

## Axis Bank

Recommendation	Not Rated
CMP (20/01/2012)	Rs. 1008
Target Price	NA
Sector	Banking

## Stock Details

BSE Code	532215
NSE Code	AXISBANK
Bloomberg Code	AXIS IN
Market Cap (Rs crs)	41,587
Free Float (%)	65.0%
52- wk HI/Lo (Rs)	1461/785
Avg. volume BSE (Quarterly)	63,683
Face Value (Rs)	10.0
Dividend (FY 11)	140%
Shares o/s (Crs)	41.26

Relative Performance	1Mth	3Mth	1Yr
Axis Bank	16.23%	-15.80%	-25.97%
Sensex	9.68%	-1.73%	-12.62%



## Shareholding Pattern

31<sup>st</sup> Dec 11

Promoters Holding	37.55%
Institutional (Incl. FII)	38.10%
Corporate Bodies	8.71%
Public & others	15.64%

**Silky Jain** (+91 22 3926 8178)  
 Research Analyst ([silky.jain@nirmalbang.com](mailto:silky.jain@nirmalbang.com))

**Bhavya Sundesha** (+91 22 3926 8021)  
[bhavya.sundesha@nirmalbang.com](mailto:bhavya.sundesha@nirmalbang.com)

## Results good at operating levels; asset quality woes continues

Axis Bank Ltd (Axis Bank) posted a healthy operating performance for Q3FY12 ahead of expectations. Net profit was driven by growth in NII, healthy fee income growth and stable CASA mobilization. However, the bank continues to witness higher slippages which pose a threat for the bank.

## ➤ Loan book remains healthy

The bank's loan book grew at a healthy pace at 20.4% on YoY basis and 6.2% QoQ led by the retail loan book and large & mid corporate book whereas the proportion of Agri and SME portfolio continued to decline. Management continues to expect loan book to grow higher than industry growth.

## ➤ NIM's decline marginally

NII increased both YoY and QoQ in Q3FY12. Higher growth in interest expended outpaced the growth in interest income which resulted in marginal decline in the bank's NIMs. Net Interest Margin of the bank declined marginally to 3.75% in Q3FY12 compared to 3.78% in Q2FY12 and 3.81% in Q3FY11. Management has indicated that NIMs will remain broadly in the range of 3.25%-3.5% from a long term perspective. However, in the near term the bank may witness some pressure on NIMs owing to meeting up its PSL requirements.

## ➤ Fee income continues to remain strong

Fee income of the bank reported a 26.0% YoY growth in Q3FY12 to Rs 1,223 crs witnessing growth in corporate banking fees, retail banking fees and treasury fees. However, treasury fees included proprietary forex gain of Rs 130 crs during the quarter resulting from the volatility in the forex market.

## ➤ Asset quality deteriorates with higher slippages

Asset quality deteriorated with gross NPAs and net NPAs at 1.1% and 0.39% respectively. Slippages increased to Rs 535 crs in Q3FY12 from Rs 446 crs in Q2FY12. Bank's restructured assets increased by Rs.295 crs during the quarter vs Rs.312 in the previous quarter taking the total restructured assets at Rs 2,701 crs, constituting 1.55% of gross advances.

## Outlook

We believe that the bank's results are a mixed bag. Although operating performance improved, asset quality continues to remain a cause of concern for the bank in the near term. Higher restructured book and higher exposure to power sector (around 10%) is likely to hamper the bank's asset quality going forward.

The fear of rising slippages has resulted in the recent underperformance of the stock leading to lower valuations. Currently, the stock is trading at a P/E of 10.44x on 12 month trailing basis and an adjusted P/BV of 1.95x. We continue to remain cautious over the performance of the bank in the near term considering the asset quality.

Year	NII (Rs crs)	Growth (%)	PBP (Rs crs)	Margin (%)	PAT (Rs crs)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY09A	3,686	29.8%	3,725	34.4%	1,815	50.27	20.05	275.47	3.66	19.1%
FY10A	5,005	35.8%	5,240	33.6%	2,514	65.70	15.34	386.75	2.60	15.7%
FY11A	6,563	31.1%	6,416	31.3%	3,388	82.50	12.21	452.71	2.23	17.8%

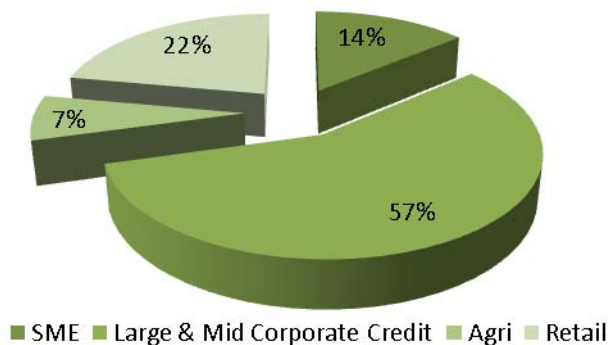


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### Loan book remains healthy

The bank's loan book grew at a healthy pace at 20.4% on YoY basis and 6.2% QoQ. Advances growth was led by the retail loan book (up 13.4% QoQ and 32.0% YoY) and large & mid corporate book (up 5.9% QoQ and 19.2% YoY). The proportion of Agri and SME portfolio continued to decline during the quarter and contributed 7.2% and 13.9% to the total loan book. Management continues to expect loan book to grow at a premium to the overall industry growth.

Break up of advances (Q3FY12)



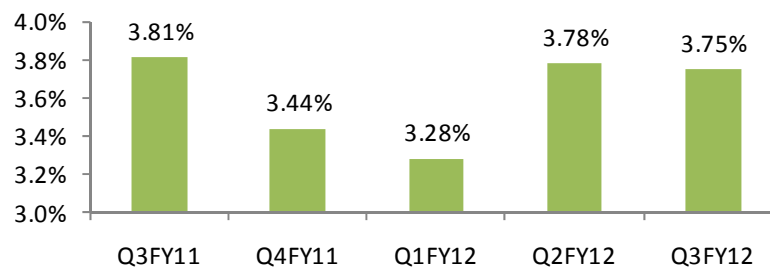
Source: Company data, Nirmal Bang Research

### NIM's decline marginally

Net Interest Income increased by 23.5% on YoY basis and 6.6% on QoQ basis to Rs 2,140 crs in Q3FY12. Higher growth in interest expended outpaced the growth in interest income which resulted in marginal decline in the bank's NIMs. Net Interest Margin of the bank declined marginally to 3.75% in Q3FY12 compared to 3.78% in Q2FY12 and 3.81% in Q3FY11.

Management has reiterated its NIMs guidance and has indicated that NIMs will remain broadly in the range of 3.25%-3.5% from a long term perspective. However, in the near term the bank may witness some pressure on NIMs owing to meeting up its PSL requirements.

Net Interest Margins

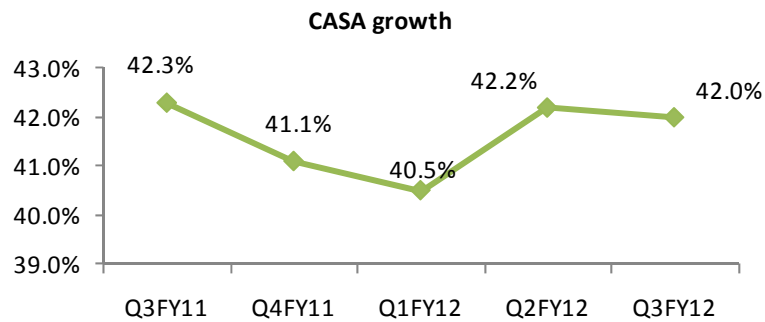


Source: Company data, Nirmal Bang Research

### CASA ratio remains flat

CASA ratio as on September 2011 stood at 42.0% as against 42.2% in December 2011. In Q3FY12 the bank's current deposits increased by 47% YOY whereas the bank's savings deposits increased by 21% YOY. The daily average CASA ratio of the bank in Q3FY12 was at ~37%.

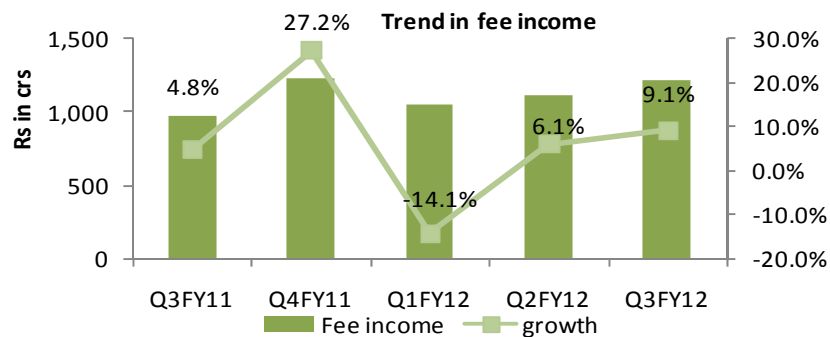
**Axis Bank**



Source: Company data, Nirmal Bang Research

**Fee income continues to remain strong**

Non-interest income increased 15.8% QoQ and 24.6% YoY to Rs 1,429.8 crs. Core fee income of the bank reported a 26.0% YoY growth in Q3FY12 to Rs 1,223 crs witnessing 34% growth in corporate banking fees, 26% YoY growth in retail banking fees and 25% YoY growth in treasury fees. However, treasury fees included proprietary forex gain of Rs 130 crs during the quarter resulting from the volatility in the forex market.



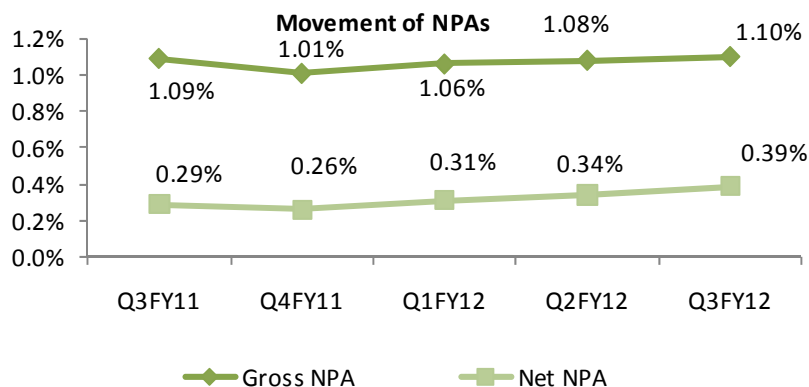
Source: Company data, Nirmal Bang Research

**Asset quality deteriorates with higher slippages**

Asset quality deteriorated with gross NPAs and net NPAs at 1.1% and 0.39% respectively. Slippages increased to Rs 535 crs from Rs 446 crs due to some stress in the mid-corporate, SME and agri portfolios. Provisions were up 4.1% QoQ (34.6% YoY) on NPLs provisions and equity portfolio losses.

The restructured portfolio increased from Rs 2,410 crs in Q2FY12 to Rs 2,701 crs in Q3FY12. Slippages from the restructured portfolio stood at Rs 7 crs. Management expects the credit cost to be at 80 bps for FY12E. Bank's restructured assets increased by Rs.295 crs during the quarter vs Rs.312 in the previous quarter (which included Rs.230 crs only towards MFI restructuring), taking the total restructured assets at Rs 2,701 crs, constituting 1.55% of gross advances. Provisioning coverage ratio of the bank (including technical write off) stood at 87.68%.

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Source: Company data, Nirmal Bang Research

- Capital adequacy of the bank stood at 11.78% with a Tier I ratio of 8.25% as on December 2011.
- The bank has opened 47 branches and 730 ATMs in Q3FY12, taking the total branch network to 1,493 branches and ATMs count to 8,324.

Income Statement (Rs cr)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Interest Earned	5777.0	3838.3	50.5%	5276.0	9.5%
Interest Expended	3636.7	2105.2	72.7%	3268.7	11.3%
<b>Net Interest Income</b>	<b>2140.3</b>	<b>1733.1</b>	<b>23.5%</b>	<b>2007.3</b>	<b>6.6%</b>
Other Income	1429.8	1147.7	24.6%	1234.9	15.8%
Total Income	3570.1	2880.8	23.9%	3242.2	10.1%
Payment to employees	542.0	396.2	36.8%	498.6	8.7%
Other operating expenses	968.9	826.2	17.3%	967.9	0.1%
Total operating expenses	1510.9	1222.4	23.6%	1466.5	3.0%
<b>Profit before provisioning</b>	<b>2059.2</b>	<b>1658.5</b>	<b>24.2%</b>	<b>1775.6</b>	<b>16.0%</b>
Provisions	422.3	313.9	34.6%	405.6	4.1%
Profit before tax	1636.9	1344.6	21.7%	1370.1	19.5%
Tax	534.6	453.2	18.0%	449.7	18.9%
<b>Profit after tax</b>	<b>1102.3</b>	<b>891.4</b>	<b>23.7%</b>	<b>920.3</b>	<b>19.8%</b>
EPS	26.7	21.7	22.9%	22.3	19.7%

Source: Company data

- Net Profit has shown a growth of 19.8% QoQ and 23.7% YoY at Rs 1102.3 crs mainly due to 23.5% YoY increase in net interest income and 24.6% YoY increase in other income.
- EPS for Q3FY12 stood at Rs 26.7 while for Q3FY11, it was Rs 21.7.
- RoA improved to 1.68% in Q3FY12 as compared to 1.75% Q3FY11.



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## Financials

Valuation Ratios	Q3FY12	Q3FY11	Q2FY12
Earnings per share	26.7	21.7	22.3
Book value per share	532	392	506
Adjusted book value per share	516	382	493
Return on equity	29.3%	19.5%	18.1%
RoA	1.7%	1.7%	1.5%
Capital Adequacy Ratio (CAR)	11.8%	12.5%	11.4%
P/E	9.4	11.6	11.3
P/ABV	1.9	2.6	2.0
Balance Sheet Ratio	Q3FY12	Q3FY11	Q2FY12
Gross NPA	1.1%	1.1%	1.1%
Net NPA	0.4%	0.3%	0.3%
Provisioning coverage ratio	87.9%	74.0%	68.5%
CASA	42.0%	42.3%	42.2%
Loan - deposit ratio	71.3%	79.3%	70.0%
Profitability Ratio	Q3FY12	Q3FY11	Q2FY12
NIM	3.8%	3.8%	3.8%
Cost - income ratio	42.3%	42.4%	45.2%
Operating profit margin	28.6%	33.3%	27.3%
Net profit margin	15.3%	17.9%	14.1%

Source: Company data

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**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**

B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park  
Off. Ganpatrao Kadam Marg  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 3926 8000/8001  
Fax. : 022 3926 8010