

October 24, 2011

Rating	Previous Reco
Accumulate	Hold
CMP	Target Price
Rs1,124	Rs1,380
EPS Chg FY12E/FY13E (%)	NA
Target Price change(%)	NA
Nifty	5,050
Sensex	16,786

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(9)	(22)	(25)
Rel. to Nifty	(1)	(0)	(10)	(10)

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	AXSB IN
Equity Capital (Rs mn)	4,123
Face Value(Rs)	10
No of shares o/s (mn)	412
52 Week H/L	1,585/948
Market Cap (Rs bn/USD mn)	464/9.3
Daily Avg Volume (No of sh)	2.4mn
Daily Avg Turnover (US\$m)	54.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	37.2	37.2	37.2
FII/NRI	42.9	45.6	47.1
Institutions	7.0	5.7	5.1
Private Corp	7.0	5.9	5.6
Public	6.0	5.6	5.0

Source: Bloomberg

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com
+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com
+91 22 6612 1340

Aalok Shah

aalok.shah@emkayglobal.com
+91 22 6612 1336

- **AXSB's Q2FY12 NII at Rs20bn ahead of consensus. Net profit of Rs9.2bn marginally lower due to higher Opex and provisions**
- **NIMs bounce back sharply (50bps qoq) with help of better yields and CASA (up 170bps qoq). We expect lower NIMs in coming quarters due to higher balance sheet growth**
- **Slippages move up sharply at Rs5bn, highest in last 6 qtrs. Rs2.3bn of MFI exposure restructured in Q2FY12. Slippage guidance of 1.3%, marginally higher than our estimate**
- **Valuations at 2.2x/1.9x FY12E/FY13E ABV. Estimates already factor in higher slippages and NIMs compression. Expect no -ve surprise. Upgrade to ACCUMULATE**

NII in line; Opex and provisions drag profits

AXSB's Q2FY12 NII at Rs20bn (24% yoy and 16% qoq) was ahead of consensus estimates (Rs18.5-19.5bn) and sharply ahead of our estimates. The better than expected NII was largely driven by sharply improved margins at 3.8%, an improvement of 50bps qoq. The net profit at Rs9.2bn was tad lower than expected as 22% yoy growth in operating income was offset by more than doubling of provisions for the quarter to Rs4.3bn.

The growth in advances was at 6.2% qoq with overall balance sheet growth of 7.5% qoq as AXSB seems to have added some more of non-SLR investments too. The advances growth was driven by retail and corporate advances. Commendably, despite adverse interest rate environment, the CASA expanded by 70bps yoy (170bps qoq) in overall deposit growth of 6% qoq.

Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.9	8.9	9.2	10.1	10.8	198	73
Yield on investments*	7.5	7.7	7.4	7.2	7.7	20	49
Yield on assets*	7.4	7.6	7.8	8.2	8.7	128	52
Cost of funds*	4.1	4.1	4.7	5.3	5.4	128	10
NIM*	3.3	3.4	3.0	2.9	3.3	0	42
Yield on assets #	8.4	8.6	9.0	9.4	10.0	154	56
Cost of funds #	4.8	4.8	5.6	6.1	6.2	144	6
NIM #	3.7	3.8	3.4	3.3	3.8	10	50

Source: Company, Emkay Research

Note: * Calculated on basis of average quarterly balances # reported

Valuations sheet

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	89,503	25,145	62.1	373.7	1.5	19.2	18.7	3.0
FY2011	111,951	33,885	82.5	440.8	1.6	19.3	13.9	2.6
FY2012E	134,110	40,417	97.6	513.6	1.5	19.6	11.6	2.2
FY2013E	159,692	48,479	116.1	601.8	1.5	19.9	9.7	1.9

Source: Company, Emkay Research

Exhibit 1: Quarterly results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	16,151	17,331	17,010	17,241	20,073	24.3	16.4	37,314	35,210	6.0
Other Income	10,332	11,477	14,504	11,679	12,349	19.5	5.7	24,028	22,357	7.5
Fee Income	8,485	9,677	12,311	10,570	11,207	32.1	6.0	21,776	18,637	16.8
Net Income	26,483	28,808	31,514	28,920	32,422	22.4	12.1	61,342	57,567	6.6
Total Operating Expenses	11,620	12,224	13,306	13,335	14,665	26.2	10.0	28,000	25,310	10.6
As % Of Net Income	43.9	42.4	42.2	46.1	45.2			45.6	44.0	
Employee Expenses	4,053	3,962	3,960	5,100	4,986	23.0	-2.2	10,086	9,150	10.2
As % Of Net Income	15.3	13.8	12.6	17.6	15.4			16.4	15.9	
Other Expenses	7,567	8,262	9,346	8,235	9,679	27.9	17.5	17,915	16,160	10.9
As % Of Net Income	28.6	28.7	29.7	28.5	29.9			29.2	28.1	
Operating Profit	14,864	16,585	18,208	15,585	17,756	19.5	13.9	33,341	32,257	3.4
As % Of Net Income	56.1	57.6	57.8	53.9	54.8			54.4	56.0	
Provisions	3,788	3,139	2,544	1,758	4,056	7.1	130.7	5,814	6,082	-4.4
Prov for NPA	3,210	2,315	1,760	1,530	2,470	-23.1	61.4	4,000	4,206	-4.9
PBT	11,076	13,446	15,664	13,827	13,701	23.7	-0.9	27,527	26,175	5.2
Total Tax	3,725	4,532	5,463	4,403	4,497	20.8	2.1	8,900	8,249	7.9
Adjusted PAT	7,351	8,914	10,201	9,424	9,203	25.2	-2.3	18,627	17,926	3.9
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	7,351	8,914	10,201	9,424	9,203	25.2	-2.3	18,627	17,926	3.9
Reported EPS	18.0	21.7	24.8	22.9	22.3	24.1	-2.4	45.2	43.7	3.4

Source: Company, Emkay Global

Margins expansion driven by lending rates revision

The sharp 50bps expansion in margins was driven by increase in the lending rates which contributed more than 20bps to the expansion and higher investment yields which contributed 15bps to the NIMs. The cost of funds remained almost stable at 6.2%.

NIMs to moderate to 3.3-3.4% in coming quarters

The management has still guided towards a strong credit growth of 22% for the full year implying 10% CQGR for loans over H2FY12. We believe that with 36% growth in credit last year, large part of H2FY12 growth will also be guided towards PSL loans. With (1) growth in low yielding PSLs and (2) commensurate stronger (24% implied H-o-H compared to 3% in H1) growth in deposits, the NIMs would moderate to 3.2-3.3% over H2FY12.

Retail and corporate loans drive loan growth

A sharp 13% qoq growth in corporate and 8.5% qoq growth in retail loans drove the loan growth during the quarter. However, the loan book has still declined by 2% year till date. Within retail, the sharp growth was driven by all segments.

Exhibit 2: Advances growth

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Large corporates	637	705	759	703	794	24.6	12.9	56.7
Mid-corporate/SME	168	171	214	198	208	23.5	4.6	14.8
Agriculture	91	108	173	147	106	17.0	-27.9	7.6
Retail	210	252	278	270	293	39.7	8.5	20.9
Personal loans	17	40	39	11	12	-30.2	8.5	0.8
Mortgages	153	169	189	203	223	45.4	10.0	15.9
Car Loans	27	28	31	35	38	39.7	8.5	2.7
Credit cards	4	5	6	5	6	39.7	8.5	0.4
Others	8	10	14	16	15	74.6	-9.6	1.0
Total	1,106	1,235	1,424	1,319	1,401	26.7	6.2	100.0

Source: Company, Emkay Global

CASA share rises despite strong growth

Despite about 6% qoq growth in deposits, the CASA commendably expanded by 170bps qoq. The growth was driven by 30% expansion branch network over last twelve months. The CASA per branch stood at Rs570mn/branch, almost same as in Q2FY11 despite strong expansion in the branch network.

Exhibit 3: Deposit mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Current Deposits	274	268	369	315	354	29.2	12.2
Savings Deposits	378	391	409	429	468	23.7	9.1
CASA	652	659	778	744	821	26.0	10.4
Term deposits	917	899	1,115	1,092	1,123	22.5	2.9
Total Deposits	1,569	1,558	1,892	1,836	1,945	23.9	5.9
CASA	41.5	42.3	41.1	40.5	42.2	69	171

Source: Company, Emkay Global

Transaction banking and retail fees drive other income

A 5% qoq growth in retail fees and a strong 30% growth in treasury/forex products fees on client's behalf drove the fee income by 32% yoy. The total other income has grown by 20% yoy.

Exhibit 4: Other income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Corporate banking	3,460	4,100	5,381	4,560	4,430	28.0	-2.9	8,990	7,080	27.0
Business banking	920	950	1,070	990	970	5.4	-2.0	1,960	1,910	2.6
Capital markets	160	150	190	160	150	-6.3	-6.3	310	350	-11.4
Retail banking	2,100	2,850	3,120	2,760	2,910	38.6	5.4	5,670	4,850	16.9
Treasury	1,850	1,620	2,550	2,100	2,740	48.1	30.5	4,840	4,430	9.3
Total fee income	8,490	9,670	12,311	10,570	11,200	31.9	6.0	21,770	18,620	16.9
Trading gains/(losses)	1,084	1,347	581	702	277	-74.5	-60.6	979	2,234	-56.2
Others	763	453	1,612	407	866	13.5	112.8	1,273	1,486	-14.3
Total	10,332	11,477	14,504	11,679	12,349	19.5	5.7	24,028	22,357	7.5

Source: Emkay Global, Company

Slippages inch up higher; guides slippages of 1.3%

The slippages during the quarter inched up to Rs5bn, highest in at least last six quarters driven by variety of sectors. The management has guided to credit costs of 75bps which implies net slippage rate (net of upgrades/reco) of 95bps and gross slippage rate of 1.3%, marginally higher than our estimates of 1.1%.

Sharply higher provisions, higher by 60% qoq, helped keep the GNPA's and net NPAs at 1.1% and 0.3% respectively, flat qoq and yoy.

Exhibit 5: Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPAs	13,624	14,829	15,994	15,731	17,438	28.0	10.8
Net NPAs	4,094	3,855	4,104	4,625	5,488	34.1	18.7
Gross NPAs (%)	1.1	1.1	1.0	1.1	1.1		
Net NPAs (%)	0.3	0.3	0.3	0.3	0.3		
Net NPAs/Net worth (%)	2.3	2.1	2.2	2.3	2.6		
Provision cover (%)	70.0	74.0	74.3	70.6	68.5		
Provision cover %(Inc tech w/ff)	90.5	82.7	80.9	80.0	89.3		

Source: Company, Emkay Global

Exhibit 6: Provisions

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
NPAs	3,210	2,315	1,760	1,530	2,470	-23.1	61.4	4,000	4,206	-4.9
As % of advances	0.3	0.2	0.1	0.1	0.2			0.3	0.4	
Others	578	824	784	228	1,586	174.4	595.5	1,814	1,876	-3.3
Total	3,788	3,139	2,544	1,758	4,056	7.1	130.7	5,814	6,082	-4.4

Source: Company, Emkay Global

Well capitalized for growth

With total CAR of 12.2% (including unaudited profits) and tier I CAR (including unaudited profits) of 9.3%, AXSB is well capitalized for growth. We believe that the bank would need to raise capital for at least next 6-8 quarters for growth.

Valuations and view

At CMP, the stock is quoting at 2.2x/1.9x FY12E/FY13E ABV. We are leaving our estimates unchanged. Though the slippages for the quarter surprised us negatively, the implied management guidance at 1.3% is only marginally higher than our estimates. Despite sharp jump in the NIMs in Q2FY12, we stick to our assumptions of 25bps margins contraction in line with the dip witnessed in H1FY12 even as we build in 22% growth in advances for FY12. We believe that the probability of negative surprises in earnings and slippages has reduced significantly for AXSB. Upgrade to ACCUMULATE with TP of Rs1,380.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	50,045	65,630	77,163	91,929
Other income	39,458	46,321	56,947	67,763
Net income	89,503	111,951	134,110	159,692
Operating expenses	37,097	47,794	60,409	72,294
Pre provision profit	52,406	64,157	73,701	87,398
PPP excl treasury	59,768	67,820	77,364	91,061
Provisions	13,888	12,793	13,872	15,635
Profit before tax	38,517	51,364	59,829	71,763
Tax	13,372	17,479	19,412	23,283
Tax rate	35%	34%	32%	32%
Profit after tax	25,145	33,885	40,417	48,479

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	3.0	3.1	2.9	2.8
Non-Il/avg assets	2.4	2.2	2.1	2.1
Fee income/avg assets	2.8	2.8	2.9	2.9
Opex/avg assets	2.3	2.3	2.2	2.2
Provisions/avg assets	1.9	1.0	0.9	0.9
PBT/avg assets	2.1	2.1	2.0	2.0
Tax/avg assets	0.7	0.7	0.7	0.7
RoA	1.5	1.6	1.5	1.5
RoAE	19.2	19.3	19.6	19.9
GNPA (%)	1.1	1.0	1.0	1.0
NNPA (%)	0.4	0.3	0.3	0.3

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	4,052	4,106	4,141	4,176
Reserves	156,394	185,883	219,031	259,199
Net worth	160,446	189,988	223,172	263,375
Deposits	1,413,002	1,892,378	2,386,777	2,908,040
Borrowings	233,030	344,767	358,639	374,274
Total liabilities	1,806,478	2,427,134	2,968,589	3,545,690
Assets				
Cash and bank	151,957	214,087	270,018	328,989
Investments	421,516	539,211	706,290	818,538
Customer assets	1,181,642	1,604,783	1,924,229	2,331,363
Others	51,562	68,999	68,088	66,937
Total assets	1,806,478	2,427,134	2,968,589	3,545,690

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	25,145	33,885	40,417	48,479
Shares in issue (mn)	405	411	414	418
EPS (Rs)	62.1	82.5	97.6	116.1
PER (x)	18.1	13.6	11.5	9.7
FDEPS(Rs)	60.2	81.1	96.8	116.1
FDPER (x)	18.7	13.9	11.6	9.7
Book value (Rs)	384.0	450.8	527.1	618.9
P/BV (x)	2.9	2.5	2.1	1.8
Adj book value (Rs)	373.7	440.8	513.6	601.8
P/ABV (x)	3.0	2.6	2.2	1.9
P/PPP (x)	8.7	7.2	6.3	5.4
Dividend yield (%)	1.1	1.2	1.4	1.6

Recommendation History: Axis Bank – AXSB IN

Date	Reports	Reco	CMP	Target
22/07/2011	Axis Bank Q1FY12 Result Update	Hold	1,297	1,380
25/04/2011	Axis Bank Q4FY11 Result Update	Hold	1,450	1,570
17/01/2011	Axis Bank Q3FY11 Result Update	Hold	1,227	1,300
14/10/2010	Axis Bank Q2FY11 Result Update	Reduce	1,536	1,200

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/10/2011	Yes Bank Q2FY12 Result Update	Accumulate	285	340
19/10/2011	HDFC Bank Q2FY12 Result Update	Hold	491	510
18/10/2011	CRISIL Q3CY11 Result Update	Buy	839	1,050
17/10/2011	South Indian Bank Q2FY12 Result Update	Accumulate	23	27

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.