

ICICI Bank Limited

BUY

CMP Rs382

Target Rs500

Upside 30.9%

HIGHLIGHTS

- ✓ ICICI Bank's core PPOP was 15% higher than our estimate, courtesy a better NII growth and a relatively resilient fee performance despite substantially lower activity levels. Opex also stood below our estimate.
- ✓ Bank prudently utilized large gains (Rs30.3bn) on partial stake sale in insurance subs. (3.9% in ILOM and 1.5% in I-Pru) for significantly augmenting covid provisions (1.3% of loan book), largely cushioning the balance sheet.
- ✓ NIM came off with built-up in liquidity surplus, consequence of deposits growing 4% qoq and loans contracting 2% qoq. Lack of credit demand lead to liquidity deployment in investments at 30-50bps margin.
- ✓ Portfolio under morat was at 17.5% as of June 30, much lower than 30% as of April end. Additionally, 2-3% of the loan book is overdue (had taken the 1st morat). Within June morat, ~90% customers were from 1st morat.
- ✓ The morat % is higher in CV finance, dealer funding and builder loans. ~97% of PL and Card customers who have taken morat continue to receive salaries.
- ✓ Management sounded reasonably confident about portfolio quality, citing that PAR % is declining fast. Covid provisions are against specific portfolios and would be drawn down when such loans slip.
- ✓ CET-1 ratio was at 13.6%, and the planned equity raise of Rs150bn (200 bps of RWA) would further bolster it. The bank intends to be well positioned for future growth.

Our View

- ✓ Maintain BUY with an upgraded TP of Rs500. Revise EPS/ABV estimates upwards on stronger PPOP show and capital raise. Earnings metrics to bounce back in FY22.
- ✓ Core bank trades at 1.3x FY22E P/ABV; insurance and AMC subs will continue to accrete value (Rs118/share now)

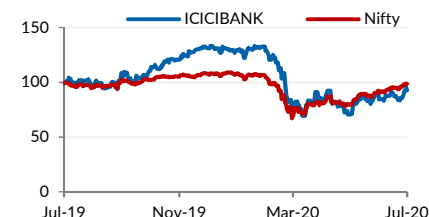
Risk to our call

- ✓ Prolonged Covid episode and its deeper impact

Stock data (as on Jul 24, 2020)

Nifty	11,194
52 Week h/l (Rs)	552 / 268
Market cap (Rs/USD mn)	2472549 / 33043
Outstanding Shares (mn)	6,476
6m Avg t/o (Rs mn):	14,858
Div yield (%):	-
Bloomberg code:	ICICIB IN
NSE code:	ICICIBANK

Stock performance



	1M	3M	1Y
Absolute return	9.7%	14.0%	-6.5%

Shareholding pattern

Promoter	-
FII+DII	89.0%
Others	10.7%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	12.3	15.7	27.6
EPS (Old)	12.3	13.8	27.7
% change	-	13.9	-

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	415,270	497,157	556,954	611,288
PPOP	234,379	281,013	330,002	354,833
Net profit	33,633	79,307	107,638	189,310
yoy growth (%)	(50.4)	135.8	35.7	75.9
EPS (Rs)	5.2	12.3	15.7	27.6
Adj.BVPS (Rs)	146.4	164.3	183.5	211.2
P/E (x)	73.5	31.2	24.3	13.8
P/adj.BV (x)	2.6	2.3	2.1	1.8
ROE (%)	3.2	7.1	8.3	12.5
ROA (%)	0.4	0.8	0.9	1.5
CAR (%)	16.9	16.1	18.7	18.6

Source: Company, YES Sec - Research

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in
 +91 22 3347 9635



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 22 3347 7430

Exhibit 2: Result Table (Standalone Bank)

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Total Interest Income	199,244	191,887	3.8	179,801	10.8
Interest expended	(106,446)	(102,618)	3.7	(102,426)	3.9
Net Interest Income	92,798	89,269	4.0	77,374	19.9
Other income	61,426	42,550	44.4	34,254	79.3
Total Income	154,224	131,819	17.0	111,629	38.2
Operating expenses	(46,459)	(57,918)	(19.8)	(48,744)	(4.7)
PPOP	107,765	73,901	45.8	62,885	71.4
Provisions	(75,940)	(59,674)	27.3	(34,957)	117.2
PBT	31,825	14,227	123.7	27,927	14.0
Tax	(5,834)	(2,013)	189.8	(8,847)	(34.1)
PAT	25,992	12,214	112.8	19,080	36.2

Source: Company, YES Sec – Research

Exhibit 3: Business Data (Standalone Bank)

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Loans	6,312,146	6,452,900	(2.2)	5,924,154	6.5
Domestic Corporate	1,587,540	1,604,700	(1.1)	1,514,810	4.8
Retail Business	4,045,760	4,080,030	(0.8)	3,635,960	11.3
Home Loans	2,011,110	2,002,240	0.4	1,839,300	9.3
Vehicle Loans	575,320	583,310	(1.4)	560,580	2.6
Unsecured Loans	587,090	609,420	(3.7)	481,360	22.0
SME	208,570	228,510	(8.7)	176,980	17.8
Overseas Branches	470,270	539,670	(12.9)	596,400	(21.1)
Deposits	8,016,223	7,709,690	4.0	6,607,318	21.3
CA	957,800	1,022,270	(6.3)	804,010	19.1
SA	2,448,360	2,455,910	(0.3)	2,184,760	12.1
Others	4,610,063	4,231,510	8.9	3,618,548	27.4
Investments	3,018,511	2,495,315	21.0	2,199,962	37.2
Borrowings	1,649,180	1,628,968	1.2	1,567,200	5.2
Total assets	11,386,127	10,983,652	3.7	9,637,525	18.1
RWA	7,635,830	7,594,900	0.5	7,229,240	5.6

Source: Company, YES Sec – Research

Exhibit 4: Key Ratios (Standalone Bank)

(%)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	chq yoy
NIM (%)	3.7	3.9	(0.2)	3.6	0.1
Yield on advances (%)*	9.5	9.6	(0.1)	9.8	(0.3)
Yield on investment (%)*	6.4	6.3	0.1	7.2	(0.8)
Cost of funds (%)*	4.8	4.7	0.1	5.4	(0.6)
CASA (%)	42.5	45.1	(2.6)	45.2	(2.7)
C/D (%)	78.7	83.7	(5.0)	89.7	(10.9)
Cost to Income (%)	30.1	43.9	(13.8)	43.7	(13.5)
Prov/Avg.Adv (%)*	5.0	3.9	1.1	2.5	2.4
RoE (%)*	9.1	4.3	4.7	7.1	2.0
RoA (%)*	1.0	0.5	0.5	0.8	0.1
CAR (%)	16.3	16.1	0.2	16.2	0.1
Gross NPA (%)	5.5	5.5	(0.1)	6.5	(1.0)
Net NPA (%)	1.2	1.4	(0.2)	1.8	(0.5)

Source: Company, YES Sec – Research, *Calculated

Exhibit 5: Fee Income Mix (Standalone Bank)

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Fee income	21,040	35,980	(41.5)	30,390	(30.8)
Treasury Income	37,630	2,420	1,455.0	1,790	2,002.2
Lease & Other Misc. Income	2,756	4,150	(33.6)	2,074	32.9
Total non-interest income	61,426	42,550	44.4	34,254	79.3

Source: Company, YES Sec – Research

Exhibit 6: Rating Profile of Overall Loan Book (Standalone Bank)

(%)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
AA- and Above	45.5	44.4	1.1	44.7	0.8
A+, A, A-	24.6	25.8	(1.2)	22.4	2.2
A- and above	70.1	70.2	(0.1)	67.1	3.0
BBB+, BBB, BBB-	26.8	26.6	0.2	29.2	(2.4)
BB and below	1.6	1.4	0.2	1.5	0.1
Others	1.5	1.8	(0.3)	2.2	(0.7)

Source: Company, YES Sec – Research

Exhibit 7: Movement of Corporate and SME BB & Below (Standalone Bank)

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Opening	166,680	174,030	(4.2)	175,250	(4.9)
Slippage to NPA	(1,710)	(17,260)	(90.1)	(12,680)	(86.5)
Upgrade to Invest. grade & net reductn in o/s	(8,600)	(12,970)	(33.7)	(16,180)	(46.8)
Downgrades from Investment Grade	14,730	22,880	(35.6)	7,160	105.7
Closing	171,100	166,680	2.7	153,550	11.4

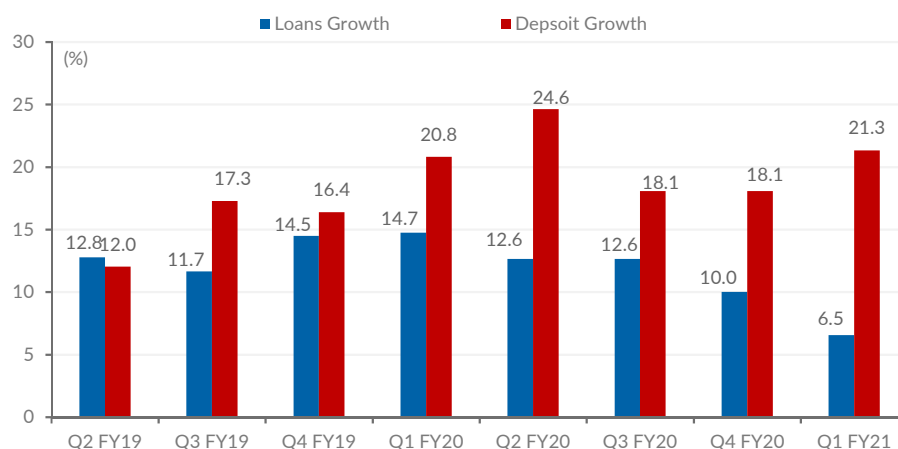
Source: Company, YES Sec – Research

Exhibit 8: Subsidiary PAT

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
ICICI Prudential Life Insurance	2,880	1,790	60.9	2,850	1.1
ICICI Lombard General Insurance	3,980	2,820	41.1	3,100	28.4
ICICI Prudential Asset Management	2,570	2,170	18.4	2,190	17.4
ICICI Securities (Consolidated)	1,930	1,560	23.7	1,140	69.3
ICICI Securities Primary Dealership	3,460	260	1,230.8	690	401.4
ICICI Home Finance	10	640	(98.4)	(60)	(116.7)
ICICI Venture	260	(70)	(471.4)	220	18.2
ICICI Bank UK (USD million)	5	(7)	(173.5)	10	(50.5)
ICICI Bank Canada (CAD million)	5	(8)	(164.0)	12	(59.3)

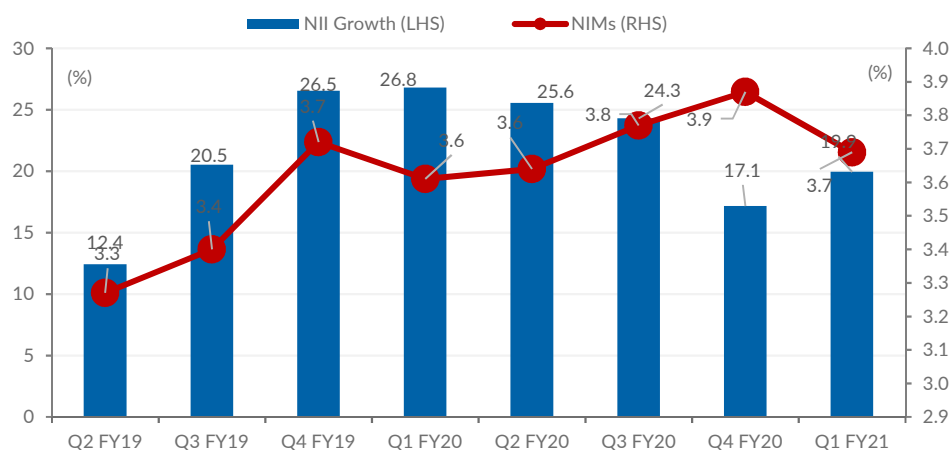
Source: Company, YES Sec – Research

Exhibit 9: Covid moderates loan growth; deposit traction accelerates



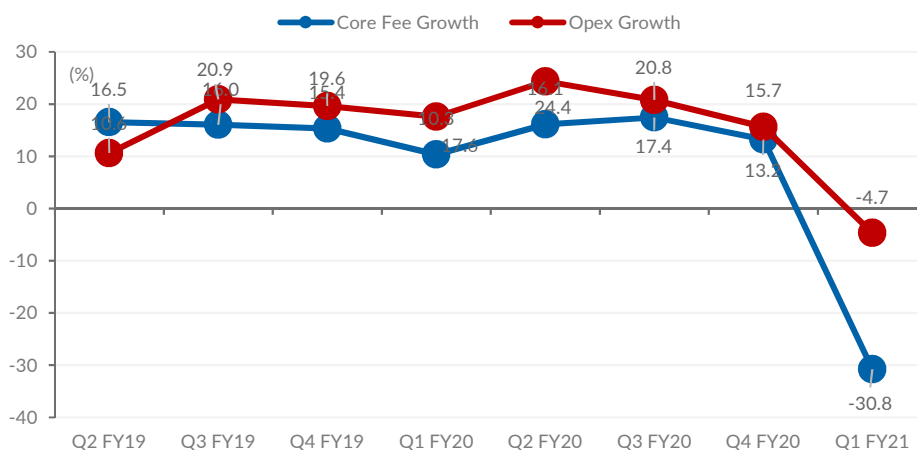
Source: Company, YES Sec – Research

Exhibit 10: NII growth improves while NIM comes-off



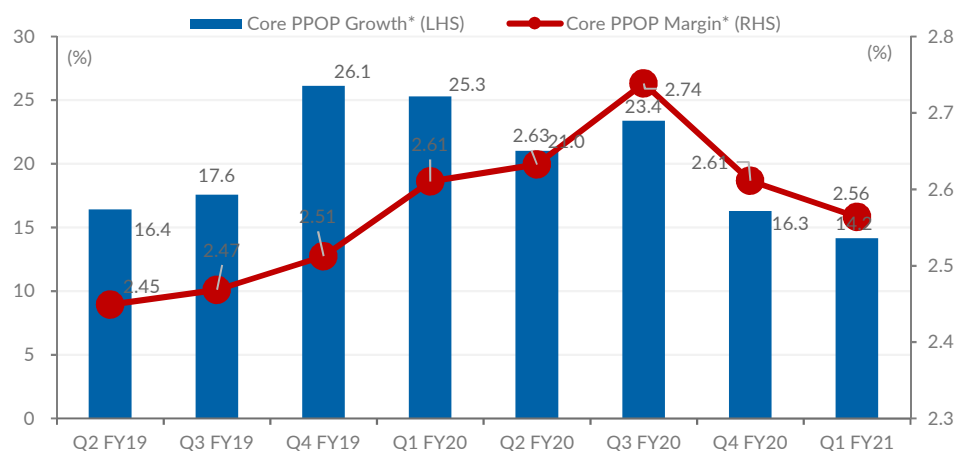
Source: Company, YES Sec – Research

Exhibit 11: Lower loan originations impact fee and opex growth



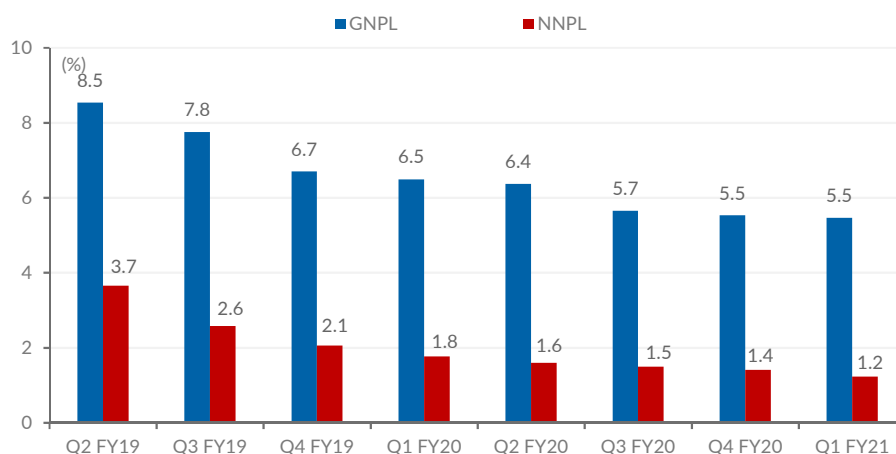
Source: Company, YES Sec – Research

Exhibit 12: Core PPOP margin stable, growth at 14% yoy



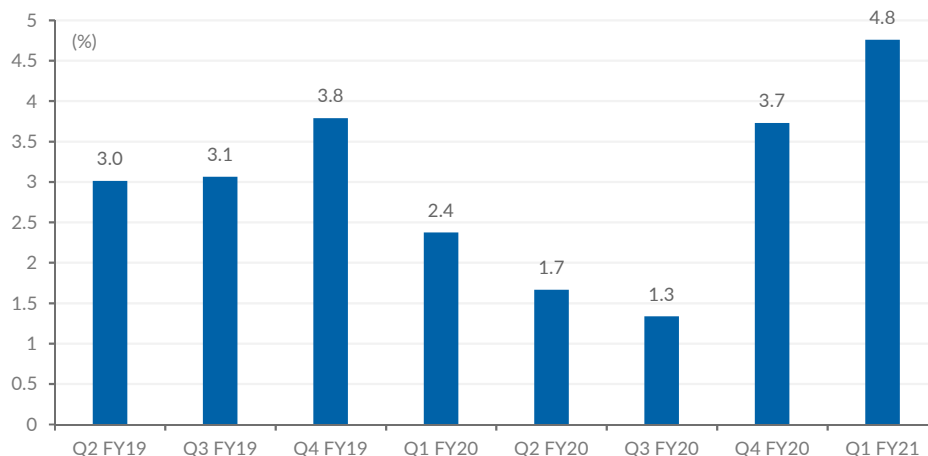
Source: Company, YES Sec – Research

Exhibit 13: Lower slippages and higher provisioning drive reduction in NPLs



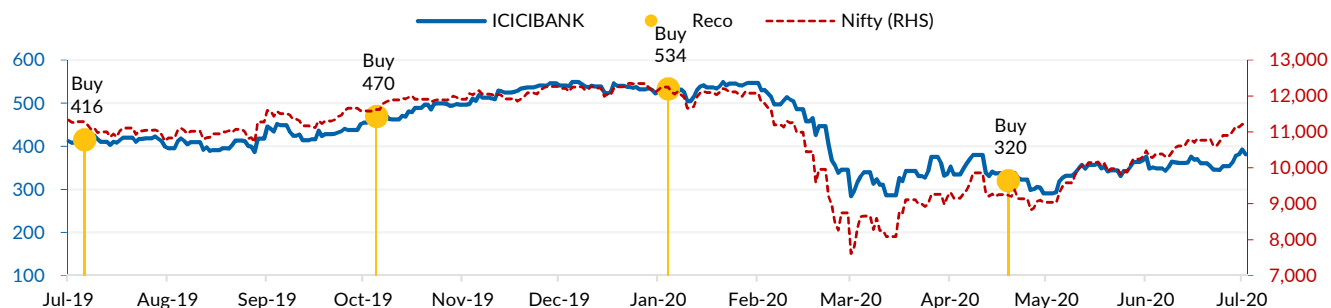
Source: Company, YES Sec – Research

Exhibit 14: Credit cost spikes on huge Covid-related prudential provisions



Source: Company, YES Sec – Research

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road,
Mumbai – 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
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INH000002376 | INVESTMENT ADVISER: INA000007331 |
AMFI ARN Code – 94338

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

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