



TM

18 July 2025

Axis Bank

Internal revision in asset classification norms impacts profitability

RESULT UPDATE

Sector: Banks **Rating:** BUY
CMP: Rs 1,160 **Target Price:** Rs 1,375

Stock Info

Nifty	25,111
Bloomberg Code	AXSB IN
Equity shares	3097mn
52-wk High/Low	Rs 1319/ 934
Face value	Rs 2
M-Cap	Rs 3,588bn/ USD 42bn
3-m Avg volume	USD 92.1mn

Financial Snapshot (Rs bn)

Y/E March	FY26E	FY27E	FY28E
NII	565	658	755
PPP	456	526	603
PAT	257	317	362
EPS (Rs)	83	102	117
EPS Gr. (%)	-3	23	14
BV/Sh (Rs)	662	763	878
Adj. BV/Sh (Rs)	646	749	864

Ratios

NIM (%)	3.8	3.9	4.0
C/I ratio (%)	46.9	46.4	46.1
RoA (%)	1.5	1.7	1.7
RoE (%)	13.3	14.4	14.2

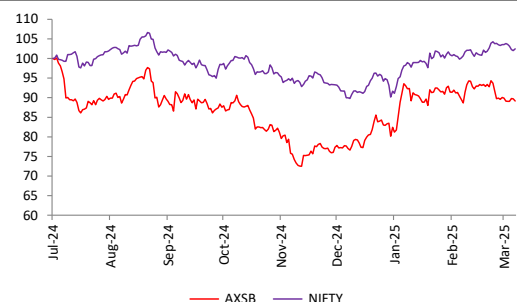
Valuations

P/E (x)	11.9	9.7	8.5
P/BV (x)	1.5	1.3	1.1
P/ABV (x)	1.5	1.3	1.1

Shareholding pattern (%)

	Sept'24	Dec'24	Mar'25
Promoter	8	8	8
-Pledged	-	-	-
FII	52	47	44
DII	33	37	41
Others	7	7	7

Stock Performance



Axis Bank reported 1QFY26 PAT of Rs 58bn which declined by -18% qoq and -4% yoy mainly due to (i) significantly higher slippages and provisions on account of change in NPA recognitions and subsequent upgradation norms (ii) fall in the net interest margin as the bank was impacted by the repo rate cut. Other income and operating expenses evolution have fared out well for the quarter. The bank has reported a healthy sequential growth in advances of 1.8% in 1Q and has also guided to grow at better than industry rate in FY26. However, margins would remain a drag in 2Q also as the bank have to still take the full impact of around 75bps repo rate cut. Further slippages and provisions are expected to remain elevated due to the revised internal norms. The bank expects asset quality aspects to normalize from FY27. Based on our revised estimates we have revised our target price to Rs 1375 (from Rs 1475 earlier) and maintain our BUY rating on Axis Bank. We are valuing the standalone bank at 1.6x its FY27E book value per share of Rs. 763. Further we assign Rs 172 per share value to its subsidiaries and associates.

Tightening of NPA recognition and subsequent upgradation norms acts as a big drag on profitability: Axis Bank (AXSB) follows an annual process of benchmarking its processes and norms with peers and accordingly implements its findings. Based on its study, the bank has revised its NPA recognition and consequent upgradation methodology. The bank has mentioned the impact of the same as 'Technical Impact'. The technical impact is largely restricted to cash credit and overdraft accounts and on accounts that have been given one-time settlements. AXSB has reported total gross slippages of Rs 82 bn for 1Q of which the technical impact is Rs 27.09bn. This technical impact consists of both stock and flow impact and the bank has not called out the break-up for the same. However, the distribution of the technical impact across Retail, CBG and WBG is Rs 21.65bn, Rs. 3.10bn and 2.34bn respectively. With this tightening of norms, the management has stated that they are now second to none in being prudent on asset quality norms. Also, they don't see any further such tightening of norms going forward. As Q1 gross slippages have both the stock and flow impact on the revised norms, slippages and provisions are expected to be trending lower from 2QFY26. However, the provisions are expected to remain elevated in FY26, and management expects FY27 to then be a normalized year. The link-to-like gross slippages of Rs. 54.91 bn in 1Q had an impact of the seasonally high agri slippages. The reported gross annualized slippage ratio was significantly higher at 3.13% and adjusted for technical impact it was 2.10%. The total provisions for 1Q were at Rs. 39.48 bn, up by 190% QoQ and 94% YoY. The total credit cost was at 1.50%, up by 97bps QoQ and 67bps YoY. With regards to the trends in asset quality in credit card and personal loans, the bank has witnessed improvements in collection efficiency and bounce rates. Reported Gross NPA ratio was 1.57%, adjusted to 1.41% (down 13bps YoY). Reported Net NPA ratio was 0.45%, adjusted to 0.36% (up 2bps YoY, 3bps QoQ).

Net interest margin has come under pressure as the bank has witnessed the impact of repo rate cut: the bank has reported a net interest margin of 3.80% for Q1FY26, down -25bps YoY and -17bps QoQ. The technical impact has reduced the NIM by 1 basis point, with a 3 bps QoQ decline due to seasonal agri slippages. The spread/reprising had an adverse impact of -13bps. Repo linked loans share in total advances is at around 60%. The bank has currently absorbed the 25bps repo rate cut announced in February 2025. A 75bps repo rate cut will impact loan yields in Q2FY26,

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potentially pressuring margins. However, the bank has tightly matched its assets and liabilities over 15-18 months period and hence has maintained its through-cycle NIM target of 3.8%, supported by improvements in balance sheet mix. The bank also expects to witness a positive impact of the term deposit rate cuts as the deposits gets reprised going forward.

Advances growth has been healthy, but deposits growth has lagged leading to deterioration in the C-D ratio: Total advances grew by 1.8% QoQ and 8.1% YoY. Small business, SME, and mid-corporate loans grew 18% YoY and 5% QoQ, constituting 23% of total bank loans. Retail loan growth has slowed, with a focus on controlling credit costs, but disbursements in retail asset classes are picking up. Total deposits grew 9% YoY and 8% on a quarterly average basis. Retail and small business deposits under the LCR framework grew 12% YoY. Post-rate cut, no significant outflows were observed in deposits above Rs 5 mn. The bank's credit to deposit ratio was at 91.2% up by 249bps QoQ. The bank has guided to grow its advances 300bps faster than the industry in the medium term (3-5 years) with FY26 as the base. For FY26 the bank expects to grow at better than industry growth rate.

PPOP grew due to healthy other income growth and cost control: Other income increased by 7.7% qoq and 25.5% yoy due to higher trading gains. The trading income was at Rs 14.2bn up significantly both on QoQ and YoY basis. The total operating expenses was down by -5.4% QoQ but up 1.9% YoY. The employee expense was up by 10% QoQ and 4.2% YoY whereas the other operating expense was down by -12.1% QoQ but up 0.7% YoY. Pre-provision operating profit was Rs 115.15bn up by 7.1% QoQ and 13.9% YoY.

Valuation and recommendation: We have revised our estimates to factor in the technical impact which would lead to higher provisions for FY26 and later normalise in FY27. However, the bank has maintained its through-the cycle NIM guidance of 3.80% and have further guided to grow better than industry growth for FY26. Based on our revised estimates we have revised our target price to Rs 1375 (from Rs 1475 earlier) and maintain our **BUY** rating on Axis Bank. We are valuing the standalone bank at 1.6x its FY27E book value per share of Rs. 763. Further, we assign Rs 172 per share value to its subsidiaries and associates.

Key takeaways from 1QFY26 earnings call:

1. Asset Quality

- **Technical Impact on Asset Quality:** The bank implemented changes in technical recognition criteria, particularly for cash credit, overdraft accounts, and one-time settlements (OTS), impacting gross slippages, net slippages, credit costs, and NPA ratios. Reported gross slippages were Rs 83bn, with Rs 27.09 bn due to technical impact. Adjusted gross slippages were Rs 54.91 bn, flat compared to Q3 FY25.
- **Example of a change in OTS norms:** If a customer has taken Rs 100 as personal loan that is 5 days past due, and the collections team offers a one-time settlement of three Rs 30 installments with a 90-day moratorium. During this moratorium, the DPD continues to rise, reaching 95 days before borrower makes the first Rs 30 payment. Although this payment resets the DPD counter to zero, only Rs 30 of the loan is paid, and Rs 70 remains. Under new norms, borrower's account isn't upgraded just because DPD is zero—technical (non-DPD) parameters now prevent automatic upgrades, leading to higher slippages.
- **Slippage Ratios:** Reported gross slippage ratio was 3.15% annualized; adjusted for technical impact, it was 2.10%, up 15bps YoY and 20bps QoQ. Segmental gross slippages: retail (Rs 75.0 bn), commercial banking (Rs 4.03 bn), wholesale (Rs 2.97 bn).
- **Net NPA and GNPA:** Reported Gross NPA ratio was 1.57%, adjusted to 1.41% (down 13bps YoY). Reported Net NPA ratio was 0.45%, adjusted to 0.36% (up 2bps YoY, 3bps QoQ).
- **Credit Costs:** Reported credit cost was 1.38%, adjusted to 1.09% (up 12bps YoY) due to technical impact. The bank expects more muted slippages in Q2-Q4 FY26 with better recoveries offsetting elevated slippages.
- **Provision Coverage Ratio (PCR):** PCR dropped 300bps QoQ to 71%, primarily due to the secured nature of technical impact accounts, with 80% having over 100% security value, requiring lower provisions.
- **ECL Preparedness:** The bank holds Rs 50.12 bn in provisions for Expected Credit Loss (ECL) transition, providing a 36 bps capital cushion.

2. Margin

- **Net Interest Margin (NIM):** NIM was 3.8% for Q1 FY26, down 25bps YoY and 17bps QoQ. Technical impact reduced NIM by 1 basis point, with a 3 bps QoQ decline due to seasonal agri slippages.
- **Future Margin Outlook:** A 75 bps repo rate cut will impact loan yields in Q2 FY26, potentially pressuring margins. However, the bank maintains a through-cycle NIM target of 3.8%, supported by improvements in balance sheet mix.

3. Advances

- **Loan Growth:** Total advances grew by 1.8% QoQ and 8.1% YoY. Small business, SME, and mid-corporate loans grew 18% YoY and 5% QoQ, constituting 23% of total bank loans. Retail loan growth has slowed, with a focus on controlling credit costs, but disbursements in retail asset classes are picking up.
- **Portfolio Strategy:** The bank has shifted growth toward wholesale loans, demonstrating the ability to grow this segment when opportunities arise. Retail,

which accounts for 60% of the loan book, is expected to drive future growth to support NIM targets.

- **Growth Outlook:** The bank is confident in growing advances 300bps faster than the industry in the medium term (3-5 years) with FY26 as the base. For FY26 the bank expects to grow at better than industry growth.

4. Deposits

- **Deposit Growth:** Total deposits grew 9% YoY and 8% on a quarterly average basis. Retail and small business deposits under the LCR framework grew 12% YoY.
- **Deposit Momentum:** Post-rate cut, no significant outflows were observed in deposits above Rs 5 mn. The bank saw improved momentum in individual deposits and premium acquisition, with 18% YoY growth in salary uploads and 27% YoY growth in premium acquisitions in the new-to-bank salary book as of June 2025.
- **Liability Repricing:** Deposit repricing is expected over 15-18 months from the last rate cut (post-February 2025), influenced by competitive intensity in the market.

5. Operating Expenses

- **Expense Moderation:** Operating expenses were Rs 93.03 crores, with a moderated YoY growth of 2% and a -5% QoQ decline. Cost-to-assets ratio improved to 2.41%, down -5bps QoQ and -13bps YoY.
- **Outlook:** The bank has demonstrated expense optimization over the last three quarters and aims to maintain a positive operating leverage in the short term, with cost-to-assets expected to improve further over the long term.

6. Other Income

- **Non-Interest Income Growth:** Total non-interest income grew 25% YoY. Trading profit and other income grew at Rs 15.12bn grew by 161% YoY , mainly on account of realized gains across government securities and bonds. Granular fees accounted for 91% of total fees (Rs 57.46 bn, up 10% YoY).

Exhibit 1: Quarterly performance

P&L (INR, mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Interest Earned	3,10,635	3,12,425	(0.6)	3,00,607	3.3
Interest Expended	(1,75,038)	(1,74,320)	0.4	(1,66,125)	5.4
Net Interest Income	1,35,598	1,38,105	(1.8)	1,34,482	0.8
Fee income	57,460	63,380	(9.3)	52,040	10.4
Non-fee Income	15,121	4,415	242.5	5,795	160.9
Other Income	72,581	67,795	7.1	57,835	25.5
Total Net Income	2,08,178	2,05,901	1.1	1,92,317	8.2
Employee Expense	(32,618)	(29,615)	10.1	(31,295)	4.2
Other operating expense	(60,409)	(68,762)	(12.1)	(59,960)	0.7
Operating expenses	(93,027)	(98,377)	(5.4)	(91,255)	1.9
PPOP	1,15,152	1,07,524	7.1	1,01,062	13.9
Core PPOP	1,00,031	1,03,109	(3.0)	95,268	5.0
Provisions	(39,477)	(13,594)	190.4	(20,393)	93.6
PBT	75,675	93,930	(19.4)	80,670	(6.2)
Tax	(17,614)	(22,755)	(22.6)	(20,323)	(13.3)
PAT	58,061	71,175	(18.4)	60,346	(3.8)
Key Ratios (%)	Q1 FY26	Q4 FY25	chg qoq	Q1 FY25	chg yoy
Net Interest Margin	3.80	3.97	-17bps	4.05	-25bps
Cost of Deposits	5.07	5.19	-12bps	5.08	-1bps
CASA Ratio	40.3	40.8	-46bps	41.8	-153bps
Loan to Deposit ratio	91.2	88.7	249bps	92.2	-102bps
Fee Income/Avg. Total Assets	1.43	1.62	-19bps	1.41	2bps
Non-interest income/Total income	34.9	32.9	194bps	30.1	479bps
Cost to Income	44.7	47.8	-309bps	47.5	-276bps
Opex/Avg. Total Assets	2.32	2.51	-19bps	2.48	-16bps
Annualised Slippage Ratio	3.13	1.90	123bps	1.97	116bps
Credit Cost	1.50	0.53	97bps	0.84	67bps
Gross NPA	1.57	1.28	29bps	1.54	3bps
Provision Coverage	71.0	75.0	-400bps	78.0	-700bps
Net NPA	0.45	0.33	12bps	0.34	11bps
RoA	1.47	1.83	-36bps	1.65	-18bps
RoE	13.1	17.0	-384bps	16.3	-312bps
Capital Adequacy ratio	16.9	17.1	-22bps	16.7	20bps
Tier I Capital Ratio	15.1	15.1	3bps	14.5	58bps

Source: Company, Systematix Institutional Research

Exhibit 2: Advances and Deposits break-up

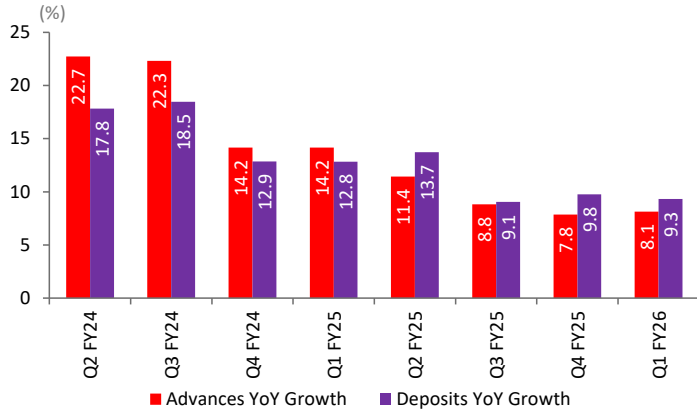
Particulars (Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Advances	1,05,97,244	1,04,08,113	1.8	98,00,920	8.1
Large/Mid-corporate	31,58,920	29,93,930	5.5	29,09,640	8.6
SME	12,08,720	11,85,210	2.0	10,40,150	16.2
Retail	62,29,600	62,28,970	0.0	58,51,120	6.5
Home Loans	16,59,610	16,71,440	(0.7)	16,53,530	0.4
Rural Lending	9,31,400	9,82,320	(5.2)	8,85,080	5.2
Auto Loans	5,77,600	5,83,190	(1.0)	5,88,270	(1.8)
Personal Loan	7,70,990	7,73,320	(0.3)	7,36,200	4.7
Credit Card	4,35,170	4,30,840	1.0	4,25,260	2.3
LAP	7,87,550	7,53,160	4.6	6,50,510	21.1
SBB	6,73,450	6,67,570	0.9	5,83,910	15.3
CE	1,17,380	1,18,110	(0.6)	1,19,790	(2.0)
Others	2,76,450	2,49,020	11.0	2,08,570	32.5
Total Deposits	1,16,16,146	1,17,29,520	(1.0)	1,06,24,840	9.3
CA	16,30,330	16,67,990	(2.3)	14,95,690	9.0
SA	30,51,330	31,13,890	(2.0)	29,49,100	3.5
Term	69,34,486	69,47,640	(0.2)	61,80,050	12.2

Source: Company, Systematix Institutional Research

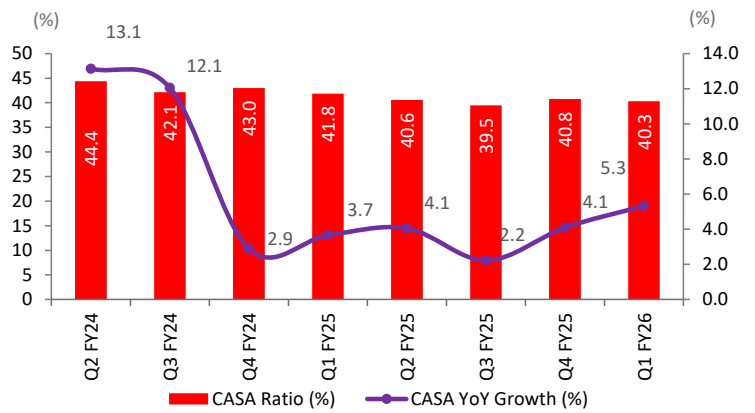
Exhibit 3: Actuals Vs Expectation

Q1FY26 (Rs. mn)	Actuals	Estimates	Variance
Net Interest Income	1,35,598	1,38,229	(1.9)
Pre-Prov. Operating Profit	1,15,152	1,04,856	9.8
Profit After Tax	58,061	62,892	(7.7)

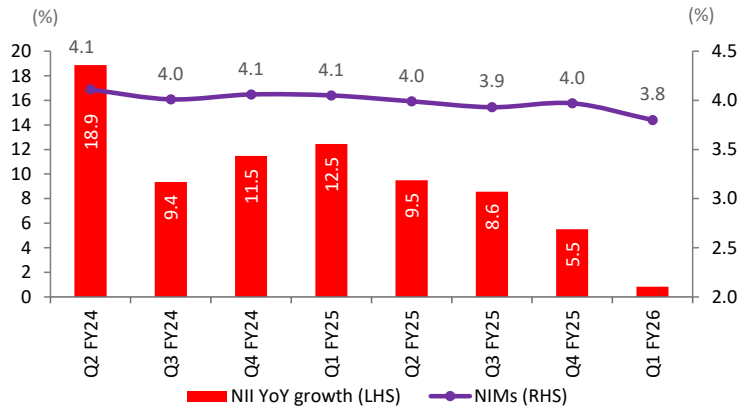
Source: Company, Systematix Institutional Research

Exhibit 4: Advances and Deposits YoY Growth (%)

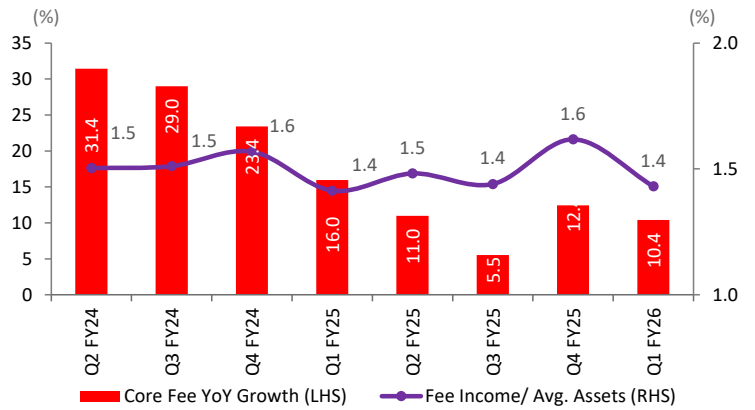
Source: Company, Systematix Institutional Research

Exhibit 5: CASA Ratio and CASA YoY Growth (%)

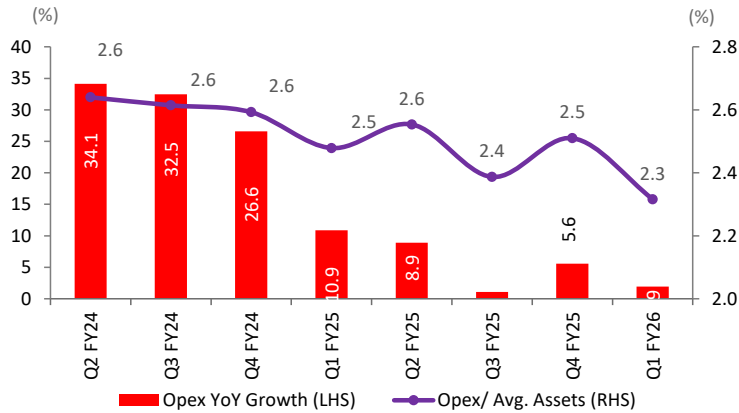
Source: Company, Systematix Institutional Research

Exhibit 6: NII YoY Growth and NIM (%)

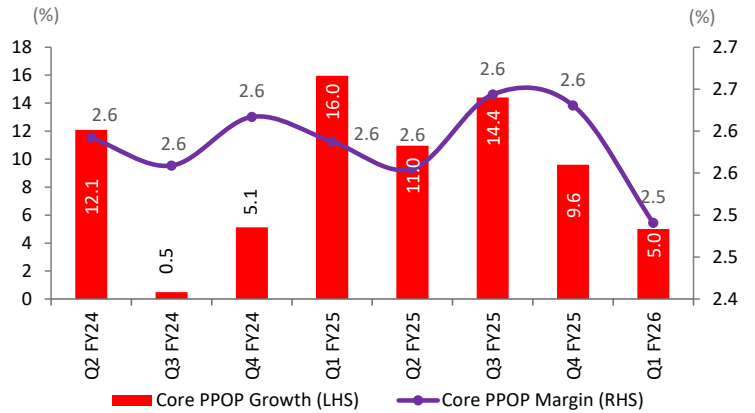
Source: Company, Systematix Institutional Research

Exhibit 7: Fee Income YoY Growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

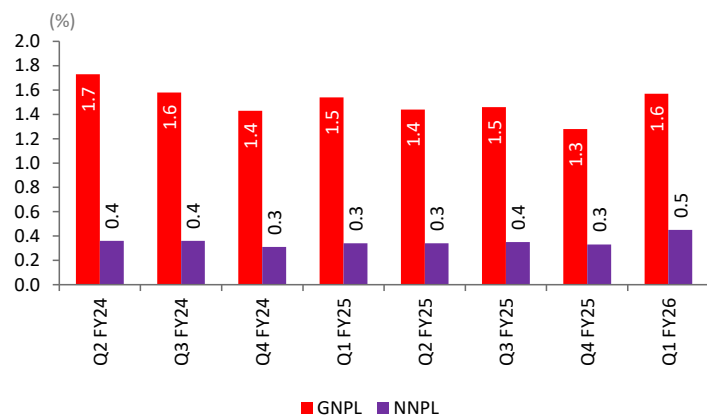
Exhibit 8: Opex YoY growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

Exhibit 9: Core PPOP YoY Growth and Margin (%)

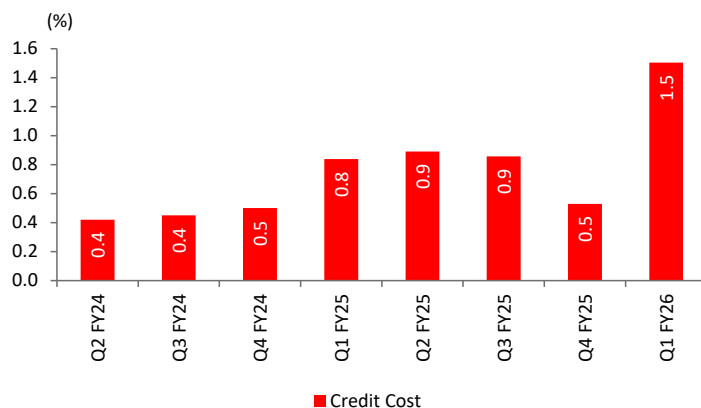
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA and NNPA Ratio (%)



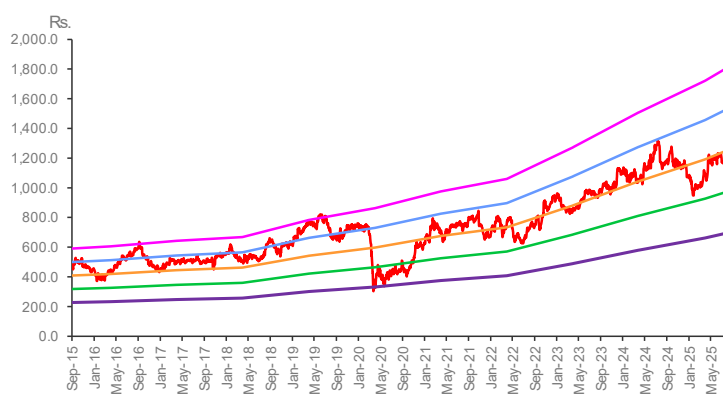
Source: Company, Systematix Institutional Research

Exhibit 11: Credit Cost (%)



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/BV (x) trajectory



Source: Company, Systematix Institutional Research

Exhibit 13: 1-year forward P/BV (x) near long term average



Source: Company, Systematix Institutional Research

Exhibit 14: Revised vs earlier estimates

Particulars (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	5,64,770	6,58,483	7,55,487	5,89,837	6,77,767	7,66,150	(4.2)	(2.8)	(1.4)
Pre-Prov. Operating Profit	4,56,114	5,26,290	6,03,037	4,61,810	5,34,102	6,05,743	(1.2)	(1.5)	(0.4)
Profit after tax	2,56,799	3,16,678	3,61,668	2,83,950	3,30,816	3,79,409	(9.6)	(4.3)	(4.7)

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,094	1,227	1,275	1,429	1,641
Interest expense	(595)	(683)	(710)	(771)	(885)
Net interest income	499	543	565	658	755
Fee Income	203	225	248	277	314
Other Income	22	28	46	46	50
Total Non-interest income	224	253	294	323	364
Total income	723	796	858	982	1,119
Operating expenses	(352)	(375)	(402)	(455)	(516)
PPoP	371	421	456	526	603
Core PPOP	349	394	410	481	553
Provisions	(41)	(78)	(118)	(104)	(120)
Exceptional Item	-	-	-	-	-
Profit before tax	331	343	338	422	484
Taxes	(82)	(80)	(81)	(106)	(122)
Net profit	249	264	257	317	362

Source: Company, Systematix Institutional Research

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YE: Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	7.8	7.9	7.5	7.6	7.8
Interest expense	(4.3)	(4.4)	(4.2)	(4.1)	(4.2)
Net interest income	3.6	3.5	3.3	3.5	3.6
Non-interest income	1.6	1.6	1.7	1.7	1.7
Total income	5.2	5.2	5.1	5.2	5.3
Operating expenses	(2.5)	(2.4)	(2.4)	(2.4)	(2.5)
PPoP	2.7	2.7	2.7	2.8	2.9
Provisions	(0.3)	(0.5)	(0.7)	(0.6)	(0.6)
Profit before tax	2.4	2.2	2.0	2.2	2.3
Taxes	(0.6)	(0.5)	(0.5)	(0.6)	(0.6)
Net profit	1.8	1.7	1.5	1.7	1.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	6	6	6	6	6
Reserves & surplus	1,504	1,791	2,044	2,356	2,714
Net worth	1,511	1,797	2,050	2,363	2,720
Deposits	10,686	11,730	13,022	14,647	16,621
Borrowings	1,968	1,841	2,033	1,910	2,213
Other liabilities	607	731	768	759	646
Total liabilities	14,772	16,099	17,873	19,678	22,200
Total cash & equ.	1,145	997	1,097	1,071	1,171
Investments	3,315	3,961	4,399	4,738	5,331
Advances	9,651	10,408	11,605	13,056	14,818
Fixed assets	57	63	69	76	84
Other assets	605	670	703	738	797
Total assets	14,772	16,099	17,873	19,678	22,200

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth Trend (%)					
Net interest income	16.2	8.9	3.9	16.6	14.7
Total Income	22.4	10.0	7.8	14.4	14.0
PPoP	15.0	13.4	8.3	15.4	14.6
Net profit	159.5	6.1	(2.6)	23.3	14.2
Advances	14.2	7.8	11.5	12.5	13.5
Deposits	12.9	9.8	11.0	12.5	13.5
Return Ratios (%)					
Return on Average Equity	18.0	15.9	13.3	14.4	14.2
Return on Average Assets	1.8	1.7	1.5	1.7	1.7
Per share data (Rs)					
EPS	80.5	85.1	82.9	102.2	116.8
BVPS	489.4	580.3	662.0	762.8	878.2
ABVPS	478.9	568.4	646.3	749.4	864.5
Valuation multiples (x)					
P/E	12.3	11.6	11.9	9.7	8.5
P/BV	2.0	1.7	1.5	1.3	1.1
P/ABV	2.1	1.7	1.5	1.3	1.1
Spread Analysis (%)					
Net interest margin	4.1	4.1	3.8	3.9	4.0
Yield on loans	9.6	9.7	9.1	9.2	9.4
Cost of deposits	4.5	4.8	4.8	4.7	4.8
Loan-deposit ratio	90.3	88.7	89.1	89.1	89.2
Opex aspects (%)					
Cost/Income ratio	48.7	47.1	46.9	46.4	46.1
Cost to average assets	2.5	2.4	2.4	2.4	2.5
Asset quality (%)					
Gross NPL ratio	1.5	1.4	1.6	1.4	1.3
Gross Slippage ratio	1.6	1.9	2.1	1.7	1.6
Total Credit Cost	0.4	0.8	1.1	0.8	0.9
Net NPA ratio	0.3	0.4	0.4	0.3	0.3

Source: Company, Systematix Institutional Research

DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

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