

BSE SENSEX

33,793

S&P CNX

10,443

CMP: INR315
TP: INR370 (+17%)
Buy


Stock Info

Bloomberg	ICICIB IN
Equity Shares (m)	6,408
M.Cap.(INRb)/(USDb)	2,018.9/31.8
52-Week Range (INR)	332 / 227
1, 6, 12 Rel. Per (%)	0/0/9
Avg Val, INRm	5197
Free float (%)	100.0

Financials Snapshot (INR b)

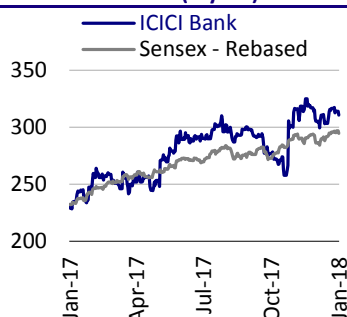
Y/E Mar	2018E	2019E	2020E
NII	237.6	262.1	302.5
OP	228.4	253.3	295.7
NP	87.2	109.2	139.8
NIM (%)	3.3	3.2	3.2
EPS (INR)	13.6	17.0	21.8
EPS Gr (%)	-11.1	25.2	28.0
BV/Sh (INR)*	129.6	139.7	158.9
RoE (%)	8.8	10.5	12.4
RoA (%)	1.1	1.2	1.4
AP/E (x)	17.0	12.7	8.8
AP/BV (x)	1.6	1.4	1.3

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	0.0	0.0	0.0
DII	32.0	30.4	27.6
FII	59.4	60.0	63.3
Others	8.7	9.6	9.1

FII Includes depository receipts

Stock Performance (1-year)



Capex recovery still sometime away; retail growth holding well

We met ICICI Bank recently. Following are our key takeaways from the meeting:
Capex demand remains muted; maintains 18-20% growth guidance for retail segment:

Credit demand from corporates remains muted and the management is not seeing any signs of capex revival. Resolution of NCLT referred cases would give more clarity on capex pickup and asset quality outlook. ICICIB is aiming for ~15% growth in domestic corporate portfolio (excluding restructured loans and loans to companies included in the drilldown list) even as the overall corporate loan growth remains a muted 4% YoY. Retail loan growth, however, is holding up well and the bank maintained its retail loan growth guidance of 18-20% for FY18, led by continued traction across product lines. Unsecured retail loans have increased to 9.6% of total retail loans and largely pertain to the bank's existing customers.

Margins likely to moderate in 2HFY18: ICICIB has reported 12bp YoY expansion in margins over 1HFY18 to 3.27%, aided by interest on income tax refund, strong CASA growth and continued traction in retail loans. However, the absence of such one-off gains, accelerated repricing of advances portfolio and migration of base rate loans to MCLR will weigh heavy on margins in 2HFY18. On CASA, the bank is reaching out to government clients to provide customized solutions, dashboard and MIS, which will provide it a sticky business opportunity.

Monetization of subsidiaries on track; pace of decline in overseas loan portfolio to moderate: ICICIB is open to evaluating opportunities to unlock value in its subsidiaries. It has recently filed DRHP towards the public issue of its securities business. ICICIB currently holds 54.9%/55.9% stake in its life/general insurance subsidiaries and will eventually look to retain majority stake in these subsidiaries. It is not looking to reduce stake in AMC business, where it holds 51%. There are no plans to sell stake in housing finance subsidiary as well. On overseas business, ICICIB indicated that the pace of decline in loan book will moderate (22% YoY decline currently) and there exists some scope of capital repatriation from its Canada subsidiary.

Provisioning expenses to stay elevated; requires INR20b of provisioning towards second NCLT list: ICICIB expects credit cost to stay elevated in the near term, as it needs to provide INR20b by March 2018 towards the second list of stressed accounts given by the RBI. The bank has not given any guidance on haircuts expected in NCLT cases. ICICIB will be sharing its asset quality divergence details along with 3QFY18 results, however mentioned that outside stressed asset pool the maximum ticket size to any BB and below rated borrower is INR6b, which gives comfort.

Valuation and view

While credit cost is likely to stay elevated in the near term (NPL ageing + requirement toward the second list), we expect it to moderate from FY19, enabling ICICIBC to deliver ~12% RoE by FY20E (~8% currently). We reiterate **Buy** with an SOTP-based target price of INR370, which corresponds to 1.8x March 2020E ABV for the standalone bank. Subsidiaries and associates account for ~30% of our target valuation. Progress on asset resolution via NCLT remains a key trigger while impending divergence notification remains an overhang.

Exhibit 1: We value ICICI Bank at INR370/share based on SOTP

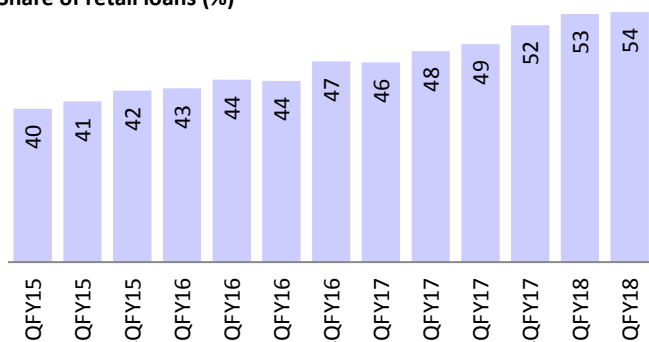
Value per share (INR)	Holding (%)	Multiple	Basis	FY19E
ICICI Standalone	100	1.8x	Avg (EVA & two-stage GGM)	257
Subsidiaries / Others				
ICICI Bank UK	100	1x	BV	6
ICICI Bank Canada	100	1x	BV	6
Life insurance	54.9	15x	NBM	61
General insurance	55.9			31
Asset management	51	4.5%	AUM	11
Private equity	100	15x	PAT	2
Primary dealer	100	12x	PAT	3
Investment banking & broking	100	12x	PAT	17
Home finance	100	1.5x	ABV	3
Total subsidiaries' value @ 20% discount				113
% contribution of Subsidiaries / Others				30.4
Total fair value per share				370

Source: MOSL, Company

Story in charts

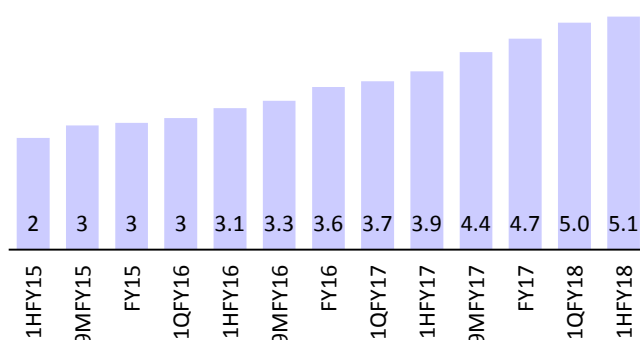
Exhibit 2: Retail loan book has steadily gained share in total book...

Share of retail loans (%)



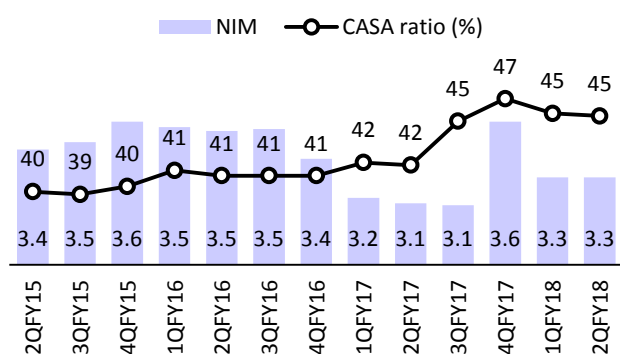
Source: MOSL, Company

Exhibit 3: ...with steady increase in unsecured retail proportion



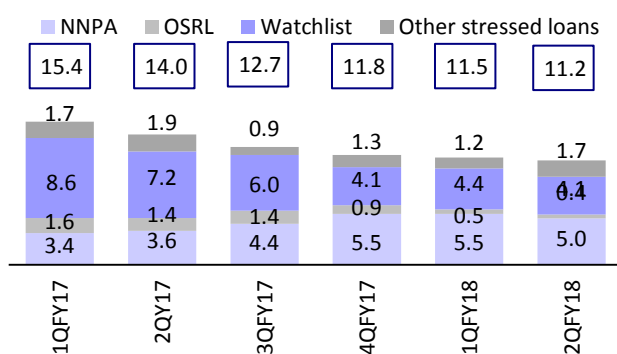
Source: MOSL, Company

Exhibit 4: Margins have been supported by robust CASA portfolio



Source: MOSL, Company

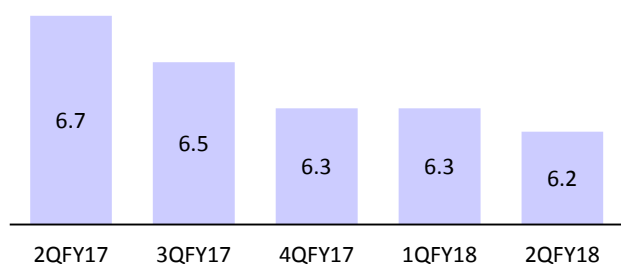
Exhibit 5: Total net stressed pool continues to decline



Source: MOSL, Company

Exhibit 6: Balance sheet of Canada subsidiary has declined steadily....

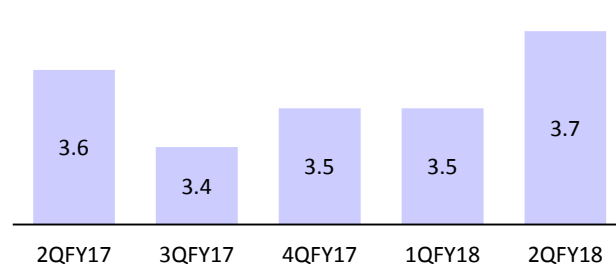
Total assets (CAD\$b)



Source: MOSL, Company

Exhibit 7: ...while decline in UK subsidiary balance sheet has reversed

Total assets (USD\$b)



Source: MOSL, Company

Exhibit 8: ICICI Bank DuPont Analysis (% of average assets)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	2.70	2.91	3.07	3.11	2.91	2.92	2.88	2.92
Core Fee Income	1.48	1.40	1.56	1.56	1.54	1.34	1.26	1.35
Trading and others	0.15	0.45	0.41	0.69	1.07	0.58	0.63	0.54
Non Interest income	1.63	1.84	1.96	2.24	2.61	1.92	1.89	1.89
Total Income	4.33	4.76	5.03	5.35	5.53	4.84	4.77	4.81
Operating Expenses	1.76	1.82	1.85	1.86	1.98	2.03	1.98	1.96
Employee cost	0.76	0.75	0.77	0.73	0.77	0.77	0.77	0.76
Others	1.00	1.08	1.09	1.12	1.21	1.26	1.21	1.19
Operating Profits	2.57	2.93	3.18	3.49	3.55	2.81	2.79	2.86
Core operating Profits	2.42	2.49	2.77	2.80	2.48	2.23	2.16	2.31
Provisions	0.35	0.46	0.63	1.71	2.04	1.45	1.23	1.06
PBT	2.22	2.47	2.55	1.78	1.51	1.36	1.56	1.80
Tax	0.60	0.73	0.75	0.36	0.20	0.29	0.36	0.45
RoA	1.62	1.73	1.80	1.42	1.31	1.07	1.20	1.35
Less: Dividend from Subs	0.18	0.23	0.25	0.22	0.19	0.18	0.18	0.17
Core RoA (ex-income from subs)	1.45	1.51	1.55	1.20	1.12	0.89	1.02	1.18
Core Leverage	10.25	10.11	9.83	9.45	9.10	9.05	9.46	9.94
RoE	14.81	15.21	15.23	11.33	10.22	8.83	10.49	12.41

Source: Company, MOSL

Financials and valuations

Income Statement								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	400,756	441,782	490,911	527,394	541,563	577,708	643,573	735,310
Interest Expended	262,092	277,026	300,515	315,154	324,190	340,125	381,497	432,799
Net Interest Income	138,664	164,756	190,396	212,240	217,373	237,583	262,077	302,511
Change (%)	29.2	18.8	15.6	11.5	2.4	9.3	10.3	15.4
Other Income	83,457	104,279	121,761	153,231	195,045	156,036	171,639	195,669
Net Income	222,121	269,034	312,157	365,471	412,418	393,619	433,716	498,180
Change (%)	21.8	21.1	16.0	17.1	12.8	-4.6	10.2	14.9
Operating Exp.	90,129	103,089	114,958	126,836	147,551	165,246	180,385	202,477
Operating Profits	131,992	165,946	197,199	238,635	264,867	228,373	253,331	295,703
Change (%)	27.1	25.7	18.8	21.0	11.0	-13.8	10.9	16.7
Provisions & Cont.	18,025	26,264	39,000	116,678	152,081	118,009	111,518	109,298
PBT	113,967	139,682	158,199	121,957	112,786	110,364	141,813	186,405
Tax	30,712	41,577	46,446	24,694	14,775	23,176	32,617	46,601
Tax Rate (%)	26.9	29.8	29.4	20.2	13.1	21.0	23.0	25.0
PAT	83,255	98,105	111,754	97,263	98,011	87,187	109,196	139,804
Change (%)	28.8	17.8	13.9	-13.0	0.8	-11.0	25.2	28.0
Dividend (Including Tax)	25,996	28,336	31,729	31,907	28,057	34,206	36,553	42,177
Core PPP*	127,042	155,776	180,269	198,035	179,097	187,051	221,070	265,055
Change (%)	22.2	22.6	15.7	9.9	-9.6	1.0	14.5	15.9

*Core PPP is (NII+Fee income-Opex)

Balance Sheet								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	12,701	12,716	12,762	12,797	12,816	12,828	12,828	12,828
Reserves & Surplus	654,358	719,418	791,532	884,559	979,005	1,022,243	1,094,886	1,192,513
Net Worth	670,560	735,633	807,794	900,856	995,321	1,035,071	1,107,714	1,205,341
Of which Equity Net Worth	667,060	732,133	804,294	897,356	991,821	1,031,571	1,104,214	1,201,841
Deposits	2,926,136	3,319,137	3,615,627	4,214,257	4,900,391	5,468,836	6,261,817	7,263,708
Change (%)	14.5	13.4	8.9	16.6	16.3	11.6	14.5	16.0
Change (%)	10.4	16.2	15.5	17.5	27.8	9.0	16.1	15.3
Borrowings	1,449,915	1,544,091	1,720,673	1,744,574	1,472,062	1,650,424	1,854,072	2,083,928
Other Liabilities & Prov.	321,336	347,555	317,199	347,264	350,141	376,697	433,201	498,181
Total Liabilities	5,367,947	5,946,416	6,461,293	7,206,951	7,717,914	8,531,028	9,656,804	11,051,159
Current Assets	414,175	415,296	423,046	598,687	757,131	559,815	593,973	620,847
Investments	1,713,936	1,770,218	1,581,292	1,604,118	1,615,065	1,930,003	2,142,304	2,452,938
Change (%)	7.4	3.3	-10.7	1.4	0.7	19.5	11.0	14.5
Loans	2,902,494	3,387,026	3,875,221	4,352,639	4,642,321	5,269,034	6,085,734	7,071,623
Change (%)	14.4	16.7	14.4	12.3	6.7	13.5	15.5	16.2
Net Fixed Assets	46,471	46,781	47,255	75,769	78,052	84,296	91,883	99,693
Other Assets	290,871	327,094	534,479	575,737	625,346	687,880	742,910	806,058
Total Assets	5,367,947	5,946,416	6,461,293	7,206,951	7,717,914	8,531,028	9,656,804	11,051,159

Asset Quality							
GNPA (INR m)	96,078	105,058	150,947	262,213	425,520	482,174	485,267
NNPA (INR m)	22,306	32,980	62,555	129,631	252,168	269,464	244,473
GNPA Ratio	3.2	3.0	3.8	5.8	8.8	9.2	6.9
NNPA Ratio	0.8	1.0	1.6	3.0	5.4	5.1	3.5
Slippage Ratio	1.41	1.56	2.35	4.31	7.95	4.20	2.00
Credit Cost	0.51	0.72	0.87	1.75	3.27	2.30	1.60
PCR (Excl Technical write off)	76.8	68.6	58.6	50.6	39.8	44.1	49.6

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield - Earning Assets	8.8	8.7	8.9	8.9	8.3	7.8	7.8	7.8
Avg. Yield on loans	10.1	10.0	9.8	9.5	8.8	8.6	8.6	8.5
Avg. Yield on Investments	6.7	6.6	6.3	6.7	7.1	7.3	7.2	7.1
Avg. Cost-Int. Bear. Liab.	5.7	5.5	5.5	5.2	5.0	5.0	5.0	5.0
Avg. Cost of Deposits	6.2	5.7	5.9	5.5	5.0	4.8	4.8	4.8
Interest Spread	3.0	3.2	3.5	3.6	3.4	2.8	2.8	2.8
Net Interest Margin	3.0	3.2	3.5	3.6	3.3	3.3	3.2	3.2

Profitability Ratios (%)

RoE	13.3	14.4	15.0	11.9	10.9	8.8	10.5	12.4
Adjusted RoE	14.8	15.2	15.2	11.3	10.2	8.2	10.0	12.0
RoA	1.62	1.73	1.80	1.42	1.31	1.1	1.2	1.4
Int. Expended/Int.Earned	65.4	62.7	61.2	59.8	59.9	58.9	59.3	58.9
Other Inc./Net Income	37.6	38.8	39.0	41.9	47.3	39.6	39.6	39.3

Efficiency Ratios (%)

Op. Exps./Net Income*	41.5	39.8	38.9	39.0	45.2	48.2	44.8	43.7
Empl. Cost/Op. Exps.	43.2	40.9	41.3	39.4	38.9	38.9	38.9	38.9
Busi. per Empl. (INR m)	88.0	86.8	104.6	108.4	109.3	121.5	134.9	153.1
NP per Empl. (INR lac)	13.4	13.6	16.5	13.1	11.8	11.0	12.1	14.3

* ex treasury

Asset-Liability Profile (%)

Loan/Deposit Ratio	99.2	102.0	107.2	103.3	94.7	96.3	97.2	97.4
CASA Ratio %	41.9	42.9	45.5	45.8	50.4	53.1	53.2	52.9
Invest./Deposit Ratio	58.6	53.3	43.7	38.1	33.0	35.3	34.2	33.8
G-Sec/Invest. Ratio	53.9	53.8	66.8	69.0	68.4	68.1	70.1	72.3
CAR	18.7	17.7	17.0	16.6	17.4	17.0	15.9	14.9
<i>Tier 1</i>	<i>12.8</i>	<i>12.8</i>	<i>12.8</i>	<i>13.1</i>	<i>14.4</i>	<i>14.1</i>	<i>13.2</i>	<i>12.5</i>

Valuation

						149.3	239	
Book Value (INR)	102.9	111.6	122.9	133.2	147.4	159.0	170.3	185.6
BV Growth (%)	9.6	8.5	10.1	8.4	10.7	7.8	7.1	8.9
Price-BV (x)					2.1	2.0	1.8	1.7
ABV (for Subsidiaries) (INR)	83.5	92.7	105.5	120.8	135.4	129.6	139.7	158.9
ABV Growth (%)	12.5	11.1	13.8	14.5	12.1	-4.3	7.8	13.7
Price-ABV (x)					1.5	1.6	1.4	1.3
ABV (for Subs Invst & NPA) (INR)	81.0	89.1	98.6	106.6	107.9	112.8	122.1	140.5
Adjusted Price-ABV (x)					1.9	1.80	1.66	1.44
EPS (INR)	13.1	15.4	17.5	15.2	15.3	13.6	17.0	21.8
EPS Growth (%)	28.7	17.7	13.5	-13.2	0.6	-11.1	25.2	28.0
Price-Earnings (x)					20.6	23.2	18.5	14.5
Adj. Price-Earnings (x)					16.0	17.0	12.7	8.8
Dividend Per Share (INR)	3.6	4.2	4.5	4.5	4.0	5.3	5.7	6.6
Dividend Yield (%)					1.3	1.7	1.8	2.1

E: MOSL Estimates

NOTES

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- Analyst ownership of the stock

ICICI Bank

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