

April 21, 2008

Rating	BUY
Price	Rs882
Target Price	Rs1,100
Implied Upside	24.8%
Sensex	16,739

(Prices as on April 21, 2008)

#### Trading Data

Market Cap. (Rs bn)	315.3
Shares o/s (m)	357.7
Free Float	57.5%
Avg. Daily Vol ('000)	1,400.9
Avg. Daily Value (Rs m)	1,201.8

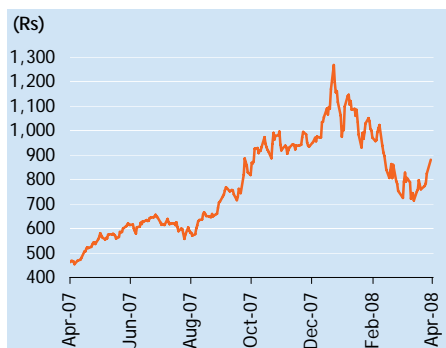
#### Major Shareholders

Promoters	42.5%
Foreign	33.9%
Domestic Inst.	12.0%
Public & Others	11.6%

#### Stock Performance

(%)	1M	6M	12M
Absolute	17.0	6.2	89.1
Relative	4.2	13.2	66.6

Price Performance (RIC: AXBK.BO, BB: AXSB IN)



Source: Bloomberg

## Axis Bank

### Robust growth continues

- Profits above estimates:** Axis Bank has reported another excellent set of numbers in its Q4FY08 results. During the quarter, its PAT was up by 71% at Rs3.6bn, which was much higher than our (Rs3.1bn) and market expectations. Key takeaway was the strong earnings growth, despite making full contingency provision of Rs720m as a prudential measure related to the two forex derivative court cases.
- Strong NII growth continues:** The bank reported strong 89% YoY growth in its NII on the back of a robust 104bps YoY improvement in margins (driven by higher asset yields and lower cost of funds) and 50% YoY asset growth. However, sequentially margins remained stable (up 2bps QoQ). We expect it to stabilise at a slightly lower level going forward, and NII growth is likely to be driven mainly by balance sheet expansion.
- Strong growth in fee income continues:** Fee income during the quarter grew by a robust 67% YoY and 19% QoQ, while treasury income grew by 126% YoY and fell by 26% on QoQ.
- Valuation:** Axis Bank continues to remain one of the top mid cap growth stories in the private banking space. Despite the strong earnings outperformance reported during the quarter we would like to wait for Q1FY09 results before we revisit our FY09 & FY10 earnings estimates. Upside risk to our earnings estimates remains high as we have considered a moderation in fee income growth and higher provisions going forward which may not be the case as the management remains confident of improving its RoE to 20% levels by FY10.

At the CMP of Rs882, the stock is quoting at 17.7x FY10E EPS, 2.9x FY10E BV and 3.1x FY10E ABV. We maintain BUY rating on the stock with a price target of Rs1100.

Key financials (Rs m)	FY07	FY08	FY09E	FY10E
Net interest income	15,671	25,854	34,385	44,701
<i>Growth (%)</i>	45.3	65.0	33.0	30.0
Operating profit	13,626	22,146	28,751	37,876
PAT	6,590	10,593	13,370	17,860
EPS (Rs)	23.4	29.6	37.4	49.9
<i>Growth (%)</i>	34.4	26.5	26.2	33.6
Net DPS (Rs)	4.5	6.0	7.2	9.6

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
<i>NIM (%)</i>	2.5	3.5	3.4	3.3
<i>RoAE (%)</i>	17.9	17.9	14.9	17.5
<i>RoAA (%)</i>	1.1	1.2	1.2	1.2
P / BV (x)	7.3	3.7	3.3	2.9
P / ABV (x)	7.9	3.9	3.5	3.1
PE (x)	37.7	29.8	23.6	17.7
<i>Net dividend yield (%)</i>	0.5	0.7	0.8	1.1

Source: Company Data; PL Research

Abhijit Majumder  
AbhijitMajumder@PLIndia.com  
+91-22-6632 2236

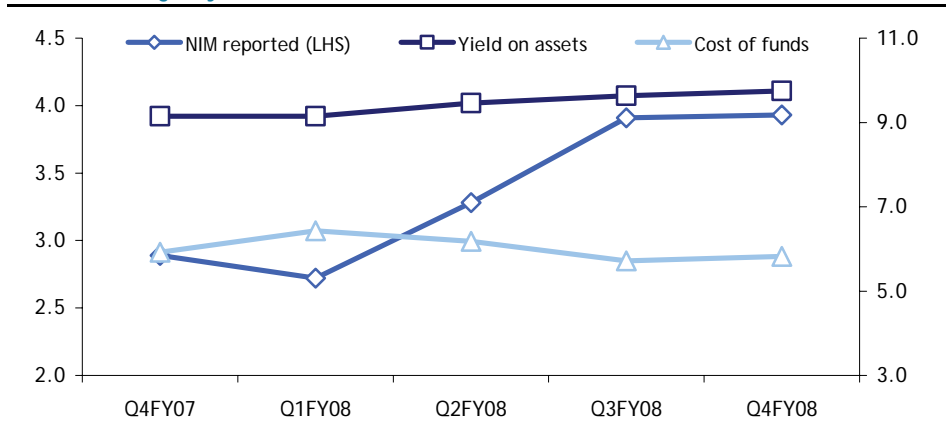
Bharat Gorasiya  
BharatGorasiya@PLIndia.com  
+91-22-6632 2242

## Highlights

### Margins likely to stabilise at slightly lower levels going forward

Margins expanded by 104bps YoY driven by higher asset yields and lower cost of funds. However, going forward we expect margins to stabilise at slightly lower levels (10-20bps) as the bank increases its leverage by mobilising more deposits and benefits of interest free capital fades out. We expect NII to grow by a CAGR of 31.5% over FY08-10E.

#### Trend in margin, yield on assets and cost of funds

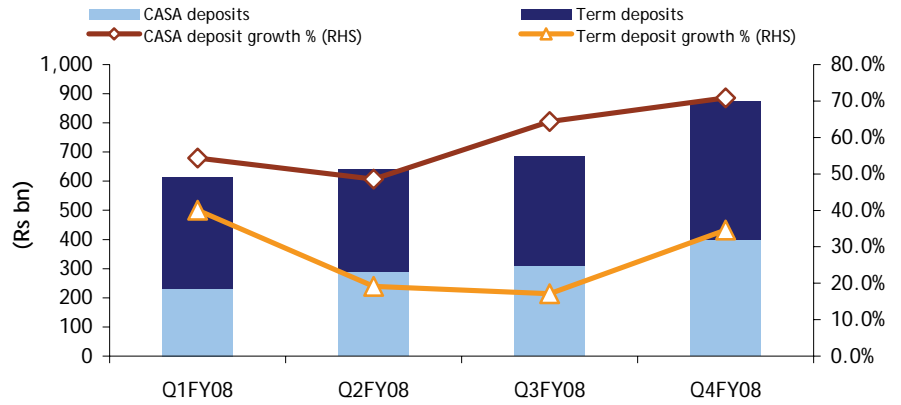


Source: Company data

### Excellent CASA growth helps in containing costs

The bank has displayed remarkable pick-up in CASA deposit with YoY growth of 71% as compared to a growth of 35% in term deposits on YoY basis. CASA deposit as a percentage of total deposits stood at 45.7%, improving by 582bps YoY and 41bps QoQ. One of the key drivers of this continuous surge in CASA balances is the 63-branch additions during this quarter, out of the total 110 branches for the full year.

### Trend in CASA and deposit balances



Source: Company data

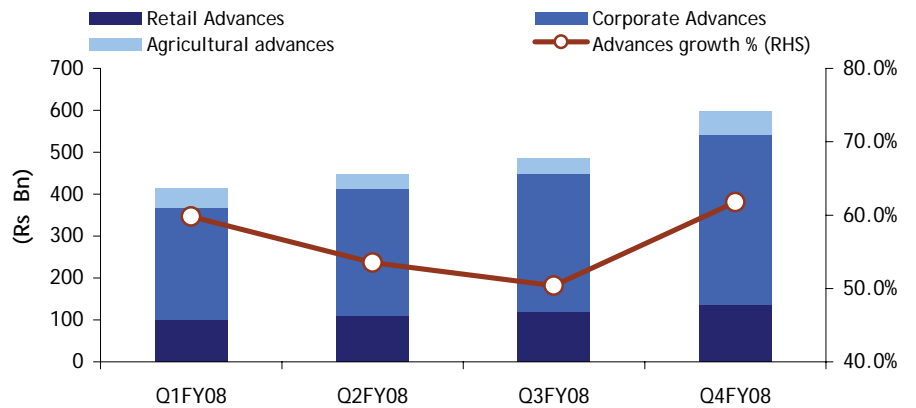
### Branch expansion to facilitate deposit mobilisation

We feel the proposed branch expansion plans of the bank (to add another 125-150 branches in FY09 taking the total branch network to 820 from 671 at present) would help sustain its CASA levels and keep a lid on its cost of funds in an uncertain interest rate environment, which is showing an upward bias (mainly due to higher inflation).

### Advances growth remains strong

Advances grew by 62% YoY, of which retail advances grew by 52%. Large corporate and SME advances grew by 66% and 52% respectively. The bank is likely to realign its advances book slightly in favour of the SME sector to drive its advances growth.

### Trend in advances composition and advances growth



Source: Company data

## Robust fee income growth continues

Retail banking fees, up 91% YoY and 25% QoQ, continued to drive fee income growth of the bank. The bank remains confident of delivering good fee income growth going forward. However, due to the uncertainty surrounding many of its key fee income segments, we expect its fee income to moderate and deliver a CAGR of 30.5% over FY08-10E over a CAGR base of 64.4% for FY06-08.

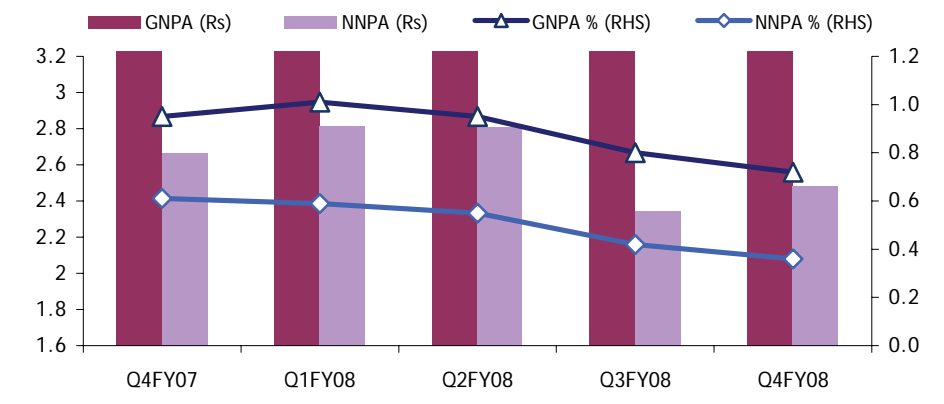
## Operating expenses growth in line with business expansion

Although operating expenses grew 93% YoY and 18% QoQ, cost to income ratio stood at 47.8%, increasing by 298bps YoY. This increase is in line with overall branch and business expansion. Operating profit increased by 71% to Rs7,228m, driven by strong 81% YoY growth in net income.

## Asset quality level - some sequential increase evident

Although asset quality levels have improved sequentially as a percentage of advances on absolute basis, there has been a slight up-tick. Overall NPA provisions have declined sequentially (from Rs1.85bn in Q3FY08 to Rs0.5bn in Q4FY08) as the bank had made accelerated provisions during Q3FY08. It has also made Rs720m prudential provision related to MTM losses on account of two clients. Based on a likely slowdown in the economy and seasoning of its retail portfolio, we are factoring in much higher provisions in FY09 and FY10 (at 1% of average advances in FY09 and FY10, up from 0.75% in FY08).

### Trend in asset quality



Source:



## Total outstanding MTM losses at Rs 6.7bn

As on 31<sup>st</sup> March 2008, there were 188 outstanding derivatives transactions structured by the Bank in which the companies had an MTM loss of Rs 6.7bn. Of these, 113 outstanding transactions pertained to forex derivatives, in which the companies had an aggregate MTM loss of Rs 5.5bn. The average maturity period of the above mentioned contracts are between 4-6 years and hence the risk of these MTM losses getting crystallised into actual losses is not significant.

## Valuation

Axis Bank continues to remain one of the top mid cap growth stories in the private banking space. Despite the strong earnings outperformance reported during the quarter we would like to wait for Q1FY09 results before we revisit our FY09 & FY10 earnings estimates. Upside risk to our earnings estimates remains high as we have considered a moderation in fee income growth and higher provisions going forward which may not be the case as the management remains confident of improving its RoE to 20% levels.

At the CMP of Rs882, the stock is quoting at 17.6x FY10E EPS, 2.9x FY10E BV and 3.1x FY10E ABV. We maintain BUY rating on the stock with a price target of Rs1100.



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
<b>Interest Income</b>	<b>20,154</b>	<b>13,668</b>	<b>47.5</b>	<b>18,023</b>	<b>45,604</b>	<b>70,051</b>	<b>53.6</b>
Interest on Advances	13,701	8,362	63.8	12,297	27,029	47,454	75.6
Income on investments	5,927	4,822	22.9	5,349	17,315	21,023	21.4
Bal with RBI & others	526	484	63.8	377	1,261	1,574	75.6
<b>Interest Expense</b>	<b>11,870</b>	<b>9,025</b>	<b>31.5</b>	<b>10,550</b>	<b>29,933</b>	<b>44,198</b>	<b>47.7</b>
<b>Net Interest Income</b>	<b>8,284</b>	<b>4,642</b>	<b>78.5</b>	<b>7,473</b>	<b>14,683</b>	<b>25,852</b>	<b>76.1</b>
<b>Non-Interest Income</b>	<b>5,565</b>	<b>3,011</b>	<b>84.8</b>	<b>4,879</b>	<b>10,101</b>	<b>17,959</b>	<b>77.8</b>
Treasury Income	975	432	126.0	1,310	1,857	4,277	130.3
CEB	4,153	2,485	67.0	3,484	7,884	13,207	67.5
Other Income	436	95		85	281	471	67.5
<b>Net total Income</b>	<b>13,849</b>	<b>7,653</b>	<b>81.0</b>	<b>12,352</b>	<b>24,784</b>	<b>43,812</b>	<b>76.8</b>
<b>Operating Expenses</b>	<b>6,621</b>	<b>3,430</b>	<b>93.0</b>	<b>5,630</b>	<b>12,146</b>	<b>21,667</b>	<b>78.4</b>
Employee	1,845	889	107.4	1,735	3,814	7,521	97.2
Other operating expenses	4,776	2,541	88.0	3,895	8,332	14,146	69.8
<b>Operating profit</b>	<b>7,228</b>	<b>4,223</b>	<b>71.2</b>	<b>6,723</b>	<b>12,638</b>	<b>22,145</b>	<b>75.2</b>
Core operating profits	6,253	3,791	64.9	5,413	10,781	17,867	65.7
Provisions	1,642	1,065	54.2	2,001	2,676	5,796	116.6
<b>Profit before tax</b>	<b>5,586</b>	<b>3,158</b>	<b>76.9</b>	<b>4,722</b>	<b>9,962</b>	<b>16,348</b>	<b>64.1</b>
Tax	1,972	1,039	89.8	1,654	3,372	5,757	70.7
<b>Net Profit after tax</b>	<b>3,614</b>	<b>2,119</b>	<b>70.6</b>	<b>3,068</b>	<b>6,590</b>	<b>10,591</b>	<b>60.7</b>
<b>Asset Quality</b>							
Gross NPA's	4,946	4,187	18.1	4,476	4,187	4,946	18.1
Gross NPA's %	0.7	1.0		0.8	1.0	0.7	
Net NPA's	2,483	2,663	-6.8	2,343	2,663	2,483	-6.8
Net NPA's %	0.4	0.6		0.4	0.6	0.4	
Provision Coverage	49.8	36.4		47.7	36.4	49.8	
<b>Capital Adequacy (%)</b>							
CAR	13.7	11.6		16.9	11.6	13.7	
Tier 1	10.2	6.4		12.6	6.4	10.2	
<b>Balance Sheet Items</b>							
Deposits	876,260	587,856	49.1	685,510	587,856	876,260	49.1
CASA	400,270	234,303	70.8	310,320	234,303	400,270	70.8
Advances	596,610	368,765	61.8	486,320	368,765	596,610	61.8
Investments	337,050	268,970	25.3	289,650	268,970	337,050	25.3
<b>Total Assets</b>	<b>1,095,790</b>	<b>732,572</b>	<b>49.6</b>	<b>905,810</b>	<b>732,572</b>	<b>1,095,790</b>	<b>49.6</b>



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.