

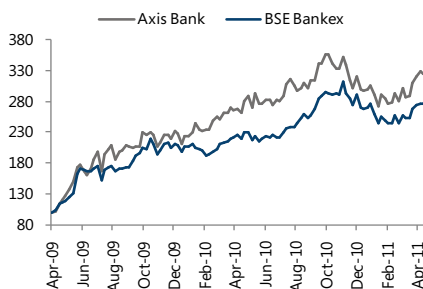
Result Update – Q4FY11

Buy

Reco	Maintained
CMP	₹ 1377
Target Price	₹ 1679
Upside Potential	21.9%

Price Performance

52 wk Hi/Lo	1609/1147
All time Hi/Lo	1609/12
6 mnth Average Vol	1529494
Stock Beta	1.32



Valuation

	FY11	FY12P	FY13P
P/E (x)	16.7	13.5	10.5
P/BV (x)	3.0	2.6	2.2
P/ABV (x)	3.0	2.6	2.2
RONW (%)	19.0	19.8	21.7

Peer Valuation (FY12P)

	HDFC	ICICI	Avg
PE	14.3	18.0	10.2
P/BV	2.8	2.0	1.9

Equity Data

Market Cap. (₹ bln)	566
Face value (₹)	10
No of shares o/s (mln)	411

	Mar10	Mar11	Δ %
Promoters	38.54	37.21	-3.45
DFI's	7.07	5.12	-27.58
FII's	33.13	37.68	13.73
Public	21.26	19.99	-5.97

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Axis Bank

Strong Balance Sheet growth strain margins

The strong balance sheet growth with sharp growth in both Deposits (+34% y-o-y) and Advances (+36.5% y-o-y) led to sequential contraction of margins by 37 bps. This in turn impacted the Net Interest Income growth (+16.5% y-o-y) which came lower than our and consensus estimates. However on all the other parameters the bank delivered robust performance. We downgrade our FY12E estimates by 2% and introduce our FY13E estimates as well. Given the strong business and earnings growth expectations (CAGR 24.4% & 26% respectively in FY12-13E), we continue to maintain our Buy rating on the stock with a revised target price of ₹ 1679.

Core earnings muted as margins contracts q-o-q

The Net Interest Income (NII) of the bank grew by 16.5% y-o-y as against our estimates of 20.3% due to sequential decline in margins by 37 bps as Cost of Funds during the period increased by 77 bps q-o-q. Re-pricing of deposits, sequential contraction of CASA Ratio by 122 bps and sharp increase in the priority sector lending due to cyclical phenomenon were the reasons which contributed to lower NII growth.

Asset Quality improvement continues

The asset quality of the bank continued to show improvement with slippage ratio at 0.8% for the quarter and as a result of which the GNPA and NNPA Ratio declined by 8 and 3 bps q-o-q respectively. The coverage ratio of the bank continued to remain strong at 80.9% (including write-offs). Bank added assets worth ₹ 1080mln to its restructured portfolio thus taking the total book to 1.22% of its gross customer assets.

Other Income shines, Cost ratios in line

The Other Income of the bank grew smartly by 55.4% y-o-y driven by 58% growth in fee income. Adjusting for the fee income recognition policy in Q4FY10, the growth in this segment would still have been at 39% y-o-y. The cost to income ratio was stable at 42% on both sequential and yearly basis.

Valuation

At its CMP, the stock is trading at 2.2x of its FY13E ABV and 5.8x of its PPP. While margin headwinds could put some pressure on the performance of the stock, we continue to remain on positive on the business and earnings growth of the bank. We maintain our Buy rating on the stock with a revised target price of ₹ 1679.

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Interest Income	50045	65630	80721	101309
Other Income	39458	46321	54681	64930
Pre-Provisioning Profit	52406	64157	77569	96977
Net Profit	25136	33885	41861	53864
EPS	62.0	82.5	102.0	131.2
Networth	160444	196667	226887	268778
Deposits	1413002	1892378	2346551	2909723
Advances	1043431	1424078	1794339	2224980

Exhibit 1: Q4FY11 Performance Highlights

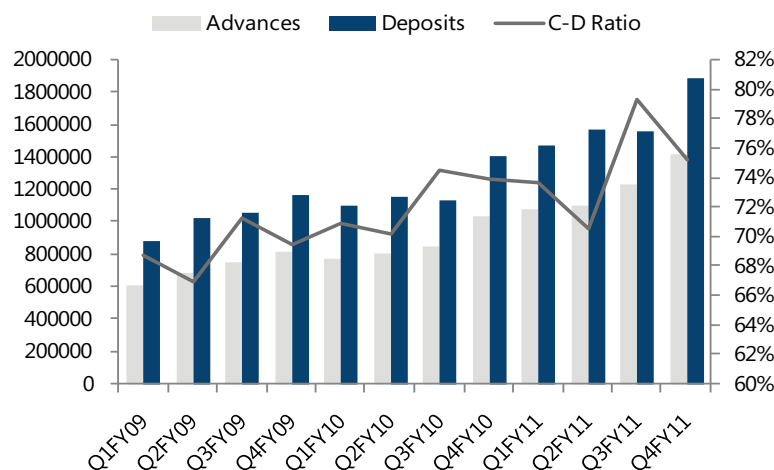
Particulars (₹ in mln)	Q4FY11	Q4FY10	y-o-y	Q3FY11	q-o-q	FY11	FY10	y-o-y
Interest Income	43,667	29,885	46.1	38,383	13.8	151,548	116,380	30.2
Interest Expense	26,657	15,284	74.4	21,052	26.6	85,918	66,335	29.5
Net Interest Income (NII)	17,010	14,601	16.5	17,331	-1.9	65,630	50,045	31.1
Other Income	14,504	9,335	55.4	11,477	26.4	46,321	39,458	17.4
Net Total Income	31,514	23,936	31.7	28,808	9.4	111,951	89,503	25.1
Operating Expenses	13,306	10,098	31.8	12,224	8.9	47,794	37,097	28.8
Pre-Provisioning Profit (PPP)	18,208	13,838	31.6	16,585	9.8	64,157	52,406	22.4
Provisions & Contingencies	2,544	2,019	26.0	3,139	-19.0	12,800	13,898	-7.9
PBT	15,664	11,819	32.5	13,446	16.5	51,357	38,508	33.4
Tax	5,463	4,171	31.0	4,532	20.5	17,472	13,372	30.7
PAT	10,201	7,649	33.4	8,913	14.4	33,885	25,136	34.8
EPS	24.5	18.6	32.1	21.4	14.5	83	62	33.0
Cost to Income (%)	42.2	42.2	3.5	42.4	-20.8	44	41	229.2
GNPA (%)	1.0	1.1	-12.0	1.1	-8.0	1.0	1.1	-12.0
NNPA (%)	0.3	0.4	-10.0	0.3	-3.0	0.3	0.4	-10.0

Key Q4FY11 Result Highlights

Strong Business growth at 35% y-o-y

The Business growth for the bank was spectacular with Advances growing by 36.5% y-o-y while Deposits grew at a pace of 34% y-o-y. On account of the above, the business growth for the bank remained strong with 35% y-o-y. The Advance growth was driven by Corporate (+44.6%) and Agriculture loans (+36%). Within the Corporate segment industries such as Power generation & distribution, Metals, Food processing etc saw higher growth while growth in agri advances was largely cyclical phenomenon. Within the Retail segment, its the Personal loans (+96.5%) and Housing loans (+28%) which have seen the highest growth.

Exhibit 2: Advance & Deposit growth



Source: Company, MSFL Research

Exhibit 3: Break-up of Advances

	Q4FY11	Q4FY10	% y-o-y	Q3FY11	% q-o-q
Retail	277590	208210	33.3%	252040	10.1%
SME	214060	182690	17.2%	170530	25.5%
Large & Mid Corp	759220	525040	44.6%	705180	7.7%
Agri Advances	173200	127470	35.9%	107720	60.8%
Total Advances	1424070	1043410	36.5%	1235470	15.3%

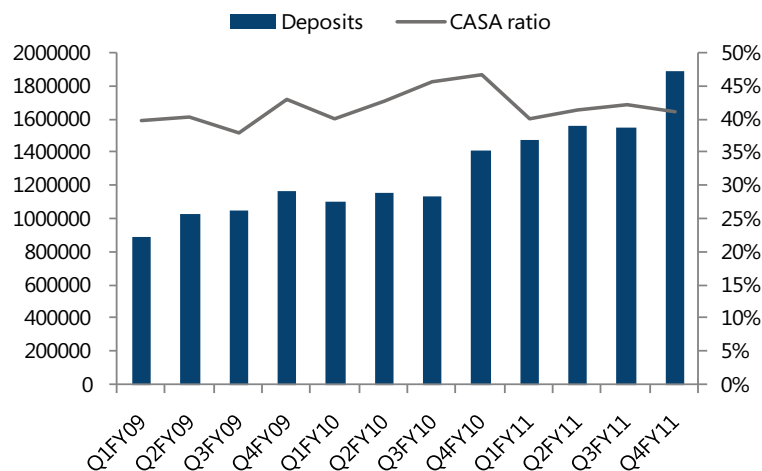
Source: Company, MSFL Research

Exhibit 4: Break-up of Retail Advances

	Q4FY11	Q4FY10	% y-o-y	Q3FY11	% q-o-q
Personal Loans	38863	19780	96.5%	40326	-3.6%
Auto Loans	30535	27692	10.3%	27724	10.1%
Housing Loans	188761	147413	28.0%	168867	11.8%
Credit Cards	5552	4581	21.2%	5041	10.1%
Non-Schematic	13880	8745	58.7%	10082	37.7%
Retail Advances	277590	208210	33.3%	252040	10.1%

Keeping with the trend in Advance growth, the Deposit growth remained fairly strong for the bank with 34% y-o-y growth. However the Term deposits growth was higher (+48%) as against growth in CASA deposits (+17.8%). As a result of this, the CASA Ratio contracted by 564 bps y-o-y and 122 bps q-o-q to stand at 41.1%. The wholesale deposits stood at 65%. The above developments led to increase in cost of funds and subsequent contraction in margins.

Exhibit 5: Trend in CASA ratio



Source: Company, MSFL Research

Other Income shines

The Other Income of the bank grew smartly by 55.4% y-o-y driven by 58% growth in fee income. Adjusting for the fee income recognition policy in Q4FY10, the growth in this segment would still have been at 39% y-o-y. Though the treasury gains declined by 43.4% y-o-y, the Misc Income remained strong for the bank aided by recoveries of ₹ 1550mIn during the quarter.

Exhibit 6: Non Interest Income Break-up

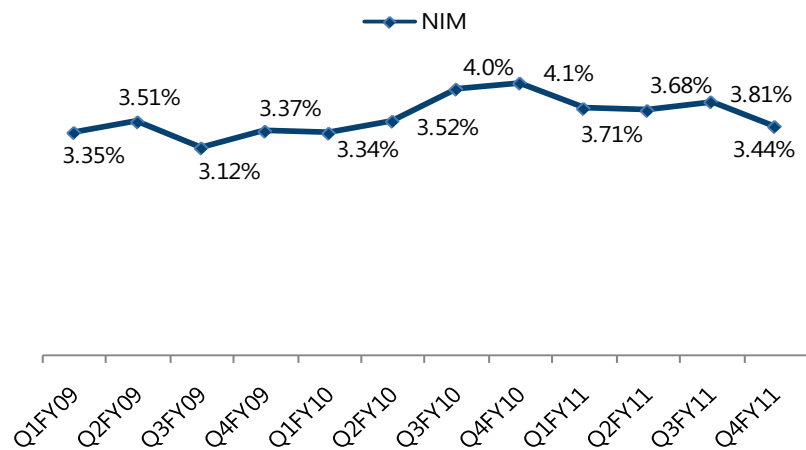
	Q4FY11	Q4FY10	% y-o-y	Q3FY11	% q-o-q
Fee Income	12311	7796	57.9%	9677	27.2%
Trading Profits	581	1027	-43.4%	1347	-56.9%
Misc Income	1612	512	214.7%	453	255.4%
Total Other Income	14504	9335	55.4%	11477	26.4%

Source: Company, MSFL Research

NIM contracts by 37bps q-o-q

While the margin contraction was expected for the quarter (~20 bps), the decline was much sharper at 37 bps while on y-o-y basis it contracted by 65 bps to 3.44%. This was largely on account of re-pricing of term deposits, contraction in CASA ratio and higher growth in agri advances. We expect margin headwinds to remain an overhang on Axis Bank for couple of more quarters and stabilize thereon.

Exhibit 7: Movement in Margins (Reported)



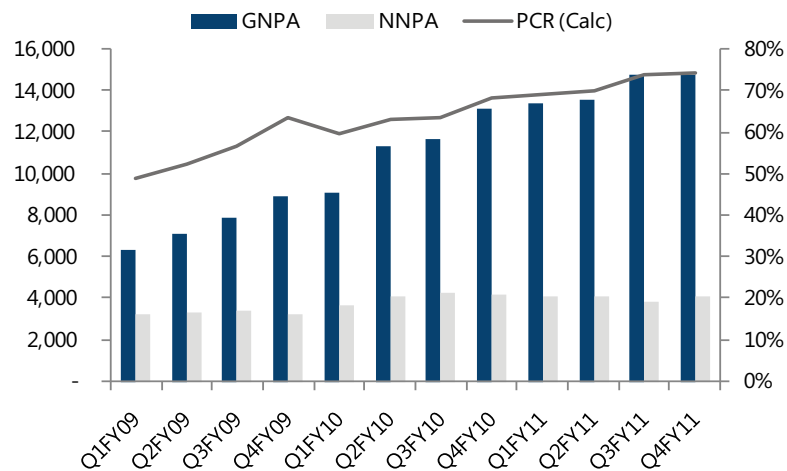
Source: Company, MSFL Research

Asset Quality improvement continues

The asset quality of the bank continued to show improvement with slippage ratio at 0.8% for the quarter and as a result of which the GNPA and NNPA Ratio declined by 8 and 3 bps q-o-q respectively. The GNPA and NNPA Ratio stands at 1.01% and 0.26% respectively as against 1.09% and 0.29% in the previous quarter. Alongwith lower slippages, higher Recoveries and Upgrades too aided asset quality improvement. The provision coverage ratio of the bank stands at 80.9% including technical write offs.

The bank restructured assets worth ₹ 1080mln during the quarter, thus taking the overall restructured book to 1.22% of its gross customer assets. 75% of the restructured assets came from large and mid corporate credit segment. The cumulative slippages from the restructured book stands at ₹ 6.3bln, forming 32.6% of its total restructured book.

Exhibit 8: GNPA, NNPA and PCR



Source: Company, MSFL Research

Other Highlights

- The Cost to Income ratio of the bank stood at 42%, an increase of 4 bps on y-o-y basis and declined by 21 bps q-o-q.
- The Capital Adequacy Ratio (CAR) of the bank stood at 12.65% with Tier-I capital at 9.41% and Tier-II ratio at 3.24%.

Outlook and Valuation

The major disappointment in the Q4FY11 results is largely on account of lower NII on account of higher balance sheet growth which led to sharp contraction in margins as well as CASA Ratio. Given the high proportion of wholesale deposits, the margin pressure is expected to continue for couple of more quarters and management too has guided margins in the range of 3.25-3.50% for FY12E. However on all the other parameters the bank delivered robust performance. We downgrade our FY12E estimates by 2% and introduce our FY13E estimates as well. Given the strong business and earnings growth expectations (CAGR 24.4% & 26% respectively in FY12-13E), we continue to maintain our positive outlook on the stock.

At its CMP, the stock is trading at 2.2x of its FY13E ABV and 5.8x of its PPP. While margin headwinds could put some pressure on the performance of the stock, we continue to remain on positive on the business and earnings growth of the bank. We maintain our Buy rating on the stock with a revised target price of ₹ 1679.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011P	2012P	2013P
Interest Income	108,355	116,380	151,548	204,872	260,249
Interest Expense	71,493	66,335	85,918	124,152	158,940
Net Interest Income (NII)	36,862	50,045	65,630	80,721	101,309
Other Income	28,969	39,458	46,321	54,681	64,930
Total Net Income	65,831	89,503	111,951	135,402	166,239
Operating Expenses	28,582	37,097	47,794	57,833	69,262
Pre-Provisioning Profit (PPP)	37,249	52,406	64,157	77,569	96,977
Provisions & Contingencies	9,394	13,898	12,800	14,144	15,364
PBT	27,855	38,508	51,357	63,426	81,612
Tax	9,701	13,372	17,472	21,565	27,748
PAT	18154	25136	33885	41861	53864
NIM (Calculated)	3.2%	3.3%	3.4%	3.3%	3.2%
EPS	50.6	62.0	82.5	102.0	131.2
NII Growth (%)	42.6%	35.8%	31.1%	23.0%	59.6%
PAT Growth (%)	69.5%	38.5%	34.8%	23.5%	66.1%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011P	2012P	2013P
Liabilities					
Equity	3,590	4,052	4,106	4,106	4,106
Reserves & Surplus	98,546	156,393	192,562	222,781	264,672
Networth	102,136	160,444	196,667	226,887	268,778
Deposits	1,173,741	1,413,002	1,892,378	2,346,551	2,909,723
Borrowings	155,199	171,696	262,679	284,278	299,473
Other Liabilities & Provisions	46,133	61,335	75,410	137,765	216,821
Total Liabilities	1,477,220	1,806,479	2,427,134	2,995,481	3,694,795
Assets					
Cash & balances with RBI	94,192	94,739	138,862	156,801	192,128
Balances with banks & money at call	55,977	57,326	75,225	84,779	105,125
Investments	463,304	559,748	719,916	891,689	1,105,695
Advances	815,568	1,043,431	1,424,078	1,794,339	2,224,980
Fixed Assets	10,729	12,224	22,732	23,868	25,061
Other Assets	37,451	39,011	46,321	44,005	41,805
Total Assets	1,477,220	1,806,479	2,427,134	2,995,481	3,694,795

Ratios

Valuation Ratios	2009	2010	2011P	2012P	2013P
P/E	27.2	22.2	16.7	13.5	10.5
P/BV	4.8	3.5	3.0	2.6	2.2
P/ABV	5.0	3.6	3.0	2.6	2.2
P/PPP	13.3	10.6	8.8	7.3	5.8
EPS	50.6	62.0	82.5	102.0	131.2
DPS	10.0	12.3	14.0	15.8	19.4
Book Value (BV)	284.5	396.0	462.8	536.4	638.4
Adjusted Book Value (ABV)	275.4	385.6	452.8	523.1	623.7

Profitability Ratios

ROE	19.1%	19.1%	19.0%	19.8%	21.7%
ROA	1.4%	1.5%	1.6%	1.5%	1.6%

Source: Company, MSFL Research

Key Assumptions

Credit Growth	-	-	-	26.0%	24.0%
Deposit Growth	-	-	-	24.0%	24.0%
CASA Ratio	-	-	-	43.0%	43.0%
Slippage Ratio	-	-	-	1.3%	1.0%
Provisioning Coverage	-	-	-	73.2%	72.8%

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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