Conference Call

Axis Bank's proposed acquisition of Citibank's consumer businesses in India

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Moderator: Ladies and gentlemen, good day and welcome to the Axis Bank conference call. Participation in the conference call is by invitation only. Axis Bank reserves the right to block access to any person to whom an invitation has not been sent. Unauthorized dissemination of the contents or the proceeding of the call is strictly prohibited, and prior explicit permission and written approval of Axis Bank is imperative. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of the briefing session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. On behalf of Axis Bank, I once again welcome all the participants to the conference call. On the call we have Mr. Amitabh Chaudhry – MD & CEO, Axis Bank. I now hand the conference over to Mr. Chaudhry. Thank you and over to you, Sir.

Amitabh Chaudhry: Faizan, thank you so much. Thank you all for joining us at a short notice. Trust you and your loved ones are all safe and healthy. We also have on the call Rajiv Anand – Deputy MD, Subrat Mohanty – GE Axis Bank Business Group, Ravi Narayanan – GE Retail Liabilities and Products, Sumit Bali – GE Retail Lending and Payments, Puneet Sharma – CFO, Ravindra Rao, who heads our Retail Lending Business, Sanjeev Moghe – EVP and Head, Credit Cards and Payments and Satheesh Krishnamurthy – EVP and Head, Private Banking and Affluent Business.

Axis Bank has today executed definitive agreements for the proposed acquisition of Citi's consumer businesses in India, comprising of credit cards, unsecured and secured lending portfolios, wealth management, private banking, and retail deposit businesses. The proposed acquisition is subject to approvals, as part of this transaction around 3,600 in scope employees of Citi's consumer business are expected to join the Axis family. We look forward to warmly, welcoming each one of them and anticipate a great future for the combined team.

The purchase consideration subject to customary and contractual adjustments at closing date for the proposed acquisition will be Rs. 12,325 crores translating to a price-to-earnings multiple of 18.7x based on normalized calendar year '20 standalone earnings. We expect the necessary approvals to close the transactions to be in place in the next 9 to 12 months and another 18 months to fully integrate the acquired businesses.

A transition service agreement with Citi group and its affiliates is in place to assist with the integration of its businesses to the Axis Bank platform. We estimate that the post-tax integration costs over the two financial years post-closing would be Rs. 1500 crores. We are delighted that Citi found in us the perfect institution to carry forward the rich legacy. Citi's consumer business in India needs no introduction. The portfolios acquired are a great fit to the two key pillars of our GPS strategy, building a premium base of customers and increasing granularity. We have made significant strides over the last two years in building this organically. The addition of Citi consumer businesses is a tremendous boost to us in that journey. We are committed to make sure that transition experience for the customers and employees of Citi is smooth. They will find in us an open, customer centric and future ready Bank that will offer them a world of new opportunities.

We have shared a presentation that sets out details but let me briefly touch upon the businesses we are acquiring and our integration preparedness. We will then open it up for Q&A.

The acquisition will provide us access to perhaps the best affluent consumer franchise in India. The customers will have access to one Axis, a full-service financial institution that meets their every need. On credit cards Citibank has a complimentary and quality portfolio of 2.5 million cards, with amongst the highest monthly spends per card across industry and a book size of around Rs. 8,900 crores as of June '21. This would strengthen our position as a top three credit card player in India by book size with a healthy increase of around 31% to our existing card base and significant gain in credit cards market spends market share, which will go up by 480 bps.

The acquisition is a natural fit for our strong wealth management Burgundy franchise. We have organically built one of the best tech driven wealth platforms with AUMs of over Rs. 2.67 trillion in the last two years. Citi's affluent clientele backed by global best practices and client servicing and operations would complement this franchise. The combined AUM would increase by 42% thereby making us the third largest wealth manager.

On deposits with 81% CASA ratio and 73% savings accounts this is truly granular consumer business. This also comprises of best-in-class salary account customer base with access to 1600+ Suvidha corporates. This will accelerate Axis Bank's journey to build a high-quality salary savings account franchise. The combined CASA ratio on a proforma basis would improve by 200 bps to 47% and it will also be LCR accretive.

The consumer lending portfolio Rs.18,500 crores consist of mortgage, asset backed finance, small business lending and personal loans. These are our focused segments as well and we will deepen our relationship with this base offering our differentiated financial solutions.

Over the past many decades Citi India has attracted the best talent into its consumer businesses. We are excited to welcome this high caliber pool into the Axis family. Our large and fast-growing retail banking business will provide the right platform to them to play to their potential.

The world-class Citi Phone Banking services are part of the transaction parameter. This will ensure continuity of service excellence with Citi customers and enhancement of services for Axis Bank customers too, as we take this franchise of Citi Phone to other parts of Axis.

To sum up, the acquisition strengthens our market position, reduces gap and key segments with peers and provides opportunity to accelerate retail business growth in a value accretive manner post-integration.

Let me now briefly touch upon each of the key components of integration, to begin with employees. We have a rich network of Citi Alumni across the Bank who run our key business segments. Some of them are present in the call today. Their success in Axis Bank reflects the alignment of culture and values between the two organizations. Axis Bank is also a great place to work certified organization that recognizes our talent management practices. Additionally, we plan to have these senior leaders at Axis Bank who are familiar with Citi's way of doing business to play a key role in the assimilation of Citi's colleagues within the Axis system. We are extending employment offers to 3,600 employees of the Citi's consumer business to be a part of our story and benefit from our large and growing franchise. Given the expertise that Citi employees bring to the table, we view them as a significant addition to our existing team who will help in driving synergy realization and our GPS objectives.

Coming to customers, Citi customers would continue to avail all the rewards, privileges and offers they were previously entitled to during and after transition. We will ensure the continuity of superior service level to the customers. The transition period is to make sure the customers have no disruption in their experience. Customers will benefit from Axis Bank's wider reach and comprehensive service offerings along with our One Axis capabilities. The Axis Mobile Banking app, among the highest rated app in the sector will offer flexibility to customers to view as well as transact across deposits, investments, payments and protection solutions. Our focus on customers has been recognized in the past two years. We were the most recommended Retail Bank in India and most helpful Bank in India, as per the Asian Banker Bank Qualities Customer Survey in 2021. Citi customers will find in us a safe pair of hands.

On products, the portfolio being acquired across the key segments offer compelling synergies. For example, Citi has major presence in top eight cities in the affluent segment, which will strengthen our presence. You will further leverage our marketplace platform grab deals and extensive merchant partnerships to provide great offers for incoming customers. Our product offerings in the Burgundy space across all asset classes are wider and deeper in terms of product and asset manager choice. Further our key differentiation in terms of speed to market and on innovative new product offerings will give Citi's customers a much richer product suite.

Finally, on technology at Axis Bank, we've been investing significantly in technology and digital over the last two years, towards modernizing the core systems, building resilience across our operations and delivering seamless digital customer journeys. The experience gained through this technology transformation will be helpful during the integration and migration process. For example, given the scale, this deal brings to our credit card business, the learning from the successful upgrade of our credit cards and payments platform last year, they'll come in very handy. Our transformation journey currently underway across our various key business segments, are staffed and managed independent of the integration team. A dedicated integration team comprising of senior members in Axis is in place and will directly be supervised by me. Further the robust mechanism of cooperation between Citi and Axis Bank has been established to ensure ongoing dialogue, to resolve any concerns that may come our way. The deal structure and the timeline required for customary regulatory clearances gives us about nine months of head start in this process.

To conclude Axis Bank has grown organically all these years and has scaled well, but our aspirations are bigger, and this deal gives us that strategic thrust to close the gap with peers and improve the quality of our franchise across many parameters meaningfully. We have a strong balance sheet, comfortable capital levels to execute this deal and the right team to make this a success. Faizan let us now open it up for Q&A please. Thank you.

Moderator: Thank you very much, we will now begin the question-and-answer session. First question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.

Mahrukh Adajania: My first question is just on the cash part. You said that the normalized profit is around Rs. 840 crores. That assumes zero return on the cash of around Rs. 250 billion. Is that correct?

Puneet Sharma: The way you should think about the normalized earnings is business as usual in the Citi world minus global Citi cost minus any COVID related impacts. That is how the Rs. 842 crores has been computed. It would be as if the business was running within Axis in a normalized year. That is what would be a representative PAT of that business.

Mahrukh Adajania: But the loans you get from the deal are around Rs. 265 or Rs. 260 billion, correct? There's an equal amount of cash. That's correct, right?

Puneet Sharma: Yes, as part of the transaction, we get a balanced balance sheet. Yes. That understanding is correct.

Mahrukh Adajania: What if the portfolio attrition is higher than expected?

Puneet Sharma: I think the way we've looked at this transaction is, one we do believe Axis proposition for Citi customers is a strong and compelling proposition, second the Citi workforce, joining hands with us and we look forward to welcoming them that should help us keep the customers both well serviced in terms of service quality, as well as widen the product offering that we can offer the customer. While there are attrition assumptions that have been built in for us, we do believe that we should be able to manage that in a reasonably contained manner.

Mahrukh Adajania: My last question is on how would you fund the deal? You have shown the impact on capital in your slides.

Puneet Sharma: As we've always said, we have a strong capital position, both on a CET1 and on overall capital basis. The purchase consideration is 180 basis points of CET1 charge. We feel comfortable to be able to fund that from the balance sheet that we currently have. Therefore, it will be funded from internal sources as we currently speak.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities, please go ahead.

Kunal Shah: In terms of the behavior of the portfolio, since the time Citi has announced the intention to exit, how has that been, maybe then we'll look at it, everyone would have tried to chase those customers. Now would there have been very high attrition and would that attrition assumption be built in the way you said, like there are some assumptions which are built in, but would they have been considered, or it was like the normal attrition over the period of which would have been considered. That would be great if you can explain in terms of the behavior over the last three odd quarters on the Citi's portfolio.

Puneet Sharma: I think rather than explaining attrition and attrition assumptions, I think what I would broadly say is the both the assets side of the balance sheet and the liability side of the balance sheet has held up reasonably well compared to the reference balance sheet that we made the assessment on. Our assessment was as of the 30th June 2021 balance sheet and basis the last available numbers that we have, both assets and liabilities have remained resilient. That's where I would leave that comment at currently.

Kunal Shah: Secondly, in terms of the write-off, when we look at Citi's Q1 CY21 results, in fact, the credit cost is quite significant for India, which is almost 5.4% odd compared to the normalized credit cost of less than 2% odd. I think when we are looking at CY20 numbers on a normalized basis, CY21 would have been drastically different from CY20 looking at only the Q1 numbers, because that's where they have shared besides that there was no numbers?

Puneet Sharma: Like we said earlier, the way we look at this business is what would this business do in a normal year and the way we have estimated the normal year is absent COVID, absent global charges that the Citi business currently pays. That's how we have estimated the normalized profit and we've used calendar year 2020 as a base for the assessment.

Kunal Shah: Lastly 13% tier-1 has been the threshold for us in terms of taking a call on capital raise. Would we consider this to be kind of a one-off for the equity acquisition or would we still continue with that strategy to start evaluating the capital raise, given that post the transaction, Tier-1 would be 13%?

Puneet Sharma: I think maybe it's worth highlighting at the moment that we have signed a transaction today. Closing is 9 to 12 months from signing date because it needs customary approvals. There is a process before we can close. So one, I just want to place for your attention, the fact that the capital deterioration or consumption is not happening today, it will happen when we finally end up closing. So that's one aspect. The second aspect is we will, like we have said previously, we believe that our balance sheet is strong enough to be able to fund this transaction. As and when we need to raise capital to continue to grow the franchise, we will examine options at that stage.

Moderator: The next question is from the line of Adarsh Parasrampuria from CLSA, please go ahead.

Adarsh Parasrampuria: You did talk about the integration cost both on outgo and integration costs. Once you take that the cost of time and post that this number becomes zero, so the running profitability that you show Rs 842 crores assuming portfolio stays as it is, is that the run rate or you see differences in how it will look once you integrate the cost?

Puneet Sharma: I didn't catch all parts of it. Please allow me to paraphrase what I understood your question was then maybe it's time to answer it. I think there were two parts to your question. The first part of your question was, are the estimated integration costs temporary or permanent. Second part of your question was towards the full integration, would the normalized P&L look like the normalized P&L or would it improve or deteriorate depending on cost escalations of cost synergies. Is it good understanding of your question?

Adarsh Parasrampuria: Yes absolutely.

Puneet Sharma: I think the estimated integration cost that we put out at Rs. 1500 crores has two components. There is a component that we end up paying Citibank for services that they will provide us during transition. There is an element of integration expenses that Axis Bank will incur by itself. The Rs. 1500 crores represent both those costs. We expect those costs to be incurred over two financial years post-closing and we expect those costs to be transitory in nature. So i.e., when the integration is completed, the integration costs will disappear. Your second question on what will the P&L look like? The normalized P&L considers expenses for running this business in the normal course, absent Citi's global overhead. Once integration is done in a normal year, assuming assets like you said hold up, the Rs 842 crores would be reflective of the profits from the business on a standstill basis.

Adarsh Parasrampuria: We'll keep getting this question and if you can spend more time, maybe you don't want to talk about a certain fall rate of customers and retention and what assumptions you would have used, but fair to say that there was, it was a set of affluent customers used to a certain brand and you will have some fall rate, right? You could have some fall rate rather. Even qualitatively if you don't want to give a number, if you can give a direction of firstly in the interim till transaction completes what are the incentives for the organization selling it to retain the customers, between from now to then there's a 12-month window and a lot of these loans are, I would say short term in nature, that would be the main question. Till you integrate and after that, what's your key to retention? And any claw back, honestly what I would also ask, is there a performance linked payment or there is absolutely, if the portfolio is down 30%, you still end up paying $1.6 billion.

Puneet Sharma: Let me start with the first one, which is attrition or attrition assumptions. I think the way I would respond to your query is when we assess the valuation or the valuation that we have agreed to put out for this business, in our minds we have taken a reasonably conservative attrition assumption baked into our valuation. Therefore, we think that risk is priced into the price that we have agreed to pay. To your question on what is the incentive for Citi to continue to ensure that the business stays at current levels or grows from here forward, without getting into the specific details, because we're not able to talk about it, but at a conceptual level, what I can tell you is there is full alignment between Citi and us in terms of where the purchase price premium will work for the seller to ensure the purchaser gets a full business transferred to it on closing date. i.e. there is a cascade that has been agreed, assuming business parameter deteriorates. There is protection built for Axis Bank as part of the transaction structure.

Adarsh Parasrampuria: My last thing is basically there will be certain assumption on fall rate and each of these things are materially worse than you have assumed…

Amitabh Chaudhry: Of course, in a transaction of this nature, if you're agreed to a price, there will be protection built in on as Puneet pointed out on some business parameters and between the proforma date which is June, 2021 and what we call LD1 (legal date 1) , which is when the liabilities and the assets gets transferred to us, which we are projecting 9 to 12 months from today, we will compare the numbers. If there is a difference in those numbers on those business parameters, there will be some formula-based working that will be done and the purchase consideration will be determined again, if necessary and if required. Those protection obviously are built in to our and we have looked at each of the businesses there in some cases separately also, so all those are in place.

Moderator: The next question is from the line of Vishal Goyal from UBS, please go ahead.

Vishal Goyal: My first question is on the cross-sell synergy. Can you share something about what would be the top 10 percentile Axis Bank customer look like in terms of cross-sell and how are they different from what is, being acquired from Citi and any color on that?

Amitabh Chaudhry: We do not have real data on the exact customers that Citibank has under various categories. We have an idea of the profile of those customers today. To start estimating there are two elements which you need to think about at least from a deal perspective. One is the potential of cross-sell. We obviously need to understand the customers better and understand that in some businesses, Citi Bank does not do certain things. In certain cases, we do it much deeper, much wider than what Citi does. Our understanding of some of those is much better because we've been doing the business longer than Citi, especially in an Indian context. So, the cross-sell opportunities obviously will get established in the next 6 to 9 months as we go through this, this 9-to-12-month first phase as we call it. Our belief is given the breadth and depth of what One Axis can offer, it's not just Axis Bank alone, we will be able to mine some of these customers in terms of the wider set of products and services they're buying now, much better than what they are doing currently that's point number one. Second, element, which we need to think about is as Puneet pointed out, while someone asked a question of integration cost, integration costs will fall away, of course, but also the Citibank business today currently is being charged by global centers on various support services they are providing. In our case, Axis Bank will provide those services and the additional cost element, which would come because of that, is not going to be very high. Some of these costs will fall away which should help our overall cost story also to some extent. Obviously we have bid for the deal at a certain price, we have got these customers, got these assets, got these liabilities, but there are these two additional elements, which are very difficult to price today because you need to get deeper into some of these numbers, but it is very obvious that we can do more.

Vishal Goyal: On the incremental capital requirement, which is additional 50 bps, that implies almost 30% growth, from the 180-bps portfolio. So, is that right?

Puneet Sharma: No Vishal, my apologies, please complete your question.

Vishal Goyal: No Sir I am just saying that 50 bps seems suggest that there is another 30% growth in RWA, which is expected?

Puneet Sharma: No, the way the deal is structured is the 180 basis points is the purchase price that we are paying to buy an asset. The balance sheet that we get as part of the asset is a NAV zero balance sheet, which is assets equal to liabilities. Therefore, the assets that we get as part of the balance sheet has an underlying capital charge, that 50 basis points represents the capital charge for those assets. So, it's not growth capital it is capital charge for assets being taken over.

Moderator: The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: I have a couple of questions, the first is to the timelines of the transaction that you outlined from a disclosure perspective, what would be FY23 for transaction closing and September 24 end of transition closing encompass?

Puneet Sharma: Thank you for the question. I think the way to read the timeline is, we signed definitive documents today. There are customary approvals that are needed to close the transaction plus processes that we need to mutually complete with Citi. The first timeline is once the customary approvals and the mutually agreed processes are complete to take over Citi customers both on the assets and liability side. The first timeline that you see is what we call as the closing date or legal date one of the transactions and the second timeline that you referred to is post-closing date, we will continue to use services that Citi will provide to ensure that the customers are not inconvenienced. The second timeline is when we cease to avail of the services from Citi and the businesses fully integrated onto the Axis platform. Those are the two timelines that we've called out, 9 to 12 months from signing date and then 18 to 24 months post closure.

Sri Karthik: The proforma balance sheet timeline is more like FY23 and then?

Puneet Sharma: I guess when you say proforma balance sheet, you mean when the balance sheet gets integrated with us? Yes. If that's the question, yes closing of the transaction will be 9 to 12 months from today.

Sri Karthik: Understood. During this period, obviously we will be consuming organic capital, which versus our current CET1 ratio of 15.8% would be lower. On that base, you'd still have a 230-bps incremental consumption end of FY23 then?

Puneet Sharma: While you're technically correct, I would only supplement that by saying that I accrete capital to profit in the same period. If I was to complete that equation for you, that is capital accretion through profits. That could fund growth.

Sri Karthik: Also, RWA growth commensurate to this period is what I'm assuming.

Puneet Sharma: That is correct. I'm just completing the equation for your kind consideration, in that equation that you set out you probably also need to factor organic capital accretion through profits.

Sri Karthik: Last question is the estimated integration costs. I understand that some of it is more prudent accounting, but I wanted to see if you could provide us some more break down for Rs 1500 crores.

Puneet Sharma: Sorry, I didn't catch the question correctly, but maybe I paraphrase what I understood.

Sri Karthik: Further breakdown, maybe broad headlines on the Rs 1500 crore integration cost.

Puneet Sharma: I think what we've called out on the Rs 1500 crores integration cost is roughly about Rs 1200 crores to be paid to Citi for transition services. The balance Rs 300 crores is integration costs at Axis's end for over the integration process over two financial year, that's the integration expense. The prudent accounting and the goodwill is called out separately.

Sri Karthik: The last question, the conditions for this transaction to be ROE accretive for CY24, what would you outline as one or two key assumptions?

Puneet Sharma: Well, it is a living breathing running business. So you can see the standalone financials that we put out basis the CY20 numbers, as long as we are able to, and I called out earlier that we have certain assumptions that we built into the valuation on account of attrition, as long as we stay true to our inherent assumptions and the business continues to be at the starting point that we set out on slide 15, that is the basis on which we feel comfortable to make the statement that it will be ROE accretive in CY24.

Sri Karthik: The only question that I feel is repeating is, the fact about whether there is going to be any growth during this period when the integration is happening for the underlying base. Is that an assumption that you're making?

Puneet Sharma: Like I said, I think my request will be, think about this as a net sum business there will be attrition. The business is growing. The net effect of attrition plus business growth of current base, as we estimated, leads us to believe that CY24 will be ROE accretive. Those assumptions have been factored in, prior to us making that statement.

Moderator: The next question is from the line of Mahesh M B from Kotak Securities, please go ahead.

Mahesh M B: Just a couple of questions from my side. One is on the employee side, outside of the, let's say the field staff or the sales team, how much of overlap do you think you would have with your existing line of employees that you have, businesses that you had across the various businesses?

Amitabh Chaudhry: Mahesh very difficult to say at this stage. I think the way I would request you to look at it is that we are growing all the businesses, which we are acquiring from Citi anyway. There is a natural attrition, which we also have in each of the businesses and Citi also has a natural attrition. In that sense, even if there was an overlap, I think it will quickly get taken care of because attrition will account for it and the growth will take care of the rest. We are hoping that we want each and every one of those 3600 employees to become part of the Axis journey. That's what our hope would be, and we are working very hard towards it.

Mahesh M B: On the customer side, have you at least have had chances to see if the overlaps are less or you've not had the chance to see to that level of detail?

Amitabh Chaudhry: We when the spot of the whole process, we did external surveys and we looked at not only what kind of overlap we have across businesses, but we also looked at what the response of those customers to Axis brand and some of the brands is, what it could mean for us in terms of attrition, what it could mean for us in terms of whether we will become the primary or the secondary, or whether they'll buy other services from us. Those inputs were taken into account in building our models internally and coming up with the bid price. We actually had some real evidence and some surveys going into our entire bidding process, with the help of highly reputed consultants for this exercise. Only on that basis, the price was determined. We believe we can get customer attrition lower than what's the surveys are showingbased on what the customer think.. Now, if we work on it, we contact all these key customers and offer our proposition to them, we believe the attrition level will come in lower than what the assumption in the models were.

Mahesh M B: Just a question to Puneet. How have you come up with this number of 180 basis points with respect to intangibles and transaction cost write off? And isn't there a tax benefit on the goodwill that gets written off on this deal?

Puneet Sharma: Mahesh, with the revision in income tax rules, acquired goodwill is no longer tax deductible. So, we have taken the goodwill charge on a gross basis. Having said that we are still evaluating what's the best way to optimize this. But what we have put out is goodwill charge in year one without tax breaks as the charge on capital.

Mahesh M B: Just one clarification for that slide 15, the proforma numbers that you have created you have acquired a business on the asset side which is about Rs 27,000 crores and deposits of Rs 50,000 crores. You have done it for this, or you have done it for any other number here.

Amitabh Chaudhry: We have done it for a combination, and I will ask some of the business guys to add. Yes, we firstly get a credit card franchise with 2.5 million credit cards with a certain spend profile and obviously some receivables which are included in the asset number. Then we get a wealth management franchise and part of the deposits capture that wealth management franchise. But it goes beyond that. I mean, they have Demat accounts, they are buying some other products from the Citibank. So, it adds to the wealth management franchise. And if you look at our slide number 7, it talks about the breakup on the credit card side, on the wealth management side, the number of retail customers, the 1600 Suvidha corporates where they have certain salary accounts, some of these corporates will have operations across the country, we come with a franchise which has 4,600 branches. I mean, we have acquired it, yes, for certain liabilities and certain deposits, but over and on top of that, the icing on the cake is the credit card customers, the wealth management customers, the Suvidha corporates, the Citi Phone franchise they have and the 3600 employees. Now, obviously we have not ascribed separate values to each one of them. If you look at the simple math, a substantial portion of the value is coming from the credit card franchise. But there are a lot of these small intangibles which come with it because they have run this business for 120 years. The franchise is one of the best that exists in the country. So, from that perspective it's a combination of these 6-7 factors which has led us to bid for this business.

Mahesh M B: Perfect. And this Rs 27,000 crores includes the Citicorp Finance?

Amitabh Chaudhry: Yes, it includes.

Mahesh M B: So, the ABF is Citicorp Finance, is it?

Amitabh Chaudhry: Yes, absolutely right. And the Rs 27,000 crores include the credit cards outstanding also.

Moderator: The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Just one question. On slide 15, is there a reason why the OPEX to revenue or OPEX to assets for Citi is so much higher, like 57% of revenues?

Amitabh Chaudhry: Yes, you are right. 4.3% you are referring to, right?

Saurabh Kumar: Yes.

Puneet Sharma: Saurabh, I think that is on the business-as-usual basis. What we have looked at is what would it be in the current cost structure? So, the leading thought I would leave with you is, it only presents an optimization opportunity over the longer term.

Amitabh Chaudhry: And there are some very obvious optimization opportunities. This does not impact the 3,600 employees actually. The optimization opportunity here is the charges which are coming from other parts of Citi for supporting the business here. So, there are real opportunities on that count.

Saurabh: And the ~ Rs 2300 crores is a clean number. Right? Note 2 basically seems to suggest this is a clean operating cost, excluding all the Citi overheads?

Puneet Sharma: So, it is operating cost excluding global overheads.

Moderator: The next question is from the line of Nilang Mehta from HSBC. Please go ahead.

Nilang Mehta: I just have a question. Considering pay scales of Axis and Citi would be different. So, what kind of say adjustments you might need to do at both ends and how has that impacted?

Amitabh Chaudhry: So obviously the Citibank pay scale, what they pay, how they pay, the benefits, etc., would be different. We haven't got into those details as yet, but with a merger and acquisition of this kind, that's one of the important things which always happens. We believe that given how we have been able to create various elements within the Axis Group itself and how we have created the Burgundy Private franchise, we have the flexibility to be able to manage it. And at the same time ensure the Citibank employees do not feel that when they come here, they will suffer over a period of time. But yes, we are fully aware there will be differences. We have nine months head start to be able to manage those differences, work with them and work with the employees to ensure that they are satisfied with whatever solutions we come up with. Because there are solutions around this. In every merger and acquisition, you come across this problem. And since we are so clear in our minds that we want the employees, we will obviously find the right solutions to ensure that the employees stay with us.

Nilang Mehta: Amitabh, just on this point, considering Axis employees, obviously you will do everything to settle employees but on the Axis employee side, you see what kind of challenges here?

Amitabh Chaudhry: So, yes. When we do anything of this nature, it's not only just the Citibank employees, we have to be thinking of the Axis Bank employees also. Over a period of time, in the long run depending on the quality, capability, the talent pool, either they will converge, or some differences will always remain. We believe that the quality of talent pool in Citibank is very solid. I am not saying that means that Axis Bank talent pool is not solid, but Citibank pool is solid. And not only they will get an opportunity to work in the businesses they are already working in, but potentially they can look at working in other parts of Axis franchise. We are not far off. While that is an assumption all of us make, I don't think Citibank stands out in terms of salaries which they give to their employees. It's not an outlier. We also, when we do our salary surveys and look at what increments we do and how do we equate people across the industry, we look at who are the banks to who we lose people to. And Citibank is one of the banks we look at when we do our median comparisons. So, you might think that the differences are large. The differences are not as big as the perception might be.

Nilang Mehta: One last question on the loan book. Would you be able to share average duration of the loan book in terms of years, ex-mortgage if possible?

Sumit Bali: Ex-mortgage it is 28 months. Then we have ABS which is average of about 20-25 months, and then personal loan which is about six months and mortgage which is longer than that. So, it is average about 28 for non-mortgage business.

Moderator: The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Just to clarify, you are getting only loans and deposits as part of the deal, not the cash and government securities on Citi's balance sheet?

Puneet Sharma: Just want to clarify that we are getting a matched balance sheet, which is deposits on the liability side, loan assets on the assets side and the differential will come to us in the form of cash. So, it is a fully balanced balance sheet for which we are paying a purchase price premium.

Pankaj Agarwal: So, what it means is that if Rs 50,000 crores are deposits and Rs 27,000 crores is your advances, the remaining Rs 23,000 crores will come in the form of cash and government securities, right?

Puneet Sharma: It will come in the form of liquid assets. That's correct.

Pankaj Agarwal: Second, can the retention of salary accounts be a challenge if Citi is retaining the corporate relationships?

Ravi Narayanan: Thanks for that question. We also have a very robust salary program. It's been running for many years now and we find the Citi franchise of the Suvidha salary as complementing what we offer and therefore we do not envisage the customers getting anything less than what they are getting today. In fact, we will be probably better off in terms of engaging them with a wider range of product suite. So, therefore we feel that the salary franchise is a great addition to the Axis family.

Amitabh Chaudhry: Let me just add, the individual retail accounts will come to us. Nothing will remain in Citi. They might retain the corporate relationships, but the individual salary account will come to us and by the way, we also have suitable non-compete agreement in place with Citi on each of the products or each of the services we are buying off as part of this acquisition which is going to be there for a reasonable period of time. So, if I am a salary account holder with Citibank, even though Citibank might have a corporate relationship, that account based on obviously with consent will shift to Axis and Citibank cannot offer a savings account relationship to that customer. I hope that clarifies.

Pankaj Agarwal: But normally, the corporates, they open salaried accounts with the banks who offer…

Amitabh Chaudhry: Citibank cannot do it. Citibank cannot offer a savings account relationship to anyone as far as retail is concerned. Even if let's say there was a corporate x which says that no I want to open a salary account with Citibank, Citibank as per the non-compete agreement cannot open a savings account for an employee of that company post-closing. So, I just want to clarify, I hope you got it.

Moderator: The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to pick your brains on a make versus buy decision and what actually swung the needle towards this one. If you could give some sense there.

Amitabh Chaudhry: A couple of ways to look at it. One is, when you look at a certain franchise, you do your maths, you look at what the value of the franchise is and what does that business that brings to the table, and you ascribe a certain value to it looking at what money you can make out of that business over a period of time. So, that's one way to look at it. That's how we build our models. That's how we valued a certain franchise and we bid for some value. So, they liked it and here we are. Second way, if you want to kind of add things to it is that this is an enviable consumer business franchise in the country, period. The kind of customers it has across its various products and portfolios, how long the customers have stayed with them, how much money they spend with them and so on and so forth, this gives us an opportunity to catapult ourselves to a completely different position and it speaks so well to our GPS strategy on granular retail franchise and the premium retail franchise. Opportunities like these come, as I was telling someone, once in a lifetime. There is no other business like this which is going to get sold in this country for a long-long period of time. So, one is you ascribe a certain value. Secondly, it gives the opportunity to catapult yourself and come closer to the peers and compete with them even more effectively. So, when you look at make versus buy, it's not that our making has stopped. Our making will continue. It just allows us to pivot our franchise to even faster to where we want to be and pay the right kind of value to get there. That's all we are trying to do. And that's why this transaction makes so much of sense for us, and we have explained to what are the 5-6 things which we saw in the transaction which made us bid for this in the first place.

Rajiv Anand: So, what we have bought here is the entire franchise, the retail banking franchise of Citibank. Yes, you could make credit cards. I think we did about 2,70,000 cards in February. But what comes together here is the customer, the relationship manager, Citi Phone banking, and the ops to support the whole thing. And in each of these pieces we are getting very-very experienced people who have been serving these customers, who have worked together, who got excellent processes and to put that together would obviously take a lot of time. Here is an experienced team that is coming to us. Not only will we be able to serve the existing customer base of Citibank that's coming to us, but we will use these skills and capabilities to enhance our own capabilities to be able to deliver a differentiated proposition even to our own customers. And that's the additional synergy that we could potentially get. So, it's not a product that we are buying, it is the franchise that we are buying. And because of the fact that it's all coming together is really where the value is.

Sameer Bhise: Just wanted to ask the profits generated over the next 9 to 12 months, I presume they sit within the business itself and you have access to those when it closes.

Puneet Sharma: I think, like all transactions of this nature, the business risks and the business benefits pre-closing date sit with Citibank and CFIL and post-closing date sit with us.

Sameer Bhise: Finally, just one small bit, around Rs 1200 crores kind of servicing charges to be paid to Citi look slightly on the higher side given that probably even in a normalized year, they won't have made that much money on the franchise.

Puneet Sharma: I think the way I would request you to think about it is, like Rajiv said earlier, it is a business purchase. It is a running business. We want to be extremely cautious about any impacts to the customer for short-term cost decisions. We have made a conscious choice to continue to make sure that both customer and employee transition is smoothest. And as part of that process, if it means working with Citi to deliver that to the customer, we have chosen to do that. We think it is requisite expense to pay currently and once the business is transitioned, like we have said, this cost disappears.

Moderator: The next question is from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: There is a lot of discussion that has taken place on some attrition. I just wanted to understand two things. One, since this deal has been in talks for quite some time and whether it is Axis or any other bank, would it be fair to assume the kind of attrition this business has been let's say in the nine months? With the Axis model, has there has been lower attrition than what it has to all businesses seen in the last nine months. So that's question one. Second, these are the times when peer banks will basically attack and take away customers. How do you introduce conditions or chat with customers to ensure that there is less attrition? So, that is second. The third is, could you talk about the overlap between deposits and the total wealth AUM? That's the third one.

Amitabh Chaudhry: So, you talked about attrition. In a deal of this nature, it is pretty much a given that competition will try to come after the existing customers of the seller. And in some cases, the customers might also be jittery in terms of shifting from a brand to another brand. As I have shared earlier, we have done our intensive research to look at some of these very aspects, to look at the differences between various product categories and try to see what we need to do and how do we need to go about it to ensure that both, we don't lose customers because the customer is going to leave or because competition comes in and is able to take away the customers. That exercise will actually in all intensity start now, because we do not have full view of each of the customers of Citibank. But when we compare the data between June and December, for example, and the fact that Citibank announced the sale of their assets in 15 markets quite some time back, they have been running this process, there has been a lot of media news around, who's buying, who's selling, the attrition in terms of customers and some of the numbers is nothing to be alarmed about. Yes, we are going through a phase where employees are also leaving, but that is happening to everyone. It is not just unique to Citi. It is not unique to Axis. It is happening to everyone. In this, with all these variables, we will use this head start we have got for next six to nine months to ensure that we can put mechanisms in place, talk to the employees and ensure that most of them come to us. We will use the opportunity to meet specific customer categories or customers of Citibank to assure them that with Axis they will get more, not less. And hopefully a lot of them will stick around. And by the way, as we have been stating again quite openly, lot of the senior people working in Axis are from Citi. They understand Citibank customers, they understand what will take to kind of potentially get there. So, it is something we have to work on. It is not a trivial thing, but it's not a mathematical formula either. We have to work at it. We obviously have some integration plans in place. We know we already have decided what we need to do over the next couple of months, next six months, then nine months. We obviously need to flash it out which we will in the next 15 to 30 days or so.

The third question, we do not have the full idea of what the overlap is. Our surveys have shown to us what the potential overlap could be. Obviously, we don't intend to share that in the call because the data is not concrete, that data is based on some assumptions. But let me just assure you that we believe that the addition to the Axis franchise because of those customers will be significant. By the way, I just want to leave with one last thought with you that as we again pointed out, if we do lose customers between June and the LD1 date, there is a mechanism in place where the price does get adjusted. Just be aware of that.

Nilanjan Karfa: Amitabh, to what you just mentioned so the onus will be on Citi to ensure that they deliver what they are selling.

Amitabh Chaudhry: The onus is not on them, but if they don't deliver it, then they will see a reduction in price. So, if they are fully incentivized to ensure that the customers do come to us, we are fully incentivized because we are not buying this to pay low value. We are buying this to get the customers and the franchise. So, both the party's interests are aligned here and because the interests are aligned, we do believe that hopefully we can execute well or make it a success.

Nilanjan Karfa: That's fair. Puneet quickly, on the Rs 1500 crores of integration cost, that runs till September 2024 roughly, is it?

Puneet Sharma: It runs for two financial years post-closing.

Moderator: The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: A few questions on cost. One, this cost synergy that you are talking about, 30% to 40% reduction from this Rs 2300 crores, what would be the key drivers of this? I know you said charges coming from other parts of Citi, but if you can elaborate a little bit on this.

Puneet Sharma: Abhishek, thank you for the question. Look, I think where we would like to leave the response on cost synergies is we do believe M&A transactions of this nature do result in cost synergies. I don't want to leave an impression saying the cost synergies is going to come on account of people. We look forward to welcoming the Citi team into the Axis franchise, but we just think scale improves the Jaw of any business, that's one key driver of synergy. Global overhead is another key driver of synergy as we see it. And leveraging some of the Axis channels to improve the cross-sell potential at lower acquisition cost is potentially a third bucket of synergy. So, there are many buckets of cost synergy that we have identified. We just like to leave this at a headline level to say that the number is what we think we should be able to achieve.

Abhishek Murarka: Because Puneet most of what you mentioned, cross-sell or upsell, all of that is on the revenue side. On the cost side it's probably going to be, as you had mentioned, infrastructure technology, but it's not very clear where.

Puneet Sharma: Abhishek, maybe I can give you one example of when I say cross-sell upsell, cross-sell up sell has a revenue aspect and then it has a sourcing cost impact. So, if I am able to sell an existing Axis product to a Citi customer, it becomes what we have always called an ETB sale, an existing-to-bank sale. And obviously the ETB sale cost is very different from a market sourced sales cost. That was the direction I was leading your thought process.

Abhishek Murarka: And this Rs 2300 crore BAU kind of cost estimate, approximately what would be the breakup between let's say salary cost and other OPEX, just a ballpark will be helpful?

Puneet Sharma: Abhishek, we are not in a position to share that number today. We just like to leave the cost number at the total cost number if you permit us. When we do have more details that we are willing and able to share, we would be happy to come back and share that please.

Abhishek Murarka: And would it be possible to get an idea of what would be the overlap of the Citi card customers with other lenders? How many other lenders would they have cards with something of that sort?

Amitabh Chaudhry: As we shared earlier, we have done a survey which gave us some idea, but it was based on a survey and that obviously cannot be accurate because it is based on the interviews which have been done with customers across the Citi franchise. As I said in an answer sometime back, that it appears to us that the addition to the Axis franchise in terms of both the quantity and quality out of the total Citi numbers that we shared with you will be significant.

Sanjeev Moghe: This is some flavor. Obviously, there is no data which has been accessed to figure out customers on either side. Just 2-3 areas why we believe the deal is complimentary on the card side, one, Citi strength all their branches in the entire distribution was in the top 8 markets. Axis Card portfolio if you study it and you study it outside the top 8 , outside the top 20, outside the top 50, we are very-very significant, in the sense in deeper geographies. That's one area where we believe the portfolios are largely complimentary. Second is in terms of customer segments, Citi portfolio is very significantly focused on affluent plus super affluent portfolio. Axis portfolio starts actually from reasonably what I would call as mass and mass affluent segment, then there are obviously we have close to 10%-11% of our portfolio, which is affluent by card. But by segment, our portfolios definitely focus more on mass and mass affluent segments. With these two things which we understand fairly clearly, some part that we understand because many of us do come from Citi. Second, what our portfolio we understand well we believe the deal and the portfolio of customer segments are significantly complimentary. There is no data available, obviously right now to comment on how much is the overlap or non-overlap between Citi and Axis. Two, definitely there is no data on how much of Citi portfolio overlapping with, let's say an HDFC or an ICICI, no data available on this at all. This was customer segment level. Then there is one product which is common between us and Citi. Both of us have an IOC co-brand. Citi has had it historically for many years. We closed our deal with IOC now close to three years back. Our deal with IOC was outside the top 8 markets. We were not allowed to access the top 8 markets because those were kept for Citi. With this deal opening up, obviously the entire IOC portfolio and the franchise opens up for us, so we get access to wider distribution. Our distribution now comes to play for using the IOC petrol pumps in the top 8 markets. It's not only petrol pumps, but it's a very valuable proportion also which a lot of customers find, particularly when fuel prices keep going up. So, that's on the product side of it.

Abhishek Murarka: Finally, I just had a very small question. In pre-closing activities on slide 16, you mentioned customer consent. I just wanted to know you have to take consent of all customers, meaning all deposit customers and asset customers, or is there a quorum for which you have to take it? How does it work?

Subrat Mohanty: So that's right. We will need to take customer consent and we will use the period between the signing and the closing in order to get the customer consent. There is a consent architecture that we have agreed upon as part of the transaction. This will be put into play in the course of the next nine months. We also have the ability to track these consents at individual customer level and we believe that there are multiple channels through which we will be able to get this customer consent whether it is the internet banking, the mobile banking platform, the branches. So, all of that will be in play in order to get the consent based on the existing contracts that we are taking over across the various products that Citibank has.

Abhishek Murarka: And it has to be a 100% coverage of customers.

Subrat Mohanty: We will have to get all the customers covered. And like I said, there is an architecture for doing this and the architecture is linked to the existing terms and conditions of the contract that we have. So, all of it will not go through the same consent process. Some of them will be express consent. Some of them will be activity-based consent. Some of them will be assigned. So, this is in some sense, horses for courses, kind of a policy depending on what kind of contracts that the customers have with Citibank at this point of time.

Moderator: Ladies and gentlemen, we will take the last question from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: I had a few questions. Just starting with that Rs 842 crore proforma number that you shared, is it on 25.2% tax rate? So that's the first question.

Puneet Sharma: Yes, the response to that question is yes..

Dhaval Gada: The second question was, I understand that Citi SA cost is lower than what Axis Bank offers. So, the additional impact would be about Rs 200 to Rs 250 crores, ballpark in that range?

Puneet Sharma: We are not calling that number out, but yes, directionally Citi's SA rates are lower than our SA rates and under the extant regulations, all SA customers have to be priced at the same rate, which we believe is an attractive retention tool for Citi customers.

Dhaval Gada: If you look at your guidance on cost which you expect 30% to 40% saving in two years post completion, so that would result to about, if you take the mid-point about Rs 800 crores of cost saving on the current number and if you assume Rs 200 crores on the extra SA cost and the extra tax impact broadly the book should be about (+) 2% ROA business excluding the Rs 1500 crores one-time cost which we will have.

Puneet Sharma: I think the way I would request to respond to that question is, like we don't guide for our own business, we wouldn't want to pop a forward-looking guidance for the Citi franchise that comes over. I think you have the numbers on slide 15 and the synergy numbers we put out. We request you to make an independent assessment, but we don't have a guidance to offer at the moment. Thank you.

Dhaval Gada: Last question is on the revenue synergies in your assessment or the current assumption, would this be more material in the second-year onward post completion, or it could take even longer? I mean, some sense in terms of when should we see the revenue synergy kick-in in a material way?

Puneet Sharma: I think the way I would request you to kindly think about this is, in the early part of the call we called out the fact that we have an attrition assumption on the business. And then there is a growth assumption, there will be growth that will offset the attrition and then there is revenue synergy. So, all in all, those are the three variables that we factored from our duration perspective. Synergies in transactions of the nature which are complex in integration, do take time to realize, is what I would say currently.

Moderator: Thank you. I now hand the conference over to Mr. Rajiv Anand for closing comments. Thank you and over to you, Sir.

Rajiv Anand: Thank you, ladies and gentlemen, for your interest in Axis Bank and the transaction. As one of our directors mentioned today, this is really a watershed moment for Axis Bank being able to invite into our family, the Citibank customers and our new colleagues from Citibank. It gives us access to a large and affluent profitable consumer franchise. It gives us access to stable granular deposits with deep salary relationships. We have made significant progress in our affluent business through Burgundy, and this is a natural fit to our strong wealth management franchise Burgundy, to be able to accelerate our growth expectations. It gives us access to an experienced leadership and diverse talent pool across relationship management, operations, and phone banking. And as we have just discussed over the last one-hour, significant potential for revenue and cost synergies. We are excited to be able to close this transaction today, subject of course to regulatory approvals. Thank you, ladies and gentlemen.

Moderator: On behalf of Axis Bank thank you for joining us. You may now disconnect your lines.