

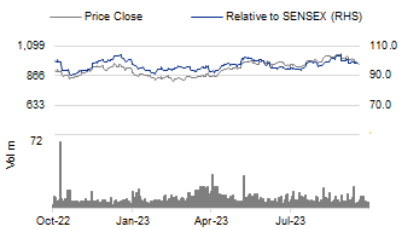
India

HOLD (no change)

Consensus ratings*:	Buy 45 Hold 5 Sell 0
Current price:	Rs955
Target price:	▲ Rs1,050
Previous target:	Rs1,030
Up/downside:	9.9%
InCred Research / Consensus:	-9.2%
Reuters:	AXBK.NS
Bloomberg:	AXSB IN
Market cap:	US\$35,397m
	Rs2,944,674m
Average daily turnover:	US\$120.7m
	Rs10039.6m
Current shares o/s:	3,075.7m
Free float:	80.0%
*Source: Bloomberg	

Key changes in this note

➤ Although the surge in retail deposits is impressive, overall deposit growth remains weak along with subdued growth in secured lending (mortgage) products.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.8)	(2.2)	5.8
Relative (%)	(3.0)	1.9	(1.6)

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

Margin decline & opex surge are inevitable

- Axis Bank posted 2QFY24 PAT of Rs58.6bn, despite elevated operating expenses, amid low deposit growth aiding margins & consistent low provisions.
- Although the surge in retail deposits is impressive, overall deposit growth remains weak amid subdued growth in secured lending (mortgage) products.
- Axis Bank’s struggle over managing its margins will stay along with elevated operating expenses for now. Retain HOLD rating on it with a new Rs1,050 TP.

Weak trend in credit and deposit growth; margin pressure inevitable

Axis Bank (AXSB) reported a growth in advances by ~22.8% yoy/~4.5% qoq to Rs8.4tr in 2QFY24, which is weak compared to most peers. Retail loans of the bank grew by ~4% qoq, mainly driven by credit cards and small business financing whereas the mortgage portfolio continued to remain a laggard. Deposits during the quarter grew by ~17.9% yoy/1.5% qoq, far behind the loan growth. Although retail deposit growth witnessed momentum, with limited room to extend LCR, the deposit growth acceleration is mandatory for the bank, which will exert pressure on margins in the coming quarters. Accordingly, we are building in ~30bp compression in margins for FY24F.

Operating matrices to witness deterioration in FY24F

Axis Bank witnessed a decent consolidation in its operating expenses during FY23, resulting in the cost-to-income ratio improving to ~42.5% in 3QFY23 vs. ~49% in FY22. However, post-acquisition, CitiBank’s retail assets require elevated cost of maintenance which, along with the acquisition-led expenses, will keep overall operating costs elevated. Axis Bank has reported ~5.9% sequential rise in operating expenses, leading to a cost-to-income ratio of ~50.2% vs. ~48.3% last quarter. We expect the trend to stay for some time.

Asset quality needs monitoring; capital raising likely in near future

Axis Bank reported stable headline non-performing assets, but net credit cost witnessed a sequential spike of ~8bp. Considering the bank’s weak secured loan augmentation, the profile of incremental unsecured loan customers remains volatile. Thus, we prefer to remain cautious on the future asset quality trend. Management has been highlighting its comfort over capital adequacy but after adjusting for one-off, CET-1 dipped to ~14%, which will force the bank to raise capital in order to manage growth.

Outlook & valuation

We prefer to remain skeptical of Axis Bank’s growth, margin and asset quality trajectory in the near term. We have valued the standalone bank at ~1.8x FY25F BV and added Rs50/share for subsidiaries. Accordingly, we have arrived at a revised target price of Rs1,050 (Rs1,030 earlier) and maintained our HOLD rating on the stock. Better-than-expected growth/margins pose an upside risk while lower profits are a downside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	331,323	429,458	497,025	585,051	667,014
Total Non-Interest Income (Rsm)	152,205	165,009	201,457	241,200	288,296
Operating Revenue (Rsm)	483,528	594,466	698,482	826,251	955,309
Total Provision Charges (Rsm)	(73,593)	(28,848)	(42,714)	(60,898)	(78,285)
Net Profit (Rsm)	130,258	95,797	227,408	261,150	295,764
Core EPS (Rs)	42.48	31.16	73.80	84.76	95.99
Core EPS Growth	92%	(27%)	137%	15%	13%
FD Core P/E (x)	22.49	30.66	12.95	11.27	9.95
DPS (Rs)	1.00	2.00	4.00	4.00	5.00
Dividend Yield	0.10%	0.21%	0.42%	0.42%	0.52%
BVPS (Rs)	374.5	402.8	473.4	553.0	642.7
P/BV (x)	2.55	2.37	2.02	1.73	1.49
ROE	12.0%	8.0%	16.7%	16.4%	16.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	93,840	103,603	114,593	117,422	119,588	123,146	18.9%	3.0%
<i>NIM (% of AUM)</i>	3.8%	4.1%	4.4%	4.3%	4.2%	4.2%		
Other Operating Income	29,990	39,412	46,654	48,953	50,873	50,341	27.7%	-1.0%
Operating Expenses	64,960	65,852	68,473	74,699	82,317	87,168	32.4%	5.9%
Operating Profit	58,870	77,162	92,775	91,676	88,144	86,319	11.9%	-2.1%
Provisions	3,594	5,498	14,377	3,058	10,349	8,146	48.2%	-21.3%
Exceptional Items	-	-	-	-	-	-		
PBT	55,276	71,664	78,398	88,618	77,795	78,173	9.1%	0.5%
Tax	-14,024	-18,367	-19,867	-21,004	-19,824	-19,538	6.4%	-1.4%
<i>Tax rate (%)</i>	25.4%	25.6%	25.3%	23.7%	25.5%	25.0%		
PAT	41,253	53,298	58,531	67,614	57,971	58,636	10.0%	1.1%
Adv (Rs b)	7,011,299	7,308,748	7,620,755	8,453,028	8,585,114	8,973,470	22.8%	4.5%
Depo (Rs b)	8,035,717	8,108,067	8,481,733	9,469,452	9,416,897	9,555,564	17.9%	1.5%

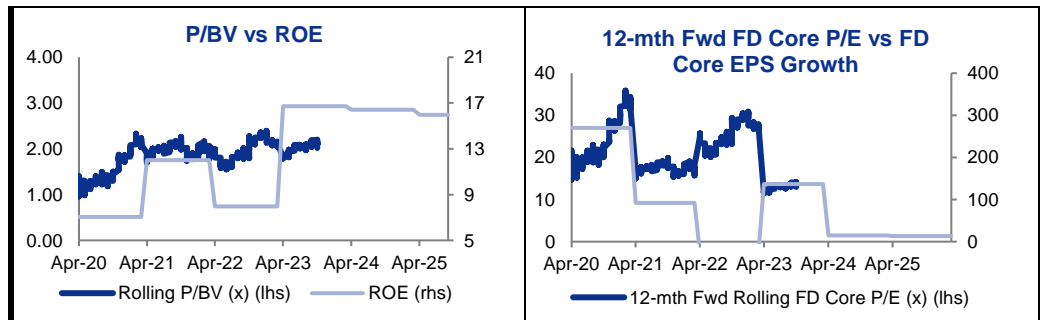
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	502,367	497,025	-1.1%	594,270	585,051	-1.6%	685,038	667,014	-2.6%
Non-interest income	201,457	201,457	0.0%	241,200	241,200	0.0%	288,296	288,296	0.0%
PPOP	366,724	347,960	-5.1%	438,315	411,435	-6.1%	513,338	475,283	-7.4%
PAT	237,975	227,408	-4.4%	281,176	261,150	-7.1%	324,115	295,764	-8.7%
EPS (Rs)	77.3	73.8	-4.5%	91.3	84.8	-7.2%	105.3	96.0	-8.8%
BV (Rs)	478.0	473.4	-1.0%	563.1	553.0	-1.8%	662.1	642.7	-2.9%
Advances (Rs bn)	9,871	9,871	0.0%	11,619	11,619	0.0%	13,747	13,747	0.0%
Deposits (Rs bn)	10,981	10,981	0.0%	12,832	12,832	0.0%	14,934	14,934	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	331,323	429,458	497,025	585,051	667,014
Total Non-Interest Income	152,205	165,009	201,457	241,200	288,296
Operating Revenue	483,528	594,466	698,482	826,251	955,309
Total Non-Interest Expenses	(226,023)	(265,615)	(336,451)	(396,950)	(461,730)
Pre-provision Operating Profit	247,421	197,906	347,960	411,435	475,283
Total Provision Charges	(73,593)	(28,848)	(42,714)	(60,898)	(78,285)
Operating Profit After Provisions	173,828	169,059	305,246	350,537	396,998
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	173,828	169,059	305,246	350,537	396,998
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	173,828	169,059	305,246	350,537	396,998
Exceptional Items					
Pre-tax Profit	173,828	169,059	305,246	350,537	396,998
Taxation	(43,570)	(73,262)	(77,838)	(89,387)	(101,235)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	130,258	95,797	227,408	261,150	295,764
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	130,258	95,797	227,408	261,150	295,764
Recurring Net Profit					

Balance Sheet Employment

(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%	90.2%	91.4%
Avg Liquid Assets/Avg Assets	69.1%	71.0%	72.6%	73.5%	74.5%
Avg Liquid Assets/Avg IEAs	113.1%	114.0%	111.8%	110.8%	109.8%
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	9,871,243	11,618,549	13,746,873
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	7,076,960	8,453,030	9,871,243	11,618,549	13,746,873
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	7,076,960	8,453,030	9,871,243	11,618,549	13,746,873
Intangible Assets					
Other Non-Interest Earning Assets	763,253	720,632	752,650	786,221	821,415
Total Non-Interest Earning Assets	808,977	767,971	792,869	828,582	865,968
Cash And Marketable Securities	1,109,871	1,064,108	1,089,992	1,234,598	1,253,924
Long-term Investments	2,755,971	2,888,148	3,285,997	3,691,333	4,147,397
Total Assets	11,751,778	13,173,257	15,040,101	17,373,062	20,014,162
Customer Interest-Bearing Liabilities	8,217,209	9,469,452	10,981,450	12,831,712	14,934,295
Bank Deposits					
Interest Bearing Liabilities: Others	1,851,338	1,863,000	1,961,617	2,153,405	2,364,234
Total Interest-Bearing Liabilities	10,068,546	11,332,453	12,943,067	14,985,117	17,298,528
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	531,493	586,640	629,839	673,979	723,879
Total Liabilities	10,600,039	11,919,093	13,572,905	15,659,096	18,022,408
Shareholders Equity	1,151,741	1,254,167	1,467,195	1,713,965	1,991,754
Minority Interests					
Total Equity	1,151,741	1,254,167	1,467,195	1,713,965	1,991,754

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	13.3%	29.6%	15.7%	17.7%	14.0%
Operating Profit Growth	7.0%	27.7%	10.1%	18.6%	15.0%
Pretax Profit Growth	97%	(3%)	81%	15%	13%
Net Interest To Total Income	68.5%	72.2%	71.2%	70.8%	69.8%
Cost Of Funds	3.71%	3.95%	4.86%	4.57%	4.38%
Return On Interest Earning Assets	10.2%	11.0%	11.9%	11.4%	10.8%
Net Interest Spread	6.49%	7.02%	7.00%	6.81%	6.45%
Net Interest Margin (Avg Deposits)	4.36%	4.86%	4.86%	4.91%	4.80%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	30%	15%	12%	15%	16%
Interest Return On Average Assets	3.07%	3.45%	3.52%	3.61%	3.57%
Effective Tax Rate	25.1%	43.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	1.20%	0.77%	1.61%	1.61%	1.58%

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.