

Axis Bank

29 April, 2022

Reuters: AXSB.BO; Bloomberg: AXSB IN

Cutting earnings due to higher opex

Axis Bank's 4QFY22 operating profit came under pressure due to 7% YoY growth in net revenue while investments in growth and technology continued to keep opex elevated. Net profit growth was 53.8% YoY, led by 70% YoY drop in provisioning. Loans increased by 15% YoY with retail growing by 21% YoY. In wholesale segment, commercial banking and mid-corporates were the focus segments. NIM contracted by 4bps QoQ as yields declined and cost of deposits increased by 5bps QoQ. The management remains optimistic with respect to NIM trajectory going ahead on the back of improving balance sheet composition, faster growth in high-margin unsecured loans and run-down of the RIDF bonds. Asset quality improved and the credit cost is expected to trend down. While we estimate 15-16% CAGR over FY22-24E in NII, we have upped our opex assumptions to account for higher spends in growth and tech. We expect the bank to report opex/assets of 2.2% over FY23-24E. Accordingly, we have cut our earnings estimates. Although the bank has suspended its opex/asset guidance for now, it remains committed to achieving 16-16.5% ROE in the medium to long term. Compared to HDFC Bank and ICICI Bank, Axis Bank is expected to report lower ROA/ROE. We have reduced our target multiple on the stock but have maintained BUY with a target price (TP) of Rs983 (2.1x FY24E ABVPS).

Credit growth in line with peers: Net loan book increased by 15% YoY and 6% QoQ. Loan book growth was led by retail loans, which increased by 21% YoY and 9% QoQ. Retail disbursements were up 21% YoY and 30% QoQ in 4QFY22. Personal loan disbursements increased by 23% YoY. SME loans increased by 26% YoY and 13% QoQ with disbursements growing by 27% QoQ. Overall CBG advances increased by 27% YoY with mid-corporate loans growing by 45% YoY. Within the wholesale segment, the management has outlined mid-corporates and commercial banking as key focus areas. Within retail, the bank has seen thrust on secured loans. Home loans and LAP increased by 18% YoY and 29% YoY, respectively. SBB portfolio, although relatively small, increased by 60% YoY. The bank has been opening up to unsecured loans. In 4QFY22, personal loans grew by 15% YoY and 8% QoQ while credit cards increased by 19% YoY and 7% QoQ. Over the longer term, the bank expects to grow the retail portfolio at a higher rate.

Asset quality improves on the back of higher recoveries: Slippages in 4QFY22 stood at Rs39.81bn, down 4% QoQ and 25% YoY. Of the total gross slippages, 63% were from the retail portfolio and the rest were from the wholesale segment. Recoveries/upgrades stood at Rs37.63bn while write-offs stood at Rs16.97bn. Slippage ratio (non-annualised) in 4QFY22 was 0.6%, down 7bps QoQ. Gross NPA ratio improved further to 3.01%, down 40bps QoQ. Net NPA ratio stood at 0.78%, down 20bps QoQ. The bank maintained a healthy PCR of 74.7% compared to 72% in 3QFY22. Retail GNPA were down at 1.43% compared to 1.77% in 3QFY22. Corporate GNPA were down 13bps QoQ at 4.93%. Total restructured assets now stand at 0.52% of gross customer assets. Coverage on restructured assets stood at 29% compared to 28% in 3QFY22. Credit cost for 4QFY22 was 0.58% compared to 0.83% in 3QFY22 and 2.18% in 4QFY21. With total provisions coverage at 132% of GNPA and a positive asset quality outlook, we believe that the bank's credit cost should trend down going forward. The share of BB/below exposure reduced to 0.73% compared to 0.91% in 3QFY22.

NIM impacted by higher growth in low-yielding segments: NII growth for 4QFY22 was 16.7% YoY and 1.9% QoQ. Reported NIM declined by 4bps QoQ to 3.49%. Note that calc. yields contracted by 27bps QoQ to 7.62%. We believe this can be attributed to mainly high growth in some of the low yielding segments such as SBB, mortgages etc. Cost of deposits inched up by 5bps QoQ to 3.65%, thus contributing to the negative impact on NIM. The bank remains optimistic about the NIM trajectory. Going forward, key levers for NIM expansion would be: (1) improving balance sheet composition (2) higher growth in unsecured retail products (3) run-down of the low-yielding RDF bonds.

BUY

Sector: Banking

CMP: Rs776

Target Price: Rs983

Upside: 27%

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Key Data

Current Shares O/S (mn)	3,070.5
Mkt Cap (Rsbn/US\$bn)	2,394.3/31.3
52 Wk H / L (Rs)	881/621
Daily Vol. (3M NSE Avg.)	11,449,330

Price Performance (%)

	1 M	6 M	1 Yr
Axis Bank	6.0	2.8	10.1
Nifty Index	(0.5)	(2.4)	15.8

Source: Bloomberg

Y/E Mar (Rsmn)	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)
Interest Income	177,762	154,945	172,611	14.7	3.0
Interest Expense	89,571	79,395	86,086	12.8	4.0
Net Interest Income	88,191	75,550	86,525	16.7	1.9
NIM (%)	3.32	3.42	3.46	-11 bps	-14 bps
Non Interest Income	42,233	46,683	38,404	-9.5	10.0
Total Income	130,425	122,233	124,928	6.7	4.4
Staff Cost	18,865	16,676	19,386	13.1	-2.7
Other Op Exp	46,900	36,910	43,928	27.1	6.8
Total Operating Expenses	65,765	53,586	63,314	22.7	3.9
Cost to Income (%)	50.4	43.8	50.7	658 bps	-26 bps
Pre-Provisioning Operating Profit	64,660	68,647	61,615	-5.8	4.9
Provisions	9,872	32,950	13,348	-70.0	-26.0
PBT	54,788	35,697	48,266	53.5	13.5
Tax	13,610	8,926	12,125	52.5	12.2
-effective tax rate	24.8	25.0	25.1	-16 bps	-28 bps
PAT	41,178	26,771	36,142	53.8	13.9
EPS (Rs)	13.4	8.7	11.8	53.5	13.9
BV (Rs)	374.7	331.6	361.0	13.0	3.8
Deposits (in bn)	8,217	7,073	7,717	16.2	6.5
Advances (in bn)	7,077	6,237	6,649	13.5	6.4

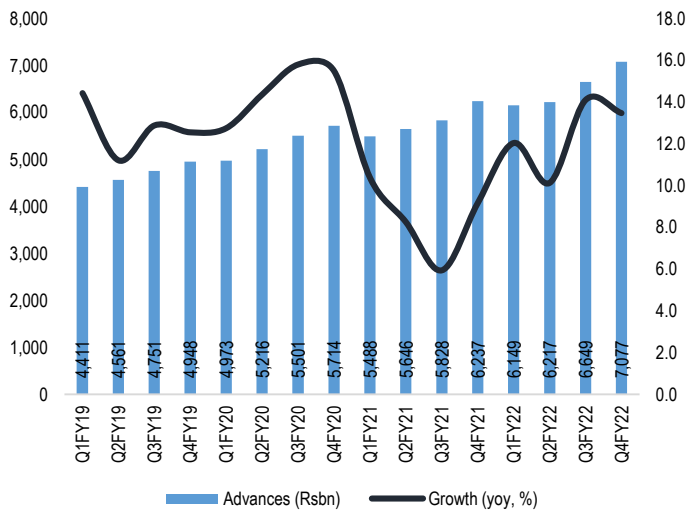
Source: Company, Nirmal Bang Institutional Equities Research

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Opex to stay elevated: Opex increased by 22.7% YoY and 3.9% QoQ. In 3QFY22, the management had guided for an elevated opex run-rate given its plans to invest for growth and in tech. Given the expected opex run-rate in the near term, the bank seems to have temporarily suspended its 2% opex/assets guidance by the last quarter of FY23. For 4QFY22, opex/assets stood at 2.3%. Given the management's stance towards front-loading growth and tech investments in the near term, we have raised our opex assumptions, leading to cut in our earnings estimates. The bank remains committed to its 16-16.5% ROE guidance in the next 3 years.

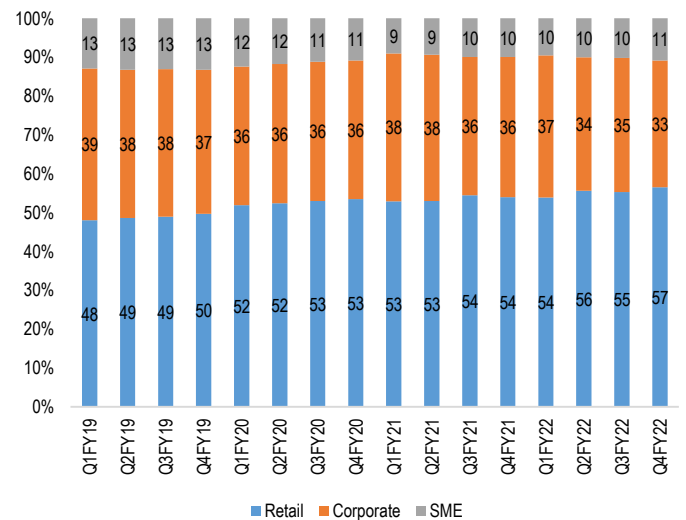
CASA up 16% YoY: Total deposits increased by 16.2% YoY and 6.5% QoQ. CASA deposits increased by 16.4% YoY and 7.2% QoQ. CASA ratio for the quarter stood at 45%, up 30bps QoQ.

Exhibit 1: Advances (Rsbn), Growth (YoY, %)



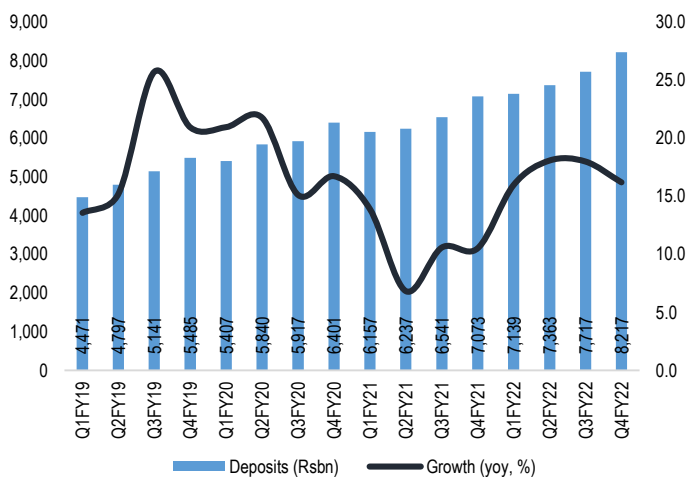
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Advances mix (%)



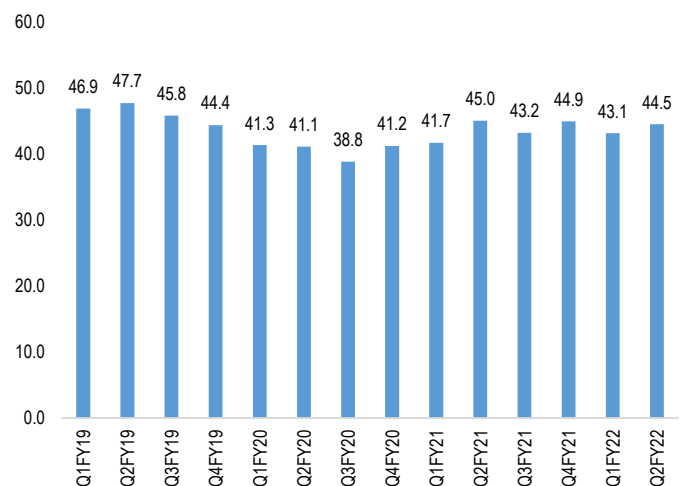
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deposits (Rsbn), Growth (YoY, %)

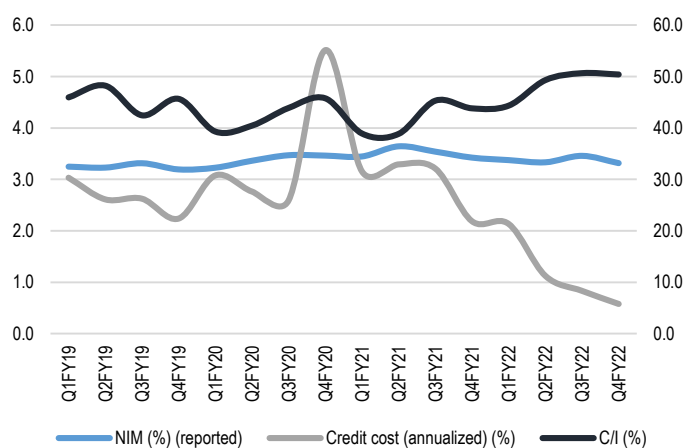


Source: Company, Nirmal Bang Institutional Equities Research

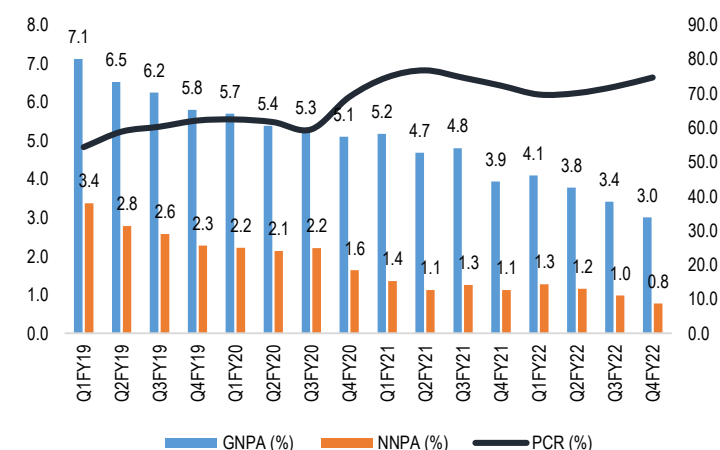
Exhibit 4: CASA ratio (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key P&L metrics (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Asset quality metrics (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Financial summary

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Net interest income	2,52,062	2,92,391	3,31,322	3,83,265	4,45,299
Pre-provisioning operating profit	2,34,381	2,57,022	2,47,420	2,87,139	3,43,506
PAT	16,272	65,885	1,30,259	1,57,182	1,95,803
EPS (Rs)	5.8	21.5	42.4	51.2	63.8
BV (Rs)	301	332	375	416	467
P/E (x)	134.6	36.1	18.3	15.2	12.2
P/BV (x)	2.6	2.3	2.1	1.9	1.7
Gross NPAs (%)	5.1	3.9	3.0	2.7	2.3
Net NPAs (%)	1.6	1.1	0.8	0.7	0.6
RoA (%)	0.2	0.7	1.1	1.2	1.3
RoE (%)	2.0	6.8	11.1	12.3	13.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Actual performance versus our estimates

(Rsmn)	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)	Q4FY22E	Devi. (%)
Net interest income	88,191	75,550	86,525	16.7	1.9	91,551	-3.7
Operating Profit	64,660	68,647	61,615	-5.8	4.9	70,262	-8.0
PAT	41,178	26,771	36,142	53.8	13.9	42,451	-3.0

Source: Company, Nirmal Bang Institutional Equities Research. N.B.

Exhibit 9: Change in our estimates

	Revised Estimates		Earlier Estimates		% Revision	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (Rs mn)	3,83,265	4,45,299	3,91,417	4,50,995	(2.1)	(1.3)
NIMs	3.32	3.47	3.42	3.49	-9 bps	-2 bps
Operating Profit (Rs mn)	2,87,139	3,43,506	3,11,310	3,73,247	(7.8)	(8.0)
Profit after tax (Rs mn)	1,57,182	1,95,803	1,68,667	2,10,492	(6.8)	(7.0)
Loan Book (Rs bn)	8,144	9,373	8,227	9,514	(1.0)	(1.5)
ABVPS (Rs)	397	448	390	446	1.8	0.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	6,26,352	6,36,453	6,73,768	7,81,479	8,81,682
Interest expense	3,74,290	3,44,062	3,42,446	3,98,214	4,36,383
Net interest income	2,52,062	2,92,391	3,31,322	3,83,265	4,45,299
Fees & Other Income	1,55,366	1,48,382	1,52,205	1,74,408	1,98,337
Net Revenue	4,07,428	4,40,773	4,83,527	5,57,673	6,43,635
Operating Expense	1,73,046	1,83,751	2,36,108	2,70,533	3,00,129
Operating Profit	2,34,381	2,57,022	2,47,420	2,87,139	3,43,506
Provisions	1,85,339	1,68,963	73,590	76,721	81,388
PBT	49,042	88,058	1,73,830	2,10,418	2,62,119
Taxes	32,770	22,174	43,571	53,236	66,316
PAT	16,272	65,885	1,30,259	1,57,182	1,95,803

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	5,643	6,127	6,140	6,140	6,140
Reserves & Surplus	8,43,835	10,09,903	11,44,931	12,70,677	14,27,319
Shareholder's Funds	8,49,478	10,16,030	11,51,071	12,76,816	14,33,458
Deposits	64,01,049	70,73,061	82,17,210	93,68,756	1,06,82,437
Borrowings	14,79,541	14,28,732	18,51,339	17,45,684	16,95,942
Other liabilities	4,21,579	4,43,362	5,32,163	6,03,377	6,92,449
Total liabilities	91,51,648	99,61,184	1,17,51,782	1,29,94,632	1,45,04,286
Cash/Equivalent	9,72,683	6,17,298	11,09,871	10,74,416	10,76,264
Advances	57,14,242	62,37,202	70,76,960	81,44,323	93,72,668
Investments	15,67,343	22,61,196	27,55,972	29,00,923	31,09,206
Fixed Assets	43,129	42,450	45,724	48,799	51,874
Other assets	8,54,252	8,03,038	7,63,255	8,26,172	8,94,275
Total assets	91,51,648	99,61,184	1,17,51,781	1,29,94,632	1,45,04,286

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

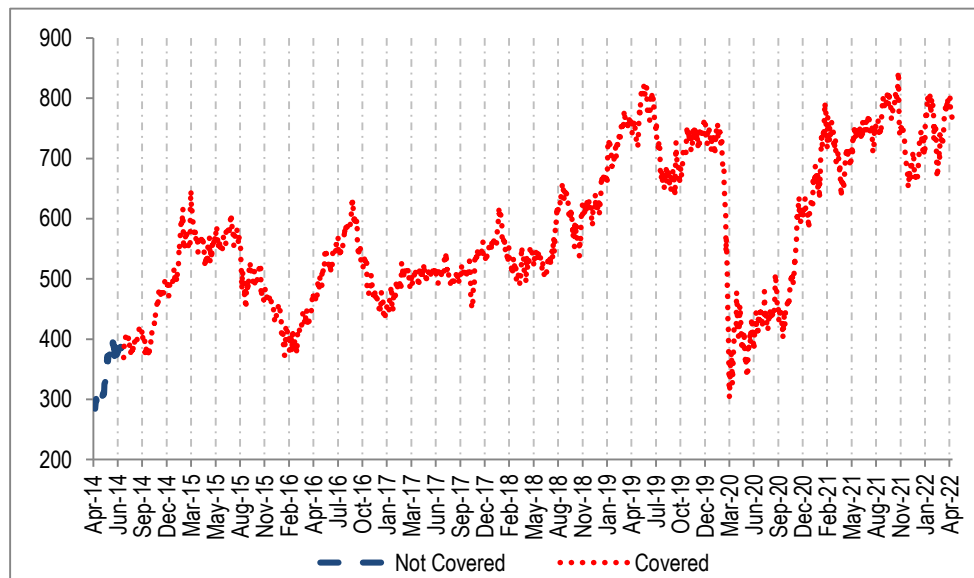
Y/E March	FY20	FY21	FY22	FY23E	FY24E
Growth (%)					
NII growth	16.1	16.0	13.3	15.7	16.2
Pre-provision profit growth	23.3	9.7	-3.7	16.1	19.6
PAT growth	-65.2	304.9	97.7	20.7	24.6
Business (%)					
Deposit growth	16.7	10.5	16.2	14.0	14.0
Advance growth	15.5	9.2	13.5	15.1	15.1
Business growth	16.1	9.9	14.9	14.5	14.5
CD	89.3	88.2	86.1	86.9	87.7
CASA	41.2	44.9	45.0	45.3	45.6
Operating efficiency (%)					
Cost-to-income	42.5	41.7	48.8	48.5	46.6
Cost-to-assets	2.0	1.9	2.2	2.2	2.2
Spreads (%)					
Yield on advances	9.1	8.0	7.5	7.7	7.8
Yield on investments	6.8	6.6	5.8	5.7	5.7
Cost of deposits	4.9	4.0	3.6	3.6	3.6
Yield on assets	7.6	7.0	6.2	6.4	6.5
Cost of funds	5.0	4.2	3.7	3.8	3.7
NIMs	3.2	3.4	3.3	3.3	3.5
Capital adequacy (%)					
Tier I	14.5	16.5	16.3	16.1	16.0
Tier II	3.0	2.7	2.2	2.2	2.2
Total CAR	17.5	19.1	18.5	18.3	18.2
Asset Quality (%)					
Gross NPA	5.1	3.9	3.0	2.7	2.3
Net NPA	1.6	1.1	0.8	0.7	0.6
Provision coverage	69.0	72.4	74.7	74.5	73.6
Slippage	4.1	3.1	3.3	1.9	1.9
Credit-cost	3.5	2.8	1.1	1.0	0.9
Return (%)					
ROE	2.0	6.8	11.1	12.3	13.7
ROA	0.2	0.7	1.1	1.2	1.3
RORWA	0.3	1.1	1.9	2.1	2.3
Per share					
EPS	5.8	21.5	42.4	51.2	63.8
BV	301.1	331.6	374.7	415.7	466.7
ABV	267.8	308.8	356.7	397.3	447.9
Valuation					
P/E	134.6	36.1	18.3	15.2	12.2
P/BV	2.6	2.3	2.1	1.9	1.7
P/ABV	2.9	2.5	2.2	2.0	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 July 2014	Buy	404	472
20 October 2014	Buy	403	490
8 January 2015	Accumulate	502	490
19 January 2015	Accumulate	515	550
30 April 2015	Accumulate	559	590
27 July 2015	Accumulate	581	590
28 October 2015	Accumulate	518	575
21 January 2016	Accumulate	392	435
27 April 2016	Accumulate	478	470
25 July 2016	Accumulate	537	525
26 October 2016	Accumulate	530	510
20 January 2017	Accumulate	481	490
14 February 2017	Accumulate	491	530
27 April 2017	Accumulate	516	515
26 July 2017	Accumulate	545	515
18 October 2017	Accumulate	513	525
23 January 2018	Accumulate	611	671
27 April 2018	Accumulate	495	473
31 July 2018	Accumulate	570	556
9 October 2018	Accumulate	557	604
5 November 2018	Accumulate	611	667
13 December 2018	Buy	609	761
30 January 2019	Buy	661	762
25 March 2019	Accumulate	749	819
8 April 2019	Accumulate	762	819
26 April 2019	Accumulate	741	818
8 July 2019	Accumulate	806	806
31 July 2019	Accumulate	708	786
7 October 2019	Accumulate	656	727
23 October 2019	Accumulate	713	725
8 January 2020	Accumulate	725	717
23 January 2020	Accumulate	713	716
27 March 2020	Buy	362	522
9 April 2020	Buy	391	522
29 April 2020	Buy	456	527
9 July 2020	Buy	444	527
22 July 2020	Buy	445	513
23 September 2020	Buy	413	549
7 October 2020	Buy	450	545
29 October 2020	Buy	506	606
26 November 2020	Accumulate	600	660
08 January 2021	Accumulate	671	720
28 January 2021	Accumulate	632	706
21 February 2021	Buy	750	917
28 April 2021	Buy	700	927
27 July 2021	Buy	754	913
26 September 2021	Buy	798	946
27 October 2021	Buy	844	976
25 January 2022	Buy	703	988
21 February 2022	Buy	779	1,013
29 April 2022	Buy	776	983

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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