

March 31, 2022

Event Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		ACCUMULATE	
Target Price	975		860	
NII (Rs. m)	3,85,199	4,59,095	3,92,755	4,49,254
% Chng.	(1.9)	2.2		
Op. Profit (Rs. m)	2,90,332	3,44,496	3,40,443	3,84,538
% Chng.	(14.7)	(10.4)		
EPS (Rs.)	49.6	61.2	53.6	66.9
% Chng.	(7.4)	(8.5)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
NII (Rs bn)	292	335	385	459
Op. Profit (Rs bn)	257	254	290	344
PAT (Rs bn)	66	129	152	188
EPS (Rs.)	22.4	42.0	49.6	61.2
Gr. (%)	271.0	87.5	18.3	23.3
DPS (Rs.)	-	-	8.0	10.0
Yield (%)	-	-	1.1	1.3
NIM (%)	3.4	3.4	3.4	3.5
RoAE (%)	7.1	11.9	12.6	14.0
RoAA (%)	0.7	1.2	1.2	1.3
P/BV (x)	2.3	2.0	1.8	1.6
P/ABV (x)	2.4	2.2	1.9	1.7
PE (x)	33.5	17.9	15.1	12.3
CAR (%)	19.1	16.4	15.7	15.8

Key Data

AXBK.BO | AXSB IN

52-W High / Low	Rs.881 / Rs.621
Sensex / Nifty	58,684 / 17,498
Market Cap	Rs.2,304bn/ \$ 30,347m
Shares Outstanding	3,070m
3M Avg. Daily Value	Rs.8795.87m

Shareholding Pattern (%)

Promoter's	11.64
Foreign	51.38
Domestic Institution	25.32
Public & Others	11.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	(2.1)	7.9
Relative	(3.1)	(1.4)	(7.8)

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Axis Bank (AXSB IN)

Rating: BUY | CMP: Rs750 | TP: Rs975

Citibank deal: Good cross sell opportunities but customer retention a key

Quick Pointers:

- Axis Bank to acquire Citibank's consumer businesses for a total consideration of Rs123bn with an equity requirement of Rs34.5bn; hence the implied equity value is Rs158bn.
- Axis will acquire deposits of Rs502bn, assets of Rs274bn (of which Rs89bn is credit card portfolio) and remaining in form of liquid assets.

The much awaited Axis-Citi deal was announced with Axis acquiring Citibank's consumer businesses for Rs123bn which would be self-funded. Deposits/assets to be purchased will be Rs502bn/274bn with credit card portfolio of Rs89bn. Rationale for the deal is (i) building a premium base of customers and increasing granularity (ii) Citi's portfolio would complement that of Axis as both entities have a different customer profile and (iii) it provides good cross sell opportunities to Axis which would eventually lead to synergies. In our view, the deal is positive for Axis Bank in the medium term, however the key is customer retention. With systemic asset quality risk receding and credit growth prospects improving, Axis could be one of the main beneficiaries. We raise the multiple/TP to 2.3x/Rs975 as we roll forward to FY24E ABV. Upgrade to 'BUY' from Accumulate.

- Contours of the transaction:** While deposits/assets to the tune of Rs502bn/274bn would be transferred, difference will arise in form of liquid assets implying that transaction would be balance sheet neutral. The deal is expected to close within 9-12 months i.e. Q4FY23 by when assets, liabilities, customers and employees will be transferred post which transition servicing might extend by additional 18 months to Q2FY25. Purchase consideration is likely to be self-funded and would be paid at the time of closing. However in case there is customer attrition leading to portfolio rundown, the purchase price would be reduced accordingly.
- Implications of the deal:** Transfer of assets at closing would entail a capital charge of ~230bps which would be offset by profits accrued for Axis in FY23. On a going concern basis, PAT for consumer business in CY20 was Rs8.4bn. However during transitory period (i.e. post-closing), estimated integration costs may be ~Rs15bn spread across 2 years comprising of: 1) charges for Citi's services to the tune of Rs12bn and 2) additional cost of 3bn by Axis. Hence post closure normalised profits would be offset by integration costs. After integration, management expects cost optimization of 30-40% led by leverage benefits from Axis Channels and its technology. Hence RoA accretion might be possible from H2FY25 and RoA could range from 1.5-2.0%.
- Likely synergies in the near term:** Citi's retail loan book stood at Rs274bn, while that of Axis is Rs3675bn. As at Dec'21, retail share of Axis would enhance by 1.5-2% to ~57%. Citi's deposit are Rs.502bn of which CASA is 81%, which implies Axis's CASA may also improve by ~200bps. As per RBI (Jan'22), Axis Bank's cards in force share stood at 11.9% (8.4mn) while Citi's was 3.6%

(2.6mn) and the combined share would be ~15.5% (being the 4th largest player in credit cards). While HDFCB would continue to be the front runner with 23% share in Cards, followed by SBI (19%) and ICICI (18%). Citi's spend market share is 3.6%, while Axis Bank's is 8.4%, taking the combined share to ~13% (as of Jan'22) maintaining its 4th position. Axis could also cross sell its various products which would eventually be RoA accretive.

- **Valuation and view:** The deal is structurally positive given the cross sell potential however post closure it could be PAT neutral owing to likely integration costs. Hence we do not see a material change in FY23/24 profitability. Customer retention is the key for benefits to accrue earlier. Axis could be a beneficiary of upcoming growth cycle, as asset quality risk has receded. Discount to ICICI should narrow and hence rolling forward to FY24E ABV, we raise multiple from 2.1x to 2.3x increasing the TP from Rs860 to Rs975. Upgrade from Accumulate to 'Buy'.

Exhibit 1: We tweak our NII, loan growth & credit cost assumptions

Earning Estimate Change (Rs mn)	Earlier			Revised			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net interest income	3,32,740	3,92,755	4,49,254	3,34,624	3,85,199	4,59,095	0.6	(1.9)	2.2
Operating profit	2,88,031	3,40,443	3,84,538	2,54,476	2,90,332	3,44,496	(11.6)	(14.7)	(10.4)
Net profit	1,16,646	1,64,319	2,04,939	1,28,664	1,52,285	1,87,808	10.3	(7.3)	(8.4)
Loan Growth (%)	10.0	12.0	13.0	13.5	18.0	14.0	3.5	6.0	1.0
Credit Cost (bps)	180.0	150.0	120.0	101.4	95.0	90.0	(78.6)	(55.0)	(30.0)
EPS (Rs)	38.1	53.6	66.9	42.0	49.6	61.2	10.2	(7.4)	(8.5)
ABVPS (Rs)	340.5	386.6	441.4	348.9	385.9	432.8	2.5	(0.2)	(1.9)
Price target (Rs)	860			975			13.5		
Recommendation	ACCUMULATE			BUY					

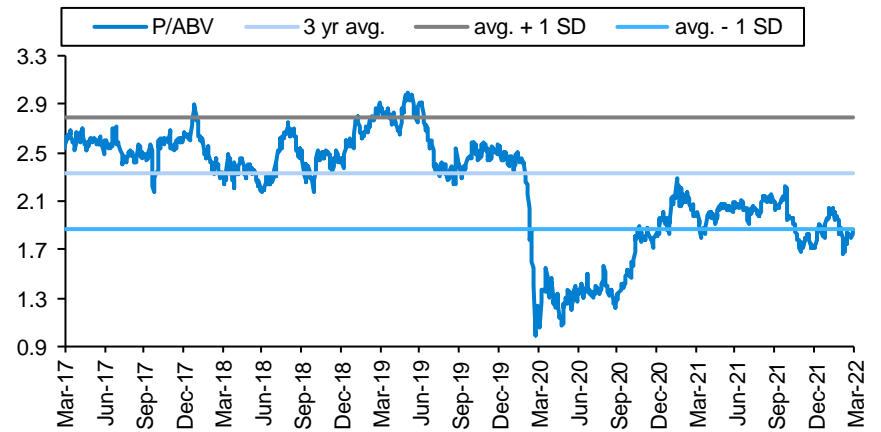
Source: Company, PL

Exhibit 2: We revise our TP to Rs975 (from Rs860) based on 2.3x Mar-24 ABV (rolled over from Sep-23)

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	7.0%
Risk-free rate	6.3%
Adjusted beta	1.08
Cost of equity	13.6%
Fair price - P/ABV	975
Target P/ABV	2.3
Target P/E	15.9
Current price, Rs	749
Upside (%)	30%
Dividend yield (%)	1%
Total return (%)	31%

Source: Company, PL

Exhibit 3: AXSB's one year forward P/ABV trends



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Int. Earned from Adv.	4,79,189	4,96,037	5,98,017	7,23,996
Int. Earned from invt.	1,25,582	1,53,864	1,91,315	2,22,588
Others	31,682	32,441	22,754	20,859
Total Interest Income	6,36,453	6,82,342	8,12,086	9,67,444
Interest Expenses	3,44,062	3,47,718	4,26,888	5,08,349
Net Interest Income	2,92,391	3,34,624	3,85,199	4,59,095
Growth(%)	8.2	11.1	13.5	16.4
Non Interest Income	1,48,380	1,55,058	1,70,563	1,87,620
Net Total Income	4,40,772	4,89,682	5,55,762	6,46,715
Growth(%)	0.4	6.7	17.3	17.5
Employee Expenses	61,640	77,420	88,259	1,01,498
Other Expenses	1,12,630	1,47,545	1,66,726	1,90,068
Operating Expenses	1,83,752	2,35,205	2,65,430	3,02,219
Operating Profit	2,57,020	2,54,476	2,90,332	3,44,496
Growth(%)	9.7	(1.0)	14.1	18.7
NPA Provision	1,22,048	67,514	73,305	80,444
Total Provisions	1,68,963	82,005	86,196	92,742
PBT	88,057	1,72,472	2,04,136	2,51,753
Tax Provision	22,174	43,808	51,851	63,945
Effective tax rate (%)	25.2	25.4	25.4	25.4
PAT	65,883	1,28,664	1,52,285	1,87,808
Growth(%)	304.9	95.3	18.4	23.3

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Face value	2	2	2	2
No. of equity shares	3,064	3,068	3,068	3,068
Equity	6,127	6,135	6,135	6,135
Networth	10,16,030	11,44,702	12,67,219	14,17,816
Growth(%)	19.6	12.7	10.7	11.9
Adj. Networth to NNPA's	69,935	63,966	71,047	79,397
Deposits	70,73,061	82,04,751	98,45,701	1,11,35,487
Growth(%)	10.5	16.0	20.0	13.1
CASA Deposits	31,77,487	36,42,909	44,30,565	50,10,969
% of total deposits	44.9	44.4	45.0	45.0
Total Liabilities	99,61,184	1,13,42,738	1,32,52,946	1,48,51,173
Net Advances	62,37,202	70,79,224	83,53,484	95,22,972
Growth(%)	9.2	13.5	18.0	14.0
Investments	22,61,196	27,38,739	32,82,415	35,09,142
Total Assets	99,61,184	1,13,42,738	1,32,52,946	1,48,51,173
Growth (%)	8.8	13.9	16.8	12.1

Asset Quality

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross NPAs (Rs m)	2,53,148	2,22,425	2,34,674	2,42,472
Net NPAs (Rs m)	69,935	63,966	71,047	79,397
Gr. NPAs to Gross Adv.(%)	4.1	3.1	2.8	2.5
Net NPAs to Net Adv. (%)	1.1	0.9	0.9	0.8
NPA Coverage %	72.4	71.2	69.7	67.3

Profitability (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
NIM	3.4	3.4	3.4	3.5
RoAA	0.7	1.2	1.2	1.3
RoAE	7.1	11.9	12.6	14.0
Tier I	16.5	16.4	15.7	15.8
CRAR	19.1	16.4	15.7	15.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Interest Income	1,55,452	1,60,035	1,63,360	1,72,611
Interest Expenses	79,902	82,432	84,357	86,086
Net Interest Income	75,550	77,603	79,003	86,525
YoY growth (%)	11.0	11.1	7.8	17.4
CEB	33,760	26,680	32,310	33,440
Treasury	-	-	-	-
Non Interest Income	46,683	35,882	37,984	38,404
Total Income	2,02,135	1,95,916	2,01,344	2,11,015
Employee Expenses	16,676	18,519	19,355	19,386
Other expenses	36,910	30,805	38,350	43,928
Operating Expenses	53,586	49,324	57,705	63,314
Operating Profit	68,647	64,160	59,282	61,615
YoY growth (%)	17.3	9.8	(14.1)	1.1
Core Operating Profits	60,757	59,170	54,552	57,945
NPA Provision	27,540	35,120	9,270	7,900
Others Provisions	32,950	35,320	17,351	13,348
Total Provisions	32,950	35,320	17,351	13,348
Profit Before Tax	35,697	28,840	41,931	48,267
Tax	8,926	7,239	10,776	12,125
PAT	26,771	21,602	31,155	36,142
YoY growth (%)	(292.9)	94.2	85.1	223.7
Deposits	70,73,061	71,38,622	73,62,855	77,16,702
YoY growth (%)	10.5	13.6	15.9	18.0
Advances	62,37,202	61,48,737	62,17,193	66,48,656
YoY growth (%)	9.2	9.5	7.9	14.1

Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
CMP (Rs)	750	750	750	750
EPS (Rs)	22.4	42.0	49.6	61.2
Book Value (Rs)	332	373	413	462
Adj. BV (70%)(Rs)	307	349	386	433
P/E (x)	33.5	17.9	15.1	12.3
P/BV (x)	2.3	2.0	1.8	1.6
P/ABV (x)	2.4	2.2	1.9	1.7
DPS (Rs)	-	-	8.0	10.0
Dividend Payout Ratio (%)	-	-	19.5	19.8
Dividend Yield (%)	-	-	1.1	1.3

Efficiency

Y/e Mar	FY21	FY22E	FY23E	FY24E
Cost-Income Ratio (%)	41.7	48.0	47.8	46.7
C-D Ratio (%)	88.2	86.3	84.8	85.5
Business per Emp. (Rs m)	170	176	189	193
Profit per Emp. (Rs lacs)	8	15	16	18
Business per Branch (Rs m)	2,897	2,893	2,995	2,957
Profit per Branch (Rs m)	14	24	25	27

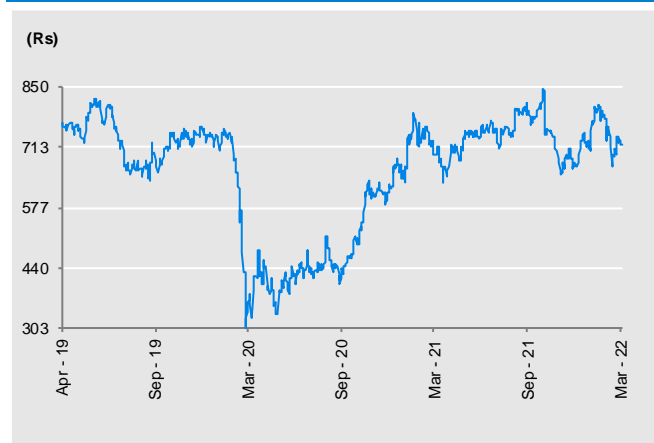
Du-Pont

Y/e Mar	FY21	FY22E	FY23E	FY24E
NII	3.37	3.41	3.37	3.50
Total Income	5.08	4.99	4.86	4.93
Operating Expenses	2.12	2.40	2.32	2.30
PPoP	2.96	2.59	2.54	2.63
Total provisions	1.95	0.84	0.75	0.71
RoAA	0.76	1.31	1.33	1.43
RoAE	7.06	11.91	12.63	13.99

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Jan-22	Accumulate	860	743
2	06-Oct-21	Accumulate	860	779
3	27-Jul-21	Accumulate	860	756
4	06-Jul-21	Accumulate	822	758
5	28-Apr-21	Accumulate	770	700
6	06-Apr-21	Accumulate	725	685

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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