

Stock Update

Concerns emerge, warrant a cautious approach

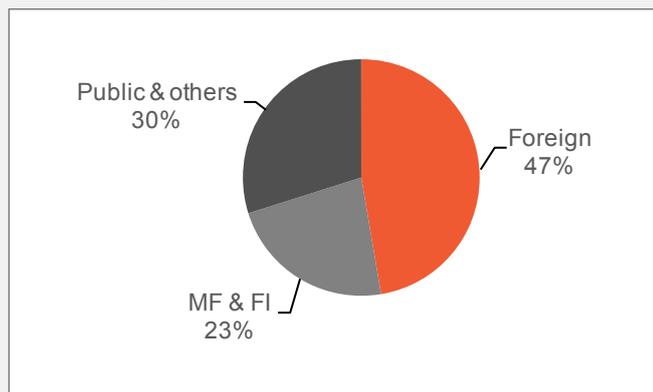
ICICI Bank

Reco: Hold | CMP: Rs262

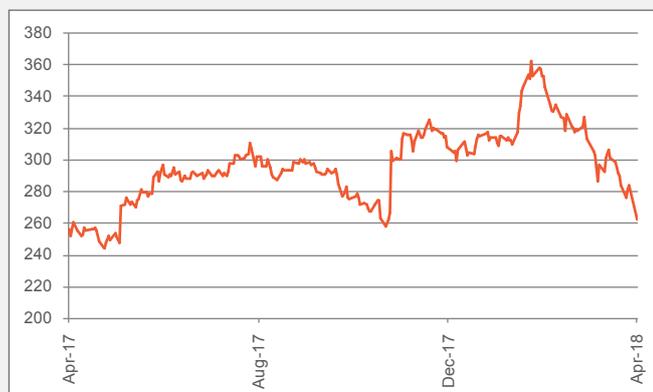
Company details

Price target:	Rs295
Market cap:	Rs168,569 cr
52-week high/low:	Rs365 / 241
NSE volume: (No of shares)	15.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	642.23 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.1	-11.4	0.6	11.5
Relative to Sensex	-8.0	-8.6	-4.8	-1.1

Key points

- Investigation into lapses in loan disbursement is concerning:** Recently enforcement agencies have started an enquiry into the Rs. 3,250 crore loan sanctioned to the Videocon group by ICICI Bank. The bank, which was part of a consortium of lenders, has now been put under the scanner for alleged lapses in the loan disbursement process. Allegations suggest possible vested interest in the transaction to parties related to senior management at the bank. The probe is likely to widen with other regulators and agencies joining the investigation.
- Board reposing faith in management – too little, too late:** The ICICI Bank board has issued a statement, coming out in support of the management, effectively denying any wrongdoing in the transaction. While the board making the statement, instead of the management, adds credence, we believe that there are too many unresolved issues/ questions that the bank will need to answer in the near term.
- Outlook – near-term challenges emerge:** The recent developments indicate a near-term weak outlook for ICICI Bank. With investigative agencies entering the picture, loan disbursement process in the bank can also be called in question. Hence, till further clarity emerges, the aforementioned development will be an overhang for the stock. Already, the news of tepid response to IPO of ICICI Securities has dented sentiments. However, on a longer term, we believe that there are significant positives in place, such as having a strong capital position (CRAR at 17.7%), stable NIMs (range of ~40 bps over last 10 quarters, average 3.3%) for ICICI Bank. Furthermore, the bank has an opportunity to grow/gain market share in the banking space as the PSU banks (~70% of the banking system business) are struggling with their own internal business challenges and are unable to provide significant competition.
- Valuation:** ICICI Bank stock is trading at ~2.0 times its FY2019E standalone ABVPS and prima facie it is reasonable for a bank of its size and franchise quality. However, considering the recent turn of events and the uncertainty regarding the stock and the outcome of the investigations, we believe caution is warranted. We have revised our rating on the stock to Hold with a revised price target (PT) of Rs. 295.

Valuations

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net Interest Income (NII)	19039.6	21224.0	21737.3	24079.6	29396.4
Net profit (Rs cr)	11175.4	9726.3	9801.1	7242.1	11537.1
EPS (Rs)	19.3	16.7	16.8	11.3	19.8
EPS growth (%)	0.1	-0.1	0.0	-0.3	0.8
P/E (x)	13.6	15.7	15.6	23.2	13.2
BVPS (Rs)	130.1	146.4	164.6	151.4	179.5
P/BV (x)	2.0	1.8	1.6	1.7	1.5
RoE (%)	14.5%	11.4%	10.3%	7.2%	11.0%
RoA (%)	1.8%	1.4%	1.3%	0.9%	1.2%

Profit and loss statement

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net interest income	19,040	21,224	21,737	24,080	29,396
Non-interest income	12,176	15,323	19,504	15,363	16,922
Net total income	31,216	36,547	41,242	39,443	46,318
Operating expenses	11,496	12,684	14,755	16,767	18,601
Pre-provisioning profit	19,720	23,864	26,487	22,675	27,717
Provisions	3,900	11,668	15,208	13,623	11,236
Profit before tax	15,820	12,196	11,279	9,053	16,482
Tax	4,645	2,469	1,478	1,811	4,944
Profit after tax	11,175	9,726	9,801	7,242	11,537

Balance sheet

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Networth	80,429	89,736	99,951	101,219	108,642
Deposits	361,563	421,426	490,039	568,445	665,081
Borrowings	172,417	174,807	147,556	201,249	235,894
Other liabilities & provisions	31,720	34,726	34,245	39,266	45,418
Total liabilities	646,129	720,695	771,791	910,179	1,055,036
Assets					
Cash & balances with RBI	25,653	27,106	31,702	28,706	33,587
Balances with banks & money at call	16,652	32,763	44,011	25,580	29,929
Investments	186,580	160,412	161,507	243,516	282,472
Advances	387,522	435,264	464,232	533,867	629,963
Fixed assets	4,726	7,577	7,805	8,195	8,605
Other assets	24,997	57,574	62,535	70,314	70,480
Total assets	646,129	720,695	771,791	910,179	1,055,036

Key ratios					Rs cr
Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share Data (Rs)					
Earnings	19.3	16.7	16.8	11.3	19.8
Dividend	5.0	5.0	0.0	3.2	5.5
Book value	130.1	146.4	164.6	151.4	179.5
Adj. book value	108.0	113.0	110.6	110.1	134.4
Spreads (%)					
Yield on Advances	9.8	9.5	8.8	8.3	8.4
Cost of Deposits	5.9	5.5	5.0	4.7	4.6
Net interest margins	3.3	3.4	3.1	3.1	3.2
Operating ratios (%)					
Credit to Deposit	107.2	103.3	94.7	93.9	94.7
Cost to income	36.8	34.7	35.8	42.5	40.2
CASA	45.5	45.8	50.4	50.4	49.9
Non interest income / Total income	39.0	41.9	47.3	39.0	36.5
Assets/Equity (x)	8.1	8.0	7.9	8.4	9.4
Return ratios (%)					
RoE	14.5	11.4	10.3	7.2	11.0
RoA	1.8	1.4	1.3	0.9	1.2
Asset Quality ratios (%)					
Gross NPA	3.8	5.8	8.8	7.3	6.4
Net NPA	1.6	3.0	5.4	3.8	3.2
Growth Ratios (%)					
Net interest income	15.6	11.5	2.4	10.8	22.1
Pre-provisioning profit	18.8	21.0	11.0	-14.4	22.2
Profit after tax	13.9	-13.0	0.8	-26.1	59.3
Advances	14.4	12.3	6.7	15.0	18.0
Deposits	8.9	16.6	16.3	16.0	17.0
Valuation ratios (x)					
P/E	13.6	15.7	15.6	23.2	13.2
P/BV	2.0	1.8	1.6	1.7	1.5
P/ABV	2.4	2.3	2.4	2.4	2.0

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