

Growth outlook improving; NIMs to bottom out in 4Q/1Q

Medium-term RoA outlook remains at 1.6-1.8%

We interacted with the top management team of Axis Bank (AXSB), represented by Mr. Amitabh Chaudhry, MD & CEO, and Mr. Puneet Sharma, CFO, to discuss the bank's business growth, profitability outlook, and other key focus areas. Following are the key takeaways from the discussion:

Growth momentum gradually rebuilding

AXSB's loan growth is entering a repair phase, with advances growing 12% YoY and 5% QoQ in 2QFY26, supported by a pickup in wholesale banking and improving traction in granular segments. The SBB, SME, and mid-corporate book at ~INR2.66t now constitutes ~24% of total advances, rising ~740bp over four years, reflecting a conscious shift toward higher risk-adjusted return portfolios. Retail growth had slowed following the unsecured cycle correction, with vehicle loans and mortgages remaining soft, reflecting industry trends/margin considerations. However, disbursements have begun to improve, which should gradually translate into stronger AUM growth. The cards portfolio has stabilized, while personal loan disbursements are picking up, albeit with a lagged impact on balance sheet. Management remains confident of outpacing system growth, targeting ~300bp faster growth over the medium term as execution improves through FY27.

Liability franchise: Remains the most critical execution metric

The liability franchise remains the most critical execution variable for AXSB in the current cycle. Deposits grew 11% YoY and quarterly average balances rose 10% YoY in 2QFY26, reflecting steady yet sub-optimal traction in a highly competitive deposit environment. Management acknowledged the need for improved deposit traction to drive faster asset growth. With the industry struggling to attract CASA deposits, incremental flows are skewed towards wholesale deposits, putting pressure on both consistency and mix. Despite this, early repricing actions have yielded results, with cost of funds declining 24bp QoQ and 30bp YoY, while CASA remains stable at ~38–40%. Liquidity remains comfortable, with an average LCR of ~119%, though the focus has shifted from LDR optimization to LCR management. Ongoing liability initiatives and execution focus are expected to gradually narrow the funding gap vs peers over time.

NIMs likely to bottom out in 4Q/1Q; guidance reiterated for 3.8% in 15-18 months

NIMs contracted 7bp QoQ in 2QFY26 to 3.73%, and management suggested that margins will continue to reflect drag from repo-linked repricing and a deliberate moderation in unsecured retail. Management now expects margins to bottom out in 4QFY26 or 1QFY27, as the impact of the 25bp repo cut largely flows through, while higher LCR outflow rates could further exert pressure on margins. With benefits from CRR cuts, asset mix improvement, and residual deposit repricing, AXSB remains confident of restoring cycle-agnostic NIMs to ~3.8% within 15 to 18 months from the date of the last repo rate cut.

Axis Bank



Mr. Amitabh Chaudhry, MD & CEO

Mr. Amitabh Chaudhry is a seasoned financial services leader with over three decades of experience across banking, insurance, and technology services. As MD and CEO of AXSB, he has led a strong turnaround, delivering industry-leading growth and profitability with a focus on sustainability. Previously, he served as CEO of HDFC Life, held senior roles at Bank of America, and was part of the founding leadership team at Infosys BPM. He is an engineer from BITS Pilani and holds a postgraduate degree in business management from IIM, Ahmedabad.

Seasonal slippages (agri) to persist in 3Q, but core risk contained

Core asset quality continues to trend better, and the bank remains confident of better asset quality outcomes over the next year. During 2QFY26, the gross slippage ratio declined to 2.11%, down 102bp QoQ, while net credit cost moderated to 0.73%, down 65bp QoQ. Management expects technical slippages to recur in 3QFY26, largely driven by seasonality in agri KCC/OD accounts, though the quantum is likely to be lower than the elevated levels seen in 1QFY26. Importantly, the core retail unsecured portfolio has stabilized, with credit card metrics improving and personal loans holding steady, while recoveries and upgrades are trending positively. With GNPA at 1.46%, NNPA at 0.44%, and a strong ~147% aggregate coverage, the ongoing asset-quality volatility appears seasonal rather than structural.

CET-1 rising 69bp since Mar'24 on healthy internal accruals; capital allocation remains disciplined

AXSB's diversified balance sheet continues to provide meaningful insulation against earnings hiccups and asset-quality volatility. As of 2QFY26, CET-1 stood at 14.43% (improved 69bp since Mar'24 on healthy internal accruals). In addition, the bank holds ~INR62b of excess provisions (standard and other contingencies), translating into a ~44bp capital buffer, while PCR remains healthy at ~70%. Recent standard provisioning for agri loans was largely technical and is expected to unwind over time without translating into material economic losses. Capital allocation remains disciplined, with retained earnings fully reinvested into the balance sheet and a focus on maintaining ~4% capital buffer over the regulatory minimum. Incremental capital deployment is largely earmarked for Axis Finance, while the bank will remain open to increasing its stake in Axis Max Life, subject to regulatory approval. Importantly, subsidiaries remain cash-surplus, with no dividend upstreaming over the last 3 to 4 years, preserving capital flexibility without near-term RWA pressure.

Other highlights

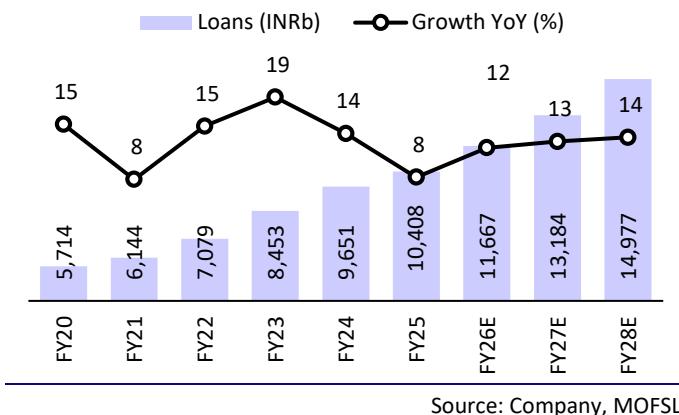
- FY27 looks like a more tail winded year when it comes to RoA vs the headwinds that bank has to endure in FY26. The bank aims to deliver 16-18% RoE and 1.6-1.8% RoA on a sustainable basis over the medium term. This will be led by a recovery in NIMs and credit costs, along with improvements in operating efficiency.
- On the transition to ECL, the bank expects the impact on existing provision stocks to be largely manageable however, there is likely to be an impact on incremental provisioning flows and is awaiting more clarity from the RBI to better ascertain the impact from this transition.

Valuation and view: Reiterate Neutral with a TP of INR1,300

- While earnings progression has been somewhat uneven, AXSB appears to be navigating what may be the final phase of margin and asset-quality normalization.
- 3QFY26 is likely to witness further margin pressure and technical slippages, along with agri seasonality effects, which may weigh on operating performance. However, we expect earnings progression to improve gradually in subsequent quarters as asset-quality stress normalizes and margin recovers in FY27.
- With loan growth expected to accelerate to mid-teens, credit costs trending lower, and NIMs recovering toward ~3.8%, AXSB is well-positioned for a gradual improvement in RoA, targeting 1.6-1.8% over the medium term.
- **We currently estimate AXSB to deliver FY27E RoA/RoE of 1.61%/14.4%. Reiterate Neutral with a TP of INR1,300 (1.6x FY27E ABV + INR137 for subs).**

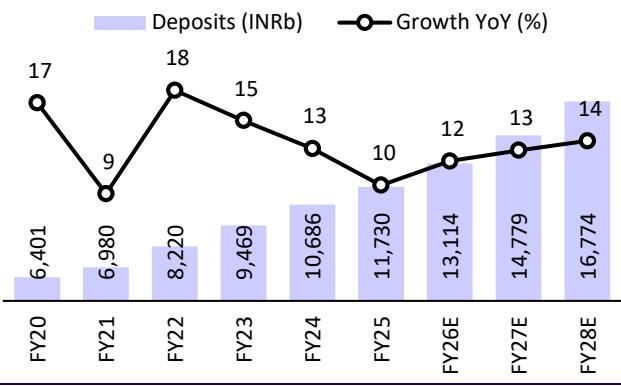
STORY IN CHARTS

Exhibit 1: Estimate ~13% loan CAGR over FY26-28E



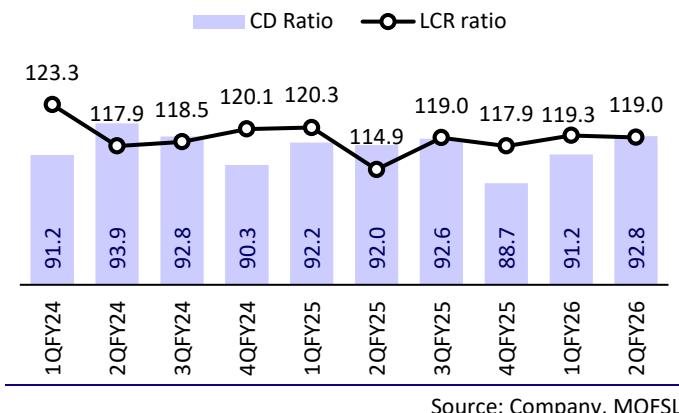
Source: Company, MOFSL

Exhibit 2: We estimate a 13% CAGR in deposits over FY26-28E



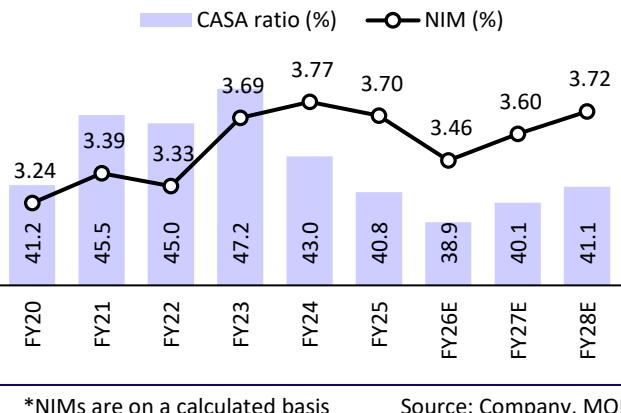
Source: Company, MOFSL

Exhibit 3: CD ratio stands higher at 92.8% in 2QFY26, with LCR holding stable at 119%



Source: Company, MOFSL

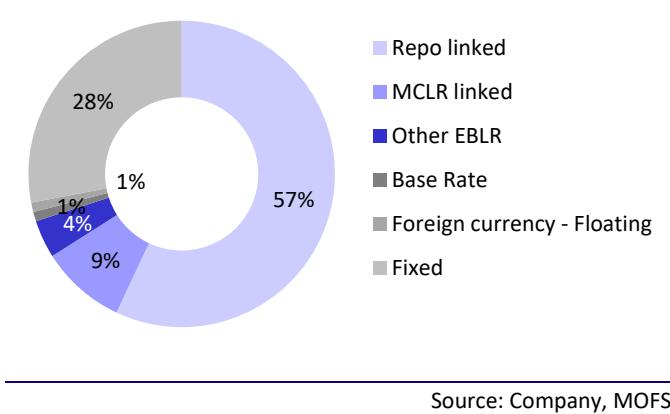
Exhibit 4: Calc. NIMs to see near-term pressure due to repo rate cuts and recover thereafter in FY27E



*NIMs are on a calculated basis

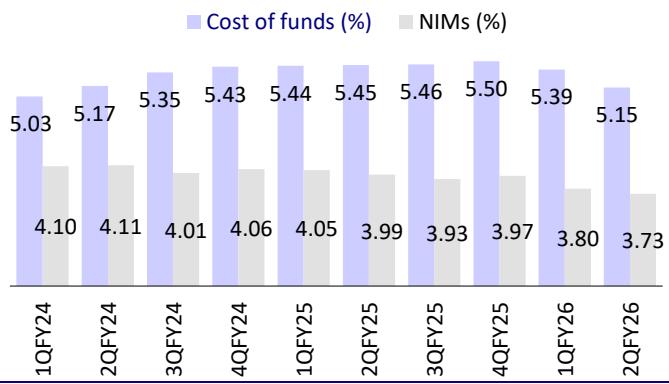
Source: Company, MOFSL

Exhibit 5: 2QFY26 loan mix: 57% of the book is linked to repo



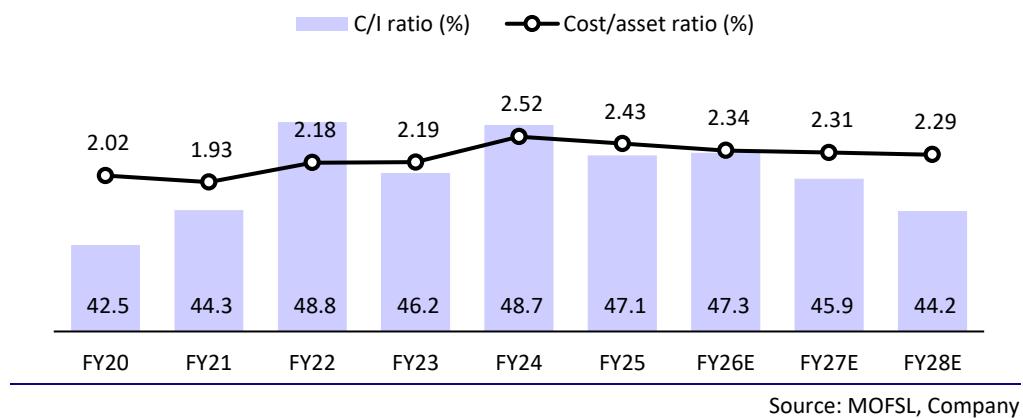
Source: Company, MOFSL

Exhibit 6: Trend in cost of funds and margins



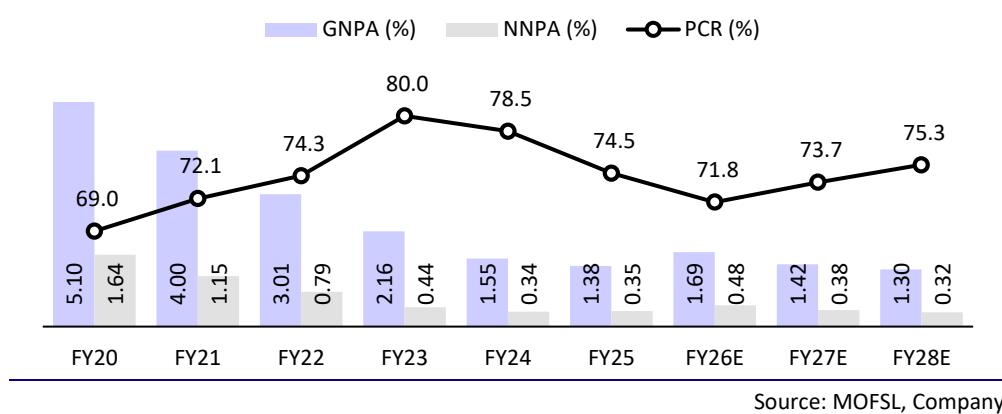
Source: Company, MOFSL

Exhibit 7: Estimate C/I ratio to moderate to ~46% by FY27E



Source: MOFSL, Company

Exhibit 8: Estimate GNPA/NNPA ratio at 1.42%/0.38% by FY27; PCR stable at ~74%



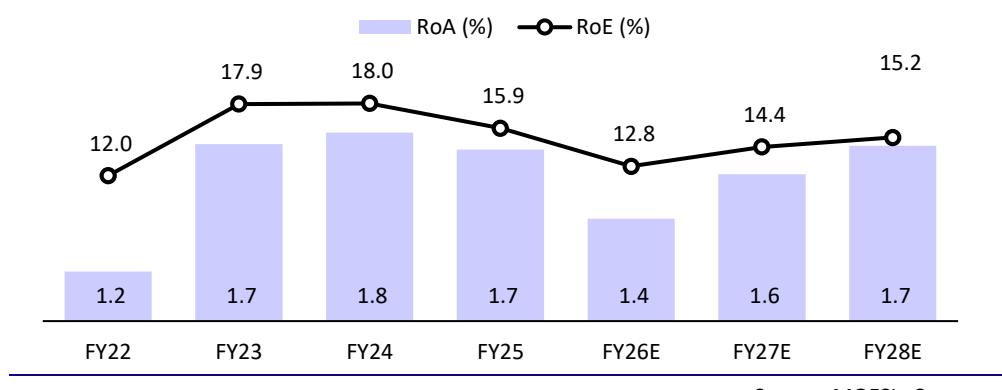
Source: MOFSL, Company

Exhibit 9: Technical slippages declined during 2QFY26

INR bn	Slippages		Technical impact		Ex of Technical impact	
	1QFY26	2QFY26	1QFY26	2QFY26	1QFY26	2QFY26
Gross slippage	82.0	57.0	27.1	15.1	54.9	41.8
Net slippage	60.5	28.1	18.6	2.8	41.9	25.3
Net credit cost	39.0	21.3	8.2	2.6	30.8	18.8

Source: MOFSL, Company

Exhibit 10: Estimate RoA/RoE to stabilize at 1.6-1.7% over FY27-28E



Source: MOFSL, Company

Exhibit 11: SOTP-based valuation

Name	Stake	Attributed Value (INR b)	Value per Share	% of total value	Rationale
Axis Bank	100.0	3,607.9	1,163	89.5	❖ 1.6x FY27E ABV
Axis Finance	100.0	160.3	52	4.0	❖ 2.0x FY27E Networth
Axis Capital	100.0	45.6	15	1.1	❖ 15x FY27E PAT
Axis Securities	100.0	97.7	31	2.4	❖ 15x FY27E PAT
Axis Mutual Fund	75.0	155.7	50	3.9	❖ 27x FY27E PAT
Max Life Insurance	20.0	72.1	23	1.8	❖ 2.1x FY27E EV
Total Value of Subs		531.4	171	13.2	
Less: 20% holding disc		106.3	34	2.6	
Value of Subs (Post Holding Disc)		425.1	137	10.5	
Target Price		4,033.0	1,300		

Source: MOFSL, Company

Exhibit 12: DuPont: Estimate FY27E RoA/RoE at 1.61%/14.4%

Y/E MARCH	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	6.23	6.83	7.83	7.95	7.58	7.54	7.59
Interest Expense	3.17	3.39	4.26	4.43	4.28	4.10	4.03
Net Interest Income	3.06	3.45	3.57	3.52	3.30	3.44	3.57
Fee income	1.28	1.32	1.48	1.51	1.51	1.44	1.43
Trading and others	0.13	-0.02	0.13	0.13	0.15	0.16	0.17
Non Interest income	1.41	1.30	1.61	1.64	1.66	1.60	1.61
Total Income	4.47	4.74	5.18	5.16	4.96	5.04	5.17
Operating Expenses	2.18	2.19	2.52	2.43	2.34	2.31	2.29
-Employee cost	0.70	0.70	0.78	0.79	0.78	0.77	0.76
-Others	1.48	1.49	1.74	1.64	1.56	1.54	1.53
Operating Profit	2.29	2.55	2.66	2.73	2.61	2.73	2.89
Core Operating Profit	2.16	2.57	2.53	2.60	2.46	2.56	2.71
Provisions	0.68	0.23	0.29	0.50	0.73	0.60	0.59
NPA	0.48	0.27	0.26	0.49	0.72	0.59	0.59
Others	0.20	-0.04	0.03	0.01	0.00	0.00	0.00
PBT	1.61	2.32	2.37	2.23	1.89	2.13	2.29
Tax	0.40	0.59	0.59	0.52	0.46	0.52	0.57
RoA	1.20	1.73	1.78	1.71	1.42	1.61	1.73
Leverage (x)	10.0	10.4	10.2	9.4	9.0	9.0	8.8
RoE	12.0	18.0	18.1	16.0	12.8	14.4	15.2

Source: MOFSL, Company

Exhibit 13: One-year forward P/B ratio

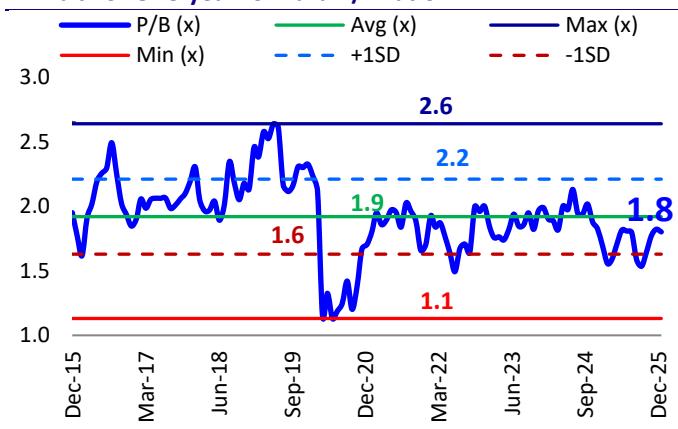
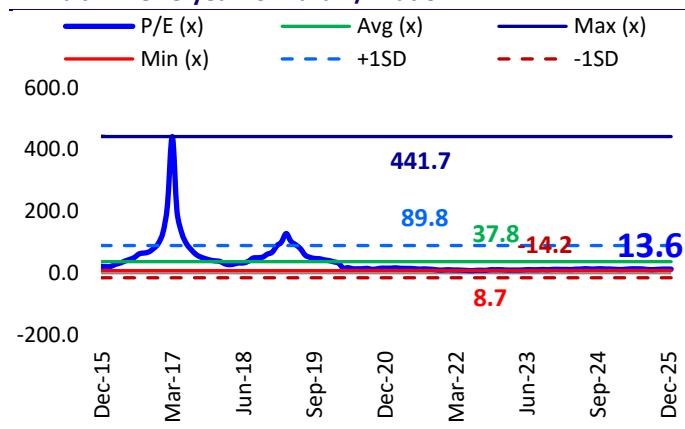


Exhibit 14: One-year forward P/E ratio



Financials and valuations

Income Statement							(INRb)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	673.8	851.6	1,093.7	1,226.8	1,292.7	1,440.1	1,630.6
Interest Expense	342.4	422.2	594.7	683.3	730.6	783.3	864.8
Net Interest Income	331.3	429.5	498.9	543.5	562.2	656.8	765.9
-growth (%)	13.3	29.6	16.2	8.9	3.4	16.8	16.6
Non Interest Income	152.2	161.4	224.4	252.6	282.9	305.5	345.2
Total Income	483.5	590.9	723.4	796.0	845.0	962.3	1,111.1
-growth (%)	16.5	22.2	22.4	10.0	6.2	13.9	15.5
Operating Expenses	236.1	273.0	352.1	375.0	399.3	441.7	491.4
Pre Provision Profits	247.4	317.9	371.2	421.0	445.7	520.6	619.7
-growth (%)	7.0	28.5	16.8	13.4	5.9	16.8	19.0
Core PPoP	233.6	320.6	353.3	401.2	419.9	489.4	582.5
-growth (%)	5.5	37.2	10.2	13.6	4.7	16.5	19.0
Provisions	73.6	28.8	40.6	77.6	124.0	113.8	127.6
PBT	173.8	289.0	330.6	343.5	321.8	406.9	492.1
Tax	43.6	73.3	82.0	79.7	79.2	100.1	121.5
Tax Rate (%)	25.1	25.3	24.8	23.2	24.6	24.6	24.7
Extraordinary expense	-	123.5	-	-	-	-	-
PAT	130.3	92.2	248.6	263.7	242.6	306.8	370.5
-growth (%)	97.7	(29.2)	169.6	6.1	(8.0)	26.4	20.8
Balance Sheet							
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Reserves & Surplus	1,145.6	1,248.0	1,504.4	1,791.1	1,991.3	2,258.7	2,613.5
Net Worth	1,151.7	1,254.2	1,510.6	1,797.3	1,997.5	2,264.9	2,619.7
Deposits	8,219.7	9,469.5	10,686.4	11,729.5	13,113.6	14,779.0	16,774.2
-growth (%)	17.8	15.2	12.9	9.8	11.8	12.7	13.5
- CASA Deposits	3,700.1	4,465.4	4,594.0	4,781.9	5,101.2	5,926.4	6,894.2
-growth (%)	16.4	20.7	2.9	4.1	6.7	16.2	16.3
Borrowings	1,851.3	1,863.0	1,968.1	1,841.5	2,105.2	2,269.0	2,467.3
Other Liabilities & Prov.	531.5	586.6	606.9	731.1	790.3	855.1	925.2
Total Liabilities	11,754.3	13,173.3	14,772.1	16,099.3	18,006.6	20,167.9	22,786.3
Current Assets	1,109.9	1,064.1	1,144.5	997.3	1,141.4	1,244.5	1,385.4
Investments	2,756.0	2,888.1	3,315.3	3,961.4	4,397.2	4,902.8	5,540.2
-growth (%)	21.9	4.8	14.8	19.5	11.0	11.5	13.0
Loans	7,079.5	8,453.0	9,650.7	10,408.1	11,667.5	13,184.3	14,977.3
-growth (%)	15.2	19.4	14.2	7.8	12.1	13.0	13.6
Fixed Assets	45.7	47.3	56.8	62.9	70.5	78.2	86.8
Other Assets	763.3	720.6	604.7	669.5	730.0	758.1	796.6
Total Assets	11,754.3	13,173.3	14,772.1	16,099.3	18,006.6	20,167.9	22,786.3
Asset Quality							
GNPA	218.2	186.0	151.3	144.9	199.7	188.6	196.7
NNPA	56.1	37.3	32.5	36.9	56.3	49.6	48.6
Slippages	201.1	146.5	144.3	194.7	264.9	248.5	281.6
GNPA Ratio (%)	3.01	2.16	1.55	1.38	1.69	1.42	1.30
NNPA Ratio (%)	0.79	0.44	0.34	0.35	0.48	0.38	0.32
Slippage Ratio (%)	3.0	1.9	1.6	1.9	2.4	2.0	2.0
Credit Cost (%)	0.8	0.4	0.4	0.8	1.1	0.9	0.9
PCR (Excl Tech. write off) (%)	74.3	80.0	78.5	74.5	71.8	73.7	75.3

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	6.7	7.3	8.2	8.3	7.9	7.9	7.9
Avg. Yield on loans	7.5	8.3	9.6	9.7	9.1	9.0	9.0
Avg. Yield on Investments	5.9	6.5	6.6	6.4	6.4	6.4	6.3
Avg. Cost-Int. Bear. Liab.	3.7	3.9	5.0	5.2	5.1	4.9	4.8
Avg. Cost of Deposits	3.5	3.6	4.5	4.8	4.8	4.6	4.5
Avg. Cost of Borrowings	4.6	5.6	7.3	7.6	7.0	6.8	6.8
Interest Spread	3.0	3.3	3.3	3.1	2.9	3.0	3.1
Net Interest Margin	3.3	3.7	3.8	3.70	3.46	3.60	3.7
Capitalisation Ratios (%)							
CAR	18.5	17.6	16.6	17.1	17.3	17.4	17.4
Tier I	16.4	14.6	14.2	15.1	15.4	15.6	15.9
- CET-1	15.2	14.0	13.7	14.7	14.9	15.1	15.4
Tier II	2.1	3.1	2.4	2.0	1.9	1.7	1.5
Business Ratios (%)							
Loans/Deposit Ratio	86.1	89.3	90.3	88.7	89.0	89.2	89.3
CASA Ratio	45.0	47.2	43.0	40.8	38.9	40.1	41.1
Cost/Avg Assets	2.2	2.2	2.5	2.4	2.3	2.3	2.3
Cost/Total Income	48.8	46.2	48.7	47.1	47.3	45.9	44.2
Cost/Core Income	50.3	46.0	49.9	48.3	48.7	47.4	45.8
Int. Expense/Int.Income	50.8	49.6	54.4	55.7	56.5	54.4	53.0
Fee Income/Total Income	24.7	24.7	25.9	26.5	26.3	24.4	23.7
Non Int. Inc./Total Income	31.5	27.3	31.0	31.7	33.5	31.7	31.1
Empl. Cost/Total Expense	32.2	32.1	31.0	32.5	33.3	33.4	33.3
Efficiency Ratios (INRm)							
Employee per branch (in nos)	18.0	18.7	19.4	17.8	20.3	20.5	20.7
Staff cost per employee	0.9	1.0	1.0	1.2	1.1	1.1	1.1
CASA per branch	777.7	909.4	854.4	813.4	836.3	908.1	987.2
Deposits per branch	1,727.6	1,928.6	1,987.4	1,995.2	2,150.0	2,264.5	2,402.1
Business per Employee (INR m)	178.3	195.0	194.9	211.9	199.9	208.8	219.6
Profit per Employee (INR m)	1.5	2.3	2.4	2.5	2.0	2.3	2.6
Profitability Ratios and Valuation (%)							
RoE	12.0	17.9	18.0	15.9	12.8	14.4	15.2
RoA	1.2	1.7	1.8	1.7	1.4	1.61	1.7
RoRWA	1.7	2.4	2.3	2.2	1.9	2.1	2.2
Book Value (INR)	375.2	406.2	486.7	576.7	644.9	731.2	845.8
-growth	13.1	8.3	19.8	18.5	11.8	13.4	15.7
Price-BV (x)	2.9	2.7	2.2	1.9	1.7	1.5	1.3
Adjusted BV (INR)	354.1	388.2	468.8	547.4	621.0	708.9	823.5
Price-ABV (x)	3.1	2.8	2.3	2.0	1.8	1.5	1.3
EPS (INR)	42.5	70.2	80.7	85.3	78.3	99.0	119.6
-growth	89.7	65.3	14.9	5.7	-8.2	26.4	20.8
Price-Earnings (x)	28.8	17.4	15.2	14.4	15.6	12.4	10.2
Price-Earnings (x) - Adj. Subs	25.6	15.5	13.5	12.8	13.9	11.0	9.1
Dividend Per Share (INR)	0.0	1.0	1.0	1.0	1.4	1.6	1.6
Dividend Yield	0.0	0.1	0.1	0.1	0.1	0.1	0.1

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Nainesh

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

Rajani

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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