

BUY

TP: Rs 500 | ▲ 27%

ICICI BANK

| Banking

| 31 October 2020

Solid provisioning buffer

ICICI Bank (ICICIB) reported healthy Q2 PAT of Rs 43bn led by 20% YoY growth in operating profit. The bank has raised its contingent provision buffer to 2.3% of loans. Proforma GNPA ratio declined to 5.4%, retail demand resolution was ~97% of pre-Covid levels, and overdues in performing corporate loans were <3%. We believe ICICIB has the ability to push the growth pedal as it leverages its robust deposit franchise and puts excess capital to use. We raise FY22-FY23 EPS by 7-16% and revise our Sep'21 SOTP-based TP to Rs 500 (vs. Rs 450).

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Prudence drives higher slippages: ICICIB's proforma GNPA ratio declined 10bps QoQ to 5.4%. Slippages at Rs 44bn (ex-SC stay on loan classification) were higher, driven by prudent downgrades from the BB- & below portfolio. Restructuring applications from corporates and SMEs totalled Rs 21bn. In Sep'20, demand resolution in retail EMI and credit cards was ~97% of pre-Covid levels (of >99%). Overdue loans in the performing retail and credit card portfolio were at 4%, in the rural portfolio at 1% (above pre-Covid levels), and in the performing domestic and overseas corporate loan book at <3% as of Sep'20.

Credit costs expected to normalise in FY22: PCR increased further to ~82% and the bank has additional provisions worth ~Rs 147bn (2.3% of loans) on its balance sheet. Management highlighted that slippages may rise in H2FY21 but is confident that adequate provisioning buffers have been built to face headwinds. The bank expects credit costs to normalise (to 25% of operating profit) in FY22.

Loan growth remains muted; excess liquidity impacts NIM: Loan growth remained subdued at 6% YoY but disbursements in the mortgage, auto loan and rural portfolios have crossed pre-Covid levels. NIM declined by 12bps QoQ to 3.6% largely due to excess liquidity.

Ticker/Price	ICICIB IN/Rs 393
Market cap	US\$ 34.1bn
Shares o/s	6,476mn
3M ADV	US\$ 162.4mn
52wk high/low	Rs 552/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	361,375	410,233	478,584
NII growth (%)	17.3	23.1	8.6	13.5	16.7
Adj. net profit (Rs mn)	33,633	79,308	115,817	157,214	193,549
EPS (Rs)	5.2	12.3	17.3	22.8	28.1
P/E (x)	75.2	32.0	22.7	17.2	14.0
P/BV (x)	2.3	2.2	2.0	1.8	1.6
ROA (%)	0.4	0.8	1.0	1.2	1.4
ROE (%)	3.2	7.1	9.1	10.8	12.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Income Statement								
Interest income	196,225	185,653	199,244	5.7	(1.5)	395,468	365,454	8.2
Interest expense	102,564	105,079	106,446	(2.4)	(3.6)	209,010	207,505	0.7
Net interest income	93,661	80,574	92,798	16.2	0.9	186,458	157,949	18.1
Non-interest income	40,283	41,942	61,426	(4.0)	(34.4)	101,709	76,197	33.5
Net total income	133,944	122,517	154,224	9.3	(13.1)	288,168	234,145	23.1
Staff expenses	19,673	21,413	21,661	(8.1)	(9.2)	41,334	40,946	0.9
Other operating expenses	31,660	32,362	24,798	(2.2)	27.7	56,458	61,573	(8.3)
Operating expenses	51,333	53,776	46,459	(4.5)	10.5	97,792	102,520	(4.6)
Pre-provisioning profit	82,611	68,741	107,765	20.2	(23.3)	190,375	131,626	44.6
Total provisions	29,953	25,069	75,940	19.5	(60.6)	105,892	60,026	76.4
Profit before tax	52,658	43,672	31,825	20.6	65.5	84,483	71,600	18.0
Tax	10,145	37,123	5,834	(72.7)	73.9	15,978	45,970	(65.2)
Profit after tax	42,513	6,550	25,992	549.1	63.6	68,505	25,630	167.3
Balance Sheet								
Advances	6,526,080	6,133,587	6,312,146	6.4	3.4	6,526,080	6,133,587	6.4
Deposits	8,329,356	6,962,730	8,016,223	19.6	3.9	8,329,356	6,962,730	19.6
CASA ratio (%)	43.8	46.7	42.5	(291bps)	128bps	43.8	46.7	(291bps)
Yields and margins (%)								
Net interest margin	3.6	3.6	3.7	(7bps)	(12bps)	-	-	-
Yield on advances	8.9	9.9	9.5	(101bps)	(66bps)	-	-	-
Cost of funds	4.2	5.0	4.5	(81bps)	(24bps)	-	-	-
Key ratios (%)								
Cost/Income	38.3	43.9	30.1	(557bps)	820bps	33.9	43.8	(985bps)
Tax rate	19.3	85.0	18.3	(6574bps)	94bps	18.9	64.2	(4529bps)
Loan to Deposit ratio	78.4	88.1	78.7	(974bps)	(39bps)	78.4	88.1	(974bps)
Capital adequacy ratios (%)								
Tier 1	17.0	14.6	14.9	240bps	209bps	17.0	14.6	240bps
Total CAR	18.5	16.1	16.3	233bps	215bps	18.5	16.1	233bps
Asset quality (Rs mn)								
Gross NPAs	389,892	456,388	403,862	(14.6)	(3.5)	389,892	456,388	(14.6)
Net NPAs	71,875	109,164	86,747	(34.2)	(17.1)	71,875	109,164	(34.2)
Gross NPA ratio (%)	5.2	6.4	5.5	(120bps)	(29bps)	5.2	6.4	(120bps)
Net NPA ratio (%)	1.0	1.6	1.2	(60bps)	(23bps)	1.0	1.6	(60bps)
Coverage Ratio (%)	81.6	76.1	78.5	548bps	304bps	81.6	76.1	548bps

Source: Company, BOBCAPS Research

Valuation methodology

At 1.5x FY23E core P/BV, we believe ICICIBC offers favourable risk-reward with manageable asset quality risks. The bank has built a healthy provisioning buffer to meet unforeseen eventualities and also has the ability to push the growth pedal by leveraging its robust deposit franchise and putting excess capital to use.

We raise our FY22-FY23 EPS estimates by 7-16% to factor in lower credit costs and raise our core P/BV multiple to 1.8x (vs. 1.6x earlier) – this yields a higher Sep’21 SOTP-based target price of Rs 500 (vs. Rs 450 earlier). We now value the core business at Rs 394/sh (vs. Rs 339/sh earlier) based on the Gordon Growth Model; subsidiaries are valued at Rs 106/sh (vs. Rs 112/sh). Maintain BUY.

FIG 2 – REVISED EATIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	361,375	410,233	478,584	354,664	406,522	470,197	1.9	0.9	1.8
Pre-provisioning profit	316,344	363,926	425,866	309,017	361,298	415,189	2.4	0.7	2.6
Net Profit (Rs mn)	115,817	157,214	193,549	107,869	144,215	166,886	7.4	9.0	16.0
EPS (Rs)	17	23	28	16	21	24	7.2	8.7	15.7

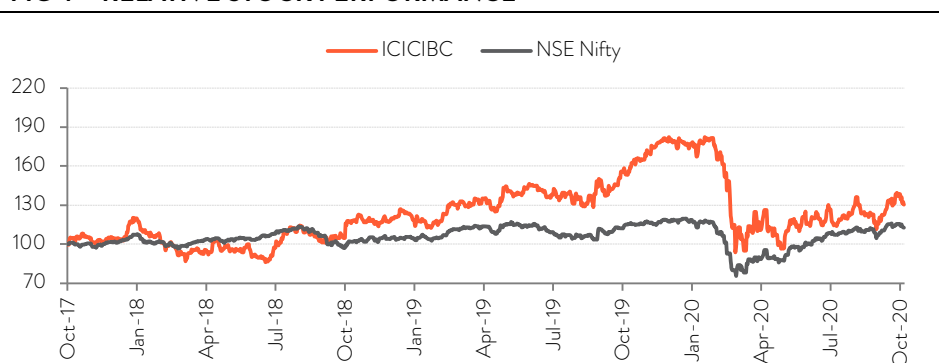
Source: BOBCAPS Research

FIG 3 – SOTP VALUATION

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for ICICIBC (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	2,715	100	2,715	394	79	Valued at 1.8x Sep’22E P/BV on residual income model
ICICI Prudential Life	579	51	238	35	7	Valued at CMP; adjusted for 20% holdco discount
ICICI Lombard General	562	52	233	34	7	Valued at CMP; adjusted for 20% holdco discount
ICICI Securities	149	79	95	14	3	Valued at CMP; adjusted for 20% holdco discount
ICICI Prudential AMC	234	51	119	17	3	6% of Q2FY21 AAUM
ICICI Home Finance	19	100	19	3	1	Valued at 1x Sep’22E P/BV
ICICI Bank UK & Canada	30	100	30	4	1	Valued at 0.5x Sep’22E P/BV
Sum of Parts			3,449	500		

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Significant deterioration in retail asset quality could derail the expected improvement in profitability.
- Delay in resolution of stressed assets can impact our credit cost assumptions.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	361,375	410,233	478,584
NII growth (%)	17.3	23.1	8.6	13.5	16.7
Non-interest income	145,122	164,486	179,671	200,655	221,560
Total income	415,270	497,157	541,046	610,889	700,144
Operating expenses	(180,891)	(216,144)	(224,702)	(246,963)	(274,278)
Operating profit	234,379	281,013	316,344	363,926	425,866
Operating profit growth (%)	(5.3)	19.9	12.6	15.0	17.0
Provisions	(196,611)	(140,532)	(160,677)	(152,617)	(165,720)
PBT	37,768	140,480	155,668	211,309	260,146
Tax	(4,135)	(61,172)	(39,851)	(54,095)	(66,597)
Reported net profit	33,633	79,308	115,817	157,214	193,549
Adjustments	0	0	0	0	0
Adjusted net profit	33,633	79,308	115,817	157,214	193,549

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	12,895	12,948	13,795	13,795	13,795
Reserves & surplus	1,070,786	1,152,096	1,372,403	1,511,223	1,682,126
Net worth	1,083,680	1,165,044	1,386,198	1,525,018	1,695,921
Deposits	6,529,197	7,709,690	8,482,983	9,595,077	10,854,146
Borrowings	1,653,200	1,628,968	1,694,127	1,790,511	1,903,646
Other liabilities & provisions	378,515	479,950	468,895	489,602	512,381
Total liabilities and equities	9,644,591	10,983,651	12,032,203	13,400,207	14,966,094
Cash & bank balance	802,963	1,191,557	606,191	698,707	808,520
Investments	2,077,327	2,495,315	2,747,723	3,105,001	3,513,238
Advances	5,866,466	6,452,900	6,969,132	7,875,119	8,898,884
Fixed & Other assets	897,836	843,880	1,709,157	1,721,380	1,745,451
Total assets	9,644,591	10,983,651	12,032,203	13,400,207	14,966,094
Deposit growth (%)	16.4	18.1	10.0	13.1	13.1
Advances growth (%)	14.5	10.0	8.0	13.0	13.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	5.2	12.3	17.3	22.8	28.1
Dividend per share	1.5	1.0	1.7	2.3	2.8
Book value per share	168.1	180.0	201.0	221.1	245.9

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	75.2	32.0	22.7	17.2	14.0
P/BV	2.3	2.2	2.0	1.8	1.6
Dividend yield (%)	0.4	0.3	0.4	0.6	0.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	3.2	3.1	3.2	3.4
Non-interest income	1.6	1.6	1.6	1.6	1.6
Operating expenses	2.0	2.1	2.0	1.9	1.9
Pre-provisioning profit	2.5	2.7	2.7	2.9	3.0
Provisions	2.1	1.4	1.4	1.2	1.2
PBT	0.4	1.4	1.4	1.7	1.8
Tax	0.0	0.6	0.3	0.4	0.5
ROA	0.4	0.8	1.0	1.2	1.4
Leverage (x)	8.6	9.2	9.0	8.7	8.8
ROE	3.2	7.1	9.1	10.8	12.0

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	17.3	23.1	8.6	13.5	16.7
Pre-provisioning profit	(5.3)	19.9	12.6	15.0	17.0
EPS	(52.8)	135.0	41.1	31.6	23.1
Profitability & Return ratios (%)					
Net interest margin	3.2	3.5	3.5	3.7	3.8
Fees / Avg. assets	1.1	1.1	1.1	1.1	1.2
Cost-Income	43.6	43.5	41.5	40.4	39.2
ROE	3.2	7.1	9.1	10.8	12.0
ROA	0.4	0.8	1.0	1.2	1.4
Asset quality (%)					
GNPA	7.4	6.0	5.8	4.8	4.3
NNPA	2.3	1.5	1.4	1.2	1.2
Provision coverage	70.6	75.7	77.1	76.7	72.6
Ratios (%)					
Credit-Deposit	89.8	83.7	82.2	82.1	82.0
Investment-Deposit	31.8	32.4	32.4	32.4	32.4
CAR	16.9	16.1	17.4	16.9	16.6
Tier-1	15.1	14.7	16.0	15.6	15.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

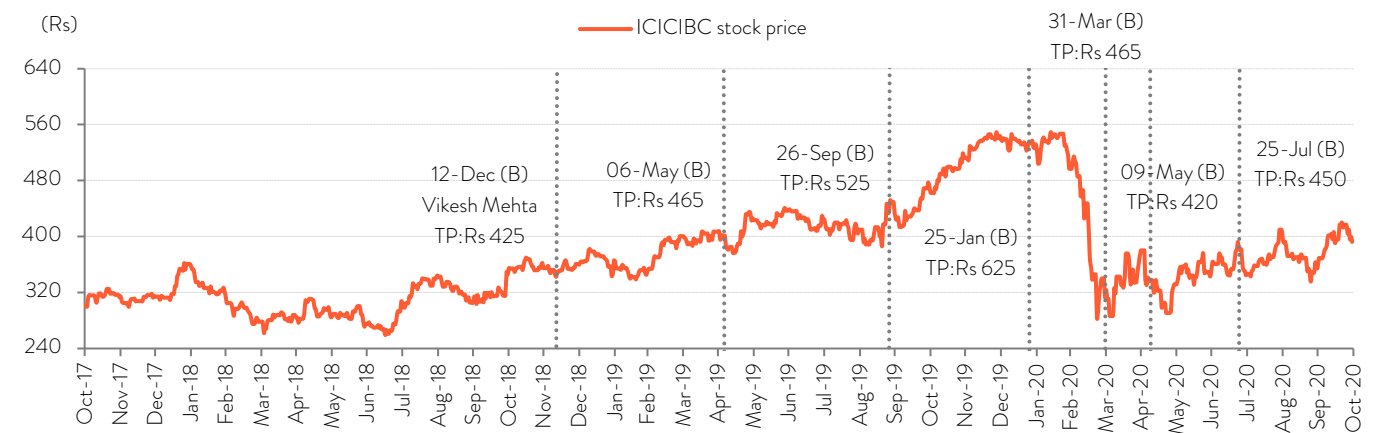
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ICICI BANK (ICICIB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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