

Banks

Result Review

Rating: **Buy**

Current Price: Rs 1297

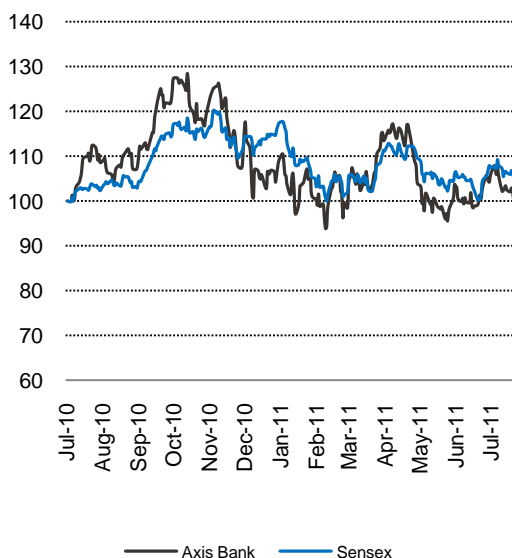
Target Price: Rs 1615

Stock Data

52-week high/low	Rs1609/ Rs1147
O/S shares (m)	411.9
Mkt Cap Rs (bn)	517
Avg Daily Volume	1614448
Bloomberg Code	AXSB IN
Reuters Code	AXBK.BO

Shareholding (%) June-11

Promoters	37.2%
FIs	37.7%
DIs	14.3%
Public	10.8%



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Performance in line, Maintain Buy

Results in line with expectation

Axis Bank's net profit grew 27% YoY to Rs 9.4bn, in line with our expectation, driven by 42% growth in fee income, healthy growth in net interest income (NII), and lower tax expenses. CASA ratio was healthy at 41%. Net interest margin (NIM) declined 16 bps sequentially to 3.28%. **Maintain Buy**

Advances grew by 21%:

Axis Bank's business mix grew 23% YoY, although it shrunk 5% sequentially. Advances were up 21% YoY but down 7% sequentially. According to the management, the slow growth in loan book was deliberate to some extent. As a strategy, in the current economic scenario, the bank would like to avoid sticky accounts.

Deposits mobilization at 25%:

Axis Bank's deposits grew 25% YoY but declined 3% QoQ. Current account deposits grew 28% YoY, savings account deposits grew 23% YoY and term deposits increased 24%.

Asset Quality remains healthy

GNPA at 1.06% and NNPA at 0.31% continue to be best in class. Provision Coverage ratio at 80% remains high.

Valuation: At CMP of Rs 1297, Axis Bank trades at 12.8x FY12E and 9.7x FY13E EPS. On P/ABV, it trades at 2.6x FY12E and 2.1x FY13E ABV. We maintain Buy with target price of Rs 1615 based on 2.35 x FY13E P/ABV (an upside of 25%).

Y/E Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net Interest Income	50045	65630	85365	106700
Pre-provision Profit	52406	64157	84951	106056
PAT	25145	33885	46348	61201
EPS (Rs)	62.1	82.5	112.9	149.1
BV (Rs)	396.0	462.8	561.6	696.7
ABV (Rs)	389.1	456.1	553.7	687.2
Net NPA (%)	0.4	0.3	0.3	0.3
ROA (%)	1.5	1.6	1.7	1.9
ROE (%)	19.2	19.3	22.0	23.7
PER	23.3	17.6	12.8	9.7
P/ABV	3.7	3.2	2.6	2.1

Exhibit 1: Axis Bank 1QFY12 Results snapshot

INR mn	1QFY12	4QFY11	1QFY11	YoY	QoQ	FY11	FY12E
Income Statement							
Interest Income	48814	43667	33256	46.8	11.8	151549	196169
Interest Expense	31573	26657	18118	74.3	18.4	85918	110804
Net Interest Income	17241	17010	15138	13.9	1.4	65630	85365
Non interest income	11679	14504	10008	16.7	-19.5	46321	58257
Total Income	28920	31514	25146	15.0	-8.2	111952	143622
Staff Expenses	5100	3960	4164	22.5	28.8	16139	19674
Other operating expenses	8235	9346	6481	27.1	-11.9	31655	38997
Total operating expenses	13335	13306	10645	25.3	0.2	47794	58671
Operating profit	15585	18208	14501	7.5	-14.4	64157	84951
Provision & Contingencies	1758	2544	3330	-47.2	-30.9	12800	13843
Tax Expense	4403	5463	3752	17.4	-19.4	17472	24760
PAT	9424	10201	7419	27.0	-7.6	33885	46348
Balance Sheet							
Loans	1318997	1424078	1086091	21.4	-7.4	1424078	1766275
Deposits	1835968	1892378	1474790	24.5	-3.0	1892378	2274243
CASA Mix	744140	777670	592490	25.6	-4.3	777670	954297
Margin Components (YTD)							
NIM Quarterly	3.28	3.44	3.71	-11.6	-4.7	3.7	3.6
Asset Quality							
Gross NPA	15731	15994	13409	17.3	-1.6	15994	16242
Net NPA	4625	4104	4131	11.9	12.7	4104	5772
Gross NPA ratio	1.1	1.0	1.1	-6.2	5.0	1.0	0.9
Net NPA ratio	0.3	0.3	0.4	-11.4	19.2	0.3	0.3
Coverage ratio	70.6	74.3	69.2	2.0	-5.0	80.9	70.0
CAR ratios							
Tier-1	9.4	8.9	11.2	-16.4	5.2	9.4	9.0
Tier-2	4.3	3.8	3.3	28.4	14.4	3.2	4.1
Total CAR	13.7	12.7	14.5	-6.1	7.9	12.7	13.1

Source: Company IFIN Research

Result Highlights

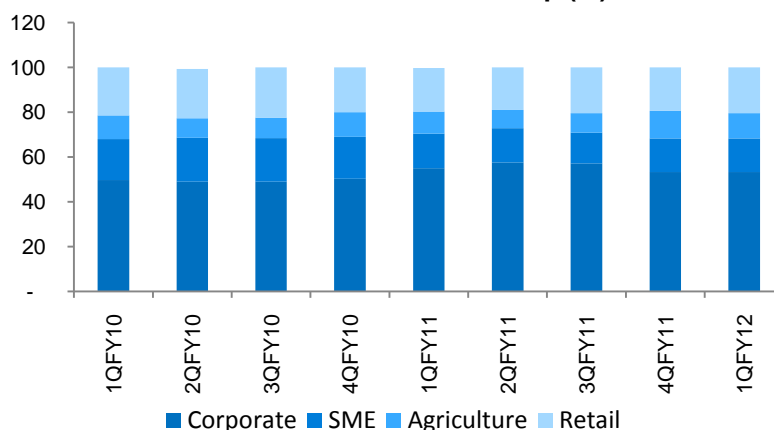
Axis Bank reported net profit of Rs 9.42 bn in 1QFY12, up 27% YoY driven by lower provisioning cost and lower tax expenses. NII expanded 14% YoY and 1.4% QoQ; non-interest income rose 17% YoY.

Loan growth driven by retail and agriculture:

Axis Bank's loan book grew 21% YoY, the slowest in the past five quarters. Agriculture loans increased 39% YoY and the retail loans book grew 28% YoY, driving loan growth. Large and mid-corporate loan book accounted for 53% of total loan book in 1QFY12, down 200 bps YoY. The decline in corporate book is in line with management's guidance given the previous quarter. Management prefers bringing down the corporate loan book to 50% and increasing its retail loan book.

Corporate loans continue to account for more than 50% of its loan book.

Exhibit 2: Advances break up (%)



Axis Bank's major exposure is to financial companies and the infrastructure sector. Management indicated that exposure to SEBs in the power generation and distribution sector is negligible.

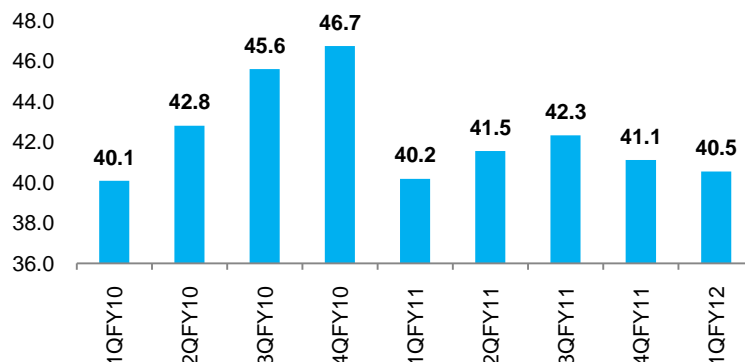
Exposure to major sectors (%)	1QFY12	4QFY11
Financial Companies	11.84	13.31
Infrastructure	11.11	10.45
Power Generation & Distribution	9.81	9.68
Metals	8.24	8.50
Engg. & Electronics	7.71	6.75
Food Processing	4.60	4.84
Trade	4.58	4.20
Chemical & Chemical Products	3.25	3.63
Telecommunication	3.09	3.19
Petrochemical & Petrochemical Products	2.94	3.12

Deposit Growth: Pace of term deposit growth higher

In 1QFY12, the bank reported 25% YoY growth in deposits. Term deposit grew 24% YoY on the back of attractive term deposit interest rates. CASA deposits grew 26% YoY in 1QFY12 and CASA ratio stood at 41%.

At 41%, Axis Bank has a healthy CASA ratio and we expect it to grow by 22% in FY12E

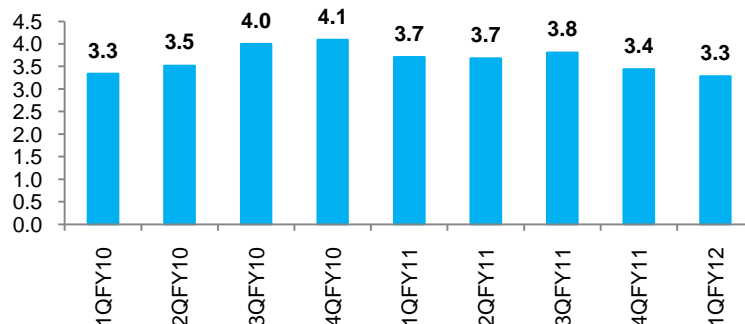
Exhibit 3: CASA share (%)



NIM declined; due to rise in cost of funds:

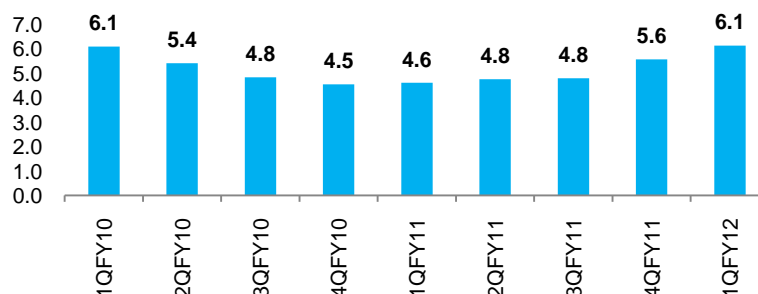
In 1QFY12, NII grew moderately at 14% YoY and 1.4% sequentially. Interest expenses grew a whopping 74% YoY, led by higher cost of funds. NIM declined 43 bps YoY and 16 bps QoQ to 3.28. Rise in term deposit costs of 125 bps led to increase in cost of funds and compression in margins. Reduction in NIM during Q1FY12 was driven by slower build-up in CASA deposits, higher cost of term deposits and upward revision of rate for savings bank deposits.

Exhibit 4: Net Interest Margin (%)



Increase in cost of funds to 5.56% in 4QFY11 from 4.09% in 4QFY10 led to margin compression.

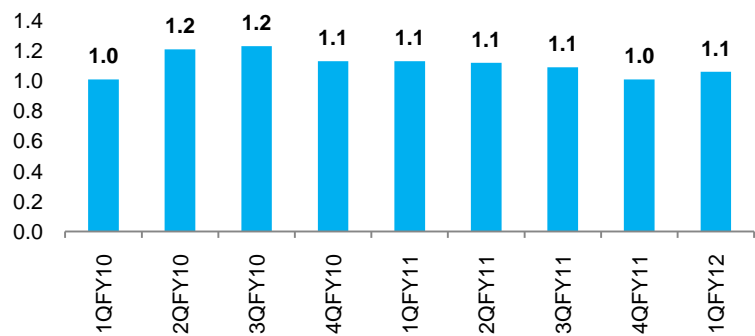
Exhibit 5: Cost of Funds (%)



Improvement in Asset Quality:

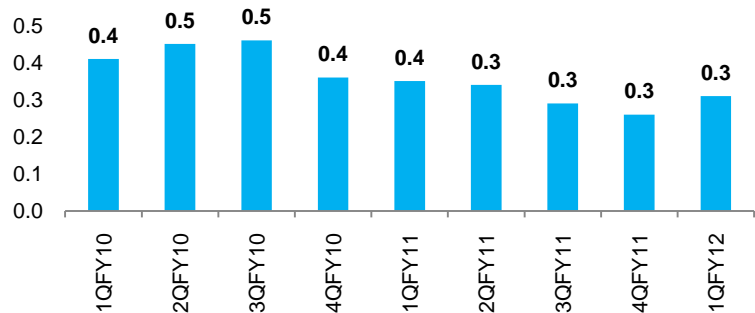
Axis Bank's Gross NPA increased 17% YoY and declined 2% QoQ to Rs 15.7 bn and Net NPA increased 12% YoY. Gross NPA at 1.06% and Net NPA at 0.31% remain healthy. Restructured assets stood at 1.44% of gross advances, down 54 bps from 1.98% in 1QFY11. Provision expenses have declined 47% YoY and 31% QoQ. Provision coverage ratio remains healthy at 80%.

Exhibit 6: Gross NPA (%)



Net NPA ratio below 0.4% since last six quarters.

Exhibit 7: Net NPA (%)



Valuation & View

Axis Bank's RoA at 1.8% is best in the industry.

We maintain our estimates for FY12 and FY13. We maintain BUY with target price of Rs 1615.

No change in estimates

Estimates		
	FY12E	FY13E
PAT (mn)	46348	61201
EPS	113	149
ABV	554	687

Source: IFIN Research.

Valuation:

Axis Bank on an average has traded at 2.4 x P/ABV on one year forward multiple during FY06-FY11.

Axis Banks' earnings grew at 36% CAGR during FY06-FY11. We expect the bank to deliver 35% earnings CAGR over FY11-FY13. The stock is currently trading at 2.1x FY13E ABV. Our price target of Rs 1615 implies a multiple of 2.35x FY13E.

Exhibit: Axis Bank one year fwd P/ABV band

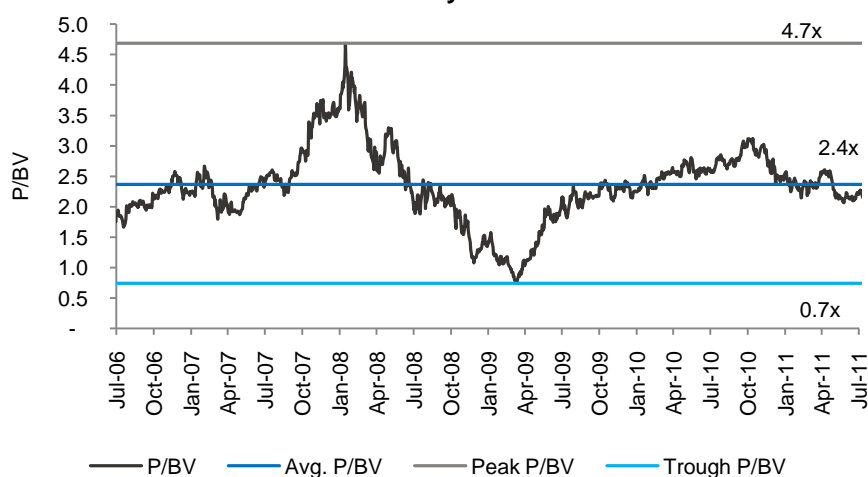


Exhibit 9: Financials

Income Statement				
	(Rs Million)			
Y/E March	FY10	FY11	FY12E	FY13E
Interest Income	116380	151549	196169	256539
Interest Expense	66335	85918	110804	149840
Net Interest Income	50045	65630	85365	106700
Change (%)	36	31	30	25
Non Interest Income	39458	46321	58257	71320
Net Income	89503	111952	143622	178020
Change (%)	36	25	28	24
Operating Expenses	37097	47794	58671	71964
Pre Provision Profits	52406	64157	84951	106056
Change (%)	41	22	32	25
Provisions	13888	12800	13843	12160
PBT	38517	51357	71108	93896
Tax	13372	17472	24760	32695
PAT	25145	33885	46348	61201
Change (%)	39	35	37	32

Balance Sheet				
	(Rs Million)			
Y/E MARCH	FY10	FY11	FY12E	FY13E
Equity Share Capital	4052	4106	4106	4106
Reserves & Surplus	185883	185883	226467	281904
Net Worth	160446	189990	230574	286011
Deposits	1413002	1892378	2274243	2798783
Change (%)	20	34	20	23
of which CASA Deposits	660295	760187	954297	1188448
Change (%)	30	15	26	25
Borrowings	100137	262679	305000	361941
Other Liabilities & Prov.	132893	82089	128404	132291
Total Liabilities	1806479	2427137	2938221	3579025
Advances	1043431	1424078	1766275	2190811
Change (%)	28	36	24	24
Investments	559748	478423	567434	663752
Cash with RBI & Other Banks	152064	138862	172188	215235
Fixed Assets	12224	22732	28325	34365
Other Assets	39011	46321	70761	79776
Total Assets	1806479	2427138	2938221	3579026

Asset Quality				
	(%)			
GNPA (Rs M)	13180	15994	16242	19240
NNPA (Rs M)	4190	4104	4873	5772
GNPA Ratio	1.3	1.0	0.9	0.9
NNPA Ratio	0.3	0.3	0.3	0.3
Provision Coverage Ratio (%)	68.2	80.9	70.0	70.0

E:IFIN Estimates

Source: Company IFIN Research

Exhibit 10: Ratios and Valuation**Ratios**

Y/E MARCH	FY10	FY11	FY12E	FY13E
Spreads Analysis (%)				
Yield on Earning Assets	7.3	7.4	7.6	8.2
Cost of Funds	4.6	4.6	4.7	5.2
Interest Spread	2.8	2.8	2.9	2.9
Net Interest Margin	3.8	3.7	3.3	3.4

ROE Tree (%)

NII	3.0	3.1	3.2	3.3
Non-interest income	2.4	2.2	2.2	2.2
Operating Costs	2.9	2.9	2.8	2.8
ROA	1.5	1.6	1.7	1.9
ROE	19.2	19.3	22.0	23.7

Efficiency Ratios (%)

Cost/Income	41.4	42.7	40.9	40.4
Cost/Assets	2.1	2.0	2.0	2.0
Business Per Employee (Rs m)	112.6	136.8	149.6	172.1
Net Profit Per Employee (Rs m)	1.1	1.3	1.6	2.1

Asset-Liability Profile (%)

Loans/Deposit Ratio	74	75	78	78
CASA Ratio	47	40	42	42
Investment/Deposit Ratio	40	38	37	34
CAR	16	14	13	15
Tier 1	11	10	9	11

Valuation

Book Value (Rs)	396	463	562	697
Change (%)	39	17	21	24
PBV (x)	3.7	3.1	2.6	2.6
Adjusted BV (Rs)	389	456	554	687
PABV (x)	3.7	3.2	2.6	2.1
EPS (Rs)	62	83	113	149
Change (%)	23	33	37	32
PER (x)	23.3	17.6	12.8	9.7
Dividend Per Share (Rs)	10	12	12	12
Dividend Yield (%)	16	15	11	8

E: IFIN Estimates

Source: Company IFIN Research

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Key ratings:

Rating	LARGE CAP	MID CAP
	Market Cap >= Rs 100 bn	Market Cap < Rs 100 bn
BUY (B)	> 15%	> 25%
Hold (H)	5-15%	10-25%
SELL (S)	< 5%	< 8%
Not Rated (NR)	Not initiated coverage on the stock	

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