

**Building strong digi-retail bank, but higher opex an irritant**BFSI - Banks ▶ Analyst Meet Update ▶ **November 24, 2023****TARGET PRICE (Rs): 1,300**

**Axis Bank hosted its analyst meet on 23-Nov, to give an update on its GPS (growth, profitability, stability) strategy and the way forward. Bank guides for some systemic growth moderation post the recent RBI action on unsecured/NBFC loans, albeit for own continued outperformance led by its retail+SME growth engine. Bank's margin is higher by 30bps at 4.1% vs its base guidance of 3.8%; it targets retaining some structural gains due to organic PSL build-up via Bharat Banking and a better portfolio mix, despite rising CoF. Asset quality is holding up well, with NNPA at 0.4% and no immediate sign of stress; but Bank guides for some LLP normalization and plans to uphold contingent provisions for now. However, it guides for an elevated opex, given retail/digital infra build-up causing a drag on RoA@1.8% (>1.9-2% for peers). We believe Bank needs to shore-up its CET 1 (2Q @14.6% vs large peers @>15%), more so post the impact (~50bps) from the recent RBI action; but it guided that it has no such plans, due to its effective capital management/higher RoE (17-18%; partly due to higher leverage). Valuations remain low at 1.6x FY25E ABV vs large peers' at >2x; thus, we retain BUY with TP of Rs1,300 (on 2x Sep-25E ABV; subs value of Rs83/sh).**

**AXIS Bank: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	1,30,255	95,797	2,48,993	2,90,889	3,37,587
Loan growth (%)	15.2	19.4	17.5	16.7	18.1
NII growth (%)	13.3	29.6	16.5	13.9	14.1
NIM (%)	3.3	3.7	3.8	3.7	3.6
PPOP growth (%)	7.0	(20.0)	84.3	25.9	20.6
Adj. EPS (INR)	42.5	31.2	80.9	94.4	109.5
Adj. EPS growth (%)	89.7	(26.6)	159.4	16.7	16.1
Adj. BV (INR)	364.0	399.7	476.7	568.0	672.4
Adj. BVPS growth (%)	10.8	9.8	19.3	19.2	18.4
RoA (%)	1.2	0.8	1.8	1.8	1.8
RoE (%)	12.0	8.0	18.1	17.7	17.3
P/E (x)	23.5	32.1	12.4	10.6	9.1
P/ABV (x)	2.5	2.3	1.9	1.6	1.4

Source: Emkay Research

**Higher Retail, SME and Bharat Banking growth to help retain some margin gains**

Notwithstanding the potential impact of unsecured loan growth (incl. PL/Cards)—due to RBI action on unsecured/NBFC loans—on the systemic credit growth (as also for Axis Bank), Bank would continue to outperform, resulting in mkt-share gains led by healthy growth in its retail+SME segments, thereby delivering better RaRoC. Also, Bank would sustain focus on Bharat Banking (incl. MFI, gold, tractor loans, etc), which has led to self-sufficiency in PSL and thus helped reduce the RIDF portfolio (@2.1% from the 5.1% high) and the margin drag. With organic MFI build-up being healthy at Rs60bn without much support from BCs, Bank does not see immediate need for any inorganic acquisition. Incrementally, it plans to accelerate liability mobilization from RuSu (Rural-Semi urban) branches, thereby bringing more stability to its liability profile. Though its LCR remains moderate at 118%, the bank claims that there has been a 550bps reduction in outflow rate in the past 2 years; this underscores its commitment to improve the quality of LCR. Bank reported stable margin in 2Q at 4.1% (which is higher by 30bps from its base guidance of 3.8%) and could see some moderation amid rising CoF. However, Bank targets retaining some gains due to structural improvement, incl. organic PSL build-up via Bharat Banking and improving portfolio mix (retail+SME @69% vs 62% in FY20).

**Credit cost to remain soft, but opex to be elevated amid retail/digital infra build-up**

Axis Bank has one of the lowest NNPA/retail-NNPA ratios among peers, at 0.4%/0.5%, while its unsecured share is 11% of loans. Given strong PCR on the back book and no immediate sign of asset quality risk, Bank expects credit cost to normalize from current lows, albeit remain soft in the near/medium term. Bank carries contingent provision buffer at ~0.5% of loans and would take a call on reclassifying its Covid buffer or reducing it/shoring it up by year-end. But it guides for an elevated near-term opex, which should gradually moderate to 2% of assets (looks optimistic) as the Citi acquisition drag and heavy infra/digital build-up costs reduce. Further, attrition remains high for AxisB, as also for peers, thus leading to higher cost; but it has taken multiple course corrections—higher employee engagement, pay raises, even offering a better lateral opportunity within the bank—to arrest attrition in key divisions,. Moreover, it believes fee/asset ratio could further improve, led by Cards and neo-initiatives on Wholesale.

**We retain BUY**

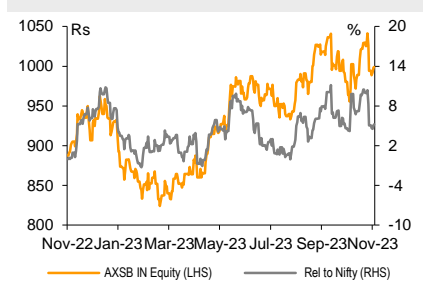
We expect the bank to clock healthy RoA of 1.8% (though lower than peers' at ≥2%) from a low of 0.8% in FY23, while reporting healthy RoE of 17-18% (partly inflated due to the Citi acquisition goodwill w-off) over FY24-26E, on merged basis. However, Bank needs to shore-up its CET 1 (2Q @14.5% vs large peers' @>15%), more so post the recent RBI action on unsecured loans. At the CMP, valuations remain reasonable vs peers at 1.6x FY25E ABV. Thus, we retain BUY, with TP of Rs1,300/sh, based on 2x Sep-25E ABV and subs value of Rs83/sh. Key risks: Macro-dislocation leading to slower growth/higher NPAs and KMP attrition.

Target Price – 12M	Sep-24
<b>Change in TP (%)</b>	<b>NA</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.1
CMP (23-Nov-23) (Rs)	999.1

Stock Data	Ticker
52-week High (Rs)	1,048
52-week Low (Rs)	814
Shares outstanding (mn)	3,082.5
Market-cap (Rs bn)	3,080
Market-cap (USD mn)	36,951
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	8,694.8
ADTV-3M (USD mn)	104.3
Free float (%)	89.0
Nifty-50	19,802
INR/USD	83.3
<b>Shareholding, Sep-23</b>	
Promoters (%)	8.0
FPIs/MFs (%)	51.2/28.1

**Price Performance**

(%)	1M	3M	12M
Absolute	3.6	2.0	14.2
Rel. to Nifty	0.9	0.2	5.4

**1-Year share price trend (Rs)****Anand Dama**

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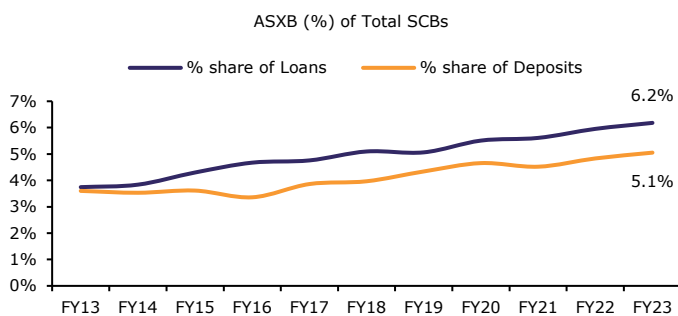
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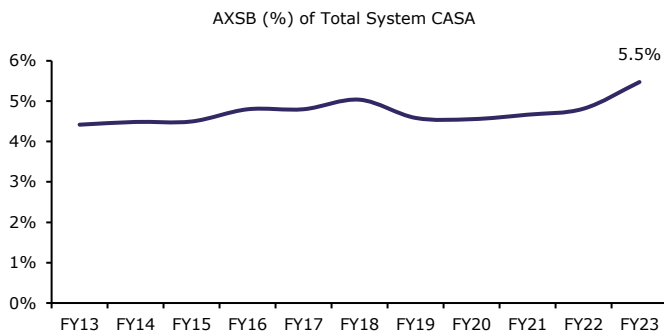
# Story in Charts

**Exhibit 1: Axis Bank continues to gain credit/deposit market share...**



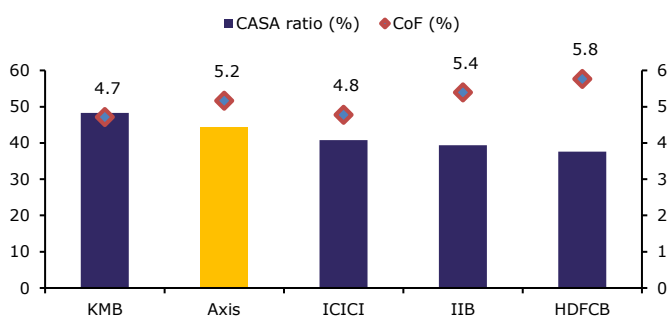
Source: Company, Emkay Research

**Exhibit 2: ...as also in CASA, leading to contained CoF**



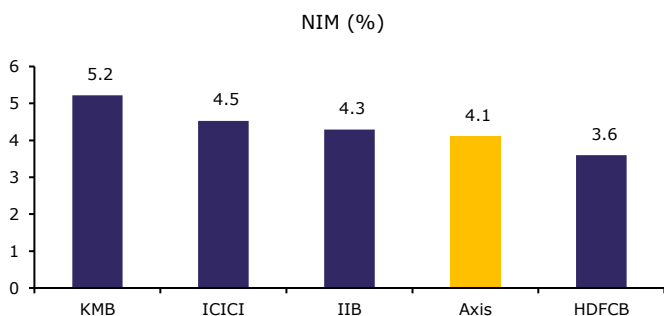
Source: Company, Emkay Research

**Exhibit 3: Axis Bank has relatively better CASA ratio vs some peers, but slightly higher CoF...**



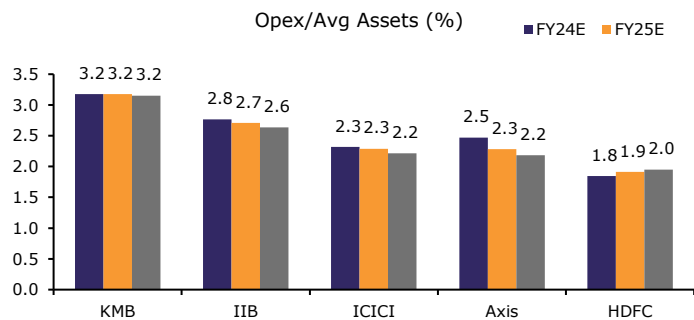
Source: Emkay Research

**Exhibit 4: ...which reflects in its comparatively lower albeit stable NIM**



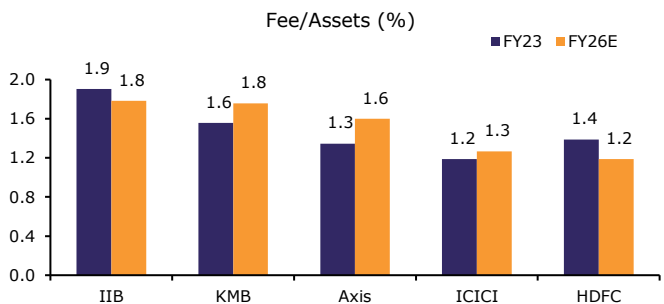
Source: Emkay Research

**Exhibit 5: Opex/Assets for Axis Bank should remain elevated due to retail/digital infra build-up**



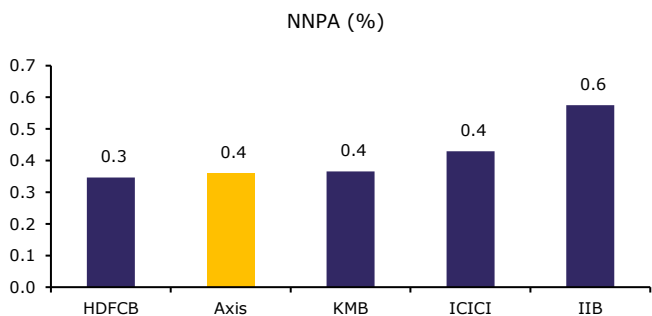
Source: Emkay Research

**Exhibit 6: Axis Bank to focus on improving its fee income, partly offsetting its higher opex**



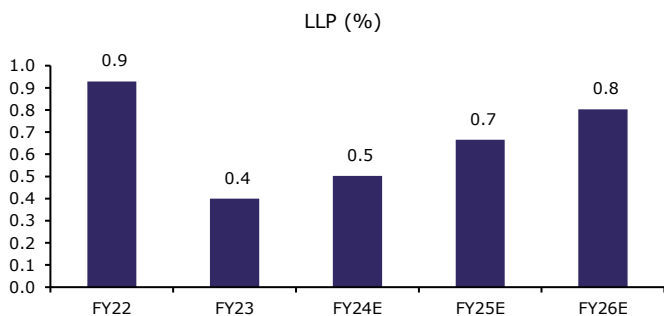
Source: Emkay Research; Note: HDFCB's FY23 fee/assets are for the standalone bank vs merged for FY26E

**Exhibit 7: Axis Bank has one of the lowest NNPA among peers (ex-HDFCB)**



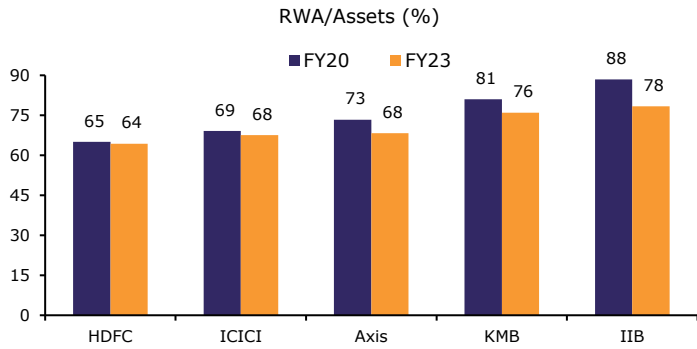
Source: Emkay Research

**Exhibit 8: LLP should normalize, yet remain well-contained, given the strong PCR, contingent buffer**



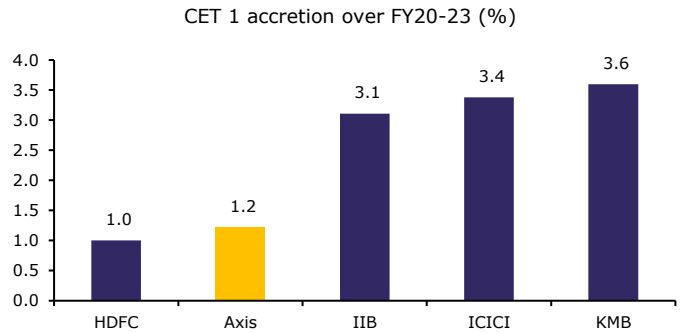
Source: Company, Emkay Research

**Exhibit 9: Axis Bank, IIB see sharp reduction in RWA/Assets and, hence, capital burn**



Source: Emkay Research

**Exhibit 10: Lower CET 1 accretion for Axis Bank/HDFCB due to acquisition of the Citi portfolio/HDFCL, respectively**

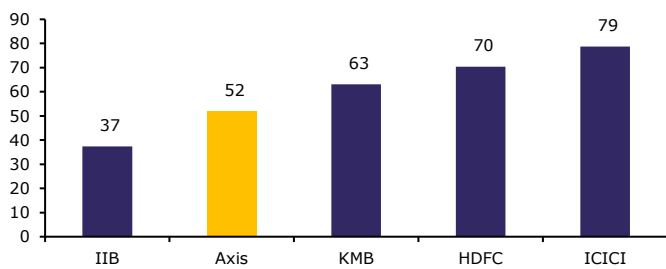


Source: Emkay Research

**Exhibit 11: Axis Bank could see a ~50bps impact, leading to further reduction in its CET 1**

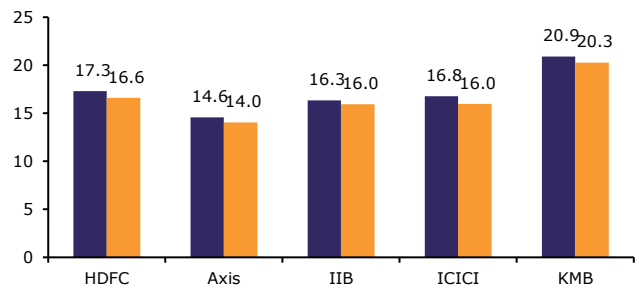
**Exhibit 12: CET 1, post the impact from the increased RWA on Unsecured loans/NBFC exposure, for Axis Bank could be low at 14% vs >15% for peers**

Impact on CET 1 due to increased RWA on UL/NBFC loans (bps)



Source: Emkay Research

CET 1 % (2QFY24) vs CET 1 % post Impact on UL/NBFC loans

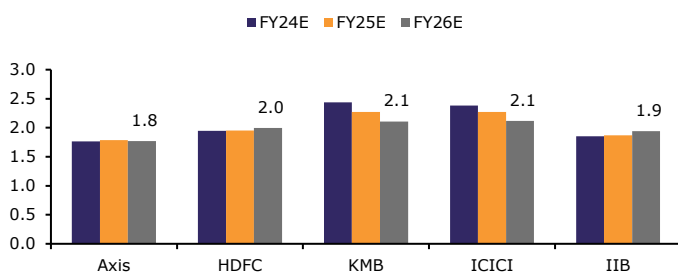


Source: Emkay Research

**Exhibit 13: Axis Bank has seen improvement in RoA, which would though remain lower than peers' due to lower NIM, higher opex...**

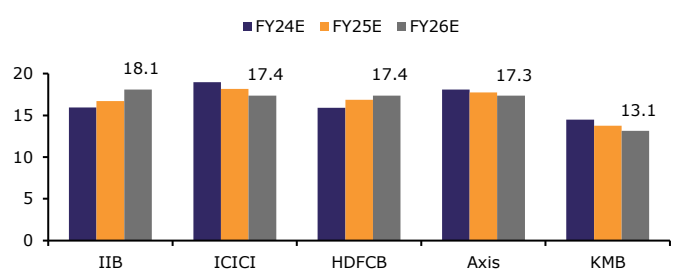
**Exhibit 14: ...but has higher RoE due to higher leverage, which should further moderate, as the bank raises capital**

RoA (%)



Source: Emkay Research

RoE (%)

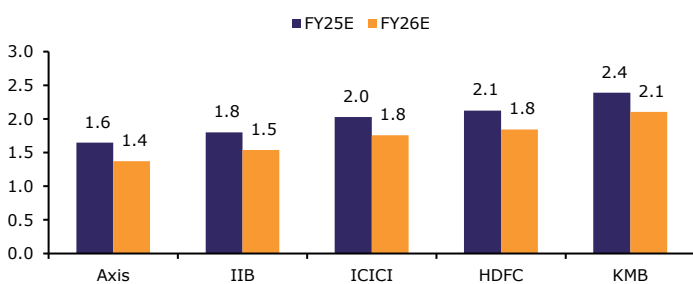


Source: Emkay Research

**Exhibit 15: Axis Bank remains one of the cheapest large PVBs**

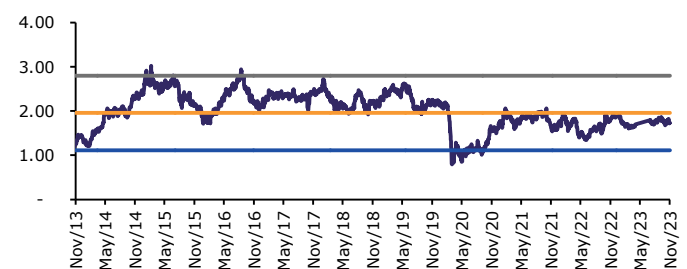
**Exhibit 16: Bank continues to trade at below mean valuations**

P/ABV(x)



Source: Emkay Research

P/AdjBVPS (x), Mean, +2 SD, -2 SD



Source: Bloomberg, Emkay Research

## AXIS Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6,73,768	8,51,638	11,01,219	12,36,806	13,93,995
Interest Expense	3,42,446	4,22,180	6,00,976	6,67,129	7,44,072
<b>Net interest income</b>	<b>3,31,322</b>	<b>4,29,457</b>	<b>5,00,243</b>	<b>5,69,678</b>	<b>6,49,923</b>
NII growth (%)	13.3	29.6	16.5	13.9	14.1
Other income	1,52,205	1,65,009	2,13,596	2,61,801	3,19,422
<b>Total Income</b>	<b>4,83,528</b>	<b>5,94,466</b>	<b>7,13,838</b>	<b>8,31,479</b>	<b>9,69,345</b>
Operating expenses	2,36,108	3,96,560	3,49,107	3,72,225	4,15,603
<b>PPOP</b>	<b>2,47,420</b>	<b>1,97,906</b>	<b>3,64,731</b>	<b>4,59,254</b>	<b>5,53,742</b>
PPOP growth (%)	7.0	(20.0)	84.3	25.9	20.6
<b>Core PPOP</b>	<b>2,33,643</b>	<b>2,00,657</b>	<b>3,55,114</b>	<b>4,47,715</b>	<b>5,41,048</b>
Provisions & contingencies	73,595	28,848	31,757	70,345	1,02,485
<b>PBT</b>	<b>1,73,826</b>	<b>1,69,059</b>	<b>3,32,974</b>	<b>3,88,910</b>	<b>4,51,257</b>
Extraordinary items	0	0	0	0	0
Tax expense	43,571	73,262	83,981	98,021	1,13,670
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>1,30,255</b>	<b>95,797</b>	<b>2,48,993</b>	<b>2,90,889</b>	<b>3,37,587</b>
PAT growth (%)	97.7	(26.5)	159.9	16.8	16.1
<b>Adjusted PAT</b>	<b>1,30,255</b>	<b>95,797</b>	<b>2,48,993</b>	<b>2,90,889</b>	<b>3,37,587</b>
<b>Diluted EPS (INR)</b>	<b>45.9</b>	<b>31.1</b>	<b>80.6</b>	<b>94.1</b>	<b>109.2</b>
Diluted EPS growth (%)	90.3	(32.3)	159.4	16.7	16.1
<b>DPS (INR)</b>	<b>1.0</b>	<b>1.0</b>	<b>1.6</b>	<b>2.2</b>	<b>2.8</b>
<b>Dividend payout (%)</b>	<b>2.4</b>	<b>3.2</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>
Effective tax rate (%)	25.1	43.3	25.2	25.2	25.2
Net interest margins (%)	3.3	3.7	3.8	3.7	3.6
Cost-income ratio (%)	48.8	66.7	48.9	44.8	42.9
Shares outstanding (mn)	3,069.7	3,076.9	3,081.8	3,081.8	3,081.8

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	1,85,655.6	1,70,190.2	1,55,619.3	1,52,107.2	1,74,210.0
Net NPLs	47,452.3	34,390.4	40,461.0	42,590.0	52,263.0
GNPA ratio (%)	2.6	2.0	1.5	1.3	1.3
NNPA ratio (%)	0.7	0.4	0.4	0.4	0.4
Provision coverage (%)	74.4	79.8	74.0	72.0	70.0
Gross slippages	1,89,156.8	1,42,535.8	1,45,709.5	1,75,605.0	2,21,028.2
Gross slippage ratio (%)	2.6	1.7	1.5	1.5	1.6
LLP ratio (%)	0.9	0.4	0.5	0.7	0.8
NNPA to networth (%)	3.9	2.6	2.5	2.3	2.3
<b>Capital adequacy</b>					
Total CAR (%)	18.5	17.6	16.6	16.5	16.2
Tier-1 (%)	16.3	14.6	14.5	14.6	14.5
CET-1 (%)	15.2	14.1	14.1	14.3	14.3
RWA-to-Total Assets (%)	61.0	68.3	72.6	74.2	75.7
<b>Miscellaneous</b>					
Total income growth (%)	9.2	23.1	29.3	14.0	14.3
Opex growth (%)	28.5	68.0	(12.0)	6.6	11.7
Core PPOP growth (%)	5.5	(14.1)	77.0	26.1	20.8
PPOP margin (%)	30.0	19.5	27.7	30.6	32.3
PAT/PPOP (%)	52.6	48.4	68.3	63.3	61.0
LLP-to-Core PPOP (%)	31.5	14.4	8.9	15.7	18.9
Yield on advances (%)	7.6	8.4	9.6	9.2	8.9
Cost of funds (%)	3.7	3.9	5.0	4.8	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	6,139	6,154	6,164	6,164	6,164
Reserves & surplus	11,45,600	12,48,013	14,92,075	17,76,184	21,05,142
<b>Net worth</b>	<b>11,51,740</b>	<b>12,54,167</b>	<b>14,98,239</b>	<b>17,82,348</b>	<b>21,11,306</b>
Deposits	82,19,715	94,69,452	1,09,26,243	1,28,36,207	1,53,11,590
Borrowings	18,51,339	18,63,000	19,78,206	22,56,125	25,74,791
<b>Interest bearing liab.</b>	<b>1,00,71,054</b>	<b>1,13,32,452</b>	<b>1,29,04,449</b>	<b>1,50,92,332</b>	<b>1,78,86,381</b>
<b>Other liabilities &amp; prov.</b>	<b>5,31,495</b>	<b>5,86,636</b>	<b>6,69,235</b>	<b>6,36,050</b>	<b>5,97,673</b>
<b>Total liabilities &amp; equity</b>	<b>1,17,54,288</b>	<b>1,31,73,255</b>	<b>1,50,71,922</b>	<b>1,75,10,730</b>	<b>2,05,95,361</b>
Net advances	70,79,466	84,53,028	99,33,771	1,15,97,485	1,36,92,316
Investments	27,55,972	28,88,148	32,59,100	37,79,426	43,75,586
Cash, other balances	11,09,871	10,64,108	10,32,356	11,31,925	13,41,479
<b>Interest earning assets</b>	<b>1,09,45,309</b>	<b>1,24,05,285</b>	<b>1,42,25,227</b>	<b>1,65,08,836</b>	<b>1,94,09,380</b>
Fixed assets	45,724	47,339	99,157	1,10,301	1,22,735
Other assets	7,63,255	7,20,632	7,47,538	8,91,593	10,63,246
<b>Total assets</b>	<b>1,17,54,288</b>	<b>1,31,73,255</b>	<b>1,50,71,922</b>	<b>1,75,10,730</b>	<b>2,05,95,361</b>
BVPS (INR)	375.6	408.1	486.6	578.4	685.1
Adj. BVPS (INR)	364.0	399.7	476.7	568.0	672.4
Gross advances	72,17,669	85,88,828	1,00,48,929	1,17,07,002	1,38,14,263
Credit to deposit (%)	86.1	89.3	90.9	90.3	89.4
CASA ratio (%)	45.0	47.2	45.5	43.9	43.5
Cost of deposits (%)	3.5	3.6	4.7	4.6	4.4
Loans-to-Assets (%)	60.2	64.2	65.9	66.2	66.5
Net advances growth (%)	15.2	19.4	17.5	16.7	18.1
Deposit growth (%)	17.8	15.2	15.4	17.5	19.3
Book value growth (%)	8.8	8.7	19.2	18.9	18.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	21.4	29.2	11.3	9.6	8.3
P/B (x)	2.4	2.2	1.9	1.6	1.3
P/ABV (x)	2.5	2.3	1.9	1.6	1.4
P/PPOP (x)	12.3	15.4	8.4	6.6	5.5
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.1	3.4	3.5	3.5	3.4
Other income	1.4	1.3	1.5	1.6	1.7
Fee income	1.1	1.2	1.2	1.3	1.4
Opex	2.2	3.2	2.5	2.3	2.2
<b>PPOP</b>	<b>2.3</b>	<b>1.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>
Core PPOP	2.2	1.6	2.5	2.7	2.8
Provisions	0.7	0.2	0.2	0.4	0.5
Tax expense	0.4	0.6	0.6	0.6	0.6
<b>RoA (%)</b>	<b>1.2</b>	<b>0.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
Leverage ratio (x)	10.0	10.4	10.3	9.9	9.8
<b>RoE (%)</b>	<b>12.0</b>	<b>8.0</b>	<b>18.1</b>	<b>17.7</b>	<b>17.3</b>
<b>Quarterly data</b>					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24E
NII	1,03,603	1,14,593	1,17,422	1,19,588	1,23,146
NIM (%)	4.0	4.3	4.2	4.1	4.1
PPOP	77,162	92,775	91,676	88,144	86,319
PAT	53,298	58,531	67,614	57,971	58,636
EPS (Rs)	17.35	19.03	21.98	18.82	19.04

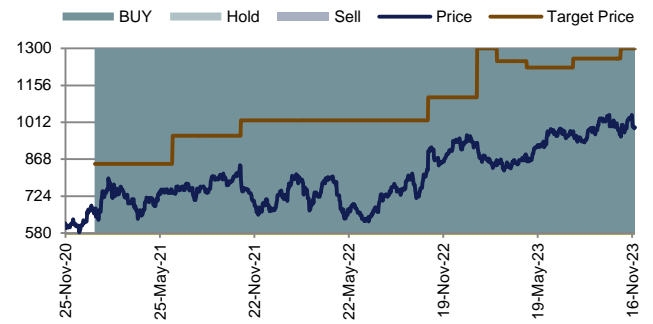
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Oct-23	955	1,300	Buy	Anand Dama
26-Jul-23	977	1,260	Buy	Anand Dama
28-Apr-23	860	1,225	Buy	Anand Dama
09-Mar-23	868	1,250	Buy	Anand Dama
02-Mar-23	845	1,250	Buy	Anand Dama
23-Jan-23	933	1,300	Buy	Anand Dama
25-Nov-22	888	1,110	Buy	Anand Dama
21-Oct-22	900	1,110	Buy	Anand Dama
25-Jul-22	727	1,020	Buy	Anand Dama
29-Apr-22	729	1,020	Buy	Anand Dama
31-Mar-22	761	1,020	Buy	Anand Dama
25-Jan-22	752	1,020	Buy	Anand Dama
27-Oct-21	788	1,020	Buy	Anand Dama
27-Jul-21	732	960	Buy	Anand Dama
18-Jun-21	736	960	Buy	Anand Dama
28-Apr-21	708	850	Buy	Anand Dama
28-Jan-21	671	850	Buy	Anand Dama
20-Jan-21	676	850	Buy	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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