ICICI Bank

Q1FY22 Result Update | BFSI

Operating Performance Steady

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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ICICI Bank has reported its Q1 FY22 performance which beat our estimates on the profitability front. The bank's profitability was supported by lower provisions, improvement in margin and stable loan growth. Bank continues to maintain a solid liability franchise with strong growth in CASA deposits on YoY basis, which helps the bank to keep its cost of deposits one of the lowest in the system. Core operating performance remains robust (+23% YoY), with other income, excluding treasury income, increased by 56% YoY.

- **NII came in at Rs 109.36 Bn**, 4.8% QoQ / 17.8% YoY and 2% above our est.
- **PPOP came in at Rs 88.94 Bn**, 4.2% QoQ / -17.5% YoY and 0.5% above our est.
- **Provisions came in at Rs 28.52 Bn**, -1.1% QoQ / -62.4% YoY and 2% below our est.
- **PBT came in at Rs 60.43 Bn**, 6.8% QoQ / 90% YoY and 2% above our est.
- **PAT came in at Rs 46.16 Bn**, 4.8% QoQ / 77.6% YoY and 4% above our est.
- **EPS stood at Rs 6.7** vs INR 6.4 / INR 4.0 in Q4FY21 / Q1FY21 respectively

Financial Highlights

- Bank's advances stood at Rs 7385.98 Bn (17% YoY/0.7% QoQ), mainly led by retail segment (20% YoY/weightage 61.4%), Business banking segment (53% YoY/ weightage 5.4%) and SME segment (43% YoY/ weightage 4%). While corporate segment showed good recovery (11% YoY/ weightage 23.8%), overseas book de-grew by 15% YoY (weightage 5.4%).
- On the liability side, deposit book stood at Rs 9262 Bn, which grew by 15.5% YoY (-0.7% QoQ) in Q1FY22 led by CASA growth of 24.8% YoY taking CASA ratio at 45.9% (Vs 42.5% YoY).
- Bank's margin continues to surprise (NIM at 3.89%/26 quarter high) led by reducing deposit cost and better yields. Bank's cost of deposits at 3.65% (vs 3.80% QoQ) continues to be among the lowest in the system, while yield on interest-earning assets stood at 7.25% (vs 7.31% QoQ).

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	333	390	453	530
Adjusted net profit	79	162	204	253
Net worth	1165	1475	1638	1838
EPS (Rs)	12	23	29	37
Growth (%)	135	91	26	24
P/E (x)	55	29	23	18
P/Adj BV (x)	4.1	3.4	3.1	2.7
RoA (%)	0.8	1.4	1.6	1.7
RoE (%)	7	12	13	15

Source: Dalal & Broacha Research, Company

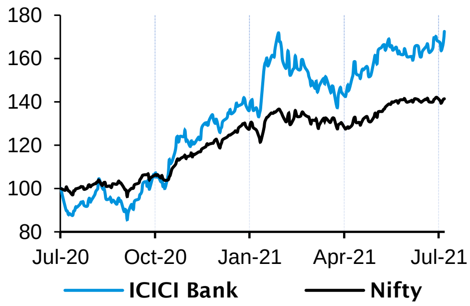
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	760	12

Market data

Current price	**Rs**	**677**
Market Cap (Rs.Bn)	(Rs Bn)	4686
Market Cap (US$ Mn)	(US$ Mn)	62989
Face Value	Rs	2
52 Weeks High/Low	Rs	679/334
Average Daily Volume	('000)	13411
BSE Code		532174
Bloomberg		ICICIBC:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	0.00	0.00
FII	48.01	47.80
DII	38.82	42.14
Others	10.02	10.06
Total	**100**	**100**

Source: BSE

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- Bank's Domestic corporate portfolio was driven by disbursements to higher rated corporates and PSUs, while retail growth was largely dominated by secured lending products like housing, auto loan, etc.
- Bank's domestic book grew ~3x of industry growth rate, showcasing significant strength in its ability to generate higher business. Retail disbursements moderated in April and May though picked up in June and July. Even Credit card spends declined in April and May but improved to March levels in June, driven by spends in categories like consumer durables, utilities, education etc.
- Operational efficiency remained strong, with cost to income ratio stood at 40.4% (-84 bps QoQ), backed by higher net income (NII + other income) growth of 2.7% QoQ vs opex growth of 0.6% QoQ in Q4FY21. The non-employee expenses declined by 8.3% sequentially due to lower business volumes during the quarter, partly offset by, technology related expenses.
- Bank's asset quality marginally worsened during the quarter, with GNPA at 5.15% (up by 19 bps QoQ) and NNPA at 1.16% (up by 2 bps QoQ). Out of total gross NPA additions of Rs 72.31 Bn, Rs 67.73 Bn (vs Rs 43.55 Bn QoQ) came from the retail & business banking portfolio. while slippages worth Rs 9.61 Bn came from kisan credit card portfolio (KCC), which is typically seen in the first and third quarter of the fiscal year, slippages worth Rs 11.30 Bn came from jewel loan portfolio, which is a fully secured product and the LGD in this portfolio is negligible, according to the bank.
- Bank saw improvement in bounce rates in June and July. Bank expects further improvement in collections and decline in overdues in the coming quarters. Also expects lower gross NPA additions in Q2 FY22 and decline more meaningfully in H2FY22. Bank maintained a strong PCR ratio of 78% and total COVID contingent provision of Rs64.25 bn or 90bps of loans which should take care of any stress from second wave.
- Bank's capital adequacy ratio stood at 18.71% (vs 19.12% QoQ), of which Tier I capital was 17.68% (vs 18.06% QoQ) and Tier II capital was 1.03% (vs 1.06% QoQ).

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Valuation and outlook

ICICI Bank is navigating well through a challenging macro environment, with a strong focus on target market segments and risk-adjusted returns. We believe that Bank will remain a long-term beneficiary of the consolidation theme playing out in the domestic financial market thanks to its superior liability franchise. We take comfort from its tier-1 capital (17.7%) and Covid-19 related provisions (Rs 64.25 Bn), which provide an additional buffer to cushion any adverse effect of sudden spikes in slippages. At CMP, stock trades at 3.1x its FY22E ABV and 2.7x its FY23E ABV. We assign a 'ACCUMULATE' rating on ICICI with a price target of Rs 760, valuing the stock at 2.5x FY23E standalone P/ABV and ascribing a value of Rs 136 for subsidiaries.

Highlights of the Conference Call

Asset quality under control; better provisioning provides comfort

- With the absence of regulatory dispensations such as moratorium, there was an increase in overdues and gross NPA additions in Q1 FY22 for the banking system, including ICICI Bank.
- Out of total gross NPA additions of Rs 72.31 Bn, Rs 67.73 Bn (vs Rs 43.55 Bn QoQ) came from the retail & business banking portfolio, while Rs 9.61 Bn came from kisan credit card portfolio (KCC) and Rs 11.30 Bn came from jewel loan portfolio.
- Jewel loan is a fully secured product and the loss given default in this portfolio is negligible. Bank typically see gross NPA additions from KCC in the first and third quarter of the fiscal year.
- Bank has further strengthened its provisioning policies on NPAs. Due to this conservative approach, Bank had to made Rs 11.27 Bn additional provision during Q1FY22.
- Collections and recoveries were adversely impacted during April & May which led to an increase in slippages. However, the bounce rates have improved in June and July. Bank expects further improvement in collections and decline in overdues in the coming quarters.
- Bank also expects lower gross NPA additions in Q2 FY22 and decline more meaningfully in H2FY22.
- The percentage of overdues in the performing portfolio across retail EMI products and credit cards, SME and business banking portfolio at June-end was similar to or lower than Dec 2020 levels. Less than 1% of the performing domestic corporate portfolio was overdue at June-end.
- Segment wise slippages trends (vs. FY21): Mortgage flat, Personal loans / credit cards lower and vehicle finance higher (led by commercial vehicles)
- No alarming situation in SME portfolio even as there is some rise in overdue

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Slippages worth Rs 11.30 Bn came from jewel loan portfolio, which is a fully secured product and the LGD in this portfolio is negligible, according to the bank

Bounce rates have improved in June and July. Bank expects further improvement in collections and decline in overdues in the coming quarters.

BB & below portfolio

- Other than three accounts, one each in construction, power and telecom sectors, the maximum single borrower outstanding in the BB & below portfolio was less than Rs 6 Bn.
- Bank held provisions of Rs 9.76 Bn on the portfolio vs Rs 3.32 Bn at March 31, 2021.
- The increase in the portfolio during the quarter primarily reflects a few accounts which were upgraded post the implementation of a resolution plan as per RBI's framework.

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NIM

- The impact of interest on income tax refund and interest collections from NPAs was about 2 bps in Q1FY22 vs 4 bps QoQ.
- While domestic margins stood at 3.99% (vs 3.94% QoQ), International margins stood at 0.27%.
- Cost of deposits at 3.65% (vs to 3.80% QoQ) continues to be among the lowest in the system.
- There was some opportunity to deploy additional liquidity in asset swap which aided other interest income.

While domestic margins stood at 3.99% (vs 3.94% QoQ), International margins stood at 0.27%.

Business Activates; Recovery in June

- Retail disbursements moderated in April and May due to the containment measures in place across various parts of the country. With the gradual easing of restrictions, disbursements picked up in June and July.
- Credit card spends declined in April and May but improved to March levels in June, driven by spends in categories like consumer durables, utilities, education and insurance.
- Credit summations in the overdraft accounts of business banking and SME customers also picked up in June and July after declining in April and May.
- The growth in the domestic corporate portfolio was driven by disbursements to higher rated corporates and PSUs across various sectors.
- No impact of master card as the share is minimal from MasterCard, maximum comes from VISA

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Digital initiatives

- 2.5 Mn activations by non-ICICI Bank account holders since its launch six months ago.
- ~ 34% of its total mortgage sanctions by volume were end-to-end digital in Q1FY22 vs ~19% FY2021.
- ~ 46% of personal loan disbursements by volume were end-to-end digital in Q1FY22 vs ~42% in FY2021.
- ~ 95,000 customers were onboarded using video KYC in June 2021.
- Bank recently launched a digital platform called Merchant Stack, which offers an array of banking services to retailers and online businesses such as instant overdraft facilities based on point-of-sale transactions, among others.
- Bank will continue to invest in technology to enhance its scalability, flexibility and resilience of its technology architecture

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Financials

Financials (Rs Bn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Interest Earned	191.9	199.2	196.2	197.3	198.4	203.8	2.3%	2.7%
Interest Expended	102.6	106.4	102.6	98.2	94.1	94.5	-11.2%	0.4%
NII	**89.3**	**92.8**	**93.7**	**99.1**	**104.3**	**109.4**	**17.8%**	**4.8%**
Other Income	42.5	61.4	40.3	46.9	41.1	40.0	-34.9%	-2.8%
Net Income	**131.8**	**154.2**	**133.9**	**146.0**	**145.4**	**149.3**	**-3.2%**	**2.7%**
Opex	57.9	46.5	51.3	57.8	60.0	60.4	29.9%	0.6%
PPOP	**73.9**	**107.8**	**82.6**	**88.2**	**85.4**	**88.9**	**-17.5%**	**4.2%**
Provisions	59.7	75.9	30.0	27.4	28.8	28.5	-62.4%	-1.1%
PBT	**14.2**	**31.8**	**52.7**	**60.8**	**56.6**	**60.4**	**89.9%**	**6.8%**
Tax	2.0	5.8	10.1	11.4	12.5	14.3	144.6%	13.8%
PAT	**12.2**	**26.0**	**42.5**	**49.4**	**44.0**	**46.2**	**77.6%**	**4.8%**
Balance Sheet								
Net-worth	1165	1186	1377	1428	1475	1524	28.5%	3.3%
Deposits	7710	8016	8329	8743	9325	9262	15.5%	-0.7%
Advances	6453	6312	6526	6990	7337	7386	17.0%	0.7%
Growth (%)								
Deposits	18.1	21.3	19.6	22.1	21.0	15.5	287 bps	-110 bps
Advances	10.0	6.5	6.4	10.0	13.7	17.0	371 bps	374 bps
Ratios (%)								
GNPA	5.5	5.5	5.2	4.4	5.0	5.2	-31 bps	19 bps
NNPA	1.4	1.2	1.0	0.6	1.1	1.2	-7 bps	2 bps
PCR	75.7	78.5	81.6	86.0	77.7	78.3	-19 bps	62 bps
CET1	13.4	13.3	15.7	15.3	16.8	16.4	316 bps	-35 bps
CAR	16.1	16.0	18.5	18.0	19.1	18.7	269 bps	-41 bps
Cost/Income	43.9	30.1	38.3	39.6	41.3	40.4	1031 bps	-84 bps
CD Ratio	83.7	78.7	78.4	79.9	78.7	79.7	100 bps	106 bps
Loan Mix (%)								
Domestic book	91.6	92.5	93.5	93.8	94.9	94.6	202 bps	-31 bps
Retail	63.2	64.1	65.8	65.6	66.7	67.0	291 bps	33 bps
SME	3.5	3.3	3.6	3.9	4.1	4.0	73 bps	-10 bps
Corporate	24.9	25.2	24.1	24.3	24.1	23.5	-161 bps	-54 bps
Overseas book	8.4	7.5	6.5	6.2	5.1	5.4	-202 bps	31 bps

Source: Dalal & Broacha Research, Company

Financial

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	748	791	879	1047
Interest expense	415	401	425	517
NII	**333**	**390**	**453**	**530**
Non-interest income	164	190	208	240
Net revenues	**497**	**580**	**661**	**770**
Operating expenses	216	216	241	274
PPOP	**281**	**364**	**420**	**496**
Provisions	141	162	148	157
PBT	**140**	**202**	**272**	**339**
Tax	61	40	69	85
PAT	**79**	**162**	**204**	**253**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	13	14	14	14
Reserves & surplus	1152	1461	1624	1824
Net worth	**1165**	**1475**	**1638**	**1838**
Deposits	7710	9325	10744	12526
Borrowings	1629	916	960	1020
Other liability	480	588	558	569
Total liabilities	**10984**	**12304**	**13900**	**15953**
Fixed assets	84	89	90	94
Investments	2495	2813	3267	3793
Loans	6453	7337	8517	9992
Cash	1192	1331	1216	1247
Other assets	760	734	811	827
Total assets	**10984**	**12304**	**13900**	**15953**

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	23.1	17.2	16.2	16.9
PPOP	19.9	29.5	15.5	18.0
PAT	136	104	26	24
Advances	10.0	13.7	16.1	17.3
Deposits	18.1	21.0	15.2	16.6
Spread (%)				
Yield on Funds	7.9	7.3	7.2	7.5
Cost of Funds	4.7	4.1	3.9	4.1
Spread	3.2	3.2	3.3	3.4
NIM	3.5	3.6	3.7	3.8
Asset quality (%)				
Gross NPAs	6.1	5.4	4.6	3.8
Net NPAs	1.6	1.3	1.2	1.1
Provisions	76	78	74	72
Return ratios (%)				
RoE	7.1	12.3	13.1	14.6
RoA	0.8	1.4	1.6	1.7
Per share (Rs)				
EPS	12	23	29	37
BV	180	213	237	266
ABV	164	200	222	250
Valuation (x)				
P/E	55.2	28.9	23.0	18.5
P/BV	3.8	3.2	2.9	2.5
P/ABV	4.1	3.4	3.1	2.7

Source: Dalal & Broacha Research, Company

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