Axis Bank

BUY

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BFSI | Q4FY24 Result Update

Result Update

NIM surprise & treasury gains aid earnings

- **Axis bank reported better than expected NIM at 4.06% (+5 bps) despite 300 bps decline in CD ratio, as yields continued to strengthen. Deposit growth gained traction at 6% QoQ with 5% QoQ growth in retail TDs. RoA at 2% also benefitted from strong treasury gains.**
- **Management highlighted that board approval to raise equity capital is an enabling resolution, with no immediate need for an equity raise. Growth could, however, be constrained by traction in deposits amidst a high loan-deposit ratio. Advances growth at 4% QoQ was driven by higher yielding segments within retail (up 7% QoQ) and SME (up 5%).**
- **We tweak our earnings estimate and maintain 'BUY' rating on the stock with TP of Rs1325 (Rs1270 earlier), valuing at 2x FY26E P/ABV.**

NIMs benefit from improved yields.

Growth across high yielding focus segments continued to strengthen, aiding margins. Yields still have levers from mix change within corporate towards higher yielding sub-segments and scope for rise in unsecured share. However, continued re-pricing of deposits for the next two quarters and a turn in int rate cycle will impact NIM (70% floating rate loans, 50% repo linked). Bank's CD ratio at 90% is also on the higher side, and incremental deposit traction remains key to further loan growth. We build in ~10 bps lower NIM over FY25/26E at ~4%.

Loan growth driven by higher yielding focus segments.

Loan growth was driven by retail (+7% QoQ) and SME (+5% QoQ). Within retail, high yielding focus segments continued to contribute meaningfully to growth, with rural book up 15% QoQ, PL up 10%, LAP up 9%, and SBB up 9%. While domestic corporate book grew at a muted 6% YoY, mid corporate portfolio within that grew by 22% YoY, aiding yields.

Asset quality trends steady

Asset quality metrics improved with GNPA ratio at ~1.4% (-15 bps QoQ) and contained slippages at ~1.5%. PCR was slightly higher at ~79% (+72 bps QoQ). Credit costs at 50 bps was in-line, benefitting from robust recoveries. We build in slightly higher credit costs at 65 bps over FY25/26E vs 50 bps in FY24E as scope for recoveries fade off a small GNPA base.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net interest income	130,890	117,422	11.5	125,322	4.4
Other income	67,658	48,953	38.2	55,548	21.8
Total Net Income	198,548	166,375	19.3	180,870	9.8
Operating expenses	93,191	74,699	24.8	89,457	4.2
Pre-provision profits	105,357	91,676	14.9	91,412	15.3
Provisions	11,853	3,058	287.6	10,283	15.3
Tax expense	22,207	21,004	5.7	20,418	8.8
Reported Net Profit	71,299	67,614	5.4	60,713	17.4
			(bps)		(bps)
Advances Growth YoY (%)	14.2	19.4	(528)	22.3	(817)
NIM (%)	4.1	4.2	(16)	4.0	5
RoA (%)	2.0	(1.8)	NA	1.8	25
RoE (%)	18.5	(19.2)	NA	18.1	43
Gross NPA (%)	1.4	2.0	(59)	1.6	(15)

CMP	Rs 1,063
Target / Upside	Rs 1,325 / 25%
NIFTY	22,402

Scrip Details

Equity / FV	Rs 6,173mn / Rs 2
Market Cap	Rs 3,282bn
	USD 39.6bn
52-week High/Low	Rs 1,152/ 854
Avg. Volume (no)	10,143,000
Bloom Code	AXSB IN

Price Performance	1M	3M	12M
Absolute (%)	3	2	21
Rel to NIFTY (%)		(1)	0

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	8.2	8.2	8.2
MF/Banks/FIs	29.0	28.8	30.1
FIIs	53.0	54.7	53.8
Public / Others	9.8	8.3	7.8

Valuation (x)

	FY24A	FY25E	FY26E
P/E	13.2	11.8	10.2
P/ABV	2.2	1.9	1.6
ROAA	1.8	1.8	1.8
ROAE	18.1	16.9	16.7

Estimates (Rs bn)

	FY24A	FY25E	FY26E
NII	498.9	549.5	617.5
PPOP	371.2	429.4	505.7
PAT	248.6	277.2	323.0
Adj BV (Rs)	476.2	562.0	662.6

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Risks to our view: Weaker than anticipated macro-economic trends could adversely impact growth and asset quality, weaker than expected NIM.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	130,890	126,308	3.6
Operating Profit	105,357	96,273	9.4
PAT	71,297	63,660	12.0

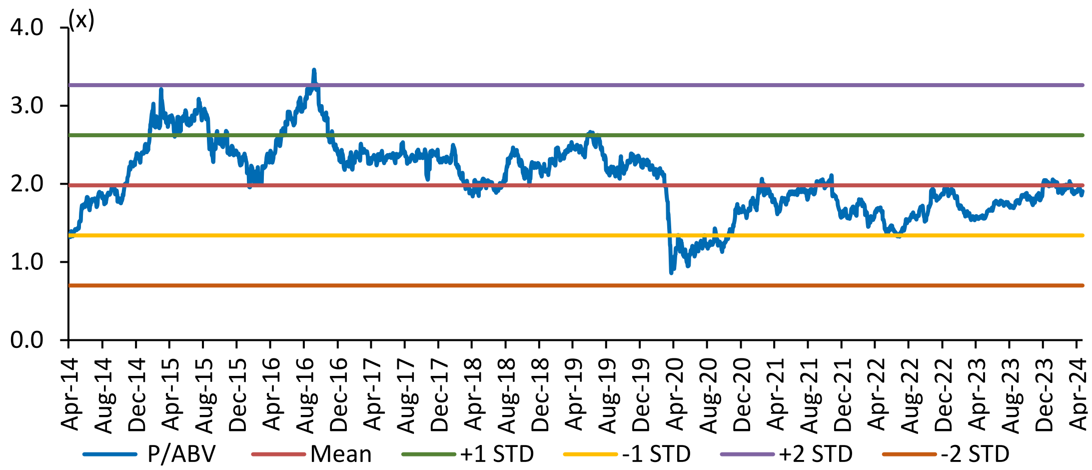
Source: Company, DART

Exhibit 2: Earnings Estimates

Particulars (Rs mn)	Previous		Revised		Change %	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Op Rev	819,210	950,197	820,002	939,143	0.1	(1.2)
PPOP	430,349	519,036	429,376	505,748	(0.2)	(2.6)
PAT	269,066	322,427	277,236	323,002	3.0	0.2

Source: Company, DART

Exhibit 3: The stock currently trades at 1.9x 1-year forward P/ABV



Source: DART, Company

Earnings Call KTAs

- **Guidance**: Bank will continue to grow at ~300-400 bps higher than industry over the medium term (3-5 years). Fee/assets will remain in the current range.
- **Margins:** There are no one-offs this quarter in NIM. Improvement driven by disciplined execution. Rate increase is not yet fully passed on customers. Key levers for yields- 1) Within wholesale, sub-segment shift towards higher yielding business is still playing out. 2) Additionally, unsecured share still has scope to rise. Should finish re-pricing of entire deposits book by Q2FY25E.
- **Deposit franchise**: Retail deposit growth is driven by Siddhi and Sparsh. Empowered 80% of on-roll employees with Siddhi now. LCR at 120%. The bank has been able to improve deposit outflow rates, aiding LCR. It is continuously working towards improving the quality of deposits, and still has levers left. There are three key deposit streams: Retail (working around Suvidha, a corp salary program), Corp (driving flows thru neo and multiple salary accounts), and Govt (govt has become a lot more solution oriented, which works in bank's favor).
- **Capital raise:** Capital raise plan is mainly an enabling resolution, and the bank doesn't have any immediate capital need as such.
- **Focus segments**- These grew at 25% CAGR since FY20 and now constitute 43% of advances. RAROC on HL is lower vs other retail assets (if HL is the only product with a customer), hence with rising CoF, HL lending has become less lucrative from a Raroc perspective.
- **PSL:** The bank is PSL compliant at overall level and at each sub-segment level. This includes both organic and PSLC, with improved organic share.
- **Asset quality:** The bank is keeping a close watch on unsecured asset quality, but not witnessing anything worrisome as of now. Credit card spends growth rate has tapered- revolve rate has come down, though spends and acquisitions continue. Gross slippage break up- Rs31bn retail, Rs1.6bn SME, and Rs1.98 bn from wholesale.
- **Others:** Lot of tech investments have gone into building resilience and agility. Trading gains in Q4 are from debt capital markets, and reversal of MTM losses of last quarter. Citi customers have now fully migrated from Citi systems to Axis systems.

Quarterly Financials

Profit and Loss (Rs mn)	Q4FY24	Q4FY23	% YoY / bps	Q3FY24	% QoQ / bps	FY24	FY23	% YoY / bps
Interest Income	**292,245**	**239,698**	**21.9**	**279,611**	**4.5**	**1,107,118**	**851,638**	**30.0**
Yield on Advances (%)	9.8	9.1	73	9.8	7	9.7	8.7	102
Yield on Assets (%)	8.8	8.2	60	9.1	(25)	8.8	7.8	100
Interest Expenses	**161,355**	**122,276**	**32.0**	**154,290**	**4.6**	**594,742**	**422,180**	**40.9**
Cost of Dep. (%)	5.1	4.3	75	4.9	12	4.9	3.9	92
Cost of Fund (%)	5.4	4.8	68	5.4	8	5.2	4.3	98
Net Interest Income	**130,890**	**117,422**	**11.5**	**125,322**	**4.4**	**512,376**	**429,457**	**19.3**
NII to Net Operative Income	65.9	70.6	(465)	69.3	(336)	70.0	72.2	(220)
NIM (%)	4.06	4.22	(16)	4.0	5	4.1	4.0	6
Dom. NIM (%)	4.2	4.4	(19)	4.1	8	4.2	4.1	2
Fee income	56,370	46,760	20.6	51,690	9.1	202,570	162,150	24.9
Profit on Sale / Rev of Investments	10,210	830	1,130.1	2,910	250.9	12,016	(2,420)	(596.5)
Miscellaneous Income	1,080	1,363	(20.8)	940	14.9	4,550	5,273	(13.7)
Other Income – Total	**67,658**	**48,953**	**38.2**	**55,548**	**21.8**	**219,136**	**165,009**	**32.8**
Net Operating Revenue	**198,548**	**166,375**	**19.3**	**180,870**	**9.8**	**731,512**	**594,466**	**23.1**
Employee Expenses	29,235	21,636	35.1	27,113	7.8	109,331	87,601	24.8
Empl. Cost/Oper. Exps. (%)	14.7	13.0	172	15.0	(27)	14.9	14.7	21
Other Opex	63,956	53,063	20.5	62,344	2.6	242,802	184,061	31.9
Total Opex	93,191	74,699	24.8	89,457	4.2	352,133	271,662	29.6
Cost to Income Ratio (%)	46.9	44.9	204	49.5	(252)	48.1	45.7	244
Pre Provision Profits	**105,357**	**91,676**	**14.9**	**91,412**	**15.3**	**379,379**	**322,804**	**17.5**
Provisions & Contingencies – Total	**11,853**	**3,058**	**287.6**	**10,283**	**15.3**	**40,630**	**28,847**	**40.8**
Credit Cost (%)	0.49	0.14	35	0.4	5	0.49	0.35	14
NPA Provisions as % PPP	11.3	(9.2)	2,045	11.2	0	10.7	14.6	(387)
Profit Before Tax	93,504	(36,280)	NA	81,129	15.3	338,749	169,059	100.4
Tax	22,207	21,004	5.7	20,418	8.8	81,986	73,262	11.9
Effective Tax Rate (%)	23.8	(57.9)	NA	25.2	(141.7)	24.2	43.3	(1,913)
Reported Profits	**71,297**	**(57,284)**	**NA**	**60,711**	**17.4**	**256,763**	**95,797**	**168.0**
RoA (%)	2.0	(1.8)	383	1.8	25.0	1.8	0.8	100
Basic EPS	23.1	(18.6)	NA	19.7	17.3	80.7	31.2	158.8

Balance Sheet Analysis	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Net Worth	1,306,449	1,249,932	1,309,497	13,67,024	1,429,836	1,502,350	5.1	20.2
CET1 (%)	**15.6**	**14.0**	**14.4**	**14.6**	**13.7**	**13.7**	**3**	**(28)**
Tier 1 (%)	14.2	14.6	14.2	13.8	12.4	14.2	177	(37)
Total CAR (%)	**17.6**	**17.6**	**17.1**	**16.6**	**14.9**	**16.6**	**175**	**(101)**
RWA - Total	7,952,808	8,562,616	8,729,018	89,70,721	9,929,639	10,340,460	4.1	20.8
Advances - Total	7,620,755	8,453,028	8,585,114	89,73,470	9,322,864	9,650,684	3.5	14.2
Investments	3,051,031	2,888,148	2,853,967	29,56,907	3,090,699	3,315,273	7.3	14.8
Total Assets	12,235,089	13,173,255	13,028,386	1,33,89,135	13,985,407	14,772,086	5.6	12.1
RoA (%)	**1.92**	**(1.83)**	**1.80**	**1.76**	**1.75**	**2.00**	**25**	**383**
Deposits	8,481,733	9,469,452	9,416,897	95,55,564	10,048,995	10,686,414	6.3	12.9
Saving Deposit	2,513,920	2,974,160	2,955,300	29,23,130	2,903,630	3,021,330	4.1	1.6
Current Deposit	1,263,210	1,491,200	1,332,690	13,15,530	1,330,950	1,572,680	18.2	5.5
CASA Deposits	3,777,130	4,465,360	4,287,990	42,38,660	4,234,580	4,594,010	8.5	2.9
CASA Ratio (%)	**45.0**	**47.0**	**46.0**	**44.0**	**42.0**	**43.0**	**100**	**(400)**
Term Deposits	4,704,603	5,004,092	5,128,907	53,16,904	5,814,415	6,092,404	4.8	21.7

Movement of NPA (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Gross Advances	8,386,983	9,210,015	9,264,403	96,85,977	10,058,867	10,578,406	5.2	14.9
Gross NPA	199,610	186,042	181,582	1,67,567	158,930	151,271	(4.8)	(18.7)
Gross NPA Ratio (%)	**2.38**	**2.02**	**1.96**	**1.73**	**1.58**	**1.43**	**(15)**	**(59)**
PCR - Calculated (%)	**80.8**	**80.9**	**79.6**	**79.5**	**77.8**	**78.5**	**72**	**(234)**
Net Advances	8,149,149	9,125,436	9,033,073	95,59,028	9,796,861	10,475,710	6.9	14.8
Net NPA	38,301	35,589	37,036	34,413	35,269	32,475	(7.9)	(8.8)
Net NPA Ratio (%)	**0.47**	**0.39**	**0.41**	**0.36**	**0.36**	**0.31**	**(5)**	**(8)**

Loan Book Analysis (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Corporate Credit	2,505,720	2,650,090	2,730,000	28,17,000	2,853,000	2,771,000	(2.9)	4.6
Retail Loan	4,293,130	4,875,710	4,978,000	51,97,000	5,470,000	5,833,000	6.6	19.6
SME	821,910	927,230	877,000	9,60,000	1,000,000	1,047,000	4.7	12.9
Domestic Corp	2,103,500	2,329,460	2,446,030	25,40,920	2,562,060	2,502,930	(2.3)	7.4

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Interest Income	851,638	1,093,686	1,220,488	1,382,545
Interest expenses	422,180	594,742	670,996	765,058
Net interest income	**429,457**	**498,945**	**549,492**	**617,488**
Other incomes	165,009	224,420	270,510	321,655
Total expenses	271,662	352,133	390,626	433,395
- Employee cost	87,601	109,331	123,544	139,605
- Other	184,061	242,802	267,082	293,790
Pre provisioning profit	**197,906**	**371,232**	**429,376**	**505,748**
Provisions	28,848	40,630	58,888	74,101
Profit before taxes	169,059	330,602	370,488	431,647
Tax provision	73,262	81,986	93,252	108,646
Profit after tax	95,797	248,616	277,236	323,002
Adjusted profit	**220,695**	**248,616**	**277,236**	**323,002**

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	6,154	6,173	6,173	6,173
Reserves & Surplus	1,248,013	1,504,443	1,774,184	2,089,692
Minority Interest	0	0	0	0
Net worth	1,254,167	1,510,616	1,780,357	2,095,865
Borrowings	1,863,000	1,968,118	2,081,199	2,167,968
- Deposits	9,469,452	10,686,414	12,271,899	14,508,711
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	586,636	606,939	645,552	697,941
Total Liabilities	**13,173,255**	**14,772,086**	**16,779,008**	**19,470,486**
Application of Funds				
Cash and balances with RBI	1,064,108	1,144,544	964,873	1,106,687
Investments	2,888,148	3,315,273	3,745,908	4,262,931
Advances	8,453,028	9,650,684	11,098,286	12,763,029
Fixed assets	47,339	56,846	62,831	67,883
Other current assets, loans and advances	720,632	604,740	907,110	1,269,954
Total Assets	**13,173,255**	**14,772,086**	**16,779,008**	**19,470,486**

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Yield on advances	8.3	9.6	9.4	9.3
Yields on interest earning assets	7.3	8.2	8.2	8.1
Yield on investments	5.8	6.4	6.5	6.4
Costs of funds	3.9	5.0	5.0	4.9
Cost of deposits	3.5	3.6	4.6	4.6
NIMs	3.7	3.8	3.7	3.6
(B) Asset quality and capital ratios (%)				
GNPA	2.0	1.4	1.3	1.2
NNPA	0.4	0.3	0.3	0.3
PCR	80.9	78.5	76.0	75.0
Slippages	2.1	1.7	1.6	1.6
NNPA to NW	2.8	2.2	2.1	2.0
CASA	47.9	43.6	43.6	43.6
CAR	17.6	16.6	18.7	18.7
Tier 1	14.6	14.2	16.4	16.4
Credit - Deposit	89.3	90.3	90.4	88.0
(C) Dupont as a percentage of average assets				
Interest income	6.8	7.8	7.7	7.6
Interest expenses	3.4	4.3	4.3	4.2
Net interest income	3.4	3.6	3.5	3.4
Non interest Income	1.3	1.6	1.7	1.8
Total expenses	2.2	2.5	2.5	2.4
- cost to income	45.7	48.7	47.6	46.1
Provisions	0.2	0.3	0.4	0.4
Tax	0.6	0.6	0.6	0.6
RoA	0.8	1.8	1.8	1.8
Leverage	10.5	9.8	9.5	9.3
RoE	8.0	18.1	16.9	16.7
RoRwa	1.2	2.6	2.5	2.6
(D) Measures of Investments				
EPS - adjusted	31.1	80.5	89.8	104.6
BV	406.2	486.7	574.1	676.4
ABV	394.7	476.2	562.0	662.6
DPS	-	2.0	2.0	2.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	29.6	16.2	10.1	12.4
PPoP	(20.0)	87.6	15.7	17.8
Adj PAT	69.4	12.7	11.5	16.5
Advances	19.4	14.2	15.0	15.0
Total borrowings	0.6	5.6	5.7	4.2
Total assets	12.1	12.1	13.6	16.0
(F) Valuation Ratios				
Market Cap (Rs. mn)	3,281,774	3,281,774	3,281,774	3,281,774
CMP (Rs.)	1063	1063	1063	1063
P/E (x)	34.1	13.2	11.8	10.2
P/BV (x)	2.6	2.2	1.9	1.6
P/ABV (x)	2.7	2.2	1.9	1.6
Div Yield (%)		0.2	0.2	0.2

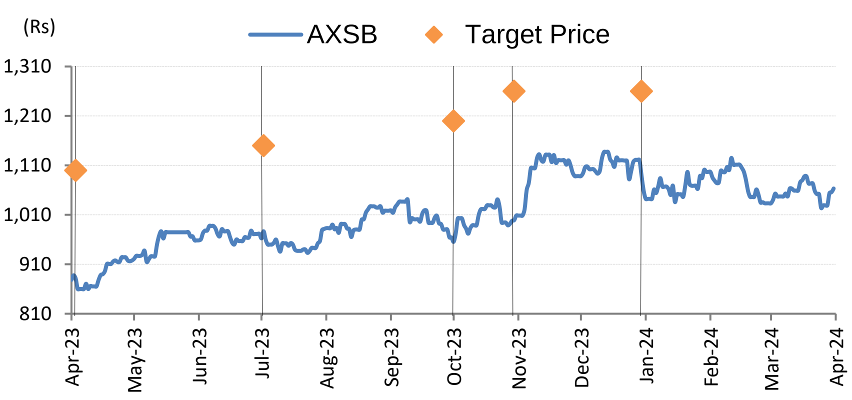
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Apr-23	BUY	1,100	881
Jul-23	BUY	1,150	977
Oct-23	BUY	1,200	955
Nov-23	BUY	1,260	999
Jan-24	BUY	1,260	1,089

*Price as on recommendation date

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Analyst(s) Certification

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