

## AXIS BANK

### Q4FY08 & FY08 Results Update

#### Key Data

<b>CMP</b>	Rs.736.15
<b>Target (1-Year)</b>	Rs.917
<b>Date</b>	June 16 <sup>th</sup> 2008
<b>Sector</b>	Banking
<b>Face Value</b>	Rs.10
<b>BSE Code</b>	532215
<b>52 Week H/L</b>	Rs. 1291/534
<b>Market Cap</b>	Rs. 26333 Cr

#### Investment Rationale

Axis Bank reported net profit of Rs.361.4Crore during Q408 far ahead of expectations. During FY08 bank reported a net profit of Rs.1071Crore as compared to Rs.659 Crore in FY07 a growth of 62.5% (y-o-y). Key triggers for banks strong performance were continued expansion of Net Interest Margin, improved CASA mix and contribution from other income. Net Interest Margin continued to expand from 2.56% in Q1FY08 to 3.93% in Q4FY08. Fee Income increased from Rs. 779 Crore in FY07 to Rs. 1321 Crore in FY08.

#### Key Developments

##### Increase in Net Profits by 71%

Net Profits of the bank increased by 71% to Rs.361 Crore in Q408 as compared to Rs.211.9 Crore in Q4FY07. During FY08 bank net profit increased by 62.5% to Rs.1071Crore as compared to Rs.659 Crore. Net Interest Income during Q408 increased to Rs. 828.4 Crore as compared to Rs.439 Crore in Q407.

##### Fee Income continues to drive the growth

Fee based income continues to surge and grew by 67% during Q4FY08 to Rs. 415 Crore as compared to Rs. 248 Crore during Q407. During FY08 it grew by a whopping 70% to Rs.1321 Crore in FY08 as compared to Rs.779 Crore in FY07. Retail Banking and Corporate Banking were the main contributors of the Fee Income. Retail Banking contributed Rs.660 Crore in FY08 as compared to 278 Crore in FY07 while Corporate Banking contributed Rs.380 Crore during FY08 as compared to Rs. 218 Crore during FY07. During Q4FY08 Retail Banking contributed Rs.183 Crore as compared to Rs.96 Crore in Q4FY07 while Corporate Banking contributed Rs.119 Crore in Q4FY08 as compared to Rs.64 Crore in Q4FY07.

#### Break up of Fee Income

Particulars	Q4FY08	Q4FY07	% change	FY08	FY07	% change
Corporate Banking	64	119	86	380	218	74
Business Banking	39	61	56	209	140	49
Capital Markets	41	41	-	141	117	21
Retail Banking	96	183	91	660	278	137

Source: Company Data

#### Health Business Growth

The total business has grown by 54% to Rs.147287crore in FY08 as compared to Rs.95662Crore during FY07. Advances have grown by 62% to Rs.59661crore as compared to Rs.36876 Crore and deposits grew by 54% to Rs.87626Crore as compared to Rs. 58786 Crore in FY07. Advances grew on the back of

strong retail loan book which now constitute 23% of the banks advances while deposits grew on the back of huge demand for Term Deposits which stood at Rs.47599 Crore in FY08 as compared to Rs. 35356 Crore in FY07.

## Financial Performance

### Net Interest Margins continues to increase

Bank has always strived to maintain its NIM at 3% and increase its net interest margin levels and has been successful in doing it. Net Interest Margin increased from 2.56% in Q1FY08 to 3.28% in Q2FY08 and stood at 3.93% in Q4FY08. The bank has been successful in increasing the NIM levels because of Higher Demand Deposits growth together with capital raising which enabled the Bank to payoff high cost term deposits and thereby increase the NIM in.

### Valuations

At the CMP of Rs.917 the bank is trading at a P/E 24.5x its FY08 earnings and 3x its FY08 bookvalue.

## Industry Scenario

- **Credit growth to remain healthy at 25 percent in FY2008 vs 30.7 percent in FY2008**, of which corporate loan growth will be robust but there will be marginal slowdown in retail credit. Advances of SCBs grew by 23.9 percent in Q1FY08 vs 31.7 percent in Q1FY07, decline of 780 bps. However, from Q2FY08 onwards, if there is downward revision of PLR rate by the banks, demand for credit would again pick up
- **Sensitivity to the bond portfolios have reduced significantly with ~70 percent of the investments portfolio in HTM category**
- **Margins are expected to remain stable or increase marginally from the current levels in FY08** due to the combination of improvement in the yield on advances, stable to improving yield on investments and rise in the cost of funds
- **Public sector banks are likely to show better operational efficiency on account of natural attrition**
- **Asset quality to improve further as corporate profitability remains unbeaten**

## Developments and Impact

### Retail Banking - Future Growth Driver

Retail Banking continues to be the growth engine for the bank. Retail Assets constituted 23% of the banks total advances in FY08 as compared to 24% in FY07. Retail Assets grew by 52% from Rs.8928 Crore in FY07 to Rs.13592 Crore in FY08. The Bank has set up Retail Asset Centres (RACs) at 70 towns and cities for focusing on retail lending. Bank is also increasing its reach by opening new branches, extension counters and ATM's. During the last year, the Bank added 127 Branches & Extension Counters and 469 ATMs thus taking its coverage to 405 centres in FY08 as compared to 332 centres covered in FY07.

## Financials

Particulars	(Rs. Crore)					
	Q4FY08	Q4FY07	% ch	FY08	FY07	% ch
<b>Interest earned</b>	<b>2015.4</b>	<b>1341.5</b>	<b>50.2</b>	<b>7005.3</b>	<b>4461.7</b>	<b>57.0</b>
-Interest on advances/bills	1370.1	836.2	63.8	4745.7	2702.9	75.6
-Income on investments	592.7	456.9	29.7	2102.3	1632.7	28.8
-Interest on bal. with RBI	37.6	34.7	8.2	107.6	77.3	39.2
-Others	15.1	13.7	9.9	49.7	48.8	1.9
Interest expenses	1187.0	902.5	31.5	4420.0	2993.3	47.7

<b>Net Interest Income (NII)</b>	<b>828.4</b>	<b>439.0</b>	<b>88.7</b>	<b>2585.4</b>	<b>1468.3</b>	<b>76.1</b>
Other Income	556.5	301.1	84.8	1795.5	1010.1	77.8
Total income	1384.9	740.1	87.1	4380.8	2478.4	76.8
Operating expenses	662.1	343.0	93.0	2154.9	1214.6	77.4
-Employee cost	184.5	88.9	107.4	670.3	381.4	75.8
-Other operating expenses	477.6	254.1	88.0	1484.7	833.2	78.2
<b>Operating profit</b>	<b>722.8</b>	<b>397.0</b>	<b>82.1</b>	<b>2225.9</b>	<b>1263.9</b>	<b>76.1</b>
Provision for contingencies	164.2	81.3	102.1	579.6	267.6	116.6
<b>PBT</b>	<b>558.6</b>	<b>315.8</b>	<b>76.9</b>	<b>1646.3</b>	<b>996.2</b>	<b>65.2</b>
Provision for taxes	197.2	103.9	89.8	575.3	337.2	70.6
<b>Net profit</b>	<b>361.4</b>	<b>211.9</b>	<b>70.6</b>	<b>1071.0</b>	<b>659.0</b>	<b>62.5</b>
Equity	357.4	281.6	26.9	357.4	281.2	27.1
EPS	10.1	7.5	34.4	30.0	23.4	27.9
<b>Ratios (%)</b>						
Int. exp/Int earned (%)	58.9	67.3	-	63.1	67.1	-
Cost/Income ratio (%)	47.8	46.4	-	49.2	49.0	-
GPM (%)	35.9	29.6	-	31.8	28.3	-
NPM (%)	17.9	15.8	-	15.3	14.8	-
Gross NPAs (Rs)	494.6	418.7	-	494.6	418.7	-
Net NPAs (Rs)	248.3	266.3	-	248.3	266.3	-
Gross NPAs (%)	0.72	0.95	-	0.72	0.95	-
Net NPAs (%)	0.36	0.6	-	0.36	0.6	-
CAR (%)	13.7	11.6	-	13.7	11.6	-
Advances (Rs)	59,661	36,876	<b>61.8</b>	59,661	36,876	<b>61.8</b>
Deposits (Rs)	87,626	58,786	<b>49.1</b>	87,626	58,786	<b>49.1</b>
Business (Rs)	147,287	95,662	<b>54.0</b>	47,287	95,662	<b>54.0</b>

## Financial Analysis

### Surge in Operating Profits

Operating Profits of the bank increased by 82% to Rs.722.8 Crore as compared to Rs.439 Crore in Q4FY07. During FY08 the operating profit increased from Rs.1263.9 Crore to Rs.2225.9 Crore showing a growth of 76% (y-o-y). Surge in Operating Profit was mainly because of interest income which grew by 50% from Rs.1341.5 Crore in Q4FY07 to Rs.2015 Crore in Q4 FY08.

### Improvement in Asset Quality

Gross NPA's in absolute terms increased from Rs. 418 Crore in FY08 to Rs.494 Crore in FY07 but in percentage terms it decreased from 0.95% in FY08 to 0.72% in FY07 whereas the Net Npa's decreased from Rs. 266.3 Crore in FY07 to Rs.248 Crore in FY08 and in percentage terms it decreased from 0.60% in FY07 to 0.36% in FY08.

## Valuations

At the CMP of Rs.917 the bank is trading at a P/E 24.5x its FY08 earnings and 3x its FY08 bookvalue.

### Risks:

- The interest rates in the India are expected to harden in the coming times. This could put further pressure on the net interest margin and there by affect the bottomline growth.
- The proportion of retail lending in the overall lending of the bank has been growing at a rapid pace. Demand for the mortgage loan could slow down if property prices shoot up more rapidly. Also, if there is lack of proper assessment of credit risk and subsequent default on the loan repayment then it may increase the non performing assets of the bank in the coming time

### Growth:

The growth for Axis Bank in the coming years is likely to be fueled by the following factors:

- Due to the continued expansion in branch network the share of low cost deposits i.e. Current Account and Savings Account deposits (CASA) has significantly increased. Moreover, the advances to the retail sector are growing at a rapid pace and are expected to add to the bottom line along with better NIM.
- The continued expansion of geographical reach and ongoing boom in the economy would ensure higher credit off take in the coming time.
- Continued focus on Third Party Product Business will drive the fee income of the bank.

### Relative Valuations

Company	Yes Bank	Kotak Bank	HDFC Bank	Axis Bank
CMP (Rs)	143.2	631.9	1151.5	736
P/E	21.1	74.1	25.5	24.5
P/BV	3.2	6.1	3.5	3
CAR (%)	13.6	18.6	13.6	13.7
Net NPA (%)	0.09	1.78	0.5	0.36

### Technicals

<b>Last Price</b>	736
<b>13 day EMA</b>	744
<b>50 day EMA</b>	816
<b>200 day EMA</b>	879

The stock is moving sideways. The support for the stock exists at around 723 levels. The MACD indicator for the stock is moving sideways in negative zone. Investors can buy the stock at declines.

### Recommendation & Investment View

**Recommendation : Market Out Performer**

**Investment View : Buy**