

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Banks

Axis Bank Ltd

Soft quarter does not change structural thesis

Our view – Rise in stress within internal risk benchmarks

Asset Quality – Gross slippage rose meaningfully on sequential basis, with the the bulk of the rise emerging from the retail book: Gross NPA additions amounted to Rs 47.93bn for 1QFY25, translating to an annualized slippage ratio of 1.97% for the quarter. Gross NPA additions had amounted to Rs 34.71bn during 4QFY24. The retail book contributed Rs 42.29bn to slippages in the quarter compared with Rs 31.1bn in 4Q. 32% of total slippages were linked accounts which were standard when classified or upgraded during the quarter. There has been deterioration in asset quality across some parts of the book, such as retail unsecured but it is not a of concern as of now as internal risk benchmarks have not been breached. Reported net credit cost amounted to 97 bps for the quarter but management does not regard this as indicative of the credit cost expected for full year FY25. About 30 bps of this is attributable to timing difference for recoveries from the wholesale book, which would eventually happen.

Net Interest Margin – Margin was broadly stable on sequential basis as two factors canceled each other out: NIM was at 4.05%, down -1bps QoQ and -5bps YoY. Higher interest reversal during the quarter was offset by interest on income tax refund. The through-the-cycle NIM expectation remains 380 bps. However, management would like to retain as much of the current NIM as possible.

Balance sheet growth – AXSB is currently tracking 14% YoY growth but remains confident of its steady state growth delivery: The advances for the bank stood at Rs 9,800 bn, up by 1.6% QoQ and 14.2% YoY. The bank expects interest rates to remain elevated and system credit growth to converge to system deposit growth of 13%. On a long-term basis, the bank's advances growth can be 300-400 bps higher than system credit growth.

We reiterate BUY rating on AXSB with a revised price target of Rs 1550: We had placed AXSB as the very top pick for the first time in our [report dated May 2022](#). We value the standalone bank at 2.0x FY26 P/BV for an FY25E/26E RoE profile of 16.2%/16.0%. We assign a value of Rs 157 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Aspects (See "Our View" above for elaboration and insight)

- **Opex control:** Total opex fell/rose -2.1%/10.9% QoQ/YoY, Employee Expense rose 7.0%/16.4% QoQ/YoY and other exp. fell/rose -6.2%/8.2% QoQ/YoY
- **Fee income:** Fees income de-grew/grew -7.7%/16.0% QoQ/YoY, where retail banking fees de-grew/grew -10.9%/17.8% QoQ/YoY

Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Interest Income	300,607	292,245	2.9	255,568	17.6
Interest Expense	(166,125)	(161,355)	3.0	(135,980)	22.2
Net Interest Income	134,482	130,890	2.7	119,588	12.5
Fee Income	52,040	56,370	(7.7)	44,880	16.0
Non-fee Income	5,795	11,288	(48.7)	5,993	(3.3)
Total Non-Interest Income	57,835	67,658	(14.5)	50,873	13.7
Total Income	192,317	198,548	(3.1)	170,460	12.8
Employee Expense	(31,295)	(29,235)	7.0	(26,885)	16.4
Non-employee Opex	(59,960)	(63,956)	(6.2)	(55,432)	8.2
Total Operating expenses	(91,255)	(93,191)	(2.1)	(82,317)	10.9
PPOP	101,062	105,357	(4.1)	88,144	14.7
Provisions	(20,393)	(11,853)	72.0	(10,349)	97.1
PBT	80,670	93,504	(13.7)	77,795	3.7
Tax	(20,323)	(22,207)	(8.5)	(19,824)	2.5
PAT	60,346	71,297	(15.4)	57,971	4.1

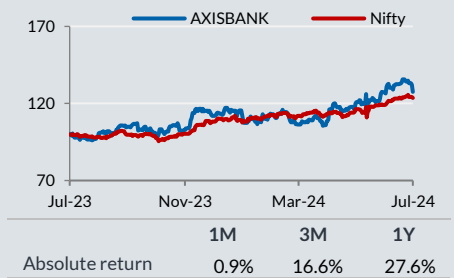
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 1,239
Target price	: Rs 1,550
Potential return	: +25%

Stock data (as on July 24, 2024)

Nifty	24,414
52 Week h/l (Rs)	1340 / 927
Market cap (Rs/USD mn)	3904660 / 46656
Outstanding Shares (mn)	3,091
6m Avg t/o (Rs mn):	10,985
Div yield (%):	0.1
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	7.9%
FII+DII	81.0%
Others	11.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1550	1575

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	498,945	576,413	671,632
PPOP	371,232	448,873	537,222
Net Profit	248,614	280,536	337,831
Growth (%)	159.5	12.8	20.4
EPS (Rs)	80.5	87.4	105.2
BVPS (Rs)	489	607	711
P/E (x)	13.4	12.4	10.3
P/BV (x)	2.2	1.8	1.5
ROE (%)	18.0	16.2	16.0
ROA (%)	1.8	1.8	1.9
Tier-1 (%)	14.2	15.8	15.4

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	87.4	105.2
EPS (Old)	NA	88.6	107.1
% change	NA	-1.4%	-1.8%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 47.93bn for 1QFY25, translating to an annualized slippage ratio of 1.97% for the quarter. (Gross NPA additions had amounted to Rs 34.71bn during 4QFY24.)
 - **Segmental split**
 - Retail – Rs 42.29bn. Retail slippages had amounted to Rs 35.85bn in 1QFY24 and Rs 31.1bn in 4QFY24.
 - CBG – Rs 1.78bn
 - Wholesale – Rs 3.86bn
 - **More on slippages**
 - There has been a rise in wholesale slippages due to smaller value accounts all less than Rs 1bn in size.
 - There is some seasonality in the overall slippages as well.
 - Furthermore, 32% of slippages are linked accounts which were standard when classified or upgraded during the quarter.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 15.03bn for 1QFY25, implying net NPA addition of Rs 32.90bn for the quarter.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 20.39bn, up by 72.0% QoQ and 97.1% YoY, translating to calculated all-inclusive annualised credit cost of 84bps.
 - **Credit cost**
 - Reported net credit cost amounted to 97 bps for the quarter (presumably based only on specific provisions).
 - Management does not regard this as indicative of the credit cost expected for full year FY25.
 - 55% of the YoY increase in credit cost is due to lower recoveries in the corporate business due to timing differences and these recoveries would eventually come. If this 30 bps is reduced from the reported credit cost, it would amount to 67 bps.
 - **Balance sheet provisions**
 - PCR amounted to 78%, flat QoQ.
 - Standard asset provisions amounted to 1.2% of loan book.
 - All standard and specific provisions taken together provides 150% coverage on GNPA book.
 - **Breakup of cumulative non-NPA provisions of Rs 117.32bn**
 - ECL – Rs 50.12bn
 - Restructured book – Rs 4.91bn
 - Standard asset – Rs 18.78bn
 - Weak assets and other – Rs 43.51bn
 - **ECL provision**
 - The earlier Covid provision has been reclassified as provision earmarked for ECL transition.
 - It is not an indication of what the ECL requirement will be or whether it would be lower or higher.
 - There is a concept of floor provisioning in the ECL draft which would impacts the approach to it.

(Con call takeaways continue on the next page)

- **Restructured book**
 - The fund based outstanding of standard restructured loans implemented under resolution framework for COVID-19 stood at Rs 14.09bn or 0.14% of the gross customer assets.
- **NPA ratios**
 - GNPA ratio stands at 1.5%, up 11bps QoQ but down -42bps YoY while NNPA ratio stands at 0.3%, up 3bps QoQ but down -7bps YoY.
- **Quality of book**
 - There has been deterioration in asset quality across some parts of the book, such as retail unsecured but it is not a of concern as of now as internal risk benchmarks have not been breached.
 - The headline rise in BB and low of Rs 6bn is because of unrated book and other non-underlying factors and the actual rise is Rs 2bn, which is small value loans and BAU in nature.

Net interest margin

- **NIM for the quarter**
 - NIM was at 4.05%, down -1bps QoQ and -5bps YoY.
 - Higher interest reversal during the quarter was offset by interest on income tax refund.
- **RIDF book**
 - The RIDF book has declined Rs 98.51bn YoY and forms 1.4% of total assets.
- **Guidance**
 - The through-the-cycle NIM expectation remains 380 bps.
 - However, management would like to retain as much of the current NIM as possible.
- **Investment yield**
 - The investment yield is higher due to changes in the portfolio and not due to the change in investment norms.

Capital adequacy

- CET1 ratio is 14.06%.
- The bank has net accreted 32 bps of capital ratio, net of consumption.
- The bank assesses capital requirement for growth and protection and does not require capital for either.

Advances growth

- The advances for the bank stood at Rs 9,800 bn, up by 1.6% QoQ and 14.2% YoY.
- The retail, SME and mid-corporate segment together grew 24% YoY and forms 42% of overall loan book.
- The retail book is up 18% YoY whereas the rural and small business banking books are up 24-26% YoY.
- **Guidance**
 - The bank expects interest rates to remain elevated and system credit growth to converge to system deposit growth of 13%.
 - On a long-term basis, the bank's advances growth can be 300-400 bps higher than system credit growth.

(Con call takeaways continue on the next page)

- **Pullback in unsecured retail**
 - As per the bank's dynamic approach, the pace of growth in personal loans and credit cards is being tempered.
 - As of now, credit card addition has been slowed to below 1mn per quarter, which will eventually impact credit card loans.
 - This calibration will play out over the next 3 quarters.
- **Comments on LDR and LCR**
 - The bank has submitted its strategy to the RBI with regard to the LDR and the same has been accepted.
 - The bank is operating within those flexible parameters.
 - The LCR is close to 120%.
 - The bank regards both the LCR and LDR as important.

Deposits accretion

- The deposits were at Rs 10,625 bn, down by -0.6% QoQ but up by 12.8% YoY.
- The CA, SA and TD average balances have grown 3%, 2% and 4%, respectively, on QoQ basis.

Fee income

- Fee income has grown 16% YoY.
- 93% of the fee income is granular in nature.
- Retail fees grew 18% YoY and wholesale fees grew 12% YoY.
- Fee income to assets improved 3 bps YoY.

Operating expenses

- **Total opex**
 - Total Opex, at Rs. 91.26bn, is down -2.1% QoQ but up by 10.9% YoY.
 - Consequently, cost/income ratio came in at 47.5%, up by 51bps QoQ but down by -84bps YoY.
 - **Cost to assets**
 - Cost to assets was 2.54% for the quarter, down 1 bp QoQ.
 - **Guidance**
 - The opex growth witnessed in FY24 is expected to moderate in FY25.
- **Staff opex**
 - The staff opex is up by 7.0% QoQ and 16.4% YoY.
 - **Employee addition**
 - 9702 employees were added YoY.
- **Non-staff opex**
 - Non-staff opex is down by -6.2% QoQ but up by 8.2% YoY.
 - **Branch expansion**
 - 50 branches were opened during the quarter.

New investment book norms

- There was a transfer of Rs 12.19bn to the general reserve.

(Con call takeaways continue on the next page)

Trading profit

- Trading profit was down Rs 5.48bn sequentially.

Return ratios

- Consolidated RoA and RoE amounted to 1.7% and 16.68%, respectively.
- The accretion to the general reserve due to the new norms negatively impacted RoA by 7 bps and RoE by 82 bps, respectively.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy	Q1 FY25*	chg qoq*	chg yoy*
Advances	9,800,920	9,650,684	1.6	8,585,114	14.2	100.0	0bps	0bps
Large/Mid-corporate	2,909,640	2,770,860	5.0	2,741,990	6.1	29.7	98bps	-225bps
SME	1,040,150	1,047,180	(0.7)	865,030	20.2	10.6	-24bps	54bps
Retail	5,851,120	5,832,650	0.3	4,978,100	17.5	59.7	-74bps	171bps
Home Loans	1,653,530	1,658,990	(0.3)	1,566,460	5.6	16.9	-32bps	-138bps
Rural Lending	885,080	918,660	(3.7)	716,260	23.6	9.0	-49bps	69bps
Auto Loans	588,270	587,470	0.1	535,130	9.9	6.0	-9bps	-23bps
Personal Loan	736,200	715,920	2.8	568,950	29.4	7.5	9bps	88bps
Credit Card	425,260	413,240	2.9	347,310	22.4	4.3	6bps	29bps
LAP	650,510	636,730	2.2	506,260	28.5	6.6	4bps	74bps
SBB	583,910	572,190	2.0	462,740	26.2	6.0	3bps	57bps
Others	328,360	329,450	(0.3)	274,990	19.4	3.4	-6bps	15bps
Total Deposits	10,624,840	10,686,414	(0.6)	9,416,897	12.8	100.0	0bps	0bps
CA	1,495,690	1,572,680	(4.9)	1,332,690	12.2	14.1	-64bps	-7bps
SA	2,949,100	3,021,330	(2.4)	2,955,300	(0.2)	27.8	-52bps	-363bps
Term	6,180,050	6,092,404	1.4	5,128,907	20.5	58.2	116bps	370bps
Investments	3,168,510	3,315,273	(4.4)	2,853,967	11.0	NA	NA	NA
Investments/(Invest.+ Net Adv.) (%)	24.4	25.6	-114bps	24.9	-52bps	NA	NA	NA
Borrowings	1,898,980	1,968,118	(3.5)	1,721,761	10.3	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	15.2	15.6	-39bps	15.5	-29bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Net Interest Margin	4.05	4.06	-1bps	4.10	-5bps
Cost of funds	5.44	5.43	1bps	5.03	41bps
CASA	41.8	43.0	-116bps	45.5	-370bps
Loan to Deposit ratio	92.2	90.3	194bps	91.2	108bps
Non-interest income/Total income	30.1	34.1	-400bps	29.8	23bps
Fee Income/Avg. Total Assets	1.4	1.6	-15bps	1.4	4bps
Cost to Income	47.5	46.9	51bps	48.3	-84bps
Opex/Avg. Total Assets	2.5	2.6	-11bps	2.5	-3bps
RoE	16.3	20.4	-409bps	19.2	-291bps
RoA	1.7	2.0	-35bps	1.8	-15bps
Capital Adequacy ratio	16.7	16.6	2bps	17.7	-109bps
Tier I Capital Ratio	14.5	14.2	32bps	14.9	-38bps
Annualised Slippage Ratio	2.0	1.5	49bps	1.9	10bps
Provision Coverage	94.0	94.0	0bps	93.0	100bps
Gross NPA	1.5	1.4	11bps	2.0	-42bps
Net NPA	0.3	0.3	3bps	0.4	-7bps

Source: Company, YES Sec – Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	134,482	135,077	(0.4)
Pre-Prov. Operating Profit	101,062	109,892	(8.0)
Profit After Tax	60,346	73,627	(18.0)

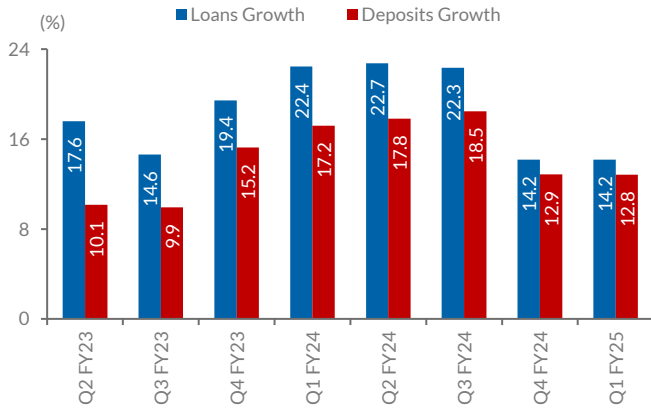
Source: Company, YES Sec – Research

Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Fee Income (A)	52,030	56,370	(7.7)	44,880	15.9
Retail Banking fees	37,060	41,590	(10.9)	31,460	17.8
Corporate & Commercial Banking fee	14,970	14,780	1.3	13,420	11.5
Total Other Income (B)	5,790	11,290	(48.7)	5,990	(3.3)
Trading Income	4,060	10,210	(60.2)	5,190	(21.8)
Miscellaneous Income	1,730	1,080	60.2	800	116.3
Total Non-Interest Income (A+B)	57,820	67,660	(14.5)	50,870	13.7

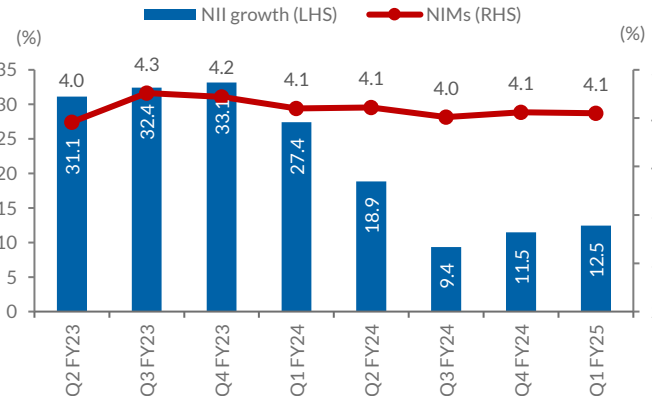
Source: Company, YES Sec – Research

Exhibit 6: Loans and Deposits growth (YoY %)



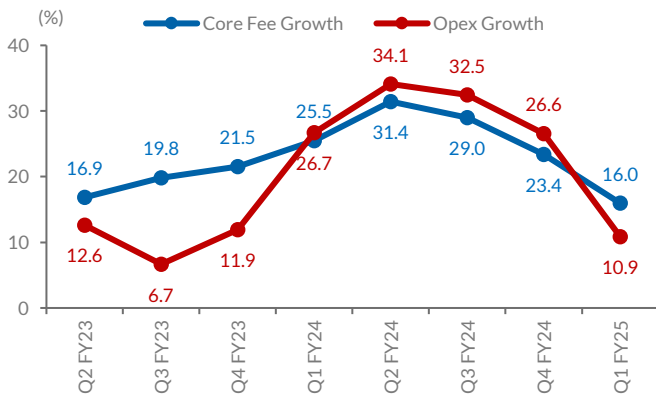
Source: Company, YES Sec – Research

Exhibit 7: NII growth (YoY %) and NIM



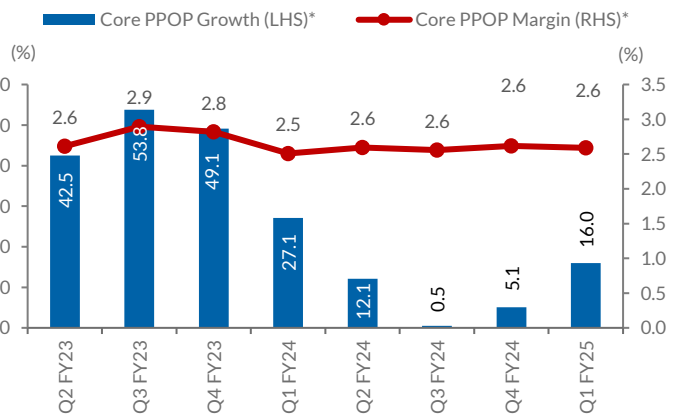
Source: Company, YES Sec – Research

Exhibit 8: Core Fee and Opex growth (YoY %)



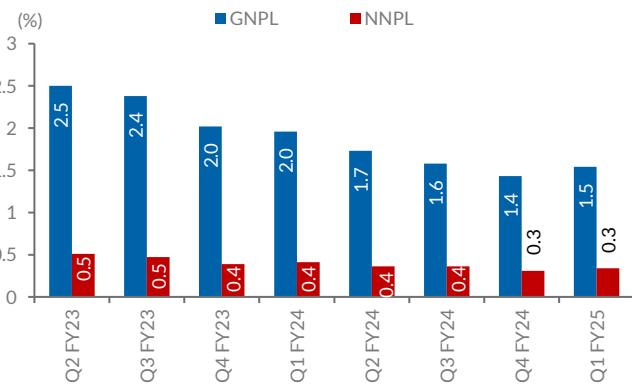
Source: Company, YES Sec – Research

Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin



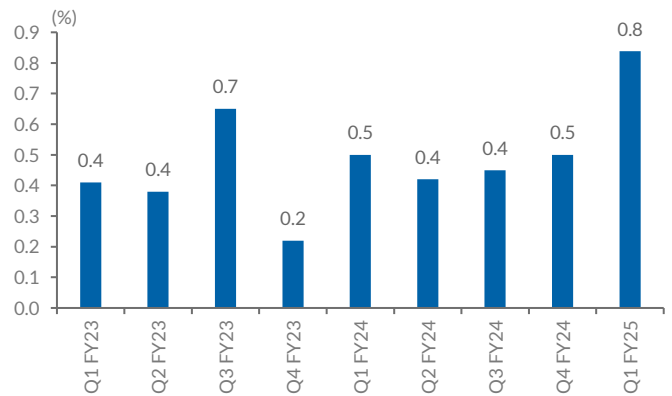
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 10: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 11: Credit Cost (%)



Source: Company, YES Sec – Research

Exhibit 12: 1-year rolling P/BV band



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	1,109,871	1,064,108	1,144,544	1,331,794	1,544,881
Investments	2,755,972	2,888,148	3,315,272	3,772,178	4,322,529
Advances	7,076,960	8,453,028	9,650,684	11,098,286	12,874,012
Fixed assets	45,724	47,339	56,846	62,530	68,783
Other assets	763,255	720,632	604,740	665,214	731,735
Total assets	11,751,781	13,173,255	14,772,086	16,930,003	19,541,941
Net worth	1,151,741	1,254,167	1,510,616	1,948,443	2,283,064
Deposits	8,217,209	9,469,452	10,686,414	12,423,537	14,554,408
Borrowings	1,851,339	1,863,000	1,968,118	2,026,471	2,271,907
Other liabilities	531,493	586,636	606,939	531,551	432,562
Total liabilities incl. Equity	11,751,781	13,173,255	14,772,086	16,930,003	19,541,941

Source: Company, YES Sec – Research

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	673,768	851,638	1,093,686	1,247,377	1,438,468
Interest expense	(342,446)	(422,180)	(594,741)	(670,964)	(766,836)
Net interest income	331,322	429,457	498,945	576,413	671,632
Non-interest income	152,205	161,434	224,420	268,863	310,162
Total income	483,528	590,892	723,364	845,277	981,794
Operating expenses	(236,108)	(268,087)	(352,133)	(396,403)	(444,572)
PPoP	247,420	322,804	371,232	448,873	537,222
Provisions	(73,595)	(28,848)	(40,631)	(73,825)	(85,577)
Profit before tax	173,826	169,058	330,601	375,048	451,645
Taxes	(43,571)	(73,262)	(81,986)	(94,512)	(113,815)
Net profit	130,255	95,797	248,614	280,536	337,831

Source: Company, YES Sec – Research

Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	6.2	6.8	7.8	7.9	7.9
Interest expense	-3.2	-3.4	-4.3	-4.2	-4.2
Net interest income	3.1	3.4	3.6	3.6	3.7
Non-interest income	1.4	1.3	1.6	1.7	1.7
Total income	4.5	4.7	5.2	5.3	5.4
Operating expenses	-2.2	-2.2	-2.5	-2.5	-2.4
PPoP	2.3	2.6	2.7	2.8	2.9
Provisions	-0.7	-0.2	-0.3	-0.5	-0.5
Profit before tax	1.6	1.4	2.4	2.4	2.5
Taxes	-0.4	-0.6	-0.6	-0.6	-0.6
Net profit	1.2	0.8	1.8	1.8	1.9

Source: Company, YES Sec – Research

Exhibit 17: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Axis AMC	291,967	AUM	2,919,667	10.0%	75.0%	218,975	70.9
Max Life	409,374	EV	194,940	2.1x	19.0%	77,863	25.2
Axis Capital	21,340	PAT	1,524	14.0x	100.0%	21,340	6.9
Axis Bank UK	5,271	BV	4,792	1.1x	100.0%	5,271	1.7
Axis Finance	122,059	BV	40,686	3.0x	100.0%	122,059	39.5
Axis Securities	40,490	BV	13,497	3.0x	100.0%	40,490	13.1
Value of Subsidiaries						485,999	157.5

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	498,945	576,413	671,632	498,945	576,414	679,774	NA	(0.0)	(1.2)
Pre-Prov. Operating Profit	371,232	448,873	537,222	371,232	448,825	539,316	NA	0.0	(0.4)
Profit after tax	248,614	280,536	337,831	248,614	284,380	343,880	NA	(1.4)	(1.8)

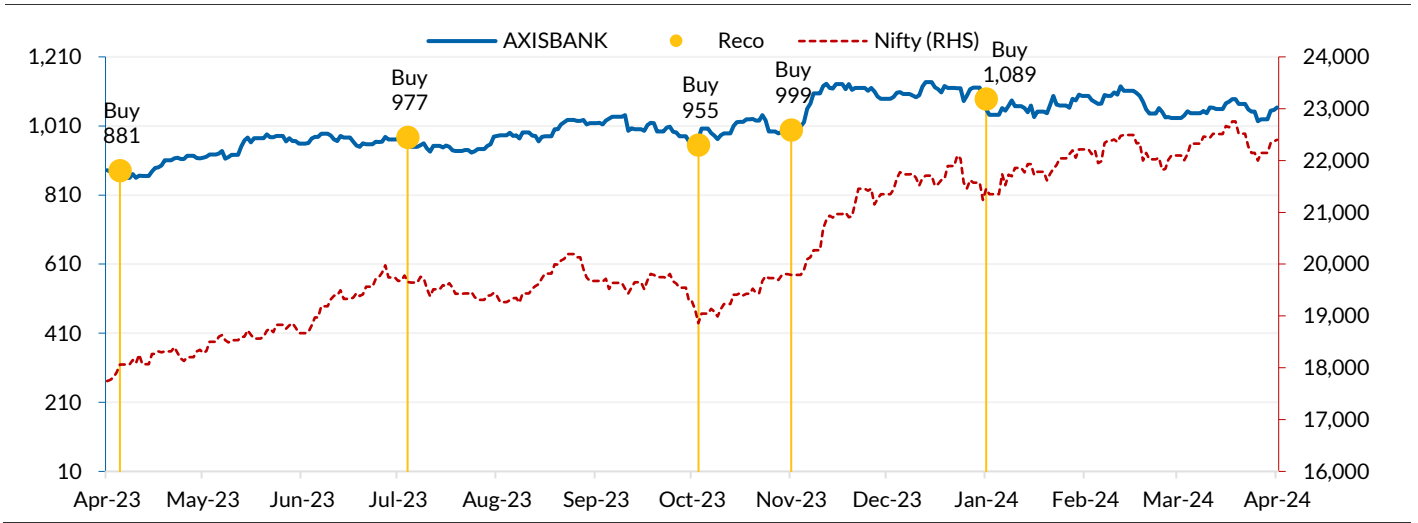
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	13.3	29.6	16.2	15.5	16.5
PPoP	-3.7	30.5	15.0	20.9	19.7
Net profit	97.7	-26.5	159.5	12.8	20.4
Loans	13.5	19.4	14.2	15.0	16.0
Deposits	16.2	15.2	12.9	16.3	17.2
Profitability Ratios (%)					
Net interest margin	3.5	4.0	4.1	4.1	4.2
Return on Average Equity	12.0	8.0	18.0	16.2	16.0
Return on Average Assets	1.2	0.8	1.8	1.8	1.9
Per share figures (Rs)					
EPS	42.4	31.1	80.5	87.4	105.2
BVPS	375	408	489	607	711
ABVPS	357	396	479	582	673
Valuation multiples					
P/E	25	35	13	12.4	10.3
P/BV	2.9	2.7	2.2	1.8	1.5
P/ABV	3.0	2.7	2.3	1.9	1.6
NIM internals (%)					
Yield on loans	7.5	8.3	9.6	9.6	9.6
Cost of deposits	3.5	3.6	4.5	4.8	4.7
Loan-deposit ratio	86.1	89.3	90.3	89.3	88.5
CASA ratio	45.0	47.2	43.0	46.0	46.0
Opex control (%)					
Cost/Income ratio	48.8	45.4	48.7	46.9	45.3
Cost to average assets	2.2	2.2	2.5	2.5	2.4
Capital adequacy (%)					
Tier 1 capital ratio	16.3	14.6	14.2	15.8	15.4
Asset quality (%)					
Slippage ratio	3.0	1.9	1.6	1.6	1.6
Gross NPL ratio	3.0	2.2	1.5	1.8	1.9
Credit cost	1.1	0.4	0.4	0.7	0.7
Net NPL ratio	0.8	0.4	0.3	0.7	1.0

Source: Company, YES Sec – Research; Valuations are the implied value of standalone entity net of subsidiaries

Recommendation Tracker



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