

**Axis Bank ----- Maintain OUTPERFORM**

**2Q FY3/09 results: strong, but how sustainable?**

EPS: ◀▶ TP: ◀▶

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- Axis reported 2QFY3/09 net profit at Rs4.02bn, 25% ahead of our estimates, mainly driven by strong NII and non-interest income
- Fees were particularly strong – capital markets fees rose 21% QoQ, likely driven by a rapidly growing international syndication business, but unsustainable given current credit markets globally
- The 16bp NIM expansion was likely partly driven by the favourable change in loan mix – agri loans declined 170bp and unsecured loans/credit cards increased 180bp QoQ
- We consider rapid loan growth (13% QoQ) unsustainable, and a potential risk to credit quality amidst a slowing economy
- Net NPLs remained low, but loan loss provisions have risen sharply to 1.1% of average loans, and delinquency also rose 20bp
- Tier I ratio declined 70bp QoQ – Axis' Tier I has now declined from 13% post-capital raising to 9.2%
- Overall, results appear strong, but we are worried about too much growth, fast capital usage, and sharply higher loan loss provisions

**Figure 2: 2Q09 income statement summary**

	2Q09	2Q08	% yoy	1Q09	% qoq	CS2Q09E	% diff
Interest income	25,451	16,765	52%	22,664	12%	24,881	2%
Interest expense	(16,316)	(10,878)	50%	(14,560)	12%	(16,100)	1%
NII	9,135	5,887	55%	8,105	13%	8,782	4%
Fee income	6,270	3,280	91%	5,370	17%	4,493	40%
Other non int inc	674	549	23%	878	-23%	1,233	-45%
Total non-int inc	6,944	3,829	81%	6,248	11%	5,726	21%
Total income	16,079	9,716	65%	14,353	12%	14,508	11%
Salaries	(2,604)	(1,644)	58%	(2,137)	22%	(2,433)	7%
Other oper exp	(4,730)	(3,443)	37%	(4,193)	13%	(4,820)	-2%
Total op exp	(7,334)	(5,087)	44%	(6,329)	16%	(7,253)	1%
Pre-prov profits	8,744	4,629	89%	8,023	9%	7,255	21%
Loan loss prov	(1,730)	117	-1579%	(667)	159%	(1,602)	8%
Other prov	(828)	(1,262)	-34%	(2,300)	-64%	(750)	10%
Pre-tax profits	6,187	3,484	78%	5,056	22%	4,902	26%
Tax	(2,157)	(1,206)	79%	(1,755)	23%	(1,688)	28%
PAT	4,029	2,278	77%	3,301	22%	3,214	25%

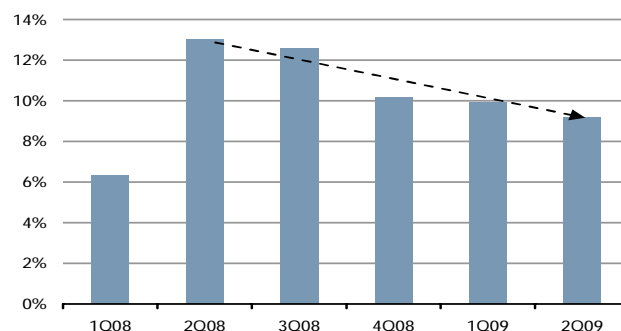
Source: Company data, Credit Suisse estimates.

**Figure 3: 2Q09 balance sheet and ratios summary**

	2Q09	2Q08	% yoy/bps	1Q09	% qoq/bps
NIM (Bps)	351	328	23	335	16
Savings (Rs bn)	215	144	49%	190	13%
Current (Rs bn)	200	147	36%	164	22%
CASA %	40.3%	45.4%	(509)	39.8%	43
Loans (Rs bn)	689	447	54%	612	13%
Deposits (Rs bn)	1,029	641	60%	890	16%
LDR %	66.9%	69.7%	(280)	68.7%	(182)
Investments (Rs bn)	380	273	39%	357	6%
Assets (Rs bn)	1,278	835	53%	1,137	12%
RoAA %	1.3%	1.2%	16	1.2%	15
Gross NPL (Rs mn)	7,102	4,872	46%	6,383	11%
Gross NPL %	0.9%	1.1%	(17)	0.9%	(1)
Net NPL (Rs mn)	3,367	2,807	20%	3,257	3%
Net NPL %	0.4%	0.6%	(20)	0.5%	(4)
Coverage %	52.6%	42.4%	1,021	49.0%	361
Tier I %	9.2%	13.0%	(382)	9.9%	(73)
Total capital %	12.2%	17.6%	(539)	13.3%	(105)

Source: Company data, Credit Suisse estimates.

**Figure 4: Tier I has declined from 13% post capital raising to 9.2%**



Source: Company data, Credit Suisse estimates.

Bbg/RIC	AXSB IN / AXBK.BO	Price (10 Oct 08, Rs)	552.30		
Rating (prev. rating)	O (O) [V]	TP (Rs) (prev. TP)	751 (751)		
Shares outstanding (mn)	358.89	Est. pot. % chg. to TP	36		
Daily trad vol-6m avg (mn)	0.9	52-wk range (Rs)	1265.20 - 552.30		
Daily trad val-6m avg (US\$ mn)	8.5	Mkt cap (Rs/US\$ bn)	198.2/ 4.1		
Free float (%)	72.5	Performance	1M 3M 12M		
Major shareholders	UTI 1 Administrator	Absolute	(22.3) (18.7) (27.6)		
	27.5%	Relative	8.2 7.6 28.3		
Year	3/07A	3/08A	3/09E	3/10E	3/11E
Pre-provisioning profit (Rs mn)	11,301	21,565	27,758	39,552	52,074
Net profit (Rs mn)	5,951	10,838	13,885	18,866	24,176
EPS (Rs)	20.6	33.0	37.9	51.5	66.0
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	40.2	52.4	56.0
EPS growth (%)	19.1	60.2	14.8	35.9	28.1
P/E (x)	26.8	16.7	14.6	10.7	8.4
Dividend yield (%)	0.9	1.1	1.3	1.4	1.6
BVPS (Rs)	120	245	276	320	377
P/B (x)	4.6	2.3	2.0	1.7	1.5
ROE (%)	19.0	17.8	14.9	17.7	19.4
ROA (%)	1.0	1.2	1.1	1.2	1.2
Tier 1 (%)	6.4	10.2	9.7	9.0	8.4

Note 1: Axis Bank is the 3rd largest private sector bank in India, with an asset base of Rs1096 bn at March 31, 2008

**Figure 1: Delinquency trend (including write-offs)**

Rs mn	3Q08	4Q08	1Q09	2Q09
Gross NPL + accumulated w/o	13,837	14,435	15,870	17,711
Accumulated w/o + provisions	11,494	11,953	12,614	14,344
Loan loss provisions (balance sheet)	2,133	2,463	3,127	3,735
Accumulated w/o	9,361	9,489	9,487	10,609
Quarterly write-offs	1,730	128	(2)	1,122
Delinquency (including write-offs)	1,335	598	1,435	1,840
Delinquency %	1.2%	0.5%	1.0%	1.2%

Source: Company data, Credit Suisse estimates.

**Companies Mentioned** (Price as of 10 Oct 08)

Axis Bank Limited (AXBK.BO, Rs552.30, OUTPERFORM [V], TP Rs751.00)

**Disclosure Appendix**

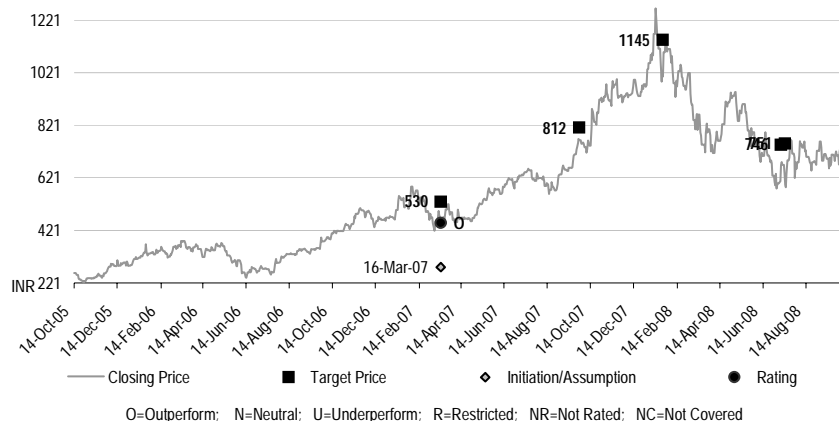
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**3-Year Price, Target Price and Rating Change History Chart for AXBK.BO**

AXBK.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
16-Mar-07	448.6	530	O	X
28-Sep-07	764.4	812		
24-Jan-08	1,005.75	1145		
9-Jul-08	669.75	746		
15-Jul-08	596.55	751		



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**Price Target:** (12 months) for (AXBK.BO)

**Method:** We are valuing Axis Bank at Rs751 on a dividend discount model (DDM), which we believe captures long-term growth expectations better. We assume a sustainable ROE of 20-21%, use a risk-free rate of 9.5%, an equity risk premium of 5.5% and terminal growth of 5% in our DDM.

**Risks:** Key risks to our Rs751 target price include: 1) a sharp reversal of the credit quality environment; 2) substantial volatility in interest rates and liquidity, which would affect its funding costs; 3) a sharper-than-expected slowdown in growth; 4) a significant increase in competition, especially from multinational banks; and 5) accelerated growth levels could be a risk in the current macro environment.

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