

ICICI Bank

Getting stronger

ICICIB has realised ~Rs 31bn in 1QFY21 so far, from stake sales in ICICIGI (Rs 22.5bn) & IPRU (Rs 8.4bn) while retaining majority stakes. The move bolsters the bank's already strong capital base (16.1%, +40bps) and allows it to make further COVID-19 related provisions, while limiting the RoAE impact. This demonstrates its ability to augment its capital base, without raising funds (media articles suggest that it is looking to raise \$ 3bn). Even without said (potential) fund raise, the bank is well positioned to withstand COVID-19 related stress and capture any resurgent growth. ICICIB remains our top pick amongst large private banks. Maintain BUY with a SoTP of Rs 442.

- Strategic sense for stake sale:** The exact rationale for a stake sale (including the size and timing) can always be debated upon, especially in the absence of regulatory requirements. Non-core businesses present attractive long-term propositions and could be potentially SoTP accretive. However, given (1) that ICICIB continues to hold majority stakes in both subsidiaries, and (2) the proceeds can be used to organically augment the bank's (albeit already strong) capital base, we find the trade-off acceptable and prudent.
- Stake sale gains to bolster the b/s:** ICICIB exited FY20 with (1) a strong B/S- CRAR of 16.1% w/w Tier 1 of 14.7%, (2) declining but moderate stress with GNPA's of 5.53% (-117bps YoY), (3) calc. coverage 75.6% (best in class) and (4) o/s std. assets provisions of Rs 55bn (13% of GNPA's) and (5) COVID-19 related provisions of Rs 21bn. Stake sale proceeds of ~Rs 31bn stand to boost CRAR by 40bps. However, we believe that the bank is better off offsetting the gains by making additional (prudent) provisions of Rs 28bn (i.e. 42bps of average loans).
- Potential fund raise?** We believe that the bank is already well capitalised, has sufficiently provided for existing stress and can comfortably provide for potential COVID-19 related stress without needing capital. Nevertheless, such a fund raise, while book accretive (ABV's rise ~9%), would dilute RoAE's (-100bps) and increase CRAR by ~250bps. We have not factored it into our estimates.
- Funding and liquidity not a worry:** The bank has been a beneficiary of polarisation in this space, as its deposits grew 18/8% in 4QFY20. CASA (45.1%) and deposit granularity (share of deposits from retail and small business customers at 57% on a Basel III basis) point to a lucrative deposit franchise. Not only does this help ICICIB keep funding costs competitive, but it will also help the bank capture resurgent growth.

Financial Summary

(Rs bn)	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Net int. inc.	212.2	217.4	230.3	270.1	332.7	362.0	404.0
PPOP	238.6	264.9	247.4	234.4	281.0	342.9	351.3
PAT	97.3	98.0	67.8	33.6	79.3	143.2	173.0
EPS (Rs)	16.7	16.8	10.5	5.2	12.3	22.1	26.7
ROAE (%)	11.1	10.0	7.2	3.3	6.3	11.1	12.1
ROAA (%)	1.42	1.31	0.82	0.36	0.77	1.25	1.39
Adj. BVPS (Rs)	113	111	111	138	155	173	201
P/ABV (x)	2.43	2.33	2.22	1.67	1.44	1.26	1.07
P/E (x)	16.4	15.3	23.3	44.0	18.3	9.8	8.0

Source: Bank, HSIE Research.

BUY

CMP (as on 29 June 2020)	Rs 343
Target Price	Rs 442
NIFTY	10,312

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 442	Rs 442
EPS %	FY21E	FY22E
	1.6%	0.0%

KEY STOCK DATA

Bloomberg code	ICICIB IN
No. of Shares (mn)	6,476
MCap (Rs bn) / (\$ mn)	2,221/29,423
6m avg traded value (Rs mn)	14,513
52 Week high / low	Rs 552/268

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.0	(37.6)	(21.5)
Relative (%)	(16.3)	(21.6)	(10.3)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters		
FIs & Local MFs	41.7	42.9
FPIs	45.8	43.7
Public & Others	12.5	13.4
Pledged Shares	NA	NA

Source : BSE

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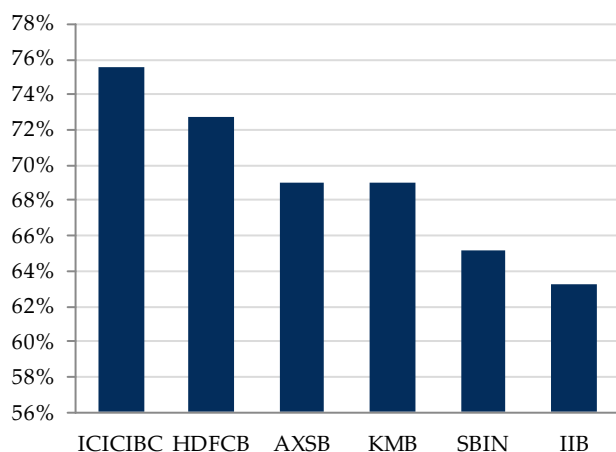
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SOTP

	Rs bn	Per Share	Rationale
ICICI Bank	2,043	316	1.6x Mar-22E ABV of Rs 201
ICICI Life Insurance	339	52	Mar-21 EV + 21.1x Mar-22E VNB
ICICI Lombard	246	38	26.2x Mar-22E EPS
ICICI AMC	183	28	8% of FY21E AUM
ICICI UK	40	6	1x FY22E BV
ICICI Canada	47	7	1x FY22E BV
ICICI Housing Finance	23	4	1x FY22E BV
ICICI Sec	113	17	18x Mar-22E EPS
Others	32	5	I Ventures and Others
Total Value Of Subsidiaries	1,023	158	
Less: 20% Holdco Discount	205	32	
Net Value Of Subsidiaries	819	126	
Total Value	2,862	442	
Current Value	2,221	343	
Upside (%)	28.8	28.8	

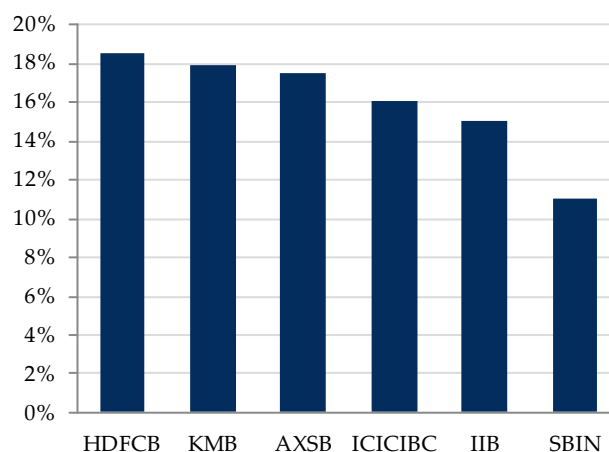
Source: Bank, HSIE Research

PCR: ICICIBC vs. peers



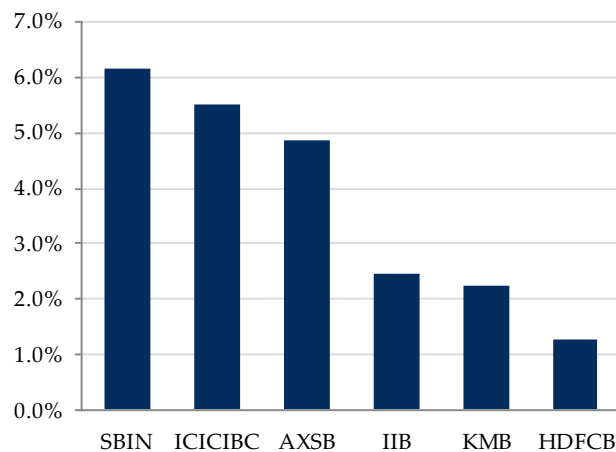
Source: Company, HSIE Research

CRAR: ICICIBC vs. peers



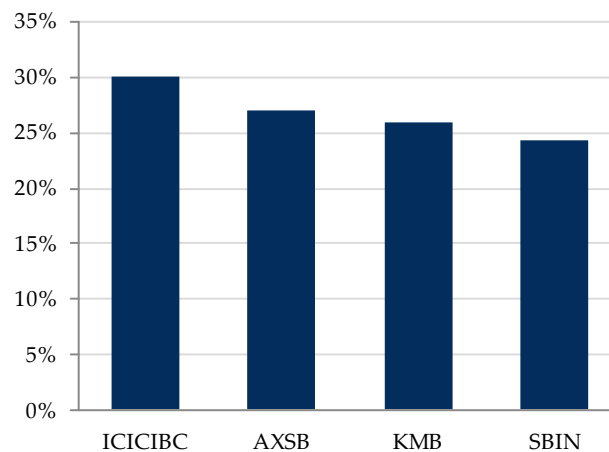
Source: Company, HSIE Research

GNPAs: ICICIBC vs. peers



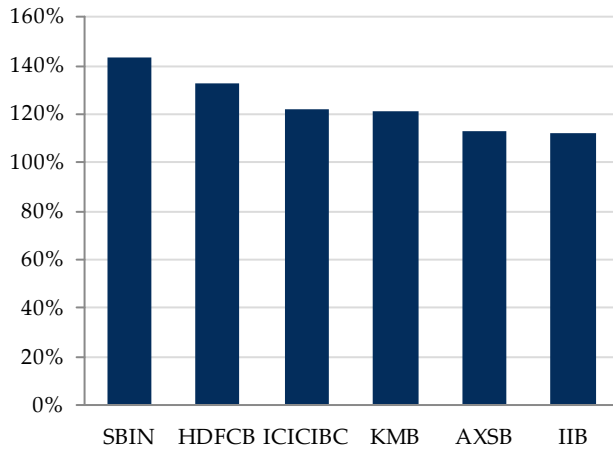
Source: Company, HSIE Research

Moratorium: ICICIBC vs. peers



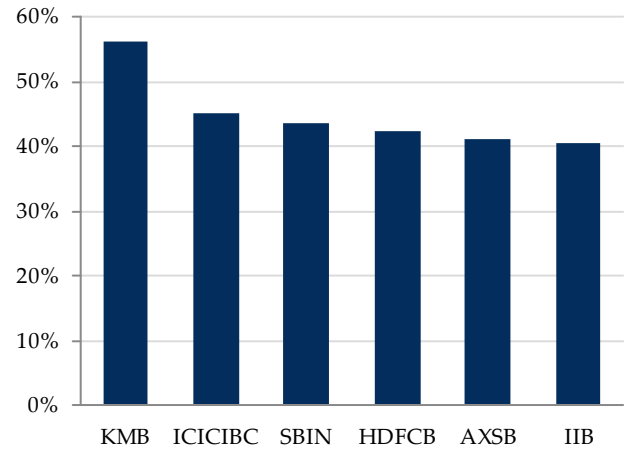
Source: Company, HSIE Research

LCR: ICICIBC vs. peers



Source: Company, HSIE Research

CASA: ICICIBC vs. peers



Source: Company, HSIE Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E
AUBANK	165	543	ADD	549	135	145	172	26.7	26.2	21.7	3.92	3.64	3.07	18.6	13.3	14.1	1.61	1.35	1.39
AXSB#	1,143	405	BUY	541	268	292	341	67.0	11.7	8.8	1.44	1.32	1.12	2.1	10.4	12.4	0.19	0.98	1.20
CUBK	89	121	BUY	164	61	65	77	18.8	17.6	11.8	1.97	1.86	1.58	9.4	9.2	12.3	1.00	1.00	1.38
DCBB	25	79	ADD	100	93	94	114	7.2	8.1	6.3	0.85	0.84	0.69	10.3	8.5	9.9	0.91	0.76	0.89
FB	103	52	BUY	61	65	67	76	6.7	8.6	6.7	0.80	0.78	0.68	11.1	7.9	9.5	0.91	0.64	0.76
ICICIBC#	2,221	343	BUY	442	155	173	201	18.3	9.8	8.0	1.44	1.26	1.07	6.3	11.1	12.1	0.77	1.25	1.39
IIB	341	480	ADD	575	459	512	575	7.5	11.6	8.1	1.05	0.94	0.84	14.7	8.1	10.2	1.51	0.93	1.21
KMB#	2,686	1,358	ADD	1,282	240	292	330	34.4	34.6	29.5	4.46	3.76	3.23	13.6	11.6	11.1	1.78	1.67	1.75
KVB	28	35	REDUCE	33	60	51	62	11.8	8.6	6.1	0.58	0.68	0.56	3.6	4.8	6.7	0.34	0.46	0.61
RBK	91	180	REDUCE	149	185	197	217	18.1	17.1	10.4	0.97	0.91	0.83	5.6	4.9	7.6	0.60	0.58	0.89
SBIN#	1,600	179	BUY	270	175	167	207	4.1	5.8	2.9	0.38	0.41	0.32	6.4	4.4	8.2	0.38	0.26	0.48

Source: Company, HSIE Research, # Adjusted for subsidiaries value

Financials

Income statement

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Interest earned	490.9	527.4	541.6	549.7	634.0	748.0	804.7	880.9
Interest expended	300.5	315.2	324.2	319.4	363.9	415.3	442.8	476.9
Net interest income	190.4	212.2	217.4	230.3	270.1	332.7	362.0	404.0
Other income	121.8	153.2	195.0	174.2	145.1	164.5	206.0	191.8
Fee income (CEB)	69.8	74.6	80.3	87.9	102.3	112.9	115.8	131.4
Treasury income	15.5	38.0	86.2	57.9	13.4	12.9	48.4	15.0
Total income	312.2	365.5	412.4	404.5	415.3	497.2	568.0	595.8
Operating expenses	115.0	126.8	147.6	157.0	180.9	216.1	225.1	244.5
Employee expenses	47.5	50.0	57.3	59.1	68.1	82.7	87.1	91.8
PPOP	197.2	238.6	264.9	247.4	234.4	281.0	342.9	351.3
Provisions and contingencies	39.0	116.7	152.1	171.1	196.6	140.5	151.5	120.2
Provisions for std. and non-performing advances	35.3	75.1	143.5	145.2	168.1	133.0	126.1	122.7
Profit before tax	158.2	122.0	112.8	76.3	37.8	140.5	191.4	231.1
Tax expense	46.4	24.7	14.8	8.6	4.1	61.2	48.2	58.2
Profit after Tax	111.8	97.3	98.0	67.8	33.6	79.3	143.2	173.0

Balance sheet

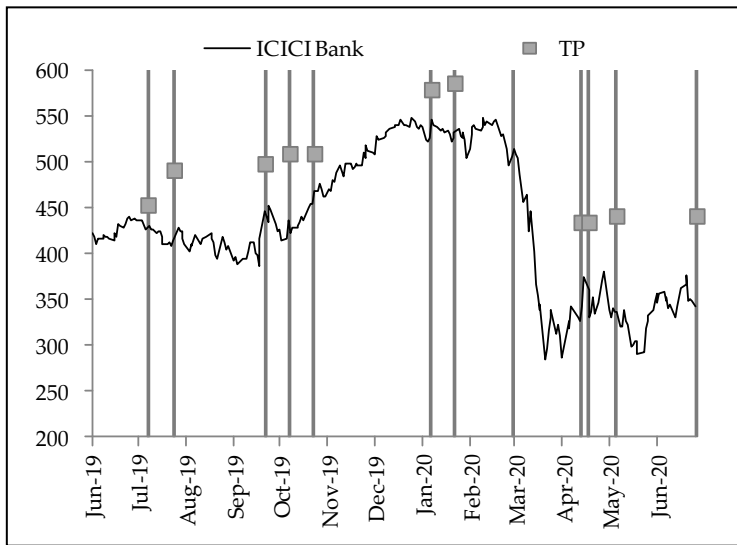
(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Sources of funds								
Share capital	11.6	11.6	11.7	12.9	12.9	12.9	12.9	12.9
Reserves and surplus	792.6	885.7	987.8	1,038.7	1,070.7	1,152.1	1,281.0	1,436.6
Shareholders' funds	804.2	897.3	999.4	1,051.5	1,083.6	1,165.0	1,293.9	1,449.6
Savings deposits	1,148.6	1,342.3	1,718.4	2,009.7	2,276.7	2,455.9	2,701.5	3,052.7
Current deposits	495.2	588.7	749.8	889.6	962.7	1,022.3	1,093.8	1,170.4
Term deposits	1,971.8	2,283.3	2,432.2	2,710.5	3,289.8	4,231.5	4,866.2	5,352.9
Total deposits	3,615.6	4,214.3	4,900.4	5,609.8	6,529.2	7,709.7	8,661.6	9,576.0
Borrowings	1,724.2	1,748.1	1,475.6	1,828.6	1,653.2	1,629.0	1,384.7	1,426.2
Other liabilities	317.2	347.3	342.5	302.0	378.5	479.9	527.9	564.9
Total equity and liabilities	6,461.3	7,207.0	7,717.9	8,791.9	9,644.6	10,983.7	11,868.1	13,016.6
Application of funds								
Cash and bank balances	423.0	598.7	757.1	841.7	803.0	1,191.6	1,360.1	1,325.1
Investments	1,581.3	1,604.1	1,615.1	2,029.9	2,077.3	2,495.3	2,694.3	2,815.1
Government securities	1,056.1	1,106.5	1,125.1	1,391.9	1,479.2	1,883.2	2,078.8	2,202.5
Advances	3,875.2	4,352.6	4,642.3	5,124.0	5,866.5	6,452.9	6,892.1	7,869.6
Fixed assets	47.3	75.8	78.1	79.0	79.3	84.1	85.8	87.5
Other assets	534.5	575.7	625.3	717.3	818.5	759.8	835.8	919.3
Total Assets	6,461.3	7,207.0	7,717.9	8,791.9	9,644.6	10,983.7	11,868.1	13,016.6

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Valuation ratios								
EPS (Rs)	19.3	16.7	16.8	10.5	5.2	12.3	22.1	26.7
Earnings growth (%)	13.9	(13.0)	0.8	(30.9)	(50.4)	135.8	80.6	20.7
Core BVPS (Rs)	138.7	154.3	171.6	163.6	168.1	180.0	199.9	223.9
Core ABVPS (Rs)	108.0	113.0	110.6	110.7	137.7	155.4	173.4	201.3
DPS (Rs)	5.0	5.0	4.4	1.5	1.0	0.0	2.2	2.7
RoAA (%)	1.80	1.42	1.31	0.82	0.36	0.77	1.25	1.39
RoAE (%)	14.8	11.1	10.0	7.2	3.3	6.3	11.1	12.1
P/E (x)	14.3	16.4	15.3	23.3	44.8	18.6	10.0	8.0
P/ABV (x)	2.55	2.4	2.3	2.22	1.70	1.47	1.28	1.07
P/PPOP (x)	2.0	1.7	1.5	1.8	1.9	1.6	1.3	1.3
Dividend yield (%)	1.5	1.5	1.3	0.4	0.3	-	0.6	0.8
Profitability (%)								
Yield on advances	9.8	9.5	8.8	8.4	8.7	9.3	9.1	9.0
Yield on investments	6.3	6.7	7.1	6.3	6.2	6.4	6.4	6.4
Cost of funds	5.9	5.6	5.3	4.6	4.7	4.7	4.6	4.5
Cost of deposits	5.9	5.5	5.0	4.5	4.4	4.5	4.4	4.4
Core spread	3.9	3.9	3.6	3.7	4.1	4.6	4.5	4.5
NIM	3.5	3.6	3.3	3.2	3.4	3.7	3.6	3.6
Operating efficiency								
Cost/average assets	1.9	1.9	2.0	1.9	2.0	2.1	2.0	2.0
Core Cost/income	38.7	38.7	45.2	45.3	45.0	44.6	43.3	42.1
Balance sheet structure (%)								
Loan growth	14.4	12.3	6.7	10.4	14.5	10.0	6.8	14.2
Deposit growth	8.9	16.6	16.3	14.5	16.4	18.1	12.3	10.6
CD ratio	107.2	103.3	94.7	91.3	89.8	83.7	79.6	82.2
Equity/ assets	12.4	12.5	12.9	12.0	11.2	10.6	10.9	11.1
Equity/ advances	20.8	20.6	21.5	20.5	18.5	18.1	18.8	18.4
CASA	45.5	45.8	50.4	51.7	49.6	45.1	43.8	44.1
Capital adequacy (CAR)	17.0	16.6	17.4	18.4	16.9	16.1	16.4	16.6
w/w Tier 1	12.8	13.1	14.4	15.9	15.1	14.7	15.1	15.5
Asset quality								
Gross NPLs (Rs bn)	150.9	262.2	421.6	532.4	456.8	414.1	426.3	390.2
Net NPLs (Rs bn)	62.6	129.6	252.2	278.2	134.5	101.1	116.0	94.0
Gross NPL (%)	3.78	5.82	7.89	8.84	6.70	5.53	5.82	4.72
Net NPL (%)	1.61	2.98	4.20	4.77	2.06	1.41	1.68	1.19
Slippage ratio (%)	2.19	4.06	7.46	5.86	1.93	2.42	2.70	2.25
Calc. PCR (%)	58.6	50.6	40.2	47.7	70.6	75.6	72.8	75.9
Provisions/ average loans (%)	1.0	1.8	3.2	3.0	3.1	2.2	1.9	1.7
RoAA Tree								
Net interest income	3.07%	3.11%	2.91%	2.79%	2.93%	3.23%	3.17%	3.25%
Non-interest income	1.96%	2.24%	2.61%	2.11%	1.57%	1.59%	1.80%	1.54%
Treasury income	0.25%	0.56%	1.16%	0.70%	0.15%	0.13%	0.42%	0.12%
Operating cost	1.85%	1.86%	1.98%	1.90%	1.96%	2.10%	1.97%	1.96%
Non-tax provisions	0.63%	1.71%	2.04%	2.07%	2.13%	1.36%	1.33%	0.97%
Provisions for std. & non-performing assets	0.51%	1.06%	1.97%	1.73%	1.82%	1.27%	1.10%	0.98%
Tax expense	0.75%	0.36%	0.20%	0.10%	0.04%	0.59%	0.42%	0.47%
RoAA	1.80%	1.42%	1.31%	0.82%	0.36%	0.77%	1.25%	1.39%
Leverage (x)	8.08	8.03	7.87	8.05	8.63	9.17	9.29	9.07
RoAE	14.55%	11.43%	10.33%	6.61%	3.15%	7.05%	11.65%	12.61%

Source: Bank, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	426	BUY	454
29-Jul-19	416	BUY	492
22-Sep-19	418	BUY	499
9-Oct-19	437	BUY	510
27-Oct-19	469	BUY	510
9-Jan-20	526	BUY	580
27-Jan-20	534	BUY	587
2-Mar-20	497	BUY	639
15-Apr-20	327	BUY	435
20-Apr-20	362	BUY	435
10-May-20	338	BUY	442
29-Jun-20	343	BUY	442

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

We, **Darpin Shah, MBA, Aakash Dattani, ACA & Punit Bahlani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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