Volume No. IV Issue No. 193

ICICI Bank Ltd.

November 26, 2018

BSE Code: 532174 **NSE Code:** ICICIBANK **Reuters Code:** ICBK.NS **Bloomberg Code:** ICICIBC:IN

Signs of improvement visible…

ICICI Bank is India's second largest bank and the largest among private banks in terms of total assets. Further, the Bank has a large footprint of 4,867 domestic branches and 14,417 ATMs spread across the country.

Investment Rationale

Strong retail lending continues to support loan growth:

While domestic advances for ICICI Bank grew at a healthy pace of 16% YoY in H2FY19, international advances slipped by 4% YoY, resulting in an overall advance book growth of 13% YoY. The uptick in domestic loans was led by rapid growth in retail and SME loans (↑21% YoY each). Growth in retail loans was mainly contributed by home loans (16% YoY), personal loans (51% YoY), business banking (47% YoY) and credit cards (28% YoY). Corporate loan growth continued to remain tepid (↑5% YoY) due to the high level of corporate stress. Adjusted for stressed loans, corporate loan growth was higher at 15% YoY. Going forward, we expect advances to grow at 15% CAGR over FY18-20E led by 19% growth in retail, 10% growth in domestic corporate and 15% growth in SME loans.

Earnings to improve remarkably from FY20E:

Net interest income (NII) increased at a decent pace of 11% YoY in H1FY19 supported by improving credit growth coupled with broadly stable net interest margin (NIM) of 3.5% on YoY basis. However, we expect NIM to improve to 3.6% by FY20E with improving share of superior-yield retail lending and increasing granularity in deposit franchise. Provisions increased by 40% YoY in H1FY19 as the management continues to focus on improving provision coverage ratio (PCR). We expect provisions to remain high in FY19E as ageing provisions catch up. However, earnings are likely to normalize from FY20E as we expect credit cost to decline with improving asset quality. Hence, we expect the bank to attain return on equity (RoE) of 11% and return on assets (RoA) of 1.2% in FY20E.

Asset quality improvement on track:

Gross non-performing asset (NPA) and Net NPA ratios declined by 35 bps and 62 bps sequentially to 9.3% and 4.1% in Q2FY19, respectively. Provision coverage ratio (PCR) also improved remarkably by 330 bps QoQ to 69.4%. Outstanding stressed loans declined to 4.0% of net advances as compared to 4.8% in Q1FY19. ICICI Bank's exposure to NBFCs is ~5.5% of loans while the management highlighted the bank has a negligible exposure to the IL&FS group. Going forward, we expect slippages to decline gradually which will help the bank to improve Gross/Net NPA ratios to 7.1%/2.7% by FY20E.

Valuation:

ICICI Bank reported remarkable improvement in its asset quality in H1FY19. We believe that the peak of NPA recognition cycle is behind and incremental addition to NPAs is expected to stay significantly lower than the previous years. Further, the bank's liquidity positioning remains comfortable, with liquidity coverage ratio (LCR) at ~110% vs. ~90% required. We continue to like ICICI Bank given its improving B/S mix with higher contribution from granular business (Retail), strong capitalization (capital adequacy ratio of 17.8% as of H1FY19). Hence, we continue maintain our BUY rating on the stock with a revised upward target price (TP) of Rs393 using sum of the part (SOTP) methodology, where we value its standalone business at Rs295 (P/ABV of 1.9x for FY20E) and subsidiaries at Rs98.

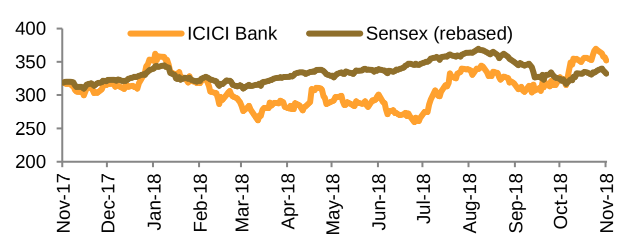
Market Data

Rating	**BUY**
CMP (Rs.)	352
Target (Rs.)	**393**
Potential Upside	12%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	375/256
Adj. all time High (Rs.)	375
Decline from 52WH (%)	6.6
Rise from 52WL (%)	37.2
Beta	1.5
Mkt. Cap (Rs.Cr)	226,607

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Net Int. Income	21,737	23,026	25,798	29,595
Pre Pro Profit	26,487	24,742	24,017	27,550
Net Profit	9,801	6,777	6,354	13,086
EPS	15.3	10.5	9.9	20.4
P/E	20.9	33.4	35.6	17.3
P/BV	2.1	2.2	2.1	1.9
P/ABV	2.7	2.9	2.7	2.3
RoE (%)	10.3	6.6	6.0	11.6
RoA (%)	1.3	0.8	0.7	1.3

One year Price Chart

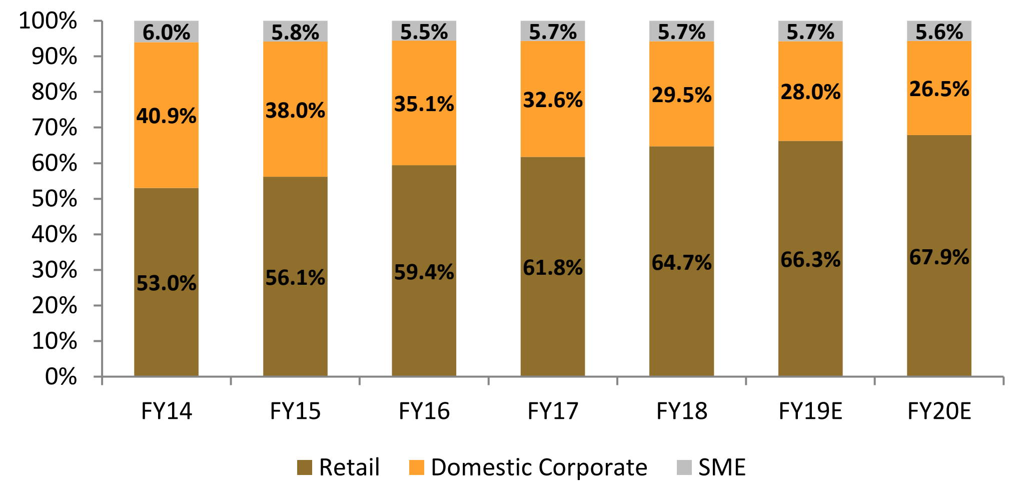


Shareholding Pattern	Sep-18	Jun-18	Chg.
Promoters	0.0	0.0	-
FII's	34.0	35.2	(1.2)
MFs/Insti	33.1	31.8	1.3
Public	32.9	33.0	(0.1)
Others	-	-	-

ICICI Bank Ltd: Business overview

ICICI Bank is India's second largest bank and the largest among private banks with total assets of about ~INR11tn as of Q1FY19. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. Its subsidiaries ICICI venture funds, Pru ICICI AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are amongst the leading companies in their respective fields. 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 65% of overall domestic loans as of FY17 from 53% as of FY14. Further, in domestic corporate segment, the bank has been very conservative on lending part. It has not only reduced the exposure from 41% of total domestic loan book in FY12 to 33% in FY18 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.

Business mix shifting in favour of retail segment



Source: Company, In-house research

Quarterly Financials (Standalone)

(Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %
Interest Income	15,106	13,577	11.3	14,722	2.6
Interest Expense	8,688	7,868	10.4	8,620	0.8
Net Interest Income	**6,418**	**5,709**	**12.4**	**6,102**	**5.2**
Non-Interest Income	3,156	5,186	(39.1)	3,852	(18.1)
Total Net Income	**9,574**	**10,895**	**(12.1)**	**9,954**	**(3.8)**
Operating Expenses	4,324	3,909	10.6	4,145	4.3
Employee Cost	1,661	1,514	9.7	1,514	9.7
Other Operating Exp.	2,663	2,395	11.2	2,631	1.2
Total Income	**18,262**	**18,763**	**(2.7)**	**18,574**	**(1.7)**
Total Expenditure	**13,012**	**11,777**	**10.5**	**12,766**	**1.9**
Pre-Provisioning profit	**5,250**	**6,987**	**(24.9)**	**5,808**	**(9.6)**
Provisions	3,994	4,503	(11.3)	5,971	(33.1)
Profit Before Tax	**1,255**	**2,484**	**(49.5)**	**(163)**	**-**
Tax	347	425	(18.5)	(43)	-
Net Profit	**909**	**2,058**	**(55.8)**	**(120)**	**-**
EPS - Diluted (Rs)	1.4	2.9	(51.6)	(0.2)	-

Source: Company, In-house Research

Business Performance (Rs cr)

(Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %
Advances	544,487	482,780	12.8	516,289	5.5
Deposits	558,669	498,643	12.0	546,878	2.2
Business	**1,103,155**	**981,423**	**12.4**	**1,063,167**	**3.8**
Gross NPA	54,489	44,489	22.5	53,465	1.9
Net NPA	22,086	24,130	(8.5)	24,170	(8.6)

Source: Company, In-house Research

Strong retail franchise continues to support business growth

While domestic advances for ICICI Bank grew at a healthy pace of 16% YoY in H2FY19, international advances slipped by 4% YoY, resulting in an overall advance book growth of 13% YoY. The uptick in domestic loans was led by rapid growth in retail and SME loans (↑21% YoY each). Growth in retail loans was mainly contributed by home loans (16% YoY), personal loans (51% YoY), business banking (47% YoY) and credit cards (28% YoY). Corporate loan growth continued to remain tepid (↑5% YoY) due to the high level of corporate stress. Adjusted for stressed loans, corporate loan growth was higher at 15% YoY. Going forward, we expect advances to grow at 15% CAGR over FY18-20E led by 19% growth in retail, 10% growth in domestic corporate and 15% growth in SME loans. On liabilities side, deposits growth was modest at 12% YoY, while CASA deposits saw a growth of 15% YoY, resulting in improvement in CASA ratio by 124bps YoY to 50.8%. We expect the traction in CASA to continue led by continued branch expansion and deepening of customer relationship. Hence, we expect deposits to grow at a CAGR of 14% over FY18-20E mainly led by 15% CAGR growth in savings deposit.

Earnings to improve remarkably from FY20E

Net interest income (NII) increased at a decent pace of 11% YoY in H1FY19 supported by improving credit growth coupled with broadly stable net interest margin (NIM) of 3.5% on YoY basis. However, we expect NIM to improve to 3.6% by FY20E with improving share of superior-yield retail lending and increasing granularity in deposit franchise. Provisions increased by 40% YoY in H1FY19 as the management continues to focus on improving provision coverage ratio (PCR). We expect provisions to remain high in FY19E as ageing provisions catch up. However, earnings are likely to normalize from FY20E as we expect credit cost to decline with improving asset quality. Hence, we expect the bank to attain return on equity (RoE) of 11% and return on assets (RoA) of 1.2% in FY20E.

Asset quality improvement on track

Fresh slippages trend has eased as slippages declined by 23% QoQ and 33% YoY to Rs3,117cr (the lowest in the past eight quarters) in Q2FY19. Notably, 42% of total slippages was contributed by rupee depreciation (international book) and 32% was from the stressed book (BB and below portfolio). As a result, Gross non-performing asset (NPA) and Net NPA ratios declined by 35 bps and 62 bps sequentially to 9.3% and 4.1%, respectively. Provision coverage ratio (PCR) also improved remarkably by 330 bps QoQ to 69.4%. Outstanding stressed loans declined to 4.0% of net advances as compared to 4.8% in Q1FY19. ICICI Bank's exposure to NBFCs is ~5.5% of loans while the management highlighted the bank has a negligible exposure to the IL&FS group. Going forward, we expect slippages to decline gradually which will help the bank to improve Gross/Net NPA ratios to 7.1%/2.7% by FY20E.

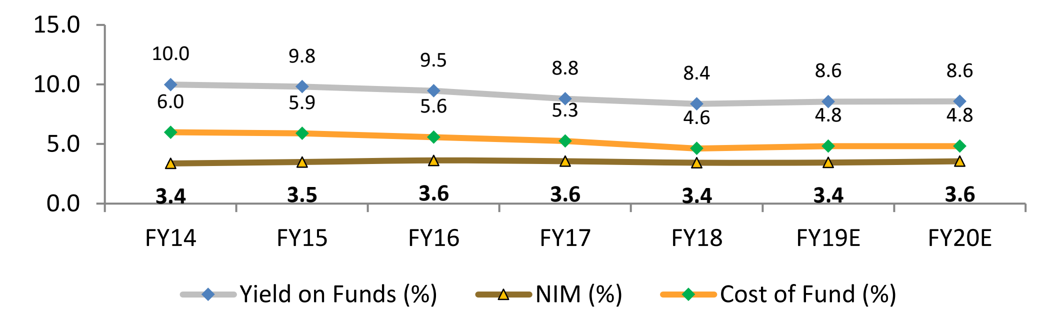
Valuation

ICICI Bank reported remarkable improvement in its asset quality in H1FY19. We believe that the peak of NPA recognition cycle is behind and incremental addition to NPAs is expected to stay significantly lower than the previous years. Further, the bank's liquidity positioning remains comfortable, with liquidity coverage ratio (LCR) at ~110% vs. ~90% required. We continue to like ICICI Bank given its improving B/S mix with higher contribution from granular business (Retail), strong capitalization (capital adequacy ratio of 17.8% as of H1FY19). Hence, we continue maintain our BUY rating on the stock with a revised upward target price (TP) of Rs393 using sum of the part (SOTP) methodology, where we value its standalone business at Rs295 (P/ABV of 1.9x for FY20E) and subsidiaries at Rs98.

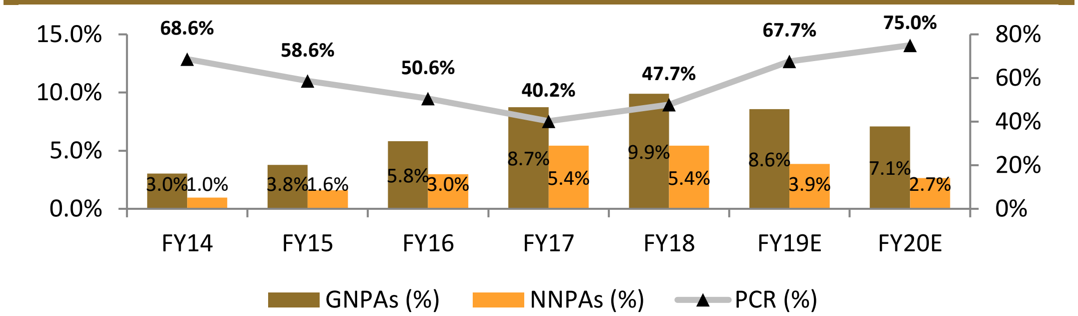
SOTP Valuation

Particulars	Basis	Multiple	Year	Value/Share
ICICI Bank	ABV	1.9	FY20E	295
Life Insurance	Current Market Cap			43
General Insurance	Current Market Cap			32
Securities	Current Market Cap			11
Others			FY20E	37
Total Value of Subsidiaries				122
(20% holding discount)				(24)
Total Value				**393**

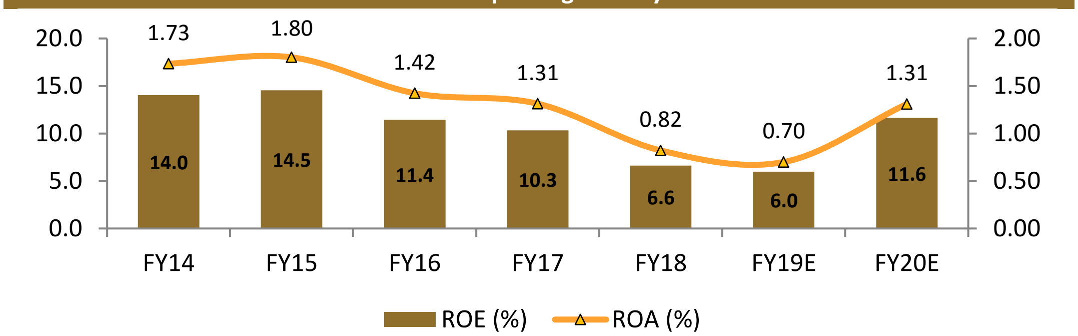
NIM to improve to ~3.6% by FY20E



Asset quality to improve from FY19E



Return ratios to improve gradually from FY20E



Source: Company, In-house research

Key risks:

- **Increase in slippages:** We have factored in the slippages of 3.5% and 2.5% for FY19E and FY20E, 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 remain broadly stable over FY19-20E. However, any further increase in interest rates will affect the margins of the bank and hence the operating matrix.

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Interest Income	54,156	54,966	62,983	70,689
Interest Expense	32,419	31,940	37,185	41,093
Net Interest Income	**21,737**	**23,026**	**25,798**	**29,595**
Non-Interest Income	19,504	17,420	15,481	17,315
Net Income	41,242	40,445	41,279	46,911
Operating Expenses	14,755	15,704	17,262	19,361
Total Income	**73,661**	**72,386**	**78,464**	**88,004**
Total Expenditure	**47,174**	**47,644**	**54,447**	**60,454**
Pre-Provisioning Profit	**26,487**	**24,742**	**24,017**	**27,550**
Provisions	15,208	17,307	15,216	9,425
Profit Before Tax	11,279	7,435	8,800	18,124
Tax	1,478	657	2,447	5,039
Net Profit	**9,801**	**6,777**	**6,354**	**13,086**

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Liabilities				
Capital	1,171	1,291	1,291	1,291
Reserves & Surplus	98,780	103,868	106,248	116,100
Deposits	490,039	560,975	633,897	724,089
Borrowings	147,556	182,859	163,870	181,776
Other Liabilities & Provisions	34,245	30,196	32,915	36,057
Total Liabilities	**771,791**	**879,189**	**938,221**	**1,059,315**
Assets				
Cash & Balances	75,713	84,169	91,928	101,372
Investments	161,507	202,994	196,508	209,986
Advances	464,232	512,395	585,249	673,246
Fixed Assets	7,805	7,904	8,003	8,104
Other Assets	62,535	71,727	56,533	66,606
Total Assets	**771,791**	**879,189**	**938,221**	**1,059,315**

Key Ratios (Standalone)

Y/E	FY17	FY18	FY19E	FY20E
EPS	15.3	10.5	9.9	20.4
DPS	5.0	5.0	1.5	5.0
BV	171.6	163.6	167.3	182.6
ABV	128.3	120.3	132.2	154.8
Valuation (%)				
P/E	20.9	33.4	35.6	17.3
P/BV	2.1	2.2	2.1	1.9
P/ABV	2.7	2.9	2.7	2.3
Div. Yield	1.4	1.4	0.4	1.4
Spreads (%)				
Yield on Advances	8.8	8.4	8.6	8.6
Yield on Investments	7.1	6.3	6.5	6.6
Yield on Funds	8.0	7.3	7.5	7.6
Cost of Funds	5.3	4.6	4.8	4.8
Capital (%)				
CAR	17.4	18.4	16.9	16.3
Tier I	14.4	15.9	14.2	13.8
Tier II	3.0	2.5	2.6	2.5
Asset (%)				
GNPA	8.7	9.9	8.6	7.1
NNPA	5.4	5.4	3.9	2.7
PCR	40.2	47.7	67.7	75.0
Management (%)				
Credit/ Deposit	94.7	91.3	92.3	93.0
Cost/ Income	35.8	38.8	41.8	41.3
CASA	50.4	51.7	51.9	51.6
Earnings (%)				
NIM	3.6	3.4	3.4	3.6
ROE	10.3	6.6	6.0	11.6
ROA	1.3	0.8	0.7	1.3

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.

***** ICICI Bank is a large cap bank.

Disclaimer:

The SEBI registration number is INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report.

This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

1. Do not have any financial interest in the subject company / companies in this report;
2. Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;
3. Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;
4. Have not received any compensation from the subject company / companies in the past 12 months;
5. Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;
6. Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;
7. Have not served as an officer, director, or employee of the subject company;
8. Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or

Contact Us:

Funds India
Uttam Building, Third Floor|
No. 38 & 39| Whites Road|
Royapettah|Chennai – 600014|
T: +91 7667 166 166
Email: contact@fundsindia.com

I, Kaushal Patel, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.
Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

REGULATORY DISCLOSURES:
Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.
In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion *confirms that:*

(i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.

(ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.

(ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

(a) Have not managed or co-managed public offering of securities for the subject company (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (c) Have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject. (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Kaushal Patel employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.