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Company update

Banking

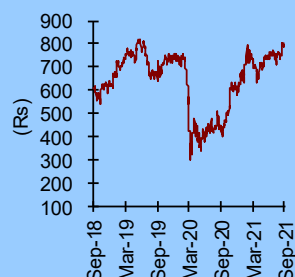
Target price Rs942

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	13.9	13.6	11.7
Institutional investors	74.5	74.7	76.8
MFs and others	20.9	17.8	18.7
FIIs/Banks	0.1	0.0	0.0
Insurance Cos.	2.1	4.9	4.8
FPI	51.4	52.0	56.3
Others	11.5	11.7	11.5

Source: CMIE

Price chart



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INDIA

Axis Bank

BUY
Maintain

Digital 2.0: Building digital stack, in-house capabilities; modernising the core

Rs795

We highlight in this report how digital focus and technology-driven transformation for Axis Bank (Axis) remain key pillars of its GPS (Growth, Profitability and Sustainability) strategy. The key philosophy and strategy under its '*silent digital revolution*' to deliver sustainable and granular growth: 1) 'OPEN' philosophy underpins every digital initiative; 2) follows twin-engine approach to build digital stack and modernise the core; 3) building in-house capabilities in the longer-term perspective; 4) Subzero design platform for unified user experience. Interesting initiatives and facts: i) 74%, 60%, 42% of credit card issuance, personal loans and business loans respectively were sourced digitally in Q1FY22; cost of acquisition is 70-85% lower; ii) Jarvis (its in-house developed, cloud native, API-oriented lending platform) supports BNPL; iii) working on >30 initiatives across customer segments and customer lifecycles; iv) cobranded Flipkart Axis Bank credit card, which constitutes 15% of overall CIF with activity levels and spends being 35% and 65% higher; v) commands Payer PSP market share of >15%; vi) 4mn non-Axis customers using Axis Mobile and Axis Pay apps for convenience. **Maintain BUY.**

- ▶ **Twin-engine approach to build digital stack and modernise the core:** Axis is running a twin-engine approach to upgrade, re-platform and hallow out legacy IT stack to make it digital-ready. It has built a best-in-class in-house end-to-end digital stack. It has developed new-age digital platforms that are cloud-first, micro services enabled and decoupled (engagement layer and logic layer). While upgrading the tech-stack, Axis is focused on modernising the core, resiliency, sustainability, risk and governance, and transforming the architecture, core systems and infrastructure. The challenge for Axis has been: absence of suitable off-the-shelf loan management system to meet the flexible structure required for lending products like a small-ticket digital loans or BNPL. Now Jarvis (its in-house developed, cloud native, API-oriented lending platform) supports that LMS and has helped the bank launch cutting-edge, compliant, digital lending products. During FY21, Axis made 16 initiatives live taking the overall digital offerings to 28 across lending and other product offerings.
- ▶ **OPEN philosophy underpins every digital initiative at Axis:**
 - **0-based redesign:** Customer-centric, design-led and 0-operations.
 - **Proprietary capabilities:** Building in-house capabilities on different elements such as design, experience centre, agile and AI centres-of-excellence among others.
 - **Ecosystems capable:** Dedicated partnerships team and market-beating API strategy to deliver the open ecosystems proposition.
 - **Numbers, numbers, numbers:** Organisation-wide thrust on identification and tracking of outcomes as well as input metrics to drive the impact.

Market Cap	Rs2438bn/US\$33.1bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	AXBK.BO/AXSB IN	NII (Rs bn)	252	292	340	385
Shares Outstanding (mn)	3,065.2	Net Profit (Rs bn)	16	66	149	182
52-week Range (Rs)	820/400	EPS (Rs)	5.8	21.5	48.7	59.5
Free Float (%)	88.3	% Change YoY	-68.3	272.7	126.3	22.3
FII (%)	56.3	P/E (x)	127.7	34.3	15.2	12.5
Daily Volume (US\$'000)	1,09,521	P/BV (x)	2.4	2.2	2.0	1.8
Absolute Return 3m (%)	7.5	P/ABV (x)	2.5	2.2	2.0	1.7
Absolute Return 12m (%)	87.9	GNPA (%)	5.1	3.9	3.6	3.0
Sensex Return 3m (%)	12.5	RoA (%)	0.2	0.7	1.4	1.6
Sensex Return 12m (%)	56.8	RoE (%)	2.1	7.1	13.8	15.0

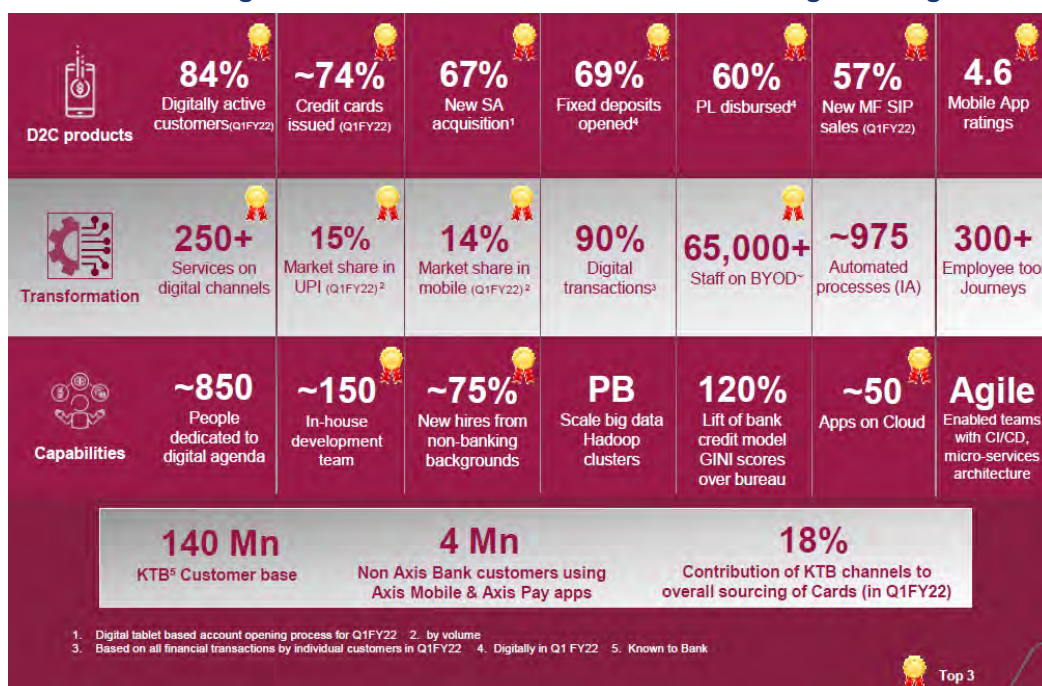
Please refer to important disclosures at the end of this report

- ▶ **Working on >30 initiatives across customer segments and customer lifecycles:** Currently, Axis is working on >30 initiatives to execute its digital strategy across all customer segments (retail, commercial, and corporate) and employees and its impact is targeted across different stages of the customer lifecycle (acquisition, cross-sell and up-sell, lifecycle management and risk management).
 - **Buy Now Pay Later on Freecharge** has been launched on the bank's proprietary Jarvis new-age loan management platform that supports small-ticket, small-tenure, multiple interest rate / fee structures. Its built, managed, run in-house, cloud native and API-oriented lending platform. It facilitates insta onboarding, decisioning and activation – all in 3 steps in less than 3 minutes – and is available for new-to-bank customers. There has been 15x growth in customers and 20x growth in transactions over last 3 months.
 - Axis has launched **outward remittance through Mobile** – a new channel introduced thereby leading to an increase in throughput (133% increase in 3 months) and rising share of digital (from 20% to 40%).
 - **Grab Deals e-commerce marketplace** – it is an expandable, dynamic cloud-based solution to enable rapid partnerships. More than 40 brands are available on the platform. Gross Merchandise Value on *Grab Deals* grew 5x over last year's exit numbers. Also, customers who shop on *Grab Deals* maintain 100% higher balances than saving accounts holders who don't shop. Also, spending increased during *Grab Deals Fest* (there was 140% rise in spends on debit and 30% on credit cards).
 - **Maximus | 24x7 Personal Loan** – 60% of personal loan disbursement was digital in Q1FY22. Also, there is significant reduction of e2e TAT from 7 days to 15 minutes and cost of acquisition is 85% lower.
 - **Maximus | 24x7 Business Loan** – 42% of business loan disbursement in Q1FY22 was facilitated through digital, and cost of acquisition was 71% lower.
 - **Maximus | 24x7 Auto Loans** – 7% of auto loan disbursement in Q1FY22 was facilitated through digital lending platform.
 - **Merchant Acquisition Business (MAB)** – Focus is on accelerating growth with state-of-the art digitisation. Development program with offering/features namely 'pay later' facility for merchants with 15-day credit period via POS, zero balance current account only for MDP merchants, 'Khaata' (reconciliation) functionality, etc. aids MAB growth.
 - **Flipkart Axis Bank Credit card** – Cobranded Flipkart Axis Bank credit card constitutes significant portion of new issuance and now has 1.2mn CIFs (cards in force) under the cobranding. This is equivalent to 15% of Axis' overall CIF of 7.1mn. Also, activity levels on Flipkart Axis Bank cards are 35% higher than standalone Axis Bank cards and spends are almost 65% higher than open cards.
- ▶ **Building in-house capabilities in the longer-term perspective:** Axis has prioritised enhancement of its digital banking capabilities and has taken leadership in cloud-based offerings. It is developing in-house tech, design and AI capabilities with 66% increase in the IT team strength in past 2 years. Now it has a dedicated

team of >1,000 for the digital agenda; 75% of the new hires are from non-banking background with a 150-member full service in-house team covering designers, product managers, developers, dev-ops, scrum masters, digital marketers, etc. As in the days of only physical branch banking, the core team of branch managers, risk underwriters cannot be outsourced. Axis therefore believes that the strategy of building in-house capability will be a key differentiator in the age of digital banking.

- ▶ **Subzero design platform for a unified user experience:** On the developer side, Axis has distinctly launched Subzero, a collection of guidelines and components shared among designers and developers in order to create a streamlined and enjoyable user experience for all Axis customers. At its centre is the pattern library, which contains reusable components and foundations, from the individual atoms to the full templates and pages. Rather than focusing on pixels, developers can focus on application logic, while designers can focus on user experience, interactions, and flows. Subzero will help reduce design and development time by ~20% and provide consistency across customer journeys.
- ▶ **Digital properties are widely used:** Around 4mn non-Axis customers are using Axis Mobile and Axis Pay apps for convenience despite not having a deposit relationship. Its mobile app enjoys 4.6 rating on IOS and Android. It commands 15% market share in UPI and mobile transactions; this scale gives Axis an opportunity to showcase its prowess and reach out to customers directly with digital offerings.
 - **UPI – growth through partnerships & focus on reliability:** UPI transactions powered by Axis have grown 75% YoY and UPI app volumes are 4x of the nearest competitor. Axis provides UPI acquiring services to leading online players – Amazon, CRED, Razorpay, PayU, Zerodha, Swiggy, BigBasket, Ola, Uber, BookMyShow, etc. More than 0.9mn merchants transact every day on an average on its stack. Also, it acquires more than 6mn daily transactions for its merchants. Processing >400mn monthly transactions as payer PSP, Axis commands payer PSP market share of >15%.
 - **API Developer Portal:** APIs are available in multiple technology stacks (Ruby, Python, Java, Node, Go, Swift, PHP) to cater to Partner Ecosystems (7 partners onboarded). The number of APIs has grown by 105% in last 3 months.
 - **Branch of the future:** The bank is transforming the way it engages with and serves its customers. More than 250 services accounting for ~65% of request volumes in branches are now digitally available.
 - **Sankalp:** Technology-led transformation benefitting CBG business on sales effectiveness and credit process: *Sankalp* has facilitated >60% reduction in paper documentation, 30 minutes for pre-screening (vs 1 day previously), 2x increase in asset productivity of RMs, 39% YoY growth in asset NTB accounts opened in Q1FY22, and 18% YoY growth in CBG advances.
- ▶ **Committed to standards of data security and customer privacy:** Axis conducts vulnerability and threat management across the entire tech landscape, and 24x7 monitoring is performed by SOC through next-gen SIEM, threat intelligence tools, etc. It enjoys Bitsight Rating of 780 out of 900.

Chart 1: 'Silent digital revolution' to deliver sustainable and granular growth



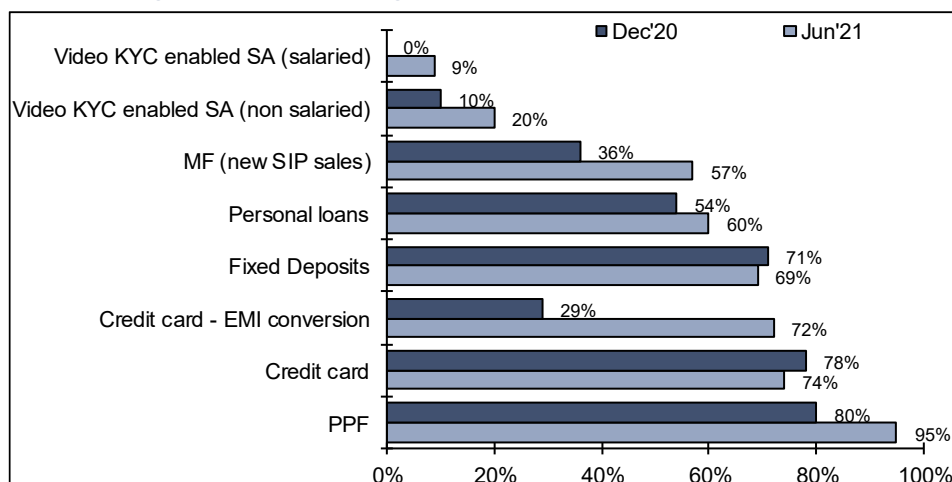
Source: Company data, I-Sec research

Chart 2: Working on 30+ initiatives to execute its digital strategy

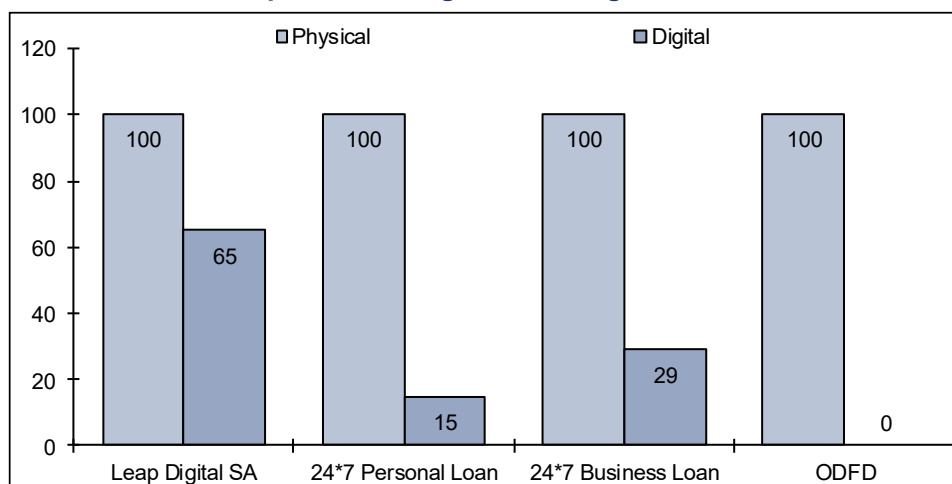
	Acquisition	Cross sell / Up sell	Lifecycle management	Risk management
Retail liabilities	LEAP: Digital journey for CASA opening Partnerships for SA acquisition NTB acquisition for FDs	Pre-approved and e2e digital journeys for Bank and third party products: MFs, Digital Gold, Forex, PFM, credit cards, PL	Archetype based personalized automated journeys for priority segment	
Retail assets	Maximus: OD FD, Auto loans, Personal loans Buy now Pay later, Home loan Acquisition partnerships: GPay, Airtel, Freecharge and many more expected	Outward remittance on mobile app Buy now, Pay Later	Lifecycle management of all products on mobile app	
Payments & Cards	Partnerships with Flipkart, Vistara Maximus: Axis led acquisition End to End Digital Issuance of Cards	Olive: Convert to EMI, CLI, card upgrade, instant loan	Olive: Convert to EMI, CLI, card upgrade, instant loan Card partnerships: Flipkart Card console	
CBG	Digital CA acquisition Digital Business Loan Lending on informational collateral: GST, POS Sankalp: Technology led sales effectiveness	Sankalp: Technology led sales effectiveness and credit process transformation	Branch of the Future Mobile and Internet Banking	Managing Ops risk: Early alignment with ctf functions, fast track processes; and Tech risk: Controlled and automated testing : Alternate data for customized credit and fraud models Digital Collections initiatives: Recalibrated for the test and learn post COVID normal
Corporate	Project Neo: Journey re-imagining, nudges on the platform for product recommendations, enhanced API proposition and partnerships with Neobanks, aggregators etc. and SCF platform revamp GCG initiatives: e-NAM, e-freight, e-lending and e-auction, GeM procurement			Credit process automation to reduce TAT
Internal employees	Siddhi: Analytics based tool for sales and managerial effectiveness to enable meaningful customer conversations Digitally assisted journeys for sourcing via tab: Acquisition, cross-sell and upsell (on-KYC), enabled by BYOD Sankalp: Reimagined loan origination and credit process simplification along with tools data and digital for sales force effectiveness		Branch of the Future Saksham: branch portal for servicing Digitally assisted journeys for employees across onboarding, Covid Support, and day-to-day transactions	Digitally assisted journeys to support collections: App that enables geo-lagging, route planning, prioritized lists

Each of these journeys is further transformed based on the OPEN philosophy

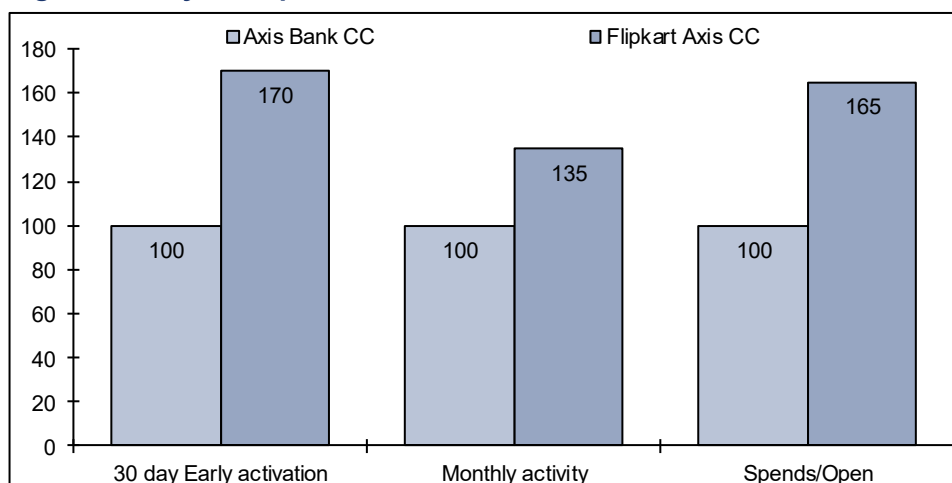
Source: Company data, I-Sec research

Chart 3: Digital continues to gain scale

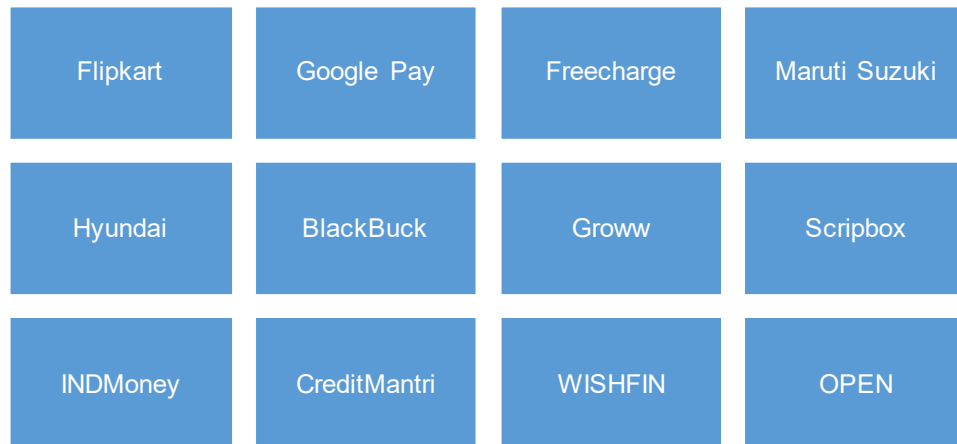
Source: Company data, I-Sec research

Chart 4: Cost of acquisition in digital sourcing is much lower

Source: Company data, I-Sec research

Chart 5: Co-branded Flipart Axis credit card constitutes 15% of overall CIF with higher activity and spends

Source: Company data, I-Sec research

Chart 6: Following approach of growing through partnership and focus on reliability

Flipkart	Google Pay	Freecharge	Maruti Suzuki
Hyundai	BlackBuck	Groww	Scripbox
INDMoney	CreditMantri	WISHFIN	OPEN

Source: Company data, I-Sec research

Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Interest Income	1,68,330	1,80,931	1,86,177	2,17,082	2,52,062	2,92,391	3,39,742	3,85,043
% Growth	18	7	3	17	16	16	16	13
Fee income	67,076	70,283	77,299	88,537	96,919	1,06,860	1,28,232	1,50,031
Add: Other income	26,639	46,630	32,372	42,767	58,446	41,522	39,978	42,495
Total Net Income	2,62,044	2,97,844	2,95,848	3,48,385	4,07,428	4,40,773	5,07,952	5,77,569
% Growth	16	14	(1)	18	17	8	15	14
Less: Operating Expenses	(1,01,008)	(1,21,999)	(1,39,903)	(1,58,334)	(1,73,046)	(1,83,752)	(2,07,011)	(2,31,852)
Pre-provision operating profit	1,61,036	1,75,845	1,55,945	1,90,051	2,34,381	2,57,022	3,00,941	3,45,717
NPA Provisions	(38,005)	(1,11,571)	(1,65,987)	(1,02,215)	(1,27,530)	(1,21,910)	(87,811)	(85,111)
Other provisions	906	(9,599)	11,258	(18,095)	(57,800)	(47,053)	(13,760)	(16,750)
PBT	1,23,937	54,676	1,216	69,741	49,051	88,058	1,99,370	2,43,856
Less: taxes	(41,700)	(17,883)	1,541	(22,975)	(32,770)	(22,173)	(50,182)	(61,379)
PAT	82,237	36,793	2,757	46,766	16,281	65,885	1,49,189	1,82,477
% Growth	12	(55)	(93)	1,596	(65)	305	126	22

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Capital	4,766	4,790	5,133	5,143	5,643	6,128	6,131	6,131
Reserve & Surplus	5,26,883	5,52,835	6,29,320	6,61,620	8,43,835	10,09,903	11,32,886	12,83,312
Deposits	35,79,676	41,43,788	45,36,227	54,84,713	64,01,049	70,73,061	79,21,828	92,68,539
Borrowings	9,92,264	10,50,309	14,80,161	15,27,758	14,79,541	14,28,732	13,65,496	13,65,496
Other liabilities	1,51,088	2,62,955	2,62,455	3,30,731	4,21,579	4,43,362	4,87,698	5,36,468
Total liabilities	52,54,676	60,14,677	69,13,296	80,09,965	91,51,648	99,61,184	1,09,14,039	1,24,59,945
Cash & Bank Balances	3,33,254	5,02,562	4,34,549	6,72,046	9,72,683	6,17,298	6,82,964	7,75,032
Investment	12,20,062	12,87,934	15,38,761	17,49,693	15,67,343	22,61,196	22,83,808	23,06,646
Advances	33,87,737	37,30,693	43,96,503	49,47,980	57,14,242	62,37,202	70,60,914	82,96,179
Fixed Assets	35,232	37,469	39,717	40,366	43,129	42,450	51,797	58,612
Other Assets	2,78,391	4,56,019	5,03,766	5,99,880	8,54,252	8,03,038	8,34,556	10,23,476
Total Assets	52,54,676	60,14,677	69,13,296	80,09,965	91,51,648	99,61,184	1,09,14,039	1,24,59,945
% Growth	14	14	15	16	14	9	10	14

Source: Company data, I-Sec research

Table 3: DuPont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest income	8.3	7.9	7.1	7.4	7.3	6.7	6.8	6.8
Interest expense	(4.9)	(4.7)	(4.2)	(4.5)	(4.4)	(3.6)	(3.6)	(3.5)
NII	3.4	3.2	2.9	2.9	2.9	3.1	3.3	3.3
Other income	0.5	0.8	0.5	0.6	0.7	0.4	0.4	0.4
Fee income	1.4	1.2	1.2	1.2	1.1	1.1	1.2	1.3
Total income	5.3	5.3	4.6	4.7	4.7	4.6	4.9	4.9
Operating expenses	(2.0)	(2.2)	(2.2)	(2.1)	(2.0)	(1.9)	(2.0)	(2.0)
Operating profit	3.3	3.1	2.4	2.5	2.7	2.7	2.9	3.0
NPA provision	(0.8)	(2.0)	(2.6)	(1.4)	(1.5)	(1.3)	(0.8)	(0.7)
Total provisions	(0.8)	(2.2)	(2.4)	(1.6)	(2.2)	(1.8)	(1.0)	(0.9)
PBT	2.5	1.0	0.0	0.9	0.6	0.9	1.9	2.1
Tax	(0.8)	(0.3)	0.0	(0.3)	(0.4)	(0.2)	(0.5)	(0.5)
PAT	1.7	0.7	0.0	0.6	0.2	0.7	1.4	1.6

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	34.6	15.4	1.1	18.2	5.8	21.5	48.7	59.5
% Growth	10.9	-55.5	-92.7	1519.6	-68.3	272.7	126.3	22.3
DPS (Rs)	5.0	5.0	-	1.0	0.9	3.2	7.3	8.9
Book Value per share (BVPS) (Rs)	224	233	258	259	301	332	372	421
% Growth	18.7	4.4	10.7	0.3	16.1	10.2	12.0	13.2
Adjusted BVPS (Rs)	217	209	213	230	276	315	356	406
% Growth	17.2	-3.4	1.9	7.9	20.1	13.9	13.1	14.2
Valuations								
Price / Earnings (x)	21.3	47.9	656.5	40.5	127.7	34.3	15.2	12.5
Price / Book (x)	3.3	3.2	2.9	2.8	2.4	2.2	2.0	1.8
Price / Adjusted BV (x)	3.4	3.5	3.5	3.2	2.7	2.3	2.1	1.8
Asset Quality								
Gross NPA (Rs mn)	58,484	2,00,456	3,42,485	2,97,895	3,02,335	2,53,165	2,59,095	2,51,191
Gross NPA (%)	1.7	5.2	7.5	5.8	5.1	3.9	3.6	3.0
Net NPA (Rs mn)	25,186	86,266	1,65,917	1,12,756	93,604	69,940	64,940	58,940
Net NPA (%)	0.7	2.3	3.8	2.3	1.6	1.1	0.9	0.7
NPA Coverage ratio (%)	57	57	52	62	69	72	75	77
Gross Slippages (%)	2.6	5.9	8.4	3.3	4.1	3.1	2.5	1.8
Credit Cost (%)	1.2	3.3	3.7	2.5	3.4	2.7	1.5	1.3
Net NPL/Networth	4.7	15.5	26.2	16.9	11.0	6.9	5.7	4.6
Business ratios (%)								
ROAA	1.7	0.7	0.0	0.6	0.2	0.7	1.4	1.6
ROAE	16.8	6.8	0.5	7.2	2.1	7.1	13.8	15.0
Credit Growth	20.5	10.1	17.8	12.5	15.5	9.2	13.2	17.5
Deposits Growth	11.0	15.8	9.5	20.9	16.7	10.5	12.0	17.0
CASA	47.3	51.4	53.8	44.4	41.2	44.9	46.5	48.0
Credit / Deposit Ratio	94.6	90.0	96.9	90.2	89.3	88.2	89.1	89.5
Cost-Income ratio	38.5	41.0	47.3	45.4	42.5	41.7	40.8	40.1
Operating Cost / Avg. Assets	2.0	2.2	2.2	2.1	2.0	1.9	2.0	2.0
Fee Income / Avg. Assets	1.4	1.2	1.2	1.2	1.1	1.1	1.2	1.3
Earning ratios								
Yield on Advances	9.7	9.3	8.4	8.8	9.1	8.0	8.0	8.0
Yield on Earning Assets	8.8	8.5	7.7	8.0	8.0	7.3	7.4	7.5
Cost of Deposits	5.4	5.1	4.4	4.7	4.9	4.2	4.1	4.1
Cost of Funds	5.6	5.4	4.8	5.1	5.0	4.2	4.2	4.1
NIM	3.6	3.5	3.1	3.2	3.2	3.4	3.5	3.6
Capital Adequacy (%)								
RWA (Rs mn)	40,39,492	47,23,132	51,76,308	55,26,876	61,31,604	67,44,765	75,54,136	84,60,633
Tier-1	12.5	11.9	13.0	12.9	14.2	15.3	15.4	15.5
CAR	15.3	14.9	16.6	16.1	16.6	17.4	17.4	17.4

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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