

AXIS Bank | BUY

NIMs hold up well and so does profitability

Axis Bank's 3QFY24 profits at INR 60.7bn, grew 5% YoY (4% QoQ) and were a tad lower than our estimates (of INR62bn). However, NII (at INR 125bn) was in-line with our expectations as NIM compression (at 10bps QoQ) was under control even as deposit growth picked up to 5% QoQ during the quarter. PPOP at INR 91.4bn, however, lagged estimates (of INR 94bn) due to continued high opex (+2.6% QoQ and 30.6% YoY) as management continues to see opportunities to invest in distribution and technology. Credit costs stood at 33bps inclusive of INR 1.8bn on AIF investments. While slippages increased to 1.76% (vs 1.6% QoQ), headline asset quality improved sequentially to - GNPL/NNPL at 1.68%/0.38% (-16bps/-1bps QoQ). Axis Bank's 3QFY24 performance indicates that the liabilities build out for the bank is gradually falling in shape. Mgmt believes that systemic liquidity situation will have to ease if credit growth has to sustain at healthy levels and thus remains confident of navigating the situation with healthy NIMs. Axis Bank will continue to invest opportunistically in its key priorities of distribution and technology and this may potentially lead to its operating cost ratios to remain slightly elevated longer than before. We expect avg. ROA/ROE of 1.8%/ 18.1% over FY24-26E. We believe that sustainability of NIMs at comfortable levels and healthy asset quality will see Axis Bank re-rating further. Maintain BUY with SoTP based target price of INR 1,330 valuing the core bank at 1.9x FY26E BVPS with subs valued at INR 73.

- **Deposit growth picks up; loan growth broadbased:** Axis Bank's deposit growth picked up in 3QFY24 (5% QoQ) after remaining sluggish for 1HFY24. Term deposits grew +24% YoY/ +9% QoQ, though it was also aided by corporate TDs. Retail TD accretion stood at 17% YoY/+2% QoQ while CASA ratio stood at 42% (vs 44% QoQ). Loan growth was well rounded across segments (+22% YoY, +4% QoQ) with Retail/ Agri / SME/ Wholesale growing at +5%/ +7%/ +4%/ +1% QoQ. Amongst retail, growth was led by credit cards (+12% QoQ), LAP (+8.8% QoQ), personal loans (+6.4% QoQ) and retail agri (+6.8% QoQ). This broad based growth in loan portfolio was supported by various digital and transformation initiatives by the bank, benign credit environment and improved capacity utilization across sectors for corporates. We expect advances/ deposit CAGR at 16%/ 14% over FY23A-26E respectively.
- **Margins moderate though still a respectable outcome:** NIMs for Axis Bank stood at 4.01% (-10bps QoQ) which, in our view, is a healthy outcome given the liquidity tightness in the system. Management believes that deposit repricing will continue in 1HCY24 and may put further pressure on cost of deposits unless systemic liquidity eases. According to the management, given systemic liquidity pressures credit growth overall is likely to moderate for system unless regulatory actions improve the liquidity situation. Axis Bank will strive to grow 400-600bps faster than system while keeping NIMs largely stable on a full year basis. We build NII CAGR of 18% FY23-26E for Axis Bank.
- **Opex likely to stay elevated; asset quality healthy:** Axis Bank's opex ratios (cost/avg assets) remain elevated at 2.6% - management has indicated that it will remain in investment

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	130,255	95,797	244,531	283,029	341,968
Net Profit (YoY) (%)	97.7%	-26.5%	155.3%	15.7%	20.8%
Assets (YoY) (%)	19.1%	12.1%	12.4%	14.4%	15.4%
ROA (%)	1.2%	0.8%	1.7%	1.8%	1.9%
ROE (%)	12.0%	8.0%	18.1%	17.9%	18.5%
EPS	42.4	31.1	79.5	92.0	111.1
EPS (YoY) (%)	97.3%	-26.6%	155.3%	15.7%	20.8%
PE (x)	25.7	35.0	13.7	11.8	9.8
BV	375	406	474	553	651
BV (YoY) (%)	13.0%	8.4%	16.6%	16.7%	17.7%
P/BV (x)	2.91	2.68	2.30	1.97	1.67

Source: Company data, JM Financial. Note: Valuations as of 23/Jan/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,330
Upside/(Downside)	22.1%
Previous Price Target	1,330
Change	0.0%

Key Data – AXSB IN

Current Market Price	INR1,089
Market cap (bn)	INR3,359.6/US\$40.4
Free Float	90%
Shares in issue (mn)	3,063.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR9,301.2/US\$111.8
52-week range	1,152/814
Sensex/Nifty	70,371/21,239
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	0.1	12.1	16.8
Relative*	1.1	6.3	0.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

mode given that benign credit environment gives them additional comfort to invest in distribution/technology while protecting profitability. We believe this is likely to keep opex ratios elevated for a longer period of time than anticipated earlier. Healthy asset quality (with gross slippages at 1.76%) and high provision buffers (non-NPA provisions at 1.3% of loans) offer meaningful earnings cushion and remain a bright spot. Despite impact of risk weight changes in 3QFY24, Axis Bank's CET1 ratio remains healthy at 13.7% (incl. 9M profits).

- **Valuation and view:** AXSB's transformation is in the right direction driving stock performance going ahead; continued investment initiatives, meaningful improvement in liability franchise and sustainability of NIMs in combination with steady loan growth. Given the long-term measures undertaken to improve the liability franchise and portfolio granularity, we expect avg. ROA/ ROE of 1.8%/ 18.1% over FY24-26E. We maintain BUY with SoTP based TP of INR 1,330 valuing the core bank at 1.9x FY26E BVPS with subs valued at INR 73.

Axis Bank – 3Q24trends

Exhibit 1. Axis Bank 3Q24: Results summary

Earnings Table (Rs mn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
NII	114,593	123,146	125,322	9.4%	1.8%
Fee based Income	40,080	49,630	51,700	29.0%	4.2%
Trading Profits	4,280	-1,010	2,910	-32.0%	-388.1%
Misc Income	1,360	1,721	938	-31.0%	-45.5%
Non-Interest income	45,720	50,341	55,548	21.5%	10.3%
Total Income	160,313	173,486	180,870	12.8%	4.3%
Employee Cost	22,811	26,098	27,113	18.9%	3.9%
Other Operating Expenses	45,662	61,070	62,344	36.5%	2.1%
Total Operating Expenses	68,473	87,168	89,457	30.6%	2.6%
Operating Profit	91,841	86,319	91,412	-0.5%	5.9%
Loan Loss Provisions	14,470	11,210	7,610	-47.4%	-32.1%
Provisions on Investments	0	0	0	#DIV/0!	#DIV/0!
Other Provisions	-93	-3,064	2,673	-2983.9%	-187.2%
Total Provisions	14,377	8,146	10,283	-28.5%	26.2%
PBT	77,463	78,173	81,129	4.7%	3.8%
Tax	19,867	19,537	20,418	2.8%	4.5%
PAT (Pre-Extraordinaries)	57,596	58,636	60,711	5.4%	3.5%
Extraordinaries (Net of Tax)	0.00	0.00	0.00	0.0%	0.0%
Reported Profit	57,596	58,636	60,711	5.4%	3.5%
Balance sheet (Rs bn)					
Deposits	8,481.7	9,555.6	10,049.0	18.5%	5.2%
Net Advances	7,620.8	8,973.5	9,322.9	22.3%	3.9%
Total Assets	12,235.1	13,389.1	13,985.4	14.3%	4.5%
Low-cost Deposits (%)	44.5%	44.4%	42.1%	-2.4%	-2.2%
Loan-Deposit ratio (%)	89.8%	93.9%	92.8%	2.9%	-1.1%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	199,610	167,567	158,930	-20.4%	-5.2%
Net NPAs (Rs. mn.)	38,301	34,413	35,269	-7.9%	2.5%
Gross NPA (%)	2.57%	1.84%	1.68%	-0.88%	-0.16%
Net NPA (%)	0.50%	0.38%	0.38%	-0.12%	-0.01%
Loan Loss Provisions (%)	0.81%	0.55%	0.36%	-0.45%	-0.19%
Coverage Ratio (%)	80.8%	79.5%	77.8%	-3.0%	-1.7%
Capital Adequacy					
Tier I (%)	16.15%	15.08%	14.18%	-1.97%	-0.90%
CAR (%)	19.51%	17.84%	16.63%	-2.88%	-1.21%
Du-pont Analysis					
NII / Assets (%)	3.81%	3.73%	3.66%	-0.14%	-0.07%
Non-Interest Inc. / Assets (%)	1.52%	1.52%	1.62%	0.10%	0.10%
Operating Cost / Assets (%)	2.27%	2.64%	2.61%	0.34%	-0.03%
Operating Profits / Assets (%)	3.05%	2.61%	2.67%	-0.38%	0.06%
Provisions / Assets (%)	0.48%	0.25%	0.30%	-0.18%	0.05%
ROA (%)	1.91%	1.78%	1.77%	-0.14%	0.00%

Source: Company, JM Financial

Axis Bank – Key quarterly trends

Exhibit 2. Axis bank: Loan mix as of 3Q24

Loan Book Composition - old reporting (INR bn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Large & Mid Corporates	2,506	2,817	2,852	13.8%	1.3%
Retail	3,698	4,451	4,672	26.4%	5.0%
SME	822	960	1,000	21.7%	4.3%
Agriculture	595	747	798	34.0%	6.8%
Total	7,621	8,973	9,323	22.3%	3.9%
Large & Mid Corporates	32.9%	31.4%	30.6%	-2.3%	-0.8%
Retail	48.5%	49.6%	50.1%	1.6%	0.5%
SME	10.8%	10.7%	10.7%	-0.1%	0.0%
Agriculture	7.8%	8.3%	8.6%	0.7%	0.2%
Total	100%	100%	100%		

Source: Company, JM Financial

Exhibit 3. Axis Bank: Retail loan mix as on 3Q24

Retail loans composition -New reporting (Rs bn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Housing Loans	1,494	1,592	1,628	9.0%	2.3%
LAP	425	539	586	38.0%	8.8%
Personal loans & Credit cards	713	914	1,050	47.4%	14.9%
Auto Loans	468	556	579	23.6%	4.1%
Retail agri loans	595	747	798	34.0%	6.8%
Others	598	850	829	38.5%	-2.5%
Total Retail Loans	4,293	5,197	5,470	27.4%	5.2%
Housing Loans	35%	31%	30%	-5.0%	-0.9%
LAP	10%	10%	11%	0.8%	0.4%
Personal loans & Credit cards	17%	18%	19%	2.6%	1.6%
Auto Loans	11%	11%	11%	-0.3%	-0.1%
Retail agri loans	14%	14%	15%	0.7%	0.2%
Others	14%	16%	15%	1.2%	-1.2%
Total Retail Loans	100%	100%	100%		

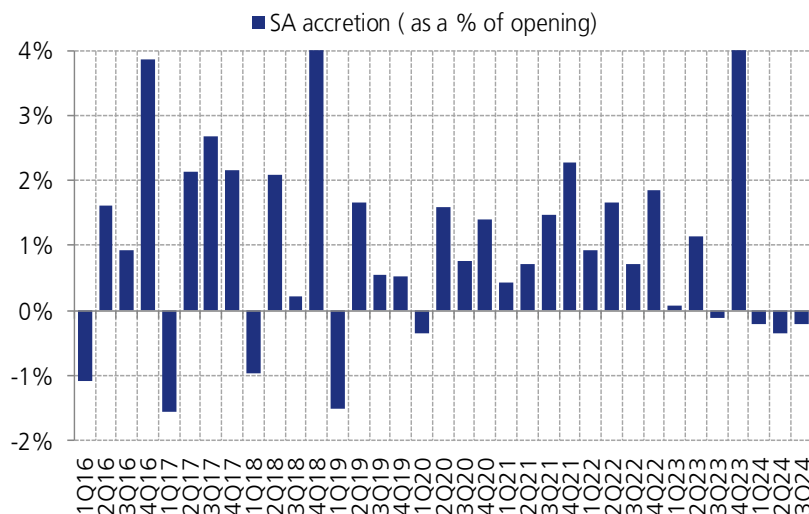
Source: Company, JM Financial

Exhibit 4. Axis Bank: Deposit mix as of 3Q24

Deposits Composition (Rs bn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Current	1,263	1,316	1,331	5.4%	1.2%
Saving	2,514	2,923	2,904	15.5%	-0.7%
Time	4,705	5,317	5,814	23.6%	9.4%
Total Deposits	8,482	9,556	10,049	18.5%	5.2%
Current	14.9%	13.8%	13.2%	-1.6%	-0.5%
Saving	29.6%	30.6%	28.9%	-0.7%	-1.7%
CASA	44.5%	44.4%	42.1%	-2.4%	-2.2%
Time	55.5%	55.6%	57.9%	2.4%	2.2%
Total	100%	100%	100%		

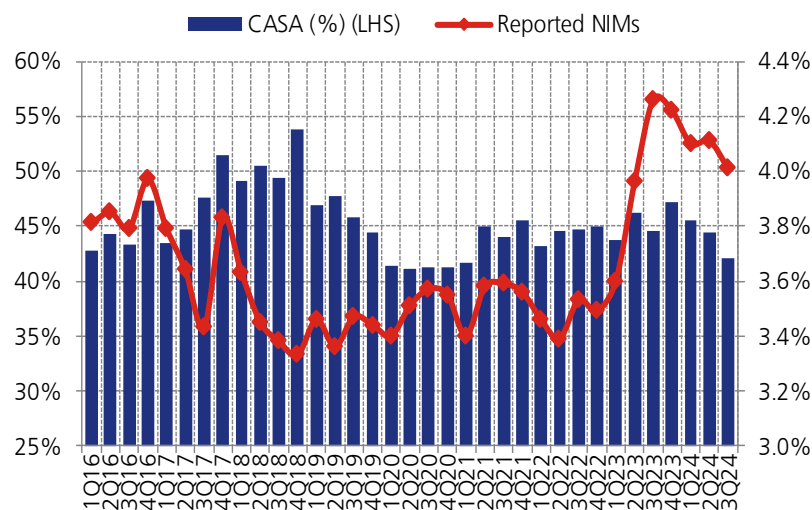
Source: Company, JM Financial

Exhibit 5. Axis Bank: SA accretion during the quarter (%)



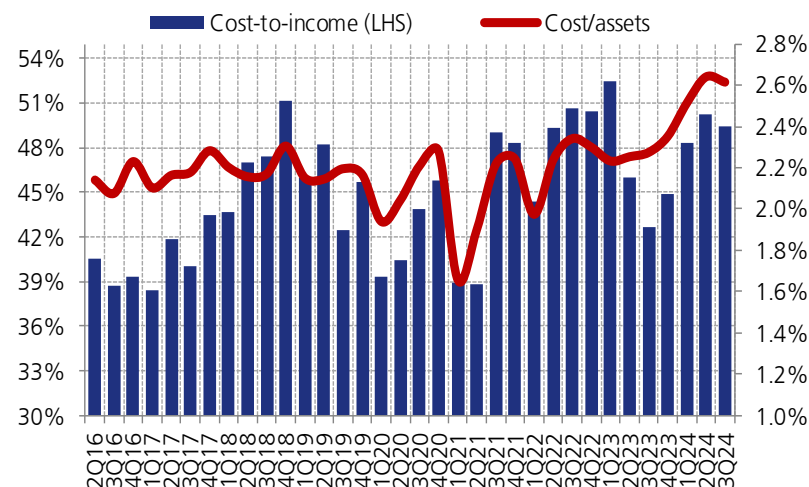
Source: Company, JM Financial

Exhibit 6. Axis Bank: Quarterly trends in CASA and margins (%)



Source: Company, JM Financial

Exhibit 7. Axis Bank: Cost ratios (%)



Source: Company, JM Financial

Exhibit 8. Axis Bank: Credit costs

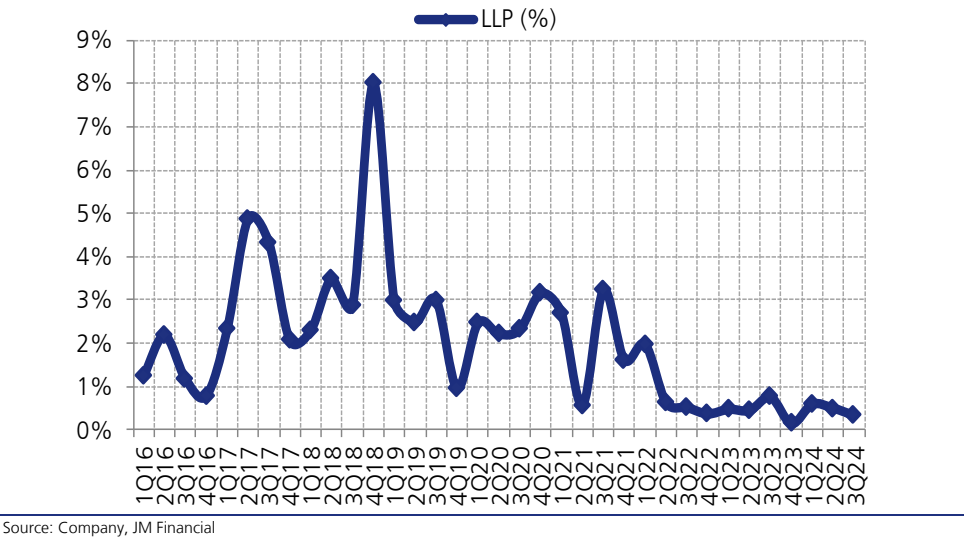
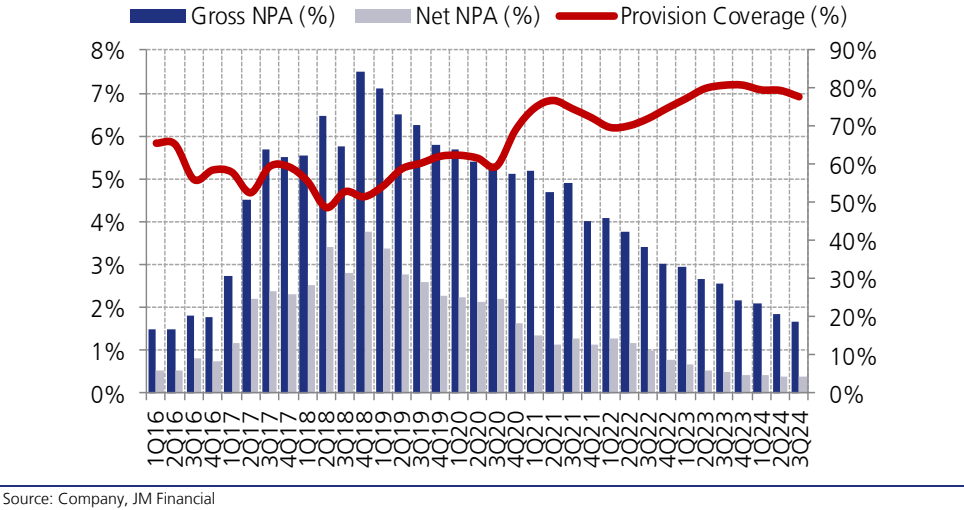


Exhibit 9. Axis Bank: Provision coverage



Valuation and 12M TP

We value Axis Bank on a two-stage Gordon growth model. Our assumptions are as follows:

Exhibit 10. Axis Bank: Valuation summary

Initial no of years	10
Growth rate for the first 10 years (%)	13.5%
Pay-out ratio for the first 10 years (%)	20.0%
Perpetual growth rate (%)	4.2%
Perpetual payout ratio (%)	75.0%
K1	2.1
K2	9.4
Fully adjusted FY25E BVPS (Rs)	651
Target Price / Fully Adj BV (x)	1.9
Fair value (rounded off)	1,257

Source: Company, JM Financial

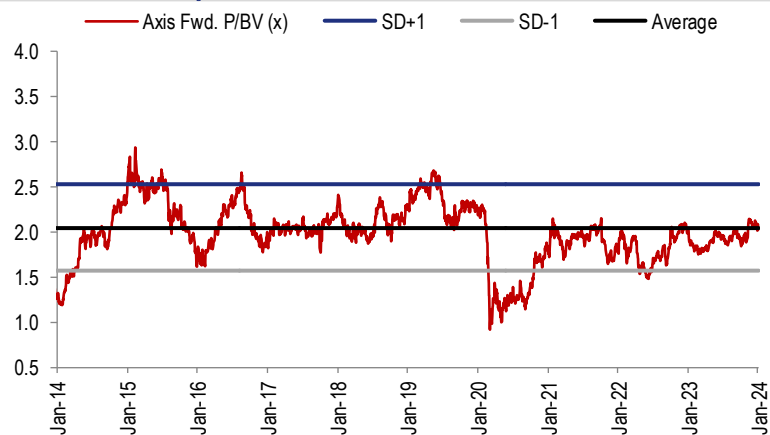
The SOTP valuation is summarised below:

Exhibit 11. Axis Bank : SOTP valuation

SOTP	Holding	Methodology	Value per share
Axis Bank	100%	1.9x FY26E adj. BVPS	1,257
Axis Finance	100%	1.9x FY26E BVPS	30
Axis AMC	75%	30x FY24 PAT	29
Axis Securities	100%	15x FY24 PAT	15
Axis Capital	100%	15x FY24 PAT	7
Cost of investments			(8)
Fair value			1,330

Source: Company, JM Financial

Exhibit 12. Axis Bank : One year forward P/B chart



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR mn)					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income	331,322	429,457	496,794	579,519	703,051
Profit on Investments	13,777	-2,750	5,003	5,003	5,003
Exchange Income	19,124	18,021	15,253	18,509	22,082
Fee & Other Income	119,305	149,738	181,949	220,831	257,346
Non-Interest Income	152,205	165,009	202,204	244,343	284,431
Total Income	483,528	594,466	698,998	823,862	987,482
Operating Expenses	236,108	271,662	328,068	381,492	441,180
Pre-provisioning Profits	247,420	322,804	370,930	442,370	546,302
Loan-Loss Provisions	53,701	37,900	41,725	61,886	87,314
Provisions on Investments	0	0	0	0	0
Others Provisions	19,894	-9,053	3,500	3,500	3,500
Total Provisions	73,595	28,848	45,225	65,386	90,814
PBT	173,826	293,957	325,705	376,983	455,488
Tax	43,571	73,262	81,174	93,954	113,520
PAT (Pre-Extraordinaries)	130,255	220,695	244,531	283,029	341,968
Extra ordinaries (Net of Tax)	0	-124,898	0	0	0
Reported Profits	130,255	95,797	244,531	283,029	341,968
Dividend paid	3,070	3,071	36,922	39,230	39,999
Retained Profits	127,185	92,725	207,609	243,799	301,969

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY) (%)					
Deposits	17.8%	15.2%	12.0%	14.0%	15.0%
Advances	15.2%	19.4%	16.0%	16.0%	16.0%
Total Assets	19.1%	12.1%	12.4%	14.4%	15.4%
NII	13.3%	29.6%	15.7%	16.7%	21.3%
Non-interest Income	24.1%	8.4%	22.5%	20.8%	16.4%
Operating Expenses	28.5%	15.1%	20.8%	16.3%	15.6%
Operating Profits	7.0%	30.5%	14.9%	19.3%	23.5%
Core Operating profit	13.5%	35.3%	14.5%	19.5%	23.8%
Provisions	-48.6%	-60.8%	56.8%	44.6%	38.9%
Reported PAT	97.7%	-26.5%	155.3%	15.7%	20.8%
Yields / Margins (%)					
Interest Spread	3.04%	3.35%	3.30%	3.36%	3.43%
NIM	3.32%	3.68%	3.77%	3.86%	4.01%
Profitability (%)					
Non-IR to Income	31.5%	27.8%	28.9%	29.7%	28.8%
Cost to Income	48.8%	45.7%	46.9%	46.3%	44.7%
ROA	1.20%	0.77%	1.75%	1.78%	1.87%
ROE	12.0%	8.0%	18.1%	17.9%	18.5%
Assets Quality (%)					
Slippages	3.31%	2.08%	1.70%	1.60%	1.80%
Gross NPA	3.01%	2.16%	1.90%	1.85%	2.08%
Net NPAs	0.78%	0.42%	0.39%	0.37%	0.53%
Provision Coverage	74.7%	80.9%	80.0%	80.0%	75.0%
Specific LLP	0.78%	0.43%	0.32%	0.45%	0.57%
Net NPAs / Networth	4.8%	2.8%	2.6%	2.5%	3.5%
Capital Adequacy (%)					
Tier I	16.34%	14.57%	15.14%	15.45%	15.78%
CAR	18.54%	17.64%	18.28%	18.57%	18.80%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	6,139	6,154	6,154	6,154	6,154
Reserves & Surplus	1,144,115	1,243,779	1,451,387	1,695,187	1,997,156
Deposits	8,219,716	9,469,452	10,605,786	12,090,596	13,904,186
Borrowings	1,851,339	1,863,000	2,065,720	2,374,208	2,722,970
Other Liabilities	531,493	586,636	674,632	775,826	915,475
Total Liabilities	11,754,288	13,173,255	14,803,679	16,941,972	19,545,941
Investments	2,755,972	2,888,148	3,092,522	3,508,857	4,387,276
Net Advances	7,079,466	8,453,028	9,805,513	11,374,395	13,194,298
Cash & Equivalents	1,109,871	1,064,108	1,055,335	1,212,981	1,395,726
Fixed Assets	45,724	47,339	103,626	118,594	136,822
Other Assets	763,255	720,632	746,684	727,145	431,819
Total Assets	11,754,287	13,173,255	14,803,679	16,941,972	19,545,941

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	3.06%	3.45%	3.55%	3.65%	3.85%
Other Income / Assets	1.41%	1.32%	1.45%	1.54%	1.56%
Total Income / Assets	4.47%	4.77%	5.00%	5.19%	5.41%
Cost / Assets	2.18%	2.18%	2.35%	2.40%	2.42%
PBP / Assets	2.29%	2.59%	2.65%	2.79%	2.99%
Provisions / Assets	0.68%	0.23%	0.32%	0.41%	0.50%
PBT / Assets	1.61%	2.36%	2.33%	2.38%	2.50%
Tax rate	25.1%	24.9%	24.9%	24.9%	24.9%
ROA	1.20%	0.77%	1.75%	1.78%	1.87%
RoRWAs	1.92%	1.22%	2.70%	2.76%	2.90%
Leverage	10.2	10.5	10.2	10.0	9.8
ROE	12.0%	8.0%	18.1%	17.9%	18.5%

Source: Company, JM Financial

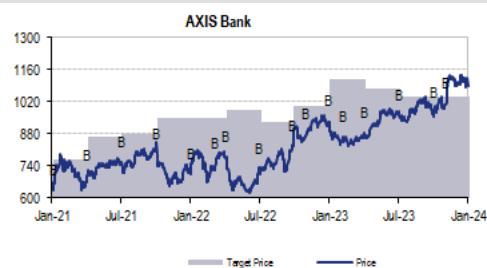
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	3,069.7	3,076.9	3,076.9	3,076.9	3,076.9
EPS (INR)	42.4	31.1	79.5	92.0	111.1
EPS (YoY) (%)	97.3%	-26.6%	155.3%	15.7%	20.8%
PER (x)	25.7	35.0	13.7	11.8	9.8
BV (INR)	375	406	474	553	651
BV (YoY) (%)	13.0%	8.4%	16.6%	16.7%	17.7%
ABV (INR)	375	406	474	553	651
ABV (YoY) (%)	13.0%	8.4%	16.6%	16.7%	17.7%
P/BV (x)	2.91	2.68	2.30	1.97	1.67
P/ABV (x)	2.91	2.68	2.30	1.97	1.67
DPS (INR)	1.0	1.0	12.0	12.8	13.0
Div. yield (%)	0.1%	0.1%	1.1%	1.2%	1.2%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Apr-20	Hold	460	
21-Jul-20	Hold	460	0.0
28-Oct-20	Hold	530	15.2
11-Jan-21	Buy	750	41.5
27-Jan-21	Buy	770	2.7
27-Apr-21	Buy	870	13.0
26-Jul-21	Buy	880	1.1
27-Oct-21	Buy	950	8.0
24-Jan-22	Buy	950	0.0
30-Mar-22	Buy	950	0.0
28-Apr-22	Buy	985	3.7
25-Jul-22	Buy	930	-5.6
20-Oct-22	Buy	1,000	7.5
24-Nov-22	Buy	1,000	0.0
23-Jan-23	Buy	1,120	12.0
1-Mar-23	Buy	1,120	0.0
27-Apr-23	Buy	1,075	-4.0
27-Jul-23	Buy	1,040	-3.3
26-Oct-23	Buy	1,040	0.0
27-Nov-23	Buy	1,040	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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