

Positive NIM surprise but provisions rise

ICICI Bank's Q4FY20 was marked by in-line operating performance with NII/PPoP growing by 17.1%/18.6% YoY. Loan growth was lower though NIM was a beat, driven by lower deposit cost. Slippages rose QoQ led by 2 overseas corporates. Provisions were up QoQ to Rs59.6bn driven by COVID-19 provisions of Rs27.2bn. Floating provisions of Rs79.4bn held as at Mar-20 (1.2% of loans) is comforting. 30% of loans claimed moratorium till April'20 end. Strong pedigree and distribution network could see market share gains in a tough FY21. Maintain multiple/TP at 1.8x/Rs464. BUY.

NII beats estimates; provisions rise due to COVID-19

NII came in at Rs89.3bn (vs est. of Rs81.7bn) up 17.1% YoY as NIM (calc.) at 3.4% beat est. of 3.1% mainly due to fall in deposit cost by 44bps QoQ and 62bps YoY (interest on IT refund+recoveries was 4bps). Loans grew 10.0% YoY (est. 13.5%). Other income was Rs42.6bn (+17.5% YoY) and PPOP came in at Rs73.9bn, up 18.6% YoY (est. Rs75bn). Provisions were higher at Rs60bn (est. Rs44.39bn). Rs27.2bn was towards COVID-19. GNPA/NNPA improved QoQ by 35bps/6bps to 6.04%/1.54% with PCR at 75.6%. Slippages were higher at Rs53.0bn (est. Rs50.8bn). PAT was Rs12.2bn up 26.0% YoY (est. Rs21bn).

Retail loans drive growth while deposits see healthy accretion

Overall loan growth of 10.0% YoY to Rs6.45tn was mainly led by domestic loans (+12.9%) while the overseas book declined by 14.4% YoY. Domestic growth was mainly led by retail at +15.6% YoY. Within retail, home loans and PL&CC saw strong growth. Out of the mortgage pool (31% overall share), 70% is home loan with LTV of 65% and the rest is LAP with an LTV of 55%. Deposit growth was robust at 18.1% to Rs7.71tn mainly led by healthy term deposit growth at 28.6% YoY. The bank was a beneficiary in terms of deposit flows due to the Yes Bank crises as SA/term deposits saw a QoQ growth of 4.3%/11.4%.

Slippages rise and COVID-19 related provisions created; 30% loans see moratorium

Slippages rose QoQ to Rs53.1bn with corporate/retail coming at Rs12.9/40bn. Within corporate Rs17.3bn slipped from the BB & below pool (Rs5.9bn recovered), Rs4.9bn was due to rupee depn. of existing NPA and the balance Rs18.2bn was from 2 overseas accounts; a health care group from West Asia and an oil trading co. from Singapore. Provisions were higher at Rs60bn of which Rs27.2bn was towards COVID-19 (RBI requirement of 5% was Rs6.1bn). Floating provisions are Rs79.4bn (1.2% of loans). Till April'20 end, 30% of overall loans in terms of value had availed moratorium.

Valuation and risks

We like ICICI Bank due to its balance sheet strength, diversified business and strong franchise. The bank might see market share gains in FY21 though asset quality post the moratorium period would be a key monitorable. We raise our provision cost estimates given the extended lockdown. Maintain BUY with the core multiple at 1.8x FY22E ABV and SOTP-based TP of Rs464. Risks: lower loan growth; higher provisions.

Financial and valuation summary

YE Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20A	FY21E	FY22E
NII	89,269	76,201	17.1	85,453	4.5	332,670	368,609	431,648
PPoP	73,901	62,334	18.6	75,486	(2.1)	281,012	319,247	380,432
Provisions	59,674	54,514	9.5	20,832	186.5	140,532	123,412	120,962
PAT	12,214	9,691	26.0	41,465	(70.5)	79,308	146,485	194,084
Loan growth (%)	10.0	14.5	(4.5)	12.6	(2.6)	10.0	12.5	15.0
NIM (%)	3.4	3.3	14bps	3.4	(2bps)	3.7	3.6	3.7
C / I (%)	43.9	44.5	(0.6)	42.5	1.5	43.5	43.0	42.7
GNPA (%)	6.0	8.0	(2.0)	6.4	(0.4)	6.4	7.4	6.4
RoA (%)	0.5	0.4	0.1	1.7	(1.2)	0.8	1.3	1.5
RoE (%)	4.2	3.6	0.6	14.7	(10.5)	7.1	12.1	14.1
P / ABV (x)						2.3	2.0	1.7

Source: Company, Centrum Research estimates

Market Data

Bloomberg:	ICICIBC IN
52 week H/L:	Rs552/268
Market cap:	Rs2186bn
Shares outstanding:	6474mn
Free float:	78.8%
Avg. daily vol. 3mth:	41673000

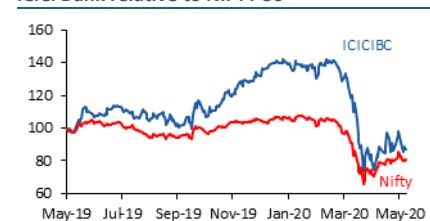
Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	(13.1%) FY21E, (4.4%) FY22E

Source: Centrum Research

ICICI Bank relative to NIFTY 50



Source: Bloomberg

Shareholding pattern

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	0.0	0.0	0.0	0.0
FIIs	43.7	45.8	40.8	43.2
DIIIs	42.3	41.2	45.7	43.6
Public/oth	14.0	13.0	13.5	13.2

Source: BSE



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Thesis Snapshot

Estimate revisions

YE Mar (Rs bn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
NII	368.6	359.3	2.6	431.6	414.9	4.0
PPoP	319.2	338.6	(5.7)	380.4	384.2	(1.0)
Net profit	146.5	168.8	(13.1)	194.1	203.1	(4.4)
Loan growth (%)	12.5	12.5	0.0	15.0	15.0	0.0
GNPA	7.4	6.4	100bps	6.4	5.3	106bps

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q4FY20	Centrum Q4FY20	Variance (%)
NII	89,269	81,752	9.2
PPoP	73,901	74,950	(1.4)
Net profit	12,214	21,002	(41.8)
Loan growth (%)	10.0	13.5	(3.5)
GNPA (%)	6.0	7.3	(122bps)

Source: Bloomberg, Centrum Research estimates

ICICI Bank versus NIFTY 50

	1m	6m	1 year
ICICIB IN	(1.5)	(31.0)	(11.5)
Nifty 50	5.7	(22.3)	(18.6)

Source: Bloomberg, NSE

Key assumptions

YE Mar (%)	FY21E	FY22E
Loan growth	12.5	15.0
NIM	3.6	3.7
Other inc / Assets	1.6	1.7
Cost / Assets	2.1	2.1
Provision costs	1.8	1.6

Source: Centrum Research estimates

Valuations

We like ICICI Bank due to its balance sheet strength, diversified business and strong franchise. The bank might see market share gains in FY21 though asset quality post the moratorium period would be a key monitorable. We raise our provision cost estimates given the extended lockdown. Maintain BUY with the core multiple at 1.8x FY22E ABV and SOTP-based TP of Rs464. Risks: lower loan growth; higher provisions.

SOTP Valuation

Business	Stake	Rs bn	Rs per share	% of total	Multiple (x)	Basis
Standalone bank	100.0%	1,924.1	355	78.0	1.8	x Mar'22 ABV
Life insurance	52.9%	304.4	47	10.4	2.5	FY20 EV
General insurance	55.9%	200.1	31	6.8	30.0	FY20 PAT
AMC	51.0%	89.4	14	3.1	5.0%	of Mar'20 AUM
UK+Canada	100.0%	36.8	6	1.3	1.0	x investment into the subsidiaries
Home finance + Securities + PD + Ventures + Others	100.0%	14.2	2	0.5	1.0	x investment into the subsidiaries
Total		2,620.3	464	100		

Source: Centrum Research estimates

Sensitivity analysis

		Provision cost				
		+10bps	+5bps	Current levels	-5bps	-10bps
NIM	-10bps	(7.6)	(6.0)	(4.5)	(3.0)	(1.5)
	-5bps	(5.3)	(3.8)	(2.3)	(0.8)	0.7
	Current levels	(3.0)	(1.5)	-	1.5	3.0
	+5bps	(0.7)	0.8	2.3	3.8	5.3
	+10bps	1.5	3.0	4.5	6.0	7.6

Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY19-FY22E (%)			P/BVPS				RoA (%)				RoE (%)			
		Total inc	PPOP	PAT	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
ICICI	2,186.7	16.9	17.5	79.4	1.9	1.9	1.7	1.4	0.4	0.8	1.3	1.5	3.1	7.1	12.1	14.1
Axis	1,078.6	15.1	18.2	34.6	2.3	1.3	1.2	1.1	0.6	0.2	0.8	1.0	7.2	2.1	9.2	11.9
SBI	1,487.7	8.2	10.4	228.5	1.5	0.6	0.6	0.5	0.0	0.4	0.4	0.7	0.4	6.9	5.8	11.5
HDFC	5,094.3	18.1	27.6	23.9	3.4	3.1	2.7	2.3	1.8	2.0	2.1	2.1	16.5	16.8	18.1	18.8
Kotak	2,331.3	18.5	24.9	24.8	4.7	4.4	3.9	3.4	1.7	1.9	2.0	2.0	12.1	14.1	14.6	15.1

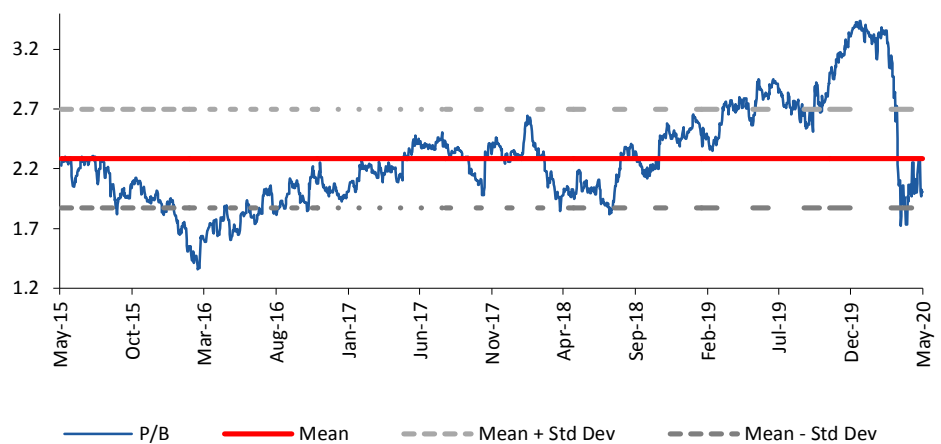
Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY20E Guidance	Q4FY20	Q3FY20	Our Comments
Loan growth	-	-	No specific overall / vertical-wise loan growth target was mentioned by the bank as the on ground COVID related situation is too fluid. Though, we expect larger private banks (HDFC, ICICI, Axis) to benefit from the existing scenario given that these entities have a strong distribution network and the PSU space itself is grappling with integration issues and asset quality woes. We estimate 13.7% CAGR over FY20-22E.
NIM	-	-	FY20 saw ICICI Bank outperforming on the NIM front driven by lower deposit cost and controlled slippages. However for FY21 we see NIM dipping by 10bps to 3.6% as slippages are likely to rise. Deposit cost is expected to remain benign supporting NIM to an extent. However as we see a rebound in FY22E, NIM retrace back to FY20 levels to 3.7%.
Opex	-	-	The management did not allude to a target on cost to income. Its commentary was a departure as compared to peers in a sense that some peers have clearly laid out opex rationalisation as a key objective in the near to medium term due to the lockdown. Contrary to this, ICICI Bank suggested that they would rather focus on income generation compared to cost rationalisation. Hence we do not see material opex leverage to play out. We envisage cost to income to marginally improve by 80bps to 42.7% in FY22E.
Credit Costs	-	Run-rate of 9MFY20 (~1.8% of avg loans) for full year FY20	We factor in higher provision cost given the uncertainty in stress levels and since this pandemic would affect every sector/company. We expect slippages/downgrades in the coming quarters as stated by the management though additional provisioning of Rs79.4bn or 1.2% of loans is comforting. We raise our credit costs by 20bps in FY21E.
Consolidated RoE	-	Q1FY21E: 15%	Management shared no guidance on profitability metrics, however for FY21E we see the bank gaining market share leading to loan growth of 12.5% though NIM might dip due to higher slippages. We have raised our provision cost estimates by 20bps and consequently and we see RoA/RoE of 1.3%/12.1% for FY21E. For FY22E we expect a rebound resulting in an RoA/RoE of 1.5%/14.1%

Source: Company, Centrum Research estimates

P/ABV mean and standard deviation chart



Source: Bloomberg, Centrum Research estimates

Fig 2: Quarterly financials

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest earned	147,224	151,056	162,804	172,928	179,800	185,653	190,643	191,887
Interest expended	86,205	86,881	94,052	96,727	102,426	105,079	105,190	102,618
Net Interest Income	61,019	64,176	68,753	76,201	77,374	80,574	85,453	89,269
Other income	38,518	31,565	38,829	36,210	34,254	41,942	45,740	42,550
Total Income	99,537	95,741	107,581	112,411	111,628	122,517	131,193	131,819
Operating Expenses	41,453	43,244	46,117	50,077	48,744	53,776	55,707	57,918
Employees	15,139	16,614	17,340	18,990	19,533	21,413	19,421	22,345
Others	26,315	26,630	28,777	31,087	29,211	32,362	36,286	35,573
Operating profit	58,084	52,497	61,464	62,334	62,884	68,741	75,486	73,901
Provisions	59,713	39,943	42,442	54,514	34,957	25,069	20,832	59,674
Profit before tax	(1,629)	12,554	19,023	7,820	27,927	43,672	54,654	14,227
Taxes	(434)	3,465	2,974	(1,871)	8,847	37,123	13,190	2,013
Net Profit	(1,196)	9,089	16,049	9,691	19,080	6,549	41,465	12,214
Balance sheet items								
Share capital	12,866	12,872	12,938	12,895	12,952	12,922	12,941	12,948
Reserves & surplus	1,040,494	1,040,803	1,058,743	1,070,786	1,091,042	1,093,179	1,137,072	1,152,097
Deposits	5,468,784	5,586,689	6,067,547	6,529,197	6,607,318	6,962,730	7,163,451	7,709,690
Borrowings	1,619,703	1,746,858	1,642,928	1,653,200	1,567,200	1,510,328	1,373,747	1,628,968
Other liabilities	309,428	356,178	341,481	378,515	359,013	390,951	383,470	479,950
Total liabilities	8,451,275	8,743,400	9,123,638	9,644,592	9,637,525	9,970,109	10,070,680	10,983,652
Cash & bank	310,586	331,217	343,647	378,580	359,896	414,955	362,146	352,840
Interbank & call	322,357	244,901	320,941	424,383	297,578	301,440	342,225	838,718
Investments	1,863,605	1,875,003	1,977,303	2,077,327	2,199,962	2,233,756	2,274,800	2,495,315
Advances	5,162,887	5,444,866	5,643,078	5,866,466	5,924,154	6,133,587	6,356,543	6,452,900
Other assets	791,841	847,413	838,668	897,836	855,935	886,372	734,967	843,880
Total assets	8,451,275	8,743,400	9,123,638	9,644,592	9,637,525	9,970,109	10,070,680	10,983,652
Balance sheet ratios (%)								
Loan growth	11.3	12.8	11.7	14.5	14.7	12.6	12.6	10.0
Deposit growth	12.5	12.0	17.3	16.4	20.8	24.6	18.1	18.1
Loans / Deposits	94.4	97.5	93.0	89.8	89.7	88.1	88.7	83.7
CASA	50.5	50.8	49.3	49.6	45.2	46.7	47.0	45.1
Investment / Deposits	34.1	33.6	32.6	31.8	33.3	32.1	31.8	32.4
Balance sheet ratios								
Tier-1	15.8	15.4	15.1	14.8	14.6	14.6	15.0	14.7
Tier-2	2.5	2.5	2.0	2.0	1.6	1.5	1.5	1.4
CRAR	18.4	17.8	17.2	16.8	16.2	16.1	16.5	16.1
Profitability ratios (%)								
Yield on assets	7.8	8.1	8.4	8.5	8.6	8.7	8.6	8.2
Cost of funds	4.7	4.8	5.0	4.9	5.0	5.0	4.9	4.6
NIM	2.8	3.0	3.1	3.2	3.2	3.3	3.4	3.4
Other income / Assets	1.8	1.5	1.7	1.5	1.4	1.7	1.8	1.6
Cost / Income	41.6	45.2	42.9	44.5	43.7	43.9	42.5	43.9
Cost / Assets	1.9	2.0	2.1	2.1	2.0	2.2	2.2	2.2
RoE	-0.5	3.5	6.0	3.6	7.0	2.4	14.7	4.2
RoA	-0.1	0.4	0.7	0.4	0.8	0.3	1.7	0.5
EPS (Rs)	-0.7	5.6	9.9	6.0	11.8	4.1	25.6	7.5
BVPS (Rs)	126.2	129.4	140.5	147.0	152.2	154.3	161.7	164.3
Asset quality ratios (%)								
GNPA	10.4	10.3	9.3	8.0	7.2	6.9	6.4	6.0
NNPA	4.2	3.7	2.6	2.1	2.0	1.7	1.6	1.5
Provision coverage	54.8	59.5	68.5	70.7	74.1	76.1	76.1	75.6
Provision costs	4.6	3.0	3.1	3.8	2.4	1.7	1.3	3.7
Slippage	3.1	2.3	1.5	2.4	1.9	1.6	2.7	3.3
NNPA / Equity	22.9	21.0	15.2	12.5	10.7	9.9	9.0	8.7

Source: Company, Centrum Research

P&L					
YE March (Rs mn)	FY18	FY19	FY20A	FY21E	FY22E
Interest income	549,659	634,012	747,983	838,689	967,081
Interest expense	319,400	363,864	415,313	470,080	535,433
NII	230,258	270,148	332,670	368,609	431,648
Other income	174,196	145,122	164,486	191,474	232,281
Total income	404,455	415,270	497,156	560,083	663,930
Operating expenses	157,040	180,891	216,144	240,836	283,498
Employee	59,140	68,082	82,712	92,638	103,754
Others	97,900	112,808	133,432	148,198	179,744
PPOP	247,415	234,379	281,012	319,247	380,432
Provisions	173,070	196,616	140,532	123,412	120,962
PBT	74,345	37,763	140,480	195,835	259,470
Tax	6,571	4,135	61,172	49,351	65,386
Net profit	67,774	33,628	79,308	146,485	194,084

Ratios					
YE March	FY18	FY19	FY20A	FY21E	FY22E
Growth (%)					
Loans	10.4	14.5	10.0	12.5	15.0
Deposits	14.5	16.4	18.1	12.7	16.5
RWA growth	1.6	8.3	10.5	14.1	16.6
NII	5.9	17.3	23.1	10.8	17.1
Other income	(10.7)	(16.7)	13.3	16.4	21.3
Opex	6.4	15.2	19.5	11.4	17.7
PPoP	(6.6)	(5.3)	19.9	13.6	19.2
Provisions	13.8	13.6	(28.5)	(12.2)	(2.0)
Net profit	(30.9)	(50.4)	135.8	84.7	32.5
Profitability (%)					
Yield on assets	7.4	7.7	8.2	8.1	8.2
Cost of funds	4.6	4.7	4.7	4.7	4.6
NIM	3.1	3.3	3.7	3.6	3.7
Other income / Total income	43.1	34.9	33.1	34.2	35.0
Other income / Assets	2.1	1.6	1.6	1.6	1.7
Cost / Income	38.8	43.6	43.5	43.0	42.7
Cost / Assets	1.9	2.0	2.1	2.1	2.1
Provision costs	3.5	3.6	2.3	1.8	1.6
Credit costs	2.9	3.1	1.8	1.6	1.4
Tax rate	8.8	10.9	43.5	25.2	25.2
RoE	6.8	3.2	7.1	12.1	14.1
RoA	0.8	0.4	0.8	1.3	1.5
RoRWA	1.1	0.5	1.1	1.8	2.1
Du-pont (%)					
Interest income	6.7	6.9	7.3	7.2	7.2
Interest expenses	3.9	3.9	4.0	4.0	4.0
NII	2.8	2.9	3.2	3.2	3.2
Other income	2.1	1.6	1.6	1.6	1.7
Total income	4.9	4.5	4.8	4.8	5.0
Operating expenses	1.9	2.0	2.1	2.1	2.1
PPOP	3.0	2.5	2.7	2.7	2.8
Provisions	2.1	2.1	1.4	1.1	0.9
PBT	0.9	0.4	1.4	1.7	1.9
Tax	0.1	0.0	0.6	0.4	0.5
RoA	0.8	0.4	0.8	1.3	1.5

Source: Company, Centrum Research estimates

Balance Sheet					
YE March (Rs mn)	FY18	FY19	FY20A	FY21E	FY22E
Share capital	12,914	12,941	12,948	12,948	12,948
Reserves & surplus	1,038,676	1,070,739	1,152,097	1,298,581	1,492,665
Deposits	5,609,752	6,529,197	7,709,690	8,688,821	10,122,476
Borrowings	1,828,586	1,653,200	1,628,968	2,038,118	2,374,408
Other Liabilities	301,964	378,515	479,950	328,366	329,680
Total liabilities	8,791,892	9,644,592	10,983,652	12,366,834	14,332,177
Cash balances with RBI	331,024	378,580	352,840	504,166	587,354
Balances with banks	510,670	424,383	838,718	881,492	926,449
Investments	2,029,942	2,077,327	2,495,315	2,780,423	3,391,029
Advances	5,123,953	5,866,466	6,452,900	7,259,512	8,348,439
Fixed Assets	79,035	79,314	84,103	85,785	87,501
Other Assets	717,268	818,522	759,777	855,456	991,406
Total assets	8,791,892	9,644,592	10,983,652	12,366,834	14,332,177

Ratios					
YE March	FY18	FY19	FY20A	FY21E	FY22E
Balance Sheet (%)					
Loans / Deposits	91.3	89.8	83.7	83.6	82.5
Investments / Deposits	33.4	29.4	32.4	32.0	33.5
CASA ratio	51.7	49.6	45.1	46.1	47.1
Assets / Equity	8.4	8.9	9.4	9.4	9.5
RWA / Total assets	72.2	71.3	69.1	70.1	70.5
Capital (%)					
CET-1	14.4	13.7	13.4	13.3	13.1
Tier-1	15.9	14.3	14.7	14.6	14.4
Tier-2	2.5	2.3	1.4	1.2	1.0
Total CRAR	18.4	16.6	16.1	15.8	15.5
Asset quality (%)					
GNPA (Rs mn)	540,625	462,916	414,090	516,254	507,253
NNPA (Rs mn)	278,863	135,774	101,138	144,551	131,886
GNPA	9.9	7.4	6.4	7.4	6.4
NNPA	5.4	2.3	1.6	2.0	1.6
PCR	48.4	70.7	75.6	72.0	74.0
Slippage	5.8	2.2	2.4	3.0	2.2
NNPA / Equity	26.5	12.5	8.7	11.0	8.8
Per share (Rs)					
EPS	10	5	12	23	30
DPS	2	1	0	0	1
BVPS	158	163	180	203	233
ABVPS	115	142	144	165	197
Valuation (x)					
P/E	28.3	62.8	27.4	14.8	11.2
P/BV	1.9	2.0	1.9	1.7	1.4
P/ABV	2.6	2.3	2.3	2.0	1.7

Source: Company, Centrum Research estimates

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ICICI Bank



Source: Bloomberg

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