

Company Flash

12 March 2008 | 7 pages

AXIS Bank (AXBK.BO)

Citi India Conference 2008: Day 2 Takeaways

- Conference takeaways** — Axis spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Growth momentum, healthy profitability** — Axis's asset growth has been strong over the past few years; management expects the momentum to continue across SME and agriculture segments in addition to consolidating its growth in corporate assets. It is likely to maintain its high net interest margins at 3.5-4.0% levels, with ROEs of 21% over a 3-year normalized capital raising cycle.
- Asset quality healthy: no immediate pressures** — Management does not see immediate pressures on asset quality, and expects the retail segment to show continued growth. The bank's total effected exposure on the farm loan waiver is Rs3.14bn; management expects to be reimbursed for any write-offs over a period of time.
- To make prudent provisioning for FX derivatives** — Axis has not seen any corporate defaults on the FX derivatives portfolio; however, it is likely to make prudent provisioning to cover any stress in the current quarter. In addition, mark to market exposure to overseas investments is limited to Rs100m (only CLN exposure of Rs5bn-6bn).
- Fee income growth robust** — Fee income growth has been robust, especially in retail banking, which has been growing at a rapid pace. There, however, could be a slowdown in treasury product sales, which have shown strong growth over the past 18-24 months.

Hold/Low Risk	2L
Price (12 Mar 08)	Rs851.90
Target price	Rs1,215.00
Expected share price return	42.6%
Expected dividend yield	0.5%
Expected total return	43.1%
Market Cap	Rs304,674M
	US\$7,549M

Price Performance (RIC: AXBK.BO, BB: AXSB IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	4,848	17.20	32.1	49.5	8.3	18.4	0.4
2007A	6,588	23.05	34.0	37.0	7.1	21.0	0.4
2008E	10,881	33.60	45.8	25.4	3.4	17.7	0.5
2009E	15,845	43.96	30.9	19.4	2.9	16.5	0.5
2010E	21,200	58.82	33.8	14.5	2.5	18.8	0.5

Source: Powered by dataCentral

Aditya Narain, CFA¹

 +91-22-6631-9879
 aditya.narain@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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AXIS Bank

Company description

Axis Bank is India's third-largest private-sector bank after the significantly larger ICICI Bank and HDFC Bank. It is more than twice the size of the next largest private-sector bank. The top three private-sector banks collectively account for almost 9.6% market share, while private-sector banks as a group are about 18.6% of the system. Axis Bank is a small player in the broader banking sector; its market share is less than 2% in terms of loans and deposits. Axis Bank was started by the erstwhile Unit Trust of India (UTI) in 1994, along with LIC and GIC, two government-owned insurance companies. UTI's stake is now held by UTI-I, a government-owned entity, with a 28% holding. LIC and GIC together own 16.3%, and collectively, these government-owned shareholders own approximately 44% of the bank.

Investment strategy

Axis Bank is one of the few clean (in terms of asset book), rapidly growing, profitable, and competitive private-sector banks in India; thus we think it will be a major beneficiary of the favorable banking environment. The Indian banking sector is in a sweet spot: consumer and corporate lending is strong, asset quality is improving and fee-income opportunities are growing. We expect this favorable environment to continue in the medium term but recognize that a key challenge for banks will be funding growth. Looking at its profile, we believe Axis Bank stands to gain disproportionately from existing opportunities in the sector. The bank has strong technology and products, an expanding distribution franchise, adequate scale, a strong service culture, and management enterprise – features that should help it stay ahead of the dominant government banks to win market share.

Valuation

We set our Rs1215 (previously Rs675) target price using an EVA-based methodology. Our price target, based on the EVA, is being meaningfully enhanced from previous levels, because a) 12-23% earnings increase (accounts for over 40% of the target price change), b) Increase in long-term spread expectations – up 20bps, c) Higher long-term fee growth estimates: +5% and d) Lower Loan Loss expectations; -50bps. We continue to use an 8% risk free rate estimate –even though the current interest rate levels provide some potential cushion, if rates were to fall.

Our secondary valuation methodology is based on P/BV. We expect private-sector banks to trade at a premium to the sector on a P/BV basis. We value Axis Bank at 4X 09E PBV, equivalent to Rs 1163; this is a significant increase, and is now benchmarked at the highest level of valuation that we attribute to any Indian Bank. This is higher than our previous peak PBV multiple for Axis – 3.4X 1 Yr Fwd, that we were attributing when its return levels were 20%+, against our current expectations of 17-18% ROE over FY09. This higher benchmark is on account of a combination of elements – a) The structurally superior earnings, and quality expectations for Axis – margins, asset quality,

deposit mix and stability, b) Significant growth momentum on an already high base – Axis is by far the fastest growing bank, among the larger private ones in India and c) Higher multiple levels in the broader Indian Market – which should apply more so to a liability capturing business- with regulatory barriers to entry.

Risks

We rate Axis Bank shares as Low Risk based on our quantitative risk-rating system, which tracks historical share price volatility. Key upside risks to our target price include: (1) stronger-than-expected margins, (2) higher-than-expected fee income levels, and (3) any corporate activity including mergers and acquisitions. Key downside risks that could impede the stock from reaching our target price include: (1) mid-market credit focus; (2) a large share of wholesale funding; (3) aggressive trading orientation; and (4) the role of key shareholders.

Appendix A-1

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AXIS Bank (AXBK.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Aditya Narain, CFA (covered since May 27 2005)



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