Financial analysis of axis bank

Finance, Financial Analysis

CORPORATE FINANCE END TERM PROJECT

Overview of Indian Banking Industry Types of Commercial Bank Public Sector Bank In the case of Public Sector banks the major shareholders is the Government of India. For example State Bank of India, Punjab National Bank, Bank of India, etc. Private Sector Bank In the case of Private Sector Banks the major Shareholders are Private Individuals. For example ICICI Bank, Axis Bank, HDFC Bank, etc. Foreign Bank In the case of Foreign Bank the major Shareholders are the foreign entities. For example Standard Chartered Bank, Citi Bank, HSBC, etc. Regional Rural Banks In the case of Regional Banks the major shareholders are Central Government, Concerned State Government, and Sponsor Bank in the ratio.

For example Andhra Pradesh Grameena Vikas Bank etc. Overview of ICICI Bank ICICI (Industrial Credit and Investment Corporation of India) Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management. ICICI bank is the 2nd largest bank in India by assets and 3rd largest by market capitalization. Overview of Axis Bank Axis Bank has begun its operations in 1994 after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies, i. e. National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd., and United India

Insurance Company Ltd. Overview of HDFC Bank HDFC (Housing DevelopmentFinanceCorporation Limited) bank was amongst the first to receive an approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. HDFC Bank is the fifth-largest bank in India by assets and the second-largest bank by market capitalization as of March 31, 2012.

Stock Analysis

Bankex (Index tracking the performance of leading banking sector stocks) has grown at a compounded annual rate of about 31%. India's gross domestic product (GDP) growth will make the Indian banking industry the third largest in the world by 2025. In the coming years with the size of its asset poised to touch USD 28, 500 billion by the turn of 2025 from the current asset size of USD 1, 350 billion. Return;

Risk Analysis Calculations:

1. The daily stock prices for the 3 banks for the duration of 5 years are taken from Nifty.
2. For the daily stock prices of the market, we took the figures for 5 years of Nifty Bank.
3. The formula for Daily Return Current Stock Price-Previous Stock PricePrevious Stock Prices
4. Average Daily Return is calculated by taking the average of Daily Returns.
5. The formula for Annualized Daily Return (1+Average Daily Return)249 – 1

6. The formula for Beta Covariance(Market, XYZ Bank)Standard DeviationMarket*Standard Deviation(XYZ Bank)
7. The formula for Annualized Standard Deviation (1+Variance(XYZ))249 – 1
8. The formula for Correlation Covariance(X, Y)Standard DeviationX*Standard Deviation(Y)

Terms: Risk

1. Risk is the chance that an investment's actual return will be different than expected.
2. Risk is usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment.
3. A high standard deviations indicate a high degree of risk.

Return

1. The gain or loss of security in a particular period.
2. The return consists of the income and the capital gains relative to investment.
3. It is usually quoted as a percentage.

Returns Figures Particulars

	ICICI Bank	Axis Bank	HDFC Bank|
Average Daily Return	0. 001	0. 001	0. 00031
Standard Deviation	0. 034	0. 032	0. 03393
Covariance (Nifty Bank, X)	0. 001	0. 001	0. 00048

Standard Deviation (Nifty Bank)	0. 025	0. 025	0. 02454

Cost of Debt Cost of debt is calculated using the formula: cost of debt kd= interest X (1-t)debt 1) Interest is the amount paid by the company as interest on the Debt in the current year. It is taken from the Profit; Loss statement of the company. Debt is long term debt which we have taken from the Balance Sheet of the Company. The tax rate t is the corporate tax rate and is equal to the 33. 9%. Cost of Equity The Cost of Equity in this case has been calculated with the help of Gordan Dividend Model. Cost of Equity ke= Proposed DividendMarket Price per Share*Number Of Shares+Dividend Growth Rate Cost of Debt; Equity Figures.

- Rs. 8, 50, 44, 350. 00
- Rs. 1, 79, 32, 646. 00
- Rs. 2, 29, 99, 060. 00
- Rs. 1, 40, 16, 49, 073. 00
- Rs. 34, 07, 16, 721. 00
- Rs. 23, 84, 65, 086. 00

Corporate Tax Rate	30. 00%	30. 00%	30. 00%
Cost of Debt (kd)	4. 25%	3. 68%	6. 75%
Equity Capital	Rs. 1, 15, 27,	Rs. 41, 32, 039.	Rs. 46, 93, 377.

	683. 00	00	00

Weighted Average Cost of Capital Calculations Comparative Analysis Leverages The leverage analysis consists of

1. Operational Leverage defined by the Degree of Operational Leverage.
2. Financial Leverage defined by the Degree of Financial Leverage.
3. Total leverage defined by the Degree of Combined Leverage. Operational Leverage (DOL) = % change in EBIT % change in Sales Financial Leverage (DFL) =% change in EPS% change in EBIT Total Leverage (DCL) = % change in EPS% change in Sales = DOL* DFL Leverage Figures Graphical Representation for Leverages P/E Ratio Analysis P/E ratio is calculated using the formula: P/E RATIO= Current market price of share EPS

P/E Ratio Figures Dividend Policy Analysis Dividends paid by a firm are measured using one of two measures.

1. Dividend Yield: Which relates the dividend paid to the price of the stock. Dividend Yield= Annual Dividend per Share Market Value per Share
2. Dividend Payout Ratio: Relates dividend paid to the earning of the Firms. Dividend Payout Ratio= Dividend Distributed Total Earnings Dividend Yield and Dividend Payout Ratio

- Rs. 19, 013, 434
- Rs. 6, 697, 611
- Rs. 7, 695, 463

Number of shares	13, 565, 154	413, 203, 952	2, 336, 7
Dividend per share	1. 402	0. 016	3. 293
Intrinsic value per share	890. 2	1146. 2	519. 85

Conclusions and Inference Return As one can see from the above chart, Axis Bank offers the highest returns per annum at 33%, followed up by ICICI and HDFC Bank at 16% and 8% respectively. It can be safely concluded that Axis Bank is the best option to invest in. Let us now have a look at the Risk analysis before we go any further. Risk The following chart depicts the Risk witnessed by each of the Banks. As one will notice, each of the three Banks i. e. ICICI, Axis and HDFC Bank belong to the same risk class. The risk of ICICI and HDFC Bank is equal at 58%, while that of Axis Bank is a little lower at 54%. There is not much to choose between the Banks when it boils down to Risk. Choice-based upon Risk and Return Based upon Risk and Return Assessment Axis Bank stands out to be a clear choice. On one hand, it offers returns that are twice that of ICICI Bank and four times in comparison to HDFC Bank, on the other hand, its risk is marginally lower than that of the other two Banks, which makes AXIS Bank be the standout choice.

Cost of Capital The Cost of Capital of each Bank is depicted in the following chart: As one can see from the above chart The total cost of Capital for ICICI Bank averages out to be 8. 42%, Whereas Axis Bank, has a WACC of 8. 15 % and HDFC bank has its cost of capital in excess of 20%. HDFC Bank needs to substitute its Equity and reserves with more Debt if it wants to lower down its WACC. The cost of Capital for HDFC Bank is high primarily owing to its huge Cost of Equity which is more than 30%. It needs to substitute more of debt in its Capital Structure if it wants to reduce its hurdle rate. Choice Based on Cost of Capital If one is viewing the affairs of the company based on the Cost of Capital, HDFC gets eliminated without any second thought. It needs to bring down its Cost of Capital if it wants to sustain it in the long run. While on the other hand there is not much to choose between ICICI and Axis Bank, as both of them have almost the same hurdle rate close to 8%. PE Ratio Analysis The PE Ratio of ICICI and Axis Bank is very much comparable. ICICI Bank has a PE ratio of around 15, whereas, the same for Axis Bank Hovers around at 11.

One can easily draw a conclusion that investors are willing to pay more for ICICI Bank and also expect a higher growth rate in its earnings in the future. The following chart depicts the comparative analysis of ICICI Bank along with HDFC Bank and ICICI Bank. It can be clearly seen that the PE ratio of ICICI Bank and Axis Bank are Comparable. But, the PE Ratio of HDFC exceeds 120. One can safely draw a conclusion that the Market Price of HDFC Bank is highly overpriced compared with the Industry average and one can expect a downfall in its share prices in the near future because such a high level of PE Ratio cannot be sustained in the long run. Leverage The Position of Leverages for each of the Banks depicts the same story. The following chart will substantiate it: Each of the Banks has operating leverage lower than 1, which implies that EBIT is not increasing in the same proportion as the sales of these Banks. Even the degree of financial leverage and the degree of combined leverage of each of these three Banks is comparable and there is not much to choose from when it comes to leverages. Dividend Policy When it comes to total dividend Paid by the Bank, ICICI Bank exceeds the two other Banks with quite a margin.

The following chart depicts the situation more comprehensively: As one can see from the Chart ICICI Bank is the clear leader when it comes to the amount of dividend paid, while there is not much to choose between Axis Bank and HDFC Bank. Total Amount of Dividend Paid doesn’t show the true picture as it has not been adjusted for the number of shares. In other words, Dividends per share will show the appropriate picture. The following chart will depict the number of dividends paid by each bank per share. As one can see clearly from the graph above, it is the HDFC Bank which is more liberal while declaring the dividend vis-a-vis ICICI and Axis Bank. HDFC pays dividends in excess of Rs 3 per share. ICICI pays a dividend just exceeding a rupee on a share. While Axis Bank doesn’t even pay 50 paise on a share. From the Investor's point of view who wants a steady flow of Income, HDFC stands out to be the most logical choice of Investment. Such an Investor should obviously resist and desist from investing any amount ofmoneyin AXIS Bank.