

ICICI Bank Ltd

BUY

CMP Rs338

Target Rs444

Upside 31.3%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ ICICI Bank delivered a better-than-expected core operating performance (adj. for treasury/lumpy income and int. on IT refund). Core NII grew 24% yoy and core PPOP grew 25% yoy on a balance sheet growth of 14% yoy. Fees grew 13% despite Covid impact. ✓ Bank's liability-side strength was reflected in deposit mobilization (up 8% qoq and 18% yoy), texture (avg. CASA stable at 42%) and funding cost (fell 50bps qoq on computed basis). Reported NIM was at multi-year high of 3.9%, up 10 bps qoq. ✓ Gross NPLs came-off owing to higher write-offs; slippages were high at Rs53bn (Rs43bn in Q3). Corporate & SME slippages stood at Rs40bn - Rs17bn from BB & Below pool and another Rs17bn largely represented downgrade of stress accounts in overseas portfolio (an oil trader and a hospitality group). Flow into BB & Below pool remain elevated at Rs23bn. ✓ Apart from making substantial provisions on the above two accounts (PCR maintained at 76%), the bank made Rs27.25bn (40bps of adv.) Covid related provisions. It included regulatory prov. @ 5% (Rs6bn) on std.-but-overdue accounts as on Feb 29. ✓ About 30% of portfolio by value has opted for moratorium as on April 30. The % is slightly higher in retail segment. Management refrained from guiding any specific outcomes for FY21 citing uncertainty on Covid, but did indicate loan growth, revenue growth and credit cost could be significantly affected. ✓ The bank believes that a high PCR, strong capital adequacy (CET-1 at 13.4%) and healthy PPOP profile are significant loss absorption buffers.
	<ul style="list-style-type: none"> ✓ Cut FY21/22 earnings by 48%/13% (revision from Q3 estimates) due to adverse adjustments in loan growth, NIM, fees and credit cost. ✓ Retain BUY with a 12m TP of Rs.444. Expect bank to deliver 13-14% RoE in FY22 with healthy capital levels if the Covid spread peaks soon.
	<ul style="list-style-type: none"> ✓ Stand-alone bank trades at 1.2x/8x FY22 ABV/EPS. Valuation is most sensitive to emerging asset quality picture.
	<ul style="list-style-type: none"> ✓ Prolonged Covid episode causing deeper impact on growth and AQ
	<p>Our View</p>
<p>Valuation</p>	
<p>Risk to our call</p>	

Exhibit 1: Financial Summary

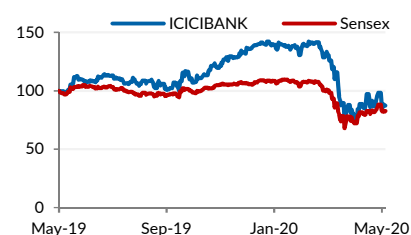
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	415,270	497,157	526,579	600,120
yoy growth (%)	2.7	19.7	5.9	14.0
Net profit	33,633	79,307	89,323	179,198
yoy growth (%)	(50.4)	135.8	12.6	100.6
EPS (Rs)	5.2	12.3	13.8	27.7
Adj.BVPS (Rs)	146.4	164.3	166.3	189.5
P/E (x)	65.1	27.6	24.5	12.2
P/adj.BV (x)	2.3	2.1	2.0	1.8
ROE (%)	3.2	7.1	7.4	13.4
ROA (%)	0.4	0.8	0.8	1.4

Source: Company, YES Sec – Research

Stock data (as on May 08, 2020)

Sensex:	31,643
52 Week h/l (Rs)	552 / 268
Market cap (Rs/USD mn)	2186346 / 28939
Outstanding Shares	6,474
6m Avg t/o (Rs mn):	13,775
Div yield (%):	0.3
Bloomberg code:	ICICIBC IN
NSE code:	ICICIBANK

Stock performance



	1M	3M	1Y
Absolute return	5.9	(37.2)	(11.4)

Shareholding pattern (As of Dec'19 end)

Promoter	-
FII+DII	89.0%
Others	10.7%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	12.3	13.8	27.7
EPS (Old)	16.7	26.6	31.7
% change	(26.6)	(48.1)	(12.7)

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CON-CALL HIGHLIGHTS

- ✓ As on April 30th, about 30% of loans has opted for moratorium. Even borrowers with good credit standing have opted moratorium. The % of moratorium customers would be higher in retail segment as the bank offered default moratorium (with an opt out option) in the product segments of CV, 2W and rural loans.
- ✓ 70% of Mortgage book (~Rs2tn - 50% of retail loans and 31% of overall loans) is Home Loans and the balance 30% is LAP. Though there is higher growth uncertainty for mortgages, it would remain a focus product for the bank
- ✓ Within Personal Loans and Credit Cards portfolio (~Rs0.6tn - 15% of retail loans and 9% of overall loans), 70% are existing-to-bank customers with an overlap on the liability side.
- ✓ The bank's Builder loan portfolio of Rs223bn (incl. LRD, 3% of loans) is granular in nature with large exposure only to well-established developers. About 12% of this portfolio is stressed (in BB & Below pool or NPL).
- ✓ There could be some pressure on NIM in coming quarters due to surplus liquidity, lack of loan demand and portfolio yield coming down (from Repo and MCLR reduction)
- ✓ Bank has benefited from its strong funding franchise so far; Retail TD rates have been consistently brought down. Each product segment is focused on pricing of loans.
- ✓ The management will try to manage the cost/income ratio by curtailing new hiring and optimizing non-employee costs. Investment in technology and digital banking will continue
- ✓ Bank has followed conservative approach over the past few years on stress recognition (even if not 90+ dpd) and provisioning (made accelerated provisions v/s regulatory provisions). Would strive to keep PCR at a comfortable level going ahead (will not go down to 50% level)
- ✓ Loans that were overdue more than 90 days at March 31, 2020 but have not been classified as non-performing on extant RBI guidelines were Rs13.1bn. The bank has made NPL level provisioning on them.
- ✓ Two accounts slipped in the international portfolio; a hospitality group and an oil trading co. Both were investment grade loans, and there was financial misrepresentation by them. These exposures were substantially provided in Q4 FY20 and will not hit P&L incrementally. Now ~63% of international fund and non-fund outstanding is to Indian corporates.
- ✓ From a capital position perspective, the bank's current strong capital level and robust operating profitability can absorb the potential Covid impact as per the current assessment.
- ✓ On the targeted 15% RoE, the management will only issue a guidance post the impact of Covid is assessable. The bank does believe that in FY21 there will be impact on loan growth, fee revenue and NPL addition/credit cost.

Exhibit 2: Result Table (Standalone Bank)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Interest Income	191,887	190,643	0.7	172,928	11.0
Interest expended	(102,618)	(105,190)	(2.4)	(96,727)	6.1
Net Interest Income	89,269	85,453	4.5	76,201	17.1
Other income	42,550	45,740	(7.0)	36,210	17.5
Total Income	131,819	131,193	0.5	112,411	17.3
Operating expenses	(57,918)	(55,707)	4.0	(50,077)	15.7
PPOP	73,901	75,486	(2.1)	62,334	18.6
Provisions	(59,674)	(20,832)	186.5	(54,514)	9.5
PBT	14,227	54,654	(74.0)	7,820	81.9
Tax	(2,013)	(13,190)	(84.7)	1,871	(207.6)
PAT	12,214	41,465	(70.5)	9,691	26.0

Source: Company, YES Sec – Research

Exhibit 3: Business Data (Standalone Bank)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Loans	6,452,900	6,356,543	1.5	5,866,466	10.0
Domestic Corporate	1,604,700	1,596,770	0.5	1,401,740	14.5
Retail Business	4,080,030	3,976,460	2.6	3,528,610	15.6
Home Loans	2,002,240	1,963,710	2.0	1,782,360	12.3
Vehicle Loans	583,310	584,060	(0.1)	556,660	4.8
Unsecured Loans	609,420	583,480	4.4	433,190	40.7
SME	228,510	217,440	5.1	306,090	(25.3)
Overseas Branches	539,670	565,870	(4.6)	630,320	(14.4)
Deposits	7,709,690	7,163,451	7.6	6,529,197	18.1
CA	1,022,270	1,009,890	1.2	962,690	6.2
SA	2,455,910	2,354,200	4.3	2,276,710	7.9
Others	4,231,510	3,799,361	11.4	3,289,797	28.6
Investments	2,495,315	2,274,800	9.7	2,077,327	20.1
Borrowings	1,628,968	1,373,747	18.6	1,653,200	(1.5)
Total assets	10,983,652	10,070,680	9.1	9,644,592	13.9
RWA	7,594,900	7,369,730	3.1	6,875,360	10.5

Source: Company, YES Sec – Research

Exhibit 4: Key Ratios (Standalone Bank)

(%)	Q4 FY20	Q3 FY20	chg qoq	Q4 FY19	chg yoy
NIM (%)	3.9	3.8	0.1	3.7	0.2
Yield on advances (%)*	9.6	9.9	(0.2)	9.4	0.2
Yield on investment (%)*	6.3	6.9	(0.6)	6.5	(0.2)
Cost of funds (%)*	4.7	5.2	(0.5)	5.0	(0.3)
CASA (%)	45.1	47.0	(1.9)	49.6	(4.5)
C/D (%)	83.7	88.7	(5.0)	89.8	(6.2)
Cost to Income (%)	43.9	42.5	1.5	44.5	(0.6)
Prov/Avg.Adv (%)*	3.9	1.4	2.5	4.0	(0.1)
RoE (%)*	4.3	14.9	(10.6)	3.6	0.7
RoA (%)*	0.5	1.7	(1.3)	0.4	0.1
CAR (%)	16.1	16.5	(0.4)	16.9	(0.8)
Gross NPA (%)	5.5	5.7	(0.1)	6.7	(1.2)
Net NPA (%)	1.4	1.5	(0.1)	2.1	(0.7)

Source: Company, YES Sec – Research; * Computed

Exhibit 5: Fee Income Mix (Standalone Bank)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Fee income	35,980	35,960	0.1	31,780	13.2
Treasury Income	2,420	5,310	(54.4)	1,560	55.1
Lease & Other Misc. Income	4,150	4,470	(7.2)	2,870	44.6
Total non-interest income	42,550	45,740	(7.0)	36,210	17.5

Source: Company, YES Sec - Research

Exhibit 6: Rating Profile of Overall Loan Book (Standalone Bank)

(Rs mn)	Q4 FY20	Q3 FY20	chg qoq
AA- and Above	44.4	41.7	2.7
A+, A, A-	25.8	28.1	-2.3
A- and above	70.2	69.8	0.4
BBB+, BBB, BBB-	26.6	26.9	-0.3
BB and below	1.4	1.4	0
Others	1.8	1.9	-0.1

Source: Company, YES Sec - Research

Exhibit 7: Movement of Corporate and SME BB & Below (Standalone Bank)

(Rs mn)	Q4 FY20	Q3 FY20	% qoq
Opening	174,030	160,740	8.3
Slippage to NPA	(17,260)	(7,070)	144.1
Upgrades to Investment grade & Net reduction in o/s	(12,970)	(6,300)	105.9
Downgrades from Investment Grade	22,880	26,660	(14.2)
Closing	166,680	174,030	(4.2)

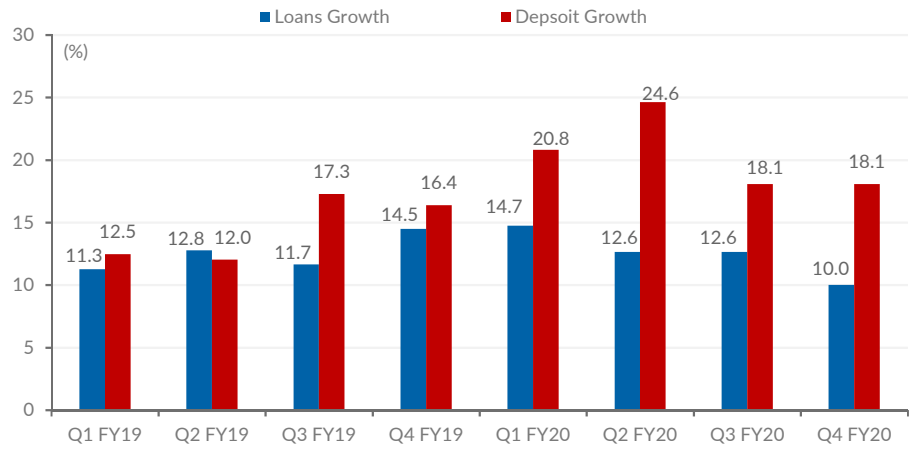
Source: Company, YES Sec - Research

Exhibit 8: Subsidiary PAT

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
ICICI Prudential Life Insurance	1,790	3,020	(40.7)	2,610	(31.4)
ICICI Lombard General Insurance	2,820	2,940	(4.1)	2,280	23.7
ICICI Prudential Asset Management	2,170	3,050	(28.9)	2,170	-
ICICI Securities (Consolidated)	1,560	1,370	13.9	1,220	27.9
ICICI Securities Primary Dealership	260	970	(73.2)	240	8.3
ICICI Home Finance	640	30	2,033.3	(30)	(2,233.3)
ICICI Venture	(70)	30	(333.3)	690	(110.1)
ICICI Bank UK (USD million)	(7)	8	(185.0)	(25)	(73.1)
ICICI Bank Canada (CAD million)	(8)	22	(133.9)	13	(159.5)

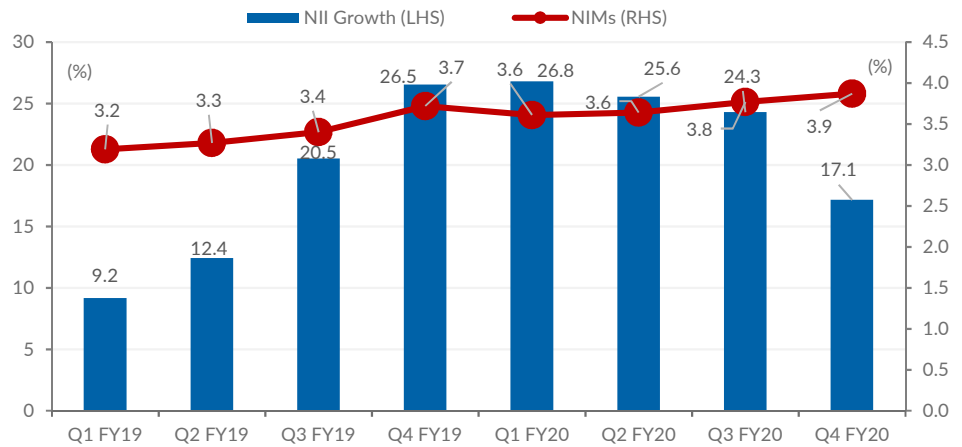
Source: Company, YES Sec - Research

Exhibit 9: Loan growth moderates; deposit growth remains robust



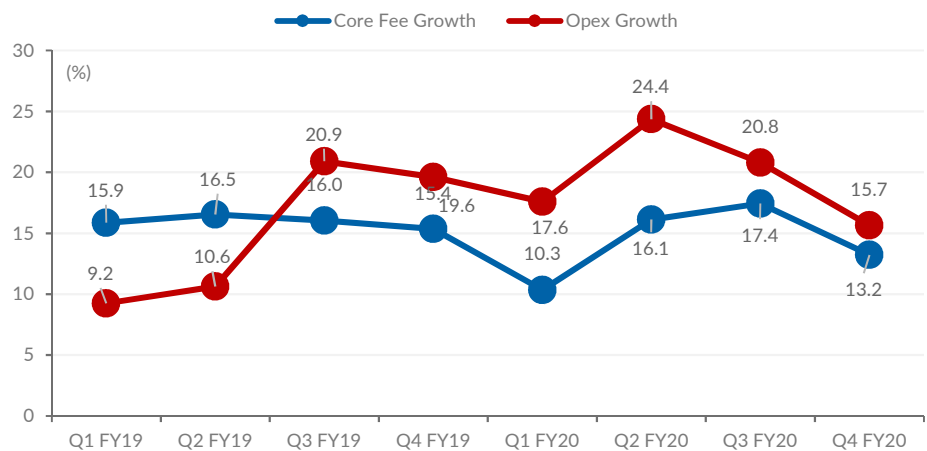
Source: Company, YES Sec - Research

Exhibit 10: NIM at multi-qtr high; NII growth adj. for irregular income was strong



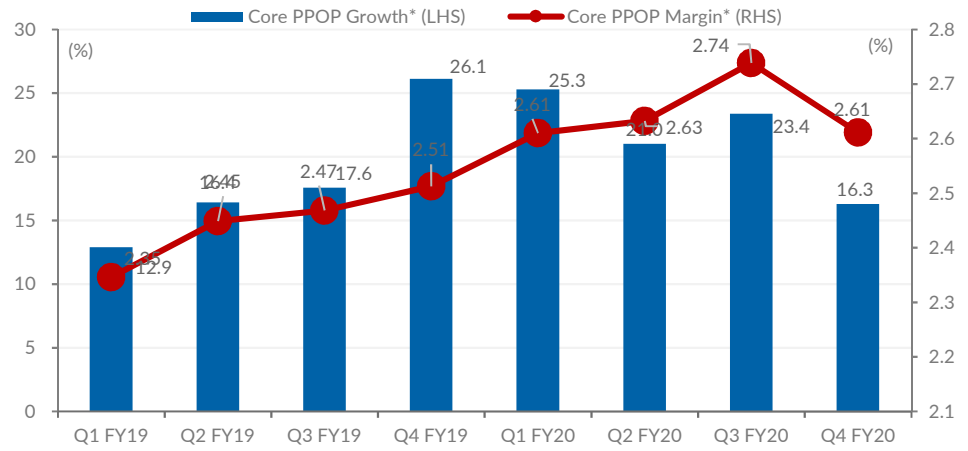
Source: Company, YES Sec - Research

Exhibit 11: Both fee and opex growth comes-off



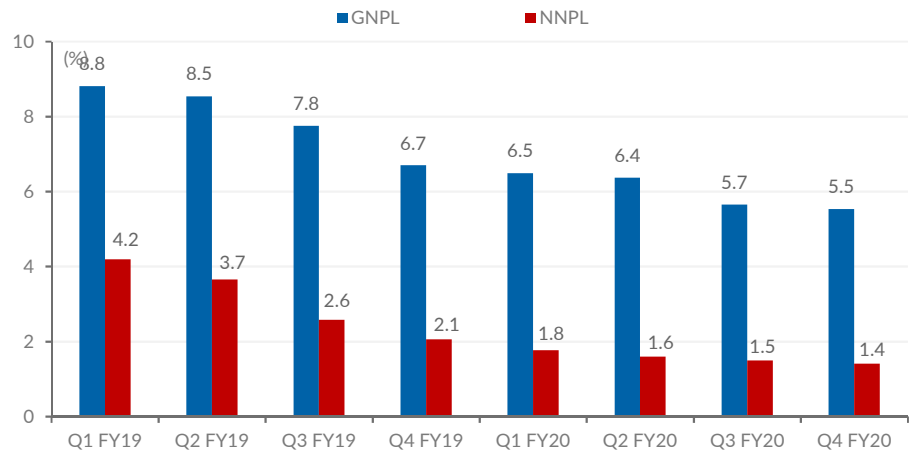
Source: Company, YES Sec - Research

Exhibit 12: Core PPOP growth and margin remains healthy



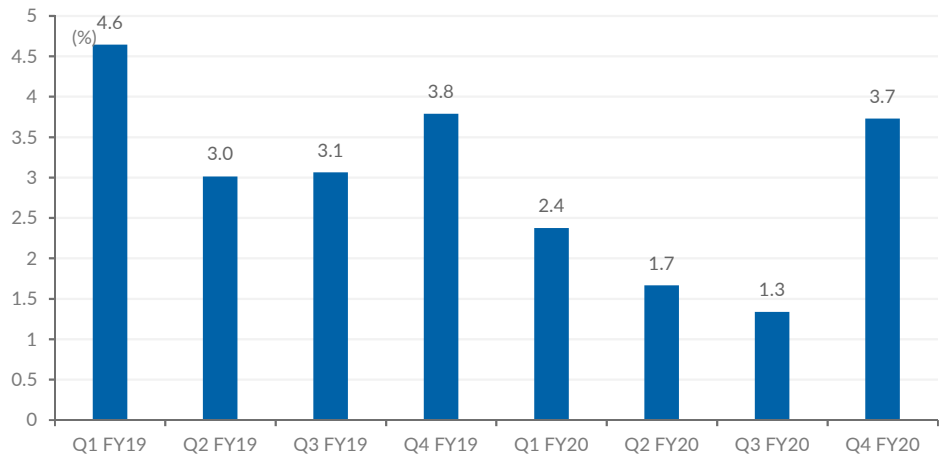
Source: Company, YES Sec – Research; * Computed

Exhibit 13: NPA ratios improve; core PCR maintained



Source: Company, YES Sec – Research

Exhibit 14: Credit cost spikes on Covid-related provisioning and substantial provisions on fresh slippages



Source: Company, YES Sec – Research

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