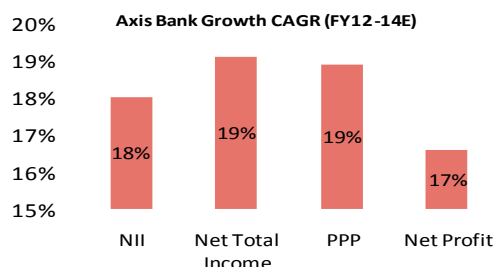


October 16, 2012

Banking Sector Outlook - Neutral



Recommendation	Outperform
CMP (₹)	1142
Price Target (₹)	1326
Upside (%)	16%
52 Week H / L ₹	1309/785
BSE 30	18757

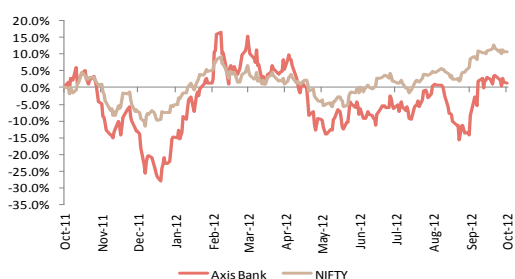
Key Data

No. of Shares, Mn.	414.5
Mcap, ₹ bn	473.3
Mcap, USD bn @ ₹53	8.9
2 W Avg Qty, (BSE+NSE) Mn	2.4

Share holding, Sept'12

Promoters	37.3
FII	32.8
DII	13.1
Public & Others	16.9

Performance	1 M	3 M	6 M	12 M
Stock Return %	10.8	8.2	-3.7	1.4
Relative Return %	8.9	-0.6	-12.9	-9.4



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Axis Bank reported a Q2FY13 PAT of ₹11.2bn up 22.1% yoy led by a strong growth in NII (up 33% yoy) and other income (up 29% yoy). NII growth was led by 9 bps sequential improvement in the NIM and other income growth was due to strong treasury and fee based income. The asset quality remained largely stable sequentially and restructuring activity came off during the quarter.

Loan growth led by the retail segment

Loan book growth stood strong at 23% yoy though flat sequentially. Advances growth was led by the retail (up 9.1% qoq) and SME (up 7.5% qoq) segments. Meanwhile agricultural and large & mid corporate advances came off sequentially. Within retail loans, growth was led by housing (up 47% yoy), auto (up 51% yoy) and personal loans (up 164% yoy).

NIM improves sequentially

NIM improved by 9 bps sequentially to 3.5% as the yield on advances improved by 19 bps qoq and cost of funds came off by 10 bps sequentially. CASA ratio improved by 150 bps sequentially to 40.5%, daily average CASA balances stood more or less flat sequentially.

Robust growth in other income

Other income grew by 29% yoy and 19.3% qoq led by strong growth in fee and treasury income. Fee income growth was led by the 43% yoy growth in retail fees. Meanwhile treasury income during the quarter included income received from the stake sale in Axis AMC to Schroder.

Asset quality remains largely stable sequentially

Asset quality remained largely stable sequentially. On an absolute basis GNPA's and NNPA's grew by 5% and 8% qoq respectively. However, %GNPA's and %NNPA's were largely flat qoq. Slippages during quarter stood at ₹6.3 bn (1.5% annualised vs 1.1% in Q1FY13). Write offs at ₹3.9bn stood relatively high sequentially. Provisions increased by 97% qoq as the bank made ₹1.2 bn of provisions for contingency default during the quarter. Restructuring activity came off during the quarter with the bank restructuring loans of ₹3.2 bn as compared to ₹6.3 bn in Q1FY13. Total restructured assets stood at ₹40.7bn or 2.4% of total loans, an increase of 6% qoq.

Maintain Outperform with a target price of ₹1326

At the CMP of ₹1142, the bank trades at 1.8x FY13E ABV and 1.6x FY14E ABV. Although asset quality remains a concern due to the bank's high infrastructure exposure and rising restructured assets portfolio, valuations appear attractive and seem to capture the deterioration in asset quality. We believe the profitability of the company would be sufficient to cover increase in slippages going ahead and despite assuming provision CAGR of 31% for FY12-14, PAT is expected to register a CAGR of 17% for FY12-14. We thus maintain our Outperform rating on the stock with a price target of ₹1326 (1.8x FY14E ABV) from ₹1336 earlier.

Financials	NII ₹mn	PAT ₹mn	ABV ₹	P/E x	P/ABV x	ROA %	ROE %
FY10	50,045	25,145	385.7	18.4	3.0	1.5	19.2
FY11	65,630	33,885	452.8	13.8	2.5	1.6	19.3
FY12	80,178	42,422	541.0	11.1	2.1	1.6	20.3
FY13E	98,473	51,513	632.2	9.2	1.8	1.7	20.6
FY14E	111,719	57,690	736.7	8.2	1.6	1.6	19.5

Source: Company, Sunidhi Research

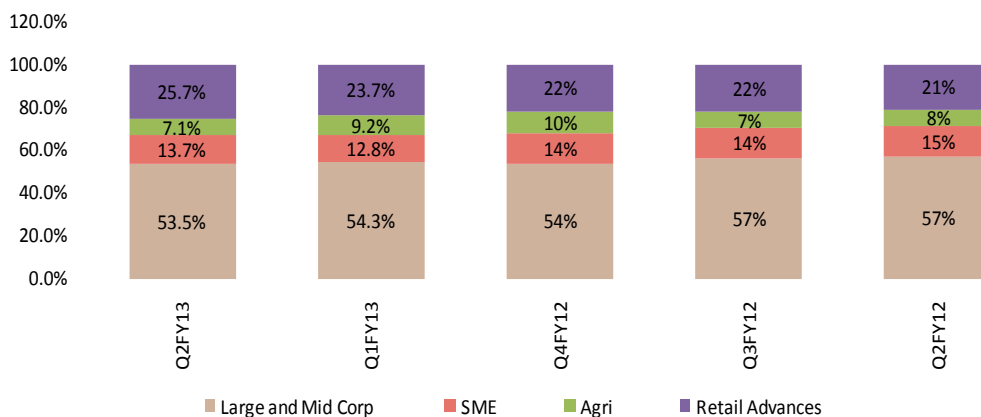
**Loan growth led by the retail segment**

Loan book growth stood strong at 23% yoy though flat sequentially. Advances growth was led by the retail (up 9.1% qoq) and SME (up 7.5% qoq) segments. Meanwhile agricultural and large & mid corporate advances came off sequentially. Within retail loans, growth was led by housing (up 47% yoy), auto (up 51% yoy) and personal loans (up 164% yoy).

Exhibit 1: Trend in advances growth

Advances (₹mn)	Q2FY13	Q2FY12	% yoy	Q1FY13	% qoq
Large and Mid Corp	920650	793900	16.0%	928870	-0.9%
SME	236280	207550	13.8%	219850	7.5%
Agri	121530	106160	14.5%	156830	-22.5%
Retail Advances	442860	293280	51.0%	405910	9.1%
Total	1721320	1400890	22.9%	1711460	0.6%

Source: Company, Sunidhi Research

Exhibit 2: Trend in loan book mix

Source: Company, Sunidhi Research

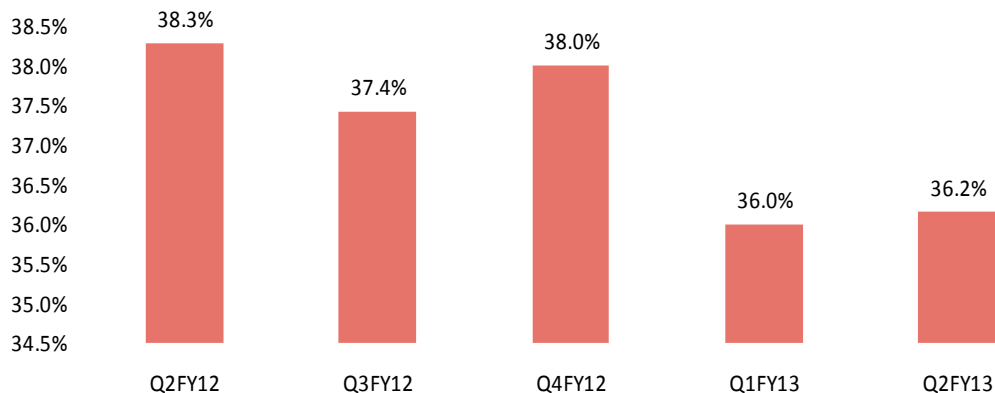
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NIM improved by 9 bps sequentially to 3.5% as the yield on advances improved by 19 bps qoq and cost of funds came off by 10 bps sequentially. CASA ratio improved by 150 bps sequentially to 40.5%, daily average CASA balances stood more or less flat sequentially.

Exhibit 3: Yields / Costs

	Q2FY13	Q2FY12	yoy bps	Q1FY13	qoq bps
Yield on advances	11.0%	10.8%	19	10.9%	19
Yield on investments	8.1%	7.7%	36	8.0%	11
Yield on assets	9.0%	8.7%	31	9.0%	2
Cost of Deposits	7.6%	6.9%	70	7.8%	-16
Cost of Funds	6.6%	6.1%	52	6.7%	-10
NIM-C	3.5%	3.7%	-21	3.3%	17
NIM-R	3.5%	3.8%	-32	3.4%	9

Source: Company, Sunidhi Research

**Exhibit 4: Trend in CASA ratio (daily average balances)**

Source: Company, Sunidhi Research

Robust growth in other income

Other income grew by 29% yoy and 19.3% qoq led by strong growth in fee and treasury income. Fee income growth was led by the 43% yoy growth in retail fees. Meanwhile treasury income during the quarter included income received from the stake sale in Axis AMC to Schroder.

Exhibit 5: Trend in other income

Other Income (₹ mn)	Q2FY13	Q2FY12	yoy	Q1FY13	qoq
Fees	13431.6	11206.7	19.9%	11543.5	16.4%
Trading Profits	2073.9	376.5	450.8%	1502.3	38.0%
Miscellaneous Income	425.1	866.0	-50.9%	309.3	37.4%
Total	15930.6	12349.2	29.0%	13355.1	19.3%

Source: Company, Sunidhi Research

Asset quality remains largely stable sequentially

Asset quality remained largely stable sequentially. On an absolute basis GNPA and NNPA grew by 5% and 8% qoq respectively. However, %GNPA and %NNPA were largely flat qoq. Slippages during quarter stood at ₹6.3 bn (1.5% annualised vs 1.1% in Q1FY13). Write offs at ₹3.9bn stood relatively high sequentially. Provisions increased by 97% qoq as the bank made ₹1.2 bn of provisions for contingency default during the quarter. Restructuring activity came off during the quarter with the bank restructuring loans of ₹3.2 bn as compared to ₹6.3 bn in Q1FY13. Total restructured assets stood at ₹40.7bn or 2.4% of total loans, an increase of 6% qoq.

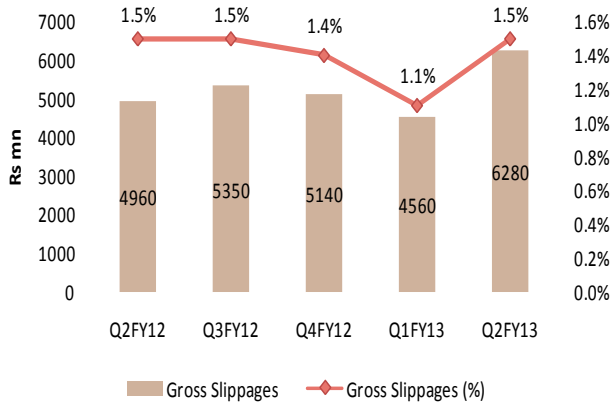
Exhibit 6: Asset Quality

Asset Quality (₹mn)	Q2FY13	Q2FY12	yoy	Q1FY13	qoq
GNPA	21910.1	17438.0	25.6%	20917.2	4.7%
%GNPA	1.10%	1.08%	2 bps	1.06%	4 bps
NNPA	6542.4	5487.7	19.2%	6049	8.2%
%NNPA	0.33%	0.34%	-1 bps	0.31%	2 bps
PCR	70.14%	68.53%	161 bps	71.08%	-94 bps

Source: Company, Sunidhi Research

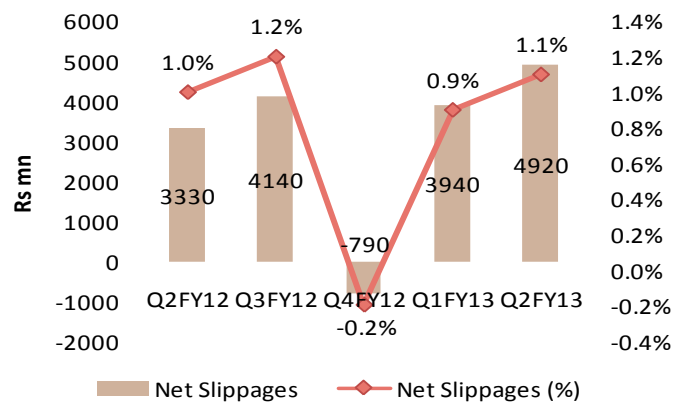


Exhibit 7: Trend in gross slippages



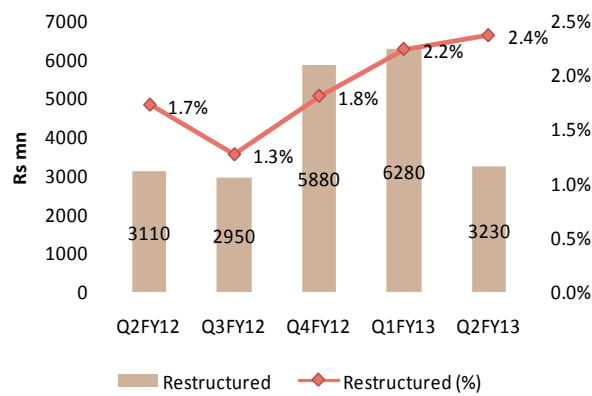
Source: Company, Sunidhi Research

Exhibit 8: Trend in net slippages



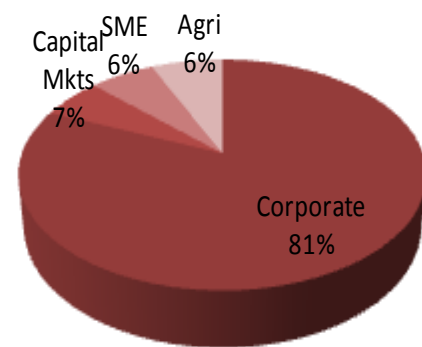
Source: Company, Sunidhi Research

Exhibit 9: Trend in restructured assets



Source: Company, Sunidhi Research

Exhibit 10: Break-up of restructured assets



Source: Company, Sunidhi Research

Maintain Outperform with a target price of ₹1326

At the CMP of ₹1142, the bank trades at 1.8x FY13E ABV and 1.6x FY14E ABV. Although asset quality remains a concern due to the banks high infrastructure exposure and rising restructured assets portfolio, valuations appear attractive and seem to capture the deterioration in asset quality. We believe the profitability of the company would be sufficient to cover increase in slippages going ahead and despite assuming provision CAGR of 31% for FY12-14, PAT is expected to register a CAGR of 17% for FY12-14. We thus maintain our Outperform rating on the stock with a price target of ₹1326 (1.8x FY14E ABV) from ₹1336 earlier.



Q2FY13 result comparison

Income Statement (₹ mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	% yoy	% qoq
Interest earned	52759.7	57769.6	60603.2	64828.6	66872.3	26.7%	3.2%
Interest expended	32687.1	36366.6	39142.3	43030.0	43603.0	33.4%	1.3%
Net Interest income	20072.6	21403.0	21460.9	21798.6	23269.3	15.9%	6.7%
Non-interest income	12349.2	14298.1	15876.2	13355.1	15930.6	29.0%	19.3%
Fees	11206.7	12225.6	13267.6	11543.5	13431.6	19.9%	16.4%
Trading profits	376.5	1176.6	1460.2	1502.3	2073.9	450.8%	38.0%
Miscellaneous income	866.0	895.9	1148.4	309.3	425.1	-50.9%	37.4%
Total Income	32421.8	35701.1	37337.1	35153.7	39199.9	20.9%	11.5%
Operating expenses	14665.4	15109.1	16961.6	15517.1	17417.3	18.8%	12.2%
Staff Expenses	4986.2	5420.4	5295.5	5826.1	5779.0	15.9%	-0.8%
Other operating expenses	9679.2	9688.7	11666.1	9691.0	11638.3	20.2%	20.1%
<i>Cost-income ratio</i>	<i>45.2%</i>	<i>42.3%</i>	<i>45.4%</i>	<i>44.1%</i>	<i>44.4%</i>		
Operating profit	17756.4	20592.0	20375.5	19636.6	21782.6	22.7%	10.9%
Provisions	4055.8	4223.3	1392.8	2588.4	5094.2	25.6%	96.8%
Profit before tax	13700.6	16368.7	18982.7	17048.2	16688.4	21.8%	-2.1%
Tax provisions	4497.4	5346.0	6210.0	5513.0	5453.0	21.2%	-1.1%
<i>Tax Rate</i>	<i>32.8%</i>	<i>32.7%</i>	<i>32.7%</i>	<i>32.3%</i>	<i>32.7%</i>		
Profit after tax	9203.2	11022.7	12772.7	11535.2	11235.4	22.1%	-2.6%

Balance Sheet (₹ mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	% yoy	% qoq
Capital	4123.3	4125.7	4132.0	4142.9	4145.3	0.5%	0.1%
Reserves & Surplus	205771.4	217218.9	223953.4	238388.3	248194.2	20.6%	4.1%
Deposits	1944550.4	2086930.3	2201043.0	2226309.9	2356190.9	21.2%	5.8%
Borrowings	267709.6	307665.8	340716.7	340678.9	328320.4	22.6%	-3.6%
Other liabilities	83957.6	77160.1	86432.8	84208.2	89956.6	7.1%	6.8%
Total Liabilities	2506112.3	2693100.8	2856277.9	2893728.2	3026807.4	20.8%	4.6%
Cash and Balances with RBI	158136.7	166621.6	107029.2	157087.4	169316.6	7.1%	7.8%
Balances with Banks	17384.4	29154.3	32309.9	50666.0	30288.6	74.2%	-40.2%
Investments	850156.0	902632.8	931920.9	879856.6	996909.4	17.3%	13.3%
Advances	1400892.9	1487391.6	1697595.4	1711458.8	1721315.7	22.9%	0.6%
Fixed Assets	22536.6	22546.0	22593.2	22759.5	22749.9	0.9%	0.0%
Others	57005.7	84754.5	64829.3	71899.9	86227.2	51.3%	19.9%
Total Assets	2506112.3	2693100.8	2856277.9	2893728.2	3026807.4	20.8%	4.6%

Source: Company, Sunidhi Research

**Financial Summary**

Profit & Loss Account (₹ mn)	2010	2011	2012	2013E	2014E
Interest Earned	116380.2	151548.1	219946.5	261386.7	300461.5
Interest expended	66335.3	85918.2	139769.0	162913.3	188743.0
Net interest income	50045.0	65629.8	80177.5	98473.4	111718.5
Non-interest income	39457.8	46321.3	54202.2	64728.3	79002.8
Net total income	89502.8	111951.2	134379.7	163201.7	190721.3
Operating expenses	37097.2	47794.3	60071.0	71768.3	85661.9
Pre- provisioning profit (PPP)	52405.6	64156.9	74308.7	91433.4	105059.4
Provision & Contingency	13888.4	12795.7	11430.3	15080.8	19550.9
PBT	38517.1	51361.2	62878.4	76352.6	85508.6
Tax	13371.8	17476.3	20456.3	24839.9	27818.6
PAT	25145.3	33884.9	42422.1	51512.7	57690.0

Balance Sheet (₹ mn)	2010	2011	2012	2013E	2014E
Liabilities					
Equity Capital	4,051.7	4,105.5	4,132.0	4,145.3	4,145.3
Reserves	156,392.7	185,882.8	223,953.4	266,774.9	315,773.7
Networth	160,446.2	189,988.3	228,085.4	270,920.2	319,919.0
Deposits	1,413,002.2	1,892,378.0	2,201,043.0	2,597,230.7	3,090,704.6
Borrowings	171,695.5	262,678.8	340,716.7	410,997.1	498,535.4
Other Liabilities & Provisions	61,334.6	82,088.5	86,432.8	76,448.5	72,662.0
Total Liabilities	1,806,478.8	2,427,133.6	2,856,277.9	3,355,596.6	3,981,821.0
Assets					
Cash & Balances with RBI	94,820.4	138,861.6	107,029.2	125,458.7	148,720.4
Balances with Banks & money at Call	57,218.6	75,224.9	32,309.9	37,873.4	44,895.7
Investments	559,748.5	719,916.4	931,920.9	1,090,513.7	1,290,688.8
Advances	1,043,409.4	1,424,078.2	1,697,595.4	2,003,162.6	2,383,763.5
Fixed Assets	11,651.9	22,504.6	21,885.6	26,312.9	31,406.8
Other Assets	39,057.6	46,321.2	64,829.3	72,275.2	82,345.8
Total Assets	1,806,478.8	2,427,133.8	2,856,278.0	3,355,596.6	3,981,821.0

Growth matrix P&L	2010	2011	2012	2013E	2014E
Interest Earned	7.4%	30.2%	45.1%	18.8%	14.9%
Interest expended	-7.2%	29.5%	62.7%	16.6%	15.9%
Net interest income	35.8%	31.1%	22.2%	22.8%	13.5%
Non-interest income	36.2%	17.4%	17.0%	19.4%	22.1%
Net total income	36.0%	25.1%	20.0%	21.4%	16.9%
Operating expenses	29.8%	28.8%	25.7%	19.5%	19.4%
Pre- provisioning profit (PPP)	40.7%	22.4%	15.8%	23.0%	14.9%
Provision & Contingency	47.8%	-7.9%	-10.7%	31.9%	29.6%
PBT	38.3%	33.3%	22.4%	21.4%	12.0%
Tax	37.8%	30.7%	17.1%	21.4%	12.0%
PAT	38.5%	34.8%	25.2%	21.4%	12.0%

Asset quality	2010	2011	2012	2013E	2014E
GNPA (%)	1.3%	1.1%	1.1%	1.4%	1.7%
NNPA (%)	0.4%	0.3%	0.3%	0.4%	0.6%
Slippage Ratio (%)	2.2%	1.4%	1.3%	1.5%	1.8%
NPA reduction rate (%)	153.8%	88.5%	102.2%	85.0%	85.0%
PCR (ex tech write offs) (%)	68.2%	74.3%	74.8%	68.5%	63.9%
Credit Costs (%)	1.5%	0.8%	0.5%	0.8%	0.8%
Provisioning / avg assets (%)	0.8%	0.6%	0.4%	0.5%	0.5%
Provisioning / NPA additions (%)	76.3%	68.0%	44.8%	55.0%	50.0%



Other operating indicators	2010	2011	2012	2013E	2014E
NIM (%)	3.3%	3.4%	3.3%	3.4%	3.3%
Cost to income (%)	41.4%	42.7%	44.7%	44.0%	44.9%
Business per branch (₹ mn)	2373.3	2385.9	2417.0	2609.4	2861.7
Business per employee (₹ mn)	113.5	125.5	122.8	132.6	145.4
Profit per branch (₹ mn)	24.3	24.4	26.3	29.2	30.2
Profit per employee (₹ mn)	1.2	1.3	1.3	1.5	1.5
CASA per branch (₹ mn)	638.0	559.5	566.8	589.3	646.3
CASA ratio (%)	46.7%	41.1%	39.0%	40.0%	40.0%
Other income / Total income	44.1%	41.4%	40.3%	39.7%	41.4%
CEB / Other income	65.0%	72.5%	80.1%	79.5%	77.2%
CEB / average advances	2.8%	2.7%	2.8%	2.8%	2.8%

Capital Adequacy ratios	2010	2011	2012	2013E	2014E
CAR (%)	15.8%	12.7%	13.7%	13.2%	12.7%
Tier 1 (%)	11.2%	9.4%	9.5%	9.6%	9.6%
Tier 2 (%)	4.6%	3.2%	4.2%	3.6%	3.1%
Leverage (x)	11.3	12.8	12.5	12.4	12.4
Risk weighted assets / Total Assets (%)	78.1%	81.0%	81.1%	81.1%	81.1%

Valuation Table	2010	2011	2012	2013E	2014E
Net profit (₹ mn)	25145.3	33884.9	42422.1	51512.7	57690.0
Shares in issue (mn)	405.2	410.5	413.2	414.5	414.5
EPS (₹)	62.1	82.5	102.7	124.3	139.2
EPS growth (%)	22.7%	33.0%	24.4%	21.0%	12.0%
PE (x)	18.4	13.8	11.1	9.2	8.2
P/PPP (x)	8.8	7.3	6.4	5.2	4.5
Book value (₹/share)	396.0	462.8	552.0	653.6	771.8
P/BV (x)	2.9	2.5	2.1	1.7	1.5
Adj book value (₹/share)	385.7	452.8	541.0	632.2	736.7
P/ABV (x)	3.0	2.5	2.1	1.8	1.6
ROAA (%)	1.5%	1.6%	1.6%	1.7%	1.6%
ROE (%)	19.2%	19.3%	20.3%	20.6%	19.5%
ROE (adj for reval reserve) (%)	19.2%	19.3%	20.3%	20.6%	19.5%
Dividend Yield (%)	1.2%	1.4%	1.4%	1.6%	1.6%

Du pont Decomposition	2010	2011	2012	2013E	2014E
Yield on Assets	7.1%	7.2%	8.3%	8.4%	8.2%
Less: Cost of Assets	4.0%	4.1%	5.3%	5.2%	5.1%
Net Interest Income	3.0%	3.1%	3.0%	3.2%	3.0%
Other Income	2.4%	2.2%	2.1%	2.1%	2.2%
Less: Operating Exp	2.3%	2.3%	2.3%	2.3%	2.3%
Less: Provisions	0.8%	0.6%	0.4%	0.5%	0.5%
Less: Tax	0.8%	0.8%	0.8%	0.8%	0.8%
RoA	1.5%	1.6%	1.6%	1.7%	1.6%
Leverage	12.5	12.1	12.6	12.4	12.4
RoE	19.2%	19.3%	20.3%	20.6%	19.5%

Source: Company, Sunidhi Research



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

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