Sharekhan by BNP PARIBAS

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ICICI Bank

Retail biz to drive growth

Banks & Finance	Sharekhan code: ICICIBANK	Company Update

Summary

- ICICI Bank has seen a significant improvement in business and financial parameters and has steered well through the pandemic.
- The trend was visible in strong performance in Q1FY22 and guidance for lower gross NPA additions in Q2FY22 with a meaningful decline likely from H2FY22 onwards.
- Conservative provisioning (high PCR of 78.4% and COVID-19 related provision buffer of 0.9% of loans), a strong capital base (CAR of 19%) and overall franchise value are positives, which will help the bank tide over medium-term challenges and support growth and valuations.
- We maintain a Buy on ICICI Bank with a revised SOTP-based price target (PT) of Rs 876. It is emerging as growth leader with improving return ratios, making it our preferred pick in the banking sector.

- **Strong operational performance in Q1FY22:** Q1FY22 earnings increased by 78% y-o-y and 5% q-o-q led by a 62% y-o-y decline in credit costs. Margins increased by 5 bps q-o-q to 3.89%. GNPA increased by 19 bps q-o-q to 5.15% for Q1FY22.
- **Ample liquidity led by strong capital base:** The bank's deposits rose 16% y-o-y in Q1FY22, led by a 25% y-o-y rise in CASA deposits that formed 46% of total deposits. Its liquidity coverage ratio is at 146%. It raised Rs. 15,000 crore in equity capital in August 2020, which increased its CAR to 19% as at Q1FY22 from 16.3% at Q1FY21. We believe this has strengthened the bank's balance sheet and would help it withstand shocks. We expect ICICI Bank to emerge stronger and gain market share from state-owned banks/non-banking finance companies that are facing multiple issues (such as higher GNPAs and inadequate capital).
- **Improving asset quality; robust outlook:** ICICI Bank's provision coverage ratio (PCR) was stable at 78.4% with the comfort of COVID-related provision buffer (of 0.9% of loans). The management gross NPA additions to moderate in Q2FY22 and meaningfully decline from H2FY22 onwards. The extension of Mr. Sanjay Bakhshi as MD & CEO for two more years also gives us confidence that the bank can reclaim its decade-best RoE of 15-16% by FY2023/FY2024.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 876: Using the SOTP methodology, we value the bank's standalone operations at ~2.6x its FY2023E BV and rest of the subsidiaries at Rs. 183 per share. The bank is available at 3.1x/2.7/2.3x its FY2022E/FY2023E/FY2024E BVPS. We believe that the valuations are attractive, considering the overall franchise value as a whole, strong capitalisation and a high PCR that are key comfort factors. Healthy capital levels (CET-1 at 17.7%) and provision buffers indicate strength in the bank's balance sheet. In addition, the outlook for significant improvement on the asset quality front makes it among the most preferred investment options in the banking sector. We maintain Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 876.

Key Risks

A slower recovery in the economy, higher slippages due to COVID-19 vulnerabilities and slippages from the corporate book (especially from the 'BB and below'-rated portfolio) could affect earnings.

Valuation — Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Interest Income (NII)	38,989.43	46,744.15	55,951.11	65,862.05
Net profit (Rs cr)	16,193	21,438	27,560	31,531
EPS (Rs)	23.4	31.0	39.8	45.6
P/E (x)	30.8	23.3	18.1	15.8
BVPS (Rs)	208.7	235.0	267.5	308.3
P/BV (x)	3.5	3.1	2.7	2.3
RoE (%)	12.57%	13.97%	15.86%	15.83%
RoA (%)	1.39%	1.61%	1.77%	1.73%

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 721**	
Price Target: **Rs. 876**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 499,737 cr
52-week high/low:	Rs. 735/334
NSE volume: (No of shares)	53.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	692.6 cr

Shareholding (%)

Promoters	0
FII	48.0
DII	39.0
Others	13.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	11.3	18.2	49.1
Relative to Sensex	-3.0	0.2	8.6	40.2

Sharekhan Research, Bloomberg

Well-positioned to gain market share: Private banks are increasing their market share due to slower business growth in public sector banks emanating from the ongoing consolidation process, higher GNPAs and a low capital base. Private banks' share of system loans increased to 38% in FY20 from 19% in FY09. They accounted for 33% of total deposits in FY20, up from 21% in FY09. We believe that ICICI Bank will accelerate its market share gains in the next few years, driven by faster business (loans + deposits) growth (15-20%) as compared to public-sector banks (10-12%) and a stronger capital base. ICICI Bank's share of system loans doubled to 6% in FY20 from 3% in FY09. Its share of deposits rose to 5% from 3.1%. We forecast ICICI Bank's loan market share to increase to 7% by FY22E and deposit share to rise to 5.8%. The latter should be led by a 24% annual growth in deposits over FY20-22E.

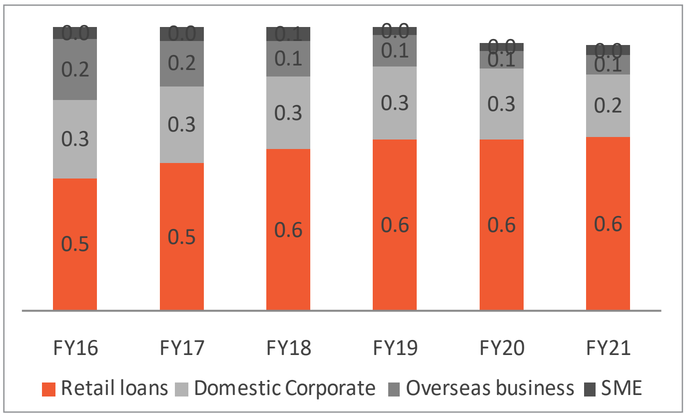
Leadership position in insurance, asset management and brokerage: ICICI Bank is the second-largest private bank in India. It has leadership position in other businesses as well through its subsidiaries. It has nine subsidiaries with ownership ranging from 51-100%, of which three are listed on the stock exchanges. ICICI Prudential Life is the third-largest life insurance company in India with 17.7% market share. Its annualised premium equivalent (APE) increased by 13% per annum over FY15 to FY20 to Rs. 30,900 crore whereas the value of new business (VNB) grew 5x over FY15-FY21 to Rs. 13,300 crore. ICICI Prudential AMC is India's second-largest asset management company. Its AUM grew 1.8x over FY16-20 and it has a 13% share in India's mutual fund industry. These subsidiaries accounted for 38% of the total's group profit as of FY21.

CASA ratio second-highest among peers: ICICI Bank had one of the best CASA ratios (of above 49%) in the industry during FY16 to FY19, which helped the bank control its cost of funds. However, in FY21, the CASA ratio stood at 47% after falling to 45% in FY20. Despite this moderation, the bank's CASA ratio is second only to Kotak Mahindra Bank. In FY21, ICICI Bank's cost of deposits decreased by 88 bps y-o-y to 3.7% due to easy liquidity conditions.

GNPAs increased by 10 bps to 5.15% q-o-q aided by recoveries: GNPAs are down to 5.15% in Q1FY22 from 5.46% a year ago, but up 10 bps q-o-q. This is primarily due to an increase in fresh slippages by 31% q-o-q to Rs. 7,230 crore. Slippages were mainly from the retail portfolio that accounted for 94% of the total portfolio. However, higher recoveries and upgrades were instrumental in containing the growth in GNPAs.

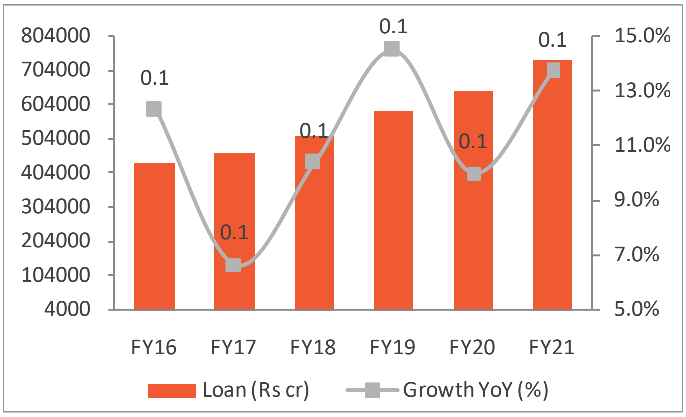
Financials in charts

Retail loan account for 60% of the book



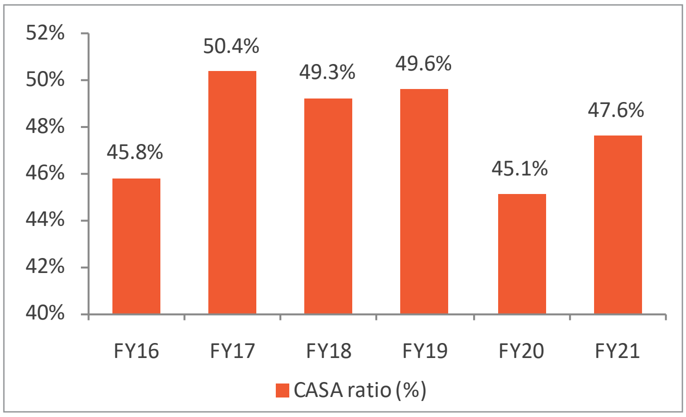
Source: Company, Sharekhan Research

Overall loan book



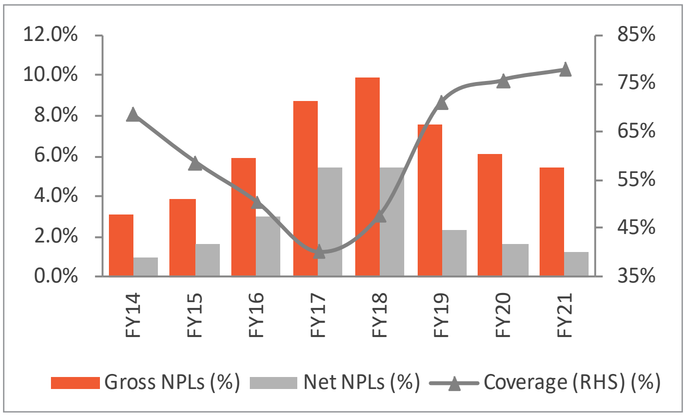
Source: Company, Sharekhan Research

Trend in CASA



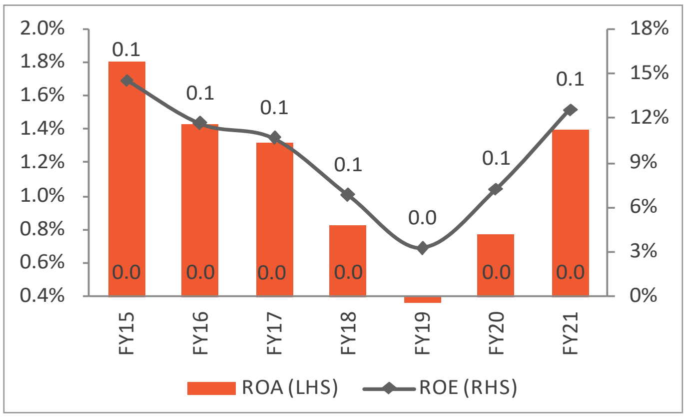
Source: Company, Sharekhan Research

GNPA & NNPA have reduced



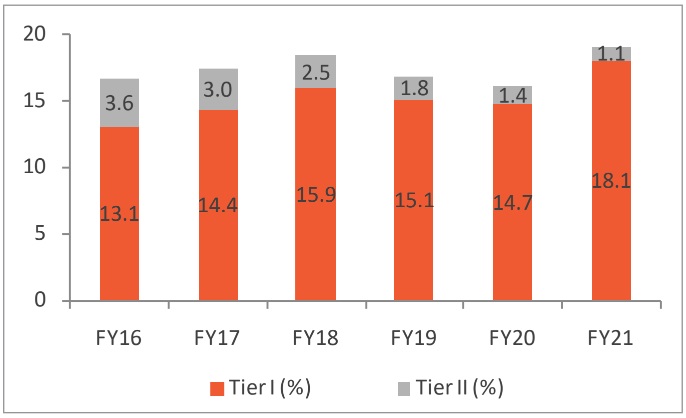
Source: Company, Sharekhan Research

RoE and ROA trend (%)



Source: Company, Sharekhan Research

Well-capitalised with CAR of 19%



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Credit growth yet to pick up, private banks placed better

System-level credit offtake remains sedate, growing by 6.5% y-o-y in the fortnight ending August 13, 2021. On the other hand, deposits rose by 10.6%, which indicate a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe that banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with a strong capital base and strong asset quality (with high coverage and provision buffers), are structurally better placed to take-off once the situation normalises.

Company outlook - retail business to be driving force

ICICI Bank's strong brand positioning across retail, business banking and corporate banking segments with a pan-India presence makes it an attractive and strong business. Looking ahead, we believe that optimism in the economy, supported by resumption of economic activity and continued growth in digitisation and the bank's extensive franchise, high-quality digital platforms, prudent risk management practices and strong capital ratios make the bank well-placed to capture opportunities that will arise in the near to medium term. A stabilising watchlist book, healthy provision buffer and improvement in margins and liability profile indicate a strong business outlook for the bank. In addition, improving collection efficiency and a recovery in business traction indicate that the scenario is normalising fast. With front-loading of provisions, exposure to better-rated borrowers, decline in watchlist indicate that the bank is entering FY2022 with a strong book quality and minimal legacy burden. We find ICICI Bank to be an attractive franchise with a strong balance sheet and pan-India reach, which make it attractive over the long term. Moreover, its well-performing subsidiaries, which are strong players in their respective fields, add value to the overall business.

Valuation - Maintain Buy with a revised PT of Rs. 876

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SoTP valuation

Particulars	Holding (%)	Valuation Methodology	Value per Share
ICICI Bank - Parent	100%	2.6x FY23E P/ABV	693
ICICI Prudential Life	53%	Embedded Value	69
ICICI Lombard	56%	Based forward P/B of 7x	57
ICICI Prudential MF	51%	7% of AUM	20
ICICI Bank UK	100%	0.6x Book Value	2
ICICI Bank Canada	100%	0.6x Book Value	3
ICICI HF	100%	1.0x Book Value	3
ICICI Securities	79%	22x FY21E EPS	24
ICICI Ventures	100%	10% of AUM	3
ICICI Sec. PD	100%	1.5x Book Value	3
Total (INR)			**876**

Source: Company, Sharekhan Research

About company

ICICI Bank is the India's second-largest private bank and has a leadership position in other financial services businesses through its subsidiaries. The bank offers the entire spectrum of financial services to customer segments covering large and mid-corporates, MSME, Agriculture and retail businesses.

Investment theme

ICICI Bank has a well- diversified loan book having strengths in both retail and corporate segments. The bank's liability profile has improved significantly, which would be helpful in sustaining margins at healthy levels. Of late, loan book quality is improving, which we believe is positive for its profitability and growth going forward. However, we believe given the comfortable liquidity, the overall franchise value, healthy capitalization levels and a high provision coverage ratio (PCR), the bank will be able to ride over medium-term challenges.

Key Risks

Prolonged uncertainty due to intermittent lockdowns may affect growth, and rise in NPAs in unsecured and other retail segments can pose a risk to profitability.

Additional Data

Key management personnel

Sandeep Bakhshi	CEO/Managing Director
Rakesh Jha	Chief Financial Officer
Vishakha V Mulye	Executive Director
Anup Bagchi	Executive Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance	7.59
2	SBI Mutual Fund	4.68
3	ICICI Prudential	3.4
4	HDFC Mutual Fund	2.74
5	Kotak Mutual Fund	1.97
6	Nippon AMC	1.74
7	Dodge & Cox	3.25
8	Govt of Singapore	2.98
9	Euro pacific growth fund	1.45
10	UTI Mutual Fund	1.60

Source: BSE

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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