

ICICI Bank

Healthy Operating Performance

| Particulars (₹ cr) | Q2FY20 | Q1FY20 | % chg (qoq) | Q2FY19 | % chg (yoy) |
|--------------------|--------|--------|-------------|--------|-------------|
| NII | 8,057 | 7,737 | 4 | 6,418 | 26 |
| Pre-prov. profit | 6,874 | 6,288 | 9 | 5,250 | 31 |
| PAT | 655 | 1,908 | (66) | 909 | (28) |

Source: Company

For Q2FY2020, ICICI Bank reported net profit of ₹655cr and if we adjust for DTA mark down charges of ₹2,920cr PAT would have been ₹3,575cr. On operating front, bank has reported very healthy set of numbers. Pre-Prov profit grew at 31% yoy led by strong growth in NII (26% yoy) and non interest income (33% yoy). Further, on asset quality front, bank improved almost in all parameters except moderate addition to BB & Below book.

Stable asset quality; BB & Below book marginally increased: During the quarter, the key monitorable was contained slippages, which was worth ₹2,482cr, of which ₹1,323cr slipped from retail book and ₹1,159cr slid from corporate book. Consequently, GNPA/NPA ratios improved 10bps/20bps qoq to 6.4%/1.6%. Key positive was PCR improvement of 200bps qoq to 76.1% (85% including Tech W/O), which is one of the highest in the industry. Key negative was increase in BB & Below book though it grew 5% qoq, however street was expecting lower trend in this book. Management comments indicate moderate addition in 2H, considering more number of rating downgrade. Management has guided credit cost of 1.2-1.3% for FY2020 (Considering recovery from IBC).

Advances led by retail lending; NIM stable: The bank's advances grew by 13% yoy (4% qoq) aided by healthy retail loan book growth of 22% yoy. The main drivers leading to the growth in the retail loan book were personal loans/credit card lending, which grew by 51%/40% yoy respectively. Retail contribution to total loans increased to 62% vs. 57.5% in Q2FY2019. NIM stood at 3.64% against 3.61% in Q1FY20 and 3.33% in Q2FY19. CASA ratio declined to 46.7% vs. 50.8% in Q4FY2019 as growth in term deposits (35% yoy) outpaced that in CASA deposits.

Outlook & Valuation: At the current market price, the bank's core banking business (after adjusting the value of subsidiaries) is trading at 1.9x FY2021E ABV. We believe strength of liability franchise (CASA – 46.7%), shift in loan mix towards retail assets & better rated companies, strong capitalization (tier I of 14.62%), steady improvement in stressed loan and going forward quick resolution under IBC would be the key triggers for expansion. We recommend a Buy on the stock with a Target Price of ₹532.

Key Financials

| Y/E March (₹ cr) | FY17 | FY18 | FY19 | FY20E | FY21E |
|------------------|--------|--------|--------|--------|--------|
| NII | 21,738 | 23,025 | 27,015 | 32,145 | 37,259 |
| % chg | 2 | 6 | 17 | 19 | 16 |
| Net profit | 9,802 | 6,645 | 3,362 | 9,559 | 16,443 |
| % chg | 0.8 | (32.2) | (49.4) | 184 | 72 |
| NIM (%) | 3.2 | 3.1 | 3.2 | 3.5 | 3.5 |
| EPS (₹) | 15 | 10 | 5 | 15 | 26 |
| P/E (x) | 31 | 46 | 91 | 32 | 19 |
| P/ABV (x) | 4.0 | 3.7 | 3.1 | 2.9 | 2.6 |
| RoA (%) | 1.3 | 0.8 | 0.4 | 0.9 | 1.4 |
| RoE (%) | 10.3 | 6.5 | 3.1 | 8.5 | 13.4 |

Source: Company, CMP as on 29/10/2019, Valuation done closing price of 29/10/2019

BUY

| | |
|--------------|------|
| CMP | ₹477 |
| Target Price | ₹532 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

Stock Info

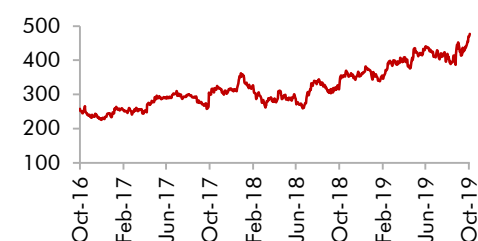
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|--------------------|------------|
| Sector | Banking |
| Market Cap (₹ cr) | 3,08,513 |
| Beta | 1.4 |
| 52 Week High / Low | 482/326 |
| Avg. Daily Volume | 9,92,442 |
| Face Value (₹) | 2 |
| BSE Sensex | 39,831 |
| Nifty | 11,786 |
| Reuters Code | ICBK.BO |
| Bloomberg Code | ICICIBC IN |

Shareholding Pattern (%)

| | |
|-------------------------|------|
| Promoters | 0.0 |
| MF / Banks / Indian Fls | 37.4 |
| FII / NRIs / OCBs | 31.7 |
| Indian Public / Others | 33.6 |

| Abs. (%) | 3m | 1yr | 3yr |
|------------|------|------|------|
| Sensex | 3.8 | 16.5 | 40.6 |
| ICICI Bank | 14.8 | 46.8 | 81.8 |

3 Year Price Chart



Source: Company

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Exhibit 1: Quarterly Performance

| Particulars (₹ cr) | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | % chg (qoq) | % chg (yoy) |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| Interest Earned | 14,722 | 15,106 | 16,280 | 17,293 | 17,980 | 18,565 | 3 | 23 |
| on Advances / Bills | 10,982 | 11,512 | 12,524 | 12,925 | 13,616 | 14,304 | 5 | 24 |
| on investments | 3,136 | 3,086 | 3,237 | 3,338 | 3,645 | 3,726 | 2 | 21 |
| on bal with RBI & others | 227 | 147 | 135 | 227 | 147 | 136 | (8) | (8) |
| on others | 378 | 360 | 385 | 802 | 571 | 399 | (30) | 11 |
| Interest Expended | 8,620 | 8,688 | 9,405 | 9,673 | 10,243 | 10,508 | 3 | 21 |
| Net Interest Income | 6,102 | 6,418 | 6,875 | 7,620 | 7,737 | 8,057 | 4 | 26 |
| Non Interest Income | 3,851 | 3,156 | 3,883 | 3,621 | 3,425 | 4,194 | 22 | 33 |
| Operating income | 9,953 | 9,574 | 10,758 | 11,241 | 11,163 | 12,252 | 10 | 28 |
| Operating Expenses | 4,145 | 4,324 | 4,612 | 5,008 | 4,874 | 5,378 | 10 | 24 |
| Employee expenses | 1,514 | 1,661 | 1,734 | 1,899 | 1,953 | 2,141 | 10 | 29 |
| Other Opex | 2,631 | 2,663 | 2,878 | 3,109 | 2,921 | 3,236 | 11 | 22 |
| Pre-prov. profit | 5,808 | 5,250 | 6,146 | 6,233 | 6,288 | 6,874 | 9 | 31 |
| Provisions & Contingencies | 5,971 | 3,994 | 4,244 | 5,451 | 3,496 | 2,507 | (28) | (37) |
| PBT | (164) | 1,255 | 1,902 | 782 | 2,793 | 4,367 | 56 | 248 |
| Provision for Taxes | (43) | 347 | 297 | (187) | 885 | 3,712 | 320 | 971 |
| Tax rate | 26 | 28 | 16 | (24) | 32 | 85 | 168 | 208 |
| PAT | (120) | 909 | 1,605 | 969 | 1,908 | 655 | (66) | (28) |

Source: Company, Angel Research

Exhibit 2: Balance Sheet

| Particular | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | % chg (qoq) | % chg (yoy) |
|-----------------------------|----------|----------|----------|----------|----------|----------|-------------|-------------|
| Advance (₹ cr) | 5,16,289 | 5,44,487 | 5,64,308 | 5,86,647 | 5,92,415 | 6,13,359 | 4 | 13 |
| Deposit (₹ cr) | 5,46,878 | 5,58,669 | 6,06,755 | 6,52,920 | 6,60,732 | 6,96,273 | 5 | 25 |
| Credit-to-Deposit Ratio (%) | 94 | 97 | 93 | 90 | 90 | 88 | (18.9)bp | (474.6)bp |
| CA (₹ cr) | 76,689 | 76,072 | 88,581 | 96,269 | 80,401 | 94,431 | 17 | 24 |
| SA (₹ cr) | 1,99,604 | 2,07,476 | 2,10,793 | 2,27,671 | 2,18,476 | 2,30,569 | 6 | 11 |
| CASA deposits (₹ cr) | 2,76,293 | 2,83,548 | 2,99,374 | 3,23,940 | 2,98,877 | 3,25,000 | 9 | 15 |
| CASA % | 50.5 | 50.8 | 49.3 | 49.6 | 45.2 | 46.7 | (438)bp | (528.8)bp |
| Tier-I ratio | 15.8 | 15.4 | 15.1 | 15.1 | 14.6 | 14.6 | (49)bp | (124)bp |
| of which - CET1 | 14.4 | 14.0 | 13.7 | 13.6 | 13.2 | 13.2 | (43)bp | (121)bp |
| Tier-II ratio | 2.5 | 2.5 | 2.0 | 1.8 | 1.6 | 1.5 | (21)bp | (92)bp |
| Total CAR ratio | 18.4 | 17.8 | 17.2 | 16.9 | 16.2 | 16.1 | (70)bp | (216)bp |

Source: Company, Angel Research

Exhibit 3: NIM and Asset quality improved

| particular | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | % chg (qoq) | % chg (yoy) |
|---------------------------|--------|--------|--------|--------|--------|--------|-------------|-------------|
| Rep. Yield on Advance | 8.71 | 8.79 | 9.00 | 9.29 | 9.36 | 9.52 | 7bp | 65bp |
| Rep. Cost of fund | 4.99 | 5.00 | 5.14 | 5.20 | 5.23 | 5.19 | 3bp | 24bp |
| Cost of Deposit | 4.81 | 4.76 | 4.88 | 5.00 | 5.08 | 5.06 | 8bp | 27bp |
| Reported NIM | 3.19 | 3.33 | 3.22 | 3.72 | 3.61 | 3.64 | (11)bp | 42bp |
| Cost-to-income ratio | 41.6 | 45.2 | 42.9 | 44.5 | 43.7 | 43.9 | (88.2)bp | 201.7bp |
| Asset quality | | | | | | | | |
| Gross NPAs (₹ cr) | 53,465 | 54,489 | 51,627 | 46,328 | 45,799 | 45,695 | (1) | (14) |
| Gross NPAs (%) | 8.8 | 8.5 | 7.8 | 6.7 | 6.5 | 6.4 | (21)bp | (232)bp |
| Net NPAs (₹ cr) | 24,170 | 22,086 | 16,288 | 13,613 | 11,893 | 10,972 | (13) | (51) |
| Net NPAs (%) | 4.2 | 3.7 | 2.6 | 2.1 | 1.8 | 1.6 | (29)bp | (242)bp |
| PCR (%) | 52 | 57 | 67 | 69 | 73 | 75 | 347.4bp | 2028.7bp |
| Slippage ratio (%) | 0.8 | 0.6 | 0.4 | 0.6 | 0.5 | 0.4 | (13.6)bp | (31.3)bp |
| Credit Cost on Adv (AnnI) | 4.6 | 3.0 | 3.1 | 3.8 | 2.4 | 1.7 | (141.7)bp | (227.2)bp |

Exhibit 4: Stressed book on declining trend

| Particular (₹ cr) | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | Q1FY20 | Q2FY20 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA | 43,148 | 44,489 | 46,039 | 54,063 | 53,465 | 54,489 | 51,627 | 46,328 | 45,799 | 45,695 |
| Outstanding bad loans | 28,300 | 28,300 | 25,800 | 13,461 | 11,898 | 10,720 | 3,690 | 3,299 | 3,280 | 3,280 |
| (% of loans) | 6.1% | 5.9% | 5.1% | 2.6% | 2.3% | 2.0% | 0.7% | 0.6% | 0.6% | 0.5% |
| Stressed asset | | | | | | | | | | |
| Sub investment grade | 20,400 | 19,600 | 19,100 | 4,728 | 4,401 | 3,283 | | | | |
| Security receipts | 3,400 | 3,500 | 3,400 | 3,438 | 3,438 | 3,436 | 3,299 | 3,299 | 3,280 | 3,280 |
| Other dispensation | 4,500 | 5,200 | 3,300 | 5,295 | 4,059 | 4,001 | 391 | | | |
| Restructured loans | 2,400 | 2,000 | 1,800 | 1,595 | 1,445 | 1,443 | 391 | | | |
| ...5.25 | 200 | 200 | 200 | - | 2,004 | 2,005 | | | | |
| SDR | 1,500 | 2,700 | 1,000 | - | - | | | | | |
| S4A | 400 | 300 | 300 | 2,200 | 610 | 553 | | | | |
| Other | | | | 1,500 | - | | | | | |
| BB&Below | | | | | | 17,100 | 18,812 | 17,525 | 15,355 | 16,074 |
| | 71,448 | 72,789 | 71,839 | 67,524 | 65,363 | 82,309 | 74,129 | 67,152 | 64,434 | 65,049 |
| Stressed pool to loans (%) | 15.4 | 15.1 | 14.2 | 13.2 | 12.7 | 15.1 | 13.1 | 11.4 | 10.9 | 10.6 |

Outlook & Valuation: At the current market price, the bank's core banking business (after adjusting the value of subsidiaries) is trading at 1.9x FY2021E ABV. We believe strength of liability franchise (CASA – 46.7%), shift in loan mix towards retail assets & better rated companies, strong capitalization (tier I of 14.62%), steady improvement in stressed loan and going forward quick resolution under IBC would be the key triggers for expansion. We recommend a Buy on the stock with a Target Price of ₹532.

Exhibit 5: SOTP

| Particular | % | Valuation Methodology | Value/share (₹) |
|---|------|-----------------------|-----------------|
| Value of ICICI standalone | 100 | 2.2x FY21E ABV | 408 |
| Subsidiaries | | | |
| ICICI Prudential Life | 54.9 | On Current M.Cap | 57 |
| General Insurance | 56 | On Current M.Cap | 52 |
| Mutual fund s | 51 | 5.5% of current AUM | 15 |
| Other (Home Fin, VC, Securities PD and Overseas subsidiaries) | | | 31 |
| Total subsidiaries' value @ 20% discount | | | 124 |
| Fair value per share | | | 532 |

Valuation done on closing price of 29/10/2019

Income Statement

| Y/E March (₹ Cr) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Interest Income | 21,738 | 23,025 | 27,015 | 32,145 | 37,259 |
| - YoY Growth (%) | 2 | 6 | 17 | 19.0 | 15.9 |
| Other Income | 19,503 | 17,419 | 14,511 | 15,631 | 18,302 |
| - YoY Growth (%) | 27 | (11) | -17 | 8 | 17 |
| Operating Income | 41,241 | 40,444 | 41,526 | 47,776 | 55,561 |
| - YoY Growth (%) | 13 | (2) | 3 | 15 | 16 |
| Operating Expenses | 14,754 | 15,704 | 18,089 | 20,834 | 23,628 |
| - YoY Growth (%) | 16 | 6 | 15 | 15 | 13 |
| Pre - Provision Profit | 26,487 | 24,741 | 23,437 | 26,942 | 31,933 |
| - YoY Growth (%) | 11 | (7) | -5 | 15 | 19 |
| Prov. & Cont. | 15,207 | 17,307 | 19,661 | 10,453 | 10,009 |
| - YoY Growth (%) | 30 | 14 | 14 | (47) | (4) |
| Profit Before Tax | 11,279 | 7,434 | 3,776 | 16,489 | 21,924 |
| - YoY Growth (%) | (8) | (34) | -49 | 337 | 33 |
| Prov. for Taxation | 1,478 | 789 | 413 | 6,929 | 5,481 |
| - as a % of PBT | 13 | 11 | 11 | 42 | 25 |
| PAT | 9,802 | 6,645 | 3,362 | 9,559 | 16,443 |
| - YoY Growth (%) | 1 | (32) | (49.4) | 184 | 72 |

Balance Sheet

| Y/E March (₹ Cr) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|-----------------|-----------------|-----------------|------------------|------------------|
| Equity | 1,171 | 1,292 | 1,294 | 1,297 | 1,297 |
| Reserve & Surplus | 98,780 | 1,03,868 | 1,07,074 | 1,14,911 | 1,28,065 |
| Networth | 99,951 | 1,05,160 | 1,08,368 | 1,16,208 | 1,29,362 |
| Deposits | 4,90,039 | 5,60,975 | 6,52,920 | 7,45,865 | 8,55,897 |
| - Growth (%) | 16 | 14 | 16 | 14 | 15 |
| Borrowings | 1,47,556 | 1,82,859 | 1,65,320 | 1,61,322 | 1,88,723 |
| Other Liab. & Prov. | 34,245 | 30,195 | 37,851 | 57,164 | 83,222 |
| Total Liabilities | 7,71,791 | 8,79,189 | 9,64,459 | 10,80,558 | 12,57,204 |
| Cash Balances | 31,702 | 33,102 | 37,858 | 44,074 | 50,576 |
| Bank Balances | 44,011 | 51,067 | 42,438 | 33,730 | 38,706 |
| Investments | 1,61,507 | 2,02,994 | 2,07,733 | 2,37,973 | 2,75,572 |
| Advances | 4,64,232 | 5,12,395 | 5,86,647 | 6,60,219 | 7,72,363 |
| - Growth (%) | 7 | 10 | 14 | 13 | 17 |
| Fixed Assets | 7,805 | 7,904 | 7,931 | 11,439 | 13,126 |
| Other Assets | 62,535 | 71,727 | 81,852 | 93,123 | 1,06,861 |
| Total Assets | 7,71,791 | 8,79,189 | 9,64,459 | 10,80,558 | 12,57,204 |
| - Growth (%) | 7 | 14 | 10 | 12 | 16 |

Key Ratio

| Y/E March | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------------|------|------|------|-------|-------|
| Profitability ratios (%) | | | | | |
| NIMs | 3.2 | 3.1 | 3.2 | 3.5 | 3.5 |
| Cost to Income Ratio | 36 | 39 | 44 | 44 | 43 |
| RoA | 1.3 | 0.8 | 0.4 | 0.9 | 1.4 |
| RoE | 10 | 6 | 3 | 9 | 13 |
| B/S ratios (%) | | | | | |
| CASA Ratio | 50 | 52 | 50 | 47 | 49 |
| Credit/Deposit Ratio | 0.95 | 0.91 | 0.90 | 0.89 | 0.90 |
| Asset Quality (%) | | | | | |
| Gross NPAs | 7.9 | 8.8 | 6.7 | 5.2 | 3.8 |
| Net NPAs | 4.9 | 3.5 | 2.0 | 1.6 | 1.1 |
| Slippages | 7.5 | 6.4 | 2.5 | 2.0 | 1.5 |
| Loan Loss Prov. /Avg. Assets | 2.04 | 2.10 | 2.13 | 1.02 | 0.86 |
| Provision Coverage | 40 | 48 | 71 | 70 | 70 |
| Per Share Data (₹) | | | | | |
| EPS | 15 | 10 | 5 | 15 | 26 |
| ABVPS (70% cover.) | 119 | 129 | 153 | 165 | 185 |
| DPS | 2 | 2 | 1 | 3 | 5 |
| Valuation Ratios | | | | | |
| PER (x) | 31 | 46 | 91 | 32 | 19 |
| P/ABVPS (x) | 4.0 | 3.7 | 3.1 | 2.9 | 2.6 |
| Dividend Yield (%) | 0.5 | 0.4 | 0.2 | 0.6 | 1.1 |
| DuPont Analysis | | | | | |
| NII | 2.9 | 2.8 | 2.9 | 3.1 | 3.2 |
| (-) Prov. Exp. | 2.0 | 2.1 | 2.1 | 1.0 | 0.9 |
| Adj. NII | 0.9 | 0.7 | 0.8 | 2.1 | 2.3 |
| Other Inc. | 2.6 | 2.1 | 1.6 | 1.5 | 1.6 |
| Op. Inc. | 3.5 | 2.8 | 2.4 | 3.7 | 3.9 |
| Opex | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 |
| PBT | 1.5 | 0.9 | 0.4 | 1.6 | 1.9 |
| Taxes | 0.2 | 0.1 | 0.0 | 0.7 | 0.5 |
| RoA | 1.3 | 0.8 | 0.4 | 0.9 | 1.4 |
| Leverage | 7.9 | 8.0 | 8.6 | 9.1 | 9.5 |
| RoE | 10.3 | 6.5 | 3.1 | 8.5 | 13.4 |

Valuation done on closing price of 29/10/2019

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| 3. Served as an officer, director or employee of the company covered under Research | No |
| 4. Broking relationship with company covered under Research | No |