

Axis Bank Limited -----Maintain OUTPERFORM

Strong operating performance tempered by rise in slippages

EPS: ◀▶ TP: ◀▶

Ashish Gupta / Research Analyst / 91 22 6777 3895 / ashish.gupta@credit-suisse.com

- Axis 2Q12 profits were marginally ahead of estimates as much stronger-than-expected operating revenues offset weak treasury income and higher provisions. A large 50 bp QoQ NIM expansion and continued fee (+32% YoY) momentum were 2Q12 highlights.
- NIMs expanded on the back of PLR hikes, a favorable loan mix shift and a 200 bp rise in CASA share that helped contain the funding cost increase (+6 bp QoQ). Axis's performance remains notably stronger versus its private sector peers as the retail customer acquisition is strong.
- Asset quality slippages (gross) though rose to 1.5% from 0.9% in 1Q12 as the bank witnessed a pick-up in NPLs in agriculture, SME and mid-corporate loans. Management though has maintained its guidance for credit costs at 0.75% for the year.
- With tier-one being at 9.3% and the bank likely to maintain the ~25% loan growth pace, it will likely need equity issuance in the next 6-9 months and while asset quality pressures are likely, it is relatively better positioned owing to stronger revenue generation.

Bbg/RIC	AXSB IN / AXBK.BO	Price (21 Oct 11, Rs)	1,124.25		
Rating (prev. rating)	O (O)	TP (prev. TP Rs)	1,485 (1,485)		
Shares outstanding (mn)	412.42	Est. pot. % chg. to TP	32		
Daily trad vol - 6m avg (mn)	2.05	52-wk range (Rs)	1557.9 - 952.0		
Daily trad val - 6m avg (US\$ mn)	47.9	Mkt cap (Rs/US\$ bn)	463.7/ 9.3		
Free float (%)	100	Performance	1M	3M	12M
Major shareholders	LIC	Absolute (%)	1.1	(13.3)	(23.2)
		Relative (%)	(1.5)	(3.0)	(6.5)
Year	03/10A	03/11A	03/12E	03/13E	03/14E
Pre-prov Op profit (Rs mn)	47,763.3	58,802.3	68,948.2	81,925.1	107,870.2
Net profit (Rs mn)	25,145	33,447	38,261	42,167	52,393
EPS (CS adj. Rs)	64	80	91	101	125
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	98	119	148
EPS growth (%)	30.1	24.8	13.7	10.2	24.3
P/E (x)	17.5	14.0	12.3	11.2	9.0
Dividend yield (%)	1.1	1.2	1.8	2.1	1.2
BVPS (CS adj. Rs)	388	469	536	608	717
P/B (x)	2.90	2.40	2.10	1.85	1.57
ROE (%)	19.2	18.7	18.1	17.6	18.9
ROA (%)	1.5	1.6	1.4	1.2	1.2
Tier 1 Ratio (%)	11.1	9.4	8.3	7.8	7.2

Note 1: AXIS Bank Limited is an India-based bank. The Bank operates in four segments: treasury, retail banking, corporate/wholesale banking and other banking business. The bank has more than 800 branches and about 3,500 ATMs in India. It also has branches in China, Hong Kong, Singapore, and United Arab Emirates.

Figure 1: 2Q12 results summary

(Rs mn)	2Q12	2Q11	% YoY	1Q11	% QoQ
NII	20,073	16,151	24	17,241	16
Fee income	12,073	9,252	32	10,976	6
Total income	32,145	25,403	27	28,217	14
Total op exp.	(14,665)	(11,620)	26	(13,335)	10
Pre-prov. profits	17,480	13,784	27	14,883	17
Loan loss prov.	(2,470)	(3,210)	-23	(1,530)	61
Total provisions	(4,056)	(3,788)	7	(1,758)	131
Operating profits	13,424	9,996	34	13,124	2
Trading income	277	1,080	-74	702	-61
Pre-tax profit	13,701	11,076	24	13,826	-1
PAT	9,203	7,351	25	9,424	-2

Source: Company data

Figure 2: Key operating metrics

	2Q12	2Q11	% YoY/bp	1Q12	% QoQ/bp
NIM (bp)	378	368	10	328	50
CASA %	42.2%	41.5%	69	40.5%	171
Loans	1,401	1,106	27%	1,319	6%
Deposits	1,945	1,569	24%	1,836	6%
LDR	72%	70%	155	72%	20
RoAA	1.5%	1.5%	1	1.6%	(6)
RoAE	18.1	17.0	113	19.3	(119)
Gross NPL %	1.1%	1.1%	(4)	1.1%	2
Net NPL %	0.3%	0.3%	-	0.3%	3
Coverage	89.3%	80.2%	912	90.4%	(109)
Tier I	9.3%	10.7%	(137)	9.8%	(51)

Source: Company data.

Strong operating performance vs. peers'

Operating performance saw all-round strength as NIM expanded sharply by 50 bp QoQ. The CASA ratio improved (+170 bp QoQ), contrary to the trend seen so far. Fee income grew by strong 32% YoY and loan growth momentum remained strong (+27% YoY). Management maintains its full-year guidance for loan growth at 23-24% for FY12, if system grows at c.18%.

Figure 3: Strong operating performance compared to peers'

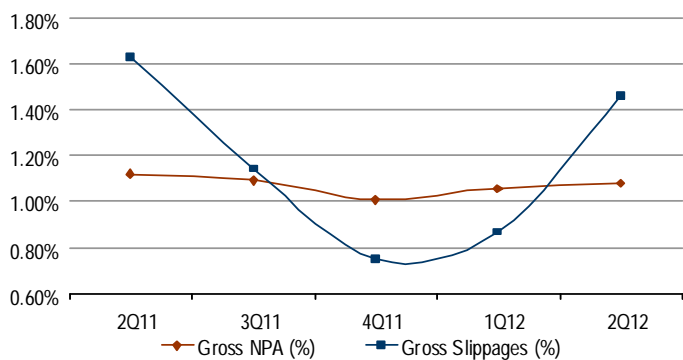
2Q12	Axis	HDFC Bank	Yes Bank	IndusInd	ING Vysya
NIM change (QoQ)	50	-10	10	-6	33
SA growth (YoY)	24%	16%	n.a.	32%	9%
CA growth (YoY)	29%	2%	n.a.	39%	5%
CASA ratio	42.2%	47.3%	10.9%	27.7%	32.5%
Change in CASA (QoQ)	170	-176	7	-50	-127
Fee growth (YoY)	32%	15%	56%	30%	22%
Loan growth (YoY)	27%	20%	13%	28%	23%
Deposit growth (YoY)	24%	18%	10%	23%	18%

Source: Company data.

Slippages rise from the lows

Gross slippages increased to 1.46% (1Q12 ~ 0.9%) with some pressure on the agriculture, SME and mid-corporate segment. Some asset quality pressure is likely given prevailing high interest rates and a slowdown in economic growth.

Figure 3: Rise in gross slippages to 1.46% in 2Q12



Source: Company data.

Companies Mentioned (Price as of 21 Oct 11)

Axis Bank Limited (AXBK.BO, Rs1,124.25, OUTPERFORM, TP Rs1,485.00)
 HDFC Bank (HDBK.BO, Rs486.30, OUTPERFORM, TP Rs548.00)
 Yes Bank Ltd (YESB.BO, Rs277.85, UNDERPERFORM, TP Rs296.00)
 IndusInd Bank (INBK.BO, Rs273.15, NEUTRAL, TP Rs300.00)
 ING Vysya Bank (VYSA.BO, Rs318.55, OUTPERFORM, TP Rs460.00)

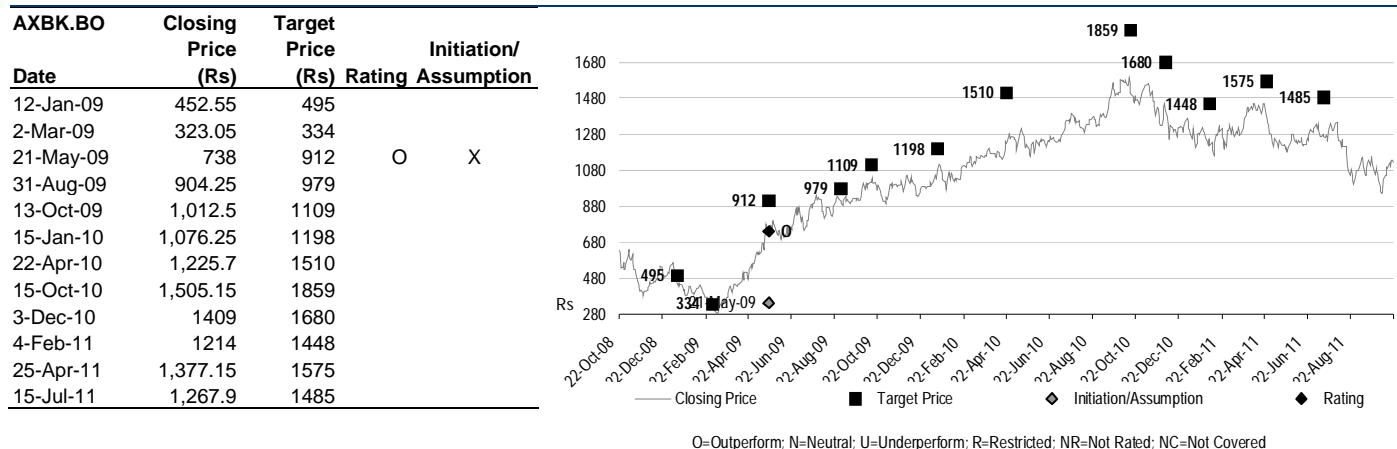
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3-Year Price, Target Price and Rating Change History Chart for AXBK.BO



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Method: We are valuing Axis Bank at Rs1,485, at 14.5x FY13 price to earnings on a Gordon growth model based on a sustainable return on equity of 18%.

Risks: Key upside risks to our target price of Rs1,485 for Axis Bank are improvement in the economic environment, sustainable higher returns on equity in the longer-term. Downside risks are a reversal in asset environment, significant increase in competition, high stock valuations and sharp rise in the wholesale deposit rates

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