

April 21, 2009

Rating	Accumulate
Price	Rs510
Target Price	Rs550
Implied Upside	7.8%
Sensex	10,980

(Prices as on April 20, 2009)

#### Trading Data

Market Cap. (Rs bn)	183.2
Shares o/s (m)	359.0
Free Float	57.6%
3M Avg. Daily Vol ('000)	987.3
3M Avg. Daily Value (Rs m)	386.6

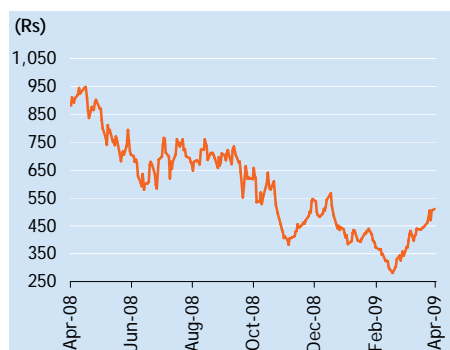
#### Major Shareholders

Promoters	42.4%
Foreign	23.4%
Domestic Inst.	19.0%
Public & Others	15.2%

#### Stock Performance

(%)	1M	6M	12M
Absolute	48.8	(17.3)	(38.1)
Relative	26.3	(24.7)	(4.7)

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



Source: Bloomberg

## Axis Bank

### Another exceptional performance

- **Profits beat estimates hands down:** Axis Bank has reported Q4FY09 PAT of Rs5.81bn, up by 60.9% YoY. This was higher than our expectation of Rs4.51bn and the market expectation of Rs4.3bn. For the full year, PAT was up 69% to Rs18.15bn. Moderation in business growth with conservation of Tier I capital, margin expansion, CASA improvement and relatively stable asset quality on QoQ basis are the major positive takeaways from Q4FY09 financial numbers.
- **Net interest income (NII) growth driven by margin expansion:** NII grew 25% YoY and 11% QoQ, driven by a 36.7% YoY and 8% QoQ advances growth. For FY09, NII has grown by 42.6% YoY. The margins have declined 56bps YoY. However, on a QoQ basis, there has been 25bps improvement, largely due to 500bps QoQ improvement in CASA to 43.1% and reduction in overall cost of funds by 27bps QoQ.
- **Asset quality still under control:** NNPA as percentage of net customer assets fell by 4bps to 0.35% in Q4FY09 as compared to 0.39% in Q3FY09. On an incremental basis, the GNPA's have increased by Rs1.1bn. This is, however, excluding the Rs6.6bn advances re-structured during the quarter as all of them were standard advances.
- **Valuation:** Given the strong operational growth in Q4FY09, we have up-graded FY10 PAT estimates by 12%. At the CMP of Rs510, the stock is quoting at 8.7 x FY10E EPS, 1.5x FY10E BV and 1.6x FY10E ABV. We continue to favour Axis bank from a medium-to-long term perspective. However, the succession issue will be a near term overhang. Hence, we have changed our rating to 'Accumulate' from BUY, with a price target of Rs550.

Key financials (Rsm)	FY08	FY09E	FY10E	FY11E
Net interest income	25,854	36,862	46,388	61,483
Growth (%)	76.1	42.6	25.8	32.5
Operating profit	22,260	37,249	44,920	57,897
PAT	10,710	18,154	21,687	28,020
EPS (Rs)	29.9	50.6	60.4	78.0
Growth (%)	28.0	68.9	19.5	29.2
Net DPS (Rs)	6.0	10.0	11.0	12.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09E	FY10E	FY11E
NIM (%)*	2.8	2.9	2.9	3.1
RoAE (%)	17.6	19.1	19.6	21.4
RoAA (%)	1.2	1.4	1.4	1.4
P / BV (x)	2.1	1.8	1.5	1.3
P / ABV (x)	2.1	1.8	1.6	1.3
PE (x)	17.0	10.1	8.4	6.5
Net divided yield (%)	1.2	2.0	2.2	2.4

Source: Company Data; PL Research:

\* calculated on average interest earning assets.

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## Q4FY09 Result Overview

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Interest Income	30,392	20,154	50.8	29,848	108,355	70,053	54.7
Interest on Advances	20,536	13,701	49.9	20,958	74,659	47,457	57.3
Income on investments	8,868	5,927	49.6	8,062	30,515	21,023	45.1
Bal with RBI & others	988	526	49.9	828	3,181	1,574	57.3
Interest Expense	20,066	11,870	69.0	20,551	71,493	44,200	61.7
<b>Net Interest Income</b>	<b>10,326</b>	<b>8,284</b>	<b>24.6</b>	<b>9,297</b>	<b>36,862</b>	<b>25,854</b>	<b>42.6</b>
<b>Non-Interest Income</b>	<b>8,455</b>	<b>5,565</b>	<b>51.9</b>	<b>7,322</b>	<b>28,969</b>	<b>17,956</b>	<b>61.3</b>
Treasury Income	1,662	446	272.2	1,142	3,739	2,536	47.4
CEB	6,644	4,682	41.9	6,189	24,474	14,949	63.7
Other Income	150	436	(65.7)	(10)	757	472	60.5
<b>Net total Income</b>	<b>18,781</b>	<b>13,849</b>	<b>35.6</b>	<b>16,619</b>	<b>65,831</b>	<b>43,810</b>	<b>50.3</b>
Operating Expenses	7,396	6,621	11.7	7,522	28,582	21,549	32.6
Employee	2,575	1,845	39.6	2,661	9,977	6,703	48.8
Other operating expenses	4,821	4,776	0.9	4,862	18,606	14,847	25.3
<b>Operating profit</b>	<b>11,385</b>	<b>7,228</b>	<b>57.5</b>	<b>9,096</b>	<b>37,249</b>	<b>22,260</b>	<b>67.3</b>
Core operating profits	9,724	6,782	43.4	7,954	33,510	19,724	69.9
Provisions	2,552	1,642	55.4	1,320	9,397	5,796	62.1
<b>Profit before tax</b>	<b>8,833</b>	<b>5,586</b>	<b>58.1</b>	<b>7,777</b>	<b>27,852</b>	<b>16,464</b>	<b>69.2</b>
Tax	3,019	1,972	53.1	2,768	9,698	5,753	68.6
<b>Net Profit after tax</b>	<b>5,815</b>	<b>3,614</b>	<b>60.9</b>	<b>5,009</b>	<b>18,154</b>	<b>10,711</b>	<b>69.5</b>
EPS	16.2	10.1	60.3	14.0	50.6	29.9	68.9
<b>Asset Quality</b>							
Gross NPA's	8,978	4,946	81.5	7,879	8,978	4,946	81.5
<i>Gross NPA's % of customer assets</i>	<i>0.96</i>	<i>0.72</i>		<i>0.90</i>	<i>0.96</i>	<i>0.72</i>	
Net NPA's	3,271	2,483	31.8	3,419	3,271	2,483	31.8
<i>Net NPA's % of customer assets</i>	<i>0.35</i>	<i>0.36</i>		<i>0.39</i>	<i>0.35</i>	<i>0.36</i>	
Provision Coverage	63.6	49.8		56.6	63.6	49.8	
<b>Capital Adequacy (%)</b>							
<i>CAR</i>	<i>13.7</i>	<i>13.7</i>		<i>13.8</i>	<i>13.7</i>	<i>13.7</i>	
<i>Tier 1</i>	<i>9.3</i>	<i>10.2</i>		<i>9.5</i>	<i>9.3</i>	<i>10.2</i>	
<b>Yield Measurement ratios</b>							
NIM - reported	3.37	3.93	(56.0)	3.12	3.33	3.47	(14.0)
NIM - calculated	2.93	3.31	(38.4)	2.80	2.90	2.83	7.2
<b>Balance Sheet Items</b>							
Deposits	1,173,740	876,260	33.9	1,057,160	1,173,740	876,260	33.9
CASA	506,440	400,270	26.5	401,460	506,440	400,270	26.5
Advances	815,570	596,610	36.7	753,280	815,570	596,610	36.7
Investments	463,300	337,050	37.5	421,110	463,300	337,050	37.5
Total Assets	1,447,220	1,095,790	32.1	1,374,710	1,447,220	1,095,790	32.1

## Highlights

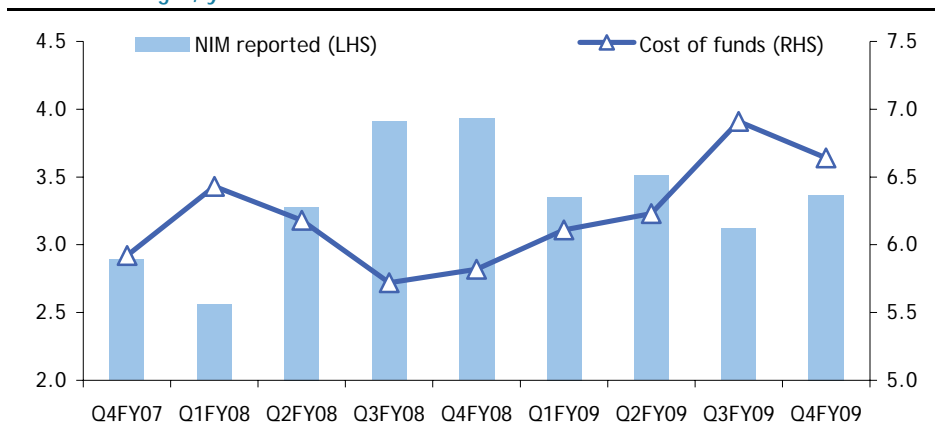
### Asset book growth driven by core deposits - key positive

On YoY basis, the bank has registered advances growth of 36.7% and deposit growth of 34%. However, on sequential basis, both the advances and deposit have grown by 8.3% and 11.0%, respectively. The bank's incremental CD ratio stood at 53.4% for Q4FY09 and incremental ID ratio stood at 36.2%, substantially lower than the previous quarter as the deposit growth has been very steep at 11% QoQ in Q4FY09 as compared to 3% QoQ in Q3FY09. This clearly demonstrates the bank's ability to fund its growth organically through core deposits, which remains a key long term growth driver.

### Margins improve due to strong CASA growth and dip in costs

NIMs for Q4FY09 improved by 25bps to 3.37%, largely due to 500bps QoQ improvement in CASA to 43.1% and reduction in overall cost of funds by 27bps QoQ to 6.64%. This was mainly due to a sharp decline in TD from 11% in Q3FY09 for 500 day deposit to 8% in Q4FY09. Going forward, we feel that the margins should stabilize at the current levels due to re-pricing of bulk deposits which would off-set any decline in the interest income on account of drop in PLRs and lower CD ratio.

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

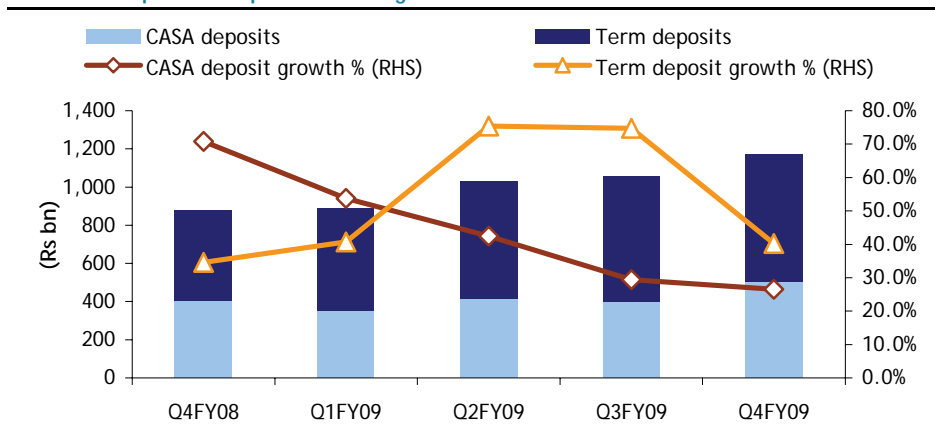


Source: Company Data, PL Research

## CASA growth picks up - key positive surprise

The deposit growth during the quarter was led by 2% growth in term deposits, whereas the savings and current account deposits grew by 13% and 41%, respectively. The CASA ratio, hence, has improved to 43.1% from 38.1% in the previous quarter as the differential between the low cost deposits and term deposits has reduced substantially (250-300bps) in the bulk deposit segment.

### Trend in deposit composition and growth

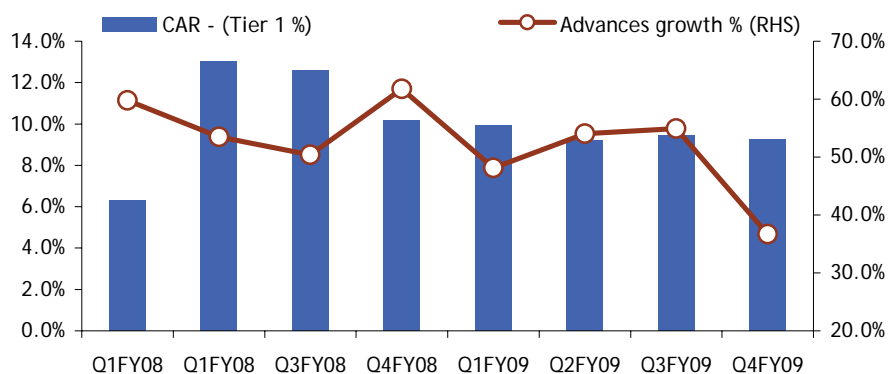


Source: Company Data, PL Research

## Advances growth moderation -positive for capital conservation

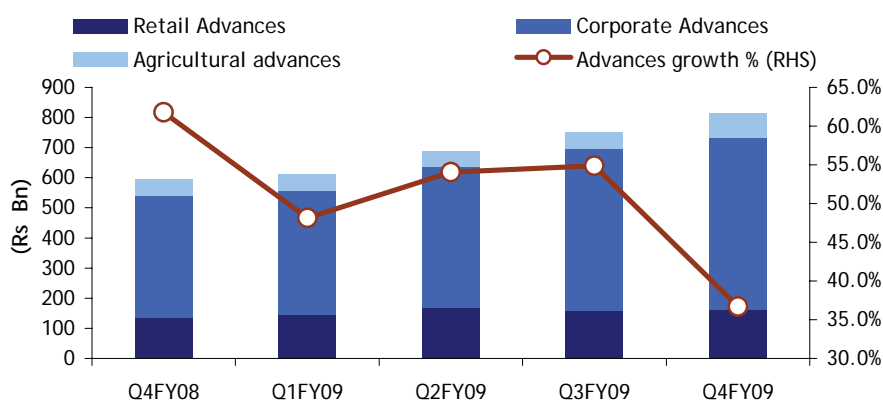
Q4FY09 advances growth was at 37% YoY down from peak level growth of 60% in Q4FY08. This slowdown in growth has helped the bank maintain its Tier I CAR at the 9.3 % levels and also maintain a strong capital position. The bank has moderated its retail advances growth to 18% YoY and 3% QoQ, while corporate advances growth is still growing at 41% YoY and 6% QoQ. This emphasizes the management strategy to move to better quality assets in the current slowdown. The bank has also rated around 72% of the large and mid-corporate loans, leading to a release in risk weighted assets and better CAR.

### Advances growth trend v/s CAR (Tier I)



Source: Company Data, PL Research

### Trend in advances composition and growth



Source: Company Data, PL Research

### Re-structuring remains under acceptable levels

Re-structuring at 1.7% of GCA remains within acceptable levels under the current economic context. The bank has re-structured Rs10bn loans for FY09, taking the total cumulative re-structuring to Rs16.26bn constituting 1.74% of the Gross customer assets (GCA), providing Rs650m as sacrifice for diminution in the NPV of the assets for FY09.

#### Re-structure loan details

	31.3.2008	% of GCA	31.12.2008	% of GCA	31.3.2009	% of GCA
Only principal deferment *	4,091	0.60	6,179	0.71	9,933	1.06
Principal deferment and interest concession **	2,207	0.32	3,457	0.4	6,326	0.68
Restructured Assets	6,297	0.92	9,636	1.11	16,259	1.74

Source: Company data, PL Research

\*doesn't impact NII but increases sacrifice, debited to P&L

\*\*interest concession affects NII negatively

## Fee income and treasury income still going strong

For FY09, fee income stood at Rs24.5bn up 63.8% YoY, largest contribution coming from retail banking. Total fee income for Q4FY09 was up 41.4% YoY and 7.1% QoQ at Rs6.6bn. Except for capital markets, all sub-segments have contributed to the fee income growth.

Treasury income for Q4FY09 has also been robust at Rs1.62bn up 272% YoY and 45% QoQ, led by gains on the bond trading book contributing 68% of the total gains constituting around 9% to the net total income. For FY09, trading profits have grown by 47.4% YoY to Rs3.7bn, constituting around 6% of the Net Total Income.

### Fee Income details

(Rs m)

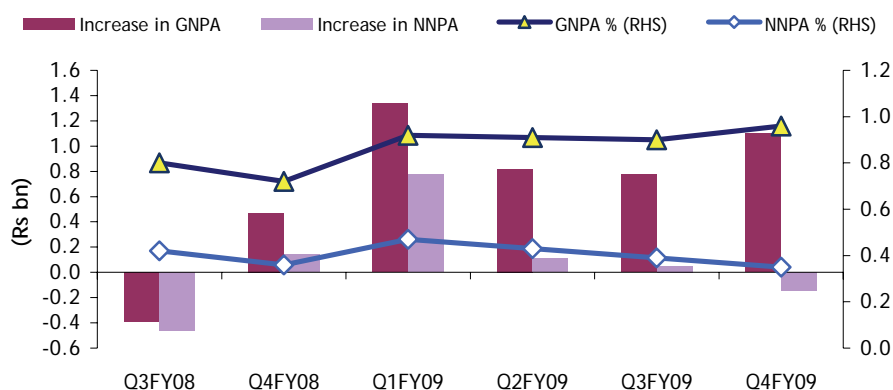
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Corporate banking + Agri, SME	1,850	1,190	55.5	1,670	6,570	3,800	72.9
Business banking	850	610	39.3	790	3,040	2,090	45.5
Capital markets	630	410	53.7	1,010	3,680	1,410	161.0
Retail banking	2,300	1,840	25.0	1,780	7,710	5,530	39.4
Treasury related	1,000	640	56.3	940	3,470	2,110	64.5
<b>Total Fee income</b>	<b>6,630</b>	<b>4,690</b>	<b>41.4</b>	<b>6,190</b>	<b>24,470</b>	<b>14,940</b>	<b>63.8</b>

Source: Company data

## Asset quality levels have stabilized for now

GNPAs have increased by Rs1.1bn as compared to the previous quarter, which looks higher at the GNPA level. Including a write-off of around Rs0.6bn, the gross slippages stand at Rs1.6bn during the quarter. GNPA, as a percentage of net customer assets, have increased to 0.96% as compared to 0.90% of net customer assets. However, at the net level the NNPA as a percentage of customer assets have improved marginally by 4bps to 0.35% of net customer assets due to aggressive provision of around 2.6bn for bad loans during the quarter. Composition of the rated large and mid corporates have remained largely stable. Provision coverage has also improved to 63.6% from 56.6% QoQ.

### QoQ growth in gross & net NPA



Source: Company Data, PL Research

### Succession plans not going smoothly, Negative for the stock

Although talks were doing rounds that Ms. Shikha Sharma (MD ICICI Pru-Life) would succeed the bank's current Mr. P J Nayak, Chairman & CEO, possibilities of an internal candidate taking up the job remained alive and was preferred by the bank's top management. However the board's decision (8:1) in favour of Ms. Sharma has made Mr. Nayak disagree with the Board's decision and has also decided to step down immediately from his position as Chairman and CEO of the bank. This we feel is a negative for the stock as the rift is visible among the bank's top management, BOD and newly appointed CEO and MD of the bank.

### Valuation

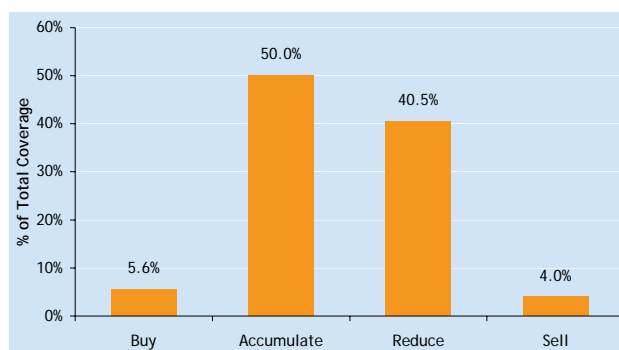
**Valuation:** Given the strong operational growth in Q4FY09, we have up-graded FY10 PAT estimates by 12%. At the CMP of Rs510, the stock is quoting at 8.7 x FY10E EPS, 1.5x FY10E BV and 1.6x FY10E ABV. We continue to favour Axis bank from a medium-to-long term perspective. However, the succession issue will be a near term overhang. Hence, we have changed our rating to 'Accumulate' from BUY, with a price target of Rs550.

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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