

**CMP: INR 955**

**Rating: Accumulate**

**Target Price: INR 1,116**

**Stock Info**

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	616
Mkt Cap (INR Cr)	2,99,651
52w H/L (INR)	1048 / 814
Avg Yearly Vol (in 000')	10,160

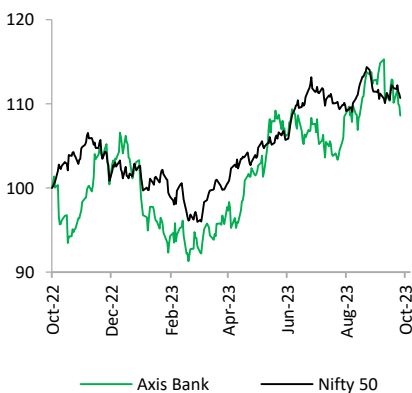
**Shareholding Pattern %**

(As on September, 2023)

Promoters	8.22
Public & Others	91.78

Stock Performance (%)	1m	6m	12m
Axis Bank	-4.5	10.8	7.8
Nifty	-1.7	8.8	9.5

**Axis Bank Vs Nifty**



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Axis Bank has reported healthy asset quality in Q2FY24 with moderate profit growth of 10.1% YoY/down 1.1% QoQ at INR 58.64 bn, slightly below our estimate of INR 61 bn. Advances growth for the quarter was 21% YoY/3% QoQ to INR 8,843 bn led by small business loans 42% YoY, mid corporate book by 37% YoY and domestic corporate book by 37% YoY. NII for the quarter increased by 18.9% YoY/3% QoQ to INR 143.12 bn, marred by rise in Cost of Funds by 14 bps to 5.17%. Operating profit for the quarter increased by 11.9% YoY/down 2.1% QoQ to INR 86.32 bn. Asset quality of the bank improved as GNPA decreased by 23 bps QoQ to 1.73% and NNPA at 0.36% down 5bps QoQ, at best ever levels over last several years.

**Loan growth was driven by growth in the focused segment:** Overall, loan book of the bank increased by 21% YoY/3% QoQ driven by small business banking growing at 42% YoY, mid-corporate book by 37% YoY and domestic corporate book by 33% YoY. Retail loan book (comprising 58% of net advances) grew strongly by 23% YoY/4% QoQ while SME loan portfolio grew by 27% YoY/9% QoQ. Corporate book reported growth of 21% YoY/3% QoQ. Home loans, Rural loans, Auto Loans, LAP, Small Business Banking all portfolios above INR 500 bn grew by 9% YoY, 25% YoY, 22% YoY, 23% YoY and 42% YoY respectively. Unsecured Personal loans & Credit Card advances grew by 25% YoY and 72% YoY respectively. Total deposits during the quarter grew by 19.6% YoY/3% QoQ with CASA ratio of 44%. The term deposits grew by 25.3%/6.5% QoQ driving deposit mobilization.

**Asset quality improved marginally:** Net Slippages for the quarter stood at INR 6.05 bn while Gross slippages stood at INR 32.54 bn. Upgrades and recoveries were at INR 19.85 bn against INR 23.05 bn in Q1FY24, indicating further room for improvement tapering off for the bank. The bank continue to hold provision with cumulative provision (standard + additional non-NPA) of INR 117.58 bn (1.32% of loans), which provides cushion to the balance sheet. The GNPA/NNPA improved further to 1.73%/0.36% respectively dipping by 23 bps/5 bps sequentially.

**Aggressive expansion of branch network pushing Opex:** Employee cost during the quarter was up by 20.5% YoY/down 2.9% QoQ while Other Operating Expenses increased 38.2% YoY/10.2% QoQ as the bank opened 207 branches during the quarter taking total branch count to 5,152 branches. This is particularly important to be emphasized as a larger liability portfolio will help further drive the bank's loanbook growth in future.

**Valuation & View:** Axis Bank's posted robust performance in Q2FY24 in terms of NIMs at 4.11% (up 15 bps YoY/1 bps QoQ), higher asset quality and positioning itself for further portfolio growth with emphasis on branch expansion. Higher growth in the unsecured portfolio ensured that the increased Cost of Funds at 5.17% didn't affected the NIMs. We upgrade our rating on the stock to Accumulate with a revised target price of INR 1,116 at 2.2x FY26E ABV.

**Exhibit 1: Financial Performance**

Axis Bank Ltd. (INR Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	331	429	476	520	588
PPOP	247	198	241	266	314
PAT	130	96	107	119	141
EPS (INR / Share)	42.4	31.1	34.8	38.6	22.9
ABVPS (INR / Share)	356.2	394.1	427.0	465.6	507.6
NIM (%)	3.3	4.0	4.0	4.0	4.1
ROA (%)	1.11%	0.80%	1.75%	1.80%	1.95%

Source: Arihant Research, Company Filings

## Q2FY24 - Quarterly Performance (Standalone)

(in INR Bn)

Particulars (INR in bn)	Q2FY24	Q2FY23	Q1FY23	YoY	QoQ
<b>Interest Earned</b>	<b>266.26</b>	<b>202.39</b>	<b>255.57</b>	<b>31.6%</b>	<b>4.2%</b>
- Interest/discount on advances/bills	212.56	152.57	201.35	39.3%	5.6%
- Income on Investments	48.00	44.77	47.83	7.2%	0.4%
- Interest on balance with RBI	2.06	1.42	2.99	45.2%	-31.1%
- Others	3.64	3.62	3.40	0.5%	7.0%
<b>Interest Expenses</b>	<b>143.12</b>	<b>98.79</b>	<b>135.98</b>	<b>44.9%</b>	<b>5.2%</b>
<b>NII</b>	<b>123.15</b>	<b>103.60</b>	<b>119.59</b>	<b>18.9%</b>	<b>3.0%</b>
Other Income	50.34	39.41	50.87	27.7%	-1.0%
Total Income	173.49	143.01	170.46	21.3%	1.8%
<b>Operating Expenses</b>	<b>87.17</b>	<b>65.85</b>	<b>82.32</b>	<b>32.4%</b>	<b>5.9%</b>
- Employee cost	26.10	21.67	26.88	20.5%	-2.9%
- Others	61.07	44.19	55.43	38.2%	10.2%
<b>Operating Profits</b>	<b>86.32</b>	<b>77.16</b>	<b>88.14</b>	<b>11.9%</b>	<b>-2.1%</b>
Provisions	8.15	5.50	10.35	48.2%	-21.3%
Exceptional items	0.00	0.00	0.00	NA	NA
<b>PBT</b>	<b>78.17</b>	<b>71.66</b>	<b>77.79</b>	<b>9.1%</b>	<b>-0.5%</b>
Tax	19.54	18.37	19.82	6.4%	-1.4%
<b>PAT</b>	<b>58.64</b>	<b>53.30</b>	<b>57.97</b>	<b>10.0%</b>	<b>-1.1%</b>
Advances	8,843	7,309	8,585	21.0%	3.0%
Deposits	9,699	8,108	9,417	19.6%	3.0%
Total Assets	13,414	11,853	13,028	13.2%	3.0%
CASA (%)	44%	46%	46%	-200bps	-200bps
CASA Deposits	4,239	3,748	4,288	13.1%	-1.2%
<b>Asset Quality</b>					
GNPA	167.6	198.9	181.6	-15.8%	-7.7%
NNPA	34.4	40.0	37.0	-13.9%	-7.1%
GNPA (%)	1.73%	2.50%	1.96%	-77bps	-23bps
NNPA (%)	0.36%	0.51%	0.41%	-15bps	-5bps
RoA	1.75%	1.80%	1.78%	-5bps	-3bps
Cost to Income Ratio	50.24%	46.05%	48.29%	420bps	195bps

Source: Arian Research, Company Filings

**Conference Call Highlights:****Management Guidance:**

- The Management believes the industry Credit & Deposit growth to be around 13% for the fiscal year with Axis Bank able to grow at 400-600 bps faster than the industry.
- Management intends to achieve a stable RoE of 18% with the Risk Weighted Assets at around 67%.

**Key Highlights:**

- Launched Credit on UPI during the quarter on a Pilot basis.
- The Bank will be launching the NEO platform for large corporations.
- The bank has rebranded the digital banking app as 'OPEN' and intends to increase its contribution by 3-4x in the next 4 years by FY27.
- The higher management of acquired Citi India's business is helping the bank in upgrading the customer service architecture.
- The Management intends to keep the Covid Provisioning in the books till March 24, and then allocate it somewhere within the books.
- Due to the minimum regulatory LCR of 100%, the bank intends to keep it varying between 115-120% in the future, and depending upon its levels, it will drive its deposits and advances in the future.
- The Management expects the change in Cost of Funds to slow down in the subsequent quarters.
- The bank recognizes that there is some stress in the INR 50,000 & below ticket size loans. However, they point out that their presence in that ticket size Personal loans is almost nil, hence, they don't see any stress building up for their bank.
- The Management also clarifies that the salaried Personal loan segment is only for salaried class people and not for the self-employed customers. The self-employed customers are given Personal loans which are categorised as small business banking loans which book is around INR 120 bn for the bank.
- The Bank's fees to assets ratio stood at 1.53%, which they regard as one of the highest in the industry. Since 93% of the fees are granular in nature, the Management considers them sticky in nature and remain consistently higher than their Peers.
- The bank's home loans grew 9% YoY, but the Management says that they have adopted some strategies which have increased the home loan disbursements up by 26% YoY. Hence, going ahead in subsequent quarters we may be seeing the home loans segment grow even faster than the growth of the current quarter.
- The difference between Gross Credit Cost and Net Credit Cost will shrink going ahead in future as per the Management as the size of recoveries and upgrades will decline in the future.
- The bank's all SME loans are repo-linked as per the Management.
- The bank has repriced some of the large corporate loans, which explains the increase in the repo-linked loans to 46% from 41% previous year.
- The bank intends to increase the number of branches by 500 at least for the current fiscal year FY24, and they have increased 249 branches in the H1FY24 (207 in Q2), and the Management believes they are on track to achieve their intended target for the full year.
- The Management emphasized that they have successfully changed the mix of their advances in favour of retail, which now comprises 58% of their advances compared to earlier 52%.

Income Statement					
(Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Earned	673.8	851.6	986.9	1,114.1	1,246.7
Interest Expended	342.4	422.2	510.8	594.0	658.4
<b>Net Interest Income</b>	<b>331.3</b>	<b>429.5</b>	<b>476.1</b>	<b>520.1</b>	<b>588.3</b>
Other Income	152.2	165.0	208.6	235.0	264.8
Fee Income	130.0	162.2	181.6	203.4	227.8
Treasury Income	16.3	-2.4	20.9	24.7	29.3
<b>Operating Income</b>	<b>483.5</b>	<b>594.5</b>	<b>684.7</b>	<b>755.1</b>	<b>853.1</b>
Operating Expenses	236.1	396.6	444.1	489.5	539.6
Employee Expenses	76.1	87.6	98.1	108.9	120.9
<b>Profit before provision &amp; tax</b>	<b>247.4</b>	<b>197.9</b>	<b>240.5</b>	<b>265.6</b>	<b>313.5</b>
Provisions and Contingencies	73.6	28.8	97.6	107.4	126.0
<b>Profit Before Tax</b>	<b>173.8</b>	<b>169.1</b>	<b>142.9</b>	<b>158.2</b>	<b>187.5</b>
Provision for tax	43.6	73.3	35.7	39.5	46.9
Exp. Items	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax</b>	<b>130.3</b>	<b>95.8</b>	<b>107.2</b>	<b>118.6</b>	<b>140.6</b>

Balance Sheet					
(Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of funds</b>					
Share Capital	6	6	6	6	6
Total Reserves	1,144	1,244	1,351	1,470	1,610
<b>Shareholder's Fund</b>	<b>1,150</b>	<b>1,250</b>	<b>1,357</b>	<b>1,476</b>	<b>1,616</b>
Deposits	8,220	9,469	10,511	11,667	12,951
Borrowings	1,851	1,863	2,049	2,254	2,480
Other Liabilities & provisions	531	587	675	777	891
<b>Total Liabilities</b>	<b>11,754</b>	<b>13,173</b>	<b>14,592</b>	<b>16,174</b>	<b>17,938</b>
<b>Application of Funds</b>					
Cash & Bank	1,110	1,064	1,186	1,322	1,474
Investments	2,756	2,888	3,316	3,807	4,371
Advances	7,077	8,453	9,298	10,228	11,251
Fixed Assets	46	47	50	52	55
Other Assets	763	721	742	765	787
<b>Total Assets</b>	<b>11,752</b>	<b>13,173</b>	<b>14,592</b>	<b>16,174</b>	<b>17,938</b>

Ratios %					
	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset Quality</b>					
Gross NPA	2.8	2.2	1.9	1.9	1.9
Net NPA	0.7	0.4	0.6	0.6	0.6
PCR	70.0	81.0	70.0	70.0	70.0
<b>Growth</b>					
Advances Growth	15.0	16.0	10.0	10.0	10.0
Deposit growth	14.0	15.0	11.0	11.0	11.0
Net Profit Growth	97.7	-26.5	11.9	10.7	18.5
<b>Liquidity</b>					
C-D Ratio	86.1	89.3	88.5	87.7	86.9
CASA	45.0	45.0	45.0	45.0	45.0
Capital Adequacy	19.1	19.1	19.1	19.1	19.1
<b>Efficiency</b>					
Cost Income Ratio	48.83	66.71	64.87	64.83	63.25
Operating Costs to Assets	2.01	3.01	3.04	3.03	3.01

Spread Analysis (%)					
	FY22	FY23	FY24E	FY25E	FY26E
<b>Spread Analysis</b>					
Yield on Advances	8.0	8.1	8.1	8.2	8.2
Yield on Investments	5.3	6.3	6.3	6.5	6.7
Cost of Funds	4.1	4.0	4.1	4.3	4.3
NIM	3.3	3.7	3.6	3.6	3.6
Interest Spread	3.9	4.0	4.0	3.9	3.9
<b>Profitability</b>					
ROE	11.3%	7.7%	7.9%	8.0%	8.7%
ROA	1.1%	0.73%	0.7%	0.7%	0.8%
Earnings Per Share (Rs)	42.4	31.1	34.8	38.6	45.7
Book Value (Rs)	375	406	441	480	525
Adjusted Book Value (Rs)	356	394	427	466	512
<b>Valuation</b>					
P / EPS (x)	22.8	31.0	27.7	25.1	21.1
P / ABV (x)	2.7	2.5	2.3	2.1	1.9

Source: Arian 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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