Prabhudas Lilladher

Axis Bank

Core performance improves

Q3FY10 Result Update

January 15, 2010

Rating	**Accumulate**
Price	Rs1,078
Target Price	Rs1,150
Implied Upside	6.7%
Sensex	17,554

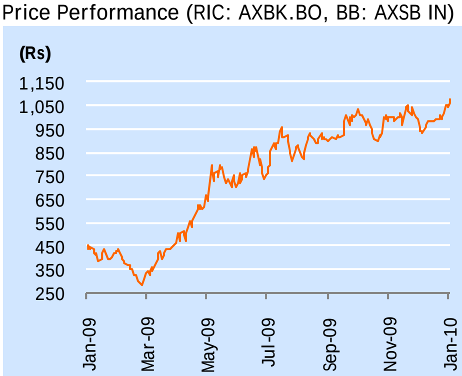
(Prices as on January 15, 2010)

Trading Data	
Market Cap. (Rs bn)	387.1
Shares o/s (m)	359.0
Free Float	61.2%
3M Avg. Daily Vol ('000)	2,405.1
3M Avg. Daily Value (Rs m)	2,372.5

Major Shareholders	
Promoters	38.8%
Foreign	30.8%
Domestic Inst.	8.4%
Public & Others	22.0%

Stock Performance			
(%)	1M	6M	12M
Absolute	12.4	36.7	148.1
Relative	8.4	13.5	54.0

Price Performance (RIC: AXBK.BO, BB: AXSB IN)



Source: Bloomberg

- **Core performance improves, stable asset quality:** Axis Bank has reported Q3FY10 PAT of Rs6.56bn, up by 31.0% YoY, higher than our as well as market expectations. Margins threw positive surprise, by being sequentially up by 50bps to 4%. We believe ~10bps of improvement in margins could be due to recent capital infusion; CASA ratio up 280bps QoQ to 45.6%, fee income up by healthy 29.2% YoY and 11.2% QoQ (driven by robust growth in corporate banking, retail banking and treasury segments), stable asset quality remain the key positives. Delinquencies have moderated but need to monitor another quarter to decisively conclude a peak out in the same. The GNPAs were up by 3.7% QoQ to Rs11.7bn and the coverage remains largely stable. With technically written-off accounts, the coverage improves to 69%. Restructuring during the quarter too came down significantly to Rs0.9bn v/s Rs3.9bn in Q2FY10. Cumulative value of restructured assets stood at Rs23.1bn or 2.43% of gross customer assets.

- **Sharp sequential margin expansion, driven by deposit re-pricing and GDR proceeds:** Advances grew by 12.5% YoY and 4.6% QoQ. CASA deposits grew by 4.9% QoQ, while the overall deposits shrunk by 1.5% QoQ. Consequently, the NIM expanded by 50bps QoQ leading to 17.3% QoQ and 45.1% YoY NII growth.

- **Advances growth muted:** Advances growth remained muted at 12.5% YoY. We expect Axis Bank to close the year with 16.7% advances growth, which implies a sequential advances growth of 12.2% in Q4FY10.

- **Valuations – trading at a significant discount to its peers:** There has been a marked slowdown in Axis Bank's business growth in the recent past, but we expect growth to pick up, going forward. The stock is currently trading at a significant discount to its larger peers. We expect Axis Bank to deliver earnings CAGR of ~27% through FY10-12E. At the CMP, the stock trades at 13.6x its FY11E EPS, 2.3x FY11E BV and 2.4x FY11E ABV. We continue to favour Axis bank from a medium-to-long term perspective. Maintain our **Accumulate** rating, with a revised price target of Rs1,150.

Key financials (Rsm)	FY09	FY10E	FY11E	FY12E
Net interest income	36,862	50,213	63,119	78,899
Growth (%)	*42.6*	*36.2*	*25.7*	*25.0*
Operating profit	37,249	53,720	61,827	77,284
PAT	18,153	24,611	31,703	39,628
EPS (Rs)	50.6	61.4	79.0	98.8
Growth (%)	*68.9*	*21.4*	*28.8*	*25.0*
Net DPS (Rs)	10.0	11.0	12.0	13.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
*NIM (%)**	*3.0*	*3.4*	*3.6*	*3.6*
RoAE (%)	*19.1*	*18.8*	*18.3*	*19.6*
RoAA (%)	*1.4*	*1.6*	*1.7*	*1.7*
P / BV (x)	3.8	2.7	2.3	2.0
P / ABV (x)	3.8	2.8	2.4	2.0
PE (x)	21.3	17.6	13.6	10.9
Net divided yield (%)	*0.9*	*1.0*	*1.1*	*1.2*

Source: Company Data; PL Research: ** calculated on average assets.*

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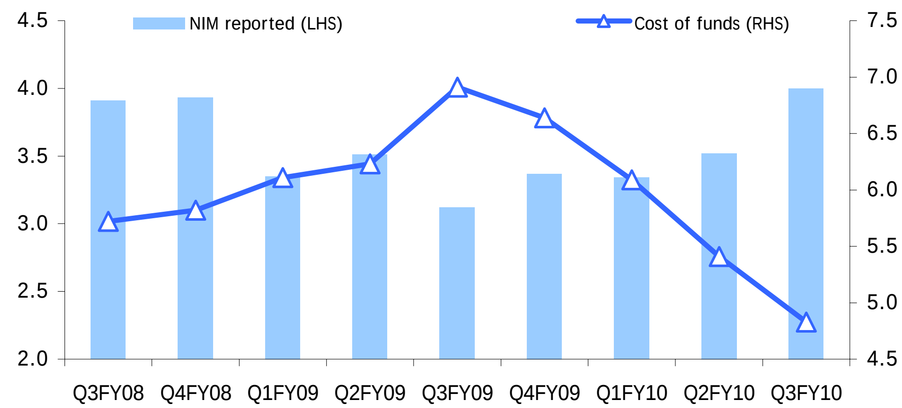
Q3FY10 Result Overview **(Rs m)**

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Interest Income	28,837	29,848	(3.4)	28,604	86,496	77,963	10.9
Interest on Advances	19,879	20,958	(5.1)	19,502	59,116	54,122	9.2
Income on investments	8,454	8,062	4.9	8,596	25,723	21,647	18.8
Bal with RBI & others	503	828	(5.1)	506	1,656	2,193	9.2
Interest Expense	15,345	20,551	(25.3)	17,107	51,052	51,427	(0.7)
Net Interest Income	**13,491**	**9,297**	45.1	**11,497**	**35,444**	**26,536**	33.6
Non-Interest Income	**9,881**	**7,322**	35.0	**10,656**	**30,122**	**20,513**	46.8
Treasury Income	1,696	1,142	48.5	2,240	7,197	2,077	246.5
CEB	7,997	6,189	29.2	7,190	21,454	17,830	20.3
Other Income	187	(10)	NA	1,226	1,472	607	142.6
Net total Income	**23,372**	**16,619**	40.6	**22,153**	**65,567**	**47,049**	39.4
Operating Expenses	9,626	7,522	28.0	9,095	26,999	21,186	27.4
Employee	3,085	2,661	16.0	3,042	9,221	7,402	24.6
Other operating expenses	6,540	4,862	34.5	6,053	17,779	13,784	29.0
Operating profit	**13,746**	**9,096**	51.1	**13,058**	**38,567**	**25,864**	49.1
Core operating profits	12,050	7,954	51.5	10,818	31,371	23,787	31.9
Provisions	3,731	1,320	182.7	4,990	11,874	6,845	73.5
Profit before tax	**10,015**	**7,777**	28.8	**8,068**	**26,693**	**19,019**	40.4
Tax	3,455	2,768	24.8	2,752	9,198	6,680	37.7
Net Profit after tax	**6,560**	**5,009**	31.0	**5,315**	**17,496**	**12,339**	41.8
EPS (Rs)	16.3	14.0	16.5	13.2	45.1	34.4	31.2
Asset Quality							
Gross NPA's	11,735	7,879	48.9	11,317	11,735	7,879	48.9
Gross NPA's % of customer assets	1.23	0.90		1.21	1.23	0.90	
Net NPA's	4,296	3,419	25.6	4,167	4,296	3,419	25.6
Net NPA's % of customer assets	0.46	0.39		0.45	0.46	0.39	
Provision Coverage	63.4	56.6		63.2	63.4	56.6	
Capital Adequacy							
CAR	16.8	13.8		16.5	16.8	13.8	
Tier 1	11.8	9.5		11.4	11.8	9.5	
Yield Measurement ratios (%)							
NIM - reported	4.00	3.12	88.0	3.52	3.60	3.33	27.0
NIM - calculated	3.57	2.80	76.8	3.14	3.17	2.86	30.5
Balance Sheet Items							
Deposits	1,138,532	1,057,160	7.7	1,155,990	1,138,532	1,057,160	7.7
CASA	519,090	401,460	29.3	494,620	519,090	401,460	29.3
CASA (%)	45.6	38.0		42.8	45.6	38.0	
Advances	847,699	753,280	12.5	810,440	847,699	753,280	12.5
Investments	492,739	421,110	17.0	520,710	492,739	421,110	17.0
Total Assets	1,504,560	1,374,710	9.4	1,517,140	1,504,560	1,374,710	9.4

Highlights

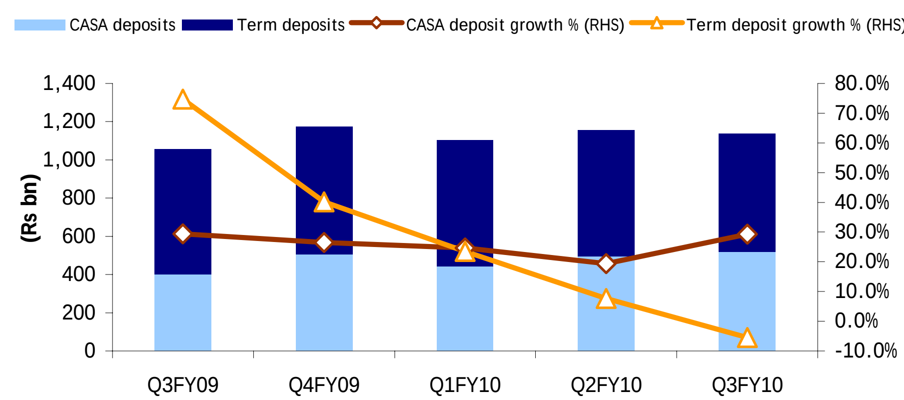
280bps increase in CASA and 6.3% sequential decline in term deposits have aided margins. Margins will only improve from hereon as incremental CD ratio and benefits of equity capital funds start accruing, going forward.

Trend in margin and cost of funds - shows significant improvement



Source: Company Data, PL Research

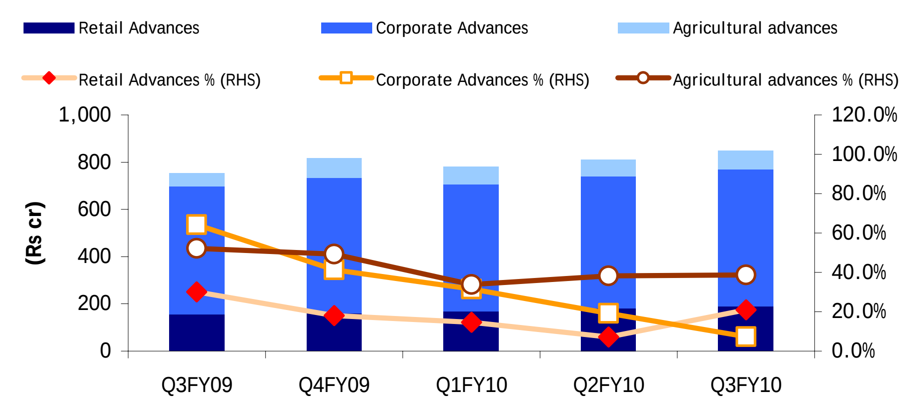
Trend in deposit mobilisation - CASA improves with stable term deposits



Source: Company Data, PL Research

Advances growth stood at 12.5% YoY and 4.6% QoQ, with retail up 21% YoY and 5.1% QoQ (driven by mortgages and car loans). Corporate loans grew at a slower rate by 7.4% YoY and 3.8% QoQ, with SME advances up 16.7% YoY and 4.1% QoQ.

Trend in advances - expect ~20% advances growth for FY10E



Source: Company Data, PL Research

Fee Income details - corporate & business banking fees dip sequentially; fees from capital markets & retail gain traction (Rs m)

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	QoQ gr. (%)
Corporate banking + Agri, SME	2,550	1,670	*52.7*	2,150	*18.6*
Business banking	890	790	*12.7*	880	*1.1*
Capital markets	850	1,010	*(15.8)*	760	*11.8*
Retail banking	2,460	1,780	*38.2*	2,210	*11.3*
Total	**6,750**	**5,250**	*28.6*	**6,000**	*12.5*

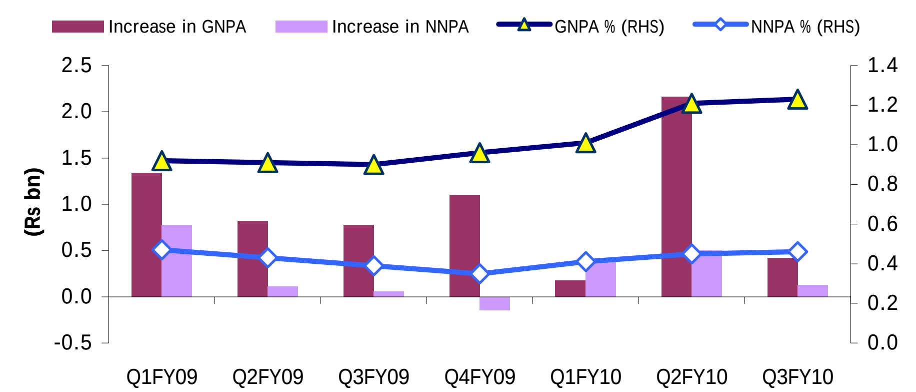
Source: Company Data, PL Research

Asset quality stabilizes as the incremental NPAs come in much lower compared to the previous quarter.

Provisions decline sequentially, but the provision coverage remains stable sequentially.

Stress in terms of asset quality has subsided with incremental restructured assets coming in at Rs0.9bn, significantly lower from Rs3.9bn in the previous quarter.

Trend in asset quality – stress points exists



Source: Company Data, PL Research

Re-structured loan details (Rs m)

	Q1FY10	Q2FY10	Q3FY10	Cumulative as on Dec09
Re-structured loans	9,960	3,901	870	23,090
As % of customer assets	*1.09*	*0.42*	*0.09*	*2.43*
NPV diminution	340	169	20	529

Source: Company Data, PL Research

Valuation

There has been a marked slowdown in Axis Bank's business growth in the recent past, but we expect growth to pick up, going forward. The stock is currently trading at a significant discount to its larger peers. We expect Axis Bank to deliver earnings CAGR of ~27% through FY10-12E. At the CMP, the stock trades at 20.5x its FY11E EPS, 2.2x FY11E BV and 2.2x FY11E ABV. We continue to favour Axis bank from a medium-to-long term perspective. Maintain our '**Accumulate**' rating, with a revised price target of Rs1,150.

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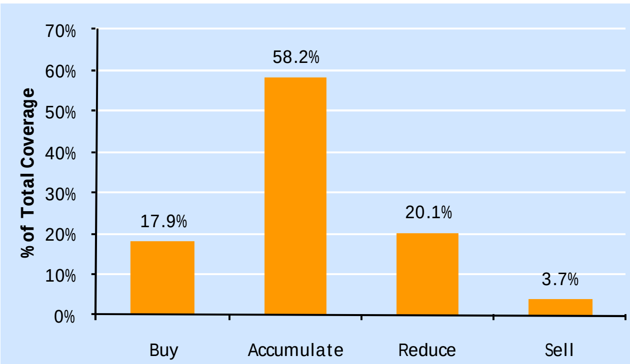
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly