

Upgrade as concerns on slippages allayed

January 17, 2011

Reco	Previous Reco
Hold	Reduce
CMP	Target Price
Rs1,227	Rs1,300
EPS change FY11E/12E (%)	NA
Target Price change (%)	8.3
Nifty	5,654
Sensex	18,882

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(23)	(12)	13
Rel. to Nifty	(3)	(16)	(16)	5

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	AXSB@IN
Equity Capital (Rs mn)	4099
Face Value(Rs)	10
No of shares o/s (mn)	410
52 Week H/L	1,608/967
Market Cap (Rs bn/USD mn)	492/10,833
Daily Avg Volume (No of sh)	1694405
Daily Avg Turnover (US\$m)	51.6

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	37.4	37.5	37.7
FII/NRI	45.8	46.0	44.2
Institutions	5.3	5.5	6.5
Private Corp	6.5	6.4	6.9
Public	5.1	4.6	4.7

Source: Capitaline

Note: Data except CMP is as on 14th Jan'11

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- **Axis Bank (AXSB) Q3FY11 earnings at Rs8.9bn was better than our as well as street expectation driven by better than expected NIMs and NII**
- **Key highlights: (1) NII growth of 28.5% led by 45.7% growth in advances (2) 13bps qoq expansion in NIMs and (3) lower slippage rate during the quarter to 1.1%**
- **We believe that NIMs may contract by 12-15bps in Q4FY11 due to PSL loans but our key concerns on NPAs and provisions are allayed**
- **With slippages coming under control we believe that AXSB could trade at its historic average valuations at 2.5x 1-year forward. Upgrade to HOLD with TP of Rs1,300**

NII growth and NIMs above expectation...

AXSB's NII has grown by 45.7% yoy to Rs17.3bn, ahead of our expectation driven by 45.7% yoy growth in advances and 13bps expansion in NIM's at 3.8%.

...As average deposit growth at just 3% qoq

We believe that the NIMs during the quarter could have been maintained as the balance sheet growth during the quarter could have been back ended and also funded through (1) borrowings from RBI and (2) partial reduction in the investment portfolio.

If one adjusts for the increased borrowings and reduction in investment portfolio, the CDR works out to 74% compared to reported CDR of 79%.

With average deposit growth during the quarter limited to 3% qoq (of which term deposits could have been even lower), the cost of funds has risen by just 4bps qoq.

Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	9.6	8.8	8.7	8.9	8.9	-71	2
Yield on investments*	6.7	6.5	6.6	7.5	7.7	101	16
Yield on assets*	7.6	7.2	7.2	7.4	7.6	-8	11
Cost of funds*	4.1	3.7	3.9	4.1	4.1	8	1
NIM*	3.6	3.5	3.3	3.3	3.4	-16	9
Yield on assets #	8.8	8.6	8.3	8.4	8.6	-23	17
Cost of funds #	4.8	4.5	4.6	4.8	4.8	-4	4
NIM #	4.0	4.1	3.7	3.7	3.8	-19	13

Source: Company, Emkay Research

Note: * Calculated on basis of average quarterly balances # Reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	65,831	18,154	50.6	268.3	1.4	19.1	27.9	4.6
FY2010	87,757	25,144	62.1	373.7	1.5	19.2	20.2	3.3
FY2011E	108,985	33,238	81.1	436.6	1.7	19.1	15.3	2.8
FY2012E	132,934	40,932	99.0	512.7	1.7	20.1	12.4	2.4

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	13,491	14,601	15,138	16,151	17,331	28.5	7.3	48,620	35,444	37.2
Other Income	9,881	9,335	10,008	10,332	11,477	16.2	11.1	31,817	30,122	5.6
Fee Income	7,997	7,796	7,431	8,485	9,677	21.0	14.0	25,592	21,453	19.3
Net Income	23,372	23,936	25,146	26,483	28,808	23.3	8.8	80,437	65,566	22.7
Total Operating Expenses	9,626	10,098	10,645	11,620	12,224	27.0	5.2	34,488	26,999	27.7
As % Of Net Income	41.2	42.2	42.3	43.9	42.4			42.9	41.2	
Employee Expenses	3,085	3,338	4,164	4,053	3,962	28.4	-2.3	12,179	9,221	32.1
As % Of Net Income	13.2	13.9	16.6	15.3	13.8			15.1	14.1	
Other Expenses	6,540	6,761	6,481	7,567	8,262	26.3	9.2	22,310	17,779	25.5
As % Of Net Income	28.0	28.2	25.8	28.6	28.7			27.7	27.1	
Operating Profit	13,746	13,838	14,501	14,864	16,585	20.6	11.6	45,949	38,567	19.1
As % Of Net Income	58.8	57.8	57.7	56.1	57.6			57.1	58.8	
Provisions	3,731	2,019	3,330	3,788	3,139	-15.9	-17.1	10,257	11,873	-13.6
Prov for NPA	3,580	1,775	3,040	3,210	2,315	-35.3	-27.9	8,565	11,815	-27.5
PBT	10,015	11,820	11,171	11,076	13,446	34.3	21.4	35,692	26,694	33.7
Total Tax	3,455	4,171	3,752	3,725	4,532	31.2	21.7	12,009	9,198	30.6
Adjusted PAT	6,560	7,649	7,419	7,351	8,914	35.9	21.3	23,683	17,496	35.4
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	6,560	7,649	7,419	7,351	8,914	35.9	21.3	23,683	17,496	35.4
Reported EPS	16.3	18.9	18.2	18.0	21.7	33.8	20.9	57.9	45.1	28.4

Source: Company, Emkay Research

NIMs can come down by 12-15bps next quarter

We believe that AXSBs NIMs can drop by 12-15bps next quarter as the bank accelerates the deposit growth and also driven by the pressure from PSL loans (seasonal phenomenon).

Advances growth strong at 45.7%; can slow down in Q4FY11 to ~30%

The advances grew by a 45.7%yoy (11.7%qoq) to Rs1.2tn during Q3FY11 driven by sharp growth in corporate loans, mortgages and a one-off opportunity in the personal loans segment.

However, we expect the loan growth to slow down to ~30% in Q4FY11 driven by base effect as large part of last year's loan growth came in fourth quarter.

Advances mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Large corporates	416	525	601	637	705	69.5	10.7	57.1
Mid-corporate/SME	165	195	168	168	171	3.3	1.4	13.8
Agriculture	78	115	106	91	108	38.7	18.7	8.7
Retail	189	208	211	210	252	33.4	20.0	20.4
CV/CE	2	1	0	-	-	NA	NA	NA
Personal loans	15	20	21	17	40	166.7	140.0	3.3
Mortgages	134	147	150	153	169	25.8	10.1	13.7
Car Loans	28	27	27	27	28	-2.2	1.5	2.2
Credit cards	4	5	4	4	5	33.4	20.0	0.4
Others	6	9	8	8	10	77.8	20.0	0.8
Total	848	1,043	1,086	1,106	1,235	45.7	11.7	100.0

Source: Company, Emkay Research

Cutting term deposits helps improve deposit profile

During the quarter, CASA mix improved by 77bps sequentially to 42.3% as the bank shed off some of the term deposits.

CASA Mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Current Deposits	223	322	245	274	268	20.3	-2.1
Savings Deposits	296	339	347	378	391	32.1	3.5
Term deposits	619	753	882	917	899	45.1	-2.0
Total Deposits	1,139	1,413	1,475	1,569	1,558	36.9	-0.7
CASA	45.6	46.7	40.2	41.5	42.3	-328	77

Source: Company, Emkay Research

Advances growth reflects in composition of fee income

As the advances in corporate and retail segment grew sharply, the similar trend was reflected in fee income. The fee income grew by 14% qoq, led by 18.5% qoq growth in corporate banking and 23.9%qoq growth in retail banking.

Fee income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Corporate banking	2,550	3,066	2,650	3,460	4,100	60.8	18.5	10,210	7,110	43.6
Business banking	890	780	940	920	950	6.7	3.3	2,810	2,670	5.2
Capital markets	850	420	200	160	150	-82.4	-6.3	510	1,880	-72.9
Retail banking	2,460	2,330	2,050	2,300	2,850	15.9	23.9	7,200	6,820	5.6
Treasury	1,247	1,200	1,580	1,650	1,620	29.9	-1.8	4,850	3,784	28.2
Total fee income	7,997	7,796	7,420	8,490	9,670	20.9	13.9	25,580	22,264	14.9
Trading gains/(losses)	1,696	1,027	1,957	1,084	1,347	-20.6	24.3	4,389	6,653	-34.0
Others	187	512	620	763	453	142.2	-40.6	1,836	433	324.0
Total	9,881	9,335	10,008	10,332	11,477	16.2	11.1	31,817	29,347	8.4

Source: Company, Emkay Research

Lower slippages and improving PCR – a positive

The slippages at Rs3.3bn were a positive as the slippage rate slowed down to 1.1% from 1.5% in FY10 and 1.4% in H1FY11. As the bank has not written back much of the provisions on the upgradations/recoveries, the provision cover also improved further by 400bps to 74%.

Break up of provisions

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
NPAs	3,580	1,775	3,040	3,210	2,315	-35.3	-27.9	8,565	10,520	-18.6
As % of advances	0.4	0.2	0.3	0.3	0.2			0.7	1.2	
Others	151	244	290	578	824	444.3	42.6	1,692	96	1,668.0
Total	3,731	2,019	3,330	3,788	3,139	-15.9	-17.1	10,257	10,616	-3.4

Source: Company, Emkay Research

NPA profile

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	11,735	13,180	13,409	13,624	14,829	26.4	8.8
Net NPAs	4,296	4,190	4,134	4,094	3,855	-10.2	-5.8
Gross NPAs (%)	1.2	1.1	1.1	1.1	1.1		
Net NPAs (%)	0.5	0.4	0.4	0.3	0.3		
Net NPAs/Net worth (%)	2.7	2.6	2.4	2.3	2.1		
Provision cover (%)	63.4	68.2	69.2	70.0	74.0		

Source: Company, Emkay Research

Valuation and view

Our negative view on AXSB was on back of higher slippages and resultantly required provision expenses. The reduction in slippage rate during the quarter and management guidance of it remaining at current level is comforting. We believe that with reduction in slippages, the stock can trade at 5-year average valuations of 2.5x one-year forward valuations. We upgrade the stock to HOLD with a price target of Rs1,300

Two things which could still work against AXSB are (1) more than expected pressure on NIMs which are currently highest ever for the bank and (2) higher exposure to telecom sector (6% of loans) which includes loans against licenses.

Key Financials**Profit and loss (Rs mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	36,862	50,045	66,674	82,340
Other income	28,969	37,712	42,311	50,594
Net income	65,831	87,757	108,985	132,934
Operating expenses	28,582	37,097	44,484	53,196
Pre provision profit	37,249	50,660	64,500	79,737
PPP excl treasury	40,133	57,800	69,500	84,737
Provisions	9,397	12,148	14,139	17,720
Profit before tax	27,852	38,512	50,361	62,018
Tax	9,698	13,368	17,123	21,086
Tax rate	35%	35%	34%	34%
Profit after tax	18,154	25,144	33,238	40,932

Balance sheet (Rs mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	3,590	4,052	4,100	4,135
Reserves	98,546	156,393	183,092	215,798
Net worth	102,136	160,444	187,191	219,933
Deposits	1,173,741	1,413,002	1,708,604	2,165,435
Borrowings	201,331	233,359	274,998	292,718
Total liabilities	1,477,208	1,806,805	2,170,793	2,678,085
Assets				
Cash and bank	150,169	152,064	185,301	234,845
Investments	322,534	421,516	472,525	589,017
Customer assets	956,338	1,181,664	1,461,375	1,802,842
Others	48,180	51,562	51,591	51,381
Total assets	1,477,208	1,806,805	2,170,793	2,678,085

As % of assets

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.9	3.0	3.4	3.4
Non-II/avg assets	2.3	2.3	2.1	2.1
Fee income/avg assets	2.9	2.8	2.9	2.8
Opex/avg assets	2.2	2.3	2.2	2.2
Provisions/avg assets	1.5	1.9	1.4	1.4
PBT/avg assets	1.9	2.1	2.3	2.3
Tax/avg assets	0.7	0.7	0.8	0.8
RoA	1.4	1.5	1.7	1.7
RoAE	19.1	19.2	19.1	20.1
GNPA (%)	0.9	1.1	1.1	1.1
NNPA (%)	0.4	0.4	0.2	0.2

Valuations

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	18,154	25,144	33,238	40,932
Shares in issue (mn)	359	405	410	414
EPS (Rs)	50.6	62.1	81.1	99.0
PER (x)	24.3	19.8	15.1	12.4
FDEPS(Rs)	43.9	60.8	80.4	99.0
FDPER (x)	27.9	20.2	15.3	12.4
Book value (Rs)	277.2	384.0	444.7	520.1
P/BV (x)	4.4	3.2	2.8	2.4
Adj book value (Rs)	268.3	373.7	436.6	512.7
P/ABV (x)	4.6	3.3	2.8	2.4
P/PPP (x)	11.8	9.8	7.8	6.4
Dividend yield (%)	0.8	1.0	1.2	1.5

Recommendation History: Axis Bank – AXSB IN

Date	Reports	Reco	CMP	Target
14/10/2010	Axis Bank Q2FY11 Result Update	Reduce	1,536	1,200
15/07/2010	Axis Bank Q1FY11 Result Update	Reduce	1,314	1,100
21/04/2010	Axis Bank Q4FY10 Result Update	Reduce	1,186	1,000
18/01/2010	Axis Bank Q3FY10 Result Update	Reduce	1,078	800

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/12/2010	Allahabad Bank Management Meet Update	Buy	216	300
27/12/2010	Bank of Baroda Company Update	Buy	889	1,160
16/12/2010	Banking Sector Update			
09/11/2010	ICRA Q2FY11 Result Update	Accumulate	1,420	1,550

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