

BUY

TP: Rs 1,155 | ▲ 15%

AXIS BANK

| Banking

| 24 November 2023

Analyst meet takeaways: Balancing growth and returns

- Focused on balancing growth ambitions and risk-adjusted returns; loan book guided to log an 18% CAGR over FY23-FY25
- NIM expected to normalise as deposit rate repricing ends, though sticky operational cost could slightly dampen PPOP margin
- Management confident of healthy asset quality and of maintaining ROA/ROE at 2.1%/18% over the medium term

Ajit Agrawal

research@bobcaps.in

Analyst day takeaways: At its analyst meet yesterday, AXSB’s management highlighted that: (a) the bank is well placed to sustain growth backed by a focus on business granularity, (b) investments in technology and partners will continue, enabling market share gains across verticals, (c) a thrust on high-yielding retail assets and lendable deposits would help optimise margins, (d) a focus on risk-adjusted returns would keep the asset base healthy while buffer provisioning will serve as a safeguard against sudden asset quality shocks or ECL (expected credit loss) requirements, (e) no immediate fundraising plans are on the anvil, and (f) ROA/ROE should hold at 1.8%/18%.

ALM a key monitorable: Though AXSB has demonstrated efficient asset-liability management, the bank must sustain its focus on granular, lendable deposits to fund its aggressive target of 400-600bps higher loan growth than the industry. We expect continued investments in branches, technology and partners, which could aid market share gains but also keep costs elevated (cost-to-asset ratio estimated at 2.1% for FY24E).

NIM likely to hold at current level: We expect NIM to remain at 3.75% levels (calc.) in the medium term as a growing retail book along with a focus on granularity in business and, more specifically, lendable deposits is likely to keep a lid on cost of funds. The Citibank retail business integration is in progress, wherein AXSB is looking to the acquired wealth management business to garner fee income and identify cross-selling opportunities.

Cautious on unsecured loans: Management plans to continue with buffer provisioning (1.3% of loans at present) as a measure of safety against any change in credit cycle or ECL implications, indicating its cautious approach towards unsecured retail lending and NBFC financing.

Maintain BUY: AXSB provides a strong investment case given significant improvement across verticals and return ratios over the past 2-3 years. We expect the bank’s thrust on growth to help it sustain profitability and hence maintain our BUY rating with an unchanged TP of Rs 1,155, valuing the stock at 1.9x FY25E ABV (Gordon Growth Model) and including Rs 114/sh as the value of subsidiaries.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	AXSB IN/Rs 1,009
Market cap	US\$ 37.8bn
Free float	92%
3M ADV	US\$ 100.0mn
52wk high/low	Rs 1,048/Rs 814
Promoter/FPI/DII	8%/53%/29%

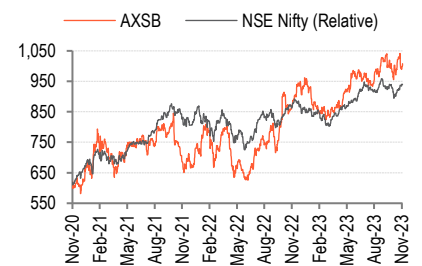
Source: NSE | Price as of 24 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	429,457	484,073	565,544
NII growth (%)	29.6	12.7	16.8
Adj. net profit (Rs mn)	95,797	249,024	295,072
EPS (Rs)	31.2	80.9	95.9
Consensus EPS (Rs)	31.2	77.9	89.1
P/E (x)	32.4	12.5	10.5
P/BV (x)	2.5	2.1	1.7
ROA (%)	0.8	1.8	1.8
ROE (%)	8.0	18.1	17.9

Source: Company, Bloomberg, BOBCAPS Research

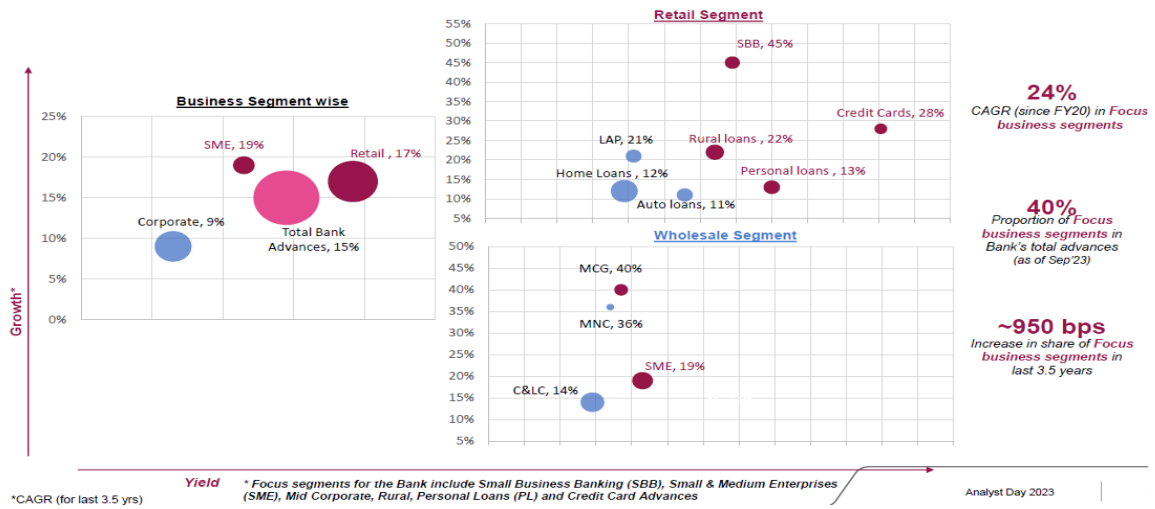
Stock performance



Source: NSE

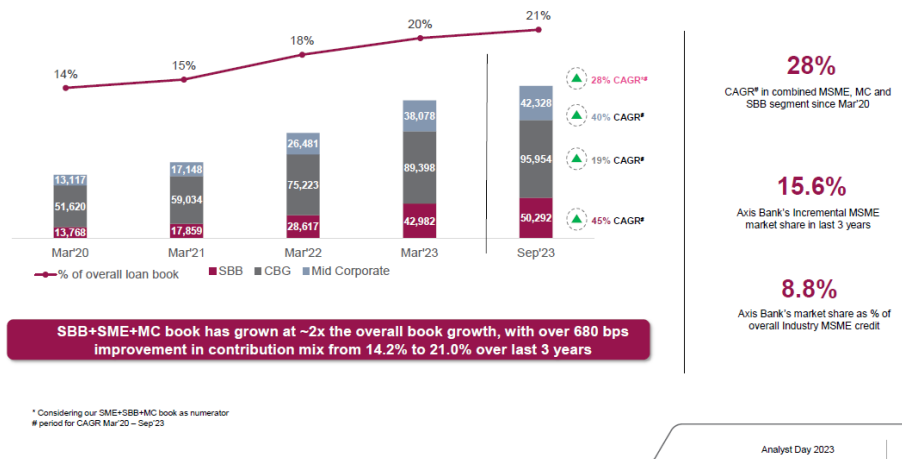


Fig 1 – Balancing growth and risks



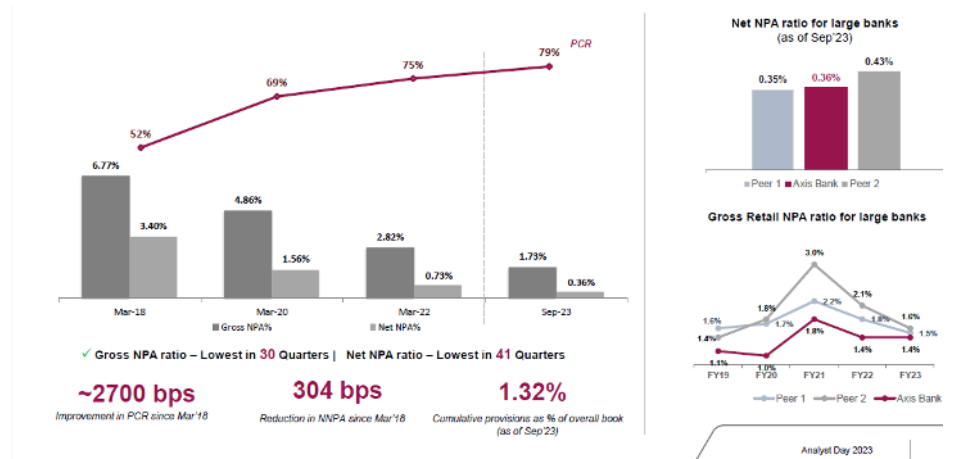
Source: Company, BOBCAPS Research

Fig 2 – Sustained focus on high-yielding retail assets to aid NIM



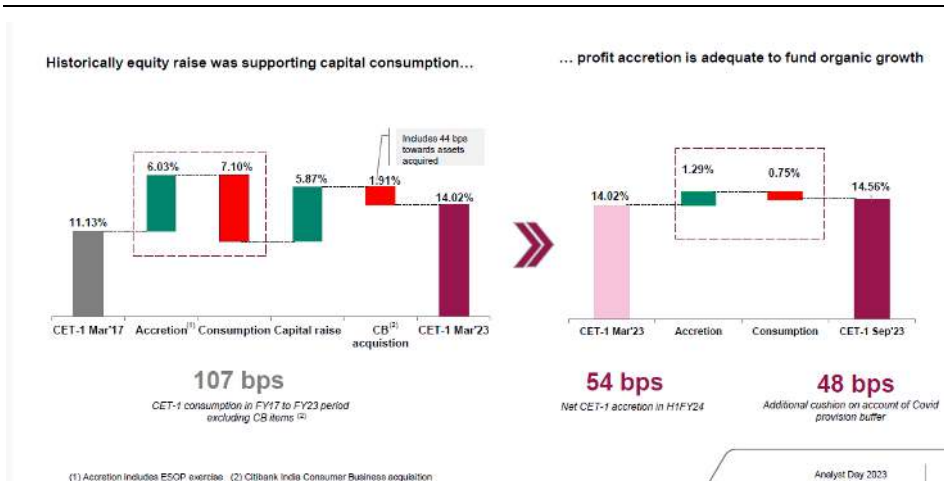
Source: Company, BOBCAPS Research

Fig 3 – Continuous improvement in asset quality with buffer provisioning



Source: Company, BOBCAPS Research

Fig 4 – Well capitalised to fund growth



Source: Company, BOBCAPS Research

Fig 5 – Substantial improvement in performance since FY19

	FY19	FY23	H1FY24
Lifted the growth momentum	Advances mkt share	4.9%	6.0%
	Deposits mkt share	4.3%	5.1%
	Operating Revenue growth	8% ⁽¹⁾	16% ⁽²⁾
Improved profitability considerably	Cons ROE	8.58%	18.84% ⁽³⁾
	NIM	3.43%	4.02%
	Core Op Profit growth	4% ⁽¹⁾	19% ⁽²⁾
Strengthened the Bank significantly	CET 1 ⁽⁵⁾	11.27%	14.02% ⁽⁴⁾
	PCR ⁽⁶⁾	62%	81%
	Net NPA	2.06%	0.39%

(1) CAGR during FY16 to FY19 period (2) CAGR for FY19 to FY23 period (3) excluding exceptional items
(4) Net of Citi transaction consuming 191 bps (5) Common Equity Tier - 1 (6) excluding technical write-offs
Analyst Day 2023

Source: Company, BOBCAPS Research

Valuation methodology

AXSB continues to deliver a solid performance backed by a sustained focus on growth, healthy portfolio mix, stable asset quality and steady investment in network expansion. Benefits from the Citi card business acquisition are also starting to materialise. The bank is well capitalised to fund its aggressive growth, leading us to model for a substantial expansion in return ratios to 1.8%/18% ROA/ROE by FY25 from 0.8%/8% in FY23.

We continue to value the stock at 1.9x FY25E ABV (Gordon Growth Model) for an unchanged TP of Rs 1,155, which includes Rs 114/sh as the value of subsidiaries. Maintain BUY.

Key risks

Key downside risks to our estimates are:

- any sudden delinquency in the mid-corporate and SME segments, resulting in higher provision requirements, and
- inability to manage cost of funds, which may drag down NIM as well as overall profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	37.8	1,009	1,155	BUY
DCB Bank	DCBB IN	0.4	112	144	BUY
Federal Bank	FB IN	3.8	147	180	BUY
HDFC Bank	HDFCB IN	140.5	1,532	1,929	BUY
ICICI Bank	ICICIB IN	79.0	929	1,090	BUY
IndusInd Bank	IIB IN	13.9	1,476	1,755	BUY
Kotak Mahindra Bank	KMB IN	42.2	1,744	2,007	BUY
RBL Bank	RBK IN	1.7	235	258	HOLD
State Bank of India	SBIN IN	60.9	560	747	BUY

Source: BOBCAPS Research, NSE | Price as of 24 Nov 2023

Glossary

Glossary of Abbreviations			
CAR	Capital Adequacy Ratio	MCG	Mid Corporate Group
CBG	Commercial Banking Group	NIM	Net Interest Margin
CET1	Common Equity Tier 1	NNPA	Net Non-Performing Assets
ECL	Expected Credit Loss	PCR	Provision Coverage Ratio
GNPA	Gross Non-Performing Assets	PPOP	Pre-Provision Operating Profit
LAP	Loans Against Property	SBB	Small Business Banking
LCR	Liquidity Coverage Ratio	SME	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	331,322	429,457	484,073	565,544	656,090
NilI growth (%)	13.3	29.6	12.7	16.8	16.0
Non-interest income	152,205	165,009	210,192	251,069	292,309
Total income	483,528	594,466	694,266	816,613	948,400
Operating expenses	236,108	396,560	319,884	363,638	411,691
PPOP	247,420	197,906	374,382	452,976	536,709
PPOP growth (%)	7.0	(20.0)	89.2	21.0	18.5
Provisions	73,595	28,848	41,462	58,495	76,033
PBT	173,826	169,058	332,920	394,481	460,676
Tax	43,571	73,262	83,896	99,409	116,090
Reported net profit	130,255	95,797	249,024	295,072	344,586
Adjustments	0	0	0	0	0
Adjusted net profit	130,255	95,797	249,024	295,072	344,586

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	6,139	6,154	6,154	6,154	6,154
Reserves & surplus	1,145,601	1,248,013	1,497,037	1,792,108	2,136,694
Net worth	1,151,741	1,254,167	1,503,190	1,798,262	2,142,848
Deposits	8,217,209	9,469,452	11,069,790	12,863,095	14,946,917
Borrowings	1,851,339	1,863,000	1,974,780	2,152,511	2,391,439
Other liab. & provisions	531,493	586,636	304,614	522,138	658,326
Total liab. & equities	11,751,781	13,173,255	14,852,374	17,336,006	20,139,530
Cash & bank balance	1,109,871	1,064,108	822,597	958,512	1,113,791
Investments	2,755,972	2,888,148	3,254,332	3,746,033	4,270,723
Advances	7,076,960	8,453,028	9,974,574	11,690,200	13,654,154
Fixed & Other assets	808,978	767,971	800,871	941,260	1,100,862
Total assets	11,751,781	13,173,255	14,852,374	17,336,006	20,139,530
Deposit growth (%)	17.7	15.2	16.9	16.2	16.2
Advances growth (%)	15.2	19.4	18.0	17.2	16.8

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	42.5	31.2	80.9	95.9	112.0
Dividend per share	1.0	1.0	2.2	2.9	3.4
Book value per share	375.2	407.6	488.5	584.4	696.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	23.7	32.4	12.5	10.5	9.0
P/BV	2.7	2.5	2.1	1.7	1.4
Dividend yield (%)	0.1	0.1	0.2	0.3	0.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	3.1	3.4	3.5	3.5	3.5
Non-interest income	1.4	1.3	1.5	1.6	1.6
Operating expenses	2.2	3.2	2.3	2.3	2.2
Pre-provisioning profit	2.3	1.6	2.7	2.8	2.9
Provisions	0.7	0.2	0.3	0.4	0.4
PBT	1.6	1.4	2.4	2.5	2.5
Tax	0.4	0.6	0.6	0.6	0.6
ROA	1.2	0.8	1.8	1.8	1.8
Leverage (x)	10.0	10.4	10.2	9.7	9.5
ROE	12.0	8.0	18.1	17.9	17.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Net interest income	13.3	29.6	12.7	16.8	16.0
Pre-provisioning profit	7.0	(20.0)	89.2	21.0	18.5
EPS	89.7	(26.6)	159.7	18.5	16.8
Profitability & Return ratios (%)					
Net interest margin	3.8	3.8	3.8	3.9	3.9
Fees / Avg. assets	35.2	33.1	37.5	39.0	39.0
Cost-Income	48.8	66.7	46.1	44.5	43.4
ROE	12.0	8.0	18.1	17.9	17.5
ROA	1.2	0.8	1.8	1.8	1.8
Asset quality (%)					
GNPA	3.0	2.2	1.8	1.7	1.7
NNPA	0.8	0.4	0.4	0.3	0.3
Slippage ratio	3.3	2.1	1.7	1.7	1.7
Credit cost	1.1	0.4	0.5	0.5	0.6
Provision coverage	74.2	80.5	79.8	79.8	79.8
Ratios (%)					
Credit-Deposit	86.1	89.3	90.1	90.9	91.4
Investment-Deposit	33.5	30.5	29.4	29.1	28.6
CAR	18.5	17.6	17.4	17.4	17.6
Tier-1	16.3	14.6	14.9	15.1	15.5

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AXIS BANK (AXSB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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