

India

**HOLD** (no change)

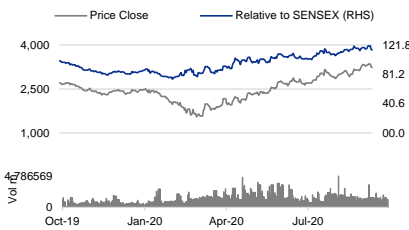
Consensus ratings\*: Buy 40 Hold 9 Sell 0

Current price:	Rs1,027
Target price:	Rs1,100
Previous target:	Rs1,250
Up/downside:	7.1%
InCred Research / Consensus:	-18.5%
Reuters:	
Bloomberg:	AXSB IN
Market cap:	US\$43,768m
	Rs3,178,212m
Average daily turnover:	US\$144.6m
	Rs10497.3m
Current shares o/s:	3,075.7m
Free float:	91.8%

\*Source: Bloomberg

**Key changes in this note**

- Elevated slippage continued (~2.1% slippage ratio), primarily due to unsecured retail loans across vintages amid the absence of appropriate seasoning.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.6)	(11.0)	(8.3)
Relative (%)	(4.3)	(5.1)	(12.3)

Major shareholders	% held
LIC	8.2
IPRU MF	5.5
HDFC MF	5.1

# Axis Bank

## Weak performance continues

- Axis Bank posted in-line 3Q PAT of Rs63bn, with expenses consolidation being a positive. However, there are concerns over weak growth & elevated slippage.
- Elevated slippage continued (~2.1% slippage), primarily because of 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 Rs1,100.

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

Axis Bank's loan book grew by ~1.5% qoq in 3QFY25; however, retail lending growth remained flat, and the growth was mainly contributed by SME & mid-corporate segments. Management remains cautious on retail asset quality, especially on the unsecured retail lending front, which will impact loan growth. The deposit franchise continues to disappoint as growth remained flat qoq amid sluggish macroeconomic liquidity as well as elevated deposit rates. LDR stayed elevated at ~92.6% whereas LCR improved to 119% vs. 115% last quarter. The bank saw ~6bp sequential decline in margin to ~393bp, largely attributable to interest reversal on NPAs as yields and the cost of funds remained flat sequentially.

### With elevated slippage & higher write-offs, we remain watchful

Though Axis Bank reported a flat trend in headline NPA numbers on a sequential basis, the trend in fresh slippage remained elevated at Rs54.3bn, as against Rs44.4bn last quarter, with the annualized gross slippage ratio at ~2.13% vs. ~1.78% last quarter. Management highlighted that a major portion of fresh slippage during the quarter was due to the unsecured retail segment and it was across vintages. Another concern has been sequentially elevated write-offs during the quarter, which stood at Rs31.3bn. Management explained that write-offs in the retail portfolio are followed as per the 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 steady recoveries from written-off accounts (primarily from wholesale slippage), 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 has 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 current challenging times amid scarce liquidity & an over-leveraged customer base. The current caution on growth is advantageous; however, it will weigh over leverage and return ratios in the near term. We valued the standalone bank at ~1.7x FY26F BV and added Rs100/share for subsidiaries. Accordingly, we have arrived at a lower target price of Rs1,100 (Rs1,250 earlier), maintaining our 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-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	331,323	429,458	498,945	544,310	609,628
Total Non-Interest Income (Rsm)	152,205	161,434	224,420	249,095	285,408
Operating Revenue (Rsm)	483,528	590,892	723,364	793,405	895,036
Total Provision Charges (Rsm)	(73,593)	(28,848)	(40,631)	(88,665)	(89,784)
Net Profit (Rsm)	130,258	95,797	248,614	256,233	288,182
Core EPS (Rs)	42.48	31.16	80.59	82.86	93.19
Core EPS Growth	92%	(27%)	159%	3%	12%
FD Core P/E (x)	24.17	32.95	12.74	12.39	11.02
DPS (Rs)	1.00	2.00	4.00	4.00	5.00
Dividend Yield	0.10%	0.19%	0.39%	0.39%	0.49%
BVPS (Rs)	374.5	402.8	486.5	563.1	650.0
P/BV (x)	2.74	2.55	2.11	1.82	1.58
ROE	12.0%	8.0%	18.0%	15.7%	15.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	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>1,36,059</b>	<b>8.6%</b>	<b>0.9%</b>
<i>NIM (% of AUM)</i>	4.2%	4.2%	4.1%	4.1%	4.1%	4.1%	4.0%		
Other Operating Income	50,873	50,341	55,548	67,658	57,835	67,219	59,722	7.5%	-11.2%
Operating Expenses	82,317	87,168	89,457	93,191	91,255	94,926	90,442	1.1%	-4.7%
<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>1,05,339</b>	<b>15.2%</b>	<b>-1.7%</b>
Provisions	10,349	8,146	10,283	11,853	20,393	22,041	21,556	109.6%	-2.2%
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>83,782</b>	<b>3.3%</b>	<b>-1.5%</b>
Tax	-19,824	-19,538	-20,418	-22,207	-20,323	-15,908	-20,745	1.6%	30.4%
<i>Tax rate (%)</i>	25.5%	25.0%	25.2%	23.8%	25.2%	18.7%	24.8%		
<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>63,038</b>	<b>3.8%</b>	<b>-8.9%</b>
<b>Advances (Rs bn)</b>	85,85,114	89,73,470	93,22,864	96,50,684	98,00,915	99,99,792	1,01,45,641	<b>8.8%</b>	<b>1.5%</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	1,09,58,828	<b>9.1%</b>	<b>0.8%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

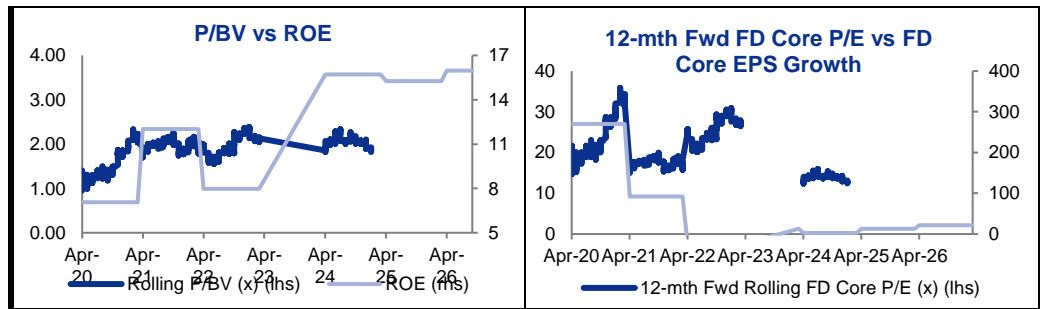
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	5,49,468	5,44,310	-0.9%	6,20,642	6,09,628	-1.8%	7,09,725	7,06,913	-0.4%
Non-Interest Income	2,60,049	2,49,095	-4.2%	2,98,224	2,85,408	-4.3%	3,45,506	3,30,481	-4.3%
PPOP	4,28,625	4,19,289	-2.2%	4,88,297	4,76,606	-2.4%	5,55,955	5,57,298	0.2%
PAT	2,72,248	2,56,233	-5.9%	3,04,841	2,88,182	-5.5%	3,52,377	3,49,100	-0.9%
EPS (Rs)	88.0	82.9	-5.9%	98.6	93.2	-5.5%	114.0	112.9	-0.9%
BV (Rs)	568.3	563.1	-0.9%	660.5	650.0	-1.6%	766.7	755.2	-1.5%
Advances (Rs bn)	10,759	10,662	-0.9%	12,179	12,068	-0.9%	13,998	13,869	-0.9%
Deposits (Rs bn)	12,102	11,496	-5.0%	13,901	13,207	-5.0%	16,043	15,247	-5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 3QFY25 earnings-call highlights ►

- Management indicated a slowdown in the overall business momentum.
- Deposit growth has been cautiously slowed down because the bank is focusing on sticky granular deposits over wholesale and high-cost deposits.
- New salary acquisitions were up 12% yoy.
- Net-to-bank deposits were up ~15% yoy and balances per account also grew in line at ~15% yoy.
- Fee income grew by 6% yoy or declined by 1% qoq due to lower disbursements and a slowdown in unsecured lending.
- Credit card sourcing slowed to 0.8m vs. the average run-rate of 1.2m per quarter.
- Net interest margin or NIM saw a decline of 3bp qoq on account of higher LCR and another 3bp qoq on account of higher slippage.
- Fresh slippage in the retail segment stood at ~Rs49bn, which was ~90% of total gross slippage.
- Around 18% of the total slippage was attributed to seasonality.
- Recoveries from written-off accounts stood at Rs13bn, up 32% qoq.
- Risk-weighted assets declined by 100bp as the bank slowed unsecured lending.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	331,323	429,458	498,945	544,310	609,628
<b>Total Non-Interest Income</b>	<b>152,205</b>	<b>161,434</b>	<b>224,420</b>	<b>249,095</b>	<b>285,408</b>
Operating Revenue	483,528	590,892	723,364	793,405	895,036
<b>Total Non-Interest Expenses</b>	<b>(226,023)</b>	<b>(262,041)</b>	<b>(338,795)</b>	<b>(358,799)</b>	<b>(399,153)</b>
Pre-provision Operating Profit	247,421	197,906	371,232	419,289	476,606
<b>Total Provision Charges</b>	<b>(73,593)</b>	<b>(28,848)</b>	<b>(40,631)</b>	<b>(88,665)</b>	<b>(89,784)</b>
Operating Profit After Provisions	173,828	169,059	330,601	330,624	386,821
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	173,828	169,059	330,601	330,624	386,821
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	173,828	169,059	330,601	330,624	386,821
<b>Exceptional Items</b>					
Pre-tax Profit	173,828	169,059	330,601	330,624	386,821
Taxation	(43,570)	(73,262)	(81,986)	(74,390)	(98,639)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	130,258	95,797	248,614	256,233	288,182
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	130,258	95,797	248,614	256,233	288,182
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	87.0%	87.8%	89.8%	91.6%	92.0%
Avg Liquid Assets/Avg Assets	69.1%	71.0%	72.7%	73.0%	73.5%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>113.1%</b>	<b>114.0%</b>	<b>112.2%</b>	<b>110.3%</b>	<b>110.0%</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-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>7,076,960</b>	<b>8,453,030</b>	<b>9,650,684</b>	<b>10,662,219</b>	<b>12,067,961</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	7,076,960	8,453,030	9,650,684	10,662,219	12,067,961
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	7,076,960	8,453,030	9,650,684	10,662,219	12,067,961
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>763,253</b>	<b>720,632</b>	<b>604,740</b>	<b>630,580</b>	<b>657,657</b>
<b>Total Non-Interest Earning Assets</b>	<b>808,977</b>	<b>767,971</b>	<b>661,586</b>	<b>674,351</b>	<b>703,741</b>
Cash And Marketable Securities	1,109,871	1,064,108	1,144,544	938,117	1,324,230
<b>Long-term Investments</b>	<b>2,755,971</b>	<b>2,888,148</b>	<b>3,315,273</b>	<b>3,628,324</b>	<b>4,025,084</b>
Total Assets	11,751,778	13,173,257	14,772,086	15,903,011	18,121,016
Customer Interest-Bearing Liabilities	8,217,209	9,469,452	10,686,414	11,496,285	13,206,526
Bank Deposits					
Interest Bearing Liabilities: Others	1,851,338	1,863,000	1,968,118	2,010,630	2,207,682
Total Interest-Bearing Liabilities	10,068,546	11,332,453	12,654,531	13,506,915	15,414,208
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	531,493	586,640	606,939	643,686	684,265
Total Liabilities	10,600,039	11,919,093	13,261,470	14,150,601	16,098,473
Shareholders Equity	1,151,741	1,254,167	1,510,616	1,752,410	2,022,544
<b>Minority Interests</b>					
Total Equity	1,151,741	1,254,167	1,510,616	1,752,410	2,022,544

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	13.3%	29.6%	16.2%	9.1%	12.0%
Operating Profit Growth	7.0%	27.7%	16.9%	13.0%	14.1%
Pretax Profit Growth	97%	(3%)	96%		17%
Net Interest To Total Income	68.5%	72.7%	69.0%	68.6%	68.1%
Cost Of Funds	3.71%	3.95%	4.96%	5.24%	4.92%
Return On Interest Earning Assets	10.2%	11.0%	12.1%	12.1%	11.6%
Net Interest Spread	6.49%	7.02%	7.12%	6.87%	6.70%
Net Interest Margin (Avg Deposits)	4.36%	4.86%	4.95%	4.91%	4.94%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	30%	15%	11%	21%	19%
Interest Return On Average Assets	3.07%	3.45%	3.57%	3.55%	3.58%
Effective Tax Rate	25.1%	43.3%	24.8%	22.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	1.20%	0.77%	1.78%	1.67%	1.69%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- 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.