

# Q2FY25 Axis Bank Ltd.



## Axis Bank Ltd.

**Deposit mobilization improving; slowdown in retail unsecured loans resulted in modest credit growth**

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,132	INR 1,345	18.8%	34,98,715	BUY	Banking

### Result Highlights Q2FY25:

- AXSB's Net Interest Income (NII) grew 9.5% YoY/ 0.3% QoQ to INR 134,832 Mn in Q2FY25. NII was in line with our estimates. PPOP (Pre-Provisioning Operating Profit) for the quarter was INR 107,125 Mn, a growth of 24.1% YoY (+6.0% QoQ) led by higher non-interest income. Net profit grew 18.0% YoY (+14.6% QoQ) to INR 69,176 Mn in Q2FY25.
- Gross slippages for Q2FY25 were driven primarily by the retail segment, especially in unsecured loans. The bank is actively managing risk by analyzing various factors such as indebtedness and customer profiles to mitigate slippage risk. AXSB continues to manage its balance sheet conservatively, aiming for strong growth while maintaining a robust credit-deposit ratio. Loan growth is calibrated to ensure it aligns with deposits and regulatory requirements.
- We have raised our EPS of FY25E by 2.5%, considering improving operating leverage while maintaining EPS for FY26E. We maintain our target price of INR 1,345 per share, applying a 2.0x P/ABV multiple to its FY26E adj. book value. We reiterate our rating at "BUY" on AXSB.**

### MARKET DATA

Shares outs (Mn)	3,093
Mkt Cap (INR Mn)	34,98,715
52 Wk H/L (INR)	1,340/ 951
Volume Avg (3m K)	9,286
Face Value (INR)	2.0
Bloomberg Code	AXSB IN

### KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
NII	429,458	498,945	550,287	607,231	696,318
PPOP	192,404	371,232	433,143	497,992	581,433
PAT	-32,283	248,615	274,772	311,887	363,687
EPS (INR / Share)	-10.5	80.7	88.8	100.8	117.6
Adj. BVPS (INR / Share)	396.0	478.9	568.7	672.0	788.7
NIM (%)	3.8%	3.9%	3.8%	3.7%	3.7%
Advances Growth YoY (%)	19.4%	14.2%	12.1%	13.3%	15.3%
Price-to-Book Value (x)	2.2	2.2	2.0	1.7	1.4

Source: Company, KRChoksey Research

### Strong non-interest income growth and stable operational efficiency drive earnings:

- NIM for the quarter stood at 3.99%, which saw a decline of 12 bps YoY/ 6 bps QoQ. The QoQ decline is largely attributable to the interest on income tax refund recorded in Q1FY25. The operating NIMs largely remained flat QoQ. Yields on interest-earning assets have improved by 9 bps YoY. This increase was offset by a cost of funds increase on a YoY basis, resulting in a NIM drop of 12 bps YoY.
- Non-interest income for the quarter stood at INR 67,219 Mn, a growth of 33.5% YoY (+16.2% QoQ). Fee income for Q2FY25 grew 11.0% YoY/ 4.9% QoQ to INR 55,080 Mn. Retail fees rose 11.0% YoY, constituting 71.0% of the bank's total fee income.
- The trading income gain for the quarter stood at INR 11,110 Mn, while miscellaneous income in Q2FY25 stood at INR 1,030 Mn. Under the current RBI guidelines (effective from April 2024), MTM gains are recorded through the Profit and Loss (P&L) statement. Previously, only MTM losses were recognized while gains were ignored, marking a shift in reporting standards.
- Operating expenses grew 8.9% YoY and 4.0% QoQ, with technology and digital spending constituting 10.2% of total operating expenses.
- Despite adding 150 branches in Q2FY25 and 200 in H1FY25, the bank achieved productivity gains that contributed to controlled cost growth. Further, it expects to open 500 new branches for the full year FY25E. Staff costs increased by 19.4% YoY due to expansion in growth businesses and technology teams. Thus, the cost-to-income ratio stood at 47.0%, an improvement of 326 bps YoY/ 47 bps QoQ.
- The bank received favorable ITAT (Income Tax Appellate Tribunal) orders, resulting in a write-back of INR 5,500 Mn from excess tax provisions, contributing to the overall PAT growth of 18.0% YoY.

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	81,007
NIFTY	24,750

### SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	8.3	8.3	8.2
FIIIs	51.8	53.4	53.8
DIIIs	33.2	31.6	30.1
Others	6.7	6.7	7.9
Total	100.0	100.0	100.0

\*Based on previous closing

Note: All the market data is as of previous closing

10.3%

NII CAGR between FY24 and FY26E

12.0%

Adj. PAT CAGR between FY24 and FY26E

## Axis Bank Ltd.

### Slowdown in loan growth whereas deposit growth continues to improve:

- AXSB's advances grew 11.4% YoY/ 2.0% QoQ to INR 10,000 Bn as of September 30, 2024, driven by SME and retail loan segments. The bank reported a slow pace of credit growth, primarily attributed to the sluggish growth in the corporate portfolio.
- Retail loans expanded by 15.2% YoY and 2.3% QoQ to INR 5,987 million, making up 59.9% of the bank's net advances. Approximately 71.0% of these retail loans were secured, with home loans representing 28.0% of the retail portfolio. Home loans saw a 5.0% YoY increase (+1.0% QoQ), personal loans grew by 23.0% YoY (+2.0% QoQ), and credit card advances rose 22.0% YoY (+3.0% QoQ). The Small Business Banking (SBB) segment posted a robust 23.0% YoY growth (+6.0% QoQ), while the rural loan portfolio grew by 20.0% YoY and 1.0% QoQ.
- AXSB's retail loan segment is well-positioned for growth, focusing on secured and unsecured loans. Continued growth in unsecured loans will require stringent risk management practices to safeguard against defaults. The expansion into small business and rural loans aligns well with economic trends, positioning the bank to capitalize on emerging opportunities in these areas.
- SME book reported a growth of 16.5% YoY/ 6.2% QoQ. SME books remain well diversified across geographies and sectors. Corporate loan book (gross of IBPC sold) grew 6.0% YoY; domestic corporate book grew 1.0% YoY. Mid-corporate book grew 18.0% and 5.0% QoQ. While unsecured loans in the retail segment experienced some stress, leading to cautious growth in this area, the bank continued to focus on higher-yielding SME and mid-corporate segments, which together accounted for 43.0% of the total advances, up 1,300 bps over the past four years.
- The bank continued to deliver higher-than-industry deposit growth. Total deposits grew by 13.7% YoY (+2.3% QoQ) to INR 10,867 Bn. The CASA ratio declined by 377 bps YoY/ 125 bps QoQ to 40.6% as of September 30, 2024. The total term deposits grew 15.1% YoY and 4.5% QoQ. The bank remains committed to increasing its CASA ratio and premiumizing its deposit franchise.
- The bank is cautiously optimistic about growth, with expectations of advances growing 300-400 bps faster than the industry in the medium to long term. However, deposit growth will remain a key focus for short-term liquidity. It continues to closely monitor macroeconomic factors such as geopolitical risks, inflation, and the cost of funds.

### Asset quality improves with lower slippages and higher recoveries; contingent provisions made from the tax write back:

- As of September 30, 2024, the bank reported a 29 bps YoY and 10 bps QoQ improvement in gross NPAs, bringing the ratio down to 1.44%, while net NPAs remained stable QoQ with a modest two bps improvement YoY. Gross slippages during the quarter were INR 44,430 Mn, compared to INR 47,930 Mn in Q1FY25 and INR 32,540 Mn in Q2FY24. Reported net slippages in the quarter adjusted for recoveries from the written-off pool was INR 13,900 Mn, of which retail was INR 21,640 Mn, CBG was INR 310 Mn, and Wholesale was negative 8,050 Mn.
- Recoveries and upgrades from NPAs during the quarter were INR 20,690 Mn. In the quarter, the bank wrote off NPAs aggregating INR 31,190 Mn. Recoveries from written-off accounts for the quarter were INR 9,840 Mn (vs. INR 15,030 Mn in Q1FY25).
- Provisions and contingencies for the quarter were INR 22,041 Mn, up 170.6% YoY and 8.1% QoQ. Specific loan loss provisions for Q2FY25 stood at INR 14,410 Mn. In addition to specific loan loss provisions, in the quarter, the bank made provisions aggregating to INR 5,200 Mn under the head provision for other contingencies; these are entirely prudent and not for current or future NPA assets and not related to current or future non-performing assets (NPAs).
- The bank holds cumulative provisions (standard + additional other than NPA) of INR 1,18,150 Mn as of September 30, 2024. These cumulative provisions translate to a standard asset coverage of 1.2%.
- Gross credit cost for the quarter stood at 0.90% (compared to 1.19% in Q1FY25), while the net credit cost was at 0.54%, a decline of 43 bps QoQ (vs 0.42% in Q2FY24).

### Key Concall Highlights:

- The premium Burgundy franchise, including Burgundy Private, experienced 36.0% YoY growth in Assets Under Management (AUM). The bank expanded Burgundy Private's reach to 15 additional cities, covering 42 locations.
- Digital innovations continue to play a significant role, with platforms such as Neo for Corporates and Neo for Business driving customer engagement and transaction volumes in both retail and SME segments. During the quarter, AXSB also launched the industry-first UPI ATM and Bharat Connect, further advancing its leadership in digital banking and transaction services.
- The bank continues implementing a Risk-Adjusted Return on Capital (RAROC) approach, balancing loan growth with profitability by targeting segments with better return prospects.
- The bank adjusted its liquidity coverage ratio (LCR) in response to revised outflow rates for operational deposits, aiming to be better positioned for regulatory changes. While LCR dipped slightly in Q2FY25, AXSB remains comfortably above the regulatory threshold, with further adjustments anticipated based on the draft circular from the RBI on LCR norms.
- AXSB's CET1 ratio stood at 14.12% with substantial capital accretion. The bank continues to assess its capital position for growth and protection and may issue Tier 2 and AT1 instruments based on market conditions. The liquidity coverage ratio (LCR) was 115.0%, and the bank continues to optimize for future regulatory requirements.
- Deposit mobilization efforts, such as Project Triumph, are yielding results, with a 15.0% YoY increase in new-to-bank savings deposits and a 10.0% YoY growth in balances per account.
- The bank also leveraging partnerships in the UPI space, maintaining a 30.87% market share in UPI payer services.

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### Result Snapshot

Particulars (INR in Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y	H1FY25	H1FY24	Y-o-Y
<b>Income Statement</b>								
Interest income	304,199	300,607	266,262	1.2%	14.2%	604,806	636,778	-5.0%
Interest expense	169,367	166,125	143,116	2.0%	18.3%	335,492	352,437	-4.8%
<b>Net interest income</b>	<b>134,832</b>	<b>134,482</b>	<b>123,146</b>	<b>0.3%</b>	<b>9.5%</b>	<b>269,314</b>	<b>284,341</b>	<b>-5.3%</b>
Non-interest income	67,219	57,835	50,341	16.2%	33.5%	125,053	128,330	-2.6%
<b>Total income</b>	<b>202,051</b>	<b>192,317</b>	<b>173,486</b>	<b>5.1%</b>	<b>16.5%</b>	<b>394,368</b>	<b>412,672</b>	<b>-4.4%</b>
Operating expenses	94,926	91,255	87,168	4.0%	8.9%	186,181	200,326	-7.1%
<b>Pre-provision profit</b>	<b>107,125</b>	<b>101,062</b>	<b>86,319</b>	<b>6.0%</b>	<b>24.1%</b>	<b>208,187</b>	<b>212,345</b>	<b>-2.0%</b>
Provisions	22,041	20,393	8,146	8.1%	170.6%	42,434	29,202	45.3%
<b>Profit before tax</b>	<b>85,084</b>	<b>80,670</b>	<b>78,173</b>	<b>5.5%</b>	<b>8.8%</b>	<b>165,753</b>	<b>183,144</b>	<b>-9.5%</b>
Tax expense	15,908	20,323	19,537	-21.7%	-18.6%	36,231	45,780	-20.9%
<b>Net profit</b>	<b>69,176</b>	<b>60,346</b>	<b>58,636</b>	<b>14.6%</b>	<b>18.0%</b>	<b>129,522</b>	<b>137,364</b>	<b>-5.7%</b>
<b>Balance sheet analysis</b>								
Deposits	10,867,440	10,624,837	9,555,564	2.3%	13.7%	10,867,440	9,555,564	13.7%
CASA Deposits	4,410,530	4,444,790	4,238,660	-0.8%	4.1%	4,410,530	4,238,660	4.1%
CASA (%)	40.6%	41.8%	44.4%	-125bps	-377bps	40.6%	44.4%	-377bps
Advances	9,999,792	9,800,915	8,973,470	2.0%	11.4%	9,999,792	8,973,470	11.4%
Total Assets	15,056,580	14,684,633	13,389,135	2.5%	12.5%	15,056,580	13,389,135	12.5%
Capital adequacy ratio (%)	16.6%	16.7%	16.6%	-4bps	5bps	16.6%	16.6%	5bps
<b>Spread Analysis</b>								
Cost of funds (%)	5.5%	5.4%	5.2%	1bps	28bps	5.5%	5.1%	35bps
NIM (%)	4.0%	4.1%	4.1%	-6bps	-12bps	4.0%	4.1%	-11bps
<b>Asset quality</b>								
Gross NPA	154,662	162,113	167,567	-4.6%	-7.7%	154,662	167,567	-7.7%
Net NPA	36,125	35,530	34,413	1.7%	5.0%	36,125	34,413	5.0%
GNPA (%)	1.44%	1.54%	1.73%	-10bps	-29bps	1.44%	1.73%	-29bps
NNPA (%)	0.34%	0.34%	0.36%	0bps	-2bps	0.34%	0.36%	-2bps
PCR (%)	76.6%	78.1%	79.5%	-144bps	-282bps	76.6%	79.5%	-282bps
<b>Key ratios</b>								
Cost to income ratio (%)	47.0%	47.5%	50.2%	-47bps	-326bps	47.9%	48.5%	-60bps
C/D ratio (%)	92.0%	92.2%	93.9%	-23bps	-189bps	91.5%	93.9%	-241bps
RoA (%) (Annualized)	1.8%	1.7%	1.8%	19bps	8bps	1.8%	1.8%	-3bps

Source: Company, KRChoksey Research

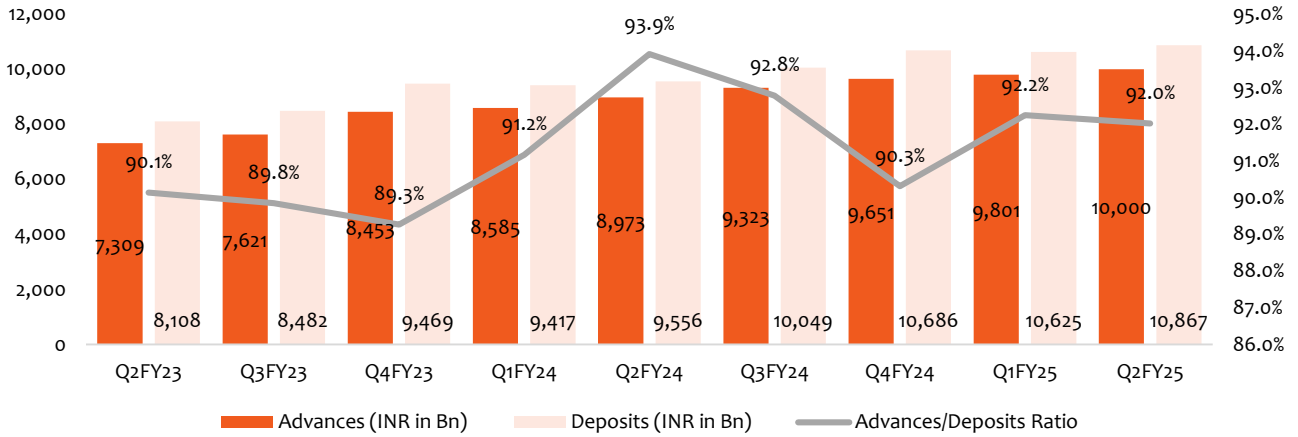
### Valuation and view:

AXSB's Q2FY25 results reflect a mixed performance, where sluggish business momentum was evident, particularly in credit growth, which slowed compared to industry trends. However, the bank delivered better-than-expected earnings, largely due to a sharp increase in other income and a tax write-back following favorable ITAT orders. Retail segments, especially unsecured products, are showing growth, but AXSB is cautious due to signs of stress driven by indebtedness. The bank continues to focus on premium segments and maintains a disciplined approach to loan disbursements. While NIM saw a slight decline, operating performance remained strong, and disciplined cost management moderated the impact of sluggish credit growth. Overall, AXSB's results were buoyed by non-core earnings and strategic provisions rather than broad-based business growth. The bank's sustained investment in technology, cybersecurity, and digital banking platforms, along with its leadership in UPI and transaction banking, continues to drive fee income and operational efficiency. Key growth drivers include the expansion of its Burgundy wealth management franchise, robust deposit growth under Project Triumph, and a strong presence in rural and MSME banking. AXSB's disciplined approach to asset quality and strategic provisions position it well to weather macroeconomic fluctuations.

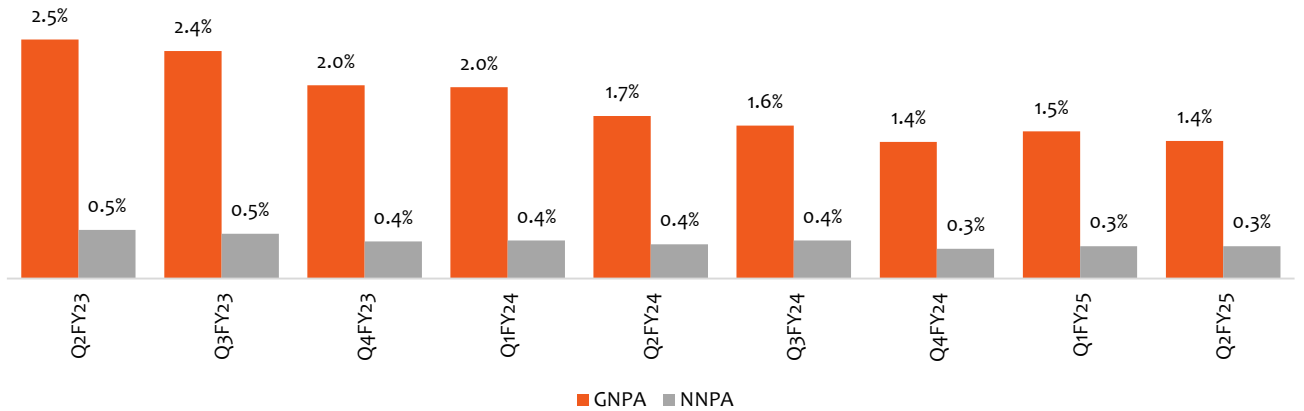
We have factored a CAGR of 12.7% in advances, 10.3% in NII, 15.8% in PPOP, and 12.0% in adj. PAT over FY24–26E. We tweak our EPS estimates for FY25E by +2.5%, taking into account the operating leverage coming from a tight control over the costs. The stock is currently trading at 2.0x/ 1.7x/ 1.4x the P/ABV for FY25E/ FY26E/ FY27E, respectively. We maintain our target price at INR 1,345 per share, applying a 2.0x P/ABV multiple (unchanged) to the FY26E adjusted book value of INR 672.0 per share. This implies an upside of 18.8% over the CMP. We retain our rating of “BUY” on the shares of Axis Bank Ltd.

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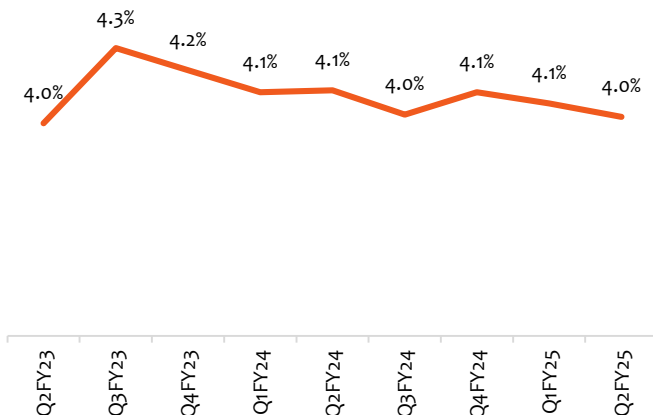
### Credit to Deposit ratio: Deposit growth outperformed credit growth during the quarter



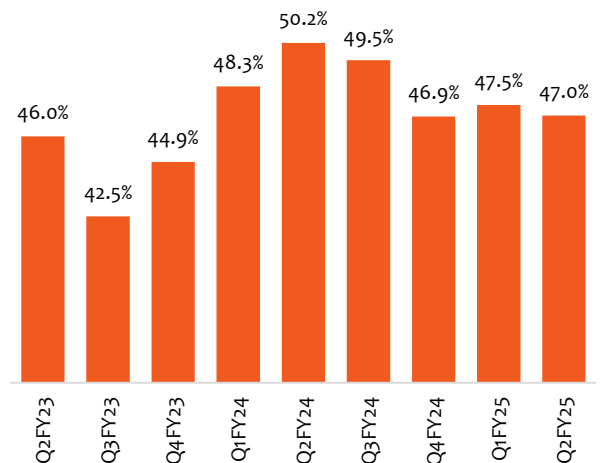
### Asset quality improved as the seasonal impact faded on sequential basis



### NIMs: One off impact of 0.05% while spread at 0.01%



### Cost/ Income: Stable operational efficiency



Source: Company, KRChoksey Research



## Axis Bank Ltd.

### Financials:

#### Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	851,638	1,093,687	1,253,781	1,428,920	1,634,046
Interest Expense	422,180	594,742	703,495	821,689	937,728
<b>Net Interest Income</b>	<b>429,458</b>	<b>498,945</b>	<b>550,287</b>	<b>607,231</b>	<b>696,318</b>
Non-interest income	161,434	224,420	270,437	324,524	369,957
Operating income	590,892	723,365	820,723	931,755	1,066,275
Operating Expense	398,488	352,133	387,580	433,763	484,843
<b>PPOP</b>	<b>192,404</b>	<b>371,232</b>	<b>433,143</b>	<b>497,992</b>	<b>581,433</b>
Provisions	26,526	40,631	73,723	82,142	96,517
PBT	165,877	330,601	359,420	415,849	484,916
Exceptional costs	73,262	81,986	84,648	103,962	121,229
Tax Expense	124,898	0	0	0	0
<b>PAT</b>	<b>-32,283</b>	<b>248,615</b>	<b>274,772</b>	<b>311,887</b>	<b>363,687</b>
Diluted EPS (INR)	-10.5	80.7	88.8	100.8	117.6

#### Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Source of Funds</b>					
Share capital	6,154	6,173	6,187	6,187	6,187
Reserves & Surplus	1,248,013	1,504,443	1,779,215	2,091,102	2,454,789
Net worth	1,254,167	1,510,616	1,785,401	2,097,288	2,460,975
Borrowings	1,863,000	1,968,118	1,988,126	2,089,716	2,391,646
Deposits	9,469,452	10,686,414	12,049,251	13,931,438	15,944,305
Other liabilities & provisions	586,636	606,939	832,381	646,608	840,315
<b>Total Equity &amp; Liabilities</b>	<b>13,173,255</b>	<b>14,772,086</b>	<b>16,655,159</b>	<b>18,765,050</b>	<b>21,637,241</b>
<b>Uses of Funds</b>					
Balance w/ banks & others	1,725,286	2,005,319	1,927,880	2,229,030	2,551,089
Net investments	2,888,148	3,315,273	3,855,760	4,179,431	4,783,292
Loans & advances	8,453,028	9,650,684	10,817,545	12,255,532	14,129,370
Fixed assets	47,339	56,846	62,265	68,265	74,265
Other assets	720,632	604,740	714,664	868,678	1,055,884
<b>Total Assets</b>	<b>13,173,255</b>	<b>14,772,086</b>	<b>16,655,159</b>	<b>18,765,050</b>	<b>21,637,241</b>

#### Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Rates</b>					
Advances (%)	19.4%	14.2%	12.1%	13.3%	15.3%
Deposits (%)	15.2%	12.9%	12.8%	15.6%	14.4%
Total assets (%)	12.1%	12.1%	12.7%	12.7%	15.3%
NII (%)	32.3%	16.2%	10.3%	10.3%	14.7%
Pre-provisioning profit (%)	0.4%	92.9%	16.7%	15.0%	16.8%
PAT (%)	-143.4%	-870.1%	10.5%	13.5%	16.6%
<b>B/S Ratios</b>					
Credit/Deposit (%)	89.3%	90.3%	89.8%	88.0%	88.6%
CASA (%)	47.2%	43.0%	40.9%	41.9%	42.3%
Advances/Total assets (%)	64.2%	65.3%	65.0%	65.3%	65.3%
Leverage - Total Assets to Equity	10.5	9.8	9.3	8.9	8.8
<b>Operating efficiency</b>					
Cost/income (%)	67.4%	48.7%	47.2%	46.6%	45.5%
Opex/total assets (%)	3.0%	2.4%	2.3%	2.3%	2.2%
Opex/total interest earning assets	3.5%	2.7%	2.6%	2.6%	2.6%
<b>Profitability</b>					
NIM (%)	3.8%	3.9%	3.8%	3.7%	3.7%
RoA (%)	-0.3%	1.8%	1.7%	1.8%	1.8%
RoE (%)	-2.7%	18.0%	16.7%	16.1%	16.0%
<b>Asset quality</b>					
Gross NPA (%)	2.0%	1.4%	1.4%	1.3%	1.3%
Net NPA (%)	0.4%	0.3%	0.2%	0.2%	0.2%
PCR (%)	80.7%	78.3%	82.6%	88.0%	88.3%
Slippage (%)	1.8%	1.5%	1.3%	1.2%	1.0%
Credit cost (%)	1.0%	0.3%	0.4%	0.6%	0.6%
<b>Per share data / Valuation</b>					
EPS (INR)	-10.5	80.5	88.8	100.8	117.6
BVPS (INR)	407.6	489.4	577.2	678.0	795.6
ABVPS (INR)	396.0	478.9	568.7	672.0	788.7
P/E (x)	-82.0	13.0	12.7	11.2	9.6
P/BV (x)	2.1	2.1	2.0	1.7	1.4
P/ABV (x)	2.2	2.2	2.0	1.7	1.4

Source: Company, KRChoksey Research

## Axis Bank Ltd.

Axis Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
18-Oct-24	1,132	1,345	BUY
30-Jul-24	1,170	1,345	BUY
26-Apr-24	1,130	1,345	BUY
25-Jan-24	1,059	1,275	BUY
30-Oct-23	989	1,160	BUY
01-Aug-23	962	1,160	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

### ANALYST CERTIFICATION:

I, **Dipak Saha** (MBA, Finance ), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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