

Acquires ENAM's broking and IB business

■ Axis Bank to merge ENAM Securities with 100% subsidiary

In a press conference today, AXSB announced it would merge the ENAM Securities business with a 100% subsidiary. The deal values ENAM at Rs 20.6 bn or at 21x FY11E earnings (at a 10% premium to average PE of listed brokers) and includes the IB/broking business of ENAM. ENAM is one of the leading investment banks in the country, with vintage dating back to 1984, and has total income of Rs 1.8 bn and PBT of Rs 770 mn for April-October 2010. The deal completion is subject to approvals of RBI SEBI, shareholders and high courts.

■ Largely EPS neutral, in our view; complements franchise of AXSB

The deal is an all-share swap leading to ~3.5% additional share issuance; addition to FY11 profits is estimated to be around 3.0%, which would make it largely an EPS neutral deal. Axis Bank has a strong corporate banking and DCM business; the ENAM acquisition fills up the ECM void. Valuations look reasonable, in our view, considering the average valuation of listed brokers at 15x FY11E earnings.

■ Building the financial services franchise steadily

Post the arrangement with Max India, the ENAM acquisition is another step by AXSB towards building a full service financial institution in line with likes of ICICI and SBI. We expect the deal to be value accretive from next year onwards.

■ Valuation

We maintain our Neutral rating on the stock due to valuation, with a price target of Rs 1700. We base our target on a residual income model, assuming a cost of equity and long-term sustainable ROE of 13.5%, and terminal growth of 5%.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	64,753	89,725	106,991	128,758	156,051
Pre-tax profits	27,852	38,517	47,383	59,727	71,641
Net income	18,153	25,145	31,273	39,420	47,283
EPS (UBS, Rs)	50.57	62.06	77.18	97.29	116.70
Net DPS (UBS, Rs)	10.01	12.00	15.44	19.46	23.34

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
ROE %	18.8	19.2	18.1	19.8	20.3
P/Op x	8.5	6.9	9.9	8.3	6.9
P/BVPS x	2.6	2.3	3.2	2.8	2.4
PE (UBS) x	15.9	14.4	19.0	15.1	12.6
Net dividend yield %	1.4	1.3	1.1	1.3	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,466.80 on 16 Nov 2010 23:41 HKT

Vishal Goyal, CFA

Analyst
vishal.goyal@ubs.com
+91-22-6155 6050

Ajitesh Nair

Analyst
ajitesh.nair@ubs.com
+91-22-6155 6056

Global Equity Research

India

Banks, Ex-S&L

12-month rating **Neutral**
Unchanged

12m price target **Rs1,700.00/-**
Unchanged

Price **Rs1,466.80/US\$32.33 (GDR)**

RIC: AXBK.BO BBG: AXSB IB

17 November 2010

Trading data (local/US\$)

52-wk range	Rs1,588.70-933.95/US\$35.83-19.50
Market cap.	Rs594bn/US\$13.1bn
Shares o/s	405m (ORD)/100m (GDR)
GDR ratio	1 GDR:1 ORD
Free float	58%
Avg. daily volume ('000)	912/41
Avg. daily value (m)	Rs1,332.3/US\$1.3

Balance sheet data 03/11E

Common equity	Rs184bn
P/BVPS x	3.2
Tier one capital ratio	10.3%

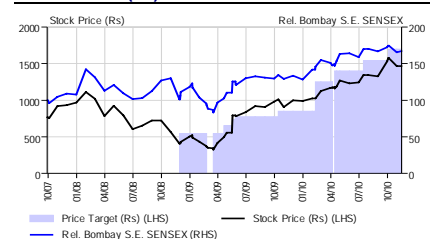
Forecast returns

Forecast price appreciation	+15.9%
Forecast dividend yield	1.2%
Forecast stock return	+17.1%
Market return assumption	13.0%
Forecast excess return	+4.1%

EPS (UBS, Rs)

	03/11E	03/10
	UBS	Cons. Actual
Q1	18.31	- 13.87
Q2E	17.11	- 13.12
Q3E	19.42	- 16.19
Q4E	22.34	- 18.88
03/11E	77.18	77.18
03/12E	97.29	97.29

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4.

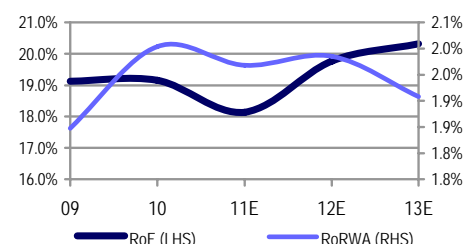
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AXIS Bank

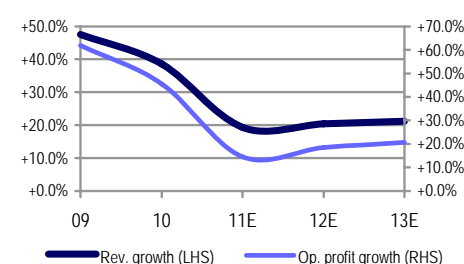
Per share (Rs)	3/09	3/10	3/11E	3/12E	3/13E
EPS (stated)	50.57	62.06	77.18	97.29	116.70
EPS (UBS adjusted)	50.57	62.06	77.18	97.29	116.70
GOPS	100.75	129.89	148.80	176.31	212.74
DPS	10.01	12.00	15.44	19.46	23.34
BVPS (stated)	284.53	395.99	455.11	529.64	619.03
BVPS (adjusted)	261.26	361.64	430.14	503.65	587.98
Profit & Loss (Rsm)					
Net interest income	36,862	50,045	63,559	79,093	95,967
Other income	27,891	39,680	43,432	49,665	60,084
Total revenues	64,753	89,725	106,991	128,758	156,051
Expenses	(28,582)	(37,097)	(46,700)	(57,321)	(69,854)
Operating profit	36,171	52,628	60,291	71,437	86,198
Provisions and other items	(8,319)	(14,111)	(12,908)	(11,709)	(14,557)
Profit before tax	27,852	38,517	47,383	59,727	71,641
Pre-exceptional net income	18,153	25,145	31,273	39,420	47,283
Capital dynamics (Rsm)					
Risk-weighted assets	1,097,875	1,411,698	1,766,175	2,204,502	2,751,146
Tier one capital	101,630	157,894	181,697	211,701	247,689
Total capital	150,276	223,079	247,939	279,246	316,827
Tier one ratio	9.3%	11.2%	10.3%	9.6%	9.0%
Total capital ratio	13.7%	15.8%	14.0%	12.7%	11.5%
Net profit after tax	18,153	25,145	31,273	39,420	47,283
<i>Tier 1 requirement</i>					
Less: Working capital requirement					
Less: Dividends	4,205	5,688	7,317	9,224	11,063
Surplus capital generated					
Surplus capital generation ratio					
Balance sheet (Rsm)					
Assets	1,477,220	1,806,477	2,212,012	2,724,311	3,330,189
Customer loans	821,274	1,052,421	1,325,354	1,657,484	2,063,454
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%	59.9%	60.8%	62.0%
Deposits : assets	79.5%	78.2%	80.5%	82.6%	84.2%
Loans : deposits	70.0%	74.5%	74.4%	73.7%	73.6%
Shareholders funds : assets	6.91%	8.88%	8.34%	7.88%	7.53%
Asset quality (Rsm)					
Non-performing assets	8,978	13,180	15,992	18,642	21,957
Total risk reserves	5,707	8,990	12,708	16,066	18,574
NPLs : loans	1.09%	1.25%	1.21%	1.12%	1.06%
NPL coverage	64%	68%	79%	86%	85%
Provision charge : average loans	1.27%	1.51%	1.09%	0.79%	0.78%
Net NPLs : shareholders' funds	3.2%	2.6%	1.8%	1.2%	1.3%
Profitability					
Net interest margin (avg assets)	2.87%	3.05%	3.16%	3.20%	3.17%
Provisions : operating profit	23.0%	26.8%	21.4%	16.4%	16.9%
RoE	19.1%	19.2%	18.1%	19.8%	20.3%
RoAdjE					
RoRWA	1.85%	2.00%	1.97%	1.99%	1.91%
RoA	1.41%	1.53%	1.56%	1.60%	1.56%
Productivity					
Cost : income ratio	44.1%	41.3%	43.6%	44.5%	44.8%
Costs : average assets	2.2%	2.3%	2.3%	2.3%	2.3%
Compensation expense ratio	21.6%	19.3%	21.2%	21.4%	21.5%
Momentum					
Revenue growth	+47.5%	+38.6%	+19.2%	+20.3%	+21.2%
Operating profit growth	+61.9%	+45.5%	+14.6%	+18.5%	+20.7%
Net profit growth	+69.5%	+38.5%	+24.4%	+26.1%	+19.9%
Dividend growth	+63.1%	+19.9%	+28.6%	+26.1%	+19.9%
Value*					
UBS bank valuation					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (Rsm)	215,844	332,751	594,256	594,256	594,256
Conventional valuation					
Market cap./Revenues	3.3x	3.7x	5.6x	4.6x	3.8x
Market cap./Operating profit	6.0x	6.3x	9.9x	8.3x	6.9x
P/E (stated)	11.9x	14.4x	19.0x	15.1x	12.6x
P/E (UBS adjusted)	11.9x	14.4x	19.0x	15.1x	12.6x
Dividend yield (net)	1.66%	1.34%	1.05%	1.33%	1.59%
P/BV (stated)	2.1x	2.3x	3.2x	2.8x	2.4x
P/BV (adjusted)	2.3x	2.5x	3.4x	2.9x	2.5x

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.

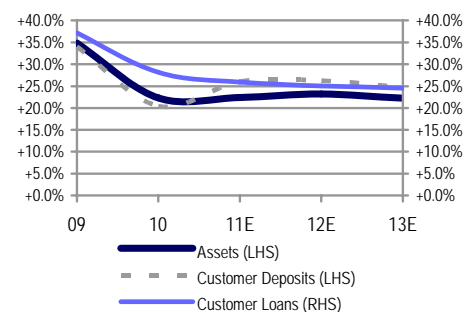
Profitability (RoE & RoRWA)



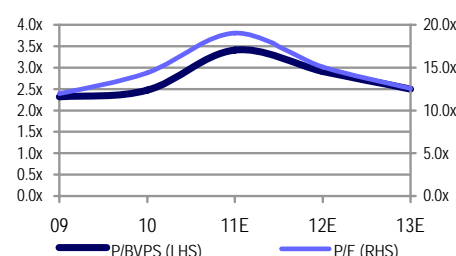
Momentum (Revenue & Operating profit growth)



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 Rs1,466.80 on 16/11/2010

■ **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	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	20%
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 30 September 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.

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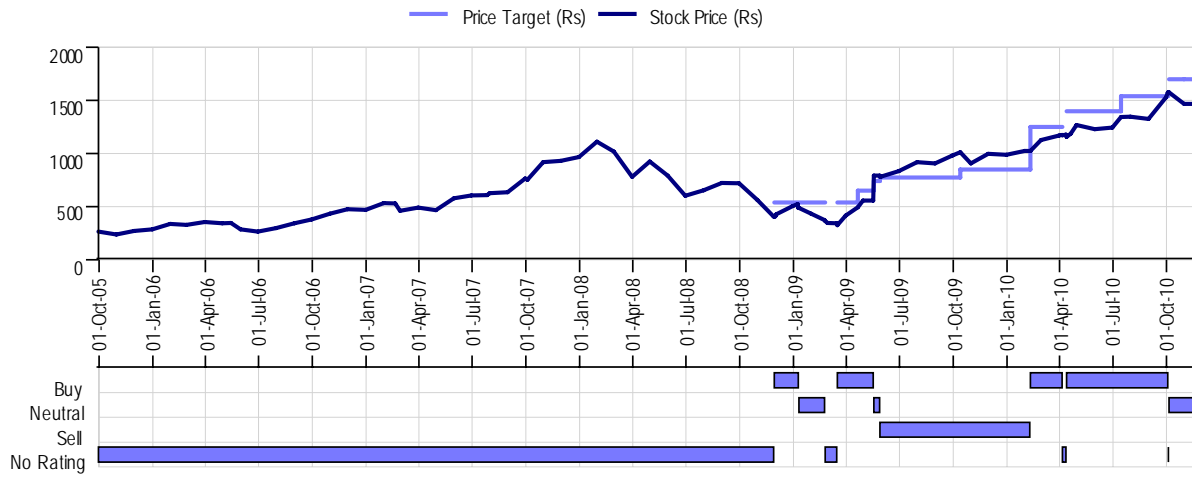
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
AXIS Bank	AXBK.BO	Neutral	N/A	Rs1,466.80	16 Nov 2010

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 16 Nov 2010

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