

Buy

ICICI Bank Analyst Day

ICICI Bank hosted their analyst day highlighting traction in existing digital capabilities across business segments and newer industry first digital initiatives, re-iterating its underlying narrative of 'One bank, One RoE, One KPI'. Growing ecosystem-based offerings and focus on risk calibrated core operating profit should aid market share gains in both assets and liabilities and support profitability. Sustained recovery trends in disbursements and lower than anticipated risk in corporate book were other key takeaways. **We maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs585 (from 510 earlier) led by lower slippages and higher standalone multiple of 2x (from 1.7x earlier).**

Acceleration of digital adoption led by COVID

Offtake of ecosystem based offerings, lower customer acquisition cost, improved productivity and service quality and lower delinquency levels have all supported core profitability at several levels. Further, digital adoption has accelerated due to COVID, with increased preference of contactless and convenience banking over pricing. With increased digital traction, the role of ICICI for its corporate customers is transforming from 'provider of capital' to that of a partner as the tech capabilities enable the bank provide customized solution. The bank has greatly expanded its digital analytics and technological capabilities during COVID and has integrated and sharpened use of various industry based datasets.

Asset quality risks lower than anticipated earlier

With higher than anticipated resilience witnessed in the corporate book, restructuring guidance maintained at less than 1% for corporate/SME book, sustained improvement in disbursements across retail segments, and positive cues from high frequency economic indicators, we believe risk of delinquencies have come down and lower our FY21E/22E slippage estimate from 4%/3% to 3.5%/2.5%.

Outlook and Valuations

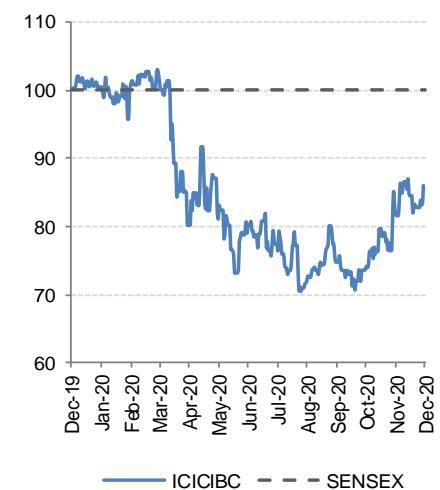
Large banks have been key beneficiaries of the digital opportunity given their customer base and availability of data history, preference for consolidation in banking relationships by corporates, and in-house tech capabilities. With lower than anticipated risk in corporate book and moderation in credit cost, FY21E/22E earnings have been revised upwards by 10-15%. **We maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs585 (from Rs510 earlier), valuing the standalone bank at 2x Sep-22E book (1.7x earlier), which including the value of subsidiaries implies 2.5x of Sep-22E P/ABV.**

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Net Interest Income	270,148	332,671	379,313	426,018	476,421
Growth(%)		23.1	14.0	12.3	11.8
PPOP	223,283	281,012	374,538	345,416	390,429
PAT	22,538	79,308	143,991	197,242	233,073
Growth(%)		251.9	81.6	37.0	18.2
EPS (`)	5.2	12.3	25.7	28.6	33.8
ABV (`)	137.4	159.5	198.0	220.2	252.7
ROA (%)	0.4	0.8	1.5	1.6	1.7
ROE(%)	3.2	7.2	13.4	12.6	13.2
PER(x)	96.2	41.0	19.6	17.5	14.8
P/ABV (x)	3.7	3.1	2.5	2.3	2.0

CMP	Rs 502
Target / Upside	Rs 585 / 17%
NIFTY	13,259
Scrip Details	
Equity / FV	Rs 13,786mn / Rs 2
Market Cap	Rs 3,250bn
	USD 44bn
52-week High/Low	Rs 552/ 268
Avg. Volume (no)	30,514,100
Bloom Code	ICICIBC IN
Price Performance	
	1M 3M 12M
Absolute (%)	13 35 (4)
Rel to NIFTY (%)	6 17 (16)
Shareholding Pattern	
	Mar'20 Jun'20 Sep'20
Promoters	0.0 0.0 0.0
MF/Banks/FIs	42.7 43.7 31.5
FII	43.7 43.0 45.7
Public / Others	56.9 55.9 68.1

ICICI Bank Relative to SENSEX



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Story in Charts

Exhibit 1: Secured business disbursements continue to rise

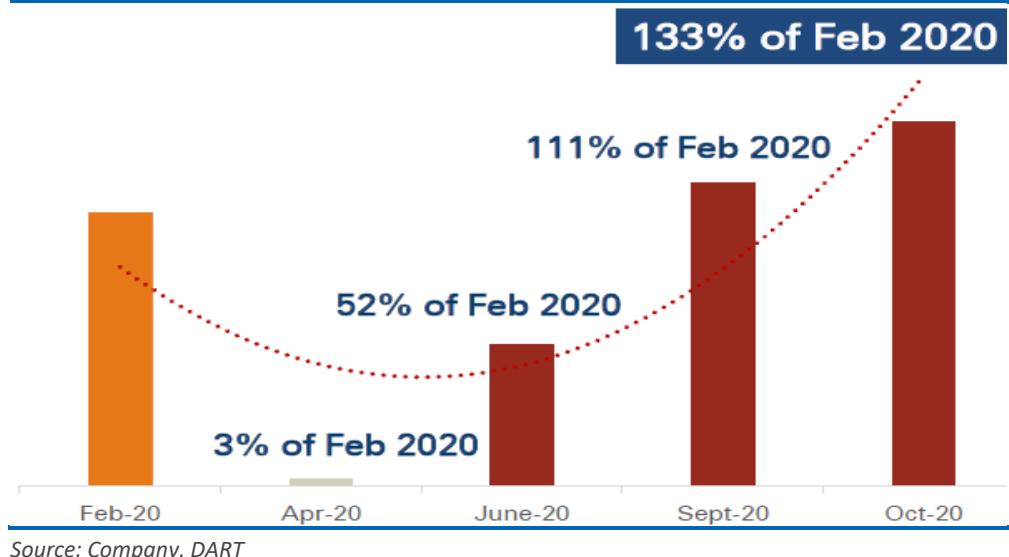


Exhibit 2: Robust growth in CC spends, PLs disbursements still below pre-COVID

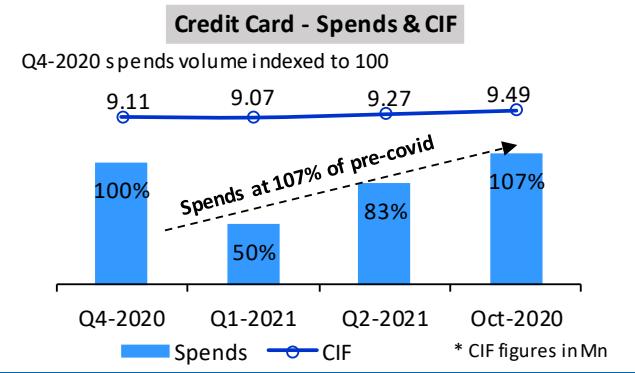
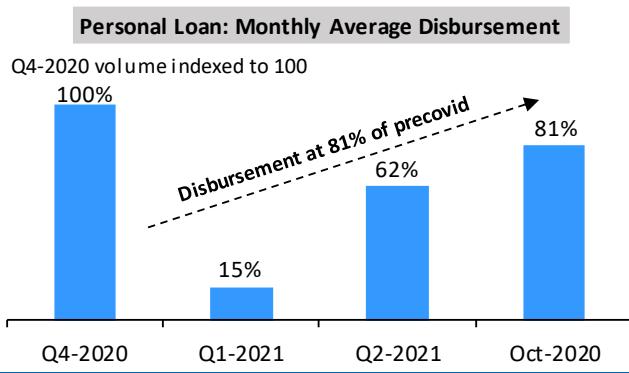


Exhibit 3: Significant rise in digital originations

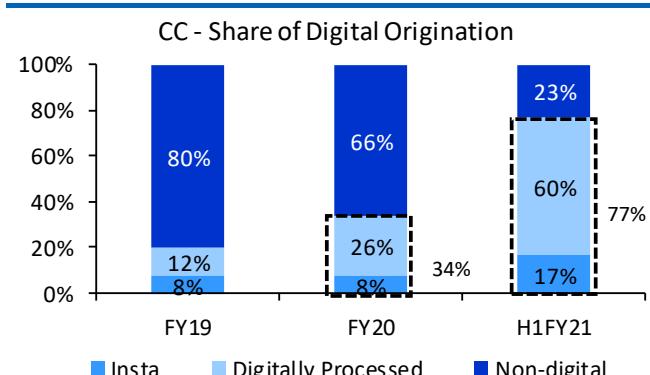
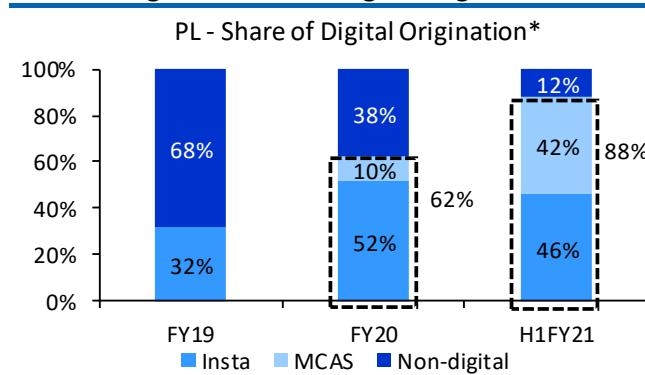
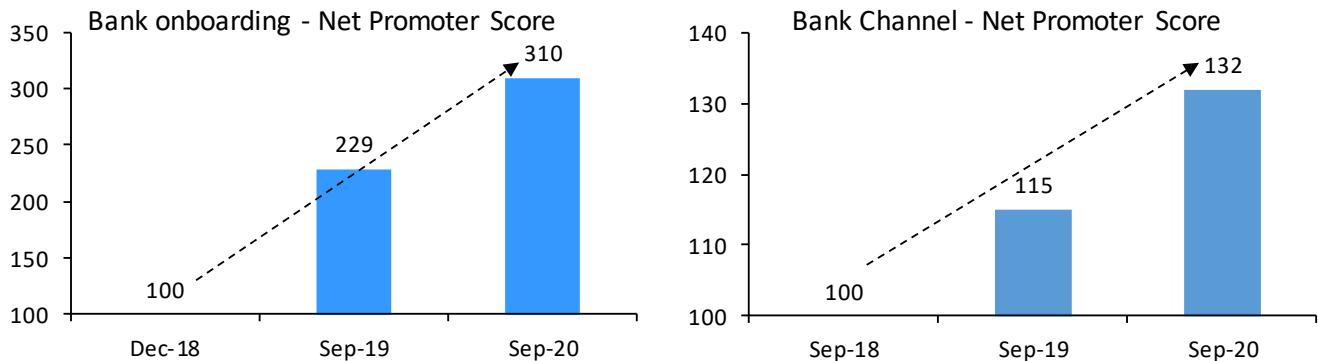


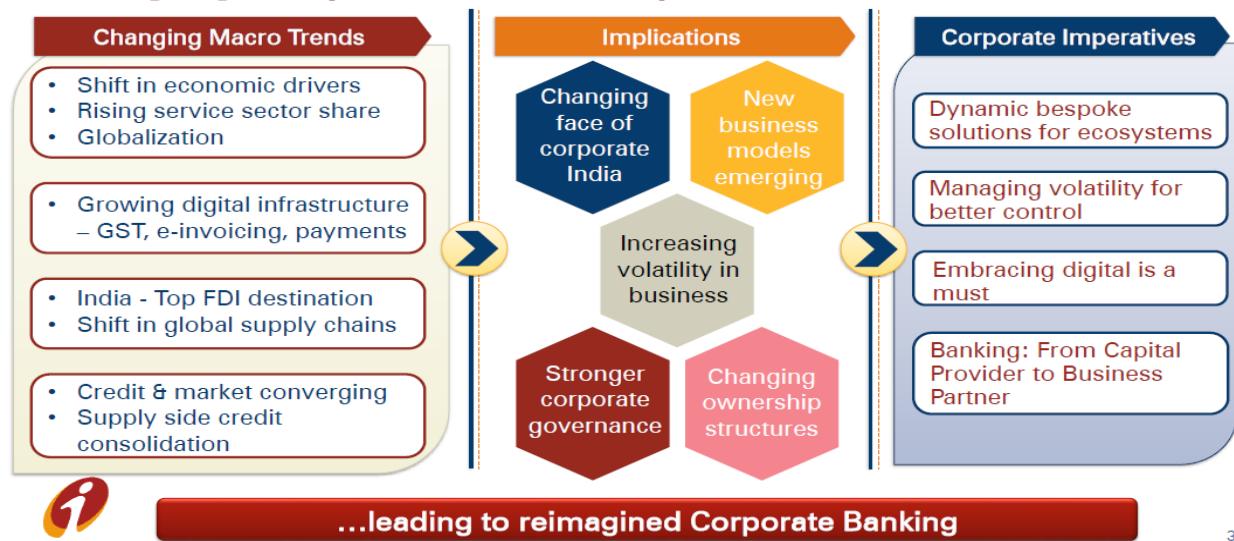
Exhibit 4: Improvement in NPS* a reflection of healthy business prospects



Source: Company, DART; Initiation month Dec'18 indexed to 100; Sept'18 indexed to 100; *NPS: Net Promoter Score

Exhibit 5: Reimagining corporate banking

Changing Corporate Landscape...



Source: Company, DART

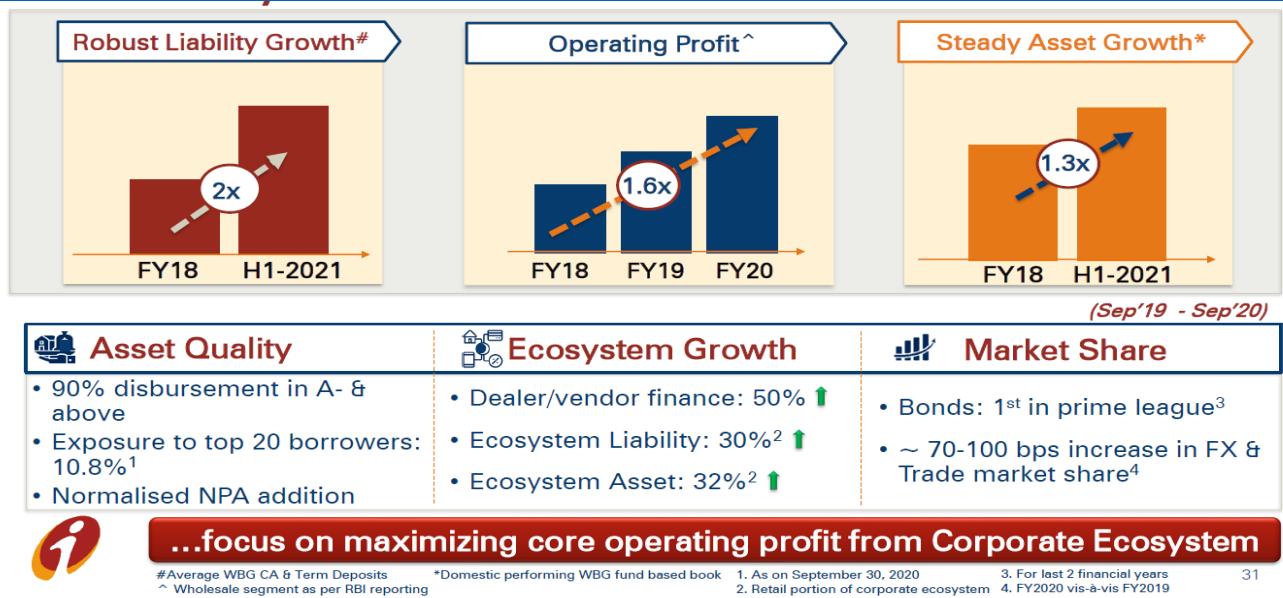
Exhibit 6: Credit by invitation: Faster turnaround in quality credit

Credit by Invitation



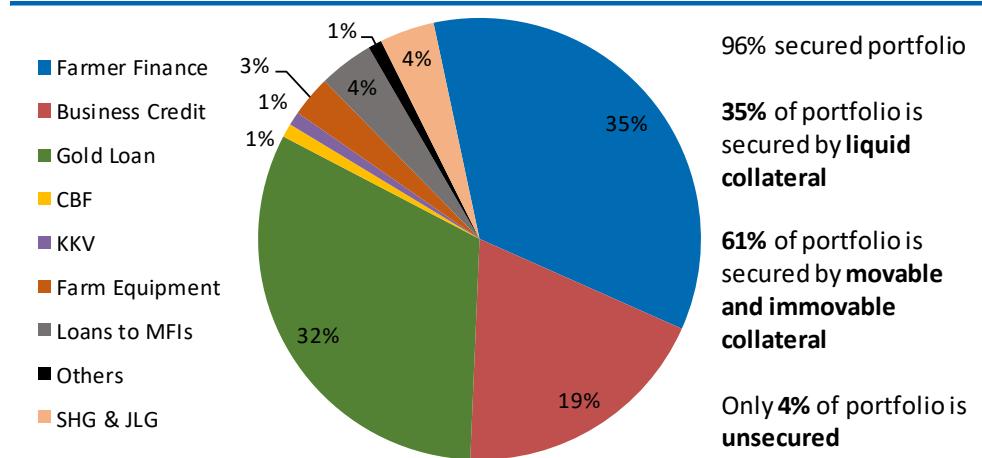
Source: Company, DART

Exhibit 7: Maximizing core operating profit from corporate ecosystem



Source: Company, DART

Exhibit 8: Diversified and Granular Loan Book



Source: Company, DART

Exhibit 9: InstaBIZ – upon completion of one year



Source: Company, DART

Exhibit 10: Change in estimates

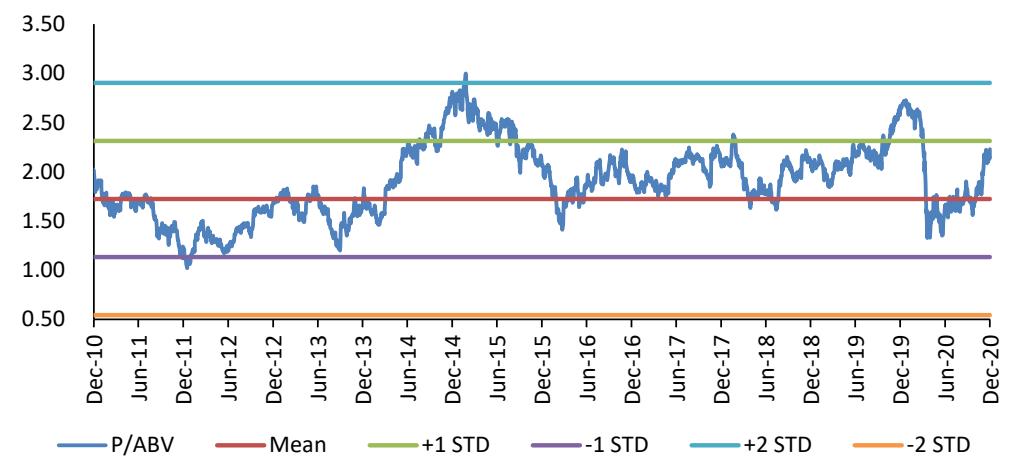
Particulars	Previous		Revised		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Operating Revenue	597,486	590,659	597,486	590,659	-	-
Pre-Provision Profits	374,538	348,022	374,538	345,416	-	(0.7)
PAT	154,257	178,875	176,991	197,242	14.7	10.3

Source: Company, DART

Exhibit 11: SOTP Valuation

Entity	Stake	Per Share Value	Methodology
ICICI Standalone (A)		444	2x Sept-22E ABV
Foreign Banking Subsidiaries		10	1x Net Worth
ICICI Home Finance	100%	3	1x Net Worth
ICICI Prudential Life Insurance	51%	55	2.2x EV
ICICI Lombard General Insurance	52%	42	33x Earnings
ICICI AMC	51%	26	10% of AUM
ICICI Securities	77%	27	30x Earnings
Other Subsidiaries		3	
Value of Subsidiaries (B)		167	
Holdco. Discount	15%		
Value of the bank (A+B)		585	
Contribution of subs to total (%)		24%	

Source: Company, DART

Exhibit 12: The stock currently trades at 2.2x 1-yr forward P/ABV


Source: Company, DART

Key Takeaways

Retail banking

- The bank follows a customer centric approach with the intention of adding value at each step of the customer's life cycle by creating innovative products and services.
- It carefully manages associated risks by accurately building customer profiles using internal and external datasets, predicting cash flows by utilizing strong in-house analytics, and implementation at an opportune time using rule-based engines and real time model deployment.
- ICICI STACK provides a comprehensive 360-degree contextual solution and hyper personalised experience at each stage of the customer life cycle.
- The bank is aligning itself with customer's digital behaviour, capturing affluence and growing ecosystems like protection, wealth, investments, and retirement-based products.
- During the COVID period, trends have favourably shifted towards savings for retirement and insurance products. Digital solutions have witnessed high offtake in FDs (1.3x); equity (1.9x), branch digital transactions (1.2x), protection (1.3x), health insurance (1.6x), SIPs (2.7x) and NPS (2.2x).
- While there has been a sharp recovery in demand for consumption loans, both secured and unsecured, demand for unsecured loans like marriages, vacations and household consumption remains low
- Digital expansion on both the asset and the liability side is one of the key focus areas for the bank. The bank is however, focused more on developing internal customers for cross sell opportunities than NTB and NTC customers. It aims to build a liability profile (lower cost of acquisition) and establish customer behaviour before cross-selling asset side products to minimize risk.
- For new to bank (NTB) customers, an omni channel process powered by an AI driven platform for RMs is being used for targeted marketing recommendations and contextual action based on the customer's profile. (iGenome)
- Digital asset side product growth (like pre-approved offers) is being achieved via "iScores" and Pre-delinquency management (PDM) systems by continuously refining credit underwriting and income assessment models while maximizing the risk calibrated core operating profit. These systems utilize over 1000 variables across internal and external data sets.
- The bank has greatly expanded its digital analytics and technological capabilities during COVID and has integrated and sharpened use of various industry based datasets, including level of activity in COVID affected districts, moratorium, salary flows/uploads, resilience index, etc.

Customer service and engagement

- The bank enabled rural customer on-boarding on the digital platform by partnering with Airtel Payments Bank and Bharat Bill Pay for loan repayments and other banking needs.
- On the physical branch network, the bank is ensuring presence in high potential micro-markets and has substantially reduced branch sizes (by ~50%), creating fully digital branches and touch points for services like cash deposits, passbook printing, etc.

- Relationship management capabilities are being enhanced by ring-fencing the affluent base and targeting key influencers like CXOs at large corporate houses.
- Chatbot and voice banking services via Alexa, Google Home and iPal app have seen 2x increase in number of queries in H1-21 vs H1-20 and over 3mn queries are being answered monthly.
- Deployment of Whatsapp banking provides 21 services related to account, cards, loans etc to over 2 mn customers

Secured retail

- The bank keeps curating pre-approved and personalised offers for customers for home/mortgage and auto loans. It has more than 41,000 pre-approved real estate projects on its home loan micro-website, while more than 21,000 customers have visited its auto loans micro-website.
- Such processes have enabled 32% of new mortgage loans and 72% of new car loans being digitally processed with no contact authentications, digital documentation, and payments.
- Secured loan disbursements surpassed pre-COVID levels and stood at 133% of Feb-2020 volumes. Auto, mortgage, 2W and commercial business loan levels stood at 164%, 139%, 118% and 78% respectively in October-2020 (vs Feb-2020)

Unsecured retail

- The bank is digitizing each physical touchpoint for PLs and Credit cards. Video KYC implementation has significantly improved the onboarding process and the bank was processing ~2000 video KYCs in October.
- Digital originations share for credit cards has gone up to 77% in H1FY21 vs 34% in FY20 and 20% in FY19. 42% of new cards approved in October-20 were via Video-KYC with has significantly lower cost of acquisition and offers a reduced onboarding TAT by 3–5 days. The bank expects to hit the 10mn Cards in Force (CIF) mark by Jan-21
- Personal loan average disbursements stood at 81% of pre-COVID levels while credit card spends stood at 107% of pre-COVID levels in October-2020
- The bank is also expanding the FASTag ecosystem and is exploring digital partnerships for parking management and fuel payments.

International Banking

- The bank is strengthening and future proofing its core capabilities by establishing omni-channel distribution, redesigning offerings and solutions, realigning processes, and rebuilding partnerships in the digital space.
- It aims to onboard a large part of potential first time NRIs (like seafarers, students, health professionals and salaried employees) while they are within domestic boundaries by offering a gamut of services (investments, day-to-day banking, frictionless remittances, home loans and other assets, concierge services and lounge access). The bank has also activated face-to-face NRI sourcing in 14 locations while it is partnering with service providers on other locations.
- This has resulted in significantly higher remittance volumes in Sept-20 vs pre-COVID levels.

Rural Banking (Agri and Non-Agri)

- Rural banking business has witnessed 1.8x growth over 3 years and has a 10.1% share of the bank's domestic portfolio (includes KCC, business credit, GLs, etc). The bank caters to ~20mn rural customers, of which ~15mn are under banked and ~3mn are underprivileged micro-entrepreneurs.
- There is a lot of uncontrollable risk in the rural business (like monsoon prediction) and the bank is building an ecosystem centric model.
- There are multiple micro-markets in the rural landscape which offer 6 distinct ecosystems – agriculture, dealer, self-employed, micro-entrepreneurs, corporate, and institutional. Each of these ecosystems have separate requirements (however, there can be some overlaps). There are ~66,000 micro-markets geo-mapped to ~25,000 pockets
- Agricultural – a single RM is mapped to a pocket, and the RM utilises tab-based banking to provide 360-degree banking services across the value chain. The bank utilizes a satellite imagery repository to assess land viability and instantaneously provides an accurate risk assessment of the customer for loan appraisal and monitoring.
- Self-employed Ecosystem – ~ 1085 pockets with 2.2mn customers. The bank offers working capital and transaction solutions for warehouse, mandi and retailers-based ecosystem. Solutions are based on transaction analysis for digital payments and collections, working capital loans, and term loans. Loan disbursal TAT can be as quick as 30mins.
- Dealers Ecosystem - ~1,100 pockets with 1700 farm equipment dealers. The bank has partnered with key dealers to provide customised solutions and risk-based pricing.
- Micro-entrepreneurs' ecosystem - ~1,500 pockets with 1.8mn customers – focused on women and small artisans. The bank follows a SHG lending model in partnership with various NGOs and MFIs.
- Institutions ecosystem - ~155pockets with 60,000 customers including schools, hospitals, and government and religious institutions. Provide digital solution for payments and collections, post which the bank approaches the employees, vendors, and other service providers of the institution.
- Corporate ecosystem - ~362 pockets with 0.9mn customers. Driven primarily in synergy with corporate relationship team for their factories and suppliers. Created solutions for the workers, employees, vendors, and contractors.
- 3 layers of product offerings – the core is gold loans, followed by liability products and then asset products like home, auto, 2W, PL, CC and CV loans

Corporate Banking

- The bank is looking at maximising risk calibrated core operating profit while maintaining asset and earnings quality via 5 key drivers: improving coverage, enhanced customer experience, building ecosystems and partnerships, data analytics and redefining credit.
- Launched credit by invitation, digital underwriting, supply chain solutions,
- As economic activity recovers, the bank is witnessing higher volumes, robust portfolio quality, improved FX and trade market share, and increased tech adoption amongst corporates (by ensuring data integrity and safety)
- The bank is consolidating market share and its NDF solutions market share stood at 35% with volumes of ~USD 24bn in November 2020

- Apart from tailor made services, the bank also offers a customer focused treasury franchise. (Forex, derivatives, bonds, bullion): 6 drivers of Value proposition: Underlying business – LCs, fund limits, etc, products – forex, derivatives, Credit and non-credit services, Trade and personal remittances, India linkages – FX, NDF, FDI, NRIs, Customer coverage – market update, research, cross-selling
- Ecosystem liabilities and assets have grown 30% while the dealer/vendor book has grown 50% in the last year.
- Maximizing opportunity and success by adding customers as well as providing them with curated products. 360-degree strategy entails engaging with the customer on 7 different levels
 - MD, CEO and CXO levels for enterprise partnerships
 - Treasury – for FX and transaction banking
 - CHROs for salary accounts and retail customers
 - Digital heads to market
 - Plant level
 - Supply chain Procurement
 - Wealth platform for the sponsor corporate
- RM workbench introduced which captures all the engagements with the customer to cover all aspects of customer transactions. More than 62,000 engagements have been recorded so far. Analytics help the bank enhance market share by taking the bank to the customer, with sharp analytics based tracking and reduced cost of acquisition.
- 4 pillar approach for building digital capabilities:
 - Ecosystem (end to end solutions) – sector and industry specific solutions
 - Partnership (market access and growth) – Integration with fin-techs like TReDs has helped leverage e-invoicing for exponential growth. TReDS platform has ~62.6mn MSMEs with Rs 61.65bn of flows and a 13% market share.
 - Connected Enterprise (future ready banking solutions) – API marketplace, blockchain trading, payment hub, cloud infra, etc
 - Platforms (integrated digital customer journey) – corporate internet banking for 140+ digital banking solutions and a unique GST solution (11% market share)

Business Banking

- Network of 5000+ branches, coverage RMs and 500+ trade specific hubs and ~145 credit hubs
- Over the last year, customer preferences have shifted towards digital platforms over pricing, with a larger share (48%) of customers expecting to use contactless payments in post COVID world
- The bank's strategy is based on four pillars of executions: Customised Digital solutions, Capturing ecosystems through partnerships, Leveraging distribution capabilities, and capturing the customer via a 360-degree strategy.

- The bank has introduced a lite version of ERP for its small retailers called ERP on the go to provide banking and accounting solutions on a single platform without requiring an IT infra. The system has led to visible impact on business, with 19% contribution to overall digital payments, 54% growth in CA annual average balances in YTD Oct-20, and a 3x yoy growth in monthly customer acquisitions,
- Online trade and remittances (via the portal) has boosted deposits by 24%, reduced TAT by 20%, while forex volumes have grown 19%.
- Express bank guarantee system has been improved with two innovative solutions.
 - BG on the GO, and is an industry first solution, has helped reduce BG issuance time to ~1 hour.
 - A BG repository system for existing customers which will help in automatic authentication, digital inventory management, etc
- On the lending side, the bank has completely digitized the customer on boarding, credit underwriting and disbursement process via deep integration with APIs and internal and external sources.
- This digital system has led to 115,000 unsecured loans being disbursed completely digitally. RM productivity has improved by 25% in H1FY21
- Most business banking customers are tied into large corporate supply chains, as such the bank has been working with corporates to onboard their vendors onto the ICICI platform. For those who could not be integrated into the ERP have been onboarded via a non-integrated ERP model
- To provide growth and networking opportunities to customers, the bank's BIZCIRCLE helps connect vendors on its platform.
- The InstaBiz platform, which has 150+ banking services, now has over 1mn customers and has seen a 2.4x growth in financial transactions.
- The bank has developed STACKs for both merchants as well as startups – which has led to increased throughput and reduced time spent by customers on processes like inventory management, billings, payment solutions, etc.

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	747,983	814,418	895,835	1,002,125
Interest expenses	415,313	435,104	469,816	525,704
Net interest income	332,671	379,313	426,018	476,421
Other incomes	164,485	218,173	164,641	188,681
Total expenses	216,144	222,948	245,243	274,672
- Employee cost	82,712	86,848	95,533	106,997
- Other	133,432	136,100	149,710	167,676
Pre provisioning profit	281,012	374,538	345,416	390,429
Provisions	140,532	171,014	81,829	78,959
Profit before taxes	140,479	203,524	263,587	311,470
Tax provision	61,171	59,533	66,345	78,397
Profit after tax	79,308	143,991	197,242	233,073
Adjusted profit	79,308	143,991	197,242	233,073

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	12,948	13,786	13,786	13,786
Reserves & Surplus	1,152,097	1,463,053	1,643,587	1,859,503
Minority Interest	0	0	0	0
Net worth	1,165,044	1,476,838	1,657,372	1,873,289
Borrowings	1,628,968	1,448,894	1,560,182	1,770,514
- Deposits	7,709,690	8,900,350	9,583,975	10,876,017
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	479,950	300,765	259,255	202,547
Total Liabilities	10,983,652	12,126,848	13,060,784	14,722,367
Application of Funds				
Cash and balances with RBI	1,191,557	1,200,380	1,090,769	1,114,748
Investments	2,495,315	3,034,036	2,962,881	3,170,107
Advances	6,452,900	6,969,132	7,944,810	9,215,980
Fixed assets	84,103	87,508	92,808	96,897
Other current assets, loans and advances	759,777	835,754	969,475	1,124,591
Total Assets	10,983,652	12,126,810	13,060,743	14,722,323

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	9.3	9.0	9.1	9.1
Yields on interest earning assets	7.9	7.6	7.7	7.9
Yield on investments	6.4	6.4	6.3	6.4
Costs of funds	4.7	4.4	4.4	4.4
Cost of deposits	4.6	4.3	4.3	4.3
NIMs	3.5	3.6	3.7	3.7
(B) Asset quality and capital ratios (%)				
GNPA	5.5	5.5	4.4	3.3
NNPA	1.6	1.1	1.3	1.0
PCR	75.6	82.0	75.0	75.0
Slippages	2.4	3.5	2.5	2.0
NNPA to NW	8.9	5.5	6.5	5.2
CASA	45.5	45.0	45.0	45.0
CAR	16.1	17.0	17.5	17.3
Tier 1	14.7	15.9	16.6	16.6
Credit - Deposit	83.7	78.3	82.9	84.7
(C) Dupont as a percentage of average assets				
Interest income	7.3	7.0	7.1	7.2
Interest expenses	4.0	3.8	3.7	3.8
Net interest income	3.2	3.3	3.4	3.4
Non interest Income	1.6	1.9	1.3	1.4
Total expenses	2.1	1.9	1.9	2.0
- cost to income	43.5	37.3	41.5	41.3
Provisions	1.4	1.5	0.6	0.6
Tax	0.6	0.5	0.5	0.6
RoA	0.8	1.5	1.6	1.7
Leverage	9.7	8.4	8.0	8.0
RoE	7.2	13.4	12.6	13.2
RoRwa	1.0	2.0	2.1	2.2
(D) Measures of Investments				
EPS - adjusted	12.3	25.7	28.6	33.8
BV	175.1	209.6	235.5	266.6
ABV	159.5	198.0	220.2	252.7
DPS	2.0	2.3	2.3	2.3
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	23.1	14.0	12.3	11.8
PPoP	25.9	33.3	(7.8)	13.0
Adj PAT	251.9	81.6	37.0	18.2
Advances	10.0	8.0	14.0	16.0
Total borrowings	(1.5)	(11.1)	7.7	13.5
Total assets	13.9	10.4	7.7	12.7
(F) Valuation Ratios				
Market Cap (Rs. mn)	3,250,171	3,250,171	3,250,171	3,250,171
CMP (Rs.)	502	502	502	502
P/E (x)	41.0	19.6	17.5	14.8
P/BV (x)	2.9	2.4	2.1	1.9
P/ABV (x)	3.1	2.5	2.3	2.0
Div Yield (%)	0.4	0.4	0.4	0.4

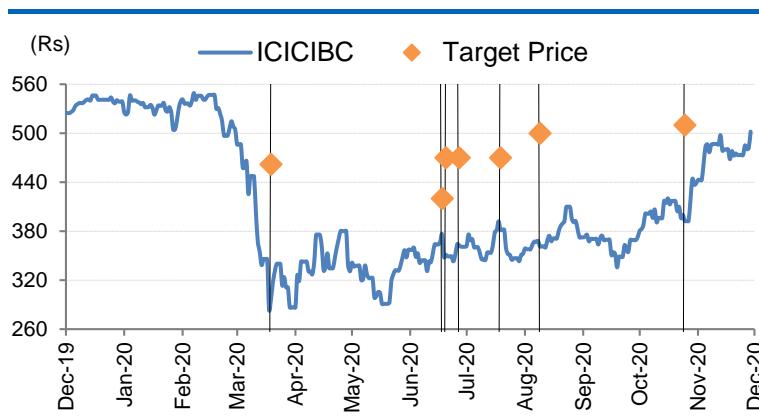
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Buy	462	297
Jun-20	BUY	420	376
Jun-20	BUY	470	351
Jul-20	Buy	470	363
Jul-20	BUY	470	382
Aug-20	Buy	500	361
Oct-20	BUY	510	393

*Price as on recommendation date

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