

July 26, 2023

RESULT REPORT Q1 FY24 | Sector: Banks

Axis Bank Ltd

Placed as the top pick in May 2022, AXSB investment thesis remains intact

Result Highlights

- ✓ **Asset quality:** Gross slippages amounted to Rs 39.9bn (annualized slippage ratio of 1.9%) and recoveries and upgrades were healthy at Rs 23.05bn
- ✓ **Margin picture:** NIM at 4.10% was down -12 bps QoQ, where the unfavorable impact of -5bps was due to fall in spreads and -4bps due to interest reversals
- ✓ **Asset growth:** Advances grew 1.6%/22.4% QoQ/YoY driven sequentially by Large and Mid-Corporate loans and by few segments in retail loans
- ✓ **Opex control:** Total opex rose 10%/26.7% QoQ/YoY, Employee Expense rose 24.3%/23% QoQ/YoY and other exp. rose 4.5%/28.6% QoQ/YoY
- ✓ **Fee income:** Fees income fell/grew -4%/25.5% QoQ/YoY, where retail banking fees de-grew/grew -2.5%/32.5% QoQ/YoY

Our view – Placed as the top pick in May 2022, AXSB investment thesis remains intact

While cost of deposits would continue to rise for AXSB, structural factors aiding margin continue to remain at play: 3 bps of the sequential decline in NIM was attributable to the lack of interest on income tax refund in 1Q. The remaining 9 bps was attributable, as such, to BAU reasons. Cost of deposits has risen 31 bps QoQ to 4.64%. The rise in cost of deposits was materially offset by a rise in yield on advances. Share of loans and investments stood at 88% of total assets, up 113 bps QoQ. Share of INR book stood at 95.6% of total loan book, up 70 bps QoQ. Share of retail and CBG loans was 68% of advances. Share of RIDF assets has declined from 3.58% of total assets a year ago to 2.29% as of June 2023.

Operating expenses have risen materially but that is largely along expected lines: There were 3 key underlying reasons for the rapid sequential rise in staff expenses. Increments have been offered in the June quarter. 8366 people have been added over the past 12 months and there has been a sequential rise as well. There was also a marginal impact on gratuity due to interest rate movement. It may further be noted that for 4Q, the Citi business expenses were accounted for only the final month of March. In general, the Citi business is entirely retail and a higher opex business.

We reiterate BUY rating on AXSB with a revised price target of Rs 1300: We had placed AXSB as the very top pick for the first time in our [report dated May 2022](#). We value the standalone bank at 1.9x FY25 P/BV for an FY24E/25E/26E RoE profile of 18.1%/17.9%/17.3%. We assign a value of Rs 121 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

(Rs mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Total Interest Income	255,568	239,698	6.6	187,287	36.5
Interest Expense	(135,980)	(122,276)	11.2	(93,446)	45.5
Net Interest Income	119,588	117,422	1.8	93,840	27.4
Other income	50,873	48,953	3.9	29,990	69.6
Total Income	170,460	166,375	2.5	123,830	37.7
Operating expenses	(82,317)	(74,699)	10.2	(64,960)	26.7
PPOP	88,144	91,676	(3.9)	58,870	49.7
Provisions	(10,349)	(3,058)	238.5	(3,594)	188.0
Exceptional Item	0	(124,898)	NA	0	NA
PBT	77,795	(36,280)	NA	55,276	40.7
Tax	(19,824)	(21,004)	(5.6)	(14,024)	41.4
PAT	57,971	(57,284)	NA	41,253	40.5

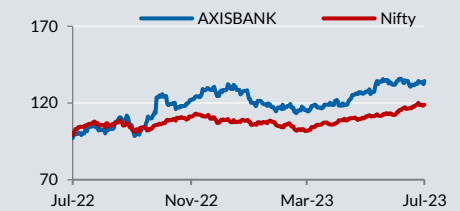
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 977
Target price	: Rs 1300
Potential return	: 33%

Stock data (as on July 26, 2023)

Nifty	19,778
52 Week h/l (Rs)	990 / 702
Market cap (Rs/USD mn)	2964534 / 36153
Outstanding Shares (mn)	3,080
6m Avg t/o (Rs mn):	9,407
Div yield (%):	0.1
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

Stock performance



	1M	3M	1Y
Absolute return	1.7%	10.0%	38.3%

Shareholding pattern (As of Mar'23 end)

Promoter	8.0%
FII+DII	79.1%
Others	10.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1300	1275

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	497,956	592,845	704,275
PPOP	414,372	511,249	610,824
Net Profit	249,291	311,075	372,850
Growth (%)	160.2	24.8	19.9
EPS (Rs)	81.0	97.2	116.5
BVPS (Rs)	488	615	731
P/E (x)	10.6	8.8	7.3
P/BV (x)	1.8	1.4	1.2
ROE (%)	18.1	17.9	17.3
ROA (%)	1.7	1.9	1.9
Tier-1 (%)	14.8	16.1	15.9

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	81.0	97.2	116.5
EPS (Old)	82.9	96.7	NA
% change	-2.3%	0.5%	NA

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COMPREHENSIVE CON-CALL TAKEAWAYS

Net interest margin

- ✓ **Margin for the quarter**
 - NIM was at 4.1%, down -12 bps QoQ but up 50bps YoY.
 - 3 bps of the sequential decline was attributable to the lack of interest on income tax refund in 1Q.
 - The remaining 9 bps was attributable, as such, to BAU reasons.
- ✓ **Cost of deposits**
 - Cost of deposits has risen 31 bps QoQ to 4.64%.
 - The rise in cost of deposits was materially offset by a rise in yield on advances.
 - The cost of deposits would continue to rise for the remainder of the financial year but at a slower pace.
- ✓ **Evolution of balance sheet mix**
 - Share of loans and investments stood at 88% of total assets, up 113 bps QoQ.
 - Share of INR book stood at 95.6% of total loan book, up 70 bps QoQ.
 - Share of retail and CBG loans was 68% of advances.
 - Share of RIDF assets has declined from 3.58% of total assets a year ago to 2.29% as of June 2023.
- ✓ **Liquidity**
 - In the last 2 years, the outflow rates on Basel reporting basis, has seen reduction of 460 bps and is now closer to the best in the banking sector.
 - The LCR is 123%.
- ✓ **Loan book by rate category**
 - 68% of the loan book is floating rate.
 - 42% of the fixed rate book matures in less than 12 months.

Asset Quality

- ✓ **Slippages**
 - Gross NPA additions amounted to Rs 39.9bn for 1QFY24, translating to an annualized slippage ratio of 1.87% for the quarter. (Gross NPA additions had amounted to Rs 33.75bn during 4QFY23.)
- ✓ **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 23.05bn for 1QFY24, implying net NPA addition of Rs 16.85bn for the quarter.
- ✓ **Provisions**
 - **P&L provisions**
 - Provisions were Rs 10.3bn, up by 238% QoQ and 188% YoY, translating to annualised credit cost of 50bps.
 - Credit cost has risen due to higher rural slippages, which is seasonal and lower recoveries, especially from the corporate book.
 - **Outstanding provisions**
 - The PCR stood at 80%, up 233 bps QoQ.
 - Non-NPA provisions provide a coverage of 1.39% of customer assets.
 - All provisions provide a coverage of 149% of GNPA.

(Con call takeaways continue on the next page)

✓ Restructured book

- The fund based outstanding of standard restructured loans implemented under resolution framework for COVID-19 stood at Rs 19.07bn or 0.2% of the gross customer assets.

Fee income

- ✓ Fee income has risen 28% YoY.
- ✓ Granular fee comprises 94% of overall fees.

Operating expenses

✓ Cost to income ratio

- Total opex, at Rs. 82.3 bn, is up 10.2% QoQ and 26.7% YoY.
- Consequently, cost/income ratio came in at 48.3%, up by 339bps QoQ but down -417bps YoY.

✓ Opex to assets

- Opex to assets stood at 2.32%, up 7 bps QoQ.
- Management sticks to prior guidance of 2% cost to assets for exit quarter FY25.
- This guidance is excluding the impact of the Citi deal.

✓ Citi deal

- It may be noted that for 4Q, the Citi business expenses were accounted for only the final month of March.
- The Citi business is entirely retail and a higher opex business.
- The integration expenses pertaining to the deal would amount to Rs 20bn on a pre-tax basis and Rs 15bn on a post-tax basis and spread over 18 months.

✓ Delta in expenses – YoY

- 21% of the YoY increase is due to Citi integration expenses.
- **Split for the remaining delta**
 - 4% due to volumes
 - 57% due to tech and growth-related expenses
 - 39% due BAU reasons

✓ Staff expenses

- The staff opex is up 24.3% QoQ and 23% YoY.
- **Reasons for sequential rise**
 - Increments have been offered in the June quarter.
 - 8366 people have been added over the past 12 months and there has been a sequential rise as well.
 - There was also a marginal impact on gratuity due to interest rate movement.

✓ Non-staff expenses

- Other opex is up 4.5% QoQ and 28.6% YoY.
- **Branch expansion**
 - The bank will add 400 branches in FY24 and a similar number going forward.

Return ratios

- ✓ The standalone RoA for the quarter amounted to 1.8%.
- ✓ The standalone RoE for the quarter amounted to 19.2%.

(Con call takeaways continue on the next page)

✓ Citi deal

- The Citi deal will be RoE accretive post integration.

Deposits accretion

- ✓ On MEB basis, total deposits have grown 17% YoY.
- ✓ SA deposits have grown 22% YoY.
- ✓ CA deposits have grown 23% YoY.
- ✓ The CASA ratio stood at 45.5%, up 182 bps YoY.

Capital adequacy

- ✓ The CET1 ratio stood at 14.38%.
- ✓ The bank has accreted 31 bps of CET1 capital during the quarter on BAU basis.
- ✓ There is a 48 bps cushion due to Covid provisions.
- ✓ The RWA to assets stood at 67%.
- ✓ The bank is not looking to raise equity capital.

Loan growth

- ✓ The advances for the bank stood at Rs 8,585 bn, up by 1.6% QoQ and 22.4% YoY.
- ✓ **Guidance**
 - The bank has sufficient capital to grow 400-600 bps faster than system credit.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy	Q1 FY24*	chg qoq*	chg yoy*
Advances	8,585,114	8,453,028	1.6	7,011,299	22.4	100.0	0bps	0bps
Large/Mid-corporate	2,730,430	2,650,090	3.0	2,177,570	25.4	31.8	45bps	75bps
SME	876,580	927,230	(5.5)	706,900	24.0	10.2	-76bps	13bps
Retail	4,978,100	4,875,710	2.1	4,128,480	20.6	58.0	31bps	-90bps
Home Loans	1,566,460	1,573,920	(0.5)	1,451,710	7.9	18.2	-37bps	-246bps
Rural Lending	716,260	709,180	1.0	587,510	21.9	8.3	-5bps	-4bps
Auto Loans	535,130	522,780	2.4	450,660	18.7	6.2	5bps	-19bps
Personal Loan	568,950	545,610	4.3	470,310	21.0	6.6	17bps	-8bps
Credit Card	347,310	316,840	9.6	180,450	92.5	4.0	30bps	147bps
LAP	506,260	507,560	(0.3)	432,370	17.1	5.9	-11bps	-27bps
SBB	462,740	429,820	7.7	316,450	46.2	5.4	31bps	88bps
Others	274,990	270,000	1.8	237,370	15.8	3.2	1bps	-18bps
Total Deposits	9,416,897	9,469,452	(0.6)	8,035,717	17.2	100.0	0bps	0bps
CA	1,332,690	1,491,200	(10.6)	1,081,000	23.3	14.2	-160bps	70bps
SA	2,955,300	2,974,160	(0.6)	2,430,930	21.6	31.4	-2bps	113bps
Term	5,128,907	5,004,092	2.5	4,523,787	13.4	54.5	162bps	-183bps
Investments	2,853,967	2,888,148	(1.2)	2,977,655	(4.2)	NA	NA	NA
Investments/(Invest.+ Net Adv.) (%)	24.9	25.5	-52bps	29.8	-486bps	NA	NA	NA
Borrowings	1,721,761	1,863,000	(7.6)	1,706,052	0.9	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	15.5	-16.4	3190bps	17.5	-206bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q1 FY24	Q4 FY23	chg qoq	Q1 FY23	chg yoy
Net Interest Margin	4.10	4.22	-12bps	3.60	50bps
Cost of funds	5.03	4.75	28bps	3.89	114bps
CASA	45.5	47.2	-162bps	43.7	183bps
Loan to Deposit ratio	91.2	89.3	190bps	87.3	392bps
Non-interest income/Total income	29.8	29.4	42bps	24.2	563bps
Fee Income/Avg. Total Assets	1.6	1.7	-13bps	1.4	15bps
Cost to Income	48.3	44.9	339bps	52.5	-417bps
Opex/Avg. Total Assets	2.5	2.4	16bps	2.2	28bps
RoE*	19.2	21.1	-195bps	15.1	410bps
RoA	1.8	-1.8	363bps	1.4	36bps
Capital Adequacy ratio	17.1	17.6	-56bps	17.3	-20bps
Tier I Capital Ratio	14.2	14.6	-33bps	15.2	-100bps
Annualised Slippage Ratio	1.9	1.8	11bps	2.1	-18bps
Provision Coverage	93.0	94.0	-100bps	92.0	100bps
Gross NPA	2.0	2.0	-6bps	2.8	-80bps
Net NPA	0.4	0.4	2bps	0.6	-23bps

Source: Company, YES Sec – Research, *Excluding Exceptional Item

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	119,588	121,507	(1.6)
Pre-Prov. Operating Profit	88,144	94,616	(6.8)
Profit After Tax	57,971	63,318	(8.4)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q1FY24	Q4FY23	% qoq	Q1FY23	% yoy
Employee Expense	26,885	21,636	24.3	21,861	23.0
Other Operating Expense	55,432	53,063	4.5	43,099	28.6
Total Operating Expense	82,317	74,699	10.2	64,960	26.7

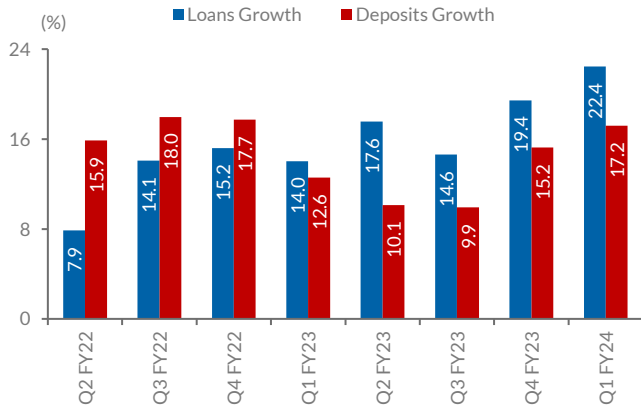
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Total Fee Income (A)	44,880	46,760	(4.0)	35,760	25.5
Retail Banking fees	31,460	32,270	(2.5)	23,740	32.5
Corporate & Commercial Banking fee	13,420	14,490	(7.4)	12,020	11.6
Total Other Income (B)	5,990	2,190	173.5	(5,770)	(203.8)
Trading Income	5,190	830	525.3	(6,670)	(177.8)
Miscellaneous Income	800	1,360	(41.2)	900	(11.1)
Total Non-Interest Income (A+B)	50,870	48,950	3.9	29,990	69.6

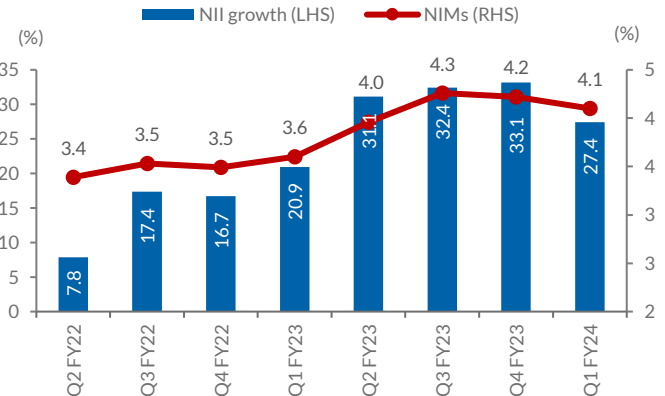
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



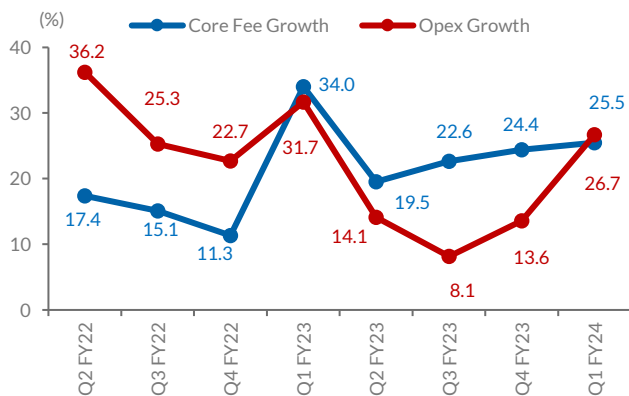
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



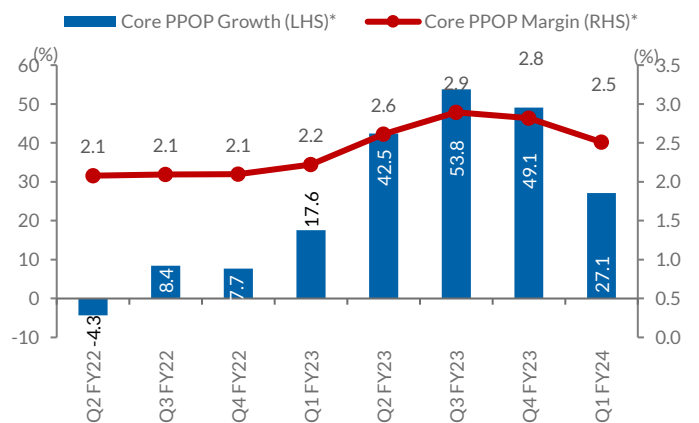
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



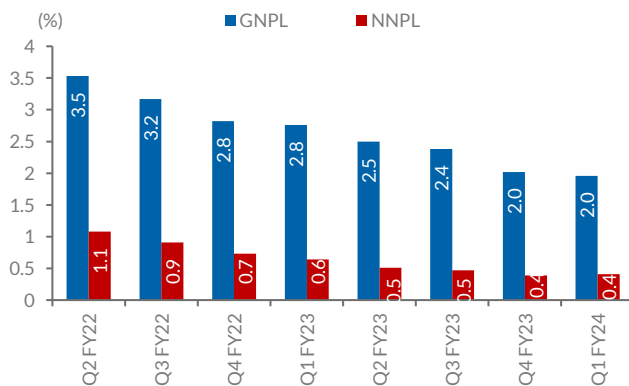
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



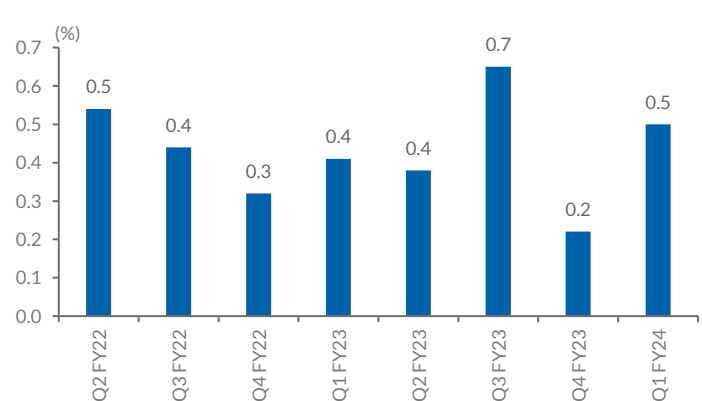
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Credit Cost (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	1,109,871	1,064,108	1,186,805	1,400,430	1,652,508
Investments	2,755,972	2,888,148	3,534,243	4,109,204	4,781,539
Advances	7,076,960	8,453,028	9,890,043	11,670,251	13,770,896
Fixed assets	45,724	47,339	52,072	57,280	63,008
Other assets	763,255	720,632	792,695	871,965	959,161
Total assets	11,751,781	13,173,255	15,455,859	18,109,130	21,227,111
Net worth	1,151,741	1,254,167	1,500,381	1,968,252	2,337,902
Deposits	8,217,209	9,469,452	11,050,168	13,008,397	15,319,107
Borrowings	1,851,339	1,863,000	2,378,632	2,692,447	3,240,017
Other liabilities	531,493	586,636	526,678	440,034	330,085
Total liabilities incl. Equity	11,751,781	13,173,255	15,455,859	18,109,130	21,227,111

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	673,768	851,638	1,006,185	1,198,731	1,416,621
Interest expense	(342,446)	(422,180)	(508,229)	(605,885)	(712,346)
Net interest income	331,322	429,457	497,956	592,845	704,275
Non-interest income	152,205	165,009	238,483	288,901	339,489
Total income	483,528	594,466	736,439	881,746	1,043,764
Operating expenses	(236,108)	(271,662)	(322,068)	(370,497)	(432,940)
PPoP	247,420	322,804	414,372	511,249	610,824
Provisions	(73,595)	(28,848)	(81,984)	(96,482)	(113,691)
Profit before tax	173,826	169,058	332,388	414,767	497,133
Taxes	(43,571)	(73,262)	(83,097)	(103,692)	(124,283)
Net profit	130,255	95,797	249,291	311,075	372,850

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	6.2	6.8	7.0	7.1	7.2
Interest expense	-3.2	-3.4	-3.6	-3.6	-3.6
Net interest income	3.1	3.4	3.5	3.5	3.6
Non-interest income	1.4	1.3	1.7	1.7	1.7
Total income	4.5	4.8	5.1	5.3	5.3
Operating expenses	-2.2	-2.2	-2.2	-2.2	-2.2
PPoP	2.3	2.6	2.9	3.0	3.1
Provisions	-0.7	-0.2	-0.6	-0.6	-0.6
Profit before tax	1.6	1.4	2.3	2.5	2.5
Taxes	-0.4	-0.6	-0.6	-0.6	-0.6
Net profit	1.2	0.8	1.7	1.9	1.9

Source: Company, YES Sec – Research

Exhibit 18: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Axis AMC	241,415	AUM	2,414,146	10.0%	75.0%	181,061	58.8
Max Life	325,260	EV	162,630	2.0x	13.0%	42,251	13.7
Axis Capital	19,926	PAT	1,423	14.0x	100.0%	19,926	6.5
Axis Bank UK	5,271	BV	4,792	1.1x	100.0%	5,271	1.7
Axis Finance	95,769	BV	31,923	3.0x	100.0%	95,769	31.1
Axis Securities	27,527	BV	9,176	3.0x	100.0%	27,527	8.9
Value of Subsidiaries						371,805	120.8

Source: Company, YES Sec – Research

Exhibit 19: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	497,956	592,845	704,275	495,907	583,460	NA	0.4	1.6	NA
Pre-Prov. Operating Profit	414,372	511,249	610,824	430,555	522,728	NA	(3.8)	(2.2)	NA
Profit after tax	249,291	311,075	372,850	255,089	309,551	NA	(2.3)	0.5	NA

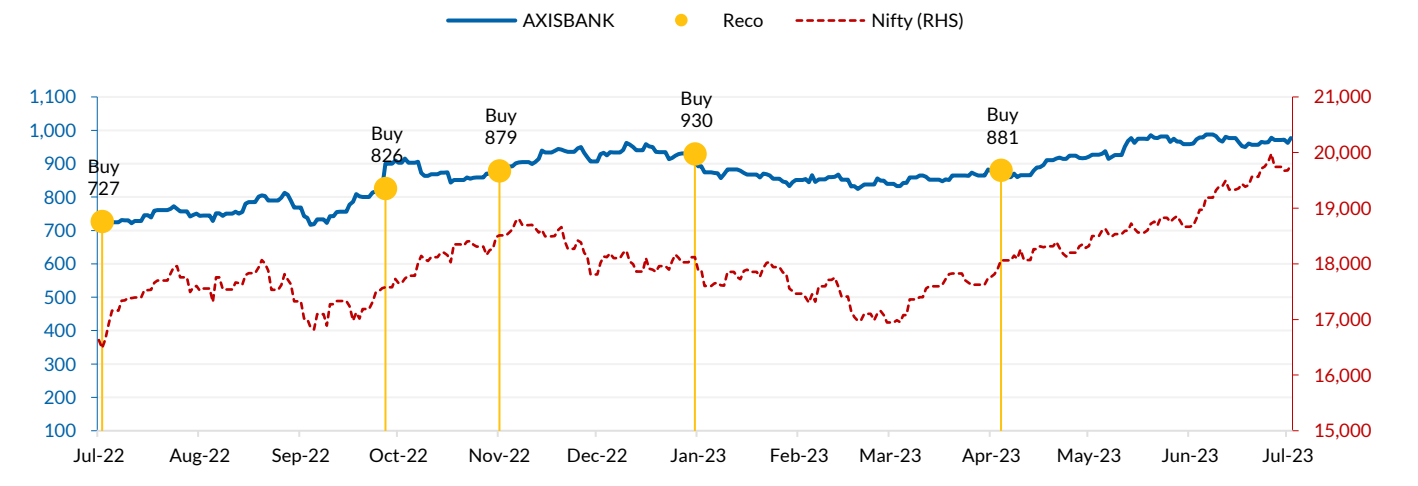
Source: Company, YES Sec – Research

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	13.3	29.6	16.0	19.1	18.8
PPoP	-3.7	30.5	28.4	23.4	19.5
Net profit	97.7	-26.5	160.2	24.8	19.9
Loans	13.5	19.4	17.0	18.0	18.0
Deposits	16.2	15.2	16.7	17.7	17.8
Profitability Ratios (%)					
Net interest margin	3.5	4.0	4.0	4.1	4.1
Return on Average Equity	12.0	8.0	18.1	17.9	17.3
Return on Average Assets	1.2	0.8	1.7	1.9	1.9
Per share figures (Rs)					
EPS	42.4	31.1	81.0	97.2	116.5
BVPS	375	408	488	615	731
ABVPS	357	396	465	586	693
Valuation multiples					
P/E	20	27	11	9	7
P/BV	2.3	2.1	1.8	1.4	1.2
P/ABV	2.4	2.2	1.8	1.5	1.2
NIM internals (%)					
Yield on loans	7.5	8.3	8.4	8.5	8.5
Cost of deposits	3.5	3.6	3.8	3.9	3.9
Loan-deposit ratio	86.1	89.3	89.5	89.7	89.9
CASA ratio	45.0	47.2	46.0	46.0	46.0
Opex control (%)					
Cost/Income ratio	48.8	45.7	43.7	42.0	41.5
Cost to average assets	2.2	2.2	2.2	2.2	2.2
Capital adequacy (%)					
Tier 1 capital ratio	16.3	14.6	14.8	16.1	15.9
Asset quality (%)					
Slippage ratio	3.0	1.9	1.7	1.6	1.6
Gross NPL ratio	3.0	2.2	2.4	2.4	2.4
Credit cost	1.1	0.4	0.8	0.8	0.8
Net NPL ratio	0.8	0.4	0.7	0.8	0.9

Source: Company, YES Sec – Research; Valuations are the implied value of standalone entity net of subsidiaries

Recommendation Tracker



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