

ICICI Bank

BUY

Restructured assets at 1.3%; Strong profitability growth

Summary

ICICI Bank (one of our top picks) reported strong profitability growth at 30% YoY (19% QoQ) led by lower provisions (down 9% YoY; 5% QoQ). Asset quality improved with GNPA at 4.8% vs 5.15% QoQ led by lower slippages and higher recoveries. However, restructured assets increased to 1.3% vs 0.7% QoQ; spread across the portfolio. During Q2FY22, NII grew by 25% YoY against a loan growth of 17% YoY; margins improved sequentially. PPOP grew by 20% YoY led by increase in non-interest income (up 19% YoY). Strong liability franchise and higher Tier I capital ratio will advantage bank when the economy growth recovers. We have moved to FY24E estimates and maintained 'BUY' with a new TP of Rs.945 (earlier 780), valuing parent business at Rs.799 (2.3X P/ABV FY24E) and rest for the subsidiaries.

Key Highlights and Investment Rationale

- Robust credit growth continues; Deposits growth improved:** Advances growth remains robust at 17.4% YoY (17% Q1FY22). Robust growth was led by domestic advances growth at 20% YoY while overseas book continue to decline (down 9% YoY) on a prudent strategy. Retail / SME portfolio continue to grow strongly at 20%/42% YoY respectively while corporate book grew slowly at 11.5% YoY. Deposit growth improved to 17% YoY (15% YoY Q1FY22) led by 12.5% YoY growth in term deposits; Avg CASA ratio at 44.1% vs 40.3% YoY.
- Asset quality improved; BB & Below book at 2.8%:** Asset quality improved as GNPA stood at 4.82% vs 5.15% QoQ; NNPA declined to 0.99% as PCR increased to 80% which is the highest among its peers. BB & below book declined by 9% QoQ; stood at 2.8% vs 3.7% QoQ. Restructured assets stood at 1.3% vs 0.7% QoQ; need to watch out for the asset quality impact. However, Covid-19 related provisions stood 64.25bn (0.8% of advances) provides the cushion on the P&L.
- NIMs continue to improve:** NIMs improved by 11bps QoQ to 4% led by decline in cost of deposits (down 12bps QoQ). Although lower liquidity going forward as growth picks up could support margins while higher slippages could put pressure.

TP	Rs.945
CMP	Rs.759
Potential upside / downside	25%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	31.9	37.2	44.7
Consensus	30.5	37.3	44.5
% difference	4.6	(0.1)	0.4

Shareholding Pattern (%)

Promoters	0.0
FII	47.3
DII	39.7
Public	13.0

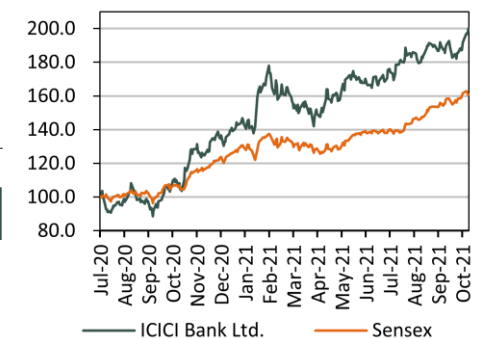
Price Performance (%)

	-1m	-3m	-12m
Absolute	5.8	12.2	82.1
Rel to Sensex	4.2	(2.6)	32.6

Key Stock Data

Bloomberg / Reuters	ICICIBC IN/ICBK.BO
Sector	Banking
Shares o/s (mn)	6,936
Market cap. (Rs mn)	52,65,105
Market cap. (US\$ mn)	69,878
3-m daily average value (Rs mn)	504.7
52-week high / low	Rs760/388
Sensex / Nifty	60,822 / 18,115

Relative to Sensex (%)



Financial snapshot

Year	FY2020	FY2021	FY2022E	FY2023E	FY2024E
NII	3,32,670	3,89,894	4,45,566	5,14,436	593,219
Net Profit	79,308	1,61,927	2,20,727	2,57,148	3,09,209
EPS (Rs)	12.3	23.4	31.9	37.2	44.7
ABV (Rs)	164.6	186.0	228.9	277.0	347.4
PER (x)	55.2	28.9	21.2	18.2	15.1
P/ABV (x)	4.1	3.6	3.0	2.4	1.9
ROE (%)	7.1	12.3	13.6	13.2	13.3
ROA (%)	0.8	1.4	1.7	1.7	1.8
GNPA (%)	6.0	5.3	4.8	4.6	4.6
NNPA (%)	1.5	1.2	1.1	1.1	1.2
CAR	16.1	19.1	18.2	18.9	19.7

Source: IDBI Capital Research

Conference Call Highlights

Digital and Payments

- A 360 degree customer centric approach with focus on opportunities across client and segment ecosystems.
- Good traction in payment transactions through use of facilities such as Pay to Contact and scan to pay.
- Contact less payment facility on iMobile Pay enabling customers of Android-based smartphones to make credit and debit card payments on POS terminals.
- Steady growth in InstaBIZ (80% YoY) and our supply chain platform, with increase in credit enquiry.
- 32% of mortgage sanctions were end-to-end digital in H1-FY22.
- UPI -iMobile Pay showed a 3.3x YoY increase in transactions, Pay to contact (2.8x increase), Scan to Pay (3.6x increase) in transactions.

Advances

- Mortgage disbursements around Q4 levels, with similar trends in personal loans and auto loans.
- In the retail portfolio, the mortgage loan portfolio showed growth of 25% YoY and rural loans and auto loans by 16.1% each, the CV and equipment portfolio declined by 5% YoY, personal loan and credit card portfolio showed growth of 20.7% YoY.
- SME business comprising borrowers with a turnover of less than Rs.2.5bn showed growth of 42% YoY and increased by 11.3% sequentially.
- Focus on higher rated corporates and PSUs across various sectors to meet their working capital and CAPEX requirements.
- Focus is on loan growth with generation of core operating profit.
- CAPEX for certain segment in private sector, however good traction on PSU/Government is to be watched out.

Asset quality

- The net additions to gross NPAs during the quarter were Rs.0.96bn.
- The PCR on NPAs stands at 80.1%. Provisions of Rs.19.50bn against these borrowers, higher than regulatory requirement.

- Total fund based outstanding to all standard borrowers under resolution at Rs.96.84bn (1.3% of total loan portfolio).
- COVID-19 provisions are Rs.64.25bn (0.8% of total loans).
- No change in provisioning policy have done during this quarter

Restructuring

- Restructuring is spread across mortgage portfolio, car loans, smaller ticket size loans of business banking.
- After implementation of Covid 2.0, the aggregate number is only Rs.40bn (some amount of restructuring increase visible in Q3).
- Gold loans had a higher NPA in Q1 FY22 (with challenge on collection), however, now there is a visible recovery in Q2'FY22.

Others

- Dominant market share in FASTAG with focus on cross selling banking products.
- The segment gives good return, but focus on credit quality. Card spends have improved for the bank.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Interest Income	2,12,336	1,96,224	2,03,834	8.2	4.2
Interest Expenses	95,439	1,02,564	94,477	(6.9)	1.0
Net Interest Income	1,16,897	93,660	1,09,357	24.8	6.9
NIM (%)	4.0	3.6	3.9	43 bps	11 bps
Non-Interest Income	47,972	40,283	39,959	19.1	20.1
Operating Income	1,64,869	1,33,943	1,49,316	23.1	10.4
Staff Cost	23,846	19,673	23,744	21.2	0.4
Other Op Exp	41,876	31,660	36,628	32.3	14.3
Total Operating Expenses	65,722	51,333	60,372	28.0	8.9
<i>Cost to Income (%)</i>	39.9	38.3	40.4	154 bps	-57 bps
Operating Profit	99,147	82,610	88,944	20.0	11.5
Provisions	27,135	29,953	28,517	(9.4)	(4.8)
PBT	72,012	52,657	60,427	36.8	19.2
Tax	16,903	10,144	14,267	66.6	18.5
<i>-effective tax rate</i>	23.5	19.3	23.6	421 bps	-14 bps
PAT	55,109	42,513	46,160	29.6	19.4
EPS (Rs)	7.9	6.2	6.7	28.9	19.2
BV (Rs)	226.1	199.6	220.0	13.3	2.8
Deposits	97,74,486	83,29,356	92,62,239	17.3	5.5
Advances	76,49,374	65,26,080	73,85,979	17.2	3.6

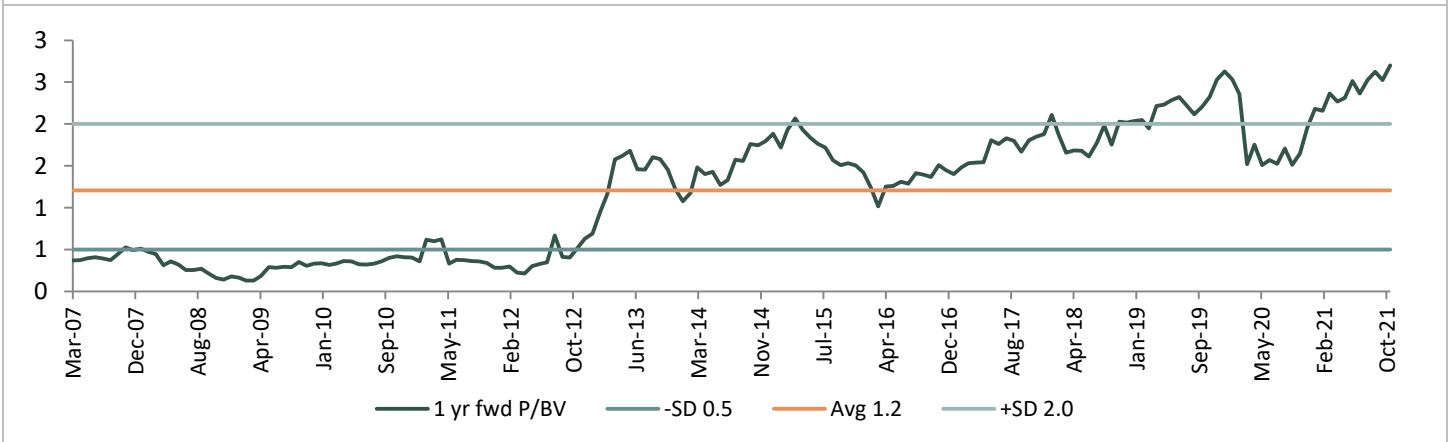
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22	FY23E	FY24E
NII	3.23	3.35	3.39	3.45	3.49
Fees	1.13	0.92	1.01	1.00	1.01
Other Income	0.47	0.71	0.44	0.45	0.45
Net Revenue	4.82	4.98	4.84	4.90	4.95
Op.Exp	2.10	1.85	1.84	1.77	1.70
Op.Profit	2.72	3.13	3.00	3.13	3.25
Provisions	1.36	1.39	0.84	0.83	0.82
PBT	1.36	1.73	2.17	2.30	2.43
Tax	0.59	0.34	0.49	0.58	0.61
ROA	0.77	1.39	1.68	1.72	1.82
Leverage (x)	9.17	8.82	8.09	7.67	7.30
ROE	7.05	12.27	13.60	13.22	13.28

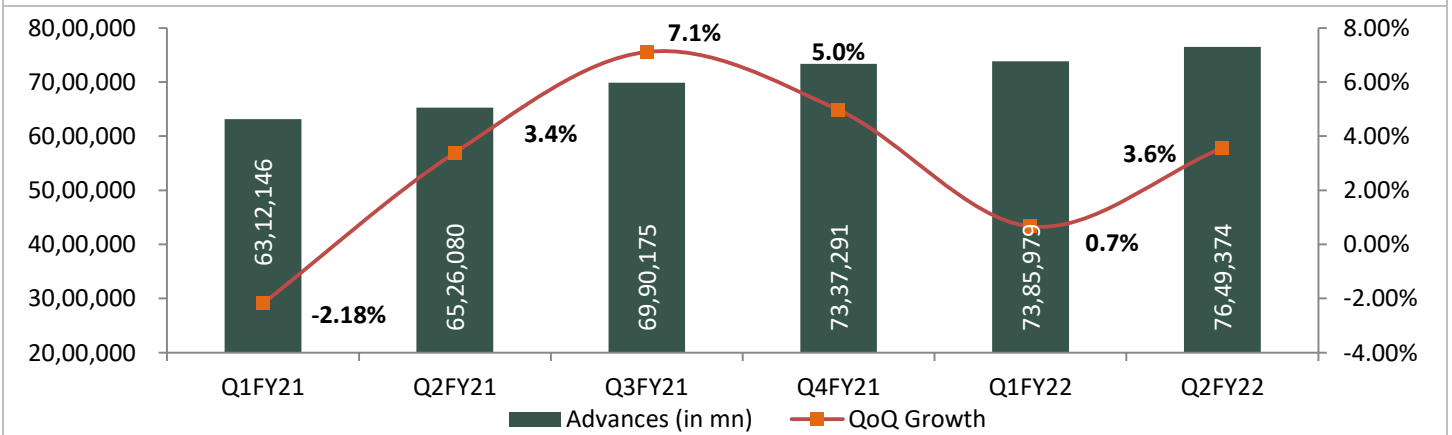
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



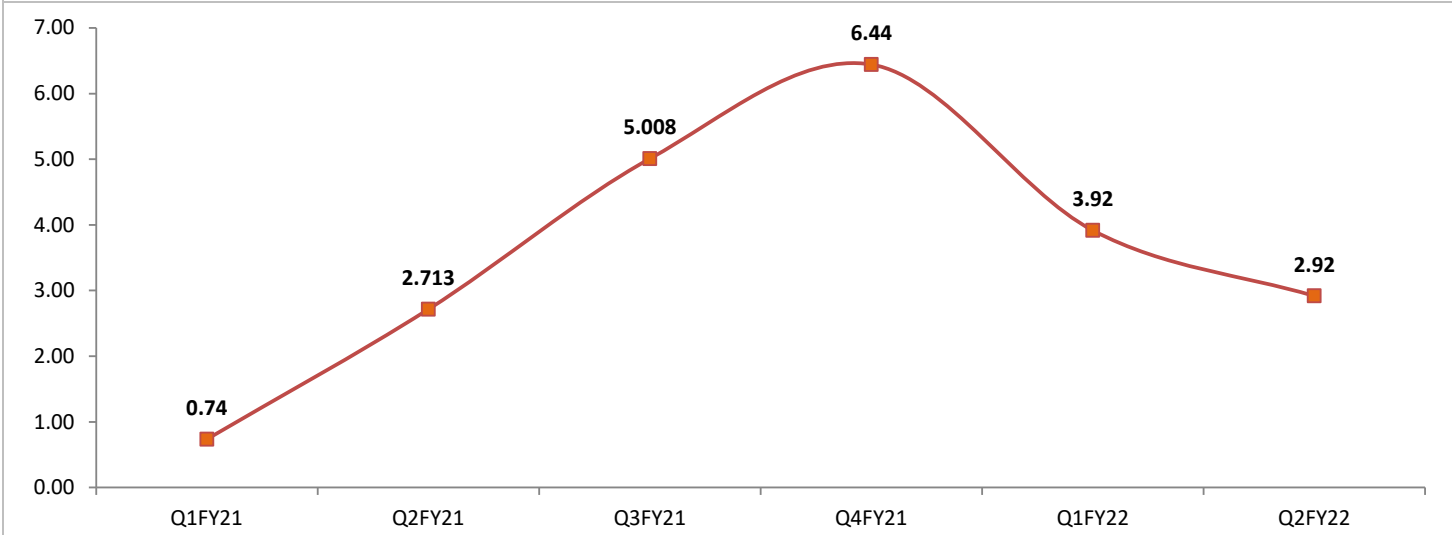
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth higher than its peers



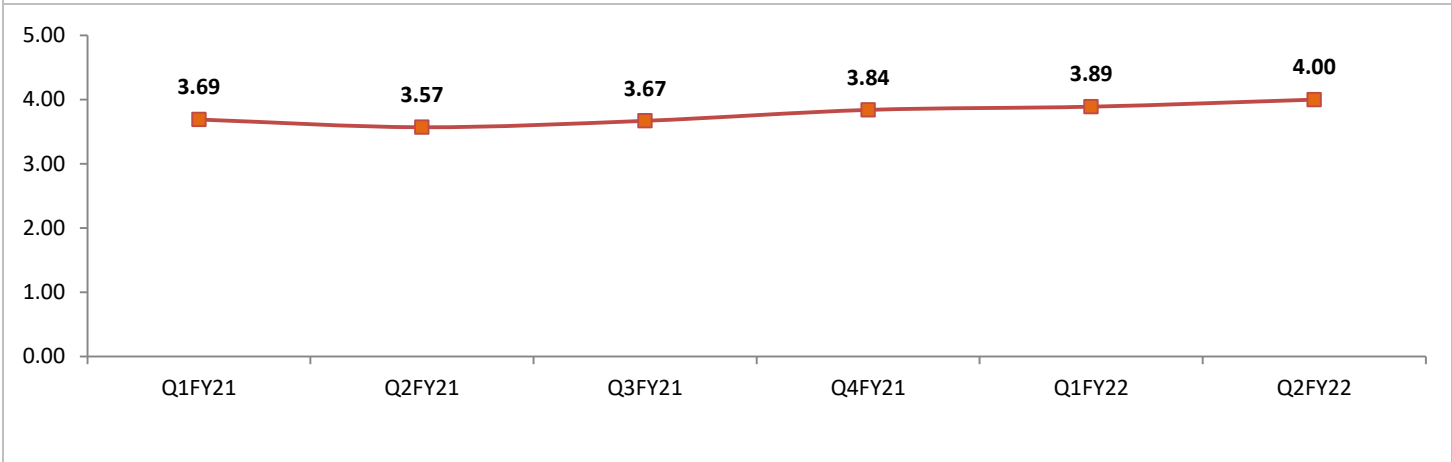
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio has declined



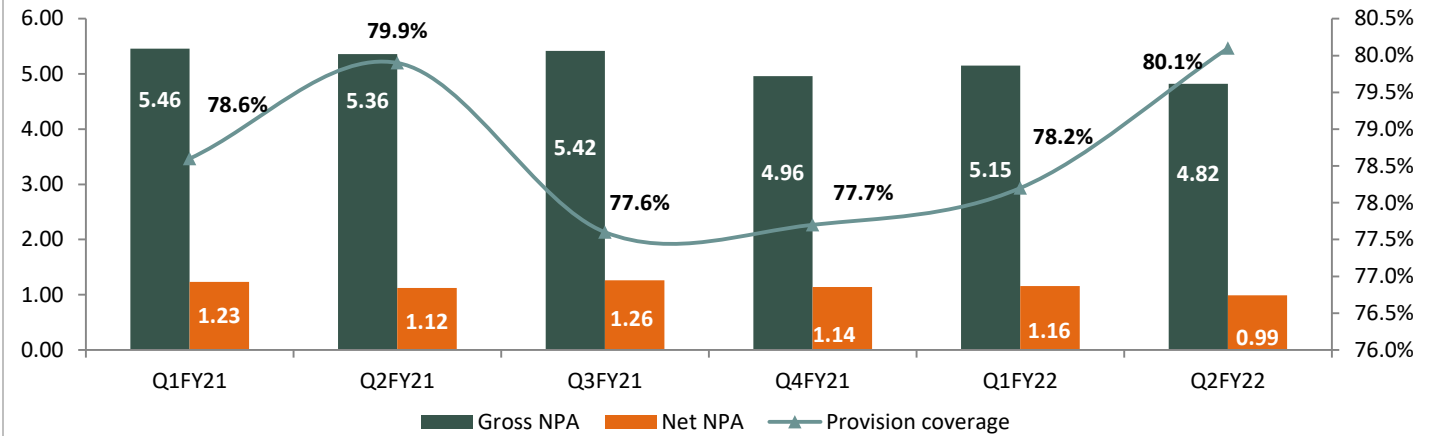
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins highest at 4%



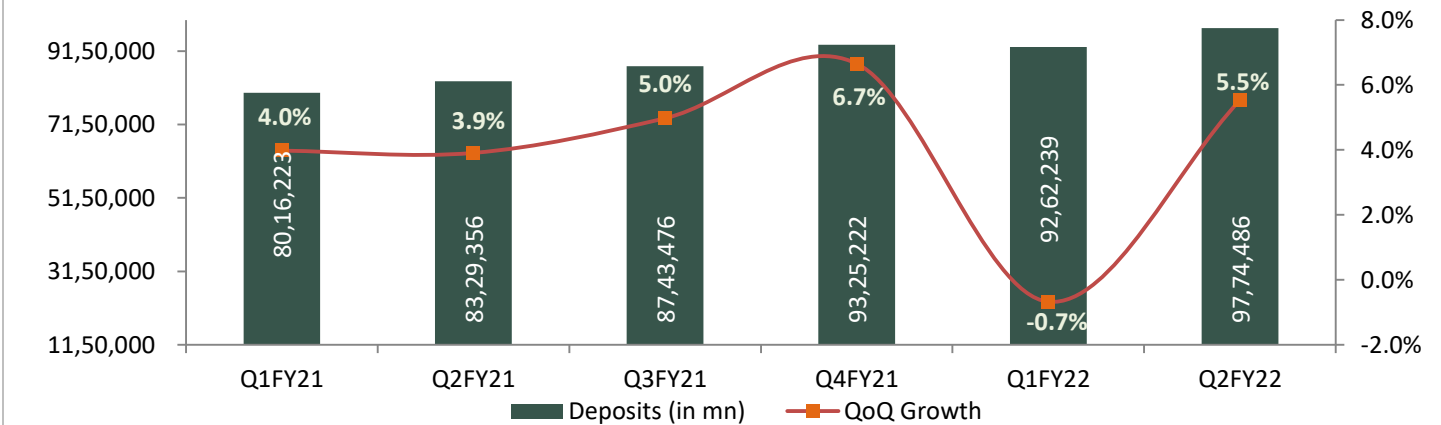
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality continue to improve



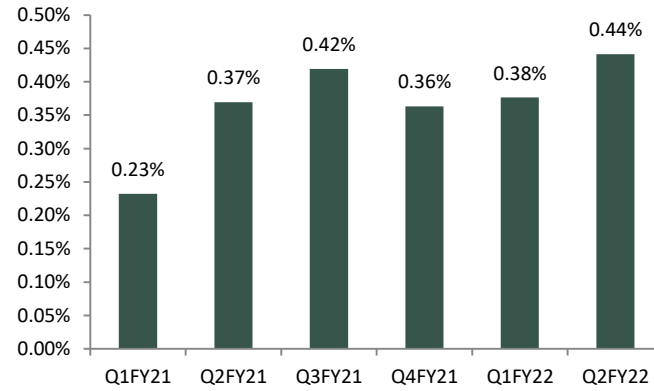
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth in line with advances growth



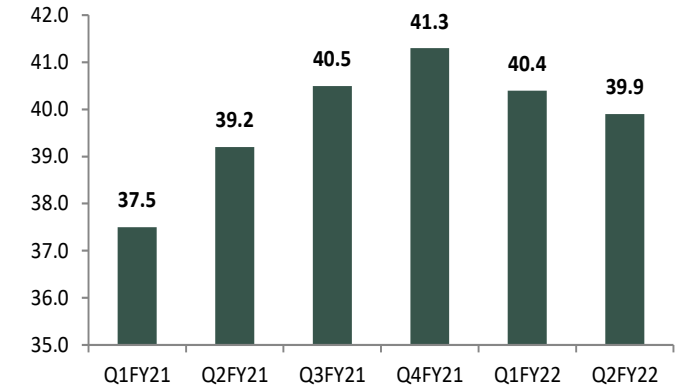
Source: Company; IDBI Capital Research

Exhibit 9: RoA (non-annualized); reached highest levels



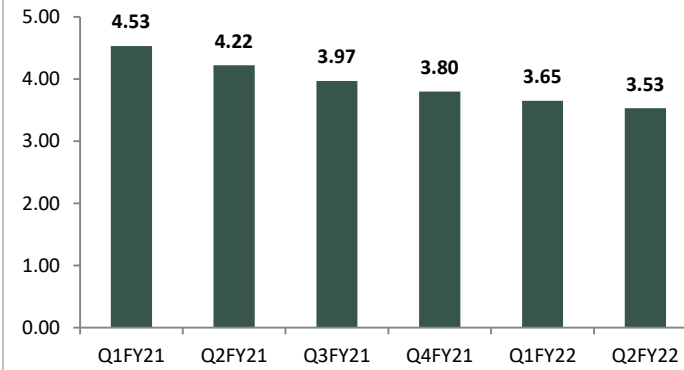
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio remains range bound



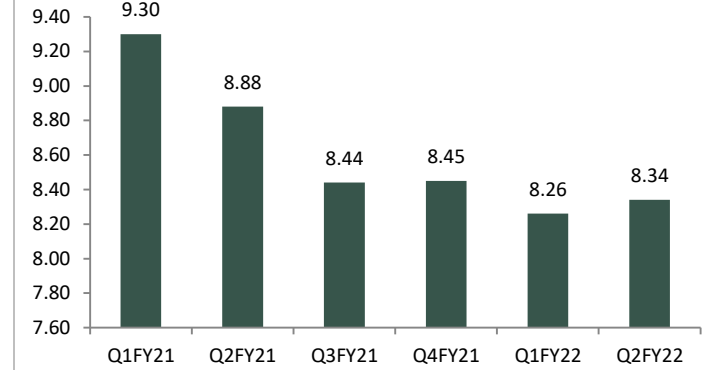
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Deposits at lower levels



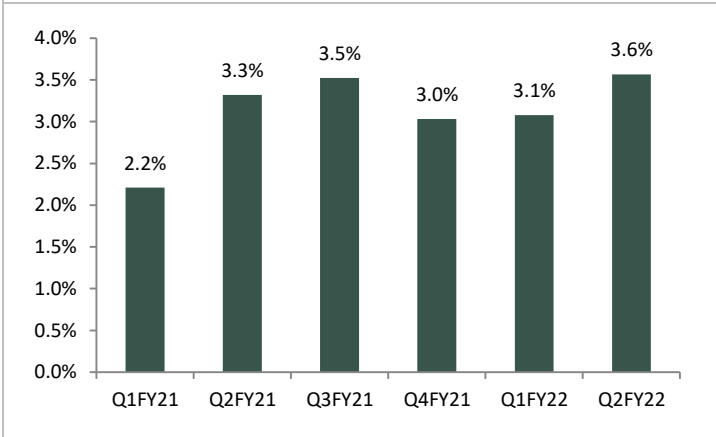
Source: Company; IDBI Capital Research

Exhibit 12: Yield on Advances



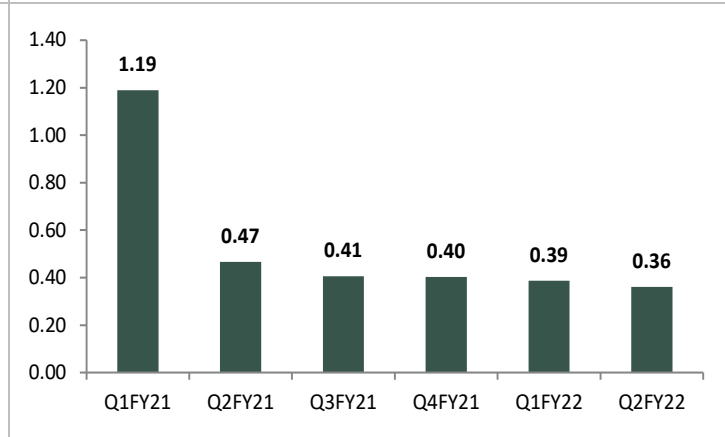
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity (non-annualised)



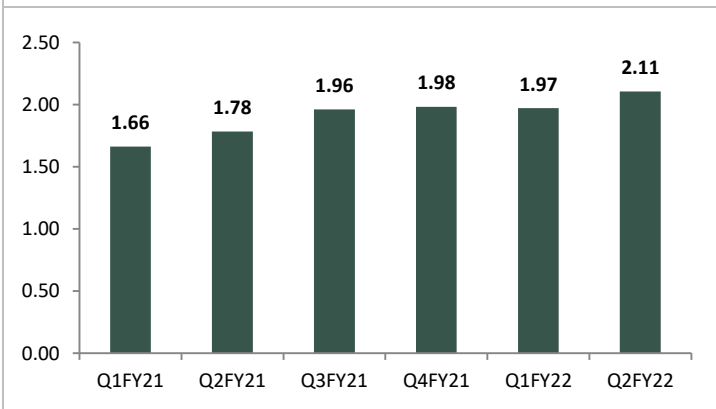
Source: Company; IDBI Capital Research

Exhibit 14: Credit Cost continues to decline



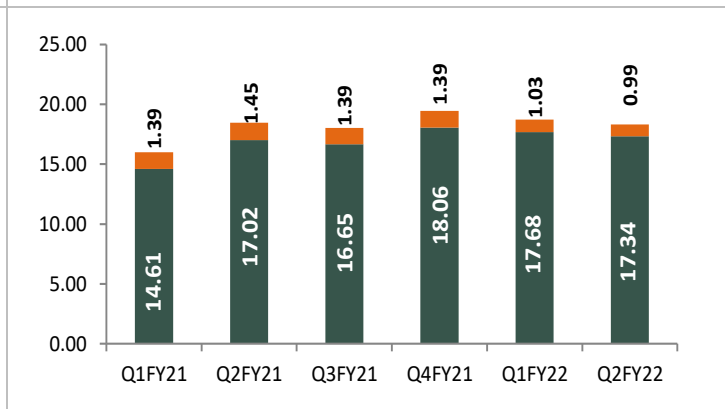
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Assets also inched up



Source: Company; IDBI Capital Research

Exhibit 16: CAR remains comfortable



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23E	FY24E
Net interest income	3,89,894	4,45,566	5,14,436	5,93,219
Non-Interest Income	1,89,685	1,90,159	2,16,406	2,48,733
Operating Income	5,79,579	6,35,725	7,30,842	8,41,953
Operating expenses	2,15,608	2,41,118	2,63,770	2,89,795
Employee expenses	80,918	91,254	91,427	91,600
Other expenses	1,34,690	1,49,864	1,72,344	1,98,195
Pre-Provision Profit	3,63,971	3,94,607	4,67,072	5,52,158
Provision	1,62,143	1,09,798	1,23,291	1,38,777
PBT	2,01,828	2,84,809	3,43,781	4,13,381
Taxes	39,901	64,082	86,633	1,04,172
Net profit	1,61,927	2,20,727	2,57,148	3,09,209

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23E	FY24E
Capital	13,834	13,834	13,834	13,834
Reserves	14,61,226	17,58,037	21,05,472	25,25,272
Networth	14,75,060	17,71,871	21,19,306	25,39,106
Borrowings	9,16,310	7,61,377	7,52,474	7,71,731
Total Liab. & Equity	1,23,04,326	1,39,66,966	1,58,82,191	1,81,12,787
Cash	13,31,283	14,34,440	15,52,571	17,85,456
Investments	28,12,863	32,55,294	37,69,919	42,94,972
Advances	73,37,290	84,37,884	97,03,566	1,11,59,101
Other Assets	7,34,114	7,48,796	7,63,772	7,79,048
Total assets	1,23,04,326	1,39,66,966	1,58,82,191	1,81,12,787

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23E	FY24E
Growth				
Advances	13.7	15.0	15.0	15.0
NII	17.2	14.3	15.5	15.3
Pre-Provision Profit	29.5	8.4	18.4	18.2
Net Profit	104.2	36.3	16.5	20.2
Spreads				
Yield on Assets	7.6	7.5	7.5	7.5
Cost of Funds	4.1	4.1	4.1	4.1
NIM	3.7	3.7	3.8	3.8
Operating Efficiency				
Cost-to-Income	37.2	37.9	36.1	34.4
Cost-to-Assets	1.9	1.8	1.8	1.7
Asset Quality				
GNPA	5.3	4.8	4.6	4.6
NNPA	1.2	1.1	1.1	1.2
Provision Coverage	77.7	78.5	77.3	74.5
Credit Cost	2.4	1.4	1.4	1.3
Capital Adequacy				
CAR	19.1	18.2	18.9	19.7
Tier I	18.1	16.9	17.5	18.2
Valuation				
EPS	23.4	31.9	37.2	44.7
BV	213.3	256.2	306.4	367.1
P/E	28.9	21.2	18.2	15.1
P/BV	3.2	2.6	2.2	1.8
ROE	12.3	13.6	13.2	13.3
ROA	1.4	1.7	1.7	1.8
RORWA	2.1	2.5	2.4	2.5

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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