

AXSB IN
AXIS BANK
INDIA / BANKS**BUY**

TARGET	INR1,353.00
PRIOR TP	N/A
CLOSE	INR1,030.30
UP/DOWNSIDE	+31.3%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	1,353.00	1482.66	(8.2)
EPS 2012 (INR)	98.53	97.53	1.0
EPS 2013 (INR)	123	119.34	3.1
	Positive	Neutral	Negative
Market Recs	54	7	2

INDUSTRY OUTLOOK ↔

Deep franchise value**CHANGE**
Initiate coverage with BUY rating and TP INR1,353

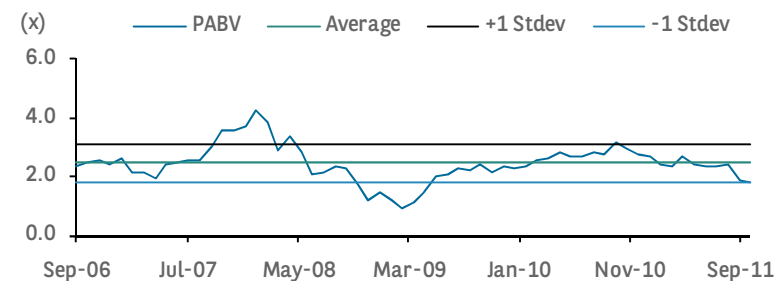
Axis Bank has one of the best deposit franchises and has added significant branches in the last couple of years the benefits of which we expect to accrue. We expect healthy earnings CAGR of 23% over FY11-13E with average ROEs & ROAAs of 20.4% and 1.56% over the same period. It is one of our top picks in the sector.

CATALYST
Decline in wholesale deposit costs and stable asset quality

We expect steady to declining wholesale deposit costs due to slowing credit demand will benefit Axis Bank's margins; lending rate hikes also to cushion margins. Infrastructure and SME exposure remain a key risk to asset quality but we expect SME's to hold up better than last cycle and infrastructure is a sector specific risk rather than a bank specific risk.

VALUATION
Valuations remain extremely attractive, for a proven franchise

It currently trades at 1.6x FY13E ABV (with ROEs of 20.1% over FY11-13E), which is below its long-term average multiple of 2.45x. Downside risks to our TP and estimates could arise from higher-than-expected slippages in the SME and infrastructure segments. Potential stake sale by SUUTI on behalf of GOI to any PSU entity could act as an overhang.

KEY CHART
Trading ~1SD below 5-year average 1-year forward P/ABV

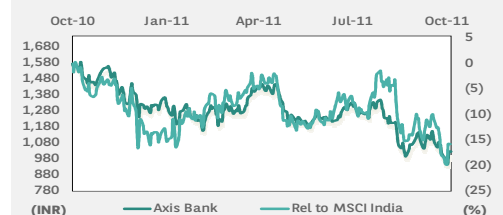
Sources: Bloomberg consensus; BNP Paribas estimates



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KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Operating Profit	61,360	76,614	96,879
Rec. net profit	41,111	51,331	64,909
Recurring EPS (INR)	98.53	123	156
Prior rec. EPS (INR)	N/A	N/A	N/A
Chg. In EPS est. (%)	-	-	-
EPS growth (%)	20.7	24.9	26.5
Recurring P/E (x)	10.5	8.4	6.6
Dividend yield (%)	1.7	1.8	1.9
Price/book (x)	1.9	1.6	1.3
ROE (%)	19.9	20.9	21.9
ROA (%)	1.54	1.58	1.61



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(9.9)	(22.6)	(34.3)
Relative to country (%)	(5.4)	(7.6)	(12.3)
Next results	October 2011		
Mkt cap (USD m)	8,605		
3m avg daily turnover (USD m)	53.4		
Free float (%)	53		
Major shareholder	SUUTI (24%)		
12m high/low (INR)	1,588.75/952.00		
3m historic vol. (%)	39.1		
ADR ticker	AXB LI		
ADR closing price (USD; 6 Oct 2011)	20.20		
Issued shares (m)	411		

Sources: Bloomberg consensus; BNP Paribas estimates

BNP Paribas Securities Asia research is available on Thomson One, Bloomberg, TheMarkets.com, Factset and on <http://eqresearch.bnpparibas.com/index>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

**BNP PARIBAS** | The bank for a changing world

RISK EXPERTS

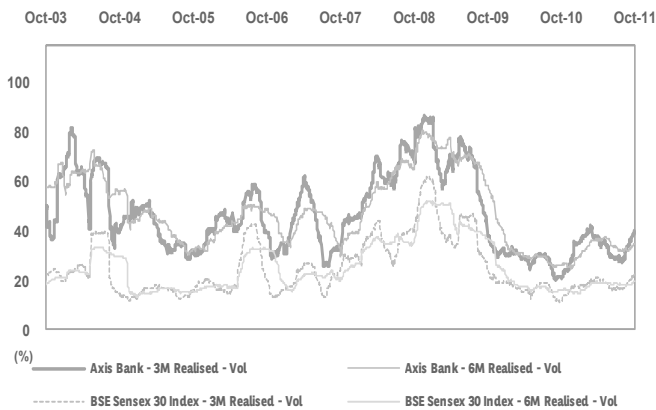
Key Earnings Drivers & Sensitivity

- The key macro factors that can impact Axis Bank's earnings are credit growth, prevailing interest rate environment and deterioration/improvement in asset quality
- In our bear and bull case we have assumed slippages in FY12E and FY13E to be 25bp below and above the base case scenario

Year-end 31 Mar	----- 2012E -----			----- 2013E -----		
	Bear	Base	Bull	Bear	Base	Bull
Advance growth (%)	16.5	21.9	27.2	18.3	19.5	26.8
NIM (%)	2.94	3.04	3.15	3.07	3.25	3.47
Slippages (%)	1.50	1.25	1.00	1.75	1.50	1.25
EPS (INR)	90.5	100.1	109.2	105.2	125.0	146.9
ABV (INR)	532.3	543.0	553.1	616.9	648.0	680.6
ROE (%)	18.1	19.9	21.5	18.2	20.9	23.7

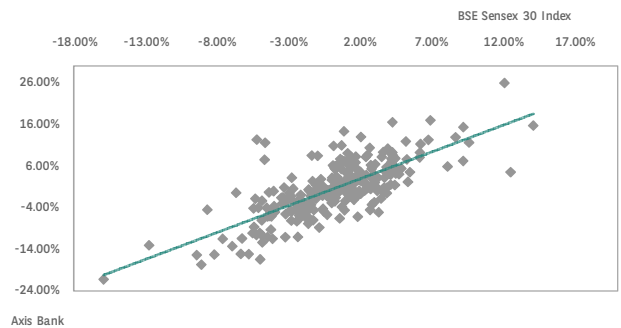
Source: BNP Paribas estimates

Axis Bank and SENSEX Index (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression – Axis Bank to SENSEX Index



Axis Bank = -611 + 0.0953 * SENSEX Index
R Square = 0.5559

Regression based on 261 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square
Sources: Bloomberg; BNP Paribas

India sector correlation matrix at 25 July 2011

	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
Autos	1.00	0.67	0.64	0.66	0.50	0.43	0.36	0.58	0.62
Banks		1.00	0.71	0.70	0.58	0.46	0.36	0.63	0.66
Engineering & Construction			1.00	0.71	0.58	0.46	0.41	0.65	0.68
Metals & Mining				1.00	0.66	0.50	0.40	0.69	0.72
Oil & Gas					1.00	0.40	0.30	0.57	0.57
IT Services						1.00	0.27	0.45	0.38
Telecom							1.00	0.43	0.43
Utilities								1.00	0.63
Property									1.00

Source: BNP Paribas Sector Strategy

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process

Long/Short Chart



Sources: Bloomberg; BNP Paribas

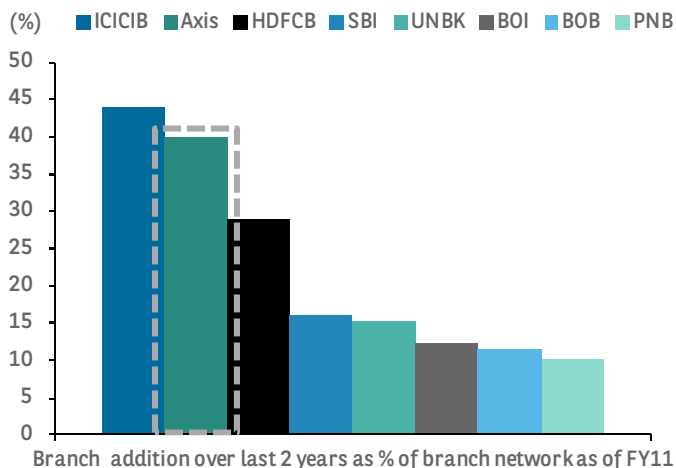
Sources: Bloomberg; BNP Paribas

Deep franchise value

High branch additions in the last two years, benefits expected to accrue

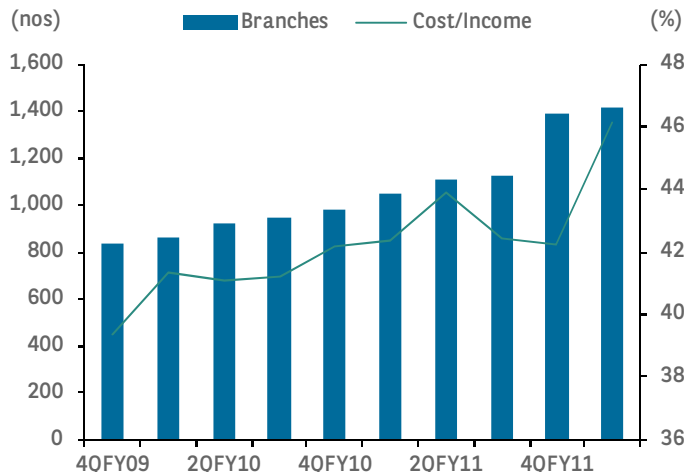
Axis has significantly ramped up its branch network over the last two years (ICICI has seen a higher proportion of additions compared to Axis, due to the merger of Bank of Rajasthan). Although this has resulted in upward movement in the cost/income ratio of the bank, as seen in last couple of quarters, we believe this is a temporary phenomena and that incremental branches will eventually prove to be beneficial in maintaining/improving the banks liability profile in a prevailing high interest rate environment through mobilization of CASA deposits at its new branches. This would be margin supportive.

EXHIBIT 1: Peer Comparison – Branch addition over last two years as % of branch network as of FY11



Sources: Company data; BNP Paribas

EXHIBIT 2: Significant branch addition in later part of FY11 resulted in jump in cost/income, benefits to accrue going forward

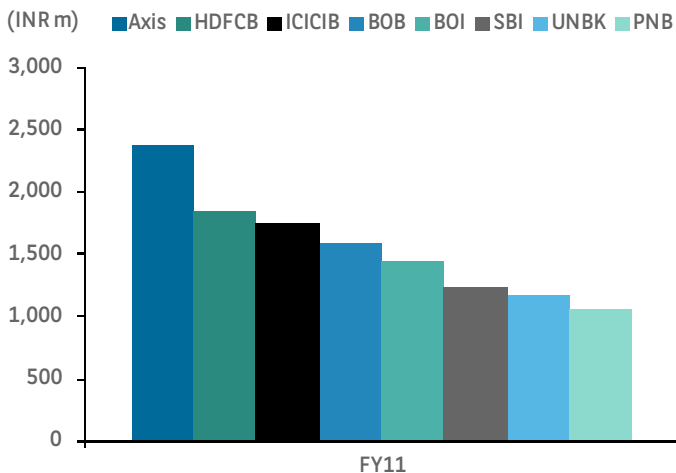


Sources: Axis Bank; BNP Paribas

Axis is the most productive and profitable franchise amongst banks of comparable size

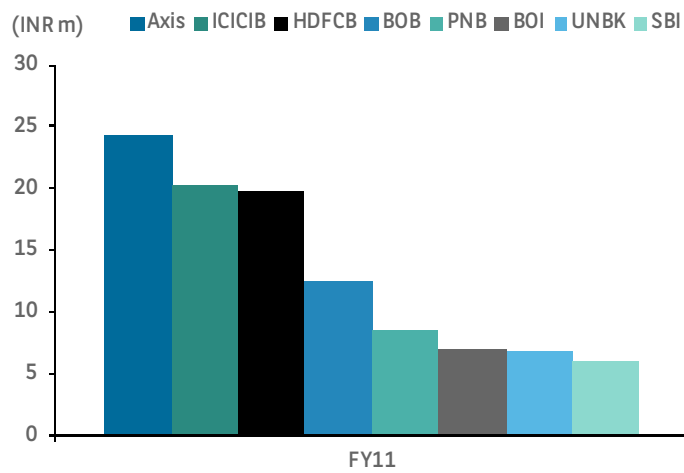
Axis Bank has one of the most productive and profitable franchises among all large banks of comparable size, which has been the key reason behind it being able to maintain best in class return ratios.

EXHIBIT 3: Comparison of business per branch as of FY11



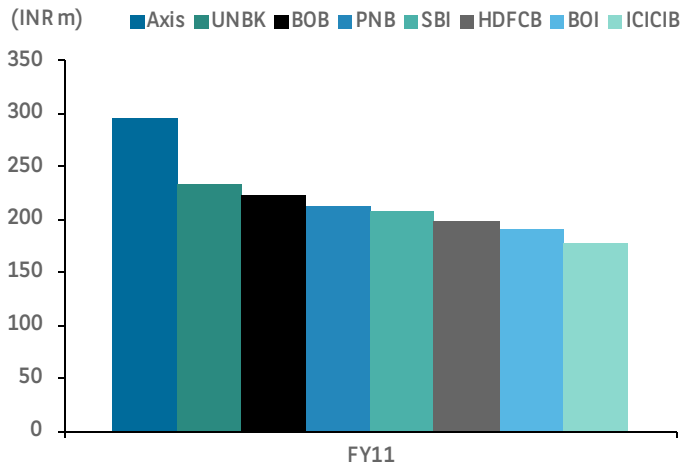
Sources: Company data; BNP Paribas

EXHIBIT 4: Comparison of net profit earned per branch



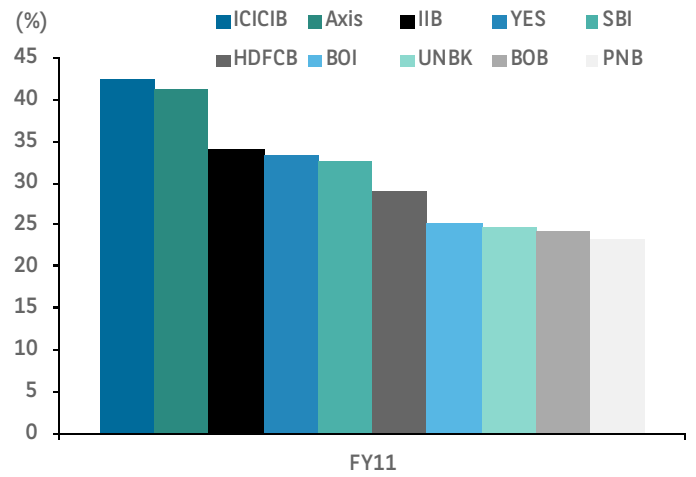
Sources: Company data; BNP Paribas

EXHIBIT 5: Comparison of CASA per branch as of FY11



Sources: Company data; BNP Paribas

EXHIBIT 6: Comparison of contribution of non interest income to net total income

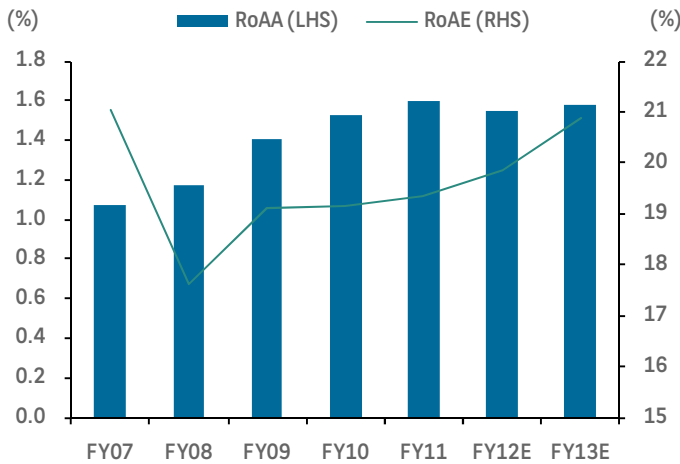


Sources: Company data; BNP Paribas

Earnings growth and return ratios to remain healthy

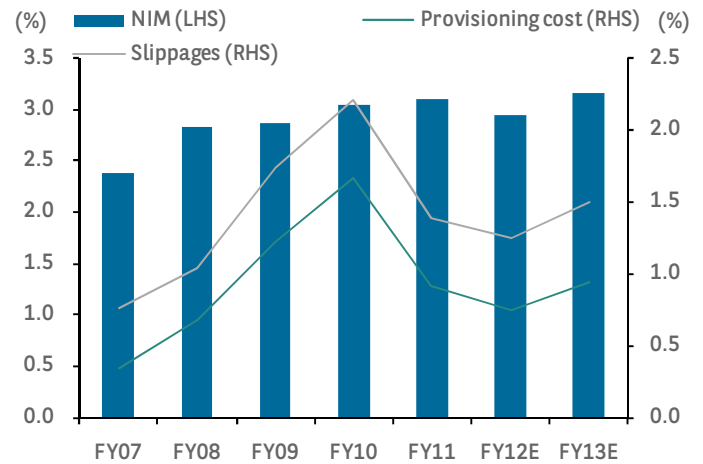
We expect Axis Bank to continue to post healthy return ratios over the next two years led by stable to improving margins and stable provisioning costs over FY11-FY13E as the bank is no longer required to maintain 70% provision coverage on incremental slippages.

EXHIBIT 7: Return ratios to remain healthy as ...



Sources: Axis Bank; BNP Paribas estimates

EXHIBIT 8: ... we expect NIMs to improve in FY13E: credit costs to remain stable over FY11-13E



Sources: Axis Bank; BNP Paribas estimates

Valuation

Base case valuation (2-stage Gordon Growth Model)

In our base case, we value Axis Bank based on a two-stage Gordon Growth Model. Based on this we arrive at an implied P/BV of 2.38x for the bank on FY13E adjusted book value. Adjusted book value is calculated assuming 75% PCR for the bank. This gives us a fair value of INR1,545 for the bank.

EXHIBIT 9: Valuing the bank on two-stage Gordon Growth Model

High growth	
Number of years	5.0
ROE (%)	20.9
Payout (%)	20.0
Growth (%)	17.0
Beta	1.30
Risk free return (%)	8.25
Risk premium (%)	7.00
Cost of equity (%)	17.4
Stable growth	
ROE (%)	19.0
Payout (%)	74.0
Growth (%)	5.0
Beta	1.0
Risk free return (%)	6.0
Risk premium (%)	5.0
Cost of equity (%)	11.0
P/BV (x)	2.38
Fair value (INR)	1,545

Source: BNP Paribas estimates

Probability based target price

We arrive at our target price for the bank using probability based pricing whereby we assign a 75% probability to Case-1: "The base case" which we discussed above and 25% probability to Case-2: "The worst case". The worst case P/ABV multiple of 1.2x for Axis is arrived at by taking into account the trough P/ABV valuation touched by the bank post the Lehman crisis. Taking these into account we arrive at a target price of INR1,353 – (For details of calculations refer Exhibit 10). At our target price we see 31.3% upside potential. We initiate coverage with a BUY rating.

EXHIBIT 10: Calculation for probability based price target

Banks	Fair P/BV (x)	Min P/BV (x)	Adj P/BV (x)	FY13E ABV (INR)	Base case (INR)	Worst case (INR)	Core bank (INR)	Subs (INR)	TP (INR)
Axis Bank	2.4	1.2	2.1	648	1,545	778	1,353	-	1,353

Source: BNP Paribas estimates

DuPont analysis

Below, we have analyzed in detail the return ratio break-up for the bank, clearly indicating the key parameters impacting the overall profitability of the bank. We expect ROEs to remain healthy between 19-22% over FY11-13E.

EXHIBIT 11: DuPont analysis

Year-end 31 Mar		2009	2010	2011	2012E	2013E	2014E
		(%)	(%)	(%)	(%)	(%)	(%)
% of average assets							
Interest income	A	8.42	7.09	7.16	7.72	7.56	7.36
Interest expense	B	5.56	4.04	4.06	4.77	4.39	4.15
Net interest income	C = (A-B)	2.86	3.05	3.10	2.95	3.17	3.21
Non-interest income	D	0.34	0.41	0.43	0.39	0.34	0.32
Fee income	E	1.69	1.56	1.59	1.50	1.46	1.41
Treasury income	F	0.22	0.43	0.17	0.11	0.15	0.10
Operating income	G = (C+D+E+F)	5.12	5.45	5.29	4.95	5.13	5.03
Staff cost	H	0.78	0.76	0.76	0.76	0.80	0.82
Other expenses	I	1.45	1.49	1.50	1.38	1.41	1.37
Operating costs	J = (H+I)	2.22	2.26	2.26	2.14	2.21	2.19
Pre-provision operating profit	K = (G-J)	2.89	3.19	3.03	2.81	2.92	2.84
Loan loss provisions	L	0.57	0.83	0.45	0.40	0.50	0.38
Other provisions	M	0.16	0.02	0.15	0.11	0.06	0.06
Total provisions	N = (L+M)	0.73	0.85	0.60	0.51	0.56	0.45
Pre-tax profit	O = (K-N)	2.16	2.35	2.43	2.31	2.36	2.40
Taxes	P	0.75	0.81	0.83	0.76	0.78	0.79
ROAA	Q = (O-P)	1.41	1.53	1.60	1.54	1.58	1.61
Avg assets/Avg net worth (x)	R	13.56	12.51	12.08	12.86	13.22	13.66
ROAE	S = (Q*R)	19.1	19.2	19.3	19.9	20.9	21.9

Sources: Axis Bank; BNP Paribas estimates

Financial statements

Axis Bank

Profit and Loss (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Interest income	116,380	151,548	205,441	245,575	297,457
Interest expense	(66,335)	(85,918)	(126,853)	(142,723)	(167,859)
Net interest income	50,045	65,630	78,588	102,853	129,598
Net fees & commission	25,652	33,574	39,815	47,534	57,054
Foreign exchange trading income	4,681	5,636	7,352	7,620	9,319
Securities trading income	7,140	3,663	3,000	5,000	4,000
Dividend income	1	8	8	8	8
Other income	1,983	3,440	3,017	3,534	3,534
Non interest income	39,458	46,321	53,192	63,696	73,915
Total income	89,503	111,951	131,780	166,549	203,514
Staff costs	(12,558)	(16,139)	(20,141)	(26,076)	(33,338)
Other operating costs	(24,539)	(31,655)	(36,811)	(45,695)	(55,270)
Operating costs	(37,097)	(47,794)	(56,952)	(71,771)	(88,608)
Pre provision operating profit	52,405	64,157	74,828	94,778	114,905
Provisions for bad and doubtful debts	(13,570)	(9,551)	(10,631)	(16,395)	(15,541)
Other provisions	(321)	(3,249)	(2,837)	(1,770)	(2,485)
Operating profit	38,514	51,357	61,360	76,614	96,879
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
Profit before tax	38,514	51,357	61,360	76,614	96,879
Tax	(13,368)	(17,472)	(20,249)	(25,283)	(31,970)
Profit after tax	25,145	33,885	41,111	51,331	64,909
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	25,145	33,885	41,111	51,331	64,909
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	25,145	33,885	41,111	51,331	64,909
Per share (INR)					
Recurring EPS *	64.31	81.61	98.53	123	156
Reported EPS	65.77	82.95	100	125	158
DPS	14.01	16.33	17.55	18.72	19.89
Growth					
Net interest income (%)	35.8	31.1	19.7	30.9	26.0
Non interest income (%)	36.2	17.4	14.8	19.7	16.0
Pre provision operating profit (%)	40.7	22.4	16.6	26.7	21.2
Operating profit (%)	38.3	33.3	19.5	24.9	26.5
Reported net profit (%)	38.5	34.8	21.3	24.9	26.5
Recurring EPS (%)	27.9	26.9	20.7	24.9	26.5
Reported EPS (%)	30.0	26.1	20.7	24.9	26.5
Income breakdown					
Net interest income (%)	55.9	58.6	59.6	61.8	63.7
Net fees & commission (%)	28.7	30.0	30.2	28.5	28.0
Foreign exchange trading income (%)	5.2	5.0	5.6	4.6	4.6
Securities trading income (%)	8.0	3.3	2.3	3.0	2.0
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	2.2	3.1	2.3	2.1	1.7
Operating performance					
Gross interest yield (%)	7.31	7.37	7.94	7.77	7.55
Cost of funds (%)	4.55	4.59	5.37	4.93	4.64
Net interest spread (%)	2.76	2.77	2.58	2.84	2.91
Net interest margin (%)	3.14	3.19	3.04	3.25	3.29
Cost/income (%)	41.4	42.7	43.2	43.1	43.5
Cost/assets (%)	2.26	2.26	2.14	2.21	2.19
Effective tax rate (%)	34.7	34.0	33.0	33.0	33.0
Dividend payout on recurring profit (%)	21.8	20.0	17.8	15.2	12.8
ROE (%)	19.2	19.3	19.9	20.9	21.9
ROE - COE (%)	4.1	4.2	4.8	5.8	6.8
ROA (%)	1.53	1.60	1.54	1.58	1.61
RORWA (%)	2.00	2.01	1.93	1.98	2.01

Building in higher provisioning costs in FY13E as the company is expected to have flexibility to provide conservatively due to higher accretion of NII and treasury income on account of expected reduction in bond yields during FY13E

Reported NIM for FY10 and FY11 are 3.75% and 3.65%. NIMs as indicated here are calculated by dividing Net Interest Income by average interest earning assets

*Pre exceptional, pre-goodwill and fully diluted

Sources: Axis Bank; BNP Paribas estimates

Axis Bank

Balance Sheet (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Gross customer loans	1,052,421	1,435,969	1,750,289	2,095,140	2,609,087
Total provisions	(8,990)	(11,891)	(14,700)	(20,524)	(24,354)
Interest in suspense	0	0	0	0	0
Net customer loans	1,043,431	1,424,078	1,735,590	2,074,616	2,584,733
Bank loans	57,326	75,225	101,367	126,049	156,947
Government securities	341,959	441,979	535,644	658,535	821,925
Trading securities	0	0	0	0	0
Investment securities	217,789	277,937	279,025	447,087	560,102
Cash & equivalents	94,739	138,862	163,022	200,424	250,151
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	12,224	22,732	25,970	27,984	30,301
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	39,011	46,321	55,585	66,703	80,043
Total assets	1,806,479	2,427,134	2,896,203	3,601,397	4,484,202
Customer deposits	1,413,002	1,892,378	2,327,625	2,909,531	3,636,914
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	171,696	262,679	246,177	306,119	381,157
Non interest bearing liabilities	61,335	82,089	98,506	118,208	141,849
Hybrid Capital	0	0	0	0	0
Total liabilities	1,646,032	2,237,145	2,672,308	3,333,857	4,159,920
Share capital	4,052	4,106	4,106	4,106	4,106
Reserves	156,393	185,883	219,789	263,434	320,176
Total equity	160,444	189,988	223,894	267,540	324,282
Minority interests	0	0	0	0	0
Total liabilities & equity	1,806,477	2,427,134	2,896,203	3,601,397	4,484,202
Supplementary items					
Risk weighted assets (RWA)	1,411,698	1,965,626	2,304,773	2,872,740	3,576,093
Average interest earning assets	1,592,142	2,056,662	2,586,364	3,160,679	3,940,284
Average interest bearing liabilities	1,456,819	1,869,877	2,364,429	2,894,726	3,616,861
Tier 1 capital	157,894	185,035	220,973	264,493	321,111
Total capital	223,079	248,704	294,896	354,015	429,833
Gross non performing loans (NPL)	13,180	15,994	20,882	29,381	35,150
Per share (INR)					
Book value per share	396	463	545	652	790
Tangible book value per share	396	463	545	652	790
Growth					
Gross customer loans (%)	28.1	36.4	21.9	19.7	24.5
Average interest earning assets (%)	28.0	29.2	25.8	22.2	24.7
Total assets (%)	22.3	34.4	19.3	24.3	24.5
Risk weighted assets (%)	28.6	39.2	17.3	24.6	24.5
Customer deposits (%)	20.4	33.9	23.0	25.0	25.0
Leverage & capital measures					
Customer loans/deposits (%)	73.8	75.3	74.6	71.3	71.1
Equity/assets (%)	8.9	7.8	7.7	7.4	7.2
Tangible equity/assets (%)	8.9	7.8	7.7	7.4	7.2
RWA/assets (%)	78.1	81.0	79.6	79.8	79.7
Tier 1 CAR (%)	11.2	9.4	9.6	9.2	9.0
Total CAR (%)	15.8	12.7	12.8	12.3	12.0
Asset quality					
Change in NPL (%)	46.8	21.4	30.6	40.7	19.6
NPL/gross loans (%)	1.3	1.1	1.2	1.4	1.3
Total provisions/gross loans (%)	0.9	0.8	0.8	1.0	0.9
Total provisions/NPL (%)	68.2	74.3	70.4	69.9	69.3
Valuation					
Recurring P/E (x) *	16.0	12.6	10.5	8.4	6.6
Recurring P/E @ target price (x) *	21.0	16.6	13.7	11.0	8.7
Reported P/E (x)	15.7	12.4	10.3	8.2	6.5
Dividend yield (%)	1.4	1.6	1.7	1.8	1.9
Price/book (x)	2.6	2.2	1.9	1.6	1.3
Price/tangible book (x)	2.6	2.2	1.9	1.6	1.3
Price/tangible book @ target price (x)	3.4	2.9	2.5	2.1	1.7

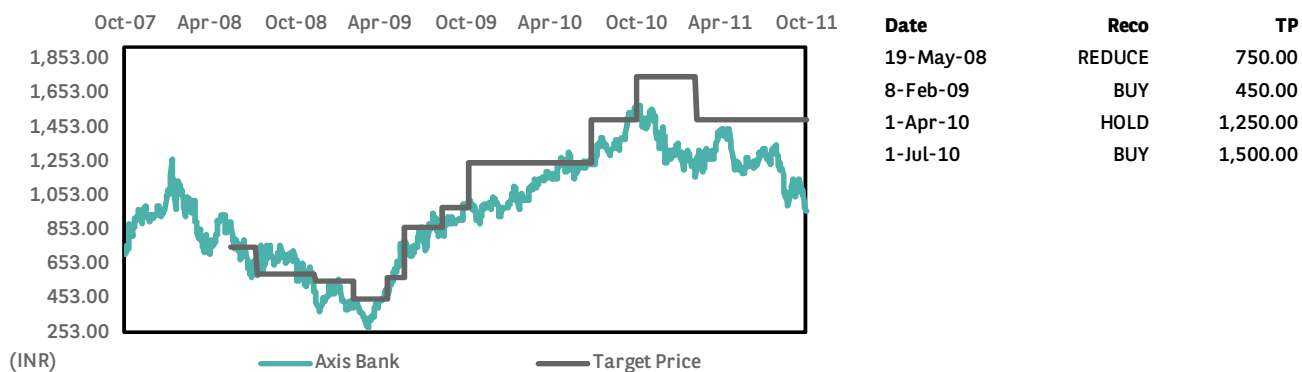
ABVPS - FY10: INR393.8, FY11: INR462.5, FY12E: INR543.0, FY13E: INR648.0, FY14E: INR785.0. ABVPS is calculated by subtracting revaluation reserve and standard PCR at 75% for all banks. Hence, if PCR is below (or above) 75% we reduce (or add back) the difference from (to) total shareholder equity

* Pre exceptional, pre-goodwill and fully diluted

Sources: Axis Bank; BNP Paribas estimates

History of change in investment rating and/or target price

Axis Bank (AXSB IN)



Abhijit Majumder started covering this stock from 12-October-2011

Price and TP are in local currency

Valuation and risks: Downside risks to our TP and estimates could arise from higher-than-expected slippages in the SME and infrastructure segments

Source: Bloomberg, BNP Paribas

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-	-

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BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

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.*

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Hold	155	Hold	2.58
Reduce	53	Reduce	1.89

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