

AXIS Bank

Refer to important disclosures at the end of this report

Citi portfolio acquisition to hurt network, but no need to raise capital

Axis Bank has announced completion (earlier than expected) of the acquisition of Citi Bank's retail banking business at a relatively lower cost, given the run-down in the business since Mar-22. The expensing of acquisition cost (including goodwill) would hurt the 4QFY23 P/L as also the network (NW) of Axis Bank, but should provide a boost to the bank's retail assets growth and also be RoE accretive, given the higher leverage. Key takeaways from the call and our view:

- The overall acquired deposits base has meaningfully reduced by 21% to Rs399bn (77% being CASA) as at end Feb-23 from Rs502bn in Mar-22, mainly due to Citi customers choosing not to port to Axis Bank. Management believes that this could be due to some customers consolidating their banking relationship, while some have moved to other banks. We believe this could be partly owing to some corporate customers, including MNCs, moving their banking relationship (including employee salary accounts). In our view, the interest outgo on Citi's retained savings-customers would go up, as Axis's SA rate is higher at 3-3.5% vs Citi's 2.5%.
- Overall loan assets have remained largely intact at Rs273bn (adding 4% to Axis's book) as at end Feb-23 vs Rs274bn in Mar-22, including the cards book at Rs86bn vs Rs87bn in Mar-22. However, Cards customers have reduced to ~1.8mn vs 2.5mn in Mar-22 due to customers not porting to Axis Bank and cancellation of dormant/inactive customers. Thus, the o/s amount per card has now shot up to Rs48K vs Rs36k in Mar-22. Bank believes that bulk of the run-down, in terms of cards and deposits customers, is largely behind.
- Of the 3,600 employees as of Mar-22, nearly 3,200 will be on-boarded to Axis Bank, with risk of further retrenchment being lower. Arjun Chaudhary being recently elevated in Citi Bank has been designated as Head - Cards, Payment & Wealth in Axis Bank, while the position of Sanjeev Moghe (also ex Citi Bank), who was heading a similar position at Axis Bank, remains unclear.
- As per Management, the acquisition cost (Rs116bn), including goodwill + adjustment towards alignment of provisioning (63% PCR for Citi vs optimal ratio of 70%) and other policies + integration cost (for 1 month, of the overall Rs15bn), will be taken through the P/L in 4Q and should, thus, lead to heavy loss/hit to the NW. The balance integration cost will be taken over the next 17 months (partly during FY24/FY25). The normalized annual profit estimate of Rs8-8.5bn, without adjusting for synergy benefits, has been retained at the same level as in Mar-22, factoring-in the lower strain post Covid. So, acquisition value works out to be ~17.7x the estimated profit for the acquired consumer banking business.
- Overall impact on CET1 has been estimated at 177bps to 13.8%, including 137bps towards acquisition premium and 40bps towards incremental RWA. Bank claims that it should be able to fund the acquisition via internal accruals and is not in any hurry to raise capital.
- **Outlook:** We believe the higher deposit run-down, coupled with optically higher loss in 4Q, could weigh on the stock performance. However, we remain long-term positive on the stock, given its improving retail orientation/core profitability, healthy provisioning buffer and reasonable valuations. We retain BUY, with revised TP of Rs1,250/share (based on 2x Dec-24E un-merged standalone bank ABV or 2.1x Dec-24E proforma merged standalone bank ABV + subsidiaries' value at Rs80 per share).

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	4,15,027	4,83,528	5,92,865	6,92,112	8,20,334
Net profit	65,886	1,30,255	2,14,065	2,53,578	3,00,170
EPS (Rs)	22.4	42.5	69.7	82.5	97.6
ABV (Rs)	329.3	364.1	433.2	511.7	604.7
RoA (%)	0.7	1.2	1.7	1.8	1.8
RoE (%)	7.1	12.0	17.0	17.1	17.1
P/E (x)	38.6	20.4	12.4	10.5	8.9
P/ABV	2.6	2.4	2.0	1.7	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 865 as of (March 2, 2023)	Rs 1,250 (▼) 12 months
Rating	Upside
BUY (■)	44.5 %

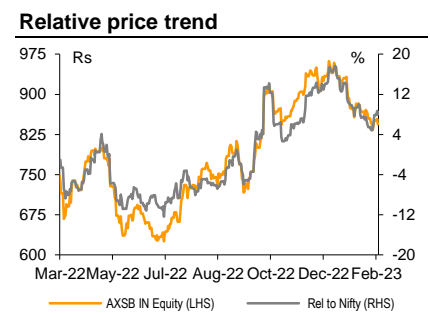
Change in Estimates	
EPS Chg FY23E/FY24E (%)	-/-
Target Price change (%)	(3.8)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus		
EPS Estimates		
	FY23E	FY24E
Emkay	69.7	82.5
Consensus	68.8	74.3
Mean Consensus TP (12M)	Rs 1,120	

Stock Details	
Bloomberg Code	AXSB IN
Face Value (Rs)	2
Shares outstanding (mn)	3,076
52 Week H/L	970 / 618
M Cap (Rs bn/USD bn)	2,661 / 32.26
Daily Avg Volume (nos.)	84,44,503
Daily Avg Turnover (USD mn)	92.4

Shareholding Pattern Dec '22	
Promoters	8.0%
FIIs	48.2%
DIIIs	30.7%
Public and Others	13.1%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	1	(4)	16	17
Rel. to Nifty	2	3	17	12



Source: Bloomberg

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Story in Charts

Exhibit 1: Change in metrics at acquisition vs at the time of deal announcement

(Rs bn)	Mar-22	Mar-23	Change (%)
Purchase Consideration value	123	116	-5.9
Assets	274	273	-0.4
- Cards	89	86	-3.4
<i>Outstanding Cards (mn)</i>	2.5	1.8	-28.0
<i>Annual Spends per card ('000)</i>	169	203	20.1
- Other Lending	185	187	1.1
1) Mortgage	100	101	1.1
2) ABF	52	67	30.0
3) PL	22	9	-57.9
4) SBL	11	9	-15.8
Wealth Management & Private Banking AUM	1,109	947	-14.6
Deposits	502	399	-20.5
- Term	95	92	-3.8
- CASA	407	307	-24.4
Employees	3,600	3,200	-11.1
Branches	21	34	61.9
Offices	7	6	-14.3
ATMs	499	459	-8.0

Source: Company, Emkay Research

Exhibit 2: Key financial metrics pre- and post-acquisition

Pre-acquisition	FY23E	FY24E	FY25E
RoA (%)	1.7	1.8	1.8
RoE (%)	17.0	17.1	17.1
EPS (Rs)	69.7	82.5	97.6
ABV (Rs)	433	512	605
Pro-forma, post acquisition	FY23E	FY24E	FY25E
RoA (%)	0.8	1.8	1.8
RoE (%)	8.2	18.6	18.6
EPS (Rs)	31.9	82.8	99.3
ABV (Rs)	395	474	569

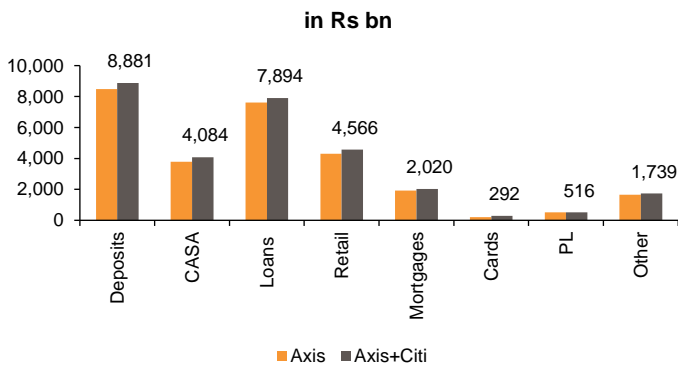
Source: Emkay Research; Note: Pro-forma numbers calculated factoring-in the goodwill write-off, provision adjustment for policy change and integration costs

Exhibit 3: Pro-forma merged financials and peer comparison

Banks	Axis Bank	Citi Bank	Citi – as a % of Axis	Axis Bank (post-acquisition)	ICICIB	HDFCB	KMB	SBIC	RBL
Liabilities/Deposits (Rs bn)	8,482	399	5%	8,881	11,220	17,332	3,447	NA	817
- CA	1,263	24	2%	1,287	1,456	2,277	636	NA	128
- SA	2,514	283	11%	2,797	3,632	5,352	1,200	NA	171
CASA (Rs bn)	3,777	307	8%	4,084	5,088	7,630	1,836	NA	299
CASA	44.5%	77.0%		46.0%	45.3%	44.0%	53.3%	NA	36.6%
Assets (Rs bn)	12,235	399	3%	12,634	15,217	22,953	4,648	430	1,096
Loan book (Rs bn)	7,621	273	4%	7,894	9,740	15,068	3,107	386	667
Retail (Rs bn)	4,293	273	6%	4,566	6,790	7,146	1,678	386	287
- share	56%	100%		58%	70%	47%	54%	100%	43%
- Cards	206	86	42%	292	345	833	92	386	155
Share	3%	32%		4%	4%	6%	3%	100%	23%
- Non-Card retail	4,087	187	5%	4,274	6,445	6,313	1,586	-	132
- Mortgages	1,919	101	5%	2,020	3,314	976	891	-	41
- PL	425	9	2%	434	809	1,646	381	-	-
- Others	1,744	77	4%	1,821	2,322	3,690	314	-	91
CIF (mn) - 3Q	9.4	2.5	26%	11.9	13.5	17.0	4.7	15.9	4.2
CIF (mn) – Jan-23	9.6	1.8	19%	11.4	13.7	17.2	4.8	16.2	4.3
CIF Market share (%)	11.7	2.2		13.9	16.7	21.1	5.9	19.8	5.3
Spends (Rs bn), as of date (Annualized)	1,291	511	40%	1,802	2,568	3,961	448	2,576	584
Spends per card (Rs '000)	138	203	10%	152	196	238	117	175	148
Spends - Market Share (%)	9.1	3.6		12.7	18.1	28.0	3.2	18.2	4.1
Card loan o/s per card (Rs '000) - 3Q	22	35	12%	24	26	49	19	24	37
CET 1 (%)	15.6			13.8	15.0	16.4	20.7	21.3	15.5

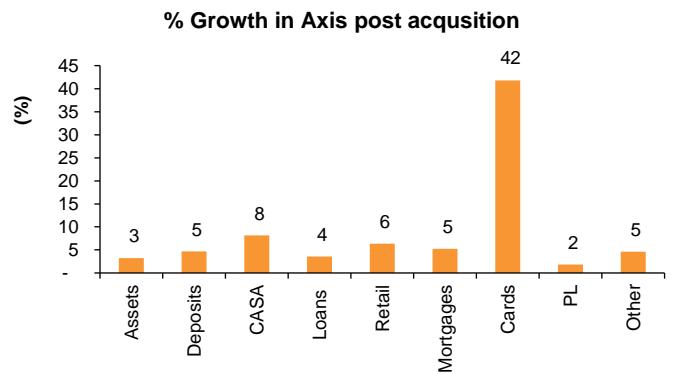
Source: Company, RBI, Emkay Research; * Adjusted as per the company's data

Exhibit 4: Citi deal will lead to healthy Cards and deposits/CASA accretion



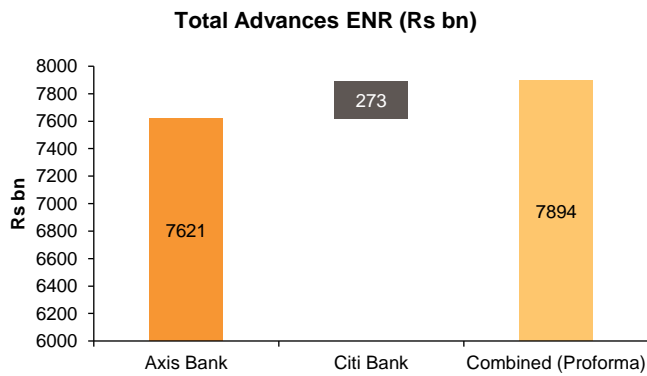
Source: Company, Emkay Research

Exhibit 5: The Cards portfolio of Axis increases by 42%, while CASA increases by 8% with the Citi deal



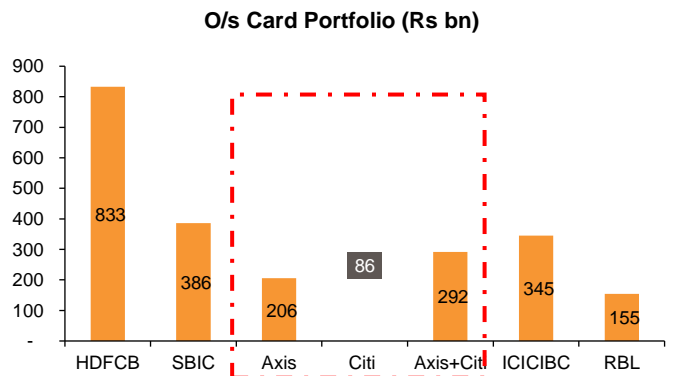
Source: Company, Emkay Research

Exhibit 6: Total advances of the combined entity increases by 4% after the Citi acquisition



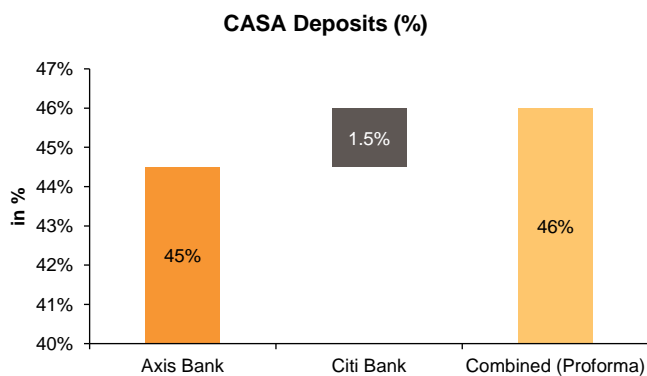
Source: Company, Emkay Research

Exhibit 7: Acquisition of Citi's card portfolio to bring them closer to ICICI and SBIC



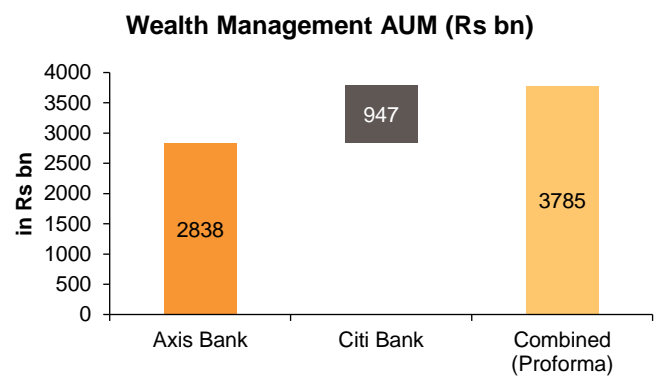
Source: Company, Emkay Research

Exhibit 8: CASA share to inch up by 150bps; thus, the bank will have to pay higher SA rate at 3-3.5% vs Citi's rate at 2.5%



Source: Company, Emkay Research

Exhibit 9: Wealth management to shoot up due to Citi's portfolio acquisition



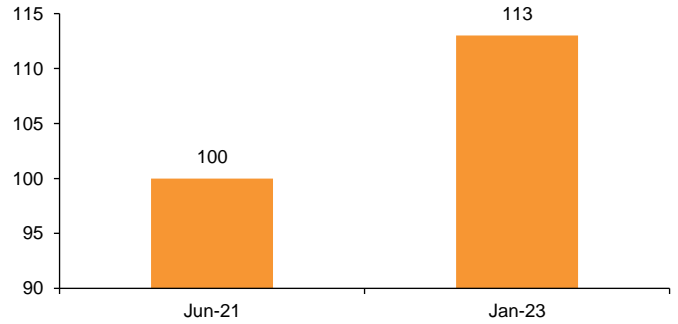
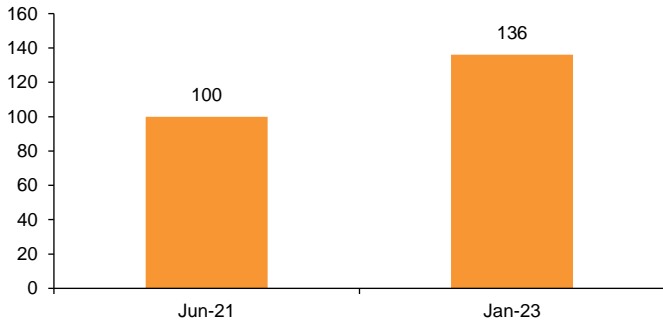
Source: Company, Emkay Research

Exhibit 10: Quality of acquired credit cards improved, as monthly spends increased by 36% over the past 1-2 years...

Exhibit 11: ...and so does the average deposits by 13% for a similar tenure

Credit Cards - Monthly spends per card (indexed)

Deposits - Avg. deposits per account (indexed)

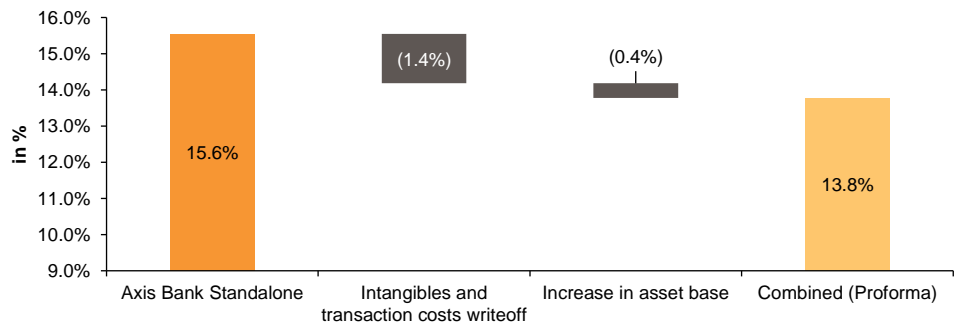


Source: Company, Emkay Research

Source: Company, Emkay Research

Exhibit 12: Bank's CET 1 ratio will slip to 14%, although slightly higher than previous estimate of 13%

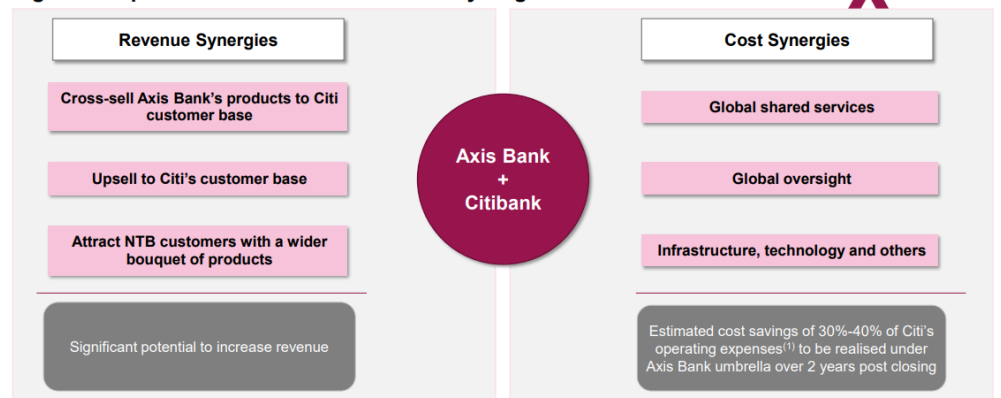
Impact on CET1 Ratio (Assuming no fund raise)



Source: Company, Emkay Research

Exhibit 13: The acquisition creates huge potential for revenue and cost synergies

Significant potential for revenue and cost synergies



Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	2,92,391	3,31,322	4,28,729	4,81,629	5,59,130
Other income	1,22,636	1,52,205	1,64,136	2,10,483	2,61,203
Fee income	93,589	1,13,586	1,38,007	1,69,749	2,08,791
Net income	4,15,027	4,83,528	5,92,865	6,92,112	8,20,334
Operating expenses	1,83,751	2,36,108	2,72,404	3,10,196	3,52,839
Pre provision profit	2,31,275	2,47,420	3,20,461	3,81,916	4,67,495
PPP excl treasury	2,21,543	2,33,643	3,22,687	3,75,237	4,54,136
Provisions	1,43,217	73,595	34,393	43,044	66,359
Profit before tax	88,059	1,73,826	2,86,068	3,38,872	4,01,135
Tax	22,173	43,571	72,003	85,294	1,00,966
Tax rate	25	25	25	25	25
Profit after tax	65,886	1,30,255	2,14,065	2,53,578	3,00,170

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	6,128	6,139	6,150	6,150	6,150
Reserves	10,09,903	11,45,601	13,55,976	16,03,404	18,95,886
Net worth	10,16,030	11,51,741	13,62,126	16,09,554	19,02,036
Deposits	69,79,850	82,17,209	90,17,598	103,75,739	122,41,273
Borrowings	11,83,832	16,75,689	17,59,473	20,23,394	24,28,073
Total liabilities	98,67,975	117,51,781	128,88,866	150,48,969	178,68,685
Cash and bank	5,18,086	9,40,345	10,34,380	11,37,818	12,51,599
Investments	22,61,196	27,55,972	27,68,175	31,68,668	36,58,358
Loans	61,43,994	70,76,960	80,77,702	93,97,260	111,74,571
Others	8,03,037	7,63,253	10,11,380	12,99,874	16,42,127
Total assets	98,67,975	117,51,780	128,88,866	150,48,969	178,68,685

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.4	3.3	3.8	3.8	3.8
Non-ll/avg assets	1.3	1.4	1.3	1.5	1.6
Fee income/avg assets	1.0	1.1	1.1	1.2	1.3
Opex/avg assets	1.9	2.2	2.2	2.2	2.1
Provisions/avg assets	1.5	0.7	0.3	0.3	0.4
PBT/avg assets	0.9	1.6	2.3	2.4	2.4
Tax/avg assets	0.2	0.4	0.6	0.6	0.6
RoA	0.7	1.2	1.7	1.8	1.8
RoAE	7.1	12.0	17.0	17.1	17.1
GNPA (%)	3.6	2.6	2.3	2.0	1.7
NNPA (%)	1.0	0.7	0.5	0.5	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.4	42.5	69.7	82.5	97.6
BVPS	345.3	375.6	443.3	523.4	618.6
ABVPS	329.3	364.1	433.2	511.7	604.7
DPS	0.0	1.0	1.2	2.0	2.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	38.6	20.4	12.4	10.5	8.9
P/BV	2.6	2.4	2.0	1.7	1.4
P/ABV	2.6	2.4	2.0	1.7	1.4
P/PPOP	11.4	10.7	8.2	6.9	5.6
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.3

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	16.0	13.3	29.4	12.3	16.1
PPOP	(0.7)	7.0	29.5	19.2	22.4
PAT	304.9	97.7	64.3	18.5	18.4
Loans	7.5	15.2	14.1	16.3	18.9

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII	86,525	88,191	93,840	1,03,603	1,14,593
NIM (%)	3.5	3.5	3.6	4.0	4.3
PPOP	61,615	64,660	58,870	77,162	92,775
PAT	36,142	41,178	41,253	53,298	58,531
EPS (Rs)	11.78	13.41	13.43	17.35	19.03

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	9.5	9.5	9.5	9.5	8.0
FII	46.4	45.9	45.6	45.2	48.2
DII	29.6	29.9	30.8	31.6	30.7
Public and Others	14.6	14.7	14.2	13.8	13.1

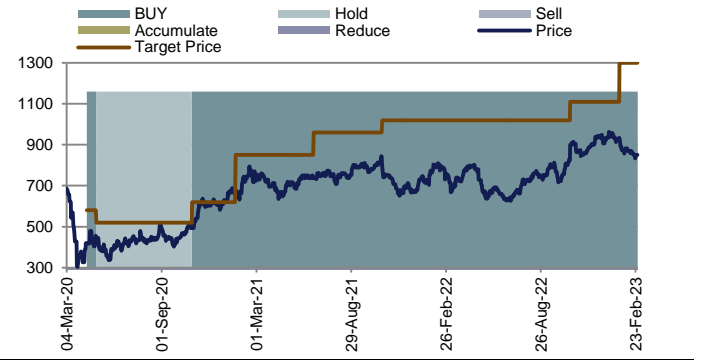
Source: Capitaline

RECOMMENDATION HISTORY – Details (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
23-Jan-23	933	1,300	12m	Buy	Anand Dama
25-Nov-22	888	1,110	12m	Buy	Anand Dama
21-Oct-22	900	1,110	12m	Buy	Anand Dama
25-Jul-22	727	1,020	12m	Buy	Anand Dama
29-Apr-22	729	1,020	12m	Buy	Anand Dama
31-Mar-22	761	1,020	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY – Trend (Rs/share)



Source: Bloomberg, Company, Emkay Research

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