

Axis Bank

 Rs1078
 OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs385.5bn; US\$8.45bn

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Result: Q3FY10
Comment: Strong results

Key valuation metrics

Rs m	NII	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	Adj. Book Value (Rs/share)	P/ Adj.Bk (x)	PE (x)	RoAE (%)
FY07	14,683	36.2	6,590	35.9	23.5	115.5	9.3	45.8	21.0
FY08	25,854	76.1	10,709	62.5	33.5	242.3	4.4	32.2	17.6
FY09	36,862	42.6	18,154	69.5	50.7	282.9	3.8	21.3	19.1
FY10E	49,815	35.1	24,915	37.2	65.6	417.7	2.6	16.4	19.0
FY11E	61,602	23.7	31,198	25.2	77.8	486.6	2.2	13.9	18.1

Highlights of Q3FY10 results

Axis Bank ('AXSB') delivered a net profit growth of ~33% yoy to Rs6.56bn in Q3FY10 marginally ahead of our estimates of Rs6.45bn.

- Strong NII growth; margins improve qoq...:** NII came in at Rs13.5bn, ~45% yoy growth buoyed by an ~30bp qoq rise in reported margins to 4.0%, as daily average cost of funds declined by ~60bp qoq. The continued decline in funding costs is primarily led by capital infused in Q2Fy10 and re-pricing benefits of high-cost deposits garnered during the systemic liquidity crunch of last year. (Exhibit 1)
- ...aided by a calibrated growth posture:** Credit growth came in at 13% yoy to Rs847bn (up 5% qoq), driven by a 21% yoy growth in the retail advances and 17% yoy growth in SME advances. Corporate loan book grew at a slower pace of 10% yoy. Deposit growth was curtailed at 7% yoy, resulting in a rise of 340bp yoy in CD ratio to 74.5%. (Exhibit 4)
- Provisioning expenses decline qoq, a key positive:** AXSB's provisioning expenses declined by ~25% qoq to Rs3.7bn as the bank sees loan loss provisions having peaked out in Q2FY10. Of the total provisions, the bulk (Rs3.58bn) is attributable to NPA provisions, while the bank booked small Rs110m MTM loss on investments. The bank took a marginal hit of Rs20mn on account of fair value diminution of restructured loans.
- Gross NPAs addition slows, asset quality stable:** During Q3FY10, AXSB's Gross NPAs inched-up only marginally to Rs11.7bn (from Rs11.3bn in Q3FY09) at 1.23%. We believe gross slippages in Q3FY10 would have amounted to Rs3.7bn (higher than reported rise of Rs420mn in gross NPAs) as an outcome of the bank writing-off accounts to the tune of ~Rs3.3bn. Net NPAs stood at 0.46%. The bank's cumulative restructurings stand at Rs23.09bn (2.7% of net advances). At the same time, coverage remained stable at 63.4% in Q3FY10. Including write-offs, coverage has remained steady at ~87%. (Exhibit 5, 6 & 7)
- Robust fee income growth; healthy treasury gains:** Non-trading income has revived with 30% yoy growth, led by traction in fee from large and mid corporate banking. With the bank witnessing strong growth in secured retail products, fee income from this segment also expanded by a strong 38% yoy. Other income grew by a strong ~35% yoy to Rs9.8bn (though slower than previous two quarters) due to lower treasury profits. (Exhibit 3)

- **CASA continues to inch; savings accounts lead deposit growth:** CASA ratio increased by 290bp qoq to 45.6% with almost the entire increase in deposits coming from CASA. Saving deposits witnessed traction (39% growth; 26% of total deposits), while current accounts increased by 22% yoy on a high base as liquidity remained high. (Exhibit 2)
- **Higher capital adequacy fortifies comfort on growth:** Owing to ~Rs38bn of equity capital raised in Q2FY10, AXSB's Tier-I ratio stayed high at 11.83% (Basel-II). Overall CRAR too remained a healthy at 16.8%.

Valuations & View

Over the years, Axis Bank has consistently delivered across operating parameters. In Q3FY10 too, the bank has reported a strong 33% yoy increase in net profit with a stellar NII growth of 45% yoy. The bank's focus on building a strong liability franchise has paid off with a continuous improvement in CASA (now at 45%). Moreover, the steep decline in provisions would alleviate concerns on asset quality and build confidence around future earnings growth. Capable management and firmly-entrenched business model would steer the bank into the next growth orbit and enable it to evolve into a 'best-in-class' financials franchise. We expect the growth momentum to be sustained going forward with a 31% CAGR in Axis Bank's net profit over FY09-11, driven by strong operating performance. Axis Bank is currently trading at 2.6x FY10E and 2.2x FY11E adjusted book value. Reiterate Outperformer with a 12-month price target of Rs1280 (2.6x FY11E adjusted book). Axis Bank continues to be amongst our top Banking sector picks.

Quarterly results

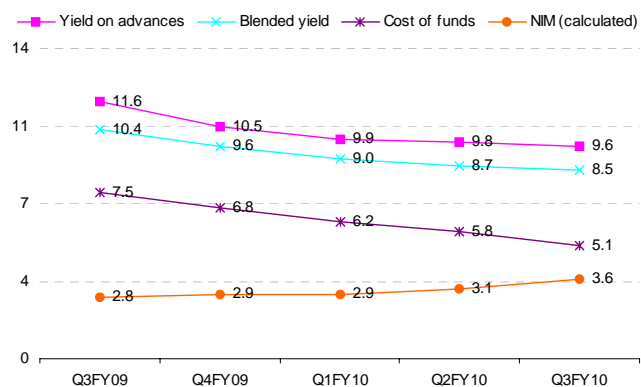
P&L (Rs m)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	FY09	FY10E	FY11E	Comments/ Trends
Interest income	29,848	30,392	29,056	28,604	28,837	108,355	117,870	137,815	
Non-fund income	7,322	8,455	9,586	10,656	9,881	28,969	40,461	41,035	
Trading profits	1,142	1,662	3,260	2,240	1,696	2,802	8,800	3,200	
Fee income	6,189	6,644	6,266	7,190	7,997	26,166	31,661	37,835	Strong revival in fee income with pick up seen in large/mid-corporates. Retail segment also witnesses strong traction
<i>yoy change (%)</i>	<i>56.7</i>	<i>42.0</i>	<i>16.6</i>	<i>14.7</i>	<i>29.2</i>	<i>64.5</i>	<i>21.0</i>	<i>19.5</i>	
Interest expenses	20,551	20,066	18,599	17,107	15,345	71,493	68,055	76,213	
NII	9,297	10,326	10,456	11,497	13,492	36,862	49,815	61,602	Strong NII momentum with clear benefits of deposit re-pricing and capital infusion
<i>yoy change (%)</i>	<i>24.4</i>	<i>24.6</i>	<i>29.0</i>	<i>25.9</i>	<i>45.1</i>	<i>42.6</i>	<i>35.1</i>	<i>23.7</i>	
Net revenue	16,619	18,781	20,042	22,153	23,372	65,831	90,276	102,637	
Operating expenses	7,522	7,396	8,278	9,095	9,626	28,582	36,701	43,521	Indicated to increase at normalized run-rates
Employee expenses	2,661	2,575	3,093	3,042	3,085	9,977	12,770	17,048	
Other expenses	4,862	4,821	5,185	6,053	6,540	18,606	23,931	26,472	
Operating profit	9,096	11,385	11,764	13,058	13,747	37,249	53,575	59,117	
Provisions	1,320	2,552	3,153	4,989	3,731	9,394	15,245	11,120	Provisions decline significantly qoq; a key positive
<i>yoy change (%)</i>	<i>-34.0</i>	<i>55.4</i>	<i>6.3</i>	<i>95.0</i>	<i>182.7</i>	<i>62.1</i>	<i>62.3</i>	<i>-27.1</i>	
PBT	7,777	8,833	8,611	8,069	10,015	27,855	38,330	47,997	
Tax	2,768	3,019	2,990	2,752	3,455	9,701	13,416	16,799	
PAT	5,009	5,815	5,620	5,316	6,560	18,154	24,915	31,198	Strong bottom-line growth driven by momentum in NII and lower provisions
<i>yoy change (%)</i>	<i>63.2</i>	<i>60.9</i>	<i>70.2</i>	<i>32.0</i>	<i>31.0</i>	<i>69.5</i>	<i>37.2</i>	<i>25.2</i>	

Quarterly results

Ratios (%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	FY09	FY10E	FY11E	Comments/ Trends
NIMs (reported)	3.12	3.37	3.34	3.52	4.00				Sequential expansion in margins owing to a steep decline in cost of funds
NIMs (calculated)	2.80	2.90	2.90	3.14	3.57	2.87	3.23	3.44	
Non fund revenue/Avg assets	2.21	2.37	2.65	2.91	2.62	2.25	2.62	2.29	
Fee income /avg assets	1.87	1.86	1.74	1.96	2.12	1.75	1.77	2.06	
Operating exp/avg assets	2.27	2.07	2.29	2.48	2.55	2.22	2.38	2.43	
Cost/Net rev.	45.3	39.4	41.3	41.1	41.2	43.4	40.7	42.4	
Prov/avg assets	0.4	0.7	0.9	1.4	1.0	0.7	1.0	0.6	
PBT/Avg assets	2.3	2.5	2.4	2.2	2.7	2.2	2.5	2.7	
Tax/PBT	35.6	34.2	34.7	34.1	34.5	34.8	35.0	35.0	
RoA	1.5	1.6	1.6	1.5	1.7	1.4	1.6	1.7	
CRAR	13.8	13.7	15.3	16.5	16.8				Well capitalized to accelerate the growth momentum
Tier-I CRAR	9.46	9.26	9.39	11.43	11.8				
CD ratio	71.3	69.5	70.8	70.1	74.5				Improving qoq on with calibrated growth in deposits
Balance sheet (Rs bn)									
Credit	753.3	815.8	781.1	810.4	848				Up ~5% qoq led by 21% yoy rise in retail and 17% yoy growth in SME advances
yoy change (%)	54.9	36.7	27.7	17.7	12.5				
Deposits	1,057.2	1,173.7	1,102.6	1,156.0	1,139				
yoy change (%)	54.2	33.9	23.9	12.4	7.7				

* On average quarterly balances

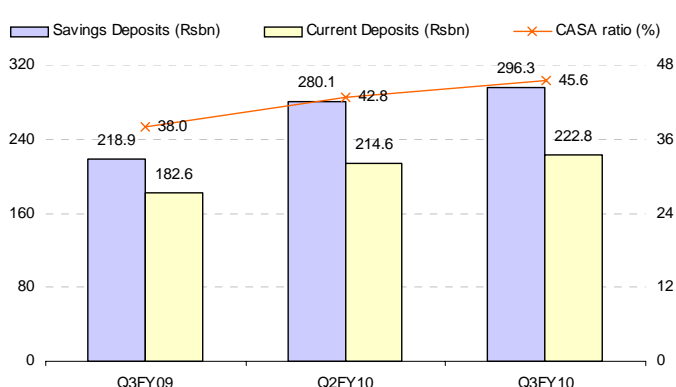
Exhibit 1: Margins* expand (%)...



- Margins expand qoq owing to steep fall in cost of funds
- Sustained decline in funding costs a function of re-pricing of high-cost deposits garnered during the liquidity crunch of last fiscal

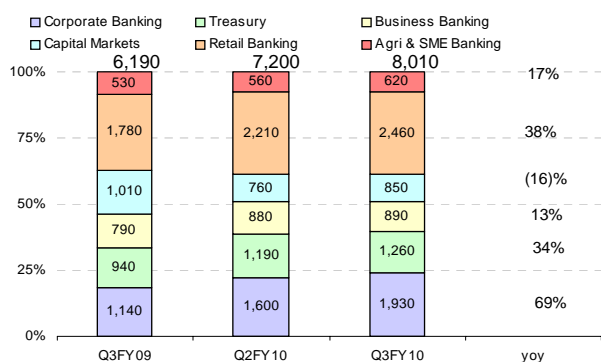
* Calculated on average quarterly balances

Exhibit 2: ...aided by a rise in CASA



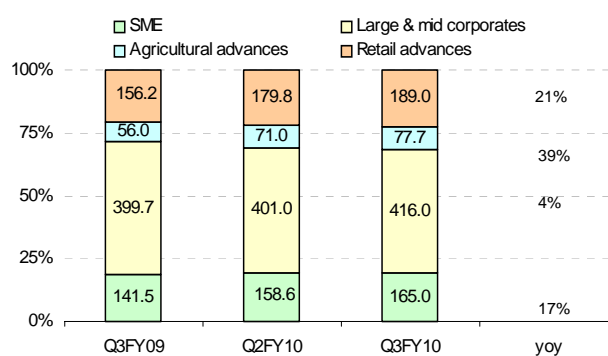
- Almost the entire rise in deposits in Q3FY10 comes from CASA
- Strong traction in savings accounts; ~26% of total deposits and up 39% yoy

Exhibit 3: Fee income break up (Rs m)



- Non-trading income witnessing traction (11% qoq growth)
- Retail fees picking up, large/mid-corporate fees seeing strong growth

Exhibit 4: Composition of advances book (Rs bn)



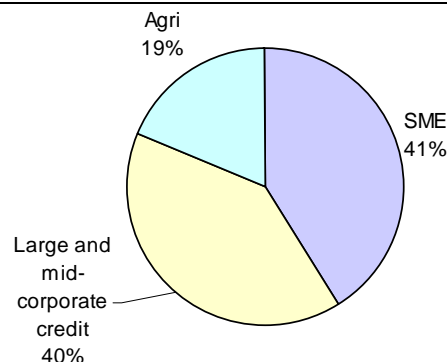
- Credit growth of ~10% yoy driven by retail and SME loans
- Retail growth at ~21% yoy driving overall loan growth aided by momentum in SME advances (17% yoy growth)

Exhibit 5: Gross NPAs stable

Rsm/ %	Q3FY09	Q2FY10	Q3FY10	Incremental (Rsm) / (%)
Gross NPAs	7,879	11,317	11,735	418
Net NPAs	3,419	4,167	4,296	128
Gross NPAs (%)	0.90%	1.21%	1.23%	0.02%
Net NPAs (%)	0.39%	0.45%	0.46%	0.01%
Loan loss coverage	56.60%	63.18%	63.40%	0.22%
Loan loss coverage (including write-offs) (%)	83.4%	86.7%	87.8%	1.17%
Restructured advances		23,632	23,090	(542)
% of loans		2.9%	2.7%	

- Gross NPAs remain stable; provisions come-off sequentially, a key positive
- Rs23bn of cumulative restructurings (2.7% of net advances)

Exhibit 6: Segmental break-up of restructured loans (% of total)



- Bulk of advances restructured during Q3FY10 from large and mid-corporate segments
- 40% of the restructured loans emanate from Textiles, another 33% from Education

Exhibit 7: Rise in Slippages#

Rs m	Q3FY09	Q2FY10	Q3FY10
Incremental Gross NPAs	777	2,164	418
Outstanding provisions	4,459	7,150	7,440
Implied provisions	724	1,668	290
NPA provisions (actual)	2,739.80	4,870.00	3,580.00
Excess NPA provisions	2015.9	3,201.90	3,290.50
Gross Slippage	2792.4	5,366.20	3,708.10
Gross Slippage % of opening Advances	0.4	0.69	0.46

Source: Company, IDFC-SSKI Research; # Approximations

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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