



India

ADD (no change)

Consensus ratings*: Buy 48 Hold 2 Sell 0	
Current price:	Rs844
Target price:	Rs1,100
Previous target:	Rs1,100
Up/downside:	30.3%
InCred Research / Consensus:	-1.8%
Reuters:	
Bloomberg:	AXSB IN
Market cap:	US\$35,758m
	Rs2,596,534m
Average daily turnover:	US\$119.8m
	Rs8701.4m
Current shares o/s:	3,075.7m
Free float:	80.0%
*Source: Bloomberg	

Key changes in this note

- ▶ We adjust FY23F estimates by Rs20bn for merger-related expenses/provisions and a write-off of Rs116bn from the reserves, adjusting for goodwill acquired.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(3.2)	(6.3)	13.7
Relative (%)	(2.2)	0.2	8.5

<b>Major shareholders</b>	% held
LIC	8.2
Mutual Funds	22.7
Foregin Portfolio Investors	46.9

**InCredible India**  
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 14<sup>th</sup> 15<sup>th</sup>  
**MARCH 2023**  
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Analyst(s)



**Jignesh SHIAL**  
 T (91) 22 4161 1547  
 E jignesh.shial@incredcapital.com  
**Mayank AGARWAL**  
 T (91) 22 4161 0000  
 E mayank.agarwal@incredcapital.com  
**Akshay DOSHI**  
 T (91) 22 4161 1548  
 E akshay.doshi@incredcapital.com

# Axis Bank

## Citi biz buyout is affirmative & RoE-accretive

- We appreciate Axis Bank’s ability to hold ~80% of Citi’s deposits (Rs399bn), ~95% employees with timely completion & lower acquisition cost (Rs116bn).
- Adjust FY23F estimates by Rs20bn for merger-related expenses/ provisions and a write-off of Rs116bn from the reserves adjusted for goodwill acquired.
- Post-merger RoE to expand (+18.5% for FY24F) amid a dip in net worth as well as synergy benefits. Retain ADD rating with Rs1,100 TP, ~2.4x FY24FBV.

### Buyout completion with sizable deposit retention is encouraging

Axis Bank is close to completing its acquisition of CitiBank’s India business and the formation of a merged entity from 1 Mar 2023. This was relatively faster compared to our/street estimate of Jun 2023F. Also, the bank managed to retain deposits worth Rs399bn (~80% of CitiBank’s pre-acquisition deposits) which were largely from high net-worth individuals. We appreciate the timely and smooth transition handled by the bank.

### One-time charge to impact 4QFY23F profitability

Axis Bank’s management has indicated merger-related expenses (banker fees, etc.) and provisions (as per prudent measures of the bank) to be adjusted against 4QFY23F earnings. We are building in Rs20bn as a one-time charge towards other operating expenses and provisions for 4QFY23F. We have also included Rs20bn as one-time transitional charges (payable to CitiBank) in our FY24F-25F other operating expenses.

### We factor in synergies through the surge in fee income

Management has given guidance of multiple synergies and the merger to be RoE-accretive from CY24F. We are building in superior fee income, which will mainly be contributed by credit card and wealth management businesses of the bank. The acquisition will provide an advantage to Axis Bank in case of credit card business (being among the top 3 in India) and wealth management. Post-merger, wealth management assets under management or AUM of Axis Bank will rise to Rs3,785bn (+33% to existing burgundy AUM) whereas the number of credit cards would rise to ~1.8m with the outstanding balance rising to Rs11.2m (+19%) and the spending per card rising to Rs0.152m (+10%).

### Capital adequacy stable; surge in RoE supports valuation premium

Axis Bank has consumed ~137bp of CET-1 for the purchase consideration and ~40bp for incremental RWA. On a proforma basis, post transaction CAR | CET1 would be ~17.62% | 13.78%; well above the regulatory requirement and allowing a delay in dilution. However, the probability of a dilution around 2HFY24F continues to persist. Axis Bank to write off goodwill worth Rs116bn against current reserves (due to the absence of tax implication). The dip in network due to the write-off clubbed with synergy benefits has aided RoE expansion for FY24F/25F to 18.5%. We retain ADD rating on the stock with a target price of Rs1,100, or ~2.4x FY24F ABV. Adverse regulatory action and a rise in non-performing assets are key downside risks.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	292,391	331,323	422,364	507,753	603,710
Total Non-Interest Income (Rsm)	122,636	152,205	160,627	197,186	228,409
Operating Revenue (Rsm)	415,027	483,528	582,991	704,939	832,119
Total Provision Charges (Rsm)	(143,217)	(73,593)	(47,512)	(40,942)	(51,041)
Net Profit (Rsm)	65,885	130,258	190,730	243,721	290,379
Core EPS (Rs)	22.15	42.48	62.04	79.28	94.46
Core EPS Growth	270%	92%	46%	28%	19%
FD Core P/E (x)	38.11	19.87	13.60	10.65	8.94
DPS (Rs)	0.00	1.00	3.00	8.00	14.00
Dividend Yield	0.00%	0.12%	0.36%	0.95%	1.66%
BVPS (Rs)	340.7	374.5	391.1	460.1	537.2
P/BV (x)	2.48	2.25	2.16	1.83	1.57
ROE	7.1%	12.0%	16.1%	18.4%	18.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised estimates

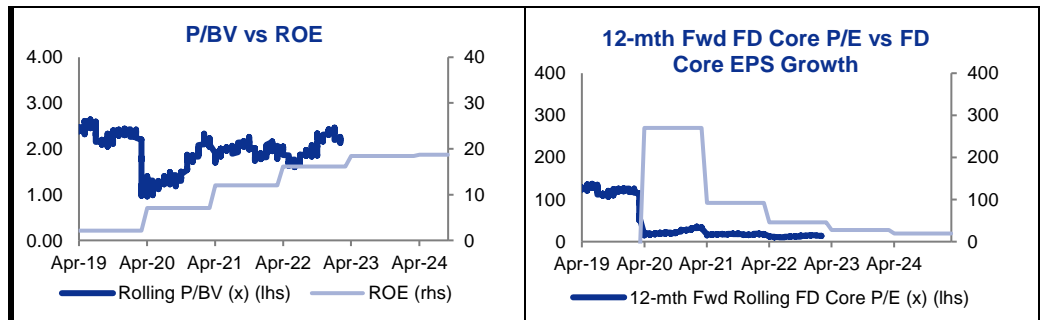
Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	410,883	422,364	2.8%	496,179	507,753	2.3%	588,390	603,710	2.6%
Non-interest income	161,778	160,627	-0.7%	194,308	197,186	1.5%	216,016	228,409	5.7%
PPOP	311,949	302,498	-3.0%	379,007	366,772	-3.2%	475,089	439,248	-7.5%
PAT	210,917	190,730	-9.6%	253,332	243,721	-3.8%	308,500	290,379	-5.9%
EPS (Rs)	68.8	62.0	-9.8%	82.4	79.3	-3.8%	100.6	94.5	-6.1%
BV (Rs)	488.8	391.1	-20.0%	555.6	460.1	-17.2%	646.2	537.2	-16.9%
Advances (Rs bn)	8,488	8,356	-1.6%	9,835	9,899	0.6%	11,844	11,674	-1.4%
Deposits (Rs bn)	9,792	9,311	-4.9%	10,708	10,661	-0.4%	12,933	12,297	-4.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- A sum of Rs116bn is the purchase consideration, which is subject to any change in deposits or advances between Jan 2022 and Feb 2022. The Rs7.2bn reduction in consideration since the announcement of the deal is due to attrition in deposits.
- Sufficient capital is available for organic growth.
- Revolver came down post Covid-19 pandemic, in line with industry, but CitiBank tried to find out other sources of income to offset the loss of income from a lower revolver. The spending has increased now after a decline during the Covid-19 pandemic.
- No more attrition in deposits is expected now.
- The estimated integration cost is Rs20bn pre-tax, which will be distributed over an 18-month time frame.
- Axis Bank expects CitiBank's portfolio to post a profit of Rs8-8.5bn. Synergies are not built in this estimate, which are expected to accrue in two years' time. This estimate is as per a lower tax rate applicable to Axis Bank.
- Axis Bank will increase the provisioning on CitiBank's portfolio in 4QFY23F as per its own policies, which are more conservative.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	292,391	331,323	422,364	507,753	603,710
<b>Total Non-Interest Income</b>	<b>122,636</b>	<b>152,205</b>	<b>160,627</b>	<b>197,186</b>	<b>228,409</b>
Operating Revenue	415,027	483,528	582,991	704,939	832,119
<b>Total Non-Interest Expenses</b>	<b>(174,270)</b>	<b>(226,023)</b>	<b>(275,209)</b>	<b>(332,575)</b>	<b>(386,845)</b>
Pre-provision Operating Profit	231,276	247,421	302,498	366,772	439,248
<b>Total Provision Charges</b>	<b>(143,217)</b>	<b>(73,593)</b>	<b>(47,512)</b>	<b>(40,942)</b>	<b>(51,041)</b>
Operating Profit After Provisions	88,059	173,828	254,986	325,830	388,207
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	88,059	173,828	254,986	325,830	388,207
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	88,059	173,828	254,986	325,830	388,207
<b>Exceptional Items</b>					
Pre-tax Profit	88,059	173,828	254,986	325,830	388,207
Taxation	(22,174)	(43,570)	(64,256)	(82,109)	(97,828)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	65,885	130,258	190,730	243,721	290,379
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	65,885	130,258	190,730	243,721	290,379
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	88.6%	87.0%	88.0%	91.4%	94.0%
Avg Liquid Assets/Avg Assets	70.7%	69.1%	69.3%	69.2%	69.9%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>113.4%</b>	<b>113.1%</b>	<b>111.3%</b>	<b>105.3%</b>	<b>102.4%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
<b>Total Gross Loans</b>	<b>6,143,994</b>	<b>7,076,960</b>	<b>8,356,103</b>	<b>9,898,629</b>	<b>11,674,067</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	6,143,994	7,076,960	8,356,103	9,898,629	11,674,067
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	6,143,994	7,076,960	8,356,103	9,898,629	11,674,067
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>803,038</b>	<b>763,253</b>	<b>797,925</b>	<b>834,303</b>	<b>872,459</b>
<b>Total Non-Interest Earning Assets</b>	<b>845,488</b>	<b>808,977</b>	<b>845,604</b>	<b>884,585</b>	<b>925,535</b>
Cash And Marketable Securities	617,297	1,109,871	634,750	333,266	191,452
<b>Long-term Investments</b>	<b>2,261,196</b>	<b>2,755,971</b>	<b>3,188,423</b>	<b>3,629,303</b>	<b>4,075,324</b>
Total Assets	9,867,975	11,751,778	13,024,880	14,745,783	16,866,378
Customer Interest-Bearing Liabilities	6,979,853	8,217,209	9,311,035	10,661,437	12,297,294
Bank Deposits					
Interest Bearing Liabilities: Others	1,428,731	1,851,338	1,921,926	2,031,986	2,230,421
Total Interest-Bearing Liabilities	8,408,583	10,068,546	11,232,962	12,693,423	14,527,715
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	443,362	531,493	574,148	619,760	666,245
Total Liabilities	8,851,945	10,600,039	11,807,110	13,313,183	15,193,960
Shareholders Equity	1,016,030	1,151,741	1,217,770	1,432,599	1,672,418
<b>Minority Interests</b>					
Total Equity	1,016,030	1,151,741	1,217,770	1,432,599	1,672,418

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Income Growth	16.0%	13.3%	27.5%	20.2%	18.9%
Operating Profit Growth	(0.6%)	7.0%	19.5%	21.0%	19.6%
Pretax Profit Growth	80%	97%	47%	28%	19%
Net Interest To Total Income	70.5%	68.5%	72.4%	72.0%	72.6%
Cost Of Funds	4.19%	3.71%	4.10%	4.39%	4.60%
Return On Interest Earning Assets	10.7%	10.2%	11.1%	11.3%	11.4%
Net Interest Spread	6.50%	6.49%	7.03%	6.93%	6.80%
Net Interest Margin (Avg Deposits)	4.37%	4.36%	4.82%	5.08%	5.26%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	62%	30%	16%	11%	12%
Interest Return On Average Assets	3.07%	3.07%	3.41%	3.66%	3.82%
Effective Tax Rate	25.2%	25.1%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Return On Average Assets	0.69%	1.20%	1.54%	1.76%	1.84%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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