

February 17, 2011

Axis Bank

HOLD

Axis Bank was first of the new private banks to have begun operations in 1994 after Govt. of India allowed new privates banks to be established.

- Driven by 41% CAGR in loan book since 2007, Axis bank is one of the top private banks in India. It is the 4th largest private sector bank in terms of asset size. **The management has maintained a guidance to achieve 20% growth in advances during FY12.**
- Axis bank has crossed another milestone during the current fiscal by opening 1000th branch in India. As on March 2010, total number of branches stood at 1035. **The bank plans to take total number of branches to 1200 by the end of FY11.**
- During Q3FY11, Axis bank acquired equity and investment banking division of Enam securities valued at Rs 2067mn offering 3.3% equity to Enam Securities Limited. **Acquisition of Enam's business is expected to be EPS accretive and boost fee income of the bank.**
- Axis bank is ranked among the top banks in terms of CASA share (47%) which has helped the bank to maintain NIM at around 3% over recent years.
- Total business of the bank has shown phenomenal growth during last few years. **As on March 2010, the total business of the bank stood at Rs 2456bn growing at CAGR of 36% since 2007. With aggressive branch expansion plan ahead, we expect the bank to reach total business worth Rs 3912bn till FY13.**

Based on a consolidated FY13 P/ABV multiple of 2.4, the fair value for the company works out to Rs 1466 /share.

Financial Snapshot

Projections (Rs Mn)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Net Interest Income	36,802	50,064	61,212	68,429	82,074
Y-o-Y Growth %		36%	22%	12%	20%
Non-Interest Income	29,967	39,934	48,640	58,222	67,634
Y-o-Y Growth %		33%	22%	20%	16%
Total Income	138,259	156,324	210,775	252,295	293,080
Y-o-Y Growth %		13%	35%	20%	16%
PAT	18,129	24,781	31,601	35,026	42,430
Y-o-Y Growth %		37%	28%	11%	21%
EPS Rs	50	61	78	86	105
Book Value Per Share(Rs.)	284	395	463	539	634
Adj Book Value Rs	275	384	447	521	611
NIM %	3.09%	3.26%	3.28%	3.12%	3.25%
RoE %	17.78%	15.50%	16.86%	16.04%	16.52%
PER x		21.2	16.6	15.0	12.4
Price/ BV		3.3	2.8	2.4	2.0
Price/Adjusted BV		3.4	2.9	2.5	2.1

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Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0 % to 10% p.a.

Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk

Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	532215/ AXISBANK
Bloomberg Code	AXSB IN EQUITY
No. of Shares (Mn)	405
Sensex / Nifty	18301 / 5482

PRICE DATA

CMP Rs (Feb.16th Feb,2011)	1,296.0
Beta	1.25
Market Cap (Rs mn)	525,100
52 Week High-low	1608 / 1010
Average Daily Volume	212,635

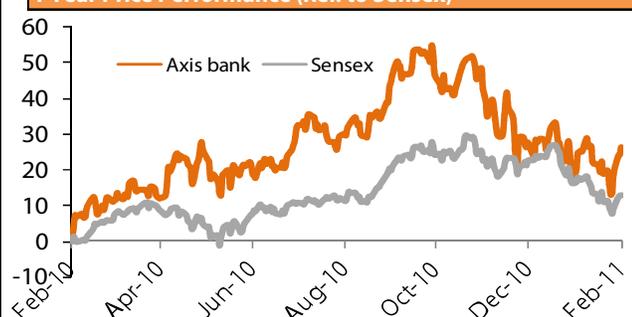
STOCK RETURN (%)

	30D	3M	6M	1Y
Axis Bank	8%	-12%	-3%	26%
Sensex	-3%	-8%	1%	13%
Nifty	-3%	-8%	1%	13%

SHARE HOLDING PATTERN (%)

Promoters	37.4
Foreign	45.8
Public& other	5.1
Others	11.9
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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BUSINESS PROFILE

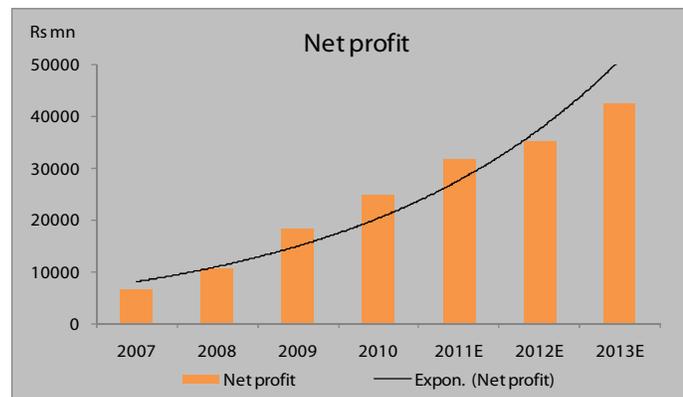
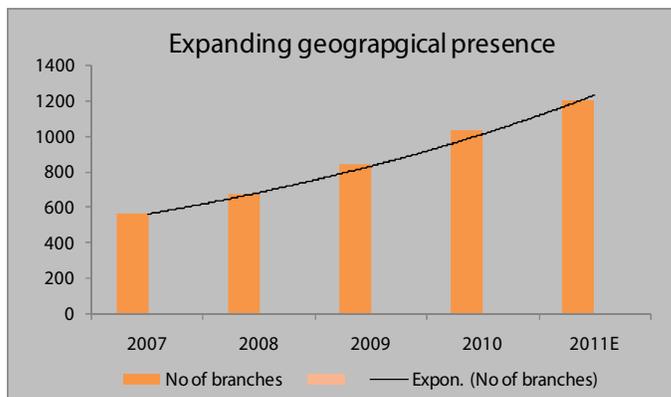
AXIS Bank is one of the fastest growing banks in private sector. The Bank operates in four segments, namely treasury, retail banking, corporate/wholesale banking and other banking business. The treasury operations include investments in sovereign and corporate debt, equity and mutual funds, trading operations, derivative trading and foreign exchange operations on the account, and for customers and central funding. Retail banking includes lending to individuals/ small businesses subject to the orientation, product and granularity criterion.

The Bank has five wholly-owned subsidiaries namely Axis Securities and Sales Ltd, Axis Private Equity Ltd, Axis Trustee Services Ltd, Axis Asset Management Company Ltd and Axis Mutual Fund Trustee Ltd.

Rapid increase in branch network has led to strong business growth of the bank over last few years. The bank's total deposits has shown annual average growth rate of more than 30% during last few years. The bank has major thrust towards other income. Other income constitutes more than 2% of its average working funds, one of the highest in the industry. With the acquisition of equity and investment banking business of Enam Securities Limited, we expect fee based income will remain key element of total income to the bank. With the advances growing at rate of 20%, over and above target rate fixed by RBI, bottom-line of the bank has shown rapid growth. **The net profit of the bank increased at CAGR of 56% from Rs 6bn in FY07 to Rs 24bn in FY10.** With strong branch expansion plan ahead, we expect bottom-line growth to show robust growth. However, rising cost of funds and consequent increase in yield on funds will remain key concerns for the banks to show growth.

Established bank in the industry

Total business increased by 30% over last few years



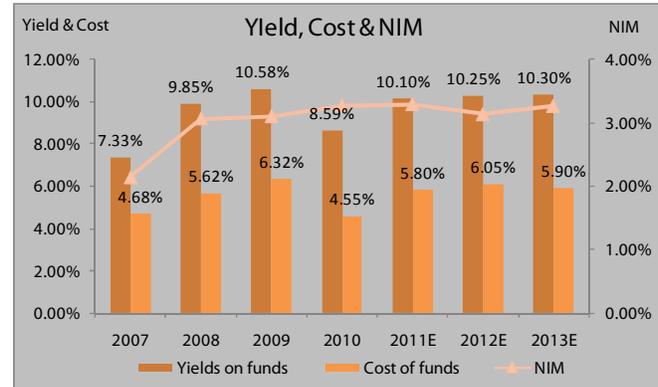
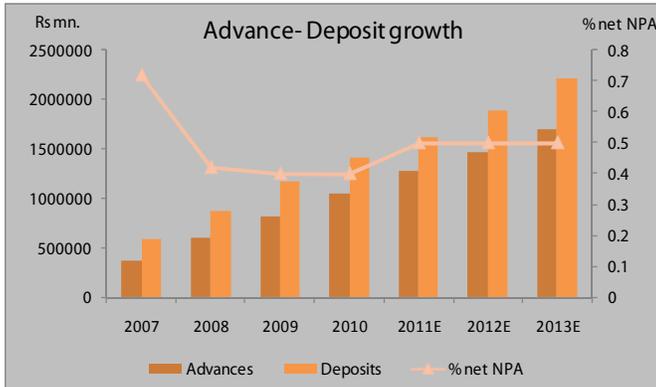
Synergies from Enam securities deal

Enam securities Limited is one of the top investment banking firms in India. Enam was ranked third in the Bloomberg league tables for domestic equity offerings. It helped 23 Indian companies raise more than Rs7200cr, pegging its market share at 7.7 per cent. Only Citi and Kotak Mahindra Capital boast a higher market share. However, Enam occupies numero uno position as a banker for rights issuances in the current year, with a market share of 25.4 per cent. Axis bank's strategy to ramp up equity broking and investment banking business will aid to increase fee income share. Considering Enam's strong business position, bank is likely to benefit from this acquisition.

Strong synergies from Enam Securities Deal



BUSINESS PERFORMANCE

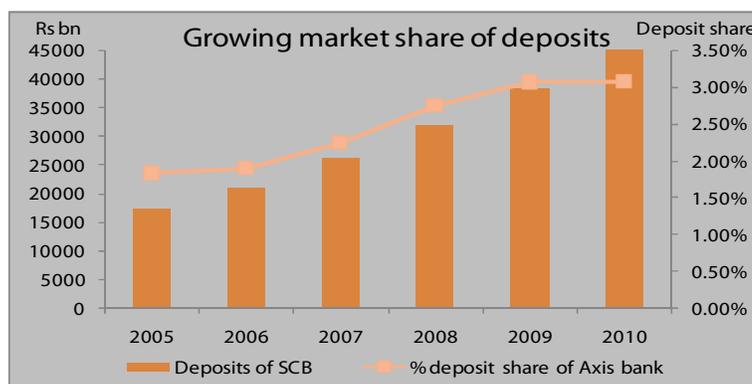


Management targets advance growth of 20% for FY12 with net NPA targeted at 0.50%

Advance portfolio of the bank has shown robust growth during last few years. Helped by strong demand from large and mid corporate clients advance book registered an impressive growth of 28% over FY09 to increase to Rs 1043bn as on FY10. With a view to increase its reach, **bank has maintained a guidance to add another 135 branches by the end of current fiscal.** We believe that, strong branch and extension counter expansion will help augment bank's advance portfolio in coming years. Strong asset quality as exhibited by falling net NPA ratio over last few years will ensure qualitative growth of the bank's assets. **The bank has stated that NPA will remain under control for coming years.** The NIM has shown consistent improvement over last few years. **The bank targets to achieve NIM of 3.51% for FY11.** However, dismal data on IIP numbers and continuous rise in core inflation over RBI's limit will remain crucial factors for the growth in business. Hence we have factored in lower growth rate in advances relative to management guidance. We also think that rising cost of funds will have negative impact during FY12. Hence we believe NIM will remain under pressure during FY12.

Plans to take total number of branches to 1200

Growing deposit share on account of increased branch network

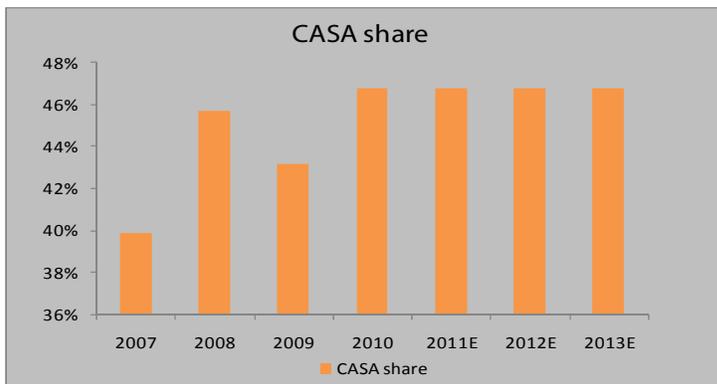


Axis bank targets to achieve NIM of 3.5% for FY11

Increase in deposit market share will help to grow its business

Deposits of Axis bank have increased at an impressive growth rate of more than 30% over last few years. Market share of bank's deposits have also increased from 1.8% in 2005 to 3.07% in 2010. **This was achieved mainly on the back of increase in branch network which doubled from 561 in 2007 to 1035 in March 2010.** With rapid branch increase planned ahead, we believe deposits will continue its growth for coming years.

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One of the highest CASA share in the industry

Low cost (CASA) deposits will help maintain NIM.

Axis bank's CASA share has been one of the largest in the industry. CASA ratio has improved and stood at 47% as on FY10. In an event of higher cost of funds, Axis bank is well protected since CASA deposits will help to lower cost of deposits. **Management aims to maintain current trend in CASA deposit for coming years.** Dependence on low cost deposits will also help bank to maintain NIM over 3%. The share of CASA deposits increased during last few years which resulted in consistent increase in NIM of the bank. With the CASA share of close to 50%, we believe that Axis bank may be able to offset the impact of higher cost of bulk deposits.

Higher CASA deposits to keep cost of deposits under control

Peer Group Comparison

Companies	Total Income	NIM %	Net NPA Ratio %	RoE %	ROA %	P/ BV (x)
Axis Bank	156,324	3.26%	0.40%	15.5%	1.37%	3.29
HDFC Bank	202,700	4.50%	0.31%	16.12%	1.53%	4.44
ICICI Bank	595,997	2.20%	2.12%	7.96%	1.13%	2.28

* FY10 figures

Peer comparison

Compared to ICICI Bank, Axis bank has performed better in terms of business growth. Deposits and advances of Axis bank have grown at an average rate of 35% and 42% respectively whereas ICICI bank's deposits and advances grew by only 11%. In terms of asset quality, Net NPA ratio of Axis bank is much better than that of ICICI bank thanks to better monitoring of asset portfolio. Axis bank has also performed slightly better than HDFC bank with respect to business mix. However, higher CASA ratio of HDFC bank (50%) compared to 47% of Axis bank has helped HDFC bank to control cost of funds which has resulted in higher NIM than that of Axis bank. Nevertheless, Strong branch expansion planned ahead will help Axis bank to sustain its business growth.

Bank exhibited robust business growth in terms of total advances and deposits growth.



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VALUATION AND KEY RISK

Higher core inflation, and sluggish IIP data will remain crucial factors for the growth of the bank's business.

We estimate that the bank's NII will increase by CAGR of 17.91% over FY2010-13E to Rs 82bn and PAT to grow at CAGR of 19.63% over FY2010-13E to Rs 42bn.

Based on a consolidated FY13 P/ABV multiple of 2.4, the fair value for the company works out to Rs 1466/share.

We recommend a **"HOLD"** rating on the stock.

Based on a consolidated FY13 P/ABV multiple of 2.4, the fair value for the company works out to Rs 1464/share

Financial Analysis and Projections

Particulars (Rs Mn)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Interest Earned	108,291	116,391	162,135	194,073	225,446
Interest Expenditure	71,489	66,326	100,922	125,644	143,373
Net Interest Income	36,802	50,064	61,212	68,429	82,074
Other Income	29,967	39,934	48,640	58,222	67,634
Total income	138,259	156,324	210,775	252,295	293,080
Operating Income	66,769	89,998	109,853	126,651	149,707
Non-Interest Expense	22,605	28,748	37,939	45,413	52,754
Operating profit before provisions	44,165	61,250	71,913	81,238	96,953
Provisions & Contingencies	16,338	23,060	23,297	27,353	31,676
Operating profit after provisions	27,826	38,191	48,616	53,885	65,277
Less: Tax	9,697	13,409	17,016	18,860	22,847
PAT	18,129	24,781	31,601	35,026	42,430
EPS (Rs)	50	61	78	86	105
Book Value Per Share(Rs.)	284	395	463	539	634
Adjusted Book Value (Rs)	275	384	447	521	611
Net Interest Margin (%)	3.09%	3.26%	3.28%	3.12%	3.25%
RoA (%)	1.23%	1.37%	1.47%	1.37%	1.45%
RoE (%)	17.78%	15.50%	16.86%	16.04%	16.52%
Valuation Ratios (x)		FY2010	FY2011E	FY2012E	FY2013E
P/E		21.2	16.6	15.0	12.4
Price/ BV		3.3	2.8	2.4	2.0
Price/Adjusted BV		3.4	2.9	2.5	2.1



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Board of Directors		
Director Name	Current Position	Description
Kishore, Adarsh	Non-Executive Chairman of the Board	Dr. Adarsh Kishore has been appointed as Non-Executive Chairman of the Board of AXIS Bank Ltd. He is former Finance Secretary, Government of India and former Executive Director, International Monetary Fund representing Bangladesh, Bhutan, India and Sri Lanka.
Sharma, Shikha	Chief Executive Officer, Managing Director, Whole-time Director	Smt. Shikha Sharma was appointed as Chief Executive Officer, Managing Director, Whole-time Director of AXIS Bank Ltd with effect from June 01, 2009. In a career spanning 29 years, Shikha Sharma has had a wide exposure across the entire spectrum of financial services and has held several leadership positions across various market businesses. In 2000 she became the Managing Director & founder CEO of ICICI Prudential Life Insurance Company.
Varma, J.	Independent Director	Shri. J. R. Varma is Independent Director of AXIS Bank Ltd. He is presently a professor in the Finance and Accounting area at the Indian Institute of Management, Ahmedabad (IIMA) where he teaches courses in Capital Markets, International Financial Management and Corporate Finance. Shri. Varma has done his post graduation in Management from the IIMA, and Doctorate in Management from IIMA. He is also a qualified Cost Accountant. Shri. Varma was earlier a fulltime member of SEBI for a year and also before that, a part-time member of SEBI for three years. Shri. Varma has carried out research in the field of Indian Financial Markets and Finance Theory and published in Indian and International Journals. He was appointed as a Director of Axis Bank w.e.f. 25th June, 2003. Shri. Varma is a member of the Risk Management Committee and the Customer Service Committee of the Board.
Patil, R.	Independent Director	Dr. R. H. Patil is Independent Director of Axis Bank Ltd. He has a Masters degree in Economics and also a Doctorate in International Economics. He has been a Director of the Bank since 17th January, 2005. He is presently the Chairman of the Clearing Corporation of India Limited. Dr. Patil, Independent Director of China Special Steel Holdings Co. Ltd., was the first Managing Director of National Stock Exchange of India and has also worked for seven years with Reserve Bank of India and more than 18 years with IDBI. He is a member of the Committee of Directors of the Board, Audit Committee of the Board and also a member of the Remuneration and Nomination Committee of the Board.
Bijapurkar, Rama	Independent Director	Smt. Rama Bijapurkar is Independent Director of AXIS Bank Ltd. She has an Honours graduate degree in Science and also holds a Post Graduate Diploma in Management from IIM, Ahmedabad. She is an Independent Management Consultant, specialising in Market Strategy and also a visiting faculty at IIM, Ahmedabad.
Mathur, Sunil	Additional Independent Director	Mr. Sunil Behari Mathur has been appointed as Additional Independent Director of AXIS Bank Ltd. He is Director of UTI Bank Ltd., is Administrator in non-executive and non-permanent position of the Specified Undertaking of the Administrator in non-executive and Unit Trust of India, Non Executive Chairman of National Stock Exchange of India Limited, Trustee of SAFS, IDBI and EID Parry (I) Ltd., IL&FS, Grasim Industries Ltd., Munich Re India Services Pvt. Ltd., National Collateral Mgt Services Ltd., ITC Ltd., Indian Railway Catering and Tourism Corporation Ltd., and Havell's India Ltd. Member of Management Development Institute, Gurgaon and Chairman of Indian Institute of Capital Market, UTI Securities Ltd., UTI Technologies Services Ltd. and UTI Infrastructure & Services Ltd.
Subbiah, M.	Independent Director	Shri. M. V. Subbiah is Independent Director of AXIS Bank Ltd. He serves as a Director of Lakshmi Machine Works Ltd., ICI India Ltd., Chennai Wellington Corporate Foundation, Chennai Heritage (Section 25 Company), SRF Ltd. and Parry Enterprises India Ltd. Partner of Muruguppa & Sons and Kadamane Estates Company. He is a Trustee of Vellayan Chettiar Trust, Muna Vena Murugappan Trust, AMM Foundation and India Foundation for the Arts. He is a Member of Advisory Board of Oracle India Private Limited. Kaundinya, V.
Roongta, S.	Additional Independent Director	Shri. S.K. Roongta is Additional Independent Director of Axis Bank Limited. He is former Chairman of Steel Authority of India Limited.
Menon, Prasad	Additional Independent Director	Shri. Prasad Raghava Menon has been appointed as Additional Independent Director of AXIS Bank Ltd., with effect from October 9, 2010. He serves as Managing Director of Toto Power Company Limited.

