

## Axis Bank

 BSE code: 532215  
 NSE code: AXISBANK

**CMP: Rs 813**
**Target: Rs 904** ↑

**BUY**

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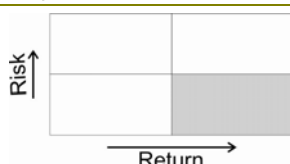
### Company data

Particulars	
Market cap (Rs bn / US\$ bn)	288.4/7.2
Outstanding equity shares (mn)	354.7
52-week high/low (Rs)	830/399
Quarterly average daily volume	378,610

### Financial snapshot

Particulars	FY07	FY08E	FY09E
NII (Rs bn)	15.7	22.4	30.5
Growth (%)	45.3	43.1	36.2
Adj net profit (Rs bn)	6.6	9.5	12.7
Growth (%)	35.9	44.0	34.3
FDEPS (Rs)	23.4	26.7	35.9
Growth (%)	34.4	14.3	34.3
P/ABV (x)	7.7	3.5	3.2
ROE (%)	21.6	16.2	14.3

### Risk-return profile



### Shareholding pattern

(%)	Sept-07	Jun-07
Promoters	43.3	42.9
FIs	38.8	39.8
Banks & FIs	8.8	8.6
Public	9.1	8.7

### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Axis Bank	813	25.3	26.8	73.4
Sensex	19,059	22.1	24.5	39.2
Bankex	9,706	19.3	15.7	46.2

 Company website: [www.axisbank.com](http://www.axisbank.com)

## Stellar growth

Axis Bank (formerly UTI Bank) has delivered above-expected results primarily on the back of a strong growth in advances accompanied by healthy non-interest income. NII expanded 73% YoY to Rs 5.9bn driven by the higher asset growth as well as margin expansion. The bank's NIM rose 36bps YoY to 3.3% assisted by proceeds from the recent equity issue and an increase in low-cost CASA deposits. The fresh issue has led to a substantial rise in tier I capital, thereby pointing to sustained business growth. In view of the strong results we are revising our NII and PAT estimates upwards. Our target price accordingly rises from Rs 835 to Rs 904 and we reaffirm our Buy call on the scrip.

### Actual vs estimated performance

(Rs bn)	Actual	Estimated	% Variance
NII	5.9	5.0	17.1
PPP	4.6	4.2	11.0
PAT	2.3	1.9	16.8
EPS (Rs)	6.4	5.5	16.8

Source: Company, Religare Research

### Quarterly results

(Rs bn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Interest on advances	11.3	6.1	85.5	10.1	12.0
Income on investments	5.1	3.9	29.8	4.9	3.4
Interest on bal with RBI	0.3	0.2	52.3	0.3	5.5
Interest income	16.8	10.3	63.5	15.4	9.1
Interest expenses	(10.9)	(6.8)	58.8	(10.9)	(0.2)
<b>Net interest income</b>	<b>5.9</b>	<b>3.4</b>	<b>72.9</b>	<b>4.5</b>	<b>31.7</b>
Other income	3.8	2.0	87.0	3.4	11.8
Total income	9.7	5.5	78.2	7.9	23.1
Operating expenses	(5.1)	(3.0)	72.2	(4.2)	20.8
<b>PPP</b>	<b>4.6</b>	<b>2.5</b>	<b>85.3</b>	<b>3.7</b>	<b>25.8</b>
Provisions and W/off	(1.1)	(0.3)	235.7	(1.0)	13.4
PBT	3.5	2.2	61.5	2.7	30.5
Taxes	(1.2)	(0.7)	63.5	(0.9)	31.0
<b>PAT</b>	<b>2.3</b>	<b>1.4</b>	<b>60.5</b>	<b>1.7</b>	<b>30.2</b>
NIM (%)	3.3	2.9	36bps	2.7	56bps
Cost/ Income ratio (%)	52.4	54.2	-	53.4	-

Source: Company, Religare Research

## Result highlights

**Advances up 54% YoY, surpassing industry average growth by a distance**

### 54% rise in advances bolsters NII

Axis Bank has posted 54% YoY growth in advances to Rs 447bn, substantially higher than the industry growth average of 25%. Driven by the higher asset growth, net interest income (NII) expanded 72.9% for the quarter to Rs 5.9bn. The increase in NII was also aided by the availability of proceeds from the recently concluded GDR and preferential issues.

### Deposits up 31% YoY; CASA deposits pick up pace

The bank recorded a 31% YoY rise in total deposits for the quarter to Rs 641.1bn. Term deposits increased at a slower pace of 19%. Low-cost CASA deposits now constitute a comparatively higher share of total funds at 45% as against 38% in Q1FY08, thus further enhancing NII growth.

### Maturity of high-cost deposits aids margin expansion

The management had indicated that with the maturity of short-term priority sector assets acquired towards the end Q4FY07, NIMs would start improving. Accordingly, the NIM for the quarter improved to 3.3% from 2.9% a year ago.

### Positive surprise on fee income

As against our estimates, fee income continues to grow at a robust rate. Non-interest income excluding treasury gains grew 91% YoY to Rs 2.8bn during the quarter. Leadership in the business of placing and syndicating corporate bonds along with robust growth in cash management and third party product distribution continued to boost fee income growth. Treasury income was also substantially higher at Rs 1bn as compared to Rs 233.3mn a year ago.

### Operating expenses rise in line with geographical growth

Operating expenses have increased 72% YoY to Rs 5.1bn driven by higher personnel expenses. An increase in recruitment due to the expansion of geographical presence has contributed to the higher expenses. The total number of branches increased to 542 and ATMs to 2,500 as against 522 and 2,428 respectively at the end of Q1FY08.

### NPAs on the decline; Improved coverage raises provisioning

The improvement in asset quality continued in Q2FY08 with gross NPAs down to 0.95% from 1.22% at the end of Q2FY07 and net NPAs down to 0.55% from 0.74% during the same period. However, higher provisions towards standard assets and efforts to improve the coverage ratio raised provisioning expenses to Rs 1.1bn compared to Rs 341mn a year ago. The NPA coverage ratio now stands at 77.6% as against 75.6% in Q2FY07.

### Equity issue places CAR in comfort zone

Axis Bank's capital adequacy ratio (CAR) at the end of Q2FY08 stood at 17.6% with a tier-I ratio of 13%. During the quarter, the bank raised Rs 45bn through the issue of 73mn shares at Rs 620 each. The issue was highly book value-accretive and would enable the bank to sustain its business growth without further dilution for the next two to three years.

**Rs 45bn equity issue would sustain business growth for the next two to three years**

## Valuation

### Expected to maintain above-industry growth

Axis Bank is currently trading at 3.2x FY09E adjusted book value (on a post-dilution basis). We believe that the bank will continue to achieve above-industry growth as it expands its distribution network and extends its geographical presence. The increase in customer base would bring in added low-cost deposits and also generate higher fee income. We therefore expect the bank to sustain its current profit growth trend.

**PAT estimates for FY08 and FY09 raised by 7.2% and 7.6% respectively; We upgrade target**

### We upgrade our estimates and target price; Reiterate Buy

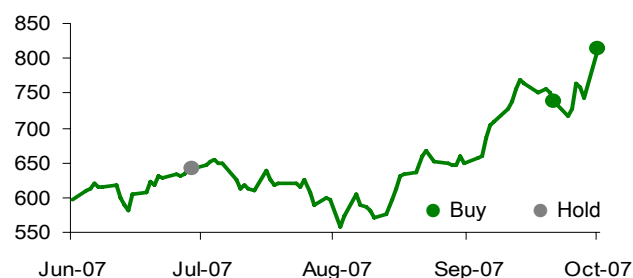
In view of the better-than-expected results we are revising our estimates upwards. We have raised our NII estimates for FY08 and FY09 by 5.3% and 5.7% respectively and PAT estimates by 7.2% and 7.6% respectively. Our DDM-based target price accordingly stands revised to Rs 904 from Rs 835 earlier. At this price the stock would trade at a P/ABV of 3.6x on FY09E. We maintain our Buy recommendation.

### Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Jul-07	Results Update	641	689	Hold
05-Oct-07	Quarterly Preview	752	835	Buy
15-Oct-07	Result Update	813	904	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Standalone financials

### Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Interest earned	28.9	45.6	66.6	89.6
Interest expended	(18.1)	(29.9)	(44.2)	(59.1)
Net interest income	10.8	15.7	22.4	30.5
Growth (%)	47.5	45.3	43.1	36.2
Non-interest income	7.3	10.1	13.3	16.7
Comm, Exchange & Brokerage	4.9	6.8	9.4	12.7
Growth (%)	75.5	38.4	31.6	25.4
Operating expenses	8.1	12.1	18.2	24.1
Pre-provisioning profits	9.9	13.6	17.5	23.1
Growth (%)	75.7	37.1	28.5	31.8
Provisions & contingencies	2.6	3.7	3.5	4.2
PBT	7.3	10.0	14.1	18.9
Income tax, Interest tax	2.5	3.4	4.6	6.1
Net profit	4.9	6.6	9.5	12.7
Growth (%)	45.0	35.9	44.0	34.3

Source: Company, Religare Research

### Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash in hand & bal with RBI	24.3	37.9	63.9	86.6
Balance with banks, Money at call	12.1	18.2	20.0	22.0
Investments	215.3	269.0	342.7	420.1
Advances	223.1	368.8	534.7	735.2
Fixed assets (net)	5.7	6.2	6.9	7.6
Other assets	16.8	23.5	26.3	29.5
Total assets	497.3	723.6	994.6	1,301.0
Equity capital	2.8	2.8	3.5	3.5
Reserves & surplus	25.9	29.5	80.9	90.7
Net worth	28.7	32.3	84.4	94.2
Deposits	401.1	587.9	789.0	1,069.4
Current deposits (a)	79.7	113.0	149.8	197.0
Savings bank deposits (b)	80.7	121.3	161.9	216.1
Term deposits (c)	240.8	353.6	477.3	656.3
Borrowings (incl sub-ord bonds)	44.7	63.8	80.3	86.8
Other liabilities & provisions	22.6	39.4	40.7	50.5
Total liabilities	497.3	723.6	994.6	1,301.0

Source: Company, Religare Research

### Key ratios

Year-end March	FY05	FY06E	FY07E	FY08E
<b>Per share data</b>				
Shares outstanding (mn)	278.7	281.6	354.7	354.7
FDEPS (Rs)	17.4	23.4	26.7	35.9
DPS (Rs)	3.5	4.5	5.5	7.3
Book value (Rs)	103.1	114.8	238.1	265.6
Adjusted book value (Rs)	95.3	105.4	229.0	253.2

### Valuation ratios

Market price	813.0	813.0	813.0	813.0
P/E (x)	46.7	34.7	30.4	22.6
P/BV (x)	7.9	7.1	3.4	3.1
P/ABV (x)	8.5	7.7	3.5	3.2

### Earnings quality (%)

Net interest margin	2.7	2.7	2.8	2.8
Yield on advances	8.1	9.1	9.4	9.4
Yield on investments	7.0	7.2	7.4	7.4
Cost of funds	4.6	5.5	5.8	5.8
Cost/Income	45.0	47.1	51.0	51.1
Return on average net worth	18.4	21.6	16.2	14.3
Return on average assets	1.1	1.1	1.1	1.1

### Growth ratios (%)

Net interest income	47.5	45.3	43.1	36.2
Other income	75.5	38.4	31.6	25.4
Total income	57.6	42.6	38.6	32.2
Pre-provisioning profit	75.7	37.1	28.5	31.8
Net profit	45.0	35.9	44.0	34.3
Advances	43.0	65.3	45.0	37.5
Deposits	26.5	46.5	34.2	35.5

### Asset quality

Proportion of low-cost deposits (%)	40.0	39.9	39.5	38.6
Credit-Deposit ratio (x)	55.6	62.7	67.8	68.8
Investment/Deposit (%)	53.7	45.8	43.4	39.3
Net NPA ratio	1.0	0.7	0.6	0.6
CAR	11.1	11.6	17.2	15.4
Tier-I ratio	7.3	6.4	12.7	11.0

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn

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