

Axis Bank

Perennial search for portfolio stability

Axis Bank's (AXSB) Q1FY26 earnings missed our estimates on account of higher slippages/credit costs arising from yet another episode of divergent impairment recognition practices (vs. peer banks). The additional provisioning (INR8.1bn) adversely impacted RoA by 15bps. Growth was soft on both sides of the balance sheet, coupled with disappointment on margins. Deposit growth (~9% YoY/-1% QoQ) was sub-par, with CASA ratio declining to 40.3% (-46bps QoQ). The loan-to-deposit ratio deteriorated ~250bps QoQ to 91.2% as loan growth clocked in at +1.8% QoQ. While AXSB has improved the quality of its deposit franchise, the bank has consistently been inferior to its peers on underwriting and impairment recognition policies. We cut our FY26E/27E estimates by 2.5%/1.4%, factoring in elevated credit costs and impending margin compression (residual impact of the last 75bps repo rate cut is yet to play out). We maintain ADD with a revised TP of INR1,290 (standalone bank at 1.7x Mar-27 ABVPS).

- **Subdued growth with weak margins:** Loan growth (~8% YoY) was muted as growth in housing, auto, and unsecured portfolios remained tepid, partly offset by growth in LAP, corporate, business banking/SME businesses. NIMs declined 17bps QoQ to 3.8% due to the impact of 25bps repo rate cut (during Feb-25) and seasonality in the rural portfolio. We factor in FY26E NIMs at 3.7%, lower than the management's through-cycle guidance (3.8%).
- **Asset quality shocker:** Gross slippages shot up to 3.1% (Q4FY25: 1.9%) while net credit costs clocked in at 1.4% (Q4FY25: 0.5%) owing to higher impairment recognition. We argue that such repeated instances of divergent impairment recognition practices raise concerns on the bank's sustainability claims.
- **Portfolio stability essential for valuation re-rating:** While AXSB continues to moderate its opex intensity and improve efficiencies, we believe that the bank lacks a handle on its growth and asset quality parameters and continues its perennial search for portfolio stability, which is likely to delay any re-rating.

Financial summary

| (INR bn) | Q1FY26 | Q1FY25 | YoY (%) | Q4FY25 | QoQ (%) | FY25 | FY26E | FY27E |
|-------------|--------|--------|---------|--------|---------|-------|-------|-------|
| NII | 135.6 | 134.5 | 0.8% | 138.1 | -1.8% | 543.5 | 579.1 | 666.9 |
| PPOP | 115.2 | 101.1 | 13.9% | 107.5 | 7.1% | 421.0 | 459.3 | 534.6 |
| PAT | 58.1 | 60.3 | -3.8% | 71.2 | -18.4% | 263.7 | 272.7 | 317.3 |
| EPS (INR) | 18.6 | 19.4 | -3.9% | 22.9 | -18.5% | 85.1 | 88.0 | 102.4 |
| ROAE (%) | | | | | | 15.9 | 14.1 | 14.3 |
| ROAA (%) | | | | | | 1.7 | 1.6 | 1.7 |
| ABVPS (INR) | | | | | | 547.4 | 629.0 | 727.6 |
| P/ABV (x) | | | | | | 2.1 | 1.8 | 1.6 |
| P/E (x) | | | | | | 13.6 | 13.2 | 11.3 |

Source: Company, HSIE Research

Change in estimates

| (INR bn) | FY26E | | | FY27E | | |
|-----------------|--------|--------|-------|--------|--------|-------|
| | New | Old | Δ | New | Old | Δ |
| Net advances | 11,691 | 11,700 | -0.1% | 13,213 | 13,217 | 0.0% |
| NIM (%) | 3.7 | 3.8 | -0.8% | 3.8 | 3.8 | 0.8% |
| NII | 579.1 | 585.1 | -1.0% | 666.9 | 662.1 | 0.7% |
| PPOP | 459.3 | 460.7 | -0.3% | 534.6 | 530.9 | 0.7% |
| PAT | 272.7 | 279.5 | -2.5% | 317.3 | 321.8 | -1.4% |
| Adj. BVPS (INR) | 629.0 | 643.3 | -2.2% | 727.6 | 745.0 | -2.3% |

Source: Company, HSIE Research

ADD

| | |
|-------------------------|-----------|
| CMP (as on 17 Jul 2025) | INR 1,160 |
| Target Price | INR 1,290 |
| NIFTY | 25,111 |

| KEY CHANGES | OLD | NEW |
|--------------|----------|----------|
| Rating | ADD | ADD |
| Price Target | INR1,310 | INR1,290 |
| EPS % | FY26E | FY27E |
| | -2.5% | -1.4% |

KEY STOCK DATA

| | |
|------------------------------|---------------|
| Bloomberg code | AXSB IN |
| No. of Shares (mn) | 3,101 |
| MCap (INR bn) / (\$ mn) | 3,597/41,789 |
| 6m avg traded value (INR mn) | 8,755 |
| 52 Week high / low | INR 1,319/934 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-------|------|--------|
| Absolute (%) | (2.6) | 17.0 | (11.1) |
| Relative (%) | (7.3) | 9.7 | (13.0) |

SHAREHOLDING PATTERN (%)

| | Dec-24 | Mar-25 |
|-----------------|--------|--------|
| Promoters | 8.2 | 8.2 |
| FIs & Local MFs | 37.5 | 40.9 |
| FPIs | 47.3 | 43.9 |
| Public & Others | 7.0 | 7.0 |
| Pledged Shares | 0 | 0 |

Source : BSE

Pledged shares as % of total shares

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