

# Stock Update

## Structural and environmental changes improve outlook

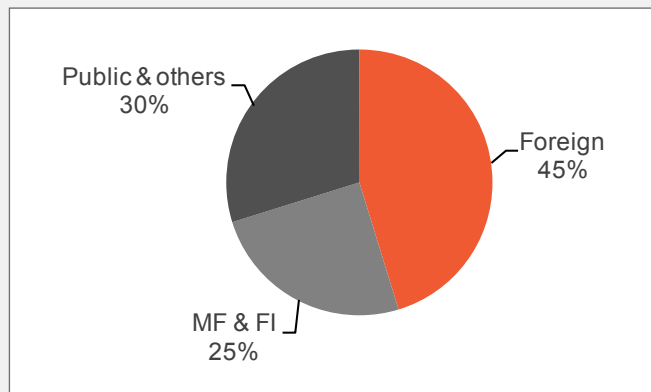
### ICICI Bank

Reco: Buy | CMP: Rs364

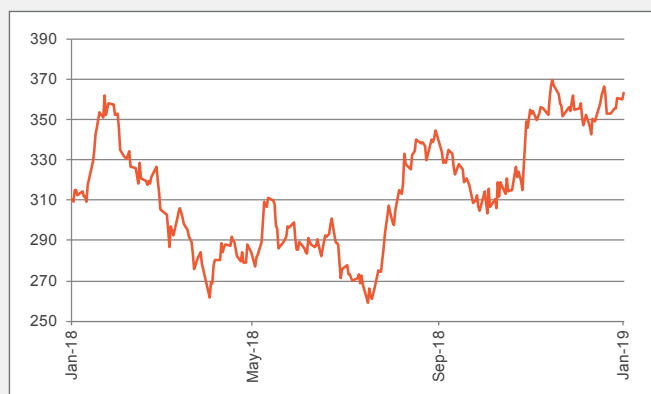
#### Company details

Price target:	Rs410
Market cap:	Rs234,214 cr
52-week high/low:	Rs375 / 257
NSE volume: (No of shares)	217.1 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	643.51 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	17.9	31.4	15.2
Relative to Sensex	1.7	18.1	28.3	7.5

#### Key points

- ♦ **Liability book, asset quality improving, affords safety to margins:** We believe much has changed in ICICI Bank for the better, which has also improved the outlook for the bank. The significant overhang on management transition (and uncertainty thereof) has finally been resolved, for good. ICICI Bank's liability franchise has improved significantly (almost at par with the best in the industry); and has improved on an average basis too. We believe high proportion of retail deposits, on overall term deposits, is a significant lever for the bank to maintain/improve its margins, other things remaining unchanged. With a strong liability profile and the effect of recent hike in MCLR rates (in the banking industry), there is a strong probability that margins would sustain or improve.

Asset quality wise too, ICICI Bank's book has improved in quality, tempered by the difficult period in the past three years. Exposure to BB and below-rated loans (fund + non-fund based) stood at small Rs. 21,788 crore, which includes a drilldown list of Rs. 3,283 crore. We believe its asset book quality has improved significantly in the past few quarters, which should result in lower provision pressure on profitability and, therefore, gradually return to normalised earnings.

- ♦ **Outlook:** We believe significant developments (such as end of leadership uncertainty and asset-quality improvement) in ICICI Bank are positive. With a comfortable capital position (Tier 1 capital ratio of 15.3%), the bank appears well positioned to make the most of opportunities. While asset-quality performance will be a key monitorable in the near term, we expect a gradual improvement, and the long-term outlook appears to be improving too. With a strong liability (retail + CASA) profile, the effect of hike in MCLR and a lower slippage rate, there is a strong probability that margins would sustain or improve in the medium term. Improvement in liability and asset profile offer ICICI Bank with greater elbow room to go for better quality underwriting with lower risks and, therefore, deliver better risk-adjusted returns. We believe the market has yet to factor in the changed dynamics and the scope for earnings improvement, which can be a significant positive for the bank.

- ♦ **Valuation:** ICICI Bank is valued at ~2x its FY2020E book value, which we believe is reasonable considering the business franchise and improving long-term outlook. Therefore, we maintain our Buy rating with a revised price target of Rs. 410.
- ♦ **Asset quality stress has peaked, earnings to gradually normalise:** The bad assets problem of the banking sector in the country is receding for the first time since 2015, according to the bi-annual financial stability report (FSR) for December 2018, published by the Reserve Bank of India (RBI). The report indicates that NPA stress recognition is appearing to be over (to a large part). The RBI expects NPAs in the system

to fall by March 2019. Gross non-performing ratio (GNPAs) of the Indian banking system will drop to 10.3% by March 2019, as per RBI's latest FSR (from 10.8% in September). Notably, in its last FSR report in July, the RBI had estimated GNPAs to rise to 12.9% by March. Hence, as per the central bank, the asset-quality scenario on a system-wide basis has improved significantly. We believe corporate-facing banks such as ICICI Bank are likely to benefit with improvement in the overall asset quality. We believe while asset-quality stress may still remain at elevated levels for ICICI Bank, going forward, normalisation of earnings will be there with ICICI Bank in the medium term.

## Valuation

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income (NII)	21224.0	21737.3	23498.5	26735.3	31278.6
Net profit (Rs cr)	9726.3	9801.1	6777.2	7152.4	10066.1
EPS (Rs)	16.7	16.8	10.6	12.3	17.3
EPS growth (%)	-0.1	0.0	-0.4	0.2	0.4
P/E (x)	21.7	21.6	34.4	29.6	21.0
BVPS (Rs)	146.4	164.6	150.9	173.9	185.2
P/BV (x)	2.5	2.2	2.4	2.1	2.0
RoE (%)	11.4%	10.3%	6.7%	6.9%	9.3%
RoA (%)	1.4%	1.3%	0.8%	0.7%	0.9%

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.