

Axis Bank**INR:625.00****Better than expected results.....****BUY****Q2FY09 Result Analysis**

In the midst of concerns raised in the banking space; results of AXIS Bank have positively surprised the markets. Net profit of the bank beat our and market estimates; registering a growth of 22% (q-o-q), driven by strong growth in Net Interest Income of 12.2% (q-o-q), margins expansion and lower provisions. Below are the detailed highlights of the results.

Key highlights of the results**Margins of the bank positively surprised**

- Q2FY09 net profit margins of the bank improved by 120 bps (q-o-q) to 15.8%
- Increase in PLR during this quarter has compensated the loss in margins due to hike in CRR and increase in cost of funds. This has resulted in healthy growth in NIMs from 3.35% to 3.51%.
- The Bank registered 55% y-o-y growth in Q2FY09 in its Net Interest Income of Rs 913.47 crore as against Rs 588.67 crore in Q2FY08 of the previous year.
- Interest earned increased from Rs 2,266 crore to Rs 2,545 crore. While interest expended increased from Rs 1,456 crore to 1,631.6 crore; growth of 12.1% q-o-q.

Robust Growth in other income

- Despite the concerns over slowdown in other income due to turmoil in financial markets, the bank showed robust growth in other income.
- Other income increased by 81% to Rs 694.40 crore. The growth in other income was aided by impressive 91% y-o-y growth in Fee Income Rs 626.77 crore in Q2FY09 as compared to Rs 327.65 crore in Q2FY08 of the preceding year.
- The growth in other income is more sustainable as the trading income comprises very small part of the overall operating income (just 2%)

International Business

The total assets under overseas operations amounted to US\$ 1.95 billion as at end September'08 as compared to US\$ 1.24 billion as at end September'07, a growth of 57% y-o-y. However, these assets are mainly held in Asia where quality of the asset is still good.

Valuations

At current price of Rs. 625 the stock is trading at 2.2x FY09 P/BV. We recommend a BUY on the stock with a medium term target price of Rs. 815 giving an upside potential of 27%.

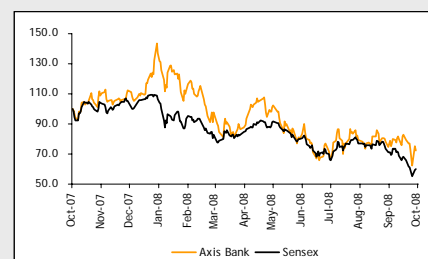
Market Data

October, 15 2008

Shares outs (Cr)	35.9
Equity Cap (Rs Cr)	357.7
Mkt Cap (Rs. Cr)	22438
52 Wk H/L (Rs)	1291/535
Avg Vol (1yr avg)	14,43,08,448
Face Value (Rs)	10
Bloomberg Code	AXSB. IN

Market Info:

SENSEX - 10795
NIFTY - 3331

Price Performance**Share Holding Pattern (%)**

Particulars	30/9	30/6	Chg (%)
Promoter	42.4	42.4	0.0
Institution	38.4	40.4	+2.0
Public	19.2	17.2	-2.0
Total	100	100	

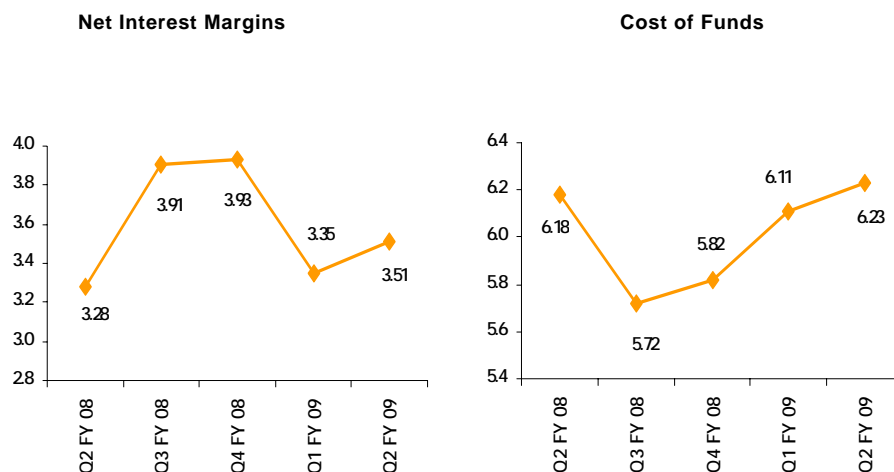
Source: BSE, KRC Research**Analyst**

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Exhibit 1: Net interest margins and Cost of funds



Source: Company Data

Some Concerns

- CASA ratio (Savings and current account as a percentage to total deposits) came down to 40% as on Sep'08 compared to 45% as on Sep'07.
- CRR hike along with lower CASA ratio has resulted in an increase in cost of funds by 12 basis points to 6.23% over previous quarter.
- Even though the Gross and Net NPA have come down as proportion of customer assets, they show increase in value terms. Gross NPA has increased by 46% to Rs 710.20 crore and Net NPA has increased by 20% to Rs 336.68 (y-o-y)
- The Capital Adequacy Ratio for the Bank has declined to 12.20% as on Sep'08 compared to 17.59% as on Sep'07. The Tier I capital stood at 9.20% compared to 13.02% a year ago and Tier II capital stood at 3% compared to 4.57% a year ago.
- The operating expenses for the quarter ended Sep'08 increased by 44% to Rs 733.44 crore with the staff cost increasing by 58% to Rs 260.40 crore and other operating cost increasing by 37% to Rs 473.04 crore on y-o-y basis.

Brief Financials

Rs in crores

Particulars	Net Profit	Growth	EPS	Growth	BV	P/E	P/BV
FY06	486.0	-	16.9	-	103.0	21.1	3.5
FY07	660.7	36%	22.6	34%	120.5	21.7	4.1
FY08	1,071.0	62%	28.9	28%	245.1	27.3	3.2
FY09E	1,506.0	41%	42.0	45%	283.0	15.2	2.3


Source: Company Data, KRC Research

Financials		Rs in crore		
Particulars	Q2FY09	Q1FY09	% ch	
Interest earned	2,545.1	2,266.4	12.3	
-Interest on advances/bills	1,767.2	1,549.2	14.1	
-Income on investments	705.7	652.8	8.1	
-Interest on bal. with RBI	54.0	50.8	6.4	
-Others	18.1	13.6	33.0	
Interest expenses	1,631.6	1,456.0	12.1	
Net Interest Income (NII)	913.47	810.5	12.7	
Other Income	694.4	624.8	11.1	
Total income	1,607.9	1,435.3	12.0	
Operating expenses	733.4	632.9	15.9	
-Employee cost	260.4	213.7	21.9	
-Other operating expenses	473.0	419.3	12.8	
Operating profit	874.4	802.3	9.0	
Provision for contingencies	255.8	296.7	-13.8	
PBT	618.7	505.6	22.4	
Provision for taxes	215.7	175.5	23.0	
Net profit	402.9	330.1	22.0	
Equity	358.6	358.6	0.0	
EPS	11.2	9.2	22.0	
Ratios (%)				
Int. exp/Int earned (%)	64.1	64.2	-	
Cost/Income ratio (%)	45.6	44.1	-	
Emp. cost/Int. Income (%)	10.2	9.4	-	
GPM (%)	34.4	35.4	-	
Prov & Cont/Int Income (%)	10.1	13.1	-	
Tax/PBT (%)	34.9	34.7	-	
NPM (%)	15.8	14.6	-	
Gross NPAs (Rs)	710.2	483.1	47.0	
Net NPAs (Rs)	336.8	281.2	19.8	
Net NPAs (%)	0.43	0.59		
CAR (%)	12.2	11.5		

Source: Company Data, KRC Research

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Other Stocks in the sector under our active coverage: Banking

Axis Bank Ltd.		Rating
	Buy	Appreciate over 15%
	Accumulate/Hold	Appreciate upto 15%
	Reduce	Depreciate upto 10%
	Sell	Depreciate over 10%

Date	Company	Type of Report	Recommendation	Reco. Price	Target
13 October 2008	ICICI Bank		BUY	427.00	608.00

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