

**BUY**

TP: Rs 465 | ▲ 12%

**ICICI BANK**

| Banking

| 27 July 2019

**Stable on most fronts**

ICICI Bank's (ICICIBC) Q1FY20 PAT at Rs 19.1bn was above our estimate due to below-expected provisions. Slippages were lower overall at Rs 27.8bn (Rs 35.5bn in Q4), but higher in the Kisan credit card portfolio at Rs 4.5bn, pushing the retail GNPA ratio up ~20bps QoQ to 1.9%. Early warning signals do not indicate any stress on the unsecured portfolio. Management continues to guide for 1.2-1.3% credit costs in FY20. CASA ratio dropped over 400bps QoQ to 45.2% given higher accretion of term deposits. Maintain BUY.

**Vikesh Mehta**

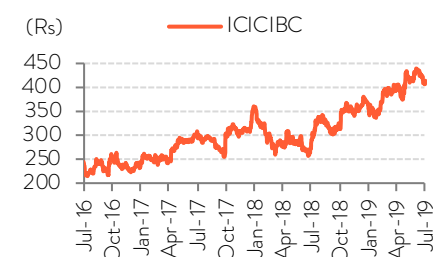
research@bobcaps.in

**Stressed loan pool at 10.9%:** ICICIBC's stressed pool declined to 10.9% of loans vs. 11.4% in Q4FY19 as its GNPA ratio fell to 6.5% (6.7% in Q4). Stress from the Kisan credit card portfolio post the farm loan waivers led to higher retail slippages (Rs 15.1bn vs. Rs 8.2bn in Q4). Management remains cautious on this portfolio as it could slip further in Q3 vs. Q1. However, loans are priced to factor in credit losses over the cycle. Retail portfolio delinquency is below industry levels.

Ticker/Price	ICICIBC IN/Rs 416
Market cap	US\$ 38.8bn
Shares o/s	6,435mn
3M ADV	US\$ 101.5mn
52wk high/low	Rs 444/Rs 282
Promoter/FPI/DII	0%/45%/55%

Source: NSE

**NIM stable excl. one-offs:** Domestic loan growth at ~18% YoY was propelled by ~22% growth in the retail segment. CASA ratio plunged to 45.2% vs. 49.6% in Q4 as growth in term deposits outpaced that in CASA deposits. Global NIM adjusted for one-offs was largely stable QoQ at 3.44%. Management stated that 88.5% of Q1 corporate disbursements were to companies rated 'A- and above'.

**STOCK PERFORMANCE**

Source: NSE

**No immediate plans to raise capital:** The bank's CET-1 ratio remains strong at 13.2% and hence management does not intend to raise capital in the near term.

**Maintain BUY:** We like ICICIBC for its receding asset quality pangs, normalising credit costs and reviving loan growth. In our view, the bank is well placed to play the turning asset quality cycle. We maintain our Mar'20 TP of Rs 465 which values the core business at 1.9x FY21E P/BV.

**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)	37.6	79.6	18.2	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

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q4FY19	Q1FY19	YoY (%)	QoQ (%)
<b>Income Statement</b>					
<b>Net interest income</b>	<b>77,374</b>	<b>76,201</b>	<b>61,019</b>	<b>26.8</b>	<b>1.5</b>
Non-interest income	34,254	36,210	38,518	(11.1)	(5.4)
<b>Net total income</b>	<b>111,629</b>	<b>112,411</b>	<b>99,537</b>	<b>12.1</b>	<b>(0.7)</b>
Total operating expenses	48,744	50,077	41,453	17.6	(2.7)
<b>Pre-provisioning profit</b>	<b>62,885</b>	<b>62,334</b>	<b>58,084</b>	<b>8.3</b>	<b>0.9</b>
Total Provisions	34,957	54,514	59,713	(41.5)	(35.9)
Profit before tax	27,927	7,820	(1,629)	NM	257.1
Tax	8,847	(1,871)	(434)	NM	(572.9)
<b>Profit after tax</b>	<b>19,080</b>	<b>9,691</b>	<b>(1,196)</b>	<b>NM</b>	<b>96.9</b>
<b>Balance Sheet (Rs bn)</b>					
Loans	5,924	5,866	5,163	14.7	1.0
Deposits	6,607	6,529	5,469	20.8	1.2
CASA ratio (%)	45.2	49.6	50.5	(529bps)	(437bps)
<b>Key Ratios (%)</b>					
Net interest margin	3.6	3.7	3.2	42bps	(11bps)
Cost / income ratio	43.7	44.5	41.6	202bps	(88bps)
Tax rate	31.7	(23.9)	26.6	506bps	5560bps
Loan to deposit ratio	89.7	89.8	94.4	(475bps)	(19bps)
<b>Capital Adequacy Ratios (%)</b>					
Tier-1 ratio	14.6	15.1	15.8	(124bps)	(49bps)
Total CAR ratio	16.2	16.9	18.4	(216bps)	(70bps)
<b>Asset Quality Ratios</b>					
Gross NPAs	457,631	462,916	534,649	(14.4)	(1.1)
Net NPAs	118,565	135,774	241,701	(50.9)	(12.7)
Coverage ratio (%)	74.1	70.7	54.8	1,930bps	342bps
Gross NPA ratio (%)	6.5	6.7	8.8	(232bps)	(21bps)
Net NPA ratio (%)	1.8	2.1	4.2	(242bps)	(29bps)

Source: Company, BOBCAPS Research

## Valuation methodology

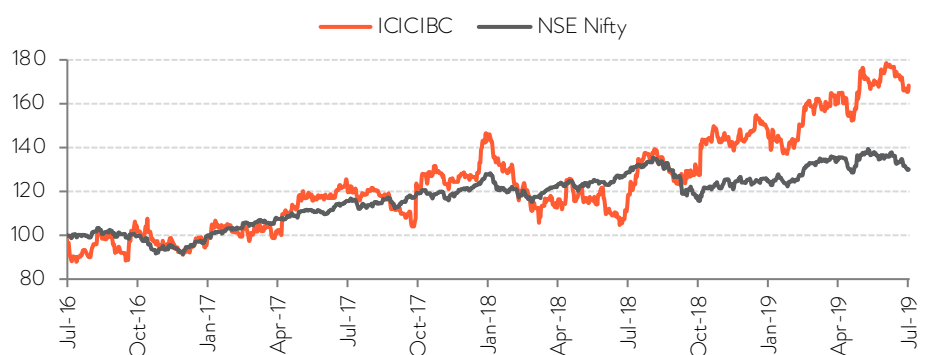
We maintain our SOTP-based Mar'20 target price of Rs 465, wherein ICICIBC's core business is valued at 1.9x FY21E P/BV based on the Gordon growth model. The bank currently trades at 1.6x FY21E core book. We like ICICIBC for its receding asset quality pangs, normalising credit costs and reviving loan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

**FIG 2 – 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 3 – 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	37.6	79.6	18.2	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)

### HISTORICAL RATINGS AND TARGET PRICE: ICICI BANK (ICICIB IN)



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

### Rating distribution

As of 30 June 2019, out of 76 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 15 are rated ADD, 10 are rated REDUCE and 8 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.