

Growth sustained, slippages weighs; wait & watch

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ~₹ 14.8 lakh crore. Strategy to focus on retail & MSME segment with emphasize on risk adjusted return has aided improvement in RoA & RoE.

- Retail and SME comprise ~71% of total loans

Q1FY25 performance: Axis bank reported mixed performance in Q1FY25 results. Core operating profit increased 16% YoY to ₹9,637 crore, driven by a 12% YoY increase in NII and 16% YoY growth in fee income. However, higher provision kept PAT growth at 4% YoY to ₹ 6,035 crore. Margins seems to be stable at 4.05% vs 4.06% in Q4FY25, however excluding interest from IT refund, margins declined by 6 bps QoQ. Moderation was seen in credit growth at 14% YoY to ₹9.8 lakh crore, with corporate segment driving growth in Q1FY25. Deposit accretion remained slower at 13% YoY with focus on term deposits. Slippages came higher at 1.97% resulting in higher credit cost at 21 bps (12 bps in Q4FY24 & Q1FY24). GNPA and NNPA inched up 11 bps and 3 bps QoQ to 1.54% and 0.34%. Management indicated some stress witnessed in unsecured retail credit (personal loans and credit cards).

Investment Rationale

- Volatility in near term growth; medium term outlook optimistic:** Advances growth came at 14% YoY, driven by retail (18% YoY) and SME (20% YoY), though traction in corporate remained slower at 7% YoY. Within retail, healthy growth was delivered across segment, except housing which grew at 6% YoY. Going ahead, management continues with medium term target to grow credit at 300-400 bps higher than the industry, however, elevated competitive intensity on liabilities remains a near term headwind which could keep credit growth volatile. Expect credit growth at ~14% CAGR in FY25-26E.
- Asset quality hiccups in Q1 – trajectory remains watchful:** Asset quality witnessed deterioration with increase in slippages at ~2% (major slippages from retail segment) and increase of 11 bps in GNPA ratio to 1.54%. Management indicated that some signs of over leveraging are visible in few retail segment, though the bank remains focussed on risk adjusted growth. Thus, management indicates lower credit cost in FY25E as compared to Q1FY25 which was adversely affected by timing difference (80 bps). While bank carries healthy provision (~1.2% of advances) which provides comfort, however, we remain watchful of further trend on slippages and credit cost. Expect credit cost at 50-60 bps in FY25-26E and earnings momentum of 9% CAGR in FY25-26E.

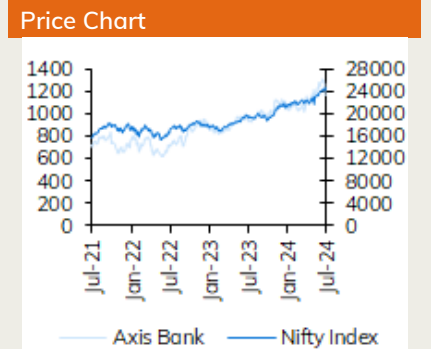
Rating and Target Price

- Management reiterated focus on risk adjusted growth ahead, however, moderation in balance sheet momentum coupled with hiccups in asset quality and thereby credit cost could impact near term valuation. Thus, we remain in a wait and watch mode amid volatility in external environment. We maintain our target price of ₹1300 per share, valuing the stock at 1.9x FY26E ABV and ₹100 for subsidiaries. Downgrade stock from Buy to Hold.



Particulars	
Particulars	Amount
Market Capitalisation	₹365445 crore
52 week H/L	921 /1340
Net worth	₹157766 crore
Face value	2.0
DII Holding (%)	31.6
FII Holding (%)	53.4

Shareholding pattern					
(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	8.2	8.2	8.2	8.2	8.3
FII	52.0	53.0	54.7	53.8	53.4
DII	29.9	29.0	28.8	30.1	31.6
Public	9.9	9.8	8.3	7.8	6.6



- ### Key risks
- (i) Elevated delinquencies in unsecured retail book
 - (ii) Faster than expected growth on the back of deposit accretion

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Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	29239	33132	42946	49894	19%	54360	60623	10%
PPP	25702	24742	19791	37123	13%	40514	46701	12%
PAT	6588	13025	9580	24861	56%	26301	29423	9%
ABV (I)	308.8	347.8	384.8	464.3		534.5	621.1	
P/E	54.5	27.6	37.6	14.6		13.8	12.3	
P/ABV	3.8	3.4	3.0	2.5		2.2	1.9	
RoA	0.7	1.2	0.8	1.8		1.7	1.6	
RoE	7.1	12.0	8.0	18.1		16.3	15.7	

Concall highlights and outlook

- The bank's focus will be on 3 core areas for execution of GPS strategy i.e.
 - To become a resilient all-weather franchise
 - To create multiplicative forces to build competitive advantage
 - To build for the future
- The bank's CASA and fee to average asset continued to be the best amongst peer private banks.
- The bank posted the best quarter in its history in terms of openings of NTD savings account and their balance at the end of the quarter.
- The bank successfully completed consumer business integration of Citibank on July 14; 2 months ahead of schedule. The integration involved complex migration of 2.1 million customers.
- Granular fee constituted 93% of total fee income which stood at ₹ 5,204 crore.
- The management drew attention to the net credit cost for Q1FY25 which rose by 47 bps YoY to 0.97%. They stated that it is not indicative of the full year expectations as Q1 was adversely impacted by timing differences. The 55% YoY increase in net credit cost was due to lower recoveries and upgrades from NPA accounts and potentially written off accounts in wholesale portfolio.
- Gross slippages for the quarter were ₹ 4,793 crores, of which ₹ 4,229 crores were retail, ₹ 178 crores were CBG, and ₹ 386 crores for the wholesale segment.
- 32% of gross slippages were attributable to linked accounts of borrower which were standard when classified or had been upgraded in the same quarter.
- Net slippages rose 95% YoY at ₹ 3,290 crores. 50% of this increase was due to lower recoveries and upgrades, mainly in the WBCG segment.
- Following the updated investment guidelines, the bank transferred ₹ 1,219 crore to the general reserve. This negatively affected the RoE by 82 bps and RoA by 7 bps for the quarter. Transfer to general reserve positively impacted CET1 by 14 bps.
- The management clarified that they are not looking to raise the equity capital as the current level of capital adequacy was sufficient for growth and protection.
- Yields on interest earning assets improved by 29 bps YoY but was offset by higher cost of funds resulting in a 5 bps drop YoY in NIM. IT refunds received in the quarter helped negating the effects of high interest rate reversal in comparison to Q4FY24. NIM stood at 4.05% and net impact on margins was ~1 bps compression. The NIM guidance for full year was around 3.8%.
- The management displayed confidence in terms of asset quality, since even though the quarter saw asset deterioration but there has not been a breach of internal risk benchmarks yet. Expect recovery in the upcoming quarters.
- The pace of growth has reduced for personal & credit cards. PL & credit card are traditionally high RAROC (Risk Adjusted Return on Capital) business. The management uses RAROC to drive decision making and in a constrained deposit environment, the portfolio mix might change a bit to protect NIM.

Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	13,448	11,959	9.5	13,089	2.7	Healthy momentum impacted by margin contraction
NIM (%)	4.05	4.10	-1.0	4.06	-1 bps	Interest from tax refund added 6 bps in Q1FY25
Other Income	5,783	5,087	33.0	6,766	-14.5	Fee income grew 16% YoY, Retail fee grew 18% YoY
Net Total Income	19,232	17,046	16.5	19,855	-3.1	
Staff cost	3,129	2,688	8.7	2,924	7.0	
Other Operating Expenses	5,996	5,543	15.4	6,396	-6.2	Healthy top-line, amid higher miscellaneous income, coupled with moderation in opex aided PPP
PPP	10,106	8,814	19.5	10,536	-4.1	
Provision	2,039	1,035	14.5	1,185	72.0	Credit cost increased at 1.19% vs 0.68% QoQ
PBT	8,067	7,779	20.2	9,350	-13.7	
Tax Outgo	2,032	1,982	12.0	2,221	-8.5	
PAT	6,035	5,797	23.0	7,130	-15.4	Consistent earnings YoY, though sequentially witnessed substantial decline
Key Metrics						
GNPA	16,211	19,204	-21.2	15,127	7.2	Slippages run-rate inched up at 1.97% (annualised)
NNPA	3,553	3,032	7.1	3,247	9.4	
Credit	980,092	821,989	17.4	965,068	1.6	Retail loans grew 18% YoY and SME segment witnessed 20% YoY growth
Deposit	1,082,484	913,754	17.0	1,068,641	1.3	Term deposit accretion at 20% YoY, CASA ratio down by 190 bps at 41.1%

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	85,164	109,369	122,285	137,860
Interest Expended	42,218	59,474	67,925	77,237
Net Interest Income	42,946	49,894	54,360	60,623
Growth (%)	29.6	16.2	9.0	11.5
Non Interest Income	16,143	22,442	25,644	29,340
Net Income	59,089	72,336	80,004	89,963
Staff cost	8,760	10,933	12,593	14,230
Other Operating Expense	18,243	24,280	26,897	29,032
Operating Profit	32,086	37,123	40,514	46,701
Provisions	2,652	4,063	5,446	7,470
PBT	16,945	33,060	35,068	39,231
Taxes	7,326	8,199	8,767	9,808
Exceptional	12489	-	-	-
Net Profit	9,619	24,861	26,301	29,423
Growth (%)	-26.2	158.5	5.8	11.9
EPS (₹)	31.1	80.5	85.2	95.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Valuation				
No. of Equity Shares	307.7	308.7	308.7	308.7
EPS (₹)	31.1	80.5	85.2	95.3
BV (₹)	406.2	486.7	559.8	651.6
ABV (₹)	384.8	464.3	534.5	621.1
P/E	37.6	14.6	13.8	12.3
P/BV	2.9	2.4	2.1	1.8
P/ABV	3.0	2.5	2.2	1.9
Yields & Margins (%)				
Net Interest Margins	3.9	4.1	3.9	3.8
Yield on assets	7.8	8.9	8.8	8.7
Avg. cost on funds	3.9	5.0	5.1	5.1
Yield on average advances	8.3	9.6	9.4	9.3
Avg. Cost of Deposits	3.6	4.5	4.7	4.7
Quality and Efficiency				
Cost to income ratio	67	49	49	48
Credit/Deposit ratio	89.3	90.3	88.1	89.0
GNPA	2.0	1.4	1.3	1.3
NNPA	0.4	0.3	0.3	0.4
ROE	8.0	18.1	16.3	15.7
ROA	0.8	1.8	1.7	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Capital	615	617	617	617
Reserves and Surplus	124378	149618	172175	200515
Networth	124993	150235	172792	201132
Deposits	946945	1068641	1229535	1412698
Borrowings	186300	196812	208616	225854
Other Liabilities & Provisions	59087	61520	66623	71038
Total	1317326	1477209	1677566	1910722
Application of Funds				
Fixed Assets	4734	5685	7216	8242
Investments	288815	331527	372356	418279
Advances	845303	965068	1083612	1256806
Other Assets	72063	60474	90405	92755
Cash with RBI & call money	106411	114454	123977	134641
Total	1317326	1477209	1677566	1910722

Source: Company, ICICI Direct Research

Exhibit 5: Growth				
	%			
(Year-end March)	FY23	FY24	FY25E	FY26E
Total assets				
Total assets	12.1	12.1	13.6	13.9
Advances				
Advances	19.4	14.2	12.3	16.0
Deposit				
Deposit	15.2	12.9	15.1	14.9
Total Income				
Total Income	22.7	22.4	10.6	12.4
Net interest income				
Net interest income	29.6	16.2	9.0	11.5
Operating expenses				
Operating expenses	66.4	30.4	12.1	9.6
Operating profit				
Operating profit	-20.0	15.7	9.1	15.3
Net profit				
Net profit	-26.5	158.5	5.8	11.9
Net worth				
Net worth	8.7	20.2	15.0	16.4
EPS				
EPS	(26.6)	158.7	5.8	11.9

Source: Company, ICICI Direct Research

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