DALAL & BROACHA
STOCK BROKING PVT. LTD.

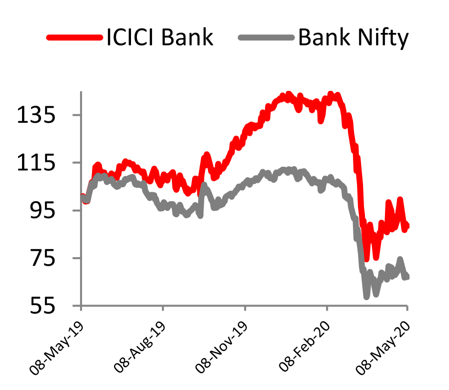
Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

BUY	
Current Price (Rs)	338
52 Week Range	269/552
Target Price (Rs)	411
Upside (%)	22%

Key Share Data	
Market Cap (Rs.bn)	2186.71
Market Cap (US$ mn)	28963.05
No of o/s shares (mn)	6472.77
Face Value	2
Monthly Avg. vol (BSE+NSE) Nos'000	47092.24
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC:IN

Price performance



% Shareholding	Mar-20	Dec-19
DIIs	44.98	43.53
FIIS	43.72	45.81
Others	11.30	10.66
Total	100	100

ICICI Bank (ICICI) has reported a stable set of the numbers for the quarter ended March 31, 2020. While the bank's profitability has been adversely impacted by higher COVID related provision, it registered lowest net NPAs in the last nineteen quarters, a record high NIM, and a steady balance sheet growth during the quarter. Bank has made provision of Rs 27.25 Bn, which was far higher than regulatory requirements of Rs 6 Bn. In the last few years, Bank was in restructuring mode, focusing on better rated corporate accounts, reducing stress pool and beefing of its provisions. It would be safe to say that bank is in better shape to tackle Covid related issue than it would be two or three years back. Besides, a superior liability franchise, better asset mix, & higher CAR will help the bank to work through this challenging period with relatively lower degree of stress. We hence believe the current stock price weakness offers an attractive entry point.

Operating Performance; PPOP up by 19% YoY

- Bank's NII came at Rs 89.3 Bn (up by 17% YoY/4.5% QoQ) due to strong retail credit growth of 16% and better margin (core NIM 3.87% vs 3.77% in Q3FY20). In the near term, margins should remain stable with surplus liquidity & lower rates acting as offsets.
- PPOP stood at Rs 73.9 Bn (lower than our estimate of Rs 76.0 bn), up by 19% YoY/-2% QoQ. Management is looking to grow its core operating profit in a risk calibrated manner; focus on granularity and improvement in the credit rating profile.
- Bank's operational efficiency improved, with C/I ratio stood at 43.9% (-61 bps YoY), backed by higher net income (NII + other income) growth of 17% YoY vs opex growth of 16% YoY. Bank's net profit stood at Rs 12.2 Bn (+26% YoY/-71% QoQ) vs. our est. of Rs 40.7 bn.

Asset quality improves; NNPA at 1.41%

- **Bank's Asset quality improved during the quarter, with GNPA stood at 5.53% Vs 5.95% QoQ, while NNPA stood at 1.41% Vs 1.49% QoQ. PCR stood at 76% (-52 bps QoQ).**
- Gross Slippages stood at Rs 53.1 Bn higher than estimate vs Rs 43.63 Bn in Q3FY20, while recovery/upgrades excl W.off were Rs 18.8 bn & w.off Rs 54.55 bn.
- Slippages would have been in line with previous quarter however 2 large international accounts led to a higher figure (an oil trading co & a healthcare co). Bank has made provisions and do not expect impact on the P&L from these accounts going forward.
- Bank's BB & below book moved down to Rs 166.68 bn v/s 174.03 bn in Q3FY20. Macro headwinds could result in continued downgrades which could mean similar levels of BB & below book in coming quarters.

Strong retail credit growth

- **Advances stood at Rs 6453 Bn (+10% YoY/+2% QoQ), mainly led by Retail segment (+16% YoY/weightage 63%) & corporate segment (+14% YoY/ weightage 25%),** while SME & overseas book de-grew by 14% YoY & 25% respectively. **Bank has reported a much slower loan growth, relative to its peers, & has been improving its rating profile steadily.**
- Within retail, housing & vehicle loans grew by 12% YoY & 5% YoY, while business banking, Credit cards & personal loans grew faster at 41% YoY, 27% YoY and 46% YoY.
- **On the liability side, Deposit at Rs 7163 Bn (+18% YoY/+3% QoQ), with CASA at Rs 3364 Bn (12% YoY/4% QoQ). CASA at 47.0% (vs 46.7% QoQ/ 49.3% YoY).**

Outlook

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, which provide an additional buffer to cushion any adverse effect of sudden spikes in slippages. Although macro uncertainty will keep the stock under pressure in the near term, we see attractive risk reward given a stable NIMs, low cost of funds & strong growth profile. **Thus, we have maintained a 'Buy' rating on ICICI with a price target of Rs 411, valuing the stock at 1.6x FY22E standalone P/ABV and ascribing a value of Rs 103 for subsidiaries.**

Key Financials (Rs Bn)

Year	NII	PPOP	PAT	EPS	Adj BVPS	P/Adj Bv
FY20	333	281	79	12	165	2.1
FY21e	368	297	107	16	175	1.9
FY22e	423	347	153	24	193	1.8

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Highlights of the Conference Call

- ~ 97% of the branches were functional with reduced working hours during the lockdown.
- In March 2020, Bank launched a comprehensive digital banking platform called ICICI STACK which offers nearly 500 services to ensure uninterrupted banking experience to its retail, business banking, SME and corporate customers.
- Bank has made Covid-19 related provision of Rs 27.25 Bn, which was much higher than RBI's guideline dated April 17, 2020. As per RBI guidelines, the bank would have had to make provisions worth about Rs 6 Bn.
- NIM may come under pressure during FY21 due to excess liquidity and lower advances offtake.
- Macro headwinds could result in continued downgrades which could mean similar levels of BB & below book in coming quarters.
- Bank has been carrying substantial excess liquidity and the liquidity coverage ratio on a daily average basis for the quarter was healthy at about 125% and on an outstanding basis at March 31 was even higher.
- Employee expenses has increased by 18% YoY, adversely impacted by higher provisions on retirals and other employee benefits due to decline in yields in Q4FY20 vs Q4FY19.

Overall level of moratorium

- As many as 32% of the bank's customers across retail & corporate loans have opted for the moratorium, which represents about 30% of its total loan book in value. This figure is as of end-April.
- Loans that were overdue more than 90 days as on March 31 but have not been classified as NPAs were Rs 13.09 Bn. The impact of these loans classify as NPA would be 18 bps on GNPAs. On these loans, the Bank has made provisions equivalent to that on NPA accounts.

Mortgage portfolio (31% of total loans)

- Home loans (~ 70% of mortgage portfolio) are granular in nature with average ticket size of about Rs 3.0 Mn. It is geographically well diversified and has been built on fundamental premises of cashflow assessment of underlying borrower. Average LTV ratio of the home loan portfolio is about 65%
- LAP portfolio (~30% of the mortgage portfolio) has conservative LTV ratios (average ~55%) and lending is based on cash flows of business/individuals with limited reliance on the value of collateral. The valuation of the property is carried out internally.

Unsecured portfolio (9% of total loans)

- Bank has grown this portfolio from a low base primarily through cross-sell. ~ 70% of the personal loan and credit card portfolio is to the existing customers base. ~ 85% of the portfolio comprises salaried individuals.
- ~75% of the customers in the salaried segment are employed with well rated corporates including MNCs, and government entities, and have stable income streams. Delinquency rates for the remaining customers in the salaried segment are only marginally higher than the rest of the portfolio.
- The self-employed segment in these portfolios is ~ 25% and while this segment could be more impacted in the current environment, the proportion of customers in highly impacted sectors like restaurants and travel and tourism is low.

Business banking portfolio (4% of total loans):

- It comprises small business customers with an average ticket size of Rs 10-15 Mn. The relatively high growth in this portfolio reflects the low base and market share.
- Bank's focus in this segment is on parameterised and programme based lending (digital channels, granular, better collateral and robust monitoring).
- ~ 85% of the portfolio has a collateral cover of more than 100%. ~ 87% of the portfolio qualifies for priority sector lending. Delinquency trends in this portfolio have been low.

International loan portfolio (8% of total loans)

- ~63% of the outstanding was to Indian corporates and their subsidiaries and JVs. ~16% of the outstanding was to non-India companies with India-linked operations. The portfolio is well-rated and the Indian operations of these companies are target customers for Bank's deposit and transaction banking franchise. The Bank would continue to pursue risk-calibrated opportunities in this segment.
- ~7% of the outstanding was to companies owned by NRIs/ PIOs.
- ~14% of the outstanding was to other non-India companies which is about 1% of the total portfolio of the Bank.
- Bank is planning significant reduction in this portfolio. While the outstanding to Indian corporates and their subsidiaries has remained at a similar level vs to the previous year, the balance portfolio has reduced by about 30% YoY at March 31, 2020.

Builder portfolio (3% of total loans)

- The portfolio including construction finance, lease rental discounting, term loans and working capital loans. It is granular in nature with the larger exposures being to well-established builders.
- ~ 12% of our builder portfolio as on March 31, 2020 was either rated BB & below internally or was classified as non-performing.

NBFCs and HFCs portfolio (5% of total loans)

- Bank's exposure is largely to well-rated entities with long vintage, PSUs, and entities owned by banks and well-established corporate groups.
- The proportion of the NBFC & HFC portfolio internally rated BB & below or non-performing is about 2%.

Non-fund based exposure

- The notional amount of derivatives and swaps represents over 90% of the amount reported as contingent liabilities in the financials.
- The outstanding amount of letters of credit & bank guarantees has declined over the last four years. Currently, it stood at ~ 22% of total advances Vs 34% in FY16.

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Overseas subsidiaries

- ICICI Bank Canada suffered a PAT loss on account of Covid-19 provision under IFRS 9 accounting.
- Similarly, ICICI Bank UK also suffered a PAT loss on account of Covid-19 provision under UK GAAP accounting.

ICICI Home Finance

- This portfolio has declined about 10% QoQ primarily due to securitization on account of capital management.
- The intention is to grow this portfolio but in the context of available opportunities.

Bank's overall approach to the corporate portfolio since 2015-16

- Improvement in the incremental rating mix, with 80-90% of incremental disbursements being to clients rated A- and above
- Reduction in concentration risk, particularly in lower rated borrowers, reflected in the reduction in share of top 20 borrowers (excluding banks) in the portfolio, substantial improvement in the rating profile of top exposures and a much more granular lower rated (that is, BB and below) portfolio.
- Other than three accounts, one each in the telecom, power and construction sectors, the maximum single borrower outstanding in the BB and below portfolio was less than Rs 6 Bn as of March 31, 2020.
- Reduction in specific types of exposures such as project implementation risk, equity shares as primary security and low visibility of cashflow; Shift from non-fund to fund-based exposure, even as we continue to consider all types of exposures for our risk assessment and limits

Going ahead, the bank would further strengthen its internal synergy and capability to capitalise on market opportunity, closely monitor its portfolio, and target a risk-calibrated profitable growth, while maintaining strong balance sheet.

Risks to Rating and Price Target

While bank is keeping higher provisions than regulatory requirement, what is to be noted is that about 30% of the bank's total book in value term 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 well be far higher than Rs 27.25 Bn provisioning. Furthermore, the ongoing macro headwinds and weak asset quality cycle phase will further delay normalization of ROEs to above 15% levels.

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P&L Rs Bn	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest Earned	135	136	137	143	147	151	163	173	180	186	191	192
Interest Expended	79	79	80	82	86	87	94	97	102	105	105	103
NII	**56**	**57**	**57**	**60**	**61**	**64**	**69**	**76**	**77**	**81**	**85**	**89**
Other Income	34	52	32	57	39	32	39	36	34	42	46	43
Net Income	**90**	**109**	**89**	**117**	**100**	**96**	**108**	**112**	**112**	**123**	**131**	**132**
Opex	38	39	38	42	41	43	46	50	49	54	56	58
PPOP	**52**	**70**	**51**	**75**	**58**	**52**	**61**	**62**	**63**	**69**	**75**	**74**
Provisions	26	45	36	66	60	40	42	55	35	25	21	60
PBT	**26**	**25**	**15**	**9**	**-2**	**13**	**19**	**8**	**28**	**44**	**55**	**14**
Tax	5	4	-2	-1	0	3	3	-2	9	37	13	2
PAT	**20**	**21**	**17**	**10**	**-1**	**9**	**16**	**10**	**19**	**7**	**41**	**12**
Balance Sheet												
Net-worth	1006	1028	1045	1052	1053	1054	1072	1084	1104	1106	1150	1165
Deposits	4863	4986	5174	5610	5469	5587	6068	6529	6607	6963	7163	7710
Advances	4641	4828	5054	5124	5163	5445	5643	5866	5924	6134	6357	6453
Growth (%)												
NII	8	9	6	1	9	12	21	27	27	26	24	17
PPOP	-1	-34	-8	47	12	-25	22	-17	8	31	23	19
PAT	-8	-34	-32	-50	-	-56	-3	-5	-	-28	158	26
Deposits	15	11	11	14	12	12	17	16	21	25	18	18
Advances	-3	1	3	13	11	13	12	14	15	13	13	10
Ratios (%)												
GNPA	9.0	8.8	8.7	10.0	9.8	9.4	8.6	7.5	7.3	7.0	6.5	5.5
NNPA	5.5	5.0	4.7	5.4	4.7	4.1	2.9	2.3	2.0	1.8	1.6	1.4
PCR	41	46	48	48	55	59	68	71	74	76	76	76
CET1	14.0	13.7	13.7	14.4	14.4	14.0	13.7	13.6	13.2	13.2	13.6	13.4
CAR	17.7	17.6	17.7	18.4	18.4	17.8	17.1	16.9	16.2	16.1	16.5	16.1
Cost/Income	42.3	35.9	43.0	35.8	41.6	45.2	42.9	44.5	43.7	43.9	42.5	43.9
CD Ratio	95.4	96.8	97.7	91.3	94.4	97.5	93.0	89.8	89.7	88.1	88.7	83.7
Loan Mix												
Domestic book	3927	4110	4344	4480	4518	4754	4971	5236	5328	5533	5791	5913
Retail	2475	2588	2740	2899	2970	3118	3332	3528	3636	3810	3976	4080
SME	204	210	247	254	239	253	278	306	295	191	217	229
Corporate	1247	1312	1358	1326	1309	1383	1361	1402	1397	1533	1597	1605
Overseas book	714	718	710	644	644	691	672	630	596	600	566	540

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P&L (Rs Bn)	FY19	FY20	FY21	FY22
Interest Earned	634	748	833	948
Interest Expended	364	415	465	525
NII	**270**	**333**	**368**	**423**
Other Income	145	164	160	183
Net Income	**415**	**497**	**528**	**607**
Opex	181	216	231	260
PPOP	**234**	**281**	**297**	**347**
Provisions	197	141	154	143
PBT	**38**	**140**	**142**	**204**
Tax	4	61	36	51
PAT	**34**	**79**	**107**	**153**

BS (Rs Bn)	FY19	FY20	FY21	FY22
Capital	13	13	13	13
Reserves	1071	1152	1237	1358
Deposits	6529	7710	8816	10229
Borrowings	1653	1629	1531	1409
Other Liabilities	379	480	556	698
Total	**9645**	**10984**	**12154**	**13706**
Cash & Bank	803	1192	1344	1219
Investments	2077	2495	2998	3580
Advances	5866	6453	6963	8047
Fixed Assets	79	84	85	89
Other Assets	819	760	764	772
Total	**9645**	**10984**	**12154**	**13706**

Ratios (%)	FY19	FY20	FY21	FY22
Growth				
NII	17	23	11	15
Operating profit	-5	20	6	17
Net profit	-50	136	34	43
Advances	14	10	8	16
Deposits	16	18	14	16
Returns				
ROA	0.4	0.8	0.9	1.2
ROE	3.2	7.1	8.8	11.7

Ratios (%)	FY19	FY20	FY21	FY22
Asset quality				
GNPA	7.5	6.1	6.2	5.7
NNPA	2.3	1.6	1.7	1.5
PCR	71	76	73	74
Per share (Rs)				
EPS	5	12	16	24
ABVPS	147	165	175	193
P/E	65	28	21	14
P/ABVPS	2.3	2.1	1.9	1.8

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