

Strong growth outlook; valuations reasonable for re-rating

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 13.17 lakh crore as on March 2023. The bank has acquired Citi consumer banking portfolio effective March 2023 for ₹ 11600 crore wherein ~₹ 27000 crore of retail assets and ₹ 40000 crore of liabilities have come on Axis Bank's books. Accordingly, exceptional provision of ₹ 12489 crore made in Q4FY23 P&L account.

- Retail and SME comprise ~67% of total loans

Q4FY23 Results: Mixed quarter.

- Credit growth came in at 19.4% YoY (ex-Citi 16% YoY) at ₹ 8.45 lakh crore. Retail book was up 22% YoY. The bank saw strong 10% QoQ (ex-Citi 7% QoQ) growth in deposits
- NII up 33% YoY, 2.5% QoQ, NIMs declined 4 bps QoQ to 4.22%, domestic NIM at 4.35%
- Lower provisions at ₹ 306 crore led to PAT growth of 61% YoY. Exceptional item of ₹ 12489 crore led to loss of ₹ 5728 crore
- Asset quality has improved as GNPA, NNPA ratio declined 48 bps, 12 bps QoQ to 2.02% and 0.39%, respectively

What should investors do? Axis Bank's stock rallied just ~10% in the last one year. With strong growth coupled with guidance of 4-6% above industry and stable margins, we believe earnings growth should remain robust at 20% CAGR over the next two years. RoA to sustain around 1.9-2% and strong capital position offer comfort on valuations as at 1.5x FY25E ABV.

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

Target Price and Valuation: Maintain target price of ₹ 1100 at ~2.0x FY25E ABV

Key triggers for future price performance:

- Credit growth guidance of >-6% compared to industry growth and improving asset mix including Citi, to lead to high yielding book and aid margins trajectory
- Healthy PCR at 81%, improving asset quality and target of ~2% cost to asset ratio provide comfort on earnings volatility
- Capitalisation levels still strong post acquisition of Citi assets with CAR at 17.64% and CET 1 ratio of 14.02%

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



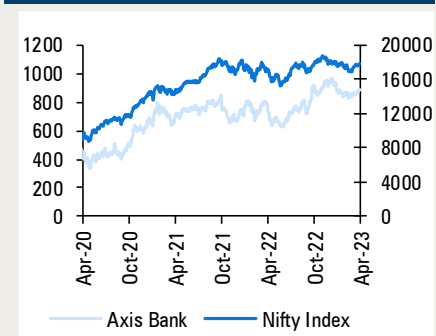
Particulars

Particulars	Amount
Market Capitalisation	₹263996 crore
52 week H/L	970 /618
Net worth	₹124992 crore
Face value	₹ 2
DII Holding (%)	32.0
FII Holding (%)	49.1

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	9.7	9.7	9.7	8.2	8.2
FII	46.9	46.6	46.1	49.5	49.1
DII	30.5	31.5	32.3	31.5	32.0
Others	12.9	12.3	11.9	10.9	10.8

Price Chart



Recent Event & Key risks

- NIM steady QoQ at 4.2%. GNPA down 48 bps to 2%, net credit cost 0.22%
- Key Risk:** (i) Accretion of liabilities at competitive price (ii) Lower than expected business growth

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Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	25206	29239	33132	42944	19%	51038	61076	19%
PPP	23438	25702	24742	32047	11%	40993	49977	25%
PAT	1627	6588	13025	9579	81%	27339	32643	85%
ABV (₹)	267.9	308.8	347.8	384.8		498.8	587.6	
P/E	149.1	40.0	20.3	27.6		9.7	8.1	
P/ABV	3.2	2.8	2.5	2.2		1.7	1.5	
RoA	0.2	0.7	1.2	0.8		1.9	2.0	
RoE	2.1	7.1	12.0	8.0		19.1	18.4	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Mixed quarter ex Citi, strong business growth outlook

- The bank posted healthy business growth but anticipated one-off item on account of purchase consideration paid (₹ 12489 crore) for Citi acquisition resulted in quarterly loss. Asset quality trend continued to improve QoQ
- Net interest income was up 33.1% YoY, 2.5% QoQ to ₹ 11742 crore on the back of steady NIMs QoQ at 4.22% (up 73 bps YoY). Other income reported growth of 15.9% YoY (4.9% QoQ) to ₹ 4895 crore, mainly aided by fee income, which grew 24% YoY (retail fee income grew 31% YoY). CI ratio declined to 44.9% vs. 50.4 % in Q4FY22 (42.5% in Q3FY23)
- On both QoQ and YoY basis, provisions declined to ₹ 306 crore vs. ₹ 1438 crore in Q3FY23 (₹ 987 crore in Q4FY22). Hence, credit cost declined 43 bps QoQ, 10 bps YoY to 0.22%. The bank reported a quarterly loss of ₹ 5728 crore (as anticipated due to one-off item). Excluding one off item, the bank reported a PAT of ₹ 6625 crore (up 61% YoY)
- Asset quality has improved as GNPA, NNPA ratio declined 48 bps, 12 bps QoQ to 2.02% and 0.39%, respectively. The standard Covid-19 restructuring implemented loans was at 0.22% vs. 0.30% of GCA in Q3FY23. Gross slippages for the quarter were at ₹ 3771 crore (including ₹ 396 crore from Citi) vs. ₹ 3807 crore in Q3FY23 (slippage ratio was at 1.76%, down 27 bps QoQ, 62 bps YoY). Recoveries and upgrades were at ₹ 2699 crore vs. ₹ 2088 crore (QoQ) while write-offs were at ₹ 2429 crore vs. ₹ 1652 crore
- Credit growth for the quarter was at 19.4% YoY at ₹ 8.45 lakh crore. In this, retail grew 22% YoY, SME grew 20% YoY and corporate grew 15% YoY. Deposit growth was at 15.2% YoY at ₹ 9.46 lakh crore, in which CASA growth was at 21% YoY, 18% QoQ. CASA ratio was at 47%, up 215 bps YoY, 261 bps QoQ

Axis Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	25.3	25.3	25.3
Social	35.8	35.8	35.8
Governance	89.9	89.9	89.9
Overall ESG Score	50.4	50.4	50.4

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

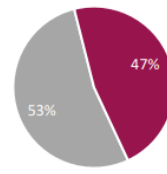
Q4FY23 Earnings Conference Call highlights

- Guidance – Credit growth of >4-6% of industry growth. Deposit growth to be at ~15%. Combination of opening new branches (up to 500 branches in FY24), mobile banking, business correspondents will aid deposits traction. Cost to assets to be ~2%
- The acquisition includes March 2023 (one month) P&L in Axis Bank reported numbers
- One off impact on P&L was ₹ 12489 crore including amortisation of goodwill of ₹ 11949 crore
- All one-time expenses have been charged in Q4FY23. Now, only ₹ 1500 crore integration cost is remaining, which will be incurred over the next 18 months
- There was a 6 bps impact on NIMs due to 13% higher average LCR maintained during the quarter. Excess LCR is likely to get normalised in the next two to three quarters
- NIMs include interest on income tax refund of ₹ 85 crore (~3 bps)
- Deposit quality (lendable deposits) has improved with outflow rates lower by 550 bps on a YoY basis
- The acquisition of Citi portfolio has resulted in ~870 bps YoY increase in share of premium segment in Retail SA deposits
- Have cushion of ~40 bps over guided NIMs and aim will be to retain as much as possible of this cushion
- Total 42% of fixed rate book is likely to mature in the next 12 months
- SME book – Growth continues to be strong in the last 12-14 months. This book is linked to repo rate so rates are passed on immediately
- Corporate book – Demand strong across multiple segments (iron, roads, infra, NBFCs, etc). Seeing strong uptick in private capex
- Axis Finance’s (LAP, business loans, etc) focus on growing retail book continue

Exhibit 1: Key indicators

	Absolute (₹ Cr)			QOQ		YOY Growth
	Q4FY23	Q3FY23	FY23	Q4FY23	Q4FY23	FY23
Profit & Loss						
Net Interest Income	11,742	11,459	42,946	2%	33%	30%
Fee Income	4,676	4,101	16,216	14%	24%	25%
Operating Expenses	7,470	6,847	27,398	9%	14%	16%
Operating Profit	9,168	9,277	32,048	(1%)	42%	30%
Core Operating Profit	9,084	8,850	32,291	3%	46%	40%
PBT (excluding EI)	8,862	7,840	29,396	13%	62%	69%
Profit excluding EI	6,625	5,853	21,933	13%	61%	68%
Exceptional items (EI)	12,490	-	12,490	-	-	-
Profit after Tax (PAT)	(5,728)	5,853	9,580	-	-	(26%)
Balance Sheet						
Total Assets	13,17,326			YOY Growth 12%		
Net Advances **	8,45,303			19%		
Total Deposits ^ **	9,46,945			15%		
Shareholders' Funds	1,24,993			9%		
Key Ratios						
	Q4FY23		FY23		Q4FY22 FY22	
	Excl EI	Reported	Excl EI	Reported		
Diluted EPS (Annualised ₹)	86.31	(75.53)	71.03	31.02	54.27	42.35
Book Value per share (in ₹)	446	406	446	406	375	375
ROA (Annualised)	2.10%	(1.83%)	1.82%	0.80%	1.46%	1.21%
ROE (Annualised)	21.12%	(19.20%)	18.38%	8.47%	15.87%	12.91%
Consol ROA (Annualised)	2.18%	(1.68%)	1.82%	0.85%	1.54%	1.29%
Consol ROE (Annualised)	21.58%	(17.37%)	18.84%	9.26%	16.58%	13.67%
Gross NPA Ratio	2.02%		2.02%		2.82%	
Net NPA Ratio	0.39%		0.39%		0.73%	
Basel III Tier I CAR	14.57%		14.57%		16.34%	
Basel III Total CAR	17.64%		17.64%		18.54%	

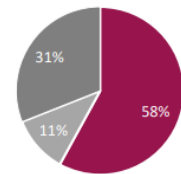
Deposits* ↑ 15% YOY



↑ 21% YOY (MEB)
↑ 13% YOY (QAB*)

*QAB – Quarterly Average Balance

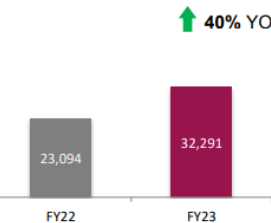
Advances ↑ 19% YOY
23% YOY¹



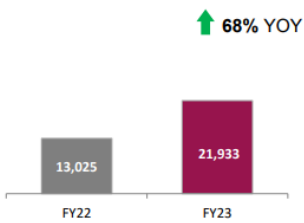
↑ 22% YOY (Retail) ↑ 23% YOY (SME) ↑ 14% YOY (Corporate) ↑ 24% YOY¹

¹domestic loans

Core Operating Profit excluding exceptional items (in ₹ Crores) ↑ 40% YOY



Profit After Tax excluding exceptional items (in ₹ Crores) ↑ 68% YOY



Source: Company, ICICI Direct Research

Exhibit 2: Ex Citi loans and advances impact

Balance sheet (in Rs Crore)	Axis Bank (Reported)			Axis Bank (excl. Citi portfolio)		
	Q4FY23	YOY Growth (%)	QoQ Growth (%)	Q4FY23	YOY Growth (%)	QoQ Growth (%)
Total deposits	9,46,945	15%	12%	9,05,623	10%	7%
- Current Account	1,49,120	17%	18%	1,47,300	15%	16%
- Savings Account	2,97,416	23%	18%	2,68,430	11%	7%
- Term Deposits	5,00,409	11%	6%	4,89,893	8%	4%
Total Advances	8,45,303	19%	11%	8,19,288	16%	7%
- Retail	4,87,571	22%	14%	4,61,666	15%	7%
• Home loans	1,57,392	10%	7%	1,50,560	5%	2%
• Loan against property	50,756	20%	14%	47,963	13%	8%
• Personal loans	54,561	21%	8%	53,604	18%	6%
• Credit cards	31,684	97%	53%	22,878	42%	10%
• Other retail loans	1,93,178	26%	16%	1,86,660	22%	12%
- Corporate	2,65,009	14%	6%	2,65,009	14%	6%
- SME	92,723	23%	13%	92,723	23%	13%

Source: Company, ICICI Direct Research

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoA (%)				RoE (%)			
	₹	TP(₹)	Rating		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Axis Bank (AXIBAN)	855	1,100	Buy	2,640	42.4	31.1	88.9	106.1	20.2	27.5	9.6	8.1	2.5	2.2	1.7	1.5	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4
HDFC Bank (HDFBAN)	1,676	2,050	Buy	9,357	66.7	79.1	93.3	108.3	25.1	21.2	18.0	15.5	3.9	3.4	3.0	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1
IndusInd Bank (INDBA)	1,143	1,450	Buy	887	59.5	95.3	113.9	136.2	19.2	12.0	10.0	8.4	1.9	1.7	1.5	1.3	1.2	1.7	1.8	1.9	10.1	14.5	15.4	16.3
Kotak Bank (KOTMAH)	1,923	2,175	Buy	3,823	43.0	51.5	56.3	64.3	44.7	37.3	34.2	29.9	5.4	4.7	4.2	3.8	2.1	2.2	2.1	2.1	12.6	13.2	12.6	13.0

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	11,742	11,748	8,819	33.1	11,459	2.5	Driven by strong momentum in retail & wholesale banking
NIM (%)	4.22	4.37	3.49	73 bps	4.26	-4 bps	NIM contacted 4bps QoQ led by higher cof.
Other Income	4,895	4,545	4,223	15.9	4,665	4.9	Retail fee income up 31% YoY and 14% QoQ
Net Total Income	16,637	16,294	13,042	27.6	16,125	3.2	
Staff cost	2,164	2,415	1,887	14.7	2,281	-5.1	Increase in staff cost led by addition of 3200 employees post Citibank India Consumer Business acquisition
Other Operating Expenses	5,306	5,206	4,690	13.1	4,566	16.2	
PPP	9,168	8,673	6,466	41.8	9,277	-1.2	
Provision	306	2,056	987	-69.0	1,438	-78.7	Credit cost (annualized) at 0.22% declined 10 bps YoY and 43 bps QoQ
Exception items	12489						
PBT	-3,627	6,618	5,479	-166.2	7,840	-146.3	
Tax Outgo	2,100	498	1,361	54.3	1,987	5.7	
PAT	-5,728	6,119	4,118	-239.1	5,853	-197.9	Loss due to one-time impact on P&L of ₹12489 which included amortization of goodwill/ intangibles. Else PAT growth is 61% YoY at ₹6625 crore
Key Metrics							
GNPA	18,604	19,204	21,822	-14.7	19,961	-6.8	GNPA at 2.02% declined by 80 bps YoY & 36 bps QoQ, net slippage ratio at
NNPA	3,559	3,032	5,512	-35.4	3,830	-7.1	
Credit	8,45,303	8,22,280	7,07,947	19.4	7,62,075	10.9	Retail loans grew 22% YoY and 14% QoQ and accounted for 58% of the total net advances
Deposit	9,46,945	9,13,754	8,21,721	15.2	8,48,173	11.6	CASA grew 21% YoY and 18% QoQ, CASA ratio at 47%, up 215 bps YoY and 261 bps QoQ

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

(₹ Crore)	FY23			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	40,544	42,944	5.9	47,577	51,038	7.3	61,076
Pre Provision Profit	29,600	32,047	8.3	34,734	40,993	18.0	49,977
NIM(%) (calculated)	3.8	4.0	18 bps	3.9	4.1	23 bps	4.2
PAT	20,279	9,580	-52.8	22,381	27,339	22.2	32,643
ABV per share (₹)	408.2	384.8	-5.7	434.8	498.8	14.7	587.6

Source: Company, ICICI Direct Research

Exhibit 6: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	17.0	16.0	17.0	17.9
Deposit Growth (%)	14.0	14.7	15.6	16.6
CASA ratio (%)	47.2	47.8	45.1	46.5
NIM Calculated (%)	4.1	4.2	4.0	4.1
Cost to income ratio (%)	42.7	41.4	45.7	45.3
GNPA (₹ crore)	20,960	24,755	22,738	26,643
NNPA (₹ crore)	4,501	8,049	4,304	4,869
Slippage ratio (%)	2.34	2.44	2.34	2.48
Credit cost (%)	0.46	0.56	0.51	0.61

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	67,377	85,162	98,715	1,14,053
Interest Expended	34,245	42,218	47,677	52,977
Net Interest Income	33,132	42,944	51,038	61,076
growth (%)	13.3	29.6	18.8	19.7
Non Interest Income	15,221	16,501	20,538	24,259
Net Income	48,353	59,445	71,577	85,334
Staff cost	7,613	9,176	9,779	10,988
Other operating Expense	15,998	18,222	20,805	24,370
Operating Profit	24,742	32,047	40,993	49,977
Provisions	7,359	2,652	4,540	6,452
PBT	17,383	29,395	36,452	43,524
Taxes	4,357	7,326	9,113	10,881
Exceptional	-	12489	-	-
Net Profit	13,025	9,580	27,339	32,643
growth (%)	97.7	-26.5	185.4	19.4
EPS (₹)	42.4	31.1	88.9	106.1

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	307.0	307.7	307.7	307.7
EPS (₹)	42.4	31.1	88.9	106.1
BV (₹)	374.7	406.2	526.2	628.8
ABV (₹)	347.8	384.8	498.8	587.6
P/E	20.3	27.6	9.7	8.1
P/BV	2.3	2.1	1.6	1.4
P/ABV	2.5	2.2	1.7	1.5
Yields & Margins (%)				
Net Interest Margins	3.6	4.0	4.1	4.2
Yield on assets	7.4	8.0	7.9	7.9
Avg. cost on funds	3.7	3.9	4.0	3.9
Yield on average advance:	7.5	8.3	8.4	8.3
Avg. Cost of Deposits	3.5	3.9	3.9	3.8
Quality and Efficiency				
Cost to income ratio	49	46	43	41
Credit/Deposit ratio	86.1	88.7	91.1	92.0
GNPA	2.8	2.0	1.9	1.9
NNPA	0.8	0.4	0.5	0.7
ROE	12.0	8.0	19.1	18.4
ROA	1.2	0.8	1.9	2.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	614	615	615	615
Reserves and Surplus	114411	124377	161302	192865
Networth	115025	124992	161917	193481
Deposits	821721	953151	1086835	1246583
Borrowings	185134	186300	190920	193891
Other Liabilities & Provisio	53298	59086	62863	65548
Total	1175178	1323530	1502536	1699502
Application of Funds				
Fixed Assets	4572	4733	4008	3761
Investments	275597	292148	341699	399810
Advances	707696	845735	989601	1147467
Other Assets	76325	72063	81380	50246
Cash with RBI & call mon	110987	87345	85848	98219
Total	1175178	1302024	1502536	1699502

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets				
Total assets	19.1	10.8	15.4	13.1
Advances	15.2	19.5	17.0	16.0
Deposit	17.7	16.0	14.0	14.7
Total Income	5.2	23.1	17.3	16.0
Net interest income	13.3	29.6	18.8	19.7
Operating expenses	28.5	16.0	11.6	15.6
Operating profit	-3.7	29.5	27.9	21.9
Net profit	97.7	-26.5	185.4	19.4
Net worth	13.2	8.7	29.5	19.5
EPS	97.3	(26.6)	185.4	19.4

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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