

## THE CITI- AXIS DEAL

- Will this be Axis bank's ticket to dominating India's retail banking services?

### INTRODUCTION

CitiBank has been around for the last 119 years. Yes, that is what most people consider a lifetime or even more. Since its inception in 1902, in Calcutta, CitiBank has grown to become the largest foreign bank in India with a customer base of around 2.9 million, 1.2 million bank accounts, and a commendable corporate clientele of 3000 as of 2020-21. Unlike other banks, Citi is regarded as an elite bank, offering services in wealth management and credit cards.

However, their performance in the markets has been dismal over the past couple of years. Their dominant credit card business saw outstanding card percentage fall from 7.1% in 2018 to 4.3% in 2021, and their share in credit spending fell from 10.6% in 2018 to 5.8% in 2021. Additionally, in the face of stiff competition from domestic behemoths, such as SBI, ICICI and HDFC, CitiBank has found it challenging to maintain its viability in India.

Finally, on April 15, 2021, the company announced its decision to wind up its retail business in India, Australia, and 11 other countries. The divisions' sale offer initially drew the attention of all the big sharks of the industry. Axis Bank put up the highest bid, acquiring it for \$1.6 billion.

### Why is Axis Bank eyeing the stake? What made Citi exit India?

Axis Bank has been one of the leading lenders in the country and has ambitions to achieve an RoE (Return on Equity) of 20% by 2025, which is why they are aggressively and meticulously expanding their reach in the urban retail segment. A predominantly retail bank, 55% of Axis Banks' advances are in retail assets. Further, with this acquisition, it can consolidate its position in some of the key consumer-based segments such as credit cards, asset management, unsecured advances, etc. Also, Axis Bank's large loan book would be complemented by Citibank's affluent customer segment, creating product and branch footprint synergies.

This move is part of Citi CEO Jane Fraser's strategy to restructure the company by exiting regions where it lacks the requisite scale to compete and focusing on the lucrative institutional and wealth management markets. The competitive and aggressive approach by numerous banks and emerging NBFCs in the Indian economy explains the dwindling earnings of Citibank.

### What exactly are the terms of the deal?

Axis Bank will have access to around 30 lakh unique customers, 7 offices, 21 branches, 3600 employees, and 499 ATMs across 18 cities. Apart from this, Axis Bank will see additional deposits

worth Rs 50,200 crores, of which 81% are CASAs (Current account and savings account, currently Axis Bank has 45% of its deposits as CASA).

Furthermore, Axis Bank will experience a value addition of INR 1,109 Bn AUM (Assets under Management) from Citi Wealth & Private Banking products, which would make it the financial management industry's third-largest company by total AUM.

Axis Bank will have approximately 28.5 million in savings accounts, 2.3 lakh+ Burgundy customers, and 10.6 million cards. Axis Bank will also get control over the consumer business of Citi's non-banking financial company, Citicorp Finance (India) Limited, worth approximately Rs 18,500 Cr., comprising the asset-backed financing business, loans for commercial vehicles and construction equipment, as well as the personal loans..

Overall, the proposed transaction will add approximately 7% to the bank's deposit base (with approximately 12% increase in CASA), 4% increase in advances, and retail loans by 7.5% (credit-card loans: +57%), and assets under management by 41%.

Axis estimates the transaction could reduce its Common Equity Tier 1 (CET1) ratio of 15.3% as of 9MFY22 by roughly 230bp (1bp=0.01%). The fresh RWA (risk weighted assets) from the deal will have a direct 50bp impact on capitalization, while the remaining 180bp will flow via earnings as Axis intends to take a one-time goodwill charge in the first year. Fitch estimates that the bank's internal accruals should be adequate to absorb the goodwill charge, but it will leave little internal capital for loan growth. The purchase price is roughly 18.7 times the implied price-to-earnings on Citi India's normalised FY20 standalone financials.

## OVERVIEW OF THE BANKS

### AXIS BANK

Established in 1993, Axis Bank has continuously focused on expansion. . In the last decade, they have managed to maintain a consistent CAGR of 12%..

The company offers a wide array of services to its customers, ranging from credit cards, equities trading, mutual funds, private equity, risk management, wealth management, asset management, etc. With a network of over 1500 virtual relationship managers, the company has a special focus on customer-centric policies, which is evident from the option of video banking, personalised account number and integrated payments resulting in a loyal customer base.

Its vast network of 4758 branches and 10,990 ATMs, spread across the subcontinent, ensures its place among the top 5 banks in terms of market coverage in India. Maintaining operations in 8 other countries has resulted in a stable international revenue stream. They have consciously

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adopted a conservative approach, ensuring that their reserves are over and above the statutory requirement, as laid down by RBI.

## CITI BANK

Citibank provides credit cards, mortgages, personal loans, account services, investment and insurance services, as well as premium features such as CitiGold Wealth Management, Suidha salary accounts, Citigold, and accounts for high-net-worth individuals (Citigold Private Client).

The bank was among the early players to move to digitization by integrating ERP systems and implementing automated self-kiosks, which functioned 24/7, in keeping with Citi's motto: 'the city never sleeps'. The bank currently has over 20 branches and 499 ATMs spread across the country.

The bank always had a strong corporate lending profile. To tackle the rising cases of defaults in the late 1980s, the bank went through a restructuring process, by reducing its exposure to risk, thereby adopting a proper credit portfolio management strategy. This process aimed to keep the loan portfolio in line with the market analysis and risk. The bank sought to sell and buy loans according to their assessment based on the set parameters.

## CREDIT CARD SEGMENT.

While Citi Bank's market share has been declining in this segment, Axis Bank's performance has not been great either. Nevertheless, Axis Banks' performance in the past year did stand out. With this deal going through, Axis will witness a 31% surge in its credit card users to 2.5 million customers. Moreover, the average spending by a user of Citibank is 1.5 times the industry average.

### The deal in a nutshell

#### CITI BANK

THE GAME OF GAINS	BUT...HERE'S THE CATCH
The existing customers of Citi will highly benefit from the <b>extensive network</b> of branches, ATMs, and personnel and utilize the <b>sophisticated capabilities</b> , such as investments, payments and protection solutions provided by Axis Bank.	Axis Bank will face the challenge of <b>retaining Citi customers</b> .



THE GAME OF GAINS	BUT...HERE'S THE CATCH
<p>Greater emphasis on more <b>revenue-generating segments</b> like corporate lending and wealth management.</p>	<p>Human Resource Management remains a key concern for Axis Bank. Despite assurances to Citi Employees, their low retention rates are a potential obstacle.. (Low employee retention rates is a cause of worry for Axis)</p>
<p>Digital Banking and the highly-rated Axis Mobile app offering 250+ services will be an added advantage for customers, enabling them to transact across multiple product categories.</p>	

## AXIS BANK

THE GAME OF GAINS	BUT...HERE'S THE CATCH
<p>The bank is set to acquire 3 million customers and add 2.5 million credit cards from Citibank, who on average spend 50% more than Axis Bank clients. This move will bring Axis Bank's share in the credit card sector to around 10 million cards, nearing its closest competitor, ICICI Bank.</p>	<p>Axis Bank lacks the <b>exclusivity</b> that Citi had carved out for itself by providing <b>niche services</b> to high-end customers.</p>



<b>THE GAME OF GAINS</b>	<b>BUT...HERE'S THE CATCH</b>
<p>The definite gain is in the segment of <b>retail lending</b>. Axis Bank will now have access to more unsecured loans in the form of cards and personal loans and will have the opportunity to cross-sell its products to the high-end customers of Citi at a better margin than before.</p>	<p>Axis' capitalisation will be affected directly due to <b>increased risk-weighted assets (RWA)</b> and indirectly by a one-off goodwill charge that will sharply reduce <b>near-term profitability</b>.</p>
	<p>The declining market share of Citi credit cards and the falling growth of loans are factors the management needs to address.</p>

The deal is expected to be completed by the first half of 2023, subject to the approval of the relevant commissions. Experts believe that any substantive change in Axis Bank's books will only be visible in the medium run, i.e. a couple of years down the line.

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