

CMP: Rs 537

Rating: Buy

Target Price: Rs 647

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs Cr)	1,379
Mkt Cap (Rs Cr)	370,773
52w H/L (Rs)	561 / 269
Avg Yearly Vol (in 000')	36,362

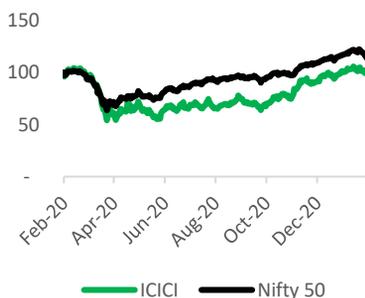
Shareholding Pattern %

(As on December, 2020)

Promoters	NIL		
FII	47.43		
DII	42.49		
Public & Others	10.08		

Stock Performance (%)	3m	6m	12m
ICICI Bank	34.3	53.0	2.0
Nifty	16.8	21.7	12.4

ICICI Bank Vs Nifty



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ICICI Bank has reported strong performance during Q3FY21 with strong profit growth of 19% YoY to Rs 4,940 cr. NII for the quarter grew by 16% YoY to Rs 9,912 cr led by advances growth of 10% YoY. Operating profit for the quarter grew strongly by 17% YoY/7% QoQ to Rs 8,820 cr led by strong growth in NII and other income. Other income for the quarter increased by 3% YoY/16% QoQ to Rs 4,686 cr, supported by treasury gains of Rs 766 cr (including Rs 329 cr from stake sale in ICICI Securities). OPEX growth was also broadly steady with sequential increase in other OPEX as business volumes & activity has moved up. Asset quality on pro-forma basis was quite steady with controlled slippages with PCR of 77% and restructuring of 0.40% of loans.

Key Highlights of Q3FY21:

NIMs improved QoQ despite interest reversal on NPAs: The bank's NIMs for the quarter improved by 10bps QoQ to 3.67% despite having 11bps impact due to interest reversal on NPA. Cost of Funds declined by 24bps QoQ to 4.11, reflecting the decline in deposit rates amid the interest rate cuts by RBI. The bank's total deposit grew strongly by 22% YoY/5% QoQ with CASA ratio at 45.2% vs 43.8% QoQ.

Loan growth picked up strongly: Total loan growth was at 10% YoY/7% QoQ with retail loan book growth of 15% YoY, Corporate at 6.5% YoY and SME loan book growth of 25% YoY. Most of the retail segment saw strong growth both on YoY & QoQ basis as management explained they have lower market share in most of the retail segments. Within retail, home loan segment grew by 15% YoY whereas Auto loans was at +7% YoY.

Asset quality remained under well control: Proforma GNPA of the bank increased marginally by 6bps QoQ to 5.42% while NNPA stood at 1.26% vs 1.1% QoQ. Proforma slippages for the quarter was at Rs 8,280 cr, of which ~91% slippages was from retail portfolio. Restructuring book stood at Rs 2,546 cr or 0.4% of loans (Rs 1709 cr from Corporate & SME and Rs 837 cr from retail) remained lower and management believes it is unlikely to increase. The bank has utilized Rs 1,800 cr covid provision during the quarter but made Rs 3,012cr of additional contingency provision. Total Covid provision stood at Rs 9,984 cr as on Q3FY21.

Valuation & View: ICICI Bank's Q3FY21 operating performance was strong with growth in loan book and well controlled asset quality. Strong provisioning buffer, improving efficiency, strong liability franchise, adequate capital position and increase in loan book growth should help the bank to achieve 15% ROE by FY23E with gaining market share position. We expect bank to achieve 1.6% RoA and 15% RoE by FY23E. We assign a P/adj. BV multiple of 2.2x and rollover our estimates to FY23E adj. BV of INR 238 for standalone bank and use a SOTP approach to value its subsidiaries, arriving at a fair value of INR 647 (INR 467 earlier). We upgrade our rating to Buy from Accumulate. ICICI Bank is one of our preferred pick in banking sector.

ICICI Bank (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
NII	27,015	33,267	38,513	43,416	51,651
PPOP	23,438	28,101	34,732	40,201	48,104
PAT	3,363	7,931	15,981	20,145	26,555
EPS (INR / Share)	5.2	12.3	23.2	29.2	38.5
BVPS (INR / Share)	168.1	180.0	191.2	219.4	256.9
NIM (%)	3.2%	3.5%	3.6%	3.6%	3.7%
RoA (%)	0.3%	0.7%	1.3%	1.4%	1.6%
RoE (%)	3.1%	6.8%	12.1%	13.3%	15.0%
P/ABV (x)	3.6	3.4	3.1	2.7	2.3

Q3FY21 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Interest Income	19,730	19,622	19,064	0.5%	3.5%
Interest Expended	9,817	10,256	10,519	-4.3%	-6.7%
Net Interest Income	9,912	9,366	8,545	5.8%	16.0%
Other Income	4,686	4,028	4,574	16.3%	2.5%
Operating Income	14,599	13,394	13,119	9.0%	11.3%
Operating Expenses	5,779	5,133	5,571	12.6%	3.7%
Employee Expenses	1,950	1,967	1,942	-0.9%	0.4%
Other Operating Expenses	3,829	3,166	3,629	20.9%	5.5%
PPOP	8,820	8,261	7,549	6.8%	16.8%
Provisions	2,742	2,995	2,083	-8.5%	31.6%
PBT	6,078	5,266	5,465	15.4%	11.2%
Tax Expenses	1,138	1,014	1,319	12.2%	-13.7%
Net Income	4,940	4,251	4,146	16.2%	19.1%
Balance Sheet Analysis					
Advances	6,99,017	6,52,608	6,35,654	7.1%	10.0%
Deposits	8,74,348	8,32,936	7,16,345	5.0%	22.1%
Total Assets	11,93,217	11,62,971	10,07,068	2.6%	18.5%
CASA Deposits	3,95,416	3,64,580	3,36,409	8.5%	17.5%
CASA (%)	45.2%	43.8%	47.0%	145bps	-174bps
CAR (%)	18.04%	18.47%	16.50%	-43bps	154bps
Spreads					
NIMs (%)	3.67%	3.57%	3.77%	10bps	-10bps
Cost of Funds	4.11%	4.35%	5.06%	-24bps	-95bps
Yield on Average Advances	8.31%	8.75%	9.48%	-44bps	-117bps
Asset Quality					
GNPA	34,860	38,989	43,454	-10.6%	-19.8%
NNPA	4,861	7,188	10,389	-32.4%	-53.2%
GNPA (%)	4.38%	5.17%	5.95%	-79bps	-157bps
NNPA (%)	0.63%	1.00%	1.49%	-37bps	-86bps
Provision Coverage Ratio	86.2%	81.6%	76.20%	459bps	996bps
Returns & Expenses					
RoA (annualised)	1.70%	1.50%	1.68%	20bps	2bps
RoE (annualised)	14.0%	13.2%	14.60%	80bps	-60bps
Cost / Income Ratio	39.6%	38.3%	42.46%	126bps	-288bps

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

Q3FY21 – Key Concall Highlights

- Pro forma GNPA / NNPA stood at 5.42% and 1.26% respectively with slippages of Rs 82.8 bn (Rs 14 bn in Sep'20). PCR on the pro-forma NPAs stood at 77% for the quarter versus reported of 87%.
- Retail EMI products & Credit cards overdue were 1.5% higher than pre-COVID levels v/s 4% higher reported in Sep'20, while rural overdue was higher by 1.5% in Dec'20 v/s 1% in Sep'20. SME/Business banking overdue for less than 90dpd was similar to pre-covid in both Sep/Dec. In corporate book overdue less than 90dpd was <2% v/s 3% in Sep'20.
- The bank has made policy change on provisioning by taking conservative approach in earlier buckets, which led to higher Rs20.96bn of provisions on pool (incl. pro-forma).
- Bank has made contingent provisions of Rs 30.1bn during the quarter and utilized Rs18bn of earlier covid provisions and now the overall net total Covid related provisions stood at Rs99.84bn incl. Rs 35.0bn used for pro-forma NPAs.
- BB & below rated book increased to Rs180.6bn (2.6% of loans) v/s 161.7bn (2.4% of loans) in Q2. Rating downgrade led exposure was Rs22.4bn mainly from the construction sector. Corporate book restructuring was from BB & below book.
- Disbursements for the corporate segment picked up as domestic higher rated corporates used increased levels of working capital facilities.
- So far, the bank has disbursed Rs 120bn under the ECLGS scheme 1 and Rs 6bn under the ECLGS scheme 2.
- Management expect margin improvement going ahead although in Q4FY21 it might be affect to certain extent due to NPA recognition.

Valuation - Sum of the Parts

Entity	Valuation methodology	Holding	Intrinsic Value per Share
ICICI Bank - Standalone banking business / Parent	2.2x FY23E ABV	100.0%	524
ICICI Prudential Life Insurance	1.9x FY23E EV	52.9%	64
ICICI Lombard General Insurance	Current MCAP	55.9%	48
ICICI Prudential AMC	4% of FY23E AUM	51.0%	17
ICICI Securities	9x FY23E P/E	79.2%	4
ICICI Home Finance	1x FY23E BV	100.0%	3
ICICI Bank UK Plc	0.5x FY23E BV	100.0%	2
ICICI Bank Canada	0.5x FY23E BV	100.0%	2
Others			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			123
Value of total (INR per share)			647

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	63,401	74,798	79,791	91,532	1,07,238
Interest Expended	36,386	41,531	41,278	48,116	55,587
Net Interest Income	27,015	33,267	38,513	43,416	51,651
Other Income	14,512	16,449	18,905	21,310	24,560
Operating Income	41,527	49,716	57,418	64,726	76,211
Operating Expenses	18,089	21,614	22,686	24,525	28,107
Employee Expenses	6,808	8,271	8,748	9,461	10,527
Other Operating Expenses	11,281	13,343	13,938	15,064	17,580
PPOP	23,438	28,101	34,732	40,201	48,104
Provisions	19,661	14,053	14,756	13,280	12,616
PBT	3,777	14,048	19,976	26,921	35,487
Tax Expenses	413	6,117	3,995	6,776	8,932
Net Income	3,363	7,931	15,981	20,145	26,555

Balance Sheet (in INR Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity & Liabilities					
Share Capital	1,289	1,295	1,379	1,379	1,379
Reserves & Surplus	1,07,074	1,15,206	1,30,497	1,49,952	1,75,818
Net Worth	1,08,363	1,16,501	1,31,877	1,51,332	1,77,197
Employee Stock Options	5	3	3	3	3
Deposits	6,52,920	7,70,969	8,87,779	10,31,297	12,02,737
Borrowings	1,65,320	1,62,897	1,65,802	1,74,092	1,82,797
Other Liabilities and Provisions	37,851	47,995	48,821	53,037	56,777
Total Capital & Liabilities	9,64,459	10,98,365	12,34,283	14,09,762	16,19,511
Assets					
Cash & Balances with RBI	37,858	35,284	39,394	41,987	45,247
Balances with Other Banks & Call Money	42,438	83,872	97,778	1,35,105	1,68,129
Investments	2,07,733	2,49,531	2,62,008	2,75,108	2,88,864
Advances	5,86,647	6,45,290	7,22,725	8,38,361	9,89,266
Fixed Assets	7,931	8,410	8,918	9,456	10,027
Other Assets	81,852	75,978	1,03,460	1,09,744	1,17,978
Total Assets	9,64,459	10,98,365	12,34,283	14,09,762	16,19,511

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

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
Growth rates					
Advances (%)	14.5%	10.0%	12.0%	16.0%	18.0%
Deposits (%)	16.4%	18.1%	15.2%	16.2%	16.6%
Total assets (%)	9.7%	13.9%	12.4%	14.2%	14.9%
NII (%)	17.3%	23.1%	15.8%	12.7%	19.0%
Pre-provisioning profit (%)	-5.3%	19.9%	23.6%	15.7%	19.7%
PAT (%)	-50.4%	135.8%	101.5%	26.1%	31.8%
Balance sheet ratios					
Credit/Deposit (%)	89.8%	83.7%	81.4%	81.3%	82.3%
CASA (%)	49.6%	45.1%	44.7%	44.3%	44.1%
Advances/Total assets (%)	60.8%	58.8%	58.6%	59.5%	61.1%
Leverage (x) (Asset/Shareholder's Fund)	8.90	9.43	9.36	9.32	9.14
CAR (%)	16.9%	16.8%	17.6%	18.9%	19.7%
CAR - Tier I (%)	15.1%	15.0%	15.8%	17.1%	17.9%
Operating efficiency					
Cost/income (%)	43.6%	43.5%	39.5%	37.9%	36.9%
Opex/total assets (%)	1.9%	2.0%	1.8%	1.7%	1.7%
Opex/total interest earning assets	0.8%	0.9%	0.8%	0.8%	0.8%
Profitability					
NIM (%)	3.2%	3.5%	3.6%	3.6%	3.7%
RoA (%)	0.3%	0.7%	1.3%	1.4%	1.6%
RoE (%)	3.1%	6.8%	12.1%	13.3%	15.0%
Asset quality					
Gross NPA (%)	7.9%	6.5%	5.8%	4.7%	3.6%
Net NPA (%)	2.3%	2.2%	1.8%	1.5%	1.3%
PCR (%)	70.9%	66.4%	68.5%	67.2%	63.9%
Credit cost (%)	2.6%	1.7%	1.6%	1.3%	1.1%
Per share data / Valuation					
EPS (INR)	5.22	12.25	23.17	29.21	38.50
BVPS (INR)	168	180	191	219	257
ABVPS (INR)	147	158	172	201	238
P/E (x)	102.9	43.8	23.2	18.4	13.9
P/BV (x)	3.2	3.0	2.8	2.4	2.1
P/ABV (x)	3.6	3.4	3.1	2.7	2.3
Profitability (%)					
Return on Equity	3.1%	6.8%	12.1%	13.3%	15.0%

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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