

BSE Code: 532174

NSE Code: ICICIBANK

Reuters Code: ICBK.NS

Bloomberg Code: ICICIB:IN

Play on retail momentum...

ICICI Bank is India's largest private sector bank with total assets of Rs720,695cr as of FY16 and profit after tax of Rs9,726cr in FY16. It currently has a network of 4,451 Branches and 14,073 ATM's across India. The bank has achieved consistent growth over the last 5 years with a CAGR (FY11-16) of 12% in total assets, 13% in total deposits, 15% in total advances and 14% in net profit.

Investment Rationale

↪ **Re-orienting balance sheet towards retail:** ICICI Bank's advances grew at a healthy pace of 15% CAGR over FY11-16 to Rs496,573cr, primarily driven by 19% growth in retail business. Within retail, personal loans & credit cards (unsecured) and home loans (secured) portfolios grew at a CAGR of 25% (albeit on a low base) and 15%, respectively. We expect advances to grow at a CAGR of 15% over FY16-18E mainly led by 23% growth in retail advances.

↪ **Growing CASA share:** Bank continues to show thrust for low cost deposits due to its strong presence in current accounts savings account (CASA) rich regions. CASA deposits of the bank stood at healthy 46% as of FY16 (growth of 14% CAGR over FY11-16). We expect deposits to grow at a CAGR of 16% over FY16-18E mainly led by 20% CAGR growth in savings deposit.

↪ **Net Interest Margin (NIM) to remain stable:** The bank has shown remarkable improvement in NIM (calc) which has expanded from 2.8% in FY11 to 3.6% in FY16 backed by Net Interest Income (NII) growth of 19% CAGR over FY11-16. We expect ICICI Bank to maintain its margin at current level of 3.5% over FY16-18E supported by (1) higher share of low cost deposits (CASA ratio to remain around 45%) and (2) strong growth in high yielding unsecured retail advances.

↪ **Return ratios to improve:** ROE and ROA have improved to 14.5% and 1.8% in FY15 from 9.7% and 1.3% in FY11, respectively mainly on account of better profitability on the back of improved efficiency. While profitability of the bank remained under pressure in FY16 due to asset quality hiccups, we expect net profit to grow at CAGR of 13% over FY16-18E and return ratios to improve gradually but steadily from hereon.

↪ **Near term asset quality pressure lingers:** ICICI Bank's asset quality remained under pressure over last two years on the back of higher slippages from the bank's exposure to some of the stressed corporates. The bank has reoriented its balance sheet mix towards less risky retail segment post FY12. As a result, the possibility of any incremental slippages outside these stressed accounts will be minimal in the future.

Valuation: Even though the bank has high exposure towards some of the stressed industries, we believe that strong growth in retail advances, higher CASA ratio, adequate CAR and substantial value unlocking of some subsidiaries will continue to support the bank in maintaining its return ratios at healthy levels. We initiate coverage with 'BUY' rating on the stock with target price of Rs295 using SOTP Valuation. At CMP of Rs246, ICICI Bank (standalone) is trading at P/ABV of 1.8x & 1.6x for FY17E and FY18E, respectively.

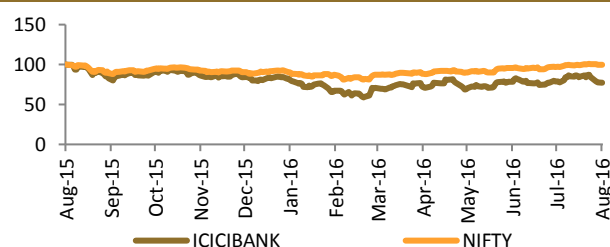
Market Data

Rating	BUY
CMP (Rs.)	246
Target (Rs.)	295
Potential Upside	20%
Duration	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	314/181
Adj. all time High (Rs.)	314
Decline from 52WH (%)	21.7
Rise from 52WL (%)	35.9
Beta	1.8
Mkt. Cap (Rs.Cr)	143,161

Fiscal Year Ended

Y/E	FY15	FY16	FY17E	FY18E
Interest Income (Rs.Cr)	49,091	52,739	56,457	63,011
Interest Expense (Rs.Cr)	30,052	31,515	33,880	37,010
Net Interest Income (Rs. Cr)	19,040	21,224	22,577	26,001
Pre Pro Profit (Rs. Cr)	19,720	23,864	21,877	25,533
EPS	19.3	16.7	18.3	21.3
P/E (x)	16.2	16.3	13.5	11.6
P/BV (x)	2.2	1.8	1.5	1.4
P/ABV (x)	2.4	2.1	1.8	1.6
ROE (%)	14.5	11.4	11.5	12.6
ROA (%)	1.8	1.4	1.4	1.4

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Jun-16	Mar-16	Chg.
Promoters (%)	-	-	-
Public (%)	100	100	-

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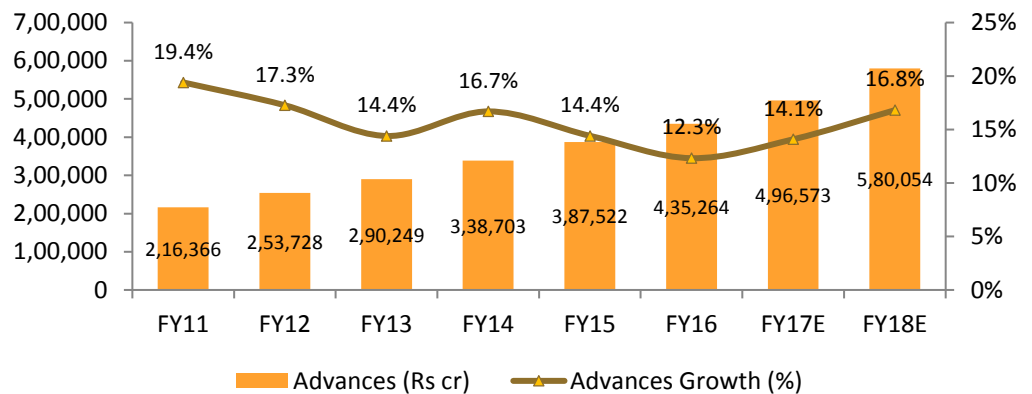
ICICI Bank - Company Overview

ICICI Bank is India's largest private sector bank with total assets of Rs720,695cr as of FY16 and profit after tax of Rs9,726cr in FY16. It currently has a network of 4,451 Branches and 14,073 ATM's across India. The bank has achieved consistent growth over the last 5 years with a CAGR (FY11-16) of 12% in total assets, 13% in total deposits, 15% in total advances and 14% in net profit.

Re-orienting balance sheet towards retail

ICICI Bank's advances grew at a healthy pace of 15% CAGR over FY11-16 to Rs496,573cr, primarily driven by 19% growth in retail business. Within retail, personal loans & credit cards (unsecured) and home loans (secured) portfolios grew at a CAGR of 25% (albeit on a low base) and 15%, respectively. Further, it has been consolidating its corporate loan portfolio due to recent macro headwinds in some of the industries. As a result, the bank's domestic corporate advances grew at a slower pace of 13% CAGR over FY11-16.

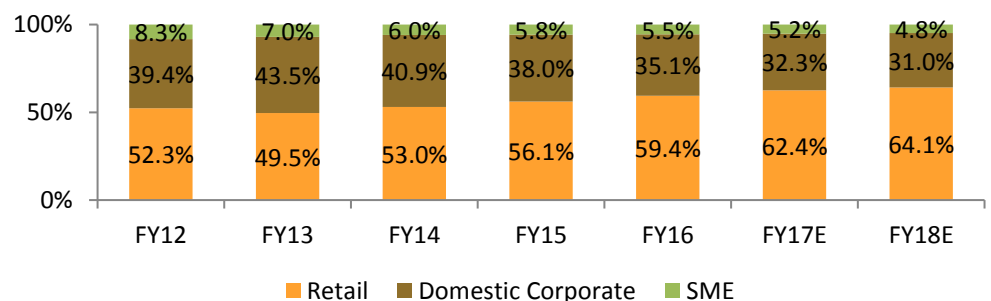
Advances to grow at a CAGR of 15% over FY16-18E



Source: Company, In-house research

ICICI Bank's loan portfolio has become more broad-based over the last five years and the share of retail loans has improved steadily to 59% of overall domestic loans as of FY16 from 50% as of FY12. Further, in domestic corporate segment, the bank has been very conservative on lending part. It has not only reduced the exposure from 35% of total loan book as of FY16 to 44% in FY12 but has also shifted the mix in favor of high rated corporates. This would help ICICI Bank contain slippages and credit cost in the future. Hence, we expect advances to grow at a CAGR of 15% over FY16-18E mainly led by 23% growth in retail advances.

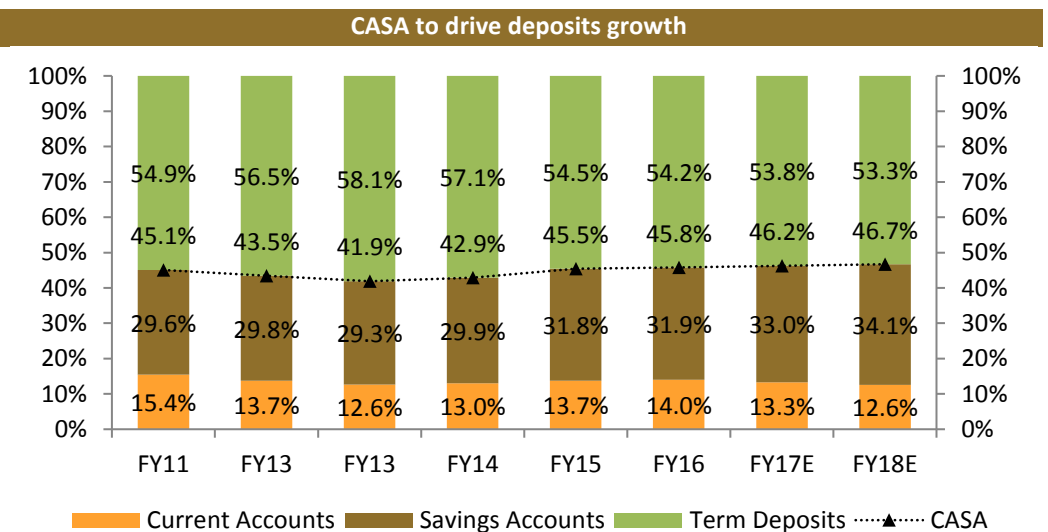
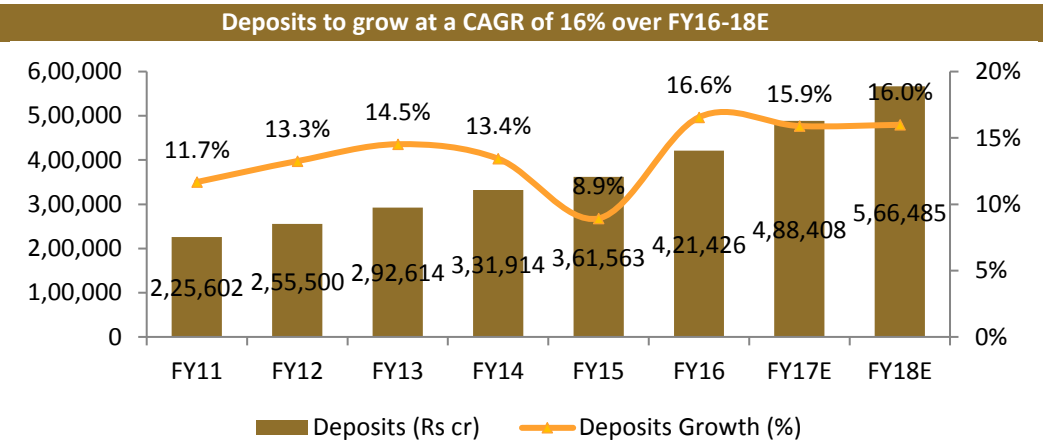
Share of retail advances to increase to 64% of total domestic advances



Source: Company, In-house research

Growing CASA share

Bank continues to show thrust for low cost deposits due to its strong presence in current accounts savings account (CASA) rich regions. CASA deposits of the bank stood at healthy 46% as of FY16 (growth of 14% CAGR over FY11-16). CASA ratio of the bank remained consistently stable in the range of 42-45% over the last five years. We expect the traction in CASA to continue led by continued branch expansion and deepening of customer relationship. We expect deposits to grow at a CAGR of 16% over FY16-18E mainly led by 20% CAGR growth in savings deposit.

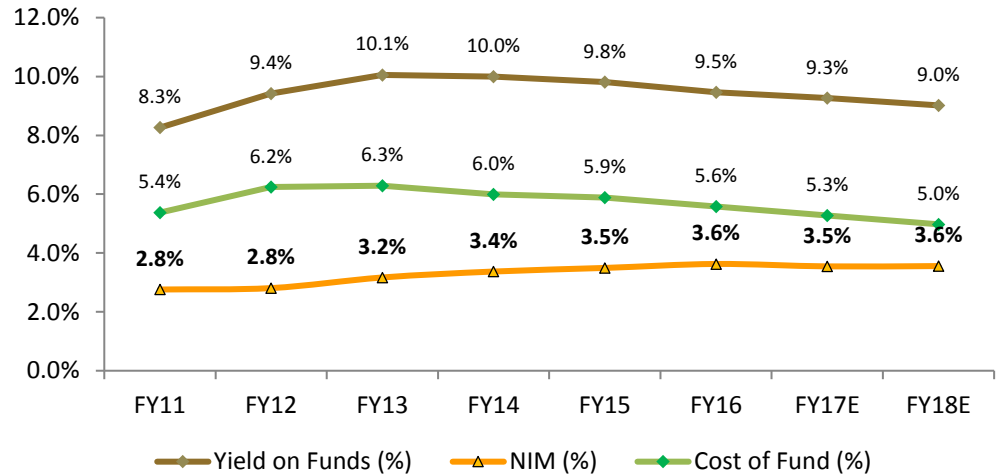


Source: Company, In-house research

Net Interest Margin (NIM) to remain stable

The bank has shown remarkable improvement in NIM (calc) which has expanded from 2.8% in FY11 to 3.6% in FY16 backed by Net Interest Income (NII) growth of 19% CAGR over FY11-16. Despite asset quality headwinds on the bank, we expect ICICI Bank to maintain its margin at current level of 3.5% over FY16-18E supported by (1) higher share of low cost deposits (CASA ratio to remain around 45%) and (2) strong growth in high yielding unsecured retail advances.

NIM to remain steady at 3.5% over FY16-18E

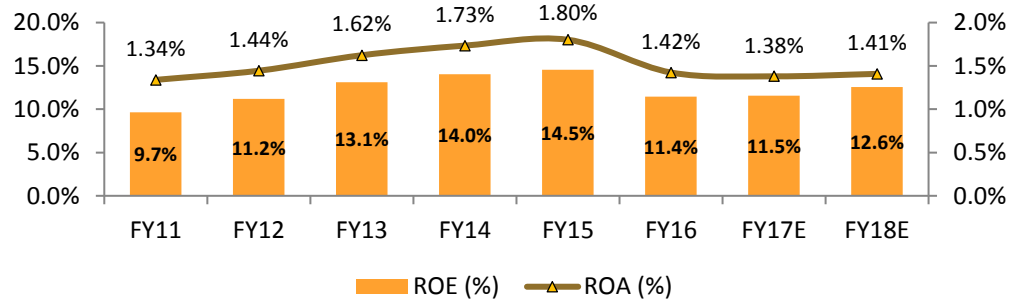


Source: Company, In-house research

Return ratios to improve

ROE and ROA have improved to 14.5% and 1.8% in FY15 from 9.7% and 1.3% in FY11, respectively mainly on account of better profitability on the back of improved efficiency. Cost to income (C/I) ratio of the bank declined to 35% in FY16 from 42% in FY11. As a result, net profit of the bank has grown at a CAGR of 21% over FY11-15. While profitability of the bank remained under pressure in FY16 due to asset quality hiccups, we expect net profit to grow at CAGR of 13% over FY16-18E and return ratios to improve gradually but steadily from hereon.

Return ratios to improve gradually over FY16-18E

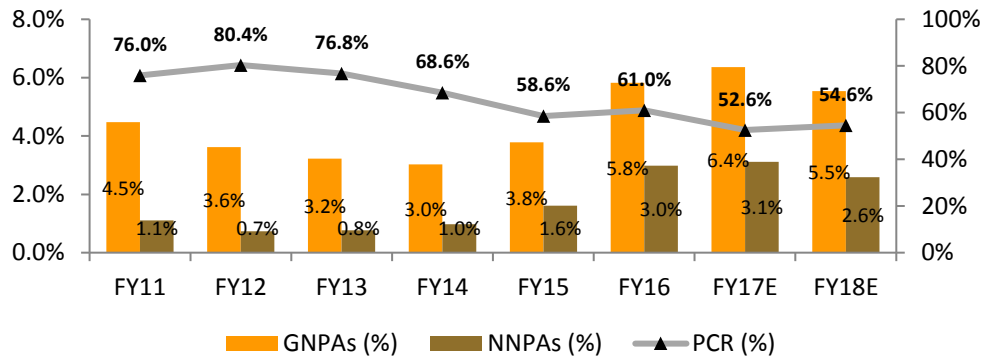


Source: Company, In-house research

Near term asset quality pressure lingers

ICICI Bank's asset quality remained under pressure over last two years on the back of higher slippages from the bank's exposure to some of the stressed corporates. The Bank created a list of stressed accounts in Q4FY16 which could be the key source of future stress in corporate lending book. The Bank had total outstanding (o/s) stressed assets exposure of Rs52,638cr (~5.6% of the bank's total loan book) as of FY16. Notably, the dates of origin or sanctioned on majority of these stress loans were between FY10-12 when majority of the banks sanctioned heavily to the power and steel sectors. On a positive note, the bank has reoriented its balance sheet mix towards less risky retail segment post FY12. As a result, the possibility of any incremental slippages outside these stressed accounts will be minimal in the future. We expect the bank's Gross NPA and Net NPA ratios to improve meaningfully from FY18 with expected improvement in macro-economic environment.

Asset quality stress to ease from FY18E

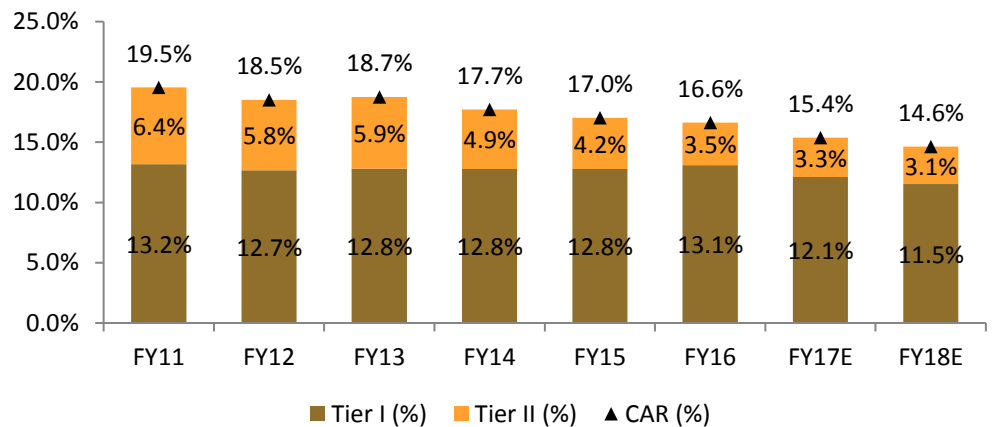


Source: Company, In-house research

Adequately capitalised to sustain medium term growth

The Bank's capital adequacy ratio (CAR) as per Basel III norms continues to remain strong at 16.6% with Tier-I capital ratio of 13.1%. This will help the bank to grow its business further without raising fresh equity in the near to medium term. Given the Bank's current capital position, we don't expect the bank to raise fresh equity capital until FY18E. So, we don't foresee any material equity dilution. Notably, the bank has not raised equity capital over the last 8 years.

Well capitalized to support growth momentum over FY16-18E



Source: Company, In-house research

Value unlocking of subsidiaries

ICICI Bank plans to sell 12.7% stake in ICICI Prudential Life Insurance Company Ltd (ICICI Life), its subsidiary, through an offer for sale (OFS) in FY17. It may fetch close to Rs4,150cr to the bank if we valued ICICI Life business at 2.4x trailing embedded value (EV) of FY16. ICICI Life received similar valuation in a previous deal when ICICI Bank sold its 6% stake of ICICI Life for Rs1950cr in December 2015. However, considering recent increasing interest in the insurance business and first IPO by any Indian insurance firm, we believe that ICICI Bank may fetch anywhere in the range of Rs4,150-6,750cr through this OFS valuing ICICI Life at 2.2-3.8x trailing EV of FY16. Besides, ICICI bank also plans to sell 100% stake in Home Finance Company (HFC), another subsidiary of ICICI Bank, which may fetch anywhere in the range of Rs2,200-2,500cr to the bank. We believe that proceedings from these stake sales of subsidiaries will aid the bank in creating additional buffer against stressed assets.

Outlook and Valuation

Given the bank's high exposure towards some of the stressed industries, we expect stress on asset to remain elevated over FY16-18E. This would lead to significant increase in slippages in FY17. However, with the improvement in macros, asset quality concern is expected to wane from H2FY18. Additionally, strong growth in retail advances, higher CASA ratio, adequate CAR and substantial value unlocking of some subsidiaries will continue to support the bank in maintaining its return ratios at healthy levels.

We initiate coverage with 'BUY' rating on the stock with target price of Rs295 using SOTP Valuation. From valuation perspective, life insurance and general insurance units are the two major subsidiaries of ICICI Bank. Therefore, we have valued ICICI Bank using some of the parts (SOTP) methodology where we value its standalone banking business at Rs226 (P/ABV of 1.5x for FY18E) and subsidiaries at Rs69 (20% holding company discount). As the insurance business is likely to list on stock exchanges, the holding company discount of ICICI Life will be narrowed down. At CMP of Rs246, ICICI Bank (standalone) is trading at P/ABV of 1.8x & 1.6x for FY17E and FY18E, respectively.

SOTP Valuation Summary

Particulars	Basis	Multiple	Year	Value/Share
ICICI Bank	ABV	1.5	FY18E	226
Life Insurance	Proposed Transaction Value			38
General Insurance	Proposed Transaction Value			19
Others			FY18E	30
Total Value of Subsidiaries				87
20% discount value				69
Total Value				295

Source: Company, In-house research

Key Risks:

- **Increase in Slippages:** We have factored the slippages of 4.0% and 3.5% for FY17E and FY18E, respectively. Increase in Slippages beyond our estimates will deteriorate asset quality and will increase credit cost and hence affect the bottom line.
- **Spike in Interest rates:** We expect the interest rate (repo rate) to reduce over FY16-18E. However, any further increase in interest rates will affect the margins of the bank and hence the operating matrix. Additionally, it will have negative impact on investments in capex, which may also impact adversely on the asset quality of the bank.

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY15	FY16	FY17E	FY18E
Interest Income	49,091	52,739	56,457	63,011
Interest Expense	30,052	31,515	33,880	37,010
Net Interest Income	19,040	21,224	22,577	26,001
Non Interest Income	12,176	15,323	13,239	15,168
Net Income	31,216	36,547	35,816	41,169
Operating Expenses	11,496	12,684	13,939	15,636
Total Income	61,267	68,062	69,695	78,179
Total Expenditure	41,547	44,199	47,819	52,646
Pre Provisioning Profit	19,720	23,864	21,877	25,533
Provisions	3,900	11,668	8,566	10,006
Profit Before Tax	15,820	12,196	13,311	15,527
Tax	4,645	2,469	2,695	3,144
Net Profit	11,175	9,726	10,616	12,383

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY15	FY16	FY17E	FY18E
Liabilities				
Capital	1,167	1,170	1,170	1,170
Reserves and Surplus	79,262	88,566	93,013	101,885
Deposits	361,563	421,426	488,408	566,485
Borrowings	172,417	174,807	199,430	232,957
Other Liabilities and Provisions	31,720	34,726	36,305	38,377
Total Liabilities	646,129	720,695	818,325	940,874
Assets				
Cash and Balances	42,305	59,869	66,942	74,811
Investments	186,580	160,412	181,024	204,297
Advances	387,522	435,264	496,573	580,054
Fixed Assets	4,726	7,577	7,956	8,354
Other Assets	24,997	57,574	65,830	73,358
Total Assets	646,129	720,695	818,325	940,874

Key Ratios (Consolidated)

Y/E	FY15	FY16	FY17E	FY18E
Per share data (Rs.)				
EPS	19.3	16.7	18.3	21.3
DPS	4.6	3.3	5.3	5.5
BV	138.7	154.3	161.9	177.2
ABV	127.9	132.0	135.3	151.3
Valuation (%)				
P/E	16.2	16.3	13.5	11.6
P/BV	2.2	1.8	1.5	1.4
P/ABV	2.4	2.1	1.8	1.6
Div. Yield	1.5	6.0	2.1	2.2
Capital (%)				
CAR	17.0	16.6	15.4	14.6
Tier I	12.8	13.1	12.1	11.5
Tier II	4.2	3.5	3.3	3.1
Asset (%)				
GNPA	3.8	5.8	6.4	5.5
NNPA	1.6	3.0	3.1	2.6
PCR	58.6	61.0	52.6	54.6
Management (%)				
Credit/ Deposit	107.2	103.3	101.7	102.4
Cost/ Income	36.8	34.7	38.9	38.0
CASA	45.5	45.8	46.2	46.7
Earnings (%)				
NIM	3.5	3.6	3.5	3.6
ROE	14.5	11.4	11.5	12.6
ROA	1.8	1.4	1.4	1.4

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* ICICIBANK is a large-cap company

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