

Weak performance on all counts

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Rating	Accumulate
Price	Rs263
Target Price	Rs262
Implied Upside	.4%
Sensex	28,052
Nifty	8,639

(Prices as on July 29, 2016)

Trading data

Market Cap. (Rs bn)	1,528.7
Shares o/s (m)	5,815.8
3M Avg. Daily value (Rs m)	4388.8

Major shareholders

Promoters	0.00%
Foreign	52.58%
Domestic Inst.	34.54%
Public & Other	12.88%

Stock Performance

(%)	1M	6M	12M
Absolute	11.1	14.2	(9.1)
Relative	6.2	1.4	(10.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	16.2	18.3	-11.7
2018	22.2	21.8	1.6

Price Performance (RIC:ICBK.BO, BB:ICICIBC IN)



Source: Bloomberg

ICICIBC reported in-line performance on earnings mainly on better other income led by treasury & lower taxes, but topline was dismal on interest reversals & loss of income on high impairment ICICI has been doing from last few quarters. Slippages of Rs82.5 bn remained high especially from the watch list (55% of slippages), but Rs56bn of asset sale to ARC & write-offs softened large deterioration in asset quality. Watch list has come down by 50bps QoQ of total exposure to 4.2% (Rs387.2bn from Rs440 bn in Q4FY16). Management expects bulk of the slippage formation to be from in the corporate book to be from the watch list and keep credit cost elevated. We believe margins are under huge pressure which will be impacting topline, but cushion of contingent provisions will help mitigate P&L shocks. We fine-tune our earnings to factor higher credit cost and lower our yields. We revise our PT to Rs262 (from Rs265) on SOTP basis. Maintain Accumulate.

- **Asset quality remains vulnerable:** Bank saw high slippages of Rs82.5bn of which Rs45.0 bn were from watch list & Rs13.7bn from restructured. Retail book also saw some uptick in slippages in Q1FY17. Watch list portfolio remains the main highlight with power & mining continuing to be the major part. Watch list came down by Rs53.4bn (12% of watch list) to Rs387bn from Rs440 bn mainly as bank took large slippages in steel & mining sectors. 5/25, SDR & restructuring were negligible this quarter. The Bank has utilized Rs8.65 bn from the pool of Rs36bn of contingency provisions made in Q4FY16 and has balance of Rs28bn.
- **Topline under pressure, operating performance aided by treasury:** ICICIBC reported flattish growth in NII (6.4% below PLe) adversely impacted by higher interest reversals & income loss ICICI has been facing from last few quarters. As a result, domestic NIMs declined by 30bp QoQ to 3.45%. Management guided pressure on margins to continue as slippages will continue to be elevated. Fee income remained tepid with 2% YoY, while overall operating performance growth was aided by treasury income of Rs7.7bn (2x YoY growth).
- **Loan growth has been slower than anticipated:** Advances growth stood at 12% YoY, but being led by strong growth in retail from all segments, while selective opportunities in domestic corporate. Management has guided for 18% domestic loan growth led by ~22-25% retail loan growth, pick-up in SME loan growth, while corporate book is under transition and will be growing gradually.

Key financials (Y/e March)	2015	2016	2017E	2018E
Net interest income	190,396	212,240	218,015	259,075
Growth (%)	15.6	11.5	2.7	18.8
Operating profit	197,199	238,635	223,335	266,115
PAT	111,753	97,263	94,143	128,971
EPS (Rs)	19.3	16.7	16.2	22.2
Growth (%)	13.6	(13.3)	(3.4)	37.0
Net DPS (Rs)	5.0	5.0	5.5	6.0

Profitability & Valuation	2015	2016	2017E	2018E
NIM (%)	3.07	3.11	2.84	2.96
RoAE (%)	14.5	11.4	10.2	12.9
RoAA (%)	1.80	1.42	1.23	1.47
P / BV (x)	1.9	1.8	1.6	1.5
P / ABV (x)	2.4	2.4	2.3	2.1
PE (x)	13.6	15.7	16.2	11.9
Net dividend yield (%)	1.9	1.9	2.1	2.3

Source: Company Data; PL Research

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Exhibit 1: Q1FY17 Financials: Weak core operations; sale of assets to ARCs aid asset quality

P & L (Rs m)	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	QoQ gr. (%)
Interest income	1,33,303	1,28,126	4.0	1,34,819	(1.1)
Interest expense	81,717	76,975	6.2	80,774	1.2
Net interest income (NII)	51,585	51,151	0.8	54,045	(4.6)
Treasury income	7,680	2,070	271.0	21,900	(64.9)
Other income exc. Treasury	34,293	29,899	14.7	51,089	(32.9)
Total income	85,878	81,050	6.0	1,05,134	(18.3)
Operating expenses	33,731	30,672	10.0	34,059	(1.0)
-Staff expenses	12,907	12,673	1.8	13,821	(6.6)
-Other expenses	20,824	17,999	15.7	20,239	2.9
Operating profit	52,147	50,378	3.5	71,075	(26.6)
Core operating profit	44,467	48,308	(8.0)	49,175	(9.6)
Total provisions	25,145	9,554	163.2	69,262	(63.7)
Profit before tax	27,002	40,824	(33.9)	1,813	1,389.4
Tax	4,679	11,063	(57.7)	(5,206)	(189.9)
Profit after tax	22,324	29,762	(25.0)	7,019	218.0
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Balance Sheet (Rs m)					
Deposits	42,40,862	36,78,770	15.3	42,14,257	0.6
Advances	44,94,265	39,97,376	12.4	43,52,639	3.3
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Profitability ratios					
NIM	3.2	3.5	(38)	3.4	(21)
RoAA	1.3	1.9	(64)	0.4	86
RoAE	9.9	14.6	(470)	3.2	670
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Asset Quality					
Gross NPA (Rs m)	2,71,936	1,51,376	79.6	2,62,213	3.7
Net NPA (Rs m)	1,50,407	63,333	137.5	1,29,631	16.0
Cum. Restructured assets	72,410	1,26,040	(42.5)	85,730	(15.5)
Gross NPL ratio	5.9	3.7	219	5.8	2
Net NPL ratio	3.4	1.6	177	3.0	37
Coverage ratio	44.7	58.2	(1,347)	50.6	(587)
Rest. Assets/ Total adv.	1.6	3.2	(154)	2.0	(36)
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Business & Other Ratios					
Low-cost deposit mix	45.1	44.1	100	45.8	(70)
Cost-income ratio	39.3	37.8	143	32.4	688
Non int. inc / total income	39.9	36.9	304	48.6	(866)
Credit deposit ratio	106.0	108.7	(269)	103.3	269
CAR	16.2	16.4	(15)	16.6	(42)
Tier-I	12.8	12.3	52	13.1	(31)

Source: Company Data, PL Research

ICICI bank Q1FY17 Concall Highlights:

Balance Sheet:

- **Loan growth outlook** – Bank expects **+22% growth in retail** with higher bias towards mortgage lending and also from the unsecured book (on smaller base), while **on the corporate book** growth target remains in mid teens mainly from the better rated corporate and for working capital. **SME business** has seen some repayments recently but expects growth to pick-up hereon, while **on international loans** growth will remain muted.
- **CASA** – CASA growth of 17.9% YoY continued to be good mainly on better SA growth. CASA share remained stable at 45% on EOP basis, while CASA share on average basis moved slightly up to 41.7%.

Margins:

- Margins came off by 30bps QoQ (Q4FY16 had interest on IT refund) to 3.45% from the domestic book. **Outlook** - Margins will remain under pressure on impact by loss of income as more NPAs formation happens going ahead.

Other income:

- Overall fee income has been tepid and below management's expectations, but main reason has been lower corporate fees weakness, while retail fees has been growing at 11-12% which will improve going ahead. Retail fees share was 70% of overall fee income.

Asset Quality:

- **Slippages** – Slippages during Q1 were at Rs82.5bn of which Rs45.6bn were from the watch list formed by the bank in Q4FY16, while Rs13.2 bn were from restructured book.
- **Watch list of stressed assets from below investment grade** – Movement from watch list was amounting to Rs53.4 bn as Rs45.6 bn slipped to NPAs, while Rs7.8bn saw reduction in exposure & movement to investment grade. The Bank drew down Rs8.65 bn of provisions from the contingency pool of Rs36 bn created in Q4FY16 and ~Rs28bn of contingency reserves.
- **Restructured loans** – Bank did not undertake any large restructuring during the quarter. O/s standard restructured book stood at Rs72.4bn or 1.6% of loans.
- **ARC sale** – The Bank sold Rs53.0 bn of loans to ARC for a net consideration of Rs22.3bn. Due to the sale at discount, loss provision were at Rs5.62bn of which Rs1.32bn were done in Q1FY17 and rest will be done over next 3 quarters. The Bank's net SR book has increased to Rs22.4bn (0.5% of loans) from Rs6.24bn in Q4FY16.

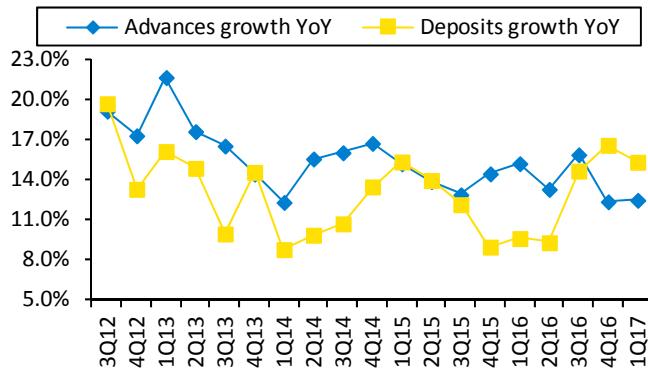
- **5/25 Scheme & SDR** – Bank has not undertaken any 5/25 refinancing and had negligible revoking of SDR asset. O/s 5/25 stood at Rs27.1 bn (0.6% of loans) which are predominantly standard and some slipped to NPAs in Q1FY17. O/s SDR assets stand at Rs26.4 bn (0.6% of loans) and these loans are predominantly in restructured or NPAs.
- **Outlook** – Management expects any incremental large chunk of slippage of assets will be from the watch list and the restructured book, which will keep credit cost elevated, but refrained from giving any credit cost guidance.

Exhibit 2: Loan split and growth trends

Loan Book Details	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	QoQ gr. (%)
Total Loan Book	44,94,265	39,97,376	12.4	43,52,639	3.3
Domestic Loan book	35,41,481	30,30,011	16.9	34,12,469	3.8
International Loan book	9,52,784	9,67,365	(1.5)	9,40,170	1.3
Retail Loan book	20,85,339	17,10,877	21.9	20,28,330	2.8
Domestic Corporate book	12,76,371	11,47,247	11.3	11,96,976	6.6
SME	1,79,771	1,71,887	4.6	1,87,163	(3.9)
Retail Loan book break-up					
Credit Card	58,389	41,061	42.2	54,765	6.6
Personal Loans	1,08,438	75,279	44.0	1,01,416	6.9
Vehicle loans	3,62,849	3,06,247	18.5	3,52,929	2.8
Home Loans	11,32,339	9,39,271	20.6	10,95,298	3.4
Others	3,62,849	3,06,247	18.5	3,52,929	2.8

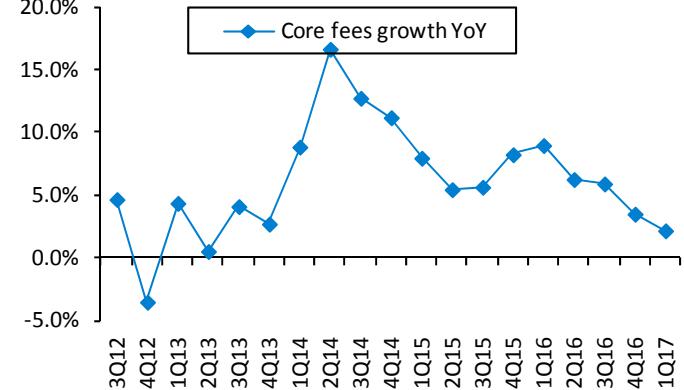
Source: Company Data, PL Research

Exhibit 3: Business growth driven by retail & domestic corporate; while SME remained weak & international book de-grew



Source: Company Data, PL Research

Exhibit 4: Core fee income continues to be sluggish on weak corporate fees, while retail fees also remain below loan growth



Source: Company Data, PL Research

Exhibit 5: Stressed assets accretion shows no respite with more grim outlook

	FY14	1Q15	2Q15	3Q15	4Q15	FY15	1Q16	2Q16	3Q16	4Q16	FY16	1Q17
Fresh Slippages	47,320	11,950	16,730	22,790	32,600	84,070	16,720	22,420	65,440	70,030	104,580	82,490
Fresh Restructuring	61,070	13,940	8,290	17,700	12,470	52,400	19,620	1,500	5,840	-	26,960	-
Gross Stressed Asset Accretion	108,390	25,890	25,020	40,490	45,070	136,470	36,340	23,920	71,280	70,030	131,540	82,490
- Slippage from Restructured		7,140	10,350	7,760	22,460	47,710	2,920	9,310	13,550	27,240	25,780	13,210
O/s restructured assets	105,580	112,650	110,200	120,520	110,170	453,540	126,040	118,680	112,940	85,730	112,940	72,410
Net addition in restructured assets	36,080	7,070	(2,450)	10,320	(10,350)	4,590	15,870	(7,360)	(5,740)	(27,210)	(5,740)	(13,320)
Net stressed asset formation	83,400	19,020	14,280	33,110	22,250	88,660	32,590	15,060	59,700	42,820	147,400	69,170
Other asset quality break-up												
5/25 refinancing during the period							10,000	20,000	4,500	6,790	41,290	-
5/25 re-financing o/s											42,400	27,130
Assets under SDR during the period									3,000	16,700	12,000	28,700
Assets under SDR o/s											29,330	26,390
FB+NFB exposure below invt grade											440,650	387,240
% of total exposure											4.7%	4.2%

Source: Company Data, PL Research

Exhibit 6: Bank has seen Rs53bn in reduction in the watch list of which Rs45.6 bn slipped to NPAs.

(Rs million)	Q1FY17		Q4FY16		Change QoQ	
	Stressed amount	% of loans Stressed	Stressed amount	% of loans stressed	Stressed amount	% of loans stressed
Sectors under watch list for ICICI						
Power	114,260	1.20%	119,600	1.30%	(5,340)	-0.10%
Mining	77,280	0.80%	90,110	1.00%	(12,830)	-0.20%
Iron/Steel	49,020	0.50%	77,760	0.80%	(28,740)	-0.30%
Cement	56,710	0.60%	66,430	0.70%	(9,720)	-0.10%
Rigs	25,610	0.30%	25,130	0.30%	480	0.00%
Promoters	64,360	0.70%	61,620	0.70%	2,740	0.00%
Total Watch list	387,240	4.20%	440,650	4.70%	(53,410)	-0.50%
of which						
Slippages to NPA						(45,590)
Net reduction in exposure						(3,650)
Rating upgrade to Inv grade						(4,190)
% reduction from watchlist						12.1%

Source: Company Data, PL Research

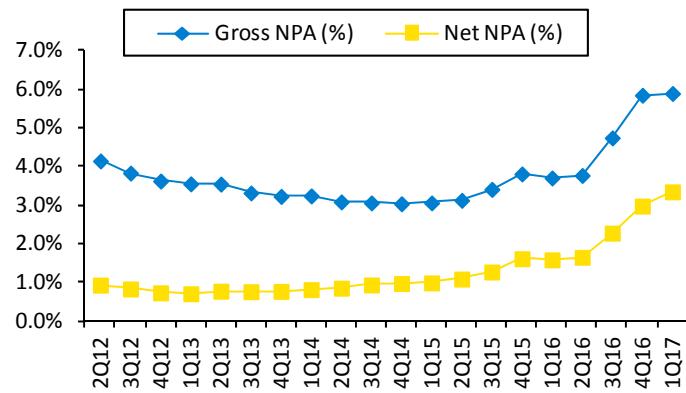
Exhibit 7: Power & Mining continues to dominate the watch list

Sectors under investment grade for ICICI	Exposure (Rs mn)	% of total exposure	Stressed amount (Rs mn)	% of loans Stressed	% of exposure below investment grade
Power	5,00,310	5.40%	1,14,260	1.20%	23%
Mining	1,48,240	1.60%	77,280	0.80%	52%
Iron/Steel	370,600	4.00%	49,020	0.50%	13%
Cement	1,11,180	1.20%	56,710	0.60%	51%
Rigs	46,325	0.50%	25,610	0.30%	55%
Promoters	Not Available		64,360	0.70%	
Total of critical sectors*	1,176,655	12.7%	3,87,240	4.2%	
Total Exposure	92,65,000		92,65,000		

Source: Company Data, PL Research

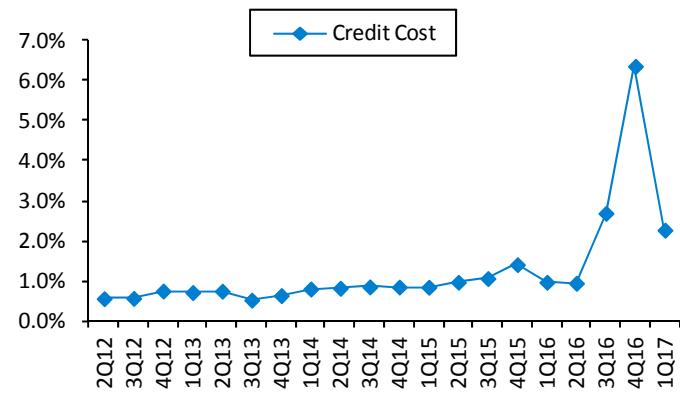
Note – (i) Bank has not mentioned total exposure to promoters* and hence totals are without promoters (ii) percent of exposure stressed are on tentative basis

Exhibit 8: Asset quality remained stable on higher W.offs & sale of assets to ARC despite high slippages



Source: Company Data, PL Research

Exhibit 9: Credit cost remains elevated as slippages remain high & loss on sale to ARC



Source: Company Data, PL Research

Exhibit 10: Earnings change table – We increase our estimates on credit cost for higher slippages, lower yields & adjust business growth slightly downwards

(Rs mn)	Old		Revised		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net interest income	226,666	255,534	218,015	259,075	(3.8)	1.4
Operating profit	227,390	257,425	223,335	266,115	(1.8)	3.4
Net profit	107,517	131,007	94,143	128,972	(12.4)	(1.6)
EPS (Rs)	18.5	22.5	16.2	22.2	(12.4)	(1.6)
ABVPS (Rs)	115.1	125.9	112.7	125.2	(2.1)	(0.6)
Price target (Rs)	265		262		(1.1)	
Recommendation	ACCUMULATE		ACCUMULATE			

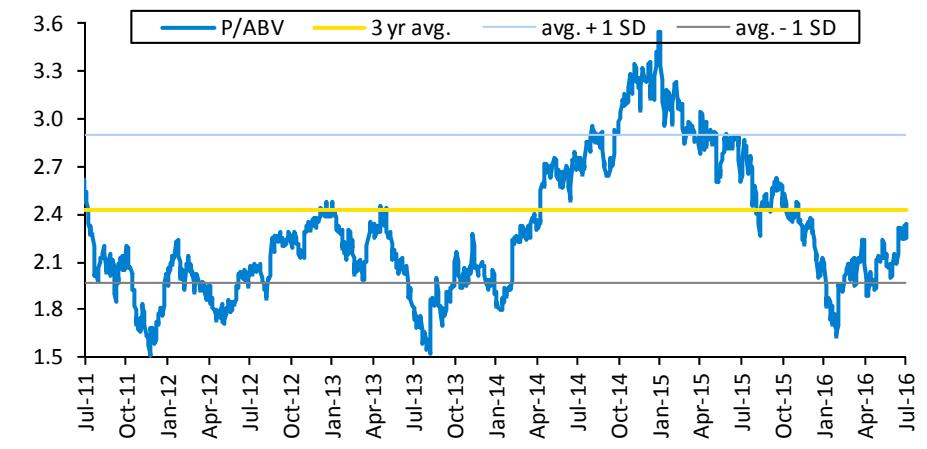
Source: Company Data, PL Research

Exhibit 11: We revise our PT to Rs262 (from Rs265) based on SOTP valuation as we increase credit cost estimates on increased slippages, lower margins and adjust our biz growth

Sum of the parts valuation (Rs/share)				
Value per share (Rs)	Holding (%)	Multiple	Basis	FY18E
ICICI Standalone	100	2.1x	Avg of EVA & two-stage GGM	180
Subsidiaries / Others				
ICICI Bank UK	100	1x	BV	4
ICICI Bank Canada	100	1x	BV	5
Life insurance	74	14x	NBAP + EV	37
General insurance	74	On basis of recent deal		19
Asset management	51	5.0%	AUM	5
Private equity	100	15	PAT	2
Primary dealer	100	12x	PAT	3
Investment banking	100	12x	PAT	2
Home finance	100	1.5x	ABV	3
Total subsidiaries' value				82
% contribution of Subsidiaries / Others				29.0
Total fair value per share				262

Source: Company Data, PL Research

Exhibit 12: ICICIBC – Historical P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Int. Earned from Adv.	356,311	389,432	422,097	495,634
Int. Earned from Invt.	105,928	106,253	110,336	118,802
Others	28,673	31,709	32,409	31,967
Total Interest Income	490,911	527,394	564,843	646,403
Interest expense	300,515	315,154	346,828	387,328
NII	190,396	212,240	218,015	259,075
<i>Growth (%)</i>	15.6	11.5	2.7	18.8
Treasury Income	15,485	37,954	—	—
NTNII	106,277	115,276	137,907	154,456
Non Interest Income	121,761	153,231	137,907	154,456
Total Income	612,673	680,625	702,750	800,859
<i>Growth (%)</i>	12.2	11.1	3.3	14.0
Operating Expense	114,958	126,836	132,587	147,417
Operating Profit	197,199	238,635	223,335	266,115
<i>Growth (%)</i>	18.8	21.0	(6.4)	19.2
NPA Provisions	30,233	64,020	79,729	71,433
Investment Provisions	2,980	1,707	427	107
Total Provisions	38,996	116,678	88,845	81,870
PBT	158,203	121,957	134,490	184,245
Tax Provisions	46,450	24,694	40,347	55,275
<i>Effective Tax Rate (%)</i>	29.4	20.2	30.0	30.0
PAT	111,753	97,263	94,143	128,971
<i>Growth (%)</i>	13.9	(13.0)	(3.2)	37.0

Balance Sheet (Rs m)

Y/e March	2015	2016	2017E	2018E
Par Value	2	2	2	3
No. of equity shares	5,798	5,816	5,816	3,877
Equity	11,597	11,632	11,632	11,632
Networth	804,219	897,289	956,375	1,047,103
Adj. Networth	741,663	767,657	799,035	876,688
Deposits	3,615,627	4,214,257	4,947,538	5,847,990
<i>Growth (%)</i>	8.9	16.6	17.4	18.2
Low Cost deposits	1,643,799	1,931,000	2,256,077	2,666,683
<i>% of total deposits</i>	45.5	45.8	45.6	45.6
Total Liabilities	6,461,293	7,206,951	8,132,513	9,390,736
Net Advances	3,875,221	4,352,639	5,027,299	5,962,376
<i>Growth (%)</i>	14.4	12.3	15.5	18.6
Investments	1,581,292	1,604,118	1,816,239	1,960,396
Total Assets	6,461,293	7,206,951	8,132,513	9,390,736

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Interest Income	130,989	133,461	134,819	133,303
Interest Expense	78,474	78,931	80,774	81,717
Net Interest Income	52,515	54,530	54,045	51,585
Non Interest Income	30,074	42,169	51,089	34,293
CEB	22,350	22,350	22,120	21,560
Treasury	2,220	14,420	21,900	7,680
Net Total Income	82,588	96,698	105,134	85,878
Operating Expenses	31,004	31,100	34,059	33,731
Employee Expenses	12,126	11,404	13,821	12,907
Other Expenses	18,878	19,696	20,239	20,824
Operating Profit	51,584	65,598	71,075	52,147
Core Operating Profit	49,364	51,178	49,175	44,467
Provisions	9,422	28,441	69,262	25,145
Loan loss provisions	9,422	—	69,262	—
Investment Depreciation	—	—	—	—
Profit before tax	42,163	37,158	1,813	27,002
Tax	11,862	6,976	(5,206)	4,679
PAT before EO	30,301	30,181	7,019	22,324
Extraordinary item	—	—	—	—
PAT	30,301	30,181	7,019	22,324

Key Ratios

Y/e March	2015	2016	2017E	2018E
CMP (Rs)	263	263	263	263
Equity Shrs. Os. (m)	5,798	5,816	5,816	3,877
Market Cap (Rs m)	1,524,084	1,528,690	1,528,690	1,019,127
<i>M/Cap to AUM (%)</i>	23.6	21.2	18.8	10.9
EPS (Rs)	19.3	16.7	16.2	22.2
Book Value (Rs)	139	149	160	175
Adj. BV (100%) (Rs)	108	108	113	125
P/E (x)	13.6	15.7	16.2	11.9
P/BV (x)	1.9	1.8	1.6	1.5
P/ABV (x)	2.4	2.4	2.3	2.1
DPS (Rs)	5.0	5.0	5.5	6.0
<i>Dividend Yield (%)</i>	1.9	1.9	2.1	2.3

Profitability (%)

Y/e March	2015	2016	2017E	2018E
NIM	3.1	3.1	2.8	3.0
RoAA	1.8	1.4	1.2	1.5
RoAE	14.5	11.4	10.2	12.9

Efficiency

Y/e March	2015	2016	2017E	2018E
<i>Cost-Income Ratio (%)</i>	36.8	34.7	37.3	35.6
<i>C-D Ratio (%)</i>	107.2	103.3	101.6	102.0
Business per Emp. (Rs m)	90	90	91	93
Profit per Emp. (Rs lacs)	13.5	10.2	8.6	10.2
Business per Branch (Rs m)	1,736	1,726	1,748	1,799
Profit per Branch (Rs m)	26	20	16	20

Asset Quality

Y/e March	2015	2016	2017E	2018E
Gross NPAs (Rs m)	150,948	262,213	336,506	361,935
Net NPAs (Rs m)	62,556	129,632	157,340	170,415
<i>Gr. NPAs to Gross Adv. (%)</i>	3.9	6.0	6.7	6.1
<i>Net NPAs to Net Adv. (%)</i>	1.6	3.0	3.1	2.9
<i>NPA Coverage (%)</i>	58.6	50.6	53.2	52.9

Source: Company Data, PL Research.

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