

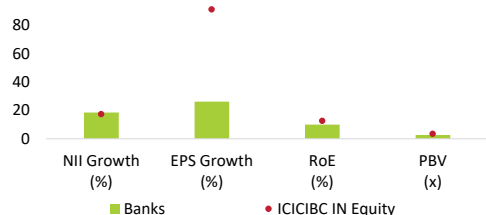
ICICI BANK

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	716
12 month price target (INR)	890
Market cap (INR bn/USD bn)	4,971/66.2
Free float/Foreign ownership (%)	100.0/37.2
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

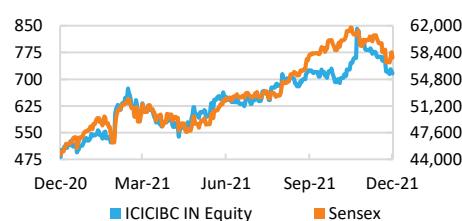


FINANCIALS

(INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Revenue	497157	579580	649400	725044
PPoP	281013	363971	390599	436423
Adjusted profit	79308	161927	204313	229218
Diluted EPS (INR)	12.3	23.4	29.5	33.1
EPS growth (%)	134.8	91.1	26.2	12.2
RoAE (%)	58.4	30.6	24.2	21.6
P/E (x)	7.2	12.6	13.5	13.7
P/ABV (x)	4.9	3.7	3.3	2.9
Dividend yield (%)	0	0.3	1.0	1.0

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Digital Day: Aiming for excellence

The key takeaway from ICICI Bank's (ICICI) Analyst Day 2021 is extension of the earlier versions showcasing its digital prowess, focused execution, and ability to capture the entire customer ecosystem. The event spelt out the bank's approach to deepening moats in existing verticals via dual levers: analytics and digitalisation.

An ecosystem approach to tracking risk/opportunity across segments shows ICICI is evolving into a next-gen bank (ingrained digital edge) that is well equipped to cater to customers' changing needs. The bank's approach also highlights that it is moving beyond 'hygiene' towards excellence. Maintain 'BUY' with a TP of INR890 (unchanged). ICICI continues to be our top sectoral pick.

Building scale riding digital edge via platform and ecosystem build-up

Management reiterated its targeted need of meeting customer needs, within and beyond banking, christened 'Customer 360', which remains the credo of its digital initiative. ICICI is evolving into a digital powerhouse with customer centricity and 'client + relationship + ecosystem RoE' as its focal points. The bank's approach highlights that it is moving beyond 'hygiene' towards excellence. We see the bank as future-ready: i) leveraging digital technology to collaborate with entire ecosystem; ii) making right choices and capturing money in motion using strong data analytics; iii) wealth of data mapped in its vast customer ecosystem and scalable platforms; and iv) partnerships (130+ fintech partnership), giving it nimbleness.

Ecosystem approach to ensure sustainable franchise scalability

In our view, management has made commendable progress in its stated objective of delivering risk-calibrated core operating profit growth with RoE focus. The bank's cultural alignment is reflected in the entire team reiterating unwavering focus on risk-calibrated core operating profit growth underpinned by the "customer 360" narrative. This, we believe, is apt and significantly enhances ICICI's positioning. The bank has been consistently delivering on stated objectives of building granularity, de-risking and empowerment. We believe cost efficiency, growth sustainability and contained credit cost would ensure steady-quality earnings.

Outlook and valuation: From hygiene towards excellence; retain 'BUY'

We have always upheld ICICI as one of the liability champions of Indian banking. This coupled with balance sheet comfort – high provisioning/capitalisation – has undeniably played a role in our selection of it as our sector top pick. A focused approach of leveraging existing relationships, structural/cultural changes and digital edge underpin ICICI's sustainable franchise.

The latest strategy promises the leap from "Good to Great". We take note of its vast wealth of data and deep franchise moats on liabilities to surmise that if the bank executes along the lines articulated in its presentation, its success and therefore a sustained re-rating to sector-leadership valuations are possible. Maintain 'BUY/SO'.

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Net interest income	3,32,671	3,89,894	4,61,872	5,20,477
Non interest income	1,64,486	1,89,685	1,87,528	2,04,567
Fee and forex income	1,39,609	1,28,120	1,45,334	1,64,869
Misc. income	11,947	11,106	12,195	14,698
Investment profits	12,930	50,460	30,000	25,000
Net revenues	4,97,157	5,79,580	6,49,400	7,25,044
Operating expense	2,16,144	2,15,608	2,58,801	2,88,621
Employee exp	82,712	80,918	96,706	1,05,138
Other opex	1,33,432	1,34,691	1,62,095	1,83,484
Preprovision profit	2,81,013	3,63,971	3,90,599	4,36,423
Provisions	1,40,532	1,62,144	1,18,182	1,30,799
PBT	1,40,480	2,01,827	2,72,417	3,05,624
Taxes	61,172	39,900	68,104	76,406
PAT	79,308	1,61,927	2,04,313	2,29,218
Extraordinaries	0	0	0	0
Reported PAT	79,308	1,61,927	2,04,313	2,29,218
Diluted EPS (INR)	12.3	23.4	29.5	33.1
DPS (INR)	0	2.0	7.0	7.0

Important Ratios (%)

Year to March	FY20A	FY21A	FY22E	FY23E
Yield on advances	9.3	8.3	8.5	8.5
Yield on investments	7.5	7.3	7.1	6.9
Yield on assets	7.9	7.3	7.5	7.5
Cost of funds	4.5	3.9	3.9	4.0
Cost of deposits	3.9	3.3	3.5	3.6
Net interest margins	3.6	3.7	3.9	3.9
Spread	3.4	3.4	3.6	3.6
Cost-income	43.5	37.2	39.9	39.8
Tax rate	(43.5)	(19.8)	(25.0)	(25.0)

Assumptions (%)

Year to March	FY20A	FY21A	FY22E	FY23E
GDP (YoY)	4.8	(6.0)	7.0	6.0
Inflation (Avg)	4.3	5.0	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Repo rate (exit rate)	4.4	3.5	3.5	4.0
Credit growth	11.0	13.0	15.0	15.0
Deposit growth	12.0	14.0	15.0	15.0
Inc yield on advances	9.3	8.3	8.5	8.5
Inc cost of deposits	3.9	3.3	3.5	3.6
Tax rate	(43.5)	(19.8)	(25.0)	(25.0)
Low-cost deposits	45.1	46.3	45.2	45.0
Incremental slippages	2.3	2.4	2.9	2.8

Valuation Metrics

Year to March	FY20A	FY21A	FY22E	FY23E
Diluted PE (x)	58.4	30.6	24.2	21.6
Price/BV (x)	4.1	3.4	3.1	2.8
Price/ABV (x)	4.9	3.7	3.3	2.9
Dividend yield (%)	0	0.3	1.0	1.0

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Equity capital	12,948	13,834	13,834	13,834
Reserves	11,20,947	14,30,109	15,78,148	17,51,091
Net worth	11,33,895	14,43,943	15,91,982	17,64,925
Sub bonds/pref cap	8,05,140	8,05,140	8,05,140	8,05,140
Deposits	77,09,690	93,25,222	1,08,17,257	1,22,37,047
Borrowings	8,23,828	1,11,169	62,320	1,49,992
Other liabilities	4,79,950	5,87,704	5,43,075	5,21,134
Total	1,09,52,503	1,22,73,178	1,38,19,774	1,54,78,238
Assets				
Loans	64,52,900	73,37,291	84,42,234	97,84,876
Investments	24,95,315	28,12,865	31,27,525	32,85,043
Cash & equi	11,91,557	13,31,283	14,00,487	14,87,878
Fixed assets	52,954	57,627	54,414	50,950
Other assets	10,13,656	10,17,187	11,21,784	12,49,080
Total	1,09,52,503	1,22,73,178	1,38,19,774	1,54,78,238
BV/share (INR)	175.2	208.8	230.2	255.2
ABV/share (INR)	145.9	194.3	217.9	244.0
Capital adequacy (%)	16.1	19.1	18.7	18.2

Balance Sheet Ratios (%)

Year to March	FY20A	FY21A	FY22E	FY23E
Credit growth	10.0	13.7	15.1	15.9
Deposit growth	18.1	21.0	16.0	13.1
EA growth	16.1	13.3	12.9	12.1
SLR ratio	20.5	22.0	21.5	19.7
C-D ratio	87.2	81.8	81.0	82.9
Low-cost deposits	45.1	46.3	45.2	45.0
Gross NPA ratio	6.1	5.4	4.6	3.6
Net NPA ratio	1.6	1.3	0.9	0.8
Provision coverage	75.6	77.8	80.6	78.2

ROA Decomposition (%)

Year to March	FY20A	FY21A	FY22E	FY23E
NII/Assets	3.6	3.7	3.9	3.9
Fees/Assets	1.5	1.2	1.2	1.2
Inv profits/Assets	0.1	0.5	0.3	0.2
Net revenues/assets	5.3	5.0	5.2	5.2
Opex/Assets	(2.3)	(2.0)	(2.2)	(2.2)
Provisions/Assets	(1.5)	(1.5)	(1.0)	(1.0)
Taxes/Assets	(0.7)	(0.4)	(0.6)	(0.6)
Total costs/Assets	(4.5)	(4.0)	(3.7)	(3.7)
RoA	0.9	1.5	1.7	1.7
Equity/Assets	11.9	12.2	12.7	12.5
RoAE	7.2	12.6	13.5	13.7

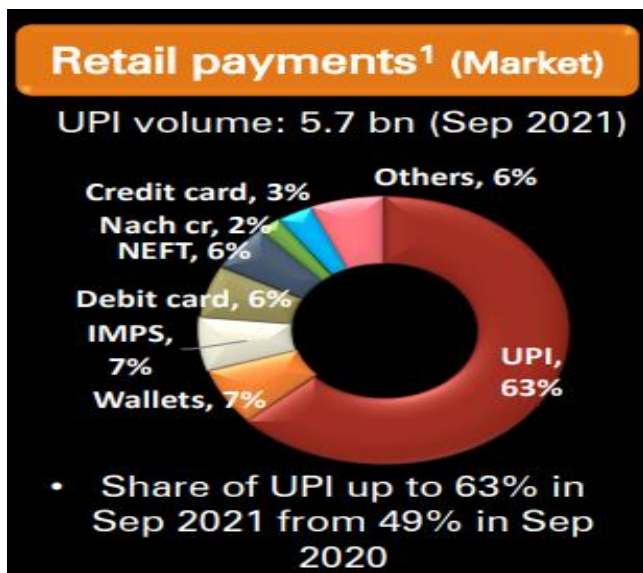
Valuation Drivers

Year to March	FY20A	FY21A	FY22E	FY23E
EPS growth (%)	134.8	91.1	26.2	12.2
RoAE (%)	7.2	12.6	13.5	13.7
Net NPA ratio (%)	1.6	1.3	0.9	0.8
Payout ratio (%)	0	9.9	27.5	24.6

Digital strategy

- 74% of the bank's customers are digitally active, and the bank is working towards building a financial super app, iMobile.
- Retail internet banking (iMobile) has 19 monthly mobile logins per user and corporate internet banking (InstaBIZ) has 37 monthly mobile logins per user.
- Have established an iScore, which is a customer engagement score. ICICI Bank wants the customer to come on the app and spend and gather data, which can enhance further engagement.
- ICICI Bank's UPI monthly transaction count has grown at 89% year to Oct-21, whereas UPI market has grown at 74%.
- Oct-21 UPI market share of ICICI Bank is 16% in terms by volume and 17% by value.
- The bank has formed 130+ fintech partnerships.

Exhibit 1: Retail payments' market share



Source: Company

Exhibit 2: Digital partnerships and co-creation

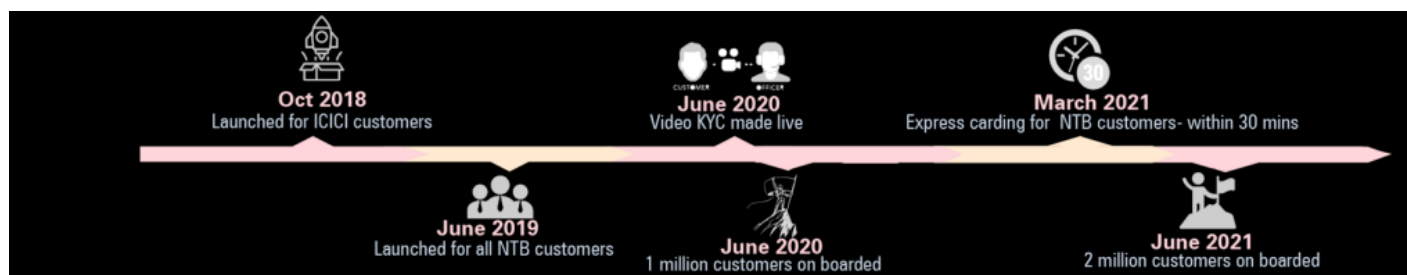


Source: Company

Credit cards acquisition

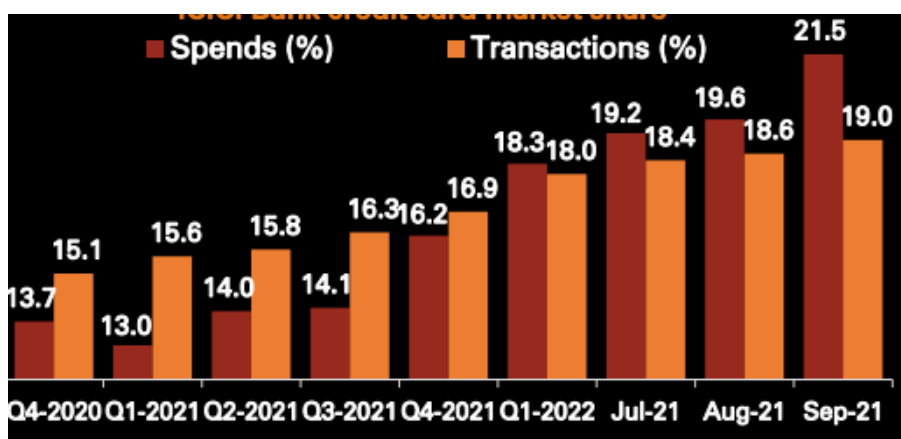
- 28% of the NTB customers are given cards with 30 days.
- 55% of NTB customers sourced through V-KYC.
- 96% of credit cards were digitally sourced in Oct-21, and the target is 100% starting Nov-21.
- Amazon Pay-ICICI Bank card has on-boarded 2mn customers over the last two years with 60% being NTB.
- ICICI Bank has become a big volume driver in the commercial cards segment.

Exhibit 3: Amazon Pay-ICICI Bank credit card journey



Source: Company

Exhibit 4: ICICI Bank credit card market share



Source: Company

All-encompassing product suite

- Have invested and built plenty of unique platforms.
- Have prepaid forex cards, Money to World, Money to India and SGB for individuals.
- Launching IFRA in 15 days, which is an advanced forex rate platform with algo pricing, best rates depending on deal size, plug and play capability, and connection with ERP system.
- This digital adoption is showing up in volumes and is often solving problems for customers, which they do not even know they have.

Platform for wholesale banking

- Though technology is integral, tech itself is not the differentiator. Value creation comes from superior customer experience.
- Need a variety of platforms to meet varying needs of the customer from import, export, etc with best-in-class experience.
- The company has successfully deployed modular platforms for corporates – a one-stop platform with 225+ digital solutions with API across collection, payment and trade.
- Has developed India’s first blockchain-based solution – end to end digitalisation of inland trade.

Exhibit 5: Serves multiple customer segments

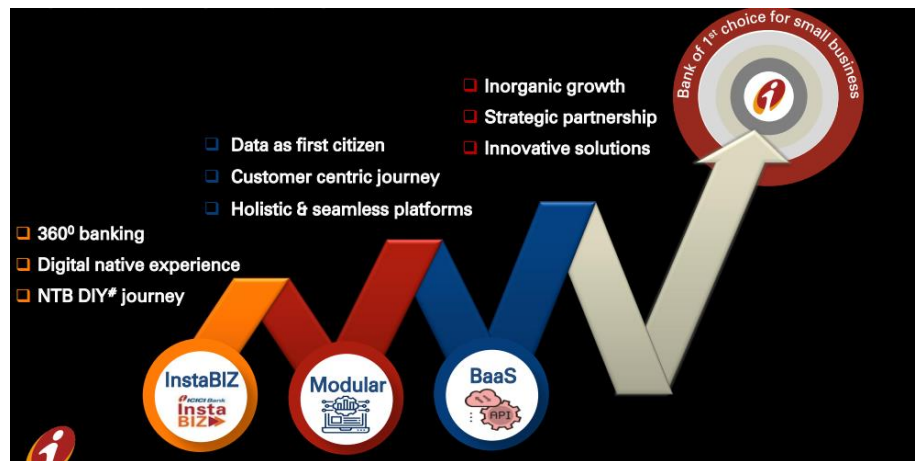


Source: Company

InstaBIZ – Universal bank for small business

- Offers multitude of services on a single platform like lending, transactions, tax & compliance, trade & forex, merchant services, cards, etc.
- Has 1+mn active customers and has reported 1.6x growth in financial transactions in year to Oct 2021 over year to Oct 2020.
- Offers InstaOD of INR5mn.
- Extending InstaBIZZ to NTB customers through DIY journey.

Exhibit 6: Poised for growth



Source: Company

Ecosystem

- Based on: Providing 360 degree solutions, one bank one ROE, fair to bank – fair to customer, return of capital.
- The idea is to deliver the entire bank to the customer. Continuously endeavouring to capture the entire ecosystem.
- Corporate Ecosystem: A sharp rebound in economic activity, capex expected to pick up in data centers, renewables, etc Led to liability growth of 2.3x, operating profit growth of 1.3x and asset growth of 1.3x from FY19 to H1FY22.

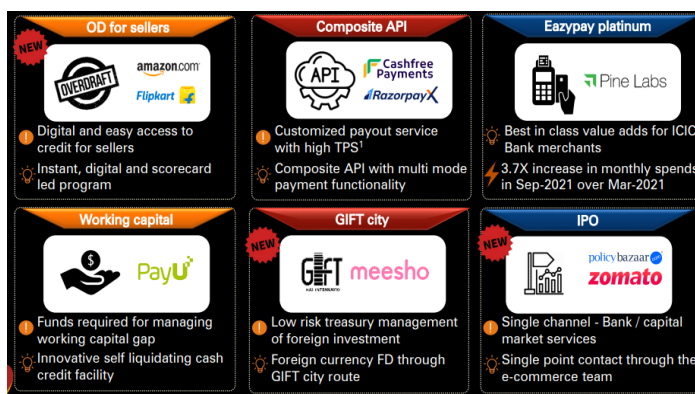
- Merchant Ecosystem: Total merchant spends are INR21tn, digital spends growing 78% YoY. Introduced “EasyPay” for NTB merchants with a DIY journey. ICICI Bank is also the first bank to offer DIY merchant acquiring for other bank A/c holder. Led to monthly active merchants’ growth of 2.3x and monthly acquiring volumes growth of 1.9x from Jan-20 to Sep-21.
- Ecommerce Ecosystem: Offering OD services to sellers on Amazon and Flipkart. Revenue lines include – interchange, acquiree income from MDR, personal financing, and business banking. Also, partnered with payment aggregators. Partner PAs will directly on-board merchants brought in by ICICI Bank. Monthly active merchants have grown 2.3x from Jan-20 to Sep-21.

Exhibit 7: E-commerce customer segment



Source: Company

Exhibit 8: Entity and merchant solutions



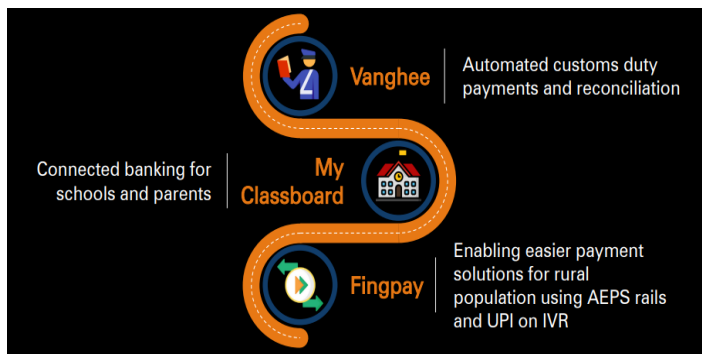
Source: Company

Customer acquisition

- Acquisition model for self-employed customers: Machine learning-based scorecard enhanced with real time bureau inputs for identifying right product fitment at the time of sourcing.
- Deepening relationships resulting in cross-sell opportunities.
- Digital customer acquisition cost is much lower than physical customer acquisition cost.

Start-up engagement

Exhibit 9: Payments



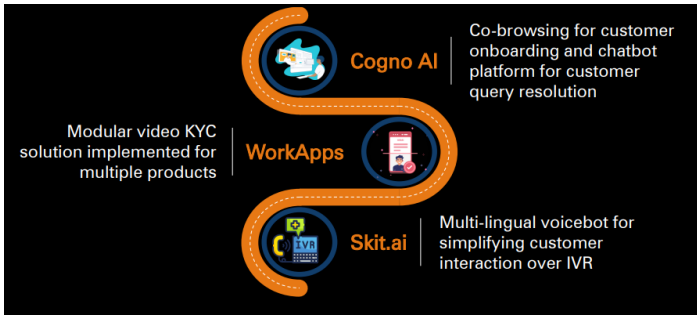
Source: Company

Exhibit 10: Lending



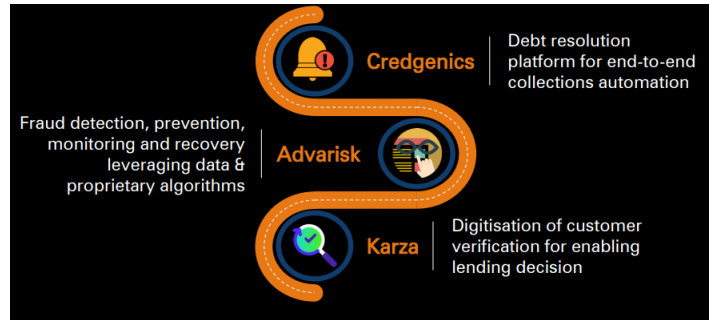
Source: Company

Exhibit 11: Customer experience



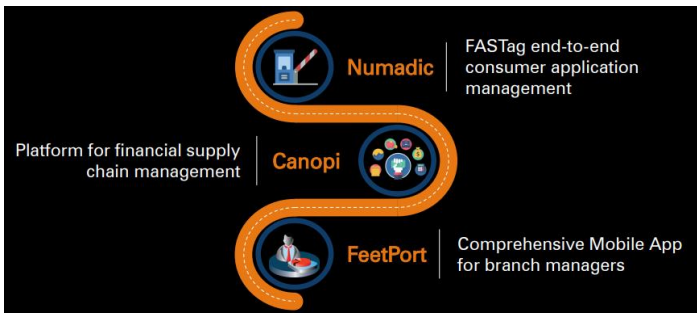
Source: Company

Exhibit 12: Risk management



Source: Company

Exhibit 13: Platform/ enablers



Source: Company

Exhibit 14: Investments

Fingpay	Digital biometric payment solution that enables payments through AEPS	MyClassBoard	School ERP system & online marketplace for student needs
Arteria	Supply Chain Payment solution & payment services to OEMs	ePayLater	Offers a Buy Now Pay Later service to individuals & businesses
Fable Fintech	White-labeled remittance solution platform for banks and institutions	Faircent	P2P platform that provides borrowers access to capital through registered lenders
TrueBalance	Mobile app for digital utility payments and small ticket loans	Vanghee	Banking Platform for Small and Medium Enterprises, Cheque, Payment, Instant Pay
Open	Platform for SMEs to automate and track their finances	KrazyBee	Mobile app for small ticket short term credit to salaried segment
CarDekho	Used / New car segment ecosystem	AdvaRisk	Platform for financial institutions for fraud detection, monitoring and recovery
Credgenics	Debt resolution platform for collections automation	IBBIC	A joint initiative of banks for exploring, building and implementing Distributed Ledger Technology solutions for the Indian financial services sector
CityCash	Platform for small service professionals to setup online presence		

Source: Company

Company Description

Incorporated in 1994, ICICI Bank is one of India's largest bank with a loan book size of over INR6tn. The bank's focus is on retail lending with retail financing representing >60% of total loans and advances. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. Its subsidiaries ICICI venture funds, Pru ICICI AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are amongst the leading companies in their respective fields

Investment Theme

While a focused approach and structural changes underpin the bank's sustainable re-rating, at current combination of *safety-cheapness-recovery gearing*, it appears to be the lowest hanging fruit. A leg-up from robust subsidiaries further supports our positive view. We maintain 'BUY/SO' and continue to earmark as our top pick.

Key Risks

With banks getting aggressive on retail side maintaining retail traction may turn out to be a challenge.

Deterioration of macro environment can result in higher restructuring and slow down business growth.

Additional Data

Management

CEO	Sandeep Bakhshi
Chairman	Girish Chandra Chaturvedi
Executive Director	Vishakha Mulye
Executive Director	Anup Bagchi
Auditor	E&Y

Holdings – Top 10*

% Holding		% Holding	
LIC	7.87	ICICI Prudentia	2.37
Dodge & Cox	5.33	Capital Group	2.12
HDFC AMC	3.99	Aditya Birla Su	1.96
SBI Funds	3.31	Franklin Resour	1.80
Blackrock	2.48	Reliance Capita	1.79

*Latest public data

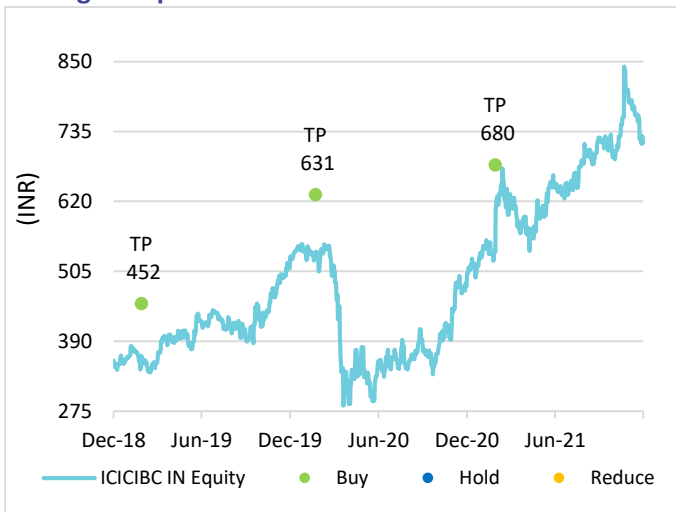
Recent Company Research

Date	Title	Price	Reco
23-Oct-21	Setting the benchmark; <i>Result Update</i>	759	Buy
18-Aug-21	Focussing on right things; <i>Company Update</i>	701	Buy
24-Jul-21	Still appears best placed; <i>Result Update</i>	677	Buy

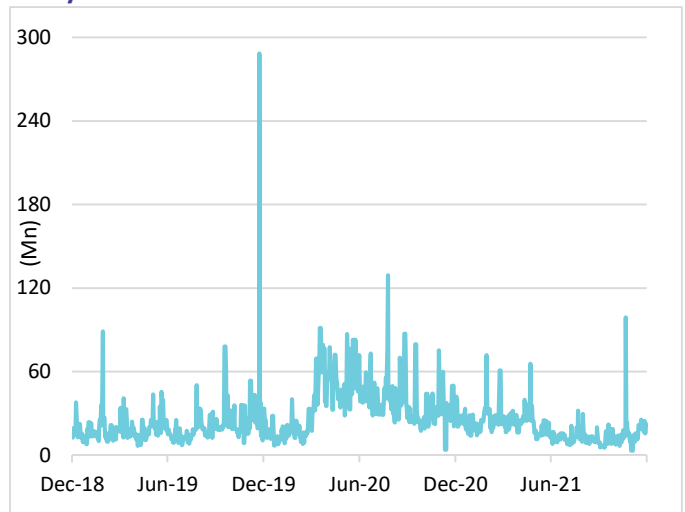
Recent Sector Research

Date	Name of Co./Sector	Title
10-Nov-21	Bank of Baroda	Core soft; momentum build-up key; <i>Result Update</i>
03-Nov-21	State Bank of India	Shifting gears; re-rating levers on hori; <i>Result Update</i>
30-Oct-21	AU SFB	Healthy momentum; sustenance key; <i>Result Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	52	18	257
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	230	42	3	275

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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