



# Axis Bank AXSB IN

INDIA / BANKS

TARGET INR1,250.00  
PRIOR TP INR1,250.00  
CLOSE INR1,214.80  
UP/DOWNSIDE +2.9%

**HOLD**

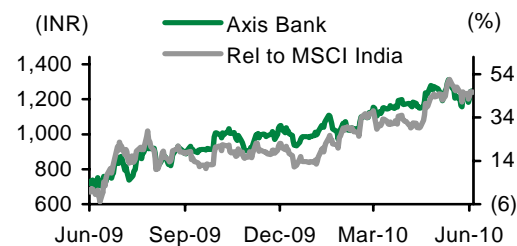
UNCHANGED

## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	1,250.00	1,320.00	(5.3)
EPS 2010 (INR)	63.38	60.65	4.5
EPS 2011 (INR)	82.39	74.95	9.9
	Positive	Neutral	Negative
Market Recs.	39	8	8

## KEY STOCK DATA

YE Mar (INR m)	2010E	2011E	2012E
Operating Profit	38,514	52,211	62,166
Rec. net profit	25,145	33,937	40,408
Recurring EPS (INR)	63.38	82.39	98.10
Prior rec. EPS (INR)	64.31	78.27	97.99
Chg. In EPS est. (%)	(1.4)	5.3	0.1
EPS growth (%)	25.1	30.0	19.1
Recurring P/E (x)	19.2	14.7	12.4
Dividend yield (%)	1.2	1.7	2.5
Price/book (x)	2.9	2.5	2.2
ROE (%)	19.2	19.6	20.1
ROA (%)	1.53	1.67	1.62



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.3	12.9	69.5
Relative to country (%)	0.6	11.1	51.9

Next results/event	July 2010
Mkt cap (USD m)	10,058
3m avg daily turnover (USD m)	52.0
Free float (%)	58
Major shareholder	SUUTI (24%)
12m high/low (INR)	1,311.55/698.20
3m historic vol. (%)	30.2
ADR ticker	AXB LI
ADR closing price (USD; 4 Jun 10)	25.50

Sources: Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

Will the axis tilt? .....	20 Apr 2010
It's a victory lap .....	4 Apr 2010
Time to book profit.....	4 Apr 2010
Banks at BNP India conference.....	11 Mar 2010

ADR TICKER: AXB LI

NEW INFORMATION

## We met with management

- Well poised for relatively higher growth of 25-30% in FY11.
- NIM will pare down to 3.6-3.8%.
- Restructured assets have peaked, cost/income at 40%.
- Axis Bank trades at 2.7x FY11E ABV for FY11 Adj ROE of 20%.

25% loan growth for FY11

Axis Bank is well positioned for relatively higher growth in FY11 and will aim for a loan growth of 25% if the sector average loan growth is in the range of 21-22%. Though the sanction pipeline is strong, loan draw down is still fairly tardy. A more optimistic target for loan growth could be 30%. We are currently factoring in loan growth of 24% for FY11, backed by 20% growth in retail loans and 26% growth in corporate loans.



Vijay Sarathi, CFA  
+91 22 6628 2412  
vijay.sarathi@asia.bnpparibas.com

Abhishek Bhattacharya  
+91 22 6628 2411  
abhishek.bhattacharya@asia.bnpparibas.com

NIM in the range of 3.75-3.80%

NIM for FY11 will pare down to 3.6-3.8% from the reported NIM of 4.09% for Q4FY10. This is on account of higher funding cost on savings accounts and the increase in cash reserve requirements. Axis Bank expects to maintain NIMs in this range assuming a loan growth of 25% for FY11. If loan growth exceeds 25% and inches up to 30%, then NIM may inch down further to the 3.5-3.75% range. We are currently factoring in a deposit growth of 28% for FY11, with CASA growth of 25% y-y. Our NIM estimate for FY11 is 3.65%. Management guides towards a sustainable CASA level of 40%, in line with our estimates for FY11.

Other ROA drivers

Axis Bank is aiming for a long-term ROA target of 1.5%. Some of the key drivers for this include having a cost/income ratio will in 40-41% range. The bank is aiming to keep cost efficiency at this level or lower by reducing the marginal cost or increasing the marginal profitability of branch network expansion. The break-even period for a new branch, which used to be 30 months five years ago, is now at 15 months. The management indicated the break-even period is likely to be even lower for branches in under-banked areas. Axis expects to add 250-300 branches in FY11 and about 4,000 employees. Restructured loans have peaked and things are improving marginally. Some 20% of the restructured loan book of INR25b comes from the SME sector. We are currently baking in 81bp in LLPs for FY11 versus 106bp seen in FY10.

Valuation

The cues from our meeting are positive and our estimates are currently under revision. At our current TP of INR1,250.00, Axis Bank is valued at 2.8x FY11E ABV for an FY11E adjusted ROE of 20.3%.

## FINANCIAL STATEMENTS

## Axis Bank

<b>Profit and Loss (INR m)</b>					
<b>Year Ending Mar</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Interest income	70,053	108,355	116,380	151,179	186,920
Interest expense	(44,200)	(71,493)	(66,335)	(85,523)	(111,735)
<b>Net interest income</b>	<b>25,854</b>	<b>36,862</b>	<b>50,045</b>	<b>65,656</b>	<b>75,185</b>
Net fees & commission	13,207	24,570	29,270	37,310	44,032
Foreign exchange trading income	0	0	0	0	0
Securities trading income	4,277	3,646	8,290	6,033	7,691
Dividend income	470	753	1,898	1,340	1,600
Other income	0	0	0	0	0
<b>Non interest income</b>	<b>17,955</b>	<b>28,969</b>	<b>39,458</b>	<b>44,683</b>	<b>53,322</b>
<b>Total income</b>	<b>43,808</b>	<b>65,831</b>	<b>89,503</b>	<b>110,339</b>	<b>128,507</b>
Staff costs	(6,702)	(9,977)	(12,558)	(14,612)	(18,217)
Other operating costs	(14,847)	(18,606)	(24,539)	(29,379)	(33,634)
<b>Operating costs</b>	<b>(21,549)</b>	<b>(28,582)</b>	<b>(37,097)</b>	<b>(43,992)</b>	<b>(51,851)</b>
<b>Pre provision operating profit</b>	<b>22,259</b>	<b>37,249</b>	<b>52,406</b>	<b>66,348</b>	<b>76,655</b>
Provisions for bad and doubtful debts	(3,417)	(7,684)	(12,365)	(11,500)	(11,557)
Other provisions	(2,377)	(1,567)	(1,527)	(2,637)	(2,933)
<b>Operating profit</b>	<b>16,465</b>	<b>27,998</b>	<b>38,514</b>	<b>52,211</b>	<b>62,166</b>
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
<b>Profit before tax</b>	<b>16,465</b>	<b>27,998</b>	<b>38,514</b>	<b>52,211</b>	<b>62,166</b>
Tax	(5,755)	(9,698)	(13,368)	(18,274)	(21,758)
<b>Profit after tax</b>	<b>10,710</b>	<b>18,300</b>	<b>25,145</b>	<b>33,937</b>	<b>40,408</b>
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>10,710</b>	<b>18,300</b>	<b>25,145</b>	<b>33,937</b>	<b>40,408</b>
Non recurring items & goodwill (net)	0	0	0	0	0
<b>Recurring net profit</b>	<b>10,710</b>	<b>18,300</b>	<b>25,145</b>	<b>33,937</b>	<b>40,408</b>
<b>Per share (INR)</b>					
Recurring EPS *	30.96	50.67	63.38	82.39	98.10
Reported EPS	31.80	51.02	64.83	87.50	104
DPS	6.23	11.72	14.67	20.47	30.47
<b>Growth</b>					
Net interest income (%)	76.1	42.6	35.8	31.2	14.5
Non interest income (%)	77.7	61.3	36.2	13.2	19.3
Pre provision operating profit (%)	76.1	67.3	40.7	26.6	15.5
Operating profit (%)	65.2	70.0	37.6	35.6	19.1
Reported net profit (%)	62.5	70.9	37.4	35.0	19.1
Recurring EPS (%)	35.8	63.7	25.1	30.0	19.1
Reported EPS (%)	35.3	60.4	27.1	35.0	19.1
<b>Income breakdown</b>					
Net interest income (%)	59.0	56.0	55.9	59.5	58.5
Net fees & commission (%)	30.1	37.3	32.7	33.8	34.3
Foreign exchange trading income (%)	0.0	0.0	0.0	0.0	0.0
Securities trading income (%)	9.8	5.5	9.3	5.5	6.0
Dividend income (%)	1.1	1.1	2.1	1.2	1.2
Other income (%)	0.0	0.0	0.0	0.0	0.0
<b>Operating performance</b>					
Gross interest yield (%)	8.90	9.70	8.06	8.41	8.45
Cost of funds (%)	5.38	6.23	4.55	4.79	5.07
Net interest spread (%)	3.52	3.47	3.51	3.62	3.37
Net interest margin (%)	3.29	3.30	3.46	3.65	3.40
Cost/income (%)	49.2	43.4	41.4	39.9	40.3
Cost/assets (%)	2.36	2.22	2.26	2.17	2.08
Effective tax rate (%)	35.0	34.6	34.7	35.0	35.0
Dividend payout on recurring profit (%)	20.1	23.1	23.1	24.8	31.1
ROE (%)	17.6	19.3	19.2	19.6	20.1
ROE – COE (%)	0.3	2.0	1.9	2.3	2.8
ROA (%)	1.17	1.42	1.53	1.67	1.62
RORWA (%)	1.51	1.88	2.01	2.15	2.08

23% growth in total income for the bank in FY11E

EPS growth of 30% for FY11

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Axis Bank; BNP Paribas estimates

## Axis Bank

<b>Balance Sheet (INR m)</b>					
<b>Year Ending Mar</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Gross customer loans	599,075	821,274	1,052,421	1,305,640	1,585,879
Total provisions	(2,463)	(5,706)	(8,990)	(16,060)	(19,471)
Interest in suspense	0	0	0	0	0
<b>Net customer loans</b>	<b>596,611</b>	<b>815,568</b>	<b>1,043,431</b>	<b>1,289,580</b>	<del>1,566,409</del>
Bank loans	51,986	55,977	51,577	69,745	84,480
Government securities	201,788	277,272	342,060	443,753	552,132
Trading securities	0	0	0	0	0
Investment securities	135,263	186,031	217,688	256,872	303,109
Cash & equivalents	73,057	94,192	100,487	119,912	144,058
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	9,229	10,729	12,224	15,824	19,024
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	27,845	37,451	39,011	50,893	60,529
<b>Total assets</b>	<b>1,095,778</b>	<b>1,477,220</b>	<b>1,806,478</b>	<b>2,246,579</b>	<b>2,729,740</b>
Customer deposits	876,262	1,173,741	1,413,002	1,807,077	2,245,406
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	56,240	101,855	120,825	120,825	120,825
Non interest bearing liabilities	75,569	99,477	112,205	132,236	148,479
<b>Total liabilities</b>	<b>1,008,072</b>	<b>1,375,072</b>	<b>1,646,032</b>	<b>2,060,137</b>	<b>2,514,710</b>
Share capital	3,599	3,602	4,053	4,053	4,053
Reserves	84,108	98,546	156,393	182,388	210,977
<b>Total equity</b>	<b>87,707</b>	<b>102,148</b>	<b>160,446</b>	<b>186,442</b>	<b>215,030</b>
Minority interests	0	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>1,095,778</b>	<b>1,477,221</b>	<b>1,806,479</b>	<b>2,246,579</b>	<b>2,729,740</b>
<b>Supplementary items</b>					
Risk weighted assets (RWA)	849,907	1,097,875	1,410,000	1,753,509	2,135,380
Average interest earning assets	786,990	1,116,705	1,444,337	1,798,033	2,213,042
Average interest bearing liabilities	820,811	1,147,868	1,459,055	1,786,208	2,202,410
Tier 1 capital	88,230	101,630	157,498	182,324	209,626
Total capital	118,383	150,276	221,798	248,003	276,689
Gross non performing loans (NPL)	4,946	8,978	13,180	21,818	27,426
<b>Per share (INR)</b>					
Book value per share	245	285	414	481	554
Tangible book value per share	245	285	414	481	554
<b>Growth</b>					
Gross customer loans (%)	61.8	37.1	28.1	24.1	21.5
Average interest earning assets (%)	57.6	41.9	29.3	24.5	23.1
Total assets (%)	49.6	34.8	22.3	24.4	21.5
Risk weighted assets (%)	50.0	29.2	28.4	24.4	21.8
Customer deposits (%)	49.1	33.9	20.4	27.9	24.3
<b>Leverage &amp; capital measures</b>					
Customer loans/deposits (%)	68.1	69.5	73.8	71.4	69.8
Equity/assets (%)	8.0	6.9	8.9	8.3	7.9
Tangible equity/assets (%)	8.0	6.9	8.9	8.3	7.9
RWA/assets (%)	77.6	74.3	78.1	78.1	78.2
Tier 1 CAR (%)	10.4	9.3	11.2	10.4	9.8
Total CAR (%)	13.9	13.7	15.7	14.1	13.0
<b>Asset quality</b>					
Change in NPL (%)	18.1	81.5	46.8	65.5	25.7
NPL/gross loans (%)	0.8	1.1	1.3	1.7	1.7
Total provisions/gross loans (%)	0.4	0.7	0.9	1.2	1.2
Total provisions/NPL (%)	49.8	63.6	68.2	73.6	71.0
<b>Valuation</b>					
Recurring P/E (x) *	39.2	24.0	19.2	14.7	12.4
Recurring P/E @ target price (x) *	40.4	24.7	19.7	15.2	12.7
Reported P/E (x)	38.2	23.8	18.7	13.9	11.7
Dividend yield (%)	0.5	1.0	1.2	1.7	2.5
Price/book (x)	5.0	4.3	2.9	2.5	2.2
Price/tangible book (x)	5.0	4.3	2.9	2.5	2.2
Price/tangible book @ target price (x)	5.1	4.4	3.0	2.6	2.3

24% increase in net loan book for FY11E

We assume 81bps in LLP for FY11

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Axis Bank; BNP Paribas estimates

## DISCLAIMERS &amp; DISCLOSURES

## ANALYST(S)

Vijay Sarathi, CFA, BNP Paribas Securities India Pvt Ltd, +91 22 6628 2412, vijay.sarathi@asia.bnpparibas.com.  
Abhishek Bhattacharya, BNP Paribas Securities India Pvt Ltd, +91 22 6628 2411,  
abhishek.bhattacharya@asia.bnpparibas.com.

This report was produced by a member company of the BNP Paribas Group ("Group"). This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without our prior written consent. By accepting this report, the recipient agrees to be bound by the terms and limitations set out herein.

The information contained in this report has been obtained from public sources believed to be reliable and the opinions contained herein are expressions of belief based on such information. No representation or warranty, express or implied, is made that such information or opinions is accurate, complete or verified and it should not be relied upon as such. This report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investments. Information and opinions contained in this report are published for reference of the recipients and are not to be relied upon as authoritative or without the recipient's own independent verification or taken in substitution for the exercise of judgement by the recipient. All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any evaluation of the subject securities and companies mentioned in this report. Any reference to past performance should not be taken as an indication of future performance. No member company of the Group accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report.

The analyst(s) named in this report certifies that (i) all views expressed in this report accurately reflect the personal views of the analyst(s) with regard to any and all of the subject securities and companies mentioned in this report and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed herein.

This report is prepared for professional investors and is being distributed in Hong Kong by BNP Paribas Securities (Asia) Limited to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. BNP Paribas Securities (Asia) Limited, a subsidiary of BNP Paribas, is regulated by the Securities and Futures Commission for the conduct of dealing in securities, advising on securities, and providing automated trading services. This report is being distributed in the United Kingdom by BNP Paribas London Branch to persons who are not private customers as defined under U.K. securities regulations. BNP Paribas London Branch, a branch of BNP Paribas, is regulated by the Financial Services Authority for the conduct of its designated investment business in the U.K. This report is being distributed in the United States by BNP Paribas Securities (Asia) Limited and is intended for distribution in the United States only to "major institutional investors" (as such term is defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major institutional investors receiving this report should effect transactions in securities discussed in the report through BNP Paribas Securities Corp. BNP Paribas Securities Corp. is a member of the New York Stock Exchange, the National Association of Securities Dealers and the Securities Investor Protection Corporation. Reproduction, distribution or publication of this report in any other places or to persons to whom such distribution or publication is not permitted under the applicable laws or regulations of such places is strictly prohibited.

Information on Taiwan listed stocks is distributed in Taiwan by BNP Paribas Securities (Taiwan) Co., Ltd.

Distribution or publication of this report in any other places to persons which are not permitted under the applicable laws or regulations of such places is strictly prohibited.

### Recommendation structure

All share prices are as at market close on 7 June 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

**Should you require additional information please contact the relevant BNP Paribas research team or the author(s) of this report.**

© 2010 BNP Paribas Group