



## Q3FY09 Result Update

January 13, 2009

Axis Bank recently came out with its Q3 FY09 results. It reported an interest earned of Rs 2,984.8 cr, which was up by 65% y-o-y and 17.3% q-o-q. Its interest expenditure for the quarter stood at Rs 2,055.1 cr (up 94.8% y-o-y and up 26% q-o-q). The Net Interest Income for the quarter is reported at Rs 929.7 cr (up 24.4% y-o-y and 1.8% q-o-q) and the PAT for the quarter is Rs 500.9 cr, which is up 63.2% y-o-y and up 24.3% q-o-q.

### Quarter Financials

Particulars	Q3 FY09	Q3 FY08	% Chg	Q2 FY09	% Chg
<b>Interest Earned</b>					
Interest/Discount on Advances/Bills	2095.78	1229.72	70.43	1767.23	18.59
Interest on Investment	806.18	534.94	50.70	705.69	14.24
Interest on bal. with RBI & other inter bank funds	56.44	27.37	106.21	54.00	4.52
Other Interest	26.37	10.31	155.77	18.13	45.45
<b>INTEREST EARNED</b>	<b>2984.77</b>	<b>1802.34</b>	<b>65.61</b>	<b>2545.05</b>	<b>17.28</b>
Other Income	732.17	487.90	50.07	694.40	5.44
Total Income	3716.94	2290.24	62.29	3239.45	14.74
<b>Operating Expenses</b>					
Payments to / Provisions for employees	266.07	173.48	53.37	260.40	2.18
Other operating expenses	486.15	389.48	24.82	473.04	2.77
Interest	2055.09	1055.00	94.80	1631.58	25.96
<b>TOTAL OPERATING EXPENSES</b>	<b>2807.31</b>	<b>1617.96</b>	<b>73.51</b>	<b>2365.02</b>	<b>18.70</b>
Net Interest Income	929.68	747.34	24.40	913.47	1.77
Operating Profit Before Prov. & Cont.	909.63	672.28	35.31	874.43	4.03
Provisions & Contingencies	131.98	200.05	-34.03	255.78	-48.40
Provision for Taxes	276.79	165.40	67.35	215.74	28.30
Net Profit	500.86	306.83	63.24	402.91	24.31
EPS	13.95	8.59	62.50	11.23	24.28
Calculated EPS (Ann.)	55.81	34.34	62.50	44.91	24.28
Equity	358.98	357.37	0.45	358.89	0.03
Face Value	10.00	10.00	0.00	10.00	0.00
PATM (%)	16.78	17.02	-1.43	15.83	6.00
Capital Adequacy Ratio	13.84	16.88	-18.01	12.20	13.44
Gross Non Performing Assets	787.85	447.57	76.03	710.20	10.93
Net Non Performing Assets	341.94	234.26	45.97	336.68	1.56
(%) Gross Non Performing Assets	0.90	0.80	12.50	0.91	-1.10
(%) Net Non Performing Assets	0.39	0.42	-7.14	0.43	-9.30

### Key highlights of the results:

- The CASA ratio for the quarter stood at 38%. It has dipped from 40% in Q2FY09 due to the transfer of a lot of funds from the current and savings account to the term deposits in a quarter when the interest rates on deposits were hiked by all banks. This led to rise in the cost of funds for Axis Bank (from 6.23% in Q2FY09 to 6.91% in Q3FY09). Deposits this quarter saw a rise of about 54% y-o-y due to higher rates offered by the bank. But this trend could reverse marginally in the 4<sup>th</sup> quarter due to more inflow of funds into the current and savings accounts. Since the CASA ratio could go up (though not very dramatically) in Q4FY09, the cost of funds could see a fall and thereby could result in the increase of the Net Interest Margins in that quarter. The NIM expansion could also be due to the reduction in CRR (from about 9% in Q2FY09 to 5.5% in Q3FY09), in SLR (from 25.7% in Q2FY09 to 24.0% in Q3FY09) and in deposit rates thereby lowering the bank's cost of funds. Even though NIM in March 09 quarter may be more than the September quarter, it is unlikely to surpass March 08 quarter.
- The Loan growth on the base of last year stood at 55% and is expected to decelerate to about 35-40% in Q4FY09. For the first time the Bank is expecting a moderation in the loan growth going ahead. There has been no change in the Prime Lending rate and it stands at 15.75%. A decision on whether to reduce the PLR or not would be taken based on the movement of the cost of funds. Loan growth of 55% at such high PLRs is commendable but going forward, in a relatively easy money regime, the Bank could face issues of loan growth unless the PLRs are brought down to competitive levels.
- The asset quality of the bank is under control so far. The net NPA this quarter stood at 0.39% as against 0.42% in the same quarter last year. The recovery in credit card outstandings has shown a good progress in this quarter though it might take up to 2-3 quarters to see a significant reduction in the outstanding numbers of credit card receivables. RBI has relaxed NPA classification and treatment norms and thus to a certain extent the asset quality could be camouflaged under this new rule. The Bank extended its NPA coverage ratio to 57% from 53% in Q2FY09.

- The Capital Adequacy Ratio stood at 13.84% in this quarter increasing from 12.20% in the previous quarter. This is due to the reduction in risk weightages for some of the asset classes and also due to the 10-year subordinate debt of Rs.1, 500 cr, the Bank raised in November 2008 at a stiff cost of 11.75%.

### Concerns

- Due to the current financial crisis, there is a very high probability that the quality of assets could get a hit and there could be an increase in the NPAs going forward especially having regard to the Bank's exposure to retail, SME and certain sections of industry like Textiles, Gem & Jewellery and Real estate. The Loan loss provisions to loans ratio in Q3FY09 has been the highest since beginning of FY07.
- Retail assets contributed to about 21% of the bank's total advances vs 24% in Q2FY09 and 25% in Q3FY08 thereby showing a y-o-y fall in its contribution to the total advances. There is a de-growth in the retail assets as a chunk of loans made during the earlier quarter to DDA (Rs.1, 674 cr) has been prepaid during Q3FY09. Retail assets degrew in Q3FY09 from Rs.16, 777 cr in Q2FY09 to Rs.15, 616 cr in Q3FY09.
- The investment provision write backs (constituting a major part of total write back of Rs.147 cr) may not be repeated in the fourth quarter as no further dramatic fall in interest rates are expected. The 10-year G-Sec yield as on 31st December 2008 stood at 5.24%. The Bank's SLR investments are mostly concentrated in the held-to-maturity (HTM) category. However, as interest rates fell, it shifted some of its investments to the available-for-sale category, which helped the bank, book profits in trading income during the third quarter. It seems that two-thirds of its trading income was generated from its SLR investments. The Bank may not have an equally conducive environment in Q4FY09.
- There has been a reduction in the third party product sales as people have reduced exposure to mutual funds though increasing their exposure to insurance due to the volatility in the equity markets during the quarter. Retail fee income has seen a fall and this situation could continue if the equity markets do not revive fast.

### Summary:

- In Q3FY09 results, Axis Bank showed first signs of stress on volume growth and other parameters like CASA ratio, NIMs etc. It has so far enjoyed premium valuations compared to most other Banks due to consistency of larger than industry growth in volumes and in other parameters. The pending placement of the 21% stake of SUUTI remains an overhang. The fact that the current Chairman and CEO Mr. P.J.Nayak (who was instrumental in the fast pace and steady quality growth of Axis Bank so far) will retire in July 2009 on his term coming to an end, could also weigh on the valuation of the stock till a suitable successor is found. While the economic scenario could take time to improve leading to better visibility in advance growth, the deceleration in pace of growth could result in gradual derating of valuations of Axis Bank, a large part of which has already been factored in the current price of Rs. 453.
- Prior to the bull run that began in Sep 2004, Axis Bank quoted at 1.3 to 1.9 times its 1 year forward P/BV (ignoring some sharp falls between 2001 and 2003). Going by this, the stock could trade between Rs.364 and Rs.532 till there is visible improvement in the economic scenario.

Analyst: Tiju K Samuel ([tiju.samuel@hdfcsec.com](mailto:tiju.samuel@hdfcsec.com))

#### **RETAIL RESEARCH Tel: (022) 6661 1700 Fax: (022) 2496 5066 Corporate Office**

HDFC Securities Ltd. Trade World, C. Wing, 1st Floor, Kamala Mills Compound, Senapati Bapat Marg,  
Lower Parel, Mumbai 400 013 Phone: (022) 66611700 Fax: (022) 2496 5066 Website: [www.hdfcsec.com](http://www.hdfcsec.com)  
Email: [hdfcsecetailresearch@hdfcsec.com](mailto:hdfcsecetailresearch@hdfcsec.com)

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