Axis Bank (AXIBAN)

ICICI Direct

CMP: ₹ 1100 | Target: ₹ 1300 (18%) | Target Period: 12 months | BUY

July 18, 2025

Technical provisioning weighs on performance…

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ~₹ 16 lakh crore. Strategy to focus on retail & MSME segment with emphasis on risk adjusted return has aided improvement in RoA & RoE.

- Retail and SME comprise ~70% of total loans

Q1FY26 performance: Axis Bank reported weak performance in Q1FY26, impacted by a sharp rise in provisions and subdued business growth. Advances grew 8.1% YoY (1.8% QoQ) to ₹10,59,724 crore, led by healthy traction in corporate advances, which rose 8.6% YoY (2% QoQ). Deposit growth remained modest at 9.3% YoY (-1% QoQ) to ₹11,61,615 crore, driven by term deposits. Margins contracted by 17 bps QoQ to 3.8%, owing to agri slippages and asset repricing. Treasury gains & continued cost discipline aided operational performance, however, rise in credit cost led to 18.4% YoY decline in PAT at ₹ 5,806 crore. Slippages spiked significantly, driven by a change in recognition policy and seasonal agri stress. PCR declined by 300 bps due to technical provisioning, although 80% of the technical slippages are secured.

Investment Rationale

- **Change in NPA recognition drag asset quality adverse:** Sharp rise in slippages to ₹8,200 crore in Q1FY26 came as a negative surprise, driven primarily by voluntary tightening of asset classification norms and seasonal agri stress. The internal policy shift, aimed at enforcing stricter recognition criteria—particularly for CC/OD and OTS accounts—resulted in ₹2,709 crore of technical slippages, predominantly within the retail book. Consequently, GNPA/ NNPA ratios rose by 29 bps /12 bps QoQ, to 1.57%/ 0.45%, respectively. Adjusted for technical impact, slippages were broadly steady at ~2.1% vs 1.97% in Q1FY26. Management does not anticipate further policy changes unless mandated by regulation. With credit cost related to back book been accounted for, recovery trend remains watchful with anticipation of some acceleration.
- **Margin pressure persists amid rate cut:** Factoring 25 bps of rate cut, margins came under pressure, contracting 17 bps QoQ to 3.8%, impacted by repricing (13 bps), agri slippages (3 bps), and technical reversals (1 bp). Further, NIM compression may play out over coming quarters as residual 75 bps cut flows through. Management, however, maintains its through-cycle NIM outlook at 3.8%, expecting partial offsets from deposit repricing.
- **Cautious retail stance in Q1, loan growth expected to remain steady:** Retail lending momentum moderated cautious stance in unsecured segments. Conversely, corporate loan growth remained healthy, supported by refinancing opportunities and sector-specific demand. While management aims to outpace industry credit growth by ~300 bps over the medium term, growth challenges persist in near term given margin protection gaining prominence. Overall, we expect credit growth to compound at ~13.7% CAGR over FY26–27E.

Rating and Target Price

- Building steady business growth, margin compression and higher provision related to change in recognition policy, our estimates are revised downwards. Current valuation seems to capture near term concerns, while narrowing of discount with larger peers warrants upside. Thus, we revise our target price to ₹1300, valuing the stock at ~1.6x FY27E BV and ₹110 for subsidiaries. Maintain **Buy** rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	42946	49894	54348	18%	56687	63168	8%
PPP	19791	37123	42105	19%	43271	48985	8%
PAT	9580	24861	26373	27%	25241	30484	8%
ABV (₹)	394.7	476.2	550.7		610.8	700.5	
P/E	35.7	13.8	13.0		13.6	11.3	
P/ABV	2.8	2.3	2.0		1.8	1.6	
RoA	0.8	1.8	1.7		1.5	1.6	
RoE	8.0	18.1	16.0		13.4	14.3	

Source: Company, ICICI Direct Research

AXIS BANK

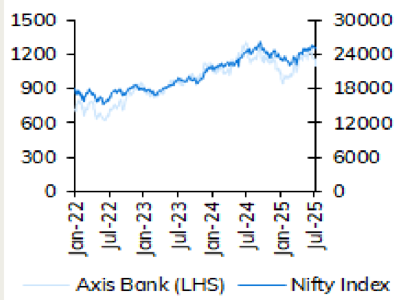
Particulars

Particulars	Amount
Market Capitalisation	₹3,40,870
52 week H/L	1309/ 934
Net worth	₹1,87,236
Face value	2.0
DII Holding (%)	40.9
FII Holding (%)	43.9

Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25
Promoter	8.3	8.3	8.1
FII	51.8	47.5	43.9
DII	33.2	37.5	40.9
Public	6.7	6.7	7.1

Price Chart



Key risks

(i) Slower than anticipated revival in margins anticipated in 2HFY26

(ii) Elevated delinquencies in unsecured retail book

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Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Business performance and growth outlook

- Advances grew 8.1% YoY (1.8% QoQ) to ₹10,59,724 crore, led by healthy traction in corporate advances, which rose 8.6% YoY (2% QoQ).
- Deposit growth remained modest at 9.3% YoY (-1% QoQ) to ₹11,61,615 crore, driven by term deposits, which increased 12.2% YoY (-0.2% QoQ).
- Management aims to grow 300 bps faster than the industry over the medium term (3–5 years), with FY26 as the base year.
- Retail growth temporarily slower due to elevated risk in unsecured loans. While, corporate loan growth was opportunity-led, driven by refinancing and sectoral demand.
- Credit card delinquencies are improving; personal loans showing signs of stabilisation. Although, final view expected by end of Q2FY26.

Technical Provisioning

- Recognition Policy Change:
    - Voluntarily revised its asset classification norms—not triggered by regulator or audit but through its annual internal benchmarking exercise.
    - The change tightened recognition and upgrade criteria, especially for cash credit/overdraft (CC/OD) and one-time settlement (OTS) accounts, impacting asset quality metrics
- Technical Slippages:
    - Reported gross slippages: ₹8,200 crore
    - ₹2,709 crore (33%) of these are attributable to the technical impact
    - These slippages are not due to borrower defaults in the traditional sense, but due to procedural tightening—e.g., accounts no longer upgraded merely upon clearing dues, but only after full OTS repayment.
    - Technical slippages by segment: ₹2,165 crore (retail), ₹310 crore (CBG), ₹234 crore (wholesale).
    - Provision Coverage Ratio (PCR) on these accounts was ~45%, vs 71% for overall book. ~80% of accounts impacted by the technical change have >100% security coverage.
- Financial impact:
    - PAT was adversely impacted by ₹614 crore due to technical provisioning. ROA impact is -15 bps (on consolidated basis)
    - The technical NPA recognition also led to 1 bp margin impact due to interest reversals on affected accounts.
    - No further policy changes expected unless mandated by regulations
    - Recognition and provision on back book are undertaken with flow business to be accounted in quarters ahead. Thus, substantial impact of tightened recognition is done.

Margins

- NIMs contracted 17 bps QoQ to 3.80%:
    - 1 bp adverse impact of technical changes
    - 3 bps due to agri slippages
    - 13 bps due to repricing
- Through-cycle NIM guidance maintained at 3.8%. Management suggests NIM trend should be looked as an 'inverted C'
- 25 bps rate cut has been fully absorbed this current quarter. Remaining 75 bps cut impact is yet to be absorbed in subsequent quarters. Hence, pressure on NIMs is apparently visible but shall be offset marginally by deposit repricing.

Key table

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	13,559.8	13,448.2	0.8	13,810.5	-1.8	Tepid NII traction amid margin pressure
NIM (%)	3.8	4.1	-25 bps	4.0	-17 bps	13 bps decline in margin attributable to repricing of loans
Other Income	7,258.1	5,783.5	25.5	6,779.5	7.1	Elevated treasury gains aids other income; fee income steady at 10% YoY
Net Total Income	20,817.8	19,231.7	8.2	20,590.1	1.1	
Staff cost	3,261.8	3,129.5	4.2	2,961.5	10.1	
Other Operating Expenses	6,040.9	5,996.0	0.7	6,876.2	-12.1	Tight control on opex, post Citi integration cost getting over
PPP	11,515.2	10,106.2	13.9	10,752.4	7.1	
Provision	3,947.7	2,039.3	93.6	1,359.4	190.4	Change in stress recognition led to elevated credit cost at ~1.4%
PBT	7,567.5	8,067.0	-6.2	9,393.0	-19.4	
Tax Outgo	1,761.4	2,032.3	-13.3	2,275.5	-22.6	
PAT	5,806.1	6,034.6	-3.8	7,117.5	-18.4	Elevated provision coupled with anticipated margin pressure impacted earning momentum
Key Metrics						
GNPA	17,764.7	16,211.3	9.6	14,490.0	22.6	Gross slippages at ~3.1%, excluding one-off technical recognition, slippages stood broadly steady at 2.1%
NNPA	5,066.0	3,553.0	42.6	3,685.0	37.5	
Credit	1,059,724	980,092	8.1	1,040,811	1.8	SME (16% YoY) and corporate remained primary contributor
Deposit	1,161,615	1,062,484	9.3	1,172,952	-1.0	Term deposit accretion at 12% YoY

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	109,369	122,677	127,717	139,310
Interest Expended	59,474	68,329	71,030	76,142
Net Interest Income	49,894	54,348	56,687	63,168
Growth (%)	16.2	8.9	4.3	11.4
Non Interest Income	22,442	25,257	27,660	30,297
Net Income	72,336	79,605	84,347	93,464
Staff cost	10,933	12,193	13,297	14,885
Other Operating Expense	24,280	25,307	27,779	29,594
Operating Profit	37,123	42,105	43,271	48,985
Provisions	4,063	7,758	10,060	8,875
PBT	33,060	34,347	33,212	40,110
Taxes	8,199	7,973	7,971	9,626
Exceptional	-	-	-	-
Net Profit	24,861	26,373	25,241	30,484
Growth (%)	159.5	6.1	-4.3	20.8
EPS (₹)	80.5	85.2	81.5	98.4

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares	308.7	309.7	309.7	309.7
EPS (₹)	80.5	85.2	81.5	98.4
BV (₹)	486.7	576.7	643.3	738.2
ABV (₹)	476.2	550.7	610.8	700.5
P/E	13.8	13.0	13.6	11.3
P/BV	2.3	1.9	1.7	1.5
P/ABV	2.3	2.0	1.8	1.6
Yields & Margins (%)				
Net Interest Margins	4.1	3.9	3.7	3.7
Yield on assets	8.9	8.8	8.3	8.1
Avg. cost on funds	5.0	5.2	5.0	4.9
Yield on average advances	9.6	9.7	9.2	8.9
Avg. Cost of Deposits	4.5	4.8	4.6	4.4
Quality and Efficiency				
Cost to income ratio	48.7	47.1	48.7	47.6
Credit/Deposit ratio	90.3	88.7	87.0	88.7
GNPA	1.4	1.2	1.4	1.4
NNPA	0.3	0.4	0.5	0.5
RoE	18.1	16.0	13.4	14.3
RoA	1.8	1.7	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	617	619	619	619
Reserves and Surplus	149618	177998	198599	227996
Networth	150235	178617	199219	228616
Deposits	1068641	1172952	1324451	1475906
Borrowings	196812	184147	193579	203560
Other Liabilities & Provisions	61520	74214	79930	84988
Total	1477209	1609930	1797179	1993069
Application of Funds				
Fixed Assets	5685	6292	7102	8153
Investments	331527	396142	441533	492234
Advances	965068	1040811	1151700	1309126
Other Assets	60474	66953	88850	66379
Cash with RBI & call money	114454	99732	107994	117177
Total	1477209	1609930	1797179	1993069

Source: Company, ICICI Direct Research

Exhibit 5: Growth (%)

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	12.1	9.0	11.6	10.9
Advances	14.2	7.8	10.7	13.7
Deposit	12.9	9.8	12.9	11.4
Total Income	22.4	10.0	6.0	10.8
Net interest income	16.2	8.9	4.3	11.4
Operating expenses	-10.4	6.5	9.5	8.3
Operating profit	87.6	13.4	2.8	13.2
Net profit	159.5	6.1	-4.3	20.8
Net worth	20.2	18.9	11.5	14.8
EPS	158.7	5.7	(4.3)	20.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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