

Navigating through vulnerabilities

17 January 2025

Axis Bank's (AXSB IN) Q3FY25 show was characterized by weak performance on most counts, partially reflective of sectoral limitations that are posing challenges. PAT at INR 63bn was broadly in line given lower opex, even as credit cost were higher. Q3 was characterized by: a) softer loan growth – up mere 1.5% QoQ/sub-9% YoY and weaker deposit growth at 0.8% QoQ/9% YoY, indicating that much needs to be addressed as both are running below industry now and b) higher slippages, essentially in the retail segment with limited confidence on near-term improvement. The discussion hereon will be centered on: a) AXSB's ability to retrace growth, b) its ability to balance NIM, growth, CD ratio and LCR outcome, which could brew near-term dislocations and c) asset quality outcomes, which have taken center stage. Volatile performance has undermined valuations and near-term concerns will feed into a delayed rerating, but higher discount to peers and recent underperformance render risk-reward favorable. Retain BUY with TP pared to INR 1,386 (from INR 1,456).

Balancing growth, NIM, LDR and LCR will have certain dislocations: Q3 growth outcomes have been far from comforting – loan growth running at sub-9% (below system growth) and deposit growth (0.8% QoQ, also below system), a pain point. While we agree that partially these are reflective of system concerns, but it is these times which reflect the franchise strength. Given liquidity position and regulator stance, near-term challenges on deposit will persist, leading to sustained aggression on deposits. So, AXSB will have to balance NIM, growth, LDR (already at >92%) and LCR (at 119%), which could be onerous on earnings and may brew near-term dislocations.

Asset quality takes center stage: Slippages rose to INR 54.3bn (2%), with larger contribution from retail (forming > 90% of slippages). Retail slippages have risen closer to 3.1-3.2% and certain adjustments suggest that unsecured slippages are already running at 5% levels. While the bank highlighted that it has taken certain measures, industry-wide weakness (especially, given slowing growth outcomes), past experiences and volatile outcomes will keep investors on guard as the scope to maneuver seems limited. The bank however has reasonable buffer (~INR 119bn, 1.2% of loans) plus >75% coverage, thus rendering comfort.

Recommend BUY; TP pared to INR 1,386: AXSB, in the past few years, has hinged on its strategy to strengthen fundamentals. That said, volatile performance has taken the sheen off of fundamental changes, undermining valuations. Factoring in slower growth, we prune FY26E/FY27E EPS by 4-5% each, feeding into a reduced TP of INR 1,386 (from INR 1,456) on 2x FY26E P/BV. The stock trades at 1.4x FY26E P/BV (>30% discount to frontline peer) for RoA/RoE of 1.7%/14-15% in the medium term, thus cushioning downside. We thus maintain BUY. Sectoral challenges though mean that near-term rerating triggers are rather elusive at this point.

Key financials

YE Mar (INR bn)	FY23	FY24	FY25E	FY26E	FY27E
PPoP (INR bn)	197.9	371.2	423.8	473.9	534.1
YoY (%)	(20.0)	87.6	14.2	11.8	12.7
NP (INR bn)	95.8	248.6	260.0	280.8	320.6
YoY (%)	(26.5)	159.5	4.6	8.0	14.2
EPS (INR)	31.1	80.5	84.2	91.0	103.9
YoY (%)	(26.6)	158.7	4.6	8.0	14.2
P/PPoP (x)	16.2	8.6	7.6	6.8	6.0
RoAE (%)	8.0	18.0	15.9	14.7	14.6
RoAA (%)	0.8	1.9	1.8	1.7	1.7
P/E (x)	30.0	11.6	11.1	10.3	9.0
P/ABV (x)	2.3	1.9	1.7	1.4	1.2

Note: pricing as on 16 January 2025; Source: Company, Elara Securities Estimate

Rating: Buy

Target Price: INR 1,386

Upside: 34%

CMP: INR 1,038

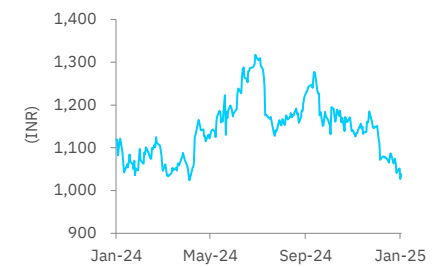
As on 16 January 2025

Key data

Bloomberg	AXSB IN
Reuters Code	AXBK.NS
Shares outstanding (mn)	3095
Market cap (INR bn/USD mn)	3213/37111
Avg daily volume 3M (INR mn/USD mn)	9948/115
52 week high/low	1340/996
Free float (%)	92

Note: as on 16 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	8.2	8.3	8.3	8.2
% Pledged	-	-	-	-
FII	53.8	53.4	51.8	47.3
DII	30.1	31.6	33.2	37.5
Others	7.8	6.6	6.7	7.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(6.6)	(5.3)	5.8
Axis Bank	(10.0)	(20.4)	(7.2)
NSE Mid-cap	(8.4)	(5.5)	14.3
NSE Small-cap	(8.6)	(7.4)	13.6

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Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	429,458	498,945	546,138	598,897	667,968
YoY growth (%)	29.6	16.2	9.5	9.7	11.5
Fee income	162,634	194,260	209,801	235,648	269,106
Trading profits	3,138	17,300	23,000	23,000	23,000
Non-interest income	165,009	224,420	248,319	276,650	312,988
Net operating revenue	594,466	723,364	794,458	875,547	980,956
YoY growth (%)	22.9	21.7	9.8	10.2	12.0
Operating expenses	396,560	352,133	370,636	401,608	446,844
YoY growth (%)	68.0	-11.2	5.3	8.4	11.3
Pre-provisioning operating profit	197,907	371,232	423,822	473,939	534,112
YoY growth (%)	(20.0)	87.6	14.2	11.8	12.7
Provisions for bad debts	33,553	40,631	80,987	98,493	105,435
Other provisions	(4,705)	0	0	0	0
Profit before tax	169,059	330,601	339,835	375,446	428,677
Tax	73,262	81,987	79,862	94,613	108,027
Profit after tax	95,797	248,613	259,973	280,833	320,649
YoY growth (%)	(26.5)	159.5	4.6	8.0	14.2
Balance sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Customer loans	8,453,028	9,650,684	10,644,704	12,028,516	13,784,679
YoY growth (%)	19.4	14.2	10.3	13.0	14.6
Investments	2,888,148	3,315,273	3,569,259	4,017,877	4,545,014
Cash & bank balances	1,064,108	1,144,544	945,261	1,254,308	1,430,075
Fixed assets	47,339	56,846	59,561	60,276	58,991
Other assets	720,632	604,740	621,895	656,841	705,399
Total Assets	13,173,255	14,772,086	15,840,680	18,017,818	20,524,158
Net worth	1,254,167	1,510,616	1,767,188	2,043,939	2,360,507
Deposits	9,469,452	10,686,414	11,562,700	13,088,976	14,986,878
YoY growth (%)	15.2	12.9	8.2	13.2	14.5
Borrowings	1,863,000	1,968,118	1,841,339	2,128,421	2,309,845
Other liabilities	586,636	606,939	669,453	756,482	866,929
Total Liabilities	13,173,255	14,772,086	15,840,680	18,017,818	20,524,158
Key operating ratios (%)	FY23	FY24	FY25E	FY26E	FY27E
Lending yield	8.3	9.6	9.8	9.6	9.4
Cost of Funds	3.7	4.7	5.0	4.9	4.8
Spreads	3.5	3.5	3.4	3.3	3.2
Net interest margin	3.7	3.8	3.7	3.7	3.6
CASA Ratio	47.2	43.0	39.5	39.7	40.1
Non-interest income / operating income	27.8	31.0	31.3	31.6	31.9
Cost/income	66.7	48.7	46.7	45.9	45.6
Operating expense/avg assets	3.2	2.5	2.4	2.4	2.3
Credit costs / avg loans	0.4	0.4	0.8	0.9	0.8
Effective tax rate	43.3	24.8	23.5	25.2	25.2
Loan deposit ratio	89.3	90.3	92.1	91.9	92.0
ROA decomposition (%)	FY23	FY24	FY25E	FY26E	FY27E
NII /Assets	3.7	3.8	3.7	3.7	3.6
Fees/Assets	1.4	1.6	1.5	1.6	1.6
Invst profits/Assets	0.0	0.1	0.2	0.1	0.1
Net revenues/Assets	5.1	5.5	5.4	5.4	5.3
Opex /Assets	(3.4)	(2.7)	(2.5)	(2.5)	(2.4)
Provisions/Assets	(0.2)	(0.3)	(0.6)	(0.6)	(0.6)
Taxes/Assets	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)
Total costs/Assets	(4.3)	(3.6)	(3.7)	(3.7)	(3.6)
ROA	0.8	1.9	1.8	1.7	1.7
Equity/Assets	10.3	10.4	11.2	11.7	11.9
ROAE -RHS	8.0	18.0	15.9	14.7	14.6
Key financial ratios (%)	FY23	FY24	FY25E	FY26E	FY27E
Tier I Capital adequacy	14.6	13.7	13.2	12.7	12.2
Gross NPL	2.1	1.4	1.4	1.5	1.5
Net NPL	0.4	0.3	0.4	0.4	0.5
Slippage ratio	2.0	1.7	1.9	1.9	2.0
Assets / equity (x)	10.5	9.8	9.0	8.8	8.7
Per share data					
EPS (INR)	31	81	84	91	104
YoY growth (%)	(27)	159	5	8	14
BVPS (INR)	408	489	573	662	765
adj- BVPS (INR)	399	482	564	651	750
Dividend yields	0.11	0.11	0.11	0.13	0.13
Valuation (x)					
P/BV	2.29	1.91	1.63	1.41	1.22
P/ABV	2.34	1.94	1.66	1.44	1.25
P/E	30.03	11.61	11.10	10.28	9.00

Note: Pricing as on 16 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)	Q3FY25E	Variance (%)
Operating profit	105,331	107,125	-1.7	91,412	15.2	103,453	1.8
PBT	83,775	85,084	-1.5	81,129	3.3	79,954	4.8
Net profit	63,030	69,176	-8.9	60,711	3.8	62,364	1.1

Source: Company, Elara Securities Estimate

Softer loan growth

- ▶ Loan growth was 8.8% YoY and 1.5% QoQ, supported by growth in the focus segments. Retail growth came in at 10.8% YoY and 1.2% QoQ. SME advances grew 14.1% YoY and 3.3% QoQ. Corporate grew 2.9% YoY (flat sequentially), with traction in mid-corporate book up 17.7% YoY and 3.9% QoQ. With this, SME + small business banking + mid-corporate mix currently forms ~23% of loans, up 760bps in the past four years.
- ▶ Growth for the Retail segment was slower at 10.8% YoY and 1.2% QoQ, with the share of secured retail loans at ~71%. On segment-wise basis, sequential growth was supported by, retail agri (up 4.5%), SBB & LAP loans (up 3.7% QoQ), and personal loans (up 0.7%). The remaining segments saw a deceleration. AXSB's growth strategy remains unchanged with focus on higher RaRoC business.
- ▶ The unsecured portfolio (personal loans and credit cards) comprised 11.7% of total loans in Q3FY25. About 100% of personal loans and 78% of credit card book pertains to salaried customers. With respect to its credit card portfolio, AXSB had slowed issuance to <1mn credit cards in Q3, due to stress in the overall industry. Spend market share increased by 50bps QoQ to 12.3%. It stated that unsecured retail led to elevated retail slippages and growth in these segments is the key monitorable as it may take a few quarters to settle.
- ▶ Corporate book grew by 3% YoY and 1.3% QoQ. The quality of loan growth in the corporate book has been good, with 90% of incremental sanctions in 9MFY25 to those rated A- and above.
- ▶ Management highlighted that it expects credit growth to be 11-12% for FY26 as well. Also, the management is comfortable with current levels of LDR (~93%) and would like to maintain it at current levels.

Deposit growth to constraint credit growth

- ▶ Deposits grew 9.1% YoY and 0.8% QoQ. Sequentially, term deposits grew while overall CASA deposits witnessed an outflow. This led to a decline in the CASA ratio by 109bps QoQ to 39.5%.
- ▶ LCR in Q3FY25 was ~119% versus ~115% in Q2. Outflow rates improved ~60bps in the past two years, reflecting the improvement in quality and lendability of liabilities.
- ▶ Deposit growth may constraint credit growth in the short-to-medium term. However, the management believes that during challenging times, focus would be on deposit quality as it will help deliver stronger results when the cycle improves.

Monitor NIM trajectory

- ▶ Reported NIM came in at 3.93%, down 6bps QoQ in Q3 – The decline was on account of interest reversal (3bps) and LCR impact (3bps). While domestic margins were steady at 4.06%, global margins saw a compression, mainly on higher liquidity. The management reiterated its guidance of 3.8% of margins through cycles.
- ▶ Reported cost of deposits inched up 5bps QoQ to 5.13%, whereas overall cost of funds saw a slight uptick of 1bp QoQ, due to increased cost of borrowing.
- ▶ Structural drivers for margin improvement continue to be: 1) a change in loan mix, 2) higher proportion of loans plus investment, and 3) a decline in RIDF.

Retail slippages remain elevated.

- ▶ GNPA inched slightly to 1.46%, whereas NNPA remained muted at 0.3%, as slippages were higher.
- ▶ Slippages were higher at INR 54.3bn or 2.16% (annualized) from INR 44.4bn in Q2FY25. Also, 29% of slippages are attributable to linked accounts of borrowers, which were standard or have been upgraded in the same quarter. Recoveries and upgrades were steady at INR 19.2bn versus INR 20.7bn in Q2FY25. Of total gross slippages, the composition was as follows: retail at INR 49.2bn, commercial banking group at ~INR 2.2bn and wholesale banking group at ~INR 2.9bn. Per AXSB, retail slippages were elevated due to stress in unsecured retail – personal loans, credit card and MFI. The management believes that slippages have not yet peaked out for PL and CC. Credit worthiness and overleveraging were primary reasons for asset quality issues in the industry. We remain watchful of the trends in the upcoming quarter as higher slippages may take some time to stabilize.
- ▶ In Q3, gross credit cost saw a sharp uptick of 38bps and a net credit cost of 26bps QoQ, up 74bps and 52bps YoY, respectively. We believe credit cost will be higher than FY24 level.
- ▶ AXSB continues to hold COVID provisions, currently earmarked for ECL provisions of INR 50bn.

Opex normalizes

- ▶ Operating expenses grew by 1.1% YoY but declined 4.7% QoQ. The sequential decline in opex was on account of card business and BAU optimization. Tech spends form 10.2% of the operating expenses.
- ▶ AXSB expects growth in operating expenses to moderate as operating leverage is likely to come into play in H2FY25

Other highlights

- ▶ A higher tax rate in the current quarter is attributable to the bank having received favorable ITAT orders in Q2 that resulted in a tax provision in the previous quarter. There are no such orders in the current quarter.
- ▶ Low-yielding RIDF bonds declined by ~INR 14bn sequentially to ~INR 168bn (1.1% of total assets). AXSB expects to run the RIDF portfolio at minimal levels.
- ▶ CET-1 is ~14.6%, with an overall CAR at ~17.0%. Net accretion to CET-1 of 49bps was seen in Q3FY25.
- ▶ The RWA-total assets ratio was stable at 73% in Q3FY25.
- ▶ Trading profit came in at INR 3.7bn versus INR 11.1bn sequentially, which will continue to be volatile in Q4FY25.

Exhibit 1: Profit and loss highlights – PAT supported by lower opex

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	114,593	117,422	119,588	123,146	125,322	130,890	134,482	134,832	136,051
Other income	46,654	48,953	50,873	50,341	55,548	67,658	57,835	67,219	59,722
Net revenue	161,248	166,375	170,460	173,486	180,870	198,548	192,317	202,051	195,773
Opex	68,473	74,699	82,317	87,168	89,457	93,191	91,255	94,926	90,442
PPoP	92,775	91,676	88,144	86,319	91,412	105,357	101,062	107,125	105,331
Investment gains	4,280	830	5,190	(1,010)	2,910	10,210	4,060	11,110	3,680
Core PPoP	88,495	90,846	82,954	87,329	88,502	95,147	97,002	96,015	101,651
Provisions	14,377	3,058	10,349	8,146	10,283	11,853	20,393	22,041	21,556
PAT	58,531	(57,284)	57,971	58,636	60,711	71,297	60,346	69,176	63,030
YoY (%)									
NII	32.4	33.1	27.4	18.9	9.4	11.5	12.5	9.5	8.6
Other income	21.5	15.9	69.6	27.7	19.1	38.2	13.7	33.5	7.5
Net revenue	29.1	27.6	37.7	21.3	12.2	19.3	12.8	16.5	8.2
Opex	8.1	13.6	26.7	32.4	30.6	24.8	10.9	8.9	1.1
PPoP	50.6	41.8	49.7	11.9	(1.5)	14.9	14.7	24.1	15.2
Investment gains	16.6	(64.1)	(177.8)	17.4	(32.0)	1,130.1	(21.8)	NM	NM
Core PPoP	52.7	45.7	26.6	11.9	0.0	4.7	16.9	9.9	14.9
Provisions	7.7	(69.0)	188.0	48.2	(28.5)	287.6	97.1	170.6	109.6
PAT	61.9	(239.1)	40.5	10.0	3.7	(224.5)	4.1	18.0	3.8
QoQ (%)									
NII	10.6	2.5	1.8	3.0	1.8	4.4	2.7	0.3	0.9
Other income	18.4	4.9	3.9	(1.0)	10.3	21.8	(14.5)	16.2	(11.2)
Net revenue	12.7	3.2	2.5	1.8	4.3	9.8	(3.1)	5.1	(3.1)
Opex	4.0	9.1	10.2	5.9	2.6	4.2	(2.1)	4.0	(4.7)
PPoP	20.2	(1.2)	(3.9)	(2.1)	5.9	15.3	(4.1)	6.0	(1.7)
Investment gains	NM	NM	NM	NM	NM	NM	NM	NM	NM
Core PPoP	13.4	2.7	(8.7)	5.3	1.3	7.5	1.9	(1.0)	5.9
Provisions	161.5	(78.7)	238.5	(21.3)	26.2	15.3	72.0	8.1	(2.2)
PAT	9.8	NM	NM	1.1	3.5	17.4	(15.4)	14.6	(8.9)

Source: Company, Elara Securities Research

Exhibit 2: Loans grew 8.8% YoY /1.5% QoQ

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Loan book	7,621	8,453	8,585	8,973	9,323	9,651	9,801	10,000	10,146
-YoY (%)	14.6	19.4	22.4	22.8	22.3	14.2	14.2	11.4	8.8
-QoQ (%)	4.3	10.9	1.6	4.5	3.9	3.5	1.6	2.0	1.5

Source: Company, Elara Securities Estimate/Research

Exhibit 3: Retail constitutes ~60% of book, corporate book witnessed muted growth

Loan segments	Loan book (INR mn)			Loan growth (%)		Composition (%)		
	Q3FY24	Q2FY25	Q3FY25	(YoY)	(QoQ)	Q2FY24	Q1FY25	Q2FY25
Retail Advances	5,469,990	5,987,150	6,058,250	10.8	1.2	58.7	59.9	59.7
Home Loans	1,628,130	1,677,060	1,675,700	2.9	(0.1)	17.5	16.8	16.5
Auto Loans	578,740	587,080	583,590	0.8	(0.6)	6.2	5.9	5.8
LAP	586,040	671,690	696,510	18.9	3.7	6.3	6.7	6.9
Construction Equipment	118,250	116,360	115,290	(2.5)	(0.9)	1.3	1.2	1.1
Personal Loans	650,830	754,440	759,690	16.7	0.7	7.0	7.5	7.5
Credit Cards	399,630	437,350	432,250	8.2	(1.2)	4.3	4.4	4.3
Retail Agri	797,650	896,910	936,880	17.5	4.5	8.6	9.0	9.2
Small Business banking	535,350	618,910	641,920	19.9	3.7	5.7	6.2	6.3
Others	175,370	227,350	216,420	23.4	(4.8)	1.9	2.3	2.1
SME	1,000,430	1,104,740	1,141,010	14.1	3.3	10.7	11.0	11.2
Large and Mid Corporate	2,852,430	2,907,910	2,946,380	3.3	1.3	30.6	29.1	29.0
Large Corporate	1,877,890	1,791,840	1,786,840	(4.8)	(0.3)	20.1	17.9	17.6
Mid-Corporate	985,100	1,116,060	1,159,540	17.7	3.9	10.6	11.2	11.4
Total Advances	9,322,850	9,999,800	10,145,640	8.8	1.5	100.0	100.0	100.0

Source: Company, Elara Securities Research

Exhibit 4: Retail constituted ~60% of book as at Q3FY25

Loan mix (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Retail	56.3	57.7	58.0	57.9	58.6	60.4	59.7	59.9	59.7
Housing & LAP	25.2	24.6	24.1	23.7	23.7	23.8	23.5	23.5	23.4
Auto	6.1	6.2	6.2	6.2	6.2	6.1	6.0	5.9	5.8
Personal	6.7	6.5	6.6	6.8	7.0	7.4	7.5	7.5	7.5
Others	18.4	20.4	21.0	21.2	21.7	23.1	22.7	23.0	23.1
SME	10.8	10.6	10.1	10.7	10.7	10.9	10.6	11.0	11.2
Corporate	32.9	31.7	31.9	31.4	30.7	28.7	29.7	29.1	29.0

Source: Company, Elara Securities Research

Exhibit 5: Sequential deposit growth driven by term deposits

(INR bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Deposits	8,482	9,469	9,417	9,556	10,049	10,686	10,625	10,867	10,959
-YoY (%)	9.9	15.2	17.2	17.9	18.5	12.9	12.8	13.7	9.1
-QoQ (%)	4.6	11.6	(0.6)	1.5	5.2	6.3	(0.6)	2.3	0.8
CA	1,263	1,491	1,333	1,316	1,331	1,573	1,496	1,425	1,436
-YoY (%)	8.2	17.1	23.3	7.5	5.4	5.5	12.2	8.3	7.9
-QoQ (%)	3.2	18.0	(10.6)	(1.3)	1.2	18.2	(4.9)	(4.7)	0.8
SA	2,514	2,974	2,955	2,923	2,904	3,021	2,949	2,985	2,892
-YoY (%)	10.2	22.7	21.6	15.9	15.5	1.6	(0.2)	2.1	(0.4)
-QoQ (%)	(0.3)	18.3	(0.6)	(1.1)	(0.7)	4.1	(2.4)	1.2	(3.1)
CASA (%)	44.53	47.16	45.54	44.36	42.14	42.99	41.83	40.58	39.50

Source: Company, Elara Securities Research

Exhibit 6: Overall NIMs declined by 6bps sequentially

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Yield on advances - Calculated	9.16	9.11	9.45	9.68	9.78	9.85	9.76	9.80	9.79
Cost of Funds - Calculated	4.26	4.52	4.84	5.08	5.27	5.24	5.28	5.36	5.42
NIM - Global	4.26	4.22	4.10	4.11	4.01	4.06	4.05	3.99	3.93
NIM - Domestic	4.41	4.35	4.20	4.20	4.08	4.16	4.14	4.06	4.06

Source: Company, Elara Securities Research

Exhibit 7: Floating rate book accounted for 71% of the book, as at Q3FY25

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Fixed	32.0	32.0	32.0	31.0	31.0	30.0	30.0	30.0	29.0
Repo linked	39.0	41.0	42.0	46.0	48.0	50.0	50.0	53.0	54.0
MCLR linked	22.0	20.0	19.0	17.0	15.0	13.0	13.0	11.0	11.0
Foreign currency- floating	3.0	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0
Base Rate linked	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other EBLR linked	2.0	4.0	4.0	3.0	3.0	4.0	4.0	4.0	4.0
Total floating loans	68.0	68.0	68.0	69.0	69.0	70.0	70.0	70.0	71.0

Source: Company, Elara Securities Research

Exhibit 8: Slippage ratio increased to 2.2% versus 1.8% in Q2FY25

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Opening GNPA	198,929	199,599	186,029	181,569	167,549	158,909	151,249	162,089	154,639
Additions	38,070	37,710	39,900	32,540	37,150	34,710	47,930	44,430	54,320
Recoveries and upgradation	20,880	26,990	23,050	19,850	25,980	21,550	15,030	20,690	19,150
Write-offs	16,520	24,290	21,310	26,710	19,810	20,820	22,060	31,190	31,330
Closing GNPA	199,599	186,029	181,569	167,549	158,909	151,249	162,089	154,639	158,479
GNPL (%)	2.38	2.02	1.96	1.73	1.58	1.43	1.54	1.44	1.46
NNPL (%)	0.47	0.39	0.41	0.36	0.36	0.31	0.34	0.34	0.35
PCR (%)	80.81	80.87	79.60	79.46	77.81	78.53	78.08	76.64	76.18
Slippages as a percentage of lagged loans (%) - Calculated	2.07	1.95	2.09	1.64	1.77	1.51	2.07	1.83	2.02

Source: Company, Elara Securities Research

Exhibit 9: Net slippages increased due to higher retail slippages

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net retail slippages	13,550	11,790	20,280	9,530	15,420	10,610	24,560	21,640	29,280
Net Corporate slippages	2,810	(6,150)	(4,070)	(3,730)	(10,490)	(6,010)	2,310	(8,050)	(7,610)
Net CBG slippages*	830	1,120	640	250	(110)	(620)	130	310	500
Total net slippages	17,190	6,760	16,850	6,050	4,820	3,980	27,000	13,900	22,170
As percentage of lagged loans (%)									
Net retail slippages	1.5	1.2	2.0	0.9	1.4	0.9	2.0	1.7	2.1
Net Corporate	0.5	(1.1)	(0.8)	(0.7)	(1.7)	(0.9)	0.3	(1.1)	(1.1)
Net CBG slippages*	0.5	0.6	0.4	0.1	(0.1)	(0.3)	0.1	0.1	0.2
Total net slippages	1.0	0.4	1.0	0.3	0.3	0.2	1.3	0.6	1.0

Source: Company, Elara Securities Research

Exhibit 10: Segment-wise non-performing loans – Some stress in retail

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
GNPA									
Retail	1.59	1.44	1.42	1.32	1.28	1.18	1.38	1.45	1.63
Commercial Banking (%)	1.33	1.12	1.14	1.08	1.05	0.93	0.88	0.81	0.81
Wholesale Banking (%)	3.73	3.23	2.96	2.53	2.20	1.98	1.98	1.62	1.38
Overall	2.50	2.38	2.02	1.96	1.73	1.58	1.43	1.54	1.44
NNPA									
Retail	0.53	0.49	0.51	0.47	0.47	0.42	0.48	0.49	0.52
Commercial Banking (%)	0.38	0.33	0.34	0.31	0.29	0.26	0.24	0.24	0.21
Wholesale Banking (%)	0.40	0.31	0.26	0.21	0.19	0.14	0.14	0.12	0.10
Overall	0.51	0.47	0.39	0.41	0.36	0.36	0.31	0.34	0.34

Source: Company, Elara Securities Research

Exhibit 11: Gross stress (% of loans) declined from 2.3% to 2.1% in Q3FY25

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Gross NPL	198,929	199,599	186,029	181,569	167,549	158,909	151,249	162,089	154,639
Restructuring book	24,820	20,470	19,070	17,560	16,410	15,280	14,090	13,200	12,670
BB and below									
Fund based exposures	44,510	34,780	36,450	34,340	28,840	29,780	31,690	34,340	29,210
Non-fund-based exposures	18,940	13,710	13,850	13,260	14,820	14,530	14,130	13,020	13,520
Investments	7,310	6,730	7,870	6,560	6,680	7,000	11,100	10,960	10,960
Less overlap	7,050	7,050	7,050	7,050	7,050	7,050	7,060	7,060	7,060
Total stress loans	287,459	268,239	256,219	246,239	227,249	218,449	215,199	226,549	213,939
Gross stress (% of loans)	3.8	3.2	3.0	2.7	2.4	2.3	2.2	2.3	2.1
Non-NPL stress (%)	1.2	0.8	0.8	0.7	0.6	0.6	0.7	0.6	0.6
Gross NPL / gross stress loans (%)	69.2	74.4	72.6	73.7	73.7	72.7	70.3	71.5	72.3

Source: Company, Elara Securities Research

Exhibit 12: Total provisions stood at ~1.1% of gross customer assets

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Covid provisions	50,120	50,120	50,120	50,120	50,120	50,120	50,120	50,120	50,120
Restructuring + BB and below provisions	6,930	5,930	5,540	5,100	5,520	5,040	4,910	4,660	4,150
Mandatory general provisions	59,280	63,230	62,820	62,360	64,170	66,180	62,290	63,370	64,480
Total provisions	116,330	119,280	118,480	117,580	119,810	121,340	117,320	118,150	118,750
As percentage of gross customer assets (%)	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.1
Total contingency provisions ex mandatory provisions	57,050	56,050	55,660	55,220	55,640	55,160	55,030	54,780	54,270
Specific provisions on NPLs	161,309	150,453	144,547	133,155	123,661	118,797	126,584	118,538	120,755
Total provisions including specific but excluding mandatory general	218,359	206,503	200,207	188,375	179,301	173,957	181,614	173,318	175,025
PCR on total stress loans (%)	76.0	77.0	78.1	76.5	78.9	79.6	84.4	76.5	81.8
PCR on GNPLs (%)	79.9	80.8	80.9	79.6	79.5	77.8	78.5	78.1	76.6

Source: Company, Elara Securities Research

Exhibit 13: Comfortably capitalized with CRAR at 17% and tier-1 at 14.6%

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Tier - I	14.24	14.57	14.90	14.56	14.18	14.20	14.06	14.12	14.61
Tier - II	3.36	3.07	2.84	3.28	2.45	2.43	2.59	2.49	2.40
CAR	17.60	17.64	17.74	17.84	16.63	16.63	16.65	16.61	17.01

Source: Company, Elara Securities Research

Q3FY25 earnings call highlights

Business momentum

- ▶ Advances grew by 9% YoY/1% QoQ. Retail loans grew 11% YoY/1% QoQ and SBB loans 20% YoY/4% QoQ. On QoQ basis (SBB+SME +MC), mix stood at 22.7% of loans.
- ▶ Personal loans and credit cards have seen a rise in delinquencies and AXSB has calibrated its approach towards unsecured loans. Collections infrastructure has been strengthened in Q3.
- ▶ On QAB basis, deposits grew at 13% YoY/3% QoQ, with term deposits growth at 19% YoY/5% QoQ – AXSB has seen improvement in granularization, positively impacting the quality of LCR deposit – a 320bps reduction in outflow rates in the past three years.
- ▶ CASA ratio on QAB basis stood at 39%.
- ▶ On QAB basis, deposits growth came in at ~13% (faster than industry). However, AXSB aims to have a similar growth run-rate on month-end balance basis.
- ▶ AXSB launched salaried customer accounts, which are seeing healthy traction from existing and NTB customers.
- ▶ Deposit growth may remain a key concern – the cost of funds, liquidity constraints and macro-economic conditions will be key monitorables.
- ▶ CD ratio is not a major concern for AXSB. It is comfortable operating at current levels.
- ▶ Low-yielding RIDF bonds declined by INR 83.91bn on YoY basis, forming 1.1% of total assets versus 1.8% in Dec '23.
- ▶ AXSB's ROA and ROE stood at 1.71% and 15.8% (subsidiaries have an impact of 7bps and 41bps respectively).
- ▶ Overall NIMs for Q3 declined by 6bps QoQ to 3.93% (3bps attributable to increase in outflow rates on deposits and latter pertains to interest reversal on slippages). Domestic NIMs were flat sequentially at 4.06%. AXSB kept its NIM guidance unchanged at 3.8%.

Asset quality

- ▶ GNPA and NNPA in Q3 stood at 1.46% (versus 1.44% in Q2FY25) and 0.35% flat QoQ.
- ▶ Gross slippages were at INR 54bn in Q3 versus INR 44.43bn in Q2 (retail slippages at INR 49.23bn (largely contributed by the unsecured retail portfolio). Corporate business was INR 2.9bn and INR 2.15bn pertains to CBG business.
- ▶ Slippages in Q3 also came from the MFI segment. However, Retail MFI amounts to INR 60 Bn which 1% of total retail advances and 0.6% of total advances.
- ▶ Net slippages stood at INR 22.17bn (Retail at INR 29.3bn, CBG at INR 0.5bn and Corporate at negative INR 7.6bn)
- ▶ Overall asset quality in unsecured loans may take some quarters to crystalize.
- ▶ Recoveries from written-off accounts stood at INR 13bn (up 32% QoQ).
- ▶ PCR remained largely steady at ~76% versus 77% in Q2.
- ▶ Cumulative non-NPA provisions stood at INR 118.75bn – ECL at INR 50.12bn (cushion of 38bps on reported CAR). Restructuring provisions were INR 4.15bn. Standard asset provisions were INR 18.98bn and other provisions INR 45.4bn.
- ▶ Net credit cost for Q3 stood at 80 BPS, up by 26 BPS QoQ, partly attributable to seasonality.
- ▶ Provisioning policy on unsecured loans: AXSB provides 100% on unsecured loans, on the day loans turns into NPA.
- ▶ Provision to average assets stood at 58bps, declining 3bps QoQ.
- ▶ Recovery in written-off accounts: Wholesale recoveries have been increased QoQ in Q3FY25.

Other Highlights

- ▶ CET-1 stood at 14.61% (accretion of 49bps in Q3FY25 and 87bps in 9MFY25). AXSB has an ECL provision of INR 50.12bn (38bps not included in CRAR).
- ▶ Operating expenses grew at 1% YoY (down 5% QoQ). Increase in technology, volume linked and BAU expenses (including staff increments and statutory costs) were offset by savings in integration expenses.
- ▶ Cost to assets stood at 2.48% versus 2.52% in the previous quarter.
- ▶ Technological spends stood at 10.2% of total opex.
- ▶ AXSB has added 2,729 employees on YoY basis. The headcount declined sequentially.
- ▶ Cards business: BAU opex has declined as digital integration was nil in Q3 (completed in Q2FY25).
- ▶ Fees income grew 6% QoQ and retail and TPP income grew 5% QoQ. Transaction banking fees grew a healthy 15% YoY/9% QoQ.
- ▶ Fees to assets stood at 1.42%. AXSB has seen a structural shift in credit growth, which has led to a slowdown in fees income. In the non-asset businesses wherein AXSB used to garner fees, fee has been moderated.
- ▶ Trading profit for Q3 stood at INR 3.68bn on account of reversal on MTM gains in Q2. MTM is likely to remain volatile in Q4FY25.
- ▶ AXSB has added 130 branches in Q3 and 330 branches in 9MFY25.
- ▶ AXSB has no plans to raise equity capital – The bank will venture into tier 2 and AT1 instruments per requirement.
- ▶ Consolidated ROA/ROE on an annualized basis stood at 1.71%/15.8% in Q3FY25.

Exhibit 14: Q3FY25 results highlights

(INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Interest income	309,532	279,611	10.7	304,199	1.8
Interest expenses	173,481	154,290	12.4	169,367	2.4
Net interest income	136,051	125,322	8.6	134,832	0.9
Other income	59,722	55,548	7.5	67,219	(11.2)
Operating expenses	90,442	89,457	1.1	94,926	(4.7)
Staff expense	29,846	27,113	10.1	31,172	(4.3)
Other opex	60,596	62,344	(2.8)	63,754	(5.0)
Pre prov op profit (PPP)	105,331	91,412	15.2	107,125	(1.7)
Provisions	21,556	10,283	109.6	22,041	(2.2)
exceptional items	-	124,898		-	
Profit before tax	83,775	(43,769)	NA	85,084	(1.5)
Provision for tax	20,745	20,418	1.6	15,908	30.4
Less : Exceptional item	-	-			
Profit after tax	63,030	(64,187)	NA	69,176	(8.9)
EPS (INR)	20	19.7		22.4	
Ratios (%)					
NII / GII	69.5	69.3		66.7	
Cost - income	46.2	49.5		47.0	
Provisions / PPOP	20.5	11.2		20.6	
Tax rate	24.8	(46.6)		18.7	
Balance sheet					
Advances (INR bn)	10,146	9,323	8.8	10,000	1.5
Deposits (INR bn)	10,959	10,049	9.1	10,867	0.8
CD ratio (%)	92.6	92.8		92.0	
Asset quality					
Gross NPA	158,503	158,930	(0.3)	154,662	2.5
Gross NPAs (%)	0.4	0.4		0.3	
Net NPA	37,748	35,269	7.0	36,125	4.5
Net NPA (%)	1.5	1.6		1.4	
Provision coverage (%)	76.2	77.8		76.6	

Source: Company, Elara Securities Research

Exhibit 15: SOTP-based TP

	INR
BVPS (adjusted for investment in subsidiaries) - Sep'25	655
Target multiple (x)	2.0
Value per share	1,283
Value of subsidiaries	103
Target price	1,386
Current market price	1,038
Upside (%)	33

Note: pricing as on 16 January 2025; Source: Elara Securities Estimate

Exhibit 16: Change in estimates

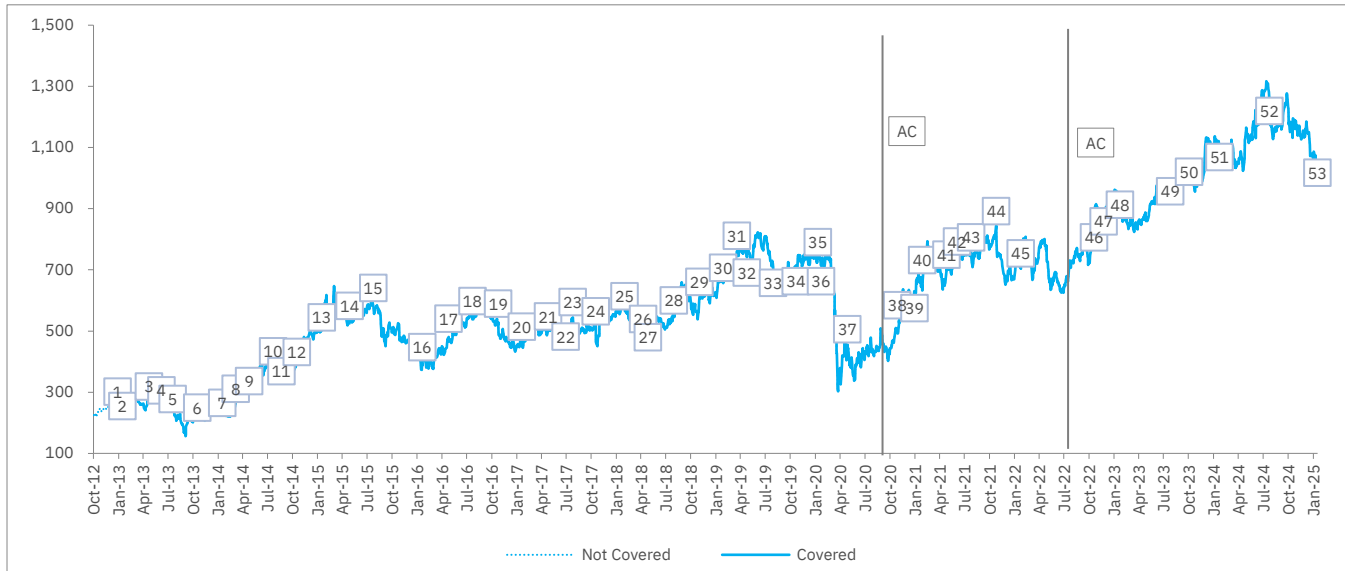
(INR mn)	Revised			Earlier			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net interest income	546,138	598,897	667,968	547,632	608,458	688,693	(0.3)	(1.6)	(3.0)
Operating profit	423,822	473,939	534,112	426,039	486,698	557,836	(0.5)	(2.6)	(4.3)
Net profit	259,973	280,833	320,649	263,491	293,031	336,051	(1.3)	(4.2)	(4.6)
TP (INR)			1,386			1,456			(5)

Source: Elara Securities Estimate

Abbreviation

ABV	Adjusted book value per share
BVPS	Book value per share
CA	Current accounts
CASA Ratio	Current and savings account ratio
CBG	Commercial banking group
EBLR	External benchmark lending rate
ECLG	Emergency Credit Line Guarantee Scheme
EPS	Earnings per share
GCA	Gross customer assets
GNPL	Gross non-performing loans
LAP	Loans against property
MC	Mid-corporate
MCLR	Marginal cost of funds based lending rate
MTM	Mark to market
NII	Net interest income
NIM	Net interest margin
NNPL	Net non-performing loans
PCR	Provision coverage ratio
PPoP	Pre-provision operating profit
RoA	Return on assets
RoE	Return on equity
SBB	Small business banking
SME	Small and medium-sized enterprises
SR	Security receipts
TD	Term deposits
WBG	Wholesale banking group

Coverage History



	Date	Rating	Target Price	Closing Price
45	24-Jan-2022	Buy	INR 985	INR 705
46	20-Oct-2022	Buy	INR 1000	INR 826
47	24-Nov-2022	Buy	INR 1,040	INR 879
48	23-Jan-2023	Buy	INR 1,097	INR 933
49	26-Jul-2023	Buy	INR 1,180	INR 977
50	3-Oct-2023	Buy	INR 1,246	INR 1,041
51	23-Jan-2024	Buy	INR 1,311	INR 1,089
52	24-Jul-2024	Buy	INR 1,456	INR 1,239
53	16-Jan-2025	Buy	INR 1,386	INR 1,038

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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