

Margins hold; Revised upgrade criteria to hurt credit costs

- AXSB reported a miss on profitability metrics after factoring Rs8bn benefit from recovery/write-back on principal portion of govt guaranteed SRs. Margins at 3.97% (+4bps) benefited from lower interest reversals, and yield benefited from focus on high RAROC products. Loan growth was muted at 2.5% QoQ (8% YoY), though deposits growth strengthened to 7% QoQ (10% YoY).
- With transmission of rates at the end of quarter, rate cut impact on yields could be more staggered vs peers. Management seemed confident managing cushion over the through-cycle NIM of 3.8%. A more stringent upgrade criteria for loans may negatively impact credit costs for FY26E.
- We factor in slightly higher credit cost assumption for FY26/27E, with 4% downward revision in FY26E estimates. Maintain 'Accumulate' rating with revised TP of Rs1300, valuing the bank at 1.8x FY27E P/ABV against RoA/RoE of 1.8%/15%.

NIM to benefit from qtr end transmission; CC guidance raised

On a full year basis, the bank expects itself to be well placed on NIM, with matched duration on interest rates. It transmits rate at the end of quarter on EBLR loans, which should also stagger the impact of rate cuts so far. We continue to build in 10 bps lower NIM in FY26E to 3.9%, factoring lower NIM moderation vs ICICI/KMB. Additionally, criteria for upgrade of certain types of loans has been made more stringent, which will impact credit costs in FY26E. We now factor in slightly higher credit costs of 80bps for FY26E vs 75 bps in FY25E.

Outlook- Valuation gap vs peers to continue

Earnings benefit from structural improvement in NIM to ~3.8-3.9% and continued optimization in opex ratios. Moreover, PCR at 75% and contingent provision buffers at 60 bps should limit earnings volatility. However, business growth has been muted in recent quarters and a high LDR at 89% is partly constraining growth in our view. Valuation gap vs large private peers likely to persist owing to lower RoA, growth constraints, and slightly weaker liability profile. **Maintain 'Accumulate' rating, valuing the bank at 1.8x FY27E P/ABV against RoA/RoE of 1.8%/15%.**

Key Data

Nifty	24,247
Equity / FV	Rs 6,195mn / Rs 2
Market Cap	Rs 3,734bn
	USD 43.8bn
52-Week High/Low	Rs 1,340/ 934
Avg. Volume (no)	80,79,600
Bloom Code	AXSB IN

	Current	Previous
Rating	Accumulate	Accumulate
Target Price	1,300	1,250

Change in Estimates

(Rs.bn)	Current		Chg (%) /bps	
	FY26E	FY27E	FY26E	FY27E
Net Op Rev	871	984	1.2	1.5
PPOP	470	554	1.1	2.0
APAT	281	338	(3.8)	(1.3)
ABV (Rs)	636	739	(2.0)	(2.1)

Valuation (x)

	FY25A	FY26E	FY27E
P/E	14.2	13.3	11.0
P/ABV	2.2	1.9	1.6
ROAA	1.7	1.7	1.8
ROAE	16.0	14.6	15.2
ABV (Rs)	547.9	635.6	739.2
EPS (Rs)	85.1	90.8	109.2

Q4FY25 Result (Rs Mn)

Particulars	Q4FY25	YoY (%)	QoQ(%)
NII	1,38,105	5.5	1.5
Other income	67,795	0.2	13.5
Total Income	2,05,901	3.7	5.2
Operating Exp.	98,377	5.6	8.8
PPoP	1,07,524	2.1	2.1
Provisions	13,594	14.7	(36.9)
PAT	71,175	(0.2)	12.9
Advances (bn)	10,408	7.8	2.6
		(bps)	(bps)
NIM (%)	4.0	(9)	4
RoA (%)	1.9	(12)	24
RoE (%)	17.1	(139)	174
Gross NPA (%)	1.3	(15)	(18)
Net NPA (%)	0.3	2	(2)

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Risks to our view: 1) Weaker than anticipated macroeconomic trends (may adversely impact growth & asset quality), and 2) weaker than expected NIM.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	1,38,105	1,36,761	1.0
Operating Profit	1,07,524	1,10,297	(2.5)
PAT	71,175	69,068	3.1

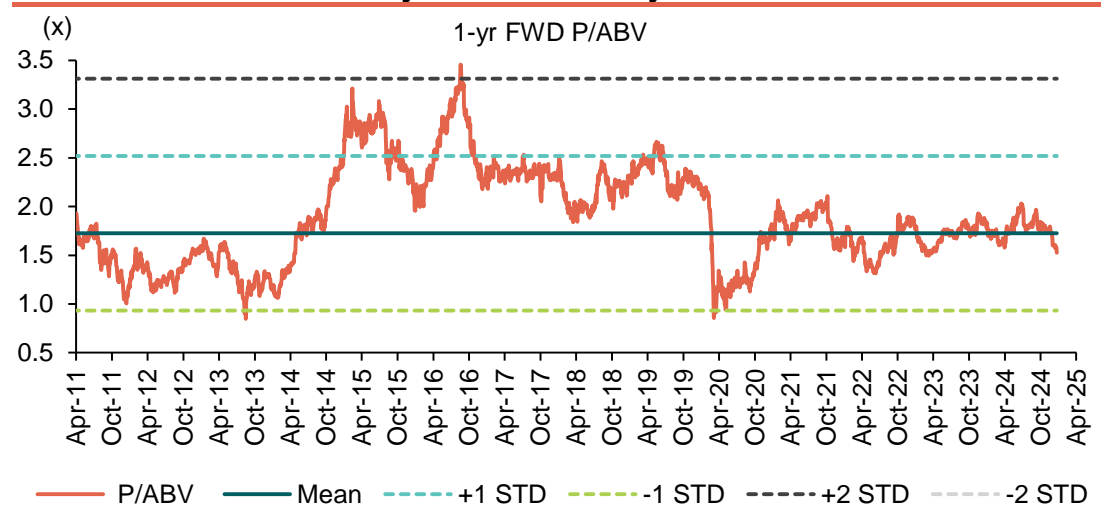
Source: Company, Dolat Capital

Exhibit 2: Earnings Estimates

Particulars (Rs mn)	Previous			Revised			Change %		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Op Rev	7,95,464	8,60,208	9,69,990	7,96,048	8,70,924	9,84,166	0.1	1.2	1.5
PPOP	4,27,237	4,64,959	5,42,761	4,21,049	4,69,905	5,53,537	(1.4)	1.1	2.0
PAT	2,62,709	2,92,320	3,42,848	2,63,734	2,81,113	3,38,361	0.4	(3.8)	(1.3)
Adj.BV (Rs)	559	648	755	548	636	739	(1.9)	(2.0)	(2.1)

Source: Company, Dolat Capital

Exhibit 3: The stock currently trades at 1.6x 1-year forward P/ABV



Source: Company, Dolat Capital

Earnings Call KTAs

- **Guidance:** Bank has ~18bps cushion over its through-cycle NIM and expects to retain some cushion even as rate cuts continue. More stringent upgrade criteria for loans may negatively impact credit costs, upgrades and recoveries in FY26.
- **NIM outlook:** From a full-year view, the bank should be well placed to manage NIM, with matched duration on interest rates. It has also cut FD rates, apart from SA rate cuts and will try and retain thru cycle cushion as much as possible. Re-pricing on the wholesale deposit rates has been higher vs FD rates. NIM improvement driven by better AQ (+2 bps) and better spreads (+2 bps, of which 1 bps coming from interest on IT refund). No impact of day count on NIM. On EBLR loans, the bank transmits the rate at the end of the quarter, both on upside and downside.
- **Business Growth** –If the liquidity situation is good, it will flow through into better deposit growth and finally reflect in loan growth as well. Will be able to raise funding from bonds and other borrowings.
- **Asset quality:** Expect stabilization in CC portfolio, while PL will take a few more quarters to stabilize though early read post underwriting changes has been positive. The bank has reviewed and made more stringent its upgrade criteria for certain types of loans. This at the margin may negatively impact credit costs, upgrades and recoveries in FY26. For eg, in case recognition of OTS. The bank has led market practice on provisioning, and this could be the last set of changes. Some banks do not follow this practice.
- **Write-back of SRs-** The bank has written back principal amount of SRs that are backed by govt guarantees, though the entire amount can be taken as write-backs. 60% of outstanding gov guarantee backed SRs have been written back.
- **Deposits:** Bank witnessed a 340bps reduction in outflow rates over 3 years. No regulatory nudge is driving the reduction in CD ratio, it's purely driven by higher deposit growth.
- **PSL compliance-** Complaint at the overall and each sub-segment level in FY25. The bank purchased PSLCs to meet organic shortfalls in SMF and other categories.
- **Other:** On LCR, the impact of new guideline to be neutral. On tariff impact, see negligible impact on bank's overall portfolio. RW moderation is driven by loan mix change and off-balance sheet assets. The Bank has no requirements of equity capital currently.

Quarterly performance

Profit and Loss (Rs mn)	Q4FY25	Q4FY24	% YoY / bps	Q3FY25	% QoQ / bps	FY25	FY24	% YoY / bps
Interest Income	3,12,425	2,92,245	6.9	3,09,539	0.9	12,26,770	10,93,686	12.2
Yield on Advances (%)	9.6	9.8	(28)	9.8	(22)	9.7	9.7	4
Yield on Assets (%)	8.5	8.8	(34)	8.9	(42)	8.7	8.8	(7)
Interest Expenses	1,74,320	1,61,355	8.0	1,73,481	0.5	6,83,292	5,94,741	14.9
Cost of Dep. (%)	5.2	5.1	13	5.1	6	5.1	4.9	27
Cost of Fund (%)	5.5	5.4	7	5.5	4	5.5	5.2	22
Net Interest Income	1,38,105	1,30,890	5.5	1,36,059	1.5	5,56,600	5,12,376	8.6
NII to Net Operative Income	67.1	65.9	115	69.5	(242)	68.3	69.0	(70)
NIM (%)	3.97	4.06	(9)	3.93	4	4.0	4.1	(9)
Dom. NIM (%)	4.1	4.2	(8)	4.1	2	4.1	4.2	(8)
Fee income	63,380	56,370	12.4	54,550	16.2	2,25,020	2,02,570	11.1
Profit on Sale / Rev of Investments	1,730	10,210	(83.1)	3,680	(53.0)	20,580	17,923	14.8
Miscellaneous Income	2,685	1,080	148.6	1,490	80.2	6,970	4,164	67.4
Other Income – Total	67,795	67,658	0.2	59,722	13.5	2,52,570	2,24,420	12.5
Net Operating Revenue	2,05,901	1,98,548	3.7	1,95,781	5.2	7,96,048	7,23,364	10.0
Employee Expenses	29,615	29,235	1.3	29,846	(0.8)	1,21,928	1,09,331	11.5
Empl. Cost/Oper. Exps. (%)	14.4	14.7	(34)	15.2	(86)	15.3	15.1	20
Other Opex	68,762	63,956	7.5	60,596	13.5	2,53,072	2,42,802	4.2
Total Opex	98,377	93,191	5.6	90,442	8.8	1.6	1.7	(10)
Cost to Income Ratio (%)	47.8	46.9	84	46.2	158	3,75,000	3,52,133	6.5
Pre Provision Profits	1,07,524	1,05,357	2.1	1,05,339	2.1	47.1	48.7	(157)
Provisions & Contingencies – Total	13,594	11,853	14.7	21,556	(36.9)	77,584	40,631	90.9
Credit Cost (%)	0.53	0.34	18	0.86	(34)	0.77	0.41	37
NPA Provisions as % PPP	12.6	11.3	139	20.5	(782)	18.4	10.9	748
Profit Before Tax	93,930	93,504	0.5	83,782	12.1	3,43,465	3,30,601	3.9
Tax	22,755	22,207	2.5	20,745	9.7	79,731	81,986	(2.8)
Effective Tax Rate (%)	24.2	23.8	48	24.8	(53.4)	23.2	24.8	(159)
Reported Profits	71,175	71,297	(0.2)	63,038	12.9	2,63,734	2,48,614	6.1
RoA (%)	1.9	2.0	(12)	1.6	24.0	1.8	1.8	(8)
Basic EPS	23.0	23.1	(0.5)	20.4	12.9	85.3	80.7	5.7

Balance Sheet Analysis	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Net Worth	1,429,836	1,502,350	15,77,662	1,646,881	17,12,787	17,86,169	4.3	18.9
CET1 (%)	13.7	13.7	14.1	14.2	14.6	14.7	6	93
Tier 1 (%)	12.4	14.2	14.1	14.2	15.0	15.1	6	87
Total CAR (%)	14.9	16.6	16.7	16.6	17.0	17.1	6	44
RWA - Total	9,929,639	10,340,460	1,02,77,143	11,141,869	1,11,37,697	1,15,91,495	4.1	12.1
Advances - Total	9,322,864	9,650,684	98,00,915	9,999,792	1,01,45,641	1,04,08,113	2.6	7.8
Investments	3,090,699	3,315,273	31,68,514	3,488,552	35,32,834	39,61,418	12.1	19.5
Total Assets	13,985,407	14,772,086	1,46,81,633	15,056,580	1,52,57,119	1,60,99,299	5.5	9.0
RoA (%)	1.75	2.00	1.65	1.84	1.64	1.88	24	(12)
Deposits	10,048,995	10,686,414	1,06,24,837	10,867,440	1,09,58,828	1,17,29,520	7.0	9.8
Saving Deposit	2,903,630	3,021,330	29,49,100	2,985,330	28,92,440	31,13,890	7.7	3.1
Current Deposit	1,330,950	1,572,680	14,95,690	1,425,200	14,36,110	16,67,990	16.1	6.1
CASA Deposits	4,234,580	4,594,010	44,44,790	4,410,530	43,28,550	47,81,880	10.5	4.1
CASA Ratio (%)	42.0	43.0	42.0	40.1	39.6	38.0	(160)	(500)
Term Deposits	5,814,415	6,092,404	61,80,047	6,456,910	66,30,278	69,47,640	4.8	14.0

Movement of NPA (Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Gross Advances	1,00,58,867	1,05,78,406	1,05,26,844	10,740,438	1,08,56,349	1,13,20,398	4.3	7.0
Gross NPA	1,58,930	1,51,271	1,62,113	154,662	1,58,503	1,44,901	(8.6)	(4.2)
Gross NPA Ratio (%)	1.58	1.43	1.54	1.44	1.46	1.28	(18)	(15)
PCR - Calculated (%)	77.8	78.5	78.1	76.6	76.2	74.6	(162)	(397)
Net Advances	97,96,861	1,04,75,710	1,04,49,941	10,624,912	1,07,85,114	1,11,68,030	3.6	6.6
Net NPA	35,269	32,475	35,530	36,125	37,748	36,855	(2.4)	13.5
Net NPA Ratio (%)	0.36	0.31	0.34	0.34	0.35	0.33	(2)	2

Segmental NPA Movement	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q3FY25
GNPA%								
Retail	1.43	1.32	1.28	1.18	1.38	1.45	1.63	1.6
CBG	1.14	1.08	1.05	0.93	0.88	0.81	0.81	0.77
WBG	2.96	2.53	2.2	1.98	1.98	1.62	1.38	0.92
Total	1.96	1.73	1.58	1.43	1.54	1.44	1.46	1.28
NNPA%								
Retail	0.51	0.47	0.47	0.42	0.48	0.49	0.52	0.5
CBG	0.34	0.31	0.29	0.26	0.24	0.24	0.21	0.025
WBG	0.26	0.21	0.19	0.14	0.14	0.12	0.1	0.07
Total	0.41	0.36	1.58	0.31	0.34	0.34	0.35	0.33
PCR (%)								
Retail	65	65	63	64	65	67	68	69
CBG	70	71	73	72	72	70	74	68
WBG	91	92	92	93	93	93	93	92
Total	80	79	78	78	78	77	76	75

Loan Book Analysis (Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Corporate Credit	2,853,000	2,771,000	29,10,000	29,08,000	29,46,000	29,94,000	1.6	8.0
Retail Loan	5,470,000	5,833,000	58,51,000	59,87,000	60,58,000	62,29,000	2.8	6.8
SME	1,000,000	1,047,000	10,40,000	11,05,000	11,41,000	11,85,000	3.9	13.2
Domestic Corp	2,562,060	2,502,930	26,17,252	25,66,329	26,38,922	27,03,164	1.7	8.0

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY24A	FY25A	FY26E	FY27E
Interest Income	10,93,686	12,26,770	13,00,579	14,55,398
Interest expenses	5,94,741	6,83,292	7,18,733	8,01,025
Net interest income	4,98,945	5,43,478	5,81,846	6,54,373
Other incomes	2,24,420	2,52,570	2,89,078	3,29,793
Total expenses	3,52,133	3,75,000	4,01,019	4,30,629
- Employee cost	1,09,331	1,21,928	1,36,559	1,52,946
- Other	2,42,802	2,53,072	2,64,460	2,77,683
Pre provisioning profit	3,71,232	4,21,049	4,69,905	5,53,537
Provisions	40,631	77,584	94,237	1,01,363
Profit before taxes	3,30,601	3,43,465	3,75,669	4,52,174
Tax provision	81,986	79,731	94,556	1,13,812
Profit after tax	2,48,614	2,63,734	2,81,113	3,38,361
Adjusted profit	2,48,614	2,63,734	2,81,113	3,38,361

Balance Sheet (Rs Mn)

Particulars	FY24A	FY25A	FY26E	FY27E
Sources of Funds				
Equity Capital	6,173	6,195	6,195	6,195
Reserves & Surplus	15,04,443	17,99,322	20,76,675	24,07,516
Minority Interest	0	0	0	0
Net worth	15,10,616	18,05,517	20,82,870	24,13,711
Borrowings	19,68,118	18,41,465	20,96,645	23,47,246
- Deposits	1,06,86,414	1,17,29,520	1,28,79,391	1,44,18,796
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	6,06,939	7,31,062	8,65,722	9,65,326
Total Liabilities	1,47,72,086	1,60,99,299	1,79,24,628	2,01,45,079
Application of Funds				
Cash and balances with RBI	11,44,544	9,97,321	11,20,207	12,57,976
Investments	33,15,273	39,61,418	43,45,871	49,15,142
Advances	96,50,684	1,04,08,113	1,16,57,087	1,30,55,937
Fixed assets	56,846	62,917	64,980	69,069
Other current assets, loans and advances	6,04,740	6,69,530	7,36,483	8,46,955
Total Assets	1,47,72,086	1,60,99,299	1,79,24,628	2,01,45,079

E – Estimates

Important Ratios

Particulars	FY24A	FY25A	FY26E	FY27E
(A) Margins (%)				
Yield on advances	9.6	9.7	9.3	9.3
Yields on interest earning assets	8.2	8.3	8.0	8.0
Yield on investments	6.4	6.5	6.3	6.1
Costs of funds	5.0	5.2	5.0	5.0
Cost of deposits	3.6	4.5	4.8	4.7
NIMs	3.8	3.7	3.6	3.6
(B) Asset quality and capital ratios (%)				
GNPA	1.4	1.3	1.3	1.3
NNPA	0.3	0.3	0.3	0.4
PCR	78.5	74.6	75.0	75.0
Slippages	1.7	2.0	1.8	1.8
NNPA to NW	2.2	2.1	1.9	2.0
CASA	43.6	41.3	41.3	41.3
CAR	16.6	17.1	15.5	15.0
Tier 1	14.2	15.1	13.8	13.4
Credit - Deposit	90.3	88.7	90.5	90.5
(C) Dupont as a percentage of average assets				
Interest income	7.8	7.9	7.6	7.6
Interest expenses	4.3	4.4	4.2	4.2
Net interest income	3.6	3.5	3.4	3.4
Non interest Income	1.6	1.6	1.7	1.7
Total expenses	2.5	2.4	2.4	2.3
- cost to income	48.7	47.1	46.0	43.8
Provisions	0.3	0.5	0.6	0.5
Tax	0.6	0.5	0.6	0.6
RoA	1.8	1.7	1.7	1.8
Leverage	9.8	9.0	8.7	8.4
RoE	18.1	16.0	14.6	15.2
RoRwa	2.6	2.4	2.1	2.1
(D) Measures of Investments				
EPS - adjusted	80.5	85.1	90.8	109.2
BV	486.7	576.7	666.2	773.0
ABV	460.1	547.9	635.6	739.2
DPS	1.0	1.0	2.0	2.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	16.2	8.9	7.1	12.5
PPoP	15.0	13.4	11.6	17.8
Adj PAT	12.7	6.1	6.6	20.4
Advances	14.2	7.8	12.0	12.0
Total borrowings	5.6	(6.4)	13.9	12.0
Total assets	12.1	9.0	11.3	12.4
(F) Valuation Ratios				
Market Cap (Rs. mn)	37,33,553	37,33,553	37,33,553	37,33,553
CMP (Rs.)	1207	1207	1207	1207
P/E (x)	15.0	14.2	13.3	11.0
P/BV (x)	2.5	2.1	1.8	1.6
P/ABV (x)	2.6	2.2	1.9	1.6
Div Yield (%)	0.1	0.1	0.2	0.2

E – Estimates

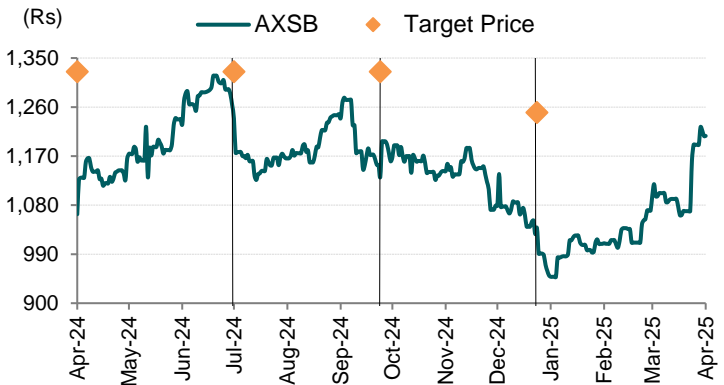
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	10	27	14
Rel to NIFTY (%)	7	22	5

Shareholding Pattern

Particulars	Sep'24	Dec'24	Mar'25
Promoters	8.3	8.2	8.2
MF/Banks/FIs	33.2	37.5	37.5
FIIIs	51.8	47.3	47.3
Public / Others	6.7	7.0	7.0



Month	Rating	TP (Rs.)	Price (Rs.)
Apr-24	BUY	1,325	1,063
Jul-24	Accumulate	1,325	1,239
Oct-24	Accumulate	1,325	1,132
Jan-25	Accumulate	1,250	1,038

*Price as on recommendation date

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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