

India

**HOLD** (no change)

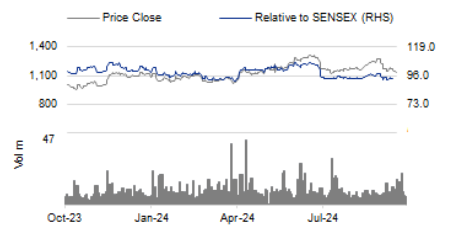
Consensus ratings\*: Buy 38 Hold 10 Sell 0

Current price:	Rs1,132
Target price:	Rs1,250
Previous target:	Rs1,300
Up/downside:	10.4%
InCred Research / Consensus:	-9.7%
Reuters:	AXBK.NS
Bloomberg:	AXSB IN
Market cap:	US\$41,648m
	Rs3,501,345m
Average daily turnover:	US\$148.0m
	Rs12441.6m
Current shares o/s:	3,075.7m
Free float:	91.7%

\*Source: Bloomberg

Key changes in this note

- Elevated slippage continued (~1.8% slippage ratio), primarily contributed by unsecured retail loans across vintages amid the absence of appropriate seasoning.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.1)	(13.2)	12.3
Relative (%)	(5.9)	(12.8)	(8.7)

Major shareholders	% held
LIC	8.3
HDFC AMC	4.2
ICICI Pru AMC	4.2

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# Axis Bank

## Slowing growth; elevated slippage

- Axis Bank posted an in-line 2Q PAT of Rs69.2bn as tax reversals utilized for contingent provision, but weak growth & elevated slippage raise concerns.
- Elevated slippage continued (~1.8% slippage ratio), primarily due to unsecured retail loans across vintages amid the absence of appropriate seasoning.
- We have been highlighting the bank's struggle over secular growth, managing margin & rising slippage. Retain HOLD rating with a lower TP of Rs1,250.

### Sluggish loan growth to persist; deposit franchise needs momentum

Axis Bank's loan book grew ~2% qoq in 2QFY25 but retail lending growth remained flat, with the growth mainly contributed by SME and overseas corporate segments. Management remains cautious on retail asset quality, especially on the unsecured retail lending front, which will impact loan growth. Deposit growth remained flat sequentially. However, the growth in the quarterly average deposit balance was weak compared to the period-end balance, which raises concerns over deposit flows. LDR was elevated at ~92% whereas LCR declined to 115% as against 120% last quarter. The bank reported a ~6bp sequential decline in margin at ~399bp amid steady yields and rising cost of funds.

### Elevated slippage & higher write-offs - we prefer to remain watchful

Though Axis Bank reported a decline in headline NPAs on a sequential basis, the trend in fresh slippage remained elevated at Rs44.4bn as against Rs47.9bn last quarter, with the annualized gross slippage ratio at ~1.78% vs. ~1.97% last quarter. Management has highlighted that a major portion of fresh slippage during the quarter was contributed by the unsecured retail segment and was across vintages. Another area of concern has been the spurt in overall write-offs during the quarter, which grew by ~41% qoq to Rs31.2bn. Management explained that write-offs in the retail portfolio were done as per rule-based mechanism which, we believe, indicates consistent movement of NPAs into higher dpd (day past due) buckets. Though the trend in upgrades & recoveries also witnessed an improvement sequentially, with ~67% growth in recoveries from written-off accounts, we remain watchful of the future trend.

### Outlook & valuation

Axis Bank has witnessed a rapid surge in unsecured retail lending compared to secured loan growth, which also aided margins & boosted overall profitability. With the gradual seasoning of this unsecured portfolio, the near-term volatility in asset quality is likely, especially in the challenging times currently amid scarce liquidity and an over-leveraged customer base. The current caution on growth is advantageous but will weigh over leverage and return ratios in the near term. We valued the standalone bank at ~1.8x FY26F BV and added Rs100/share for its subsidiaries. Accordingly, we arrived at a lower target price of Rs1,250 (Rs1,300 earlier), maintaining our HOLD rating on the stock. Better-than-expected growth/margins pose an upside risk while lower profits are a downside risk.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	429,458	498,945	547,595	619,380	707,334
Total Non-Interest Income (Rsm)	165,009	224,420	269,067	306,343	354,284
Operating Revenue (Rsm)	594,466	723,364	816,662	925,723	1,061,618
Total Provision Charges (Rsm)	(28,848)	(40,631)	(78,228)	(76,493)	(80,800)
Net Profit (Rsm)	95,797	248,614	272,248	304,841	352,376
Core EPS (Rs)	31.16	80.59	88.15	98.71	114.10
Core EPS Growth	(27%)	159%	9%	12%	16%
FD Core P/E (x)	36.32	14.05	12.84	11.47	9.92
DPS (Rs)	2.00	4.00	4.00	5.00	6.00
Dividend Yield	0.18%	0.35%	0.35%	0.44%	0.53%
BVPS (Rs)	402.8	486.5	568.5	660.7	767.0
P/BV (x)	2.81	2.33	1.99	1.71	1.48
ROE	8.0%	18.0%	16.6%	15.9%	15.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>1,19,588</b>	<b>1,23,146</b>	<b>1,25,322</b>	<b>1,30,890</b>	<b>1,34,482</b>	<b>1,34,832</b>	<b>9.5%</b>	<b>0.3%</b>
<i>NIM (% of AUM)</i>	4.2%	4.2%	4.1%	4.1%	4.1%	4.1%		
Other Operating Income	50,873	50,341	55,548	67,658	57,835	67,219	33.5%	16.2%
Operating Expenses	82,317	87,168	89,457	93,191	91,255	94,926	8.9%	4.0%
<b>Operating Profit</b>	<b>88,144</b>	<b>86,319</b>	<b>91,412</b>	<b>1,05,357</b>	<b>1,01,062</b>	<b>1,07,125</b>	<b>24.1%</b>	<b>6.0%</b>
Provisions	10,349	8,146	10,283	11,853	20,393	22,041	170.6%	8.1%
Exceptional Items	-	-	-	-	-	-		
<b>PBT</b>	<b>77,795</b>	<b>78,173</b>	<b>81,129</b>	<b>93,504</b>	<b>80,670</b>	<b>85,084</b>	<b>8.8%</b>	<b>5.5%</b>
Tax	-19,824	-19,538	-20,418	-22,207	-20,323	-15,908	-18.6%	-21.7%
<i>Tax Rate (%)</i>	25.5%	25.0%	25.2%	23.8%	25.2%	18.7%		
<b>PAT</b>	<b>57,971</b>	<b>58,636</b>	<b>60,711</b>	<b>71,297</b>	<b>60,346</b>	<b>69,176</b>	<b>18.0%</b>	<b>14.6%</b>
<b>Advances (Rs bn)</b>	85,85,114	89,73,470	93,22,864	96,50,684	98,00,915	99,99,792	<b>11.4%</b>	<b>2.0%</b>
<b>Deposits (Rs bn)</b>	94,16,897	95,55,564	1,00,48,995	1,06,86,414	1,06,24,837	1,08,67,440	<b>13.7%</b>	<b>2.3%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

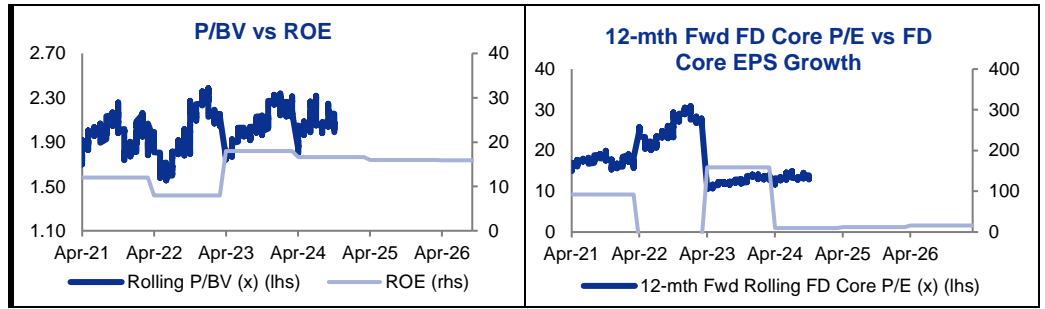
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	5,53,862	5,47,595	-1.1%	6,31,989	6,19,380	-2.0%	7,59,168	7,07,334	-6.8%
Non-Interest Income	2,62,133	2,69,067	2.6%	2,98,230	3,06,343	2.7%	3,44,711	3,54,284	2.8%
PPOP	4,24,275	4,29,517	1.2%	4,76,526	4,85,675	1.9%	5,75,137	5,53,788	-3.7%
PAT	2,76,373	2,72,248	-1.5%	3,04,853	3,04,841	0.0%	3,64,266	3,52,376	-3.3%
EPS (Rs)	89.5	88.2	-1.5%	98.7	98.7	0.0%	117.9	114.1	-3.3%
BV (Rs)	569.8	568.5	-0.2%	662.0	660.7	-0.2%	772.2	767.0	-0.7%
Advances (Rs bn)	10,985	10,759	-2.1%	12,761	12,179	-4.6%	15,155	13,998	-7.6%
Deposits (Rs bn)	12,560	12,102	-3.6%	14,633	13,900	-5.0%	16,892	16,041	-5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Highlights from 2QFY25 earnings call

- Management believes that deposit growth will be a key constraint for the growth in advances, with the loan growth to remain 300-400bp higher than industrial growth in the mid- to long-term.
- During the quarter, the bank went for a Rs31.2bn write-off, mostly comprising retail portfolio and SMEs, whereas the wholesale book witnessed strong recoveries.
- The retail unsecured segment is driven by a higher degree of loans given to people who are facing a liquidity crunch.
- The bank aims to maintain its risk-adjusted return profile, where the lending against secured assets does not provide for marginal costs and adequate risk-adjusted returns. The growth in loan book will be calibrated towards unsecured products until secured products give a better opportunity.
- Loan growth during the quarter was calibrated towards small business loans, considering the returns profile offered by these unsecured loans. Banks witnessed muted demand in home loan and automobile loan segments, leading to muted loan growth. Management expects the demand for home and automobile loans to be healthy in the coming quarters.
- Investments in government securities rose to Rs2.82tr, from Rs2.48tr in the previous quarter, as the bank relocated its funds that were parked in overnight placements in cash and bank items on the balance sheet. Relocation aids the bank in improving its returns profile.
- The bank witnessed a reduction in the outflow rate in CASA deposits. The growth rate witnessed in CASA deposits was 200bp higher than the industry growth rate.
- As a part of the deposit mobilization activity, the bank has planned to open around ~500 branches in the current financial year. In 1HFY25, the bank added 200 branches.
- The bank has reversed its income-tax provision amounting to Rs55bn on the back of income-tax assessment of previous years.
- The bank had a cumulative provision of Rs118bn, with the provision amount including provision for off-balance sheet exposure.
- The cost of funds and deposits remained stable as the pricing of deposits remained disciplined.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	429,458	498,945	547,595	619,380	707,334
<b>Total Non-Interest Income</b>	<b>165,009</b>	<b>224,420</b>	<b>269,067</b>	<b>306,343</b>	<b>354,284</b>
Operating Revenue	594,466	723,364	816,662	925,723	1,061,618
<b>Total Non-Interest Expenses</b>	<b>(265,615)</b>	<b>(338,063)</b>	<b>(369,280)</b>	<b>(421,752)</b>	<b>(487,932)</b>
Pre-provision Operating Profit	197,906	371,232	429,517	485,675	553,788
<b>Total Provision Charges</b>	<b>(28,848)</b>	<b>(40,631)</b>	<b>(78,228)</b>	<b>(76,493)</b>	<b>(80,800)</b>
Operating Profit After Provisions	169,059	330,601	351,288	409,182	472,988
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	169,059	330,601	351,288	409,182	472,988
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	169,059	330,601	351,288	409,182	472,988
<b>Exceptional Items</b>					
Pre-tax Profit	169,059	330,601	351,288	409,182	472,988
Taxation	(73,262)	(81,986)	(79,040)	(104,341)	(120,612)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	95,797	248,614	272,248	304,841	352,376
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	95,797	248,614	272,248	304,841	352,376
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%	89.6%	88.2%	87.4%
Avg Liquid Assets/Avg Assets	71.0%	72.7%	73.4%	74.2%	75.1%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>114.0%</b>	<b>112.2%</b>	<b>113.1%</b>	<b>115.5%</b>	<b>117.1%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>8,453,030</b>	<b>9,650,684</b>	<b>10,758,806</b>	<b>12,178,889</b>	<b>13,998,090</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	8,453,030	9,650,684	10,758,806	12,178,889	13,998,090
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	8,453,030	9,650,684	10,758,806	12,178,889	13,998,090
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>720,632</b>	<b>604,740</b>	<b>721,767</b>	<b>753,738</b>	<b>787,261</b>
<b>Total Non-Interest Earning Assets</b>	<b>767,971</b>	<b>661,586</b>	<b>780,755</b>	<b>814,919</b>	<b>850,814</b>
Cash And Marketable Securities	1,064,108	1,144,544	1,521,392	2,025,320	2,443,224
<b>Long-term Investments</b>	<b>2,888,148</b>	<b>3,315,273</b>	<b>3,619,455</b>	<b>4,006,198</b>	<b>4,493,406</b>
Total Assets	13,173,257	14,772,086	16,680,408	19,025,326	21,785,532
Customer Interest-Bearing Liabilities	9,469,452	10,686,414	12,101,618	13,899,647	16,041,328
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	14,262,043	16,271,464	18,645,544
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	14,911,977	16,970,096	19,399,578
Shareholders Equity	1,254,167	1,510,616	1,768,431	2,055,230	2,385,956
<b>Minority Interests</b>					
Total Equity	1,254,167	1,510,616	1,768,431	2,055,230	2,385,956

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	29.6%	16.2%	9.8%	13.1%	14.2%
Operating Profit Growth	27.7%	17.2%	16.1%	12.6%	13.8%
Pretax Profit Growth	(3%)	96%	6%	16%	16%
Net Interest To Total Income	72.2%	69.0%	67.1%	66.9%	66.6%
Cost Of Funds	3.95%	4.96%	5.10%	4.65%	4.31%
Return On Interest Earning Assets	11.0%	12.1%	12.1%	11.6%	11.1%
Net Interest Spread	7.02%	7.12%	6.99%	6.94%	6.84%
Net Interest Margin (Avg Deposits)	4.86%	4.95%	4.81%	4.76%	4.72%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	15%	11%	18%	16%	15%
Interest Return On Average Assets	3.45%	3.57%	3.48%	3.47%	3.47%
Effective Tax Rate	43.3%	24.8%	22.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.77%	1.78%	1.73%	1.71%	1.73%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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##### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.