

# ICICI Bank (ICICIB IN)

## Restructured asset slips

### INDIA | BANKING | Quarterly Update

27 April 2015

ICICI Bank's earnings were broadly in line with our estimates with net profit growth at 10% YoY to Rs29.2 bn. Gross NPA increased during the quarter, on account of higher slippages from the restructured loan book. Fresh restructuring were at Rs12.5bn and with slippage from restructured loan amounting to Rs22.5bn, the outstanding restructured book declined by 9% QoQ to Rs110bn. The outstanding stress asset (standard restructured asset + NNPA) remained stable at 4.5% of loan book.

#### Key highlights for Q4FY15

- NII grew by 16.6% YoY to Rs 50.79 bn driven by 14.4% YoY advances growth and 22 bps YoY improvement in NIMs. On a QoQ basis, NIM improved by 11 bps to 3.57% driven by Rs100 bn interest on IT refund (contributed 7 bps). In addition margins also improved due to the change in loan mix towards higher yielding retail loans and decline in cost of funds by 4 bps YoY to 6.16%.
- Advances grew by 14.4% YoY to Rs3.87 tn fuelled by strong growth in retail advances (+24.7% YoY). The share of retail advance to the loan book increased to 42.5% compared to 39% in Q4FY14. The growth in corporate loan book remained moderate at 10% YoY. The SME loan book grew by 10.5% YoY and the overseas loan book grew by 4.9%. For FY16, the management has guided for 25% loan growth in retail, 18-20%, 10-15% loan growth for corporate and 8-10% growth in the overseas advances.
- Other income increased by 17.5% YoY to Rs34.9 bn primarily driven by trading gains in the fixed income portfolio, which came in at Rs7.2 bn compared to Rs2.45 bn in Q4FY14. Growth in the core fee income was moderate at 8.3% YoY to Rs21.3 bn due to weak progression in the corporate fee income, however retail fee income continued to grow strongly and contributed 60% of the total fee income.
- The bank witnessed incremental stress on the asset quality due to higher slippages amounting to Rs32.6 bn (slippages from restructured book was at Rs22.5 bn) Vs 22.8 bn in Q3FY15. Consequently, GNPA ratio increased 38 bps QoQ to 3.78% and NNPA ratio increased 34 bps QoQ to 1.61%. The overall slippage from restructured asset increased to 25% of restructured loan. Annualized credit cost for Q4FY15 stood at 144 bps and 109 bps for FY15. The bank restructured loans worth Rs12.5 bn which was lower than Rs23bn guided in the previous quarter. The bank has guided for lower slippages in FY16 compared to FY15 and expects credit cost in the range of 90-95 bps. The outstanding stock of restructured loan book stands at Rs110.2bn (2.8% of advances) PCR has been on a declining trend, and is currently at 58.6% compared to 63.5% in Q3FY15.

#### Outlook and valuation

Credit growth to witness improvement during current fiscal driven by retail loan. Improvement in loan mix towards domestic loan; decline in cost of deposit and strong CASA would enable bank to maintain NIMs at ~3.5% level. We expect earnings growth of 15% over FY15-17 translating into a stable RoA of 1.9%.

The fresh NPA formation from advances (excluding standard restructured loan) declined to Rs35.5bn in FY15 Vs Rs38.13 in FY14. But slippage from restructured book exerted pressure on GNPA. However pool of stress asset remained constant at 4.5% of loan book on QoQ basis. We expect corporate credit growth to improve in next 3-4 quarters and consequently pressure on corporate GNPA to ease out. During this period the inter quarter volatility in asset quality may throw some negative surprise but the overall credit cost in FY16 is expected to decline. The stability in return ratios; expected improvement in asset quality and inexpensive valuation warrants Buy rating. At the CMP, ICICI Bank trades at 1.7x FY17E Core Adj BVPS of Rs141 (Net of investment in subsidiaries & valuing subsidiary at Rs63 per share). We upgrade the stock to **Buy** with a PT of Rs 380.

#### BUY

CMP RS 302

TARGET RS 380 (+26%)

#### COMPANY DATA

O/S SHARES (MN) :	5798
MARKET CAP (RSBN) :	1808
MARKET CAP (USDBN) :	29.2
52 - WK HI/LO (RS) :	393 / 247
LIQUIDITY 3M (USD MN) :	81.2
PAR VALUE (RS) :	10

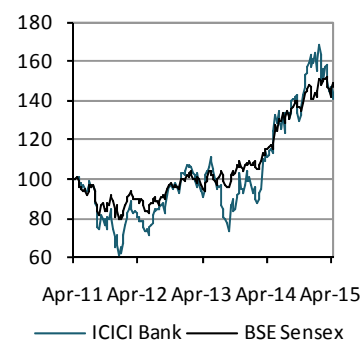
#### SHARE HOLDING PATTERN, %

FII / NRI :	70.4
FI / MF :	21.6
NON PROMOTER CORP. HOLDINGS :	2.2
PUBLIC & OTHERS :	5.7

#### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.6	-15.9	20.0
REL TO BSE	0.3	-10.6	-1.3

#### PRICE VS. SENSEX



Source: Phillip Capital India Research

#### KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Pre-prov ROE (%)	25.7	26.3	26.9
Pre-prov ROA (%)	3.3	3.4	3.3
Net Profit	1,11,754	1,25,820	1,46,725
% growth	13.9	12.6	16.6
EPS (Rs)	19.3	21.7	25.2
Adj BVPS (Rs)	131	144	161
ROE (%)	14.5	14.8	15.5
P/E (x)	15.7	13.9	12.0
Adj P/BV (x)	2.3	2.1	1.9

Source: PhillipCapital India Research Est.

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**Standalone result Update**

(Rs mn)	Q4FY15	Q4FY14	YoY growth	Q3FY15	QoQ growth
Interest Earned	1,27,383	1,14,893	10.9	1,24,352	2.4
Interest Expended	76,591	71,327	7.4	76,236	0.5
<b>Net interest income</b>	<b>50,792</b>	<b>43,565</b>	<b>16.6</b>	<b>48,117</b>	<b>5.6</b>
<b>Net interest margins</b>	<b>3.57</b>	<b>3.35</b>	<b>0.2</b>	<b>3.46</b>	<b>0.1</b>
Non interest income	34,963	29,761	17.5	30,917	13.1
<b>Total Income</b>	<b>85,755</b>	<b>73,326</b>	<b>17.0</b>	<b>79,033</b>	<b>8.5</b>
Total operating expenses	31,074	28,791	7.9	28,663	8.4
Payroll costs	12,988	12,623	2.9	11,178	16.2
Others	18,086	16,169	11.9	17,485	3.4
<b>Pre-provision Profit</b>	<b>54,681</b>	<b>44,535</b>	<b>22.8</b>	<b>50,370</b>	<b>8.6</b>
Provisions & Contingencies	13447	7138	88.4	9797	37.3
% Operating income	24.6	16.0	8.6	19.4	5.1
<b>PBT</b>	<b>41,234</b>	<b>37,397</b>	<b>10.3</b>	<b>40,573</b>	<b>1.6</b>
Provision for Taxes	12,016	10,877	10.5	11,683	2.9
% of PBT	29.1	29.1	0.1	28.8	0.3
<b>Net Profit</b>	<b>29,218</b>	<b>26,520</b>	<b>10.2</b>	<b>28,890</b>	<b>1.1</b>
Equity	11,597	11,550	0.4	11,585	0.1
<b>EPS, Rs</b>	<b>25.2</b>	<b>23.0</b>	<b>9.7</b>	<b>24.9</b>	<b>1.0</b>
Advances	38,75,221	33,87,027	14.4	37,53,451	3.2
Deposits	36,15,627	33,19,137	8.9	35,53,397	1.8
Advances / Deposits (%)	83.8	78.8	5.0	81.2	2.6
Gross NPAs	150947	105058	43.7	130826	15.4
Gross NPAs (%)	3.8	3.0	0.8	3.4	0.4
Net NPAs	62555	32980	89.7	47730	31.1
Net NPAs (%)	1.6	1.0	0.6	1.3	0.3
CAR - Tier I	12.8	12.8	0.0	13.0	-0.2
CAR - Tier II	4.2	4.9	-0.7	4.6	-0.4
CAR – Total	17.0	17.7	-0.7	17.6	-0.6

Source: Company, PhillipCapital India Research

**Consolidated result update**

(Rs mn)	Q4FY15	Q4FY14	YoY growth	Q3FY15	QoQ growth
<b>Net interest income</b>	<b>60,370</b>	<b>52,380</b>	<b>15.3</b>	<b>57,060</b>	<b>5.8</b>
<b>Non interest income</b>	<b>1,06,300</b>	<b>88,070</b>	<b>20.7</b>	<b>91,450</b>	<b>16.2</b>
Total Income	1,66,730	1,40,450	18.7	1,48,510	12.3
Total operating expenses	1,04,730	91,760	14.1	87,830	19.2
<b>Pre-provision Profit</b>	<b>62,000.0</b>	<b>48,690.0</b>	<b>27.3</b>	<b>60,680</b>	<b>2.2</b>
Provisions & Contingencies	15710	8120	93.5	12350	27.2
% Operating income	25.3	16.7	8.7	20.4	5.0
PBT	46,290.0	40,570.0	14.1	48,330	-4.2
Provision for Taxes	13,770	11,840	16.3	13,660	0.8
% of PBT	29.7	29.2	0.6	28.3	1.5
Minority Interest	1670.0	1490.0	12.1	2020.0	-17.3
<b>Net Profit</b>	<b>30,850.0</b>	<b>27,240.0</b>	<b>13.3</b>	<b>32,650.0</b>	<b>-5.5</b>
Equity	11,597	11,550	0.4	11,585	0.1
<b>EPS, Rs</b>	<b>26.6</b>	<b>23.6</b>	<b>12.8</b>	<b>28.2</b>	<b>-5.6</b>

Source: Company, PhillipCapital India Research

**Sum-of-the-Parts valuation**

	Share holding of ICICI	Valuation per share Rs	Valuation Criteria
ICICI Bank		318	2.25x FY17E ABV of Rs141
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 Rs17Bn
overseas banking business		12	0.8x FY15E ABV of Rs79bn
<b>Total</b>		<b>380</b>	

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	4,63,026
Interest on Investments	1,15,571	1,19,446	1,27,807	1,40,588
Others	11,932	15,155	15,458	16,231
<b>Total Interest Earned</b>	<b>4,41,782</b>	<b>4,90,911</b>	<b>5,45,896</b>	<b>6,19,844</b>
Total Interest Expended	2,77,026	3,00,515	3,28,348	3,64,919
<b>Net Interest Income</b>	<b>1,64,756</b>	<b>1,90,396</b>	<b>2,17,548</b>	<b>2,54,925</b>
Total non interest income	1,04,279	1,21,761	1,35,003	1,47,814
<b>Total Income</b>	<b>2,69,034</b>	<b>3,12,157</b>	<b>3,52,551</b>	<b>4,02,739</b>
Personnel Expenses	42,201	47,499	54,624	62,817
Other Expenses	60,888	67,460	74,877	85,633
Total Op expenses	<b>1,03,089</b>	<b>1,14,958</b>	<b>1,29,500</b>	<b>1,48,450</b>
<b>Net Inc (Loss) before prov</b>	<b>1,65,946</b>	<b>1,97,199</b>	<b>2,23,051</b>	<b>2,54,289</b>
Provision & contingencies	26,264	39,000	45,840	47,633
Net Inc (Loss) before tax	<b>1,39,682</b>	<b>1,58,199</b>	<b>1,77,211</b>	<b>2,06,656</b>
Provision for Income Tax	41,577	46,446	51,391	59,930
<b>Net Profit</b>	<b>98,105</b>	<b>1,11,754</b>	<b>1,25,820</b>	<b>1,46,725</b>

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
<b>Assets</b>				
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	44,89,213	52,54,928
Investments	18,09,485	19,08,993	21,41,753	24,20,247
Fixed Assets (Net)	46,781	47,255	54,343	62,495
Other assets	2,87,827	2,06,777	2,22,578	2,35,701
<b>Total Assets</b>	<b>59,46,416</b>	<b>64,61,293</b>	<b>73,60,412</b>	<b>84,61,343</b>
<b>Liabilities</b>				
Share capital	11,550	11,597	11,620	11,643
Reserves and Surplus	7,20,583	7,92,697	8,81,131	9,86,992
Preference capital	3,500	3,500	3,500	3,500
Hybrid Capital	33,346	36,782	40,390	44,813
Debt	3,68,502	3,68,608	3,87,039	4,25,743
Borrowing	11,42,242	13,15,284	13,81,048	15,74,394
Total Deposits	33,57,832	36,55,097	43,64,070	51,08,063
Other liab incld prov	3,08,860	2,77,729	2,91,615	3,06,196
<b>Total Liabilities</b>	<b>59,46,416</b>	<b>64,61,293</b>	<b>73,60,412</b>	<b>84,61,343</b>

Source: Company, PhillipCapital India Research Estimates

### Valuation Ratios

	FY14	FY15	FY16e	FY17e
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	23.7	25.7	26.3	26.9
RoAE (%)	14.0	14.5	14.8	15.5
Pre-provision Operating ROA (%)	2.9	3.2	3.2	3.2
RoAB (%)	1.84	1.9	1.9	1.9
EPS (Rs.)	17.0	19.3	21.7	25.2
Dividend per share (Rs.)	4.5	5.0	5.5	6.0
Book Value (Rs.)	127	139	154	172
Adj BV (Rs.)	122	131	144	161
RoE of banking business	14.7	14.7	14.6	15.1
<b>Revenue Analysis</b>				
Interest income on IBA (%)	8.3	8.3	8.2	8.1
Interest cost on IBL (%)	6.0	5.8	5.7	5.5
NIM on IBA / AWF (%)	3.1	3.2	3.3	3.3
Core fee Inc / AWF (%)	1.8	1.8	1.8	1.8
Portfolio gains / Total Inc (%)	3.5	5.7	4.3	2.5
Op.Exp / TI (%)	39.6	38.9	38.3	37.8
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
<b>Asset Quality</b>				
GNPAs / Gr Adv (%)	3.1	3.9	4.1	4.0
NNPAs / Net Adv (%)	1.0	1.7	1.7	1.6
<b>Growth Ratio</b>				
Loans (%)	16.7	14.4	15.8	17.1
Investments (%)	3.4	5.5	12.2	13.0
Deposits (%)	13.6	8.9	19.4	17.0
Networth (%)	9.7	9.8	11.0	11.8
Net Int Income (%)	18.8	15.6	14.3	17.2
Net Int Income (%)	21.0	10.0	14.9	14.4
Non-fund based income (%)	14.4	11.5	12.6	14.6
Non-Int Exp (%)	22.6	13.3	12.0	16.6
Profit Before Tax (%)	17.8	13.9	12.6	16.6
Net profit (%)				
<b>Asset / Liability Profile</b>				
Avg CASA/ Deposits (%)	42.0	43.7	44.0	42.8
Avg Adv / Avg Dep (%)	96.4	99.9	100.1	98.7
Avg Invst / Avg Dep (%)	56.4	53.0	50.5	48.2
Incr Adv / Deposits (%)	120.4	164.2	86.6	102.9
Avg Cash / Avg Dep (%)	13.1	12.0	10.9	9.9
<b>Capital Adequacy Ratio:</b>				
Tier I (%)	17.7	17.0	16.1	15.5
Internal Capital Generation rate (%)	12.8	12.8	12.2	11.8
NNPAs to Equity (%)	10.8	11.3	11.7	12.5
	4.5	7.7	8.2	8.4

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