Sharekhan
by BNP PARIBAS

ICICI Bank

On track to regain its mojo

Sector: Banks & Finance
Company Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 540**	
Price Target: **Rs. 630**	↑

↑ Upgrade ↔ No change ↓ Downgrade

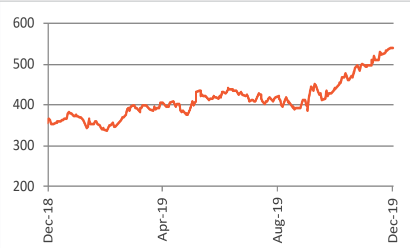
Company details

Market cap:	Rs. 3,49,260 cr
52-week high/low:	Rs. 543/336
NSE volume: (No of shares)	200.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	646.0 cr

Shareholding (%)

Promoters	0.0
FII	40.8
DII	40.4
Others	18.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.6	35.6	28.6	49.8
Relative to Sensex	5.3	19.1	20.0	29.5

Sharekhan Research, Bloomberg

ICICI Bank continues to be our preferred pick and is among the best plays on the improving trend in asset-quality issues. Revival of earnings growth and improvement in advances book and return ratios (ROEs to improve to 15% in FY2022E from ~3% in FY2019A) are key re-rating triggers for the stock. In this note, we have introduced FY2022E earnings estimates and are accordingly rolling over our price target (PT) on FY2022E book value estimates. We retain our Buy rating on the stock with a revised PT of Rs. 630 (2.3x its standalone book value plus subsidiaries valuations).

Growth momentum to continue, abatement of provision costs key positive: Despite limited demand from the corporate segment/capex etc., we believe the strong presence of ICICI Bank in the retail segment will allow it to continue its growth trajectory by riding on the retail segment's growth. The bank has already been focusing on increasing its retail lending, reducing corporate exposure and growing its core operating profit, as outlined under the new leadership. Progress has been sharp (retail share has increased to 62% from 58% of total loans in Q2FY2019) not only with improvement in asset quality, but it also has now the second highest CASA ratio (at 46.7%) amongst peers, which is a strong positive. We believe the NPA cycle has peaked for ICICI Bank, as evidenced by gross slippages having normalised to 1.8% as of Q2FY2020, moderating from the peak of ~13% in Q4FY2018. The resultant lower provision burden provides a strong case for improvement in its financials and return ratios going forward, which we believe is a strong positive for the stock.

Our Call

Valuation – ROE improvement key trigger for re-rating: We value ICICI Bank by our SOTP methodology, where we value the standalone bank at 2.3x its FY2022E BV and rest of the subsidiaries at ~Rs. 155 per share. We believe valuations are reasonable, considering the overall franchise as a whole and trends in improvement in asset quality. ICICI Bank is well capitalised (Tier-1 of 14.6%) to target healthy domestic loan growth going forward. Strong retail-based funding profile and controlled credit cost are likely to aid return ratios, which is why we see potential of re-rating for the stock. In this note, we have introduced FY2022E earnings estimates and are accordingly rolling over our price target (PT) on FY2022E book value estimates. We maintain our Buy rating with a revised SOTP-based PT of Rs. 630.

Key Risks

Any large chunky slippage from the corporate book, especially from BB and below-rated portfolio could impact earnings.

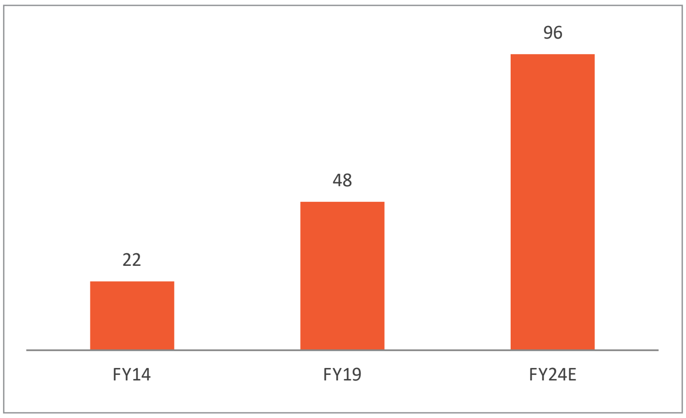
Valuation (Standalone) Rs cr

Particulars	FY19	FY20E	FY21E	FY22E
Net Interest Income (NII)	27014.8	30520.5	36820.8	42527.9
Net profit (Rs. cr)	2970.8	9101.9	16813.9	20416.4
EPS (Rs.)	4.6	14.2	26.2	31.8
P/E (x)	116.9	38.1	20.6	17.0
BVPS (Rs.)	163.0	173.1	190.3	211.3
P/BV (x)	3.3	3.1	2.8	2.6
RoE (%)	2.8%	8.1%	14.0%	15.4%
RoA (%)	0.3%	0.9%	1.3%	1.4%

Source: Company; Sharekhan estimates

In pursuit of growth – Retail provides ample opportunity: ICICI Bank's current portfolio and deep understanding of the consumer finance category places it well to capitalise from the growth potential of the retail segment. Retail advances are expected to nearly double in size in the next five years, fuelled by structural changes, technology penetration and innovation. Retail private banks are expected to be the primary beneficiaries of the trend.

Retail Advances (Rs Trillion)



Source: Company Documents
Note: Figures for FY24 are Company's estimates

During FY2013-FY2018, retail loans growth in India topped other major economies in the recent past. Going forward, the bank estimates growth in the retail segment to be strong (retail loans estimated to double-up to Rs. 96 trillion in five years), which will provide a strong opportunity for the bank to grow as well.

ICICI Bank has already been focusing on increasing its retail lending, reducing corporate exposure and growing its core operating profit, as outlined under the new leadership. Progress has been sharp (retail share has increased to 62% from 58% of total loans in Q2FY2019) not only with much better asset quality, but it also has the second highest CASA ratio among peers, at 46.7%, which is a strong positive.

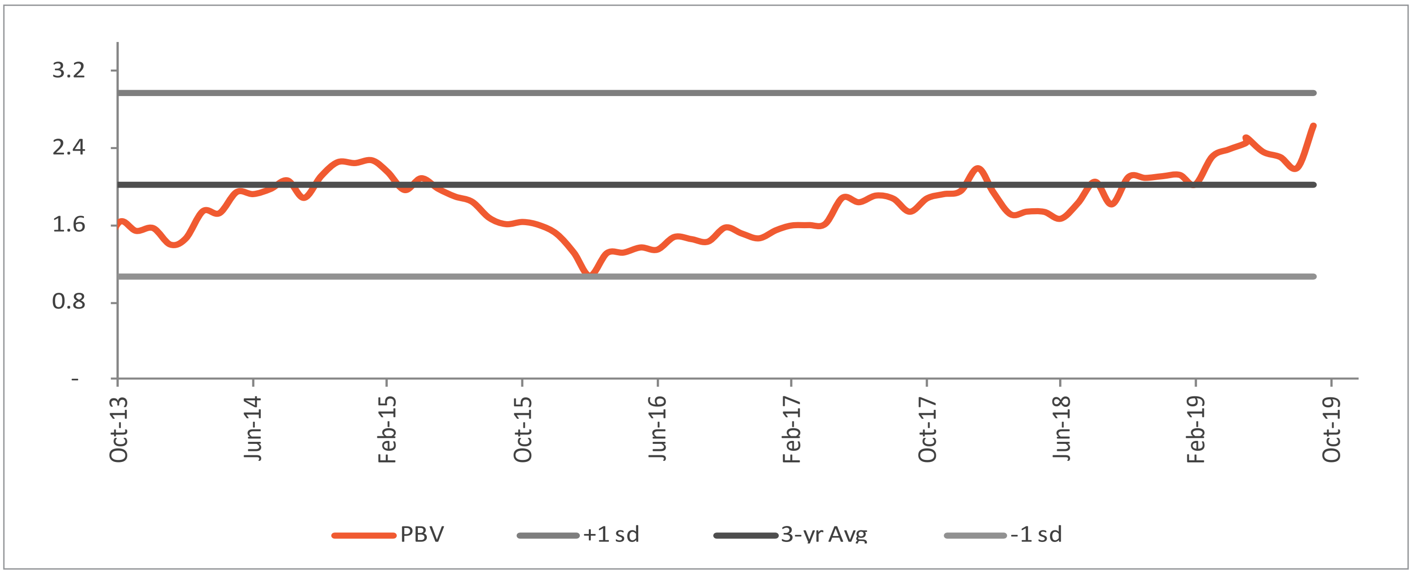
Outlook

ICICI Bank continues to be our preferred pick and is among the best plays on the improving trend in asset-quality issues. We expect ICICI Bank to see tailwind benefits of lower competitive intensity in the market as well as benefits of abatement of credit cost/NPL pressures, which will be a positive trigger for its return ratios going forward. Lower slippages as well as strong capitalisation enables the bank to pursue sustainable growth and eschew risky growth avenues. Moreover, it allows the bank to expand its reach (346 new branches opened in Q2FY2020), important for its retail business growth. ICICI Bank has shown improving trends in key operating parameters with improving asset-quality outlook. Of late, while the pace of resolutions has picked up, we believe the corporate segment is yet to see demand revival and resolutions are yet to gain momentum. ICICI Bank is an attractive franchisee with good reach, well positioned to gain market share and its well-performing subsidiaries also add value. We find the bank has a strong re-rating potential and, hence, expect it to see improved performance in the medium to long term.

Valuation

We value ICICI Bank by our SOTP methodology, where we value the standalone bank at 2.3x its FY2022E BV and rest of the subsidiaries at ~Rs. 155 per share. We believe valuations are reasonable, considering the overall franchise as a whole and trends in improvement in asset quality. ICICI Bank is well capitalised (Tier-1 of 14.6%) to target healthy domestic loan growth going forward. Strong retail-based funding profile and controlled credit cost are likely to aid return ratios, which is why we see potential of re-rating for the stock. In this note, we have introduced FY2022E earnings estimates and are accordingly rolling over our price target (PT) on FY2022E book value estimates. We maintain our Buy rating with a revised SOTP-based PT of Rs. 630.

One year forward P/BV (x) band



Source: Company; Sharekhan Research

ICICI Bank SOTP valuation

		Rs.	Valuation Methodology
Value of Standalone ICICI Bank		476	2.3x FY22E BVPS
Non Banking Subsidiary Valuation	**ICICI Bank Holding**	**Value/share**	
Life Insurnace Subsidiary	52.9%	67	2.5x EV FY22E
General Insurance Susbidiary	56.8%	50	30x FY21E PAT
Broking business	79.2%	12	15x FY21E PAT
Rest		26	
SOTP Valuation (Rs. per share)		**630**	

Source: Company, 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	540	3.1	2.8	38.1	20.6	0.9	1.3	8.7	13.9
HDFC Bank	1289	4.2	3.6	26.4	21.4	1.9	2.0	16.5	18.2
Axis Bank	743	2.4	2.1	28.9	14.7	0.9	1.0	11.2	14.0
Kotak Mahindra Bank	1730	6.6	5.7	47.1	38.4	1.9	1.9	13.7	14.2

Source: Company, Sharekhan research

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 . It subsidiaries, ICICI Prudential Life Insurance, ICICI Lombard General Insurance Company Ltd , ICICI Securities Ltd 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 62%, 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 built an attractive franchise consisting of Banking, Insurance, Securities business over the years. 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. We believe the NPA cycle has peaked for the bank and going forward, we expect to 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). It has continued to improve its portfolio mix towards retail (granular) and higher-rated corporate loans, and hence, in last four years, it has not only de-risked its balance sheet but also enhanced the franchise value.The bank is well placed to benefit from reduction in competitive intensity from NBFCs and recoveries/ resolutions from NCLT etc accounts would be further aid to ROE/ROA expansion.

Key Risks

Any large chunky slippage from the corporate book, especially from BB and below-rated portfolio, could impact earnings.

Additional Data

Key management personnel

Sandeep Bakhshi	CEO/Managing Director
Rakesh Jha	Chief Financial Officer
Vishakha V Mulye	Executive Director
Anup Bagchi	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.9
2	Dodge & Cox	5.3
3	HDFC Asset Management Co Ltd	4.1
4	HDFC Trustee Co Ltd/India	4.0
5	SBI Funds Management Pvt Ltd	3.4
6	ICICI Prudential Asset Management	2.6
7	Reliance Capital Trustee Co Ltd	2.2
8	Capital Group Cos Inc/The	2.0
9	Aditya Birla Sun Life Trustee Co P	2.0
10	Franklin Resources Inc	1.9

Source: Bloomberg

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