

Quarter better than expected, Core profits up 10% YoY

ICICI reported a quarter better than expectation with 1) an advance growth of 12% YoY, 2) NIM expansion by 14bps QoQ to 3.3%, 3) growth in core profits by 10% YoY, 4) lower credit cost coupled with compression in GNPA by 27 bps to 8.5% coupled with improving coverage, 5) favorable credit risk profile, with A- and above book increasing to 65.5% vs 63.3%, fall in BB and below by 12% QoQ and in drill down list as well. With robust momentum in retail advance growth, increasing pricing power and largely at the end of the provision cycle of its legacy bad book, it is well placed than its corporate peers. However, a substantial improvement in profitability is expected to be driven by material recoveries.

Drilldown list down, GNPA improved, likely to trend down

The drill down list fell 25% and the BB portfolio fell 12% - due to recovery of one lumpy assets amongst others. We are factoring in GNPA to fall to 8.6% by with PCR at 70% on account of recoveries and resolution – which is a monitorable. We are cautiously watchful of the low rated book.

Heathy Retail asset growth + pass-through = NIM expansion

Advances grew 12% YoY, one of the strongest tractions in recent times driven by a robust growth in retail and SME. Within retail, unsecured loans grew at 43% led by personal loans. This coupled with pass through ability of higher costs, increasing share of lower cost deposits and interest reversal aided NIM expansion by 27 bps YoY. The momentum in retail growth is expected to continue, however the traction in corporate is likely to materially return only post-election. Currently we are factoring CAGR 13% growth in advances. Higher share of retail and better pricing power is likely to enable NIM expansion by ~20 bps by FY20E.

With CAGR 22% in earnings and RoE expansion by 10 bps by FY20E - Accumulate at 2.7x FY20E P/ABV

An improvement in profitability, from hereon, is expected to be driven by material recoveries. We are likely to remain cautious on the power portfolio and movement in its low rated assets. Towards its ageing and provisions cycle, it is at the end of the cycle with a PCR touching (ex technical write off) ~60%. The momentum in retail growth is expected to continue, we believe the corporate growth is likely to be witness material traction in line with the turn of investment cycle post-election.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Interest earned	151,056	135,771	11.3	147,224	2.6
Interest expended	86,881	78,680	10.4	86,205	0.8
Net interest income	64,176	57,091	12.4	61,019	5.2
Other income	31,565	51,862	(39.1)	38,518	(18.1)
Total Net Income	95,741	108,953	(12.1)	99,537	(3.8)
Operating expenses	43,244	39,088	10.6	41,453	4.3
Pre-provision profits	52,497	69,865	(24.9)	58,084	(9.6)
Provisions	39,943	45,029	(11.3)	59,713	(33.1)
Tax expense	3,465	4,254	(18.5)	(434)	(899.2)
Extraordinary gains	0	0		0	
Reported Net Profit	9,089	20,582	(55.8)	(1,196)	(860.3)
			(bps)		(bps)
Advances (%)	12.8	6.3	650	11.3	153
NIM (%)	3.3	3.3	6	3.2	14
RoA (%)	0.4	1.1	(65)	0.0	43
RoE (%)	0.0	8.0	(800)	0.0	0
Gross NPA (%)	8.5	7.9	67	8.8	(27)

CMP	₹ 316
Target / Upside	₹ 365 / 16%
BSE Sensex	33,349
NSE Nifty	10,030

Scrip Details

Equity / FV	₹ 12,858mn / ₹ 2
Market Cap	₹ 2,029bn
	US\$ 28bn
52-week High/Low	₹ 366/₹ 257
Avg. Volume (no)	22,467,200
NSE Symbol	ICICIBANK
Bloomberg Code	ICICIBC IN

Shareholding Pattern Sep'18(%)

Promoters	0.0
MF/Banks/FIs	44.2
FIIIs	45.3
Public / Others	10.5

Valuation (x)

	FY18A	FY19E	FY20E
P/E	5.7	5.4	4.0
P/ABV	2.3	2.2	2.1
ROAA	0.8	0.8	0.9
ROAE	6.6	7.1	9.3

Estimates (₹ mn)

	FY18A	FY19E	FY20E
NII	230,258	275,628	316,987
PPOP	247,415	295,065	346,892
PAT	67,774	75,502	100,668
Adj BV	135.0	145.7	152.5

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Exhibit 1: Quarterly Data

Particulars	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Advances	4,827,801	5,053,869	5,123,953	5,162,887	5,444,866
YoY (%)	6.3	10.5	10.4	11.3	12.8
QoQ (%)	4.0	4.7	1.4	0.8	5.5
Deposits	4,986,428	5,174,031	5,609,752	5,468,784	5,586,689
YoY (%)	11.0	11.2	14.5	12.5	12.0
QoQ (%)	2.5	3.8	8.4	(2.5)	2.2
Advances Mix (%)					
Domestic book	85.1	86.0	87.4	87.5	87.3
Retail	53.6	54.2	56.6	57.5	57.3
SME	4.4	26.9	5.0	4.6	4.6
Corporate	27.2	4.9	25.9	25.4	25.4
Overseas book	14.9	14.0	12.6	12.5	12.7
Deposit Mix (%)					
Current account	13.7	14.5	15.9	14.0	13.6
Saving account	35.8	35.9	35.8	36.5	37.1
Term deposits	50.5	49.6	48.3	49.5	49.2
CASA %	49.5	50.4	51.7	50.5	50.8
Coverage Ratio (%)					
PCR	59.3	60.9	60.5	66.1	69.4
PCR (Ex Tech w/off)	45.7	45.7	47.7	54.1	58.9
CAR – Standalone (%)					
CRAR	17.9	18.1	18.4	18.4	17.8
Tier I	14.9	15.0	15.9	15.8	15.4
CET I	3.0	3.1	2.5	2.5	2.5
Rating-wise profile					
AA- and above	-	-	42	43	45
A+,A,A-	-	-	20	20	21
A- and above	-	-	62	63	66
BBB+,BBB, BBB-	-	-	28	28	28
BB and below3	-	-	9	8	7
Unrated	-	-	1	1	0
Total	-	-	100	100	100
Dupont analysis (as a % of average assets)					
Interest income	1.75	1.71	1.69	1.71	1.76
Interest expenses	1.02	0.99	0.97	1.00	1.01
Net interest income	0.74	0.71	0.71	0.71	0.75
Non-interest Income	0.67	0.40	0.67	0.45	0.37
Total expenses	0.50	0.48	0.49	0.48	0.50
Provisions	0.58	0.45	0.78	0.69	0.46
Tax	0.05	(0.02)	(0.02)	(0.01)	0.04
RoA	1.06	0.82	0.48	(0.06)	0.42
Leverage (x)	7.61	7.73	8.07	8.19	8.16
RoE	8.10	6.37	3.89	(0.45)	3.45

Source: DART, Company

Concall Highlights

Advances

- Loan book grew 13% YoY largely led by retail segment.
- Mortgage grew 16% YoY, auto grew 10% YoY, business banking grew 45% YoY & Rural grew 19% YoY.
- Unsecured loans grew 43% YoY and now constitutes 6.5% of total loans.
- Opportunity to cross sell unsecured loans to existing customers exist and expect to growth retail book by ~15% in FY19.
- A- & above to 65% vs 63.3%.

Overseas book

- Overseas book continues to de-grow and now stands at 12.7%. GNPA significantly high.
- NIM marginally positive due to interest reversal in recovery but collection is key.

NBFCs and HFC:

- Exposure to NBFCs & HFCs (fund based + non fund + investment) at ₹ 367.34bn (5.4% of total loans) of which NBFC is ₹ 241.9 bn and HFC at 125.44 bn growing 10% and 23% YoY respectively.

Exposure to II&FS:

- Didn't declare the amount but downgraded a similar account outstanding at ₹ 8.21 bn amongst others.

Exposure to power sector

- Of the total exposure 30% is NPA, drilldown and restructured. Of the balance 70%, 53% is private sector and 47% is public sector and ₹ 16.14 bn is towards SEB. 81% is A- and above.

Liabilities and Liquidity

- Deposits grew 12% YoY driven by strong growth in CASA deposits. Average CASA deposit mix improved by 100bps and stood at 47.1% with growth of 15.4% YoY.
- CA witnessed slight weakness in Q2FY19 while traction from retail term deposits improving.
- Wholesale term deposits above 8% in line with CD rates but is a smaller share.
- Funding profile healthy now. Liquidity low in the system, may have to rely on wholesale deposits in H2.
- In H2FY19 liquidity expected to remain tighter and banks will have to depend on term deposits.
- LCR higher than regulator's requirement at ~110%.

Fee Income

- Fee income grew 16.5% YoY which includes dividend income from subsidiaries of ₹ 1.67bn.
- Core operating PAT excl dividend from subsidiaries grew 17% YoY.
- Focus will be on improving core operating PAT. RoE target of 15%.

Pricing and contribution

- Margins improved by 14bps sequentially to 3.33% with an improvement in yields to 8.79% and with higher recoveries.
- Increase in CASA share led to a decline in cost of deposits.
- Cost of funds stable at 5% QoQ but likely to elevate in H2FY19.
- Pricing power improving and can pass through the costs.
- FY20 will be more stable in terms of margins.

Asset Quality

- Slippages moderated to ₹ 31bn out of which 13bn was due to currency depreciation and ₹ 10 bn from BB & below rated portfolio.
- Recoveries and upgrades during the quarter were ₹ 10bn (₹ 20bn in Q1FY19).
- Drilldown list exposure declined to 32.8bn (₹ 44bn Q1FY19) with recovery of one large steel account (₹ 19bn) offset by addition of ₹ 8 bn of IIL&FS exposure (likely).
- Bulk of the exposure in power.
- BB & below corporate & SME portfolio has been declined to ₹ 217.8bn (₹ 246.2bn).
- Slippages in FY19 to be lower than it was in FY18.
- Loans under RBI resolution schemes – 5/25 & S4A stands at ₹ 25.58bn.

Credit Cost

- Provisions declined by 11% on sequential basis to ₹ 39.9bn (₹ 59.7bn in Q1FY19).
- Target PCR of 70% by FY19
- NCLT exposure:
 - Exposure to accounts in NCLT list 1 is ₹ 38.8bn with PCR of 90% and
 - NCLT list 2 is ₹ 94bn with PCR of 62%.

Profit and Loss Account (₹ Mn)

Particulars	FY17A	FY18A	FY19E	FY20E
Interest Income	541,563	549,659	655,064	756,549
Interest expenses	324,190	319,400	379,437	439,562
Net interest income	217,373	230,258	275,628	316,987
Other incomes	195,045	174,196	193,778	227,423
Total expenses	147,551	157,039	174,340	197,518
- Employee cost	57,337	59,140	68,885	78,150
- Other	90,214	97,900	105,455	119,367
Pre provisioning profit	264,867	247,415	295,065	346,892
Provisions	152,081	173,070	194,396	212,668
Profit before taxes	112,786	74,346	100,670	134,224
Tax provision	14,775	6,571	25,167	33,556
Profit after tax	98,011	67,774	75,502	100,668
Share in JV associate	0	0	0	0
Minority interest	0	0	0	0
Extraordinary gains	0	0	0	0
Adjusted profit	98,011	67,774	75,502	100,668

Balance Sheet (₹ Mn)

Particulars	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	11,651	12,858	12,858	12,858
Reserves & Surplus	987,860	1,038,731	1,054,058	1,085,524
Minority Interest	0	0	0	0
Net worth	999,511	1,051,589	1,066,916	1,098,382
Borrowings	1,475,552	1,828,586	2,086,678	2,140,275
- Deposits	4,900,391	5,609,752	6,715,093	7,691,399
Current liabilities & provisions	342,452	301,964	329,973	475,826
Total Liabilities	7,717,914	8,791,892	10,198,660	11,405,882
Assets				
Cash and balances with RBI	757,131	841,694	1,047,970	1,081,484
Investments	1,615,065	2,029,942	2,334,345	2,567,786
Advances	4,642,321	5,123,953	5,656,388	6,508,980
Fixed assets	78,052	79,035	88,120	97,585
Other current assets, loans and advances	625,345	717,268	1,071,838	1,150,047
Total Assets	7,717,914	8,791,892	10,198,660	11,405,882

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Yield on advances	9.2	8.8	9.0	9.3
Yields on interest earning assets	8.2	7.6	7.9	8.0
Yield on investments	7.1	6.3	7.5	7.5
Costs of funds	5.3	4.6	4.7	4.7
Cost of deposits	5.0	4.5	4.8	4.9
NIMs	3.3	3.2	3.3	3.4
(B) Asset quality and capital ratios (%)				
GNPA	8.8	9.9	9.4	8.6
NNPA	5.4	5.4	3.5	2.8
PCR	40.2	47.7	65.0	70.0
Slippages	3.4	2.2	0.6	0.5
NNPA to NW	26.6	27.1	18.7	16.5
CASA	50.4	51.7	51.3	51.1
CAR	17.4	18.4	15.6	14.7
Tier 1	14.4	15.9	13.4	12.4
Credit - Deposit	94.7	91.3	84.2	84.6
(C) Dupont as a percentage of average assets (%)				
Interest income	7.3	6.7	6.9	7.0
Interest expenses	4.3	3.9	4.0	4.1
Net interest income	2.9	2.8	2.9	2.9
Non-interest Income	2.6	2.1	2.0	2.1
Total expenses	2.0	1.9	1.8	1.8
- Cost to income	35.8	38.8	37.1	36.3
Provisions	2.0	2.1	2.0	2.0
Tax	0.2	0.1	0.3	0.3
RoA	1.3	0.8	0.8	0.9
Leverage (x)	6.7	7.3	8.3	9.1
RoE	10.3	6.6	7.1	9.3
RoRwa	1.6	1.1	1.0	1.2
(D) Measures of investments				
EPS - adjusted	16.8	55.3	58.7	78.3
BV	171.6	163.6	166.0	170.8
ABV	143.0	135.0	145.7	152.5
DPS	29.3	11.3	40.0	46.0
(E) Growth Ratios (%)				
Net interest income	2.4	5.9	19.7	15.0
PPoP	11.0	(6.6)	19.3	17.6
Adj PAT	0.8	(30.9)	11.4	33.3
Advances	6.7	10.4	10.4	15.1
Total borrowings	(15.4)	23.9	14.1	2.6
Total assets	7.1	13.9	16.0	11.8
(F) Valuation ratios				
Market Cap (₹ mn)	2,029,330	2,029,330	2,029,330	2,029,330
CMP (₹)	316	316	316	316
P/E (x)	18.7	5.7	5.4	4.0
P/BV (x)	1.8	1.9	1.9	1.8
P/ABV (x)	2.2	2.3	2.2	2.1
Div Yield (%)	9.3	3.6	12.7	14.6

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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