

Axis Bank

'Business growth improves'

BUY

Jul 27' 2022

Axis Bank (AXSB IN) reported strong performance for Q1FY23 on the profitability as well as the assets quality fronts. While core operating performance is in line with our estimates, significant decline in the credit cost provided a boost to the profitability despite elevated operating cost. The bank reported 91% YoY growth in PAT of Rs41 bn (above our estimate of Rs37 bn) led by strong core operating performance and significant decline in the credit cost. NII grew by 7-quarter high rate of 20.9% YoY. On sequential basis, NII grew at a strong 6.4% leading to 11 bps QoQ improvement in NIM to 3.60%. Fee income growth remained strong at 34.0% YoY offsetting the MTM loss of -Rs6.7 bn owing to increase in the yield. Though, business growth moderated during the quarter and advances de-grew by -0.9% QoQ (5% below our estimates) impacted by weak corporate segment.

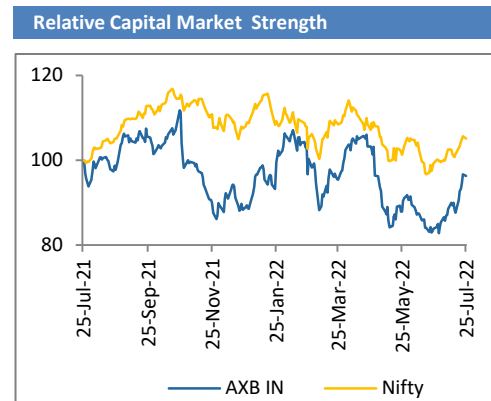
- **GNPA improves on lower slippages:** GNPA improved by 6 bps QoQ and 109 bps YoY to 2.76% mainly led by decline in the gross slippages. Gross slippages reported at Rs37 bn with quarterly slippages rate declining to 0.5% (from 0.6 in Q4FY22). 63% of the total slippages came from the retail segment during the quarter. R&U stood at Rs29.6 bn in Q1FY23 v/s Rs37.6 bn in the previous quarter. Net slippages rate remained modest at 0.1% (Rs7.3 bn) during the quarter.
- **Stress eases; maintains healthy provisioning buffer:** Sustaining the last 4-quarter decline trend, BB & below rated book declined -15.9% QoQ to Rs58 bn and 100% of restructured corporate book classified as BB & below rated. Pool of vulnerable assets (include BB & below rated fund, non-fund exposures and investments) reduced to 1.2% of loans (from 1.3% in previous quarter). Restructured book (RAB) declined to Rs34 bn or 0.5% of loans (from 0.6% of loans in Q4FY22). AXSB IN maintained 24% of provisions against RAB with 100% provisioning against unsecured retail loans. Cumulative provisions stood at 1.7% of loans of Rs118 bn (includes Covid related provisions of Rs50 bn) which indicates a healthy provisioning buffer against future assets quality uncertainties.

View and Valuation: We have cut our credit cost/slippages estimates over the next two fiscals due to easing legacy NPAs issues, decline in stress book and high standard assets provision. Weak loan growth disappoints us, though strong growth momentum in retail and SME book to boost margin; re-pricing of assets is the additional trigger for NIM improvement. Though we remain cautious on high operating expenditure (C/I ratio rose to 52.5% in Q1FY23 v/s 50.4% in Q4FY22), while the management again defended the move saying it is right time to invest for the future.

We re-iterate our **BUY** rating on AXSB IN with a target price of Rs1,000 per share. We value the core banking business at 2.1x FY24E P/Adjusted Book Value (maintained our valuation multiple) arriving at Rs940 per share and its subsidiaries are valued at Rs60 per share.

Rating Matrix	
CMP	Rs706
Rating	BUY
Target Price	Rs1,000
Upside Potential	41.6%
52 week H/L	Rs867/618
Face value	Rs2
Mar. Cap.	Rs2,171 bn
Category	Large Cap
Sector	Banking

Shareholding Pattern (%)			
	Jun-22	Mar-22	Dec-21
Promoters	9.7	9.7	9.7
FPI's	46.6	46.9	47.4
DII's	31.5	30.5	30.3
Public	12.3	12.9	12.6



Key Financials (Rs bn)					
Particulars	FY20	FY21	FY22	FY23E	FY24E
NII	252	292	331	409	457
Gr. (%)	16.1	16.0	13.3	23.4	11.9
NIM (%)	3.3	3.5	3.4	3.7	3.6
PPOP	234	257	247	305	368
A.PAT	16	66	130	172	208
Eq./As. (%)	9.3	10.3	9.8	9.9	9.9
RoE (%)	2.1	7.1	12.0	14.0	14.8
CASA(%)	41.2	45.5	45.0	44.6	44.0
GNPA (%)	5.1	4.0	3.0	2.8	2.5
P/ABV (x)			2.0	1.8	1.5

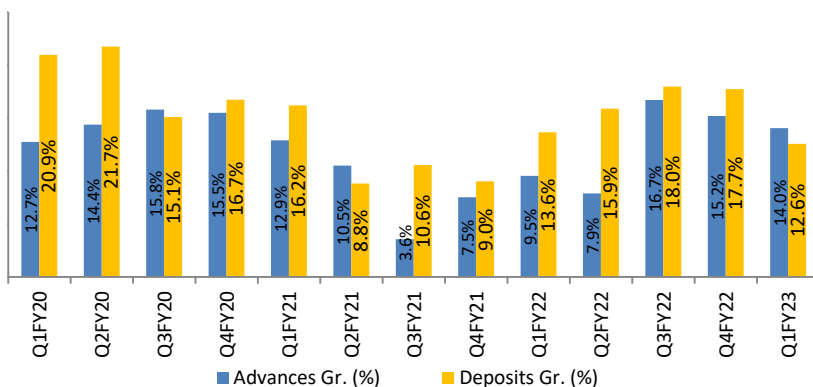
Strong core operating profit on healthy NII growth

NII grew by 7-quarter high rate of 20.9% YoY on the back of strong interest income driven by healthy growth in high yielding assets. NIM improved 11 bps QoQ to 3.60% in Q1FY23. Fee income grew by a healthy pace of 34.0% YoY, while the bank reported MTM loss of -Rs6.7 bn due to increase in yield which impacted the other income. C/I rose to 52.5% due to continued higher expenditure on expanding the bank’s infrastructure. Provisioning declined to Rs 4 bn in Q1FY23 v/s Rs10 bn in the previous quarter and came below than our estimate of Rs16 bn. Driven by the strong core operating performance and low credit cost, AXSB IN reported 91% YoY growth in the PAT of Rs41 bn in Q1FY23

Business growth remains weak

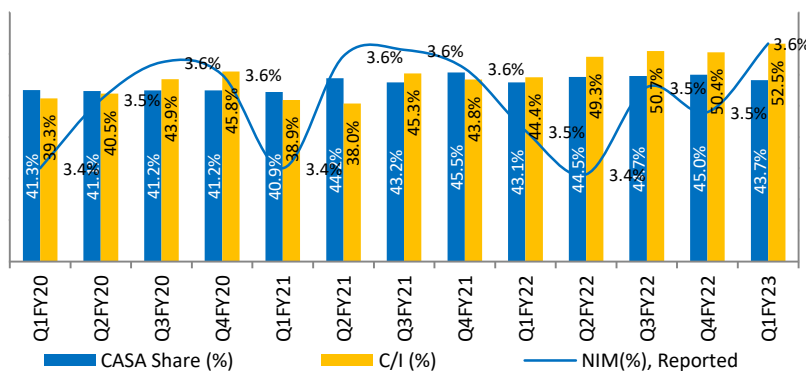
Advances grew by 14.0% YoY however it contracted by -0.9% sequentially due to weak corporate segment. Corporate loan book declined by -3.8% YoY and -6.2% QoQ and the bank attributed this to the rising completion in the segment. Meanwhile growth in Retail and SME remained robust at 24.6% YoY and 27.0% YoY. Within retail, rural loans grew by 47.8% YoY, unsecured credit at 22.8% YoY and LAT by 45.0% YoY. Deposits grew by 12.6% YoY and -2.2% QoQ indicates that growth in deposits remained weak relatively to loans. Thereby, C/D ratio increased to 87.3% in Q1FY23 from 86.1% in Q4FY22.

Advances growth led by SME and retail book



Trend in CASA, C/I and NIM

Source: Choice Broking Research



Source: Choice Broking Research

Q1FY23 key result highlights

NII grew by 7-quarter higher pace.

NIM improved by 11 bps QoQ to 3.6%

Fee income growth remained strong, however bank incurred MTM losses.

Provisioning declined sharply due to lower net slippages.

PAT grew by 91% YoY.

Business growth remained weak, below our estimations.

Advances growth impacted by corporate segment.

CASA declined to 43.7% in Q1FY23 v/s 45.0% in the previous quarter.

GNPA improved by 6 bps QoQ and 109 bps YoY to 2.76%.

Particulars (Rs bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Interest Earned	160	163	173	178	187	17.0	5.4
Interest Expended	82	84	86	90	93	13.4	4.3
NII	78	79	87	88	94	20.9	6.4
Other Income	34	38	38	42	30	(10.7)	(29.0)
Fee Income	27	32	33	38	36	34.0	(4.8)
Total Income	111	117	125	130	124	11.4	(5.1)
OPEX	49	58	63	66	65	31.7	(1.2)
PPOP	62	59	62	65	59	(4.8)	(9.0)
P&C	33	17	13	10	4	(89.1)	(63.6)
PBT	29	42	48	55	55	91.7	0.9
Tax	7	11	12	14	14	93.7	3.0
Net Profit	22	31	36	41	41	91.0	0.2
Dil. EPS (Rs)	7	10	12	13	13	0.0	0.1
Balance Sheet items/ratios							
Deposits	7,139	7,363	7,717	8,217	8,036	12.6	(2.2)
CA Deposits	970	1,046	1,167	1,273	1,081	11.4	(15.1)
SB Deposits	2,110	2,229	2,282	2,424	2,431	15.2	0.3
CASA	3,080	3,276	3,449	3,698	3,512	14.0	(5.0)
Term Deposits	4,058	4,087	4,268	4,520	4,524	11.5	0.1
Advances	6,149	6,217	6,649	7,077	7,011	14.0	(0.9)
CD Ratio (%)	86.1	84.4	86.2	86.1	87.3		
CASA Share (%)	43.1	44.5	44.7	45.0	43.7		
CAR(%)	18.7	19.2	17.4	18.5	17.3		
Tier 1 (%)	16.2	17.5	15.2	16.3	15.2		
CET I (%)	15.4	15.8	15.3	15.2	15.2		
Operating ratios							
Cost of funds (%)	4.0	3.9	3.8	3.8	3.9		
NIM(%) , Reported	3.5	3.4	3.5	3.5	3.6		
C/I (%)	44.4	49.3	50.7	50.4	52.5		
Tax Rate (%)	25.1	25.3	25.1	24.8	25.4		
Assets Quality							
Gross NPA	259	241	233	218	210	(18.9)	(3.6)
Net NPA	78	72	65	55	48	(39.1)	(13.3)
Gross NPA (%)	3.9	3.5	3.2	2.8	2.8		
Net NPA (%)	1.2	1.1	0.9	0.7	0.6		
Coverage Ratio(%)	69.8	70.2	72.0	74.7	77.3		
RoA(%) (Annualized)	0.9	1.2	1.3	1.5	1.4		
Slippages							
BB & below a/c pool (fund based)	80	67	65	58	49	(39.6)	(15.9)
Gross slippages	65	55	41	40	37	(43.5)	(7.5)
Reduction (R&U)	25	48	33	38	30	16.3	(21.4)
Write-offs	33	25	17	17	15	(54.7)	(10.9)
Slippages (Net Addition to GNPA's)	6	(18)	(8)	(15)	(8)	(223.8)	(46.9)
Slippages (%)	1.1	0.9	0.7	0.6	0.5		
Advances Break-Out							
Total Advances	6,149	6,217	6,649	7,077	7,011	14.0	(0.9)
Domestic Advances	5,718	5,782	6,183	6,582	6,521	14.0	(0.9)
Corporate Credit	2,251	2,136	2,295	2,307	2,165	(3.8)	(6.2)
SME	585	625	679	771	720	27.0	(6.6)
Retail Advances	3,312	3,456	3,675	3,999	4,127	24.6	3.2
Retail Advances Break-Out (% wise)							
Retail Agriculture Loans (Rural Lending)	13.0	13.0	13.0	13.0	13.0		
Personal Loans & Credit Card%	16.0	16.0	16.0	16.0	16.0		
Auto loans	12.0	12.0	12.0	12.0	12.0		
Home Loans	36.0	36.0	36.0	36.0	36.0		
Loans against property	9.0	9.0	9.0	9.0	9.0		
Others (N sch. Loans)	13.0	13.0	13.0	13.0	13.0		
Network							
Branches (in num.)	4,600	4,679	4,700	4,758	4,759	3.5	0.0
Business per branch (Rs bn)	2.9	2.9	3.1	3.2	3.2	9.5	(1.6)

Source: Choice Broking Research

Estimates vs Actual for Q1FY23

India-Banking : Axis Bank

Result snapshot (Rs bn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ%	EST.	Dev. (%)
NII	94	78	20.9	88	6.4	95	(0.8)
NIM	3.60	3.46	14 bps	3.49	11 bps	3.54	6 bps
Other Income	30	34	(10.7)	42	(29.0)	34	(11.8)
Total Income	124	111	11.4	130	(5.1)	129	(3.7)
OPEX	65	49	31.7	66	(1.2)	62	4.4
P&C	4	33	(89.1)	10	(63.6)	16	(77.5)
PAT	41	22	91.0	41	0.2	37	10.2
Deposits	8,036	7,139	12.6	8,217	(2.2)	8,590	(6.5)
Advances	7,011	6,149	14.0	7,077	(0.9)	7,392	(5.1)
GNPA	210	259	(18.9)	218	(3.6)	227	(7.2)
Slippages	37	65	(43.5)	40	(7.5)	57	(35.8)

Source: Choice Broking Research

Change in estimates for FY23E & FY24E

(Rs bn)	Old		Revised		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	385	437	409	457	6.1	4.8
Other Income	190	228	177	230	(6.7)	0.9
OPEX	258	299	281	319	8.9	6.7
P&C	111	113	73	87	(34.3)	(22.5)
PAT	153	187	172	208	12.8	11.2
GNPA	3.0%	2.7%	2.8%	2.5%	(3.8)	(7.3)
Advances	8,355	9,554	8,276	9,600	(1.0)	0.5
Deposits	9,461	10,870	9,578	11,009	1.2	1.3
Adj. BVPS (Rs)	380	434	402	458	5.6	5.7

Source: Choice Broking Research

Key Q1FY23 mgmt's con-call highlights:

Assets Quality

- Slippages moderate to 2.05% and 45% of gross slippages were upgraded in same quarter.
- The bank did Rs15 bn write-offs during the quarter
- BB & below book and restructuring book further declined during the quarter. The bank has not utilized Covid provisions during the quarter (entirely prudent).
- Cumulative provisions stood at 1.7% of loans of Rs118 bn (includes Covid related provisions of Rs50 bn) which indicates a healthy provisioning buffer against future assets quality uncertainties.
- Unsecured retail within restructuring is 100% provided.

Business Growth

- Loan book continues to be more granular and balanced. Retail disbursements were up 77% YoY during the quarter. SBB, Rural and PL disbursements were up 111%, 177% & 42% YoY respectively. Unsecured disbursements at 22% of total for the quarter
- Retail loans : 79% are secured in nature. Credit card spends up 96% YoY.
- 88% of corporate book is now rated A- and above with 84% of incremental sanctions in Q1FY23 being to corporates rated A- and above.
- Bank will continue to grow faster than market. Bank is not worried about growth, but is just waiting for right pricing.
- LCR stood at 123% by the end of quarter.
- As per the management, customer acquisition remained strong at 2.2mn account which grew by 22% YoY growth. Of this 1.1mn were savings accounts during the quarter.

Margin, Yield, Profitability

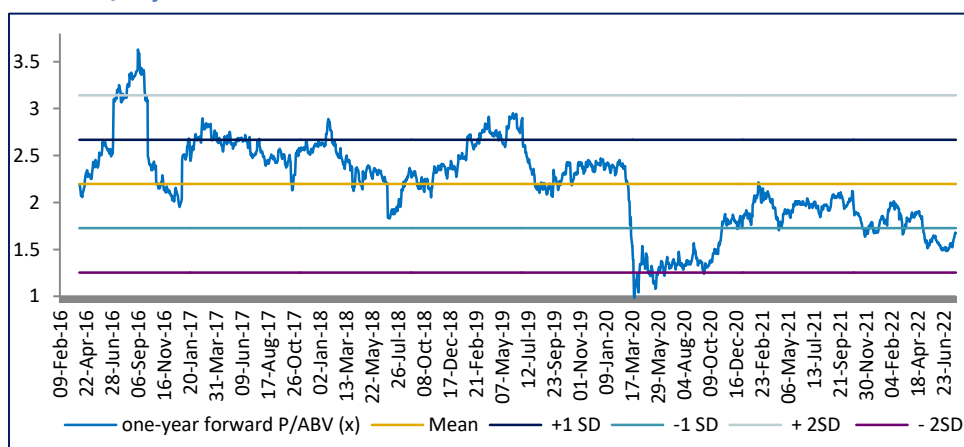
- Cost/Assets at 2.2% was in-line with commentary due to investments in growth business.
- The bank added 6,150 employee YoY in growth verticals and tech/digital team. ESOP cost as well as annual increments resulted in higher employee cost.
- Bank said it is the best time to invest in the banking infrastructure. Bank had demonstrated ability in past to bring down cost ratios in the past as well. However, the bank did not give any short term guidance on the cost/assets ratio.
- Technology spend was 9% of overall operating cost and the technology spend grew 32% YoY during the quarter.
- As per the management, MTM is largely in corporate bond book of which 98% is rated A and above and doesn't expect any adverse impact.

View & Valuation

- We have cut our credit cost/slippages estimates over the next two fiscals due to easing legacy NPAs issues, decline in stress book and high standard assets provision. Weak loan growth disappoints us, though strong growth momentum in retail and SME book to boost margin; re-pricing of assets is the additional trigger for NIM improvement. Though, we remain cautious on high operating expenditure (C/I ratio rose to 52.5% in Q1FY23 v/s 50.4% in Q4FY22), while the management again defended the move saying it is right time to invest for the future.
- We re-iterate our BUY rating on AXSB IN with a target price of Rs1,000 per share. We value the core banking business at 2.1x FY24E P/Adjusted Book Value (maintained our target valuation multiple) arriving at Rs940 per share and its subsidiaries are valued at Rs60 per share.

SOTP	Holding (%)	Value/Share (Rs/Sh)	Basis	Value (Rs bn)
AXISB IN	100%	940	2.1x FY24E ABV	2,894
Axis MF	75%	51	8% of AUM	156
Axis Capital	100%	10	P/E15xFY22	30
Axis Securities	100%	11	P/E15xFY22	35
Axis Finance	100%	10	P/B 2.0x	35
Value of Subsidiaries		82		
Less: Holding company discount		25%		
Value of Subsidiaries after holding discount		60		
SOTP Value Per Share		1,000		

12MF P/Adjusted Book Value



Source: Choice Broking Research

Financial statements (Standalone in Rs bn)

Income Statement	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	626	636	674	825	967
Growth (%)	13.9	1.6	5.9	22.5	17.2
Interest Expended	374	344	342	416	509
Growth (%)	12.5	(8.1)	(0.5)	21.5	22.4
Net Interest Income	252	292	331	409	457
Net Interest Margin (%)	3.3	3.5	3.4	3.7	3.6
Other Income	155	148	152	177	230
% of Interest Income	24.8	23.3	22.6	21.5	23.8
Total Income	407	441	484	586	687
Growth (%)	16.9	8.2	9.7	21.2	17.3
Operating & Other expenses	173	184	236	281	319
Pre-Prov. Operating Profit	234	257	247	305	368
P&C (incl NPA)	185	169	74	73	87
P&C % of Advances	3.2	2.8	1.0	0.9	0.9
Operating Profit before Tax	49	88	174	232	281
Growth (%)	(29.7)	79.6	97.4	33.7	20.8
Pre-tax Margin %	12.0	20.0	35.9	39.7	40.9
Tax	33	22	44	60	73
% of PBT	66.8	25.2	25.1	25.9	26.1
Reported PAT	16	66	130	172	208
Net Profit Margin %	4.0	14.9	26.9	29.4	30.2
Extrodinary Income	0	0	0	0	0
Adjusted PAT	16	66	130	172	208
Growth (%)	(65.2)	304.9	97.7	32.2	20.6

Balance Sheet	FY20	FY21	FY22	FY23E	FY24E
Cash with RBI and Banks	973	617	1,110	1,155	1,143
Investments	1,567	2,261	2,756	2,678	3,091
Advances	5,714	6,144	7,077	8,276	9,600
Fixed assets	43	42	46	44	45
Other assets	854	803	763	982	1,133
TOTAL ASSETS	9,152	9,868	11,752	13,135	15,013
Capital	6	6	6	6	6
Reserves and Surplus	844	1,010	1,146	1,301	1,487
Deposits	6,401	6,980	8,217	9,578	11,009
Borrowings	1,480	1,429	1,851	1,696	1,855
Other liabilities and provisions	422	443	531	554	656
TOTAL CAPITAL AND LIABILITIES.....	9,152	9,868	11,752	13,135	15,013

Financial Ratios	FY20	FY21	FY22	FY23E	FY24E
Return / Profitability Ratios (%)					
Net interest margin	3.3	3.5	3.4	3.7	3.6
Yield on advances	9.1	8.1	7.4	7.8	8.0
Yield on investments	6.8	6.6	5.8	7.5	7.3
EPS (Diluted) (Rs)	5.8	21.5	42.3	55.9	67.4
RoA	0.2	0.7	1.2	1.4	1.5
RoE	2.1	7.1	12.0	14.0	14.8
Cost of Deposits	5.0	4.5	4.4	5.0	4.9
Operating ratios (%)					
Credit to Deposit	89.3	88.0	86.1	86.4	87.2
Cost to income	42.5	41.7	48.8	47.9	46.4
CASA	41.2	45.5	45.0	44.6	44.0
Investment / Deposit	24.5	32.4	33.5	28.0	28.1
Non interest income / Total income	38.1	33.7	31.5	30.2	33.4
Capitalization Ratios (%)					
Equity / Assets	9.3	10.3	9.8	9.9	9.9
Loans / Assets	62.4	62.3	60.2	63.0	63.9
Investments / Assets	17.1	22.9	23.5	20.4	20.6
Dividend payout	0.0	0.0	10.0	10.0	10.0
Capital adequacy (%)					
Tier-1 CAR	14.5	16.5	16.2	15.7	15.5
Tier-2 CAR	3.0	2.6	3.0	2.4	2.2
CAR (Basel III)	17.5	19.1	19.2	18.1	17.7
Asset Quality ratios (%)					
Gross NPA	5.1	4.0	3.0	2.8	2.5
Net NPA	1.6	1.1	0.8	0.8	0.9
Coverage Ratio	68.8	72.3	78.1	71.0	65.9
Slippage Ratio	4.0	1.5	3.3	2.6	2.3
Credit Cost	2.1	1.8	1.1	0.9	0.7
Per Share Data (Rs)					
EPS (Diluted)	6	21	42	56	67
DPS	0	0	4	6	7
BVPS	301	331	374	424	485
Adjusted BVPS	268	308	359	402	458
Valuation ratios (x)					
P/E (x)	122.4	32.9	16.7	12.6	10.5
P/BV (x)	2.3	2.1	1.9	1.7	1.5
P/ABV (x)	2.6	2.3	2.0	1.8	1.5
Growth ratios (%)					
Advances	15.5	7.5	15.2	16.9	16.0
Deposits	16.7	9.0	17.7	16.6	14.9
Net interest income	16.1	16.0	13.3	23.4	11.9
Interest income	13.9	1.6	5.9	22.5	17.2
PAT	(65.2)	304.9	97.7	32.2	20.6
Business ratios					
Profit per branch (Rs mn)	3.6	14.3	27.4	34.0	38.7
Business per branch (Rs mn)	2,676	2,857	3,214	3,530	3,846

Source: Choice Broking Research

Choice's Rating Rationale

The price target for a stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

Rating Rationale	
BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Coverage History

Date	Rating	CMP	Target Price
27-Jul-22	BUY	706	1,000
29-Apr-22	BUY	735	1,000
08-Feb-22	BUY	790	940
03-May-21	HOLD	703	780
05-Mar-21	HOLD	737	740

Disclaimer

This is solely for information of clients of Choice Broking and does not constitute to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Choice Broking its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Choice Broking or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. This report is based on the fundamental analysis with a view to forecast future price. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Choice Broking has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Choice Broking makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for stock market investment purposes. The recommendations are valid for the day of the report and will remain valid till the target period. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment. **POTENTIAL CONFLICT OF INTEREST DISCLOSURE** (as on date of report) Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.

Choice Equity Broking Pvt. Ltd

Sunil Patodia Tower, J.B. Nagar, Andheri (East), Mumbai 400099



+91-022-6707 9999



www.choiceindia.com



+91-022-6707 9959

CONNECT US

Any kind of queries on RESEARCH, You can contact us on: 022 - 6707 9999

Do visit the Choice portfolio of products at :



**CONSOLIDATED
SCRIP OVERVIEW**

Trade With **JIFFY**