

Axis Bank Ltd.



RESULT UPDATE

25th January 2024

Axis Bank Ltd.

Consistent performance; No major negative surprises

CMP INR 1,059	Target INR 1,275	Potential Upside 20.4%	Market Cap (INR Mn) 32,68,186	Recommendation BUY	Sector Banking
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Result Highlights Q3FY24:

- AXSB's Net Interest Income (NII) grew 9.4% YoY/ 1.8% QoQ to INR 125,318 Mn in Q3FY24. NII was 1.5% lower than our estimates. Net interest margin (NIM) for Q3FY24 stood at 4.0%, a decline of 25 bps YoY/ 10 bps QoQ. For 9MFY24, the NII growth stood at 18.0% YoY to INR 368,055 Mn.
- The Bank's PPOP (Pre-Provisioning Operating Profit) for the quarter was INR 91,409 Mn, a growth of 5.9% QoQ, whereas it declined by 1.5% YoY on account of higher operating expenses. The PPOP was 1.1% higher than our estimates. In 9MFY24, PPOP surged by 16.2% YoY to INR 265,875 Mn.
- Net profit grew 3.7% YoY (+3.5% QoQ) to INR 60,708 Mn in Q3FY24, led by lower credit costs. The net profit was in line with our expectation. For 9MFY24, PAT stood at INR 177,318 Mn, a growth of 15.8% YoY.
- As of December 31, 2023, the Bank's reported Gross NPA and Net NPA levels were 1.58% and 0.36%, respectively, as against 1.73% and 0.36% as of September 30, 2023.
- The overall capital adequacy ratio (CAR) stood at 16.63%, with the CET-1 ratio at 13.71% as of December 31, 2023.

MARKET DATA

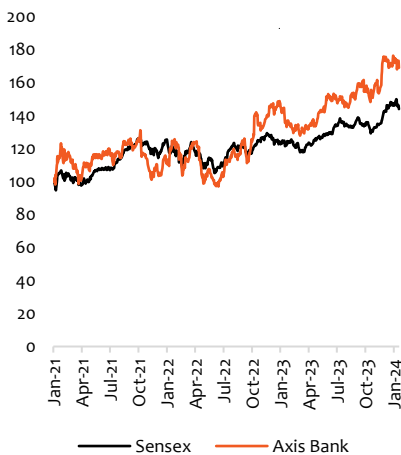
Shares outs (Mn)	3,084
Equity Cap (INR Mn)	14,29,836
Mkt Cap (INR Mn)	32,68,186
52 Wk H/L (INR)	1,152/ 814
Volume Avg (3m K)	8,712
Face Value (INR)	2
Bloomberg Code	AXSB IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
NII	331,322	429,458	497,802	567,560	651,607
PPOP	247,420	320,483	361,174	425,341	503,549
PAT	130,255	95,797	242,716	284,703	334,441
EPS (INR / Share)	42.5	31.1	78.8	92.4	108.5
BVPS (INR / Share)	357.2	396.0	474.7	565.4	672.3
NIM (%)	3.5%	3.8%	3.9%	3.8%	3.8%
Advances Growth YoY (%)	15.2%	19.4%	16.2%	15.7%	16.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	71,060
NIFTY	21,454

NIMs decline led by higher cost of funds which was on expected lines; higher opex impacts operating profits: AXSB reported Net Interest Margins (NIMs) of 4.0% in Q3FY24, a decline of 25 bps YoY/ 10 bps QoQ. The yields on interest-earning assets have improved by 69 bps YoY and 6 bps QoQ. This increase did not offset the increase in the cost of funds, thereby impacting NIM. The cost of funds for the quarter stood at 5.35%, an increase of 101 bps YoY and 18 bps QoQ. However, the progress on structural NIM drivers continues, with improvements across all variables on a YoY basis led by a) improvement in balance sheet mix with loans and investments comprising ~89.0% of total assets as of December 31, 2023, improving by 154 bps YoY; b) retail and CBG advances comprising 69.0% of total advances, improving by 264 bps YoY; c) low-yielding RIDF bonds declined by INR 81.7 Bn YoY; and d) quality of liabilities measured by outflow rate improved ~600 bps over the last two years. On the non-interest income side, the growth was reported at 19.1% YoY/10.3% QoQ in Q3FY24. The core fee income reported an increase of 29.2% YoY/ 4.2% QoQ to INR 51,700 Mn. The trading income gain for the quarter stood at INR 2,910 Mn; miscellaneous income in Q3FY24 stood at INR 940 Mn. The trading income grew mainly on account of better DCM and trading performance and the reversal of MTM booked in the previous quarters. The operating expenses continued to be higher by 30.6% YoY/ 2.6% QoQ on the back of higher integration expenses. There were no CITI BAU expenses in Q3FY23. The QoQ increase in operating expenses is largely attributable to higher volumes. Thus, the cost-to-income ratio stood higher at 49.5% in Q3FY24 against 50.2% in Q2FY24 (vs. 42.5% in Q3FY23). The cost-to-income ratio will continue to remain elevated in the near term, which will be partially offset by a strong control over its credit costs.

SME and retail segments drive credit growth; Deposit growth picks up with healthy growth in non-retail term deposits: As of December 31, 2023, credit growth stood at 22.3% YoY/ 3.9% QoQ. The retail loans grew by 27.4% YoY/ 5.3% QoQ (contributing 58.7% to the overall loan book). The retail disbursements in Q3FY24 were the highest ever for 9MFY24 aided by improved consumer sentiments and strong festive demand. Credit cards and personal loans grew by 92.0% YoY and 28.0% YoY, respectively. Corporate loans grew 12.6% YoY/ 1.3% QoQ, led by strong growth in the mid-corporate segment of 30.0% YoY/ 6.0% QoQ. The Bank expects the disbursement pipeline for Q4FY24E to remain healthy. The deposit growth stood at 18.5% YoY/ 5.2% QoQ, with an average CASA decline of 239 bps YoY/ 222 bps QoQ to 42.1%. Despite this decline, the low-cost CASA share remained one of the best in the industry and has compounded at 14.0% for the last three years. In Q3FY24, the Bank has added 100 branches, bringing the overall branch additions to ~350 for the 9MFY24 period, which is among the highest in the industry.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	8.2	8.2	8.2
FIIIs	54.7	53.0	52.0
DIIIs	28.8	29.0	29.9
Others	8.3	9.8	9.9
Total	100.0	100.0	100.0

14.9%

NII CAGR between FY23 and FY26E

14.9%

Adj. PAT CAGR between FY23 and FY26E

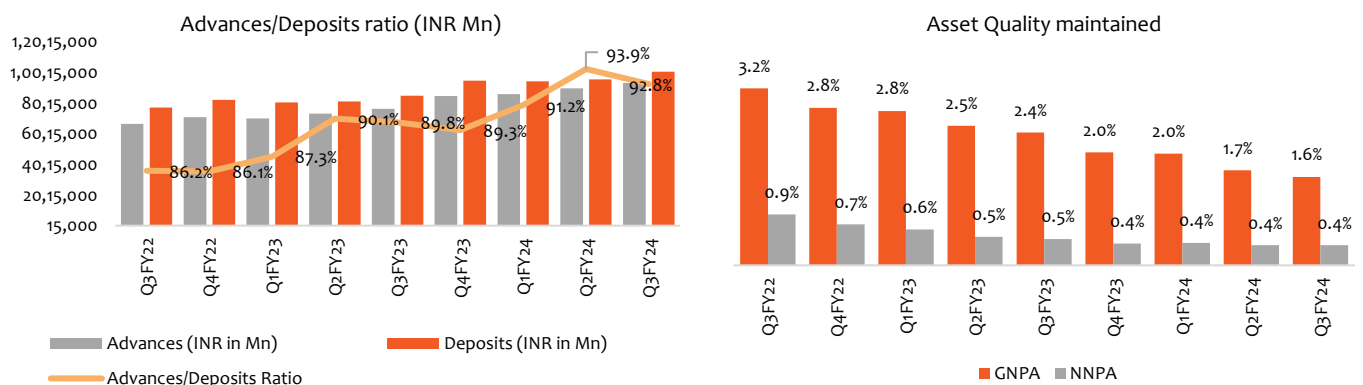
Axis Bank Ltd.

Net Slippages see further moderation; Asset quality remains stable: The GNPA for the quarter improved by 15 bps QoQ, while the NNPA remained flat at 0.36% as of December 31, 2023. In Q3FY24, the gross slippage ratio (annualized) stood at 1.62%, declining 40 bps YoY but seeing an increase QoQ from 0.49%. However, the net slippages declined from 0.59% in Q2FY24 to 0.50% in Q3FY24 (vs. 0.93% in Q3FY23). Gross slippages for the quarter were INR 37,150 Mn, lower by 2.4% YoY but increased by 14.2% QoQ. For the quarter, ~ 35.0% of the gross slippages are attributed to linked accounts of borrowers that were standard when classified or have been upgraded in the same quarter. Net slippage in the quarter adjusted for recoveries from the written-off pool was INR 4,820 Mn, of which retail was INR 15,420 Mn, CBG was negative INR 110 Mn, and WBCG was negative INR 10,490 Mn. The recoveries from written-off accounts for the quarter were INR 6,350 Mn. Provisions and contingencies for the quarter were INR 10,283 Mn, lower by 28.5% YoY but increased by 26.2% QoQ. The Bank has investments in AIF's aggregating INR 2,070 Mn. The Bank has prudently provided 100% of the entire AIF outstanding as of December 31, 2023, agnostic of overlap as of date. The fund-based outstanding of standard restructured loans implemented under the resolution framework for COVID-19-related stress (Covid 1.0 and Covid 2.0) declined during the quarter and, as of December 31, 2023, stood at INR 16,410 Mn which translates to 0.16% of the gross customer assets. The Bank carries a provision of ~ 20.0% on restructured loans, which is in excess of regulatory limits.

Key Concall Highlights:

- The Indian economy is in a sweet spot and is a beacon of optimism globally.
- The customer sentiment remains healthy with improved capacity utilization across sectors for corporates, the factors that are ideal for an uptick in private CapEx.
- RBI has an inflation target and there are still risks to that target, so interest rates are not expected to come down.
- The deposit growth in the system is a challenge with a tight liquidity environment. Liquidity is tight and overnight rates are near the upper end of the corridor.
- On deposits, AXSB has improved the quality of its granular franchise significantly with its LCR outflow rates and CASA ratio being the best in class in the sector; and its retail term deposits growth improving to 12 quarter high.
- The growth trajectory of retail term deposits continued to improve with 17.0% YoY and 2.0% QoQ growth on period end basis and 15.0% YoY and 3.0% QoQ on QAB basis.
- AXSB is doubling down on its deposit mobilization strategy led by 2 large transformation initiatives - Siddhi (a super app for its employees) and Project Triumph.
- AXSB has a strong foundation for its liability franchise. It continues to work on the 'deposit leadership' roadmap we set a year back. The Bank expects to realize the full potential of this transformation in next 6-7 quarters.
- Within Retail lending, the Bank continues to drive balanced growth across the product portfolio.
- MSME segment continues to remain a key growth driver for the Bank. The combined portfolio of mid-corporate, SMEs and small businesses grew 30.0% YoY and 5.0% QoQ, and it constitutes 21.0% of the loan book, up ~620 bps in last 3 years.
- On Transaction Banking APIs, the Bank continues to see strong interest from corporates across industry segments. with 3.7x growth in corporate onboarding along with 7.0x growth in transactions and 4.8x growth in throughput.
- NEO for Business which is AXSB's mobile-first transaction banking platform tailored for SMEs, continues to scale up in terms of customer onboarding. It saw an increase of over 25% in digital usage amongst these customers with the introduction of business banking specific features. It is in the process of rolling out a host of beyond banking features which will include features like ERP integration, payroll and inventory management.
- With full rollout of NEO, AXSB remains on track to become the Operational Bank of choice for its Wholesale Banking clients.
- The 'Open' by AXSB balance sheet had an 48.0% increase in deposits and 86.0% increase in loans. It launched a new digital savings account proposition 'Amaze' that provides customers attractive joining offers and spends based rewards for a nominal monthly fee.
- It has also launched and scaled new products including FD for standalone credit card customers, USD FDs in GIFT City for NRI customers, new loan and insurance products on Open.
- Citi integration remains on track with acquired business portfolio metrics trending in line with the internal estimates. Deposits are stable and there has been improvement in cross sell metrics across wealth, insurance and retail assets. Nearly all of the 70 synergy initiatives that we had identified across cross-sell, deepening, sales productivity and cost rationalization remain on track and monitored by the Board. The Bank expects to complete data migration and system integration by the end of H1FY25E.
- Q3FY24 Retail disbursements grew 47.0% YoY and 10.0% QoQ. Unsecured disbursements were 22.0% of retail disbursements for the quarter as compared to 25.0% in the previous quarter. Disbursement growth in home loans was 37.0% YoY, SBB and auto loans 33.0% YoY, retail agri 46.0% YoY, personal loans 61.0%.

Valuation and view: AXSB Q3FY24 results were in line with our estimates, led by healthy business momentum and stable asset quality. The Bank continues to focus on gaining market share for its core product segments, with the expectation of seeing credit growth higher than the industry by 400–600 bps in the coming quarters. The Bank has been seeing a favorable loan mix with a shift towards high-yielding products while at the same time trying to maintain its asset quality by balancing the mix between secured and unsecured loan books. AXSB has been working on building a strong and superior-quality liability franchise, with visible improvement seen in retail deposit growth. In Q3FY24, NIMs saw sequential pressure led by a higher cost of funds, which is expected to continue for the next two quarters. However, the Bank expects to see stable NIMs for the full year FY24E, led by the structural NIM drivers across multiple variables. We have introduced FY26E estimates and accordingly rolled over our valuations. **We have factored CAGR of 16.2% in advances, 14.9% in NII, 16.3% in PPOP, and 14.9% in Adj. PAT over FY23-26E, driven by positive trends in business momentum and pick-up in synergy benefits coming through CITI business. We revise our target price at INR 1,275 per share (earlier INR 1,160), applying a 1.9x P/ABV multiple to FY26E adjusted book value of INR 672.3 per share. This implies an upside of 20.4% over the CMP. We reiterate our rating on the share of AXSB at "BUY".**



Source: Company, KRChoksey Research

Axis Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	673,768	851,638	1,093,560	1,278,116	1,487,304
Interest Expense	342,446	422,180	595,758	710,556	835,697
Net Interest Income	331,322	429,458	497,802	567,560	651,607
Non-interest income	152,205	165,009	214,526	253,141	298,707
Operating income	483,528	594,466	712,328	820,702	950,314
- Employee expense	76,126	87,974	107,616	114,270	121,282
- Other operating expense	159,982	186,009	243,539	281,090	325,482
Operating Expense	236,108	273,983	351,155	395,361	446,765
PPOP	247,420	320,483	361,174	425,341	503,549
Provisions	73,595	26,526	36,878	45,736	57,627
PBT	173,826	293,957	324,296	379,604	445,921
Tax Expense	43,571	73,262	81,580	94,901	111,480
Exceptional Expenses	0	124,898	0	0	0
PAT	130,255	95,797	242,716	284,703	334,441
Adjusted PAT	130,255	220,695	242,716	284,703	334,441
Diluted EPS (INR)	42.5	31.1	78.8	92.4	108.5

Source: Company, KRChoksey Research

Axis Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Source of Funds					
Share capital	6,140	6,154	6,168	6,168	6,168
Reserves & Surplus	1,145,601	1,248,013	1,490,729	1,775,432	2,109,873
Networth	1,151,741	1,254,167	1,496,897	1,781,600	2,116,041
Borrowings	1,851,339	1,863,000	1,942,636	2,016,322	2,045,653
Deposits	8,219,716	9,469,452	10,792,425	12,602,011	15,152,987
Other liabilities & provisions	531,493	586,636	658,401	930,121	990,252
Total Equity & Liabilities	11,754,288	13,173,255	14,890,359	17,330,053	20,304,933
Uses of Funds					
Balance w/ banks & others	2,050,212	1,725,286	1,685,436	2,016,322	2,424,478
Net investments	2,755,972	2,888,148	3,291,690	3,843,613	4,470,131
Loans & advances	7,079,466	8,453,028	9,818,705	11,355,538	13,268,616
Fixed assets	45,724	47,339	56,438	62,438	68,438
Other assets	763,257	720,632	664,960	808,263	982,449
Total Assets	11,754,288	13,173,255	14,890,359	17,330,053	20,304,933

Source: Company, KRChoksey Research

Axis Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
Growth Rates					
Advances (%)	15.2%	19.4%	16.2%	15.7%	16.8%
Deposits (%)	17.8%	15.2%	14.0%	16.8%	20.2%
Total assets (%)	19.1%	12.1%	13.0%	16.4%	17.2%
NII (%)	13.3%	29.6%	15.9%	14.0%	14.8%
Pre-provisioning profit (%)	-3.7%	29.5%	12.7%	17.8%	18.4%
PAT (%)	97.7%	-26.5%	153.4%	17.3%	17.5%
B/S Ratios					
Credit/Deposit (%)	86.1%	89.3%	91.0%	90.1%	87.6%
CASA (%)	45.0%	47.2%	41.8%	43.1%	37.6%
Advances/Total assets (%)	60.2%	64.2%	65.9%	65.5%	65.3%
Leverage - Total Assets to Equity	10.2	10.5	9.9	9.7	9.6
Operating efficiency					
Cost/income (%)	48.8%	46.1%	49.3%	48.2%	47.0%
Opex/total assets (%)	2.0%	2.1%	2.4%	2.3%	2.2%
Opex/total interest earning assets	2.4%	2.4%	2.7%	2.6%	2.5%
Profitability					
NIM (%)	3.5%	3.8%	3.9%	3.8%	3.8%
RoA (%)	1.2%	0.8%	1.7%	1.8%	1.8%
RoE (%)	12.0%	8.0%	17.6%	17.4%	17.2%
Asset quality					
Gross NPA (%)	2.8%	2.0%	1.6%	1.5%	1.5%
Net NPA (%)	0.7%	0.4%	0.3%	0.3%	0.3%
PCR (%)	75.0%	80.7%	77.9%	77.6%	77.9%
Slippage (%)	2.4%	1.8%	1.4%	1.3%	1.1%
Credit cost (%)	1.1%	1.0%	0.3%	0.5%	0.6%
Per share data / Valuation					
EPS (INR)	42.4	31.1	78.8	92.4	108.5
BVPS (INR)	375.2	407.6	485.7	578.1	686.6
ABVPS (INR)	357.2	396.0	474.7	565.4	672.3
P/E (x)	20.3	27.6	13.4	11.5	9.8
P/BV (x)	2.3	2.1	2.2	1.8	1.5
P/ABV (x)	2.4	2.2	2.2	1.9	1.6

Axis Bank Ltd.

Axis Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
25-Jan-24	1,059	1,275	BUY
30-Oct-23	989	1,160	BUY
01-Aug-23	962	1,160	BUY
28-Apr-23	860	1,160	BUY
27-Jan-23	892	1,210	BUY
24-Oct-22	909	1,120	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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•KRChoksey Shares and Securities Pvt. Ltd.

•CIN-U67120MH1997PTC108958

•Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

•Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

•Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

•Phone: 91-22-66535000

•Compliance Officer: Varsha Shinde

•Email: varsha.shinde@krchoksey.com