



2QFY09 Result Update

CMP: INR 619

Target: INR 825

OUTPERFORMER

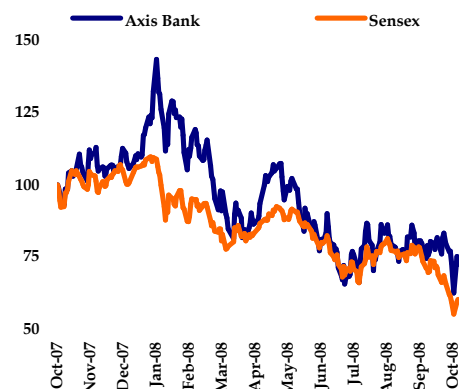
Sector View	POSITIVE
Company Risk	MEDIUM
BSE Sensex	10,809
S&P Nifty	3,338
BSE Bankex	5,842
Bloomberg Consensus (BUYS/SELLS/HOLDS)	30 / 5 / 2
BSE Code	532215
NSE Code	AXISBANK
Bloomberg Code	AXSB IN
Reuters	AXBK.BO
52 Wk High/Low (INR)	1,291 / 535
Equity (INR Mn)	3,589
Market Cap. (INR Mn)	222,807

Shareholding Pattern (%)

Foreign	33.32
Institutions	10.90
Corporate	6.81
Promoters	42.42
Public & Others	6.56

Returns (%)	Abs Perf	Relative to	
		Sensex	Bankex
1 Month	-11.25	8.79	3.50
3 Months	5.77	19.82	-2.40
1 Year	-29.98	13.29	11.45

Relative Price Performance



Source: Comline Products

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Result Highlights

- ✓ **NIMs expands as assets gets reprised:** Axis Bank's Net interest margins (NIMs) for Q2FY09 have expanded by 16 bps on qoq basis and 23 bps on a yoy basis to 3.51%. The expansion in NIMs is mainly on account of widening of spreads. Yield on advances have increased by 28 bps, whereas cost of funds have increased only by 5 bps on a yoy basis.
- ✓ **Net Interest Income Zooms:** Axis Bank has registered 55% yoy growth in net interest income in Q2FY09 to Rs 9,135 mn, which is slightly above our expectations. This was on account of strong growth in credit, higher yield on advances & investments and improvement in net interest margins
- ✓ **Robust Balance Sheet Growth:** Axis Bank has registered 54% surge in its net advances to Rs 689 bn for the quarter ended Sept 08. Total deposits grew at a higher rate of 60% to 1029 bn. The business growth is well above the industry.
- ✓ **Growth in PAT above expectation:** Axis Bank has registered a growth of 77% yoy in PAT to Rs 4,029 mn for Q2FY09. Despite making a heavy provision of Rs 2,558 mn, the growth in PAT for Q2FY09 has outpaced our expectation and average street expectation by a sizable margin. On account of better than expected results, we have revised our estimate of EPS by 6% for FY09E and 10% for FY10E.

Outlook

- ✓ Asset Quality to be watched out
- ✓ NIMs should stabilize
- ✓ Credit growth above industry average

Valuation

We expect Axis Banks to continue its growth streak and net profit to grow by 45-50% over next couple of years. At the CMP of Rs. 619, stock trades at 13.2x and 8.9x its earnings and 2.3x and 1.9x its adjusted book value for FY09E and FY10E respectively. In our view, the actual growth and the quality of growth in AXIS Bank is best among industry. In view of this, we place our call on Axis Bank to "OUTPERFORMER", with market price target of Rs. 825 at 2.5x FY10E adjusted book value.

Financial Summary

(INR Mn)	FY06	FY07	FY08	FY09E	FY10E
NII	9,907	14,683	25,853	39,162	51,520
Operating Profit	7,783	12,058	20,208	33,520	45,711
PAT	4,852	6,590	10,710	17,307	25,724

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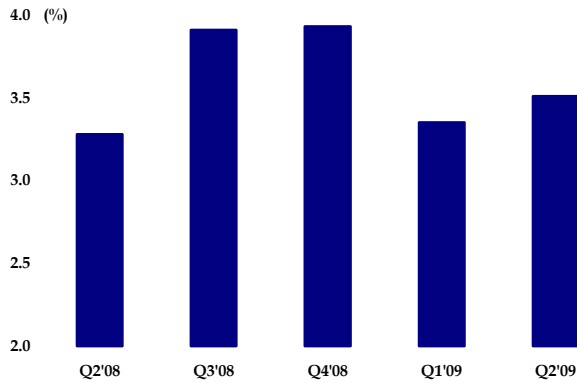
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Result Highlights

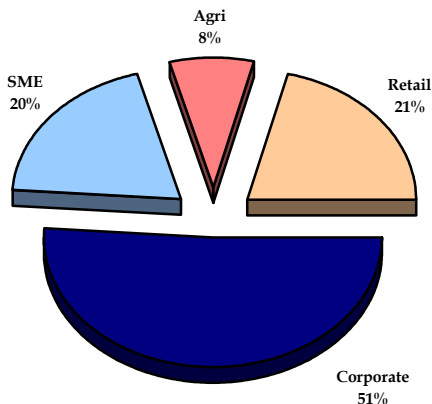
✓ **NIMs remain at healthy levels**

NIMs expands on a yoy basis, NIMs had expanded unduly in Q3FY08 & Q4FY08 on account of equity issuance.



✓ **Diversified Loan Book**

%'age of Portfolio



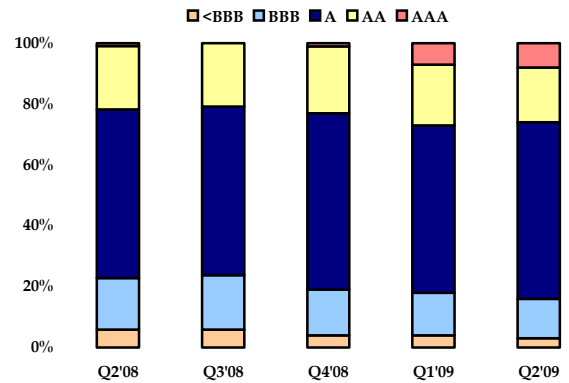
✓ **Assets grow across all segments**

Management is highly bullish on SME segment as it yields a higher margin.

Segment	INR Bn	YoY	QoQ
		Gwth (%)	Gwth (%)
Large & Mid Corporate	338	49.1	14.9
SME	131	68.0	14.7
Agriculture	52	52.6	(8.9)
Retail	168	54.7	14.6
Total	689	54.0	12.6

✓ **More than 4/5th of corporate advances have rating 'A' and above**

Axis Bank has consistently increased the rating of its corporate loan portfolio, which constitutes more than half of its loan book.



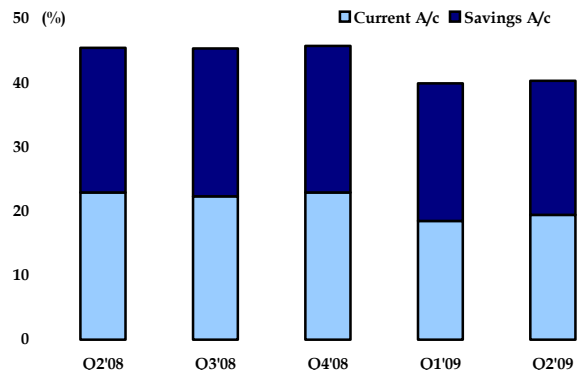
✓ **Retail Portfolio Distribution**

Loans for commercial vehicles (CV) has been significantly brought down and personal loan portfolio has shown a temporary jump as it has lend to borrowers for residential booking through Delhi Development Authority which will get repaid in next quarter.

Retail Portfolio (%)	Q2'08	Q3'08	Q4'08	Q1'09	Q2'09
Housing	56.0	58.0	59.0	59.0	56.0
Personal	11.0	12.0	15.0	15.0	22.0
Cards	3.0	4.0	4.0	4.0	4.0
CV	17.0	12.0	6.0	6.0	4.0
Auto	6.0	7.0	9.0	9.0	9.0
Others	7.0	7.0	7.0	7.0	5.0
Total	100.0	100.0	100.0	100.0	100.0

✓ **CASA increases on a qoq basis**

CASA increased by 50 bps on a qoq basis; however it has decreased by 520 bps on a yoy basis as CASA was higher in corresponding quarter last year due to equity float.



Axis Bank definitely deserves applause, as despite growing its deposits base of over 60% yoy, it is still able to maintain its CASA ratio over 40%.



✓ Robust Growth in Fee income

Total non-interest income has grown by 81% to Rs 6,944 mn. Fee Income registered a fantastic growth of 91% yoy in Q2FY08 to Rs 6,267 mn and 64% CAGR over past 4 years.

Fee Income	INR Bn	YoY	QoQ
		Gwth (%)	Gwth (%)
Corporate	1,070	87.7	(5.3)
Agri & SME	480	54.8	29.7
Business Banking	720	46.9	5.9
Capital Markets	1,110	404.5	20.7
Retail	2,007	66.3	24.2
Customer Forex	880	83.3	34.1
Total	6,267	91.2	16.7

Earnings from customer forex transaction from this quarter have been included under fee Income. Volumes in placement and syndication of bonds have decreased by 52% on yoy basis during the quarter, after a dip in volumes in Q1FY09. It continues to maintain dominant position in placement and syndication of corporate bonds. It continues to strengthen its focus on project advisory, cash management services, wealth advisory services & online trading. It has a tie up with Metlife India for life insurance product, Bajaj Allianz for general insurance product and Geojit Securities for online trading account.

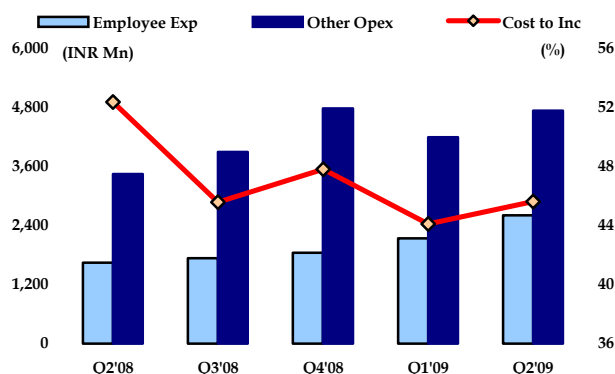
✓ Modest concerns over Asset Quality

Gross NPA and the Net NPAs have increased on an absolute basis by 11% and 4% respectively over last quarter. NPA seems to have started hurting the bank, especially after a spurt in Gross NPA in Q1FY09. Although as a percentage of asset, Gross NPA does not seem to increase, because the asset base is increasing at a very high pace. It will be interesting to watch out the asset quality as the delinquency rate picks and credit growth gradually slows down. We have factored slight increase in NPA from here on and thereby higher NPA provisions. Nevertheless it is noteworthy to mention, that the asset quality of Axis Bank is one of the best among large-cap banks.

NPA Movement	Q2'08	Q3'08	Q4'08	Q1'09	Q2'09
Gross NPA (mn)	4,872	4,476	4,946	6,383	7,102
Net NPA (mn)	2,807	2,343	2,483	3,257	3,367
Gross NPA (%)	1.0	0.8	0.7	0.9	0.9
Net NPA (%)	0.6	0.4	0.4	0.5	0.4
Prov Coverage (%)	42.4	47.7	49.8	49.0	52.6
Prov Coverage (Inc w/off) (%)	77.6	83.1	82.8	79.5	81.0

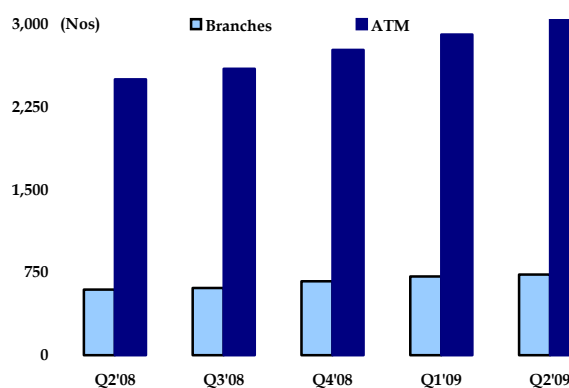
✓ Cost to Income ratio remains under control

Although the employee expenses and other operating expense are growing at a brisk pace, still the bank is able to maintain a tight control over cost to income ratio. We have factored in a slight increase in cost to income ratio as the bank plans to expand heavily.



✓ Visible Expansion

Axis Bank continues to expand at a healthy rate. Its strong plans to expand branches has helped bank to increase retail deposits & garner higher Fee income. Its total assets under overseas operation have increased by 57% to US\$ 1.95 bn. It has a branch at Singapore, Hong Kong & Dubai. It also has a representative office at Shanghai and Dubai.





2QFY09 Financial Results

Particulars (INR Mn)	Q2FY09 Sep-08	Q2FY08 Sep-07	Y-o-Y Growth
Interest Earned	25,451	16,765	51.8%
Interest Expended	16,316	10,878	50.0%
Net Interest Income	9,135	5,887	55.2%
Other Income	6,944	3,829	81.4%
- Fee Income	6,267	3,277	91.2%
- Other Income	677	552	22.6%
Net Revenue	16,079	9,716	65.5%
Operating Expenses	7,334	5,087	44.2%
- Employee Expenses	2,604	1,644	58.4%
- Other Expenses	4,730	3,443	37.4%
Operating Profit	8,745	4,629	88.9%
Provision & Contingencies	2,558	1,145	123.4%
PBT	6,187	3,484	77.6%
Taxes	2,158	1,206	78.9%
PAT	4,029	2,278	76.9%
EPS (INR)	11.2	6.4	75.7%
Book Value (INR)	253.1	227.4	11.3%
Advances	688,530	447,010	54.0%
Deposits	1,028,850	641,120	60.5%



Financial Statements

Income Statement

Descriptions (INR Mn)	FY06	FY07	FY08	FY09E	FY10E
Interest Income	28,012	44,616	70,053	102,960	141,365
Interest Expense	18,105	29,933	44,200	63,798	89,846
Net Interest Income	9,907	14,683	25,853	39,162	51,520
Fees	4,889	7,790	13,207	21,792	31,598
Other Income	1,127	1,731	2,697	3,722	4,811
Net Revenue	15,923	24,204	41,757	64,675	87,929
Operating Expenses	8,140	12,146	21,549	31,155	42,217
- Employee Expenses	2,402	3,814	6,702	10,370	14,156
- Other Expenses	5,738	8,332	14,847	20,786	28,061
Operating Profit	7,783	12,058	20,208	33,520	45,711
Investment Profit	1,281	580	2,051	773	982
Pre-provision Profit	9,064	12,638	22,259	34,293	46,694
Provisions	1,750	2,676	5,796	8,050	7,937
- Loan Loss Provisions	1,719	1,978	4,975	4,548	6,185
- Investment Depreciation	34	670	65	3,000	1,500
- Other Provisions	(3)	28	756	502	252
PBT	7,314	9,962	16,463	26,243	38,757
Taxes	2,462	3,372	5,753	8,936	13,033
PAT	4,852	6,590	10,710	17,307	25,724

Balance Sheet

Descriptions (INR Mn)	FY06	FY07	FY08	FY09E	FY10E
Equity Capital	2,787	2,816	3,577	3,577	3,577
Reserves & Surplus	25,936	31,116	84,108	98,277	120,235
Shareholder's Funds	28,723	33,932	87,685	101,854	123,812
Employee Stock Option	134	90	22	22	22
Deposits	401,135	587,856	876,262	1,270,580	1,715,283
- Current Deposits	79,701	113,043	200,446	259,594	348,534
- Saving Deposits	80,654	121,259	199,824	258,972	370,147
- Term Deposit	240,780	353,554	475,992	752,015	996,601
Borrowings	44,695	86,970	90,533	124,186	162,139
- Sub Ordinate Debt	17,886	35,014	34,293	51,119	70,096
Other Liabilities	22,624	23,724	41,276	42,062	37,182
Total Liabilities	497,311	732,572	1,095,778	1,538,704	2,038,437
Cash/Equivalent	36,418	69,183	125,042	186,297	255,379
Advances	223,142	368,764	596,611	872,634	1,183,926
Investments	215,274	268,972	337,051	435,630	546,806
Fixed Assets	5,677	6,732	9,229	10,729	12,229
Other Assets	16,800	18,921	27,845	33,414	40,097
Total Assets	497,311	732,572	1,095,778	1,538,704	2,038,437



Key Financial Ratios

Descriptions	FY06	FY07	FY08	FY09E	FY10E
Growth Projections					
Growth in Net Interest Income	45.07%	48.21%	76.07%	51.48%	31.56%
Growth in Pre-provision Profit	75.22%	39.43%	76.13%	54.06%	36.16%
Growth in Net Profit	45.01%	35.82%	62.52%	61.60%	48.63%
Deposits and Advances Analysis					
Deposit Growth	26.49%	46.55%	49.06%	45.00%	35.00%
Advance Growth	43.01%	65.26%	61.79%	46.27%	35.67%
Credit-Deposit Ratio	55.63%	62.73%	68.09%	68.68%	69.02%
CASA Ratio	39.98%	39.86%	45.68%	40.81%	41.90%
Operating Efficiency					
Cost to Income	51.12%	50.18%	51.61%	48.17%	48.01%
Cost to Assets	1.97%	2.06%	2.44%	2.44%	2.43%
Spread Analysis					
Yield on Asset	6.78%	7.55%	7.94%	8.07%	8.12%
Cost of Funds	4.41%	5.13%	5.18%	5.22%	5.36%
Net Interest Margin	2.40%	2.48%	2.93%	3.07%	2.96%
Asset Quality					
Gross NPA	1.67%	1.13%	0.83%	1.20%	1.20%
Net NPA	0.98%	0.72%	0.42%	0.43%	0.47%
Coverage Ratio	41.86%	36.40%	49.80%	64.53%	60.90%
Profitability					
ROA	1.11%	1.07%	1.17%	1.31%	1.44%
ROE	18.38%	21.04%	17.61%	18.26%	22.80%
Valuation					
EPS (INR)	17.41	23.40	29.94	48.38	71.91
Adjusted Book Value (INR)	95.25	111.04	238.19	274.34	330.51
P/E	36.70	27.31	21.34	13.21	8.89
Price/ABV	6.71	5.75	2.68	2.33	1.93



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