

BUY

TP: Rs 675 | ▲ 26%

ICICI BANK

| Banking

| 30 January 2021

Stress manageable and provisioning comfortable

ICICI Bank's (ICICIB) Q3FY21 PAT at Rs 49.3bn (+19% YoY) beat estimates on strong 17% growth in operating profit. Collections improved QoQ and overdue loans remain manageable across portfolios. The Covid-related restructuring pool remains low at 0.4% with no risk of spillover in Q4. The bank utilised Rs 18bn in Covid-related provisions in Q3 but maintains a healthy provisioning buffer at 1.4% of loans. We upgrade EPS estimates post Q3 and assign the stock a higher 2.2x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 500).

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Asset quality in check: ICICIB's proforma GNPA ratio increased marginally to 5.42% (vs. 5.36% in Q2) as loans worth ~Rs 83bn (~90% from retail) were not classified as NPAs given the SC ruling. The Covid-related restructuring book at ~Rs 25.5bn (0.4% of loans) remained manageable and management believes it is unlikely to increase. Overdue loans for <90 days were (a) 1.5% higher than pre-Covid levels in the retail EMI product and credit card portfolios (vs. 4% in Q2), (b) at pre-Covid levels in the SME/business banking segments, and (c) at <2% in the domestic and overseas corporate loan books.

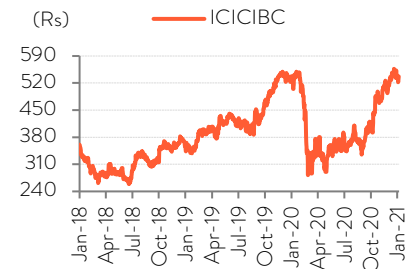
Retail disbursements pick up: ICICIB's loan book grew 7% QoQ backed by strong 7%/16% growth in retail/SME advances. Disbursal across retail products such as mortgages and auto loans increased QoQ but remained below normal levels in CVs and personal loans. NIM improved QoQ to ~3.7% despite interest reversals and is expected to remain strong as yield correction has bottomed and excess liquidity runs out. The liability franchise gained momentum with deposits rising 5% QoQ aided by an 8% increase in CASA deposits.

Maintain BUY: We raise FY21-FY23 EPS by 32-46% to adjust for lower operating expense and credit cost assumptions. We value the core book at 2.2x P/BV (1.8x earlier) and roll over to a new Mar'22 SOTP-based TP of Rs 675.

Ticker/Price	ICICIB IN/Rs 537
Market cap	US\$ 47.7bn
Shares o/s	6,476mn
3M ADV	US\$ 186.0mn
52wk high/low	Rs 561/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	390,229	466,257	564,798
NII growth (%)	17.3	23.1	17.3	19.5	21.1
Adj. net profit (Rs mn)	33,633	79,308	168,788	207,708	276,786
EPS (Rs)	5.2	12.3	25.2	30.1	40.1
P/E (x)	102.8	43.7	21.3	17.9	13.4
P/BV (x)	3.2	3.0	2.6	2.3	2.0
ROA (%)	0.4	0.8	1.4	1.5	1.8
ROE (%)	3.2	7.1	12.9	13.4	15.7

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	197,298	190,643	196,225	3.5	0.5	592,766	556,096	6.6
Interest expense	98,173	105,190	102,564	(6.7)	(4.3)	307,183	312,695	(1.8)
Net interest income	99,125	85,453	93,661	16.0	5.8	285,583	243,402	17.3
Non-interest income	46,863	45,740	40,283	2.5	16.3	148,572	121,936	21.8
Net total income	145,987	131,193	133,944	11.3	9.0	434,155	365,338	18.8
Staff expenses	19,499	19,421	19,673	0.4	(0.9)	60,834	60,367	0.8
Other operating expenses	38,290	36,286	31,660	5.5	20.9	94,748	97,859	(3.2)
Operating expenses	57,790	55,707	51,333	3.7	12.6	155,582	158,226	(1.7)
Pre-provisioning profit	88,198	75,486	82,611	16.8	6.8	278,573	207,112	34.5
Total provisions	27,417	20,832	29,953	31.6	(8.5)	133,309	80,858	64.9
Profit before tax	60,780	54,654	52,658	11.2	15.4	145,264	126,254	15.1
Tax	11,385	13,190	10,145	(13.7)	12.2	27,363	59,159	(53.7)
Profit after tax	49,396	41,465	42,513	19.1	16.2	117,901	67,095	75.7
Balance Sheet								
Advances	6,990,175	6,356,543	6,526,080	10.0	7.1	6,990,175	6,356,543	10.0
Deposits	8,743,476	7,163,451	8,329,356	22.1	5.0	8,743,476	7,163,451	22.1
CASA ratio (%)	45.2	47.0	43.8	(174bps)	145bps	45.2	47.0	(174bps)
Yields and margins (%)								
Net interest margin	3.7	3.8	3.6	(10bps)	10bps	-	-	-
Yield on advances	8.4	9.9	8.9	(145bps)	(46bps)	-	-	-
Cost of funds	4.0	4.9	4.2	(93bps)	(22bps)	-	-	-
Key ratios (%)								
Cost/Income	39.6	42.5	38.3	(288bps)	126bps	35.8	43.3	(747bps)
Tax rate	18.7	24.1	19.3	(540bps)	(54bps)	18.8	46.9	(2,802bps)
Loan to Deposit ratio	79.9	88.7	78.4	(879bps)	160bps	79.9	88.7	(879bps)
Capital adequacy ratios (%)								
Tier 1	18.1	15.0	17.0	314bps	110bps	18.1	15.0	314bps
Total CAR	19.5	16.5	18.5	301bps	104bps	19.5	16.5	301bps
Asset quality (Rs mn)								
Gross NPAs	348,604	434,539	389,892	(19.8)	(10.6)	348,604	434,539	(19.8)
Net NPAs	48,606	103,885	71,875	(53.2)	(32.4)	48,606	103,885	(53.2)
Gross NPA ratio (%)	4.4	6.0	5.2	(157bps)	(79bps)	4.4	6.0	(157bps)
Net NPA ratio (%)	0.6	1.5	1.0	(86bps)	(37bps)	0.6	1.5	(86bps)
Coverage Ratio (%)	86.1	76.1	81.6	996bps	449bps	86.1	76.1	996bps

Source: Company, BOBCAPS Research

Valuation methodology

At 2x FY22E core P/BV, we believe ICICIB offers favourable risk-reward with manageable asset quality risks. The bank has built a healthy provisioning buffer to meet unforeseen eventualities and also has the ability to push the growth pedal by leveraging its robust deposit franchise and putting excess capital to use.

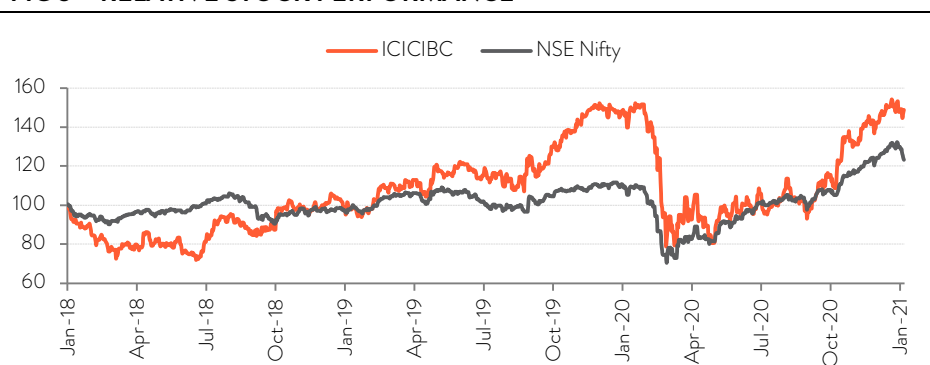
We raise our FY22-FY23 EPS estimates by 32-46% to factor in lower credit costs and upgrade our core P/BV multiple to 2.2x (1.8x earlier) – on rollover, this yields a higher Mar’22 SOTP-based target price of Rs 675 (Rs 500 earlier). We now value the core business at Rs 560/sh (Rs 394/sh earlier) based on the Gordon Growth Model; subsidiaries are valued at Rs 115/sh (Rs 106/sh earlier). Maintain BUY.

FIG 2 – REVISED ESTIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	390,229	466,257	564,798	361,375	410,233	478,584	8.0	13.7	18.0
Pre-provisioning profit	372,301	430,848	524,476	316,344	363,926	425,866	17.7	18.4	23.2
Net Profit (Rs mn)	168,788	207,708	276,786	115,817	157,214	193,549	45.7	32.1	43.0
EPS (Rs)	25	30	40	17	23	28	45.6	31.9	42.8

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
Net interest income	270,148	332,671	390,229	466,257	564,798
NII growth (%)	17.3	23.1	17.3	19.5	21.1
Non-interest income	145,122	164,486	197,204	201,317	230,701
Total income	415,270	497,157	587,433	667,574	795,499
Operating expenses	(180,891)	(216,144)	(215,132)	(236,726)	(271,023)
Operating profit	234,379	281,013	372,301	430,848	524,476
Operating profit growth (%)	(5.3)	19.9	32.5	15.7	21.7
Provisions	(196,611)	(140,532)	(145,435)	(151,670)	(152,451)
PBT	37,768	140,480	226,866	279,178	372,025
Tax	(4,135)	(61,172)	(58,078)	(71,469)	(95,238)
Reported net profit	33,633	79,308	168,788	207,708	276,786
Adjustments	0	0	0	0	0
Adjusted net profit	33,633	79,308	168,788	207,708	276,786

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	12,895	12,948	13,818	13,818	13,818
Reserves & surplus	1,070,786	1,152,096	1,438,925	1,622,331	1,866,734
Net worth	1,083,680	1,165,044	1,452,743	1,636,150	1,880,552
Deposits	6,529,197	7,709,690	9,251,628	10,916,921	13,100,30
Borrowings	1,653,200	1,628,968	1,148,773	1,184,751	1,228,633
Other liabilities & provisions	378,515	479,950	694,635	727,332	763,456
Total liabilities and equities	9,644,591	10,983,651	12,547,779	14,465,153	16,972,947
Cash & bank balance	802,963	1,191,557	1,395,267	1,645,598	1,944,790
Investments	2,077,327	2,495,315	2,898,389	3,278,267	3,712,493
Advances	5,866,466	6,452,900	7,098,190	8,162,918	9,632,243
Fixed & Other assets	897,836	843,880	1,155,934	1,378,371	1,683,420
Total assets	9,644,591	10,983,651	12,547,779	14,465,153	16,972,947
Deposit growth (%)	16.4	18.1	20.0	18.0	20.0
Advances growth (%)	14.5	10.0	10.0	15.0	18.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	5.2	12.3	25.2	30.1	40.1
Dividend per share	1.5	1.0	0.0	3.0	4.0
Book value per share	168.1	180.0	210.3	236.8	272.2

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	102.8	43.7	21.3	17.9	13.4
P/BV	3.2	3.0	2.6	2.3	2.0
Dividend yield (%)	0.3	0.2	0.0	0.6	0.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.9	3.2	3.3	3.5	3.6
Non-interest income	1.6	1.6	1.7	1.5	1.5
Operating expenses	2.0	2.1	1.8	1.8	1.7
Pre-provisioning profit	2.5	2.7	3.2	3.2	3.3
Provisions	2.1	1.4	1.2	1.1	1.0
PBT	0.4	1.4	1.9	2.1	2.4
Tax	0.0	0.6	0.5	0.5	0.6
ROA	0.4	0.8	1.4	1.5	1.8
Leverage (x)	8.6	9.2	9.0	8.7	8.9
ROE	3.2	7.1	12.9	13.4	15.7

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	17.3	23.1	17.3	19.5	21.1
Pre-provisioning profit	(5.3)	19.9	32.5	15.7	21.7
EPS	(52.8)	135.0	105.5	19.2	33.3
Profitability & Return ratios (%)					
Net interest margin	3.2	3.5	3.6	3.8	4.0
Fees / Avg. assets	1.1	1.1	0.9	0.9	1.0
Cost-Income	43.6	43.5	36.6	35.5	34.1
ROE	3.2	7.1	12.9	13.4	15.7
ROA	0.4	0.8	1.4	1.5	1.8
Asset quality (%)					
GNPA	7.4	6.0	5.7	4.7	4.0
NNPA	2.3	1.5	1.0	0.8	0.6
Provision coverage	70.6	75.7	83.3	83.8	85.0
Ratios (%)					
Credit-Deposit	89.8	83.7	76.7	74.8	73.5
Investment-Deposit	31.8	32.4	31.3	30.0	28.3
CAR	16.9	16.1	17.5	16.8	16.2
Tier-1	15.1	14.7	16.1	15.5	15.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

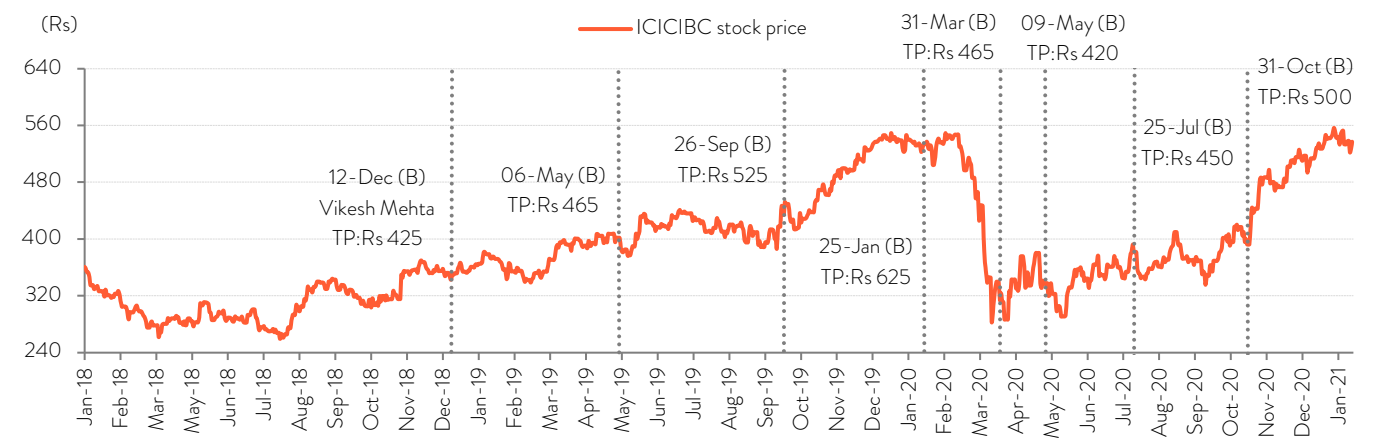
ADD – Expected return from >+5% to +15%

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

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