

**Faster than Industry growth to drive Valuations in next 12 months**

**CMP: INR 1,089**

**Rating: Accumulate**

**Target Price: INR 1,263**

**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)	1,152 / 814
Avg Yearly Vol (in 000')	10,160

**Shareholding Pattern %**

(As on December, 2023)

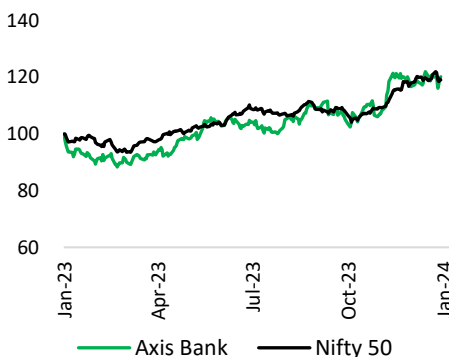
Promoters	8.20
Public & Others	91.80

**Stock Performance (%)** 1m 6m 12m

Axis Bank

Nifty

**Axis Bank Vs Nifty**



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Axis Bank has reported healthy asset quality in Q3FY24 with moderate profit growth of 3.7% YoY/3.5% QoQ at INR 60.7 bn. Advances growth for the quarter was 22.3% YoY/3.9% QoQ to INR 9,323 bn led by small business loans 40% YoY/6% QoQ, mid corporate book by 30% YoY and domestic corporate book by 20% YoY. NII for the quarter increased by 9.4% YoY/1.8% QoQ to INR 125.32 bn, marred by rise in Cost of Funds by 18 bps to 5.35%. Operating profit for the quarter was down by 1.5% YoY/up 5.9% QoQ to INR 91.4 bn. Asset quality of the bank improved as GNPA decreased by 15 bps QoQ to 1.58% and NNPA at 0.36% was stable sequentially, 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 22.3% YoY/3.9% QoQ driven by small business banking growing at 40% YoY, mid-corporate book by 30% YoY and domestic corporate book by 20% YoY. Retail loan book (comprising 58% of net advances) grew strongly by 27% YoY/5% QoQ while SME loan portfolio grew by 26% YoY/4% QoQ. Corporate book reported growth of 15% YoY/3% QoQ. Home loans, Rural loans, Auto Loans, LAP, Small Business Banking all portfolios above INR 500 bn grew by 10% YoY, 34% YoY, 24% YoY, 32% YoY and 40% YoY respectively. Unsecured Personal loans & Credit Card advances grew by 28% YoY and 92% YoY respectively. Total deposits during the quarter grew by 18.5% YoY/5.2% QoQ with CASA ratio of 42%. The term deposits grew by 24%/9% QoQ driving deposit mobilization.

**Asset quality improved marginally:** Net Slippages for the quarter stood at INR 4.82 bn while Gross slippages stood at INR 37.15 bn. Upgrades and recoveries were at INR 25.98 bn with the bank writing off INR 19.81 bn. GNPA declined 15 bps QoQ to 1.58% and NNPA stood flat sequentially at 0.36%.

**Aggressive expansion of branch network pushing Opex:** Employee cost during the quarter was up by 18.9% YoY/3.9% QoQ while the bank added 100 branches in Q3FY24 and 350 branches in 9MFY24 which will drive liability base of the bank.

**Valuation & View:** Axis Bank's posted robust performance in Q3FY24 in terms of NIMs at 4.01% and we believe some more moderation in NIMs in coming quarters as well. However, better asset quality and 400-500 bps faster growth than the industry will lead to better valuations. Growth in the unsecured portfolio of higher yields ensured that the increased Cost of Funds at 5.35% is absorbed in the NIMs. We revise our estimates on the stock and maintain Accumulate with a revised target price of INR 1,263 at 1.8x FY26E ABV.

**Exhibit 1: Financial Performance**

Axis Bank Ltd. (INR Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	331	429	476	520	689
PPOP	247	198	241	266	547
PAT	130	96	107	119	376
EPS (INR / Share)	42.4	31.1	34.8	38.6	61.1
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%	0.73%	1.72%	1.82%	1.99%
ROE (%)	11.3%	7.7%	16.7%	16.7%	17.2%
P / ABV (x)	2.7	2.5	2.3	2.1	1.9

Source: Arihant Research, Company Filings

## Q3FY24 - Quarterly Performance (Standalone)

(in INR Bn)

Particulars (INR in bn)	Q3FY24	Q3FY23	Q2FY24	YoY	QoQ
<b>Interest Earned</b>	<b>279.61</b>	<b>222.26</b>	<b>266.26</b>	<b>25.8%</b>	<b>5.0%</b>
- Interest/discount on advances/bills	223.64	170.91	212.56	30.9%	5.2%
- Income on Investments	50.89	45.85	48.00	11.0%	6.0%
- Interest on bal with RBI	1.46	2.03	2.06	-27.7%	-29.0%
- Others	3.61	3.48	3.64	3.7%	-0.8%
<b>Interest Expenses</b>	<b>154.29</b>	<b>107.67</b>	<b>143.12</b>	<b>43.3%</b>	<b>7.8%</b>
<b>NII</b>	<b>125.32</b>	<b>114.59</b>	<b>123.15</b>	<b>9.4%</b>	<b>1.8%</b>
Other Income	55.55	46.65	50.34	19.1%	10.3%
Total Income	180.87	161.25	173.49	12.2%	4.3%
<b>Operating Expenses</b>	<b>89.46</b>	<b>68.47</b>	<b>87.17</b>	<b>30.6%</b>	<b>2.6%</b>
- Employee cost	27.11	22.81	26.10	18.9%	3.9%
- Others	62.34	45.66	61.07	36.5%	2.1%
<b>Operating Profits</b>	<b>91.41</b>	<b>92.77</b>	<b>86.32</b>	<b>-1.5%</b>	<b>5.9%</b>
Provisions	10.28	14.38	8.15	-28.5%	26.2%
<b>PBT</b>	<b>81.13</b>	<b>78.40</b>	<b>78.17</b>	<b>3.5%</b>	<b>3.8%</b>
Tax	20.42	19.87	19.54	2.8%	4.5%
<b>PAT</b>	<b>60.71</b>	<b>58.5</b>	<b>58.6</b>	<b>3.7%</b>	<b>3.5%</b>
Advances	9,323	7,621	8,973	22.3%	3.9%
Deposits	10,049	8,482	9,556	18.5%	5.2%
Total Assets	13,985	12,235	13,389	14.3%	4.5%
CASA (%)	42%	45%	44%	-300bps	-200bps
CASA Deposits	4,235	3,777	4,239	12.1%	-0.1%
<b>Asset Quality</b>					
GNPA	158.9	199.6	167.6	-20.4%	-5.2%
NNPA	35.3	38.3	34.4	-7.9%	2.5%
GNPA (%)	1.58%	2.38%	1.73%	-80bps	-15bps
NNPA (%)	0.36%	0.57%	0.36%	-21bps	0bps
RoA	1.75%	1.92%	1.75%	-17bps	0bps
Cost to Income Ratio	49.46%	42.46%	50.24%	700bps	-79bps

Source: Arianth Research, Company Filings

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

- The bank expects deposit cost to rise in coming two quarters before settling down.
- Business growth is expected to remain 400-500 bps above industry growth in the medium term.

**Key Highlights:**

- NII was up 9.4% YoY/1.8% QoQ to INR 125.3 bn. The modest growth was owing to margin contraction.
- NIM was down by 25 bps YoY/10 bps QoQ to 4.01% especially due to rise in cost of deposits.
- Non-interest income was up 21.5% YoY/10.3% QoQ, in which fee income was up 29% YoY/4% QoQ which in-turn was driven by 36% YoY rise in retail fees.
- Trading gain for the quarter was at INR 2.91 bn against INR 4.3 bn in Q3FY23.
- Cost to income ratio was up by 733 bps YoY/down 79 bps QoQ to 49.5%. Increase in opex was due to integration, tech and business volume related expenses.
- Provisions were down 28.5% YoY/up 26.2% QoQ.
- Net Profit thus increased modestly by 3.7% YoY/3.5% QoQ to INR 60.71 bn.
- The Bank posted advances growth of 22.3% YoY/3.9% QoQ to INR 9.32 tn.
- Retail loans increased by 27.4% YoY and formed 58.6% of total advances, while corporate banking and SME loans registered a growth of 12.6% YoY and 26% YoY respectively. Contribution of secured retail loans formed 75% of total retail book.
- Within the retail space, home loans were up 10% YoY and personal grew by 28% YoY. Credit card advances jumped 92% YoY.
- Auto loans and small business banking loans also showed healthy growth of 24% YoY and 40% YoY respectively.
- 52% of personal loans were disbursed purely on digital basis.
- Corporate loan book increased by 15% YoY/3% QoQ in which mid-corporate book was up 30% YoY. 89% of corporate book is rated A and above.
- 78% of credit card portfolio and 100% of personal loans are given to salaried segment.
- Existing bank customers in credit card segment stood at 52% and 81% in personal loan segment.
- Average Loan to value (LTV) in home loan segment is 52% while in LAP segment it is at 40%.
- Of the total loan book, around 69% is on floating rate basis while 31% are fixed in nature. 48% of total loans are repo-rate linked, 15% of loans are MCLR linked.
- Deposit growth was healthy at 18.5% YoY/5.2% QoQ, higher than top private banks, to INR 10.04 tn.
- CASA growth was lower, as observed across industry, at 12.1% YoY, as a result of which CASA ratio declined 241 bps YoY/222 bps QoQ to 42.1%.
- The bank added around 100 branches during the quarter.
- Pricing on personal loans has been increased on incremental basis.
- Asset quality for Axis Bank improved as GNPA ratio declined by 15 bps to 1.58% QoQ while net NPA ratio stood steady at 0.36% on sequential basis.
- Fresh slippages for the quarter stood at INR 37.15 bn which was down 2.4% YoY/up 14.2% QoQ.
- Retail slippages were INR 33.85 bn and INR 2.48 bn from commercial banking for Q3FY24.
- Slippage ratio for the quarter on gross basis increased from 1.49% to 1.62% sequentially while net slippages declined to 0.5% from 0.59% in Q2FY24.
- Upgrades & recoveries stood at INR 25.98 bn v/s INR 20.88 bn YoY and INR 19.85 bn QoQ, while write-offs came in at INR 19.81 bn v/s INR 26.71 bn QoQ.
- One large corporate account was upgraded during the quarter.
- Net credit cost during Q3FY24 declined by 14 bps QoQ/37 bps YoY to 0.28%.
- The bank has Covid provisions of INR 50.12 bn which is not used in capital adequacy calculation and provides 43 bps of additional cushion towards capital adequacy.
- Bank has provisions worth INR 119.8 bn and translates to standard asset coverage ratio of 1.29%.
- On aggregate basis provisions stands at 153% of GNPA. Provision coverage ratio stood at 78% against 79% in Q2FY24.
- Restructured loans outstanding stood at INR 16.41 bn and formed 0.16% of gross customer assets, the bank has 20% provisions on restructured loans.
- AIF investment in any particular fund is not more than INR 0.5 bn, realizable value is close to holding cost of investment as on 31st December 2023, the bank has provided 100% of the same.

Income Statement					
(Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Earned	673.8	851.6	1,072.5	1,250.5	1,448.4
Interest Expended	342.4	422.2	571.7	671.8	758.9
<b>Net Interest Income</b>	<b>331.3</b>	<b>429.5</b>	<b>500.8</b>	<b>578.6</b>	<b>689.5</b>
Other Income	152.2	165.0	209.5	236.7	267.8
Fee Income	130.0	162.2	181.6	203.4	227.8
Treasury Income	16.3	-2.4	21.3	25.5	31.0
<b>Operating Income</b>	<b>483.5</b>	<b>594.5</b>	<b>710.3</b>	<b>815.3</b>	<b>957.3</b>
Operating Expenses	236.1	396.6	336.8	371.6	409.9
Employee Expenses	76.1	87.6	105.1	116.7	129.5
<b>Profit before provision &amp; tax</b>	<b>247.4</b>	<b>197.9</b>	<b>373.5</b>	<b>443.8</b>	<b>547.4</b>
Provisions and Contingencies	73.6	28.8	38.4	42.2	46.4
<b>Profit Before Tax</b>	<b>173.8</b>	<b>169.1</b>	<b>335.1</b>	<b>401.6</b>	<b>500.9</b>
Provision for tax	43.6	73.3	83.8	100.4	125.2
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>251.3</b>	<b>301.2</b>	<b>375.7</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	1,495	1,796	2,172
<b>Shareholder's Fund</b>	<b>1,150</b>	<b>1,250</b>	<b>1,501</b>	<b>1,802</b>	<b>2,178</b>
Deposits	8,220	9,469	10,511	12,035	13,780
Borrowings	1,851	1,863	1,918	1,961	2,031
Other Liabilities & provisions	531	587	675	777	891
<b>Total Liabilities</b>	<b>11,754</b>	<b>13,173</b>	<b>14,605</b>	<b>16,575</b>	<b>18,880</b>
<b>Application of Funds</b>					
Cash & Bank	1,110	1,064	1,096	1,129	1,163
Investments	2,756	2,888	3,038	3,547	4,186
Advances	7,077	8,453	9,679	11,082	12,689
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>14,605</b>	<b>16,575</b>	<b>18,880</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	14.5	14.5	14.5
Deposit growth	14.0	15.0	11.0	14.5	14.5
Net Profit Growth	97.7	-26.5	162.4	19.8	24.7
<b>Liquidity</b>					
C-D Ratio	86.1	89.3	92.1	92.1	92.1
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	47.42	45.57	42.82
Operating Costs to Assets	2.01	3.01	2.31	2.24	2.17

Spread Analysis (%)					
	FY22	FY23	FY24E	FY25E	FY26E
<b>Spread Analysis</b>					
Yield on Advances	7.0	7.6	8.6	8.7	8.7
Yield on Investments	5.3	6.3	7.0	7.2	7.4
Cost of Funds	3.4	3.7	4.6	4.8	4.8
NIM	3.3	4.0	4.0	4.0	4.1
Interest Spread	3.6	3.9	4.0	3.9	3.9
<b>Profitability</b>					
ROE	11.3%	7.7%	16.7%	16.7%	17.2%
ROA	1.1%	0.73%	1.7%	1.8%	2.0%
Earnings Per Share (Rs)	42.4	31.1	81.7	97.9	122.1
Book Value (Rs)	375	406	488	586	708
Adjusted Book Value (Rs)	356	394	475	575	702
<b>Valuation</b>					
P / EPS (x)	22.8	31.0	11.8	9.9	7.9
P / ABV (x)	2.7	2.5	2.0	1.7	1.4

Source: Arian Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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