

Axis Bank announced acquisition of Citi's consumer business

CMP: INR 750

Rating: Buy

Target Price: INR 942

Stock Info

BSE	532215
NSE	AXISBANK
Bloomberg	ASXB IN
Reuters	AXBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	612
Mkt Cap (INR Cr)	2,30,369
52w H/L (INR)	867 / 627
Avg Yearly Vol (in 000')	10,538

Shareholding Pattern %

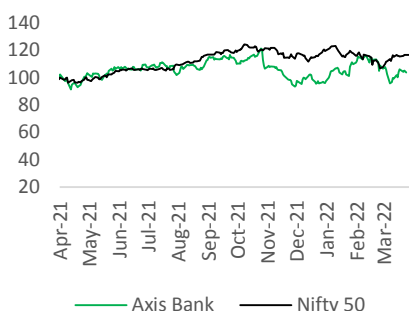
(As on December, 2021)

Promoters	9.7
FII	47.4
DII	30.3
Public & Others	12.6

Stock Performance (%)

	3m	YTD	12m
Axis Bank	12.2	10.6	7.9
Nifty	1.7	0.8	17.9

Axis Bank Vs Nifty



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Axis Bank has signed a definitive agreement to acquire CitiBank's (India) consumer business Indian consumer business for a cash consideration of \$1.6 bn (INR 12,325 cr). The transaction is expected to be close in the next 9-12 months (by Q4FY23), subject to requisite regulatory approvals. The Full transition expected by Sep'24 with transfer of all customers, products, data and partner connections to Axis Bank's systems. The transaction includes the sale of the consumer banking businesses of Citibank India, which includes credit cards, wealth management, retail customer accounts and consumer loans. It also includes the sale of the consumer business of Citi's NBFC, Citicorp Finance (India) Ltd, comprising the asset-backed financing business. The transaction will also include transfer of 3,600 Citi employees supporting the consumer businesses to Axis Bank.

Key Concall Highlights:

- The bank will incur integration costs of INR 15 bn (over the two year) post completion of transaction. This includes INR 12 bn to Citi for the services it will provide to the bank during transition and balance INR 3 bn at bank's end for integration.
- Funding of the deal would be done through internal accruals. The balance sheet is strong enough to fund the transaction and growth capital would be raised when required.
- Axis Bank has a credit card base of 8.6 mn, will add another 2.55 mn from Citi. Due to premium customers with higher spends per card, Axis Bank's Cards balance sheet will grow by 57% which will in turn bolster the cards balance sheet position of Axis Bank.
- Citi's total retail loans are at INR 274 bn. In comparison with Citi's book, Axis Bank's total loan book appears significantly larger at INR 6,649 bn. Citi will add aggregate deposits of INR 502 bn, of which 81% is CASA. Thus Axis's CASA ratio will increase from 45% to 47%.
- Axis Bank will gain access to 7 offices, 21 branches and 499 ATMs across 18 cities. Axis Bank estimates cost savings of 30%-40% from Citi's OPEX to be realised under Axis Bank umbrella over 2 years post closing of the deal.
- Axis needs to take customer consent which will be done over the next 9-12 months. Inputs like customer openness to Axis were taken in consideration while arriving at bid price.
- Acquisition will reduce Axis's CET 1 from 15.3% to 13.0% as it includes ~180 bps impact attributable towards purchase premium and 50bps impact to meet incremental RWA capital requirements. Based on CY20 financial, deal has been valued at an implied PE of 18.7x. Deal is expected to be EPS and RoE accretive from FY24.

Valuation & View: We believe Citi's consumer business acquisition will strengthen Axis Bank's card and mortgage business and it will help to expand footprint. The deal has been fairly valued at 18.7x P/E. Upon the acquisition Axis Bank's market share in Credit card and spends will increased. It will increase its market share by 3.6% to 15.6%. However, integration of Citi's business, portfolio behavior and synergies in terms of cost savings and RoA accretion will be a key monitorable. We revise our rating on the stock to Buy from Accumulate with a TP of INR 942 (unchanged), based on 2.1x FY24E P/ABV.

Exhibit1 : Transaction expected to get complete by Sep 24

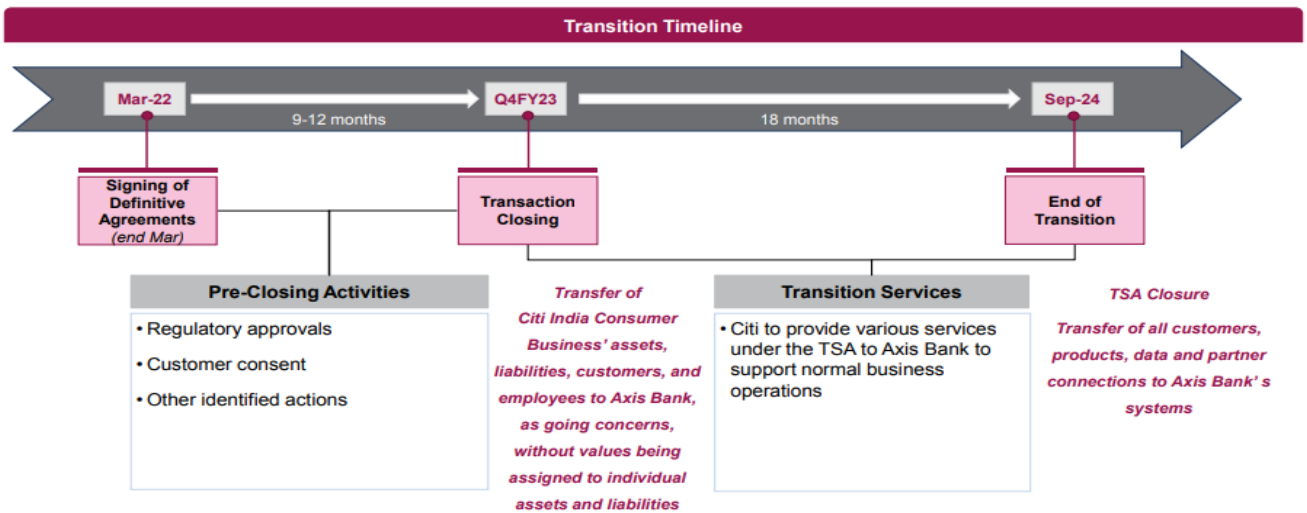


Exhibit2 : Proforma Financial of Axis Bank + CitiBank Retail

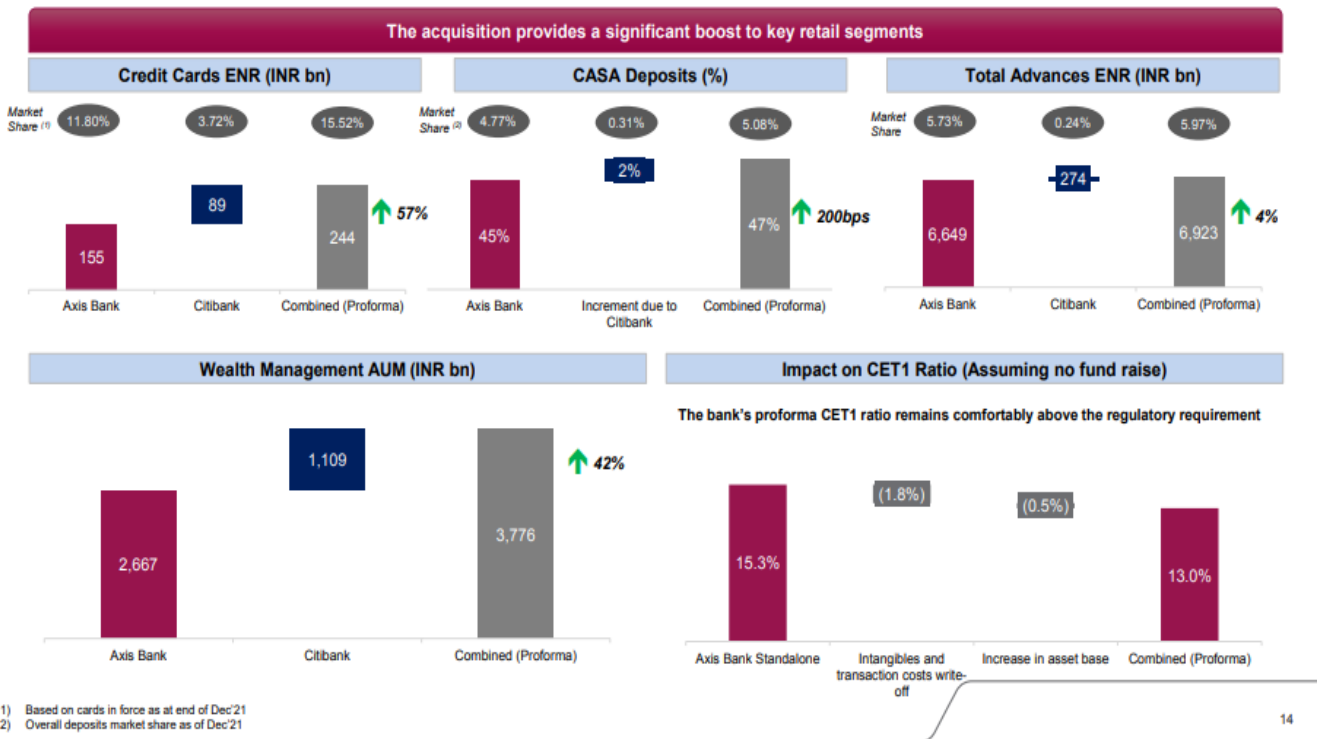


Exhibit 3 : Standalone pro forma financials for Citibank's Consumer business

in bn.	CY20
Net interest income	2086
Other Income	1959
Total Income	4045
Operating Expenses	2298
PPoP	1747
PAT	842
NII (%)	3.9%
Cost to Assets (%)	4.3%
RoA (%)	1.6%
RoE (%)	21.7%

Income Statement				
(Rs Cr)	FY21	FY22E	FY23E	FY24E
Interest Earned	63645	73069	84541	97819
Interest Expended	34406	39534	44611	50340
Net Interest Income	29239	33535	39931	47479
Other Income	14838	16063	18316	20693
Fee Income	10686	11541	12926	14477
Treasury Income	2547	1822	2266	2602
Operating Income	44077	49598	58247	68172
Operating Expenses	18375	20885	22901	25114
Employee Expenses	6164	6842	7595	8430
Profit before provision & tax	25702	28713	35346	43058
Provisions and Contingencies	16896	12050	14627	16968
Profit Before Tax	8806	16663	20718	26090
Provision for tax	2217	4196	5217	6570
Exp. Items	0	0	0	0
Profit After Tax	6588	12467	15501	19520

Balance Sheet				
(Rs Cr)	FY21	FY22E	FY23E	FY24E
Sources of funds				
Share Capital	613	613	613	613
Total Reserves	100990	113457	128958	148479
Shareholder's Fund	101603	114070	129571	149092
Deposits	707306	806329	927278	1066370
Borrowings	142873	158646	175052	193098
Other Liabilities & provisions	44336	47972	55784	65583
Total Liabilities	996118	1127017	1288797	1475254
Application of Funds				
Cash & Bank	61730	67903	74693	82162
Investments	226120	253059	290532	333554
Advances	623720	717278	832043	965170
Fixed Assets	4245	4457	4680	4914
Other Assets	80304	84319	86849	89454
Total Assets	996118	1127016	1288797	1475254

Ratios %				
	FY21	FY22E	FY23E	FY24E
Asset Quality				
Gross NPA	3.7	3.7	3.6	3.6
Net NPA	1.1	1.0	1.2	1.2
PCR	80.0	78.0	74.0	74.0
Growth				
Advances Growth	9.2	15.0	16.0	16.0
Deposit growth	10.5	14.0	15.0	15.0
Net Profit Growth	304.9	89.2	24.3	25.9
Liquidity				
C-D Ratio	88.2	89.0	89.7	90.5
CASA	42.0	42.0	42.0	42.0
Capital Adequacy	19.1	19.1	19.1	19.1
Efficiency				
Cost Income Ratio	41.7	42.1	39.3	36.8
Operating Costs to Assets	1.8	1.9	1.8	1.7

Spread Analysis (%)				
	FY21	FY22E	FY23E	FY24E
Spread Analysis				
Yield on Advances	7.7	8.0	8.0	8.0
Yield on Investments	5.6	6.0	6.0	6.0
Cost of Funds	4.0	4.1	4.0	4.0
NIM	3.4	3.4	3.6	3.7
Interest Spread	3.6	3.9	3.9	4.0
Profitability				
ROE	6.5%	10.9%	12.0%	13.1%
ROA	0.7%	1.1%	1.2%	1.3%
Earnings Per Share (Rs)	21.5	40.7	50.6	63.7
Book Value (Rs)	332	372	423	487
Adjusted Book Value (Rs)	308	349	390	448
Valuation				
P / EPS (x)	39.2	20.7	16.6	13.2
P / ABV (x)	2.7	2.4	2.2	1.9

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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