RETAIL EQUITY RESEARCH

ICICI Bank

Banking

BSE CODE: 532174 **NSE CODE:** ICICIBANK
Bloomberg CODE: ICICIBC:IN **SENSEX:** 29,858

BUY

Rating as per Largecap **12months investment period**

CMP Rs299 **TARGET** Rs333 **RETURN 11%**

08th May, 2017

Asset quality woes to ease…

ICICI Bank is India's largest private sector bank with network of 4,850 Branches and 13,882 ATM's across India.

- **Advances grew at a moderate pace of 6.7% YoY as strong growth of 19% in domestic retail advances was offset by 20% decline in overseas loans.**
- **NII increased by 10.3% YoY (largely in line with expectation) on the back of 19 bps YoY expansion in net interest margin (NIM) to 3.8%.**
- **We expect NII and net profit to grow at a CAGR of 13% and 12%, respectively over FY17-19E mainly led by stable NIM coupled with higher operating efficiency.**
- **While slippages will continue to remain elevated in FY18E, it will be much lower than FY17 levels (Gross/Net NPA ratios will improve from 8.7%/5.4% in FY17 to 8.3%/4.2% by FY19E).**
- **While we expect asset quality to improve gradually, we believe that worst is already behind for the bank. Hence, we continue to maintain BUY rating on the stock with a revised TP of Rs333. (SOTP valuation)**

Retail segment continues to drive business growth

ICICI Bank's total loan book grew at a moderate pace of 6.7% YoY as strong growth of 19% in domestic retail advances was offset by 20% decline in overseas loans (16% of total loan book). Domestic corporate loans reported a modest growth of 6% YoY as the bank continued to focus on reducing stress exposure. Overall, the bank's domestic loan book continued to grow at a healthy pace of 14% YoY. Going forward, we expect advances to grow at a healthy CAGR of 14% over FY17-19E led by 19% growth in retail, 9% growth in domestic corporate and 14% growth in SME loans. On liabilities side, CASA deposits continued to grow at a robust pace of 28% YoY. As a result, CASA ratio improved and touched an all-time high of 50.4%.

Healthy operating performance

Net interest income (NII) increased by 10.3% YoY (largely in line with expectation) as NIM expanded 19bps YoY to 3.8% led by strong growth in CASA deposits coupled with income recognition from bad loans. Other income declined by 41% YoY as base quarter (Q4FY16) included the one-off gain from stake sale in the insurance arms. Further, the bank had to reverse about Rs290cr of foreign currency translation gains in Q4FY17 (regulatory requirement). Provisions also declined by 58% YoY as ICICI Bank utilized its entire floating and contingent provisions. Net profit increased by 1.9x YoY on account of low base in Q4FY16. We expect NII and net profit to grow at a healthy pace of 13% and 12% CAGR, respectively over FY17-19E mainly led by stable NIM along with higher operating efficiency. (We have reduced our earnings estimate by 4% for FY18E as we have factored higher provisioning expenses.)

Asset quality to improve gradually

Gross/Net non-performing assets (NPA) ratios increased by 83/108 bps QoQ to 8.7%/5.4% led by the higher slippages (↑60% QoQ). However, out of the total slippages, one single account from the cement sector contributed 48% to the fresh NPA addition (added as per the RBI's instruction to banks). On a positive note, nearly half of this exposure is expected to be upgraded soon as it is part of an impending M&A transaction. Apart from this, other slippages resulted from the drilldown list (~22%), restructured loans (~16%) and retail (~4%). Although we expect slippages to remain elevated in FY18E, it will be much lower than FY17 levels (Gross/Net NPA ratios of 8.3%/4.2% by FY19E).

Outlook & Valuation

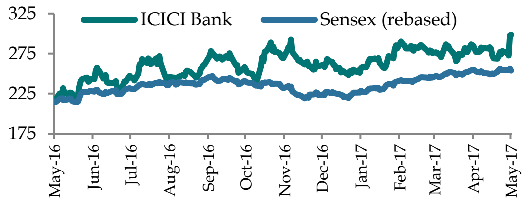
Although near term challenges on asset quality persists, we expect core performance of the bank to improve gradually over FY17-19E. Moreover, given the bank's strong traction in retail segment coupled with inexpensive valuation makes the stock more attractive. Hence, we continue to maintain BUY rating on the stock with a TP of Rs333 using sum of the part (SOTP) methodology, where we value its standalone business at Rs256 (P/ABV of 1.7x for FY19E) and subsidiaries at Rs77. (The bank has also announced dividend of Rs2.5 per share and an issue of bonus shares in the ratio of one equity share for every 10 equity shares.)

Company Data	
Market Cap (cr)	Rs173,890
Outstanding Shares (cr)	582.4
Free Float	100%
Dividend Yield	1.7
52 week high	Rs302
52 week low	Rs213
6m average volume (cr)	1.9
Beta	1.9
Face value	Rs2

Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	0.0	0.0	0.0
FII's	37.9	37.2	35.0
MFs/Insti	27.5	28.8	31.0
Public	34.6	34.0	34.0
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	6.1%	10.7%	39.0%
Absolute Sensex	5.7%	9.5%	18.2%
Relative Return*	0.4%	1.2%	20.8%

*over or under performance to benchmark index



Standalone (Rs.cr)	FY17	FY18E	FY19E
Net Interest Income	21,737	24,064	27,505
Growth (%)	*2%*	*11%*	*14%*
NIM (%)	3.6	3.6	3.7
Pre Pro Profit	26,487	22,622	26,092
Growth (%)	*11%*	*-15%*	*15%*
Net Profit	9,801	9,969	12,186
Growth (%)	*1%*	*2%*	*22%*
EPS	16.8	17.1	20.9
Growth (%)	*1%*	*2%*	*22%*
P/E	17.7	17.4	14.3
P/BV	1.7	1.7	1.5
P/ABV	2.3	2.2	2.0
RoE (%)	10.3	9.8	11.3
RoA (%)	1.3	1.2	1.3

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Interest Income	13,569	13,482	0.6	13,618	(0.4)
Interest on advances	9,991	10,041	(0.5)	9,870	1.2
Income on Investments	2,622	2,652	(1.2)	2,948	(11.1)
Others	956	789	21.2	800	19.5
Interest Expense	7,606	8,077	(5.8)	8,255	(7.9)
Net Interest Income	**5,962**	**5,405**	**10.3**	**5,363**	**11.2**
Non-Interest Income	3,017	5,109	(40.9)	3,938	(23.4)
Total Net Income	**8,979**	**10,513**	**(14.6)**	**9,302**	**(3.5)**
Operating Expenses	3,867	3,406	13.5	3,778	2.4
Employee Cost	1,480	1,382	7.1	1,406	5.3
Other Operating Exp.	2,387	2,024	17.9	2,372	0.6
Total Income	**16,586**	**18,591**	**(10.8)**	**17,556**	**(5.5)**
Total Expenditure	**11,474**	**11,483**	**(0.1)**	**12,032**	**(4.6)**
Pre-Provisioning profit	**5,112**	**7,108**	**(28.1)**	**5,524**	**(7.5)**
Provisions	2,898	6,926	(58.2)	2,713	6.8
Profit Before Tax	**2,214**	**181**	**1121.1**	**2,811**	**(21.3)**
Tax	189	(521)	-	369	(48.8)
Net Profit	**2,025**	**702**	**188.5**	**2,442**	**(17.1)**
EPS - Diluted (Rs)	3.5	1.2	188.3	4.2	(17.2)

Key Ratios (%)	Q4FY17	Q4FY16	YoY bps	Q3FY17	QoQ bps
Net Interest Margin	3.8	3.6	19	3.4	39
Cost of Funds	4.8	5.5	(65)	5.3	(48)
Yield on Advances	8.7	9.2	(56)	8.7	1
Yield on Investments	6.3	6.5	(20)	6.9	(52)
Yield on Funds	7.8	8.4	(54)	8.0	(14)
Cost to Income	43.1	32.4	1067	40.6	246
Credit to Deposit	94.7	103.3	(855)	98.3	(359)
CASA	50.4	45.8	455	49.9	51
Capital Adequacy	17.4	16.6	75	16.0	141
Tier I Capital	14.4	13.1	127	12.6	181
Gross NPA	8.7	5.8	292	7.9	83
Net NPA	5.4	3.0	245	4.4	108
Provision Coverage	53.6	61.0	(740)	57.1	(350)
Credit Cost	2.5	6.4	(387)	2.4	13
RoE (Ann.)	8.2	3.1	507	10.1	(194)
RoA (Ann.)	1.1	0.4	66	1.3	(23)

SOTP Valuation

Particulars	Basis	Multiple	Year	Value/Share
ICICI Bank	ABV	1.7	FY19E	256
Life Insurance	Current Market Cap			53
General Insurance	Proposed Transaction Value			19
Others			FY19E	24
Total Value of Subsidiaries				96
(20% holding discount)				(19)
Total Value				**333**

Change in estimates

	Old estimates		New estimates		*Change %*	
Year / Rs cr	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Net Interest Income	24,032	27,052	24,064	27,505	0.1	1.7
Pre-Provisioning Profit	22,548	25,136	22,622	26,092	0.3	3.8
Net Profit	10,393	11,823	9,969	12,186	-4.1	3.1
EPS (Rs)	17.9	20.3	17.1	20.9	-4.4	3.0

Source: Company, Geojit Research

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	49,091	52,739	54,156	58,246	65,135
Interest Expense	30,052	31,515	32,419	34,181	37,630
Net Interest Income	**19,040**	**21,224**	**21,737**	**24,064**	**27,505**
% Change	*15.6*	*11.5*	*2.4*	*10.7*	*14.3*
Non-Interest Income	12,176	15,323	19,504	14,579	16,561
Net Income	**31,216**	**36,547**	**41,242**	**38,643**	**44,065**
Operating Expenses	11,496	12,684	14,755	16,021	17,973
Total Income	**61,267**	**68,062**	**73,661**	**72,824**	**81,695**
Total Expenditure	**41,547**	**44,199**	**47,174**	**50,203**	**55,603**
Pre-Provisioning Profit	**19,720**	**23,864**	**26,487**	**22,622**	**26,092**
% Change	*18.8*	*21.0*	*11.0*	*(14.6)*	*15.3*
Provisions	3,900	11,668	15,208	9,329	9,845
Profit Before Tax	**15,820**	**12,196**	**11,279**	**13,292**	**16,248**
Tax	4,645	2,469	1,478	3,323	4,062
Tax Rate (%)	*29*	*20*	*13*	*25*	*25*
Net Profit	**11,175**	**9,726**	**9,801**	**9,969**	**12,186**
% Change	*13.9*	*(13.0)*	*0.8*	*1.7*	*22.2*
No. of Shares (cr)	584	585	586	586	586
EPS (Rs)	19.3	16.7	16.8	17.1	20.9
% Change	*13.5*	*(13.2)*	*0.6*	*1.7*	*22.2*

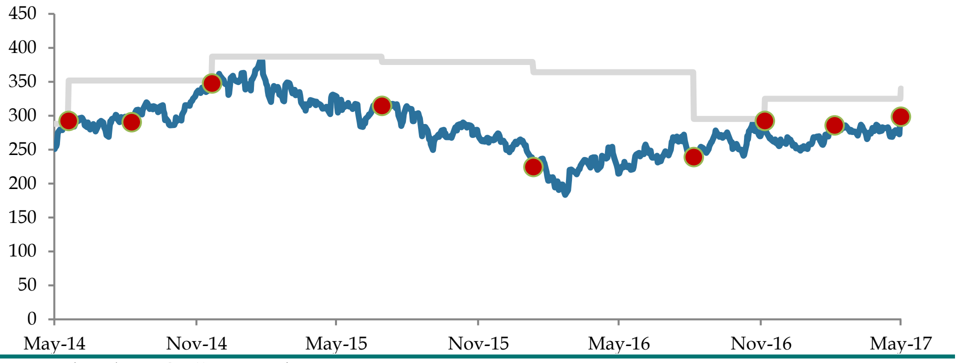
Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Capital	1,167	1,170	1,171	1,172	1,171
Reserves & Surplus	79,262	88,566	98,780	102,416	111,085
Deposits	361,563	421,426	490,039	551,841	621,731
Borrowings	172,417	174,807	147,556	162,936	182,355
Other Liabilities & Provisions	31,720	34,726	34,245	35,456	36,725
Total Liabilities	**646,129**	**720,695**	**771,791**	**853,821**	**953,067**
Assets					
Cash & Balances	42,305	59,869	75,713	82,502	86,734
Investments	186,580	160,412	161,507	176,589	192,737
Advances	387,522	435,264	464,232	525,601	605,831
Fixed Assets	4,726	7,577	7,805	8,000	8,000
Other Assets	24,997	57,574	62,535	61,128	59,765
Total Assets	**646,129**	**720,695**	**771,791**	**853,821**	**953,067**

Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
EPS	19.3	16.7	16.8	17.1	20.9
DPS	4.6	5.0	5.5	5.5	5.5
BV	138.7	154.3	171.6	177.8	192.7
ABV	127.9	132.0	127.9	135.5	148.9
Valuation (%)					
P/E	15.5	17.9	17.7	17.4	14.3
P/BV	2.2	1.9	1.7	1.7	1.5
P/ABV	2.3	2.3	2.3	2.2	2.0
Div. Yield	0.3	1.7	1.8	1.8	1.8
Spreads (%)					
Yield on Advances	9.8	9.5	8.8	8.6	8.5
Yield on Investments	6.6	6.1	7.1	7.1	7.1
Yield on Funds	8.4	8.3	8.0	7.8	7.8
Cost of Funds	5.9	5.6	5.3	5.1	5.0
Capital (%)					
CAR	17.0	16.6	17.4	16.1	15.6
Tier I	12.8	13.1	14.4	13.3	12.9
Tier II	4.2	3.5	3.0	2.8	2.7
Asset (%)					
GNPA	3.8	5.8	8.7	8.9	8.4
NNPA	1.6	3.0	5.4	4.7	4.2
PCR	58.6	61.0	53.6	59.6	59.6
Management (%)					
Credit/ Deposit	107.2	103.3	94.7	95.2	97.4
Cost/ Income	36.8	34.7	35.8	41.5	40.8
CASA	45.5	45.8	50.4	50.4	50.5
Earnings (%)					
NIM	3.5	3.6	3.6	3.6	3.7
ROE	14.5	11.4	10.3	9.8	11.3
ROA	1.8	1.4	1.3	1.2	1.3

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
23 May 2014	BUY	352
13 August 2014	BUY	352
25 November 2014	BUY	387
03 July 2015	BUY	379
15 January 2016	BUY	364
09 August 2016	BUY	295
10 November 2016	BUY	325
08 February 2017	BUY	325
08 May 2017	BUY	333

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;

Buy	**-**	**Upside is 10% or more.**
Hold	**-**	**Upside or downside is less than 10%.**
Reduce	**-**	**Downside is 10% or more.**

Mid Cap and Small Cap;

Buy	**-**	**Upside is 15% or more.**
Accumulate*	**-**	**Upside between 10% - 15%.**
Hold	**-**	**Absolute returns between 0% - 10%.**
Reduce/Sell	**-**	**Absolute returns less than 0%.**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.
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