

Yet another impressive quarter; core business sounding better

CMP: Rs 537

Rating: BUY

Target Price: Rs 651

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	1,294
Mkt Cap (Rs Cr)	97,064
52w H/L (Rs)	552 / 336
Avg Yearly Vol (in 000')	20,088

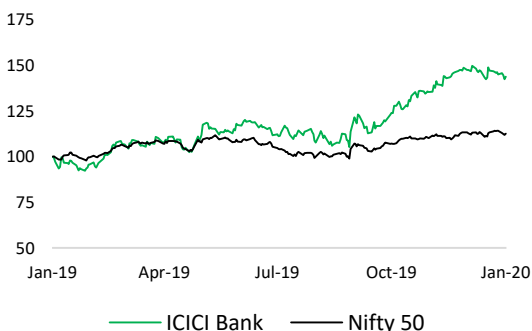
Shareholding Pattern %

(As on Dec, 2019)

Promoters	0.0
FII	45.79
DII	43.55
Public & Others	10.66

Stock Performance (%)	3m	6m	12m
ICICI Bank	18.5	-1.8	0.2
Nifty	9.0	6.7	15.1

ICICI Bank Vs Nifty



ICICI Bank's performance goes strength to strength with each passing quarter as the bank rescues itself from high provisions of the past. The bank's **NII increased by 24.3% YoY/6.1% QoQ, Operating Profit increased by 22.8% YoY/9.8% QoQ and Net Income increased to Rs 4,146 Cr (up 158% YoY)**, bouncing high on account of improvement in the core operations of the bank. As expected due to the macro-slowdown, the advances increased by 12.6% YoY to Rs 6.35 tn while deposits grew to Rs 7.16 tn (up 18.1% YoY). The loan book growth was primarily driven by personal loans, credit cards and business banking segments growing by +40% YoY while the mortgage loans grew moderately by 14.8% YoY.

Key Highlights of Q3 FY20:

NIMs at fresh highs, costs coming down: The bank's NIMs increased to 3.77% (up +37bps YoY/+13 bps QoQ) while the Cost of Funds stood at 5.06% (down -8bps YoY/-13bps QoQ) for Q3FY20 reflecting improvement in the bank's core business. The bank's CASA improved to 46.96% (46.68% in Q2FY20) helping bring down the costs.

Overall improvement in asset quality from all fronts: The bank's asset quality improved with the GNPA/NNPA coming down to 5.95%/1.49% for Q3FY20 along with provisions coming down to Rs 2,083 Cr (down -50.9% YoY/-16.9% QoQ). Despite the size of the retail portfolio growing to constitute 62.5% of the bank's standalone advances, the retail GNPA/NNPA stood at a low of 2.14%/0.95% of the gross retail advances, which is similar to almost all bank's retail portfolio asset quality. The bank's overall loan book's rating profile kept on improving with 69.8% of loans rated A & above while the BB & below rated loans fell to fresh low of 1.4% of total net advances.

Digital Initiatives to drive future growth: The bank has improvised its digital platform with sales driven through multiple online channels to drive future growth, e.g. 87% of saving account transaction are done through digital channels.

Valuation & View

ICICI Bank is poised to compete aggressively with other peers who have made significant inroads into retail lending. The bank's vast branch chain of 5,275 branches (47 new added in Q3FY20) across the nation along with customer preference changing from public sector banks on reliability grounds to a more customer friendly high quality servicing private bank will help in gaining more customers. The bank's insurance subsidiaries are competing well in respective field of business, besides the securities and AMC subsidiaries. ICICI Bank is currently trading at a 2.6 x P/adj. BV FY22E. We assign a P/adj. BV multiple of 2.3x on FY22E adj. BV of INR 209 for standalone bank and use a SOTP approach to value its subsidiaries, we arrive at a Target Price of INR 651.

Key Financials (in Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
NII	23,026	27,015	33,385	38,067	43,377
NIM (%)	3.1%	3.2%	3.6%	3.7%	3.7%
Net Profit	6,777	3,363	8,403	15,731	21,192
Advances	5,12,395	5,86,647	6,67,317	7,80,761	9,13,491
Deposits	5,60,975	6,52,920	7,53,744	8,86,562	10,43,255
GNPA (%)	10.5%	7.9%	6.2%	4.8%	3.7%

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Q3 FY20 - Quarterly Performance (Standalone)

Particulars (Rs Cr)	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y
Interest Income	19,064	18,565	16,280	2.7%	17.1%
Interest Expended	10,519	10,508	9,405	0.1%	11.8%
Net Interest Income	8,545	8,057	6,875	6.1%	24.3%
Other Income	4,574	4,194	3,883	9.1%	17.8%
Operating Income	13,119	12,252	10,758	7.1%	21.9%
Operating Expenses	5,571	5,378	4,612	3.6%	20.8%
Employee Expenses	1,942	2,141	1,734	-9.3%	12.0%
Other Operating Expenses	3,629	3,236	2,878	12.1%	26.1%
PPOP	7,549	6,874	6,146	9.8%	22.8%
Provisions	2,083	2,507	4,244	-16.9%	-50.9%
PBT	5,465	4,367	1,902	25.1%	187.3%
Tax Expenses	1,319	3,712	297	-64.5%	343.6%
Net Income	4,146	655	1,605	533.1%	158.4%
Balance Sheet Analysis					
Advances	6,35,654	6,13,359	5,64,308	3.6%	12.6%
Deposits	7,16,345	6,96,273	6,06,755	2.9%	18.1%
Total Assets	10,07,068	9,97,011	9,12,364	1.0%	10.4%
CASA Deposits	3,36,409	3,25,000	2,99,374	3.5%	12.4%
CASA (%)	46.96%	46.68%	49.3%	28bps	-238bps
CAR (%)	16.50%	16.14%	17.15%	36bps	-65bps
Spreads					
NIMs (%)	3.77%	3.64%	3.40%	13bps	37bps
Cost of Funds	5.06%	5.19%	5.14%	-13bps	-8bps
Yield on Average Advances	9.48%	9.49%	9.04%	-1bps	44bps
Asset Quality					
GNPA	43,454	45,639	51,591	-4.8%	-15.8%
NNPA	10,389	10,916	16,252	-4.8%	-36.1%
GNPA (%)	5.95%	6.37%	7.75%	-42bps	-180bps
NNPA (%)	1.49%	1.60%	2.58%	-11bps	-109bps
Credit Costs	1.31%	1.63%	3.01%	-32bps	-170bps
Provision Coverage Ratio	76.2%	76.1%	68.50%	11bps	769bps
Returns & Expenses					
RoA (annualised)	1.68%	0.27%	0.73%	141bps	95bps
RoE (annualised)	14.4%	2.4%	5.99%	1205bps	843bps
Cost / Income Ratio	42.5%	43.9%	42.87%	-143bps	-41bps

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

Q3 FY20 – Key Concall Highlights

- The bank finally started incremental issue of corporate and SME loan book in line with the retail advances book. The domestic corporate portfolio grew by 12% YoY while the SME business portfolio, comprising of borrowers less than Rs 250 Cr turnover grew by 34% YoY.
- The bank's Kisan Credit Card (KCC) portfolio stood at ~20,400 Cr or 3% of total loan book in which the management is witnessing some higher NPA additions in the first & third quarters of every fiscal year.
- The bank has given 90% of the disbursements in the nine months to corporates rated A minus & above while the upgradation of BBB into A rated bucket mostly confined to retail portfolio.
- The management acknowledged the recovery from the Essar Steel insolvency case while iterating other pending insolvency cases not-materializing. Going ahead, the management maintained its guidance for Credit Cost for FY20 to remain in 1.7-1.8% levels.
- The management stated that the bank has provided 100% for the exposure of the Karvy Stock Broking and an industrial company. Of the total fresh slippages of Rs 4,363 Cr, around Rs 1,686 Cr came from the 2 new corporate accounts- Karvy Stock Broking and a south-Indian industrial company.
- The management refused of any capital infusion in the capitals of the bank against prevailing rumours of Rs 20,000 Cr capital infusion, citing adequate availability of capital with the bank after regulatory maintenance levels.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
ICICI Bank - Standalone banking business / Parent	2.3x FY22E ABV	100.0%	481
ICICI Prudential Life Insurance	3.0x FY22E EV	52.9%	87
ICICI Lombard General Insurance	Current MCAP	55.9%	53
ICICI Prudential AMC	6% of FY22E AUM	51.0%	30
ICICI Securities	15x FY22E P/E	79.2%	9
ICICI Home Finance	2x FY22E 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)			170
Value of total (INR per share)			651

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

Key Financials

Profit & Loss Statement (in Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	54,156	54,966	63,401	75,471	82,799	95,372
Interest Expended	32,419	31,940	36,386	42,086	44,733	51,995
Net Interest Income	21,737	23,026	27,015	33,385	38,067	43,377
Other Income	19,504	17,420	14,512	16,053	20,843	27,202
Operating Income	41,242	40,445	41,527	49,439	58,909	70,578
Operating Expenses	14,755	15,704	18,089	21,762	25,882	30,854
Employee Expenses	5,734	5,914	6,808	8,456	9,452	10,565
Other Operating Expenses	9,021	9,790	11,281	13,306	16,430	20,288
PPOP	26,487	24,742	23,438	27,677	33,027	39,725
Provisions	15,208	17,307	19,661	12,637	12,005	11,405
PBT	11,279	7,435	3,777	15,040	21,022	28,320
Tax Expenses	1,478	657	413	6,637	5,291	7,128
Net Income	9,801	6,777	3,363	8,403	15,731	21,192

Balance Sheet (in Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Equity & Liabilities						
Share Capital	1,165	1,286	1,289	1,296	1,303	1,309
Reserves & Surplus	98,780	1,03,868	1,07,074	1,15,200	1,30,279	1,50,816
Net Worth	99,945	1,05,153	1,08,363	1,16,496	1,31,581	1,52,125
Employee Stock Options	6	6	5	5	5	5
Deposits	4,90,039	5,60,975	6,52,920	7,53,744	8,86,562	10,43,255
Borrowings	1,47,556	1,82,859	1,65,320	1,30,506	1,61,175	1,69,234
Other Liabilities and Provisions	34,245	30,196	37,851	38,730	39,397	41,002
Total Capital & Liabilities	7,71,791	8,79,189	9,64,459	10,39,481	12,18,721	14,05,621
Assets						
Cash & Balances with RBI	31,702	33,102	37,858	39,896	44,543	48,656
Balances with Other Banks & Call Money	44,011	51,067	42,438	45,253	52,755	64,432
Investments	1,61,507	2,02,994	2,07,733	2,16,106	2,26,911	2,38,257
Advances	4,64,232	5,12,395	5,86,647	6,67,317	7,80,761	9,13,491
Fixed Assets	7,805	7,904	7,931	8,205	8,488	8,781
Other Assets	62,535	71,727	81,852	62,704	1,05,261	1,32,003
Total Assets	7,71,791	8,79,189	9,64,459	10,39,481	12,18,721	14,05,621

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

Ratios	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Growth rates						
Advances (%)	6.7%	10.4%	14.5%	13.8%	17.0%	17.0%
Deposits (%)	16.3%	14.5%	16.4%	15.4%	17.6%	17.7%
Total assets (%)	7.1%	13.9%	9.7%	7.8%	17.2%	15.3%
NII (%)	2.4%	5.9%	17.3%	23.6%	14.0%	13.9%
Pre-provisioning profit (%)	11.0%	-6.6%	-5.3%	18.1%	19.3%	20.3%
PAT (%)	0.8%	-30.9%	-50.4%	149.8%	87.2%	34.7%
Balance sheet ratios						
Credit/Deposit (%)	94.7%	91.3%	89.8%	88.5%	88.1%	87.6%
CASA (%)	50.4%	51.7%	49.6%	47.6%	46.5%	45.5%
Advances/Total assets (%)	60.1%	58.3%	60.8%	64.2%	64.1%	65.0%
Leverage (x) (Asset/Shareholder's Fund)	7.72	8.36	8.90	8.92	9.26	9.24
CAR (%)	17.4%	18.4%	16.9%	16.8%	17.6%	19.0%
CAR - Tier I (%)	14.4%	15.9%	15.1%	15.0%	15.8%	17.2%
Operating efficiency						
Cost/income (%)	35.8%	38.8%	43.6%	44.0%	43.9%	43.7%
Opex/total assets (%)	1.9%	1.8%	1.9%	2.1%	2.1%	2.2%
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%	3.6%	3.7%	3.7%
RoA (%)	1.3%	0.8%	0.3%	0.8%	1.3%	1.5%
RoE (%)	9.8%	6.4%	3.1%	7.2%	12.0%	13.9%
Asset quality						
Gross NPA (%)	9.1%	10.5%	7.9%	6.2%	4.8%	3.7%
Net NPA (%)	5.4%	5.4%	2.3%	2.1%	1.9%	1.7%
PCR (%)	40.2%	48.2%	70.9%	66.4%	61.2%	55.2%
Credit cost (%)	2.5%	2.6%	2.6%	1.5%	1.3%	1.1%
Per share data / Valuation						
EPS (INR)	16.82	10.54	5.22	12.97	24.15	32.37
BVPS (INR)	171.56	163.56	168.08	179.78	202.03	232.39
ABVPS (INR)	128.28	120.28	147.21	158.20	179.72	209.32
P/E (x)	31.93	50.96	102.99	41.43	22.24	16.60
P/BV (x)	3.1	3.3	3.2	3.0	2.7	2.3
P/ABV (x)	4.2	4.5	3.6	3.4	3.0	2.6
Profitability						
Return on Capital	3.8%	2.5%	1.2%	3.2%	5.8%	6.9%
Return on Equity	9.8%	6.4%	3.1%	7.2%	12.0%	13.9%

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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