

BUY

TP: Rs 625 | ▲ 17%

ICICI BANK

| Banking

| 25 January 2020

Core profitability remains strong

ICICI Bank's (ICICIBC) Q3FY20 PAT at Rs 41bn was driven by 24% YoY growth in NII and lower provisions. Slippages increased to Rs 44bn due to two corporate accounts, while the retail business saw higher slippages from the Kisan credit card and CV portfolios. However, GNPA ratio declined to 6% given recoveries from Essar Steel resolution. The bank's BB-&-below pool increased to Rs 174bn (2.7% of loans) led by downgrades in the telecom sector. We broadly maintain estimates and roll over to a revised Mar'21 TP of Rs 625 (vs. Rs 525).

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Recoveries aid lower GNPA: Slippages increased to Rs 44bn in Q3 (vs. Rs 25bn in Q2) as two corporate accounts – one broking sector (100% provided) and one industrial – slipped into NPA. Retail slippages were higher due to the Kisan credit card (KCC) and CV portfolios. However, the bank's GNPA ratio declined 40bps QoQ to 6% on recoveries from Essar Steel.

The BB-&-below rated pool increased to Rs 174bn (2.7% of loans) vs. Rs 161bn (2.6%) in Q2, given downgrades worth Rs 27bn across sectors (largely telecom). Asset quality divergence from RBI's audit for FY19 was below threshold levels. Barring the KCC and CV segments, risks in most retail segments including unsecured personal loans and credit cards are within acceptable limits for the bank.

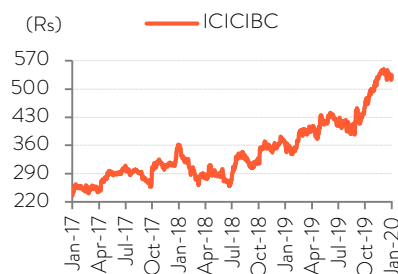
Loan growth stable; NIMs increase: Loan growth at ~13% YoY was largely aided by 19% growth in retail while the SME book (~3% of loans) grew 34%. The bank's overseas portfolio declined 16% YoY and now forms ~9% of loans. NIM increased to 3.77% (3.64% in Q2) and included a 10bps (6bps in Q2) impact from interest reversals.

Maintain BUY: We believe ICICIBC is well placed to play the turning asset quality cycle. Maintain BUY with a revised TP of Rs 625 on rollover.

Ticker/Price	ICICIBC IN/Rs 534
Market cap	US\$ 48.3bn
Shares o/s	6,453mn
3M ADV	US\$ 166.0mn
52wk high/low	Rs 552/Rs 336
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	230,258	270,148	325,724	379,336	449,521
NII growth (%)	5.9	17.3	20.6	16.5	18.5
Adj. net profit (Rs mn)	67,774	33,633	119,137	204,931	255,922
EPS (Rs)	11.1	5.2	18.5	31.8	39.7
P/E (x)	48.3	102.2	28.9	16.8	13.4
P/BV (x)	3.3	3.2	3.0	2.6	2.3
ROA (%)	0.8	0.4	1.2	1.7	1.9
ROE (%)	6.6	3.2	10.7	16.8	18.3

Source: Company, BOBCAPS Research

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



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q2FY20	Q3FY19	YoY (%)	QoQ (%)
Income Statement					
Net interest income	85,453	80,574	68,753	24.3	6.1
Non-interest income	45,740	41,942	38,829	17.8	9.1
Net total income	131,193	122,517	107,581	21.9	7.1
Total operating expenses	55,707	53,776	46,117	20.8	3.6
Pre-provisioning profit	75,486	68,741	61,464	22.8	9.8
Total Provisions	20,832	25,069	42,442	(50.9)	(16.9)
Profit before tax	54,654	43,672	19,023	187.3	25.1
Tax	13,190	37,123	2,974	343.6	(64.5)
Profit after tax	41,465	6,550	16,049	158.4	533.1
Balance Sheet (Rs bn)					
Loans	6,357	6,134	5,643	12.6	3.6
Deposits	7,163	6,963	6,068	18.1	2.9
CASA ratio (%)	47.0	46.7	49.3	(234bps)	28bps
Key Ratios (%)					
Net interest margin	3.8	3.6	3.4	37bps	13bps
Cost / income ratio	42.5	43.9	42.9	(41bps)	(143bps)
Tax rate	24.1	85.0	15.6	850bps	(6087bps)
Loan to deposit ratio	88.7	88.1	93.0	(427bps)	64bps
Capital Adequacy Ratios (%)					
Tier-1 ratio	15.0	14.6	15.1	(16bps)	36bps
Total CAR ratio	16.5	16.1	17.2	(65bps)	36bps
Asset Quality Ratios					
Gross NPAs	434,539	456,388	515,915	(15.8)	(4.8)
Net NPAs	103,885	109,164	162,524	(36.1)	(4.8)
Coverage ratio (%)	76.1	76.1	68.5	760bps	1bps
Gross NPA ratio (%)	6.0	6.4	7.8	(180bps)	(42bps)
Net NPA ratio (%)	1.5	1.6	2.6	(109bps)	(11bps)

Source: Company, BOBCAPS Research

Valuation methodology

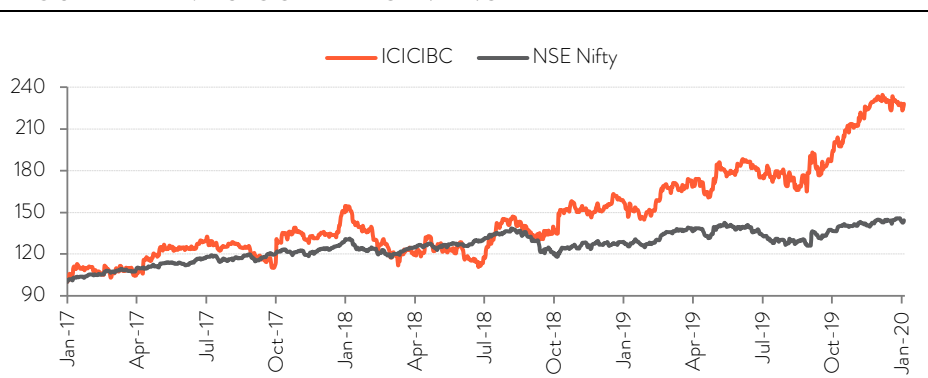
We broadly maintain our FY20-FY22 estimates. Valuing ICICIBC using the SOTP methodology, we roll forward to a Mar'21 target price of Rs 625, revised from Rs 525 earlier. Our target price values the core business at 2.3x FY22E P/BV, based on the Gordon Growth Model. Maintain BUY.

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	3,159	100	3,159	490	78	Valued at 2.3x Mar'22 P/BV on residual income model
ICICI Prudential Life	746	53	316	49	8	Valued at CMP; adjusted for 20% holdco discount
ICICI Lombard General	613	56	274	43	7	Valued at CMP; adjusted for 20% holdco discount
ICICI Securities	152	79	96	15	2	Valued at CMP; adjusted for 20% holdco discount
ICICI Prudential AMC	253	51	129	20	3	7% of Q3FY20 AAUM
ICICI Home Finance	29	100	29	4	1	Valued at 1.5x Mar'22 P/BV
ICICI Bank UK & Canada	27	100	27	4	1	Valued at 0.5x Mar'22 P/BV
Sum of Parts			4,029	625		

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
Net interest income	230,258	270,148	325,724	379,336	449,521
NII growth (%)	5.9	17.3	20.6	16.5	18.5
Non-interest income	174,196	145,122	164,877	188,352	217,428
Total income	404,455	415,270	490,602	567,688	666,948
Operating expenses	(157,039)	(180,891)	(212,299)	(237,204)	(262,191)
Operating profit	247,415	234,379	278,303	330,485	404,757
Operating profit growth (%)	(6.6)	(5.3)	18.7	18.7	22.5
Provisions	(173,070)	(196,611)	(77,927)	(55,039)	(60,776)
PBT	74,346	37,768	200,376	275,445	343,981
Tax	(6,571)	(4,135)	(81,239)	(70,514)	(88,059)
Reported net profit	67,774	33,633	119,137	204,931	255,922
Adjustments	0	0	0	0	0
Adjusted net profit	67,774	33,633	119,137	204,931	255,922

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	1,131,553	1,288,530	1,484,566
Net worth	1,051,589	1,083,680	1,144,447	1,301,425	1,497,461
Deposits	5,609,752	6,529,197	7,639,958	9,008,183	10,669,544
Borrowings	1,828,586	1,653,200	1,773,917	1,936,938	2,167,750
Other liabilities & provisions	301,964	378,515	393,922	412,157	432,664
Total liabilities and equities	8,791,892	9,644,591	10,952,244	12,658,703	14,767,419
Cash & bank balance	841,694	802,963	787,540	890,618	1,012,380
Investments	2,029,942	2,077,327	2,366,002	2,747,140	3,210,550
Advances	5,123,953	5,866,466	6,687,771	7,824,692	9,311,384
Fixed & Other assets	796,303	897,836	1,110,931	1,196,252	1,233,106
Total assets	8,791,892	9,644,591	10,952,244	12,658,703	14,767,419
Deposit growth (%)	14.5	16.4	17.0	17.9	18.4
Advances growth (%)	10.4	14.5	14.0	17.0	19.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	11.1	5.2	18.5	31.8	39.7
Dividend per share	2.3	1.5	3.7	6.4	7.9
Book value per share	163.6	168.1	177.5	201.9	232.3

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	48.3	102.2	28.9	16.8	13.4
P/BV	3.3	3.2	3.0	2.6	2.3
Dividend yield (%)	0.4	0.3	0.7	1.2	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	2.8	2.9	3.2	3.2	3.3
Non-interest income	2.1	1.6	1.6	1.6	1.6
Operating expenses	1.9	2.0	2.1	2.0	1.9
Pre-provisioning profit	3.0	2.5	2.7	2.8	3.0
Provisions	2.1	2.1	0.8	0.5	0.4
PBT	0.9	0.4	1.9	2.3	2.5
Tax	0.1	0.0	0.8	0.6	0.6
ROA	0.8	0.4	1.2	1.7	1.9
Leverage (x)	8.0	8.6	9.2	9.7	9.8
ROE	6.6	3.2	10.7	16.8	18.3

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	5.9	17.3	20.6	16.5	18.5
Pre-provisioning profit	(6.6)	(5.3)	18.7	18.7	22.5
EPS	(34.3)	(52.8)	253.7	72.0	24.9
Profitability & Return ratios (%)					
Net interest margin	3.1	3.2	3.5	3.6	3.6
Fees / Avg. assets	1.1	1.1	1.1	1.1	1.2
Cost-Income	38.8	43.6	43.3	41.8	39.3
ROE	6.6	3.2	10.7	16.8	18.3
ROA	0.8	0.4	1.2	1.7	1.9
Asset quality (%)					
GNPA	9.9	7.4	5.9	4.6	3.6
NNPA	5.4	2.3	1.4	1.1	0.8
Provision coverage	47.7	70.6	77.0	77.3	77.4
Ratios (%)					
Credit-Deposit	91.3	89.8	87.5	86.9	87.3
Investment-Deposit	36.2	31.8	31.0	30.5	30.1
CAR	18.4	16.9	16.5	16.0	15.5
Tier-1	15.9	15.1	14.7	14.4	13.9

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

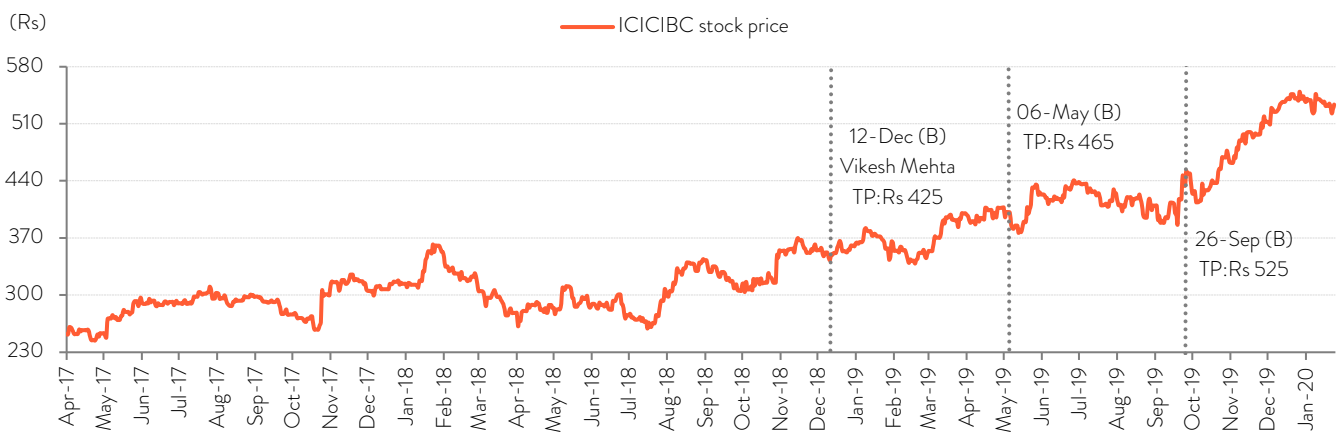
ADD – Expected return from >+5% to +15%

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

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