

**Highest Quarterly slippages of INR 54 bn;  
Uncertainty over Macro Credit demand**

**CMP: INR 1,038**

**Rating: BUY**

**Target Price: INR 1,217**

**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)         | 3,219       |
| 52w H/L (INR)            | 1,340 / 996 |
| Avg Yearly Vol (in 000') | 9,680       |

**Shareholding Pattern %**

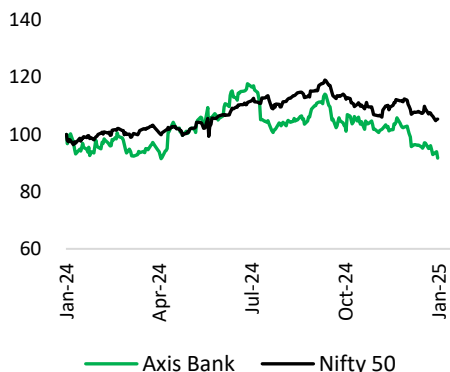
(As on Dec, 2024)

|                 |       |
|-----------------|-------|
| Promoters       | 8.23  |
| Public & Others | 91.77 |

**Stock Performance (%)**

|           | 1m   | 6m    | 12m  |
|-----------|------|-------|------|
| Axis Bank | -9.3 | -19.9 | -6.7 |
| Nifty     | -5.5 | -5.3  | 5.8  |

**Axis Bank Vs Nifty**



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Axis Bank fell short of our estimates posting Net Profits of INR 63.04 bn for Q3FY25, below our estimates of INR 70 bn. Advances growth for the quarter was 1.5% QoQ/8.8% YoY to INR 10,146 bn led by SME loans which grew by 3% QoQ/15% YoY. Within the Retail loans which grew by 11% YoY, Small business banking grew strongly by 20% YoY, Personal Loans and Credit Cards grew by 17% YoY and 8% YoY respectively as the bank checked the disbursements in the unsecured asset side. NII for the quarter increased by 0.9% QoQ / 8.6% YoY to INR 136.06 bn, as Cost of Deposits increased by 5 bps QoQ/ up 19 bps. Asset Quality of the bank remained stable during Q3FY25 as GNPA / NNPA increased by 2 bps / up 1 bps QoQ to 1.46% and NNPA at 0.35% sequentially.

**Loan growth driven by Small Businesses, SMEs and Commercial Banking:** Overall loan book of the bank increased by 1.5% QoQ / 8.8% YoY dragged down as Retail Loans too slowed down during the quarter to a mere 11% YoY growth. The Personal Loans and Credit Cards segment was slowed further by the bank being cautious with the stress in the unsecured loan assets. The PL portfolio slowed from 23% in Q2FY25 to 17% in Q3FY25 while the Credit Cards growth slowed even more to 8% YoY in Q3FY25 against 22% in Q2FY25. Only the Small Business Loans and Other Loans Portfolio grew faster at 20% YoY & 23% YoY respectively.

**Slippages rose substantially higher to new Quarterly highs historically:** Gross slippages came at INR 54.32 bn against INR 44.43 bn in Q2FY25 with Gross Slippage ratio increasing to 2.13% against 1.78% in Q2FY25 and Net Slippages at 1.40% against 0.96% in Q2FY25. Upgrades and recoveries were at INR 19.15 bn with the write-off of NPAs in Q3FY25 at INR 31.33 bn. The bank continues to hold provisions with cumulative provision (standard + additional non-NPA) of INR 119 bn (1.17% of loans in Q3FY25). The GNPA/NNPA were stable at 1.46%/0.35% respectively decreasing by 2 bps/1 bps sequentially.

**Granularization of Deposit books to benefit in the longer term:** The bank has been focusing on granularization of their deposits for quite some time, which was 28.9% in March 2022, and came down to 25.7% in Sept 2024, and will help drive their future business growth.

**Valuation & View:** Axis Bank posted worse than expected earnings in Q3FY25 in terms of NIMs at 3.93% (down 6 bps QoQ and 8 bps YoY) while growth halted slower than systemic Credit growth of the banking Sector due to increased delinquencies in the unsecured loan book. The management had cut the guidance for expected Credit Growth of the overall banking credit growth to 10-11% YoY, and stated of their stability at the current pace of Loan growth at below 10% YoY rate. While the bank's deposit granularization will help in terms of growth in the long term, we remain cautious of the Bank's growth prospects considering the current macro economical slowdown being observed. Hence, we have cut our FY25 & FY26 estimates for the Bank, and reduce our Target Price to INR 1,217 at 2.2x FY27E ABV with BUY rating as we expect the slowdown to stay for the next fiscal year as well.

| Axis Bank Ltd. (INR Bn) | FY23  | FY24  | FY25E | FY26E | FY27E |
|-------------------------|-------|-------|-------|-------|-------|
| NII                     | 429   | 594   | 647   | 743   | 853   |
| PPOP                    | 198   | 359   | 394   | 469   | 559   |
| PAT                     | 96    | 193   | 214   | 256   | 314   |
| EPS (INR / Share)       | 31.1  | 62.7  | 69.2  | 83.0  | 101.6 |
| ABVPS (INR / Share)     | 394.1 | 473.7 | 543.3 | 627.4 | 733.2 |
| NIM (%)                 | 4.0   | 4.0   | 4.0   | 4.1   | 5.1   |
| ROA (%)                 | 0.7%  | 1.3%  | 1.3%  | 1.4%  | 1.6%  |
| ROE (%)                 | 7.7%  | 12.9% | 12.4% | 13.0% | 13.7% |
| P / ABV (x)             | 2.5   | 2.4   | 2.1   | 1.8   | 1.5   |

Source: Arihant Research, Company Filings

## Q3FY25 - Quarterly Performance (Standalone)

(in INR Bn)

| Particulars (INR in bn)               | Q3FY25        | Q2FY25        | Q3FY24        | QoQ          | YoY          |
|---------------------------------------|---------------|---------------|---------------|--------------|--------------|
| <b>Interest Earned</b>                | <b>309.54</b> | <b>304.20</b> | <b>279.61</b> | <b>1.8%</b>  | <b>10.7%</b> |
| - Interest/discount on advances/bills | 246.41        | 242.61        | 223.64        | 1.6%         | 10.2%        |
| - Income on Investments               | 58.09         | 54.44         | 50.89         | 6.7%         | 14.1%        |
| - Interest on bal with RBI            | 2.93          | 3.51          | 1.46          | -16.6%       | 99.9%        |
| - Others                              | 2.12          | 3.64          | 3.61          | -41.9%       | -41.4%       |
| <b>Interest Expenses</b>              | <b>173.48</b> | <b>169.37</b> | <b>154.29</b> | <b>2.4%</b>  | <b>12.4%</b> |
| <b>NII</b>                            | <b>136.06</b> | <b>134.83</b> | <b>125.32</b> | <b>0.9%</b>  | <b>8.6%</b>  |
| Other Income                          | 59.72         | 67.22         | 55.55         | -11.2%       | 7.5%         |
| Total Income                          | 195.78        | 202.05        | 180.87        | -3.1%        | 8.2%         |
| <b>Operating Expenses</b>             | <b>90.44</b>  | <b>94.93</b>  | <b>89.46</b>  | <b>-4.7%</b> | <b>1.1%</b>  |
| - Employee cost                       | 29.85         | 31.17         | 27.11         | -4.3%        | 10.1%        |
| - Others                              | 60.60         | 63.75         | 62.34         | -5.0%        | -2.8%        |
| <b>Operating Profits</b>              | <b>105.34</b> | <b>107.12</b> | <b>91.41</b>  | <b>-1.7%</b> | <b>15.2%</b> |
| Provisions                            | 21.56         | 22.04         | 10.28         | -2.2%        | 109.6%       |
| Exceptional items                     | 0.00          | 0.00          | 0.00          | NA           | NA           |
| <b>PBT</b>                            | <b>83.78</b>  | <b>85.08</b>  | <b>81.13</b>  | <b>-1.5%</b> | <b>3.3%</b>  |
| Tax                                   | 20.74         | 15.91         | 20.42         | 30.4%        | 1.6%         |
| <b>PAT</b>                            | <b>63.04</b>  | <b>69.18</b>  | <b>60.71</b>  | <b>-8.9%</b> | <b>3.8%</b>  |
| Advances                              | 10,146        | 10,000        | 9,323         | 1.5%         | 8.8%         |
| Deposits                              | 10,959        | 10,867        | 10,049        | 0.8%         | 9.1%         |
| Total Assets                          | 15,257        | 15,057        | 13,985        | 1.3%         | 9.1%         |
| CASA (%)                              | 39%           | 43%           | 42%           | -350bps      | -250bps      |
| CASA Deposits                         | 4,329         | 4,411         | 4,235         | -1.9%        | 2.2%         |
| <b>Asset Quality</b>                  |               |               |               |              |              |
| GNPA                                  | 158.5         | 154.7         | 158.9         | 2.5%         | -0.3%        |
| NNPA                                  | 37.7          | 36.1          | 35.3          | 4.5%         | 7.0%         |
| GNPA (%)                              | 1.46%         | 1.44%         | 1.58%         | 2bps         | -12bps       |
| NNPA (%)                              | 0.35%         | 0.34%         | 0.36%         | 1bps         | -1bps        |
| RoA                                   | 1.64%         | 1.84%         | 1.75%         | -20bps       | -11bps       |
| Cost to Income Ratio                  | 46.20%        | 46.98%        | 49.46%        | -79bps       | -326bps      |

Source: Arianth Research, Company Filings

## Conference Call Highlights:

## Management Guidance:

- The Management says that this has been a tough quarter for the bank due to the current Macro economic environment, and the bank does not sees the Deposits or Credit growth to do much better than 10-11% for the next financial year FY26 as well.
- On the question regarding that the Bank is seeing stress in the MFI and Unsecured books, but has it already spread across other areas as well, the Management denied of such observation from their Perspective.
- On the Growth front, the bank's Personal Loans segment growth came down to 17% for Q3FY25 compared to 23% in Q2FY25 while the Credit Cards also came down to 8% in Q3FY25 against 22% in Q2FY25. The Management says that they have slowed the growth substantially as they are taking corrective actions to improve the quality of their new assets, and early indicators are showing positive signs, but they will wait for a couple of quarters before giving any guidance of the Bank's Advances growth.

**Conference Call Highlights (Continued):****Key Highlights:**

- The Management says the Bank's focussed loan segment, i.e, the Small Businesses, SMEs and Mid Corporates grew faster at a pace of 4% QoQ / up 16% YoY.
- The Core Operating Profit grew by 5% QoQ/14% YoY.
- CASA ratio remains high enough compared to industry Peers, still coming down to 39% in Q3FY25 against 42% in Q3FY24.
- The Bank's Cost of Funds has increased only by 3 bps over the last 3 quarters, for which the Management felt well.
- The Management acknowledged the improvement in granularization of their deposit book over the last 2-3 years.
- The Bank opened 150 new branches in the last 3 months and 330 new branches over the 9MFY25 period.
- The Management expressed fulfilment of goal of getting faster deposits growth through growing Salaried accounts which grew by 24% YoY and 42% YoY growth in the Premium account acquisitions, along with 26% YoY growth in the Burgundy accounts.
- The Bank's core fee Income grew by 6% YoY and 1% QoQ, and dominantly came from Retail at 71% of the Total Fee Income.
- The Management said that the Bank is well capitalized currently with CET1 at 14.61%. The Bank will not be looking to raise capital through Equity in foreseeable future, but rather look for issuing Tier 2 and AT1 Bonds instruments depending on the market condition and requirements.
- The Bank's domestic NIMs came at 3.93%, down 6 bps QoQ/down 8 bps YoY.
- The Cumulative non-NPA provisions stood at INR 118.75 bn, comprising provisions for potential ECL of INR 50.12 bn, Restructuring Provisions of INR 4.15 bn, Standard Asset Provision at higher than regulatory rates of INR 18.98 bn, weak assets and other provisions of INR 45.50 bn.
- Regarding the MFI segment, the bank clarified that they have exposure of only 1% of Total Retail Assets towards MFI space, i.e, 0.6% of the total advances of the bank, and it stands at cumulative asset of INR 60 bn, and compared to their slippages of INR 54.32 bn for Q3FY25.
- The Management attributed the Slippages increasing from the Retail Unsecured books.
- Slippages increased to new highs during Q3FY25, increasing to INR 54.32 bn, against INR 44.43 bn in Q2FY25, an increase of 22.3% QoQ/ 46.2% YoY.
- Segmentally, the Slippages came from INR 49.23 bn from Retail, INR 2.15 bn from CBG and INR 2.94 bn from the Corporate book.
- The Recovery from Written Off accounts stood at INR 13 bn, increasing by 32% proportionately high like the Net Slippages that came at INR 35.17 bn, increasing by 48% QoQ.
- The Management expressed that the Industry is seeing a credit cycle normalization, and the increase in Credit Costs are a consequence of it which happens at the beginning of a Credit Cycle.
- The Management said that they are not focussed on quick growth of Deposits through higher pricing as they make the deposit book volatile. Instead, their focus is on the granularization of the deposit book.
- Despite the LDR ratio at high levels, the Bank remained happy operating at those levels rather than growing deposits faster at the cost of volatile books.

## Income Statement

| Particulars (Rs Bn)                      | FY23         | FY24         | FY25E        | FY26E          | FY27E          |
|--|--------------|--------------|--------------|----------------|----------------|
| Interest Earned                          | 851.6        | 1,068.2      | 1,185.9      | 1,330.5        | 1,494.7        |
| Interest Expended                        | 422.2        | 474.0        | 538.7        | 588.0          | 641.9          |
| <b>Net Interest Income</b>               | <b>429.5</b> | <b>594.2</b> | <b>647.3</b> | <b>742.5</b>   | <b>852.8</b>   |
| Other Income                             | 165.0        | 209.1        | 235.9        | 266.3          | 300.8          |
| Fee Income                               | 162.2        | 181.6        | 203.4        | 227.8          | 255.2          |
| Treasury Income                          | -2.4         | 20.9         | 25.1         | 30.3           | 36.4           |
| <b>Operating Income</b>                  | <b>594.5</b> | <b>803.3</b> | <b>883.1</b> | <b>1,008.8</b> | <b>1,153.6</b> |
| Operating Expenses                       | 396.6        | 444.1        | 489.5        | 539.6          | 594.8          |
| Employee Expenses                        | 87.6         | 98.1         | 108.9        | 120.9          | 134.2          |
| <b>Profit before provision &amp; tax</b> | <b>197.9</b> | <b>359.2</b> | <b>393.6</b> | <b>469.3</b>   | <b>558.9</b>   |
| Provisions and Contingencies             | 28.8         | 101.3        | 108.9        | 127.8          | 140.6          |
| <b>Profit Before Tax</b>                 | <b>169.1</b> | <b>257.8</b> | <b>284.7</b> | <b>341.4</b>   | <b>418.3</b>   |
| Provision for tax                        | 73.3         | 64.5         | 71.2         | 85.4           | 104.6          |
| Exp. Items                               | 0.0          | 0.0          | 0.0          | 0.0            | 0.0            |
| <b>Profit After Tax</b>                  | <b>95.8</b>  | <b>193.4</b> | <b>213.5</b> | <b>256.1</b>   | <b>313.7</b>   |

## Balance Sheet

| Particulars (Rs Bn)            | FY23          | FY24          | FY25E         | FY26E         | FY27E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Sources of funds</b>        |               |               |               |               |               |
| Share Capital                  | 6             | 6             | 6             | 6             | 6             |
| Total Reserves                 | 1,244         | 1,496         | 1,710         | 1,966         | 2,279         |
| <b>Shareholder's Fund</b>      | <b>1,250</b>  | <b>1,502</b>  | <b>1,716</b>  | <b>1,972</b>  | <b>2,286</b>  |
| Deposits                       | 9,469         | 10,686        | 11,488        | 12,522        | 13,649        |
| Borrowings                     | 1,863         | 1,968         | 2,165         | 2,381         | 2,620         |
| Other Liabilities & provisions | 587           | 607           | 699           | 801           | 919           |
| <b>Total Liabilities</b>       | <b>13,173</b> | <b>14,772</b> | <b>16,067</b> | <b>17,676</b> | <b>19,473</b> |
| <b>Application of Funds</b>    |               |               |               |               |               |
| Cash & Bank                    | 1,064         | 1,145         | 1,179         | 1,214         | 1,251         |
| Investments                    | 2,888         | 3,315         | 3,871         | 4,523         | 5,285         |
| Advances                       | 8,453         | 9,651         | 10,374        | 11,412        | 12,553        |
| Fixed Assets                   | 47            | 57            | 60            | 63            | 66            |
| Other Assets                   | 721           | 605           | 584           | 465           | 319           |
| <b>Total Assets</b>            | <b>13,173</b> | <b>14,772</b> | <b>16,067</b> | <b>17,676</b> | <b>19,473</b> |

Source: Arianth Research, Company Filings

| Ratios %                  |       |       |       |       |       |
|---------------------------|-------|-------|-------|-------|-------|
|                           | FY23  | FY24  | FY25E | FY26E | FY27E |
| <b>Asset Quality</b>      |       |       |       |       |       |
| Gross NPA                 | 2.2   | 1.9   | 1.9   | 1.9   | 1.9   |
| Net NPA                   | 0.4   | 0.6   | 0.6   | 0.6   | 0.6   |
| PCR                       | 81.0  | 70.0  | 70.0  | 70.0  | 70.0  |
| <b>Growth</b>             |       |       |       |       |       |
| Advances Growth           | 16.0  | 14.5  | 7.5   | 10.0  | 10.0  |
| Deposit growth            | 15.0  | 11.0  | 7.5   | 9.0   | 9.0   |
| Net Profit Growth         | -26.5 | 101.9 | 10.4  | 19.9  | 22.5  |
| <b>Liquidity</b>          |       |       |       |       |       |
| C-D Ratio                 | 89.3  | 90.3  | 90.3  | 91.1  | 92.0  |
| CASA                      | 39.5  | 37.8  | 45.0  | 45.0  | 45.0  |
| Capital Adequacy          | 19.1  | 19.1  | 19.1  | 19.1  | 19.1  |
| <b>Efficiency</b>         |       |       |       |       |       |
| Cost Income Ratio         | 66.71 | 55.29 | 55.43 | 53.49 | 51.55 |
| Operating Costs to Assets | 3.01  | 3.01  | 3.05  | 3.05  | 3.05  |

| Spread Analysis (%)      |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|
|                          | FY23  | FY24  | FY25E | FY26E | FY27E |
| <b>Spread Analysis</b>   |       |       |       |       |       |
| Yield on Advances        | 7.6   | 8.6   | 8.7   | 8.7   | 8.7   |
| Yield on Investments     | 6.3   | 6.3   | 6.5   | 6.7   | 6.9   |
| Cost of Funds            | 3.7   | 3.7   | 3.9   | 3.9   | 3.9   |
| NIM                      | 4.0   | 4.0   | 4.0   | 4.1   | 5.1   |
| Interest Spread          | 3.9   | 4.9   | 4.8   | 4.8   | 4.8   |
| <b>Profitability</b>     |       |       |       |       |       |
| ROE                      | 7.7%  | 12.9% | 12.4% | 13.0% | 13.7% |
| ROA                      | 0.73% | 1.3%  | 1.3%  | 1.4%  | 1.6%  |
| Earnings Per Share (Rs)  | 31.1  | 62.7  | 69.2  | 83.0  | 101.6 |
| Book Value (Rs)          | 406   | 487   | 556   | 639   | 741   |
| Adjusted Book Value (Rs) | 394   | 474   | 543   | 627   | 733   |
| <b>Valuation</b>         |       |       |       |       |       |
| P / EPS (x)              | 31.0  | 18.1  | 16.4  | 13.6  | 11.1  |
| P / ABV (x)              | 2.5   | 2.4   | 2.1   | 1.8   | 1.5   |

Source: Arianth Research, Company Filings

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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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