

CMP: INR 1,160

Rating: Accumulate

Target Price: INR 1,331

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Bn)	6.19
Mkt Cap (INR Bn)	3,597
52w H/L (INR)	1,318 / 934
Avg Yearly Vol (in 000')	8,565

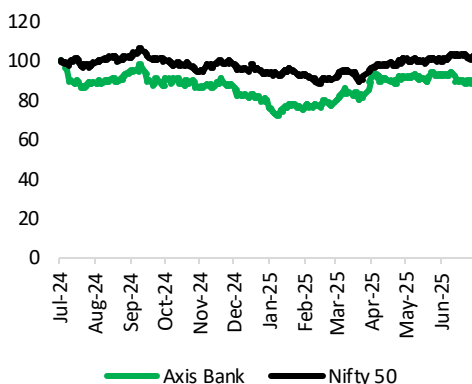
Shareholding Pattern %

(As on June, 2025)

Promoters	8.18
Public & Others	91.82

Stock Performance (%)	1m	6m	12m
Axis Bank	-3.84	12.56	-10.77
Nifty	1.44	8.15	1.66

Axis Bank Vs Nifty



Axis Bank reported a relatively average set of earnings for Q1FY26, slightly below our estimates. Gross NPA stood at 1.57%, up from 1.28% in the previous quarter. Net Interest Income for Q1FY26 stood at INR 135.6 bn against our estimates of INR 136.3 bn, down by 1.8% QoQ / up by 0.83% YoY. PPOP came at INR 115.2 bn against our estimates of INR 102.7 bn, up by 7.1% QoQ / up by 13.9% YoY. Provisions stood at INR 39.5 bn against our estimates of INR 19.0 bn, up by 190.4% QoQ / up by 93.6% YoY. PAT increased to INR 58.1 bn against our estimates of INR 61.9 bn, down by 18.4% QoQ / down by 3.8% YoY. GNPA came at 1.57% against our estimates of 1.28%, up by 29 bps QoQ/ 3 bps YoY while NNPA was at 0.45% against our estimates of 0.33%, up by 12 bps QoQ/ 11 bps YoY. Advances increased by 1.8% QoQ / up by 8.1% YoY to INR 10,597 bn. Deposits decreased by 0.97% QoQ / up 9.3% YoY to INR 11,616 bn.

Long-term growth outlook intact, but near-term returns may be moderated by technical credit cost spike: The bank continues to deliver on its long-term growth strategy with operating profit up 14% YoY and healthy balance sheet metrics. However, its Q1FY26 earnings were impacted by a one-time technical revision in asset classification norms, resulting in elevated gross slippages of INR 82,000 Mn, of which INR 27,090 Mn was technical. Though these accounts are ~80% secured and recoveries are expected in H2, the near-term impact on profitability is visible, PAT was adversely impacted by INR 6,140 Mn and RoE by 140 bps. While we remain confident about medium-term performance, we revise our estimates and await greater visibility on normalization of credit costs.

Margins to normalize gradually: The bank reported NIM of 3.8% in Q1FY26, in line with its guided through-cycle level. However, the margin declined 25 bps YoY and 17 bps QoQ, impacted by both technical interest reversals and repricing of floating rate loans following policy rate cuts. With another 75 bps of repo rate cut yet to flow through fully, management has guided that margins may come under further pressure in Q2. Although structural margin drivers like improving retail mix and reduction in RIDF assets remain intact, we believe the full benefit will play out over a 12–18 month period.

Retail quality improvements are underway; yet to reflect in topline: There are improvements in retail loan quality, especially in unsecured portfolios like credit cards and personal loans. Bounce rates, early delinquencies, and resolution metrics are showing better trends, and management believes new origination quality now resembles pre-COVID levels. However, due to high slippage recognition from the existing back-book, GNPA ratio adjusted for technical impact is at 1.41%, and net slippages (ex-recoveries and technical) stood at INR 32,880 Mn in Q1. Given the lag between origination quality and reported slippage ratios, asset quality metrics may take another 1–2 quarters to stabilize visibly.

Valuation & View: The bank reported a steady operating performance in Q1FY26, supported by healthy fee income, stable margins, and continued cost discipline. However, profitability was impacted by a one-time technical change in loan recognition norms, leading to elevated slippages and credit costs during the quarter. It expects these slippages are largely secured with recoveries likely to improve in H2FY26. While underlying retail loan quality is showing signs of improvement, we expect asset quality metrics to normalize gradually over the next couple of quarters. Margins remained resilient at 3.8%, but the full impact of policy rate cuts is expected to weigh on NIMs in Q2. The bank's capital position (CET-1 at 14.68%) and high provision buffers offer strong balance sheet comfort, while the digital and distribution capabilities continue to deepen customer engagement and drive growth. We remain positive on Axis Bank's medium to long-term growth, backed by a strong deposit franchise, digital execution, and prudent risk management. However, near-term pressures on credit costs and margins warrant caution. **Hence, We revise our estimates and rating from BUY to "Accumulate" with a target price of INR 1,331, valuing the stock at 1.5x FY28E ABV, awaiting clearer signs of growth momentum.**

Exhibit 1: Financial Performance

Axis Bank Ltd., (INR Bn)	FY24	FY25	FY26E	FY27E	FY28E
NII	499	543	585	690	814
PPOP	371	421	462	531	647
PAT	249	264	275	329	407
EPS (INR / Share)	80.5	85.1	88.9	106.2	131.5
ABVPS (INR / Share)	476.2	564.8	652.4	757.4	887.5
NIM (%)	4.1	4.0	4.1	5.1	6.1
ROA (%)	1.7%	1.6%	1.5%	1.7%	1.9%
ROE (%)	16.5%	14.8%	13.4%	13.8%	14.6%
P / ABV (x)	2.4	2.0	1.7	1.5	1.3

Source: Arihant Research, Company Filings

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Q1FY26 - Quarterly Performance (Standalone)

(in INR Bn)

Particulars (INR in bn)	Q1FY26	Q4FY25	Q1FY25	QoQ	YoY
Interest Earned	310.64	312.43	300.61	-0.6%	3.3%
- Interest/discount on advances/bills	244.08	245.80	237.19	-0.7%	2.9%
- Income on Investments	61.43	60.95	55.81	0.8%	10.1%
- Interest on bal with RBI	3.08	2.97	2.95	3.6%	4.2%
- Others	2.05	2.71	4.66	-24.4%	-56.0%
Interest Expenses	175.04	174.32	166.13	0.4%	5.4%
NII	135.60	138.11	134.48	-1.8%	0.8%
Other Income	72.58	67.80	57.83	7.1%	25.5%
Total Income	208.18	205.90	192.32	1.1%	8.2%
Operating Expenses	93.03	98.38	91.25	-5.4%	1.9%
- Employee cost	32.62	29.62	31.29	10.1%	4.2%
- Others	60.41	68.76	59.96	-12.1%	0.7%
Operating Profits	115.15	107.52	101.06	7.1%	13.9%
Provisions	39.48	13.59	20.39	190.4%	93.6%
Exceptional items	0.00	0.00	0.00	NA	NA
PBT	75.68	93.93	80.67	-19.4%	-6.2%
Tax	17.61	22.76	20.32	-22.6%	-13.3%
PAT	58.06	71.18	60.35	-18.4%	-3.8%
Advances	10,597	10,408	9,801	1.8%	8.1%
Deposits	11,616	11,730	10,625	-1.0%	9.3%
Total Assets	16,033	16,099	14,682	-0.4%	9.2%
CASA (%)	38%	43%	43%	-500bps	-500bps
CASA Deposits	4,243	4,043	4,146	4.9%	2.3%
Asset Quality					
GNPA	177.6	144.9	162.1	22.6%	9.6%
NNPA	50.7	36.9	35.5	37.5%	42.6%
GNPA (%)	1.57%	1.28%	1.54%	29bps	3bps
NNPA (%)	0.45%	0.33%	0.34%	12bps	11bps
RoA	1.47%	1.83%	1.65%	-36bps	-18bps
Cost to Income Ratio	44.69%	47.78%	47.45%	-309bps	-276bps

Source: Arianth Research, Company Filings

Q1FY26 Conference Call Highlights :**Guidance**

- The management emphasized that the credit cost spike in Q1 was technical and largely one-off, with 80% of impacted accounts fully secured.
- Asset quality is expected to improve gradually, with recoveries likely to rise in H2FY26.
- The bank aims to grow 300 bps faster than the industry average over FY26–FY28. No additional equity capital is required for growth or provisioning under current scenarios.
- The bank targets maintaining NIMs at 3.8% through the rate cycle, expecting an “inverted C-shaped trajectory” in margins.
- Retail unsecured credit trends like bounce rates and early delinquencies are stabilizing and improving, with further clarity expected by Q2 end.

Asset Quality and Credit Costs

- The bank implemented more stringent technical recognition norms, impacting reported asset quality across slippages, credit costs, and margins.
- Gross slippages were reported at INR 82,000 Mn, of which INR 27,090 Mn (1.03% of advances) was due to technical impact; adjusted gross slippages stood at INR 54,910 Mn.
- Net slippages were INR 60,530 Mn, of which INR 18,610 Mn was technical; adjusted net slippages were INR 41,920 Mn.
- Adjusted Gross NPA ratio stood at 1.41%, down 13 bps YoY, and adjusted Net NPA ratio was 0.36%, up 2 bps YoY.
- Reported credit cost was 1.38%, but adjusted for technical impact, stood at 1.09%, up 12 bps YoY.
- PCR declined 300 bps QoQ to 71%, driven by secured nature of slippages.
- Cumulative non-NPA provisions stood at INR 117,600 Mn, including INR 50,120 Mn earmarked for ECL transition.

Loan Book and Advances

- Overall advances grew 18% YoY and 5% QoQ in small business, SME, and mid-corporate segments, which now form 23% of total loans. Retail and commercial banking advances constituted 70% of total advances.
- Loan book remains 96.24% rupee-denominated, improving by 18 bps YoY. There was a decrease of INR 135,190 Mn in RIDF bonds, which now constitute just 0.84% of total assets.

Deposits and Liability Franchise

- Total deposits grew 9% YoY and 8% QoQ; term deposits were up 12%, current account deposits up 9%, and savings accounts up 3%.
- Retail and small business deposits under the LCR framework grew 12% YoY.
- The QAB CASA ratio remained flat at 38%, while MEB CASA ratio declined by 1% to 40%.
- The bank witnessed a 58% YoY increase in ATS and 25% YoY increase in savings deposits.
- Cost of funds declined 11 bps QoQ, aided by proactive changes in deposit rates.

Other Highlights

- The bank launched innovative solutions like a co-branded credit card with Flipkart and wearable payments with Mastercard. It rolled out a new corporate banking platform, with 80% client migration completed in Q1.
- AI assistant “Adi” usage increased 66%, enhancing front-line productivity. The MyMoney personal finance tool was upgraded with more customer-centric features.
- The retail bank NPS improved significantly to 159 from 100 3 years ago.
- Domestic subsidiaries reported PAT of INR 4,510 Mn, growing 4% YoY, with ROE at 47%. Axis Finance AUM grew 23% YoY, with PAT of INR 1,890 Mn and net NPA of just 0.35%.
- Axis AMC average AUM grew 15% YoY to INR 3.36 tn, and PAT was INR 1,300 Mn, up 12% YoY. Axis Securities reported revenue of INR 3600 Mn and PAT of INR 890 Mn.

Income Statement

(Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Earned	851.6	1,093.7	1,226.8	1,321.8	1,499.2	1,702.2
Interest Expended	421.2	594.7	683.3	736.8	809.0	888.2
Net Interest Income	430.5	498.9	543.5	585.0	690.2	814.0
Other Income	165.0	224.4	252.6	290.5	297.7	336.2
Fee Income	162.2	182.6	205.6	230.2	257.9	288.8
Treasury Income	-2.4	0.0	22.9	25.2	30.5	36.9
Operating Income	595.5	723.4	796.0	875.5	987.9	1,150.3
Operating Expenses	396.6	352.1	375.0	413.8	456.5	503.6
Employee Expenses	87.6	109.3	121.9	132.9	147.5	163.7
Profit before provision & tax	198.9	371.2	421.0	461.7	531.4	646.6
Provisions and Contingencies	28.8	40.6	77.6	94.3	92.9	103.4
Profit Before Tax	170.1	330.6	343.5	367.3	438.4	543.3
Provision for tax	73.3	82.0	79.7	91.8	109.6	135.8
Exp. Items	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax	96.8	248.6	263.7	275.5	328.8	407.4

Balance Sheet

(Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sources of funds						
Share Capital	6	6	6	6	6	6
Total Reserves	1,244	1,496	1,780	2,055	2,384	2,792
Shareholder's Fund	1,250	1,502	1,786	2,062	2,390	2,798
Deposits	9,469	10,686	11,730	12,874	14,131	15,510
Borrowings	1,863	1,968	1,841	2,026	2,228	2,451
Other Liabilities & provisions	587	607	731	838	962	1,104
Total Liabilities	13,173	14,772	16,099	17,800	19,712	21,863
Application of Funds						
Cash & Bank	1,064	1,145	997	951	692	378
Investments	2,888	3,315	3,961	4,437	5,184	6,058
Advances	8,453	9,651	10,408	11,657	13,056	14,623
Fixed Assets	47	57	63	66	69	73
Other Assets	721	605	670	690	710	732
Total Assets	13,173	14,772	16,099	17,800	19,712	21,863

Source: Arianth Research, Company Filings

Ratios %						
	FY23	FY24	FY25	FY26E	FY27E	FY28E
Asset Quality						
Gross NPA	2.0	1.4	1.3	1.3	1.3	1.3
Net NPA	0.4	0.3	0.3	0.4	0.3	0.3
PCR	80.9	78.5	74.6	75.0	75.0	75.0
Growth						
Advances Growth	19.4	14.2	7.8	12.0	12.0	12.0
Deposit growth	15.2	12.9	9.8	9.8	9.8	9.8
Net Profit Growth	-25.7	156.8	6.1	4.5	19.4	23.9
Liquidity						
C-D Ratio	89.3	90.3	88.7	90.5	92.4	94.3
CASA	39.5	37.8	35.4	45.0	45.0	45.0
Capital Adequacy	17.6	16.6	17.1	17.2	17.2	17.3
Efficiency						
Cost Income Ratio	66.60	48.68	47.11	47.27	46.21	43.79
Operating Costs to Assets	3.01	2.38	2.33	2.32	2.32	2.30

Spread Analysis (%)						
	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spread Analysis						
Yield on Advances	7.6	9.0	9.3	8.9	8.9	8.9
Yield on Investments	6.3	6.0	5.8	5.7	5.9	6.1
Cost of Funds	3.7	4.7	5.0	4.9	4.9	4.9
NIM	4.0	4.1	4.0	4.1	5.1	6.1
Interest Spread	3.9	4.3	4.3	4.0	4.0	4.0
Profitability						
ROE	7.7%	16.5%	14.8%	13.4%	13.8%	14.6%
ROA	0.73%	1.7%	1.6%	1.5%	1.7%	1.9%
Earnings Per Share (Rs)	31.5	80.5	85.1	88.9	106.2	131.5
Book Value (Rs)	406	487	577	666	772	903
Adjusted Book Value (Rs)	395	476	565	652	757	887
Valuation						
P / EPS (x)	30.7	14.1	13.3	12.7	10.7	8.6
P / ABV (x)	2.4	2.4	2.0	1.7	1.5	1.3

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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