

Q2FY22 Result Update | BFSI

Strong Quarter; Well positioned for future credit cycles

October 24, 2021

ICICI Bank has reported its Q2 FY22 performance which beat our estimates on almost all front. The bank's profitability was supported by lower provisions, better margin and stable loan growth. Bank has continued to maintain 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.

- **NII came in at Rs 116.90 Bn**, 6.9% QoQ / 24.8% YoY and 5% above our est.
- **Other Income came in at Rs 47.97 Bn**, 20.1% QoQ / 19.1% YoY and 8% above our est.
- **PPOP came in at Rs 99.15 Bn**, 11.5% QoQ / 20% YoY and 5% above our est.
- **Provisions came in at Rs 27.13 Bn**, -4.8% QoQ / -9.4% YoY and 2% below our est.
- **PAT came in at Rs 55.11 Bn**, 19.4% QoQ / 29.6% YoY and 10% above our est.
- **EPS stood at Rs 7.95 vs INR 6.67 / INR 6.35** in Q1FY22 / Q2FY21 respectively

Financial Highlights

- Bank's asset quality improved during the quarter, with GNPA at 4.82% (down by 33 bps QoQ) and NNPA at 0.99% (down by 17 bps QoQ). Slippages stood at Rs 55.78 Bn in Q2 FY22 (Rs 72.31 Bn QoQ). In order to protect its balance sheet form any sudden surprises, Bank maintained a strong PCR ratio of 80.3% and total COVID contingent provision of Rs 64.25 Bn (~0.8% of loans) as of Sep 30, 2021.
- Bank's advances stood at Rs 7649 Bn (17.2% YoY/3.6% QoQ), mainly led by retail segment (20% YoY/weightage 62.1%), Business banking segment (43.1% YoY/ weightage 5.8%) and SME segment (42% YoY/ weightage 4.3%). While corporate segment showed good recovery (11.5% YoY/ weightage 22.8%), overseas book de-grew by 8.6% YoY (weightage 5%).
- In the corporate segment, Bank is targeting calibrated growth by focusing on better rated corporates, with an eye on core operating profits. On the other hand, retail portfolio has been built based on proprietary data and analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products and pricing in relation to the risk.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	333	390	458	545
Adjusted net profit	79	162	220	278
Net worth	1165	1475	1651	1871
EPS (Rs)	12	23	32	40
Adj BVPS (Rs)	164	200	224	254
P/E (x)	62	32	24	19
P/Adj BV (x)	4.6	3.8	3.4	3.0
RoA (%)	0.8	1.4	1.7	1.9
RoE (%)	7	12	14	16

Source: Dalal & Broacha Research, Company

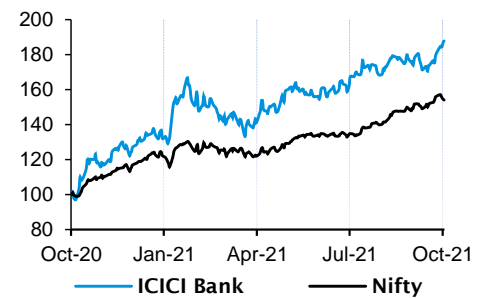
Rating	TP (Rs)	Up/Dn (%)
BUY	925	22

Market data

Current price	Rs	759
Market Cap (Rs.Bn)	(Rs Bn)	5265
Market Cap (US\$ Mn)	(US\$ Mn)	70293
Face Value	Rs	2
52 Weeks High/Low	Rs	766/388
Average Daily Volume	('000)	10993
BSE Code		532174
Bloomberg		ICICIB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
FII	48.0	47.3
DII	42.0	42.7
Others	10.0	10.0
Total	100	100

Source: BSE

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- Deposits stood at Rs 9774 Bn (17.3% YoY/5.5% QoQ). Bank reported 28% YoY growth in average CASA deposits in Q2-2022; taking average CASA ratio to 44% in Q2FY22 (vs 43.7% QoQ).
- Bank's margin continues to surprise (NIM at 4% vs 3.89 QoQ). The sequential increase in NIM was primarily due to decline in cost of funds and lower interest reversals on NPAs. Bank's cost of deposits at 3.53% (vs 3.65% QoQ) continues to be among the lowest in the system, while yield on interest-earning assets stood at 7.26% (vs 7.25% QoQ). Non-interest income, excluding treasury income, increased by 26% YoY to Rs 44 Bn in Q2 FY22.
- Restructured loans (under all dispensations, ex-NPA) stood at Rs96.8bn (1.3% of loans) vs Rs 48.64 Bn QoQ. ~ 72% of overall restructuring pool is from retail and business banking segment of which 95% is secured and bank holds provisions amounting to Rs 19.50 Bn against this pool. The loan and non-fund based outstanding to performing borrowers rated BB & below reduced to Rs 127.14 Bn in Q22FY22 vs Rs 139.75 Bn QoQ.
- Operational efficiency remained strong, with cost to income ratio stood at 39.9% (-57 bps QoQ), backed by higher net income (NII + other income) growth of 10.4% QoQ vs opex growth of 8.9% QoQ in Q2FY22. The non-employee expenses increased by 14.3% sequentially due to higher growth in retail business and technology related expenses. According to management, Bank will continue to invest in technology, people, distribution and building its brand.
- Bank's capital adequacy ratio stood at 18.07% (vs 18.43% QoQ), of which Tier I capital was 17.07% (vs 17.40% QoQ) and Tier II capital was 1.00% (vs 1.03% QoQ).

Bank's margin continues to surprise (NIM at 4%) led by reducing deposit cost and better yields

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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 (17.1%) 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 3.4x its FY22E ABV and 3x its FY23E ABV. We assign a 'BUY' rating on ICICI with a price target of Rs 925, valuing the stock at 9.1x FY23E standalone P/ABV and ascribing a value of Rs 136 for subsidiaries.

Highlights of the Conference Call

Focused pursuit of target market segments

- In the corporate segment, the bank is targeting calibrated growth by focusing on better rated corporates, with an eye on core operating profits. Bank will provide the full suite of banking products to corporate clients and their ecosystems.
- Retail portfolio has been built based on proprietary data and analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell and pricing in relation to the risk.
- In the business banking and SME business, focus is on parameterised and programme based lending, granularity, collateral and robust monitoring.
- Bank aims to create holistic value propositions for its customers through its 360-degree customer-centric approach and focus on opportunities across client and segment ecosystems.

Bank is targeting calibrated growth by focusing on better rated corporates, with an eye on core operating profits.

Retail portfolio has been built based on proprietary data & analytics in addition to bureau checks, utilising the existing customer database for sourcing in key retail asset products in relation to the risk

Business activities

- With the increase in economic activity, disbursements across all retail products increased sequentially in this quarter.
- Mortgage disbursements were close to the level seen in Q4 FY21, reflecting the increase in demand coupled with seamless customer onboarding experience through pre-approved offers and digitisation
- Credit cards in force increased by 6.0% QoQ and value of credit card spends grew by 47% QoQ.
- Spends across most categories other than travel crossed March 2021 levels in Sep 2021.
- Bank is observing a steady uptick in the number of credit enquiries and with digital offerings and platforms like InstaBIZ and Merchant Stack, Bank believe that there is significant potential for growth across these portfolios.

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Sudden jump in operating expenses

- Employee expenses increased primarily due to employee addition and fair valuation of ESOPs granted to all employees post April 1, 2021 for the current and previous quarter as required by RBI guidelines.
- Non-employee expenses increased mainly due to higher growth in retail business and technology related expenses. According to management, Bank will continue to invest in technology, people, distribution and building its brand.

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Leveraging digital across business

- The proportion of end-to-end digital sanctions and disbursements across various products has been increasing steadily, with ~ 32% of its mortgage sanctions and 40% of its personal loan disbursements, by volume, were end-to-end digital in H1 FY22.
- ~ 95% of the overdraft facilities set up for business banking were end-to-end digital in H1 FY22. ~40% of asset and liability accounts opened during the quarter were through digital channels.

Bank's ~32% of mortgage sanctions and 40% of PL disbursements, by volume, were end-to-end digital in H1 FY22.

- The value of mobile banking transactions climbed 62% YoY to Rs 4065.01 Bn for Q2YF22.
- The bank is the market leader in electronic toll collections through FASTag, with a 63% YoY growth in collections.

Credit quality

- Out of total gross NPA additions of Rs 55.78 Bn, retail & business banking portfolio constitute Rs 46.24 Bn and corporate & SME constitute Rs 9.54 Bn.
- The gross NPA additions from the corporate and SME portfolio were almost entirely from borrowers rated BB & below as of June 30, 2021, and devolvement of non-fund based outstanding to NPAs.
- Bank sold gross NPAs amounting to Rs 0.90 Bn in Q2FY22 on a cash basis.
- At Sep 30, 2021, total provisions, other than specific provisions on NPAs, stood at Rs 149.51 Bn (2.0% of loans). Given the performance of the portfolio, the bank's management is confident that these provisions will completely cushion the balance sheet from the potential credit losses which may arise due to the pandemic.

Other highlights

- The liquidity coverage ratio for the quarter was 133%, reflecting continued surplus liquidity
- Bank's cost of deposits continues to be among the lowest in the system.

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Financials

Financials (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Interest Earned	196.2	197.3	198.4	203.8	212.3	8.2%	4.2%
Interest Expended	102.6	98.2	94.1	94.5	95.4	-6.9%	1.0%
NII	93.7	99.1	104.3	109.4	116.9	24.8%	6.9%
Other Income	40.3	46.9	41.1	40.0	48.0	19.1%	20.1%
Net Income	133.9	146.0	145.4	149.3	164.9	23.1%	10.4%
Opex	51.3	57.8	60.0	60.4	65.7	28.0%	8.9%
PPOP	82.6	88.2	85.4	88.9	99.1	20.0%	11.5%
Provisions	30.0	27.4	28.8	28.5	27.1	-9.4%	-4.8%
PBT	52.7	60.8	56.6	60.4	72.0	36.8%	19.2%
Tax	10.1	11.4	12.5	14.3	16.9	66.6%	18.5%
PAT	42.5	49.4	44.0	46.2	55.1	29.6%	19.4%
Balance Sheet							
Net-worth	1377	1428	1475	1524	1568	13.9%	2.9%
Deposits	8329	8743	9325	9262	9774	17.3%	5.5%
Advances	6526	6990	7337	7386	7649	17.2%	3.6%
Growth (%)							
Deposits	19.6	22.1	21.0	15.5	17.3	-228 bps	181 bps
Advances	6.4	10.0	13.7	17.0	17.2	1081 bps	20 bps
Ratios (%)							
GNPA	5.2	4.4	5.0	5.2	4.8	-35 bps	-33 bps
NNPA	1.0	0.6	1.1	1.2	1.0	-1 bps	-17 bps
PCR	81.6	86.0	77.7	78.3	80.2	-136 bps	187 bps
CET1	15.7	15.3	16.8	16.4	16.1	48 bps	-30 bps
CAR	18.5	18.0	19.1	18.7	18.3	-13 bps	-37 bps
Cost/Income	38.3	39.6	41.3	40.4	39.9	154 bps	-57 bps
CD Ratio	78.4	79.9	78.7	79.7	78.3	-9 bps	-148 bps
Loan Mix (%)							
Domestic book	93.5	93.8	94.9	94.6	94.9	143 bps	37 bps
Retail	65.8	65.6	66.7	67.0	68.3	249 bps	132 bps
SME	3.6	3.9	4.1	4.0	4.3	76 bps	30 bps
Corporate	24.1	24.3	24.1	23.5	22.3	-182 bps	-125 bps
Overseas book	6.5	6.2	5.1	5.4	5.1	-143 bps	-37 bps

Source: Dalal & Broacha Research, Company

Financial

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	748	791	881	1052	Growth (%)				
Interest expense	415	401	422	507	NII	23.1	17.2	17.6	18.9
NII	333	390	458	545	PPOP	19.9	29.5	16.5	19.9
Non-interest income	164	190	208	240	PAT	136	104	36	26
Net revenues	497	580	666	785	Advances	10.0	13.7	16.7	17.8
Operating expenses	216	216	243	277	Deposits	18.1	21.0	15.2	16.6
PPOP	281	364	424	508	Spread (%)				
Provisions	141	162	130	136	Yield on Funds	7.9	7.3	7.2	7.5
PBT	140	202	294	372	Cost of Funds	4.7	4.1	3.8	4.0
Tax	61	40	74	94	Spread	3.2	3.2	3.3	3.5
PAT	79	162	220	278	NIM	3.5	3.6	3.7	3.9
Balance sheet					Asset quality (%)				
	FY20	FY21	FY22	FY23	Gross NPAs	6.1	5.4	4.6	3.8
Share capital	13	14	14	14	Net NPAs	1.6	1.3	1.2	1.1
Reserves & surplus	1152	1461	1637	1857	Provisions	76	78	74	72
Net worth	1165	1475	1651	1871	Return ratios (%)				
Deposits	7710	9325	10744	12526	RoE	7.1	12.3	14.1	15.8
Borrowings	1629	916	960	1020	RoA	0.8	1.4	1.7	1.9
Other liability	480	588	562	573	Per share (Rs)				
Total liabilities	10984	12304	13917	15990	EPS	12	23	32	40
Fixed assets	84	89	90	94	BV	180	213	239	271
Investments	2495	2813	3267	3793	ABV	164	200	224	254
Loans	6453	7337	8566	10093	Valuation (x)				
Cash	1192	1331	1179	1178	P/E	62.0	32.4	23.8	18.9
Other assets	760	734	815	831	P/BV	4.2	3.6	3.2	2.8
Total assets	10984	12304	13917	15990	P/ABV	4.6	3.8	3.4	3.0

Source: Dalal & Broacha Research, Company

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