

Stock Update Axis Bank Ltd.

June 12, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Banks	Rs. 974.6	Buy between Rs.965-985 band & add more on dips to Rs. 865-885	Rs.1065	Rs.1173	2-3 quarters

HDFC Scrip Code	AXIBAN
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB
CMP June 9, 2023	974.6
Equity Capital (Rs Cr)	618
Face Value (Rs)	2
Equity Shares O/S (Cr)	308
Market Cap (Rs Cr)	3,00,078
Adjusted Book Value (Rs)	389
Avg. 52 Wk Volumes	10667375
52 Week High	981.7
52 Week Low	618.25

Share holding Pattern % (Mar, 2023)	
Promoters	8.16
Institutions	81.05
Non Institutions	10.79
Total	100.00



HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Axis Bank is the third largest private sector bank in India with 41 million + customers and ~91000 employees. As of Q4FY23, it has a total of 4,903 branches and has a market share of 6% in advances, and 5.1% in total deposits in the Indian banking sector, as against 4.9% and 4.3% respectively in FY19. Over the years it has consistently focused on de-risking its loan book by reducing corporate portfolio and focusing on high margin but less risky retail segment.

We like Axis Bank because of its strong balance sheet with granular, sticky liability base, lower stress levels, higher PCR (Provision Coverage Ratio) and adequate CAR (Capital Adequacy Ratio). Improved underwriting practices and lower exposure to contextually vulnerable segments will help the Bank become even stronger. The loan book quality has improved significantly post the appointment of new top level management. The bank is scaling up retail franchise, within which the concentration is on secured loans and a high proportion of its customers are Existing to Bank (ETB).

Moreover, it has also changed the strategy for the corporate book. Now the incremental sanctions are done to better rated organizations and focus remains on short term loans. We are estimating lower credit cost as majority of the back-book clean-up seems to be over. It holds cumulative provision of Rs. 11,928 Cr which are over and above those held for NPAs. This takes the total PCR to 145% of the bank's GNPA's. Hence, it has sufficient provisions to accommodate the impact of transitioning to ECL provisioning norms. The bank has also developed significant sources of fee based income which is granular by nature. It is also focused on tech investments and digital initiatives in order to ready itself for the next leg of growth in retail and SME segments.

Going forward, the bank aims to lift its growth trajectory, improve profitability metrics, strengthen the balance sheet and initiate digital transformation to be future ready. We are optimistic on the long term growth story of the bank and the valuations also remain attractive.

Near term challenges such as bank's ability to retain and grow Citi's acquired business, impact of interest rate decisions of the RBI, rising opex due to digital initiatives, timing and the price at which the bank will raise funds to shore up its capital adequacy will be the key metrics to watch out for.

Valuation & Recommendation:

We have envisaged 12% CAGR in NII and 13% CAGR in net profit over FY23-25E, while the loan book is estimated to grow at 12% CAGR and deposits are expected to grow at 14% CAGR, over the same time frame. We believe that stable credit growth, sustained NIMs, improvement



in operating efficiency, realization of synergies and contained credit cost could help in improvement of return ratios. We have projected that the bank could report RoAA of around 1.8% by FY25E. Axis Bank is available at 1.8.x FY25E ABV, which we think provides meaningful room for the upside growth compared to the other two large peers.

We feel that investors can buy the stock between Rs. 965-985 and add more at Rs. 865-885 band. We expect the Base case fair value of Rs. 1065 (2x ABV FY25E+SOTP) and the Bull case fair value of Rs. 1173 (2.2x ABV FY25E+SOTP) over the next 2-3 quarters.

Financial Summary

	Q4FY23	Q4FY23*	Q4FY22	YoY(%)*	Q3FY23	QoQ(%)*	FY21	FY22	FY23P	FY24E	FY25E
NII	11742	11742	8819	33%	11459	2%	29239	33132	42946	47904	53619
PPP	9168	9168	6466	42%	9278	-1%	23128	24742	32047	37812	44101
PAT	-5728	6625	4118	61%	5853	13%	6589	13026	9579	24668	28248
EPS (Rs)	-18.6	21.6	13.4	61%	19.0	13%	21.5	42.4	31.1	80.2	91.8
ABVPS							302.9	350.0	389.0	459.9	541.8
P/E (x)							45.3	23.0	31.3	12.2	10.6
P/ABV (x)							3.2	2.8	2.5	2.1	1.8
RoAA (%)							0.7%	1.2%	0.8%	1.8%	1.8%
RoAE (%)							7.1%	12.0%	8.0%	18.1%	17.6%

*Excluding exceptional losses related to the acquisition of Citi Bank's Business.

(Source: Company, HDFC sec)

Recent Developments

Update on Citi's consumer business acquisition

Axis bank had announced its plan to acquire Citibank's consumer businesses for Rs 12,325 Cr in March 2022. The acquisition comprised of Citi's credit cards, unsecured and secured lending portfolios, wealth management, private banking and retail deposit businesses. The bank acquired 2.4 million customers and ~3200 employees. As of Q4FY23, the said takeover is complete and it is expected that the acquisition will strengthen the bank's position among large private sector banks and help it increase its premium market share growth. The management has specified that they have identified 60 potential synergy possibilities, of which actions have already been taken on 20.

This acquisition led to a one time write off of Rs. 12,490 crores being amortization of goodwill equal to the value of purchase consideration (Rs. 11,950 crores), impact of policy harmonization on operating expenses (Rs.129 crores), impact of policy harmonization on provisions and contingencies (Rs.232 crores) and stamp duty charges on the acquisition (Rs.179 crores). As mentioned earlier, the capital adequacy ratio of the bank saw a slight dip on account of the acquisition but the management has conveyed that it is in no hurry to raise further



capital and is confident of generating the required funds internally through its operations. Now that this acquisition is complete, the bank's ability to retain the acquired customers and cross sell the different products to them remains the key point to watch out here.

To enhance the comparability of reported figures with previous periods, we have mentioned (*) in our report wherever the figures/ratios are excluding Citi Bank's business.

Q4FY23 Result Update

Axis Bank reported healthy Net Interest Income of Rs. 11,742 crores up 33%/2% YoY/QoQ. Its NIM stood at 4.22% for the quarter as against 4.26% in Q3FY23 and 3.49% in Q4FY22. The slight sequential dip of 4bps in its NIM and almost flat NII was despite a 3bps positive impact of interest on income tax refund. The major culprits for the fall in its margins are its increasing cost of funds at 4.75%, up 92/41bps YoY/QoQ and the excess liquidity on its balance sheet to accommodate CITI bank's acquisition. The bank reported fee based income of Rs. 4,676 crores, which grew by 24/14% YoY/QoQ. Within the fee income, retail component grew by 31/14% YoY/QoQ and constituted 69% of bank's total fee income. Its PPOP stood at Rs. 9,168 crores which is up 42% YoY but is down 1% sequentially. This sequentially flat growth in its PPOP was on account of opex growing at 9% sequentially but NII growing at only 2% sequentially. The opex stood at Rs. 7,470 crores which is up 14%/9% YoY/QoQ. Within its opex, technology related expenses constituted 8.7% and increased by 27% YoY. Credit costs for the quarter stood at 0.22% down 10bps QoQ. The bank reported a net loss of Rs. 5,728 crores on account of exceptional items of Rs. 12,490 crores related to the acquisition of Citi Bank's retail operations in India. Excluding this exceptional item, PAT stands at Rs. 6,625 crores* up 61/13% YoY/QoQ. This healthy growth in PAT was largely driven by lower provisions. Excluding the exceptional items, its annualized RoA stood at 2.1%* which is up 64bps YoY, and its annualized RoE stood at 21.12%* as against 15.87% in Q4FY22.

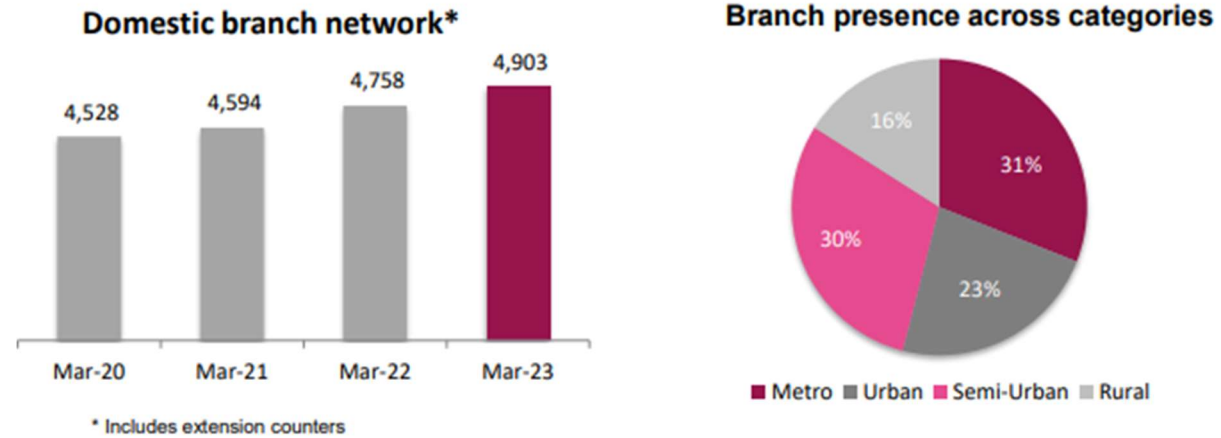
The bank reported total advances of Rs. 8,45,303 crores which is up 19/11% YoY/QoQ, within which the domestic loan book grew by 23/13% YoY/QoQ and constituted 96% of the total loan book. The advance mix as of March 2023 is 58% retail, 31% corporate and rest 11% SME segment. Its total deposits stood at Rs. 9,46,945 crores, up 15/12% YoY/QoQ. If we exclude figures of Citi bank, the advances stand at Rs. 8,19,288 crores* (up 16/7% YoY/QoQ). The book value of the Bank's Investments portfolio as on 31st March 2023, was Rs. 2,88,815 crores, of which Rs. 2,27,754 crores were in government securities, while Rs. 54,977 crores were invested in corporate bonds and Rs. 6,084 crores in other securities such as equities, mutual funds, etc. Out of these, 73% are in Held till Maturity (HTM) category, while 24% of investments are Available for Sale (AFS) and 3% are in Held for Trading (HFT) category.

In terms of asset quality, the bank reported GNPA's of 2.02% as against 2.38% in Q3FY23 and NNPAs of 0.39% as against 0.47% in Q3FY23, while its PCR stood at 81% at March 2023 as against 75% in March 2022. As of March 2023, the total capital adequacy ratio stood at 17.64% of which Tier 1 Capital stood at 14.02%. The Tier 1 Capital stood at 15.24% in March 2022. The bank has attributed this fall in the tier 1



capital ratio to Citi Bank’s acquisition during the year. Further, its liquidity coverage ratio stood at 129% as of Q4FY23 as against the regulatory requirement of 100% and 116% in Q3FY23. The management expects the LCR to come to its normal levels by the end of Q1FY24.

The domestic subsidiaries reported a total net profit after tax in FY23 of Rs. 1,304 Cr, up 9% YoY. This translates into a return on investment of 50%. The bank has a total of 4,903 branches as of March 2023 as against 4,758 branches in FY22. It has a geographically diversified branch network across India as can be seen in the following chart:



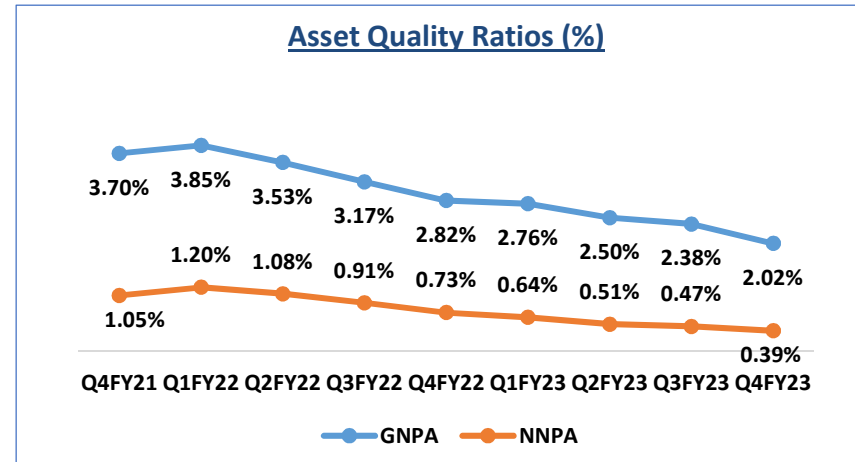
(Source: Company, HDFC sec)

Benign asset quality

During the quarter, GNPA stood at 2.02%, improved 80bps YoY and 36bps QoQ, while NNPA stood at 0.39%, improving 34 bps YoY and 8 bps QoQ, primarily on account of healthy recoveries and upgrades. Provision Coverage Ratio (PCR) is at 81%, as against 75% in Q4FY22, while it was flat sequentially. The gross slippages stood at Rs. 3,375 crores, translating to 1.76% v/s 2.03% in the previous quarter while the net slippages moderated to 0.4% of loans. Recoveries from written off accounts stood at Rs. 823 crores and the bank wrote off Rs. 2,429 crores of NPAs during the quarter. Covid linked standard fund based restructured book stood at Rs. 2,047 crores which is merely 0.22% of Gross Customer Assets (GCA), and the bank carries a provision of 22% on these assets. The BB and below book dipped to 0.65% in Q4FY23 as against 0.93% in Q3FY23. The bank reported annualized credit costs of 0.6% for Q4FY23 and 0.5%* excluding the impact of Citi Bank’s acquisition, as against 0.95% in Q3FY23 and 0.71% in Q4FY22. For the entire FY23, the credit costs stand at 0.74% which is now below the long term average credit costs of 1.11% over FY03-22. The bank is confident that the credit costs contributed from its wholesale book would be lower going forward on account of high granularity and quality of assets. This gives the bank room to comfortably grow its unsecured retail book where risk adjusted returns are high.



During the quarter, the bank has not utilized its COVID provisions and overall it holds cumulative provision of Rs. 11,928 Cr which are over and above those held for NPAs. These provisions translate to 1.42% of the bank's standard assets and when included these in the PCR calculations, it covers 145% of the bank's GNPA's. The outlook for the bank's asset quality going forward remains positive, backed by high quality incremental lending and healthy provisions at its helm.



	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
GNPA - Opening Balance	23301	21822	21037	19894	19961
Fresh Slippages	3981	3684	3383	3807	3375
NPAs acquired from Citi Bank	0	0	0	0	396
Upgrades & Recoveries	3763	2957	2826	2088	2699
Write Offs	1697	1512	1700	1652	2429
GNPA - Closing Balance	21822	21037	19894	19961	18604
Provisions	16310	16256	15898	16131	15045
NNPA	5512	4781	3996	3830	3559
GNPA%	2.8%	2.8%	2.5%	2.4%	2.0%
NNPA %	0.7%	0.6%	0.5%	0.5%	0.4%
PCR %	75.0%	77.0%	80.0%	81.0%	81.0%
Gross Slippages %	2.38%	2.05%	1.88%	2.03%	1.76%
Credit Costs (Annualised %)	0.71%	0.79%	0.74%	0.95%	0.60%

(Source: Company, HDFC sec)



Management Commentary:

- Management has set the target loan growth for FY24 to be 400-600bps higher than the industry.
- It plans to add approximately 500 branches in FY24.
- Cost of funds for Q4FY23 stood at 4.75% for Q4FY23 and the management expects this to rise even further in Q1FY24.
- The cost to assets ratio currently stands at 2.25% for Q4FY23 and the management wants to bring this below 2% in the medium term. This seems to be a tricky target considering the bank’s digital investments and the potential integration expenses of Citi’s business.

Key Triggers:

Strong overall credit growth in a diversified loan book:

The bank reported healthy growth in its advances which stood at Rs. 8,45,303 crores, up 19/11% YoY/QoQ. 96% of bank’s loan book is domestic in nature. The mix between Corporate/SME/Retail stood at 31/11/58% as of Q4FY23. Within advances, the retail book stood at Rs. 4,87,571 crores, up 22/14% YoY/QoQ, the corporate book stood at Rs. 2,65,009 crores, up 14/6% YoY/QoQ, and finally the SME book stood at Rs. 92,723 crores, up 23/13% YoY/QoQ. Hence the sequential growth in bank’s loan book was driven by corporate and retail loans.

If we exclude figures of Citi bank, the advances stand at Rs. 8,19,288 crores* (up 16/7% YoY/QoQ), within which retail book stands at Rs. 4,61,666 crores* (up 15/7% YoY/QoQ). The corporate and SME books remains same as the bank has acquired only the retail banking operations of Citi Bank.

	Q4FY23	Q3FY23	QoQ	Q4FY22	YoY	% Share
Net Advances	8,45,303	7,62,076	11%	7,07,696	19%	100%
Corporate	2,65,009	2,50,572	6%	2,33,609	13%	31%
SME	92,723	82,191	13%	74,196	25%	11%
Retail/Branch & Business Banking	4,87,571	4,29,313	14%	3,99,891	22%	58%
Housing	1,57,392	1,47,366	7%	1,43,133	10%	32%
LAP	50,756	44,491	14%	42,472	20%	10%
Business Banking	42,982	38,319	12%	28,617	50%	9%
Auto	52,278	46,834	12%	44,421	18%	11%
Credit Cards	31,684	20,567	54%	15,847	100%	6%
Personal loans	54,561	50,688	8%	45,242	21%	11%
Rural Banking	70,918	59,527	19%	56,332	26%	15%
Others	27,000	13,869	95%	23,827	13%	6%

(Source: Company, HDFC sec)



Shifting Focus to Retail Loans:

The bank has a well-diversified retail book consisting of various products such as home loans, rural loans, personal loans, auto loans, etc. The bank extended a total of Rs. 4,87,571 crores, up 22/14% YoY/QoQ and during the quarter, it acquired Citi Bank's retail business in India. Excluding this, the retail book stands at Rs. 4,61,666 crores* (up 15/7% YoY/QoQ). Approximately 78% of this retail book is secured. Further, during the quarter, the retail disbursements consisted 80% secured advances while the rest being unsecured. Around 75% of the credit cards portfolio and 100% of the Personal Loans portfolio is to salaried segment. Summarized major updates for a few of the above segments is as below:

- The **Small Business Banking segment** contributes 9% of the total retail book. This book has grown from Rs. 8,688 crores in FY19 to Rs. 42,982 crores, at a CAGR of 49%. In Q4FY23, it displayed a robust growth of 50%/12% YoY/QoQ. This consists of Rs. 32,666 crores of working capital loans and rest Rs. 10,316 crores of business loans to a well-diversified bunch of industries. 78% of the book is secured in nature.
- The **Rural portfolio** consists of Rs. 70,918 crores of loans which is up 26%/19% YoY/QoQ and contributes 15% to the total retail book. The book has grown from Rs. 37,451 crores in FY20 at a CAGR of 24%. In this segment, the bank offers loans to farmers, gold loans, farm mechanization loans, microfinance loans, etc. The bank has advanced loans across 660 districts in India
- The **Credit Card book** stands at Rs. 31,684 crores, up 97%/53% YoY/QoQ and contributes 7% to the total retail book. During Q4FY23, the bank issued 1.13 million credit cards and is the 5th consecutive quarter in which the bank has issued more than 1 million credit cards. As of March 2023, the bank has a 14.2% share in the credit cards market in India. The bank's credit cards accounted for 10.1% of the total share of credit card spends in India within which 9.1% were retail credit card spends. Around 71% of the credit card debt is owed from salaried customers.

High Quality Corporate Book

The total corporate loan book of the bank stood at Rs. 2,65,009 crores up 14%/6% YoY/QoQ. Within this, Rs. 2,32,946 crores are domestic advances which are up 24%/10% YoY/QoQ, and the rest are overseas advances. The overseas book of the bank has reduced 28%/20% YoY/QoQ as the bank is strategizing to extend advances only to those Indian Corporates who have overseas operations. As of March 2023, 96% of its overseas book consists of advances to Indian Corporates having global operations. Ratings wise, 89% of the book is A- or better as of March 2023, which is marginally better than 88% as of March 2022. Also, 89% of the incremental sanctions in FY23 are to corporates rated A- and above. Further, 71% of the loans are long term in nature as against 62% in FY20. This makes it evident that the bank has focused on longer term loans in its corporate book. The management in its commentary has specified that it has a strong pipeline in its corporate book and thus expects healthy traction in the corporate book to continue. Following chart shows the corporate book's exposure to Top 10 Industries:



All figures in ₹ Crores

Rank	Outstanding ¹ as on 31 st Mar'23 Sectors	Advances	Investments	Non-fund based	Total	
					Value	(in % terms)
1.	Financial Companies ²	57,928	30,453	20,312	1,08,693	10.30%
2.	Engineering & Electronics	17,479	1,861	36,143	55,483	5.26%
3.	Infrastructure Construction ³	24,285	5,564	15,229	45,078	4.27%
4.	Trade	29,187	1,200	6,721	37,108	3.52%
5.	Petroleum & Petroleum Products	17,488	3,937	11,000	32,425	3.07%
6.	Iron & Steel	17,610	1,148	13,379	32,137	3.05%
7.	Power Generation & Distribution	22,785	1,886	6,885	31,556	2.99%
8.	Real Estate ⁴	28,062	750	752	29,564	2.80%
9.	Food Processing	21,169	20	4,284	25,473	2.41%
10.	Chemicals & Chemical Products	14,132	621	10,415	25,168	2.38%

(Source: Company, HDFC sec)

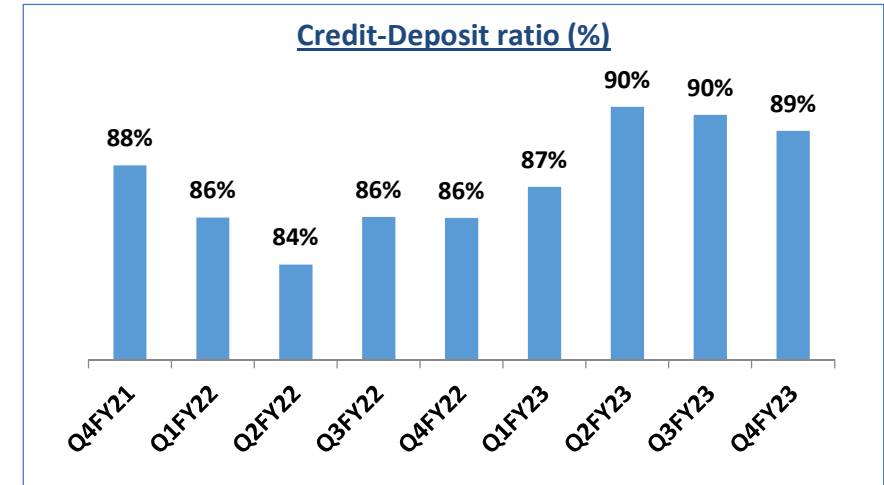
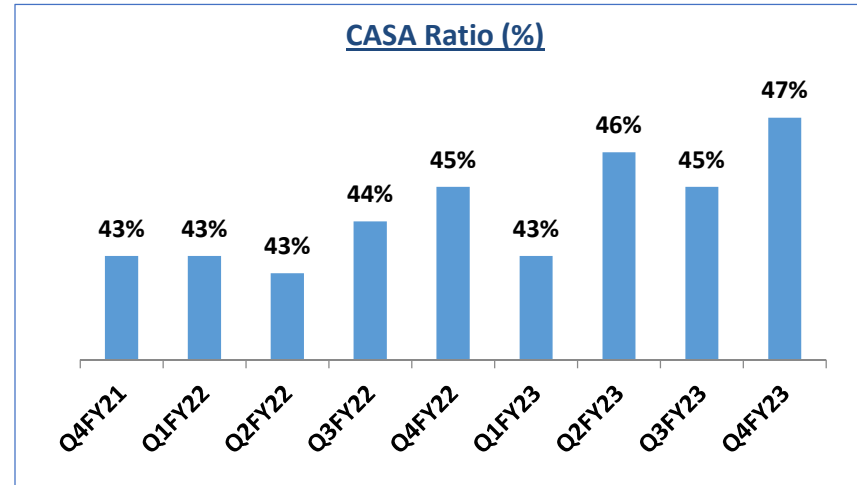
Healthy deposit growth:

The bank has registered a global deposit growth of 15% YoY and 12% QoQ, which stands at Rs. 9,46,945 crores as of Q4FY23. Excluding Citi Bank's business, it stood at Rs. 9,05,623 crores, up 7/10% YoY/QoQ. The bank added ~3 million new liability relationships in Q4FY23, up 23/3% YoY/QoQ and ~10.8 million for the entire FY23, up 26% YoY. The CASA deposits have increased by 21% YoY and 18% QoQ to Rs. 4,15,730 crores, resulting in a CASA ratio of 47% as against a CASA ratio of 44.5% in Q3FY23 and 45% in Q4FY22. The savings account balance with the bank has increased by 11/7% YoY/QoQ at Rs. 2,68,430 crores while the current account balances increased by 15/16% YoY/QoQ at Rs. 1,47,300 crores. The Term Deposits of the bank stood at Rs. 4,89,893 crores, increasing by 8/4% YoY/QoQ. The bank has witnessed a 4% growth in deposits from Citi Bank's customers since the acquisition in January 2023. The bank's cost of deposits for Q4FY23 stood at 4.31%, up 66/37bps YoY/QoQ, while its overall cost of funds stood at 4.75% for Q4FY23, up 92/41 bps YoY/QoQ. Though, the management sounds confident on the deposit mobilization front, we shall remain watchful as the liquidity in the system is drying out and the expectation is that the situation would remain similar at least for the near term. Almost every bank on the street is scrambling for deposits. The bank has a Credit to Deposit ratio of around 89%, which is very high compared to its own past trend as well as compared to other large peer banks. If this sustains for long term, the bank may have trouble in chasing the expected loan book growth. We believe that such progress is contingent upon a sharp build-up in deposit momentum to fund credit growth. The bank's strategy is to go after the premium customers where the outflow is lower.



The bank bifurcated its retail banking products into: easy, prime, prestige, priority, burgundy and burgundy private. The bank classifies prestige and above as premium category customers. As of Q4FY23, the premium customers contribute 55.3% of the retail savings account balance to the bank as against 46.6% as of Q4FY22.

Deposits (Rs. in Crores)	Q4FY23	Q3FY23	QoQ	Q4FY22	YoY	Contribution %
Current Account	1,49,120	1,26,321	18%	1,27,306	17%	16%
Savings Account	2,97,416	2,51,392	18%	2,42,449	23%	31%
CASA Balance	4,46,536	3,77,713	18%	3,69,755	21%	47%
Term Deposits	5,00,409	4,70,460	6%	4,51,966	11%	53%
Total Deposits	9,46,945	8,48,173	12%	8,21,721	15%	100%



(Source: Company, HDFC sec)

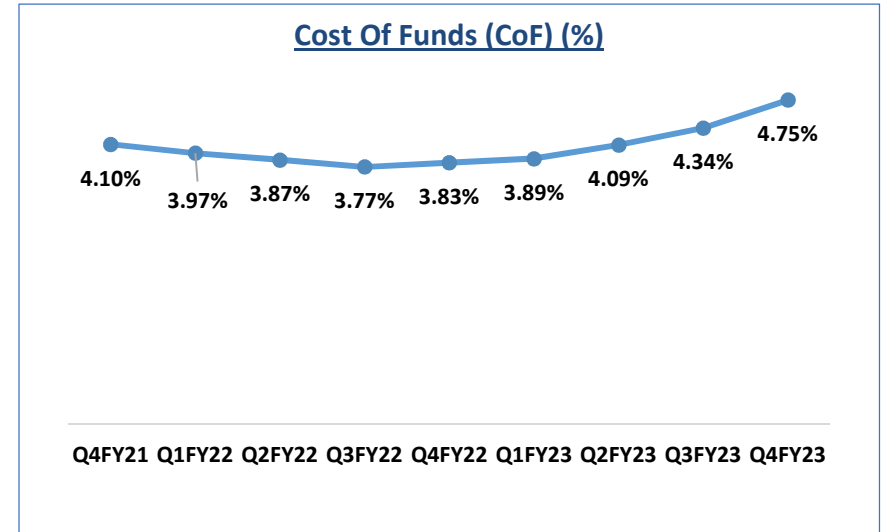
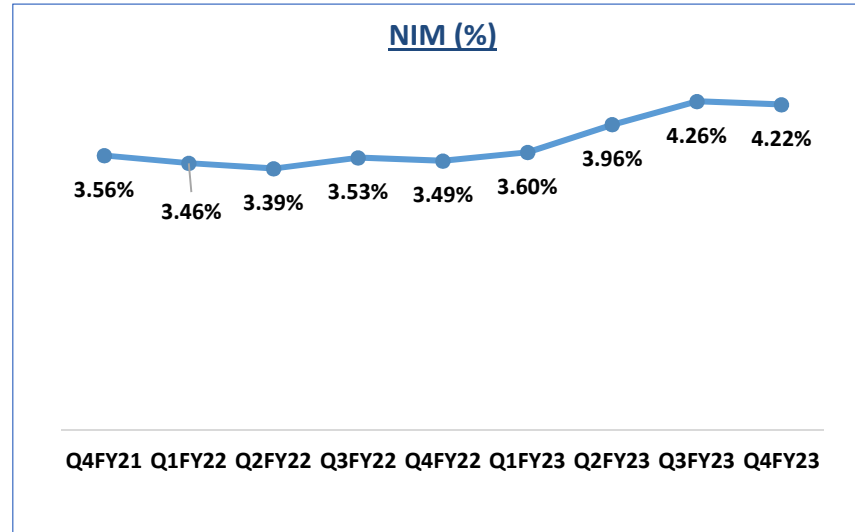
Sustained growth trajectory in return ratios and margins

The bank's consolidated RoA has increased from 0.2% in FY20 to 1.8% in FY23 (excluding exceptional items) while its consolidated RoE has increased from 2.7% in FY20 to 18.8% in FY23 (excluding exceptional items). Its PPOP stood at Rs. 9,168 crores, up 42% YoY.

NIMs for Q4FY23 stood at 4.22%, growing 73 bps YoY but slightly down by 4 bps sequentially. The sequential fall in the NIM was on account of excess liquidity that the bank maintained on its balance sheet during the quarter to be used for acquiring Citi Bank's business and on account of rising cost of funds at 4.75%, up 92/41bps YoY/QoQ. However, there are certain levers which can support the NIM of the bank



going forward such as: use of excess liquidity which it held for the acquisition transaction, 68% of the bank’s loans being floating rate loans in nature, reduction in the share of low yielding RIDF bonds, improvement in balance sheet mix with increased unsecured lending in the retail book and better CASA ratios.



(Source: Company, HDFC sec)

Stake acquisition in Max Life to aid in valuation of Axis Bank over the medium term

Axis Bank has shared a successful business relationship with Max Life for over a decade, providing long-term saving and protection products to nearly 20 lakh customers. The total premium generated through this alliance has aggregated to over Rs. 40,000 crores. This tie up has helped chart a new growth trajectory by combining the forces of the third largest private bank in India with the fourth largest private life insurer in the country. With the conclusion of the transaction of acquiring 20% stake in Max Life by Axis Bank expected shortly, Max Life’s Board will be strengthened further, with co-option of three nominee directors of Axis Entities on its Board. Going forward, this partnership is further expected to contribute to the valuations of Axis bank.

Payments & Digital Milestones

The Bank issued 1.13 million new credit cards in Q4FY23 and has been one of the highest credit card issuers in the country over last three quarters and has gained incremental cards in force market share of 17% in the last 6 months as per the RBI report. The Bank’s focus remains on reimagining end-to-end journeys and transforming the core and becoming a partner of choice for ecosystems. Axis Mobile is among the highest rated mobile banking app on Google Play store with rating of 4.8 and over 2 million reviews. The Bank’s mobile app continues to see strong growth, with Monthly Active Users of ~12 million and nearly ~7.8 million non-Axis Bank customers using Axis Mobile and Axis



Pay apps. The Bank has been among the first to go live on Account Aggregator (AA) network and has seen strong initial traction in AA based digital lending. It now has over 95+ partnerships across platforms and ecosystems and has 400+ APIs hosted on its API Developer Portal. On WhatsApp banking, the Bank now has over 11 million customers on board since its launch in 2021.

Some digital milestones achieved by the bank are:

- 95% - Share of digital transactions in the Bank’s total financial transactions by individual customers in Q4FY23.
- 89% - YoY growth in mobile banking transaction volumes in Q4FY23, with market share of 17%.
- 77% - YoY growth in total UPI transaction value in Q4FY23. Market share in UPI transactions at 18%.
- 76% - New mutual fund SIPs sourced (by volume) through digital channels in Q4FY23.
- 70% - SA accounts opened through tab banking in Q4FY23.
- 70% - Retail term deposits (by volume) opened digitally in Q4FY23.

	95% Digital transactions ^{AA}	82% Credit cards issued ^{**} (Q4FY23)	76% New MF SIP volume (Q4FY23)	70% New SA acquisition*	70% Individual RTDs volume (Q4FY23)	58% PL disbursed (end-to-end digital) (in Q4FY23)	4.8@ Mobile App ratings
	250+ Services on digital channels	18% Market share in UPI (Q4FY23)	17% Market share in mobile (Q4FY23)	~12 Mn Mobile Banking MAU ^(Mar-23)	113100+ Devices on BYOD [†]	~2990 RPA Bots	300+ Employee tool Journeys
	1750+ People dedicated to technology agenda	~390 In-house development digital team	65% New hires from non-banking backgrounds	PB Scale big data Hadoop clusters	40%+ Lift of bank credit model GINI scores over bureau	75+ Apps on cloud	Agile Enabled teams with CI/CD, micro-services architecture
~7.8 Mn Non Axis Bank customers using Axis Mobile & Axis Pay apps (as of Mar'23)				32% Contribution of KTB channels to overall sourcing of Cards (in Q4FY23)			

(Source: Company, HDFC sec)

Key subsidiaries Business Update:

- **Axis Finance-** It is a 100% subsidiary of the bank and has reported an AUM growth of 35% on a yearly basis to Rs. 22,529 crores. Its retail book accounts for 41% of the AUM and displayed a 67% yearly growth, which led to an increase of 796bps of it in the AUM mix. Its wholesale book, on the other hand, saw an increase of 18.6% on a yearly basis. The company reported total income/PPOP/PAT of Rs. 2,297/663/475 crores, up 52/21/30% YoY. Its PAT has seen a CAGR of 35% from FY20-23.



- **Axis AMC**- The company has reported an average AUM of Rs. 2,41,415 crores which has increased at a CAGR of 28% since FY19. Further its PAT stood at Rs. 415 crores, growing at a CAGR of 66% since FY19. The gross revenue grew by 12% on a yearly basis.
- **Axis Capital**- The company is primarily into investment banking business and saw its business impacted by volatile capital markets in FY23. It closed a total of 42 IB deals in FY23 and had a 12.2% market share in the IB business in India. Revenue from operations dipped to Rs. 441 crores from Rs. 521 crores in FY22, while PAT dipped to Rs. 142 crores as against Rs. 200 crores in FY22.
- **Axis Securities**- The company has seen a healthy increase in its customer base at 4.86 million v/s 4.17 million in FY22, which is a 17% yearly increase. Further its customer base has grown by 23% CAGR over FY19-23. It reported Rs. 724 crores of broking revenues which is up 9% YoY. PAT dipped to Rs. 203 crores as against Rs. 232 crores in FY22.



(Source: Company, HDFC sec)

Risks & Concerns

- A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provisioning high and return ratios compressed for a longer time. Further, any delay in the recovery, higher than expected haircuts or sharp rise in the slippages could impact the profitability and business growth prospects.
- During Q4FY23, the bank reported a minor drop in its NIM for which it has given justifiable reasons. Now that those one off incidents are complete, we expect bank to sustain its NIM. Any fall in the bank's NIM going forward will have a downward pressure on return ratios and hence materially affect our assumptions.
- The cost to income ratios remains high for the bank compared to peers. This is due to high technology cost, which ultimately could help the bank fetch higher profitability. Also the bank is hiring talent that can help in the long run.
- As of Q4FY23, the bank has very high credit to deposit ratio of around 89%, compared to other large banking peers also the ratio is relatively high. Which means that bank has to accelerate its deposit growth in order to sustain high loan book growth.
- Rise in G-sec yields could lead to MTM losses for the Bank. Further, it may also impact the loan growth; the bank has high retail facing loan book and high interest rates negatively impacts the demand.



- Slower than expected growth of subsidiaries can impact consolidated profitability of the bank.
- Though the bank has ample amount of provisions for contingencies over and above the required levels, we shall stay watchful about RBI's announcements related to implementation of ECL provisioning norms in case of banks.
- Any unfavourable change in rules and regulatory policies can have a negative impact on earnings outlook of the Bank.
- The Citi Bank retail assets acquisition has to pay off for the Bank; for this it needs to retain the assets/customers and mine/cross sell more products to these customers. Any failure in doing this could impact the return ratios of the Bank.
- The Insurance Regulatory and Development Authority of India (IRDAI) had imposed a penalty on Axis Bank of Rs. 2 crores in October, 2022 on account of violation of regulator's directions, misrepresentation to obtain approval and contravention of share transfer directions. This was in relation to a deal between Axis Bank and Max Life Insurance Company (MLIC) where in Axis Bank and group firms were supposed to buy the 12.99% stake in MLIC which was held by Max Financial Services Ltd (MFSL). As per the IRDAI, there was no uniform basis for determination of the price at which this stake sale was effected. Further, in January 2023, the bank entered into an agreement with MFSL to buy a further 7% stake on discounted cashflow basis as per directions of IRDAI. However, we shall remain watchful for the developments in respect of the acquisition transaction of 7% stake.

Company Background:

Axis Bank is the third largest private sector bank in India. The Bank offers the entire spectrum of financial services to customer segments covering Large and Mid-Corporates, MSME, Agriculture and Retail Businesses. The Bank has a large footprint of 4,903 branches (including extension counters) with ~15,953 ATMs & cash recyclers spread across the country as of Q4FY23. The Overseas operations of the Bank are spread over eight international offices with branches at Singapore, Dubai (at DIFC) and Gift City-IBU; representative offices at Dhaka, Dubai, Abu Dhabi, Sharjah and an overseas subsidiary at London, UK. The international offices focus on corporate lending, trade finance, syndication, investment banking and liability businesses.

The bank has four key subsidiaries named Axis AMC, Axis Finance, Axis Capital and Axis Securities. On April 6, 2021, Axis Bank, together with its subsidiaries Axis Capital and Axis Securities (collectively referred to as "Axis Entities") became the co-promoters of Max Life. This was after completion of the acquisition of 12.99% stake collectively by the Axis Entities in Max Life. Under the deal, the Axis Entities have a right to acquire an additional stake of up to 7% in Max Life, in one or more tranches, subject to regulatory approvals. In March 2022, the bank has acquired Citibank's consumer business (credit cards, retail banking, wealth management, asset backed financing and consumer loans) for US\$1.6 bn or ~Rs. 12,300 Cr.



Peer Comparison:

	CMP	P/BV			P/E			FY23P						
		FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	ROAE (%)	ROAA (%)	NIM %	GNPA %	NNPA %	CAR	Loan Book (Rs. Cr)
Axis Bank	974	2.39	2.03	1.73	31.31	12.16	10.6	8.00%	0.80%	4.00%	2.27%	0.42%	17.62%	8,45,303
ICICI Bank	938	3.26	2.62	2.23	20.66	17.90	15.74	17.30%	2.16%	4.48%	2.81%	0.48%	18.34%	10,19,639
HDFC Bank	1,610	3.10	2.73	2.35	20.38	9.86	8.44	17.40%	2.10%	4.10%	1.12%	0.27%	19.30%	16,00,586
Indusind Bank	1,331	2.16	1.65	1.44	13.86	11.19	9.41	15.26%	1.90%	4.28%	1.98%	0.59%	17.86%	2,89,924

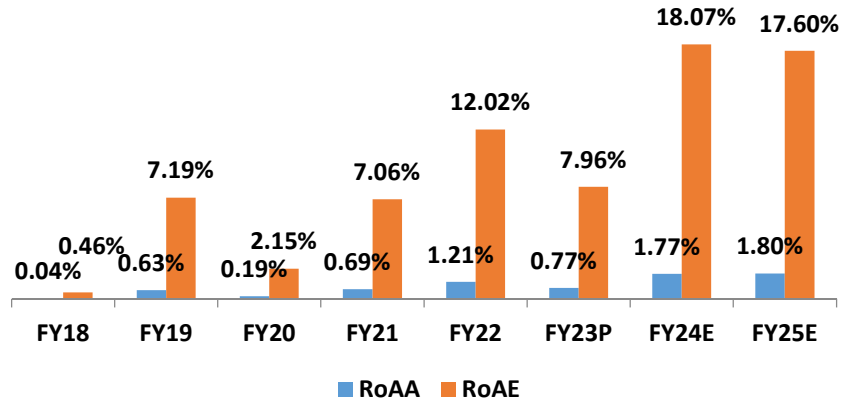
(Source: Bloomberg, HDFC sec)

SOTP valuation Tabel:

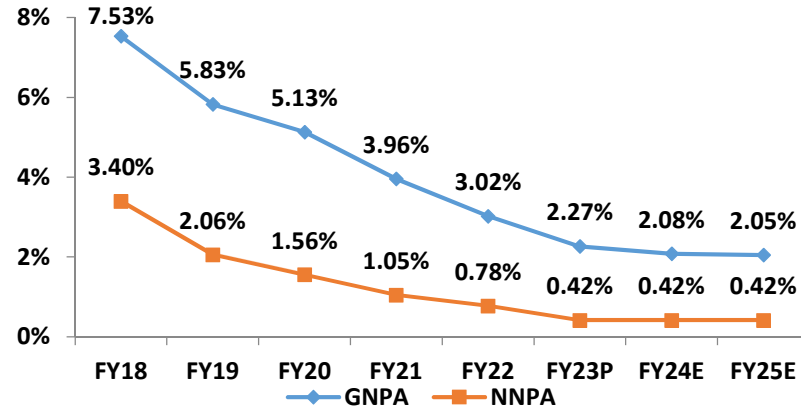
	% Stake	Per Share Value		Valuation Methodology
		Base Case	Bull Case	
Axis Bank (standalone)	100%	1083.7	1192.0	2x Mar-25 ABVPS
Axis Finance	100%	16.7	16.7	1.5x Sep-24 BVPS
Axis AMC	75%	39.3	39.3	5% of Sep-24 avg AUM
Axis Capital	100%	9.6	9.6	15x Sep-24 EPS
Axis Securities	100%	14.3	14.3	15x Sep-24 EPS
Max Life Insurance	13%	15.1	15.1	
Less: Holding company discount (20%)		19.0	19.0	
Total SoTP valuation		1064.7	1173.0	



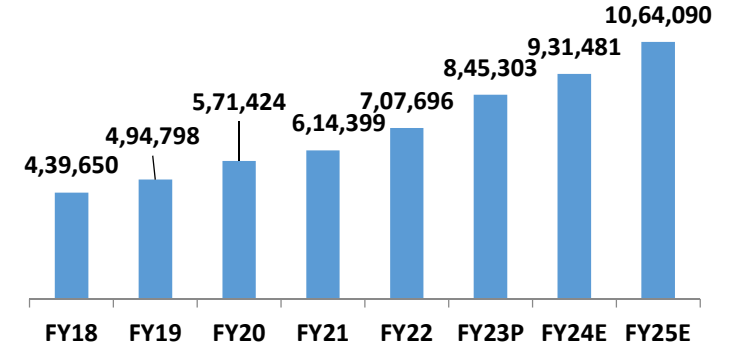
Return Ratio (%)



NPA Trend (%)



Loan Book (Rs. in Cr)



Axis Bank Financials (Rs. in Cr)

Income Statement

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Interest Income	63346	67377	85164	97820	109931
Interest Expenses	34107	34244	42218	49916	56311
Net Interest Income	29239	33132	42946	47904	53619
Non-interest income	12264	15221	16500	21956	25891
Total Income	41503	48353	59446	69860	79511
Operating Expenses	18375	23610	27398	32048	35409
PPP	23128	24742	32047	37812	44101
Prov & Cont	14322	7360	2653	4833	6337
Profit Before Tax	8806	17383	29395	32979	37764
Tax	2217	4357	7326	8311	9517
PAT	6589	13026	22069	24668	28248
Exceptional Items	0	0	12490	0	0
PAT	6589	13026	9579	24668	28248

Balance Sheet

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Share Capital	613	614	615	615	615
Reserves & Surplus	100990	114560	124801	146977	172732
Shareholder funds	101603	115174	125417	147592	173348
Deposits	697986	821721	946945	1081531	1235559
CASA	317749	369755	446536	506060	573768
Borrowings	142873	185134	186300	182322	180077
Other Liab & Prov.	44336	53149	58664	66262	74345
SOURCES OF FUNDS	986798	1175178	1317325	1477707	1663329
Cash & Bank Balance	61730	110988	106411	115477	122963
Investment	226120	275597	288815	307928	337731
<i>Government Securities</i>	<i>180703</i>	<i>219093</i>	<i>220983</i>	<i>240132</i>	<i>268971</i>
Advances	614399	707696	845303	931481	1064090
Fixed Assets	4245	4572	4734	4970	5219
Other Assets	80304	76325	72063	117851	133326
TOTAL ASSETS	986798	1175178	1317325	1477707	1663329



Key Ratio

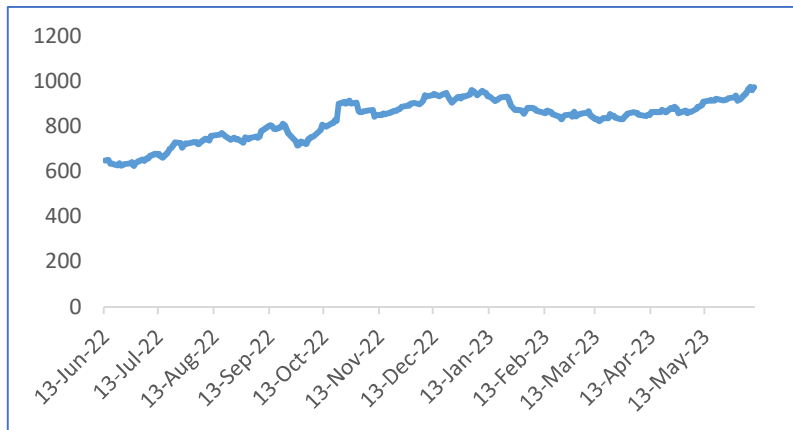
Particulars	FY21	FY22	FY23P	FY24E	FY25E
Return Ratios					
Calc. Yield on advances	8.0%	7.5%	8.3%	8.5%	8.6%
Calc. Cost of funds	4.2%	3.7%	3.9%	4.2%	4.2%
NIM	3.7%	3.6%	4.0%	4.0%	4.0%
RoAE	7.1%	12.0%	8.0%	18.1%	17.6%
RoAA	0.7%	1.2%	0.8%	1.8%	1.8%
Asset Quality Ratios					
GNPA	4.0%	3.0%	2.3%	2.1%	2.0%
NNPA	1.1%	0.8%	0.4%	0.4%	0.4%
PCR	72.4%	74.7%	81.1%	80.3%	80.0%
Growth Ratios					
Advances	7.5%	15.2%	19.4%	10.2%	14.2%
Deposits Growth	9.0%	17.7%	15.2%	14.2%	14.2%
NII	16.0%	13.3%	29.6%	11.5%	11.9%
PAT	304.9%	97.7%	-26.5%	157.5%	14.5%

Key Ratio

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Valuation Ratios					
EPS	21.5	42.4	31.1	80.2	91.8
P/E	45.3	23.0	31.3	12.2	10.6
Adj. BVPS	302.9	350.0	389.0	459.9	541.8
P/ABV	3.2	2.8	2.5	2.1	1.8
Other Ratios					
Cost-Income	44.3%	48.8%	46.1%	45.9%	44.5%
CAR	19.1%	18.5%	17.6%	19.5%	19.9%
Tier 1	16.5%	16.3%	14.0%	16.0%	16.8%
Cost-Average Assets	1.9%	2.2%	2.2%	2.3%	2.3%
Credit-Deposit Assets	88.0%	86.1%	89.3%	86.1%	86.1%
CASA %	45.5%	45.0%	47.2%	46.8%	46.4%
Advances/Branch (in Cr)	133.74	148.74	172.41	172.40	180.26
Deposits/Branch (in Cr)	151.93	172.70	193.14	200.17	209.31
Advances/Employee (in Cr)	7.88	8.28	9.20	10.45	11.20
Deposits/Employee (in Cr)	8.95	9.61	10.30	12.13	13.00

(Source: Company, HDFC sec)

One Year Price Chart





HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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