Stock Update

Stable all round performance

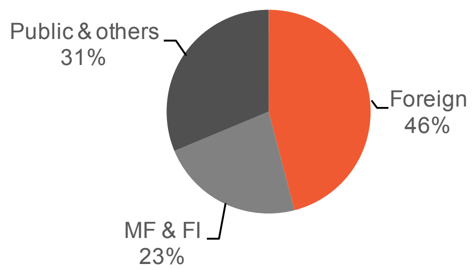
ICICI Bank

Reco: Buy | CMP: Rs301

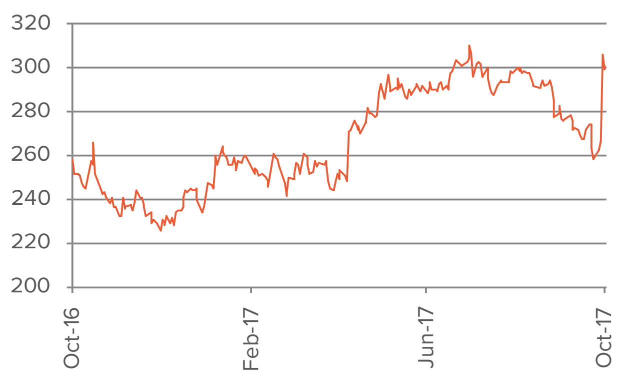
Company details

Price target:	Rs340
Market cap:	Rs193,122 cr
52-week high/low:	Rs314/224
NSE volume: (No of shares)	168.5 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	641.68 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.8	-3.6	19.8	19.2
Relative to Sensex	0.9	-6.0	7.9	-1.1

Key points

- **Improved Asset quality performance, but the crucial RBI's audit report is pending:** ICICI Bank's Gross Non-performing assets (GNPA) increased marginally by 3.1% QoQ on absolute basis. Notably, there was a welcome decline in gross NPA additions during Q2 to Rs4,674 crore (down by 6.1% QoQ ; 41.8% YOY). The additions to NPAs from restructured loans, the drilldown list, devolvement of non-fund based exposure and increase in outstanding due to exchange rate movement and loans to a central PSU owned power company, were about Rs1727 crores.

  The total Provision coverage against the 12 accounts referred to IBC/NCLT was 56.5% and the additional provision of Rs 651 crores (required over three quarters) were made in Q2-2018, utilizing the listing gains of its General Insurance subsidiary. Provision coverage ratio during the quarter improved by 410 BPS QoQ to 59.3%. The drilldown list during the quarter declined to Rs19590 crore from Rs20358 crore on a sequential basis. Loans worth Rs2947 crore slipped during the quarter from outside the watch list which included one large exposure in Oil & Gas sector.

- **Outlook:** ICICI bank has posted decent overall performance with declining trend in stress additions. The book quality has also improved, indicated by the fact that its risk weighted assets increased only by 0.1% yoy compared to 4.8% growth in total assets. However, we believe that the pending RBI's audit results (which may result in divergence in NPAs, a pain point for other peers) remains an overhang on the stock performance in the near term.

- **Valuation:** The stock currently trades at 1.6x FY19E Book Value. Also the fact that its Insurance subsidiaries are performing well, is a positive. The SOTP based valuations provides downside comfort for the stock. We retain our BUY rating on the stock with a revised price target of Rs340.

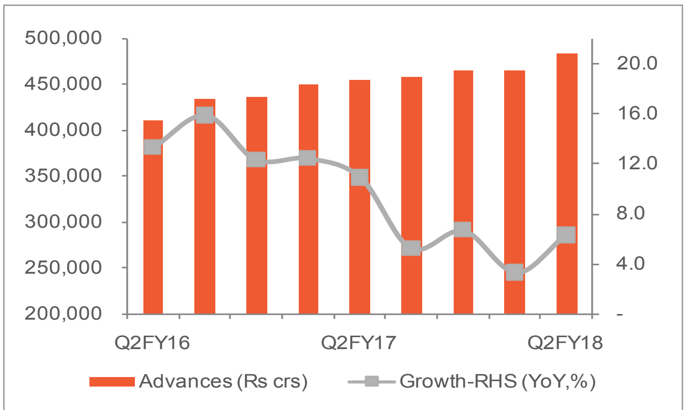
- **Modest operating performance:** ICICI Bank posted reasonable operating performance with net interest income (NII) growth of 8.7% YoY and stable Net Interest Margins (NIMs) during Q2FY18. It's non-interest income jumped 53% QOQ to Rs5186.2 crore in line with expectations as ICICI Bank had made gains of Rs 2012 crore on sale of stake in ICICI Lombard General Insurance, its insurance subsidiary, during the quarter. Provisions during the quarter increased sequentially to Rs4502.9 crore owing to increased provisioning made towards NCLT cases taken up for resolution as directed by RBI. Operating expenses were kept under control and were up by 4.6% YoY. During the quarter, NIM increased by 14BPS to 3.27% YoY (flat on sequential basis) partially owing to reduction in deposit rates and higher CASA. The management has guided the FY18E NIM to be in the range of 3.0 - 3.3%.

- **Domestic loan book respectable, CASA mix improves:** ICICI Bank witnessed a sluggish overall loan book growth of 6.3% YoY owing to decline in overseas advances (down 21.2% YoY). However domestic loan book growth was respectable at 13.2% YoY considering the current credit off-take scenario in the banking industry. Domestic loan book growth was driven by 18.9% YoY increase in the retail loan portfolio while corporate and SME book was slower at 4.4% YOY and 6.3% YoY. Growth in the retail advances was fueled by 17.2% rise in home loans, 35.9% uptick in Credit Cards and 40.9% increase in personal loans. Deposits during the quarter increased by 11.0% YOY which were driven by 20.3% rise in CASA deposits, as a result of which CASA ratio during the quarter increased by 56BPS QoQ to 49.51%. Higher CASA mix helped the bank maintain benign cost of funds thus providing a cushion to margins.

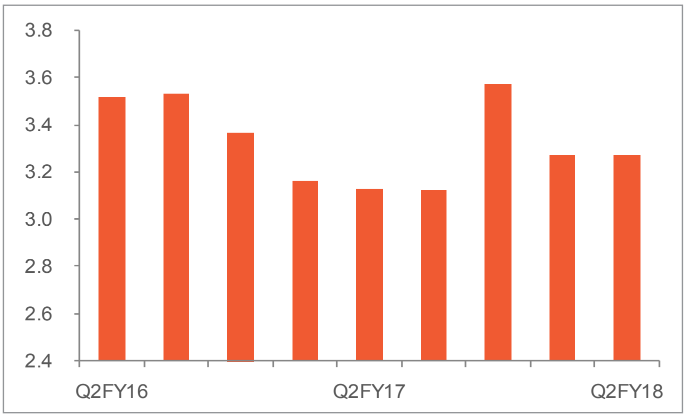
Results Rs cr

Particulars	Q2FY18	Q2FY17	YoY %	Q1FY18	QoQ %
Interest income	13,577.1	13,639.4	-0.5	13,459.1	0.9
Interest expense	7,868.0	8,386.1	-6.2	7,869.3	0.0
Net interest income	5,709.1	5,253.3	8.7	5,589.8	2.1
Non-interest income	5,186.2	9,119.7	-43.1	3,387.9	53.1
Net total income	10,895.3	14,373.0	-24.2	8,977.8	21.4
Operating expenses	3,908.8	3,736.9	4.6	3,794.4	3.0
-Employee expenses	1,514.1	1,556.7	-2.7	1,511.2	0.2
-Other operating expenses	2,394.8	2,180.2	9.8	2,283.3	4.9
Pre-provisioning profit	6,986.5	10,636.1	-34.3	5,183.3	34.8
Provisions	4,502.9	7,082.7	-36.4	2,608.7	72.6
Profit before tax	2,483.6	3,553.4	-30.1	2,574.6	-3.5
Tax	425.4	451.1	-5.7	525.6	-19.1
Profit after tax	2,058.2	3,102.3	-33.7	2,049.0	0.4
Asset quality					
Gross NPLs	44,488.5	32,178.6	38.3	43,147.6	3.1
Gross NPLs (%)	8.79	6.82	197 bps	8.84	-5 bps
Net NPLs	24,129.8	16,214.9	48.8	25,306.2	-4.6
Net NPLs (%)	4.98	3.57	141 bps	5.41	-43 bps
Capital adequacy (%)					
CAR	17.56	16.67	89 bps	17.89	-33 bps
Tier I	14.50	13.26	124 bps	14.80	-30 bps
Key reported ratios (%)					
NIM	3.27	3.13	14 bps	3.27	0 bps
CASA	49.51	45.71	380 bps	48.95	56 bps

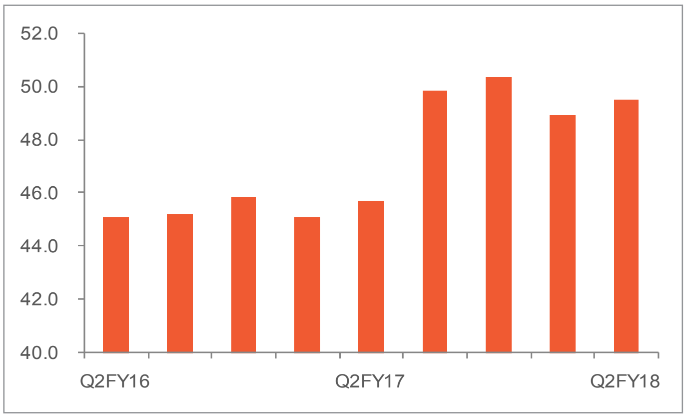
Advances growth (Rs cr)



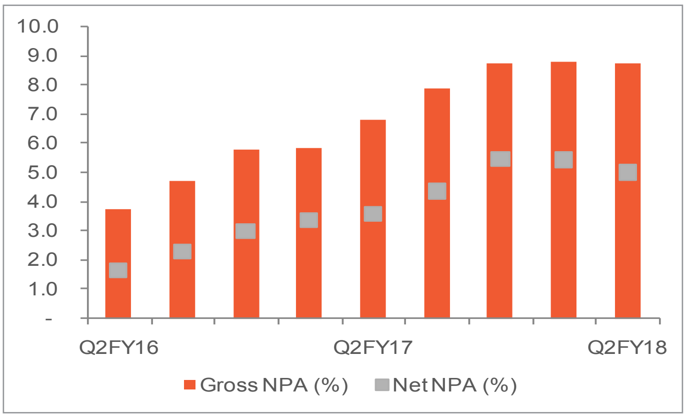
NIM (%)



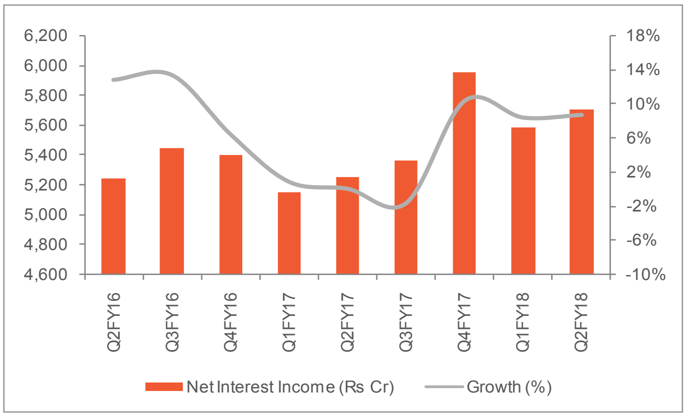
CASA ratio (%)



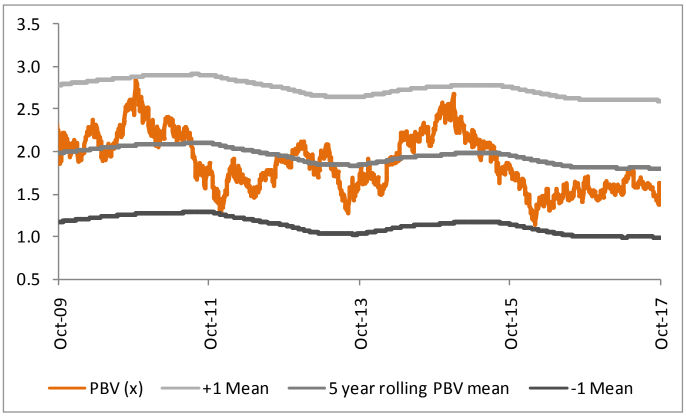
Asset quailty (%)



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	15.6	18.0	17.9	20.2	14.3
P/BV	2.3	2.1	1.8	2.0	1.6
P/ABV	2.8	2.7	2.7	2.8	2.4

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