JM FINANCIAL

ICICI Bank | BUY

PCR improves sharply; stress formation reducing

ICICI Bank reported a net loss of INR 1.1bn in 1QFY19, against our estimates of INR 16.8bn of profit as management opted to increase provision coverage on NPLs by c.640bps to 54.8% (provisions of INR20.4bn above estimates). ICICI Bank also disclosed Rs246bn of BB&below exposures in the loan book, which comprise of ~INR125bn of loans that were part of the earlier disclosed drilldown list, restructured loans as well as loans under various dispensations. The new disclosures, worth Rs121bn, are exposures to non-stressed sectors and more granular in nature. As a result, we do no expect significant changes to our provisioning estimates for FY19-20. Given the upfronting of provisions, the haircuts to networth in our estimates are now flowing through P&L and result in earnings cut of 35% / 12% to our FY19E / FY20E earnings. As there is a proportionate reduction on the networth hit, our fully adj.BVPS for FY20E remains unchanged. We build slippages of INR 325.7bn and provisions of INR 222.4bn over FY19-20E which adequately provides for the stress. We maintain our positive stance on ICICI Bank given inexpensive valuations.

- **Asset quality – new BB & below pool is manageable:** Bank disclosed the quantum of its 'BB & below' rated exposure in corporate and SME book at INR246.3bn, of which, nearly 51% was identified as stressed in drilldown list, restructured loans and various other dispensations. Further, >55% of the remaining exposure pertains to accounts with outstanding of <INR1bn. The new disclosures are not alarming due to the moderate quantum and granular nature of it. As overall PCR improved, coverage on the 1st and 2nd list of NCLT cases increased to ~88% and ~61% respectively. In the case of one Iron & steel account (1st list), bank had to make entire 100% provision due to ageing of NPA where resolution is yet to happen. On Power, 30% of the bank's power sector exposure is already identified as stressed in one form or another. Of the remaining, 'A- & above' rated ones constituted nearly 80% of the non-SEB exposure.
- **Growth on healthy trajectory; Core PPOP improving:** Growth came on guided lines as domestic loans grew 15% YoY with retail loans clocking a strong 20% YoY. Improvement in loan book yield (+3bps QoQ) and some recovery in international margins led to stable NIMs (-5bps QoQ). We expect calculated NIMs at 3.2% for FY19E /FY20E with loan book expected to grow at 16% CAGR. Core pre-Provisioning profits (Excluding gains from treasury and stake sale in sub) recovered strongly (+14% YoY) aided by stable trends in operating costs and healthy core fee growth (+17% YoY). We expect stable NIMs and improved growth trajectory to drive PPOP CAGR of 13% over FY18-20E.
- **What are our estimates building?** We build slippages of INR326bn over FY19 and FY20E with majority of it coming from the existing impaired book of 159bn (including security receipts) and some from the freshly disclosed INR121bn of 'BB & Below' rated exposures. PCR ramp in 1QFY18 and recoveries from NCLT cases will partially aid incremental provisioning cost. We had estimated ~INR263 provisions for ICICI Bank over FY19-20 partially through P&L provisioning and the remaining via write-offs to book value. Post 1QFY19, We now take the entire residual provisioning through P&L and expect additional provisions of c163bn over the next 7 quarters with some degree of up-fronting.

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	410
Upside/(Downside)	39.8%
Previous Price Target	410
Change	0.0%

Key Data – ICICIBC IN	
Current Market Price	INR293
Market cap (bn)	INR1,885.9/US$27.5
Free Float	89%
Shares in issue (mn)	6,429.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR6,020.8/US$87.7
52-week range	366/255
Sensex/Nifty	37,337/11,278
INR/US$	68.7

Price Performance

%	1M	6M	12M
Absolute	5.1	-18.7	-4.6
Relative*	-0.9	-21.5	-17.2

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Profit	97.3	98.0	67.8	55.5	127
Net Profit (YoY) (%)	-13.0	0.8	-30.9	-18.2	129.4
Assets (YoY) (%)	11.1	7.1	14.0	12.7	14.2
ROA (%)	1.4	1.3	0.8	0.6	1.2
ROE (%)	11.6	10.7	6.8	5.4	11.7
EPS	16.7	15.2	10.5	8.6	19.8
EPS (YoY) (%)	-3.8	-8.8	-30.9	-18.2	129.4
PE (x)	**17.5**	**19.2**	**27.7**	**33.8**	**14.8**
BV	149.4	150.7	158.8	162.5	175.2
BV (YoY) (%)	19.5	0.9	5.4	2.3	7.9
P/BV (x)	**2.0**	**1.9**	**1.8**	**1.8**	**1.7**

Source: Company data, JM Financial. Note: Valuations as of 27/July/2018

Asset Quality and movement in sub-investment grade exposures

Exhibit 1. Exposure to stressed sectors steadily decreasing

% of total exposure of the Bank	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	June-18
Power	7.3%	6.4%	5.9%	5.5%	5.4%	5.1%	4.6%	4.6%
Iron and Steel	5.2%	5.1%	5.0%	4.8%	4.5%	3.6%	2.8%	2.5%
Mining	2.0%	1.7%	1.7%	1.5%	1.6%	1.8%	1.5%	1.5%
Other (incl cement and rigs)	1.7%	1.9%	2.2%	2.0%	1.8%	1.5%	1.2%	1.2%
Total	**16.2%**	**15.1%**	**14.8%**	**13.8%**	**13.3%**	**12.0%**	**10.1%**	**9.8%**
Sub-investment grade exposures (INR bn)					441	190.4	47.3	44.1
Above as a % of total exposure					4.8%	2.0%	0.46%	0.43%

Source: Company, JM Financial

Exhibit 2. Ex-NPA stressed and 'BB & Below' rated exposures

ICICI Bank stressed exposure outside NPAs (INR mn)	1Q19
Watchlist +std. restructured exposure	58,460
Non-fund based outstanding to existing NPLs	29,290
Other unique restructuring dispensations (S4A, SDR etc.)	37,160
Security reciepts	34,380
Total stressed (a)	1,59,290
Total loans	51,62,887
As a % of loans	3.1%
Including 'BB & below' rated exposures	
Borrowers with o/s greater than >1bn	54,500
Borrowers with o/s less than <1bn	66,880
Total fresh 'BB & below' rated exposures (b)	1,21,380
Total stressed + fresh 'BB & Below' exposures (a+b)	2,80,670
As a % of loans	5.4%

Source: Company, JM Financial

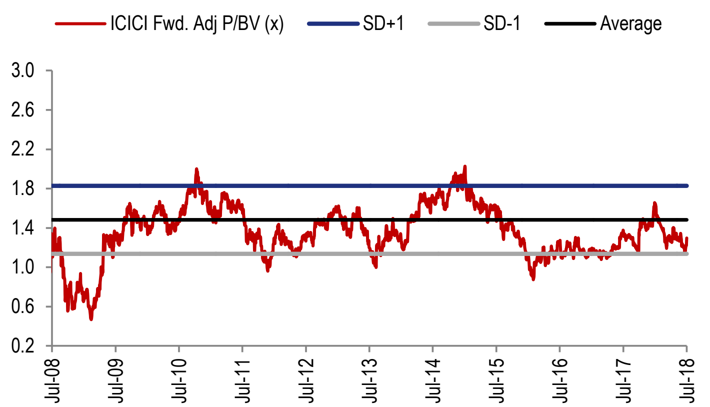
Valuation Summary

Exhibit 3. ICICI Bank: Valuation Summary

ICICI Bank SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
ICICI Bank - Parent	100.0%	1.7x FY20E adj BV	295	72%
ICICI Prudential Life	54.9%	15% discount to Mcap	60	15%
ICICI Prudential MF	51.0%	9% of current AUM	19	5%
ICICI Bank UK	100.0%	1x Current book	4	1%
ICICI Bank Canada	100.0%	0.8x Current book	4	1%
ICICI Bank HF	100.0%	1.5x Current book	5	1%
ICICI Lombard	55.9%	15% discount to Mcap	25	6%
ICICI Securities	79.2%	15% discount to Mcap	12	3%
ICICI Ventures	100.0%	10% of FY19E AUM	2	1%
ICICI Sect. Primary Dealership	100.0%	2x FY19E BV	2	1%
Less: Cost of investments			-16	-4%
Total (Rs.)			410	100%

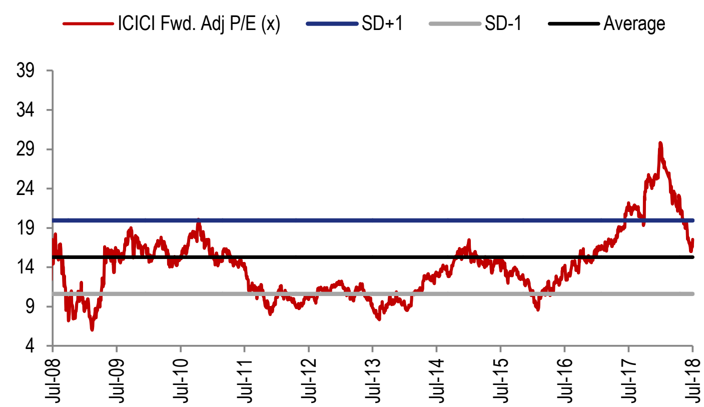
Source: Company, JM Financial

Exhibit 4. One year fwd price to book (x)



Source: Bloomberg, JM Financial

Exhibit 5. One year forward Price to earnings (x)



Source: Bloomberg, JM Financial

ICICI Bank – 1Q19 Trends

Exhibit 6. ICICI Bank : 1Q19 Result summary

Earnings Table (Rs. mn.)	1Q'18	4Q'18	1Q'19	YoY (%)	QoQ (%)
NII	**55,898**	**60,217**	**61,019**	**9.2**	**1.3**
Fee based Income	23,770	27,550	27,540	15.9	(0.0)
Trading Profits	8,580	-6,347	-2,190	(125.5)	(65.5)
Misc Income	1,529	2,386	2,068	35.2	(13.3)
Non-Interest income	**33,879**	**23,589**	**27,418**	**(19.1)**	**16.2**
Total Income	**89,778**	**83,806**	**88,437**	**(1.5)**	**5.5**
Employee Cost	15,112	15,262	15,139	0.2	(0.8)
Other Operating Expenses	22,833	26,601	26,315	15.2	(1.1)
Total Operating Expenses	37,944	41,863	41,453	9.2	(1.0)
Operating Profit	**51,833**	**41,943**	**46,984**	**(9.4)**	**12.0**
Total Provisions	**26,087**	**66,258**	**59,713**	**128.9**	**(9.9)**
PBT	25,746	-24,315	-12,729	(149.4)	(47.6)
Tax	5,256	-1,318	-434	(108.3)	(67.1)
PAT (Pre-Extraordinaries)	**20,490**	**-22,997**	**-12,296**	**NM**	**(46.5)**
Extraordinaries (Net of Tax)	0	33,197	11,100	NM!	(66.6)
Reported Profit	**20,490**	**10,200**	**-1,196**	**NM**	**NM**
Balance sheet (Rs. bn.)					
Deposits	4,863	5,610	5,469	12.5	(2.5)
Net Advances	4,641	5,124	5,163	11.3	0.8
Total Assets	**7,609**	**8,792**	**8,451**	**11.1**	**(3.9)**
Low-cost Deposits (%)	49.0%	51.7%	50.5%	3.2	(2.2)
Loan-Deposit ratio (%)	95.4%	91.3%	94.4%	(1.1)	3.4
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	4,31,476	5,40,625	5,34,649	23.9	(1.1)
Net NPAs (Rs. mn.)	2,53,062	2,78,863	2,41,701	(4.5)	(13.3)
Gross NPA (%)	8.95%	10.04%	9.80%	9.5	(2.4)
Net NPA (%)	5.45%	5.44%	4.68%	(14.1)	(14.0)
Coverage Ratio (%)	41.3%	48.4%	54.8%	32.5	13.2
Capital Adequacy					
Tier I (%)	14.59%	15.92%	15.84%	1.3	(0.1)
CAR (%)	17.69%	18.42%	18.35%	0.7	(0.1)
Du-pont Analysis					
NII / Assets (%)	2.92%	2.85%	2.83%	(0.1)	(0.0)
Non-Interest Inc. / Assets (%)	1.77%	1.11%	1.27%	(0.5)	0.2
Operating Cost / Assets (%)	1.98%	1.98%	1.92%	(0.1)	(0.1)
Operating Profits / Assets (%)	2.71%	1.98%	2.18%	(0.5)	0.2
Provisions / Assets (%)	1.36%	3.13%	2.77%	1.4	(0.4)
ROA (%)	**1.07%**	**0.48%**	**-0.06%**	**(1.1)**	**(0.5)**

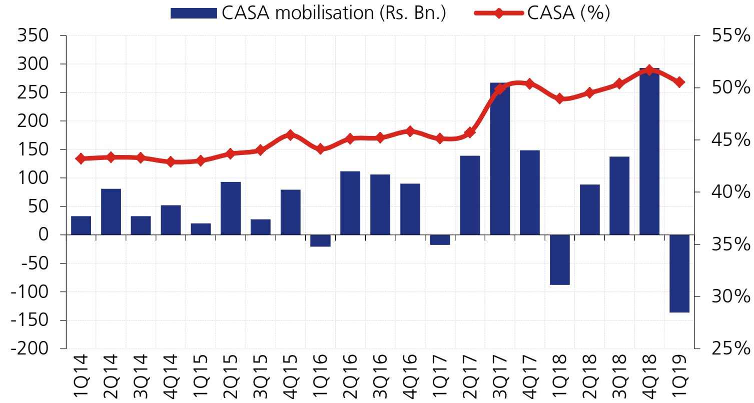
Source: Company, JM Financial

Exhibit 7. ICICI Bank : Deposit mix

Deposits Mix (Rs bn)	1Q'18	4Q'18	1Q'19	YoY (%)	QoQ (%)
Current	681	890	767	12.7%	-13.8%
Saving	1,700	2,010	1,996	17.4%	-0.7%
Time	2,482	2,711	2,706	9.0%	-0.2%
Total Deposits	**4,863**	**5,610**	**5,469**	**12.5%**	**-2.5%**
Current	14.0%	15.9%	14.0%	0.0%	-1.8%
Saving	35.0%	35.8%	36.5%	1.5%	0.7%
CASA	**49.0%**	**51.7%**	**50.5%**	**1.6%**	**-1.2%**
Time	51.0%	48.3%	49.5%	-1.6%	1.2%
Total	**100%**	**100%**	**100%**		

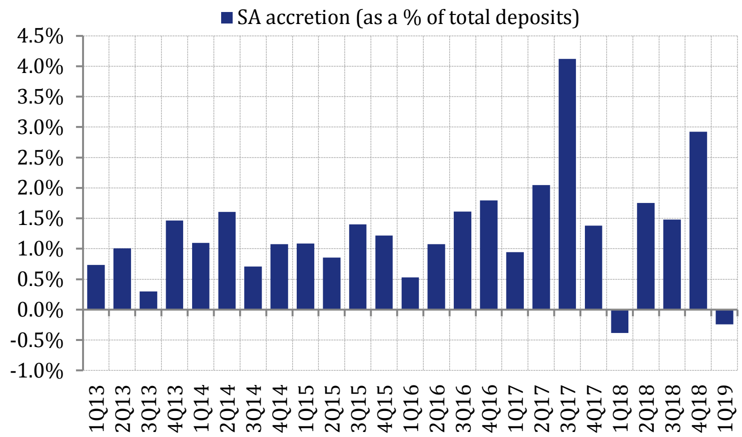
Source: JM Financial, Company

Exhibit 8. ICICI Bank : CASA trends



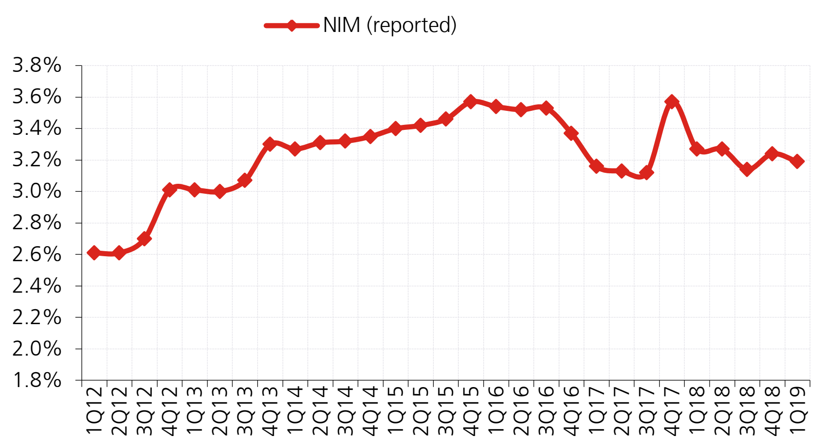
Source: Company, JM Financial

Exhibit 9. ICICI Bank : SA accretion



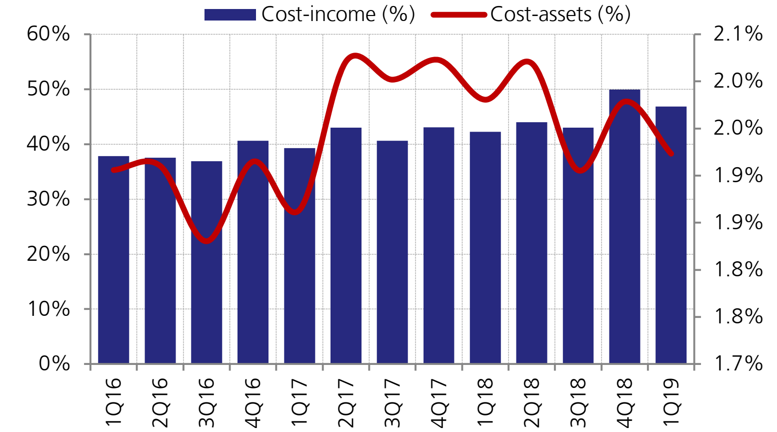
Source: Company, JM Financial

Exhibit 10. ICICI Bank: Reported Global NIM (%)



Source: Company, JM Financial

Exhibit 11. ICICI Bank : Cost ratios have been volatile due to pressure on core income



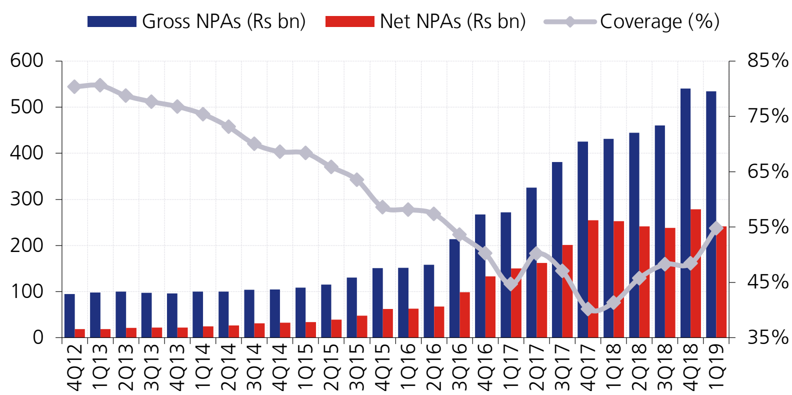
Source: Company, JM Financial

Exhibit 12. ICICI Bank : Trends in loan mix and margins

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Domestic loan mix (%)	79.9%	81.9%	83.9%	84.6%	85.1%	86.0%	87.4%	87.5%
Overseas loan mix (%)	20.1%	18.1%	16.1%	15.4%	14.9%	14.0%	12.6%	12.5%
Domestic NIM (%)	3.41%	3.51%	3.96%	3.62%	3.57%	3.53%	3.67%	3.54%
Overseas NIM (%)	1.65%	0.83%	1.01%	0.73%	0.95%	0.29%	0.04%	0.30%
Global NIM (%)	**3.13%**	**3.12%**	**3.57%**	**3.27%**	**3.27%**	**3.14%**	**3.24%**	**3.19%**

Source: Company, JM Financial

Exhibit 13. ICICI Bank – NPL trends



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR bn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Interest Income	212.2	217.4	230.3	265.0	306.6
Profit on Investments	4.2	29.4	4.7	5.0	5.0
Exchange Income	22.7	13.6	14.7	11.4	10.8
Fee & Other Income	92.6	95.3	101.5	116.2	132
Non-Interest Income	**119.5**	**138.2**	**120.9**	**132.5**	**148.3**
Total Income	**331.7**	**355.6**	**351.1**	**397.5**	**455**
Operating Expenses	126.8	147.6	157.0	178.9	205.9
Pre-provisioning Profits	**204.9**	**208.0**	**194.1**	**218.6**	**249.0**
Loan-Loss Provisions	67.0	143.5	186.2	155.2	67.2
Provisions on Investments	1.7	6.1	0.0	0.0	0.0
Others Provisions	48.0	2.5	-13.1	0.0	0
Total Provisions	**116.7**	**152.1**	**173.1**	**155.2**	**67**
PBT	**88.2**	**56.0**	**21.0**	**63.4**	**182**
Tax	17.9	14.8	6.6	19.0	54.5
PAT (Pre-Extraordinaries)	**70.3**	**41.2**	**14.5**	**44.4**	**127**
Extra ordinaries (Net of Tax)	27.0	56.8	53.3	11.1	0.0
Reported Profits	**97.3**	**98.0**	**67.8**	**55.5**	**127**
Dividend paid	31.9	14.5	11.3	32.1	45.0
Retained Profits	**65.4**	**83.5**	**56.5**	**23.3**	**82.2**

Source: Company, JM Financial

Balance Sheet (INR bn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Equity Capital	11.6	11.7	12.9	12.9	12.9
Reserves & Surplus	857.5	957.4	1,008.3	1,031.6	1,113.8
Deposits	4,214.3	4,900.4	5,609.8	6,339.0	7,321.6
Borrowings	1,748.1	1,475.6	1,828.6	2,158.3	2,462.2
Other Liabilities	347.3	342.5	302.0	332.2	365.4
Total Liabilities	**7,178.8**	**7,687.5**	**8,761.5**	**9,873.9**	**11,275.8**
Investments	1,604.1	1,615.1	2,029.9	2,064.6	2,363.0
Net Advances	4,352.6	4,642.3	5,124.0	5,866.9	6,864.3
Cash & Equivalents	879.3	757.1	841.7	956.1	1,099.2
Fixed Assets	47.6	47.6	48.6	52.8	58.1
Other Assets	295.1	625.3	717.3	933.5	891.3
Total Assets	**7,178.8**	**7,687.5**	**8,761.5**	**9,873.9**	**11,275.8**

Source: Company, JM Financial

Key Ratios

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Growth (YoY) (%)					
Deposits	16.6	16.3	14.5	13.0	15.5
Advances	12.3	6.7	10.4	14.5	17.0
Total Assets	11.1	7.1	14.0	12.7	14.2
NII	11.5	2.4	5.9	15.1	15.7
Non-interest Income	-1.9	15.7	-12.5	9.7	11.9
Operating Expenses	10.3	16.3	6.4	13.9	15.0
Operating Profits	3.9	1.5	-6.7	12.6	13.9
Core Operating profit	10.4	-11.0	6.0	12.8	14.2
Provisions	199.2	30.3	13.8	-10.3	-56.7
Reported PAT	-13.0	0.8	-30.9	-18.2	129.4
Yields / Margins (%)					
Interest Spread	2.5	2.6	2.7	2.9	2.9
NIM	3.3	3.1	3.1	3.1	3.2
Profitability (%)					
Non-IR to Income	36.0	38.9	34.4	33.3	32.6
Cost to Income	38.2	41.5	44.7	45.0	45.3
ROA	1.4	1.3	0.8	0.6	1.2
ROE	11.6	10.7	6.8	5.4	11.7
Assets Quality (%)					
Slippages	4.4	7.9	6.8	3.8	2.5
Gross NPA	5.8	8.8	10.0	8.2	6.6
Net NPAs	3.0	5.4	5.4	3.5	2.6
Provision Coverage	50.6	40.2	48.4	60.0	62.0
Specific LLP	1.6	3.3	3.8	2.8	1.0
Net NPAs / Networth	14.9	26.0	27.3	19.5	15.9
Capital Adequacy (%)					
Tier I	13.1	14.4	15.9	14.5	13.8
CAR	16.6	17.4	18.4	17.2	16.5

Source: Company, JM Financial

Dupont Analysis (%)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
NII / Assets	3.1	2.9	2.8	2.8	2.9
Other Income / Assets	1.8	1.9	1.5	1.4	1.4
Total Income / Assets	4.9	4.8	4.3	4.3	4.3
Cost / Assets	1.9	2.0	1.9	1.9	1.9
PBP / Assets	3.0	2.8	2.4	2.3	2.4
Provisions / Assets	1.7	2.0	2.1	1.7	0.6
PBT / Assets	1.3	0.8	0.3	0.7	1.7
Tax rate	20.3	26.4	31.3	30.0	30.0
ROA	1.4	1.3	0.8	0.6	1.2
RoRWAs	1.7	1.6	1.1	0.8	1.7
Leverage (x)	8.2	8.1	8.3	9.0	9.7
ROE	11.6	10.7	6.8	5.4	11.7

Source: Company, JM Financial

Valuations

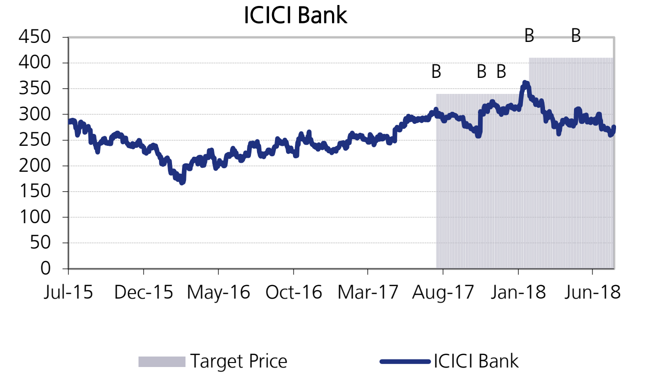
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shares in Issue	6,429.1	5,815.8	6,429.1	6,429.1	6,429.1
EPS (INR)	17.4	16.7	15.2	10.5	8.6
EPS (YoY) (%)	13.9	-3.8	-8.8	-30.9	-18.2
PER (x)	16.8	17.5	19.2	27.7	33.8
BV (INR)	125	149	151	159	162
BV (YoY) (%)	9.9	19.5	0.9	5.4	2.3
ABV (INR)	122	141	131	141	155
ABV (YoY) (%)	7.7	14.9	-6.8	7.2	9.9
P/BV (x)	2.3	2.0	1.9	1.8	1.8
P/ABV (x)	2.4	2.1	2.2	2.1	1.9
DPS (INR)	4.9	5.5	2.3	1.8	5.0
Div. yield (%)	1.7	1.9	0.8	0.6	1.7

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
27-Jul-17	Buy	340	
27-Oct-17	Buy	340	0.0
6-Dec-17	Buy	340	0.0
1-Feb-18	Buy	410	20.6
7-May-18	Buy	410	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610
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