

India

HOLD (no change)

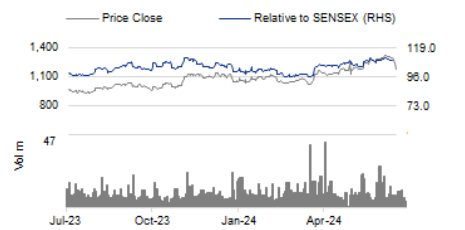
Consensus ratings*: Buy 39 Hold 9 Sell 0

Current price:	Rs1,176
Target price:	Rs1,300
Previous target:	Rs1,150
Up/downside:	10.5%
InCred Research / Consensus:	-5.7%
Reuters:	AXBK.NS
Bloomberg:	AXSB IN
Market cap:	US\$43,422m
	Rs3,634,664m
Average daily turnover:	US\$151.8m
	Rs12706.0m
Current shares o/s:	3,090.2m
Free float:	91.7%

*Source: Bloomberg

Key changes in this note

➤ Retail advances growth remained flat sequentially, like in deposits, whereas NIM stability was due to one-offs and the bank witnessing a spike in retail slippage.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.5)	4.0	20.4
Relative (%)	(10.1)	(4.2)	0.3

Major shareholders	% held
LIC	8.3
HDFC MF	4.0
SBI MF	4.0

Axis Bank

Weakness visible across parameters

- Axis Bank reported a lower-than-expected 1QFY25 PAT of ~Rs 60bn (InCred estimate: Rs63.4bn), despite sequentially flat NIM and elevated credit costs.
- Retail advances growth was flat sequentially, like in deposits, whereas NIM stability was due to one-offs amid the bank witnessing a spike in retail slippage.
- We have been highlighting the bank’s consistent struggle over secured asset growth and managing margins. Retain HOLD rating with a TP of Rs1,300.

Sluggish loan growth to persist; weak traction in retail book

Axis Bank’s loan book grew by ~1.6% qoq in 1QFY25 but retail lending growth (including SME loans) remained flat, and the entire growth was contributed by the corporate segment. We have been witnessing a sluggish growth trend in the secured assets of the bank, but the current quarter witnessed further deterioration. Deposit growth remained flat sequentially, and thus the LDR ratio inched up to ~92%. Like HDFC Bank, Axis Bank also witnessed a decent traction in average deposit balances, but the period-end outflow was inevitable.

NIM sustainability due to one-off; future trajectory is challenging

Axis Bank reported sequential flat margins at ~405bp, despite softening in yields on a qoq basis, due to higher interest reversals whereas the cost of funds continues to inch upwards. The bank witnessed interest on income-tax reversals during the quarter, which when clubbed with healthy investment income, supported the margins. The bank could manage to hold yields amid a rise in unsecured lending during the previous quarters but considering the deteriorating asset quality environment as well as tight liquidity, they all pose a challenge to margin sustainability, at least in the near term.

Elevated slippage amid slower recoveries; we remain watchful

After reporting a sequential decline in absolute GNPA’s for the past 11 quarters, the bank reported ~7.2% sequential rise whereas NNPA’s rose by ~10.3% qoq. Management attributes major slippage to collection delay, which is normalizing in 2Q, but considering the bank’s elevated exposure towards unsecured loans in the past few quarters, we prefer to remain watchful of the overall trend in the coming quarters as well.

Outlook & valuation

We prefer to remain cautious on Axis Bank, given slowing credit growth and the rising share of unsecured loan book, rising pressure on margins and a volatile asset quality trend. We now value the standalone bank at ~1.8x FY26F BV and added Rs100/share for subsidiaries. Accordingly, we have arrived at a higher target price of Rs1,300 (Rs1,150 earlier) and maintain HOLD rating on the stock. Better-than-expected growth/margins pose an upside risk while lower profits are a downside risk.

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	429,458	498,945	553,862	631,989	759,168
Total Non-Interest Income (Rsm)	165,009	224,420	262,133	298,230	344,711
Operating Revenue (Rsm)	594,466	723,364	815,995	930,219	1,103,879
Total Provision Charges (Rsm)	(28,848)	(40,631)	(53,305)	(67,327)	(86,189)
Net Profit (Rsm)	95,797	248,614	276,373	304,853	364,266
Core EPS (Rs)	31.16	80.59	89.49	98.71	117.95
Core EPS Growth	(27%)	159%	11%	10%	19%
FD Core P/E (x)	37.73	14.59	13.14	11.91	9.97
DPS (Rs)	2.00	4.00	4.00	5.00	6.00
Dividend Yield	0.17%	0.34%	0.34%	0.43%	0.51%
BVPS (Rs)	402.8	486.5	569.8	662.0	772.2
P/BV (x)	2.92	2.42	2.06	1.78	1.52
ROE	8.0%	18.0%	16.8%	15.9%	16.3%
% 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	1QFY25	YoY (%)	QoQ (%)
Net Interest Income	93,840	1,03,603	1,14,593	1,17,422	1,19,588	1,23,146	1,25,322	1,30,890	1,34,482	12.5%	2.7%
<i>NIM (% of AUM)</i>	3.8%	4.1%	4.4%	4.3%	4.2%	4.2%	4.1%	4.1%	4.1%		
Other Operating Income	29,990	39,412	46,654	48,953	50,873	50,341	55,548	67,658	57,835	13.7%	-14.5%
Operating Expenses	64,960	65,852	68,473	74,699	82,317	87,168	89,457	93,191	91,255	10.9%	-2.1%
Operating Profit	58,870	77,162	92,775	91,676	88,144	86,319	91,412	1,05,357	1,01,062	14.7%	-4.1%
Provisions	3,594	5,498	14,377	3,058	10,349	8,146	10,283	11,853	20,393	97.1%	72.0%
Exceptional Items	-	-	-	-	-	-	-	-	-		
PBT	55,276	71,664	78,398	88,618	77,795	78,173	81,129	93,504	80,670	3.7%	-13.7%
Tax	-14,024	-18,367	-19,867	-21,004	-19,824	-19,538	-20,418	-22,207	-20,323	2.5%	-8.5%
<i>Tax rate (%)</i>	25.4%	25.6%	25.3%	23.7%	25.5%	25.0%	25.2%	23.8%	25.2%		
PAT	41,253	53,298	58,531	67,614	57,971	58,636	60,711	71,297	60,346	4.1%	-15.4%
Advances (Rs bn)	70,11,299	73,08,748	76,20,755	84,53,028	85,85,114	89,73,470	93,22,864	96,50,684	98,00,915	14.2%	1.6%
Deposits (Rs bn)	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	1,06,24,837	12.8%	-0.6%

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	5,44,301	5,53,862	1.8%	6,33,260	6,31,989	-0.2%	7,55,684	7,59,168	0.5%
Non-Interest Income	2,65,741	2,62,133	-1.4%	3,06,752	2,98,230	-2.8%	3,50,074	3,44,711	-1.5%
PPOP	4,04,693	4,24,275	4.8%	4,72,071	4,76,526	0.9%	5,60,669	5,75,137	2.6%
PAT	2,65,628	2,76,373	4.0%	3,05,957	3,04,853	-0.4%	3,58,687	3,64,266	1.6%
EPS (Rs)	86.2	89.5	3.8%	99.3	98.7	-0.6%	116.4	117.9	1.3%
BV (Rs)	568.5	569.8	0.2%	661.4	662.0	0.1%	770.2	772.2	0.3%
Advances (Rs bn)	10,985	10,985	0.0%	12,761	12,761	0.0%	15,155	15,155	0.0%
Deposits (Rs bn)	12,560	12,560	0.0%	14,633	14,633	0.0%	16,892	16,892	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 earnings conference-call highlights

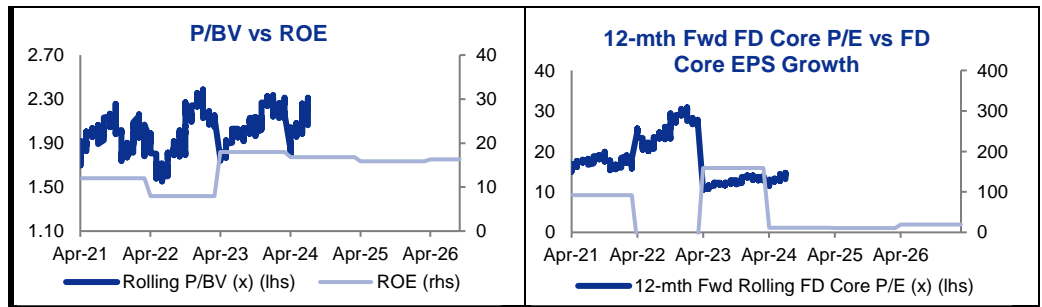
- Deposit augmentation focus is on building retail franchises through better reach to new bank customers.
- On an average basis, deposits for the quarter were up 14% yoy and 3% qoq led by term deposits.
- The bank remains focused on better yielding retail, SME and mid-corporate loans.
- Management expects credit costs for the full year to be lower than the current level.
- Around 55% expansion in credit costs can be attributed to corporate loans because of lower upgrades and loan recovery.
- The increase in operating expenses can be attributed to the rise in volume (34%), technology spending & growth-related (30%) and general business (38%).
- Rural loans are impacted by seasonality in agri loans and sluggish MFI portfolio.

Figure 3: InCred BFSI Coverage Universe

Banks	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	864	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,618	2,000	3.1	2.8	2.6	1.9%	2.0%	2.0%	15.4%	16.3%	16.9%
ICICI Bank	ADD	1,227	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,263	1,300	2.3	2	1.7	1.7%	1.7%	1.7%	16.8%	15.9%	16.3%
IndusInd Bank	HOLD	1,413	1,650	1.8	1.6	1.4	1.7%	1.7%	1.7%	14.1%	14.4%	14.8%
NBFCs	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA(%)			ROE(%)		
Bajaj Finance	ADD	6,727	9,000	6.0	5.1	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam Finance	ADD	1,395	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	296	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.3%	14.0%	15.7%
Shriram Finance **	ADD	2,739	2,950	2.0	1.7	1.4	3.4%	3.5%	3.5%	16.9%	17.3%	17.9%
SBI Cards **	REDUCE	730	500	3.4	2.9	2.5	3.6%	3.2%	3.0%	17.8%	16.6%	16.3%
Aavas Financiers	ADD	1,777	2,000	3.5	3.0	2.6	3.3%	2.9%	2.9%	14.7%	14.1%	14.9%
Home First Finance	ADD	1,063	1,100	4.2	3.7	3.2	3.4%	3.4%	3.4%	16.2%	17.7%	19.3%
Spandana Spoorthy	ADD	699	1,300	2.1	1.8	1.5	4.4%	4.6%	4.6%	16.7%	17.9%	18.2%
Fusion Micro Finance	HOLD	429	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%
AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			ROA(%)			ROE(%)		
Nippon AMC	ADD	628	800	35.7	29.5	23.7	0.28%	0.26%	0.25%	35.2%	41.8%	50.7%
HDFC AMC	HOLD	3,957	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	970	1,100	16.0	13.0	11.1	0.29%	0.29%	0.28%	18.8%	20.6%	21.4%
ABSL AMC**	ADD	678	700	21.3	17.3	14.4	0.25%	0.26%	0.26%	27.9%	30.3%	32.1%
Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (x) (at TP)			Return on EV (%)			ROE(%)		
SBI Life Insurance	HOLD	1595	1750	2.5	2.2	1.8	18.9%	18.5%	18.1%	15.4%	16.6%	16.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	429,458	498,945	553,862	631,989	759,168
Total Non-Interest Income	165,009	224,420	262,133	298,230	344,711
Operating Revenue	594,466	723,364	815,995	930,219	1,103,879
Total Non-Interest Expenses	(265,615)	(338,063)	(373,854)	(435,397)	(508,844)
Pre-provision Operating Profit	197,906	371,232	424,275	476,526	575,137
Total Provision Charges	(28,848)	(40,631)	(53,305)	(67,327)	(86,189)
Operating Profit After Provisions	169,059	330,601	370,970	409,199	488,948
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	169,059	330,601	370,970	409,199	488,948
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	169,059	330,601	370,970	409,199	488,948
Exceptional Items					
Pre-tax Profit	169,059	330,601	370,970	409,199	488,948
Taxation	(73,262)	(81,986)	(94,597)	(104,346)	(124,682)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	95,797	248,614	276,373	304,853	364,266
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	95,797	248,614	276,373	304,853	364,266
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%	73.8%	75.0%	76.0%
Avg Liquid Assets/Avg IEAs	114.0%	112.2%	114.1%	116.6%	115.5%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
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
Total Gross Loans	8,453,030	9,650,684	10,985,078	12,760,638	15,154,628
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
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	8,453,030	9,650,684	10,985,078	12,760,638	15,154,628
Intangible Assets					
Other Non-Interest Earning Assets	720,632	604,740	721,767	753,738	787,261
Total Non-Interest Earning Assets	767,971	661,586	780,755	814,919	850,814
Cash And Marketable Securities	1,064,108	1,144,544	1,757,289	2,181,145	2,153,499
Long-term Investments	2,888,148	3,315,273	3,619,455	4,006,198	4,493,406
Total Assets	13,173,257	14,772,086	17,142,576	19,762,900	22,652,346
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	1,772,555	2,059,367	2,401,983
Minority Interests					
Total Equity	1,254,167	1,510,616	1,772,555	2,059,367	2,401,983

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	29.6%	16.2%	11.0%	14.1%	20.1%
Operating Profit Growth	27.7%	17.2%	14.8%	11.9%	20.3%
Pretax Profit Growth	(3%)	96%	12%	10%	19%
Net Interest To Total Income	72.2%	69.0%	67.9%	67.9%	68.8%
Cost Of Funds	3.95%	4.96%	5.01%	4.56%	4.26%
Return On Interest Earning Assets	11.0%	12.1%	12.0%	11.4%	11.0%
Net Interest Spread	7.02%	7.12%	7.00%	6.86%	6.75%
Net Interest Margin (Avg Deposits)	4.86%	4.95%	4.77%	4.65%	4.82%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	15%	11%	13%	14%	15%
Interest Return On Average Assets	3.45%	3.57%	3.47%	3.42%	3.58%
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%	1.73%	1.65%	1.72%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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