

January 15, 2013

Adarsh Parasrampur
adarshparasrampur@plindia.com
+91-22-66322236

Parul Gulati
parulgulati@plindia.com
+91-22-66322242

Rating	BUY
Price	Rs1,424
Target Price	Rs1,650
Implied Upside	15.9%
Sensex	19,987
Nifty	6,057

(Prices as on January 15, 2013)

Trading data

Market Cap. (Rs bn)	588.5
Shares o/s (m)	413.2
3M Avg. Daily value (Rs m)	2540.1

Major shareholders

Promoters	35.53%
Foreign	34.83%
Domestic Inst.	11.08%
Public & Other	18.56%

Stock Performance

(%)	1M	6M	12M
Absolute	5.3	37.7	51.6
Relative	1.8	21.5	27.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	134.7	142.2	-5.3
2015	165.4	181.9	-9.1

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



Source: Bloomberg

Axis Bank reported a better-than-expected Q3FY13, with positive surprise on asset quality and margins. Growth metrics have held up better than most corporate B/S-linked banks due to retail push and cumulative slippages, including restructuring which has held up better than management guidance. We believe asset quality stability over the last 2-3 quarters would have addressed some investor concerns and with valuations remaining relatively undemanding at 1.9x FY14 (1.7x on diluted basis), we retain Axis as one of our top financials pick with a Mar-14 PT of Rs1,650/share.

■ **Operating and growth metrics stable:** Axis delivered a 5% beat on PPOP driven by better uptick in margins and lower opex growth. Margin surprise was largely due to lower share of Agri advances and some softening in wholesale cost of funds. The key positive in Axis's metrics continues to remain core fee income growth of ~15% YoY despite contraction in large corporate fees, largely driven by retail and SME fees. Retail and SME also continue to drive B/S growth and despite just 6% B/S growth in 9M13, management is confident of delivering higher than industry growth in FY13 (seasonality).

■ **Asset quality better-than-expected:** Gross NPA + Restructured book accretion of Rs9bn was lower than management guidance of Rs10-11bn quarterly slippage. Management expects slippages to be contained at similar levels and have maintained their near-term credit cost guidance of ~90bps. We believe the stability in asset quality will provide some comfort to investors on Axis' corporate underwriting.

■ **Valuations undemanding, especially considering a dilution:** With marginally improving macro, stable asset quality and relatively high return ratios, we believe, Axis Bank's valuations at 1.9x FY14 book offers scope for a positive surprise. Valuations look undemanding at 1.7x FY14 book, especially considering post dilution ROEs of +17.5% in FY14-15. We retain 'BUY', with a Mar-14 PT of Rs1,650/share.

Key financials (Y/e March)

	2012	2013E	2014E	2015E
Net interest income (Rs m)	80,177	95,008	114,854	140,802
Growth (%)	22.2	18.5	20.9	22.6
Operating profit (Rs m)	74,309	88,294	105,098	127,301
PAT (Rs m)	42,422	48,851	57,166	70,178
EPS (Rs)	102.7	118.2	134.7	165.4
Growth (%)	—	15.2	13.9	22.8
Net DPS (Rs)	16.0	18.4	21.2	24.3

Profitability & Valuation

	2012	2013E	2014E	2015E
NIM (%)	3.04	3.06	3.13	3.22
RoAE (%)	20.3	19.7	19.6	20.4
RoAA (%)	1.61	1.57	1.56	1.61
P / BV (x)	2.6	2.2	1.9	1.6
P / ABV (x)	2.6	2.2	1.9	1.6
PE (x)	13.9	12.0	10.6	8.6
Net dividend yield (%)	1.1	1.3	1.5	1.7

Source: Company Data; PL Research

Exhibit 1: Q3FY13-beat on estimates

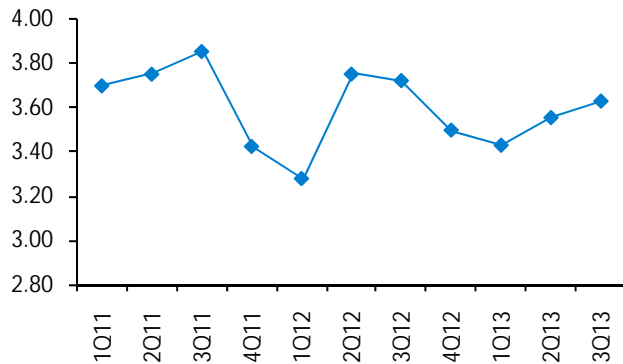
	3Q12	2Q13	3Q13	YoY	QoQ
<i>NII growth driven by both, improvement in NIMs and loan growth</i>					
Interest income	57,770	66,872	69,649	20.6%	4.2%
Interest expenses	36,367	43,603	44,701	22.9%	2.5%
Net interest income	21,403	23,269	24,948	16.6%	7.2%
Other income	14,298	15,931	16,154	13.0%	1.4%
<i>37.1% YoY growth in retail fees offsets sharp deceleration in corporate fees</i>					
Operating expenses	15,109	17,417	17,487	15.7%	0.4%
Pre prov profit	20,592	21,783	23,615	14.7%	8.4%
Provisions	4,223	5,094	3,868	-8.4%	-24.1%
Profit before tax	16,369	16,688	19,747	20.6%	18.3%
Provision for tax	5,346	5,453	6,275	17.4%	15.1%
Profit after tax	11,023	11,235	13,472	22.2%	19.9%
<i>NIMs gain ~10bps QoQ on asset mix change and some benefit from lower cost of funds</i>					
NIM	3.75%	3.46%	3.53%	-0.22%	0.07%
Cost to Income	42.3%	44.4%	42.5%	0.22%	-1.89%
Provisions/PPOP	20.5%	23.4%	16.4%	-4.13%	-7.01%
Tax rate	32.7%	32.7%	31.8%	-0.88%	-0.90%
Balance sheet data					
Advances	1,487,392	1,721,316	1,795,042	20.7%	4.3%
Deposits	2,086,930	2,356,191	2,445,014	17.2%	3.8%
Credit to Deposit	71.3%	73.1%	73.4%	2.1%	0.4%
CASA Ratio	41.6	41.0	40.0	(1.6)	(1.0)
Asset Quality					
Gross NPA	19,145	21,910	22,753	18.8%	3.8%
Net NPA	6,829	6,542	6,787	-0.6%	3.7%
NPA coverage (%)	64.3%	70.1%	70.2%	5.8%	0.0%
Gross NPA (%)	1.10	1.10	1.10	0.00	0.00
Net NPA (%)	0.39	0.33	0.33	(0.06)	0.00

Source: Company Data, PL Research

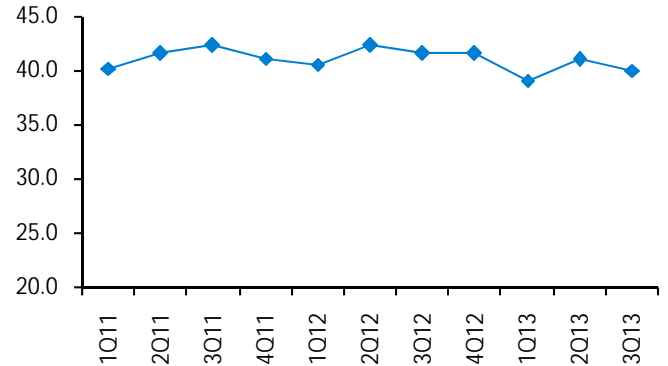
Exhibit 2: Retail/SME book leads loan growth

	3Q12	2Q13	3Q13	YoY	QoQ
Total Advances	1,487,392	1,721,316	1,795,042	20.7%	4.3%
Large Corporate	840,832	912,297	945,800	12.5%	3.7%
SME	206,920	240,984	252,950	22.2%	5.0%
Agri	107,000	121,530	115,610	8.0%	-4.9%
Retail	332,640	442,860	484,661	45.7%	9.4%

Source: Company Data, PL Research

Exhibit 3: NIMs inch up on asset mix change + lower cost of funds


Source: Company Data, PL Research

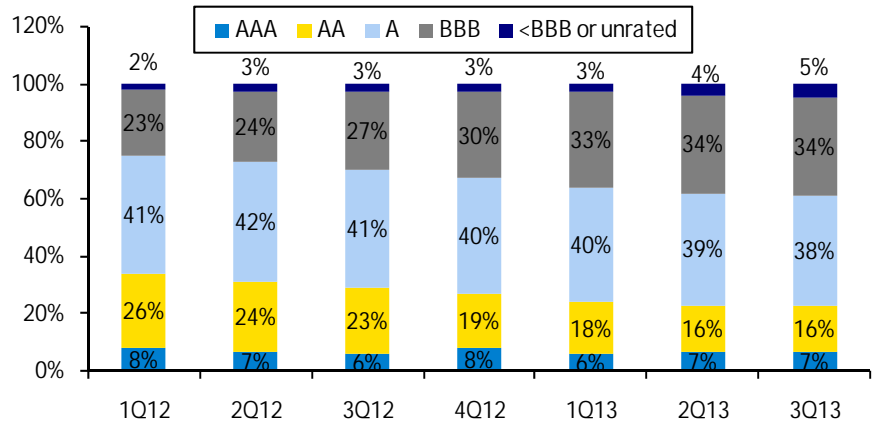
Exhibit 4: CASA supported largely by SA growth – CA remains muted


Source: Company Data, PL Research

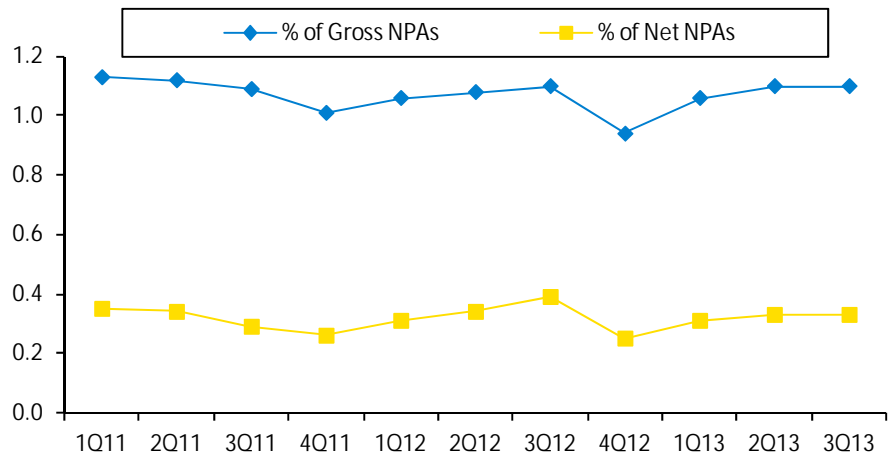
Exhibit 5: Asset quality performance come in stable and better-than-expected

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Gross slippages	2960	4960	5350	5140	4560	6300	5410
Recoveries+ Up gradations	920	1630	1210	5930	620	1370	1800
Write offs	2300	1620	2430	300	1080	3937.1	2800
Slippages (%)	0.86%	1.46%	1.48%	1.29%	1.07%	1.47%	1.23%

Source: Company Data, PL Research

Exhibit 6: Ratings profile was relatively stable in Q3FY13


Source: Company Data, PL Research

Exhibit 7: Stability in asset quality will provide some comfort to investors


Source: Company Data, PL Research

Exhibit 8: Retail /SME also driving fee income

Fees breakdown	3Q12	2Q13	3Q13	YoY	QoQ
Retail banking	3,280	4,163	4,496	37.1%	8.0%
Capital markets	130	134	141	8.1%	4.6%
Business banking	1,090	940	1,124	3.1%	19.6%
Agri & SME banking	660	806	843	27.7%	4.6%
Treasury	2,320	2,955	2,810	21.1%	-4.9%
Large & Mid corp	4,730	4,432	4,637	-2.0%	4.6%
Total	12,210	13,430	14,050	15.1%	4.6%

Source: Company Data, PL Research

Exhibit 9: ROAs to remain +1.6% despite higher credit costs factored in

ROA Tree	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Net Interest Income/Assets	3.32%	3.29%	3.09%	3.03%	3.14%	3.21%
Fees/Assets	2.00%	2.02%	2.08%	1.65%	1.87%	1.89%
Investment profits/Assets	0.05%	0.18%	0.21%	0.21%	0.28%	0.19%
Net revenues/Assets	5.36%	5.49%	5.38%	4.89%	5.30%	5.29%
Operating Expense/Assets	-2.43%	-2.32%	-2.45%	-2.16%	-2.35%	-2.25%
Provisions/Assets	-0.67%	-0.65%	-0.20%	-0.36%	-0.69%	-0.50%
Taxes/Assets	-0.74%	-0.82%	-0.90%	-0.77%	-0.74%	-0.81%
Total Costs/Assets	-3.84%	-3.80%	-3.54%	-3.29%	-3.78%	-3.56%
ROA	1.52%	1.70%	1.84%	1.60%	1.52%	1.73%
Equity/Assets	8.31%	8.14%	7.95%	8.11%	8.36%	8.29%
ROE	18.32%	20.85%	23.16%	19.78%	18.16%	20.93%

Source: Company Data, PL Research

Exhibit 10: Valuations and return ratios sensitivity to ~13% dilution in FY14 at CMP

	Post dilution		Pre Dilution		Change	
	FY13	FY14	FY13	FY14	FY13	FY14
Networth	268,041	374,525	268,041	314,812	0%	19%
PAT	48,851	58,015	48,851	57,166	0%	1%
BPS	648.7	804.2	648.7	741.9	0%	8%
EPS	118.2	124.6	118.2	134.7	0%	-8%
ROA	1.65%	1.66%	1.65%	1.63%	0.00%	0.03%
ROE	19.7%	18.1%	19.7%	19.6%	0.0%	-1.6%
Current Price	1424					
P/B	2.19	1.77	2.19	1.92		
P/E	12.0	11.4	12.0	10.6		

Source: Company Data, PL Research

Exhibit 11: March 14-PT at Rs 1,650 per share

Risk free rate	8.0%
Equity Risk Premium	6.0%
Beta	1.20
Cost of Equity	15.2%
Terminal growth	5.0%
Normalised ROE	19.8%
Stage 2 growth	23.0%
Mar-14 PT	1650
Implied Mar-14 P/B	2.2
Implied Mar-14 P/E	12.2

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Int. Earned from Adv.	153,794	184,063	211,501	248,686
Int. Earned from Inv.	63,943	78,897	94,739	113,360
Others	2,210	2,455	2,750	3,103
Total Interest Income	219,946	265,416	308,990	365,149
Interest expense	139,769	170,409	194,135	224,347
NII	80,177	95,008	114,854	140,802
<i>Growth (%)</i>	22.2	18.5	20.9	22.6
Treasury Income	931	5,000	5,000	5,000
NTNII	53,271	58,796	70,018	82,626
Non Interest Income	54,202	63,796	75,018	87,626
Total Income	274,149	329,213	384,007	452,775
<i>Growth (%)</i>	38.6	20.1	16.6	17.9
Operating Expense	60,071	70,510	84,774	101,127
Operating Profit	74,309	88,294	105,098	127,301
<i>Growth (%)</i>	15.8	18.8	19.0	21.1
NPA Provisions	10,996	16,487	20,366	23,283
Investment Provisions	581	(600)	—	—
Total Provisions	11,430	15,887	20,366	23,283
PBT	62,878	72,407	84,732	104,018
Tax Provisions	20,456	23,556	27,566	33,840
<i>Effective Tax Rate (%)</i>	32.5	32.5	32.5	32.5
PAT	42,422	48,851	57,166	70,178
<i>Growth (%)</i>	25.2	15.2	17.0	22.8

Balance Sheet (Rs m)

Y/e March	2012	2013E	2014E	2015E
Par Value	10	10	10	10
No. of equity shares	413	413	424	424
Equity	4,132	4,132	4,244	4,244
Networth	228,085	268,041	314,812	372,908
Adj. Networth	223,359	260,980	304,111	357,242
Deposits	2,201,043	2,585,272	3,065,331	3,671,582
<i>Growth (%)</i>	16.3	17.5	18.6	19.8
Low Cost deposits	914,220	1,072,888	1,275,178	1,536,557
<i>% of total deposits</i>	41.5	41.5	41.6	41.8
Total Liabilities	2,856,278	3,362,327	3,988,118	4,749,560
Net Advances	1,697,595	2,003,163	2,383,763	2,860,516
<i>Growth (%)</i>	19.2	18.0	19.0	20.0
Investments	931,921	1,094,203	1,293,424	1,522,094
Total Assets	2,856,278	3,362,327	3,988,118	4,749,560

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Interest Income	60,603	64,829	66,872	69,649
Interest Expense	39,142	43,030	43,603	44,701
Net Interest Income	21,461	21,799	23,269	24,948
Non Interest Income	15,876	13,355	15,931	16,154
CEB	13,270	11,540	13,430	14,050
Treasury	1,460	1,500	2,070	1,500
Net Total Income	37,337	35,154	39,200	41,102
Operating Expenses	16,962	15,517	17,417	17,487
Employee Expenses	5,296	5,826	5,779	6,151
Other Expenses	11,666	9,691	11,638	11,336
Operating Profit	20,376	19,637	21,783	23,615
Core Operating Profit	18,916	18,137	19,713	22,115
Provisions	1,393	2,588	5,094	3,868
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	18,983	17,048	16,688	19,747
Tax	6,210	5,513	5,453	6,275
PAT before EO	12,773	11,535	11,235	13,472
Extraordinary item	—	—	—	—
PAT	12,773	11,535	11,235	13,472

Key Ratios

Y/e March	2012	2013E	2014E	2015E
CMP (Rs)	1,424	1,424	1,424	1,424
Equity Shrs. Os. (m)	413	413	424	424
Market Cap (Rs m)	588,526	588,526	604,417	604,417
<i>M/Cap to AUM (%)</i>	20.6	17.5	15.2	12.7
EPS (Rs)	102.7	118.2	134.7	165.4
Book Value (Rs)	552	649	742	879
Adj. BV (75%) (Rs)	552	649	742	863
P/E (x)	13.9	12.0	10.6	8.6
P/BV (x)	2.6	2.2	1.9	1.6
P/ABV (x)	2.6	2.2	1.9	1.6
DPS (Rs)	16.0	18.4	21.2	24.3
<i>Dividend Yield (%)</i>	1.1	1.3	1.5	1.7

Profitability (%)

Y/e March	2012	2013E	2014E	2015E
NIM	3.0	3.1	3.1	3.2
RoAA	1.6	1.6	1.6	1.6
RoAE	20.3	19.7	19.6	20.4

Efficiency

Y/e March	2012	2013E	2014E	2015E
<i>Cost-Income Ratio (%)</i>	44.7	44.4	44.6	44.3
<i>C-D Ratio (%)</i>	77.1	77.5	77.8	77.9
Business per Emp. (Rs m)	128	131	135	141
Profit per Emp. (Rs m)	14	14	14	15
Business per Branch (Rs m)	2,428	2,485	2,567	2,675
Profit per Branch (Rs m)	26	26	27	29

Asset Quality

Y/e March	2012	2013E	2014E	2015E
Gross NPAs (Rs m)	18,063	27,473	41,638	60,956
Net NPAs (Rs m)	4,726	7,061	10,701	15,666
<i>Gr. NPAs to Gross Adv. (%)</i>	1.1	1.4	1.7	2.1
<i>Net NPAs to Net Adv. (%)</i>	0.3	0.4	0.4	0.5
<i>NPA Coverage (%)</i>	73.8	74.3	74.3	74.3

Source: Company Data, PL Research.

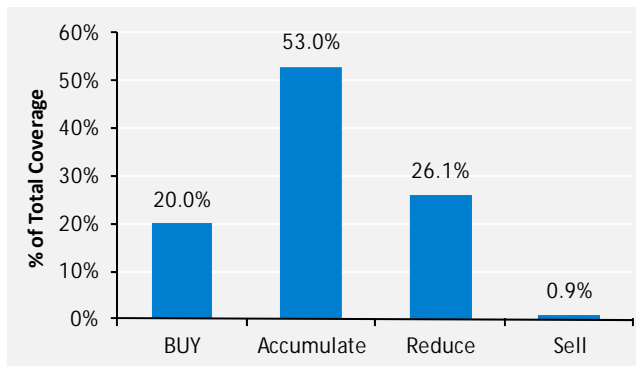


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.