

Banking Sector Oct 27, 2023

CMP	986
Sensex	63148

Stock Statistics

Reuters code	AXBK.NS
Bloomberg code	AXSB IN

Equity Cap (INR cr)	616
Face Value (INR)	2.0
INR / USD	82.1
Market cap (INR cr)	299,547
Market cap (USD bn)	36.5
52 Wk High/Low (INR)	1045/814

Shareholding Pattern (%) – Sep'23

Promoter	8.2
Foreign Institutional Investor	53.0
MF / FI / UTI / Banks	29.9
Public & Others	8.4
Bodies & Corporate	1.3

Axis Bank Stock Update

Q1FY24 Results

Positive Operational Performance

- Net Interest Income came in at Rs 12,314 crores, and grew 19% YOY and 3% QOQ, and was in-line with expectations
- While Q2 saw robust fee income pickup, but due to Treasury losses, the Other Income was flat.
- However, due to a sharp pickup in Opex Costs (up 32.5% YoY and 5.9% QoQ) the PPOP saw a sequential decline of 2.1%. Hence, PPOP came in at Rs 8632 crores, growing 11.9 % YOY but down ~2% QOQ, mainly as the bank saw elevated Operating Costs which had some one-off element as well into it.
- The branch addition pace has picked up smartly, with 207 branches being added in Q2, with guidance of ~400 branch addition in FY2024E maintained.
- The bank saw full integration of the CITI workforce for the full quarter, and going forward, this run-rate is expected to sustain.
- Provisions run-rate declined to Rs 814.6 crores (down from from 1,035 crore in Q1 FY2024, and the slippages to declined sequentially.

Healthy Balance Sheet growth with positive Outlook

- The Bank's advances grew 22.8% YOY / 4.5% QOQ to Rs 8,97,347 crores. Domestic net loans grew 26% YOY / 5% QOQ. Retail loans grew 23% YOY / 4% QOQ to Rs 5,19,736 crores and accounted for 58% of the net advances of Bank.
- The share of secured retail loans was ~ 76%, with home loans comprising 31% of the retail book. Home loans grew 9% YOY, Personal loans grew 25% YOY, Credit card advances grew 72% YOY, Small Business Banking (SBB) grew 42% YOY and 9% QOQ; and rural loan portfolio grew 24% YOY and 4% QOQ.
- SME book remains well diversified across geographies and sectors, and grew 27% YOY and 9% QOQ to Rs 95,954 crores.
- Corporate loan book grew 21% YOY / 3% QOQ to Rs 2,81,657 crores of which domestic corporate book grew 33% YOY and 4% QOQ. Mid-corporate book grew 37% YOY and 9% QOQ. Around 89% of corporate book is now rated A- and above with 89% of incremental sanctions in H1FY24 being to corporates rated A- and above.
- Going forward, Axis Bank reiterated its intention to accelerate growth in Home Loans segment, which we believe will be achievable.

Valuations

At CMP the stock is available at 2.2x/1.9x FY2024E/FY2025E ABVPS and 13x / 11.8x FY2024E / FY2025E EPS which we believe is reasonable. Going forward, we believe that factors like traction on Loan growth (with progress on Home Loans), business mix, CASA resilience and the gradual normalization of Opex will be key monitorable. The management commentary indicated confidence on maintaining the margins and ROA by sustaining asset quality trend and were comfortable on Risk-reward being within desired outcomes for the unsecured credit part as well. We believe the slower slippage ratio, healthy traction in the fee income, healthy deposit and Advances growth and the attractive performance in ROE/ROA (19% and 1.7% in Q2) are support to valuations.

- **Fee income growth was healthy**, at 31% YOY and 11% QOQ, where Retail fee (~70% of total Fees) was up 38% YOY and Retail cards and payments fee grew 39% YOY and 4% QOQ. While Retail Assets (excluding cards and payments) fee grew 38% YOY and 17% QOQ. The Corporate & Commercial banking fees together grew 17% YOY and 9% QOQ to Rs 1,468 crores. Overall, non-interest income (comprising of fee, trading and miscellaneous income) for Q2FY24 grew 31% YOY to Rs 5,034 crores.
- **Asset Quality wise performance was stable:**
 - Gross slippages during Q2 were Rs 3254 crores (was Rs 3990 crores in Q1).
 - Recoveries and upgrades were Rs 1985 cores (were Rs 2305 crores in Q1 FY2024). The Bank wrote off NPAs aggregating Rs 2671 crores (was Rs 2131 crores in Q1 FY2024).
 - Recoveries and upgrades from NPAs during the quarter were Rs 2305 crores (was Rs 2,699 crores in Q4 FY2023)
- **Net Interest Margin** came at 4.21% (was 4.20% in Q1 FY2024) even as rise in Cost of Funds was offset by yield benefit and also business mix change etc.

Key Conference Call Highlights

- **Opex performance:**
 - There was some non-recurring expense in the Other Opex, but didn't share on the quantum. There were 2 aspects, 1) Acturial valuation of reward points, and 2) some reward points expenses have been upfronted. These were non-recurring expenses.
 - Long term opex outlook is helped by the NIM and benign credit cost which allow for investing for the future.
- **Integration expenses:**
 - The bank maintained the integration Expenses Guidance which were to be Rs 2000 crores, to be incurred over a period of 18 months. These 75% of the expense will be spread over and 25% expense will be chunky.
 - In Q2 FY2024 there were some of these expenses which were episodic as guided earlier.
- **Deposits:**
 - Citi Deposit book is growing well qualitatively. There is some scope for LCR tweaking to fund the loan growth. There are levers like going after TD deposits, calibrate the lending pace etc and other to augment the deposit accretion.
 - Retail TD growth is 15% YoY growth and signing up many partnerships to feed into this TD Deposit stream. Also investing on the branch expansion will help the deposit growth.
 - Marginal Cost of Funds has stabilized for Axis Bank. Hence bank doesn't expect a significant NIM pressure in near term due to Funding Cost rising.
- **LCR:** The range of LCR will be 115-120% on normalized rate. Quality of deposits are more important in LCR regime.
- **Covid Provision:** Even though the bank indicated their intention that they won't release the Covid provision. Instead, Axis Bank will rename / re-classify the provisions by Mar-2024, and these surplus

Covid provisions will like to continue with the provision on a prudent basis. These provisions are not specific in nature, but being maintained on prudent basis.

- **Retail Card Fee:** The Q2 FY2024 retail card fee also related to non spend number, like joining fee, annual fee etc. Some part of the fee income are non-spend related, which is some times of lumpy nature.
- **Yields Outlook:**
 - Overall Loan mix has changed which has contributed to the Yields.
 - Also, there are also there are levers like CoF, RIDF investments reduction, liquidity component of the book, Product Mix and Yields as well. Also running a project to create best risk based pricing for Individual customers.
 - Will be looking to maintain the Yields.
 - Term Deposit Rate re-pricing: Axis Bank Marginal Cost of Deposits has stabilised, but see some more quarters to have COD going up, but the pace will be slower than present.
- **Outlook on Risks on the Personal Loans:**
 - RBI has been highlighting the caution in the <this now, but Axis Bank has been growing with risk in clear focus.
 - Axis Bank exposure to Rs <50k ticket size is almost nil. Have been away the segment.
 - The sourcing of PL customers from existing Bank Customers was 83% in Q2 FY2024 and in Q1. These customers are known to bank, and have partnered with channels who have visibility on the customers.
 - Salaried PL is given ONLY to salaried. Business Loans (unsecured) given to Self employed Business owners is not classified as PL but as Business Loans.
 - Have mentioned earlier too that Bank was seeing stress in the <Rs 50K ticket size loan book, but seeing the risk had already been prudent on the growth.
 - Have been able to grow the portfolio but kept the risk parameters maintained.
- **Home Loans:** The growth has been slow in the Home Loan book but QoQ disbursement is up 26%. Numbers will improve due to some strategic initiatives as well as normal BAU trend.
- **Opex Expense:**
 - Had Guided to 2% Opex to Cost (excluding the CITI expenses), had earlier shared that CITI used to operate at 200+BPS higher Opex to Cost compared to Axis and hence that business has scope to come down.
 - 51% of Opex Cost is towards technology and growth initiatives. Also, there were headcount since deployed 204 branches during Q2 FY2024 which also aided the Employee Expenses.
- **RORWA:** Bank reiterated its Intent is to deliver 18% ROE with the similar Risk intensity and not to achieve growth at the cost of high risky growth.
- **Branch Expansion:** Maintained the guidance doing ~500 branches addition in FY2024E and will be looking to achieve that, with a strategy of looking and addressing at white space in India vis-à-vis Axis Bank presence. Continuing to look at white space in metro and non-metro centers in India for adding new branches.

Quarterly Financial Statement

Y/E March (INR mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY(%)	QoQ(%)
Profit & Loss							
Interest Income	2,02,389	2,22,264	2,39,698	2,55,568	2,66,262	31.6%	4.2%
Interest Expenses	98,787	1,07,671	1,22,276	1,35,980	1,43,116	44.9%	5.2%
Net Interest Income	1,03,603	1,14,593	1,17,422	1,19,588	1,23,146	18.9%	3.0%
Other Income	39,412	46,660	48,953	50,873	50,341	27.7%	-1.0%
<i>Treasury Income</i>	<i>(860)</i>	<i>4,280</i>	<i>830</i>	<i>5,190</i>	<i>(1,010)</i>	17.4%	-119.5%
Operating Expenses	65,852	68,473	74,699	82,317	87,168	32.4%	5.9%
<i>Staff Cost</i>	<i>21,667</i>	<i>22,811</i>	<i>21,636</i>	<i>26,885</i>	<i>26,098</i>	20.5%	-2.9%
<i>Other opex</i>	<i>44,186</i>	<i>45,662</i>	<i>53,063</i>	<i>55,432</i>	<i>61,070</i>	38.2%	10.2%
Operating Profit	77,162	92,781	91,676	88,144	86,319	11.9%	-2.1%
Provisions	5,498	14,380	3,058	10,349	8,146	48.2%	-21.3%
<i>NPA Provisions</i>	<i>7,510</i>	<i>13,410</i>	<i>2,700</i>	<i>11,460</i>	<i>10,100</i>	34.5%	-11.9%
Profit Before Tax	71,664	78,401	88,618	77,795	78,173	9.1%	0.5%
Tax	18,367	19,867	21,004	19,824	19,537	6.4%	-1.4%
Net Profit	53,298	58,534	67,614	57,971	58,636	10.0%	1.1%
Equity	6,145	6,145	6,154	6,160	6,164	0.3%	0.1%
EPS	17.3	19.1	22.0	18.8	19.0	9.7%	1.1%
Ratios							
Yield On Advances (%)	8.70	9.42	9.64	10.08	10.11	140bps	3bps
Cost of Funds (%)	4.03	4.30	4.74	5.09	5.18	115bps	8bps
NIM (%)	3.87	4.18	4.15	4.08	4.05	18bps	-3bps
Cost - Income Ratio (%)	46.0	42.5	44.9	48.3	50.2	419bps	195bps
Tax Rate (%)	25.6	25.3	23.7	25.5	25.0	-64bps	-49bps
Credit / Deposit (%)	90.1	89.8	89.3	91.2	93.9	376bps	274bps
CASA (%)	46.2	44.5	47.2	45.5	44.4	-185bps	-118bps
Balance Sheet Details							
Advances	73,08,748	76,20,755	84,53,028	85,85,110	89,73,470	22.8%	4.5%
Deposits	81,08,067	84,81,733	94,69,452	94,16,900	95,55,560	17.9%	1.5%
Business Volumes	1,54,16,816	1,61,02,487	1,79,22,481	1,80,02,010	1,85,29,030	20.2%	2.9%
CASA	37,46,380	37,77,130	44,65,360	42,87,990	42,38,660	13.1%	-1.2%
CAR (%)	16.5	18.7	17.6	17.1	16.6	5bps	-51bps
<i>CAR - Tier - I</i>	<i>14.6</i>	<i>15.5</i>	<i>14.0</i>	<i>14.2</i>	<i>13.8</i>	<i>-75bps</i>	<i>-44bps</i>
Asset Quality							
Gross NPA	1,98,937	1,99,610	1,86,042	1,81,582	1,67,567	-15.8%	-7.7%
Net NPA	39,955	38,301	35,589	37,036	34,413	-13.9%	-7.1%
Gross NPA (%)	2.5	2.38	2.02	1.96	1.73	-77bps	-23bps
Net NPA (%)	0.51	0.47	0.39	0.41	0.36	-15bps	-5bps
Provision Coverage (Calc)	80.0	81.0	81.0	80.0	79.0	-100bps	-100bps
Slippage	33,830	38,070	33,750	39,900	32,540	-3.8%	-18.4%
Slippage Annualised (%)	1.9	2.1	1.8	2.0	1.5	-39bps	-45bps

Source: Company and Anvil Research

Profit & Loss Statement

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
Interest Income	6,36,453	6,73,768	8,51,638	9,25,461	10,82,749
Interest Expenses	3,44,062	3,42,446	4,22,180	4,55,000	5,17,807
Net Interest Income	2,92,391	3,31,322	4,29,457	4,70,462	5,64,941
Other Income	1,48,382	1,52,208	1,65,009	1,86,884	2,12,012
Operating Income	4,40,773	4,83,530	5,94,466	6,57,346	7,76,954
Operating Expenses	1,83,751	2,36,108	3,96,560	2,69,098	2,93,711
Operating Profit	2,57,022	2,47,422	1,97,906	3,88,248	4,83,243
Provisions and Contingencies	1,68,963	73,595	28,848	86,514	1,43,956
Profit before Tax	88,058	1,73,828	1,69,059	3,01,734	3,39,287
Provision for Tax	22,174	43,571	73,262	77,244	86,857
Profit after Tax	65,885	1,30,257	95,797	2,24,490	2,52,429

Source: Company and Anvil Research

Balance Sheet

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
Sources of Funds					
Equity Capital	6,127	6,139	6,154	6,154	6,154
Reserves & Surplus	10,09,903	11,44,115	12,43,779	14,62,714	17,09,588
Net Worth	10,16,030	11,50,255	12,49,932	14,68,868	17,15,742
ESOP's	-	1,486	4,234	4,234	4,234
Deposits	70,73,061	82,19,715	94,69,452	1,10,84,646	1,28,72,690
Borrowings	11,83,832	18,51,339	18,63,000	21,44,004	24,67,423
Debt & Tier - II Bonds	2,44,900	2,85,785	77,690	2,45,050	2,45,050
Other Liabilities	4,43,362	5,31,493	5,86,636	5,82,321	6,13,155
Total Liabilities	99,61,184	1,20,40,072	1,32,50,945	1,55,29,123	1,79,18,294
Application of Funds					
Cash & Balance with RBI	5,18,086	9,40,345	6,61,177	43,421	(1,05,385)
Bal. with Banks/ Short Notice	99,213	1,69,526	4,02,931	4,15,018	4,27,469
Advances	62,37,202	70,79,466	84,53,028	99,74,574	1,17,69,997
Investments	22,61,196	27,55,972	28,88,148	32,92,489	37,53,438
Fixed Assets	42,450	45,724	47,339	1,96,853	1,96,881
Other Assets	8,03,038	7,63,255	7,20,632	13,61,718	16,30,844
Total Assets	99,61,184	1,17,54,287	1,31,73,255	1,52,84,073	1,76,73,244

Source: Company and Anvil Research

Key Ratios

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
Valuation					
EPS (INR)	22	42	31	73	82
Book Value (INR)	332	375	406	477	558
Adj. Book Value (INR)	312	364	412	448	519
P/E (x)	45.2	22.9	31.2	13.3	11.8
P/BV (x)	2.9	2.6	2.4	2.0	1.7
P/ABV (x)	3.1	2.7	2.4	2.2	1.9
Profitability (%)					
RoANW	7.1	13.0	8.0	16.5	15.9
RoAA	0.7	1.3	0.8	1.6	1.5
Cost / Income Ratio	41.7	48.8	66.7	40.9	37.8
Cost / Avg. Earning Assets	1.9	2.2	3.2	1.9	1.8
Avg. yield on Advances	8.0	7.8	8.3	7.7	7.7
Avg. yield on Investments	6.6	6.7	6.4	5.9	5.9
Avg. cost on Deposits	4.0	3.7	3.6	3.4	3.4
Spread	2.9	3.2	3.5	3.2	3.2
Net Interest Margin	3.2	3.4	3.7	3.5	3.5
Growth (%)					
Net Interest Income	16.0	13.3	29.6	9.5	20.1
Other Income	(4.5)	(2.0)	8.4	13.3	13.4
Operating Profit	9.7	(3.7)	(20.0)	96.2	24.5
Net Profit	304.9	97.7	(26.5)	134.3	12.4
Credit	9.2	13.5	19.4	18.0	18.0
Deposit	10.5	16.2	15.2	17.1	16.1
C/D ratio	88.2	86.1	89.3	90.0	91.4
Investment / Deposit Ratio	32.0	33.5	30.5	29.7	29.2
Asset Quality					
Gross NPA (INR mn)	2,53,149	2,30,028	2,53,591	3,08,214	3,63,693
Net NPA (INR mn)	59,329	66,452	84,530	1,02,738	1,21,231
Gross NPA (%)	3.7	3.2	3.0	3.0	3.0
Net NPA (%)	1.1	0.9	1.0	1.0	1.0
Dividend					
DPS (Rs)	-	1.5	1.5	1.5	1.5
Capital Adequacy (%)					
CAR	19.1	17.8	14.6	16.2	16.1
Efficiency					
Avg. Business per Emp. (INR mn)	170.0	178.3	195.0	253.4	290.9
Avg Profit per Emp. (INR lakh)	0.8	1.5	1.0	2.7	3.0

Source: Company and Anvil Research

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