Institutional Equity Research

ICICI BANK

Banking | India

2QFY18 Result Update | October 31, 2017

CMP* (Rs)	301
Upside/ (Downside) (%)	(5)
Bloomberg Ticker	ICICIBC IN
Market Cap. (Rs bn)	1,929
Free Float (%)	100
Shares O/S (mn)	6,413

HOLD

Target Price: Rs284

Lower Provision Coverage to Drag Earnings

ICICI Bank continued to surprise negatively on core operating performance and credit cost front in 2QFY18. Adjusting for one-time gain from stake sale in ICICI Lombard, its operating profit dipped by 4% QoQ, while provisioning expenses rose by 72.6% QoQ to Rs45bn. However, the Bank witnessed sequential moderation in fresh slippages to Rs46.7bn in 2QFY18 from Rs49.8bn in 1QFY18. Notably, its total stressed asset portfolio (GNPA+ Standard Restructured + Drilldown list) remained unchanged at elevated level of 12.4% of total loan book. We expect higher fresh slippages and elevated credit cost trend to continue in 2HFY18, as the Bank has not factored in divergence from the RBI's Annual Supervisory Assessment for FY17 because it is yet to receive final report from the regulator.

Key Management Commentary & Guidance

- Without providing any insight on the ongoing RBI's Annual Supervisory Assessment for FY17, the Management stated that impact of same will be taken care of in the 3QFY18.
- The Bank expects NPA-related credit cost to remain at current level and has adequately provided for in 2QFY18 out of one-time gain from stake sale in ICICI Lombard via IPO.
- The Bank has outstanding drilldown loan portfolio of Rs199bn as on Sept'17 vs. Rs203.6bn as of Jun'17. It added Rs9.6bn into drilldown list from non-fund based exposure.
- The Bank has total exposure to the tune of Rs72.4bn (fund + non-fund) towards first list of 12 loan accounts referred to IBC/NCLT. Notably, all these loans have already been classified as NPAs and currently the Bank holds PCR of ~56.5% for these accounts. Further, it has total exposure of Rs105bn (fund + non-fund) towards 2nd list of 18 loan accounts referred to IBC/ NCLT, out of which 98.7% loans have already been classified as NPAs and currently the Bank holds PCR of ~31.5% for these accounts.
- The Bank's loan book grew by 4% QoQ on the back of 5.6% and 4.6% QoQ growth in domestic corporate and retail loan book, respectively.

Outlook & Valuation

We expect the Bank's stressed assets and credit cost to rise significantly in 2HFY18, as divergence is likely to be much higher and in-line with other private corporate lenders i.e. Yes Bank & Axis Bank. Its stressed asset portfolio remains uncomfortable at high level of 12.4%, which is one of the highest among large private sector peers. Further, 4.1% of stressed loans are from drilldown list and standard restructured portfolios on which the Bank holds lower PCR. Its specific PCR on gross NPA portfolio also remains lower at 45.8%. Thus, we expect credit cost to remain elevated, which would keep its earnings and return ratio subdued over next 4-6 quarters. **Hence, we maintain our HOLD recommendation on the stock with an unrevised Target Price of Rs284 (valuing parent at 1.5x FY19 Adj. BV and valuing subsidiaries at Rs78 after 25% holding company discount).**

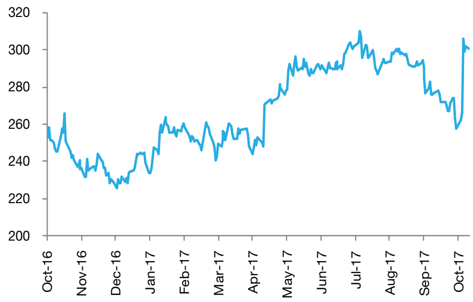
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
NII	212,240	217,373	231,970	258,294
PPP	238,635	264,867	226,204	257,937
PAT	97,263	98,011	65,872	117,663
EPS (Rs)	15.2	15.3	10.3	18.3
P/E (x)	19.8	19.6	29.3	16.4
Adj. BV (Rs)	91.3	116.5	123.7	137.9
P/Adj. BV (x)	3.3	2.6	2.4	2.2
Gross NPA (%)	6.0	9.1	10.0	7.8
Net NPA (%)	3.0	5.4	5.6	4.4
Avg. ROA (%)	1.4	1.3	0.8	1.3
Avg. ROE (%)	10.8	9.8	6.5	10.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.7	1.5	19.4
Relative to Nifty	2.8	(2.0)	(0.6)

Shareholding Pattern (%)	Jun'17	Sep'17
Promoter	-	-
Mutual Funds	15.3	17.0
Insurance Companies	14.1	13.9
Foreign Portfolio Investors	60.0	59.4
Others	10.5	9.8
Total	100.0	100.0

1 Year Stock Price Performance



*Note: * CMP as on October 30, 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)	2Q FY18	2Q FY17	% yoy / bps	1Q FY18	% qoq / bps	1H FY18	1H FY17	% yoy / bps
Interest on Advance	100,903	99,054	1.9	98,473	2.5	199,376	197,427	1.0
YoA - Calculated (%)	8.5	8.8	(24)	8.5	4	8.4	8.7	(32)
Income on Investment	28,789	29,969	(3.9)	28,271	1.8	57,060	58,077	(1.8)
Interest on Balances	1,448	379	281.8	1,985	(27.0)	3,433	880	290.2
Others Interests	4,631	6,993	(33.8)	5,862	(21.0)	10,493	13,313	(21.2)
Interest Earned	**135,771**	**136,394**	**(0.5)**	**134,591**	**0.9**	**270,362**	**269,697**	**0.2**
Interest Expended	78,680	83,861	(6.2)	78,693	(0.0)	157,373	165,578	(5.0)
CoF - Calculated (%)	4.3	4.8	(52)	4.3	(4)	4.3	4.7	(46)
Net Interest Income	**57,091**	**52,533**	**8.7**	**55,898**	**2.1**	**112,989**	**104,118**	**8.5**
NIM - Calculated (%)	3.3	3.2	11	3.3	4	3.3	3.2	11
NIM - Reported (%)	3.3	3.1	14	3.3	-	NA	NA	NA
NII as % of Oper. Income	52.4	36.5	1,585	62.3	(986)	56.9	45.3	1,151
Core Fee Income	25,700	23,560	9.1	23,770	8.1	49,470	45,120	9.6
Fee Inc. as % of OI	23.6	16.4	720	26.5	(289)	24.9	19.7	27
Non Core Fee Income	26,162	67,637	(61.3)	10,109	158.8	36,272	80,369	(54.9)
Non core fee Inc. as % of OI	24.0	47.1	(2,305)	11.3	1,275	18.3	35.0	(48)
Total Other Income	**51,862**	**91,197**	**(43.1)**	**33,879**	**53.1**	**85,742**	**125,489**	**(31.7)**
Other Inc. as % of OI	47.6	63.5	(1,585)	37.7	986	43.1	54.7	(1,151)
Operating Income (OI)	**108,953**	**143,730**	**(24.2)**	**89,778**	**21.4**	**198,731**	**229,608**	**(13.4)**
Core Operating Income	82,791	76,093	8.8	79,668	3.9	162,459	149,238	8.9
Employees Expenses	15,141	15,567	(2.7)	15,112	0.2	30,252	28,473	6.2
Employees Expn. as % of OI	13.9	10.8	307	16.8	(294)	15.2	12.4	282
Other Operating Expenses	23,948	21,802	9.8	22,833	4.9	46,780	42,626	9.7
Other Opert Exp. as % of OI	22.0	15.2	681	25.4	(345)	23.5	18.6	497
Total Operating Expenses	**39,088**	**37,369**	**4.6**	**37,944**	**3.0**	**77,032**	**71,100**	**8.3**
Cost to income Ratio (%)	35.9	26.0	988	42.3	(639)	38.8	31.0	780
Operating Profit (OP)	**69,865**	**106,361**	**(34.3)**	**51,833**	**34.8**	**121,698**	**158,508**	**(23.2)**
Provisions and Conting.	45,029	70,827	(36.4)	26,087	72.6	71,117	95,972	(25.9)
Pro Burden as % of OP	64.5	66.6	(214)	50.3	1,412	58.4	60.5	(211)
Profit Before Tax	**24,836**	**35,534**	**(30.1)**	**25,746**	**(3.5)**	**50,582**	**62,536**	**(19.1)**
Tax Expenses	4,254	4,511	(5.7)	5,256	(19.1)	9,510	9,190	3.5
Effective Tax Rate (%)	17.1	12.7	443	20.4	(329)	18.8	14.7	411
Net Profit	**20,582**	**31,023**	**(33.7)**	**20,490**	**0.4**	**41,072**	**53,346**	**(23.0)**
EPS	3.2	5.3	(39.8)	3.2	0.3	6.4	8.8	(27.3)

Source: Company, RSec Research

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Exhibit 2: NIMs improved sequentially due to decrease in Cost of Fund led by reduction in Savings Bank deposits

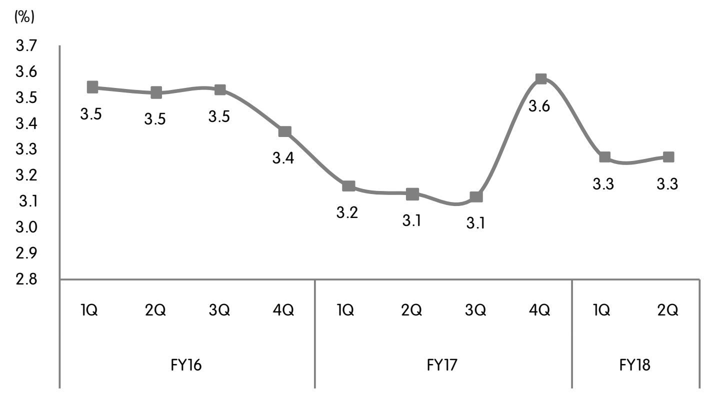
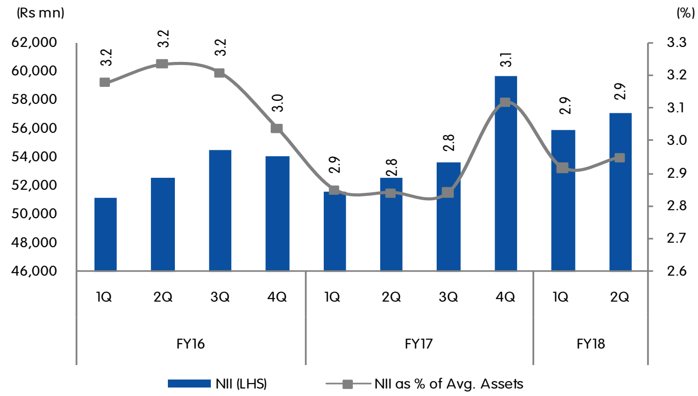


Exhibit 3: NII growth remained subdued due to muted growth in loan book and relatively lower NIMs



Source: Company, RSec Research

Exhibit 4: Other income growth was led by one-time gain from the sale of stake in ICICI Lombard via IPO

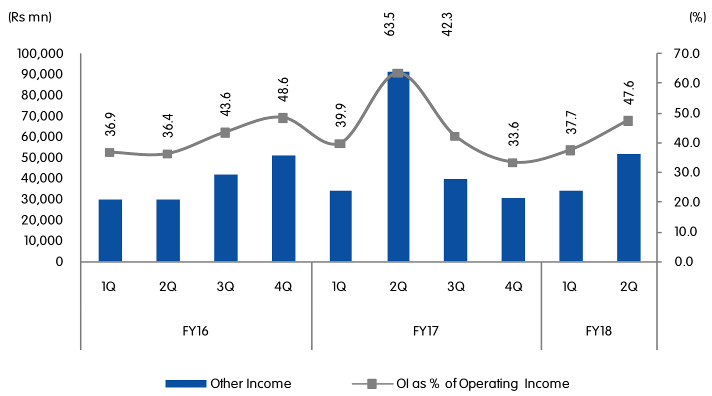
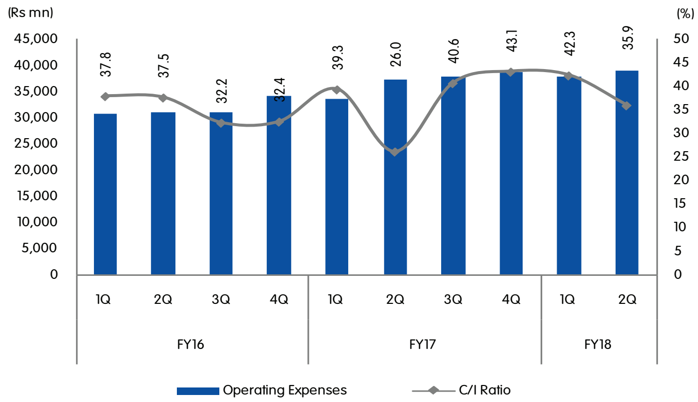


Exhibit 5: C/I ratio declined due to inclusion of one-time gain from sale of stake in ICICI Lombard via IPO



Source: Company, RSec Research

Exhibit 6: Provisioning expenses surged sharply, as the Bank utilised one-time gain to increase its PCR

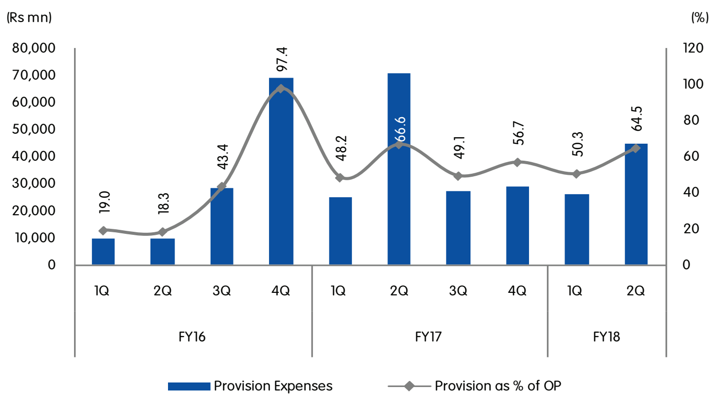
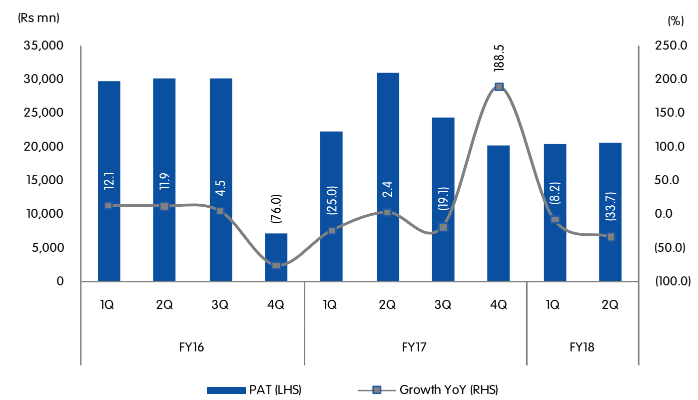


Exhibit 7: Net profit growth remained subdued due to slower growth in core operating income and higher credit cost



Source: Company, RSec Research

Exhibit 8: Balance Sheet Analysis

(Rs bn)	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Net Worth	919.4	950.1	975.1	999.4	1,006.2	1,027.8	2.2	2.8	8.2
Deposit	4,241	4,491	4,653	4,900	4,863	4,986	2.5	1.8	11.0
Savings Deposits	1,382	1,469	1,654	1,718	1,700	1,785	5.0	3.9	21.5
Current Deposits	531	584	666	750	681	684	0.5	(8.8)	17.2
CASA Deposit	1,913	2,053	2,320	2,468	2,380	2,469	3.7	0.0	20.3
Term Deposit	2,327	2,438	2,333	2,432	2,482	2,518	1.4	3.5	3.3
Investments	1,683	1,743	1,690	1,615	1,854	1,799	(3.0)	11.4	3.2
Advances	4,494	4,543	4,575	4,642	4,641	4,828	4.0	4.0	6.3
Total Business	10,418	10,777	10,917	11,158	11,357	11,614	2.3	4.1	7.8
Avg Int. Earning Assets	6,530	6,713	6,876	6,680	6,838	6,984	2.1	4.5	4.0
Risk Weighted Assets (Rs mn)	6,216	6,260	6,277	6,248	6,160	6,268	1.7	0.3	0.1
CAR (%)	16.4	16.7	16.0	17.4	17.3	17.1	(19)	(25)	47
Tier I Capital (%)	13.0	13.3	12.6	14.4	14.4	14.3	(14)	(6)	104

Source: Company, RSec Research

Exhibit 9: Loan book growth improved sequentially led by healthy growth in domestic corporate and retail segments

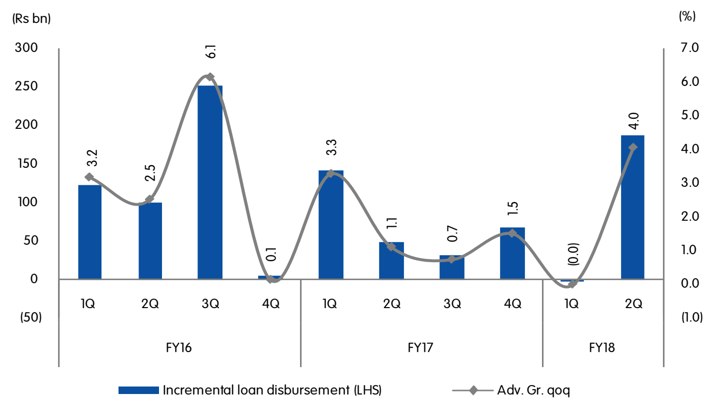
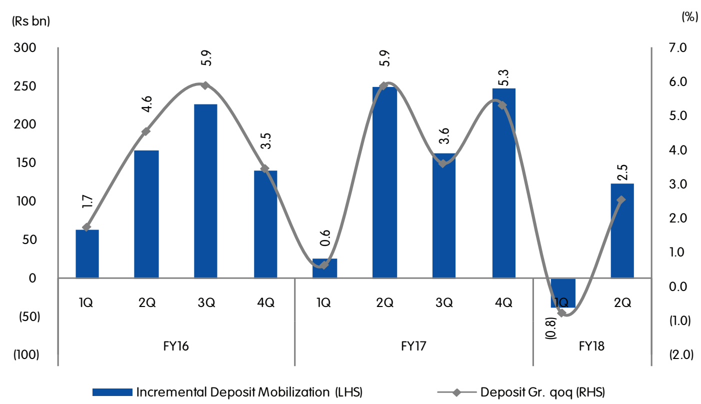


Exhibit 10: Deposit growth was led by strong growth in CASA deposits during the quarter



Source: Company, RSec Research

Exhibit 11: Loan Book Analysis

(Rs mn)	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
SME	179,771	195,330	210,436	222,831	208,834	207,595	(0.6)	(6.8)	6.3
Domestic corporate	1,276,371	1,258,288	1,299,213	1,267,354	1,243,722	1,313,162	5.6	3.6	4.4
Retail	2,085,339	2,175,884	2,237,026	2,404,722	2,473,521	2,587,701	4.6	7.6	18.9
Overseas	952,784	913,054	828,020	747,414	714,676	719,342	0.7	(3.8)	(21.2)

Source: Company, RSec Research

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

(%)	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
SME	4.0	4.3	4.6	4.8	4.5	4.3	(20)	(50)	-
Domestic corporate	28.4	27.7	28.4	27.3	26.8	27.2	40	(10)	(50)
Retail	46.4	47.9	48.9	51.8	53.3	53.6	30	180	570
Overseas	21.2	20.1	18.1	16.1	15.4	14.9	(50)	(120)	(520)

Source: Company, RSec Research

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Exhibit 13: As a result, CASA ratio improved to 49.5% in 2QFY18 from 49% in 1QFY18

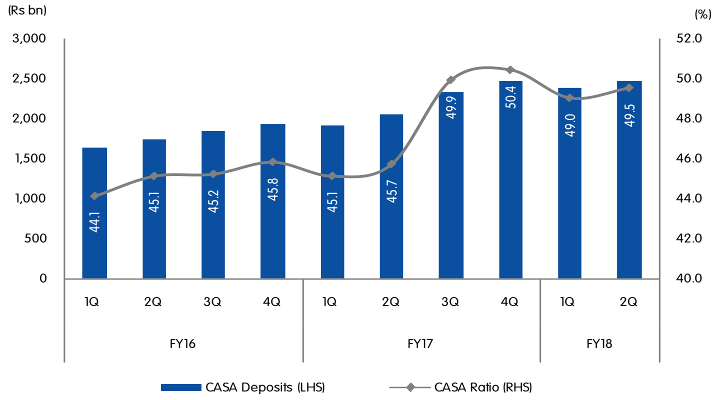
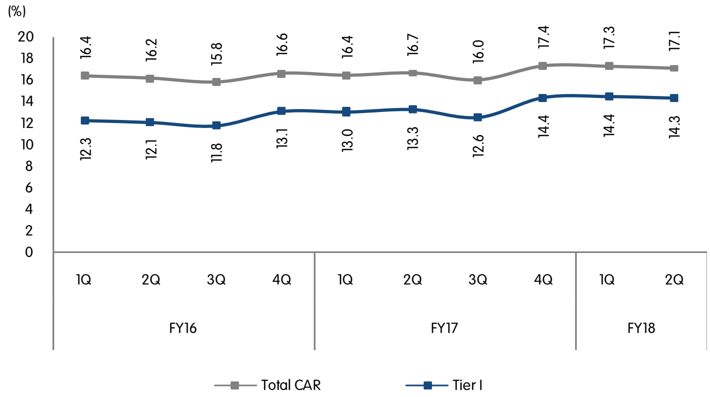


Exhibit 14: Despite higher stressed assets, the Bank is well-capitalised to pursue future growth opportunities



Source: Company, RSec Research

Exhibit 15: Slippages declined sequentially during the quarter under review

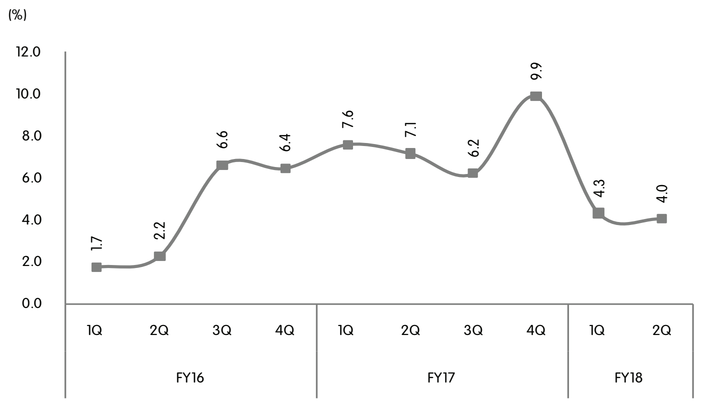
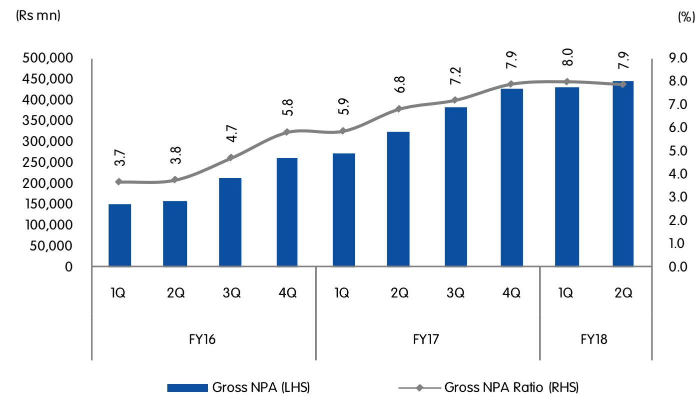


Exhibit 16: Elevated level of stressed assets formation continued to impact asset quality negatively



Source: Company, RSec Research

Exhibit 17: Asset Quality Analysis

(Rs mn)	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Gross Non Performing Assets	271,936	321,786	380,850	425,515	431,476	444,885	3.1	4.6	38.3
Fresh Slippages	82,490	80,290	70,370	112,890	49,760	46,740	(6.1)	(58.6)	(41.8)
Net Non Performing Assets	150,407	162,149	201,549	254,510	253,062	241,298	(4.6)	(5.2)	48.8
GNP Ratio (%)	5.9	6.8	7.2	7.9	8.0	7.9	(12)	(2)	105
NNP Ratio (%)	3.4	3.6	4.0	4.9	4.9	4.4	(43)	(46)	86
NPA Coverage Ratio	44.69	49.61	47.08	40.19	41.35	45.76	441	557	(385)
Restructured Gross Loans	72,410	63,360	64,070	42,650	23,700	20,290	(14.4)	(52.4)	(68.0)
Restructured Loan as % of Adv.	1.6	1.4	1.4	0.9	0.5	0.4	(9)	(50)	(97)

Source: Company, RSec Research

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Exhibit 18: PCR improved due to relatively higher provisioning during the quarter

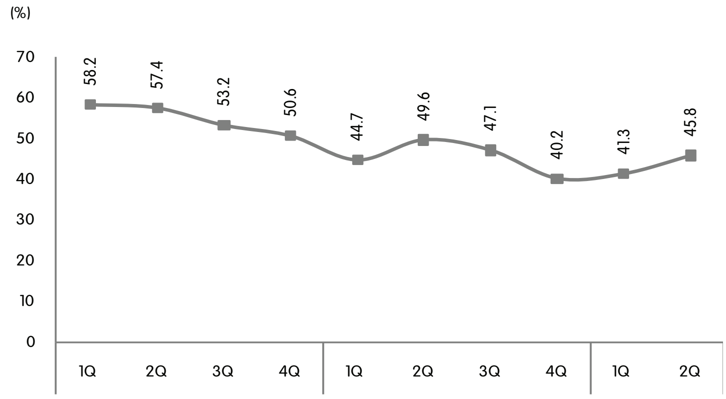
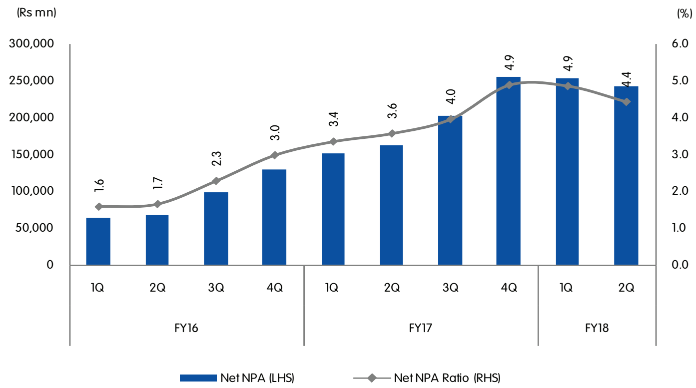


Exhibit 19: Lower GNP formation and higher provisioning expenses led to moderation in net NPA formation



Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Interest Earned	527,394	541,563	551,920	612,710
Interest Expenditure	315,154	324,190	319,950	354,416
Net Interest Income	**212,240**	**217,373**	**231,970**	**258,294**
Fee Income	74,617	80,349	98,390	112,623
Non Fee Income	78,614	114,696	54,668	59,306
Other Income	**153,231**	**195,045**	**153,058**	**171,929**
Net Operating Income	365,471	412,418	385,028	430,223
Core Operating Income	**286,857**	**297,722**	**330,360**	**370,917**
Employee Expenses	50,024	57,337	60,491	64,120
Other Expenses	76,812	90,214	98,333	108,166
Operating Expenses	126,836	147,551	158,824	172,286
Operating Profit	**238,635**	**264,867**	**226,204**	**257,937**
Provisions and Contingencies	116,678	152,081	143,864	102,091
Profit Before Tax	**121,957**	**112,786**	**82,340**	**155,846**
Taxes	24,694	14,775	16,468	38,182
Profit After Tax	**97,263**	**98,011**	**65,872**	**117,663**

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	1,000,631	1,091,921
Net Worth	**897,289**	**999,448**	**1,013,456**	**1,104,747**
Deposits	**4,214,257**	**4,900,391**	**5,292,422**	**6,033,361**
Current deposits	588,699	749,835	820,325	965,338
Saving deposits	1,342,301	1,718,385	1,720,037	1,960,842
Term Deposits	2,283,257	2,432,171	2,752,059	3,107,181
Borrowings	1,748,074	1,475,562	1,655,562	1,805,562
Other Liabilities & Provisions	347,264	342,452	336,705	408,413
Total Liabilities	**7,206,951**	**7,717,915**	**8,298,208**	**9,352,145**
Assets				
Cash & Cash Equivalents	598,687	757,131	555,695	605,972
Investments	1,604,118	1,615,065	1,713,811	1,835,206
Advances	4,352,639	4,642,321	5,292,246	6,086,083
Fixed Assets	75,769	78,052	83,595	89,437
Other Assets	575,737	625,346	652,861	735,448
Total Assets	**7,206,951**	**7,717,915**	**8,298,208**	**9,352,145**

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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	10.3	18.3
Book Value / Share (Rs.)	135.9	151.2	158.0	172.3
ABV/Share (Rs.)	91.3	116.5	123.7	137.9
Dividend Per Share (Rs.)	3.4	3.4	3.0	3.5
Price/ Earnings (X)	19.8	19.6	29.3	16.4
Price/ BV (X)	2.2	2.0	1.9	1.7
Price/Adjusted BV (X)	3.3	2.6	2.4	2.2

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	8.0	14.0
RWA Growth	14.5	24.4	36.5	16.5
Slippages Ratio	4.3	7.7	5.0	2.5
Cost of Fund	4.8	4.6	4.2	4.2
Yield on Fund	8.7	8.2	7.8	7.8
NIM	3.5	3.3	3.3	3.3
Other Income Growth	25.8	27.3	(21.5)	12.3
Cost to Income Ratio	34.7	35.8	41.2	40.0
Average Credit Cost	3.0	3.5	3.1	1.9
Effective Tax Rate	20.2	13.1	20.0	24.5

Growth Rate

Y/E March (%)	FY16	FY17	FY18E	FY19E
Net interest Income	11.5	2.4	6.7	11.3
Other Income	25.8	27.3	(21.5)	12.3
Operating Profit	21.0	11.0	(14.6)	14.0
Provisions Expense	199.2	30.3	(5.4)	(29.0)
PAT	(13.0)	0.8	(32.8)	78.6
Risk Weighted Assets	14.5	24.4	36.5	16.5

Yields / Margins

Y/E March (%)	FY16	FY17	FY18E	FY19E
Cost of Funds (CoF)	4.8	4.6	4.2	4.2
Yield on Advance	9.5	8.8	8.4	8.4
Yield on funds	8.7	8.2	7.8	7.8
Net Interest Margin (NIM)	3.5	3.3	3.3	3.3

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CMP (Rs)	301
Upside/ (Downside) (%)	(5)
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	100.0	100.9
Incremental C/D Ratio	79.8	42.2	165.8	107.1
Investment-Deposit Ratio	38.1	33.0	32.4	30.4
CASA Ratio	45.8	50.4	48.0	48.5

Asset Quality

Y/E March (%)	FY16	FY17	FY18E	FY19E
Gross NPA/Gross Advances	6.0	9.1	10.0	7.8
Net NPA/Net Advances	3.0	5.4	5.6	4.4
Provisioning Burden as % of PPP	48.9	57.4	63.6	39.6
Provisioning Coverage Ratio	50.6	40.2	43.6	43.7
Slippage ratio (%)	4.3	7.7	5.0	2.5
Provis. Exp. to Avg. Advance (%)	2.8	3.4	2.9	1.8

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	1.2	1.3
Core Rev. / Avg. Assets	4.2	4.0	4.1	4.2
Ope. Exp. / Avg. Assets	1.9	2.0	2.0	2.0
Cost to Income	34.7	35.8	41.2	40.0
Emp. cost / Avg. Assets	0.7	0.8	0.8	0.7
Oprt. Exp. / Avg. Assets	1.1	1.2	1.2	1.2
Core OP/ Avg. Assets	2.3	2.0	2.1	2.3
Trading & Ot/ Avg. Assets	1.2	1.5	0.7	0.7
OP/ Avg. Assets	**3.5**	**3.5**	**2.8**	**2.9**
Provisions / Avg. Assets	1.7	2.0	1.8	1.2
NPA prov. / Avg. Assets	1.1	2.0	1.1	0.8
PBT / Avg. Assets	**1.8**	**1.5**	**1.0**	**1.8**
Tax / Avg. Assets	0.4	0.2	0.2	0.4
Effective Tax Rate	20.2	13.1	20.0	24.5
RoA	**1.4**	**1.3**	**0.8**	**1.3**
Leverage (x)	8.0	7.7	8.2	8.5
RoE	10.8	9.8	6.5	10.7

Capital Adequacy Ratio

Y/E March (%)	FY16	FY17	FY18E	FY18E
Total CAR	16.6	17.4	15.4	13.9
Tier 1	13.1	14.4	12.9	11.6

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Rating Guides

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

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