

# ICICI Bank

BUY

## Digital & Data analytics are key drivers

### Summary

We attended virtual Analyst Day hosted by ICICI bank which showcased the digital strategy of each business segment and data analytics are the key drivers to enhance the risk calibrated operating profits for the bank. Bank re-iterates its strategy of 'One Bank, One ROE, and One KPI'. Management highlighted outages in this digital world can be with anyone however important thing is the disaster management to quickly resolve the impact. We re-iterate 'BUY' with a new TP of Rs.580 (earlier Rs.500), valuing parent business at Rs.430 (1.8X P/ABV FY23E) and rest for the subsidiaries; Valuing at 5-year average as economy shows improvement better than earlier expected.

### Key highlights and Investment Rationale

- **Retail Banking - Data driving through stack and provide 360 degree solution for retail clients:** Through ISTACK bank is building its deep relationship with its existing customer by doing data mining and providing products as per the needs. This is done over a deep understanding of customers (profiles, life stage, and ecosystems) and by using algorithm provides the solution and also helps to cross-sell other products.
- **Focus on Micro market and cost optimization:** Bank seeing opportunities in the micro market and slowly and steadily focusing towards micro market. Bank focus is on 15 cities and within that top pin codes which will help in increase in customer acquisition and expanding its footprints however cutting down its branch size by half and focusing on small format branch (300-700 sq ft) with self-services devices. Hiring more virtual RM rather than physical and also increasing engagement with corporates at Branch level.
- **Focus on NRI banking:** Bank increasing its focus towards NRI banking and seeing huge opportunities to grow while the bank already launched products like Unifee while on boarding segment specific customers and adopting omnichannel to expand its reach.
- **Rural market beyond agriculture:** As per bank, the rural market is not limited to agriculture but it includes self-employed, dealers, and corporates and the bank has a strategy to service all these segments. The bank uses advanced technology including satellite imagery to assess productivity of land. The bank has modified its apps and digital products to cater specifically to the rural segment.
- **Corporate Banking:** The bank is optimistic about corporate banking and seeing strong Capex from private while key sector will be steel, cement and pharma, supply chain. Bank transforming itself from the provider of capital to partner by providing solutions and help to gain their topline. The bank remains to focus on maximizing focus on its core operating profit by improving asset quality and disbursement (90%) in A- and above and reducing top 20 borrowers (10.8% as of Sept'20) and improving market share in FX and trade market (70-100 bps increase).

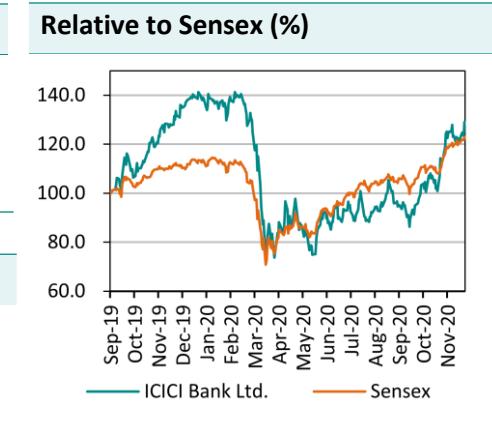
TP	Rs580		
CMP	Rs502		
Potential upside / downside	16%		
Previous Rating	BUY		
V/s Consensus	FY21E	FY22E	FY23E
IDBI Capital	16.6	23.1	27.2
Consensus	19.9	26.1	32.8
% difference	(16.6)	(11.5)	(17.1)

Shareholding Pattern (%)			
Promoters	0.0		
FII	45.7		
DII	41.1		
Public	13.2		

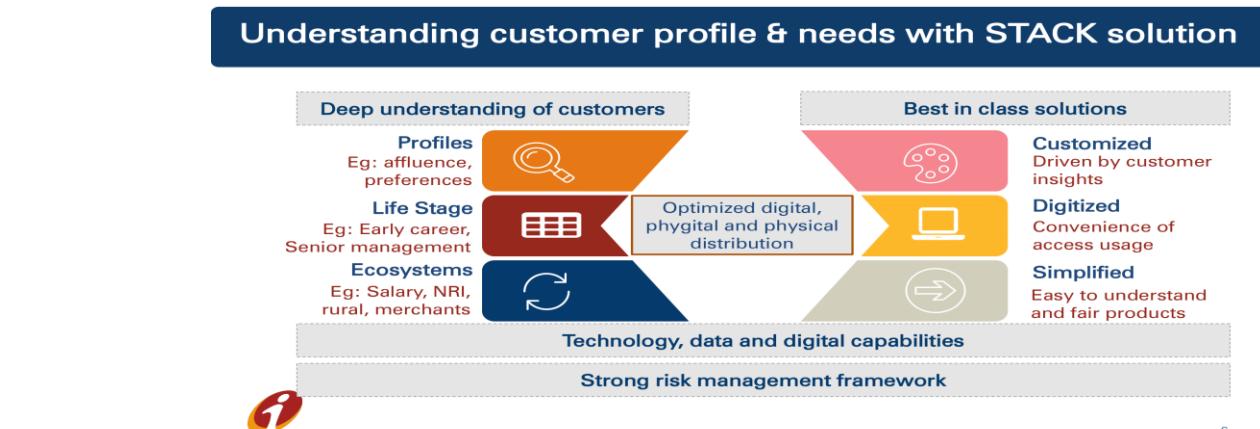
Price Performance (%)			
	-1m	-3m	-12m
Absolute	14.6	34.7	(4.9)
Rel to Sensex	5.5	17.2	(15.4)

Key Stock Data	
Bloomberg / Reuters	ICICIBC IN/ICBK.BO
Sector	Banking
Shares o/s (mn)	6,900
Market cap. (Rs mn)	3,465,035
Market cap. (US\$ mn)	46,755
3-m daily average value (Rs mn)	5,522.6
52-week high / low	Rs552/269
Sensex / Nifty	45,079 / 13,258



Year	FY2019	FY2020	FY2021E	FY2022E	FY2023E
NII	270,148	332,670	362,124	400,559	446,145
Net Profit	33,634	79,308	107,329	149,529	176,324
EPS (Rs)	5.2	12.3	16.6	23.1	27.2
ABV (Rs)	147.2	164.6	183.9	213.1	246.1
PER (x)	96.3	41.0	30.3	21.7	18.4
P/ABV (x)	3.4	3.1	2.7	2.4	2.0
ROE (%)	3.2	7.1	8.6	10.5	10.7
ROA (%)	0.4	0.8	0.9	1.2	1.3
GNPA (%)	7.4	6.0	6.8	6.4	6.3
NNPA (%)	2.3	1.5	2.0	1.9	1.9
CAR	16.9	16.1	16.9	17.1	17.4

Source: Company; IDBI Capital Research

**Exhibit 1: Deep driving data of existing customers through Stack**


Source: Company; IDBI Capital Research

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**Exhibit 2: Core pillars and one stop solution for retail banking**

**ICICI STACK as the core strategic pillar**  
*Comprehensive digitally powered solutions – Capture Customer 360°*

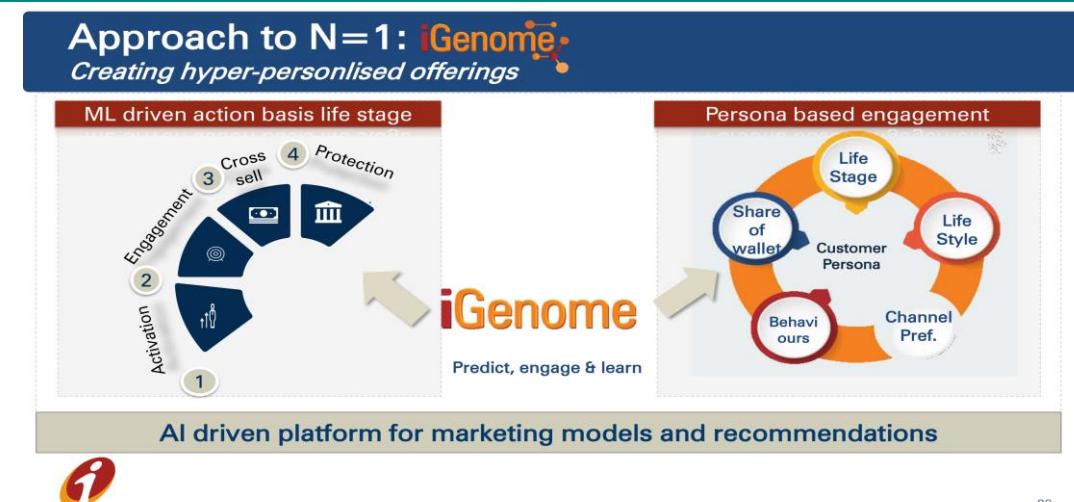


Source: Company; IDBI Capital Research

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**Exhibit 3: 360 degree solution for customer through digital onboarding**


Source: Company; IDBI Capital Research

**Exhibit 4: Cross selling through Omni-channel**


Source: Company; IDBI Capital Research

**Exhibit 5: Focus on Data analytics during Covid-19**
**Capability Built: During COVID-19**  
*Portfolio management with data analytics*

- 100+ variables of PDM 1.0 sharpened MoM with PDM 2.0 & 3.0 with industry, COVID districts, Moratorium, salary upload, resilience index, off-us, etc. markers
- Identification & restriction of probable bounce customers – with right treatment through right channel



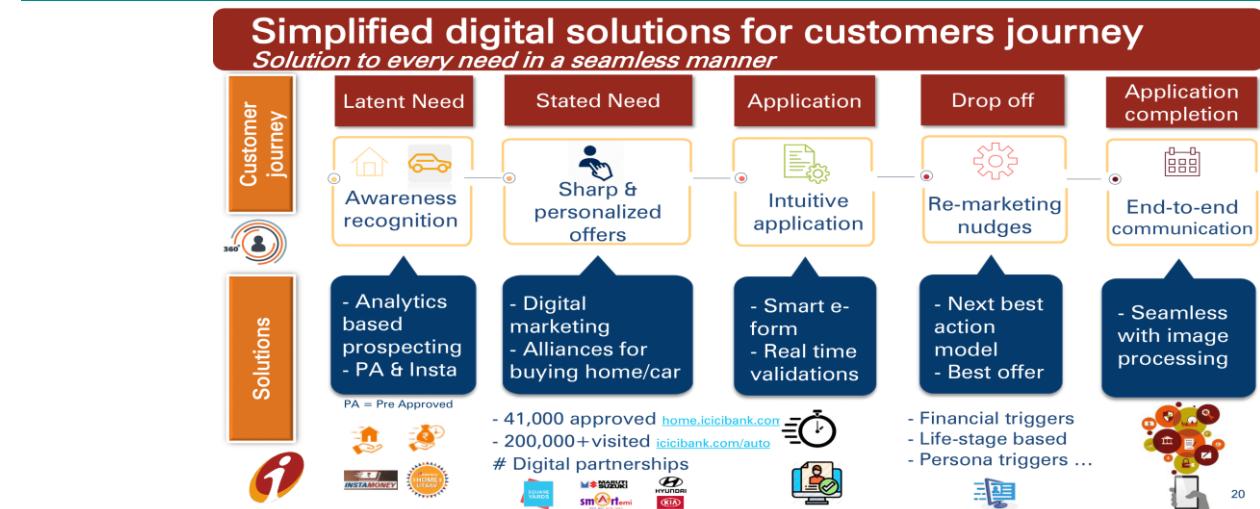
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Source: Company; IDBI Capital Research

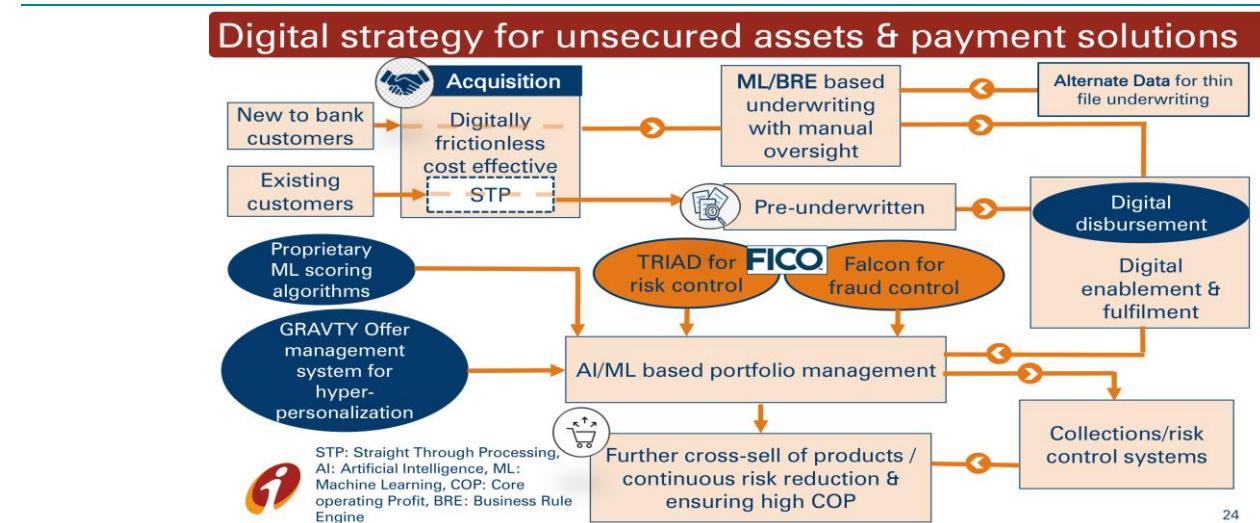
**Exhibit 6: Slow and steadily increasing focus towards Micro market**
**Micro-market approach to increase market share**  
*Curating relevant solutions for every market*


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Source: Company; IDBI Capital Research

**Exhibit 7: Easy and simplified digital solutions at one stop for secured assets**


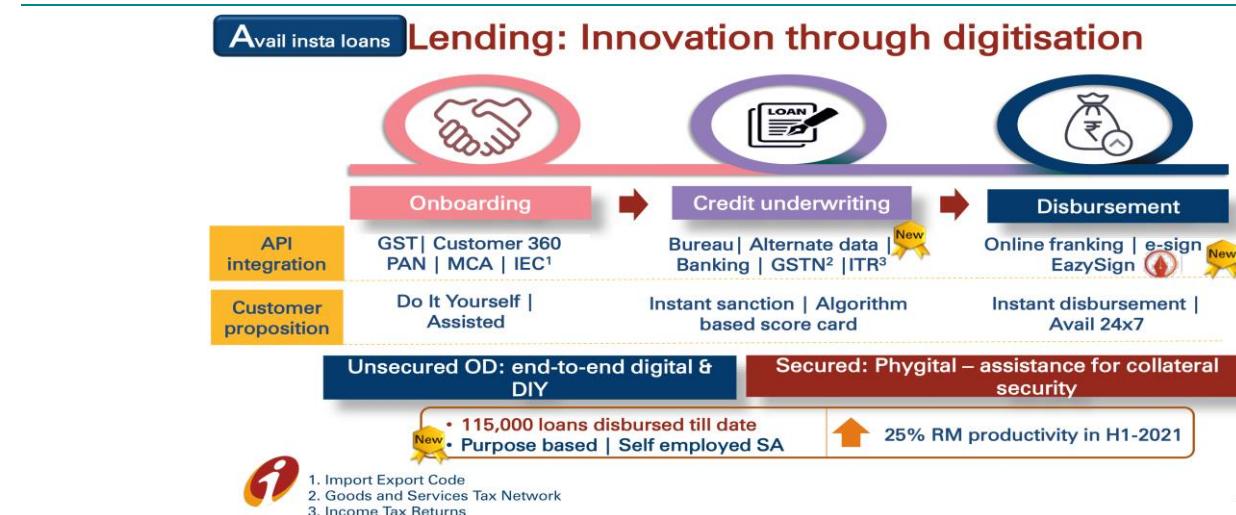
Source: Company; IDBI Capital Research

**Exhibit 8: Digital strategy for unsecured assets and solutions**


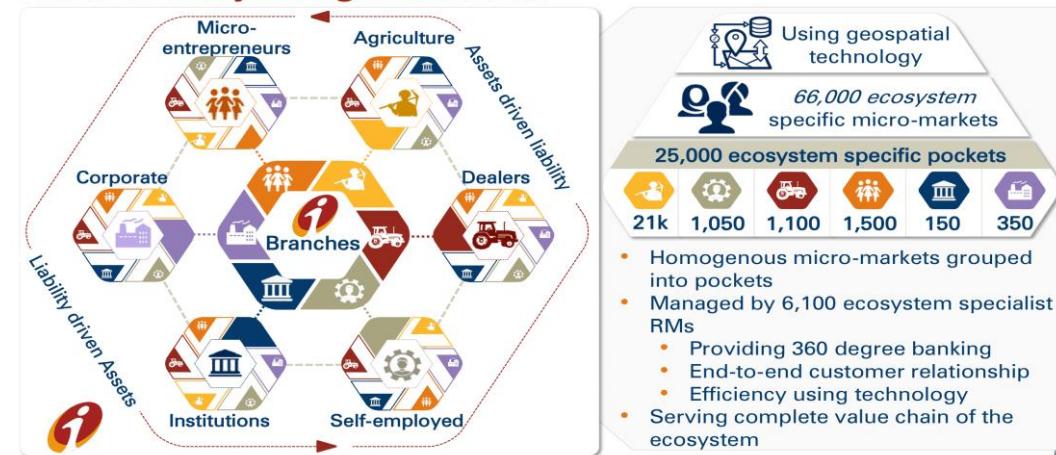
Source: Company; IDBI Capital Research

**Exhibit 9: one stop solution for Business banking through STACK**


Source: Company; IDBI Capital Research

**Exhibit 10: Quick and easy lending solutions through digital**


Source: Company; IDBI Capital Research

**Exhibit 11: Focus on Rural market which is beyond agriculture**
**Rural is not just agriculture...**


Source: Company; IDBI Capital Research

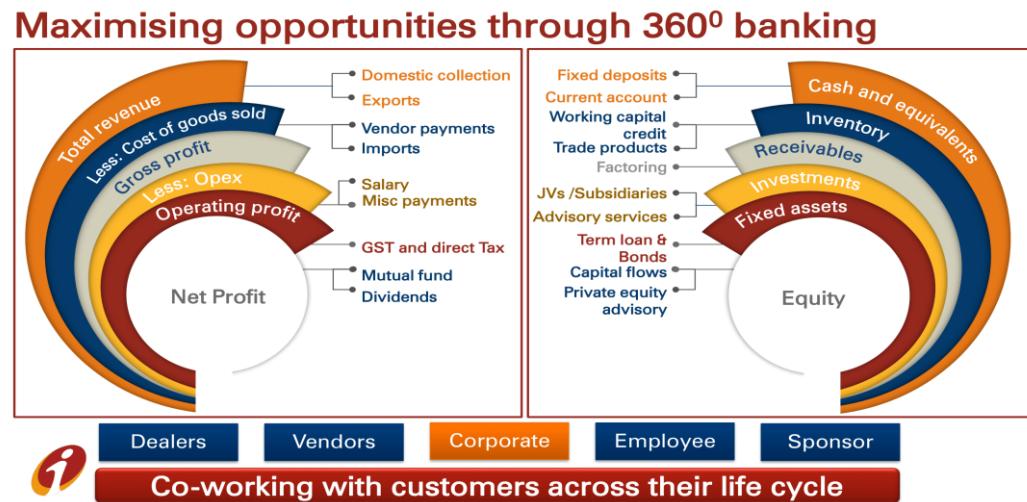
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**Exhibit 12: Customer acquisition model for Corporate banking**
**Comprehensive customer acquisition model...**


...to maximise opportunities

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Source: Company; IDBI Capital Research

**Exhibit 13: Providing solutions for corporate and helping them to gain their topline**


Source: Company; IDBI Capital Research

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**Exhibit 14: Sector specific solution for Corporates through STACK**

### ICICI STACK for Corporates



Source: Company; IDBI Capital Research

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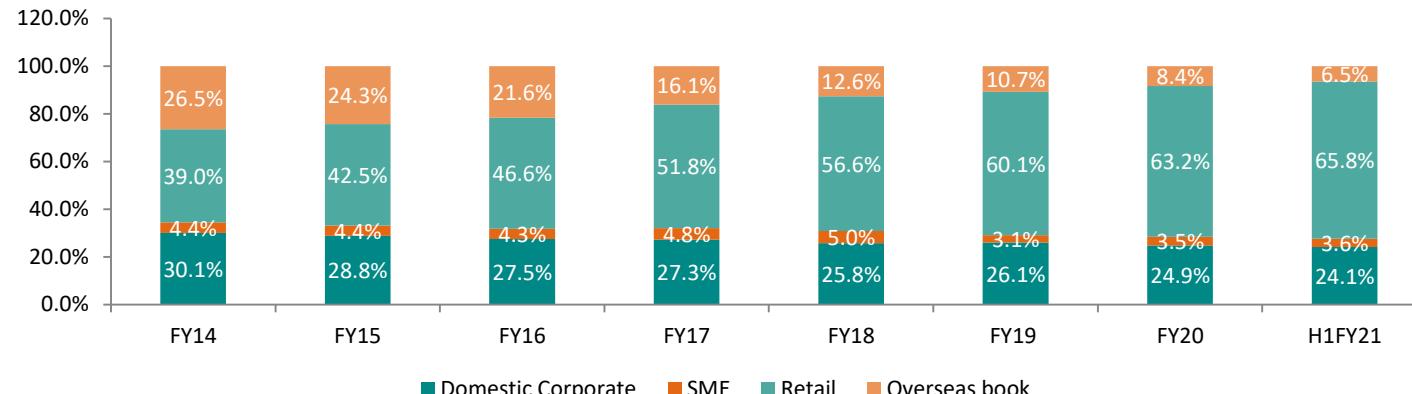
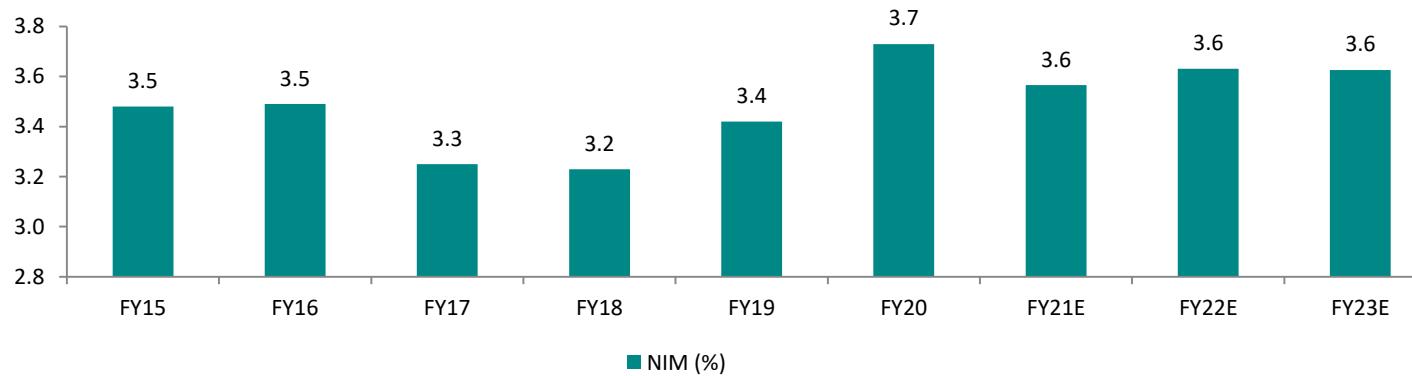
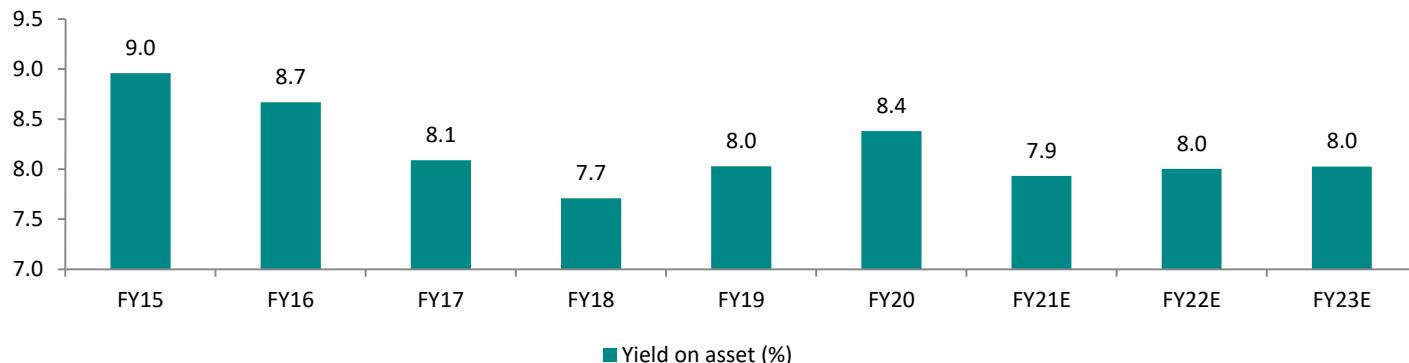
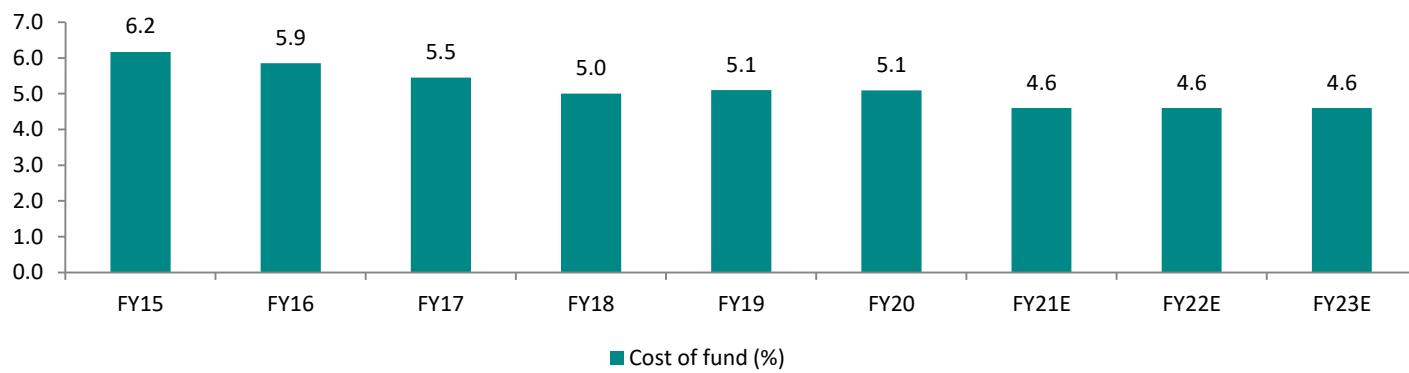
**Exhibit 15: Strategy to focus more on retail book; while decline in % of overseas book**

*Source: Company; IDBI Capital Research*
**Exhibit 16: NIMs improved led by lower interest reversal; but is expected to decline in FY21E**

*Source: Company, IDBI Capital Research*

Exhibit 17: Yield of Asset expected to decline in FY21 (%)

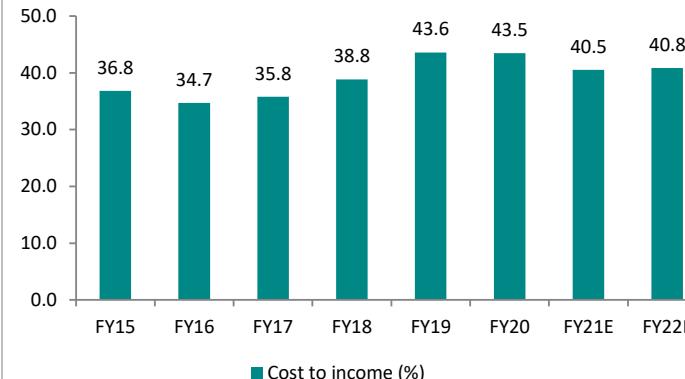


Source: Company, IDBI Capital Research

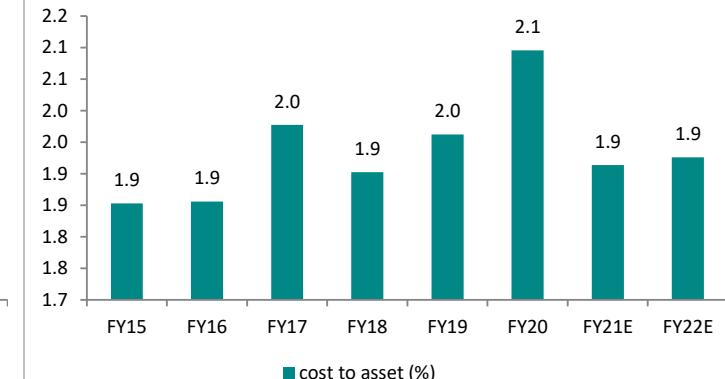
Exhibit 18: Cost of funds expected to decline in FY21



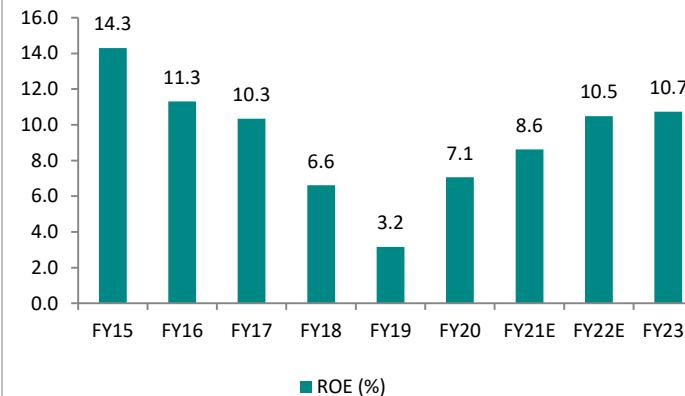
Source: Company, IDBI Capital Research

**Exhibit 19: Cost-to-income to ease substantially**


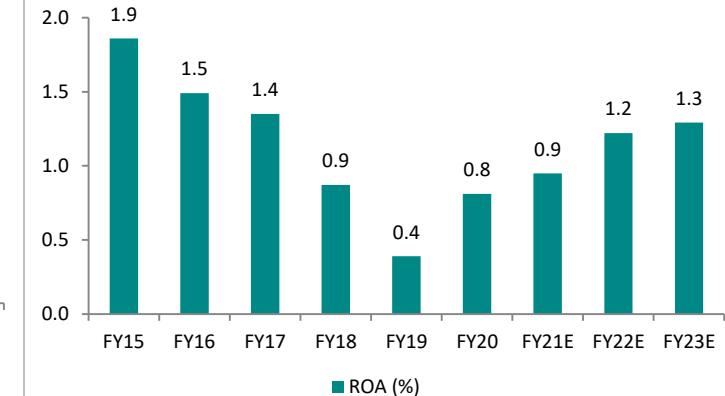
Source: Company; IDBI Capital Research

**Exhibit 20: Cost-to-assets to ease in FY21**


Source: Company; IDBI Capital Research

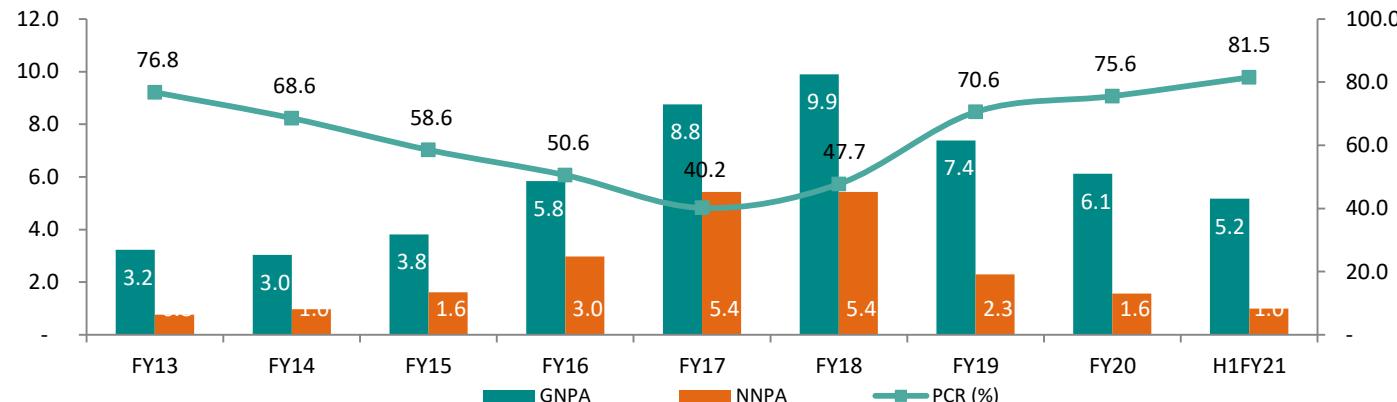
**Exhibit 21: ROE improvement lower due to capital raised**


Source: Company; IDBI Capital Research

**Exhibit 22: ROA to improve in YoY**


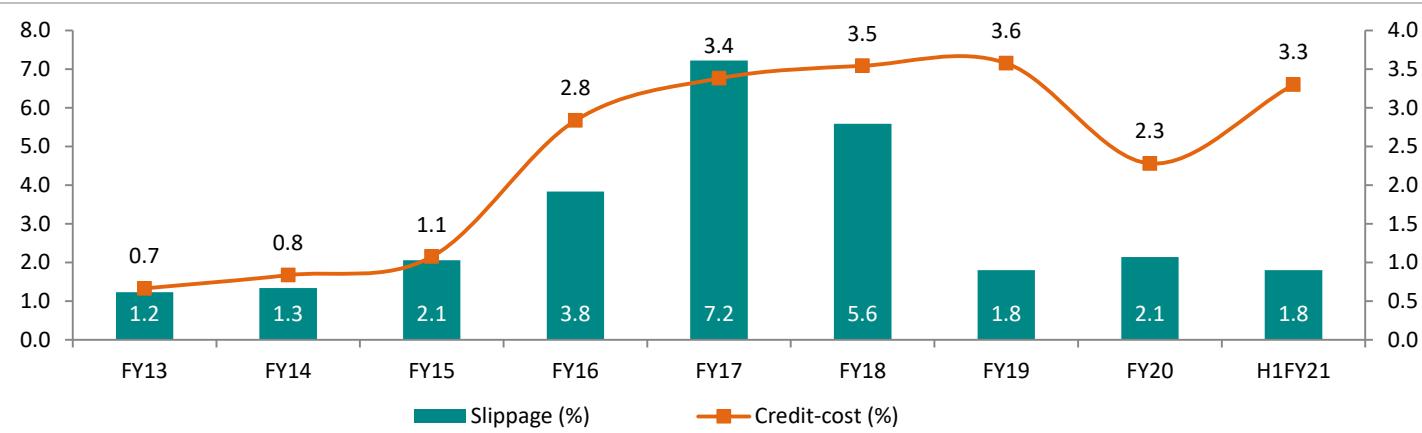
Source: Company; IDBI Capital Research

Exhibit 23: GNPA % reduces as slippage ratio declined while provision continue to increase

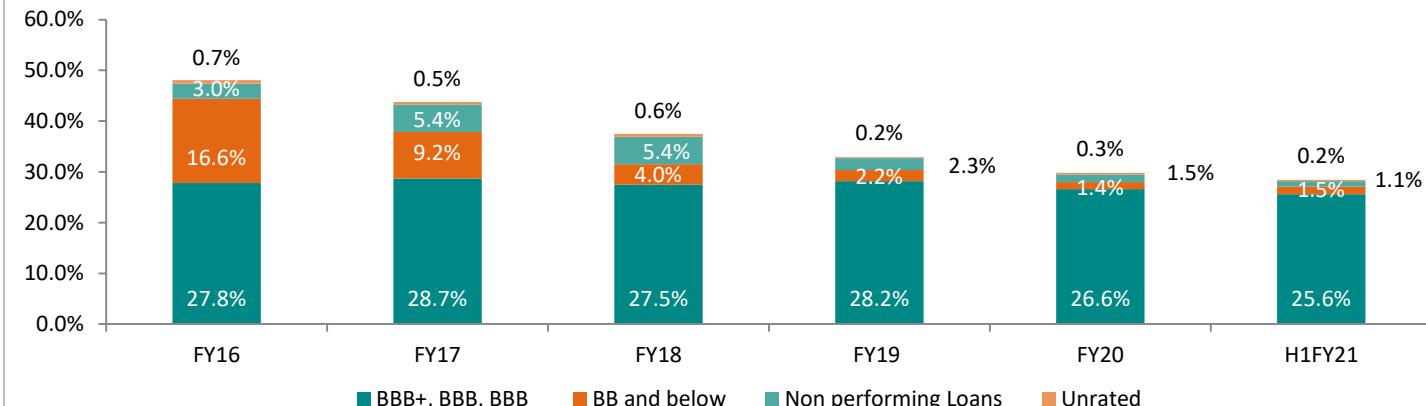


Source: Company, IDBI Capital Research

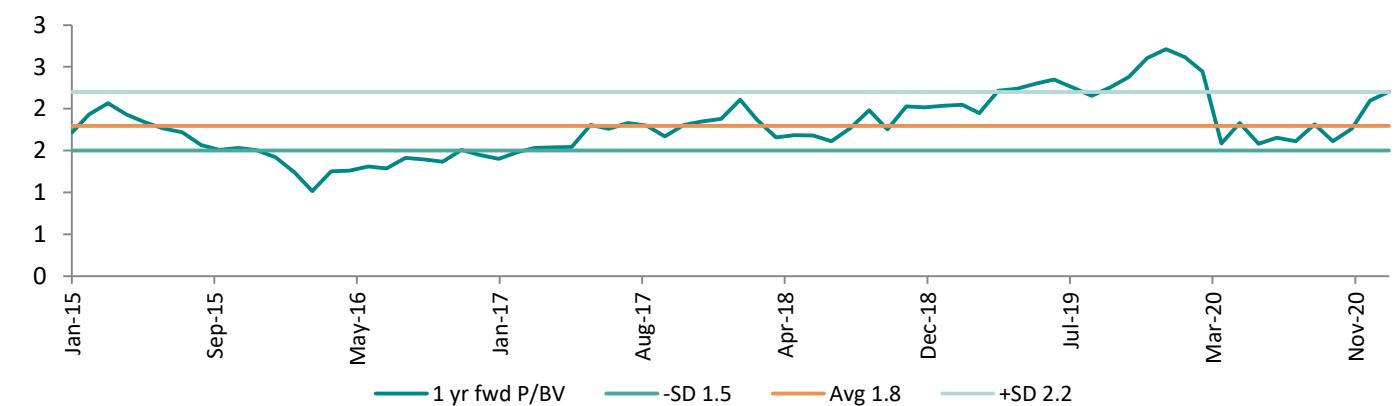
Exhibit 24: Credit cost increased in H1FY21 while slippages remain low due to Covid



Source: Company, IDBI Capital Research

**Exhibit 25: BB & below book continue to decline**


Source: Company, IDBI Capital Research

**Exhibit 26: One-year forward P/ABV**


Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>332,670</b>	<b>362,124</b>	<b>400,559</b>	<b>446,145</b>
Fee Income	116,451	106,860	124,421	139,351
Other Income	48,035	65,194	52,524	59,329
Operating Income	497,156	534,178	577,504	644,825
Operating expenses	(216,144)	(216,583)	(235,903)	(252,771)
Employee expenses	(82,712)	(89,687)	(96,844)	(97,026)
Other expenses	(133,432)	(126,896)	(139,059)	(155,746)
<b>Pre-Provision Profit</b>	<b>281,012</b>	<b>317,594</b>	<b>341,601</b>	<b>392,054</b>
Provision	(140,532)	(174,107)	(141,696)	(156,326)
Loan loss Provisions	(88,144)	(150,272)	(118,932)	(133,204)
Other Provisions	(52,388)	(23,835)	(22,764)	(23,123)
PBT	140,480	1,43,488	199,905	235,728
Taxes	(61,172)	(36,159)	(50,376)	(59,403)
<b>Net profit</b>	<b>79,308</b>	<b>107,329</b>	<b>149,529</b>	<b>176,324</b>

### Balance Sheet (Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Capital	12,948	12,952	12,952	12,952
Reserves	1,152,063	1,314,202	1,512,047	1,747,137
<b>Networth</b>	<b>1,165,011</b>	<b>1,327,154</b>	<b>1,524,999</b>	<b>1,760,089</b>
Deposits	7,709,690	8,613,096	10,021,635	11,599,199
Borrowings	1,628,968	1,320,455	1,005,235	901,099
<b>Total Liabilities &amp; Equity</b>	<b>10,983,652</b>	<b>11,648,081</b>	<b>12,845,498</b>	<b>14,434,867</b>
Cash & Bank with RBI	1,191,558	1,242,829	1,237,305	1,385,781
Investments	2,495,315	2,617,939	2,910,852	3,334,279
Advances	6,452,900	6,904,603	7,733,155	8,661,134
Other Assets	759,777	797,766	877,542	965,297
<b>Total assets</b>	<b>10,983,652</b>	<b>11,648,081</b>	<b>12,845,498</b>	<b>14,434,867</b>

Source: Company; IDBI Capital Research

### Financial Ratios (%)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Growth</b>				
Deposits	18.1	11.7	16.4	15.7
Advances	10.0	7.0	12.0	12.0
NII	23.1	8.9	10.6	11.4
Pre-Provision Profit	19.9	13.0	7.6	14.8
Net Profit	135.8	35.3	39.3	17.9
<b>Spreads (%)</b>				
Yield on Assets	8.2	7.9	8.0	8.0
Cost of Funds	4.7	4.6	4.6	4.6
NIM	3.6	3.6	3.6	3.6
CASA	45.1	45.0	45.5	45.5
<b>Operating Efficiency (%)</b>				
Cost-to-Income	43.5	40.5	40.8	39.2
Cost-to-Assets	2.1	1.9	1.9	1.9
<b>Asset Quality (%)</b>				
GNPA	6.0	6.8	6.4	6.3
NNPA	1.5	2.0	1.9	1.9
Provision Coverage	75.7	72.4	72.2	71.0
Credit Cost	2.3	2.6	1.9	1.9
<b>Capital Adequacy (%)</b>				
CAR	16.1	16.9	17.1	17.4
Tier I	14.7	15.6	15.9	16.4
<b>Valuations</b>				
EPS (Rs)	12.3	16.6	23.1	27.2
ABV (Rs)	164.6	183.9	213.1	246.1
P/E (x)	41.0	30.3	21.7	18.4
P/ABV (x)	3.1	2.7	2.4	2.0
ROE (%)	7.1	8.6	10.5	10.7
ROA (%)	0.8	0.9	1.2	1.3
RORWA (%)	1.1	1.4	1.7	1.8



# Notes

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Dealing

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**Key to Ratings Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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