

ICICI Bank

19 February, 2023

Reuters: ICICIBC.BO; Bloomberg: ICICIBC IN

Management meet update

We recently hosted the management of ICICI Bank, represented by Mr. Abhinek Bhargava, Head - Investor Relations and Corporate Strategy and Mr. Aasim Khan, Manager - Investor Relations and Corporate Strategy, as part of our week-long Investor Conference. Overall, the management is quite confident about the business environment in terms of credit growth in the banking system. The management indicated that for January'22, Retail segment volume held up well while growth in SME and Business Banking segments was healthy. However, in the Corporate segment, some slowdown is expected in various sectors as capex has been happening but at a slower pace. Also, the management has been confident about the overall exposure to the Adani group as most of the exposure is towards operating companies. It does not envisage asset quality issues regarding the same. We remain positive on ICICI Bank given its growth outlook and earnings trajectory. We maintain BUY on ICICI Bank with a target price (TP) of Rs1,171.

Management Meeting Key takeaways

On exposure to Adani Group:

- The management indicated that ICICI Bank's exposure to the Adani group is mainly towards the operating companies of the group. Moreover, the loan repayments have also been regular.
- The bank has defined hardcore limits to extend credit to any single group or corporate. However, over the last few years, exposure to the Adani group has increased on account of the group's recent acquisition in the cement sector.

On Credit growth:

- The bank continues to witness healthy growth across most of the segments. The management indicated that in the Retail segment, volume held up well while growth in SME & Business Banking segments was also healthy.
- The management indicated that volumes in the Affordable Housing segment has been stagnant for the last couple of quarters and higher ticket price in the Premium segment has been driving the overall home loan growth. The management highlighted that it has witnessed a shift in the mix in favor of premium property. A few trends that have been evident are as follows: (i) Migration from rural to urban, which is leading to the rise in property demand and (ii) increase in household disposable incomes.
- Corporate book growth has been driven by the shift from credit substitutes to bank credit. But, going forward, the management expects some slowdown in growth.
- The management indicated that the introduction of IBPC has been a significant change that has led to change in discipline and culture. Additionally, multiple credit sources are available for funding like foreign banks, AIFs, etc.
- Gold loan is an attractive product and the bank has been growing the portfolio for the past couple of years.
- One significant change the management highlighted is that earlier the bank had separate vertical for servicing rural market. But, now all its branches are serving rural as well as urban markets which is likely to support overall growth.
- Unsecured portfolio currently stands at ~11.5% (personal loans and credit cards). The loans are with existing customers in the salaried class.
- In credit cards segment, the bank's strategy is to focus on building value-added relationships and not only towards increasing market share in number of credit cards.
- The revolver rates have been on lower side. Moreover, personal loan interest rates have not moved in the past nine months on the back of significant competition pressure.

Financial summary

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	389,894	474,661	613,781	682,996	782,227
Pre-provisioning operating profit	363,971	392,503	497,016	567,003	665,888
PAT	161,927	233,395	320,961	354,853	400,570
EPS (Rs)	23	34	46	51	58
BV (Rs)	213	245	291	342	400
P/E	37.5	25.4	18.7	16.9	14.9
P/BV	4.0	3.5	3.0	2.5	2.2
Gross NPAs (%)	5.3	3.8	3.0	2.9	2.9
Net NPAs (%)	1.2	0.8	0.5	0.6	0.6
RoA (%)	1.4	1.8	2.1	2.0	2.0
RoE (%)	12.3	14.7	17.2	16.1	15.5

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Banking

CMP: Rs862

Target Price: Rs1,171

Upside: 36%

Nikhil Shah

Research Analyst

nikhil.shah@nirmalbang.com

+91-22-6273 8092

Key Data

Current Shares O/S (mn)	6,980.8
Mkt Cap (Rsbn/US\$bn)	6,022.0/72.7
52 Wk H / L (Rs)	958/642
Daily Vol. (3M NSE Avg.)	13,169,030

Price Performance (%)

	1 M	6 M	1 Yr
ICICI Bank	(0.4)	(0.9)	15.2
Nifty Index	(0.5)	1.0	3.9

Source: Bloomberg

On deposits:

- Deposit traction remains healthy on the retail front. The management expects sustainable growth to be ~12-14%.
- The management expects the proportion of core retail deposits to keep on increasing while CASA growth is expected to moderate. Moreover, the management does not foresee any funding issues on the basis of deposits.

Other highlights:

- The management indicated that NIM is almost at peak level and expects it to peak out by 4QFY23 or 1QFY24, beyond which some moderation is expected.
- Over the medium term, sustainable NIM is expected to be ~4-4.5%.
- The management does not see any material impact on shifting to ECL provisioning.
- Other fee income growth was ~4% in last quarter due to most of the credit card spends being booked in 2QFY23 because of the early festive season. Also, third party fee has been coming down or has remained stagnant.
- The management also indicated that they have waived off penal charges like foreclosure on personal loans, auto loans, SME and business banking, which used to be ~5% with the aim to build long-term relationship.
- However, the management expects fee income growth to pick up going forward, driven by transaction banking, forex, payments in cards business, etc.
- The bank gets PSLC majorly from rural, SME and mortgage. Currently, it is facing a shortfall from small and marginal farmers.

Exhibit 1: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 2: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	791,183	863,745	1,075,518	1,262,324	1,443,700
Interest expense	401,288	389,085	461,737	579,329	661,473
Net interest income	389,894	474,661	613,781	682,996	782,227
Fees & Other Income	189,685	185,175	203,878	250,170	301,303
Net Revenue	579,580	659,836	817,659	933,166	1,083,530
Operating Expense	215,608	267,333	320,642	366,164	417,642
-Employee Exp	80,918	96,727	110,498	112,533	123,304
-Other Exp	134,691	170,606	210,145	253,631	294,338
Pre-Provisioning Operating Profit	363,971	392,503	497,016	567,003	665,888
Provisions	162,144	86,414	69,068	93,865	131,794
PBT	201,827	306,089	427,948	473,138	534,094
Taxes	39,900	72,694	106,987	118,284	133,523
PAT	161,927	233,395	320,961	354,853	400,570

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	13,834	13,900	13,900	13,900	13,900
Reserves & Surplus	1,461,258	1,691,220	2,009,517	2,364,370	2,764,941
Shareholder's Funds	1,475,092	1,705,120	2,023,417	2,378,270	2,778,841
Deposits	9,325,222	10,645,716	11,781,520	13,401,479	15,224,080
Borrowings	916,310	1,072,314	1,472,690	1,809,200	2,093,311
Other liabilities	587,704	689,828	787,499	971,333	1,118,961
Total liabilities	12,304,327	14,112,977	16,065,125	18,560,281	21,215,192
Cash/Equivalent	1,331,283	1,678,224	1,690,930	1,865,884	2,057,342
Advances	7,337,291	8,590,204	10,154,445	11,880,701	13,757,852
Investments	2,812,865	3,102,410	3,387,187	3,886,429	4,338,863
Fixed Assets	88,776	93,738	103,112	110,282	121,602
Other assets	734,112	648,401	729,451	816,986	939,533
Total assets	12,304,327	14,112,977	16,065,125	18,560,281	21,215,192

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
NII growth	17.2	21.7	29.3	11.3	14.5
Pre-provision profit growth	29.5	7.8	26.6	14.1	17.4
PAT growth	104.2	44.1	37.5	10.6	12.9
Business (%)					
Deposit growth	21.0	14.2	10.7	13.8	13.6
Advance growth	13.7	17.1	18.2	17.0	15.8
CD	78.7	80.7	86.2	88.7	90.4
CASA	24.1	20.1	5.7	16.2	13.6
Operating efficiency (%)					
Cost-to-income	37.2	40.5	39.2	39.2	38.5
Cost-to-assets	1.9	2.0	2.1	2.1	2.1
Spreads (%)					
Yield on advances	8.3	8.0	8.6	8.6	8.6
Yield on investments	6.2	5.5	5.9	6.0	5.8
Cost of deposits	3.9	3.3	3.6	4.0	4.0
Yield on assets	7.4	7.0	7.6	7.7	7.7
Cost of funds	4.1	3.5	3.7	4.1	4.1
NIMs	3.6	3.8	4.3	4.2	4.2
Capital adequacy (%)					
Tier I	18.1	18.3	18.2	18.0	18.1
Tier II	1.1	0.8	0.7	0.7	0.6
Total CAR	19.1	19.2	18.9	18.7	18.7
Asset Quality (%)					
Gross NPA	5.3	3.8	3.0	2.9	2.9
Net NPA	1.2	0.8	0.5	0.6	0.6
Provision coverage	76.7	78.5	82.1	79.8	80.5
Slippage	1.4	0.3	0.5	0.8	0.9
Credit-cost	2.4	1.1	0.7	0.9	1.0
Return (%)					
ROE	12.3	14.7	17.2	16.1	15.5
ROA	1.4	1.8	2.1	2.0	2.0
RORWA	2.1	2.8	3.2	3.0	2.8
Per share					
EPS	23	34	46	51	58
BV	213	245	291	342	400
ABV	196	231	279	328	384
Valuation					
P/E	37.5	25.4	18.7	16.9	14.9
P/BV	4.0	3.5	3.0	2.5	2.2
P/ABV	4.4	3.7	3.1	2.6	2.2

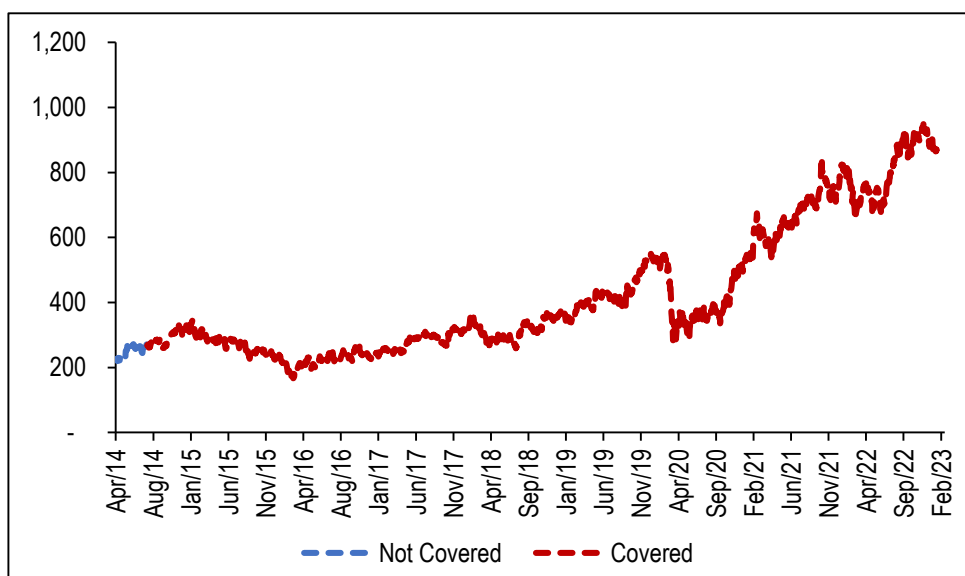
Source: Company, Nirmal Bang Institutional Equities Research

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
24 July 2022	Buy	800	1,079
19 September 2022	Buy	911	1,147
24 October 2022	Buy	907	1,144
23 January 2023	Buy	870	1,171
19 February 2023	Buy	862	1,171

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Nikhil Shah, research analyst, the author of this report, hereby certifies that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18

Dealing

Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010