



India

HOLD (previously ADD)

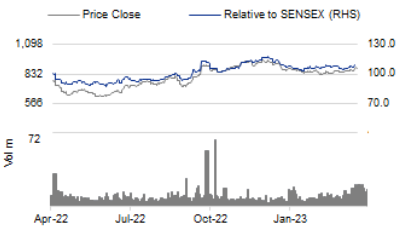
Consensus ratings*: Buy 49 Hold 2 Sell 0

Current price:	Rs881
Target price:	Rs950
Previous target:	Rs1,100
Up/downside:	7.8%
InCred Research / Consensus:	-14.2%
Reuters:	AXBK.NS
Bloomberg:	AXSB IN
Market cap:	US\$33,139m
	Rs2,712,220m
Average daily turnover:	US\$116.9m
	Rs9570.4m
Current shares o/s:	3,075.7m
Free float:	80.0%

*Source: Bloomberg

Key changes in this note

► We cut EPS by ~11.7%/14.9% for FY24F/25F. We downgraded Axis Bank to HOLD with a TP of Rs950, ~1.8x FY25F BV. Stock removed from high-conviction ideas.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.9	0.9	13.0
Relative (%)	0.6	(1.3)	7.2

Major shareholders	% held
LIC	8.2
Mutual Funds	22.7
Foregin Portfolio Investors	46.9

Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547
E jignesh.shial@incredcapital.com

Mayank AGARWAL

T (91) 22 4161 0000
E mayank.agarwal@incredcapital.com

Axis Bank

Concerns rising over margins & opex

- Axis Bank posted a 4Q loss of Rs57.3bn on one-off adjustment of amortization of goodwill and expenses pertaining to Citibank's consumer business buyout.
- We are building NIM compression (~30bp for FY24F) and a surge in opex (C/I ratio at 50% for FY24F) post-acquisition, which will weigh profitability.
- We cut EPS by ~11.7%/14.9% for FY24F/25F. We downgraded the rating to HOLD with a lower TP of Rs950. Stock removed from high-conviction ideas.

Spurt in credit led by Citi's asset buyout; laggard deposit growth

Axis Bank (AXSB) reported growth in advances by ~19% yoy/~11% qoq to Rs8.45tr in 4QFY23, led by Citibank's retail asset acquisition along with the momentum in unsecured and rural lending. Management remains firm on growing by ~400-600bp ahead of industry average growth, but a probable slowdown in credit demand to keep credit growth under check. Deposit growth remained a laggard but a gradual pick-up in liabilities is inevitable.

We are building in ~30bp compression in margins for FY24F

Axis Bank reported sequentially stable margins at ~426bp amid a sharp surge in the cost of funds sequentially. We believe a further rise in lending yields is unlikely amid ~68% variable rate portfolio (mostly external-benchmarked) as well as a tight competitive landscape. Stretched CD ratio (~89.3%) would require faster deposit augmentation. This, coupled with a gradual repricing of the deposit base, will exert pressure on margins. Accordingly, we are building in ~30bp compression in margins for FY24F.

Operating matrices to witness deterioration in FY24F

Axis Bank witnessed decent consolidation in operating expenses during FY23, resulting in the cost-to-income ratio improving to ~42.5% in 3QFY23 vs. ~49% in FY22. However, post-acquisition, we expect a spurt in operating expenses led by retail expansion and Citi's asset buyout (~Rs20bn expenses spread over six quarters). Compression in margins along with a surge in expenses, we feel, will deteriorate the cost-to-income ratio to ~50% for FY24F.

Asset quality stable; capital raising likely in near future

Axis Bank continues to witness an improvement in headline non-performing assets or NPAs, but such an exceptional credit cost trend is likely to reverse gradually. Management has been highlighting its comfort over capital adequacy but post adjusting for one-off, CET-1 dipped to ~14%, which will mandate the bank to raise capital in order to manage growth.

Outlook & valuation

We cut our EPS estimates by ~11.7%/14.9% for FY24F/25F, respectively. We downgraded Axis Bank to HOLD (from ADD) with a lower target price of Rs950 (Rs1,100 earlier), valuing the standalone bank at ~2x FY25F EPS (~16% RoE) and adding Rs60/share for subsidiaries. We have removed Axis Bank from our high-conviction ideas list. Better-than-expected growth/margins is an upside risk while lower profits is a downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	331,323	429,458	460,898	546,251	643,442
Total Non-Interest Income (Rsm)	152,205	165,009	202,552	230,197	265,654
Operating Revenue (Rsm)	483,528	594,466	663,450	776,449	909,096
Total Provision Charges (Rsm)	(73,593)	(26,526)	(43,255)	(56,386)	(79,417)
Net Profit (Rsm)	130,258	220,695	215,290	247,237	281,910
Core EPS (Rs)	42.48	31.16	70.03	80.43	91.71
Core EPS Growth	92%	69%	(2%)	15%	14%
FD Core P/E (x)	20.75	28.28	12.59	10.96	9.61
DPS (Rs)	1.00	2.00	7.00	12.00	14.00
Dividend Yield	0.11%	0.23%	0.79%	1.36%	1.59%
BVPS (Rs)	374.5	391.3	452.4	517.9	592.2
P/BV (x)	2.35	2.25	1.95	1.70	1.49
ROE	12.0%	18.6%	16.4%	16.4%	16.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	88,192	93,840	103,603	114,593	117,422	33.1%	2.5%
<i>NIM (% of AUM)</i>	3.7%	3.8%	4.1%	4.4%	4.3%		
Other Operating Income	42,233	29,990	39,412	46,654	48,953	15.9%	4.9%
Operating Expenses	65,764	64,960	65,852	68,473	74,699	13.6%	9.1%
Operating Profit	64,661	58,870	77,162	92,775	91,676	41.8%	-1.2%
Provisions	9,872	3,594	5,498	14,377	3,058	-69.0%	-78.7%
Exceptional Items	-	-	-	-	-		
PBT	54,789	55,276	71,664	78,398	88,618	61.7%	13.0%
Tax	-13,609	-14,024	-18,367	-19,867	-21,004	54.3%	5.7%
<i>Tax rate (%)</i>	24.8%	25.4%	25.6%	25.3%	23.7%		
PAT	41,180	41,253	53,298	58,531	67,614	64.2%	15.5%
Adv (Rs bn)	7,076,960	7,011,299	7,308,748	7,620,755	8,453,028	19.4%	10.9%
Depo (Rs bn)	8,217,209	8,035,717	8,108,067	8,481,733	9,469,452	15.2%	11.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revision in our earnings estimates

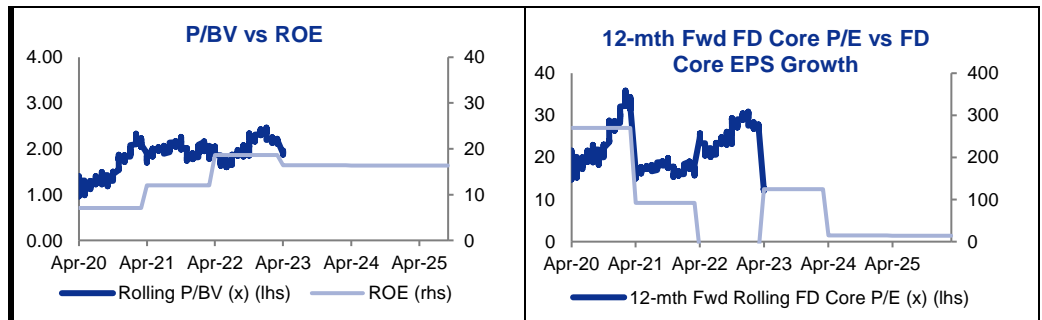
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest income	507,753	460,898	-9.2%	603,710	546,251	-9.5%	643,442
Non-interest income	197,186	202,552	2.7%	228,409	230,197	0.8%	265,654
PPOP	366,772	331,076	-9.7%	439,248	386,917	-11.9%	456,302
PAT	243,721	215,290	-11.7%	290,379	247,237	-14.9%	281,910
EPS (Rs)	79.3	70.0	-11.7%	94.5	80.4	-14.9%	91.7
BV (Rs)	460.1	452.4	-1.7%	537.2	517.9	-3.6%	592.2
Advances (Rs bn)	9,899	9,949	0.5%	11,674	11,734	0.5%	13,881
Deposits (Rs bn)	10,661	11,076	3.9%	12,297	12,943	5.2%	15,062

SOURCE: INCRED RESEARCH

Conference-call highlights

- Axis Bank expects industry credit growth to cool off & expects 12-13% industry credit growth in FY24F. The bank aims to grow 400-600bp higher than industry credit growth.
- Axis Bank to open 500 branches next year. It will focus on business correspondent & mobile application downloads by customers for reach expansion in addition to physical branch addition.
- Liquidity coverage ratio increased 13% qoq to 129% which impacted net interest margin or NIM by 6bp. Axis Bank expects liquidity to get back to the normal range in 1QFY24F.
- The higher write-off of Rs24.2bn during the quarter was majorly attributed to Axis Bank's own portfolio only & not related to CitiBank's portfolio.
- Recoveries in FY24F to remain lower than in FY23, but gross credit cost will continue to trend lower because of strong underwriting done.
- The Rs124bn one-time expense includes Rs119bn paid to CitiBank, Rs1.8bn for stamp duty & Rs3.6bn for harmonization of provisioning and expense policy.
- Axis Bank will incur Rs150bn post tax expense towards integration of CitiBank's assets over the next 18 months.
- 42% of the fixed-rate loan book matures in 12 months, which indicates repricing in the fixed-rate loan book as well.
- Outflow rate in deposits reduced by 550bp to 21% due to stickiness of customers.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	331,323	429,458	460,898	546,251	643,442
Total Non-Interest Income	152,205	165,009	202,552	230,197	265,654
Operating Revenue	483,528	594,466	663,450	776,449	909,096
Total Non-Interest Expenses	(226,023)	(268,699)	(326,783)	(383,505)	(446,271)
Pre-provision Operating Profit	247,421	320,483	331,076	386,917	456,302
Total Provision Charges	(73,593)	(26,526)	(43,255)	(56,386)	(79,417)
Operating Profit After Provisions	173,828	293,957	287,821	330,530	376,885
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	173,828	293,957	287,821	330,530	376,885
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	173,828	293,957	287,821	330,530	376,885
Exceptional Items					
Pre-tax Profit	173,828	293,957	287,821	330,530	376,885
Taxation	(43,570)	(73,262)	(72,531)	(83,294)	(94,975)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	130,258	220,695	215,290	247,237	281,910
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	130,258	220,695	215,290	247,237	281,910
Recurring Net Profit					

Balance Sheet

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	87.0%	87.8%	89.6%	90.3%	91.5%
Avg Liquid Assets/Avg Assets	69.1%	71.0%	72.6%	73.5%	74.6%
Avg Liquid Assets/Avg IEAs	113.1%	114.0%	111.5%	110.2%	109.0%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	7,076,960	8,453,030	9,949,101	11,734,329	13,880,876
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	7,076,960	8,453,030	9,949,101	11,734,329	13,880,876
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	7,076,960	8,453,030	9,949,101	11,734,329	13,880,876
Intangible Assets					
Other Non-Interest Earning Assets	763,253	720,630	753,150	787,248	823,005
Total Non-Interest Earning Assets	808,977	767,970	803,092	839,985	878,755
Cash And Marketable Securities	1,109,871	1,064,108	1,052,018	1,151,823	1,148,645
Long-term Investments	2,755,971	2,888,150	3,282,739	3,672,373	4,108,056
Total Assets	11,751,778	13,173,258	15,086,950	17,398,510	20,016,332
Customer Interest-Bearing Liabilities	8,217,209	9,469,450	11,075,583	12,942,618	15,062,385
Bank Deposits					
Interest Bearing Liabilities: Others	1,851,338	1,863,000	1,970,113	2,163,598	2,376,687
Total Interest-Bearing Liabilities	10,068,546	11,332,450	13,045,696	15,106,216	17,439,072
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	531,493	586,640	632,877	680,017	733,632
Total Liabilities	10,600,039	11,919,090	13,678,572	15,786,233	18,172,704
Shareholders Equity	1,151,741	1,218,368	1,408,378	1,612,277	1,843,627
Minority Interests					
Total Equity	1,151,741	1,218,368	1,408,378	1,612,277	1,843,627

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	13.3%	29.6%	7.3%	18.5%	17.8%
Operating Profit Growth	7.0%	26.5%	3.3%	16.7%	17.8%
Pretax Profit Growth	97%	69%	(2%)	15%	14%
Net Interest To Total Income	68.5%	72.2%	69.5%	70.4%	70.8%
Cost Of Funds	3.71%	3.95%	4.41%	4.13%	3.89%
Return On Interest Earning Assets	10.2%	11.0%	10.8%	10.4%	10.0%
Net Interest Spread	6.49%	7.02%	6.44%	6.27%	6.08%
Net Interest Margin (Avg Deposits)	4.36%	4.86%	4.49%	4.55%	4.60%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	30%	8%	13%	15%	17%
Interest Return On Average Assets	3.07%	3.45%	3.26%	3.36%	3.44%
Effective Tax Rate	25.1%	24.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Return On Average Assets	1.20%	1.77%	1.52%	1.52%	1.51%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.