

AXIS Bank | BUY

Resilience provides comfort on growth

Axis Bank has navigated tight liquidity conditions well to maintain NII growth (CAGR of 22.7% over FY22-FY24), while it built strong provision buffers, with 78% PCR on NPAs and 1.2% provision on non-NPA book. We expect opex growth moderation (to 15.2% CAGR over FY24-FY26e from 22.1% over FY22-FY24) with Citi operations integrated, and credit costs to grow slightly to 0.6% over FY25/FY26e. While the bank benefited from rate hikes in FY23, it enhanced its share of deposits repricing within 6months/1 year over FY24 (by 375/576bps) to navigate NIM pressures from potential rate cuts. It has maintained a buffer provision of INR 50bn for transition to ECL norms (out of a total of INR 117.3bn in non-NPA provisions) and has maintained strong liquidity profile, with 120%+ LCR. This should enable it to report 15%/16% growth in deposits/advances over FY24-FY26e, with NIMs trending above 3.8%, even in the face of potential rate cuts. While the bank reported higher credit costs in 1Q25, it has only 13% of its book exposed to unsecured segments, 89% of its corporate book is rated A- or above and it has already moderated incremental issuance of credit cards. With this, we derive comfort that 1Q credit costs (of 1.1%) do not reflect full year outlook. We build moderate credit costs of 0.6% over FY25-FY26e, given its conservative positioning w.r.t. unsecured exposure and corporate portfolio. After front-ended tech and Citi integration expenses in FY24, Axis has seen its opex growth moderate to 10.9% in 1Q, this trend should enhance its profitability - as we expect opex growth to trend at 16%/15% over FY25-FY26e. We retain our positive stance on Axis Bank, and expect it to deliver RoA/RoE of 1.74%/16.5% by FY26e. Maintain BUY with a revised TP of INR 1,450 (valuing core bank at 2.0x FY26E BVPS).

- **Expect FY26e NIMs hold at 3.8%+ even with potential rate cuts:** Having benefited from rate hikes in FY23, Axis has now enhanced its share of deposits repricing within 6months/1 year over FY24 (by 375/576bps) to navigate NIM pressures from potential rate cuts. With 30% loan book on fixed rate and 28%/42% deposits maturing within 6 months/1 year, we estimate NIMs of 3.85% in FY26e, implying NII growth of c.15% over FY25/FY26e. Successful integration of Citi clients in Burgundy (INR 5.99trln in customer AUM as of Jun'24, +40% YoY) and thriving insurance business (conclusion of Max Life deal and new partnership with ABSLI) provide room for sustained fee income growth. Meanwhile, opex growth moderated to 11% YoY in 1Q, and we expect it to normalise to 16%/15% over FY25/FY26e, with expenses on Citi integration already booked.
- **Adequate buffers to align with evolving regulatory norms provide comfort on growth:** Axis Bank is comfortably placed on evolving regulatory norms - transition to ECL framework and LCR requirements, limiting risks to book growth and NIMs.
 - It maintained INR 50.1bn in floating provisions, which, at 0.5% of loan book, should prevent over-and-above requirements, if and when ECL norms are notified. Total non-NPA provisions are INR 117.3bn, a comfortable 1.2% of loan book.
 - With 120%+ LCR coverage in Jun'24, our estimates (of 14% additional requirements from higher run-off factors) suggest that no incremental HQLAs need to be booked by



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,450
Upside/(Downside)	16.9%
Previous Price Target	1,375
Change	5.5%

Key Data – AXSB IN

Current Market Price	INR1,240
Market cap (bn)	INR3,836.1/US\$45.8
Free Float	89%
Shares in issue (mn)	3,063.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR12,088.2/US\$144.3
52-week range	1,340/951
Sensex/Nifty	82,948/25,378
INR/US\$	83.8

Price Performance

%	1M	6M	12M
Absolute	6.3	16.9	21.0
Relative*	3.1	1.5	-1.4

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	1,30,255	92,222	2,48,614	2,72,549	3,18,906
Net Profit (YoY) (%)	97.7%	-29.2%	169.6%	9.6%	17.0%
Assets (YoY) (%)	19.1%	12.1%	12.1%	14.9%	15.8%
ROA (%)	1.2%	0.7%	1.8%	1.7%	1.7%
ROE (%)	12.0%	7.7%	18.1%	16.7%	16.5%
EPS	42.4	30.0	80.5	88.3	103.3
EPS (YoY) (%)	97.3%	-29.4%	168.7%	9.6%	17.0%
PE (x)	29.0	41.1	15.3	14.0	11.9
BV	375	406	487	574	676
BV (YoY) (%)	13.0%	8.4%	19.8%	17.9%	17.8%
P/BV (x)	3.29	3.03	2.53	2.15	1.82

Source: Company data, JM Financial. Note: Valuations as of 18/Sep/2024

JM Financial Institutional Securities Limited

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the bank, even if proposed norms are implemented in current form.

- **Limited unsecured exposure and a conservative corporate book provide comfort on credit costs:** Axis reported one-off higher credit costs of 1.1% in 1Q, however, mgmt. attributed ~55% of these slippages to timing differences - resulting in lower recoveries and upgrades in corporate book, which should unwind as the year progresses. We remain confident that 1Q credit costs do not reflect full year nos. as,
 - Exposure to unsecured segments (PL, CC and MFI) is contained to 13% of loan book. Of this, the largest segment was PLs (7.5% of net advances), which exclusively comprises of lower-risk salaried customers.
 - 89% of corporate exposure was A- and above, based on lower of external rating & internal assessment.
 - Credit card issuances curtailed by 15% YoY to 0.96mn in 1Q25.
- **Valuation and view:** While we have maintained a circumspect view on the Indian banking sector, Axis Bank looks well-positioned to navigate this phase, and is amongst our top picks in the space. We believe a) sustainability of NIMs, b) moderation in opex and c) control on credit costs, should help AXSB sustain its outperformance over peer banks. We expect RoA/RoE of 1.74%/16.5% by FY26E. Maintain BUY with a revised TP of INR 1,450 (valuing core bank at 2.0x FY26E BVPS).

Exhibit 1. Axis Bank has shortened deposits profile for faster repricing

Deposits - Maturity Profile (%) - cumulative	FY21	FY22	FY23	FY24
1 - 14 days	8%	8%	8%	8%
15 - 30 days	11%	11%	10%	11%
31 days - 3 months	18%	19%	18%	20%
3 - 6 months	23%	27%	24%	28%
6 months - 1 year	34%	37%	36%	42%
1 - 3 years	36%	40%	40%	46%
3 - 5 years	36%	40%	40%	47%
over 5 years	100%	100%	100%	100%

Source: Company, JM Financial

Exhibit 2. Axis bank: Loan mix

Loan Book Composition (INR bn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
Large & Mid Corporates	2,730	2,771	2,910	6.6%	5.0%
Retail	4,262	4,914	4,966	16.5%	1.1%
SME	877	1,047	1,040	18.7%	-0.7%
Agriculture	716	919	885	23.6%	-3.7%
Total	8,585	9,651	9,801	14.2%	1.6%
Large & Mid Corporates	31.8%	28.7%	29.7%	-2.1%	1.0%
Retail	49.6%	50.9%	50.7%	1.0%	-0.2%
SME	10.2%	10.9%	10.6%	0.4%	-0.2%
Agriculture	8.3%	9.5%	9.0%	0.7%	-0.5%
Total	100%	100%	100%		

Source: Company, JM Financial

Exhibit 3. Axis Bank: Retail loan mix

Retail loans composition (INR bn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
Housing Loans	1,566	1,659	1,654	5.6%	-0.3%
LAP	506	637	651	28.5%	2.2%
Personal loans & Credit cards	916	1,129	1,161	26.8%	2.9%
Auto Loans	535	587	588	9.9%	0.1%
Retail agri loans	716	919	885	23.6%	-3.7%
Others	738	902	912	23.7%	1.2%
Total Retail Loans	4,978	5,833	5,851	17.5%	0.3%
Housing Loans	31%	28%	28%	-3.2%	-0.2%
LAP	10%	11%	11%	0.9%	0.2%
Personal loans & Credit cards	18%	19%	20%	1.4%	0.5%
Auto Loans	11%	10%	10%	-0.7%	0.0%
Retail agri loans	14%	16%	15%	0.7%	-0.6%
Others	15%	15%	16%	0.8%	0.1%
Total Retail Loans	100%	100%	100%		

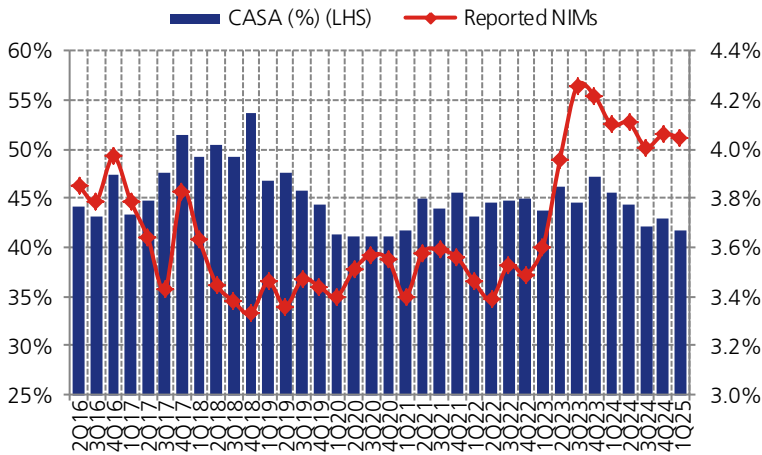
Source: Company, JM Financial

Exhibit 4. Axis Bank: Deposit mix

Deposits Composition (INR bn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
Current	1,333	1,573	1,496	12.2%	-4.9%
Saving	2,955	3,021	2,949	-0.2%	-2.4%
Time	5,129	6,092	6,180	20.5%	1.4%
Total Deposits	9,417	10,686	10,625	12.8%	-0.6%
Current	14.2%	14.7%	14.1%	-0.1%	-0.6%
Saving	31.4%	28.3%	27.8%	-3.6%	-0.5%
CASA	45.5%	43.0%	41.8%	-3.7%	-1.2%
Time	54.5%	57.0%	58.2%	3.7%	1.2%
Total	100%	100%	100%		

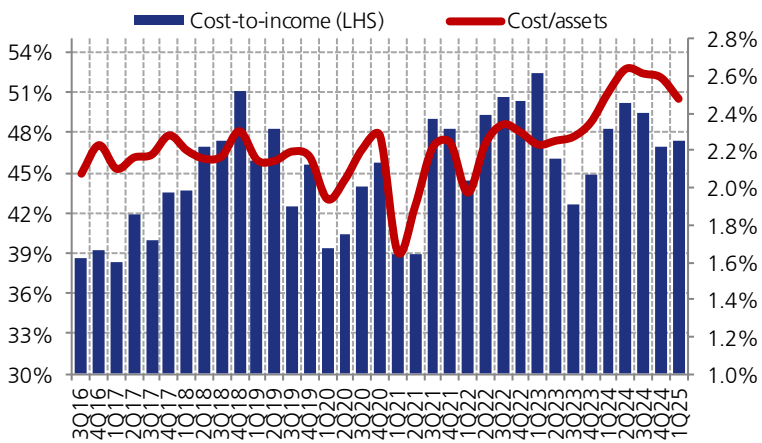
Source: Company, JM Financial

Exhibit 5. Axis Bank: Quarterly trends in CASA and margins (%)



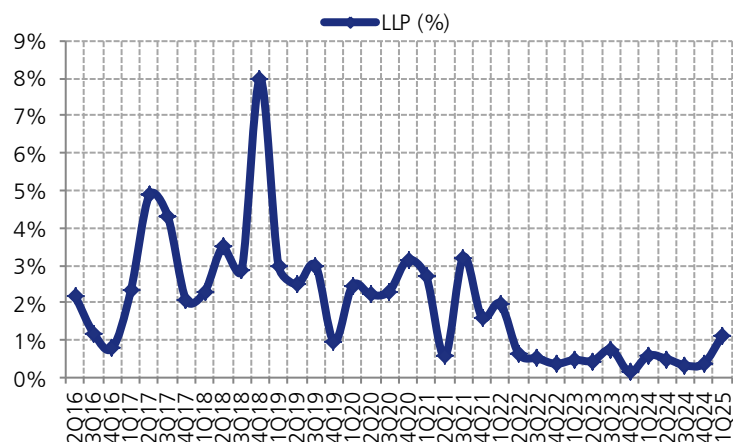
Source: Company, JM Financial

Exhibit 6. Axis Bank: Cost ratios (%)



Source: Company, JM Financial

Exhibit 7. Axis Bank: Trend in credit costs (%)



Source: Company, JM Financial

Valuation and 12M TP

We value Axis Bank on a two-stage Gordon growth model. Our assumptions are as follows:

Exhibit 8. Axis Bank: Valuation summary

Initial no of years	10
Growth rate for the first 10 years (%)	13.1%
Pay-out ratio for the first 10 years (%)	20.0%
Perpetual growth rate (%)	5.9%
Perpetual payout ratio (%)	64.1%
K1	2.0
K2	10.2
Fully adjusted FY25E BVPS (Rs)	676
Target Price / Fully Adj BV (x)	2.0
Fair value (rounded off)	1,351

Source: Company, JM Financial

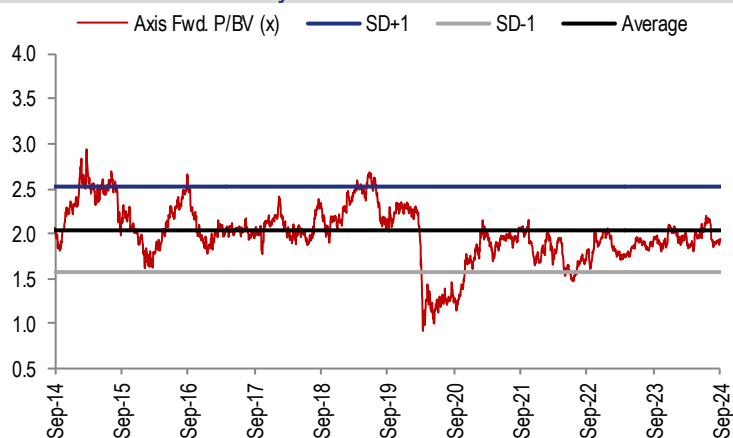
The SOTP valuation is summarised below:

Exhibit 9. Axis Bank : SOTP valuation

SOTP	Holding	Methodology	Value per share
Axis Bank	100%	2.0x FY26E adj. BVPS	1,351
Axis Finance	100%	2.0x FY26E BVPS	37
Axis AMC	75%	30x FY24 PAT	30
Axis Securities	100%	15x FY24 PAT	20
Axis Capital	100%	15x FY24 PAT	7
Max Financial Services	20%	M.Cap-15% HoldCo disc.	22
Cost of investments			(17)
Fair value			1,450

Source: Company, JM Financial

Exhibit 10. Axis Bank : One year forward P/B chart



Source: Bloomberg, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR mn)					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Interest Income	3,31,322	4,29,457	4,98,945	5,72,165	6,61,249
Profit on Investments	13,777	-2,750	17,960	13,650	13,650
Exchange Income	19,124	18,021	19,355	41,045	48,305
Fee & Other Income	1,19,305	1,46,163	1,87,105	2,09,012	2,42,756
Non-Interest Income	1,52,205	1,61,434	2,24,420	2,63,707	3,04,711
Total Income	4,83,528	5,90,892	7,23,364	8,35,871	9,65,959
Operating Expenses	2,36,108	2,71,662	3,52,133	4,08,794	4,67,159
Pre-provisioning Profits	2,47,420	3,19,230	3,71,232	4,27,077	4,98,801
Loan-Loss Provisions	53,701	37,900	38,892	62,649	72,728
Provisions on Investments	0	0	0	0	0
Others Provisions	19,894	-9,053	1,739	2,000	2,000
Total Provisions	73,595	28,848	40,631	64,649	74,728
PBT	1,73,826	2,90,382	3,30,601	3,62,428	4,24,073
Tax	43,571	73,262	81,986	89,879	1,05,167
PAT (Pre-Extraordinaries)	1,30,255	2,17,120	2,48,614	2,72,549	3,18,906
Extra ordinaries (Net of Tax)	0	-1,24,898	0	0	0
Reported Profits	1,30,255	92,222	2,48,614	2,72,549	3,18,906
Dividend paid	3,070	3,071	3,080	3,858	3,858
Retained Profits	1,27,185	89,151	2,45,535	2,68,691	3,15,048

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Deposits	17.8%	15.2%	12.9%	14.5%	15.5%
Advances	15.2%	19.4%	14.2%	16.0%	16.0%
Total Assets	19.1%	12.1%	12.1%	14.9%	15.8%
NII	13.3%	29.6%	16.2%	14.7%	15.6%
Non-interest Income	24.1%	6.1%	39.0%	17.5%	15.5%
Operating Expenses	28.5%	15.1%	29.6%	16.1%	14.3%
Operating Profits	7.0%	29.0%	16.3%	15.0%	16.8%
Core Operating profit	13.5%	33.7%	13.2%	15.6%	17.3%
Provisions	-48.6%	-60.8%	40.8%	59.1%	15.6%
Reported PAT	97.7%	-29.2%	169.6%	9.6%	17.0%
Yields / Margins (%)					
Interest Spread	3.04%	3.35%	3.29%	3.37%	3.39%
NIM	3.32%	3.68%	3.76%	3.83%	3.85%
Profitability (%)					
Non-IR to Income	31.5%	27.3%	31.0%	31.5%	31.5%
Cost to Income	48.8%	46.0%	48.7%	48.9%	48.4%
ROA	1.20%	0.74%	1.78%	1.72%	1.74%
ROE	12.0%	7.7%	18.1%	16.7%	16.5%
Assets Quality (%)					
Slippages	3.31%	2.08%	1.71%	1.60%	1.40%
Gross NPA	3.01%	2.16%	1.55%	1.43%	1.33%
Net NPAs	0.78%	0.42%	0.34%	0.43%	0.40%
Provision Coverage	74.7%	80.9%	78.5%	70.0%	70.0%
Specific LLP	0.78%	0.43%	0.41%	0.53%	0.53%
Net NPAs / Networth	4.8%	2.8%	2.2%	2.7%	2.5%
Capital Adequacy (%)					
Tier I	16.34%	14.57%	14.20%	14.61%	14.90%
CAR	18.54%	17.64%	16.63%	17.06%	17.31%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Equity Capital	6,139	6,154	6,173	6,173	6,173
Reserves & Surplus	11,44,115	12,43,779	14,96,177	17,64,867	20,79,915
Deposits	82,19,716	94,69,452	1,06,86,414	1,22,35,944	1,41,32,515
Borrowings	18,51,339	18,63,000	19,68,118	22,67,965	26,06,790
Other Liabilities	5,31,493	5,86,636	6,06,939	6,97,980	8,23,616
Total Liabilities	1,17,54,288	1,31,73,255	1,47,72,086	1,69,72,929	1,96,49,010
Investments	27,55,972	28,88,148	33,15,272	35,36,109	44,36,364
Net Advances	70,79,466	84,53,028	96,50,684	1,11,94,793	1,29,85,960
Cash & Equivalents	11,09,871	10,64,108	11,44,544	10,28,268	11,87,931
Fixed Assets	45,724	47,339	56,846	1,18,811	1,37,543
Other Assets	7,63,255	7,20,632	6,04,740	10,94,948	9,01,212
Total Assets	1,17,54,287	1,31,73,255	1,47,72,086	1,69,72,929	1,96,49,010

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	3.06%	3.45%	3.57%	3.60%	3.61%
Other Income / Assets	1.41%	1.30%	1.61%	1.66%	1.66%
Total Income / Assets	4.47%	4.74%	5.18%	5.27%	5.28%
Cost / Assets	2.18%	2.18%	2.52%	2.58%	2.55%
PBP / Assets	2.29%	2.56%	2.66%	2.69%	2.72%
Provisions / Assets	0.68%	0.23%	0.29%	0.41%	0.41%
PBT / Assets	1.61%	2.33%	2.37%	2.28%	2.32%
Tax rate	25.1%	25.2%	24.8%	24.8%	24.8%
ROA	1.20%	0.74%	1.78%	1.72%	1.74%
RoRWAs	1.92%	1.17%	2.63%	2.44%	2.48%
Leverage	10.2	10.5	9.8	9.6	9.4
ROE	12.0%	7.7%	18.1%	16.7%	16.5%

Source: Company, JM Financial

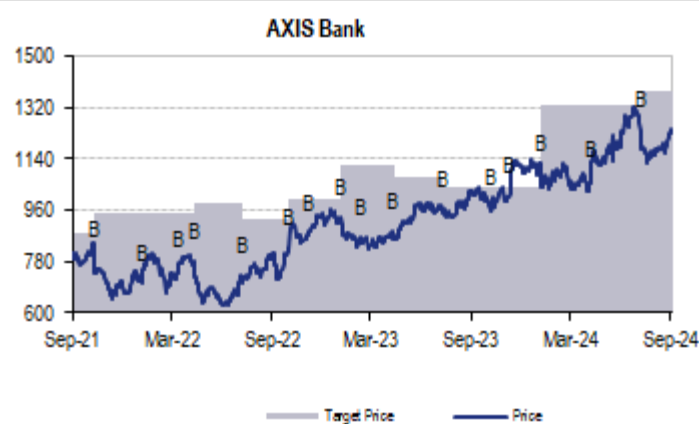
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	3,069.7	3,076.9	3,086.6	3,086.6	3,086.6
EPS (INR)	42.4	30.0	80.5	88.3	103.3
EPS (YoY) (%)	97.3%	-29.4%	168.7%	9.6%	17.0%
PER (x)	29.0	41.1	15.3	14.0	11.9
BV (INR)	375	406	487	574	676
BV (YoY) (%)	13.0%	8.4%	19.8%	17.9%	17.8%
ABV (INR)	375	406	487	574	676
ABV (YoY) (%)	13.0%	8.4%	19.8%	17.9%	17.8%
P/BV (x)	3.29	3.03	2.53	2.15	1.82
P/ABV (x)	3.29	3.03	2.53	2.15	1.82
DPS (INR)	1.0	1.0	1.0	1.3	1.3
Div. yield (%)	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
11-Jan-21	Buy	750	
27-Jan-21	Buy	770	2.7
27-Apr-21	Buy	870	13.0
26-Jul-21	Buy	880	1.1
27-Oct-21	Buy	950	8.0
24-Jan-22	Buy	950	0.0
30-Mar-22	Buy	950	0.0
28-Apr-22	Buy	985	3.7
25-Jul-22	Buy	930	-5.6
20-Oct-22	Buy	1,000	7.5
24-Nov-22	Buy	1,000	0.0
23-Jan-23	Buy	1,120	12.0
1-Mar-23	Buy	1,120	0.0
27-Apr-23	Buy	1,075	-4.0
27-Jul-23	Buy	1,040	-3.3
26-Oct-23	Buy	1,040	0.0
27-Nov-23	Buy	1,040	0.0
23-Jan-24	Buy	1,330	27.9
24-Apr-24	Buy	1,330	0.0
24-Jul-24	Buy	1,375	3.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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