

Core business intact, growth and asset portfolio concerns arise

CMP: Rs 335

Rating: ACCUMULATE

Target Price: Rs 385

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)	2,18,585
52w H/L (Rs)	552 / 268
Avg Yearly Vol (in 000')	25,327

Shareholding Pattern %

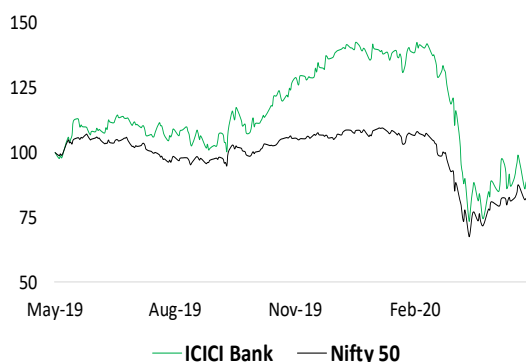
(As on Mar, 2020)

Promoters	0.0
FII	43.7
DII	45.0
Public & Others	11.3

Stock Performance (%)

	3m	6m	12m
ICICI Bank	-37.1	-29.4	-12.3
Nifty	-24.0	-23.4	-20.0

ICICI Bank Vs Nifty



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ICICI Bank maintains a stable performance amid all the chaos of advance provisioning by major banks, well beyond RBI mandated 5% provisioning for Covid-19. **NII increased by 17.1% YoY/4.5% QoQ, PPOP increased by 18.6% YoY/down 2.1% QoQ and Net Income increased to Rs 1,221 Cr, up by 26.0% YoY / down 70.5% QoQ.** The decline in the bottomline could be attributed to the advance provisioning as per RBI guidelines for Covid-19 of Rs 2,725 Cr. Apart from the Corona crisis hit, the pre corona macroeconomic lull and slowing economy had an impact on the bank's growth as well, with advances growing by a mere 10.0% YoY while deposit mobilization remained strong for the 2nd largest lender, up by 18.1% YoY/7.6% QoQ, as term deposits grew sharply after crisis in several smaller Private banks triggering the flee of capital to larger banks.

Key Highlights of Q4 FY20:

NIMs at fresh highs, costs came down: The bank's NIMs increased to 3.87% (up +15bps YoY/+10 bps QoQ) while the Cost of Funds stood at 4.92% (down -28bps YoY/-14bps QoQ) for Q4FY20 reflecting the fallen costs and increasing spread for banks amid the interest rate cuts by RBI. The bank's CASA fell to 45.1% (47.0% in Q3FY20), albeit due to excessive growth of term deposits (28.6% YoY/11.4% QoQ).

Improvement in Asset Quality due to RBI moratorium: The bank's asset quality improved with the GNPA/NNPA coming down to 5.53%/1.41% by Q4FY20 due to the imposition of RBI's mandated moratorium and non-classification as NPAs for defaults since 1st March 2020, which is seen across all banks. However, the level of advance provisioning against Covid-19 impact and bank stating that 30% of loans under moratorium by April 30, clearly reflects the building up of stress beneath the moratorium shield, of which some will eventually slip to NPA recognition in the subsequent quarters.

Valuation & View

ICICI Bank is poised to do well in terms of NIMs and PPOPs for the next few quarters due to excessive liquidity in hand, fallen interest rates and highly regulated sanctioning of new loans towards both retail and corporate segment. The bank's vast branch chain of 5,324 branches (49 new added in Q4FY20) across the nation along with crafted IT platform for digital banking services will propel the growth as & when the normalcy returns. The bank's insurance subsidiaries however will not be paying dividends, thereby declining in dividend income for the year ahead. ICICI Bank is currently trading at a 2.1x P/Adj. BVFY20. We assign a P/adj. BV multiple of 1.5x on FY22E adj. BV of INR 185 for standalone bank and use a SOTP approach to value its subsidiaries, arriving at a Target Price of INR 385 with an Accumulate rating.

Particulars (Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	27,015	33,267	34,425	37,353
PPOP	23,438	28,101	29,117	32,442
PAT	3,363	7,931	8,643	11,789
EPS (INR / Share)	5.2	12.3	13.3	18.1
BVPS (INR / Share)	168.1	180.0	191.5	207.8
NIM (%)	3.2%	3.5%	3.2%	3.2%
Advances Growth	14.5%	10.0%	10.0%	13.0%
Deposits Growth	16.4%	18.1%	11.1%	13.2%
P/ABV (x)	2.3	2.1	2.0	1.8

Q4 FY20 - Quarterly Performance (Standalone) (Rs Cr)

Profit & Loss Statement	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
Interest Income	19,189	19,064	17,293	0.7%	11.0%
Interest Expended	10,262	10,519	9,673	-2.4%	6.1%
Net Interest Income	8,927	8,545	7,620	4.5%	17.1%
Other Income	4,255	4,574	3,621	-7.0%	17.5%
Operating Income	13,182	13,119	11,241	0.5%	17.3%
Operating Expenses	5,792	5,571	5,008	4.0%	15.7%
Employee Expenses	2,235	1,942	1,899	15.1%	17.7%
Other Operating Expenses	3,557	3,629	3,109	-2.0%	14.4%
PPOP	7,390	7,549	6,233	-2.1%	18.6%
Provisions	5,967	2,083	5,451	186.5%	9.5%
PBT	1,423	5,465	782	-74.0%	81.9%
Tax Expenses	201	1,319	-187	-84.7%	-207.6%
Net Income	1,221	4,146	969	-70.5%	26.0%
Balance Sheet Analysis					
Advances	645,290	635,654	586,647	1.5%	10.0%
Deposits	770,969	716,345	652,920	7.6%	18.1%
Total Assets	1,098,365	1,007,068	964,459	9.1%	13.9%
CASA Deposits	347,818	336,409	323,940	3.4%	7.4%
CASA (%)	45.11%	46.96%	49.6%	-185bps	-450bps
CAR (%)	16.11%	16.50%	16.89%	-39bps	-78bps
Spreads					
NIMs (%)	3.87%	3.77%	3.72%	10bps	15bps
Cost of Funds	4.92%	5.06%	5.20%	-14bps	-28bps
Yield on Average Advances	9.27%	9.48%	8.98%	-21bps	28bps
Asset Quality					
GNPA	41,409	43,454	46,292	-4.7%	-10.5%
NNPA	10,114	10,389	13,577	-2.6%	-25.5%
GNPA (%)	5.53%	5.95%	6.70%	-42bps	-117bps
NNPA (%)	1.41%	1.49%	2.06%	-8bps	-65bps
Credit Costs	2.06%	1.31%	3.72%	75bps	-166bps
Provision Coverage Ratio	75.7%	76.2%	70.60%	-52bps	508bps
Returns & Expenses					
RoA (annualised)	0.49%	1.68%	0.43%	-119bps	6bps
RoE (annualised)	4.2%	14.6%	3.58%	-1041bps	62bps
Cost / Income Ratio	43.9%	42.5%	44.55%	148bps	-61bps

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

Q4 FY20 – Key Concall Highlights

- ICICI Bank made higher advance provisioning for Covid-19 to the tune of Rs 2,725 Cr apart from standard provisioning and other slippages. This was done way higher than the RBI mandated 5% (Rs 607 Cr for Q4 FY20) phased provisioning during both March & June 20 for assets which had defaulted but are still considered standard asset due to mandatory moratorium beneficiary.
- Excluding the Covid-19 related provisioning, the bank's Credit Cost stood at 2.06% for the quarter.
- ICICI Bank's 97% of the branches remain operational during the lockdown.
- The bank has launched a new web based platform, 'ICICI Stack', for the benefit of retailers, business banking, etc. which offers more than 500 products and services on the platform to accelerate non-physical uninterrupted services.
- LCR for the bank stood well above 135% on daily basis, thereby reflecting the bank's excess liquidity.
- The management attributed a crisis with one healthcare group in West Asia and an Oil company based in Singapore, where borrowers have mis-represented their financials. The bank has provided substantially for both the accounts during this quarter.
- The board has not announced any dividend for the year as per RBI guidelines.
- The bank's management maintains its focus on granularization of its portfolio, with enthusiasm for lending to high rated corporates.
- There were slippages of Rs 1,726 Cr from the corporate and SME borrowers rated BB & below at Dec 2019 segment during the quarter, which included an account of Rs 586 Cr slippage which was settled within the same quarter.
- By April 30, about 30% of the total loan book of the bank is under moratorium. Loans which were overdue by more than 90 days by March 31 2020 but were not classified as NPA due to moratorium benefits, constituted Rs 1,309 Cr.
- Of the Gross NPA additions, Rs 4,012 Cr, came from corporate & SME portfolio, which included the earlier mentioned slippage of Rs 1,726 Cr of BB& below rated accounts from Corporates & SME segment.

Valuation - Sum of the Parts

Entity	Valuation methodology	Holding	Intrinsic Value per Share
ICICI Bank - Standalone banking business / Parent	1.5x FY22E ABV	100.0%	277
ICICI Prudential Life Insurance	1.8x FY22E EV	52.9%	52
ICICI Lombard General Insurance	Current MCAP	55.9%	41
ICICI Prudential AMC	4% of FY22E AUM	51.0%	15
ICICI Securities	9x FY22E P/E	79.2%	6
ICICI Home Finance	1x FY22E BV	100.0%	3
ICICI Bank UK Plc	0.5x FY19 BV	100.0%	2
ICICI Bank Canada	0.5x FY19 BV	100.0%	2
Others			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			108
Value of total (INR per share)			385

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	54,966	63,401	74,798	77,191	87,039
Interest Expended	31,940	36,386	41,531	42,766	49,685
Net Interest Income	23,026	27,015	33,267	34,425	37,353
Other Income	17,420	14,512	16,449	18,505	21,310
Operating Income	40,445	41,527	49,716	52,929	58,664
Operating Expenses	15,704	18,089	21,614	23,813	26,222
Employee Expenses	5,914	6,808	8,271	9,047	10,112
Other Operating Expenses	9,790	11,281	13,343	14,766	16,110
PPOP	24,742	23,438	28,101	29,117	32,442
Provisions	17,307	19,661	14,053	17,567	16,688
PBT	7,435	3,777	14,048	11,550	15,754
Tax Expenses	657	413	6,117	2,907	3,965
Net Income	6,777	3,363	7,931	8,643	11,789

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities					
Share Capital	1,286	1,289	1,295	1,300	1,305
Reserves & Surplus	103,868	107,074	115,206	123,199	134,335
Net Worth	105,153	108,363	116,501	124,499	135,640
Employee Stock Options	6	5	3	3	3
Deposits	560,975	652,920	770,969	856,329	969,775
Borrowings	182,859	165,320	162,897	165,802	174,092
Other Liabilities and Provisions	30,196	37,851	47,995	48,821	53,037
Total Capital & Liabilities	879,189	964,459	1,098,365	1,195,455	1,332,549
Assets					
Cash & Balances with RBI	33,102	37,858	35,284	39,394	41,987
Balances with Other Banks & Call Money	51,067	42,438	83,872	97,778	135,105
Investments	202,994	207,733	249,531	262,008	275,108
Advances	512,395	586,647	645,290	709,819	802,095
Fixed Assets	7,904	7,931	8,410	8,918	9,456
Other Assets	71,727	81,852	75,978	77,539	68,796
Total Assets	879,189	964,459	1,098,365	1,195,455	1,332,549

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

Ratios	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates					
Advances (%)	10.4%	14.5%	10.0%	10.0%	13.0%
Deposits (%)	14.5%	16.4%	18.1%	11.1%	13.2%
Total assets (%)	13.9%	9.7%	13.9%	8.8%	11.5%
NII (%)	5.9%	17.3%	23.1%	3.5%	8.5%
Pre-provisioning profit (%)	-6.6%	-5.3%	19.9%	3.6%	11.4%
PAT (%)	-30.9%	-50.4%	135.8%	9.0%	36.4%
Balance sheet ratios					
Credit/Deposit (%)	91.3%	89.8%	83.7%	82.9%	82.7%
CASA (%)	51.7%	49.6%	45.1%	44.7%	44.3%
Advances/Total assets (%)	58.3%	60.8%	58.8%	59.4%	60.2%
Leverage (x) (Asset/Shareholder's Fund)	8.36	8.90	9.43	9.60	9.82
CAR (%)	18.4%	16.9%	16.8%	16.7%	17.1%
CAR - Tier I (%)	15.9%	15.1%	15.0%	14.9%	15.3%
Operating efficiency					
Cost/income (%)	38.8%	43.6%	43.5%	45.0%	44.7%
Opex/total assets (%)	1.8%	1.9%	2.0%	2.0%	2.0%
Opex/total interest earning assets	0.8%	0.8%	0.9%	0.9%	0.9%
Profitability					
NIM (%)	3.1%	3.2%	3.5%	3.2%	3.2%
RoA (%)	0.8%	0.3%	0.7%	0.7%	0.9%
RoE (%)	6.4%	3.1%	6.8%	6.9%	8.7%
Asset quality					
Gross NPA (%)	10.5%	7.9%	5.5%	5.3%	4.2%
Net NPA (%)	5.4%	2.3%	1.4%	2.0%	1.9%
PCR (%)	48.2%	70.9%	66.4%	61.2%	55.2%
Credit cost (%)	2.6%	2.6%	1.7%	1.9%	1.6%
Per share data / Valuation					
EPS (INR)	10.54	5.22	12.25	13.30	18.06
BVPS (INR)	163.56	168.08	179.96	191.53	207.81
ABVPS (INR)	120.28	147.21	158.36	169.17	184.67
P/E (x)	31.84	64.34	27.40	25.24	18.58
P/BV (x)	2.1	2.0	1.9	1.8	1.6
P/ABV (x)	2.8	2.3	2.1	2.0	1.8
Profitability					
Return on Capital	2.5%	1.2%	2.9%	3.0%	3.9%
Return on Equity	6.4%	3.1%	6.8%	6.9%	8.7%

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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