

Axis Bank (AXSB)

BUY

NIMs declined QoQ; RoA @ 1.8%

Summary

Axis Bank's NIM declined QoQ led by higher cost of deposits. Management expects deposit re-pricing to continue during Q4FY24 but pace of increase will reduce. Credit growth remains strong at 22% YoY backed by Citi portfolio impact. However, management guided for 13% YoY credit growth for FY24 while maintained guidance of 400-600bps higher than industry growth in medium to long term. Asset quality improved as GNPA stood at 1.58% vs 1.73% led by higher upgrades. PPOP grew by 6% QoQ due to higher other income (up 10% QoQ). Provisions increased by 26% QoQ due to AIF; thus PAT grew by 4% QoQ. We expect 9% EPS CAGR (FY24-26). We maintain 'BUY' with a new TP of Rs.1,400 (Rs.1,280), valuing parent business at Rs.1,340 at 2.1X P/ABV FY26E (earlier 2X as sustained RoA above 1.8%) and rest for the subsidiaries.

Key Highlights and Investment Rationale

- **Credit growth remains strong:** Credit growth remains strong at 22% YoY (along with Citi portfolio) vs 19% YoY (FY23) led by strong growth in domestic corporate book. Deposits grew by 18% YoY with CASA ratio stood at 42%.
- **NIMs declined QoQ:** NIMs declined by 10bps QoQ to 4% led by rise in cost of funds. Marginal cost of funding has stabilized over the last 6 months. The management expects the cost of deposits to inch up further in Q4FY24.
- **Asset quality improved QoQ:** Asset quality improved with GNPA at 1.58% vs 1.73% QoQ; led by higher recoveries. Slippage ratio increased to 1.62% (annualized) vs 1.49% QoQ. BB & below book stood at 0.29% vs 0.35% QoQ; restructured assets stood at 0.16% vs 0.19% QoQ of customer assets.
- **Outlook:** RoA has improved in last few quarters majorly led by improvement in margins. However, margin pressure is expected in next quarter or so as deposit rates to inch up thus need to watch for RoA to sustain at higher levels.

TP Rs.1,400

CMP Rs.1,089

Potential upside/downside 29%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.1	13.0	16.7
Rel to Sensex	1.1	4.0	1.2

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	77.7	80.8	93.0
Consensus	78.0	88.8	104.9
% difference	(0.4)	(9.0)	(11.3)

Key Stock Data

Bloomberg / Reuters	AXSB IN / AXBK.BO
Sector	Banking
Shares o/s (mn)	3,084
Market cap. (Rs mn)	3,358,558
3-m daily avg Trd value (Rs mn)	286.2
52-week high / low	Rs1,152 / 814
Sensex / Nifty	70,371 / 21,239

Shareholding Pattern (%)

Promoters	8.2
FII	54.7
DII	26.1
Public	11.0

Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	3,31,322	4,29,457	4,96,846	5,57,453	6,37,152
Change (yoy, %)	13%	30%	16%	12%	14%
Net Profit	1,30,255	95,797	2,39,443	2,48,988	2,86,704
Change (yoy, %)	98%	-26%	150%	4%	15%
EPS (Rs)	42.4	31.1	77.7	80.8	93.0
Change (yoy, %)	97%	-27%	150%	4%	15%
ABV (Rs)	361.7	398.9	474.4	552.8	641.8
PER (x)	25.7	35.0	14.0	13.5	11.7
P/ABV (x)	3.0	2.7	2.3	2.0	1.7
ROE (%)	12.0	8.0	17.4	15.4	15.3
ROA (%)	1.2	0.8	1.7	1.6	1.6
GNPA (%)	3.0	2.2	1.5	1.5	1.6
NNPA (%)	0.8	0.4	0.4	0.4	0.4
CAR (%)	18.5	17.6	17.6	17.9	18.2

Source: IDBI Capital Research

Bunty Chawla

Bunty.chawla@idbicapital.com
+91-22-2217 1843

Conference Call Highlights

Operational Performance:

- Yield on interest earning assets (up 69bps YoY) was off-set by increase in cost of funds, thereby impacting NIMs.
- Granular fee is 93% of the total fee income.
- Net credit cost improved 14 bps QoQ aided by higher recoveries and an upgrade in a large corporate account. Standard asset coverage ratio at 1.29%.
- Retail and CBD advances (69% of total adv) up 264 bps YoY
- Low yielding RIDF bonds declined by ~Rs.81.7bn YoY. They constituted 1.87% of total assets in Q3FY24 vs 2.73% of total assets YoY.
- Integration expenses contributed 4% to the operating expenses YoY growth and 13% of YoY cost growth in Rupee terms. Tech and digital spends up 36% YoY and constituted 9% of the total spends.
- 69% of the loans are floating rate loans while 48% of the fixed advances will mature in the next 12 months.
- Unsecured disbursements at 22% of the retail disbursements vs 25% QoQ.
- 83% of CBG loan book is PSL compliant.

Advances and deposits:

- Retail term deposit growth was at a 12 quarter high and correspondingly retail disbursements in Q3FY24 were the highest ever for a quarter.
- CASA share (declined 196 bps YoY) at 42% one of the best in the industry among comparable peers.
- Bulk deposit pricing continued inching up throughout the quarter and the management expects a similar trend to continue in Q4FY24.
- In Q3FY24, NRTDs have contributed to deposit growth, however a significant portion of the same are non-callable in nature thus can be considered as stable source of funds.
- The bank is a leading player on the account aggregator platform front wherein it has a user base of ~10mn 'known to bank' customers which enables the bank to sell credit cards and other loan products to these customers.

- The bank has increased its pricing on personal loans; hence the new disbursements are expected to bring in a higher incremental yield. Similarly, the bank has been able to pass on the increase in costs to its NBFC customers to an extent.

Asset Quality:

- Change in regulations adversely affected CET-1 by 70bps whereas there was an organic CET-1 accretion of 39bps in 9MFY24.
- Cumulative NPA provisions at Rs.119.81bn comprised of Rs.50.12bn covid related provisions, restructuring provision at Rs.5.87bn, standard asset provisions at Rs.22.16bn, and weak assets and other provisions at Rs.41.66bn.
- The bank has not invested in any AIF for an amount exceeding Rs.0.5bn.
- LCR stood at 118% for Q3FY24. The bank has historically been in the range of 115-120% and the management expects the same to remain with the defined range.
- The bank made Rs.57.44bn IBPC sale in Q3FY24.

Future Guidance

- Citi integration remains on track and there has been an improvement across all metrics. The bank expects to complete the data migration and overall integration by H1FY25.
- The management does not intend to raise any capital going forward and it believes that the internal accretions to the capital base are sufficient to support growth.
- The bank has kept a balance between its secured and unsecured retail advances in the ratio of 80:20. The management iterated that the said ratio will remain stable and the bank would be in a comfortable position until the ratio does not cross a 75:25 threshold.
- The management expects the constraint on deposit growth to remain constant in the near term and hence, expects a spill-over effect of the same on credit growth.
- The management expects the credit cost to move up from the current levels over a certain period of time for the bank as well as the industry as a whole.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Interest Income	2,79,611	2,22,264	2,66,262	25.8	5.0
Interest Expenses	1,54,290	1,07,671	1,43,116	43.3	7.8
Net Interest Income	1,25,322	1,14,593	1,23,146	9.4	1.8
NIM (%)	4.01	4.26	4.11	-25 bps	-10 bps
Non-Interest Income	55,548	46,654	50,341	19.1	10.3
Operating Income	1,80,870	1,61,248	1,73,486	12.2	4.3
Staff Cost	27,113	22,811	26,098	18.9	3.9
Other Op Exp	62,344	45,662	61,070	36.5	2.1
Total Operating Expenses	89,457	68,473	87,168	30.6	2.6
<i>Cost to Income (%)</i>	<i>49.5</i>	<i>42.5</i>	<i>50.2</i>	<i>700 bps</i>	<i>-79 bps</i>
Operating Profit	91,412	92,775	86,319	-1.5	5.9
Provisions	10,283	14,377	8,146	-28.5	26.2
PBT	81,129	78,398	78,173	3.5	3.8
Tax	20,418	19,867	19,537	2.8	4.5
<i>-effective tax rate</i>	<i>25.2</i>	<i>25.3</i>	<i>25.0</i>	<i>-17 bps</i>	<i>17 bps</i>
PAT	60,711	58,531	58,636	3.7	3.5
EPS (Rs)	19.7	19.0	19.0	3.4	3.5
BV (Rs)	463.6	424.9	443.6	9.1	4.5
Deposits	1,00,48,995	84,83,747	95,55,564	18.4	5.2
Advances	93,22,864	76,22,769	89,73,470	22.3	3.9

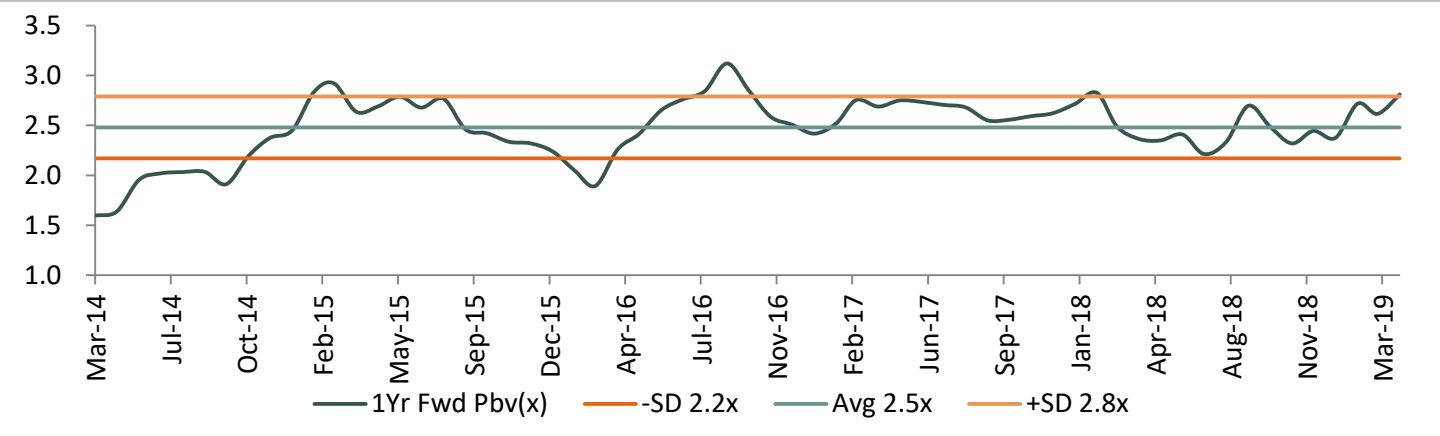
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	3.1	3.4	3.6	3.6	3.5
Fees	1.3	1.3	1.5	1.4	1.4
Other Income	0.1	0.0	0.1	0.3	0.3
Net Revenue	4.5	4.8	5.2	5.2	5.2
Op.Exp	2.2	3.2	2.5	2.5	2.5
Op.Profit	2.3	1.6	2.6	2.7	2.7
Provisions	0.7	0.2	0.3	0.5	0.5
PBT	1.6	1.4	2.3	2.1	2.1
Tax	0.4	0.6	0.6	0.5	0.5
PAT	1.2	0.8	1.7	1.6	1.6
Leverage (x)	10.0	10.4	10.1	9.7	9.6
ROE	12.0	8.0	17.4	15.4	15.3

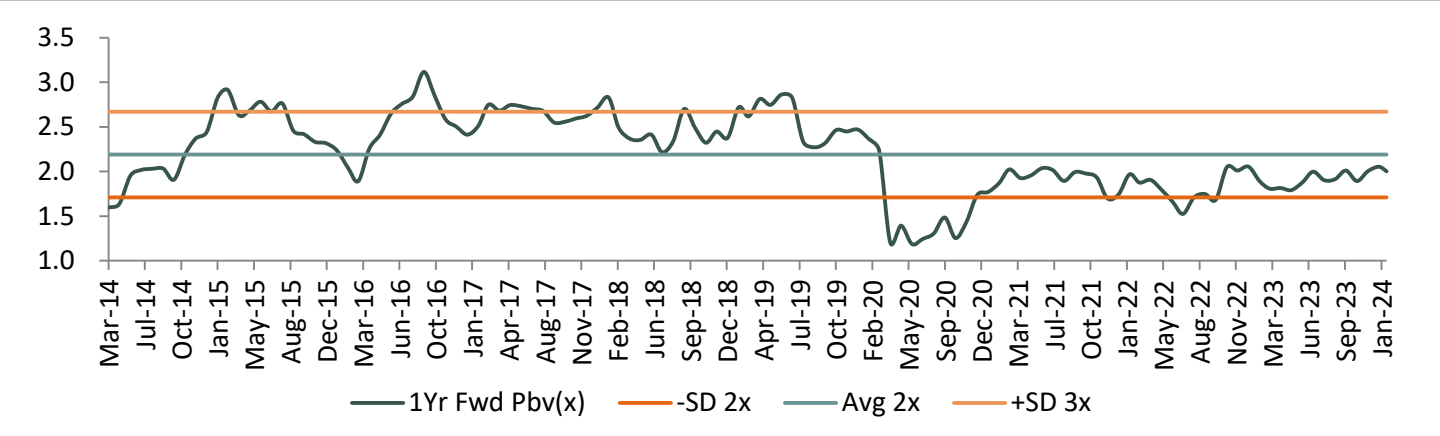
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



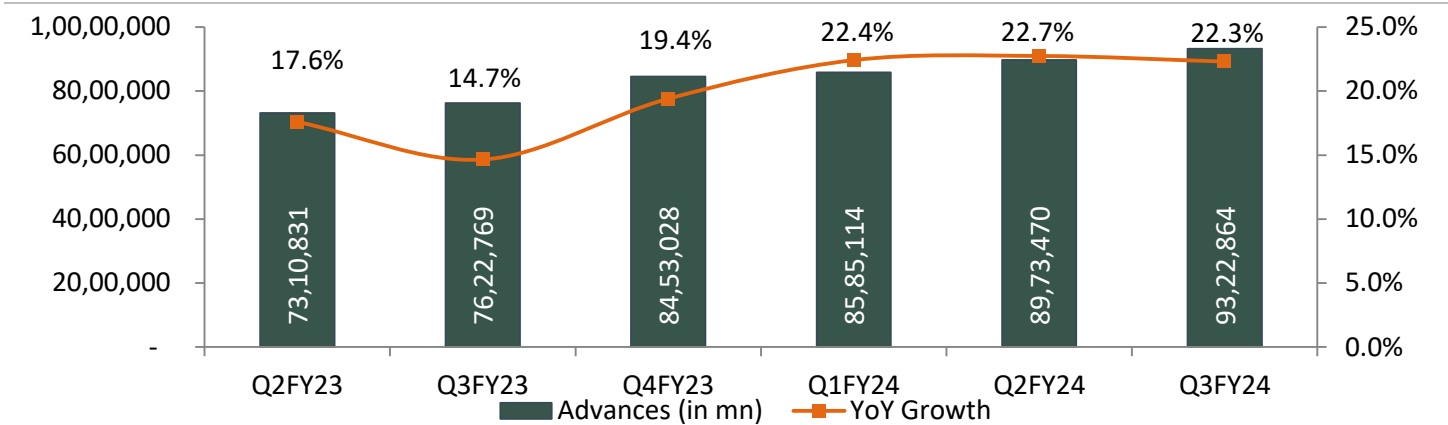
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-24)



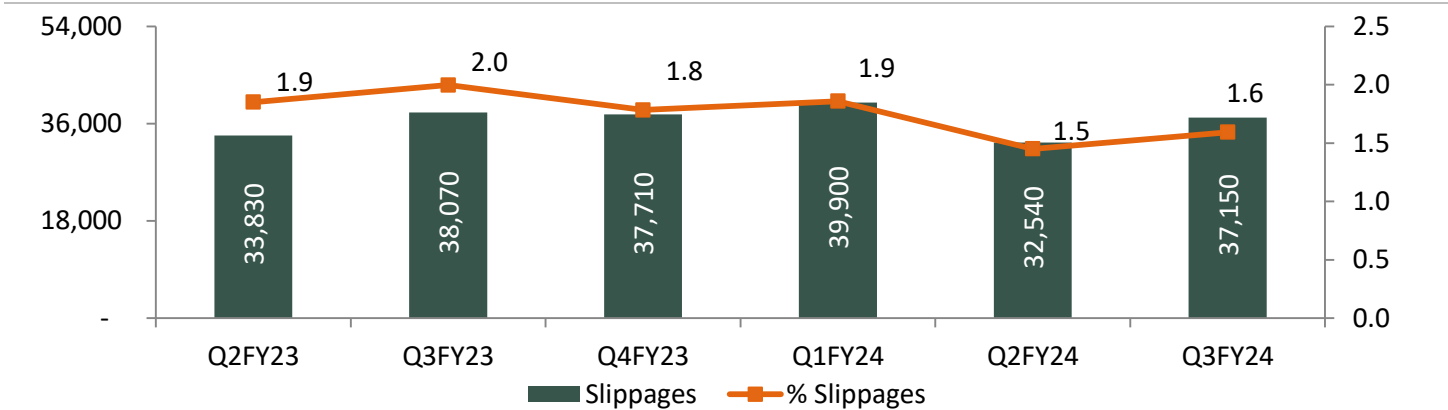
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth continued to witness strong uptick during the qtr



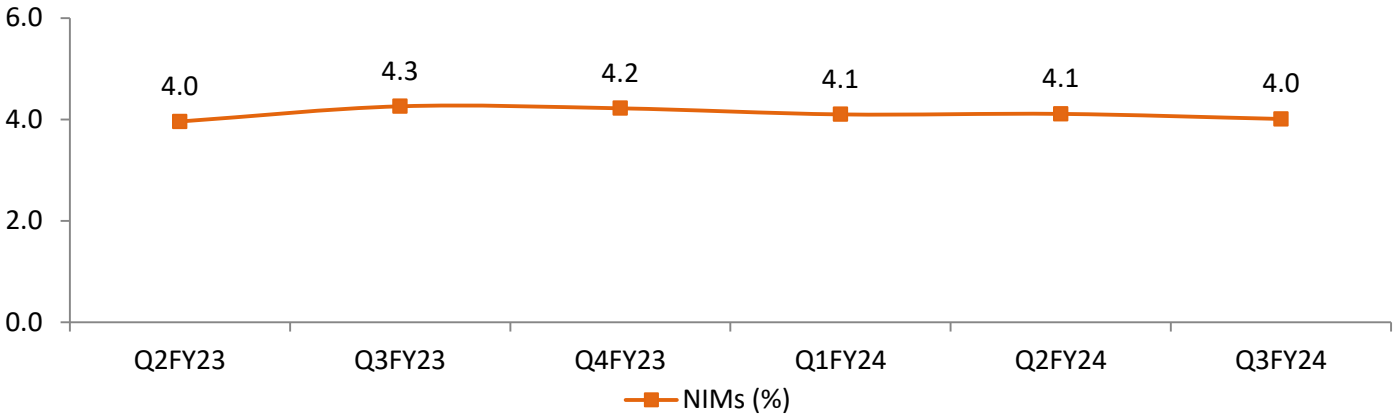
Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio inched up sequentially



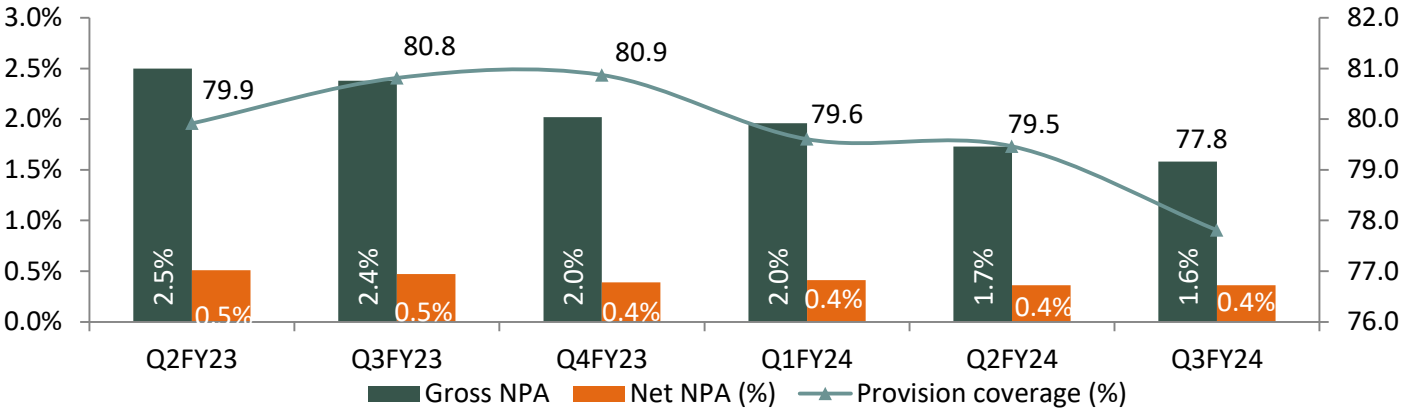
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins remained stable QoQ



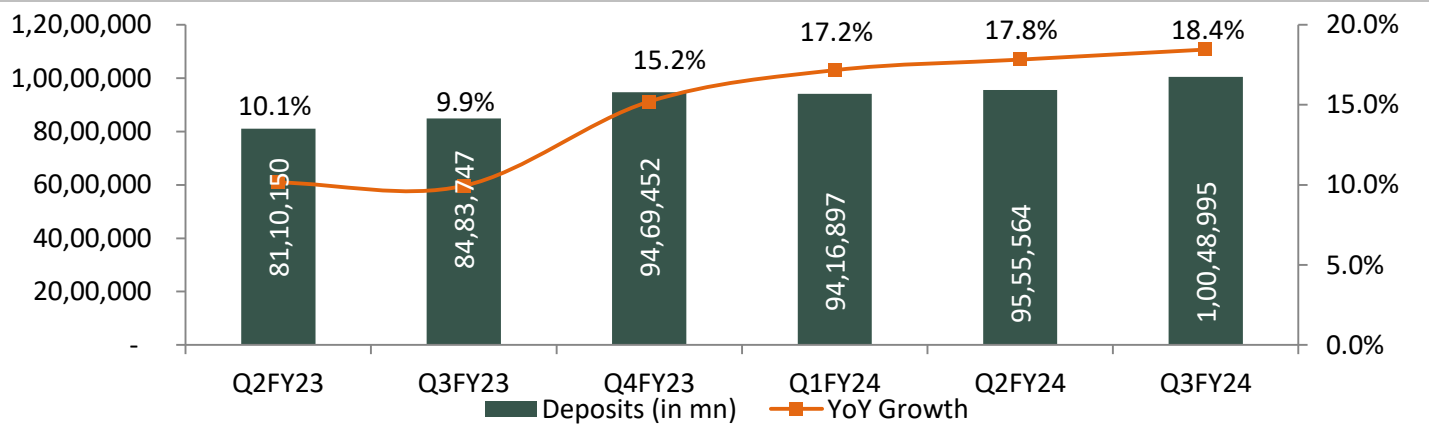
Source: Company; IDBI Capital Research

Exhibit 8: Asset quality continued to witness improvement



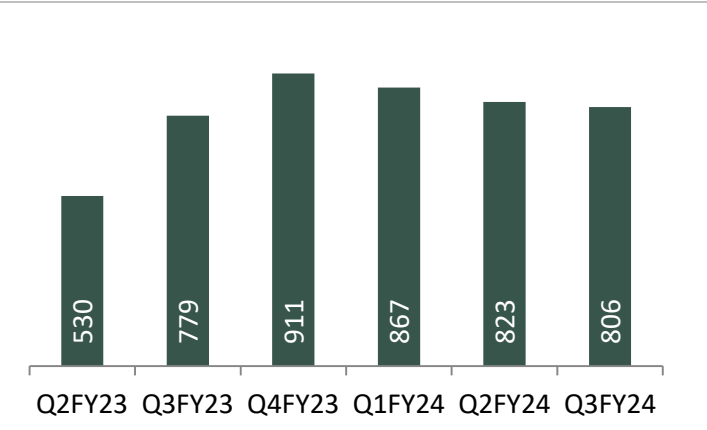
Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth witnessed improved on a sequential basis



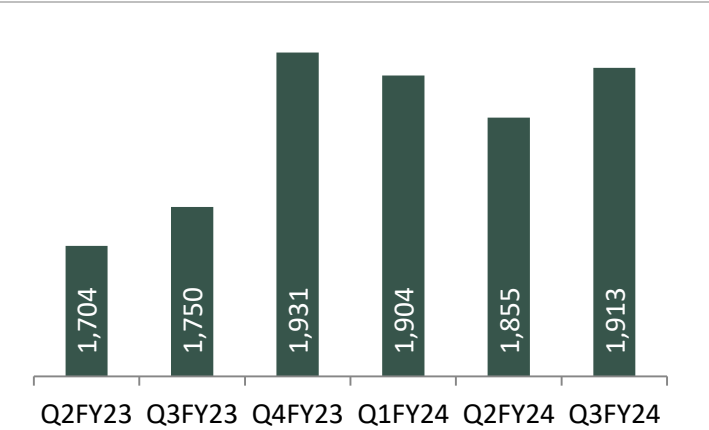
Source: Company; IDBI Capital Research

Exhibit 10: CASA per Branch



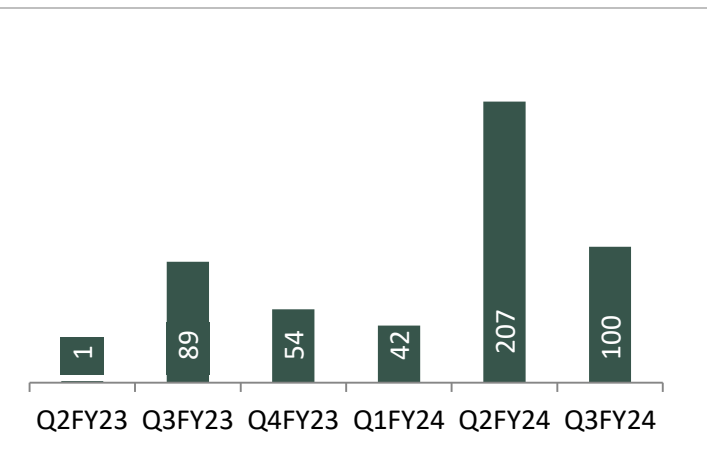
Source: Company; IDBI Capital Research

Exhibit 11: Deposit per Branch



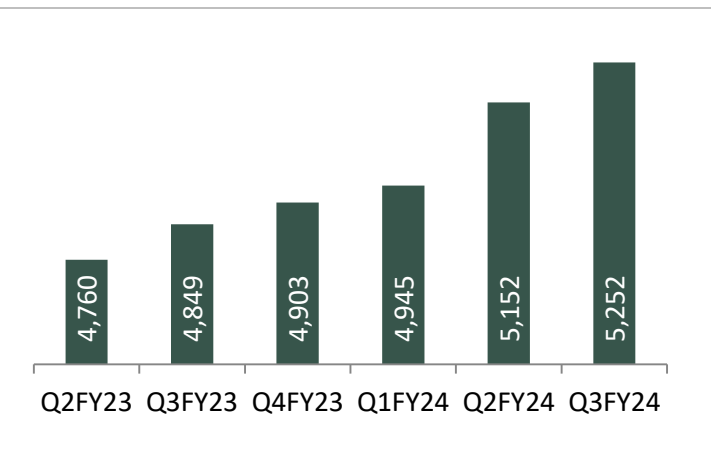
Source: Company; IDBI Capital Research

Exhibit 12: Incremental No of Branches



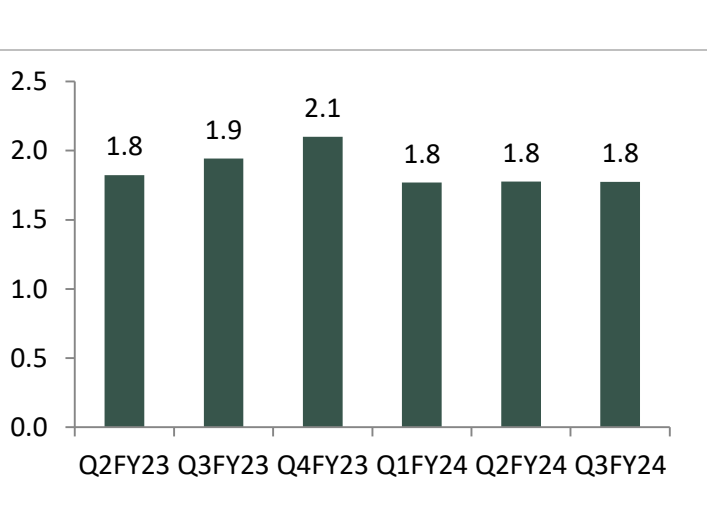
Source: Company; IDBI Capital Research

Exhibit 13: Branch Network



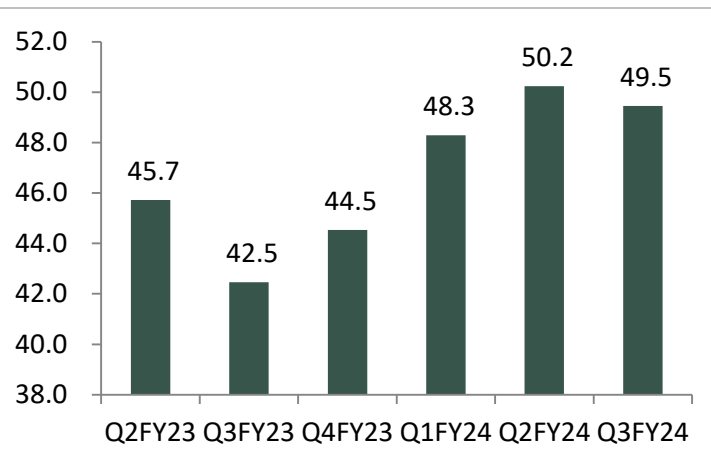
Source: Company; IDBI Capital Research

Exhibit 14: RoA remained stable on QoQ basis

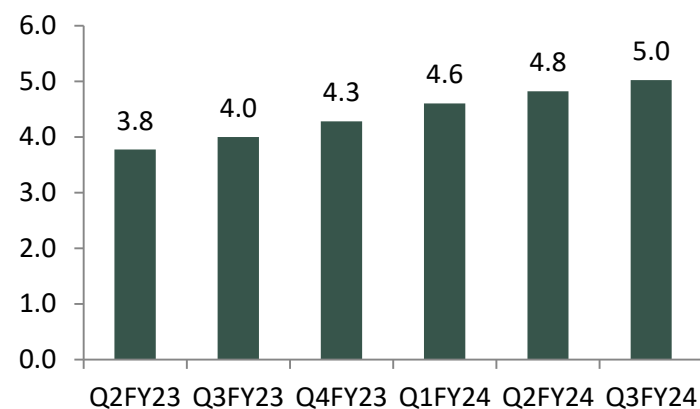


Source: Company; IDBI Capital Research

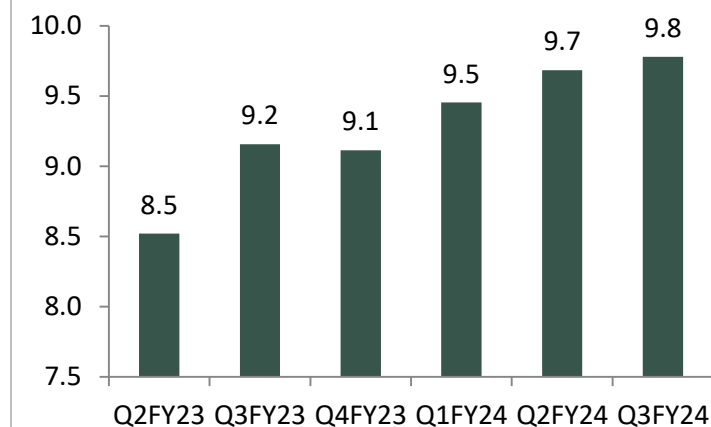
Exhibit 15: Cost to Income Ratio improved sequentially



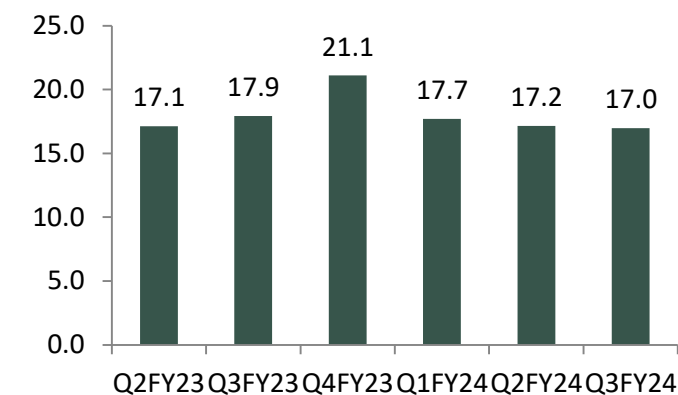
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Funds continued to witness uptick QoQ

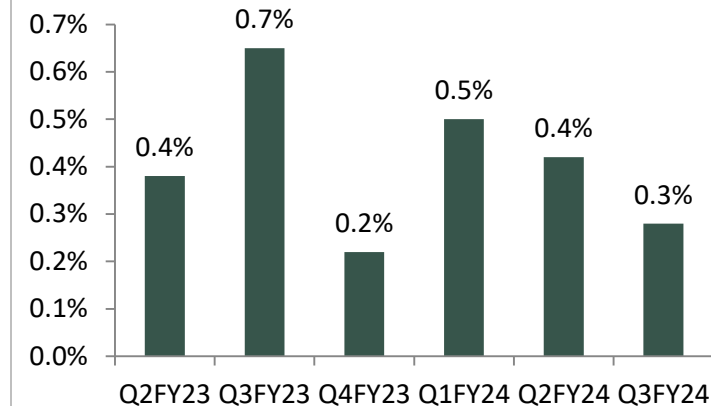
Source: Company; IDBI Capital Research

Exhibit 17: Yield on Advances inched up sequentially

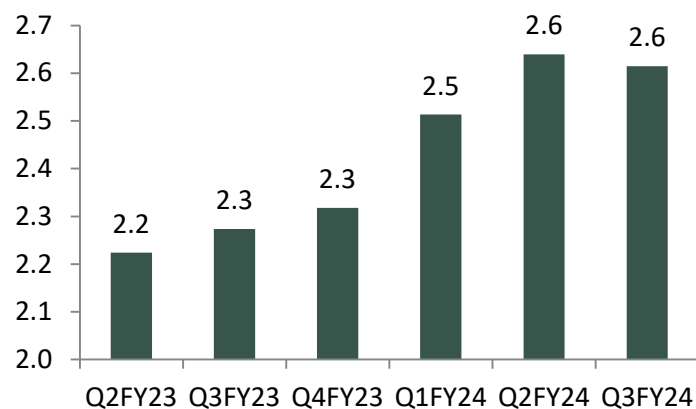
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity continued to moderate

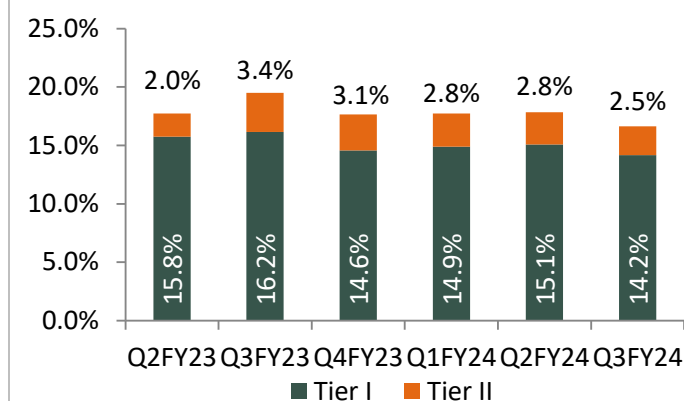
Source: Company; IDBI Capital Research

Exhibit 19: Credit Cost declined marginally QoQ

Source: Company; IDBI Capital Research

Exhibit 20: Cost to Assets remained range bound

Source: Company; IDBI Capital Research

Exhibit 21: CAR continues to remain strong

Source: Company; IDBI Capital Research

Exhibit 22: Statement of Restructured Assets-Segment Wise

Restructured Assets	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Retail	23,530	20,590	18,350	16,770	17,560	14,250
Wholesale	6,270	4,070	2,120	2,300	2,190	2,160
CBG	160	160	-	-	-	-
Total Bank	29,960	24,820	20,470	19,070	19,750	16,410
<i>Bank as a % of GCA</i>	<i>0.4</i>	<i>0.3</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>
<i>Retail as a % of segment GCA</i>	<i>0.6</i>	<i>0.5</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>	<i>0.3</i>
<i>Wholesale as a % of segment GCA</i>	<i>0.3</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
<i>CBG as a % of segment GCA</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Source: Company; IDBI Capital Research

Exhibit 23: Retail Assets Breakup (In Mn)

Retail Assets	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Home Loans	16,28,130	14,94,040	15,91,730	9.0	2.3
LAP	5,86,040	4,24,530	5,38,500	38.0	8.8
Auto loans	5,78,740	4,24,530	5,55,770	36.3	4.1
SBB	5,35,350	3,83,190	5,02,920	39.7	6.4
Comm Equipment	1,18,250	76,520	1,11,690	54.5	5.9
Personal loans	6,50,830	5,06,880	6,11,680	28.4	6.4
Credit Cards	3,99,630	2,05,670	3,58,480	94.3	11.5
Rural loans	7,97,650	5,95,270	7,46,630	34.0	6.8
Others	1,75,370	1,38,690	1,79,960	26.4	(2.6)
Total Retail Asset	54,69,990	42,49,320	51,97,360	28.7	5.2

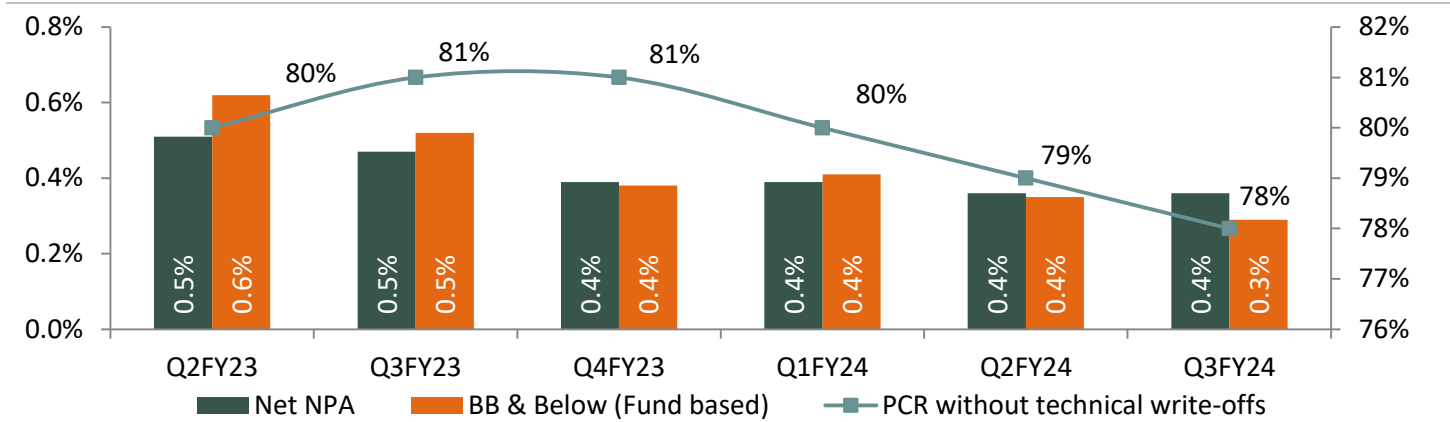
Source: Company; IDBI Capital Research

Exhibit 24: Retail Assets Breakup (In %)

Retail Assets	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Home Loans	29.8	35.2	30.6	-539 bps	-86 bps
LAP	10.7	10.0	10.4	72 bps	35 bps
Auto loans	10.6	10.0	10.7	59 bps	-11 bps
SBB	9.8	9.0	9.7	77 bps	11 bps
Comm Equipment	2.2	1.8	2.1	36 bps	1 bps
Personal loans	11.9	11.9	11.8	-3 bps	13 bps
Credit Cards	7.3	4.8	6.9	247 bps	41 bps
Rural loans	14.6	14.0	14.4	57 bps	22 bps
Others	3.2	3.3	3.5	-6 bps	-26 bps
Total Retail Asset	100.0	100.0	100.0		

Source: Company; IDBI Capital Research

Exhibit 25: Bank’s Net NPA and Fund based BB and Below portfolio



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	2,92,391	3,31,322	4,29,457	4,96,846	5,57,453	6,37,152
<i>Change (yoy, %)</i>	16%	13%	30%	16%	12%	14%
Fees	1,12,972	1,38,477	1,67,827	2,04,096	2,15,581	2,45,763
Other Income	9,664	13,728	-2,818	10,109	40,064	48,164
Net Revenue	4,15,027	4,83,528	5,94,466	7,11,051	8,13,099	9,31,079
Operating expenses	1,83,751	2,36,108	3,96,560	3,51,434	3,95,565	4,51,181
Employee expenses	61,640	76,126	87,601	1,08,129	1,23,522	1,41,051
Other expenses	1,22,111	1,59,982	3,08,959	2,43,305	2,72,043	3,10,129
Pre-Provision Profit	2,31,276	2,47,420	1,97,906	3,59,617	4,17,534	4,79,898
<i>Change (yoy, %)</i>	-1%	7%	-20%	82%	16%	15%
Provision	1,43,218	73,595	28,848	39,410	84,796	96,758
PBT	88,058	1,73,826	1,69,058	3,20,207	3,32,739	3,83,140
Taxes	22,173	43,571	73,262	80,765	83,750	96,436
<i>Effective tax rate (%)</i>	25%	25%	43%	25%	25%	25%
Net profit	65,885	1,30,255	95,797	2,39,443	2,48,988	2,86,704
<i>Change (yoy, %)</i>	305%	98%	-26%	150%	4%	15%
EPS	21.5	42.4	31.1	77.7	80.8	93.0
Return on Equity (%)	7.1	12.0	8.0	17.4	15.4	15.3
Return on Assets (%)	0.7	1.2	0.8	1.7	1.6	1.6

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	6,128	6,139	6,154	6,164	6,164	6,164
Reserves	10,09,903	11,45,602	12,48,013	14,84,383	17,27,208	20,07,748
Networth	10,16,031	11,51,741	12,54,167	14,90,547	17,33,371	20,13,912
Deposits	69,79,853	82,19,715	94,69,452	1,06,67,669	1,22,12,333	1,39,73,250
Current deposits	11,32,762	12,75,568	14,91,205	18,13,504	20,76,097	23,75,453
Saving deposits	20,44,725	24,24,492	29,74,160	28,80,271	32,97,330	37,72,778
Term deposit	38,02,366	45,19,655	50,04,087	59,73,895	68,38,906	78,25,020
Borrowings	14,28,732	18,51,339	18,63,000	17,65,457	25,29,998	28,52,128
Other liabilities	4,43,362	5,31,493	5,86,636	5,05,158	4,34,699	3,52,722
Total Liab. & Equity	98,67,977	1,17,54,289	1,31,73,256	1,44,28,831	1,69,10,401	1,91,92,012
Cash	6,17,299	11,09,872	10,64,109	9,11,784	10,96,424	12,52,227
Advances	61,43,994	70,79,466	84,53,028	95,94,187	1,09,37,373	1,24,68,606
Investments	22,61,196	27,55,972	28,88,148	31,83,821	41,00,613	46,56,388
Fixed Assets	42,450	45,724	47,339	54,439	57,161	60,019
Other Assets	8,03,038	7,63,255	7,20,632	6,84,600	7,18,830	7,54,772
Total assets	98,67,977	1,17,54,289	1,31,73,256	1,44,28,831	1,69,10,401	1,91,92,012

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Deposits	9.0	17.8	15.2	12.7	14.5	14.4
Advances	7.5	15.2	19.4	13.5	14.0	14.0
NII	16.0	13.3	29.6	15.7	12.2	14.3
Pre-Provision Profit	(1.3)	7.0	(20.0)	81.7	16.1	14.9
Net Profit	304.9	97.7	(26.5)	149.9	4.0	15.1
Spreads						
Yield on Assets	7.6	7.0	7.6	8.7	8.6	8.5
Cost of Funds	4.0	3.5	3.7	4.8	4.8	4.8
NIM	3.5	3.4	3.8	3.9	3.9	3.8
CASA	45.5	45.0	47.2	44.0	44.0	44.0
Operating Efficiency						
Cost-to-Income	44.3	48.8	66.7	49.4	48.6	48.5
Cost-to-Assets	1.9	2.2	3.2	2.5	2.5	2.5
Asset Quality						
GNPA	4.0	3.0	2.2	1.5	1.5	1.6
NNPA	1.1	0.8	0.4	0.4	0.4	0.4
Provision Coverage	72.4	74.7	80.9	74.7	76.2	75.6
Credit Cost	2.4	1.1	0.4	0.4	0.8	0.8
Capital Adequacy						
CAR	19.1	18.5	17.6	17.6	17.9	18.2
Tier I	16.5	16.3	14.6	14.8	15.1	15.4
Valuation						
EPS	22	42	31	78	81	93
ABV	315	362	399	474	553	642
P/E	50.6	25.7	35.0	14.0	13.5	11.7
P/ABV	3.5	3.0	2.7	2.3	2.0	1.7
ROE	7.1	12.0	8.0	17.4	15.4	15.3
ROA	0.7	1.2	0.8	1.7	1.6	1.6

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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