ICICI Bank

25 July 2021

Sporadic lockdowns stall NPA recoveries temporarily

RESULT UPDATE

Sector: Banks	**Rating: BUY**
CMP: Rs 677	**Target Price: Rs 775**

Stock Info

Sensex/Nifty	52,975/ 15,856
Bloomberg	ICICIBC IN
Equity shares	6925mn
52-wk High/Low	Rs 677/336
Face value	Rs 2
M-Cap	Rs 4,686bn/ USD 63bn
3-m Avg volume	USD 140mn

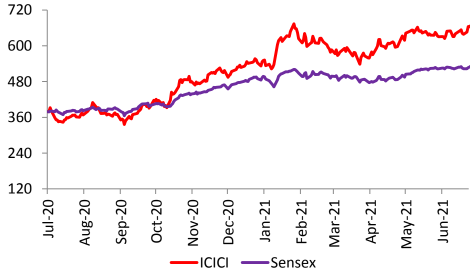
Financial Snapshot (Rs bn)

Y/E March	FY21	FY22E	FY23E
NII	390	449	540
PPP	364	380	470
PAT	162	197	262
EPS (Rs)	24	28	38
EPS Gr. (%)	95.9	18.7	33.0
BV/Sh (Rs)	209	238	276
Adj. BV/Sh (Rs)	198	229	264
Ratios			
NIM (%)	3.6	3.7	3.9
C/I ratio (%)	37.2	39.3	37.2
RoA (%)	1.4	1.5	1.7
RoE (%)	12.3	12.5	14.5
Payout (%)	8.3	15.7	15.7
Valuations			
P/E (x)	28.2	23.7	17.9
P/BV (x)	3.2	2.8	2.4
P/Adj. BV (x)	3.4	3.0	2.6
Div. Yield (%)	0.4	0.9	1.2

Shareholding pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	0	0	0
–Pledged	-	-	-
FII	48	48	47
DII	42	42	43
Others	10	10	10

Stock Performance (1-year)



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ICICI Bank (ICICIBC IN)'s core operating income performance improved in 1QFY22 with margin expansion and traction in core fee income. On the liabilities front, its average CASA composition improved to 44% from 42.5% in 4QFY21 with deposit growth at 15.5% YoY; cost of deposit reduced by 15bps on a QoQ basis to 3.65%, aiding margins. Credit growth was at 0.7% QoQ & 17% YoY; domestic credit expanded by 19.4%, mainly driven by retail and MSME verticals. With an elevated net delinquency rate at 232bps, the bank's credit yield fell by 20bps to 8.26%. Interest income on tax refunds and interest reversals impacted margin by 2bps. Strong performance on the liabilities front, change in earning asset composition in favour of investments as against higher cash holdings aided margin expansion. The bank witnessed a rise in retail credit delinquencies, mainly in commercial vehicles (CVs) & jewel loans and rural credit. It is confident of NPL recoveries in jewel loans and has already made some progress. Sporadic lockdowns in various states disrupted branch functioning, leading to lower NPL recoveries. As COVID-led curbs subside, borrowers' profitability would improve and the bank would also make NPL recoveries. We reiterate our BUY rating on ICICIBC with a target price of Rs 775.

Asset quality to improve with higher NPL recoveries

During the quarter, gross delinquency was at Rs 72bn, including Rs 68bn in the retail segment and ~Rs 4.6bn in the SME segment. Within the retail segment, delinquencies were in CV and jewel loans. The performance of the personal loans and credit cards verticals was steady. Given the characteristics of Jewel loans, recovery prospects should improve and in a worst-case scenario, loss given defaults (LGD) would be negligible as loan-to-value (LTV) was not high. Loss of interest income due to net delinquency of Rs 36bn (~230bps; netted off for interest income on income tax refunds) appear higher at ~10bps - above the bank's management indicated figure. Interest income loss was probably only for the later period of the quarter. NPL recoveries would be a key monitorable in 2QFY22. The bank's total provisions (general, specific and adhoc on COVID) on NPA/stressed assets (GNPA, net restructured standard credit, net security receipts and BB & below rated portfolios) stood at ~66% vs. 77% in 4QFY21.

Margin improves on better liability franchise

Improvement in average CASA composition to 44% from 42.5% QoQ & 41% YoY, reduction in funding cost by 13bps to 3.82%, a marginal uptick in loan-deposit ratio to 80% from 79% QoQ and better asset composition in favour of investments as against cash outstanding (as a % to deposit, borrowings and equity) led to margin expansion of 5bps to 389bps. The expected rise in NPL recoveries should aid margin but a rise in the proportion of loans on the external benchmark pricing mechanism at ~36.4% (of the total loans) would offset the margin improvement. The bank's total cash balance (as a % to deposit & borrowings) was at 10.4% compared to the 8.6% average in the pre-pandemic period; a further reduction in cash balances would aid margin.

Valuation & Recommendation

We believe the sporadic lockdowns and subdued economic activities due to COVID are temporary; we expect the bank's delinquency rate to fall and NPL recoveries to improve. It should be able to recover low-hanging and softer NPLs in the near term. We estimate its RoAA & RoAE at 170bps & 14.5% respectively in FY23E. We value its core banking business at 2.4x FY23E P/ABV (Rs 634) and subsidiaries at Rs 141 to arrive at our target price of Rs 775 per share. Reiterate **BUY**.

Investors are advised to refer disclosures made at the end of the research report.

ICICI Bank (ICICIBC IN) 1QFY22 result concall highlights

- High-frequency data has shown significant improvement in power demand, unemployment, e-way bills in June.
- Economic recovery depends on the trajectory of the pandemic, regional lockdowns and vaccination pace.
- Focus remains on maintaining a strong balance sheet:
- 1) Growth in core operating profit through a risk calibrated manner
- 2) Further enhancement in deposit franchise
- 3) Increasing the granular loan book while managing the risk-reward ratio.
- 4) Leveraging digital technology across the business:
    - The transaction volumes & value of non-ICICI Bank customers on digital platforms has increased significantly. These platforms enable the bank to cross-sell and also support CASA deposit mobilization.
    - Nearly 34%/46% of the mortgage loans/personal loans sanctioned & disbursed are through digital channels.
- 5) Protecting the balance sheet from any potential risk.
- 6) Maintaining a strong capital base.

Asset quality; collections & recoveries to pick up in 2QFY22

- During 1QFY22, there was no government dispensation (like moratorium), leading to a rise in GNPA.
- Within the retail credit category, stress was higher in the CV segment. PL (personal loans) and credit cards segments performed better.
- Delinquencies in retail and business banking include delinquencies in jewel loans/Kisan credit card portfolios amounting to Rs 11.3bn/Rs 9.6bn respectively.
- The bank did not send notices to COVID-stricken families/customers during April, May and June. It has started sending notices now and recovery has begun.
- Jewel loans are fully secured and LGD would be negligible. Delayed auctions due to lockdowns led to lower recoveries. The management is confident of recoveries in jewel loans in 2QFY22. Jewel borrowers generally walk-in and repay but this time it was not feasible due to the lockdowns.
- Slippages in the Kisan credit card portfolio are cyclical in nature and are generally higher in 1Q and 3Q.
- Due to the second wave there was an increase in the SMA book. With economic activities picking up in June and July, there has been a reduction in the SMA portfolio; expect a further improvement going forward.
- Sold NPAs amounting to Rs 2.4bn from the corporate& SME portfolio.
- Collections & recoveries improved in July; collections should improve further.
- Slippages are likely to be lower in 2QFY22; further reduction is expected for 2HFY22 compared to last year.
- The restructuring number could rise - some NPAs were restructured and upgraded.

CA deposit mobilization pace to taper off

- Digital focus and presence in various ecosystems has enabled the bank to enhance deposit franchise.
- CA deposits growth is likely to taper off in the next quarter on a sequential basis in view of the RBI's circular on the opening of current accounts by banks.

Rise in retail credit disbursement

- Retail disbursement was impacted in April & May due to lockdowns but disbursement picked up in June & July. Demand is witnessed in the consumer durable, insurance and utilities segments.
- The management sees a huge opportunity in the business banking and SME segments.
- SME & business banking credit growth were largely on the back of higher overdraft loans in June & July. Credit growth in SME & business banking was supported by digital platforms like InstaBiz and tradebiz.
- Corporate loans were largely to high-rated corporates and PSUs towards working capital and capital expenditure requirement.
- In corporate loans, the second wave impacted the capacity utilization; however, as the utilization of the corporates is increasing the demand for WCAP loans is also returning. The corporates have raised equities given the buoyancy in the equity markets and have also raised funds from the capital market.

Lower liquidity in balance sheet could aid margin

- The bank's cost of deposits remains one of the lowest amongst banks. It expects the cost is likely to bottom out at current level.
- In terms of yields, since the market remains competitive; the management does not expect yields to go up significantly from the current levels.
- Floating repo rate/T-bill linked credit book stands ~54%.
- The impact of interest on income tax refund and interest collections on NPA was around 2bps on margins vs. 4bps last quarter.
- The bank had deployed liquidity in FX swap and there is an income from that vertical.
- Lower liquidity on the balance sheet should aid margins.

Impact of Fintech:

- Some Fintechs are focused only on some customer segments.
- Most Fintechs find it difficult to scale up.

Miscellaneous:

- The management would continue to invest more in technology and increase its products offering.
- Fee income from retail, business banking and SME segment constitutes ~76% of the overall fee income and increased by 65% on a YoY basis.
- Non-employee expenses increased significantly YoY due to the base effect; on a sequential basis, they were lower by ~8% due to lower business volumes though partly offset by technology cost.
- A large part of the credit card business is protected as most of the cards issued are through Visa cards; the composition of Master cards is low.

Exhibit 1: Quarterly performance

Quarterly Income Statement (Rs mn)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21	YoY (%)	QoQ (%)
Interest Inc. on Advances	149,846	146,394	140,348	140,379	145,767	2.8	2.4
Interest Inc. on Investments	40,415	39,148	41,205	43,138	41,907	-3.6	3.2
Others	13,573	12,874	15,745	12,708	11,570	17.3	5.4
Total Interest Inc.	203,834	198,417	197,298	196,225	199,244	2.3	2.7
Interest Expended	94,477	94,105	98,173	102,564	106,446	-11.2	0.4
NII	109,358	104,311	99,125	93,661	92,798	17.8	4.8
CXB	32,190	38,150	36,010	31,390	21,040	53.0	-15.6
Treasury Income	2,900	-250	7,660	5,420	37,630	-92.3	-1,260.0
Total Non-interest Income	39,959	41,114	46,863	40,283	61,426	-34.9	-2.8
Total Net Income	149,316	145,425	145,987	133,944	154,224	-3.2	2.7
Total Operating Exp.	60,372	60,027	57,790	51,333	46,459	29.9	0.6
Operating Profit	88,944	85,398	88,198	82,611	107,765	-17.5	4.2
Core Operating Profit	86,044	85,648	80,538	77,191	70,135	22.7	0.5
Provisions for NPAs	28,520	28,830	27,417	29,950	75,940	-62.4	-1.1
Total Provisions	28,517	28,835	27,417	29,953	75,940	-62.4	-1.1
PBT	60,427	56,564	60,780	52,658	31,825	89.9	6.8
Core PBT	57,527	56,814	53,120	47,238	-5,805	-1,091.0	1.3
Tax Provision	156,936	137,913	125,230	111,594	64,169	144.6	13.8
Net Profit	46,160	44,026	49,396	42,513	25,992	77.6	4.8
EPS	6.7	6.4	7.2	6.4	4.0	66.0	4.7
Key Ratios (%)	**Q1FY22**	**Q4FY21**	**Q3FY21**	**Q2FY21**	**Q1FY21**	**YoY (bps)**	**QoQ (bps)**
Trading gains/PBT	4.80	-0.44	12.60	10.29	118.24	-11,344.1	524.1
NIM	3.89	3.84	3.67	3.57	3.69	20.0	5.0
CAR	18.71	19.12	19.51	18.47	16.00	271.0	-41.0
Tier I	17.40	18.06	16.65	17.02	14.61	279.0	-66.0
ROA	1.51	1.45	1.68	1.48	0.93	57.7	5.3
CD Ratio	79.74	78.68	79.95	78.35	78.74	100.1	106.1
Asset Quality (Rs mn)	**Q1FY22**	**Q4FY21**	**Q3FY21**	**Q2FY21**	**Q1FY21**	**YoY (%)**	**QoQ (%)**
GNPA	431,483	413,734	348,604	389,892	403,862	6.8	4.3
NNPA	93,058	91,802	48,606	71,875	86,747	7.3	1.4
GNPA (in %)	5.15	4.96	4.38	5.17	5.46	-31 bps	19 bps
NNPA (in %)	1.16	1.14	0.63	1.00	1.23	-7 bps	2 bps
PCR (%) (Excl. Technical Write-offs)	78.43	77.81	86.06	81.57	78.52	-9 bps	62 bps
Balance Sheet Details (Rs mn)	**Q1FY22**	**Q4FY21**	**Q3FY21**	**Q2FY21**	**Q1FY21**	**YoY (%)**	**QoQ (%)**
Net Advances	7,385,979	7,337,291	6,990,175	6,526,080	6,312,146	17.0	0.7
Savings Deposits	3,066,090	2,954,530	2,786,740	2,570,630	2,448,360	25.2	3.8
Current Deposits	1,184,920	1,361,700	1,167,410	1,075,170	957,800	23.7	-13.0
CASA Deposits	4,251,010	4,316,230	3,954,150	3,645,800	3,406,160	24.8	-1.5
Term Deposits	5,011,229	5,008,992	4,789,326	4,683,556	4,610,063	8.7	0.0
Total Deposits	9,262,239	9,325,222	8,743,476	8,329,356	8,016,223	15.5	-0.7
CASA (%)	45.9	46.3	45.2	43.8	42.5	341 bps	-39 bps

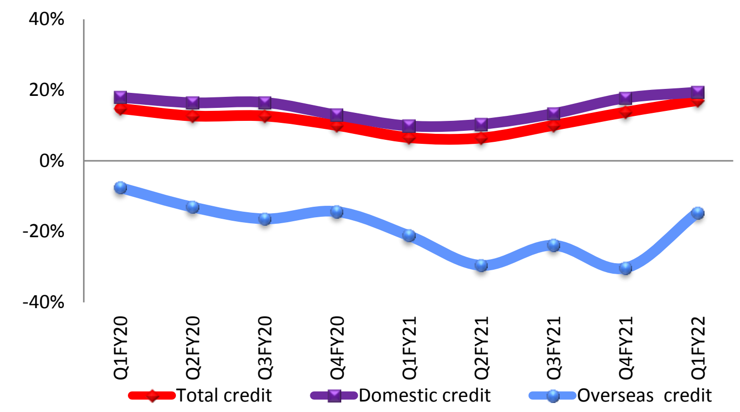
Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly Du-Pont

Du-Pont (%)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
Total interest income earned	6.7	6.5	6.7	6.8	7.1
Other income	1.3	1.4	1.6	1.4	2.2
Fee income	1.1	1.3	1.2	1.1	0.8
Profit on sale of investment	0.1	0.0	0.3	0.2	1.3
Miscellaneous other income	0.2	0.1	0.1	0.1	0.1
Total income	4.9	4.8	5.0	4.7	5.5
Total interest expenses	3.1	3.1	3.3	3.6	3.8
NII	3.6	3.4	3.4	3.3	3.3
Total operating expenses	2.0	2.0	2.0	1.8	1.7
Operating profit	2.9	2.8	3.0	2.9	3.9
Provisions & contingencies (excluding tax)	0.9	1.0	0.9	1.0	2.7
Profit before tax	2.0	1.9	2.1	1.8	1.1
Prov for income tax	0.5	0.4	0.4	0.4	0.2
Net profit (RoAA)	1.5	1.5	1.7	1.5	0.9

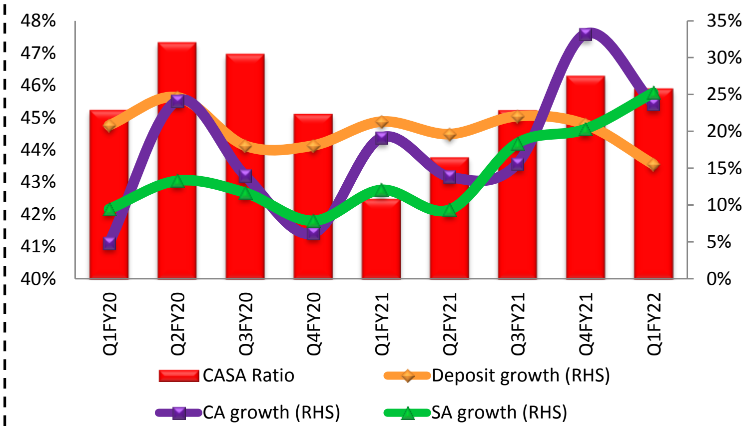
Source: Company, Systematix Institutional Research

Exhibit 3: Healthy growth in advances driven by domestic credit



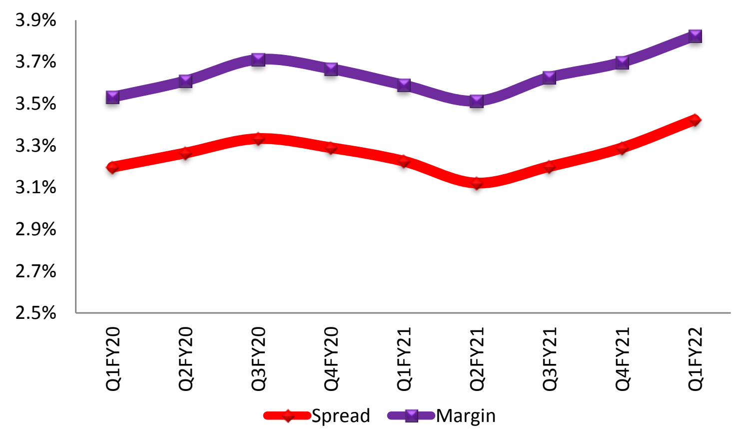
Source: Company, Systematix Institutional Research

Exhibit 4: Growth in CA deposits impacted due to RBI circular on current account opening by banks



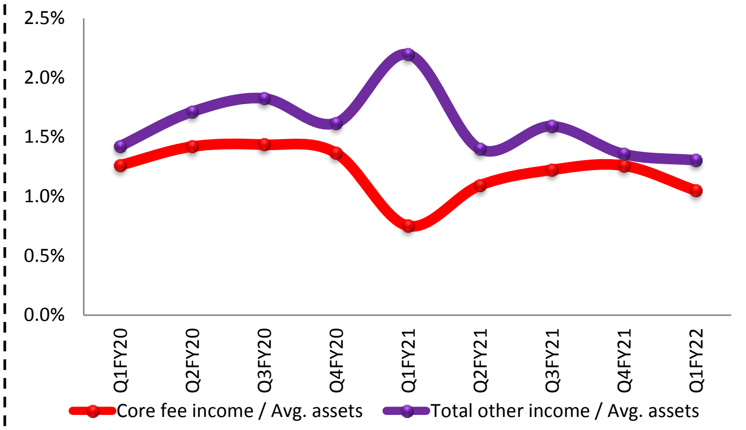
Source: Company, Systematix Institutional Research

Exhibit 5: Margins continue to improve



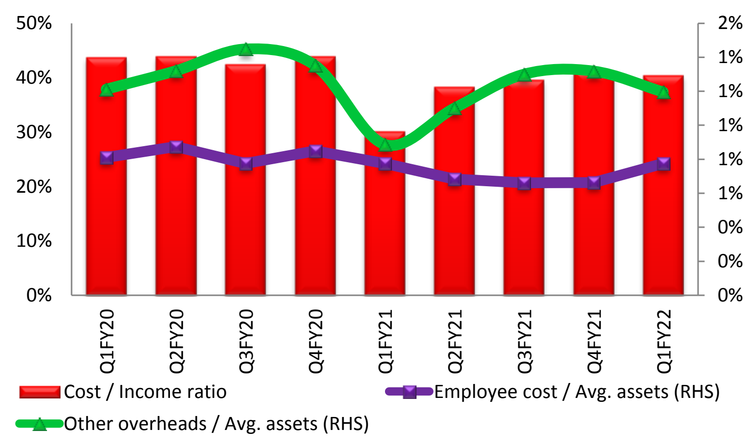
Source: Company, Systematix Institutional Research

Exhibit 6: Core fee income impacted due to lower business activities owing to the second wave



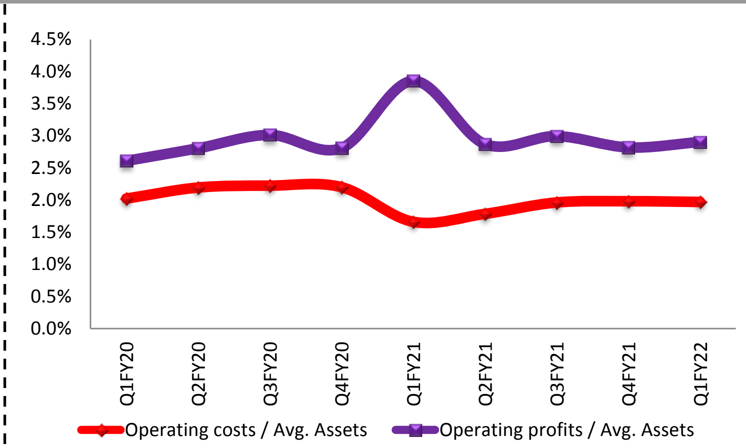
Source: Company, Systematix Institutional Research

Exhibit 7: Cost/Income ratio largely stable



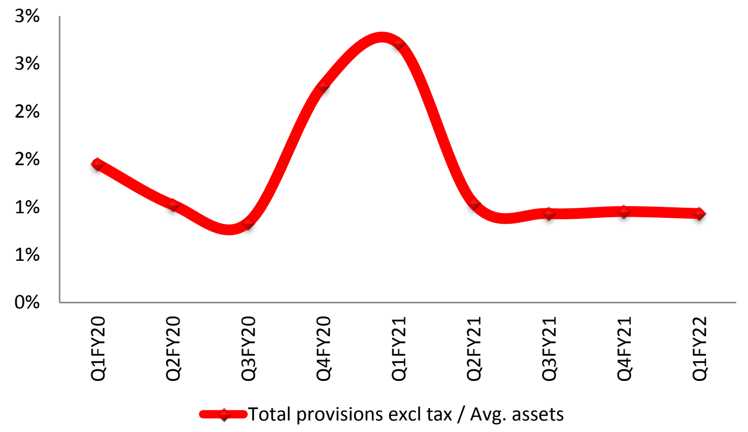
Source: Company, Systematix Institutional Research

Exhibit 8: Operating profits/average assets remain stable



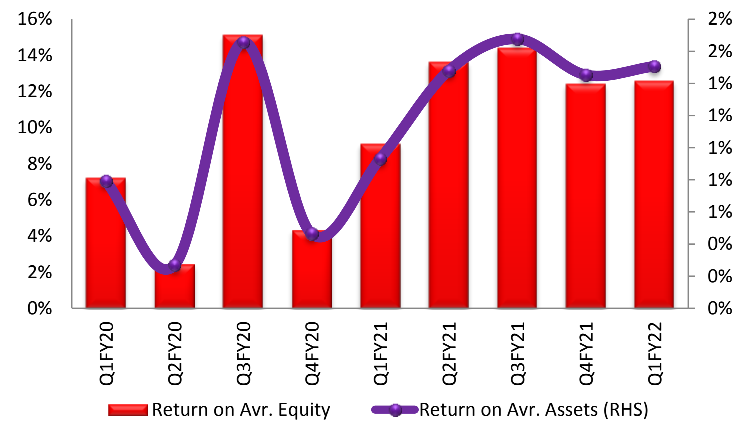
Source: Company, Systematix Institutional Research

Exhibit 9: Write back of COVID provisions led to lower provisions



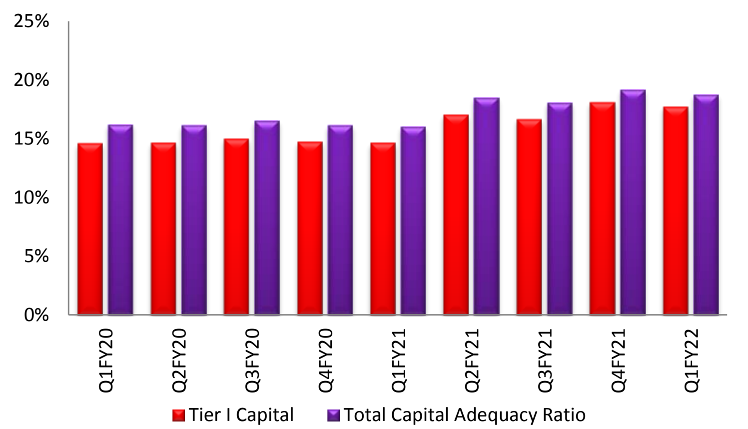
Source: Company, Systematix Institutional Research

Exhibit 10: Return ratios remain elevated



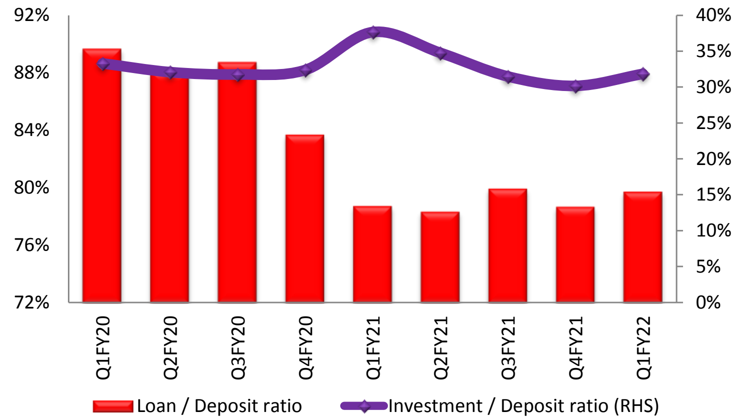
Source: Company, Systematix Institutional Research

Exhibit 11: Capital position remains strong



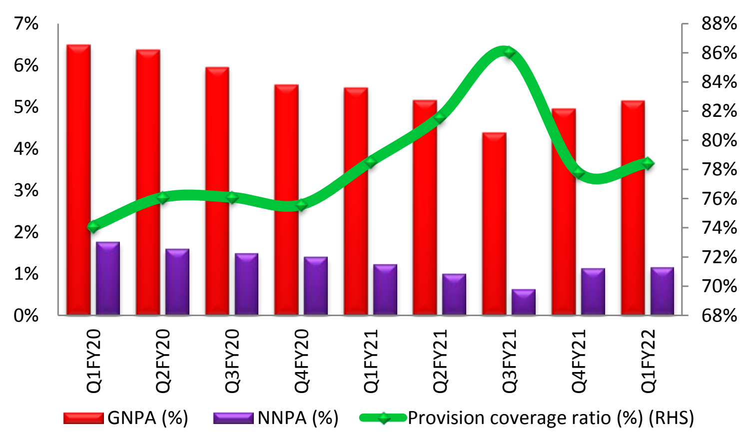
Source: Company, Systematix Institutional Research

Exhibit 12: Higher credit growth led to an uptick in loan/deposits ratio



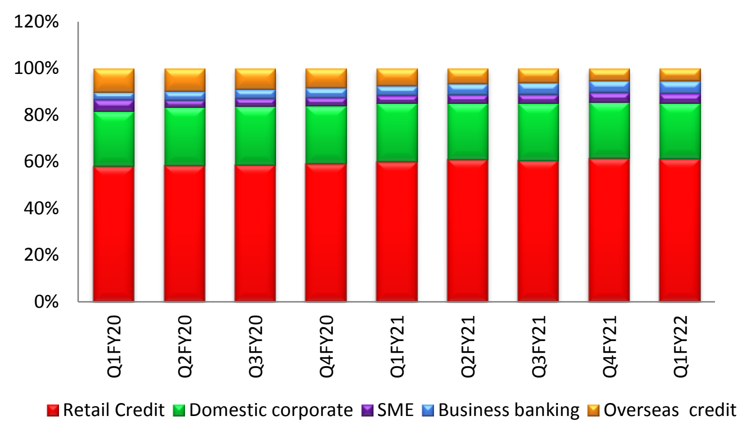
Source: Company, Systematix Institutional Research

Exhibit 13: Asset quality largely stable



Source: Company, Systematix Institutional Research

Exhibit 14: Share of retail credit remains high



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	634	748	791	873	1,018
Interest Expenses	364	415	401	423	478
Net Interest Income	**270**	**333**	**390**	**449**	**540**
Change (%)	17.3	23.1	17.2	15.3	20.2
Commission, Ex. & Br. Inc.	102	116	109	128	155
Add: Other income	145	164	190	175	207
Net Income	**415**	**497**	**580**	**625**	**747**
Change (%)	2.7	19.7	16.6	7.8	19.6
Operating Expenses	181	216	216	245	278
Operating Profit	**234**	**281**	**364**	**380**	**470**
Change (%)	(5.3)	19.9	29.5	4.3	23.7
Provisions	197	141	162	117	120
PBT	**38**	**140**	**202**	**263**	**350**
Tax	4	61	40	66	87
Tax Rate (%)	10.9	43.5	19.8	25.0	25.0
PAT	**34**	**79**	**162**	**197**	**262**
Change (%)	(50.4)	135.8	104.3	21.7	33.0
Proposed Dividend	6	12	14	31	41

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Capital	13	13	14	14	14
Reserves & Surplus	1,071	1,152	1,461	1,658	1,921
Net Worth	**1,084**	**1,165**	**1,475**	**1,672**	**1,934**
Change (%)	3.1	7.5	26.6	13.4	15.7
Deposits	**6,529**	**7,710**	**9,325**	**10,741**	**12,321**
Change (%)	16.4	18.1	21.0	15.2	14.7
CASA Ratio (%)	49.6	45.1	46.3	46.3	46.3
Borrowings	**1,653**	**1,629**	**916**	**1,065**	**1,153**
Other Liabilities	379	480	588	670	764
Total Liabilities	**9,645**	**10,984**	**12,304**	**14,148**	**16,171**
Change (%)	9.7	13.9	12.0	15.0	14.3
Investments	2,077	2,495	2,813	3,153	3,390
Cash & Bank balance	803	1,192	1,331	1,454	1,571
Loans	**5,866**	**6,453**	**7,337**	**8,474**	**9,891**
Change (%)	14.5	10.0	13.7	15.5	16.7
Fixed Assets	79	84	89	89	91
Other Assets	819	760	734	979	1,228
Total Assets	**9,645**	**10,984**	**12,304**	**14,148**	**16,171**

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	6.9	7.3	6.8	6.6	6.7
Interest Expended	3.9	4.0	3.4	3.2	3.2
Net Interest Income	**2.9**	**3.2**	**3.3**	**3.4**	**3.6**
Commission, Ex. & Br. Inc.	1.1	1.1	0.9	1.0	1.0
Other Fee Income	0.3	0.3	0.3	0.3	0.2
Net Operating Income	**4.4**	**4.6**	**4.5**	**4.6**	**4.8**
Profit on sale of investment	0.1	0.2	0.4	0.1	0.1
Net Income	4.5	4.8	5.0	4.7	4.9
Operating Expenses	**2.0**	**2.1**	**1.9**	**1.9**	**1.8**
Operating Income	2.5	2.7	3.1	2.9	3.1
Provisions	2.1	1.4	1.4	0.9	0.8
PBT	**0.4**	**1.4**	**1.7**	**2.0**	**2.3**
Tax	0.0	0.6	0.3	0.5	0.6
PAT	**0.4**	**0.8**	**1.4**	**1.5**	**1.7**
Leverage	9	9	9	8	8
RoE	**3.2**	**7.1**	**12.3**	**12.5**	**14.5**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Spreads Analysis (%)					
Yield on Advances	8.7	9.3	8.3	8.1	8.4
Yield on Earning Assets	7.6	7.9	7.3	7.1	7.3
Cost of Deposits	4.4	4.6	3.8	3.6	3.6
Cost of Funds	4.7	4.7	4.1	3.8	3.8
NIM	3.2	3.5	3.6	3.7	3.9
Profitability Ratios (%)					
Cost/Income	43.6	43.5	37.2	39.3	37.2
PPOP / Avg. assets	2.5	2.7	3.1	2.9	3.1
RoE	3.2	7.1	12.3	12.5	14.5
RoA	0.4	0.8	1.4	1.5	1.7
Asset Quality (%)					
GNPA (Rs bn)	457	408	408	424	465
NNPA (Rs bn)	134	99	91	87	111
GNPA	7.4	6.0	5.3	4.8	4.5
NNPA	2.3	1.5	1.2	1.0	1.1
PCR	70.6	75.7	77.7	79.5	76.1
Capitalisation (%)					
CAR	16.9	16.1	19.1	17.6	17.5
Tier I	15.1	14.7	18.1	17.2	17.2
Tier II	1.8	1.4	1.1	0.4	0.4
Average Leverage on Assets (x)	8.6	9.2	8.8	8.4	8.4
Valuations					
Book Value (Rs)	163	175	209	238	276
Adj. Book Value (Rs)	145	166	198	229	264
Price-BV (x)	4.1	3.9	3.2	2.8	2.4
Price-Adj. BV (x)	4.7	4.1	3.4	3.0	2.6
EPS (Rs)	5	12	24	28	38
EPS Growth (%)	(50.5)	134.8	95.9	18.7	33.0
Price-Earnings (x)	129.7	55.2	28.2	23.7	17.9
Dividend (Rs)	1	2	2	4	6
Dividend Yield (%)	0.2	0.4	0.4	0.9	1.2

Source: Company, Systematix Institutional Research

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