

Firm margins; but higher LLP causes an earnings miss

BFSI - Banks ▶ Result Update ▶ July 25, 2024

TARGET PRICE (Rs): 1,400

Axis Bank logged a 10% earnings miss, with PAT/ROA lower at Rs60bn/~1.6% mainly due to LLP being higher (0.9% of loans) on account of higher NPAs/slower recoveries, and partly offset by lower opex. Credit growth was relatively moderate, but better LDR, rising share of unsecured loans, and a one-off interest on IT refund helped Axis report flattish NIMs at 4.1%. The mgmt believes the higher NPA formation/LLP was a one-off and should trend down; this along with moderating cost (with the Citi integration pain largely behind) should help offset any margin/LLP pressure. Building-in the 1Q miss amid rising noise on unsecured loans and thus LLP, we cut FY25-27E earnings by ~3%. But we still expect the bank to report healthy RoA of ~1.8%. With CET 1 below 15%, the bank has taken an enabling resolution to raise equity capital to around Rs200bn; this should hence keep RoE in check. We retain BUY on Axis Bank and TP of Rs1,400/sh, rolling-over to 1.9x Jun-26E ABV (2x FY26E ABV earlier), and subs value of Rs90/sh. MD term extension by the RBI will be keenly watched.

Axis Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	220,695	248,614	278,500	322,611	377,178
Loan growth (%)	19.4	14.2	14.1	14.9	15.9
NII growth (%)	29.6	16.2	13.0	12.8	14.4
NIM (%)	3.7	3.8	3.7	3.7	3.7
PPOP growth (%)	30.5	15.0	17.8	18.1	18.4
Adj. EPS (INR)	71.7	80.5	90.1	104.4	122.1
Adj. EPS growth (%)	69.0	12.3	11.9	15.8	16.9
Adj. BV (INR)	392.5	473.8	564.5	663.4	779.7
Adj. BVPS growth (%)	9.8	20.7	19.0	17.3	17.3
RoA (%)	0.8	1.8	1.8	1.8	1.8
RoE (%)	12.0	18.0	16.8	16.5	16.4
P/E (x)	15.8	14.1	12.6	10.9	9.3
P/ABV (x)	3.0	2.4	2.0	1.7	1.4

Source: Company, Emkay Research

Margin protected, but growth slows a bit

The bank reported sluggish credit growth at 14% YoY/2% QoQ, mainly due to a slowdown in SME and retail growth, and partly offset by some acceleration in the corporate book. However, within retail, the bank continues to grow its unsecured book at a faster pace; hence we believe this should be watched, given noise on the rising stress. On the other hand, deposit growth disappointed, with only 13% YoY/-0.6% QoQ growth, mainly owing to slowdown in CASA (down 3% QoQ) leading to LDR uptick by 194bps to 92%. This, coupled with better portfolio mix, continued rundown in the low-yielding RIDF portfolio, and a one-off interest on IT refund, led to nearly flat NIMs at 4.05%. The bank believes FY25 credit growth will be anchored by deposit growth/LDR, which remain constrained.

Higher slippages, lower recovery led to higher NPAs/LLP

Gross slippages were elevated at Rs48bn/2.2% of loans which, coupled with lower recoveries, led to a 11bps QoQ rise in GNPA ratio to 1.5%, and NNPA rising by 3bps QoQ to 0.3%. As per the management, net retail slippages were higher at Rs24.6bn vs Rs10.6bn in 4Q, while corporate/wholesale net slippages stood at Rs0.13bn/2.3bn vs negative Rs0.6bn/Rs6bn, respectively. The management attributes 55% of the credit cost (0.9%) to timing difference in recognition/recovery of NPAs which should hence ease in ensuing quarters. The BB & Below corporate watch-list saw a downgrade of Rs6.4bn during the quarter.

We retain BUY, with TP of Rs1,400/share

Factoring-in the 1Q miss amid rising noise on unsecured loans and thus LLP, we cut FY25-27E earning by ~3%. However, we still expect the bank to report a healthy RoA of ~1.8%. With CET 1 below 15%, the bank has taken an enabling resolution to raise equity capital to the tune of Rs200bn which should thus keep the RoE in check. We retain BUY on Axis Bank and TP of Rs1,400/share, rolling-over to 1.9x Jun-26E ABV (2x FY26E ABV earlier); and subsidiary value of Rs90/sh. **Key risks:** Macro-dislocation and rising stress in unsecured loans leading to slower-than-expected growth/higher NPAs; KMP attrition; and MD term extension (expiring in Dec-24).

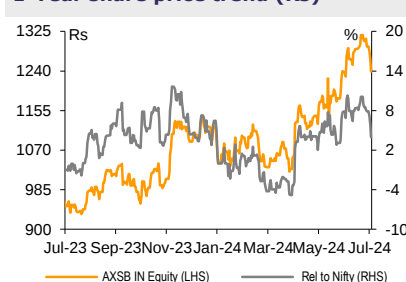
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	13.0
CMP (24-Jul-24) (Rs)	1,239.3

Stock Data	Ticker
52-week High (Rs)	1,340
52-week Low (Rs)	921
Shares outstanding (mn)	3,091.0
Market-cap (Rs bn)	3,830
Market-cap (US\$ mn)	45,755
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	11
ADTV-3M (Rs mn)	12,950.7
ADTV-3M (US\$ mn)	154.7
Free float (%)	90.0
Nifty-50	24,414
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	7.9
FPIs/MFs (%)	51.0/30.2

Price Performance

(%)	1M	3M	12M
Absolute	0.9	16.6	27.6
Rel. to Nifty	(2.7)	7.0	2.8

1-Year share price trend (Rs)



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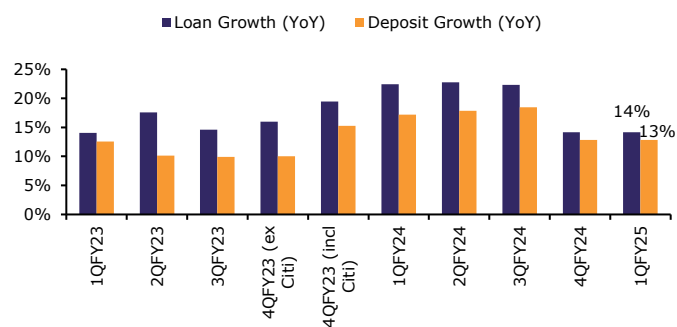
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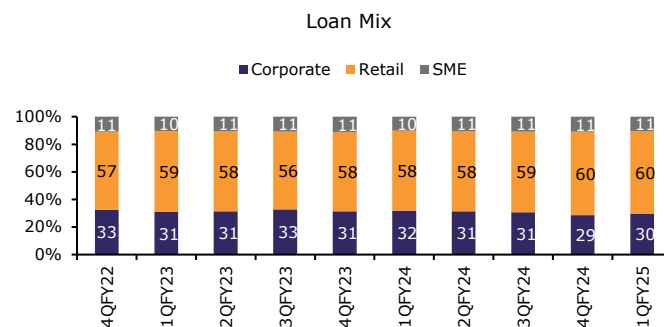
Story in Charts

Exhibit 1: Credit and deposit growth slows down a bit



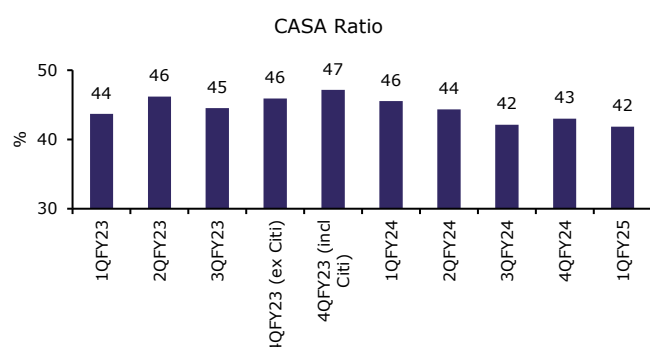
Source: Company, Emkay Research

Exhibit 2: Corporate book slightly picked up pace, while SME and retail growth were relatively slow



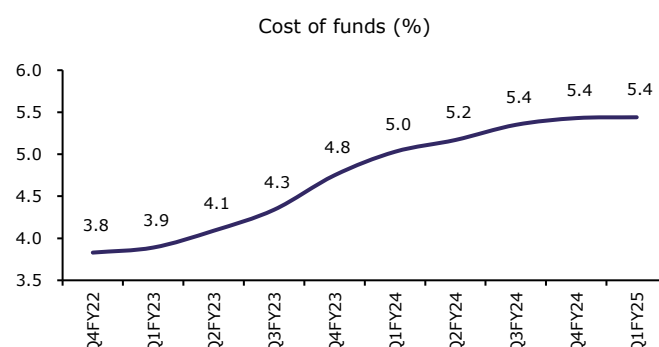
Source: Company, Emkay Research

Exhibit 3: CASA ratio continues to slip...



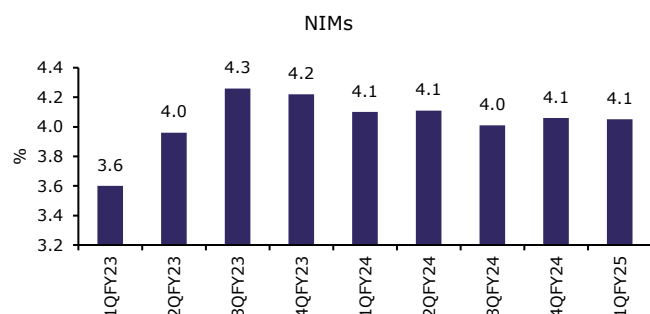
Source: Company, Emkay Research

Exhibit 4: ...while CoFs remain broadly stable...



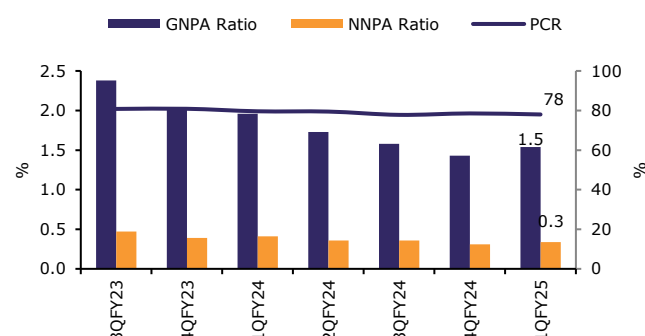
Source: Company, Emkay Research

Exhibit 5: ...which, coupled with better portfolio mix and interest on IT refund, led to nearly-stable margins



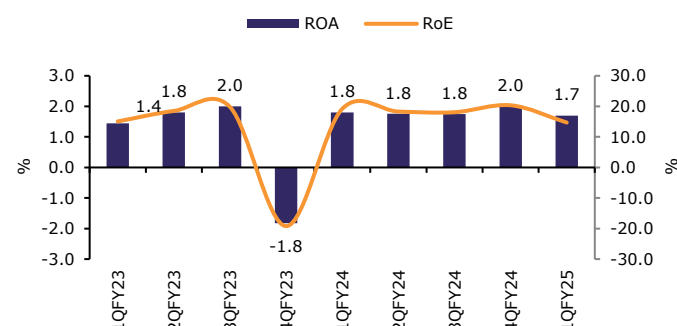
Source: Company, Emkay Research

Exhibit 6: Asset quality deteriorated QoQ owing to higher slippages



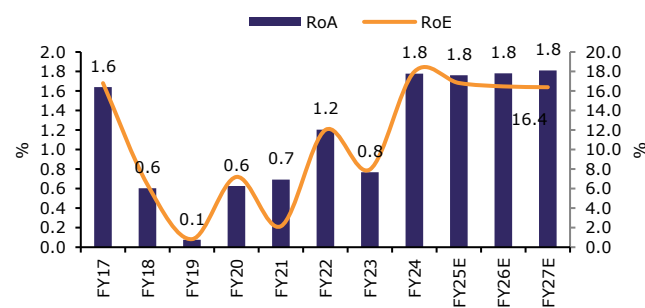
Source: Company, Emkay Research

Exhibit 7: The bank reported a rather soft RoA owing to higher LLP



Source: Company, Emkay Research

Exhibit 8: We expect the bank to report steady RoA of around 1.8%, but capital raise (not factored-in) could keep RoE in check

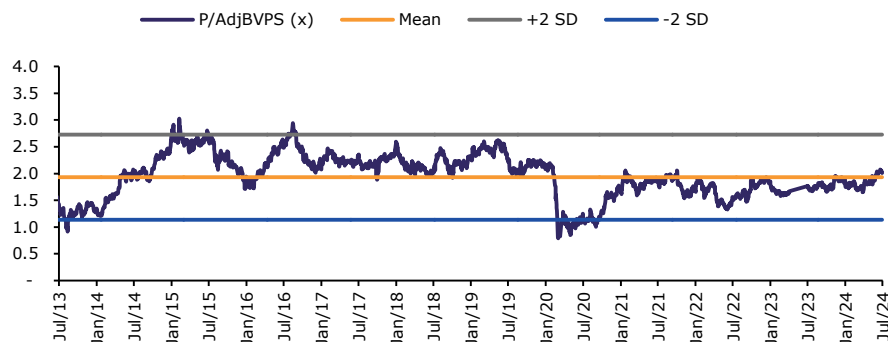


Source: Company, Emkay Research

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Exhibit 9: Axis Bank continues to trade at lower valuations



Source: Bloomberg, Emkay Research

Exhibit 10: Actuals vs Estimates (Q1FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	192,317	196,613	192,210	-2%	0%	Lower other income led to a miss
PPOP	101,062	101,411	97,905	0%	3%	Lower net income offset by lower opex led to in-line PPOP
PAT	60,346	67,164	65,352	-10%	-8%	Higher LLP led to a PAT miss

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	255,568	266,262	279,611	292,245	300,607	18	3	1,093,686	1,263,754	16
Interest Exp	135,980	143,116	154,290	161,355	166,125	22	3	594,742	699,918	18
Net Interest Income	119,588	123,146	125,322	130,890	134,482	12	3	498,945	563,836	13
Global NIMs (reported)	4.10	4.11	4.01	4.06	4.05	-5bps	-1bps	3.77	3.73	-4bps
Non-interest Income	50,873	50,341	55,548	67,658	57,835	14	-15	224,420	261,240	16
Operating Expenses	82,317	87,168	89,457	93,191	91,255	11	-2	352,133	387,801	10
Pre Provisioning Profit	88,144	86,319	91,412	105,357	101,062	15	-4	371,232	437,275	18
Provision & Contingencies	10,349	8,146	10,283	11,853	20,393	97	72	40,631	65,403	61
PBT	77,795	78,173	81,129	93,504	80,669	4	-14	330,601	371,872	12
Income Tax Expense (Gain)	19,824	19,537	20,418	22,207	20,323	3	-8	81,986	93,372	14
Net Profit/(Loss)	57,971	58,636	60,711	71,297	60,346	4	-15	248,614	278,500	12
Gross NPA (%)	1.96	1.73	1.58	1.43	1.54	-42bps	11bps	1.39	1.36	-11bps
Net NPA (%)	0.41	0.36	0.36	0.31	0.34	-7bps	3bps	0.30	0.33	-1bps
Deposits (Rs bn)	9,417	9,556	10,049	10,686	10,625	13	-1	10,686	12,486	17
Net Advances (Rs bn)	8,585	8,973	9,323	9,651	9,801	14	2	9,651	11,008	14

Source: Company, Emkay Research

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	836,606	825,076	-1.4%	964,309	954,250	-1.0%	1,127,782	1,114,033	-1.2%
PPOP	435,693	437,275	0.4%	519,055	516,434	-0.5%	616,925	611,710	-0.8%
PAT	286,461	278,500	-2.8%	333,016	322,611	-3.1%	388,993	377,178	-3.0%
EPS (Rs)	92.8	90.1	-2.9%	107.9	104.4	-3.2%	126.0	122.1	-3.2%
BV (Rs)	580.8	582.8	0.3%	686.7	684.8	-0.3%	810.3	804.5	-0.7%

Source: Company, Emkay Research

Exhibit 13: Key Assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	14.2	14.1	14.9	15.9
Deposit Growth (%)	12.9	16.8	17.4	18.2
NIM (%)	3.8	3.7	3.7	3.7
GNPA (%)	1.4	1.4	1.5	1.7
Credit Cost (%)	0.5	0.6	0.7	0.8

Source: Emkay Research

Exhibit 14: Key Ratios and Trends

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Loans (Rs bn)	7,011	7,309	7,621	8,453	8,585	8,973	9,323	9,651	9,801
growth YoY (%)	14.0	17.6	14.6	19.4	22.4	22.8	22.3	14.2	14.2
Composition (%)									
- Corporate	31.1	31.4	32.9	31.4	31.8	31.4	30.6	28.7	29.7
- SME/BB	10.1	10.7	10.8	11.0	10.2	10.7	10.7	10.8	10.6
- Retail	58.9	57.9	56.3	57.7	58.0	57.9	58.7	60.4	59.7
Liability Profile (%)									
CASA	43.7	46.2	44.5	47.2	45.5	44.4	42.1	43.0	41.8
CA	13.5	15.1	14.9	15.7	14.2	13.8	13.2	14.7	14.1
SA	30.3	31.1	29.6	31.4	31.4	30.6	28.9	28.3	27.8
NIM (%)	3.6	4.0	4.3	4.2	4.1	4.1	4.0	4.1	4.1
NIM – Domestic (%)	3.7	4.1	4.4	4.4	4.2	4.2	4.1	4.2	4.1
Asset Quality									
GNPA (%)	2.9	2.7	2.6	2.2	2.1	1.8	1.7	1.5	1.6
NNPA (%)	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3
PCR – Specific (%)	77.3	79.9	80.8	80.9	79.6	79.5	77.8	78.5	78.0
Slippages (Rs bn)	36.8	33.8	38.1	37.7	39.9	32.5	37.2	34.7	47.9
Slippages (%)	2.40	2.18	2.29	2.13	2.28	1.78	1.95	1.64	2.23
Capital Adequacy									
CAR (%)	17.8	17.7	19.5	17.6	17.7	17.8	16.6	16.6	16.7
Tier I (%)	15.8	15.8	16.2	14.6	14.9	15.1	14.2	14.2	14.1
ROE Decomposition (on total assets; %)									
NII	3.5	3.7	3.9	3.8	3.9	3.9	3.8	3.7	3.9
Other Income (Ex Treasury)	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Treasury	(0.2)	(0.0)	0.1	0.0	0.2	(0.0)	0.1	0.3	0.1
Net income	4.6	5.1	5.5	5.3	5.6	5.5	5.5	5.7	5.6
Opex	2.4	2.4	2.3	2.4	2.7	2.8	2.7	2.7	2.6
PPOP	2.2	2.8	3.2	2.9	2.9	2.7	2.8	3.0	2.9
Provisions	0.1	0.2	0.5	0.1	0.3	0.3	0.3	0.3	0.6
PBT	2.0	2.6	2.7	2.8	2.5	2.5	2.5	2.7	2.3
Tax	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
ROA	1.5	1.9	2.0	(1.8)	1.9	1.9	1.9	2.0	1.7
Leverage (x)	9.7	9.6	9.7	10.4	9.8	9.6	9.5	10.1	9.6
ROE	14.8	18.2	19.4	(19.0)	18.5	17.9	17.7	20.6	16.6

Source: Company, Emkay Research

Axis Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	851,638	1,093,686	1,263,754	1,390,425	1,548,917
Interest Expense	422,180	594,741	699,918	754,667	821,450
Net interest income	429,457	498,945	563,836	635,758	727,467
NII growth (%)	29.6	16.2	13.0	12.8	14.4
Other income	165,009	224,420	261,240	318,491	386,566
Total Income	594,466	723,365	825,076	954,250	1,114,033
Operating expenses	271,662	352,132	387,801	437,816	502,323
PPOP	322,805	371,233	437,275	516,434	611,710
PPOP growth (%)	30.5	15.0	17.8	18.1	18.4
Core PPOP	325,555	353,272	420,899	496,782	590,094
Provisions & contingencies	28,848	40,631	65,403	85,172	106,921
PBT	293,957	330,602	371,872	431,262	504,789
Extraordinary items	0	0	0	0	0
Tax expense	73,262	81,987	93,372	108,651	127,611
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	220,695	248,614	278,500	322,611	377,178
PAT growth (%)	69.4	12.7	12.0	15.8	16.9
Adjusted PAT	220,695	248,614	278,500	322,611	377,178
Diluted EPS (INR)	31.1	80.4	89.9	104.1	121.7
Diluted EPS growth (%)	(32.3)	158.8	11.8	15.8	16.9
DPS (INR)	1.0	1.0	1.4	2.0	2.4
Dividend payout (%)	1.4	1.2	1.6	1.9	2.0
Effective tax rate (%)	24.9	24.8	25.1	25.2	25.3
Net interest margins (%)	3.7	3.8	3.7	3.7	3.7
Cost-income ratio (%)	45.7	48.7	47.0	45.9	45.1
Shares outstanding (mn)	3,076.9	3,086.6	3,090.3	3,090.3	3,090.3

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	170,190.2	143,449.7	151,235.8	192,168.5	247,662.9
Net NPLs	34,390.4	32,474.7	36,296.6	48,042.1	61,915.7
GNPA ratio (%)	2.0	1.5	1.4	1.5	1.7
NNPA ratio (%)	0.4	0.3	0.3	0.4	0.4
Provision coverage (%)	79.8	77.4	76.0	75.0	75.0
Gross slippages	142,535.8	144,046.4	155,722.1	204,663.3	252,247.6
Gross slippage ratio (%)	1.7	1.5	1.4	1.6	1.7
LLP ratio (%)	0.4	0.4	0.6	0.7	0.8
NNPA to networth (%)	2.6	2.1	1.9	2.1	2.4
Capital adequacy					
Total CAR (%)	17.6	16.6	16.2	16.5	16.4
Tier-1 (%)	14.6	14.2	14.5	14.9	15.0
CET-1 (%)	14.1	14.1	14.4	14.8	14.9
RWA-to-Total Assets (%)	68.3	74.0	76.8	76.9	78.2
Miscellaneous					
Total income growth (%)	23.1	29.7	15.7	12.1	13.3
Opex growth (%)	15.1	29.6	10.1	12.9	14.7
Core PPOP growth (%)	39.3	8.5	19.1	18.0	18.8
PPOP margin (%)	31.8	28.2	28.7	30.2	31.6
PAT/PPOP (%)	68.4	67.0	63.7	62.5	61.7
LLP-to-Core PPOP (%)	8.9	11.5	15.5	17.1	18.1
Yield on advances (%)	8.4	9.7	9.7	9.3	9.0
Cost of funds (%)	3.9	4.9	5.1	4.8	4.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	6,154	6,173	6,181	6,181	6,181
Reserves & surplus	1,248,013	1,504,443	1,793,616	2,110,046	2,479,808
Net worth	1,254,167	1,510,616	1,799,797	2,116,227	2,485,988
Deposits	9,469,452	10,686,414	12,486,144	14,656,380	17,325,485
Borrowings	1,863,000	2,203,768	2,126,282	2,039,721	1,958,475
Interest bearing liab.	11,332,452	12,890,181	14,612,426	16,696,101	19,283,960
Other liabilities & prov.	586,636	371,289	454,794	511,453	548,229
Total liabilities & equity	13,173,255	14,772,086	16,867,017	19,323,781	22,318,177
Net advances	8,453,028	9,650,684	11,008,069	12,647,333	14,652,345
Investments	2,888,148	3,315,272	3,863,855	4,434,970	5,143,634
Cash, other balances	1,064,108	1,144,544	1,285,894	1,419,169	1,542,717
Interest earning assets	12,405,285	14,110,500	16,157,817	18,501,471	21,338,696
Fixed assets	47,339	56,846	102,662	114,332	127,367
Other assets	720,632	604,740	606,538	707,978	852,113
Total assets	13,173,255	14,772,086	16,867,017	19,323,781	22,318,177
BVPS (INR)	401.1	482.2	573.3	675.3	794.8
Adj. BVPS (INR)	392.5	473.8	564.5	663.4	779.7
Gross advances	8,588,828	9,761,659	11,123,008	12,791,459	14,838,093
Credit to deposit (%)	89.3	90.3	88.2	86.3	84.6
CASA ratio (%)	47.2	43.0	40.5	39.7	40.8
Cost of deposits (%)	3.6	4.5	5.0	4.7	4.5
Loans-to-Assets (%)	64.2	65.3	65.3	65.4	65.7
Net advances growth (%)	19.4	14.2	14.1	14.9	15.9
Deposit growth (%)	15.2	12.9	16.8	17.4	18.2
Book value growth (%)	8.7	20.1	18.9	17.5	17.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	15.8	14.1	12.6	10.9	9.3
P/B (x)	2.8	2.3	1.9	1.7	1.4
P/ABV (x)	2.8	2.4	2.0	1.7	1.4
P/PPOP (x)	11.7	10.2	8.7	7.4	6.2
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dupont-RoE split (%)					
NII/avg assets	3.4	3.6	3.6	3.5	3.5
Other income	1.3	1.6	1.7	1.8	1.9
Fee income	1.3	1.5	1.5	1.7	1.8
Opex	2.2	2.5	2.5	2.4	2.4
PPOP	2.6	2.7	2.8	2.9	2.9
Core PPOP	2.6	2.5	2.7	2.7	2.8
Provisions	0.2	0.3	0.4	0.5	0.5
Tax expense	0.6	0.6	0.6	0.6	0.6
RoA (%)	0.8	1.8	1.8	1.8	1.8
Leverage ratio (x)	10.4	10.1	9.6	9.2	9.0
RoE (%)	12.0	18.0	16.8	16.5	16.4
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	119,588	123,146	125,322	130,890	134,482
NIM(%)	4.1	4.1	4.0	4.1	4.1
PPOP	88,144	86,319	91,412	105,357	101,062
PAT	57,971	58,636	60,711	71,297	60,346
EPS (Rs)	18.82	19.04	19.71	23.15	19.59

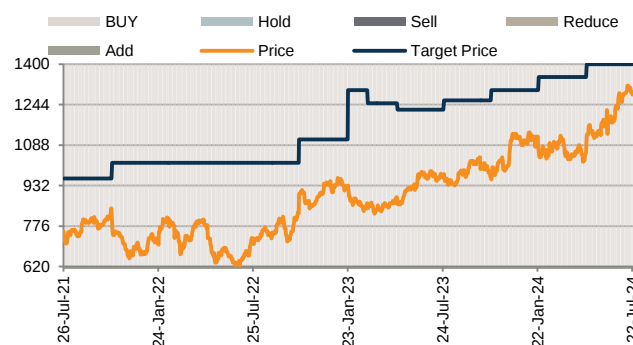
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Apr-24	1,127	1,400	Buy	Anand Dama
24-Jan-24	1,059	1,350	Buy	Anand Dama
30-Nov-23	1,074	1,300	Buy	Anand Dama
24-Nov-23	1,009	1,300	Buy	Anand Dama
25-Oct-23	955	1,300	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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