

**BUY**

TP: Rs 675 | ▲ 18%

**ICICI BANK**

Banking

24 April 2021

## No negative pandemic surprises

ICICI Bank (ICICIB) reported Q4FY21 PAT of Rs 44bn on 17% YoY growth in NII and 14% loan growth. Headline GNPA ratio reduced 40bps QoQ to 5% vs. proforma data and coverage continues to be best-in-class at ~78%. The bank remains confident of its underwriting standards and carries a reasonable Covid-related provision buffer of Rs 75bn (1% of loans) after using Rs 35bn in Q4. Loan growth is gradually gaining traction with strong 7% QoQ growth in retail credit. NIM improved 17bps QoQ to 3.8%. Retain BUY, Mar'22 TP unchanged at Rs 675.

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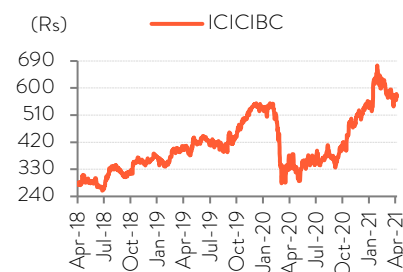
**Tight leash on asset quality:** GNPA ratio improved to 5% vs. 5.4% proforma in Q3. Overdue loans for <90 days were (a) marginally higher than pre-Covid levels in the retail EMI product and credit card portfolios (vs. 1.5% higher in Q3), (b) at pre-Covid rates in the SME/business banking segments, (c) 2.5% higher than pre-Covid levels in the rural portfolio (vs. 1.5% higher in Q3), and (d) at Q3 levels of ~2% in the domestic and overseas corporate loan books. The restructured book at 0.5% of loans remains manageable.

|                  |                  |
|------------------|------------------|
| Ticker/Price     | ICICIB IN/Rs 570 |
| Market cap       | US\$ 52.5bn      |
| Shares o/s       | 6,916mn          |
| 3M ADV           | US\$ 209.5mn     |
| 52wk high/low    | Rs 679/Rs 286    |
| Promoter/FPI/DII | 0%/45%/55%       |

Source: NSE

**Healthy provisioning buffers:** ICICIB used Rs 35bn of contingency provisions made on proforma NPAs but further strengthened its balance sheet by adding Covid-related provisions of Rs 10bn in Q4. It now has a pandemic provision buffer worth Rs 75bn or 1% of loans which looks reasonable. The bank reversed Rs 1.75bn from interest income towards refund of interest-on-interest.

## STOCK PERFORMANCE



Source: NSE

**Gradual return to growth:** Overall loan growth at 14% YoY was higher than industry, driven by 20% YoY and 7% QoQ growth in the retail segment. Management highlighted that disbursements in mortgage, auto, commercial and personal loans as well as credit cards were higher QoQ. Domestic corporate loans grew 13% YoY backed by disbursements to higher rated corporates and public sector undertakings.

## KEY FINANCIALS

| Y/E 31 Mar              | FY19A   | FY20A   | FY21P   | FY22E   | FY23E   |
|-------------------------|---------|---------|---------|---------|---------|
| Net interest income     | 270,148 | 332,671 | 389,894 | 473,360 | 568,950 |
| NII growth (%)          | 17.3    | 23.1    | 17.2    | 21.4    | 20.2    |
| Adj. net profit (Rs mn) | 33,633  | 79,308  | 161,927 | 208,693 | 277,225 |
| EPS (Rs)                | 5.2     | 12.3    | 24.2    | 30.2    | 40.1    |
| P/E (x)                 | 109.1   | 46.4    | 23.6    | 18.9    | 14.2    |
| P/BV (x)                | 3.4     | 3.2     | 2.7     | 2.4     | 2.1     |
| ROA (%)                 | 0.4     | 0.8     | 1.4     | 1.6     | 1.8     |
| ROE (%)                 | 3.2     | 7.1     | 12.3    | 13.5    | 16.0    |

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

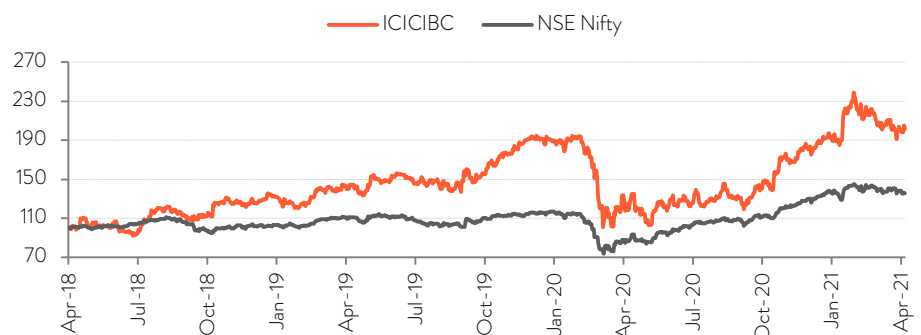
| (Rs mn)                            | Q4FY21          | Q4FY20          | Q3FY21          | YoY (%)      | QoQ (%)       | FY21            | FY20            | YoY (%)      |
|------------------------------------|-----------------|-----------------|-----------------|--------------|---------------|-----------------|-----------------|--------------|
| <b>Income Statement</b>            |                 |                 |                 |              |               |                 |                 |              |
| Interest income                    | 1,98,417        | 1,91,887        | 1,97,298        | 3.4          | 0.6           | 7,91,183        | 7,47,983        | 5.8          |
| Interest expense                   | 94,105          | 1,02,618        | 98,173          | (8.3)        | (4.1)         | 4,01,288        | 4,15,313        | (3.4)        |
| <b>Net interest income</b>         | <b>1,04,311</b> | <b>89,269</b>   | <b>99,125</b>   | <b>16.9</b>  | <b>5.2</b>    | <b>3,89,894</b> | <b>3,32,671</b> | <b>17.2</b>  |
| Non-interest income                | 41,114          | 42,550          | 46,863          | (3.4)        | (12.3)        | 1,89,685        | 1,64,486        | 15.3         |
| <b>Net total income</b>            | <b>1,45,425</b> | <b>1,31,819</b> | <b>1,45,987</b> | <b>10.3</b>  | <b>(0.4)</b>  | <b>5,79,580</b> | <b>4,97,157</b> | <b>16.6</b>  |
| Staff expenses                     | 20,084          | 22,345          | 19,499          | (10.1)       | 3             | 80,918          | 82,712          | (2.2)        |
| Other operating expenses           | 39,942          | 35,573          | 38,290          | 12.3         | 4.3           | 1,34,691        | 1,33,432        | 0.9          |
| Operating expenses                 | 60,027          | 57,918          | 57,790          | 3.6          | 3.9           | 2,15,608        | 2,16,144        | (0.2)        |
| <b>Pre-provisioning profit</b>     | <b>85,398</b>   | <b>73,901</b>   | <b>88,198</b>   | <b>15.6</b>  | <b>(3.2)</b>  | <b>3,63,971</b> | <b>2,81,013</b> | <b>29.5</b>  |
| Total provisions                   | 28,835          | 59,674          | 27,417          | (51.7)       | 5.2           | 1,62,144        | 1,40,532        | 15.4         |
| Profit before tax                  | 56,564          | 14,227          | 60,780          | 297.6        | (6.9)         | 2,01,827        | 1,40,480        | 43.7         |
| Tax                                | 12,538          | 2,013           | 11,385          | 522.9        | 10.1          | 39,900          | 61,172          | (34.8)       |
| <b>Profit after tax</b>            | <b>44,026</b>   | <b>12,214</b>   | <b>49,396</b>   | <b>260.5</b> | <b>(10.9)</b> | <b>1,61,927</b> | <b>79,308</b>   | <b>104.2</b> |
| <b>Balance Sheet</b>               |                 |                 |                 |              |               |                 |                 |              |
| Advances                           | 73,37,291       | 64,52,900       | 69,90,175       | 13.7         | 5             | 73,37,291       | 64,52,900       | 13.7         |
| Deposits                           | 93,25,222       | 77,09,690       | 87,43,476       | 21           | 6.7           | 93,25,222       | 77,09,690       | 21           |
| CASA ratio (%)                     | 46.3            | 45.1            | 45.2            | 117bps       | 106bps        | 46.3            | 45.1            | 117bps       |
| <b>Yields and margins (%)</b>      |                 |                 |                 |              |               |                 |                 |              |
| Net interest margin                | 3.8             | 3.9             | 3.7             | (3bps)       | 17bps         |                 |                 |              |
| Yield on advances                  | 8.5             | 9.6             | 8.4             | (114bps)     | 8bps          |                 |                 |              |
| Cost of funds                      | 3.7             | 4.6             | 4               | (85bps)      | (27bps)       |                 |                 |              |
| <b>Key ratios (%)</b>              |                 |                 |                 |              |               |                 |                 |              |
| Cost/Income                        | 41.3            | 43.9            | 39.6            | (266bps)     | 169bps        | 37.2            | 43.5            | (628bps)     |
| Tax rate                           | 22.2            | 14.1            | 18.7            | 802bps       | 343bps        | 19.8            | 43.5            | (2378bps)    |
| Loan to Deposit ratio              | 78.7            | 83.7            | 79.9            | (502bps)     | (127bps)      | 78.7            | 83.7            | (502bps)     |
| <b>Capital adequacy ratios (%)</b> |                 |                 |                 |              |               |                 |                 |              |
| Tier 1                             | 18.1            | 14.7            | 18.1            | 334bps       | (6bps)        | 18.1            | 14.7            | 334bps       |
| Total CAR                          | 19.1            | 16.1            | 19.5            | 301bps       | (39bps)       | 19.1            | 16.1            | 301bps       |
| <b>Asset quality (Rs mn)</b>       |                 |                 |                 |              |               |                 |                 |              |
| Gross NPAs                         | 4,13,734        | 4,14,092        | 3,48,604        | (0.1)        | 18.7          | 4,13,734        | 4,14,092        | (0.1)        |
| Net NPAs                           | 91,802          | 1,01,139        | 48,606          | (9.2)        | 88.9          | 91,802          | 1,01,139        | (9.2)        |
| Gross NPA ratio (%)                | 5.0             | 5.5             | 4.4             | (57bps)      | 58bps         | 5               | 5.5             | (57bps)      |
| Net NPA ratio (%)                  | 1.1             | 1.4             | 0.6             | (27 bps)     | 51bps         | 1.1             | 1.4             | (27bps)      |
| Credit costs (%)                   | 1.7             | 3.8             | 1.7             | (211bps)     | (3bps)        |                 |                 |              |
| Coverage ratio (%)                 | 77.8            | 75.6            | 86.1            | 224 bps      | (825bps)      | 77.8            | 75.6            | 224bps       |

Source: Company, BOBCAPS Research

## Valuation methodology

At 1.9x FY23E core P/BV, we believe ICICIBank 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 continue to value the bank at a core P/BV multiple of 2.2x and retain our Mar'22 SOTP-based target price at Rs 675. Maintain BUY.

**FIG 2 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Significant deterioration in retail asset quality could derail the expected improvement in profitability.
- A continued economic slowdown would affect our expectations of a swift recovery.

## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn)          | FY19A          | FY20A          | FY21P          | FY22E          | FY23E          |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net interest income</b>  | <b>270,148</b> | <b>332,671</b> | <b>389,894</b> | <b>473,360</b> | <b>568,950</b> |
| NII growth (%)              | 17.3           | 23.1           | 17.2           | 21.4           | 20.2           |
| Non-interest income         | 145,122        | 164,486        | 189,685        | 197,802        | 226,554        |
| Total income                | 415,270        | 497,157        | 579,580        | 671,162        | 795,504        |
| Operating expenses          | (180,891)      | (216,144)      | (215,608)      | (237,164)      | (271,444)      |
| Operating profit            | 234,379        | 281,013        | 363,971        | 433,998        | 524,060        |
| Operating profit growth (%) | (5.3)          | 19.9           | 29.5           | 19.2           | 20.8           |
| Provisions                  | (196,611)      | (140,532)      | (162,144)      | (153,498)      | (151,445)      |
| PBT                         | 37,768         | 140,480        | 201,827        | 280,501        | 372,615        |
| Tax                         | (4,135)        | (61,172)       | (39,900)       | (71,808)       | (95,389)       |
| <b>Reported net profit</b>  | <b>33,633</b>  | <b>79,308</b>  | <b>161,927</b> | <b>208,693</b> | <b>277,225</b> |
| Adjustments                 | 0              | 0              | 0              | 0              | 0              |
| <b>Adjusted net profit</b>  | <b>33,633</b>  | <b>79,308</b>  | <b>161,927</b> | <b>208,693</b> | <b>277,225</b> |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                    | FY19A            | FY20A             | FY21P            | FY22E             | FY23E            |
|---------------------------------------|------------------|-------------------|------------------|-------------------|------------------|
| Equity capital                        | 12,895           | 12,948            | 13,834           | 13,834            | 13,834           |
| Reserves & surplus                    | 1,070,786        | 1,152,096         | 1,461,258        | 1,600,153         | 1,844,943        |
| Net worth                             | 1,083,680        | 1,165,044         | 1,475,092        | 1,613,987         | 1,858,777        |
| Deposits                              | 6,529,197        | 7,709,690         | 9,325,222        | 11,003,761        | 13,204,514       |
| Borrowings                            | 1,653,200        | 1,628,968         | 916,310          | 917,418           | 921,201          |
| Other liabilities & provisions        | 378,515          | 479,950           | 587,704          | 615,712           | 646,404          |
| <b>Total liabilities and equities</b> | <b>9,644,591</b> | <b>10,983,651</b> | <b>12,304,32</b> | <b>14,150,879</b> | <b>16,630,89</b> |
| Cash & bank balance                   | 802,963          | 1,191,557         | 1,331,283        | 1,465,589         | 1,620,389        |
| Investments                           | 2,077,327        | 2,495,315         | 2,812,865        | 3,185,901         | 3,612,739        |
| Advances                              | 5,866,466        | 6,452,900         | 7,337,291        | 8,437,885         | 9,956,704        |
| Fixed & Other assets                  | 897,836          | 843,880           | 822,888          | 1,061,504         | 1,441,064        |
| <b>Total assets</b>                   | <b>9,644,591</b> | <b>10,983,651</b> | <b>12,304,32</b> | <b>14,150,879</b> | <b>16,630,89</b> |
| Deposit growth (%)                    | 16.4             | 18.1              | 21.0             | 18.0              | 20.0             |
| Advances growth (%)                   | 14.5             | 10.0              | 13.7             | 15.0              | 18.0             |

### Per Share

| Y/E 31 Mar (Rs)      | FY19A | FY20A | FY21P | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| EPS                  | 5.2   | 12.3  | 24.2  | 30.2  | 40.1  |
| Dividend per share   | 1.5   | 1.0   | 2.0   | 3.0   | 4.0   |
| Book value per share | 168.1 | 180.0 | 213.3 | 233.3 | 268.7 |

Source: Company, BOBCAPS Research

**Valuations Ratios**

| Y/E 31 Mar (x)     | FY19A | FY20A | FY21P | FY22E | FY23E |
|--------------------|-------|-------|-------|-------|-------|
| P/E                | 109.1 | 46.4  | 23.6  | 18.9  | 14.2  |
| P/BV               | 3.4   | 3.2   | 2.7   | 2.4   | 2.1   |
| Dividend yield (%) | 0.3   | 0.2   | 0.4   | 0.5   | 0.7   |

**DuPont Analysis**

| Y/E 31 Mar (%)          | FY19A | FY20A | FY21P | FY22E | FY23E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income     | 2.9   | 3.2   | 3.3   | 3.6   | 3.7   |
| Non-interest income     | 1.6   | 1.6   | 1.6   | 1.5   | 1.5   |
| Operating expenses      | 2.0   | 2.1   | 1.9   | 1.8   | 1.8   |
| Pre-provisioning profit | 2.5   | 2.7   | 3.1   | 3.3   | 3.4   |
| Provisions              | 2.1   | 1.4   | 1.4   | 1.2   | 1.0   |
| PBT                     | 0.4   | 1.4   | 1.7   | 2.1   | 2.4   |
| Tax                     | 0.0   | 0.6   | 0.3   | 0.5   | 0.6   |
| ROA                     | 0.4   | 0.8   | 1.4   | 1.6   | 1.8   |
| Leverage (x)            | 8.6   | 9.2   | 8.8   | 8.6   | 8.9   |
| ROE                     | 3.2   | 7.1   | 12.3  | 13.5  | 16.0  |

**Ratio Analysis**

| Y/E 31 Mar                                   | FY19A  | FY20A | FY21P | FY22E | FY23E |
|--|--------|-------|-------|-------|-------|
| <b>YoY growth (%)</b>                        |        |       |       |       |       |
| Net interest income                          | 17.3   | 23.1  | 17.2  | 21.4  | 20.2  |
| Pre-provisioning profit                      | (5.3)  | 19.9  | 29.5  | 19.2  | 20.8  |
| EPS  | (52.8) | 135.0 | 97.0  | 24.8  | 32.8  |
| <b>Profitability &amp; Return ratios (%)</b> |        |       |       |       |       |
| Net interest margin                          | 3.2    | 3.5   | 3.6   | 3.9   | 4.0   |
| Fees / Avg. assets                           | 1.1    | 1.1   | 0.9   | 0.9   | 1.0   |
| Cost-Income                                  | 43.6   | 43.5  | 37.2  | 35.3  | 34.1  |
| ROE  | 3.2    | 7.1   | 12.3  | 13.5  | 16.0  |
| ROA  | 0.4    | 0.8   | 1.4   | 1.6   | 1.8   |
| <b>Asset quality (%)</b>                     |        |       |       |       |       |
| GNPA   | 7.4    | 6.0   | 5.4   | 4.5   | 4.0   |
| NNPA   | 2.3    | 1.5   | 1.3   | 1.3   | 1.5   |
| Credit cost                                  | 3.1    | 1.4   | 2.0   | 1.5   | 1.1   |
| Provision coverage                           | 70.6   | 75.7  | 77.8  | 71.2  | 63.4  |
| <b>Ratios (%)</b>                            |        |       |       |       |       |
| Credit-Deposit                               | 89.8   | 83.7  | 78.7  | 76.7  | 75.4  |
| Investment-Deposit                           | 31.8   | 32.4  | 30.2  | 29.0  | 27.4  |
| CAR  | 16.9   | 16.1  | 19.1  | 16.0  | 15.5  |
| Tier-1                                       | 15.1   | 14.7  | 18.1  | 15.1  | 14.6  |

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

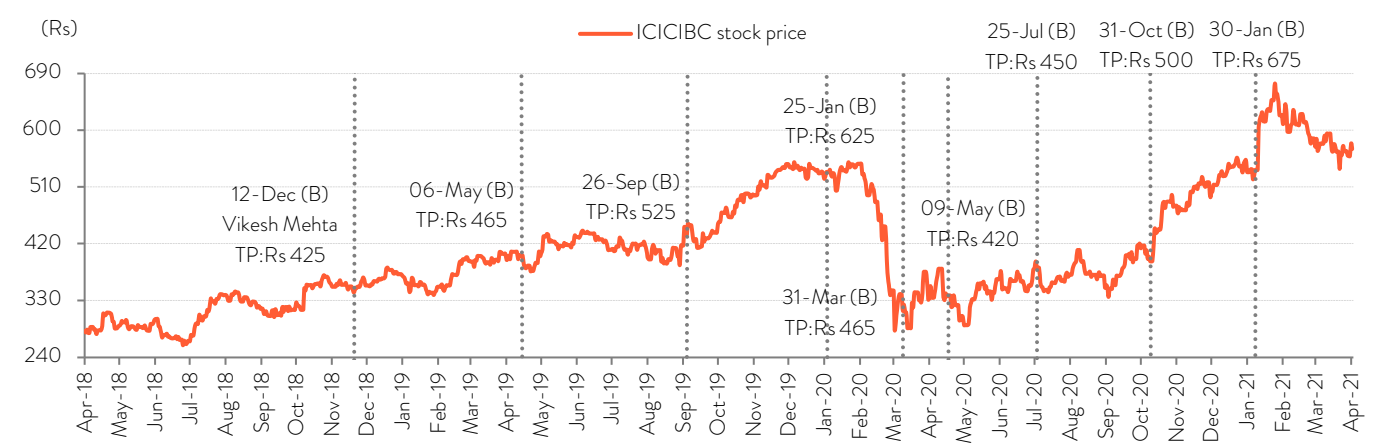
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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