

Strong Quarter; Prudential provisioning provides comfort

ICICI Bank has reported its Q3FY21 performance which beat our estimates on almost all front. The bank's profitability was supported by lower provisions, better margin and stronger recovery in loan growth.

- **NII came in at Rs 99 Bn**, 6% QoQ / 16% YoY and 2% above our est.
- **Net Income came in at Rs 146 Bn**, 9% QoQ / 11% YoY and 1% above our est.
- **PPOP came in at Rs 88 Bn**, 7% QoQ / 17% YoY and 1% below our est.
- **Provisions came in at Rs 27 Bn**, -8% QoQ / 32% YoY and 10% below our est.
- **PBT came in at Rs 61 Bn**, 15% QoQ / 11% YoY and 4% above our est.
- **PAT came in at Rs 49 Bn**, 16% QoQ / 19% YoY and 13% above our est.
- **EPS stood at Rs 7.2 vs INR 6.3/ INR 6.4** in Q2FY21/Q3FY20 respectively

Financial Highlights

- Advances stood at Rs 6990 Bn (10% YoY/7% QoQ), mainly led by retail segment (15% YoY/weightage 66%) and SME segment (25% YoY/weightage 4%). While corporate segment showed good recovery (7% YoY/weightage 24%), overseas book de-grew by 24% YoY (weightage 6%).
- Within retail loans, the bank continued to focus on secured products. Bank's secured retail portfolio grew by 16% YoY/7% QoQ, while unsecured retail portfolio up by 9% YoY/6% QoQ. The continued pickup in economic activity and tailwinds from the festive season combined with the bank's digital initiatives supported the strong recovery in disbursements across retail products during Q3FY21.
- Bank continues to be one of the best-performing banks on the deposits front, and has continued to log strong deposit growth (22/5%), supported by CASA growth of 18% YoY/8% QoQ taking CASA ratio at 45.2% (Vs 47% YoY/43.8% QoQ). Bank's cost of deposits is lowest in the system, which allows the bank to offer competitive pricing to targeted customer segments.
- Including profits for 9M-2021, Bank's CAR stood at 19.5 % (vs 19.3% QoQ), of which CET I capital was 16.8% (vs 16.5% QoQ).

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	333	381	430	500
Adjusted net profit	79	140	171	216
Net worth	1165	1445	1582	1753
EPS (Rs)	12	20	25	31
Growth (%)	135	65	22	27
P/E (x)	44	27	22	17
P/Adj BV (x)	3.3	2.8	2.5	2.3
RoA (%)	0.8	1.2	1.3	1.5
RoE (%)	7	11	11	13

Source: Dalal & Broacha Research, Company

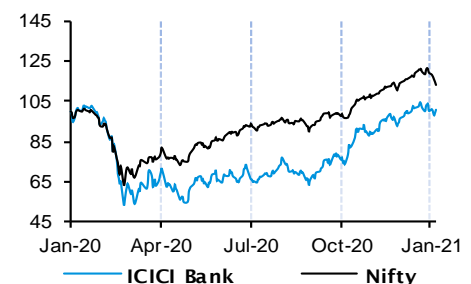
Rating	TP (Rs)	Up/Dn (%)
BUY	629	17

Market data

Current price	Rs	537
Market Cap (Rs.Bn)	(Rs Bn)	3708
Market Cap (US\$ Mn)	(US\$ Mn)	7,365
Face Value	Rs	2
52 Weeks High/Low	Rs	561/269
Average Daily Volume	('000)	31118
BSE Code		532174
Bloomberg		ICICIBC:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
FII	47.45	45.68
DII	42.89	44.12
Others	9.66	10.20
Total	100	100

Source: BSE

Avinash Tanawade
(022) 67141449
avinash.tanawade@dalal-broacha.com

- Bank's GNPA's sequentially down by 79 bps at 4.38% and NNPA's down by 37 bps to 0.63% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 5.42% (only 6bps increase QoQ) and NNPA would have been 1.26% (vs 1.12% QoQ). Proforma Slippages were at Rs. 82.80 Bn, out of which 90% came from the retail book. PCR on a proforma basis stood at 77.6% in Q3FY21.
- Bank's BB & Below book increased to Rs. 180.6 Bn (2.6% of advances) vs Rs. 161.7 Bn (2.5% of AUM) QoQ & Rs. 174 Bn (2.7%) YoY. This was due to downgrade from the standard book from the construction sector. Also, the BB & Below book includes most of the Restructuring accounts. Management expects credit costs to normalize in FY22.
- Operational efficiency remained strong, with cost to income ratio stood at 39.4% (-288 bps YoY), backed by higher net income (NII + other income) growth of 11% YoY vs opex growth of 4% YoY in Q3FY21.

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Valuation and outlook

ICICI Bank is navigating well through a challenging macro environment, with a strong focus on processes 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 (18.1%) and Covid-19 related provisions (Rs 99.84 Bn), which provide an additional buffer to cushion any adverse effect of sudden spikes in slippages. At CMP, stock trades at 2.5x its FY22E ABV and 2.3x its FY23E ABV. We maintain a 'Buy' rating on ICICI with a price target of Rs 629, valuing the stock at 2.2x FY22E standalone P/ABV and ascribing a value of Rs 103 for subsidiaries.

Highlights of the Conference Call

Asset quality under control; better provisioning provides comfort

- Asset quality indicators are seeing an improvement. Management expects the normalization of credit costs from FY22 based on current expectations of economic activity and portfolio trends.
- During Q3, Bank has changed its provisioning policy on NPAs to make it more conservative. Because of which, the bank had to make higher provision of Rs 20.96 Bn for aligning provisions on the outstanding loans to the revised policy.
- Bank held aggregate Covid-19 related provision of Rs 99.84 Bn, including contingency provision for proforma NPAs amounting to Rs 35.09 Bn for loans not classified as NPA to the SCt's order. Management is confident that these provisions will completely cushion the balance sheet from the potential credit losses which may arise due to the pandemic.
- Loans worth Rs 25.46 Bn (0.4% of advances) were under resolution, which included retail loans worth Rs 8.37 Bn. Bank made 15% (vs requirement of 10%) provisions against restructured accounts.
- Other than four accounts, two in construction and one each in the telecom and power sectors, maximum single borrower outstanding in BB & below book was ~ Rs 6 Bn as on Q3 FY21.

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Less than 90-day over dues above the normal pre-Covid level, but substantially lower than Sep 2020 level

- In Retail EMI products & credit card portfolio, overdue was ~ 1.5% higher than normal pre-Covid level during Q3FY21, which was substantially lower than ~4% in Sep 2020.
- The percentage of the performing rural portfolio which was overdue in Dec 2020 was about 1.5% higher than the normal pre-Covid trend compared to about 1% higher in Sep 2020.
- The percentage of the SME & BB portfolio overdue was similar to the pre-Covid levels in Sep 2020 and remains so in Dec 2020.
- In the domestic and overseas corporate loan portfolio, less than 2% of the portfolio was overdue in Dec 2020 vs less than 3% in Sep 2020.

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Business Activates; Stronger Recovery in Credit

- The bank is seeing some revival in corporate loan demand, even though retail credit demand has led most of the growth during Q3FY20.
- Mortgage disbursements increased further in Q3FY21 over Q2FY21 and reached an all-time monthly high in Dec 2020.
- Disbursements of auto loans continued to increase from the Sep 2020 levels and crossed pre-Covid levels in Dec 2020.
- Credit card spends also reached pre-Covid levels in Dec 2020 led by increased spends in categories such as health & wellness, electronics and e-commerce.
- Growth in the performing domestic corporate portfolio was driven by disbursements to higher rated corporates to meet their working capital and capital expenditure requirements.

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- Progressively exiting exposures that are not linked to India, in a planned manner. The overseas non-India linked corporate portfolio reduced by 24% YoY to Rs 431 Bn at Dec 31, 2020.

Further enhancement strong deposit franchise

- During the quarter, average current account deposits increased by 26.5% YoY and average savings account deposits by 15.9% YoY. LCR stood at 146%, reflecting significant surplus liquidity
- Cost of deposits stood at 3.97% and continues to be among the lowest in the system.

Digital initiatives

- Bank launched 'ICICI Bank Mine', India's first comprehensive banking programme for millennial customers. It offers an instant savings account, a feature driven iMobile application, investment guidance to suit the needs of millennials, curated credit and debit card, and instant personal loans & overdrafts.
- Bank introduced a facility called 'ICICI Bank Card-less EMI' which enables pre-approved customers to buy their favorite gadgets or home appliances using their mobile phone and PAN No instead of physical wallet or cards.
- Bank launched an online platform called 'Infinite India' for foreign companies looking to establish or expand business in the country.

ECLGS (Till Jan 27)

- The disbursement under ECLGS 1.0 was Rs 120 Bn.
- The disbursement under ECLGS 2.0 was Rs 6 Bn.

Other important highlights

- NIM stood at 3.67% vs 3.57% QoQ and 3.77% YoY. The impact of interest on income tax refund and interest collections from NPAs was about 11 bps in Q3FY20 vs 3 bps QoQ and ~ 10 bps YoY.
- The business related expenses is likely to increase in future quarters as business volumes increase further from the current levels. The bank is also looking to add some employees in Q4 FY21.

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Financials

Financials (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Interest Earned	190.6	191.9	199.2	196.2	197.3	3.5%	0.5%
Interest Expended	105.2	102.6	106.4	102.6	98.2	-6.7%	-4.3%
NII	85.5	89.3	92.8	93.7	99.1	16.0%	5.8%
Other Income	45.7	42.5	61.4	40.3	46.9	2.5%	16.3%
Net Income	131.2	131.8	154.2	133.9	146.0	11.3%	9.0%
Opex	55.7	57.9	46.5	51.3	57.8	3.7%	12.6%
PPOP	75.5	73.9	107.8	82.6	88.2	16.8%	6.8%
Provisions	20.8	59.7	75.9	30.0	27.4	31.6%	-8.5%
PBT	54.7	14.2	31.8	52.7	60.8	11.2%	15.4%
Tax	13.2	2.0	5.8	10.1	11.4	-13.7%	12.2%
PAT	41.5	12.2	26.0	42.5	49.4	19.1%	16.2%
Balance Sheet							
Net-worth	1150	1165	1186	1377	1428	24.1%	3.7%
Deposits	7163	7710	8016	8329	8743	22.1%	5.0%
Advances	6357	6453	6312	6526	6990	10.0%	7.1%
Growth (%)							
Deposits	18.1	18.1	21.3	19.6	22.1	400 bps	243 bps
Advances	12.6	10.0	6.5	6.4	10.0	-267 bps	357 bps
Ratios (%)							
GNPA	6.0	5.5	5.5	5.2	4.4	-157 bps	-79 bps
NNPA	1.5	1.4	1.2	1.0	0.6	-86 bps	-37 bps
PCR	76.1	75.6	78.5	81.6	86.1	996 bps	449 bps
CET1	13.6	13.4	13.3	15.7	15.3	170 bps	-35 bps
CAR	16.5	16.1	16.0	18.5	18.0	155 bps	-42 bps
Cost/Income	42.5	43.9	30.1	38.3	39.6	-288 bps	126 bps
CD Ratio	88.7	83.7	78.7	78.4	79.9	-879 bps	160 bps
Loan Mix (%)							
Domestic book	91.1	91.6	92.5	93.5	93.8	274 bps	33 bps
Retail	62.6	63.2	64.1	65.8	65.6	307 bps	-19 bps
SME	3.4	3.5	3.3	3.6	3.9	46 bps	30 bps
Corporate	25.1	24.9	25.2	24.1	24.3	-79 bps	22 bps
Overseas book	8.9	8.4	7.5	6.5	6.2	-274 bps	-33 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	748.0	788.2	891.8	1057.8	Growth (%)				
Interest expense	415.3	407.6	462.1	558.2	NII	23	14	13	16
NII	332.7	380.6	429.7	499.6	PPOP	20	21	11	18
Non-interest income	164.5	187.1	200.7	234.3	PAT	136	76	22	27
Net revenues	497.2	567.7	630.4	733.9	Advances	10	12	16	17
Operating expenses	216.1	227.3	254.1	290.3	Deposits	18	16	15	17
PPOP	281.0	340.4	376.3	443.5	Spread (%)				
Provisions	140.5	163.1	148.0	154.3	Yield on Funds	7.9	7.4	7.4	7.7
PBT	140.5	177.4	228.3	289.2	Cost of Funds	4.7	4.2	4.2	4.5
Tax	61.2	37.6	57.5	72.9	Spread	3.2	3.2	3.2	3.2
PAT	79.3	139.8	170.8	216.4	NIM	3.5	3.6	3.6	3.6
Balance sheet					Asset quality (%)				
	FY20	FY21	FY22	FY23	Gross NPAs	6.0	6.1	4.7	3.8
Share capital	13	14	14	14	Net NPAs	1.5	1.7	1.2	1.1
Reserves & surplus	1152	1431	1568	1739	Provisions	76	74	76	73
Net worth	1165	1445	1582	1753	Return ratios (%)				
Deposits	7710	8953	10315	12028	RoE	7.1	10.7	11.3	13.0
Borrowings	1629	1274	1310	1391	RoA	0.8	1.2	1.3	1.5
Other liability	480	457	487	497	Per share (Rs)				
Total liabilities	10984	12129	13693	15668	EPS	12	20	25	31
Fixed assets	84	85	88	92	BV	180	210	229	254
Investments	2495	2887	3269	3797	ABV	165	192	215	239
Loans	6453	7214	8349	9758	Valuation (x)				
Cash	1192	1138	1155	1172	P/E	44.0	26.6	21.8	17.2
Other assets	760	804	832	849	P/BV	3.0	2.6	2.3	2.1
Total assets	10984	12129	13693	15668	P/ABV	3.3	2.8	2.5	2.3

Source: Dalal & Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com