

**BUY**

TP: Rs 465 | ▲ 11%

**ICICI BANK**

| Banking

| 01 August 2019

## 20F filing highlights

**ICICI Bank's (ICICIBC) early delinquency indicators, as disclosed in its 20F filing for FY19, suggest corporate loan stress has been largely dealt with. Credit quality of the retail book has held up well, barring mild stress in the credit card portfolio where SMA-1/2 loans have risen 20bps YoY to 1.3%/0.7%. Potential problematic corporate loans receded further to 3.4% in FY19, while overall impaired loans reduced to 7.3%. The bank has ramped up coverage on impaired loans to 70% and is comfortable maintaining it at current levels. Reiterate BUY.**

**Early delinquencies moderate further:** ICICIBC's FY19 asset ageing analysis suggests that the 31-60-day portfolio (0.6% of loans) has moderated to its lowest point since a recent peak of 5.7% in FY15, while the 61-90-day book (0.3%) is stable YoY. Data continues to suggest low risk of corporate slippage. The retail book has been holding up well barring credit cards which saw mild deterioration in SMA-1/2 loans from 1.1%/0.5% in FY18 to 1.3%/0.7% in FY19.

**Reduction in impaired loans a positive:** Potential problematic loans, where management has reservations about borrowers' ability to meet loan repayment terms, moderated to 3.4% of corporate advances in FY19 vs. 3.6% last year following downgrades to NPA. Overall impaired loans declined to 7.3% vs. 10% in FY18 on lower stress from the corporate portfolio.

**Material improvement in coverage ratio:** Coverage on impaired loans rose to ~70% in FY19 vs. <50% last year. Management thus continues to guide for credit costs at 1.2-1.3% of advances in FY20.

**Maintain BUY:** We like ICICIBC for its receding asset quality pangs, normalising credit costs and reviving loan growth. Maintain BUY with a Mar'20 TP of Rs 465 which values the core business at 1.9x FY21E P/BV.

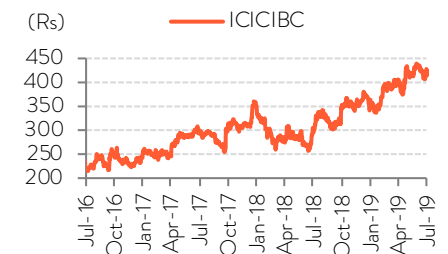
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Ticker/Price	ICICIBC IN/Rs 417
Market cap	US\$ 38.9bn
Shares o/s	6,435mn
3M ADV	US\$ 105.5mn
52wk high/low	Rs 444/Rs 294
Promoter/FPI/DII	0%/45%/55%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	67,774	33,633	147,225	195,651	237,151
EPS (Rs)	11.1	5.2	22.8	30.3	36.8
P/E (x)	37.7	79.8	18.3	13.7	11.3
P/BV (x)	2.5	2.5	2.3	2.0	1.8
ROA (%)	0.8	0.4	1.4	1.6	1.7
ROE (%)	6.6	3.2	13.1	15.8	16.9

Source: Company, BOBCAPS Research

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**FIG 1 – IMPAIRED ASSETS DECLINE TO ~7%**

Particulars (Rs bn)	FY15	FY16	FY17	FY18	FY19
<b>Gross NPAs</b>	<b>173.8</b>	<b>293.1</b>	<b>458.9</b>	<b>575.3</b>	<b>491.8</b>
-Corporate	148.3	266.4	430.8	534.8	440.4
-Retail	25.5	26.8	28.1	40.5	51.4
<b>Restructured assets</b>	<b>130.8</b>	<b>98.7</b>	<b>50.9</b>	<b>18.6</b>	<b>3.7</b>
-Corporate	130.6	98.6	50.7	18.3	3.6
-Retail	0.2	0.1	0.2	0.2	0.1
<b>Impaired assets</b>	<b>304.6</b>	<b>391.8</b>	<b>509.7</b>	<b>593.8</b>	<b>495.6</b>
-Corporate	278.9	365.0	481.5	553.1	444.0
-Retail	25.7	26.9	28.2	40.7	51.5

Source: Company, BOBCAPS Research

Particulars (%)	FY15	FY16	FY17	FY18	FY19
<b>Gross NPAs</b>	<b>3.9</b>	<b>5.8</b>	<b>8.6</b>	<b>9.7</b>	<b>7.2</b>
-Corporate	5.4	9.0	14.8	17.7	13.6
-Retail	1.4	1.2	1.1	1.4	1.4
<b>Restructured assets</b>	<b>2.9</b>	<b>1.9</b>	<b>0.9</b>	<b>0.3</b>	<b>0.1</b>
-Corporate	4.8	3.3	1.7	0.6	0.1
-Retail	0.0	0.0	0.0	0.0	0.0
<b>Impaired assets</b>	<b>6.8</b>	<b>7.7</b>	<b>9.5</b>	<b>10.0</b>	<b>7.3</b>
-Corporate	10.2	12.4	16.6	18.3	13.7
-Retail	1.5	1.2	1.2	1.4	1.4

**FIG 2 – SECTOR-WISE IMPAIRED LOANS (GNPA + RESTRUCTURED LOANS)**

Particulars (%)	FY15	FY16	FY17	FY18	FY19
Construction	40.3	50.7	53.3	53.0	48.3
Roads, port, telecom, urban development & other infrastructure	14.0	16.1	13.1	12.9	9.5
Power	5.4	6.9	20.9	37.1	34.7
Services – non finance	12.7	13.9	18.7	23.7	15.9
Iron/steel and iron/steel products	8.1	27.6	34.9	34.8	23.7
Electronics & engineering	21.0	14.0	6.5	16.8	15.5
Chemicals and fertilizers	30.5	6.0	2.7	2.9	4.7
Gems & jewelry	11.8	15.9	20.9	27.3	23.0
Services – finance	3.8	1.7	-	-	0.7
Mining	6.4	5.7	36.4	85.2	80.2
Shipping	25.6	36.7	54.3	44.6	46.0
Food & beverages	9.8	11.2	10.4	12.5	25.7
Wholesale/retail trade	3.5	4.0	5.3	4.2	5.3
Metal & products (excluding iron & steel)	1.5	1.8	1.1	2.0	2.1
Retail finance	1.8	1.7	1.4	1.6	1.6
Cement	0.3	-	70.7	-	-
Crude petroleum/refining & petrochemicals	2.0	10.5	13.4	22.0	13.4
Others	5.5	3.9	5.3	5.2	4.9
<b>Total impaired assets</b>	<b>6.7</b>	<b>7.7</b>	<b>9.5</b>	<b>10.0</b>	<b>7.3</b>

Source: Company, BOBCAPS Research

**FIG 3 – COVERAGE RATIO ON STRESSED LOANS IMPROVES MATERIALLY**

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19
Gross restructured loans	130,787	98,674	50,856	18,579	3,738
Aggregate provision for loan losses	(9,458)	(7,581)	(3,012)	(628)	(279)
Net restructured loans	121,329	91,093	47,844	17,951	3,459
<b>PCR (%)</b>	<b>7.2</b>	<b>7.7</b>	<b>5.9</b>	<b>3.4</b>	<b>7.5</b>
Gross non-performing assets	173,870	293,216	458,861	575,261	491,845
Aggregate provision for loan losses	(96,655)	(145,431)	(188,530)	(281,714)	(348,522)
Net non-performing assets	77,215	147,785	270,331	293,547	143,323
<b>PCR (%)</b>	<b>55.6</b>	<b>49.6</b>	<b>41.1</b>	<b>49.0</b>	<b>70.9</b>
Impaired loans	304,657	391,890	509,717	593,840	495,583
Provisions	(106,113)	(153,012)	(191,542)	(282,342)	(348,801)
Net impaired loans	198,544	238,878	318,175	311,498	146,782
<b>PCR (%)</b>	<b>34.8</b>	<b>39.0</b>	<b>37.6</b>	<b>47.5</b>	<b>70.4</b>

Source: Company, BOBCAPS Research

**FIG 4 – CORPORATE LOANS UNDER SMA-1 (31-60 DAYS) AND SMA-2 (61-90 DAYS) HAVE DROPPED MATERIALLY**

Aging analysis of past due performing loans (%)	FY15	FY16	FY17	FY18	FY19
<b>All loans</b>					
Current	93.3	93.5	94.9	98.5	98.8
31 to 60 days	5.7	5.2	2.5	0.9	0.6
61 to 90 days	0.7	0.4	1.0	0.2	0.3
<b>Commercial loans</b>					
Current	89.8	89.2	91.1	98.6	99.3
31 to 60 days	9.0	8.8	4.4	1.2	0.4
61 to 90 days	0.8	0.6	1.7	0.1	0.2
<b>Term loans</b>					
Current	87.9	87.3	90.6	98.2	99.2
31 to 60 days	10.6	10.6	4.4	1.7	0.5
61 to 90 days	1.0	0.4	1.5	0.1	0.2
<b>Working capital facilities</b>					
Current	95.2	93.8	91.9	99.1	99.5
31 to 60 days	4.3	4.3	4.4	0.6	0.3
61 to 90 days	0.2	0.9	1.9	0.1	0.2
<b>Consumer loans</b>					
Current	98.7	98.9	98.8	98.5	98.4
31 to 60 days	0.6	0.5	0.5	0.7	0.7
61 to 90 days	0.5	0.3	0.3	0.4	0.4
<b>Mortgage loans</b>					
Current	99.4	99.4	99.4	99.4	99.4
31 to 60 days	0.3	0.4	0.3	0.4	0.3
61 to 90 days	0.2	0.2	0.3	0.2	0.3
<b>Other secured loans</b>					
Current	97.1	97.9	97.4	96.3	96.0
31 to 60 days	1.3	0.9	0.9	1.4	1.3
61 to 90 days	0.9	0.5	0.6	0.6	0.6
<b>Credit cards</b>					
Current	98.5	98.5	98.6	98.4	98.0
31 to 60 days	1.0	1.1	1.0	1.1	1.3
61 to 90 days	0.6	0.4	0.4	0.5	0.7
<b>Other unsecured loans</b>					
Current	99.4	99.4	99.3	99.4	99.4
31 to 60 days	0.4	0.4	0.3	0.4	0.4
61 to 90 days	0.2	0.2	0.2	0.2	0.2

Source: Company, BOBCAPS Research

### Valuation methodology

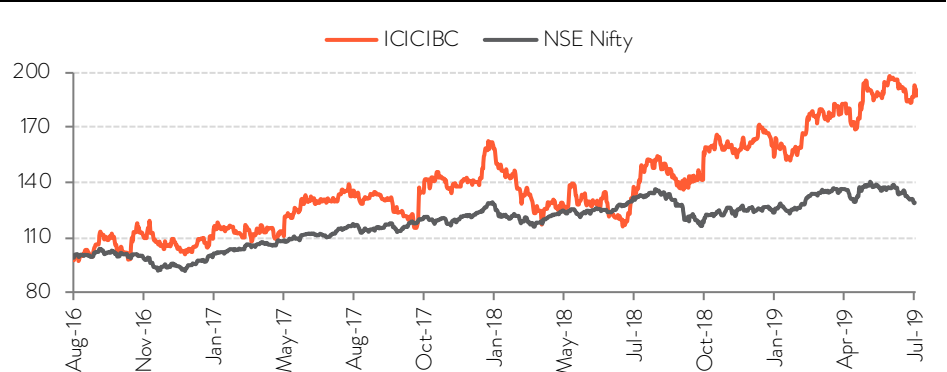
We maintain our SOTP-based Mar'20 target price of Rs 465, wherein ICICIBC's core business is valued at 1.9x FY21E P/BV based on the Gordon growth model. The bank currently trades at 1.6x FY21E core book. We like ICICIBC for its receding asset quality pangs, normalising credit costs and reviving loan growth. In our view, it is well placed to play the turning asset quality cycle. Reiterate BUY.

**FIG 5 – SOTP VALUATION**

Businesses	Company value (Rs bn)	Stake in company (%)	Value for ICICIBC (Rs bn)	Per share (Rs)	Contribution to TP (%)	Comments
Core Business	2,298	100	2,298	356	77	Valued at 1.9x FY21E P/BV on residual income model
ICICI Prudential Life	578	53	245	38	8	Valued at CMP; adjusted for 20% holdco discount
ICICI Lombard General	518	56	232	36	8	Valued at CMP; adjusted for 20% holdco discount
ICICI Securities	72	79	46	7	2	Valued at CMP; adjusted for 20% holdco discount
ICICI Prudential AMC	236	51	120	19	4	7% of Q1FY20 AAUM
ICICI Home Finance	28	100	28	4	1	Valued at 1.5x FY21E P/BV
ICICI Bank UK & Canada	29	100	29	4	1	Valued at 0.5x FY21E P/BV
<b>Sum-of-the-Parts</b>			<b>2,997</b>	<b>465</b>		

Source: BOBCAPS Research

**FIG 6 – 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)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net interest income</b>	<b>230,258</b>	<b>270,148</b>	<b>319,523</b>	<b>388,651</b>	<b>458,669</b>
NII growth (%)	5.9	17.3	18.3	21.6	18.0
Non-interest income	174,196	145,122	172,162	197,456	221,864
Total income	404,455	415,270	491,685	586,107	680,532
Operating expenses	(157,039)	(180,891)	(209,250)	(241,769)	(279,315)
Operating profit	247,415	234,379	282,435	344,338	401,218
Operating profit growth (%)	(6.6)	(5.3)	20.5	21.9	16.5
Provisions	(173,070)	(196,611)	(93,685)	(83,470)	(85,017)
PBT	74,346	37,768	188,750	260,868	316,201
Tax	(6,571)	(4,135)	(41,525)	(65,217)	(79,050)
<b>Reported net profit</b>	<b>67,774</b>	<b>33,633</b>	<b>147,225</b>	<b>195,651</b>	<b>237,151</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>67,774</b>	<b>33,633</b>	<b>147,225</b>	<b>195,651</b>	<b>237,151</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	12,858	12,895	12,895	12,895	12,895
Reserves & surplus	1,038,731	1,070,786	1,153,068	1,302,937	1,484,594
Net worth	1,051,589	1,083,680	1,165,963	1,315,832	1,497,489
Deposits	5,609,752	6,529,197	7,671,206	9,083,178	10,760,288
Borrowings	1,828,586	1,653,200	1,828,434	2,055,694	2,337,083
Other liabilities & provisions	301,964	378,515	394,288	413,209	434,064
<b>Total liabilities and equities</b>	<b>8,791,892</b>	<b>9,644,591</b>	<b>11,059,891</b>	<b>12,867,912</b>	<b>15,028,924</b>
Cash & bank balance	841,694	802,963	787,540	890,618	1,012,380
Investments	2,029,942	2,077,327	2,308,816	2,573,804	2,877,290
Advances	5,123,953	5,866,466	6,834,433	8,098,803	9,597,081
Fixed & Other assets	796,303	897,836	1,129,103	1,304,687	1,542,172
<b>Total assets</b>	<b>8,791,892</b>	<b>9,644,591</b>	<b>11,059,891</b>	<b>12,867,912</b>	<b>15,028,924</b>
Deposit growth (%)	14.5	16.4	17.5	18.4	18.5
Advances growth (%)	10.4	14.5	16.5	18.5	18.5

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	11.1	5.2	22.8	30.3	36.8
Dividend per share	2.3	1.5	4.6	6.1	7.4
Book value per share	163.6	168.1	180.8	204.1	232.3

Source: Company, BOBCAPS Research

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	37.7	79.8	18.3	13.7	11.3
P/BV	2.5	2.5	2.3	2.0	1.8
Dividend yield (%)	0.5	0.4	1.1	1.5	1.8

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	2.8	2.9	3.1	3.2	3.3
Non-interest income	2.1	1.6	1.7	1.7	1.6
Operating expenses	1.9	2.0	2.0	2.0	2.0
Pre-provisioning profit	3.0	2.5	2.7	2.9	2.9
Provisions	2.1	2.1	0.9	0.7	0.6
PBT	0.9	0.4	1.8	2.2	2.3
Tax	0.1	0.0	0.4	0.5	0.6
ROA	0.8	0.4	1.4	1.6	1.7
Leverage (x)	8.0	8.6	9.2	9.6	9.9
ROE	6.6	3.2	13.1	15.8	16.9

### Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Net interest income	5.9	17.3	18.3	21.6	18.0
Pre-provisioning profit	(6.6)	(5.3)	20.5	21.9	16.5
EPS	(34.3)	(52.8)	337.1	32.9	21.2
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.1	3.2	3.4	3.6	3.7
Fees / Avg. assets	1.1	1.1	1.1	1.1	1.1
Cost-Income	38.8	43.6	42.6	41.3	41.0
ROE	6.6	3.2	13.1	15.8	16.9
ROA	0.8	0.4	1.4	1.6	1.7
<b>Asset quality (%)</b>					
GNPA	9.9	7.4	5.6	4.1	3.3
NNPA	5.4	2.3	1.6	1.3	1.1
Provision coverage	47.7	70.6	72.2	70.0	68.2
<b>Ratios (%)</b>					
Credit-Deposit	91.3	89.8	89.1	89.2	89.2
Investment-Deposit	36.2	31.8	30.1	28.3	26.7
CAR	18.4	16.9	16.0	15.3	14.7
Tier-1	15.9	15.1	14.3	13.7	13.1

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)

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

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