

March 30, 2022

**EVENT REPORT** | Sector: Banks

# Axis Bank Ltd

## Opportunistic deal net positive for AXSB

Axis Bank (AXSB) announced a deal on Wednesday to acquire Citibank India's (Citi) retail assets, which is net positive for AXSB from a business standpoint. Our view regarding the deal includes the following key aspects (1) The rationale for the deal makes sense for AXSB due to a variety of reasons (2) Integration of Citi's business will be a key monitorable but importantly, there is some downside protection built into the deal for AXSB (3) We think that the deal will be RoE accretive in FY24E and raise our FY24E PAT estimate by 3.5%. We reiterate BUY rating on AXSB with a revised price target of Rs 1060.

### The rationale for the deal makes sense for AXSB due to a variety of reasons

AXSB has flagged complementarity in its own existing credit card business and Citi's credit card business from a perspective of geographical focus and client category. While Citi's credit card business has been focused on the Top 8 cities, AXSB's business has been more widely spread in this regard. Furthermore, customers at AXSB have been mass or mass affluent whereas those at Citi have been outright affluent. The credit card count, dues book and spend per card for the combined entity would be higher by 31%, 57% and 17%, respectively. Secondly, AXSB also gets Citi's wealth management business, where it also sees complementarity. Here, AXSB's Rs 2.67 trn wealth AUM stands to grow 42%. Thirdly, the deal provides a fillip to liability granularity as Citi's Rs 502bn deposits book, with 81% CASA, would enhance CASA ratio by 201 bps to 47%. Apart from these, AXSB also stands to add a 3600-strong high-quality workforce and Citi's world-class Citiphone services. In addition, management has also flagged synergies due to cross sell opportunities and on the cost side, due to scale and discontinuation of payout to Citi's global parent.

### Integration of Citi's business will be a key monitorable but importantly, there is some downside protection built into the deal for AXSB

The cost to Axis Bank for integrating its target would be Rs 15bn. One part of the cost is the payout to Citi for providing services during the transition period, which would amount to Rs 12bn. The integration cost would be borne for 2 years post the closing of the deal and would be transitory in nature. There is protection built into the deal for Axis Bank if parameters deteriorate compared with pro forma date of June 2021 and Axis would pay a lower price. Axis Bank would make this comparison as the assets get transferred to it on the LD1 (Legal Date 1), 9 to 12 months later. The intention is not to pay a lower price and both parties are aligned and incentivized to retain customers.

### We think that the deal will be RoE accretive in FY24E and raise our FY24E PAT estimate by 3.5%

The credit card business from Citi would help enhance yield on advances for the combined entity, while also aiding fee income stream. Some synergies would also start to flow in from FY24E due to cross sell to the Citi customer base.

### We reiterate BUY rating on AXSB with a revised price target of Rs 1060

We value the standalone bank at 2.5x FY23 P/BV for an FY22E/23E/24E RoE profile of 13.7/16.3/17.1%. We assign a value of Rs 105 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

#### Exhibit 1: Standalone Citi Business proforma financials

Particulars, Rs mn	CY20	Particulars, %	CY20
Net Interest Income	20,860	Net Interest Income %	3.90%
Other Income	19,590	Other Income %	3.60%
Net Revenue	40,450	Cost to Assets %	4.30%
Operating Expenses	(22,980)	<b>Return Ratios:</b>	
PPOP	17,470	ROA%	1.60%
PAT	8,420	ROE %	21.70%

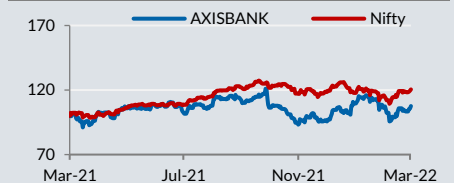
Source: Company, YES Sec-Research

Reco	: BUY
CMP	: Rs 750
Target Price	: Rs 1060
Potential Return	: 41%

#### Stock data (as on March 30, 2022)

Nifty	17,498
52 Week h/l (Rs)	867 / 627
Market cap (Rs/USD mn)	2303652 / 30348
Outstanding Shares (mn)	3,070
6m Avg t/o (Rs mn):	8,270
Div yield (%):	NA
Bloomberg code:	AXSB IN
NSE code:	AXISBANK

#### Stock performance



	1M	3M	1Y
Absolute return	1.1%	12.2%	7.9%

#### Shareholding pattern (As of Dec'21 end)

Promoter	9.7%
FII+DII	77.7%
Others	12.6%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1060	1035

#### Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
NII	336,591	398,939	472,654
PPOP	300,515	357,066	414,952
Net Profit	139,061	179,159	219,184
Growth (%)	111.1	28.8	22.3
EPS (Rs)	45.4	58.5	71.5
BVPS (Rs)	332	386	452
P/E (x)	14.2	11.0	9.0
P/BV (x)	1.9	1.7	1.4
ROE (%)	13.7	16.3	17.1
ROA (%)	1.3	1.4	1.5
Tier-1 (%)	14.7	13.9	13.3

#### Δ in earnings estimates

Rs.	FY22E	FY23E	FY24E
EPS (New)	45.4	58.5	71.5
EPS (Old)	44.5	57.2	69.1
% change	1.9%	2.2%	3.5%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Deal consideration and valuation

- ✓ Axis Bank has signed an agreement to buy Citibank India's retail assets for a consideration of Rs 123.25bn.
- ✓ The transaction takes place at a valuation of 18.7x CY20 normalised earnings.
- ✓ **Normalized earnings**
  - The meaning of normalized earnings is the earnings the entity would have delivered in a normal year had it been operating within Axis Bank.
  - Hence, to arrive at normalized earnings, one has removed the cost the entity paid to the global parent and the Covid-related cost.
  - No synergy benefits have been assumed.
  - All of these assumptions lead to an operating expenses number of about Rs 23bn.
  - The estimated normalized earnings have amounted to Rs 8.42bn.
- ✓ **Tax aspect**
  - Acquired goodwill is no longer tax deductible and no tax break has been assumed.
  - The tax rate assumed is the normal Indian tax rate of 25.17%.

### Timelines

- ✓ The closing date for the deal is expected to 9-12 months from now.
- ✓ It will take another 18 months for the Citibank retail business to be integrated into Axis Bank.

### Rationale for the deal

- ✓ In general, Axis Bank acquires an excellent affluent customer franchise.
- ✓ **Credit cards business**
  - **Complementarity**
    - The credit cards business of Citibank is largely complementary to that of Axis Bank.
    - Citibank's credit cards are largely concentrated within the Top 8 cities.
    - Axis Bank's credit card portfolio is spread out including outside the Top 8 cities as well.
    - Both banks had tie-ups with IOC but with Citi in the Top 8 and Axis outside the Top 8.
    - Axis Bank's credit card customers are mass and mass affluent with about 11% being affluent, as such.
    - Citi's credit card customers are, as such, in the affluent category.
  - **Key numbers**
    - The receivables portfolio is worth Rs 89bn, which enhances Axis Bank's card dues book by 57%.
    - Axis Bank gets to add 2.5mn cards, which help increase card count by 31%.
    - Citibank credit cards have the highest spend per card with the combined entity's spend per card rising 17%.
    - The market share of the combined entity in credit card spends rises by 480 bps.
- ✓ **Wealth management business**
  - Citibank's wealth management business is an excellent fit for Burgundy.
  - There is complementarity in this business as Axis Bank's wealth business is deeper and wider.

(Con call takeaways continue on the next page)

# Axis Bank Ltd

- The pre-deal wealth management AUM for Axis Bank at Rs 2.67 trn stands to rise by 42%.
- ✓ **Granular deposits franchise**
  - The CASA ratio of Citibank's deposits worth Rs 502bn is as much as 81%.
  - The combined CASA ratio would rise by 201 bps to 47%.
  - Suidha corporate salary accounts are also an important addition.
- ✓ **High caliber employee pool**
  - Axis Bank gets a high-quality talent pool of 3600 employees.
- ✓ **CitiPhone banking services**
  - World class CitiPhone banking services would be an enhancement for Axis customers.
- ✓ **Synergies**
  - **Revenue synergies**
    - Cross sell synergies would emerge over the next 6-9 months.
  - **Cost synergies**
    - There would be cost synergies but not on account of people count.
    - There would be cost synergies due to scale and dissociation with Citi global parent.

## Integration

- ✓ **Integration cost**
  - The cost to Axis Bank for integrating its target would be Rs 15bn.
  - One part of the cost is the payout to Citi for providing services during the transition period, which would amount to Rs 12bn.
  - The remaining Rs 3bn would be the expenses that Axis Bank would otherwise incur due to integration.
  - The integration cost would be borne for 2 years post the closing of the deal and would be transitory in nature.
- ✓ **Customer attrition management**
  - Axis Bank has made conservative assumptions on customer attrition before arriving at the bid value.
  - **Downside protection**
    - There is protection built into the deal for Axis Bank if parameters deteriorate compared with pro forma date of June 2021 and Axis would pay a lower price.
    - Axis Bank would make this comparison as the assets get transferred to it on the LD1 (Legal Date 1), 9 to 12 months later.
    - The intention is not to pay a lower price and both parties are aligned and incentivized to retain customers.
  - **SA rate aspects**
    - Citi's SA rate is lower but they would get the higher Axis SA rate.
    - While this means higher cost, there is an incremental reason for Citi's customers to stay.
- ✓ **Managing compensation differential**
  - Axis Bank's Burgundy business gives them the flexibility to handle the Citi employees' higher compensation levels.
  - In terms of managing the mood of the other Axis employees, it is important to state that the salary differential is not as high as imagined.

(Con call takeaways continue on the next page)

## Capital adequacy

### ✓ Impact from the deal

- There would be a negative impact on CET1 worth 180 bps due to the purchase consideration.
- There would be a negative impact on CET1 worth 50 bps due to the rise in RWA.
- These would bring down the CET1 to 13%, ceteris paribus.

### ✓ Funding and capital raise

- The deal would be funded entirely from internal sources.
- Axis Bank would examine capital raise at a later date.

## Balance sheet considerations

### ✓ Deposits worth Rs 502bn would be transferred.

### ✓ A loan book worth Rs 274bn that would include credit cards, mortgages, personal loans, credit card dues, asset backed finance and small business banking would be transferred.

### ✓ This includes the Citicorp NBFC and asset backed finance refers to the same.

### ✓ The difference of Rs 502bn and Rs 274bn would also be transferred in liquid assets and that would make the assets being transferred equal to the liabilities.

### ✓ Duration of assets

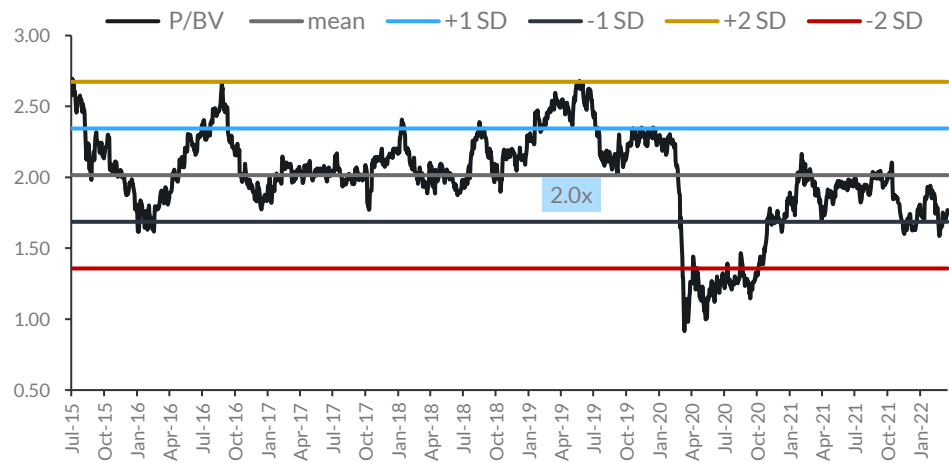
- Excluding mortgages, the duration of the loan book is 28 months.
- The duration of the personal loan portfolio is 6 months.
- The duration of the asset-backed finance book is about 20-25 months.

**Exhibit 2: 1-year rolling P/BV band**



Source: Company, YES Sec - Research

**Exhibit 3: 1-yr rolling P/BV vis-a-vis the mean and standard deviations**



Source: Company, YES Sec - Research

## ANNUAL FINANCIALS

### Exhibit 4: Balance sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total cash & equivalents	972,683	617,298	715,030	996,902	1,118,265
Investments	1,567,343	2,261,196	2,729,915	3,177,426	3,545,739
Advances	5,714,242	6,237,202	6,985,666	8,307,516	9,318,879
Fixed assets	43,129	42,450	46,695	51,365	56,501
Other assets	854,252	803,038	883,341	1,199,675	1,319,643
<b>Total assets</b>	<b>9,151,648</b>	<b>9,961,184</b>	<b>11,360,647</b>	<b>13,732,884</b>	<b>15,359,028</b>
Net worth	849,479	1,016,030	1,017,077	1,181,472	1,385,891
Deposits	6,401,049	7,073,061	7,896,371	9,551,006	10,462,905
Borrowings	1,479,541	1,428,732	1,875,821	2,428,299	2,966,744
Other liabilities	421,579	443,362	571,378	572,106	543,487
<b>Total liabilities incl. Equity</b>	<b>9,151,648</b>	<b>9,961,184</b>	<b>11,360,647</b>	<b>13,732,884</b>	<b>15,359,028</b>

Source: Company, YES Sec – Research

### Exhibit 5: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest income	626,352	636,453	730,867	872,880	1,029,416
Interest expense	(374,290)	(344,062)	(394,276)	(473,941)	(556,761)
<b>Net interest income</b>	<b>252,062</b>	<b>292,391</b>	<b>336,591</b>	<b>398,939</b>	<b>472,654</b>
Non-interest income	155,366	148,382	184,635	212,005	263,086
<b>Total income</b>	<b>407,428</b>	<b>440,773</b>	<b>521,226</b>	<b>610,945</b>	<b>735,740</b>
Operating expenses	(173,046)	(183,752)	(220,712)	(253,879)	(320,787)
<b>PPoP</b>	<b>234,381</b>	<b>257,022</b>	<b>300,515</b>	<b>357,066</b>	<b>414,952</b>
Provisions	(185,339)	(168,963)	(115,100)	(118,187)	(122,707)
<b>Profit before tax</b>	<b>49,042</b>	<b>88,058</b>	<b>185,414</b>	<b>238,879</b>	<b>292,245</b>
Taxes	(32,770)	(22,173)	(46,354)	(59,720)	(73,061)
<b>Net profit</b>	<b>16,272</b>	<b>65,885</b>	<b>139,061</b>	<b>179,159</b>	<b>219,184</b>

Source: Company, YES Sec – Research

## Exhibit 6: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest income	7.3	6.7	6.9	7.0	7.1
Interest expense	-4.4	-3.6	-3.7	-3.8	-3.8
<b>Net interest income</b>	<b>2.9</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
Non-interest income	1.8	1.6	1.7	1.7	1.8
<b>Total income</b>	<b>4.7</b>	<b>4.6</b>	<b>4.9</b>	<b>4.9</b>	<b>5.1</b>
Operating expenses	-2.0	-1.9	-2.1	-2.0	-2.2
<b>PPoP</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	2.8	2.9
Provisions	-2.2	-1.8	-1.1	-0.9	-0.8
<b>Profit before tax</b>	<b>0.6</b>	<b>0.9</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>
Taxes	-0.4	-0.2	-0.4	-0.5	-0.5
<b>Net profit</b>	<b>0.2</b>	<b>0.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>

Source: Company, YES Sec – Research

## Exhibit 7: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Axis AMC	237,661	AUM	2376610.9	10.00%	75.00%	178,246	58.2
Max Life	506,999	EV	122900	4.1	9.99%	50,649	16.5
Axis Capital	23,297	PAT	1664.1	14.0x	100.00%	23,297	7.6
Axis Bank UK	7,127	BV	6479.4	1.1x	100.00%	7,127	2.3
Axis Finance	46,628	BV	15542.5	3.0x	100.00%	46,628	15.2
Axis Securities	14,490	BV	4829.9	3.0x	100.00%	14,490	4.7
<b>Value of Subsidiaries</b>						<b>320,437</b>	<b>104.6</b>

Source: Company, YES Sec – Research

## Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Interest Income	336,591	398,939	472,654	333,157	389,778	453,002	1.0	2.4	4.3
Pre-Prov. Operating Profit	300,515	357,066	414,952	297,081	347,548	405,833	1.2	2.7	2.2
Profit after tax	139,061	179,159	219,184	136,485	175,257	211,803	1.9	2.2	3.5

Source: Company, YES Sec – Research

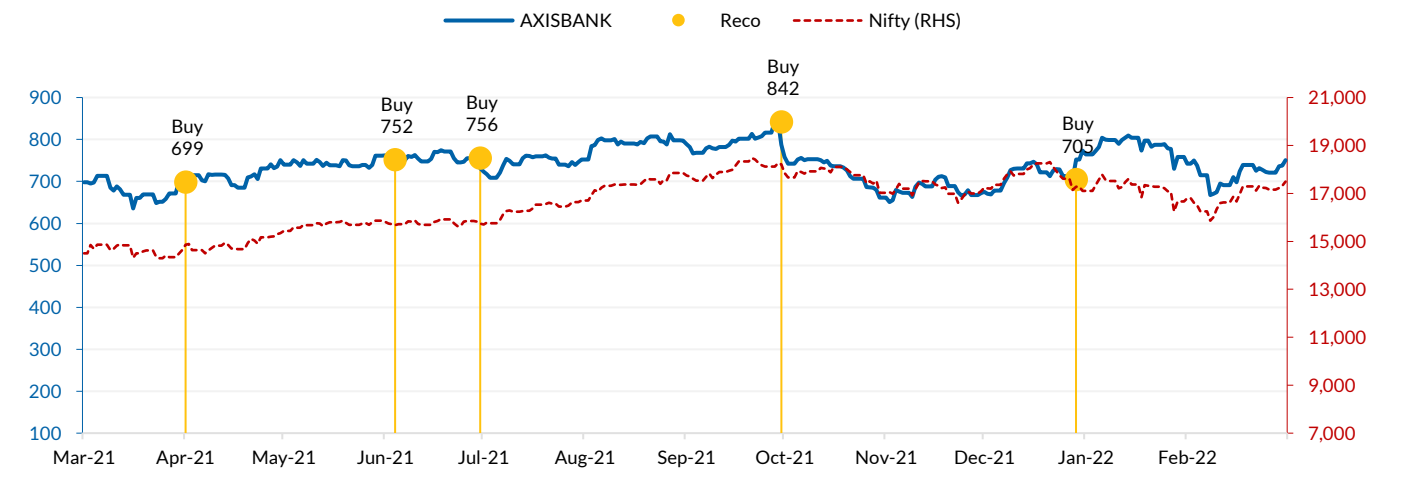
## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	16.1	16.0	15.1	18.5	18.5
PPoP	23.3	9.7	16.9	18.8	16.2
Net profit	-65.2	304.9	111.1	28.8	22.3
Loans	15.5	9.2	12.0	18.9	12.2
Deposits	16.7	10.5	11.6	21.0	9.5
<b>Profitability Ratios (%)</b>					
Net interest margin	3.4	3.5	3.6	3.6	3.7
Return on Average Equity	2.1	7.1	13.7	16.3	17.1
Return on Average Assets	0.2	0.7	1.3	1.4	1.5
<b>Per share figures (Rs)</b>					
EPS	5.8	21.5	45.4	58.5	71.5
BVPS	301	332	332	386	452
ABVPS	268	309	311	359	424
<b>Valuation multiples</b>					
P/E	112	30	14	11	9
P/BV	2.1	1.9	1.9	1.7	1.4
P/ABV	2.4	2.1	2.1	1.8	1.5
<b>NIM internals (%)</b>					
Yield on loans	9.1	8.0	8.2	8.3	8.6
Cost of deposits	4.9	4.1	4.0	4.1	4.1
Loan-deposit ratio	89.3	88.2	88.5	87.0	89.1
CASA ratio	41.2	44.9	45.5	46.0	46.0
<b>Opex control (%)</b>					
Cost/Income ratio	42.5	41.7	42.3	41.6	43.6
Cost to average assets	2.0	1.9	2.1	2.0	2.2
<b>Capital adequacy (%)</b>					
Tier 1 capital ratio	14.5	16.5	14.7	13.9	13.3
<b>Asset quality (%)</b>					
Slippage ratio	3.7	2.9	2.9	2.4	2.2
Gross NPL ratio	5.1	3.9	3.4	3.4	3.4
Credit cost	2.4	1.3	1.6	1.4	1.3
Net NPL ratio	1.6	1.1	0.9	1.0	0.9

Source: Company, YES Sec – Research; Valuations are the implied value of standalone entity net of subsidiaries



## Recommendation Tracker



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## DISCLOSURE OF INTEREST

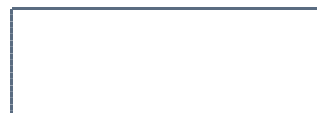
Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

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