Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Bank

Strong franchise; good for the long term

Banks & Finance	Sharekhan code: ICICIBANK	Company Update

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 658**	
Price Target: **Rs. 770**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

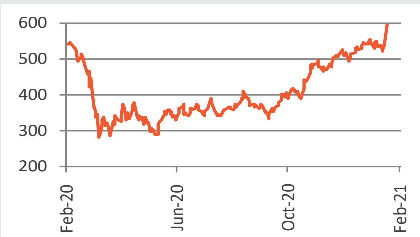
Company details

Market cap:	Rs. 455,049 cr
52-week high/low:	Rs. 679/269
NSE volume: (No of shares)	299.2 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	690.4 cr

Shareholding (%)

Promoters	0.0
FII	58.3
DII	35.1
Others	6.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.7	35.4	82.8	21.6
Relative to Sensex	16.4	16.9	45.9	-5.4

Sharekhan Research, Bloomberg

Summary

- Asset quality position is strong, with the bank having front-loaded provisions (on a proforma basis), which has strengthened balance sheet; strong capital position gives it a springboard for growth.
- Reported GNPA / NNPA declined to 4.72% / 0.69% down by 91 bps / 40 bps q-o-q; proforma GNPA / NNPA saw just a slight rise of 6 bps / 14 bps from Q2 FY2021 levels; NIMs improved q-o-q.
- Stock trades at 2.8x/2.5x its FY2022E/FY2023E BVPS; we believe valuations are reasonable, considering the overall franchise value, strong capitalisation and a high PCR
- We have accordingly fine-tuned our target multiples for the standalone bank. We maintain a Buy rating with a revised SOTP-based price target (PT) of Rs. 770.

ICICI Bank has a strong asset quality position, with the bank front-loading provisions (on a proforma basis) which resulted into a strengthened balance sheet and provides impetus to growth in FY22E and FY23E. Asset quality improved in Q3 with reported GNPA / NNPA declined by 91 bps / 40 bps q-o-q to 4.72% / 0.69%. Proforma GNPA / NNPA were also decent, rising slightly by 6 bps / 14 bps as compared to Q2FY2021. Even as compared to reported numbers, proforma GNPA / NNPA gap is 70 bps / 57 bps, which is manageable. The bank created contingency provisions of Rs. 3,012 crore for proforma NPAs and utilised Rs. 1,800 crore of COVID-19 related provisions made earlier. Accordingly, the bank held aggregate COVID-19 provisions of Rs. 9,984 crore, as compared to Rs. 8,772 crore in Q2FY2021. Proforma provisioning coverage also remained robust at 77.6% as on December 31, 2020. Fund-based and non-fund based outstanding to borrowers rated 'BB and below' was at Rs. 18,061 crore, up by 11.7% q-o-q (increased by 10 bps and stood at 2.6% of Loans) which is manageable. The bank's strong capital position with a CET-1 ratio of 16.79% including profits for 9MFY2021 gives it a springboard for growth. NIMs improved in Q3FY2021 to 3.67% (was 3.57% in Q2 FY2021 and 3.77% in Q3 FY2020), indicating the strength of the liability book and business franchise. Looking ahead, we believe that optimism in the economy supported by indicators of resumption in economic activity and continued growth in digitisation and the bank's extensive franchise, high-quality digital platforms and solutions, and its prudent risk management practices with strong capital ratios put it in a good position to capture opportunities that will arise in the near and medium term. We believe that improved economic growth (helped by a progressive and growth oriented government policy and Union Budget) are positives for banking sector, and strong players like ICICI Bank are well-placed to benefit from it. We have accordingly fine-tuned our target multiples for the standalone bank. We maintain a Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 770.

Our Call

Valuation - We expect RoEs to normalise in FY2022E, aided by normalised credit cost and business traction. Using the SOTP methodology, we value the bank's standalone operations at ~2.5x its FY2023E BV and rest of the subsidiaries at ~Rs. 123 per share. The bank is available at 2.8x/2.5x its FY2022E/FY2023E BVPS. We believe that valuations are reasonable, considering the overall franchise value as a whole, strong capitalisation and a high provision coverage ratio (PCR) being key comfort factors. Healthy capital levels (Including profits for 9MFY2021, the Tier-1 ratio was 18.12%) and provision buffers indicate balance sheet's strength. We maintain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 770.

Key Risks

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

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income (NII)	27,014.8	33,267.1	34,647.1	38,263.7	44,041.7
Net profit (Rs cr)	3,364.4	7,931.3	13,931.0	17,248.3	20,662.9
EPS (Rs)	5.2	12.3	20.8	25.8	30.9
P/E (x)	126.1	53.7	31.6	25.5	21.3
BVPS (Rs)	162.5	174.3	209.8	232.3	259.3
P/BV (x)	4.0	3.8	3.1	2.8	2.5
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

Outlook and Valuation

Sector view - Credit growth yet to pick up, private banks placed better

System-level credit offtake, which is still subdued, is now improving, with a credit growth of ~6% in the latest fortnight. On the other hand, deposits rose by ~12%, which indicate a relatively healthy economic scenario. Moreover, the RBI's accommodative stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financial services companies. The end of the loan moratorium is a relief. Going forward, collection efficiency is likely to be a function of book quality, client profile, as well as economic pick-up. At present, we believe the 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 and provisions buffers) are structurally better-placed to take off once the situation normalises.

Company outlook - Strong franchise, good for the long term

ICICI Bank's strong brand positioning across retail, business banking and corporate with a pan-India presence, makes it attractive and strong business. Looking ahead, we believe that optimism in the economy supported by the indicators of resumption of economic activity and continued growth in digitisation along with the bank's extensive franchise, high quality digital platforms and solutions, and its prudent risk management practices with strong capital ratios put us it in a good position to capture opportunities that will arise in the near and medium term. Stabilising watchlist book, healthy provision buffer and improvement in margins and liability profile indicate a strong business outlook for the bank. The recent capital raise has strengthened capital position. Also, the improving collections efficiency and recovery in business traction indicate that the scenario is normalising fast. With a strategy of front-loading of provisions, we believe that bank is well placed to enter FY2022 with a strong book quality and minimal legacy burden. We find ICICI Bank to be an attractive franchise with a strong balance sheet and pan-India reach, which make it attractive for the long term. Moreover, its well-performing subsidiaries which are strong players in their respective fields add value to the overall business.

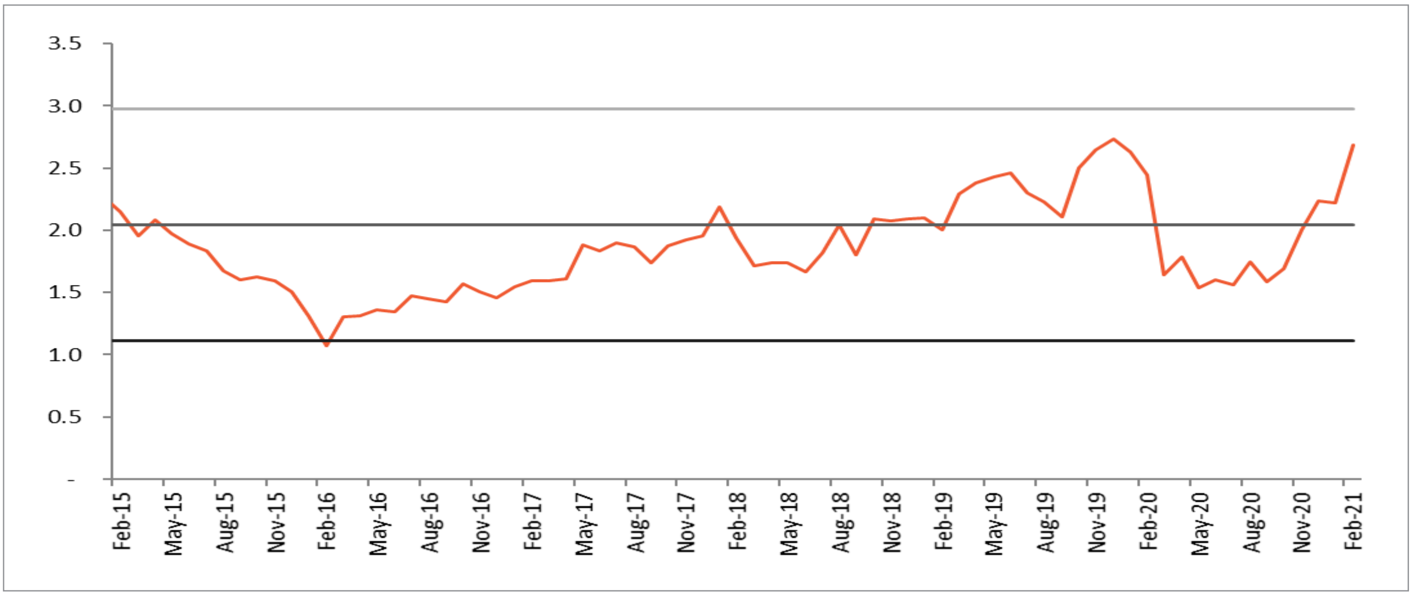
Valuation - Maintain Buy with revised PT of Rs. 770

We expect RoEs to normalise in FY2022E, aided by normalised credit cost and business traction. Using the SOTP methodology, we value the bank's standalone operations at ~2.5x its FY2023E BV and rest of the subsidiaries at ~Rs. 123 per share. The bank is available at 2.8x/2.5x its FY2022E/FY2023E BVPS. We believe that valuations are reasonable, considering the overall franchise value as a whole, strong capitalisation and a high provision coverage ratio (PCR) being key comfort factors. Healthy capital levels (Including profits for 9MFY2021, the Tier-1 ratio was 18.12%) and provision buffers indicate balance sheet's strength. We maintain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 770.

ICICI Bank SOTP valuation		Rs	Valuation Methodology
Value of Standalone ICICI Bank		647	2.5x FY23E BVPS
Non Banking Subsidiary Valuation	**ICICI Bank Holding**	**Value/share**	
Life Insurance Subsidiary	73.5%	62	2.5x EV FY23E; 20% Holdco discount
General Insurance Subsidiary	51.9%	41	38.4x FY23E PAT; Holdco discount 20%
Broking business	77.2%	13	Proportionate Mcap
Rest		7	
Holding Co discount	20.0%		
SOTP Valuation (Rs per share)		770	

Source: Company, Bloomberg, Sharekhan Research

One-year forward P/BV (x) band



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	658	3.2	2.9	32.4	24.3	1.2	1.4	10.7	12.3
HDFC Bank	1626	4.5	3.9	29.3	24.2	1.9	2.0	16.5	17.2
Axis Bank	775	2.3	2.2	39.9	23.3	0.5	0.8	6.1	9.5
Kotak Mahindra Bank	2020	2.9	2.6	36.5	23.9	1.7	1.7	6.6	8.6

Source: Bloomberg, 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. 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. We believe going forward, growth and asset quality risks have declined and outlook has improved due to the green-shoots of recovery. 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 to the overall franchise which is another positive.

Key Risks

A slower recovery in the economy, higher slippages due to COVID-19 vulnerabilities and slippages from the corporate book (especially from the '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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.72
2	SBI Funds Management Pvt Ltd	3.62
3	Dodge & Cox	3.59
4	HDFC Asset Management Co Ltd	2.9
5	ICICI Prudential Asset Management	2.62
6	BlackRock Inc	2.41
7	Republic of Singapore	2.17
8	Franklin Resources Inc	1.69
9	Capital Group Cos Inc/The	1.66
10	Nippon Life India Asset Management Ltd	1.63

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

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