Sharekhan

by BNP PARIBAS

ICICI Bank

Good quarter in a tough environment

Sector: Banks & Finance

Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 382**	
Price Target: **Rs. 485**	↑

↑ Upgrade ↔ No change ↓ Downgrade

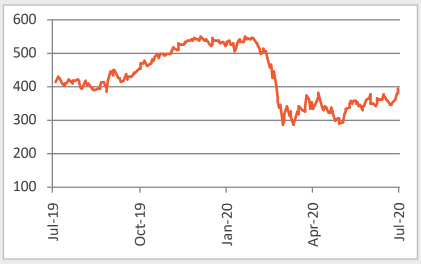
Company details

Market cap:	Rs. 247,292 cr
52-week high/low:	Rs. 552/269
NSE volume: (No of shares)	408.6 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	647.3 cr

Shareholding (%)

Promoters	0.0
FII	42.9
DII	37.4
Others	19.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	14.0	-28.5	-6.7
Relative to Sensex	-0.7	-7.7	-20.1	-7.4

Sharekhan Research, Bloomberg

ICICI Bank posted good numbers for Q1FY2021, where operating performance was better than expectations, and large provisions (partly due to COVID-19) resulted in lower-than-expected PAT. Asset quality improved on a sequential basis, with moratorium book at 17.5% (from 30% in Q4FY2020). Net interest margin (NIM) was at 3.69% (down 18 bps q-o-q) mainly due to high deposit growth as compared to advances growth. Net interest income (NII) at Rs. 9,280 crore was up 19.9% y-o-y, and came in line with expectations. While other income was boosted by stake sale gains (Rs. 3,036 crore) and higher treasury income, fee income was Rs. 2,104 crore, down y-o-y and q-o-q, reflecting lower business volumes and customer activity in view of the lockdown. Retail fees constituted 70% of total fees in Q1-2021. Business growth was slow, with domestic advances up 10% y-o-y and retail loans up by 11% y-o-y (retail loan stable QoQ, better performance compared to peers). Also strong deposit growth of 21% y-o-y was seen, indicating the trend that larger banks are increasingly seeing better liability flow. Average CASA levels at 41% (down 130 bps q-o-q) are still at very healthy levels and explained by the heady deposit growth seen. The bank opted to prudently utilise the stake sale to further build upon provision buffers. 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 on June 30, 2020 adds to overall strength of the balance sheet. Most importantly, GNPA/NNPA ratio (as a percentage of gross advances) decreased by 5 bps/18 bps, respectively, to 5.99%/1.23% vis-à-vis Q4FY2020. Even gross slippages were down significantly to Rs. 1,160 crore, which was a 20-quarter low, which is a positive. The bank is adequately capitalised (Tier-1 at 14.9%); and a successful equity-raising plan will further add to balance sheet strength. 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 maintain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 485.

Key positives

- De-risking of advances book continues with A- and above book at 70.1%, and even gross slippages declined significantly to Rs. 1,160 crore, which was a 20-quarter low. The slipage performance is better than comparable peers.
- Cost to Income (C/I, Calculated) came in at a low at 30.1%, at multi-quarter low, helped by high other income (due to one-off stake sale benefit) and lower advertising and marketing costs due to the lockdown.
- Utilised the sales proceeds to create additional provision buffer to take the total to Rs. 14,368 crore (~2.3% of outstanding loans) as total provision buffer; PCR at 78.6%.
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Key negatives

- BB and below book at 2.7% of loan book (up 13 bps q-o-q; total fund based and non-fund based).
- Net interest margin was 3.69% in Q1FY2021 (down 18 bps q-o-q) due to higher liquidity and relatively strong deposit inflows compared to credit demand because of the lockdown.

Our Call

Valuation: For ICICI Bank, we use the SOTP methodology, where we value the standalone bank at ~1.6x its FY2022E BV and rest of the subsidiaries at ~Rs. 140 per share. We believe valuations are reasonable, considering the overall franchise value as a whole and strong capitalisation and a high PCR being key comfort factors. The expected capital raising, will further augment capital base and balance sheet strength. At present valuations, it offers a reasonable entry point for long-term investors. We maintain our Buy rating on the stock with a revised PT of Rs. 485.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E
Net Interest Income (NII)	27014.8	33267.1	34647.1	38263.7
Net profit (Rs. cr)	3364.4	7931.3	13931.0	17248.3
EPS (Rs.)	5.2	12.3	21.5	26.6
P/E (x)	73.2	31.2	17.8	14.3
BVPS (Rs.)	162.5	174.3	193.5	216.7
P/BV (x)	2.4	2.2	2.0	1.8
RoE (%)	3.1%	7.1%	11.4%	12.6%
RoA (%)	0.4%	0.8%	1.1%	1.2%

Source: Company; Sharekhan estimates

Concall Highlights

- **Present business scenario:** Customer footfalls in branches have increased in June and July; however, majority of the employees continue to work from home.
- **Fee income:** Fee income declined due to customer disruption and lower retail offtake.
- **Corporate book:** The bank is looking to reduce concentration risk and improve credit rating in the corporate portfolio.
- **Capital raising:** Proposed capital raising will help strengthen the bank's balance sheet and capital position. The bank is seeing opportunities and would like to be prepared for the same.
- **Guidance:** Management has not shared growth guidance for FY2021E, but it will be looking to do short-term lending and will be opportunistic for loans where credit risk is low with favourable returns.
- **PCR:** The bank has not considered Rs. 14,368 crore for PCR computation (COVID-19 Rs. 8,275 crore; general provision on standard assets is Rs. 4,185 crore, and Rs. 1,398 crore for non-fund based NPA; other standard asset provisions of Rs. 510 crore).
- **Moratorium:** Currently, the moratorium book stands at 17.5% (was 30% in Q4FY2020). About 90% of the portfolio under Moratorium 1 is now under Moratorium book. CV loans and builder loans have higher moratorium amount. Now there is no opt-out facility available. Moratorium may go up as customers who had opted in Q4FY2020 are still in the overdue category (~2% of book).
- **Collection efficiency:** Collection efficiency is at 80% of pre-COVID levels.
- **CV Book:** Around 60% of the CV book is from long vintage customers who are well seasoned with the business cycles of CV. The CV book is granular with top 20% customers comprising only 3% of the CV book.
- **NBFC and HFC:** NBFC and HFC comprise ~5% of total loans.
- **Retail:** Disbursement has picked up in June from April. Presently, incremental lending is mainly to existing customers. Of the mortgage book, ~70% is home loans, while LAP is ~17%. LTV for home loans and LAP is 65% and 55%, respectively.
- **Vehicle finance:** 80% of the auto loan portfolio comprises new vehicles and 13% is for used vehicles. Auto loans disbursement volume at 60-65% of pre-COVID levels.
- **PL and Credit Cards:** Personal and credit cards comprise ~9% of the total loan book. ~85% of credit card customers are salaried customers and ~75% are with well-rated companies. ~97% of customers who have opted for moratorium continue to get their salaries credited.
- **Credit Cards:** Credit card spends returning to normal with 65% of credit cards spend at pre-COVID levels now.
- **Business Banking:** Around 85% of business banking book has collateral cover of 100+%.
- **Overseas book:** Presently management does not see any incremental stress from overseas book. Oversees book is expected to continue to come down.
- **Employee expenses:** Increased employee expenses due to higher provisions.
- **Cost to Income:** Cost-to-income (C/I) ratio was low due to high other income (due to one-off stake sale benefit) as well as lower advertising and marketing costs because of the lockdown. As the economy opens up, C/I is expected to normalise at earlier levels.

Results Rs cr

Particulars	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Interest earned	19,924	17,980	10.8	19,189	3.8
Interest expense	10,645	10,243	3.9	10,262	3.7
Net interest income	9,280	7,737	19.9	8,927	4.0
Non-interest income	6,143	3,425	79.3	4,255	44.4
Net total income	15,422	11,163	38.2	13,182	17.0
Operating expenses	4,646	4,874	-4.7	5,792	-19.8
Pre-provisioning profit	10,776	6,288	71.4	7,390	45.8
Provisions	7,594	3,496	117.2	5,967	27.3
Profit before tax	3,182	2,793	14.0	1,423	123.7
Tax	583	885	-34.1	201	189.8
Profit after tax	2,599	1,908	36.2	1,221	112.8
Gross NPA (%)	5.99	7.21	-122 bps	6.04	-5 bps
Net NPA (%)	1.23	1.98	-75 bps	1.41	-18 bps

Source: Company; Sharekhan Research

Outlook

ICICI Bank remains a strong business franchise with strong 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 COVID-19 pandemic will elongate the recovery and improvement in profitability further. The lockdown is disrupting financial markets and consumer behaviour and FY2021 for India is likely to be impacted. While it is still developing, intuitively, we believe increasing lockdowns/voluntary social distancing would lead to reduced consumer mobility, deferral of spending, and increased economic stress across the board. In response, 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

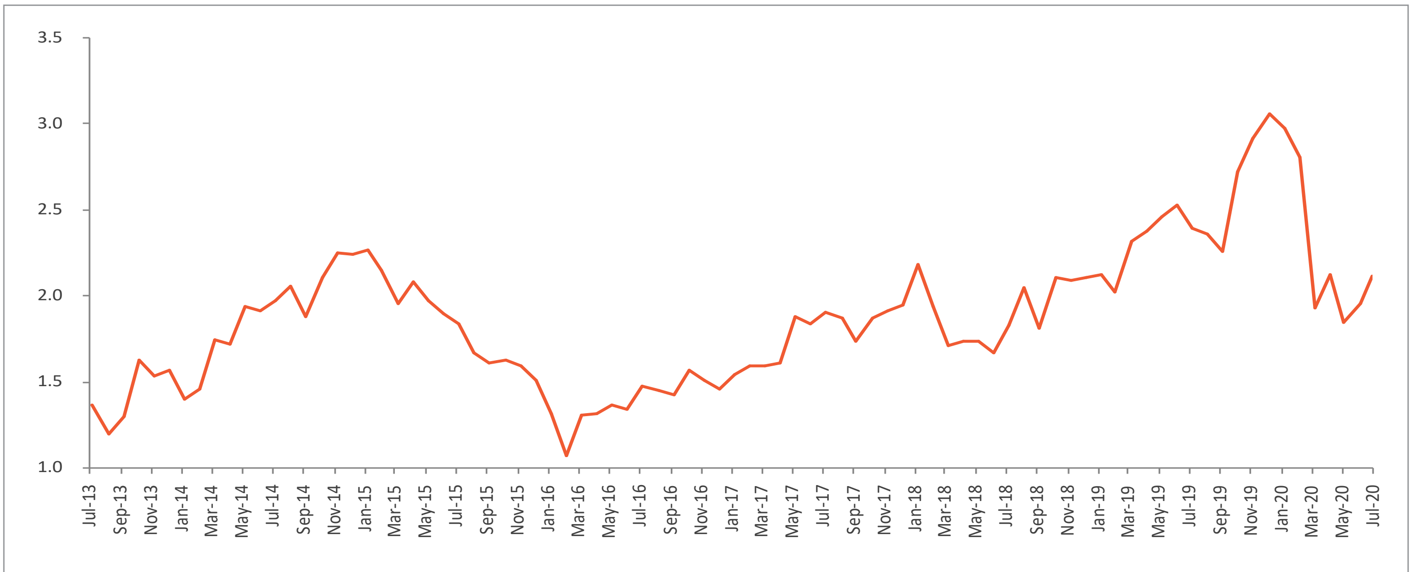
For ICICI Bank, we use the SOTP methodology, where we value the standalone bank at ~1.6x its FY2022E BV and rest of the subsidiaries at ~Rs. 140 per share. We believe valuations are reasonable, considering the overall franchise value as a whole and strong capitalisation and a high PCR being key comfort factors. The expected capital raising will further augment capital base and balance sheet strength. At present valuations, it is at a reasonable entry point for long-term investors. We maintain our Buy rating on the stock with a revised PT of Rs. 485.

ICICI Bank SOTP valuation Rs cr

Particulars		Rs	Valuation Methodology
Value of Standalone ICICI Bank		347	1.9x FY22E BVPS
Non Banking Subsidiary Valuation	**ICICI Bank Holding**	**Value/share**	
Life Insurance Subsidiary	73.5%	67	2.4x EV FY22E; Holdco discount 20%
General Insurance Subsidiary	51.9%	44	29x FY22E PAT; Holdco discount 20%
Broking business	79.2%	17	20% Holding Discount to Mcap
Rest		10	
SOTP Valuation (Rs per share)		485	

Source: Company; Sharekhan Research

One-year forward P/BV Chart



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
ICICI Bank	382	2.0	1.8	17.8	14.4	1.1	1.2	11.4	12.6
HDFC Bank	1119	3.2	2.8	22.8	17.9	1.7	1.8	14.8	16.2
Axis Bank	446	1.4	1.3	19.1	11.0	0.7	1.1	7.5	11.7

Source: Company, 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.

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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.1
2	HDFC Trustee Co Ltd/India	4.0
3	SBI Funds Management Pvt Ltd	3.9
4	Dodge & Cox	3.8
5	HDFC Asset Management Co Ltd	3.8
6	ICICI Prudential Asset Management	2.9
7	Capital Group Cos Inc/The	2.4
8	BlackRock Inc	2.2
9	Franklin Resources Inc	2.0
10	Aditya Birla Sun Life Trustee Co P	2.0

Source: Bloomberg

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