

Citi deal completed; integration to play out in 18 months

About the stock: Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 12.2 lakh crore as on December 2022.

- The bank has a large footprint across India with 4849 branches
- Retail and SME comprise ~67% of total loans

Key Highlights:

- Axis bank has completed the deal with Citi bank ahead of estimated time line. The deal closed for a cash consideration of ₹11,603 crore vs 12,325 crore mentioned earlier. The cash consideration was subject to contractual and customary true up and/or true down adjustments and changes in the customer count from January 31, 2023 to February 28, 2023.
- With this acquisition, bank will add ₹27300 crore assets (~3.5% of Axis Bank's asset base) & ₹40000 crore liabilities. Axis Bank's credit card customer base to increase by ~19%, with addition of 18 lakh cards. In addition, ~34 branches and ~3200 employees will be part of Axis Bank.
- There will be an 18-month (by Sept'24) integration period during which Citi customers will be migrated to Axis' technology platforms and the integration cost of ₹1500 crore will be amortised by Axis Bank over 18 months. This will offset normalised PAT run-rate of ₹800-850 crore. The purchase consideration impacted the CET 1 capital by ~177 bps.
- Management mentioned that the acquisition will be funded through internal accrual. Merger being effective from 1 March 2023, the bank will charge Q4FY23 for one time amortisation, provisions and transaction charges.

What should investors do? Axis Bank's stock has given ~1.4x returns over the past two years. Acquired asset base is RoE accretive, however, synergy benefits seen to get accrued from 2HFY25E amid integration expense to be paid in next 18 months. Continued strong growth coupled with margin expansion to aid return ratios and sustainability of performance to drive valuation ahead.

- Thus, we maintain our **BUY** rating

Target Price and Valuation: We continue to value Axis Bank at ~2.1x FY25E ABV and maintain our target price at ₹ 1100 per share.

Key triggers for future price performance:

- Incorporating acquisition, expect advances to grow at 16-18% CAGR, with consequent earnings trajectory at 29% CAGR and RoA at 1.7%.

Alternate Stock Idea: Apart from Axis Bank, we like Kotak Bank.

- Kotak Mahindra Bank is led by strong promoter led management. It has a presence across financial services value chain
- BUY with a target price of ₹ 2175

Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	25206	29239	33132	15%	42477	47584	56528	19%
PPP	23438	25702	24742	9%	20842	36904	43932	21%
PAT	1627	6588	13025	41%	9732	24004	27791	29%
ABV (₹)	267.9	308.8	347.8		377.0	449.5	532.8	
P/E	146.9	39.4	20.0		26.7	10.8	9.4	
P/ABV	3.2	2.7	2.4		2.2	1.9	1.6	
RoA	0.2	0.7	1.2		0.8	1.7	1.7	
RoE	2.1	7.1	12.0		8.2	17.9	17.5	

Source: Company, ICICI Direct Research



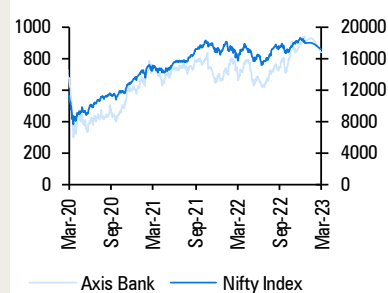
Particulars

Particulars	Amount
Market Capitalisation	₹260729 crore
52 week H/L	970 /618
Net worth	₹ 122663 crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	9.7	9.7	9.7	9.7	8.2
FII	47.4	46.9	46.6	46.1	49.5
DII	30.2	30.5	31.5	32.3	31.5
Others	12.7	12.9	12.3	11.9	10.9

Price Chart



Recent event & key risks

- Acquisition of Citi Bank's consumer business completed effective March 1, 2023.
- Key Risk:** 1) The acquisition likely to impact FY23E earnings 2) Delay in synergies to impact overall performance

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Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	67,377	83,677	96,312	1,11,926
Interest Expended	34,245	41,200	48,728	55,397
Net Interest Income	33,132	42,477	47,584	56,528
growth (%)	13.3	28.2	12.0	18.8
Non Interest Income	15,221	16,522	20,538	24,259
Net Income	48,353	58,999	68,122	80,787
Staff cost	7,613	9,176	10,268	11,537
Other operating Expense	15,998	28,981	20,951	25,318
Operating Profit	24,742	20,842	36,904	43,932
Provisions	7,359	4,000	4,898	6,877
PBT	17,383	16,843	32,005	37,054
Taxes	4,357	7,111	8,001	9,264
Net Profit	13,025	9,732	24,004	27,791
growth (%)	97.7	-25.3	146.7	15.8
EPS (₹)	42.4	31.7	78.2	90.5

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares	307.0	307.0	307.0	307.0
EPS (₹)	42.4	31.7	78.2	90.5
BV (₹)	374.7	400.4	475.1	562.1
ABV (₹)	347.8	377.0	449.5	532.8
P/E	20.0	26.7	10.8	9.4
P/BV	2.3	2.1	1.8	1.5
P/ABV	2.4	2.2	1.9	1.6
Yields & Margins (%)				
Net Interest Margins	3.6	4.0	3.9	4.0
Yield on assets	7.4	7.9	7.9	7.8
Avg. cost on funds	3.7	3.8	4.0	4.0
Yield on average advances	7.5	8.3	8.4	8.4
Avg. Cost of Deposits	3.5	3.6	3.8	3.9
Quality and Efficiency				
Cost to income ratio	49	65	46	46
Credit/Deposit ratio	86.1	85.7	88.0	89.1
GNPA	2.8	2.2	2.1	2.1
NNPA	0.8	0.5	0.4	0.4
ROE	12.0	8.2	17.9	17.5
ROA	1.2	0.8	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	614	614	614	614
Reserves and Surplus	114411	122308	145235	171948
Networth	115025	122922	145849	172562
Deposits	821721	963032	1097515	1257667
Borrowings	185134	188002	190920	193891
Other Liabilities & Provisions	53298	56285	58545	61230
Total	1175178	1330241	1492829	1685349
Application of Funds				
Fixed Assets	4572	5021	5791	6563
Investments	275597	300517	351503	411296
Advances	707696	825485	965964	1120052
Other Assets	76325	127169	87105	52989
Cash with RBI & call money	110987	72049	82467	94449
Total	1175178	1330241	1492829	1685349

Source: Company, ICICI Direct Research

Exhibit 4: Growth				
	(%)			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets				
Total assets	19.1	13.2	12.2	12.9
Advances	15.2	16.6	17.0	16.0
Deposit	17.7	17.2	14.0	14.6
Total Income	5.2	21.3	16.6	16.5
Net interest income	13.3	28.2	12.0	18.8
Operating expenses	28.5	61.6	-18.2	18.1
Operating profit	-3.7	-15.8	77.1	19.0
Net profit	97.7	-25.3	146.7	15.8
Net worth	13.2	6.9	18.7	18.3
EPS	97.3	(25.3)	146.7	15.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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