

### Conservative Provisions Comforting; Valuations Attractive

- COVID related provisions of ₹27bn and lower other income led to weaker than expected PAT for ICICI Bank. The disappointment on asset quality was driven by high corporate slippages, led by two overseas exposures. Substantial provisions on these however ensured PCR was sequentially stable. Margins showed healthy trends despite a sequential 500 bps decline in CD ratio.
- We factor in near-doubling of slippages in FY21E but high contingency buffers of ~₹45bn (including all STD asset provisions except for general provisions) and superior PCR limit credit costs to 220 bps, resulting in RoA of 1.1%. While we see weakness in core metrics across the banking sector, ICICI's strong subsidiary profile and best-in-class liability franchise provide valuation comfort.
- We maintain our BUY recommendation and value the standalone bank at 1.5x FY22E ABV, with a SOTP-based TP of ₹ 420 implying 2.1x of FY22E P/ABV.**

### Weak Asset Quality Trends; Conservative Provisioning aid PCR

Slippages at 3.3% for the quarter was led by elevated slippages from 'BB and below' book and two overseas exposures including an oil company and a healthcare firm. However, high provisions against these exposures ensured a sequentially stable PCR at 76% despite high write-offs during the quarter. Additions to 'BB and below' at ₹ 23bn continued to remain high for the third consecutive quarter, though the pool has moderated to 2.6% of advances. As of April end, the bank had 32% of loans by value under moratorium. The bank's international book (with ~35% exposure to local firms) and rise in downgrades to 'BB and below' book pose substantial risk to asset quality.

### Improving CoF drive NIM despite Weak Growth trends

NIM at 3.87% (up 10 bps QoQ) showed healthy trends despite a sequential 500 bps decline in CD ratio to 84%. Industry best CoD at 4.8% and pricing focus helped NIMs, despite the negative impact of high liquidity and interest reversals. Flight to safety (on deposits) aided 8% QoQ growth in deposits, with above industry average growth in CA and SA balances. While we expect pressure on NIM from falling yields (higher share of secured loans), weak loan growth and high slippages in the ensuring quarters, NIM should remain stable in FY21E over FY20.

### Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Net interest income	89,269	76,201	17.1	85,453	4.5
Other income	42,550	36,210	17.5	45,739	(7.0)
Total Net Income	131,819	112,411	17.3	131,192	0.5
Operating expenses	57,918	50,077	15.7	55,707	4.0
Pre-provision profits	73,901	62,334	18.6	75,485	(2.1)
Provisions	59,674	54,514	9.5	20,832	186.5
Tax expense	2,013	(1,871)	(207.6)	13,189	(84.7)
Reported Net Profit	12,214	9,691	26.0	41,464	(70.5)
			(bps)		(bps)
Advances Growth (%)	10.0	14.5	(450)	12.6	(260)
NIM (%)	3.9	3.7	15	3.8	10
RoA (%)	0.5	0.4	5	1.7	(121)
RoE (%)	4.4	3.6	78	15.1	(1066)
Gross NPA (%)	5.5	6.7	(117)	6.0	(42)

CMP	₹ 338
Target / Upside	₹ 420 / 24%
BSE Sensex	31,645
NSE Nifty	9,252

### Scrip Details

Equity / FV	₹ 12,948mn / ₹ 2
Market Cap	₹ 2,186bn
	US\$ 29bn
52-week High/Low	₹ 552/₹ 268
Avg. Volume (no)	39,951,900
NSE Symbol	ICICIBANK
Bloomberg Code	ICICIBC IN

### Shareholding Pattern Mar'20(%)

Promoters	0.0
MF/Banks/FIs	45.0
FIs	44.0
Public / Others	11.0

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	27.6	18.5	12.4
P/ABV	2.1	2.0	1.7
ROAA	0.8	1.1	1.5
ROAE	7.2	9.7	13.1

### Estimates (₹ mn)

	FY20A	FY21E	FY22E
NII	332,671	366,509	397,741
PPOP	281,012	304,204	337,865
PAT	79,308	118,441	176,360
Adj BV	159.5	172.3	198.5

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### Other Important Highlights:

- The bank has given opt-out option for 11% of loans (CV, two-wheeler, rural), these segment therefore would have a higher share of moratorium.
- Loans that were overdue 90days but not classified as NPA as per RBI guidelines amounted to ₹13.90 bn. GNPA ratio would have been higher by 18bps in the absence of above.
- Income should continue to grow at a higher rate than opex as per management. The bank will focus on leveraging investments in employees and branches in order to reduce cost to income ratio. Incremental hiring has also been put on hold.
- Management guided for a conservative stance on provisioning and that PCR would continue to be at high levels.
- RWA/total assets continue to improve (both YoY and QoQ). The management guided for lower pace of capital consumption owing to slowing demand for incremental credit. The bank's RWA/Assets ratio declined to 69%.
- The bank maintained excess LCR of 125% on a daily avg basis.
- Overseas bank subsidiaries reported losses during the quarter led by COVID-related provisions.

#### Exhibit 1: Actual v/s estimates

(₹ mn)	Actual	Estimated	% Variance	Comments
NII	89,269	91,096	(2.0)	Higher margins compensated for moderation in growth
Operating Profit	73,901	78,478	(5.8)	Lower other income
PAT	12,214	38,186	(68.0)	High COVID related provisions at Rs27 bn

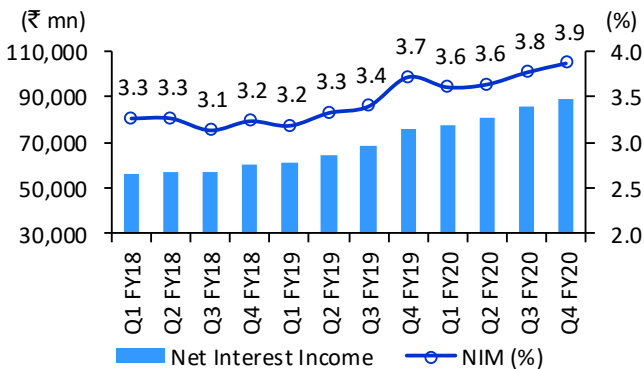
Source: Company, DART

#### Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %		Comments
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Net Operating Revenue	556,790	617,691	538,974	591,977	(3.2)	(4.2)	
Pre Provision Profits	314,510	346,337	304,204	337,865	(3.3)	(2.4)	
PAT	141,823	202,238	118,441	176,360	(16.5)	(12.8)	FY21E PAT benefits from use of excess standard asset provisions

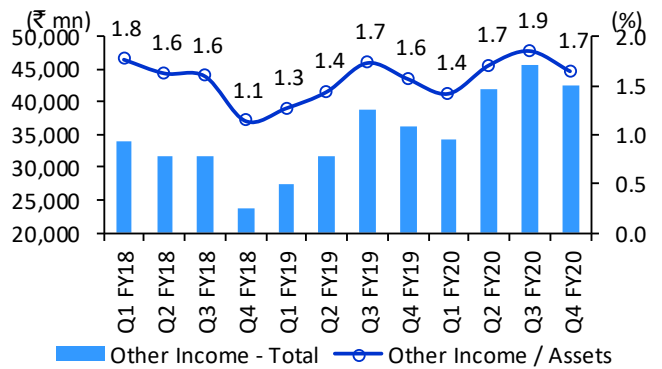
Source: Company, DART

**Exhibit 3: Improving margins despite higher liquidity and higher interest reversals**



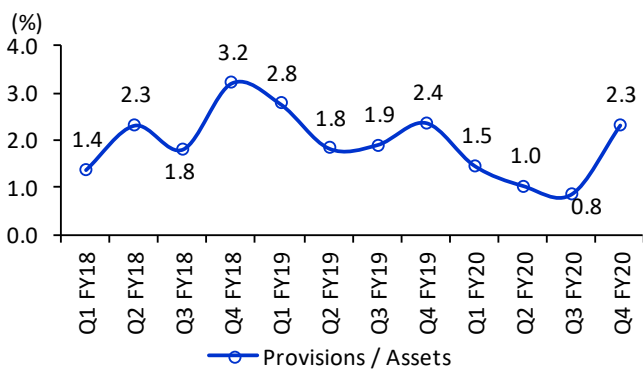
Source: Company, DART

**Exhibit 4: Lower fee lines and limited treasury gains hurt other income**



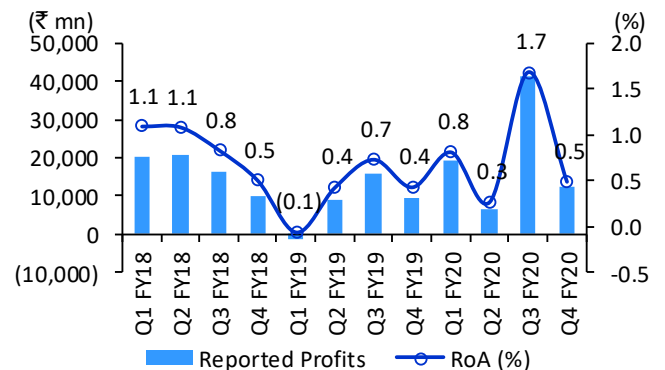
Source: Company, DART

**Exhibit 5: Provisions sharply higher due to COVID related provisions and higher provisions for NPAs**



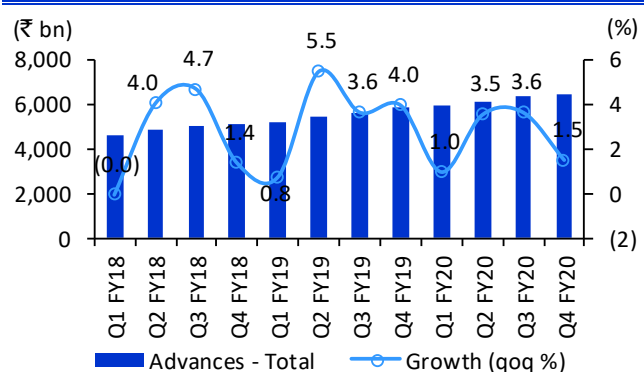
Source: Company, DART

**Exhibit 6: Led by higher provisions, bank reported lower PAT during the quarter**



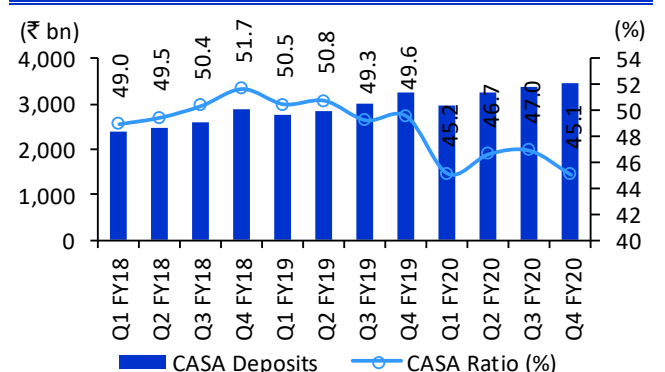
Source: Company, DART

**Exhibit 7: Loan growth moderates**



Source: Company, DART

**Exhibit 8: CASA ratio impacted by higher share of term deposits**



Source: Company, DART

**Exhibit 9: SOTP Valuation**

Entity	Stake	Per Share Value	Methodology
ICICI Standalone (A)		289	1.5x FY22E ABV
Foreign Banking Subsidiaries		10	1x Net Worth
ICICI Home Finance	100%	3	1x Net Worth
ICICI Prudential Life Insurance	53%	47	Mcap
ICICI Lombard General Insurance	56%	49	Mcap
ICICI AMC	51%	28	10% of AUM
ICICI Securities	79%	14	Mcap
Other Subsidiaries		3	
Value of Subsidiaries (B)		154	
Holdco. Discount	15%		
Value of the bank (A+B)		420	
Contribution of subs to total (%)		31%	

Source: Company, DART

## Quarterly Financials

Profit and Loss (₹ mn)	Q4FY20	Q4FY19	% yoy / bps	Q3FY20	% qoq / bps
<b>Net Interest Income</b>	<b>89,269</b>	<b>76,201</b>	<b>17.1</b>	<b>85,453</b>	<b>4.5</b>
NIM (%)	3.87	3.72	15	3.77	10
Fee income	35,980	31,780	13.2	35,960	0.06
Profit on Sale / Rev of Investments	2,420	1,560	55.1	5,310	(54.4)
<b>Other Income - Total</b>	<b>42,550</b>	<b>36,210</b>	<b>17.5</b>	<b>45,739</b>	<b>(7.0)</b>
<b>Net Operating Revenue</b>	<b>131,819</b>	<b>112,411</b>	<b>17.3</b>	<b>131,192</b>	<b>0.5</b>
Employee Expenses	22,345	18,990	17.7	19,421	15.1
Other Opex	35,573	31,087	14.4	36,286	(2.0)
<b>Total Opex</b>	<b>57,918</b>	<b>50,077</b>	<b>15.7</b>	<b>55,707</b>	<b>4.0</b>
Cost to Income Ratio (%)	43.9	44.5	(61)	42.5	148
<b>Pre Provision Profits</b>	<b>73,901</b>	<b>62,334</b>	<b>18.6</b>	<b>75,485</b>	<b>(2.1)</b>
<b>Provisions &amp; Contingencies - Total</b>	<b>59,674</b>	<b>54,514</b>	<b>9.5</b>	<b>20,832</b>	<b>186.5</b>
<b>Profit Before Tax</b>	<b>14,227</b>	<b>7,820</b>	<b>81.9</b>	<b>54,653</b>	<b>(74.0)</b>
<b>Tax</b>	<b>2,013</b>	<b>(1,871)</b>	<b>(207.6)</b>	<b>13,189</b>	<b>(84.7)</b>
Effective Tax Rate (%)	14.1	(23.9)	3,807	24.1	(998.3)
<b>Reported Profits</b>	<b>12,214</b>	<b>9,691</b>	<b>26.0</b>	<b>41,464</b>	<b>(70.5)</b>
RoA (%)	0.49	0.43	6	1.68	(119.0)
Basic EPS	1.89	1.50	26.0	6.41	(70.5)
Diluted EPS	1.86	1.48	25.7	6.30	(70.5)

Balance Sheet Analysis	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Net Worth	1,071,627	1,083,634	1,103,950	1,106,060	1,149,976	1,165,009	1.3	7.5
CET1 (%)	13.7	13.6	13.2	13.2	13.6	13.4	(23)	(2)
Tier 1 (%)	15.1	15.1	14.6	14.6	15.0	14.7	(26)	(2)
Total CAR (%)	17.2	16.9	16.2	16.1	16.5	16.1	(39)	(5)
RWA - Total	6,746,990	6,875,360	7,229,240	7,263,560	7,369,730	7,594,900	3.1	10.5
Advances - Total	5,643,078	5,866,466	5,924,154	6,133,587	6,356,543	6,452,900	1.5	10.0
Investments	1,977,303	2,077,327	2,199,962	2,233,756	2,274,800	2,495,315	9.7	20.1
Total Assets	9,123,638	9,644,592	9,637,525	9,970,109	10,070,680	10,983,652	9.1	13.9
RoA (%)	0.73	0.43	0.81	0.27	1.68	0.49	(119)	14
Deposits	6,067,547	6,529,197	6,607,318	6,962,730	7,163,451	7,709,690	7.6	18.1
Saving Deposit	2,107,930	2,276,710	2,184,760	2,305,690	2,354,200	2,455,910	4.3	7.9
Current Deposit	885,810	962,690	804,010	944,310	1,009,890	1,022,270	1.2	6.2
CASA Deposits	2,993,740	3,239,400	2,988,770	3,250,000	3,364,091	3,478,180	3.4	7.4
CASA Ratio (%)	49.3	49.6	45.2	46.7	47.0	45.1	(190)	(450)
Term Deposits	3,073,807	3,289,797	3,618,548	3,712,730	3,799,360	4,231,510	11.4	28.6

Movement of NPA (₹ mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Gross Advances	6,656,964	6,909,199	7,051,322	7,164,645	7,303,170	7,488,094	2.5	8.4
Gross NPA	515,915	462,916	457,631	456,388	434,539	414,092	(4.7)	(10.5)
Gross NPA Ratio (%)	7.75	6.70	6.49	6.37	5.95	5.53	(42)	(117)
PCR - Calculated (%)	68.5	70.7	74.1	76.1	76.1	75.6	(52)	491
PCR - Inc. Tech w/o (%)	76.30	80.70	83.40	85.00	85.70	86.80	110	610
Net Advances	6,299,395	6,590,985	6,698,610	6,822,750	6,972,148	7,172,950	2.9	8.8
Net NPA	162,524	135,774	118,565	109,164	103,885	101,139	(2.6)	(25.5)
Net NPAs Ratio (%)	2.58	2.06	1.77	1.60	1.49	1.41	(8)	(65)

Loan Book Analysis (₹ mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Home	1,711,190	1,782,360	1,839,300	1,907,760	1,963,710	2,002,240	2.0	12.3
Rural & Other	462,610	499,600	500,330	519,200	540,660	568,500	5.1	13.8
Business Banking	170,740	188,450	193,450	227,430	251,100	265,630	5.8	41.0
Personal Loans	277,850	310,150	344,420	377,560	420,410	452,880	7.7	46.0
Vehicle Loans	531,450	556,660	560,580	569,120	584,060	583,310	(0.1)	4.8
Credit Cards	114,190	123,040	136,940	146,960	163,070	156,540	(4.0)	27.2
Retails - Other	64,050	68,050	60,940	61,630	53,450	50,930	(4.7)	(25.2)
SME	162,320	179,170	295,240	190,640	217,440	228,510	5.1	27.5
Domestic corporate	1,477,030	1,528,660	1,396,550	1,532,940	1,596,770	1,604,700	0.5	5.0
Overseas	671,640	630,320	596,400	600,350	565,870	536,970	(5.1)	(14.8)
Advances - Total	5,643,078	5,866,466	5,924,154	6,133,587	6,356,543	6,452,900	1.5	10.0

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## Conference Call Highlights

### Asset Quality and Provisions

- **Corporate slippages** stood at ₹ 40.12bn; while Retail slippages were ₹ 12.94bn
- **Slippages from BB Below book** were at ₹ 17.26bn of which ₹ 0.32bn were NFB slippages. This includes one 5.86bn which was recovered subsequently.
- The balance corporate additions include an **oil trading company** which has been classified as fraud and 100% provided for; and an international **healthcare** account.
- Credit cost stood at 206bps ex of COVID provisions
- **Provisioning strategy** –
  - conservative approach in recognition and provisioning.
  - High ageing provisions have been made in the quarter
  - The bank made Standard asset provisions of ₹ 15bn over and above RBI requirements including the 10% to be provided on accounts that were overdue as of 29Feb.

### Portfolio Specific Performance

- Mortgage portfolio –
  - 70% home loans, 30% LAP
  - Granular, ATS of 3mn, geographically diversified. 65% LTV
  - LAP – granular, small, LTV 55%
  - Will be focused on this segment – home loan customers along with a liability profile
- **Auto and CV** – 5% and 4% share respectively
  - CV portfolio had increasing delinquencies even before covid
  - CV/CE assets have high life vs loan tenor, cash flows linked to economic activity
  - Historically, CV/CE borrowers begin to repay their dues once business is back on track
- **PL/CC** –
  - 70% to existing customer base who have a liability profile with the bank.
  - 85% salaried. 75% of salaried employed with well rated entities. Delinquency for remaining 25% is only slightly higher than that of salaried.
  - Non salaried book is also doing well, as the proportion of customers in highly impacted sectors like travel and tourism, hospitality, etc remains low
- **Rural** –
  - High delinquency in KCC portfolio – even before lockdown
  - MFI loans are very small portion

- **Business Banking –**
  - 85% of the portfolio has a collateral cover of more than 100% and is highly granular
  - Till March 31, delinquency levels have been low
  - 87% of the portfolio qualifies for PSL
- **SME –**
  - Only 3% of total loans; bank has reoriented strategy towards granularity, and higher collateralized lending
- **Overseas book –**
  - Overseas loan book has come down to 8% of the total portfolio.
  - corporate FB/NFB o/s was 7.48bn USD. 53% of o/s to Indian entities, 15% to related Indian entities
  - over 12-15 months the bank has focused on Indian subsidiaries and India linked entities.
  - Conscious reduction of 30% in all other overseas accounts that are not Indian subsidiaries or Indian linked entities.
  - International business is not a part of core strategy for the bank, would like to focus and build on the existing business relationships.
- **Real Estate –**
  - Book has been under stress even before COVID.
  - Highly Granular in nature.
  - 12% rated BB and Below or classified NPA.
- **NBFC/HFC –**
  - Exposure stood at 397.55bn – of which ~2% rated BB and below
- **Comprehensive Stress tests** conducted for Retail, SME and corporate portfolios using various methodologies for each segment and sub-segments.

#### Other Highlights

- **International subsidiaries** – PAT down due to higher COVID related provisions. Capital conservation will be key.
- **Capital position –**
  - Reviewing regularly, comfortable CET I level
  - Capital consumption pace has come down due to lower credit demand and no payout of dividend as per RBI



**Profit and Loss Account (₹ Mn)**

Particulars	FY19A	FY20A	FY21E	FY22E
Interest Income	634,012	747,983	801,373	862,329
Interest expenses	363,864	415,313	434,865	464,588
<b>Net interest income</b>	<b>270,148</b>	<b>332,671</b>	<b>366,509</b>	<b>397,741</b>
Other incomes	134,026	164,485	172,466	194,236
Total expenses	180,891	216,144	234,770	254,113
- Employee cost	68,082	82,712	89,329	95,582
- Other	112,808	133,432	145,441	158,530
<b>Pre provisioning profit</b>	<b>223,283</b>	<b>281,012</b>	<b>304,204</b>	<b>337,865</b>
Provisions	196,611	140,532	145,925	102,184
Profit before taxes	26,672	140,479	158,280	235,680
Tax provision	4,135	61,171	39,839	59,321
Profit after tax	22,538	79,308	118,441	176,360
<b>Adjusted profit</b>	<b>22,538</b>	<b>79,308</b>	<b>118,441</b>	<b>176,360</b>

**Balance Sheet (₹ Mn)**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	12,895	12,948	12,948	12,948
Reserves & Surplus	1,039,136	1,152,097	1,256,472	1,415,329
Minority Interest	0	0	0	0
Net worth	1,052,030	1,165,044	1,269,419	1,428,277
Borrowings	1,653,200	1,628,968	1,667,618	1,701,480
- Deposits	6,529,197	7,709,690	8,141,898	8,932,768
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	378,580	479,950	480,564	447,160
<b>Total Liabilities</b>	<b>9,613,007</b>	<b>10,983,652</b>	<b>11,559,499</b>	<b>12,509,684</b>
<b>Application of Funds</b>				
Cash and balances with RBI	802,963	1,191,557	1,053,960	1,041,831
Investments	2,077,327	2,495,315	2,676,850	2,823,250
Advances	5,866,466	6,452,900	6,904,603	7,595,063
Fixed assets	79,314	84,103	88,295	88,382
Other current assets, loans and advances	818,522	759,777	835,754	961,118
<b>Total Assets</b>	<b>9,644,592</b>	<b>10,983,652</b>	<b>11,559,461</b>	<b>12,509,644</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Yield on advances	8.7	9.3	9.1	9.1
Yields on interest earning assets	7.6	7.9	7.7	7.8
Yield on investments	6.2	6.4	6.4	6.3
Costs of funds	4.7	4.7	4.5	4.5
Cost of deposits	4.4	4.4	4.3	4.4
NIMs	3.2	3.5	3.5	3.6
<b>(B) Asset quality and capital ratios (%)</b>				
GNPA	6.7	5.5	6.1	4.9
NNPA	2.1	1.6	1.8	1.5
PCR	70.7	75.6	75.0	75.0
Slippages	2.5	2.4	4.3	2.5
NNPA to NW	13.3	8.9	9.8	7.9
CASA	50.0	45.5	45.0	45.0
CAR	16.9	16.1	15.1	14.1
Tier 1	15.1	14.7	14.0	13.3
Credit - Deposit	89.8	83.7	84.8	85.0
<b>(C) Dupont as a percentage of average assets</b>				
Interest income	6.9	7.3	7.1	7.2
Interest expenses	3.9	4.0	3.9	3.9
Net interest income	2.9	3.2	3.3	3.3
Non interest Income	1.5	1.6	1.5	1.6
Total expenses	2.0	2.1	2.1	2.1
- cost to income	44.8	43.5	43.6	42.9
Provisions	2.1	1.4	1.3	0.8
Tax	0.0	0.6	0.4	0.5
RoA	0.4	0.8	1.1	1.5
Leverage	9.4	9.7	9.3	9.0
RoE	3.2	7.2	9.7	13.1
RoRwa	0.5	1.0	1.4	1.7
<b>(D) Measures of Investments</b>				
EPS - adjusted	5.2	12.3	18.3	27.2
BV	158.4	175.1	191.0	215.6
ABV	131.9	159.5	172.3	198.5
<b>(E) Growth Ratios (%)</b>				
Net interest income	17.3	23.1	10.2	8.5
PPoP	15.0	25.9	8.3	11.1
Adj PAT	55.9	251.9	49.3	48.9
Advances	14.5	10.0	7.0	10.0
Total borrowings	(9.6)	(1.5)	2.4	2.0
Total assets	9.7	13.9	5.2	8.2
<b>(F) Valuation Ratios</b>				
Market Cap (₹ mn)	2,186,202	2,186,202	2,186,202	2,186,202
CMP (₹)	338	338	338	338
P/E (x)	64.7	27.6	18.5	12.4
P/BV (x)	2.1	1.9	1.8	1.6
P/ABV (x)	2.6	2.1	2.0	1.7

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jan-19	Accumulate	450	366
May-19	Accumulate	450	387
Jun-19	Accumulate	450	412
Jul-19	Accumulate	465	416
Nov-19	Accumulate	515	498
Mar-20	Buy	462	297

\*Price as on recommendation date

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