

Axis Bank

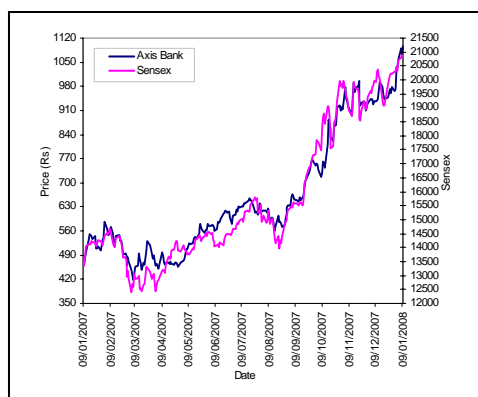
CMP: Rs1,095
Buy
**Target Price: Rs1,268
(12 Months)**
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Sector	Banking
Market Cap (Rs cr)	39,153
Beta	1.1
52 WK High / Low	1125/399
Avg Daily Volume	252502
Face Value (Rs)	10
BSE Sensex	20,870
Nifty	6,272
BSE Code	532215
NSE Code	AXISBANK
Reuters Code	UTBK.BO
Bloomberg Code	AXSB IN

Shareholding Pattern (%)

Promoters	43.0
MF/Banks/Indian FIs	8.3
FII/ NRIs/ OCBs	39.1
Indian Public	9.6

Share Price Vs Sensex



3QFY2008 Result Update

Performance Highlights

- Strong business growth:** Slowdown in industry growth rate notwithstanding, Axis Bank clocked an impressive 50% yoy growth in Advances to Rs48,630cr. The Bank's Deposits grew 35% yoy to Rs68,550cr. Pertinently, the Bank's Savings Accounts grew 51% yoy while Current Accounts witnessed a growth of 81% yoy. The Bank improved its Credit-Deposit ratio to 71% (63%) in the quarter under review while the CaSa ratio moved up to 45% from 37% in 3QFY2007.
- Margin expansion:** The Bank's Net Interest Margin (NIM) increased from 2.7% in 3QFY2007 and 2.8% in 2QFY2008 to 3% in 3QFY2008 on a TTM basis.
- Robust Fee Income growth:** The Bank's Fee Income grew a whopping 81% yoy to Rs348cr. Retail Fees surged 101% yoy and comprised 48% of Total Fee income of the Bank. Fee Income from the Corporate and SME segments, Forex, Derivatives and Syndication continued to show good traction.
- Net Profit spikes 66%:** On the back of strong growth in all core Earning streams, the Bank delivered a robust Net Profit yoy growth of 66% to Rs307cr (Rs185cr).

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
NII	1,567.1	2,581.5	3,731.3	4,885.0
% chg	45.3	64.7	44.5	30.9
Net profit	659.0	1,029.9	1,429.2	1,914.0
% chg	35.9	56.3	38.8	33.9
NIM (%)	2.7	3.1	3.4	3.4
EPS (Rs)	23.4	30.5	40.1	53.7
P/E (x)	46.8	35.9	27.3	20.4
P/BV (x)	9.1	4.5	4.0	3.4
P/ABV (x)	9.5	4.6	4.0	3.5
RoAA (%)	1.1	1.2	1.2	1.3
RoANW (%)	21.0	17.0	15.4	18.1

Source: Company, Angel Research

Expanding a low-cost Deposit franchise and low-risk Lending franchise

- Slowdown in industry growth rate notwithstanding, the Bank's Advances grew 50% yoy to Rs48,630cr. We believe the Bank's credit mix comprising 75% Commercial and Agricultural Advances and 25% Retail Advances places it in a favourable position in the current scenario. In 3QFY2008, Corporate, SME and Agricultural Advances grew 57% yoy and Retail Advances grew 31% yoy.
- The Bank's Deposits grew 35% yoy to Rs68,550cr. Savings Accounts grew 51% yoy while Current Accounts grew a substantial 81% yoy. The Bank maintained a restrained growth rate in Term Deposits preferring to improve its Credit-Deposit ratio to 71% (63%) and CaSa ratio to 45% (37%). Moreover, Bulk Deposits, as a component of Total Deposits, declined by 4-5%.

Margin Expansion

- Due to the above-mentioned changes in the Balance Sheet mix and substantial capital raising completed in 1HFY2007, the Bank's Net Interest Margin (NIM) increased from 2.7% in 3QFY2007 and 2.8% in 2QFY2008 to 3% in 3QFY2008 on a TTM basis.

Continued traction in CMS, forex & syndication; credit cards and wealth management products also picking up significantly

- We believe the Bank's strong corporate relationships and superior technology give it an advantage in Cash Management Services – evidenced by the 141% yoy increase in throughput handled. The Bank's well-established placements and syndication business also witnessed strong growth. The Bank was ranked second in the Bloomberg league tables for Domestic Bond Syndication in CY2007.
- Similarly, an expanding Branch network (608 branches – 47 added in the last nine months) and ATM network (now the third largest with 2,595 ATMs), strong base of 64,000 EDC machines and 80 lakh international debit cards (as against 56 lakh in 3QFY2007) are creating significant traction in the Bank's Retail liabilities business. The Bank added 14.5 lakh Savings Accounts in the last 12 months.
- The management had indicated a few quarters back that the Bank would focus on building its credit cards and wealth management businesses in FY2008. Contribution from these operations is evident from the 93% yoy increase in the Retail Fee income in 3QFY2008.
- Such overall business expansion led to a substantial 91% yoy growth in the Bank's NII and 74% yoy growth in Non-Interest Income.

Operating and Provisioning Expenses

- Continued investments in business expansion combined with high rental and wage inflation, contributed to a 67% increase in operating expenses. However, the Bank's cost-to-income ratio declined to 46% in 3QFY2008 from 52% in 2QFY2008, due to the break-out growth in Operating Income. The Bank made aggressive provisions (a huge 288% yoy and 75% qoq increase in provisioning expenses) and further reduced Net NPAs to 0.4% in 3QFY2008 from 0.6% in 2QFY2008.

Capital Adequacy

- The Bank's capital adequacy ratio (CAR) stood at 16.9%, of which 12.6% was Tier 1 capital, placing it in a strong position to capitalise on credit demand from corporate, infrastructure and SME segments.

Outlook and Valuation

In light of the strong growth trajectory of the Bank since the past two quarters, we have revised our Earnings estimates for FY2008-09E upwards. We are also rolling out our FY2010 estimates. At the CMP of Rs1,095, the stock is trading at 20.4x FY2010E EPS of Rs53.7 and 3.5x FY2010E Adjusted Book Value of Rs312. We are positive on the Bank on account of its attractive Deposit and Lending franchise, strong growth outlook and A-list management. **Hence, we are upgrading the stock to a Buy, with a 12-month Target Price of Rs1,268, implying an upside of 16%.**

Exhibit 2: 3QFY2008 Performance

Y/E March (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Interest earned	1,802.3	1,164.8	54.7	5,015.6	3,168.8	58.3
Interest expenses	1,055.0	773.8	36.3	3,232.9	2,090.8	54.6
Net interest income	747.3	391.0	91.1	1,782.7	1,078.1	65.4
Non-interest income	487.9	279.7	74.4	1,213.1	709.0	71.1
Total income	1,235.2	670.8	84.1	2,995.8	1,787.1	67.6
Operating expenses	563.0	337.0	67.1	1,492.9	871.6	71.3
Pre-prov profit	672.3	333.8	101.4	1,503.0	915.5	64.2
Provisions & cont.	200.1	51.5	288.6	415.4	235.1	76.7
PBT	472.2	282.4	67.2	1,087.6	680.5	59.8
Prov. for taxes	165.4	97.7	69.2	378.0	233.3	62.0
PAT	306.8	184.6	66.2	709.6	447.1	58.7
EPS (Rs)	8.6	6.6	31.1	19.9	15.9	25.2
Cost to income (%)	45.6	50.2		49.8	48.8	
Effective tax rate (%)	35.0	34.6		34.8	34.3	
Net NPA	0.4	0.7				

Source: Company, Angel Research



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