Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Bank Ltd

Stellar Q1, beats streets expectations

Banks & Finance		Sharekhan code: ICICIBANK	
Reco/View: Buy	↔	CMP: **Rs. 800**	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 26.74

Updated Jul 08, 2022

Medium Risk

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

Source: Morningstar

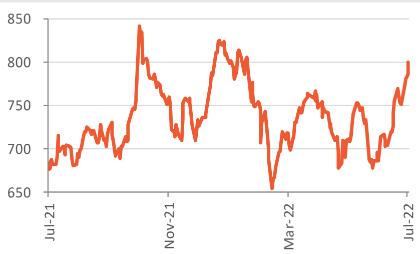
Company details

Market cap:	Rs. 5,56,527 cr
52-week high/low:	Rs. 860 / 642
NSE volume: (No of shares)	146 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	696 cr

Shareholding (%)

Promoters	-
FII	43.5
DII	45.3
Others	11.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.4	7.0	0.3	18.2
Relative to Sensex	7.3	7.6	6.9	11.5

Sharekhan Research, Bloomberg

Summary

- ICICI Bank reported steady performance on all fronts – NII, core operating profit, earnings, and advances recorded healthy growth with better asset quality and minimal core credit cost during the quarter.
- The bank reported PAT at Rs. 6,905 crore, which was significantly above street's expectations of Rs. 6,260 crore, mainly led by higher PPoP (led by treasury income) and lower core credit costs. PAT grew by 42% y-o-y/-2% q-o-q.
- Core PPoP grew by 19.4% y-o-y/1.1% q-o-q despite higher opex growth (25% y-o-y/7% q-o-q). Asset quality improved with both GNPA and NNPA ratios falling by 19 bps q-o-q and 6 bps q-o-q to 3.41% and 0.70%, respectively, during the quarter.
- The stock is currently trading at 2.1x/1.8x its FY2023E/FY2024E core ABV. We maintain our Buy rating on the stock with an unchanged PT of Rs. 970. Sustainable business performance along with improving return ratios matrix make it our preferred pick in the banking sector.

ICICI Bank registered robust operating performance during the quarter. Net interest income (NII) grew by 21% y-o-y/5% q-o-q, led by healthy loan growth. Net interest margin (NIM) was stable, improving 1 bps q-o-q at 4.01%. Core fee income grew by 32% y-o-y but was down 3% q-o-q. The retail, business banking, and SME segments constituted 79% of the total fee income during the quarter. There was a treasury gain of Rs. 36 crore versus Rs. 290 crore q-o-q compared to loss reported by peers as modified duration of [AFS + HFT] book held by the bank was very low. Total operating expenses grew by 25% y-o-y/7% q-o-q on account of higher employee benefit expenses, up 20% y-o-y/17% q-o-q (mainly due to change in fair value accounting of ESOP, headcount addition, and increments). Other expenses were higher due to increased spends in retail and technology. PPOP grew by 13% y-o-y and was flat q-o-q. Core PPoP grew by 19.4% y-o-y/1.1% q-o-q. Provisions declined by 60% y-o-y, reported at Rs. 1,144 crore, of which contingent provisions made during the quarter were at Rs. 1,050 crore. Total contingent provisions stood at Rs. 8,500 crore as of June 2022. PAT grew by 42% y-o-y/-2% q-o-q. Advances grew by 21% y-o-y and 4% q-o-q with retail loans growing at 24% y-o-y. Deposits grew by 13% y-o-y. Average CA and SA grew by 23% y-o-y and 19% y-o-y, respectively. Average CASA mix improved 60 bps q-o-q to 45.8%. Slippages were higher by 39% q-o-q and stood at Rs. 5,825 crore versus Rs. 4,204 crore q-o-q. However, offsetting with strong recoveries and upgrades, GNPA and NNPA ratios fell by 19 bps q-o-q and 6 bps q-o-q to 3.41% and 0.70%, respectively, during the quarter. Restructured book stood at 0.8% of advances versus 1% q-o-q. BB and below-rated book (from Corporate and SME) stood at Rs. 8,209 crore versus Rs. 10,808 crore sequentially.

Key positives

- Core credit cost stood for the quarter at Rs. 94 crore and total contingent buffers now stand at 0.95% of advances.
- Advances grew at a healthy pace of 21% y-o-y and 4% q-o-q.

Key negatives

- Total operating expenses were higher 25% y-o-y/7% q-o-q.
- Net slippages additions in retail, rural, and business banking were higher at Rs.724 crore versus Rs. 123 crore q-o-q.

Management Commentary

- The bank reiterated its strategy to grow its franchise in a granular manner, with a risk-calibrated approach in a sustainable manner with focus on contribution to core operating profit from the overall product portfolio by leveraging the digital platform offerings. The bank also stated that at present it is not looking to cap unsecured book growth.
- Robust growth in retail, business banking, and SME portfolio can be fully attributed to increased digital proposition.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs 970: ICICI Bank currently trades at 2.1x/1.8x its FY2023E/FY2024E core ABV. The bank reported steady performance on all fronts – NII, core operating profits, earnings, and advances recording healthy growth with better asset quality and lower core credit cost. We believe the bank is on an accelerated growth path trajectory with strong advances growth, led by retail, business banking, and SME. The bank's continuous building up of its digital capabilities and growing franchise sustainably in a risk-calibrated approach are likely to bode well for future growth going ahead. With 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 BB and below-rated corporate portfolio and unsecured retail book could affect earnings.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	47,466	57,014	68,441	79,294
Net profit	23,339	27,093	33,016	38,151
EPS (Rs.)	33.0	39.0	47.5	54.9
P/E (x)	18.5	15.6	12.8	11.1
P/Core BV (x)	2.5	2.1	1.8	1.6
RoE	14.7	14.7	15.4	15.3
RoA	1.8	1.8	1.9	1.9

Source: Company; Sharekhan estimates

Key result highlights

- **NII growth led by healthy advances growth, margin to improve going forward:** NII grew by 21% y-o-y/5% q-o-q reported at Rs. 13,210 crore because of strong advances growth of 21% y-o-y. NIM improved by 1 bps q-o-q at 4.01%. Core fee income grew by ~32% y-o-y. Fee income from the retail, business banking, and SME segments constituted ~79% of the total fee income during the quarter. 43% of the book is repo linked, 21% is linked to MCLR, 6% to EBLR, and rest 30% is fixed rate book. Floating rate loans have reset date of three months to one year. Margins are likely to improve in H2FY2023 as floating rate loans get repriced higher.
- **Higher opex due to one-off charge of ESOP and higher tech spends:** Total operating expenses grew by 25% y-o-y on account of increased spends in retail franchise and accelerated investments in technology. Employee expenses grew by 20% y-o-y. There was a one-time charge on account of change in fair value accounting of ESOP included in staff expenses. Cost-to-income ratio stood at 42.3% versus 40.6% q-o-q.
- **Minimal core credit cost:** Provisions declined by ~60% y-o-y, reported at Rs. 1,144 crore, of which contingent provisions made during the quarter were at Rs. 1,050 crore. Total contingent provisions stood at Rs. 8,500 crore as of June 2022 (0.95% of total advances). There was minimal core credit cost due to reduction in GNPA, reduction in restructured book, and higher recoveries (Rs. 5,443 crore in Q1FY2023 versus Rs. 4,693 crore in Q4FY2022). There was sequential reduction in restructured book (Rs. 7,376 crore in Q1FY2023 versus Rs. 8,267 crore in Q4FY2022), which now stands at 0.8% as of June 2022.
- **Digital initiatives led accelerated growth in advances:** Advances grew by 21% y-o-y and 4% q-o-q with retail book growing by 24% y-o-y, excluding rural loans. Rural loans grew by 8% y-o-y. In the retail loan segment, mortgages grew by 22% y-o-y, vehicle loans grew by 12% y-o-y, personal loans increased by 38% y-o-y, and credit cards business grew by 63% y-o-y. Business banking and SME grew by 45% y-o-y and 32% 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 14% y-o-y. In corporate banking, the bank's strategy is customer acquisition based on 360-degree portfolio offering and not just loan offering. Growth in overseas book (14% y-o-y) was on account of India-linked credit finance business and not based on overseas funding. The bank reiterated its strategy to grow its asset franchise in a granular manner, with a risk-calibrated approach and in a sustainable manner focusing on contribution to core operating profit from the overall product portfolio by leveraging digital platform offerings. The bank also stated that, at present, it is not looking to cap unsecured book growth.
- **Building strong retail liability franchise:** Deposits grew by 13% y-o-y lower than advances. Average CA and SA grew by 23% y-o-y and 19% y-o-y, respectively. Average CASA mix improved 60 bps q-o-q to 45.8% in Q1FY2023. Cost of deposits stood at 3.46% in Q1FY2023 versus 3.48% in Q4FY2022.
- **Asset quality gets better:** GNPA and NNPA improved by 19 bps q-o-q and 6 bps q-o-q to 3.41% and 0.70%, respectively, during the quarter. In absolute terms, GNPA/NNPA declined by 2% q-o-q/4% q-o-q. Fresh slippages stood at Rs. 5,825 crore versus Rs. 4,204 in Q4FY2022. Recoveries and upgrades stood at Rs. 5,443 crore in Q1FY2023 versus Rs. 4,693 crore in Q4FY2022. Write-off stood at Rs. 1,126 crore versus Rs. 2,644 crore in Q4FY2022. There was sequential reduction in restructured book also (Rs. 7,376 crore in Q1FY2023 versus Rs. 8,267 crore in Q4FY2022), which now stands at 0.8% as of June 2022. BB and below book in corporate and SME segment stood at Rs. 8,209 crore in Q1FY2023 versus Rs. 10,808 crore in Q4FY2022.
- **Clear focus on risk and reward:** The bank reiterated its strategy to grow its loan book in a granular manner, with risk-calibrated approach and in a sustainable manner focusing on contribution to core operating profit from the overall product portfolio by leveraging digital platform offerings. Digital platform would drive up sell and cross-sell activity. Customer acquisition based on 360-degree portfolio offering and not based on loan offerings only.

Results Rs cr

Particulars	Q1FY23	Q1FY22	Q4FY22	Y-o-Y %	Q-o-Q %
Interest Inc.	23,672	20,383	22,675	16%	4%
Interest Expenses	10,462	9,448	10,070	11%	4%
Net Interest Income	**13,210**	**10,936**	**12,605**	**21%**	**5%**
NIM (%)	4.01	3.89	4.00	3%	0%
Core Fee Income	4,243	3,219	4,366	32%	-3%
Other Income	422	1,032	371	-59%	14%
Net Income	**17,875**	**15,187**	**17,342**	**18%**	**3%**
Employee Expenses	2,849	2,374	2,429	20%	17%
Other Opex	4,717	3,663	4,620	29%	2%
Total Opex	**7,566**	**6,037**	**7,049**	**25%**	**7%**
Cost to Income Ratio	42.3%	39.8%	40.6%		
Pre-Provision Profits	**10,309**	**9,150**	**10,293**	**13%**	**0%**
Provisions & Contingencies – Total	1,144	2,852	1,069	-60%	7%
Profit Before Tax	**9,165**	**6,298**	**9,224**	**46%**	**-1%**
Tax	2,260	1,427	2,205	58%	2%
Effective Tax Rate	25%	23%	24%		
Reported Profits	**6,905**	**4,871**	**7,019**	**42%**	**-2%**
Basic EPS (Rs.)	9.93	6.67	10.10	49%	-2%
Diluted EPS (Rs.)	9.75	6.54	9.90	49%	-2%
RoA (%)					
Advances	8,95,625	7,38,598	8,59,020	21%	4%
Deposits	10,50,349	9,26,224	10,64,572	13%	-1%
Gross NPA	**33,163**	**43,148**	**33,920**	**-23%**	**-2%**
Gross NPA Ratio (%)	3.41	5.15	3.60		
Net NPA	**6,656**	**9,306**	**6,961**	**-28%**	**-4%**
Net NPAs Ratio (%)	0.70	1.16	0.76		
PCR – Calculated	79.9%	78.4%	79.5%		

Source: Company; Sharekhan Research

SOTP valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value	776
ICICI Prudential Life Insurance	84
ICICI Lombard General Insurance	66
ICICI Prudential AMC	54
ICICI Securities	21
ICICI Home Finance	4
ICICI Bank UK Plc	3
ICICI Bank Canada	6
ICICI Venture	2
ICICI PD business	3
Sum of subs/ associates	**243**
Holding Co. discount @20%	49
Value of subs/ associates post holdco discount	**194**
Fair Value	**970**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Credit growth accelerating; Top private banks placed better

System-level credit offtake grew by ~13.3% y-o-y in the fortnight ending June 17, 2022, indicating loan growth has been sustaining, given the distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.8%, which also reflect a healthier economic scenario but are trailing advances growth. Bottom-up story is intact and we should see loan growth accelerate, while margins would continue to expand in a higher interest rate cycle. Asset quality is not a big issue from the corporate loans end as only de-leveraging is being observed. From the retail side, there could be some pressure but nothing is significant. Asset quality is likely to remain stable except the MFI segment. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, banks have been cautious on lending to BB and below, thus general risk, which they are carrying on corporate portfolio is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit cost. In terms of MSME, we need to be watchful. 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 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 the long term

ICICI Bank's strong positioning across retail, business banking, SME, and corporate banking segments with improved return ratio matrix make it an attractive and strong franchise over the long term. Looking ahead, we believe 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 strong liability franchise indicate a strong business outlook for the bank. The bank has underwritten higher-rated loans in the past 3-4 years with minimal legacy burden. We find ICICI Bank to be an attractive franchise with a strong balance sheet and improved return ratio 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 an unchanged PT of Rs. 970

ICICI Bank currently trades at 2.1x/1.8x its FY2023E/FY2024E core ABV. The bank reported steady performance on all fronts – NII, core operating profit, earnings, and advances recorded healthy growth with better asset quality and lower core credit cost. We believe the bank is on an accelerated growth path trajectory with strong advances growth, led by retail, business banking, and SME. The bank's continuous building up of its digital capabilities and growing franchise sustainably in risk-calibrated approach are likely to bode well for future 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.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Bank	800	5,56,527	15.5	12.7	2.1	1.8	14.7	15.4	1.8	1.9
HDFC Bank	1,393	7,73,770	17.1	14.4	2.6	2.2	16.8	16.4	1.9	1.9
Axis Bank	731	2,24,507	12.9	10.8	1.4	1.3	13.7	13.1	1.4	1.4

Source: Company, Sharekhan estimates

About company

ICICI Bank is 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 capitalisation 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 BB and below-rated corporate portfolio and unsecured retail book could affect earnings.

Additional Data

Key management personnel

Mr. Sandeep Bakhshi	CEO/Managing Director
Mr. Anup Bagchi	Executive Director
Mr. Rakesh Jha	Executive Director
Mr. Anindya Banerjee	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Deutsche Bank Trust Co America	16.7
2	Life Insurance Corporation of India	6.7
3	SBI Mutual Funds	5.4
4	ICICI Prudential Asset Management	3.1
5	Republic of Singapore	3.0
6	BlackRock Inc	2.3
7	HDFC Asset Management	2.1
8	NPS Trust	1.9
9	Dodge & Cox	1.7
10	UTI Asset Management Co Ltd	1.7

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

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Priya Sonavane; Tel: 022–61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai–400028, Maharashtra, INDIA, Tel: 022–67502000 / Fax: 022–24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.