

ICICI Bank

Research Report | November 10 2021 | NYSE: **IBN**

Closing Price: \$20.76
12 Month Target: \$26.52

Recommendation: **BUY**
Investment Risk: Medium

Sector: Financials
Industry: Banks

IBN vs. Relevant Indexes

2-Yr Return Against Benchmarks



Business Description

ICICI Bank (NYSE: IBN) is India's 2nd largest private bank in terms of assets, and offers savings accounts, loans, debit/credit cards, insurance investment, mortgage, and online banking services to serve both corporate and retail customers. IBN's 3 core business segments, Retail Banking (40% of revenue), Treasury (35% of revenue), and Wholesale Banking (25% of revenue), serve customers both locally and overseas.

Through its various businesses, IBN provides banking and financial services including commercial/retail banking, project/corporate finance, working capital financing, insurance, venture capital, private equity, investment banking, and treasury products and services.

IBN has more than 5300 branches across India and has total assets of about \$15 Trillion Indian Rupees (\$200 Billion USD)

ALLE Summary Statistics

52-Week Range	\$12.70-\$22.14
Market Cap	\$73.31 B
P/E	25.69
P/B	3.18
ROE	13.3%
ROA	9.8%
EPS (Trailing 12M)	0.81
Beta	1.15

Investment Summary

ICICI Bank offers an attractive long-term growth prospect from the overall bullish outlook for the Indian Economy which is estimated to be the fastest growing GDP at 7.2% annualized growth from 2022-2025, and the banks overall positioning in private banking. India's private banks were created after market liberalization initiative's in 1994 and have since become crucial for corporate and wholesale financing and ICICI bank remains a top-choice for investment. Although India's financial recovery from COVID-19 lagged behind the U.S due to significant delays in vaccine allocations, the country will observe strong economic growth as vaccines have a broader impact on spurring recovery due to surging consumption, investments and exports. ICICI bank also observed strong growth in deposits which led to significant growth interest income at a 5-year average growth of 12.2%.

Industry Overview & Competitive Positioning

ICICI's biggest competitors are HDFC Bank, Kotak Mahindra Bank and Axis Bank which are also private banks offering a range of comparable services. These banks will be compared to derive a fair valuation.

ICICI bank's Retail Banking group offers products for savings, investments, protection and retirement for consumers, while the Treasury group manages the bank's active investment portfolio and includes the banks Proprietary Trading group, Markets group, and Asset Liability Management group. ICICI bank's Wholesale Banking group offers similar products to the Retail Banking group except for large private-sector companies, financial institutions and the public sector.

ICICI bank's key subsidiaries include ICICI Prudential Life Insurance, which is among the largest private sector life insurers, ICICI Lombard General Insurance (property/casualty coverage), ICICI Prudential Asset Management (mutual funds), ICICI Securities (investment banking and brokerage), and ICICI Venture Funds Management (venture capital). Though it serves corporate customers internationally through international branches and subsidiaries in Canada and the UK, ICICI bank derives 95% of its revenues from India. Customers can also execute trade finance and foreign exchange transactions through ICICI bank's Trade Online and FXOnline platforms.

Valuation












A BUY recommendation is being initiated with a target price of \$26.52 which was derived by weighting 4 peer-multiples models: P/B, P/E, P/S, P/FCF. The target price yields a 27.73 % upside over the current price of \$20.76.

Specifically, through analysis of Price-to-Book ratios across ICICI bank's peer group, I derived an intrinsic value of the common shares at \$21.33 and weighted this valuation the highest at 55%, given the preference for using Book value to accurately value a private bank. The average of the peers' P/B ratios was 3.25 whereas ICICI had a P/B ratio of 3.16, indicating a slight undervaluation of the company by this metric. Although an FCF model was prepared, it was ultimately weighed at 0% because of the inconsistency in cash-flows occurring from investment activities which lead to overly-large growth estimates. The risk-free rate of 1.6% is based on the 10-year US Government Treasury yield and the market returns of 7.2% is based on the historical market premiums of the US markets.

Based on a free-cash-flow analysis, and price-to-sales ratios, I found higher fair values at \$22.94 and \$21.33 while the highest fair value was derived from a Price-to-FCF multiple at \$51.68 and each of these models were weighted equally at 15%.

Price	\$20.76								
Competitors' Ticker	HDB	SBI	AXBL	KOTAKBANK	INDUSINDBK	CUB	Comp Avg.		IBN
Price to Book Ratio	4.5	1.6	2.9	4.9	2.8	2.9	3.25		3.16
Price to Sales Ratio	7.0	2.0	5.0	9.0	3.8	4.9	5.27		4.57
Price to Earnings	30.1	16.3	40.1	41.4	20.3	20.5	28.11		25.44
Price to FCF	9.8	5.4	19.2			14.7	12.30		4.94
Competitor's Full Name	HDFC Bank	State Bank of India	Axis Bank	Kotak Mahindra Bank	IndusInd Bank	City Union Bank			
	Implied Price	Weight							
Price to Book Ratio	21.33	55%							
Price to Sales Ratio	23.96	15%							
Price to Earnings	22.94	15%		Fair Value					
Price to FCF	51.68	15%		\$ 26.52					

Appendix:

In Millions of INR	2018 Y	2019 Y	2020 Y	2021 Y	Current/LTM
12 Months Ending	03/31/2018	03/31/2019	03/31/2020	03/31/2021	09/30/2021
 Market Capitalization	1,789,305.3	2,581,719.0	2,095,557.7	4,025,799.2	5,352,621.0
 Book Value of Equity	1,106,297.0	1,142,534.1	1,229,600.6	1,575,875.0	1,686,049.8
 Total Deposits	5,742,434.6	6,648,168.4	8,007,844.6	9,599,400.2	10,041,970.2
 Total Loans	5,944,262.4	6,814,383.1	7,393,627.8	7,918,013.9	8,239,619.2
 Total Assets	11,242,810.4	12,387,938.9	13,772,922.3	15,738,122.4	16,040,529.2
 Net Revenue, Adj	491,178.3	526,033.9	625,617.8	716,324.1	1,218,794.1
 Growth %, YoY	-1.6	7.1	18.9	14.5	9.7
 Prof Bef Prov, Adj	257,271.7	250,218.5	275,512.0	371,162.0	409,335.3
 Margin %	52.4	47.6	44.0	51.8	33.6
 Operating Income, Adj	109,755.6	74,104.6	185,884.6	260,346.8	295,976.6
 Margin %	22.3	14.1	29.7	36.3	24.3
 Net Income, Adj	42,665.2	35,516.3	95,662.1	183,887.6	209,688.0
 Margin %	8.7	6.8	15.3	25.7	17.2
 EPS, Adj	6.57	5.45	14.55	26.84	29.73
 Growth %, YoY	-69.3	-17.1	166.9	84.4	41.8
 Tier 1 Common Eqty %	14.21	13.42	13.21	16.66	
 Tier 1 Capital Ratio %	15.56	14.73	14.41	17.81	
 Total Capital Ratio %	17.90	16.47	15.81	18.87	

WACC	
Beta	1.20
Rm	7.50%
Rf	1.60%
Tax Rate	21.75%
CoE	5.90%
CoD	27.21%
E Amt	145,236.0
D Amt	21,427.0
%E	87.14%
%D	12.86%
Equity	5.14%
Debt	2.74%
WACC =	7.88%