

Strong show

■ Results beat expectation on most counts

Axis Bank Q3 results beat ours and street expectations on most counts. Key highlights: 1) Margins expanded 10 bps sequentially to 3.8%, 2) NPL additions slowed to 1.2% in Q3 from 1.7% in H1, 3) strong loan growth at 46% YoY and 12% QoQ, 4) Fee income growth of 21% Y/Y, 5) Cost to income ratio declined to 42% and 6) Trading gains of Rs1.35 bn as compared to Rs1.7bn in Q3FY10.

■ Outlook on loan growth strong while margins likely to normalise

Management is looking at 28-30% loan growth in FY11 and 30% higher than system in FY12. We expect the bank to grow loans at 26% CAGR over FY10-12E. driven by corporate and retail portfolio. NIMs expanded by 10 bps to 3.8% on back of lending rate hikes affected in Q3 and high average CASA (42%); however we expect it will likely normalize by 15-20 bps at least on back of deposit re-pricing.

■ Gross NPA addition slows down to 1.2%

Slippages in the Q3 were at 1.2% well below 1.7% witnessed in H1, management expects the current rate and stable and maintains relapse rate of 20-25%. Credit costs (as % of loans) were stable at 1.1% in Q3 and improved its provisioning coverage to 74%. Gross and Net NPA were stable at 1.1% and 0.3% respectively. The bank restructured loans worth Rs 1.6 bn during the quarter of which 1.1 bn was CDR linked; total restructured loans stands at 1.7% of loan book

■ Valuation: Maintain BUY

We largely maintain our estimates. Axis Bank is one of our preferred picks in the sector and we maintain our PT of Rs 1600 (derived using residual income model.)

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	64,753	89,725	108,271	128,807	156,402
Pre-tax profits	27,852	38,517	49,248	59,663	72,661
Net income	18,153	25,145	32,504	39,378	47,956
EPS (UBS, Rs)	50.57	62.06	80.22	97.19	118.36
Net DPS (UBS, Rs)	10.01	12.00	16.04	19.44	23.67

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
ROE %	18.8	19.2	18.8	19.6	20.5
P/Op x	8.5	6.9	8.1	6.9	5.7
P/BVPS x	2.6	2.3	2.7	2.3	2.0
PE (UBS) x	15.9	14.4	15.3	12.6	10.4
Net dividend yield %	1.4	1.3	1.3	1.6	1.9

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,227.55 on 17 Jan 2011 23:39 EST

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12-month rating **Buy**
Unchanged

12m price target **Rs1,600.00/-**
Unchanged

Price **Rs1,227.55/US\$26.93 (GDR)**

RIC: AXBK.BO BBG: AXSB IB

17 January 2011

Trading data (local/US\$)

52-wk range	Rs1,588.70-972.55/US\$35.83-21.00
Market cap.	Rs497bn/US\$10.9bn
Shares o/s	405m (ORD)/100m (GDR)
GDR ratio	1 GDR:1 ORD
Free float	58%
Avg. daily volume ('000)	224/38
Avg. daily value (m)	Rs307.4/US\$1.2

Balance sheet data 03/11E

Common equity	Rs185bn
P/BVPS x	2.7
Tier one capital ratio	10.3%

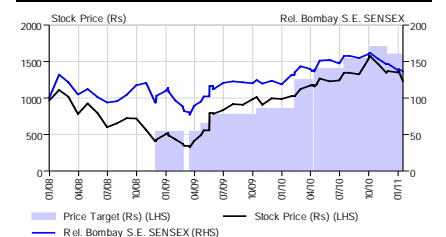
Forecast returns

Forecast price appreciation	+30.3%
Forecast dividend yield	1.6%
Forecast stock return	+31.9%
Market return assumption	13.0%
Forecast excess return	+18.9%

EPS (UBS, Rs)

	03/11E		Cons.	03/10 Actual
	From	To		
Q1	18.31	18.31	-	13.87
Q2	18.14	18.14	-	13.12
Q3	20.74	22.00	-	16.19
Q4E	23.15	21.77	-	18.88
03/11E	80.34	80.22	80.35	
03/12E	97.40	97.19	97.40	

Performance (Rs)



Source: UBS

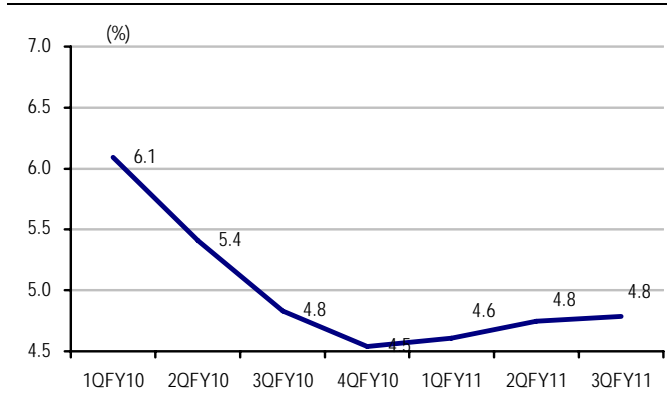
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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.

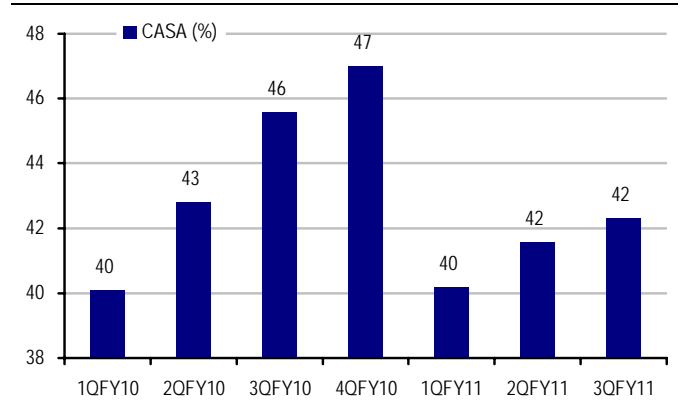
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Chart 1: Cost of fund has started to increase



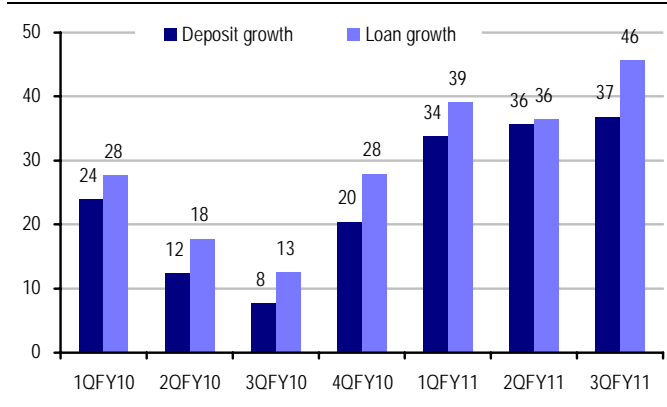
Source: Company data

Chart 2: CASA has remained stable



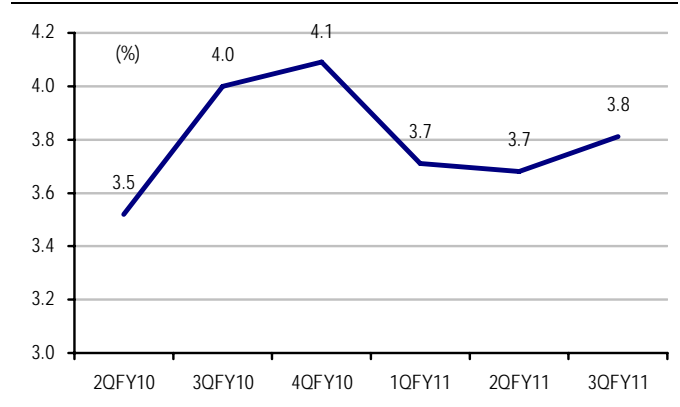
Source: Company data

Chart 3: Strong business momentum (%)



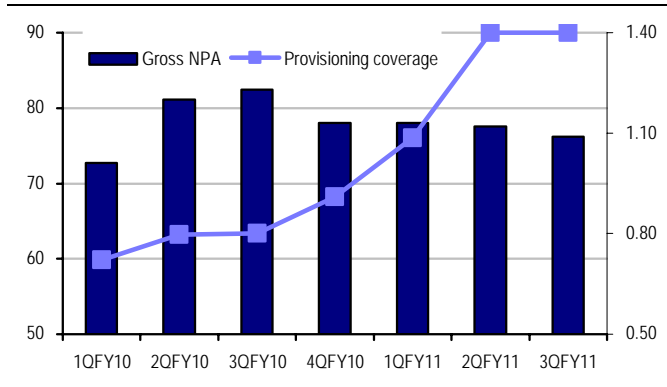
Source: Company data

Chart 4: ...has supported Net interest margin expansion (%)



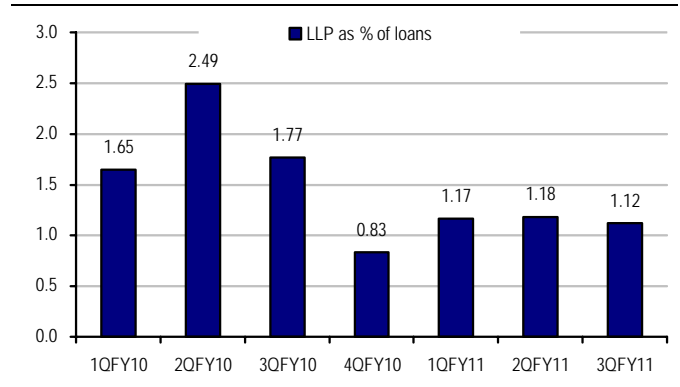
Source: Company data

Chart 5: Asset quality has remained stable



Source: Company data

Chart 6: ...has lead to lower credit cost



Source: Company data

Table 1: Axis Bank quarterly result summary

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)
Interest income	29,056	28,604	28,837	29,885	33,256	36,243	38,383	33
Advances	19,736	19,502	19,879	20,750	23,109	24,290	26,006	31
Investments	8,673	8,596	8,454	8,560	9,353	11,235	11,668	38
Balance with RBI	354	300	274	272	325	384	482	76
Interest expenses	18,599	17,107	15,345	15,284	18,118	20,092	21,052	37
Net interest income	10,456	11,497	13,491	14,601	15,138	16,151	17,331	28
yoy growth	29	26	45	41	45	40	28	
NIM	3.3	3.5	4.0	4.1	3.7	3.7	3.8	
Non-interest income	9,586	10,656	9,881	9,335	10,008	10,332	11,477	16
Commission and fees	6,270	7,190	7,997	7,796	7,430	8,485	9,677	21
Misc income	55	1,227	187	51	620	763	453	142
Treasury income	3,261	2,239	1,697	1,027	1,957	1,084	1,347	(21)
Income excl treasury	6,325	8,417	8,184	8,308	8,050	9,248	10,130	24
Total income	20,042	22,153	23,372	23,936	25,146	26,483	28,808	23
Operating expenses	8,278	9,095	9,626	10,098	10,645	11,620	12,224	27
Employee cost	3,093	3,042	3,085	3,338	4,164	4,053	3,962	28
Other operating cost	5,185	6,053	6,540	6,761	6,481	7,567	8,262	26
Pre-prov profit	11,764	13,058	13,746	13,838	14,501	14,864	16,585	21
Provisions	3,153	4,989	3,731	2,019	3,330	3,788	3,139	(16)
Profit before tax	8,611	8,069	10,015	11,819	11,171	11,076	13,446	34
Tax	2,990	2,752	3,455	4,171	3,752	3,725	4,532	31
Profit after tax	5,620	5,316	6,560	7,649	7,419	7,351	8,914	36
yoy growth	70	32	31	32	32	38	36	
Tax rate (%)	34.7	34.1	34.5	35.3	33.6	33.6	33.7	
PBT- treasury gains+provisions	8,503	10,818	12,049	12,811	12,543	13,780	15,238	26
yoy growth	23	29	51	32	48	27	26	

Source: Company data

Table 2: Key balance sheet items (Rs bn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)
Deposits	1,103	1,156	1,139	1,413	1,475	1,569	1,558	37
Demand deposits	442	495	519	660	592	652	659	27
Savings	252	280	296	339	347	378	391	32
Current	190	215	223	322	245	274	268	20
Fixed deposits	661	661	619	753	882	917	899	45
CASA ratio (%)	40.1	42.8	45.6	47.0	40.2	41.5	42.3	
Customer assets	895	926	934	1,164	1,181	1,204	1,329	42
Advances	781	810	848	1,043	1,086	1,106	1,235	46
Retail advances including CVs	168	180	189	208	211	210	252	33
Non-retail advances	613	631	659	835	875	896	983	49
SME advances	149	159	156	195	168	168	171	9
Agricultural advances	75	71	87	115	106	91	108	24
Retail	168	180	189	208	211	210	252	33
Housing	109	120	134	147	150	153	169	26
Auto	18	23	28	28	27	27	28	(2)
CV	3	2	2	6	-	-	-	(100)
Others	10	11	8	9	8	8	10	33
Total assets	1,411	1,517	1,505	1,806	1,895	1,998	2,067	37
Investments	463	521	493	560	575	619	596	21
Capital adequacy details (%)								
CAR	15.3	16.5	16.8	15.8	14.5	13.7	12.5	
Tier I	9.4	11.4	11.8	11.2	10.3	9.8	8.9	
Tier II	5.9	5.0	5.0	4.6	4.2	3.9	3.6	

Source: Company data

Table 3: Other key detail

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)
Gross NPLs (Rs mn)	9,153	11,317	11,735	13,180	13,409	13,624	14,829	26
Gross NPL (% of customer assets)	1.0	1.2	1.2	1.1	1.1	1.1	1.1	
NPA addition during the qtr	-	-	-	2,472	4,210	4,460	3,340	
Recovery / Upgrade	-	-	-	973	1,210	1,300	1,260	
Net Addition to NPL (bps)				74	115	116	75	
Net NPLs (Rs mn)	3,671	4,167	4,296	4,190	4,134	4,094	3,855	(10)
Net NPAs (% of customer assets)	0.4	0.5	0.5	0.4	0.4	0.3	0.3	
Total restructured assets (Rs bn)	25	23	23	23	22	21	21	
(Restr. assets + GNPLs) %	4.4	4.3	4.1	3.5	3.2	3.1	2.9	
(Restr. assets + NNPLs) %	3.7	3.4	3.2	2.6	2.4	2.2	2.0	

Source: Company data

Table 4: Recent reports

	Recent Reports	Analyst
14-Jan	Singapore Banks: Buyers in the face of property measures	Jaj Singh
13-Jan	China Minsheng Banking: Structure of capital raising disappointing (Neutral)	Sarah Wu
13-Jan	Chinatrust Financial Holding: Overhang removed: upgrade to Buy (Buy)	Pandora Lee
13-Jan	AMMB Holdings: NDR takeaway: upbeat outlook (Buy)	Khairul Rifaie
13-Jan	Malayan Banking: NDR takeaway: slightly positive on KimEng (Buy)	Khairul Rifaie
13-Jan	First Read: Korea Banks: View 25 bps rate hike as another catalyst	Scott Lee
13-Jan	First Read: Korea Banks: NPS will be allowed to buy more bank stocks - a catalyst	Scott Lee
12-Jan	Korea Banks: Q410 previews - solid with higher margins and improving asset quality	Scott Lee
12-Jan	Taiwan Financial: Nan Shan Life: Seemingly a good deal	Pandora Lee
12-Jan	First Read: Taiwan Financial: Nan Shan goes to Ruentex/Pou Chen JV?	Pandora Lee
11-Jan	India Banking & Finance Sector: Liquidity pangs	Ajitesh Nair
11-Jan	TISCO Financial Group: Record high ROE is hard to sustain (Buy)	Butsakon Khoosuwan
11-Jan	Taiwan Financial Sector: Q4 mostly down QOQ; 2010 mostly up YoY	Pandora Lee
10-Jan	China Banks: How will differentiated reserves impact the banks?	Sarah Wu
10-Jan	First Read: Fubon FHC: Fubon announced to privatize Fubon HK (Neutral)	Pandora Lee
10-Jan	Hong Kong and Singapore Banks: A tale of two cities: HK and Singapore	Stephen Andrews, CFA/Jaj Singh
6-Jan	Malayan Banking: The tiger broadens its ASEAN footprint (Buy)	Khairul Rifaie
6-Jan	Chongqing Rural Commercial Bank: Right place, right time; initiate with Buy (Buy)	Steve Ho
6-Jan	First Read: Yuanta FHC: More ammunition for M&As, but... (Buy)	Pandora Lee
6-Jan	First Read: Korea Banks: Troubled savings banks are hanging over	Scott Lee
5-Jan	Singapore Banks: Steeper yield curve	Jaj Singh
5-Jan	Taiwan Financial: Exposure to Powerchip	Pandora Lee
4-Jan	Taiwan Financial: NT dollar's relative strength implies higher hedging risk	Pandora Lee
3-Jan	Hong Kong Banks: IPO impact unwinds, loans & deposits fall	Stephen Andrews, CFA
3-Jan	First Read: Korea Banks: IBK and Hana are our 2011 top Buys	Scott Lee
15-Dec	Kasikornbank: Expanding Japanese customer base (Buy)	Butsakon Khoosuwan
13-Dec	Bank Mandiri: Post-rights, post-placement view (Buy)	Joshua Tanja, CFA
10-Dec	China Banks: 7.5 trillion is in the bag	Sarah Wu
10-Dec	Key Call: Shriram Transport Finance: Weeakness -- an opportunity to buy (Buy)	Ajitesh Nair
7-Dec	India Banking & Finance Sector: Rising deposit rates is not a big concern	Vishal Goyal, CFA
7-Dec	Korea Banks: We are bullish going into 2011	Scott Lee
6-Dec	Shinhan Financial Group: Upgrade to Buy on the first good news (Buy)	Scott Lee
2-Dec	AIA Group: Waking a sleeping Asian giant (Neutral)	Stephen Andrews, CFA
2-Dec	Asia Financials - Outlook 2011: Go long growth annuities	Andy Brown, CFA
1-Dec	Bank of Ayudhya: Multiple positive catalysts (Buy)	Butsakon Khoosuwan
1-Dec	Hong Kong Banks: Mainland lending still in the driving seat	Stephen Andrews, CFA
1-Dec	Key Call: ICBC: Moving ICBC to a Key Call (Buy)	Sarah Wu
29-Nov	RHB Capital: Strong momentum continues (Buy)	Khairul Rifaie
29-Nov	Singapore Banks: Will the underperformance continue?	Jaj Singh
26-Nov	E. Sun Financial Holding: Growth momentum to continue (Buy)	Pandora Lee
26-Nov	First Read: Hana Financial Group: No more special dividends at KEB (Buy)	Scott Lee
25-Nov	SinoPac Financial Holding: No inflection point in sight yet (Sell)	Pandora Lee
25-Nov	Key Call: Shriram Transport Finance: Buy amidst weakness (Buy)	Ajitesh Nair
25-Nov	Kasikornbank: Key takeaways from the roadshow (Buy)	Butsakon Khoosuwan
25-Nov	India Banking & Finance Sector: In the eye of the storm	Vishal Goyal, CFA
25-Nov	Korea Banks: KEB is priced at 1x PBR; good for Hana	Scott Lee

Source: UBS

Regional

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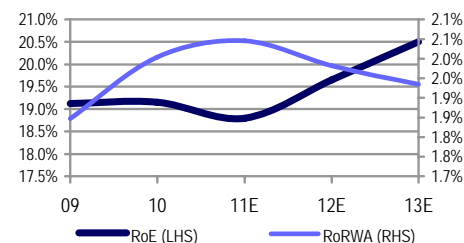
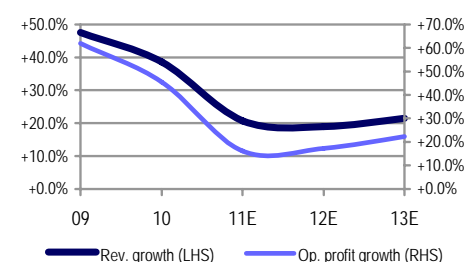
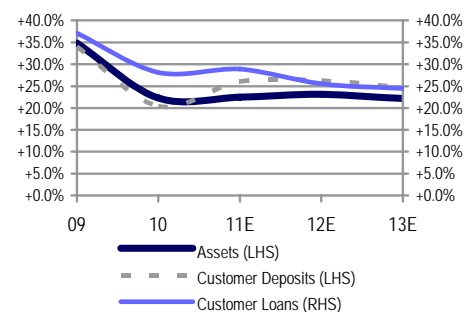
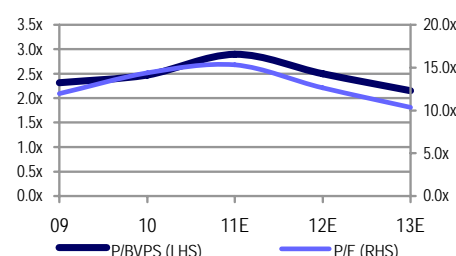
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AXIS Bank

Per share (Rs)	3/09	3/10	3/11E	3/12E	3/13E
EPS (stated)	50.57	62.06	80.22	97.19	118.36
EPS (UBS adjusted)	50.57	62.06	80.22	97.19	118.36
GOPS	100.75	129.89	150.91	176.92	216.25
DPS	10.01	12.00	16.04	19.44	23.67
BVPS (stated)	284.53	395.99	457.44	531.89	622.55
BVPS (adjusted)	260.83	361.29	424.54	491.38	571.95
Profit & Loss (Rsm)					
Net interest income	36,862	50,045	66,011	77,279	93,902
Other income	27,891	39,680	42,260	51,527	62,499
Total revenues	64,753	89,725	108,271	128,807	156,402
Expenses	(28,582)	(37,097)	(47,128)	(57,123)	(68,782)
Operating profit	36,171	52,628	61,143	71,684	87,619
Provisions and other items	(8,319)	(14,111)	(11,895)	(12,020)	(14,959)
Profit before tax	27,852	38,517	49,248	59,663	72,661
Pre-exceptional net income	18,153	25,145	32,504	39,378	47,956
Capital dynamics (Rsm)					
Risk-weighted assets	1,097,875	1,411,698	1,766,859	2,207,664	2,749,824
Tier one capital	101,630	157,894	182,634	212,605	249,106
Total capital	150,276	223,079	249,007	280,337	318,467
Tier one ratio	9.3%	11.2%	10.3%	9.6%	9.1%
Total capital ratio	13.7%	15.8%	14.1%	12.7%	11.6%
Net profit after tax	18,153	25,145	32,504	39,378	47,956
<i>Tier 1 requirement</i>					
Less: Working capital requirement					
Less: Dividends	4,205	5,688	7,605	9,214	11,221
Surplus capital generated					
Surplus capital generation ratio					
Balance sheet (Rsm)					
Assets	1,477,220	1,806,477	2,213,025	2,723,887	3,327,808
Customer loans	821,274	1,052,421	1,356,477	1,702,396	2,118,032
Customer deposits	1,173,740	1,413,002	1,781,318	2,249,334	2,804,023
Funds under management					
Loans : assets	55.6%	58.3%	61.3%	62.5%	63.6%
Deposits : assets	79.5%	78.2%	80.5%	82.6%	84.3%
Loans : deposits	70.0%	74.5%	76.2%	75.7%	75.5%
Shareholders funds : assets	6.91%	8.88%	8.38%	7.91%	7.58%
Asset quality (Rsm)					
Non-performing assets	8,978	13,180	20,201	26,984	33,793
Total risk reserves	5,707	8,990	12,623	16,345	19,605
NPLs : loans	1.09%	1.25%	1.49%	1.59%	1.60%
NPL coverage	64%	68%	62%	61%	58%
Provision charge : average loans	1.27%	1.51%	0.99%	0.79%	0.78%
Net NPLs : shareholders' funds	3.2%	2.6%	4.1%	4.9%	5.6%
Profitability					
Net interest margin (avg assets)	2.87%	3.05%	3.28%	3.13%	3.10%
Provisions : operating profit	23.0%	26.8%	19.5%	16.8%	17.1%
RoE	19.1%	19.2%	18.8%	19.6%	20.5%
RoAdjE					
RoRWA	1.85%	2.00%	2.05%	1.98%	1.93%
RoA	1.41%	1.53%	1.62%	1.60%	1.58%
Productivity					
Cost : income ratio	44.1%	41.3%	43.5%	44.3%	44.0%
Costs : average assets	2.2%	2.3%	2.3%	2.3%	2.3%
Compensation expense ratio	21.6%	19.3%	21.3%	21.2%	20.7%
Momentum					
Revenue growth	+47.5%	+38.6%	+20.7%	+19.0%	+21.4%
Operating profit growth	+61.9%	+45.5%	+16.2%	+17.2%	+22.2%
Net profit growth	+69.5%	+38.5%	+29.3%	+21.1%	+21.8%
Dividend growth	+63.1%	+19.9%	+33.7%	+21.1%	+21.8%
Value*					
UBS bank valuation					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (Rsm)	215,844	332,751	486,713	486,713	486,713
Conventional valuation					
Market cap./Revenues	3.3x	3.7x	4.5x	3.8x	3.1x
Market cap./Operating profit	6.0x	6.3x	8.0x	6.8x	5.6x
P/E (stated)	11.9x	14.4x	15.3x	12.6x	10.4x
P/E (UBS adjusted)	11.9x	14.4x	15.3x	12.6x	10.4x
Dividend yield (net)	1.66%	1.34%	1.31%	1.58%	1.93%
P/BV (stated)	2.1x	2.3x	2.7x	2.3x	2.0x
P/BV (adjusted)	2.3x	2.5x	2.9x	2.5x	2.1x

AXIS Bank is the fastest growing and the third largest private sector bank in India. Specified Undertaking of the Unit Trust of India is a major shareholder. AXIS Bank secured a banking licence in 1994, one of the first few private sector banks to do so. The bank has 908 branches/extension counters and 3,866 ATMs, the third largest ATM network in India.

Profitability (RoE & RoRWA)

Momentum (Revenue & Operating profit growth)

Balance Sheet Growth

Value (P/Adj. BVPS & P/Adj. EPS)


Source: UBS estimates, * Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of Rs1,227.55 on 17/01/2011

■ **AXIS Bank**

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■ **Statement of Risk**

We believe a sustained economic slowdown could impact the banking and finance sector on several fronts: lead to a slowdown in credit, increase NPL risk, impact fee income, and exert pressure on NIM.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities India Private Ltd: Vishal Goyal, CFA; Ajitesh Nair. **UBS Securities Asia Limited:** Andy Brown, CFA.

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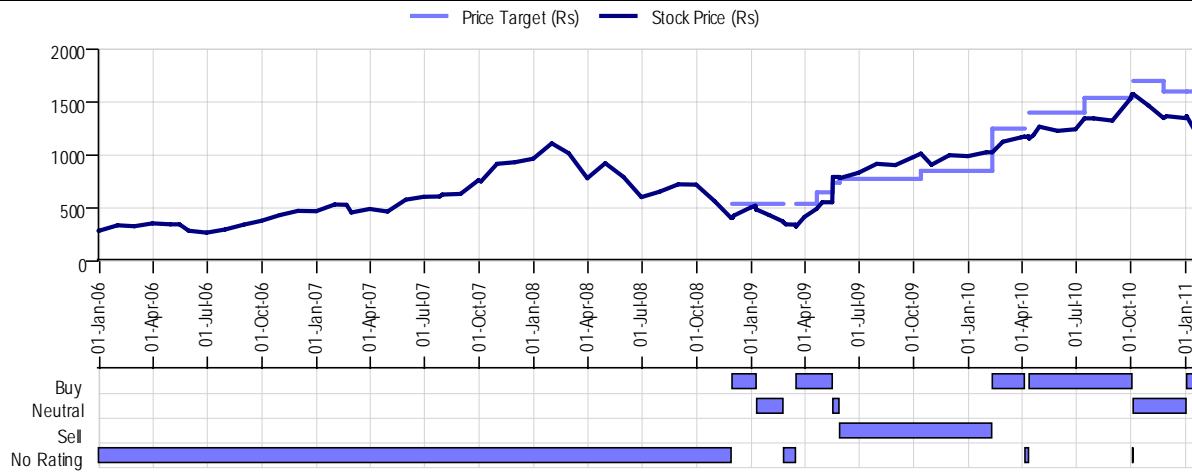
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
AXIS Bank	AXBK.BO	Buy	N/A	Rs1,227.55	17 Jan 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

AXIS Bank (Rs)



Source: UBS; as of 17 Jan 2011

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