

ICICI BANK

Larger part of recognition behind; resolutions key

India Equity Research | Banking and Financial Services

ICICI Bank reported steady core operating profit for Q4FY17 (grew >11% QoQ), after 4 quarters of flattish growth. Slippages, though elevated (INR113bn), largely comprised 1 cement account (of INR54bn) excluding which slippages were within the guided range (>70% from watch-list). Slippages outside the watch-list also showed stabilising trend. With large part of recognition done, recovery/resolution would be critical going ahead, which has been lower than our expectation. Core performance was aided by better NIMs (benefitting from impressive average CASA ratio of >46% and higher collection from NPLs). Further, retail asset impressed tracking ~19% growth while retail fees improved clocking >15% YoY growth. With significant benefits likely to flow from formalisation of financial savings, subsidiaries could also see strong business tailwinds. Maintain 'BUY'.

FY17, the year of recognition, resolution key

Slippages were high at INR113bn, largely flowing from corporate/SME (>85% from earlier watch-list, restructured book) segments, while retail slippages (INR4.4bn) were on track. However, higher write-offs (INR54bn versus past 6 quarters' run rate of INR20bn) restricted GNPLs to INR425bn (up <12% QoQ). FY17 was the year of recognition as reflected in potential stress (viz., restructured book, 5:25, SDR, watchlist) which reduced from >INR500bn in FY16 to <INR260bn in FY17. Consequently, qualitatively the bank expects FY18 slippages to be significantly lower than FY17. On the other hand, given that provision coverage remains low (<55%), and with the bank utilising entire contingency buffer of INR36bn and floating provision of INR15bn during the year, the buffer to absorb additional provisions is limited which will keep credit cost high. The key would be resolution/recovery, which has till date been low. Hence, any positive development here could potentially provide earnings upside.

Outlook and valuations: Strong franchise; maintain 'BUY'

We believe these are challenging times as manifested in temporary lull in earnings. However, one must not ignore ICICI Bank's franchise strength, which will enable it to deliver healthy normalised returns post the turbulent phase. We maintain 'BUY/SO' given: a) >30% of current price reflects stable value of subsidiaries (which could significantly benefit from formalisation of financial savings); b) stable RoA/RoE (2%/16%, despite higher credit cost); and c) strengthening franchise. The stock is trading at 1.2x FY19E P/ABV. Our SoTP target price is pegged at INR362.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	Growth %	Q3FY17	Growth %	FY17	FY18E	FY19E
Net revenue	89,794	105,134	(14.6)	93,017	(3.5)	412,418	424,446	486,199
Net profit	20,246	7,019	188.5	24,418	(17.1)	98,011	122,890	176,436
Dil. EPS (INR)	3.5	1.2	188.3	4.2	(17.2)	16.7	21.0	30.1
Adj. BV (INR)						117.4	131.8	154.8
Price/Adj book (x)						1.5	1.4	1.2
Price/Earnings (x)						10.7	8.6	6.0

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 273
Target Price	: INR 362
52-week range (INR)	: 298 / 213
Share in issue (mn)	: 5,825.4
M cap (INR bn/USD mn)	: 1,589 / 25,248
Avg. Daily Vol.BSE/NSE('000)	: 17,873.0

SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	-	-	-
MF's, FI's & BK's	31.1	29.0	27.6
FII's	35.0	37.2	37.9
Others	33.8	33.9	34.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(4.9)	0.8	2.7
3 months	(3.1)	6.5	9.1
12 months	23.4	20.2	35.3

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Retail drives loan growth

Advances came in at INR4.6tn, up ~7% YoY, driven by above-average loan growth in domestic loan book (up ~14% YoY), whereas international book continued to decline (down ~20% YoY in INR terms and ~18% YoY in USD terms). Maintaining the trend, within domestic loan book, retail advances continued to grow at healthy ~19% YoY, taking proportion of retail advances to ~52% (<40% in FY13). Within overall retail book, home loans jumped ~17% YoY, while both personal loans and credit cards clocked >36% YoY growth each, taking proportion of unsecured book within retail to ~9.0% from ~6.6% as at FY15. Meanwhile, focus remained on selective lending to higher-rated corporates, with the domestic corporate book rising ~6% YoY. Going forward, management is targeting domestic loan growth of 15-16%, driven by 18-20% growth in the retail portfolio and 15-20% growth in the SME book, with domestic corporate book expected to grow in the 5-7% range. The bank's overseas book is likely to be stable in USD terms going ahead.

NIMs benefit from strong franchise & higher collection from NPLs

Margins witnessed sharp improvement during the quarter, with global NIMs rising >40bps QoQ to 3.57%. Both domestic and overseas NIMs witnessed expansion during the quarter, coming in at 3.96% (up >40bps QoQ) and 1.01% (up >15bps QoQ), respectively. While the rise in margins was partly attributable to interest collection from non-performing assets, sharp decline in funding costs (down >20bps QoQ to 5.15%) supported the expansion in NIMs. The bank's deposit franchise continues to shine, with CASA ratio crossing the 50% mark (50.4% versus 45.8% in FY16) and average CASA ratio touching ~46.5% (versus 40.5% in Q4FY16). On strong liability franchise, management is targeting NIMs of >3% for FY18.

Core fee income improves, sustenance key

For the second consecutive quarter, core fee income logged above 10% growth to INR24.5bn (up ~10.5% YoY, as against average run-rate of ~6% in past 6 quarters). Growth was granular in nature and driven by the retail segment, with retail fees witnessing >15% YoY growth on strong traction in third-party distribution, forex and credit card fees. Going forward, management expects this trend to sustain, with retail fees continuing to be the key growth driver.

Other highlights

- With respect to divergence with the RBI directive: there was divergence in few accounts totaling INR51bn (84% was already in drilldown list and 7% was in restructured portfolio), which required provision of INR10.7bn (INR7bn post tax) to be made by the bank. Currently, there is no divergence with RBI as all of the accounts have been classified and provided for as per RBI directive.
- The bank is also implementing changes in management outside SDR for loans of INR51bn (included in the drilldown list) which may potentially provide some resolution.
- Sale to ARCs during the quarter comprised INR0.23bn of NPLs and INR5.83bn in SMA-II accounts.
- Slippage of INR53.78bn was due to one account in cement sector was included in the drill down exposure. The M&A transaction has been announced in respect of this company. The transaction has received most of the requisite approved from CCI, creditors, shareholders etc and is awaiting last-mile approvals for transfer of 18 mines across 4 states which might take maximum 2 quarters to conclude. **The Bank has**

classified the account as NPLs and expects part of the loan (~50% which is attached to that cement asset) to be upgraded on conclusion of the transaction.

Table 1: Overall outstanding watch list (including restructured book) at INR233bn

(INR bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Watchlist	387.2	324.9	275.4	190.4
Restructured book	72.4	63.4	64.1	42.7
Total	459.6	388.3	339.4	233.1
(%) of net advances	10.2	8.5	7.4	5.0
(%) of total exposure	5.0	4.1	3.6	2.5

Table 2: Movement in watch list

(INR bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17
Opening exposures	440.7	387.2	324.9	275.4	440.7
Net reduction in exposure	(3.7)	(16.8)	(21.2)	(5.9)	(47.6)
Net rating upgrade to 'investment grade'	(4.2)		1.1	0.7	(2.4)
Slippage to non-performing loans	(45.6)	(45.6)	(29.4)	(79.6)	(200.3)
Closing exposures	387.2	324.9	275.4	190.4	190.4

Table 3: Segment-wise disclosure of bank's watch list

	Q1FY17		Q2FY17		Q3FY17		Q4FY17	
	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure
Power	114.3	1.3	90.0	0.9	83.5	0.9	62.3	0.7
Mining	77.3	1.0	75.8	0.8	55.5	0.6	52.3	0.6
Iron/Steel	49.0	0.8	47.1	0.5	44.9	0.5	39.7	0.4
Cement	56.7	0.7	56.2	0.6	56.8	0.6	2.9	
Rigs	25.6	0.3	0.4		0.5		0.4	
Promoter entities	64.4	0.7	55.3	0.6	34.2	0.4	32.7	0.3
Total exp. of stressed segment	387.2	4.8	324.9	3.4	275.4	3.0	190.4	2.0
Restructured book	72.4	0.9	63.4	0.7	64.1	0.7	42.7	0.5
Total watch list	459.7	5.7	388.3	4.1	339.4	3.7	233.1	2.5

Table 4: Slippages largely driven by watchlist, non-watchlist slippages remains sticky

(INR mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Watchlist				
Opening	4,40,650	3,87,230	3,24,900	2,75,360
Slipped into NPAs	45,590	45,550	29,430	79,570
Balance	7,830	16,780	20,110	5,390
Closing	3,87,230	3,24,900	2,75,360	1,90,400
Slippages				
Total	82,490	80,290	70,370	1,12,890
From watchlist	45,590	45,550	29,430	79,570
Outside of watchlist	36,900	34,740	40,940	33,320
Corporate	13,616	15,930	36,983	28,874
Corporate Slippages				
Total	59,200	61,480	66,413	1,08,444
From watchlist	45,584	45,550	29,430	79,570
Outside of watchlist	13,616	15,930	36,983	28,874

Source: Company

Table 5: Exposure to stressed segments has been coming off gradually

(%)	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Power	5.5	5.4	5.4	5.0	5.4	5.1
Iron/Steel	4.8	4.5	4.0	3.8	3.8	3.6
Mining	1.5	1.6	1.6	1.6	1.6	1.8
Cement	1.5	1.2	1.2	1.1	1.1	1.1
Rigs	0.5	0.6	0.5	0.4	0.5	0.4

Table 6: Slippages from restructured book at INR18bn

(INR bn)	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417
Slippages (A)	16.7	22.4	65.4	70.0	82.5	80.3	70.4	112.9
-Fresh slippages (B)	13.8	13.1	51.9	42.8	69.3	68.0	68.0	94.9
-NPLs from restructured book (C)	2.9	9.3	13.6	27.2	13.2	12.3	2.4	18.0
Incremental restructuring (D)	19.6	NA	5.8	0.0	0.6	0.0	0.0	0.0
Fresh impaired asset formation (B + D)	33.4	NA	57.7	42.8	69.9	68.0	68.0	94.9
Total stress accretion (A + D)	36.3	NA	71.3	70.0	83.1	80.3	70.4	112.9

* Note: Incremental restructuring for Q2FY16 was marginal and absolute amount was not disclosed

Table 7: Slippages continue to be elevated

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Gross NPA (INR mn)	262,213	271,936	321,786	377,167	425,516
Gross NPA (%)	5.8	5.9	6.8	7.9	8.7
Net NPA (INR mn)	129,631	150,407	162,149	198,872	252,078
Net NPA (%)	3.0	3.4	3.6	4.4	5.4
Provision coverage (%)	50.6	44.7	49.6	47.3	40.8

Table 8: Loan growth at ~7% YoY, CD ratio at ~95%

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Advances (INR Bn)	4,353	4,494	4,543	4,575	4,642
Growth Y-o-Y	12.3	12.4	10.9	5.2	6.7
Growth Q-o-Q (%)	0.1	3.3	1.1	0.7	1.5
Deposits (INR Bn)	4,214	4,241	4,491	4,653	4,900
Growth Y-o-Y	16.6	15.3	16.8	14.2	16.3
Growth Q-o-Q (%)	3.5	0.6	5.9	3.6	5.3
CD ratio (%)	103.3	106.0	101.2	98.3	94.7

Table 9: Retail continues to drive growth

(%)	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Retail	39.0	42.4	46.6	46.4	47.9	48.9	51.8
Domestic Corporate	30.1	28.8	27.5	28.4	27.7	28.4	27.3
SME	4.4	4.4	4.3	4.0	4.3	4.6	4.8
International	24.3	24.3	21.6	21.2	20.1	18.1	16.1

Table 10: NIMs benefit from lower funding costs

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
NIM (rep)	3.4	3.2	3.1	3.1	3.6
Cost of funds (cal)	5.5	5.5	5.5	5.3	4.8
Yield on advances (cal)	9.2	8.9	8.8	8.7	8.7

Source: Company

Table 11: CASA ratio at >50%; average CASA at ~46.5%

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Savings (INR bn)	1,342	1,382	1,469	1,654	1,718
Growth Q-o-Q	5.8	3.0	6.3	12.6	3.9
Current (INR bn)	589	531	584	666	750
Growth Q-o-Q	3.0	(9.7)	9.8	14.0	12.7
CASA ratio	45.8	45.1	45.7	49.9	50.4
Fixed deposits (INR bn)	2,283	2,327	2,438	2,333	2,432
Growth Q-o-Q	2.3	1.9	4.8	(4.3)	4.2
Average CASA ratio	40.7	41.7	41.5	44.8	46.5

Table 12: Cost-income ratio at ~43%

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Cost-income	32.4	39.3	26.0	40.6	43.1
Opex/assets	1.9	1.9	2.0	2.0	2.0

Source: Company

Table 13: SOTP valuation (FY19E)

	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	1,057,402	1.5	1,575,630	100.0%	1,575,630	269
Banking Subs	Price / adj book	84,516	0.8	63,387	100.0%	63,387	11
Subsidiary							
Home Finance	Price / adj book	17,711	2.0	35,421	100.0%	35,421	6
Domestic asset management	% of AUM	2,250,000	3.0%	67,500	51.0%	34,425	6
Venture capital	% of AUM	120,000	12.0%	14,400	100.0%	14,400	2
Securities	Price / Earnings	5,790	10.0	57,899	100.0%	57,899	10
Life insurance	Appraisal value	210,985	2.7	566,908	55.0%	311,516	53
General insurance	PE	8,777	20.0	175,536	65.0%	114,098	19
Value of subsidiaries							97
Value of subs (after 15% holding company discount)							82
Total							362

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Interest income	135,685	134,819	0.6	136,181	(0.4)	541,563	598,519	680,302
Interest exp	76,064	80,774	(5.8)	82,548	(7.9)	324,190	346,177	382,320
Net int. inc. (INR mn)	59,622	54,045	10.3	53,634	11.2	217,373	252,341	297,982
Other income	30,172	51,089	(40.9)	39,383	(23.4)	195,045	172,104	188,217
Net revenues	89,794	105,134	(14.6)	93,017	(3.5)	412,418	424,446	486,199
Operating expenses	38,674	34,059	13.5	37,777	2.4	147,551	161,440	177,643
Staff expense	14,805	13,821	7.1	14,060	5.3	57,337	61,264	66,257
Other opex	23,869	20,239	17.9	23,718	0.6	90,214	100,175	111,386
Pre prov op profit(ppop)	51,120	71,075	(28.1)	55,239	(7.5)	264,867	263,006	308,556
Provisions	28,982	69,262	(58.2)	27,127	6.8	152,081	109,394	88,011
Profit before tax	22,138	1,813	NA	28,112	(21.3)	112,786	153,612	220,545
Provision for taxes	1,892	(5,206)	(136.3)	3,694	(48.8)	14,775	30,722	44,109
PAT	20,246	7,019	188.5	24,418	(17.1)	98,011	122,890	176,436
Diluted EPS (INR)	3.5	1.2	188.3	4.2	(17.2)	16.7	21.0	30.1

Ratios

NII/GII (%)	43.9	40.1		39.4		40.1	42.2	43.8
Cost/income (%)	43.1	32.4		40.6		35.8	38.0	36.5
Tax rate (%)	8.5	NA		13.1		13.1	20.0	20.0

Bal. sheet data (INR bn)

Advances	4,642	4,353	6.7	4,575	1.5	4,642	5,267	6,032
Deposits	4,900	4,214	16.3	4,653	5.3	4,900	5,589	6,481
CD Ratio (%)	95	103		98		95	94	93

Asset quality

Gross NPA (INR bn)	426	262	62.3	377	12.8	426	461	461
Gross NPA (%)	8.7	5.8		7.9		8.7	8.5	7.4
Net NPA (INR bn)	252	130	94.5	199	26.8	252	246	216
Net NPA (%)	5.4	3.0		4.3		5.4	4.7	3.6

Valuation metrics

B/V per share (INR)						165.8	180.3	200.6
Adj book value / share						117.4	131.8	154.8
Price/ Adj. book (x)						1.5	1.4	1.2
Price/ Earnings						10.7	8.6	6.0

Key takeaways from ICICI Bank's Q4FY17 conference call

With respect to Asset Quality

- **Slippages during the quarter were INR112.9bn of which slippages from watch list was INR79.57bn, slippages from restructured book – INR18.03bn.** For FY18 the slippages will be much lower when compared to FY17, also the credit cost will likely be lower in FY18 (albeit still elevated).
- INR53.78bn was due to one account in cement sector was included in the drill down exposure. The M&A transaction has been announced in respect of this company. **The Bank has classified the account as NPLs and expects part of the loan (~50% which is attached to that cement asset) to be upgraded on conclusion of the transaction. Additions to NPAs excluding this cement account stood at INR59bn (versus INR70.4bn in Q3FY17).**
- Retail slippages : INR4.4bn (versus INR4.29bn in previous quarter), rec/upgrades : INR5.24bn
- With respect to divergence with RBI there were account to the tune of the INR51bn (84% was already in drill down list and 7% was in restructured portfolio), which required provisions of INR10.7bn (INR7bn post tax). Currently, everything of that has already been classified (40% was provided in Q1FY17).
- **Outstanding 5:25 refinancing at INR26.75bn(out of which INR17.3bn is predominantly in watchlist) versus INR33bn (due to slippages to NPLs). SDR outstanding (of which INR16.6bn is restructured and INR26.36bn is from drill down exposures). S4A stands at INR2.93bn.** Currently the bank has general provisions of around INR10-11bn on these accounts.
- The bank is also implementing change in management outside SDR for loans of INR51bn (included in the drilldown list) which may potentially provide some resolution
- During the quarter, there was a drawdown of INR16.3bn from the collective contingency and related reserve, currently there is no balance contingency and related reserve. Further floating provision (which was earlier netted off from NNPLs) of INR15.15bn were fully utilised against specific assets during the quarter.
- Sale to ARCs during the quarter comprised of INR0.23bn of NPLs and INR5.83bn in SMA-II accounts.

With respect to Growth

- **Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew 19%, and growth in the corporate segment is driven by non-stressed segments).** For the bank, overall credit growth was ~ 7% YoY,
 - Domestic credit growth was 14% YoY driven by 19% growth in retail segment (forming ~52% of the overall loans). Bank continues to grow Personal Loan and Credit Card book with focus on cross sell opportunities.
 - Domestic corporate growth was 5.8% YoY , largely driven by the working capital loans. However looking at the desirable segments (non NPA, non-watchlist etc) the growth was higher
 - Growth in SME portfolio was > 17% (forming 4.8% of loans).

- International book registered-de-growth of 20% YoY (on rupee basis) and 18% (on USD basis) following .

- **Going in FY18, bank expects domestic loan growth of 15-16% driven by 18-20% retail segment growth. The growth in domestic corporate growth will likely be in 5-7% range with SME growth of 15-20%. The overseas book will likely be stable in USD terms**
- Domestic NIMs at 3.96% , International NIMs at 1.01% (0.83% in Q2FY17) . The NIMs during the quarter was supported by a) collections from loans that were non-performing and b) interest on income tax refund, which was further supported by lower funding cost given string traction in average CASA balances. Management aims to maintain >3% for full year FY18.
- Growth in fee income was better mid-teen growth. **Fee income driven by retail segment fees (up > 25% YoY) largely driven by a) third party distribution fees b) better forex fees and c) better credit card fees etc.** The growth seen in fee income was more granular with no major one-time component. The management aims to maintains the traction seen during the quarter
- The CASA ratio was 50.4% (versus 49.9% at Q3FY17). The average CASA ratio was 46.5% in Q4FY17 (versus ~45% in previous quarter)
- No of mobile banking transtaction doubled, value increased by 168%

Key takeaways from ICICI Bank's Q3FY17 conference call

With respect to Asset Quality

- **Slippages during the quarter were INR70.37bn of which slippages from watch list was INR29.43bn, slippages from restructured book – INR2.39bn ,and devolvement of non-fund based NPLs– INR17.99bn.** NPA additions will likely continue to be elevated over next couple of quarters.
- No particular pattern in the slippages outside of watch-list and restructured book. These are more specific cases not relating to any particular sector etc.
- Retail slippages : INR4.29bn (normal slippages), rec/upgrades : INR4.34bn
- **Outstanding 5:25 refinancing at INR33bn (out of which INR24bn is predominantly in watchlist). SDR outstanding INR34bn (of which INR28bn is mix of restructured , NPL and drill down exposures). There are till now no cases under S4A.** During the quarter new 5:25 additions was ~INR6bn and new SDR implementation during the quarter was ~INR5bn.
- During the quarter, there was a drawdown of INR5.3bn from the collective contingency and related reserve. Outstanding floating provisions stands at ~INR15.15bn.
- **There was sale to ARCs of INR0.87bn, net investment in security receipts are INR28.11bn.**
- Non-fund based exposure to restructured asset is closer to ~INR20bn
- Bank utilised RBI dispensation during the quarter, however the quantum was lower at INR1bn in overall scheme of things.

With respect to Growth

- **Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew 18%, and growth in the corporate segment is driven by non-stressed segments which grew in mid teen).**
- For the bank, overall credit growth was ~ 5% YoY, following redemption of USD870mn of FCNR linked loans which matured in overseas book in Q3FY17.
 - Domestic credit growth was 12% YoY driven by 18% growth in retail segment (~18% of the overall loans). Bank continues to grow Personal Loan and Credit Card book with focus on cross sell opportunities.
 - Domestic corporate growth was 4% YoY , largely driven by the working capital loans. However looking at the desirable segments (non NPA, non-watchlist etc) the growth was in mid-teens
 - Growth in SME portfolio was 6.6% (forming 4.6% of loans).- growth muted due to higher repayments during the quarter.
 - International book registered-de-growth of 16% YoY (on rupee basis) and 18% (on USD basis) following . redemption of USD870 mn of FCNR linked loans which matured in overseas book in Q3FY17.
- Domestic NIMs at 3.51% , International NIMs at 0.83% (1.685% in Q2FY17, impacted by higher interest income reversal during the quarter) . Lower funding cost has helped

bank more than offset the impact of lower lending rates (following lower rates and higher interest income reversal) .

- Growth in fee income was better > 10% YoY (lower single digit runrate over H1FY17). ***Fee income driven by retail segment fees (up > 18% YoY) largely driven by a) third party distribution fees b) better forex fees and c) better credit card fees etc.*** The growth seen in fee income was more granular with no major one-time component. The management aims to maintains the traction seen during the quarter
- The CASA momentum got a leg up from demonetisation (***average CASA growth of > 29% taking average CASA ratio to ~45%***). During the quarter there was redemption of USD1.75bn FCNR-B deposits.
- Bank envisage to continue to make the investment to strengthen the franchise.

Other highlights

- INR4.46bn is the dividend from subsidiary during the quarter.
- Employee addition during the 9mFY17 at 6803 taking total employee base at 80899.
- PCR (incl. technical write-off and floating provisions) – 57.1%
- ***Of the domestic book – 20% is linked to MCLR. Of the overall domestic book 76% is floating rate linked book.***
- Bank has not been accruing income on SDR cases for the past few quarters , so there are no one off impact due to this in this particular quarter.
- Within the home loan portfolio, around 17% is the LAP proportion
- Within the home finance business there was a mid-sized real estate exposure which slipped into NPLs, thus the GNPLs rise.
- ***For Life insurance business New business Margins (NBMs) for 9mFY17 was 9.4% , versus 8% in FY16 and 5.7% in FY15 (this was largely due to rise in proportion of non-par products from 1.6% as at FY15 to 2.7% as at FY16 and 3.9% as at 9mFY17).***

Company Description

Incorporated in 1994, ICICI Bank is India's second largest bank and the largest among private banks with total assets of about ~INR7.7tn as of Q4FY17. The bank's focus is on retail lending with retail financing representing ~52% of total loans and advances while International and corporate can be the new growth drivers when environment improves. 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 these are challenging times as manifested in temporary lull in earnings. However, one must not ignore ICICI Bank's franchise strength, which will enable it to deliver healthy normalised returns post the turbulent phase. We maintain '**BUY/SO**' given: a) >30% of current price reflects stable value of subsidiaries (which could significantly benefit from formalisation of financial savings); b) stable RoA/RoE (2%/16%, despite higher credit cost); and c) strengthening franchise. The stock is trading at 1.2x FY19E P/ABV. Our SoTP target price is pegged at INR362.

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	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth	8.6	14.0	12.0	13.0
CRR	4.0	4.0	4.0	4.0
SLR	20.8	20.0	20.0	20.0
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assumpt. (%)				
Yield on advances	9.5	8.8	9.2	9.1
Yield on investments	6.6	6.4	6.4	6.6
Yield on asset	8.3	8.0	8.0	8.1
Cost of funds	5.2	5.0	4.8	4.7
Net interest margins	3.3	3.2	3.4	3.5
Cost of deposits	5.5	4.1	4.0	3.9
Cost of borrowings	6.4	6.0	6.0	6.0
Spread	3.1	3.0	3.2	3.3
Tax rate (%)	20.2	13.1	20.0	20.0
Balance sheet assumption (%)				
Credit growth	11.4	6.6	13.5	14.5
Deposit growth	16.6	16.3	14.0	16.0
SLR ratio	21.3	19.7	19.7	19.7
Low-cost deposits	45.8	50.4	50.8	51.3
Gross NPA ratio	5.8	8.9	8.5	7.4
Net NPA / Equity	14.9	26.0	23.3	18.4
Capital adequacy	16.6	17.4	16.9	16.4
Incremental slippage	4.1	7.6	4.0	2.5
Provision coverage	50.6	40.8	46.7	53.2

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	527,394	541,563	598,519	680,302
Interest expended	315,154	324,190	346,177	382,320
Net interest income	212,240	217,373	252,341	297,982
Non interest income	153,230	195,045	172,104	188,217
- Fee & forex income	97,332	97,208	110,817	127,440
- Misc. income	13,035	12,077	16,287	20,777
- Investment profits	42,863	85,760	45,000	40,000
Net revenue	365,471	412,418	424,446	486,199
Operating expense	126,836	147,551	161,440	177,643
- Employee exp	50,024	57,337	61,264	66,257
- Other opex	76,812	90,214	100,175	111,386
Preprovision profit	238,635	264,867	263,006	308,556
Provisions	116,678	152,081	109,394	88,011
Loan loss provisions	72,157	142,704	109,394	88,011
Investment depreciation	1,707	1,878	-	-
Other provisions	42,815	7,500	-	-
Profit Before Tax	121,957	112,786	153,612	220,545
Less: Provision for Tax	24,694	14,775	30,722	44,109
Profit After Tax	97,263	98,011	122,890	176,436
Reported Profit	97,263	98,011	122,890	176,436
Shares o /s (mn)	5,816	5,857	5,857	5,857
Adj. Diluted EPS (INR)	16.7	16.7	21.0	30.1
Dividend per share (DPS)	5.0	2.5	5.6	8.5
Dividend Payout Ratio(%)	32.8	17.4	31.0	32.8

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	11.5	2.4	16.1	18.1
Fees growth	7.9	(0.1)	14.0	15.0
Opex growth	10.3	16.3	9.4	10.0
PPOP growth	7.8	(8.5)	21.7	23.2
PPP growth	21.0	11.0	(0.7)	17.3
Provisions growth	198.8	30.3	(28.1)	(19.5)
Adjusted Profit	(13.0)	0.8	25.4	43.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	9.5	8.8	9.2	9.1
Yield on investments	6.6	6.4	6.4	6.6
Yield on assets	8.3	8.0	8.0	8.1
Cost of funds	5.2	5.0	4.8	4.7
Net interest margins	3.3	3.2	3.4	3.5
Cost of deposits	5.5	4.1	4.0	3.9
Cost of borrowings	6.4	6.0	6.0	6.0
Spread	3.1	3.0	3.2	3.3
Cost-income	34.7	35.8	38.0	36.5
Tax rate	20.2	13.1	20.0	20.0

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	11,632	11,714	11,714	11,714
Reserves & Surplus	857,550	959,622	1,044,393	1,162,970
Net worth	869,181	971,336	1,056,107	1,174,684
Sub bonds/pref cap	655,540	688,740	721,940	755,140
Deposits	4,214,257	4,900,391	5,588,692	6,481,184
Total Borrowings	1,092,534	786,822	867,701	958,039
Other liabilities	378,874	342,452	380,451	426,427
Total liabilities	7,210,386	7,689,740	8,614,891	9,795,474
Loans	4,352,639	4,642,321	5,267,246	6,032,333
Cash and Equivalents	598,687	757,131	785,024	864,756
Gilts	1,128,208	1,120,381	1,271,909	1,465,527
Others	475,910	494,685	555,160	623,903
Fixed assets	47,595	49,877	47,664	45,201
Other Assets	607,347	625,346	687,889	763,754
Total assets	7,210,386	7,689,740	8,614,891	9,795,474
BVPS (INR)	149.5	165.8	180.3	200.6
Credit growth	11.4	6.6	13.5	14.5
Deposit growth	16.6	16.3	14.0	16.0
EA growth	6.3	7.0	12.3	14.1
SLR ratio	21.3	19.7	19.7	19.7
C-D ratio	108.1	98.9	98.3	96.9
Low-cost deposits	45.8	50.4	50.8	51.3
Provision coverage	50.6	40.8	46.7	53.2
Gross NPA ratio	5.8	8.9	8.5	7.4
Net NPA ratio	3.0	5.4	4.7	3.6
Incremental slippage	4.1	7.6	4.0	2.5
Net NPA / Equity	14.9	26.0	23.3	18.4
Capital adequacy	16.6	17.4	16.9	16.4
- Tier 1	13.1	14.4	13.9	13.4

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICI Bank	25,248	8.6	6.0	1.4	1.2	12.1	15.8
Axis Bank	19,002	17.7	11.6	2.3	2.0	11.7	16.0
DCB Bank	814	23.3	20.0	2.7	2.3	11.5	11.9
Federal Bank	2,881	15.3	12.9	2.1	1.8	13.3	14.2
HDFC Bank	61,730	22.9	19.4	3.9	3.3	17.9	18.3
IndusInd Bank	13,452	23.6	19.0	3.7	3.2	16.5	17.7
Karnataka Bank	960	8.8	7.6	1.1	1.0	11.4	12.3
Kotak Mahindra Bank	25,839	29.0	23.9	4.3	3.7	15.6	16.3
South Indian Bank	721	7.2	6.7	0.9	0.8	11.4	12.3
Yes Bank	11,586	18.8	13.9	2.8	2.4	16.2	17.6
Median	-	18.3	16.5	2.5	2.4	12.7	16.2
AVERAGE	-	18.0	15.2	2.6	2.4	13.8	15.6

Source: Edelweiss research

RoE decomposition (%)				
Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	3.3	3.2	3.4	3.5
Fees/Assets	1.7	1.6	1.7	1.8
Invst. profits/Assets	0.7	1.3	0.6	0.5
Net revenues/assets	5.7	6.1	5.7	5.8
Operating expense/assets	(2.0)	(2.2)	(2.2)	(2.1)
Provisions/assets	(1.8)	(2.2)	(1.5)	(1.0)
Taxes/assets	(0.4)	(0.2)	(0.4)	(0.5)
Total costs/assets	(4.2)	(4.6)	(4.0)	(3.7)
ROA	1.5	1.4	1.7	2.1
Equity/assets	13.2	13.6	13.6	13.2
ROAE (%)	11.6	10.7	12.1	15.8

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	16.7	16.7	21.0	30.1
Y-o-Y growth (%)	(13.2)	0.1	25.4	43.6
BV per share (INR)	149.5	165.8	180.3	200.6
Adj. BV per share (INR)	114.0	117.4	131.8	154.8
Diluted P/E (x)	10.7	10.7	8.6	6.0
P/B (x)	1.2	1.1	1.0	0.9
Price/ Adj. BV (x)	1.6	1.5	1.4	1.2
Dividend Yield (%)	2.8	1.4	3.1	4.7

Additional Data

Directors Data

M K Sharma	Chairman	Chanda Kochhar	Managing Director & CEO
N S Kannan	Executive Director	Anup Bagchi	Executive Director
Vijay Chandok	Executive Director	Vishakha Mulye	Executive Director
Homi R Khusrokhana	Director	V Sridar	Director
Tushaar Shah	Director	V K Sharma	Director
Amit Agrawal	Director	Dileep Choksi	Director

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Deutsche Bank Trust Company Americas	25.29	Life Insurance Corporation of India	10.93
Dodge & Cox	7.07	HDFC Asset Management	3.10
Capital Group Companies	2.19	EuroPacific Growth Fund	1.77
Reliance Capital Trustee	1.52	Max New York Life Insurance	1.40
Aberdeen	1.38	SBI Funds Management	1.32

**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
11 Apr 2017	SUDHIR DOLE	Sell	30000.00
07 Apr 2017	SUDHIR DOLE	Sell	30000.00
07 Apr 2017	ABONTY BANERJEE	Sell	72500.00
07 Apr 2017	SANJEEV MANTRI	Sell	25000.00
07 Apr 2017	GIRISH NAYAK	Sell	15000.00

**in last one year*

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

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, 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, Oriental Bank Of Commerce, 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
03-May-17	SCUF	Core stable; NPLs transition dents earnings; <i>Result Update</i>	2,139	Buy
02-May-17	Bharat Financial Inclusion	Conservative stance dents earnings; growth intact; <i>Result Update</i>		Buy
28-Apr-17	Federal Bank	All guns blazing; <i>Result Update</i>		Buy

Distribution of Ratings / Market Cap

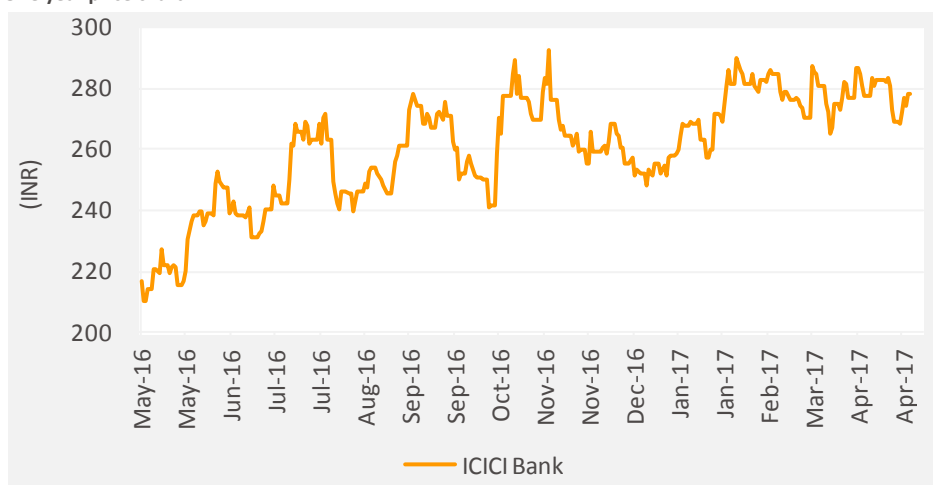
Edelweiss Research Coverage Universe

	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
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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