

### Axis Bank completes Acquisition of Citi's Consumer Business

Axis Bank today completed its acquisition of CitiBank's (India) consumer business including transfer of Rs273bn of assets, Rs400bn of deposits, and ~3,200 Citi employees. Post-acquisition CET1 ratio at 13.7% is better than anticipated earlier, lowering immediate need of capital raise. While Citi's deposits base and wealth AUM have declined by 15-20% since the deal announcement, quality of deposits (deposit per account) and spends per card have improved. The acquisition gives strategic thrust to Axis in closing gap with peers. However, benefits on profitability will accrue only by FY26E given the Rs20bn of integration costs to be incurred over next 18 months. We factor in the combined numbers in our estimates. Maintain BUY with unrevised TP of Rs1130, valuing the bank at 2.3x Sep-24 P/ABV.

### Boost to key retail segments

Deposits acquired under the deal (Rs400bn) would be fully matched by advances (Rs273bn) and cash. On the assets side, CitiBank's credit card portfolio (Rs86bn) largely comprises of affluent/super affluent customers and is complementary to Axis' existing portfolio. On the liabilities side, Citibank's relatively small but CASA heavy portfolio (~77% CASA%) would lead to ~150bps improvement in Axis' CASA ratio to 46%.

### Synergistic acquisition

Axis has paid for the Citi franchise- customer relationships, Citi phone banking and experienced team- which the bank would have taken a long time to put up together on its own. Over the longer term, there will be synergies from strong cross sell opportunity given the breadth of services Axis can offer to Citi's loan and wealth customers along with cost synergies. Axis expects 30%-40% of Citi's operating expenses to be realized under Axis umbrella over next few years.

### Benefits to accrue over a long period (by CY25E/FY26E)

The consolidated franchise will be able to generate healthy RoAs at 1.7% in our view (~1.6% for standalone Axis). This however has a long gestation given the Rs20bn integration costs Axis needs to incur, which offset the annual acquisition PAT of Rs8-8.4bn. Consequently, the business is expected to turn RoE accretive only end of CY24. FY23E PAT will also have bearing of Rs116bn of goodwill expense. RoEs for FY25E at ~18% benefits from rise in leverage and will be impacted by additional capital raise.

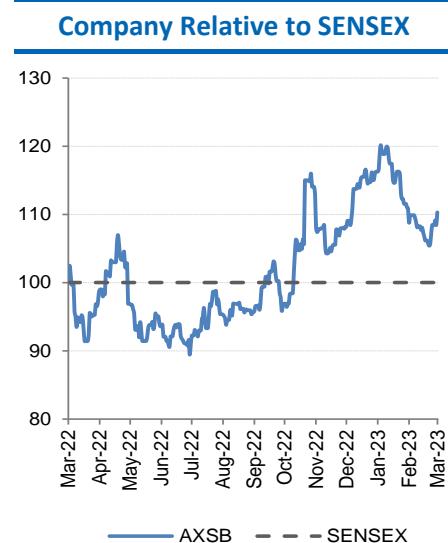
### Risks to portfolio & employee attrition remains a monitorable

While the acquired deposits base and wealth AUM declined by 21% and 15% respectively since the acquisition announcement in last March, employee attrition has been limited. Portfolio outflows and employee attrition will remain a key monitorable during the transition period.

### FINANCIALS (Rs Mn)

Particulars	FY21A	FY22A	FY23E	FY24E	FY25E
Net Interest Income	292,391	331,322	455,270	505,461	564,575
Growth(%)	16.0	13.3	37.4	11.0	11.7
PPOP	231,275	247,420	351,226	367,422	425,722
PAT	65,884	130,254	142,438	226,133	262,005
Growth(%)	304.9	97.7	9.4	58.8	15.9
EPS (Rs)	21.5	42.4	46.4	73.7	85.4
ABV (Rs)	308.4	356.8	366.9	433.2	510.8
ROA (%)	0.7	1.2	1.1	1.6	1.6
ROE(%)	7.1	12.0	12.3	17.8	17.5
PER(x)	40.2	20.4	18.6	11.7	10.1
P/ABV (x)	2.8	2.4	2.4	2.0	1.7

CMP	Rs 865
Target / Upside	Rs 1,130 / 31%
NIFTY	17,451
<b>Scrip Details</b>	
Equity / FV	Rs 6,139mn / Rs 2
Market Cap	Rs 2,660bn
	USD 32.3bn
52-week High/Low	Rs 966/ 618
Avg. Volume (no)	8,336,920
Bloom Code	AXSB IN
<b>Price Performance</b>	
1M	3M 12M
Absolute (%)	0 (4) 15
Rel to NIFTY (%)	0 1 8
<b>Shareholding Pattern</b>	
	Jun'22 Sep'22 Dec'22
Promoters	9.7 9.5 8.2
MF/Banks/FIs	31.5 30.8 31.5
FII	46.6 46.8 49.5
Public / Others	12.3 12.9 10.8



**VP - Research: Mona Khetan**

Tel: +91 22 40969762

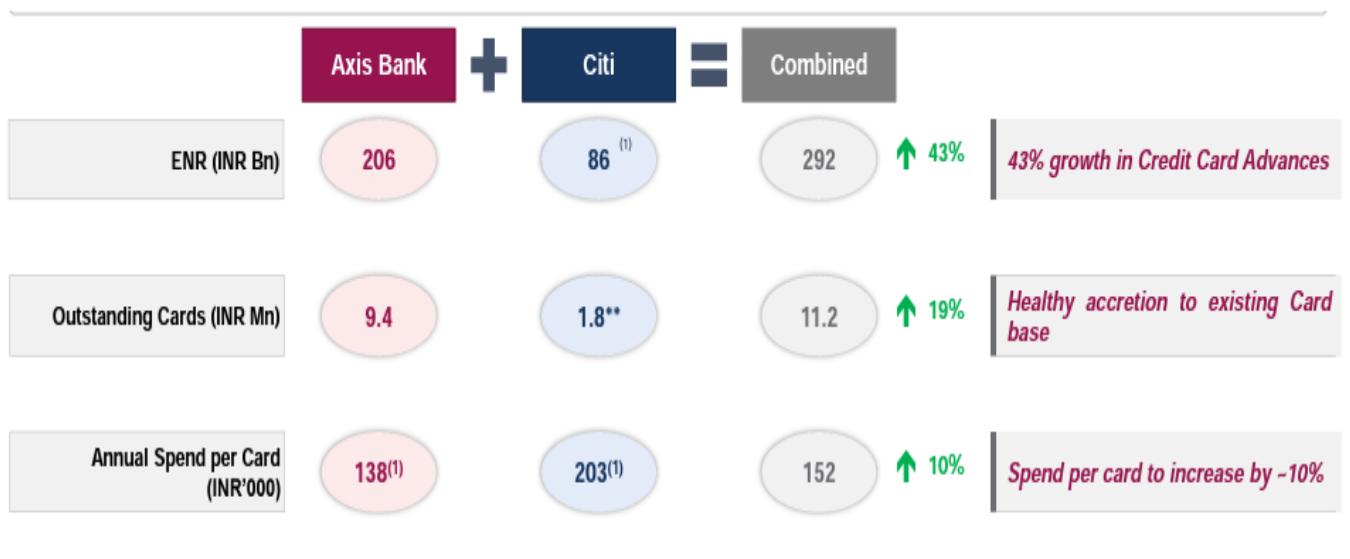
E-mail: monak@dolatcapital.com

**Associate: Gautam Rawtani**

Tel: +91 22 40969763

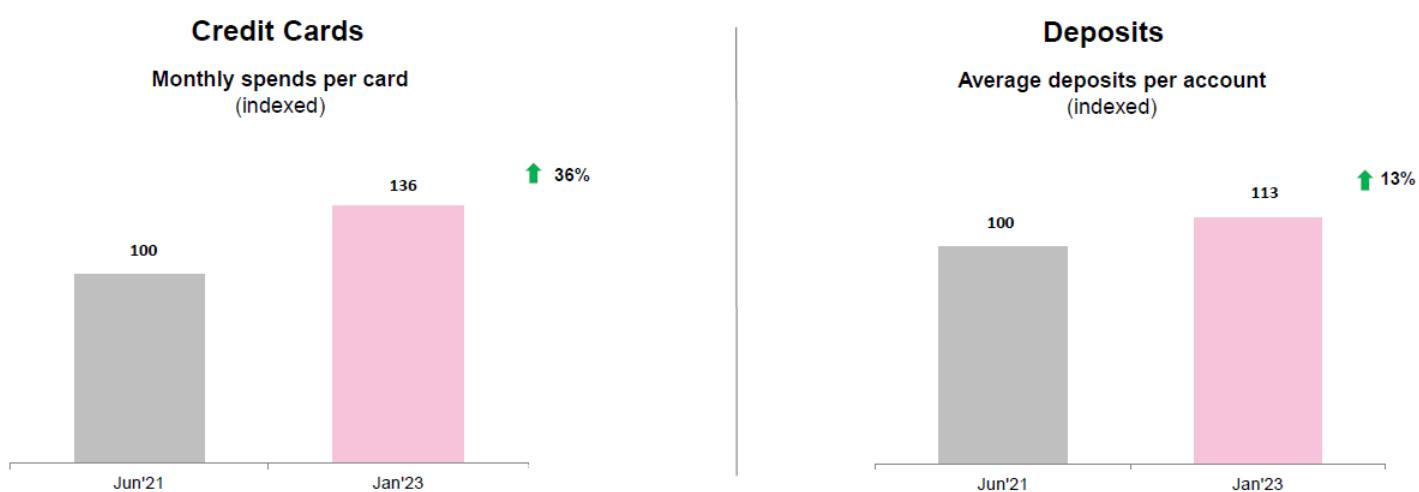
E-mail: gautamr@dolatcapital.com

## Exhibit 1: The acquisition consolidates Bank's position in Credit Card business



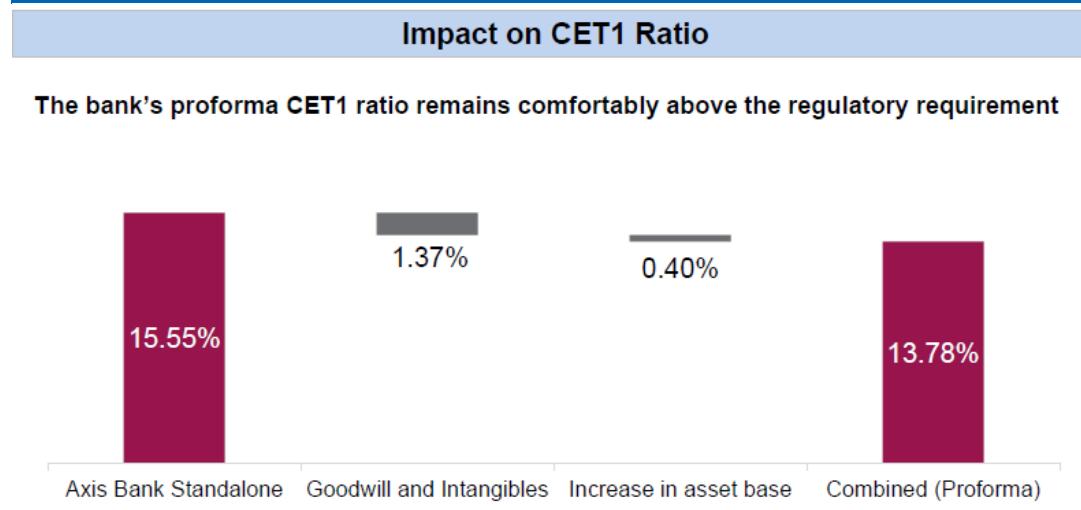
Source: DART, Company

## Exhibit 2: Quality of acquired portfolio has improved across key metrics



Source: DART, Company

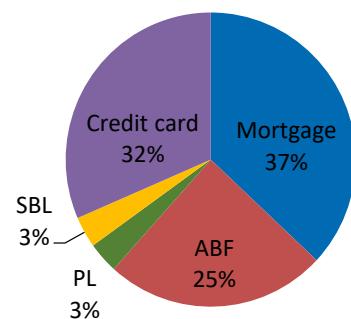
## Exhibit 3: CET1 levels better than anticipated



Source: DART, Company

### Exhibit 4: Advances Mix for CitiBank

#### Advances Loan Mix



Source: DART, Company

### Exhibit 5: Contours of the deal

#### Transaction Valuation Metrics

Purchase Consideration (subject to customary and contractual adjustments)	11,603	Acquisition PAT (current estimate not materially different from Mar'22 disclosure)	800-842 <sup>(1)</sup>
Add: Estimated Equity Requirement (@13% of RWA)	3,292	Implied P / E	17.7x – 18.7x <sup>(2)</sup>
Implied Equity Value	14,895	Estimated integration cost <sup>(3)</sup> (post tax impact over 2 financial years)	1,500

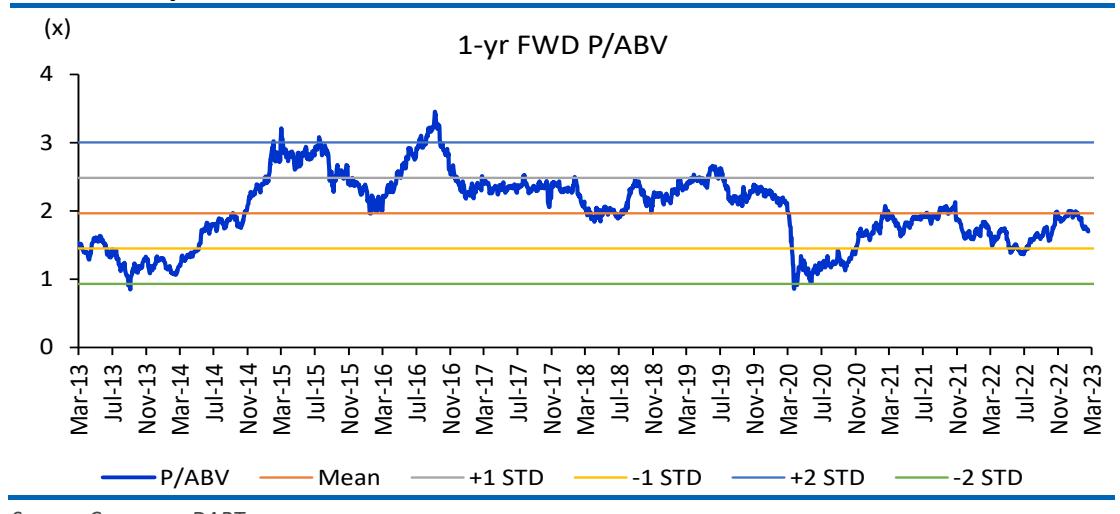
~6% decline in Purchase Consideration (subject to true/up down and other customary and contractual adjustments)

Purchase consideration (in Rs Crore)



Source: Company, DART

### Exhibit 6: 1 yr forward P/ABV chart



Source: Company, DART

## Concall Highlights

- **Citi CC portfolio**- been able to grow CC acquisitions, post COVID revolts have come down and in line with industry. Spends have returned post COVID and monthly spends per card has grown.
- **Customer attrition**- Current customer count includes only those who have consented to be part of Axis. Natural attrition, therefore, both in deposits and credit is expected to be low hereon. In next 3-6 months, things should settle down.
- **Capital raise**- Way better off on CET 1 levels vs earlier anticipated (12.9% anticipated vs 13.8% now). Sufficient capital post acquisition to fund organic growth. No worry to approach the market anytime soon.
- **P&L Impact**: Acquisition PAT at ~Rs8-8.4bn does not adjust for synergy benefits. This also does not factor integration costs of Rs20 bn (pre-tax), 70-75% of which will be prorated and linear and incurred over 18 months. Post the integration expenses, CY24 should result in a positive RoE accretion. Goodwill consideration of Rs116bn will be charged thru the P&L and will be written-off in Q4, a one-time hit. Apart from this, policy harmonization charge, and certain transaction charges will also be charged through Q4FY23 P&L. Will start accruing income and expenses from Mar1 on the new portfolio from Mar1, 2023.
- **Balance sheet additions** – 27300 on assets (3.5%), 40000 on liabilities (4.5%), rest will be cash.
- **Sharp rundown in deposits** was led by customers consent process where some customers declined consent. Avg deposits per account has nonetheless grown. So were able to retain a large section of quality customers.
- **Low employee attrition**: Numbers are better than expectations on Citi staff joining us. 96% of employees accepted the offer. Have matched the offer.
- **Overlaps in CC portfolio**- will get to know over time. Will use the opportunity to deepen the relationship.
- **Interest rates on deposits for Axis vs Citi**- Axis rates are better/higher.

### Exhibit 7: Change in estimates

Particulars (Rs mn)	Previous			Revised			Change %		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Operating Revenue	601,495	667,597	760,446	622,672	747,795	878,127	3.5	12.0	15.5
Pre Provision Profits	330,048	367,225	428,041	351,226	367,422	425,722	6.4	0.1	(0.5)
PAT	218,631	228,396	267,514	142,438	226,133	262,005	(34.9)	(1.0)	(2.1)

Source: DART, Company |

## Financial Performance

### Profit and Loss Account (Rs Mn)

Particulars	FY22A	FY23E	FY24E	FY25E
Interest Income	673,768	873,520	1,029,887	1,173,171
Interest expenses	342,446	418,250	524,426	608,596
<b>Net interest income</b>	<b>331,322</b>	<b>455,270</b>	<b>505,461</b>	<b>564,575</b>
Other incomes	152,205	167,402	242,334	313,552
Total expenses	236,108	271,446	380,372	452,405
- Employee cost	76,126	89,067	99,755	111,725
- Other	159,982	182,379	280,617	340,679
<b>Pre provisioning profit</b>	<b>247,420</b>	<b>351,226</b>	<b>367,422</b>	<b>425,722</b>
Provisions	73,595	160,878	65,227	75,588
Profit before taxes	173,825	190,348	302,196	350,134
Tax provision	43,571	47,911	76,063	88,129
Profit after tax	130,254	142,438	226,133	262,005
<b>Adjusted profit</b>	<b>130,254</b>	<b>142,438</b>	<b>226,133</b>	<b>262,005</b>

### Balance Sheet (Rs Mn)

Particulars	FY22A	FY23E	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	6,139	6,139	6,139	6,139
Reserves & Surplus	1,145,601	1,160,562	1,368,062	1,611,434
Minority Interest	0	0	0	0
<b>Net worth</b>	<b>1,151,741</b>	<b>1,166,701</b>	<b>1,374,201</b>	<b>1,617,573</b>
<b>Borrowings</b>				
- Deposits	8,217,209	9,321,517	10,669,942	12,263,866
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	531,493	708,145	820,754	907,724
<b>Total Liabilities</b>	<b>11,751,781</b>	<b>13,242,550</b>	<b>14,897,267</b>	<b>16,953,375</b>
<b>Application of Funds</b>				
Cash and balances with RBI	1,109,871	917,504	913,038	1,038,483
Investments	2,755,972	3,201,841	3,619,060	4,091,725
Advances	7,076,960	8,266,964	9,424,339	10,743,747
Fixed assets	45,724	54,823	59,271	65,627
Other current assets, loans and advances	763,255	801,418	881,559	1,013,793
<b>Total Assets</b>	<b>11,751,781</b>	<b>13,242,550</b>	<b>14,897,267</b>	<b>16,953,375</b>

E – Estimates

**Important Ratios**

Particulars	FY22A	FY23E	FY24E	FY25E
<b>(A) Margins (%)</b>				
Yield on advances	7.5	8.5	8.8	8.8
Yields on interest earning assets	6.7	7.5	7.8	7.9
Yield on investments	6.6	5.8	6.2	6.3
Costs of funds	3.7	3.9	4.4	4.5
Cost of deposits	4.0	3.5	3.6	4.1
NIMs	3.3	3.9	3.8	3.8
<b>(B) Asset quality and capital ratios (%)</b>				
GNPA	2.8	2.1	2.0	2.0
NNPA	0.7	0.5	0.5	0.4
PCR	74.7	80.0	80.0	80.0
Slippages	3.3	2.0	1.9	1.9
NNPA to NW	4.8	3.3	3.1	3.0
CASA	45.1	46.0	46.0	46.0
CAR	18.5	15.8	16.0	15.9
Tier 1	16.3	13.8	14.1	14.1
Credit - Deposit	86.1	88.7	88.3	87.6
<b>(C) Dupont as a percentage of average assets</b>				
Interest income	6.2	7.0	7.3	7.4
Interest expenses	3.2	3.3	3.7	3.8
Net interest income	3.1	3.6	3.6	3.5
Non interest Income	1.4	1.3	1.7	2.0
Total expenses	2.2	2.2	2.7	2.8
- cost to income	48.8	43.6	50.9	51.5
Provisions	0.7	1.3	0.5	0.5
Tax	0.4	0.4	0.5	0.6
RoA	1.2	1.1	1.6	1.6
Leverage	10.2	11.4	10.9	10.5
RoE	12.0	12.3	17.8	17.5
RoRwa	1.9	1.8	2.5	2.5
<b>(D) Measures of Investments</b>				
EPS - adjusted	42.4	46.4	73.7	85.4
BV	374.7	379.6	447.2	526.5
ABV	356.8	366.9	433.2	510.8
DPS	1.0	5.0	5.0	5.0
Dividend payout ratio	0.0	0.0	0.0	0.0
<b>(E) Growth Ratios (%)</b>				
Net interest income	13.3	37.4	11.0	11.7
PPoP	7.0	42.0	4.6	15.9
Adj PAT	97.7	9.4	58.8	15.9
Advances	15.2	16.8	14.0	14.0
Total borrowings	29.6	10.5	(0.7)	6.5
Total assets	19.1	12.7	12.5	13.8
<b>(F) Valuation Ratios</b>				
Market Cap (Rs. mn)	2,660,293	2,660,293	2,660,293	2,660,293
CMP (Rs.)	865	865	865	865
P/E (x)	20.4	18.6	11.7	10.1
P/BV (x)	2.3	2.3	1.9	1.6
P/ABV (x)	2.4	2.4	2.0	1.7
Div Yield (%)	0.1	0.6	0.6	0.6

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-22	BUY	970	750
Apr-22	BUY	970	780
Jul-22	BUY	920	727
Oct-22	BUY	1,130	826
Nov-22	BUY	1,130	879
Jan-23	BUY	1,130	933

\*Price as on recommendation date

### DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Anjana Jhaveri	VP - FII Sales	anjanaj@dolatcapital.com	+9122 4096 9758
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

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SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)