RESULT UPDATE

ICICI BANK

FY19 to be softer, FY20 likely to normalise

India Equity Research| Banking and Financial Services

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ICICI Bank reported a mixed Q1FY19 performance—while core was steady (PPOP grew 9% YoY), higher provisions (rise in coverage and MTM losses) and lower treasury led to the loss of INR1.2bn. Slippages were restricted to 3%, but the bank – factoring in the entire SME and corporate book – disclosed BB and below-rated portfolio of INR246bn (4.8%) versus INR134bn in FY18. A higher-than-expected potential stress pool along with targeted coverage of 70% will lead to upfronting of credit cost. Thus, we prune our FY19E EPS by 28% while FY20E earnings remain broadly steady. In terms of quality, the bank has been cautiously de-risking its balance sheet, which coupled with robust retail segment and upfront credit cost will drive >15% RoE by FY20. As adjusted BV gets revised by 3%, we are revising the TP to INR360 (from INR 370); maintain 'BUY'. Clarity on management changes and outcome of investigations are the key variables.

Incremental stress lower; credit cost likely to remain elevated

Slippages were curtailed around INR40bn (>3% versus the past six quarters' run rate of 6–7%), largely driven by certain real estate developer delinquencies, rise in existing overseas NPLs (rupee depreciation) and higher slippages in the agri segment (repercussion of farm loan waiver). Meanwhile, the bank disclosed BB and below pool of INR246bn, which also includes less than INR1bn accounts wherein probability of default could be lower, but could be potentially in stress. This along with the bank's aim to raise coverage (upfronted) would lead to higher-than- expected credit cost (3.2%/1.8% in FY19/20 versus earlier 2.4%/1.8% estimates).

Balance sheet de-risking trend continues

ICICI Bank is on track to de-risk its balance sheet, reflected in: a) a better rating mix (A- and above loans at 63% versus 52% in FY16); b) lower concentration risk (exposure to top 20 borrowers at ~12.5% versus >14% in FY14); c) a higher retail propotion; and d) lower RWA/assets (<76% versus 84% in FY16). In our view, these factors position the bank favourably to capitalise on the next cyle and tread back to normalised return ratios.

Outlook and valuations: Value play; maintain 'BUY'

We believe FY19 to be softer given stress upfronting, modest growth and below trend NIMs. Nonethess, ICICI Bank's franchise prowess will enable it to deliver healthy returns by FY20. We maintain **'BUY/SO'** on: a) consistent value accretion in subsidiaries; and b) focus on containing cost and building a granular franchise leading to steady-state RoA/RoE of >2%/15% by FY20E. The stock is trading at 0.9x FY20E P/ABV (core).

Financials **(INR mn)**

Year to March	Q1FY19	Q1FY18	*Growth %*	Q4FY18	*Growth %*	FY18	FY19E	FY20E
Net revenue	99,537	89,779	*10.9*	1,17,003	*(14.9)*	4,04,455	4,58,011	5,33,782
Net profit	(1,196)	20,490	*NA*	10,200	*NA*	67,774	98,407	1,81,370
Dil. EPS (INR)	(0.2)	3.2	*NA*	1.6	*NA*	10.5	15.2	28.1
Adj. BV (INR)						110.9	122.9	147.7
Price/ Adj book (x)						1.4	1.2	1.0
Price/ Earnings (x)						14.6	10.1	5.5

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: ICBK.BO, B: ICICIBC IN)*

CMP	: INR 293
Target Price	: INR 360
52-week range (INR)	: 366 / 255
Share in issue (mn)	: 6,432.1
M cap (INR bn/USD mn)	: 1,886 / 25,503
Avg. Daily Vol.BSE/NSE('000)	: 19,045.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	-	-	-
MF's, FI's & BK's	32.0	31.7	31.9
FII's	35.2	36.4	35.9
Others	32.8	31.8	32.2

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(10.8)	2.3	0.7
3 months	(9.8)	3.7	5.2
12 months	(13.6)	10.7	8.1

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Table 1: Q1FY19 earnings snapshot

(INR mn)	Q1FY19	Q1FY18	Growth (%)	Q4FY18	Growth (%)	Comments
Net interest income	61,019	55,899	*9.2*	60,217	*1.3*	
Other income	38,518	33,879	*13.7*	56,786	*(32.2)*	*Despite gains from ICICI Prudential stake sale, other income was came in lower following lower treasury gains*
Operating expenses	41,453	37,944	*9.2*	41,863	*(1.0)*	
Staff expense	15,139	15,112	*0.2*	15,262	*(0.8)*	
Other opex	26,315	22,833	*15.2*	26,601	*(1.1)*	
Pre prov Op profit (PPP)	58,084	51,834	*12.1*	75,140	*(22.7)*	
Provisions	59,713	26,087	*128.9*	66,258	*(9.9)*	*Provisions elevated on account of higher coverage and higher MTM (bank didn't utilise RBI dispensation to amortise losses)*
Profit before tax	(1,629)	25,747	*NA*	8,882	*NA*	
Provision for tax	(434)	5,257	*NA*	(1,318)	*NA*	
Profit after tax	(1,196)	20,490	*NA*	10,200	*NA*	
EPS (INR)	(0)	3.2	*NA*	1.6	*NA*	
Balance sheet (INR bn)						
Advances	5,163	4,641	*11.3*	5,124	*0.8*	*Overall loan growth supported by 15% YoY growth in domestic advances. This was further supported by retail segment which grew by 20% YoY (now forming 58% of loans versus 47% in FY16)*
Deposits	5,469	4,863	*12.5*	5,610	*(2.5)*	
CD Ratio (%)	94.4	95.4		91.3		
Asset quality (INR bn)						
Gross NPA	535	431	*23.9*	541	*(1.1)*	*Slippages controlled but stress pool of INR246bn could lead to elevated slippages*
Net NPA	242	263	*(8.1)*	279	*(13.3)*	
Gross NPA (%)	8.8	8.8		8.8		
Net NPA (%)	4.2	5.4		4.8		
Provision coverage (%)	54.8	39.0		48.4		Bank aims to raise coverage ratio to 70% levels over next couple of years

Table 2: Potential stress pool raised to include SME and entire corporate book

(INR bn)	Q4FY18	Q1FY19
Gross restructured loan	16	14
Non-fund o/s to restructured loans	4	4
Non-fund o/s to non-performing loans	30	29
Drill-down list	47	44
Other loans under RBI schemes not included above	22	19
Non-fund o/s to borrowers where S4A has been implemented	15	15
Borrowers with o/s greater than INR1.00bn		55
Borrowers with o/s less than INR1.00bn		67
Total stress (ex-NNPLs)	134	246
Total stress (unrecognised) (%)	**2.6**	**4.8**

Source: Company

Table 3: Overall outstanding watch list (including restructured book) at ~INR58bn

(INR bn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Watchlist	196	191	47	44
Restructured book	20	18	15	14
Total	216	209	62	58
Advances	4,828	5,054	5,124	5,163
(%) of net advances	4.5	4.1	1.2	1.1
Total exposure	9,760	9,849	10,265	1,01,210
(%) of total exposure	2.2	2.1	0.6	0.1

Table 4: Drilldown list stands at INR44bn

(INR bn)	Q3FY17	Q4FY17	FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Opening exposures	324.9	275.4	440.7	190.4	203.6	195.9	190.6	47.3
Net reduction in exposure	(21.2)	(5.9)	(47.6)	2.6	(9.6)	(4.9)	(8.4)	0.0
Net rating upgrade to 'investment grade'	1.1	0.7	(2.4)	14.2	4.5	6.4	0.1	2.2
Slippage to non-performing loans	(29.4)	(79.6)	(200.3)	(3.6)	(2.6)	(6.8)	(122.5)	(5.5)
Closing exposures	275.4	190.4	190.4	203.6	195.9	190.6	47.3	44.0

Source: Company

**Note: FY18 outstanding drill down list excludes NFB outstanding to NPLs downgraded from drilldown list*

Table 5: Segment-wise disclosure of bank's watch list

	Q1FY18		Q2FY18		Q3FY18		Q4FY18		Q1FY19	
	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank	(INR bn)	(%) of total bank	(INR bn)	(%) of total bank	(INR bn)	(%) of total bank
Power	70.8	0.8	68.4	0.7	65.3	0.7	12.1	0.1	12.5	0.3
Mining	55.9	0.6	57.5	0.6	57.8	0.6	4.5	0.0	4.3	0.0
Iron/Steel	39.9	0.4	40.1	0.4	44.3	0.4	30.3	0.3	26.8	0.3
Promoter entities	33.3	0.4	25.8	0.3	19.2	0.2	0.0	0.0	0.0	0.0
Others	3.7	0.0	4.1	0.0	4.2	0.0	0.4	0.0	0.4	0.0
Total exp. of stressed segment	203.6	2.2	195.9	2.0	190.6	1.9	47.3	0.4	43.6	0.6
Restructured book	23.7	0.3	20.3	0.2	18.2	0.2	15.1	0.1	15.1	0.0
Total watch list	227.3	2.5	216.2	2.2	208.8	2.1	62.4	0.5	58.7	0.6

Source: Company

Table 6: Exposure to stressed segments has come off significantly

(%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Power	5.1	4.8	5.1	4.8	4.6	4.6
Iron/Steel	3.6	3.6	3.3	3.1	2.8	2.5
Mining	1.8	1.8	1.7	1.6	1.5	1.5
Others	1.5	1.5	1.2	1.3	1.2	1.2

Source: Company

Table 7: Despite elevated stress, provision coverage was raised

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Gross NPA (INR mn)	4,31,476	4,44,885	4,60,390	5,40,625	5,34,649
Gross NPA (%)	*8.8*	*7.9*	*7.8*	*8.8*	*8.8*
Net NPA (INR mn)	2,63,062	2,41,298	2,38,100	2,78,863	2,41,701
Net NPA (%)	*5.4*	*4.4*	*4.2*	*4.8*	*4.2*
Provision coverage (%)	39.0	45.8	48.3	48.4	54.8

Source: Company

Table 8: Loan growth at ~11.3% YoY, CD ratio at ~94.4%

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Advances (INR Bn)	4,641	4,828	5,054	5,124	5,163
Growth Y-o-Y	*3.3*	*6.3*	*10.5*	*10.4*	*11.3*
Growth Q-o-Q (%)	*(0.0)*	*4.0*	*4.7*	*1.4*	*0.8*
Deposits (INR Bn)	4,863	4,986	5,174	5,610	5,469
Growth Y-o-Y	*14.7*	*11.0*	*11.2*	*14.5*	*12.5*
Growth Q-o-Q (%)	*(0.8)*	*2.5*	*3.8*	*8.4*	*(2.5)*
CD ratio (%)	95.4	96.8	97.7	91.3	94.4

Source: Company

Table 9: Retail continues to drive growth

(%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Retail	51.8	53.3	53.6	54.2	56.6	57.5
Domestic Corporate	27.3	26.8	27.2	26.9	25.8	25.4
SME	4.8	4.5	4.3	4.9	5.0	4.6
International	16.1	15.4	14.9	14.0	12.6	12.5

Source: Company

Table 10: NIMs under pressure, improvement key

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
NIM (rep)	3.3	3.3	3.1	3.2	3.2
Cost of funds (cal)	5.0	4.9	4.8	4.6	4.7
Yield on advances (cal)	8.5	8.5	8.3	8.4	8.5

Source: Company

Table 11: CASA ratio at ~50.5%; average CASA at ~46.1%

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Savings (INR bn)	1,700	1,785	1,859	2,010	1,996
Growth Q-o-Q	*(1.1)*	*5.0*	*4.1*	*8.1*	*(0.7)*
Current (INR bn)	681	684	748	890	767
Growth Q-o-Q	*(9.2)*	*0.5*	*9.3*	*19.0*	*(13.8)*
CASA ratio	49.0	49.5	50.4	51.7	50.5
Fixed deposits(INR bn)	2,482	2,518	2,568	2,711	2,706
Growth Q-o-Q	*2.1*	*1.4*	*2.0*	*5.6*	*(0.2)*
Average CASA ratio	45.4	45.2	45.7	45.6	46.1

Table 12: C-I ratio at ~41%, rise driven by softer revenue traction

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Cost-income	42.3	35.9	43.0	35.8	41.6
Opex/assets	2.0	2.0	1.9	2.0	1.9

Source: Company

Table 13: SoTP valuation (FY20)

	Method	AUMs / earnings/ book (INR mn)	Multiple	Value of business (INR mn)	ICICI Bank's holding	Value of ICICI Bank's interest (INR mn)	Value per share (INR)
Bank	Price / adj book	10,53,336	1.3	14,21,214	100.0%	14,21,214	220
Banking Subs	Price / adj book	84,516	0.8	67,613	100.0%	67,613	10
Subsidiary							
Home Finance	Price / adj book	17,711	1.8	31,879	100.0%	31,879	5
Domestic asset management	% of AUM	40,43,398	5.0%	2,02,170	51.0%	1,03,107	16
Venture capital	% of AUM	1,20,000	12.0%	14,400	100.0%	14,400	2
Securities	Price / Earnings	7,700	25.0	1,92,500	100.0%	1,92,500	30
Life insurance	Appraisal value	2,62,648	3.0	7,97,666	52.9%	4,21,726	65
General insurance	PE	12,930	30.0	3,87,900	55.9%	2,16,836	34
Value of subsidiaries							**152**
Value of subs (after 15% holding company discount)							129
Total							**360**

Source: Company

Financial snapshot **(INR mn)**

Year to March	Q1FY19	Q1FY18	*% change*	Q4FY18	*% change*	FY18	FY19E	FY20E
Interest income	147,224	134,592	*9.4*	142,644	*3.2*	549,659	641,493	741,218
Interest exp	86,205	78,693	*9.5*	82,427	*4.6*	319,401	369,662	421,092
Net int. inc. (INR mn)	61,019	55,899	*9.2*	60,217	*1.3*	230,258	271,831	320,126
Other income	38,518	33,879	*13.7*	56,786	*(32.2)*	174,196	186,181	213,655
Net revenues	99,537	89,779	*10.9*	117,003	*(14.9)*	404,455	458,011	533,782
Operating expenses	41,453	37,944	*9.2*	41,863	*(1.0)*	157,039	173,223	191,622
Staff expense	15,139	15,112	*0.2*	15,262	*(0.8)*	59,140	64,340	69,564
Other opex	26,315	22,833	*15.2*	26,601	*(1.1)*	97,900	108,883	122,058
Pre prov op profit(ppop)	58,084	51,834	*12.1*	75,140	*(22.7)*	247,415	284,789	342,160
Provisions	59,713	26,087	*128.9*	66,258	*(9.9)*	173,070	161,780	106,614
Profit before tax	(1,629)	25,747	*NA*	8,882	*NA*	74,345	123,009	235,546
Provision for taxes	(434)	5,257	*NA*	(1,318)	*NA*	6,571	24,602	54,176
PAT	(1,196)	20,490	*NA*	10,200	*NA*	67,774	98,407	181,370
Diluted EPS (INR)	(0.2)	3.2	*NA*	1.6	*NA*	10.5	15.2	28.1
Ratios								
NII/GII (%)	41.4	41.5		42.2		41.9	42.4	43.2
Cost/income (%)	41.6	42.3		35.8		38.8	37.8	35.9
Tax rate (%)	26.6	20.4		(14.8)		8.8	20.0	23.0
Bal. sheet data (INR bn)								
Advances	5,163	4,641	*11.3*	5,124	*0.8*	5,124	5,816	6,722
Deposits	5,469	4,863	*12.5*	5,610	*(2.5)*	5,610	6,319	7,383
CD Ratio	94	95		91		91	92	91
Capital adequacy (%)	18.4	17.7		18.4		17.4	18.4	17.9
Asset quality (INR bn)								
Gross NPA	535	431	*23.9*	541	*(1.1)*	541	541	462
Gross NPA (%)	8.8	8.8		8.8		10.2	8.9	6.5
Net NPA	242	263	*(8.1)*	279	*(13.3)*	279	210	143
Net NPA (%)	4.2	5.4		4.8		5.4	3.6	2.1
Provision coverage (%)	54.8	39.0		48.4		48.4	61.2	69.1
B/V per share (INR)						158.5	163.9	182.1
Adj book value / share						110.9	122.9	147.7
Price/ Adj. book (x)						1.4	1.2	1.0
Price/ Earnings						14.6	10.1	5.5

Change in Estimates

	FY19E			FY20E			
	New	Old	*% change*	New	Old	*% change*	Comments
NII	271,831	275,368	*(1.3)*	320,126	329,412	*(2.8)*	
PPOP	284,789	293,326	*(2.9)*	342,160	351,445	*(2.6)*	
Provisions	161,780	122,049	*32.6*	106,614	105,266	*1.3*	Factoring in rising coverage and up-fronting of provisions
PAT	98,407	137,022	*(28.2)*	181,370	189,558	*(4.3)*	
NIMs	*3.2*	*3.2*		*3.4*	*3.4*		

Key takeaways from ICICI Bank's Q1FY19 conference call

With respect to Asset Quality

- ***Slippages during the quarter were INR40.36bn of which slippages from watch list was INR3.03bn, slippages from restructured book – INR0.82bn.*** Management believes that the bank is at the tail end of the GNPL cycle. Going forward incremental stress creation is likely to be much lower (FY19 will be much lower than seen in FY18).
    - Retail slippages : INR11.2bn (there were slippages of INR3.3bn on Kisan Credit card due to implications of farm loam waiver, total portfolio sixe of KCC is INR160bn), with recovery of INR4.28bn. Of the corporate and SME slippages of INR29.16bn , around INR18.23bn is coming from standard stress (restructured pool, drill down etc). During the quarter there were few builder loans which contributed to slippages (this book now forms INR133bn, 2.6% of book this portfolio has not increased over last six quarters)
    - ***There was significant rupee depreciation during the quarter. Consequent to this the dollar loans which were under earlier NPLs there was a movement and this movement contributed INR10bn***
    - At the overall portfolio level the book is migrating to A- levels reflected in fact that of the overall (52% in FY16 to 63% in Q1FY19). The experience of the bank in this segment indicates that experience has been good even in this cycle.
- Looking at the drill down, there are 2 accounts one in steel and power, while the accounts could continue to be standard but nonetheless there are inherent stress in this segment.
- ***Looking at the BB or below investment grade portfolio (outside of drilldown and various other RBI schemes) the maximum exposure is restricted to INR6bn (Excluding one particular sugar segment).***
- Core operating profit of the bank will continues to improve, but provision in FY19 will continue to be elevated (largely ageing related provisions). ***Maintains the coverage ratio to directionally increase over time and maintains 70% coverage target by FY20***
- **With respect to RBI list:**
    - The Bank had outstanding loans and NFB amounting to INR40.6bn and INR1.8bn respectively, and the provisions held against these outstanding loans increased from 52.6% at FY18 to 87.9% in Q1FY19 (this was due to aeging provisions only, there is one large steel account where bank has provided 100%)
    - The Bank had outstanding loans and NFB of INR92.9bn and INR7.7bn. The provisions held against these outstanding loans rose from 47.8% at FY18 to 60.7% now.
- Outstanding SR book – INR34.4bn

With respect to Growth

- ***Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew 22%, and growth in the corporate segment is driven by non-stressed segments).*** For the bank, overall credit growth was ~ 10.5% YoY/4.7% QoQ,

- Domestic credit growth was 15.1% YoY driven by 20% growth in retail segment (forming ~54% of the overall loans). ***Bank continues to grow Personal Loan and Credit Card (grew by > 40%, albeit on lower base) book with focus on cross sell opportunities to existing customer base .***
- Excluding NPLs, restructured loans and loans to companies included in drilldown exposures, growth in the domestic corporate portfolio was ~ 16%. On the incremental basis there are opportunities for working capital requirement, refinancing opportunities (as stress cases resolves). But the bank maintained that they will be selectively and will evaluate profitable growth. Going forward the bank will be cautious in lending to projects under implementation..
- Growth in SME portfolio was >17% (forming 4.6% of loans).
- International book registered-de-growth of 9.7% YoY (on ruppee basis) and 14.9% (on USD basis). This book has now reduced to 12.5% of overall book

- The bank is confident of sustaining 18-20% growth in retail segments and growth in the SME segment within the range of 15-20% (more granular and increased collateral focus).
- ***Retail fee income is ~75% which is growing at > 18%,*** the management expects the trend to sustain on the retail fee income.
- The average CASA ratio was 46.1% in Q1FY19 (~45.9% in previous quarter)
- ***Domestic NIMs at 3.54% (3.67% in Q4FY18), International NIMs at 0.3% (0.04% in Q4FY18)***. The bank expects to maintain similar level of NIMs henceforth ***with benefit of MCLR re-pricing starting to crystalise.***
  - 10bps of impact due to recovery and collection from NPLs during the quarter which might not be repeated henceforth.

Other highlights

- Bank don't to have any exposure to 10/90 sort of funding schemes.
- Bank has got the approval for signing the inter creditor =agreement, The bank believes this is a step in right direction and there could be good number of cases
- ***Maintains RoE target of 15% by June 2020 and expects to reach 17-18% RoEs post that.***

Key takeaways from ICICI Bank's Q4FY18 conference call

Overall management strategy

- ***The bank has de-risked its balance sheet substantially over the past few years. Proportion of overseas loans is now down to 12.6% of the overall exposure from 26.5% in FY14. Further, 86% disbursement in FY18 were to corporates rated A- and above and exposure to top 10 corporates reduced from 20.3% in FY14 to 14.3% in FY18. Stressed sectors like power, mining etc reduced from 14.8% in FY14 to 10.1% in FY18***
- ***Bank's strategy over the next 3 years will be anchored around***
  - ***PRESERVE*** (1. Preserving digital leadership for better efficiency and 2. Preserving the funding franchise (maintain retail deposits>70%))
  - ***CHANGE*** (1. Hard limit on borrower groups based on rating and track record; 2. by FY20 retails loans will be >60% of total loans; 3. Overseas loans should be <10% by FY20; 4. Focus on recoveries –NNPA to reduce below 1.5% and PCR >70% (including technical and prudential write offs) by FY20
  - ***GROW*** (Overall growth at 15%, retail above 20% with 35% in business banking, PL & CC 40% and Mortgages – 15%)

  Overall targeting growth with quality and sustainability and aim to achieve 15% consolidated RoE by June 2020 (Credit cost assumption at normalized level of 80-100bps of the average loan book and does not include impact of IndAS implementation)
- On a sustainable basis the bank would look to maintain the C/I ratio at ~40% levels
- ***Bank is exploring options to monetize the non-banking assets (INR25bn) for which impairments are made on an annual basis. This would be categorized at other assets and no impact on NPLs.***

With respect to Asset Quality

- NPA additions to be significantly lower in FY19 versus FY18, however credit costs may be elevated
- ***Exposure to 12 accounts NCLT – Fund based is INR60.42bn and NFB is INR 1.94bn FB with total coverage of 52.6%. For NCLT-2 total FB exposure is INR91.27bn and NFB is INR8.38bn with total coverage of 47.8%.***
  - ***All of these are NPLs and the management expects further provision of INR9.87bn in Q1FY19 towards these accounts (over and above ageing provisions)***
- Most of the recoveries and upgrades from a sugar account (sold to international company) and gas based power plant (demerger approved during the quarter). Apart from this, the whole year number would be higher because of the cement account in the first half of the year
  - Recoveries and upgrades came in at INR81.07bn in FY18 as compared to INR25.83bn FY17

With respect to operational metrics

- ***International margins seeing pressure due to higher NPAs and going forward, this pressure should continue given that the book is not growing and hence will look worse.***
- Fee income growth should be maintained in double digits for FY19
  - During the quarter, the bank repatriated CAD100mn from the Canadian subsidiary
- ***Possible margin pressure in the first half due to shift towards MCLR and probable lowering of base rate but should improve in the second half of the year***
- UK subsidiary loss was due to higher provisioning in India linked accounts

Other highlights

- INR0.16bn – interest on IT for FY18
- Current chairman's term ends on 30th June 2018 as per shareholder resolution submitted to RBI

Company Description

Incorporated in 1994, ICICI Bank is India's second largest bank and the largest among private banks with total assets of about ~INR11tn as of Q1FY19. The bank's focus is on retail lending with retail financing representing ~57.7% of total loans and advances. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. Its subsidiaries ICICI venture funds, Pru ICICI AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are amongst the leading companies in their respective fields

Investment Theme

We believe FY19 to be softer given stress upfronting, modest growth and below trend NIMs. Nonethess, ICICI Bank's franchise prowess will enable it to deliver healthy returns by FY20. We maintain 'BUY/SO' on: a) consistent value accretion in subsidiaries; and b) focus on containing cost and building a granular franchise leading to steady-state RoA/RoE of >2%/15% by FY20E. The stock is trading at 0.9x FY20E P/ABV (core).

Key Risks

With banks getting aggressive on retail side maintaining retail traction may turn out to be a challenge.

Deterioration of macro environment can result in higher restructuring and slow down business growth.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Op. metric assump. (%)				
Yield on advances	8.8	8.4	8.5	8.7
Yield on investments	6.4	6.8	7.2	7.4
Yield on asset	8.0	7.3	7.6	7.8
Cost of funds	5.0	4.4	4.5	4.6
Net interest margins	3.2	3.1	3.2	3.4
Cost of deposits	4.1	3.5	3.5	3.6
Cost of borrowings	6.0	6.0	5.8	6.0
Spread	3.0	2.9	3.1	3.2
Tax rate (%)	13.1	8.8	20.0	23.0
Balance sheet assumption (%)				
Credit growth	6.6	10.4	13.5	15.6
Deposit growth	16.3	14.5	12.6	16.8
SLR ratio	19.7	20.6	19.5	19.7
Low-cost deposits	50.4	51.7	53.2	53.9
Gross NPA ratio	8.9	10.2	8.9	6.5
Net NPA / Equity	26.0	27.2	19.8	12.1
Capital adequacy	17.4	18.4	17.9	17.4
Incremental slippage	7.6	6.0	4.7	3.0
Provision coverage	40.8	48.4	61.2	69.1

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	541,563	549,659	641,493	741,218
Interest expended	324,190	319,401	369,662	421,092
Net interest income	217,373	230,258	271,831	320,126
Non interest income	195,045	174,196	186,181	213,655
- Fee & forex income	97,208	105,346	121,364	139,569
- Misc. income	12,077	10,830	14,817	19,087
- Investment profits	85,760	58,020	50,000	55,000
Net revenue	412,418	404,455	458,011	533,782
Operating expense	147,551	157,039	173,223	191,622
- Employee exp	57,337	59,140	64,340	69,564
- Other opex	90,214	97,900	108,883	122,058
Preprovision profit	264,867	247,415	284,789	342,160
Provisions	152,081	173,070	161,780	106,614
Loan loss provisions	142,704	173,070	161,780	106,614
Investment depreciation	1,878	-	-	-
Other provisions	7,500	-	-	-
Profit Before Tax	112,786	74,346	123,009	235,546
Less: Provision for Tax	14,775	6,571	24,602	54,176
Profit After Tax	98,011	67,774	98,407	181,370
Reported Profit	98,011	67,774	98,407	181,370
Shares o /s (mn)	5,857	6,457	6,457	6,457
Adj. Diluted EPS (INR)	16.7	10.5	15.2	28.1
Dividend per share (DPS)	2.5	1.5	8.5	8.5
Dividend Payout Ratio(%)	17.4	16.6	64.8	35.2

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	2.4	5.9	18.1	17.8
Fees growth	(0.1)	8.4	15.2	15.0
Opex growth	16.3	6.4	10.3	10.6
PPOP growth	(8.5)	5.7	24.0	22.3
PPP growth	11.0	(6.6)	15.1	20.1
Provisions growth	30.3	13.8	(6.5)	(34.1)
Adjusted Profit	0.8	(30.9)	45.2	84.3

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	8.8	8.4	8.5	8.7
Yield on investments	6.4	6.8	7.2	7.4
Yield on assets	8.0	7.3	7.6	7.8
Cost of funds	5.0	4.4	4.5	4.6
Net interest margins	3.2	3.1	3.2	3.4
Cost of deposits	4.1	3.5	3.5	3.6
Cost of borrowings	6.0	6.0	5.8	6.0
Spread	3.0	2.9	3.1	3.2
Cost-income	35.8	38.8	37.8	35.9
Tax rate	13.1	8.8	20.0	23.0

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	11,714	12,914	12,914	12,914
Reserves & Surplus	959,622	1,010,501	1,045,121	1,162,704
Net worth	971,336	1,023,415	1,058,035	1,175,618
Sub bonds/pref cap	688,740	738,740	771,940	805,140
Deposits	4,900,391	5,609,752	6,319,266	7,383,236
Total Borrowings	786,822	1,089,846	1,171,459	1,269,366
Other liabilities	342,452	301,964	333,273	374,257
Total liabilities	**7,689,740**	**8,763,717**	**9,653,973**	**11,007,616**
Loans	4,642,321	5,123,953	5,816,306	6,721,915
Cash and Equivalents	757,131	841,694	877,085	976,725
Gilts	1,120,381	1,380,787	1,460,691	1,704,562
Others	494,685	649,155	691,382	737,108
Fixed assets	49,877	50,860	48,397	45,684
Other Assets	625,346	717,268	760,111	821,622
Total assets	**7,689,740**	**8,763,717**	**9,653,973**	**11,007,616**
BVPS (INR)	165.8	158.5	163.9	182.1
Credit growth	6.6	10.4	13.5	15.6
Deposit growth	16.3	14.5	12.6	16.8
EA growth	7.0	14.0	10.6	14.6
SLR ratio	19.7	20.6	19.5	19.7
C-D ratio	98.9	95.3	95.9	94.7
Low-cost deposits	50.4	51.7	53.2	53.9
Provision coverage	40.8	48.4	61.2	69.1
Gross NPA ratio	8.9	10.2	8.9	6.5
Net NPA ratio	5.4	5.4	3.6	2.1
Incremental slippage	7.6	6.0	4.7	3.0
Net NPA / Equity	26.0	27.2	19.8	12.1
Capital adequacy	17.4	18.4	17.9	17.4
- Tier 1	14.4	15.9	15.4	14.9

RoE decomposition (%)

Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	3.2	3.1	3.2	3.4
Fees/Assets	1.6	1.5	1.6	1.7
Invst. profits/Assets	1.3	0.8	0.6	0.6
Net revenues/assets	6.1	5.4	5.4	5.6
Operating expense/assets	(2.2)	(2.1)	(2.1)	(2.0)
Provisions/assets	(2.2)	(2.3)	(1.9)	(1.1)
Taxes/assets	(0.2)	(0.1)	(0.3)	(0.6)
Total costs/assets	(4.6)	(4.5)	(4.3)	(3.7)
ROA	1.4	0.9	1.2	1.9
Equity/assets	13.6	13.3	12.4	11.8
ROAE (%)	10.7	6.8	9.5	16.2

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	16.7	10.5	15.2	28.1
Y-o-Y growth (%)	*0.1*	*(37.3)*	*45.2*	*84.3*
BV per share (INR)	165.8	158.5	163.9	182.1
Adj. BV per share (INR)	106.5	110.9	122.9	147.7
Diluted P/E (x)	9.2	14.6	10.1	5.5
P/B (x)	0.9	1.0	0.9	0.8
Price/ Adj. BV (x)	1.4	1.4	1.2	1.0
Dividend Yield (%)	1.6	1.0	5.5	5.5

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
ICICI Bank	25,503	10.1	5.5	1.2	1.0	9.5	16.2
Axis Bank	20,691	18.3	13.4	2.4	2.1	11.7	14.3
DCB Bank	750	16.2	12.8	1.9	1.6	11.7	13.1
Federal Bank	2,618	12.6	10.0	1.5	1.3	11.1	12.7
HDFC Bank	82,990	27.2	21.7	4.1	3.6	17.3	17.4
IndusInd Bank	17,104	26.6	20.9	4.4	3.7	17.4	18.9
Karnataka Bank	474	5.9	4.8	0.8	0.7	11.3	12.8
Kotak Mahindra Bank	36,336	35.1	28.3	4.8	4.2	14.5	15.7
Yes Bank	12,405	15.9	11.8	3.0	2.5	19.2	21.8
Median	-	18.3	12.8	2.4	2.1	11.7	15.7
AVERAGE	-	19.7	14.9	2.8	2.4	13.7	15.9

Source: Edelweiss research

Additional Data

Directors Data

Chanda Kochhar	Managing Director & CEO	Anup Bagchi	Executive Director
Vijay Chandok	Executive Director	Vishakha Mulye	Executive Director
Uday Chitale	Director	Neelam Dhawan	Director
Radhakrishnan Nair	Director	V K Sharma	Director
Lok Ranjan	Director	Dileep Choksi	Director
M.D.Mallya	Director	Girish Chandra Chaturvedi	Chairman
Sandeep Bakshi	Wholetime Director and COO		

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Deutsche Bank Trust Company Americas	24.11	Life Insurance Corporation of India	9.38
Dodge & Cox	6.94	HDFC Asset Management	4.30
ICICI Prudential Asset Management	2.57	SBI Funds Management	2.23
Reliance Capital Trustee	1.93	Capital Group Companies	1.65
BlackRock	1.64	Birla Sun Life Asset Management	1.53

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
06 Jul 2018	Anirudh Kediyal	Sell	16500.00
27 Jun 2018	Amarjit Singh Walia	Sell	25000.00
25 Jun 2018	Anupam Verma	Sell	18000.00
19 Jun 2018	Praveen Trivedi	Sell	25000.00
01 Jun 2018	Anil Kumar R	Sell	18612.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	HOLD	SU	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SP	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	BUY	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	REDUCE	SU	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SO	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Date: 2018.07.28 00:46:43 +05'30'

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Jul-18	**Bharat Financial Inclusion**	Strong underlying core; smooth IND-AS transition; *Result Update*	1191	Buy
26-Jul-18	**Shriram Transport Finance**	Growth robust; earnings visibility improves; *Result Update*	1411	Buy
26-Jul-18	**Yes Bank**	A mixed bag ; *Result Update*	370	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

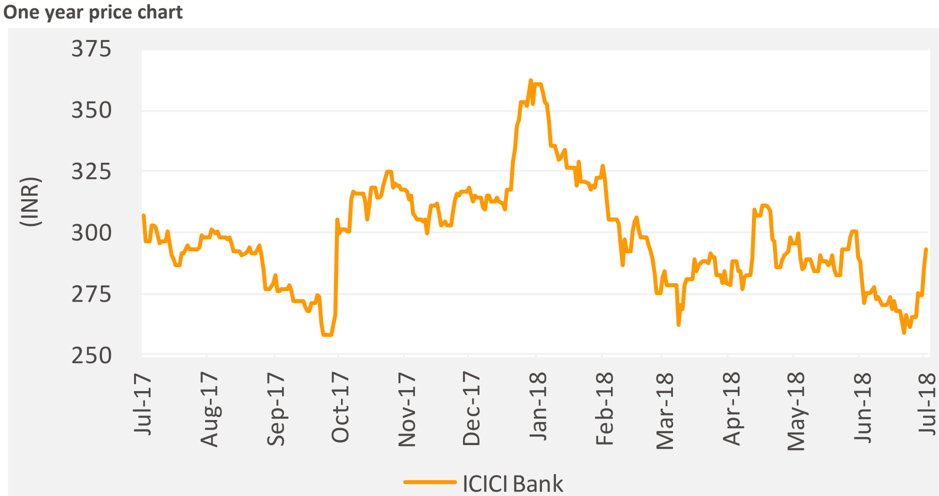
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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