

CMP: INR 910

Rating: BUY

Target Price: INR 1122

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	AXSB IN
Reuters	AXBK.BO
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR mn)	6150
Mkt Cap (INR bn)	2800
52w H/L (INR)	970 / 618
Avg Yearly Vol (in 000')	6830

Shareholding Pattern %

(As on Dec, 2022)

Promoters	8.2
Public & Others	91.8

Stock Performance (%)	1m	3m	12m
Axis Bank	-1.9	1.2	29.3
Nifty	1.8	3.1	2.9

Axis posted numbers – PAT came in at INR 58.5 bn, up by 62% yoy/10% qoq led by core PPOP growth driven by all-time high margins, healthy asset growth and controlled opex cost.

Retail assets drive advances growth; unsecured growing at faster pace -

Total advances grew at healthy pace of 15% yoy to INR 7620 bn. Within this, corporate advances (33% share) grew by 8% yoy, SME (11% share) by 24% yoy and retail advances (56% share) by 17% yoy. Within retail, the bank witnessed strong growth in credit cards (5% share) which reported growth of 39% yoy and personal loans (12% share) by 21% yoy. However, secured retail viz. home loans (35% share) is witnessing much slower growth since last 2-3 quarters; growth was hardly 1% qoq basis. However, domestic corporate loans is witnessing improved growth of 12% yoy growth vs. 9% yoy seen in Q2. Additionally, share of unsecured loans in total retail loans is moving up from 19% in Q3FY22 to 24% Q3FY23.

Margins touched all-time high levels led by higher repricing of assets –

Reported margins jumped to all-time high levels of 4.4% up by 75 bps yoy/33 bps qoq which was largely led by higher repricing of the advances. Similarly, rise in cost of funds was 25 bps qoq to 4.34% levels. On the assets side, 39% of the loans are repo rate linked, 22% MCLR linked (61% of total loans); while fag end of repricing on assets is still pending, which is likely to continue in coming quarters. While on the other hand, cost of funds are also likely to inch up faster given higher repricing of deposits and squeezing of the liquidity in the system, by RBI. Also, current quarter margins are driven by high-yielding unsecured loans which may not be sustainable at current pace in future.

Valuations – Over the last few quarters, return ratios matrix of the bank has improved from 1.4-1.5% to 2% ROA and ROE ~20%, albeit partially some of the this is driven by one-time trading gains. Sustainable quality credit growth is the key, although we witnessing incremental better growth on domestic corporate loans. We believe, Axis Bank, being one of the top largest pvt. Bank is likely to play meaningful role in domestic positive macros. It is trading at 2.1x/1.8x FY23e/FY24e ABV. Retain BUY with TP of INR 1122, upside of 23% from current levels (target multiple of 2.2x FY24e ABV)

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY21	FY22	FY23E	FY24E
NII	292	331	466	524
PAT	66	130	235	273
Adj BVPS	309	357	429	510
EPS (Rs)	22	42	77	89
P/ABV (x)	2.9	2.6	2.1	1.8
P/E (x)	42	21	12	10
RoA (%)	0.7	1.2	1.9	2.0
RoE (%)	7.1	12.0	18.6	18.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

- **Slippages were higher on qoq led by one-offs** - In % terms, GNPA% at 2.38% declined by 79 bps yoy & 12 bps qoq NNPA% at 0.47% declined by 44 bps yoy & 4 bps qoq.
 - Gross slippages for the quarter was slightly higher at INR 38.1 bn vs. INR 33.8 bn in Q2FY23, however, INR 4.1 bn slippage came on account of non-recurring or prudent items.
 - Credit cost was high at 95 bps (includes 11 bps of non-recurring prudent provisionS) vs. 74 bps in Q2FY23
 - Provisions accelerated during the quarter to INR 14.4 bn vs. INR 3.6 bn
 - Provisions on restructured book is INR 6.9 bn, coverage of 23%
- **Opex is growing at much slower pace at the rate of 8% yoy/4% qoq to INR 68 bn**
- **Other income growth was also strong at 21.5% yoy and 18.4% qoq to INR 46.7 bn.** Core fee income showed good growth of % yoy to INR 41 bn. While trading gains for the quarter were at INR 4.3 bn vs. loss of INR 0.9 bn in Q2FY23.
- **On the liability side, deposits reported 10% yoy growth to touch INR 8481.7 bn** and CASA deposits too witnessed 10% growth on yoy basis. Sustainability of deposits growth will be crucial for the asset growth going forward, which is a challenge currently for the all the banks.

Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)

(in Mn)	Q3FY23	Q3FY22	yoy (%)	Q2FY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Interest earned	222264.3	172611.2	28.8	202389.3	9.8	611940.1	496005.9	23.4
-Interest/discount on advances/bills	170910.0	126790.3	34.8	152573.9	12.0	462414.0	365472.3	26.5
-Income on investments	45849.1	37667.8	21.7	44774.7	2.4	133438.3	107166.2	24.5
-Interest on bal. with RBI	2027.2	4180.6	-51.5	1420.1	42.8	5377.0	10833.1	-50.4
-Others	3478.0	3972.5	-12.4	3620.6	-3.9	10710.8	12534.3	-14.5
Interest expenses	107671.1	86085.9	25.1	98786.7	9.0	299904.2	252874.9	18.6
Net Interest Income (NII)	114593.2	86525.3	32.4	103602.6	10.6	312035.9	243131.0	28.3
Other Income	46654.4	38413.6	21.5	39411.5	18.4	116055.5	109972.0	5.5
Total income	161247.6	124938.9	29.1	143014.1	12.7	428091.4	353103.0	21.2
Operating expenses	68472.7	63313.6	8.1	65852.0	4.0	199284.4	170342.7	17.0
-Employee cost	22810.5	19386.1	17.7	21666.5	5.3	66337.9	57260.2	15.9
-Other operating expenses	45662.2	43927.5	3.9	44185.5	3.3	132946.5	113082.5	17.6
Operating profit	92774.9	61625.3	50.5	77162.1	20.2	228807.0	182760.3	25.2
Provision for contingencies	14377.3	13348.3	7.7	5497.8	161.5	23468.7	63722.2	-63.2
PBT	78397.6	48277.0	62.4	71664.3	9.4	205338.3	119038.1	72.5
Provision for taxes	19866.9	12124.6		18366.6		52257.3	29961.0	74.4
Net profit	58530.7	36152.4	61.9	53297.7	9.8	153081.0	89077.1	71.9
Equity	6149.9	6135.3	0.2	6144.6	0.1	6149.9	6135.3	0.2
EPS	95.17	58.93	61.5	86.74	9.7	248.92	145.19	71.4
Ratios (%)								
Int. exp/Int earned (%)	48.4	49.9	-	48.8	-	49.0	51.0	-
Cost/Income ratio (%)	42.5	50.7	-	46.0	-	46.6	48.2	-
Gross NPAs (Rs)	199610.2	233011.9	-14.3	198937.3	0.3	199610.2	233011.9	-14.3
Net NPAs (Rs)	38301.0	65130.5	-41.2	39955.4	-4.1	38301.0	65130.5	-41.2
Gross NPAs (%)	2.38	3.17	-	2.50	-	2.4	3.2	-
Net NPAs (%)	0.47	0.9	-	0.5	-	0.5	0.9	-
ROA (%)	1.9	1.3	-	1.8	-	1.5	1.5	-
CAR (%)	17.6	17.4	-	16.5	-	17.6	17.4	-
Balance Sheet (Rs.mn)								
Sources of Funds								
Capital	6,150	6,135	0.2	6,145	0.1	6,150	6,135	0.2
Reserves and Surplus	1,300,299	1,101,321	18.1	1,239,497	4.9	1,300,299	1,101,321	18.1
Deposits	8,481,733	7,716,702	9.9	8,108,067	4.6	8,481,733	7,716,702	9.9
Advances	7,620,755	6,648,656	14.6	7,308,748	4.3	7,620,755	6,648,656	14.6

Source: Arian Research, Company Filings

Exhibit 3: Q3FY23 - Quarterly Performance (Standalone)

Profit & Loss Account

(Rs Bn)	FY19	FY20	FY21	FY22	FY23e	FY24e
Interest Earned	550	626	633	674	867	1003
Interest expended	333	374	341	342	401	480
NII	217	252	292	331	466	524
Other Income	131	155	123	152	158	204
Net Income	348	407	415	484	624	727
Operating Exp	158	173	184	236	272	310
PPOP	190	234	231	247	352	418
Provisions	120	185	143	74	38	53
PBT	70	49	88	174	314	365
Tax	23	33	22	44	79	92
PAT	47	16	66	130	235	273
growth (%)		-65.2	304.9	97.7	80.4	16.1

Balance Sheet

(Rs Bn)	FY19	FY20	FY21	FY22	FY23e	FY24e
CAPITAL & LIABILITIES						
Capital	5.1	5.6	6.1	6.1	6.1	6.1
Reserves & Surplus	662	844	1,010	1,144	1,367	1,627
Deposits	5,485	6,401	6,980	8,217	9,117	10,247
Borrowings	1,528	1,480	1,429	1,851	1,611	1,756
Other Liabilities	331	422	443	533	542	560
TOTAL	8,010	9,152	9,868	11,752	12,643	14,195
ASSETS						
Cash & Balances	672	973	617	1,110	823	700
Investments	1,750	1,567	2,261	2,756	2,971	3,239
Advances	4,948	5,714	6,144	7,077	8,175	9,551
Fixed Assets	40	43	42	46	48	54
Other Assets	600	854	803	763	627	652
TOTAL	8,010	9,152	9,868	11,752	12,643	14,195

Ratios

(%)	FY20	FY21	FY22	FY23e	FY24e
Growth					
NII	16.1	16.0	13.3	40.5	12.5
PPOP	23.3	-1.3	7.0	42.4	18.6
Net profit	-65	305	97.7	80.4	16.1
Deposits	16.7	9.0	17.7	10.9	12.4
Advances	15.5	7.5	15.2	15.5	16.8
Returns					
ROA	0.2	0.7	1.2	1.9	2.0
ROE	2.1	7.1	12.0	18.6	18.2
Efficiency					
C/I Ratio	42.5	44.3	48.8	43.5	42.6
CASA	41.2	45.5	45.0	44.5	44.2
Yields and costs					
Yield on advances	9.1	8.0	7.5	8.3	8.6
Yield on investments	6.8	6.6	5.8	6.5	6.6
Yield on Funds	8.0	7.3	6.7	7.6	7.9
Cost of Deposits	4.9	4.0	3.5	3.8	4.2
Cost of Funds	5.0	4.2	3.7	3.9	4.2
Margins	3.2	3.4	3.3	4.1	4.1
(%)					
Per Share					
BV (Rs)	301	332	375	447	532
ABV (Rs)	268	309	357	429	510
EPS (Rs)	6	22	42	77	89
Valuation					
P/BV (x)	3.0	2.7	2.4	2.0	1.7
P/ABV (x)	3.4	2.9	2.6	2.1	1.8
P/EPS (x)	158	42	21	12	10
Asset quality					
GNPA	4.5	3.6	2.8	2.2	1.9
NNPA	1.6	1.1	0.7	0.6	0.6
PCR	65	72	76	72	67

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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