Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Axis Bank Ltd

Standing tall in this upcycle

Banks	Sharekhan code: AXISBANK
Reco/View: Buy ↔	CMP: Rs. 1,125 / Price Target: Rs. 1,350 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We believe structural improvement in the franchise is providing strong visibility for the bank to sustain ~1.8% ROA /~18% ROE in near to medium term.
- Structural improvements include – A better loan mix, reduction in RIDF book, granularisation of deposits, utilisation of excess liquidity, healthy NIMs (supported by sector tailwinds), excess non-NPA provision buffers resulting in healthy return ratios despite lower RWA growth.
- Additionally, Citi's integration has turned out well with the merging of the HR side; there is no negative surprise in terms of additional integration costs.
- We believe as NIMs & CET-1 gap gradually narrow with its core peer, valuation multiples would improve further. We maintain Buy rating with a revised PT of Rs. 1,350, rolling forward our valuation to FY2026E. At CMP, the stock trades at 1.9x/1.6x its FY2025E/FY2026E core BV estimates.

Axis Bank is now emerging as structurally a stronger franchise, which will continue to deliver better performance on a sustained basis in the near to medium term. Its focus business segment (40% of total loans) registered a ~24% CAGR loan growth since FY20, without increasing RWA intensity. The focus segments include- Small Business Banking (SBB), Small & Medium Enterprises (SME) loans, mid corporate loans, rural loans, personal loans and credit card advances. The focus business segment's share has improved by 950 bps in the last 3.5 years. Focus is on higher risk-adjusted returns over cycles with lower growth in risk-weighted assets (RWA). The bank has also made progress in granularising deposits, as is evident from a ~5.5% reduction in outflow rate in deposit in last 2 years to 23.2% as per LCR. Structural improvement in NIMs trajectory and benign credit cycle is contributing to the healthy profitability/ return ratios which is also allowing bank to invest in future, and it would continue to do so as long as environment remains favorable. Citi Integration is also progressing well on the expected lines with no negative surprise. We see the bank emerging as stronger in this leg of the upcycle.

- **Growth Outlook:** The bank intends to maintain a medium-term loan growth that is ~400-600 bps higher than industry by targeting its focused segment and it will continue to focus on partnerships with new-age technology platform along with growing the liability franchise in granular manner with focus on retail deposits accretion. Management has been focused on granularization and premiumization of the liability profile. The bank has seen its outflow rates on deposits (as per Basel LCR computation) fall by ~550 bps over the past two years to a level closer to the best in class in the industry. In terms of growth capital, if Industry growth remains rangebound then the bank has sufficient capital for growth.
- **NIMs outlook:** The bank indicated NIMs are (~4.1% in Q2FY24) currently above the structural guidance of ~3.8%. The incremental cost of funds for the bank has stabilized, but overall cost of funds will continue to inch up over the next few quarters on account of re-pricing. Going forward, it will continue to work on structural improvements on the yield front—with key drivers being - loan mix and re-pricing of the loan book gradually to higher rates. While there is likely to be some pressure on cost of funds in the near term but bank indicated confidence on its ability to protect the margins.
- **Asset quality outlook:** There are no signs currently that point to any material change in asset quality trends that the bank is witnessing currently across business segments. However, a few segments have started to reverse from the historically low levels. Credit costs are negligible as of now, but these are likely to increase over time when the net slippages start to increase. There is no immediate need to reverse any of the excess provisions and bank would prefer to have a more cautious approach.

Our Call

Valuation – We maintain a Buy with a revised PT of Rs. 1,350: Axis Bank currently trades at 1.9x/1.6x its FY2025E/FY2026E core BV estimates. We believe marginal NIM pressure along with elevated cost ratios in the near term would be offset by strong asset quality, in turn lowering credit costs. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise as the balance sheet mix has significantly improved for the bank in the last few years, which we believe is positive for its profitability and sustainable growth going forward.

Key Risks

Any economic slowdown that affects loan growth, higher-than-anticipated credit costs, sluggish rise in retail deposit franchise and lower-than-expected margins are key risks.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	33,132	42,946	49,194	55,878	63,271
Net profit	13,026	9,580	24,288	26,508	29,586
EPS (Rs.)	42.4	31.0	78.3	84.2	93.9
P/E (x)	24.4	33.3	13.2	12.3	11.0
P/BV (x)	2.8	2.5	2.1	1.9	1.6
RoE	12.0	8.0	17.7	16.3	15.5
RoA	1.2	0.8	1.8	1.8	1.8

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 24.17

Updated Aug 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

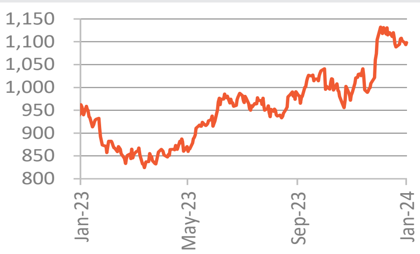
Company details

Market cap:	Rs. 3,46,952 cr
52-week high/low:	Rs. 1,152/ 814
NSE volume: (No of shares)	90.4 lakh
BSE code:	532215
NSE code:	AXISBANK
Free float: (No of shares)	277.6 cr

Shareholding (%)

Promoters	
FII	53.0
DII	37.2
Others	9.8

Price chart



Price performance

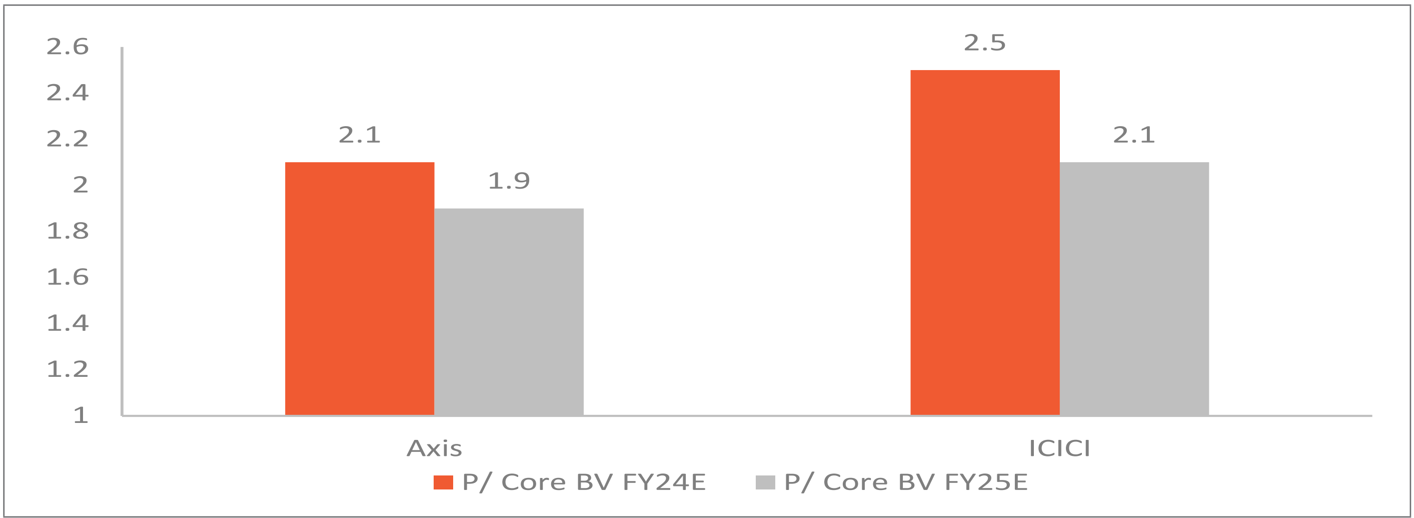
(%)	1m	3m	6m	12m
Absolute	-0.1	13.0	15.9	17.6
Relative to Sensex	-4.4	2.8	6.1	-0.9

Sharekhan Research, Bloomberg

Stock Update

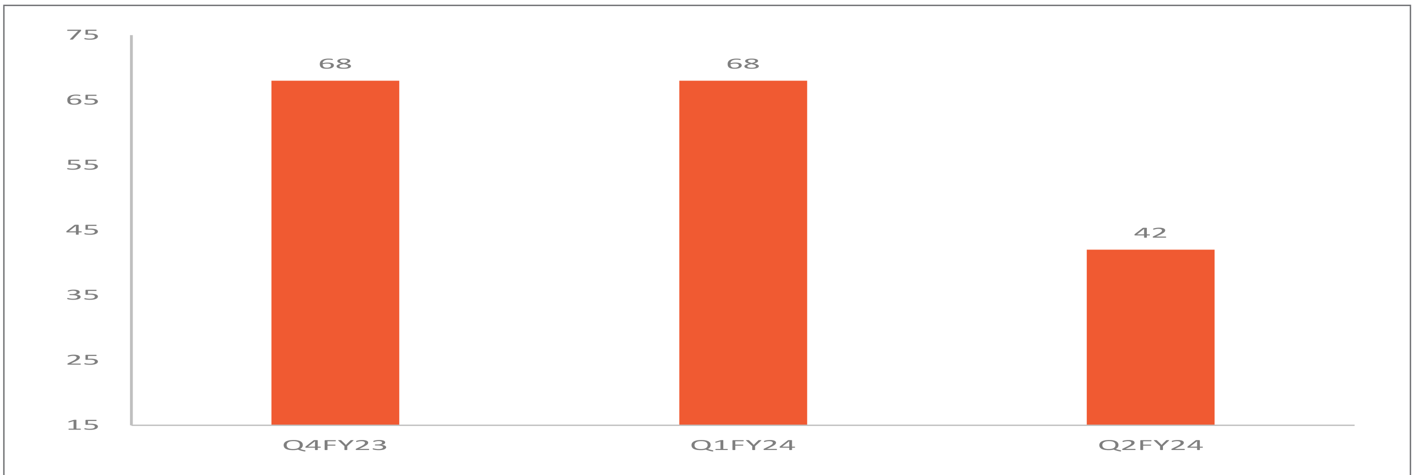
Company Update

Structural changes in the franchise are likely to narrow the valuation gap with its peers



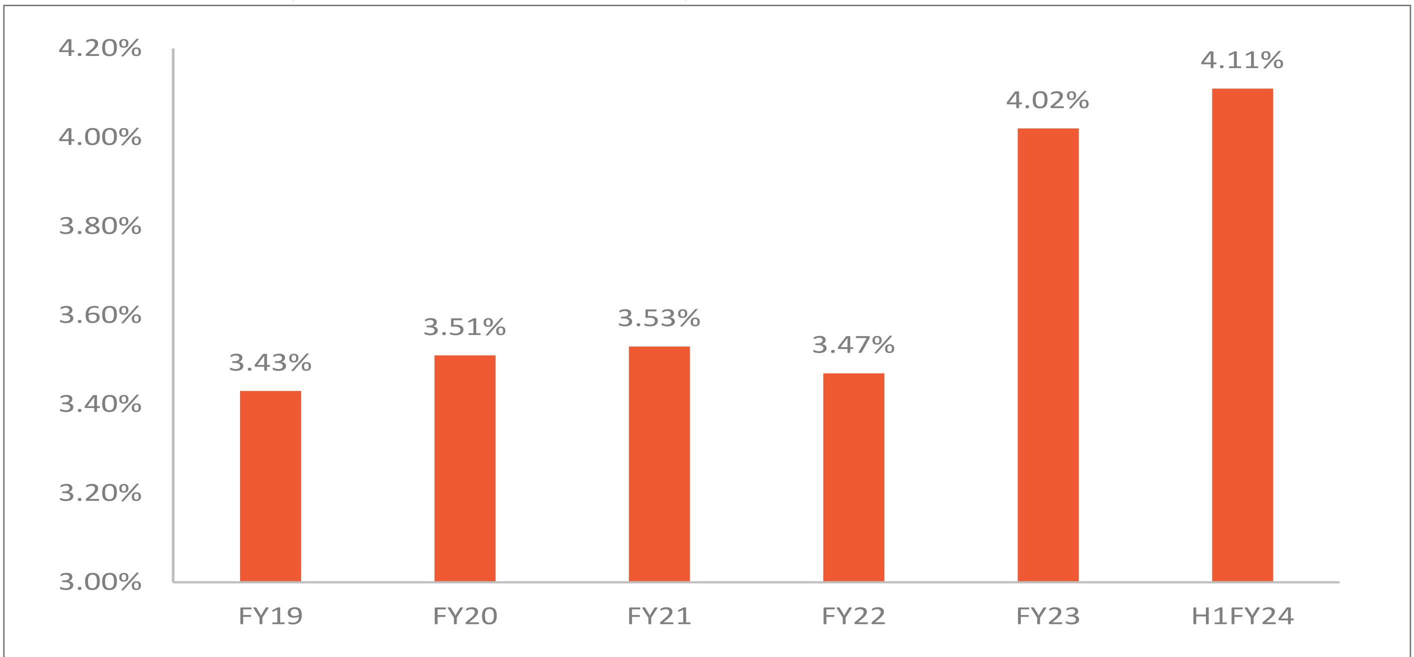
Source: Company, Sharekhan Research

NIMs gap vs. core peer (ICICI Bank) has started narrowing



Source: Gap is reflected in basis points, Company, Sharekhan Research

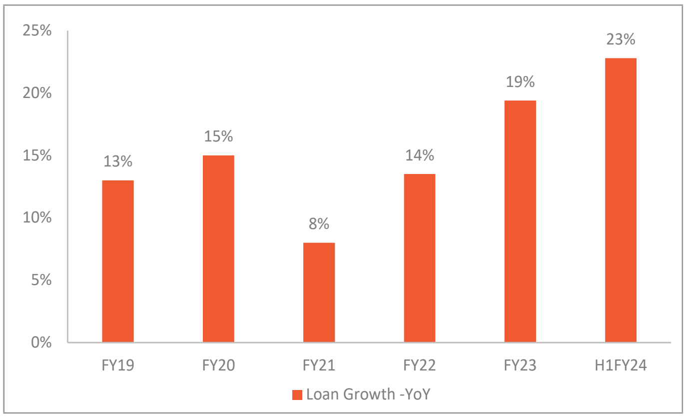
NIM improvement driven by some of the structural factors and cyclical tailwinds



Source: Company, Sharekhan Research

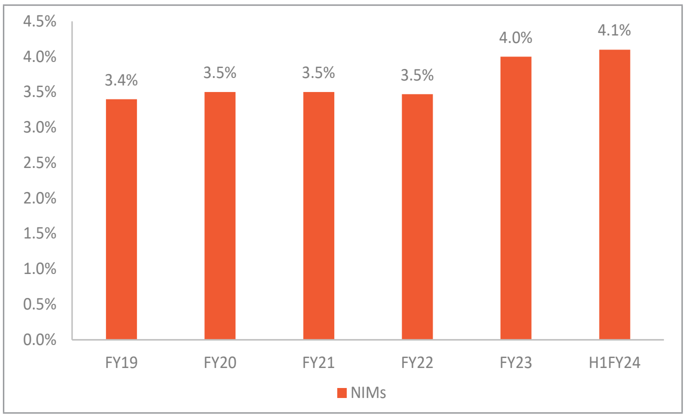
Financials in charts

Trend in Loan growth



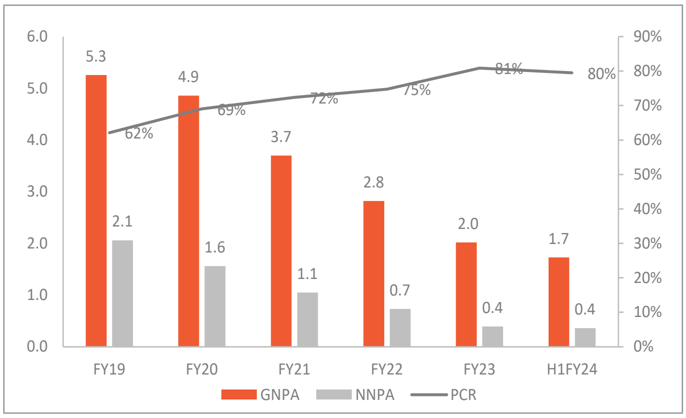
Source: Company, Sharekhan Research

Trend in NIMs



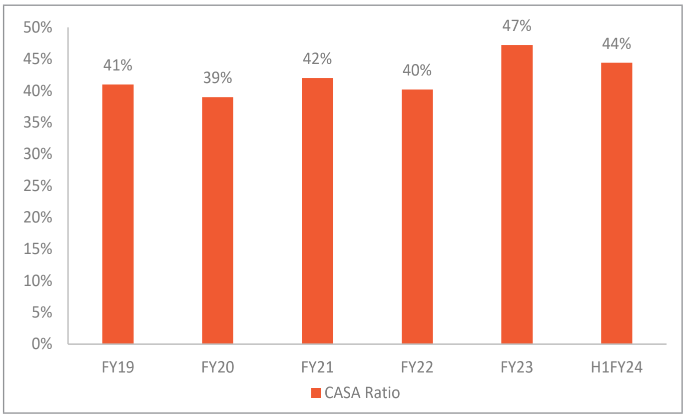
Source: Company, Sharekhan Research

Trend in Asset Quality



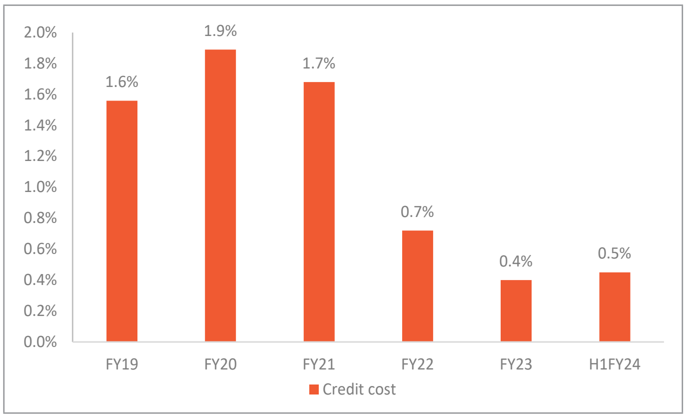
Source: Company, Sharekhan Research

Trend in CASA



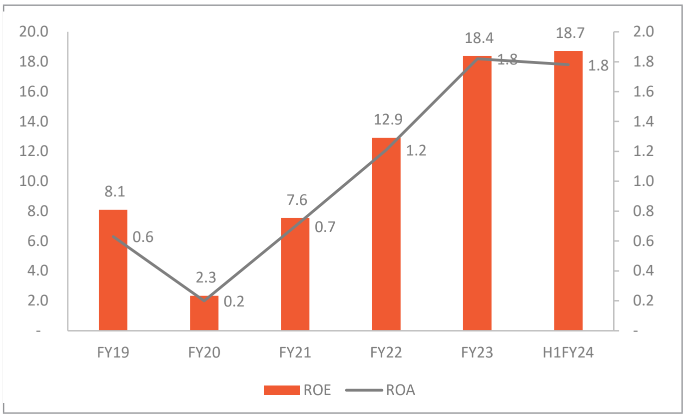
Source: Company, Sharekhan Research

Trend in Credit Cost



Source: Company, Sharekhan Research

Trend in Return Ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~20.8% y-o-y in the fortnight ending December 01, 2023, indicating loan growth has been strong, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13.8%. The gap between advances and deposits growth is narrowing and is expected to further narrow as real deposit rates increase gradually. We should see some moderation in loan growth due to a higher base going ahead, but loan growth is expected to remain healthy. Margins peaked in Q4FY2023 and are expected to be lower going ahead led by repricing of deposit cost given limited room for repricing of asset book . The overall asset-quality outlook continues to remain stable to positive for the sector. We believe that banks with a robust capital base, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well-placed to capture growth opportunities.

■ Company Outlook – Gradually converging with peers

The investment thesis for Axis Bank remains strong, led by sustained improvement in the business franchise. The balance sheet mix has significantly improved for the bank, which we believe is positive for profitability and sustainable growth going forward. The bank is trading at lower valuations compared to its close peers due to lower CET-1 and lower NIM profile. We believe it is on the path to gradually converge with the peers.

■ Valuation – We maintain our Buy rating with a revised PT of Rs. 1,350

Axis Bank currently trades at 1.9x/1.6x its FY2025E/FY2026E core BV estimates. We believe marginal NIM pressure along with elevated cost ratios in the near term would be offset by strong asset quality, in turn lowering credit costs. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise as the balance sheet mix has significantly improved for the bank in the last few years, which we believe is positive for its profitability and sustainable growth going forward.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Axis Bank	1,125	3,46,952	13.2	12.3	2.1	1.9	17.7	16.3	1.8	1.8
ICICI Bank	987	6,92,307	15.4	14.6	2.5	2.1	17.7	15.8	2.3	2.1

Source: Company, Sharekhan estimates

About the company

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments, covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank also has subsidiaries catering to diversified financial services, which contribute and benefit from the bank's strong market position across categories. The bank had a network of 5,152 domestic branches as of September 2023. Capital adequacy ratio (CAR) stands at 16.56%.

Investment theme

Axis Bank is looking for a sustainable growth path with granularity in the balance sheet mix. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise. The balance sheet mix has significantly improved for the bank, which we believe is positive for its profitability and sustainable growth going forward.

Key Risks

Economic slowdown leading to slower loan growth, higher-than-anticipated credit cost, slower growth in retail deposit franchise and lower-than-expected margins.

Additional Data

Key management personnel

Amitabh Chaudhary	MD and CEO
Rajiv Anand	Deputy MD
Puneet Sharma	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.9
2	SBI Funds Management Ltd.	3.9
3	Blackrock Inc.	3.3
4	Dodge & Cox	3.2
5	Vanguard Group Inc.	3.0
6	ICICI Prudential Asset Management Co. Ltd.	2.6
7	HDFC Amc Ltd	2.4
8	NPS Trust Uti Retirement Solutions Ltd.	2.2
9	Government of Singapore	2.1
10	FIL Ltd.	2.0

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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