

**BUY**

TP: Rs 420 | ▲ 24%

**ICICI BANK**

| Banking

| 09 May 2020

## Upfronting provisions to brace for impact

**ICICI Bank's (ICICIB) Q4FY20 PAT at Rs 12bn (+26% YoY) missed estimates as the bank made Covid-related provisions of Rs 27bn. About 30% of its portfolio is under moratorium. Asset classification benefit was offered to Rs 13bn worth of loans (18bps GNPA impact ex-benefit). Slippages rose to Rs 53bn as two overseas accounts slipped into NPA. NIM was up 10bps QoQ to 3.9% but could see pressure on higher liquidity, low credit demand and rate reduction. We cut FY21/FY22 EPS 39%/32% on higher credit cost and reset our Mar'21 TP to Rs 420 (vs. Rs 465).**

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**Loans under moratorium in line with peers:** ICICIB has offered an opt-in/opt-out moratorium option to borrowers depending on the type of asset. About 30% of its loan portfolio is under moratorium as on April-end. The share is higher for the CV/rural/two-wheeler segments which form 10-11% of total loans, where moratorium was offered by default and customers had to opt out. Loans worth Rs 13.1bn received the classification standstill benefit (recognition as NPA would have worsened the GNPA ratio by 18bps). ICICIB made standard asset provisions worth ~Rs 27bn linked to Covid-19 in Q4, including Rs 6bn towards loans that were extended the asset classification benefit.

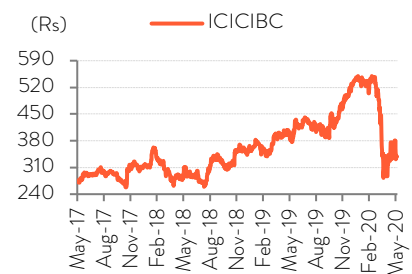
**Slippages rise but coverage ratio remains high:** ICICIB's slippages increased to Rs 53bn (vs. Rs 44bn in Q3), predominantly on classifying two overseas portfolio accounts (in healthcare and oil trading) as NPA. The BB-&-below rated pool declined to Rs 167bn (2.6% of loans) vs. Rs 177bn (2.8%) in Q3 while PCR including technical write-offs held strong at 87%. The overseas book forms ~8% of loans with 63% exposure to Indian corporates, subsidiaries and JVs.

**Maintain BUY:** We reduce FY21/FY22 EPS estimates by 39%/32% to factor in higher credit costs and slower growth. Our SOTP-based Mar'21 TP reduces to Rs 420, with the core business being valued at 1.6x FY22E P/BV.

Ticker/Price	ICICIB IN/Rs 338
Market cap	US\$ 28.8bn
Shares o/s	6,453mn
3M ADV	US\$ 197.2mn
52wk high/low	Rs 552/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	230,258	270,148	332,671	356,544	408,785
NII growth (%)	5.9	17.3	23.1	7.2	14.7
Adj. net profit (Rs mn)	67,774	33,633	79,308	108,321	144,016
EPS (Rs)	11.1	5.2	12.3	16.7	22.2
P/E (x)	30.5	64.6	27.5	20.2	15.2
P/BV (x)	2.1	2.0	1.9	1.8	1.6
ROA (%)	0.8	0.4	0.8	0.9	1.1
ROE (%)	6.6	3.2	7.1	9.1	11.3

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
<b>Income Statement</b>								
Interest income	191,887	172,928	190,643	11.0	0.7	747,983	634,012	18.0
Interest expense	102,618	96,727	105,190	6.1	(2.4)	415,313	363,864	14.1
<b>Net interest income</b>	<b>89,269</b>	<b>76,201</b>	<b>85,453</b>	<b>17.1</b>	<b>4.5</b>	<b>332,671</b>	<b>270,148</b>	<b>23.1</b>
Non-interest income	42,550	36,210	45,740	17.5	(7.0)	164,486	145,122	13.3
<b>Net total income</b>	<b>131,819</b>	<b>112,411</b>	<b>131,193</b>	<b>17.3</b>	<b>0.5</b>	<b>497,157</b>	<b>415,270</b>	<b>19.7</b>
Staff expenses	22,345	18,990	19,421	17.7	15.1	82,712	68,082	21.5
Other operating expenses	35,573	31,087	36,286	14.4	(2.0)	133,432	112,808	18.3
Operating expenses	57,918	50,077	55,707	15.7	4.0	216,144	180,891	19.5
<b>Pre-provisioning profit</b>	<b>73,901</b>	<b>62,334</b>	<b>75,486</b>	<b>18.6</b>	<b>(2.1)</b>	<b>281,013</b>	<b>234,379</b>	<b>19.9</b>
Total provisions	59,674	54,514	20,832	9.5	186.5	140,532	196,611	(28.5)
Profit before tax	14,227	7,820	54,654	81.9	(74.0)	140,480	37,768	272.0
Tax	2,013	(1,871)	13,190	(207.6)	(84.7)	61,172	4,135	1,379.5
<b>Profit after tax</b>	<b>12,214</b>	<b>9,691</b>	<b>41,465</b>	<b>26.0</b>	<b>(70.5)</b>	<b>79,308</b>	<b>33,633</b>	<b>135.8</b>
<b>Balance Sheet</b>								
Advances	6,452,900	5,866,466	6,356,543	10.0	1.5	6,452,900	5,866,466	10.0
Deposits	7,709,690	6,529,197	7,163,451	18.1	7.6	7,709,690	6,529,197	18.1
CASA ratio (%)	45.1	49.6	47.0	(449bps)	(185bps)	45.1	49.6	(449bps)
<b>Yields and margins (%)</b>								
Net interest margin	3.9	3.7	3.8	15bps	10bps	-	-	-
Yield on advances	9.6	9.4	9.9	23bps	(23bps)	-	-	-
Cost of funds	4.6	4.9	4.9	(28bps)	(35bps)	-	-	-
<b>Key ratios (%)</b>								
Cost/Income	43.9	44.5	42.5	(61bps)	148bps	43.5	43.6	(8bps)
Tax rate	14.1	(23.9)	24.1	3,807bps	(998bps)	43.5	10.9	3,260bps
Loan to Deposit ratio	83.7	89.8	88.7	(615bps)	(504bps)	83.7	89.8	(615bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	14.7	15.1	15.0	(37bps)	(26bps)	14.7	15.1	(37bps)
Total CAR	16.1	16.9	16.5	(78bps)	(39bps)	16.1	16.9	(78bps)
<b>Asset quality (Rs mn)</b>								
Gross NPAs	41,409,160	46,291,630	43,453,860	(10.5)	(4.7)	41,409,160	46,291,630	(10.5)
Net NPAs	10,113,860	13,577,430	10,388,500	(25.5)	(2.6)	10,113,860	13,577,430	(25.5)
Gross NPA ratio (%)	5.5	6.7	6.0	(117bps)	(42bps)	5.5	6.7	(117bps)
Net NPA ratio (%)	1.4	2.1	1.5	(65bps)	(8bps)	1.4	2.1	(65bps)
Coverage Ratio (%)	75.6	70.7	76.1	491bps	(52bps)	75.6	70.7	491bps

Source: Company, BOBCAPS Research

## Valuation methodology

We reduce FY21/FY22 EPS estimates by 39%/32% to factor in higher credit costs and slower growth. Valuing ICICIBC using the SOTP methodology, we reduce our Mar'21 target price to Rs 420 (Rs 465 earlier). Our target price values the core business at 1.6x FY22E P/BV based on the Gordon Growth Model while subsidiaries are valued at Rs 111/sh. Maintain BUY.

**FIG 2 – REVISED ESTIMATES**

Particulars	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income (Rs mn)	356,544	408,785	360,585	413,183	(1.1)	(1.1)
Pre-provisioning profit	310,023	361,628	316,128	372,921	(1.9)	(3.0)
Net Profit (Rs mn)	108,321	144,016	175,941	211,035	(38.4)	(31.8)
EPS (Rs)	16.7	22.2	27.3	32.7	(38.7)	(32.0)

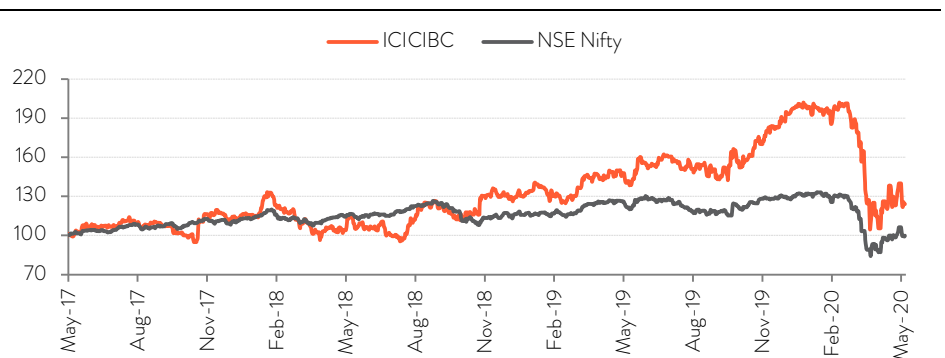
Source: BOBCAPS Research

**FIG 3 – 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	1,999	100	1,999	309	74	Valued at 1.6x Mar'22E P/BV on residual income model
ICICI Prudential Life	574	53	243	38	9	Valued at CMP; adjusted for 20% holdco discount
ICICI Lombard General	561	56	251	39	9	Valued at CMP; adjusted for 20% holdco discount
ICICI Securities	115	79	73	11	3	Valued at CMP; adjusted for 20% holdco discount
ICICI Prudential AMC	210	51	107	17	4	6% of Q4FY20 AAUM
ICICI Home Finance	19	100	19	3	1	Valued at 1x Mar'22E P/BV
ICICI Bank UK & Canada	26	100	26	4	1	Valued at 0.5x Mar'22E P/BV
<b>Sum of Parts</b>			<b>2,718</b>	<b>420</b>		

Source: BOBCAPS Research

**FIG 4 – 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	FY20P	FY21E	FY22E
<b>Net interest income</b>	<b>230,258</b>	<b>270,148</b>	<b>332,671</b>	<b>356,544</b>	<b>408,785</b>
NII growth (%)	5.9	17.3	23.1	7.2	14.7
Non-interest income	174,196	145,122	164,486	178,833	199,753
Total income	404,455	415,270	497,157	535,378	608,538
Operating expenses	(157,039)	(180,891)	(216,144)	(225,354)	(246,910)
Operating profit	247,415	234,379	281,013	310,023	361,628
Operating profit growth (%)	(6.6)	(5.3)	19.9	10.3	16.6
Provisions	(173,070)	(196,611)	(140,533)	(164,430)	(168,058)
PBT	74,346	37,768	140,480	145,593	193,571
Tax	(6,571)	(4,135)	(61,172)	(37,272)	(49,554)
<b>Reported net profit</b>	<b>67,774</b>	<b>33,633</b>	<b>79,308</b>	<b>108,321</b>	<b>144,016</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>67,774</b>	<b>33,633</b>	<b>79,308</b>	<b>108,321</b>	<b>144,016</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	12,858	12,895	12,948	12,948	12,948
Reserves & surplus	1,038,731	1,070,786	1,152,096	1,202,576	1,312,893
Net worth	1,051,589	1,083,680	1,165,044	1,215,524	1,325,840
Deposits	5,609,752	6,529,197	7,709,690	8,482,983	9,594,906
Borrowings	1,828,586	1,653,200	1,628,968	1,722,349	1,859,846
Other liabilities & provisions	301,964	378,515	479,950	500,377	522,428
<b>Total liabilities and equities</b>	<b>8,791,892</b>	<b>9,644,591</b>	<b>10,983,652</b>	<b>11,921,233</b>	<b>13,303,021</b>
Cash & bank balance	841,694	802,963	1,191,557	1,299,618	1,423,567
Investments	2,029,942	2,077,327	2,495,315	2,749,257	3,108,488
Advances	5,123,953	5,866,466	6,452,900	6,969,132	7,875,119
Fixed & Other assets	796,303	897,836	843,880	903,227	895,847
<b>Total assets</b>	<b>8,791,892</b>	<b>9,644,591</b>	<b>10,983,652</b>	<b>11,921,233</b>	<b>13,303,021</b>
Deposit growth (%)	14.5	16.4	18.1	10.0	13.1
Advances growth (%)	10.4	14.5	10.0	8.0	13.0

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	11.1	5.2	12.3	16.7	22.2
Dividend per share	2.3	1.5	0.0	3.3	4.4
Book value per share	163.6	168.1	180.0	187.8	204.8

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	30.5	64.6	27.5	20.2	15.2
P/BV	2.1	2.0	1.9	1.8	1.6
Dividend yield (%)	0.7	0.4	0.0	1.0	1.3

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	2.8	2.9	3.2	3.1	3.2
Non-interest income	2.1	1.6	1.6	1.6	1.6
Operating expenses	1.9	2.0	2.1	2.0	2.0
Pre-provisioning profit	3.0	2.5	2.7	2.7	2.9
Provisions	2.1	2.1	1.4	1.4	1.3
PBT	0.9	0.4	1.4	1.3	1.5
Tax	0.1	0.0	0.6	0.3	0.4
ROA	0.8	0.4	0.8	0.9	1.1
Leverage (x)	8.0	8.6	9.2	9.6	9.9
ROE	6.6	3.2	7.1	9.1	11.3

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Net interest income	5.9	17.3	23.1	7.2	14.7
Pre-provisioning profit	(6.6)	(5.3)	19.9	10.3	16.6
EPS	(34.3)	(52.8)	135.0	36.3	33.0
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.1	3.2	3.5	3.4	3.5
Fees / Avg. assets	1.1	1.1	1.2	1.1	1.1
Cost-Income	38.8	43.6	43.5	42.1	40.6
ROE	6.6	3.2	7.1	9.1	11.3
ROA	0.8	0.4	0.8	0.9	1.1
<b>Asset quality (%)</b>					
GNPA	9.9	7.4	6.1	5.9	4.8
NNPA	5.4	2.3	1.6	1.3	0.9
Provision coverage	47.7	70.6	75.6	78.1	81.8
<b>Ratios (%)</b>					
Credit-Deposit	91.3	89.8	83.7	82.2	82.1
Investment-Deposit	36.2	31.8	32.4	32.4	32.4
CAR	18.4	16.9	16.1	15.3	14.7
Tier-1	15.9	15.1	14.7	13.9	13.3

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

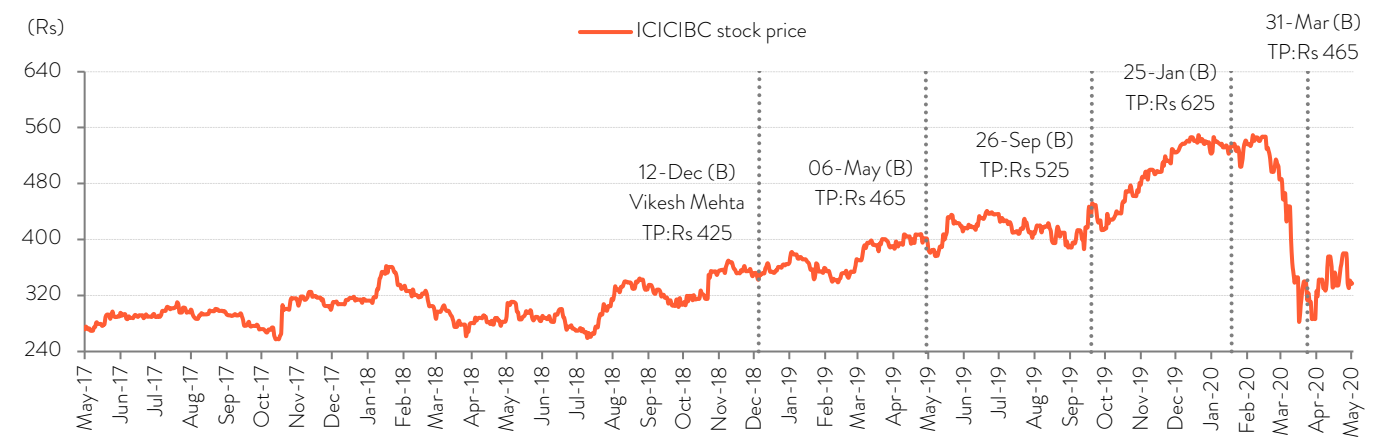
**ADD** – Expected return from >+5% to +15%

**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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