Sharekhan
by BNP PARIBAS

ICICI Bank

New phase of sustainable growth begins

Sector: Banks & Finance
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 429**	
Price Target: **Rs. 550**	↑

↑ Upgrade ↔ No change ↓ Downgrade

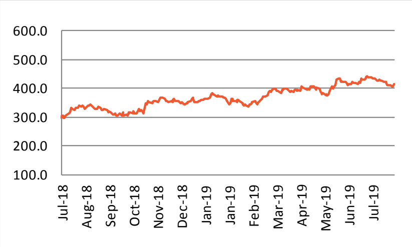
Company details

Market cap:	Rs. 2,79,386 cr
52-week high/low:	Rs. 444/283
NSE volume: (No of shares)	171.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	645.3 cr

Shareholding (%)

Promoters	0.0
FII	43.2
DII	43.6
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	2.3	16.7	46.6
Relative to Sensex	-1.0	4.9	10.0	41.3

Sharekhan Research, Bloomberg

ICICI Bank clocked healthy numbers in Q1FY20, with strong all-round operating performance. NII rose by 26.8% y-o-y, aided by healthy loan growth. Net interest margin (NIM) rose by 42 bps y-o-y to 3.62% boosted by a 9 bps benefit on IT refunds and an 8 bps benefit from interest collection in NPAs, indicating better pricing power for bank. Notably, the total below-investment grade book (BB and below, including net NPAs) declined by 12.4% q-o-q to Rs. 15,355 crore (2.6% of advances) indicating the improving book quality. Helped by lower slippages and NPA recoveries, provisions declined by 41.5% y-o-y and 35.9% q-o-q. Provisioning coverage ratio is at an industry-best 83.4% (including Tech W-Off) and GNPAs have improved q-o-q. We believe that post the earnings normalisation, a sustainable earnings growth cycle is beginning for the bank. We value the bank at ~2.2x FY21E BV and estimate subsidiaries value at Rs ~120 per share. With asset quality concerns receding and outlook shifting on growth (sans equity dilution need) we see few impediments to a pick-up in earnings (& return ratios) normalization from here. We therefore maintain our Buy rating with revised Price target (PT) at Rs 550.

Key positives

- NPAs are declining sequentially, (in absence of large resolutions) which indicates that credit cost normalisation phase is over and a sustainable growth phase is strengthening.
- PCR (including Tech W-Off) has improved to 83.4% which not only gives investor comfort but also additional flexibility for future profitability
- Continued decline in below-investment book (BB & below), which is at 3.5% of overall loan book, has fallen ~100 bps q-o-q.

Key negatives

- Agri-book has weakened, with slippages of Rs 452 crore coming from Kisan credit card portfolio.

Our Call

Valuation – We believe that with earnings normalising, it is the start of a sustainable growth cycle for the bank. With asset quality concerns receding and outlook shifting on growth (without need for equity dilution) we see only a few impediments to a pick-up in earnings and return ratios normalisation from here. We value the standlone bank at ~2.2x FY21E BV and estimate subsidiaries value at Rs ~120 per share. We therefore maintain our Buy rating with a revised price target (PT) of Rs. 550.

Key Risks

A prolonged economic revival and delay in resolution / recovery of corporate loan exposures may affect growth and profitability

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21
Net Interest Income (Rs)	23025.8	27014.8	30520.5	36881.7
Net profit (Rs)	6763.7	3363.3	12236.3	15729.0
EPS (Rs)	10.5	5.2	19.0	24.5
P/E (x)	41.0	82.4	22.7	17.6
BVPS (Rs)	157.8	163.0	176.4	192.5
P/BV (x)	2.7	2.6	2.4	2.2
RoE (%)	6.6%	3.1%	10.9%	12.9%
RoA (%)	0.8%	0.4%	1.2%	1.2%

Source: Company, Sharekhan Research

Healthy operational performance: ICICI Bank clocked healthy numbers for Q1FY2020, where its operating performance was largely better than expectations. The bank's net interest income (NII) rose by 26.8% y-o-y to Rs. 7,737 crore, was better than expectations, aided by healthy loan growth. However, other income declined by 11.1% y-o-y due to a decrease in fee income from distribution of third-party products, while the treasury income declined by 76.6% y-o-y to Rs. 179 crore. In Q1FY19, the bank had clocked a profit of Rs. 1,110 crore on sale of shareholding in subsidiaries, and hence in a y-o-y comparison, the number is declining. Asset-quality performance continue to improve, validating the view that the NPA cycle has peaked. In Q1, operating expenses rose by 17.6% y-o-y largely due to a rise in expenses towards employees. Net interest margin (NIM) declined sequentially by 11 bps to 3.61%, but improved by 42 BPS y-o-y. The effect of an interest on income tax refund and interest collection from NPAs on net interest margin was about 17 bps as compared to an almost 25 bps benefit in Q4 FY2019. Net of the above, we find NIM performance to be stable on a sequential basis. ICICI Bank has the advantage of a strong retail deposit base, which is a big positive in its favour as it is relatively low-cost as compared to more expensive wholesale deposits. Pre provisioning profit witnessed a muted growth of 8.3% y-o-y because of a higher base effect (as mentioned above) in Q1FY19 due to income from stake sale of insurance business. Notably, provisions fell significantly by 41.5% y-o-y and 35.9% q-o-q to Rs. 3,496 crore. Consequently the bank reported a net profit of Rs. 1,908 crore during Q1FY20 as compared to loss of Rs 120 crore in Q1FY19.

Loan growth steady, aided by a strong liability franchise: ICICI Bank witnessed a steady growth of 14.8% y-o-y in its loan book, of which domestic advances increased faster by 17.9% y-o-y and constituted 61.4% of the loan portfolio. It was not only above the industry average but also better than several past quarters for the bank. Corporate loan book growth was muted at 6.7% y-o-y. Among retail loans, home loans and vehicle loans grew by 19.1% y-o-y and 17.6% y-o-y, respectively. The personal loan and credit card portfolios posted a strong rise of 54.2% y-o-y and 32.9% y-o-y, respectively. Deposits also grew by 20.8% y-o-y for the quarter. Current account and savings account (CASA) deposits saw a moderate traction, rising by 8.2% y-o-y, as a result of which CASA ratio stood at 45.2% and notably, the average CASA was at more than 43% which is significant given the intensely competitive deposit market. A healthy CASA ratio helped the bank in curbing the cost of funds, thus supporting margins. The bank has indicated that of the overall term deposits, the proportion of retail deposits was high, which we believe is a significant lever for the bank to maintain/ improve its margins, all other things remaining unchanged.

Improvement in asset-quality performance enthuses: In Q1FY20, Asset quality performance was improved as gross nonperforming asset (GNPA) and net NPA ratios further reduced by 21 BPS and 29 BPS sequentially to 6.49% and 1.77%, respectively. Slippages declined sequentially to Rs. 2,779 crore from Rs. 3,547 crore in Q4FY2019, which is a key positive. Corporate and small and medium enterprise (SME) slippages stood at Rs. 1,268 crore much lower than Rs 2,724 crore seen in Q4FY19, indicating a continuing trend of normalisation in credit costs. The retail segment saw an increase in slippages to Rs. 1511 crore (versus Rs. 823 crore in Q4 FY2019) largely due to rise in slippages of Rs. 452 crore from the Kisan Credit Card (KCC) portfolio. Accounts worth Rs. 1163 crore among corporate slippages came in from loans rated BB and below. ~89% of the disbursements during Q1FY20 in the domestic and international corporate portfolio was to corporates rated A-and above. The gradual rundown in BB and below category is positive and would be beneficial for medium to long-term margins. PAT performance, which has been subdued since last some, aided by a lower base, can yield significant positive surprise in earnings.

Results Rs cr

Particulars	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Interest earned	17,980	14,722	22.1	17,293	4.0
Interest expense	10,243	8,620	18.8	9,673	5.9
Net interest income	**7,737**	**6,102**	**26.8**	**7,620**	**1.5**
Non-interest income	3,425	3,852	-11.1	3,621	-5.4
Net total income	11,163	9,954	12.1	11,241	-0.7
Operating expenses	4,874	4,145	17.6	5,008	-2.7
Pre-provisioning profit	**6,288**	**5,808**	**8.3**	**6,233**	**0.9**
Provisions	3,496	5,971	-41.5	5,451	-35.9
Profit before tax	2,793	-163	NA	782	257.1
Tax	885	-43	NA	-187	NA
Profit after tax	**1,908**	**-120**	**NA**	**969**	**96.9**
Gross NPA (%)	6.49	8.81	-232 bps	6.70	-21 bps
Net NPA (%)	1.77	4.19	-242 bps	2.06	-29 bps

Source: Company; Sharekhan Research

Loan Mix (%)

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Overseas branches	15.4	14.9	14.0	12.6	12.5	12.7	11.9	10.7	10.1
Domestic book	84.6	85.1	86.0	87.4	87.5	87.3	88.1	89.3	89.9
Domestic Corporate	*26.9*	*27.2*	*26.9*	*25.8*	*25.4*	*25.4*	*24.1*	*23.9*	*23.6*
Retail business	*53.3*	*53.6*	*54.2*	*56.6*	*57.5*	*57.3*	*59.0*	*60.1*	*61.4*
SME	*4.4*	*4.4*	*4.9*	*5.0*	*4.6*	*4.6*	*4.9*	*5.2*	*5.0*
Total	100	100	100	100	100	100	100	100	100

Source: Company; Sharekhan Research

Reported Yields on advances, Cost of funds and Margins

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
NIM (%)	3.27%	3.27%	3.14%	3.24%	3.19%	3.33%	3.40%	3.72%	3.61%
Cost Of Funds (%)	5.16%	5.04%	4.90%	4.93%	4.99%	5.00%	5.14%	5.20%	5.23%
Yield on Advances (%)	8.69%	8.67%	8.47%	8.68%	8.71%	8.79%	9.00%	9.29%	9.36%

Source: Company; Sharekhan Research

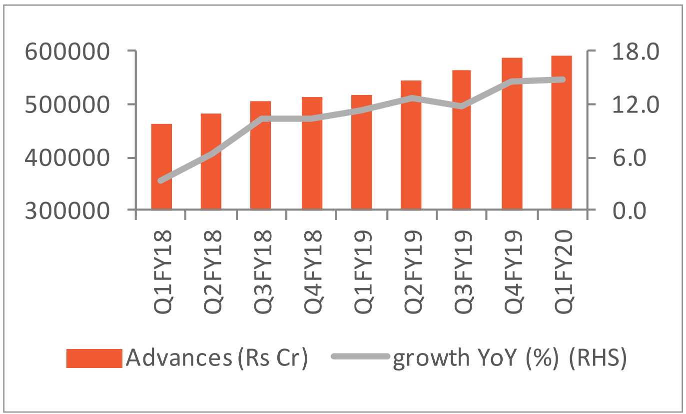
Movement in GNPA

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Opening Gross NPA	42,552	43,148	44,489	46,039	54,063	53,465	54,489	51,591	46,292
Slippages	4,976	4,674	4,380	15,737	4,036	3,117	2,091	3,547	2,779
Recoveries	-2,775	-1,029	-1,108	-4,234	-2,036	-1,006	-1,916	-1,522	-931
W/o	-1,605	-2,304	-1,722	-3,479	-2,598	-1,087	-3,073	-7,324	-2,377
Closing Gross NPAs	43,148	44,489	46,039	54,063	53,465	54,489	51,591	46,292	45,763

Source: Company; Sharekhan Research

Financials in charts

Advances trend

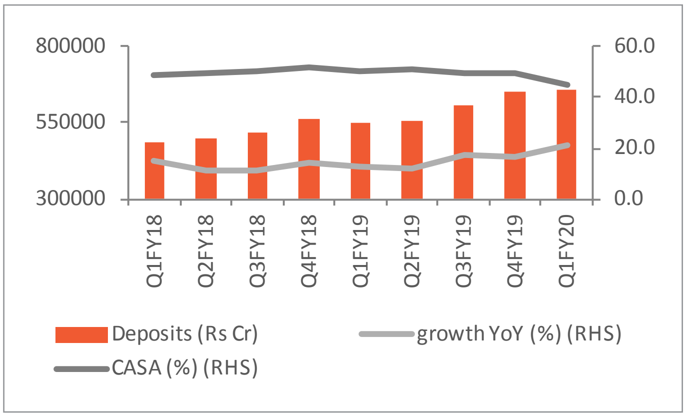


Source: Company, Sharekhan Research

Loan Mix

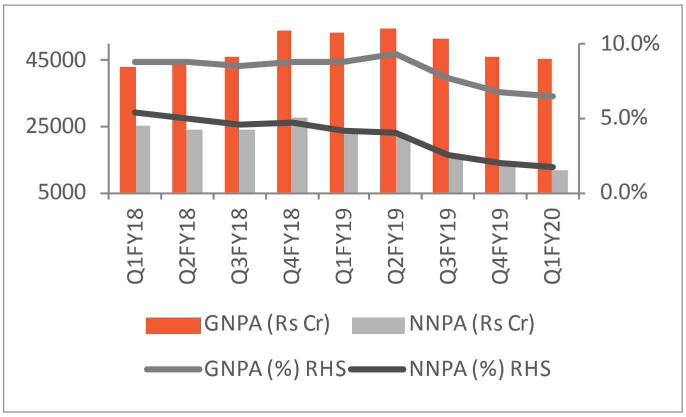
Source: Company, Sharekhan Research

Deposits trend



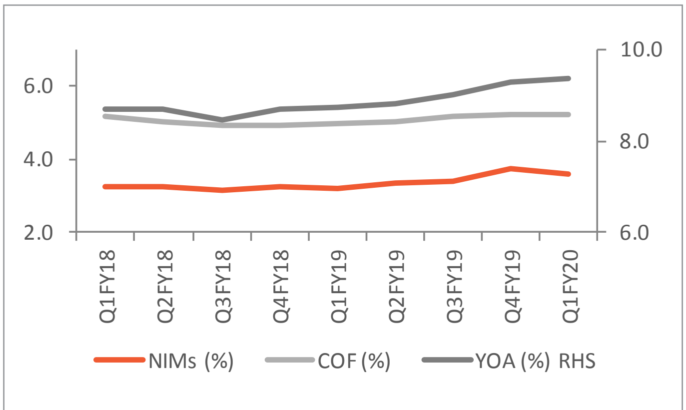
Source: Company, Sharekhan Research

Asset Quality Movement



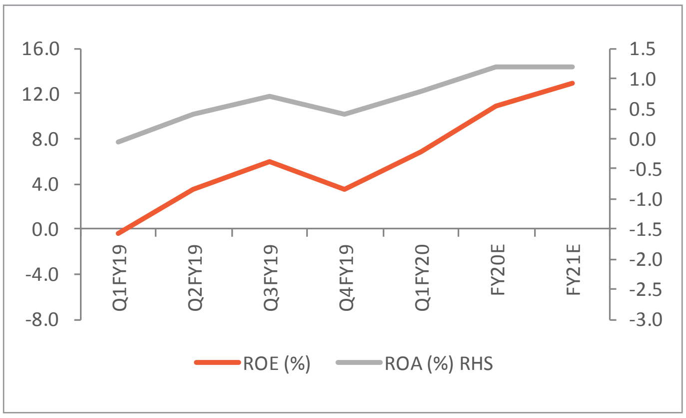
Source: Company, Sharekhan Research

Margins, Cost of Funds and Yields on Advances



Source: Company, Sharekhan Research

Return Ratios



Source: Company, Sharekhan estimates

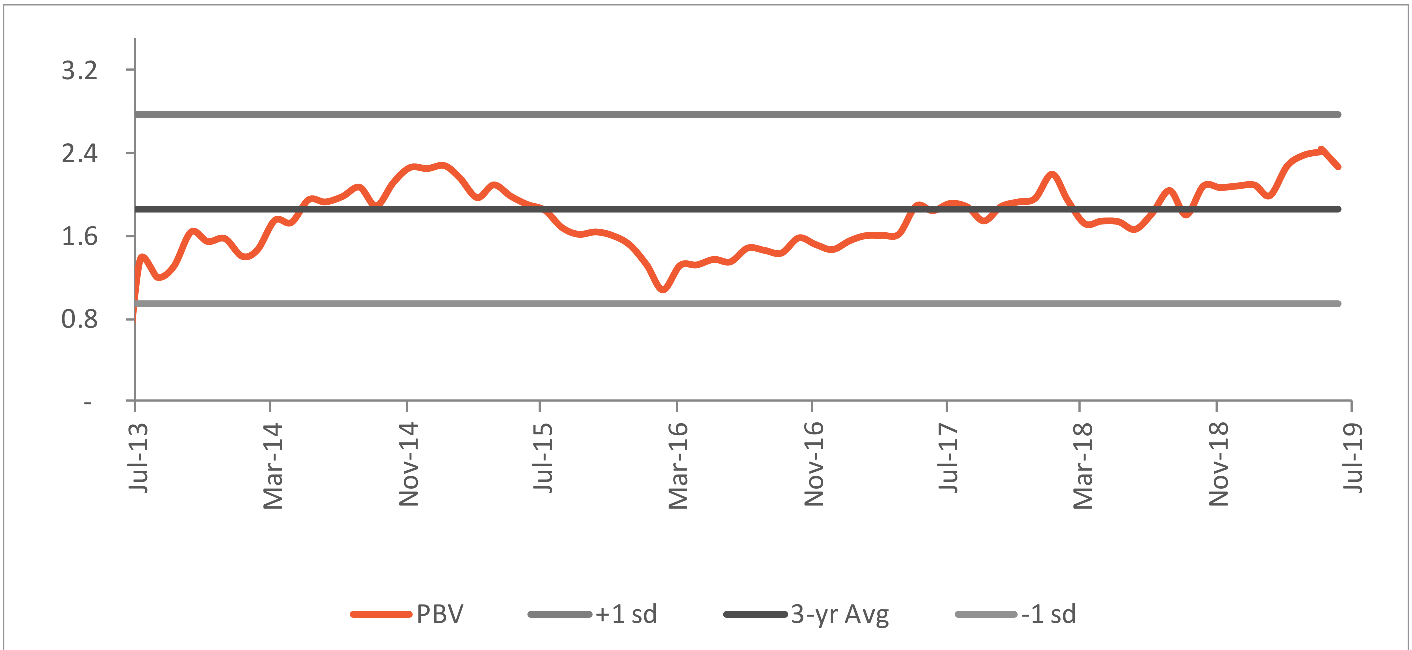
Outlook

ICICI Bank has seen a continuous improvement in its asset-quality trajectory, margins building upon its retail franchise, which are positive indicators. While on one hand, the peaking of NPAs at a bank level is positive, incremental lending to better-rated corporates improves sustainability of business and profitability. The bank has a comfortable capital position (Tier-1 capital ratio at 14.6%) which means there is no imminent need for capital dilution. It therefore appears well-positioned to capitalise on the opportunities in the market. With a strong CASA profile, there is a strong probability that improved growth in the margin-accretive retail segments, would be positive lever for return ratios. The gradual rundown in the below investment-grade book is another positive, especially as the bank is building an incremental corporate book of better-rated borrowers. We believe the outlook continues to be bright for the bank, and it is an attractive business franchise to be considered for long-term investment.

Valuation

We believe that post the earnings normalisation, it is the start of sustainable growth cycle for the bank. We value the bank at ~2.2x FY21E BV and estimate subsidiaries value at Rs ~120 per share. With asset quality concerns receding and outlook shifting on growth (without need for equity dilution) we see only a few impediments to a pick-up in earnings and return ratio normalization from here. The current valuation leaves scope for re-rating, as the bank consolidates its growth outlook over the next two years. We therefore maintain our Buy rating with a revised price target (PT) of Rs. 550.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
ICICI Bank	429	2.4	2.2	22.6	17.5	1.2	1.2	10.9	12.9
Kotak Mahindra Bank	1,503	5.8	5.1	51.0	42.7	1.7	1.7	12.2	12.8
Axis Bank	720	2.6	2.4	34.3	20.4	0.6	0.9	7.8	12.1
HDFC Bank	2,245	3.7	3.2	24.0	19.0	1.9	2.0	16.1	17.9

Source: Company, Sharekhan estimates

About company

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its group companies. It is the 2nd largest private sector bank in terms of loan book size, having a pan India presence (4,882 branches as of June 2019). It subsidiaries, ICICI Prudential Life Insurance (holds 52.87% shares), ICICI Lombard General Insurance Company Ltd (holds 55.86% shares), ICICI Securities Ltd (holds 79.22% shares) are all strong entities in their respective fields, and are developing well as a strong franchise, and provide support to overall value. In its banking business, It has continued to improve the portfolio mix towards retail and higher-rated corporate loans and has made significant progress in de-risking the balance sheet. Hence, today the proportion of retail loans in the portfolio mix has increased to 61%, while an increasingly high proportion of corporate loans disbursed are to customers rated A- and above, which helps de-risking of the overall loan book.

Investment theme

The bank has made inroads in to retail loans (~60% of the book) and has significantly improved its liability franchise. We believe NPA cycle peaking and business re-orientation backed by a strong capital adequacy (Tier -1 of 14.60%) and a wide branch network are positive. It has continued to improve its portfolio mix towards retail (granular) and higher-rated corporate loans. In last four years, the bank has made significant progress in de-risking the balance sheet along with efforts to enhance the franchise value. Since fiscal 2016, the bank has unlocked more than Rs. 14,000crore of capital in its subsidiaries, which not only demonstrates the value created, it has also resulted in value unlocking along with leaner balance sheet obligations for the parent. ICICI Bank banking business has been seeing a trend of lower slippages and improving GNPAs which indicate that for now, the NPA cycle has peaked for the bank and going forward, it will see improved ROE/ROA by virtue of faster growth (waning of competition, adequate capital etc) as well as better profitability (lower slippages, lesser drag of provisions, resolutions/ recovery). We believe normalisation in operating expenses and abatement of slippages can be positive levers for ROE and profitability in the medium term. The bank appears to be well positioned to benefit from reduction in competitive intensity from NBFCs and political stability is expected to gather pace in reforms such as IBC, which will be positive for recoveries/ resolutions and credit demand revival.

Key Risks

A prolonged economic revival phase, and delay in resolution / recovery of the corporate exposures may impact growth and profitability

Additional Data

Key management personnel

Sandeep Bakhshi	CEO/Managing Director
Sandeep Batra	President/Executive Director
Rakesh Jha	Chief Financial Officer
Balakrishnan Madhivanan	Chief Tech & Digital Officer
Vishakha V Mulye	Executive Director
Anup Bagchi	Executive Director

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.4
2	Dodge & Cox	5.4
3	HDFC Asset Management Co Ltd	4.1
4	SBI Funds Management Pvt Ltd	3.0
5	ICICI Prudential Asset Management	2.4
6	Reliance Capital Trustee Co Ltd	2.1
7	Aditya Birla Sun Life Trustee Co P	2.0
8	Aditya Birla Sun Life Asset Manage	1.9
9	Franklin Resources Inc	1.8
10	Republic of Singapore	1.5

Source: Bloomberg

Sharekhan
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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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