

# Axis Bank

## Citibank consumer business calls for upping the game

Axis Bank announced the acquisition of Citibank's cards, consumer lending, and wealth businesses in a transaction that is likely to be closed over the next 9-12 months. At an acquisition cost of US\$1.6bn, while the deal appears to be a bargain for Axis Bank, the value accretion from Citi's portfolio over the medium term is contingent on a host of factors including retention of existing customers, Axis Bank's ability to continually add customers of such profile and its ability to up-sell and cross-sell. Although the Citibank transaction adds significant heft to Axis Bank's competitive positioning across cards and wealth management businesses, we believe that Axis Bank will need to up its game in order to create sustainable value from the Citibank portfolio.

- **Superior customer profile to complement existing portfolio:** The Citibank cards portfolio adds a superior customer base with higher unit spends and unit receivables, addressing a key handicap in Axis Bank's portfolio. Axis Bank's CC franchise has historically been inferior compared to peers with higher share of self-employed, and Tier II/III cities.
- **Adding heft to liabilities and wealth management business:** Citibank's wealth management and Private banking portfolio, along with its lucrative deposit base (1.2mn customers, 81% CASA) are also part of the deal. These portfolios complement Axis Bank's ongoing build-out of its private wealth business (Burgundy) aside from improving its low-cost franchise.
- **Valuations a definite bargain; near-term equity raise in the offing:** Our back-of-the-envelope SoTP analysis, based on valuation benchmarks for each individual business (credit cards, wealth business and other lending), suggests an attractive acquisition cost. However, the all-in integration cost is likely to drag CET1 by ~230bps, with CET1 likely to drift closer to 13%.
- **Proof of the pudding:** We believe the key challenge for Axis Bank post the transaction would be the retention of Citi's existing customer base as well as organically adding customers with similar profile. This is likely to entail several operational changes such as revamp of customer services, better tech integration etc. - more importantly, this calls for an overhaul in management approach and whether Axis Bank can emerge as a natural banker-of-choice for this superior customer profile. In this context, we believe that the retention of the existing Citibank relationship managers is especially crucial.
- **Wait and watch on synergies; maintain BUY:** Especially given the distinct and superior customer profile that gets added through this transaction, we believe that synergies are likely to be back-ended and are conditional on significant frontloading of investments. At CMP, Axis Bank provides good margin of safety; we maintain BUY with TP of INR950.

### Financial summary

(INR bn)	FY20	FY21	FY22E	FY23E	FY24E
NII	252.1	292.4	333.5	396.2	466.5
PPOP	234.4	257.0	256.6	332.8	399.7
PAT	16.3	65.9	126.3	177.7	212.5
EPS (INR)	5.8	21.5	41.2	58.0	69.4
ROAE (%)	2.1	7.1	11.7	14.6	15.3
ROAA (%)	0.2	0.7	1.2	1.5	1.5
ABVPS (INR)	261.5	302.6	340.9	392.9	449.0
P/ABV (x)	2.9	2.5	2.2	1.9	1.7
P/E (x)	130.1	34.9	18.2	12.9	10.8

Source: Company, HSIE Research

## BUY

CMP (as on 30 Mar 22)	INR750
Target Price	INR950
NIFTY	17,498

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 950	INR 950
EPS %	FY22E 0%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	3,070
MCap (INR bn) / (\$ mn)	2,304/30,957
6m avg traded value (INR mn)	8,591
52 Week high / low	INR 881/621

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.2	(2.1)	7.9
Relative (%)	10.7	(1.4)	(9.1)

### SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	11.6	9.7
FIs & Local MFs	22.2	28.3
FPIs	55.7	51.7
Public & Others	10.5	10.3
Pledged Shares	0.0	

Source : BSE

Pledged shares as % of total shares

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- Axis Bank goes inorganic route to drive scale:** Axis Bank has announced the acquisition of the consumer assets of Citibank as well as that of its NBFC subsidiary, Citicorp Finance. The portfolio includes a lucrative 2.6mn credit cards franchise, other loan book of INR185bn (mortgages, PL etc.), deposit base of INR502bn and wealth management business with AUM > INR 1trn. The deal consideration is ~US\$ 1.6bn, along with anticipated integration-related expenses of INR15bn and is expected to be consummated by Q4FY23.

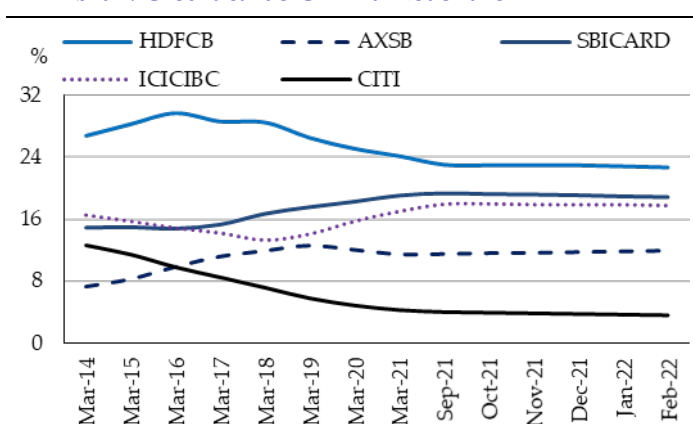
**Exhibit 1: Citibank + Citicorp Finance's assets to be acquired**

Credit Cards	Other lending products	Liability franchise	Wealth Management
<ul style="list-style-type: none"> <li>• 2.6mn Credit cards in force</li> <li>• Receivables: INR 89bn</li> </ul>	<ul style="list-style-type: none"> <li>• Loan book: INR 185bn</li> <li>• Mortgages: 54%; Asset Financing: 28%; Personal loans &amp; Ready credit: 12%; Small Business loans: 6%</li> </ul>	<ul style="list-style-type: none"> <li>• 1.2mn retail customers</li> <li>• Deposits: INR 502bn</li> <li>• CASA ratio: 81% (SA ratio: 73%)</li> </ul>	<ul style="list-style-type: none"> <li>• Wealth management: AUM of INR 820bn (40K+ affluent customers)</li> <li>• Private Banking: AUM of INR 289bn</li> </ul>

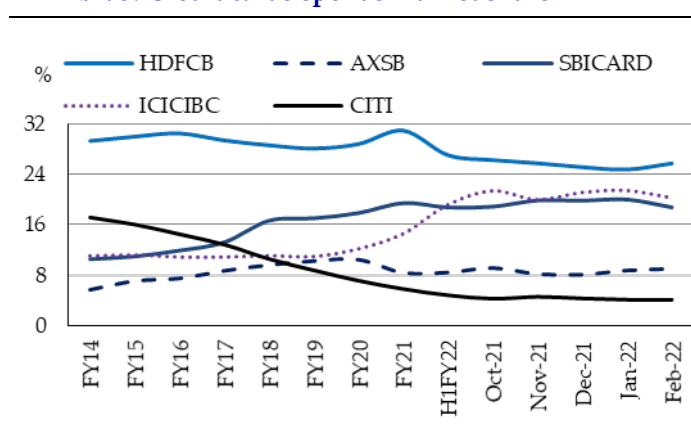
Source: Company, HSIE Research

- Credit cards - the most lucrative part of the deal:** The key highlight of the deal is Citibank's credit cards portfolio. While Citibank is no longer the market leader in the credit cards business, the 2.6mn card base boasts of above-industry per-card spends and receivables, offering a superior customer profile that is ripe for up-sell and cross-sell.

With a stagnant market share in CIF and spends, alongside sub-par per-card spends and receivables, Axis Bank's credit cards portfolio has historically been a laggard compared to peers. With > 90% customer being ETB, Axis had focused largely on the Banca channel, leading to lower spends and lower receivables, and hence, relatively lower unit profitability (according to our analysis).

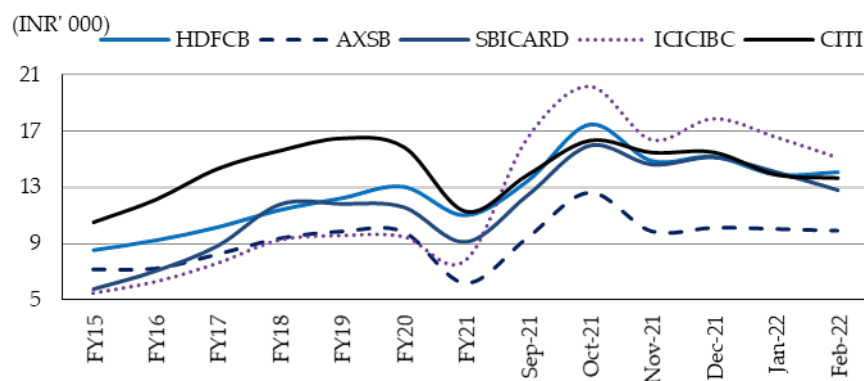
**Exhibit 2: Credit cards CIF market share**


Source: RBI, HSIE Research | Note: HDFC Securities is a subsidiary of HDFC Bank

**Exhibit 3: Credit cards spends market share**


Source: RBI, HSIE Research | Note: HDFC Securities is a subsidiary of HDFC Bank

Exhibit 4: Monthly spends per card



Source: RBI, HSIE Research | Note: HDFC Securities is a subsidiary of HDFC Bank

Exhibit 5: Credit Cards franchise - merged entity at par with peers on key metrics

	Units	Axis Bank	CITI	Merged	ICICIBC	SBICARD	HDFCB
CIF (Feb-22)	mn	8.6	2.6	11.2	12.8	13.5	16.3
Spends (11MFY22)	INR bn	740.1	395.1	1,135.1	1,743.8	1,659.3	2,277.4
Receivables (Dec-21)	INR bn	154.8	89.0	243.8	228.0	279.7	693.1
Spends per card (11MFY22)	INR ' 000	8.5	13.8	9.9	13.6	11.9	13.2
Receivables per card* (Dec-21)	INR ' 000	19.0	34.8	21.9	18.4	21.3	43.8
Receivables/monthly spends	x	2.2	2.5	2.2	1.4	1.8	3.3
<b>Market Share</b>							
CIF (Feb-22)	%	12.0%	3.6%	15.6%	17.8%	18.9%	22.7%
Spends (11MFY22)	%	8.5%	4.6%	13.1%	20.1%	19.1%	26.3%

Source: RBI, Company, HSIE Research | Note: HDFC Securities is a subsidiary of HDFC Bank

- **Liability franchise and wealth management business - further strengthening the existing portfolio:** Citibank's strong liability franchise (CASA ratio at 81%) further strengthens Axis Bank's investments and efforts at improving the deposit granularity and stickiness over the past few years (+200bps impact on CASA ratio). Similarly, acquisition of >INR 1trn of wealth AUM also adds significant heft to Axis Bank's wealth management business (Burgundy), driving economies of scale.
- **High-quality customer franchise addition to be ROE dilutive in the near-term:** Our preliminary valuation of Citibank's acquired assets based on publicly-available disclosures indicates a bargain for Axis Bank. Using peer companies' valuation on three key businesses: a) Credit cards, b) Wealth management and c) Other lending products (including deposits), the derived valuation comes out to be ~30% higher than US\$ 1.6bn.

However, the deal is likely to be ROE dilutive in the near-term based on CY20 pro-forma financials of CitiBank, which were impacted by the pandemic (lower credit card spends etc.).

#### Exhibit 6: SoTP-based valuation indicates bargain for Axis Bank

SoTP	Amount	Valuation (INR bn)	Methodology
Credit Cards	2.6 mn	93	25% discount to SBICARD's EV per card at CMP (20% attrition)
Wealth Management	INR 820 bn	33	4% of AUM (Assuming 100% overlap of private banking AUM with deposits)
Other loans and Deposits	INR 185 bn	33	~20% of loans (10% attrition)
<b>Total</b>		<b>159</b>	
<b>Deal EV</b>		<b>123</b>	
Integration-related expenses		15	
<b>Total EV</b>		<b>138</b>	

Source: Company, Industry, HSIE Research

#### Exhibit 7: ROA profile of Axis Bank and CitiBank's consumer assets

ROA (% of assets)	AXSB	CITI
	FY21	CY20
Net interest income	3.1%	3.9%
Other income	1.6%	3.6%
Total income	4.6%	7.5%
Operating expenses	1.9%	4.3%
PPOP	2.7%	3.2%
Credit costs	1.8%	1.1%
PBT	0.9%	2.1%
PAT	0.7%	1.6%

Source: Company, HSIE Research | Pro-forma ROA tree for CitiBank's consumer assets

- **Uphill task for credit card business:** While the low-hanging benefits would be visible in terms of increased card base, spends and receivables for Axis Bank, we believe that the journey beyond is likely to be less straightforward.

A superior, high-quality customer franchise calls for a different set of systems and processes in terms of user experience, offers, and reward programs. While the Citibank customer base has held firm since its announcement to exit the consumer business in India, customer retention post the transaction would be contingent on Axis Bank's customer value proposition.

More importantly, Axis Bank's ability to organically grow the superior customer franchise with new customer acquisitions of similar profile, driving higher spends etc. would be a key monitorable.

## Peer set comparison

	Mcap (INR bn)	CMP (INR)	Rating	TP	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BANKS																			
AUBANK	375	1,202	REDUCE	1,127	218	251	296	34.6	29.1	24.0	5.5	4.8	4.1	15.9	16.1	16.6	1.9	1.8	1.8
AXSB #	2,297	750	BUY	950	341	393	449	16.8	11.8	9.7	2.0	1.7	1.5	11.7	14.6	15.3	1.2	1.5	1.5
BANDHAN	483	300	BUY	363	96	119	147	343.9	12.1	9.4	3.1	2.5	2.0	0.8	21.0	22.3	0.1	2.9	3.1
CUBK	94	127	BUY	197	72	85	100	12.6	10.3	8.4	1.8	1.5	1.3	12.1	13.0	14.2	1.3	1.4	1.6
DCBB	22	70	ADD	125	106	125	139	7.7	5.0	4.3	0.7	0.6	0.5	7.3	10.3	10.9	0.7	1.0	1.0
FB	204	97	BUY	121	82	92	103	10.6	8.3	6.7	1.2	1.1	0.9	11.0	12.4	13.8	0.9	1.0	1.1
ICICIBC #	5,049	730	BUY	940	217	250	287	18.7	14.9	12.3	2.8	2.4	2.0	14.3	15.2	15.5	1.7	1.8	1.9
IIB	716	926	REDUCE	899	592	669	759	14.7	10.7	9.0	1.6	1.4	1.2	10.7	13.1	13.8	1.3	1.6	1.6
KMB #	3,492	1,762	ADD	2,040	332	371	412	32.6	26.9	21.7	4.0	3.4	2.8	11.9	12.2	12.7	2.0	2.0	2.1
KVB	37	46	ADD	60	74	81	88	6.0	5.0	3.9	0.6	0.6	0.5	8.5	9.6	11.5	0.8	0.9	1.0
RBK	77	129	REDUCE	155	189	204	222	256.9	7.6	5.3	0.7	0.6	0.6	0.2	7.8	10.2	0.0	0.9	1.1
SBIN #	4,409	494	BUY	625	269	309	357	9.8	7.4	5.5	1.3	1.1	0.9	11.9	13.1	14.5	0.7	0.8	0.9
UJJIVANS	26	15	REDUCE	20	14	16	18	(5.5)	5.8	5.5	1.1	0.9	0.8	(15.8)	15.3	14.2	(2.2)	1.8	1.6

Source: Company, HSIE Research | Note: \*CMP as on 30-03-2022, # adjusted for subsidiaries

## Financials

### Income Statement

(INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest earned	457,803	549,858	626,352	636,453	697,967	811,807	941,555
Interest expended	271,626	332,776	374,290	344,062	364,475	415,583	475,007
<b>Net interest income</b>	<b>186,177</b>	<b>217,082</b>	<b>252,062</b>	<b>292,391</b>	<b>333,492</b>	<b>396,224</b>	<b>466,547</b>
Other income	109,671	131,303	155,366	148,382	153,517	176,749	203,288
<i>Treasury income</i>	<i>13,252</i>	<i>7,581</i>	<i>21,723</i>	<i>23,023</i>	<i>14,112</i>	<i>15,610</i>	<i>17,745</i>
<b>Total income</b>	<b>295,848</b>	<b>348,385</b>	<b>407,428</b>	<b>440,773</b>	<b>487,009</b>	<b>572,973</b>	<b>669,836</b>
Operating expenditure	139,903	158,334	173,046	183,751	230,362	240,158	270,185
<b>Pre-provisioning profit</b>	<b>155,945</b>	<b>190,051</b>	<b>234,381</b>	<b>257,022</b>	<b>256,648</b>	<b>332,816</b>	<b>399,651</b>
Non-tax provisions	154,729	120,310	185,339	168,963	87,784	95,284	115,530
<i>NPA provisions</i>	<i>165,987</i>	<i>102,215</i>	<i>127,555</i>	<i>122,048</i>	<i>90,724</i>	<i>98,062</i>	<i>101,615</i>
Profit before tax	1,216	69,741	49,042	88,058	168,864	237,532	284,122
Tax expenditure	-1,541	22,975	32,770	22,174	42,554	59,858	71,599
<b>Profit after tax</b>	<b>2,757</b>	<b>46,766</b>	<b>16,272</b>	<b>65,885</b>	<b>126,310</b>	<b>177,674</b>	<b>212,523</b>

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share capital	5,133	5,143	5,643	6,124	6,124	6,124	6,124
Reserves and surplus	629,320	661,620	843,835	1,009,903	1,129,904	1,292,053	1,479,772
Net worth	634,453	666,763	849,478	1,016,027	1,136,029	1,298,177	1,485,896
<b>Deposits</b>	<b>4,536,227</b>	<b>5,484,713</b>	<b>6,401,049</b>	<b>7,073,061</b>	<b>8,277,420</b>	<b>9,533,588</b>	<b>11,198,118</b>
CASA	2,438,516	2,433,941	2,637,061	3,177,487	3,758,554	4,382,081	5,170,855
Borrowings	1,480,161	1,527,758	1,479,541	1,428,732	1,297,164	1,418,638	1,489,884
Other liabilities and provisions	262,454	330,731	421,579	443,362	532,546	588,985	688,575
<b>Total equity and liabilities</b>	<b>6,913,296</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>9,961,181</b>	<b>11,243,159</b>	<b>12,839,389</b>	<b>14,862,473</b>
Cash and cash equivalents	434,549	672,046	972,683	617,298	598,673	661,760	696,913
Investments	1,538,761	1,749,693	1,567,343	2,261,196	2,442,740	2,760,503	3,154,570
Government securities	1,013,546	1,168,229	1,219,181	1,807,028	1,962,790	2,245,206	2,601,040
<b>Advances</b>	<b>4,396,503</b>	<b>4,947,980</b>	<b>5,714,242</b>	<b>6,237,202</b>	<b>7,176,838</b>	<b>8,307,802</b>	<b>9,733,056</b>
Fixed assets	39,717	40,366	43,129	42,450	44,573	46,801	49,141
Other assets	503,766	599,880	854,252	803,038	980,335	1,062,522	1,228,793
<b>Total assets</b>	<b>6,913,296</b>	<b>8,009,965</b>	<b>9,151,648</b>	<b>9,961,181</b>	<b>11,243,159</b>	<b>12,839,389</b>	<b>14,862,473</b>

Source: Company, HSIE Research

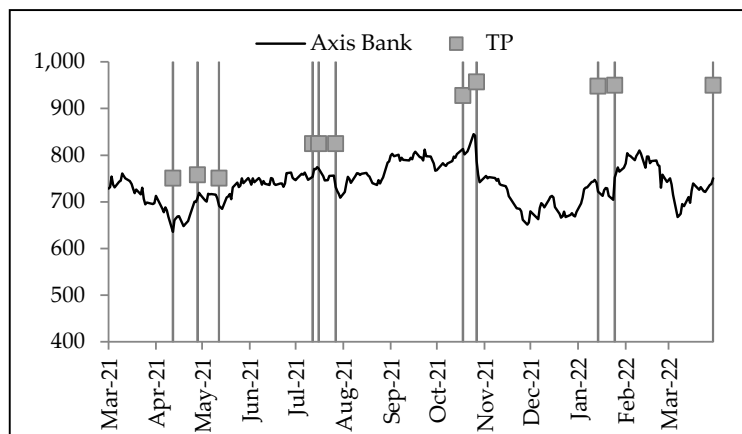
## Key Ratios

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>VALUATION RATIOS</b>	1	18	6	22	41	58	69
EPS (INR)	-93%	1596%	-65%	305%	92%	41%	20%
Earnings Growth (%)	247	259	301	332	371	424	485
BVPS	176	208	261	303	341	393	449
Adj. BVPS	0.04%	0.63%	0.19%	0.69%	1.19%	1.48%	1.53%
ROAA (%)	0.46%	7.19%	2.15%	7.06%	11.74%	14.60%	15.27%
ROAE (%)	698	41	130	35	18	13	11
P/E (x)	4.3	3.6	2.9	2.5	2.2	1.9	1.7
P/ABV (x)	14.7	12.1	9.8	8.9	8.9	6.9	5.7
P/PPOP (x)	1	18	6	22	41	58	69
<b>PROFITABILITY (%)</b>							
Yield on advances	8.4%	8.8%	9.1%	8.0%	7.9%	8.1%	8.1%
Cost of funds	4.8%	5.1%	5.0%	4.2%	4.0%	4.0%	4.0%
Cost of deposits	4.4%	4.7%	4.9%	4.0%	3.8%	3.8%	3.8%
Core spread	4.0%	4.1%	4.1%	4.0%	4.1%	4.3%	4.3%
Net interest margin	3.3%	3.3%	3.5%	3.7%	3.6%	3.8%	3.9%
<b>OPERATING EFFICIENCY</b>							
Cost to average assets	2.2%	2.1%	2.0%	1.9%	2.2%	2.0%	2.0%
Cost-income	47.3%	45.4%	42.5%	41.7%	47.3%	41.9%	40.3%
<b>BALANCE SHEET STRUCTURE RATIOS</b>							
Loan Growth (%)	17.8%	12.5%	15.5%	9.2%	15.1%	15.8%	17.2%
Deposits Growth (%)	9.5%	20.9%	16.7%	10.5%	17.0%	15.2%	17.5%
C/D ratio (%)	96.9%	90.2%	89.3%	88.2%	86.7%	87.1%	86.9%
Equity/Assets (%)	9.2%	8.3%	9.3%	10.2%	10.1%	10.1%	10.0%
Equity/Loans (%)	14.4%	13.5%	14.9%	16.3%	15.8%	15.6%	15.3%
CASA %	53.8%	44.4%	41.2%	44.9%	45.4%	46.0%	46.2%
CRAR (%)	16.6%	15.8%	17.5%	19.1%	18.3%	17.9%	17.4%
Tier I (%)	13.0%	12.5%	14.5%	16.5%	16.0%	15.9%	15.7%
<b>Asset quality</b>							
Gross NPA	342,486	297,904	302,347	253,148	218,145	217,688	233,933
Net NPA	165,917	112,756	93,604	71,259	73,878	76,795	92,651
PCR	51.6%	62.2%	69.0%	71.9%	66.1%	64.7%	60.4%
GNPA %	7.5%	5.8%	5.1%	4.0%	3.0%	2.6%	2.4%
NNPA %	3.4%	2.1%	1.6%	1.1%	1.0%	0.9%	1.0%
Slippages	8.2%	3.0%	3.7%	2.9%	2.8%	2.0%	1.9%
Credit costs	4.1%	2.2%	2.4%	2.0%	1.4%	1.3%	1.1%
<b>ROAA Tree</b>							
Net interest income	2.9%	2.9%	2.9%	3.1%	3.1%	3.3%	3.4%
Other income	1.7%	1.8%	1.8%	1.6%	1.4%	1.5%	1.5%
Operating expenditure	2.2%	2.1%	2.0%	1.9%	2.2%	2.0%	2.0%
Non-tax provisions	2.4%	1.6%	2.2%	1.8%	0.8%	0.8%	0.8%
Tax expenditure	0.0%	0.3%	0.4%	0.2%	0.4%	0.5%	0.5%
RoAA	0.0%	0.6%	0.2%	0.7%	1.2%	1.5%	1.5%
Leverage	10.8	11.5	11.3	10.2	9.9	9.9	10.0
RoAE	0.5%	7.2%	2.1%	7.1%	11.7%	14.6%	15.3%

Source: Company, HSIE Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Apr-21	668	BUY	751
28-Apr-21	700	BUY	758
12-May-21	668	BUY	751
13-Jul-21	754	BUY	825
16-Jul-21	774	BUY	825
27-Jul-21	756	BUY	825
18-Oct-21	802	BUY	928
27-Oct-21	842	BUY	957
14-Jan-22	740	BUY	948
25-Jan-22	705	BUY	950
31-Mar-22	750	BUY	950

## Rating Criteria

BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

**Disclosure:**

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