

CMP: ₹ 728

Target: ₹ 970 (33%)

Target Period: 12 months

July 26, 2022

BUY

Strong operational show; business momentum muted

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 11.5 lakh crore as on June 2022.

- The bank has a large footprint across India with 4759 branches
- Retail and SME comprise ~69% of total loans

Q1FY23 Results: Profit driven by lower credit cost

- NII up 21% YoY and 6.4% QoQ, NIMs up 11 bps QoQ to 3.6%
- Provisions down 64% QoQ, PAT up 91% YoY ₹ 4125 crore
- Loan growth at 14% YoY to ₹ 7.01 lakh crore. Retail book up 25% YoY
- GNPA down 6 bps QoQ to 2.76%. R/s book was at 0.45% of GCA

What should investors do? Axis Bank's share price has given flattish returns. However, we believe as operational performance improves and also synergy benefits from CITI acquisition come into play, it would reflect positively on price performance as well.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value Axis Bank at ~2.3x FY24E ABV and maintain our target price at ₹ 970.

Key triggers for future price performance:

- Pedalling business growth with focus on unsecured segment to aid margin
- Cumulative provisions of 134% of GNPA provide comfort on asset quality and earnings volatility
- Strong capitalization to enable the bank to pedal higher business growth
- Fund raising for CITI acquisition possible as time arrives

Alternate Stock Idea: Apart from Axis, in our coverage we also like Kotak Bank.

- Kotak Mahindra Bank (KMB) is a powerful banking franchise with strong promoter led management. It has a presence across financial services value chain
- BUY with a target price of ₹ 2200



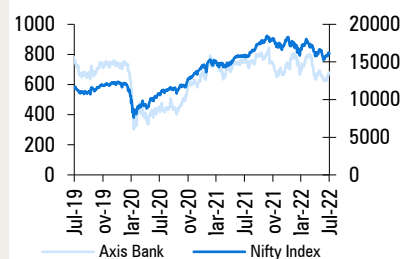
Particulars

| Particulars | Amount |
|-----------------------|----------------|
| Market Capitalisation | ₹223662 crore |
| 52 week H/L | 867 /618 |
| Net worth | ₹ 115174 crore |
| Face value | ₹ 2 |

Shareholding pattern

| (in %) | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
|----------|--------|--------|--------|--------|
| Promoter | 11.6 | 9.7 | 9.7 | 9.7 |
| FII | 51.4 | 47.4 | 46.9 | 46.6 |
| DII | 25.3 | 30.2 | 30.5 | 31.5 |
| Others | 11.7 | 12.6 | 12.9 | 12.3 |

Price Chart



Recent Event & Key risks

- GNPA down 6 bps to 2.76%, R/s book stood at 0.45%
- **Key Risk:** (i) Slower than industry credit growth could impact market share (ii) margin pressure due to competitive intensity in liabilities

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Key Financial Summary

| ₹ crore | FY19 | FY20 | FY21 | FY22 | 3 year CAGR (FY19-22) | FY23E | FY24E | 2 year CAGR (FY22-24E) |
|---------|-------|-------|-------|-------|-----------------------|-------|-------|------------------------|
| NII | 21708 | 25206 | 29239 | 33132 | 15% | 39470 | 47395 | 20% |
| PPP | 19005 | 23438 | 25702 | 24742 | 9% | 28530 | 34598 | 18% |
| PAT | 4677 | 1627 | 6588 | 13025 | 41% | 16320 | 20090 | 24% |
| ABV (₹) | 215.4 | 267.9 | 308.8 | 347.8 | | 396.7 | 418.5 | |
| P/E | 40.0 | 126.2 | 33.9 | 17.2 | | 13.7 | 11.1 | |
| P/ABV | 3.4 | 2.7 | 2.4 | 2.1 | | 1.8 | 1.7 | |
| RoA | 0.6 | 0.2 | 0.7 | 1.2 | | 1.3 | 1.5 | |
| RoE | 7.2 | 2.1 | 7.1 | 12.0 | | 13.3 | 15.1 | |

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Lower provisions help beat PAT estimates.

- Net interest income was up 21% YoY and 6.4% QoQ to ₹9384 crore on the back of 11 bps sequential improvement in net interest margin (NIM). Other income declined 11% YoY and 29% QoQ to ₹2999 crore, mainly due to treasury loss of ₹ 667 crore; fee income growth was strong at 34% YoY.
- Opex declined marginally by 1.2% QoQ but due to muted top-line sequentially the C/I ratio was up to 52.5% versus 50.4% QoQ. Provisions were down 64% QoQ and 89% YoY to ₹359 crore, as asset quality improved. The bank has not utilised its Covid provisions worth ₹5012 crore. Thus, PAT came in at ₹4125 crore (up 91% YoY) and was ahead of our estimates. The bank holds cumulative provisions of ₹11830 crore. On an aggregated basis, provision coverage ratio was at 134% of GNPA.
- GNPA and NNPA ratio declined 6 bps and 9 bps QoQ to 2.76% and 0.64%, respectively. The standard Covid-19 restructuring implemented loans stood at 0.45% of GCA. Slippages for the quarter were at ₹3684 crore compared to ₹3981 crore QoQ. Recoveries and upgrades from NPAs were ₹2957 crore vs ₹3763 crores (QoQ) while write-offs were ₹1512 crores.
- Credit growth stood at 14% YoY at ₹7.01 lakh crore, wherein Retail and SME book posted a strong growth of 24.6% and 27.3% YoY while corporate book was down 4.7%. Within the retail segment personal loans, credit cards and rural loans saw healthy uptick. Deposit growth was at 12.6% YoY at ₹8.03 lakh crore, in which CASA growth was at 14% YoY.

Q1FY23 Earnings Conference Call highlights

- In credit cards, bank has 17% incremental market share in last 6 months. 16% and 15% market share in UPI and mobile banking respectively.
- Government business performance was strong as bank continued to add mandates and gain market share.
- On overall deposits front, bank has gained 100 bps market share in last 5 years. Term deposit (TD) was higher than industry and growth in non-retail TD was led by non-callable high TD.
- NIMs improvement drivers are improvement in balance sheet mix and decline in RIDF portfolio.
- NIMs guidance at 3.7-3.8% in next 8-10 quarters.
- Trading loss during the quarter was ₹667 crore. MTM is largely from corporate book, 79% of which is AA+ and 98% is A- and above.
- Opex growth (YoY) due to 40% to volume led increase, 11% digital investments, 6% towards collection expenses, 5% was one time expenses.
- Management expect to maintain cost to assets ratio at 2% levels.
- Cumulative provisions now stands at ₹ 227 crore. Cumulative non NPA provisions stood at 11800 crore.
- Loan book mix - Retail 59%, corporate 31% and commercial banking loans at 10% of total loans. 69% of loans are on floating rate.
- Net slippage ratio (annualised) was at 0.41%. There was no sale to ARC in Q1FY23.
- Subsidiaries now contribute 4 bps and 59 bps to consolidated RoA and RoE respectively. Management aim for 16-16.5% RoE in medium term.
- Citi bank integration – CCIL approval expected to come in 4-8 weeks.

Peer comparison

Exhibit 1: Peer Comparison

| Sector / Company | CMP | | | M Cap (₹ Bn) | EPS (₹) | | | | P/E (x) | | | | P/ABV (x) | | | | RoE (%) | | | |
|-----------------------|-------|-------|--------|-----------------|---------|-------|-------|-------|---------|-------|-------|-------|-----------|-------|-------|-------|---------|-------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E |
| Axis Bank (AXIBAN) | 728 | 970 | Buy | 2236 | 21.5 | 42.4 | 53.2 | 65.4 | 33.9 | 17.2 | 13.7 | 11.1 | 2.4 | 2.1 | 1.8 | 1.7 | 7.1 | 12.0 | 13.3 | 15.1 |
| HDFC Bank (HDFBAN) | 1,393 | 1,650 | Buy | 7,737 | 56.4 | 66.7 | 77.1 | 93.7 | 24.7 | 20.9 | 18.1 | 14.9 | 3.9 | 3.3 | 2.9 | 2.6 | 16.6 | 16.7 | 16.6 | 17.9 |
| IndusInd Bank (INDBA) | 943 | 1,150 | Buy | 730 | 36.7 | 59.5 | 90.2 | 107.3 | 25.7 | 15.8 | 10.5 | 8.8 | 1.7 | 1.6 | 1.5 | 1.3 | 7.3 | 10.1 | 14.0 | 15.0 |
| Kotak Bank (KOTMAH) | 1,826 | 2,200 | Buy | 3,626 | 35.1 | 43.0 | 48.5 | 54.7 | 52.0 | 42.4 | 37.6 | 33.4 | 5.9 | 5.2 | 4.6 | 4.0 | 12.4 | 12.6 | 12.6 | 12.5 |
| Bandhan (BANBAN) | 286 | 365 | Buy | 461 | -12.8 | 0.8 | 24.7 | 30.3 | -22.3 | 366.3 | 11.6 | 9.4 | 4.5 | 2.9 | 2.3 | 1.9 | -14.6 | 0.8 | 20.7 | 20.9 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| | Q1FY23 | Q1FY23E | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | Comments |
|--------------------------|----------|----------|----------|---------|----------|---------|---|
| NII | 9,384 | 9,094 | 7,760 | 20.9 | 8,819 | 6.4 | Driven by expansion in NIMs |
| NIM (%) | 3.60 | 3.40 | 3.46 | 14 bps | 3.49 | 11 bps | Higher accretion in unsecured book and reduction in RIDF investment |
| Other Income | 2,999 | 3,613 | 3,358 | -10.7 | 4,223 | -29.0 | Impacted by treasury income |
| Net Total Income | 12,383 | 12,706 | 11,119 | 11.4 | 13,042 | -5.1 | |
| Staff cost | 2,186 | 1,963 | 1,852 | 18.0 | 1,887 | 15.9 | |
| Other Operating Expenses | 4,310 | 4,775 | 3,081 | 39.9 | 4,690 | -8.1 | C/I up 210 bps QoQ to 52.5% |
| PPP | 5,887 | 5,969 | 6,186 | -4.8 | 6,466 | -9.0 | |
| Provision | 359 | 1,007 | 3,302 | -89.1 | 987 | -63.6 | Credit cost declines sharply on improving asset quality |
| PBT | 5,528 | 4,961 | 2,884 | 91.7 | 5,479 | 0.9 | |
| Tax Outgo | 1,402 | 1,263 | 724 | 93.7 | 1,361 | 3.0 | |
| PAT | 4,125 | 3,699 | 2,160 | 91.0 | 4,118 | 0.2 | Bottomline boosted by low provisions |
| Key Metrics | | | | | | | |
| GNPA | 21,037 | 21,386 | 25,950 | -18.9 | 21,822 | -3.6 | Slippages slightly lower than previous quarter |
| NNPA | 4,781 | 4,316 | 7,846 | -39.1 | 5,512 | -13.3 | |
| Credit | 7,01,130 | 7,19,402 | 6,14,874 | 14.0 | 7,07,696 | -0.9 | Driven by unsecured retail segment growth |
| Deposit | 8,03,572 | 8,42,357 | 7,13,862 | 12.6 | 8,21,721 | -2.2 | CASA growth higher than overall deposit trajectory |

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

| ₹ Crore) | FY23E | | | FY24E | | |
|----------------------|--------|--------|----------|--------|--------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 39,323 | 39,470 | 0.4 | 47,228 | 47,395 | 0.4 |
| Pre Provision Profit | 31,570 | 28,530 | -9.6 | 38,454 | 34,598 | -10.0 |
| NIM(%) (calculated) | 3.8 | 3.7 | -5 bps | 3.9 | 3.9 | -2 bps |
| PAT | 16,152 | 16,320 | 1.0 | 19,524 | 20,090 | 2.9 |
| ABV per share (₹) | 396.8 | 396.7 | 0.0 | 416.7 | 418.5 | 0.4 |

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

| | Current | | Earlier | |
|--------------------------|---------|--------|---------|--------|
| | FY23E | FY24E | FY23E | FY24E |
| Credit growth (%) | 15.5 | 17.0 | 13.5 | 19.3 |
| Deposit Growth (%) | 14.3 | 15.6 | 10.2 | 20.0 |
| CASA ratio (%) | 44.1 | 45.2 | 44.8 | 46.2 |
| NIM Calculated (%) | 3.7 | 3.9 | 3.8 | 3.9 |
| Cost to income ratio (%) | 48.2 | 47.4 | 44.2 | 44.4 |
| GNPA (₹ crore) | 19,595 | 19,959 | 20,480 | 20,992 |
| NNPA (₹ crore) | 4,621 | 4,767 | 3,939 | 4,144 |
| Slippage ratio (%) | 1.73 | 2.11 | 1.70 | 2.15 |
| Credit cost (%) | 0.83 | 0.82 | 1.13 | 1.16 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 5: Profit and loss statement | | | | |
|--------------------------------------|---------|-----------|--------|--------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Interest Earned | 63,645 | 67,377 | 80,907 | 94,651 |
| Interest Expended | 34,406 | 34,245 | 41,437 | 47,256 |
| Net Interest Income | 29,239 | 33,132 | 39,470 | 47,395 |
| growth (%) | 16.0 | 13.3 | 19.1 | 20.1 |
| Non Interest Income | 14,838 | 15,221 | 15,614 | 18,376 |
| Net Income | 44,077 | 48,353 | 55,084 | 65,771 |
| Staff cost | 6,164 | 7,613 | 9,176 | 10,268 |
| Other operating Expense | 12,211 | 15,998.19 | 17,377 | 20,905 |
| Operating Profit | 25,702 | 24,742 | 28,530 | 34,598 |
| Provisions | 16,896 | 7,359 | 6,771 | 7,811 |
| PBT | 8,806 | 17,383 | 21,759 | 26,787 |
| Taxes | 2,217 | 4,357 | 5,440 | 6,697 |
| Net Profit | 6,588 | 13,025 | 16,320 | 20,090 |
| growth (%) | 304.9 | 97.7 | 25.3 | 23.1 |
| EPS (₹) | 21.5 | 42.4 | 53.2 | 65.4 |

Source: Company, ICICI Direct Research

| Exhibit 6: Key Ratios | | | | |
|---------------------------|-------|-------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Valuation | | | | |
| No. of Equity Shares | 306.4 | 307.0 | 307.0 | 307.0 |
| EPS (₹) | 21.5 | 42.4 | 53.2 | 65.4 |
| BV (₹) | 331.6 | 374.7 | 421.9 | 444.7 |
| ABV (₹) | 308.8 | 347.8 | 396.7 | 418.5 |
| P/E | 33.9 | 17.2 | 13.7 | 11.1 |
| P/BV | 2.2 | 1.9 | 1.7 | 1.6 |
| P/ABV | 2.4 | 2.1 | 1.8 | 1.7 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 3.7 | 3.6 | 3.7 | 3.9 |
| Yield on assets | 8.1 | 7.4 | 7.7 | 7.7 |
| Avg. cost on funds | 4.2 | 3.7 | 3.9 | 4.0 |
| Yield on average advances | 8.1 | 7.5 | 8.2 | 8.3 |
| Avg. Cost of Deposits | 4.0 | 3.5 | 3.7 | 3.8 |
| Quality and Efficiency | | | | |
| Cost to income ratio | 42 | 49 | 48 | 47 |
| Credit/Deposit ratio | 88.0 | 86.1 | 87.0 | 88.1 |
| GNPA | 3.7 | 2.8 | 2.2 | 1.9 |
| NNPA | 1.1 | 0.8 | 0.6 | 0.5 |
| ROE | 7.1 | 12.0 | 13.3 | 15.1 |
| ROA | 0.7 | 1.2 | 1.3 | 1.5 |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance sheet | | | | |
|--------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Sources of Funds | | | | |
| Capital | 613 | 614 | 614 | 614 |
| Reserves and Surplus | 100990 | 114411 | 128896 | 135909 |
| Networth | 101603 | 115025 | 129510 | 136523 |
| Deposits | 697985 | 821721 | 939000 | 1085228 |
| Borrowings | 142873 | 185134 | 173900 | 176818 |
| Other Liabilities & Provisions | 44336 | 53298 | 56285 | 58545 |
| Total | 986798 | 1175178 | 1298695 | 1457114 |
| Application of Funds | | | | |
| Fixed Assets | 4245 | 4572 | 4014 | 4326 |
| Investments | 226120 | 275597 | 300517 | 351503 |
| Advances | 614399 | 707696 | 817393 | 956389 |
| Other Assets | 80304 | 76325 | 104722 | 74430 |
| Cash with RBI & call money | 61730 | 110987 | 72049 | 70467 |
| Total | 986798 | 1175178 | 1298695 | 1457114 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|-----------------------|-------|------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Total assets | 7.8 | 19.1 | 10.5 | 12.2 |
| Advances | 7.5 | 15.2 | 15.5 | 17.0 |
| Deposit | 9.0 | 17.7 | 14.3 | 15.6 |
| Total Income | 0.4 | 5.2 | 16.9 | 17.1 |
| Net interest income | 16.0 | 13.3 | 19.1 | 20.1 |
| Operating expenses | 6.2 | 28.5 | 12.5 | 17.4 |
| Operating profit | 9.7 | -3.7 | 15.3 | 21.3 |
| Net profit | 304.9 | 97.7 | 25.3 | 23.1 |
| Net worth | 19.6 | 13.2 | 12.6 | 5.4 |
| EPS | 272.9 | 97.3 | 25.3 | 23.1 |

Source: Company, ICICI Direct Research

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