

Institutional Equity Research

ICICI BANK

Banking | India

1QFY18 Result Update | July 28, 2017

CMP* (Rs)	296
Upside/ (Downside) (%)	(4)
Bloomberg Ticker	ICICIB IN
Market Cap. (Rs bn)	1,892
Free Float (%)	100
Shares O/S (mn)	6,413

HOLD 

Target Price: Rs284

Lower Provision Converge to Drag Earnings; Maintain HOLD

ICICI Bank continued to report a subdued performance on operating and business growth front in 1QFY18. Its operating profit declined by 0.6% YoY and grew by mere 1.4% QoQ to Rs51.8bn due to subdued sequential growth in NII (+8.4% YoY & -6.2% QoQ to Rs55.9bn) and core fee income (+10.3% YoY & -2.8% QoQ to Rs23.8bn). On sequential comparison, the Bank's loan book growth remained flat on the back of 6.3%, 4.4% and 1.9% QoQ decline in SME, international and domestic corporate loan book, respectively. However, on retail loan front, the Bank witnessed 2.9% QoQ and 18.6% YoY growth led by mortgage and auto segment. On asset quality front, the Bank witnessed sequential decline in fresh slippages to Rs49.8bn in 1QFY18 compared to Rs112.9bn in 4QFY17. Notably, its total stressed asset portfolio (GNPA+ Standard Restructured + Drilldown list) remained unchanged at elevated level of 12.9% of total loan book.

Key Management Commentary & Guidance

- ▶ The Bank has outstanding drilldown loan portfolio of Rs203.6bn as of Jun'17 compared to Rs190.4bn as of Mar'17. During the quarter, the Bank added Rs14.2bn into drilldown list from one account of power sector post adverse judgment by Supreme Court on power tariff.
- ▶ ICICI Bank has total exposure of Rs72.4bn (fund + non-fund) towards 12 loan accounts referred to IBC/NCLT by the RBI. Notably, all these loans have already been classified as NPAs and currently the Bank holds PCR of ~41% on for these accounts.
- ▶ The Management expects NPA-related credit cost to remain at elevated level in FY18 as the RBI has accelerated asset quality resolution process.
- ▶ Domestic NIMs compressed by 34bps to 3.62% in 1QFY18 due to migration to MCLR, which offset the benefit from decline in cost of fund.
- ▶ The Bank has filed DRHP with SEBI for an IPO of its subsidiary, ICICI Lombard General Insurance Company. Proceed from Offer For Sale (OFS) will help the Bank to partially address higher provisioning requirement for stressed asset portfolio.

Outlook & Valuation

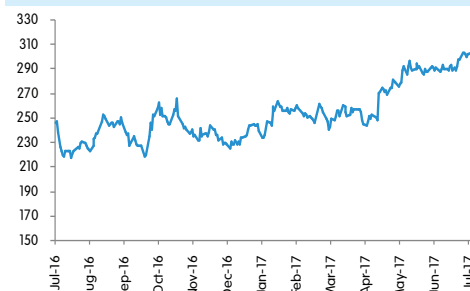
Stressed asset portfolio of the Bank remains uncomfortable at high level of 12.9%, which is one of the highest among the large private sector lenders. Further, 4.9% of stressed loans are from drilldown and standard restructured portfolios on which the Bank holds much lower provisioning coverage. Additionally, its specific PCR on gross NPA portfolio also remains at lower level of 41.4% in June'17. The Bank has also exhausted all additional contingency related provisioning made earlier with no available cushion for the remaining quarters of FY18. Consequently, we expect credit cost to remain at elevated level, which would keep its earnings and return ratio subdued over next 4-6 quarters. **Hence, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs284 (valuing parent at 1.5x FY19 Adj. BV and valuing subsidiaries at Rs71 after 15% holding company discount).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
NII	212,240	217,373	238,303	263,285
PPP	238,635	264,867	234,853	262,115
PAT	97,263	98,011	71,711	114,962
EPS (Rs)	15.2	15.3	11.2	17.9
P/E (x)	19.5	19.4	26.5	16.5
Adj. BV (Rs)	97.1	121.0	128.0	141.8
P/Adj. BV (x)	3.0	2.4	2.3	2.1
Gross NPA (%)	6.1	9.2	7.5	5.6
Net NPA (%)	3.0	5.4	4.5	3.5
Avg. ROA (%)	1.4	1.3	0.9	1.3
Avg. ROE (%)	10.8	9.8	7.0	10.4

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	2.8	18.8	20.3
Relative to Nifty	(2.3)	11.7	4.3

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	-	-
Mutual Funds	15.0	15.3
Insurance Companies	15.2	14.1
Foreign Portfolio Investors	60.3	60.0
Others	9.5	10.5
Total	100.0	100.0

1 Year Stock Price Performance

Note: * CMP as on July 28, 2017

Research Analyst : Asutosh Kumar Mishra

Contact : (022) 33201323

Email : asutosh.mishra@relianceada.com

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Risks to the View

- Any major slowdown in economy may adversely impact the Bank's business growth and asset quality.
- Gradually intensifying competition in both Corporate & SME segments may drag loan book growth.

Exhibit 1: Income Statement Analysis

(Rs mn)	1Q FY18	1Q FY17	% yoy / bps	4Q FY17	% qoq / bps	FY 2017	FY 2016	% yoy / bps
Interest on Advance	98,473	98,373	0.1	99,907	(1.4)	396,034	389,432	1.7
YoA - Calculated (%)	8.5	8.9	(41)	8.7	(19)	8.8	9.5	(66)
Income on Investment	28,271	28,109	0.6	26,217	7.8	113,771	106,254	7.1
Interest on Balances	1,985	501	296.6	2,819	(29.6)	4,955	1,582	213.1
Others Interests	5,862	6,320	(7.3)	6,742	(13.1)	26,804	30,127	(11.0)
Interest Earned	134,591	133,303	1.0	135,685	(0.8)	541,563	527,394	2.7
Interest Expended	78,693	81,717	(3.7)	76,064	3.5	324,190	315,154	2.9
CoF - Calculated (%)	4.3	4.8	(46)	4.2	13	4.6	4.8	(29)
Net Interest Income	55,898	51,585	8.4	59,621	(6.2)	217,373	212,240	2.4
NIM - Calculated (%)	3.3	3.2	7	3.5	(23)	3.3	3.5	(21)
NIM - Reported (%)	3.3	3.2	11	3.6	(30)	3.3	3.5	(24)
NII as % of Oper. Income	62.3	60.1	220	66.4	(413)	52.7	58.1	(537)
Core Fee Income	23,770	21,560	10.3	24,460	(2.8)	94,520	88,200	7.2
Fee Inc. as % of OI	26.5	25.1	137	27.2	(76)	22.9	24.1	(5)
Non Core Fee Income	10,109	12,733	(20.6)	5,712	77.0	114,696	78,614	45.9
Non core fee Inc. as % of OI	11.3	14.8	(357)	6.4	490	27.8	21.5	29
Total Other Income	33,879	34,293	(1.2)	30,172	12.3	195,045	153,231	27.3
Other Inc. as % of OI	37.7	39.9	(220)	33.6	413	47.3	41.9	537
Operating Income (OI)	89,778	85,878	4.5	89,794	(0.0)	412,418	365,471	12.8
Core Operating Income	79,668	73,145	8.9	84,081	(5.2)	311,893	300,440	3.8
Employees Expenses	15,112	12,907	17.1	14,805	2.1	57,337	50,024	14.6
Employees Expn. as % of OI	16.8	15.0	180	16.5	35	13.9	13.7	22
Other Operating Expenses	22,833	20,824	9.6	23,869	(4.3)	90,214	76,812	17.4
Other Oper Exp. as % of OI	25.4	24.2	118	26.6	(115)	21.9	21.0	86
Total Operating Expenses	37,944	33,731	12.5	38,674	(1.9)	147,551	126,836	16.3
Cost to income Ratio (%)	42.3	39.3	299	43.1	(80)	35.8	34.7	107
Operating Profit (OP)	51,833	52,147	(0.6)	51,120	1.4	264,867	238,635	11.0
Provisions and Conting.	26,087	25,145	3.7	28,982	(10.0)	152,081	116,678	30.3
Pro Burden as % of OP	50.3	48.2	211	56.7	(637)	57.4	48.9	852
Profit Before Tax	25,746	27,002	(4.7)	22,138	16.3	112,786	121,957	(7.5)
Tax Expenses	5,256	4,679	12.3	1,892	177.9	14,775	24,694	(40.2)
Effective Tax Rate (%)	20.4	17.3	309	8.5	1,187	13.1	20.2	(715)
Net Profit	20,490	22,324	(8.2)	20,246	1.2	98,011	97,263	0.8
EPS	3.2	3.5	(8.3)	3.2	1.3	16.8	16.8	0.5

Source: Company, RSec Research

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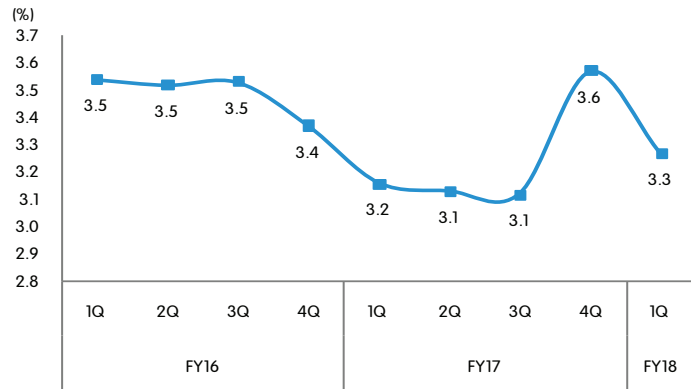
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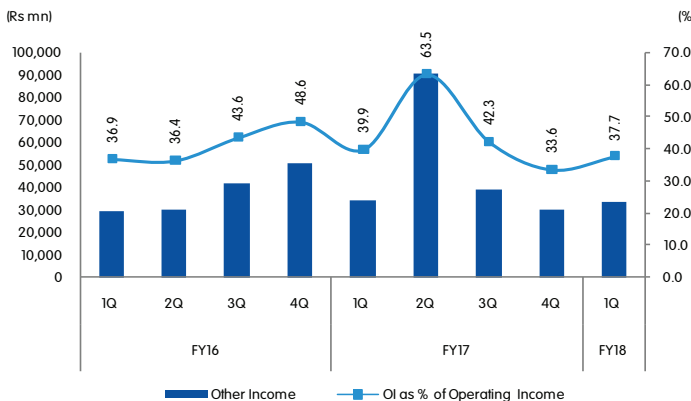
HOLD 

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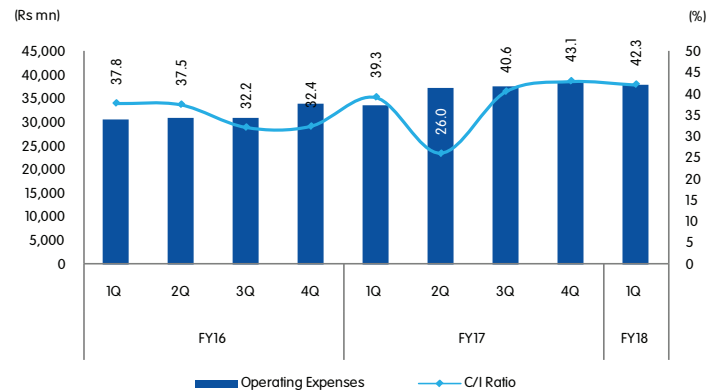
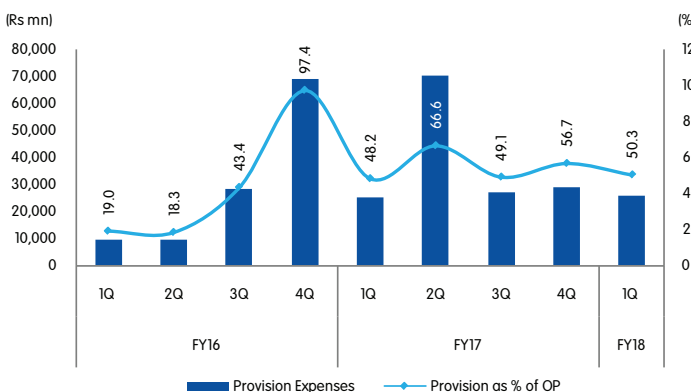
Exhibit 2: Migration to MCLR negatively impacted NIMs of the Bank


Source: Company, RSec Research

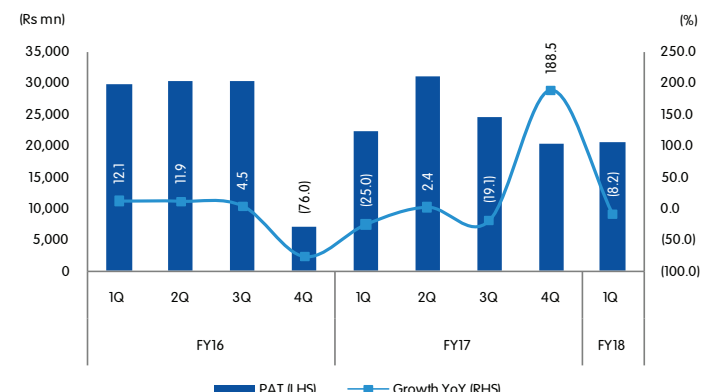
Exhibit 3: NII growth remained subdued due to muted growth in loan book and compression in NIMs

Exhibit 4: Other income growth remained subdued due to lower growth in core fee income


Source: Company, RSec Research

Exhibit 5: C/I ratio remained in 42-43% range led by relatively lower growth in opex

Exhibit 6: Provisioning expenses de-grew due to reversal of provisioning on upgrade of exposure to JP Associates


Source: Company, RSec Research

Exhibit 7: Net profit growth remained subdued due to slower growth in operating income


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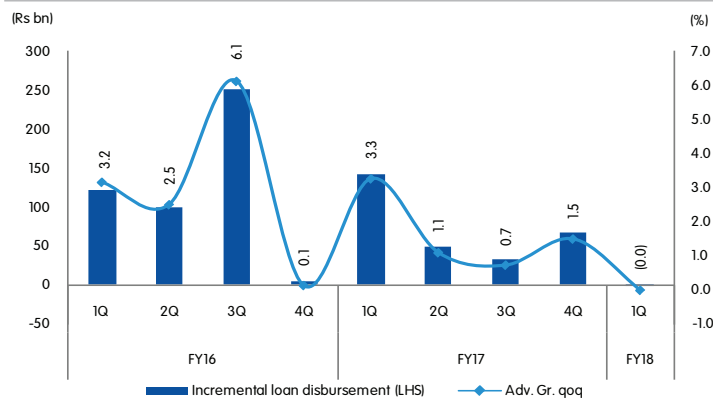
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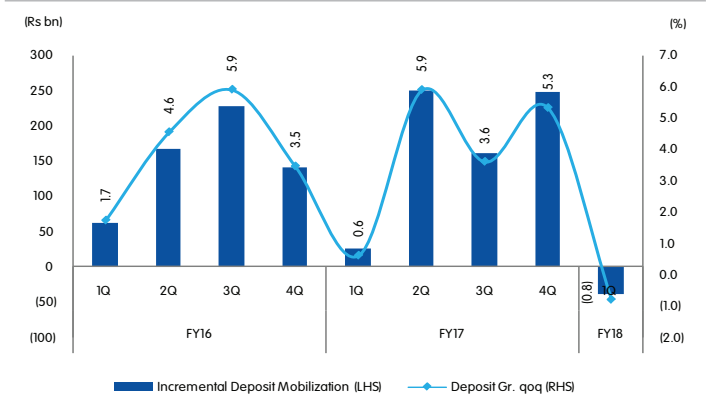
Exhibit 8: Balance Sheet Analysis

(Rs bn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ% / bps	YoY % / bps
Net Worth	897.3	919.4	950.1	975.1	999.4	1,006.2	0.7	9.4
Deposit	4,214	4,241	4,491	4,653	4,900	4,863	(0.8)	14.7
Savings Deposits	1,342	1,382	1,469	1,654	1,718	1,700	(1.1)	23.0
Current Deposits	589	531	584	666	750	681	(9.2)	28.1
CASA Deposit	1,931	1,913	2,053	2,320	2,468	2,380	(3.6)	24.4
Term Deposit	2,283	2,327	2,438	2,333	2,432	2,482	2.1	6.7
Investments	1,604	1,683	1,743	1,690	1,615	1,854	14.8	10.2
Advances	4,353	4,494	4,543	4,575	4,642	4,641	(0.0)	3.3
Total Business	10,171	10,418	10,777	10,917	11,158	11,357	1.8	9.0
Avg Int. Earning Assets	6,415	6,530	6,713	6,876	6,680	6,838	2.4	4.7
Risk Weighted Assets (Rs mn)	6,071	6,216	6,260	6,277	6,248	6,160	(1.4)	(0.9)
CAR (%)	16.6	16.4	16.7	16.0	17.4	17.9	50	145
Tier I Capital (%)	13.1	13.0	13.3	12.6	14.4	14.8	44	176

Source: Company, RSec Research

Exhibit 9: Loan book growth remained subdued due to sequential decline in international, SME and domestic corporate loan book


Source: Company, RSec Research

Exhibit 10: Deposit de-grew due to increased drawdown of CASA deposits in post demonetization

Exhibit 11: Loan Book Analysis

(Rs mn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ%	YoY %
SME	187,163	179,771	195,330	210,436	222,831	208,834	(6.3)	16.2
Domestic corporate	1,196,976	1,276,371	1,258,288	1,299,213	1,267,354	1,243,722	(1.9)	(2.6)
Retail	2,028,330	2,085,339	2,175,884	2,237,026	2,404,722	2,473,521	2.9	18.6
Overseas	940,170	952,784	913,054	828,020	747,414	714,676	(4.4)	(25.0)

Source: Company, RSec Research

Exhibit 12: Loan Book Analysis (% Break-up)

(%)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ bps	YoY bps
SME	4.3	4.0	4.3	4.6	4.8	4.5	(30)	50
Domestic corporate	27.5	28.4	27.7	28.4	27.3	26.8	(50)	(160)
Retail	46.6	46.4	47.9	48.9	51.8	53.3	150	690
Overseas	21.6	21.2	20.1	18.1	16.1	15.4	(70)	(580)

Source: Company, RSec Research

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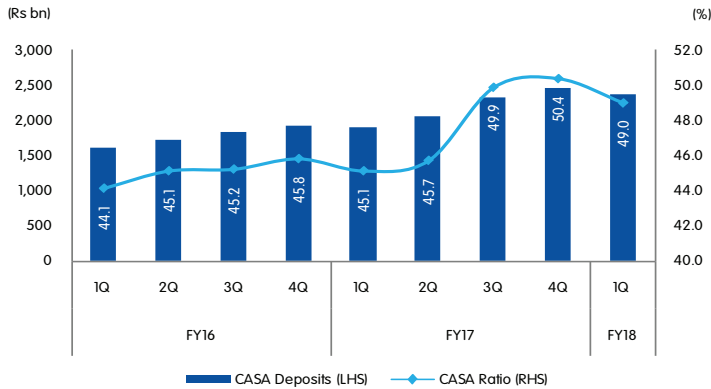
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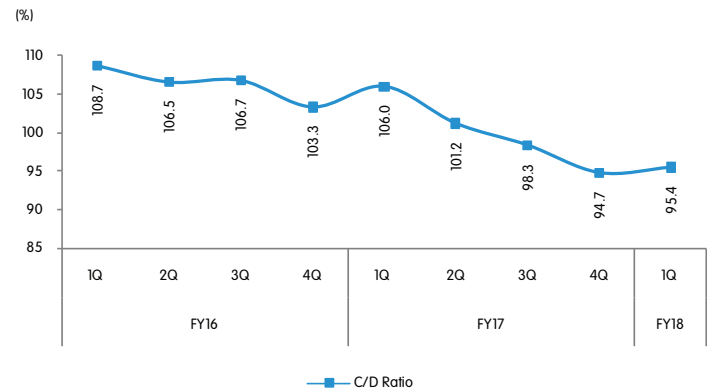
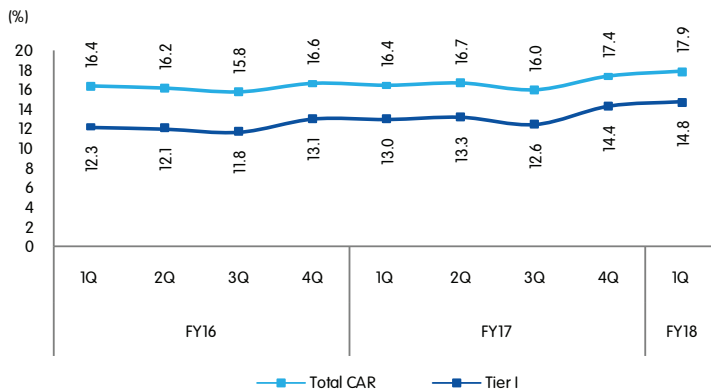
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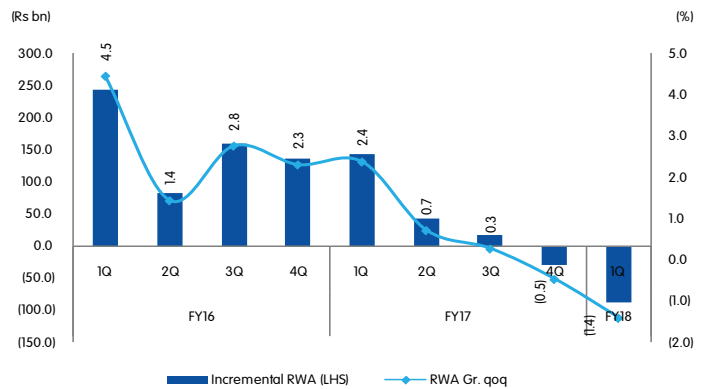
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Exhibit 13: As a result, CASA ratio declined to 49% in 1QFY18 from all-time high of 50.4%


Source: Company, RSec Research

Exhibit 14: C/D ratio of the Bank remained at multi-quarter low

Exhibit 16: Despite higher stressed assets, the Bank is well-capitalized to support future growth opportunities


Source: Company, RSec Research

Exhibit 17: RWA growth remained in line with credit growth

Exhibit 18: Asset Quality Analysis

(Rs mn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ% / bps	YoY % / bps
Gross Non Performing Assets	267,209	271,936	321,786	380,850	425,515	431,476	1.4	58.7
Fresh Slippages	70,030	82,490	80,290	70,370	112,890	49,760	(55.9)	(39.7)
Net Non Performing Assets	129,631	150,407	162,149	201,549	254,510	253,062	(0.6)	68.3
GNP Ratio (%)	5.8	5.9	6.8	7.2	7.9	8.0	10	212
NNP Ratio (%)	3.0	3.4	3.6	4.0	4.9	4.9	(3)	151
NPA Coverage Ratio	51.49	44.69	49.61	47.08	40.19	41.35	116	(334)
Restructured Gross Loans	85,730	72,410	63,360	64,070	42,650	23,700	(44.4)	(67.3)
Restructured Loan as % of Adv.	2.0	1.6	1.4	1.4	0.9	0.5	(41)	(110)

Source: Company, RSec Research

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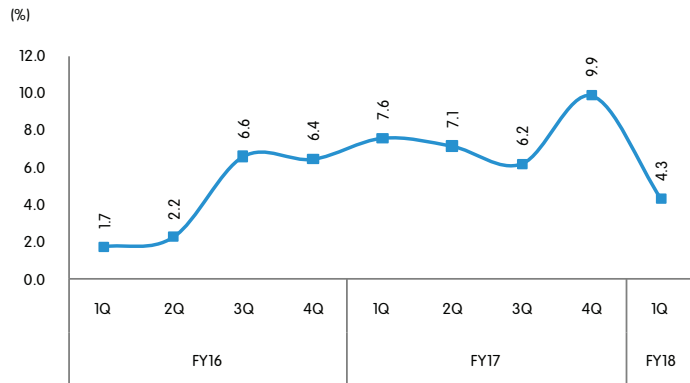
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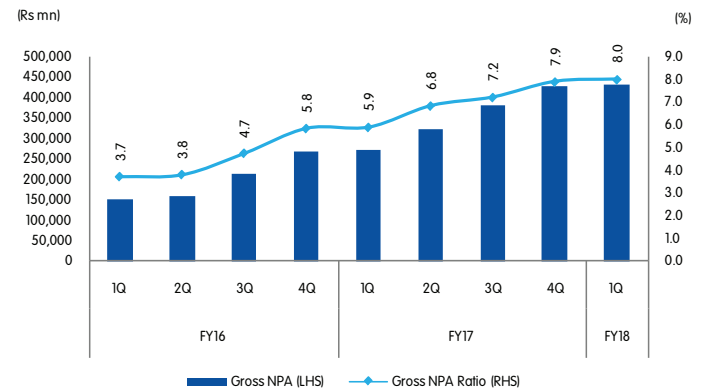
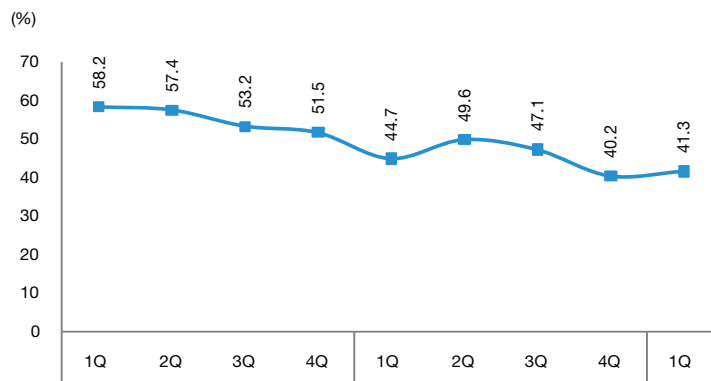
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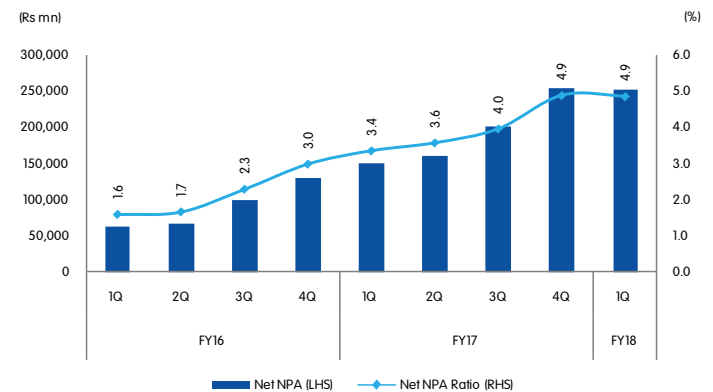
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Exhibit 19: Slippages declined on sequential quarter basis


Source: Company, RSec Research

Exhibit 20: Elevated fresh slippages continued to impact asset quality negatively

Exhibit 21: PCR declined due to relatively lower provisioning during the quarter


Source: Company, RSec Research

Exhibit 22: Higher GNP formation and lower provisioning expenses led to sharp rise in net NPA


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Exhibit 23: SOTP Valuations

	Value of Firm (Rs mn)	ICICI Bank Stake (%)	Value of ICICI Bank Stake (Rs bn)	Rs/Share	Valuation Methodology
Value of Standalone Bank	1,363,868		1,363,868	213	1.5x FY19 Book Value
Domestic Subsidiaries					
ICICI Prudential Life Insurance	628,852	55%	345,177	54.3	Based on Mcap of ICICI Prudential
ICICI Lombard General Insurance	34,031	65%	22,120	3.5	On the Premium Earned
ICICI Assets Management	97,258	51%	49,601	7.8	4% Average AUM
ICICI Venture	6,000	100%	6,000	0.9	5% Average AUM
ICICI Securities	26,198	100%	26,198	4.1	6x FY19 Earnings
ICICI Securities Primary Dealership	31,839	100%	31,839	5.0	6x FY19 Earnings
ICICI Home Finance	13,920	100%	13,920	2.2	0.8x FY17 Book Value
International Subsidiaries					
ICICI Bank UK	15,837	100%	15,837	2.5	0.7x FY17 Book Value
ICICI Bank Canada	22,266	100%	22,266	3.5	0.7x FY17 Book Value
Value of Subsidiaries			532,958	83.9	
Holding Company Discount		15%	79,944	(12.6)	
SOTP Fair Value				284	

Source: RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Interest Earned	527,394	541,563	585,317	648,691
Interest Expenditure	315,154	324,190	347,014	385,406
Net Interest Income	212,240	217,373	238,303	263,285
Fee Income	74,617	80,349	103,345	114,739
Non Fee Income	78,614	114,696	55,043	60,110
Other Income	153,231	195,045	158,388	174,849
Net Operating Income	365,471	412,418	396,690	438,134
Core Operating Income	286,857	297,722	341,648	378,024
Employee Expenses	50,024	57,337	60,347	63,365
Other Expenses	76,812	90,214	101,490	112,654
Operating Expenses	126,836	147,551	161,838	176,019
Operating Profit	238,635	264,867	234,853	262,115
Provisions and Contingencies	116,678	152,081	137,286	105,704
Profit Before Tax	121,957	112,786	97,566	156,411
Taxes	24,694	14,775	25,855	41,449
Profit After Tax	97,263	98,011	71,711	114,962

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Capital & Liabilities				
Capital	11,632	11,651	12,826	12,826
Reserves Total	885,657	987,797	1,006,470	1,095,059
Net Worth	897,289	999,448	1,019,296	1,107,885
Deposits	4,214,257	4,900,391	5,439,434	6,200,954
Current deposits	588,699	749,835	843,112	992,153
Saving deposits	1,342,301	1,718,385	1,767,816	2,015,310
Term Deposits	2,283,257	2,432,171	2,828,506	3,193,492
Borrowings	1,748,074	1,475,562	1,605,562	1,725,563
Other Liabilities & Provisions	347,264	342,452	422,216	433,547
Total Liabilities	7,206,951	7,717,915	8,486,570	9,468,011
Assets				
Cash & Cash Equivalents	598,687	757,131	778,047	737,222
Investments	1,604,118	1,615,065	1,678,741	1,818,915
Advances	4,352,639	4,642,321	5,292,246	6,086,083
Fixed Assets	75,769	78,052	84,675	90,344
Other Assets	575,737	625,347	652,861	735,448
Total Assets	7,206,951	7,717,915	8,486,570	9,468,011

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Per Share Data and Valuation

Y/E March	FY16	FY17	FY18E	FY19E
No. of Shares (Mn)	6,396.2	6,407.0	6,412.9	6,412.9
Earnings Per Share (Rs.)	15.2	15.3	11.2	17.9
Book Value / Share (Rs.)	135.9	151.2	158.9	172.8
ABV/Share (Rs.)	97.1	121.0	128.0	141.8
Dividend Per Share (Rs.)	3.4	3.4	3.0	3.5
Price/ Earnings (X)	19.5	19.4	26.5	16.5
Price/ BV (X)	2.2	2.0	1.9	1.7
Price/Adjusted BV (X)	3.0	2.4	2.3	2.1

Key Assumptions

Y/E March (%)	FY16	FY17	FY18E	FY19E
Loan Growth	12.3	6.7	14.0	15.0
Deposit Growth	16.6	16.3	11.0	14.0
RWA Growth	14.5	24.4	36.8	16.6
Slippages Ratio	4.4	7.7	4.0	2.0
Cost of Fund	4.8	4.6	4.5	4.5
Yield on Fund	8.7	8.2	8.2	8.1
NIM	3.5	3.3	3.3	3.3
Other Income Growth	25.8	27.3	(18.8)	10.4
Cost to Income Ratio	34.7	35.8	40.8	40.2
Average Credit Cost	3.0	3.5	3.0	2.0
Effective Tax Rate	20.2	13.1	26.5	26.5

Growth Rate

Y/E March (%)	FY16	FY17	FY18E	FY19E
Net interest Income	11.5	2.4	9.6	10.5
Other Income	25.8	27.3	(18.8)	10.4
Operating Profit	21.0	11.0	(11.3)	11.6
Provisions Expense	199.2	30.3	(9.7)	(23.0)
PAT	(13.0)	0.8	(26.8)	60.3
Risk Weighted Assets	14.5	24.4	36.8	16.6

Yields / Margins

Y/E March (%)	FY16	FY17	FY18E	FY19E
Cost of Funds (CoF)	4.8	4.6	4.5	4.5
Yield on Advance	9.5	8.8	8.8	8.7
Yield on funds	8.7	8.2	8.2	8.1
Net Interest Margin (NIM)	3.5	3.3	3.3	3.3

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CMP (Rs) 296

Upside/ (Downside) (%) (4)

Bloomberg Ticker ICICIBC IN

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Target Price: Rs284

Balance Sheet Ratio

Y/E March (%)	FY16	FY17	FY18E	FY19E
Credit / Deposit Ratio	103.3	94.7	97.3	98.1
Incremental C/D Ratio	79.8	42.2	120.6	104.2
Investment-Deposit Ratio	38.1	33.0	30.9	29.3
CASA Ratio	45.8	50.4	48.0	48.5

Asset Quality

Y/E March (%)	FY16	FY17	FY18E	FY19E
Gross NPA/Gross Advances	6.1	9.2	7.5	5.6
Net NPA/Net Advances	3.0	5.4	4.5	3.5
Provisioning Burden as % of PPP	48.9	57.4	58.5	40.3
Provisioning Coverage Ratio	51.5	40.7	39.8	37.9
Slippage ratio (%)	4.4	7.7	4.0	2.0
Provis. Exp. to Avg. Advance (%)	2.8	3.4	2.8	1.9

RoA Tree Analysis

Y/E March (%)	FY16	FY17	FY18E	FY19E
NII / Avg. Assets	3.1	2.9	2.9	2.9
Core Fee / Avg. Assets	1.1	1.1	1.3	1.3
Core Rev. / Avg. Assets	4.2	4.0	4.2	4.2
Ope. Exp. / Avg. Assets	1.9	2.0	2.0	2.0
Cost to Income	34.7	35.8	40.8	40.2
Emp. cost / Avg. Assets	0.7	0.8	0.7	0.7
Oprt. Exp. / Avg. Assets	1.1	1.2	1.3	1.3
Core OP/ Avg. Assets	2.3	2.0	2.2	2.3
Trading & Ot/ Avg. Assets	1.2	1.5	0.7	0.7
OP/ Avg. Assets	3.5	3.5	2.9	2.9
Provisions / Avg. Assets	1.7	2.0	1.7	1.2
NPA prov. / Avg. Assets	1.1	1.5	1.0	0.8
PBT / Avg. Assets	1.8	1.5	1.2	1.7
Tax / Avg. Assets	0.4	0.2	0.3	0.5
Effective Tax Rate	20.2	13.1	26.5	26.5
RoA	1.4	1.3	0.9	1.3
Leverage (x)	8.0	7.7	8.3	8.5
RoE	10.8	9.8	7.0	10.4

Capital Adequacy Ratio

Y/E March (%)	FY16	FY17	FY18E	FY18E
Total CAR	16.6	17.4	17.0	16.1
Tier 1	13.1	14.4	14.1	13.4

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ICICI BANK

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CMP (Rs)	296
Upside/ (Downside) (%)	(4)
Bloomberg Ticker	ICICIB IN

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Target Price: Rs284

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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