

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 352.6 bn
Price	Rs. 989.15
BSE Sensex	19,929.06
Reuters	AXBK.BO
Bloomberg	AXSB IN
Avg. Volume (52 Week)	0.28 mn
52-Week High/Low	Rs. 1,019.7 / 399
Shares Outstanding	356.5 mn

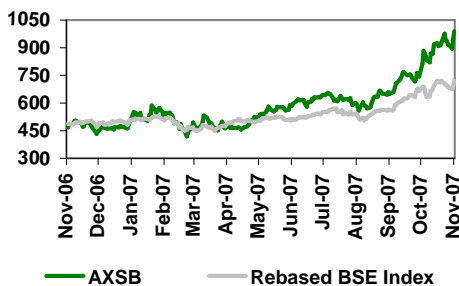
#### Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	26.8	35.8
+/- (%)	14.0%	33.8%
PER (x)	36.9x	27.6x
P / PPP (x)	18.8x	12.8x
P / BV (x)	4.2x	3.7x

#### Shareholding Pattern (%)

Promoter	43
FIs	33
Institutions	9
Public & Others	15

#### Relative Performance



### Axis Bank Ltd

Buy

#### Cashing in on capital infusion

Axis Bank surpassed our expectations in Q2'08 by registering a strong 60.5% yoy increase in net profit to Rs. 2.2 bn. Net interest income grew 72.9% yoy to Rs. 5.8 bn on account of lower cost of funds, which, in turn, also led to an impressive increase in NIM by 36 bps yoy to 3.28%. Besides displaying a robust growth in advances and deposits, the Bank's asset quality improved significantly with net NPA ratio declining 19 bps yoy to 0.55%. Further, the capital adequacy ratio of the Bank rose 607 bps yoy to 17.6% due to the capital infusion of Rs. 45.3 bn during the quarter. Based on the strong numbers in Q2'08, we increase our target EPS for FY08E by 8.5% to Rs. 26.8.

We maintain our positive outlook on the Axis Bank based on its strong business model, high CASA ratio, and increasing NIM. The Bank is well poised for a strong growth in its balance sheet on account of recent capital infusion. It is aggressively expanding the retail business and also foraying into asset management business. Given such strong results and the likelihood of similar performance in the future, we maintain our Buy rating on the stock.

#### Result Highlights

Net interest income grew 72.9% yoy to Rs. 5.8 bn owing to huge increase in advances and decrease in the cost of funds. The Bank's NIM increased

#### Key Figures (Standalone)

Year to March	Q2'07	Q2'08	YoY%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)						
Net Interest Income	3,405	5,887	72.9%	6,383	10,096	58.2%
Total Net Income	5,453	9,716	78.2%	10,676	17,607	64.9%
Pre-Prov Operating Profit	2,498	4,629	85.3%	5,330	8,308	55.9%
<b>Net Profit</b>	1,420	2,278	60.5%	2,625	4,028	53.4%
Cost / Total Net Income (%)	54.2%	52.4%	-	50.1%	52.8%	-
Net Interest Margin	2.92%	3.28%	-	2.8%	2.9%	-
NPA ratio	0.74%	0.55%	-	0.74%	0.55%	-
<b>Per Share Data (Rs.)</b>						
PPP per share	8.9	15.0	67.8%	19.0	26.9	41.2%
EPS	5.07	7.37	45.4%	9.38	13.04	39.0%
Book value per share	111.4	233.5	109.6%	111.4	233.5	109.6%

*Impressive rise in non-interest income*

sequentially by 56 bps to 3.28% on account of capital raised, which enabled it to retire high cost of funds.

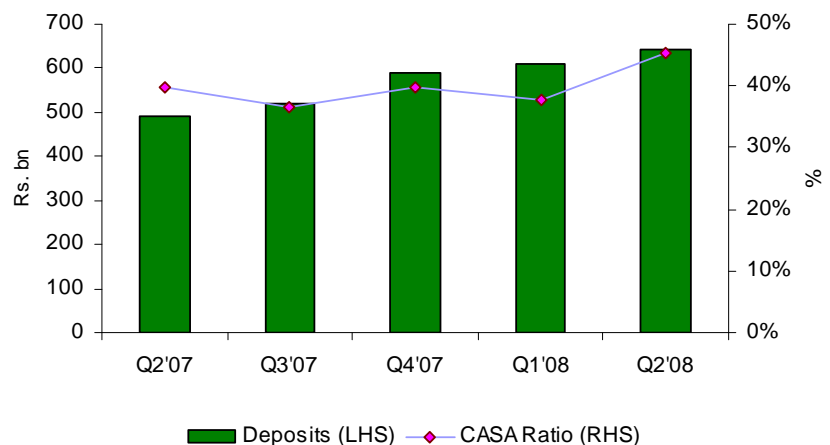
Non-interest income grew by 87% yoy to Rs. 3.8 bn primarily due to a huge rise in trading income, which grew 339% yoy to Rs. 1 bn backed by an upswing in equity markets. In addition, fee income also registered an impressive increase of 69% yoy to Rs. 2.9 bn.

The operating expenses were up 72.2% yoy to Rs. 5.1 bn on account of a rise in employee cost, which increased 67.7% yoy to Rs. 1.6 bn. In addition, the Bank incurred huge expenses to rebrand itself as Axis Bank. Operating expenses are likely to increase as the Bank is planning to add 4,500 employees in FY08E.

*Balance sheet witnessed strong growth*

Axis Bank displayed strong growth in advances and deposits, which increased 53.5% and 30.9% yoy, respectively. Large & mid corporate, forming 50.7% of total advances improved 66.2% yoy to Rs. 226.9 bn. Moreover, the increase in the number of branches will steadily enhance retail advances in the future. On the liability side, total deposits went up 30.9% yoy to Rs. 641 bn. The Bank's low cost deposits showed a robust growth of 540 bps to 45.4%. Despite a huge rise in advances, the Bank has been able to improve its asset quality with net NPA ratio declining 19 bps yoy to 0.55%. Moreover, 78% of corporate advances with a rating of 'A' will ensure that the asset quality remains healthy.

*CASA ratio increased 5.4 pts to 45.4%*



Source: Company data, Indiabulls research

### Prospects

#### *Diversifying into asset management business*

Axis Bank has recently decided to foray into asset management, advisory and other related activities. Besides signing an agreement with Rothschild Europe to provide wealth management solutions to overseas Indians, the Bank also plans to invest USD 500 mn in infrastructure segment through a private equity fund. Strategies such as these are likely to open new channels of fee income.

### Outlook

We expect Axis Bank to leverage its wide branch & ATM network and pursue a profitable growth strategy through corporate relationships and an accelerated retail customer acquisition. The Bank is well poised for a strong growth in its balance sheet on account of recent capital infusion of Rs. 45.3 bn. Though rising operating expenses is an area of concern, yet an effective utilisation of resources can definitely lead to huge rise in profits. High CASA deposit, growth in fee based income, improving asset quality, and huge branch network will help Axis Bank to attain earnings CAGR of 23.5% over FY07-09E.

At the current price of Rs. 989.15, the stock is trading at a forward P/ABV of 4.2x FY08E and 3.7x FY09E. We maintain our Buy rating on the stock with a revised target price of Rs. 1,055 for FY08E.

*Growth to be driven by effective utilisation of infused capital*

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	28,888	45,604	69,652	103,551	<b>Per share data (Rs.)</b>				
Interest Expense	18,106	29,933	45,276	69,400	Shares outstanding (mn)	278.7	281.6	356.5	356.5
<b>Net Interest Income</b>	<b>10,782</b>	<b>15,671</b>	<b>24,377</b>	<b>34,151</b>	Basic EPS	17.4	23.5	26.8	35.8
YoY Growth (%)	47.5%	45.3%	55.6%	40.1%	Diluted EPS	17.1	22.8	26.2	35.0
Other Income	7,296	10,101	15,152	22,728	Book value per share	103.5	120.8	236.2	265.8
<b>Total Net Income</b>	<b>18,079</b>	<b>25,772</b>	<b>39,528</b>	<b>56,879</b>	Adj. book value per share	103.5	120.8	236.2	265.8
YoY Growth (%)	57.6%	42.6%	53.4%	43.9%	<b>Valuation ratios (x)</b>				
Operating Expense	8,141	12,146	20,950	29,577	P/PPP	27.7x	20.4x	18.8x	12.8x
<b>Pre-Provisioning Profit</b>	<b>9,938</b>	<b>13,626</b>	<b>18,578</b>	<b>27,302</b>	P/E	56.7x	42.1x	36.9x	27.6x
Provisions and Contingencies	2,624	3,661	4,850	8,934	P/B	9.6x	8.2x	4.2x	3.7x
<b>Profit Before Tax</b>	<b>7,314</b>	<b>9,965</b>	<b>13,729</b>	<b>18,367</b>	P/ABV	9.6x	8.2x	4.2x	3.7x
Tax	2,464	3,375	4,256	5,694	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>4,851</b>	<b>6,590</b>	<b>9,473</b>	<b>12,673</b>	Return on avg. assets	1.1%	1.1%	1.0%	1.0%
YoY Growth (%)	45.0%	35.9%	43.7%	33.8%	Return on avg. net worth	18.3%	21.0%	16.0%	14.2%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to deposits	55.6%	62.7%	68.5%	72.1%
Cash and balances with RBI	36,418	69,183	91,894	70,849	Borrowings to advances	12.0%	14.1%	15.0%	16.0%
Investments	215,274	268,972	392,335	570,973	Investments to assets	43.3%	36.7%	36.0%	37.0%
YoY Growth (%)	43.1%	24.9%	45.9%	45.5%	Investments to deposits	53.7%	45.8%	47.0%	48.0%
Advances	223,142	368,765	571,585	857,378	Net Worth to assets	5.8%	4.6%	7.7%	6.1%
YoY Growth (%)	43.0%	65.3%	55.0%	50.0%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	5,677	6,732	7,198	7,453	Opt. expense per employee	1.2	1.2	1.4	1.6
Other Assets	16,800	18,921	26,867	38,286	Net profit per employee	0.7	0.7	0.7	0.7
<b>Total Assets</b>	<b>497,311</b>	<b>732,572</b>	<b>1,089,880</b>	<b>1,544,939</b>	Asset per employee	76.1	73.4	75.3	82.1
Deposits	401,135	587,856	834,756	1,189,527	<b>Operating ratios (%)</b>				
YoY Growth (%)	26.5%	46.5%	42.0%	42.5%	Operating cost to net income	45.0%	47.1%	53.0%	52.0%
Borrowings	26,809	51,956	85,738	137,181	Operating cost to avg. assets	1.9%	2.0%	2.3%	2.2%
YoY Growth (%)	50.5%	93.8%	65.0%	60.0%					
Other Liabilities & Provisions	40,510	58,738	85,167	123,489					
<b>Total Liabilities</b>	<b>468,455</b>	<b>698,550</b>	<b>1,005,661</b>	<b>1,450,196</b>					
Share Capital	2,787	2,816	3,547	3,547					
Reserves & Surplus	26,069	31,206	80,672	91,196					
<b>Total Equity &amp; Liabilities</b>	<b>497,311</b>	<b>732,572</b>	<b>1,089,880</b>	<b>1,544,939</b>					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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