1	18.8	19.6	18.4	18.0	13.2	10.4	10.0	7.9	8.6
LAP	22.3	24.2	28.5	28.7	26.1	20.6	8.6	19.5	17.1	22.6
Auto Loans	4.1	4.9	5.7	9.0	14.3	11.4	11.3	17.7	18.7	22.4
Rural Lending	18.4	13.1	20.8	28.9	42.2	46.3	27.4	25.9	21.9	24.0
PL+CC	(1.1)	1.8	5.8	16.0	25.4	28.6	24.1	41.2	40.8	39.2
PL	1.2	3.3	6.6	14.9	19.9	22.1	20.9	20.6	21.0	24.7
CC	(7.4)	(2.5)	3.7	19.0	42.2	47.1	32.8	99.9	92.5	73.7
SBB	34.7	43.0	50.9	60.2	73.6	69.1	60.2	50.2	46.2	42.3
Others	48.2	28.2	27.1	6.3	3.1	(2.8)	(6.3)	13.3	15.8	31.7
Total Advances	**12.0**	**10.1**	**16.8**	**15.2**	**14.0**	**17.6**	**14.5**	**19.4**	**22.4**	**22.8**

Source: Company data, I-Sec research

Exhibit 9: Steep QoQ rise in SME followed by retail and then corporate while home loan remains muted

QoQ % change	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Corporate Loans	**2.2**	**(4.9)**	**7.3**	**0.4**	**(6.4)**	**6.5**	**8.1**	**5.8**	**3.0**	**3.2**
SME	**(7.2)**	**6.5**	**10.4**	**13.2**	**(6.0)**	**7.2**	**8.5**	**12.8**	**(5.5)**	**9.5**
Retail	**(0.0)**	**4.3**	**6.3**	**8.8**	**3.2**	**2.6**	**1.4**	**13.6**	**2.1**	**4.4**
Home Loans	1.8	5.2	4.6	5.8	1.4	0.9	2.0	5.3	(0.5)	1.6
LAP	3.9	6.2	7.3	8.7	1.8	1.6	(3.3)	19.6	(0.3)	6.4
Auto Loans	(3.3)	3.4	3.3	5.6	1.5	0.7	3.2	11.6	2.4	3.9
Rural Lending	(5.4)	(0.4)	13.6	20.6	4.3	2.5	(1.1)	19.1	1.0	4.2
PL+CC	(1.5)	4.4	5.9	6.4	6.5	7.1	2.2	21.0	6.2	5.9
PL	(0.4)	2.5	4.4	7.9	4.0	4.3	3.3	7.6	4.3	7.5
CC	(4.7)	10.5	10.4	2.4	13.9	14.4	(0.3)	54.1	9.6	3.2
SBB	2.0	14.7	14.4	19.6	10.6	11.7	8.4	12.2	7.7	8.7
Others	2.7	(1.1)	0.7	3.8	(0.4)	(6.7)	(2.8)	25.5	1.8	6.1
Total Advances	**0.1**	**1.1**	**7.0**	**6.3**	**(0.9)**	**4.2**	**4.3**	**10.9**	**1.6**	**4.5**

Source: Company data, I-Sec research

Exhibit 10: Loan mix

Mix (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Corporate Loans	**36.9**	**34.7**	**34.8**	**32.9**	**31.1**	**31.7**	**32.9**	**31.4**	**31.8**	**31.4**
SME	**9.2**	**9.7**	**10.0**	**10.6**	**10.1**	**10.4**	**10.8**	**11.0**	**10.2**	**10.7**
Retail	**53.9**	**55.6**	**55.2**	**56.5**	**58.9**	**57.9**	**56.3**	**57.7**	**58.0**	**57.9**
Home Loans	20.0	20.8	20.3	20.2	20.7	20.0	19.6	18.6	18.2	17.7
LAP	5.6	5.9	5.9	6.0	6.2	6.0	5.6	6.0	5.9	6.0
Auto Loans	6.4	6.6	6.3	6.3	6.4	6.2	6.1	6.2	6.2	6.2
Rural Lending	6.7	6.6	7.0	8.0	8.4	8.2	7.8	8.4	8.3	8.3
PL+CC	8.4	8.7	8.6	8.6	9.3	9.5	9.4	10.2	10.7	10.8
PL	6.4	6.5	6.3	6.4	6.7	6.7	6.7	6.5	6.6	6.8
CC	2.1	2.3	2.3	2.2	2.6	2.8	2.7	3.7	4.0	4.0
SBB	3.0	3.4	3.6	4.0	4.5	4.8	5.0	5.1	5.4	5.6
Others	3.7	3.7	3.4	3.4	3.4	3.0	2.8	3.2	3.2	3.3
Total Advances	**100.0**	**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 11: Net slippages continue to moderate

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net slippages (INR mn)										
Retail	37,410	6,970	-940	1,930	8,690	10,030	13,550	8,070	16,390	9,530
SME	840	160	400	850	380	490	830	260	-100	250
Corporate	1,510	-60	9,140	-600	-1,800	-4,950	2,810	-9,800	-4,980	-3,730
Total	**39,760**	**7,070**	**8,600**	**2,180**	**7,270**	**5,570**	**17,190**	**-1,470**	**11,310**	**6,050**
Ann. net slippages (% of loans)	**Q1FY22**	**Q2FY22**	**Q3FY22**	**Q4FY22**	**Q1FY23**	**Q2FY23**	**Q3FY23**	**Q4FY23**	**Q1FY24**	**Q2FY24**
Retail	4.52	0.81	-0.10	0.19	0.84	0.95	1.26	0.66	1.32	0.73
SME	0.59	0.11	0.24	0.45	0.22	0.26	0.40	0.11	-0.05	0.10
Corporate	0.27	-0.01	1.58	-0.10	-0.33	-0.85	0.45	-1.48	-0.73	-0.53
Total	2.59	0.45	0.52	0.12	0.41	0.30	0.90	-0.07	0.53	0.27

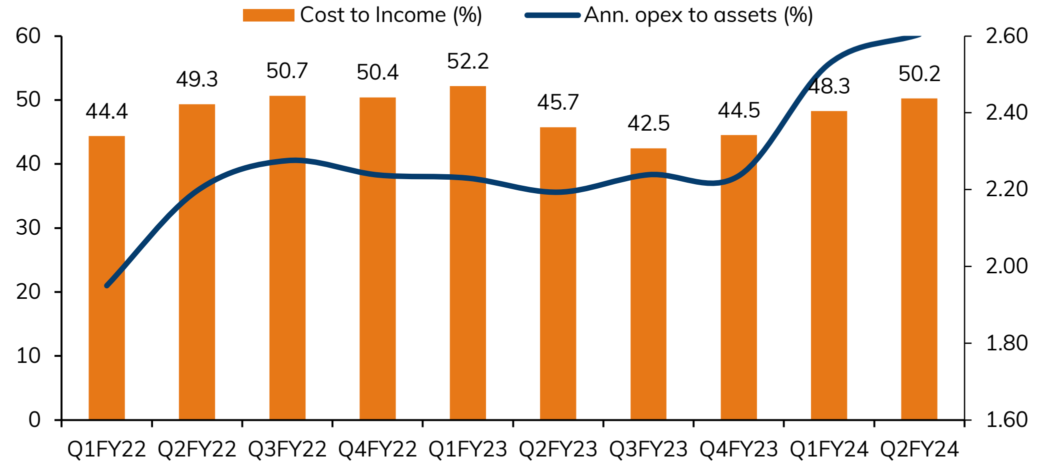
Source: Company data, I-Sec research

Exhibit 12: Non-staff cost elevated led by one-offs towards cards

INR mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Staff cost	18,519	19,355	19,386	18,865	21,861	21,667	22,811	21,636	26,885	26,098
Non-staff cost	30,805	38,350	43,928	46,900	42,393	43,328	45,662	51,987	55,432	61,070
Total opex	49,324	57,705	63,314	65,765	64,254	64,995	68,473	73,624	82,317	87,168
YoY % change										
Staff cost	31.7	37.0	15.6	13.1	18.0	11.9	17.7	14.7	23.0	20.5
Non-staff cost	32.7	35.9	30.1	27.1	37.6	13.0	3.9	10.8	30.8	40.9
Total opex	32.3	36.2	25.3	22.7	30.3	12.6	8.1	11.9	28.1	34.1
QoQ % change										
Staff cost	11.1	4.5	0.2	-2.7	15.9	-0.9	5.3	-5.1	24.3	-2.9
Non-staff cost	-16.5	24.5	14.5	6.8	-9.6	2.2	5.4	13.9	6.6	10.2
Total opex	-8.0	17.0	9.7	3.9	-2.3	1.2	5.4	7.5	11.8	5.9

Source: Company data, I-Sec research

Exhibit 13: Opex to assets inches-up QoQ



Source: Company data, I-Sec research

Q2FY24 earnings call - key takeaways

Loan-book

- ***Expect system level credit growth (ex-HDFC merger) at 13% YoY and Axis would grow 400-600bps faster than system in the medium-term***
- All round growth across business - *all the 3 segments have grown above 20% YoY*
- SME continues to remain key growth driver for the bank, up 9% QoQ and 33% YoY
- Seeing good momentum build up in home loans. Taking couple of strategic initiatives which would go live soon for home loans.
- RWA intensity of the portfolio has been in the range of 66-67% for the past 6-7 quarters, which gives an intent on the risk being taken by the bank.

Funding and Margins

- Change in loan-mix has largely led to rise in yields QoQ
- Bank's marginal cost of funding has stabilised while base book would continue to reprice. Would need few more quarters for base book to get repriced**. Overall the pace of rise of cost of deposits should keep moderating. The bank is confident of moderating pace of CoD while ensuring the envisaged portfolio growth.**
- Progress on structural margin drivers continue. *Yield on interest earning assets up 116bps YoY and 14bps QoQ. This was sufficient to offset the impact of rise in cost of funds and hence margins were up 1bp QoQ.*
- Drivers for margins were loan mix change, RIDF, cost of funds etc.
- The proportion of INR denominated loans, Interest earnings assets (as % of total assets) has also gone-up.
- *RIDF at INR 79.9bn YoY and now comprise 2.14% of total assets vs. 3.94% YoY.*
- Liability franchise has been progressing well. Improvement planned over the next few quarters should deliver results on growth.
- ***More than LDR, the bank is more driven by LCR. LCR should be 115-120% range.***

Opex

- **Guidance of 2.1% opex to assets for FY25 including Citi integration**
- The bank would continue to invest in the business as it seems strong opportunities. It is committed to 2.1% cost to assets in the medium term. The improvement would come from enhanced productivity, operating leverage and more cost efficient loan mix. For the last few quarters, corporate + Commercial growth has been similar to Retail and hence the mix has been bit stable at (wholesale: Retail) at 42/58%. The bank believes that incremental loan mix should be cost efficient.
- Opex up 34% YoY and 6% QoQ
- QOQ increase in operating expenses is largely attributable to the cards business including non-recurring expenses incurred for cards benefit rationalisation and increased prudence in actuarial valuation of cards reward points.
- Added 204 branches during the quarter.
- **Bank highlighted that given the way NIM and credit costs are behaving, the bank has been flexible in investing in the franchise.**
- Tech expenses 8.5% of opex

Fee income

- Strong fee performance for the quarter
- Fee income up 31% YoY, 11% QoQ and retail fees is 93% of total

Asset quality

- Asset quality continues to improve with decline in GNPA as well as NNPA
- Bank has not utilised any covid related provisions. It doesn't plan to write-back covid provisions.
- These are prudent provisions and doesn't reflect any risk on the book currently.
- The Personal loan is 100% toward salaried segments. The bank has a product which entails unsecured loan for business purpose given to business owners, which is clubbed into Small Business Banking. **The portfolio of Unsecured business loans is around Rs 120 bn,** out of total Rs 500 bn portfolio of SBB.
- **The proportion of PL below 50k is Nil.**

Digital initiatives

- *Would be launching* **neo** *for corporates in Q3*
- It has rebranded its award winning mobile app wherein it has introduced several changes
- App continuous to remain highest rated mobile app on google play store at 4.8 rating

Miscellaneous

- Witnessing synergy benefits coming through due to the merger
- Indian economy is well placed in context to global scenario
- Better operating performance helps bank in focusing on making investments for future
- CET-1 accretion at 18bps during the quarter including profits

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 Rs3.85bn 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 ny 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.

Exhibit 14: Key ratios and trends

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Loans (INR mn)	**62,17,193**	**66,48,656**	**70,79,466**	**70,12,946**	**73,10,831**	**76,20,755**	**84,53,028**	**85,85,114**	**89,73,470**
Loans YoY %	*10.1*	*16.7*	*15.2*	*14.1*	*17.6*	*14.6*	*19.4*	*22.4*	*22.7*
Loans QoQ %	*1.1*	*6.9*	*6.5*	*(0.9)*	*4.2*	*4.2*	*10.9*	*1.6*	*4.5*
Composition %									
- Corporate	34.7	34.8	32.9	31.1	31.7	32.9	31.4	31.8	31.4
- SME/BB	9.7	10.0	10.6	10.1	10.4	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	30.2	31.1	29.6	31.4	31.4	30.6
Retail TD+SA	69.7	67.1	64.4	65.8	66.6	63.9	63.5	65.2	65.3
Network									
Branch (No.)	4,682	4,703	4,761	4,762	4,760	4,849	4,903	4,945	-
ATM (No.)	10,970	11,060	10,990	10,161	16,043	15,674	15,953	15,798	15,806
Margins									
NIM %	3.39	3.53	3.49	3.60	3.96	4.26	4.22	4.10	4.11
NIM %- Domestic	3.50	3.66	3.64	3.73	4.08	4.41	4.35	4.20	4.20
Non-Interest Income (INR mn)	37,984	38,404	42,233	29,284	38,554	46,654	47,878	50,873	50,341
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	79.5
Slippages (INR mn)	54,640	41,470	39,810	36,840	33,830	38,070	33,750	39,900	32,540
Slippages %	3.87	2.91	2.59	2.40	2.18	2.29	1.91	2.28	1.78
Restructuring during the Quarter (Rs mn)	0	0	0	0	0	0	0	0	0
Total Asset Impairment (Restrc.+Slippages) %	3.9	2.9	2.6	2.4	2.2	2.3	1.9	2.3	1.8
Restructured book (O/s;% of loans)	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.2
BB and below portfolio'	66,970	64,960	57,780	48,580	49,390	44,510	34,780	36,450	34,340
% of loans	1.1	1.0	0.8	0.7	0.7	0.6	0.4	0.4	0.4
Deferred stress (incl NFB)	1,29,360	1,26,200	1,03,580	91,770	90,000	81,450	66,490	68,300	65,600
% of loans	2.5	2.3	1.9	1.7	1.6	1.4	1.1	1.1	1.0
Capital adequacy									
CAR %	19.2	17.4	18.5	17.8	16.5	17.6	17.6	17.7	16.6
Tier I %	16.7	15.2	16.3	15.8	14.6	14.2	14.0	14.4	13.8
ROE Decomposition % (on total assets)									
NII	**3.7**	**3.9**	**3.7**	**3.8**	**4.1**	**4.4**	**4.3**	**4.2**	**4.2**
Other Income (Ex Treasury)	1.5	1.6	1.7	1.5	1.6	1.6	1.7	1.6	1.7
Tresaury	0.2	0.2	0.1	(0.3)	(0.0)	0.2	0.0	0.2	(0.0)
Opex	2.7	2.8	2.8	2.6	2.6	2.6	2.7	2.9	3.0
PPOP	**2.7**	**2.8**	**2.7**	**2.4**	**3.0**	**3.6**	**3.3**	**3.1**	**2.9**
Provsioning Cost	0.8	0.6	0.4	0.1	0.2	0.6	0.1	0.4	0.3
PBT	1.9	2.2	2.3	2.2	2.8	3.0	3.2	2.7	2.7
Tax	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.7	0.7
RoA	**1.2**	**1.3**	**1.4**	**1.4**	**1.8**	**1.9**	**2.1**	**1.8**	**1.8**
Leverage (x)	9.8	9.9	10.1	9.9	9.6	9.4	9.9	10.2	9.8
RoE	**11.9**	**13.3**	**14.6**	**14.1**	**17.4**	**18.3**	**21.1**	**18.1**	**17.4**

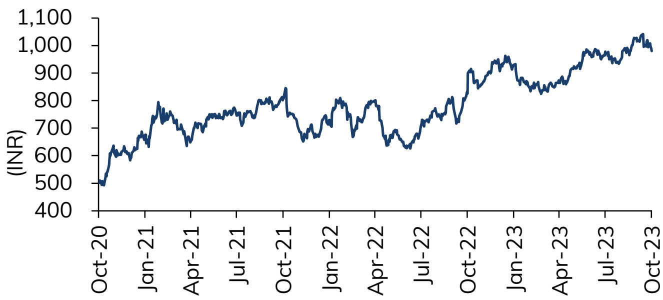
Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	8.2	8.2	8.2
Institutional investors	81.1	81.9	82.0
MFs and others	23.6	21.7	21.3
Insurance Cos	6.2	5.2	4.9
FIIs	51.3	55.0	55.8
Others	10.7	9.9	9.8

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Interest income	851,638	1,083,321	1,241,133	1,462,346
Interest expense	422,180	592,353	705,298	840,740
Net interest income	**429,457**	**490,969**	**535,835**	**621,606**
Non-interest income	165,009	208,294	259,483	303,942
Operating income	**594,466**	**699,263**	**795,319**	**925,548**
Operating expense	273,983	347,676	394,150	441,373
Staff expense	87,601	110,815	123,004	136,535
Operating profit	**320,483**	**351,587**	**401,168**	**484,175**
Core operating profit	**323,233**	**342,087**	**381,668**	**467,675**
Provisions & Contingencies	28,848	39,294	45,226	75,199
Pre-tax profit	**169,058**	**312,293**	**355,942**	**408,976**
Tax (current + deferred)	73,262	78,698	89,697	103,062
Net Profit	**95,797**	**233,595**	**266,245**	**305,914**
Adjusted net profit	**219,334**	**233,595**	**266,245**	**305,914**

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Cash and balance with RBI/Banks	1,064,108	897,889	1,050,254	1,234,978
Investments	2,888,148	3,263,839	3,693,151	4,307,072
Advances	8,453,028	9,794,344	11,421,880	13,370,539
Fixed assets	47,339	119,205	130,684	143,290
Other assets	720,632	854,909	1,016,951	1,215,351
Total assets	**13,173,255**	**14,930,186**	**17,312,920**	**20,271,230**
Deposits	9,469,452	10,846,548	12,827,820	15,195,302
Borrowings	1,863,000	1,980,438	2,175,806	2,447,247
Other liabilities and provisions	586,636	650,477	630,263	689,624
Share capital	6,154	6,154	6,154	6,154
Reserve & surplus	1,248,013	1,446,569	1,672,877	1,932,904
Total equity & liabilities	**13,173,255**	**14,930,186**	**17,312,920**	**20,271,230**
% Growth	12.1	13.3	16.0	17.1

Source Company data, I-Sec research

Exhibit 19: Growth ratios

(year ending March)

(%)	FY23A	FY24E	FY25E	FY26E
Net Interest Income	29.6	12.5	10.7	21.6
Operating profit	29.5	10.6	16.4	29.4
Core operating profit	38.3	6.3	15.7	30.5
Profit after tax	68.4	6.2	14.7	33.4
EPS	68.0	6.1	14.7	33.4
Advances	19.4	15.7	16.6	16.6
Deposits	15.2	15.6	18.1	18.2
Book value per share	8.6	15.8	15.6	18.0
Adj Book value per share	9.8	16.1	15.8	18.2

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per share data				
Adjusted EPS	71.4	75.9	86.5	99.4
Book Value per share	408	472	546	630
Adjusted BVPS	399	464	537	621
Valuation ratio				
PER (x)	13.4	12.6	11.0	9.6
Price/ Book (x)	2.3	2.0	1.8	1.5
Price/ Adjusted book (x)	2.3	1.9	1.6	1.4
Dividend Yield (%)	0.1	1.2	1.4	1.6
Profitability ratios (%)				
Yield on advances	8.3	9.4	9.3	9.4
Yields on Assets	6.8	7.7	7.7	7.8
Cost of deposits	3.6	4.7	4.8	4.9
Cost of funds	3.4	4.2	4.4	4.5
NIMs	3.7	3.7	3.6	3.6
Cost/Income	46.1	49.7	49.6	47.7
Dupont Analysis (as % of Avg Assets)				
Interest Income	6.8	7.7	7.7	7.8
Interest expended	3.4	4.2	4.4	4.5
Net Interest Income	**3.4**	**3.5**	**3.3**	**3.3**
Non-interest income	1.3	1.5	1.6	1.6
Trading gains	0.0	0.1	0.1	0.1
Fee income	1.3	1.4	1.5	1.5
Total Income	**4.8**	**5.0**	**4.9**	**4.9**
Total Cost	**2.2**	**2.5**	**2.4**	**2.3**
Staff costs	0.7	0.8	0.8	0.7
Non-staff costs	1.5	1.7	1.7	1.6
Operating Profit	**2.6**	**2.5**	**2.5**	**2.6**
Core Operating Profit	2.6	2.4	2.4	2.5
Non-tax Provisions	0.2	0.3	0.3	0.4
PBT	**2.3**	**2.2**	**2.2**	**2.2**
Tax Provisions	0.6	0.6	0.6	0.5
Return on Assets (%)	**1.8**	**1.7**	**1.7**	**1.6**
Leverage (x)	10.4	10.4	10.3	10.4
Return on Equity (%)	**18.2**	**17.3**	**17.0**	**16.9**
Asset quality ratios (%)				
Gross NPA	2.0	1.6	1.5	1.4
Net NPA	0.4	0.3	0.3	0.3
PCR	79.8	80.0	80.0	80.0
Gross Slippages	2.0	1.7	1.6	1.4
LLP / Avg loans	0.4	0.9	0.8	0.8
Total provisions / Avg loans	0.4	0.4	0.4	0.6
Net NPA / Networth	2.7	2.2	2.0	1.9
Capitalisation ratios (%)				
Core Equity Tier 1	14.0	13.8	13.5	13.2
Tier 1 cap. adequacy	14.6	14.3	13.9	13.6
Total cap. adequacy	17.6	17.0	16.5	15.9

Source Company data, I-Sec research

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