INDIA

BUY

CENTRUM

ICICI Bank

Financials

Result Update 30 July 2018

On a corrective path

We retain BUY on ICICI Bank with SOTP based TP unchanged at Rs360. Q1'19 results were broadly in-line with our estimates on operational / asset quality front. Core operating profit remains healthy (+13% YoY); new NPA addition moderates (slippages at 3.1% of loans) and loan growth (+11% YoY) gathers pace. Drill-down list (<1% of loans) coupled with BB and below-rated portfolio (5% of loans) remain the new watch-list. We see provisions remain elevated in the near term (FY19E); however draw comfort in pace of resolution and ~69% coverage ratio (combined) against list-1 and list-2 IBC accounts. Capital position remains healthy; subsidiaries remain profitable. Valuations continue to remain undemanding.

- **Q1'19 result – Results impacted by higher provisioning:** ICICI Bank Q1'19 NII at Rs61bn (+9.2% YoY) was tad higher to our estimates led by 11.3% YoY growth in loans. Domestic NIM (reported) at 3.54% declined 8bps YoY; international NIM were down 40bps+ YoY. Non-interest income grew 13.7% YoY; growth in fee income came in higher at 15.9% YoY. The quarter saw ICICI Bank book gains (Rs11bn) on sale of stake its stake in life insurance business. Operating profit at Rs58.1bn grew 12.1% YoY; core operating profit was up 12.9% YoY. GNPA at Rs534.6bn declined 1.1% QoQ; with increased provision coverage ratio (calc PCR now at 54.8% vs. 41.3% YoY and 48.4% QoQ), NNPA declined 13.3% QoQ. Accelerated provisioning attributed for bank reporting loss to the tune of Rs1.2bn (vs. our ests of profit of Rs12.8bnn of profits).
- **Pace of new NPA addition to decline; provisions to remain elevated:** Q1'19 slippages at Rs40.4bn (vs. our ests. Rs50bn) included Rs11bn of slippages from retail portfolio and ~Rs15.8bn of slippages from restructured + watch-list and existing NPA non-fund exposure. The drill-down list is down to <1% of loans (funded exposure) and coupled with BB and below-rated portfolio (5% of overall loans) remain key area to watch out. We have left our estimates on slippages unchanged. Provisions came in higher and follows a) ageing related provisions b) accelerated provisioning towards certain steel exposure (PCR at 100%); the account is likely to get recovered in ensuing quarter and c) increase in overall PCR towards list 1 and list 2 IBC accounts (combined PCR now at 68.8% vs. 49.6% QoQ). We are factoring in elevated provisions given uncertainty around hair-cut from NCTL cases. However, with the fast pace of resolution, we see the provisioning burden to be more of a near-term concern (limited to FY19E). We are factoring in 180bps (earlier at 160bps)/ 120bps (left unchanged) of credit cost for FY19E / FY20E respectively (vs. 340bps in FY18)
- **Outlook:** Loan growth at 11.3% YoY was led by strong 16% YoY growth in domestic corporate portfolio and 19.8% YoY growth in retail + SME portfolio combined. The share of later in overall domestic loans has increased to 71% (vs. 68.2% YoY); even on the corporate front – greater focus is towards better rated corporates. Capital position remains healthy (CAR / tier-I at 18.4% / 15.8% respectively) and will supplement overall growth. Subsidiaries remain profitable and contribute meaningfully to overall PAT / SOTP valuations.
- **Earnings revision, valuation, view and key risks:** Q1'19 results reaffirm our positive stance on the bank. We have tweaked our FY19E/FY20E estimates on other income / credit cost front. Our SOTP-based TP, however remains unchanged at Rs360 (valued core business at 2x FY20E ABV and other business accordingly). On-going allegations / whistle blower against certain NPA accounts could impact near term earnings (broadly factored the same into our estimates) / stock movement. Higher-than-expected NIM compression or time taken for resolution / higher haircut therein, remain key risks.

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Q1FY19E	Var (%)
Net Interest Income	**61,019**	**55,898**	**9.2**	**60,217**	**1.3**	**60,432**	**1.0**
Other Income	38,518	33,879	13.7	56,786	(32.2)	40,626	(5.2)
Net Income	**99,537**	**89,778**	**10.9**	**1,17,003**	**(14.9)**	**1,01,059**	**(1.5)**
Operating Profit	**58,084**	**51,833**	**12.1**	**75,140**	**(22.7)**	**60,075**	**(3.3)**
Provisions	59,713	26,087	128.9	66,258	(9.9)	44,031	35.6
Reported PAT	**(1,196)**	**20,490**	**(105.8)**	**10,200**	**(111.7)**	**12,769**	**(109.4)**
GNPA	5,34,649	4,31,476	23.9	5,40,625	(1.1)	5,52,392	(3.2)
NNPA	2,41,701	2,53,062	(4.5)	2,78,863	(13.3)	2,46,598	(2.0)
PCR % (incl tech-w/off)	**66.1**	**55.2**	**1,090.0**	**60.5**	**560.0**	-	-

Source: Company, Centrum Research

Target Price	Rs360
CMP*	Rs293
Upside	23%
Previous Target	Rs360
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
ICICIBC IN	6.5	(17.0)	(1.0)
Nifty	5.4	2.2	12.8

Key Data	
Bloomberg Code	ICICIBC IN
Curr Shares O/S (mn)	6,432.2
Diluted Shares O/S(mn)	6,432.2
Mkt Cap (Rsbn/USDbn)	1885.9/27.4
52 Wk H / L (Rs)	365.7/255
5 Year H / L (Rs)	365.7/137.6
Daily Vol. (3M NSE Avg.)	21350030

*as on 27 July 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-18	Mar-18	Dec-17	Sep-17
Promoter	0.0	0.0	0.0	0.0
FIIs	46.9	48.1	47.3	45.9
DIIs	41.0	40.4	40.8	41.3
Others	12.1	11.5	11.9	12.8

Source: BSE, *as on 27 July 2018

Earnings revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	419.8	424.8	(1.2)	479.5	487.3	(1.6)
PPoP	244.8	249.7	(2.0)	291.5	299.4	(2.6)
PAT	83.6	88.7	(5.7)	128.8	134.8	(4.4)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	419.8	420.6	(0.2)	479.5	481.9	(0.5)
PPoP	244.8	207.8	17.8	291.5	268.2	8.7
PAT	83.6	94.1	(11.1)	128.8	149.9	(14.1)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
45	1	3	368	360	(2.1)

*as on 27 July 2018; Source: Bloomberg, Centrum Research Estimates

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Y/E Mar (Rs mn)	Net income*	PPOP	PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV(Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY16	3,65,471	2,38,635	97,263	(13.0)	16.6	16.3	126.4	2.1	1.4	11.6
FY17	4,12,418	2,64,867	98,011	0.8	16.7	14.0	122.4	2.0	1.3	10.7
FY18P	4,04,455	2,47,416	67,775	(30.8)	10.5	28.2	115.5	2.5	0.8	6.8
FY19E	4,19,829	2,44,790	83,604	23.4	13.0	21.9	135.6	2.0	0.9	8.0
FY20E	4,79,479	2,91,505	1,28,814	54.1	20.0	14.6	156.9	1.8	1.3	11.5

Source: Company, Centrum Research Estimates *denotes net interest income + other income. FY16-19E have been valued on average market cap basis.

In the interest of timeliness, this document is not edited

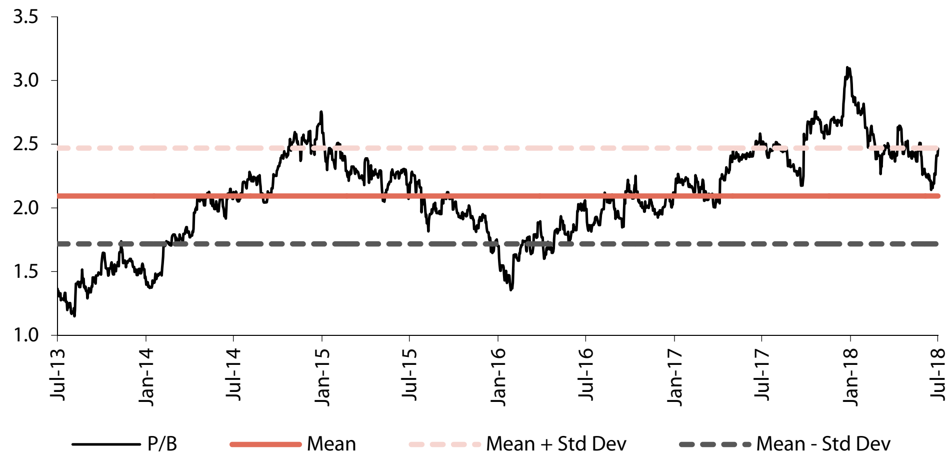
Sensitivity analysis and peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in NIM and credit cost on FY19PBT

%		Credit cost				
		+ 10bps	+ 20bps	' Current levels	- 10bps	- 20bps
NIM	- 5bps	*(9.1)*	*(14.4)*	*(3.7)*	*1.7*	*7.0*
	- 10bps	*(12.7)*	*(18.1)*	*(7.4)*	*(2.0)*	*3.3*
	Current levels	*(5.4)*	*(10.7)*	*-*	*5.4*	*10.7*
	+ 5bps	*(1.7)*	*(7.0)*	*3.7*	*9.1*	*14.4*
	+ 10bps	*2.0*	*(3.3)*	*7.4*	*12.7*	*12.7*

Source: Centrum Research Estimates

Exhibit 2: Rolling forward P/B chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs mn)	*CAGR (FY18-FY20E) (%)*			PE (x)			*ROA (%)*			*RoE (%)*			P/BVPS (x)		
		NII + Oth inc	*PPOP*	*PAT*	FY18	FY19E	FY20E	*FY18*	*FY19E*	*FY20E*	*FY18*	*FY19E*	*FY20E*	FY18	FY19E	FY20E
ICICI Bank*	**18,85,906**	***8.9***	***8.5***	***37.9***	**28.2**	**21.9**	**14.6**	***0.8***	***0.9***	***1.3***	***6.8***	***8.0***	***11.5***	**1.8**	**1.6**	**1.6**
Axis Bank*	14,20,719	*20.6*	*27.3*	*575.7*	487.5	14.0	11.3	*0.0*	*1.3*	*1.5*	*0.5*	*14.3*	*16.2*	2.1	1.9	1.7
HDFC Bank	57,34,746	*19.5*	*21.7*	*22.9*	26.2	25.5	22.6	*1.9*	*1.9*	*1.9*	*17.5*	*17.2*	*17.2*	4.2	3.9	3.7
IndusInd Bank	11,89,894	*24.1*	*28.4*	*29.2*	26.8	24.9	20.4	*1.8*	*1.9*	*2.0*	*16.6*	*18.1*	*19.2*	4.1	4.1	3.6
Yes Bank	8,53,114	*28.6*	*26.4*	*31.0*	17.9	14.8	12.5	*1.7*	*1.6*	*1.6*	*17.5*	*18.9*	*20.2*	3.0	2.6	2.3

*Source: Bloomberg consensus, *Centrum Research Estimates. FY18-19E has been valued on aveage market cap basis.*

Quarterly financials

Exhibit 4: Quarterly Financials

(Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Income statement								
Interest earned	1,36,394	1,36,181	1,35,685	1,34,591	1,35,771	1,36,654	1,42,644	1,47,224
Interest expended	83,861	82,548	76,064	78,693	78,680	79,601	82,427	86,205
Net interest income	**52,533**	**53,634**	**59,622**	**55,898**	**57,091**	**57,053**	**60,217**	**61,019**
Non-interest income	91,200	39,383	30,172	33,879	51,862	31,669	56,786	38,518
Total income	1,43,733	93,017	89,794	89,778	1,08,953	88,721	1,17,003	99,537
Operating expenses	37,369	37,777	38,674	37,944	39,088	38,144	41,863	41,453
PPOP	**1,06,364**	**55,239**	**51,120**	**51,833**	**69,865**	**50,578**	**75,140**	**58,084**
Provisions	70,827	27,127	28,982	26,087	45,029	35,696	66,258	59,713
Profit before tax	**35,537**	**28,112**	**22,138**	**25,746**	**24,836**	**14,882**	**8,882**	(1,629)
Tax	4,511	3,694	1,892	5,256	4,254	-1,621	(1,318)	(434)
Profit after tax	**31,026**	**24,418**	**20,246**	**20,490**	**20,582**	**16,502**	**10,200**	**(1,196)**
Balance sheet items								
Equity share capital	11,640	11,643	11,651	12,828	12,836	12,847	12,858	12,866
Reserves & surplus	9,38,451	9,63,428	9,87,797	9,93,355	10,15,044	10,32,157	10,38,376	10,40,494
Deposits	44,90,714	46,52,843	49,00,391	48,62,540	49,86,428	51,74,031	56,09,752	54,68,784
Borrowings	17,17,567	15,90,980	14,75,562	14,14,601	15,07,024	15,81,761	18,28,586	16,19,703
Other liabilities	3,61,023	3,59,075	3,42,514	3,25,833	3,56,690	3,34,695	3,02,320	3,09,428
Total liabilities	**75,19,395**	**75,77,970**	**77,17,915**	**76,09,156**	**78,78,022**	**81,35,489**	**87,91,892**	**84,51,275**
Cash & bank	2,39,584	2,61,936	3,17,024	2,87,623	2,77,841	3,24,845	3,31,024	3,10,586
Interbank & call	2,86,053	3,49,730	4,40,107	1,37,483	2,55,779	2,33,799	5,10,670	3,22,357
Investments	17,43,490	16,89,875	16,15,065	18,54,079	17,99,352	17,98,066	20,29,942	18,63,605
Advances	45,42,555	45,74,695	46,42,321	46,40,752	48,27,801	50,53,869	51,23,953	51,62,887
Other assets	7,07,712	7,01,734	7,03,398	6,89,219	7,17,249	7,24,911	7,96,303	7,91,841
Total assets	**75,19,395**	**75,77,969**	**77,17,915**	**76,09,156**	**78,78,022**	**81,35,489**	**87,91,892**	**84,51,275**
Ratios								
Growth YoY (%)								
NII	*0.0*	*(1.6)*	*10.3*	*8.4*	*8.7*	*6.4*	*1.0*	*9.2*
Non-interest income	*203.3*	*(6.6)*	*(40.9)*	*(1.2)*	*(43.1)*	*(19.6)*	*88.2*	*13.7*
Opex	*20.5*	*21.5*	*13.5*	*12.5*	*4.6*	*1.0*	*8.2*	*9.2*
PPOP	*106.2*	*(15.8)*	*(28.1)*	*(0.6)*	*(34.3)*	*(8.4)*	*47.0*	*12.1*
PAT	*2.4*	*(19.1)*	*188.5*	*(8.2)*	*(33.7)*	*(32.4)*	*(49.6)*	*(105.8)*
Loans	*10.9*	*5.2*	*6.7*	*3.3*	*6.3*	*10.5*	*10.4*	*11.3*
Deposits	*16.8*	*14.2*	*16.3*	*14.7*	*11.0*	*11.2*	*14.5*	*12.5*
Margins (%)								
Yield on assets	*8.5*	*8.3*	*8.2*	*8.1*	*8.0*	*7.8*	*7.7*	*7.8*
Cost of funds	*5.5*	*5.3*	*4.8*	*5.0*	*4.9*	*4.8*	*4.6*	*4.7*
Spread	*3.0*	*3.0*	*3.3*	*3.1*	*3.1*	*3.0*	*3.1*	*3.1*
NIM	*2.8*	*2.8*	*3.1*	*2.9*	*2.9*	*2.9*	*2.8*	*2.8*
Key drivers (%)								
Cost-income	*26.0*	*40.6*	*43.1*	*42.3*	*35.9*	*43.0*	*35.8*	*41.6*
GNPA	*6.8*	*7.2*	*7.9*	*8.0*	*7.9*	*7.8*	*8.8*	*8.8*
NNPA	*3.6*	*4.0*	*4.9*	*4.9*	*4.4*	*4.2*	*4.8*	*4.2*
Provision coverage	*49.9*	*47.1*	*40.2*	*41.3*	*45.8*	*48.3*	*48.4*	*54.8*
Tier I CAR	*13.3*	*13.3*	*14.4*	*14.6*	*14.5*	*14.6*	*15.9*	*15.8*
Tier II CAR	*2.9*	*3.4*	*2.9*	*3.1*	*3.1*	*3.1*	*2.5*	*2.5*
RoA	*1.7*	*1.3*	*1.1*	*1.1*	*1.1*	*0.8*	*0.5*	*(0.1)*
RoE	*13.3*	*10.1*	*8.2*	*8.2*	*8.1*	*6.4*	*3.9*	*(0.5)*

Source: Company, Centrum Research.

Financials

Exhibit 5: Income Statement

Y/E March (Rs bn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Income	527.4	541.6	549.7	639.1	714.5
Interest Expense	315.2	324.2	319.4	379.2	416.8
Net Interest Income	**212.2**	**217.4**	**230.3**	**259.9**	**297.6**
Non-Interest Income	**153.2**	**195.0**	**174.2**	**159.9**	**181.8**
Fee & Other Income	74.6	80.3	103.4	119.0	138.1
Gains / (Losses) on Securities	42.6	88.1	53.3	10.7	10.7
Total Net Income	**365.5**	**412.4**	**404.5**	**419.8**	**479.5**
Total Operating Expenses	**126.8**	**147.6**	**157.0**	**175.0**	**188.0**
Employee Expenses	50.0	57.3	59.1	68.6	73.5
Other Operating Expenses	76.8	90.2	97.9	106.4	114.4
Pre-provision Profit	**238.6**	**264.9**	**247.4**	**244.8**	**291.5**
Provisions & Contingencies	**116.7**	**152.1**	**173.1**	**134.8**	**122.0**
NPA Provisions	72.2	146.9	160.3	106.1	82.1
Other Provisions	44.5	5.2	12.7	28.6	39.9
Profit Before Tax	**122.0**	**112.8**	**74.3**	**110.0**	**169.5**
Taxes	24.7	14.8	6.6	26.4	40.7
Profit after Tax	**97.3**	**98.0**	**67.8**	**83.6**	**128.8**

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

Y/E March (Rs bn)	FY16	FY17	FY18P	FY19E	FY20E
Cash and balance with RBI	271	317	331	348	382
Inter-bank borrowings	328	440	511	261	298
Loans & Advances	4,353	4,642	5,124	5,897	6,845
Investments	1,604	1,615	2,030	1,967	2,085
Total Int Earning Assets	**6,555**	**7,015**	**7,996**	**8,474**	**9,611**
Fixed Assets	76	78	79	84	87
Other Assets	576	625	717	767	814
Total Assets	**7,207**	**7,718**	**8,792**	**9,325**	**10,511**
Deposits	4,214	4,900	5,610	5,811	6,628
- Current	589	750	890	936	1,084
- Savings	1,342	1,718	2,010	2,096	2,408
- Term	2,283	2,432	2,711	2,778	3,136
Other Int Bearing Liabilities	1,748	1,476	1,829	1,936	2,046
Interest Bearing Liabilities	**5,962**	**6,376**	**7,438**	**7,746**	**8,674**
Other non int bearing Liabilities	347	342	302	471	633
Total Liabilities	**6,310**	**6,718**	**7,740**	**8,217**	**9,307**
Equity	897	1,000	1,052	1,105	1,204
Total Liabilities	**7,207**	**7,718**	**8,792**	**9,322**	**10,511**

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18P	FY19E	FY20E
Interest income	*7.7*	*7.3*	*6.7*	*7.1*	*7.2*
Interest expenses	*4.6*	*4.3*	*3.9*	*4.2*	*4.2*
NII	***3.1***	***2.9***	***2.8***	***2.9***	***3.0***
Other income	*2.2*	*2.6*	*2.1*	*1.8*	*1.8*
Total income	***5.3***	***5.5***	***4.9***	***4.6***	***4.8***
Operating expenses	*1.9*	*2.0*	*1.9*	*1.9*	*1.9*
PPOP	***3.5***	***3.5***	***3.0***	***2.7***	***2.9***
Provisions	*1.7*	*2.0*	*2.1*	*1.5*	*1.2*
PBT	***1.8***	***1.5***	***0.9***	***1.2***	***1.7***
Tax	*0.4*	*0.2*	*0.1*	*0.3*	*0.4*
RoA	***1.4***	***1.3***	***0.8***	***0.9***	***1.3***
Leverage	*8.0*	*7.7*	*8.4*	*8.4*	*8.7*
RoE	***11.6***	***10.7***	***6.8***	***8.0***	***11.5***

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
B/S Structure Ratios (%)					
CD Ratio	*103.3*	*94.7*	*91.3*	*101.5*	*103.3*
Incremental CD Ratio	*79.8*	*42.2*	*67.9*	*384.9*	*116.0*
CASA Ratio	*45.8*	*50.4*	*51.7*	*52.2*	*52.7*
Growth Ratios (%)					
Loans	*12.3*	*6.7*	*10.4*	*15.1*	*16.1*
Deposits	*16.6*	*16.3*	*14.5*	*3.6*	*14.1*
NII	*11.5*	*2.4*	*5.9*	*12.9*	*14.5*
Opex	*10.3*	*16.3*	*6.4*	*11.5*	*7.4*
PPOP	*21.0*	*11.0*	*(6.6)*	*(1.1)*	*19.1*
Provisions	*198.8*	*30.3*	*13.8*	*(22.1)*	*(9.5)*
PAT	*(13.0)*	*0.8*	*(30.8)*	*23.4*	*54.1*
Operating Ratios (%)					
Yield on funds	*8.6*	*8.1*	*7.4*	*7.9*	*8.0*
Cost of funds	*5.2*	*4.9*	*4.3*	*4.7*	*4.7*
NIM	*3.5*	*3.3*	*3.1*	*3.2*	*3.3*
Non-int inc / Total income	*41.9*	*47.3*	*43.1*	*38.1*	*37.9*
Fee to avg assets	*1.1*	*1.1*	*1.3*	*1.3*	*1.4*
Cost/Income	*34.7*	*35.8*	*38.8*	*41.7*	*39.2*
Opex/ Avg assets	*1.9*	*2.0*	*1.9*	*1.9*	*1.9*
Provisioning cost (bps)	*185*	*348*	*338*	*180*	*120*
Effective tax rate	*20.2*	*13.1*	*8.8*	*24.0*	*24.0*
RoA	*1.4*	*1.3*	*0.8*	*0.9*	*1.3*
RoE	*11.6*	*10.7*	*6.8*	*8.0*	*11.5*
Credit Quality Ratios (%)					
Gross NPA	*6.4*	*9.4*	*11.1*	*8.4*	*6.1*
Net NPA	*3.0*	*5.4*	*5.4*	*3.4*	*2.4*
Slippage rate to op advances	*3.8*	*7.2*	*5.8*	*2.8*	*2.0*
NPA coverage ratio	*50.6*	*40.2*	*48.4*	*56.2*	*57.8*
Capital Adequacy Ratios (%)					
Total CAR	*16.6*	*17.4*	*18.4*	*16.9*	*16.0*
Tier I	*13.1*	*14.4*	*15.9*	*14.6*	*14.0*
Tier II	*3.5*	*3.0*	*2.5*	*2.3*	*2.0*
Assets/equity (x)	*8.0*	*7.7*	*8.4*	*8.4*	*8.7*
Per Share (Rs)					
BVPS	149	165	159	167	183
Adjusted BVPS	126	122	115	136	157
Adjusted BVPS (core)	108	105	99	118	138
EPS - wt avg	16.6	16.7	10.5	13.0	20.0
Valuations Ratios					
Price/BV (x)	1.8	1.5	1.8	1.6	1.6
Price/Adj. BV (x) #	2.1	2.0	2.5	2.0	1.8
P/E (x)	16.3	14.0	28.2	21.9	14.6

Source: Company, Centrum Research Estimates # before adjusting for value of investment in subsidiaries from the current market price. FY16-19E have been valued on average market cap basis.

Appendix A

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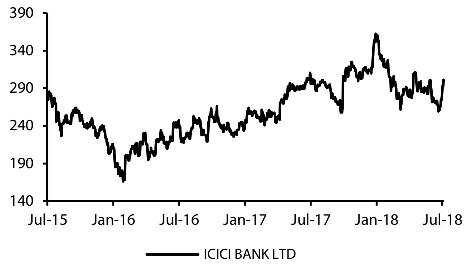
ICICI Bank price chart



Source: Bloomberg, Centrum Research

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		ICICI Bank	Axis Bank
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