

ICICI BANK LTD

BFSI

7 MAR 2018

Company Update

BUY

Target Price : Rs 410

CMP : Rs 371
 Potential Upside : 11%
 Relative to Sector : Positive

MARKET DATA

No. of Shares : 644.19 Cr
 FV (Rs) : 2
 Market Cap (Rs Cr.) : 2,38,350
 52-week High / Low : Rs 384 / Rs 257
 Avg. Daily vol. (6mth) : 99,49,991 shares
 Bloomberg Code : ICICIBC IN
 Reuters Code : ICBK BO
 BSE Code : 532174
 NSE Code : ICICIBANK

Improvement on track...

ICICI Bank reported a stable third quarter performance with sharp improvement in asset quality. Slippages have moved to normalized levels (1.5% of loans), gross NPA ratio is at a two-year low while net NPA ratio is at a three-year low. As incremental stress additions reduce, decline in credit costs will support ROE normalization.

Levers are in place for continued traction and performance is expected to improve hereon. ICICIBC is entering a new phase characterised by better asset quality, healthy credit growth and superior margins. We expect the bank to be well placed to capitalise on the credit up-cycle and expect management to achieve its near-term RoE target of 15%. Subsidiaries remain profitable and add meaningfully to SOTP. **We assign a BUY on the stock with a target price of Rs 410 (on SOTP assigning 2xcore ABV and sub. value of Rs 80).**

Key Highlights

Q3FY19 – Asset quality on mend, operating metrics stable

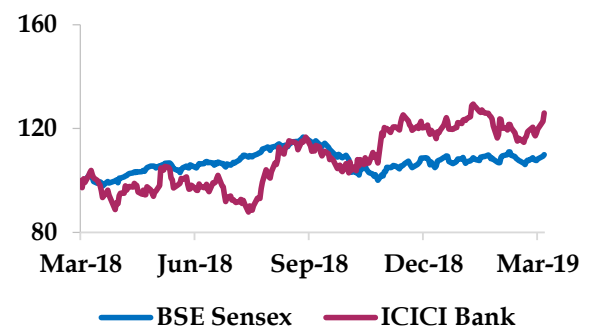
- Asset quality improves sharply:** Headline NPAs improved in third consecutive quarter of FY19. Gross NPAs declined ~80 bps QoQ to 7.75% of loans while net NPAs declined 107 bps QoQ to 2.6% of loans. Slippages have normalized to 1.5% of loans which is an eighteen quarter low. The outstanding share of below investment grade portfolio is at 3.3% of loans, a decline of 70 bps QoQ. Provision coverage ratio stands comfortable at ~70% levels. The improvement in asset quality is firmly underway and one should expect a sharp reduction in credit costs, which should aid RoE improvement.

FINANCIAL SUMMARY (Standalone)

Y/E	NII	PAT	EPS	EPS chg	Book	ABV	PE	P/ABV	ROE	ROA
March	(Rs Cr)	(Rs Cr)	(Rs)	(%)	Value (Rs)	(Rs)	(x)	(x)	(%)	(%)
FY18	2,30,258	67,774	10.5	(31.4)	163.6	110.7	35.5	2.4	6.6%	0.8%
FY19E	2,64,330	49,618	7.7	(26.6)	166.0	121.0	48.3	2.1	4.7%	0.5%
FY20E	3,08,166	1,41,217	22.1	187.6	183.8	140.8	16.8	1.6	12.5%	1.4%
FY21E	3,61,448	1,78,068	27.9	26.3	205.9	164.9	13.3	1.2	14.2%	1.5%

Source: Company, Axis Securities, Consensus Estimates

PRICE PERFORMANCE



Siji Philip
siji.philip@axissecurities.in

Key Highlights (Cont'd)

- **Loan growth steady:** Loan growth maintained steady pace of 11.7% YoY in Q3FY19. Loans to domestic corporate were flat YoY whereas international lending (mostly wholesale) was down 5% YoY. Retail loans, on the other hand, continued to witness strong growth at 22% YoY. This included portfolio buyouts worth ~Rs 6,800 cr in Q3FY19 from the mortgage and auto loan space. The share of retail loans increased to 59% of overall portfolio (up 170 bps QoQ/480 bps YoY).
- **Deposits strong:** Deposit growth was strong at 17% YoY in Q3FY19 led by robust improvement in CASA. Growth in CASA at 15% YoY in Q3FY19 was led by 18% steep rise in CA and modest 13% increase in SA. Though CASA ratio dropped 150 bps QoQ to 49.3%, it is amongst the best among banks. This strong liability franchise will help in keeping cost of funds low.
- **NIMs expand:** Reported NIM improved by 7 bps QoQ to 3.4% driven by 17 bps impact on yields owing to one-off income recognition from resolution of stressed corporate account. Yields reported at 8.1% were up 53 bps QoQ in Q3FY19. This was partially offset by 24 bps QoQ rise in cost of funds to 5.1% on the back of marginal drop in CASA and rise in TD rates. We expect bank to witness marginal pressure on NIMs with change in loan mix to lower-yielding retail products and time lag in re-pricing loans and deposits.
- **Mixed performance of subsidiaries:** Consolidated net profits declined 1% YoY to Rs 1,874 cr in Q3FY19. The drop in profits was largely led by decline in profits (down 34% YoY) of the life insurance subsidiary and muted growth (almost flattish - up 3% YoY) of the general insurance business. Profits of the broking arm, ICICI Securities were flat YoY. Among the international subsidiaries, the Canadian subsidiary recorded strong growth in profits at 69% YoY while the losses for the UK subsidiary continue to inflate. Among other business lines, the AMC recorded robust rise in profits at 20% YoY while profits declined 3% YoY for the home finance subsidiary.

Outlook

ICICI Bank is India's second-largest private bank with a loan book size of Rs 5,12,400cr (FY18). As of FY18, the bank had market share of ~5.9% in system loans. The bank has a strong distribution network of 4,867 branches and 14,367 ATMs. The bank through its subsidiaries is present across the spectrum of financial services catering to corporate as well as retail customers. The Group is among the top players in life and non-life businesses among private players. Investment banking was set up in 1995 in a JV with JP Morgan.

- **Loan growth to improve:** Loan growth will be driven largely by growth in retail loans (~20% YoY), SME (~15-20% YoY) and domestic corporate loans (~15% YoY). Business growth in the near term will be driven by retail and high yielding products like credit cards, personal loans and business banking. Within corporate loans, demand will come from working capital finance and transaction banking related loans. Overseas loans should stabilize by FY20. The bank remains cautious in agriculture/builder segments. Lending to select NBFCs and buyout of good portfolios will continue.
- **Healthy retail matrix to continue:** Bank has maintained its strong retail base with an average CASA of 46% and almost 90% of retail book is secured. NIMs have gradually gone up to 3.4% despite increasing competition on account of structural improvement in liability and ALM profile. CASA ratios and SA growth could moderate hereon. Funding for credit-worthy NBFCs/HFCs has become easier in Q4FY19 versus Q3FY19.
- **ROE target maintained at 15%:** The 15% RoE target for June 2020 is the immediate focus for the bank. ICICIB is trying to bring down credit costs, focus on improving risk-adjusted margins and working to bring down operating costs to achieve this.
- **Decline in stressed loan book:** There been a consistent decline in the overall pool of stress loans. The bulk of NPA recognition is happening from this watch-list. With most of the lumpy corporate accounts recognized, we expect less negative surprise in the coming quarters.

ICICIB operating performance is improving with stressed asset resolution and growth pick-up and is showing healthy signs of earnings normalization. Strong capitalization (Tier I - 15.1%), significant improvement in granularity of book (>60% Retail & SME) and sustained improvement in liability profile are the key positives. With asset quality stabilizing, we expect credit cost to moderate meaningfully boosting return ratios.

We assign a BUY on the stock with an SOTP of Rs 410 (2x core ABV and subsidiary value of Rs 80).

SOTP Valuation

	Rs cr	Per Share	Methodology
ICICI Bank	1,91,745	330	2x FY21E ABV
ICICI Life Insurance	28,029	48	11% APE CAGR FY18-21E; NBAP Margin at 16%.
ICICI General Insurance	6,869	12	10x FY20E PAT
ICICI AMC	3,378	6	7% of FY20E AUM
ICICI UK	4,121	7	1x FY20E BV
ICICI Canada	5,106	9	1x FY20E BV
ICICI Housing Finance	4,567	8	1.8x FY20E ABV
ICICI Sec	4,744	8	16x FY20E PAT
Others	1,453	3	I Ventures and others
Total Val of Sub.	58,268	100	
Less: 20% holding discount	11,654	20	
Net Value of Sub.	46,615	80	
Total Value	2,38,360	410	

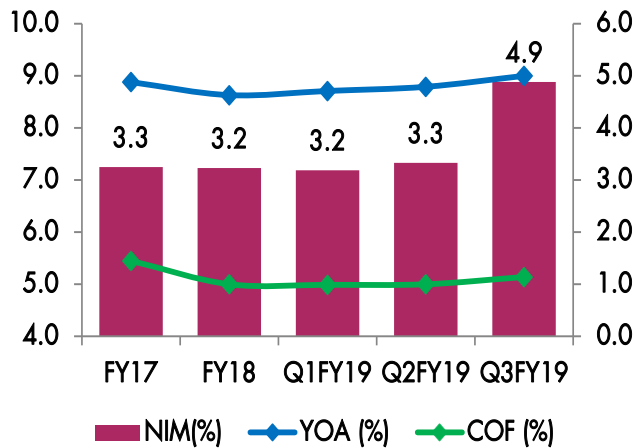
Retail book gaining traction

Loan break-up (%)	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19
Retail	42.5	46.6	51.8	56.6	57.5	57.3	59.0
<i>Housing</i>	23.0	25.2	27.6	29.3	29.9	29.5	30.3
<i>Auto</i>	4.8	5.1	5.5	5.8	5.7	5.5	5.5
<i>Commercial Vehicles</i>	2.8	2.9	3.3	3.4	3.4	3.4	3.8
<i>Personal Loans</i>	1.8	2.3	3.1	3.4	4.3	4.6	4.9
<i>Credit Card</i>	1.0	1.3	1.6	1.8	2.0	1.9	2.0
<i>Others</i>	9.0	9.8	10.8	12.8	12.1	12.3	12.5
Domestic corporate	28.8	27.5	27.3	25.9	25.4	25.4	24.1
SME	4.4	4.4	4.8	5.0	4.6	4.6	4.9
International	24.3	21.6	16.1	12.6	12.5	12.7	11.9

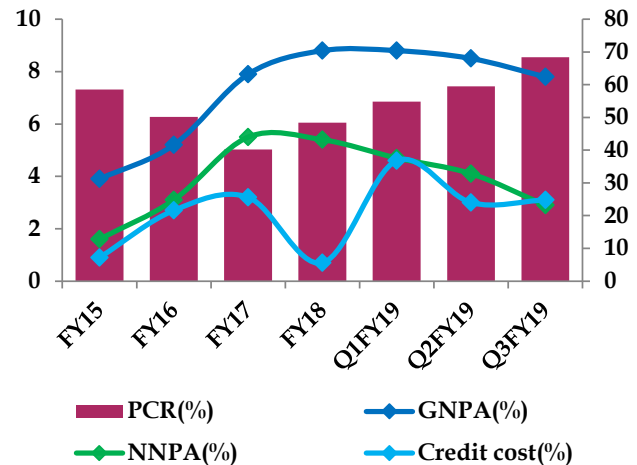
Subsidiaries performance mixed...

PAT (Rs cr)	Q3FY19	Q2FY19	Q3FY18	YoY(%)	QoQ(%)	FY18	FY17	YoY (%)
ICICI Securities	154	134	153	0.7	14.9	558	339	64.6
ICICI Prudential Life	297	301	452	-34.3	-1.3	1620	1682	-3.7
ICICI Lombard	239	293	232	3.0	-18.4	862	702	22.8
ICICI UK	-104	-103	11.5	NM	NM	-166.1	-108.5	NM
ICICI Canada	72.4	66.5	42.7	69.6	8.9	225.4	-169.4	-233.1
ICICI AMC	193	196	161	19.9	-1.5	625	481	29.9
ICICI PD	123	-43	-31	NM	NM	111	412	-73.1

NIMs on the uptrend



Sharp improvement in asset quality



Source: Company, Axis Securities

Results Update (Standalone)

(Rs.Cr.)	Quarterly Performance				
	Q3FY19	Q3FY18	% Change (YoY)	Q2FY19	% Change (QoQ)
Net Interest Income	6,875	5,705	20.5	6,418	7.1
Non-Interest Income	3,883	3,167	22.6	3,156	23.0
Treasury Income	479	66	625.8	-35	
Operating Income	10,758	8,872	21.3	9,574	12.4
Operating Expenses	4,612	3,814	20.9	4,324	6.6
Staff cost	1,734	1,363	27.3	1,661	4.4
Others	2,878	2,452	17.4	2,663	8.1
PPoP	6,146	5,058	21.5	5,250	17.1
Provisions	4,244	3,570	18.9	3,994	6.3
PBT	1,902	1,488	27.8	1,255	51.5
Tax Expenses	297	-162	-283.5	347	-14.2
Net Profit	1,605	1,650	-2.7	909	76.6
Balance Sheet/Ratios					
Deposits	6,06,755	5,17,403	17.3	5,58,669	8.6
CASA (%)	49.30	50.40		50.80	-1.50
Advances	5,64,308	5,05,387	11.7	5,44,487	3.6
CD Ratio (%)	93.0	97.5		97.7	
CAR (%)	17.2	17.8		18.1	
Tier I (%)	15.1	15.4		15	
Profitability					
Yield On Advances (%)	9.0	8.8		8.5	0.53
Cost Of Funds (%)	5.1	5.0		4.9	0.24
NIM (%)	3.4	3.1		3.3	0.07
Cost-Income Ratio (%)	42.9	45.2		43.0	
Asset quality					
Gross NPA (Rs cr)	51,591	46,039	12.1	54,489	-5.3
Net NPA (Rs cr)	16,252	23,810	-31.7	22,086	-26.4
Gross NPAs (%)	7.75	7.82		8.54	-0.79
Net NPAs (%)	2.58	4.20		3.65	-1.07
Delinquency ratio (%)	1.51	2.35		3.55	
Coverage Ratio (%)	68.5	59.5		48.3	

Source: Company, Axis Securities

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