

Stock Update

Structural and environmental changes improve outlook

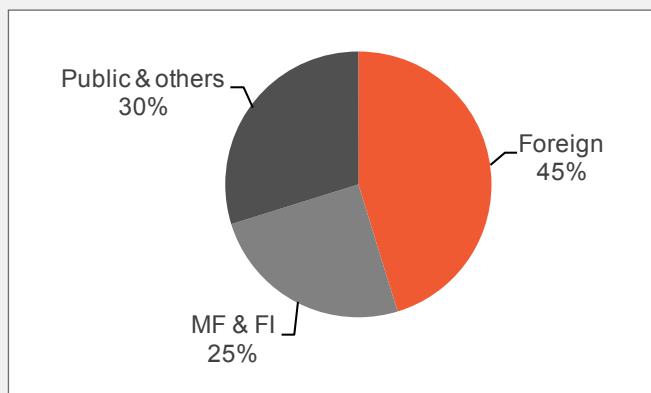
ICICI Bank

Reco: Buy | CMP: Rs364

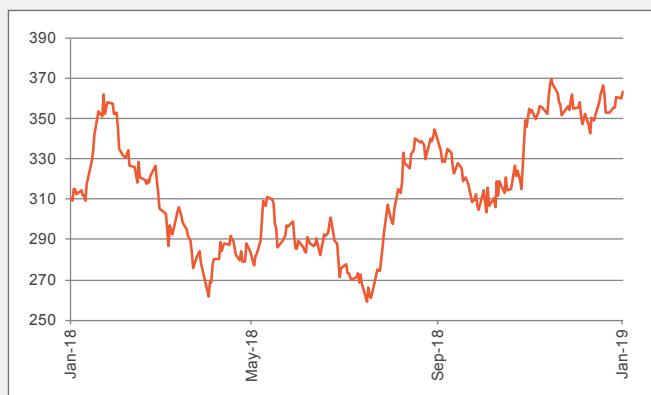
Company details

Price target:	Rs410
Market cap:	Rs234,214 cr
52-week high/low:	Rs375 / 257
NSE volume: (No of shares)	217.1 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	643.51 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	17.9	31.4	15.2
Relative to Sensex	1.7	18.1	28.3	7.5

Key points

- Liability book, asset quality improving, affords safety to margins: We believe much has changed in ICICI Bank for the better, which has also improved the outlook for the bank. The significant overhang on management transition (and uncertainty thereof) has finally been resolved, for good. ICICI Bank's liability franchise has improved significantly (almost at par with the best in the industry); and has improved on an average basis too. We believe high proportion of retail deposits, on overall term deposits, is a significant lever for the bank to maintain/improve its margins, other things remaining unchanged. With a strong liability profile and the effect of recent hike in MCLR rates (in the banking industry), there is a strong probability that margins would sustain or improve.

Asset quality wise too, ICICI Bank's book has improved in quality, tempered by the difficult period in the past three years. Exposure to BB and below-rated loans (fund + non-fund based) stood at small Rs. 21,788 crore, which includes a drilldown list of Rs. 3,283 crore. We believe its asset book quality has improved significantly in the past few quarters, which should result in lower provision pressure on profitability and, therefore, gradually return to normalised earnings.

- Outlook: We believe significant developments (such as end of leadership uncertainty and asset-quality improvement) in ICICI Bank are positive. With a comfortable capital position (Tier 1 capital ratio of 15.3%), the bank appears well positioned to make the most of opportunities. While asset-quality performance will be a key monitorable in the near term, we expect a gradual improvement, and the long-term outlook appears to be improving too. With a strong liability (retail + CASA) profile, the effect of hike in MCLR and a lower slippage rate, there is a strong probability that margins would sustain or improve in the medium term. Improvement in liability and asset profile offer ICICI Bank with greater elbow room to go for better quality underwriting with lower risks and, therefore, deliver better risk-adjusted returns. We believe the market has yet to factor in the changed dynamics and the scope for earnings improvement, which can be a significant positive for the bank.

- ❖ **Valuation:** ICICI Bank is valued at ~2x its FY2020E book value, which we believe is reasonable considering the business franchise and improving long-term outlook. Therefore, we maintain our Buy rating with a revised price target of Rs. 410.
- ❖ **Asset quality stress has peaked, earnings to gradually normalise:** The bad assets problem of the banking sector in the country is receding for the first time since 2015, according to the bi-annual financial stability report (FSR) for December 2018, published by the Reserve Bank of India (RBI). The report indicates that NPA stress recognition is appearing to be over (to a large part). The RBI expects NPAs in the system

to fall by March 2019. Gross non-performing ratio (GNPAs) of the Indian banking system will drop to 10.3% by March 2019, as per RBI's latest FSR (from 10.8% in September). Notably, in its last FSR report in July, the RBI had estimated GNPAs to rise to 12.9% by March. Hence, as per the central bank, the asset-quality scenario on a system-wide basis has improved significantly. We believe corporate-facing banks such as ICICI Bank are likely to benefit with improvement in the overall asset quality. We believe while asset-quality stress may still remain at elevated levels for ICICI Bank, going forward, normalisation of earnings will be there with ICICI Bank in the medium term.

Particulars	FY16	FY17	FY18	FY19E	Rs cr FY20E
Net Interest Income (NII)	21224.0	21737.3	23498.5	26735.3	31278.6
Net profit (Rs cr)	9726.3	9801.1	6777.2	7152.4	10066.1
EPS (Rs)	16.7	16.8	10.6	12.3	17.3
EPS growth (%)	-0.1	0.0	-0.4	0.2	0.4
P/E (x)	21.7	21.6	34.4	29.6	21.0
BVPS (Rs)	146.4	164.6	150.9	173.9	185.2
P/BV (x)	2.5	2.2	2.4	2.1	2.0
RoE (%)	11.4%	10.3%	6.7%	6.9%	9.3%
RoA (%)	1.4%	1.3%	0.8%	0.7%	0.9%

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