

Stable op performance, fresh slippages spike

ICICI Bank's Q3FY20 saw steady operating performance, but slippages jumped. Loan & NII growth were healthy and NIM expanded, aided by lower cost of funds. Non-interest income growth was led by higher retail fees and treasury income. Thus PPOP saw rapid YoY/ QoQ rise. Asset quality saw lower headline GNPA & NNPA ratios, and a drop in provision costs; however, fresh slippages jumped, with the delta coming largely from two corporate accounts. CASA franchise and capitalisation remain strong. Subsidiaries remain profitable and add meaningfully to SoTP. We retain ICICI Bank as BUY and revise our SoTP-based TP to Rs625 (from Rs 635 earlier).

Retail loans continue to drive growth

Overall loan growth (12.6% YoY/ 3.6% QoQ) was led by yet another quarter of high growth in the retail portfolio (19.3% YoY). SME loans rose 34.0% YoY; overall corporate (including the overseas) loans grew 8.1% YoY, though domestic corporate loans rose 12.1% YoY. Within retail, home loans, personal loans, and credit cards saw high growth. In corporate lending, the focus remains on the higher-rated portfolio. A- and above rated accounts comprise 69.8% of overall loans (vs 66.3% QoQ). Subsidiaries are profitable and contribute meaningfully to overall SoTP valuations.

Rapid NII growth; Deposits show healthy growth; capitalisation remains robust

NII was ~5% above our estimate, recording strong growth (24.3% YoY). Domestic loans grew at a rapid 16.5% YoY. Overall reported NIM, at 3.77%, rose 13bps QoQ. Non-interest income grew by 18% YoY, led by higher retail fee income and treasury gains. Cost/income dropped to 42.5% (43.9% QoQ). PPOP thus grew by 23%/10% YoY/QoQ. Provision costs dropped 17% QoQ. PAT at Rs41.5bn was up 158% YoY. Deposits grew at a rapid 18.1% YoY; CASA ratio moved up to a robust 47% (vs 46.7% QoQ). Capital position remains strong (CET1 / Tier1 at 13.6% / 15.0%, respectively).

Asset quality marked by spike in slippages; PCR among the best in industry

The GNPA ratio declined to 6.39% (vs 6.9% QoQ). Provision costs (annualised) dropped to 1.39% of avg loans (vs 1.73% QoQ / 3.17% YoY). However, annualised fresh slippages rose sharply, at 2.75% of total loans (vs 1.62% QoQ), with the delta mainly from two large accounts, i.e. a broking firm (fully provided) and a South India-based industrial company. Also, the BB and below rated pool of accounts upticked to 2.74% of loans (vs 2.62% QoQ). The bank's PCR (including technical w/off) rose to 85.7% (vs 76.3% YoY, 85.0% QoQ) and is the among the highest in the industry.

Valuation and risks

We trim our loan growth estimates and slightly raise our provision cost estimates for FY20-22E. We like ICICI Bank due to the balance sheet strengthening over the past few quarters. We maintain our target multiple on the core banking business at 2.4x FY22E ABV. Aided by stable subsidiary performance, we get 17% upside in our TP. We get an SOTP-based TP of Rs625 (from Rs635 earlier). Maintain BUY. Risks to our call include execution on loan growth and higher-than-expected slippages.

Financial and valuation summary

YE Mar (Rs bn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	FY20E	FY21E	FY22E
NII	85,453	68,753	24.3	80,574	6.1	329,712	387,019	444,361
PPoP	75,486	61,464	22.8	68,741	9.8	291,446	354,807	410,928
Provisions	20,832	42,442	(50.9)	25,069	(16.9)	117,734	99,976	106,544
PAT	41,465	16,049	158.4	6,549	533.1	100,737	190,614	227,679
Loan growth (%)	12.6	11.7	98bps	12.6	(1)	13.5	14.5	15.0
NIM (calc.) (%)	3.9	3.5	33bps	3.8	10bps	3.6	3.7	3.7
C / I (%)	42.5	42.9	(41)bps	43.9	(143)bps	42.5	40.5	40.0
GNPA (%)	6.39	9.31	(292)bps	6.90	(51)bps	6.5	5.3	4.5
RoA (%)	1.7	0.7	94bps	0.3	139bps	1.0	1.6	1.6
RoE (%)	14.7	6.0	866bps	2.4	1233bps	9.1	15.3	15.6
P / ABV (x)						3.5	2.9	2.4

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Market Data

Bloomberg:	ICICIBC IN
52 week H/L:	Rs552/336
Market cap:	Rs3454bn
Shares outstanding:	6469mn
Free float:	80.9%
Avg. daily vol. 3mth:	24012840

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	To Rs625 from Rs635
EPS:	(2.5)% FY21E, (5.8)% FY22E

Source: Centrum Research

ICICI Bank relative to NIFTY 50



Source: Bloomberg

Shareholding pattern

	Dec-19	Sep-19	Jun-19	Mar-19
Promoter	0.0	0.0	0.0	0.0
FII	45.8	40.8	43.2	43.0
DII	41.2	45.7	43.6	43.9
Public/oth	13.0	13.5	13.2	13.1

Source: BSE



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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
NII	329,712	328,447	0.4%	387,019	384,668	0.6%
PPoP	291,446	295,139	(1.3%)	354,807	359,824	(1.4%)
Net profit	100,737	123,164	(18.2%)	190,614	195,573	(2.5%)
Loan growth (%)	13.5	15.0	(150)bps	14.5	16.0	(150)bps
GNPA	6.5	6.7	(19)bps	5.3	5.4	(6)bps

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs bn)	Actual Q3FY20	Centrum Q3FY20	Variance (%)
NII	85,453	81,680	4.6
PPoP	75,486	100,177	(24.6)
Net profit	41,465	52,385	(20.8)
Loan growth (%)	12.6	13.2	(56)bps
GNPA (%)	6.39	6.95	(56)bps

Source: Bloomberg, Centrum Research estimates

ICICI Bank versus NIFTY 50

	1m	6m	1 year
ICICIBC IN	(1.3)	30.7	46.3
Nifty 50	0.3	8.7	12.9

Source: Bloomberg, NSE

Key assumptions

YE Mar (%)	FY20E	FY21E	FY22E
Loan growth	13.5	14.5	15.0
NIM	3.6	3.7	3.7
Other inc / Assets	1.7	1.7	1.7
Cost / Assets	2.1	2.0	2.0
Provision costs	1.88	1.40	1.30

Source: Centrum Research estimates

Valuations

We trim our loan growth estimates and slightly raise our provision cost estimates for FY20-22E. We like ICICI Bank due to the balance sheet strengthening over the past few quarters. We maintain our target multiple on the core banking business at 2.4x FY22E ABV. Aided by stable subsidiary performance, we get 17% upside in our TP. We get an SOTP-based TP of Rs625 (from Rs635 earlier). Maintain BUY. Risks to our call include execution on loan growth and higher-than-expected slippages.

SOTP Valuation

Business	Stake	Rs mn	Rs per share	% of total	Multiple (x)	Basis
Standalone bank	100.0%	2,881,588	533	85.3	2.4	x Mar'22 ABV
Life insurance	52.9%	285,802	44	7.1	2.5	FY19 EV
General insurance	55.9%	175,823	27	4.4	30.0	FY19 PAT
AMC	51.0%	80,101	12	2.0	5.0%	of Mar'19 AUM
UK+Canada	100.0%	36,790	6	0.9	1.0	x investment into the subsidiaries
Home finance + Securities + PD + Ventures + Others	100.0%	14,170	2	0.4	1.0	x investment into the subsidiaries
Total		3,474,274	625	100.0		

Source: Centrum Research estimates

Sensitivity analysis

	Provision cost				
	+ 10bps	+ 20bps	' Current levels	- 10bps	- 20bps
NIM					
- 5bps	(4.7)	(7.4)	(2.0)	0.7	3.4
- 10bps	(6.6)	(9.3)	(3.9)	(1.3)	1.4
Current levels	(2.7)	(5.4)	-	2.7	5.4
+ 5bps	(0.7)	(3.4)	2.0	4.7	7.4
+ 10bps	1.3	(1.4)	3.9	6.6	6.6

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	3454.5	18.1	20.6	89.2	2.0	2.9	2.5	2.2	0.4	1.0	1.6	1.6	3.2	9.1	15.3	15.6
Axis	2,041.2	16.6	20.3	52.9	2.3	2.4	2.2	1.9	0.6	0.5	1.1	1.2	7.2	6.0	12.2	13.7
SBI	2,850.5	16.2	18.5	254.1	1.5	1.2	1.0	0.9	0.0	0.6	0.8	0.8	0.4	9.1	13.3	12.9
HDFC	6,801.9	18.1	27.6	23.9	4.0	4.0	3.5	3.0	1.8	2.0	2.1	2.1	16.5	16.8	18.1	18.8
Kotak	3,053.9	18.5	24.9	24.8	6.1	6.2	5.4	4.7	1.7	1.9	2.0	2.0	12.1	14.1	14.6	15.1

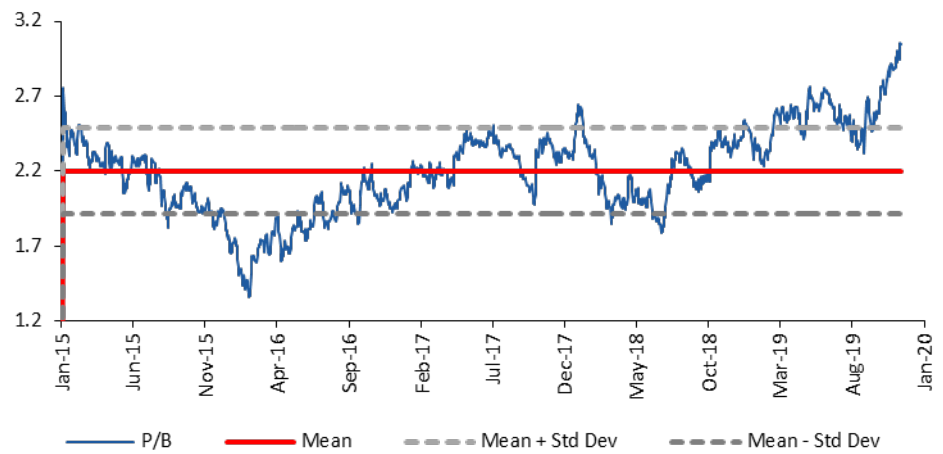
Source: Company, Centrum Research estimates

Fig 1: Key concall takeaways and metrics

FY20E Guidance	Q3FY20	Q2FY20	Our Comments
Loan growth	-	-	No specific overall / vertical-wise loan growth target mentioned by the bank. It depends on risk-adjusted return. We estimate 14.7% CAGR advances growth over FY20-22E.
NIM	-	-	We maintain our NIM estimate for FY21/22E at 3.7%/3.7%, given the in line increase of the higher-yielding retail portfolio share in overall loans (62.6% vs 62.1% QoQ / 59.0% YoY).
Credit Costs	Run-rate of 9MFY20 (~1.8% of avg loans) for full year FY20	120bps of avg loans	The management raised their credit cost estimate for FY20, since they believe resolution may not take place in a couple of large accounts in Q4FY20. We factor in elevated slippages in FY20-21E considering the BB & below pool of accounts remains elevated. Accordingly, we conservatively estimate overall credit costs at 179bps / 133 bps / 124bps in FY20 / FY21E / FY22E.
Consolidated RoE	Q1FY21E: 15%	Q1FY21E: 15%	Management continues to target 15% consolidated RoE by end-June 2020.

Source: Company, Centrum Research estimates

P/ABV mean and standard deviation chart



Source: Bloomberg, Centrum Research estimates

Fig 2: Quarterly financials

(Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Interest earned	142,644	147,224	151,056	162,804	172,928	179,800	185,653	190,643
Interest expended	82,427	86,205	86,881	94,052	96,727	102,426	105,079	105,190
Net Interest Income	60,217	61,019	64,176	68,753	76,201	77,374	80,574	85,453
Other income	56,786	38,518	31,565	38,829	36,210	34,254	41,942	45,740
Total Income	117,003	99,537	95,741	107,581	112,411	111,628	122,517	131,193
Operating Expenses	41,863	41,453	43,244	46,117	50,077	48,744	53,776	55,707
Employees	15,262	15,139	16,614	17,340	18,990	19,533	21,413	19,421
Others	26,601	26,315	26,630	28,777	31,087	29,211	32,362	36,286
Operating profit	75,140	58,084	52,497	61,464	62,334	62,884	68,741	75,486
Provisions	66,258	59,713	39,943	42,442	54,514	34,957	25,069	20,832
Profit before tax	8,882	(1,629)	12,554	19,023	7,820	27,927	43,672	54,654
Taxes	(1,318)	(434)	3,465	2,974	(1,871)	8,847	37,123	13,190
Net Profit	10,200	(1,196)	9,089	16,049	9,691	19,080	6,549	41,465
Balance sheet items								
Share capital	12,858	12,866	12,872	12,938	12,895	12,952	12,922	12,941
Reserves & surplus	1,038,376	1,040,494	1,040,803	1,058,743	1,070,786	1,091,042	1,093,179	1,137,072
Deposits	5,609,752	5,468,784	5,586,689	6,067,547	6,529,197	6,607,318	6,962,730	7,163,451
Borrowings	1,828,586	1,619,703	1,746,858	1,642,928	1,653,200	1,567,200	1,510,328	1,373,747
Other liabilities	302,320	309,428	356,178	341,481	378,515	359,013	390,951	383,470
Total liabilities	8,791,892	8,451,275	8,743,400	9,123,638	9,644,592	9,637,525	9,970,109	10,070,680
Cash & bank	331,024	310,586	331,217	343,647	378,580	359,896	414,955	362,146
Interbank & call	510,670	322,357	244,901	320,941	424,383	297,578	301,440	342,225
Investments	2,029,942	1,863,605	1,875,003	1,977,303	2,077,327	2,199,962	2,233,756	2,274,800
Advances	5,123,953	5,162,887	5,444,866	5,643,078	5,866,466	5,924,154	6,133,587	6,356,543
Other assets	796,303	791,841	847,413	838,668	897,836	855,935	886,372	734,967
Total assets	8,791,892	8,451,275	8,743,400	9,123,638	9,644,592	9,637,525	9,970,109	10,070,680
Balance sheet ratios (%)								
Loan growth	10.4	11.3	12.8	11.7	14.5	14.7	12.6	12.6
Deposit growth	14.5	12.5	12.0	17.3	16.4	20.8	24.6	18.1
Loans / Deposits	91.3	94.4	97.5	93.0	89.8	89.7	88.1	88.7
CASA	51.7	50.5	50.8	49.3	49.6	45.2	46.7	47.0
Investment / Deposits	36.2	34.1	33.6	32.6	31.8	33.3	32.1	31.8
Balance sheet ratios (%)								
Tier-1	15.9	15.8	15.4	15.1	14.8	14.6	14.6	15.0
Tier-2	2.5	2.5	2.5	2.0	2.0	1.6	1.5	1.5
CRAR	18.4	18.4	17.8	17.2	16.8	16.2	16.1	16.5
Profitability ratios (%)								
Yield on assets	7.7	7.8	8.1	8.4	8.5	8.6	8.7	8.6
Cost of funds	4.6	4.7	4.8	5.0	4.9	5.0	5.0	4.9
NIM	3.27	3.25	3.44	3.55	3.74	3.69	3.77	3.87
Other income / Assets	2.7	1.8	1.5	1.7	1.5	1.4	1.7	1.8
Cost / Income	35.8	41.6	45.2	42.9	44.5	43.7	43.9	42.5
Cost / Assets	1.98	1.92	2.01	2.06	2.13	2.02	2.19	2.22
RoE	3.9	-0.5	3.5	6.0	3.6	7.0	2.4	14.7
RoA	0.5	-0.1	0.4	0.7	0.4	0.8	0.3	1.7
EPS (Rs)	6.3	-0.7	5.6	9.9	6.0	11.8	4.1	25.6
BVPS (Rs)	120.1	126.2	129.4	140.5	147.0	152.2	154.3	161.7
Asset quality ratios (%)								
GNPA	10.6	10.4	10.3	9.3	8.0	7.2	6.9	6.4
NNPA	4.8	4.2	3.7	2.6	2.1	2.0	1.7	1.6
Provision coverage	48.4	54.8	59.5	68.5	70.7	74.1	76.1	76.1
Provision costs	5.2	4.6	3.0	3.1	3.8	2.4	1.7	1.3
Slippage	12.3	3.1	2.3	1.5	2.4	1.9	1.6	2.7
NNPA / Equity	26.5	22.9	21.0	15.2	12.5	10.7	9.9	9.0

Source: Company, Centrum Research

P&L					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	549,659	634,012	760,874	874,454	1,005,217
Interest expense	319,400	363,864	431,162	487,435	560,856
NII	230,258	270,148	329,712	387,019	444,361
Other income	174,196	145,122	177,151	209,296	240,519
Total income	404,455	415,270	506,863	596,315	684,880
Operating expenses	157,040	180,891	215,417	241,508	273,952
Employee	59,140	68,082	81,699	91,503	102,483
Others	97,900	112,808	133,718	150,005	171,469
PPOP	247,415	234,379	291,446	354,807	410,928
Provisions	173,070	196,616	117,734	99,976	106,544
PBT	74,345	37,763	173,712	254,831	304,384
Tax	6,571	4,135	72,976	64,217	76,705
Net profit	67,774	33,628	100,737	190,614	227,679

Ratios					
YE March	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Loans	10.4	14.5	13.5	14.5	15.0
Deposits	14.5	16.4	19.0	16.5	16.5
RWA growth	1.6	8.3	5.9	14.9	15.0
NII	5.9	17.3	22.0	17.4	14.8
Other income	(10.7)	(16.7)	22.1	18.1	14.9
Opex	6.4	15.2	19.1	12.1	13.4
PPoP	(6.6)	(5.3)	24.3	21.7	15.8
Provisions	13.8	13.6	(40.1)	(15.1)	6.6
Net profit	(30.9)	(50.4)	199.6	89.2	19.4
Profitability (%)					
Yield on assets	7.4	7.7	8.4	8.4	8.4
Cost of funds	4.6	4.7	4.9	4.8	4.8
Spread	2.8	3.0	3.5	3.5	3.6
NIM	3.1	3.3	3.6	3.7	3.7
Other income / Total income	43.1	34.9	35.0	35.1	35.1
Other income / Assets	2.1	1.6	1.7	1.7	1.7
Cost / Income	38.8	43.6	42.5	40.5	40.0
Cost / Assets	1.90	1.96	2.07	2.01	1.98
Provision costs	3.54	3.58	1.88	1.40	1.30
Credit costs	2.92	3.06	1.79	1.33	1.24
Tax rate	8.8	10.9	42.0	25.2	25.2
RoE	6.8	3.2	9.1	15.3	15.6
RoA	0.8	0.4	1.0	1.6	1.6
RoRWA	1.1	0.5	1.4	2.4	2.5
Du-pont (%)					
Interest income	6.7	6.9	7.3	7.3	7.3
Interest expenses	3.9	3.9	4.1	4.1	4.1
NII	2.8	2.9	3.2	3.2	3.2
Other income	2.1	1.6	1.7	1.7	1.7
Total income	4.9	4.5	4.9	5.0	5.0
Operating expenses	1.9	2.0	2.1	2.0	2.0
PPOP	3.0	2.5	2.8	2.9	3.0
Provisions	2.1	2.1	1.1	0.8	0.8
PBT	0.9	0.4	1.7	2.1	2.2
Tax	0.1	0.0	0.7	0.5	0.6
RoA	0.8	0.4	1.0	1.6	1.6

Source: Company, Centrum Research estimates

Balance Sheet					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	12,914	12,941	12,922	12,922	12,922
Reserves & surplus	1,038,676	1,070,739	1,171,517	1,362,130	1,589,809
Deposits	5,609,752	6,529,197	7,769,744	9,051,752	10,545,291
Borrowings	1,828,586	1,653,200	1,479,951	1,853,973	2,159,879
Other Liabilities	301,964	378,515	762,601	579,499	477,636
Total liabilities	8,791,892	9,644,592	11,196,735	12,860,277	14,785,537
Cash balances with RBI	331,024	378,580	416,236	512,569	597,143
Balances with banks	510,670	424,383	447,724	470,558	494,556
Investments	2,029,942	2,077,327	2,641,713	3,077,596	3,585,399
Advances	5,123,953	5,866,466	6,658,439	7,623,912	8,767,499
Fixed Assets	79,035	79,314	80,901	82,519	84,169
Other Assets	717,268	818,522	951,722	1,093,124	1,256,771
Total assets	8,791,892	9,644,592	11,196,735	12,860,277	14,785,537

Ratios					
YE March	FY18	FY19	FY20E	FY21E	FY22E
Balance Sheet (%)					
Loans / Deposits	91.3	89.8	85.7	84.2	83.1
Investments / Deposits	33.4	29.4	34.0	34.0	34.0
CASA ratio	51.7	49.6	45.0	45.5	45.5
Assets / Equity	8.4	8.9	9.5	9.4	9.2
RWA / Total assets	72.2	71.3	65.0	65.0	65.0
Capital (%)					
CET-1	14.4	13.7	14.1	14.4	14.8
Tier-1	15.9	14.3	14.9	15.3	15.7
Tier-2	2.5	2.3	2.2	1.9	1.7
Total CRAR	18.4	16.6	17.1	17.2	17.3
Asset quality (%)					
GNPA (Rs mn)	540,625	462,916	415,253	384,173	372,648
NNPA (Rs mn)	278,863	135,774	99,661	96,043	93,162
GNPA	9.9	7.4	6.5	5.3	4.5
NNPA	5.4	2.3	1.5	1.3	1.1
PCR	48.4	70.7	76.0	75.0	75.0
Slippage	5.8	2.2	1.9	1.6	1.5
NNPA / Equity	26.5	12.5	8.4	7.0	5.8
Per share (Rs)					
EPS	10	5	16	30	35
DPS	2	1	1	1	1
BVPS	158	163	183	213	248
ABVPS	115	142	153	183	218
Valuation (x)					
P/E	28.3	62.8	34.3	18.1	15.2
P/BV	1.9	2.0	2.9	2.5	2.2
P/ABV	2.6	2.3	3.5	2.9	2.4

Source: Company, Centrum Research estimates

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Source: Bloomberg

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