

Axis Bank Ltd.

BLOOMBERG: AXSB IN EQUITY | BSE: 532215 | NSE: AXISBANK

Management meeting takeaways

We recently met with management of AXSB. The management continued to guide towards credit growth of 1.3x the industry growth rate in the medium term. While NIMs are likely to remain under pressure in H1FY12 (due to impact of priority sector loans and deposits re-pricing), we do not foresee any material margin erosion. Fee income would likely grow in line with balance sheet growth. Despite higher exposure to the infrastructure and power sectors, asset quality is expected to remain stable as slippages from restructured loans trend down. With ROE at 20%+ over FY12/FY13E, we do not anticipate any capital requirement (Tier 1: 9.4%) in the medium term.

- ❖ **Margin stress likely to be limited:** The management has guided for healthy NIMs of ~3.25-3.5% in FY12 despite headwinds from (1) a sharp rise in wholesale deposit rates in the last couple of quarters, (2) a rise in savings deposit rate, and (3) the bank's priority sector loan build-up in Q4FY11 (typically low-yield), the full impact of which is likely to be felt in Q1FY12. Mobilisation of CASA deposits remains stable as branch expansion continues apace (555 branches opened over FY09-11).
- ❖ **Credit growth to remain above-industry:** AXSB expects credit growth to remain at 1.3x the industry growth (25% CAGR over FY11-13E). While incremental sanctions remain under pressure, the healthy outstanding sanctions book implies strong disbursements for the next 12-18 months. Retail credit is likely to inch up in a gradual manner, but we do not foresee any material change in the mix in short term.
- ❖ **Asset quality set to remain stable:** While there are apprehensions about the higher exposure to the infrastructure and power sectors (~14% and 6% of total industry exposure respectively), asset quality is likely to remain stable in FY12 as slippages are expected to be in the range of 1.2-1.4%. Management guides for the total slippages of ~Rs 16-18bn in FY12. Further, AXSB currently does not have any exposure to SEBs; however, the absence of structural reform could hit the entire power chain, in our view.
- ❖ **Reiterate BUY:** AXSB is our top pick in the private banking space and is currently trading at 2.4x FY12E BV. Maintain our target price of Rs 1,675 (3.1x FY12E BV).

Financial highlights

Year End: 31 Mar	FY09A	FY10A	FY11A	FY12E	FY13E
Net interest income (Rs mn)	36,862	50,045	65,630	80,471	99,286
Net revenues (Rs mn)	65,831	89,503	111,951	137,144	169,056
Pre-provision profits (Rs mn)	37,249	52,406	64,157	77,799	96,253
Adj. PAT (Rs mn)	18,154	25,145	33,885	43,107	52,314
Adj. EPS (Rs)	50.6	62.1	82.5	105.0	127.4
ROE (%)	19.1	19.2	19.3	20.8	21.3
ROA (%)	1.4	1.5	1.6	1.6	1.6
Gross NPA (%)	1.1	1.3	1.1	1.2	1.1
Net NPA (%)	0.4	0.4	0.3	0.3	0.3
Tier I ratio (%)	9.3	11.2	9.4	9.1	8.7
P/BV (x)	3.5	3.4	2.8	2.4	2.0
P/ABV (x)	3.6	3.5	2.8	2.4	2.0
P/E (x)	19.6	21.8	15.6	12.3	10.1

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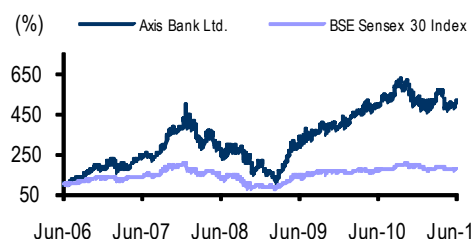
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CMP	Rs 1,290
Target	Rs 1,640
Previous	Rs 1,640
Rating	BUY
Previous	BUY
% Upside / (Downside)	27%
+ Dividend yield	1%
Total return	28%

Company data

Market cap (Rs mn / US\$ mn)	529,419 / 11,800
Outstanding equity shares (mn)	410.5
BVPS (Rs)	463
Free float (%)	62.7
52-week high / low (Rs)	1,589 / 1,161
2-month avg. daily vol (mn) / value (US\$ mn)	2 / 45

Stock performance



Margins and credit growth to remain healthy

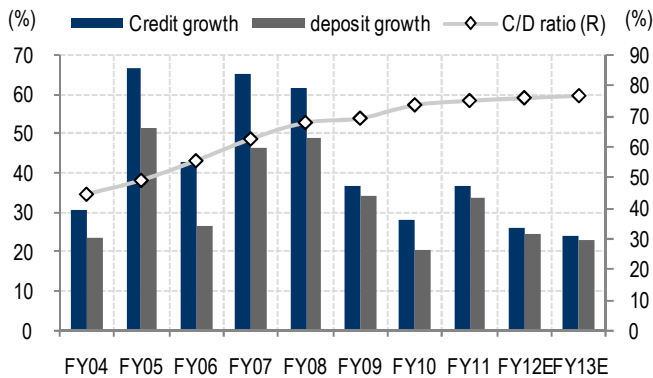
The management continues to guide for healthy NIMs of ~3.25-3.5% in FY12 (albeit lower than Q1FY11/Q4FY11 NIMs of 3.7%/3.5%) despite headwinds from (1) a sharp rise in wholesale deposit rates in the last couple of quarters, (2) a rise in savings deposit rate, and (3) the bank's priority sector loan build-up in Q4FY11 (typically low-yield), the full impact of which is likely to be felt in Q1FY12.

Margins to remain in the range of 3.25-3.50% while credit to grow at 1.3x the industry growth rate

Credit is expected to remain high at 1.3x of the industry average. While the investments by the corporate is expected to be low in the current year on account of rise in the costs, management reiterate its stance of growing its credit book above industry average on account of high pipeline of undisbursed sanctions. Retail credit is likely to inch up in a gradual manner, but we do not foresee any material change in the mix over the short term. Mobilisation of CASA deposits to remains stable as branch expansion continues apace (555 branches opened over FY09-11).

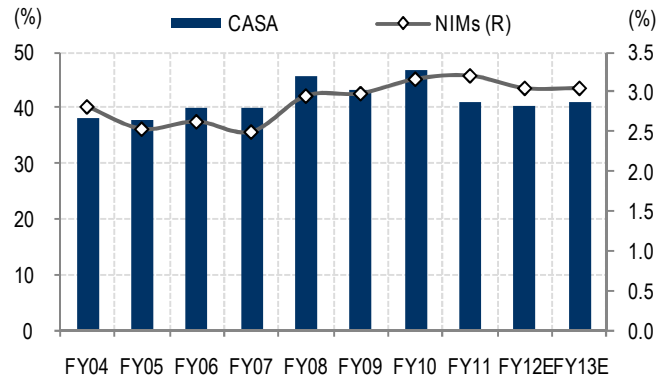
With average ROE of 21% through FY13E and high capital adequacy of 12.4% (Tier 1 at a high level of 9.4%), we do not anticipate any capital requirement in the medium term.

Fig 1 - Advances to grow at 25% CAGR over FY11-FY13



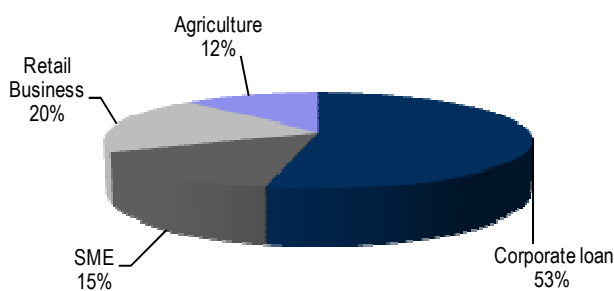
Source: Company, RCML Research

Fig 2 - NIMs (calc) likely to remain above 3% over FY11-13



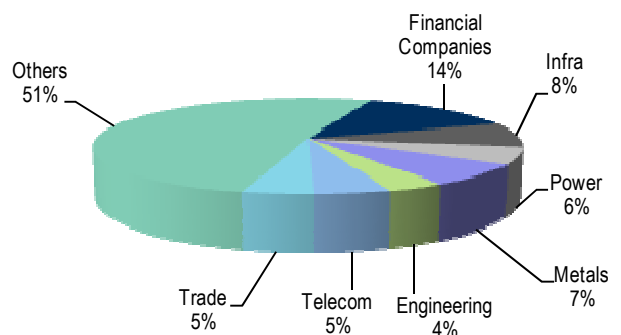
Source: Company, RCML Research

Fig 3 - Break-up of advances – Mar'11



Source: Company, RCML Research

Fig 4 - Break-up of industry advances – Mar'11



Source: Company, RCML Research

Fee income to grow in line with the asset growth

Non-interest income is likely to grow in line with the growth in assets, primarily led by growth in the fee income. Fee income from loan syndication could be lower in the current fiscal; however, income from distribution is expected to drive the fee income growth as the tie-up with Max-India is expected to play positively. Further, branch expansion is expected to further improve the distribution fee income profile of the bank. Management remains confident rolling out 250 branches in FY12. We do not foresee any stress on the fee income and are factoring in a 24% CAGR in fee income over FY11-FY13.

Fig 5 - Trend in fee income

(Rs mn)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Fee Income	6,270	7,200	8,010	7,790	7,420	8,490	9,670	12,310
-Large and mid corporate-credit	1,610	1,940	1,930	2,370	2,280	2,980	3,520	4,380
-Treasury	1,290	1,470	1,260	1,200	1,580	1,650	1,620	2,550
-Agri and SME	400	560	620	690	370	480	580	1,000
-Business Banking	890	960	890	780	940	920	950	1,070
-Capital markets	180	130	850	420	200	160	150	190
-Retail Business	1,900	2,140	2,460	2,330	2,050	2,300	2,850	3,120
Trading income	3,261	2,240	1,700	1,030	1,960	1,080	1,350	580
Misc income	59	1,226	181	505	618	762	447	1,614
Total	9,589	10,666	9,891	9,325	9,998	10,332	11,467	14,504

Source: Company, RCML Research

Share of restructured assets declining

Share of restructured assets has been declining with total additional restructuring of Rs 3.0bn in FY12. Cumulative restructured assets are to the tune of Rs 19bn (1.22% of the gross customer assets) giving comfort to the loan profile of the bank. Further, asset quality of the bank has been improving over the last few quarters with management guiding Rs16-18bn (~1.2-1.4%) of the total slippages in FY12E. The bank has a high exposure to the infrastructure and power sectors (~14% and 5% of total industry exposure respectively); however, we expect asset quality to remain stable in the near term as operational projects are performing well. However, the bank may have to restructure some of its loans in the coming quarters if fuel availability remains a concern. AXSB does not have any exposure to SEBs; however, the absence of structural reform could hit the entire power chain, in our view.

Fig 6 - Asset quality improving over the past few quarters

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Gross NPA (Rs mn)	11,735	13,180	13,409	13,624	14,829	15,994
Gross NPA (%)	1.2	1.1	1.1	1.1	1.1	1.0
Net NPA (Rs mn)	4,296	4,190	4,134	4,094	3,855	4,104
Net NPA (%)	0.5	0.4	0.4	0.3	0.3	0.3
Provision coverage ratio (%)	63.4	68.2	69.2	70.0	74.0	74.3
Provision coverage (incl. write-offs, %)	87.8	88.6	76.6	90.5	91.4	91.1

Source: Company, RCML Research

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Interest income	108,355	116,380	151,548	200,435	253,414
Interest expense	(71,493)	(66,335)	(85,918)	(119,964)	(154,128)
Net interest income	36,862	50,045	65,630	80,471	99,286
Non-interest income	28,969	39,458	46,321	56,673	69,770
Non-interest income (ex-treasury)	26,084	32,317	42,658	52,473	64,770
Net revenue	65,831	89,503	111,951	137,144	169,056
Operating expenses	(28,582)	(37,097)	(47,794)	(59,346)	(72,803)
Pre-provisioning profits	37,249	52,406	64,157	77,799	96,253
Provisions & contingencies	(9,397)	(13,892)	(12,800)	(13,460)	(18,055)
PBT	27,852	38,514	51,357	64,338	78,198
Extraordinaries	0	0	0	0	0
Income tax	(9,698)	(13,368)	(17,472)	(21,232)	(25,883)
Reported PAT	18,154	25,145	33,885	43,107	52,314
Adj. Net profit	18,154	25,145	33,885	43,107	52,314

Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Cash in hand & bal with RBI	94,192	94,739	138,862	159,691	172,466
Bal with banks, Money at call	55,977	57,326	75,225	84,252	90,992
Investments	463,304	559,748	719,916	894,729	1,108,017
Advances	815,568	1,043,431	1,424,078	1,794,339	2,224,980
Fixed assets (net)	10,729	12,224	22,731	25,459	28,514
Other assets	37,451	39,011	46,321	53,269	59,662
Total Assets	1,477,220	1,806,479	2,427,134	3,011,739	3,684,631
Equity capital	3,590	4,052	4,105	4,105	4,105
Reserves & surplus	98,546	156,393	185,883	220,368	262,220
Net worth (ex-Pref capital)	102,137	160,444	189,988	224,474	266,325
Preference capital	0	0	0	0	0
Deposits	1,173,741	1,413,002	1,892,378	2,356,011	2,895,537
-CASA deposits	506,437	660,295	777,674	954,184	1,187,170
-Term deposits	667,304	752,707	1,114,704	1,401,826	1,708,367
Borrowings (+sub-ord bonds)	155,199	171,696	262,679	328,509	394,370
Other liabilities & provisions	46,145	61,336	82,089	102,746	128,399
Total Equity & Liabilities	1,477,221	1,806,479	2,427,134	3,011,739	3,684,631

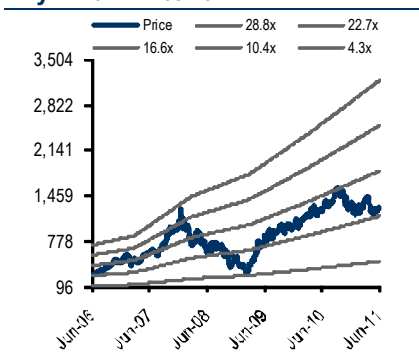
Per share data

Y/E 31 Mar (Rs)	FY09A	FY10A	FY11A	FY12E	FY13E
Reported EPS	50.6	62.1	82.5	105.0	127.4
Adjusted EPS	50.6	62.1	82.5	105.0	127.4
DPS	8.8	10.5	12.2	15.7	19.1
Book value	284.5	396.0	462.8	546.8	648.7
Adjusted book value	278.6	389.2	456.2	538.0	639.3

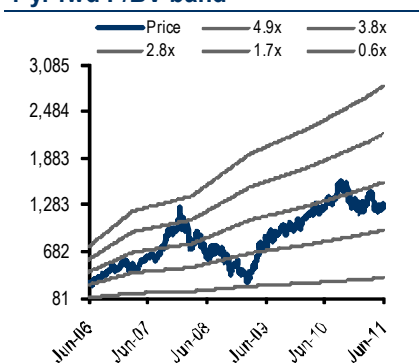
Valuation ratios

Y/E 31 Mar (x)	FY09A	FY10A	FY11A	FY12E	FY13E
P/E	19.6	21.8	15.6	12.3	10.1
P/BV	3.5	3.4	2.8	2.4	2.0
P/ABV	3.6	3.5	2.8	2.4	2.0

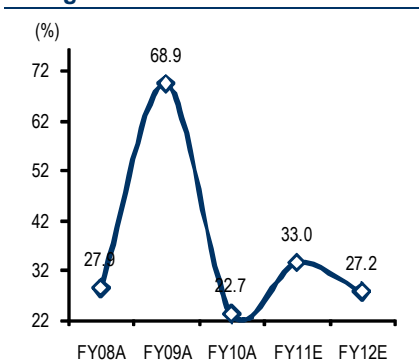
1- yr fwd P/E band



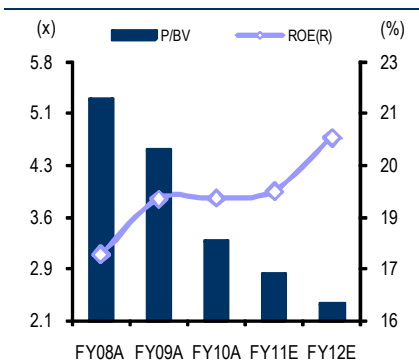
1-yr fwd P/BV band



EPS growth



ROE vs P/BV



Financial ratios

Y/E 31 Mar (%)	FY09A	FY10A	FY11A	FY12E	FY13E
Spread analysis					
Yield on advances	10.6	8.6	8.4	8.8	9.0
Yield on investments	7.6	6.7	6.9	6.9	6.9
Cost of funds	6.2	4.6	4.6	5.0	5.2
NIMs	3.0	3.2	3.2	3.0	3.0
Operating ratios					
Operating cost to income	43.4	41.4	42.7	43.3	43.1
Operating expenses/Avg assets	2.2	2.3	2.3	2.2	2.2
Proportion of CASA deposits	43.1	46.7	41.1	40.5	41.0
Non-int inc/Total income	44.0	44.1	41.4	41.3	41.3
Credit/Deposit ratio	69.5	73.8	75.3	76.2	76.8
Investment/Deposit	39.5	39.6	38.0	38.0	38.3
Asset quality and capital					
Gross NPA	1.1	1.3	1.1	1.2	1.1
Net NPA	0.4	0.4	0.3	0.3	0.3
Coverage ratio	63.6	68.2	74.3	74.3	76.6
CAR	13.7	15.8	12.7	13.1	12.7
Tier I ratio	9.3	11.2	9.4	9.1	8.7
Growth ratios					
Net interest income	42.6	35.8	31.1	22.6	23.4
Non-interest income	61.3	36.2	17.4	22.3	23.1
Non-interest income (Ex-treasury)	65.6	23.9	32.0	23.0	23.4
Pre-provisioning profit	67.3	40.7	22.4	21.3	23.7
Net profit	69.5	38.5	34.8	27.2	21.4
Assets	34.8	22.3	34.4	24.1	22.3
Advances	36.7	27.9	36.5	26.0	24.0
Deposits	33.9	20.4	33.9	24.5	22.9
Book value	16.1	39.2	16.9	18.2	18.6
EPS	68.9	22.7	33.0	27.2	21.4

Quarterly trend

Y/E 31 Mar (Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net interest income	14,601	15,138	16,151	17,331	17,010
YoY growth (%)	41.4	44.8	40.5	28.5	16.5
QoQ growth (%)	8.2	3.7	6.7	7.3	(1.9)
Non-interest income	9,335	10,008	10,332	11,477	14,504
Total income	23,936	25,146	26,483	28,808	31,514
Total operating expenses	(10,098)	(10,645)	(11,620)	(12,224)	(13,306)
- Employee expenses	(3,338)	(4,164)	(4,053)	(3,962)	(3,960)
Pre-provision profit	13,838	14,501	14,864	16,585	18,208
Provisions	(2,019)	(3,330)	(3,788)	(3,139)	(2,544)
PBT	11,819	11,171	11,076	13,446	15,664
Income taxes	(4,171)	(3,752)	(3,725)	(4,532)	(5,463)
PAT	7,649	7,419	7,351	8,914	10,201
YoY growth (%)	31.5	32.0	38.3	35.9	33.4
QoQ growth (%)	16.6	(3.0)	(0.9)	21.3	14.4

DuPont analysis

Y/E 31 Mar (%)	FY09A	FY10A	FY11A	FY12E	FY13E
Net interest income/Assets	2.9	3.0	3.1	3.0	3.0
Non-interest income/Assets	2.3	2.4	2.2	2.1	2.1
Operating expense/Assets	2.2	2.3	2.3	2.2	2.2
Provisions/Assets	0.7	0.8	0.6	0.5	0.5
Taxes/Assets	0.8	0.8	0.8	0.8	0.8
ROA	1.4	1.5	1.6	1.6	1.6
Equity/Assets	7.4	8.0	8.3	7.6	7.3
ROAE	19.1	19.2	19.3	20.8	21.3

Company profile

AXSB is amongst the fastest growing private banks in India and has a countrywide presence through a network of 1,390 branches & extension counters and 6,270 ATMs. It is predominantly a corporate-focused bank with corporate loans forming close to 50% of its total loan book. AXSB has been rated as the No.1 debt arranger by Prime Data Base for the year ended March '08. This, together with a robust CMS, retail business, and third party product distribution, ensures strong fee income.

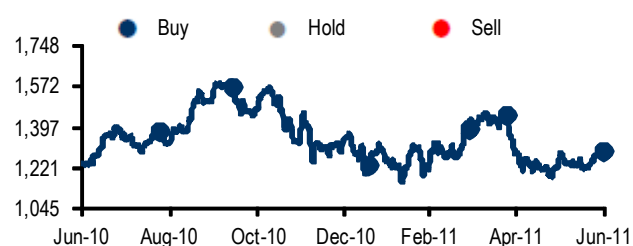
Recommendation history

Date	Event	Reco price	Tgt price	Reco
24-Aug-10	Sector Report	1,372	1,575	Buy
14-Oct-10	Results Review	1,564	1,800	Buy
17-Jan-11	Results Review	1,229	1,800	Buy
28-Mar-11	Company Update	1,384	1,675	Buy
24-Apr-11	Results Review	1,448	1,675	Buy
30-Jun-11	Company Update	1,290	1,640	Buy

Shareholding pattern

(%)	Sep-2010	Dec-2010	Mar-2011
Promoters	37.5	37.4	37.2
FIs	45.9	45.6	46.9
Banks and FIs	5.5	5.3	5.1
Public	11.0	11.7	10.8

Stock performance



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