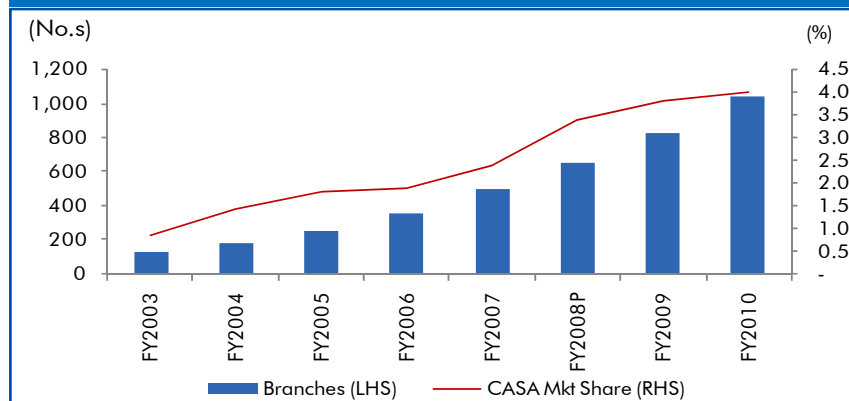


- Strong CAR and Branch Expansion to support faster market share gains:** We believe the bank's strong capital adequacy positions it for market share gains as the GDP and capital market activity continue to revive, with at least 500bp higher growth than industry over FY2010-12E. The bank has expanded its network at 35% CAGR since FY2003, driving fourfold increase in CASA market share to 4.0% by FY2010 (20bp yoy increase in FY2010). In our view, such gains (30-50bp every year) will continue going forward, especially as network expansion (200+ additions, about 20-25% yoy) remains strong.

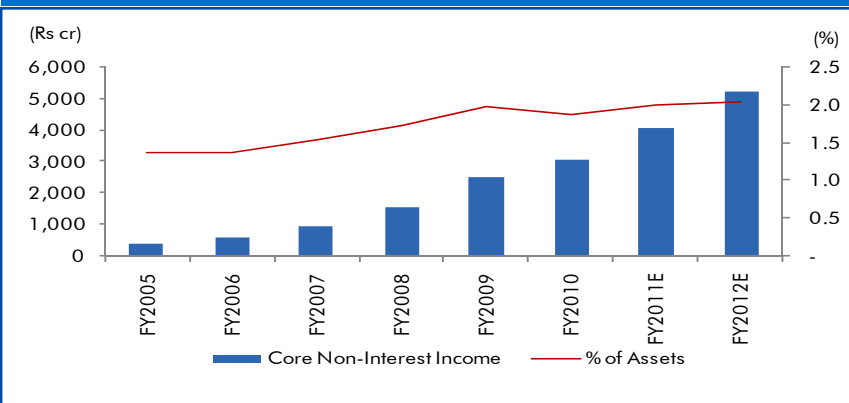
- Fee income continues to drive higher Profitability:** Fee income contribution across a spectrum of services has been a meaningful 1.9% of assets (almost twice the level in PSBs) over FY2008-10. With corporate loan growth picking up and capital markets reviving, fee income growth is also expected to gain traction (30% CAGR over FY2010-12E), taking the contribution to 2.2% of assets by FY2012E. The recent deal with Enam will help the bank in bolstering its already strong fee income. However the deal is relatively small to impact the valuations either way.

Strong Branch Expansion leading to CASA Market Share Gains



Source: Company, Angel Research

Core Non-interest Growth at 48% CAGR during FY07-10

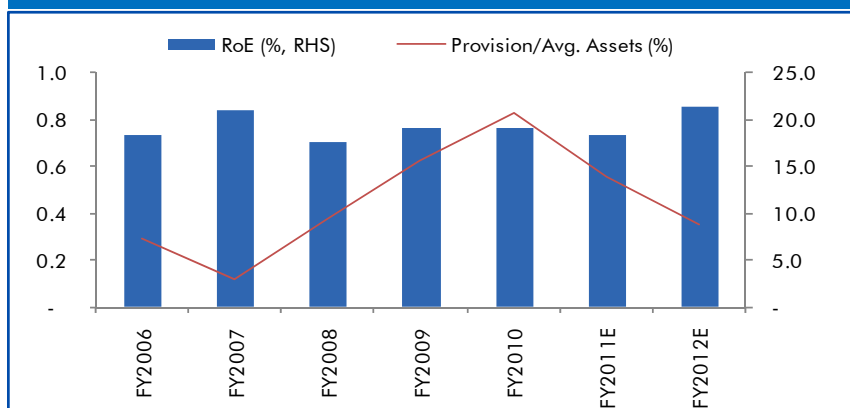


Source: Company, Angel Research



- NPA Concerns receding:** With the improving economic outlook and reducing corporate leverage, NPA concerns are receding. Sequentially, the slippage rate has broadly been declining (down from 2.2% in FY2010 to 1.7% in 2QFY11). We expect NPA provisions/Avg Assets to decline to 0.4% by FY2012E from 0.8% in FY2010.

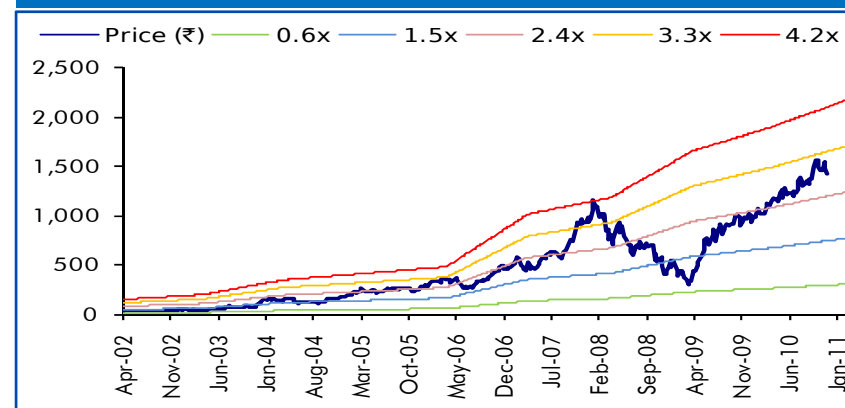
## Lower Provisions to drive Profitability



Source: Company, Angel Research

- Valuations attractive:** At the CMP, the stock is trading at valuations of 2.6x FY2012E ABV - an almost 30% discount to HDFC Bank, despite similar earnings quality, profitability and growth expectations over FY2010-12E. We value the stock at 3.2x FY2012E ABV (at the higher end of its 5-yr range) to arrive at a target Price of Rs1,679. **We recommend buy.**

## P/ABV Band



Source: Company, Angel Research

## Valuation Snapshot (Standalone)

Company	Reco	CMP (Rs)	Tgt Price (Rs)	Upside (%)	FY2012E P/ABV (x)	FY2012E Tgt P/ABV (x)	FY2012E P/E (x)	FY10-12E EPS CAGR(%)	FY2012E RoA (%)	FY2012E RoE (%)
AXISBK	Buy	1,384	1,679	21.3	2.6	3.2	13.4	29.0	1.7	21.4
HDFCBK	Accumulate	2,305	2,510	8.9	3.7	4.0	19.4	35.7	1.7	20.4

## Income Statement

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Net Interest Income</b>	<b>3,686</b>	<b>5,004</b>	<b>6,491</b>	<b>8,174</b>
- YoY Growth (%)	42.6	35.8	29.7	25.9
<b>Other Income</b>	<b>2,834</b>	<b>3,771</b>	<b>4,240</b>	<b>5,786</b>
- YoY Growth (%)	57.8	33.1	12.4	36.4
<b>Operating Income</b>	<b>6,520</b>	<b>8,776</b>	<b>10,732</b>	<b>13,960</b>
- YoY Growth (%)	48.8	34.6	22.3	30.1
<b>Operating Expenses</b>	<b>2,858</b>	<b>3,710</b>	<b>4,561</b>	<b>6,107</b>
- YoY Growth (%)	32.6	29.8	22.9	33.9
<b>Pre - Provision Profit</b>	<b>3,662</b>	<b>5,066</b>	<b>6,171</b>	<b>7,853</b>
- YoY Growth (%)	64.5	38.3	21.8	27.3
<b>Prov. &amp; Cont.</b>	<b>877</b>	<b>1,215</b>	<b>1,386</b>	<b>1,297</b>
- YoY Growth (%)	51.3	38.6	14.1	(6.4)
<b>Profit Before Tax</b>	<b>2,785</b>	<b>3,851</b>	<b>4,785</b>	<b>6,556</b>
- YoY Growth (%)	69.2	38.3	24.2	37.0
<b>Provision for Taxation</b>	<b>970</b>	<b>1,337</b>	<b>1,627</b>	<b>2,229</b>
- as a % of PBT	34.8	34.7	34.0	34.0
<b>PAT</b>	<b>1,815</b>	<b>2,515</b>	<b>3,158</b>	<b>4,327</b>
- YoY Growth (%)	69.5	38.5	25.6	37.0

## Balance Sheet

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Share Capital	359	405	405	419
Reserve & Surplus	9,855	15,639	18,041	21,628
Deposits	117,374	141,300	180,864	227,889
- Growth (%)	33.9	20.4	28.0	26.0
Borrowings	10,185	11,162	14,151	17,719
Tier 2 Capital	7,774	8,883	11,192	14,214
Other Liabilities & Provisions	2,175	3,258	4,379	4,898
<b>Total Liabilities</b>	<b>147,722</b>	<b>180,648</b>	<b>229,033</b>	<b>286,766</b>
Cash in Hand and with RBI	9,419	9,474	12,660	17,092
Bal. with banks & money at call	5,598	5,733	7,268	9,100
Investments	46,330	55,975	71,183	85,586
Advances	81,557	104,343	131,472	166,970
- Growth (%)	36.7	27.9	26.0	27.0
Fixed Assets	1,073	1,222	1,503	1,826
Other Assets	3,745	3,901	4,946	6,193
<b>Total Assets</b>	<b>147,722</b>	<b>180,648</b>	<b>229,033</b>	<b>286,766</b>
- Growth (%)	34.8	22.3	26.8	25.2



## Key Ratios

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Profitability ratios (%)</b>				
NIMs	3.0	3.1	3.3	3.3
Cost to Income ratio	43.8	42.3	42.5	43.7
ROA	1.4	1.5	1.5	1.7
ROE	19.1	19.2	18.3	21.4
<b>B/S Ratios (%)</b>				
CASA ratio	43.1	46.7	46.4	46.2
Credit/Deposit ratio	69.5	73.8	72.7	73.3
CAR	12.8	14.7	14.4	14.0
- Tier I	8.7	10.4	8.9	8.5
<b>Asset Quality (%)</b>				
Gross NPAs	1.1	1.3	1.2	1.2
Net NPAs	0.4	0.4	0.4	0.3
Slippages	1.5	2.2	1.6	1.1
Loan loss prov. /avg. assets	0.6	0.8	0.6	0.4
Provision coverage	63.6	68.2	70.7	71.8

## Key Ratios

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Per Share Data (Rs.)</b>				
EPS	50.6	62.1	77.9	103.3
ABVPS ( 75% Coverage for NPAs)	281.6	393.8	453.5	524.7
DPS	10.0	12.0	16.0	21.0
<b>Valuation Ratios</b>				
PER (x)	27.4	22.3	17.8	13.4
P/ABVPS (x)	4.9	3.5	3.1	2.6
Dividend Yield	0.7	0.9	1.2	1.5
<b>DuPont Analysis</b>				
NII	2.9	3.0	3.2	3.2
(-) Prov. Exp.	0.7	0.7	0.7	0.5
Adj NII	2.2	2.3	2.5	2.7
Treasury	0.2	0.4	0.1	0.1
Int. Sens. Inc.	2.4	2.7	2.6	2.7
Other Inc.	2.0	1.9	2.0	2.2
Op. Inc.	4.4	4.6	4.6	4.9
Opex	2.2	2.3	2.2	2.4
PBT	2.2	2.3	2.3	2.5
Taxes	0.8	0.8	0.8	0.9
<b>ROA</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>	<b>1.7</b>
Leverage	13.6	12.5	11.9	12.7
<b>ROE</b>	<b>19.1</b>	<b>19.2</b>	<b>18.3</b>	<b>21.4</b>



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