

# ICICI Bank

20 June 2022

Reuters: ICICIBC.BO; Bloomberg: ICICIBC IN

## Best placed

We reiterate ICICI Bank as our top pick in the banking space given the visibility of 2% ROA by FY24E on the back of 21% CAGR in net profit over FY22-24E. Given the current increasing interest rate environment, the bank seems one of the best placed from ROA accretion perspective given its higher share of EBLR linkage, enabling faster transmission of rate increases on the asset side. We see few more levers to NIM expansion such as: (1) improving loan/deposit ratio and (2) increasing share of unsecured lending. Further, growth prospects seem far better for Large Cap banks given their low cost of funds (CoF) advantage vis-à-vis Small-Cap and Mid-Cap peers. This directly benefits ICICI Bank given it's the market-leading position in Retail as well as Corporate segments. We estimate that ICICI Bank has gained market share in most Retail categories in the last 5 years. We expect the credit cost to remain benign given that in recent years we have seen the corporate NPA clean-up followed by covid-impact on the retail portfolio, which has resulted in restructuring of 1%. Overall stock of provisions seems adequate and does not warrant high credit cost in the medium term. The stock is currently trading at 1.8x FY24E ABVPS, which we believe is quite undemanding given the growth prospects and visibility of 2% ROA. We reiterate BUY on the stock with a target price (TP) of Rs1,065 (see SOTP table).

**Higher EBLR-linkage places the bank favorably:** In the current increasing interest rate environment, ICICI Bank seems well placed given that its loan book has 48% linkage to EBLR compared to 22-46% for most other banks under our coverage. This enables the bank to transmit increasing interest rates faster and derive higher yields. Within the total loan book, mortgage accounts for more than 34%. Overall, we estimate that ICICI Bank will see 25-30bps ROA expansion, taking into account the cumulative 90bps repo rate hike so far. Further, we see the increasing share of unsecured lending and an improving loan/deposit ratio as other potential levers, which could deliver NIM expansion.

**Large Cap banks better placed to transmit systemic rate movements:** We had outlined in our [note](#) that we see Large Cap banks being better placed in the current rising interest rate cycle given that they are more flexible, nimble and overall better placed in terms of their ability to transmit systemic rate movements. Basis overall data collected, we argue that the Small-Cap and Mid-Cap banks tend to see higher quantum of deposit rate increases during an upward rate cycle. Note: this conclusion is subject to point-to-point comparison. Between Feb'18 and Apr'19, Large Cap banks had increased their deposit rates by 74bps on average while Small-Cap and Mid-Cap banks had increased their deposit rates by 111bps on average (~1.6x). The narrative holds true during a downward rate cycle as well, i.e., Large Cap banks tend to enjoy lower CoF far longer than Small-Cap and Mid-Cap peers. Hence, overall, we believe that Large Cap banks such as ICICI Bank are well placed to effectively compete for growth without compromising on margins. We have increased our NIM estimates for ICICI Bank by 8-12bps over FY23-24E to 4%.

**Expect well-rounded growth given bank's strong market share:** Overall, we expect system credit growth to be well-rounded. Retail growth is expected to be supported by increasing penetration across sub-segments such as mortgages and unsecured loans. Easing supply-chain constraints would be beneficial for auto sector's growth. On the wholesale side, SMEs have seen cash flows recovering post the covid impact and therefore have much healthier balance sheets today. Corporate sector is expected to see capex revival, which augurs well for corporate credit growth. Given the ICICI Bank's market positioning, the bank is very well positioned. We have attempted to map ICICI Bank's market share in various categories. We estimate that the bank's market share is: 18.4% in mortgages (+354bps since FY17), 16.3% in SME/commercial loans (+574bps since FY17), 5.9% in personal loans (+211bps since FY17) and 17% in credit cards (+249bps since FY17). Overall, ICICI Bank has a systemic credit market share of 7.3%, up 68bps since FY17.

**Asset quality outlook is positive; balance sheet is well provided for:** Overall asset quality is expected to improve. For a better perspective, we see the bank's book having gone through back-to-back asset quality cycles: (1) corporate NPA cycle followed by (2) retail book being tested for the covid impact. The net result of the latter has been a restructured book of 1%. The bank's balance sheet is well provided for, with NPA coverage of ~80% and non-NPA provisions of 2.1%. It has increased coverage on restructured loans to 31% in 4QFY22 from 25% in 3QFY22. The bank has been prudent in building up provisions. In 4QFY22, almost all the provisioning went towards shoring up contingent provisioning buffers. We expect overall credit cost to average ~1% over FY23-24E.

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Net interest income	3,32,671	3,89,894	4,74,661	5,67,230	6,57,509
Operating profit	2,81,026	3,63,971	3,92,502	4,78,476	5,55,976
PAT	79,323	1,61,929	2,33,394	2,87,820	3,40,734
EPS (Rs)	12	23	34	41	49
BV (Rs)	180	214	245	281	322
P/E	45.8	23.9	16.7	13.6	11.5
P/BV	3.1	2.6	2.3	2.0	1.7
Gross NPAs (%)	6.0	5.3	3.8	3.5	3.3
Net NPAs (%)	1.5	1.2	0.8	0.8	0.8
RoA (%)	0.8	1.4	1.8	1.9	2.0
RoE (%)	7.0	12.0	14.6	15.5	16.0

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: Banking

CMP: Rs688

Target Price: Rs1,065

Upside: 55%

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### Key Data

Current Shares O/S (mn)	6,954.5
Mkt Cap (Rsbn/US\$bn)	4,770.5/61.2
52 Wk H / L (Rs)	867/595
Daily Vol. (3M NSE Avg.)	14,602,500

### Price Performance (%)

	1 M	6 M	1 Yr
ICICI Bank	(3.3)	(3.4)	8.8
Nifty Index	(5.6)	(7.6)	(2.1)

Source: Bloomberg

## SOTP Valuation

Entity	Valuation methodology	Holding	Value per share (INR)
			FY23E
ICICI Bank - Standalone banking business / Parent	2.8x FY24E ABV	100.0%	864
ICICI Prudential Life Insurance	2.8x FY24E EV	51.4%	80
ICICI Lombard General Insurance	Current MCAP	51.9%	41
ICICI Prudential AMC	30x FY24E EPS	51.0%	87
ICICI Securities	Current MCAP	75.0%	15
ICICI Home Finance	1x BV	100.0%	3
ICICI Bank UK Plc	1x BV	100.0%	5
ICICI Bank Canada	1x BV	100.0%	5
Holding co. discount (%)			15%
<b>Value of subs (INR per share)</b>			<b>200</b>
<b>Value of total (INR per share)</b>			<b>1,065</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (Rs mn)	5,67,230	6,57,509	5,54,874	6,42,780	2.2	2.3
NIM	4.0	4.0	3.9	3.9	8 bps	12 bps
Operating Profit (Rs mn)	4,78,476	5,55,976	4,66,121	5,41,247	2.7	2.7
Provisions (Rs mn)	1,01,010	1,09,115	1,01,010	1,09,115	0.0	0.0
Profit After Tax (Rs mn)	2,87,820	3,40,734	2,78,399	3,29,503	3.4	3.4
Loan Book (Rsbn)	9,995	11,592	9,995	11,592	0.0	0.0
ABVPS (Rs)	269	309	268	306	0.4	0.9

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 3: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	7,47,983	7,91,183	8,63,746	10,08,354	11,67,344
Interest expense	4,15,313	4,01,288	3,89,085	4,41,124	5,09,835
<b>Net interest income</b>	<b>3,32,671</b>	<b>3,89,894</b>	<b>4,74,661</b>	<b>5,67,230</b>	<b>6,57,509</b>
Fees & Other Income	1,64,500	1,89,685	1,85,175	2,21,262	2,54,706
Net Revenue	4,97,170	5,79,580	6,59,836	7,88,492	9,12,215
Operating Expense	2,16,144	2,15,608	2,67,333	3,10,015	3,56,239
-Employee Exp	82,712	80,918	96,728	1,09,924	1,27,222
-Other Exp	1,33,432	1,34,691	1,70,606	2,00,091	2,29,017
<b>Pre-Provisioning Operating Profit</b>	<b>2,81,026</b>	<b>3,63,971</b>	<b>3,92,502</b>	<b>4,78,476</b>	<b>5,55,976</b>
Provisions	1,40,531	1,62,142	86,414	1,01,010	1,09,115
PBT	1,40,495	2,01,829	3,06,088	3,77,466	4,46,861
Taxes	61,172	39,900	72,694	89,646	1,06,127
<b>PAT</b>	<b>79,323</b>	<b>1,61,929</b>	<b>2,33,394</b>	<b>2,87,820</b>	<b>3,40,734</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	12,948	13,834	13,900	13,900	13,900
Reserves & Surplus	11,52,097	14,61,258	16,91,220	19,35,867	22,25,491
<b>Shareholder's Funds</b>	<b>11,65,044</b>	<b>14,75,092</b>	<b>17,05,120</b>	<b>19,49,767</b>	<b>22,39,391</b>
<b>Deposits</b>	<b>77,09,690</b>	<b>93,25,222</b>	<b>1,06,45,716</b>	<b>1,22,14,943</b>	<b>1,38,67,747</b>
Borrowings	16,28,968	9,16,310	10,72,314	10,59,446	15,11,151
Other liabilities	4,79,950	5,87,704	6,89,828	8,33,392	7,77,535
<b>Total liabilities</b>	<b>1,09,83,652</b>	<b>1,23,04,327</b>	<b>1,41,12,977</b>	<b>1,60,57,547</b>	<b>1,83,95,823</b>
Cash/Equivalent	11,91,557	13,31,283	16,78,224	17,52,219	20,30,014
Advances	64,52,900	73,37,291	85,90,204	99,95,395	1,15,91,706
Investments	24,95,315	28,12,865	31,02,410	34,20,184	38,82,969
Fixed & Other Assets	8,43,880	8,22,888	7,42,139	8,89,749	8,91,133
<b>Total assets</b>	<b>1,09,83,652</b>	<b>1,23,04,327</b>	<b>1,41,12,977</b>	<b>1,60,57,547</b>	<b>1,83,95,823</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Key ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E
<b>Growth (%)</b>					
NII growth	23.1	17.2	21.7	19.5	15.9
Pre-provision profit growth	19.9	29.5	7.8	21.9	16.2
PAT growth	136.0	104.1	44.1	23.3	18.4
<b>Business (%)</b>					
Deposit growth	18.1	21.0	14.2	14.7	13.5
Advance growth	10.0	13.7	17.1	16.4	16.0
CD	83.7	78.7	80.7	81.8	83.6
CASA	45.1	46.3	48.7	48.9	48.4
<b>Operating efficiency (%)</b>					
Cost-to-income	43.5	37.2	40.5	39.3	39.1
Cost-to-assets	2.1	1.9	2.0	2.1	2.1
<b>Spreads (%)</b>					
Yield on advances	9.3	8.4	8.0	8.2	8.2
Yield on investments	6.4	5.9	5.6	5.6	5.6
Cost of deposits	4.6	3.9	3.5	3.5	3.5
Yield on assets	7.9	7.3	7.0	7.1	7.1
Cost of funds	4.7	4.1	3.5	3.5	3.6
NIMs	3.5	3.6	3.8	4.0	4.0
<b>Capital adequacy (%)</b>					
Tier I	14.7	18.1	18.3	17.9	17.5
Tier II	1.4	1.1	0.8	0.8	0.8
Total CAR	16.1	19.1	19.2	18.7	18.3
<b>Asset Quality (%)</b>					
Gross NPA	6.0	5.3	3.8	3.5	3.3
Net NPA	1.5	1.2	0.8	0.8	0.8
Provision coverage	75.7	77.7	79.5	77.4	75.8
Slippage	2.4	2.5	2.9	1.7	1.7
Credit-cost	2.3	2.4	1.1	1.1	1.0
<b>Return (%)</b>					
ROE	7.0	12.0	14.6	15.5	16.0
ROA	0.8	1.4	1.8	1.9	2.0
RORWA	1.1	2.1	2.8	3.0	3.0
<b>Per share</b>					
EPS	12	23	34	41	49
BV	180	214	245	281	322
ABV	165	200	235	269	309
<b>Valuation</b>					
P/E	45.8	23.9	16.7	13.6	11.5
P/BV	3.1	2.6	2.3	2.0	1.7
P/ABV	3.4	2.8	2.4	2.1	1.8

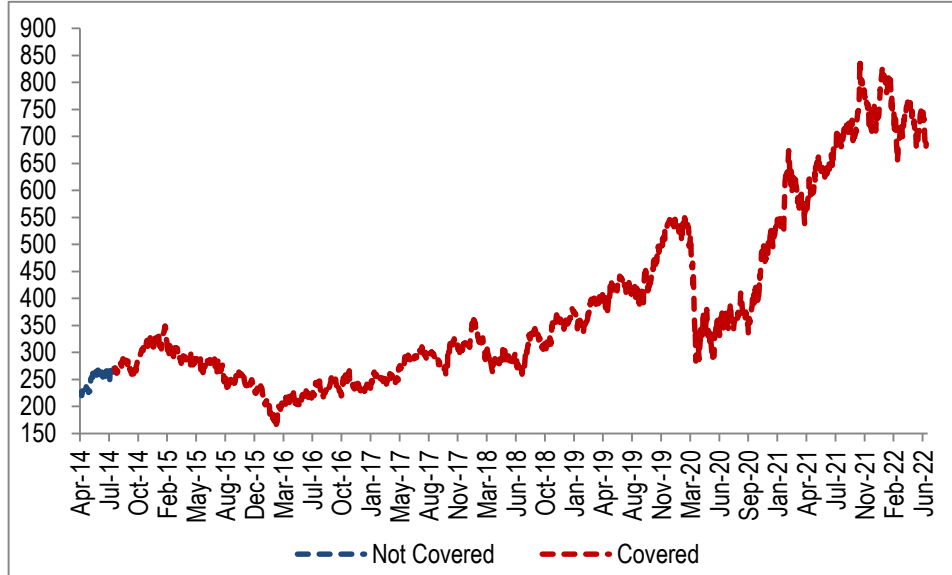
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
1 August 2014	Buy	1,473	1,700
8 October 2014	Buy	1,427	1,700
31 October 2014	Buy	1,605	1,840
2 February 2015	Buy	360	422*
28 April 2015	Buy	305	380
3 August 2015	Buy	301	380
2 November 2015	Buy	277	380
29 January 2016	Buy	232	290
2 May 2016	Buy	238	280
1 August 2016	Buy	262	305
8 November 2016	Buy	278	340
1 February 2017	Buy	268	335
14 February 2017	Buy	281	350
4 May 2017	Buy	273	340
28 July 2017	Buy	309	360
30 October 2017	Buy	309	356
31 January 2018	Buy	353	424
8 May 2018	Buy	289	409
30 July 2018	Buy	293	414
9 October 2018	Buy	311	411
29 October 2018	Buy	316	411
13 December 2018	Buy	345	448
31 January 2019	Buy	366	460
8 April 2019	Buy	391	462
7 May 2019	Buy	401	483
8 July 2019	Buy	436	523
29 July 2019	Buy	416	529
27 September 2019	Buy	449	565
7 October 2019	Buy	414	563
29 October 2019	Buy	469	584
8 January 2020	Buy	526	605
27 January 2020	Buy	534	625
27 March 2020	Buy	331	527
9 April 2020	Buy	319	527
11 May 2020	Buy	331	489
9 July 2020	Buy	369	524
27 July 2020	Buy	381	520
23 September 2020	Buy	355	549
7 October 2020	Buy	381	544
2 November 2020	Buy	390	548
26 November 2020	Buy	473	568
07 December 2020	Buy	502	590
08 January 2021	Buy	541	636
31 January 2021	Buy	537	626
21 February 2021	Buy	624	748
25 April 2021	Buy	570	784
25 July 2021	Buy	676	803
26 September 2021	Buy	723	870
24 October 2021	Buy	758	886
23 January 2022	Buy	804	977
22 February 2022	Buy	751	1,090
24 April 2022	Buy	747	1,068
20 June 2022	Buy	688	1,065

\* The target price is post 1:5 stock split

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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