

Stock Update

Listing of subsidiaries, price correction provide opportunity

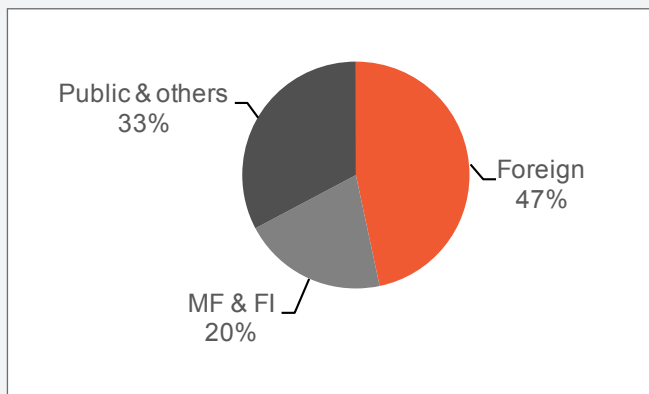
ICICI Bank

Reco: Buy | CMP: Rs283

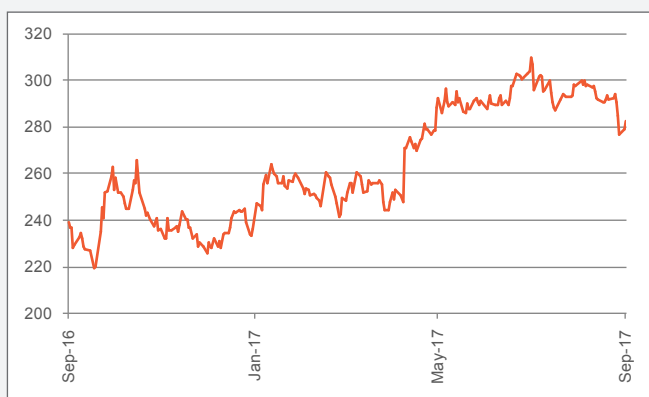
Company details

Price target:	Rs330
Market cap:	Rs181,396 cr
52-week high/low:	Rs314/217
NSE volume: (No of shares)	160.5 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	641.28 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	-4.2	12.8	14.2
Relative to Sensex	-6.3	-6.2	3.9	2.2

Key points

- ♦ **Stake sale in General Insurance to boost other income:** ICICI Bank is selling 3.17 crore shares of ICICI Lombard General Insurance (ILGI) during the IPO, which is likely to fetch the bank ~Rs.2,099 crore (at Rs.661 per share of the upper price end). The sale proceeds will not only boost its other income stream (may be ~8% of FY2017 Pre-Provision Operating Profit) but would also result in value unlocking and better price discovery for the bank's subsidiaries.

The insurance industry in India is shaping up well, but it is still at a relatively low penetration stage, which indicates sustainable high momentum growth for the next few years due to which it is likely to attract long-term investment. With the stake sale in IGLI via IPO, ICICI Bank would not only strengthen its own capital adequacy (total CAR @ 17.8%; comfortable), more importantly the listing would free up the capital infusion pressure on the parent, allowing the subsidiary to tap markets for growth capital.

- ♦ **Reforms/steps positive for corporate credit discipline:** The RBI and the government are taking several steps to address NPA situations. Reforms such as bankruptcy code and SEBI order on interest defaults are all small but necessary steps designed to increase creditor discipline. However, notwithstanding the initial implementation steps, we believe such reforms were much needed and crucial for cleanup and subsequent credit demand in the economy.
- ♦ **Outlook:** Today, ICICI Bank is included in the Systemically Important (too big to fail) category by the RBI, indicating the strength (and relative market share) of its business franchisee. While increased provisioning requirement due to balance sheet cleanup may impact its bottom line in the near term, we expect operational performance to start showing improvement as and when the drag of slippages reduce on operating profit, thereby leading to better margins and faster growth.
- ♦ **Valuation:** Since our last update (dated 27th July 2017, Hold rating), the stock price has corrected by ~9%, which we believe provides upside potential for the stock and factors most near-term negatives in our view. Thus, we have upgraded our rating to Buy with an unchanged price target of Rs.330 per share.

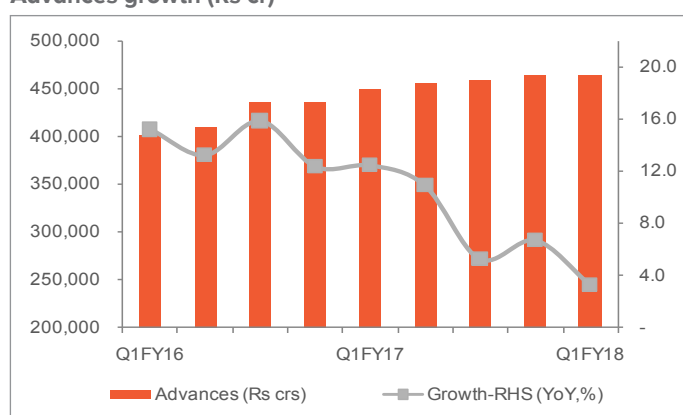
- ♦ **Cleanup provides leaner, more nimble balance sheet, positive for the long term:** The balance sheet cleanup process, undoubtedly would add to near-term profitability pressures (likely haircuts and/or provisions), however we believe such cyclical cleanup is part of the nature of the banking industry, which would help banks to identify mistakes and, thus, strengthen their own balance sheet if properly utilised. ICICI Bank is amongst the top corporate lenders (domestic corporate loans at 27% of the loan book) and

would benefit from such reforms in the long run. Continuing with a pragmatic stance, ICICI Bank has seen reduction in its slippages levels, which is a positive indicator, even as it has consciously slowed down its corporate lending with incremental lending focused more on higher rated corporate or retail borrowers. We believe such measures along with fewer legacy NPLs will help it bounce back faster as growth picks up.

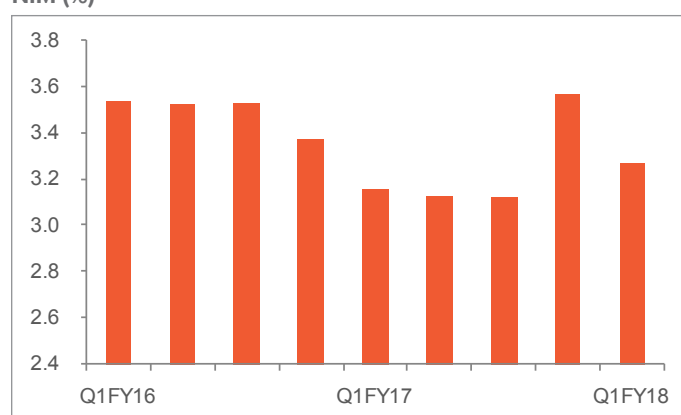
Valuation

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net Interest Income (NII)	19039.6	21224.0	21737.3	24366.4	28924.9
Net profit (Rs cr)	11175.4	9726.3	9801.1	9569.0	12258.6
EPS (Rs)	19.3	16.7	16.8	14.9	21.0
EPS growth (%)	0.1	-0.1	0.0	-0.1	0.4
P/E (x)	14.7	16.9	16.8	19.0	13.4
BVPS (Rs)	130.1	146.4	164.6	153.9	183.0
P/BV (x)	2.2	1.9	1.7	1.8	1.5
RoE (%)	14.5	11.4	10.3	9.4	11.5
RoA (%)	1.8	1.4	1.3	1.1	1.2

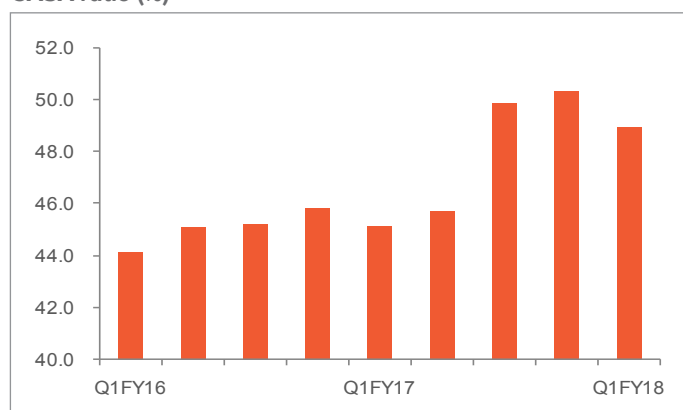
Advances growth (Rs cr)



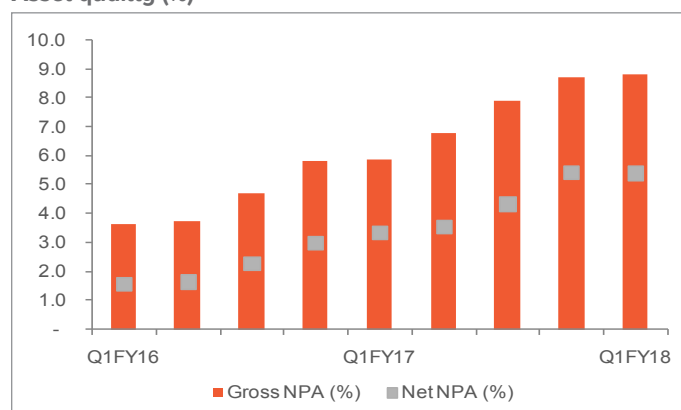
NIM (%)



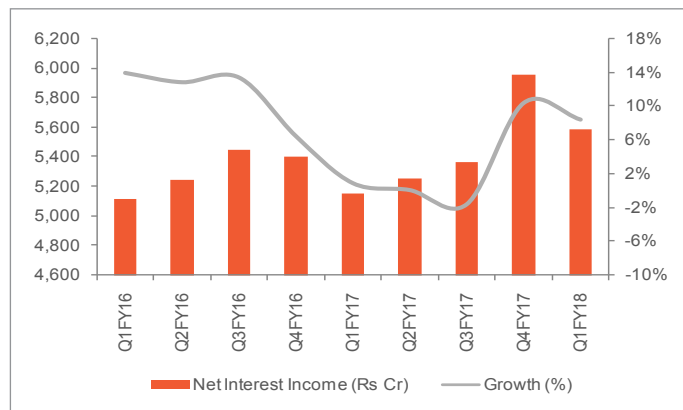
CASA ratio (%)



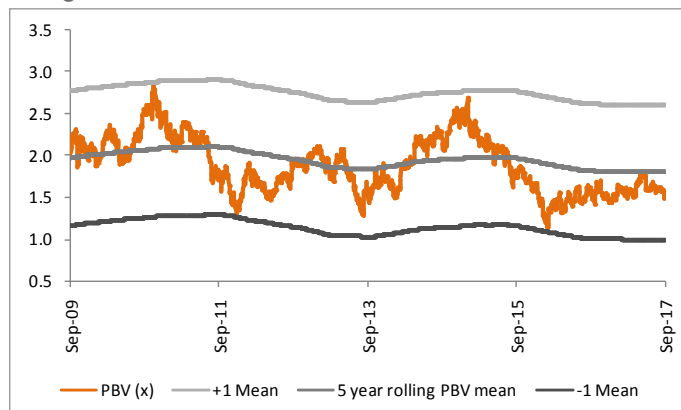
Asset quality (%)



Net interest income



One-year forward P/BV SD band



Profit and loss statement

	Rs cr				
Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income	19,040	21,224	21,737	24,366	28,925
Non-interest income	12,176	15,323	19,504	15,363	16,922
Net total income	31,216	36,547	41,242	39,730	45,846
Operating expenses	11,496	12,684	14,755	16,767	18,601
Pre-provisioning profit	19,720	23,864	26,487	22,962	27,246
Provisions	3,900	11,668	15,208	9,292	8,949
Profit before tax	15,820	12,196	11,279	13,670	18,296
Tax	4,645	2,469	1,478	4,101	6,038
Profit after tax	11,175	9,726	9,801	9,569	12,259

Balance sheet

	Rs cr				
Particulars	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Networth	80,429	89,736	99,951	102,780	110,688
Deposits	361,563	421,426	490,039	568,445	665,081
Borrowings	172,417	174,807	147,556	201,249	235,894
Other liabilities & provisions	31,720	34,726	34,245	39,262	45,408
Total liabilities	646,129	720,695	771,791	911,736	1,057,070
Assets					
Cash & balances with RBI	25,653	27,106	31,702	28,706	33,587
Balances with banks & money at call	16,652	32,763	44,011	25,580	29,929
Investments	186,580	160,412	161,507	243,516	282,472
Advances	387,522	435,264	464,232	533,867	629,963
Fixed assets	4,726	7,577	7,805	8,195	8,605
Other assets	24,997	57,574	62,535	71,871	72,514
Total assets	646,129	720,695	771,791	911,736	1,057,070

Key ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share Data (Rs)					
Earnings	19.3	16.7	16.8	14.9	21.0
Dividend	5.0	5.0	0.0	4.2	5.9
Book value	130.1	146.4	164.6	153.9	183.0
Adj. book value	108.0	113.0	110.6	105.8	126.7
Spreads (%)					
Yield on Advances	9.8	9.5	8.8	8.3	8.3
Cost of Deposits	5.9	5.5	5.0	4.7	4.6
Net interest margins	3.3	3.4	3.1	3.2	3.2
Operating ratios (%)					
Credit to Deposit	107.2	103.3	94.7	93.9	94.7
Cost to income	36.8	34.7	35.8	42.2	40.6
CASA	45.5	45.8	50.4	50.4	49.9
Non interest income / Total income	39.0	41.9	47.3	38.7	36.9
Assets/Equity (x)	8.1	8.0	7.9	8.3	9.2
Return ratios (%)					
RoE	14.5	11.4	10.3	9.4	11.5
RoA	1.8	1.4	1.3	1.1	1.2
Asset Quality ratios (%)					
Gross NPA	3.8	5.8	8.8	7.4	6.4
Net NPA	1.6	3.0	5.4	4.6	4.2
Growth Ratios (%)					
Net interest income	15.6	11.5	2.4	12.1	18.7
Pre-provisioning profit	18.8	21.0	11.0	-13.3	18.7
Profit after tax	13.9	-13.0	0.8	-2.4	28.1
Advances	14.4	12.3	6.7	15.0	18.0
Deposits	8.9	16.6	16.3	16.0	17.0
Valuation ratios (x)					
P/E	14.7	16.9	16.8	19.0	13.4
P/BV	2.2	1.9	1.7	1.8	1.5

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; For any queries or grievances kindly email
igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE: INB/INF011073351 / BSE-CD; NSE: INB/INF/INE231073330 ; MSEI: INB/INF/INE261073333 / INE261073330 ; DP: NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662 ; Mutual Fund-ARN 20669 ; Research Analyst: INH000000370; For any complaints email at igc@sharekhan.com ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T & C on www.sharekhan.com ; Investment in securities market are subject to market risks, read all the related documents carefully before investing.