

January 23, 2024

RESULT REPORT Q3 FY24 | Sector: Banks

Axis Bank Ltd

AXSB continues to outperform ICICI on slippage

Our view – AXSB can narrow the gap with ICICI on net interest margin

Gross slippage ratio for AXSB averages 1.81% over the past 7 quarters compared with 2.01% for ICICI: 35% of the gross slippages for the quarter were accounts that were standard but linked to a borrower that had otherwise defaulted (on another account) or were accounts that were upgraded in the same quarter. Provisions for the quarter were Rs 10.28bn, up by 26.2% QoQ but down by -28.5% YoY, translating to calculated annualised credit cost of 45bps. Provision of around Rs.1.82bn was made towards applicable Alternate Investments Funds (AIF) Investments pursuant to the RBI circular.

While margin contracted sequentially, AXSB can still pull multiple levers to enhance structural margin: For the quarter, yield on advances improved 6 bps QoQ. The bank has increased pricing on personal loans and is in the process of doing so for NBFC loans. Cost of deposits increased 15 bps QoQ to 4.94%. Rise in cost of deposits would spill over into 1QFY25. The levers for margin expansion include share of retail and SME in loan book, share of unsecured loans, segment shift in wholesale loans and share of INR loans.

As of now, AXSB is growing far in excess of the banking system growth but sounded a bit cautious on this front: Given the focus on loan to deposit ratio, deposit growth would be a key constraint to growth in the near term. Management does not see interest rates in the economy coming down anytime soon. Over the medium term, management reiterated guidance of growing 400-600 bps higher than banking system loan growth.

We reiterate BUY rating on AXSB with a revised price target of Rs 1425: We had placed AXSB as the very top pick for the first time in our [report dated May 2022](#). We value the standalone bank at 2.2x FY25 P/BV for an FY24E/25E/26E RoE profile of 17.1%/16.9%/17.1%. We assign a value of Rs 127 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See “Our View” above for elaboration and insight)

- **Asset quality:** Gross slippages amounted to Rs 37.15bn (annualized slippage ratio of 1.6%), while recoveries and upgrades were Rs 25.98bn
- **Margin picture:** NIM at 4.01% was down 10 bp QoQ, where the sequential rise in cost of funds was higher than the rise in yield on interest earning assets
- **Asset growth:** Advances grew 3.9%/22.3% QoQ/YoY driven sequentially by SME loans and by few segments in retail loans
- **Opex control:** Total opex rose 2.6%/32.5% QoQ/YoY, Employee Expense rose 3.9%/18.9% QoQ/YoY and other exp. rose 2.1%/39.4% QoQ/YoY
- **Fee income:** Fees income grew 4.2%/29% QoQ/YoY, where retail banking fees grew 5.8%/35.7% QoQ/YoY

Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Interest Income	279,611	266,262	5.0	222,264	25.8
Interest Expense	(154,290)	(143,116)	7.8	(107,671)	43.3
Net Interest Income	125,322	123,146	1.8	114,593	9.4
Other income	55,548	50,341	10.3	45,718	21.5
Total Income	180,870	173,486	4.3	160,312	12.8
Operating expenses	(89,457)	(87,168)	2.6	(67,537)	32.5
PPOP	91,412	86,319	5.9	92,775	(1.5)
Provisions	(10,283)	(8,146)	26.2	(14,377)	(28.5)
Exceptional Item	0	0	NA	0	NA
PBT	81,129	78,173	3.8	78,398	3.5
Tax	(20,418)	(19,537)	4.5	(19,867)	2.8
PAT	60,711	58,636	3.5	58,531	3.7

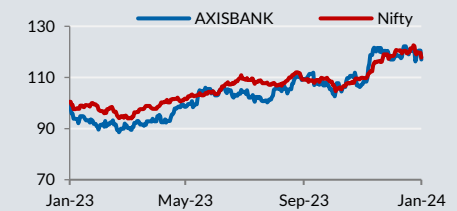
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 1089
Target price	: Rs 1425
Potential return	: +31%

Stock data (as on January 23, 2024)

Nifty	21,239
52 Week h/l (Rs)	1152 / 814
Market cap (Rs/USD mn)	3457566 / 41582
Outstanding Shares (mn)	3,084
6m Avg t/o (Rs mn):	9,425
Div yield (%):	0.1
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

Stock performance



	1M	3M	1Y
Absolute return	0.1%	13.0%	16.8%

Shareholding pattern (As of Dec'23 end)

Promoter	8.2%
FII+DII	83.5%
Others	8.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1425	1450

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	500,006	597,409	709,779
PPOP	366,736	460,285	570,665
Net Profit	233,788	288,556	361,256
Growth (%)	144.0	23.4	25.2
EPS (Rs)	76.0	90.2	112.9
BVPS (Rs)	483	603	715
P/E (x)	12.7	10.7	8.5
P/BV (x)	2.0	1.6	1.3
ROE (%)	17.1	16.9	17.1
ROA (%)	1.6	1.7	1.8
Tier-1 (%)	15.1	16.2	15.8

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	76.0	90.2	112.9
EPS (Old)	78.2	99.9	120.7
% change	-2.9%	-9.8%	-6.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 37.15bn for 3QFY24, translating to an annualized slippage ratio of 1.6% for the quarter. (Gross NPA additions had amounted to Rs 32.54bn during 2QFY24.)
 - 35% of the gross slippages were accounts that were standard but linked to a borrower that had otherwise defaulted (on another account) or were accounts that were upgraded in the same quarter.
 - **Segmental slippages**
 - Retail – Rs 33.84bn
 - CBG – Rs 2.38bn
 - Corporate – Rs 0.93bn
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 25.98bn for 3QFY24, implying net NPA addition of Rs 11.17bn for the quarter.
- **Provisions**
 - **P&L Provisions**
 - Provisions were Rs 10.28bn, up by 26.2% QoQ but down by -28.5% YoY, translating to calculated annualised credit cost of 45bps.
 - Provision of around Rs.1.82bn were made towards applicable Alternate Investments Funds (AIF) Investments pursuant to the RBI circular.
 - Net credit cost at 28 bps improved by 14bps qoq, aided by recoveries and upgrades, which included a large corporate account upgrade.
 - **Credit cost guidance**
 - Management expects credit cost to move up.
 - In the first stage, this would be due to reduction in recovery from written off accounts.
 - **Outstanding provisions**
 - No Covid-19 provisions have been utilised.
 - Total standard asset provisions amounted to 129 bps of total advances.
 - All provisions taken together provide a cover of 153% on GNPA.
- **Restructured book**
 - The fund based outstanding of standard restructured loans implemented under resolution framework for COVID-19 stood at Rs 16.41 bn or 0.16% of the gross customer assets.

Net interest margin

- **NIM for the quarter**
 - NIM was at 4.01%, down -10 bps QoQ and -25bps YoY.
- **Yield on advances**
 - Yield on advances improved 6 bps QoQ.
 - The bank has increased pricing on personal loans and is in the process of doing so for NBFC loans.
- **Cost of funds**
 - Cost of deposits increased 15 bps QoQ to 4.94%.
 - Rise in cost of deposits would spill over into 1QFY25.

(Con call takeaways continue on the next page)

- **Balance sheet mix**
 - Share of loans and investments was 89% of total assets, broadly stable QoQ.
 - Share of INR loans was 96.8% of total advances, broadly stable QoQ.
 - Share of retail and CBG loans was 69% of total loan book, broadly stable QoQ.
 - RIDF book declined to 1.8% of total assets, down ~30 bps QoQ.
- **Levers for margin expansion**
 - Share of retail and SME in loan book
 - Share of unsecured loans
 - Segment shift in wholesale loans
 - Share of INR loans

Deposits growth

- The deposits were at Rs 10,049 bn, up by 5.2% QoQ and 18.5% YoY.
- **Bulk deposits**
 - Most of the incremental deposits sequentially came from non-retail term deposits.
 - Some of the non-retail term deposits have come from corporate customers.
 - A significant proportion of these non-retail term deposits are non-callable in nature and therefore, have sound outflow rates, which the management believes is the real hedge against deposit shopping.

Operating expenses

- **Total opex**
 - Total opex, at Rs. 89.5 bn, is up 2.6% QoQ and 32.5% YoY.
 - Consequently, cost/income ratio came in at 49.5%, down by -79bps QoQ but up 733bps YoY.
 - It may be noted that there no Citibank retail business in the base last year.
 - **Tech spends**
 - Tech spends have been 9% of total opex.
 - **Cost to assets**
 - Cost to assets was at 2.49%, up 29bps yoy.
 - Management reiterated their statement from the Analyst Day that, as long as the credit quality environment remains benign, they would continue to make investments for the future and hence, have done away with the previous cost to assets guidance.
- **Staff expenses**
 - The staff opex is up by 3.9% QoQ and 18.9% YoY.
 - 12075 employees have been added over the past 12 months.
- **Non-staff expenses**
 - Other opex is up by 2.1% QoQ and 39.4% YoY.
 - **Branch expansion**
 - 350 branches have been added in 9M and 100 branches during the quarter.

Fee income

- Fee income has risen 29% YoY and 4% QoQ.
- Granular fee comprised 93% of total fees.
- Retail fees were up 36% YoY and 6% QoQ.
- Retail credit card fees were up 52% YoY and 10% QoQ.

(Con call takeaways continue on the next page)

Return ratios

- The consolidated RoA and RoE for the quarter amounted to 1.84% and 18.61%, respectively.
- Subsidiaries have contributed 9 bps and 54 bps to RoA and RoE, respectively.

Treasury desk

- Trading profit and other income at Rs 3.85bn for the quarter was up Rs 3.14bn on sequential basis.
- This was mainly on account of better DCM, improved trading performance and reversal of MTM booked in previous quarters.

Loan growth

- The advances for the bank stood at Rs 9,323 bn, up by 3.9% QoQ and 22.3% YoY.
- Retail loans have grown 27% YoY and 5% QoQ.
- SME book has grown 26% YoY and 4% QoQ.
- Corporate loan book, gross of IBPC sold, grew 15% YoY and 3% QoQ.
- **Guidance**
 - Given the focus on loan to deposit ratio, deposit growth would be a key constraint to growth in the near term.
 - Management do not see interest rates in the economy coming down anytime soon.
 - Over the medium term, management reiterated guidance of growing 400-600 bps higher than banking system loan growth.

Capital adequacy

- The CET1 ratio stands at 13.71%.
- The bank has net accreted 39 bps of capital in 9M.
- The negative impact from the change in regulatory risk weights amounted to 70 bps on CET1 ratio.
- There is no intention of the bank to raise capital.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy	Q3 FY24*	chg qoq*	chg yoy*
Advances	9,322,864	8,973,470	3.9	7,620,755	22.3	100.0	0bps	0bps
Large/Mid-corporate	2,852,440	2,816,570	1.3	2,533,920	12.6	30.6	-79bps	-265bps
SME	1,000,430	959,540	4.3	793,700	26.0	10.7	4bps	32bps
Retail	5,469,990	5,197,360	5.2	4,295,140	27.4	58.7	75bps	231bps
Home Loans	1,628,130	1,591,730	2.3	1,494,040	9.0	17.5	-27bps	-214bps
Rural Lending	797,650	746,630	6.8	595,270	34.0	8.6	24bps	74bps
Auto Loans	578,740	555,770	4.1	468,340	23.6	6.2	1bps	6bps
Personal Loan	650,830	611,680	6.4	506,880	28.4	7.0	16bps	33bps
Credit Card	399,630	358,480	11.5	207,680	92.4	4.3	29bps	156bps
LAP	586,040	538,500	8.8	424,530	38.0	6.3	29bps	72bps
SBB	535,350	502,920	6.4	383,190	39.7	5.7	14bps	71bps
Others	293,620	291,650	0.7	215,210	36.4	3.1	-10bps	33bps
Total Deposits	10,048,995	9,555,564	5.2	8,481,733	18.5	100.0	0bps	0bps
CA	1,330,950	1,315,530	1.2	1,265,230	5.2	13.2	-52bps	-167bps
SA	2,903,630	2,923,130	(0.7)	2,513,920	15.5	28.9	-170bps	-74bps
Term	5,814,415	5,316,904	9.4	4,702,583	23.6	57.9	222bps	242bps
Investments	3,090,699	2,956,907	4.5	3,051,031	1.3	NA	NA	NA
Investments/(Invest.+ Net Adv.) (%)	24.9	24.8	11bps	28.6	-369bps	NA	NA	NA
Borrowings	1,951,590	1,852,424	5.4	1,827,448	6.8	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	16.3	16.2	2bps	17.7	-146bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Net Interest Margin	4.01	4.11	-10bps	4.26	-25bps
Cost of funds	5.35	5.17	18bps	4.34	101bps
CASA	42.1	44.4	-222bps	44.6	-242bps
Loan to Deposit ratio	92.8	93.9	-113bps	89.8	293bps
Non-interest income/Total income	30.7	29.0	169bps	28.5	219bps
Fee Income/Avg. Total Assets	1.5	1.5	1bps	1.3	18bps
Cost to Income	49.5	50.2	-79bps	42.1	733bps
Opex/Avg. Total Assets	2.6	2.6	-3bps	2.2	37bps
RoE	18.1	18.3	-23bps	19.3	-127bps
RoA	1.8	1.8	-1bps	1.9	-17bps
Capital Adequacy ratio	14.9	16.6	-168bps	17.6	-272bps
Tier I Capital Ratio	12.4	13.8	-137bps	14.2	-181bps
Annualised Slippage Ratio	1.6	1.5	13bps	2.0	-41bps
Provision Coverage	94.0	94.0	0bps	93.0	100bps
Gross NPA	1.6	1.7	-15bps	2.4	-80bps
Net NPA	0.4	0.4	0bps	0.5	-11bps

Source: Company, YES Sec – Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	125,322	126,025	(0.6)
Pre-Prov. Operating Profit	91,412	88,657	3.1
Profit After Tax	60,711	58,859	3.1

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Employee Expense	27,113	26,098	3.9	22,811	18.9
Other Operating Expense	62,344	61,070	2.1	44,726	39.4
Total Operating Expense	89,457	87,168	2.6	67,537	32.5

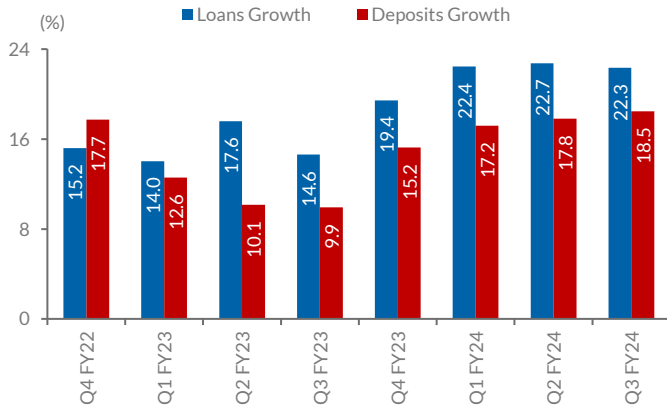
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Fee Income (A)	51,690	49,620	4.2	40,070	29.0
Retail Banking fees	36,980	34,940	5.8	27,250	35.7
Corporate & Commercial Banking fee	14,710	14,680	0.2	12,820	14.7
Total Other Income (B)	3,850	720	434.7	5,640	(31.7)
Trading Income	2,910	(1,010)	NA	4,280	(32.0)
Miscellaneous Income	940	1,730	(45.7)	1,360	(30.9)
Total Non-Interest Income (A+B)	55,540	50,340	10.3	45,710	21.5

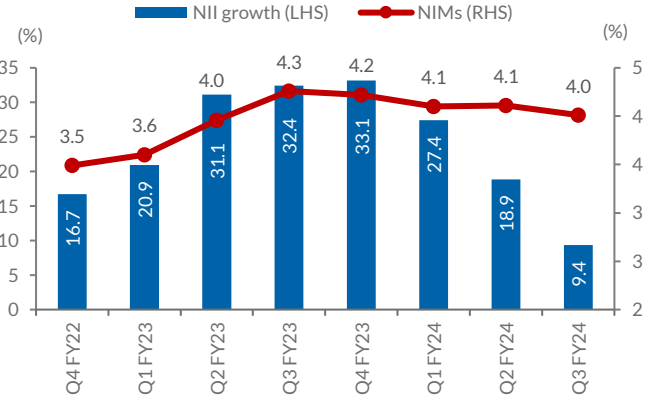
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



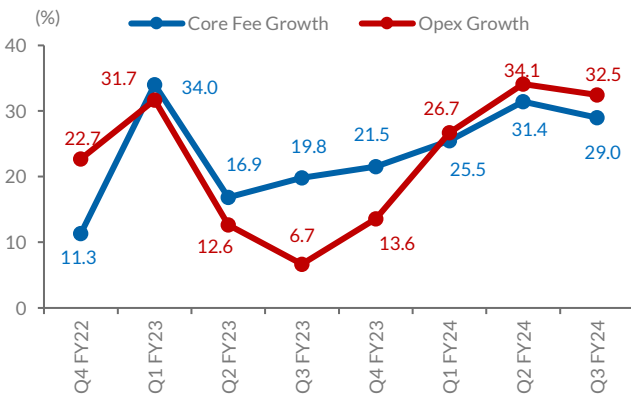
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



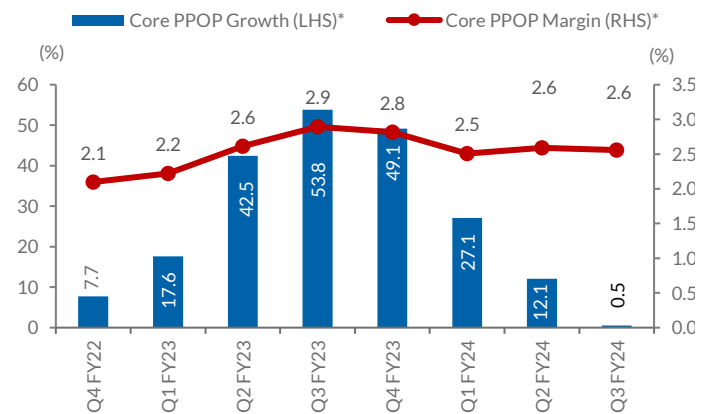
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



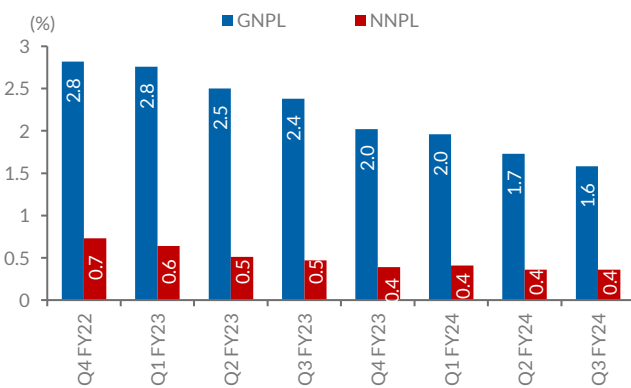
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



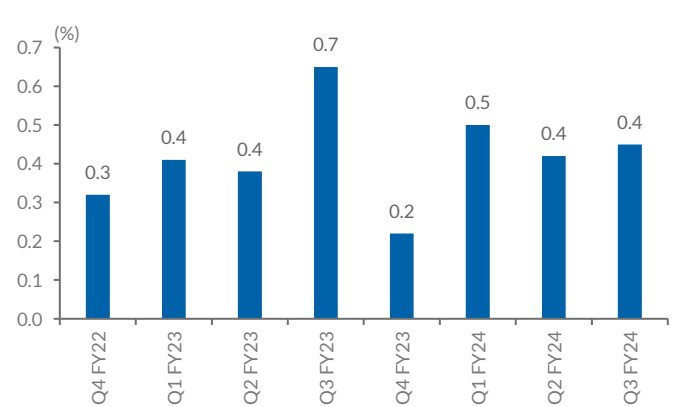
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



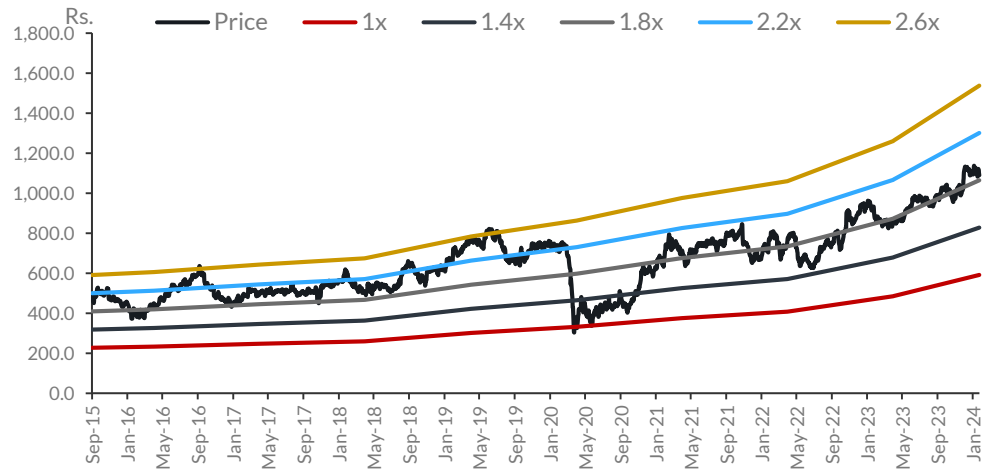
Source: Company, YES Sec – Research

Exhibit 12: Credit Cost (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	1,109,871	1,064,108	1,196,949	1,412,400	1,666,632
Investments	2,755,972	2,888,148	3,557,912	4,137,133	4,814,495
Advances	7,076,960	8,453,028	9,974,574	11,769,997	13,888,596
Fixed assets	45,724	47,339	52,072	57,280	63,008
Other assets	763,255	720,632	792,695	871,965	959,161
Total assets	11,751,781	13,173,255	15,574,202	18,248,774	21,391,891
Net worth	1,151,741	1,254,167	1,484,878	1,930,230	2,288,286
Deposits	8,217,209	9,469,452	11,143,152	13,118,117	15,448,577
Borrowings	1,851,339	1,863,000	2,400,863	2,717,496	3,268,393
Other liabilities	531,493	586,636	545,309	482,930	386,635
Total liabilities incl. Equity	11,751,781	13,173,255	15,574,202	18,248,774	21,391,891

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	673,768	851,638	1,010,623	1,208,523	1,428,231
Interest expense	(342,446)	(422,180)	(510,617)	(611,114)	(718,452)
Net interest income	331,322	429,457	500,006	597,409	709,779
Non-interest income	152,205	165,009	216,506	263,616	319,247
Total income	483,528	594,466	716,512	861,025	1,029,026
Operating expenses	(236,108)	(271,662)	(349,776)	(400,740)	(458,361)
PPoP	247,420	322,804	366,736	460,285	570,665
Provisions	(73,595)	(28,848)	(55,019)	(75,544)	(88,991)
Profit before tax	173,826	169,058	311,718	384,741	481,675
Taxes	(43,571)	(73,262)	(77,929)	(96,185)	(120,419)
Net profit	130,255	95,797	233,788	288,556	361,256

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	6.2	6.8	7.0	7.1	7.2
Interest expense	-3.2	-3.4	-3.6	-3.6	-3.6
Net interest income	3.1	3.4	3.5	3.5	3.6
Non-interest income	1.4	1.3	1.5	1.6	1.6
Total income	4.5	4.8	5.0	5.1	5.2
Operating expenses	-2.2	-2.2	-2.4	-2.4	-2.3
PPoP	2.3	2.6	2.6	2.7	2.9
Provisions	-0.7	-0.2	-0.4	-0.4	-0.4
Profit before tax	1.6	1.4	2.2	2.3	2.4
Taxes	-0.4	-0.6	-0.5	-0.6	-0.6
Net profit	1.2	0.8	1.6	1.7	1.8

Source: Company, YES Sec – Research

Exhibit 18: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Axis AMC	262,360	AUM	2,623,604	10.0%	75.0%	196,770	64.0
Max Life	358,220	EV	179,110	2.0	13.0%	46,533	15.1
Axis Capital	19,926	PAT	1,423	14	100.0%	19,926	6.5
Axis Bank UK	5,271	BV	4,792	1.1	100.0%	5,271	1.7
Axis Finance	95,769	BV	31,923	3	100.0%	95,769	31.1
Axis Securities	27,527	BV	9,176	3	100.0%	27,527	8.9
Value of Subsidiaries						391,796	127.3

Source: Company, YES Sec – Research

Exhibit 19: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	500,006	597,409	709,779	500,006	597,409	709,779	0.0	0.0	0.0
Pre-Prov. Operating Profit	366,736	460,285	570,665	375,950	501,937	603,935	(2.5)	(8.3)	(5.5)
Profit after tax	233,788	288,556	361,256	240,699	319,795	386,208	(2.9)	(9.8)	(6.5)

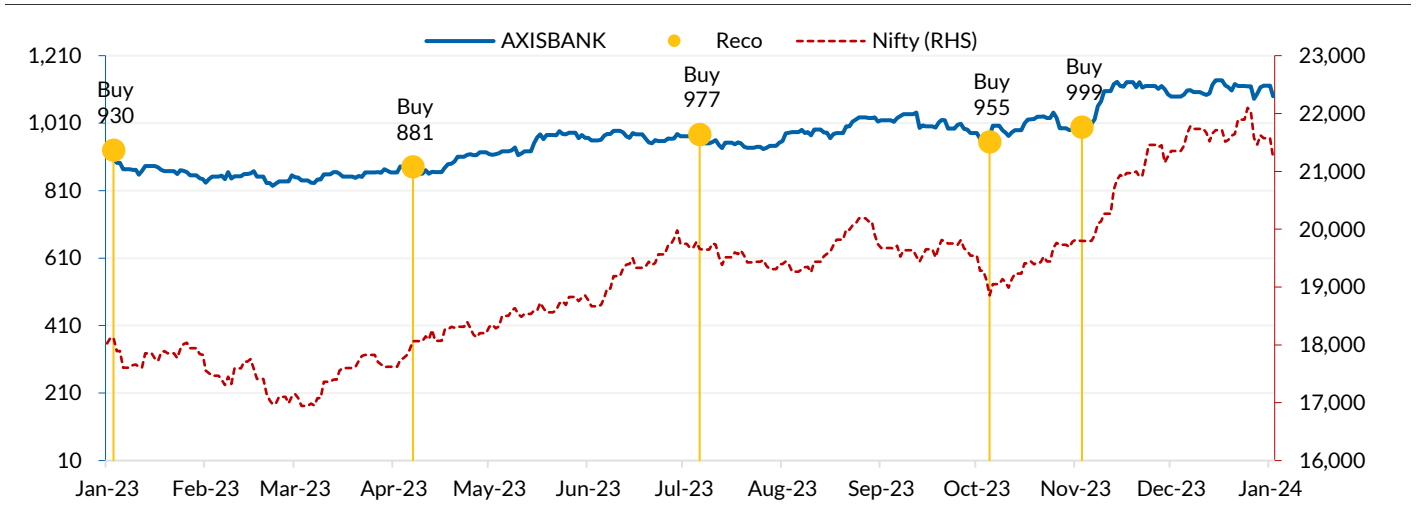
Source: Company, YES Sec – Research

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	13.3	29.6	16.4	19.5	18.8
PPoP	-3.7	30.5	13.6	25.5	24.0
Net profit	97.7	-26.5	144.0	23.4	25.2
Loans	13.5	19.4	18.0	18.0	18.0
Deposits	16.2	15.2	17.7	17.7	17.8
Profitability Ratios (%)					
Net interest margin	3.5	4.0	4.0	4.1	4.1
Return on Average Equity	12.0	8.0	17.1	16.9	17.1
Return on Average Assets	1.2	0.8	1.6	1.7	1.8
Per share figures (Rs)					
EPS	42.4	31.1	76.0	90.2	112.9
BVPS	375	408	483	603	715
ABVPS	357	396	451	559	654
Valuation multiples					
P/E	23	31	13	10.7	8.5
P/BV	2.6	2.4	2.0	1.6	1.3
P/ABV	2.7	2.4	2.1	1.7	1.5
NIM internals (%)					
Yield on loans	7.5	8.3	8.4	8.5	8.5
Cost of deposits	3.5	3.6	3.8	3.9	3.9
Loan-deposit ratio	86.1	89.3	89.5	89.7	89.9
CASA ratio	45.0	47.2	46.0	46.0	46.0
Opex control (%)					
Cost/Income ratio	48.8	45.7	48.8	46.5	44.5
Cost to average assets	2.2	2.2	2.4	2.4	2.3
Capital adequacy (%)					
Tier 1 capital ratio	16.3	14.6	15.1	16.2	15.8
Asset quality (%)					
Slippage ratio	3.0	1.9	1.7	1.6	1.6
Gross NPL ratio	3.0	2.2	2.4	2.4	2.4
Credit cost	1.1	0.4	0.5	0.6	0.6
Net NPL ratio	0.8	0.4	1.0	1.2	1.4

Source: Company, YES Sec – Research; Valuations are the implied value of standalone entity net of subsidiaries

Recommendation Tracker



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