

ICICI Bank

Performance Highlights

Particulars (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)
NII	5,253	5,159	1.8	5,251	0.0
Pre-prov. profit	10,636	5,215	104	5,158	106
PAT	3,103	2,254	37.7	3,030	2.4

Source: Company, Angel Research

ICICI Bank's 2QFY17 results have been encouraging. While slippages remained high, large part of that came from the watch list. The bank has utilized part of the proceeds from stake sale in insurance business towards provisions. Management commentary also remained optimistic, as no addition is expected to the watch list; sharp deterioration of the accounts within the watch list is also unlikely.

Overall loan growth remained subdued due to run down in overseas operations:

Domestic loan growth remained decent, growing by 15.9%. However, the overseas loan book came down by 4%, as a result the overall loan book remained muted, growing by only 10.9% YoY. Retail loans continued to grow at a healthy pace, up by 21.1% YoY and now accounted for 47.9% (46.4% QoQ, 44% YoY) of the total loan book. Within the domestic corporate side, the bank has been selectively lending to high rated corporate only; hence, the growth in that segment was only 8%. Deposit growth remained strong, up by 16.8%. CASA ratio stood at 45.7%. The curb on cash transaction by Govt is likely to have a positive impact on banks, as they will be receiving substantially high deposits from account holders.

Large part of the slippages from the watch list only: During the quarter, the bank reported slippages worth ₹8,029cr vs. ₹8,249cr QoQ. Slippages from watch list was ₹4,555cr flat QoQ and from that of restructured loan book was ₹1,231cr vs. ₹1,321cr QoQ. While in absolute term, the slippages remained high, the only comforting point is that 72% (83% including sales to ARC) of the slippages came from the list of accounts, which has already been under watch by the bank. The drill down list of accounts, which is prone to falling into NPA, has come down by ₹6,242cr during the quarter to ₹32,490cr vs. ₹38,732cr in 1QFY17.

Outlook and valuation: Earnings growth for ICICI Bank is likely to remain under pressure for the next few quarters, due to elevated slippages and resultant credit cost. However, the good part is that large part of the slippages has been coming from the known accounts and hence asset quality after few quarters should stabilize, which will pave the ways for secular growth FY18 onwards. The stock has seen quite a run up in the last few months, however we believe as more clarity emerges on its book the valuation gap of ICICI vs other Pvt Sector banks should narrow down. At the CMP the stock is trading at 1.4x its FY18E ABV (Excluding ₹80 for all the subsidiaries). **We recommend an Accumulate rating on the stock, with a revised target price of ₹315.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	19,040	21,224	22,252	28,711
% chg	15.6	11.5	4.8	29.0
Net profit	11,176	9,726	10,498	12,734
% chg	13.9	(13.0)	7.9	21.3
NIM (%)	3.2	3.3	3.1	3.3
EPS (₹)	19.3	16.7	18.0	21.9
P/E (x)	14.2	16.3	15.1	12.5
P/ABV (x)	2.1	2.1	2.1	1.9
RoA (%)	1.8	1.4	1.3	1.4
RoE (%)	14.5	11.4	11.1	12.3

Source: Company, Angel Research; Note: CMP as of November 11, 2016

ACCUMULATE

CMP	₹277
Target Price	₹315

Investment Period	12 Months
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Stock Info	
Sector	Banking
Market Cap (₹ cr)	161,198
Beta	1.7
52 Week High / Low	298 / 181
Avg. Daily Volume	1,496,033
Face Value (₹)	2
BSE Sensex	26,819
Nifty	8,296
Reuters Code	ICBK.NS
Bloomberg Code	ICICIBC@IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian Fls	29.9
FII / NRIs / OCBs	63.7
Indian Public / Others	6.4

Abs. (%)	3 m	1 yr	3 yr
Sensex	(3.7)	3.7	30.9
ICICI Bank	14.3	4.9	33.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2017 performance (Standalone)

Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	% YoY	% QoQ
Interest earned	12,813	13,099	13,346	13,482	13,330	13,639	4.1	2.3
- on Advances / Bills	9,375	9,665	9,863	10,041	9,837	9,905	2	0.7
- on investments	2,659	2,661	2,652	2,652	2,811	2,997	13	6.6
- on balance with RBI & others	32	31	36	59	50	38	21	(24.2)
- on others	747	741	795	730	632	699	(6)	10.6
Interest Expended	7,697	7,847	7,893	8,077	8,172	8,386	7	2.6
Net Interest Income	5,115	5,251	5,453	5,405	5,159	5,253	0.0	1.8
Other income	2,990	3,007	4,217	5,109	3,429	9,119	203	165.9
- Fee income	2,110	2,235	2,262	2,212	2,156	2,356	5	9.3
- Treasury income	673	550	513	707	505	5,682	933	1025.1
- Others	207	222	1,442	2,190	768	729	(228)	(5.1)
Operating income	8,105	8,259	9,670	10,513	8,588	14,372	74.0	67.4
Operating expenses	3,067	3,100	3,110	3,406	3,373	3,736	21	10.8
- Employee expenses	1,267	1,213	1,140	1,382	1,291	1,556	28	20.6
- Other Opex	1,800	1,888	1,970	2,024	2,082	2,180	15	4.7
Pre-provision Profit	5,038	5,158	6,560	7,108	5,215	10,636	106.2	104.0
Provisions & Contingencies	955	942	2,844	6,926	2,515	7,082	652	181.6
PBT	4,082	4,216	3,716	181	2,700	3,554	(15.7)	31.6
Provision for Tax	1,106	1,186	698	(521)	446	451	(62)	(1.1)
PAT	2,976	3,030	3,018	(2,898)	2,254	3,103	2.4	37.7
Effective Tax Rate (%)	27	28	19	(287)	28	28	-	-

Source: Company, Angel Research

Exhibit 2: 2QFY2017 Loan Book Composition (Standalone)

Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	% YoY	% QoQ
Domestic Corporate	114,725	116,353	125,222	119,698	127,637	125,829	8.1	(1.4)
Overseas branches	96,737	95,458	99,134	94,017	95,278	91,305	(4)	(4.2)
SME	17,189	17,617	20,001	18,716	17,977	19,533	10.9	8.7
Retail Total	171,088	180,265	190,442	202,833	208,534	217,588	21	4.3
-Home	93,927	99,326	104,553	109,530	113,234	118,150	19	4.3
-Vehicle loans	30,625	32,267	33,708	35,293	36,285	37,208	15	2.5
Rural	25,663	25,778	27,805	31,845	31,697	31,333	22	(1.1)
-Banking business	9,239	10,095	10,093	10,750	10,635	8,486	(16)	(20.2)
-Credit cards	4,106	4,507	5,142	5,476	5,839	6,092	35	(4.3)
-Personal loans	7,528	8,292	9,141	10,142	10,844	11,750	42	8.4
Others	-	-	-	-	-	4,569	-	-
Total advances	171,088	180,265	190,442	203,036	208,534	217,588	21	4.3

Source: Company, Angel Research

Overall loan growth remained subdued due to run down in overseas operations:

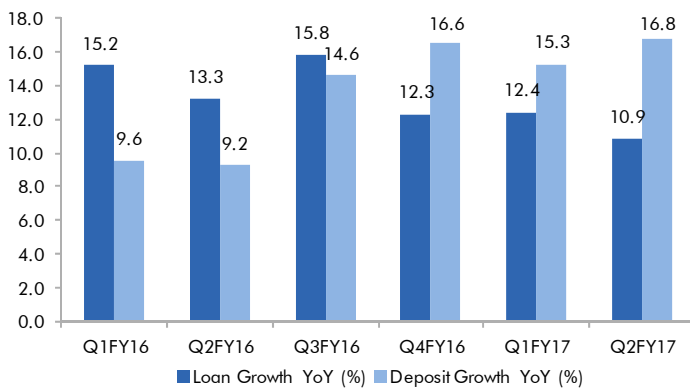
Domestic loan growth remained decent, growing by 15.9%. However, the overseas loan book came down by 4%, as a result the overall loan book remained muted, growing by only 10.9% YoY. Retail loans continued to grow at a healthy pace, up by 21.1% YoY and now accounted for 47.9% (46.4% QoQ, 44% YoY) of the total loan book. Within the retail loan portfolio, mortgages grew by 19% and auto by 14%. Growth in business banking and rural segment was even healthier, growing by 26% and 30% YoY, respectively.

Within the domestic corporate side, the bank has been selectively lending to high rated corporate only; hence, the growth in that segment was only 8%. Share of overseas loan book has come down to 20.1% compared to 23.3% YoY, which seems a conscious call by the management.

Deposits growth outpaced loan growth:

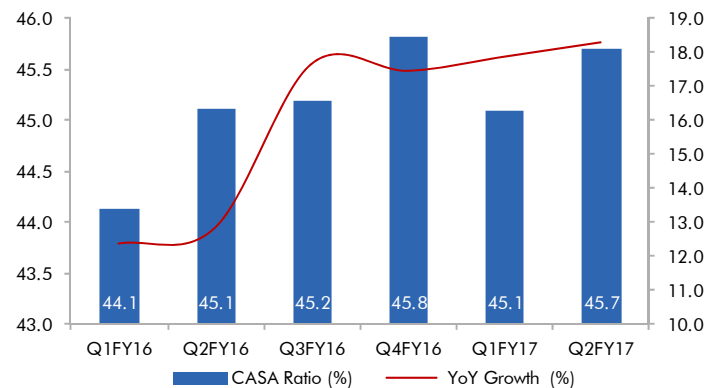
Deposit growth remained strong and outpaced loan growth, up by 16.8%. CASA growth was also strong in line with deposit growth, up by 18% yoy and CASA ratio stood at 45.7%. Within CASA, saving accounts deposit grew by 22%, while current deposits grew by 11%. Despite subdued deposit growth in the industry, ICICI Bank has been able to garner strong CASA deposit, which speaks for the strong franchise it has developed over the years.

Exhibit 3: Loan & Deposit Growth



Source: Company, Angel Research

Exhibit 4: CASA growth & CASA ratio

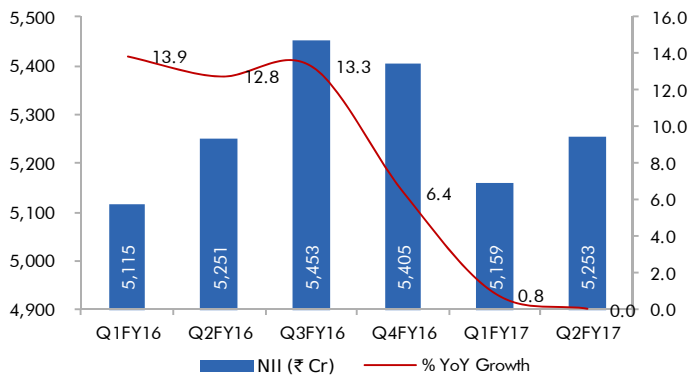


Source: Company, Angel Research

One time gain on stake sale in ICICI-Prudential helped in taking higher provisions:

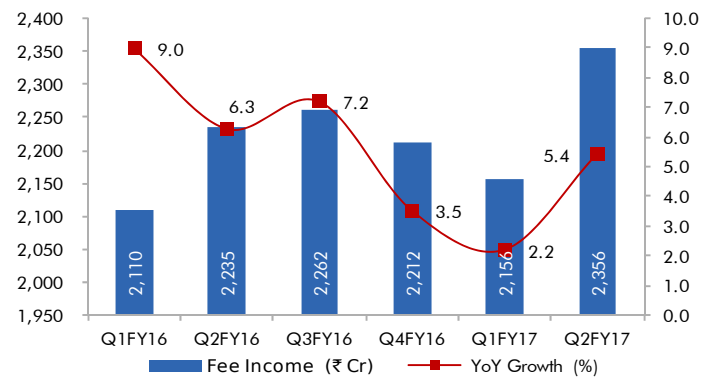
Core fee income remained subdued during the quarter growing by only 5.4% YoY. However, during the quarter the bank booked ₹ 5,682 cr on account of its stake sale in the Life Insurance business. The management has judiciously utilized the onetime gain in taking higher provisions, which has further strengthened its balance sheet. The bank utilized ₹680cr from the earlier contingency provisions created.

Exhibit 5: NII remained flat amid slippages



Source: Company, Angel Research

Exhibit 6: Fee Income also remained subdued

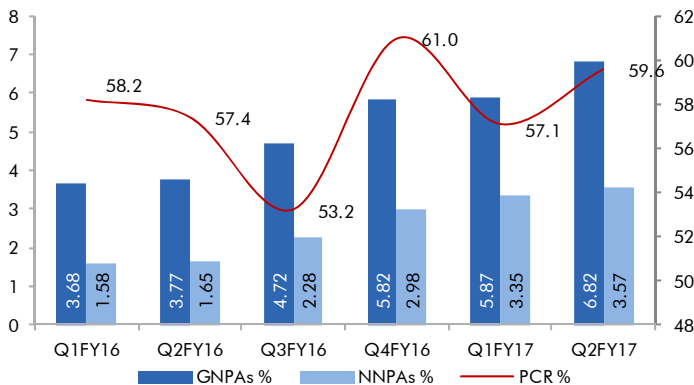


Source: Company, Angel Research

Large part of the slippages from the watch list only; during the quarter, the bank reported slippages worth ₹8,029cr vs. ₹8,249cr QoQ. Slippages from watch list was ₹4,555cr flat QoQ and from that of restructured loan book was ₹1,231cr vs. ₹1,321cr QoQ. While in absolute term, the slippages numbers remained high, the only comforting point is that 72 % (83% including sales to ARC) of the slippages came from the list accounts, which has already been under watch by the bank. The drill down list of accounts, which is prone to falling into NPA, has come down by ₹6,242cr during the quarter.

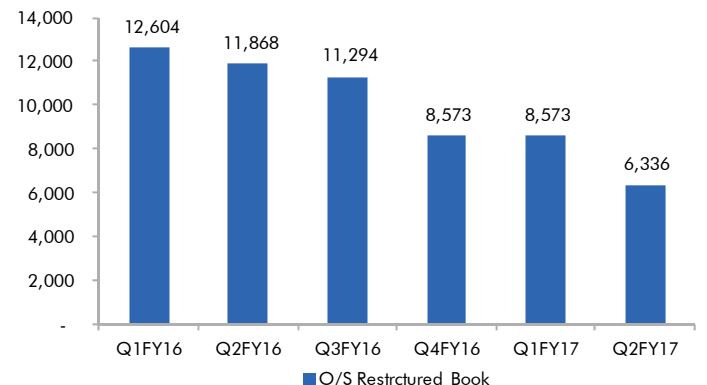
In 2QFY17, the bank sold NPAs worth ₹1,787cr. Loans outstanding on which SDR has been implemented stood at ₹2,900cr. Outstanding 5:25 loans were at ₹2,700cr.

Exhibit 7: GNPA% remained high, PCR improved



Source: Company, Angel Research

Exhibit 8: Restructured Loan Book has been declining.



Source: Company, Angel Research

Outlook and Valuation

Earnings growth for ICICI Bank is likely to remain under pressure for the next few quarters, due to elevated slippages and resultant credit cost. However, the good part is that large part of the slippages has been coming from the known accounts and hence asset quality after few quarters should stabilize, which will pave the ways for secular growth FY18 onwards. The stock has seen quite a run up in the last few months, however we believe as more clarity emerges on its book the valuation gap of ICICI vs other Pvt Sector banks should narrow down. At the CMP the stock is trading at 1.4x its FY18E ABV (Excluding ₹80 for all the subsidiaries). **We recommend an Accumulate rating on the stock, with a revised target price of ₹315.**

Exhibit 9: SOTP valuation summary

Particulars	Target multiple	Value/share (₹)
ICICI Bank	1.4x 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 more than 5% market share in credit. The bank has a pan-India extensive network of 4,450 branches and around 13,776 ATMs. The bank has a large overseas presence (overseas loans comprise ~20% 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	22,252	28,711
- YoY Growth (%)	29.2	18.8	15.6	11.5	4.8	29.0
Other Income	8,346	10,428	12,176	15,323	20,548	15,975
- YoY Growth (%)	11.2	24.9	16.8	25.8	34.1	-22.3
Operating Income	22,212	26,903	31,216	36,547	42,800	44,686
- YoY Growth (%)	21.8	21.1	16.0	17.1	17.1	4.4
Operating Expenses	9,013	10,309	11,496	12,684	14,784	17,510
- YoY Growth (%)	14.8	14.4	11.5	10.3	16.6	18.4
Pre - Provision Profit	13,199	16,595	19,720	23,863	28,016	27,176
- YoY Growth (%)	27.1	25.7	18.8	21.0	17.4	-3.0
Prov. & Cont.	1,810	2,626	3,900	11,668	14,622	8,311
- YoY Growth (%)	13.9	45.7	48.5	199.2	25.3	-43.2
Profit Before Tax	11,390	13,968	15,820	12,196	13,394	18,865
- YoY Growth (%)	29.5	22.6	13.3	(22.9)	9.8	40.8
Prov. for Taxation	3,064	4,158	4,644	2,469	2,896	6,131
- as a % of PBT	26.9	29.8%	29.4%	20.2%	21.6	32.5
PAT	8,325	9,810	11,176	9,726	10,498	12,734
- YoY Growth (%)	28.8	17.8	13.9	(130.)	7.9	21.3

Balance sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Share Capital	1,154	1,161	1,167	1,163	1,165	1,165
Reserve & Surplus	65,552	72,052	79,262	88,566	98,128	1,07,042
Deposits	2,92,614	3,31,914	3,61,563	4,21,426	4,85,715	5,60,049
- Growth (%)	14.5	13.4	8.9	16.6	15.3	15.3
Borrowings	1,45,341	1,54,759	1,72,417	1,74,807	2,04,000	2,74,424
Other Liab. & Prov.	32,134	34,757	31,720	34,726	53,429	61,605
Total Liabilities	5,36,795	5,94,642	6,46,129	7,20,688	8,42,437	10,04,285
Cash in Hand & with RBI	19,053	21,822	25,653	27,106	29,143	33,603
Bal. with banks & money at call	22,365	19,708	16,652	32,763	20,643	23,802
Investments	1,71,394	1,77,022	1,86,580	1,60,412	2,58,643	3,12,927
Advances	2,90,249	3,38,703	3,87,522	4,35,264	4,91,311	5,69,238
- Growth (%)		16.7	14.4	12.3	12.9	15.9
Fixed Assets	4,647	4,678	4,726	7,577	7,043	8,121
Other Assets	29,087	32,709	24,997	57,567	35,654	56,594
Total Assets	5,36,795	5,94,642	6,46,129	7,20,688	8,42,437	10,04,285
- Growth (%)	11.4	10.8	8.7	11.5	16.9	19.2

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	34.5	39.2
RoA	1.6	1.7	1.8	1.4	1.3	1.4
RoE	13.1	14.0	14.5	11.4	11.1	12.3
B/S ratios (%)						
CASA Ratio	41.9	42.9	45.5	45.8	46.0	46.1
Credit/Deposit Ratio	99.2	102.0	107.2	103.3	101.2	101.6
CAR	18.7%	17.7%	17.0%	16.6%	15.7%	14.5%
- Tier I	5.9%	4.9%	4.2%	3.5%	3.2%	2.8%
Asset Quality (%)						
Gross NPAs	3.2	3.0	3.8	5.8	7.1	6.5
Net NPAs	0.6	1.0	1.6	3.0	4.5	4.4
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	3.0	1.5
Provision Coverage	76.8	70.4	59.1	50.3	52.0	52.1
Per Share Data (₹)						
EPS	14.4	17.0	19.3	16.7	18.0	21.9
ABVPS	111.8	121.1	127.9	129.5	132.9	143.1
DPS	4.0	4.4	4.8	5.0	5.0	6.0
Valuation Ratios						
PER (x)	18.9	16.1	14.2	16.3	15.1	12.5
P/ABVPS (x)	2.4	2.3	2.1	2.1	2.1	1.9
Dividend Yield	1.4	1.5	1.6	1.7	1.7	2.1
DuPont Analysis						
NII	2.7	2.9	3.1	3.1	2.8	3.1
Non Interest Income	1.6	1.8	2.0	2.2	2.6	1.7
Total Revenues	4.3	4.8	5.0	5.3	5.5	4.8
Operating Cost	1.8	1.8	1.9	1.9	1.9	1.9
PPP	2.6	2.9	3.2	3.5	3.6	2.9
Total Provisions	0.4	0.5	0.6	1.7	1.9	0.9
PreTax Profit	2.2	2.5	2.6	1.8	1.7	2.0
Tax	0.6	0.7	0.7	0.4	0.4	0.7
ROA	1.6	1.7	1.8	1.4	1.3	1.4
Leverage	8.1	8.1	8.1	8.0	8.3	8.9
RoE (%)	13.1	14.0	14.5	11.4	11.1	12.3

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ICICI Bank

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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)