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UPSTREAM PICK

Company Name	:	**ICICI BANK LTD.**
BSE Code	:	**532174**
Time Duration	:	**2 years**
CMP	:	**₹359.15 (as on 06 Aug., 2020)**
Target Price	:	**₹503**

Upstream pick for this month is ICICI Bank. It is the third-largest bank in India with a strong balance sheet of Rs 11 lakh crore. Its advances and deposits stood more than Rs 14 lakh crore at the end of FY20. In addition to this, its diverse spread in different geographies such as branch network of 5,300 branches and 15,000 ATM adds further strength to its operational efficiency. It commands nearly 8 per cent of market share, in terms of advances (total loan size-approved) as of FY20.

It offers a wide range of financial solutions such as retail banking (individuals, households, and small businesses), wholesale banking (financial solutions to multi-sized companies, and other public sector entities), etc. Its key subsidiaries include ICICI Prudential, ICICI Securities, ICICI Home Finance, ICICI Asset Management, and international businesses in the UK and Canada.

Growth trajectory

The bank stands out as one of the biggest players in the industry. It has shown consistent growth in every banking parameter such as total deposits, advances, net interest income, etc. It has registered a staggering 16 per cent CAGR growth in deposits and 10.34 per cent CAGR growth in advances, from FY16 to FY20. On the other hand, its closest peers such as Kotak Mahindra Bank and Axis Bank registered 14 per cent CAGR growth in advances and deposits. Most importantly, the share of the retail loan book, in the total advances has increased from 46 per cent in FY16 to 63 per cent in FY20. As the retail loan size is smaller and also is backed by a good credit background of the loan seeker, its higher share is considered good for the banks.

The growth in these core banking parameters is a very important trigger of its stability, going ahead. We believe that with such a strong growth path, it had built its strong roots in the banking industry. Even during difficult times, such as the ongoing pandemic, its strong roots would help it revive very soon.

Sustainable loan book

The bank has adopted a strategy of portfolio diversification and industry-specific evaluations, based on the forecasts of growth and profitability of the industry. This also includes limiting its portfolio to any particular industry to 15 per cent of its total exposure. This strategy has proven to be very prudent and effective, evident from its lower percentage of risk-weighted assets. Such assets were reduced to 10 per cent YoY as FY20, from 13.6 per cent for the same period last year. The credit offload of the spread across retail exposure is 63 per cent, corporate advances at 25 per cent while SME accounted for 12 per cent.

Resilience to COVID-19 pandemic

The bank with its robust business framework and core capitalisation has displayed a good trend in asset quality management.

In its loan moratorium scheme, it saw a declining trend, which went down to 17.5 per cent from 30 per cent from its early stages. Though, the current weaker sections of the economy such as commercial vehicle, construction & infra saw moratorium share at higher levels. The effective and prudent COVID-related provisions of Rs 5,500 crore are very comforting. The banks, overall, have shifted the focus on credit filters and are rebuilding buffers on provisions along with collection efficiency.

Robust liquidity

The banking industry needs a strong liquidity profile to maintain its growth trajectory. Further, given the current economic slowdown and lockdown, it will further raise the need for a strong liquidity profile by the banks. ICICI Bank is one of the prominent players in the industry that maintains this parameter well within the standards. Its liquidity profile is very much comfortable with the well-matched asset-liability (ALM) profile. ALM is another very important criterion for the sustainability of the bank.

As of the end of FY20, the capital adequacy ratio (CAR) (under Basel III norms) stood at 16.11 per cent (well-above the regulatory requirement of 11.5 per cent). In addition to this, tier I CAR of 14.72 per cent and common equity tier I (CET I) ratio of 13.39 per cent for the period depicts that it rides well with adequate cushion for its capitalisation and liquidity needs.

The current account and saving deposits play an important role in the low-cost funds for the banks. The bank has a strong retail banking network, which helps in maintaining a healthy CASA ratio. Its deposits stood at Rs 7,70,969 crore at the end of FY20, having 45.11 per cent share CASA deposits. The average cost of deposits for the bank stood at 4.96 per cent for FY20. Its borrowings stood at Rs 1,62,897 crore, which is a mix of debt instruments and overseas borrowings, constituting around 14.83 per cent of the total liabilities.

Asset quality

Its asset quality measured by gross NPA and net NPAs has seen a decline over the last few quarters despite many challenges at the industry level. GNPA and NNPA ratios declined by 7 bps and 18bps, respectively on the QoQ basis for Q1FY21. Further, the current slowdown has forced the bank to make additional provisions, which in result, takes its provisioning coverage ratio at 78.6 per cent. This is amongst the strongest in the private banking sector. The reduction in loan book under moratorium to 17.5 per cent during June 2020 further adds to the stability of the bank.

Gold and rural loan as future growth prospects

Due to the lockdown, the credit offtake declined during the quarter. However, with the rising auto sales recently, an improvement has been witnessed on a month-on-month basis. In addition to this, with strong monsoon spread, its rural loan book can be expected to see an incremental trend. The rural loan forms 9 per cent of the portfolio. The disbursements in this segment are already close to pre-COVID levels. Due to the pandemic and historical gains in gold prices, the gold loans have also seen a sharp jump in demand. These loans stand at 3 per cent.

Financial performance

Its financial performance shows that the net interest income (NII) grew by 23.14 per cent to Rs 33,267 crore as against Rs 27,015 crore in the previous fiscal. The net interest income (NII) is the difference between the interest earned by the bank on loans given and investments as well as interest expended for seeking the funds to lend. Its profit before provisions (operating profit) also saw an increase of 19 per cent during the year.

For the recently concluded first quarter of FY21, it reported a profit at Rs 2,599.1 crore, showing a YoY growth of 36.2 per cent, led by sale in insurance subsidiary while the NII grew by 20 per cent to Rs 9,280 crore. Most importantly, it reported loan growth of 7 per cent and deposits growth of 21 per cent for the quarter.

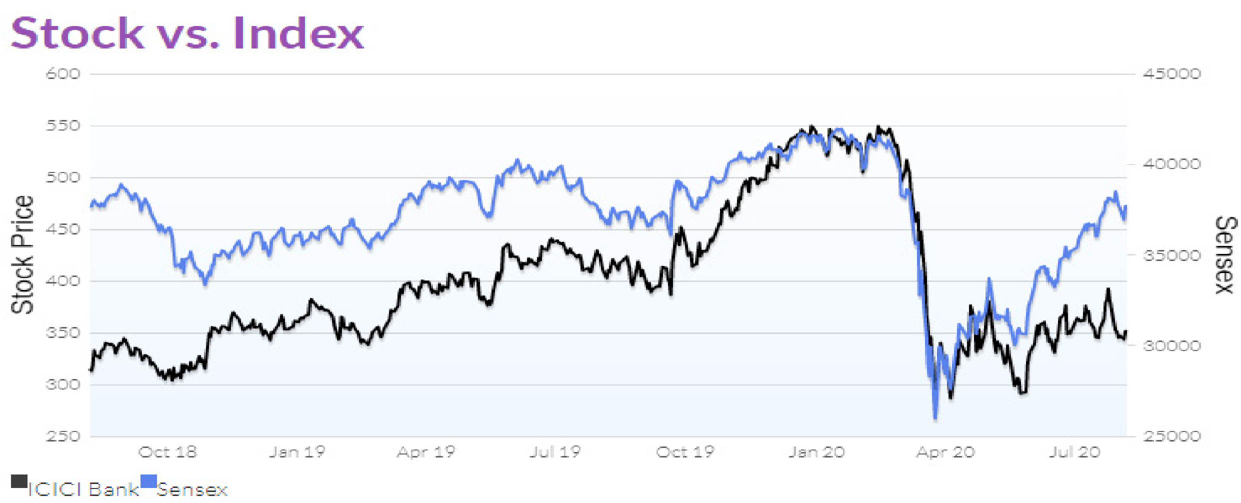
Valuation and outlook

The stock is currently trading at a price to book value of 1.8x, which is well below its closest peers. Looking at growth in the loan book despite lockdown still in place in a few parts of the country, the valuation seems to be attractive. Given the strong provisions made during the first quarter and economic activity coming back to normalcy, we do not see additional cuts in the bottom line in at least the current quarter. This further raises an intrinsic book value thus, making it the best buy at the current levels. Considering the above-mentioned factors, we see a potential upside of 40 per cent with a target price of Rs 503 over a period of two years.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Interest Earned	84835.77	71981.65	62162.35	60939.98	59293.71
Total Income	149786.10	131306.50	118969.10	113397.63	101395.85
Interest Expended	44665.52	39177.54	34262.05	34835.83	33996.47
Operating Profit	33602.68	27870.08	28951.43	30391.83	26609.81
PAT	11225.47	5689.16	9099.54	11340.33	10926.89
Dividend %		50.00	75.00	125.00	250.00
Adj. EPS(Rs)	14.78	6.60	12.00	15.90	15.92

Quarter On Quarter (Consolidated)					
Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Interest Earned	22422.71	21740.68	3.14	20365.87	10.10
Total Income	37939.32	40121.48	-5.44	33868.89	12.02
Interest Expended	11347.02	11025.09	2.92	11008.62	3.07
Operating Profit	12291.88	8575.68	43.33	7766.97	58.26
PAT	3586.91	1613.22	122.34	2913.45	23.12
OPM%	54.82	59.81	-8.34	38.14	43.73
PATM%	16.00	7.42	115.63	14.31	11.81
Adj. EPS(Rs)	4.81	1.93	149.22	3.89	23.65



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