

CMP	Rs. 1,128	Absolute	Add
Target	Rs. 1,165	Relative	Outperform

Sharp rise in Margins; Higher provisions dent PAT

Axis Bank's 2QFY12 PAT declined marginally qoq with higher provisions eating into higher NII supported by better margins. Balance sheet grew during 2QFY12 after declining during 1QFY12. Advances and Deposits were up marginally higher than our estimates

NIMs for the quarter were at 3.66% a strong increase of 48bps qoq. The NIM expansion was mainly supported by foreign currency borrowings which were at lower cost, lower bulk deposits (declined 2.2 percentage points qoq), improved CASA and lower agriculture loans and higher large & mid corporate loans. Though agriculture loan portfolio will increase by the end of the fiscal to meet priority sector loan requirement we expect other parameters to be stable and expect margin improvement to be of sustainable nature. We estimate overall margins for FY12E could be around 3.3% 10bps decline from FY11.

Non-interest income growth was moderate at 5.7% qoq with fee income growing 6% qoq. We expect fee income to grow slower than balance sheet growth due to the slow credit off take.

Asset Quality seems to have come under stress during the quarter. Gross NPAs have increased 11% qoq and 28% yoy. Slippages were also high at 1.5% (annualized) of opening advances. Net NPAs were up 19% sequentially due to higher amount of write-offs during the quarter and thus PCR has dropped below 70%, but we expect it to come back to normal if the provisions continue to be at current quarter's levels. Previous quarter we mentioned about increased RWA to total assets ratio, which has come down during the current quarter indicating better quality assets accumulated during the quarter. ADD/O-PF rating continues

Highlights of the quarter's performance

- Good balance sheet growth:** Advances grew 6.2% sequentially and grew 26.7% yoy; Deposits up 5.9% qoq and 23.9% yoy; CASA is at 42.2%; Agriculture loans declined sharply at 28% qoq on top of a 15% decline previous quarter;
- NII up 16.4% qoq; PAT down 2.3% yoy :** NII growth was strong at 16.4% qoq and 24.3% yoy as NIMs expanded 48bps sequentially. Non-interest income grew 5.7% qoq and grew 19.5% yoy. Provisions were higher, contributing to the PAT decline which was down 2.3% qoq and grew 25.2% yoy;
- Asset Quality :** Gross NPAs up 10.8% qoq and 28% yoy; Annualized slippage were high at 1.5%; Coverage at 68.5%; Net NPAs grew 19% qoq; Rs. 3.1bn fresh restructuring done in 2QFY12.

Financial summary

Year	NII (Rs. mn)	PAT (Rs. mn)	ROE (%)	ROA (%)	ABV (Rs.)	P/ABV (x)
FY11	65,630	33,885	19.3	1.6	453	2.5
FY12E	79,731	38,221	18.5	1.4	523	2.2
FY13E	101,263	45,575	18.9	1.4	611	1.8

2QFY12 Update

Date	Oct 24, 2011
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Market Data

SENSEX	16786
Nifty	11094
Bloomberg	AXSB IN
Shares o/s	412mn
Market Cap	Rs. 463bn
52-wk High-Low	Rs. 1,584-945
3m Avg. Daily Vol	Rs. 2,733mn
Index member	BSE Bankex

Latest shareholding (%)

Promoters	37.2
Institutions	49.7
Public	13.1

Stock performance (%)

	1m	3m	12m
Axis Bank	-3	-9	-25
Sensex	-2	-9	-17
Bankex	-2	-12	-22

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Quarterly Financial Results

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Standalone financial results								
Rs. mn\Period	30-Sep-11	30-Sep-10	yoy Growth	30-Jun-11	qoq Growth	FY11	FY12E	yoy Growth
Interest Earned	52,760	36,243	45.6%	48,814	8.1%	151,548	217,653	43.6%
Interest Expended	32,687	20,092	62.7%	31,573	3.5%	85,918	137,922	60.5%
Net Interest Income	20,073	16,151	24.3%	17,241	16.4%	65,630	79,731	21.5%
Other Income	12,349	10,332	19.5%	11,679	5.7%	46,321	49,852	7.6%
Fee Income	11,207	8,490	32.0%	10,570	6.0%	33,574	45,208	34.7%
Trading Gains	277	1,084	-74.5%	702	-60.6%	9,299	1,770	-81.0%
Total Income	32,422	26,483	22.4%	28,920	12.1%	111,951	129,583	15.7%
Operating Expenses	14,665	11,620	26.2%	13,335	10.0%	47,794	59,114	23.7%
Pre-Provision Profit	17,756	14,864	19.5%	15,585	13.9%	64,157	70,469	9.8%
Provisions	4,056	3,788	7.1%	1,758	130.7%	12,800	13,477	5.3%
PBT	13,701	11,076	23.7%	13,826	-0.9%	51,357	56,992	11.0%
PAT	9,203	7,351	25.2%	9,423	-2.3%	33,885	38,221	12.8%
EPS (Rs.)	22.3	18.0	24.1%	22.9	-2.4%	82.5	92.4	11.9%
NIM%	3.7%	3.7%		3.2%		3.4%	3.3%	
CASA%	42.2%	41.5%		40.5%		41.1%	41.8%	
ROA%	1.5%	1.5%		1.6%		1.6%	1.4%	
Gross NPA %	1.1%	1.1%	28.0%	1.1%	10.8%	1.1%	1.2%	26.0%
Net NPA %	0.3%	0.3%	34.1%	0.3%	18.7%	0.3%	0.3%	42.6%
Advances	1,400,893	1,105,928	26.7%	1,318,997	6.2%	1,424,078	1,695,962	19.1%
Deposits	1,944,550	1,568,871	23.9%	1,835,968	5.9%	1,892,378	2,306,632	21.9%

AXIS Bank

Business Overview

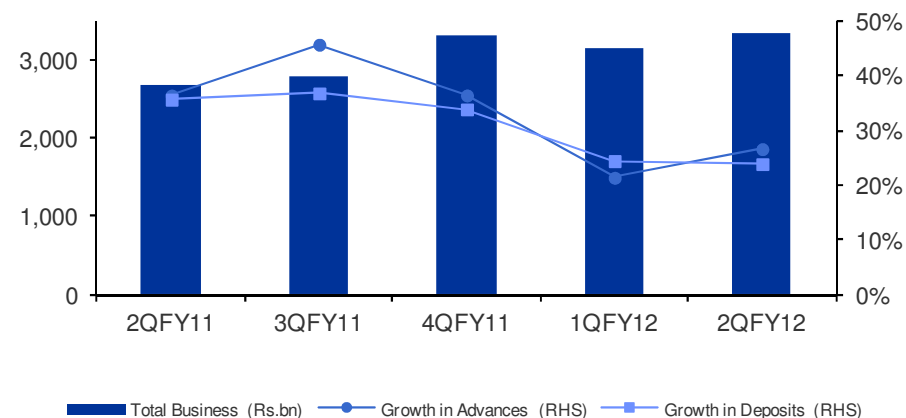
CMP	Rs. 1,128	Absolute	Add
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Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
NII	72,220	79,731	10%	91,890	101,263	10%
NIM (%)	3.0%	3.3%		3.2%	3.5%	
PAT	38,800	38,221	-1%	45,501	45,575	0%
ROA (%)	1.5%	1.4%		1.4%	1.4%	
ABV	525	523	0%	614	611	0%

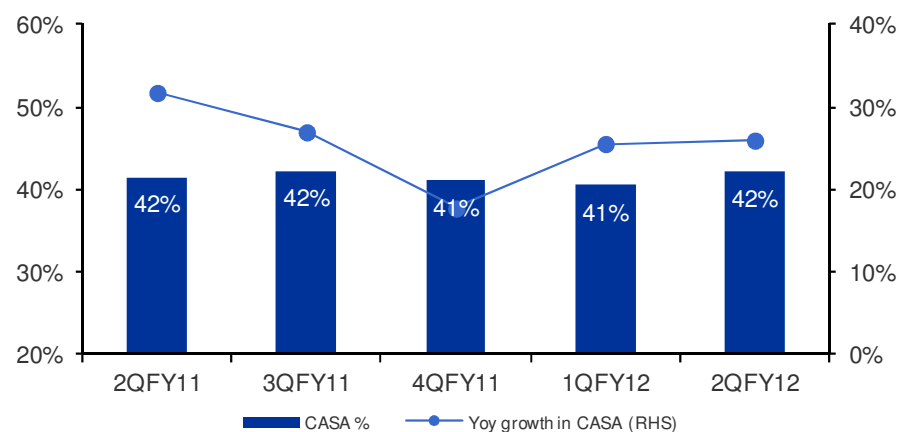
All figures in Rs. mn, except ABV, which is in Rs.

Business down 5% qoq; Loans down 7.4% and Deposits down 3%



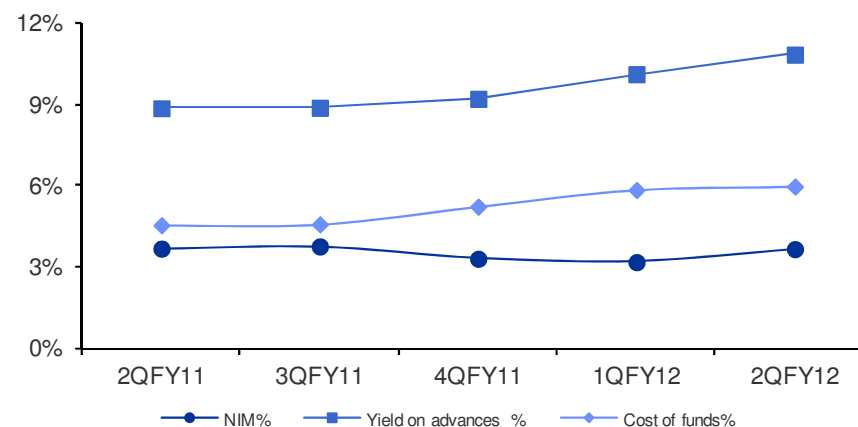
Source: Company, Spark Research

CASA at 40.5% of advances; CASA declined 4.3% qoq



Source: Company, Spark Research

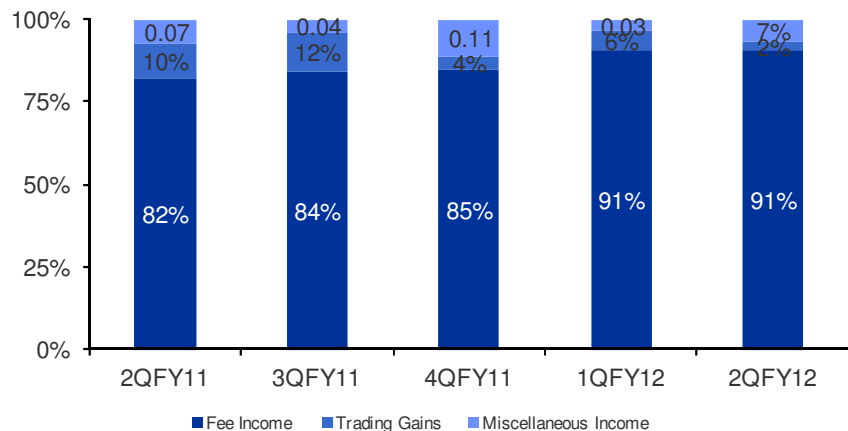
NIM compression at 13bps qoq



Source: Company, Spark Research

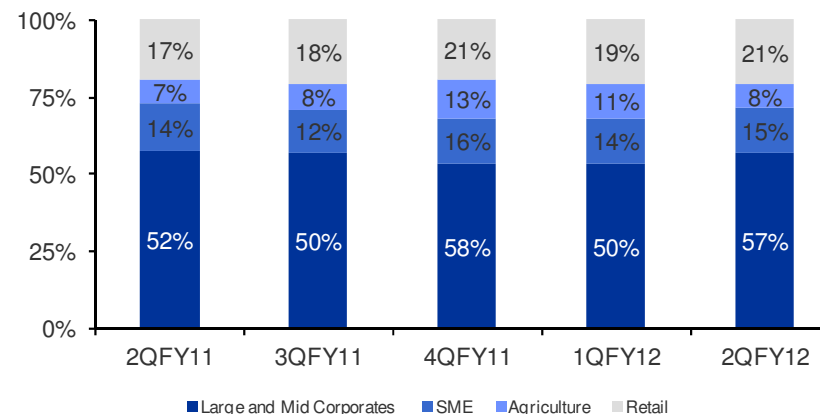
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Non-interest income down 20% qoq; non-core income declined qoq



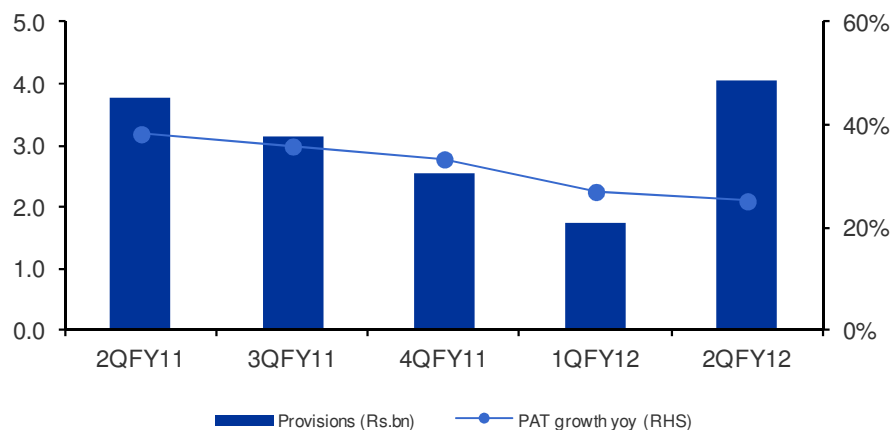
Source: Company, Spark Research

Agri loans declined sharply qoq and retail decline lowest



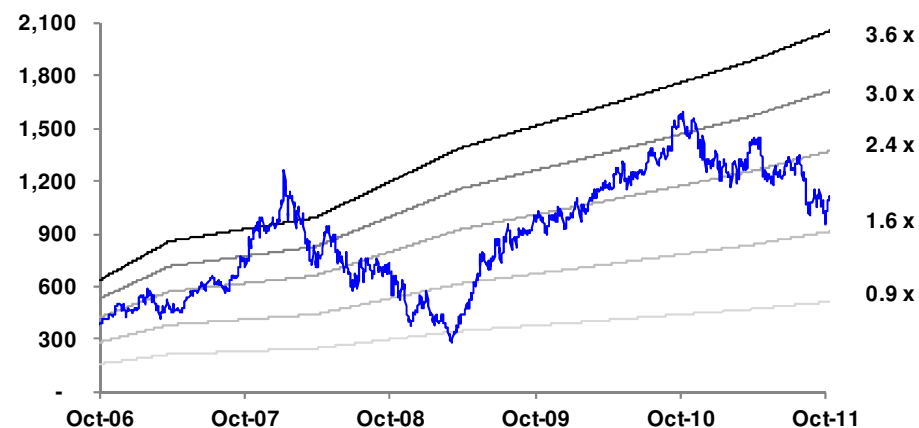
Source: Company, Spark Research

PAT declined 7.6% qoq and grew 25% yoy



Source: Company, Spark Research

Axis Bank - P/ABV Band



Source: Bloomberg, Company, Spark Research

AXIS Bank

Financial Summary

CMP	Rs. 1,128	Absolute	Add
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Abridged Financial Statements				
Rs.mn	FY10	FY11	FY12E	FY13E
Profit & Loss				
Net Interest Income	50,045	65,630	79,731	101,263
Other Income	39,458	46,321	49,852	55,563
Fee Income	25,652	33,574	45,208	50,604
Treasury Income	7,362	3,663	1,770	1,758
Total Income	89,503	111,951	129,583	156,825
Operating Expenses	37,097	47,794	59,114	70,052
Pre-Provision Profit	52,405	64,157	70,469	86,773
Provisions	13,892	12,800	13,477	18,239
PBT	38,514	51,357	56,992	68,534
PAT	25,145	33,885	38,221	45,575
Balance Sheet				
Net worth	160,446	189,988	222,229	260,060
Deposits	1,413,002	1,892,378	2,306,632	2,811,654
CASA	660,295	777,674	964,704	1,203,022
Borrowings & Current Liabilities	233,030	344,767	367,265	422,685
Total Liabilities & Networth	1,806,479	2,427,134	2,896,126	3,494,399
Cash with RBI & other banks	152,039	214,087	240,563	290,670
Advances	1,043,409	1,424,078	1,695,962	2,021,146
Investments	559,748	719,916	870,820	1,077,726
Fixed & Current Assets	51,282	69,053	88,781	104,857
Total Assets	1,806,479	2,427,134	2,896,126	3,494,399
Other Information				
Shares outstanding (mn)	405	411	414	414
Current market price (Rs.)		1,128		
Market capitalisation (Rs. mn)		462,972		
Earnings per share (Rs.)	62.1	82.5	92.4	110.2
Dividend per share (Rs.)	12.0	14.0	15.0	16.0

Key Metrics				
	FY10	FY11	FY12E	FY13E
Growth ratios				
ABV per share	40%	17%	16%	17%
Advances	28%	36%	19%	19%
Deposits	20%	34%	22%	22%
NII	36%	31%	21%	27%
PAT	39%	35%	13%	19%
EPS	23%	33%	12%	19%
Asset Quality				
Gross NPA (Rs. mn)	13,180	15,994	20,151	24,494
Gross NPA	1.3%	1.1%	1.2%	1.2%
Net NPA	0.4%	0.3%	0.3%	0.4%
Slippage	2.2%	1.4%	1.3%	1.7%
Coverage	68.2%	74.3%	71.0%	70.7%
Grow th in Gross NPA	46.8%	21.4%	26.0%	21.6%
Asset-Liability Profile				
Leverage (x)	10.4	11.8	12.1	12.5
CD ratio	73.8%	75.3%	73.5%	71.9%
CASA	46.7%	41.1%	41.8%	42.8%
Tier I CAR	11.2%	9.4%	9.1%	8.7%
Profitability and Efficiency				
Net Interest Margin	3.3%	3.4%	3.3%	3.5%
ROA	1.5%	1.6%	1.4%	1.4%
ROE	19.2%	19.3%	18.5%	18.9%
Valuation				
Book Value per share (Rs.)	396	463	537	629
Adj Book Value per share (Rs.)	386	453	523	611
P/ABV (x)	2.9	2.5	2.2	1.8
P/E (x)	18.2	13.7	12.2	10.2

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Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

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

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
11-Oct-11	1,030	1,165	Add	O-PF
25-Jul-11	1,297	1,214	Reduce	U-PF
23-Apr-11	1,449	1,219	Sell	U-PF
07-Apr-11	1,425	1,180	Sell	U-PF
10-Jan-11	1,255	1,141	Reduce	U-PF

Analyst Certification

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