

BSE SENSEX 59,411 S&P CNX 17,451

CMP: INR865 TP: INR1,130 (+31%)

Buy



Stock Info

Bloomberg	AXSB IN
Equity Shares (m)	3075
M.Cap.(INRb)/(USDb)	2661.6 / 32.3
52-Week Range (INR)	970 / 618
1, 6, 12 Rel. Per (%)	2/17/13
12M Avg Val (INR M)	7824
Free float (%)	92.0

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
NII	443.4	521.1	606.5
OP	334.9	398.0	480.9
NP	101.6	259.6	305.3
NIM (%)	3.8	3.9	4.0
EPS (INR)	33.1	82.7	95.1
EPS Gr. (%)	-22.1	149.7	15.0
BV/Sh. (INR)	402	496	583
ABV/Sh. (INR)	385	479	565

Ratios

RoE (%)	8.5	18.4	17.6
RoA (%)	0.8	1.8	1.9

Valuations

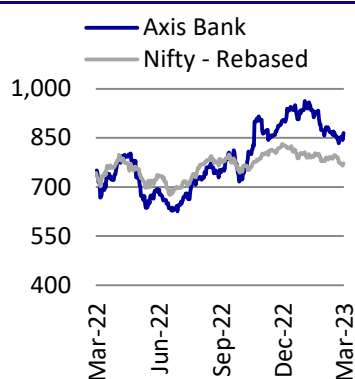
P/E(X)	23.3	9.3	8.1
P/BV (X)	1.9	1.6	1.3
P/ABV (X)	2.0	1.6	1.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	8.0	9.5	9.5
DII	30.7	31.6	29.6
FII	50.8	47.2	48.6
Others	10.6	11.7	12.4

FII Includes depository receipts

Stock performance (one-year)



Completes acquisition of Citi India's consumer business

Deal EPS/RoE accretive in CY24; card/wealth portfolios strengthen

- AXSB has completed the acquisition of Citibank India's consumer banking business for a cash consideration of ~INR116b. The deal includes the credit card, wealth and retail banking operations of both Citibank India and Citicorp Finance.
- It has acquired loans/deposits worth INR273b/INR399b, including the credit card book of INR86b. AXSB's credit card book has increased by 42% to INR292b. Wealth management AUM has risen ~33% to INR3.8t, making it the third largest player by combined AUM.
- AXSB has added ~2.4m unique customers, complemented by Citibank's affluent customer segment, and gained access to 21 branches and 459 ATMs. It has retained 3,200 Citibank employees.
- While the overall synergies in terms of cost savings will start to accrue from CY24, the bank will take a one-time hit in its 4QFY23 P&L related to 1) charge-off of Goodwill and other intangibles, 2) policy harmonization cost, and 3) implementation expenses. Thus, the CET I ratio is likely to moderate by ~177bp to ~13.8%.
- In the long term, the deal's success would depend on how well AXSB is able to cross-sell its entire bouquet of banking products to Citi customers and gain from Citi's well recognized digital and operation processes.
- Factoring in the one-time charge-off and other costs and profitability, we estimate RoA/RoE of 1.9%/17.6% by FY25. We have a Buy rating on AXSB with a TP of INR1,130 (2.0x Sep'24E P/ABV for the standalone bank).

AXSB completes acquisition of Citi's consumer business for INR116b

AXSB has completed the acquisition of Citibank India's consumer business, including its credit cards, deposits, wealth management, loans and other retail banking operations. It has also acquired the NBFC business of Citicorp Finance (India). The total consideration stands at ~INR116b (v/s INR123b earlier), along with the estimated equity requirement of INR32.9b, implying a P/E multiple of 17.7x on normalized earnings. The consideration is further subject to true-up or true-down in portfolio performance between 31st Jan'23 and 28th Feb'23. AXSB is likely to incur an integration cost of INR15b (net of tax over two years).

AXSB's credit card positioning strengthens; market share improves by 3%

Citibank is the seventh largest player in the credit card business in India, with a card base of ~2.5m as of Jan'23. Over the past five years, outstanding cards saw a muted 0.2% CAGR (v/s 20% for the industry), while spends clocked a 1% CAGR (v/s 24% for the industry). Following the acquisition, AXSB's credit card book has increased by ~42% to INR292b. Outstanding cards have grown by ~19% to 11.2m. Its market share in outstanding cards/spends has increased 2.2%/3.6% to 13.8%/12.7%. Average spends per card stand at ~10%, indicating a higher value proposition and strengthening its presence in the overall market.

Loans/deposits rise by 3.6%/4.7%; wealth AUM gets significant boost

The acquisition has increased AXSB's loans/deposit book by 3.6%/4.7% to INR7.9t/INR8.9t. CASA deposits have increased by ~8% and the CASA ratio by ~150bp to ~46%. Retail loans have grown by 6.4%. As a result, the mix of Retail loans rises by ~150bp to 57.8% from 56.3%. Wealth AUM has increased by ~33% to INR3.8t, making it the third largest player by combined AUM in the wealth management space. AXSB has acquired ~2.4m unique customers, complemented by Citibank's affluent customer segment, creating product and branch footprint synergies. It has added 3,200 employees, 21 branches and 459 ATMs.

Synergies to accrue from CY24; CET-I to be impacted by ~177bp

In recent months, growth in Retail loans has picked up for AXSB, particularly in unsecured products. AXSB has added ~1m cards since the announcement of acquisition and maintains a healthy monthly run rate of card additions. While the deal can be margin accretive for AXSB as the mix of Retail/Unsecured loans is likely to increase, overall synergies in terms of cost savings will start to accrue from CY24. Further, the bank will take a one-time hit in its 4QFY23 P&L related to 1) Charge-off of Goodwill and other intangibles, 2) policy harmonization costs, and 3) implementation expenses. As a result, the CET I ratio is likely to moderate by ~177bp to ~13.8%. However, the bank believes that it has sufficient capital even after the acquisition to fund organic growth and thus would take a call on capital raise at an appropriate time. We, nevertheless, have built in a capital raise of INR120b in FY24.

Valuation and view

The acquisition of Citibank India's consumer business has added ~1.8m credit cards to AXSB's outstanding cards and increased its market share by 3%. While synergies in terms of cost savings and RoA accretion will start to accrue from CY24, the deal should result in a higher capital charge (to be done in 4QFY23) and high integration costs of INR15b to be absorbed over the next two years. In the long term, the deal's success would depend on how well AXSB is able to cross-sell its entire bouquet of banking products to Citi customers and gain from Citi's well recognized digital and operation processes. The CET I ratio is likely to moderate by ~177bp to ~13.8%. Factoring in the one-time charge-off and other costs and profitability, we estimate RoA/RoE of 1.9%/17.6% by FY25. We have a BUY rating on AXSB with a TP of INR1,130 (2.0x Sep'24E P/ABV for the standalone bank).

Deal corresponds to an implied P/E of 17.7x on CY20 normalized financials

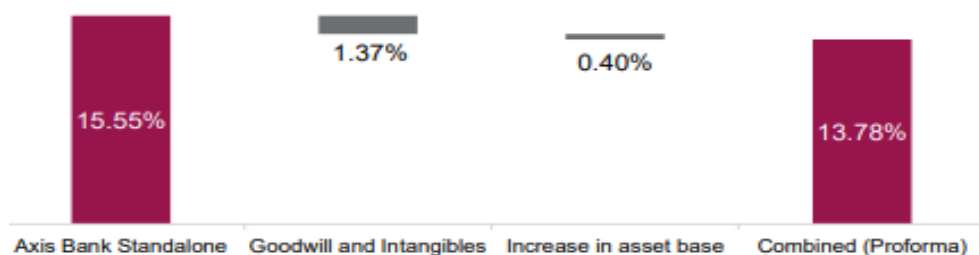
Expect an integration cost of INR15b, to be incurred over two years

Exhibit 1: AXSB acquires Citibank India's consumer business for INR116b

Deal contours	INR b
Purchase consideration	116.0
Estimated equity requirement (13% of RWA)	32.9
Total consideration	148.9
PAT	8.4
Implied P/E	17.7

Source: MOFSL, Company

Exhibit 2: Impact on CET-I ratio; AXSB believes it is well capitalized for organic growth



Source: MOFSL, Company

Retail loans up ~6% for AXSB

AXSB's credit card book rises by ~42%, making it one of the top three players

Number of cards up 19% for AXSB; Spends/card up ~10%

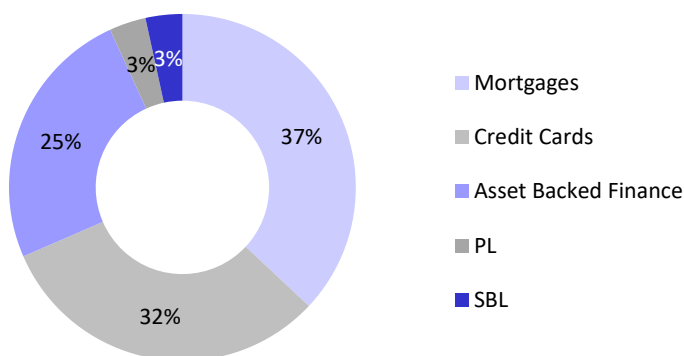
Wealth AUM rises ~33%, making it the third largest by combined AUM in the wealth management space

Exhibit 3: Loan/deposits up ~4%/5%; CASA/Retail loan mix improves

As of Dec'22 (INR b)	AXSB pre-merger	Citibank	AXSB post-merger	Increase
CASA deposits	3,777	307	4,084	8.1%
Term deposits	4,705	92	4,796	2.0%
Total deposits	8,482	399	8,881	4.7%
CASA ratio	44.5%	77.0%	46.0%	146bp
Loan book				
Retail loans	4,293	273	4,566	6.4%
- Credit Cards	206	86	292	41.8%
- Mortgages	1,919	101	2,020	5.3%
- Other Retail	2,169	86	2,255	4.0%
Corporate loans	3,328	NA	3,328	0.0%
Total loans	7,621	273	7,894	3.6%
Retail loan mix	56.3%	100.0%	57.8%	151bp
Wealth AUM	2,838	947	3,785	33.4%
No. of cards	9.4	1.8	11.2	19.1%
Spends per card (INR K)	138	203	152	10.1%
Employees	87,575	3,200	90,775	3.7%
Branches	4,849	21	4,870	0.4%
ATMs	15,674	459	16,133	2.9%

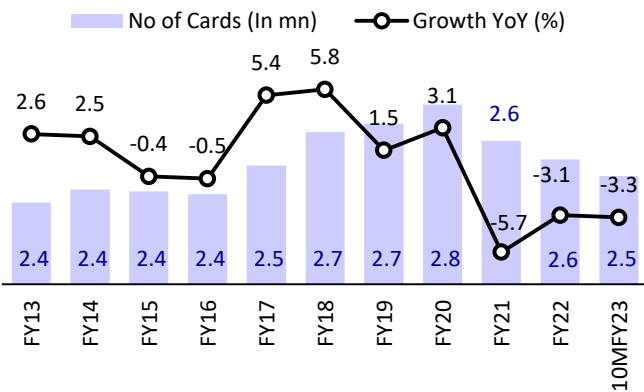
Source: MOFSL, Company

Exhibit 4: Loan mix for Citi India: Mortgages and credit cards constitute 37% and 32% respectively



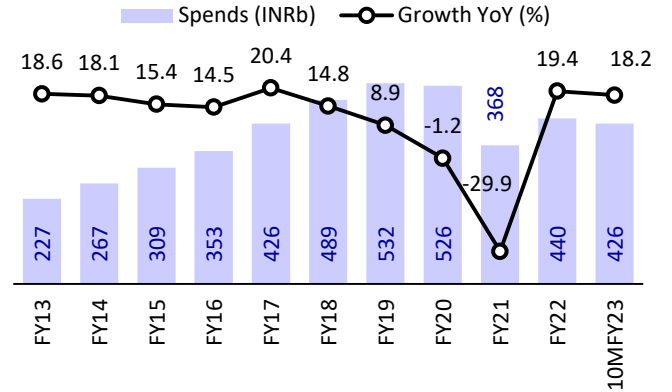
Source: MOFSL, Company

Exhibit 5: Outstanding cards for Citibank flat over the past five years; ~2.5m as of Jan'23



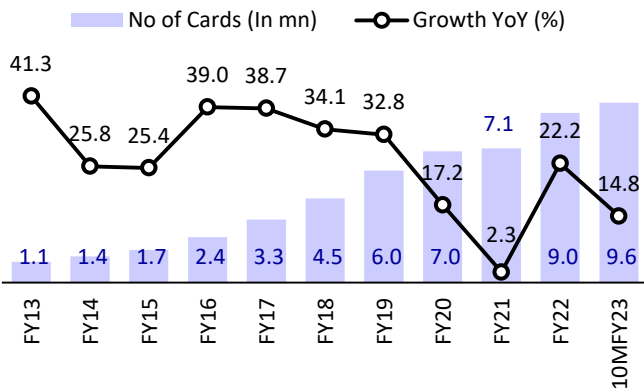
Source: MOFSL, RBI

Exhibit 6: Spends for Citibank flat over FY17-22; up 18% YoY in 10MFY23



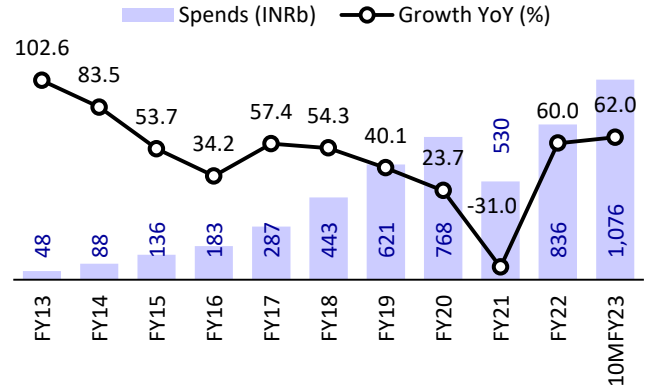
Source: MOFSL, RBI

Exhibit 7: Outstanding cards for AXSB saw 22% CAGR over FY17-22; ~9.6m as of Jan'22



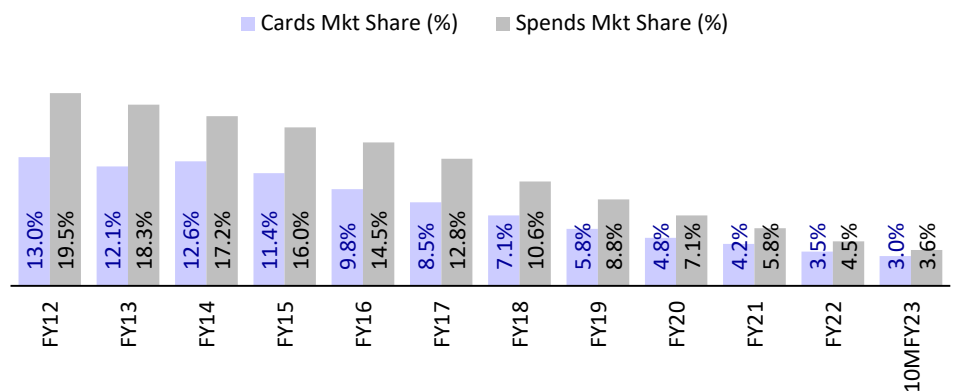
Source: MOFSL, RBI

Exhibit 8: Spends for AXSB clock 24% CAGR over FY17-22; up 62% YoY in 10MFY23

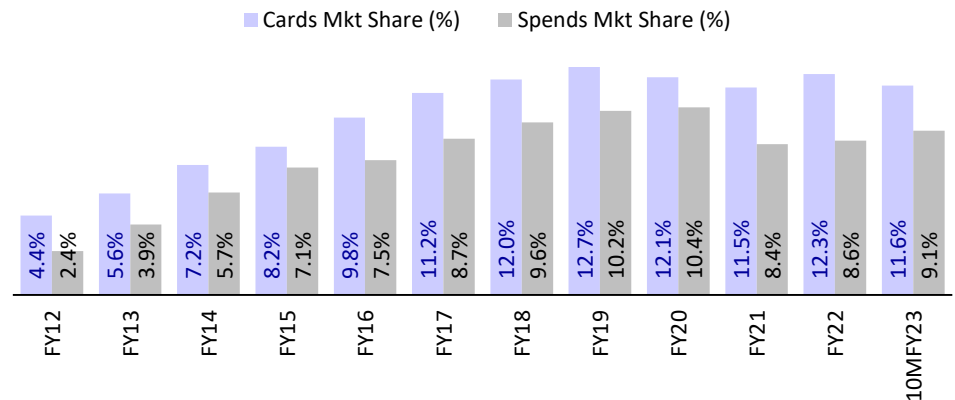


Source: MOFSL, RBI

Exhibit 9: Citibank's market share in outstanding cards/total spends at 3.0%/3.6% in 10MFY23



Source: MOFSL, RBI

Exhibit 10: AXSB's market share in outstanding cards/total spends at 11.6%/9.1% in 10MFY23

Source: MOFSL, RBI

Exhibit 11: AXSB's market share in outstanding cards/spends to increase by 2.2%/3.6%

Market share (%)	Outstanding cards		Total spends	
	Current	Post Axis Citi merger	Current	Post Axis Citi merger
HDFCB	20.9	20.9	28.0	28.0
SBICARD	19.7	19.7	18.2	18.2
ICICIBC	16.6	16.6	18.1	18.1
AXSB	11.6	13.8	9.1	12.7
KMB	5.8	5.8	3.2	3.2
RBK	5.2	5.2	4.1	4.1
IIB	2.6	2.6	5.0	5.0
AMEX	1.6	1.6	2.7	2.7
SCB	1.3	1.3	1.0	1.0

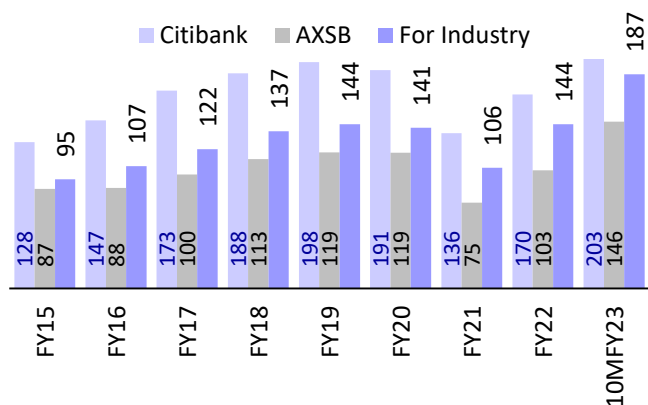
Source: MOFSL, RBI

Exhibit 12: Performance of cards portfolio from the date of announcement of acquisition

	Announcement of Acquisition			Current		
	AXSB	Citi	Merged	AXSB	Citi	Merged
No of Cards (Nos.)	8.6	2.6	11.2	9.6	1.8	11.4
Spends (INRb)	742	396	1,138	1,073	425	1,499
Cards Market Share (%)	12.0%	3.6%	15.6%	11.6%	2.2%	13.8%
Spends Market Share (%)	8.6%	4.6%	13.1%	9.1%	3.6%	12.7%

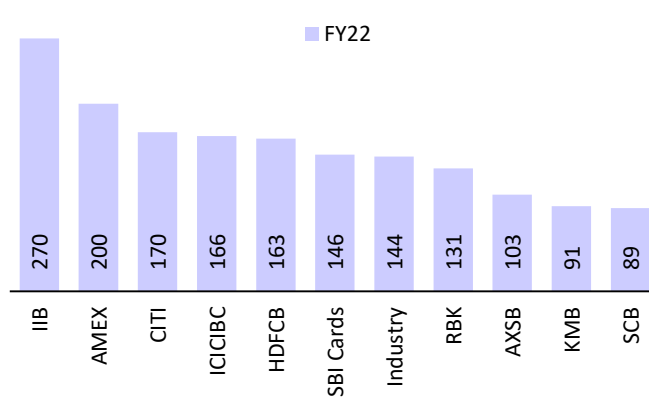
Source: MOFSL, RBI

Exhibit 13: Spends per card for Citibank is 1.1-1.4x higher than the industry, the same is lower for AXSB (INR k)



Source: MOFSL, RBI

Exhibit 14: Spends per card across major players as of FY22; the same for Citibank remains the third highest



Source: MOFSL, RBI

Exhibit 15: DuPont Analysis: Return ratios to witness a gradual uptick

Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	7.08	7.37	7.30	6.66	6.23	6.97	7.50	7.48
Interest Expense	4.20	4.46	4.36	3.59	3.17	3.42	3.82	3.76
Net Interest Income	2.88	2.91	2.94	3.07	3.06	3.56	3.68	3.72
Fee income	1.49	1.66	1.56	1.19	1.28	1.24	1.29	1.32
Trading and others	0.21	0.10	0.25	0.10	0.13	0.06	0.06	0.06
Non-Interest income	1.70	1.76	1.81	1.29	1.41	1.29	1.34	1.38
Total Income	4.58	4.67	4.75	4.36	4.47	4.85	5.03	5.10
Operating Expenses	2.16	2.12	2.02	1.93	2.18	2.17	2.21	2.15
Employee cost	0.67	0.64	0.62	0.65	0.70	0.70	0.72	0.70
Others	1.50	1.49	1.40	1.28	1.48	1.47	1.49	1.45
Operating Profit	2.41	2.55	2.73	2.43	2.29	2.69	2.81	2.95
Core Operating Profit	2.21	2.45	2.48	2.33	2.16	2.63	2.75	2.89
Provisions	2.39	1.61	2.16	1.51	0.68	0.31	0.36	0.45
NPA	2.57	1.37	1.49	1.15	0.48	0.26	0.32	0.41
Others	-0.17	0.24	0.67	0.35	0.20	0.05	0.04	0.04
PBT	0.02	0.93	0.57	0.93	1.61	2.38	2.45	2.50
Tax	-0.02	0.31	0.38	0.23	0.40	0.96	0.62	0.63
RoA	0.04	0.63	0.19	0.69	1.20	0.82	1.83	1.87
Leverage (x)	10.8	11.5	11.3	10.2	10.0	10.5	10.0	9.4
RoE	0.5	7.2	2.1	7.1	12.0	8.5	18.4	17.6

Financials and valuations

Income Statement									(INRb)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Interest Income	457.8	549.9	626.4	633.5	673.8	869.0	1,061.7	1,219.2	
Interest Expense	271.6	332.8	374.3	341.1	342.4	425.6	540.6	612.7	
Net Interest Income	186.2	217.1	252.1	292.4	331.3	443.4	521.1	606.5	
Growth (%)	2.9	16.6	16.1	16.0	13.3	33.8	17.5	16.4	
Non-Interest Income	109.7	131.3	155.4	122.6	152.2	161.3	190.4	224.6	
Total Income	295.8	348.4	407.4	415.0	483.5	604.7	711.5	831.1	
Growth (%)	(0.7)	17.8	16.9	1.9	16.5	25.1	17.7	16.8	
Operating Expenses	139.9	158.3	173.0	183.8	236.1	269.9	313.5	350.2	
Pre Provision Profits	155.9	190.1	234.4	231.3	247.4	334.9	398.0	480.9	
Growth (%)	(11.3)	21.9	23.3	(1.3)	7.0	35.3	18.9	20.8	
Core PPP	142.7	182.5	212.7	221.5	233.6	328.0	389.8	471.0	
Growth (%)	0.3	27.9	16.5	4.2	5.5	40.4	18.8	20.8	
Provisions (exc. tax)	154.7	120.3	185.3	143.2	73.6	38.6	51.0	72.8	
PBT	1.2	69.7	49.0	88.1	173.8	296.3	347.0	408.1	
Tax	(1.5)	23.0	32.8	22.2	43.6	74.7	87.5	102.8	
Tax Rate (%)	(126.8)	32.9	66.8	25.2	25.1	25.2	25.2	25.2	
PAT	2.8	46.8	16.3	65.9	130.3	221.6	259.6	305.3	
Growth (%)	(92.5)	NM	(65.2)	304.9	97.7	70.2	17.1	17.6	
Extraordinary expense	-	-	-	-	-	120.0	-	-	
Reported PAT	2.8	46.8	16.3	65.9	130.3	101.6	259.6	305.3	
Growth (%)	(92.5)	NM	(65.2)	304.9	97.7	(22.0)	155.4	17.6	

Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	5.1	5.1	5.6	6.1	6.1	6.1	6.4	6.4
Reserves & Surplus	629.3	661.6	843.8	1,009.9	1,144.1	1,228.1	1,585.7	1,865.2
Net Worth	634.5	666.8	849.5	1,016.0	1,150.3	1,234.2	1,592.1	1,871.6
Deposits	4,536.2	5,484.7	6,401.0	6,979.9	8,217.2	9,306.5	10,702.4	12,414.8
Growth (%)	9.5	20.9	16.7	9.0	17.7	13.3	15.0	16.0
of which CASA Deposits	2,438.5	2,433.9	2,637.1	3,177.5	3,697.6	4,187.9	4,677.0	5,437.7
Growth (%)	14.5	-0.2	8.3	20.5	16.4	13.3	11.7	16.3
Borrowings	1,480.2	1,527.8	1,479.5	1,428.7	1,851.3	2,014.3	2,157.8	2,351.4
Other Liabilities & Prov.	262.5	330.7	421.6	443.4	531.5	611.2	696.8	801.3
Total Liabilities	6,913.3	8,010.0	9,151.6	9,868.0	11,750.3	13,166.3	15,149.1	17,439.1
Current Assets	434.5	672.0	972.7	617.3	1,109.9	861.9	848.8	847.6
Investments	1,538.8	1,749.7	1,567.3	2,261.2	2,756.0	3,114.2	3,674.8	4,262.8
Growth (%)	19.5	13.7	-10.4	44.3	21.9	13.0	18.0	16.0
Loans	4,396.5	4,948.0	5,714.2	6,144.0	7,077.0	8,340.7	9,675.3	11,320.0
Growth (%)	17.8	12.5	15.5	7.5	15.2	17.9	16.0	17.0
Fixed Assets	39.7	40.4	43.1	42.5	45.7	50.3	54.3	58.7
Other Assets	503.8	599.9	854.3	803.0	763.3	799.1	896.0	950.1
Total Assets	6,913.3	8,010.0	9,151.6	9,868.0	11,751.8	13,166.3	15,149.1	17,439.1

Asset Quality	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
GNPA	342.5	297.9	302.3	253.1	218.2	192.4	201.3	226.1
NNPA	165.9	112.8	93.6	70.6	56.1	38.5	40.0	42.2
GNPA Ratio	7.5	5.8	5.1	4.0	3.0	2.3	2.0	2.0
NNPA Ratio	3.8	2.3	1.6	1.1	0.8	0.5	0.4	0.4
Slippage Ratio	8.2	3.0	3.7	2.9	3.0	2.1	2.0	2.0
Credit Cost	4.1	2.2	2.4	1.8	0.8	0.4	0.5	0.6
PCR (Excl. Tech. write off)	51.6	62.1	69.0	72.1	74.3	80.0	80.1	81.3

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	7.7	8.0	8.0	7.3	6.7	7.5	8.0	8.0
Avg. Yield on loans	8.4	8.8	9.1	8.0	7.5	8.4	8.9	8.7
Avg. Yield on Investments	7.2	7.0	6.9	6.7	5.9	6.4	6.9	7.1
Avg. Cost-Int. Bear. Liab.	4.8	5.1	5.0	4.2	3.7	4.0	4.5	4.4
Avg. Cost of Deposits	4.4	4.7	4.9	4.0	3.5	3.8	4.3	4.3
Avg. Cost of Borrowings	6.3	6.4	5.4	5.2	4.6	4.7	5.5	5.2
Interest Spread	2.9	2.9	3.0	3.1	3.0	3.5	3.5	3.5
Net Interest Margin	3.1	3.2	3.2	3.4	3.3	3.8	3.9	4.0
Capitalisation Ratios (%)								
CAR	16.6	15.9	17.6	19.2	18.5	16.7	17.4	16.7
Tier I	13.0	12.7	14.6	16.6	16.4	14.9	15.9	15.4
Tier II	3.5	3.2	3.0	2.6	2.1	1.8	1.5	1.3
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	96.9	90.2	89.3	88.0	86.1	89.6	90.4	91.2
CASA Ratio	53.8	44.4	41.2	45.5	45.0	45.0	43.7	43.8
Cost/Avg. Assets	2.2	2.1	2.0	1.9	2.2	2.2	2.2	2.1
Cost/Total Income	47.3	45.4	42.5	44.3	48.8	44.6	44.1	42.1
Cost/Core Income	49.5	46.5	44.9	45.3	50.3	45.1	44.6	42.6
Int. Expense/Int. Income	59.3	60.5	59.8	53.8	50.8	49.0	50.9	50.3
Fee Income/Total Income	27.8	31.2	28.9	23.4	24.7	21.5	21.6	21.9
Non Int. Inc./Total Income	37.1	37.7	38.1	29.5	31.5	26.7	26.8	27.0
Investment/Deposit Ratio	33.9	31.9	24.5	32.4	33.5	33.5	34.3	34.3
Profitability Ratios and Valuation								
RoE	0.5	7.2	2.1	7.1	12.0	8.5	18.4	17.6
RoA	0.0	0.6	0.2	0.7	1.2	0.8	1.8	1.9
RoRWA	0.1	0.8	0.3	1.0	1.7	1.2	2.5	2.4
Book Value (INR)	247.2	259.3	301.1	331.6	375.2	402.1	495.9	582.9
Growth (%)	6.2	4.9	16.1	10.2	13.1	7.2	23.3	17.6
Price-BV (x)	3.1	3.0	2.6	2.3	2.1	1.9	1.6	1.3
Adjusted BV (INR)	193.8	219.7	269.7	308.0	354.1	384.9	478.7	564.9
Price-ABV (x)	4.0	3.5	2.9	2.5	2.2	2.0	1.6	1.4
EPS (INR)	1.1	18.2	6.0	22.4	42.5	33.1	82.7	95.1
Growth (%)	-92.8	1,538.1	-66.9	271.0	89.7	-22.1	149.7	15.0
Price-Earnings (x)	694.1	42.4	127.8	34.5	18.2	23.3	9.3	8.1

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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