



# ICICI BANK

## Transformation at multiple levels reaffirmed

India Equity Research | Banking and Financial Services

Earnings in Q1FY20 reaffirm our conviction that ICICI Bank (ICICI) is prepping for sustainable, prudent and profitable growth. In our recent 'COFFEE WITH CEO' update (titled [ICICI Bank – DNA change: In multiple ways](#)), we highlighted how management is getting future-ready with right focus on delivering >20% core operating profit growth. Q1FY20 is a step in that direction with: 1) core NII growth of >23% YoY; 2) core operating growth of >20% YoY; 3) core NIM holding steady (3.4–3.5%) despite a shift towards high-quality book; 4) net NPLs dipping below 1.8% for the first time in 14 quarters; 5) coverage (excluding technical write-offs) at 74%—best among peers; 6) BB & below exposure contracting further to >10% QoQ; 8) domestic advances growing 18% YoY; and 9) term deposits rising >33% YoY. The only missing link is fee income growth of 10% YoY. We maintain that the change in strategy – granularity, de-risking, people involvement – will keep earnings quality steady, which would be progressively valued as markets recognise their sustainability. We maintain a high-conviction 'BUY' with an SoTP-based TP of INR585.

### Future-ready: Right focus to help sustain >20% PPOP growth

We believe ICICI is poised to deliver sustainable core profit growth with a de-risked balance sheet and strengthened franchise. Q1FY20 performance is a testimony to its efforts: a) risk-calibrated credit growth (>18%) with focus on granularity and pricing led by market share gains, unsecured retail build-up, and renewed SME focus; b) respectable NIM at 3.5%-plus despite improving rating profile; and c) controlled cost & improved productivity. However, we await improved traction in fee income.

### Transitioning towards normalised credit cost

Despite a challenging environment, ICICI delivered improved credit quality metrics reflected in: a) >95% corporate slippages flowing in from the watchlist, though retail slippages inched up; and b) further contraction in BB and below book (at INR154bn), with limited additions. We believe the trend will sustain considering its: a) a better rating mix (A-rated and above loans at >67%); b) reduced concentration risk (exposure to top-20 borrowers <12% versus 15% in FY15); c) high coverage of 74%; and d) lower RWA/assets.

### Outlook and valuation: Structural re-rating due; maintain 'BUY'

Over the past decade, ICICI was caught on the wrong side of the cycle. Now, we believe its focused approach and structural changes along with cyclical tailwinds underpin a sustainable franchise. Earnings consistency too instils confidence. Maintain 'BUY/SO'.

#### Financials

	(INR mn)							
Year to March	Q1FY20	Q1FY19	Growth %	Q4FY19	Growth %	FY19	FY20E	FY21E
Net revenue	1,11,629	99,537	12.1	1,12,411	(0.7)	4,15,270	5,32,280	6,12,744
Net profit	19,080	(1,196)	NA	9,691	96.9	33,633	1,61,936	2,01,405
Dil. EPS (INR)						5.2	25.1	31.2
Adj. BV (INR)						130.8	151.5	175.7
Price/ Adj book (x)						2.1	1.8	1.6
Price/ Earnings (x)						53.7	11.1	9.0

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Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

#### MARKET DATA (R: ICBK.BO, B: ICICIB IN)

CMP	: INR 416
Target Price	: INR 585
52-week range (INR)	: 444 / 273
Share in issue (mn)	: 6,453.0
M cap (INR bn/USD mn)	: 2,683 / 25,503
Avg. Daily Vol.BSE/NSE('000)	: 20,200.1

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	-	-	-
MF's, FI's & BK's	34.4	34.4	34.8
FII's	32.3	32.3	32.0
Others	33.3	33.3	33.1
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	1.2	(3.2)	(1.7)
3 months	9.4	(0.1)	3.1
12 months	58.7	5.8	16.3

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### Key highlights

- Slippages during the quarter were INR27.8bn (versus INR35.5bn in Q4FY19) comprising corporate & SME slippages of INR12.7bn and retail slippages of INR15.1bn. Retail slippages rose due to higher agri slippages (INR4.5bn from the Kisan Credit card portfolio versus INR3.36bn in Q1FY19) that management had flagged earlier. Retail GNPLs, therefore, went up from 1.7% in Q4FY19 to 1.9% in Q1FY20.
- Out of corporate & SME slippages, which came in at INR 12.7 bn, >95% arose from BB & below. Moreover, there were upgrades of INR16.2bn from BB & below to Investment grade (largely and Iron & Steel account), which led to a contraction in the BB and below book to ~INR154bn (from INR175bn in FY19).
- Overall loan growth came in at 14.7% YoY supported by domestic credit growth (up 18% YoY) while the overseas book is being run-down (down >7.5% YoY, now forming 10% of book). Domestic growth was supported by >22% YoY growth in the retail segment (forming >60% of overall loans). Bank The bank continues to grow Personal Loan and Credit Card (off a low base) book with focus on cross-selling to existing customer base.
- Deposit growth is steady at >20% YoY, with a strong > 30% YoY uptick driven by retail-TD. This also led to softer CASA growth (some movement towards retail-TD) of sub-10% levels with the CASA ratio at 43.4% (versus 44.6% in FY19).
- Risk-weighted assets during the quarter increased to INR7.2tn as unrated exposure as in April 2019 are risk-weighted at 150%, which had impact of 39bps on CET-1.
- Consolidated profit came in higher due to improved earnings performance of all entities while a big outperformance came in from ICICI Bank UK, which reported a profit of USD10mn compared with a loss of USD25mn in Q4FY19 and a loss of INR53mn in the full-year FY19.

**Table 1: Q1FY20 earnings snapshot**

(INR mn)	Q1FY20	Q1FY19	Growth (%)	Q4FY19	Growth (%)	Comments
Net interest income	77,374	61,019	26.8	76,201	1.5	NII traces 25% plus growth supported by sustained loan growth (market share gain) along with sustained NIM (excluding 17bps one-off impact)
Other income	34,254	38,518	(11.1)	36,210	(5.4)	
Operating expenses	48,744	41,453	17.6	50,077	(2.7)	
Staff expense	19,533	15,139	29.0	18,990	2.9	Employee expense looks optically higher on lower base (last year had benefit from higher interest rate) excluding which the normalised growth is lower
Other opex	29,211	26,315	11.0	31,087	(6.0)	
Pre prov Op profit (PPP)	62,885	58,084	8.3	62,334	0.9	
Provisions	34,957	59,713	(41.5)	54,514	(35.9)	The bank expects normalised level of credit cost of 1% of longer term (for FY20 credit cost is expected to be 1.2-1.3%).
Profit before tax	27,927	(1,629)	NA	7,820	257.1	
Provision for tax	8,847	(434)	NA	(1,871)	NA	
Profit after tax	19,080	(1,196)	NA	9,691	96.9	
EPS (INR)	2.9	(0.2)	NA	1.5	96.6	
<b>Balance sheet (INR bn)</b>						
Advances	5,924	5,163	14.7	5,866	1.0	Overall loan growth supported by 18% YoY growth in domestic advances. This was further supported by retail segment which grew by >20% YoY
Deposits	6,607	5,469	20.8	6,529	1.2	
CD Ratio (%)	89.7	94.4		89.8		
<b>Asset quality (INR bn)</b>						
Gross NPA	458	535	(14.4)	463	(1.1)	>95% corporate slippages flowing from the watchlist, though retail slippages as indicated inched up
Net NPA	119	242	(50.9)	136	(12.7)	Coverage maintained at > 70% levels
Gross NPA (%)	6.5	8.8		6.7		
Net NPA (%)	1.8	4.2		2.1		
Provision coverage (%)	74.1	54.8		70.7		

Source: Company

**Table 2: Potential stress pool – BB and below book came down to ~INR154bn**

(INR bn)	Q4FY19	Q1FY20
Gross restructured loan	3.5	1.5
Non-fund o/s to restructured loans	2.2	0.9
Non-fund o/s to non-performing loans	42.2	36.3
Other borrowers with o/s greater than INR1.00 bn	78.0	71.9
Other borrowers with o/s less than INR1.00 bn	49.4	43.0
<b>BB and below outstanding</b>	<b>175.3</b>	<b>153.6</b>

Source: Company

**Table 3: Higher upgrades with lower downgrades pushing BB and below book down**

(INR bn)	Q4FY19	Q1FY20
Opening balance	188.1	175.3
Slippage to NPA	18.8	12.7
Upgrades to investment grade and net reduction in o/s	2.8	16.2
Downgrades to BB and below	8.7	7.2
Closing balance	175.3	153.6

**Table 4: Provision coverage at an impressive 74%**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Gross NPA (INR mn)	540,625	534,649	544,890	515,915	462,916	457,631
Gross NPA (%)	8.8	8.8	8.5	7.8	6.7	6.5
Net NPA (INR mn)	278,863	241,701	220,857	162,524	135,774	118,565
Net NPA (%)	4.8	4.2	3.7	2.6	2.1	1.8
Provision coverage (%)	48.4	54.8	59.5	68.5	70.7	74.1

**Table 5: Loan growth healthy at >14% YoY, CD ratio at ~90%**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Advances (INR Bn)	5,124	5,163	5,445	5,643	5,866	5,924
Growth Y-o-Y	10.4	11.3	12.8	11.7	14.5	14.7
Growth Q-o-Q (%)	1.4	0.8	5.5	3.6	4.0	1.0
Deposits (INR Bn)	5,610	5,469	5,587	6,068	6,529	6,607
Growth Y-o-Y	14.5	12.5	12.0	17.3	16.4	20.8
Growth Q-o-Q (%)	8.4	(2.5)	2.2	8.6	7.6	1.2
CD ratio (%)	91.3	94.4	97.5	93.0	89.8	89.7

**Table 6: Retail continues to drive growth**

(%)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Retail	56.6	57.5	57.3	59.0	60.1	61.4
Domestic Corporate	25.8	25.4	25.4	24.1	23.9	23.6
SME	5.0	4.6	4.6	4.9	5.2	5.0
International	12.6	12.5	12.7	11.9	10.7	10.1

**Table 7: NIMs stable, sustainability key**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
NIM (rep)	3.2	3.2	3.3	3.4	3.7	3.6
Cost of funds (cal)	4.6	4.7	4.8	5.0	4.9	5.0
Yield on advances (cal)	8.4	8.5	8.7	9.0	9.0	9.2

**Table 8: CASA ratio came off to 45.2% as focus shifts to retail TD**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Savings (INR bn)	2,010	1,996	2,075	2,108	2,277	2,185
Growth Q-o-Q	8.1	(0.7)	3.9	1.6	8.0	(4.0)
Current (INR bn)	890	767	761	886	963	804
Growth Q-o-Q	19.0	(13.8)	(0.8)	16.4	8.7	(16.5)
CASA ratio	51.7	50.5	50.8	49.3	49.6	45.2
Fixed deposits (INR bn)	2,711	2,706	2,751	3,074	3,290	3,619
Growth Q-o-Q	5.6	(0.2)	1.7	11.8	7.0	10.0
Average CASA ratio	45.6	46.1	47.1	46.0	44.6	43.4

Source: Company

**Table 9: C-I ratio at ~44%, improvement key**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Cost-income	35.8	41.6	45.2	42.9	44.5	43.7
Opex/assets	2.0	1.9	2.0	2.1	2.1	2.0

Source: Company

**Table 10: SoTP valuation (Sept 2020)**

	Method	AUMs / earnings/ book (INR mn)	Multiple	Value of business (INR mn)	ICICI Bank's holding	Value of ICICI Bank's interest (INR mn)	Value per share (INR)
Bank	Price / adj book	1,129,670	2.5	2,894,814	100.0%	2,894,814	449
Banking Subs	Price / adj book	84,516	0.8	70,994	100.0%	70,994	11
<b>Subsidiary</b>							
Home Finance	Price / adj book	17,711	1.8	31,879	100.0%	31,879	5
Domestic asset management	% of AUM	4,289,518	6.0%	257,371	51.0%	131,259	20
Venture capital	% of AUM	120,000	12.0%	14,400	100.0%	14,400	2
Securities	Price / Earnings	6,500	12.0	78,000	79.2%	61,776	10
Life insurance	Appraisal value	271,086	2.8	759,041	52.9%	401,305	62
General insurance	PE	15,600	35.0	546,000	55.9%	305,214	47
<b>Value of subsidiaries</b>							<b>147</b>
Value of subs (after 15% holding company discount)							125
<b>Total</b>							<b>585</b>

Source: Company

### Financial snapshot

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Interest income	179,801	147,224	22.1	172,928	4.0	634,012	739,652	867,822
Interest exp	102,426	86,205	18.8	96,727	5.9	363,864	420,714	495,284
Net int. inc. (INR mn)	77,374	61,019	26.8	76,201	1.5	270,148	318,937	372,538
Other income	34,254	38,518	(11.1)	36,210	(5.4)	145,122	213,343	240,206
Net revenues	111,629	99,537	12.1	112,411	(0.7)	415,270	532,280	612,744
Operating expenses	48,744	41,453	17.6	50,077	(2.7)	180,891	206,770	234,069
Staff expense	19,533	15,139	29.0	18,990	2.9	68,082	80,355	88,560
Other opex	29,211	26,315	11.0	31,087	(6.0)	112,808	126,415	145,509
Pre prov op profit(ppop)	62,885	58,084	8.3	62,334	0.9	234,379	325,510	378,675
Provisions	34,957	59,713	(41.5)	54,514	(35.9)	196,611	100,599	98,946
Profit before tax	27,927	(1,629)	NA	7,820	257.1	37,768	224,911	279,729
Provision for taxes	8,847	(434)	NA	(1,871)	NA	4,135	62,975	78,324
PAT	19,080	(1,196)	NA	9,691	96.9	33,633	161,936	201,405
Diluted EPS (INR)	2.9	(0.2)	NA	1.5	96.6	5.2	25.1	31.2

### Ratios

NII/GII (%)	43.0	41.4		44.1		42.6	43.1	42.9
Cost/income (%)	43.7	41.6		44.5		43.6	38.8	38.2
Tax rate (%)	31.7	26.6		(23.9)		10.9	28.0	28.0

### Balance sheet data

Advances (INR bn)	5,924	5,163	14.7	5,866	1.0	5,866	6,897	8,183
Deposits (INR bn)	6,607	5,469	20.8	6,529	1.2	6,529	7,640	9,129
CD Ratio	90	94		90		90	90	90
Capital adequacy (%)	16.2	18.4		16.9		16.9	16.4	16.9

### Asset quality

Gross NPA (INR bn)	458	535	(14.4)	463	(1.1)	463	414	356
Gross NPA (%)	6.5	8.8		6.7		7.6	5.7	4.2
Net NPA (INR bn)	119	242	(50.9)	136	(12.7)	136	116	99
Net NPA (%)	1.8	4.2		2.1		2.3	1.7	1.2
Provision coverage (%)	74.1	54.8		70.7		70.7	72.1	72.2
B/V per share (INR)						163.7	183.0	206.1
Adj book value / share						130.8	151.5	175.7
Price/ Adj. book (x)						2.1	1.8	1.6
Price/ Earnings						53.7	11.1	9.0

## Key takeaways from Q1FY20 conference call

### With respect to Asset Quality

- Slippages during the quarter were INR27.8bn (versus INR35.5bn in Q4FY19). The slippages during the quarter include corporate & SME slippage of INR12.7bn and retail slippage of INR15.1bn (including slippage of INR4.5bn from Kisan Credit card portfolio which was INR3.36bn in Q1FY19).
  - In line with estimate, there was some rise in retail slippages driven by higher slippage in agri segment (KCC portfolio). The management expects agri slippages to remain elevated in Q3FY20 and also Q1/Q3FY21 from KCC portfolio (payment is on 6 month basis so seasonality is reflected in Q1 and Q3). Further management highlighted that pricing is enough to contain through the average life cycle of the loans.
  - The BB and below rated borrowers (watchlist) came down to INR153.5bn compared to INR175bn in FY19. Downgrades from investment grade during the quarter was INR7.16bn, this was largely granular in nature.
  - There was upgrade of INR16.2bn which included one account in Iron & Steel segment.
  - The management re-stated that slippages in FY20 is expected to be significantly lower than in FY19.
  - Recovery were lower than estimates, given delay of resolution of an NCLT account in Steel sector. The management expects this to crystallise in H2FY20 which makes bank confident of 1.2-1.3% of credit cost.
- Given the focus on granular book and higher rated corporate the bank expects normalised level of credit cost of 1% of longer term (for FY20 credit cost is expected to be 1.2-1.3%).
- The BB and below rated borrowers (watchlist) came down to INR153bn compared to INR175bn in FY19.
  - This is based on internal rating of bank and wherever there seems to be risk that is already factored in this watchlist.
  - This movement comprise of upgrade of INR16.2bn which included one account in Iron & Steel segment.
- While at the system level there are concerns on NBFC, HFC, Developer portfolio (largely granular or towards higher rated player), the bank sounded fairly confident on their exposure and doesn't anticipate any major hiccup on this portfolio.
  - Builder portfolio has not grown much, that said there was some increase this quarter but that was towards selected top tier builders.

### With respect to Growth

- The focus is to consistently deliver on core-operating profitability in profit in granular manner and improve coverage ratio to minimise the impact of earlier NPLs. The results of which can be seen in core –operating profit (ex-divided from subsidiary) rose > 25% YoY, and coverage of >74%.

- The focus is not to achieve a particular loan growth (that will depend on opportunity and bank's risk guard rails), but to improve on core operating profitability.
- Re-orienting balance sheet towards lower risk, well balanced portfolio and more granular portfolio (Retail portfolio grew > 20%, and growth in the corporate segment is driven by non-stressed segments). For the bank, overall credit growth was >14% YoY,
  - Domestic credit growth was 18% YoY driven by >22% growth in retail segment (forming ~61% of the overall loans). Bank continues to grow Personal Loan and Credit Card (coming from lower base) book with focus on cross sell opportunities to existing customer base. The current delinquency trend on personal loans and credit card is quite comfortable (penetration on own customer is still low).
  - > 88% of the Incremental sanctions on the corporate book will be A- and above rated
  - Excluding NPLs, restructured loans and loans to companies included in drilldown exposures, growth in the domestic corporate portfolio was ~ 13%.
  - International book registered-de-growth of 7.5% YoY (on rupee basis) and 8.2% (on USD basis). This book has now at 10.1% of overall book
  - Business banking constitutes small lending portfolio and management expects higher growth in this segment given historically lower presence with impetus provided by GST.
  - Bank doesn't have any material exposure on subvention scheme
- NIMs came in at 3.61% (versus 3.72%) IT refund of 1.84bn versus INR4.14bn in previous quarter which lent support of 9bps to NIMs.
  - The bank has reduced MCLR by 10bps during the quarter on the other hand the bank has also reduced peak deposit rate TD by 20bps (at 7.3%).
  - International NIMs came in at 0.33% (versus 0.03% in previous quarter).

### Other highlights

- Employee expenses on lower base in Q1FY19 grew almost 29% YoY – led by annual increments and increase in number of employees. Last year had benefit from higher interest rate excluding which the normalised opex growth is 17% YoY.
- Risk-weighted assets increased from INR6.87tn to INR7.2tn as unrated exposures from April '19 are risk-weighted at 150% which had an impact of 39 bps on CET-1.
- The bank has made no announcement in terms of capital raising and thus bank didn't verify the recent news on capital raising.
- Exposure to NBFCs – INR265bn and HFCs is INR155bn (increase is to well rated corporates)
- Maintains near term RoE target of 15% (by June 2020).
- Employee expense was higher due to higher pension provision (made on account of rising yields). The other opex during the quarter was higher on account of sales/advertise/promotion expenses.

- Employee strength of 94,057 (almost all employee addition during the quarter happened in front line staff which is focus area for the bank). Moreover, the branch addition plans are to the tune of 400-500 for FY20.
- There was a higher tax rate during the quarter, bank expects this higher tax rate to continue.

## Key takeaways from Q4FY19 conference call

### With respect to Asset Quality

- Slippages during the quarter were INR35.5bn (versus INR20.9bn in Q3FY19). The slippages during the quarter include an account in the sugar sector where the payment obligations are being met, which has been classified as NPL pursuant to a regulatory interpretation communicated to banks relating to change in management.
  - **The BB and below rated borrowers (watchlist) came down to INR175bn compared to INR188bn in Q3FY19.** Downgrades from investment grade during the quarter was INR8.65bn, this was largely granular in nature.
  - There was no divergence with RBI for FY19.
  - **The management re-stated that slippages in FY20 is expected to be significantly lower than in FY19.**
  - **On the retail segment , management highlighted that delinquency trends are broadly stable.** That said, gross retail NPLs addition will likely be higher in Q1FY20 and Q3FY20 from KCC portfolio.
- Given the focus on granular book and higher rated corporate the bank expects normalised level of credit cost of 1% of longer term (for FY20 credit cost is expected to be 1.2-1.3%).
- With referral to transaction in March, 2017 of land bank, the bank has already made provisions of 50% prior to Q4FY19. During the quarter the bank has further made some provisions with outstanding exposure of INR10bn.
- The bank never had material exposure to Jet airways, the bank expects no further impact on P&L pursuant to this account.
- **With respect to RBI list:**
  - The Bank had outstanding loans and NFB amounting to INR37.5bn and INR1.1bn respectively, and the provisions held against these outstanding loans increased from 52.6% at FY18 to 91.7% in FY19
  - The Bank had outstanding loans and NFB of INR65.54bn and INR7.34bn. The provisions held against these outstanding loans rose to 63.8% now.
- The BB and below rated borrowers (watchlist) came down to INR175bn compared to INR188bn in Q3FY19.
  - In this the bank highlighted that there couple be 2-3 exposure which is in INR6bn- INR7bn.
- While at the system level there are concerns on NBFC, HFC, Developer portfolio ( largely granular or towards higher rated player), the bank sounded fairly confident on their exposure and don't anticipate any major hiccup on this portfolio.

- Haven't sold any asset during the quarter.

### With respect to Growth

- The focus is to consistently deliver on core-operating profitability in profit in granular manner and improve coverage ratio to minimise the impact of earlier NPLs. The results of which can be seen in core –operating profit ( ex-divided from subsidiary) rose > 25% YoY, and coverage rise of >200bps QoQ.
- **Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew > 20%, and growth in the corporate segment is driven by non-stressed segments).** For the bank, overall credit growth was >14% YoY,
  - Domestic credit growth was 16.9% YoY driven by >21% growth in retail segment (forming ~60% of the overall loans). **Bank continues to grow Personal Loan and Credit Card (grew by ~ 43%, albeit on lower base) book with focus on cross sell opportunities to existing customer base .**
  - > 90% of the Incremental sanctions on the corporate book will be A- and above rated
  - Excluding NPLs, restructured loans and loans to companies included in drilldown exposures, growth in the domestic corporate portfolio was ~ 14%.
  - International book registered-de-growth of 2.2% YoY ( on rupee basis) and 7.8% (on USD basis). This book has now at 10.7% of overall book
- NIMs came in at 3.72%, up 32bps QoQ, which includes INR4.14bn interest on IT refunds support of 20bps to NIMs, excluding this the NIMs are 3.5%.
  - **For the full year the NIMs are 3.4% levels , from this levels the management expect the NIMs to improve further - supported by higher recoveries.**
  - International NIMs improved in Q3 due to higher collection, and as this sort of recovery wasn't there in Q4FY19 thus pressure was witnessed in overseas NIMs.

### Other highlights

- Exposure to NBFCs – INR294bn and HFCs is INR139bn
- **Maintains near term RoE target of 15% (by June 2020) and will re-look at the near term and medium term targets by year end.**
- **Employee expense was higher due to higher pension provision ( made on account of rising yields).** The other opex during the quarter was higher on account of sales/advertise/promotion expenses.

## Company Description

Incorporated in 1994, ICICI Bank is one of India's largest bank with a loan book size of ~INR5.9tn as of Q1FY20. The bank's focus is on retail lending with retail financing representing ~61% of total loans and advances. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. Its subsidiaries ICICI venture funds, Pru ICICI AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are amongst the leading companies in their respective fields

## Investment Theme

We believe, ICICIB is well-gearred for the next cycle with improved traction in quality asset growth, robust CASA franchise, efficiency gains and improved NIM. Given near-to-medium operating environment challenges, we expect a flight to safety in favour of private banks, which we believe will benefit ICICIB. The earnings consistency with balance sheet derisking instils confidence. Also, focus on granular franchise reaffirms confidence in the bank's ability to deliver 16% RoE by FY21E. Maintain **'BUY/SO'**.

## Key Risks

- With banks getting aggressive on retail side maintaining retail traction may turn out to be a challenge.
- Deterioration of macro environment can result in higher restructuring and slow down business growth

## Financial Statements

## Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Sector</b>				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	19.5	19.0	19.0
G-sec yield	6.5	7.0	7.1	7.1
<b>Company</b>				
<b>Op. metric assumpt. (%)</b>				
Yield on advances	8.4	8.7	8.6	8.6
Yield on investments	6.8	7.2	7.4	7.5
Yield on asset	7.3	7.6	7.9	7.9
Cost of funds	4.4	4.5	4.6	4.6
Net interest margins	3.1	3.2	3.4	3.4
Cost of deposits	3.5	3.6	3.9	4.0
Cost of borrowings	6.0	5.8	6.0	6.0
Spread	2.9	3.1	3.3	3.3
Tax rate (%)	8.8	10.9	28.0	28.0
<b>Balance sheet assumption (%)</b>				
Credit growth	10.4	14.5	17.5	18.6
Deposit growth	14.5	16.4	17.0	19.5
SLR ratio	20.6	19.5	19.7	19.7
Low-cost deposits	51.7	49.6	46.0	46.7
Gross NPA ratio	10.2	7.6	5.7	4.2
Net NPA / Equity	27.2	12.9	9.8	7.4
Capital adequacy	18.4	16.9	16.4	15.9
Incremental slippage	6.0	2.1	2.1	2.0
Provision coverage	48.4	70.7	72.1	72.2

## Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	549,659	634,012	739,652	867,822
Interest expended	319,401	363,864	420,714	495,284
Net interest income	230,258	270,148	318,937	372,538
Non interest income	174,196	145,122	213,343	240,206
- Fee & forex income	105,346	121,364	140,532	161,612
- Misc. income	10,830	10,098	22,810	28,594
- Investment profits	58,020	13,660	50,000	50,000
Net revenue	404,455	415,270	532,280	612,744
Operating expense	157,039	180,891	206,770	234,069
- Employee exp	59,140	68,082	80,355	88,560
- Other opex	97,900	112,808	126,415	145,509
Preprovision profit	247,415	234,379	325,510	378,675
Provisions	173,070	196,611	100,599	98,946
Loan loss provisions	173,070	196,611	100,599	98,946
Profit Before Tax	74,346	37,768	224,911	279,729
Less: Provision for Tax	6,571	4,135	62,975	78,324
Profit After Tax	67,774	33,633	161,936	201,405
Reported Profit	67,774	33,633	161,936	201,405
Shares o /s (mn)	6,457	6,447	6,447	6,447
Adj. Diluted EPS (INR)	10.5	5.2	25.1	31.2
Dividend per share (DPS)	1.5	1.0	5.0	7.0
Dividend Payout Ratio(%)	16.6	22.3	23.1	26.0

## Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
NII growth	5.9	17.3	18.1	16.8
Fees growth	8.4	15.2	15.8	15.0
Opex growth	6.4	15.2	14.3	13.2
PPOP growth	5.7	16.5	24.8	19.3
PPP growth	(6.6)	(5.3)	38.9	16.3
Provisions growth	13.8	13.6	(48.8)	(1.6)
Adjusted Profit	(30.9)	(50.4)	381.5	24.4

## Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	8.4	8.7	8.6	8.6
Yield on investments	6.8	7.2	7.4	7.5
Yield on assets	7.3	7.6	7.9	7.9
Cost of funds	4.4	4.5	4.6	4.6
Net interest margins	3.1	3.2	3.4	3.4
Cost of deposits	3.5	3.6	3.9	4.0
Cost of borrowings	6.0	5.8	6.0	6.0
Spread	2.9	3.1	3.3	3.3
Cost-income	38.8	43.6	38.8	38.2
Tax rate	8.8	10.9	28.0	28.0

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	12,914	12,895	12,895	12,895	
Reserves & Surplus	1,010,501	1,042,611	1,167,081	1,316,033	
Net worth	1,023,415	1,055,506	1,179,976	1,328,928	
Sub bonds/pref cap	738,740	771,940	805,140	838,340	
Deposits	5,609,752	6,529,197	7,639,881	9,128,755	
Total Borrowings	1,089,846	881,260	980,683	1,097,277	
Other liabilities	301,964	378,515	433,875	501,568	
<b>Total liabilities</b>	<b>8,763,717</b>	<b>9,616,417</b>	<b>11,039,555</b>	<b>12,894,867</b>	
Loans	5,123,953	5,866,466	6,897,430	8,182,941	
Cash and Equivalents	841,694	802,963	822,068	933,658	
Gilts	1,380,787	1,445,039	1,698,251	2,014,528	
Others	649,155	632,288	675,060	721,606	
Fixed assets	50,860	51,140	48,426	45,463	
Other Assets	717,268	818,522	898,320	996,671	
<b>Total assets</b>	<b>8,763,717</b>	<b>9,616,417</b>	<b>11,039,555</b>	<b>12,894,867</b>	
BVPS (INR)	158.5	163.7	183.0	206.1	
Credit growth	10.4	14.5	17.5	18.6	
Deposit growth	14.5	16.4	17.0	19.5	
EA growth	14.0	9.4	15.4	17.4	
SLR ratio	20.6	19.5	19.7	19.7	
C-D ratio	95.3	93.6	93.8	92.9	
Low-cost deposits	51.7	49.6	46.0	46.7	
Provision coverage	48.4	70.7	72.1	72.2	
Gross NPA ratio	10.2	7.6	5.7	4.2	
Net NPA ratio	5.4	2.3	1.7	1.2	
Incremental slippage	6.0	2.1	2.1	2.0	
Net NPA / Equity	27.2	12.9	9.8	7.4	
Capital adequacy	18.4	16.9	16.4	15.9	
- Tier 1	15.9	15.1	14.6	14.1	

RoE decomposition (%)					
Year to March	FY18	FY19	FY20E	FY21E	
Net int. income/assets	3.1	3.2	3.4	3.4	
Fees/Assets	1.5	1.6	1.7	1.7	
Invst. profits/Assets	0.8	0.2	0.5	0.5	
Net revenues/assets	5.4	5.0	5.7	5.6	
Operating expense/assets	(2.1)	(2.2)	(2.2)	(2.1)	
Provisions/assets	(2.3)	(2.3)	(1.1)	(0.9)	
Taxes/assets	(0.1)	-	(0.7)	(0.7)	
Total costs/assets	(4.5)	(4.6)	(3.9)	(3.7)	
ROA	0.9	0.4	1.7	1.8	
Equity/assets	13.3	12.4	11.9	11.4	
ROAE (%)	6.8	3.2	14.5	16.1	

Valuation parameters					
Year to March	FY18	FY19	FY20E	FY21E	
Adj. Diluted EPS (INR)	10.5	5.2	25.1	31.2	
Y-o-Y growth (%)	(37.3)	(50.3)	381.5	24.4	
BV per share (INR)	158.5	163.7	183.0	206.1	
Adj. BV per share (INR)	111.0	130.8	151.5	175.7	
Diluted P/E (x)	26.7	53.7	11.1	9.0	
P/B (x)	1.8	1.7	1.5	1.4	
Price/ Adj. BV (x)	2.5	2.1	1.8	1.6	
Dividend Yield (%)	0.5	0.4	1.8	2.5	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
ICICI Bank	38,212	11.1	9.0	1.8	1.6	14.5	16.1
Axis Bank	27,049	18.6	13.9	2.7	2.2	14.2	16.2
DCB Bank	878	15.2	12.2	1.9	1.7	12.9	14.2
Federal Bank	2,679	10.8	8.5	1.4	1.2	12.9	14.2
HDFC Bank	90,359	24.4	19.4	3.7	3.2	15.9	17.4
ICICI Bank	38,212	15.8	12.7	2.0	1.7	15.2	16.7
IndusInd Bank	13,681	16.0	12.0	2.9	2.4	18.4	20.6
Karnataka Bank	519	4.3	3.4	0.6	0.5	11.7	13.6
Kotak Mahindra Bank	41,443	35.0	29.2	4.4	3.9	14.0	14.7
Yes Bank	2,999	61.3	16.9	1.2	1.2	1.5	5.2
Median		15.9	12.4	2.3	2.0	13.4	14.4
AVERAGE		19.5	12.3	2.1	1.8	12.7	14.5

Source: Edelweiss research

## Additional Data

### Directors Data

Girish Chandra Chaturvedi	Chairman	Sandeep Bakhshi	Managing Director & CEO
Uday Chitale	Director	Radhakrishnan Nair	Director
Hari L. Mundra	Director	Lalit Kumar Chandel	Government Nominee Director
B. Sriram	Director	Vishakha Mulye	Executive Director
Rama Bijapurkar	Director	Anup Bagchi	Executive Director
S Madhavan	Director		

Auditors - Walker Chandiok & Co LLP

### Holding - Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	9.35	Dodge & Cox	5.35
HDFC Asset Management Co	4.07	SBI Funds Management	3.00
ICICI Prudential Asset Management	2.36	Reliance Capital Trustee Co	2.14
Aditya Birla Sun Life Asset Management	1.96	Franklin Resources	1.91
Republic of Singapore	1.84	BlackRock	1.54

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
04 Jul 2019	P. Sanker	Sell	40000.00
04 Jul 2019	Partha Dey	Sell	20000.00
04 Jul 2019	Ripujit Chaudhuri	Sell	25000.00
01 Jul 2019	Goutam Sanyal	Sell	20000.00
01 Jul 2019	Murali Ramakrishnan	Sell	15000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	HOLD	SP	M	Bajaj Finserv	HOLD	SP	L
Bank of Baroda	REDUCE	SU	M	Bharat Financial Inclusion	BUY	SO	L
Capital First	BUY	SP	M	DCB Bank	HOLD	SP	M
Dewan Housing Finance	BUY	SP	H	Equitas Holdings Ltd.	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	BUY	SO	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC Bank	BUY	SP	L	Indiabulls Housing Finance	BUY	SU	M
IndusInd Bank	BUY	SO	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SP	M	L&T FINANCE HOLDINGS LTD	BUY	SO	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram General Finance	BUY	SP	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SP	M
Punjab National Bank	REDUCE	SU	M	Reliance Capital	BUY	SP	M
Repco Home Finance	HOLD	SU	M	Rural Electrification Corporation	HOLD	SU	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	HOLD	SU	M	Yes Bank	HOLD	SU	M

## ABSOLUTE RATING

### Ratings

### Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

### Ratings

### Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

### Ratings

### Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

### Ratings

### Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s):

Aavas Financiers, Aditya Birla Capital, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

### Recent Research

Date	Company	Title	Price (INR)	Recos
26-Jul-19	<b>AU Small Finance Bank</b>	Growth promise holding up; Result Update	659	Buy
26-Jul-19	<b>Bank of Baroda</b>	Merger challenges persist; Result Update	110	Reduce
26-Jul-19	<b>South Indian Bank</b>	Core soft; stress on expected lines; Result Update	14	Buy

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

### One year price chart



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