Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Bank

Strong franchise, well-placed to weather challenges

Banks & Finance | Sharekhan code: ICICIBANK | Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 363**	
Price Target: **485**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

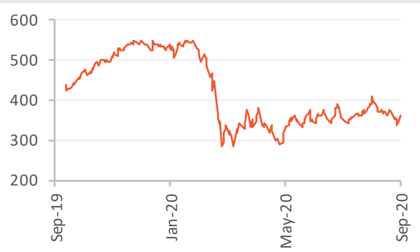
Company details

Market cap:	Rs. 250,262 cr
52-week high/low:	Rs. 552/269
NSE volume: (No of shares)	442.1 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	689.5 cr

Shareholding (%)

Promoters	0.0
FII	42.9
DII	37.4
Others	19.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.4	4.0	6.8	-19.2
Relative to Sensex	-4.5	-4.0	-20.6	-17.0

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on ICICI Bank with an unchanged SOTP-based price target (PT) of Rs. 485.
- Bank is adequately capitalised (after the capital raise calculated Tier-1 ratio at ~16.9%). We like the prudent and cautious approach of the bank in building provision buffers, cautious loan book growth, and healthy capitalisation levels, which we believe will be key for overcoming medium-term challenges.
- Our interactions with the management indicate a consistent business strategy and gradual resumption in activities since Q1 to August.
- Additional provision buffer stands at Rs. 14,368 crore (2.3% of outstanding loans; more than the NNPA), and we don't envisage near-term risk due to adequate provision coverage ratio and overall balance sheet strength.

We interacted with ICICI Bank's management, which is largely consistent in its business strategy and direction, but indicated a gradual resumption of activities since Q1. While the bank maintained its cautious stance on sectors like corporate loans, CVs etc but retail (especially mortgages) traction is normalizing which is encouraging indication. At present, the bank sees little scope for business growth, except business banking/SME segments, where transactional data is reaching closer to the pre-COVID levels. We believe margins may be stable as the impact of tepid loan growth may be offset by re-pricing benefits of deposits. We expect loan growth (and consequently) fee incomes to remain sluggish for medium term, as disbursement stays soft. Personal loan/ credit card spends are still lower than pre-COVID levels, but this would partially be compensated by lower cost of funds as well as operations (leading to controlled Opex). We expect core Pre Provision Profits (PPP) growth to stay moderate with CAGR of ~14% over FY20-23E. On asset quality, the management indicates it has built reasonable amount of provisions buffers prudently utilising the stake sale benefits. The additional provision buffer stands at Rs. 14,368 crore (2.3% of outstanding loans; more than the NNPA), which is not considered in the computation of provision coverage ratio and adds to overall strength of the balance sheet. Also, while the bank maintained that it was early to ascertain the quantum of restructuring, we believe the bank will be judiciously utilizing the restructuring window to re-align the loans, thereby keeping the restructuring volume contained. The bank is well capitalised (post the capital raise, Calculated Tier-1 ratio at ~16.9%). We like the prudent and cautious approach of the bank in building provision buffers, cautious loan book growth, and healthy capitalisation levels, which we believe will be key for overcoming medium-term challenges. We have introduced FY23E estimates in this report. We maintain our Buy rating on ICICI Bank with an unchanged SOTP-based price target (PT) of Rs. 485.

Our Call

Valuation: Using the SOTP methodology we value the standalone operations of the bank at ~1.4x its FY2023E BV and rest of the subsidiaries at ~Rs. 112 per share. We believe valuations are reasonable, considering the overall franchise value as a whole and strong capitalisation and a high provision coverage ratio (PCR) being key comfort factors. The capital raising has further augment capital base and balance sheet strength. We have introduced FY23E estimates in this report. At present valuation, it offers an attractive entry point for long-term investors. We maintain our Buy rating on the stock with an unchanged PT of Rs. 485.

Key risk

Slower recovery in economy, higher slippages due to COVID-19 vulnerabilities and slippages from the corporate book (especially from BB and below-rated portfolio) could impact earnings outlook.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income (NII)	27014.8	33267.1	34647.1	38263.7	44041.7
Net profit (Rs cr)	3364.4	7931.3	13931.0	17248.3	20662.9
EPS (Rs)	5.2	12.3	20.8	25.8	30.9
P/E (x)	69.6	29.6	17.4	14.1	11.7
BVPS (Rs)	162.5	174.3	209.8	232.3	259.3
P/BV (x)	2.2	2.1	1.7	1.6	1.4
RoE (%)	3.1%	7.1%	10.7%	11.4%	12.3%
RoA (%)	0.4%	0.8%	1.1%	1.2%	1.2%

Source: Company; Sharekhan estimates

Key Management interaction highlights

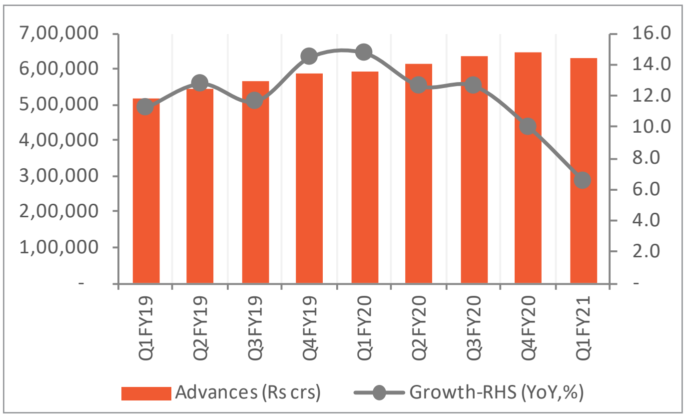
- Footfalls are improving on m-o-m basis. While there was nothing much in July, for September, the same has now come back to around ~85% runrate on the normalized basis.
- Deposits growing robustly; bank is witnessing continued traction from CASA and retail deposits.
- Loans growth was doing well in segments like Rural (were doing well in pre-COVID phase as well). Home loans in August were almost at the same levels of February levels, mainly helped by balance transfers from HFCs and other banks. Auto Loans enquiry are picking up and August disbursements are back to February levels.
- Others loans segment like personal loan and CV are still below COVID levels. Personal loans have been low mainly because ultimately the events like marriage etc are still not seeing normalized levels, and hence the offtake is going to take time. Credit card is ~75% of pre-COVID levels.
- The bank doesn't want to compromise on risk reward. Don't want to grow Corporate for the sake of chasing growth. The Corporate side disbursements are mainly short term, high rated, WC and cash flow management.
- Fee income decline in Q1 was due to low business volumes, this is going to go up as business volumes picks up. Fee may decline y-o-y in Q2 but may pick up going forward as business volumes improves.
- Deposits growth trend is healthy, helped by surplus liquidity in the system. Focus is on growing the stable and healthy (CASA + RTD) liability stream. The bank is not targeting at Cost of Funds levels, but due to high liquidity in the system, the rates have been coming down for the bank which are beneficial. The rates are likely to be stable from here, and repricing benefit will reflect on the Cost of Funds.
- Margins be stable margins, mainly due to lower loan offtake and due to risk off stance, lesser yield loans, which will offset the cost of funds decline. Margins had seen sequential decline in Q1 as well when NIMs had corrected, due to lower rates. However, liquidity benefit is likely to ease pressure on margins as Cost of Funds are low. In the short term, the margins may come down further. The excess liquidity is earning only 20-30 bps and hence is a drag on profitability. Bank hasn't disclosed the excess liquidity amount.
- Capital raise would have aided margins in ideal case, but right now Rs. 15,000 crore of capital raised is mostly parked in G-Secs since there is a low opportunity for lending in the market.
- Largely secured Retail book; Salary cuts and job losses have not been witnessed in white collared / mass-affluent customer base.
- Moratorium loans were at 17.3% as on Q1 FY21 end, but within that the builder finance and CV portfolio loans under moratorium were much higher than the overall book proportion. Around 2% of customers were there who didn't pay a single installment, and also didn't take moratorium. Collection efficiency too early to comment upon, since moratorium has just ended and the collection efficiency clarity is yet to emerge. A good set of customers who had taken moratorium to conserve cash, and don't expect to see pressure from these.
- The capital burn rate is low as lending is very low and consumption for capital is pretty low.
- Not targeting any particular mix, but expect retail side to be higher.
- The growth potential is present in advances, but bank wants to grow in a calibrated basis so that risk reward for corporate loans is still not very favorable.

- Subsidiary-wise, there may be some stake monetization from ICICI Securities, where the bank may have to do ~2% stake sale for achieving the minimum public shareholding, will do before March 2021.
- The bank has indicated that it already has dispensation from the government allowing it to hold their stake in ICICI Lombard General Insurance.
- Normalisation will be in Q4 FY21E only. Will see improved in FY22E, helped by a recovery as well as base effect.
- Growth wise, the bank wants to focus on organic growth. Expecting normalcy to be come by March quarter march ending 2021.
- Operating expense outlook is mixed. While the costs like travel, branch rentals etc are expected to go down, investment on technology may increased. Overall, the bank is looking to change the overall branch format, which will result in smaller sized branches, with emphasis on do-it-yourself (DIY) and ERM channel-based client servicing.
- Had added 450 branches during FY20 but don't expect any significant branch addition in FY21E. Branch expansion will depend on Business volume pickup.

Risk-reward stays favourable: We believe that though ICICI Bank's stance remains cautious, we believe that pending clarity on the pandemic and the economic recovery, prudence is the better part of valour. The banking sector has seen the moratorium getting over, post which we expect the collections efficiency to kick-in (in varying degrees) for most lenders as per their asset profile. Banks like ICICI Bank, which have high-quality retail (mass affluent, salaried base) as well as a well managed BB & below corporate book, are well placed to target growth as things normalize. The matter pertaining to the interest on interest on moratorium loans is presently sub-judice, but our rough-cut calculations indicate not a significant impact (an impact of ~Rs. 270 crore) for the bank, even if the matter is decided not in favour of the banks. Hence, we believe that the risk-reward ratio stays favourable for the bank.

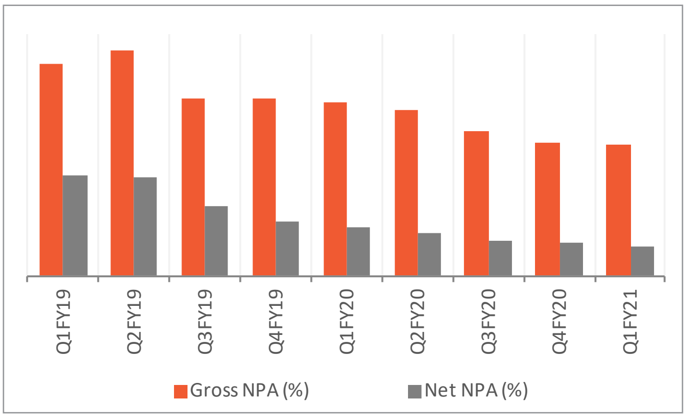
Financials in charts

Advances growth



Source: Company, Sharekhan Research

Asset quality

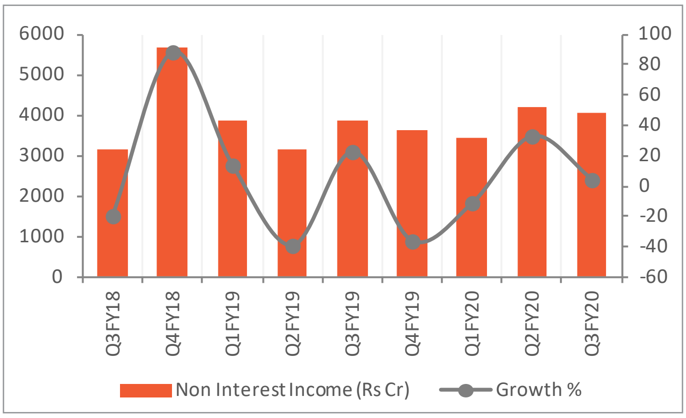


Source: Company, Sharekhan Research

Cost to Income

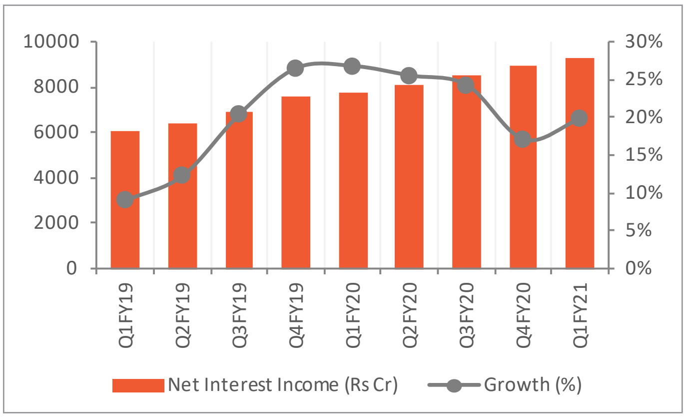
Source: Company, Sharekhan Research

Non Interest Income



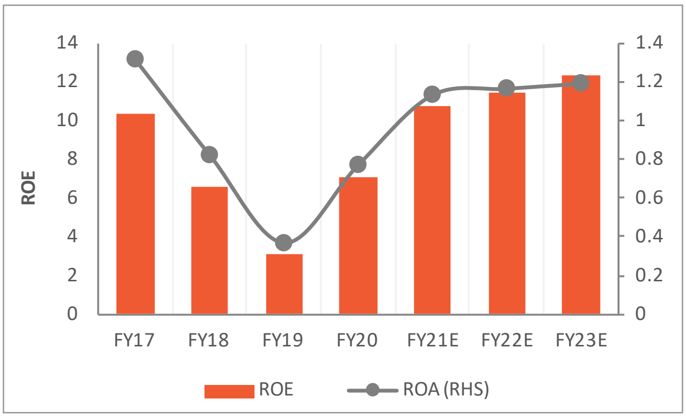
Source: Company, Sharekhan Research

Net Interest Income



Source: Company, Sharekhan Research

Return Ratios



Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Credit growth yet to pick up, Private banks placed better

The bank's credit offtake on the system level is still tepid, with credit growth of 5.26 % in the fortnight ended September 11, indicating a continued scenario of weak credit offtake. However, while deposits rose by 11.98 % (best since March 31, 2017) to Rs 142.48 trillion indicates healthy deposit growth traction, helped by the accommodative stance of the RBI resulting in surplus liquidity, which provides succour in terms of lower cost of funds for banks and financials. The loan moratorium has duly ended, which is a relief, and going forward the collection efficiency is likely to be a function of book quality, client profile as well as economic pickup. At present times, we believe banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well placed players. We believe that private banks, with improved capitalisation and strong asset quality (with high coverage, provisions buffers) are structurally better placed to take-off once the situation normalises.

Company Outlook – Well-placed, with strong long-term outlook

ICICI Bank remains a strong business franchise with robust capitalisation and displays a stable trend in asset quality. The stress has been on de-bulking and better risk management has reflected positively on asset-quality trends so far. However, we believe that the COVID-19 pandemic will elongate recovery and improvement in profitability further. While it is still dynamic, intuitively, in response to challenges, lenders such as ICICI Bank are tightening credit filters, etc, and are building buffers on provisions and focusing on collection efficiency. We find ICICI Bank to be an attractive franchise with a strong balance sheet and pan-India reach, which will help it tide over medium-term challenges. Moreover, its well-performing subsidiaries add value. We find the bank attractive in the medium to long term.

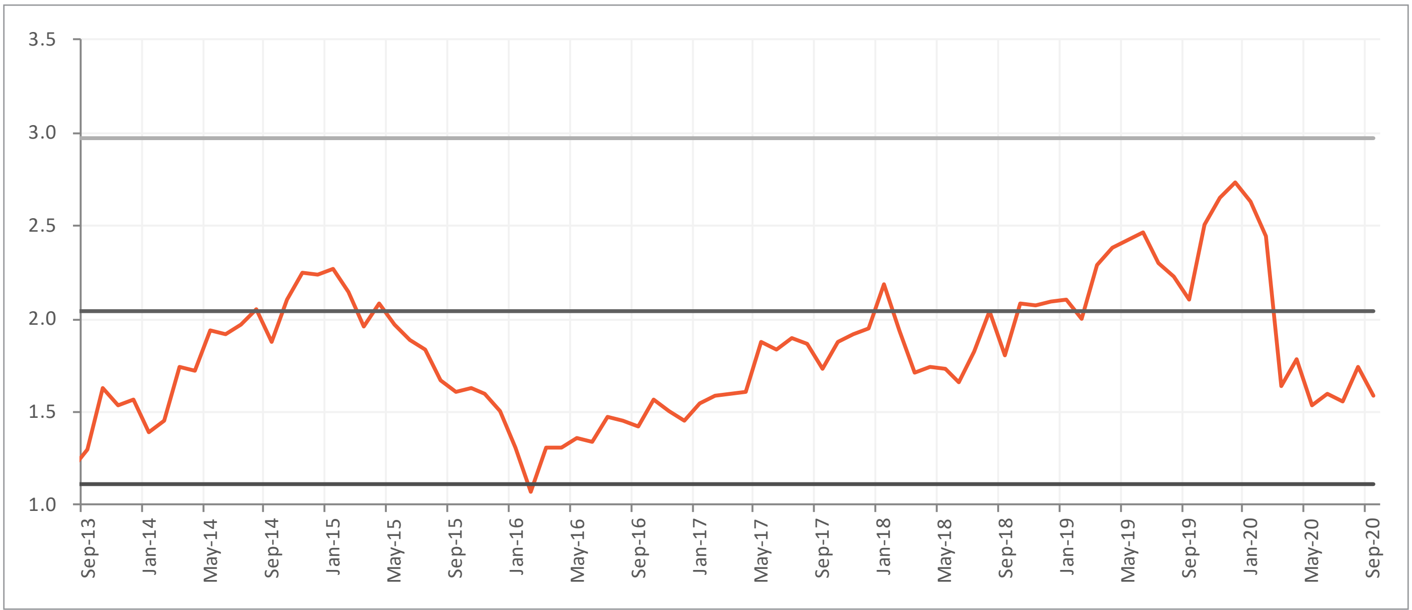
Valuation – Reasonable valuations, maintain Buy

Using the SOTP methodology we value the standalone operations of the bank at ~1.4x its FY2023E BV and rest of the subsidiaries at ~Rs. 112 per share. We believe valuations are reasonable, considering the overall franchise value as a whole and strong capitalisation and a high provision coverage ratio (PCR) being key comfort factors. The capital raising has further augment capital base and balance sheet strength. We have introduced FY23E estimates in this report. At present valuation, it offers an attractive entry point for long-term investors. We maintain our Buy rating on the stock with an unchanged PT of Rs. 485.

ICICI Bank SOTP valuation		Rs	Valuation Methodology
Value of Standalone ICICI Bank		375	1.4x FY23E BVPS
Non Banking Subsidiary Valuation	**ICICI Bank Holding**	**Value/share**	
Life Insurance Subsidiary	73.5%	67	2.4x EV FY22E; 20% Holdco discount
General Insurance Subsidiary	51.9%	44	2.9x FY22E PAT; Holdco discount 20%
Broking business	79.2%	15	20% Holding Discount to Mcap
Rest	-	10	-
Holding Co discount	20.0%	-	-
SOTP Valuation (Rs per share)	-	485	-

Source: Sharekhan estimates

One-year forward P/BV Chart



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
ICICI Bank	382	1.8	1.6	18.4	14.8	1.1	1.2	10.7	11.4
HDFC Bank	1054	3.0	2.6	21.3	16.8	1.7	1.8	14.8	16.3
Axis Bank	439	1.4	1.2	19.0	11.1	0.7	1.1	7.6	11.7

Source: Sharekhan research, Bloomberg 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. The bank is the second largest private sector bank in terms of loan book size, having a pan-India presence. The bank's subsidiaries in life insurance, general insurance, and stock broking 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 64%, while an increasingly high proportion of corporate loans disbursed are to customers rated A- and above, which helps de-risking the overall loan book.

Investment theme

The bank has built an attractive franchise consisting of banking, insurance, and securities business over the years. Since fiscal 2016, the bank has unlocked more than Rs. 17,000 crore of capital in its subsidiaries, which not only demonstrates the value created, but has also resulted in value unlocking along with leaner balance sheet obligations for the parent. We believe going forward, growth and asset quality risks have increased due to the pandemic, which will likely prolong the recovery for the bank. The bank has continued to improve its portfolio mix towards retail (granular) and higher-rated corporate loans; hence, in the past four years, this has helped it significantly de-risk its balance sheet from legacy stress and has enhanced franchise value. We find ICICI Bank to be an attractive franchise with a strong balance sheet and pan-India reach, which will help it tide over medium-term challenges. Moreover, its well-performing subsidiaries add value.

Key Risks

Slower recovery in economy, higher slippages due to COVID-19 vulnerabilities and slippages from the corporate book (especially from BB and below-rated portfolio) could impact earnings outlook.

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	7.8
2	SBI Funds Management Pvt Ltd	3.8
3	HDFC Trustee Co Ltd/India	3.7
4	Dodge & Cox	3.6
5	HDFC Asset Management Co Ltd	3.4
6	ICICI Prudential Asset Management	2.8
7	Capital Group Cos Inc/The	2.3
8	BlackRock Inc	2.2
9	Franklin Resources Inc	1.9
10	Reliance Capital Trustee Co Ltd	1.8

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;