ICICI Bank
July 26, 2020

DALAL & BROACHA
STOCK BROKING PVT. LTD.

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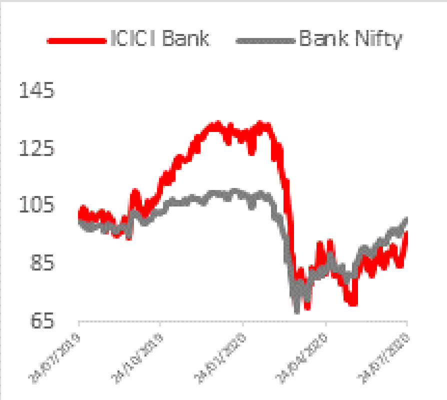
Q1FY21 Result update@ Dalal & Broacha

ACCUMULATE	
Current Price	382
52 Week Range	269/552
Target Price	437
Upside (%)	14

Key Share Data	
Market Cap (Rs.bn)	2472.92
Market Cap (US$ Mn)	33095.82
No of o/s shares (Mn)	6475.98
Face Value	2
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC:IN

Price performance



% Shareholding	Jun-20	Mar-20
DIIs	46.15	44.98
FIIs	42.98	43.72
Others	10.87	11.30
Total	100	100

ICICI Bank has reported a stable set of numbers for the quarter ended June 30, 2020. During the quarter, **fees income was adversely impacted due to the disruption in customer activities, which was more than offset by robust growth in NII and drop in opex, resulting in a core operating profit growth of 14.8% YoY**. The profitability was also supported by some stake sale in general (Rs 22.50 Bn) and life insurance subsidiaries (8.4 Bn).Till recovery is in sight, the bank is likely to focus on preserving capital and liquidity position, which we believe is the best approach in these uncertain times.

- NII came in at INR 92798 Mn, +19.9% YoY / +4% QoQ.
- Other Income came in at INR 61426 Mn, +79.3% YoY / 44.4% QoQ.
- PPOP came in at INR 107765 Mn, +71.4% YoY / 45.8% QoQ.
- Provisions came in at INR 75940 Mn, 117% YoY / 27.3% QoQ.
- PAT came in at INR 25992 Mn, +36.2% YoY / 112.8% QoQ.

Other Financial Highlights

- **Asset quality improved during the quarter, with GNPA at 5.46% (-7 bps QoQ) and NNPA at 1.23% (-18 bps QoQ).** PCR improved at 78% (+245 bps QoQ). Bank has further strengthened its balance sheet, with additional COVID-19 related provisions of Rs 5,550 Cr in Q1. With this, total COVID-19 related provisions stood at Rs 8,275 Cr as of Q1FY21.
- Bank's BB & below book moved up to Rs 171 bn v/s 167 bn QoQ. **Macro headwinds could result in continued downgrades which could mean similar levels of BB & below book in the coming quarters.**
- **Advances stood at Rs 6312 Bn (+6.5% YoY/-2.2% QoQ),** mainly led by Retail segment (+11.3% YoY/weightage 64%) & corporate segment (+13.7% YoY/ weightage 25%), while SME & overseas book de-grew by 29% YoY & 21% YoY respectively.
- **The disbursements across various retail products which had virtually entirely stopped in the months of April and May, have picked up in June.** We believe loan growth will pick up meaningfully in the second half of FY21.
- On the liability side, **deposit book stood at Rs 8016 Bn (+21% YoY/+4% QoQ).** Bank continued to see robust deposit flows, resulting in high liquidity and a LCR of 146.0%. CASA ratio stood at 42.5% vs 45.1% QoQ and 45.2% YoY.
- **Operational efficiency improved, with cost to income ratio stood at 30.1% (-1381 bps QoQ),** backed by higher net income (NII + other income) growth of 20% YoY vs opex de-growth of 19.8% YoY in Q1FY21.
- Bank's total capital adequacy at June 30, 2020, was 16% and Tier-1 capital was 14.6% compared to minimum regulatory requirements of 11.08% & 9.08% respectively. Including profits for Q1FY21, Tier I ratio stood at 14.93% and CAR stood at 16.32%.

Valuation and outlook

While bank is keeping higher provisions than regulatory requirement, what is to be noted is that about 17.5% of the bank's customers have sought the relief (moratorium). It may be too soon to critic, but in the worst-case scenario, such a large portion of the book comes under stress, the impact could devastating. At this juncture, we believe that total provisions (excluding NPA provisions) of Rs 143.68 Bn (2.3% of loans) is more than sufficient to absorb the impact of Covid-19.

We continue to like ICICI Bank's ongoing turnaround story with focus on retail liabilities, risk calibrated growth and better leveraging product capabilities across the group subsidiaries. We also take comfort from its tier-1 capital (14.61%), which provide an additional buffer to cushion any adverse effect of sudden spikes in slippages.

While we remain broadly positive on stock from a business perspective, it has rallied strongly in the past two months over 30% up move. Thus, **we revise our rating to "Accumulate" from "BUY" earlier, with a price target of Rs 437. At CMP, stock trades at 2.1x its FY21E ABV and 1.9x its FY22E ABV. We value ICICI Bank at 1.7x FY22E standalone P/ABV and ascribing a value of Rs 91 for subsidiaries.**

Key Financials (Rs Bn)

Year	NII	PPOP	PAT	ROA	ROE	Adj.BVPS	P/ABVPS
FY20	333	497	79	0.8	7.1	165	2.3
FY21	363	554	131	1.2	10.7	180	2.1
FY22	421	614	173	1.4	12.7	204	1.9

Highlights of the Conference Call

P&L Details

- The margins (-18 bps QoQ) is adversely impacted due to the higher liquidity as deposit flows continued to be robust, with fewer lending opportunities.
- Fee income (-31% YoY) was declined due to lower borrowing and investment activity by customers and lower consumer spends during the lockdown.
- Drop in non-employee expenses (-15% YoY) was due to lower business volumes during the lockdown and lower administrative related expenses, which was partly offset by increase in technology related expenses.
- Bank monetized 1.5% and 4.0% stake respectively in its life and general insurance subsidiaries, to further strengthening the balance sheet by ~Rs 30 bn, which is reflected in the treasury income.

Robust deposit franchise

- Bank continued to see robust deposit flows, resulting in high liquidity and a LCR of 146%.
- Cost of deposits is one of the lowest in the system and during Q1, bank reduced its interest rate on key retail term deposit rate by 50 bps.

Protecting the balance sheet from potential risks

- Bank has made additional Covid-19 related provisions of Rs 55.5 bn on a prudent basis with the objective of completely cushioning the balance sheet from the impact of Covid-19
- The higher provisions was taken in consideration of lower rated i.e. BB & below corporate & SME portfolio, and Loans under moratorium in portfolios such as commercial vehicle loans and builder loans that were experiencing challenges even before the outbreak of the pandemic.
- Total outstanding provisions as on Q1FY21, excluding provisions for NPA, stood at Rs 143.68 Bn (2.3% of loans). Management is confident that outstanding additional provision is prudent in the context of uncertainties around the trajectory of the pandemic.
- Rs150 bn enabling resolution for capital raise to strengthen balance sheet and see growth opportunities on a medium term basis

Retail portfolio strength

- Retail portfolio is largely secured, built based on proprietary data and analytics in addition to bureau checks, and well-priced in relation to the risk.
- The disbursements across various retail products which had virtually entirely stopped in the months of April and May, have picked up in June.
- Mortgages portfolio was ~ 50% of retail loan portfolio; out of which, home loans comprise ~ 70%, top-up loans given to existing home loan customers ~ 8%, office premises loans are ~ 5% and LAP comprises ~ 17%. Average LTV of the LAP portfolio is about 55%
- Home loan portfolio, which is geographically well diversified, is granular in nature with average ticket size of ~Rs 3.5 mn and average LTV of ~ 65%
- ~70% of the mortgage customers have an existing liability relationship with the Bank.
- Auto loan disbursement volumes in June 2020 have reached ~ 65% of the pre-Covid levels, while ~ 87% of auto portfolio comprises new vehicles and ~ 13% is used vehicles. The commercial business portfolio, including CVs, comprises 4% of the overall portfolio.
- ~ 70% of the personal loan and credit card portfolio is to the existing customer base which provides liability information for credit assessment. ~ 85% of the portfolio comprises salaried individuals.
- ~97% of personal loan and credit card customers who have availed the moratorium continue to receive salary credits. Credit card spends have recovered to ~ 65% of pre-Covid levels in June.

Business banking (~ 4% of total portfolio)

- BB portfolio, with average ticket size of Rs 10-15 mn, is fully collateralized with ~ 85% of the portfolio having a collateral cover of more than 100%.
- The portfolio is well diversified, spans multiple sectors and industries and is well spread out geographically.
- Bank has extended the ECLG Scheme to eligible MSME borrowers based on its credit assessment. Till July 22, Bank sanctioned ~Rs 50 bn to ~19,000 borrowers, of which ~Rs 38 bn has been disbursed.

Corporate portfolio

- Bank has emphasized reduction in concentration risk and improvement in the rating mix of business
- The builder portfolio including construction finance, lease rental discounting, term loans and working capital loans was Rs 218.48 bn.
- ~ 12% of our builder portfolio at June 30, 2020 was either rated BB & below internally or was classified as NPA.
- The overall overseas branches portfolio (-21% YoY) and the non-India linked corporate portfolio (-40% YoY) declined both YoY and sequentially.
- BB & below rated book increased to Rs 171Bn vs Rs 167 Bn QoQ. Macro headwinds could result in continued downgrades, which could mean similar levels of BB & below book in coming qtrs.

Moratorium update

- The bank has seen moratorium loans fall to 17.5% of total loan book as on June 30, from 30% in Q4FY20.
- About 90% of the portfolio under moratorium at end-June comprises loans that were also under moratorium at end-May.
- The percentage of loans under moratorium was higher for some portfolios such as commercial vehicles loans and builder loans, which had been experiencing challenges even prior to the outbreak of Covid-19.
- Morat number could go up by couple of percentage points since Morat-1 customers are overdue and may opt for Morat -2
- Non morat customers will be added to SMA-0/1/2 from June onwards.

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Result update@ Dalal & Broacha

Financial Highlights

Rs Bn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Interest Earned	147	151	163	173	180	186	191	192	199
Interest Expended	86	87	94	97	102	105	105	103	106
NII	**61**	**64**	**69**	**76**	**77**	**81**	**85**	**89**	**93**
Other Income	39	32	39	36	34	42	46	43	61
Net Income	**100**	**96**	**108**	**112**	**112**	**123**	**131**	**132**	**154**
Opex	41	43	46	50	49	54	56	58	46
PPOP	**58**	**52**	**61**	**62**	**63**	**69**	**75**	**74**	**108**
Provisions	60	40	42	55	35	25	21	60	76
PBT	**-2**	**13**	**19**	**8**	**28**	**44**	**55**	**14**	**32**
Tax	0	3	3	-2	9	37	13	2	6
PAT	**-1**	**9**	**16**	**10**	**19**	**7**	**41**	**12**	**26**
Balance Sheet									
Net-worth	1053	1054	1072	1084	1104	1,106	1,150	1,165	1,186
Deposits	5469	5587	6068	6529	6607	6,963	7,163	7,710	8,016
Advances	5163	5445	5643	5866	5924	6,134	6,357	6,453	6,312
Growth (%)									
NII	9.2	12.4	21	27	27	26	24	17	20
PPOP	12.1	-24.9	22	-17	8	31	23	19	71
PAT	-	-55.8	-3	-5	-	-28	158	26	36
Deposits	12.5	12.0	17	16	21	25	18	18	21
Advances	11.3	12.8	12	14	15	13	13	10	7
Ratios (%)									
GNPA	9.8	9.4	8.6	7.5	7.3	7.0	6.5	6.1	6.1
NNPA	4.7	4.1	2.9	2.3	2.0	1.8	1.6	1.6	1.4
PCR	55	59	68	71	74	76	76	76	79
CET1	14.4	14.0	13.7	13.6	13.2	13.2	13.6	13.4	13.3
CAR	18.4	17.8	17.1	16.9	16.2	16.1	16.5	16.1	16.0
Cost/Income	41.6	45.2	42.9	44.5	43.7	43.9	42.5	43.9	30.1
CD Ratio	94.4	97.5	93.0	89.8	89.7	88.1	88.7	83.7	78.7
Loan Mix									
Domestic book	4518	4754	4971	5236	5328	5533	5,791	5,913	5,842
Retail	2970	3118	3332	3528	3636	3810	3,976	4,080	4,046
SME	239	253	278	306	295	191	217	229	209
Corporate	1309	1383	1361	1402	1397	1533	1,597	1,605	1,588
Overseas book	644	691	672	630	596	600	566	540	470

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P&L (Rs Bn)	FY19	FY20	FY21	FY22
Interest Earned	634	748	807	911
Interest Expended	364	415	444	490
NII	**270**	**333**	**363**	**421**
Other Income	145	164	191	193
Net Income	**415**	**497**	**554**	**614**
Opex	181	216	229	253
PPOP	**234**	**281**	**325**	**360**
Provisions	197	141	150	129
PBT	**38**	**140**	**175**	**231**
Tax	4	61	44	58
PAT	**34**	**79**	**131**	**173**

BS (Rs Bn)	FY19	FY20	FY21	FY22
Capital	13	13	13	13
Reserves	1071	1152	1274	1412
Deposits	6529	7710	8552	9825
Borrowings	1653	1629	1499	1389
Other Liabilities	379	480	461	487
Total	**9645**	**10984**	**11798**	**13126**
Cash & Bank	803	1192	1205	986
Investments	2077	2495	2779	3242
Advances	5866	6453	6956	8014
Fixed Assets	79	84	85	87
Other Assets	819	760	773	797
Total	**9645**	**10984**	**11798**	**13126**

Ratios (%)	FY19	FY20	FY21	FY22
Growth				
NII	17.3	23.1	9.2	15.8
Operating profit	-5.3	19.9	15.8	10.8
Net profit	-50.4	135.8	65.2	31.9
Advances	14.5	10.0	7.8	15.2
Deposits	16.4	18.1	10.9	14.9
Returns				
ROA	0.4	0.8	1.2	1.4
ROE	3.2	7.1	10.7	12.7

Ratios (%)	FY19	FY20	FY21	FY22
Asset quality				
GNPA	7.4	6.0	6.2	5.2
NNPA	2.3	1.5	1.8	1.3
PCR	71	76	72	76
Per share (Rs)				
EPS	5	12	20	27
ABVPS	147	165	180	204
P/E	73	31	19	14
P/ABVPS	2.6	2.3	2.1	1.9

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