

Core operating performance was strong; NIM improved sequentially

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CMP: INR 728

Rating: Buy

Target Price: INR 940

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	612
Mkt Cap (INR Cr)	2,23,663
52w H/L (INR)	867 / 618
Avg Yearly Vol (in 000')	9,948

Shareholding Pattern %

(As on June, 2022)

Promoters	9.7
FII	46.6
DII	31.4
Public & Others	12.3

Stock Performance (%)

	1m	3m	12m
Axis Bank	14.7	-6.8	-3.7
Nifty	5.9	-1.9	4.9

Axis Bank Vs Nifty



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Axis Bank has reported good performance during Q1FY23 with strong profit growth of 91% YoY at INR 4,125 cr was higher than our estimate of INR 3,632 cr, driven by 90% YoY/64% QoQ decline in provisions. Advances growth for the quarter was lower at 14% YoY/-0.9% QoQ but the focused segment of the bank grew strongly. NII for the quarter increased strongly by 21% YoY/6% QoQ to INR 9,384 cr was higher than our estimate of INR 9,103 cr, driven by 11bps QoQ expansion in margins at 3.6%. Operating profit for the quarter decreased by 8% YoY/9% QoQ to INR 5,887 cr was impacted due to treasury loss during the quarter. However, core operating profit growth was strong at 17% YoY/5% QoQ. Treasury loss for the quarter came in at INR 667 cr as compared to gain of INR 231 cr in Q4FY22. Asset quality of the bank improved as GNPA/NNPA decreased marginally by 6bps/9bps QoQ at 2.8%/0.6% respectively. Restructuring pool of the bank declined further by 16% QoQ to INR 3,402 cr (from 0.52% to 0.45% QoQ), which continues to be lower than the other large private sector banks.

Loan growth was driven by growth in the focused segment: Overall, loan book of the bank increased by 14% YoY/-1% QoQ (vs. 15% YoY in Q4FY22) driven by Retail portfolio. Retail loan book (~59% of the portfolio) grew strongly by 25% YoY/3% QoQ and SME loan portfolio grew by 27% YoY/-3% QoQ. Corporate book reported de-growth of 5% YoY/7% QoQ as bank has brought down exposure to low-yielding offshore book and banks strategy to not compromise on NIM. Home loans, Small business Banking, LAP and Rural loans portfolio grew by 18% YoY, 74% YoY, 26% YoY & 42% YoY respectively. Unsecured personal loans and credit card advances grew by 20% YoY and 42% YoY respectively. Total deposits during the quarter grew by 13% YoY/-2% QoQ with CASA ratio of 43%.

Asset quality improved: Slippages for the quarter stood at INR 3,684 cr vs. INR 3,981 cr QoQ (Gross slippage ratio at 2.1% vs. 2.3% QoQ). Upgrades and recoveries was at INR 2,957 cr vs. INR 3,763 cr QoQ. Write offs for the quarter was at INR 1,512 cr vs. INR 1,697 cr QoQ. Bank has not utilized any covid provision during the quarter. The bank continue to hold higher provision with cumulative provision (standard + additional non-NPA) of INR 11,830 cr (1.7% of loans), which provides cushion to the balance sheet.

Valuation & View: Axis Bank's Q1FY23 performance was on better side in terms of operating performance, margins side and improving asset quality metrics. With the rising credit growth in the system and bank's focus on growing retail and SME portfolio will lead to healthy loan growth pick up ahead. We believe, bank is gradually coming on track to achieve its GPS strategy of reaching 16-18% RoE, NIM of 3.4-3.8% and cost ratio below ~2% over the medium to longer term. We increase our FY23/24E earnings estimate by 5-6% and upgrade our rating on the stock to Buy with a revised target price of INR 940 (earlier INR 927), valuing the bank at 2x FY24E ABV.

Axis Bank Ltd. (Rs Cr)	FY21	FY22E	FY23E	FY24E
NII	29,239	33,132	39,976	47,549
PPOP	25,702	24,742	32,877	38,736
PAT	6,588	13,025	16,736	19,720
EPS (INR / Share)	21.5	42.4	54.5	64.2
ABVPS (INR / Share)	308.1	349.4	408.8	470.1
NIM (%)	3.4	3.3	3.4	3.5
ROA (%)	0.7%	1.1%	1.2%	1.3%
ROE (%)	6.5%	11.3%	12.7%	13.0%
P / ABV (x)	2.4	2.1	1.8	1.5

Q1FY23 - Quarterly Performance (Standalone)

(in INR Cr)

Particulars	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
Interest Earned	18729	16003	17.0%	17776	5.4%
Interest Expended	9345	8243	13.4%	8957	4.3%
NII	9384	7760	20.9%	8819	6.4%
Other Income	2999	3588	-16.4%	4223	-29.0%
Operating Expenses	6496	4932	31.7%	6576	-1.2%
Operating Profit before Prov.& Cont.	5887	6416	-8.2%	6466	-9.0%
Provisions and Contingencies	359	3532	-89.8%	987	-63.6%
PBT	5528	2884	91.7%	5479	0.9%
Provision for tax	1402	724	93.7%	1361	3.0%
Net Profit (after Extraordinary Items)	4125	2160	91.0%	4118	0.2%
Return on Assets (Annualised)	1.4	0.9	67.4%	1.5	NA
Earnings Per Share	13.4	7.0	90.6%	13.4	0.1%
Cost-income ratio	52.5	43.5	900bps	50.4	204bps
Advances	701130	614874	14.0%	707696	-0.9%
Deposits	803572	713862	12.6%	821721	-2.2%
C-D Ratio (%)	87.3	86.1	112bps	86.1	113bps
Amount of Gross NPA	21037	25950	-19%	21822	-4%
Amount of Net NPA	4781	7846	-39%	5512	-13%
% of Gross NPAs	2.8	3.9	-109bps	2.8	-6bps
% of Net NPAs	0.6	1.2	-56bps	0.7	-9bps
Provisions Coverage%	77.0	70.0	700bps	75.0	200bps
NIM %	3.6	3.5	14bps	3.5	11bps
CASA%	43.0	42.0	100bps	45.0	-200bps
Capital Adequacy Ratio Basel III	17.3%	19.0%	-173bps	18.5%	-1bps

Source: Arian Research, Company Filings

Conference Call Highlights:

- Economic environment are mixed currently as system credit growth has picked up with double digit growth, consumption is continued up, working capital demand are strong. However, higher than expected inflation rate and the global headwinds will mean further rate hikes and tightening of liquidity.
- Bank have gained market share across various business segment with strong market position. On the deposits side, bank have gained 100bps market share in the last 5 years to reach 4.7% as on Jun'22.
- Customer acquisition remained strong and bank has added 2.2 mn new customer accounts a growth of 22% YoY. Company source 26% non-salary SA accounts and 55% of individual CA accounts digitally.
- Bank has issued 0.99 mn new credit cards in Q1FY23. Spends was up by 96% YoY/16% QoQ.
- On the corporate side, Mid corporate growth was high at 54% YoY/5% QoQ. The bank has brought down exposure to low-yielding offshore book. Bank has not pursued low-yielding corporate loans as the pricing does not make sense.
- Focus of the bank remain on granular liability franchise. Deposit accretion will be a combination of sweating the existing branch network and branch addition.
- Average LCR during Q1FY23 was at 116%. The Bank holds excess SLR of INR 75,636 cr.
- Advances mix by rate: 39% - repo linked, 23% - MCLR linked, 7% others and 31% - fixed rate loans.
- The bank remains committed to its target of 2.0% OPEX/Assets in the medium term by FY25.
- Few quarters ago, when NIM was at 3.4%, management had stated that margin can rise by 30-40 bps. Management aims to achieve NIM of 3.7-3.8% over the next 8-10 quarter.
- NIM expansion for the quarter was driven by repricing of loans and asset mix change.
- Citi acquisition is expected to complete by Q4FY23. Citi business performance so far has been in line with the assumptions made at the time of acquisition.
- Fee income grew 34% YoY. Granular fee constituted ~93% of overall fees and retail fee grew strongly by 43% YoY.
- MTM loss for the quarter was at INR 667 cr. The MTM loss has come largely from the corporate bond book. The corporate bond book is 98% A- and above and 77% AA and above and no economic loss is expected on this book.

Income Statement				
(Rs Cr)	FY21	FY22	FY23E	FY24E
Interest Earned	63645	67377	86476	100017
Interest Expended	34406	34245	46484	52451
Net Interest Income	29239	33132	39992	47566
Other Income	14838	15221	20229	22843
Fee Income	10686	13001	14561	16308
Treasury Income	2547	1627	2468	2833
Operating Income	44077	48353	60220	70409
Operating Expenses	18375	23611	27328	31655
Employee Expenses	6164	7613	8450	9379
Profit before provision & tax	25702	24742	32893	38754
Provisions and Contingencies	16896	7359	10508	12380
Profit Before Tax	8806	17383	22385	26374
Provision for tax	2217	4357	5637	6641
Exp. Items	0	0	0	0
Profit After Tax	6588	13025	16748	19733

Balance Sheet				
(Rs Cr)	FY21	FY22	FY23E	FY24E
Sources of funds				
Share Capital	613	614	614	614
Total Reserves	100990	114560	131308	151041
Shareholder's Fund	101603	115174	131922	151655
Deposits	707306	821721	944979	1086726
Borrowings	142873	185134	203647	225553
Other Liabilities & provisions	44336	53149	61177	70801
Total Liabilities	996118	1175178	1342837	1535846
Application of Funds				
Cash & Bank	61730	110987	122086	134294
Investments	226120	275597	316408	363261
Advances	623720	707696	820927	952276
Fixed Assets	4245	4572	4801	5041
Other Assets	80304	76325	78615	80974
Total Assets	996118	1175178	1342837	1535846

Ratios %				
	FY21	FY22	FY23E	FY24E
Asset Quality				
Gross NPA	3.7	2.8	2.6	2.5
Net NPA	1.1	0.7	0.8	0.8
PCR	80.0	70.0	70.0	70.0
Growth				
Advances Growth	9.2	15.0	16.0	16.0
Deposit growth	10.5	14.0	15.0	15.0
Net Profit Growth	304.9	97.7	28.6	17.8
Liquidity				
C-D Ratio	88.2	86.1	86.9	87.6
CASA	42.0	45.0	45.0	45.0
Capital Adequacy	19.1	19.1	19.1	19.1
Efficiency				
Cost Income Ratio	41.7	48.8	45.4	45.0
Operating Costs to Assets	1.8	2.0	2.0	2.1

Spread Analysis (%)				
	FY21	FY22	FY23E	FY24E
Spread Analysis				
Yield on Advances	7.7	8.0	8.1	8.1
Yield on Investments	5.6	6.0	6.0	6.0
Cost of Funds	4.0	4.1	4.0	4.0
NIM	3.4	3.3	3.4	3.5
Interest Spread	3.6	3.9	4.0	4.1
Profitability				
ROE	6.5%	11.3%	12.7%	13.0%
ROA	0.7%	1.1%	1.2%	1.3%
Earnings Per Share (Rs)	21.5	42.4	54.6	64.3
Book Value (Rs)	332	375	430	494
Adjusted Book Value (Rs)	308	349	409	470
Valuation				
P / EPS (x)	33.9	17.2	13.3	11.3
P / ABV (x)	2.4	2.1	1.8	1.5

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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