

4QFY09 Result Update

CMP: INR 485

Target: INR 630

OUTPERFORMER

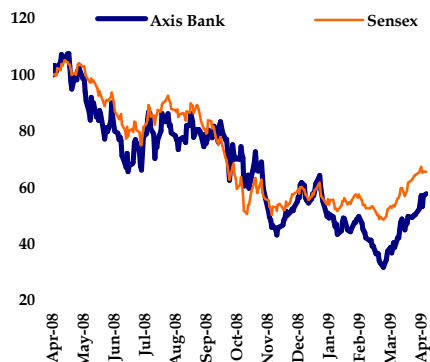
Sector View	NEUTRAL
Company Risk	MEDIUM
BSE Sensex	10,980
S&P Nifty	3,377
BSE Bankex	5,473
Bloomberg Consensus (BUY/SELL/HOLD)	37 / 3 / 5
BSE Code	532215
NSE Code	AXISBANK
Bloomberg Code	AXSB IN
Reuters	AXBK.BO
52 Wk High/Low (INR)	970 / 279
Equity (INR Mn)	3,590
Market Cap. (INR Mn)	1,83,202

Shareholding Pattern (%)

Foreign	32.88
Institutions	11.26
Corporate	7.47
Promoters	42.40
Public & Others	6.00

Returns (%)	Abs Perf	Relative to	
		Sensex	Bankex
1 Month	48.75	26.31	13.79
3 Months	16.41	-1.27	6.71
1 Year	-42.08	-7.67	-5.87

Relative Price Performance



Source: Khandwala Research, Bloomberg

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Result Highlights

- ✓ **NIMs improves as cost of funds dips:** Axis Bank's Net interest margins (NIMs) for 4QFY09 have improved by 25 bps as against last quarter to 3.37%. The expansion in NIMs is mainly on account of dip in cost of funds. Cost of funds has decreased by 27 bps on a sequential basis. Cost of funds has come down on account of correction in bulk deposit rates; bulk deposit constitutes 43% of aggregate deposits.
- ✓ **Asset Quality still holding:** Asset quality still seems to be well under control against a street expectation of sharp deterioration. Although on an aggregate basis, Gross NPA has increased by 12% sequentially; still Gross & Net NPA a % of advances is almost flat sequentially at 0.9% and 0.4% respectively. There could be some relief on account of relaxation of restructuring norms by the regulator; however management indicates it to be immaterial.
- ✓ **Balance Sheet Growth slows down:** Axis Bank has grown its advance book and deposit by 37% and 34% respectively as against 50% plus growth registered in earlier quarters. Business slows down; still the growth is well above the industry.
- ✓ **Growth in PAT above our expectation:** Axis Bank has registered a growth of 61% yoy in PAT to Rs 5.8 bn for 4QFY09. Lower NII growth was offset by higher than expected non interest income growth. Operating expenses only grew by 12%, taking cushion it provided higher for loan loss provision of Rs 2.6 bn.
- ✓ **Speculation on Mr.Naik's Successor finally ended**

Concerns of Mr.Naik's successor is sorted out, the board has appointed Ms. Shikha Sharma, previous head of ICICI Prudential as MD & CEO of the bank for next 5 years. Considering Shikha Sharma's previous performance, should not impact the fundamentals of the company. However Mr.Naik's descent on the appointment of Shikha Sharma might remain a hangover on the stock for some time.

Valuation

We expect Axis Banks to continue its growth streak above industry over next couple of years. At the CMP of Rs. 485, stock trades at 8.4x its earnings and 1.6x its adjusted book value for FY10E. In our view, the actual growth and the quality of assets in AXIS Bank is one of the best among industry. We place our call on Axis Bank to "OUTPERFORMER", with market price target of Rs. 630 at 2.0x FY10E adjusted book value.

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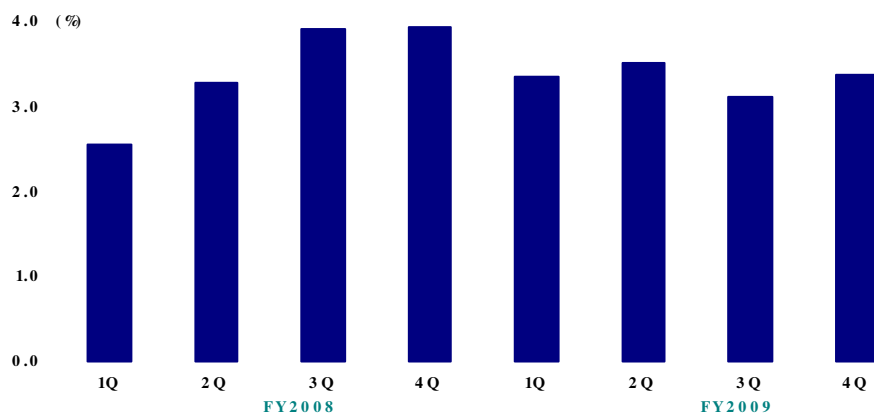
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Result Highlights

NIMs Improves

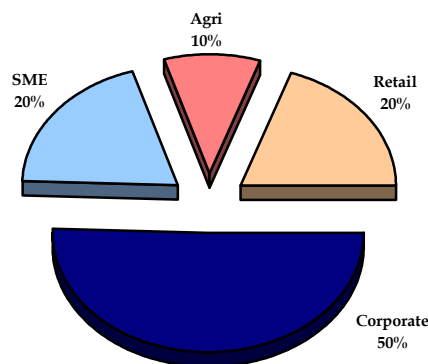
NIMs improve on a quarterly basis to 3.37%. However NIMs for FY09 dipped to 3.33% as against 3.47% last year.



Source: Khandwala Research

Diversified Loan Book

Axis bank has a diversified portfolio with higher focus on large and mid corporate.



Source: Khandwala Research

Assets grow across all segments

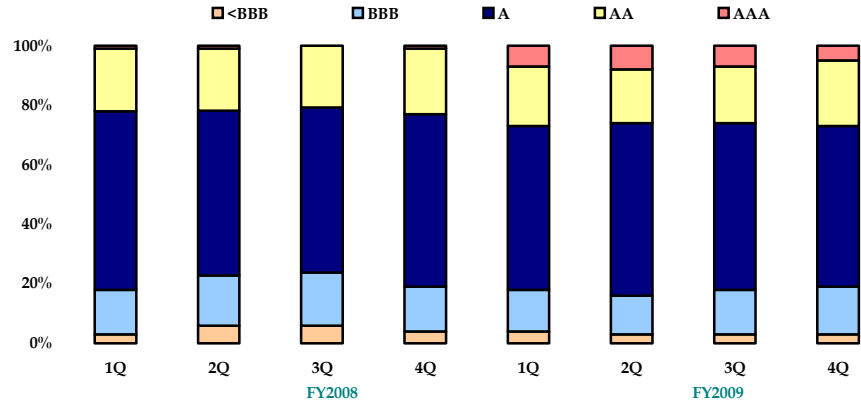
Retail has slowed down, in line with expectation.

Segment	INR Bn	YoY	QoQ
		Gwth (%)	Gwth (%)
Corporate	412	42.0	3.1
SME	161	39.4	13.7
Agriculture	82	49.2	46.8
Retail	161	18.1	2.8
Total	816	36.7	8.3



More than 4/5th of corporate advances have rating 'A' and above

Axis Bank has consistently improved the rating of its corporate loan portfolio, which constitutes more than half of its loan book.



Source: Khandwala Research

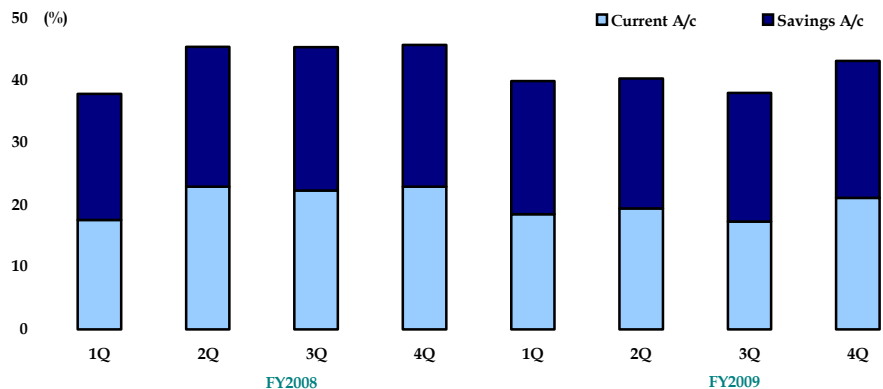
Retail Portfolio Distribution

Overall retail portfolio has slowed down. Housing is the only segment which has grown materially.

Retail Portfolio (%)	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09
Housing	59.0	59.0	56.0	64.0	65.0
Personal	15.0	15.0	22.0	13.0	12.0
Cards	4.0	4.0	4.0	4.0	4.0
CV	6.0	6.0	4.0	4.0	3.0
Passenger vehicles	9.0	9.0	9.0	10.0	11.0
Others	7.0	7.0	5.0	5.0	5.0
Total	100.0	100.0	100.0	100.0	100.0

CASA Bounce Back

CASA has shown a rebound as interest rate has slide down. Within CASA, current account deposit has shown a major bounce back which has contributed in improving the NIMs.



Source: Khandwala Research

Axis Bank definitely deserves applause, as despite growing its deposits base of over 34% yoy, it is still able to maintain its CASA ratio of ~43%.



Robust Growth in Fee income

Total non-interest income has grown by 52% to Rs 8.5 bn. Fee Income has grown by 42% yoy in 4QFY08 to Rs 6.6 bn.

Fee Income	INR mn	YoY Gwth (%)	QoQ Gwth (%)
Corporate	1,120	47.4	(1.8)
Customer Forex	1,000	56.3	6.4
Agri & SME	730	69.8	37.7
Business Banking	850	39.3	7.6
Capital Markets	630	53.7	(37.6)
Retail	2,314	26.4	30.1
Total	6,644	42.0	7.4

It continues to maintain dominant position in placement and syndication of corporate bonds. Volumes in placement and syndication of bonds have increased by 58% to Rs 272 bn for the quarter ended 4QFY09. It registered a cash remittance throughput of Rs 3.6 tn as against 2.1 tn in corresponding quarter last year. It continues to strengthen its focus on project advisory, cash management services, wealth advisory services & online trading. It has a tie up with Metlife India for life insurance product, Bajaj Allianz for general insurance product and Geojit Securities for online trading account.

Although the growth in Fee income is quite healthy, but it has slowed down from earlier quarters growth of 70-90% on a yoy basis. Fee income has slowed down mainly on account of fees from capital markets and retail business. Capital markets and retail has slowed down on account of slowdown in capital market activity and sale of third party products respectively.

Bank has also earned higher treasury income of Rs 1.7 bn, as against Rs 0.5 bn in corresponding quarter last year. Majority of trading income, approximating to 67% came from sale of government securities.

Asset Quality still holding

Although there is some modest concern over asset quality as Gross NPA on an absolute basis has increased by 12% sequentially, the surge is quite modest than expected by the market. As a percentage of assets, Gross NPA does not seem to increase, because the asset base is increasing at a very high pace. It will be interesting to watch out the asset quality as the delinquency rate picks and credit growth gradually slows down. We have factored increase in NPA from here on and thereby higher NPA provisions. Nevertheless it is noteworthy to mention, that the asset quality of Axis Bank is one of the best among large-cap banks.

NPA Movement	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09
Gross NPA (mn)	4,946	6,383	7,102	7,879	8,978
Net NPA (mn)	2,483	3,257	3,367	3,419	3,271
Gross NPA (%)	0.7	0.9	0.9	0.9	0.9
Net NPA (%)	0.4	0.5	0.4	0.4	0.4
Prov Coverage (%)	49.8	49.0	52.6	56.6	63.6
Prov Coverage (Inc w/off) (%)	82.8	79.5	81.0	83.4	85.3

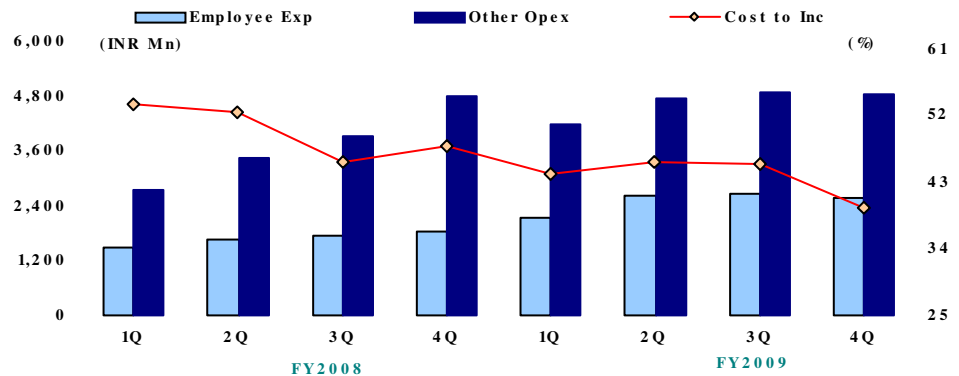


Moderate Restructuring

Axis Bank has restructured loans incrementally to the tune of ~Rs 10 bn for FY09 which is 1.2% of its loan book, against market expectation of 3-4%. Management indicates none of the restructured loan was earlier classified as NPA. It has further received request for restructuring of Rs 4.5 bn. It has provided Rs 650 mn for diminution in fair value on account of restructuring for FY09 and Rs 146 mn for Q4FY09.

Cost to Income ratio remains under control

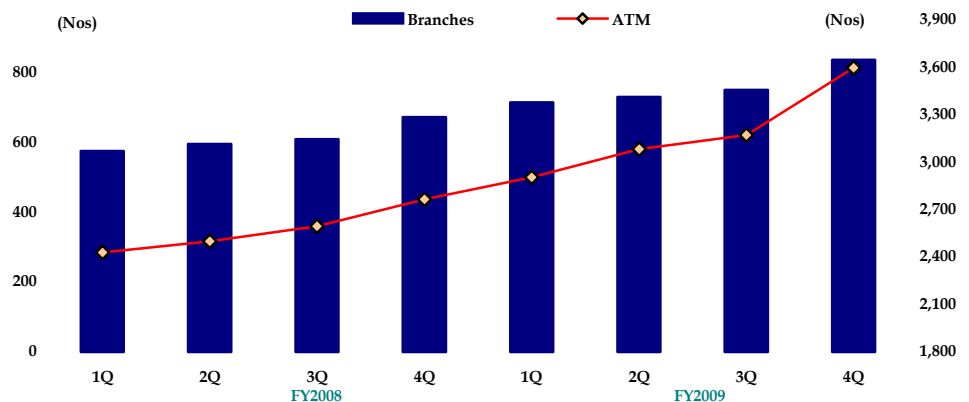
Although the employee expenses and other operating expense are growing at a brisk pace, still the bank is able to maintain a tight control over cost to income ratio.



Source: Khandwala Research

Visible Expansion

Axis Bank continues to expand at a healthy rate. Its strong plans to expand branches has helped bank to increase retail deposits & garner higher Fee income. Its total assets under overseas operation have increased by 39% to US\$ 2.3 bn. It has a branch at Singapore, Hong Kong & Dubai. It also has a representative office at Shanghai and Dubai.



Source: Khandwala Research



4QFY09 Result Update

Particulars (INR Mn)	Q4FY09 Mar-09	Q4FY08 Mar-08	Y-O-Y Growth	FY09 Mar-09	FY08 Mar-08	Y-O-Y Growth
Interest Earned	30,392	20,154	51%	108,355	70,053	55%
Interest Expended	20,066	11,870	69%	71,493	44,199	62%
Net Interest Income	10,326	8,284	25%	36,862	25,854	43%
Non-Interest Income	8,455	5,565	52%	28,969	17,955	61%
-Fee Income	6,644	4,680	42%	24,472	14,947	64%
-Other Income	1,811	885	105%	4,497	3,008	50%
Net Revenue	18,781	13,849	36%	65,831	43,809	50%
Operating Expenses	7,396	6,621	12%	28,581	21,549	33%
-Employee Exp	2,575	1,845	40%	9,977	6,703	49%
-Other Exp	4,821	4,776	1%	18,604	14,846	25%
Operating Profit	11,385	7,228	58%	37,250	22,260	67%
Provision & Contingencies	2,552	1,642	55%	9,397	5,797	62%
PBT	8,833	5,586	58%	27,853	16,463	69%
Taxes	3,019	1,972	53%	9,700	5,753	69%
PAT	5,814	3,614	61%	18,153	10,710	69%
EPS	16.19	10.10	60%	50.60	31.29	62%
Book Value	272	236	15%	272	236	15%
Advances	815,570	596,610	37%	815,570	596,610	37%
Deposits	1,173,740	876,260	34%	1,173,740	876,260	34%



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