

## Banking October 25, 2022

CMP 902

Sensex 59,544

### Stock Statistics

Reuters code AXBK.BO

Bloomberg code AXSB IN

Equity Cap (INR mn) 6,133

Face Value (INR) 2.0

Free float (%) 90.5

INR / USD 82.4

Market cap (INR bn) 2771

Market cap (USD bn) 33.5

52 Wk High/Low (INR) 920 / 618

Avg traded vol (Mn shares)\* 10.9

\* 6 months NSE average

### Shareholding Pattern (%) – June'21

Promoter 9.49

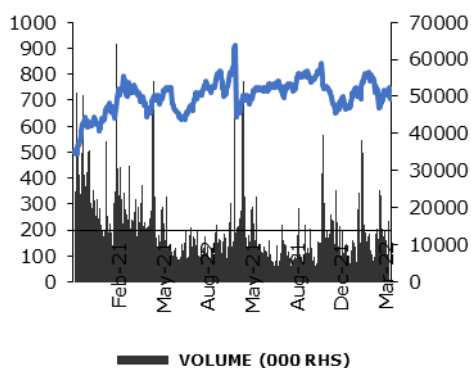
Foreign Institutional Investor 52.33

MF / FI / UTI / Banks 30.77

Non Promoter Corp Holding 1.27

Public & Others 6.14

### 2 yr Price and Volume Chart



Analyst

Lalitabh Shrivastawa

✉: lalitabh@anvilresearch.com

## Company update Q2 FY2023 Results

Axis Bank Q2 FY2022 results were strong with Operational performance coming ahead of expectations on back of lower provisions and strong CASA / Retail performance. However, the key positive for the bank was the NIMs expansion. NIMs stood at 3.95% (down 19BPS QoQ) and was impacted by the change in mix and Interest reversal (13BPS and 6 BPS impact respectively). Margins were helped by the strong loan growth which also translated to improved fee income and PPOP margins. The performance was led by segments like Retail Loans, Cards and Rural loans portfolio. Asset quality wise, headline GNPA / NNPA has improved, and the gross slippages too declined QoQ (at 1.9% annualized, down 17BPS QoQ). The Bank has ~68% of floating rate Loans (~45% of the fixed rate book matures in 12 months) which along with better deployment of funds (still excess SLR of Rs 55 bn) and improved business mix will provide further upsides to NIMs potentially. The CASA ratio too on MEB basis was 46%, improving 172 bps YoY and 251 bps QOQ and will provide margin support. At CMP, valuations at 1.9x/1.7x FY2023E / FY2024E ABVPS have potential for upside. We maintain our Buy rating on the stock.

### Asset Quality performance was enthusing; with adequate CRAR

- GNPA at 2.50% declined by 103 bps YOY & 26 bps QOQ, NNPA at 0.51% declined 57 bps YOY & 13 bps QOQ, PCR healthy at 80%
- Coverage2 ratio at 1.60%, Standard COVID-19 restructuring implemented loans at 0.38% of GCA
- Gross slippage of INR 33.5 bn, (at 1.88%), declined 156 bps YOY and 17 bps QOQ and recoveries and upgrades were healthy at Rs 28.3bn
- Annualized credit cost for Q2FY23 at 0.38%, declined by 16 bps YOY
- Specific loan loss provisions for Q2FY23 declined by 19% YOY to INR 7.51 bn from INR 9.27 bn in Q2 FY22.
- The Bank has not utilized Covid provisions during the quarter. The Bank holds cumulative provisions (standard + additional other than NPA) of INR 116.25 bn at the end of Q2 FY23. Notably, this is over and above the NPA provisioning included in the bank's PCR calculations.
- These cumulative provisions translate to a standard asset coverage of 1.60% as on Q2 FY2023. On an aggregated basis, the provision coverage ratio (including specific + standard + additional + Covid provisions) now stands at 138% of GNPA.
- The shareholders' funds of the Bank grew 16% YOY and 4% QOQ and stood at INR 1245.64 bn.
- The Capital Adequacy Ratio (CAR) and CET1 ratio including profit for H1 FY2023 was 17.72% and 15.14% respectively.
- Additionally, the Bank held INR 5,012 crores of COVID provisions, not considered for CAR calculation, providing cushion of 55 bps over the reported CAR.
- The Bank management indicated that bank is now close to attaining self-sustaining capital structure.

## Healthy pace of business traction, retail strength continues:

- Domestic net loan book grew 20% YOY and 4% QOQ;
  - Domestic loans (gross of loans sold under IBPC) grew 21% YOY and 5% QOQ
- Retail loans grew 22% YOY and 3% QOQ,
  - SBB, Cards and Rural loans portfolio grew 69% YOY, 47% YOY & 46% YOY respectively
- Within retail segment, Personal loan, SBB and Rural disbursements were up 26%, 33% & 28% YOY
- SME loans grew 28% YOY, Mid-Corporate (MC) up 49% YOY, SBB+SME+MC mix at Rs 1,435 bn , which is 20% of loans, up ~542 bps in last 2 years
- Deposits on QAB basis grew by 10% YOY; QAB SA grew 14% YOY and 3% QOQ, QAB CA deposits grew 11% YOY
- On QAB basis CASA grew 13% YOY and 2% QOQ
- CASA ratio stood at 46%, up 172 bps YOY and 251 bps QOQ
- Average LCR during Q2FY23 was ~121%, increasing sequentially

## Quality of book improving augurs well

- Corporate loan book grew by relatively slower pace at 7% YOY and 6% QoQ.
- Management indicated that the credit demand has been picking up.
- 89% of corporate book is now rated A- and above with
- Around 89% of incremental sanctions in H1FY23 was to corporates rated A- and above.

## Traction in Fee income picks up

- Fee income for Q2 FY2023 grew 20% YOY and 8% QOQ to INR 38.62 bn.
  - Retail fees constituted 68% of the Bank's total fee income.
  - Retail fee grew 28% YOY & 10% QOQ,
  - Retail cards fee up 53% YOY granular fee constituted 93% of overall fees,
  - The Corporate & Commercial banking fees together grew 5% YOY.
- The trading loss for the quarter stood at INR 0.86 bn as compared to trading gains of INR 4.73 bn in Q2 FY2022; miscellaneous income in Q2FY23 stood at INR 1.65 bn.
- Overall, non-interest income (comprising of fee, trading profit and miscellaneous income) for Q2 FY2023 stood at INR 39.41 bn up 31% QOQ.
- Bank is focusing on building granular fee income base, which has increased on YoY basis and is now at 68%
- Market share gains in Fx and LC/BG business will likely help propel the retail fee. Management indicated their view that the pace of growth in retail fee income should continue.

## Well provided book, with conservative buffers to support profitability

- Specific loan loss provisions for Q2 FY2023; declined by 19% YOY to INR 7.51 bn from INR 9.27 crores in Q2 FY2022.
- The Bank has not utilized Covid provisions during the quarter. The Bank holds cumulative provisions (standard + additional other than NPA) of INR 116.25 bn at the end of Q2 FY2023.
- These provisions are rule based and would be a cushion against future unforeseen shocks.
- Bank had earlier indicated that it will not be releasing provisions from there unless after a policy decision.

## Valuations

We believe that bank reaped benefits of an improved borrower mix, as well as margins positives like the Asset-liability pricing difference and changing business mix (higher loans and investments proportion; higher Retail share etc) in Q2. Going forward, provisions buffers, a healthy Retail loan book and granular fee income stream make for strong profitability. We believe structural drivers will help sustain NIMs at present levels, but the challenge will be from the Liability accretion & costs of Funds. With a healthy and adequate capital comfort (Capital Adequacy Ratio at 17.2%; CET1 ratio at 15.14%; including H1 PAT) the bank is well placed to sustain growth opportunities. Stock is currently trading at 1.8x / 1.6x FY2022E / FY2023E Adj. BV which is reasonable. We maintain our Buy rating on the stock.

## Exhibit 1: Quarterly Financials

Y/E March (INR mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)
<b>Profit &amp; Loss</b>							
Interest Income	1,63,360	1,72,611	1,77,762	1,87,287	2,02,389	23.9%	8.1%
Interest Expenses	84,357	86,086	89,571	93,446	98,787	17.1%	5.7%
<b>Net Interest Income</b>	<b>79,003</b>	<b>86,525</b>	<b>88,191</b>	<b>93,840</b>	<b>1,03,603</b>	<b>31.1%</b>	<b>10.4%</b>
Other Income	37,984	38,404	42,233	29,990	39,412	3.8%	31.4%
<i>Treasury Income</i>	4,730	3,670	2,310	(6,670)	(860)	-118.2%	-87.1%
Operating Expenses	57,705	63,314	65,765	64,960	65,852	14.1%	1.4%
<i>Staff Cost</i>	19,355	19,386	18,865	21,861	21,667	11.9%	-0.9%
<i>Other opex</i>	38,350	43,928	46,900	43,099	44,186	15.2%	2.5%
<b>Operating Profit</b>	<b>59,282</b>	<b>61,615</b>	<b>64,660</b>	<b>58,870</b>	<b>77,162</b>	<b>30.2%</b>	<b>31.1%</b>
Provisions	17,351	13,350	9,872	3,594	5,498	-68.3%	53.0%
<i>NPA Provisions</i>	9,270	7,900	6,020	7,770	7,510	-19.0%	-3.3%
<b>Profit Before Tax</b>	<b>41,931</b>	<b>48,265</b>	<b>54,788</b>	<b>55,276</b>	<b>71,664</b>	<b>70.9%</b>	<b>29.6%</b>
Tax	10,598	12,125	13,610	14,024	18,367	73.3%	31.0%
<b>Net Profit</b>	<b>31,333</b>	<b>36,141</b>	<b>41,178</b>	<b>41,253</b>	<b>53,298</b>	<b>70.1%</b>	<b>29.2%</b>
Equity	6,133	6,133	6,140	6,143	6,145	0.2%	0.0%
<b>EPS</b>	<b>10.2</b>	<b>11.8</b>	<b>13.4</b>	<b>13.4</b>	<b>17.3</b>	<b>69.8%</b>	<b>29.2%</b>
<b>Ratios</b>							
Yield On Advances (%)	7.89	8.01	8.01	8.25	8.70	81 bps	45 bps
Cost of Funds (%)	3.99	3.88	3.86	3.91	4.03	4 bps	12 bps
<b>NIM (%)</b>	<b>3.39</b>	<b>3.53</b>	<b>3.50</b>	<b>3.61</b>	<b>3.87</b>	<b>47 bps</b>	<b>26 bps</b>
Cost - Income Ratio (%)	49.3	50.7	50.4	52.5	46.0	-329 bps	-642 bps
Tax Rate (%)	25.3	25.1	24.8	25.4	25.6	35 bps	25 bps
Credit / Deposit (%)	84.4	86.2	86.1	87.3	90.1	570 bps	288 bps
CASA (%)	41.1	44.7	45.0	43.7	46.2	509 bps	250 bps
<b>Balance Sheet Details</b>							
Advances	62,17,193	66,48,656	70,76,960	70,11,299	73,08,748	17.6%	4.2%
Deposits	73,62,855	77,16,702	82,17,209	80,35,717	81,08,067	10.1%	0.9%
<b>Business Volumes</b>	<b>1,35,80,048</b>	<b>1,43,65,358</b>	<b>1,52,94,169</b>	<b>1,50,47,016</b>	<b>1,54,16,816</b>	<b>13.5%</b>	<b>2.5%</b>
CASA	30,27,120	34,48,780	36,97,550	35,11,330	37,46,380	23.8%	6.7%
<b>CAR (%)</b>	<b>17.5</b>	<b>18.7</b>	<b>18.5</b>	<b>17.8</b>	<b>16.5</b>	<b>-101 bps</b>	<b>-131 bps</b>
<i>CAR - Tier - I</i>	14.5	15.3	18.5	15.8	14.6	6 bps	-124 bps
<b>Asset Quality</b>							
Gross NPA	2,41,486	2,33,012	2,18,223	2,10,368	1,98,937	-17.6%	-5.4%
Net NPA	72,000	65,131	55,122	47,806	39,955	-44.5%	-16.4%
Gross NPA (%)	3.53	3.17	2.82	2.76	2.5	-103 bps	-26 bps
Net NPA (%)	1.08	0.91	0.73	0.64	0.51	-57 bps	-13 bps
Provision Coverage (Calc)	70.0	72.0	75.0	77.0	80.0	1000 bps	300 bps
Slippage	54,640	41,470	39,810	36,840	33,830	-38.1%	-8.2%
Slippage Annualised (%)	3.6	2.6	2.4	2.2	1.9	-167 bps	-26 bps

Source: Anvil Research, Company

## Profit & loss account

Y/E March (INR mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
Interest Income	6,26,352	6,36,453	6,73,768	7,86,601	9,07,961
Interest Expenses	3,74,290	3,44,062	3,42,446	3,80,184	4,29,400
<b>Net Interest Income</b>	<b>2,52,062</b>	<b>2,92,391</b>	<b>3,31,322</b>	<b>4,06,417</b>	<b>4,78,562</b>
Other Income	1,55,366	1,48,382	1,52,205	1,69,800	1,87,169
Operating Income	4,07,428	4,40,773	4,83,528	5,76,217	6,65,730
Operating Expenses	1,73,046	1,83,751	2,36,108	2,34,383	2,55,338
<b>Operating Profit</b>	<b>2,34,381</b>	<b>2,57,022</b>	<b>2,47,420</b>	<b>3,41,833</b>	<b>4,10,393</b>
Provisions and Contingencies	1,85,339	1,68,963	73,595	80,854	1,22,944
<b>Profit before Tax</b>	<b>49,042</b>	<b>88,058</b>	<b>1,73,826</b>	<b>2,60,979</b>	<b>2,87,449</b>
Provision for Tax	32,770	22,174	43,571	66,811	73,587
<b>Profit after Tax</b>	<b>16,272</b>	<b>65,885</b>	<b>1,30,255</b>	<b>1,94,168</b>	<b>2,13,862</b>

Source: Anvil Research, Company

## Balance Sheet

Y/E March (INR mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
<b>Sources of Funds</b>					
Equity Capital	5,643	6,127	6,139	6,139	6,139
Reserves & Surplus	8,43,835	10,09,903	11,44,115	14,22,765	16,31,085
<b>Net Worth</b>	<b>8,49,478</b>	<b>10,16,030</b>	<b>11,50,255</b>	<b>14,28,905</b>	<b>16,37,224</b>
ESOP's	-	-	1,486	1,486	1,486
Deposits	64,01,049	70,73,061	82,17,209	91,22,802	1,04,90,964
Borrowings	12,34,491	11,83,832	16,06,289	15,69,781	18,10,119
Debt & Tier - II Bonds	2,45,050	2,44,900	2,45,050	2,45,050	2,45,050
Other Liabilities	4,21,579	4,43,362	5,31,493	4,18,425	4,39,697
<b>Total Liabilities</b>	<b>91,51,648</b>	<b>99,61,184</b>	<b>1,17,51,781</b>	<b>1,27,86,448</b>	<b>1,46,24,541</b>
<b>Application of Funds</b>					
Cash & Balance with RBI	8,49,592	5,18,086	9,40,345	5,29,745	3,23,165
Bal. with Banks/ Short Notice	1,23,090	99,213	1,69,526	1,05,255	1,08,412
Advances	57,14,242	62,37,202	70,76,960	84,21,582	99,37,467
Investments	15,67,343	22,61,196	27,55,972	27,58,207	31,44,356
Fixed Assets	43,129	42,450	45,724	42,185	42,212
Other Assets	8,54,252	8,03,038	7,63,255	9,29,475	10,68,928
<b>Total Assets</b>	<b>91,51,648</b>	<b>99,61,184</b>	<b>1,17,51,781</b>	<b>1,27,86,448</b>	<b>1,46,24,541</b>

Source: Anvil Research, Company

## Ratios

Y/E March (INR mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
<b>Valuation</b>					
EPS (INR)	6	22	42	63	70
Book Value (INR)	301	332	375	465	533
Adj. Book Value (INR)	268	312	362	448	507
P/E (x)	139.6	37.4	19.0	12.7	11.6
P/BV (x)	2.7	2.4	2.1	1.7	1.5
P/ABV (x)	3.0	2.6	2.2	1.8	1.6
<b>Profitability (%)</b>					
RoANW	2.1	7.1	13.0	15.1	13.9
RoAA	0.2	0.7	1.3	1.6	1.6
Cost / Income Ratio	42.5	41.7	48.8	40.7	38.4
Cost / Avg. Earning Assets	2.0	1.9	2.2	1.9	1.9
Avg. yield on Advances	9.1	8.0	7.8	7.8	7.7
Avg. yield on Investments	6.8	6.6	6.7	5.5	5.9
Avg. cost on Deposits	4.9	4.0	3.9	3.5	3.5
Spread	2.7	2.9	3.2	3.3	3.3
Net Interest Margin	3.1	3.2	3.5	3.6	3.7
<b>Growth (%)</b>					
Net Interest Income	16.1	16.0	13.3	22.7	17.8
Other Income	18.3	(4.5)	(2.0)	11.6	10.2
Operating Profit	23.3	9.7	(3.7)	38.2	20.1
Net Profit	(65.2)	304.9	97.7	49.1	10.1
Credit	15.5	9.2	13.5	19.0	18.0
Deposit	16.7	10.5	16.2	11.0	15.0
C/D ratio	89.3	88.2	86.1	92.3	94.7
Investment / Deposit Ratio	24.5	32.0	33.5	30.2	30.0
<b>Asset Quality</b>					
Gross NPA (INR mn)	3,02,339	2,53,149	2,29,946	2,60,227	3,07,068
Net NPA (INR mn)	93,579	59,329	66,429	86,742	1,02,356
Gross NPA (%)	4.9	3.7	3.2	3.0	3.0
Net NPA (%)	1.6	1.1	0.9	1.0	1.0
<b>Dividend</b>					
DPS (Rs)	-	-	1.5	1.5	1.5
<b>Capital Adequacy (%)</b>					
CAR	17.5	19.1	18.4	19.1	18.8
<b>Efficiency</b>					
Avg. Business per Emp. (INR mn)	163.4	170.0	191.4	215.3	245.8
Avg Profit per Emp. (INR lakh)	0.2	0.8	1.6	2.4	2.6

Source: Anvil Research, Company

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