

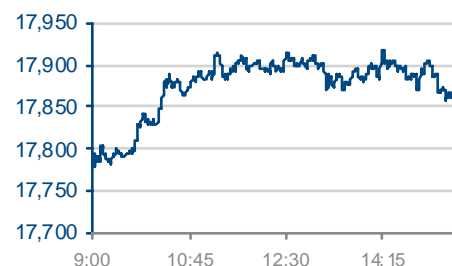
• What's Inside: Axis Bank (BUY); Real Estate; Cement; Events calendar

## Market Front Page

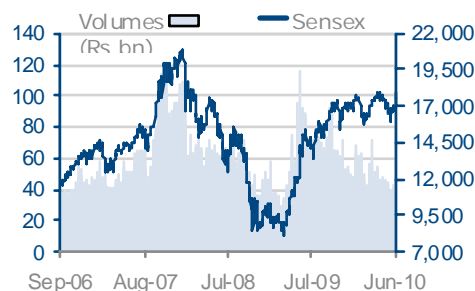
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	17,877	1.7	2.4	HDFC Bank	154.6	2.7	18.0
Nifty	5,353	1.7	2.9	Reliance	46.8	2.2	0.5
BSE Smallcap	8,954	1.2	7.1	Infosys	63.2	(0.3)	3.3
CNX Midcap	8,079	1.1	8.7	Satyam	5.1	1.8	35.2
Nasdaq	2,289	(0.9)	0.9	Wipro	22.4	1.6	48.0
DJIA	10,442	(0.1)	0.1	ICICI Bank	39.0	2.3	(0.9)
IBOV	64,829	0.6	(5.5)	SBI	103.5	1.7	(0.8)
FTSE	5,299	0.9	(2.1)	Sterlite	15.5	4.9	(2.8)
CAC	3,736	1.3	(5.1)	Tata Motors	18.2	1.0	3.2
Turnover	US\$m	% Chg		Commodities	Latest	%Chg	%YTD
BSE	847	(8.7)		Gold (US\$/ounce)	1,240	0.5	13.0
NSE	2,795	(10.7)		Crude (US\$/bl)	78	0.8	(1.9)
Derivatives (NSE)	26,242	22.7		Aluminium (US\$/MT)	1,961	0.9	(12.1)
FII F&O (US\$m)	Index	Stocks		Copper (US\$/MT)	6,604	2.6	(10.5)
Net buying	332	(43)		Forex Rates	Closing	% Chg	%YTD
Open interest	16,389	7,099		Rs/US\$	45.6	(0.5)	(2.2)
Chg in open int.	1,111	157		Rs/EUR	56.8	(0.4)	(15.3)
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	68.1	(0.4)	(9.3)
FII (18/6)	151	1,041	5,641	Bond Markets	Closing	bps Chg	
DII (21/6)	(123)	(436)	3,224	10 yr bond		7.6	(1.0)
MF (18/6)	(10)	103	(1,538)	Interbank call		5.4	12.0

## Charts Front Page

Sensex intraday



Sensex price volume trend



## Corporate Front Page

- **Reliance Industries** has become the second refinery to receive crude oil supply through **Cairn India** and its joint venture partner **ONGC's** pipeline network. (BL)
- **Oil India** has secured an extension for petroleum exploration licences for 10 of its 16 independently held blocks in Assam and Arunachal Pradesh. (BS)
- **BEML** plans to invest Rs6.8bn in the next two to three years for expansion and diversification. (BS)
- **Tata Teleservices** has suggested that the price of each MHz of excess spectrum beyond 6.2MHz in the 1800 Mhz band should be 1.67 times the 3G price set through the recent auction. (BS)
- The **Bajaj-Renault-Nissan** alliance's small car project continues to get sidelined as plans of production and branding is yet to take shape. (BS)
- **Bharti Airtel** has appointed Ogilvy Africa BV as its marketing services partner for its African operations. (ET)
- **HCL Technologies** denied any plans to merge with the group's computer hardware subsidiary HCL Infosystems. (ET)
- **Dewan Housing Finance Corporation** stated that IFC has agreed to invest up to Rs200mn by subscribing up to 2mn shares in Aadhar Housing Finance Pvt Ltd. (FE)
- **Tata Steel** won the environmental ministry approval to expand capacity at its Jamshedpur unit. (ET)
- **Reliance Industries** several attempts to take over LyondellBasell may not be the final one. The Netherlands-based major expects the bid to come again in the coming years. (BS)

## Market Front Page

### Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Sesa Goa Ltd	388	9.7	-5.6	Patni Computer Syster	538	-3.9	10.9
Sterlite Industries India	183	7.8	-15.3	GTL Ltd	413	-3.3	6.4
Tata Steel Ltd	505	6.6	-18.3	MMTC Ltd	31335	-2.2	-9.0
Hindalco Industries Ltd	154	5.7	-4.5	Glenmark Pharmaceuti	266	-1.4	-3.5
JSW Steel Ltd	1097	5.6	8.3	IRB Infrastructure Dev	276	-1.1	12.4

### Volume spurts

Company	CMP	M.Cap (US\$m)	Vol. (in '000)	10D A.Vol (in '000)	% Chg
BEML Ltd	1,036.4	946	81	24	232
MAX India Ltd	168.2	856	3,625	1,136	219
Tata Tea Ltd	1,183.9	1,604	637	209	205
Gujarat State Petronet Ltd	97.7	1,203	3,749	1,361	175
Aditya Birla Nuvo Ltd	805.3	1,817	279	116	141
ABB Ltd/India	869.9	4,039	311	132	136
Gujarat Mineral Developme	128.3	894	3,198	1,414	126
CESC Ltd	386.3	1,057	299	133	125
Ultratech Cement Ltd	969.5	2,644	202	95	112
GVK Power & Infrastructure	44.3	1,531	15,346	7,265	111

### FII - FII trades

Scrip	18/6/2010			21/6/2010		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Maruti	63	1,386	2.2	206	1,394	2.0
Boi	6	331	1.0	70	338	0.4
Pnb	-	-	-	239	1,114	6.2
Grasim	48	1,794	0.7	1	1,806	1.0
Bob	51	724	1.3	125	723	1.1
Union bank	116	319	2.5	132	325	2.2
Pantaloon	7	435	4.0	-	-	-

## Corporate Front Page

- **Cox & Kings (India)** plans to raise Rs20bn of equity and debt to fund expansion plans. (ET)
- **Nagarjuna Construction** is planning to dilute ~49% stake by roping in a foreign partner in the special purpose vehicle executing the 1320-MW coal-fired plant in Srikakulam, Andhra Pradesh. (BL)
- **JSW Steel** has demanded a stake in the controversial Obulapuram Mining Company or a definite deal to supply iron ore as talks with Karnataka's Reddy brothers for taking over their steel company reach a crucial stage. (ET)
- **GMR Group** is willing to buy stakes held by minority partners in all the three airports it operates if there is any such offer. (ET)

## Economy Front Page

- The department of public enterprises has proposed that the finance ministry classify loans to sick state-owned companies as priority sector lending, entitling them to lower interest rates and hastening their recovery. (ET)
- The government is set to simplify Shops and Establishments Act, some of the provisions in the law may be amended or dispensed with. (BS)
- The Union government proposes to switch over to specific rates for value added tax on petrol and diesel instead of the current ad-valorem (percentage) structure. (BS)
- Insurance regulator, IRDA is set to frame new guidelines for ULIP products, to make them more attractive for policy holders. (FE)

## Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Essel Propack Ltd	Ganjam Trading Co Pvt Ltd	26/05/2010	Buy	3,100,000	39.0	121	2.0	8.5
Essel Propack Ltd	Rupee Finance & Management Pvt Ltd	26/05/2010	Buy	600,000	39.0	23	0.4	15.4
Housing Development Finance Corporation Ltd	K M Mistry	27/05/2010 - 31/05/2010	Sell	15,000	2,789.8	42	0.0	-
Housing Development Finance Corporation Ltd	K M Mistry	31/05/2010	Buy	35,000	2,789.8	98	0.0	0.0
Shiv-Vani Oil & Gas Exploration Services Ltd	Rohan Consultancy Services Pvt Ltd	27/05/2010	Buy	45,000	420.0	19	0.1	1.9
Shiv-Vani Oil & Gas Exploration Services Ltd	Rohan Consultancy Services Pvt Ltd	27/05/2010	Buy	45,000	420.0	19	0.1	2.0
Shiv-Vani Oil & Gas Exploration Services Ltd	Rohan Consultancy Services Pvt Ltd	27/05/2010	Buy	45,000	420.0	19	0.1	2.1
Shiv-Vani Oil & Gas Exploration Services Ltd	Showlin Network Marketing P Ltd	27/05/2010	Buy	30,000	420.0	13	0.1	0.9
Shiv-Vani Oil & Gas Exploration Services Ltd	Showlin Network Marketing P Ltd	27/05/2010	Buy	30,000	420.0	13	0.1	1.0
Shiv-Vani Oil & Gas Exploration Services Ltd	Showlin Network Marketing P Ltd	28/05/2010	Buy	36,000	420.0	15	0.1	1.1
Shiv-Vani Oil & Gas Exploration Services Ltd	Showlin Network Marketing P Ltd	28/05/2010	Buy	37,000	420.0	16	0.1	1.0
Shiv-Vani Oil & Gas Exploration Services Ltd	Showlin Network Marketing P Ltd	28/05/2010	Buy	42,241	420.0	18	0.1	1.2
Sirpur Paper Mills Ltd	Aravali Securities & Finance Ltd	28/05/2010	Buy	877,869	50.0	44	3.1	37.4
Universal Starch Chem Allied Ltd	Jitendrasinh J Rawal	24/05/2010	Buy	200,000	29.5	6	4.8	-
Universal Starch Chem Allied Ltd	Panchratna J Rawal	24/05/2010	Buy	200,000	29.5	6	4.8	-
Universal Starch Chem Allied Ltd	Rawal Agrochem Industries Pvt Ltd	24/05/2010	Sell	190,000	29.5	6	4.5	-
Universal Starch Chem Allied Ltd	Rawal Trading Enterprises Pvt Ltd	24/05/2010	Sell	421,600	29.5	12	10.0	-
Larsen & Toubro Ltd.	K.V.Rangaswami	14/06/2010	Sell	5,000	1,703.9	9	0.0	0.0
Kiri Dyes and Chemicals Limited	Manish Kiri	15/06/2010	Buy	144,948	563.1	82	0.0	10.5
Genesys International	Sudha Ganapthy	17/06/2010	Sell	18,242	407.3	7	0.0	1.0
Max India Limited	Maxopp Investments Limited	21/06/2010	Buy	1,600,000	168.2	269	0.7	5.0

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

## BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Aban Offshore Ltd.	Morgan Stanley Mauritius Company Ltd	21/06/2010	Buy	240,000	745.1	179
Balaji Dist	Sharad Shah	21/06/2010	Buy	3,000,000	43.8	131
Balaji Dist	Icici Bank Limited	21/06/2010	Sell	3,000,000	43.8	131
Bharat Immun	Sharad Shah	21/06/2010	Buy	266,386	19.5	5
Bharat Immun	Icici Bank Limited	21/06/2010	Sell	266,586	19.5	5
Future Capital	Kishore Kumarlaxminarayanbiyani	21/06/2010	Buy	1,000,000	199.0	199
Future Capital	Sameer Sushil Sain	21/06/2010	Sell	1,000,000	199.0	199
Vip Inds	Rakesh Radheyshyam Jhunjhunwala	21/06/2010	Buy	165,000	297.3	49
Vip Industries Ltd.	Rakesh Jhunjhunwala	21/06/2010	Buy	205,000	297.0	61

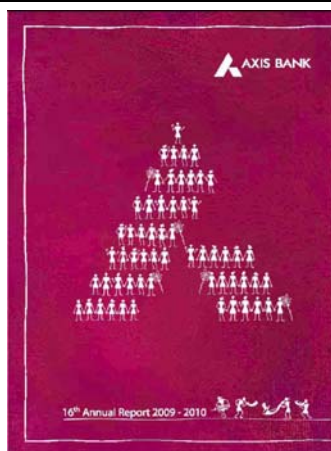
## Well poised for growth

Axis Bank has grown its loan book at a rapid pace over the last few years, all the while ensuring that profit growth outstripped loan growth. In FY10, the bank continued its stellar performance under its new MD & CEO, loan book grew by 28% YoY, while net profit grew by 31% YoY. Asset quality remained stable despite rapid loan book growth, and we expect net NPAs to sustain at current levels going forward. Axis Bank's RoA is among the best in the sector and has consistently improved each year. The stock is trading at 2.7x FY11ii book, with 19% FY11ii RoE. We retain BUY.

**Faster-than-system growth to continue:** Axis Bank's loan book has registered a CAGR of 2x the system rate over the past five years. Overall, the loan book registered a 68% CAGR over FY07-10, led by large and mid corporates (75% CAGR), SME (71% CAGR), and agri loans (68% CAGR), while retail loans (53% CAGR) lagged overall loan book growth. The bank's stronghold in infrastructure, SME and project finance lending, combined with the renewed focus on retail assets, will ensure that the bank grows at 1.3-1.5x the system rate in FY11 and FY12.

**Asset quality not a concern:** While investors were wary at the start of the year of higher NPL accretion, with Ms Shikha Sharma taking over the post of MD & CEO, however, overall asset quality remained stable, despite a 47% YoY increase in gross NPAs in FY10. The bank's asset quality remains one of the best in the sector, with gross NPAs at 1.1%, net NPAs at 0.4%, and outstanding restructured assets at 2% of outstanding loans. We expect net NPAs to remain stable going forward as well.

**Profitability remains robust in spite of rapid growth:** Despite the 46% CAGR in loan growth over FY05-10, net profit registered 50% CAGR over the same period. Axis Bank's strong fee income franchise, combined with improvements in the cost-to-income ratio, has resulted in an uninterrupted increase in RoA. The bank's RoA at 1.5% remains one of the best among its peers.



### Financial Summary

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Pre prov. operating inc. (Rs m)	37,249	52,405	66,073	85,757	111,306
Net profit (Rs m)	18,154	25,145	32,885	42,643	55,756
EPS (Rs)	50.6	62.1	81.2	105.2	137.6
Growth (%)	68.9	22.7	30.8	29.7	30.8
PER (x)	24.7	20.1	15.4	11.9	9.1
Book value (Rs)	285	396	459	541	647
<b>PB (x)</b>	<b>4.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>
CAR (%)	14.1	15.8	14.5	13.2	12.1
ROA (%)	1.4	1.5	1.6	1.7	1.7
<b>ROE (%)</b>	<b>19.1</b>	<b>19.2</b>	<b>19.0</b>	<b>21.1</b>	<b>23.2</b>
Dividend yield (%)	0.8	1.0	1.2	1.6	2.1

Price as at close of business on 21 June 2010

12-mth TP (Rs) 1352 (8%)

Market cap (US\$ m) 11,045

52Wk High/Low (Rs) 1320/666

Diluted o/s shares (m) 407

Daily volume (US\$ m) 53

Dividend yield FY11ii (%) 1.2

Free float (%) 61.5

### Shareholding pattern (%)

Promoters 38.5

FII's 33.1

DII's 7.1

Others 21.3

### Price performance (%)

Axis Bank 1M 2.6 3M 7.9 1Y 65.0

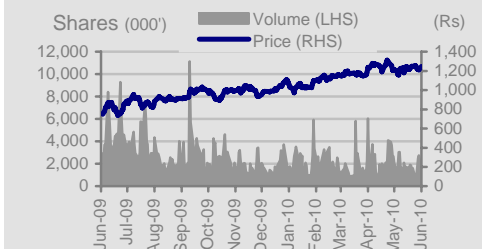
Rel. to Sensex -6.1 6.2 41.9

ICICI Bank 7.8 -5.9 26.0

HDFC Bank 9.4 9.8 28.2

St Bk of India 5.1 16.0 38.5

### Stock movement



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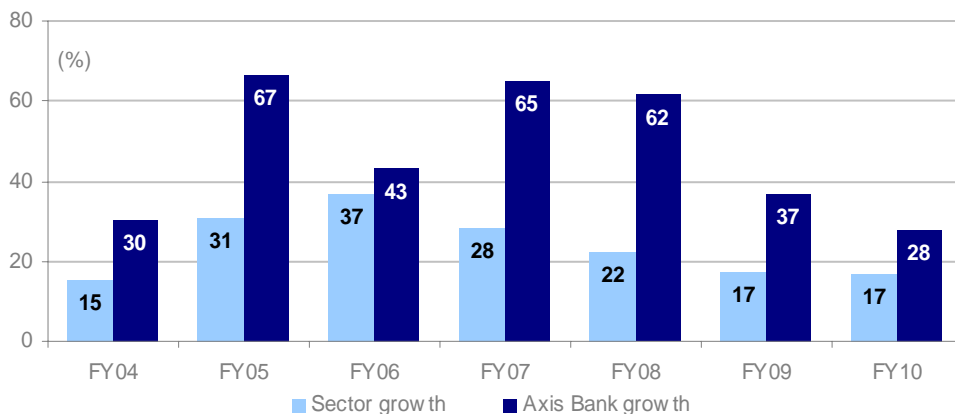
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### Loan book and sector exposure: loan book to continue to grow above system rates

Axis Bank's loan book has consistently grown faster than the system over the past five years. Axis Bank's loan book witnessed a 46% CAGR over FY05-10 vs 23% CAGR for the system. The bank, with a major part of its large and mid-corporate portfolio in infrastructure and financials, looks well-placed to continue growing at above system rates. We expect its loan book to grow by 25-26% in FY11 vs 20% system growth.

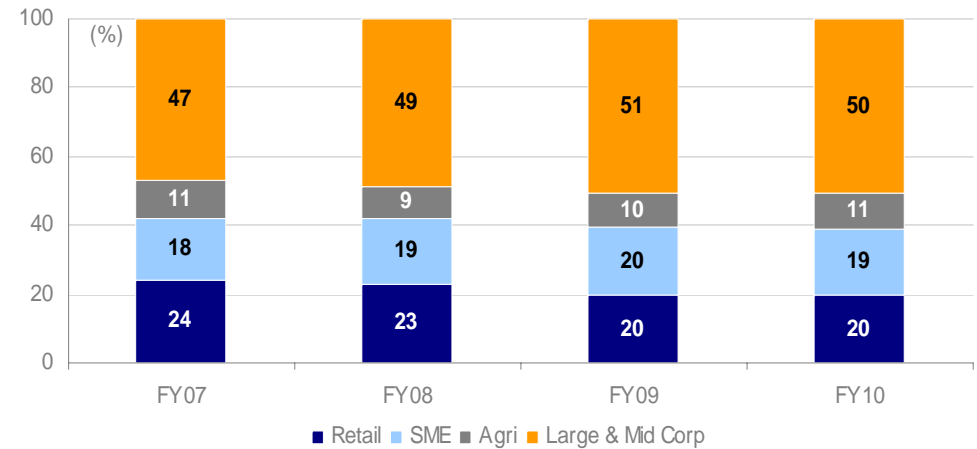
Over the last three years, the share of retail has been declining, from 24% in FY07 to 20% in FY10, while the share of large & mid-corporates has increased from 47% in FY07 to 50% in FY10. Axis Bank has been running down its unsecured lending and CV portfolio (the segments which saw the most pain for the sector over the past two years) over this period. The share of personal loans in retail assets has come down to 9.5% in FY10, after having peaked at 22% in 2QFY09. Similarly, the share of cards has come down from 8% of retail assets in FY07 to 2% in FY10, and commercial vehicles from 22% in FY07 to 0.3% in FY10. We now expect Axis Bank to start growing its retail assets in line with overall loan growth, as NPL woes for the industry have passed.

**Figure 1: Axis Bank vs sector loan growth – Axis has consistently grown faster than the industry**



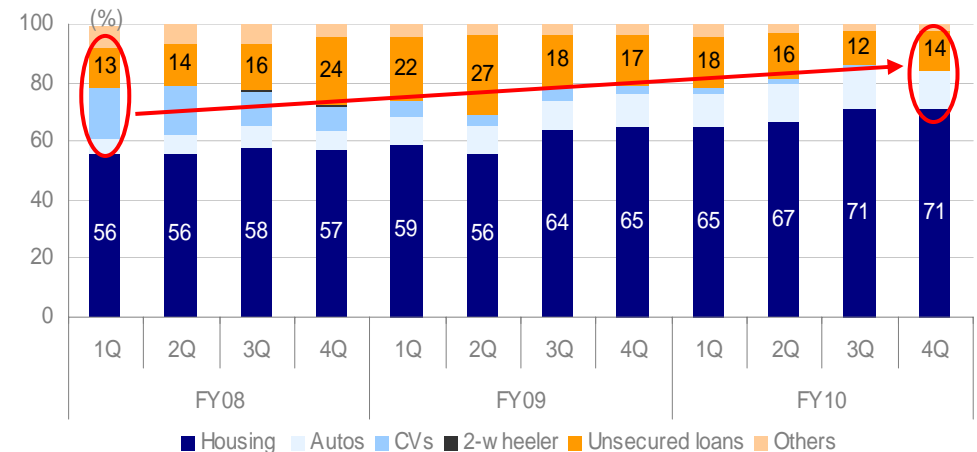
Source: Company, RBI, IIFL Research

**Figure 2: Loan book break-up – retail has been on a declining trend and should grow in line with the loan book from here on**



Source: Company, IIFL Research

**Figure 3: Retail loan book break-up – Unsecured loans and CVs portfolio was wound down over the past three years**



Source: Company, IIFL Research

In non-retail lending, financials (11% of total loan book) and infrastructure companies (8% of total loan book) continued to form the bulk of lending. With power generation & distribution (7% of total loans), metals and metal products, and trade (about 6% each), being other key segments. We expect Axis Bank to keep benefiting from its strength in infra and project finance, which would enable the bank to maintain growth rates above the system's rate.

**Figure 4: Industry-wise total exposure**

(%)	FY09	FY10
Financial Companies	8.57	12.16
Infrastructure	12.43	11.86
Metals and Metal Products	8.28	6.38
Trade	5.01	6.15
Real Estate	5.54	3.89

Source: Company, IIFL Research

**Figure 5: Industry-wise fund-based exposure**

(%)	FY09	FY10
Financial Companies	10.34	10.96
Infrastructure	7.87	8.22
Trade	5.43	6.53
Metals and Metal Products	6.64	5.98
Real Estate	7.7	5.38
Textiles	5.54	4.45

Source: Company, IIFL Research

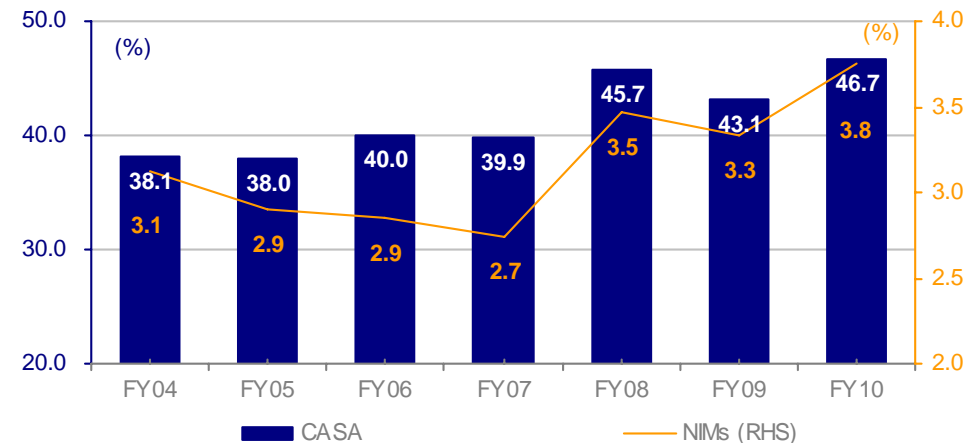
Key points from Ms. Shikha Sharma's (MD & CEO), letter to the shareholders:

- To ensure a committed team, by building a common vision for employees, which combines business goals with important values for the bank: customer-centricity, teamwork, transparency, ownership and ethics.
- As India's GDP growth accelerates, Axis Bank will be able to capitalise on these opportunities and propel itself to the next level of growth.

### Net interest margin and CASA: NIMs to moderate QoQ

NIMs expanded 42bps YoY, to 3.75% in FY10, benefiting from equity issuance, deposit re-pricing and benign interest-rate environment. NIMs in 4QFY10 were even higher at 4.1%; however, this level might not be sustainable over FY11, in our view, as the impact of the above-mentioned factors subsides and an additional 10-15bps impact is felt from higher payments for savings accounts. We expect NIMs for FY11 to be near FY10 levels and lower than the levels seen in 4QFY10.

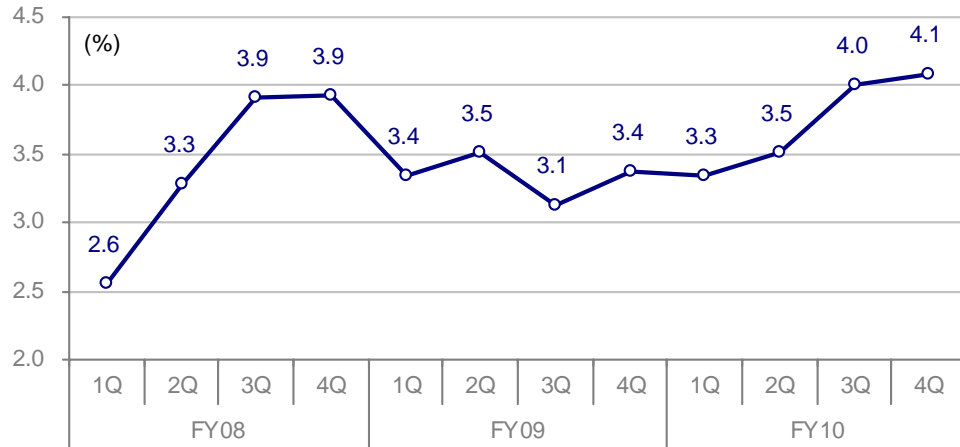
**Figure 6: CASA and NIM trends – CASA ratio has been improving over the years**



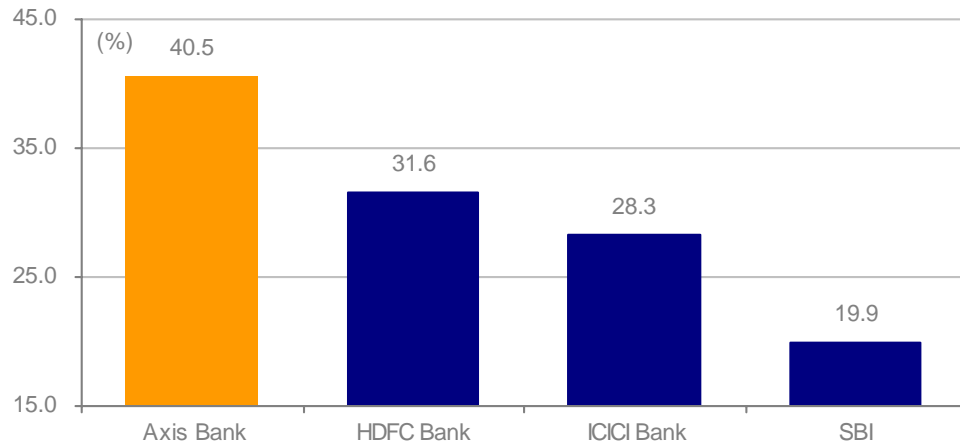
Source: Company, IIFL Research

Axis Bank has a strong CASA franchise driven by its SME expertise and expansive network beyond Tier-I and Tier-II cities, which enable it to garner a higher proportion of current and savings account. Over the past five years, Axis Bank's CASA reported 41% CAGR vs 32% for HDFC Bank and 28% for ICICI Bank.

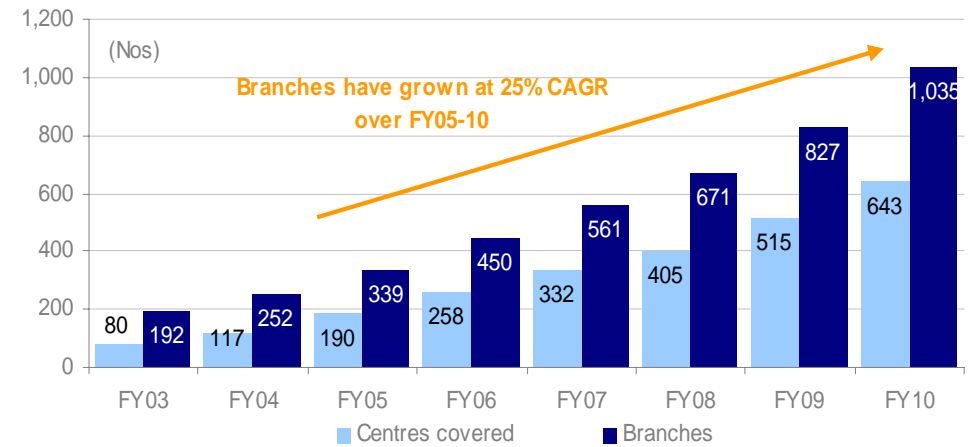


**Figure 7: Quarterly NIM trends – NIMs unlikely to sustain at 4QFY10 levels**


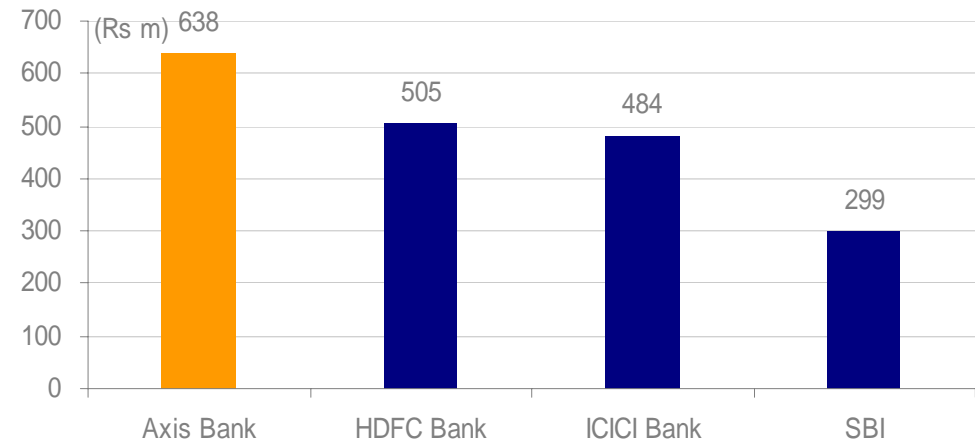
Source: Company, IIFL Research

**Figure 8: Highest CASA CAGR over FY05-10 (5 years) among peers**


Source: Companies, IIFL Research

**Figure 9: Expansive branch network – Axis plans to increase its network by 25% each year**


Source: Company, IIFL Research

**Figure 10: CASA per branch – Axis well ahead of peers**


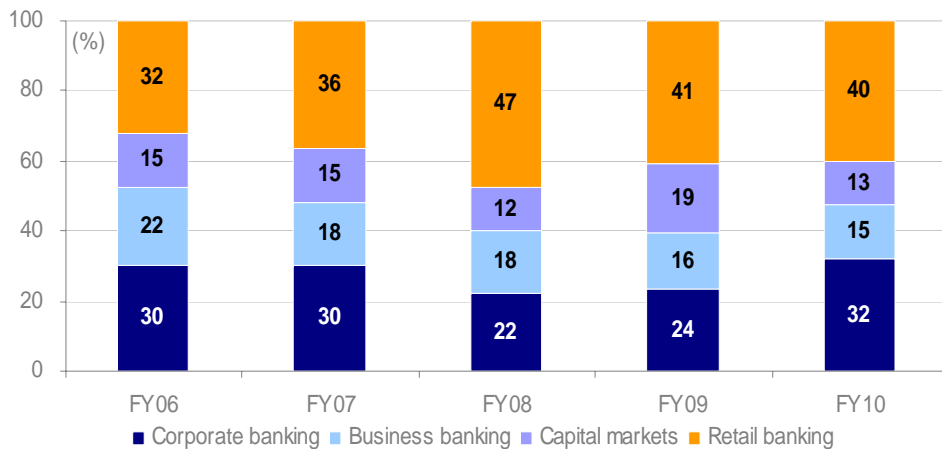
Source: Companies, IIFL Research



### Fee income: Well-diversified fee income base to ensure robust growth

Axis Bank has a balanced revenue composition, with a healthy contribution of fee income. The bank's fee income stream is well diversified, with a rising share of retail fees. Share of retail fees was 40% of total fee income in FY10, up from 32% in FY06. Selling third-party products, cards, retail liabilities and retail assets contribute about 10% each to retail fees, with the balance coming from ATM-related charges. Axis Bank also has a very strong debt syndication team and has been ranked first in the league tables. This contributes to a high income from capital markets.

Figure 11: Well-diversified fee income mix



Source: Company, IIFL Research

Figure 12: Composition of fee income for various banks

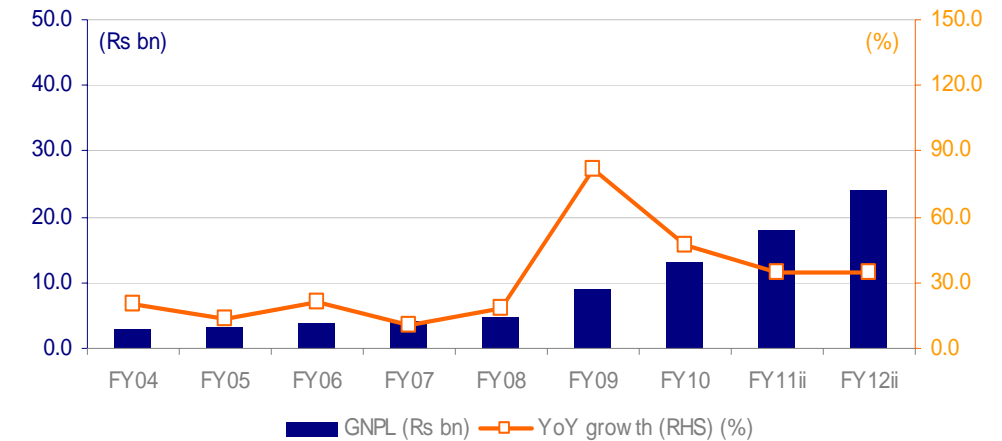
FY10 (%)	Axis Bank	HDFC Bank	ICICI Bank	SBI
NII	56	69	52	61
Fee income	34	28	38	29
Treasury income	8	3	5	5
Other income	2	0	5	4
Total income	100	100	100	100

Source: Companies, IIFL Research

### Asset quality: Will remain stable in our view

Gross NPAs are up 2.7x over the past two years (FY08-10), but prudent provisioning by the bank has seen net NPAs rise by only 69% over the same time period. Moreover, the gross NPA ratio at 1.13%, net NPA ratio at 0.36%, and outstanding restructured assets at 2% of gross advances (as at end-FY10), remain among the lowest among major banks. Distribution of ratings for large & mid-corporate and SME remain good, with 75% rated 'A' and above and 77% rated 'SME 3' and above, respectively. Unsecured loans have been reduced to only 14% of the retail book, down from a peak of 27%, and the bank does unsecured lending only for its own customers.

Figure 13: Gross NPLs have risen rapidly over the past two years



Source: Company, IIFL Research

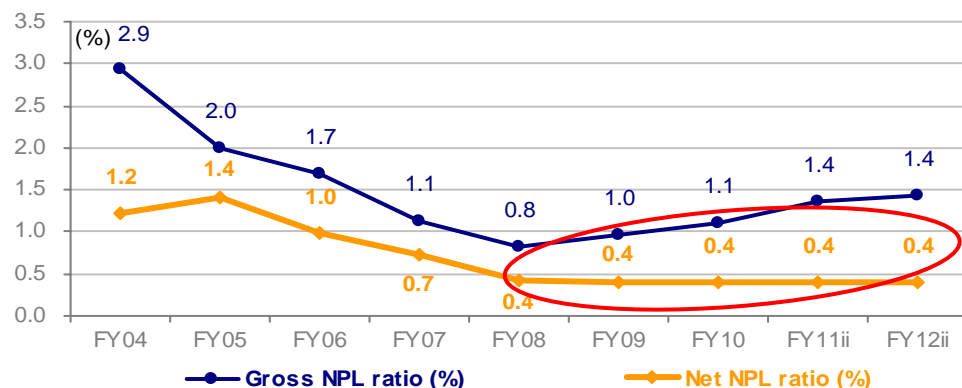
Figure 14: Sector-wise gross NPAs as % of gross advances

(%)	FY10
Agriculture and allied activities	2.3
Industry	1.0
Services	0.7
Personal loans	1.9

Source: Company, IIFL Research

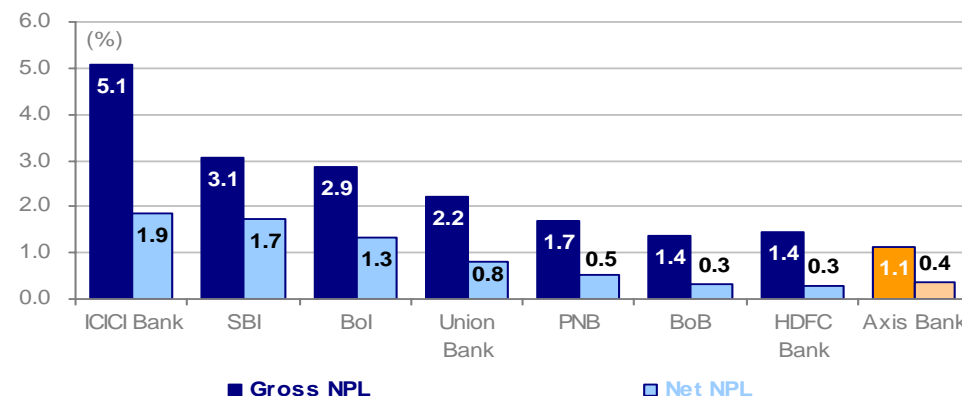
We expect the asset quality to remain good, as NPA addition slows down and the economy's growth accelerates. We are building in a further 35% growth in gross NPLs in FY11 and FY12 to account for NPAs from the higher loan growth in earlier years and slippages from restructured assets, but we expect net NPA's to remain stable at 0.4%.

**Figure 15: Despite the rise in gross NPLs over the past two years, asset quality has remained stable**



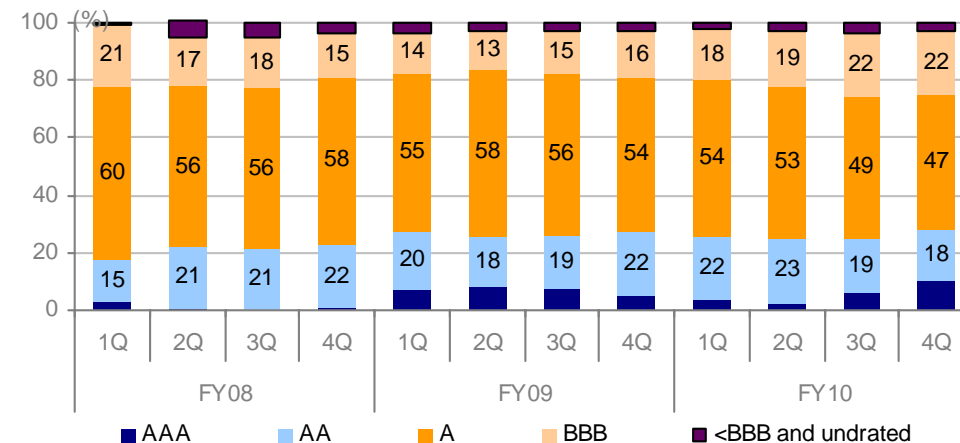
Source: Company, IIFL Research

**Figure 16: Gross and net NPL comparison as at end-FY10 – Axis Bank has one of the best asset quality among large banks**



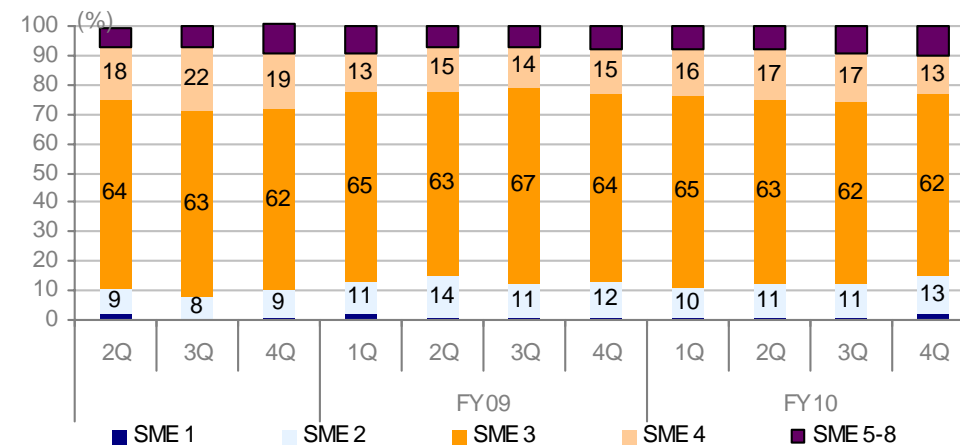
Source: Companies, IIFL Research

**Figure 17: Distribution of ratings for large and mid corporates portfolio – over 75% were rated 'A' and above, as at end-FY10**



Source: Company, IIFL Research

**Figure 18: Distribution of ratings for SME portfolio – over 77% were rated 'SME 3' and above, as at end-FY10**

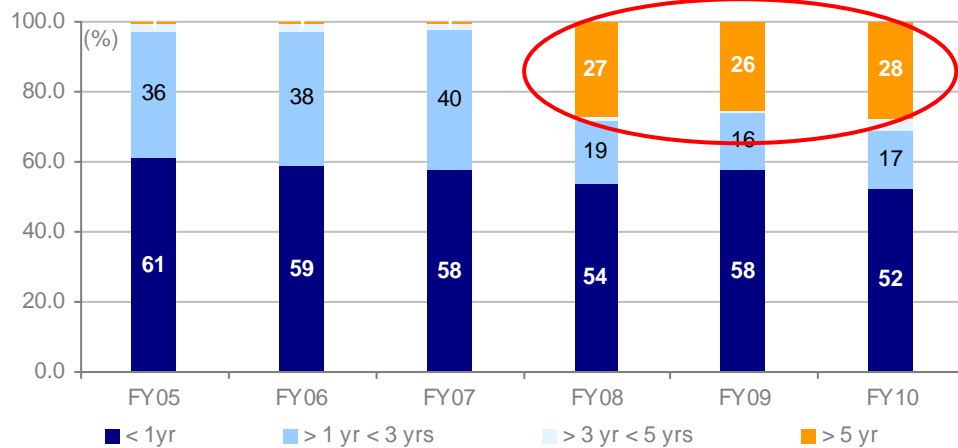


Source: Company, IIFL Research

### Asset liability management: Axis Bank has a higher proportion of longer maturity deposits and advances

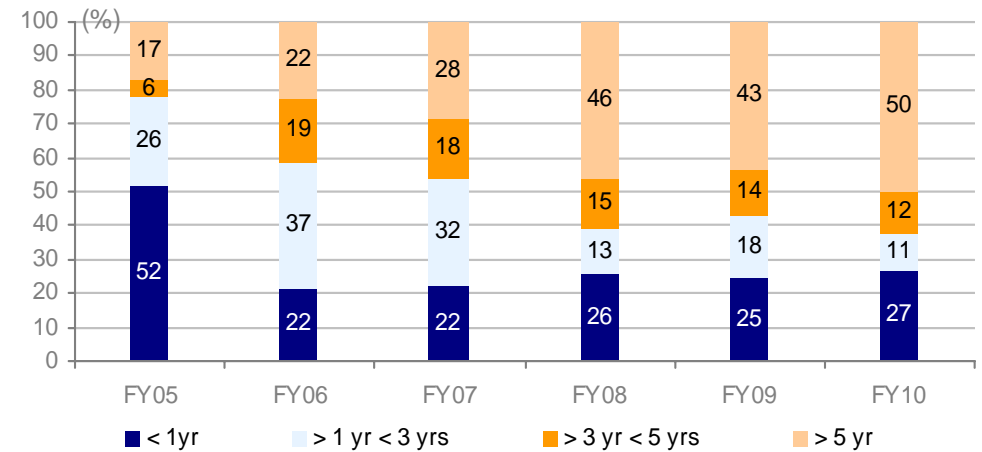
The bank's sudden change in deposits and advances maturity profile in 2008 was on account of the revised ALM guidelines published by the RBI in FY08, which allowed banks to re-classify their CASA portfolio into maturity buckets according to the behavioural analysis undertaken by the banks. Revised guidelines led to a longer maturity profile for deposits, while the higher proportion of longer maturity advances can be attributed to project loans. As at end-FY10, 28% of deposits and 50% of advances were of more than 5-years maturity. The higher proportion of sticky CASA deposits, which get classified in the more than 5-year maturity bucket, will allow the bank to keep its cost of funds under check in a rising interest rate environment.

**Figure 19: Deposits tenure break-down – high proportion of longer maturity deposits**



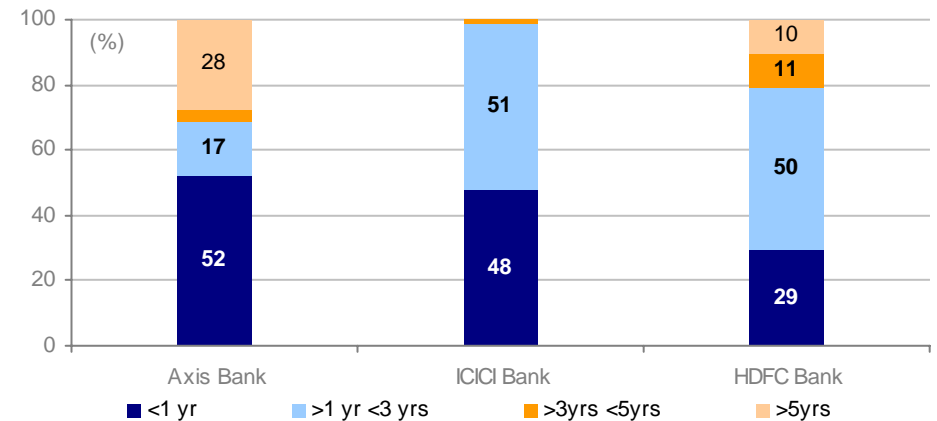
Source: Company, IIFL Research

**Figure 20: Advances tenure break-down – infrastructure and project lending leading to longer maturity of advances**



Source: Company, IIFL Research

**Figure 21: Deposits tenure comparison – maintenance of higher proportion of CASA, over a longer time period allows Axis and HDFC Bank to classify a higher proportion of deposits in the longer maturity buckets**



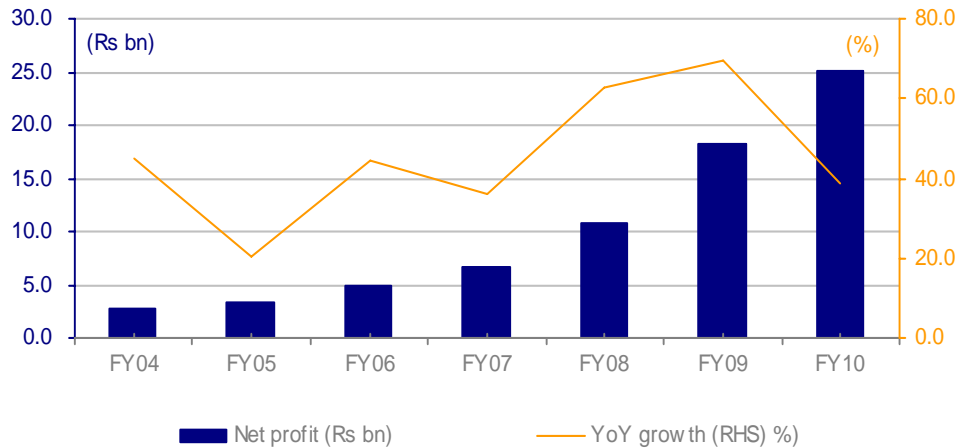
Source: Company, IIFL Research

### Profitability to remain robust

Axis Bank's profits have registered 50% CAGR over the past five years (FY05-10). The bank's profitability as measured by ROE and ROA has consistently remained attractive. Axis Bank's RoA has consistently been improving over the past few years. Its RoA, at 1.5% in FY10, is one of the highest among Indian banks.

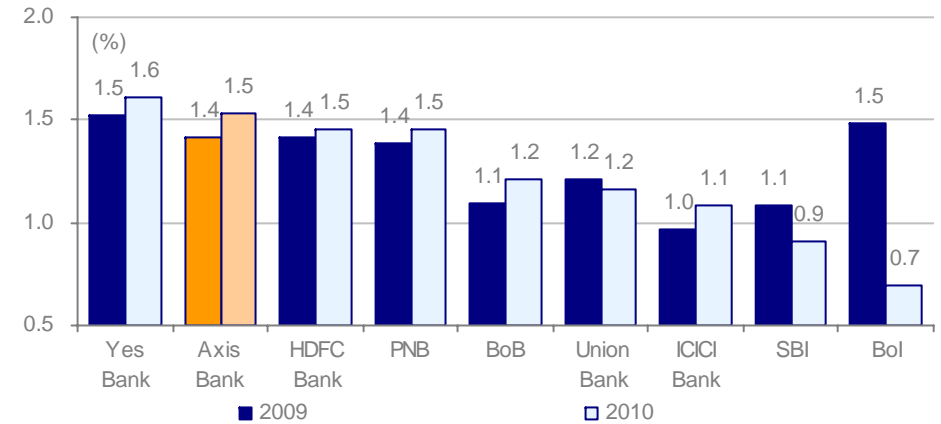
Axis bank's stock has been one of the best performing stocks, when viewed over a period of 1-5 years. Over the past year, the stock has outperformed the Sensex by 42%. The stock currently trades at 2.7x FY11ii book, with 19% FY11ii RoE.

Figure 22: Net profit growth trend



Source: Company, IIFL Research

Figure 23: RoA comparison vis-à-vis peers – one of the highest RoA in the sector



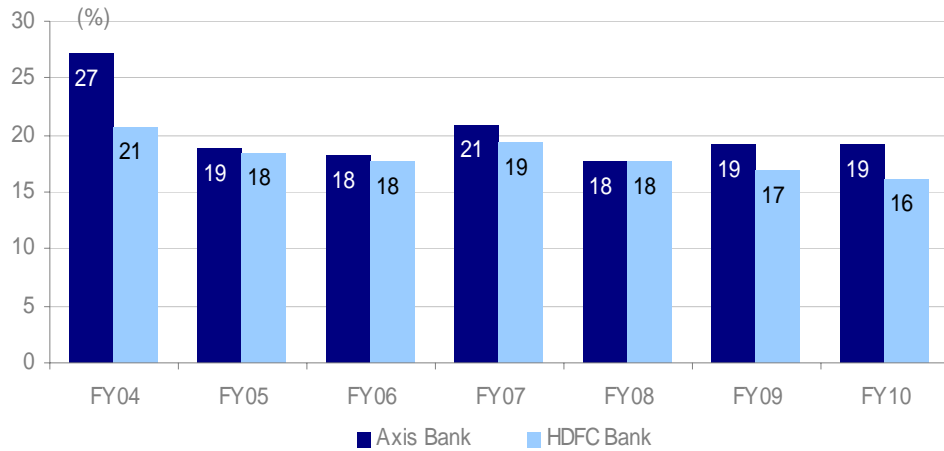
Source: Companies, IIFL Research

Figure 24: RoA tree – consistently improving RoA

(%)	FY08	FY09	FY10	FY11ii	FY12ii
Interest income	7.7	8.4	7.1	7.6	8.0
Interest expense	4.8	5.6	4.0	4.6	4.9
<b>Net interest income</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.1</b>
Fee Income	1.7	2.0	1.8	2.0	2.1
Portfolio gains	0.2	0.2	0.4	0.3	0.3
Others	0.1	0.1	0.1	0.1	0.1
<b>Non-interest income</b>	<b>2.0</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>
<b>Total operating income</b>	<b>4.8</b>	<b>5.1</b>	<b>5.5</b>	<b>5.5</b>	<b>5.6</b>
Employee cost	0.7	0.8	0.8	0.8	0.8
Other operating expenses	1.6	1.4	1.5	1.5	1.5
<b>Total operating expenses</b>	<b>2.4</b>	<b>2.2</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>
<b>Pre provision operating profit</b>	<b>2.4</b>	<b>2.9</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>
Provisions for loan losses	0.4	0.6	0.9	0.7	0.7
Other provisions	0.3	0.1	0.0	0.1	0.1
<b>Profit before tax</b>	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>
Taxes	0.6	0.8	0.8	0.9	0.9
<b>Net profit</b>	<b>1.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>
Leverage	15.0	13.6	12.5	11.8	12.7
<b>RoE</b>	<b>17.6</b>	<b>19.1</b>	<b>19.2</b>	<b>19.0</b>	<b>21.1</b>

Source: Company, IIFL Research

**Figure 25: Axis Bank vs. HDFC Bank RoE – Axis bank has consistently delivered better RoE than HDFC Bank**



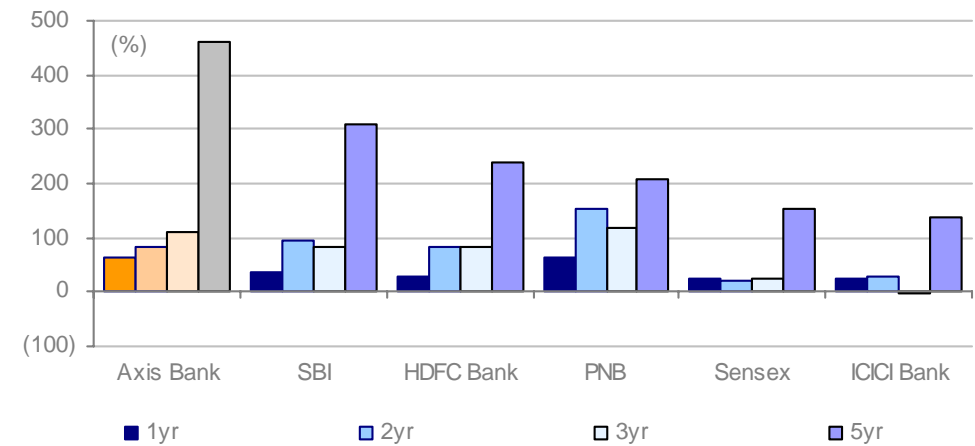
Source: Companies, IIFL Research

**Figure 26: HDFC Bank P/B premium over Axis Bank**



Source: Companies, Bloomberg, IIFL Research. Price as at close on 21 June 2010.

**Figure 27: Axis Bank price performance vis-à-vis peers – Axis has consistently outperformed its peers and Sensex**



Source: Bloomberg, IIFL Research. Price as at close on 21 June 2010.

**Figure 28: Axis Bank price performance vis-à-vis Sensex**



Source: Bloomberg, IIFL Research. Price as at close on 21 June 2010.

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Net interest income	36,862	50,045	61,758	79,224	101,531
Fee Income	25,328	30,333	40,821	54,317	72,019
Portfolio gains	2,884	7,140	6,426	7,390	8,499
Others	757	1,984	2,877	3,453	4,316
Non-interest income	28,969	39,458	50,125	65,161	84,834
Total operating income	65,831	89,503	111,884	144,385	186,366
Total operating expenses	28,582	37,097	45,810	58,628	75,060
<b>Pre provision operating profit</b>	<b>37,249</b>	<b>52,405</b>	<b>66,073</b>	<b>85,757</b>	<b>111,306</b>
Provisions for loan losses	9,032	14,126	14,582	19,142	24,398
Other provisions	365	-234	1,053	1,211	1,393
<b>Profit before tax</b>	<b>27,852</b>	<b>38,514</b>	<b>50,437</b>	<b>65,403</b>	<b>85,515</b>
Taxes	9,698	13,368	17,552	22,760	29,759
<b>Net profit</b>	<b>18,154</b>	<b>25,145</b>	<b>32,885</b>	<b>42,643</b>	<b>55,756</b>

### Balance sheet summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Net loans & advances	815,568	1,043,431	1,304,289	1,669,490	2,136,947
Placements to other banks	55,977	57,326	60,192	66,211	76,143
Cash & equivalents	94,192	94,739	120,668	156,235	194,263
Other interest-earning assets	463,304	559,748	727,673	931,421	1,192,219
<b>Total interest-earning assets</b>	<b>1,429,040</b>	<b>1,755,244</b>	<b>2,212,821</b>	<b>2,823,357</b>	<b>3,599,572</b>
Fixed assets	10,729	12,224	15,280	19,100	23,875
Other assets	37,451	39,011	42,912	49,348	56,751
<b>Total assets</b>	<b>1,477,221</b>	<b>1,806,479</b>	<b>2,271,013</b>	<b>2,891,806</b>	<b>3,680,198</b>
Customer deposits	1,173,741	1,413,002	1,808,643	2,351,236	3,044,850
Other interest-bearing liabilities	155,199	171,696	199,720	233,353	271,712
Total interest-bearing liabilities	1,328,940	1,584,698	2,008,363	2,584,588	3,316,562
Non-interest-bearing liabilities	46,133	61,335	76,668	88,168	101,394
<b>Total liabilities</b>	<b>1,375,072</b>	<b>1,646,032</b>	<b>2,085,031</b>	<b>2,672,757</b>	<b>3,417,955</b>
<b>Total Shareholder's equity</b>	<b>102,148</b>	<b>160,446</b>	<b>185,982</b>	<b>219,049</b>	<b>262,242</b>
<b>Total liabilities &amp; equity</b>	<b>1,477,221</b>	<b>1,806,479</b>	<b>2,271,013</b>	<b>2,891,806</b>	<b>3,680,198</b>

Source: Company data, IIFL Research

### Ratio Analysis - I

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
<b>Balance Sheet Structure Ratios (%)</b>					
Loans / Deposits	69.5	73.8	72.1	71.0	70.2
Loan Growth	36.7	27.9	25.0	28.0	28.0
Growth in Deposits	33.9	20.4	28.0	30.0	29.5
Growth in Total Assets (%)	34.8	22.3	25.7	27.3	27.3
<b>Profitability Ratios</b>					
Net Interest Margin	3.0	3.1	3.1	3.1	3.2
Return on Average Assets	1.4	1.5	1.6	1.7	1.7
Return on Average Equity	19.1	19.2	19.0	21.1	23.2
Non-Interest Income as % of Total Income	44.0	44.1	44.8	45.1	45.5
Net Profit Growth	69.5	38.5	30.8	29.7	30.8
FDEPS Growth	68.9	22.7	30.8	29.7	30.8
<b>Efficiency Ratios (%)</b>					
Cost to Income Ratio	43.4	41.4	40.9	40.6	40.3
Salaries as % of Non-Interest costs	34.9	33.9	34.3	33.5	32.7

### Ratio Analysis - II

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
<b>Credit Quality Ratios (%)</b>					
Gross NPLs as % of loans	1.0	1.1	1.4	1.4	1.6
NPL coverage ratio	63.6	68.2	70.2	72.2	77.8
Total provision charges as % avg loans	1.3	1.5	1.2	1.3	1.3
Net NPLs as % of net loans	0.4	0.4	0.4	0.4	0.4
<b>Capital Adequacy Ratios (%)</b>					
Total CAR	14.1	15.8	14.5	13.2	12.1
Tier I capital ratio	9.6	11.2	10.3	9.5	8.9

Source: Company data, IIFL Research

## Mumbai registrations fall on affordability concerns

- Apartment registrations in Mumbai fell to 5,337 in May 2010, down 25% MoM, after 11 straight months of 6,000+ registrations.
- The island city witnessed a 13% MoM fall in transactions, but the number remained robust at c1,000. Suburbs (Rest of Mumbai), on the other hand, witnessed a steep 26% MoM fall in transactions to c4,300.
- We believe this fall is largely attributable to the high property prices (prices in many areas are up 20-40% since October 2009), which have adversely affected affordability.
- We believe that given the strong launch pipeline across Mumbai, the rate of increase in property prices would abate.

**Mumbai registrations lowest since May 2009:** After 11 straight months of 6,000+ transactions, Mumbai demand showed the first signs of faltering in May 2010. Apartment registrations fell 25% MoM to 5,337 in May 2010.

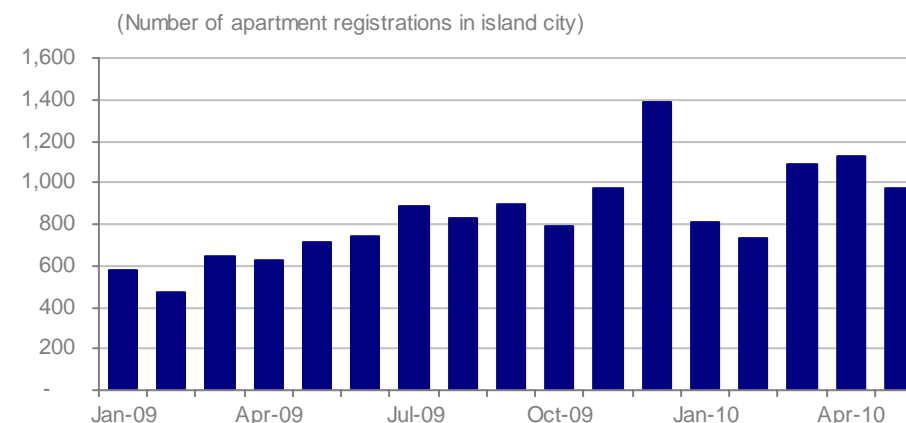
While sharp increases (20-40% since October 2009 levels) in prices across the suburbs resulted in a 26% MoM fall in transactions in the suburbs to c.4,300, apartment registrations in the island city remained healthy at c.1,000 apartments (down 13% MoM). However, suburban registrations continue to outpace registrations in the island city. The entire YoY growth in Mumbai registrations in CY2009 was driven by growth in the suburbs. The same trend continues in YTD CY2010. Registrations data is a lagged indicator of demand (as properties are registered 2-3 months after the actual purchase), and hence we expect registrations to remain subdued over the next few months.

**Figure 1: Recovery in suburban registrations much stronger than in the island city**

% YoY growth	2008	2009	YTD2010
Island city	-17%	1%	56%
Suburbs	-23%	21%	122%

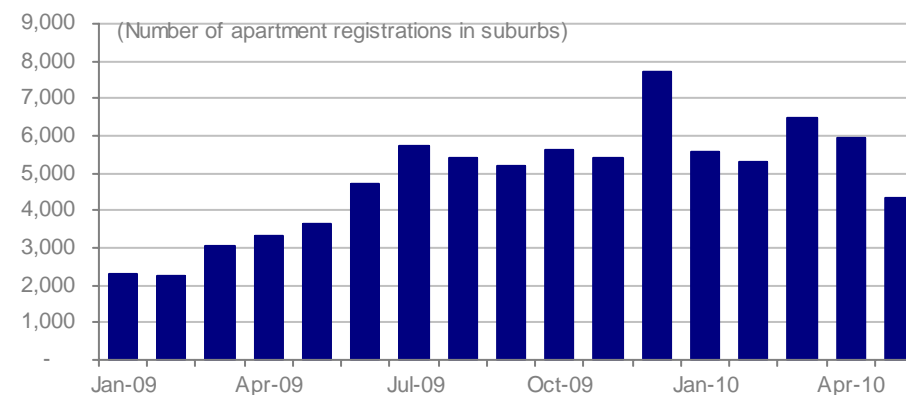
Source: IIFL Research

**Figure 2: Transactions in island city remain healthy at ~1,000 apartments in May 2010**



Source: Registrar Office, IIFL Research

**Figure 3: However, suburbs witnessed a 26% mom fall in transaction to 4,300 levels...**



Source: Registrar Office, IIFL Research



**Figure 4: ...as prices in suburbs increased 20-40% since October 2009 levels**

Developer	Project	Location	Price (Rs psf)		% increase since Oct-09
			Current	Oct-09	
Ackruti	Sunmist	Andheri	13,000	10,400	25%
Mantri	Mantri Park	Goregaon	6,600	5,999	10%
Ajmera	Pristine	Borivali	8,991	6,363	41%
Lodha	Imperia	Bhandup	7,065	6,500	9%
Kalpataru	Aura	Ghatkopar	9,000	7,000	29%
Gundecha	Zenith	Mulund	7,000	5,991	17%
Godrej Properties	Riverside	Kalyan	2,950	2,500	18%

Source: Companies, IIFL Research

### Rate of increase in property prices to abate on weakness in volumes and strong launch pipeline

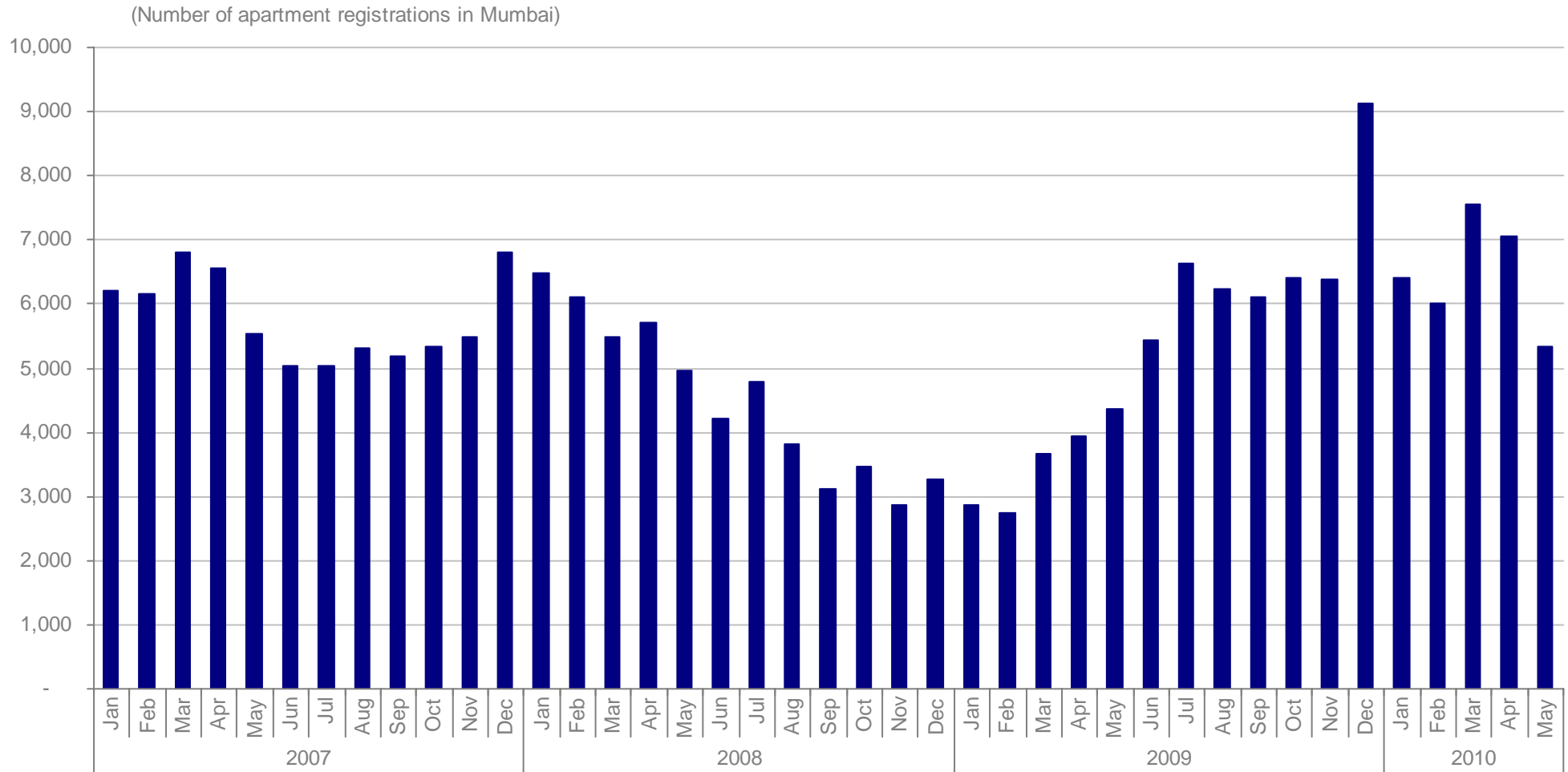
Mumbai has a strong launch pipeline, with developers looking to launch large projects over CY10 (see Figure 7 for details). We believe that with volumes remaining under pressure, such a strong launch pipeline would adversely affect the rate of increase in property prices across Mumbai.

**Figure 5: Some of the key projects to be launched over CY10**

Developer	Project	Location	Area (m sq ft)
DLF	NTC Mills Project	Lower Parel	5.0
Indiabulls Real Estate	Sky/ Sky Forest/ Sky Suites	Elphinstone	3.3
Lodha	Lodha WorldOne	Worli	3.0
Lodha	Casa Rio	Dombivali	1.5
Oberoi	Exquisite	Goregaon	1.4
Runwal	Runwal Greens	Mulund	1.1
Atul Ruia Group	Phoenix Towers III	Lower Parel	0.7
Lodha	Excellencia	Thane	0.5
Kohinoor	Kohinoor City Ph III	Kurla	0.5
Dheeraj	Dheeraj Views	Chembur	0.4
Nirmal Lifestyle	Turquoise	Mulund	0.3
Lokhandwala	Project next to Lodha Bellissimo	Mahalaxmi	na
A Raheja	Prakash Cotton Mills project	Lower Parel	na

Source: Industry, IIFL Research

**Figure 6: Mumbai registrations down to 5,300 in May after 11 straight months of 6,000+ levels**



Source: Registrar Office, IIFL Research

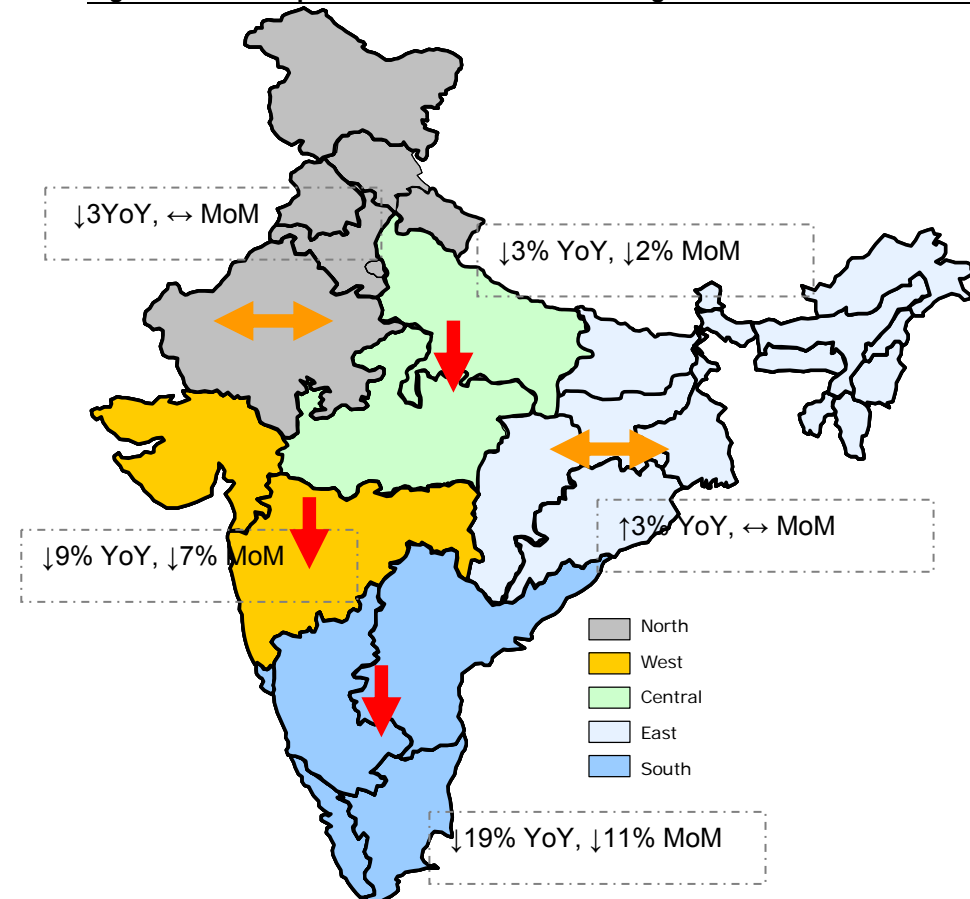
## Dealer check – price crashes in the south

- Cement prices in the southern states have crashed by Rs10-50 per bag in the past one month, as supplies from Andhra Pradesh increased as a result of the power situation easing and demand remaining sluggish.
- If the current price trend continues, India Cements and the cement business of Madras Cements could post a loss in 2QFY11, in our view.
- Prices in western markets have declined by Rs5-30 per bag, with increasing supplies from the south.
- Prices in the north and the east are stable at present, on account of strong demand; however, increasing supplies are likely to put pressure on prices in monsoon.

**South – sharp declines in the past one month:** Cement prices crashed in the southern region, particularly in Hyderabad and Chennai. In Hyderabad, average prices have declined by Rs40-45 per bag in the past one month, and the current range is Rs125-160 per 50kg bag. In Chennai, average prices declined by Rs40-50 per bag, with the current range at Rs190-220 per bag. The power shortage in Andhra Pradesh has eased, leading to an increase in supplies within the state and to neighbouring states. Demand from both infrastructure and housing segments in Andhra Pradesh and Tamil Nadu continues to be sluggish, and producers have begun to undercut one another, according to dealers. Chennai dealers are expecting further price declines of Rs30-40 per bag in the next couple of months, as the market is flooded with supplies.

In Ernakulam, prices have declined by Rs10-15 per bag in the past one month, on account of an increase in supplies. The current price range is Rs236-255, against the previous price month's range of Rs250-265. In Bengaluru, prices have declined by Rs10-20 per bag, with the current range at Rs170-230. In Kerala and Karnataka, demand is stable, according to dealers.

Figure 1: Cement prices decline in most of the regions in June 2010



Source: Industry; IIFL Research

### West – increase in supplies from south results in price decline:

Cement prices in Pune and eastern and central Maharashtra have declined by Rs20-30 per bag in the past one month, on account of an increase in supplies from the southern region. In Mumbai, prices have declined by Rs5-10 per bag in the institutional segment. With prices declining sharply in Hyderabad, supply from that city is likely to be diverted to Mumbai, putting pressure on prices; however, this supply diversion hinges on availability of railway wagons to cement producers. Prices in Gujarat have been stable for the past 15 days, following a fall in the last week of May 2010. Dealers indicated that demand is stable, but supplies are increasing, particularly from Jaiparakash Associates's plant. Current price range is Rs180-205 per bag, which is lower by Rs10-15 per bag compared to mid-May prices.

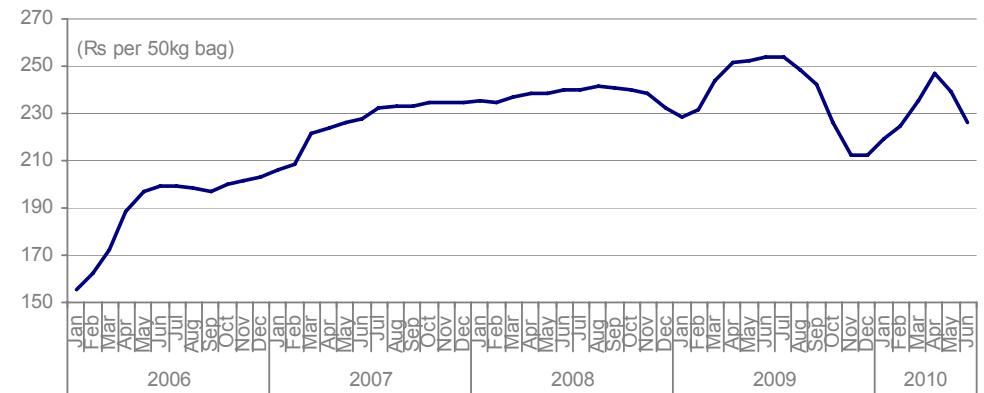
### Central – prices down in Bhopal and stable in Uttar Pradesh:

Demand is stable in Uttar Pradesh, with continued thrust on infrastructure development. Prices in Lucknow remain stable. In Bhopal, cement price have declined by Rs10-12 per bag, following an increase in supplies. Dealers expect prices to decline in the monsoon, as supplies from the southern region to the central region are likely to increase. In Indore, prices were stable in the current month, with demand remaining strong.

**East – stable demand and prices:** Cement prices are stable in the eastern region in the current month, as demand continues to be stable, and supplies have declined marginally, because of a strike at UltraTech Cement's Durgapur grinding unit. We expect prices to decline once the monsoon intensifies and more supplies from the southern markets hit the eastern region.

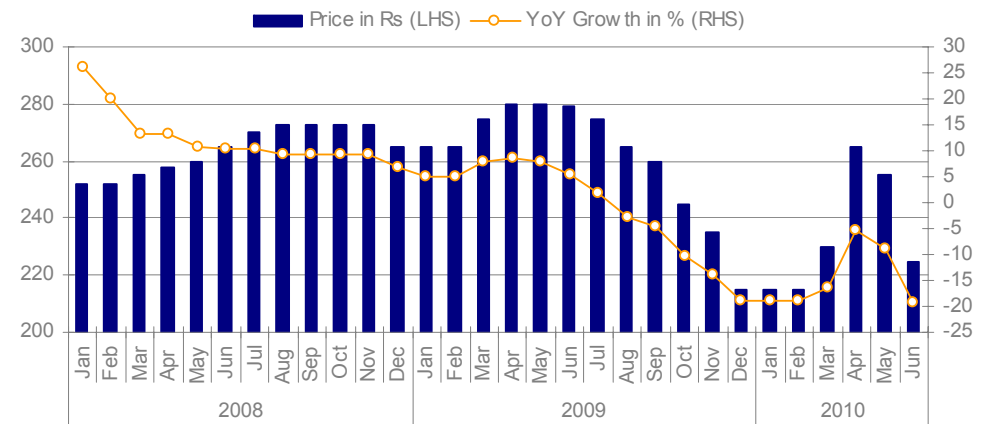
**North – strong demand from infra segment holds prices:** Cement prices are stable in the northern region (but they are volatile, with a negative bias in the institutional segment), as demand from infrastructure segment continues to be strong; supplies are however increasing. Dealers indicated strong demand from Delhi Metro and Commonwealth Games construction in Delhi. Producers were contemplating an increase in prices by Rs10-15 per bag in the last week in a few pockets; however, they have not been implemented so far.

**Figure 2: All-India cement price trend – price decline continues**

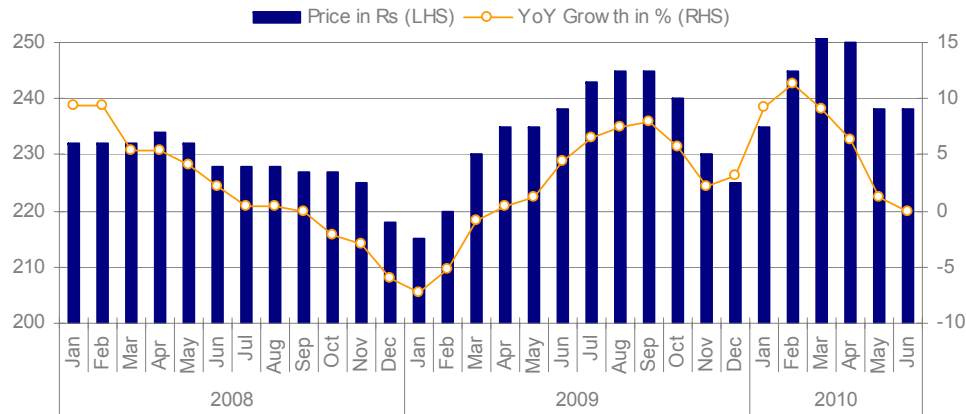


Source: Industry, IIFL Research

**Figure 3: Chennai cement price trend – prices decline sharply with increase in supply from AP and poor demand**



Source: Industry, IIFL Research

**Figure 4: Delhi cement price trend – strong demand holds prices**


Source: Industry, IIFL Research

**Figure 5: Valuation snapshot**

	Market Cap (US\$m)	CMP (Rs)	Rating	EV/EBIDTA (x)		PER (x)		P/BV	EV/tonne
				FY11ii	FY12ii	FY11ii	FY12ii		
ACC*	3,630	882	Sell	8.3	7.6	13.5	13.7	2.2	111
Ambuja Cements*	3,949	118	Sell	7.3	6.8	13.1	13.0	2.1	146
Grasim Inds	3,597	1,790	Add	3.1	2.8	8.2	8.6	0.9	NA
India Cements #	777	115	Sell	5.3	3.9	22.6	15.6	1.0	65
Kesoram Inds #	319	319	Sell	7.4	6.7	7.3	6.1	0.8	100
Madras Cements	537	103	Sell	9.7	8.3	18.8	15.1	1.6	90
Shree Cement #	1,531	2,006	Add	5.2	4.6	9.3	8.5	1.9	89
UltraTech Cement	2,646	970	Sell	8.9	8.6	15.7	15.1	2.1	134

\*CY10ii and CY11ii numbers

#Adjusted for other segments

Source: IIFL Research

# Events calendar



Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
JUNE – 2010					
7	8	9	10	11	12
				Apr IIP– 17.60%	
14	15 Cipla	16 ICSA	17	18 Dabur India	19
May WPI- 10.16%				May CPI AL – 13.68% RL – 13.68%	
21	22	23	24	25	26
28	29	30			
		May CPI – IW			

Black: Quarterly results, Blue: Economic data, Red: India Holiday.

	Apr-Jun 10	Jul-Sep 10	Oct-Dec 10
<b>Economics / Politics</b>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting <b>(end Apr)</b></li> <li>4QFY10 Quarterly GDP</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting <b>(end Jun)</b></li> <li>1QFY11 Quarterly GDP</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting <b>(end Sep)</b></li> <li>2QFY11 Quarterly GDP</li> </ul>
<b>Cement</b>		<ul style="list-style-type: none"> <li><b>Shree cements</b> 1.5mtpa plant in Ras to start <b>(Sep)</b></li> <li><b>India Cements</b> 1.5mtpa plant in Rajasthan to start <b>(Sep)</b></li> <li><b>ACC</b> Wadi clinker unit to support 3mtpa cement to start <b>(Jul)</b></li> <li><b>JP Associates</b> 2<sup>nd</sup> phase addition in Gujarat to start <b>(Aug)</b></li> <li><b>Prism Cements</b> 3mtpa plant to start <b>(Sep)</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Bharathi Cement</b> 2mtpa (2nd unit) in Cuddapah to start (Dec)</li> <li><b>Jaypee's</b> 3mtpa Dalla unit to start (Nov)</li> <li><b>Ambuja Cements</b> 1.5mtpa unit in Bhatapara to start (Dec)</li> </ul>
<b>Media</b>		<ul style="list-style-type: none"> <li><b>Sun TV</b> – To release its high budget movie – “Indhiran”</li> </ul>	
<b>Metals</b>		<ul style="list-style-type: none"> <li><b>Sterlite:</b> 1st phase of 2400MW will commence operation</li> </ul>	<ul style="list-style-type: none"> <li><b>Sterlite:</b> 2nd phase of 2400MW will commence operation</li> </ul>
<b>Pharma</b>	<ul style="list-style-type: none"> <li><b>Sun Pharma:</b> Resumption of sales of Caraco products from alternate manufacturing facilities in US / India</li> <li><b>Sun Pharma:</b> District court verdict on Protonix patent validity</li> <li><b>Dr Reddy's:</b> Launch of generic Allegra D24 in US</li> <li><b>Dr Reddy's:</b> Potential USFDA approval for fondaparinux</li> <li><b>Sun Pharma:</b> Potential US FDA approval and launch of generic Effexor XR in US</li> <li><b>Biocon:</b> data from oral insulin study in India</li> </ul>	<ul style="list-style-type: none"> <li><b>Sun Pharma:</b> Israeli Supreme court decision on Taro acquisition agreement</li> </ul>	<ul style="list-style-type: none"> <li><b>Ranbaxy:</b> Launch of generic Aricept in US</li> <li><b>Sun Pharma:</b> resolution of Caraco manufacturing quality issues in US</li> </ul>



	Apr-Jun 10	Jul-Sep 10	Oct-Dec 10
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>• <b>HDIL</b> - QIP fund raising</li> <li>• DLF to list DAL in Singapore</li> <li>• Peninsula land – QIP fund raising</li> <li>• <b>Puravankara</b> Projects – Capital raising by its subsidiary Provident Housing &amp; Infrastructure Ltd to fund its mass housing project</li> </ul>		
<b>Telecom</b>	<ul style="list-style-type: none"> <li>• BWA auctions to be completed</li> </ul>	<ul style="list-style-type: none"> <li>• Indus to complete court process for tower transfer</li> <li>• DoT to revert on TRAI 2G recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• MNP to be implemented</li> </ul>
<b>Utilities</b>	<ul style="list-style-type: none"> <li>• <b>NTPC's</b> Sipat-I Unit 1 (660MW), Korba-III (500MW) to commission <b>(Jun)</b></li> <li>• <b>KSK</b> – Unit I &amp; II (135MW) at Wardha Warora</li> </ul>	<ul style="list-style-type: none"> <li>• <b>JSPL</b> - Second 135 MW unit of 540MW plant at Chhattisgarh <b>(Jul / Aug)</b></li> <li>• <b>KSK</b> – Unit III &amp; IV (135MW each) at Wardha Warora</li> </ul>	



## Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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