Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

ICICI Bank Ltd

On a promising growth path

Banks & Finance	Sharekhan code: ICICIBANK

Reco/View: Buy	↔	CMP: **Rs. 720**	Price Target: **Rs. 970**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING	35.94
Updated Jan 08, 2022	

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

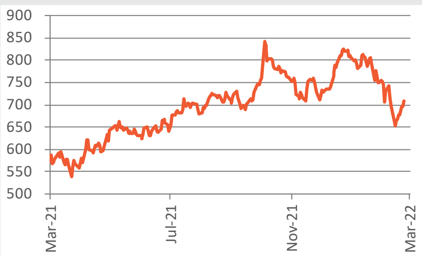
Company details

Market cap:	Rs. 500,175 cr
52-week high/low:	Rs. 860 / 531
NSE volume: (No of shares)	183.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	694.3 cr

Shareholding (%)

Promoters	-
FII	45.3
DII	43.8
Others	11.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	-1.1	1.4	22.1
Relative to Sensex	-4.9	-0.8	4.3	8.1

Sharekhan Research, Bloomberg

Summary

- With nearly all private banks reporting better results and pick up in disbursements, ICICI Bank is poised to take lead and march ahead of its rivals.
- Retail disbursements have witnessed significant pick up, led by mortgages and auto loans. Corporate demand is likely to improve, given pick up in trade volumes and increasing working capital demand, aided by rising commodity prices.
- The bank's focus is on growing core operating profit and intends to keep credit cost at ~25% of the core operating profit. The bank has created 360-degree customer-centric approach, where it is not just aiming to sell a product but is also creating an ecosystem of offerings to attract customers. This is coupled with digital banking solutions, which are also powering the bank's growth.
- With correction of 18% from the highs of Rs. 860, the stock presents a good buying opportunity. The stock is currently trading at 2.6x/2.2x its FY2023E/FY2024E book value. We reiterate Buy on ICICI Bank with an SOTP-based PT of Rs. 970.

With revival of economic activities and significant pick up in retail disbursements, we see banks to be key beneficiaries. ICICI Bank's focus is on growing core operating profits. The bank intends to keep credit cost at ~25% of the core operating profit. The bank has created a 360-degree, customer-centric approach, where it is not just aiming to sell a product but creating an ecosystem of offerings to attract customers. This is coupled with digital banking solutions, which are also powering the bank's growth. Management plans to grow its core operating profit in a risk-calibrated manner going ahead. Further, the bank has been continuously investing in analytics capabilities and technology to enhance its customer offerings, which are expected to drive growth going ahead. The bank's asset quality has shown continued improvement in the past quarters. The bank's asset quality demonstrated sustained improvement over the six quarters. Recently, the bank updated that it would expand its retail loan business at a rapid pace in Odisha in FY2022, as it forms an important market place and home loan disbursement is likely to grow by 30% while the consumer credit segment is expected to grow by 40%. We believe with the strengthened balance sheet and best-in-class asset quality, the bank is on the path of robust growth momentum going ahead.

Building on strength: ICICI Bank is set to gain pace versus its peers with consistent focus on the risk adjusted core operating profit, focus on strong underwriting practices, and adopting digital prowess. The bank under the CEO, Mr. Sandeep Bakhshi, has steered the bank out of the controversial phase and tweaked the bank's business strategies. He joined in as CEO in October 2018 and his term was extended till October 2023. With a strong management team, the bank is set to reap the benefits of revival in the economy. The bank has increased its manpower for credit assessment of loans and it is done through the intelligence gathered at branch levels, which has improved the bank's asset quality over the quarters. PAT reported a CAGR of ~24% over FY2018 to FY2021. NIM stood at 3.96% in Q3FY2022 versus 3.14% in Q3FY2018, despite tough competition. The bank, through its fintech app, is tapping new bank customers; while in the SME segment, the bank has partnered with e-commerce giants such as Amazon and Flipkart, which is providing it access to top-rated sellers. Management expects gradual credit growth over the next 12 months, primarily driven by retail, corporate, and small businesses. Working capital utilisation has improved, aided by higher economic activities. The bank has scrapped the bell curve assessment for employees, which means individual performance-based targets. This means that salary hikes and bonuses would be linked directly to the bank's performance and would be focused on "one bank, one team and one RoE (return on equity)."

Asset quality on a strong footing: Asset-quality outlook has improved with significant improvement in collection efficiency. Credit cost of the bank improved significantly at 102 bps versus 144 bps in Q2FY2022 versus 162 bps in Q3FY2021. With PCR of ~80% and less risk of any significant slippages, we believe credit costs would continue to witness improvement going ahead. Management highlighted that it has worked on pre-delinquency management, which has helped in containing the credit cost.

Credit growth remains strong: The bank has witnessed steady CAGR of 13% over FY2018 to FY2021 in overall loans with the retail portfolio growing by 17% over the same period. The bank has seen its overseas book declining by 5% and the corporate book has seen improvement. We believe a healthy loan book mix of high-yielding retail book with low-cost liability franchise is likely to aid margins going forward. The bank remains positive on the real estate sector with mortgage loans to remain in flavour. The bank is also witnessing strong recovery across key segments such as retail, SME, and business banking segments.

Our Call

Valuation – We maintain Buy on ICICI Bank with an SOTP-based PT of Rs. 970. The bank is currently trading at 2.6x/2.2x its FY2023E/FY2024E book value. The bank has reported a stellar operating performance with advances recording robust growth and consistent improvement in asset quality and lower credit cost. We believe valuations are attractive, considering the overall franchise value as a whole, strong capitalisation, and high PCR that are key comfort factors. With the strengthened balance sheet and best-in-class asset quality, the bank is on the path of robust growth momentum going ahead. The bank has been consistently delivering on loan growth, operating profit, and return on equity and deserves premium multiples at par to its peers. Hence, we maintain Buy on ICICI Bank with an SOTP-based PT of Rs. 970.

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
NII	38,989	46,151	53,862	62,806
PAT	16,193	23,026	27,094	33,005
EPS (Rs)	23.4	33.3	39.2	47.7
RoAA (%)	1.4	1.8	1.9	2.0
RoAE (%)	12.3	14.5	14.7	15.5
P/E (x)	30.7	21.6	18.4	15.1
P/B (x)	3.4	3.0	2.6	2.2

Source: Company; Sharekhan estimates

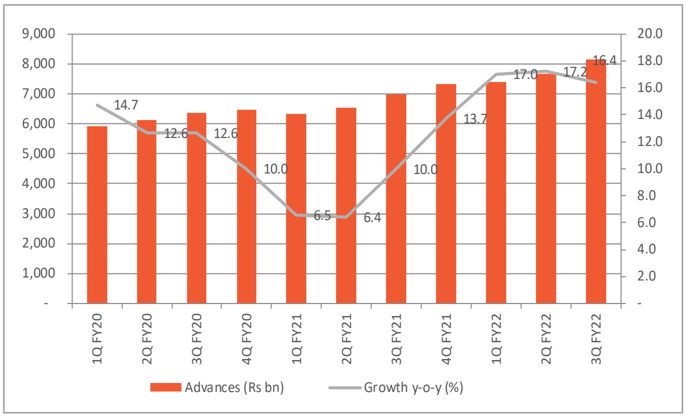
SOTP valuation

Subsidiary/Associate/JV	% Stake	Basis	Per share value
Bank	100%	P/B	817
Bank subsidiaries	100%	P/B	14
Home Finance	100%	P/B	4
Assets Management	53%	AUM	15
Life insurance	51%	EV	96
General insurance	48%	P/E	62
Venture	100%	AUM	2
Securities	77%	Mcap	30
			223
Total			**970**

Source: Company; Sharekhan Research

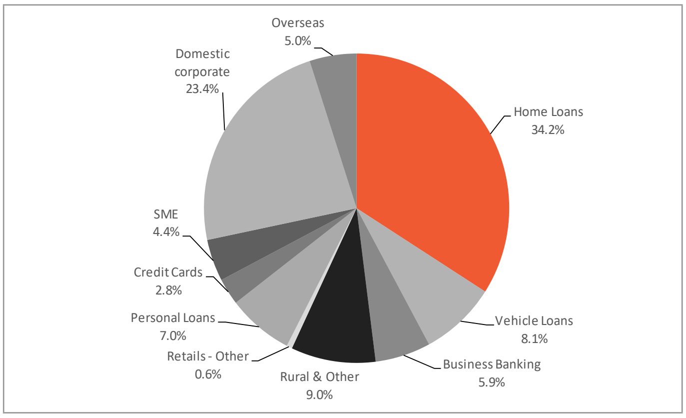
Charts

Advances growth



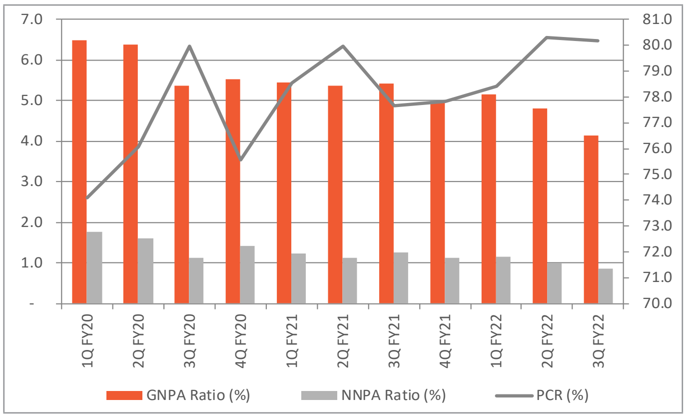
Source: Company, Sharekhan Research

Diversified Loan book



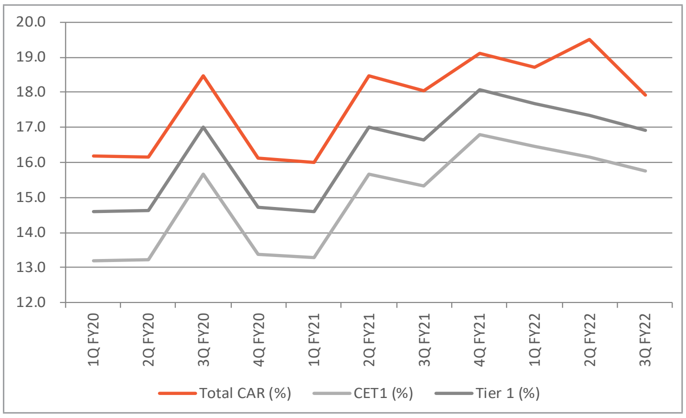
Source: Company, Sharekhan Research

Improvement in the asset quality



Source: Company, Sharekhan Research

Capital adequacy



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Green shoots of credit growth, stronger banks placed better

System-level credit off take grew modestly by 7.89% y-o-y in the fortnight ending February 11, 2022, showing that credit growth held strong after the festive season. On the other hand, deposits continue to hold strong, which rose by 9.11%, which indicate a healthier economic scenario. Moreover, the Reserve Bank of India's (RBI) accommodative monetary policy stance, resulting in surplus liquidity, provides succor in terms of easy availability of funds and lower cost of funds for banks and financials. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as an economic recovery. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are better placed to take-off once the situation normalises.

■ Company outlook – Retail business to be the 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 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 watch list book, healthy provision buffer, margin improvement, 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, and decline in watch list indicate that the bank is entering FY2023 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 – Buy on ICICI Bank with an SOTP-based PT of Rs. 970.

The bank is currently trading at 2.6x/2.2x its FY2023E/FY2024E book value. The bank has reported a stellar operating performance with advances recording robust growth and consistent improvement in asset quality and lower credit cost. We believe valuations are attractive, considering the overall franchise value as a whole, strong capitalisation, and high PCR that are key comfort factors. With the strengthened balance sheet and best-in-class asset quality, the bank is on the path of robust growth momentum going ahead. The bank has been consistently delivering on loan growth, operating profit, and return on equity and deserves premium multiples at par to its peers. Hence, we maintain Buy on ICICI Bank with an SOTP-based PT of Rs. 970.

Peer Comparison

Companies	CMP Rs/Share	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
ICICI Bank	720	5,00,175	21.6	18.4	3.0	2.6	14.5	14.7	1.8	1.9
HDFC Bank	1,478	8,20,747	22.4	18.4	3.4	2.9	16.6	17.1	2.0	2.1
Axis Bank	738	2,26,930	16.0	13.6	2.0	1.8	13.1	13.6	1.4	1.5

Source: Company, Sharekhan research

About the 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, overall franchise value, healthy capitalisation 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance	6.2
2	SBI Mutual Fund	4.7
3	ICICI Prudential	2.8
4	Republic of Singapore	2.5
5	BlackRock Inc	2.4
6	Dodge & Cox	2.2
7	HDFC Asset Management	2.1
8	NPS Trust	1.8
9	Kotak Mahindra AMC	1.6
10	Franklin Resources Inc	1.6

Source: Bloomberg

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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