

AXIS BANK LTD
BUY

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Last report at Rs.552 on 30 April 2015

Current Market Price (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
564	670	18.8%	655 / 350	1336974

INVESTMENT ARGUMENT

- Top class liability franchises in the industry on back of:
 - Strategy to expand its network in hinterland, where competition is relatively lower.
 - Better customer segmentation strategy, which helps in developing customized products.
 - Focus on transactional banking which helps in getting higher floats as well as generates consistent fee-based income
- Consistently delivering superior NIM on back of funding advantages. It also has favorable ALM profile - 47% of deposits have < 1 Yr maturity, while 17% of advances would be re-priced within one year (FY14), which is likely to support margins in the falling interest rate environment.
- Diversified fee-based income - share of fee-based income to total income has been consistently in the range of 35-37%, healthy in our view.
- Its asset quality has been holding well contrary to street expectations. GNPA & NNPA at 1.34% and 0.44% (Q4FY15). In recent times, incremental stress build-up (slippages + restructuring) has also remained well within the management's guidance. Its PCR is also healthy at ~78% (Q4FY15).

RISKS & CONCERN

- High exposure to non-operational power portfolio (~50% of assets are operating in nature)
- Retail book stands at ~40% of total book, highly vulnerable to system-wide deterioration in retail asset quality.
- Deregulation of interest rates on saving deposits (~27% of deposits) might increase the funding costs and in turn impacting its NIM.

COMPANY BACKGROUND

- Third largest private sector banks with 2589 branches and 12355 ATMs (Q4FY15).

SECTOR BACKGROUND

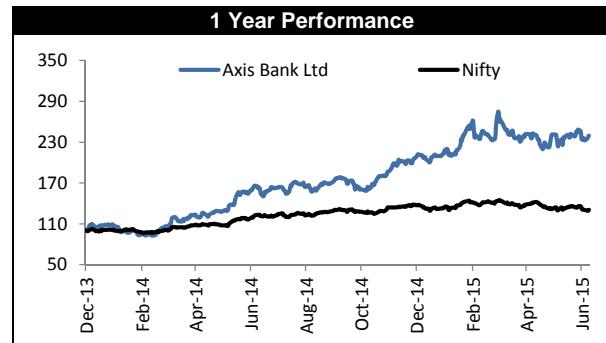
- Easing bond yield is positive for wholesale funded entities and is likely to result into higher trading gains for banks.
- Return ratios to improve with improvement in asset quality as well as revival in fee-based income.
- Retail segment continues to drive loan growth. Prefer private sector banks and remain cautious on PSU banks.

FINANCIALS (RS MN)	2015	2016E	2017E
Interest income	355	416	493
Interest expense	212.5	248.8	299.1
Net interest income	142	167	194
Growth (%)	19.0%	17.4%	16.0%
Other income	84	94	109
Gross profit	134	155	182
Net profit	73.6	86.6	101.8
Growth (%)	18.3%	17.7%	17.5%
Gross NPA (%)	1.5	1.5	1.5
Net NPA (%)	0.5	0.5	0.5
Net interest margin (%)	3.9	3.8	3.7
CAR (%)	15.1	14.6	13.4
RoE (%)	18.1	18.9	19.7
RoAA (%)	1.8	1.8	1.8
Dividend per share (Rs)	4.6	4.8	5.0
EPS (Rs)	31.3	36.9	43.3
Adjusted BVPS (Rs)	177.8	199.1	222.4

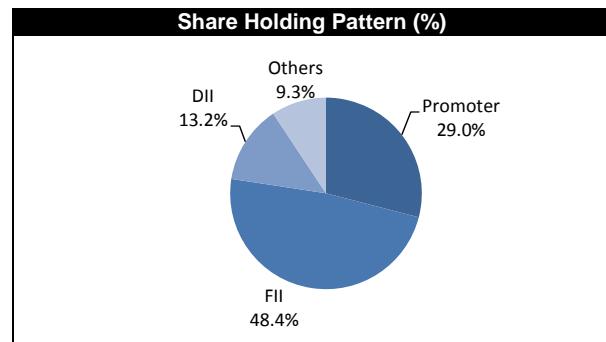
VALUATION PARAMETERS	2015	2016E	2017E
P/E (x)	18.0	15.3	13.0
P/BV (x)	3.2	2.8	2.5

PRICE PERFORMANCE (%)	1M	3M	6M
	4.3	(3.7)	15.3

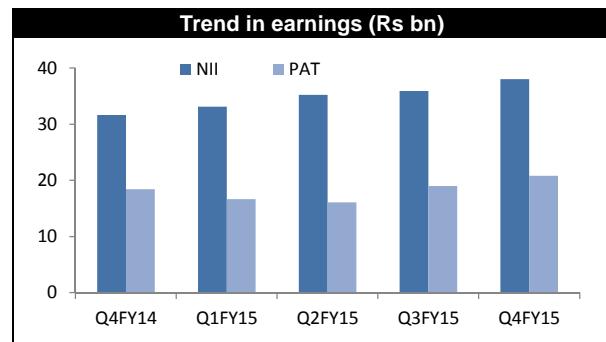
Source: Bloomberg, Company, Kotak Securities - Private Client Research



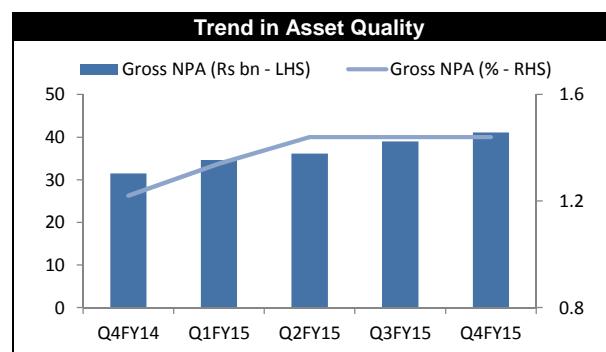
Source: Bloomberg



Source: Bloomberg



Source: Company, Kotak Securities - Private Client Research



Source: Company

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