

Axis Bank

Hold

Price Rs910

Target Price Rs960 %Upside 6% ↑

Market Capitalisation Rsmn327,230 (US\$6,760mn)

52 wk range H/L (Rs) 974/278

Shares o/s (mn) 359.87 Daily vol (mn shares) 3.77

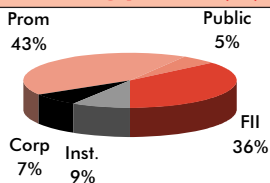
Reuters AXBK.BO Bloomberg AXSB IN

Performance (%)
1M 3M 12M YTD
Absolute 4.5 25.1 29.1 80.2
Rel.toSensex (2.8) 18.9 14.1 7.2

BSE Sensex 16,217 Nifty 4,819

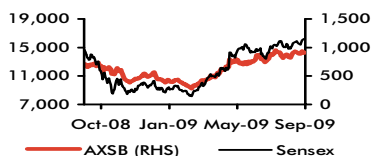
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

Financials (Rs bn)

Yr end-Mar	FY09	FY10E	FY11E
Int Income	108.35	139.00	186.34
Int Expense	71.50	92.06	117.63
Net Int. Inc.	36.86	46.94	68.71
Gross profit	37.25	47.11	71.22
Net profit	18.15	23.03	38.82
Gross NPA (%)	1.1	1.1	0.9
Net NPA (%)	0.4	0.5	0.5
NIM (%)	2.3	3.3	4.3
RoE (%)	19.1	17.7	22.5
RoAA (%)	1.41	1.36	1.74
EPS (Rs)	50.7	60.5	96.5
Adj. BVPS (Rs)	276	400	448
P/ABV (x)	3.3	2.3	2.0

Source: Company, Ambit Capital Research

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Limited deployment opportunities to dilute return ratios

- Capital raising exercise begins through QIP / GDR route
- Looking to raise \$800m-\$1bn @ Rs903
- Quantum of money necessarily warrants aggressive credit growth during FY11E
- Deployment opportunities a key challenge
- Near-term negative; medium-term dependent on credit outlook
- Maintain HOLD with a revised TP of Rs960

In line with what we mentioned in our update dated 06th Aug'09, Axis Bank received shareholder approval for raising Tier-I capital. Media reports indicate that the bank is raising between \$800mn-\$1bn from the QIP / GDR issue at Rs903 (2.3x our earlier FY11E ABVPS estimates of Rs385). We build in our new estimates for Axis Bank with a base case scenario at the lower end of the range (\$800mn) assuming the entire capital infusion into the core lending business.

Exhibit 1: Axis Bank capital raising plan Sep'09

	Lower limit	Upper limit
Amount to be raised (\$ mn)	800	1000
Amount to be raised (Rs mn)	38,800	48,500
Price at which capital is raised (Rs)	900	900
No. of shares to be issued (mn)	43.1	53.9
Post-issue dilution (% of new equity base)	10.7	13.0
Increase in share capital (Rs mn)	431	539
Increase in share premium (Rs mn)	38,369	47,961

Source: Company, Ambit Capital Research estimates

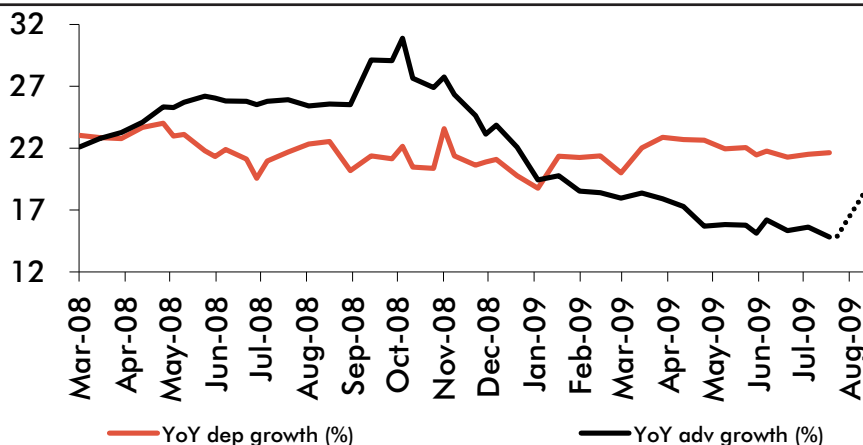
Deployment opportunities a key challenge: We believe that the quantum of capital raising necessarily warrants quick and aggressive deployment. We opine that Axis Bank would need to look for at least a ~40% loan book growth in order to restore its return ratios by FY11E. Especially at a time when the system is yet to witness a pick-up in credit offtake, fewer deployment opportunities would act as a limiting factor as far as return ratios are concerned.

Exhibit 2: Changes in estimates - FY11E

	Pre-money	Post-money
Advances (Rs bn)	1,314	1,463
Deposits (Rs bn)	1,840	2,034
Business (Rs bn)	3,154	3,497
YoY growth in adv (%)	25.4	39.7
YoY growth in dep (%)	23.3	36.3
YoY growth in biz (%)	24.2	37.7
C-D ratio (%)	71.4	71.9

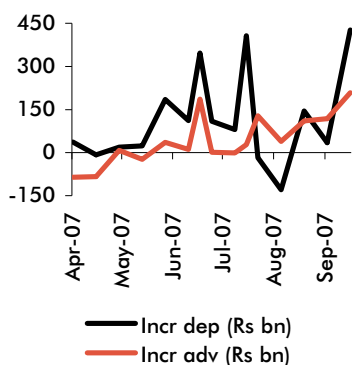
Source: Ambit Capital Research estimates

Exhibit 3: Banks expected to be more liberal with their lending post Sep'09



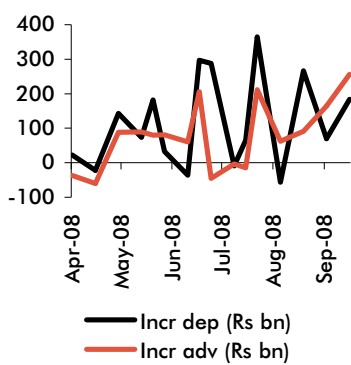
Source: RBI

Exhibit 4: H1FY08 - normal lending



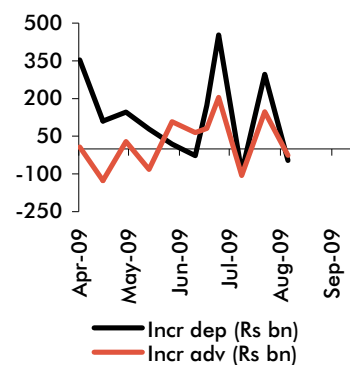
Source: RBI

Exhibit 5: H1FY09 - more or less identical



Source: RBI

Exhibit 6: H1FY10 - marginal appetite



Source: RBI

We maintain our systemic credit growth estimate at 16-20% for the current fiscal while our assumptions for Axis Bank entail a credit growth of 28.4%. **Our FY10E estimates for Axis Bank are unlikely to undergo any changes, given the low appetite for credit that the system is currently witnessing. Hence, all our changes have been effected on our erstwhile FY11E estimates.**

Post-money scenario for private sector banks: Our preference for PSU banks (other than SBI at this stage) as articulated in our sector report dated 29th Jun'09 was primarily based on our opinion that private sector banks would be constrained for capital. However, in the light of the capital raising exercise completed by private sector banks such as IndusInd Bank and ING Vysya Bank as well as the impending ones by Axis Bank and HDFC Bank (conversion of warrants), this argument no longer holds. **However, purely from a perspective of efficient utilization of capital, especially during a low credit growth regime, we continue to favor PSU banks over private sector banks.**

Valuation and recommendation: A higher quantum of capital raising, especially in a weak credit environment, is likely to result in a sharp dilution in near-term RoEs. We believe this would exert near-term pressure on the stock.

Exhibit 7: Changes in key valuation ratios

	Pre-money	Post-money
RoE (%) - FY10E	21.2	17.7
RoE (%) - FY11E	24.8	22.5
ABVPS (Rs) - FY10E	319.4	400.2
ABVPS (Rs) - FY11E	385.0	448.1
EPS (Rs) - FY10E	65.6	60.5
EPS (Rs) - FY11E	91.4	96.5
EVA valuation (Rs) - FY11E	890	1,081
P/ABV (x) - FY11E	2.1	1.9
P/ABV valuation (Rs) - FY11E	821	838
Target price (Rs) - FY11E	855	959

Source: Ambit Capital Research estimates

At its CMP of Rs910, the stock quotes at 2.3x and 2.0x our post-money FY10E and FY11E ABVPS estimates of Rs400 and Rs448 respectively. **We maintain our HOLD recommendation on the stock with a revised target price of Rs960 (rounded off).**

Exhibit 8: Profit & loss

	FY07	FY08	FY09	FY10E	FY11E
Interest income	45.60	70.05	108.35	139.00	186.34
Interest expenses	29.93	44.20	71.50	92.06	117.63
Net interest income	15.67	25.86	36.86	46.94	68.71
% Growth	45.0	65.0	42.6	27.4	46.4
Treasury income	1.86	4.28	6.48	7.75	10.85
Other income from operations	8.24	13.68	22.49	29.44	37.73
Total income	25.77	43.81	65.83	84.13	117.29
Employee expenses	3.81	6.70	9.98	13.97	18.16
Other operating expenses	8.33	14.85	18.61	23.05	27.92
Operating profit	13.63	22.26	37.25	47.11	71.22
% Growth	36.7	63.4	67.3	26.5	51.2
Tax	3.37	5.75	9.70	12.40	20.90
Loan loss provisions	3.66	5.80	9.40	11.68	11.49
Net profit	6.59	10.71	18.15	23.03	38.82

Exhibit 9: Balance sheet

	FY07	FY08	FY09	FY10E	FY11E
Capital	2.91	3.60	3.60	4.03	4.03
Reserves and surplus	31.12	84.11	98.55	153.59	183.01
Deposits	587.86	876.26	1,173.74	1,492.50	2,034.28
Borrowings	51.96	56.24	101.85	104.38	121.06
Other liabilities & provisions	58.74	75.57	99.47	164.45	196.62
Total	732.57	1,095.78	1,477.22	1,918.95	2,539.00
Cash & balances with RBI	46.61	73.06	94.19	119.98	158.71
Balances with banks & money at call	22.57	51.99	55.98	86.52	87.80
Investments	268.97	337.05	463.30	609.52	765.68
Advances	368.76	596.61	815.57	1,047.09	1,462.97
Fixed assets	6.73	9.23	10.73	12.05	13.64
Other assets	18.92	27.85	37.45	43.80	50.21
Total	732.57	1,095.78	1,477.22	1,918.95	2,539.00

Source: Company, Ambit Capital Research estimates

Exhibit 10: Key ratios (%)

	FY07	FY08	FY09	FY10E	FY11E
Credit-Deposit	62.7	68.1	69.5	70.2	71.9
Investment / Deposit	45.8	38.5	39.5	40.8	37.6
Cash / Deposit	11.8	14.3	12.8	13.8	12.1
RoAA	1.1	1.2	1.4	1.4	1.7
RoE	21.0	17.6	19.1	17.7	22.5
Capital Tier I	6.4	10.4	9.5	10.9	9.9
Capital Tier II	5.2	3.4	4.4	5.3	4.6
Total CAR	11.6	13.8	13.8	16.3	14.5
Gross NPA	1.1	0.8	1.1	1.1	0.9
Net NPA	0.7	0.4	0.4	0.5	0.5
Interest income/ avg.interest earning assets	7.4	7.7	8.4	8.2	8.4
Interest expense/ avg. interest bearing liabilities	4.9	4.8	5.6	5.4	5.3
Net interest margin	2.5	2.8	2.9	2.8	3.1
Interest expended/ interest earned	65.6	63.1	66.0	66.2	63.1
Cost/ Income ratio	47.1	49.2	43.4	44.0	39.3
Employee expense to total income	26.9	26.0	25.2	24.8	16.1

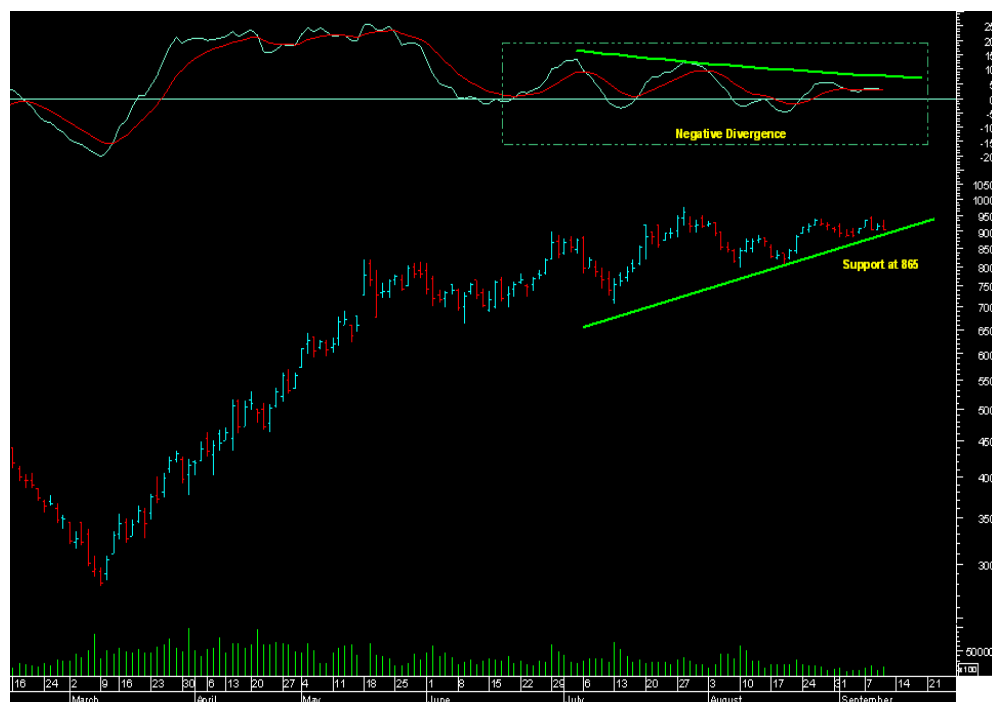
Exhibit 11: Valuation parameters

	FY07	FY08	FY09	FY10E	FY11E
Earnings per share, Rs	23.5	33.5	50.7	60.5	96.5
Book value per share, Rs	120.8	245.2	284.5	392.0	465.1
Adjusted book value per share, Rs	111.9	238.2	275.9	400.2	448.1
P/E (x)	38.7	27.2	18.0	15.0	9.4
P/ABV (x)	8.1	3.8	3.3	2.3	2.0
Dividend yield (%)	0.5	0.7	1.1	1.5	2.2

Source: Company, Ambit Capital Research estimates

Technical View - Axis Bank

Witnessing negative divergence



- The momentum indicator KST is witnessing negative divergence on the Daily Chart.
- This suggests that upside in the stock is limited in the short term.
- The downside support is at Rs865.
- We advise cautiousness at current levels in the short term and also await a correction before going long in Axis Bank.

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

Disclaimer

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