

Core performance intact; Comfortable provision buffer provides comfort

CMP: Rs 417

Rating: ACCUMULATE

Target Price: Rs 467

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	1,379
Mkt Cap (Rs Cr)	287,909
52w H/L (Rs)	552 / 268
Avg Yearly Vol (in 000')	35,045

Shareholding Pattern %

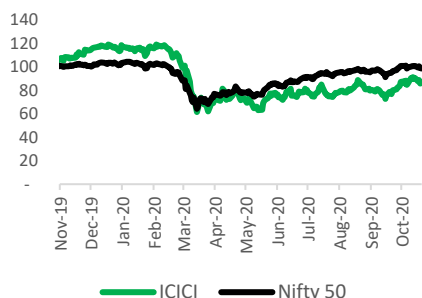
(As on September, 2020)

Promoters	NIL
FII	45.66
DII	43.73
Public & Others	10.61

Stock Performance (%)

	3m	6m	12m
ICICI Bank	18.5	24.0	-11.3
Nifty	5.1	26.9	-2.3

ICICI Bank Vs Nifty



Raju Barnawal

Raju.b@arihantcapital.com

Ph- 022 67114870

ICICI Bank has reported stable performance during Q2FY21, the sharp 61% QoQ decline in provisions, led to a sharp jump in PAT at Rs 4,251 cr (+64% QoQ). NII for the quarter grew by 16% YoY/1% QoQ to Rs 9,366 cr, driven by loan growth of 6% YoY. PPOP increased by 20% YoY to Rs 8,261 cr, due to strong NII growth and decline in OPEX (-5% YoY). Other income for the quarter declined by 4% YoY to Rs 4,028 cr, supported by treasury gains of Rs 542 cr (including Rs 305 cr from stake sale in ICICI Securities). On the other hand, fee income picked up strongly by 49% QoQ. The bank continues to take precautionary Covid-19 provisions of Rs 479 Cr during Q2FY21 (total Covid provision at Rs 8,772 Cr as on H1FY21 - 1.3% of loans). Provision coverage of the bank strengthened further to ~82% from 79% QoQ.

Key Highlights of Q2FY21:

NIMs declined QoQ due to excess liquidity: The bank's NIMs for the quarter declined by 12bps QoQ to 3.6% largely due to excess liquidity (LCR at 150%). Cost of Funds stood at 4.35% (down -84bps YoY/-26bps QoQ) for Q2FY21 reflecting the decline in deposit rates amid the interest rate cuts by RBI. The bank's total deposit grew strongly by 20% YoY with CASA ratio at 43.8% vs 42.5% QoQ.

Loan growth picked up sequentially: Total loan growth was at 6% YoY/3.4% QoQ with domestic loan book growth of 10% YoY and overseas book decline of 30% YoY/10% QoQ. Within retail, home loan segment grew by 11% YoY whereas Auto loans was at +2.5% YoY. Majority growth was driven by personal loans (+18% YoY), business banking (+37% YoY) and rural lending (+19% YoY).

Improvement in asset quality due to SC interim order: Slippages for the quarter came in at Rs 3,017 cr (Rs 1,160 cr in Q1FY21), but the strong recoveries kept net slippages lower. Slippages of Rs 1,410 cr were not recorded due to SC order. GNPA/NNPA improved by 29bps/23bps QoQ to 5.17%/1% respectively. Without considering SC order, NPA/NNPA would have been 5.36%/1.12%.

Valuation & View : ICICI Bank's Q2FY21 operating performance was stable while lower sequential provisioning drove earnings growth. Bank has made enough contingent provisioning (2.27% of loans) to sail through the credit risk which may arrive in H2FY21. Business trends of the bank are improving with demand resolution reaching to ~97% of pre-covid levels. We continue to maintain our positive outlook on the bank, due to its strong liability franchise, high PCR and improving business outlook in most segments. Post the recent capital raise in Q2FY21, the bank has a comfortable Tier 1 ratio of 17.02%. ICICI Bank is currently trading at a 2.3x P/Adj. BV FY22E. We assign a P/adj. BV multiple of 2x on FY22E adj. BV of INR 179 for standalone bank and use a SOTP approach to value its subsidiaries, arriving at a fair value of INR 467 (INR 425 earlier). We maintain our Accumulate rating on the stock.

ICICI Bank (Rs Cr)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E
NII	21,737	23,026	27,015	33,267	36,295	39,062
PPOP	26,487	24,742	23,438	28,101	30,987	34,151
PAT	9,801	6,777	3,363	7,931	10,042	13,067
EPS (INR / Share)	16.8	10.5	5.2	12.3	14.6	18.9
BVPS (INR / Share)	171.6	163.6	168.1	180.0	182.6	200.5
NIM (%)	3.2%	3.1%	3.2%	3.5%	3.4%	3.3%
Advances Growth YoY (%)	6.7%	10.4%	14.5%	10.0%	10.0%	13.0%
Deposits Growth	16.3%	14.5%	16.4%	18.1%	12.1%	14.2%
P/ABV (x)	3.3	3.5	2.8	2.6	2.6	2.3

Q2FY21 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Interest Income	19,622	19,924	18,565	-1.5%	5.7%
Interest Expended	10,256	10,645	10,508	-3.6%	-2.4%
Net Interest Income	9,366	9,280	8,057	0.9%	16.2%
Other Income	4,028	6,143	4,194	-34.4%	-4.0%
Operating Income	13,394	15,422	12,252	-13.1%	9.3%
Operating Expenses	5,133	4,646	5,378	10.5%	-4.5%
Employee Expenses	1,967	2,166	2,141	-9.2%	-8.1%
Other Operating Expenses	3,166	2,480	3,236	27.7%	-2.2%
PPOP	8,261	10,776	6,874	-23.3%	20.2%
Provisions	2,995	7,594	2,507	-60.6%	19.5%
PBT	5,266	3,183	4,367	65.5%	20.6%
Tax Expenses	1,014	583	3,712	73.9%	-72.7%
Net Income	4,251	2,599	655	63.6%	549.1%
Balance Sheet Analysis					
Advances	6,52,608	6,31,215	6,13,359	3.4%	6.4%
Deposits	8,32,936	8,01,622	6,96,273	3.9%	19.6%
Total Assets	11,62,971	11,38,613	9,97,011	2.1%	16.6%
CASA Deposits	3,64,580	3,40,616	3,25,000	7.0%	12.2%
CASA (%)	43.8%	42.5%	46.7%	128bps	-291bps
CAR (%)	18.47%	16.00%	16.14%	247bps	233bps
Spreads					
NIMs (%)	3.57%	3.69%	3.64%	-12bps	-7bps
Cost of Funds	4.35%	4.61%	5.19%	-26bps	-84bps
Yield on Average Advances	8.75%	9.14%	9.49%	-39bps	-74bps
Asset Quality					
GNPA	38,989	40,386	45,639	-3.5%	-14.6%
NNPA	7,188	8,675	10,916	-17.1%	-34.2%
GNPA (%)	5.17%	5.46%	6.37%	-29bps	-120bps
NNPA (%)	1.00%	1.23%	1.60%	-23bps	-60bps
Provision Coverage Ratio	81.7%	78.5%	76.08%	314bps	558bps
Returns & Expenses					
RoA (annualised)	1.50%	0.95%	0.27%	55bps	123bps
RoE (annualised)	13.2%	8.8%	2.37%	444bps	1083bps
Cost / Income Ratio*	38.3%	30.1%	43.89%	820bps	-557bps

* Sharp QoQ increase in Cost/Income ratio is largely due to fluctuation in treasury income. Treasury income for the quarter stood at Rs 542 cr vs. Rs 3,763 cr in Q1FY21.

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

Q2FY21 – Key Concall Highlights

- Management stated that Bank’s ultra high frequency indicator on economy suggests 94% collections across segments for the banking system.
- Overall, collection efficiency of the book stood at 97% of pre-Covid level.
- The bank has disclosed that, the overdue for unsecured credit card is 4% higher than the pre-Covid level, whereas the secured retail segment has 3% higher overdue than pre-Covid level.
- Management indicated that the outstanding Covid provision of Rs 8,772 cr is adequate to meet any future asset quality deterioration. The total Covid provision (Rs 8,772 cr), General Provision of Rs 4,522 cr and provision on Non-fund based NPA of Rs 1,437 cr are not considered in calculating PCR.
- Management has stated that most of the slippages that would emerge due to Covid-19 are likely to be recognised in H1FY21. Slippages for the quarter increased from Rs 1,160 cr to Rs 3,017 cr led by retail and corporate slippages of Rs 1,749 cr and Rs 1,268 cr respectively.
- BB & below book exposure reduced to 1.5% (1.6% in Q1FY21).
- Bank has received restructuring for Rs 2100 cr for corporate/SME loans.
- Loan sanctioned under ECLGS amounted to Rs 16,000 cr spread across the segments while disbursements stood at Rs 10,600 cr.
- Lower tax rate during the quarter was due to tax breaks on account of dividend received from subsidiaries.
- Bank continues to maintain excess liquidity. With pick up in collections and demand may pick up going ahead, bank expect to draw down the excess liquidity.

Valuation - Sum of the Parts

Entity	Valuation methodology	Holding	Intrinsic Value per Share
ICICI Bank - Standalone banking business / Parent	2x FY22E ABV	100.0%	357
ICICI Prudential Life Insurance	1.8x FY22E EV	52.9%	51
ICICI Lombard General Insurance	Current MCAP	55.9%	48
ICICI Prudential AMC	4% of FY22E AUM	51.0%	13
ICICI Securities	9x FY22E P/E	79.2%	5
ICICI Home Finance	1x FY22E BV	100.0%	3
ICICI Bank UK Plc	0.5x FY22E BV	100.0%	2
ICICI Bank Canada	0.5x FY22E BV	100.0%	2
Others			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			110
Value of total (INR per share)			467

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	54,156	54,966	63,401	74,798	79,224	89,307
Interest Expended	32,419	31,940	36,386	41,531	42,929	50,245
Net Interest Income	21,737	23,026	27,015	33,267	36,295	39,062
Other Income	19,504	17,420	14,512	16,449	18,505	21,310
Operating Income	41,242	40,445	41,527	49,716	54,800	60,373
Operating Expenses	14,755	15,704	18,089	21,614	23,813	26,222
Employee Expenses	5,734	5,914	6,808	8,271	9,047	10,112
Other Operating Expenses	9,021	9,790	11,281	13,343	14,766	16,110
PPOP	26,487	24,742	23,438	28,101	30,987	34,151
Provisions	15,208	17,307	19,661	14,053	17,567	16,688
PBT	11,279	7,435	3,777	14,048	13,420	17,463
Tax Expenses	1,478	657	413	6,117	3,378	4,395
Net Income	9,801	6,777	3,363	7,931	10,042	13,067

Balance Sheet (in INR Cr)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities						
Share Capital	1,165	1,286	1,289	1,295	1,379	1,379
Reserves & Surplus	98,780	1,03,868	1,07,074	1,15,206	1,24,559	1,36,936
Net Worth	99,945	1,05,153	1,08,363	1,16,501	1,25,938	1,38,316
Employee Stock Options	6	6	5	3	3	3
Deposits	4,90,039	5,60,975	6,52,920	7,70,969	8,64,039	9,87,143
Borrowings	1,47,556	1,82,859	1,65,320	1,62,897	1,65,802	1,74,092
Other Liabilities and Provisions	34,245	30,196	37,851	47,995	48,821	53,037
Total Capital & Liabilities	7,71,791	8,79,189	9,64,459	10,98,365	12,04,604	13,52,592
Assets						
Cash & Balances with RBI	31,702	33,102	37,858	35,284	39,394	41,987
Balances with Other Banks & Call Money	44,011	51,067	42,438	83,872	97,778	1,35,105
Investments	1,61,507	2,02,994	2,07,733	2,49,531	2,62,008	2,75,108
Advances	4,64,232	5,12,395	5,86,647	6,45,290	7,09,819	8,02,095
Fixed Assets	7,805	7,904	7,931	8,410	8,918	9,456
Other Assets	62,535	71,727	81,852	75,978	86,687	88,839
Total Assets	7,71,791	8,79,189	9,64,459	10,98,365	12,04,604	13,52,592

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

Ratios	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates						
Advances (%)	6.7%	10.4%	14.5%	10.0%	10.0%	13.0%
Deposits (%)	16.3%	14.5%	16.4%	18.1%	12.1%	14.2%
Total assets (%)	7.1%	13.9%	9.7%	13.9%	9.7%	12.3%
NII (%)	2.4%	5.9%	17.3%	23.1%	9.1%	7.6%
Pre-provisioning profit (%)	11.0%	-6.6%	-5.3%	19.9%	10.3%	10.2%
PAT (%)	0.8%	-30.9%	-50.4%	135.8%	26.6%	30.1%
Balance sheet ratios						
Credit/Deposit (%)	94.7%	91.3%	89.8%	83.7%	82.2%	81.3%
CASA (%)	50.4%	51.7%	49.6%	45.1%	44.7%	44.3%
Advances/Total assets (%)	60.1%	58.3%	60.8%	58.8%	58.9%	59.3%
Leverage (x) (Asset/Shareholder's Fund)	7.72	8.36	8.90	9.43	9.57	9.78
CAR (%)	17.4%	18.4%	16.9%	16.8%	16.9%	17.4%
CAR - Tier I (%)	14.4%	15.9%	15.1%	15.0%	15.1%	15.6%
Operating efficiency						
Cost/income (%)	35.8%	38.8%	43.6%	43.5%	43.5%	43.4%
Opex/total assets (%)	1.9%	1.8%	1.9%	2.0%	2.0%	1.9%
Opex/total interest earning assets	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%
Profitability						
NIM (%)	3.2%	3.1%	3.2%	3.5%	3.4%	3.3%
RoA (%)	1.3%	0.8%	0.3%	0.7%	0.8%	1.0%
RoE (%)	9.8%	6.4%	3.1%	6.8%	8.0%	9.4%
Asset quality						
Gross NPA (%)	9.1%	10.5%	7.9%	6.5%	5.9%	4.9%
Net NPA (%)	5.4%	5.4%	2.3%	2.2%	2.0%	1.9%
PCR (%)	40.2%	48.2%	70.9%	66.4%	65.1%	61.8%
Credit cost (%)	2.5%	2.6%	2.6%	1.7%	1.9%	1.6%
Per share data / Valuation						
EPS (INR)	16.82	10.54	5.22	12.25	14.56	18.95
BVPS (INR)	171.56	163.56	168.08	179.96	182.59	200.54
ABVPS (INR)	128.28	120.28	147.21	158.36	161.52	178.64
P/E (x)	24.79	39.56	79.94	34.04	28.64	22.01
P/BV (x)	2.4	2.5	2.5	2.3	2.3	2.1
P/ABV (x)	3.3	3.5	2.8	2.6	2.6	2.3
Profitability						
Return on Capital	3.8%	2.5%	1.2%	2.9%	3.5%	4.3%
Return on Equity	9.8%	6.4%	3.1%	6.8%	8.0%	9.4%

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880