

BANKING: Quarterly Update

Axis Bank's Q4FY13 PAT at Rs 15.5bn (up 22% YoY) was above estimates. The bank surprised on NIMs with sequential improvement of 13bps and a strong growth in fee income. Non-interest income growth was driven by fee income from retail, SME segment and Treasury & DCM. Stable income growth and contained expenses enabled the bank to register 22% earnings growth.

Key highlights during the quarter:

- NII registered a growth of 24% YoY to Rs 26.5 bn driven by credit growth of 16% YoY to Rs 1970 bn & margin improvement. NIM improved by 13 bps QoQ due to increase in credit - deposit ratio by 4.6% QoQ to 78% as the bank benefited from equity flow (Rs55bn through QIP), translating to decline in cost of fund. Cost of fund declined by 7bps QoQ to 6.45%.
- Non interest income increased by 26% YoY to Rs 20bn driven by strong fee income from retail segment (37% YoY growth) and Treasury & Debt capital market 24(% YoY growth). Portfolio gain of Rs2.4bn Vs Rs1.4bn last year also contributed leading to 26% YoY growth in non interest income. Containment of employee cost translated into 5% YoY decline in cost - income ratio to 42%.
- Provisions increased significantly YoY to Rs 5.9bn from Rs1.4bn owing to contingent provision of Rs2.4bn. The overall credit cost for FY12 stood at 70bps and the bank is confident of containing its FY14 credit cost at 85-90bps.
- Asset quality remained stable QoQ with GNPA's at 1.06%. Slippages stood at Rs4bn. The bank restructured assets worth Rs8bn. The outstanding restructured asset now stands at Rs 43.7bn with major contributions from textiles, petroleum, edible oil and infrastructure.

Outlook and Valuation

We expect Axis Bank to continue to witness buoyancy in retail & SME credit enabling the bank to deliver ~20% credit growth over FY13-15E. Axis Bank's strong CASA base and its growing retail liability franchisee augurs well for its mortgage business. Moreover it has garnered market share in SME lending at the cost of PSBs. However, corporate credit growth will continue to remain a challenge given the current economic scenario.

NIM, though has shown improvement on the back of equity infusion, we remain skeptical of further NIM improvement owing to lower pricing power in retail lending and as we expect Axis Bank to also cut its base rate going forward in pursuit of business growth. In terms of asset quality, we expect the bank to witness some pain in the ensuing quarters as the bank's name continues to feature in a few lumpy accounts which have knocked the CDR door. Therefore, we believe that there can be some stress in terms of fresh slippages / restructuring. But we remain confident that the bank can retain credit costs at below 100 bps. Furthermore, the ability to maintain stable return ratios, despite prudent provisioning and favorable valuations gives us some comfort and hence, we maintain our Buy rating on the stock with a PT of Rs 1669 (implying a median valuation of 2.1x FY14E Adj BV of Rs 795).

BUY

AXSB IN | CMP RS 1444

TARGET RS 1669 (+16%)

Company Data

O/S SHARES (MN) :	468
MARKET CAP (RSBN) :	676
MARKET CAP (USDBN) :	12.4
52 - WK HI/LO (RS) :	1516 / 922
LIQUIDITY 3M (USDMN) :	54.1
FACE VALUE (RS) :	10

Share Holding Pattern, %

PROMOTERS :	35.5
FII / NRI :	43.9
FI / MF :	11.1
NON PROMOTER CORP. HOLDINGS :	2.0
PUBLIC & OTHERS :	7.6

Price Performance, %

	1mth	3mth	1yr
ABS	11.1	3.3	27.4
REL TO BSE	8.8	7.5	15.2

Price Vs. Sensex (Rebased values)



Source: Bloomberg, Phillip Capital Research

Valuation Summary

Y/E Mar, Rs mn	FY13	FY14E	FY15E
Pre-prov ROE (%)	33.5	29.7	29.8
Pre-prov ROA (%)	3.0	2.9	2.8
Net Profit	51,794	60,007	69,503
% growth	22.1	15.9	15.8
EPS (Rs)	110.7	127.6	147.1
Adj BVPS (Rs)	697.0	795.9	912.1
ROE (%)	18.7	17.0	17.1
P/E (x)	13.0	11.3	9.8
Adj P/BV (x)	2.07	1.81	1.58

Source: PhillipCapital India Research

Manish Agarwalla (+ 9122 6667 9962)
magarwalla@phillipcapital.in

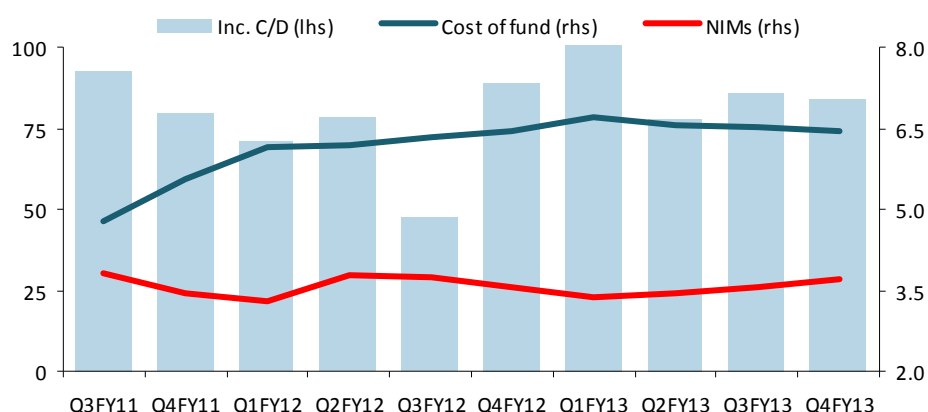
Sachit Motwani, FRM (+ 9122 6667 9953)
smotwani@phillipcapital.in

Result Update			
(Rs mn)	Q4FY13	Q4FY12	YoY Growth
Interest earned	70,476	60,603	16.3
Interest expended	43,829	39,142	12.0
Net interest income	26,647	21,461	24.2
Net interest margins	3.70	3.55	0.2
Non interest income	20,072	15,876	26.4
Total Income	46,718	37,337	25.1
Total operating expenses	18,721	16,962	10.4
Payroll costs	6,014	5,296	13.6
Others	12,707	11,666	8.9
Pre-provision Profit	27,997	20,376	37.4
Provisions & Contingencies	5954	1393	327.4
% Operating income	21.3	6.8	
PBT	22,044	18,983	16.1
Provision for Taxes	6,492	6,210	4.5
% of PBT	29.5	32.7	
Net Profit	15,552	12,773	21.8
Equity	4,680	4,132	13.3
EPS, Rs	33.2	30.9	7.5
Advances	1,969,660	1,697,595	16.0
Deposits	2,526,140	2,201,043	14.8
Advances / Deposits (%)	78.0	77.1	0.8
Gross NPAs	23934	18063	32.5
Gross NPAs (%)	1.06	0.94	0.12
Net NPAs	7041	4726	49.0
Net NPAs (%)	0.32	0.25	0.07
CAR – Total	12.2	9.5	2.8

Source: Company, PhillipCapital India Research

- **Net Interest Margins (NIM)** improved by 13 bps QoQ to 3.7% driven by increase in CD ratio & marginal decline in cost of funds.
- **Yield on advances declined marginally.**
- **Cost of funds declined by 7bps QoQ to 6.45%.**

NIM Movement



Source: Company, PhillipCapital India Research

- **Non-interest income growth was driven by strong growth in retail and SME fees.**
- **Corporate fees continued to remain subdued.**

Constituents of non-interest income

Rs mn	Q4FY13	Q4FY12	YoY Gwth, %
Commission / Brokerage	12650	10770	17.5
Earnings from Client Forex Transactions	3530	2490	41.8
Portfolio gains	2378	1460	62.8
Other Misc Income	1514	1156	31.0
Total	20072	15876	26.4

Source: Company, PhillipCapital India Research

- **Provisions increase due to contingent provision of Rs2.4bn, taking total contingent provision to Rs3.75bn.**

Break up of Provisions and Contingencies

Rs mn	Q4FY13	Q4FY12
NPA Provision	1450	1270
Investment Depreciation	650	-1020
Standard Assets	680	620
Restructured loans	700	510
Others	2470	10
Total	5950	1390

Source: Company, PhillipCapital India Research

- **Advances growth was largely driven by strong growth in retail and SME advances.**
- **Retail and SME will continue to be the growth drivers for the bank.**

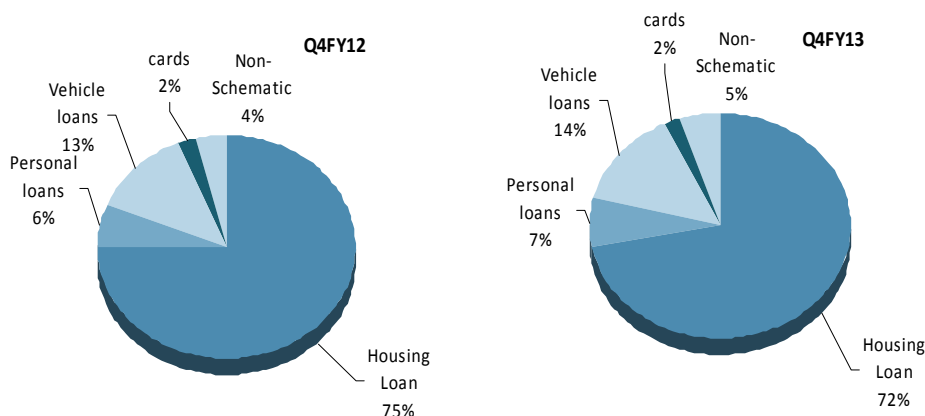
Asset Mix

Rs bn	Q4FY13	% of Total	Q4FY12	% of Total	YoY Gwth, %
Retail	539.6	27.4	375.7	22.1	43.6
Agriculture	148.5	7.5	173.4	10.2	-14.4
SME	299.2	15.2	238.0	14.0	25.7
Large and Mid Corporate	982.4	49.9	910.5	53.6	7.9
Total	1969.7	100.0	1697.6	100.0	16.0

Source: Company, PhillipCapital India Research

Retail Assets Break-Up

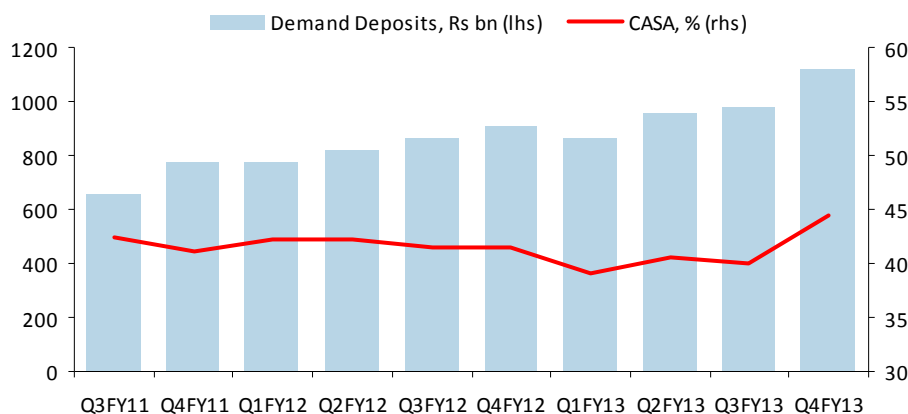
- Retail loans now form 27% of the total advances. This is expected to reach 30% by FY14e.
- Most of retail loan portfolio comprised of secured lending with housing loans + LAP at 72%, followed by auto loans at 14%.
- LAP constitutes 7% of total retail book.



Source: Company, PhillipCapital India Research

Deposit Mix

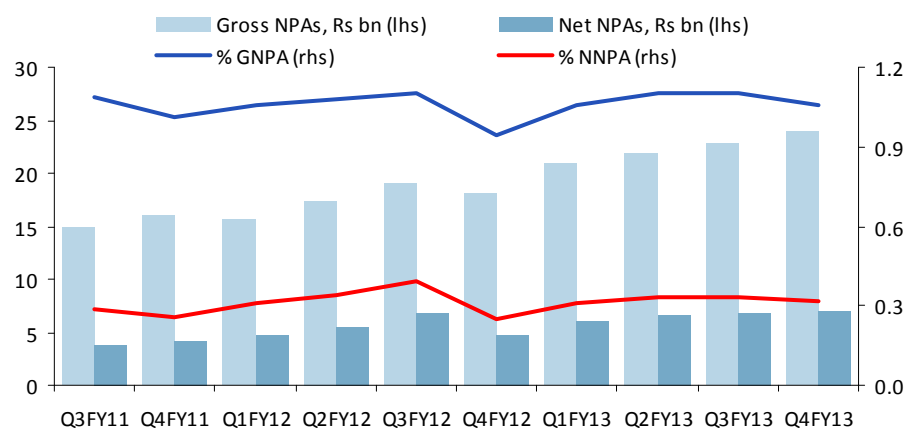
- Deposits grew by 15% YoY driven by 23% YoY growth in retail term deposits & 23% YoY growth in CASA.
- CASA deposits driven by 23% YoY growth in savings bank deposits & 22% YoY growth in current deposit.
- On daily average balances, CASA was flat QoQ at 37%.
- Bulk deposits form 32% of the total



Source: Company, PhillipCapital India Research

- Slippages during the quarter stood at Rs 3.98 bn, recoveries and up gradations were Rs 2.05 bn while write offs were Rs 0.75 bn.
- GNPA's improved by 4bps QoQ to 1.06% and NNPA's were flat at 0.33%.
- Axis Bank restructured assets worth Rs 7.9 bn during the quarter.
- Outstanding restructured portfolio (facility wise) now stands at Rs 43.68 bn.
- The management has maintained its guidance for Slippages + fresh restructuring of Rs 10 bn per quarter going forward.

Asset Quality



Source: Company, PhillipCapital India Research

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Interest on Loans	153,794	191,662	220,412	264,494
Interest on Investments	63,943	77,470	86,766	95,443
Others	2,210	2,694	3,098	3,562
Total Interest Earned	219,947	271,826	310,275	363,499
Total Interest Expended	139,769	175,163	197,765	229,588
Net Interest Income	80,177	96,663	112,511	133,911
Total non interest income	54,202	65,511	73,257	82,284
Total Income	134,380	162,174	185,767	216,195
Personnel Expenses	20,802	23,770	27,811	32,538
Other Expenses	39,269	45,373	53,309	62,755
Total Op expenses	60,071	69,142	81,120	95,293
Net Inc (Loss) before prov	74,309	93,031	104,648	120,902
Provision and contingencies	11,430	17,504	17,681	20,173
Net Inc (Loss) before tax	62,879	75,527	86,967	100,729
Provision for Income Tax	20,456	23,733	26,960	31,226
Net Profit	42,422	51,794	60,007	69,503

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Assets				
Cash & Bal with RBI	139,339	204,349	221,902	244,092
Loans, Adv & Int accrued	1,697,595	1,969,660	2,402,985	2,931,641
Investments	956,115	1,163,506	1,273,720	1,451,648
Fixed Assets (Net)	22,593	23,556	25,556	27,556
Other assets	40,635	44,535	51,216	58,898
Total Assets	2,856,278	3,405,606	3,975,379	4,713,846
Liabilities				
Share capital	4,132	4,680	4,703	4,726
Reserves and Surplus	223,953	326,399	376,502	436,052
Hybrid Capital	4,824	9,824	14,824	19,824
Debt	101,260	131,260	171,260	211,260
Borrowing	234,632	298,426	313,348	329,015
Total Deposits	2,207,521	2,529,100	2,986,004	3,588,212
Other liab incld prov	79,954	105,911	108,738	124,756
Total Liabilities	2,856,278	3,405,601	3,975,379	4,713,846

Source: Company, PhillipCapital India Research

Valuation Ratios

	FY12	FY13	FY14E	FY15E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	35.9	33.5	29.7	29.8
RoAE (%)	20.5	18.7	17.0	17.1
Pre-provision Operating ROA (%)	2.8	3.0	2.8	2.8
RoAB (%)	1.6	1.7	1.7	1.6
EPS (Rs.)	102.7	110.7	127.6	147.1
Dividend per share (Rs.)	16.0	18.0	20.0	22.0
Book Value (Rs.)	552.0	707.5	810.6	932.6
Adj BV (Rs.)	544.3	697.0	795.9	912.1

Revenue Analysis

Interest income on IBA (%)	8.5	8.9	8.6	8.5
Interest cost on IBL (%)	5.9	6.4	6.1	6.0
NIM on IBA / AWF (%)	3.1	3.2	3.1	3.1
Core fee Inc / AWF (%)	1.8	1.8	1.8	1.7
Portfolio gains / Total Inc (%)	2.8	4.9	3.9	3.1
Op.Exp / TI (%)	45.9	44.7	45.4	45.4
Op.Exp / AWF (%)	2.3	2.3	2.2	2.2
Employee exps / Op exps (%)	34.6	34.4	34.3	34.1
Tax / Pre-tax earnings (%)	32.5	31.4	31.0	31.0

Asset Quality

GNPAs / Gr Adv (%)	1.1	1.2	1.4	1.6
NNPAs / Net Adv (%)	0.3	0.4	0.4	0.5

Growth Ratio

Loans (%)	19.2	16.0	22.0	22.0
Investments (%)	29.7	21.7	9.5	14.0
Deposits (%)	16.4	14.6	18.1	20.2
Networth (%)	20.1	45.2	15.1	15.6
Net Int Income (%)	22.2	20.6	16.4	19.0
Non-fund based income (%)	18.4	14.6	14.3	14.4
Non-Int Exp (%)	25.7	15.1	17.3	17.5
Profit Before Tax (%)	22.4	20.1	15.1	15.8
Net profit (%)	25.2	22.1	15.9	15.8

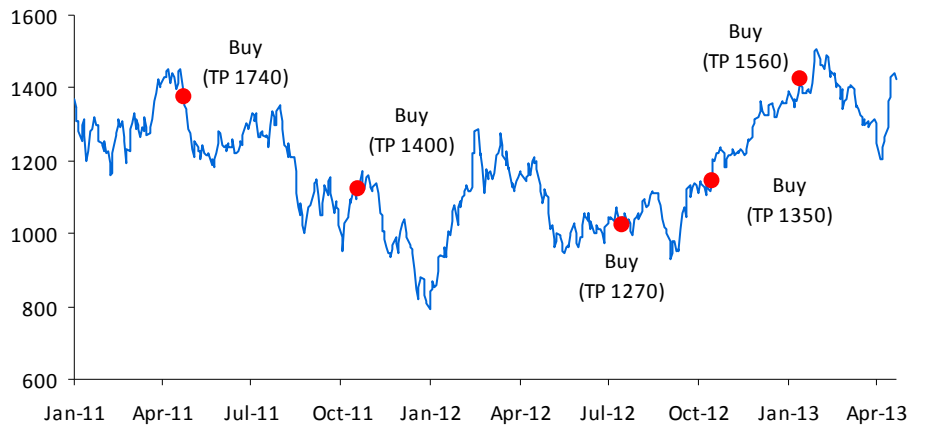
Asset / Liability Profile

Avg CASA/ Deposits (%)	41.2	43.0	43.8	43.2
Avg Adv / Avg Dep (%)	75.2	76.5	78.2	79.9
Avg Invst / Avg Dep (%)	41.3	44.7	44.2	41.5
Incr Adv / Deposits (%)	87.9	84.6	94.8	87.8
Avg Cash / Avg Dep (%)	8.6	7.3	7.7	7.1

Capital Adequacy Ratio:

Tier I (%)	13.7	17.0	16.5	16.4
Tier I (%)	9.5	12.2	12.2	11.9
Internal Capital Generation rate (%)	18.8	19.2	15.6	16.0
NNPAs to Equity (%)	2.0	2.1	2.6	3.1

Recommendation Chart



Source: PhillipCapital India Research

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
Sajid Khalid (Head – Institutional Equities)	(91 22) 6667 9972
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles, Auto Parts & IT Services

Deepak Jain	(9122) 6667 9758
Neha Garg	(9122) 6667 9996
Varun Vijayan	(9122) 6667 9992

Banks and NBFCs

Manish Agarwalla	(9122) 6667 9962
Sachit Motwani, FRM	(9122) 6667 9953

Consumer, Media & Telecom

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Ennette Fernandes	(9122) 6667 9764
Vivekanand Subbaraman	(9122) 6667 9766

Cement

Vaibhav Agarwal	(9122) 6667 9967
-----------------	------------------

Economist

Anjali Verma	(9122) 6667 9969
--------------	------------------

Engineering, Capital Goods

Ankur Sharma	(9122) 6667 9759
Jishar Thoombath	(9122) 6667 9986

Metals

Dhawal Doshi	(9122) 6667 9769
Dharmesh Shah	(9122) 6667 9974

Infrastructure

Vibhor Singhal	(9122) 6667 9949
Raheel Arathodi	(9122) 6667 9768

Oil & Gas / Fertilizes

Gauri Anand	(9122) 6667 9943
Saurabh Rathi	(9122) 6667 9951

Retail & Real Estate

Abhishek Ranganathan, CFA	(9122) 6667 9952
Neha Garg	(9122) 6667 9996

Mid-caps

Kapil Bagaria	(9122) 6667 9965
Raheel Arathodi	(9122) 6667 9768

Technicals & Quant Analyst

Neppolian Pillai	(9122) 6667 9989
Shikha Khurana	(9122) 6667 9948

Sr. Manager – Equities Support

Rosie Ferns	(9122) 6667 9971
-------------	------------------

Sales & Distribution

Kinshuk Tiwari	(9122) 6667 9946	Sunil Kamath (Sales Trader)	(9122) 6667 9747	Mayur Shah (Execution)	(9122) 6667 9945
Pawan Kakumanu	(9122) 6667 9934	Rajesh Ashar (Sales Trader)	(9122) 6667 9746	Gurudatt Uchil (Execution)	(9122) 6667 9750
Shubhangi Agrawal	(9122) 6667 9964				
Dipesh Sohani	(9122) 6667 9756				

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 37, 530 Collins Street
Melbourne, Victoria 3000, Australia
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309
www.phillipcapital.com.au

INDIA

PhillipCapital (India) Private Limited

No. 1, C-Block, 2nd Floor, Modern Center, Jacob Circle, K. K. Marg, Mahalaxmi Mumbai 400011
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 550 Yan An East Road, Ocean Tower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

Disclosures and Disclaimers

PhillipCapital (India) Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equity Derivatives and Private Client Group. This report has been prepared by Institutional Equities Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of PhillipCapital (India) Pvt. Ltd.

This report is issued by PhillipCapital (India) Pvt. Ltd. which is regulated by SEBI. PhillipCapital (India) Pvt. Ltd. is a subsidiary of Phillip (Mauritius) Pvt. Ltd. References to "PCIPL" in this report shall mean PhillipCapital (India) Pvt. Ltd unless otherwise stated. This report is prepared and distributed by PCIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by PCIPL to be valid when published. The report also contains information provided to PCIPL by third parties. The source of such information will usually be disclosed in the report. Whilst PCIPL has taken all reasonable steps to ensure that this information is correct, PCIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and PCIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in this research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. PhillipCapital (India) Pvt. Ltd. or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: PhillipCapital (India) Pvt. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and PhillipCapital (India) Pvt. Ltd does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. PhillipCapital (India) Pvt. Ltd is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. PhillipCapital (India) Pvt. Ltd does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that PCIPL and the research analyst believe to be reliable, but neither PCIPL nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, PCIPL is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to PCIPL. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the PCIPL's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

PhillipCapital (India) Pvt. Ltd.

2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai - 400011