

AXIS BANK



Market Price: Rs. 1530.15 (as of 07/05/2014)

52 Week Low/High: 763.40/1554.80

Target Price : Rs. 2000

Industry Overview

India is one of the top 10 economies globally, with vast potential for the banking sector to grow. The last decade witnessed a tremendous upsurge in transactions through ATMs, and Internet and mobile banking. In 2014, the country's Rs 81 trillion (US\$ 1.34 trillion) banking industry is set for a greater change. The revenue of Indian banks increased four-fold from US\$ 11.8 billion to US\$ 46.9 billion during the period 2001–2010. In the same period, the profit after tax increased from US\$ 1.4 billion to US\$ 12 billion. Credit to housing sector grew at a compound annual growth rate (CAGR) of 11.1 per cent during the period FY 2008–13. Infrastructure Development Finance Company (IDFC) and Bandhan Financial Services Pvt. Ltd have been chosen among a field of 25 banks by the RBI to set up banks. 'In-principle' approval has been given to the banks, which are both non-banking finance companies. The Cabinet Committee on Economic Affairs (CCEA) has given the green signal to a proposal to increase foreign holding in Axis Bank from 49 per cent to 62 per cent. The move could bring in overseas investment of nearly Rs 7,250 crore (US\$ 1.20 billion) into the country. India's banking sector has the potential to become the fifth largest banking sector globally by 2020 and the third largest by 2025. The industry has witnessed discernable development, with deposits growing at a CAGR of 21.2 per cent (in terms of INR) in the period FY 06–13; in FY 13 total deposits stood at US\$ 1,274.3 billion.

Company Overview

Axis Bank's advances growth in the past decade has consistently been ahead of the industry. In the past eight years, the increase has been at 34% CAGR compared to 19% CAGR for the industry. This was due to a sustained increase in branch network (>25% CAGR increase in branches in past decade) and the bank's strong corporate relationships. It must be noted that in the last few years the difference between the bank and industry's growth have reduced. It is currently 200 bps, which we believe would stay for the next couple of years. Until FY12, the bank's loan book was largely skewed towards the corporate segment. However, later it shifted its focus towards the retail & SME segment owing to lack of quality growth opportunities in the corporate segment. Since then, the retail loans proportion has increased sharply to 32% as on FY14 from 22% in FY12. We expect 16% CAGR in advances over FY14-16E to 309578 Crore. We believe with adequate CAR of 16% and a strong branch network, the growth can be higher than expected if the economy revives. Net interest margin of the bank expanded sequentially to 3.89 percent from 3.71 percent during January-March quarter. Asset quality improved sequentially. Gross non-performing assets (NPA) declined marginally (up 16 basis points year-on-year) to 1.22 percent while net NPA stood at 0.40 percent as against 0.42 percent quarter-on-quarter and 0.32 percent year-on-year.

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Key Ratio's

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	Mar'15(e)	Mar'14	Mar'13
P/E	10.2	11.6	13.9
P/ABV	1.7	1.9	2.2
EPS	129	132	121
ROA	1.7	1.7	1.7
ROE	18.5	17.4	17.2

Peer Comparison

Name	Market Cap. (Rs. Cr.)	Net Interest Income	Net Profit	Total Assets	P/E	D/E	EPS	Market Cap/ Sales Turnover
HDFC Bank	172,202.27	41,135.54	8,478.40	400,331.90	20.31	619.88	35.31	4.11
ICICI Bank	144,729.78	44,178.15	9,810.48	536,794.69	14.72	8.66	84.92	2.98
Axis Bank	71,969.19	30,641.16	6,217.67	340,560.66	11.58	633.75	132.11	2.12
Kotak Mahindra	61,774.40	8,767.12	1,502.52	83,693.68	40.47	191.37	19.88	6.73
IndusInd Bank	25,126.05	8,253.53	1,408.02	73,306.52	17.79	121.59	26.76	3.00

Conclusion: Buy with target price of Rs. 2000

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