

ICICI Bank Limited

BUY

CMP Rs537

Target Rs675

Upside 25.7%

Strong growth and resilient asset quality leading to 5-6% ABV upgrades

The stand-out highlights of ICICBC's Q3 FY21 performance were a sharp uptick in loan growth, firm NIM despite higher interest reversals, and lesser-than-expected deterioration in asset quality causing lower provisioning. Even in the current challenging quarter (not so supportive growth and delinquency environment), the bank delivered 1.6% RoA and 15% RoE on computed basis. The significant loan growth was driven by mortgages (up 7% qoq), auto loans (up 7% qoq), business banking (up 12% qoq) and domestic corporate lending (up 8% qoq). The stock of proforma slippages at Rs82bn (120 bps of adv.) and invoked restructuring at Rs25bn (36 bps of adv.) were below our expectations, and highlights the strength of the balance sheet. The bank carries significantly higher-than-regulatory provisions on these pools, and a Covid-related buffer of 0.9% of advances which cushions the P&L from incremental pandemic-driven slippages. In addition, the normalizing overdue trends across segments underpins Management's confidence about a normal credit cost of 1.2-1.3% in FY22.

Our earnings and ABV estimates for FY22/23 undergo material upgrade, as we raised loan growth assumption and pruned credit cost forecast. We now expect the bank to deliver average 1.7% RoA and 14-15% RoE over FY22-23 with high capitalization levels. The core bank trades at 1.6x FY23 P/ABV, attractive in a scenario of improving growth and strong profitability. Retain BUY and raise 12m PT to Rs675, as we also assign a better multiple now.

Management Commentary

Key highlights

- ✓ Mortgage disbursements were significantly higher qoq - entire underwriting has been automated - strong growth in the portfolio driven by market improvement and strengthened distribution and execution.
- ✓ Auto disbursements crossed pre-Covid level.
- ✓ Rs126bn disbursements under the ECLGS scheme.
- ✓ Disbursements still lower than pre-Covid times in the CV financing segment.
- ✓ Domestic corporate loans grew 8.5% qoq - driven by lending to PSU entities and large corporate groups.
- ✓ Overdues portfolio (0-90 dpd) improved further - Retail overdue portfolio currently 1.5% above normal - but has come down from 4% above normal as of Sept 30.

Exhibit 1: Financial Summary

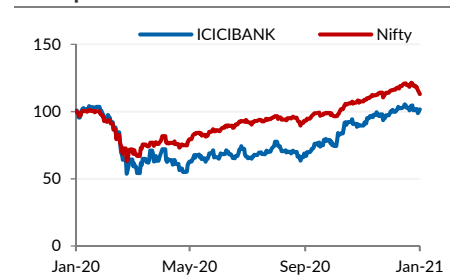
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	497,157	586,986	634,636	732,045
PPOP	281,013	370,842	386,070	452,409
Net profit	79,307	158,406	219,679	258,889
yoy growth (%)	135.8	99.7	38.7	17.8
EPS (Rs)	12.3	23.0	31.9	37.6
Adj. BVPS (Rs)	164.3	195.0	226.6	263.9
P/E (x)*	43.8	23.4	16.8	14.3
P/adj.BV (x)*	3.3	2.8	2.4	2.0
ROE (%)	7.1	12.0	13.9	14.2
ROA (%)	0.8	1.4	1.7	1.7
Tier-1 (%)	14.7	17.4	17.8	17.7

Source: Company, YES Sec - Research; * Not adjusted for the value of holdings in subsidiaries

Stock data (as on January 29, 2021)

Nifty	13,635
52 Week h/l (Rs)	561 / 268
Market cap (Rs/USD mn)	3707734 / 50823
Outstanding Shares (mn)	6,905
6m Avg t/o (Rs mn):	13,085
Div yield (%):	-
Bloomberg code:	ICICBC IN
NSE code:	ICICIBANK

Stock performance



	1M	3M	1Y
Absolute return	0.4%	36.8%	2.2%

Shareholding pattern

Promoter	0.0%
FII+DII	89.9%
Others	9.6%

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- ✓ Restructuring at 45bps of loan portfolio was much within expectation of <1% - includes Rs8.4bn worth of retail loans - Rs17bn restructuring (Corporate and SME loans) also a part of BB & Below portfolio.
- ✓ Proforma slippages at Rs82.8bn - Rs68bn got added in Q3 - includes a large part from retail book.
- ✓ Accrued interest has been reversed on the proforma NPLs.
- ✓ Current Covid provisions completely cushions the Balance Sheet from any incremental impact due to the pandemic.
- ✓ Bank tightened provisioning policy during Q3 by increasing provisioning rate for early bucket NPLs - thus carrying a high provisioning on proforma slippages (40-45% PCR) and even upping it on the stock.
- ✓ Management expects credit cost to normalize in FY22 i.e. fall to the level of 1.2-1.3%.
- ✓ CET-1 capital ratio at 16.8% incl. profits of 9m FY21.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Interest Income	197,298	196,225	0.5	190,643	3.5
Interest expended	(98,173)	(102,564)	(4.3)	(105,190)	(6.7)
Net Interest Income	99,125	93,661	5.8	85,453	16.0
Other income	46,863	40,283	16.3	45,740	2.5
Total Income	145,987	133,944	9.0	131,193	11.3
Operating expenses	(57,790)	(51,333)	12.6	(55,707)	3.7
PPOP	88,198	82,611	6.8	75,486	16.8
Provisions	(27,417)	(29,953)	(8.5)	(20,832)	31.6
PBT	60,780	52,658	15.4	54,654	11.2
Tax	(11,385)	(10,145)	12.2	(13,190)	(13.7)
PAT	49,396	42,513	16.2	41,465	19.1

Source: Company, YES Sec - Research

Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Loans	6,990,175	6,526,080	7.1	6,356,543	10.0
Domestic Corporate	1,700,840	1,573,570	8.1	1,596,770	6.5
Retail Business	4,587,780	4,295,810	6.8	3,976,460	15.4
Home Loans	2,257,570	2,117,340	6.6	1,963,710	15.0
Vehicle Loans	624,490	597,870	4.5	584,060	6.9
Unsecured Loans	636,560	600,020	6.1	583,480	9.1
SME	270,930	233,410	16.1	217,440	24.6
Overseas Branches	430,610	423,290	1.7	565,870	(23.9)
Deposits	8,743,476	8,329,356	5.0	7,163,451	22.1
CA	1,167,410	1,075,170	8.6	1,009,890	15.6
SA	2,786,740	2,570,630	8.4	2,354,200	18.4
Others	4,789,326	4,683,556	2.3	3,799,361	26.1
Investments	2,752,606	2,896,230	(5.0)	2,274,800	21.0
Borrowings	1,116,081	1,364,269	(18.2)	1,373,747	(18.8)
Total assets	11,932,172	11,629,712	2.6	10,070,680	18.5
RWA	7,599,830	7,428,650	2.3	7,369,730	3.1

Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM (%)	3.7	3.6	0.1	3.8	(0.1)
Yield on advances (%)*	8.4	8.9	(0.5)	9.9	(1.5)
Yield on investment (%)*	6.6	6.7	(0.2)	6.9	(0.4)
Cost of funds (%)*	4.3	4.5	(0.2)	5.2	(0.9)
CASA (%)	45.2	43.8	1.4	47.0	(1.8)
C/D (%)	79.9	78.4	1.6	88.7	(8.8)
Non-interest income (%)	32.1	30.1	2.0	34.9	(2.8)
Cost to Income (%)	39.6	38.3	1.3	42.5	(2.9)
Prov. / Avg. Adv. (%)*	1.6	1.9	(0.2)	1.4	0.3
RoE (%)*	15.3	13.7	1.6	14.9	0.4
RoA (%)*	1.8	1.6	0.2	1.7	0.1
CAR (%)	19.5	18.5	1.0	16.5	3.0
Gross NPA (%)	4.4	5.2	(0.8)	6.0	(1.6)
Net NPA (%)	0.6	1.0	(0.4)	1.5	(0.9)

Source: Company, YES Sec – Research; *Calculated

Exhibit 5: Non-Interest income – break-up

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Fee income	36,010	31,390	14.7	35,960	0.1
Treasury Income	7,660	5,420	41.3	5,310	44.3
Lease & Misc. Income	3,193	3,473	(8.1)	4,470	(28.6)
Total non-interest income	46,863	40,283	16.3	45,740	2.5

Source: Company, YES Sec – Research

Exhibit 6: Rating profile

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
AA- and Above	49.2	47.3	1.9	41.7	7.5
A+, A, A-	22.8	24.3	-1.5	28.1	-5.3
A- and above	72	71.6	0.4	69.8	2.2
BBB+, BBB, BBB-	24.3	25.6	-1.3	26.9	-2.6
BB and below	1.6	1.5	0.1	1.4	0.2
Others	2.1	1.3	0.8	1.9	0.2

Source: Company, YES Sec – Research

Exhibit 7: Movement of Corporate and SME – BB and below

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Opening	161,670	171,100	(5.5)	160,740	0.6
Slippage to NPA	(2,270)	(12,120)	(81.3)	(7,070)	(67.9)
Upgrades to Invest. grade	(1,180)	(14,290)	(91.7)	(6,300)	(81.3)
Downgrades	22,390	16,980	31.9	26,660	(16.0)
Closing	180,610	161,670	11.7	174,030	3.8

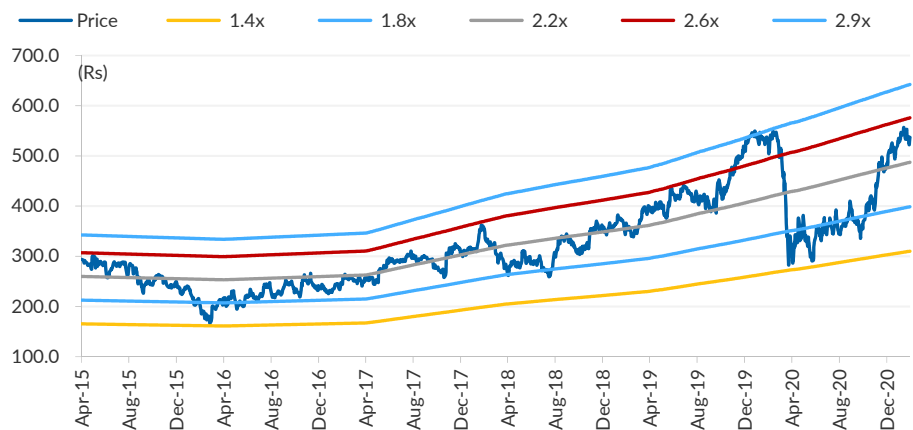
Source: Company, YES Sec – Research

Exhibit 8: Subsidiaries PAT

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
ICICI Prudential Life	3,060	3,030	1.0	3,020	1.3
ICICI Lombard General	3,140	4,160	(24.5)	2,940	6.8
ICICI Pru. Asset Mgmt.	3,580	2,820	27.0	3,050	17.4
ICICI Sec. (Consolidated)	2,670	2,780	(4.0)	1,370	94.9
ICICI Sec. PD	1,320	260	407.7	970	36.1
ICICI Home Finance	30	20	50.0	30	-
ICICI Venture	(20)	(80)	(75.0)	30	(166.7)
ICICI Bank UK (USD mn)	2	5	(55.1)	8	(72.5)
ICICI Canada (CAD mn)	5	5	-	22	(76.9)

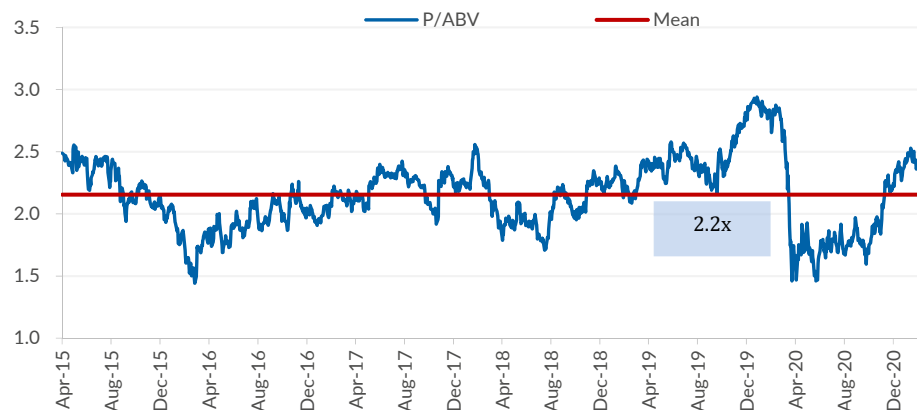
Source: Company, YES Sec - Research

Exhibit 9: 1-year rolling P/ABV* band



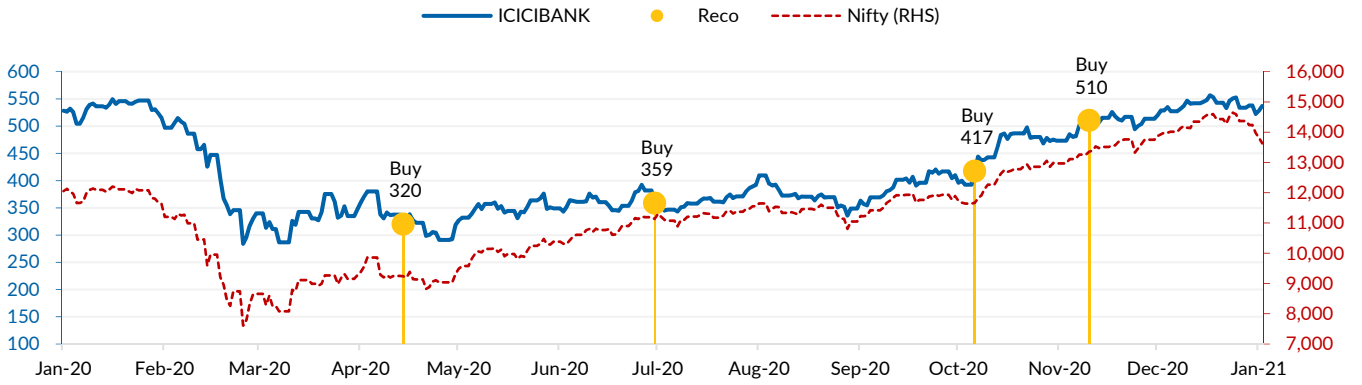
Source: Company, YES Sec - Research; * Price not adjusted for Subs. value

Exhibit 10: 1-yr rolling P/ABV* vis-a-vis the mean



Source: Company, YES Sec - Research; * Price not adjusted for Subs. value

Recommendation Tracker



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