

India

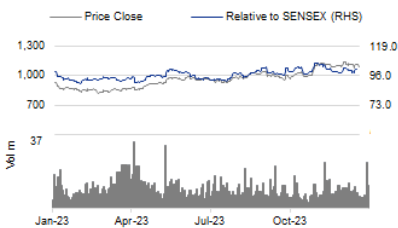
**HOLD** (no change)

Consensus ratings*:	Buy 46 Hold 4 Sell 0
Current price:	Rs1,089
Target price:	Rs1,100 ▲
Previous target:	Rs1,050
Up/downside:	1.0%
InCred Research / Consensus:	-11.1%
Reuters:	AXBK.NS
Bloomberg:	AXSB IN
Market cap:	US\$40,400m Rs3,359,637m
Average daily turnover:	US\$114.8m Rs9545.1m
Current shares o/s:	3,075.7m
Free float:	80.0%

\*Source: Bloomberg

**Key changes in this note**

- Axis Bank's management opted for non-retail deposits amid tight liquidity, and it expects such uncertainty and pressure margins to remain in the near term.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	0.1	13.0	19.7
Relative (%)	1.1	3.6	3.7

<b>Major shareholders</b>	% held
LIC	8.2
Mutual Funds	22.7
Foregin Portfolio Investors	46.9

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# Axis Bank

## Balances growth, liquidity & capital adequacy

- Axis Bank posted 3QFY24 PAT of Rs60.7bn led by slower opex growth and improved credit costs, but margins witnessed ~10bp sequential decline.
- Management has opted for non-retail deposits amid tight liquidity, and it expects such uncertainty and pressure on margins to remain in the near term.
- With capital raising turning inevitable, the struggle over secured asset growth & managing margins continues. Retain HOLD rating with a new TP of Rs1,100.

### Weak trend in credit and deposit growth; margin pressure inevitable

Axis Bank (AXSB) reported a growth in 3QFY24 advances by ~27.6% yoy/~3.9% qoq to Rs9.3tr, backed by the momentum in unsecured retail and business banking segments. The struggle for growing secured home loans continues amid tight competition, but loans against property witnessed a significant improvement in the last two quarters. Deposits grew at a faster pace (+5.2% qoq) vs. advances as the bank opted for non-retail term deposits (+12% qoq) while the growth, in retail terms, remained a laggard (+3% qoq). This impacted the margins, which declined by ~10bp qoq to ~401bp. We continue to believe that to manage liquidity, amid limited room from LCR (~117%), deposit growth acceleration is mandatory for the bank, which will exert pressure on its margins in the coming quarters.

### Operating matrices to witness deterioration in FY24F

3QFY24 saw a relatively weaker growth in operating expenses (+2.6% qoq) vs. net interest income or NII growth (+9.4% qoq), resulting in a qoq improvement in the cost-to-income matrix to ~49.5% vs. ~50.2% last quarter. However, CitiBank's retail assets require elevated maintenance costs which, along with acquisition-led expenses, will keep overall operating costs elevated. We are keeping the cost-to-income ratio at ~50% for FY24F-26F.

### Asset quality needs monitoring; raising capital becomes inevitable

Axis Bank posted consistent improvement in headline non-performing assets, backed by lower slippage and a few sizable upgrades in the corporate loan book. Considering the profile of incremental unsecured loan customers, we prefer to remain cautious on the future asset quality trend. The overall capital adequacy ratio stood at ~16.6%, with CET-1 ratio at ~13.7%. Axis Bank saw ~39bp accretion in capital due to profits, but stringent Reserve Bank of India or RBI norms had ~70bp negative impact on capital adequacy. Considering the elevated risk weight on personal unsecured loans and a rising share of risk weight assets to total assets (~71%), the bank is mandated to raise capital 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 higher target price of Rs1,100 (Rs1,050 earlier) and maintain 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	495,358	556,282	650,464
Total Non-Interest Income (Rsm)	152,205	165,009	207,104	254,417	303,829
Operating Revenue (Rsm)	483,528	594,466	702,463	810,699	954,293
Total Provision Charges (Rsm)	(73,593)	(28,848)	(39,693)	(54,595)	(76,846)
Net Profit (Rsm)	130,258	95,797	234,893	260,784	301,587
Core EPS (Rs)	42.48	31.16	76.23	84.64	97.88
Core EPS Growth	92%	(27%)	145%	11%	16%
FD Core P/E (x)	25.64	34.95	14.29	12.87	11.13
DPS (Rs)	1.00	2.00	4.00	4.00	5.00
Dividend Yield	0.09%	0.18%	0.37%	0.37%	0.46%
BVPS (Rs)	374.5	402.8	475.8	555.3	646.9
P/BV (x)	2.91	2.70	2.29	1.96	1.68
ROE	12.0%	8.0%	17.2%	16.3%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

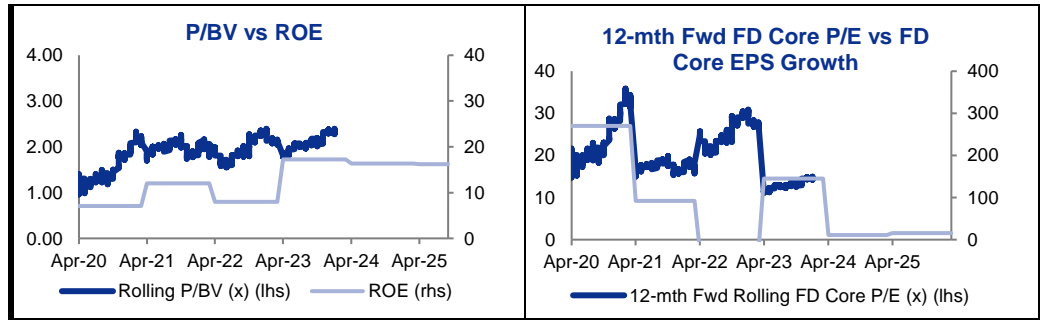
Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>93,840</b>	<b>103,603</b>	<b>114,593</b>	<b>117,422</b>	<b>119,588</b>	<b>123,146</b>	<b>18.9%</b>	<b>3.0%</b>
<i>NIM (% of AUM)</i>	3.8%	4.1%	4.4%	4.3%	4.2%	4.2%		
Other Operating Income	29,990	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%
<b>Operating Profit</b>	<b>58,870</b>	<b>77,162</b>	<b>92,775</b>	<b>91,676</b>	<b>88,144</b>	<b>86,319</b>	<b>11.9%</b>	<b>-2.1%</b>
Provisions	3,594	5,498	14,377	3,058	10,349	8,146	48.2%	-21.3%
Exceptional Items	-	-	-	-	-	-		
<b>PBT</b>	<b>55,276</b>	<b>71,664</b>	<b>78,398</b>	<b>88,618</b>	<b>77,795</b>	<b>78,173</b>	<b>9.1%</b>	<b>0.5%</b>
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%		
<b>PAT</b>	<b>41,253</b>	<b>53,298</b>	<b>58,531</b>	<b>67,614</b>	<b>57,971</b>	<b>58,636</b>	<b>10.0%</b>	<b>1.1%</b>
<b>Advances (Rs bn)</b>	7,011,299	7,308,748	7,620,755	8,453,028	8,585,114	8,973,470	<b>22.8%</b>	<b>4.5%</b>
<b>Deposits (Rs bn)</b>	8,035,717	8,108,067	8,481,733	9,469,452	9,416,897	9,555,564	<b>17.9%</b>	<b>1.5%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- Management expects the liquidity problem to continue in 4QFY24F. The main driver will be how the liquidity in the system plays out, and how the Reserve Bank of India deals with the liquidity problem.
- Gross slippage during the quarter stood at Rs37bn vs. Rs32.5bn in 2QFY24 and Rs38bn in 3QFY23. Recoveries and upgrades from non-performing assets or NPAs during the quarter stood at Rs25.9bn. During the quarter, the bank wrote off NPAs aggregating to Rs19.8bn.
- Loan recoveries from written-off accounts for the quarter stood at Rs6bn. Reported net slippage in 3QFY24 was at Rs4.8bn, of which retail loans accounted for Rs15.4bn and in the case of corporate loans, it was negative.
- During the quarter, the bank made a full provision on its entire alternate investment fund or AIF investments amounting to Rs18.2bn. The Covid provision was not utilized during the quarter.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	331,323	429,458	495,358	556,282	650,464
<b>Total Non-Interest Income</b>	<b>152,205</b>	<b>165,009</b>	<b>207,104</b>	<b>254,417</b>	<b>303,829</b>
Operating Revenue	483,528	594,466	702,463	810,699	954,293
<b>Total Non-Interest Expenses</b>	<b>(226,023)</b>	<b>(265,615)</b>	<b>(334,671)</b>	<b>(388,192)</b>	<b>(454,336)</b>
Pre-provision Operating Profit	247,421	197,906	353,721	404,641	481,661
<b>Total Provision Charges</b>	<b>(73,593)</b>	<b>(28,848)</b>	<b>(39,693)</b>	<b>(54,595)</b>	<b>(76,846)</b>
Operating Profit After Provisions	173,828	169,059	314,028	350,045	404,815
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	173,828	169,059	314,028	350,045	404,815
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	173,828	169,059	314,028	350,045	404,815
<b>Exceptional Items</b>					
Pre-tax Profit	173,828	169,059	314,028	350,045	404,815
Taxation	(43,570)	(73,262)	(79,135)	(89,262)	(103,228)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	130,258	95,797	234,893	260,784	301,587
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	130,258	95,797	234,893	260,784	301,587
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%	91.3%	93.0%	93.9%
Avg Liquid Assets/Avg Assets	69.1%	71.0%	72.6%	73.5%	74.5%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>113.1%</b>	<b>114.0%</b>	<b>110.4%</b>	<b>108.7%</b>	<b>108.0%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>7,076,960</b>	<b>8,453,030</b>	<b>9,747,521</b>	<b>11,384,588</b>	<b>13,516,639</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	7,076,960	8,453,030	9,747,521	11,384,588	13,516,639
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	7,076,960	8,453,030	9,747,521	11,384,588	13,516,639
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>763,253</b>	<b>720,632</b>	<b>691,265</b>	<b>721,767</b>	<b>753,738</b>
<b>Total Non-Interest Earning Assets</b>	<b>808,977</b>	<b>767,971</b>	<b>731,484</b>	<b>764,128</b>	<b>798,291</b>
Cash And Marketable Securities	1,109,871	1,064,108	821,684	1,018,013	971,651
<b>Long-term Investments</b>	<b>2,755,971</b>	<b>2,888,148</b>	<b>3,198,291</b>	<b>3,593,101</b>	<b>4,037,378</b>
Total Assets	11,751,778	13,173,257	14,498,979	16,759,830	19,323,960
Customer Interest-Bearing Liabilities	8,217,209	9,469,452	10,470,372	12,250,767	14,272,524
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	12,431,989	14,404,172	16,636,758
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	531,493	586,640	592,311	634,575	682,505
Total Liabilities	10,600,039	11,919,093	13,024,300	15,038,747	17,319,264
Shareholders Equity	1,151,741	1,254,167	1,474,680	1,721,084	2,004,696
<b>Minority Interests</b>					
Total Equity	1,151,741	1,254,167	1,474,680	1,721,084	2,004,696

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	13.3%	29.6%	15.3%	12.3%	16.9%
Operating Profit Growth	7.0%	27.7%	11.8%	14.9%	18.3%
Pretax Profit Growth	97%	(3%)	86%	11%	16%
Net Interest To Total Income	68.5%	72.2%	70.5%	68.6%	68.2%
Cost Of Funds	3.71%	3.95%	5.04%	4.77%	4.46%
Return On Interest Earning Assets	10.2%	11.0%	12.0%	11.3%	10.8%
Net Interest Spread	6.49%	7.02%	6.98%	6.55%	6.32%
Net Interest Margin (Avg Deposits)	4.36%	4.86%	4.97%	4.90%	4.90%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	30%	15%	11%	13%	16%
Interest Return On Average Assets	3.07%	3.45%	3.58%	3.56%	3.61%
Effective Tax Rate	25.1%	43.3%	25.2%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	1.20%	0.77%	1.70%	1.67%	1.67%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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