ICICI Bank

Q4FY21 Result Update | BFSI

Strong Quarter; Prudential provisioning provides comfort

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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ICICI Bank's Q4FY21 performance was below our estimates on the profitability front mainly on account of higher provisions and lower treasury gains. However, the bank has reported a strong balance sheet growth and improved asset quality compared with proforma NPA of December quarter. Advances growth led by retail, with sustainable growth coming from mortgage Loans and Business Banking, while deposits growth remained intact.

- **NII came in at INR 104.31 Bn,** 5.2% QoQ / 16.9% YoY and 3% above our est.
- **Net Income came in at INR 145.42 Bn,** -0.4% QoQ / 10.3% YoY and 1% below our est.
- **PPOP came in at INR 85.40 Bn,** -3.2% QoQ / 15.6% YoY and 2% below our est.
- **Provisions came in at INR 28.83 Bn,** 5.2% QoQ / -51.7% YoY and 10% above our est.
- **PAT came in at INR 44.03 Bn,** -10.9% QoQ / 260% YoY and 4% below our est.
- **EPS stood at INR 6.4 vs** INR 7.2 / INR 1.9 in Q3FY21 / Q4FY20 respectively.

Financial Highlights

- The bank's advances stood at Rs 7337 Bn (14% YoY/5% QoQ), mainly led by retail segment (20% YoY/weightage 67%) and SME segment (33% YoY/ weightage 4%). While corporate segment showed good recovery (10% YoY/ weightage 24%), overseas book de-grew by 30% YoY (weightage 5%). 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, business banking, etc.
- On the liability side, deposit book stood at Rs 9325 Bn, which grew by 21% YoY/ 7% QoQ in Q4FY21 led by CASA growth of 24% YoY taking CASA ratio at 46.3% (Vs 45.1% YoY).
- Bank ticks most boxes on the asset quality front in terms of a handle on the sources of potential stress, the likely pace of incremental stress accretion and the need for incremental provisions. The bank's GNPA & NNPA stood at 4.96% & 1.14% as against 5.42% & 1.26% on a proforma basis in the previous quarter. PCR stood at 77.7% (vs 75.7% YoY) as of Mar 31, 2021.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	333	390	453	530
Adjusted net profit	79	162	198	251
Net worth	1165	1475	1634	1832
EPS (Rs)	12	23	29	36
Growth (%)	135	91	22	27
P/E (x)	44	23	19	15
P/Adj BV (x)	3.3	2.7	2.4	2.2
RoA (%)	0.8	1.4	1.5	1.7
RoE (%)	7	12	13	14

Source: Dalal & Broacha Research, Company

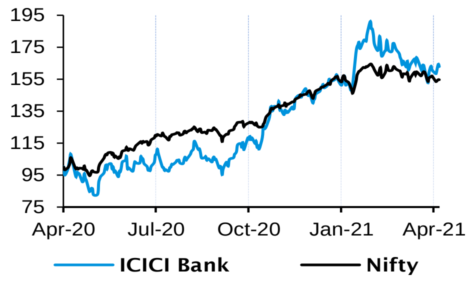
Rating	TP (Rs)	Up/Dn (%)
BUY	683	20

Market data

Current price	Rs	570
Market Cap (Rs.Bn)	(Rs Bn)	3943
Market Cap (US$ Mn)	(US$ Mn)	52608
Face Value	Rs	2
52 Weeks High/Low	Rs	679/286
Average Daily Volume	('000)	36609
BSE Code		532174
Bloomberg		ICICIBC:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	0.00	0.00
FII	47.80	47.45
DII	42.14	42.89
Others	10.06	9.66
Total	**100**	**100**

Source: BSE

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- Bank's BB & Below book decreased to Rs 131 Bn vs Rs. 136.5 Bn QoQ. This declined was due to upgrades of Rs 14.97 Bn and slippages of Rs 10.67 Bn. However, there were also rating downgrades of Rs 11.87 Bn from investment grade categories. The downgrades were largely from the infrastructure sector. Other than two accounts, one each in construction and telecom sector, the maximum single borrower outstanding in the BB and below portfolio was about Rs 6 Bn at Mar 31, 2021
- Operational efficiency remained strong, with cost to income ratio stood at 41.3% (-266 bps YoY), backed by higher net income (NII + other income) growth of 10% YoY vs opex growth of 4% YoY in Q4FY21.
- Bank's healthy NIM (3.84% vs 3.67% QoQ) was supported by a combination of declining cost of deposits & stable yield on advances. Cost of deposits declined 17 bps QoQ to an unprecedented 3.80%. On the other hand, yield on advances inched up 1 bp to 8.45%. Margin was adversely impacted by 4 bps (vs 11 QoQ and 4 YoY) on account of interest on income tax refund and interest collections from NPAs.
- Bank's digital offerings for its retail segment are doing well in terms of customer penetration, adoption and hyper-personalisation reflecting in speedier customer acquisition and enhance productivity. During FY21, 90% personal loans sourced via Insta and 75% Credit cards sourced digitally.

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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 2.6x its FY22E ABV and 2.3x its FY23E ABV. We maintain a 'Buy' rating on ICICI with a price target of Rs 683, valuing the stock at 2.2x FY23E standalone P/ABV and ascribing a value of Rs 136 for subsidiaries.

Highlights of the Conference Call

1) Strong granular deposit franchise:

i. Deposit growth continued to be robust, with average CA deposits up by 33.9% YoY and average SA deposits by 21.2% YoY.
ii. LCR stood at 138%, reflecting continued significant surplus liquidity.
iii. Cost of deposits (3.8% vs 3.97% QoQ) continues to be among the lowest in the system.

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2) Leveraging technology across business

i. Micro market strategy to tap opportunities based on the market potential and 360-degree customer coverage using ICICI STACK have played a significant role in expanding its franchise and deepening relationships with its customers
ii. The bank is building a vast data lake to derive insights into customer behaviour, build new use cases to improve its product penetration, increase customer stickiness and improve its net promoter scores

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3) Credit quality:

i. The percentage of performing retail EMI products and the credit card portfolio which was overdue at March 31, 2021 was marginally higher compared to pre-Covid levels and about 1.5% higher at December-end and 4% higher at September-end.
ii. The percentage of the performing SME and business banking portfolio which was overdue had reached pre-covid levels at September-end and continues to remain so at March-end as well.
iii. The percentage of the performing rural portfolio which was overdue at March 31, 2021 was about 2.5% higher than the normal pre-Covid trend compared to about 1.5% higher at December-end and 1% higher at September-end.
iv. ~ 2% of the performing domestic corporate portfolio was overdue at March-end, which was similar compared to December-end and September-end.

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4) Protecting the balance sheet from potential risks

i. During Q4, the bank utilised contingency provision amounting to Rs 35.09 Bn towards proforma NPAs as of Dec 31, 2020, as these loans have now been classified as per the RBI guidelines.
ii. The bank made additional Covid-19 related provisions of Rs 10 Bn during Q4-2021, taking total Covid-19-related provisions at Rs 74.75 Bn as of March 31, 2021.
iii. As of March 31, 2021, the total outstanding Covid-19 related provisions, provisions for non-fund based outstanding to NPAs, general provisions on standard assets and other standard asset provisions stood at Rs 141.44 Bn or 1.9% of loans.

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5) P&L Details

i. NIM stood at 3.84% (vs 3.67% QoQ and 3.87% YoY), adversely impacted by interest on income tax refund and interest collections from NPAs was 4 bps (vs 11 QoQ and 4 YoY).

ii. Employee expenses decreased by 10.2% YoY primarily due to decline in provisions for retirals reflecting the increase in yields on government securities.

iii. Non-employee expenses increased due to increase in retail business related costs and technology related expenses partly offset by decrease in advertisement and sales promotion expenses.

iv. There was a treasury loss of Rs 0.25 Bn vs profit of Rs 7.66 Bn in Q3.

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6) Portfolio build-up strategy

i. The portfolio level build-up strategy for the retail loan book has been based on utilising the existing customer database for sourcing in key retail asset products through cross sell and up-sell.

ii. The loan disbursements across various retail products had increased beyond pre-Covid levels in Q4 driven by pickup in economic activity, process decongestions, digitization of underwriting and seamless customer onboarding process.

iii. The growth of the performing domestic corporate portfolio was driven by disbursements to higher rated corporates and PSUs across various sectors to meet their working capital and capital expenditure requirements.

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7) Restructured & ECLGS

i. Restructured loans worth Rs 19.76 Bn under the one-time restructuring scheme

- Corporate:- 30 borrowers with dues of Rs 13.23 Bn
- Retail:- 1586 borrowers with dues of Rs 6.43 Bn

ii. ECLGS

- ECLGS 1 disbursement Rs 127 Bn.
- ECLGS 2 disbursement Rs 15 Bn.

Financials

(Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Earned	190.6	191.9	199.2	196.2	197.3	198.4	3%	1%
Interest Expended	105.2	102.6	106.4	102.6	98.2	94.1	-8%	-4%
NII	85.5	89.3	92.8	93.7	99.1	104.3	17%	5%
Other Income	45.7	42.5	61.4	40.3	46.9	41.1	-3%	-12%
Net Income	131.2	131.8	154.2	133.9	146.0	145.4	10%	0%
Opex	55.7	57.9	46.5	51.3	57.8	60.0	4%	4%
PPOP	75.5	73.9	107.8	82.6	88.2	85.4	16%	-3%
Provisions	20.8	59.7	75.9	30.0	27.4	28.8	-52%	5%
PBT	54.7	14.2	31.8	52.7	60.8	56.6	298%	-7%
Tax	13.2	2.0	5.8	10.1	11.4	12.5	523%	10%
PAT	41.5	12.2	26.0	42.5	49.4	44.0	260%	-11%
Balance Sheet								
Net-worth	1150	1165	1186	1377	1428	1475	27%	3%
Deposits	7163	7710	8016	8329	8743	9325	21%	7%
Advances	6357	6453	6312	6526	6990	7337	14%	5%
Growth (%)								
Deposits	18.1	18.1	21.3	19.6	22.1	21.0	287 bps	-110 bps
Advances	12.6	10.0	6.5	6.4	10.0	13.7	371 bps	374 bps
Ratios (%)								
GNPA	6.0	5.5	5.5	5.2	4.4	5.0	-57 bps	58 bps
NNPA	1.5	1.4	1.2	1.0	0.6	1.1	-27 bps	51 bps
PCR	76.1	75.7	78.5	81.6	86.0	77.7	204 bps	-825 bps
CET1	13.6	13.4	13.3	15.7	15.3	16.8	341 bps	148 bps
CAR	16.5	16.1	16.0	18.5	18.0	19.1	300 bps	108 bps
Cost/Income	42.5	43.9	30.1	38.3	39.6	41.3	-266 bps	169 bps
CD Ratio	88.7	83.7	78.7	78.4	79.9	78.7	-502 bps	-127 bps
Loan Mix (%)								
Domestic book	91.1	91.6	92.5	93.5	93.8	94.9	324 bps	104 bps
Retail	62.6	63.2	64.1	65.8	65.6	66.7	345 bps	104 bps
SME	3.4	3.5	3.3	3.6	3.9	4.1	59 bps	25 bps
Corporate	25.1	24.9	25.2	24.1	24.3	24.1	-79 bps	-26 bps
Overseas book	8.9	8.4	7.5	6.5	6.2	5.1	-324 bps	-104 bps

Source: Dalal & Broacha Research, Company

Financials

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	156	161
PBT	**140**	**202**	**265**	**335**
Tax	61	40	67	84
PAT	**79**	**162**	**198**	**251**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	13	14	14	14
Reserves & surplus	1152	1461	1620	1818
Net worth	**1165**	**1475**	**1634**	**1832**
Deposits	7710	9325	10744	12526
Borrowings	1629	916	960	1020
Other liability	480	588	557	568
Total liabilities	**10984**	**12304**	**13894**	**15945**
Fixed assets	84	89	90	94
Investments	2495	2813	3267	3793
Loans	6453	7337	8517	9992
Cash	1192	1331	1211	1241
Other assets	760	734	810	826
Total assets	**10984**	**12304**	**13894**	**15945**

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	22	27
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	12.7	14.5
RoA	0.8	1.4	1.5	1.7
Per share (Rs)				
EPS	12	23	29	36
BV	180	213	236	265
ABV	164	200	221	249
Valuation (x)				
P/E	46.5	24.4	19.9	15.7
P/BV	3.2	2.7	2.4	2.2
P/ABV	3.5	2.9	2.6	2.3

Source: Dalal & Broacha Research, Company

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