

Estimate change 

 TP change 

 Rating change 

Bloomberg	AXSB IN
Equity Shares (m)	3,065
M.Cap.(INRb)/(USDb)	2583 / 34.5
52-Week Range (INR)	867 / 482
1, 6, 12 Rel. Per (%)	3/-7/18
12M Avg Val (INR M)	10358

### Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E	FY24E
NII	292.4	321.5	387.8	465.2
OP	257.0	270.2	332.6	405.9
NP	65.9	128.1	178.0	228.1
NIM (%)	3.4	3.3	3.6	3.7
EPS (INR)	22.4	41.8	58.1	74.4
EPS Gr. (%)	271.0	86.8	38.9	28.1
BV/Sh. (INR)	331.6	370.0	423.5	492.2
ABV/Sh. (INR)	308.1	345.6	400.1	468.5

### Ratios

RoE (%)	7.1	11.9	14.6	16.3
RoA (%)	0.7	1.2	1.5	1.7

### Valuations

P/E(X)	31.6	16.9	12.2	9.5
P/BV (X)	2.1	1.9	1.7	1.4
P/ABV (X)	2.3	2.1	1.8	1.5

### Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	11.4	11.4	14.5
DII	24.7	23.7	23.4
FII	52.6	53.7	50.3
Others	11.4	11.3	11.8

FII Includes depository receipts

**CMP: INR842**
**TP: INR975 (+16%)**
**Buy**

## Modest operating performance

### Improved 2H outlook; Strong contingent provisions provide comfort

- Axis Bank (AXSB) delivered a weak operating performance in 2QFY22 that was characterized by margin weakness (7bp QoQ decline) and a muted trend in Core PPOP. However, lower provisions (INR17.3b) aided earnings which surpassed our estimate by 13%. Business growth was tepid and was pulled down by a 5% QoQ decline in corporate advances, while a strong sequential recovery was witnessed in SME/Retail loans.
- On the asset quality front, fresh slippages remained elevated at INR54.6b although higher upgrades/recovery of INR47.6b aided an improvement in the GNPA/NNPA ratio. The bank's restructured book remained under control at 0.7% of loans. We estimate AXSB to deliver FY23E RoA/RoE of 1.5%/14.6% in FY23. We remain watchful of a recovery in the bank's operating earnings. **Maintain Buy.**

### Corporate portfolio down QoQ; Asset quality ratio improves

- PAT for 2QFY22 stood at INR31.3b (13% above our estimate; 86% YoY growth), aided by controlled provisions. On the other hand, PPOP growth was weak and declined by 11% YoY (13% below our estimate) due to the impact of muted NII. NIM declined 7bp QoQ to 3.39%. **For 1HFY22 - NII grew 9.4% and PPOP declined 3% YoY while PAT grew 89% YoY.**
- Other income growth was also weak at 6% YoY due to the impact of lower treasury gains (INR4.7b – down 36% YoY), while fee income grew 17% YoY. Opex rose 36% YoY due to an increase in staff costs (+37% YoY) as the bank increased its focus on hiring new employees. Also, higher collection costs and investments in technology led to elevated operating expenses. As a result, C/I ratio increased sharply at 49.3% (v/s 44.4% in 1QFY22).
- Total provision declined sharply by 47% QoQ to INR17.3b, while provision for NPA declined sharply by ~68% QoQ to INR9.3b, resulting in credit costs for the quarter standing at ~0.6% (annualised). The bank did not utilise any COVID-19 provisions during the quarter and currently holds an additional provision buffer (incl. standard asset provisions) at ~2.1% of loans.
- Loan book grew 10% YoY (up 1.1% QoQ) with retail loans up 16% YoY (4% QoQ). Retail loan disbursements were up 54% QoQ. Strong trends were witnessed in the SME portfolio as well which grew 18% YoY (7% QoQ), while corporate growth remained weak (down 5% QoQ). On the liability front, deposits grew ~3% QoQ, led by a 6% QoQ growth in CASA deposits. As a result, the CASA ratio improved by 100bp QoQ to 44% (quarterly avg. CASA stood at 42%).

Nitin Aggarwal - Research Analyst (Nitin.Agarwal@MotilalOswal.com)

Research Analyst: Himanshu Taluja (Himanshu.Taluja@motilalosal.com) | Yash Aggarwal (Yash.Agarwal@motilalosal.com)

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- On the asset quality front, slippages were elevated at INR54.6b, primarily led by retail while higher upgrades/recovery of INR47.6b aided an improvement of 32bp/12bp QoQ in the GNPA/NNPA ratio to 3.53%/1.08%. PCR remained stable QoQ at ~70%. The bank's restructured portfolio stood at INR44.6b (~0.7% of loans) - lowest among top private banks. PCR on the restructured portfolio stood at 24%. BB & below pool (Fund/Non-Fund) declined to INR117.5b (1.9% of loans) v/s INR131b in 1QFY22.
- **Segmental Restructuring:** Corporate (0.7%) and Retail (0.8%) had a negligible contribution under the Commercial Banking Group.

#### Highlights of management commentary

- AXSB's margin is likely to improve in the near-term on the back of an improvement in its product mix which is expected to change in favour of retail segments, granular liability franchise, and a reduction in the mix of RIDF bonds.
- The bank will continue to invest in technology which will keep its opex levels elevated. Overall, AXSB's cost to asset is likely to remain 8-10bp higher than management's guidance of 2%.

#### Valuation and view

AXSB delivered a weak core operating performance in 2QFY22, led by a margin decline, higher opex, and sluggish business growth. However, controlled provisions resulted in the bank's earnings surpassing our estimate. On the other hand, AXSB's asset quality was stable, supported by higher recoveries and upgrades while its slippages remain elevated. Total restructuring was controlled at ~0.7% of loans. We expect the trend of elevated slippages to subside from 2HFY22, enabling a decline in credit costs. A healthy PCR of ~70%, coupled with additional provision buffer of 2.1%, is likely to protect the bank's balance sheet from any potential stress. We cut our earnings estimates for FY22/FY23E by 6%/4% to factor in the higher operating expenses and lower NII, and remain watchful of a recovery in the bank's operating earnings. We estimate AXSB to deliver RoA/RoE of 1.5%/14.6% in FY23. **Maintain Buy with revised TP of INR975 (2.0x Sep'23E ABV+ INR134 from Subs).**

#### Quarterly performance

	FY21				FY22E				(INRb)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY21	FY22E	FY22E	V/s our
											2QE	Est
<b>Net Interest Income</b>	<b>69.9</b>	<b>73.3</b>	<b>73.7</b>	<b>75.5</b>	<b>77.6</b>	<b>79.0</b>	<b>81.0</b>	<b>83.9</b>	<b>292.4</b>	<b>321.5</b>	<b>79.8</b>	<b>-1%</b>
% Change (Y-o-Y)	19.5	20.1	14.3	11.0	11.1	7.8	9.9	11.1	16.0	10.0	8.9	
Other Income	25.9	35.7	37.8	46.7	33.6	38.0	42.8	50.3	148.4	164.7	39.2	-3%
<b>Total Income</b>	<b>95.7</b>	<b>109.0</b>	<b>111.5</b>	<b>122.2</b>	<b>111.2</b>	<b>117.0</b>	<b>123.8</b>	<b>134.2</b>	<b>440.8</b>	<b>486.2</b>	<b>119.0</b>	<b>-2%</b>
Operating Expenses	37.3	42.4	50.5	53.6	49.3	57.7	53.4	55.7	183.8	216.1	51.2	13%
<b>Operating Profit</b>	<b>58.4</b>	<b>66.6</b>	<b>61.0</b>	<b>68.6</b>	<b>61.9</b>	<b>59.3</b>	<b>70.5</b>	<b>78.5</b>	<b>257.0</b>	<b>270.2</b>	<b>67.9</b>	<b>-13%</b>
% Change (Y-o-Y)	-0.8	11.9	6.1	17.3	5.9	-11.0	15.6	14.4	9.7	5.1	-1.6	
Provisions	44.2	43.4	46.0	32.9	33.0	17.4	24.8	23.7	169.0	98.9	30.9	-44%
<b>Profit before Tax</b>	<b>14.3</b>	<b>23.2</b>	<b>14.9</b>	<b>35.7</b>	<b>28.8</b>	<b>41.9</b>	<b>45.7</b>	<b>54.9</b>	<b>88.1</b>	<b>171.3</b>	<b>36.9</b>	<b>14%</b>
Tax	3.2	6.3	3.7	8.9	7.2	10.6	11.5	13.8	22.2	43.2	9.3	14%
<b>Net Profit</b>	<b>11.1</b>	<b>16.8</b>	<b>11.2</b>	<b>26.8</b>	<b>21.6</b>	<b>31.3</b>	<b>34.2</b>	<b>41.0</b>	<b>65.9</b>	<b>128.1</b>	<b>27.6</b>	<b>13%</b>
% Change (Y-o-Y)	-18.8	NM	-36.4	NM	94.2	86.2	205.9	53.3	304.9	94.5	64.2	
<b>Operating Parameters</b>												
Deposit (INR t)	6.2	6.2	6.5	7.0	7.1	7.4	7.5	7.9	7.1	7.9	7.3	1%
Loan (INR t)	5.5	5.6	5.8	6.1	6.1	6.2	6.5	6.9	6.2	6.9	6.3	-1%
Deposit Growth (%)	13.9	6.8	10.6	9.0	16.0	18.1	15.4	12.5	10.5	11.0	14.5	360
Loan Growth (%)	10.4	8.2	5.9	7.5	12.0	10.1	12.4	12.7	9.2	11.0	9.3	78
<b>Asset Quality</b>												
Gross NPA (%)	4.7	4.2	3.4	3.7	3.9	3.5	3.6	3.5	3.9	3.5	4.0	(51)
Net NPA (%)	1.2	1.0	0.7	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.2	(17)
PCR (%)	74.8	77.2	79.0	72.4	69.8	70.2	71.0	70.4	72.4	70.4	70.0	18

## Quarterly snapshot

	FY20				FY21				FY22		Change (%)	
INR b	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
<b>Profit and Loss</b>												
<b>Interest Income</b>	152.5	154.4	157.1	162.3	164.5	159.8	155.0	154.9	160.0	163.4	2	2
Loans	114.6	119.2	122.8	126.3	124.9	121.1	115.4	115.5	118.8	119.9	-1	1
Investment	31.2	28.7	26.5	26.1	29.7	31.0	31.9	32.9	34.3	35.2	14	3
<b>Interest Expenses</b>	94.1	93.4	92.6	94.3	94.6	86.5	81.3	79.4	82.4	84.4	-3	2
<b>Net Interest Income</b>	58.4	61.0	64.5	68.1	69.9	73.3	73.7	75.5	77.6	79.0	8	2
<b>Other Income</b>	38.7	39.0	37.9	39.9	25.9	35.7	37.8	46.7	33.6	38.0	6	13
Trading profits	8.3	8.1	5.2	2.6	6.2	7.4	3.7	7.9	5.6	4.7	-36	-15
Fee Income	26.6	26.5	27.8	29.3	16.5	27.5	29.1	33.8	26.7	32.3	17	21
<b>Total Income</b>	97.1	100.0	102.4	107.9	95.7	109.0	111.5	122.2	111.2	117.0	7	5
<b>Operating Expenses</b>	38.2	40.5	45.0	49.4	37.3	42.4	50.5	53.6	49.3	57.7	36	17
Employee	13.1	12.7	13.7	13.7	14.1	14.1	16.8	16.7	18.5	19.4	37	5
Others	25.1	27.7	31.3	35.7	23.2	28.2	33.8	36.9	30.8	38.3	36	24
<b>Operating Profits</b>	58.9	59.5	57.4	58.5	58.4	66.6	61.0	68.6	61.9	59.3	-11	-4
<b>Core Operating Profits</b>	50.6	51.4	52.3	55.9	52.2	59.2	57.3	60.8	56.3	54.6	-8	-3
Provisions	38.1	35.2	34.7	77.3	44.2	43.4	46.0	32.9	33.0	17.4	-60	-47
<b>PBT</b>	20.8	24.3	22.7	-18.8	14.3	23.2	14.9	35.7	28.8	41.9	81	45
Taxes	7.1	25.5	5.1	-4.9	3.2	6.3	3.7	8.9	7.2	10.6	67	46
<b>PAT</b>	13.7	-1.1	17.6	-13.9	11.1	16.8	11.2	26.8	21.6	31.3	86	45
<b>Balance Sheet (INR t)</b>												
Deposit	5.4	5.8	5.9	6.4	6.2	6.2	6.5	7.0	7.1	7.4	18	3
Loans	5.0	5.2	5.5	5.7	5.5	5.6	5.8	6.1	6.1	6.2	10	1
<b>Asset Quality (INR b)</b>												
GNPA	294.0	290.7	300.7	302.3	295.6	268.3	220.0	253.1	259.5	241.5	-10	-7
NNPA	110.4	111.4	121.6	93.6	74.5	61.1	46.1	69.9	78.5	72.0	18	-8
Slippages	48.0	49.8	62.1	39.2	22.2	17.5	79.9	52.9	65.2	54.6	212	-16
<b>Ratios</b>												
<b>Asset Quality Ratios (%)</b>												
GNPA	5.3	5.0	5.0	4.9	4.7	4.2	3.4	3.7	3.9	3.5	-65	-32
NNPA	2.0	2.0	2.1	1.6	1.2	1.0	0.7	1.1	1.2	1.1	10	-12
PCR (Calculated)	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4	69.8	70.2	-705	42
PCR (Reported)	78.0	79.0	78.0	83.0	87.0	88.0	91.0	88.0	87.0	88.0	0	100
Slippage Ratio	4.1	4.1	4.8	2.9	1.7	1.3	5.6	3.5	4.2	3.7	240	-56
Credit Cost	3.3	2.2	2.3	3.2	3.4	3.2	0.7	1.9	2.3	1.2	-203	-110
<b>Business Ratios (%)</b>												
Fees to Total Income	27.4	26.5	27.1	27.2	17.3	25.3	26.1	27.6	24.0	27.6	236	362
Cost to Core Income	44.9	46.2	48.7	50.7	43.2	42.0	49.2	49.0	47.3	51.8	981	454
Tax Rate	34.1	104.6	22.7	26.1	22.1	27.4	25.1	25.0	25.1	25.3	-210	17
CASA (Calculated)	41.3	41.1	41.2	41.2	41.7	45.0	43.2	45.5	43.1	44.5	-53	134
Loan/Deposit	92.0	89.3	93.0	89.3	89.1	90.5	89.1	88.0	86.1	84.4	-609	-169
<b>Profitability Ratios (%)</b>												
Yield on loans	9.8	9.8	9.6	9.5	9.6	8.9	8.2	7.8	8.2	8.1	-83	-8
Yield On Investments	7.6	7.2	6.7	6.3	6.5	6.9	7.2	6.9	6.4	6.3	-60	-16
Yield on Funds	9.5	9.4	9.2	9.0	9.2	8.7	8.2	7.8	8.0	7.9	-84	-9
Cost of funds	5.7	5.6	5.4	5.2	4.9	4.6	4.3	4.1	4.0	3.9	-73	-10
Margins	3.4	3.5	3.6	3.6	3.4	3.6	3.6	3.6	3.5	3.4	-19	-7
RoA	0.7	-0.1	0.9	-0.6	0.5	0.7	0.5	1.1	0.9	1.2	46	33
RoE	9.2	0.0	8.8	-7.1	5.7	8.0	4.9	11.7	9.1	12.7	477	361
<b>Loan Mix (%)</b>												
Large/mid corp.	35.7	35.9	35.8	35.7	38.1	37.6	34.5	36.2	36.6	34.4	-325	-224
SME	12.4	11.8	11.2	10.8	9.0	9.4	11.0	9.9	9.5	10.0	65	53
Retail Advances	51.9	52.4	53.0	53.4	52.9	53.0	54.6	53.9	53.9	55.6	260	172
<b>Other Details</b>												
Branches	4,094	4,284	4,415	4,528	4,528	4,568	4,586	4,594	4,600	4,679	111	79
ATM	11,950	12,191	12,173	12,044	11,971	11,821	11,629	11,333	11,061	10,970	-851	-91



## Highlights of management commentary

### Balance sheet-related

- The pace of economic recovery is likely to continue in 2HFY22.
- ~3.2m new liability accounts were opened during the quarter – marking the bank's highest ever levels.
- The number of accounts opened across most retail segments such as personal loans, auto loans, gold and SBB was the highest ever for AXSB. Disbursements across these segments were the second-highest ever for the bank.
- Retail disbursements were up 54% both YoY and QoQ. ~0.6m credit cards were issued during the quarter.
- The demand for home loans remained strong on the back of low interest rates and stable real estate prices. Real estate developers saw a decline in their inventory levels.
- In the corporate segment, the bank focused on small and mid-corporates.
- Capex demand is expected to pick up post FY22 as the current cycle has likely bottomed out.

### P&L related

- NIM was impacted by a product mix change. The bank's margin is likely to improve in the near-term on the back of an improvement in its product mix, shift in focus on the retail segment, a granular liability franchise, and reduction in the mix of RIDF bonds.
- The increase in staff costs is not comparable due to the impact of increments and are likely to taper off from the next quarter.
- The increase in opex was attributed to high business volumes, collection expenses, PSLC purchase costs, and investments in technology.
- ~30% of the sequential increase in opex was driven by business volumes, 20% by investments in technology, 30% by collections, COVID-related and statutory expenses, and 20% was due to a general increase.
- Overall, ~7.5% of the increase in opex was due to one-offs which are unlikely to be repeated.
- 28% of the gross slippages were upgraded during the quarter itself.
- The bank will continue to invest in technology which will keep its opex levels elevated. Overall, the bank's cost to asset is likely to remain 8-10bp higher than management's guidance of 2%.
- Out of the total decline of INR13b in BB & below pool, ~50% were recoveries and upgrades, while the balance ~INR7b slipped during the quarter.

### Asset quality-related

- 93% of the retail restructuring remained secured.
- Slippages are expected to decline over 2HFY22 v/s 1HFY22.
- ~79% of corporate slippages were from the BB & below pool.
- BB & below pool had an average ticket size of INR600m.

### PCR stable at 70%; Asset quality improves to 3.5%/1.1%

- Reported slippages for 2QFY22 came in at INR54.6b, while recoveries/upgrades remained high at INR47.6b and write-offs amounted to INR25.1b.
- As a result, the asset quality improved as the GNPL/NNPL ratio declined 32bp/12bpQoQ to 3.53%/1.08%. PCR remained stable at 70.2%.

- The funded/non-funded BB & below pool declined to INR66.9b/INR44.4b. BB & below rated investments stood at INR6.1b. The total funded and non-funded BB & below pool stood at ~1.9% of loans.
- Overall, the restructuring implemented stood at INR43.42b (0.64% of loans), while restructuring invoked but not implemented amounted to INR1.19b (0.02% of loans). The bank is carrying a provision of ~24% on the restructured book and holds total additional provisions (standard + other than NPA) of INR129.5b.

#### Exhibit 1: Net stressed loans comprised 0.5% of total loans, including standard + additional other than NPA provisions

INR b	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	1Q FY22	2Q FY22
GNPA	309	309	298	294	291	301	302	296	268	220	253	259	241
OSRL	28	20	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	9	18	10	6	6	8	6	7	6	6
Security Receipts	29	29	29	29	29	22	22	22	22	22	17	17	17
BB and below (Fund based)	89	76	75	75	63	51	65	64	91	87	74	80	67
<b>Stress loans</b>	<b>455</b>	<b>434</b>	<b>402</b>	<b>407</b>	<b>400</b>	<b>384</b>	<b>396</b>	<b>388</b>	<b>390</b>	<b>336</b>	<b>351</b>	<b>363</b>	<b>332</b>
Less: Overlap	7	-	-	-	-	-	-	-	-	-	-	-	-
<b>Gross stress loans</b>	<b>448</b>	<b>434</b>	<b>402</b>	<b>407</b>	<b>400</b>	<b>384</b>	<b>396</b>	<b>388</b>	<b>390</b>	<b>336</b>	<b>351</b>	<b>363</b>	<b>332</b>
Specific Provisions	182	186	185	207	205	205	269	290	316	292	303	305	299
<b>Net Stress loans</b>	<b>265</b>	<b>248</b>	<b>217</b>	<b>200</b>	<b>195</b>	<b>179</b>	<b>127</b>	<b>98</b>	<b>74</b>	<b>43</b>	<b>48</b>	<b>58</b>	<b>33</b>
<b>Gross stress loans (% of loans)</b>	<b>9.8</b>	<b>9.1</b>	<b>8.1</b>	<b>8.2</b>	<b>7.7</b>	<b>7.0</b>	<b>6.9</b>	<b>6.9</b>	<b>6.8</b>	<b>5.8</b>	<b>5.7</b>	<b>5.9</b>	<b>5.3</b>
<b>Net Stress Loans (% of loans)</b>	<b>5.8</b>	<b>5.2</b>	<b>4.4</b>	<b>4.0</b>	<b>3.7</b>	<b>3.3</b>	<b>2.2</b>	<b>1.7</b>	<b>1.3</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>0.5</b>
BB and below (Non-Fund based)	28	25	22	25	22	37	39	37	49	48	46	44	44

#### Loan book growth of 10% YoY; Deposits growth remains healthy

- Loan book grew 10% YoY (1.1% QoQ) with retail loans up 15.5% YoY (+4.3% QoQ) and comprised ~56% of total loans. Retail disbursements picked up and witnessed a strong traction across segments.
- Retail growth was led by home loans and LAP which grew 19% YoY (+5% QoQ).
- SME portfolio grew 18% YoY (+6.7% QoQ), while Corporate book remained flat YoY (-5% sequential decline). 86% of AXSB's corporate book is now rated A- and above with 93% of incremental sanctions in 2QFY22 being made to corporates rated A- and above.
- Deposits grew ~18% YoY, led by a 17% YoY growth in CASA deposits (+6% QoQ). TD, however, grew 1% QoQ, resulting in the CASA ratio improving to 44% (quarterly average CASA stood at 42%). Retail TD grew 14% YoY with CASA plus Retail TD comprising 83% of total deposits.

#### Valuation and view

- **Strengthening retail franchise:** The Retail business franchise has strengthened, with the share of retail loans improving to ~56% of total loans – led by home loans. Furthermore, over 85% of unsecured loans were toward salaried customers. On the liability side, the share of CASA +retail term deposits stood at ~83%, ensuring relatively stable funding costs.
- **Asset quality outlook a near-term monitorable:** AXSB reported an improvement in its asset quality with its GNPA/NNPA ratio declining ~32bp/12bp QoQ to 3.5%/1.1%. Slippages, however, remained slightly higher, while BB & below book witnessed a decline. Restructuring book stood at 0.64% of loans (24% provided). The bank did not utilise any COVID provision during the quarter and holds cumulative provision (standard + additional other than NPA) of INR129.5b



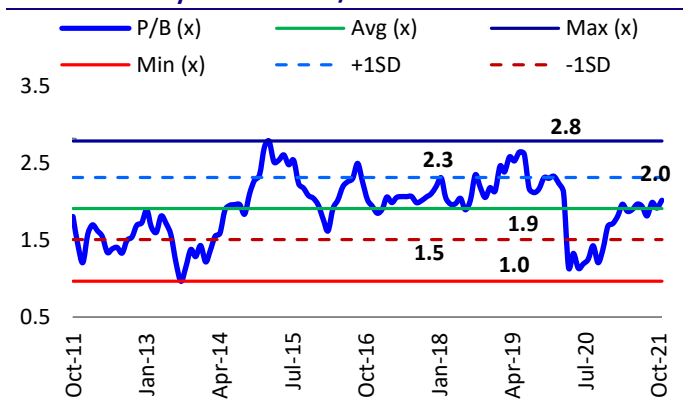
which should support credit costs. We remain watchful over the near-term and expect slippages to remain at 3.0%/2.2% over FY22-23E and estimate credit cost to moderate to 1.4%/1.2% for FY22E/23E.

- **Fee income highly granular; expected to pick up gradually:** Retail fees formed ~63% of the bank’s fees, indicating granularity in fee income, and was driven by cards/third-party distribution. Fee income witnessed a slight uptick, and we expect it to pick up gradually as economic activity revives further.
- **Buy, with Target Price of INR975:** AXSB delivered a weak core operating performance in 2QFY22, led by margin decline, higher opex, and sluggish business growth. However, controlled provisions led to the bank’s earnings surpassing our estimate. On the other hand, the bank’s asset quality was stable, supported by higher recoveries and upgrades, while slippages remained elevated. Total restructuring was controlled at ~0.7% of loans. We expect the trend of elevated slippages to subside from 2HFY22, enabling a decline in credit costs. AXSB’s healthy PCR of ~70%, coupled with an additional provisions buffer of 2.1%, is likely to protect its balance sheet from any potential stress. We cut our earnings estimates for FY22/FY23E by 6%/4% to factor in the bank’s higher operating expenses and lower NII, and remain watchful on recovery in operating earnings. We estimate AXSB to deliver RoA/RoE of 1.5%/14.6% in FY23.  
**Maintain Buy with revised TP of INR975 (2.0x Sep’23E ABV+ INR134 from Subs).**

Exhibit 2: SOTP-based pricing

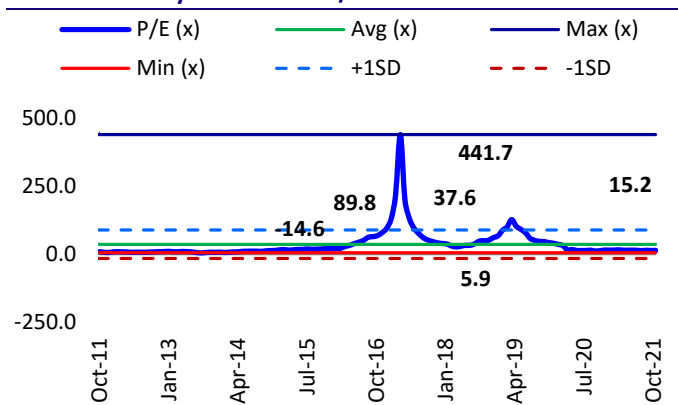
Name	Stake	Attributed Value (INR m)	Value per Share	% of total value	Rationale
Axis Bank	100	2,578,902	841	86.3	❖ 2.0x P/ABV Sep’23E
Axis Finance	100	52,436	17	1.8	❖ 2.5x Net worth Sep’23E
Axis Capital	100	62,686	20	2.1	❖ 20x PAT Sep’23E
Axis Securities	100	94,606	31	3.2	❖ 20x PAT Sep’23E
Axis Mutual Fund	75	167,911	55	5.6	❖ 6% AUM Sep’23E
Max Life Insurance	20	135,544	44	4.5	❖ 3.7x EV Sep’23E
<b>Total Value of Subs</b>		<b>513,184</b>	<b>167</b>	<b>17.2</b>	
Less: 20% holding disc		102,637	33	3.4	
<b>Value of Subs (Post Holding Disc)</b>		<b>410,547</b>	<b>134</b>	<b>13.7</b>	
<b>Target Price</b>		<b>2,989,450</b>	<b>975</b>		

Exhibit 3: One-year forward P/B



Source: MOFSL, Company

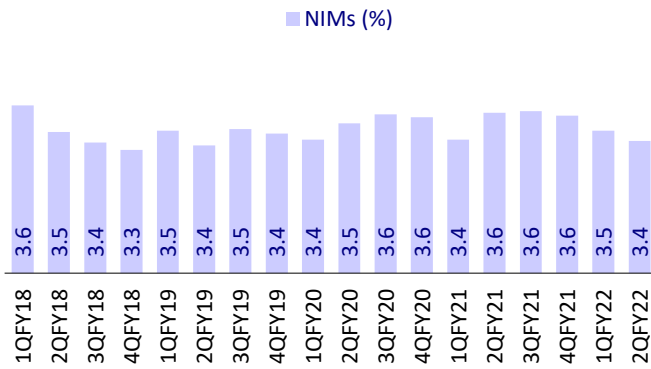
Exhibit 4: One-year forward P/E



Source: MOFSL, Company

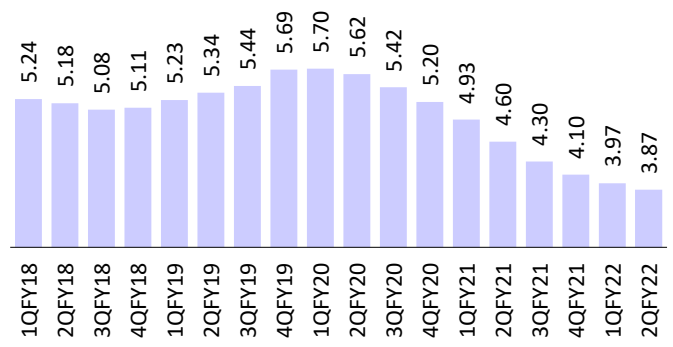
Story in charts

Exhibit 5: Margin declines 7bp QoQ to 3.39%



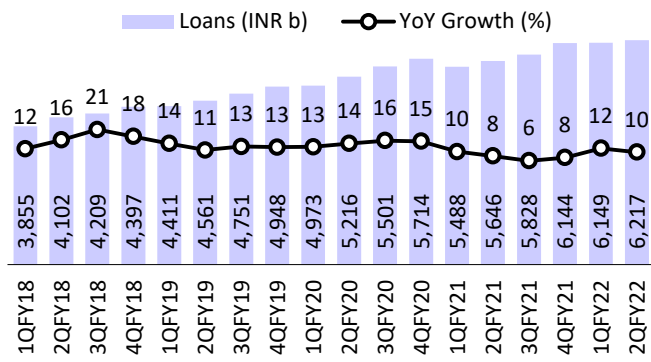
Source: MOFSL, Company

Exhibit 6: Cost of funds down 10bp QoQ to 3.87%



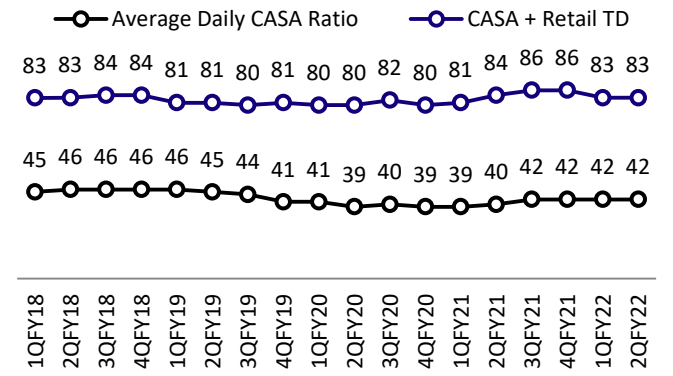
Source: MOFSL, Company

Exhibit 7: Loan book up 10% YoY (+1% QoQ)



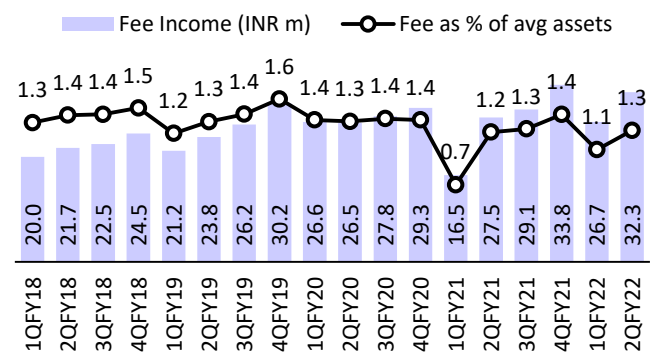
Source: MOFSL, Company

Exhibit 8: CASA + Retail TD constitute 83% of total deposits



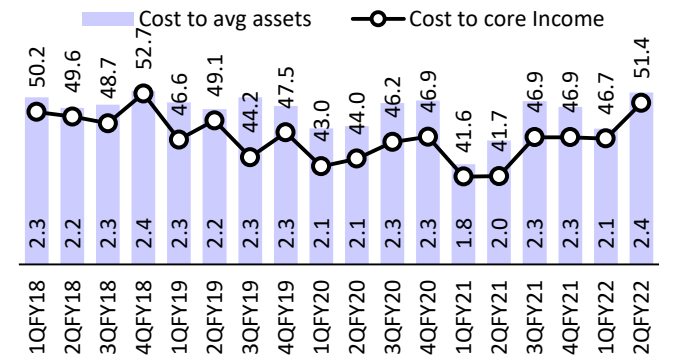
Source: MOFSL, Company

Exhibit 9: Fee income to assets picks up to 1.3%



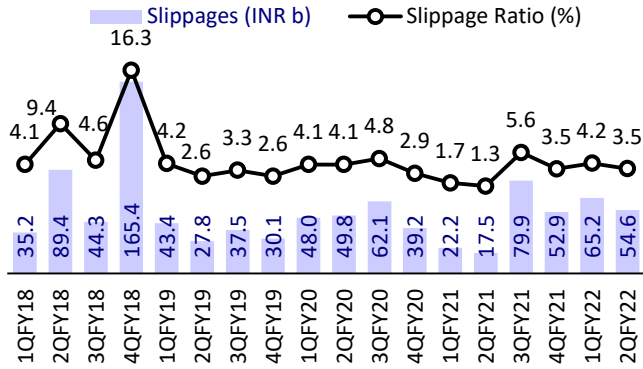
Source: MOFSL, Company

Exhibit 10: Cost to average assets increases to 2.4%



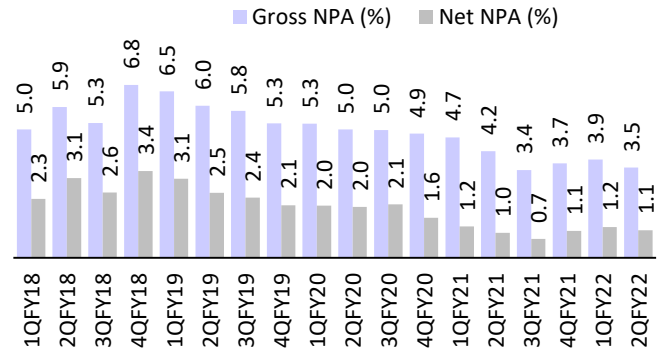
Source: MOFSL, Company

**Exhibit 11: Slippage elevated at INR54.6b**



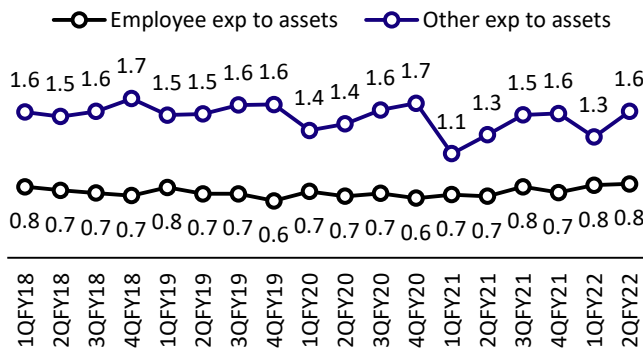
\*2Q/3QFY21 includes pro-forma slippages Source: MOFSL, Company

**Exhibit 12: GNPA/NNPA down 32bp/12bp QoQ to 3.5%/1.1%; PCR healthy at ~70%**



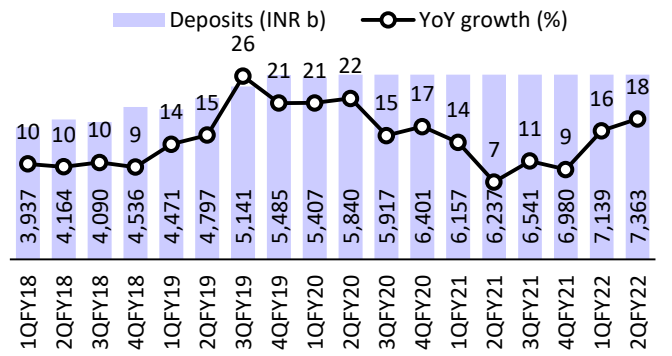
Source: MOFSL, Company

**Exhibit 13: Employee expense stable at 0.8% QoQ; Other expenses increases to 1.6%**



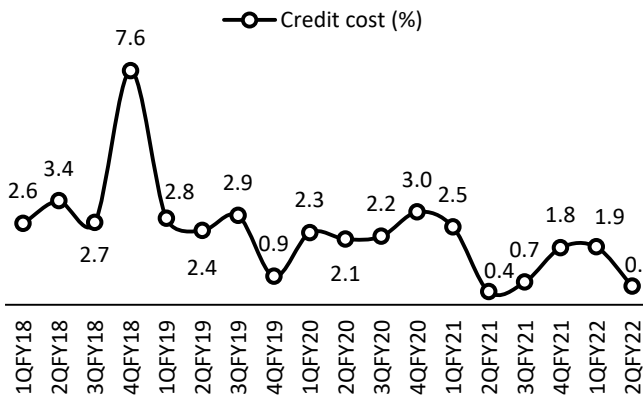
Source: MOFSL, Company

**Exhibit 14: Deposit growth healthy at ~18% YoY**



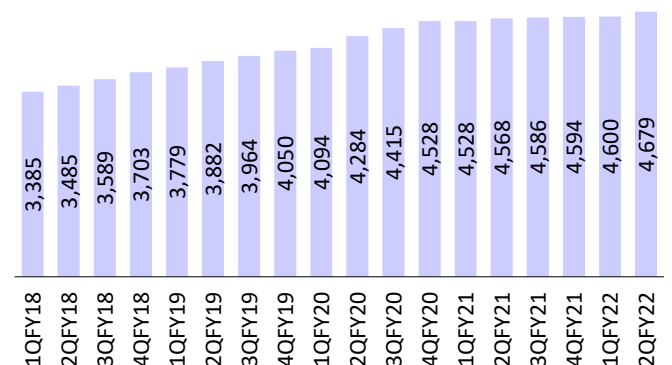
Source: MOFSL, Company

**Exhibit 15: Core credit cost stands at 0.6%**



Source: MOFSL, Company

**Exhibit 16: Total number of branches stand at 4,679**



Source: MOFSL, Company



**Exhibit 17: DuPont Analysis: Return ratios to pick up from FY22 onwards**

<b>Y/E MARCH</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Interest Income	7.81	7.08	7.37	7.30	6.66	6.83	7.00	7.14
Interest Expense	4.63	4.20	4.46	4.36	3.60	3.77	3.71	3.67
<b>Net Interest Income</b>	<b>3.17</b>	<b>2.88</b>	<b>2.91</b>	<b>2.94</b>	<b>3.06</b>	<b>3.06</b>	<b>3.29</b>	<b>3.47</b>
Fee income	1.38	1.49	1.66	1.56	1.31	1.36	1.49	1.58
Trading and others	0.67	0.21	0.10	0.25	0.24	0.21	0.18	0.15
<b>Non-Interest income</b>	<b>2.05</b>	<b>1.70</b>	<b>1.76</b>	<b>1.81</b>	<b>1.55</b>	<b>1.57</b>	<b>1.66</b>	<b>1.72</b>
<b>Total Income</b>	<b>5.22</b>	<b>4.58</b>	<b>4.67</b>	<b>4.75</b>	<b>4.61</b>	<b>4.63</b>	<b>4.96</b>	<b>5.19</b>
<b>Operating Expenses</b>	<b>2.14</b>	<b>2.16</b>	<b>2.12</b>	<b>2.02</b>	<b>1.92</b>	<b>2.06</b>	<b>2.13</b>	<b>2.17</b>
Employee cost	0.68	0.67	0.64	0.62	0.65	0.69	0.70	0.70
Others	1.46	1.50	1.49	1.40	1.28	1.36	1.43	1.46
<b>Operating Profit</b>	<b>3.08</b>	<b>2.41</b>	<b>2.55</b>	<b>2.73</b>	<b>2.69</b>	<b>2.57</b>	<b>2.83</b>	<b>3.02</b>
<b>Core Operating Profit</b>	<b>2.41</b>	<b>2.21</b>	<b>2.45</b>	<b>2.48</b>	<b>2.45</b>	<b>2.36</b>	<b>2.65</b>	<b>2.88</b>
<b>Provisions</b>	<b>2.12</b>	<b>2.39</b>	<b>1.61</b>	<b>2.16</b>	<b>1.77</b>	<b>0.94</b>	<b>0.80</b>	<b>0.75</b>
NPA	1.96	2.57	1.37	1.49	1.28	0.88	0.76	0.71
Others	0.16	-0.17	0.24	0.67	0.49	0.06	0.05	0.04
<b>PBT</b>	<b>0.96</b>	<b>0.02</b>	<b>0.93</b>	<b>0.57</b>	<b>0.92</b>	<b>1.63</b>	<b>2.02</b>	<b>2.27</b>
Tax	0.31	-0.02	0.31	0.38	0.23	0.41	0.51	0.57
<b>RoA</b>	<b>0.64</b>	<b>0.04</b>	<b>0.63</b>	<b>0.19</b>	<b>0.69</b>	<b>1.22</b>	<b>1.51</b>	<b>1.70</b>
Leverage (x)	10.8	10.8	11.5	11.3	10.2	9.8	9.7	9.6
<b>RoE</b>	<b>6.9</b>	<b>0.5</b>	<b>7.2</b>	<b>2.1</b>	<b>7.1</b>	<b>11.9</b>	<b>14.6</b>	<b>16.3</b>

**NOTES**

## Financials and valuations

Income Statement									(INRb)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Interest Income	445.4	457.8	549.9	626.4	636.5	717.2	824.6	958.3	
Interest Expense	264.5	271.6	332.8	374.3	344.1	395.7	436.7	493.1	
<b>Net Interest Income</b>	<b>180.9</b>	<b>186.2</b>	<b>217.1</b>	<b>252.1</b>	<b>292.4</b>	<b>321.5</b>	<b>387.8</b>	<b>465.2</b>	
Growth (%)	7.5	2.9	16.6	16.1	16.0	10.0	20.6	20.0	
Non-Interest Income	116.9	109.7	131.3	155.4	148.4	164.7	196.0	231.3	
<b>Total Income</b>	<b>297.8</b>	<b>295.8</b>	<b>348.4</b>	<b>407.4</b>	<b>440.8</b>	<b>486.2</b>	<b>583.8</b>	<b>696.5</b>	
Growth (%)	13.7	(0.7)	17.8	16.9	8.2	10.3	20.1	19.3	
Operating Expenses	122.0	139.9	158.3	173.0	183.8	216.1	251.2	290.6	
<b>Pre Provision Profits</b>	<b>175.8</b>	<b>155.9</b>	<b>190.1</b>	<b>234.4</b>	<b>257.0</b>	<b>270.2</b>	<b>332.6</b>	<b>405.9</b>	
Growth (%)	9.2	(11.3)	21.9	23.3	9.7	5.1	23.1	22.0	
<b>Core PPP</b>	<b>142.3</b>	<b>142.7</b>	<b>182.5</b>	<b>212.7</b>	<b>234.0</b>	<b>248.3</b>	<b>311.9</b>	<b>386.1</b>	
Growth (%)	(4.7)	0.3	27.9	16.5	10.0	6.1	25.6	23.8	
Provisions (excl. tax)	121.2	154.7	120.3	185.3	169.0	98.9	94.6	101.0	
<b>PBT</b>	<b>54.7</b>	<b>1.2</b>	<b>69.7</b>	<b>49.0</b>	<b>88.1</b>	<b>171.3</b>	<b>238.0</b>	<b>304.9</b>	
Tax	17.9	(1.5)	23.0	32.8	22.2	43.2	60.0	76.8	
Tax Rate (%)	32.7	(126.8)	32.9	66.8	25.2	25.2	25.2	25.2	
<b>PAT</b>	<b>36.8</b>	<b>2.8</b>	<b>46.8</b>	<b>16.3</b>	<b>65.9</b>	<b>128.1</b>	<b>178.0</b>	<b>228.1</b>	
Growth (%)	(55.3)	(92.5)	NM	(65.2)	304.9	94.5	38.9	28.1	
<b>Balance Sheet</b>									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Equity Share Capital	4.8	5.1	5.1	5.6	6.1	6.1	6.1	6.1	
Reserves & Surplus	538.8	629.3	661.6	843.8	1,009.9	1,127.5	1,291.4	1,501.8	
<b>Net Worth</b>	<b>543.6</b>	<b>634.5</b>	<b>666.8</b>	<b>849.5</b>	<b>1,016.0</b>	<b>1,133.6</b>	<b>1,297.5</b>	<b>1,508.0</b>	
<b>Deposits</b>	<b>4,143.8</b>	<b>4,536.2</b>	<b>5,484.7</b>	<b>6,401.0</b>	<b>7,073.1</b>	<b>7,851.1</b>	<b>8,950.3</b>	<b>10,382.3</b>	
Growth (%)	15.8	9.5	20.9	16.7	10.5	11.0	14.0	16.0	
<b>of which CASA Deposits</b>	<b>2,130.5</b>	<b>2,438.5</b>	<b>2,433.9</b>	<b>2,637.1</b>	<b>3,177.5</b>	<b>3,493.7</b>	<b>3,938.1</b>	<b>4,620.1</b>	
Growth (%)	25.7	14.5	-0.2	8.3	20.5	10.0	12.7	17.3	
Borrowings	1,050.3	1,480.2	1,527.8	1,479.5	1,428.7	1,570.8	1,716.6	1,863.8	
Other Liabilities & Prov.	277.0	262.5	330.7	421.6	443.4	487.7	536.5	590.1	
<b>Total Liabilities</b>	<b>6,014.7</b>	<b>6,913.3</b>	<b>8,010.0</b>	<b>9,151.6</b>	<b>9,961.2</b>	<b>11,043.2</b>	<b>12,500.8</b>	<b>14,344.1</b>	
Current Assets	502.6	434.5	672.0	972.7	617.3	650.1	714.7	783.7	
<b>Investments</b>	<b>1,287.9</b>	<b>1,538.8</b>	<b>1,749.7</b>	<b>1,567.3</b>	<b>2,261.2</b>	<b>2,555.2</b>	<b>2,861.8</b>	<b>3,233.8</b>	
Growth (%)	-2.1	19.5	13.7	-10.4	44.3	13.0	12.0	13.0	
<b>Loans</b>	<b>3,730.7</b>	<b>4,396.5</b>	<b>4,948.0</b>	<b>5,714.2</b>	<b>6,237.2</b>	<b>6,923.3</b>	<b>7,961.8</b>	<b>9,315.3</b>	
Growth (%)	10.1	17.8	12.5	15.5	9.2	11.0	15.0	17.0	
Fixed Assets	37.5	39.7	40.4	43.1	42.5	44.6	46.8	49.1	
Other Assets	456.0	503.8	599.9	854.3	803.0	870.0	915.8	962.1	
<b>Total Assets</b>	<b>6,014.7</b>	<b>6,913.3</b>	<b>8,010.0</b>	<b>9,151.6</b>	<b>9,961.2</b>	<b>11,043.2</b>	<b>12,500.8</b>	<b>14,344.1</b>	
<b>Asset Quality</b>									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
GNPA	212.8	342.5	297.9	302.3	253.1	248.0	250.5	264.4	
NNPA	86.3	165.9	112.8	93.6	69.9	73.5	68.9	69.9	
GNPA Ratio	5.5	7.5	5.8	5.1	3.9	3.5	3.1	2.8	
NNPA Ratio	2.3	3.8	2.3	1.6	1.1	1.1	0.9	0.8	
Slippage Ratio	6.4	8.2	3.0	3.7	2.9	3.0	2.2	1.9	
Credit Cost	3.1	4.1	2.2	2.4	2.0	1.4	1.2	1.1	
PCR (Excl. Tech. write off)	59.5	51.6	62.1	69.0	72.4	70.4	72.5	73.6	

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>8.9</b>	<b>7.7</b>	<b>8.0</b>	<b>8.0</b>	<b>7.3</b>	<b>7.5</b>	<b>7.6</b>	<b>7.7</b>
Avg. Yield on loans	9.3	8.4	8.8	9.1	8.0	8.4	8.6	8.7
Avg. Yield on Investments	7.4	7.2	7.0	6.9	6.7	6.3	6.2	6.2
<b>Avg. Cost-Int. Bear. Liabilities</b>	<b>5.4</b>	<b>4.8</b>	<b>5.1</b>	<b>5.0</b>	<b>4.2</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>
Avg. Cost of Deposits	5.1	4.4	4.7	4.9	4.0	4.1	4.1	4.1
Avg. Cost of Borrowings	6.7	6.3	6.4	5.4	5.2	5.8	5.6	5.7
<b>Interest Spread</b>	<b>3.5</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>	<b>3.3</b>	<b>3.4</b>
<b>Net Interest Margin</b>	<b>3.6</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.7</b>

### Capitalisation Ratios (%)

CAR	15.0	16.6	15.9	17.6	19.2	19.1	18.6	18.0
Tier I	11.9	13.0	12.7	14.6	16.6	16.7	16.5	16.3
Tier II	3.1	3.5	3.2	3.0	2.6	2.3	2.0	1.7

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	90.0	96.9	90.2	89.3	88.2	88.2	89.0	89.7
CASA Ratio	51.4	53.8	44.4	41.2	44.9	44.5	44.0	44.5
Cost/Avg. Assets	2.1	2.2	2.1	2.0	1.9	2.1	2.1	2.2
Cost/Total Income	41.0	47.3	45.4	42.5	41.7	44.4	43.0	41.7
Cost/Core Income	45.8	49.5	46.5	44.9	44.0	46.5	44.6	42.9
Int. Expense/Int. Income	59.4	59.3	60.5	59.8	54.1	55.2	53.0	51.5
Fee Income/Total Income	25.0	27.8	31.2	28.9	24.9	23.6	24.6	25.1
Non Int. Inc./Total Income	39.3	37.1	37.7	38.1	33.7	33.9	33.6	33.2
Investment/Deposit Ratio	31.1	33.9	31.9	24.5	32.0	32.5	32.0	31.1

### Profitability Ratios and Valuation

RoE	6.8	0.5	7.2	2.1	7.1	11.9	14.6	16.3
RoA	0.7	0.0	0.6	0.2	0.7	1.2	1.5	1.7
RoRWA	0.8	0.1	0.8	0.3	1.0	1.8	2.2	2.4
Book Value (INR)	232.8	247.2	259.3	301.1	331.6	370.0	423.5	492.2
Growth (%)	4.4	6.2	4.9	16.1	10.2	11.6	14.5	16.2
<b>Price-BV (x)</b>	<b>3.0</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>1.4</b>
Adjusted BV (INR)	200.6	193.8	219.7	269.7	308.1	345.6	400.1	468.5
<b>Price-ABV (x)</b>	<b>3.5</b>	<b>3.7</b>	<b>3.2</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>	<b>1.5</b>
EPS (INR)	15.4	1.1	18.2	6.0	22.4	41.8	58.1	74.4
Growth (%)	-55.5	-92.8	NM	-66.9	271.0	86.8	38.9	28.1
<b>Price-Earnings (x)</b>	<b>46.0</b>	<b>NM</b>	<b>38.9</b>	<b>117.4</b>	<b>31.6</b>	<b>16.9</b>	<b>12.2</b>	<b>9.5</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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