

CMP: ₹ 933

Target: ₹ 1100 (18%)

Target Period: 12 months

January 24, 2023

## Robust performance; traction in retail segment key

**About the stock:** Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 12.2 lakh crore as on December 2022.

- The bank has a large footprint across India with 4849 branches
- Retail and SME comprise ~67% of total loans

**Q3FY23 Results:** Beat estimates with a robust operational performance.

- Loan growth at 14.6% YoY to ₹ 7.6 lakh crore. Retail book up 17% YoY
- NII up 32.4% YoY, 10.6% QoQ, NIMs up 30 bps QoQ to 4.26%
- Despite higher provisions (credit cost at 95 bps), PAT grew 61.9% YoY
- GNPA down 12 bps QoQ to 2.38%. R/s book was at 0.30% of GCA

**What should investors do?** Axis Bank's stock has given ~1.4x returns over the past two years. Continued strong growth coupled with margin expansion to aid return ratios and sustainability of performance to drive valuation ahead.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** Rolling to FY25E, we value the bank at ~2.2x FY25E ABV and revise our target price from ₹ 1000 to ₹ 1100.

### Key triggers for future price performance:

- Credit growth guidance of >5-6% compared to industry growth is positive. Sustainable liabilities to remain key
- With improving asset mix, focus high yielding book and repricing benefit to aid margins trajectory
- Target of ~2% cost to asset and healthy provision buffer provide comfort on earnings volatility
- Capitalisation levels (CRAR at 19.5%, tier I at 16%) strong, though acquisition of Citi assets could assert pressure on RoA and CaR in near term

**Alternate Stock Idea:** Apart from Axis, in our coverage we also like Kotak Bank.

- Kotak Mahindra Bank is a powerful banking franchise with strong promoter led management. It has a presence across financial services value chain
- BUY with a target price of ₹ 2175

### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	25206	29239	33132	15%	42391	48890	58469	21%
PPP	23438	25702	24742	9%	32357	37138	44584	22%
PAT	1627	6588	13025	41%	21272	24184	28234	29%
ABV (₹)	267.9	308.8	347.8		413.6	448.7	495.0	
P/E	161.8	43.4	22.0		13.5	11.8	10.1	
P/ABV	3.5	3.0	2.7		2.3	2.1	1.9	
RoA	0.2	0.7	1.2		1.7	1.7	1.8	
RoE	2.1	7.1	12.0		17.1	17.3	18.4	

Source: Company, ICICI Direct Research

BUY



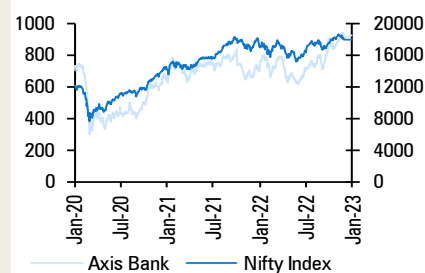
### Particulars

Particulars	Amount
Market Capitalisation	₹287044 crore
52 week H/L	970 /618
Net worth	₹ 122663 crore
Face value	₹ 2
DII Holding (%)	31.5
FII Holding (%)	49.5

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	9.7	9.7	9.7	9.7	8.2
FII	47.4	46.9	46.6	46.1	49.5
DII	30.2	30.5	31.5	32.3	31.5
Others	12.7	12.9	12.3	11.9	10.9

### Price Chart



### Recent Event & Key risks

- NIM up ~30 bps QoQ. GNPA down 12 bps to 2.38%, net credit cost 0.65%
- **Key Risk:** (i) Accretion of liabilities at competitive price (ii) Retention of business post acquisition

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## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Robust business & operational performance

- The bank posted better than estimated numbers. Both business and operational performance were robust. Asset quality trend continued to improve
- Net interest income was up 32.4% YoY, 10.6% QoQ to ₹ 11459 crore on the back of 30 bps sequential improvement in margins. On a sequential basis, other income reported growth of 18.4% (21.5% YoY) to ₹ 4665 crore, mainly aided by fee income, which grew 23% YoY (retail fee income grew 30% YoY). Trading income grew 17% YoY. With controlled opex and higher income levels, CI ratio declined to 42.5% vs. 50.7% in Q3FY22 (46% in Q2FY23)
- Provisions for the quarter jumped by ~2.6x QoQ (up 7.7% YoY) to ₹ 1438 crore (includes ₹ 340 crore; ~11 bps impact of non-recurring/prudent provisions). Hence, credit cost increased to 0.95% vs. 0.74% in Q2FY23. Despite a jump in provision, PAT registered growth of 61.9% YoY (9.8% QoQ) to ₹ 5853 crore and was ahead of our estimates
- Asset quality has improved as GNPA, NNPA ratio declined 12 bps, 4 bps QoQ to 2.38% and 0.47%, respectively. The standard Covid-19 restructuring implemented loans was at 0.30% vs. 0.38% of GCA in Q2FY23. The gross slippages during the quarter increased by ₹ 410 crore due to non-recurring or prudent items. Recoveries and upgrades were at ₹ 2088 crore vs. ₹ 2826 crore (QoQ) while write-offs were at ₹ 1652 crore vs. ₹ 1700 crore
- Credit growth for the quarter was at 14.6% YoY at ₹ 7.62 lakh crore. In this, SME grew 24% YoY, retail grew 17% YoY and corporate grew 8% YoY. However, on an incremental basis, corporate segment was the major contributor while retail segment stayed on a weaker track. Deposit growth was at 10% YoY at ₹ 8.48 lakh crore, in which CASA growth was at 10% YoY. On YoY basis, CASA ratio was steady at ~45% (vs. 46% in Q2FY23)

Axis Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	25.3	25.3	17.6
Social	35.8	35.8	26.0
Governance	89.9	89.9	89.9
<b>Overall ESG Score</b>	<b>50.4</b>	<b>50.4</b>	<b>44.5</b>

Source: Bloomberg; ICICI Direct Research \*  
score ranges from 0-100 with a high score indicating higher ESG disclosure

### Q3FY23 Earnings Conference Call highlights

- Guidance – credit growth of >5-6% of industry growth, RoE of ~18%, cost to assets at ~2% in the medium term. The management was cautious on secured retail disbursements
- Also, ~22% and 39% book is linked to MCLR and repo. Hence, further margin expansion is likely. During the quarter, margin expansion was driven by asset mix, declining share of RIDF bonds and partly by improvement in average CASA
- Opex breakup: 12% business volume, 40% tech led and 30% wage related expenses. Unlikely to have major impact on opex due to CITI acquisition
- In corporate segment, spreads are improving since a couple of quarters
- One-time/prudent items impacted slippages by ~22 bps and credit cost by ~11 bps during the quarter (provisions of ₹ 340 crore)
- The bank has recovered ₹ 608 crore from already written off accounts. The cumulative provisions were at ₹ 11633 crore (standard + additional non NPA)
- There was no sale to ARC during the quarter
- Issued 10.4 lakh new credit cards during Q3FY23 while incremental share in spends was ~9.5%
- For Citi Bank deal, CCI approval is in place and the transaction is expected to be completed by March 2023

## Peer comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap				EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating	₹ Bn	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E			
Axis Bank (AXIBAN)	933	1,100	Buy	2,870	21.5	42.4	69.3	78.8	43.4	22.0	13.5	11.8	3.0	2.7	2.3	2.1	7.1	12.0	17.1	17.3			
HDFC Bank (HDFBAN)	1,660	1,920	Buy	9,261	56.4	66.7	78.7	93.7	29.4	24.9	21.1	17.7	3.9	3.4	3.0	2.5	16.7	16.9	17.5	17.7			
IndusInd Bank (INDBA)	1,202	1,450	Buy	932	36.7	59.5	93.1	111.0	32.8	20.2	12.9	10.8	2.2	2.0	1.8	1.6	7.3	10.1	14.2	14.9			
Kotak Bank (KOTMAH)	1,763	2,175	Buy	3,501	35.1	43.0	51.5	56.3	50.2	41.0	34.2	31.3	5.7	4.9	4.3	3.8	12.4	12.6	13.2	12.6			
Bandhan (BANBAN)	241	265	Hold	381	-12.8	0.8	12.9	15.9	-18.8	308.6	18.7	15.2	3.8	2.5	2.2	2.0	-14.6	0.8	11.3	12.6			

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	11,459	10,765	8,653	32.4	10,360	10.6	Driven by healthy business traction & NIM expansion
NIM (%)	4.26	4.09	3.53	73 bps	3.96	30 bps	Interest rate transmission & change in asset mix aided uptick
Other Income	4,665	4,345	3,840	21.5	3,941	18.4	Retail fee income up 30% YoY and 8% QoQ
Net Total Income	16,125	15,110	12,493	29.1	14,301	12.7	
Staff cost	2,281	2,239	1,939	17.7	2,167	5.3	
Other Operating Expenses	4,566	4,920	4,393	3.9	4,419	3.3	C/I down to 42.5% bps QoQ to 46%
PPP	9,277	7,951	6,162	50.6	7,716	20.2	
Provision	1,438	692	1,335	7.7	550	161.5	Credit cost up to 0.95% vs 0.74% in Q2FY23
PBT	7,840	7,259	4,827	62.4	7,166	9.4	
Tax Outgo	1,987	1,815	1,212	63.9	1,837	8.2	
PAT	5,853	5,444	3,614	61.9	5,330	9.8	Healthy topline aided PAT growth
Key Metrics							
GNPA	19,961	20,971	23,301	-14.3	19,894	0.3	Fresh slippages increased 13% QoQ
NNPA	3,830	3,582	6,513	-41.2	3,996	-4.1	
Credit	762,075	768,918	664,866	14.6	730,875	4.3	Corporate segment was a major contributor sequentially
Deposit	848,173	841,892	771,670	9.9	810,807	4.6	CASA deposits grew 10% YoY; CASA ratio at ~45%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	40,544	42,391	4.6	47,577	48,890	2.8	58,469
Pre Provision Profit	29,600	32,357	9.3	34,734	37,138	6.9	44,584
NIM(%) (calculated)	3.8	4.0	17 bps	3.9	4.0	13 bps	4.1
PAT	20,279	21,272	4.9	22,381	24,184	8.1	28,234
ABV per share (₹)	408.2	413.6	1.3	434.8	448.7	3.2	495.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	16.2	17.0	17.9	16.2	17.0
Deposit Growth (%)	13.0	15.6	16.6	14.1	15.6
CASA ratio (%)	44.0	45.1	46.5	44.0	45.2
NIM Calculated (%)	4.0	4.0	4.1	3.8	3.9
Cost to income ratio (%)	45.1	45.7	45.3	47.3	47.3
GNPA (₹ crore)	20,446	22,738	26,643	20,446	22,738
NNPA (₹ crore)	4,235	4,304	4,869	4,962	5,879
Slippage ratio (%)	1.86	2.34	2.48	1.86	2.34
Credit cost (%)	0.49	0.51	0.61	0.31	0.51

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	67,377	83,559	96,052	1,12,396
Interest Expended	34,245	41,168	47,162	53,927
Net Interest Income	33,132	42,391	48,890	58,469
growth (%)	13.3	27.9	15.3	19.6
Non Interest Income	15,221	16,522	19,466	22,972
Net Income	48,353	58,913	68,357	81,441
Staff cost	7,613	9,176	10,268	11,537
Other operating Expense	15,998.19	17,381	20,951	25,320
Operating Profit	24,742	32,357	37,138	44,584
Provisions	7,359	3,994	4,892	6,939
PBT	17,383	28,363	32,245	37,645
Taxes	4,357	7,091	8,061	9,411
Net Profit	13,025	21,272	24,184	28,234
growth (%)	97.7	63.3	13.7	16.7
EPS (₹)	42.4	69.3	78.8	92.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares	307.0	307.0	307.0	307.0
EPS (₹)	42.4	69.3	78.8	92.0
BV (₹)	374.7	438.0	474.2	523.6
ABV (₹)	347.8	413.6	448.7	495.0
P/E	22.0	13.5	11.8	10.1
P/BV	2.5	2.1	2.0	1.8
P/ABV	2.7	2.3	2.1	1.9
Yields & Margins (%)				
Net Interest Margins	3.6	4.0	4.0	4.1
Yield on assets	7.4	7.9	7.9	7.8
Avg. cost on funds	3.7	3.9	4.0	4.0
Yield on average advances	7.5	8.3	8.4	8.4
Avg. Cost of Deposits	3.5	3.7	3.8	3.8
Quality and Efficiency				
Cost to income ratio	49	45	46	45
Credit/Deposit ratio	86.1	88.6	89.7	90.7
GNPA	2.8	2.2	2.1	2.1
NNPA	0.8	0.5	0.4	0.4
ROE	12.0	17.1	17.3	18.4
ROA	1.2	1.7	1.7	1.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	614	614	614	614
Reserves and Surplus	114411	133849	144955	160112
Networth	115025	134463	145569	160726
Deposits	821721	928409	1072874	1251052
Borrowings	185134	188002	190920	193891
Other Liabilities & Provisions	53298	56285	58545	61230
Total	1175178	1307159	1467909	1666898
Application of Funds				
Fixed Assets	4572	5021	5791	6695
Investments	275597	300517	351503	411296
Advances	707696	822635	962583	1134704
Other Assets	76325	106937	65566	19754
Cash with RBI & call money	110987	72049	82467	94449
Total	1175178	1307159	1467909	1666898

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets				
Total assets	19.1	11.2	12.3	13.6
Advances	15.2	16.2	17.0	17.9
Deposit	17.7	13.0	15.6	16.6
Total Income	5.2	21.2	15.4	17.2
Net interest income	13.3	27.9	15.3	19.6
Operating expenses	28.5	12.5	17.6	18.1
Operating profit	-3.7	30.8	14.8	20.1
Net profit	97.7	63.3	13.7	16.7
Net worth	13.2	16.9	8.3	10.4
EPS	97.3	63.3	13.7	16.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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