

Axis Bank

Q2FY10 Result Review

UNDERPERFORM

Date 12<sup>th</sup> October 2009

CMP: Rs. 1013

Target Price Rs. 910

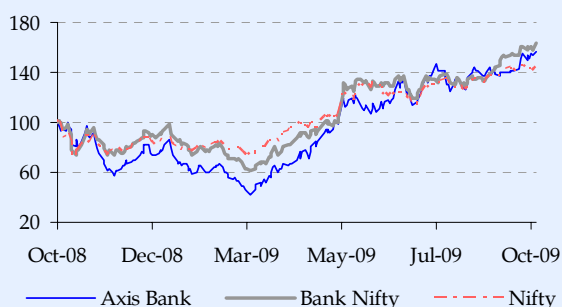
Stock Info	
Face Value (Rs)	10
Shares O/S (mn)	402
Market Cap (Rs bn)	407
52-Week Range(H/L)	1028/279
1-Year Avg Vol (mn)	4.5
Nifty	5,054
Reuters Code	AXBK.BO
Bloomberg Code	AXSB.IN
Year End	March

(Rs mn)

Key Financials	FY08	FY09	FY10E	FY11E
Net Int. Income	25,854	36,862	47,977	63,901
YoY % change	65.0	42.6	30.2	33.2
Preprov. Profit	22,260	37,975	53,116	66,574
YoY % change	63.4	70.6	39.9	25.3
Net Profit	10,710	18,154	23,261	29,275
YoY % change	62.5	69.5	28.1	25.9
EPS	29.9	50.6	57.7	72.3
% Growth	28.0	68.9	14.1	25.2
Gross NPA %	0.8	1.1	2.2	2.3
Net NPA %	0.4	0.4	1.0	0.5

Key Ratio	FY08	FY09	FY10E	FY11E
RoA (%)	1.2	1.4	1.4	1.5
RoE (%)	17.6	19.1	17.9	17.3
PER (X)	33.8	20.0	17.6	14.0
PABV (X)	4.2	3.6	2.7	2.3

Relative Price Performance



**Strong CASA growth stands out amidst growth slowdown and asset quality concerns**

CASA growth of 12% QoQ and 19.4% YoY stood out in a quarter marked by slowdown in asset growth (19%), credit growth (17.7%) and asset quality concerns - Gross NPA at 1.21% and Net NPA at 0.45%. We expect NII, Operating Profit and PAT to grow by 30.2%, 39.9% and 28.1% respectively for FY10E. At the current market price, the stock trades at 2.7X FY10E and 2.3X FY11E ABV. Raise target to Rs.910. Maintain Underperform.

**Retail leads slowdown in advances**

Retail loans grew by just 7% YoY and their share in total advances reduced to 22% from 24% a year ago. Large and midcorporate loans grew by 19%, SME loans grew by 21% while agricultural loans grew by 38%. Overall advances grew by 17.7% while total assets grew by 19% YoY.

**CASA growth at 19.4%**

Current Deposits grew by 7.4% YoY and savings deposits grew 30.5% YoY. Share of CASA improved to 43% even as aggregate deposits grew by 12.4%. NIM for the quarter was at 3.52% as against 3.51% in Q2FY09 and 3.34% in Q1FY09.

**Fee income growth slowing down, treasury gains surprise positively**

Other Income grew by 53.5% YoY primarily driven by growth in treasury gains which were at Rs.2.2 bn. as against 0.4 bn. in Q1FY09. Fee income growth moderated to 11.7% while forex income continued to grow strongly at 35.2%.

**Asset quality concerns evident**

Despite higher provisioning at 1.4% of average assets for the quarter as against the usual trend of 0.6-0.9% of average assets, Gross NPA and Net NPA moved up to 1.2% and 0.5% respectively. During the quarter, the bank restructured assets amounting to Rs.3.9 bn (0.5% of advances). Outstanding restructured assets stood at 2.9% of advances at the end of the quarter.

**Outlook and valuation**

We have upgraded our estimates to account for the higher than expected treasury gains that the bank has posted in this quarter. We expect NII, Operating profit and Net Profit to grow by 30.2%, 39.9% and 28.1% respectively. We are moving over to FY11E for valuing the bank and are upgrading our target price to Rs. 910. At our target price, the stock would trade at 2.4X FY10E and 2.0 FY11E ABV. We have raised our target price primarily on account of dilution at a higher than expected price and lower than expected equity dilution. Maintain Underperform.

## Quarterly Result Performance

Amount in million rupees

	Q2FY10	Q2FY09	% Change YoY	Q1FY10	% Change QoQ	H1FY10	H1FY09	% Change YoY	FY08	FY09	FY10E	FY11E
<b>Net Interest Income</b>	11,497	9,136	25.8	10,456	10.0	21,953	17,240	27.3	25,854	36,862	47,977	63,901
<b>Other Income</b>	10,656	6,944	53.5	9,586	11.2	20,242	13,192	53.4	17,956	29,695	41,712	47,480
Fee Income	6,010	5,380	11.7	5,250	14.5	11,260	10,220	10.2	13,207	21,733	27,778	34,549
Treasury Gains	2,240	362	519.5	3,261	(31.3)	5,501	935	488.5	2,203	2,884	7,000	4,000
Forex trading	1,190	880	35.2	1,010	17.8	2,200	1,655	32.9	2,075	3,595	5,213	7,037
Others	1,216	322	277.2	65	1,770.8	1,281	382	235.0	472	1,483	1,722	1,894
<b>Operating Income</b>	22,153	16,080	37.8	20,042	10.5	42,195	30,432	38.7	43,810	66,557	89,689	111,381
<b>Operating Expenses</b>	9,095	7,334	24.0	8,278	9.9	17,374	13,664	27.1	21,549	28,582	36,573	44,807
- Staff Expenses	3,042	2,604	16.8	3,093	(1.7)	6,135	4,741	29.4	6,703	9,977	13,099	15,803
- Other Operating Exp.	6,053	4,730	28.0	5,185	16.7	11,238	8,923	25.9	14,847	18,606	23,474	29,004
<b>Operating Profit</b>	13,058	8,745	49.3	11,764	11.0	24,821	16,768	48.0	22,260	37,975	53,116	66,574
OPM%	33.3	27.0		30.4		31.9	27.4		25.3	27.5	30.8	32.2
Provisions & Contingencies	4,989	2,558	95.0	3,153	58.2	8,142	5,525	47.4	5,798	10,123	17,871	22,217
Taxes	2,752	2,157	27.6	2,990	(8.0)	5,743	3,912	46.8	5,753	9,698	11,983	15,081
<b>Profit after Tax</b>	5,316	4,030	31.9	5,620	(5.4)	10,937	7,331	49.2	10,710	18,154	23,261	29,275
PAT%	13.5	12.4		14.5		14.0	12.0		12.2	13.2	13.5	14.2
Equity Capital	4,020	3,589		3,598		4,020	3,589		3,577	3,590	4,031	4,051
<b>Key Ratios</b>												
EPS (Rs.)( not annualised)	13.2	10.0		14.0		27.2	18.2		29.9	50.6	57.7	72.3
Adj. Book Value (Rs.)									241.6	281.6	380.2	447.8
Interest margin (%)	40.2	35.9		36.0		38.1	35.8		36.9	34.0	36.8	40.1
Cost to Income Ratio (%)	41.1	45.6		41.3		41.2	44.9		49.2	42.9	40.8	40.2
											-	-
<b>Valuations (X)</b>												
P/E									33.8	20.0	17.6	14.0
P/ABV									4.2	3.6	2.7	2.3
<b>Growth YoY (%)</b>												
Net Interest Income									65.0	42.6	30.2	33.2
Operating Profit									63.4	70.6	39.9	25.3
PAT									62.5	69.5	28.1	25.9
<b>Asset Quality (%)</b>												
Gross NPA	1.21	0.91		1.01		1.21	0.91		0.8	1.1	2.2	2.3
Net NPA	0.45	0.43		0.41		0.45	0.43		0.4	0.4	1.0	0.5
<b>Capital Adequacy (%)</b>												
Tier I	11.4	9.2		9.4		11.4	9.2		10.2	9.3	11.6	10.9
Tier II	5.0	3.0		5.9		5.0	3.0		3.6	4.4	4.8	3.8
Total	16.5	12.2		15.3		16.5	12.2		13.7	13.7	16.4	14.7

Source: SBICAP Securities Research

## Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
8-Oct-09	Kansai Nerolac Paints Ltd	Buy	825	952
8-Oct-09	Berger Paints India Ltd	Buy	57	70
25-Sept-09	Lupin Ltd	Outperform	1,133	1,280
22-Sept-09	Bajaj Hindusthan ( <i>Earnings Upgrade</i> )	Buy	180	300
14-Sept-09	Yes Bank	Buy	175	239
28-Aug-09	<b>Power Transmission Sector Report</b>			
	Jyoti Structures Ltd	Buy	146	223
	KEC International Ltd	Buy	537	692
	Kalpataru Power Transmission Ltd	Sell	853	820
5-Aug-09	Balrampur Chini Mills Limited	Buy	126	149
23-July-09	Bajaj Hindusthan Limited	Buy	171	235
4-July-09	Triveni Engineering Industries Limited	Buy	99	121
1-Jun-09	Colgate Palmolive India Ltd (Update)	Buy	475	624
28-May-09	Godrej Consumer Products Ltd (Update)	Outperform	176	195
26-May-09	Oracle Financial Services Software Ltd (Update)	Outperform	1,079	1,200
20-May-09	Godrej Consumer Products Ltd (Update)	Marketperform	160	-
18-May-09	Infosys Technologies (Update)	Marketperform	1,750	-
14-May-09	ABG Shipyard Ltd (Update)	Buy	145	265
27-Apr-09	Hindustan Unilever Ltd	Marketperform	231	-
17-Apr-09	GlaxoSmithKline Pharmaceuticals Ltd	Outperform	1,099	1,200
17-Mar-09	Mercator Lines Ltd	Buy	23	33
16-Mar-09	3i Infotech Ltd	Buy	27	45
16-Mar-09	Axis Bank	Buy	331	639
13-Mar-09	Oracle Financial Services Software Ltd	Buy	618	800
13-Mar-09	IVRCL Infrastructures & Projects Ltd	Buy	111	140
9-Mar-09	Sun Pharmaceutical Industries Ltd	Marketperform	1,021	-
15-Jan-09	Zee Entertainment Enterprises Ltd	Buy	116	167
12-Jan-09	Godrej Consumer Products Ltd	Buy	128	154
2-Jan-09	Andhra Bank	Buy	58	102
2-Jan-09	Federal Bank	Buy	165	203
31-Dec-08	Gateway Distriparks Ltd	Buy	82	105
18-Dec-08	Biocon	Marketperform	118	-
22-Nov-08	TAKE Solutions	Buy	18	50
21-Nov-08	<b>Pipe Sector Report</b>			
	PSL Limited	Buy	95	181
	Welspun Gujarat Stahl Rohren Limited	Buy	102	165
	Jindal Saw Limited	Buy	272	435
	Maharashtra Seamless Limited	Buy	159	225
	Man Industries Limited	Buy	33	55

**Key to investment Ratings:** Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

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