

April 21, 2010

Axis Bank (UTIBAN)

Rs 1186

Rating matrix

Rating	: Buy
Target	: Rs 1302
Target Period	: 12-15 months
Potential Upside	: 10%

Trailing 4 quarters growth (%) (YoY)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
NII	25.2	25.9	45.1	41.4
PPP	62.7	49.3	51.1	21.5
PAT	70.2	32.0	31.0	31.6

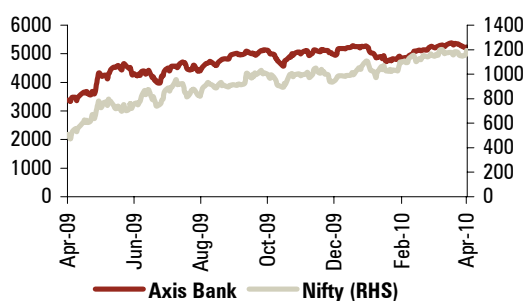
Valuation summary

Year to March	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	1815	2515	3130	4133
EPS (Rs)	50.6	62.1	76.5	101.1
Growth (%)	68.9	22.7	23.3	32.1
P/E (x)	23.2	18.9	15.4	11.6
Price / Book (x)	4.1	3.0	2.4	2.1
Price / Adj Book (x)	4.3	3.1	2.5	2.1
GNPA (%)	1.0	1.1	1.5	1.5
NNPA (%)	0.4	0.4	0.5	0.4
RoNA (%)	1.4	1.7	1.6	1.7
RoE (%)	19.1	19.2	17.5	19.2

Stock data

Market Capitalisation	Rs 42989 crore
GNPA (FY10)	Rs 1318 crore
NNPA (FY10)	Rs 419 crore
NIM (Q4FY10)	4.1 %
52 week H/L	1220 / 463
Equity capital	Rs 405 Crore
Face value	Rs. 10
DII Holding (%)	33.1
FII Holding (%)	7.1

Price movement (Stock vs. Nifty)



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WHAT'S CHANGED...

PRICE TARGET Changed from 1188 to 1302
EPS (FY11E) Changed from Rs 62.8 to Rs 76.5
EPS (FY12E) Rs 101.5
RATING Unchanged

Low cost of funds propels bottomline...

Axis Bank declared its Q4FY10 earnings, which were above our expectations. The PAT grew 32% YoY to Rs 765 crore (we estimated Rs 716 crore). A drop in the cost of funds, primarily driven by repricing of bulk deposits, growth in demand deposits and QIP proceeds, helped the bank to inch up its NIM to 4.1% (3.4% in Q4FY09).

Strong business growth leads to NIM improvement YoY, QoQ

The bank witnessed 23% YoY and 24% YoY growth in advances and deposits to Rs 1,04,343 crore and Rs 1,41,300 crore, respectively. This resulted in 23% YoY growth in total business of the bank. The key highlight for Q4FY10 was sequential 39 bps improvement in cost of funds, which helped the NIM to be at 4.1% levels. On the other hand, CASA was stable at 46%. We expect NIM to stabilise around 3.5% by FY12E.

Non-interest income

The non-interest income of the bank grew moderately by 10% YoY in Q4FY10 to Rs 934 crore. This was lower than our estimate of Rs 1,010 crore. Going forward, we expect 37% CAGR in non-interest income over FY09-12E to Rs 5,403 crore.

Asset quality showing early signs of stress

GNPA inched up QoQ by Rs 144 crore whereas NNPA improved by Rs 11 crore to Rs 419 crore. The GNPA slipped from 0.9% in FY09 to 1.1% in FY10, while NNPA stayed stable at 0.36%. The silver lining for asset quality remains the fact that provision coverage has improved sequentially from 69% in Q3FY10 to over 72% in Q4FY10. We have built in higher provisioning for the bank till FY12E to absorb any shock on asset quality.

Valuation

We expect the bank to generate a business CAGR of 22% over FY09-FY12E with NIM hovering around 3.5% levels. We expect the bank to deliver healthy return ratios with improvement in credit offtake. We expect RoA of 1.7% and RoE of 19% for FY12E. We are rolling over our target price on FY12E estimated ABV of Rs 544 and valuing the bank at Rs 1302 (2.4x ABV).

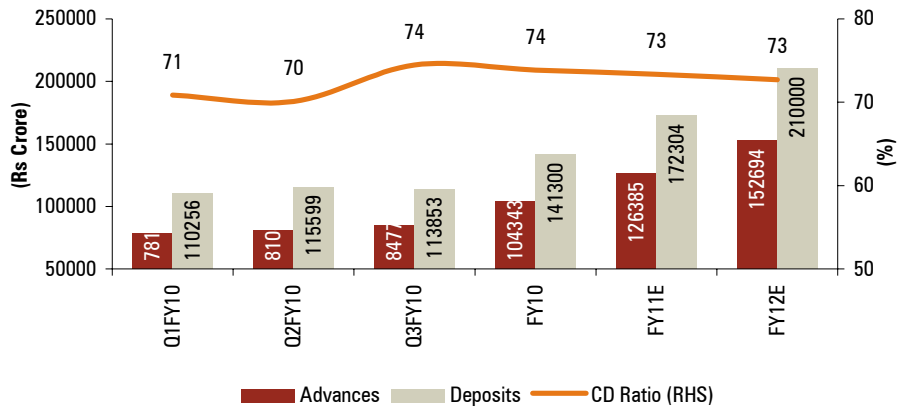
Exhibit 1: Financial Performance

	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
NII	1460.1	1507.9	1032.6	1349.1	41.4	8.2
Other Income	933.5	1009.8	845.5	988.1	10.4	-5.5
PPP	1383.8	1572.4	1138.5	1374.6	21.5	0.7
PAT	764.9	715.8	581.5	656.0	31.5	16.6

Source: Company, ICICIdirect.com Research

The growth in advances mainly came in from the retail and corporate segment, which has shown sequential improvement. Going forward, we believe the thrust to advances will come from corporate and the SME segment

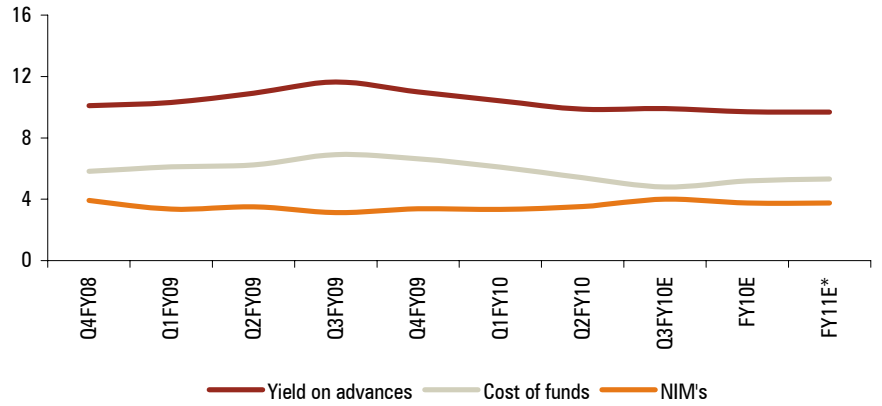
Exhibit 2: C/D ratio likely to stabilise around 73%



Source: Company, ICICIdirect.com Research

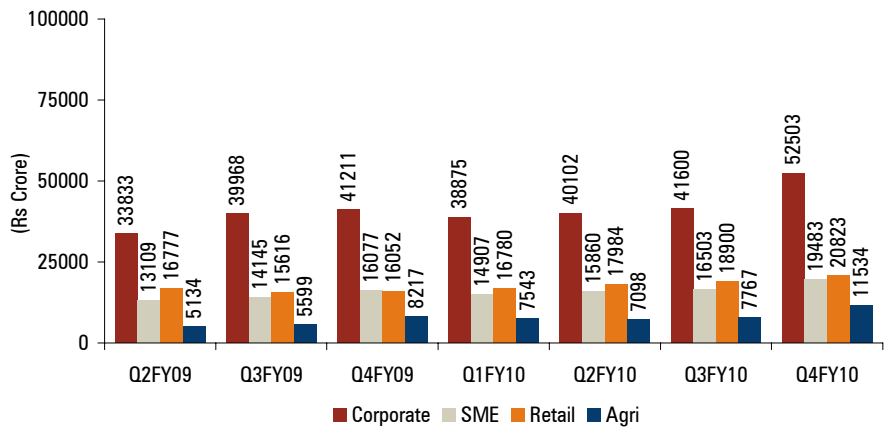
The NIM of the bank improved to 41% for Q4FY10 because of repricing of bulk deposits, which helped the bank to control the cost of funds to 4.5% against 4.8% for Q3FY10 and 6.6% in Q4FY09. We expect the cost of funds to inch higher to around 5.3% by FY12E

Exhibit 3: Expansion in NIMs on decline in cost of funds and CASA accretion



Source: Company, ICICIdirect.com Research, * Calculated NIM

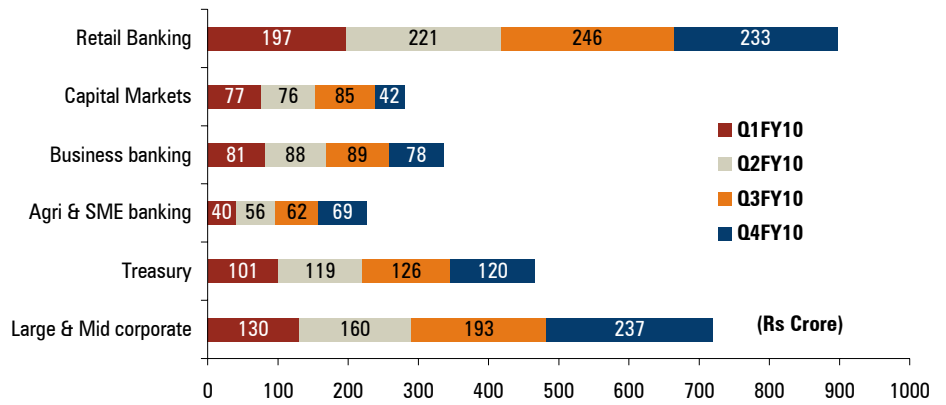
Exhibit 4: Corporate and retail loan picking up



Source: Company, ICICIdirect.com Research

Going forward, we expect non-interest income to moderate to 25%, in line with balance sheet growth

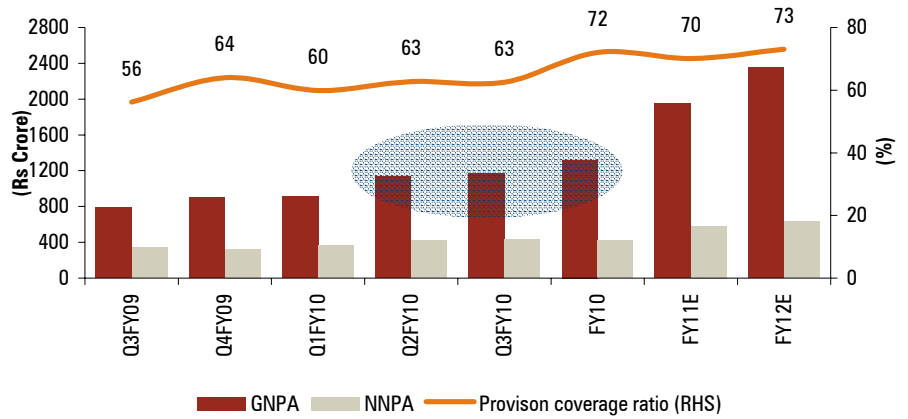
Exhibit 5: Fee income exhibits higher growth in Q4FY10



Source: Company, ICICIdirect.com Research

The bank improved its coverage ratio for the year to over RBI's stipulated 70%. We expect higher provisioning in FY12E to 73%

Exhibit 6: Asset quality: Showing early signs of strain



Source: Company, ICICIdirect.com Research

Financial scorecard

Exhibit 7: Profit and loss account

Rs Crore	FY09	FY10	FY11E	FY12E
Interest Earned	10835	11638	15297	18536
Interest Expended	7149	6634	9223	11409
Net Interest Income	3686	5004	6073	7128
growth (%)	43	36	21	17
Non Interest Income	2897	3946	4448	5403
Fees and advisory	2173	2651	3712	4640
Treasury Income and sale of Invt.	288	231	185	148
Other income	435	1064	551	615
Net Income	6583	8950	10521	12530
Employee cost	998	1364	1765	2033
Other operating Exp.	1861	2346	2557	2851
Operating Income	3725	5241	6199	7647
Provisions	940	1389	1457	1384
PBT	2785	3851	4742	6263
Taxes	970	1337	1612	2129
Net Profit	1815	2515	3130	4133
growth (%)	70	39	24	32

Source: Company, ICICIdirect.com Research

Exhibit 8: Balance sheet

Rs Crore	FY09	FY10	FY11E	FY12E
Sources of Funds				
Capital	359	405	409	409
Reserves and Surplus	9855	15639	19327	22888
Networth	10214	16044	19736	23297
Deposits	117374	141300	172304	210000
Borrowings	10185	17170	14694	17690
Other Liabilities & Provisions	4614	6133	8022	9579
Total	147722	180648	221441	267901
Application of Funds				
Fixed Assets	1073	1222	1153	1169
Investments	46330	55975	68921	82177
Advances	81557	104343	126385	152694
Other Assets	3745	3901	2465	3677
Cash with RBI & call money	15017	15206	22519	28185
Total	147722	180648	221441	267901

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
Bank of India										
Idirect Code	BANIND	CMP	366	FY10	1894.1	36.0	10.2	1.7	0.8	13.4
		Target	383	FY11E	2566.8	48.8	7.5	1.5	0.9	16.6
Mcap (Rs Cr)	19248	Upside (%)	4.6	FY12E	3216.3	61.2	6.0	1.4	0.9	19.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	639	FY10	2939.3	80.4	7.9	1.7	1.2	20.7
		Target	744	FY11E	3566.3	97.6	6.5	1.4	1.3	20.7
Mcap (Rs Cr)	23339	Upside (%)	16.5	FY12E	4536.3	124.1	5.1	1.1	1.3	21.5
Dena Bank										
Idirect Code	DENBAN	CMP	81	FY10	487.7	17.0	4.8	1.1	0.9	20.7
		Target	91	FY11E	566.8	14.7	5.6	1.0	0.9	18.4
Mcap (Rs Cr)	2335	Upside (%)	11.8	FY12E	682.4	14.0	5.8	0.9	0.9	16.2
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	96	FY10	1292.7	14.2	6.8	1.1	0.6	10.9
		Target	99	FY11E	920.2	16.9	5.7	0.9	0.6	12.3
Mcap (Rs Cr)	5236	Upside (%)	3.0	FY12E	1182.0	21.7	4.4	1.0	0.7	14.9
IDBI Bank										
Idirect Code	IDBI	CMP	122	FY10	1029.2	14.2	8.6	1.2	0.5	13.1
		Target	141	FY11E	1261.6	15.8	7.7	1.1	0.5	14.0
Mcap (Rs Cr)	8836	Upside (%)	15.7	FY12E	1543.9	17.6	6.9	1.1	0.5	14.5
OBC										
Idirect Code	ORIBAN	CMP	322	FY10	1128.0	45.0	7.2	3.3	0.9	14.4
		Target	377	FY11E	1354.4	54.1	6.0	2.9	0.9	15.2
Mcap (Rs Cr)	8067	Upside (%)	17.1	FY12E	1655.6	66.1	4.9	2.6	1.0	16.1
Punjab National Bank										
Idirect Code	PUNBAN	CMP	993	FY10	3719.0	118.0	8.4	4.0	1.4	23.0
		Target	950	FY11E	4514.8	143.2	6.9	3.6	1.4	24.2
Mcap (Rs Cr)	31310	Upside (%)	-4.3	FY12E	5418.1	171.8	5.8	3.2	1.4	25.9
SBI										
Idirect Code	STABAN	CMP	2096	FY 09	91.2	143.7	14.6	2.7	1.1	17.1
		Target	2251	FY10	101.5	159.8	13.1	2.5	1.0	16.5
Mcap (Rs Cr)	133068	Upside (%)	7.4	FY11E	112.2	176.7	11.9	2.2	0.9	16.0
Union Bank of India										
Idirect Code	UNIBAN	CMP	306	FY10	2053.7	40.7	7.5	1.5	1.2	21.4
		Target	310	FY11E	2349.0	46.5	6.6	1.3	1.1	20.6
Mcap (Rs Cr)	15434	Upside (%)	1.5	FY12E	2871.4	56.8	5.4	1.0	1.2	20.8
Axis Bank										
Idirect Code	UTIBAN	CMP	1186	FY10	2514.5	62.1	17.1	2.8	1.7	19.2
		Target	1302	FY11E	3129.7	76.5	13.9	2.3	1.6	17.5
Mcap (Rs Cr)	42989	Upside (%)	9.8	FY12E	4133.3	101.1	10.5	1.9	1.7	19.2
HDFC Bank										
Idirect Code	HDFBAN	CMP	1900	FY10	2948.7	65.3	29.1	4.1	1.5	16.5
		Target	1994	FY11E	3832.4	84.9	22.4	3.8	1.6	17.3
Mcap (Rs Cr)	86982	Upside (%)	4.9	FY12E	4854.3	107.5	17.7	3.4	1.8	19.8
Kotak Bank										
Idirect Code	KOTMAH	CMP	782	FY 09	293.9	8.5	91.7	7.5	1.2	11.4
		Target	734	FY10	275.8	8.0	98.0	6.8	1.0	7.5
Mcap (Rs Cr)	27190	Upside (%)	-6.1	FY11E	489.5	14.2	55.2	6.6	1.6	12.1
South Indian bank										
Idirect Code	SOUINO	CMP	168	FY10	265.6	23.5	7.2	1.4	1.1	19.2
		Target	201	FY11E	359.8	31.8	5.3	1.2	1.3	22.0
Mcap (Rs Cr)	1899	Upside (%)	19.6	FY12E	458.0	40.5	4.1	1.0	1.3	23.2
Yes Bank										
Idirect Code	YESBAN	CMP	251	FY10	461.9	14.0	18.0	2.8	1.7	19.8
		Target	293	FY11E	630.5	19.0	13.2	2.3	1.8	18.8
Mcap (Rs Cr)	7537	Upside (%)	16.7	FY12E	819.0	24.7	10.1	1.9	1.7	20.1

Continued...

NBFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	170	FY 09	848.0	6.5	25.9	3.5	2.8	14.3
		Target	180	FY10	1058.7	8.2	20.8	3.1	3.2	15.9
Mcap (Rs Cr)	21984	Upside (%)	6.0	FY11E	1191.5	9.2	18.5	2.8	3.1	15.9
LICHF										
Idirect Code	LICHF	CMP	882	FY 09	532.4	62.6	14.1	3.2	2.0	25.3
		Target	805	FY10	572.7	59.7	14.8	2.7	1.7	20.7
Mcap (Rs Cr)	8370	Upside (%)	-8.7	FY11E	741.5	77.2	11.4	2.3	1.8	21.3
Rel Cap										
Idirect Code	RELCAP	CMP	736	FY 09	1014.1	41.2	17.9	2.4	5.9	14.4
		Target	800	FY10	555.6	22.6	32.6	2.4	2.9	7.2
Mcap (Rs Cr)	18076	Upside (%)	8.7	FY11E	907.7	36.9	20.0	2.1	4.3	11.0
Brokerage firms										
Edelweiss Capital										
Idirect Code	EDECAP	CMP	429	FY10	255.3	32.0	13.4	1.4	6.7	11.5
		Target	494	FY11E	323.7	40.6	10.6	1.2	6.4	13.2
Mcap (Rs Cr)	3221	Upside (%)	15.1	FY12E	351.5	44.1	9.7	1.1	5.6	12.9
India Infoline										
Idirect Code	INDINF	CMP	112	FY10	236.4	8.3	13.5	1.9	12.7	15.6
		Target	121	FY11E	244.2	8.6	13.1	1.7	11.7	14.5
Mcap (Rs Cr)	3205	Upside (%)	7.6	FY12E	245.7	8.7	13.0	1.5	10.5	13.2
MOSL										
Idirect Code	MOTOSW	CMP	161	FY 09	93.4	6.6	24.5	2.9	5.8	11.8
		Target	184	FY10	140.6	9.9	16.3	2.6	7.8	15.9
Mcap (Rs Cr)	2302	Upside (%)	14.3	FY11E	184.5	13.0	12.4	2.2	8.6	17.5

RATING RATIONALE

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 Add: Up to 10%;
 Reduce: Up to -10%
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