

Strong results; Asset quality comfortable

January 20, 2012

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs1,008	Rs1,380
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,049
Sensex	16,739

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	(11)	(22)	(22)
Rel. to Nifty	10	(10)	(13)	(11)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

	Banks
Bloomberg	AXSB@IN
Equity Capital (Rs mn)	4126
Face Value(Rs)	10
No of shares o/s (mn)	413
52 Week H/L	1,461/785
Market Cap (Rs bn/USD mn)	416/8,244
Daily Avg Volume (No of sh)	2661694
Daily Avg Turnover (US\$m)	50.9

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	37.6	37.2	37.2
FII/NRI	40.6	42.9	45.6
Institutions	6.7	7.0	5.7
Private Corp	8.7	7.0	5.9
Public	6.4	6.0	5.6

Source: Capitaline

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- Axis Bank (AXSB) Q3FY12 NII inline with estimates. However aided by strong fee/ trading income, net profit at Rs11.0bn was ahead of expectation
- Strong advance growth of 6.2%qoq and stable NIM's at 3.75% drive growth in NII. CASA saw marginal decline led by cannibalization of deposits, as reflected in lower SD growth
- Asset quality held up well with GNPA/NNPA ratio broadly stable at 1.1%/ 0.4%. Slippages came in @ Rs5.4bn. Problem loans (GNPA + restructured) form mere 3% of loans
- With slippages coming under control we believe that AXSB could trade at its historic average valuations at 2.3x 1-year forward. Maintain HOLD with TP of Rs1,380

Strong performance; Asset quality stable

The bank's NII grew by 23.5%yoy to Rs21.4bn, inline with expectation. However net profit was ahead of expectation aided by strong growth in non interest income. The growth in other income was aided by strong growth in fee income and higher trading gains. Advance growth was strong at 20.4%yoy (6.2%qoq), while deposit growth was even stronger at 34%yoy (7.3%qoq), resulting in a marginal drop of 70bps in CD ratio to 71.3%. Despite strong growth in advances, NIM's held up strong at 3.75%.

The bank did not give any negative surprise on the asset quality front with GNPA ratio remaining stable at 1.1%. However led by lower provisions, NNPA ratio increased marginally to 0.4%. While slippage ratio (annualized) was stable at 1.2% with slippage of Rs5.4bn, the bank did additional restructuring of Rs3bn during the quarter.

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.9	9.2	10.1	10.8	11.0	209	13
Yield on investments*	7.7	7.4	7.2	7.7	8.1	42	37
Yield on assets*	7.6	7.8	8.2	8.7	8.9	134	16
Cost of funds*	4.1	4.7	5.3	5.4	5.6	145	19
NIM*	3.4	3.0	2.9	3.3	3.3	-12	-3
Cost of funds #	4.8	5.6	6.1	6.2	6.3	155	15
NIM #	3.8	3.4	3.3	3.8	3.8	-6	-3

Source: Company, Emkay Research

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

Valuation table

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	16.7	2.7
FY2011	111,951	33,885	82.5	440.8	1.6	19.3	12.4	2.3
FY2012E	134,110	40,417	97.6	513.6	1.5	19.6	10.4	2.0
FY2013E	159,692	48,479	116.1	601.8	1.5	19.9	8.7	1.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	17,331	17,010	17,241	20,073	21,403	23.5	6.6	58,717	48,620	20.8
Other Income	11,477	14,504	11,679	12,349	14,298	24.6	15.8	38,326	31,817	20.5
Fee Income	9,677	12,311	10,570	11,207	12,210	26.2	9.0	33,986	25,592	32.8
Net Income	28,808	31,514	28,920	32,422	35,701	23.9	10.1	97,043	80,437	20.6
Total Operating Expenses	12,224	13,306	13,335	14,665	15,109	23.6	3.0	43,109	34,488	25.0
As % Of Net Income	42.4	42.2	46.1	45.2	42.3			44.4	42.9	
Employee Expenses	3,962	3,960	5,100	4,986	5,420	36.8	8.7	15,506	12,179	27.3
As % Of Net Income	13.8	12.6	17.6	15.4	15.2			16.0	15.1	
Other Expenses	8,262	9,346	8,235	9,679	9,689	17.3	0.1	27,603	22,310	23.7
As % Of Net Income	28.7	29.7	28.5	29.9	27.1			28.4	27.7	
Operating Profit	16,585	18,208	15,585	17,756	20,592	24.2	16.0	53,933	45,949	17.4
As % Of Net Income	57.6	57.8	53.9	54.8	57.7			55.6	57.1	
Provisions	3,139	2,544	1,758	4,056	4,223	34.6	4.1	10,037	8,953	12.1
Prov for NPA	2,315	1,760	1,530	2,470	3,340	44.3	35.2	7,340	7,261	1.1
PBT	13,446	15,664	13,827	13,701	16,369	21.7	19.5	43,896	36,996	18.7
Total Tax	4,532	5,463	4,403	4,497	5,346	18.0	18.9	14,246	12,009	18.6
Adjusted PAT	8,914	10,201	9,424	9,203	11,023	23.7	19.8	29,650	24,987	18.7
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	8,914	10,201	9,424	9,203	11,023	23.7	19.8	29,650	24,987	18.7
Reported EPS	21.7	24.8	22.9	22.3	26.7	22.9	19.7	72	61	17.6

Source: Company, Emkay Research

NIMs to moderate in next quarter

As management continue to maintain its credit growth target at around 21-22% for FY12, the implied sequential growth for next quarter comes at ~17%. As most of the incremental growth in the next quarter will be to meet PSL lending requirements, which is low yielding, the NIM will moderate by 20-25bps in the next quarter (seasonal phenomenon).

Large corp/ Retail drive advances growth

The bank's advances grew by a strong 6.2%qoq to Rs1.5tn led by strong growth in Retail and large corporate book. While retail book grew by a stellar 13.4%qoq to Rs333bn, large corporate book grew by a healthy 5.9%qoq to Rs841bn. The growth in retail book was driven by strong growth in all the segments (ex credit card); mortgages which constitutes 75% of the total retail book grew by 11.9%qoq to Rs249bn.

Advances mix

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Large corporates	705	759	703	794	841	19.2	5.9	56.5
Mid-corporate/SME	171	214	198	208	207	21.3	-0.3	13.9
Agriculture	108	173	147	106	107	-0.7	0.8	7.2
Retail	252	278	270	293	333	32.0	13.4	22.4
Personal loans	40	39	11	12	20	-50.5	70.1	1.3
Mortgages	169	189	203	223	249	47.7	11.9	16.8
Car Loans	28	31	35	38	43	56.0	13.4	2.9
Credit cards	5	6	5	6	3	-34.0	-43.3	0.2
Others	10	14	16	15	17	65.0	13.4	1.1
Total	1,235	1,424	1,319	1,401	1,487	20.4	6.2	100.0

Source: Company, Emkay Research

Strong growth/ cannibalisation puts pressure on deposit profile

During the quarter, CASA mix slipped by 67bps sequentially to 41.6%, driven by strong growth in advances and concurrent strong growth in term deposits. Moreover lower saving deposit growth at just 1.1%qoq due to cannibalization led to lower growth in CASA deposits.

CASA Mix

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	268	369	315	354	395	47.2	11.6
Savings Deposits	391	409	429	468	473	20.9	1.1
CASA	659	778	744	821	868	31.6	5.6
Term deposits	899	1,115	1,092	1,123	1,219	35.7	8.6
Total Deposits	1,558	1,892	1,836	1,945	2,087	33.9	7.3
CASA (%)	42.3	41.1	40.5	42.2	41.6	-74	-67

Source: Company, Emkay Research

Strong fee income/ trading gains drive other income

The bank continued to report strong traction in fee income, as it grew by 9%qoq to Rs12.2bn, helped by corporate/ retail banking. Processing fee/ debt syndication/ transaction drive growth in retail and corporate fee income. Moreover with robust trading gains at Rs1.2bn, total non interest income grew by even higher 15.8%qoq to Rs14.3bn.

Fee income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Corporate banking	4,100	5,381	4,560	4,430	5,390	31.5	21.7	14,380	10,210	40.8
Business banking	950	1,070	990	970	1,090	14.7	12.4	3,050	2,810	8.5
Capital markets	150	190	160	150	130	-13.3	-13.3	440	510	-13.7
Retail banking	2,850	3,120	2,760	2,910	3,280	15.1	12.7	8,950	6,890	29.9
Treasury	1,620	2,550	2,100	2,740	2,320	43.2	-15.3	7,160	5,160	38.8
Total fee income	9,670	12,311	10,570	11,200	12,210	26.3	9.0	33,980	25,580	32.8
Trading gains/(losses)	1,347	581	702	277	1,180	-12.4	326.8	2,159	4,389	-50.8
Others	453	1,612	407	866	908	100.3	4.8	2,181	1,836	18.8
Total	11,477	14,504	11,679	12,349	14,298	24.6	15.8	38,326	31,817	20.5

Source: Company, Emkay Research

Note: The growth in fee income on yoy basis adjusted for change in accounting policy at 39%

Asset quality held up well; slippages rate stable

The bank's asset quality held up well during the quarter, as the GNPA ratio remain stable at 1.1%. Though, slippages increased marginally to Rs5.4bn over 5.0bn in the previous quarter, it remain at comfortable level. The bank restructured Rs3.0bn of assets during the quarter, taking the outstanding restructured book to Rs27bn (1.8% of Advances)

NPA profile

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPAs	14,829	15,994	15,731	17,438	19,145	29.1	9.8
Net NPAs	3,855	4,104	4,625	5,488	6,829	77.1	24.4
Gross NPAs (%)	1.1	1.0	1.1	1.1	1.1		
Net NPAs (%)	0.3	0.3	0.3	0.3	0.4		
Net NPAs/Net worth (%)	2.1	2.2	2.3	2.6	3.1		
Provision cover (%)	74.0	74.3	70.6	68.5	64.3		

Source: Company, Emkay Research

Valuation and view

We are encouraged by Axis Bank's increasing penetration into the high yielding retail segment in recent past. The move will enable bank tide over concerns on loan growth slowdown on SME / agri front and also lend stability to its PSL portfolio. Further, higher branch addition, primarily in semi urban and rural areas (41% of total network) should reap benefit in times of economic revival. An increasing retail exposure calls for higher provisioning. We have accordingly built in a credit cost of 80bps for FY12-13E. Axis Bank mgmt remains confident of 1.4x the system loan growth and we have factored a loan CAGR of 21% over FY11-13E.

The stock has underperformed its peer HDFC Bank in recent past over concerns on asset quality and growth slowdown. However, Q3FY12 results clearly shrugged off all this negatives. The stock now trades at 49% discount to HDFC Bank (against average of 32% for past 5-years). We believe the stock should reiterate to its historic average valuations at 2.3x 1-year forward. Maintain HOLD with TP of Rs1,380

Key Financials**Profit and loss (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-II/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

(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)	16.2	12.2	10.3	8.7
FDEPS(Rs)	60.2	81.1	96.8	116.1
FDPER (x)	16.7	12.4	10.4	8.7
Book value (Rs)	384.0	450.8	527.1	618.9
P/BV (x)	2.6	2.2	1.9	1.6
Adj book value (Rs)	373.7	440.8	513.6	601.8
P/ABV (x)	2.7	2.3	2.0	1.7
P/PPP (x)	7.8	6.5	5.7	4.8
Dividend yield (%)	1.2	1.4	1.6	1.8

Recommendation History: Axis Bank – AXSB IN

Date	Reports	Reco	CMP	Target
24/10/2011	Axis Bank Q2FY12 Result Update	Accumulate	1,124	1,380
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/01/2012	HDFC Bank Q3FY12 Result Update	Hold	485	510
16/01/2012	Banking Sector Update			
16/01/2012	Dewan Housing Q3FY12 Result Update	Buy	205	275
16/01/2012	South Indian Bank Q3FY12 Result Update	Hold	23	25

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