

<b>CMP</b>	Rs. 1,449	<b>Absolute</b>	Sell
<b>Target</b>	Rs. 1,219	<b>Relative</b>	Underperform

## Unprofitable loan book growth; Balance sheet weakness continues; Maintain Sell

Strong growth in loans, fee income led PAT growth; But balance sheet risks are more evident now

Loan book grew Rs. 189bn qoq while deposits grew Rs. 334bn qoq out of which Rs. 213bn were raised through wholesale funding (deposits >Rs. 50mn and CDs). As the marginal blended yield on assets was lower than marginal cost of funds, NIMs compressed by 47bps qoq steeper than what we envisaged earlier.

We expect further NIM compression as future deposit growth will be at the current higher rates; Also high CASA in 4<sup>th</sup> quarter tends to get converted to term deposits and thus a CASA dip will affect NIMs negatively.

High non-interest income growth came through fee income growth and high recoveries. Fee Income grew 58% yoy majority of which has come from Large & Mid corporate segments due to change in income recognition method. Sustainability of the high non-int. income is doubtful and thus overall profitability could suffer.

Asset quality risks continue as Risk Weighted Assets as a % of total assets have increased from 78% by end of FY10 to 81% of total assets as BBB or lower or unrated assets have grown 45% yoy vis-à-vis loan book growth of 36.5%. Pace of capital consumption has been high due to high balance sheet growth and increased risk.

We retain our SELL/UNDERPERFORM rating. Prefer HDFC Bank and ICICI Bank among larger private banks for better risk-reward.

### Highlights of the quarter's performance

- **Strong Loan growth** : Advances grew 15.3% sequentially mainly led by 61% sequential growth in Agriculture and priority sector segments; SME segment has grown 26% qoq which also contributed substantially to the loan growth; Deposits up 21.5% qoq; CASA is at 41%;
- **NII up 16.5% yoy; PAT up 33% yoy** : Though loans grew 36% yoy lower margins led to 16.5% NII growth lower than advance growth. Fee income grew 58% yoy and 27% qoq. Provisions were lower, contributing to the PAT growth which grew at 33.4% yoy and 14.4% qoq beating market expectations by a wide margin;
- **Asset Quality** : Gross NPAs up 89% qoq and 21% yoy; Annualized slippage was under control at 0.8%; Coverage at 74.3%; Rs. 1.1bn fresh restructuring done in 4QFY11.

### Financial summary

Year	NII (Rs. mn)	PAT (Rs. mn)	ROE (%)	ROA (%)	ABV (Rs.)	P/ABV (x)
FY10	50,045	25,145	19.2	1.5	386	3.8
FY11E	65,650	33,903	19.3	1.6	453	3.2
FY12E	75,929	37,590	18.4	1.4	524	2.8

### 4QFY11 Update

<b>Date</b>	Apr 23, 2011
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### Market Data

SENSEX	19602
Nifty	5885
Bloomberg	AXSB IN
Shares o/s	411mn
Market Cap	Rs. 594bn
52-wk High-Low	Rs. 1,609-1,147
3m Avg. Daily Vol	Rs. 2,248mn
Index member	BSE Bankex

### Latest shareholding (%)

Promoters	37.2
Institutions	42.8
Public	20.0

### Stock performance (%)

	1m	3m	12m
Axis Bank	13	12	17
Sensex	10	3	12
Bankex	11	10	25

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# AXIS Bank

## Quarterly Financial Results

<b>CMP</b>	<b>Rs. 1,449</b>	<b>Absolute</b>	<b>Sell</b>
<b>Target</b>	<b>Rs. 1,219</b>	<b>Relative</b>	<b>Underperform</b>

### Standalone financial results

Rs. mn\Period	31-Mar-11	31-Mar-10	yoy Growth	31-Dec-10	qoq Growth	FY11	FY12E	yoy Growth
Interest Earned	43,667	29,885	46.1%	38,383	13.8%	151,548	206,302	36.1%
Interest Expended	26,657	15,284	74.4%	21,052	26.6%	85,898	130,373	51.8%
<b>Net Interest Income</b>	<b>17,010</b>	<b>14,601</b>	<b>16.5%</b>	<b>17,331</b>	<b>-1.9%</b>	<b>65,650</b>	<b>75,929</b>	<b>15.7%</b>
Other Income	14,504	9,335	55.4%	11,477	26.4%	46,323	56,118	21.1%
Fee Income	12,310	7,790	58.0%	9,680	27.2%	38,028	49,946	31.3%
Trading Gains	581	1,027	-43.4%	1,347	-56.9%	4,972	3,771	-24.2%
<b>Total Income</b>	<b>31,514</b>	<b>23,936</b>	<b>31.7%</b>	<b>28,808</b>	<b>9.4%</b>	<b>111,973</b>	<b>132,046</b>	<b>17.9%</b>
Operating Expenses	13,306	10,098	31.8%	12,224	8.9%	47,794	58,763	23.0%
<b>Pre-Provision Profit</b>	<b>18,208</b>	<b>13,838</b>	<b>31.6%</b>	<b>16,585</b>	<b>9.8%</b>	<b>64,179</b>	<b>73,283</b>	<b>14.2%</b>
Provisions	2,544	2,019	26.0%	3,139	-19.0%	12,804	16,757	30.9%
PBT	15,664	11,819	32.5%	13,446	16.5%	51,375	56,526	10.0%
<b>PAT</b>	<b>10,201</b>	<b>7,649</b>	<b>33.4%</b>	<b>8,914</b>	<b>14.4%</b>	<b>33,903</b>	<b>37,590</b>	<b>10.9%</b>
EPS (Rs.)	24.8	18.9	31.6%	21.7	14.3%	82.6	91.6	10.9%
NIM%	3.3%	3.8%		3.8%		3.4%	3.1%	
CASA%	41.1%	46.7%		42.3%		41.1%	39.6%	
ROA%	1.8%	1.9%		1.8%		1.6%	1.4%	
Gross NPA %	1.0%	1.3%	21.4%	1.1%	7.9%	1.1%	1.2%	28.6%
Net NPA %	0.3%	0.4%	-2.1%	0.3%	6.4%	0.3%	0.3%	14.8%
Advances	1,424,078	1,043,431	36.5%	1,235,470	15.3%	1,424,078	1,744,270	22.5%
Deposits	1,892,378	1,413,002	33.9%	1,558,106	21.5%	1,892,378	2,339,300	23.6%

# AXIS Bank

## Business Overview

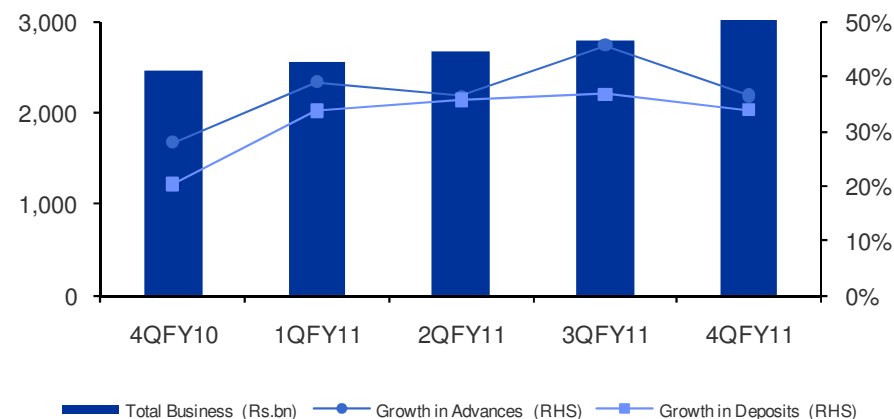
<b>CMP</b>	<b>Rs. 1,449</b>	<b>Absolute</b>	<b>Sell</b>
<b>Target</b>	<b>Rs. 1,219</b>	<b>Relative</b>	<b>Underperform</b>

### Key estimate revision

	FY11	FY12E		
		Old	New	Change
NII	65,650	74,335	75,929	2%
NIM (%)	3.4%	3.4%	3.1%	
PAT	33,903	35,740	37,590	5%
ROA (%)	1.6%	1.5%	1.4%	
ABV	453	513	524	2%

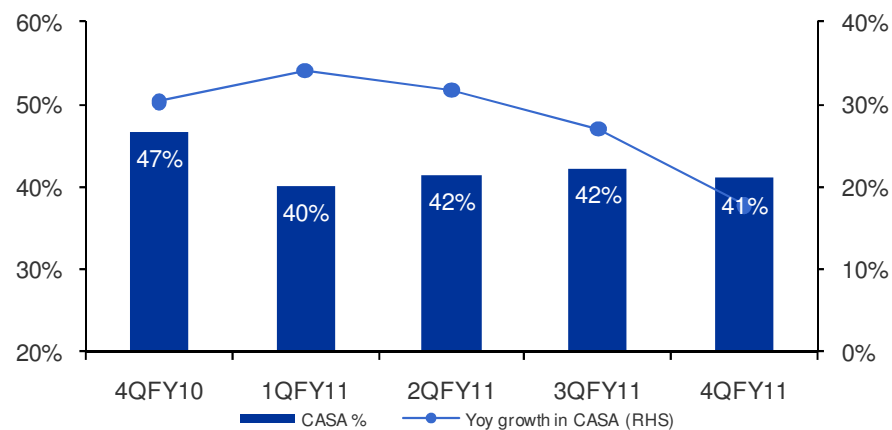
All figures in Rs. mn, except ABV, which is in Rs.

### Business grew 18.7% qoq; Loans up 15.3% and Deposits up 21.5%



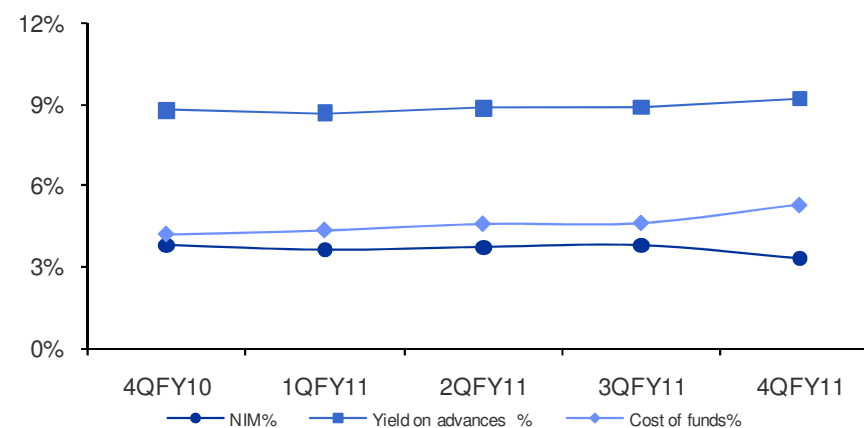
Source: Company, Spark Research

### CASA at 41% of advances; CASA grew 18% qoq



Source: Company, Spark Research

### NIM compression at 47bps qoq



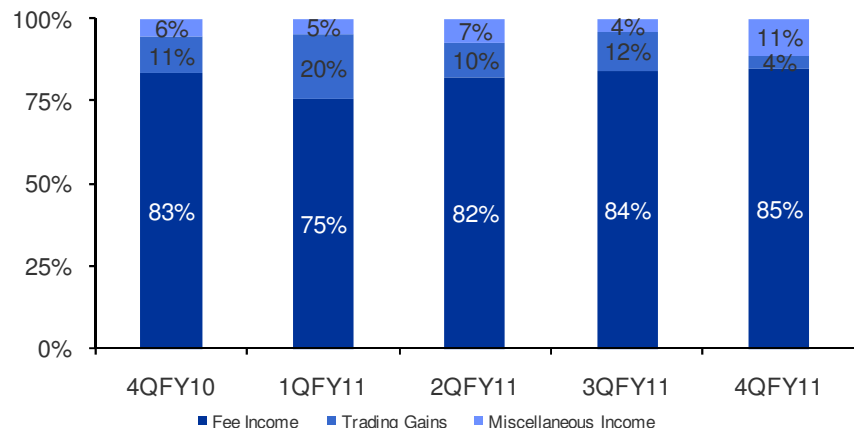
Source: Company, Spark Research

# AXIS Bank

## Business Overview (Contd.)

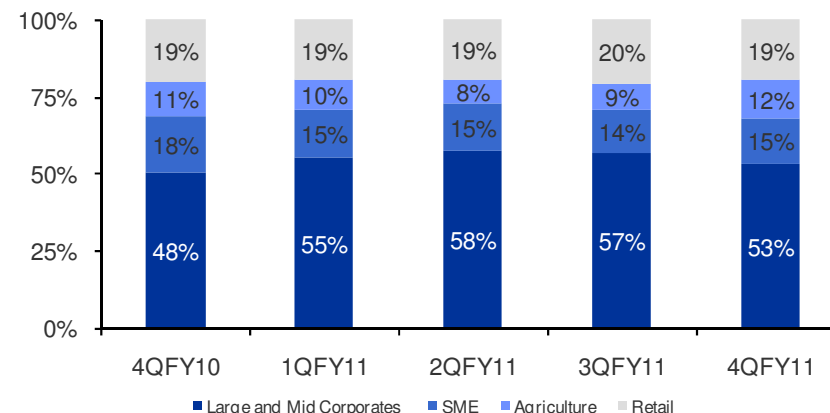
<b>CMP</b>	<b>Rs. 1,449</b>	<b>Absolute</b>	<b>Sell</b>
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### Non-interest income up 26% qoq; Recoveries have risen sharply



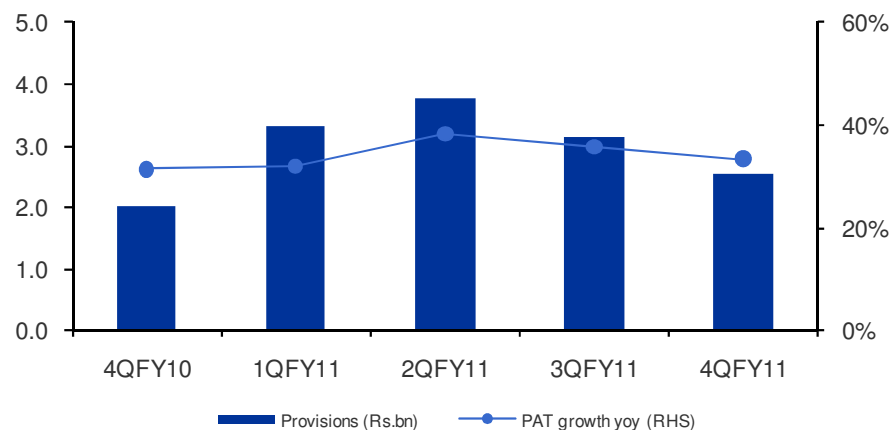
Source: Company, Spark Research

### Majority of the loan book growth came through Agri loans



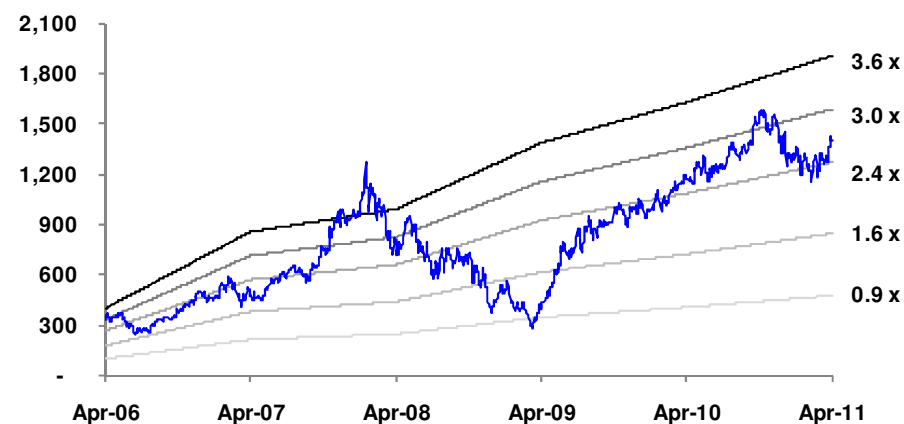
Source: Company, Spark Research

### PAT growth higher due to high non-int income and low provisions



Source: Company, Spark Research

### Axis Bank - P/ABV Band



Source: Bloomberg, Company, Spark Research

# AXIS Bank

## Financial Summary

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<b>Target</b>	<b>Rs. 1,219</b>	<b>Relative</b>	<b>Underperform</b>

Abridged Financial Statements				
Rs.mn	FY09	FY10	FY11	FY12E
<b>Profit &amp; Loss</b>				
<b>Net Interest Income</b>	<b>36,862</b>	<b>50,045</b>	<b>65,650</b>	<b>75,929</b>
Other Income	28,969	39,458	46,323	56,118
Fee Income	21,733	29,250	38,028	49,946
Treasury Income	2,884	7,572	4,972	3,771
<b>Total Income</b>	<b>65,831</b>	<b>89,503</b>	<b>111,973</b>	<b>132,046</b>
Operating Expenses	28,582	37,097	47,794	58,763
<b>Pre-Provision Profit</b>	<b>37,249</b>	<b>52,406</b>	<b>64,179</b>	<b>73,283</b>
Provisions	9,397	13,892	12,804	16,757
PBT	27,852	38,514	51,375	56,526
<b>PAT</b>	<b>18,154</b>	<b>25,145</b>	<b>33,903</b>	<b>37,590</b>
<b>Balance Sheet</b>				
Net worth	102,148	160,445	189,988	219,653
Deposits	1,173,741	1,413,002	1,892,378	2,339,300
CASA	506,437	660,300	777,670	926,300
Borrowings & Current Liabilities	201,330	233,030	344,767	389,590
<b>Total Liabilities &amp; Networth</b>	<b>1,477,219</b>	<b>1,806,477</b>	<b>2,427,134</b>	<b>2,948,543</b>
Cash with RBI & other banks	150,169	152,064	214,087	257,156
Advances	815,565	1,043,431	1,424,078	1,744,270
Investments	463,304	559,748	719,916	865,313
Fixed & Current Assets	48,180	51,235	69,053	81,804
<b>Total Assets</b>	<b>1,477,218</b>	<b>1,806,479</b>	<b>2,427,134</b>	<b>2,948,543</b>
<b>Other Information</b>				
Shares outstanding (mn)	359	405	411	411
Current market price (Rs.)			1,449	
Market capitalisation (Rs. mn)			594,887	
Earnings per share (Rs.)	50.6	62.1	82.6	91.6
Dividend per share (Rs.)	10.0	12.0	14.0	16.5

Key Metrics				
	FY09	FY10	FY11	FY12E
<b>Growth ratios</b>				
ABV per share	16%	40%	17%	16%
Advances	37%	28%	36%	22%
Deposits	34%	20%	34%	24%
NII	43%	36%	31%	16%
PAT	69%	39%	35%	11%
EPS	69%	23%	33%	11%
<b>Asset Quality</b>				
Gross NPA (Rs. mn)	8,978	13,180	15,994	20,571
Gross NPA	1.1%	1.3%	1.1%	1.2%
Net NPA	0.4%	0.4%	0.3%	0.3%
Slippage	1.5%	2.2%	1.4%	1.6%
Coverage	63.6%	68.2%	74.3%	77.1%
Grow th in Gross NPA	81.5%	46.8%	21.4%	28.6%
<b>Asset-Liability Profile</b>				
Leverage (x)	13.2	10.2	11.6	12.3
CD ratio	69.5%	73.8%	75.3%	74.6%
CASA	43.1%	46.7%	41.1%	39.6%
Tier I CAR	9.3%	11.2%	9.4%	8.6%
<b>Profitability and Efficiency</b>				
Net Interest Margin	3.2%	3.4%	3.4%	3.1%
ROA	1.4%	1.5%	1.6%	1.4%
ROE	19.1%	19.2%	19.3%	18.4%
<b>Valuation</b>				
Book Value per share (Rs.)	285	396	463	535
Adj Book Value per share (Rs.)	275	386	453	524
P/ABV (x)	5.3	3.8	3.2	2.8
P/E (x)	28.7	23.3	17.5	15.8

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<b>Target</b>	<b>Rs. 1,219</b>	<b>Relative</b>	<b>Underperform</b>

## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
07-Apr-11	1,425	1,180	Sell	U-PF
10-Jan-11	1,255	1,141	Reduce	U-PF
15-Dec-10	1,298	1,183	Reduce	U-PF
18-Oct-10	1,502	1,251	Reduce	U-PF
08-Oct-10	1,570	1,041	Reduce	U-PF

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