Axis Bank (AXIBAN)

ICICI direct Research

CMP: ₹ 1197 | Target: ₹ 1400 (17%) | Target Period: 12 months | BUY

October 20, 2024

Result Update

Steady execution & adequate provision buffer holds key

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ~₹ 15 lakh crore. Strategy to focus on retail & MSME segment with emphasis on risk adjusted return has aided improvement in RoA & RoE.

- Retail and SME comprise ~71% of total loans

Q2FY25 performance: Axis Bank reported mixed performance in Q2FY25 results, with moderation in advance growth and decline in margins offset by treasury gains and one-off tax inflow thereby aiding earnings. While NII growth came at 9% YoY, growth in operating profit remained strong at 24 YoY, led by treasury gains of ₹1111 crore. Margins saw compression of 6 bps QoQ at 3.99%, of which 5 bps impact attributed to IT refund recorded in Q1FY25. Provisions totalled ₹2,204 crore, including contingent provision of ₹520 crore. PAT came at ₹6,918 crore, up 18% YoY, backed up by one-off tax write-back of ₹520 crore. Slippages remained steady with 10 bps QoQ decline in GNPA at 1.44% & NNPA flat at 0.34%. Advances grew at 11% YoY (2% QoQ) to ₹9,99,979 crore, driven by retail (15% YoY) and SME (16% YoY) loans. Deposit accretion came at 14% YoY (2.3% QoQ) to ₹10,86,744 crore, supported by 21% YoY term deposit growth & 13% YoY rise in current account, with CASA ratio at 41%.

Investment Rationale

- **Volatility in near term growth; medium term outlook optimistic:** Advances growth moderated to below industry level at 11% YoY, led by sluggish growth in corporate segment (3% YoY). However, retail (15% YoY) and SME (16% YoY), though traction in unsecured retail book has trimmed down compared to earlier run-rate. Going ahead, 2HFY25 is expected to witness healthy growth, elevated CD ratio and continued constraint on liabilities accretion is seen to keep credit growth volatile. Thus, expect credit growth at 12.3% in FY25E and ~14.3% CAGR in FY25-27E. Management continues to re-iterate medium term target to grow credit at 300-400 bps higher than the industry.

- **Continued elevated retail slippages remains watchful:** Asset quality witnessed improvement with decline of 19 bps QOQ in slippages at ~1.8% (major slippages from unsecured retail segment) and decline of 10 bps QoQ in GNPA ratio to 1.44%. Management indicated that some signs of over leveraging are visible in few retail-segments, though the bank remains focussed on risk adjusted growth. Thus, management indicates steady credit cost in FY25E. While bank carries healthy provision (~1.5% of advances) which provides comfort, however, we remain watchful of further trend in unsecured retail segment. Expect credit cost at 60-70 bps and earnings momentum of ~10% CAGR in FY25-27E.

Rating and Target Price

- While moderation in credit growth and margin pressure remain concerns, focus on risk adjusted growth, control on opex and healthy provision coverage provides comfort. Given steady execution with stable return ratios, current discount to peers seems to be higher. Rolling on to FY27E, we revise our target price to ₹1400 (earlier ₹1300), valuing the stock at 1.8x FY27E BV and ₹100 for subsidiaries. Upgrade the stock from Hold to Buy.

AXIS BANK

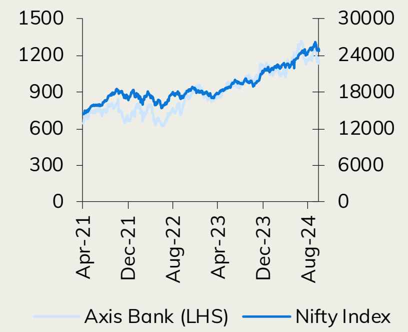
Particulars

Particulars	Amount
Market Capitalisation	₹370253 crore
52 week H/L	951 /1340
Net worth	₹157024 crore
Face value	2.0
DII Holding (%)	33.2
FII Holding (%)	51.8

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	8.2	8.2	8.2	8.3	8.3
FII	53.0	54.7	53.8	53.4	51.8
DII	29.0	28.8	30.1	31.6	33.2
Public	9.8	8.3	7.8	6.6	6.7

Price Chart



Key risks

(i) Elevated delinquencies in unsecured retail book

(ii) Slower than expected deposit accretion

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	29239	33132	42946	49894	19%	54152	59881	67091	10%
PPP	25702	24742	19791	37123	13%	41092	46715	53769	13%
PAT	6588	13025	9580	24861	56%	25667	28529	32910	10%
ABV (₹)	308.8	356.8	394.7	476.2		530.1	614.0	711.2	
P/E	55.7	28.2	38.4	14.9		14.4	13.0	11.2	
P/ABV	3.9	3.4	3.0	2.5		2.3	1.9	1.7	
RoA	0.7	1.2	0.8	1.8		1.6	1.6	1.6	
RoE	7.1	12.0	8.0	18.1		15.9	15.3	15.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

- The bank's focus will be on 3 core areas for execution of GPS strategy i.e.
    - To become a resilient all-weather franchise
    - To create multiplicative forces to build competitive advantage
    - To build for the future
- Granular fee constituted 92% of total fee income which stood at ₹ 5,508 crore
- Axis Bank stands as the leading UPI Payer Payment Service Provider (PSP) Bank in India holding a market leading share of 30.87%
- The bank acquired ~10.6 lakh credit cards in the quarter, taking its CIF market share to 14% (up 10 bps QoQ)
- The bank received favorable orders at Income Tax Appellate Tribunal (ITAT) for 6 assessment years commencing AY 2011-12 resulting in a one-off tax write-back aggregating to ₹ 550 crores, utilized to make contingent provisions aggregating to ₹ 520 crores, thus strengthening the balance sheet
- Management attributed a 5bps impact on NIM to a one-off ~₹200 crore income tax refund recorded in previous quarter, decreasing it to 3.99%
- Management acknowledged that advances growth was slower than systemic average credit growth attributable to effect of market situation on derived demand products like auto & home loans in the retail segment (~60% of total loan book). With increased regulatory focus on C/D ratio, deposit growth remained key constraint for growth in advances in the short to medium term, but management reiterates medium term to long term advance growth guidance at 300 – 400 bps faster than industry
- Gross slippages for the quarter were ₹ 4,443 crores of which ₹ 4,073 crores were in Retail, ₹ 264 crores were CBG and ₹ 106 crores in WBCG segment
- 33% of the gross slippages were attributed to linked accounts of borrowers which were standard when classified or had been upgraded in the same quarter
- Net slippages were ₹2,374 crore, majorly due to unsecured portion of retail segment with a residual amount on wholesale amounts written off post recovery
- The management clarified that they are not looking to raise the equity capital as the current level of capital adequacy was sufficient for growth and protection, but may opportunistically evaluate issuing Tier 2 & AT1 instruments based on market conditions
- The pace of growth has reduced for personal loans which is a traditionally high RAROC (Risk Adjusted Return on Capital) business. The management uses RAROC to drive decision making and in a constrained deposit environment, the portfolio mix might change a bit to protect NIM.

Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	13,483	12,315	9.5	13,448	0.3	Healthy momentum impacted by margin contraction
NIM (%)	3.99	4.11	-2.9	4.05	-6 bps	Impact of 5 bps attributed to IT refund recorded in Q1FY25
Other Income	6,722	5,034	33.5	5,783	16.2	Surged due to significant treasury gains & 13% rise in fee income
Net Total Income	20,205	17,349	16.5	19,232	5.1	
Staff cost	3,117	2,610	19.4	3,129	-0.4	
Other Operating Expenses	6,375	6,107	4.4	5,996	6.3	
PPP	10,712	8,632	24.1	10,106	6.0	Aided by a healthy top-line & higher treasury gains
Provision	2,204	815	170.6	2,039	8.1	Substantial rise YoY due to inclusion of a one-off contingency of ₹520 crore
PBT	8,508	7,817	8.8	8,067	5.5	
Tax Outgo	1,591	1,954	-18.6	2,032	-21.7	Declined due to a one-off tax write back
PAT	6,918	5,864	18.0	6,035	14.6	Consistent earnings YoY as well as sequentially
Key Metrics						
GNPA	15,466	16,757	-7.7	16,211	-4.6	Slippages run-rate declined to 1.78% (annualised)
NNPA	3,612	3,441	5.0	3,553	1.7	
Credit	9,99,979	8,97,347	11.4	9,80,092	2.0	Retail loans grew 15% YoY and SME segment witnessed 16% YoY growth
Deposit	10,86,744	9,55,556	13.7	10,82,484	0.4	Term deposit accretion at 21% YoY

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	85,164	1,09,369	1,22,285	1,37,499	1,55,453
Interest Expended	42,218	59,474	68,133	77,618	88,362
Net Interest Income	42,946	49,894	54,152	59,881	67,091
Growth (%)	29.6	16.2	8.5	10.6	12.0
Non Interest Income	16,143	22,442	25,644	28,917	32,394
Net Income	59,089	72,336	79,796	88,797	99,485
Staff cost	8,760	10,933	12,593	14,230	16,035
Other Operating Expense	30,538	24,280	26,110	27,853	29,682
Operating Profit	19,791	37,123	41,092	46,715	53,769
Provisions	2,885	4,063	6,869	8,676	9,889
PBT	16,906	33,060	34,223	38,039	43,880
Taxes	7,326	8,199	8,556	9,510	10,970
Exceptional	12490	-	-	-	-
Net Profit	9,580	24,861	25,667	28,529	32,910
Growth (%)	-26.5	159.5	3.2	11.1	15.4
EPS (₹)	31.1	80.5	83.2	92.4	106.6

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Valuation					
No. of Equity Shares	307.7	308.7	308.7	308.7	308.7
EPS (₹)	31.1	80.5	83.2	92.4	106.6
BV (₹)	406.2	486.7	557.8	646.7	749.8
ABV (₹)	394.7	476.2	530.1	614.0	711.2
P/E	38.4	14.9	14.4	13.0	11.2
P/BV	2.9	2.5	2.1	1.9	1.6
P/ABV	3.0	2.5	2.3	1.9	1.7
Yields & Margins (%)					
Net Interest Margins	3.9	4.1	3.9	3.8	3.7
Yield on assets	7.8	8.9	8.8	8.7	8.6
Avg. cost on funds	3.9	5.0	5.1	5.1	5.1
Yield on average advances	8.3	9.6	9.4	9.3	9.2
Avg. Cost of Deposits	3.6	4.5	4.8	4.7	4.8
Quality and Efficiency					
Cost to income ratio	66.5	48.7	48.5	47.4	46.0
Credit/Deposit ratio	89.3	90.3	88.6	89.3	89.9
GNPA	1.9	1.4	1.5	1.5	1.5
NNPA	0.4	0.3	0.4	0.4	0.4
RoE	8.0	18.1	15.9	15.3	15.3
RoA	0.8	1.8	1.6	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	615	617	617	617	617
Reserves and Surplus	124378	149618	171541	198987	230814
Networth	124993	150235	172158	199604	231431
Deposits	946945	1068641	1223351	1399090	1601355
Borrowings	186300	196812	208616	225854	244754
Other Liabilities & Provisions	59087	61520	66623	71038	75914
Total	1317326	1477209	1670749	1895586	2153455
Application of Funds					
Fixed Assets	4734	5685	7216	8242	9429
Investments	288815	331527	372356	418279	469937
Advances	845303	965068	1083612	1249060	1439795
Other Assets	72063	60474	83588	85364	87697
Cash with RBI & call money	106411	114454	123977	134641	146597
Total	1317326	1477209	1670749	1895586	2153455

Source: Company, ICICI Direct Research

Exhibit 5: Growth (%)

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	12.1	12.1	13.1	13.5	13.6
Advances	19.4	14.2	12.3	15.3	15.3
Deposit	15.2	12.9	14.5	14.4	14.5
Total Income	22.7	22.4	10.3	11.3	12.0
Net interest income	29.6	16.2	8.5	10.6	12.0
Operating expenses	66.4	-10.4	9.9	8.7	8.6
Operating profit	-20.0	87.6	10.7	13.7	15.1
Net profit	-26.5	159.5	3.2	11.1	15.4
Net worth	8.7	20.2	14.6	15.9	15.9
EPS	(26.6)	158.7	3.2	11.1	15.4

Source: Company, ICICI Direct Research

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Sell: <-15%

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