

CMP: ₹ 1190

Target: ₹ 1420 (19%)

Target Period: 12 months

BUY

October 16, 2025

Healthy core performance amid one-off regulatory impact...

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 ~69% of total loans

Q2FY26 performance: Axis Bank reported improvement in growth and asset quality trend in Q2FY26, however, one-time regulatory provision impacted earnings momentum. Advances rose 12% YoY (5% QoQ) to ₹11.1 lakh crore, led by strong SME and mid-corporate growth, while deposits increased 11% YoY (4% QoQ) to ₹12.1 lakh crore. NIM contracted 7 bps QoQ to 3.73%, though the decline was less than expected due to proactive repricing of term deposits. Asset quality improved, with GNPA/NNPA at 1.46%/0.44%, while net slippages declined 54% QoQ to ₹2,808 crore and credit cost stood at 73 bps. PAT stood at ₹5,090 crore, down 26% YoY, primarily due to this one-time provisioning impact.

Investment Rationale

- One-off regulatory provisioning impacted earnings:** Q2FY26 earnings were impacted by a one-time standard asset provision of ₹1,231 crore (~5% of pool) following an RBI advisory on discontinued crop-loan variants, leading to ~23 bps RoA drag and 12% QoQ decline in PAT. The bank also incurred ₹948 crore, PSLC cost, half expensed in Q2 and the rest to be amortized over the next two quarters. Excluding these one-offs, core profitability remained stable, aided by steady NII and cost control, with management confirming no further regulatory provisions and full reversal by FY28E or upon closure of the underlying accounts, whichever is earlier.
- Margin compression contained; bottom-out expected in Q3FY26:** NIM contracted 7 bps QoQ to 3.73%, though the decline was lower than anticipated, aided by 24 bps reduction in cost of funds through proactive term-deposit repricing. Management reiterated its through-cycle NIM guidance of 3.8%, expecting margins to bottom out in Q3FY26 (expecting no further rate cut), supported by CRR release and deposit cost normalization. Credit cost declined sharply by 65 bps QoQ to 73 bps, indicating that the Q1 technical provisioning impact has fully normalized.
- Growth momentum steady; asset quality metrics improved:** Traction was seen across SME (19% YoY) and corporate loans (20.3% YoY), while retail portfolios witnessed muted momentum. Management indicated that retail asset quality showed improvement and stabilization, with credit-card delinquencies improving, while personal loan and MFI segments showing steady normalization. GNPA/NNPA improved to 1.46%/0.44%, while PCR remained steady at 70%. Management reiterated its medium-term ambition to grow 300 bps faster than the industry, supported by granular deposit accretion. Overall, we expect credit growth to compound at ~13.7% CAGR over FY26–27E.

Rating and Target Price

- Driven by steady business traction, contained margin pressure, and normalization of one-off provisions, we anticipate improved performance in H2FY26. Current valuations already reflect near-term headwinds, while improving retail momentum and stable asset quality support medium-term re-rating potential. We revise our target price to ₹1,420, valuing the stock at ~1.8x FY27E BV, and ₹120 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%	56542	64285	9%
PPP	19791	37123	42105	19%	44828	52305	11%
PAT	9580	24861	26373	27%	24931	31613	9%
ABV (₹)	394.7	476.2	550.7		612.5	705.5	
P/E	38.2	14.8	14.0		14.8	11.7	
P/ABV	3.0	2.5	2.2		1.9	1.7	
RoA	0.8	1.8	1.7		1.5	1.7	
RoE	8.0	18.1	16.0		13.2	14.8	

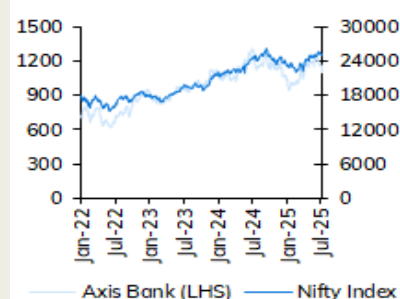
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹3,70,414 crore
52 week H/L	1247/934
Net worth	₹1,98,259 crore
Face value	2.0
DII Holding (%)	42.9
FII Holding (%)	41.9

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	8.3	8.1	8.1	8.1
FII	47.5	43.9	43.8	41.9
DII	37.5	40.9	41.2	42.9
Public	6.7	7.1	6.9	7.1

Price Chart**Key risks**

- Further rate cut in H2FY26 will impact margins
- One-offs impacting performance

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Concall highlights and outlook

Business performance and growth outlook

- Advances rose 12% YoY (5% QoQ) to ₹11,12,710 crore, driven by strong traction in SME and mid-corporate segments (up 8% QoQ / 20% YoY).
- Deposits grew 11% YoY (4% QoQ) to ₹12,08,000 crore, with term deposits up 12% YoY and CASA balances up 7% YoY. The bank gained market share on both deposits and loans during the quarter.
- Management reaffirmed its medium-term guidance to grow 300 bps faster than the industry, with FY26 as the base year.
- Management highlighted that retail disbursements are gaining momentum, with secured and unsecured segments both showing recovery.
- Credit card spends surged 18–20% MoM in September amid festive demand and GST cuts; daily card spends were 2.5–3x higher during the last week of September.
- Retail asset quality showed improvement and stabilization—cards delinquency improving, PL and MFI segments stabilizing.

One-time Standard Asset Provision

- Following an RBI advisory post FY25 inspection, Axis Bank made a one-time standard asset provision of ₹1,231 crore (~5% cover on the affected pool) for two discontinued crop loan variants.
- The loans remain standard and fully secured, with no change in customer terms. The issue was related to PSL classification, not asset quality or income recognition.
- The provision will be written back by Mar-2028 or earlier upon closure of the underlying accounts.
- Bank purchased PSLCs worth ₹948 crore during Q2FY26 to maintain PSL compliance following the crop-loan reclassification. Of the total cost, 50% (₹474 crore) was expensed in Q2FY26, while the remaining 50% will be amortized equally over the next two quarters (Q3 and Q4FY26), ensuring even cost recognition through FY26.
- The RoA/RoE impact for Q2FY26 was -23 bps / -196 bps, respectively.

Margins

- NIM contracted 7 bps QoQ to 3.73%, yield on earning assets declined 30 bps QoQ, largely offset by a 24 bps reduction in cost of funds, driven by proactive repricing of term deposits.
- Management reiterated its through-cycle NIM guidance of ~3.8%, with Q3FY26 likely to mark the bottom (assuming no further rate cuts).
- CRR cut benefit to be visible from H2FY26, partially offsetting seasonal agri-related stress.

Other updates

- Cost-to-assets improved 14 bps YoY to 2.38%; CET-1 ratio at 14.43%.
- GNPA / NNPA improved to 1.46% / 0.44%, with PCR at 70%
- Technical slippages dropped sharply to ₹280 crore (-85% QoQ), with provisioning on this pool at ₹256 crore (-69% QoQ).
- On the Expected Credit Loss (ECL) transition, Axis Bank expects negligible impact on net worth at transition, as current provisioning is already conservative (100% provided on unsecured NPAs at 90 DPD).

Key Financial Table

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	13,744.6	13,483.2	1.9	13,559.8	1.4	Tepid NII traction amid margin pressure, lower cost of funds partly offset yield compression
NIM (%)	3.7	4.0	-26 bps	3.8	-7 bps	Decline less than expected due to proactive term-deposit repricing
Other Income	6,624.6	6,721.9	-1.4	7,258.1	-8.7	Treasury gains and granular retail fees supported growth
Net Total Income	20,369.1	20,205.1	0.8	20,817.8	-2.2	
Staff cost	3,117.6	3,117.2	0.0	3,261.8	-4.4	Declined sequentially on gratuity expense reversal
Other Operating Expenses	6,839.0	6,375.4	7.3	6,040.9	13.2	Purchase PSL certificates ₹474 crore this quarter
PPP	10,412.5	10,712.5	-2.8	11,515.2	-9.6	
Provision	3,547.0	2,204.1	60.9	3,947.7	-10.1	Includes ₹1,231 crore one-time standard-asset provision for discontinued crop-loan variants
PBT	6,865.5	8,508.4	-19.3	7,567.5	-9.3	
Tax Outgo	1,775.9	1,590.8	11.6	1,761.4	0.8	
PAT	5,089.6	6,917.6	-26.4	5,806.1	-12.3	PAT impacted by one-off provisioning
Key Metrics						
GNPA	17,308.0	15,466.2	11.9	17,764.7	-2.6	Decline aided by lower technical slippages and higher recoveries
NNPA	5,114.0	3,612.5	41.6	5,066.0	0.9	PCR maintained at ~70%
Credit	1,116,703	999,979	11.7	1,059,724	5.4	Driven by healthy growth in SME & mid-corporate segment
Deposit	1,203,487	1,086,744	10.7	1,161,615	3.6	Term deposits up 12% YoY; CASA growth steady

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	109,369	122,677	127,572	139,609
Interest Expended	59,474	68,329	71,030	75,324
Net Interest Income	49,894	54,348	56,542	64,285
Growth (%)	16.2	8.9	4.0	13.7
Non Interest Income	22,442	25,257	28,071	30,979
Net Income	72,336	79,605	84,613	95,264
Staff cost	10,933	12,193	13,297	14,885
Other Operating Expense	24,280	25,307	26,487	28,073
Operating Profit	37,123	42,105	44,828	52,305
Provisions	4,063	7,758	12,025	10,710
PBT	33,060	34,347	32,803	41,596
Taxes	8,199	7,973	7,873	9,983
Exceptional	-	-	-	-
Net Profit	24,861	26,373	24,931	31,613
Growth (%)	159.5	6.1	-5.5	26.8
EPS (₹)	80.5	85.2	80.5	102.1

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	80.5	102.1
BV (₹)	486.7	576.7	642.3	740.8
ABV (₹)	476.2	550.7	612.5	705.5
P/E	14.8	14.0	14.8	11.7
P/BV	2.4	2.1	1.9	1.6
P/ABV	2.5	2.2	1.9	1.7
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	4.8
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	47.0	45.1
Credit/Deposit ratio	90.3	88.7	87.8	89.5
GNPA	1.4	1.2	1.4	1.3
NNPA	0.3	0.4	0.4	0.4
RoE	18.1	16.0	13.2	14.8
RoA	1.8	1.7	1.5	1.7

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	198289	228815
Networth	150235	178617	198909	229434
Deposits	1068641	1172952	1324451	1475906
Borrowings	196812	184147	193579	203560
Other Liabilities & Provisions	61520	74214	79930	84988
Total	1477209	1609930	1796869	1993888
Application of Funds				
Fixed Assets	5685	6292	7102	8153
Investments	331527	396142	441533	492234
Advances	965068	1040811	1162207	1321103
Other Assets	60474	66953	78034	55221
Cash with RBI & call money	114454	99732	107994	117177
Total	1477209	1609930	1796869	1993888

Source: Company, ICICI Direct Research

Exhibit 5: Growth

(%)

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	12.1	9.0	11.6	11.0
Advances	14.2	7.8	11.7	13.7
Deposit	12.9	9.8	12.9	11.4
Total Income	22.4	10.0	6.3	12.6
Net interest income	16.2	8.9	4.0	13.7
Operating expenses	-10.4	6.5	6.1	8.0
Operating profit	87.6	13.4	6.5	16.7
Net profit	159.5	6.1	-5.5	26.8
Net worth	20.2	18.9	11.4	15.3
EPS	158.7	5.7	(5.5)	26.8

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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