

ICICI Bank

Performance Highlights

Particulars (₹ cr)	3QFY18	2QFY18	% chg (qoq)	3QFY17	% chg (yoy)
NII	5,705	5,709	(0.1)	5,364	6.4
Pre-prov. profit	5,057	6,986	(27.6)	5,524	(8.5)
PAT	1,650	2,058	(19.8)	2,442	(32.4)

Source: Company, Angel Research

ICICI Bank PAT for the 3QFY18 declined 32% yoy to ₹1,650cr affected by higher provision and weak other income. Key positive during the quarter was the divergence with RBI as FY17 NPA was lower than the threshold required for disclosure.

Healthy growth in retail advances

During 3QFY18, the bank's advances grew by 10.5% yoy (4.7% qoq), aided by healthy retail loan book growth of 22.4% yoy. The main drivers leading to the growth in the retail loan book were Personal loans and credit card loan, which grew by 44.7% and 26.9% yoy respectively. Retail contribution to total loans increased to 54% as compared to 49% in the corresponding quarter of the previous year. The corporate loan book grew 4.6% yoy (3.5% qoq).

Deposits growth was modest at 11% yoy, while CASA deposits saw a growth of 12.4% yoy, resulting in improvement in CASA ratio by 0.52bp yoy to 50.4%. The Reported NIM fell by 13bp qoq to 3.14%, with domestic NIM at 3.53% as compared to 3.57% in 2QFY18. The Compression in NIM largely owing to international operation.

On the asset quality front, the bank witnessed slippages during the quarter to the tune of ₹4,380cr (annualized slippage ratio at 3.5% Vs 3.9 in Q2FY18). The Gross NPA ratio fell 5bp sequentially to 7.82%, whereas the Net NPA declined 23bp qoq to 4.2%. In Q4FY18 bank has to take additional provision for NCLT-2, current provision held at 36.4% whereas RBI requirement is 50%. Total exposure wherein stands at ₹11,400cr spread over 16 accounts.

Outlook & Valuation: At the current market price, the bank's core banking business (after adjusting value of subsidiaries) is trading at 1.1x FY20E ABV. We believe strength of liability franchise (CASA-50%), shift in loan mix towards retail assets and better rated companies, Strong capitalization (tier I of 14.6%), and steady improvement in stress loan and going forward quick resolution under IBC would be the key trigger for multiple expansion. **We recommend a Buy rating on the stock, with a target price of ₹416.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2017	FY2018E	FY2019E	FY2012E
NII	21,738	22,992	26,390	30,871
% chg	2	6	15	17
Net profit	9,802	7,726	9,382	14,185
% chg	0.8	(21.2)	21.4	51
NIM (%)	3.2	3.1	3.2	3.2
EPS (₹)	15	12	15	22
P/E (x)	22	27	22	15
P/ABV (x)	3	2	2	2
RoA (%)	1.3	1.0	1.0	1.4
RoE (%)	10	8	9	12

Source: Company, Angel Research; Note: CMP as of February 15, 2018

BUY

CMP	₹328
Target Price	₹416

Investment Period	12 Months
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Stock Info

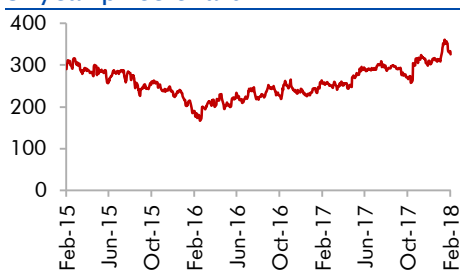
Sector	Banking
Market Cap (₹ cr)	2,11,094
Beta	1.6
52 Week High / Low	365.7/241
Avg. Daily Volume	11,43,723
Face Value (₹)	2
BSE Sensex	34,300
Nifty	10,546
Reuters Code	ICBK.NS
Bloomberg Code	ICICIBC@IN

Shareholding Pattern (%)

Promoters	NA
MF / Banks / Indian Fls	42.1
FII / NRIs / OCBs	47.3
Indian Public / Others	10.6

Abs. (%)	3m	1yr	3yr
Sensex	3.7	20.6	17.0
ICICI Bank	4.2	28.3	5.2

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2018 performance (Standalone)

Particulars (₹ cr)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	% YoY	% QoQ
Interest earned	13,639	13,618	13,569	13,459	13,577	13,665	0.3	0.6
- on Advances / Bills	9,905	9,870	9,991	9,847	10,090	10,238	3.7	1.5
- on investments	2,997	2,948	2,622	2,827	2,879	2,860	(3.0)	(0.7)
- on balance with RBI & others	38	126	282	199	145	154	22.7	6.4
- on others	699	675	674	586	463	412	(38.9)	(10.9)
Interest Expended	8,386	8,254	7,606	7,869	7,868	7,960	(3.6)	1.2
Net Interest Income	5,253	5,364	5,962	5,590	5,709	5,705	6.4	(0.1)
Other income	9,119	3,938	3,017	3,388	5,186	3,167	(19.6)	(38.9)
- Fee income	2,356	2,495	2,446	2,377	2,570	2,639	5.8	2.7
- Treasury income	6412	893	503	858	2193	66	(92.6)	(97.0)
- Others	351	550	68	153	423	462	(16.0)	9.2
Operating income	14,372	9,302	8,979	8,978	10,895	8,872	(4.6)	(18.6)
Operating expenses	3,736	3,778	3,867	3,794	3,909	3,814	1.0	(2.4)
- Employee expenses	1,556	1,406	1,480	1,511	1,514	1,363	(3.1)	(10.0)
- Other Opex	2,180	2,372	2,387	2,283	2,395	2,452	3.4	2.4
Pre-provision Profit	10,636	5,524	5,112	5,184	6,986	5,057	(8.5)	(27.6)
Provisions & Contingencies	7082	2712.7	2898	2608.74	4502.93	3569.56	31.6	(20.7)
PBT	3,554	2,812	2,214	2,575	2,483	1,488	(47.1)	(40.1)
Provision for Tax	451	369	189	526	425	-162	(143.9)	(138.1)
PAT	3,103	2,442	2,025	2,050	2,058	1,650	(32.4)	(19.8)
Effective Tax Rate (%)	12.7	13.1	8.5	20.4	17.1	-10.9		

Source: Company, Angel Research

Exhibit 2: Strong Retail lending supports Loan Growth

Particulars (₹ cr)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	% YoY	% QoQ
Domestic Corporate	1,25,829	1,29,921	1,26,735	1,24,372	1,31,316	1,35,949	4.6	3.5
Overseas branches	91,305	82,802	74,741	71,468	71,934	70,754	(14.6)	(1.6)
SME	19,533	21,044	22,283	20,883	20,760	24,764	17.7	19.3
Retail Total	2,17,588	2,23,703	2,40,472	2,47,352	2,58,770	2,73,920	22.4	5.9
Total	4,54,255	4,57,469	4,64,232	4,64,075	4,82,780	5,05,387	10.5	4.7
Loan Mix (%)								
Domestic Corporate	28	28	27	27	27	27		
Overseas branches	20	18	16	15	15	14		
SME	4	5	5	5	4	5		
Retail Total	48	49	52	53	54	54		

Source: Company, Angel Research

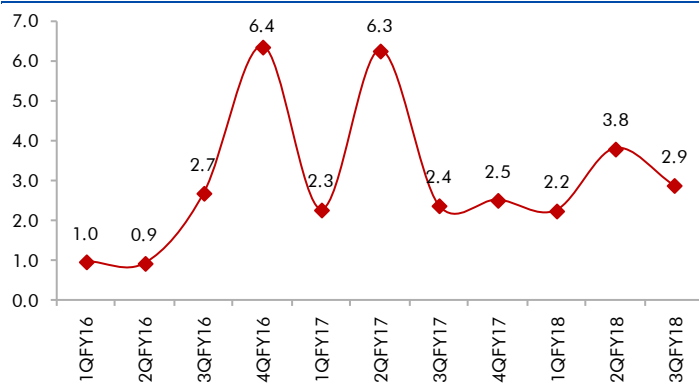
During 3QFY2018, the bank's advances grew by 10.5% yoy (4.7% qoq), aided by healthy retail loan book growth of 22.4% yoy. The main drivers leading to the growth in the retail loan book were Personal loans and credit card loan, which grew by 44.7% and 26.9% yoy respectively. Retail contribution to total loans increased to 54% as compared to 49% in the corresponding quarter of the previous year. The corporate loan book grew 4.6% yoy (3.5% qoq).

Exhibit 3: Asset Quality Analysis

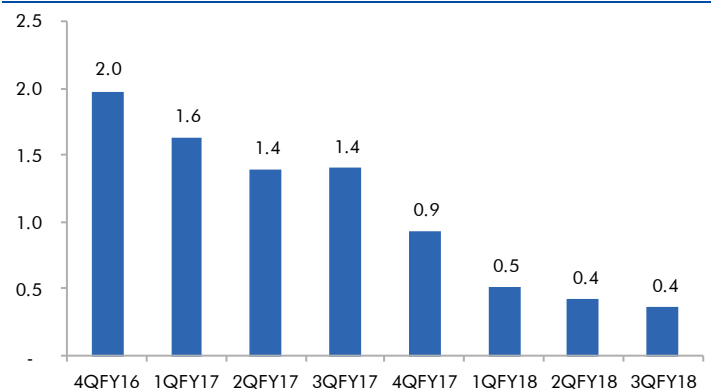
Particulars (₹ cr)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	% YoY	% QoQ
Opening gross NPA	27,563	32,548	38,085	42,552	43,148	44,489	36.7	3.1
Add: gross additions	8,089	7,037	11,289	4,976	4,674	4,380	(37.8)	(6.3)
Slippages (%)	1.8	1.5	2.4	1.1	1.0	0.9		
Closing gross NPAs	32,548	38,085	42,552	43,148	44,489	46,039	20.9	3.5
GNPA (%)	6.12	7.2	7.89	7.99	7.87	7.82		
Less - Provision	16,065	17,930	17,101	17,842	20,359	22,229	24.0	9.2
Net NPAs	16,483	20,155	25,451	25,306	24,130	23,810	18.1	(1.3)
Net NPA (%)	3.2	4.0	4.9	4.9	4.4	4.2		
PCR	49	47	40	41	46	48		
Standard Restructured	6,300	6,400	4,300	2,400	2,000	1,800	(71.9)	(10.0)
Std. Rest. Adv. as % of Loan Book	1.4	1.4	0.9	0.5	0.4	0.4		

Exhibit 4: Declining trend in sub-investment grade exposures

Particulars (₹ cr)	Exposure at 3QFY17	% of total Exposure at 4QFY17	Exposure at 4QFY17	% of total Exposure at 1QFY18	Exposure at 1QFY18	% of total Exposure at 2QFY18	Exposure at 2QFY18	% of total Exposure	Exposure at 3QFY18	% of total Exposure
Sector										
Power	8,350	0.9	6,230	0.7	7,080	0.8	6,840	0.7	6,530	0.7
Mining	5,550	0.6	5,230	0.6	5,590	0.6	5,750	0.6	5,780	0.6
Iron/Steel	4,490	0.5	3,970	0.4	3,990	0.4	4,010	0.4	4,430	0.4
Others (cement, rigs, etc.)	5,680	0.6	290	-	320	-	410	0.3	420	-
Promoter entities	3,420	0.4	3,270	0.3	3,330	0.4	2,580	0.3	1,920	0.2
Total	27,490	3.0	18,990	2.0	20,310	2.2	19,590	2.3	19,080	1.9

Exhibit 5: Credit costs (%) declined sequentially


Source: Company, Angel Research

Exhibit 6: SR stayed stable qoq at 0.4% of loans


Source: Company, Angel Research, SR- Standard Restructured

Exhibit 7: SOTP valuation summary

Particulars	%	Valuation Methodology	Value/share (₹)
Value of ICICI standalone	100	1.8x FY20E ABV	301
Subsidiaries			
ICICI Prudential Life	55	On Current M.Cap	50
General Insurance	56	On Current M.Cap	32
Mutual Fund	51	8% of current AUM	18
Other (Home Fin, VC, Securities PD and Overseas subsidiaries)			43
Total subsidiaries' value @ 20% discount			115
Fair value per share			416

Source: Company, Angel Research

Outlook & Valuation: At the current market price, the bank's core banking business (after adjusting value of subsidiaries) is trading at 1.1x FY20E ABV. We believe strength of liability franchise (CASA-50%), shift in loan mix towards retail assets and better rated companies, Strong capitalization (tier I of 14.6%), and steady improvement in stress loan and going forward quick resolution under IBC would be the key trigger for multiple expansion. **We recommend a Buy rating on the stock, with a target price of ₹416.**

Exhibit 8: Income statement (Standalone)

Y/E March (₹ cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	19,040	21,224	21,738	22,992	26,390	30,871
- YoY Growth (%)	16	11	2	6	15	17
Other Income	12,175	15,323	19,503	15,586	16,631	19,292
- YoY Growth (%)	17	26	27	(20)	7	16
Operating Income	31,215	36,547	41,241	38,578	43,021	50,164
- YoY Growth (%)	16	17	13	(6)	12	17
Operating Expenses	11,496	12,684	14,754	15,691	18,029	20,811
- YoY Growth (%)	12	10	16	6	15	15
Pre - Provision Profit	19,719	23,863	26,487	22,887	24,992	29,352
- YoY Growth (%)	19	21	11	(14)	9	17
Prov. & Cont.	3,900	11,668	15,207	14,372	12,139	9,920
- YoY Growth (%)	48	199	30	(5)	(16)	(18)
Profit Before Tax	15,819	12,196	11,279	8,515	12,852	19,432
- YoY Growth (%)	13.2	(23)	(8)	(25)	51	51
Prov. for Taxation	4,645	2,469	1,478	789	3,470	5,247
- as a % of PBT	29	20	13	9	27	27
PAT	11,174	9,726	9,802	7,726	9,382	14,185
- YoY Growth (%)	14	(13)	1	(21)	21.4	51

Exhibit 9: Balance sheet (Standalone)

Y/E March (₹ cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity	1,167	1,170	1,171	1,290	1,290	1,290
Reserve & Surplus	79,262	88,566	98,780	1,04,249	1,11,755	1,23,104
Networth	80,429	89,736	99,951	1,05,540	1,13,046	1,24,394
Deposits	3,61,563	4,21,426	4,90,039	5,43,943	6,20,095	7,13,110
- Growth (%)	9	17	16	11	14	15
Borrowings	1,72,417	1,74,807	1,47,556	1,59,361	1,80,078	2,05,288
Other Liab. & Prov.	31,720	34,726	34,245	32,945	58,210	81,448
Total Liabilities	6,46,129	7,20,695	7,71,791	8,41,789	9,71,428	11,24,240
Cash Balances	25,653	27,106	31,702	33,963	38,718	44,526
Bank Balances	16,652	32,763	44,011	24,411	27,829	32,003
Investments	1,86,580	1,60,412	1,61,507	1,87,801	2,15,483	2,48,872
Advances	3,87,522	4,35,264	4,64,232	5,19,940	6,03,130	6,99,631
- Growth (%)	14	12	7	12	16	16
Fixed Assets	4,726	7,577	7,805	8,279	9,437	10,853
Other Assets	24,997	57,574	62,535	67,395	76,831	88,355
Total Assets	6,46,129	7,20,695	7,71,791	8,41,789	9,71,428	11,24,240
- Growth (%)		12	7	9	15	16

Exhibit 10: Ratio analysis (Standalone)

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profitability ratios (%)						
NIMs	3.2	3.3	3.2	3.1	3.2	3.2
Cost to Income Ratio	37	35	36	41	42	41
RoA	1.8	1.4	1.3	1.0	1.0	1.4
RoE	15	11	10	8	9	12
B/S ratios (%)						
CASA Ratio	45	46	50	50	50	50
Credit/Deposit Ratio	1.07	1.03	0.95	0.96	0.97	0.98
Asset Quality (%)						
Gross NPAs	3.3	5.2	7.9	7.7	6.7	5.3
Net NPAs	1.4	2.7	4.9	3.1	2.7	2.1
Slippages	2.2	4.2	7.5	4.0	3.0	2.0
Loan Loss Prov. /Avg. Assets	0.63	1.71	2.04	1.78	1.34	0.95
Provision Coverage	41	50	60	60	60	60
Per Share Data (₹)						
EPS	17	15	15	12	15	22
ABVPS (75% cover.)	103	112	116	138	149	167
DPS	5	5	2	2	3	4
Valuation Ratios						
PER (x)	19	22	22	27	22	15
P/ABVPS (x)	3.2	2.9	2.8	2.4	2.2	2.0
Dividend Yield (%)	1.4	1.4	0.7	0.7	0.9	1.3
DuPont Analysis						
Int Income	7.9	7.7	7.3	6.8	6.9	7.0
Int Exp	4.8	4.6	4.3	4.0	4.0	4.0
NII	3.1	3.1	2.9	2.8	2.9	2.9
(-) Prov. Exp.	0.6	1.7	2.0	1.8	1.3	0.9
Adj. NII	2.4	1.4	0.9	1.1	1.6	2.0
Other Inc.	2.0	2.2	2.6	1.9	1.8	1.8
Op. Inc.	4.4	3.6	3.5	3.0	3.4	3.8
Opex	1.9	1.9	2.0	1.9	2.0	2.0
PBT	2.5	1.8	1.5	1.1	1.4	1.9
Taxes	0.7	0.4	0.2	0.1	0.4	0.5
RoA	1.8	1.4	1.3	1.0	1.0	1.4
Leverage	8.1	8.0	7.9	7.9	8.3	8.8
RoE	14.5	11.4	10.3	7.5	8.6	11.9

Source: Note - Valuation done on closing price of 15/02/2018

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Disclosure of Interest Statement	ICICI Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

February 15, 2018

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Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)

Reduce (-5% to -15%)

Neutral (-5 to 5%)

Sell (< -15)