

**Reinitiating coverage**
**Key data** 27 May 2008

**HDFC Bank**

**Sector** Banking  
 Market Cap Rs472bn/US\$11bn  
 52 Wk H/L (Rs) 1825/1050.3  
 BSE Avg. daily vol. (6 month) 780,152

BSE Code 500180  
 NSE Code HDFCBANK  
 Bloomberg HDFCB IN  
 Reuters HDBK.BO

Sensex 16,276  
 Nifty 4,860

**Shareholding pattern (%)**

	31-Dec-07	31-Mar-08
FII's	50.3	49.3
MFs and institutions	6.2	5.8
Promoters	23.3	23.3
Others	20.2	21.7

**Axis Bank**

**Sector** Banking  
 Market Cap Rs264bn/US\$6.1bn  
 52 Wk H/L (Rs) 1291.5/522.55  
 BSE Avg. daily vol. (6 month) 1,308,114

BSE Code 532215  
 NSE Code AXISBANK  
 Bloomberg AXSB IN  
 Reuters AXIS.BO

Sensex 16,276  
 Nifty 4,860

**Shareholding pattern (%)**

	31-Dec-07	31-Mar-08
FII's	39.3	39.1
MFs and institutions	8.3	8.3
Promoters	43.0	42.5
Others	9.4	10.1

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# HDFC Bank

**Accumulate**
**Current Price: Rs 1330**
**Target price: Rs 1590**

# Axis Bank

**Accumulate**
**Current Price: Rs 740**
**Target price: Rs 960**

We are **reinitiating** our coverage on HDFC Bank and Axis Bank with an '**Accumulate**' recommendation for both.

- Strong performance – Delivered:**

- Both banks delivered strong numbers for FY08 even in a 'not very easy' environment. 3 year CAGR of Total Business garnered by Axis Bank is 33% vs 22% by HDFC Bank.

FY08	HDFC Bank	Axis Bank
Adv Growth	35%	62%
Dep Growth	48%	49%
PAT Growth	39%	63%
CASA	55%	46%
NII / Total Income	70%	59%
Adj BVPS (Rs)	316	229
NIM (calculated)	4.9%	3.3%
ROE (calculated)	17.7%	18.1%
ROA (calculated)	1.42%	1.17%

- HDFC Bank has higher ROA but Axis has higher efficiency:**

- Our analysis of a modified definition of ROA shows that Axis Bank has a consistent track of greater efficiency than HDFC Bank. 3 year average efficiency, as per our calculations, for Axis Bank is 0.6 compared to 0.4 for HDFC Bank.

- We defined efficiency as  $\text{traditional ROA} + \frac{\text{Int Paid}/\text{Assets} - \text{Int Paid}/(\text{Total Deposits} + \text{Total Borrowings})$

- HDFC Bank-CBoP merger - Near term stress; speedy integration key:**

- RBI green signal to the merger with effective date May 23, 2008
- CBoP's lower CASA (24.5%), quality of retail loans, integration on human resource and technology fronts key performance determinants for post-merger entity

- Axis Bank – Loan portfolio might be carrying greater risk:**

- Sudden emergence of around 10% corporate loan exposure to 'Gems and Jewellery' segment needs to be watched closely for risk involved.
- High rate of capital consumption indicated by fall in Capital Adequacy Ratio.

Our analysis, as presented in the ensuing paragraphs, supports our view to rate Axis Bank on par with HDFC Bank, justifying the fact that the valuation premium cannot be attached to only HDFC Bank. **Based on a FY10E BVPS of Rs 306 and Rs 506 for Axis Bank and HDFC Bank respectively, we recommend accumulation of the stocks with a price target of Rs 960 for Axis Bank and Rs 1590 for HDFC Bank.** We have provided for a 10% discount on a fair valuation of 3.5 times PBV for both these banks to reflect the heightened macro economic environment.

## Strong performance – delivered:

The financial results announced by these banks, both on the quarterly and annual front, reflected the inherent strengths of each of them and also the capability of both of them to 'perform and deliver' in an otherwise 'not very easy' general banking environment. The 'not very easy' environment for banks, that prevailed during FY08 was characterized by a slow growth in credit off-take (around 22% in FY08 vs a 3-year average of around 29%), a flat deposit growth rate (around 22% in FY08 vs a 3-year average of around 23%), an increase in CRR by 150 bps (from 6.0% to 7.5%) and a repo rate increase of 25 bps (from 7.50% to 7.75%).

A summary of the performance of HDFC Bank and Axis Bank for FY08 is presented below:

**Figure 1: FY08 Performance Snapshot**

<b>FY08</b>	<b>HDFC Bank</b>	<b>Axis Bank</b>
Adv growth	35%	62%
Dep growth	48%	49%
Total Business growth (Tot Business = Adv+Dep)	42%	54%
PAT growth	39%	63%
Adj BVPS	Rs 316	Rs 229
CASA ratio	54.5%	45.7%
Net Int Inc/Tot Inc	70%	59%
CAR	13.6%	13.7%
NIM (calculated)	4.9%	3.3%
Net NPA/Advances	0.47%	0.42%
ROE (calculated)	17.7%	18.1%
ROA (calculated)	1.42%	1.17%
Balance Sheet size (bn)	Rs 1332	Rs 1096

Source: Company Releases, Religare Institutional Equity Research

As can be observed from the above table, HDFC Bank has a greater share of low-cost deposits in its total deposits (CASA) and also higher margins (NIM) compared to Axis Bank. However, looking at the returns generated on net-worth (ROE) and the growth in advances and profits, Axis Bank appears to be gearing up well to reduce the gap existing in the margins as well as the total balance sheet size. The same is supported by the fact that the CAGR of the Total Business garnered by Axis Bank for the last 3 years has been 33% compared to 22% by HDFC Bank.

**Our analysis, as presented in the ensuing paragraphs, supports our view to rate Axis Bank on par with HDFC Bank, justifying that the premium cannot be attached to only HDFC Bank.** The same underlying logic has been used to value these banks in our final section of this report where we show our recommendation and target price for both these banks.

## **HDFC Bank delivers a higher ROA, but..... let us look at this closely:**

Figure 1 contains the calculated ROA values for both these banks. HDFC Bank's ROA is 1.42 compared to 1.17 of Axis. This value of ROA has been arrived at using the traditional textbook formula for ROA i.e. Return generated over Total Assets. If we were to break this variable into smaller parts, it is: **Net Int Inc/Assets + Non-Int Inc/Assets – Op Exp/Assets – Prov/Asset**. We modified the ratio in terms of calculating Net Int Inc/Assets. The normal way to calculate this is *Int Earned/Assets – Int Paid/Assets*, but we replaced Int Paid/Assets with *Int paid/Int-bearing liabilities* (i.e. Total deposits and Total borrowings).

The idea of this change is to understand the efficiency of a bank in using its assets to generate income and the cost it pays for its funds, removing the differences arising out of a different debt-equity mix in the Total Assets of different banks.

The results were very interesting! *HDFC Bank's 'net efficiency' for FY08 was 0.23% compared to 0.57% of Axis Bank. The 3-year average for HDFC Bank came to 0.40% whereas for Axis Bank the same was 0.59%. This is contrary to the plain ROA value that remained at 1.4% for HDFC Bank for the last 3 years and 1.1% for Axis Bank.* The below table contains these details:

**Figure 2: ROA Analysis**

Details	HDFC Bank			Axis Bank		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Cost of funds	3.9%	4.9%	5.5%	4.6%	5.4%	5.4%
<b>ROA Analysis</b>						
Int Earned / Assets	7.2%	8.4%	9.0%	6.6%	7.4%	7.7%
Int Paid / Assets	3.1%	3.9%	4.4%	4.1%	4.9%	4.8%
Net Int / Assets	4.1%	4.5%	4.7%	2.5%	2.5%	2.8%
Non-Int / Assets	1.8%	1.8%	2.0%	1.7%	1.6%	2.0%
Total Inc / Assets	5.9%	6.3%	6.7%	4.1%	4.2%	4.8%
Op Exp / Assets	2.7%	2.9%	3.3%	1.9%	2.0%	2.4%
Prov / Assets	1.8%	2.0%	1.9%	1.2%	1.1%	1.3%
ROA	1.4%	1.4%	1.4%	1.1%	1.1%	1.2%
<b>Net efficiency</b> (ROA + Int-paid/Assets - Int-paid/Int-liabs)	0.62%	0.35%	0.23%	0.66%	0.53%	0.57%

Source: Company Releases, Religare Institutional Equity Research (Values calculated on Avg Assets)

What the above table also shows is the fact that HDFC Bank is unable to make the best use of its higher interest earnings capacity and is losing this advantage to higher costs (of funds, operating expenses and provisions). The 'net efficiency' for HDFC Bank has been constantly falling while it has remained at reasonably higher levels for Axis Bank.

*We believe that Axis Bank will continue to maintain its higher efficiency levels and, therefore, feel that the valuation gap existing between HDFC Bank and Axis Bank (the former being valued higher currently) should reduce considerably, if not reverse.*

## HDFC Bank - CBoP merger: Stress in near term; Concerns on speedy integration

- On Feb 25, 2008, HDFC Bank approved the acquisition of Centurion Bank of Punjab (CBoP)
- CBoP shareholders will get 1 share of HDFC Bank for every 29 shares held by them.
- RBI approved the merger and the amalgamation; effective date May 23, 2008.
- HDFC group, the promoters of HDFC Bank, would infuse further capital to keep their shareholding level intact after the merger.
- A capital dilution of around 25% would take place consequent to the merger and preferential allotment to promoters (HDFC group).

Our discussion with HDFC Bank officials indicated that the bank is geared up to publish merged financials for Q1 FY09 i.e. June 2008. On the subject of the impact that this merger would most likely have on the performance of the existing HDFC Bank's operations and financials, the management felt that there might be short-term hiccups like any normal reorganization would have and that *it would take at least 2 quarters to streamline all operations effectively. The challenge, as HDFC Bank perceives, lies in quick and successful integration of technology and manpower. We cannot agree more!*

When asked about the price paid for CBoP, the bank mentioned that the merger was viewed not as much as an inorganic growth strategy as a normal growth strategy where growth is coming few months earlier had HDFC Bank grown organically through branch expansion. CBoP has around 395 branches. *This indicates that the price might have been not really on the 'cheap' or 'fair' side but the management has confidence in itself to reap quick longer term benefits through the deal.*

Our estimates on the financials of the merged entity as presented in the Annexure to this report on the financial data shows that the merger is earnings dilutive in the near term i.e. at least until FY10. Even though the margins of the bank might not be hit, the ROE and ROA should dip during FY09 and FY10. A table comparing HDFC Bank with and without the merger is presented below. *It is to be noted that the CASA ratio of CBoP as of Dec 2007 (last published reports by the company) stood at 24.5%.*

**Figure 3: HDFC Bank – with and without CBoP**

Details	Without Merger		With Merger & promoter money infusion	
	2008-09E	2009-10E	2008-09E	2009-10E
CASA	54%	55%	49%	50%
NIM	4.75%	4.80%	4.75%	4.79%
Adj BVPS (Rs)	391	445	453	506
EPS (Rs)	62	81	58	76
CAR	12.8%	12.5%	14.1%	13.4%
ROE	17.0%	18.7%	15.9%	15.5%
ROA	1.48%	1.59%	1.42%	1.53%

Source: Company Releases, Religare Institutional Equity Research

CBoP has not announced its FY08 (and Q4) financials yet and as per the latest Dec 2007 Q3 reports, the bank's balance sheet size was Rs 254 bn with a CAR of 11.5%. Of its total advances, 60% were made to the retail segment of which mortgage and personal loans comprised more than 50%. *The quality of these loans and the provisioning required to be made for these loans are the other key areas unclear from HDFC Bank's standpoint, in terms of the merger.* We used the last 4 quarters information as basis for our combined estimates.

## **Axis Bank – Does the loan portfolio carry a higher risk.....?**

Retail assets constitute around 23% of the total loan book of Axis Bank. The break-up of these loans is as follows:

**Figure 4: Axis Bank – Retail loan portfolio**

As of →	Mar-08	Dec-07	Jun-07
	Retail Adv (%)	Retail Adv (%)	Retail Adv (%)
Housing	57	58	56
Personal	16	12	13
Vehicles	16	19	23

Source: Company Releases, Religare Institutional Equity Research

The wholesale (corporate and SME) segment constitutes the balance of the bank's loan portfolio i.e. around 77%. The major components of the corporate loan book are:

**Figure 5: Axis Bank – Corporate loan portfolio**

As of →	Mar-08	Dec-07	Jun-07
	Corp Adv (%)	Corp Adv (%)	Corp Adv (%)
Financial	10.5	9.9	15.4
<b>Gems &amp; Jewelry</b>	<b>9.6</b>		
Infra	7.9	9.3	6.3
Real Estate	7.0	8.6	9.6
Trade	6.5	7.3	2.5
Textiles	5.9	9.1	7.2
Metals	5.0	4.1	
Telecom	4.7		
Food	4.0	4.6	6.8
Chemicals	3.5	3.5	2.3

Source: Company Releases, Religare Institutional Equity Research

Though Axis Bank has shown considerable growth in its advances, we have some concerns on the kind of exposures that it has taken to achieve this. Our concerns are two-pronged:

**(1) Retail** - *Slowdown in housing / real estate markets and the trickle down effect that it might have in terms of slower loan growth and possible delinquencies.*

**(2) Corporate** – *Around 10% exposure to 'Gems and Jewellery' segment that happened during Q4 FY08; an industry that is vulnerable to adverse developments on the global credit crunch front and the heated 'bullion' market.* The sudden emergence of such high exposure in a single segment and that too a relatively sensitive segment is something we would like to watch carefully to understand if the growth (also the return) is coming at the cost of exposure to some high risk segments. As we understand from the sector-

insiders, this exposure is largely 'unfunded' i.e. the bank does not have any immediate credit risk involved but *they too share the same feeling with us that this might be a risky sector to have high exposures.*

The movement of the Capital Adequacy Ratio of the bank for the past 4 quarters has been:

<b>Jun 2007</b>	11.5%
<b>Sep 2007</b>	17.6%
<b>Dec 2007</b>	16.9%
<b>Mar 2008</b>	13.7%

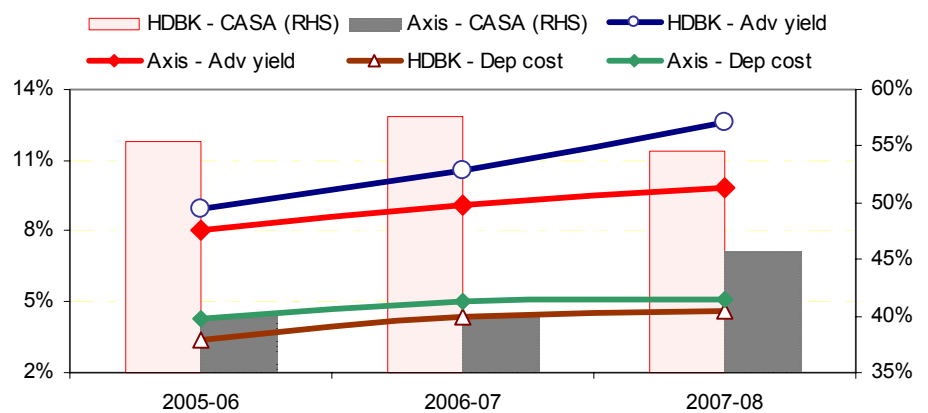
The decline in the CAR indicates the need for more equity infusion in the near future to maintain its current growth rates. The bank raised Rs 45 bn equity during Q2 FY08. Our estimates, which carry slower growth assumptions than the current pace, indicate that the bank would need fresh capital not before FY10. However, if the actual growth rate turns out to be faster, then the bank might need new equity during FY10 itself.

### **Aggressive banks both – Axis has the edge**

Both HDFC Bank and Axis Bank command the highest levels of CASA ratio in the industry. According to our analysis, HDFC Bank's average CASA ratio comes to around 56% for FY08, even though, on a point-to-point basis the CASA fell from 58% as of FY07 to 55% as of FY08. For Axis Bank, the CASA as of FY07 was 40% and increased to 46% as of FY08 giving an average CASA of 43%.

We expect Axis Bank to continue maintaining its CASA around 47-48% for the next two years that will improve its average CASA to 46-47% during FY09 and FY10. *Though HDFC Bank has a higher CASA ratio, the merger with CBoP that has a lower CASA of about 25%, would bring its low-cost-deposit ratio to around 50% for the next two years i.e. FY09 and FY10, bringing down its average CASA, as per our estimates.* Therefore, over the next two years, Axis Bank will carry the advantage of higher low-cost-deposit ratio to improve / maintain its margins.

**Figure 6: Avg Yield (Adv), Avg Cost (Dep) and CASA comparison**



Source: Religare Institutional Equity Research

HDFC Bank has a higher average yield on its advances. This advantage comes to the bank due to its better product-mix and superior bargaining power in terms of pricing. However, as we mentioned in the above paragraph, the decrease in CASA ratio and the high cost of fixed deposits that the bank carries in its deposit portfolio will increase in the cost of total deposits and will eat away most of this advantage during the next year. Therefore, in the near term, we feel that Axis Bank will have an edge over HDFC Bank in terms of costs and margins.

Even on the operating expenses front, Axis Bank has shown greater control. Figure 2 (ROA Analysis) shows that Axis Bank has a lower Op Expenses/Assets and Provisions/Assets ratio compared to HDFC Bank. We expect that Axis will continue to keep its expenses under check and improve its ROA and efficiency.

## Valuation and Recommendation:

**Figure 7: Price performance comparison**

Value (23/May/08)	8232	Rs 800	Rs 1383
% change	Bankex	Axis Bank	HDFC Bank
From Apr, 2008	7%	2%	5%
From Jan, 2008	-28%	-17%	-20%
From 23/May/07	8%	38%	24%
From 52-week high	-34%	-37%	-23%

Source: Religare Institutional Equity Research

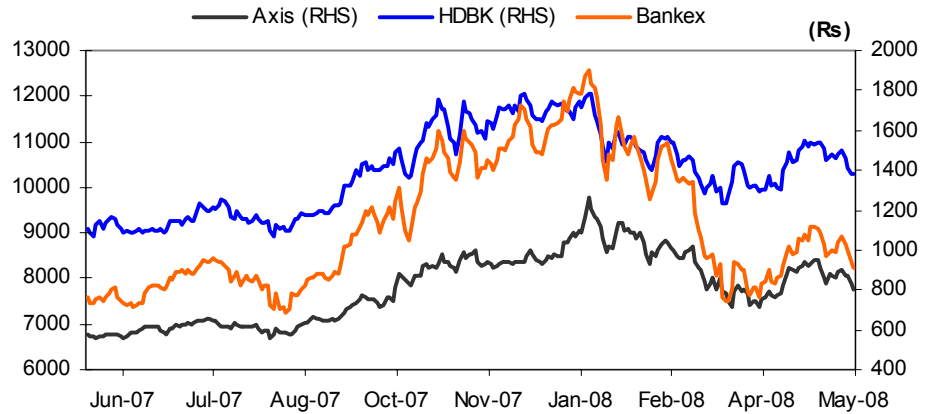
As seen in Figure 7, Axis Bank's share price gained over 38% in the past 1-year, but has also fallen as much from its high during these 52 weeks. Similarly, HDFC Bank's price gained over 24% in the past 1-year and fell 23% from 52-week high. Based on our forecasted financials, the valuation charts show that Axis Bank traded at an average of 2.7 times of its P/Adj BV for the past 3 years and the same average holds good for the last 2 years as well. The stock's one year average P/Adj BV is 3.2. HDFC Bank traded with an average P/Adj BV of 3.5 times over the past 3 years. The same was the average for the past 2 years. Even the 1-year average is 3.5 times of its P/Adj Book Value. We feel that the market is valuing HDFC Bank appropriately, i.e. 3.5 times its Adjusted BVPS. *Considering the growth potential of Axis Bank, the efficiency of its operations, the relatively advantageous position it is in compared to HDFC Bank, the stress on HDFC Bank in the near-term, we feel that Axis Bank also merits similar premium valuation as that of HDFC Bank.*

*For FY09, our valuation model assumes hardened interest rates, slowdown in advances and deposit growth to reflect the heightened economic environment stress caused due to high levels of inflation and other unfavourable macro-economic drivers. For FY10, we assumed a slightly improved situation. Based on these assumptions, the estimated adjusted BVPS for Axis Bank and HDFC Bank (with proforma CBoP) comes to Rs 306 and Rs 506 respectively.*

The near-term concerns over the banking sector, in general, due to unfavourable economic conditions compel us to discount the valuation of these banks by 10% over the historic average. HDFC Bank always traded around 3.5 times its Price-to-Adjusted BVPS. **Considering this to be fair, we now value both these banks at 3.15 times their respective FY10 estimated adjusted BVPS. This gives us a target price of Rs 960 for Axis Bank and Rs 1590 for HDFC Bank (post-merger).** The target price offers around 30% appreciation from the current level in case of Axis Bank and around 20% gain in case of HDFC Bank.

Key risks to our call would be further worsening of the macro-economic scenario (affecting both banks), adverse developments in terms of the merger of CBoP (affecting HDFC Bank) and the quality of asset-growth (affecting Axis Bank). Positives that would act as catalysts to the price objective would be a favourable change in the macro-economic scenario affecting both these banks. The sector might be under pressure in the short-term on the bourses providing good buying opportunities in terms of these two banks at low levels. Our recommendation is to **Accumulate** these strong banks to benefit from a recovery in the sector outlook.

**Figure 8: Stock price movement - graph**

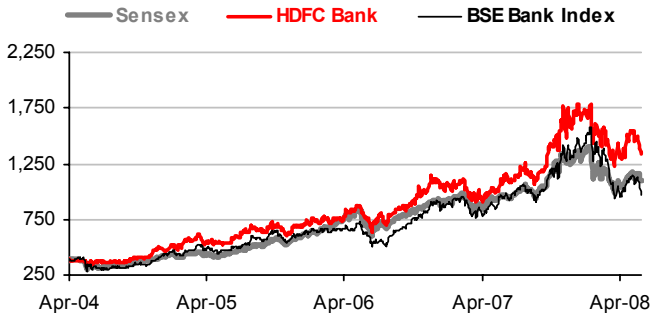


Source: Religare Institutional Equity Research

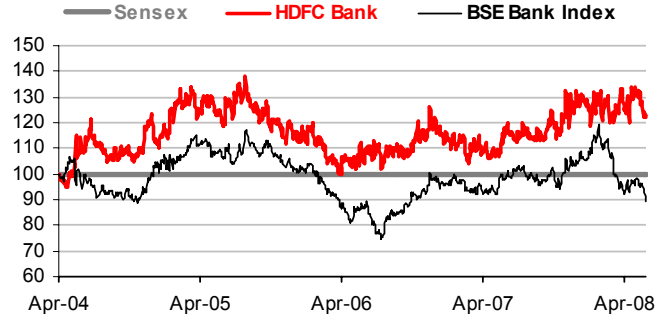
# Stock performance

## HDFC Bank

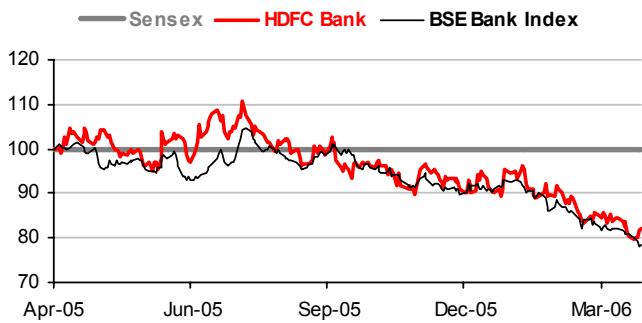
**Absolute Perf. From Apr 04**



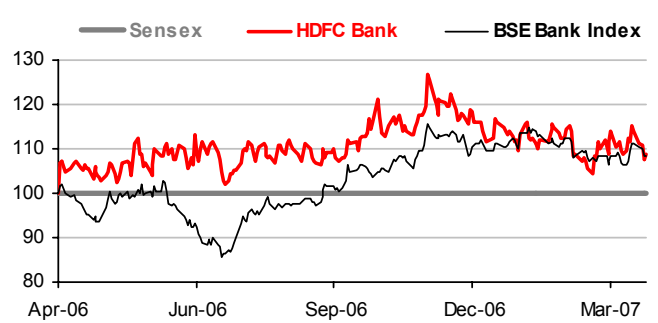
**Relative Perf. From Apr 04**



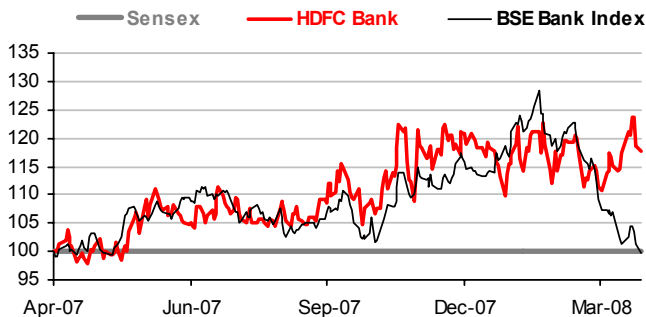
**Relative Perf. From Apr 05 to Mar 06**



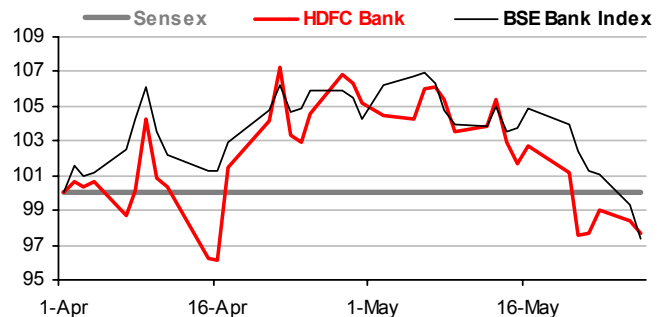
**Relative Perf. From Apr 06 to Mar 07**



**Relative Perf. From Apr 07 to Mar 08**



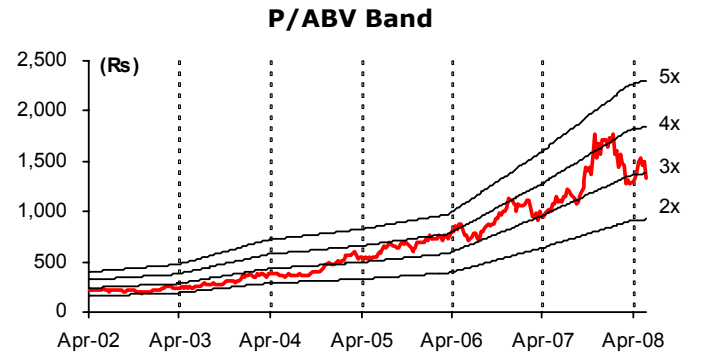
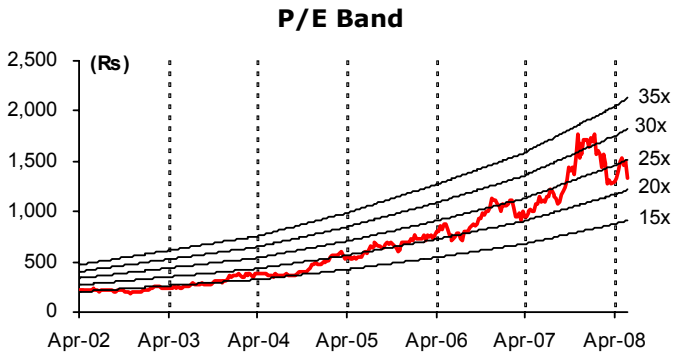
**Relative Perf. From Apr 08**



Source: Bloomberg, Religare Institutional Equity Research

# 12 month forward rolling band charts

## HDFC Bank



Source: Bloomberg, Religare Institutional Equity Research

## HDFC Bank - Financials

### Income statement

(Rs mn)

Y/E, 31st March						with CBoP merger		Standalone	
	FY06	FY07	FY08	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Int Income									
Int on adv	27002	43342	69667	113667	140862	91829	113712		
<b>Tot Int Inc</b>	<b>44753</b>	<b>68890</b>	<b>101150</b>	<b>167097</b>	<b>200080</b>	<b>136311</b>	<b>162771</b>		
Int Exp									
Int on dep	15594	26953	39200	73023	85653	55549	65448		
<b>Tot Int exp</b>	<b>19295</b>	<b>31795</b>	<b>48871</b>	<b>87155</b>	<b>101035</b>	<b>69681</b>	<b>80830</b>		
<b>Net Int Inc</b>	<b>25458</b>	<b>37096</b>	<b>52279</b>	<b>79941</b>	<b>99045</b>	<b>66630</b>	<b>81941</b>		
Tot Other Inc	11240	15162	22832	33139	42625	26072	33535		
Op Exp									
Emp Cost	4868	7769	13014	18219	21863	18219	21863		
Total Op exp	16911	24208	37456	52549	63828	42629	51779		
Total Prov	11080	16636	21752	34921	43930	28150	35140		
<b>Net profit</b>	<b>8708</b>	<b>11414</b>	<b>15902</b>	<b>25611</b>	<b>33912</b>	<b>21924</b>	<b>28557</b>		

### Balance Sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08	FY09E*	FY10E*
<b>Liabilities</b>					
Capital	3131	3194	3544	4449	4449
Reserves	49864	61138	111428	202107	226649
<b>Net Worth</b>	<b>52995</b>	<b>64332</b>	<b>114972</b>	<b>206556</b>	<b>231098</b>
Deposits	557968	682979	1007686	1522410	1874626
Borrowings & Other Liabs	124100	165045	209108	283674	325469
<b>Total</b>	<b>735064</b>	<b>912356</b>	<b>1331766</b>	<b>2012641</b>	<b>2431193</b>
<b>Assets</b>					
Cash & Bal with RBI / banks	69190	91539	147783	207406	252890
Investments	283940	305648	493935	722046	835101
Advances	350613	469447	634269	981887	1224263
Fixed and Other Assets	31322	45722	55778	101302	118939
<b>Total</b>	<b>735064</b>	<b>912356</b>	<b>1331766</b>	<b>2012641</b>	<b>2431193</b>

\*with CBoP merger for FY09 and FY10

### Ratios

Y/E, 31st March	FY06	FY07	FY08	FY09E*	FY10E*
No. of Shares	313	319	354	445	445
Earnings Per Share (Rs.)	28	36	45	58	76
Book Value (Rs.)	169	201	324	464	519
Adjusted Book Value (Rs.)	164	195	316	453	506
Dividend Per Share (Rs.)	5.5	7	8.5	14	18
<b>Valuation Ratios (x)</b>					
Price/Earnings	48	37	30	23	17
Price/ BV	7.9	6.6	4.1	2.9	2.6
Price/Adjusted BV	8.1	6.8	4.2	2.9	2.6
<b>Performance Ratios (%)</b>					
Average Yield on funds	7.5	8.8	9.5	9.9	9.7
Average cost of Funds	3.9	4.9	5.5	6.2	5.8
Interest Spread	3.7	3.9	4.0	3.8	3.9
Net Interest Margin	4.3	4.8	4.9	4.7	4.8
<b>Yields (%)</b>					
Average Yield on Adv.	8.9	10.6	12.6	12.7	12.5
Average Yield on Invts	6.8	7.8	7.2	7.2	6.8
Average Cost of Deposits	3.4	4.3	4.6	4.9	4.7
<b>Earnings Quality (%)</b>					
Net Int. Inc/Total Income	69	71	70	71	70
Other Income/Opr. Profit	57	54	61	55	55
Cost/Income	46	46	50	46	45
Return on Avg. Net Worth	17.7	19.5	17.7	15.9	15.5
Return on Average Assets	1.4	1.4	1.3	1.4	1.5
<b>Asset Quality (%)</b>					
Capital Adequacy Ratio	11.4	13.1	13.6	14.1	13.4
Gr. NPA/Gr. Advances	0.93	0.75	0.95	0.87	0.86
Net NPA/Net Advances	0.44	0.43	0.47	0.51	0.49
Coverage Ratio%	53	42	50	41	43
Credit / Deposit Ratio	63	69	63	64	65
Incremental C/D Ratio	49	95	51	68	69
Investment / Assets	39	34	37	36	34
<b>Growth Rates (%)</b>					
Advances	37	34	35	55	25
Deposits	53	22	48	51	23
Interest Income	45	54	47	65	20
Interest Expended	47	65	54	78	16
Net interest Income	43	46	41	53	24
Other Income	73	35	51	45	29
Operating Profit	47	42	34	61	29
EPS	29	29	26	28	32
<b>Net Profit</b>	<b>31</b>	<b>31</b>	<b>39</b>	<b>61</b>	<b>32</b>

# Technical View

## HDFC Bank

**Close Price Rs.1332.70**



The monthly candlestick chart of HDFC Bank shows that it is still in a major uptrend. In fact, it is oscillating within an “upward sloping channel” (pink lines) as depicted in the chart above. The monthly averages are still positively phased and are pegged at Rs.1371 (12 months ema) and Rs.1169 (24 months ema), respectively.

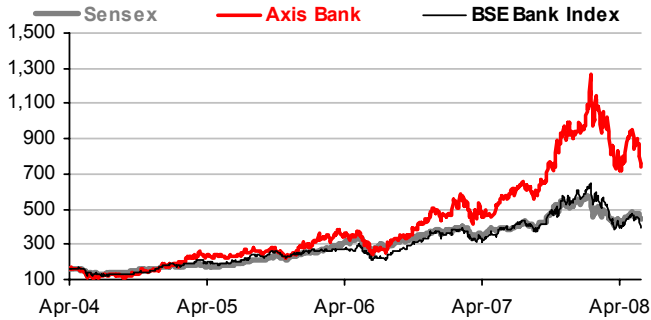
The support line of the channel is pegged at Rs.1250 for this month and would roughly increase by Rs.50 per month. A break of this channel would result in the uptrend getting over and it going into a sideways trend or a downtrend. Long term players should keep a strict stop loss below Rs.1150 (in close) on longs in this stock. One could see a recovery to Rs.1458 or at best the Rs.1550-1600 area. Unless and until this is taken out one could see a broad consolidation taking place in this stock. One can hold at current levels.

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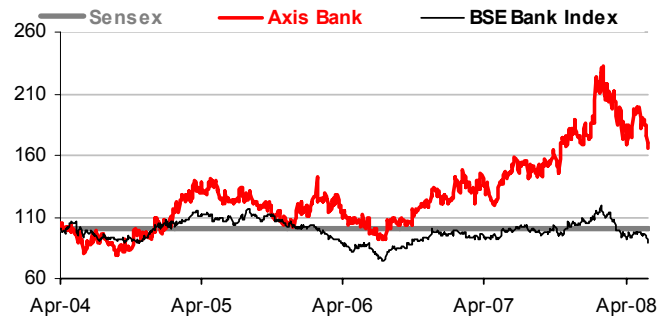
# Stock performance

## Axis Bank

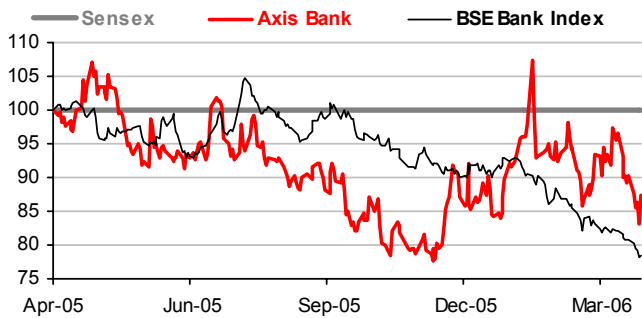
**Absolute Perf. From Apr 04**



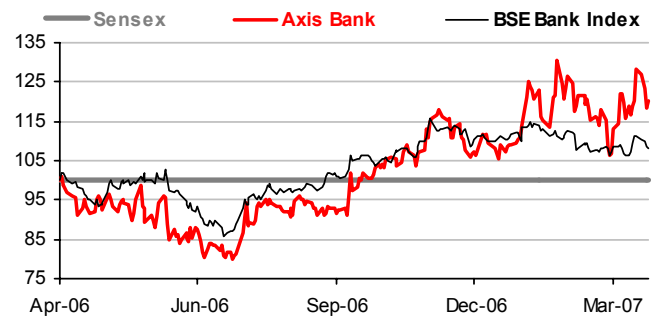
**Relative Perf. From Apr 04**



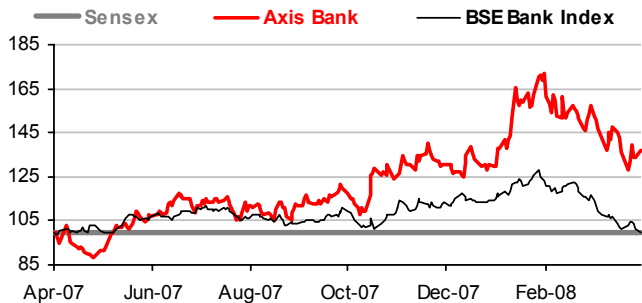
**Relative Perf. From Apr 05 to Mar 06**



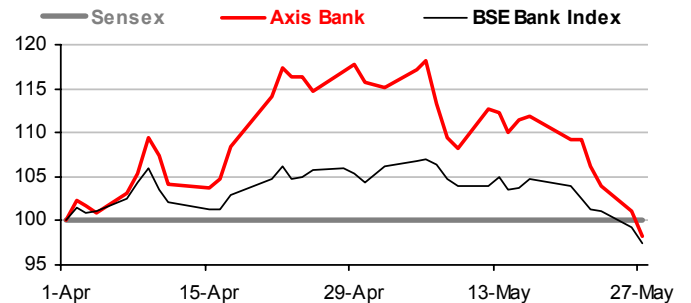
**Relative Perf. From Apr 06 to Mar 07**



**Relative Perf. From Apr 07 to Mar 08**



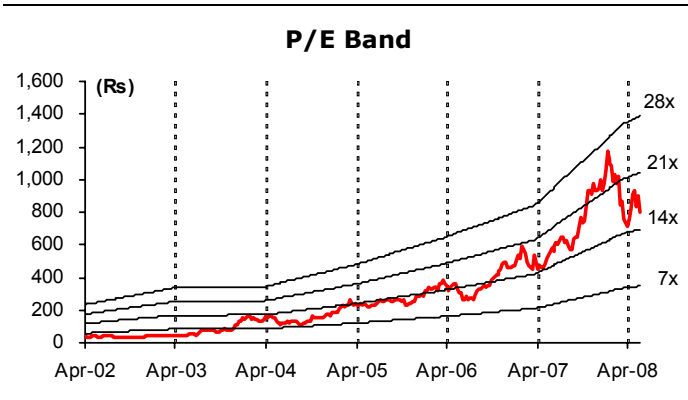
**Relative Perf. From Apr 08**



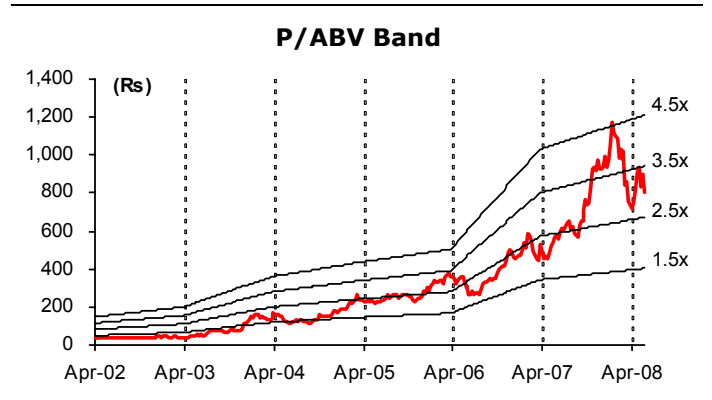
Source: Bloomberg, Religare Institutional Equity Research

# 12 month forward rolling band charts

## Axis Bank



Source: Bloomberg, Religare Institutional Equity Research



## Axis Bank - Financials

### Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08	FY09E	FY10E
<b>Income</b>					
Int Income					
Int on adv	15280	27029	47457	69401	88919
<b>Tot Int Inc</b>	<b>28888</b>	<b>45604</b>	<b>70053</b>	<b>97983</b>	<b>120840</b>
<b>Expenses</b>					
Int Exp					
Int on dep	15517	24808	37425	50486	61642
<b>Tot Int exp</b>	<b>18106</b>	<b>29933</b>	<b>44200</b>	<b>59583</b>	<b>73901</b>
<b>Net Int Inc</b>	<b>10782</b>	<b>15671</b>	<b>25854</b>	<b>38399</b>	<b>46938</b>
<b>Other Income</b>					
Tot Other Inc	7296	10101	17955	24587	33410
<b>Operating Expenses</b>					
Op Exp					
Emp Cost	2402	3814	6703	9048	11763
Total Op exp	8141	12146	21549	29834	38784
<b>Provision</b>					
Total Prov	5087	7036	11549	16133	20381
<b>Net profit</b>	<b>4851</b>	<b>6590</b>	<b>10710</b>	<b>17019</b>	<b>21183</b>

### Balance Sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08	FY09E	FY10E
<b>Liabilities</b>					
Capital	2787	2816	3577	3577	3577
Reserves	25935	31116	80918	94589	110750
<b>Net Worth</b>	<b>28722</b>	<b>33932</b>	<b>84495</b>	<b>98166</b>	<b>114327</b>
Deposits	401135	587856	876260	1139138	1423923
Borrowings & Other Liabs	67454	110784	135025	179774	238057
<b>Total</b>	<b>497311</b>	<b>732572</b>	<b>1095780</b>	<b>1417077</b>	<b>1776307</b>
<b>Assets</b>					
Cash & Bal with RBI / banks	36418	69183	119171	125244	126729
Investments	215274	268972	337050	434390	502813
Advances	223142	368765	596610	805424	1047051
Fixed and Other Assets	22477	25653	42949	52020	99713
<b>Total</b>	<b>497311</b>	<b>732572</b>	<b>1095780</b>	<b>1417077</b>	<b>1776307</b>

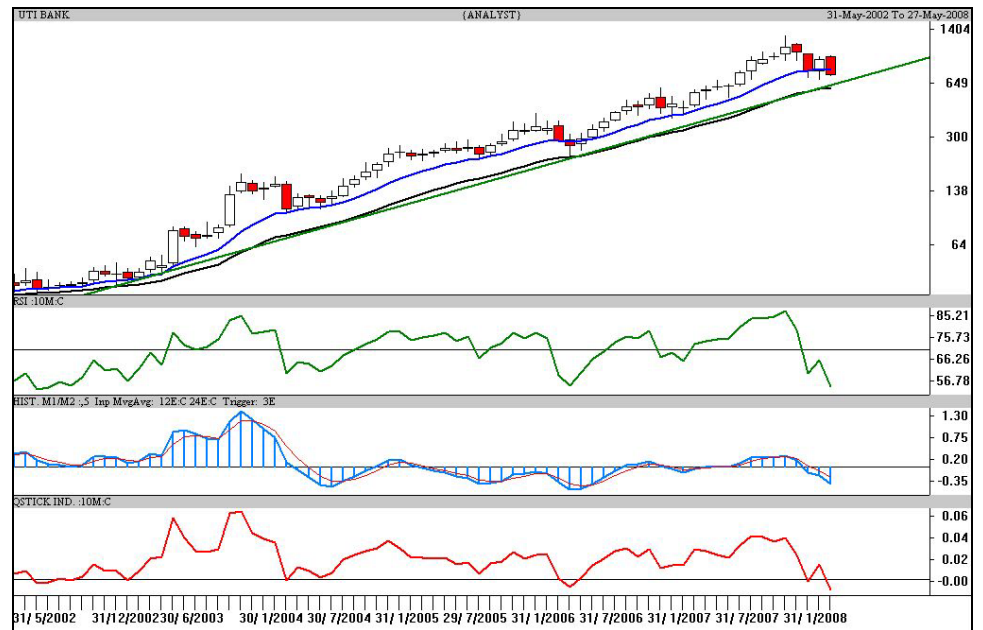
### Ratios

Y/E, 31st March	FY06	FY07	FY08	FY09E	FY10E
<b>Share Data</b>					
No. of Shares	279	282	358	358	358
Earnings Per Share (Rs.)	17	23	30	48	59
Book Value (Rs.)	103	120	236	274	320
Adjusted Book Value (Rs.)	97	112	229	263	306
Dividend Per Share (Rs.)	4	4	6	8	12
<b>Valuation Ratios (x)</b>					
Price/Earnings	43	32	25	16	12
Price/ BV	7.2	6.1	3.1	2.7	2.3
Price/Adjusted BV	7.6	6.6	3.2	2.8	2.4
<b>Performance Ratios (%)</b>					
Average Yield on funds	7.6	8.4	8.9	9.0	8.7
Average cost of Funds	4.6	5.4	5.4	5.3	5.2
Interest Spread	3.0	3.0	3.5	3.7	3.5
Net Interest Margin	2.9	2.9	3.3	3.5	3.4
<b>Yields (%)</b>					
Average Yield on Adv.	8.1	9.1	9.8	9.9	9.6
Average Yield on Invts	7.2	7.2	6.9	7.0	6.6
Average Cost of Deposits	4.3	5.0	5.1	5.0	4.8
<b>Earnings Quality (%)</b>					
Net Int. Inc/Total Income	60	61	59	61	58
Other Income/Opr. Profit	73	74	81	74	80
Cost/Income	45	47	49	47	48
Return on Avg. Net Worth	18.4	21.0	18.1	18.6	19.9
Return on Average Assets	1.1	1.1	1.2	1.4	1.3
<b>Asset Quality (%)</b>					
Capital Adequacy Ratio	11.1	11.6	13.7	12.4	12.0
Gr. NPA/Gr. Advances	1.66	1.13	0.83	0.90	0.93
Net NPA/Net Advances	0.75	0.62	0.42	0.50	0.47
Coverage Ratio%	55	45	50	45	50
Credit / Deposit Ratio	56	63	68	71	74
Incremental C/D Ratio	80	78	79	79	85
Investment / Assets	43	37	31	31	28
<b>Growth Rates (%)</b>					
Advances	43	65	62	35	30
Deposits	26	47	49	30	25
Interest Income	50	58	54	40	23
Interest Expended	52	65	48	35	24
Net interest Income	47	45	65	49	22
Other Income	75	38	78	37	36
Operating Profit	76	37	63	49	25
EPS	76	37	63	49	25
<b>Net Profit</b>	<b>42</b>	<b>34</b>	<b>28</b>	<b>59</b>	<b>24</b>

# Technical View

## AXIS Bank

**Close Price Rs.740.40**



The monthly candlestick chart of Axis Bank shows that it is still in a major uptrend. The monthly averages are still positively phased and are pegged at Rs.780.40 (12 months ema) and Rs.605.85 (24 months ema), respectively.

The support line (trendline in green) is pegged at Rs.635 for this month and would roughly increase by Rs.25 per month. A break of this trendline would result in the uptrend getting over and it going into a sideways trend or a downtrend. Long term players should keep a strict stop loss below this trendline. The oscillators are exhibiting signs of weakness and any recovery will meet with some profit-taking at higher levels. Looking at the overall picture Axis Bank faces stiff resistance at Rs.926 and in an optimistic scenario Rs.1040-1075 area in the months ahead. Support is pegged from the recent low of Rs.692 and further down at Rs.635. One can hold at current levels and use rallies to the above mentioned resistance levels for booking profits.

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**Rating definition**

<b>Buy</b>	: > 15% returns relative to Sensex	<b>Accumulate</b>	: +5 to +15% returns relative to Sensex
<b>Sell</b>	: > (-)15% returns relative to Sensex	<b>Reduce</b>	: (-) 5 to (-) 15% returns relative to Sensex
<b>Hold</b>	: Upto + / (-) 5% returns relative to Sensex		

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