

October 29, 2018

ICICI Bank

Q2FY19 Result Update

NIM improved on back of overseas collection

NIM came at 3.27% as compared to 3.19% in Q1FY19 and 3.2% in Q2FY18. NIM on domestic book improved from 3.54% to 3.57% sequentially, while NIM on overseas book reported significant improvement from 0.3% to 0.95% sequentially on the back of robust collection. Yield on advances came at 8.67% (v/s 8.71% QoQ, 8.68% YoY). Yield on funds came at 7.78% (v/s 7.69% QoQ, 7.83% YoY). Cost of funds augmented sequentially from 4.99% to 5.04% (v/s 5.10% YoY) due to rise in cost of deposits at 4.91% (v/s 4.81% QoQ, 4.98% YoY).

Non-interest income dented income growth

Non-interest income came at 3156cr (de-growth of 39% YoY, 18% QoQ). Bank recognized profit from stake sale in ICICI Lombard General Insurance of 1711cr in previous quarter and low treasury income at 29cr in current quarter as oppose to 2193cr in Q2FY18. However, fee income improved to 2995cr (16.5% YoY, 8.8% QoQ)

Advances grew on back of retail and SME book

Advances grew 13% YoY to 5.4 trillion on the back of 21% YoY growth in retail book, 22% YoY growth in SME book, -4% YoY in overseas book and 5% YoY growth in corporate book. Within retail, home loan segment grew 16% YoY, rural segment 19% YoY, credit card 27% YoY, personal loans grew 51% YoY & micro based grew 46% YoY. Retail book contribute 57% of total advance book.

Deposits driven by CASA growth

Deposits grew 12% YoY to 5.58 trillion. CASA grew 15% YoY, while term deposits grew 9% YoY to 2.75 trillion. CASA ratio came at 50.8% as compare to 50.5% in Q1FY19 and 49.5% in Q2FY18.

Collections improved asset quality

Gross NPA came at 7.87% (v/s 8.81% in Q1FY19, 7.82% in Q2FY18). In absolute terms, GNPA came at 44489cr (v/s 53465cr in Q1FY19, 46039cr in Q2FY18). Net NPA came at 4.43% (v/s 4.19% in Q1FY19, 4.20% in Q2FY18). Provision coverage ratio came at 45.8% (v/s 54.8% in Q1FY19, 48.3% in Q2FY18).

Valuations

PAT came at 909cr (v/s 2058cr in Q2FY18, loss of 120cr in Q1FY19). Return ratios came at 0.4% (RoA), 3.5% (RoE). We value stock at INR 387 (2x FY20 P/ABV of Bank + INR 120 of subsidiaries), assuming 20% holding discount, implying 23% upside from current levels.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	21,224.0	21,737.3	23,025.9	25,671.4	29,089.3
Growth%	11%	2%	6%	11%	13%
Pre-provisioning profit	23,863.5	26,486.8	24,741.5	22,923.4	25,557.3
Growth%	21%	11%	-7%	-7%	11%
Adjusted PAT	9,726.7	9,801.5	6,777.4	3,109.3	5,077.2
Growth%	-13%	1%	-31%	-54%	63%
EPS (INR)	16.7	16.8	10.5	4.8	7.9
BVPS (INR)	154.3	171.6	163.6	168.2	176.1
ABVPS (INR)	132.0	128.3	120.3	121.4	133.6
P/B (x)	2.1	1.4	1.5	1.9	1.9
P/ABV (x)	2.3	1.6	2.0	2.6	2.6

Source: Company, NSPL Research

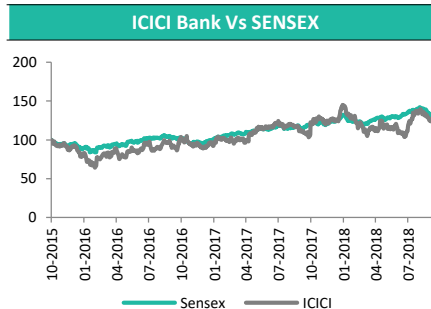
* Read last page for disclaimer & rating rationale

STRONG BUY*



Market Data	
Industry	BFSI
Sensex	33349
Nifty	10030
Bloomberg Code	ICICIBC:IN
Eq. Cap. (INR Crores)	1287
Face Value (INR)	2
52-w L/H	257/366
Market Cap (INR Crores)	202750

Valuation Data	FY18A	FY19E	FY20E
NIM	3.1%	3.1%	3.1%
Book value	163.6	168.2	176.1
Adj BV	120.3	121.4	133.6
ROAA	0.8%	0.3%	0.5%
ROAE	6.6%	2.9%	4.6%



Shareholding Pattern			
	Sept'18	Jun'18	Sept'17
Promoters	0.0	0.0	0.0
FII	45.3	46.8	45.9
MF	24.9	23.2	22.6
Retail	7.1	7.2	7.8
Others	22.8	22.7	23.7
	100.0	100.0	100.0



Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest income	15,106	13,577	14,722	11.3%	2.6%
Interest expense	8,688	7,868	8,620	10.4%	0.8%
Net interest income	6,418	5,709	6,102	12.4%	5.2%
Non interest income	3,156	5,186	3,852	-39.1%	-18.1%
Total income	9,574	10,895	9,954	-12.1%	-3.8%
Employee costs	1,661	1,514	1,514	9.7%	9.7%
Other operating expenses	2,663	2,395	2,631	11.2%	1.2%
Operating expenses	4,324	3,909	4,145	10.6%	4.3%
Pre-provision profit	5,250	6,987	5,808	-24.9%	-9.6%
Provisions	3,994	4,503	5,971	-11.3%	-33.1%
Profit before tax	1,255	2,484	-163	-49.5%	
Tax expense	347	425	-43	-18.5%	
Net profit	909	2,058	-120	-55.8%	

Source: Company, NSPL Research

- Bank’s total operating income -12% YoY from INR 10895cr in Q2FY18 & -4% QoQ from INR 9954cr in Q1FY19 to INR 9574cr in this quarter. Yield on funds improved to 7.78% (v/s 7.69% QoQ, 7.83% YoY)
- Bank’s Net Interest Income grew 12% YoY from INR 5709cr in Q2FY18 & 5% QoQ from INR 6102cr in Q1FY19 to INR 6418cr in this quarter. NIM came at 3.3%
- Bank’s Non-Interest Income -39% YoY from INR 5186cr in Q2FY18 & -18% QoQ from INR 3852cr in Q1FY19 to INR 3156cr in this quarter.
- Bank’s quarterly cost to income ratio expanded to 45% as compare to 36% YoY and 42% QoQ
- Bank’s quarterly pre-provisioning profit 25% YoY from INR 6987cr in Q2FY18 & -10% QoQ from INR 5808cr in Q1FY19 to INR 5250cr in this quarter.
- Bank’s net profits -56% YoY from INR 2058cr in Q2FY18 & loss of INR 120cr in Q1FY19 to INR 909cr in this quarter.
- Gross NPA ratio came at 8.54% (v/s 7.87% in Q2FY18) and NNPA came at 3.65% (v/s 4.43% in Q2FY18).
- Capital adequacy ratio came at 17.84%

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Deposits	558,668.86	498,642.75	546,878.43	12.0%	2.2%
Borrowings	174,685.78	150,702.37	161,970.33	15.9%	7.9%
Investments	187,500.31	179,935.23	186,360.47	4.2%	0.6%
Advances	544,486.62	482,780.13	516,288.73	12.8%	5.5%
Total Assets	874,339.97	787,802.18	845,127.53	11.0%	3.5%

Source: Company, NSPL Research



Conference Call Highlights

1. Management expects sustainable growth rate of 18-20% in retail & 15-20% in SME segment.
2. NIM came at 3.3%, cost of funds moved 5bps to 5.04%. However, bank deployed excess liquidity towards lending, which improved yields and hence NIM.
3. However, management expects NIM to be under pressure in spite of MCLR linked book due to a) systemic rise in cost of funds, b) volatile international NIM.
4. Total slippages came at 3117 cr. Slippages from retail segment were 760cr, from corporate and SME were 2350cr, from BB& below book were 1050cr
5. Management expects slippages in FY19 to be at a lower level as compare to FY18.
6. Although, core profit is expected to improve, provisions can remain at elevated levels in FY19, primarily because of ageing portfolios. Management expects to take provision coverage ratio to 70% by FY20.
7. Bank upgraded 4100cr towards corporate & SME book, of which 1900cr is for Iron & Steel vertical
8. Exposure to IL&FS group: bank has exposure towards an EPC company which is included in BB and below rated exposure. Account is standard.
9. Exposure in RBI list: outstanding loans and NFB amounting to 3880 cr and 150cr. Provisions on these accounts is increased from 53% in FY18 to 90% in Q2FY19.
10. UK Subsidiary: Net NPA stands at \$190 million.
11. Exposure towards NBFC & HFC stands at 36700cr.
12. Management aims to achieve RoE of 15% by 2020.

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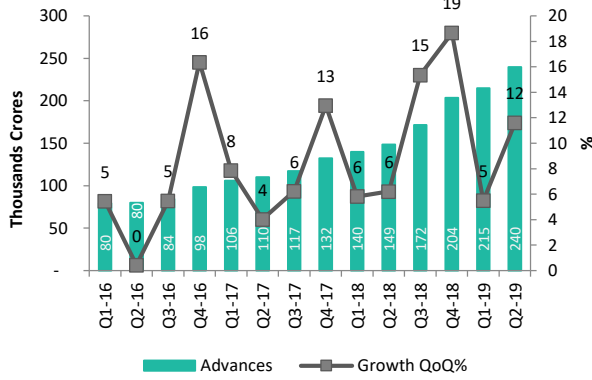
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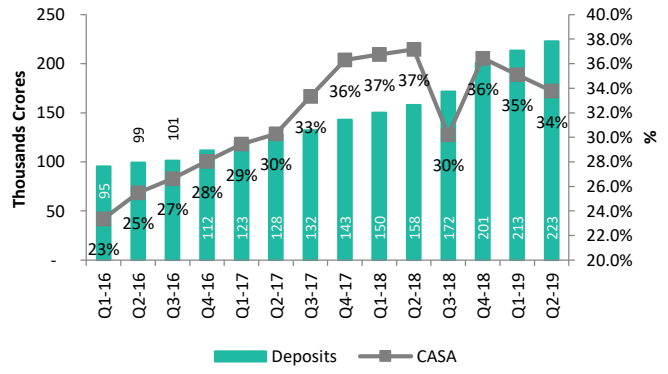
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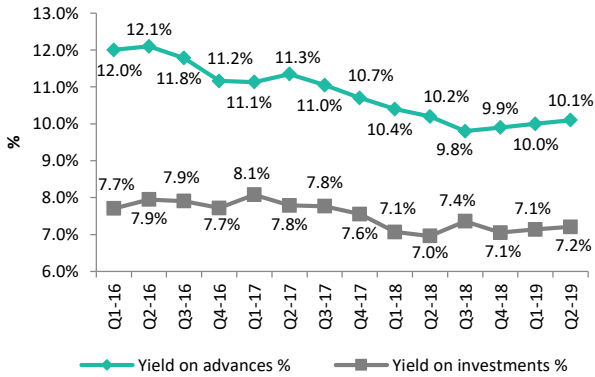
Advances Profile



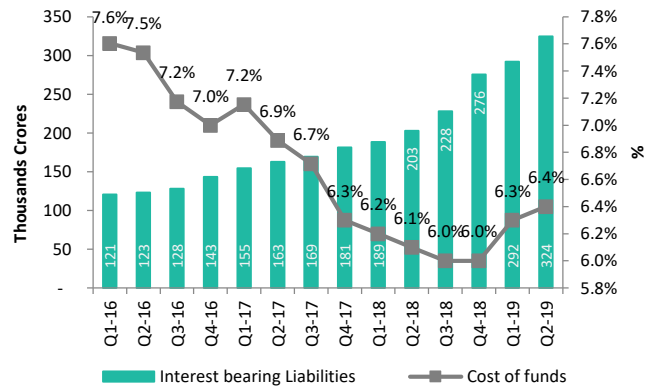
Deposits Profile



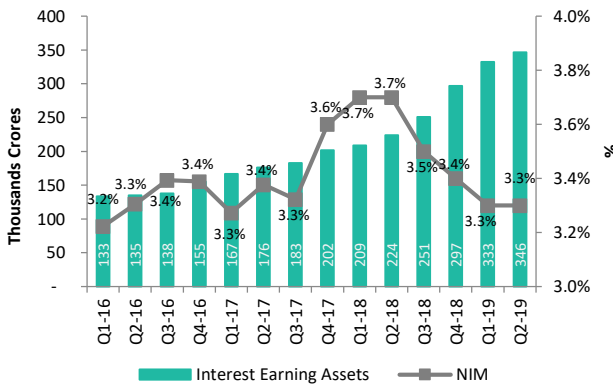
Yield Profile



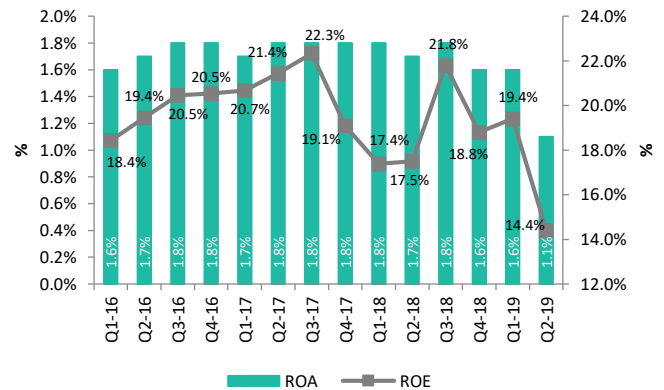
Interest Bearing Liabilities



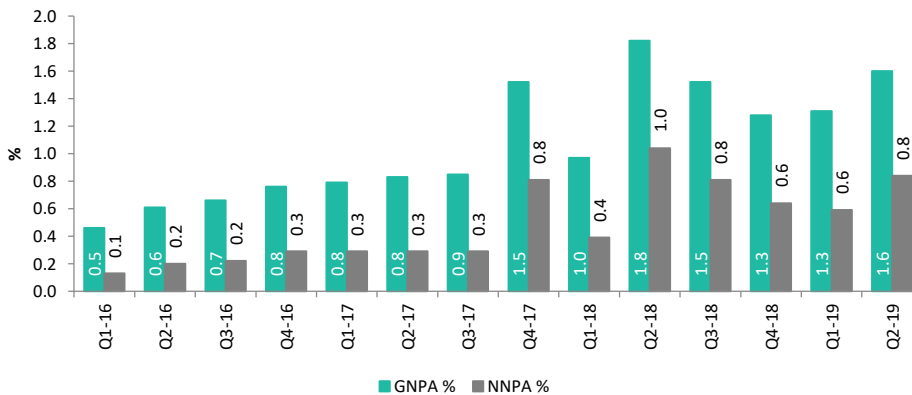
Interest Earning Assets



Return Ratios



Asset Quality



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest income	52,739.4	54,156.3	54,965.9	62,092.1	70,647.5
Interest expense	31,515.4	32,419.0	31,940.1	36,420.7	41,558.2
Net interest income	21,224.0	21,737.3	23,025.9	25,671.4	29,089.3
Non interest income	15,323.1	19,504.5	17,419.6	14,629.7	15,952.0
Total income	36,548.0	41,241.8	40,445.5	40,301.1	45,041.3
Operating expenses	12,683.6	14,755.1	15,703.9	17,377.7	19,484.0
Employee costs	5,002.4	5,733.7	5,914.0	7,377.7	8,354.0
Other operating expenses	7,681.2	9,021.4	9,790.0	10,000.0	11,130.0
Pre-provision profit	23,863.5	26,486.8	24,741.5	22,923.4	25,557.3
Provisions	11667.4	15207.8	17,307.0	18,777.8	18,304.2
Profit before tax	12,196.2	11,279.0	7,434.6	4,145.7	7,253.1
Tax expense	2,469.4	1,477.5	657.1	1,036.4	2,175.9
Net profit	9,726.7	9,801.5	6,777.4	3,109.3	5,077.2

BALANCE SHEET (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	1,163.2	1,165.1	1,285.6	1,287.2	1,287.2
Shareholder's Fund	89,728.9	99,944.8	105,153.2	108,264.1	113,341.2
Deposits	421425.7	490039.1	560975.2	645121.5	741889.7
Borrowings	174807.4	147556.2	182858.6	204801.7	229377.9
Cash & Balances with RBI	59868.7	75713.1	84169.4	96794.8	111314.0
Investments	160411.8	161506.5	202994.2	233443.3	268459.8
Advances	435263.9	464232.1	512395.3	553386.9	608725.6
Total Assets	720695.1	771791.4	879188.9	949524.3	1044476.7

KEY RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	12.3%	6.7%	10.4%	8.0%	10.0%
Deposits (%)	16.6%	16.3%	14.5%	15.0%	15.0%
Total assets (%)	11.5%	7.1%	13.9%	8.0%	10.0%
NII (%)	11.5%	2.4%	5.9%	11.5%	13.3%
Pre-provisioning profit (%)	21.0%	11.0%	-6.6%	-7.3%	11.5%
PAT (%)	-13.0%	0.8%	-30.9%	-54.1%	63.3%
Balance sheet ratios					
Credit/Deposit (%)	103.3%	94.7%	91.3%	85.8%	82.1%
CASA (%)	45.8%	50.4%	51.7%	51.4%	51.8%
Advances/Total assets (%)	60.4%	60.1%	58.3%	58.3%	58.3%
Leverage (x)	8.0	7.7	8.4	8.8	9.2
Operating efficiency					
Opex/total assets (%)	1.8%	1.9%	1.8%	1.8%	1.9%
Opex/total interest earning assets (%)	2.0%	2.2%	2.1%	2.1%	2.1%
Profitability					
NIM (%)	3.3%	3.2%	3.1%	3.1%	3.1%
RoA (%)	1.4%	1.3%	0.8%	0.3%	0.5%
RoE (%)	11.4%	10.3%	6.6%	2.9%	4.6%
Asset quality					
Gross NPA (%)	5.8%	8.8%	9.9%	9.2%	7.9%
Net NPA (%)	3.0%	5.4%	5.4%	5.4%	4.5%
PCR (%)	50.6%	40.2%	47.7%	43.0%	45.0%
Credit cost (%)	1.8%	3.3%	2.9%	2.0%	1.5%
Per share data / Valuation					
EPS (INR)	16.7	16.8	10.5	4.8	7.9
BV (INR)	154.3	171.6	163.6	168.2	176.1
ABV (INR)	132.0	128.3	120.3	121.4	133.6
P/E (x)	12.9	15.5	29.9	65.2	39.9
P/BV (x)	2.1	1.4	1.5	1.9	1.9
P/ABV (x)	2.3	1.6	2.0	2.6	2.6

Source: Company, NSPL Research

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ICICI Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 29, 2018	315	387	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
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Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
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Other disclosures	NO

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