Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

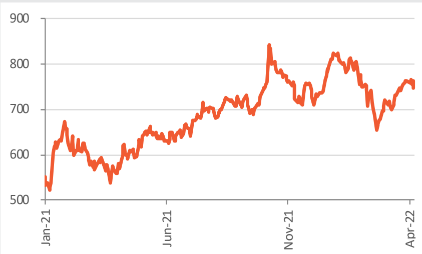
Company details

Market cap:	Rs. 5,19,363 cr
52-week high/low:	Rs. 860 / 547
NSE volume: (No of shares)	164.2 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	694.94 cr

Shareholding (%)

Promoters	-
FII	44.5
DII	44.0
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.1	-7.1	-1.6	31.1
Relative to Sensex	4.9	-4.0	4.3	11.6

Sharekhan Research, Bloomberg

ICICI Bank Ltd

Stellar Q4, attractive pick in long run

Banks & Finance	Sharekhan code: ICICIBANK

Reco/View: **Buy**	↔	CMP: **Rs. 747**	Price Target: **Rs. 970**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ICICI Bank put up a strong show on all fronts- net interest income, core operating profit, earnings and advances recording robust growth with better asset quality and minimal core credit cost during the quarter.
- Bank reported PAT at Rs. 7,019 crore which was significantly above the street expectations of Rs. 6,315 crore, led by lower core credit costs. PAT grew by 59.4% y-o-y and 13.3% q-o-q in Q4FY22.
- Asset quality has continuously improved over the past seven quarters with both GNPA and NNPA ratios falling by 53 bps q-o-q and 9 bps q-o-q to 3.60% and 0.76% in Q4FY22.
- Stock is currently trading at 2.7x/2.3x its FY2023E and FY2024E core ABV. We maintain a Buy rating on the stock with an unchanged price target of Rs. 970. With improving return ratios matrix, making it our preferred pick in the banking sector.

ICICI Bank registered robust operating performance, ticking all the boxes. NII grew by 21% y-o-y / 3% q-o-q. NIM improved by 4 bps q-o-q at 4.0%. Core fee income grew by 14% y-o-y / 2% q-o-q. The retail, business banking and SME segments constituted 77% of the total fee income in Q4FY22. Total operating expenses grew by 17% y-o-y on account of increased spends in retail and technology spends. There was also a one-time charge on account of a change in fair value accounting of ESOPs included in staff expenses. PPOP grew by 21% y-o-y /1.4% q-o-q. Provisions declined by ~63% y-o-y/~47% q-o-q reported at Rs. 1,069 crore out of which contingent provisions made during the quarter were at Rs. 1,025 crore. Total contingent provisions stood at Rs. 7,450 crore as of March 2022. PAT grew by 59.4% y-o-y/ 13% q-o-q. Advances grew by 17% y-o-y and 5.5% q-o-q with the retail book growing by 20% y-o-y excluding rural loans. Deposits grew by 13% y-o-y. Average CA and SA grew by 24% y-o-y and 23% y-o-y, respectively. Average CASA mix improved 30 bps q-o-q to 45.2% in Q4FY22. GNPA and NNPA ratios fell by 53 bps q-o-q and 9 bps q-o-q to 3.60% and 0.76% during the quarter. Fresh slippages stood at Rs. 4,204 crore versus Rs. 4,018 crore in Q3FY22.

Key positives

- Core credit cost stood at Rs. 44 crore and RoA reported at 2.11% during the quarter;
- Advances grew strongly 17% y-o-y and 5.5% q-o-q

Key negatives

- Total operating expenses were higher by 17% y-o-y in Q4FY22.

Management Commentary

- Bank reiterated its strategy to grow loan book in granular manner, with a risk-calibrated approach and in sustainable manner with focus on contribution to core operating profits from overall product portfolio by leveraging the digital platform offerings.
- Robust growth in Business banking and SME portfolio can be fully attributable to digital initiatives.

Our Call

Valuation – Maintain Buy with SOTP-based price target (PT) of Rs 970: ICICI Bank currently trades at 2.7x/ 2.3x its FY23E and FY24E Core ABV. Bank reported stellar performance on all fronts- net interest income, operating profits, earnings and advances recording strong growth with better asset quality and lower core credit cost. We believe that the bank is on an accelerated growth path with strong advances growth led by retail, Business Banking and SME. Advances are likely to clock a CAGR of ~16% over FY23E to FY25E. The bank's continuous building up of its digital initiatives, franchise and risk calibrated approach is likely to bode well for growth going ahead. With a high PCR, strong balance sheet, improved asset quality, and improved return ratios matrix, the bank is set to see good earnings compound going ahead.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from the 'BB and below'-rated corporate portfolio and unsecured retail book could affect earnings.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
NII	47,466	53,433	62,389	70,260
PAT	23,339	27,093	33,016	38,151
EPS (Rs)	33.6	39	47.5	54.9
ABVPS	232.0	271.8	319.5	374.0
RoA (%)	1.8	1.8	2.0	2.0
RoE (%)	14.7	14.7	15.5	15.5
P/E (x)	22.2	19.2	15.7	13.6
P/ABV (x)	3.2	2.7	2.3	2.0

Source: Company; Sharekhan estimates

SOTP valuation Rs cr

Subsidiary/Associate/JV	% Stake	Basis	Per share value
Bank	100%	P/B	793
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	1
Securities	75%	M Cap	29
			221
Holding Co. discount @20%			177
Total			970

Source: Company; Sharekhan Research

Key result highlights

- **Growth in advances and margins boost NII growth:** NII grew by 21% y-o-y / 3% q-o-q reported at Rs. 12,605 crore on the back of strong advances growth of 17% y-o-y aided specially by personal loans and credit cards. NIMs improved by 4 bps q-o-q at 4.0%. Core fee income grew by ~14% y-o-y / ~2% q-o-q. Fee income from the retail, business banking and SME segments constituted ~77% of the total fee income in Q4FY22. Other income grew by 25% which mainly includes dividend from subsidiaries. Bank focus is to sustain margin in the band 3.90-3.95%, while cost of deposits have bottomed out. Going forward margins would be function of repo rates increase & borrowing rates.

- **Higher Opex due to one off charge and higher tech spends:** Total operating expenses grew by 17% y-o-y on account of increased spends in retail franchise and accelerated investments in technology. Employee expenses grew by 21% y-o-y. There was a one-time charge on account of a change in fair value accounting of ESOP included in staff expenses. Bank has added nearly ~7000 employees during FY22. Cost-to-income ratio improved at 40.6% vs 41.1% in Q3FY22.

- **Minimal core credit cost a positive surprise:** Provisions declined by ~63% y-o-y/~47% q-o-q reported at Rs. 1,069 cr out of which contingent provisions made during the quarter were at Rs. 1,025 crore. Total contingent provisions stood at Rs. 7,450 crore as at March 2022 (0.9% of total advances). During the quarter, contingent provision accounted for the overall credit cost. There was minimal core credit cost due to reduction in GNPA (excluding w/o), reduction in restructured book and higher recoveries (Rs. 4693 crore in Q4FY22 vs Rs. 4,209 crore in Q3FY22). There was a sequential reduction in restructured book (Rs 8267 crore in Q4FY22 versus Rs. 9,684 crore in Q3FY22) which now stands at 1% as at March 2022 due to repayment from one borrower in construction sector.

- **Digital initiatives led accelerated growth in advances:** Advances grew by 17% y-o-y and 5.5% q-o-q with the retail book growing by 20% y-o-y excluding rural loans. Rural loans grew by 6.5% y-o-y. Among retail loan segment, mortgages grew by 20% y-o-y, Vehicle loans by 6% y-o-y, Personal loans by 27.4% y-o-y and credit cards business grew by 45% y-o-y. Business Banking and SME grew by 43% y-o-y /34% y-o-y respectively. Robust growth in business banking and SME portfolio can be fully attributed to digital initiatives. Digital sourcing has increased significantly across products. Wholesale domestic corporate book grew by 10% y-o-y. In corporate banking, bank strategy is customer acquisition based on 360-degree portfolio offering and not just loan offering. Growth in overseas book (10% y-o-y) was on account of India-linked credit finance business and not based on overseas funding. Bank has negligible exposure to Russia & Ukraine in its overseas book. However, it has some indirect exposure in the form of Non fund based exposure to a refinery operating in India. Refinery is majorly owned by Russia. Bank has also tied up with Emirates skywards for cobranding credit cards. The bank stated that new guidelines issued on credit cards by RBI would not affect its co-branded business with Amazon Credit Cards from first reading. The bank will, however, once again go through the guidelines thoroughly.

- **Building strong retail liability franchise:** Deposits grew by 13% y-o-y lower than advances. Average CA and SA grew by 24% y-o-y and 23% y-o-y, respectively. Average CASA mix improved 30 bps q-o-q to 45.2% in Q4FY22. Cost of Deposits stood at 3.48% in Q4FY22 vs 3.46% in Q3FY22.

- **Asset quality gets better:** GNPA and NNPA improved by 53 bps q-o-q and 9 bps q-o-q to 3.60% and 0.76% during the quarter. In absolute terms, GNPA/ NNPA declined by 18% y-o-y/ 24% y-o-y. Fresh slippages stood at Rs. 4,204 crore versus Rs. 4,018 crore in Q3FY22, recoveries and upgrades stood at Rs. 4,693 crore in Q4FY22 vs Rs. 4,209 crore in Q3FY22, Write off stood at Rs. 2,644 crore vs Rs. 4,088 crore in Q3FY22. There was a sequential reduction in restructured book also (Rs 8,267 crore in Q4FY22 vs Rs 9,684 crore in Q3FY22) which now stands at 1% as March 2022 due to repayment from one borrower in construction sector. BB and below book in corporate and SME segment stood at Rs. 10,808 crore in Q4FY22 vs Rs. 11,842 crore in Q3FY22.
- **Clear focus on risk and reward:** The bank reiterated its strategy to grow loan book in granular manner, with risk calibrated approach and in sustainable manner with focus on contribution to core operating profits from overall product portfolio by leveraging the digital platform offerings. Digital platform would drive up sell & cross sell activity. Customer acquisition based on 360-degree portfolio offering and not on based on loan offerings only.
- **Change in Key Managerial Persons (KMPs):** Ms. Vishakha Mulye (Executive Director) has resigned with effect from May 31, 2022 to pursue other opportunities outside ICICI group. Mr Anup Bagchi (Current ED) would take up the role of Ms. Mulye. Mr. Rakesh Jha has been elevated from CFO to Executive Director with effect from May 1, 2022. Mr. Anindya Banerjee has been appointed as CFO with effect from 1 May, 2022. Currently, he heads Investor relations & strategy at the bank.
- **Dividend:** The bank has also recommended a dividend of Rs. 5 per share.

Results — Rs cr

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Interest Inc.	22,675	19,842	22,083	14.30%	2.70%
Interest Expenses	10,070	9,411	9,847	7.00%	2.30%
Net Interest Income	**12,605**	**10,431**	**12,236**	**20.80%**	**3.00%**
NIM (%)	4	3.84	3.96		
Core Fee Income	4,366	3,815	4,291	14.40%	1.70%
Other Income	371	296	696	25.30%	-46.60%
Other Inc to Net Oper. Income (%)	2%	2%	4%		
Net Operating Revenue	**17,342**	**14,543**	**17,223**	**19.30%**	**0.70%**
Employee Expenses	2,429	2,008	2,485	20.90%	-2.30%
Other Opex	4,620	3,994	4,590	15.70%	0.70%
Total Opex	7,049	6,003	7,075	17.40%	-0.40%
Cost to Income Ratio (%)	41%	41%	41%		
Pre Provision Profits	**10,293**	**8,540**	**10,148**	**20.50%**	**1.40%**
Provisions & Contingencies - Total	1,069	2,883	2,007	-62.90%	-46.70%
Gross Credit Cost (%)	0.32	0.99	0.62		
Profit Before Tax	**9,224**	**5,656**	**8,141**	**63.10%**	**13.30%**
Tax	2,205	1,254	1,947	75.90%	13.30%
Effective Tax Rate (%)	24%	22%	24%		
Reported Profits	**7,019**	**4,403**	**6,194**	**59.40%**	**13.30%**
Basic EPS	10.1	6.4	8.9	58.60%	13.10%
RoA (%)	2.1	1.5	1.9		
RoE (%)	17.1	12.8	15.4		
Gross Advances	8,59,020	7,33,729	8,13,992	17.10%	5.50%
Gross NPA	33,920	41,373	37,053	-18.00%	-8.50%
Gross NPA Ratio (%)	3.6	4.96	4.13		
PCR - Calculated (%)	79.50%	77.80%	80.20%		
Net NPA	6,961	9,180	7,344	-24.20%	-5.20%
Net NPAs Ratio (%)	0.76	1.14	0.85		

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector view – Credit growth accelerating, Top private banks placed better**

System-level credit offtake grew by ~10% y-o-y in the fortnight ending April, 8 2022, indicating a gradual pick-up in loans given the distinct signs of an improvement in the economy and revival of investments and loan demand. On the other hand, deposits rose by ~9%, which reflect 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. 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 higher risk-off behaviour, with tactical market share gains for well-placed players. We believe that large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

■ **Company outlook – Attractive franchise over long term**

ICICI Bank's strong positioning across retail, business banking and corporate banking segments with improved return matrix makes it an attractive and strong business. Looking ahead, we believe that growth in the economy, growth in digital initiatives and the bank's strong retail franchise, 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. Healthy provision buffer and improvement in margins and liability profile indicate a strong business outlook for the bank. The bank is entering FY2023 with higher-rated loans and a minimal legacy burden. We find ICICI Bank to be an attractive franchise with a strong balance sheet and improved return matrix, which makes 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 SOTP-based price target (PT) of Rs 970**

ICICI Bank currently trades at 2.7x/ 2.3x its FY23E and FY24E Core ABV. Bank reported stellar performance on all fronts- net interest income, operating profits, earnings and advances recording strong growth with better asset quality and lower credit cost. We believe that the bank is on an accelerated growth path with strong advances growth led by retail, Business Banking and SME. Advances are likely to clock a CAGR of ~16% over FY23E to FY25E. The bank's continuous building up of its digital initiatives, franchise and risk calibrated approach is likely to bode well for growth going ahead. With a high PCR, strong balance sheet, best in class asset quality, and improved return ratios matrix, the bank is set to see good earnings compound going ahead.

Peer Comparison

Particulars	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Bank	747	5,19,363	19.7	15.7	2.7	2.3	14.7	15.5	1.8	2.0
HDFC Bank	1,355	7,51,802	18.3	16.2	2.7	2.3	15.7	15.3	1.9	1.9
Kotak Bank	1,728	3,42,920	42.3	36.0	4.3	3.8	10.7	11.3	1.7	1.8

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. Loan book quality has significantly improved, which we believe is positive for its profitability and growth going forward. With comfortable liquidity on books, 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

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from the 'BB and below'-rated corporate portfolio and unsecured retail book could affect earnings.

Additional Data

Key management personnel

Sandeep Bakhshi	CEO/Managing Director
Anup Bagchi	Executive Director
Rakesh Jha	Executive Director (w.e.f. May 2022)
Anindya Banerjee	Chief Financial Officer (w.e.f. May 2022)

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Deutsche Bank Trust Co America	18.99
2	Life Insurance Corporation of India	6.42
3	SBI Mutual Funds	5.02
4	ICICI Prudential Asset Management	2.86
5	Republic of Singapore	2.67
6	BlackRock Inc	2.42
7	Dodge & Cox	2.23
8	HDFC Asset Management	2.08
9	NPS Trust	1.85
10	UTI Asset Management Co Ltd	1.61

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

Sharekhan

by BNP PARIBAS

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