

# Stock Update

Healthy performance, outlook continue to remain positive

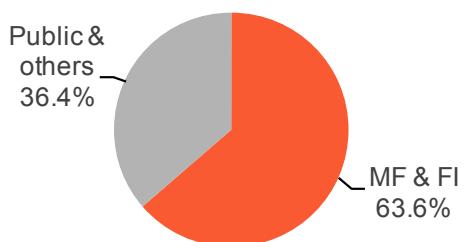
## ICICI Bank

Reco: Buy | CMP: Rs401

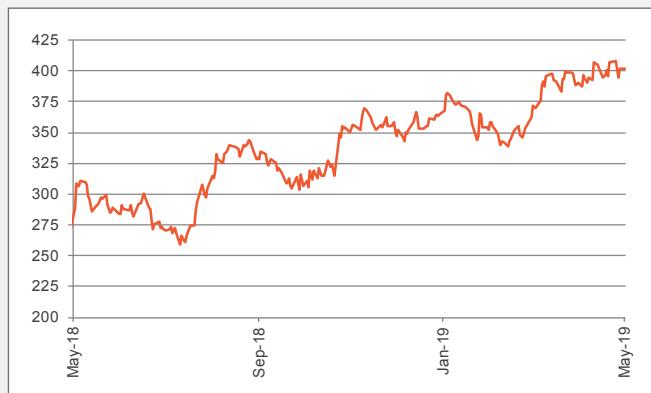
### Company details

Price target:	Rs450
Market cap:	Rs258,797 cr
52-week high/low:	Rs411 / 257
NSE volume: (No of shares)	173.3 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	644.62 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	13.3	13.4	43.2
Relative to Sensex	2.2	5.9	1.5	27.4

### Key points

- **Healthy operational performance:** ICICI Bank (ICICIBK) posted healthy performance for Q4FY2019, where its operating performance was in line with expectations. However an accelerated balance sheet cleanup resulted in a surge in provisions, which led to a subdued PAT performance.

In Q4FY2019, ICICI Bank's net interest income (NII) rose by 26.5% y-o-y to Rs. 7,620 crore, was better than expectations, aided by margin expansion. However, its other income witnessed a prima facie de growth due to stake sale gain in Q4FY18. Hence, excluding the one off, other income grew ~53% y-o-y, margins expanded to a multi-quarter high, but more importantly, improved asset-quality performance continued, validating the view that the NPA cycle has peaked for ICICI Bank.

Non-interest income (excluding impact of stake sale gain in Q4FY18) growth was strong, growing by ~53% y-o-y to Rs. 3,621.0 crore, helped a largely stable growth in fee income. Treasury income stood at Rs. 156 crore for Q4FY2019, as against Rs. 2685 crore for Q4FY2018. Fee income for Q4FY2019 grew by 15.4% y-o-y to Rs. 31.8 crore. The quarter saw operating expenses rising by 19.6% y-o-y largely due to expenses towards pension, which should not be seen as a recurring trend. Net interest margin (NIM) improved sequentially by 32 BPS to 3.72%, but were stable sequentially when adjusted for the one-off 20bps benefit of Interest on IT refund. ICICI Bank has the advantage of a strong retail deposit base, which is a big positive in its favour as it is relatively low cost as compared to more expensive wholesale deposits. Provisions de grew by 17.7% y-o-y but increased by 28.4% q-o-q to Rs. 5,451 crore during the quarter on account of higher provisions for NPA and accelerated recognition by the bank. Consequently ICICI Bank reported a net profit of Rs. 969 crore during Q4FY19 which declined by 5% y-o-y.

- **Loan growth steady, aided by a strong liability franchise:** ICICI Bank witnessed a steady loan book growth of 17% y-o-y, of which domestic advances increased much faster by 21.7% y-o-y and constituted 60.2% of the loan portfolio. It was not only above the industry average but also better than several past quarters for the bank. While, the corporate loan book growth was muted at 5.7% y-o-y. Among retail loans, home loans and vehicle loans both grew by 18.8% y-o-y. Whereas, personal loans and the credit card portfolio posted strong rise of 48.6% y-o-y and 31.2% y-o-y, respectively.

Deposits also grew by 16.4% y-o-y for the quarter. Current account and savings account (CASA) deposits saw strong traction, rising by 11.7% y-o-y, as a result of which CASA ratio stood at 49.6% and notably, the average CASA was at 45+% which is significant given the intensely competitive deposit market.

A healthy CASA ratio helped the bank in keeping cost of funds under check, thus supporting margins. The bank has indicated that of the overall term deposits, the proportion of retail deposits was high, which we believe is a significant lever for the bank to maintain/improve its margins, all other things remaining unchanged.

- Improvement in asset-quality performance enthuses:** In Q4FY2019, ICICI Bank's asset quality performance improved as gross nonperforming asset (GNPA) and net NPA ratios (the percentage of GNPA advances net of write offs, to gross advances) further reduced by 105 BPS and 52 BPS sequentially to 6.7% and 2.06%, respectively. Slippages increased sequentially to Rs. 3,547 crore (from Rs. 2,091 crore in Q3FY2019) largely due to 1 sugar account slipped into NPA during the quarter and another large Infrastructure financial conglomerate exposure. Corporate and small and medium enterprise (SME) slippages stood at Rs. 2,724 crore, while the retail segment saw an improvement in slippages of Rs. 823 crore. Accounts worth Rs. 1,842 crore among

corporate slippages came in from loans rated BB and below. Exposure to BB and below-rated loans (fund + non-fund based) stood at Rs. 17,525 crore (was 18,812 crore in Q3FY2019), which includes drilldown list exposure, which the bank has stopped giving separately. The gradual rundown in BB and below category are positive trends and would be margin beneficial in the near to medium term, which on a lower base can yield positive surprise in earnings.

- Outlook:** ICICI Bank has continued on its improved results trajectory; and sustained improvement in asset quality; margins and retail franchise are positive indicators. The bank has a comfortable capital position, i.e. Tier 1 capital ratio of 15.1%, and appears well positioned to capitalize on the opportunities. With a strong CASA profile, the effect of hike in MCLR, there is a strong probability that margins would sustain or improve. The gradual run down of the watch list is positive, especially as the bank is building incremental corporate book of better rated borrowers. We believe that the Outlook continues to be bright for the bank, and it is an attractive business franchise to be considered for long term investment.
- Valuation:** ICICI Bank is valued at ~3.2x its FY2021E book value, which we find attractive considering its improved long-term outlook and strong franchise. We maintain our Buy rating with a revised price target (PT) of Rs. 450.

#### Results

Particulars	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Interest earned	17,293	14,264	21.2	16,280	6.2
Interest expense	9,673	8,243	17.3	9,405	2.8
Net interest income	7,620	6,022	26.5	6,875	10.8
Non-interest income	3,621	5,679	-36.2	3,883	-6.7
Net total income	11,241	11,700	-3.9	10,758	4.5
Operating expenses	5,008	4,186	19.6	4,612	8.6
Pre-provisioning profit	6,233	7,514	-17.0	6,146	1.4
Provisions	5,451	6,626	-17.7	4,244	28.4
Profit before tax	782	888	-12.0	1,902	-58.9
Tax	-187	-132	NA	297	NA
Profit after tax	969	1,020	-5.0	1,605	-39.6
Gross NPA (%)	6.70	8.84	-214 bps	7.75	-105 bps
Net NPA (%)	2.06	4.77	-271 bps	2.58	-52 bps

#### Profit and loss statement

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net interest income	21,737	23,026	27,015	29,327	36,365
Non-interest income	19,504	17,420	14,512	17,616	20,087
Net total income	41,242	40,445	41,527	46,943	56,452
Operating expenses	14,755	15,718	181	19,892	21,704
Pre-provisioning profit	26,487	24,728	23,438	27,050	34,748
Provisions	15,208	17,307	19,661	12,636	15,064
Profit before tax	11,279	7,421	3,777	14,414	19,684
Tax	1,478	657	413	4,324	5,905
Profit after tax	9,801	6,764	3,363	10,090	13,779

<b>Balance sheet</b>					
<b>Particulars</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>Rs cr FY21E</b>
<b>Liabilities</b>					
Networth	99,951	105,159	108,468	115,625	83,119
Deposits	490,039	560,975	652,920	754,792	901,977
Borrowings	147,556	182,859	165,320	249,458	296,388
Other liabilities & provisions	34,245	30,196	37,851	40,633	47,450
Total liabilities	771,791	879,189	964,559	1,160,508	1,328,934
<b>Assets</b>					
Cash & balances with RBI	31,702	33,102	37,858	38,117	45,550
Balances with banks & money at call	44,011	51,067	42,438	33,966	40,589
Investments	161,507	202,994	207,733	317,426	376,587
Advances	464,232	512,395	586,647	713,254	841,640
Fixed assets	7,805	7,904	7,931	8,714	9,149
Other assets	62,535	71,727	81,852	49,032	15,418
Total assets	771,791	879,189	964,459	1,160,508	1,328,934

<b>Key ratios</b>					
<b>Particulars</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>Rs cr FY21E</b>
<b>Per share Data (Rs)</b>					
Earnings	16.8	10.5	5.2	15.7	21.4
Dividend	0.0	2.9	1.5	4.4	6.0
Book value	164.6	157.8	163.0	174.1	123.6
<b>Spreads (%)</b>					
Yield on Advances	8.8	8.4	7.8	7.9	7.9
Cost of Deposits	5.0	4.5	4.5	4.5	4.6
Net interest margins	3.1	3.0	3.1	2.9	3.0
<b>Operating ratios (%)</b>					
Credit to Deposit	94.7	91.3	92.1	94.5	93.3
Cost to income	35.8	38.9	44.5	42.4	38.4
CASA	50.4	51.7	52.1	51.7	50.2
<b>Return ratios (%)</b>					
RoE	10.3	6.6	3.1	9.0	13.9
RoA	1.3	0.8	0.4	0.9	1.1
<b>Asset Quality ratios (%)</b>					
Gross NPA	8.8	9.9	8.0	6.6	5.9
Net NPA	5.4	5.4	3.3	2.4	1.8
<b>Growth Ratios (%)</b>					
Net interest income	2.4	5.9	17.3	8.6	24.0
Pre-provisioning profit	11.0	-6.6	-5.2	15.4	28.5
Profit after tax	0.8	-31.0	-50.3	200.0	36.6
Advances	6.7	10.4	14.5	21.6	18.0
Deposits	16.3	14.5	16.4	15.6	19.5
<b>Valuation ratios (x)</b>					
P/E	23.9	38.2	76.7	25.6	18.7
P/BV	2.4	2.5	2.5	2.3	3.2

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