

# ICICI Bank (ICICIB IN)

## Elevated stress to keep credit cost high

### INDIA | FINANCIALS | Quarterly Update

4 May 2017

#### Top takeaways from Q4FY17

- ICICI Bank's net profit at Rs 20.2bn, was marginally below our expectation due to lower non-interest income. NII (+10.3% yoy) was above expectation due to IT refund of Rs 2bn coupled with decline in cost of funds and write back of interest reversal. NIM improved 20 bps yoy to 3.57% (+45 bps qq).
- Asset-quality deteriorated as it recognized NPAs from watch list; consequently slippages came in at Rs 113bn (of which Rs 79.6bn were from watch list, Rs 18bn from restructured book). GNPA/NNPA deteriorated by +83bps/108bps to 8.74%/5.43%.
- Overall loan book grew 6.7% was weak due to decline in international loan book (-20% yoy). Domestic loans grew 14% yoy driven by retail/SME at 18.5%/17.5%, while growth in corporate loans was at 5.8%.

#### Management comments / concall takeaway

- \* Retail NPA amounted to Rs 4.4bn, RBI dispensation used for loans amounting to Rs 2.3bn. Assets sold to ARC amounted Rs 0.23bn (NPA), SMA-2 Rs 5.8bn.
- ✓ Out of 79.6bn slippages from watch list, one cement account of Rs 53.8bn could see partial upgrade in coming quarters.
- \* Outstanding SDR at Rs 52.4bn (restructured Rs 16.58bn, below investment grade Rs 26.4bn), Outstanding 5/25 Rs 26.75bn (below investment grade Rs 17.3bn), Outstanding S4A Rs 2.9bn. Outstanding std. restructured loans at Rs 42.7bn. The bank holds provision of Rs 10-11bn for SDR A/C.
- ↔ Drawdown of Rs 15.3bn (Rs Rs 5.3bn in Q3FY17) from the contingent reserve. Entire contingent reserves have been utilized.
- ✓ FY18 guidance- Domestic loan growth of 15-16%, (retail loan growth of 18-20%, Corporate loan growth of 5-7%, SME loan growth 15-20%, NIM above 3%, Fresh slippages to come down significantly compared to FY17, credit cost to be lower than FY17.

**Outlook and valuation:** Near term pressure on asset quality continues to persist as slippages from watch list will remain high but lower than FY17, this will also impact the NIM. The total un-recognised stress loan stands at Rs300bn (6.4% of loan book). Likely upgrades in watch list and strong operating profit along with gain from stake in general insurance business will provide enough cushions to the bank to provide for the stress asset in next 1.5yrs time frame. We expect earnings of -28.2%/+37% in FY18/FY19 translating into a RoA to 0.94%/1.16% respectively. At CMP of Rs 273, the bank trades at 1.5x FY19 core adjusted BVPS of Rs 123 (net of investment in subsidiaries and valuing subsidiaries at Rs 93 per share). We maintain Buy with revised PT of Rs 340 (earlier 336), valuing at 2x FY19e core Adj BV.

(Rs bn)	Q4FY17	Q4FY16	yoy %	Q3FY17	qoq %	vs. expect. %	Comments
Net interest income	59.6	54.0	10.3	53.6	11.2	12.0	NII growth improved due to collection of NPAs and reduction in cost of fund
NIM (%)	0.0	3.4	(337bps)	3.1	(312bps)	0	Domestic NIM at 3.96%, International NIM at 1.01%
Advances	4642.3	4352.6	6.7	4574.7	1.5	-0.3	Weak credit growth due to 16% decline in overseas loan.
Corporate advances	1248.9	1197.1	4.3	1299.2	-3.9		Growth driven by lending to better rated clients
Retail advances	2369.7	2028.5	16.8	2237.0	5.9		Retail advances comprises of 51.8%, will continue to be the growth driver
Deposit	4900.4	4214.3	16.3	4652.8	5.3		Term deposit grew 6.5% yoy, while CASA grew 27.8% yoy
CASA	2468.2	1931.0	27.8	2319.6	6.4		Growth aided by 28% and 27.4% growth in current and savings respectively
CASA %	50.4	45.8	460bps	49.9	50bps		Daily average CASA ratio stood at 46.5%.
Core fee	24.5	22.1	10.6	25.0	-2.0	0.5	Fee income driven by retail fee, corporate fee remains sluggish
Trading gain	6.9	21.9	-68.7	8.9	-23.2		
Operating expenses	38.7	34.1	13.5	37.8	2.4	-3.7	Employee exp. increased 7% and other opex increased 18%
cost to income ratio (%)	46.6	40.9	571bps	44.9	171bps		
Provision	29.0	69.3	-58.2	27.1	6.8		Draw down of Rs 15.3bn from contingency reserves
PAT	20.2	7.0	188.5	24.4	-17.1	-4.4	PAT marginally below estimate due to lower non interest income
Slippage	112.9	70.0	61.2	70.4	60.4		Slippages from watch -list was Rs 79.6bn (including cement a/c of Rs 53.8bn)
GNPA	8.7	5.8	292bps	7.9	83bps		
NNPA	5.4	3.0	245bps	4.4	108bps		Provision coverage ratio is at 53.6% vs 57.1% in Q3FY17.
Tier 1 Capital %	14.4	13.1	127bps	12.6	181bps		

#### BUY (Maintain)

CMP RS 273/ TARGET RS 340 (+25%)

#### COMPANY DATA

O/S SHARES (MN) :	5825
MARKET CAP (RSBN) :	1594
MARKET CAP (USDBN) :	24.9
52 - WK HI/LO (RS) :	298 / 213
LIQUIDITY 3M (USDMN) :	84.9
PAR VALUE (RS) :	2

#### SHARE HOLDING PATTERN, %

	Sep 16	Jun 16	Mar 16
FII / NRI :	48.0	50.8	51.6
FI / MF :	40.6	37.8	36.2
NON PRO :	4.6	4.5	5.2
PUBLIC :	6.8	7.0	7.0
GOVT :	0	0	0

#### Key Financials

Rs mn	FY17	FY18E	FY19E
Pre-prov ROE (%)	28.2	22.5	22.3
Pre-prov ROA (%)	3.9	3.0	2.8
Net Profit	98,011	70,372	96,377
% growth	0.8	-28.2	37.0
EPS (Rs)	16.8	11.0	15.0
Adj BVPS (Rs)	137	127	141
ROE (%)	10.4	7.1	9.3
P/E (x)	16.2	24.9	18.2
Adj P/BV (x)	2.0	2.1	1.9

#### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
NII	228.3	259.5	3.5	2.8
PPP	223.8	230.1	9.5	4.5
Core PAT	70.4	96.4	-5.0	-5.8
EPS (Rs)	11.0	15.0	-13.7	-14.4

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**Standalone result update**

(Rs mn)	Q4FY17	Q3FY16	yoy growth	Q4FY17	qoq growth
Interest Earned	1,35,685	1,34,819	0.6	1,36,181	-0.4
Interest Expended	76,064	80,774	-5.8	82,548	-7.9
<b>Net interest income</b>	<b>59,622</b>	<b>54,045</b>	<b>10.3</b>	<b>53,634</b>	<b>11.2</b>
<b>Net interest margins</b>	<b>0.00</b>	<b>3.37</b>	<b>-3.4</b>	<b>3.12</b>	<b>-3.1</b>
Non-interest income	30,172	51,089	-40.9	39,383	-23.4
<b>Total Income</b>	<b>89,794</b>	<b>1,05,134</b>	<b>-14.6</b>	<b>93,017</b>	<b>-3.5</b>
Total operating expenses	<b>38,674</b>	<b>34,059</b>	<b>13.5</b>	<b>37,777</b>	<b>2.4</b>
Payroll costs	14,805	13,821	7.1	14,060	5.3
Others	23,869	20,239	17.9	23,718	0.6
<b>Pre-provision Profit</b>	<b>51,120</b>	<b>71,075</b>	<b>-28.1</b>	<b>55,239</b>	<b>-7.5</b>
Provisions & Contingencies	28982	69262	-58.2	27127	6.8
% Operating income	56.7	97.4	-40.8	49.1	7.6
<b>PBT</b>	<b>22,138</b>	<b>1,813</b>	<b>1,121.1</b>	<b>28,112</b>	<b>-21.3</b>
Provision for Taxes	1,892	-5,206	-136.3	3,694	-48.8
% of PBT	8.5	-287.2	295.7	13.1	-4.6
<b>Net Profit</b>	<b>20,246</b>	<b>7,019</b>	<b>188.5</b>	<b>24,418</b>	<b>-17.1</b>
Equity	11,651	11,632	0.2	11,640	0.1
<b>EPS, Rs</b>	<b>3.5</b>	<b>1.2</b>	<b>188.0</b>	<b>4.2</b>	<b>-17.2</b>
Advances	46,42,321	43,52,639	6.7	45,74,695	1.5
Deposits	49,00,391	42,14,257	16.3	46,52,843	5.3
Advances / Deposits (%)	94.7	103.3	-8.5	98.3	-3.6
Gross NPAs	420684	262210	60.4	377167	11.5
Gross NPAs (%)	8.74	5.8	2.92	7.9	0.83
Net NPAs	252078	129630	94.5	198870	26.8
Net NPAs (%)	5.43	3.0	2.5	4.4	1.08
CAR - Tier I	14.4	13.1	1.3	12.6	1.8
CAR - Tier II	3.0	3.6	-0.5	3.4	-0.4
CAR – Total	17.4	16.6	0.8	16.0	1.4

Source: Company, PhillipCapital India Research

**Sum-of-the-parts valuation**

	Share holding of ICICI	Valuation per share Rs	Valuation Criteria
ICICI Bank		246	2x FY19E ABV of Rs123
ICICI Securities Ltd	99.9%	6	10 times FY18E PAT of Rs3.7Bn
ICICI Prudential life insurance company ltd	54.9%	54	3.5 EV of Rs161bn
ICICI Lombard General insurance company ltd	54.0%	15	20x FY18E PAT of Rs8.4bn
ICICI AMC	51.0%	8	4% FY18E AUM of Rs2.4tn
housing finance business	100.0%	5	1.2x FY18E ABV of Rs18Bn
overseas banking business		5	0.9x FY18E ABV of Rs32bn
<b>Total</b>		<b>340</b>	

Source: PhillipCapital India Research

**Watch list movement**

Sector	Total exposure, Rs bn				
	March 2016	June 2016	September 2016	December 2016	March 2017
Power	119	114	90	83	62
Iron/steel	78	49	47	45	40
Mining	90	77	76	56	52
Cement	66	57	56	57	3
Rigs	25	26	0.4	0.5	0
Promoter entities	62	64	55	34	33
<b>Total</b>	<b>440</b>	<b>387</b>	<b>325</b>	<b>275</b>	<b>190</b>
<b>% of loan book</b>	<b>10.11</b>	<b>8.62</b>	<b>7.15</b>	<b>6.02</b>	<b>4.10</b>

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Interest on Loans	389,432	396,034	423,756	478,845
Interest on Investments	106,253	113,771	119,459	131,405
Others	31,709	31,758	33,029	34,350
<b>Total Interest Earned</b>	<b>527,394</b>	<b>541,563</b>	<b>576,244</b>	<b>644,599</b>
Total Interest Expended	315,154	324,190	347,936	385,129
<b>Net Interest Income</b>	<b>212,240</b>	<b>217,373</b>	<b>228,308</b>	<b>259,471</b>
Total non-interest income	153,231	195,045	157,818	152,645
<b>Total Income</b>	<b>365,471</b>	<b>412,418</b>	<b>386,126</b>	<b>412,116</b>
Personnel Expenses	50,023	57,337	63,071	69,378
Other Expenses	76,812	90,214	99,217	112,591
Total Op expenses	126,836	147,551	162,287	181,969
<b>Net Inc (Loss) before prov</b>	<b>238,635</b>	<b>264,867</b>	<b>223,838</b>	<b>230,147</b>
Provision & contingencies	116,678	152,081	135,873	101,645
Net Inc (Loss) before tax	121,957	112,786	87,965	128,502
Provision for Income Tax	24,694	14,775	17,593	32,126
<b>Net Profit</b>	<b>97,263</b>	<b>98,011</b>	<b>70,372</b>	<b>96,377</b>

### Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
<b>Assets</b>				
Cash & Bal with RBI	598,687	739,650	791,610	847,665
Loans, Adv & Int accrued	4,352,639	4,642,320	5,199,398	5,823,326
Investments	1,664,629	1,681,632	1,846,169	2,040,847
Fixed Assets (Net)	75,769	78,050	81,953	86,050
Other assets	515,226	558,778	530,309	532,706
<b>Total Assets</b>	<b>7,206,951</b>	<b>7,700,430</b>	<b>8,449,438</b>	<b>9,330,603</b>
<b>Liabilities</b>				
Share capital	11,632	11,655	12,846	12,872
Reserves and Surplus	885,724	970,380	993,355	1,043,413
Preference capital	3,500	3,500	3,500	3,510
Hybrid Capital	35,528	69,778	49,277	50,485
Debt	345,385	272,622	299,884	329,873
Borrowing	1,363,660	1,129,660	1,242,626	1,366,889
Total Deposits	4,246,434	4,932,889	5,522,501	6,181,831
Other liab incld prov	315,087	309,951	325,449	341,721
<b>Total Liabilities</b>	<b>7,206,951</b>	<b>7,700,435</b>	<b>8,449,438</b>	<b>9,330,603</b>

Source: Company, PhillipCapital India Research Estimates

### Valuation Ratios

	FY16	FY17e	FY18e	FY19e
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	28.0	28.2	22.5	22.3
RoAE (%)	11.4	10.4	7.1	9.3
Pre-provision Operating ROA (%)	3.5	3.6	2.8	2.6
RoAB (%)	1.5	1.4	0.9	1.2
EPS (Rs.)	16.7	16.8	11.0	15.0
Dividend per share (Rs.)	5.0	2.5	3.0	4.0
Book Value (Rs.)	154	169	157	164
Adj BV (Rs.)	138	137	127	141
RoE of banking business	11.1	9.9	5.9	8.5
Core Adj BV (Rs.)	121.6	114.5	105.6	121.9

### Revenue Analysis

Interest income on IBA (%)	8.2	7.9	7.7	7.8
Interest cost on IBL (%)	5.5	5.2	5.1	5.1
NIM on IBA / AWF (%)	3.3	3.2	3.1	3.1
Core fee Inc / AWF (%)	1.8	1.6	1.6	1.6
Portfolio gains / Total Inc (%)	11.7	26.3	10.6	5.1
Op.Exp / TI (%)	38.8	45.2	46.5	46.4
Op.Exp / AWF (%)	2.0	2.2	2.2	2.2
Employee exps / Op exps (%)	39.4	38.9	38.9	38.1
Tax / Pre-tax earnings (%)	20.2	13.1	20.0	25.0

### Asset Quality

GNPAs / Gr Adv (%)	6.3	8.8	8.1	6.8
NNPAs / Net Adv (%)	3.0	5.5	5.1	3.6

### Growth Ratio

Loans (%)	12.3	6.7	12.0	12.0
Investments (%)	(13.4)	1.0	9.8	10.5
Deposits (%)	16.1	16.2	12.0	11.9
Networth (%)	11.5	9.4	2.5	5.0
Net Int Income (%)	11.5	2.4	5.0	13.6
Non-fund based income (%)	8.3	(5.0)	10.6	9.8
Non-Int Exp (%)	10.3	16.3	10.0	12.1
Profit Before Tax (%)	(22.9)	(7.5)	(22.0)	46.1
Net profit (%)	(13.0)	0.8	(28.2)	37.0

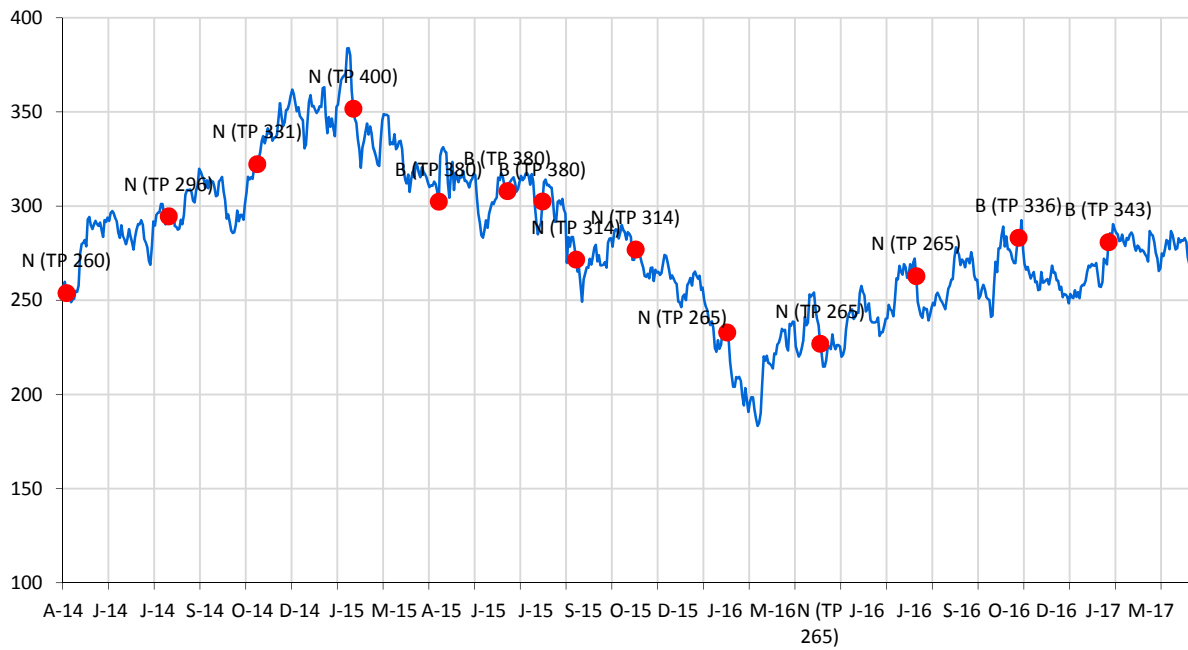
### Asset / Liability Profile

Avg CASA/ Deposits (%)	45.2	47.9	50.9	52.6
Avg Adv / Avg Dep (%)	98.6	90.3	85.9	87.0
Avg Invst / Avg Dep (%)	45.4	36.5	33.7	33.2
Incr Adv / Deposits (%)	80.9	42.2	94.5	94.6
Avg Cash / Avg Dep (%)	12.9	14.6	14.6	14.0

### Capital Adequacy Ratio:

Tier I (%)	16.6	17.4	16.1	15.4
CET1 (%)	13.1	14.4	13.1	12.5
CET1 (%)	13.0	13.7	12.8	12.2
NNPAs to Equity (%)	14.4	25.8	26.4	19.9

### 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	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

**Management**

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6246 4101
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

**Research**

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Banking, NBFCs	Infrastructure	Strategy
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Consumer & Retail	Logistics, Transportation & Midcap	Telecom
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