MIRAE ASSET Sharekhan

# Axis Bank Ltd

## Weak Q3

| Banks | Sharekhan code: AXISBANK |
|---|---|
| Reco/View: **Buy** ↔ | CMP: **Rs. 1,040** |
| Price Target: **Rs. 1,230** ↓ | |

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

| 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 | + | ↔ | + |

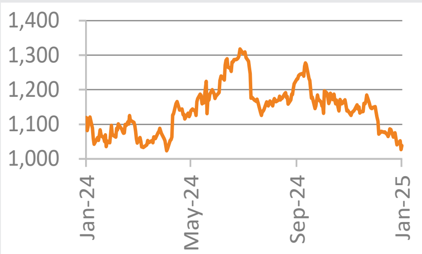
### Company details

| | |
|---|---|
| Market cap: | Rs. 3,21,969 cr |
| 52-week high/low: | Rs. 1,340/ 996 |
| NSE volume: (No of shares) | 87.0 lakh |
| BSE code: | 532215 |
| NSE code: | AXISBANK |
| Free float: (No of shares) | 284.8 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | - |
| FII | 47.3 |
| DII | 45.7 |
| Others | 7.0 |

### Price chart




*Source: NSE India, Mirae Asset Sharekhan Research*

### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -9.6 | -9.8 | -20.2 | -7.1 |
| Relative to Sensex | -3.9 | -4.3 | -15.7 | -12.4 |

*Source: Mirae Asset Sharekhan Research, Bloomberg*


**Summary**

- Q3FY25 numbers were weak. Loan growth and deposit growth stood at a multi-quarter low. Slippages were elevated too at 2.3%, a multi-quarter high.
- Slippages largely attributed to Credit cards,Ppersonal loans, MFI and Agri-portfolio. Asset quality would stablise over the next couple of quarters. Bank highlighted that tough macro environment is a key constraint and it will take couple of quarters to turn constructive.
- Despite weakness in key operating metrics, PAT was broadly in line at Rs. 6,304 crore mainly led by lower opex.
- Stock trades at 1.6x/1.4x/1.2x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain a Buy with a revised PT of Rs. 1,230 given the sharp correction in the recent times largely address most of the key concerns, but it will be lower in our preference order among the large banks until we see a clear outlook in terms of recovery in growth trajectory and asset quality normalises in unsecured retail segment.


**Q3FY25 numbers were weak across most of the key metrics. Net interest income (NII), at Rs. 13,606 crore (marginally below estimates), grew by ~9% y-o-y/1%q-o-q. NIMs were down by 6 bps q-o-q reported at 3.93%. Core fee income growth was muted at 6% y-o-y/ down 1% q-o-q. Treasury gains were Rs. 368 crore versus gain of Rs. 1,111 crore q-o-q and Rs. 291 crore y-o-y. Other income ex-treasury gains grew by 59% y-o-y. Operating expenses grew by ~1% y-o-y/ down by 5% q-o-q mainly as integration cost has been absorbed fully in the previous quarters. Cost to average assets stood at 2.39% versus 2.55% q-o-q. Thus, operating leverage helped to report better core PPoP despite weak NII & fee income. Operating profit (PPoP) grew by 15% y-o-y / down 2% q-o-q. Core PPoP (exc. treasury gains) grew by 14% y-o-y/ 5% q-o-q. Credit cost was higher, stood at 128 bps (annualised) of average loans versus 90 bps q-o-q. PAT at Rs. 6,304 crore was broadly in line, up 4% y-o-y/ down 9% q-o-q. Asset quality trends were weak led by unsecured retail segment and seasonality in agri-portfolio. Slippages were elevated at 2.3% (based on 12-month trailing loans) at multi quarter high vs 2.0% q-o-q. Net slippages was also higher at Rs. 3,517 crore versus Rs. 2,374 crore q-o-q. Although GNPA/ NNPA ratio were broadly stable q-o-q at 1.46%/0.35% respectively. PCR stood at 76% vs 77% q-o-q. Net advances grew by ~8.8% y-o-y/~1.5% q-o-q. Retail and SME books grew by 11% y-o-y and 15% y-o-y, respectively. Corporate loans grew by 3% y-o-y. Total deposits grew 9.1% y-o-y/ 0.8% q-o-q. CASA balances grew by 2% y-o-y/ down 2% q-o-q. Term deposits grew 14% y-o-y/3% q-o-q.**

**Key positives**

- Cost to average assets stood at 2.39% versus 2.55% q-o-q. Thus, despite weakness in other key operating metrices, operating leverage helped to report better Core PPoP.

**Key negatives**

- Loan growth (~8.8% y-o-y) as well as deposit growth (~9.1% y-o-y is at multi quarter low (even lower than system growth). Credit-deposit ratio remains elevated at 92.6% vs 92.0% q-o-q.
- Slippages are elevated at 2.3% (based on 12-month trailing loans) at multi quarter high resulting in higher credit cost.
- Stress in unsecured retail segment is yet to peak out.

**Management Commentary**

- Management highlighted that tough macro environment is a key constraint to growth and it will take couple of quarters to turn constructive. Deposit growth would continue to remain key constraint for growth in the near term.
- Tough environment requires calibration.
- Stress in unsecured retail segment is yet to peak out. It is expected to stablise over the next couple of quarters. Corporate & SME segment is behaving well.
- Incremental slippages for quarter were mainly from MFI and agri portfolio. MFI book constitutes ~1% of the total retail loans.
- Bank provides 100% provisions on the 91-overdue day in unsecured retail segment. It runs very prudent and conservative provisioning rules. Therefore, higher credit cost is an outcome of the rule.
- Bank endeavors to maintain margins above ~3.8% in near to medium term. It will continue to optimise opex further.
- The bank do not need require equity capital in near term but would evaluate raising AT-1 bonds based on market opportunity.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 1,230:** Axis Bank currently trades at 1.6x/1.4x/ 1.2x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain a Buy with a revised PT of Rs. 1,230 given the sharp correction in the recent times largely address most of the key concerns, but it will be lower in our preference order among the large banks until we see a clear outlook in terms of recovery in growth trajectory and asset quality normalises in unsecured retail segment. Management believes that a tough macro environment is a key constraint, and it will take couple of quarters to turn constructive. Early risk assessment and primitive corrective risk measures will likely help bank to navigate the cycle.

**Key Risks**

Slower loan growth, asset quality risk, slower growth in retail deposit, lower margins, management change.

**Valuation (Standalone)** Rs cr

| Particulars | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Net Interest Income | 42,946 | 49,894 | 54,472 | 60,246 | 67,376 |
| Net profit | 9,580 | 24,861 | 26,025 | 28,015 | 32,409 |
| EPS (Rs.) | 71.4 | 80.7 | 84.0 | 89.6 | 103.7 |
| P/E (x) | 12.8 | 11.3 | 10.9 | 10.2 | 8.8 |
| P/BV (x) | 2.2 | 1.9 | 1.6 | 1.4 | 1.2 |
| RoE | 8.0 | 18.0 | 15.9 | 14.7 | 14.7 |
| RoA | 0.8 | 1.8 | 1.7 | 1.6 | 1.7 |

*Source: Company; Mirae Asset Sharekhan estimates*

**Results Table** Rs cr

| Particulars | 3QFY25 | 3QFY24 | 2QFY25 | Y-o-Y | Q-o-Q |
|---|---|---|---|---|---|
| Interest Inc. | 30,954 | 27,961 | 30,420 | 11% | 2% |
| Interest Expenses | 17,348 | 15,429 | 16,937 | 12% | 2% |
| Net Interest Income | 13,606 | 12,532 | 13,483 | 9% | 1% |
| NIM (%) | 3.93 | 4.01 | 3.99 | | |
| Core Fee Income | 5,455 | 5,170 | 5,508 | 6% | -1% |
| Other Income | 517 | 385 | 1,214 | 34% | -57% |
| Net Income | 19,578 | 18,087 | 20,205 | 8% | -3% |
| Employee Expenses | 2,985 | 2,711 | 3,117 | 10% | -4% |
| Other Opex | 6,060 | 6,234 | 6,375 | -3% | -5% |
| Total Opex | 9,044 | 8,946 | 9,493 | 1% | -5% |
| Cost to Income Ratio | 46.2% | 49.5% | 47.0% | | |
| Pre Provision Profits | 10,534 | 9,141 | 10,712 | 15% | -2% |
| Provisions & Contingencies - Total | 2,156 | 1,028 | 2,204 | 110% | -2% |
| Profit Before Tax | 8,378 | 8,113 | 8,508 | 3% | -2% |
| Tax | 2,074 | 2,042 | 1,591 | 2% | 30% |
| Effective Tax Rate | 25% | 25% | 19% | | |
| PAT | 6,304 | 6,071 | 6,918 | 4% | -9% |
| Basic EPS (Rs) | 20.37 | 19.69 | 22.37 | 3% | -9% |
| Diluted EPS (Rs) | 20.25 | 19.57 | 22.23 | 3% | -9% |
| RoA (%) | 1.6 | 1.8 | 1.8 | | |
| | | | | | |
| Advances | 10,14,564 | 9,32,286 | 9,99,979 | 9% | 1% |
| Deposits | 10,95,883 | 10,04,900 | 10,86,744 | 9% | 1% |
| | | | | | |
| Gross NPA | 15,850 | 15,893 | 15,466 | 0% | 2% |
| Gross NPA Ratio (%) | 1.46 | 1.58 | 1.44 | | |
| Net NPA | 3,775 | 3,527 | 3,612 | 7% | 4% |
| Net NPAs Ratio (%) | 0.35 | 0.36 | 0.34 | | |
| PCR - Calculated | 76.2% | 77.8% | 76.6% | | |

*Source: Company; Mirae Asset Sharekhan Research*

**SOTP valuation**

| Subsidiary/Associate/JV | Per share value (Rs.) |
|---|---|
| Core Bank Value (A) | 1,105 |
| Axis Capital | 9 |
| Axis Securities | 18 |
| Axis Finance | 35 |
| Axis Mutual Fund | 33 |
| Max Life Insurance | 31 |
| Sum of subs/ associates (B) | 125 |
| **Fair Value (A+B)** | **1,230** |

*Source: Company; Mirae Asset Sharekhan Research*

## Outlook and Valuation

### ■ Sector View - Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.2% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high CD ratio. Deposit growth at 9.9% has again started to lag loan growth. However, deposit growth continues to remain range bound at 10-12% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, the asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

### ■ Company Outlook – Intermittent headwinds but valuation comfortable

We believe that intermittent headwinds in terms of muted business growth and volatility in asset quality is likely to managed well given a structural improvement in the franchise over the past few years. The balance sheet mix has significantly improved for the bank, which we believe is positive. Outlook in terms of recovery in growth trajectory and asset quality in unsecured retail segment remains a key monitorable.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 1,230

Axis Bank currently trades at 1.6x/1.4x/ 1.2x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain a Buy with a revised PT of Rs. 1,230 given the sharp correction in the recent times largely address most of the key concerns, but it will be lower in our preference order among the large banks until we see a clear outlook in terms of recovery in growth trajectory and asset quality normalises in unsecured retail segment. Management believes that a tough macro environment is a key constraint, and it will take couple of quarters to turn constructive. Early risk assessment and primitive corrective risk measures will likely help bank to navigate the cycle.

**Peer valuation**

| Company | CMP (Rs./Share) | MCAP (Rs. Cr) | P/E (x) | | P/B (x) | | RoE (%) | | RoA (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Axis Bank | 1,040 | 3,21,969 | 10.9 | 10.2 | 1.6 | 1.4 | 15.9 | 14.7 | 1.7 | 1.6 |
| ICICI Bank | 1,250 | 8,82,369 | 15.9 | 14.3 | 2.5 | 2.2 | 17.4 | 16.3 | 2.3 | 2.2 |

*Source: Company; Mirae Asset Sharekhan Research*

## About the 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 5,706 domestic branches as of Dec 2024. Capital adequacy ratio (CAR) stands at 17.0%.

## Investment theme

We believe that intermittent headwinds in terms of muted business growth and volatility in asset quality is likely to manged well given a structural improvement in the franchise over the past few years. The balance sheet mix has significantly improved for the bank, which we believe is positive. Outlook in terms of recovery in growth trajectory and asset quality in unsecured retail segment remains key monitorable.

## Key Risks

Slower loan growth, asset quality risk, slower growth in retail deposit, lower margins, management change.

## 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 | 7.91 |
| 2 | ICICI Prudential Asset Management | 5.36 |
| 3 | HDFC Asset Management Co Ltd | 4.93 |
| 4 | SBI Funds Management Ltd | 3.87 |
| 5 | Vanguard Group Inc/The | 3.08 |
| 6 | Blackrock Inc | 3.05 |
| 7 | Capital Group Cos Inc/The | 2.66 |
| 8 | Nippon Life India Asset Management | 2.28 |
| 9 | Dodge & Cox | 2.21 |
| 10 | NPS Trust A/c Uti Retirement Solution | 2.10 |

*Source: Bloomberg*

## Understanding the Mirae Asset 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 detoriating 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: Mirae Asset Sharekhan Research

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