



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING
Updated Aug 08, 2023 **24.17**

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

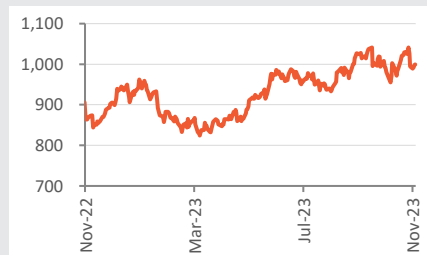
Company details

Market cap:	Rs. 3,07,957 cr
52-week high/low:	Rs. 1,047 / 814
NSE volume: (No of shares)	92.2 lakh
BSE code:	53221
NSE code:	AXISBANK
Free float: (No of shares)	277.4 cr

Shareholding (%)

Promoters	-
FII	53.0
DII	37.2
Others	9.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	2.0	9.1	14.2
Relative to Sensex	1.4	1.1	2.5	6.8

Sharekhan Research, Bloomberg

Axis Bank Ltd

Aiming to be all-weather franchise

Banks	Sharekhan code: AXISBANK		
Reco/View: Buy	↔	CMP: Rs. 999	Price Target: Rs. 1,140
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- The analyst meet gave confidence that Axis Bank's risk framework and cultural changes in the last few years are likely to ensure resiliency through cycles and help in becoming an all-weather franchise.
- Bank is confident of growing franchise sustainably with a clear focus on identifying the right opportunities with better risk-adjusted returns through cycles with consistent market share gains.
- Key message was that the bank is looking to compete in the market with the strategy of customer obsession and empowering employees along with relentless focus on execution.
- We see Axis Bank as a strong player in this leg of the cycle. We maintain a Buy with an unchanged PT of Rs. 1,140. Stock trades at 1.9x/1.6x its FY2024E/FY2025E core BV estimates.

Axis Bank conducted an Analyst Day where we had the opportunity to meet with the following senior management personnel: Mr Amitabh Chaudhary, MD & CEO, followed by business heads in Bharat banking, Digital banking, Business intelligence, Information technology, Customer engagement, strategy, payments, retail, wholesale, liabilities, wealth management, the acquired Citi portfolio and the CFO. The various presentations broadly offered the rationale for the bank to build the respective businesses and the journeys taken to make them competitive, which in turn would help deliver superior growth and profitability. Also, there is a lot of focus on improving the customer experience. This could be through better understanding of the customer, resulting in a more personalized journey's along with identifying the right customer. The bank demonstrated some of the key transformational initiatives and platform capabilities it has been developing in the past few years. Overall, we believe that bank is taking the right path to position itself well for the future and close to the best-in-class banks.

- Best-in-class digital and analytical capabilities, A digital bank within bank:** The bank has invested significantly in some of the transformational tech projects in the past. The bank is now able to demonstrate some of these capabilities through scaling up these digital platforms faster and is resulting in higher growth, yield, fee income and lower operating costs as compared to the physical channel. It has been implemented successfully across personal loans, other retail loans, credit cards, saving accounts, term deposits, forex cards and mutual fund investments.
- Identified growth segments:** Bank's focus segments on asset side include Small Business Banking, SME, Mid Corporates, Rural loans, Personal loans, and credit card advances. The bank has so far seen satisfactory performance on asset quality in these segments and intends to grow them faster than the industry, while building a granular book diversified across sectors and geographies. At the same time, the bank is strengthening the proposition on transaction banking side so that it can build granular and premium liability franchise which are sticky in nature. The bank is showing steady improvement on its liability franchise by targeting micro markets.
- Strongly positioning itself with focus on customer obsession and empowering employees:** Siddhi (the Super App) is helping the bank's employees to engage seamlessly with its customers. Employees get better insight into their customers before their direct interaction with the customers, which allows them to serve the customers according to their needs. Employee productivity and customer engagement are measurable through this app. Focus is on improving the customer experience in the bank's ecosystem resulting in a more personalised journey. This has resulted in an improvement in NPS score.

Our Call

Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,140: Axis Bank currently trades at 1.9x/1.6x its FY2024E/FY2025E core BV estimates. We believe NIM pressure along with elevated cost ratios in the near term would be offset by strong asset quality and in turn lower credit costs. We believe accelerated investments bode well for future growth and building new revenue streams. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise as the balance sheet mix has significantly improved for the bank in the last few years, which we believe is positive for its profitability and sustainable growth going forward.

Key Risks

Slower loan growth, higher-than-anticipated credit cost, slower growth in retail deposit franchise, lower-than-expected margins, and transition of Citi's portfolio not on expected lines.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Net Interest Income	33,132	42,946	49,035	56,181
Net profit	13,026	9,580	24,412	25,997
EPS (Rs.)	42.4	31.0	78.7	82.5
P/E (x)	21.5	29.4	11.6	11.0
P/BV (x)	2.4	2.2	1.9	1.6
RoE	12.0	8.0	17.8	16.0
RoA	1.2	0.8	1.8	1.7

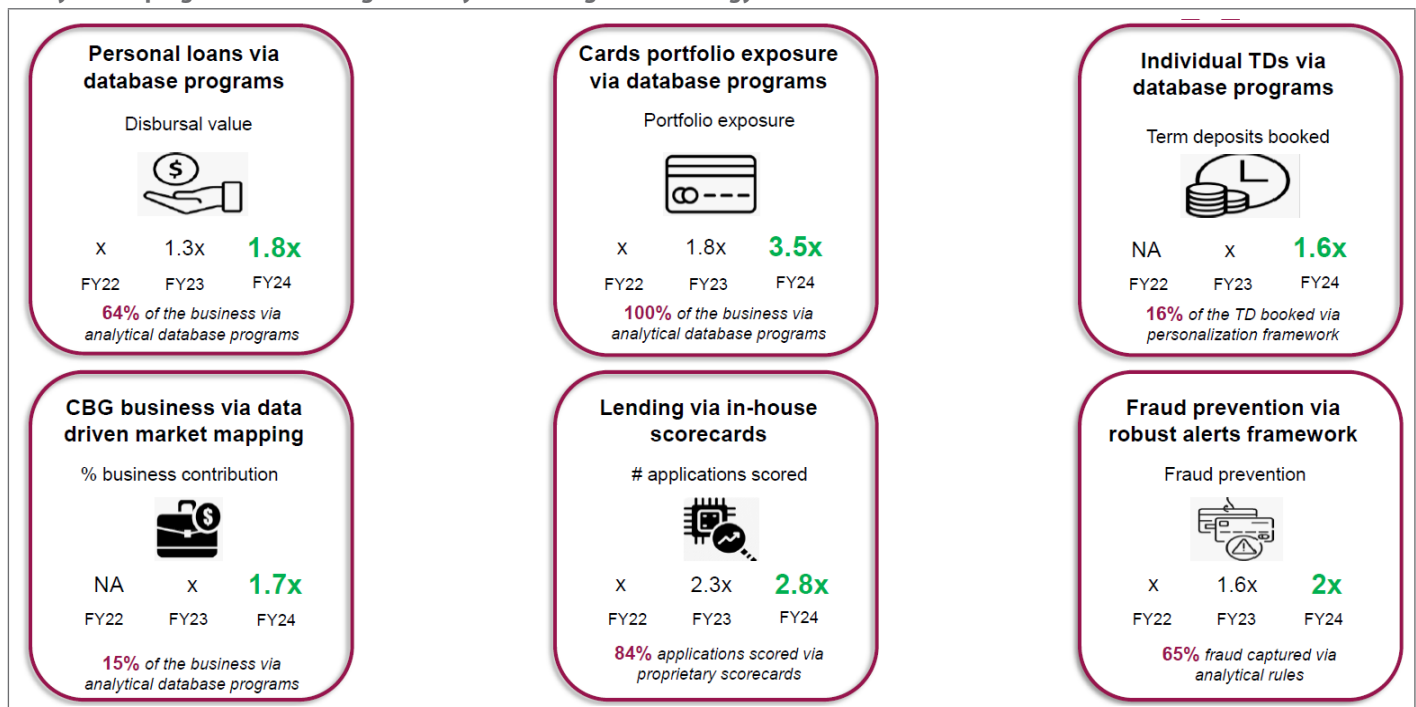
Source: Company; Sharekhan estimates

A stronger franchise-

Management reiterated that the bank is now a structurally stronger franchise which will continue to deliver consistent performance in near to medium term driven by strong asset-quality, sustained healthy granular loan growth with mobilisation of low-cost granular liability and reduction in operating cost over the medium term should flow into core operating profitability.




- ◆ **Asset quality:** Overall, the asset quality outlook continues to remain stable to positive in near term. The bank does not intend to write back large non NPA buffers (~1.32% of advances).
- ◆ **Growth:** Bank endeavors to deliver credit growth of 4-6%, outpacing the industry targeting its focused segment and it will continue to focus on partnerships with new-age technology platform along with growing the liability franchise in granular manner with focus on retail deposits accretion.
- ◆ **Margins:** The bank indicated that the current NIM level (~4.1% in Q2FY24) is above the structural guidance of ~3.80%. While there is likely to be some pressure on cost of funds in near term but bank indicated confidence on its ability to protect the margins.
- ◆ **Operating costs:** The bank has been investing heavily in building technology capabilities over the past few years and this has resulted in elevated cost ratios. The current benign credit cycle environment is helping the bank invest in the franchise. While some of the transformational projects are near completion, many more are still underway. We believe accelerated investments in building digital capabilities bode well for future growth and moderation of opex over the medium is positive.
- ◆ **Capital:** The bank reiterated that it does not intend to raise equity capital in near term as CET 1 is well above threshold limit and there is sufficient accretion of capital for growth.

Analytics helping to contribute significantly to bank's growth strategy



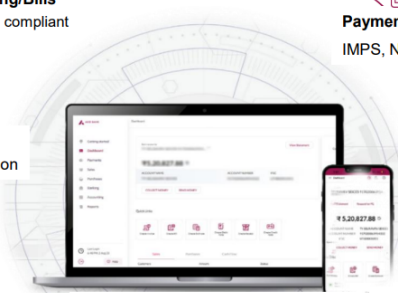
Source: Company Presentation, Sharekhan Research

Also, analytics capabilities are keeping sharp focus on 3 key distinctive initiatives helping bank to help get future-ready








<p>Personalization</p>  <p>Combination of Data Science + Behavioral Science + Technology</p> <p><i>Build best in-class personalization engine which caters to all customers with personalized offers at a segment of 1</i></p>	<p>Partnership and digital public infra led lending growth</p>  <p>Lending decisions backed by alternate data and curated database programs</p> <p><i>Leverage alternate data and be spoke credit risk scorecards to assess one's creditworthiness</i></p>	<p>Modern data and tech infrastructure</p>  <p>Strong data and tech foundation for engineering excellence</p> <p><i>Deliver and keep up with the growing data demands via modern tool stack and "data as a product" principles</i></p>
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Source: Company Presentation, Sharekhan Research

Adding to the digital capabilities, neo for business, newly launched MSME/ Corporates platform is expected to deliver strong granular liability and healthy fee income with strong market share gains and cementing bank position as a preferred choice for Transaction Banking



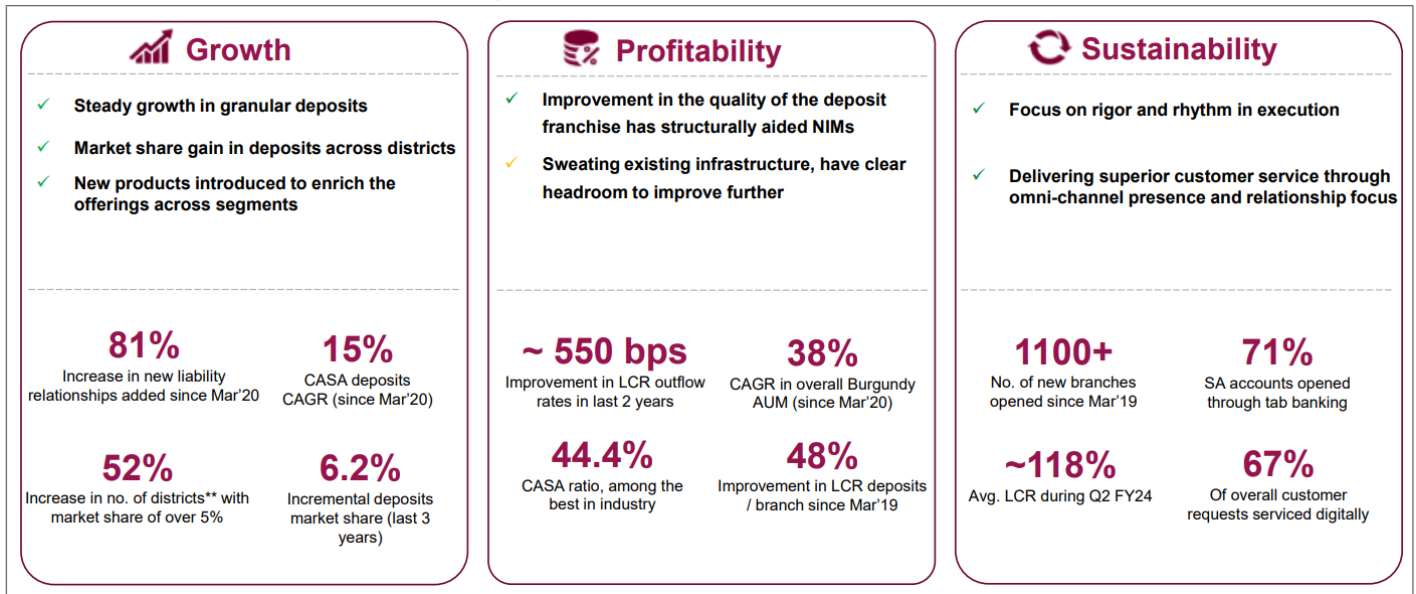
Contemporary UI/UX of Fintech with bank grade security

-  **c.10,000 clients on-boarded in 2 months**
-  **35% increase in login active rate ¹**
-  **100+ end to end digital journeys**
-  **Full stack live for liability and Transaction banking use cases**
-  **Core CA based offering instead of Virtual Account/Wallet**
-  **Guest user access & referral program designed to boost NTB acquisition**
-  **Integrated with video KYC journey with same day CA activation**

Available on neo.axisbank.com  

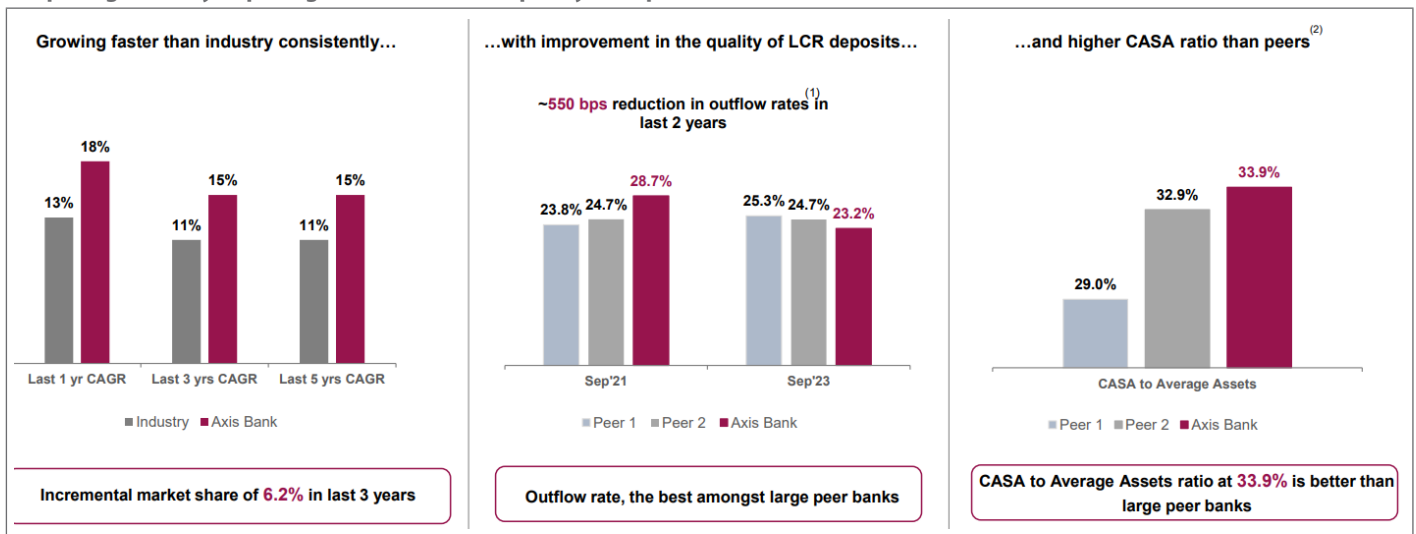
Source: Company Presentation, Sharekhan Research

Granularisation and premiumisation of liability franchise continues to make strong progress



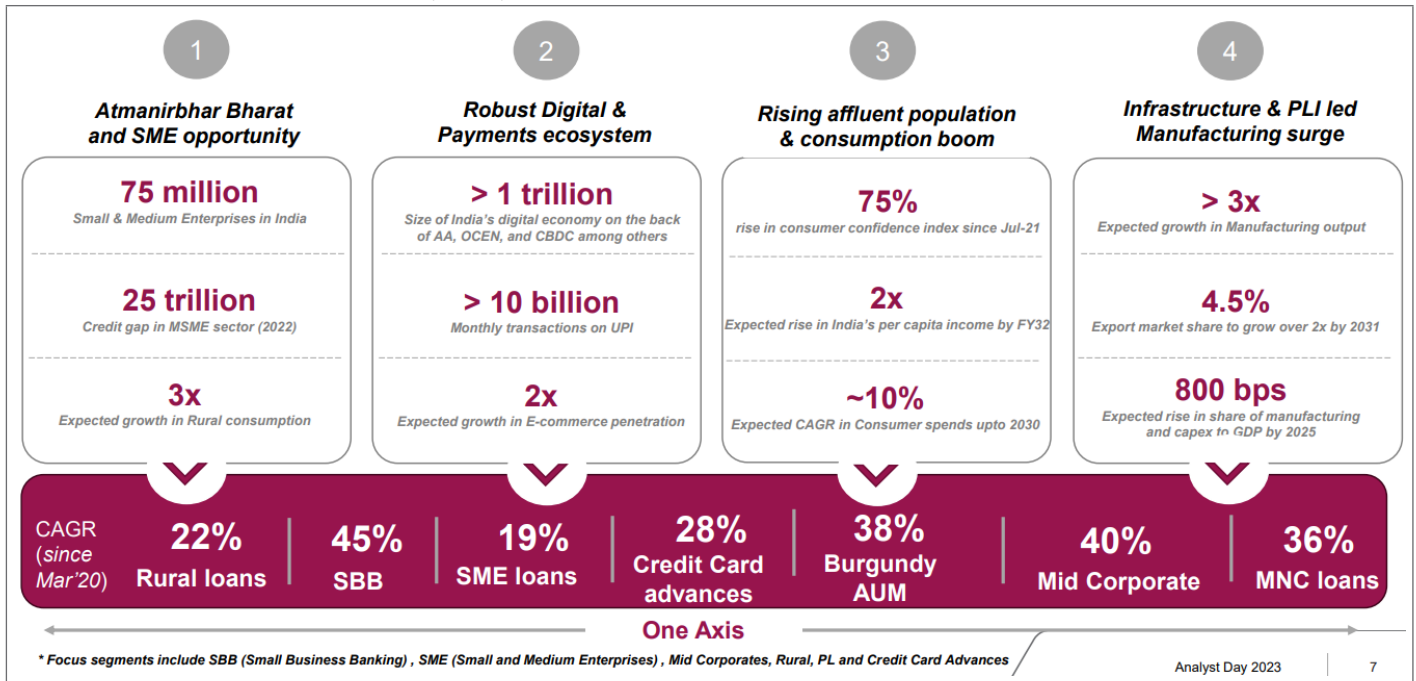
Source: Company Presentation, Sharekhan Research

Outpacing industry deposit growth with better quality of deposits



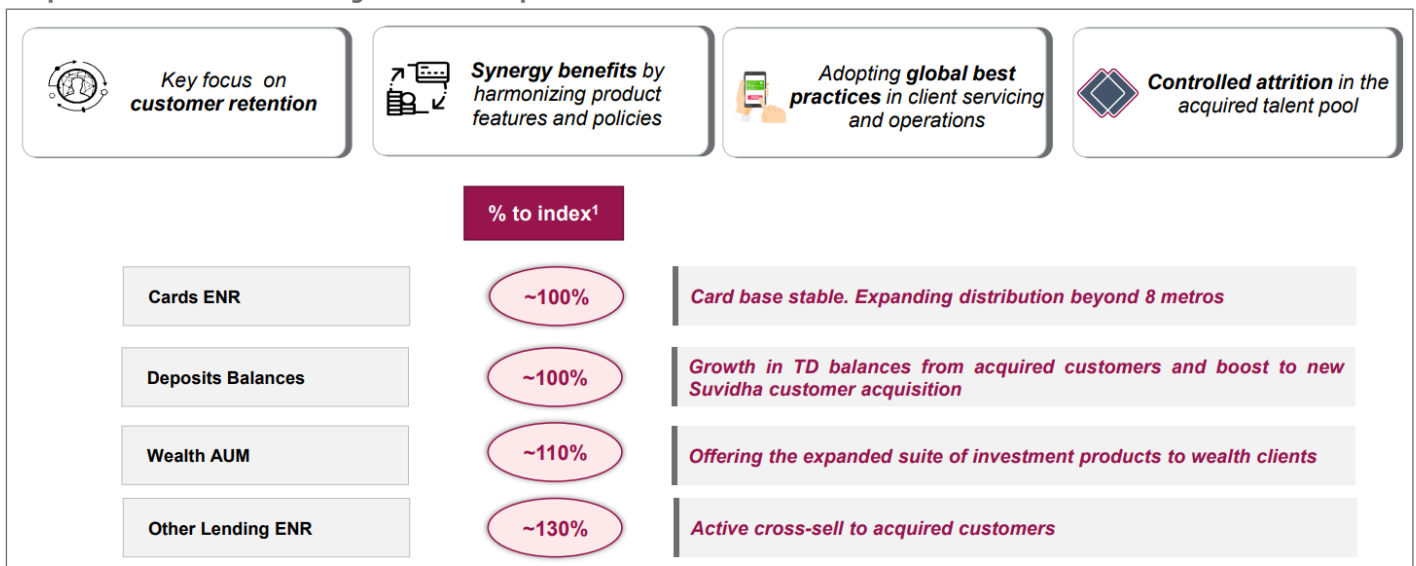
Source: Company Presentation, Sharekhan Research

Megatrends provide long growth runway in key segments on asset side



Source: Company Presentation, Sharekhan Research

Citi portfolio metrics are trending in-line with expectations



Source: Company Presentation, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better**
System-level credit offtake grew by ~20% y-o-y in the fortnight ending November 03, 2023, indicating that loan growth has been sustaining, given distinct signs of an improving economy, revival of investments and strong demand. On the other hand, deposits rose by ~13%. The gap between advances and deposits growth is wider. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. The overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

■ **Company Outlook – Gradually converging with the sector leader**

The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise. The balance sheet mix has significantly improved for the bank, which we believe is positive for profitability and sustainable growth going forward. The bank is trading at lower valuations compared to its close peers due to lower CET-1, lower NIM profile, and possible negative surprises that could come from the integration with Citi's portfolio in terms of higher cost. We believe it is on the path to gradually converge with the sector leader.

■ **Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,140**

Axis Bank currently trades at 1.9x/1.6x its FY2024E/FY2025E core BV estimates. We believe NIM pressure along with elevated cost ratios in the near term would be offset by strong asset quality and in turn lower credit costs. We believe accelerated investments bode well for future growth and building new revenue streams. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise as the balance sheet mix has significantly improved for the bank in the last few years, which we believe is positive for its profitability and sustainable growth going forward.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Axis Bank	999	3,07,957	11.6	11.0	1.9	1.6	17.8	16.0	1.8	1.7
ICICI Bank	923	6,47,010	14.2	13.5	2.3	2.0	17.7	15.8	2.3	2.1

Source: Company, Sharekhan estimates

About company

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 also has subsidiaries catering to diversified financial services, which contribute and benefit from the bank's strong market position across categories. The bank had a network of 5,152 domestic branches as of September 2023. Capital adequacy ratio (CAR) stands at 16.56%.

Investment theme

Axis Bank is looking for a sustainable growth path with granularity in the balance sheet mix. The investment thesis remains strong for Axis Bank, led by sustained improvement in the business franchise. The balance sheet mix has significantly improved for the bank, which we believe is positive for its profitability and sustainable growth going forward.

Key Risks

Lower loan growth, higher-than-anticipated credit cost, slower growth in retail deposit franchise, lower-than-expected margins, and transition of Citi's portfolio not on expected lines.

Additional Data

Key management personnel

Mr. Amitabh Chaudhary	MD and CEO
Mr. Rajiv Anand	Deputy MD
Mr. Puneet Sharma	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIFE INSURANCE CORP OF INDIA	7.94
2	SBI FUNDS MANAGEMENT LTD.	3.92
3	BLACKROCK INC.	3.17
4	DODGE & COX	3.17
5	VANGUARD GROUP INC.	3.02
6	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	2.77
7	HDFC AMC Ltd	2.39
8	NPS Trust UTI Retirement Solutions Ltd.	2.18
9	REPUBLIC OF SINGAPORE	2.11
10	FIL Ltd.	2.05

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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