ICICI Bank Ltd.

Improving Asset Quality to polish valuations

CMP: Rs 513

Rating: BUY

Target Price: Rs 618

Stock Info	
INDEX	
BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr)	1,292
Mkt Cap (Rs cr)	3,29,534
52w H/L (Rs)	517 / 336
Avg Yearly Vol (BSE+NSE)	24,068,590

Shareholding Pattern	%
(As on September, 2019)	
Promoters	0.0
FII	40.8
DII	48.1
Public & Others	11.1

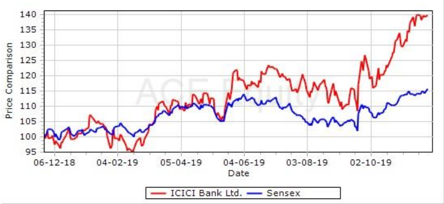
Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ICICI Bank	25.5	15.4	41.5
SENSEX	9.1	3.0	15.7

Source: ACE Equity, Arihant Research

ICICI Bank v/s SENSEX

Source: ACE Equity, Arihant Research



Key Financials (INR Cr)	FY19A	FY20E	FY21E
NII	27,015	32,232	36,523
NIM (%)	3.6%	3.8%	3.7%
Net Profit	3,363	8,643	15,713
Advances	6,75,204	7,96,740	9,40,154
Deposits	7,76,599	9,13,988	10,76,165
GNPA (%)	7.9%	6.2%	4.7%

Source: Company Reports, Bloomberg, Arihant research

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ICICI Bank's performance goes strength to strength with each passing quarter as the bank emerges out of NPA mess and top management debacle. The bank's brand name is most common among high quality customer servicing private sector bank in households and is gradually shifting the bulk of credit book focussed on retailers. The bank's management has clearly noted the aggressive corporate loan disbursements in the past which led to the worsening of assets and has checked on the growth of corporate loan book with preference for the higher rated credit line applications (visible from the loan book mix over last couple of years). The recently announced capital infusion of INR 20,000 Cr will help bring in more liquidity with the bank to compete with its peers (especially the likes of HDFC Bank, Axis Bank and SBI). Viewing the potential of further increase in market share in the retail lending business, and expansion of touchpoints bringing in more new customer accounts, we are initiating coverage on ICICI Bank with a **BUY** recommendation.

Investment Rationale:

Rapid shift towards retail lending business: ICICI bank has very rapidly shifted its business mix from high corporate loan exposure to a retail lender, i.e. retail loan book comprises of 62.1% of total advances as of Sep 2019 against 57.3% in Sept 2017. This shift has led to increase of yield on average advances from 8.7% by end of Sept 2018 to 9.5% by end of Sept 2019 as the bank has a very high spread in retail lending.

Continuous improvement in Asset Quality: ICICI bank's management has learnt the lesson of aggressive growth by way of lending to large corporate with compromised credit ratings. The current pace of disbursement of corporate loans reflect the cautiousness marked by sharp fall in new slippages, thereby improving the NPA levels in a steady manner. The marginal increase in retail NPAs is what the bank can sacrifice to get more market share.

High amount of liquidity available: With the infusion of INR 20,000 Cr capital, the bank operating between 85-90% of credit/deposit ratio will be able to compete against other rival banks, as the cost of funds will be going down furthermore. The leverage (asset/net worth) of the bank will expectedly go down further after this kind of large capital infusion.

High growth in core business: The average growth of advances over last 5 years stood at 11.7% while deposits growth averaged at 14.5% for the same period with both advances & deposits growing at higher double digits in the last several quarters on YoY basis.

Valuation & View

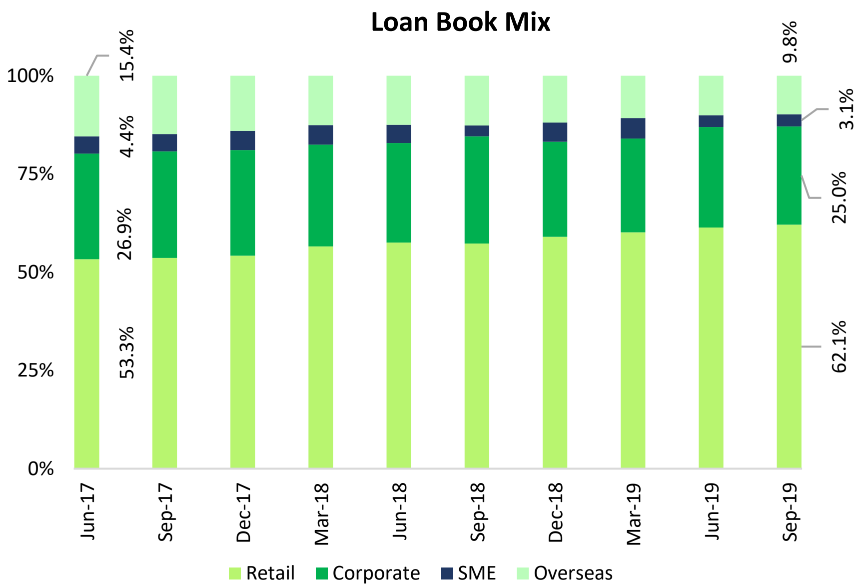
ICICI bank is poised to compete aggressively with other peers who have made significant inroads into retail lending, in which several banks are competing to provide credit cards, personal loans and home loans for higher spreads. The bank's vast branch chain of 5,228 branches across the nation and formidable customer services along with the new management focusing on changing the business mix rapidly, the bank will regain the past glory. The bank's insurance subsidiaries are performing at unprecedented levels, securities and AMC subsidiaries are yielding stable profits and overseas banking subsidiaries growing moderately. ICICI Bank is currently trading at a 2.8 x P/adj. BV FY21E. Furthermore, the addition of the bank's scrip in MSCI indices and the equity infusion of INR 20,000 Cr will make the bank attractive for FIIs/DIIs. **We assign a P/adj. BV multiple of 2.6x on adj. BV of INR 179 for standalone bank and use a SOTP approach to value its subsidiaries, we arrive at a Target Price of INR 618.**

Overview: ICICI Bank Limited

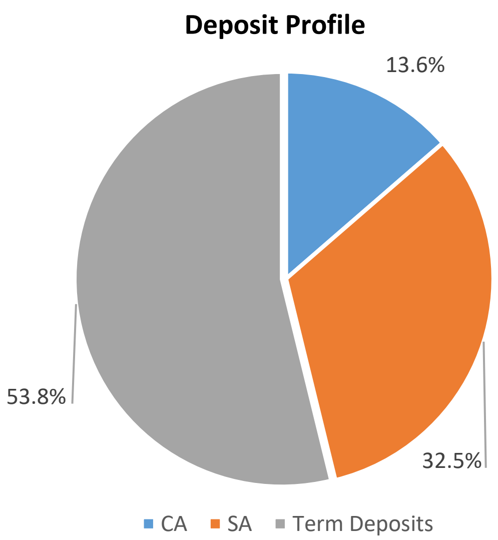
ICICI Bank was promoted in 1994 by ICICI Limited, an Indian Financial Institution. It is one of the leading private bank in India with over 5,228 branches & 15,159 ATMs spread across the nation. The bank's total revenue (interest income) stood at INR 63,401 Cr and had a net profit of INR 3,363 Cr for FY19. The bank has an employee strength of 86,763 by March 2019 and is categorized by RBI as a domestic systemically important bank (D-SIBs). The bank has numerous subsidiaries operating in the businesses of insurance, AMC, securities and home financing, and benefits from the cross selling of several products to its large customer base. ICICI Bank has been traditionally known as a high customer service friendly bank and sets benchmark in customer servicing.

Standalone Banking Business:

Credit Growth: The bank's credit book as of 30 Sept 2019 reflects the changing mix towards the retail lending business with every passing quarter. The bank's retail contribution increased by almost 10% in a matter of 2 years while they sacrificed the overseas lending and domestic corporate businesses, which were the root causes behind the high NPA levels of ICICI Bank.



Source: Company Reports, Bloomberg, Arihant research



Source: Company Reports, Bloomberg, Arihant research

Deposit Profile: The bank's deposit profile for quarter ending 30 Sept 2019 shows a healthy mix of Term Deposits (53.8%) with CASA levels at 46.2%. The current CASA levels are optimum for the bank to maintain liquidity for business growth as well as keep the cost of funds at low levels. The sizeable Savings A/c deposits and term deposits do not pose any threat in current times as RBIs repo rate cuts have provided a healthy cushion for the banks to both maintain healthy liquidity for business growth as well as keep their costs at low.

Q2FY20 Quarterly Snapshot:

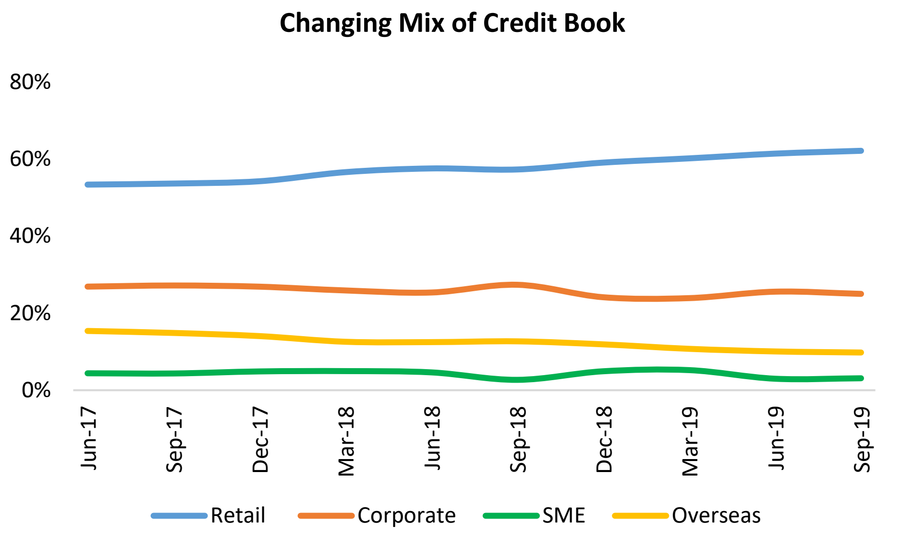
Quarterly Result Update	**Q2FY20**	**Q1FY20**	**Q2FY19**	**Q-o-Q**	**Y-o-Y**
Interest Income	18,565	17,980	15,106	3.3%	22.9%
Interest Expended	10,508	10,243	8,688	2.6%	20.9%
Net Interest Income	**8,057**	**7,737**	**6,418**	**4.1%**	**25.6%**
Other Income	4,194	3,425	3,156	22.4%	32.9%
Operating Income	12,252	11,163	9,574	9.8%	28.0%
Operating Expenses	5,378	4,874	4,324	10.3%	24.4%
Employee Expenses	2,141	1,953	1,661	9.6%	28.9%
Other Operating Expenses	3,236	2,921	2,663	10.8%	21.5%
PPOP	**6,874**	**6,288**	**5,250**	**9.3%**	**30.9%**
Provisions	2,507	3,496	3,994	-28.3%	-37.2%
PBT	4,367	2,793	1,255	56.4%	247.9%
Tax Expenses	3,712	885	347	319.6%	971.2%
Net Income	**655**	**1,908**	**909**	**-65.7%**	**-27.9%**
Balance Sheet Analysis					
Advances	6,13,359	5,92,415	5,44,487	3.5%	12.6%
Deposits	6,96,273	6,60,732	5,58,669	5.4%	24.6%
Total Assets	9,97,011	9,63,753	8,74,340	3.5%	14.0%
CASA Deposits	3,25,000	2,98,877	2,83,548	8.7%	14.6%
CASA (%)	46.68%	45.23%	50.8%	144bps	-408bps
CAR (%)	16.14%	16.19%	17.84%	-5bps	-170bps
Spreads					
NIMs (%)	**3.61%**	**3.53%**	**3.30%**	**8bps**	**31bps**
Cost of Funds	5.05%	5.01%	4.82%	4bps	23bps
Yield on Average Advances	9.49%	9.24%	8.68%	25bps	81bps
Asset Quality					
GNPA	45,639	45,763	54,489	-0.3%	-16.2%
NNPA	10,916	11,857	22,086	-7.9%	-50.6%
GNPA (%)	6.37%	6.49%	8.54%	-12bps	-217bps
NNPA (%)	1.60%	1.77%	3.65%	-17bps	-205bps
Credit Costs	1.63%	2.36%	2.93%	-73bps	-130bps
Provision Coverage Ratio	76.08%	74.09%	59.47%	199bps	1661bps
Returns & Expenses					
RoA	0.26%	0.79%	0.42%	-53bps	-15bps
RoE	2.37%	6.91%	3.45%	-454bps	-108bps
Cost / Income Ratio	43.89%	43.67%	45.17%	23bps	-127bps

Source: Company Reports, Bloomberg, Arihant research

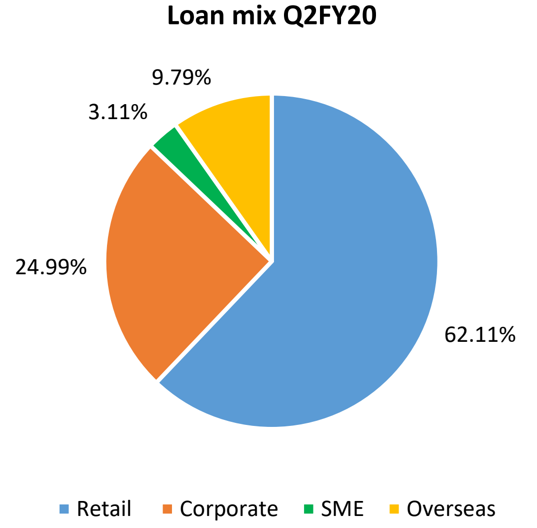
ICICI Bank: Strategic Shift towards Retail Loans

ICICI Bank is gradually increasing the retail composition mix in their credit book on a sequential with the retail loans making 62.1% (at Q2FY20) of the overall loan book of the bank against 57.3% at the end of Q2FY19. This strategic shift came along after the bank realized their mistake of higher exposure towards corporate loans where the bank compromised with credit ratings in order to grow their businesses aggressively. The defaults and rating down-gradation of several big-ticket loans had the bank's better sense prevail over excessive greed to grow the business size.

On the other hand, the NPA levels in the retail loans are very low in comparison to the corporate, SME and overseas loan portfolios, despite retail loans comprising more than 60% of the overall loan book.



Source: Company Reports, Bloomberg, Arihant research



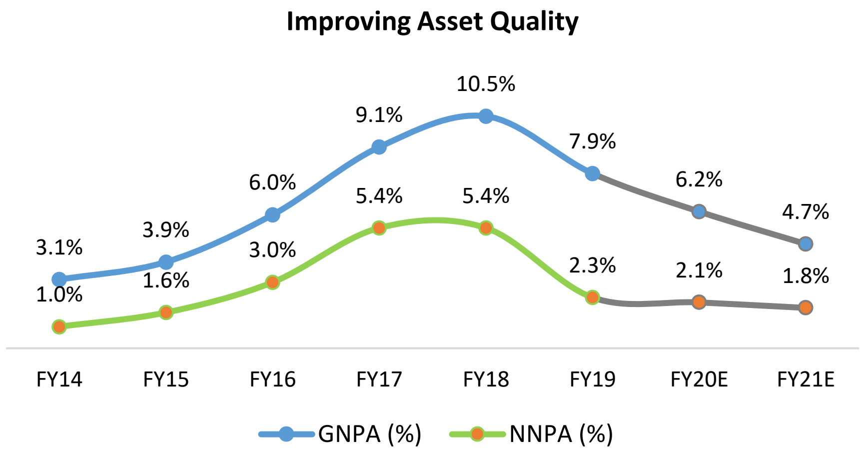
Source: Company Reports, Bloomberg, Arihant research

ICICI Bank: Higher churning of liquidity with lesser risk in Retail

ICICI Bank increased the retail mix in the overall loan book following an industry-wise trend where most banks are now shying away from risky & distressed corporate loans along with several overseas accounts facing global economic down turn which led to the stressed asset book getting heavier over the years. While on a broader sense, the evaporation of available liquidity for the Infrastructure & related stressed sectors had an overall negative impact on the economy, but individually the banks needed to clean its books.

Improving Asset Quality

ICICI Bank's asset quality has been improving with every passing quarter and gradually polishing the valuations of the bank. In less than 2 years, the bank has been able to contain the NPA levels from double-digit peaks to around 7% and with the way, the new disbursements and growth of lending book towards other sectors, we expect the GNPA levels to come down to 4-5% levels by FY21 and NNPA levels to come down below 2%.



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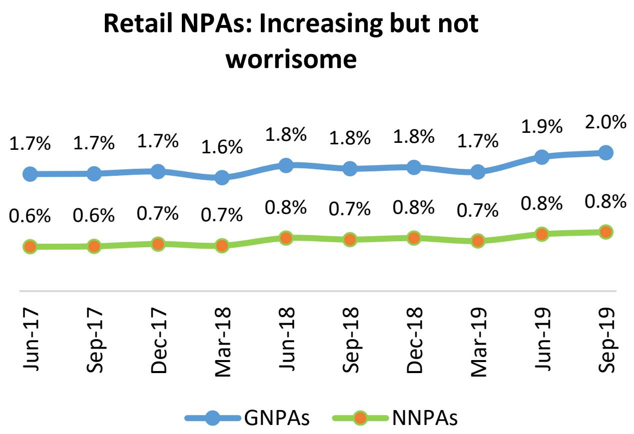

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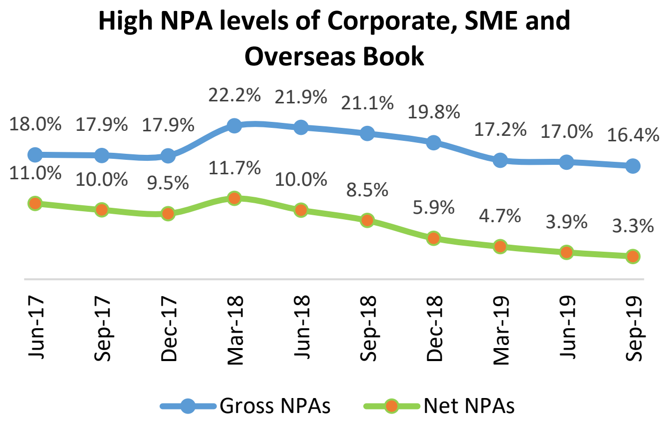


Source: Company Reports, Bloomberg, Arihant research

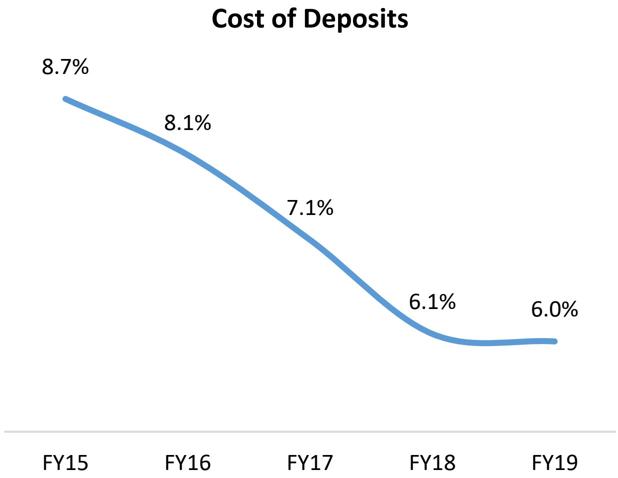
Lucrative retail segment lending with less risk

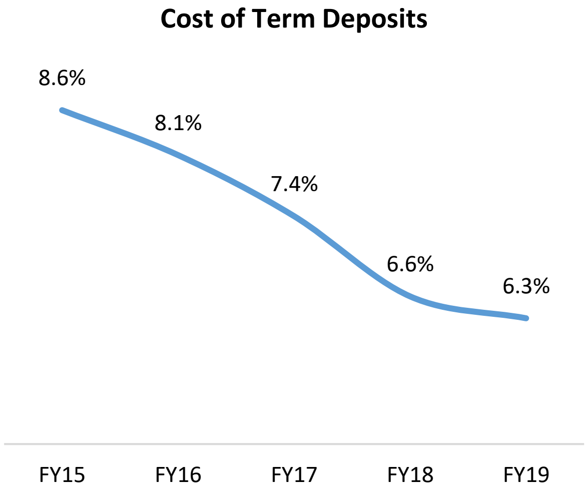
Since the high NPA levels, increased provisioning dragging down bottom-lines and the most recent IL&FS & DHFL defaults, all banks started shying away to lend to the infrastructure and related industries sacrificing business growth for cleaner books. One can visibly see that the bank's corporate lending segment has been the real drag spoiling entire value creation due to provisioning from slippages. We believe it is because of the fearless defaults by big-ticket corporates and the loopholes exploited to avoid liabilities, the banks are shifting towards retail lending- where the risks are less and spreads are high.

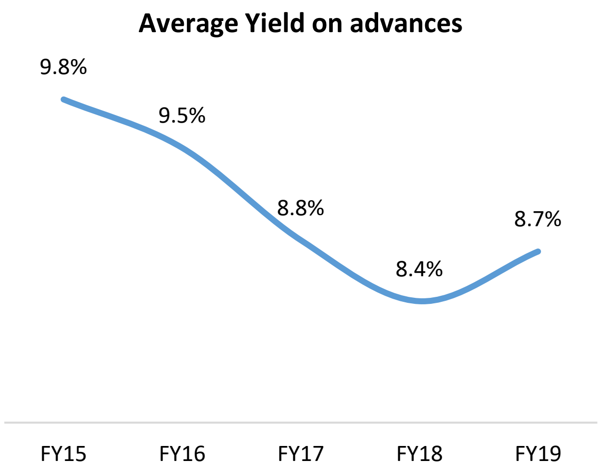
For the banks, the retail NPAs may be increasing gradually, but they are nowhere near any worrisome levels for the bank in near future. Hence, we believe that even with high growth and increasing retail lending book, the bank's GNPA levels for retail loans will not go beyond 5% and NNPA levels to remain below 2% in near future.

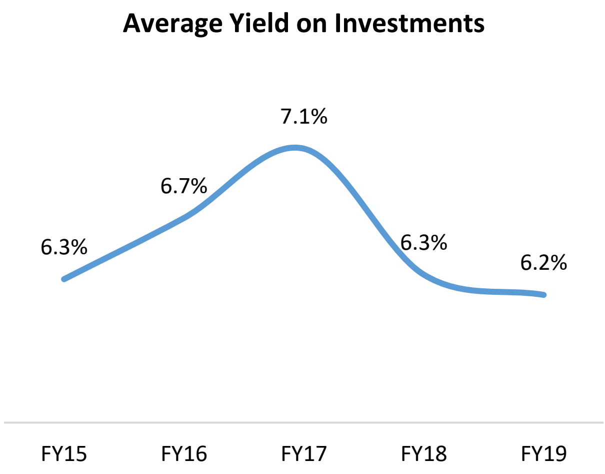
Decreasing Cost of Funds

ICICI Bank's cost disciplines are improving over the years against a stable yield on average advances, boosting the bank's spreads going forward in future. Since the RBI has reduced the repo rates by more than 135 bps since the beginning of FY19, banks have been under pressure to reduce the interest rates in sync with the benchmark banking rates set by the central bank. The rate cuts by RBI helped banks and other NBFCs to get access to liquidity at a cheaper price and brought down the interest rates on deposits. For ICICI Bank, the Cost of deposits could be seen coming down by more than >250 bps in just the last five years, thereby aiding the banks and financial institutions with cost disciplines.









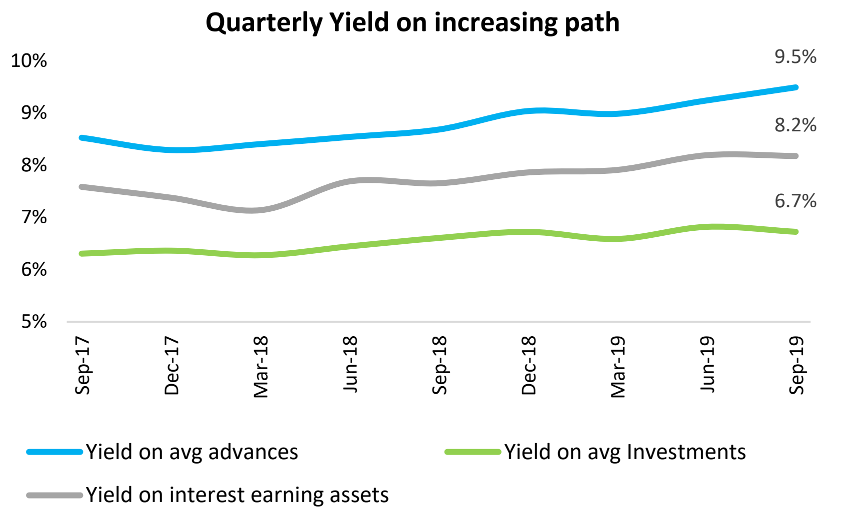
Source: Company Reports, Bloomberg, Arihant research

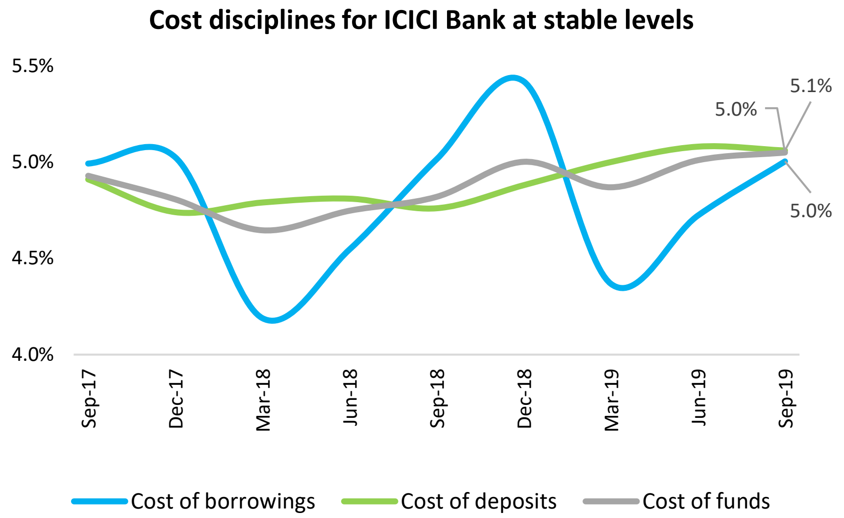
Increasing spreads for the banks

The banks even after reducing their interest rates by some basis points have not decreased to the tune intended by the central bank. For the banks, the fall in repo rate has been nothing but a reward since the growth in the retail lending has not seen much pressure for them to decrease their interest rates. Hence, we see a still stable yield on average advances for ICICI Bank and expect it to stay around 9% in the future as well.

Increasing Yield on Advances

ICICI Bank's quarterly yield on average advances keeps on getting better with each passing quarter riding high on the retail lending business. For banks, a retail loan of small ticket provides a fat margin/spread against big ticket corporate loans. Hence, as much as there will be any increase in retail loan mix in the overall loan book, the wider the spread will get for bank. ICICI Bank has also witnessed a similar trend with the increase of retail composition, the yield on average advances for the bank has been on the increase in the last several quarters.





Source: Company Reports, Bloomberg, Arihant research

Stable & slow growth in Cost of deposits

Despite RBI rate cuts, the cost disciplines for ICICI Bank has improved during the last several quarters on account of reduction in interest on deposits for ICICI Bank along with other banks.

Also, the interest rates in fixed term deposits for the banks are at decadal lows, thereby making them unattractive for the retail customers. The banks thereby are showing resilience against any further lowering of interest rates on deposits.

Composition of Loans

ICICI Bank's overall loan book comprises of four segments: Retail, Corporates, SME and Overseas portfolio of accounts. The retail segment is what is driving the overall loan book growth for ICICI Bank. The bank has been visibly moving away from the over-exposed towards corporate loans and has been increasing their portfolio of retail loans very quickly.

Composition of Credit Book (Quarterly)

Loan Book Composition (INR 00' Cr)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Retail	2,475	2,588	2,740	2,899	2,970	3,118	3,332	3,528	3,636	3,810
% of total advances	53.3%	53.6%	54.2%	56.6%	57.5%	57.3%	59.0%	60.1%	61.4%	62.1%
Corporate	1,247	1,312	1,358	1,326	1,309	1,490	1,361	1,402	1,515	1,533
% of total advances	26.9%	27.2%	26.9%	25.9%	25.4%	27.4%	24.1%	23.9%	25.6%	25.0%
SME	204	210	247	254	239	147	278	306	177	191
% of total advances	4.4%	4.4%	4.9%	5.0%	4.6%	2.7%	4.9%	5.2%	3.0%	3.1%
Overseas	714	718	710	644	644	691	672	630	596	600
% of total advances	15.4%	14.9%	14.0%	12.6%	12.5%	12.7%	11.9%	10.7%	10.1%	9.8%

Composition of Credit Book (Yearly)

Loan-Book Mix (INR 00' Cr)	FY14	FY15	FY16	FY17	FY18	FY19	H1 FY20
Retail	1,321	1,643	2,028	2,405	2,899	3,528	3,810
% of Total Advances	39.0%	42.4%	46.6%	51.8%	56.6%	60.1%	62.1%
Corporate	1,019	1,116	1,197	1,267	1,327	1,402	1,533
% of Total Advances	30.1%	28.8%	27.5%	27.3%	25.9%	23.9%	25.0%
SME	149	171	187	223	254	306	191
% of Total Advances	4.4%	4.4%	4.3%	4.8%	5.0%	5.2%	3.1%
Overseas	898	946	940	747	644	630	600
% of Total Advances	26.5%	24.4%	21.6%	16.1%	12.6%	10.7%	9.8%
Total Advances	3,387	3,875	4,353	4,642	5,124	5,866	6,134

Composition of Retail Book

Mix within Retail Loans (%)	Sep-18	Mar-19	Sep-19
Home Loans	51.6%	50.5%	50.1%
Auto Finance	*9.6%*	8.9%	8.3%
Commercial Business	*5.9%*	6.5%	6.2%
Two-wheeler Loans	*0.2%*	0.4%	0.4%
Business Banking	5.0%	5.3%	6.0%
Rural Loans	14.0%	14.2%	13.6%
Personal Loans	8.0%	8.8%	9.9%
Credit Cards	3.4%	3.5%	3.9%
Others	2.4%	1.9%	1.6%

Source: Company Reports, Bloomberg, Arihant research

Robust retail loan growth driven by PL, CC and Home loans

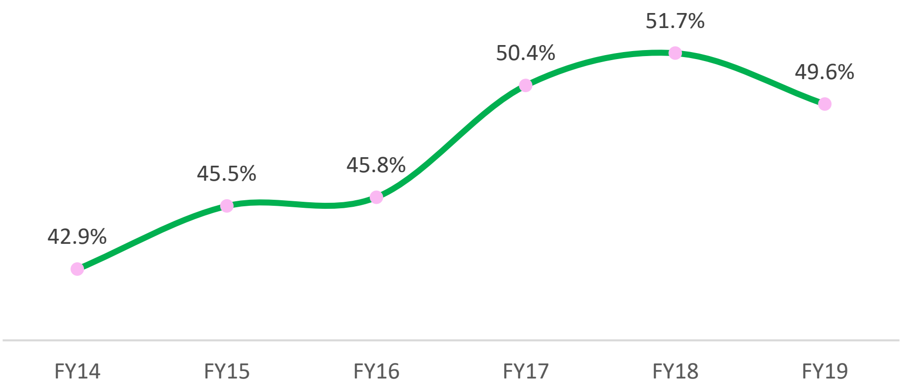
The retail lending business is primarily fueled by the home loans account which constitutes around 50% of the retail credit book and maintains a growth of around 17-18% in the last couple of years. We expect the growth momentum from the home loans segment will not diverge from current pace and the home loans business to grow at higher double-digits in the next 4-5 years owing to the several steps by the government's massive house for all campaign with concessions based on Lower Income Group, Middle Income Group, etc.

For the remaining part of the retail lending book, the bank's Personal Loans, Credit Cards and Business Banking are showing tremendous growth in the last couple of years. For Q2FY20 alone, the PL, CC and BB segment's book grew by 50.5%, 40.1% and 46.6% YoY basis respectively.

Stable CASA ratios

ICICI Bank's CASA ratios have remained at comfortable levels in the mid 40% of the total deposits with Q2FY20 ended Savings Accounts comprising of 71% of the period ending CASA and growing by 18.1% CAGR over last 5 years. Hence, we expect the bank to have healthy liquidity levels in the near future with steady increase in savings deposits.

CASA (%) stable among industry peers



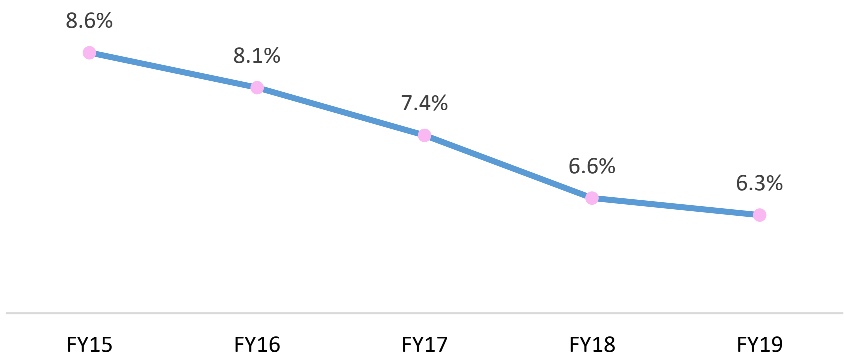
Source: Company Reports, Bloomberg, Arihant research

Falling cost of Term Deposits benefitting the banks

Since the RBIs successive rate cuts over the last 1 year has brought down the repo rate at 5.15% after the last MPC meeting of RBI in Oct 2019, the banks are finding borrowing costs at very low rate compared to the interest cost they had to bear against term deposits. Hence, the term deposits (FDs) interest rates have fallen considerably during this period with the bank's cost of term deposits falling by over 200 basis points.

For ICICI Bank, the average cost of term deposits has decreased significantly by over 200 basis points in the last 5 fiscal years as a result of decrease in repo rates by RBI trying to bring more liquidity in the system along with reducing the cost of lending for financial institutions towards infrastructure & core industries.

Falling Average Cost of Term Deposits



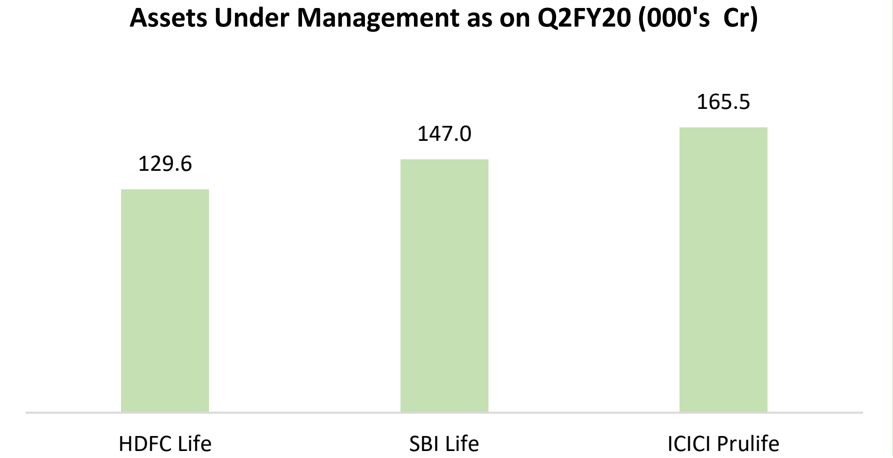
Source: Company Reports, Bloomberg, Arihant research

Subsidiaries

ICICI Prudential Life Insurance

ICICI Prudential LI has become one of the largest private sector life insurers with a market share of 14.4% in the new business premium written for H1 FY20. The insurer has Assets Under Management of INR 1,65,500 Cr plus by the end of Sept 2019.

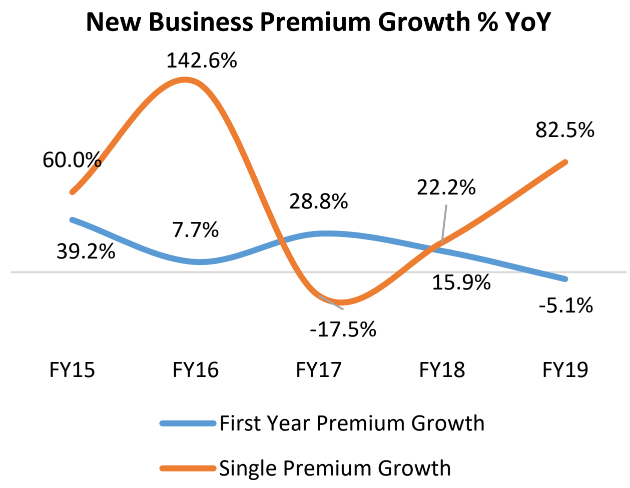
The insurer has one of the highest persistency ratio of 57% for the 61st month and a solvency ratio of 2.11, well above the 1.50 as required by regulatory requirements.

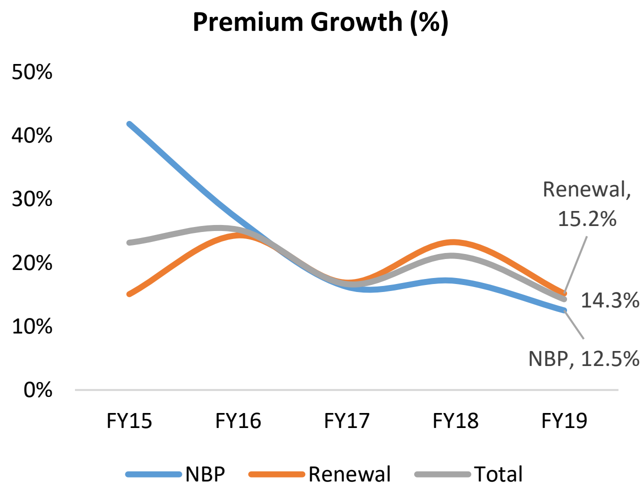


Source: Company Reports, Bloomberg, Arihant research

Huge opportunities in sight – Lagging the growth momentum

ICICI Prudential has almost similar kind of opportunity ahead of themselves like the other private insurers- HDFC Life, SBI Life, Kotak Mahindra Life, etc. A vast network of sister bank's bancassurance channel to boost the growth of premium underwriting in life insurance business. However, the insurer has been holding on its current position with stable growth of both new business as well as renewal premiums.





Source: Company Reports, Bloomberg, Arihant research

ICICI Lombard General Insurance

ICICI Lombard is one of the few listed general insurance companies of India and had a Gross Written Premium of INR 14,790 Cr for FY19. The company has a vast portfolio writing insurance policies for motor vehicles, health, travel, property, casualty, crops, etc. The company has been reshaping their product portfolio with increasing the more profitable products and curbing away loss claims.

The Indian general insurance business is one of the fastest growing insurance markets in the world. The total size of the non-life insurance sector in India is poised to grow by more than 20% CAGR in the next several years as the economy catches up in economic and social scale with the rest of the world.

Key Financials (in INR 00' Cr)	FY18A	FY19A	H1FY19A	H1FY20A
Gross Written Premium	126.0	147.9	74.9	65.9
Gross Direct Premium Income (GDPI)	123.6	144.9	73.1	64.4
GDPI Growth	15.2%	17.2%	12.5%	-11.8%
GDPI Growth (excl. Crop)	16.5%	20.5%	12.9%	16.2%
Combined Ratio	100.2%	98.5%	100.1%	101.5%
Profit After Tax	8.6	10.5	5.8	6.2
Return on Average Equity	20.8%	21.3%	24.4%	22.3%
Solvency ratio	2.05x	2.24x	2.10x	2.26x
Book Value per Share	100.0	117.1	109.8	126.5
Basic Earnings Per Share	19.0	23.1	12.8	13.6

Product Mix (in INR 00' Cr GDPI)	FY18A	FY19A	H1FY19A	H1FY20A
Motor OD	30.6	34.1	14.8	15.9
Motor TP	21.9	30.2	11.3	13.5
Health, Travel and PA	24.8	29.7	15.2	16.9
Property & Casualty	22.6	26.4	13.6	17.5
Crop	23.7	24.5	18.1	0.5
Total	123.6	144.9	73.1	64.4

ICICI Lombard GI Gross Written Premium (GDPI) fell for the H1FY20 because of no new tenders won in the crop segment by the company leading to a fall in the gross premium written growth. However, the general insurer focused on other more profitable business segments and despite lower premium written for H1FY20 compared to previous year, the profits grew robustly for the insurer. Thereby increasing the book value per share for the insurer.

ICICI Prudential AMC

ICICI Prudential AMC is the largest AMC in India with average quarterly Assets under Management of INR 3,20,793 Cr by the end of FY19. The company's market share in the domestic mutual fund business was 13.1% on a quarterly average basis.

During Q2FY20, the AMC Company performed even better with INR 305 Cr of net profit against INR 196 Cr profits in Q2FY19. We expect the average quarterly AUM to grow more than INR 5 lakh Cr by FY21 end for the AMC Company.

ICICI Securities Limited

ICICI Securities Limited is one of the largest securities broking firm in India with market share of equity volumes standing at 8.7% (up by 90 bps) at the end of Q2 FY20. The market share of NSE active clients stood at 10.1% at the end of Q2FY20. The company has over 4.6 million operational accounts with an AUM size of more than INR 80,000 Cr (incl. ICICI Wealth clients) by end of H1FY20. The broking firm has a very loyal customer base with 65% of revenue contribution coming from clients who have been with the company for more than 5 years.

However, the broking firm is facing tough challenge going ahead with the advent of online based discount broking firms like Zerodha, eating up the retail brokerage gradually. The company has started several initiatives with product lines started like adoption of Prime membership which has helped counter the discount brokers advent but reduced the yields per trade/transaction. We expect the business model of the broking firm to shift from retail dependent to more institutional brokerage focused. Also, the prime membership and reduced brokerage rates will help the firm to maintain the customer base going ahead.

Brokerage (in INR Cr)	Q2 FY20	Q1 FY20	Q2 FY19
Retail	183	189	219
Institutional	33	31	28
Total	216	220	247

ICICI Bank UK

ICICI Bank UK was incorporated in 2003 in England and Wales as a private company and wholly owned subsidiary of ICICI Bank Limited. The bank is involved in the banking businesses of deposits, insurance broking, investments management and mortgage against security. The bank's profits stood at USD 11 mn and credit book at USD 3.2 bn as of Q2 FY20.

ICICI Bank Canada

ICICI Bank Canada was incorporated in 2003 as a private company and wholly owned subsidiary of ICICI Bank Limited. The bank's Net profits stood at CAD 14.2 mn and a credit book of CAD 5.7 bn as of Q2FY20.

Peers (Private Banks)

Peers	Axis Bank	ICICI Bank	HDFC Bank	Kotak Mahindra Bank
Call	HOLD	BUY	HOLD	UR
CMP	755	513	1276	1605
TP	797	618	1370	-
GNPA (%)	5.0%	6.4%	1.4%	2.3%
RoA (%) (FY21E)	1.3%	1.3%	1.9%	2.3%
RoE (%) (FY21E)	15.4%	12.0%	16.6%	15.2%
P/BV (FY21E)	2.8	2.5	3.8	4.0
NIM (%)	3.5	3.4	4.3	4.5

Estimates for Axis, ICICI and HDFC Bank are based on in-house projections while KMB is Bloomberg consensus estimates

Sum of the Parts (SOTP) Valuation

Entity	**Valuation methodology**	**Holding**	**Intrinsic Value per Share (INR per share)**
ICICI Bank - Standalone banking business / Parent	2.6x FY21E ABV	100.0%	466
ICICI Prudential Life Insurance	3.0x FY21E EV	52.9%	74
ICICI Lombard General Insurance	Current MCAP	55.9%	53
ICICI Prudential AMC	6% of FY21E AUM	51.0%	24
ICICI Securities	15x FY21E P/E	79.2%	7
ICICI Home Finance	2x FY21E BV	100.0%	5
ICICI Bank UK Plc	1x FY19 BV	100.0%	5
ICICI Bank Canada	1x FY19 BV	100.0%	5
Others			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			152
Value of total (INR per share)			618

Valuation & View

ICICI bank is poised to compete aggressively with other peers who have made significant inroads into retail lending, in which several banks are competing to provide credit cards, personal loans and home loans for higher spreads. The bank's vast branch chain of 5,228 branches across the nation and formidable customer services along with the new management focusing on changing the business mix rapidly, the bank will regain the past glory. The bank's insurance subsidiaries are performing at unprecedented levels, securities and AMC subsidiaries are yielding stable profits and overseas banking subsidiaries growing moderately. ICICI Bank is currently trading at a 2.8 x P/adj. BV FY21E. Furthermore, the addition of the bank's scrip in MSCI indices and the equity infusion of INR 20,000 Cr will make the bank attractive for FIIs/DIIs. **We assign a P/adj. BV multiple of 2.6x on adj. BV of INR 179 for standalone bank and use a SOTP approach to value its subsidiaries, we arrive at a Target Price of INR 618.**

Financials (Standalone)

Profit & Loss Statement (in INR Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	54,156	54,966	63,401	75,925	87,000
Interest Expended	32,419	31,940	36,386	43,693	50,478
Net Interest Income	**21,737**	**23,026**	**27,015**	**32,232**	**36,523**
Other Income	19,504	17,420	14,512	16,164	21,140
Operating Income	41,242	40,445	41,527	48,396	57,663
Operating Expenses	14,755	15,704	18,089	21,762	25,882
Employee Expenses	5,734	5,914	6,808	8,456	9,452
Other Operating Expenses	9,021	9,790	11,281	13,306	16,430
PPOP	**26,487**	**24,742**	**23,438**	**26,634**	**31,781**
Provisions	15,208	17,307	19,661	11,350	10,782
PBT	11,279	7,435	3,777	15,285	20,999
Tax Expenses	1,478	657	413	6,642	5,285
Net Income	**9,801**	**6,777**	**3,363**	**8,643**	**15,713**

Balance Sheet (in INR Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Equity & Liabilities					
Share Capital	1,286	1,289	1,295	1,301	1,306
Reserves & Surplus	1,03,868	1,07,074	1,14,746	1,29,809	1,51,221
Net Worth	1,05,153	1,08,363	1,16,041	1,31,110	1,52,527
Employee Stock Options	6	5	5	5	5
Deposits	5,60,975	6,52,920	7,76,599	9,13,988	10,76,165
Borrowings	1,82,859	1,65,320	1,52,094	1,64,259	1,72,472
Other Liabilities and Provisions	30,196	37,851	46,577	47,378	51,162
Total Capital & Liabilities	**8,79,189**	**9,64,459**	**10,91,316**	**12,56,740**	**14,52,331**
Assets					
Cash & Balances with RBI	33,102	37,858	47,429	52,954	59,880
Balances with Other Banks & Call Money	51,067	42,438	40,377	47,071	56,194
Investments	2,02,994	2,07,733	2,36,318	2,59,950	2,85,945
Advances	5,12,395	5,86,647	6,75,204	7,96,740	9,40,154
Fixed Assets	7,904	7,931	8,027	8,124	8,221
Other Assets	71,727	81,852	83,961	91,901	1,01,937
Total Assets	**8,79,189**	**9,64,459**	**10,91,316**	**12,56,740**	**14,52,331**

Ratios (Standalone)	FY17A	FY18A	FY19A	FY20E	FY21E
Growth rates					
Advances (%)	6.7%	10.4%	14.5%	15.1%	18.0%
Deposits (%)	16.3%	14.5%	16.4%	18.9%	17.7%
Total assets (%)	7.1%	13.9%	9.7%	13.2%	15.2%
NII (%)	2.4%	5.9%	17.3%	19.3%	13.3%
Pre-provisioning profit (%)	11.0%	-6.6%	-5.3%	13.6%	19.3%
PAT (%)	0.8%	-30.9%	-50.4%	157.0%	81.8%
Balance sheet ratios					
Credit/Deposit (%)	94.7%	91.3%	89.8%	86.9%	87.2%
CASA (%)	50.4%	51.7%	49.6%	46.2%	45.1%
Advances/Total assets (%)	60.1%	58.3%	60.8%	61.9%	63.4%
Leverage (x) (Asset/Shareholder's Fund)	7.72	8.36	8.90	9.40	9.59
CAR (%)	17.4%	18.4%	16.9%	16.7%	17.6%
CAR - Tier I (%)	14.4%	15.9%	15.1%	14.9%	15.8%
Operating efficiency					
Cost/income (%)	35.8%	38.8%	43.6%	45.0%	44.9%
Opex/total assets (%)	1.9%	1.8%	1.9%	2.0%	2.1%
Opex/total interest earning assets	0.8%	0.8%	0.8%	0.9%	0.9%
Profitability					
NIM (%)	3.2%	3.1%	3.2%	3.4%	3.4%
RoA (%)	1.3%	0.8%	0.3%	0.8%	1.3%
RoE (%)	9.8%	6.4%	3.1%	7.4%	12.0%
Asset quality					
Gross NPA (%)	9.1%	10.5%	7.9%	6.2%	4.7%
Net NPA (%)	5.4%	5.4%	2.3%	2.1%	1.8%
PCR (%)	40.2%	48.2%	70.9%	66.4%	61.2%
Credit cost (%)	2.5%	2.6%	2.6%	1.3%	1.1%
Per share data / Valuation					
EPS (INR)	16.82	10.54	5.22	13.35	24.16
BVPS (INR)	171.56	163.56	168.08	179.21	201.62
ABVPS (INR)	128.28	120.28	147.21	157.62	179.28
P/E (x)	30.49	48.66	98.34	38.43	21.23
P/BV (x)	3.0	3.1	3.1	2.9	2.5
P/ABV (x)	4.0	4.3	3.5	3.3	2.9
Profitability					
Return on Capital	3.8%	2.5%	1.2%	3.2%	5.6%
Return on Equity	9.8%	6.4%	3.1%	7.4%	12.0%

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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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