Stock Update

ICICI Bank Ltd.

November 18, 2021

RETAILRESEARCH

ICICI Bank Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Banks	Rs.761.25	Buy at Rs.758-764 and add more at Rs.692-695	Rs.847	Rs.900	2 quarters

HDFC Scrip Code	ICIBAN
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC
CMP Nov 17, 2021	761.25
Equity Capital (Rs bn)	13.9
Face Value (Rs)	2
Equity Share O/S (bn)	6.9
Market Cap (Rs bn)	5279.4
ABook Value (Rs)	191
Avg. 52 Wk Volumes	28761294
52 Week High	859.70
52 Week Low	465.95

Share holding Pattern % (Sept, 2021)	
Promoters	-
Institutions	89.8
Non Institutions	10.2
Total	100.00

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Nisha Sankhala
Nishaben.shankhala@hdfcsec.com

Our Take:

ICICI Bank is the second largest private sector bank in India. Over the years it has consistently focused on de-risking its loan book by reducing corporate portfolio and focusing on high margin less risky retail segment. We like ICICI Bank because of its strong balance sheet with granular, sticky liability base, lower stress levels, industry best PCR (Provision Coverage Ratio) and adequate CAR (Capital Adequacy Ratio). Improved underwriting practices and lower exposure to contextually vulnerable segments will help the Bank become even stronger. The loan book quality has improved significantly in past few quarters. Retail portfolio, which is the key revenue driver for the Bank, has largely been secured and for the corporate book, the incremental sanctions are done to better rated originations with high focus on short term loans. The Bank has also represented itself for the international business. We are estimating lower credit cost as majority of the back-book clean-up seems to be over. The bank has also developed significant sources of fee based income which is granular by nature. Some structural changes could improve the margins in longer run. The bank is focused on tech investments and digital initiatives in order to ready itself for the next leg of growth in retail and SME segments. Its subsidiaries which are leaders in their respective fields add good value to the overall valuation.

We had issued Initiating Coverage report on ICICI Bank on 5th October, 2020 and recommended Buy at LTP of Rs.369.2 and add further on dips to Rs.333-337 band, for base case target of Rs.401 and bull case target of Rs.430 over the next two quarters. The bull case target of Rs.430 was achieved on 3rd November 2020, yielding return of 16.5%.

Link for the Initiating Coverage:
https://www.hdfcsec.com/hsl.research.pdf/ICICI%20Bank-%20Initiating%20Coverage-05102020.pdf

Valuation & Recommendation:

ICICI Bank has reported strong all round performance in Q2FY22. Asset quality shocks of Q1FY22 were largely reversed during the quarter, with net slippages at 0.1% of loans. With PCR at 80% and non-NPA provisions at 2% of loans, credit costs are likely to remain subdued as the back-book clean-up is nearly complete. There could be higher recoveries in the next two-three years than slippages. We have envisaged 16.7% CAGR in Net Interest Income and 24.8% CAGR in net profit over FY21-FY24E. Further, we have estimated that the loan book would grow at 17% CAGR over this period. We expect NIM to trend around this all-time high level and asset quality might improve further.

We feel that investors can buy ICICI bank at Buy at Rs.758-764 and add more at Rs.692-695 band. We expect the Base case fair value of Rs.847 (~2.55xSA ABV Sep-22+SOTP) and the Bull case fair value of Rs.900 (~2.75xSA ABV Sep-22+SOTP) over the next 2 quarters.

Financial Summary

Particulars (Rs bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	116.9	93.7	24.8%	109.4	6.9%	332.7	389.9	461.2	540.9	619.1
PPOP	99.1	82.6	20.0%	88.9	11.5%	281	364	396.3	473.4	543.4
PAT	55.1	42.5	29.6%	46.2	19.4%	79.3	161.9	214.1	270.6	314.7
EPS	7.8	6.3	23.8%	6.5	19.1%	12	23.4	31	39.1	45.5
ROAE (%)						7.1	12.3	13.6	15.2	15.5
ROAA (%)						0.8	1.4	1.6	1.8	1.8
ABVPS						155	191.3	215.4	248.4	283.8
P/ABV(x)						4.9	4.0	3.5	3.1	2.7

(Source: Company, HDFC sec)

Recent Developments

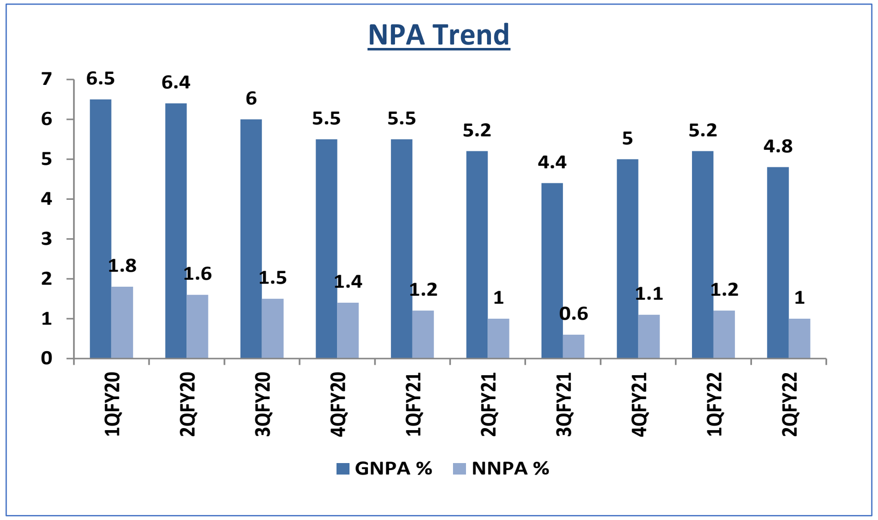
Q2FY22 Result Update

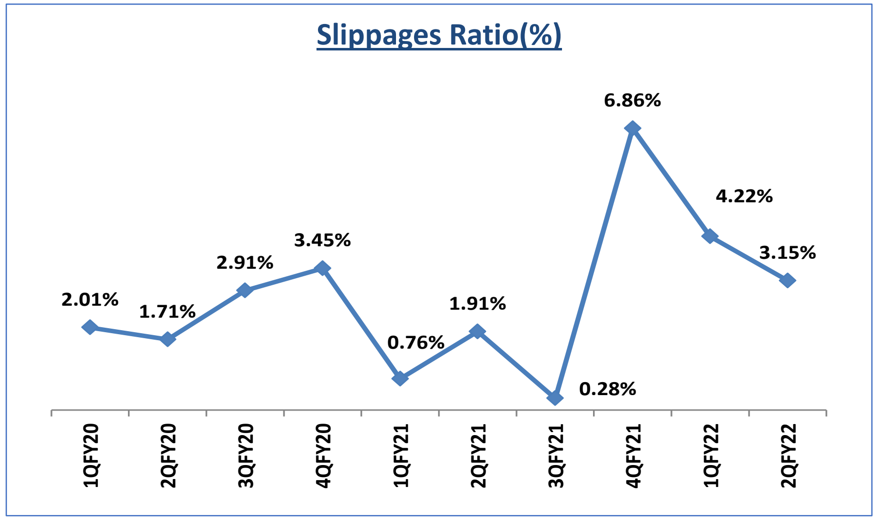
ICICI Bank reported strong all round performance in Q2FY22. The Net Interest Income (NII) grew by 24.8% YoY and 7% QoQ aided by improvement in the NIM. The Fee Income growth was strong at 21% YoY. OPEX grew 28% YoY and 9% QoQ. Despite this the core operating profit rose 23.3% YoY and 10.6% sequentially. Net Profit stood at Rs. 55.1 bn, up 29.6%/19.4% YoY/QoQ.

The bank continued to deliver industry-leading loan growth at 17% YoY, driven by mortgage (+25%) and business banking (+43%). Retail portfolio grew by 20% YoY and 5% QoQ. Excluding the builder portfolio, domestic corporate portfolio grew by 14% YoY and was flat sequentially. Deposits also reported healthy growth of 17.3% YoY. During the quarter, average current account deposits increased by 35.7% YoY and average savings account deposits by 24.9% YoY. The average CASA ratio improved to 44.1% compared to 43.7% in the June quarter. This has further helped the bank in reducing cost of funds (12bps QoQ improvement). The cost of funds now stands at industry best level.

Asset Quality

The headline NPA numbers improved further during the quarter. GNPA stood at 4.82% compared to 5.15% in the last quarter and NNPA stood at 0.99% compared to 1.16% in the last quarter. The provision coverage ratio seems at the comfortable level of ~80% and further ~2% is for non-NPA provisions. The PCR is highest in the industry. The gross slippage ratio was higher at 3.15% but the strong upgrades & recoveries (3.1%) during the quarter resulted in lower net slippage ratio at 0.1% of the loans. Total slippages during the quarter were Rs.55.8 bn out of which, the retail slippages were at Rs.46.2 bn and Corporate and SME slippages were at Rs.9.5 bn. The restructured loan book increased to 1.3% of loans compared to 0.7% in Q1FY22. The CV segment reported higher slippages and strong recoveries were seen from the gold loan segment (which had slipped in Q1FY22).





Healthy capital adequacy ratio

In FY21, it strengthened with improved internal capital generation and Rs.150 bn fund raise. In June-21, the bank has again raised Rs.28.27 bn by issuing bonds on private placement basis. The bank has also done many tranches of stake sales in many of its subsidiaries for raising capital in the past 2-3 years. As of Q2FY22, on the standalone basis, the Tier 1 ratio was at 18.53% and the total capital adequacy ratio was at 19.52%, which is well above minimum regulatory requirement of 9% and 11% respectively. Most of the subsidiaries are well capitalised and largely self-sufficient for their growth capital requirements. This shows that the Bank has strong balance sheet and healthy capital position, which could act as a cushion against any probable uncertain eventuality of further asset quality shocks or lower CASA. It also ensures that the bank is well positioned to capture high market share.

One of the better placed large private sector banks with quality loan book

In the past few years the bank has undergone a tremendous change in the underwriting practices. It has transformed itself from a corporate focused bank to a retail bank and the focus was shifted towards creating more granular retail franchise. This has created better fee income source for the bank and there has been significant moderation in gross slippages. Furthermore, it has helped the bank in improving CASA Ratio and NIMs. In the case of corporate segment, the bank has done incremental lending to only the better rated corporates. We believe that ICICI Bank is one of the better placed large private sector banks because of its quality loan book. It has lower exposure to riskier corporate sectors and retail book is now more granular with lower share of unsecured loans.

Granular retail lending book

The Retail franchise has become a key growth as well as revenue driver for the Bank. Net retail advances to the Bank's total advances has risen to 62.1% as of Q2FY22 from 53.3% in Q1FY18. The bank offers wide spectrum of products across deposits, lending, payments, investment products and wealth management services. This recent growth in the Retail Banking business unit's interest income and fee income reflects the strength and diversity of the Bank's core earning streams. The retail portfolio is largely made up of housing loans, loans against property, vehicle financing, personal loans and credit cards. Retail portfolio is largely secured and built on proprietary data and analytics in addition to bureau checks.

With an increase in economic activity and in disbursements across all retail products, the retail loan portfolio grew by 20% YoY and 5% sequentially during Q2FY22. Within the retail portfolio, the mortgage loan portfolio grew by 25% YoY, and rural loans and auto loans by 16.1% each. The commercial vehicles and equipment portfolio declined by 5% YoY. Growth in the personal loan and credit card portfolio was 20.7% YoY. Credit cards in force increased by 6% sequentially and the value of credit card spends grew by 47% sequentially. Spends across most categories other than travel crossed March 2021 levels in September. With the festival season going on, the trend is expected to continue.

Higher rated corporate book

The corporate portfolio has undergone sustained de-risking, as evidenced by a change in the bank's rating profile. The share of overall loans rated A-and above rose from 56.2% in FY17 to 70.7% in Q2FY22. Further, ~90% of corporate disbursals, both domestic and international have been towards entities rated A- and above. The bank has also put efforts on the concentration risk front by reducing the contribution of the top 20 borrowers. BB and below rated book is now only 2.7%. The bank is likely to maintain its current quality trajectory in line with its reimagined corporate strategy. Management has informed that focus will be on higher rated corporates and PSUs across various sectors to meet their working capital and CAPEX requirements. While commenting on the growth prospects of corporate book, the management has informed that they are witnessing low capex demand from private players while the same for PSU space is good.

Rating-wise non-retail loan book

	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22
AA- and above	21.2%	25.3%	27.3%	35.3%	35.3%	36.3%
A+, A, A-	25.1%	32.5%	36.9%	33.7%	33.8%	34.4%
A- and above	**46.3%**	**57.7%**	**64.2%**	**69.1%**	**69.1%**	**70.7%**
BBB+,BBB, BBB-	34.5%	33.4%	29.8%	25.6%	25.7%	25.1%
BB and below	6.9%	4.1%	3.0%	3.6%	3.8%	2.7%
Non-performing loans	11.0%	4.4%	2.4%	1.1%	0.9%	0.9%
Unrated	1.3%	0.4%	0.5%	0.5%	0.4%	0.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

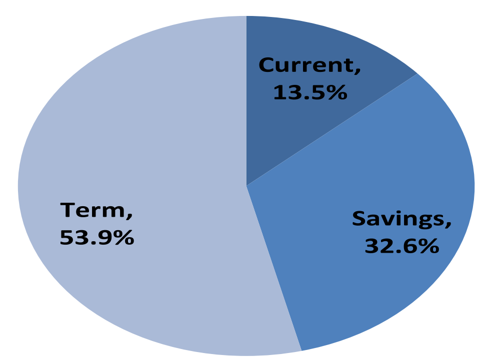
International business has been repositioned

For the international business the bank has repositioned itself to focus on non-resident Indians (NRIs) for deposits, wealth and remittances businesses. It has also focused on deepening its relationships with Indian corporates in international markets and multinational companies present in international as well as domestic market, for maximising the India-linked trade, transaction banking and lending opportunities. The Bank is also actively engaging with sovereign wealth funds, global pension funds and asset managers to facilitate fund flows into India. The overall aim is to reduce exposures that are not linked to India in line with the focus on growing the India-linked business. The overseas loan portfolio declined by 8.6% YoY and 3.5% sequentially in Q2FY22 and now stands at 5.1% of the overall loan book. The non-India linked corporate portfolio reduced by 56.9% or about US$1.1 bn YoY and 15.9% sequentially, at September 30, 2021.

Strong liability franchise

The best-in-class low cost granular deposit franchise is the key differentiator for the bank. The retail profile of ICICI Bank helps it mobilise low-cost deposits and healthy CASA ratio. Despite having one of the lowest interest rate propositions for the deposits, there has been a healthy rate of growth in deposits supported by extensive branch network and strong digital ecosystem of the bank. The CASA ratio is well above industry average and the granularity of the deposit profile is reflected in the low share of top-20 depositors in total deposits. During the quarter, the deposit growth continued to be strong at 17.3% YoY with 35.7% YoY growth in average current account and 24.9% YoY growth in average savings account. Term deposit grew by 12.5% YoY. CASA ratio for the quarter stood at 44.1% compared to 40.3% in Q2FY21. This has resulted in cost of deposit at 3.53% as compared to 4.22% last year same quarter.

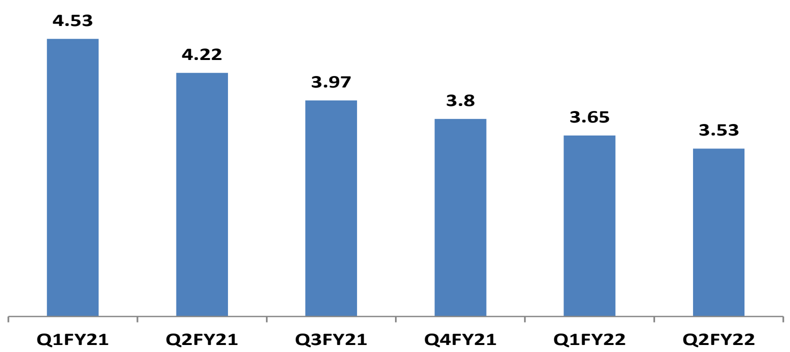
Deposits Mix (%)



NIM at multi-year high

In Q2FY22, Net Interest Margin (NIM) was multi-year high at 4% compared to 3.89% QoQ and 3.65% YoY. The sequential increase in NIM in this quarter was primarily due to decline in cost of funds and lower interest reversals on NPAs. Domestic margin expanded by 10bp QoQ, while for overseas it remained flat. Management has indicated that they are endeavouring to protect the margin at those levels. Unwinding of surplus liquidity and increasing share of high margin unsecured portfolio should keep help the bank in maintaining the NIM.

Cost of Deposits (%)



Technology initiatives

ICICI Bank is a pioneer in technological innovation in the Indian banking industry. It has been continuously upgrading and introducing innovative technology into the system. Today, it has best-in-class end-to-end seamless digital platforms, that offers personalized solutions and value added features to customers and enable more effective data-driven cross-sell and up-sell. These platforms also enable the bank to acquire new customers. A new digital platform, InstaBIZ, was launched for the small and medium enterprises (SME) and the self-employed segment, which offers over 200 products and services on mobile and internet banking platforms.

Recently, the Bank has launched a comprehensive platform, ICICIStack, that offers digital services and covers almost all banking requirements of customers including account opening, loans, credit cards, payment solutions, investments, insurance and protection related products. The platform can be used by various customer segments including retail, SME and corporate clients.

The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily. About 32% of the mortgage sanctions and 40% of the personal loan disbursements, by volume, were end-to-end digital in H1FY22. About 95% of the overdraft facilities set up for business banking current account customers were end-to-end digital in H1FY22. 40% of asset and liability accounts opened during the quarter were through digital channels. The mobile banking app 'iMobile Pay' has also been observing significant adoption in past few quarters. There were about 1.5 mn activations from non-ICICI Bank account holders in the last quarter, taking the total activations to 4 mn as of end-September. The transactions by non-ICICI Bank account holders in terms of value and volume respectively were three times and thirteen times higher in Q2FY22 compared to the quarter before that. The management has informed that they are witnessing a rapid rise in payment transactions through repeat use of features such as 'Pay to Contact' and 'Scan to Pay'.

Risks & Concerns

- A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provisioning high and return ratios compressed for a longer time. Further, any delay in the recovery, higher than expected haircuts or sharp rise in the slippage could impact the profitability and business growth prospects.
- Weak performance of subsidiaries could impact the overall profitability of the bank.
- The rise in interest rate may impact the loan growth; the bank has high retail facing loan book and high interest rates negatively impacts the demand.
- Softer growth in CASA could increase the cost of funds and impact margins.
- Slower than expected growth of subsidiaries can impact consolidated profitability of the bank.
- Slowdown in credit growth across the Banking system could impact the growth of loan book for ICICI Bank and hence its NIMs/spreads.

Company Background:

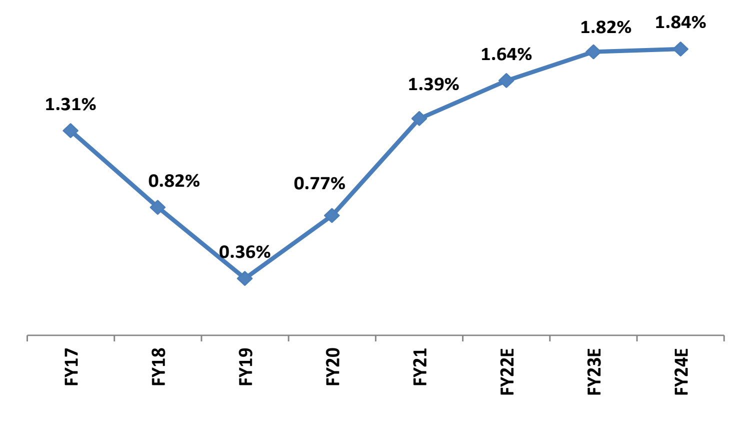
ICICI Bank Ltd. is the second largest private sector bank in India in terms of assets size and is designated as one of the Domestic Systemically Important Bank (D-SIB) in the country. The total balance sheet size of the bank on standalone basis stood at Rs. 12,760 bn as on Sep-21. The ICICI Group has a unique franchise with a presence across customer segments, products and geographies, excellent technology capabilities and a diverse talent pool. The group has presence in banking, insurance, asset management, investment banking and private equity.

ICICI Bank is at the forefront of leveraging technology and offering services through digital channels like mobile and internet banking. The bank's strong market leadership is complemented by its robust franchise of 5,277 branches and 14,045 ATMs as of Q2FY22. The Bank also has wholly-owned subsidiaries in the United Kingdom and Canada with branches across both countries. Besides it has offices in other important countries of the world as well.

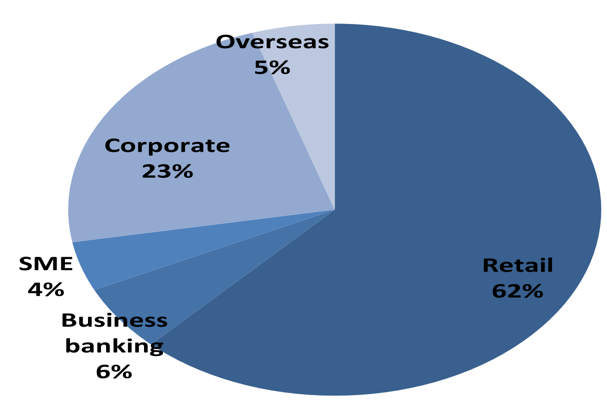
Peer Comparison:

	CMP	P/ABV			P/E			FY21						
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	ROAE (%)	ROAA (%)	NIM %	GNPA %	NNPA %	CASA %	Loan Book (Rs. Bn)
ICICI Bank	761	4.0	3.5	3.1	33.1	24.5	19.5	12.3	1.4	3.75	5.3	1.2	46.3	7337.29
Axis Bank	712	2.4	2.1	1.8	33.1	17.4	12.5	7.1	0.7	3.7	3.7	1.1	44.9	6237.20
Kotak Bank	2052	7.0	6.2	5.5	58.5	51.3	45.6	12.4	1.9	4.7	3.3	1.2	58	2236.89

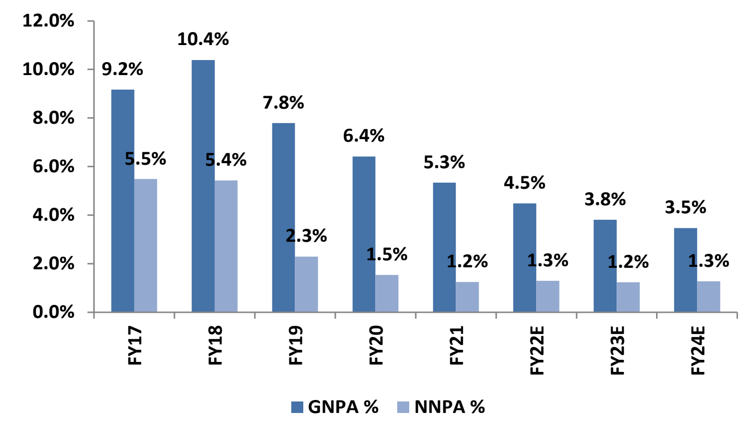
RoAA (%)



Loan Book Mix (%)



NPA Trend



SoTP Valuation Table:

	% Stake	Per Share Value		Valuation Methodology
		Base Case	Bull Case	
ICICI Bank (standalone, FY23E ABV)	**100%**	**678.3**	**731.5**	**2.55/2.75x Sep-23 ABV of Rs.266**
ICICI Prudential Life	51%	79.5	79.5	2.1x Sep-23 EV
ICICI Lombard General	48%	46.0	46.0	2.5x Sep'23E EPS
ICICI Securities	75%	34.1	34.1	36x Sep'23E EPS
ICICI Prudential AMC	51%	35.5	35.5	8% of Sep'23 AUM
ICICI Securities Primary Dealership	100%	6.6	6.6	2x Sep'23 BVPS
ICICI Home Finance	100%	2.9	2.9	1x Sep'23 BVPS
ICICI Bank UK	100%	2.7	2.7	0.5x Sep'23 BVPS
ICICI Bank Canada	100%	2.7	2.7	0.5x Sep'23 BVPS
ICICI Ventures	100%	0.4	0.4	1x Sep'23 BVPS
Total value of subsidiaries		**210.4**	**210.4**	
Less: Holding company discount		42.1	42.1	20% Hold co discount
Total SoTP valuation		**846.6**	**899.8**	

Financials

Income Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest earned	747983	791183	869642	1013125	1175372
Interest expended	415313	401288	408404	472254	556303
Net interest income	**332671**	**389894**	**461238**	**540871**	**619069**
Other income	164486	189685	191936	226908	261718
Treasury income	16392	51738	22295	30145	34572
Total income	497157	579580	653175	767779	880786
Operating expenditure	216144	215608	256856	294381	337399
Pre-provisioning profit	**281013**	**363971**	**396319**	**473398**	**543387**
Non-tax provisions	140533	162144	116442	112611	123723
NPA provisions	88144	107991	109028	106838	120952
Profit before tax	140480	201827	279877	360787	419664
Tax expenditure	61172	39900	65771	90197	104916
Profit after tax	**79308**	**161927**	**214106**	**270591**	**314748**

Balance Sheet

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	12,948	13,832	13,832	13,832	13,832
Reserves and surplus	11,52,062	14,61,227	16,48,609	18,88,659	21,57,595
Net worth	**11,65,044**	**14,75,090**	**16,62,441**	**19,02,491**	**21,71,427**
Deposits	77,09,690	93,25,222	107,10,388	123,84,900	145,60,627
CASA	34,78,185	43,16,234	49,50,052	57,60,515	67,43,851
Borrowings	16,28,968	9,16,310	9,54,810	9,69,390	9,84,286
Other liabilities and provisions	4,79,950	5,87,704	5,53,861	5,99,822	6,78,720
Total equity and liabilities	**109,83,651**	**123,04,325**	**138,81,500**	**158,56,603**	**183,95,059**
Cash and cash equivalents	11,91,557	13,31,283	11,90,731	12,16,074	14,18,740
Investments	24,95,315	28,12,865	31,32,406	35,66,584	41,16,045
Government securities	18,83,319	21,36,208	23,33,040	26,70,858	31,08,983
Advances	64,52,900	73,37,291	86,23,115	100,42,910	116,84,441
Fixed assets	84,103	88,776	93,215	97,875	1,02,769
Other assets	7,59,777	7,34,112	8,42,033	9,33,159	10,73,064
Total assets	**109,83,651**	**123,04,325**	**138,81,500**	**158,56,603**	**183,95,059**

(Source: Company, HDFC sec)

ICICI Bank Ltd.

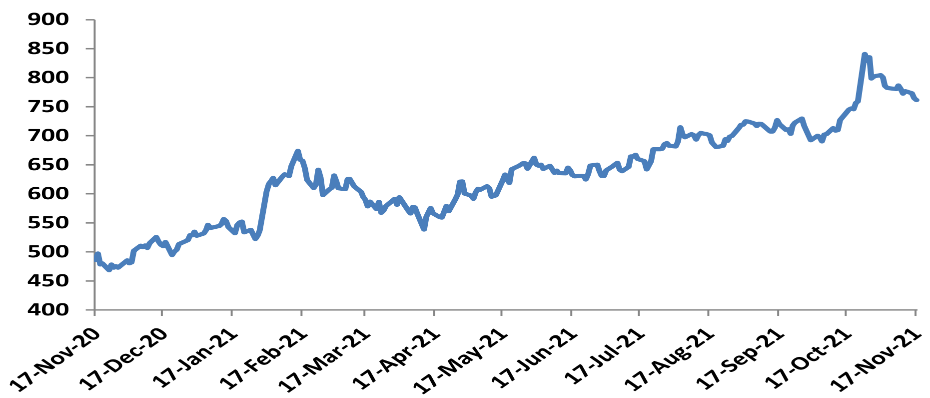
Key Ratio

	FY20	FY21	FY22E	FY23E	FY24E
Valuation metrics					
EPS	12	23	31	39	46
BVPS	180	213	240	275	314
ABVPS	155	191	215	248	284
RoAA	0.8%	1.4%	1.6%	1.8%	1.8%
RoAE	7.1%	12.3%	13.6%	15.2%	15.5%
P/E	63.4	33.1	24.5	19.5	16.5
P/ABV	4.9	4.0	3.5	3.1	2.7
Profitability ratios					
Yield on advances	9.34%	8.31%	8.35%	8.40%	8.40%
Cost of funds	4.74%	4.10%	3.73%	3.78%	3.85%
Cost of deposits	4.59%	3.90%	3.68%	3.70%	3.79%
Core spread	4.75%	4.40%	4.67%	4.70%	4.61%
Net interest margin	3.66%	3.75%	3.95%	4.07%	4.03%
Operating efficiency ratios					
Cost-average assets	2.10%	1.85%	1.96%	1.98%	1.97%
Cost-income	43.5%	37.2%	39.3%	38.3%	38.3%

Key Ratio

	FY20	FY21	FY22E	FY23E	FY24E
Balance sheet structure ratios					
Loan growth	10.0%	13.7%	17.5%	16.5%	16.3%
Deposit growth	18.1%	21.0%	14.9%	15.6%	17.6%
C/D ratio	83.7%	78.7%	80.5%	81.1%	80.2%
CASA	45.1%	46.3%	46.2%	46.5%	46.3%
CRAR	16.1%	19.1%	18.4%	17.9%	17.1%
Tier 1	14.7%	18.1%	17.5%	17.1%	16.4%
Asset quality metrics					
Gross NPAs	4,14,092	4,08,414	3,99,201	3,92,190	4,14,156
Net NPAs	99,232	91,176	1,11,796	1,23,696	1,48,249
PCR	76.0%	77.7%	72.0%	68.5%	64.2%
GNPA %	6.4%	5.3%	4.5%	3.8%	3.5%
NNPA %	1.5%	1.2%	1.3%	1.2%	1.3%
Slippages	2.2%	2.3%	2.7%	2.2%	2.1%
Credit costs	1.4%	1.6%	1.4%	1.1%	1.1%

One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193