

ICICI Bank

Performance Highlights

Particulars (₹ cr)	Q3FY17	Q2FY17	% chg (qoq)	Q3FY16	% chg (yoy)
NII	5,364	5,253	2.1	5,453	(1.6)
Pre-prov. profit	5,525	10,636	(48)	6,560	(15.8)
PAT	2,442	3,103	(21.3)	3,018	(19.1)

Source: Company, Angel Research

ICICI Bank's 3QFY17 results were in line with expectations. Though slippages remained high, on an absolute basis it was lower sequentially and large part of that came from the watch list. While overall loan book growth remained moderate, domestic business remained decent and fee income gained traction.

Run down in overseas book impacted the overall loan book: Overall loan growth remained muted up 5.2% YoY, flat QoQ. However, the domestic loan book grew by 12% YoY. The international book reported decline of 16.1% due to the maturity of FCNR linked advances to the tune of \$870Mn. The domestic loan growth continued to be driven by the retail loan portfolio which grew by 17.8% YoY. Retail loans contribution to the overall growth has been increasing off late and has gone up to 48.9% for the quarter, compared to 43.8% in same period last year.

Deposit growth were healthy backed by flows in CASA, due to demonetization: Deposits grew by 14.2% yoy, after considering redemption of FCNR linked deposits to the tune of \$1.75Bn, including which the deposit growth would have been 17%+. There was fresh accretion of CASA to the tune of ₹26,700cr, implying CASA growth of 15.9% YoY and 3.9% QoQ, thus the CASA ratio improved to 49.8% for Q3FY17 vs 45.7% in Q2FY17.

Rise in GNPA's was on expected line; Gross slippages for the quarters were at ₹7,037cr (6.1% slippages ratio) vs ₹8,029cr (7.1%). Of the total slippages ~94% came from the corporate accounts and 71% of the corporate slippages were from the watch list itself. Of the total slippages ~94% came from the corporate accounts and 71% of the corporate slippages were from the watch list itself. Accordingly, the amount of loans put under watch list came down to ₹27,536 cr vs ₹32,490cr. With the current rate we believe large part of the troubled accounts of the watch list should get over by FY18.

Outlook and valuation: While the near term outlook for ICICI Bank remains challenging, the asset quality issues is gradually waning. The bank might choose to grow slow as far as loan book is concerned which we believe is a right strategy. At the current market price, the bank's core banking business (after adjusting ₹80/share towards the value of subsidiaries) is trading at 1.3x FY2018E ABV. Though some pain in asset quality is likely to persist in the quarters to come, we believe the current valuations remain decent for the bank and hence **we have an Accumulate rating on the stock, with a target price of ₹315.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	19,040	21,224	21,069	25,818
% chg	15.6	11.5	(0.7)	22.5
Net profit	11,176	9,726	10,160	11,748
% chg	13.9	(13.0)	4.5	15.6
NIM (%)	3.2	3.3	3.1	3.3
EPS (₹)	19.3	16.7	17.4	20.2
P/E (x)	14.6	16.9	16.2	14.0
P/ABV (x)	2.2	2.2	2.0	1.9
RoA (%)	1.8	1.4	1.4	1.4
RoE (%)	14.5	11.4	10.5	10.8

Source: Company, Angel Research; Note: CMP as of February 13, 2017

ACCUMULATE

CMP	₹282
Target Price	₹315

Investment Period	12 Months
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Stock Info

Sector	Banks
Market Cap (₹ cr)	1,63,997
Beta	1.8
52 Week High / Low	298/181
Avg. Daily Volume	14,83,994
Face Value (₹)	2
BSE Sensex	28,352
Nifty	8,805
Reuters Code	ICBK.BO
Bloomberg Code	ICICIBC@IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	31.0
FII / NRIs / OCBs	63.0
Indian Public / Others	6.0

Abs. (%)	3m	1yr	3yr
Sensex	5.7	23.3	40.4
ICICIB	1.7	45.1	43.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY17 Income Statement (Standalone)

Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	% YoY	% QoQ
Interest earned	12,813	13,099	13,346	13,482	13,330	13,639	13,618	2.0	(0.2)
- on Advances / Bills	9,375	9,665	9,863	10,041	9,837	9,905	9,870	0.1	(0.4)
- on investments	2,659	2,661	2,652	2,652	2,811	2,997	2,948	11.1	(1.6)
- on balance with RBI & others	32	31	36	59	50	38	126	246.6	231.0
- on others	747	741	795	730	632	699	675	(15.1)	(3.5)
Interest Expended	7,697	7,847	7,893	8,077	8,172	8,386	8,254	4.6	(1.6)
Net Interest Income	5,115	5,251	5,453	5,405	5,159	5,253	5,364	(1.6)	2.1
Other income	2,990	3,007	4,217	5,109	3,429	9,119	3,938	(6.6)	(56.8)
- Fee income	2,110	2,235	2,262	2,212	2,156	2,356	2,495	10.3	5.9
- Treasury income	673	550	513	707	505	5,682	-	(100.0)	(100.0)
- Others	207	222	1,442	2,190	768	729	893	(38.1)	22.5
Operating income	8,105	8,259	9,670	10,513	8,588	14,372	9,302	(3.8)	(35.3)
Operating expenses	3,067	3,100	3,110	3,406	3,373	3,736	3,778	21.5	1.1
- Employee expenses	1,267	1,213	1,140	1,382	1,291	1,556	1,406	23.3	(9.6)
- Other Opex	1,800	1,888	1,970	2,024	2,082	2,180	2,372	20.4	8.8
Pre-provision Profit	5,038	5,158	6,560	7,108	5,215	10,636	5,525	(15.8)	(48.1)
Provisions & Contingencies	955	942	2,844	6,926	2,515	7,082	2,713	(4.6)	(61.7)
PBT	4,082	4,216	3,716	181	2,700	3,554	2,812	(24.3)	(20.9)
Provision for Tax	1,106	1,186	698	(521)	446	451	369	(47.0)	(18.1)
PAT	2,976	3,030	3,018	(2,898)	2,254	3,103	2,442	(19.1)	(21.3)
Effective Tax Rate (%)	27	28	19	(287)	17	13	13		

Source: Company, Angel Research

Exhibit 2: Loan Book Break Up

Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	% YoY	% QoQ
Domestic Corporate	1,14,725	1,16,353	1,25,222	1,19,698	1,27,637	1,25,829	1,29,921	3.8	3.3
Overseas branches	96,737	95,458	99,134	94,017	95,278	91,305	82,802	(16.5)	(9.3)
SME	17,189	17,617	20,001	18,716	17,977	19,533	21,044	5.2	7.7
Retail Total	1,71,088	1,80,265	1,90,442	2,02,833	2,08,534	2,17,588	2,23,703	17.5	2.8
-Home	93,927	99,326	1,04,553	1,09,530	1,13,234	1,18,150	1,22,142	16.8	3.4
-Vehicle loans	30,625	32,267	33,708	35,293	36,285	37,208	38,477	14.1	3.4
Rural	25,663	25,778	27,805	31,845	31,697	31,333	31,095	11.8	(0.8)
-Banking business	9,239	10,095	10,093	10,750	10,635	8,486	8,053	(20.2)	(5.1)
-Credit cards	4,106	4,507	5,142	5,476	5,839	6,092	7,158	39.2	17.5
-Personal loans	7,528	8,292	9,141	10,142	10,844	11,750	12,751	39.5	8.5
Others						4,569	4,027	-	-
Total advances	3,99,738	4,09,693	4,34,800	4,35,467	4,49,427	4,54,256	4,57,469	5.2	0.7

Source: Company, Angel Research

Domestic loan book grew at a healthy pace, run down in overseas book impacted the overall loan book:

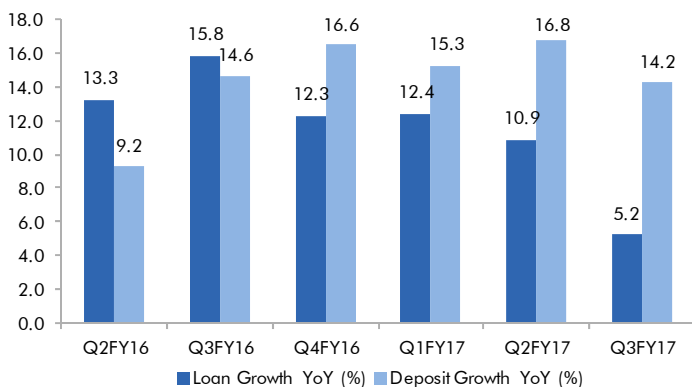
Overall loan growth remained muted up by only 5.2% YoY, and flat QoQ. However, the domestic loan book grew by 12% YoY. The international book reported decline of 16.1% due to the maturity of FCNR linked advances to the tune of \$870Mn. The domestic loan growth continued to be driven by the retail loan portfolio which grew by 17.8% YoY. However, the corporate loan book grew by a modest 4% as the management remains focused and has been selective while lending to the large corporates. SME portfolio also moderately grew by 6.6%.

Retail loans contribution to the overall growth has been increasing off late and has gone up to 48.9% for the quarter, compared to 43.8% in same period last year. Within the retail portfolio strong momentum was seen in the personal loans segment up 39.9% and credit card business up 39.7%. With lower incremental credit demand from corporates the growth will continue to be driven by the retail segment for ICICI Bank in the quarters to come.

Deposit growth were healthy backed by flows in CASA, due to demonetization:

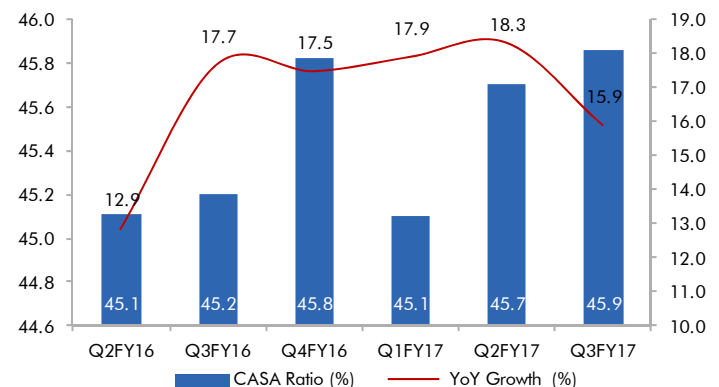
Deposits grew by 14.2% yoy, after considering redemption of FCNR linked deposits to the tune of \$1.75Bn, including which the deposit growth would have been 17%+. There was fresh accretion of CASA to the tune of ₹26,700cr, implying CASA growth of 15.9% YoY and 3.9% QoQ, thus the CASA ratio improved to 49.8% for Q3FY17 vs 45.7% in Q2FY17.

Exhibit 3: Loan Growth



Source: Company, Angel Research

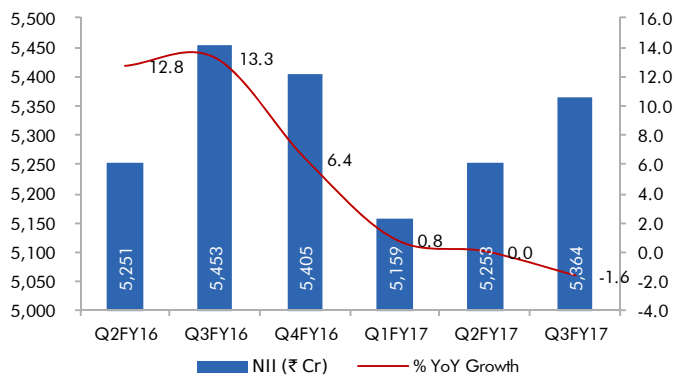
Exhibit 4: CASA Growth trend



Source: Company, Angel Research

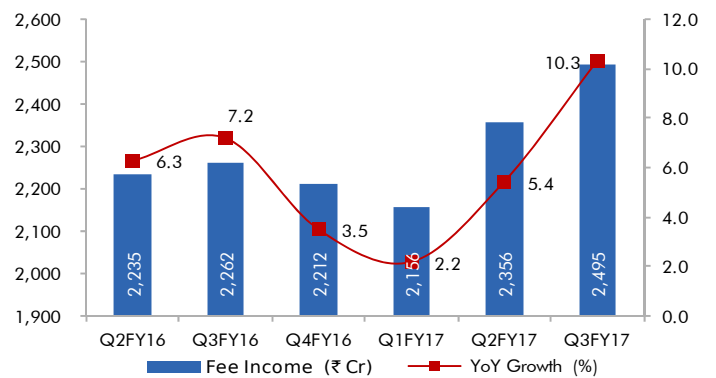
NII remained under pressure, while fee income supported bottom-line: NII continued to be under pressure and declined by 1.6% yoy, which can be attributed to the subdued loan growth and interest reversal due to slippages. After remaining subdued in the previous few quarters, fee income picked up and grew by 10% and traction in the fee income is expected to remain healthy in the quarters to come. Retail fees grew by 18% YoY and retail fees contributed to 71% of the total fees. Further credit cost remained under control for the quarter and this helped in PAT at ₹2442cr, which though declined by 19% YoY, still was better than our expectations. As slippages are expected to remain high in the quarters to come, the NII will also be under pressure in the coming quarters.

Exhibit 5: NII Growth remained subdued



Source: Company, Angel Research

Exhibit 6: Fee Income growth picked up



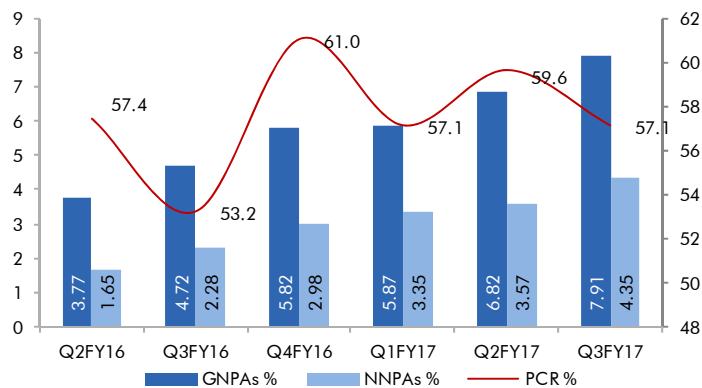
Source: Company, Angel Research

Rise in GNPA's was on expected line: The GNPA's went up by 17% QoQ to ₹37,716cr and GNPA's % went up by 110 bps to 7.91%. However, the rise in GNPA's was on the expected line. As indicated by the management earlier large part of the slippages came from the list of accounts put under watch. Gross slippages for the quarters were at ₹7,037cr (6.1% slippages ratio) vs ₹8,029cr (7.1%). Of the total slippages ~94% came from the corporate accounts and 71% of the corporate slippages were from the watch list itself. Accordingly, the amount of loans put under watch list came down to ₹27,536cr vs ₹32,490cr.

With the current rate we believe large part of the troubled accounts of the watch list should get over by FY18. While absolute slippages could remain high, the good part is that only 24% of the total slippages were from the non-watch list corporate accounts while the large part continued to come from the watch list, which indicates that the trouble of asset quality remains restricted to the watch list.

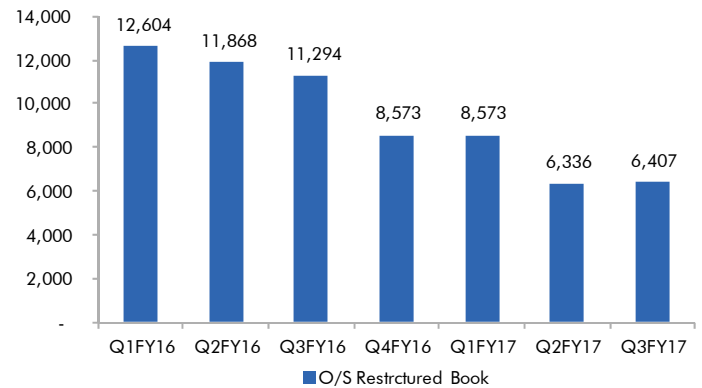
Couple of mid-sized accounts got restructured during the quarter and outstanding restructured loan book inched up marginally to ₹6,407 cr. Outstanding SDR loans stood at ₹3,400 cr , of which ₹2,800 cr from NPAs, while outstanding 5:25 stood at ₹3,300 cr, of which ₹2400 cr were from loans under watch list.

Exhibit 7: GNPAs & NNPA's went up



Source: Company, Angel Research

Exhibit 8: Restructured loan book remained stable



Source: Company, Angel Research

Outlook and Valuation

While the near term outlook for ICICI Bank remains challenging, the asset quality issues is gradually waning. The bank might choose to grow slow as far as loan book is concerned which we believe is a right strategy. At the current market price, the bank's core banking business (after adjusting ₹80/share towards the value of subsidiaries) is trading at 1.3x FY2018E ABV. Though some pain in asset quality is likely to persist in the quarters to come, we believe the current valuations remain decent for the bank and hence **we have an Accumulate rating on the stock, with a target price of ₹315.**

Exhibit 9: SOTP valuation summary

Particulars	Target multiple	Value/share (₹)
ICICI Bank	1.6x FY2018E ABV	229
Life Insurance	Based on Market Price	40
General Insurance	Based On Deal Value	21
Others (Home Fin, AMC, VC, Securities PD and Overseas subsidiaries)		25
SOTP value		315

Source: Angel Research

Company Background

ICICI Bank is India's largest private sector bank, with ~ 5% market share in credit. The bank has a pan-India extensive network of 4,504 branches and around 14,146 ATMs. The bank has a large overseas presence (overseas loans comprise ~18.1% of total loans). The bank also has market-leading subsidiaries in life insurance, general insurance and asset management segments.

Income statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Interest Income	13,866	16,476	19,040	21,224	21,069	25,818
- YoY Growth (%)	29.2	18.8	15.6	11.5	(0.7)	22.5
Other Income	8,346	10,428	12,176	15,323	20,737	16,175
- YoY Growth (%)	11.2	24.9	16.8	25.8	35.3	-22.0
Operating Income	22,212	26,903	31,216	36,547	41,805	41,993
- YoY Growth (%)	21.8	21.1	16.0	17.1	14.4	0.4
Operating Expenses	9,013	10,309	11,496	12,684	14,575	16,536
- YoY Growth (%)	14.8	14.4	11.5	10.3	14.9	13.5
Pre - Provision Profit	13,199	16,595	19,720	23,863	27,230	25,457
- YoY Growth (%)	27.1	25.7	18.8	21.0	14.1	(6.5)
Prov. & Cont.	1,803	2,626	3,900	11,668	15,213	8,053
- YoY Growth (%)	13.9	45.7	48.5	199.2	30.4	(47.1)
Profit Before Tax	11,397	13,968	15,820	12,196	12,016	17,404
- YoY Growth (%)	29.5	22.6	13.3	(22.9)	(1.5)	44.8
Prov. for Taxation	3,071	4,158	4,644	2,469	1,857	5,656
- as a % of PBT	26.9	29.8	29.4	20.2	15.5	32.5
PAT	8,325	9,810	11,176	9,726	10,160	11,748
- YoY Growth (%)	28.8	17.8	13.9	(13.0)	4.5	15.6

Balance sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Share Capital	1,154	1,155	1,160	1,163	1,165	1,165
Reserve & Surplus	65,552	72,052	79,262	88,566	1,03,455	1,11,678
Deposits	2,92,614	3,31,914	3,61,563	4,21,426	4,74,590	5,47,221
- Growth (%)	14.5	13.4	8.9	16.6	12.6	15.3
Borrowings	1,45,341	1,54,759	1,72,417	1,74,807	1,66,106	2,07,944
- Growth (%)	3.7	6.5	11.4	1.4	-5.0	25.2
Other Liab. & Prov.	32,134	34,756	31,720	34,726	37,967	49,250
Total Liabilities	5,36,795	5,94,642	6,46,129	7,20,688	7,83,283	9,17,258
Cash in Hand and with RBI	19,053	21,822	25,653	27,106	28,475	32,833
Bal. with banks & money at call	22,365	19,708	16,652	32,763	20,170	23,257
Investments	1,71,394	1,77,022	1,86,580	1,60,412	1,89,005	2,37,877
Advances	2,90,249	3,38,703	3,87,522	4,35,264	4,71,194	5,45,930
- Growth (%)	14.4	16.7	14.4	12.3	8.3	15.9
Fixed Assets	4,647	4,678	4,726	7,577	6,882	7,935
Other Assets	29,087	32,709	24,997	57,567	67,557	69,426
Total Assets	5,36,795	5,94,642	6,46,129	7,20,688	7,83,283	9,17,258

Ratio analysis (Standalone)

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Profitability ratios (%)						
NIMs	2.9	3.1	3.2	3.3	3.1	3.3
Cost to Income Ratio	40.6	38.3	36.8	34.7	34.9	39.4
RoA	1.6	1.7	1.8	1.4	1.4	1.4
RoE	13.1	14.0	14.5	11.4	10.5	10.8
B/S ratios (%)						
CASA Ratio	41.9	42.9	45.5	45.8	45.9	46.1
Credit/Deposit Ratio	99.2	102.0	107.2	103.3	99.3	99.8
CAR	18.7	17.7	17.0	16.6	16.8	15.8
- Tier I	5.9	4.9	4.2	3.5	3.4	3.1
Asset Quality (%)						
Gross NPAs	3.2	3.0	3.8	5.8	7.4	6.7
Net NPAs	0.6	1.0	1.6	3.0	4.6	4.5
Slippages	1.4	1.7	2.4	4.4	3.7	2.6
Loan Loss Prov. /Avg. Assets	0.6	0.8	1.0	2.7	3.2	1.5
Provision Coverage	76.8	70.4	59.1	50.3	52.0	52.5
Per Share Data (₹)						
EPS	14.4	17.0	19.3	16.7	17.4	20.2
ABVPS	111.8	121.1	127.9	129.5	142.2	151.7
DPS	4.0	4.4	4.8	5.0	5.0	6.0
Valuation Ratios						
PER (x)	19.5	16.6	14.6	16.9	16.2	14.0
P/ABVPS (x)	2.5	2.3	2.2	2.2	2.0	1.9
Dividend Yield	1.4	1.6	1.7	1.8	1.8	2.1
DuPont Analysis						
NII	2.7	2.9	3.1	3.1	2.8	3.0
(-) Prov. Exp.	1.6	1.8	2.0	2.2	2.8	1.9
Adj NII	4.3	4.8	5.0	5.3	5.6	4.9
Other Inc.	1.8	1.8	1.9	1.9	1.9	1.9
Op. Inc.	2.6	2.9	3.2	3.5	3.6	3.0
Opex	0.4	0.5	0.6	1.7	2.0	0.9
PBT	2.2	2.5	2.6	1.8	1.6	2.0
Taxes	0.6	0.7	0.7	0.4	0.2	0.7
ROA	1.6	1.7	1.8	1.4	1.4	1.4
Leverage	8.1	8.1	8.1	8.0	7.7	7.8
RoE	13.1	14.0	14.5	11.4	10.5	10.8

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ICICI Bank

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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)