

January 9, 2008

ACCUMULATE

Price **Rs1,069** Target Price **Rs1,200**

Sensex **20,873**

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	49	69	129
Rel. to Sensex	9	25	22	50

Source: Capitaline

Stock Details

Sector	Banks
Reuters	AXSB.BO
Bloomberg	AXSB@IN
Equity Capital (Rs mn)	3,574
Face Value	10
52 Week H/L	1,125/399
Market Cap (Rs bn)	Rs382bn/US\$9.6bn
Daily Avg Volume (No of shares)	755,278
Daily Avg Turnover (US\$)	17.7mn

Shareholding Pattern (%)

(31st Dec.'07)	
Promoters	42.9
FII	39.3
Institutions	8.3
Private Corp.	4.7
Public	4.7

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Axis BankResult
Update**Price target raised to Rs1,200**

Axis Bank's Q3FY08 results were far ahead of our expectations. Besides, the strong earnings growth, what is more encouraging is the continued improvement in liabilities and assets profile despite its fast growth (~2.5x the industry average). The bank has improved its CASA mix by 800bps+ (reflecting in strong expansion in NIM). Improving CASA profile has made Axis Bank, the first bank, to report a reduction in cost of funds over last nine quarters in the Indian banking sector.

NPA at gross as well as net level are down and NIMs have expanded in rising interest rate scenario despite accelerated balance sheet growth.

We are revising our price target on the stock to Rs1,200 driven by two factors: 1) higher adjusted book value for better earnings and improved asset quality and 2) improvement in valuation parameter by reducing discount to HDFC Bank. We maintain our ACCUMULATE recommendation on the stock with a price target of Rs1,200.

Strong NIM performance takes us by surprise...

Axis Bank's NII grew by 91.1% yoy for Q3FY08 to Rs7.5bn (net of amortisation), much ahead of our expectations. While the asset growth at 39.4% yoy to Rs905bn was in line with our expectations, what positively surprised us was a strong 95bps yoy expansion in the NIMs of the bank.

Yield analysis

%	Q3FY08	Q3FY07	Q2FY08	Change in bps	
				Yoy	qoq
Yield on advances*	10.54	9.18	10.55	136	0
Yield on investments*	7.60	7.24	7.54	36	6
Yield on assets*	8.28	7.47	8.37	81	-9
Cost of funds*	4.85	4.96	5.35	-12	-50
NIM*	3.43	2.51	3.02	93	41
Yield on assets (Reported)	9.63	8.86	9.46	77	17
Cost of funds (Reported)	5.72	5.90	6.18	-18	-46
NIM (Reported)	3.91	2.96	3.28	95	63

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

... As expanding CASA helps reduce funding cost

Despite strong growth in balance sheet, Axis Bank's CASA franchisee has expanded by 800bps over last year and now contributes 45% of the total deposits.

The improving CASA profile has helped the bank to report a yoy reduction in the funding cost for the first time in last nine quarters.

CASA mix

(Rs bn)	Q3FY08	Q3FY07	Q2FY08	% change	
				yoy	qoq
Savings Deposits	158	104	144	51.2	9.5
Current Deposits	153	85	147	80.6	4.1
Total Deposits	686	509	641	34.6	6.9
Demand/Total (%)	45.3	37.1	45.3	818bps	5bps

Source: Company, Emkay Research

While we understand that the margins may have been aided by the equity float available from the capital raised in the preceding quarter, we believe that the impact of the same wouldn't have been much as the bank has raised equivalent amount of deposits also during the quarter. Thus, while the balance sheet has grown by Rs40bn sequentially, so have the deposits. Hence, we expect the margins to be sustained at 3.2-3.3% for coming quarters.

Asset growth driven by selective segments

While the asset growth has been strong, we like the fact that the growth has been driven by selective segment like mortgages and car loans in retail segment and also as the SME has shown a strong growth. SME loans now contribute a meaningful 18.5% of the total loan book.

Loan book break up

	Rs bn	% yoy change	% of the portfolio
Total Retail	120.3	30.8	24.7
OF which			
Two Wheelers	0.2	-73.8	0.2
Commercial vehicles	14.4	-1.9	12.0
Personal loans	14.4	-43.1	12.0
Mortgages	69.7	76.5	58.0
Car Loans	8.4	83.2	7.0
Others	13.2	94.5	11.0
Large corporate	239.4	58.5	49.2
SME	90.1	57.5	18.5
Agri	36.8	57.4	7.6
Total	486.6	50.4	100.0

Source: Company, Emkay Research

Robust growth in fee income ...

The fee income during the quarter has grown by 81.0% yoy driven by an all-round growth in all the segments of the business.

Fee income

(Rs mn)	Q3FY08	Q3FY07	Q2FY08	% change	
				yoy	qoq
Corporate banking	1,050	600	965	75.0	8.8
Business banking	550	340	490	61.8	12.2
Capital markets	410	220	220	86.4	86.4
Retail banking	1,470	760	1,205	93.4	22.0
Total	3,480	1,920	2,880	81.3	20.8

Source: Company, Emkay Research

... Partially offsets high Opex

The operating expenses have continued to grow steeply, up 67% yoy. However, we believe that with the branch network expanding by more than 127 new branches, we see these expenses as an investment in future growth through further exploitation of these new branches.

Branch network

	Q3FY08	Q3FY07	Q2FY08
Branches	608	481	594
ATMs	2595	2126	2500

Source: Company

Higher profits used for making provisions

The bank has used the strong profits of the quarter for making hefty provisioning for the loss assets.

Rs mn	Q3FY08	Q3FY07	% yoy change
NPA	184.0	30.3	507.9
As % of advances	0.38%	0.09%	
Others	16.1	21.2	-24.3
Total	200.1	51.5	288.7

Source: Company, Emkay Research

Robust asset quality – incremental slippages remain low

The asset quality remained robust with GNPA at 0.8% of gross customer assets (1.5% last year) and net NPA at 0.42% of net customer assets (0.7% last year). The incremental gross slippages were also low at <0.5%, in line with our estimates.

Capital adequacy comfortable

The tier I CAR at the end of the quarter was comfortable at 12.6% as the bank has raised Rs42bn in Q2FY08 via GDR, QIP and preferential placement route. We expect the bank to be sufficiently capitalised with these till FY2010.

Valuation and view

While our earnings estimates have changed by only 2-3% over FY08-10E. We are revising our price target on the stock to Rs1,200 (from Rs860) driven by two factors; 1) higher adjusted book value for better earnings and improved asset quality and 2) improvement in valuation parameter by reducing discount to HDFC Bank.

The upgrades in our earnings are driven mainly by better than expected margins. However, accelerated provisioning during this quarter has partially offset the earnings upgrade. We maintain our ACCUMULATE recommendation on the stock with a price target of Rs1,200.

Quarterly results

Rs mn	M9FY08	M9FY07	% yoy change	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Net interest income	17,569	10,294	70.7	7,473	3,910	5,887	91.1	27.0
Other Income	12,390	7,090	74.8	4,879	2,797	3,829	74.4	27.4
<i>Fee</i>	9,079	5,476	65.8	3,484	1,926	2,880	80.9	21.0
<i>Other</i>	3,311	1,615	105.1	1,395	872	949	60.1	47.0
Net Income	29,959	17,384	72.3	12,352	6,708	9,716	84.2	27.1
Operating Expenses	14,929	8,716	71.3	5,630	3,370	5,087	67.1	10.7
Operating Profit	15,031	8,668	73.4	6,723	3,338	4,629	101.4	45.2
Provisions & Contingencies	4,154	1,864	122.9	2,001	515	1,145	288.7	74.8
Profit before tax	10,877	6,805	59.8	4,722	2,824	3,484	67.2	35.5
Provision for Taxes	3,780	2,333	62.0	1,654	977	1,206	69.2	37.2
Net Profit	7,096	4,471	58.7	3,068	1,846	2,278	66.2	34.7

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2007	25,772	6,590	23.4	112.6	1.1	21.0	7.2	43.9
FY2008E	37,557	9,844	27.9	231.9	1.1	16.7	3.5	29.4
FY2009E	49,324	13,236	37.2	261.7	1.1	14.8	3.1	21.9
FY2010E	60,636	15,484	43.1	297.3	1.0	15.2	2.7	18.7

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