

AXIS Bank

Refer to important disclosures at the end of this report

Citi portfolio acquisition to boost retail banking aspirations, RoAs in long run

Axis Bank has announced the acquisition of Citi Bank's (incl subsidiaries) top-notch retail banking portfolio. The purchase should provide a strategic thrust to the bank's retail banking aspirations and otherwise lagging RoAs in the long run as synergy benefits kick in. Following are the key takeaways from the call and our view:

- Axis would acquire consumer banking assets to the tune of Rs502bn, including loans worth Rs274bn (Mortgages: Rs100bn, Cards: Rs89bn, other retail/small banking loans: Rs85bn) and liquid assets of Rs228bn, against the liabilities/deposits of Rs502bn (including 81% CASA), making the transaction NAV neutral. Moreover, Axis will get wealth management, private banking and Insurance distribution businesses. The bank will make an offer to 3,600 Citi Consumer employees to join Axis, which will be essential for a smooth transition and scaling up of the business.
- After the deal, Axis Bank's loan/deposit base will increase by just 4%/7%. However, its CASA ratio will improve by 200bps to 47%, leading to some benefit on CoF, partly offset by a higher savings rate of 3% vs. 2.5% offered by Citi (will help with customer retention). The bank will also get access to a strong and affluent retail customer base for cross-selling, and thus driving in revenue gains (including fees) in the long run.
- On the asset side, Axis will benefit meaningfully by acquiring the high-value card business (higher spends @1.8x; outstanding per card@1.9x of Axis), where the bank has been otherwise lagging behind its close peers. After the deal, the bank's CIF market share will jump to ~15.6% from 12%, while spends market share will rise to 13.1% from 8.5%. The o/s portfolio will increase by 57% to Rs244bn (3rd highest), even surpassing ICICI.
- Axis Bank's CET 1 ratio will fall by 230bps to 13% due to goodwill and higher capital charge on retail assets, but it will still be well above the regulatory requirement. As per management, the bank would look at a capital raise (potentially at better valuations) after the Citi deal is consummated by Q4FY23, subject to regulatory approval.
- The acquired business is valued as of now at USD1.6bn/Rs123bn (all-cash deal but with the protection built in for any business run-off based on current assumptions), lower than the earlier rumored value of USD2-2.5bn. The additional estimated equity requirement will be Rs34.5bn (@13% of RWA) and integration costs of Rs15bn (spread over 2 yrs).
- As per management, the deal value including addl equity requirement (ex-integration cost) of Rs158bn values the purchase at 18.7x normalized CY20 PAT of Rs8.4bn (post normalization of credit cost but not factoring in any synergy benefits). Factoring in the bank's estimated RoE of 21.7% (based on low implied acquisition cost at ~5%) and the NW of Rs39bn, the implied P/BV at 4.1x is not too high for a readily available profitable retail business (RoA@1.6% without synergy benefits). That said, Axis will have to deliver on business retention/upscaling and drive cost/revenue synergies after the acquisition, leading to better RoAs and thus justifying high valuations paid for the acquisition. Currently, we have a Buy rating on Axis with a TP of Rs1,020 (based on 2x Dec'23E ABV + subs value of Rs73).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	4,07,428	4,40,773	4,84,509	5,71,442	6,78,954
Net profit	16,272	65,886	1,29,514	1,75,745	2,27,737
EPS (Rs)	6.0	22.4	42.2	57.3	74.2
ABV (Rs)	306.1	353.3	373.1	435.1	516.2
RoA (%)	0.2	0.7	1.2	1.4	1.6
RoE (%)	2.2	7.1	11.9	14.1	15.6
PE (x)	111.9	30.2	16.0	11.8	9.1
P/ABV	2.2	2.1	1.9	1.6	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 750 as of (March 31, 2022)	Rs 1,020 (■) 12 months
Rating	Upside
BUY (■)	35.9 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	42.2	57.3
Consensus	42.1	55.5
Mean Consensus TP (12M)	Rs 951	

Stock Details

Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,070
52 Week H/L	881 / 621
M Cap (Rs bn/USD bn)	2,304 / 30.35
Daily Avg Volume (nos.)	119,23,950
Daily Avg Turnover (US\$ mn)	115.9

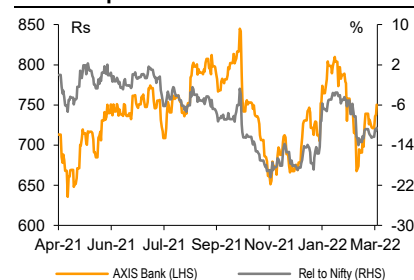
Shareholding Pattern Dec '21

Promoters	9.5%
FIIs	46.4%
DIIIs	29.6%
Public and Others	14.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	12	(2)	8
Rel. to Nifty	(3)	10	(1)	(8)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Story in Charts

Exhibit 1: Pro-forma merged financials and peer comparison

Banks	Axis Bank	Citi Bank	Citi - as % of Axis	Axis Bank (post acquisition)	ICICI	HDFCB	KMB	SBIC	RBL
Liabilities/Deposits (Rs mn)	7,716,702	502,000	7%	8,218,702	10,174,667	14,459,181	3,052,860	NA	736,390
- CA	1,167,120	366,460	31%	1,533,580	1,460,430	2,101,950	570,970	NA	108,249
- SA	2,281,660	40,160	2%	2,321,820	3,346,130	4,710,290	1,258,220	NA	145,069
CASA (Rs mn)	3,448,780	406,620	12%	3,855,400	4,806,560	6,812,240	1,829,190	NA	253,318
CASA %	44.7%	81.0%		46.9%	47.2%	47.1%	59.9%	NA	34.4%
Assets (Rs mn)	11,130,655	502,000	5%	11,632,655	13,541,956	19,382,860	4,181,470	321,060	1,019,040
Loan book (Rs mn)	6,648,656	274,000	4%	6,922,656	8,139,916	12,608,628	2,529,350	291,290	581,410
Retail (Rs mn)	3,674,940	274,000	7%	3,948,940	5,024,200	5,886,112	1,271,120	291,290	247,130
% share	55%	100%		57%	62%	47%	50%	100%	43%
- Card	154,830	89,000	57%	243,830	228,000	733,050	49,480	291,290	131,890
% Share	2%	32%		4%	3%	6%	2%	100%	23%
- Non-Card retail	3,520,110	185,000	5%	3,705,110	4,796,200	5,153,062	1,221,640	0	115,240
- Mortgages	1,743,810	100,000	6%	1,843,810	2,782,670	789,920	688,710		16,510
- PL	390,800	22,200	6%	413,000	569,630	1,333,990	290,280		0
- Others	1,385,500	62,900	5%	1,448,400	1,443,900	3,029,152	242,650		98,730
CIF (mn) - 3Q	8.3	2.5	30%	10.8	12.4	15.8	2.7	13.2	3.5
CIF (mn) - Feb'22	8.6	2.6	30%	11.2	12.8	16.3	3.0	13.5	3.6
CIF Market share (%)	12.0	3.6		15.6	17.8	22.7	4.2	18.9	5.1
Spends (Rs bn) - latest (Annualized)	809	432	53%	1,241	1,934	2,492	247	1,814	427
Spends per card (Rs)	103,496	166,075	160%	119,114	167,079	158,383	91,159	143,585	130,787
Spends - Market Share (%)	9.3	5.0		14.3	22.2	28.6	2.8	20.8	4.9
Card loan o/s per card (Rs) - 3Q	18,654	35,600	191%	22,577	18,456	46,291	18,042	22,133	38,118
CET 1 (%)	15.3			13.0	15.6	17.1	22.4	21.3	15.8

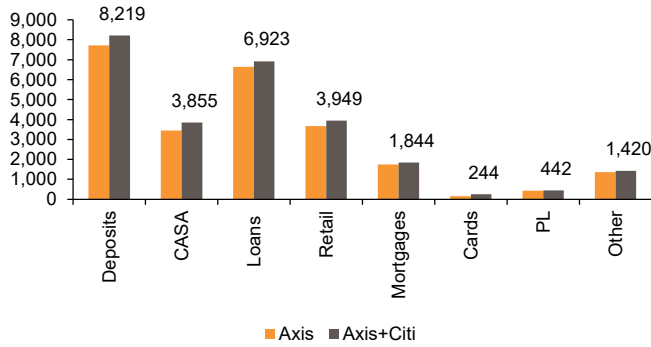
Source: Emkay Research

Exhibit 2: Key strategic rationale for the City Consumer Banking portfolio acquisition

- 
Access to a large, affluent and profitable consumer franchise
 - Aligns well with Axis Bank's Premiumization strategy
- 
Complementary and strengthens our position to a top 3 Credit Card playerTM in India
 - A quality credit card franchise with one of the highest wallet share in premium cards
- 
Access to a sizable granular deposit base with deep corporate salary relationships
 - Auto journey to bridge the gap with peers - CASA of 81% with SA deposits 73%, CASA ratio on a proforma basis of ~ 47%
- 
Natural fit for our strong wealth management franchise to accelerate growth ambitions
 - Well positioned to leverage Burgundy platform to serve affluent Citi customer base - 3rd largest Wealth manager by combined AUM
- 
Experienced leadership and diverse talent pool
 - Access to one of the best banking teams with deep domain expertise to augment Axis Bank's overall bench strength
- 
Significant potential for revenue and cost synergies
 - Revenue upside from cross sell of differentiated products to a larger combined customer base, 30-40% cost synergy

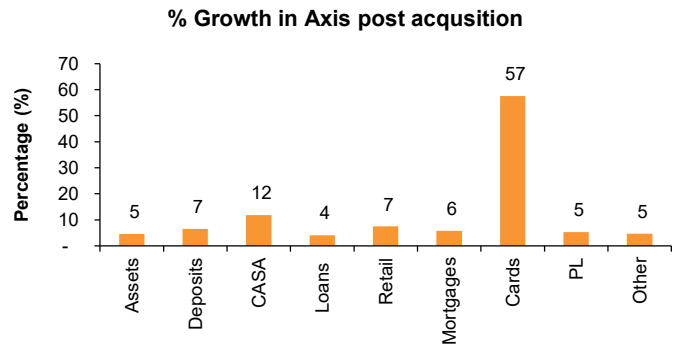
Source: Company, Emkay Research

Exhibit 3: Citi deal will lead to healthy Cards and deposits/CASA accretion



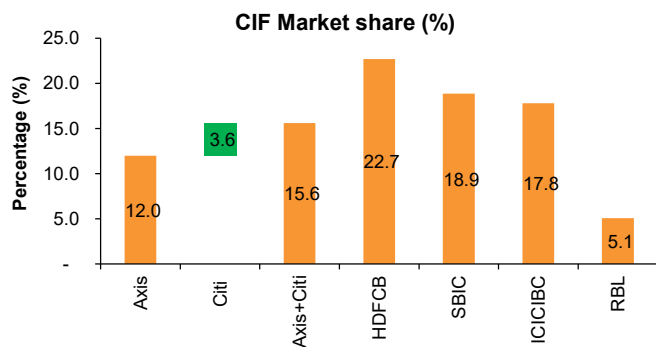
Source: Company, Emkay Research

Exhibit 4: Cards portfolio of Axis increases 57% while CASA increases 7% with the Citi deal



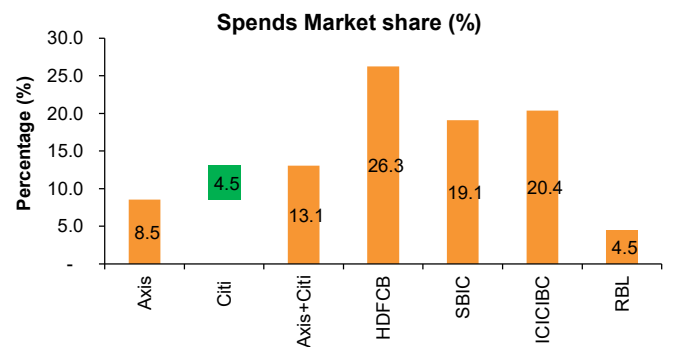
Source: Company, Emkay Research

Exhibit 5: Axis's CIF market share to inch-up closer to ICICI...



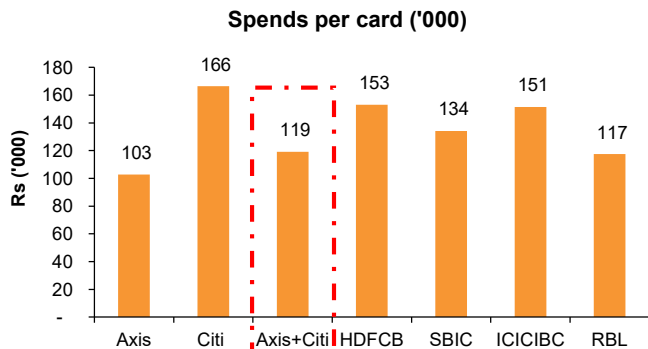
Source: Company, Emkay Research

Exhibit 6: ...while Spends market share to inch-up closer to SBI Cards



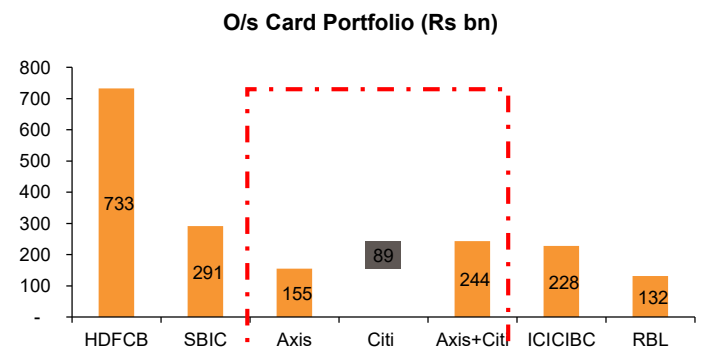
Source: Company, Emkay Research

Exhibit 7: Spends on card to improve meaningfully as Citi spends per card is 1.8x of Axis, leading to better fee income



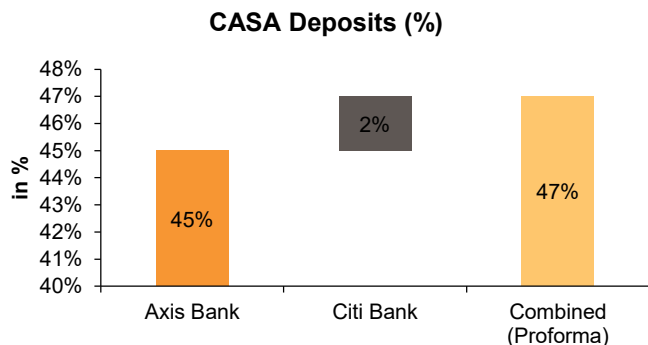
Source: Company, Emkay Research

Exhibit 8: Axis to rank 3rd in terms of card portfolio o/s post Citi deal



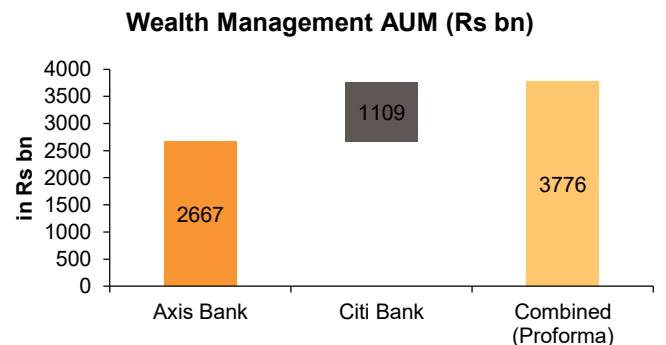
Source: Company, Emkay Research

Exhibit 9: CASA share to inch up by 200bps, but bank will have to pay higher SA rate at 3% v/s Citi's 2.5%



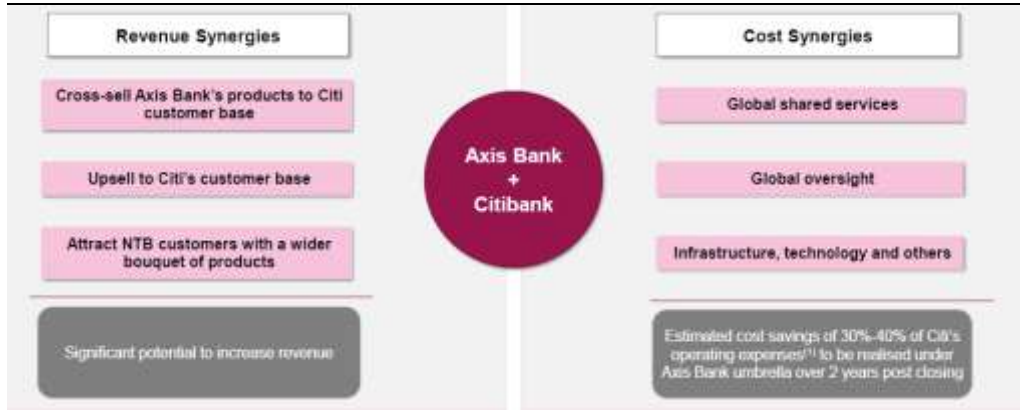
Source: Company, Emkay Research

Exhibit 10: Wealth management to shoot up due to Citi's portfolio acquisition



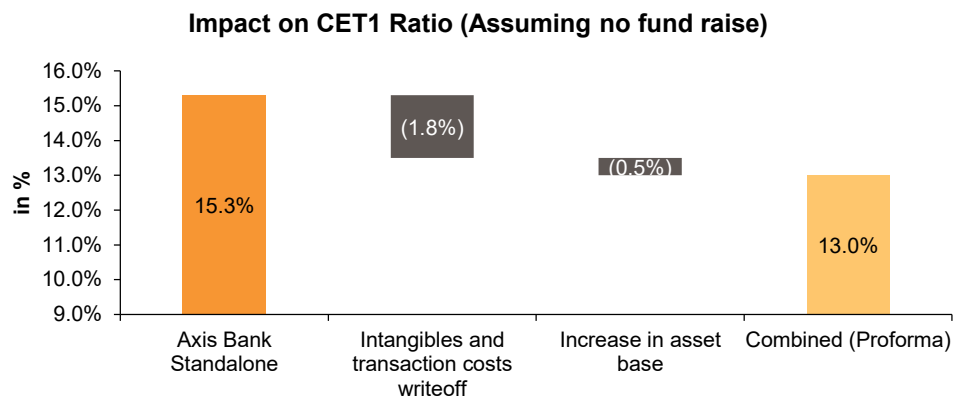
Source: Company, Emkay Research

Exhibit 11: Huge potential for revenue and cost synergies



Source: Company, Emkay Research

Exhibit 12: Bank's CET 1 ratio will slip to 13%, which is a threshold level at which bank would look at re-capitalizing



Source: Company, Emkay Research

Exhibit 13: Pro-forma financials for Citi bank portfolio (CY20) without factoring synergy benefits

Standalone Citi Business proforma financials	Citibank ⁽¹⁾	Standalone Citi Business key ratio's	Citibank ⁽¹⁾
Net Interest Income	2,086	Net Interest Income % ⁽⁶⁾	3.9%
Other Income	1,959	Other Income % ⁽⁶⁾	3.6%
Net Revenue	4,045	Cost to Assets % ⁽⁶⁾	4.3%
Operating Expenses	(2,298) ⁽²⁾	Return Ratios:	
PPOP	1,747	ROA% ⁽⁶⁾	1.6%
PAT <small>(Basis CY20 normalized standalone view)⁽¹⁾</small>	842^(2,3)	ROE % ⁽⁷⁾	21.7%

Source: Company, Emkay Research

Exhibit 14: Comparison of Citi-Axis Deal with similar past deals

	Deal Value (Rs bn)	CIF (Mn)	Card AUM (Rs bn)	Deal value / AUM (x)	Deal Value / No of Cards bought
IIB - Deutsche card	2.2	0.2	2.3	0.97	11,200
Standard chartered - Barclays Cards	1.8	0.2	2.0	0.90	10,588
Citi Axis*	123.4	2.5	89.0	1.39	49,340
Citi Axis (Loan AUM)*	123.4		274.0	0.45	
SBI Cards #	818.8	12.6	267.4	3.06	64,981

Source: Emkay Research, Note: * This is not strictly comparable as the deal also includes liabilities and other business acquisitions, # As per market capitalisation as on 30th March 2022

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	2,52,062	2,92,391	3,31,247	3,90,627	4,63,890
Other income	1,55,366	1,48,382	1,53,262	1,80,815	2,15,064
Fee income	96,919	93,589	1,04,820	1,25,784	1,50,940
Net income	4,07,428	4,40,773	4,84,509	5,71,442	6,78,954
Operating expenses	1,73,046	1,83,751	2,35,852	2,64,166	2,94,685
Pre provision profit	2,34,382	2,57,022	2,48,657	3,07,276	3,84,269
PPP excl treasury	2,12,659	2,33,999	2,31,390	2,90,873	3,67,045
Provisions	1,85,339	1,68,963	75,580	72,418	79,930
Profit before tax	49,042	88,059	1,73,078	2,34,859	3,04,340
Tax	32,770	22,173	43,564	59,114	76,602
Tax rate	67	25	25	25	25
Profit after tax	16,272	65,886	1,29,514	1,75,745	2,27,737

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,643	6,128	6,135	6,135	6,135
Reserves	8,43,835	10,09,903	11,47,254	13,30,123	15,68,780
Net worth	8,49,478	10,16,030	11,53,389	13,36,258	15,74,915
Deposits	64,01,049	69,79,850	80,49,107	93,13,788	111,50,106
Borrowings	12,01,238	11,83,832	14,20,598	14,91,628	15,66,209
Total liabilities	91,51,648	98,67,975	114,28,497	132,90,644	158,75,774
Cash and bank	9,72,683	6,17,298	7,80,107	8,32,585	9,77,011
Investments	15,67,343	22,61,196	26,18,404	28,63,700	32,90,754
Loans	57,14,242	61,43,994	70,39,315	83,35,886	100,35,169
Others	8,54,252	8,03,037	9,47,296	12,15,984	15,25,866
Total assets	91,51,648	98,67,975	114,28,497	132,90,644	158,75,774

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.3	3.4	3.4	3.5	3.5
Non-ll/avg assets	1.8	1.6	1.4	1.5	1.5
Fee income/avg assets	1.1	1.0	1.0	1.0	1.0
Opex/avg assets	2.0	1.9	2.2	2.1	2.0
Provisions/avg assets	2.2	1.8	0.7	0.6	0.5
PBT/avg assets	0.6	0.9	1.6	1.9	2.1
Tax/avg assets	0.4	0.2	0.4	0.5	0.5
RoA	0.2	0.7	1.2	1.4	1.6
RoAE	2.2	7.1	11.9	14.1	15.6
GNPA (%)	4.5	3.6	3.0	2.5	2.1
NNPA (%)	1.6	1.0	0.9	0.8	0.6

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.0	22.4	42.2	57.3	74.2
BVPS	315.0	345.3	376.2	435.6	513.4
ABVPS	306.1	353.3	373.1	435.1	516.2
DPS	0.2	0.0	8.0	12.0	15.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	111.9	30.2	16.0	11.8	9.1
P/BV	2.1	2.0	1.8	1.6	1.3
P/ABV	2.2	2.1	1.9	1.6	1.4
P/PPOP	9.0	8.9	9.2	7.4	5.9
Dividend Yield (%)	0.0	0.0	1.1	1.6	2.0

Source: Company, Emkay Research

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Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.1	16.0	13.3	17.9	18.8
PPOP	23.3	9.7	(3.3)	23.6	25.1
PAT	(65.2)	304.9	96.6	35.7	29.6
Loans	15.5	7.5	14.6	18.4	20.4

Quarterly (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
NII	73,728	75,549	77,603	79,002	86,525
NIM(%)	3.6	3.6	3.5	3.4	3.5
PPOP	60,955	68,646	61,863	59,281	61,615
PAT	11,166	26,771	21,602	31,332	36,142
EPS (Rs)	3.65	8.74	7.05	10.22	11.79

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	13.6	13.3	11.4	11.4	9.5
FIIIs	49.8	50.2	51.2	50.1	46.4
DIIIs	23.0	22.7	23.7	24.7	29.6
Public and Others	13.7	13.9	13.8	13.8	14.6

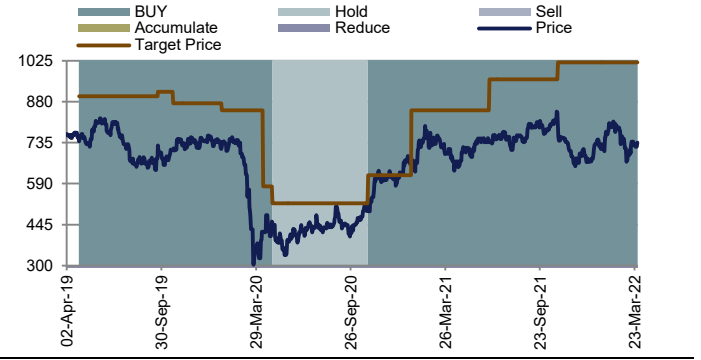
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Jan-22	752	1,020	12m	Buy	Anand Dama
27-Oct-21	788	1,020	12m	Buy	Anand Dama
27-Jul-21	732	960	12m	Buy	Anand Dama
18-Jun-21	736	960	12m	Buy	Anand Dama
28-Apr-21	708	850	12m	Buy	Anand Dama
28-Jan-21	671	850	12m	Buy	Anand Dama
20-Jan-21	676	850	12m	Buy	Anand Dama
29-Oct-20	494	620	12m	Buy	Anand Dama
22-Jul-20	479	520	12m	Hold	Anand Dama
29-Apr-20	439	520	12m	Hold	Anand Dama
11-Apr-20	420	580	12m	Buy	Anand Dama
23-Jan-20	723	850	12m	Buy	Anand Dama
22-Oct-19	713	875	12m	Buy	Anand Dama
09-Oct-19	686	915	12m	Buy	Anand Dama
23-Sep-19	726	915	12m	Buy	Anand Dama
31-Jul-19	674	900	12m	Buy	Anand Dama
25-Apr-19	740	900	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.11	19.11	0.0%	0	100.00	
Axis Bank	2.00	2.10	5%	11	11.01	0
AU Small Finance Bank	0.27	0.23	-17%	-5	1.18	0
Bandhan Bank	0.20	0.10	-48%	-9	0.54	0
Bank of Baroda	0.21	0.25	22%	5	1.32	0
Canara Bank	0.13	0.10	-21%	-3	0.52	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.19	0.27	39%	8	1.40	0
HDFC Bank	6.31	6.40	1%	9	33.50	0
ICICI Bank	4.93	5.05	2%	12	26.42	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.56	0.56	0%	0	2.91	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.25	2.05	-9%	-20	10.71	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.88	2.00	6%	12	10.48	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	30-Mar-21	29-Sep-21	29-Dec-21	28-Feb-22	29-Mar-22
EAP - BFSI-Banks	100.0	116.3	129.5	120.9	124.1	123.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	114.0	126.8	118.4	121.7	120.6

*Performance measurement base date 1st April 2019

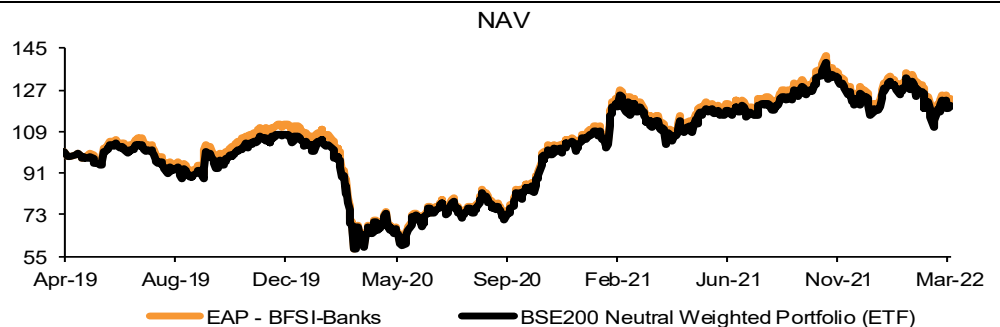
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-0.8%	1.8%	-4.9%	5.9%
BSE200 Neutral Weighted Portfolio (ETF)	-0.9%	1.8%	-4.9%	5.7%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)
Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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