

Strong quarter; outlook remains optimistic

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 14.8 lakh crore. Strategy to focus on retail & MSME segment with emphasize on risk adjusted return has aided improvement in RoA & RoE.

- Retail and SME comprise ~71% of total loans

Q4FY24 performance: Axis Bank has reported strong quarter delivering on majority of metrics. Advances growth came at 14% YoY, with focus on retail (20% YoY) & SME (17% YoY) segment. Faster accretion in term deposits aided liabilities (13% YoY). Operational performance remained steady with PPOp increasing 14.9% YoY, aided by steady margins (4.06%), healthy fee income (23% YoY growth) partially offset by 27% YoY rise in opex. Gradual improvement continued with 15 bps QoQ decline in GNPA ratio at 1.4% and provision coverage steady at ~81%.

Investment Rationale

- Growth outlook remains optimistic:** Disciplined execution, focus on asset mix and improvement in quality of deposit led to uptick in margins (5 bps QOQ at 4.06%). Going ahead, bank foresee industry credit growth to converge with deposit growth at ~13% for FY25E. Axis Bank target to grow credit at 300-400 bps higher than the industry in medium to long term. Expect credit growth at ~16% CAGR in FY25-26E. Levers including alteration in asset mix and capacity to pass on incremental increase in cost of funds is seen to enable to keep margins steady at 3.9-4% range ahead.
- Steady operational performance to aid RoA:** Healthy core fee-based income coupled with treasury gains aided operational performance. Going ahead, fee to asset is expected to remain steady at 1.7-1.8%, while investment in tech and distribution is expected to keep opex higher. However, lower credit cost and gradually improving efficiency (~200 bps in FY25-26E) is expected to RoE at 17-18% ahead.
- Stable asset quality to keep credit cost benign:** Strategy to focus on risk adjusted return have enabled the bank to improve profitability while ensuring gradual improvement in asset quality. Reduction in lumpiness of the wholesale business and comfort on parameters on retail loans, particularly unsecured retail loans provide confidence on asset quality and credit cost. Expect credit cost at 50-60 bps in FY25-26E

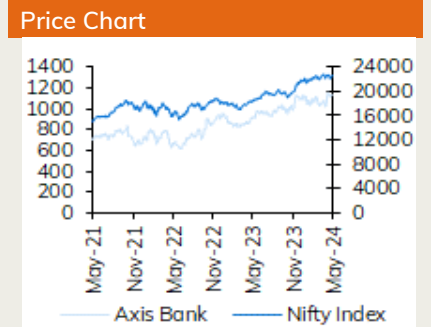
Rating and Target Price

- With another year of sustained operational performance, the bank has been growing as per the prescribed roadmap achieving continued improvement in RoE.
- Targeting continued growth momentum (~16% CAGR) with cushion on margins (3.9-4%) and anticipation of benign credit cost (50-60 bps), the bank is well positioned to continue to deliver RoA at 1.8-1.9%. We assign multiple of 1.9x FY26E ABV and ₹100 for subsidiaries, arriving at target of ₹1300. Recommend Buy.



Particulars	
Particulars	Amount
Market Capitalisation	₹351258 crore
52 week H/L	910 /1183
Net worth	₹150235 crore
Face value	2.0
DII Holding (%)	30.1
FII Holding (%)	53.8

Shareholding pattern					
(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	8.2	8.2	8.2	8.2	8.2
FII	49.1	52.0	53.0	54.7	53.8
DII	32.0	29.9	29.0	28.8	30.1
Public	10.8	9.9	9.8	8.3	7.8



- ### Key risks
- (i) Moderation in liabilities accretion
 - (ii) Higher than anticipated cost of liabilities

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Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	29239	33132	42946	49894	19%	55743	62855	12%
PPP	25702	24742	19753	36044	12%	41859	48995	17%
PAT	6588	13025	9542	23784	53%	27292	31152	14%
ABV (I)	308.8	347.8	384.8	453.1		534.9	627.2	
P/E	52.9	26.8	36.7	14.7		12.8	11.2	
P/ABV	3.7	3.3	3.0	2.5		2.1	1.8	
RoA	0.7	1.2	0.8	1.7		1.7	1.7	
RoE	7.1	12.0	8.0	17.5		17.1	16.6	

Concall highlights and outlook

Margin

- Disciplined execution and improvement in quality of deposit led to uptick in margins. Levers still exist to support margins in terms of asset mix and capacity to pass on incremental increase in cost of funds.
- Back book should be re-priced by Q2FY25, while bank has leeway to pass on incremental increase in MCLR.

Technology

- The bank continues to invest in technology and growth-related businesses
- The bank has approximately 14 million monthly active customers on its mobile app
- Axis was the first bank to go live with UPI interoperability on its CBDC App
- Technological expenses are about 9.3% of the total operating expenses for Q4FY24
- 1st Indian bank to be ISO certified for its AWS and Azure cloud security
- 1st Indian bank to rollout Microsoft GenAI co-pilot
- Axis Mobile remains the world's highest rated mobile app on Google Play store with rating of 4.8; on the iOS app store our ratings increased from 4.7 to 4.8 during the quarter

Deposits

- Retail term deposit is gaining traction with CASA ratio amongst the best in the industry
- New SA proposition "Sampann" launched for RUSU location (Rural and Semi Urban)
- The bank has grown deposits faster than the industry (14% vs industry average of 11%)
- Focus to remain on deposit accretion necessary to aid advance growth. Improvement in quality of deposit and productivity still not plateaued, bank focusses on all segments including corporate, retail and government to garner liabilities.
- 12% growth in deposit from Bharat Banking

Project NEO

- Project NEO is moving on track, aiding higher contribution from transaction-oriented flow businesses
- Largest player in merchant acquiring with market share of 19.8%
- Empowering businesses with project NEO under NEO for business and NEO for corporate category
- NEO for Business, Axis MSME proposition launched in Sep 2023, with approximately 60,000 customers onboard
- NEO for corporates offers tailored internet banking for large enterprises & complex solutions

CITI portfolio

- The Citi integration is largely on track
- Citi franchise has 1600 Suvidha corporates
- Deposits are largely stable; the bank has registered ~100% growth in TD balances

Asset Quality

- Asset quality remains stable with reduction in lumpiness of the wholesale business
- The bank is comfortable on growing unsecured retail book for now
- The credit card spend has moved in line with the cyclical pattern and bank is monitoring the unsecured book very closely

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	13,089	11,742	11.5	12,532	4.4	Driven by strong momentum in retail & SME segment
NIM (%)	4.06	4.22	-3.8	4.01	5 bps	Interest reversal & spread led to 5 bps QoQ uptick in NIM
Other Income	6,766	4,895	38.2	5,555	21.8	Core fee growth steady; treasury gains supported other income
Net Total Income	19,855	16,637	19.3	18,087	9.8	
Staff cost	2,924	2,164	35.1	2,711	7.8	Investment in distribution & headcount continued
Other Operating Expenses	6,396	5,306	20.5	6,234	2.6	
PPP	10,536	9,168	14.9	9,141	15.3	
Provision	1,185	306	287.6	1,028	15.3	Slippages run-rate healthy at 1.64% (annualised)
Exception items		12489				
PBT	9,350	-3,627	-357.8	8,113	15.3	
Tax Outgo	2,221	2,100	5.7	2,042	8.8	
PAT	7,130	-5,728	-224.5	6,071	17.4	Steady operating profit coupled with lower tax outgo supported earnings
Key Metrics						
GNPA	15,127	19,204	-21.2	15,893	-4.8	
NNPA	3,247	3,032	7.1	3,527	-7.9	
Credit	9,65,068	8,21,989	17.4	9,32,286	3.5	Retail loans grew 19.6% YoY and SME segment witnessed 17.1% YoY growth
Deposit	10,68,641	9,13,754	17.0	10,04,900	6.3	Relatively strong CA accretion. CASA ratio at 43% vs 42.1% QoQ

Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	85,164	1,09,369	1,23,976	1,39,933
Interest Expended	42,218	59,474	68,233	77,077
Net Interest Income	42,946	49,894	55,743	62,855
Growth (%)	29.6	16.2	11.7	12.8
Non Interest Income	16,501	22,442	26,325	30,837
Net Income	59,447	72,336	82,068	93,693
Staff cost	8,797	10,933	12,268	13,863
Other Operating Expense	18,601	24,280	27,941	30,834
Operating Profit	32,048	37,123	41,859	48,995
Provisions	2,652	4,063	5,469	7,460
PBT	16,907	33,060	36,390	41,536
Taxes	7,326	8,199	9,097	10,384
Exceptional	12489	-	-	-
Net Profit	9,581	24,861	27,292	31,152

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Valuation				
No. of Equity Shares	307.7	307.7	307.7	307.7
EPS (₹)	31.0	77.3	88.7	101.2
BV (₹)	406.2	475.3	560.5	658.2
ABV (₹)	384.8	453.1	534.9	627.2
P/E	36.7	14.7	12.8	11.2
P/BV	2.8	2.4	2.0	1.7
P/ABV	3.0	2.5	2.1	1.8
Yields & Margins (%)				
Net Interest Margins	4.0	4.1	3.9	3.9
Yield on assets	8.0	8.9	8.8	8.6
Avg. cost on funds	3.9	5.0	5.1	5.0
Yield on average advances	8.3	9.6	9.4	9.2
Avg. Cost of Deposits	3.6	4.1	5.2	5.1
Quality and Efficiency				
Cost to income ratio	67	50	49	48
Credit/Deposit ratio	89.3	91.1	90.0	89.4
GNPA	2.0	1.4	1.3	1.3
NNPA	0.4	0.3	0.3	0.4
ROE	8.0	17.5	17.1	16.6
ROA	0.8	1.7	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Capital	615	617	615	615
Reserves and Surplus	124378	149618	171844	201916
Networth	124993	150235	172459	202531
Deposits	946945	1068641	1235876	1442424
Borrowings	186300	196812	200229	216087
Other Liabilities & Provisions	59087	61520	67490	72531
Total	1317326	1477209	1676055	1933574
Application of Funds				
Fixed Assets	4734	5685	6392	7469
Investments	288815	331527	378538	424903
Advances	845303	965068	1111799	1289450
Other Assets	72063	60474	51801	69516
Cash with RBI & call money	106411	114454	127525	142235
Total	1317326	1477209	1676055	1933574

Source: Company, ICICI Direct Research

Exhibit 5: Growth				(%)
(Year-end March)	FY23	FY24	FY25E	FY26E
Total assets	12.1	12.1	13.5	15.4
Advances	19.4	14.2	15.2	16.0
Deposit	15.2	12.9	15.6	16.7
Total Income	23.1	21.7	13.5	14.2
Net interest income	29.6	16.2	11.7	12.8
Operating expenses	68.1	28.5	14.2	11.2
Operating profit	-20.2	15.8	12.8	17.0
Net profit	-26.7	159.5	9.8	14.1
Net worth	8.7	20.2	14.8	17.4
EPS	(26.9)	149.2	14.8	14.1

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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