

**BUY**

TP: Rs 450 | ▲ 18%

**ICICI BANK**

| Banking

| 25 July 2020

## Prudent provisions reassuring

**ICICI Bank's (ICICIB) Q1FY21 PAT at Rs 26bn was supported by 20% YoY growth in NII and strong core operating profits (+15% YoY). Gains of Rs 30bn from stake sales in the life and general insurance subsidiaries were used to raise Covid-linked provisions to 1.3% of loans, among the highest buffers for large private banks. Loans under moratorium dropped to 17.5% under phase-2 but may rise marginally as some customers that haven't rolled over from phase-1 are still in overdue category. Maintain BUY as we roll forward to a Sep'21 TP of Rs 450 (vs. Rs 420).**

Vikesh Mehta

research@bobcaps.in

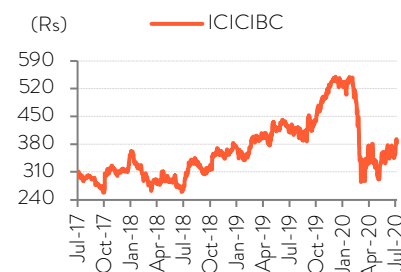
**Moratorium share drops; builds strong provisioning buffer:** ICICIB's moratorium loan share at end-Jun'20 declined to 17.5% vs. 30% as at end-Apr'20, with 90% of customers continuing from phase-1. Moratorium share is higher for CV, builder loans and dealer funding portfolios. The bank prudently made additional Covid-related provisions worth Rs 55.5bn and hiked the overall provisioning buffer to 1.3% of loans and 7.5% of the moratorium portfolio, which is comforting.

Ticker/Price	ICICIB IN/Rs 382
Market cap	US\$ 33.0bn
Shares o/s	6,476mn
3M ADV	US\$ 211.8mn
52wk high/low	Rs 552/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

**Headline NPAs remain stable:** Gross slippages moderated to Rs 11.6bn given the moratorium but GNPA was stable at 5.5% due to lower recoveries and write-offs. The bank increased PCR on overall/retail loans to 79%/64%. The BB-&-below rated pool, however, increased to Rs 171bn (vs. Rs 167bn in Q4) owing to downgrades worth ~Rs 15bn.

## STOCK PERFORMANCE



Source: NSE

**Loan growth slows; margins decline:** Loan growth moderated to ~7% YoY in Q1. Disbursements in home, auto & personal loans/commercial business dropped 65%/85% QoQ. As on 22 July, the bank has sanctioned and disbursed credit worth Rs 50bn and Rs 38bn respectively under the Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs. NIMs declined 18bps QoQ to 3.7% given higher liquidity due to strong deposit inflows and limited credit demand.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	354,664	406,522	470,197
NII growth (%)	17.3	23.1	6.6	14.6	15.7
Adj. net profit (Rs mn)	33,633	79,308	107,869	144,215	166,886
EPS (Rs)	5.2	12.3	16.2	21.0	24.3
P/E (x)	73.1	31.1	23.6	18.2	15.7
P/BV (x)	2.3	2.1	1.9	1.8	1.6
ROA (%)	0.4	0.8	0.9	1.1	1.2
ROE (%)	3.2	7.1	8.5	10.1	10.8

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)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
<b>Income Statement</b>					
<b>Interest income</b>	<b>199,244</b>	<b>179,801</b>	<b>191,887</b>	<b>10.8</b>	<b>3.8</b>
Interest expense	106,446	102,426	102,618	3.9	3.7
<b>Net interest income</b>	<b>92,798</b>	<b>77,374</b>	<b>89,269</b>	<b>19.9</b>	<b>4.0</b>
Non-interest income	61,426	34,254	42,550	79.3	44.4
Net total income	154,224	111,629	131,819	38.2	17.0
Staff expenses	21,661	19,533	22,345	10.9	(3.1)
Other operating expenses	24,798	29,211	35,573	(15.1)	(30.3)
Operating expenses	46,459	48,744	57,918	(4.7)	(19.8)
Pre-provisioning profit	107,765	62,885	73,901	71.4	45.8
<b>Total provisions</b>	<b>75,940</b>	<b>34,957</b>	<b>59,674</b>	<b>117.2</b>	<b>27.3</b>
<b>Profit before tax</b>	<b>31,825</b>	<b>27,927</b>	<b>14,227</b>	<b>14.0</b>	<b>123.7</b>
Tax	5,834	8,847	2,013	(34.1)	189.8
<b>Profit after tax</b>	<b>25,992</b>	<b>19,080</b>	<b>12,214</b>	<b>36.2</b>	<b>112.8</b>
<b>Balance Sheet</b>					
Advances	6,312,146	5,924,154	6,452,900	6.5	(2.2)
Deposits	8,016,223	6,607,318	7,709,690	21.3	4.0
CASA ratio (%)	42.5	45.2	45.1	(274bps)	(262bps)
<b>Yields and margins (%)</b>					
Net interest margin	3.7	3.6	3.9	8bps	(18bps)
Yield on advances	9.5	9.8	9.6	(29bps)	(10bps)
Cost of funds	4.5	5.0	4.6	(53bps)	(11bps)
<b>Key ratios (%)</b>					
Cost/Income	30.1	43.7	43.9	(1,354bps)	(1,381bps)
Tax rate	18.3	31.7	14.1	(1,335bps)	418bps
Loan to Deposit ratio	78.7	89.7	83.7	(1,092bps)	(496bps)
<b>Capital adequacy ratios (%)</b>					
Tier 1	14.9	14.6	14.7	33bps	21bps
Total CAR	16.3	16.2	16.1	13bps	21bps
<b>Asset quality (Rs mn)</b>					
Gross NPAs	403,862	457,631	414,092	(11.7)	(2.5)
Net NPAs	86,747	118,565	101,139	(26.8)	(14.2)
Gross NPA ratio (%)	5.5	6.5	5.5	(103bps)	(7bps)
Net NPA ratio (%)	1.2	1.8	1.4	(54bps)	(18bps)
Coverage Ratio (%)	78.5	74.1	75.6	443bps	294bps

Source: Company, BOBCAPS Research

## Valuation methodology

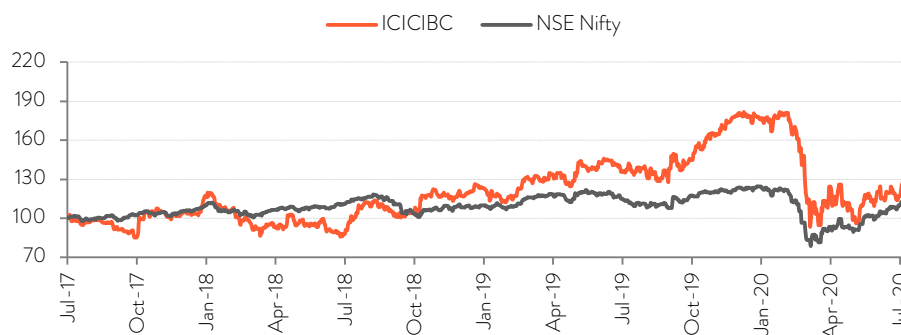
We value ICICIBC using the SOTP methodology and roll forward to a Sep'21 target price of Rs 450, revised from Rs 420 earlier. Our target price values the core business (Rs 339/sh vs. Rs 309/sh earlier) at an unchanged multiple of 1.6x Sep'22E P/BV based on the Gordon Growth Model while valuation for subsidiaries remain largely unchanged at Rs 112/sh.

**FIG 2 – SOTP VALUATION**

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for ICICIBC (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	2,335	100	2,335	339	75	Valued at 1.6x Sep'22 P/BV on residual income model
ICICI Prudential Life	632	51	260	38	8	Valued at CMP; adjusted for 20% holdco discount
ICICI Lombard General	590	52	245	36	8	Valued at CMP; adjusted for 20% holdco discount
ICICI Securities	173	79	110	16	4	Valued at CMP; adjusted for 20% holdco discount
ICICI Prudential AMC	196	51	100	15	3	6% of Q1FY21 AAUM
ICICI Home Finance	19	100	19	3	1	Valued at 1x Sep'22 P/BV
ICICI Bank UK & Canada	30	100	30	4	1	Valued at 0.5x Sep'22 P/BV
<b>Sum of Parts</b>			<b>3,098</b>	<b>450</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)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>270,148</b>	<b>332,671</b>	<b>354,664</b>	<b>406,522</b>	<b>470,197</b>
NII growth (%)	17.3	23.1	6.6	14.6	15.7
Non-interest income	145,122	164,486	179,671	197,571	218,080
Total income	415,270	497,157	534,335	604,093	688,277
Operating expenses	(180,891)	(216,144)	(225,318)	(242,795)	(273,087)
Operating profit	234,379	281,013	309,017	361,298	415,189
Operating profit growth (%)	(5.3)	19.9	10.0	16.9	14.9
Provisions	(196,611)	(140,532)	(164,032)	(167,461)	(190,881)
PBT	37,768	140,480	144,985	193,837	224,309
Tax	(4,135)	(61,172)	(37,116)	(49,622)	(57,423)
<b>Reported net profit</b>	<b>33,633</b>	<b>79,308</b>	<b>107,869</b>	<b>144,215</b>	<b>166,886</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>33,633</b>	<b>79,308</b>	<b>107,869</b>	<b>144,215</b>	<b>166,886</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	12,895	12,948	13,758	13,758	13,758
Reserves & surplus	1,070,786	1,152,096	1,352,764	1,463,233	1,591,068
Net worth	1,083,680	1,165,044	1,366,523	1,476,992	1,604,826
Deposits	6,529,197	7,709,690	8,482,983	9,595,077	10,854,146
Borrowings	1,653,200	1,628,968	1,694,127	1,790,511	1,903,646
Other liabilities & provisions	378,515	479,950	468,895	489,602	512,381
<b>Total liabilities and equities</b>	<b>9,644,591</b>	<b>10,983,651</b>	<b>12,012,528</b>	<b>13,352,181</b>	<b>14,874,999</b>
Cash & bank balance	802,963	1,191,557	606,191	698,707	808,520
Investments	2,077,327	2,495,315	2,747,723	3,105,001	3,513,238
Advances	5,866,466	6,452,900	6,969,132	7,875,119	8,898,884
Fixed & Other assets	897,836	843,880	1,689,483	1,673,354	1,654,356
<b>Total assets</b>	<b>9,644,591</b>	<b>10,983,651</b>	<b>12,012,528</b>	<b>13,352,181</b>	<b>14,874,999</b>
Deposit growth (%)	16.4	18.1	10.0	13.1	13.1
Advances growth (%)	14.5	10.0	8.0	13.0	13.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	5.2	12.3	16.2	21.0	24.3
Dividend per share	1.5	1.0	3.1	4.2	4.9
Book value per share	168.1	180.0	198.6	214.7	233.3

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	73.1	31.1	23.6	18.2	15.7
P/BV	2.3	2.1	1.9	1.8	1.6
Dividend yield (%)	0.4	0.3	0.8	1.1	1.3

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	3.2	3.1	3.2	3.3
Non-interest income	1.6	1.6	1.6	1.6	1.5
Operating expenses	2.0	2.1	2.0	1.9	1.9
Pre-provisioning profit	2.5	2.7	2.7	2.8	2.9
Provisions	2.1	1.4	1.4	1.3	1.4
PBT	0.4	1.4	1.3	1.5	1.6
Tax	0.0	0.6	0.3	0.4	0.4
ROA	0.4	0.8	0.9	1.1	1.2
Leverage (x)	8.6	9.2	9.1	8.9	9.2
ROE	3.2	7.1	8.5	10.1	10.8

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	17.3	23.1	6.6	14.6	15.7
Pre-provisioning profit	(5.3)	19.9	10.0	16.9	14.9
EPS	(52.8)	135.0	31.6	29.8	15.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.2	3.5	3.5	3.7	3.8
Fees / Avg. assets	1.1	1.1	1.1	1.1	1.1
Cost-Income	43.6	43.5	42.2	40.2	39.7
ROE	3.2	7.1	8.5	10.1	10.8
ROA	0.4	0.8	0.9	1.1	1.2
<b>Asset quality (%)</b>					
GNPA	7.4	6.0	5.8	4.8	4.3
NNPA	2.3	1.5	1.4	0.9	0.7
Provision coverage	70.6	75.7	77.9	81.3	83.6
<b>Ratios (%)</b>					
Credit-Deposit	89.8	83.7	82.2	82.1	82.0
Investment-Deposit	31.8	32.4	32.4	32.4	32.4
CAR	16.9	16.1	17.2	16.4	15.7
Tier-1	15.1	14.7	15.8	15.1	14.4

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

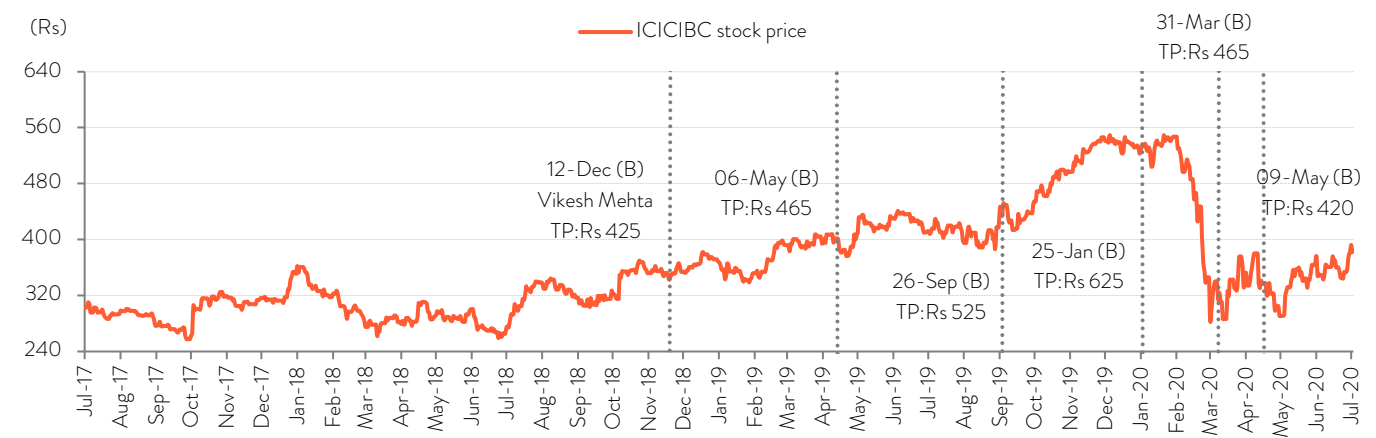
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): ICICI BANK (ICICIB IN)



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

### Rating distribution

As of 30 June 2020, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 49 have BUY ratings, 23 have ADD ratings, 12 are rated REDUCE, 10 are rated SELL and 1 is UNDER REVIEW. 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 and wealth 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.