AXIS DIRECT

2 AUG 2017 Quarterly Update

ICICI BANK

BANKS & FINANCIAL SERVICES

BUY

Target Price: Rs 350

Soft Q1; clean-up process in progress

ICICI Bank reported a soft Q1 with an in-line PAT (Rs 20.5 bn – down 8% YoY), subdued advances growth (3% YoY) and 30 bps QoQ margin drop (NIM included 10 bps benefit from income tax refunds). However, the focus seems to be largely on the clean-up activity resulting in stable headline asset quality (GNPA ratio up 10 bps QoQ at 8.8%) and de-growth in corporate and overseas loan book. Bank proactively provided additional provisions of Rs 1.6 bn on stressed sectors such as telecom, power, iron & steel etc.

Watch-list increased from ~Rs 190 bn in Q4 to ~Rs 204 bn. On 12 a/c's referred to ^IBC, it has exposure of ~Rs 69 bn with 41% provisions. It is required to provide Rs 6.5 bn more over 9 months to meet 50% coverage requirement (can increase with failed resolutions).

CMP	: Rs 307
Potential Upside	: 14%

MARKET DATA

No. of Shares	: 6,413 mn
Free Float	: 100%
Market Cap	: Rs 1,969 bn
52-week High / Low	: Rs 315 / Rs 215
Avg. Daily vol. (6mth)	: 21.3 mn shares
Bloomberg Code	: ICICIBC IB Equity
Promoters Holding	: 0%
FII / DII	: 36% / 30%

Key highlights: (a) Advances growth remained muted at 3% YoY, primarily due to run-off in overseas (down 25% YoY) and corporate book (down 3% YoY); (b) Domestic advances grew 11% YoY, driven by 19% YoY growth in retail book. Retail book now constitutes 53% of overall loans; (c) Margin declined 30 bps QoQ to 3.27%, primarily on account of unfavorable base in Q4 (benefited from interest collection on certain NPAs); and (d) Fresh slippages moderated sharply to Rs 49.8 bn (lowest in last 7 quarters), of which 36.8% was from restructured book (Rs 14.8 bn) and watch-list (Rs 3.6 bn). The balance slippage was mainly from one large account in electronics and engineering segment.

Maintain BUY with SOTP-based TP of Rs 350: We derive comfort from (a) expected resolution of lumpy assets in steel and infra sectors, (b) value unlocking from general insurance and home finance businesses, (c) expectations of lower NPA additions compared to last year and (d) increasing share of domestic retail businesses. We maintain **BUY** with TP of Rs 350, implying 14% upside from CMP. The stock trades at 1.6x/1.4x FY18E/19E P/ABV (adjusted for cost and value of subsidiaries).

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs bn)	97	98	116	133
EPS (Rs)	17	17	18	21
EPS chg (%)	(13.2)	0.6	7.9	14.8
Book value (Rs)	149	166	168	185
Adj. BV (Rs)	135	138	143	162
PE (x)*	11.5	11.4	10.6	9.2
P/ABV (x)*	1.7	1.6	1.6	1.4
RoE (%)	11.8	10.7	11.4	11.8
RoA (%)	1.4	1.3	1.4	1.5
Net NPA (%)	3.0	5.4	4.6	3.9

Source: Company, Axis Capital Note: ABV includes cost of investments
*P/E and P/ABV excludes value & cost of subsidiaries
^Insolvency and Bankruptcy Code (IBC)

Key drivers (%)

	Q2'17	Q3'17	Q4'17	Q1'18
Loan growth (YoY)	11	5	7	3
NIM	3.1	3.1	3.6	3.3
CASA	46	50	50	49
GNPA (%)	6.8	7.9	8.7	8.8

Price performance

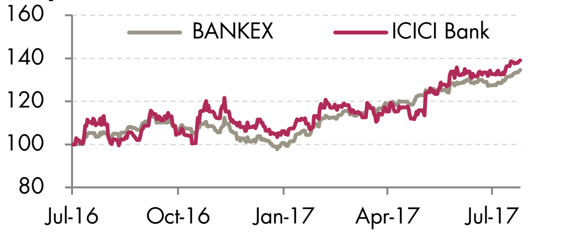


Exhibit 1: Stock of stressed assets

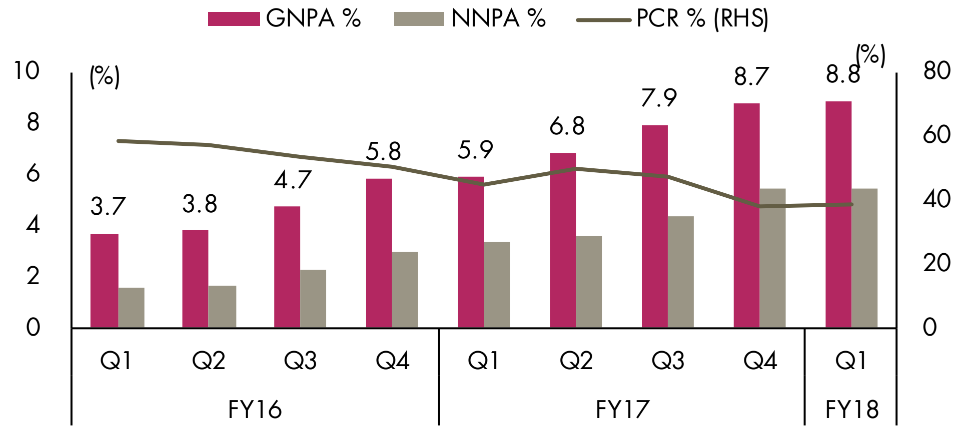
FY17	(Rs bn)	(% of loans)
SDR	38.5	0.8
SRs	34.1	0.7
5/25 (Standard)	26.8	0.6
Standard restructured	5.2	0.1
S4A	4.1	0.1
Watch-list o/s	203.0	4.4

Source: Axis Capital, Company

Note: There may be significant overlap between the watch-list and other stressed accounts

GNPLs were just up 1% QoQ at Rs 431 bn; while ratio was up 10 bps QoQ at 3.27% aggravated by flat advances growth

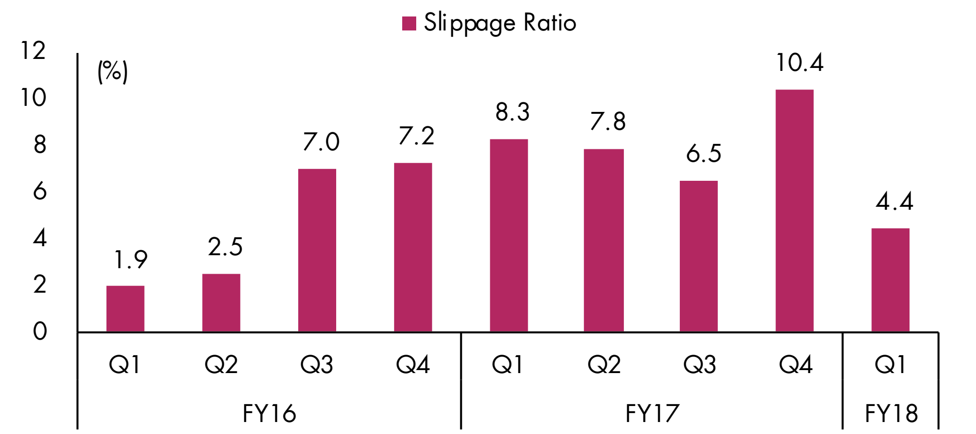
Exhibit 2: Trend in headline asset quality



Source: Company, Axis Capital

Recoveries were also strong due to part recovery of a single cement account, which slipped into NPL in Q4FY17

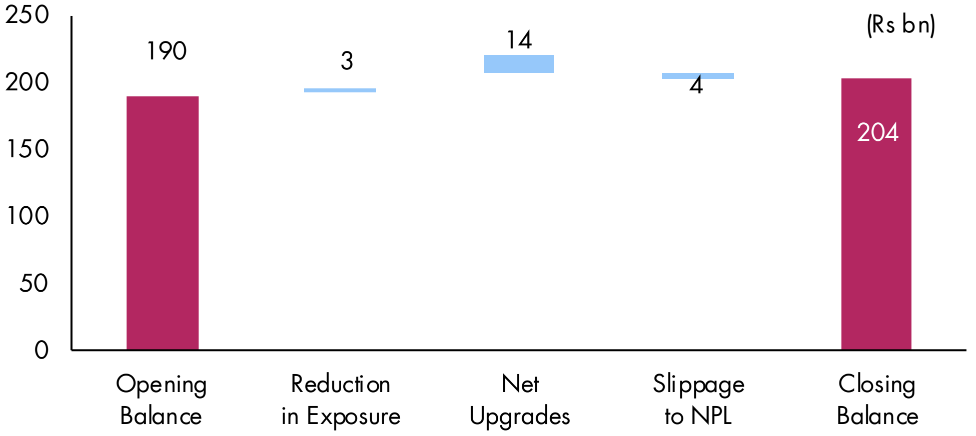
Exhibit 3: Slippage ratio moderated sharply…



Source: Company, Axis Capital

Fresh slippages moderated sharply to Rs 49.8 bn (lowest in last 7 quarters), of which 36.8% was from restructured book (Rs 14.8 bn) and watch-list (Rs 3.6 bn)

Exhibit 4: Movement of watch-list of stressed exposures



Source: Company, Axis Capital Note: movement is from Q4FY17 to Q1FY18

Watch-list increased from Rs 190.4 bn in Q4 to Rs 203.6 bn in Q1

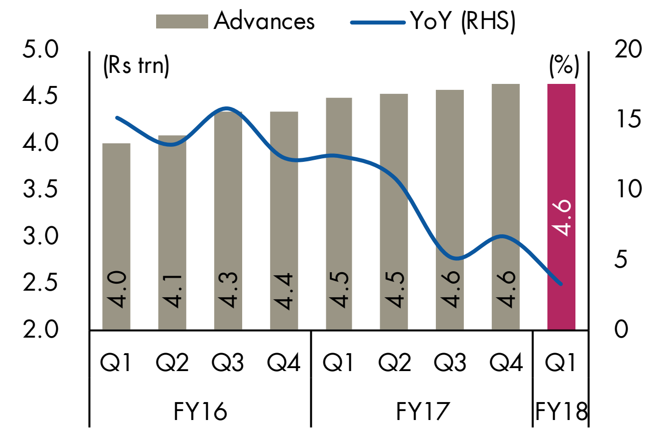
Exhibit 5: Stock of exposures to stressed sectors

Sector	Exposure (Rs bn)	(% of total Exposure)
Power	70.8	0.8%
Mining	55.9	0.6%
Iron/Steel	39.9	0.4%
Cement	3.2	0.0%
Rigs	0.4	0.0%
Promoter Entities of stressed exposures*	33.3	0.4%

Source: Company, Axis Capital *Includes promoter entities where underlying is partly linked to the key sectors

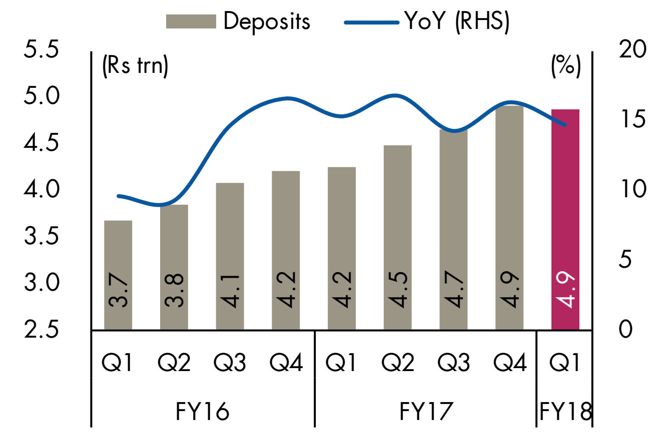
- Advances growth remained muted at 3% YoY, primarily due to run-off in overseas (down 25% YoY) and corporate book (down 3% YoY). International loan book has been reduced to 15% of book, in line with strategy of management to focus on domestic book

Exhibit 6: Advances growth was subdued at 3% YoY



Source: Company, Axis Capital

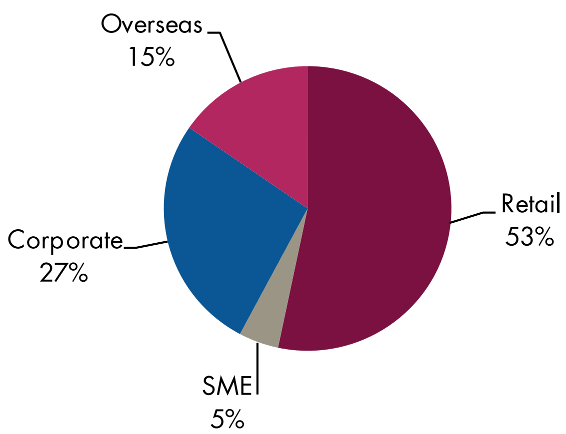
Exhibit 7: Deposits grew healthily at ~15% YoY



Source: Company, Axis Capital

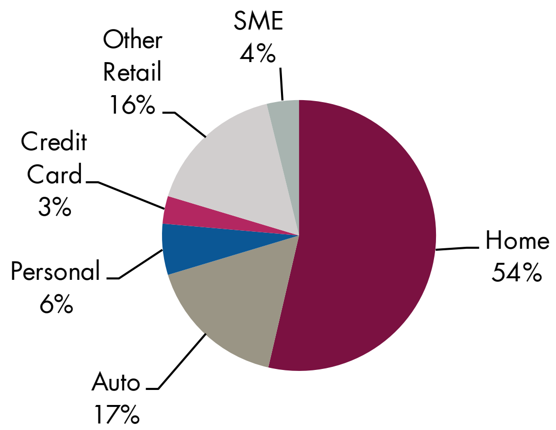
- Domestic advances grew 11% YoY, driven by 19% YoY growth in retail book. The book now constitutes 53% of overall loans

Exhibit 8: Composition of total advances



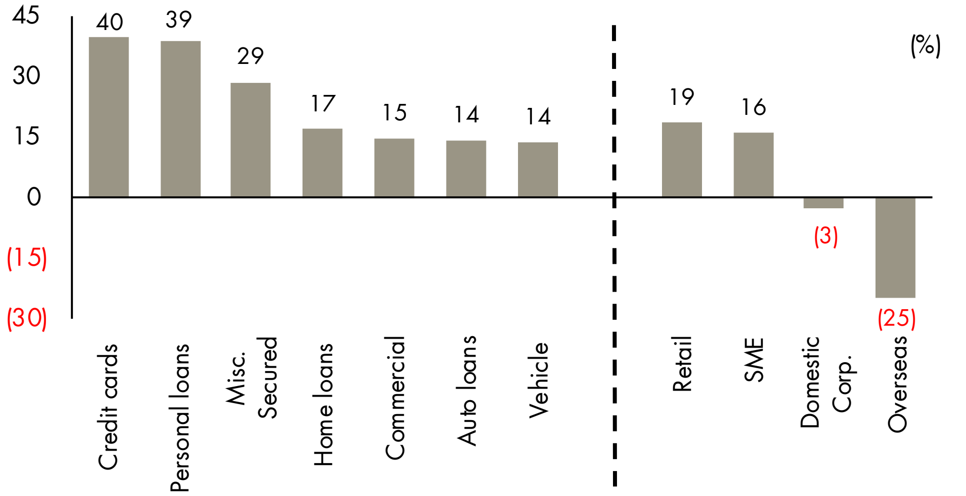
Source: Company, Axis Capital

Exhibit 9: Composition of ICICI Bank's retail book



Source: Company, Axis Capital

Exhibit 10: Retail loans driving growth for ICICI Bank…



Source: Company, Axis Capital

Exhibit 11: Results update

	Quarter ended					12 months ended		
(Rs mn)	Jun-17	Jun-16	% chg	Mar-17	% chg	Mar-18E	Mar-17	% chg
Interest income	134,591	133,303	1	135,685	(1)	572,323	541,563	6
Interest expended	78,693	81,717	(4)	76,064	3	344,291	324,190	6
Net interest income	**55,898**	**51,585**	**8**	**59,622**	**(6)**	**228,032**	**217,373**	**5**
Non-interest income	33,879	34,293	(1)	30,172	12	168,630	195,045	(14)
Net income	**89,778**	**85,878**	**5**	**89,794**	**(0)**	**396,663**	**412,418**	**(4)**
Operating expenses	37,944	33,731	12	38,674	(2)	157,182	147,551	7
Operating profit	**51,833**	**52,147**	**(1)**	**51,120**	**1**	**239,480**	**264,867**	**(10)**
Provision & Contingencies	26,087	25,145	4	28,982	(10)	97,677	152,081	(36)
PBT	**25,746**	**27,002**	**(5)**	**22,138**	**16**	**141,803**	**112,786**	**26**
Tax	5,256	4,679	12	1,892	178	26,234	14,775	78
Net profit	**20,490**	**22,324**	**(8)**	**20,246**	**1**	**115,570**	**98,011**	**18**
Yields & Margins (%)								
Net interest margin	3.3	3.2	11 bps	3.6	(30) bps	3.2	3.3	(7)bps
Cost to income ratio	42	39	299 bps	43	(80) bps	40	36	385 bps
Asset quality								
Gross NPAs (Rs bn)	431	272	59	426	1	424	422	1
Gross NPAs (%)	8.8	5.9	297 bps	8.7	10 bps	8.0	8.8	(75) bps
Net NPAs (Rs bn)	253	150	68	255	(1)	233	252	(8)
Net NPAs (%)	5.4	3.4	206 bps	5.4	(2) bps	4.6	5.4	(86) bps
Provisioning coverage (%)	39	45	(589) bps	38	93 bps	45	40	481 bps
Balance sheet (Rs bn)								
Advances	4,641	4,494	3	4,642	(0)	5,101	4,642	10
Deposits	4,863	4,241	15	4,900	(1)	5,370	4,900	10

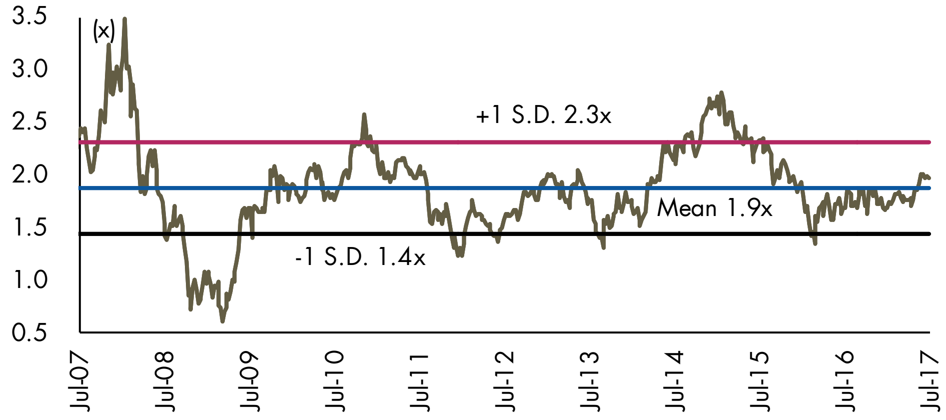
Source: Company, Axis Capital Note: Full year GNPA ratios (FY17) are net of write offs.

Exhibit 12: Sum of the parts valuation

SOTP	Valuation basis	ICICI stake	Value per share (Rs)
JVs			
ICICI Prudential Life Insurance	At CMP	55%	44
ICICI Lombard General Insurance	25x FY19E P/E	63%	27
ICICI Prudential AMC	5% of AUM	51%	10
Value per share from JVs			81
Domestic subsidiaries			
ICICI Securities Ltd.	15x FY19E earnings	100%	12
ICICI Home Finance	2.5x FY19E BV	100%	7
Value per share from Domestic Subs.			19
Overseas banking subsidiaries			
ICICI Bank UK	1.5x trailing BV	100%	7
ICICI Bank Canada	1.5x trailing BV	100%	8
Value per share from Overseas Subs.			15
ICICI Bank (Standalone business)	1.7x FY19E ABV		235
Value per share of ICICI Bank			350

Source: Company, Axis Capital

Exhibit 13: 10 years P/ABV movement



Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	527	542	572	622
Interest expended	(315)	(324)	(344)	(369)
Net interest income	**212**	**217**	**228**	**253**
Non interest income	153	195	169	187
Net income	**365**	**412**	**397**	**441**
Operating expenses	**(127)**	**(148)**	**(157)**	**(170)**
Staff expenses	(50)	(57)	(60)	(64)
Other operating expenses	(77)	(90)	(97)	(106)
Operating profit	**239**	**265**	**239**	**271**
Provisions & contingencies	(117)	(152)	(98)	(98)
Pre-tax profit	**122**	**113**	**142**	**172**
Tax expense	(25)	(15)	(26)	(40)
Profit after tax	**97**	**98**	**116**	**133**
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	97	98	116	133

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	**7,207**	**7,718**	**8,241**	**8,926**
Cash & Balances with RBI	599	757	713	697
Investments	1,604	1,615	1,684	1,745
Advances	4,353	4,642	5,101	5,705
Fixed assets	76	78	84	87
Other assets	576	625	658	691
Total liabilities	**7,207**	**7,718**	**8,241**	**8,926**
Equity capital	12	12	13	13
Preference capital	-	-	-	-
Reserves & surplus	857	957	1,054	1,165
Networth	869	969	1,067	1,177
Borrowings	1,748	1,476	1,421	1,404
Deposits	4,214	4,900	5,370	5,936
Other liabilities & prov.	347	343	352	378

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	17	17	18	21
BV (Rs.)	149	166	168	185
Adj. BV (Rs.)	135	138	143	162
DPS (Rs.)	5	-	3	3
Dividend payout (%)	30	-	14	14
Yields & Margins (%)				
Yield on advances	9.5	8.8	8.7	8.6
Cost of deposit	5.5	5.0	5.0	4.9
Net interest margin	3.5	3.3	3.2	3.3
Asset quality (%)				
Gross NPAs	5.8	8.8	8.0	7.5
Net NPAs	3.0	5.4	4.6	3.9
Credit cost	1.7	3.2	1.8	1.3
Provisioning coverage	50.6	40.2	45.0	50.0
Capital (%)				
Tier-I	13.1	14.4	14.0	13.3
CAR	16.6	17.4	16.8	15.8
Efficiency (%)				
ROA	1.4	1.3	1.4	1.5
ROE	11.8	10.7	11.4	11.8
Cost to income	35	36	40	39
CASA	46	50	49	48
Effective tax rate	20	13	19	23
Growth (%)				
Net interest income	11	2	5	11
Fee income	8	(4)	26	10
Operating expenses	10	16	7	8
Profit after tax	(13)	1	18	15
Advances	12	7	10	12
Deposits	17	16	10	11
Total assets	12	7	7	8

Source: Company, Axis Capital

Note: ABV includes cost of investments

Note: Dividend for FY17 will reflect in FY18 due to reporting requirements under AS-4

Note: Full year GNPA ratios (FY17) are net of write offs

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Research Team

Sr. No	Name	Designation	E-mail
1	Poonam Darade	Research Associate	poonam.darade@axissecurities.in
2	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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