

ICICI Bank (ICICIB IN)

Performance in line, asset-quality deteriorates marginally

INDIA | FINANCIALS | Quarterly Update

30 October 2015

Top takeaways from Q2FY16

- ✗ ICICI Bank reported weak operating performance, led by moderating NII growth, which was in line with our expectation.
- ✗ Weaker NII growth (13% yoy) was primarily due to moderating loan growth (13% yoy), despite 10bps yoy improvement in NIM.
- ✗ Asset-quality continued to deteriorate at a marginal rate, as slippages came in at Rs 22.4bn (inclusive of slippages from restructured book at Rs 9.3bn).

Key highlights

- Loan book grew 13% yoy driven by retail/corporate at 25%/7%, while SME loans and overseas loan grew 8.2% and 2.7% respectively.
- Non-interest income grew 9.8% yoy, driven by moderate growth in fee income at 6.3% yoy. Retail fee income grew at a healthy rate and contributed 65% of fee income. Treasury profits came in higher at Rs 2.2bn (Rs 1.4bn in Q2FY15). Going forward, fee income will grow at lower double digits, driven by retail fee income.
- NIM improved 10bps yoy as international NIM improved 42bps yoy to 2%, while domestic NIM were stable at 3.84% due to decline in cost of funds. On a qoq basis, NIM declined 2bps to 3.52%. Going forward, NIM will decline due to reduction in base rate.

Management comments / concall takeaways

- ✓ Credit growth to grow by 20%, driven by 25% growth in retail, corporate loans will see double-digit growth driven by working capital loan and loans to high-rated PSUs.
- ✗ Stressed-asset addition in FY16 will be lower than FY15; however, stress in corporate segment remains high due to poor cash flow and high leverage.
- ✓ Sale of stake in insurance subsidiary to result in Rs 15bn pre-tax gains, which the bank will pass through the P&L
- ✗ Refinanced four accounts under 5:25 amounting to Rs 20bn; these were completed projects and were standard accounts as of the last quarter.

Outlook and valuation: ICICI's exposure to some of the leveraged entities may continue to remain an overhang for the stock. Although current valuations factor in some of the concerns, we believe that a delayed resolution of the exposure to stressed corporates may extend the underperformance of the stock. We expect the bank to deliver earnings CAGR of 12% over FY15-17. At CMP of Rs 277, the bank trades at 1.5x FY17 core adjusted BVPS of Rs 140 (net of investment in subsidiaries and valuing subsidiaries at Rs 60 per share). We maintain Neutral rating with PT of Rs 314 (unchanged), thus valuing the stock at 1.8x our FY17 core book

(Rs bn)	Q2FY16	Q2FY15	yoy %	Q1FY16	qoq %	vs. expect. %	Comments
Net interest income	52.5	46.6	12.8	51.2	2.7	-1.1	NII growth remains weak due to moderating credit growth
NIM (%)	3.5	3.4	10bps	3.5	(2bps)	(3bps)	Domestic NIM at 3.84%, international at 2%
Advances	4096.9	3617.6	13.3	3997.4	2.5	-1.5	Credit growth driven by 25% yoy growth in retail advances,
Corporate advances	1163.5	1085.4	7.2	1147.1	1.4		Growth driven by working capital loans to PSUs and high rated firms
Retail advances	1802.7	1440.0	25.2	1710.7	5.4		Retail advances comprises of 44%, will continue to be the growth driver
Deposit	3846.2	3520.6	9.2	3678.8	4.6		Term deposit grew 6.5% yoy, while CASA grew 13% yoy
CASA	1734.9	1537.3	12.9	1623.1	6.9		Growth aided by 10% and 14% growth in current and savings respectively
CASA %	45.1	43.7	140bps	44.1	100bps		Daily average CASA ratio stood at 40.7% vs. 39.7% in Q2FY15
Core fee	22.4	21.0	6.3	21.1	5.9	5.4	Retail fee income grew at a healthy rate, corporate fee remains sluggish
Trading gain	2.2	1.4	62.0	2.1	7.2		
Operating expenses	31.0	27.0	15.0	30.7	1.1	0.0	Employee exp/other opex grew 12%/17% yoy, 4970 employees added in H1
cost to income ratio (%)	38.6	37.2	142bps	38.8	(26bps)		Yoy increase in C-I ratio due to weak growth in pre provision profits
Provision	9.4	8.5	10.9	9.6	-1.4		
PAT	30.3	27.1	11.9	29.8	1.8	0.0	Net profit was in-line with our expectation
Slippage	22.4	16.7	33.9	16.7	34.0		Slippages from restructured book was Rs 9.3bn
GNPA	3.8	3.1	65bps	3.7	9bps		Asset quality deteriorates marginally
NNPA	1.7	1.1	56bps	1.6	7bps		PCR declined to 57.4% from 65% in Q2FY15
Tier 1 Capital %	12.8	12.8	9bps	12.6	20bps		

Neutral (Maintain)

CMP RS 277/ TARGET RS 314 (+13%)

COMPANY DATA

O/S SHARES (MN) :	5808
MARKET CAP (RSBN) :	1577
MARKET CAP (USDBN) :	24.3
52 - WK HI/LO (RS) :	393 / 248
LIQUIDITY 3M (USDMN) :	60.4
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
FII / NRI :	40.4	41.2	41.9
FI / MF :	22.2	21.6	21.4
NON PRO :	1.5	1.5	1.3
PUBLIC :	6.9	6.7	6.4
GOVT :	29.02	29.06	29.08

Key Financials

Rs mn	FY15	FY16E	FY17E
Pre-prov ROE (%)	25.7	25.9	26.1
Pre-prov ROA (%)	3.3	3.3	3.2
Net Profit	1,11,754	1,23,255	1,40,435
% growth	13.9	10.3	13.9
Adj BVPS (Rs)	131	143	157
ROE (%)	14.5	14.5	14.9
P/E (x)	14.4	13.1	11.5
Adj P/BV (x)	2.1	1.9	1.8
EPS (Rs)	19.3	21.2	24.1
BLM Cons EPS	19.3	21.7	25.6

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
NII	215.9	248.4	0	0
PPP	219.4	245.4	0	0
Core PAT	123.2	140.4	0	0
EPS (Rs)	21.2	24.1	0	0

Manish Agarwalla, Pradeep Agrawal, Paresh Jain

Standalone result update

(Rs mn)	Q2FY16	Q1FY15	yoy growth	Q1FY16	qoq growth
Interest Earned	1,30,989	1,21,506	7.8	1,28,126	2.2
Interest Expended	78,474	74,939	4.7	76,975	1.9
Net interest income	52,515	46,566	12.8	51,151	2.7
Net interest margins	3.52	3.42	0.1	3.54	0.0
Non-interest income	30,074	27,384	9.8	29,899	0.6
Total Income	82,588	73,950	11.7	81,050	1.9
Total operating expenses	31,004	26,971	15.0	30,672	1.1
Payroll costs	12,126	10,864	11.6	12,673	-4.3
Others	18,878	16,107	17.2	17,999	4.9
Pre-provision Profit	51,584	46,979	9.8	50,378	2.4
Provisions & Contingencies	9422	8495	10.9	9554	-1.4
% Operating income	18.3	18.1	0.2	19.0	-0.7
PBT	42,163	38,484	9.6	40,824	3.3
Provision for Taxes	11,862	11,394	4.1	11,063	7.2
% of PBT	28.1	29.6	-1.5	27.1	1.0
Net Profit	30,301	27,090	11.9	29,762	1.8
Equity	11,620	11,570	0.4	11,610	0.1
EPS, Rs	26.1	23.4	11.4	25.6	1.7
Advances	40,96,927	36,17,573	13.3	39,97,376	2.5
Deposits	38,46,179	35,20,554	9.2	36,78,770	4.6
Advances / Deposits (%)	106.5	102.8	3.8	108.7	-2.1
Gross NPAs	158578	115467	37.3	151376	4.8
Gross NPAs (%)	3.8	3.1	0.7	3.7	0.1
Net NPAs	67593	39423	71.5	63333	6.7
Net NPAs (%)	1.7	1.1	0.6	1.6	0.1
CAR - Tier I	12.8	12.8	0.1	12.6	0.2
CAR - Tier II	4.1	4.7	-0.6	4.1	-0.1
CAR – Total	16.9	17.4	-0.5	16.8	0.1

Source: Company, PhillipCapital India Research

Consolidated result update

(Rs mn)	Q2FY16	Q2FY15	yoy growth	Q1FY16	qoq growth
Net interest income	62,640	55,520	12.8	60,940	2.8
Non-interest income	1,04,040	85,510	21.7	80,750	28.8
Total Income	1,66,680	1,41,030	18.2	1,41,690	17.6
Total operating expenses	1,05,790	86,140	22.8	83,430	26.8
Pre-provision Profit	60,890	54,890	11	58,260	4.5
Provisions & Contingencies	10550	9160	15.2	10920	-3.4
% Operating income	17.3	16.7	0.6	18.7	-1.4
PBT	50,340	45,730	10	47,340	6.3
Provision for Taxes	14,260	13,320	7.1	13,270	7.5
% of PBT	28.3	29.1	-0.8	28.0	0.3
Minority Interest	1890.0	1760.0	7.4	1750.0	8.0
Net Profit	34,190	30,650	12	32,320	5.8
Equity	11,620	11,570	0.4	11,610	0.1
EPS, Rs	29.4	26.5	11.1	27.8	5.7

Source: Company, PhillipCapital India Research

Sum-of-the-parts valuation

	Share holding of ICICI	Valuation per share Rs	Valuation Criteria
ICICI Bank		254	2.0x FY17E ABV of Rs140
ICICI Securities Ltd	99.9%	6	10 times FY16E PAT of Rs3Bn
ICICI Prudential life insurance company ltd	74.0%	32	20 times FY16E NBAP of Rs7.3bn+EV of Rs103bn
ICICI Lombard General insurance company ltd	74.0%	4	5x FY16E PAT of Rs5.6bn
ICICI AMC	51.0%	6	4% FY16E AUM of Rs1500bn
housing finance business	100.0%	4	1.2x FY16E ABV of Rs20Bn
overseas banking business		9	0.8x FY15 ABV of Rs75bn
Total		314	

Source: PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Interest on Loans	3,14,279	3,56,311	4,02,631	4,59,000
Interest on Investments	1,15,571	1,19,446	1,26,612	1,39,274
Others	11,932	15,155	15,458	16,076
Total Interest Earned	4,41,782	4,90,911	5,44,702	6,14,350
Total Interest Expended	2,77,026	3,00,515	3,28,732	3,65,947
Net Interest Income	1,64,756	1,90,396	2,15,970	2,48,403
Total non-interest income	1,04,279	1,21,761	1,32,970	1,45,476
Total Income	2,69,034	3,12,157	3,48,939	3,93,879
Personnel Expenses	42,201	47,499	54,624	62,817
Other Expenses	60,888	67,460	74,877	85,633
Total Op expenses	1,03,089	1,14,958	1,29,500	1,48,450
Net Inc (Loss) before prov	1,65,946	1,97,199	2,19,439	2,45,429
Provision & contingencies	26,264	39,000	45,840	47,633
Net Inc (Loss) before tax	1,39,682	1,58,199	1,73,599	1,97,795
Provision for Income Tax	41,577	46,446	50,344	57,361
Net Profit	98,105	1,11,754	1,23,255	1,40,435

Balance Sheet

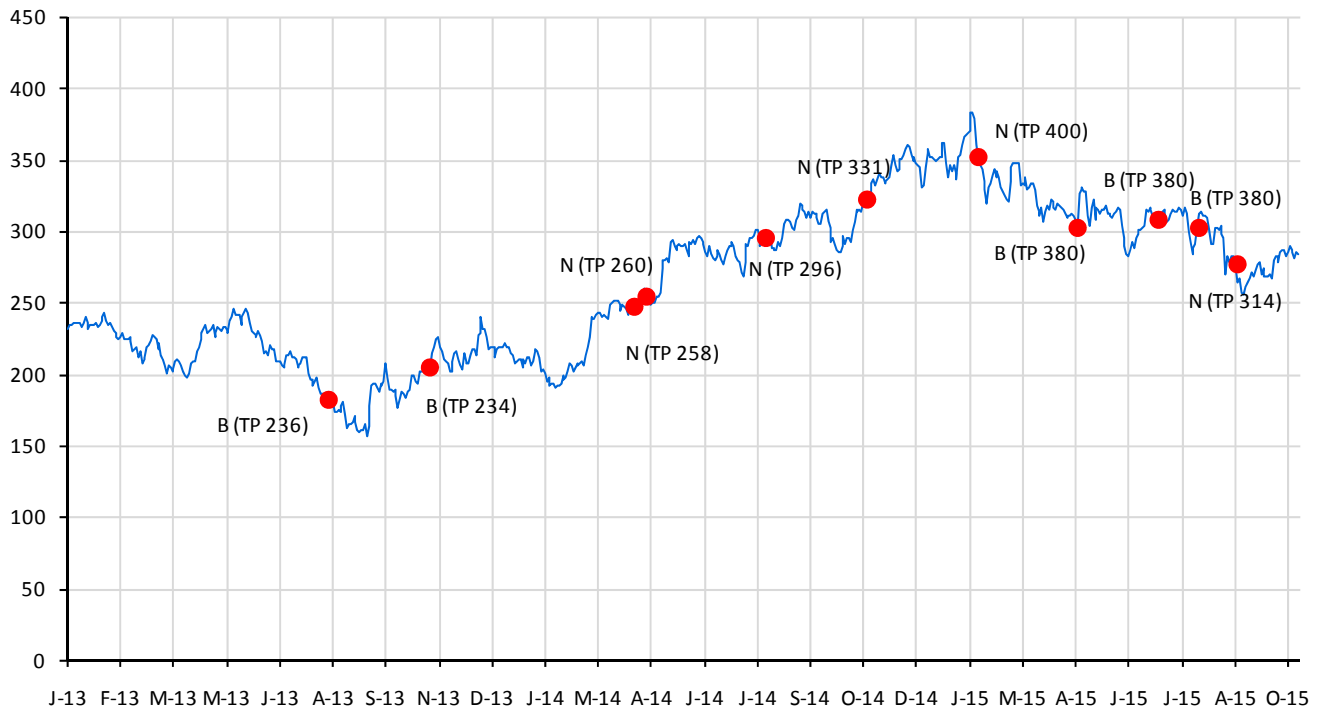
Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Assets				
Cash & Bal with RBI	4,15,296	4,23,046	4,52,524	4,87,972
Loans, Adv & Int accrued	33,87,026	38,75,221	44,89,211	52,59,279
Investments	18,17,377	19,22,886	21,41,754	24,20,246
Fixed Assets (Net)	46,781	47,255	54,343	62,495
Other assets	2,79,935	1,92,885	2,18,268	2,20,778
Total Assets	59,46,416	64,61,293	73,56,101	84,50,771
Liabilities				
Share capital	11,550	11,597	11,620	11,643
Reserves and Surplus	7,20,583	7,92,696	8,78,567	9,78,136
Preference capital	3,500	3,500	3,500	3,500
Hybrid Capital	33,346	34,238	40,390	44,684
Debt	3,68,502	3,71,154	3,89,711	4,28,682
Borrowing	11,42,242	13,15,282	13,81,046	15,74,393
Total Deposits	33,57,832	39,00,576	43,61,284	51,05,249
Other liab incld prov	3,08,860	2,76,175	2,89,984	3,04,483
Total Liabilities	59,46,416	67,05,218	73,56,101	84,50,771

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	23.7	25.7	25.9	26.1
RoAE (%)	14.0	14.5	14.5	14.9
Pre-provision Operating ROA (%)	2.9	3.2	3.2	3.1
RoAB (%)	1.84	1.9	1.9	1.8
EPS (Rs.)	17.0	19.3	21.2	24.1
Dividend per share (Rs.)	4.5	5.0	5.5	6.0
Book Value (Rs.)	127	139	153	170
Adj BV (Rs.)	122	131	143	157
RoE of banking business	14.7	14.7	14.3	14.5
Revenue Analysis				
Interest income on IBA (%)	8.3	8.3	8.2	8.1
Interest cost on IBL (%)	6.0	5.7	5.6	5.5
NIM on IBA / AWF (%)	3.1	3.2	3.2	3.3
Core fee Inc / AWF (%)	1.8	1.8	1.8	1.8
Portfolio gains / Total Inc (%)	3.5	5.7	4.3	2.6
Op.Exp / TI (%)	39.6	38.9	38.7	38.7
Op.Exp / AWF (%)	1.9	1.9	1.9	1.9
Employee exps / Op exps (%)	40.9	41.3	42.2	42.3
Tax / Pre-tax earnings (%)	29.8	29.4	29.0	29.0
Asset Quality				
GNPAs / Gr Adv (%)	3.1	3.9	4.2	4.4
NNPAs / Net Adv (%)	1.0	1.7	1.9	2.0
Growth Ratio				
Loans (%)	16.7	14.4	15.8	17.2
Investments (%)	3.8	5.8	11.4	13.0
Deposits (%)	13.6	16.2	11.8	17.1
Networth (%)	9.7	9.8	10.6	11.1
Net Int Income (%)	18.8	15.6	13.4	15.0
Non-fund based income (%)	21.0	10.0	13.0	14.4
Non-Int Exp (%)	14.4	11.5	12.6	14.6
Profit Before Tax (%)	22.6	13.3	9.7	13.9
Net profit (%)	17.8	13.9	10.3	13.9
Asset / Liability Profile				
Avg CASA/ Deposits (%)	42.0	43.4	44.9	45.2
Avg Adv / Avg Dep (%)	96.4	96.5	97.1	98.5
Avg Invst / Avg Dep (%)	56.5	51.5	49.2	48.2
Incr Adv / Deposits (%)	120.4	89.9	133.3	103.5
Avg Cash / Avg Dep (%)	13.1	11.5	10.6	9.9
Capital Adequacy Ratio:				
Tier I (%)	17.7	17.0	16.0	15.4
Internal Capital Generation rate (%)	12.8	12.8	12.2	11.7
NNPAs to Equity (%)	10.8	11.3	11.4	11.9
	4.5	7.7	9.1	10.2

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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