

Core business intact, growth and asset portfolio concerns arise

CMP: Rs 359

Rating: ACCUMULATE

Target Price: Rs 425

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	1,295
Mkt Cap (Rs Cr)	2,32,163
52w H/L (Rs)	552 / 268
Avg Yearly Vol (in 000')	32,040

Shareholding Pattern %

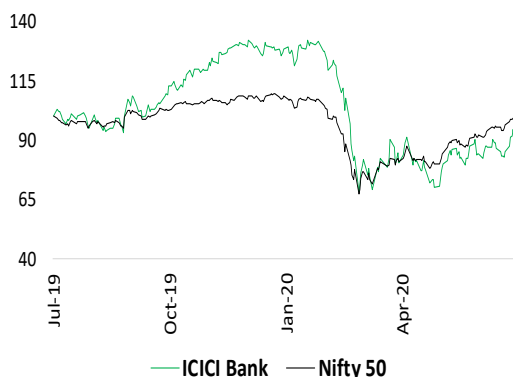
(As on June, 2020)

Promoters	0.0
FII	43.0
DII	46.2
Public & Others	10.9

Stock Performance (%)

	3m	6m	12m
ICICI Bank	3.1	-32.1	-16.5
Nifty	19.9	-7.7	-0.5

ICICI Bank Vs Nifty



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ICICI Bank maintains a stable performance amid all the chaos of advance provisioning by major banks, well beyond RBI mandated 5% provisioning for Covid-19. **NII increased by 19.9% YoY/4.0% QoQ to Rs 9,280 Cr, PPOP increased by 71.4% YoY/45.8% QoQ to Rs 10,776 Cr and Net Profit increased to Rs 2,599 Cr, up by 3 6.2% YoY /112.8% QoQ.** Other income increased on account of stake sale of Rs 3,036 Cr in the insurance subsidiaries. The bank has taken precautionary Covid-19 provisions of Rs 5,550 Cr during Q1FY21 (total corona provisioning Rs 8,275 Cr). It remained 17.5% under moratorium down from 30% at March end.

Key Highlights of Q1 FY21:

NIMs at comfortable levels, costs came down as well: The bank's NIMs stood at 3.69% (up +16bps YoY/-18 bps QoQ) while the Cost of Funds stood at 4.61% (down -62bps YoY/-31bps QoQ) for Q1FY21 reflecting the fallen costs and increasing spread for banks amid the interest rate cuts by RBI. The bank's CASA fell to 42.5% (45.1% in Q4FY20), albeit due to excessive growth of term deposits (27.4% YoY/8.9% QoQ).

Marginal sequential fall in Loan Book: The fall in several loan segments was more seen in credit cards and other personal loans segment while the mortgage segment (half of retail) grew by only 0.4% in the quarter.

Improvement in Asset Quality due to RBI moratorium: The bank's asset quality improved with the GNPA/NNPA coming down to 5.46%/1.23% by Q1FY21. However, the bank has provided Rs 5,550 Cr during Q1FY21 towards pre-provisioning for Covid-19 and has provided total of Rs 8,275 Cr towards Covid-19 till now.

Good performance by subsidiaries despite lockdown: The insurance subsidiaries of the bank fared better among peers in the lockdown quarter.

Valuation & View

ICICI Bank is poised to do well in terms of NIMs and PPOPs for the next few quarters due to excessive liquidity in hand, fallen interest rates and highly regulated sanctioning of new loans towards both retail and corporate segment. The bank's vast branch chain of 5,324 branches across the nation along with crafted IT platform for digital banking services will propel the growth as & when the normalcy returns. The bank's insurance subsidiaries however will not be paying dividends, thereby decline in dividend income for the year ahead. ICICI Bank is currently trading at a 1.9x P/Adj. BV FY22E. We assign a P/adj. BV multiple of 1.7x on FY22E adj. BV of INR 185 for standalone bank and use a SOTP approach to value its subsidiaries, arriving at a Target Price of INR 425 with an Accumulate rating.

ICICI Bank (Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	27,015	33,267	34,425	37,353
PPOP	23,438	28,101	29,117	32,442
PAT	3,363	7,931	8,643	11,789
EPS (INR / Share)	5.2	12.3	13.3	18.1
BVPS (INR / Share)	168.1	180.0	191.5	207.8
NIM (%)	3.2%	3.5%	3.2%	3.2%
Advances Growth YoY (%)	14.5%	10.0%	10.0%	13.0%
Deposits Growth	16.4%	18.1%	11.1%	13.2%
P/ABV (x)	2.6	2.4	2.3	2.1

Q1 FY21 - Quarterly Performance (Standalone) (Rs Cr)

Quarterly Result Update (Rs Cr)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Interest Income	19,924	19,189	17,980	3.8%	10.8%
Interest Expended	10,645	10,262	10,243	3.7%	3.9%
Net Interest Income	9,280	8,927	7,737	4.0%	19.9%
Other Income	6,143	4,255	3,425	44.4%	79.3%
Operating Income	15,422	13,182	11,163	17.0%	38.2%
Operating Expenses	4,646	5,792	4,874	-19.8%	-4.7%
<i>Employee Expenses</i>	<i>2,166</i>	<i>2,235</i>	<i>1,953</i>	<i>-3.1%</i>	<i>10.9%</i>
<i>Other Operating Expenses</i>	<i>2,480</i>	<i>3,557</i>	<i>2,921</i>	<i>-30.3%</i>	<i>-15.1%</i>
PPOP	10,776	7,390	6,288	45.8%	71.4%
Provisions	7,594	5,967	3,496	27.3%	117.2%
PBT	3,183	1,423	2,793	123.7%	14.0%
Tax Expenses	583	201	885	189.8%	-34.1%
Net Income	2,599	1,221	1,908	112.8%	36.2%
Balance Sheet Analysis					
Advances	631,215	645,290	592,415	-2.2%	6.5%
Deposits	801,622	770,969	660,732	4.0%	21.3%
Total Assets	1,138,613	1,098,365	963,753	3.7%	18.1%
CASA Deposits	340,616	347,818	298,877	-2.1%	14.0%
CASA (%)	42.5%	45.1%	45.2%	-262bps	-274bps
CAR (%)	16.00%	16.11%	16.19%	-11bps	-19bps
Spreads					
NIMs (%)	3.69%	3.87%	3.53%	-18bps	16bps
Cost of Funds	4.61%	4.92%	5.23%	-31bps	-62bps
Yield on Average Advances	9.14%	9.27%	9.24%	-13bps	-10bps
Asset Quality					
GNPA	40,386	41,409	45,763	-2.5%	-11.7%
NNPA	8,675	10,114	11,857	-14.2%	-26.8%
GNPA (%)	5.46%	5.53%	6.49%	-7bps	-103bps
NNPA (%)	1.23%	1.41%	1.77%	-18bps	-54bps
Provision Coverage Ratio	78.6%	75.6%	74.09%	304bps	453bps
Returns & Expenses					
RoA (annualised)	0.95%	0.49%	0.79%	46bps	16bps
RoE (annualised)	8.8%	4.2%	6.91%	457bps	185bps
Cost / Income Ratio	30.1%	43.9%	43.67%	-1381bps	-1354bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 – Key Concall Highlights

- ICICI Bank's management is focussed to reduce its concentration risk and improve credit ratings in the corporate portfolio.
- Moratorium stood at 17.5% at the end of June 2020 against 30% at the end of March 2020.
- 97% of the customers availing moratorium are getting salaries credited.
- About 90% of the accounts under moratorium are the same which were under moratorium at the end of May 2020.
- About 9% of the portfolio is comprised of unsecured Personal loans and Credit Cards.
- Credit Card spend is at 65% of the pre-Covid levels. Credit Card spend was higher by 79% in June in comparison to April and May.
- The management confirmed that there are no incremental overseas provisioning.
- 60% of the customers in the commercial vehicles are long vintage customers of the bank.
- NBFCs and HFCs form 5% of the total loan book.
- The management refrained from providing any particular target set by the management to be fulfilled

Valuation - Sum of the Parts

Entity	Valuation methodology	Holding	Intrinsic Value per Share
ICICI Bank - Standalone banking business / Parent	1.7x FY22E ABV	100.0%	314
ICICI Prudential Life Insurance	1.8x FY22E EV	52.9%	51
ICICI Lombard General Insurance	Current MCAP	55.9%	48
ICICI Prudential AMC	4% of FY22E AUM	51.0%	13
ICICI Securities	9x FY22E P/E	79.2%	6
ICICI Home Finance	1x FY22E BV	100.0%	3
ICICI Bank UK Plc	0.5x FY19 BV	100.0%	2
ICICI Bank Canada	0.5x FY19 BV	100.0%	2
Others			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			111
Value of total (INR per share)			425

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	54,966	63,401	74,798	77,191	87,039
Interest Expended	31,940	36,386	41,531	42,766	49,685
Net Interest Income	23,026	27,015	33,267	34,425	37,353
Other Income	17,420	14,512	16,449	18,505	21,310
Operating Income	40,445	41,527	49,716	52,929	58,664
Operating Expenses	15,704	18,089	21,614	23,813	26,222
Employee Expenses	5,914	6,808	8,271	9,047	10,112
Other Operating Expenses	9,790	11,281	13,343	14,766	16,110
PPOP	24,742	23,438	28,101	29,117	32,442
Provisions	17,307	19,661	14,053	17,567	16,688
PBT	7,435	3,777	14,048	11,550	15,754
Tax Expenses	657	413	6,117	2,907	3,965
Net Income	6,777	3,363	7,931	8,643	11,789

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities					
Share Capital	1,286	1,289	1,295	1,300	1,305
Reserves & Surplus	103,868	107,074	115,206	123,199	134,335
Net Worth	105,153	108,363	116,501	124,499	135,640
Employee Stock Options	6	5	3	3	3
Deposits	560,975	652,920	770,969	856,329	969,775
Borrowings	182,859	165,320	162,897	165,802	174,092
Other Liabilities and Provisions	30,196	37,851	47,995	48,821	53,037
Total Capital & Liabilities	879,189	964,459	1,098,365	1,195,455	1,332,549
Assets					
Cash & Balances with RBI	33,102	37,858	35,284	39,394	41,987
Balances with Other Banks & Call Money	51,067	42,438	83,872	97,778	135,105
Investments	202,994	207,733	249,531	262,008	275,108
Advances	512,395	586,647	645,290	709,819	802,095
Fixed Assets	7,904	7,931	8,410	8,918	9,456
Other Assets	71,727	81,852	75,978	77,539	68,796
Total Assets	879,189	964,459	1,098,365	1,195,455	1,332,549

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates					
Advances (%)	10.4%	14.5%	10.0%	10.0%	13.0%
Deposits (%)	14.5%	16.4%	18.1%	11.1%	13.2%
Total assets (%)	13.9%	9.7%	13.9%	8.8%	11.5%
NII (%)	5.9%	17.3%	23.1%	3.5%	8.5%
Pre-provisioning profit (%)	-6.6%	-5.3%	19.9%	3.6%	11.4%
PAT (%)	-30.9%	-50.4%	135.8%	9.0%	36.4%
Balance sheet ratios					
Credit/Deposit (%)	91.3%	89.8%	83.7%	82.9%	82.7%
CASA (%)	51.7%	49.6%	45.1%	44.7%	44.3%
Advances/Total assets (%)	58.3%	60.8%	58.8%	59.4%	60.2%
Leverage (x) (Asset/Shareholder's Fund)	8.36	8.90	9.43	9.60	9.82
CAR (%)	18.4%	16.9%	16.8%	16.7%	17.1%
CAR - Tier I (%)	15.9%	15.1%	15.0%	14.9%	15.3%
Operating efficiency					
Cost/income (%)	38.8%	43.6%	43.5%	45.0%	44.7%
Opex/total assets (%)	1.8%	1.9%	2.0%	2.0%	2.0%
Opex/total interest earning assets	0.8%	0.8%	0.9%	0.9%	0.9%
Profitability					
NIM (%)	3.1%	3.2%	3.5%	3.2%	3.2%
RoA (%)	0.8%	0.3%	0.7%	0.7%	0.9%
RoE (%)	6.4%	3.1%	6.8%	6.9%	8.7%
Asset quality					
Gross NPA (%)	10.5%	7.9%	6.5%	5.3%	4.2%
Net NPA (%)	5.4%	2.3%	2.2%	2.0%	1.9%
PCR (%)	48.2%	70.9%	66.4%	61.2%	55.2%
Credit cost (%)	2.6%	2.6%	1.7%	1.9%	1.6%
Per share data / Valuation					
EPS (INR)	10.54	5.22	12.25	13.30	18.06
BVPS (INR)	163.56	168.08	179.96	191.53	207.81
ABVPS (INR)	120.28	147.21	158.36	169.17	184.67
P/E (x)	36.22	73.19	31.17	28.72	21.14
P/BV (x)	2.3	2.3	2.1	2.0	1.8
P/ABV (x)	3.2	2.6	2.4	2.3	2.1
Profitability					
Return on Capital	2.5%	1.2%	2.9%	3.0%	3.9%
Return on Equity	6.4%	3.1%	6.8%	6.9%	8.7%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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