

Axis Bank

Key takeaways from company visit

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Reported PTP (Rsm)	6438.9	9987.0	16471.2	20218.2	27215.5
Reported net profit (Rsm)	3975.4	6587.4	10718.2	13647.3	18370.5
Reported EPS (Rs)	14.3	23.4	29.9	37.8	50.7
Normalised EPS (Rs)	14.3	23.4	29.9	37.8	50.7
Dividend per share (Rs)	3.50	4.50	6.00	7.50	9.50
Normalised PE (x)	48.9	29.8	23.3	18.4	13.8
Price/book value (x)	6.73	5.79	2.85	2.55	2.22
Dividend yield (%)	0.50	0.65	0.86	1.08	1.36
Return on avg equity (%)	15.0	21.0	17.6	14.6	17.3

Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Quick summary

This note summarises the key takeaways from our recent meeting with the business heads of the agriculture, SME and corporate loans divisions. We maintain our Buy rating for Axis Bank and a target price of Rs1,187.20.

SME, agriculture and commercial finance

- Axis Bank defines small and medium enterprises (SME) as companies with a turnover of less than Rs1.25bn. The bank's SME loan portfolio was about Rs115bn (about 19% of total loans) as of March 2008. Agriculture loans totalled Rs44bn (about 7% of total loans) and commercial finance around Rs12bn (about 2% of total loans).
- The bank has 25 SME centres at present (20 as of March 2008), and believes that its network now covers most of the large SME zones in the country. In the agriculture segment, the bank has seven business cells.
- The SME business has about 5,000 relationships, translating into average loan outstanding per account of about Rs20m. Management believes these customers are not very price sensitive and prefer a quick turnaround. The bank is adding about 250 relationships every month. Management expects cross-selling to be a key revenue driver in the SME segment.
- Agriculture lending remains challenging, especially after the Indian government announced waivers on farm loans during the FY09 budget. The operating cost is high, with low yields and a high risk of default. However, management believes cross-selling opportunities are huge. In agriculture, the bank has three verticals to cover all segments: retail loans of up to Rs20m, contract farming and commodity finance.
- Most loans carry collateral and the loan-to-collateral-value is generally about 75%. Axis Bank's default rate in the SME loan book remains in line with its overall default rate of 0.8% of average loans. The agriculture segment has a higher default rate than the overall average for the bank. Axis Bank is experiencing slower repayments in the retail agriculture loan book. However, management believes once the farm loan waiver formalities are completed, most clients will be back to business as usual.

Priced at close of business 23 June 2008.

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Buy

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Banks

India

Price

Rs697.15

Target price

Rs1187.20

Market capitalisation

Rs250.15bn (US\$5.82bn)

Avg (12mth) daily turnover

Rs506.21m (US\$12.28m)

Reuters

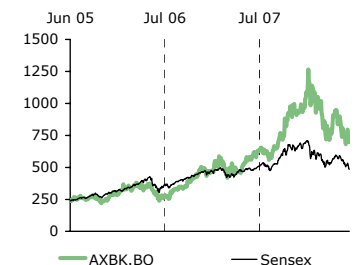
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Bloomberg

AXSB IN

Price performance (1M) (3M) (12M)

Price (Rs)	799.5	747.3	614.9
Absolute %	-12.8	-6.7	13.4
Rel market %	1.6	-2.1	14.8
Rel sector %	-3.0	-5.3	25.3



Stock borrowing: n/a

Volatility (30-day): 65.08%

Volatility (6-month trend): ↑

52-week range: 1291.00-534.00

Sensex: 14293.32

BBG AP Banks: 160.15

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

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Middle and large corporates

- Axis Bank's corporate loan book was about Rs300bn as of March 2008 (about 50% of total loans). Corporate credit includes loans at overseas branches of Rs54bn, comprising in main the portfolio of Indian corporates and their subsidiaries as also trade finance.
- The bank has about 800 relationships, translating into an average outstanding of Rs300m per account. Of the 800 relationships, about 300 are large corporates. Most loans here also carry collateral and the loan-to-collateral-value is generally around 75%.
- Axis Bank is one of the largest players in the debt syndication business. The bank says it generally takes a 10-15% exposure in its syndicated loans.
- In the last few years, the bank has been able to break into the large top-tier corporates in India, due partly to its large capital base.
- On the international book, Axis Bank's existing loan spreads are lower than its overall average. On an incremental basis, business volumes are small due to narrowing spreads. The bank's average borrowing rate in the international market is 250-300bp above Libor.
- In the real-estate segment (exposure of about Rs20bn), the bank has exposure to commercial real estate, dominated by office space. Residential, IT parks and retail commercial are not a significant part of the portfolio.
- Axis Bank maintains specific exposure limit for each industry, which is set internally. Iron and steel, power, roads, petrochemicals, etc, are among the top sectors in terms of funded exposure. Most loans are disbursed on PLR-linked rates.
- Under business banking, the current accounts sourced increased to 138,765 in FY08 from 97,857 last year. The cash management solutions (CMS) throughput grew 96.87% from Rs3,791bn in FY07 to Rs7,463bn in FY08. The number of CMS clients has increased from 2,164 in the previous year to 3,193.
- In FY08, the bank syndicated Rs520bn by way of private placement of bonds, debentures and term loans. The bank also acted as book runner and mandated lead manager for external commercial borrowings (ECBs) aggregating to over US\$3bn during the year.

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