

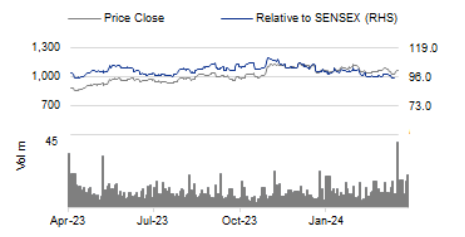
India

**HOLD** (no change)

Consensus ratings*:	Buy 45	Hold 4	Sell 0
Current price:	Rs1,063		
Target price:	▲	Rs1,150	
Previous target:		Rs1,100	
Up/downside:		8.2%	
InCred Research / Consensus:		-10.4%	
Reuters:	AXBK.NS		
Bloomberg:	AXSB IN		
Market cap:	US\$39,392m		
	Rs3,282,139m		
Average daily turnover:	US\$129.4m		
	Rs10778.9m		
Current shares o/s:	3,075.7m		
Free float:	80.0%		
*Source: Bloomberg			

**Key changes in this note**

- Total unsecured loans inched up to ~28% of retail loans, where we are cautious amid the recent surge in unsecured loans & rising difficulties in refinancing.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.9	2.0	21.1
Relative (%)	1.5	(2.3)	(1.4)

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

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# Axis Bank

## Unsecured loan book holding up NIM

- Axis Bank reported a 4QFY24 PAT of ~Rs71bn, up 5.4% qoq, led by a 5bp sequential improvement in net interest margin or NIM and low credit costs.
- Total unsecured loans inched up to ~28% of retail loans, where we are cautious amid the recent surge in unsecured loans & rising difficulties in refinancing.
- With capital raising turning inevitable, the struggle over secured asset growth & managing margins continues. Retain HOLD rating with a new TP of Rs1,150.

### Sluggish loan growth to persist; weak traction in secured loans

Axis Bank's loan book grew ~3.5% qoq in 4QFY24, sharply lagging deposit growth of 6.3%. The LCR ratio improved by 4pp sequentially to 120% while the LDR ratio declined by 3pp sequentially to 90%. The growth in the advances was led by retail loan growth of ~7% qoq while the SME book grew ~5% qoq and the corporate book declined by ~3% qoq. Within retail, the secured book grew at a slower pace led by relatively slow home and automobile loan growth of ~2% qoq each while unsecured lending grew at a higher pace.

### NIM up 5bp qoq led by higher-yield unsecured loans

Axis Bank reported a ~5bp sequential improvement in NIM to ~4.06% on the back of a rising proportion of higher-yield unsecured loans and a partial pass-on of interest rate hike on to the fixed-rate book (~30% of total loans). Total unsecured loans were at ~28% of total retail loans, which was higher than ~25% witnessed in the previous quarter (3QFY24). The bank expressed comfort and confidence in growing its unsecured book but considering the recent surge in unsecured portfolio of the industry as a whole and rising difficulties in refinancing (due to tighter liquidity), we prefer to remain watchful over this space.

### Rising pressure on capital adequacy

The overall capital adequacy ratio of Axis Bank stood at ~16.6%, with the CET-1 ratio at ~13.7%. In FY24, Axis Bank saw ~44bp accretion in capital due to profits, but stringent Reserve Bank of India or RBI norms had ~72bp 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 (~70%), the bank is mandated to raise capital to manage growth.

### Outlook & valuation

We prefer to remain cautious on Axis Bank given slowing credit growth, rising pressure on margins amid deposit growth to outpace loan growth, rising share of unsecured loans and a volatile asset quality trend. We value the standalone bank at ~1.7x FY26F BV and add Rs60/share for its subsidiaries. Accordingly, we have arrived at a higher target price of Rs1,150 (Rs1,100 earlier) while maintaining our HOLD rating on the stock. Better-than-expected growth/margins is an upside risk while lower profits pose a downside risk.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	429,458	498,945	544,301	633,260	755,684
Total Non-Interest Income (Rsm)	165,009	224,420	265,741	306,752	350,074
Operating Revenue (Rsm)	594,466	723,364	810,042	940,012	1,105,758
Total Provision Charges (Rsm)	(28,848)	(40,631)	(48,146)	(61,391)	(79,210)
Net Profit (Rsm)	95,797	248,614	265,628	305,957	358,687
Core EPS (Rs)	31.16	80.69	86.21	99.30	116.41
Core EPS Growth	(27%)	159%	7%	15%	17%
FD Core P/E (x)	34.12	13.18	12.33	10.71	9.13
DPS (Rs)	2.00	4.00	4.00	5.00	6.00
Dividend Yield	0.19%	0.38%	0.38%	0.47%	0.56%
BVPS (Rs)	402.8	487.4	568.5	661.4	770.2
P/BV (x)	2.64	2.18	1.87	1.61	1.38
ROE	8.0%	18.0%	16.2%	16.1%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>93,840</b>	<b>1,03,603</b>	<b>1,14,593</b>	<b>1,17,422</b>	<b>1,19,588</b>	<b>1,23,146</b>	<b>1,25,322</b>	<b>1,30,890</b>	<b>11.5%</b>	<b>4.4%</b>
<i>NIM (% of AUM)</i>	3.8%	4.1%	4.4%	4.3%	4.2%	4.2%	4.1%	4.1%		
Other Operating Income	29,990	39,412	46,654	48,953	50,873	50,341	55,548	67,658	38.2%	21.8%
Operating Expenses	64,960	65,852	68,473	74,699	82,317	87,168	89,457	93,191	24.8%	4.2%
<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>91,412</b>	<b>1,05,357</b>	<b>14.9%</b>	<b>15.3%</b>
Provisions	3,594	5,498	14,377	3,058	10,349	8,146	10,283	11,853	287.6%	15.3%
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>81,129</b>	<b>93,504</b>	<b>5.5%</b>	<b>15.3%</b>
Tax	-14,024	-18,367	-19,867	-21,004	-19,824	-19,538	-20,418	-22,207	5.7%	8.8%
<i>Tax rate (%)</i>	25.4%	25.6%	25.3%	23.7%	25.5%	25.0%	25.2%	23.8%		
<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>60,711</b>	<b>71,297</b>	<b>5.4%</b>	<b>17.4%</b>
<b>Adv (Rs b)</b>	70,11,299	73,08,748	76,20,755	84,53,028	85,85,114	89,73,470	93,22,864	96,50,684	<b>14.2%</b>	<b>3.5%</b>
<b>Depo (Rs b)</b>	80,35,717	81,08,067	84,81,733	94,69,452	94,16,897	95,55,564	1,00,48,995	1,06,86,414	<b>12.9%</b>	<b>6.3%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

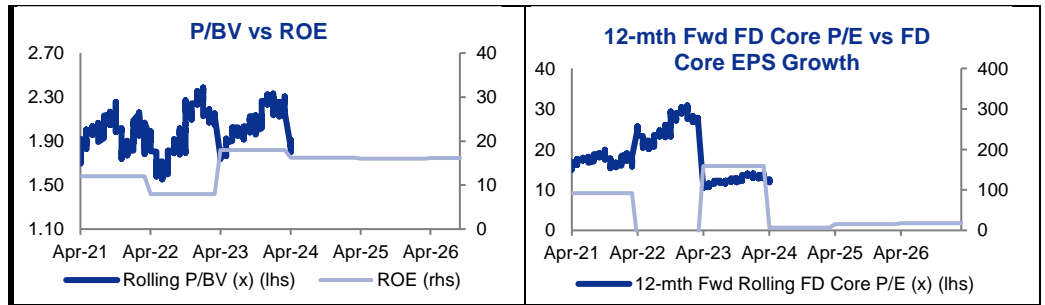
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	5,56,282	5,44,301	-2.2%	6,50,464	6,33,260	-2.6%	NA	7,55,684	NA
Non-interest income	2,54,417	2,65,741	4.5%	3,03,829	3,06,752	1.0%	NA	3,50,074	NA
PPOP	4,04,641	4,04,693	0.0%	4,81,661	4,72,071	-2.0%	NA	5,60,669	NA
PAT	2,60,784	2,65,628	1.9%	3,01,587	3,05,957	1.4%	NA	3,58,687	NA
EPS (Rs)	84.6	86.2	1.9%	97.9	99.3	1.4%	NA	116.4	NA
BV (Rs)	555.3	568.5	2.4%	646.9	661.4	2.3%	NA	770.2	NA
Advances (Rs bn)	11,385	10,985	-3.5%	13,517	12,761	-5.6%	NA	15,155	NA
Deposits (Rs bn)	12,251	12,560	2.5%	14,273	14,633	2.5%	NA	16,892	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 4QFY24 earnings conference-call highlights

- Low-yielding RIDF bonds declined to 1.5% of total assets from 2.3% yoy.
- Technology and digital spending grew by 32% yoy and constituted 9.3% of total operating expenses.
- Management aims to maintain LDR at ~90%. The deposit growth is expected to outpace loan growth for the next few quarters. The bank is expecting to grow 300-400bp faster than industry over the next three-to-five years.
- In FY24, there was an increase of 95-97bp in the cost of funds and a 97bp increase in yields.
- The EBLR-linked loan book is around 50% while the fixed-rate loan book is around 30%. Management indicated that there is some room to increase yields in the fixed-rate loan book.
- Credit card spending has moved into a cyclical pattern. The growth rate is tapered, but there is no slowdown. This is due to a fall in the revolver rates, which led to a lower balance at the end of the cycle.
- Axis Bank does not see any stress in its asset quality in the credit card business and the unsecured loan business.
- Despite an improvement in priority sector lending, it is not sufficient to meet regulatory requirements. Thus, the bank has to depend on inorganic means.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	429,458	498,945	544,301	633,260	755,684
<b>Total Non-Interest Income</b>	<b>165,009</b>	<b>224,420</b>	<b>265,741</b>	<b>306,752</b>	<b>350,074</b>
Operating Revenue	594,466	723,364	810,042	940,012	1,105,758
<b>Total Non-Interest Expenses</b>	<b>(265,615)</b>	<b>(338,063)</b>	<b>(387,484)</b>	<b>(449,644)</b>	<b>(525,191)</b>
Pre-provision Operating Profit	197,906	371,232	404,693	472,071	560,669
<b>Total Provision Charges</b>	<b>(28,848)</b>	<b>(40,631)</b>	<b>(48,146)</b>	<b>(61,391)</b>	<b>(79,210)</b>
Operating Profit After Provisions	169,059	330,601	356,547	410,680	481,459
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	169,059	330,601	356,547	410,680	481,459
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	169,059	330,601	356,547	410,680	481,459
<b>Exceptional Items</b>					
Pre-tax Profit	169,059	330,601	356,547	410,680	481,459
Taxation	(73,262)	(81,986)	(90,920)	(104,724)	(122,772)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	95,797	248,614	265,628	305,957	358,687
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	95,797	248,614	265,628	305,957	358,687
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	87.8%	89.8%	88.8%	87.3%	88.5%
Avg Liquid Assets/Avg Assets	71.0%	72.7%	73.7%	75.0%	76.0%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>114.0%</b>	<b>112.2%</b>	<b>114.0%</b>	<b>116.5%</b>	<b>115.4%</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

**Balance Sheet**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Gross Loans</b>	<b>8,453,030</b>	<b>9,650,684</b>	<b>10,985,078</b>	<b>12,760,638</b>	<b>15,154,628</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	8,453,030	9,650,684	10,985,078	12,760,638	15,154,628
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	8,453,030	9,650,684	10,985,078	12,760,638	15,154,628
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>720,632</b>	<b>604,740</b>	<b>721,767</b>	<b>753,738</b>	<b>787,261</b>
<b>Total Non-Interest Earning Assets</b>	<b>767,971</b>	<b>661,586</b>	<b>780,755</b>	<b>814,919</b>	<b>850,814</b>
Cash And Marketable Securities	1,064,108	1,144,544	1,746,597	2,171,624	2,138,479
<b>Long-term Investments</b>	<b>2,888,148</b>	<b>3,315,273</b>	<b>3,619,455</b>	<b>4,006,198</b>	<b>4,493,406</b>
Total Assets	13,173,257	14,772,086	17,131,886	19,753,378	22,637,326
Customer Interest-Bearing Liabilities	9,469,452	10,686,414	12,559,662	14,633,084	16,892,114
Bank Deposits					
Interest Bearing Liabilities: Others	1,863,000	1,968,118	2,160,426	2,371,817	2,604,216
Total Interest-Bearing Liabilities	11,332,453	12,654,531	14,720,088	17,004,900	19,496,330
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	586,640	606,939	649,934	698,632	754,034
Total Liabilities	11,919,093	13,261,470	15,370,022	17,703,532	20,250,364
Shareholders Equity	1,254,167	1,510,616	1,761,863	2,049,845	2,386,962
<b>Minority Interests</b>					
Total Equity	1,254,167	1,510,616	1,761,863	2,049,845	2,386,962

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	29.6%	16.2%	9.1%	16.3%	19.3%
Operating Profit Growth	27.7%	17.2%	9.7%	16.0%	18.4%
Pretax Profit Growth	(3%)	96%	8%	15%	17%
Net Interest To Total Income	72.2%	69.0%	67.2%	67.4%	68.3%
Cost Of Funds	3.95%	4.96%	4.85%	4.42%	4.08%
Return On Interest Earning Assets	11.0%	12.1%	11.7%	11.2%	10.8%
Net Interest Spread	7.02%	7.12%	6.86%	6.82%	6.67%
Net Interest Margin (Avg Deposits)	4.86%	4.95%	4.68%	4.66%	4.79%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	15%	11%	12%	13%	14%
Interest Return On Average Assets	3.45%	3.57%	3.41%	3.43%	3.57%
Effective Tax Rate	43.3%	24.8%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.77%	1.78%	1.67%	1.66%	1.69%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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