

Building a scalable franchise through adoption of digital capabilities

CMP: INR 716

Rating: Buy

Target Price: INR 942

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	1,387
Mkt Cap (INR Cr)	497,353
52w H/L (INR)	860 / 479
Avg Yearly Vol (in 000')	18,226

Shareholding Pattern %

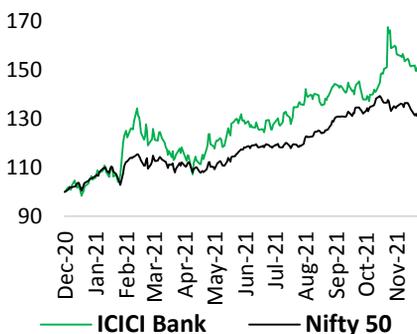
(As on September, 2021)

Promoters	NIL
FII	47.3
DII	42.5
Public & Others	10.2

Stock Performance (%)

	1m	3m	12m
ICICI Bank	-8.9	-1.1	48.7
Nifty 50	-3.6	-0.7	30.9

ICICI Bank Vs Nifty



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ICICI Bank had hosted a analyst day where the bank showcased their strong traction on digital capabilities around the each businesses by focusing on 360-degree customer approach, digitization, building up of technology architecture as per the customer needs and leveraging ecosystem to scale up the franchise. We are confident on the efforts which bank are taking to rebuild itself which would enable it to achieve strong growth rate than industry growth and maximize the risk adjusted operating profit. Execution in the bank are happening solid on the digitization front and we believe this transition is the reflection of loan growth number along with tightening risk underwriting practices. ICICI Bank is our top pick in banking space and we have Buy rating with a SOTP based target price of INR 942 (unchanged).

Scaling up the franchise through further acceleration of digital solutions:

The bank has broadly shared the efforts it has been making to scale up the business and accelerating its dominance across the banking spectrum. Key highlights are: i) Evolving the products as per customers needs (Building a platform as per customers 360-degree approach) ii) InstaBIZ: Successful offering, driving strong growth in SME/Business banking iii) Partnered with multiple Fin-techs on lending, risks management, deposits, payment, etc. driving customer acquisitions, relationship deepening, iv) First bank using Video KYC for Unsecured loans, v) iMobile pay app of the bank offers all banking solutions in one platform, vi) Intelli Collect platform digitally resolving 29% bounce cases in retail EMI/CC products at 1/5th of call centre cost vii) UPI growth seen at 89% YoY on YTD Oct'21 basis compared to overall UPI market growth of 74% YoY (12% market share by volume in Oct 2021) , viii) Developing a super merchant ICICI STACK app for Corporates

Opening remarks by MD & CEO, Mr. Sandeep Bakshi:

MD in its remarks stated that fair to the customer and fair for bank is the focus. India is emerging as a start-up ecosystem in the world. MD has also mentioned about job culture of putting best people and ensuring strong culture in the bank. RoE continues to be focus with risk adjusted core operating profit. Portfolio of the bank has been held out fairly well. Technology and choice of technology partnership is important where there are multiple of digital service providers and large number of partnerships happenings.

Valuation & View; top idea in banking space:

ICICI Bank has improved its positioning over the past few years and its has shown a strong performance with industry leading growth, margins at peak, conservative policy stance with well cushioned balance sheet, strong liability franchise, reduction in NPA and faster adoption of technology. The key conclusion from the meet was that the bank has become a one stop shop for all solutions and a financial marketplace across the segments. The bank re-iterated its focus on delivering risk-adjusted operating profit growth. We maintain our Buy rating on the stock and have a target price of INR 942, based on 2.6x FY24E P/ABV for standalone bank and INR 156 for subsidiaries.

ICICI Bank (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
NII	33,267	38,989	45,948	53,901	62,776
PPOP	28,101	36,397	39,750	46,179	53,361
PAT	7,931	16,193	20,352	26,223	31,327
EPS (INR / Share)	12.3	23.4	29.4	37.9	45.3
BVPS (INR / Share)	180.0	213.2	241.7	278.6	322.9
NIM (%)	3.5%	3.6%	3.7%	3.8%	3.8%
RoA (%)	0.7%	1.3%	1.4%	1.6%	1.7%
RoE (%)	6.8%	11.0%	12.2%	13.6%	14.0%
P/ABV (x)	4.5	3.7	3.2	2.8	2.4

Source: Company, Arihant Research

Key takeaways from analyst meet

Retail and SME Business strategy

- Building platforms & journeys for digital banking with Customer 360 degree approach, identifying customer segments, using digital footprints to build profiles and improve processes and focus on end-to-end customer needs.
- Robust platforms: Retail internet banking, iMobile Pay, Corporate internet banking, InstaBIZ.
- 74% customers are digitally active in the retail banking. Also, 74% customers are digitally active in corporate banking.
- >90% of savings account transactions through digital channels in retail.
- Digital contribution: Savings account: 28%, FD volume: 52%; Disbursements: 16% and Cards sourced: 45%.
- iMobile pay (New to Bank): 4.5 mn activations from non-ICICI Bank customers, 34x transaction volume, 18x growth in users, ~10% users have bought one ICICI Bank product.
- Focus is on end to end customers needs enabling seamless payments. This has enable 2-5x growth in insta loan disbursements across retail products. Using digital footprint to build profile and improve process.
- Strong traction seen in NTB (New to Bank) customers on iMobile app.
- 100% personal loan acquisition is through digital platform.
- Ban on FLDG in BNPL (Buy now pay later) has very low impact on ICICI Bank.
- ICICI bank Amazon Pay credit card - Of the total new cards booked, 60%+ are NTB.
- In Q3FY21, bank started Intelli-collect where ~30% of bounces in retail EMI products are resolved virtually.
- 87% of payments are collected digitally.
- 2.5x YoY growth in Home loans approvals (in value term), disbursements increase by 1.7x in personal loans, 4.2x disbursements growth in Auto loans.

Wholesale Banking

- Some Capex revival seen in Renewable, Data centres. Though, there is still some time away for private green-field capex programme revival. Capacity utilization levels have increased to ~80% across sectors such as Steel, Petroleum, Power and Textiles.
- The bank has an ecosystem approach capturing end to end values across ecosystems. It has created multiple modular platforms aiding bespoke solutions.
- Developing a Super merchant STACK to provide all in one proposition namely Onboarding, transaction, credit and servicing for Corporates.
- Building Capabilities includes - Data ingestion, Data warehousing & Storage, Data processing & models and Data service and development.
- Creating several industry specific solutions and multiple solutions for Customer helps. API integration can now happen within 24hours for Corporates by using Xpress connect.
- Corporate India has 63mn MSME, 1.4m active corporates, 7,500+ listed companies and 750+ funds which provides a large pool for the banks to provide a diversified services.
- API – 97.5mn transaction per day across 600+ API in Retail and 85+ API in Corporate.
- InstaBiz: Total active customer +1mn with 90% payment through digital channels and 1.6x increase in financial transactions.

Story in Charts

Exhibit 1: Strong growth seen through digital sourcing

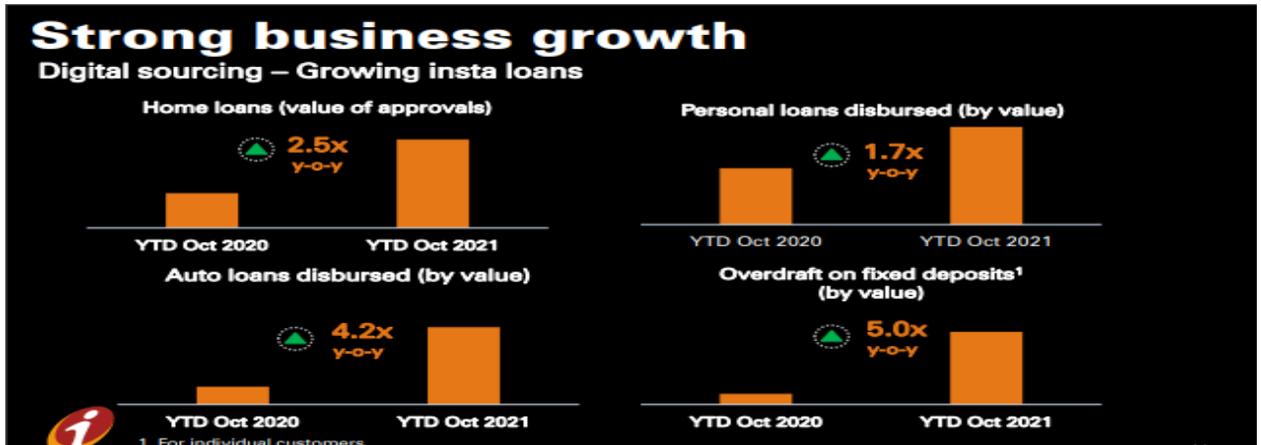


Exhibit 2: Faster growth through digital platforms

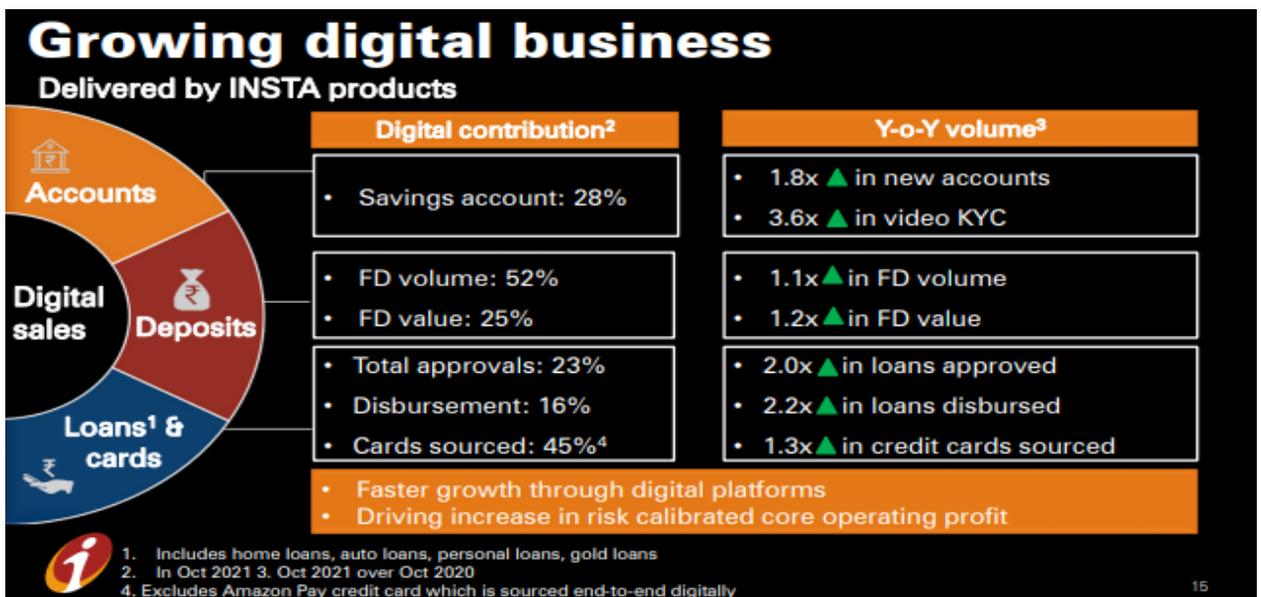
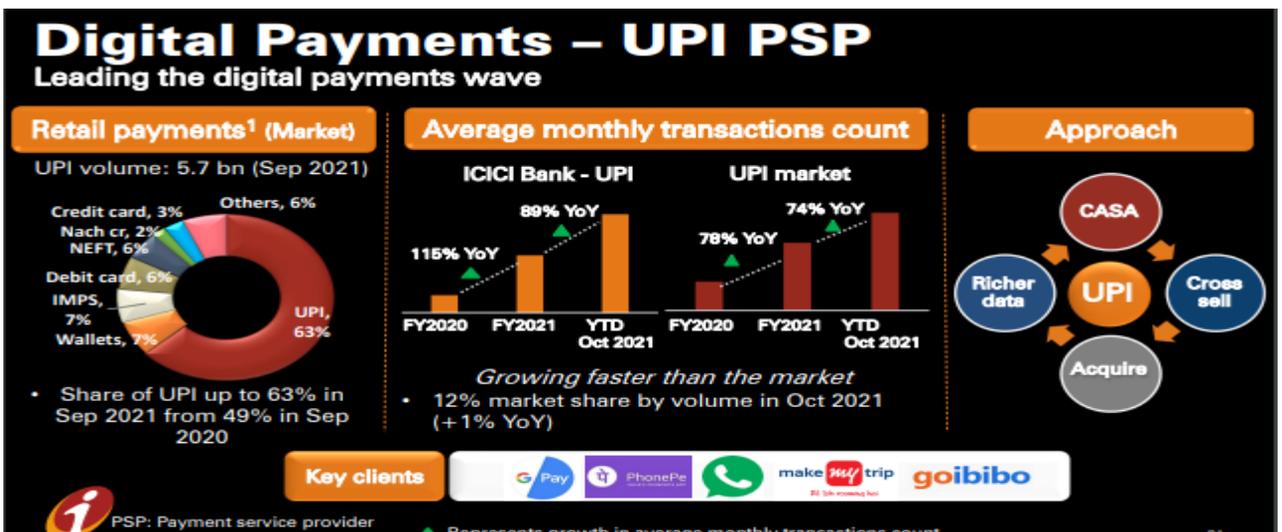


Exhibit 3: 12% market share in UPI by volume



Source: Company, Arianth Research

Story in Charts

Exhibit 4: Credit cards acquisition

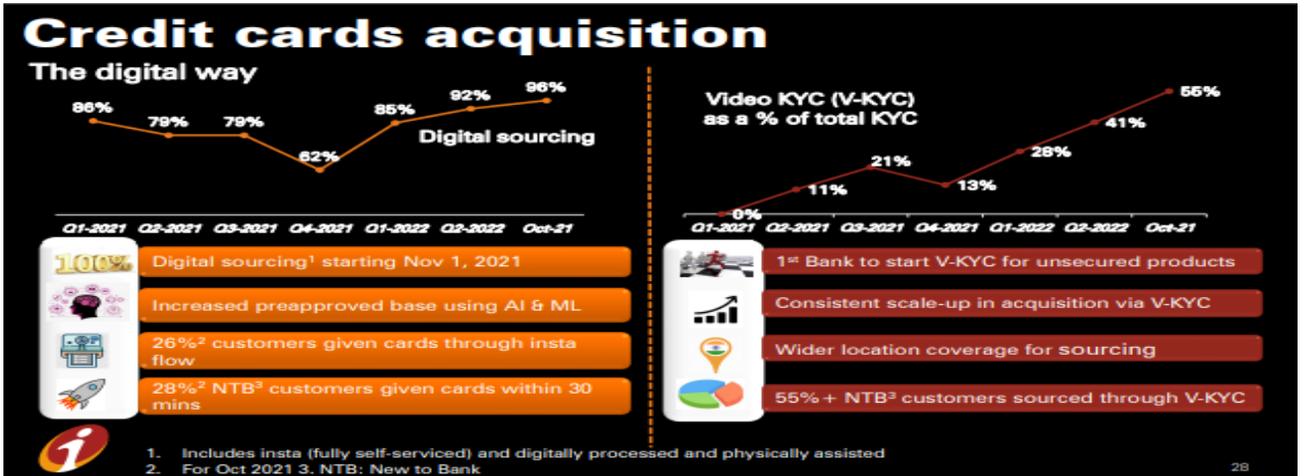


Exhibit 5: ICICI Bank's credit card market share

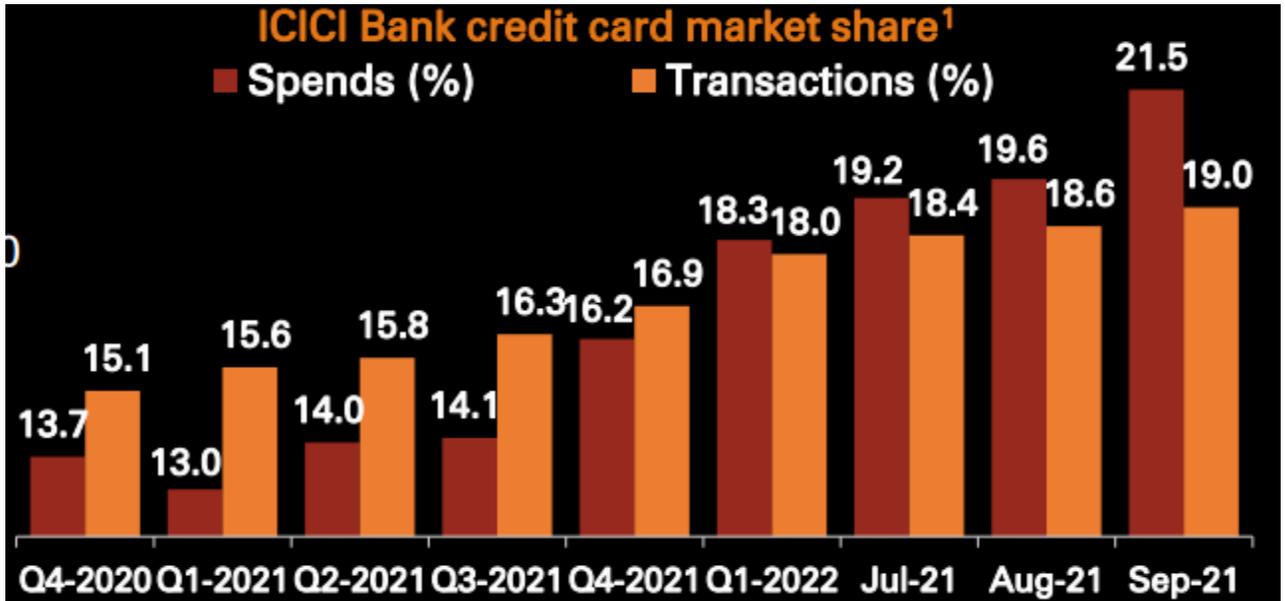
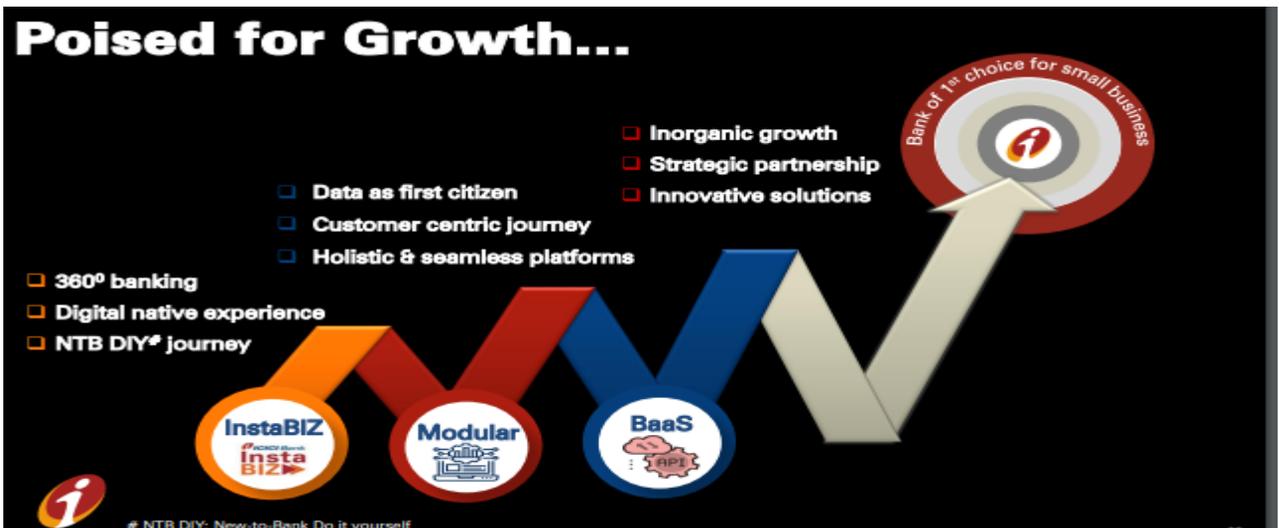


Exhibit 6: Comprehensive platforms for small business



Source: Company, Arianth Research

Exhibit 7: Maximising risk calibrated operating profit



Exhibit 8: 360 degree customer approach

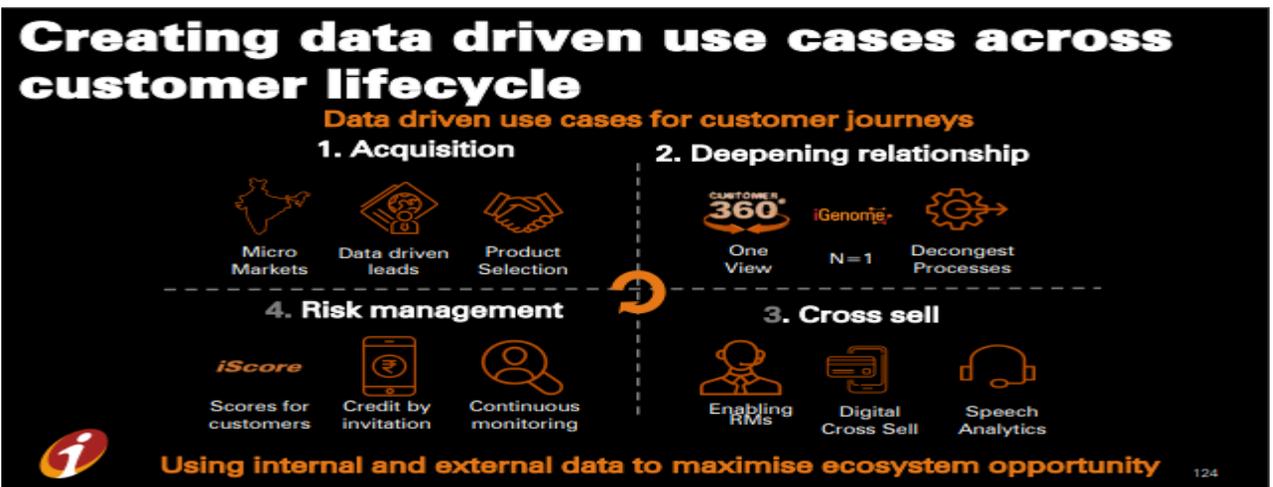
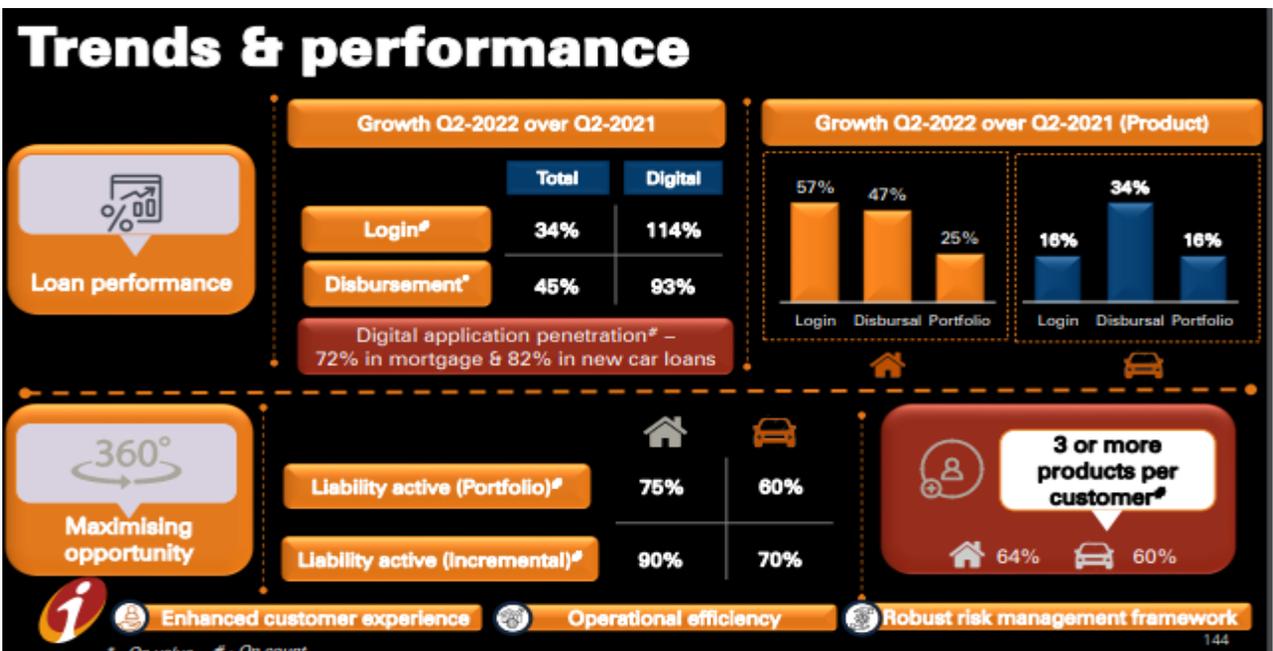


Exhibit 9: Strong traction in Home and Auto loan through digital processing



Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	74,798	79,118	89,498	1,04,472	1,22,388
Interest Expended	41,531	40,129	43,550	50,572	59,612
Net Interest Income	33,267	38,989	45,948	53,901	62,776
Other Income	16,449	18,969	17,451	19,545	21,891
Operating Income	49,716	57,958	63,399	73,446	84,667
Operating Expenses	21,614	21,561	23,648	27,267	31,306
Employee Expenses	8,271	8,092	8,879	10,208	12,166
Other Operating Expenses	13,343	13,469	14,770	17,059	19,140
PPOP	28,101	36,397	39,750	46,179	53,361
Provisions	14,053	16,214	12,972	11,674	12,141
PBT	14,048	20,183	26,779	34,504	41,220
Tax Expenses	6,117	3,990	6,427	8,281	9,893
Net Income	7,931	16,193	20,352	26,223	31,327

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity & Liabilities					
Share Capital	1,295	1,383	1,383	1,383	1,383
Reserves & Surplus	1,15,206	1,46,123	1,65,783	1,91,314	2,21,950
Net Worth	1,16,501	1,47,506	1,67,166	1,92,698	2,23,333
Employee Stock Options	3	3	3	3	3
Deposits	7,70,969	9,32,522	10,82,649	12,59,153	14,61,120
Borrowings	1,62,897	91,631	96,213	1,01,023	1,06,074
Other Liabilities and Provisions	47,995	58,770	63,846	70,930	80,341
Total Capital & Liabilities	10,98,365	12,30,433	14,09,877	16,23,808	18,70,871
Assets					
Cash & Balances with RBI	35,284	46,031	49,061	54,543	59,521
Balances with Other Banks & Call Money	83,872	87,097	1,20,347	1,46,339	1,78,951
Investments	2,49,531	2,81,287	2,95,351	3,10,118	3,25,624
Advances	6,45,290	7,33,729	8,58,463	10,21,571	12,25,885
Fixed Assets	8,410	8,918	9,456	10,027	10,633
Other Assets	75,978	73,371	77,199	81,210	70,257
Total Assets	10,98,365	12,30,433	14,09,877	16,23,808	18,70,871

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
Growth rates					
Advances (%)	10.0%	13.7%	17.0%	19.0%	20.0%
Deposits (%)	18.1%	21.0%	16.1%	16.3%	16.0%
Total assets (%)	13.9%	12.0%	14.6%	15.2%	15.2%
NII (%)	23.1%	17.2%	17.8%	17.3%	16.5%
Pre-provisioning profit (%)	19.9%	29.5%	9.2%	16.2%	15.6%
PAT (%)	135.8%	104.2%	25.7%	28.9%	19.5%
Balance sheet ratios					
Credit/Deposit (%)	83.7%	78.7%	79.3%	81.1%	83.9%
CASA (%)	45.1%	46.3%	45.9%	45.8%	45.8%
Advances/Total assets (%)	58.8%	59.6%	60.9%	62.9%	65.5%
Leverage (x) (Asset/Shareholder's Fund)	9.4	8.3	8.4	8.4	8.4
CAR (%)	16.8%	19.1%	20.7%	21.3%	18.8%
CAR - Tier I (%)	15.0%	18.1%	18.9%	19.5%	17.0%
Operating efficiency					
Cost/income (%)	43.5%	37.2%	37.3%	37.1%	37.0%
Opex/total assets (%)	2.0%	1.8%	1.7%	1.7%	1.7%
Opex/total interest earning assets	0.9%	0.7%	0.7%	0.7%	0.7%
Profitability					
NIM (%)	3.5%	3.6%	3.7%	3.8%	3.8%
RoA (%)	0.7%	1.3%	1.4%	1.6%	1.7%
RoE (%)	6.8%	11.0%	12.2%	13.6%	14.0%
Asset quality					
Gross NPA (%)	6.4%	5.6%	5.1%	4.7%	4.3%
Net NPA (%)	1.6%	1.3%	1.1%	1.0%	0.8%
PCR (%)	75.6%	77.8%	79.1%	79.3%	80.4%
Credit cost (%)	1.7%	1.7%	1.2%	0.9%	0.8%
Per share data / Valuation					
EPS (INR)	12.25	23.41	29.42	37.91	45.29
BVPS (INR)	180	213	242	279	323
ABVPS (INR)	158	194	222	258	302
P/E (x)	58.4	30.6	24.3	18.9	15.8
P/BV (x)	4.0	3.4	3.0	2.6	2.2
P/ABV (x)	4.5	3.7	3.2	2.8	2.4
Profitability					
Return on Equity	6.8%	11.0%	12.2%	13.6%	14.0%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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