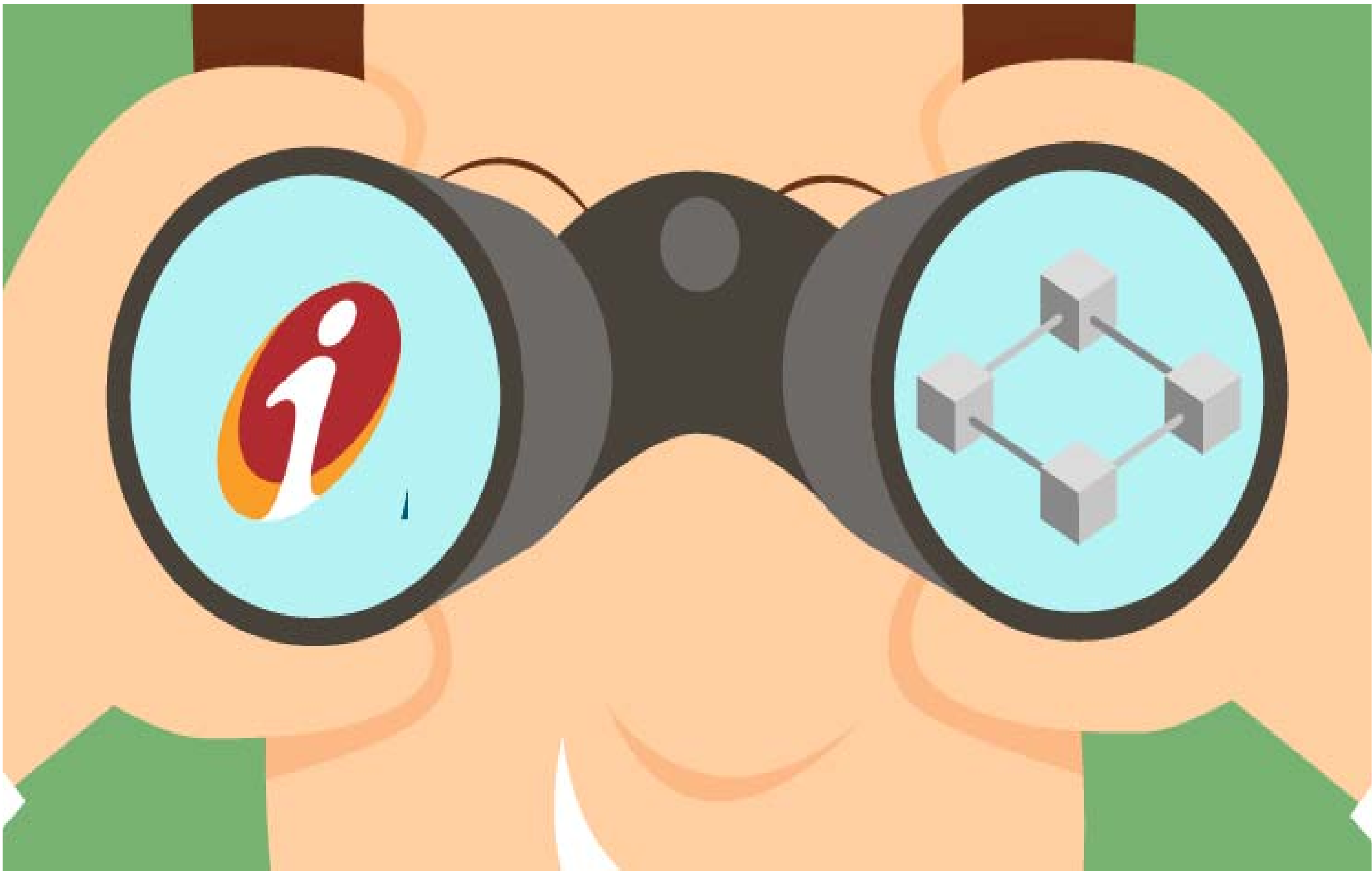
BP WEALTH

ICICI BANK LIMITED

Initiating Coverage



Vision remains intact despite concerns

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ICICI Bank Ltd

Buy

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BFSI | Initiating Coverage — 4th October,2018

Company Background

ICICI Bank Limited, incorporated in 1994 is India's largest private sector bank with total consolidated assets of INR 11,242.81 billion (US$ 172.5 billion) as of FY18.ICICI Bank currently has a network of 4,867 Branches and 14,367 ATMs across India. The Bank's business segments comprise of Retail banking, Wholesale banking, Treasury and Other banking. ICICI bank provides banking and financial services ranging from commercial & retail banking to investment banking for retail, corporate and SME clients. The bank's subsidiaries have developed a formidable position in areas like Insurance, asset management and broking within the gamut of financial services.

Investment Rationale

ICICI Bank is well placed to benefit from the upturn in domestic corporate loan cycle

With a large portion of the stressed assets being recognized in the books, the NPA cycle seems to have bottomed out. Banks will be further able to clean their books aided by the ongoing resolution of NCLT cases albeit at a slow pace and also through the sale of NPAs to ARCs. This will help the banks in offloading stressed assets and focus on fresh lending, leading to a revival in the corporate lending cycle. Some select sectors are already indicating a recovery with an uptick in investment that can be seen. Banks that are well capitalized and have stable operating metrics would be able to participate effectively in this cycle. This comes at a time when PCA imposed on 11 banks have constrained their lending activities opening up the field further to such banks. We feel that ICICI Bank would be a beneficiary of this phenomenon on the back of healthy capital adequacy ratio of 15.92% CET1.At the system level gross NPAs reduced to ~10% of loans including slippages which emerged primarily from the watch list..All in all, this trend seems positive for ICICI bank which has a corporate exposure of ~26% as of FY18.

Focus on retail to help improve profitability and other metrics

Retail credit is expected to grow at a CAGR of 16-18% over FY18-20E, driven by the Housing and personal loan segment. ICICI bank with a strong brand franchise, well developed branch network and constant investments in technology has been strengthening its position in retail. Focus on retail will help the bank in improving asset quality, lowering credit costs and stabilizing NIM. Subsequently, return ratios would also improve boosting ROA and ROE. The bank's total advances have grown at a CAGR of 10% (FY09-18).Although loan growth has remained more or less consistent over the past six years aside from the slowdown in FY17,most of this growth has been contributed by the retail segment which has been growing strongly at 18-20% over the past 4 years. In the same time frame corporate loan growth has been much lower. Overall we expect loan growth to be in the mid teens over the next 2-3 years. The Retail segment formed 57% of the total advances in FY18 compared to 39% in FY14 and is expected to form 60% of the total advances BY FY21.

Shift towards high rated and well established corporates to keep a check on future asset quality

While the bank has been gradually shifting its focus towards retail lending, the management has indicated that they would not completely abandon the corporate segment. Instead they would focus on lending to higher rated and well established corporates that have relatively strong balance sheets At an overall portfolio level the book is shifting towards the A- and above category. The ratio of A- and above rated loans to total loans increased from 52% in FY16 to 63% in FY18.The proportion of exposure to borrowers internally rated A- and above in the top 20 borrowers (excluding banks) increased from 75% in FY17 to 96% in FY18.The percentage of BB and below loans to total loans has decreased from 19% in FY16 to 9% in FY18.The bank's fund based exposure and non fund based facilities to below investment grade entities belonging to sectors like iron and steel, mining, power, rigs and cement sectors decreased from INR 440.7 Bn to INR 190.4 Bn on account of slippages to NPA, exclusions and upgrades. The SMA-1 and SMA-2 loans are also expected to reduce drastically. Going ahead the asset quality is expected to improve due to the banks effort of focusing on higher rated corporates. Further, reduction in impaired loans and incremental additions to NPL's recoveries would help in keeping net additions lower. We also expect provision coverage ratio to reach 70% over the next 2 years as guided by the management. All these factors make us believe that FY20 would be a normalized year for the bank.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook — **Positive**

Stock

CMP (Rs)	304
Target Price (Rs)	395
BSE code	532174
NSE Symbol	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO

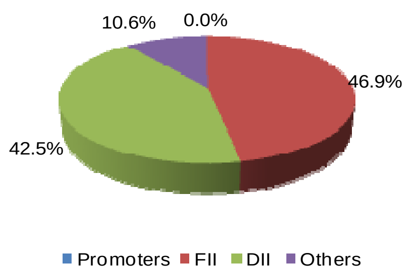
Key Data

Nifty	10,858
52 Week H/L (Rs)	366/256
O/s Shares (Mn)	6,457
Market Cap (Bn)	1,961
Face Value (Rs)	2

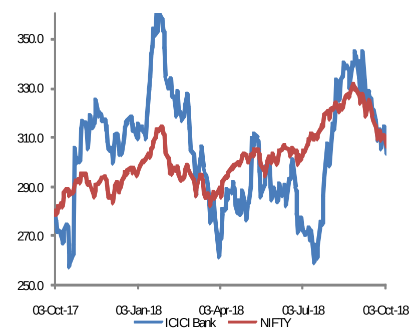
Average volume

3 months	22,254,772
6 months	22,812,208
1 year	20,522,386

Share Holding Pattern (%)



Relative Price Chart



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Subsidiaries have established presence across respective verticals, are value accretive and provide value unlocking opportunities

The bank's subsidiaries are present across various financial services verticals such as insurance, asset management and capital markets. They have also gained an established position in these respective verticals. ICICI general insurance maintains a leadership position with an overall market share of 10.1%.ICICI Securities is the country's largest brokerage by revenue and the second largest non bank distributor of mutual funds in FY17.ICICI prudential mutual fund is the largest by AUM as of Q1FY19.The total market value of the listed subsidiaries was INR 1.04 Trillion, with the bank's shareholding valued at INR 592 Billion. These subsidiaries provide the bank with fee income through cross selling opportunities and have also helped in unlocking value through divestment based on the requirement. With the financialisation theme gaining prominence in India the bank is poised to benefit on account of the strong position of its subsidiaries present across various verticals. We feel that this would help in further unlocking of value and shield the bank in times of crises as it has done in the past.

Why we like this stock & valuation methodology

ICICI Bank's improving operating metrics are indicative of an underlying recovery currently being witnessed by the bank. The bank is poised to benefit from an upturn in the domestic corporate loan cycle and with a shift towards high rated corporate, asset quality would also be kept in check. Amidst the corporate turmoil, the bank has been heavily focusing on strengthening retail operations which would be contributing to the future growth and profitability for the bank. Additionally, subsidiaries also provide value accretive opportunities .ROE is expected to improve to ~15% and net NPLs set to moderate by the first half of FY21.A strong liability franchise, well diversified asset mix, recovery of bad loans, improving NIMs and strong loan growth are positive contributors. For these reasons we initiate coverage on the stock & recommend **'BUY'** rating with target price of Rs 395 per share. Our target price is based on SOTP valuing the core bank at 1.9 x FY20ABV implying a value of 306 per share, with the rest being contributed by the subsidiaries and associates.

Key Financials					
YE March (Rs. mn)	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Net interest income	**217,373**	**230,258**	**254,695**	**298,313**	**346,600**
Growth (Y-o-Y)	***2.4%***	***5.9%***	***10.6%***	***17.1%***	***16.2%***
Non interest income	**195,045**	**174,196**	**162,937**	**189,654**	**216,460**
Growth (Y-o-Y)	**-26.6%**	**-10.7%**	**-6.5%**	**16.4%**	**14.1%**
Net revenue	**412,418**	**404,454**	**417,632**	**487,967**	**563,060**
Growth (Y-o-Y)	***-14%***	***-1.9%***	***3.3%***	***16.8%***	***15.4%***
Profit After Tax	**98,011**	**67,773**	**55,890**	**161,762**	**195,384**
Growth (Y-o-Y)	***0.8%***	***-30.9%***	***-17.5%***	***189.4%***	***20.8%***
Diluted EPS(INR)	16.7	10.5	8.7	25.1	30.3
Growth (Y-o-Y)	***11.3%***	***-37.1%***	***-17.6%***	***189.4%***	***20.8%***
No of Diluted shares (mn)	5,857	6,457	6,457	6,457	6,457
Key Ratios					
NIM (%)	3.3%	3.2%	3.3%	3.5%	3.6%
ROA(%)	1.3%	0.8%	0.6%	1.5%	1.6%
RoE (%)	9.8%	6.4%	5.3%	13.4%	14.3%
Cost to Income (%)	36%	39%	43%	41%	41%
Capital Adequacy ratio (%)	17.4%	18.4%	16.1%	14.9%	15.2%
Book Value Per share (Rs.)	170.7	162.9	162.5	186.8	211.0
Asset Quality Ratios					
Gross NPL Ratio	7.4%	9.3%	7.7%	6.4%	6.0%
Net NPL Ratio	4.4%	5.3%	2.7%	2.5%	2.4%
Valuation Ratios					
P/E (x)	18.2	29.0	35.1	12.1	10.0
P/BV (x)	1.8	1.9	1.9	1.6	1.4

Source: Company, BP Equities Research

We have valued ICICI Bank's core banking business at 1.9X FY20 ABV, resulting in a price of INR 306 per share. Our SOTP based target price of INR 395 (potential upside of 30% from CMP) ascribes the remaining value to the bank's associates and subsidiaries. Our target price considers an investment horizon of 12-15 months.

Investment Rationale

ICICI Bank is well placed to benefit from the upturn in domestic corporate loan cycle

Reduction of stressed assets witnessed in recent times can be attributed primarily to RBI's FEB 12 circular that announced an end to all dispensation schemes. RBI's move to eradicate the NPLs that have plagued the Indian banking system for quite some time started by pushing the banks to aggressively recognize these loans other than reporting them as NPLs. This move led to most of the private and public sector banks reporting ~3% of their loan book as bad in the final quarter of the previous fiscal.

The NPA cycle seems to have bottomed out. Banks such as ICICI, which have a healthy CAR will be effectively able to participate in the new corporate loan cycle that can be witnessed in certain sectors. Ongoing recoveries and resolutions will help in cleaning a large chunk of corporate NPAs.

With a large portion of the stressed assets being recognized in the books, the NPA cycle seems to have bottomed out. Banks will be further able to clean their books aided by the ongoing resolution of NCLT cases albeit at a slow pace and also through the sale of NPAs to ARCs. This will help the banks in offloading stressed assets and focus on fresh lending leading to a revival in the corporate lending cycle. Some select sectors are already indicating a recovery with an uptick in investment that can be seen. Another positive sign is that the MSME sector which was impacted by GST and demonetization now seems to be recovering. This sector is important for most lenders as it is expected to witness strong growth momentum. For ICICI Bank this segment forms ~26% of total advances in FY18.

Banks that are well capitalized and have stable operating metrics would be able to effectively participate in this cycle. This comes at a time when PCA imposed on 11 banks have constrained their lending activities, opening up the field to more healthier banks. We feel that ICICI Bank would be a beneficiary of this phenomenon on the back of healthy capital adequacy ratio of 15.92% CET1 and high CASA ratio of 45.6%.

In Q1FY19 overall NPAs reduced to ~10 of the loans including slippages that emanated primarily from the watch list. This could be indicative of a declining NPA trend.

Post the Q1FY19 ,results a fast pace recovery of bad loans could be witnessed as some NCLT cases were resolved. This could be setting a tone of declining trend of NPA. Overall, gross NPAs reduced to ~10% of loans including slippages which emerged from the watch list. The comforting fact was that the upgrades and the recoveries were one of the highest this quarter. All in all, this trend seems positive for banks that have corporate exposure.

ICICI Bank segment wise breakup of Advances

INR Bn	FY14	FY15	FY16	FY17	FY18
TOTAL ADVANCES	**3,387**	**3,875**	**4,353**	**4,642**	**5,124**
Retail	39.00%	42.50%	46.60%	51.80%	56.60%
Domestic Corporate	30.10%	28.80%	27.50%	27.30%	25.90%
Small & Medium Enterprise	4.40%	4.40%	4.30%	4.80%	5.00%
Overseas	26.50%	24.30%	21.60%	16.10%	12.50%

Source: Company, BP Equities Research

While the share of retail advances has been increasing, corporate loans still comprise around ~26% of the total advances as of FY18 for the bank. When looking at the NPA profile, the importance of corporate loans becomes significant and any improvement in this area will play an important role in restoring the overall asset quality.

Breakup of NPL by segment	FY13	FY14	FY15	FY16	FY17	FY18
Gross NPL (Rs bn)	**96**	**106**	**152**	**267**	**426**	**541**
Retail	42	41	34	38	37	47
Wholesale	55	64	119	229	389	494
Gross NPL (%)	**3.3**	**3.1**	**3.9**	**5.2**	**7.9**	**8.8**
Retail	3.8	3	2	1.9	1.5	1.6
Non retail	2.9	3.1	5.2	9.4	16.3	20.1
Net NPL (Rs bn)	**22**	**33**	**63**	**133**	**255**	**279**
Retail	5	8	10	12	12	19
Wholesale	17	25	53	121	242	260
Net NPL (%)	**0.8**	**1**	**1.6**	**3.1**	**5.5**	**5.4**
Retail	0.5	0.6	0.6	0.6	0.5	0.7
Wholesale	0.9	1.2	2.4	5.2	10.8	11.7

Company, BP Equities Research

The Net NPL of the corporate segment was INR 260 Bn and 11.7% of advances as of FY18.The management has indicated that they would closely monitor the BB and below portfolio which stood at ~ INR 247 Bn. The corporate book is expected to migrate towards the A- and above rating category, with majority of the incremental loans being focused in this category and higher rated corporates in general. The share of A- loans has increased from 52% in FY16 to 63% in FY18.

The bank is closely monitoring the BB and below portfolio which stands at INR 247 Bn as of FY18.

Most of the bad loans excluding power have already been recognized as NPLs. Total exposure to the power sector stands at 5% of the total book.50% of the total power sector exposure has already been recognized as impaired. With Subsequent recovery and resolution of stressed assets in the corporate sector along with focus on high rated corporates ,we expect slippages to reduce and Net NPL to come down going ahead.

Capital Adequacy Ratio	FY14	FY15	FY16	FY17	FY18
Capital Adequacy Ratio (CAR)	17.70%	17.02%	16.64%	17.39%	18.42%
Tier I	12.78%	12.78%	13.09%	14.36%	15.92%
Tier II	4.92%	4.24%	3.55%	3.03%	2.50%

Company, BP Equities Research

A trend that provides comfort is the bump up in coverage on the bad loans which has increased from 47.4% in FY16 to ~55% in Q1FY19 in the corporate segment. The increase in coverage has affected the P&L through provisioning but will help in developing a cleaner balance sheet eventually aiding in improving ROE in the medium term.

Composition of GNPA by industry sector				
Category (INR Bn)	FY17		FY18	
	Amount	%	Amount	%
Retail finance	37	9%	47	9%
Power	64	15%	105	19%
Mining	39	9%	90	17%
Iron/steel and products	80	19%	69	13%
Construction	31	7%	60	11%
Services – non-finance	36	8%	48	9%
Road, ports, telecom, urban development and other infra	23	5%	27	5%
Crude petroleum/refining and petrochemicals	0	0%	18	3%
Electronics and engineering	3	1%	15	3%
Shipping	14	3%	12	2%
Food and beverages	6	1%	7	1%
Manufacturing products (excluding metal)	5	1%	9	2%
Wholesale/retail trade	7	2%	6	1%
Cement	54	13%	-	NA
Metal & products (excluding iron & steel)	0	0%	-	NA
Other industries	25	6%	28	5%
Total	**426**	**100%**	**541**	**100%**

Company, BP Equities Research

Breakup of Total Advances				
Category (INR Bn)	FY17		FY18	
	Total Advances	% of advances	Total Advances	% of advances
Retail finance	2,440	51%	2,940	55%
Services – finance	273	6%	342	6%
Power	303	6%	277	5%
Road, ports, telecom, urban dev & other infra	229	5%	205	4%
Iron/steel and products	236	5%	203	4%
Services – non-finance	181	4%	173	3%
Crude petroleum/refining and petrochemicals	67	1%	133	2%
Wholesale/retail trade	116	2%	126	2%
Construction	99	2%	118	2%
Mining	108	2%	105	2%
Electronics and engineering	74	2%	81	2%
Cement	75	2%	63	1%
Food and beverages	70	1%	59	1%
Metal & products (excluding iron & steel)	90	2%	49	1%
Other industries	465	10%	507	9%
Total	**4,825**	**100%**	**5,379**	**100%**

Company, BP Equities Research

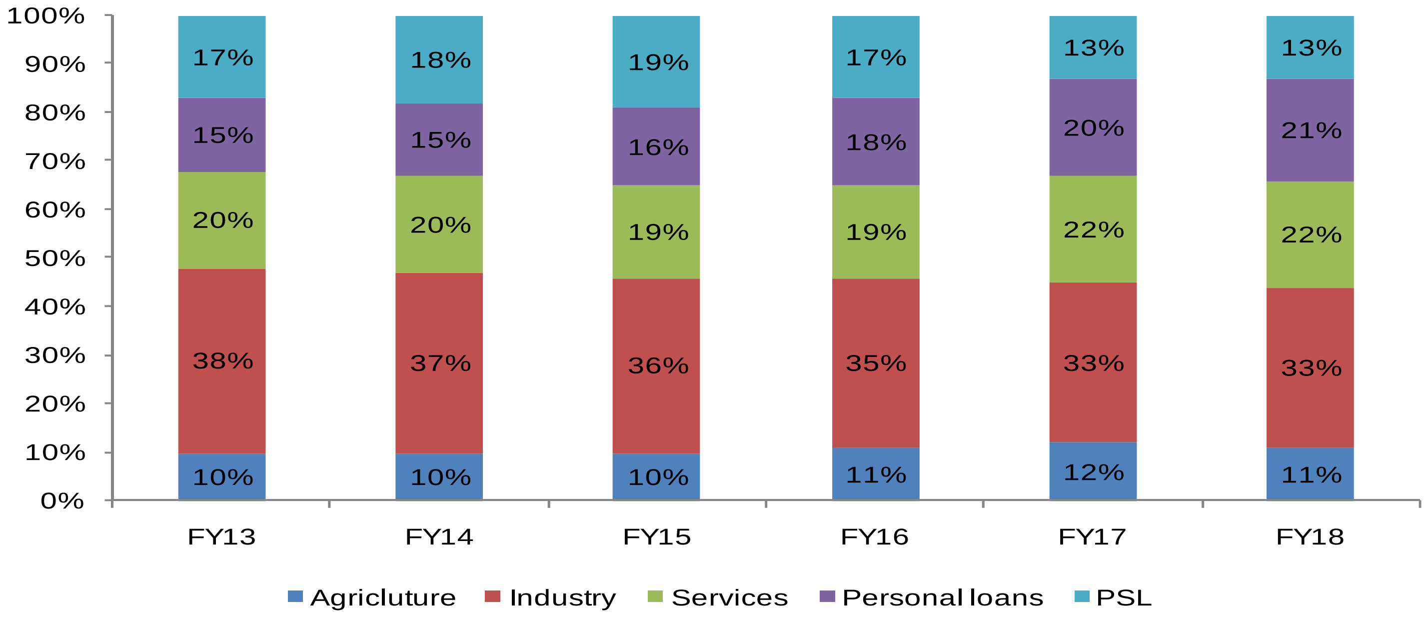
Focus on retail to help improve profitability and other metrics

Retail credit forms almost a quarter of the overall banking system credit standing at ~23% as of FY18. Most of the incremental growth in credit has been contributed largely by the retail segment. Total credit grew by 10% in FY18 with the retail segment registering a growth of 18%.Within the retail segment housing forms the largest category contributing slightly more than 50% with personal loans contributing ~27% ,forming the second largest.

The standstill in corporate lending due to high accumulation of NPAs and recessed corporate capex has led to most of the banks focusing on the high growing and underpenetrated retail segment. Further, inability of public banks to lend either due to PCA or low capital has led to market share gains for private banks. Retail loans typically offer higher margins and asset quality benefits over corporate loans.

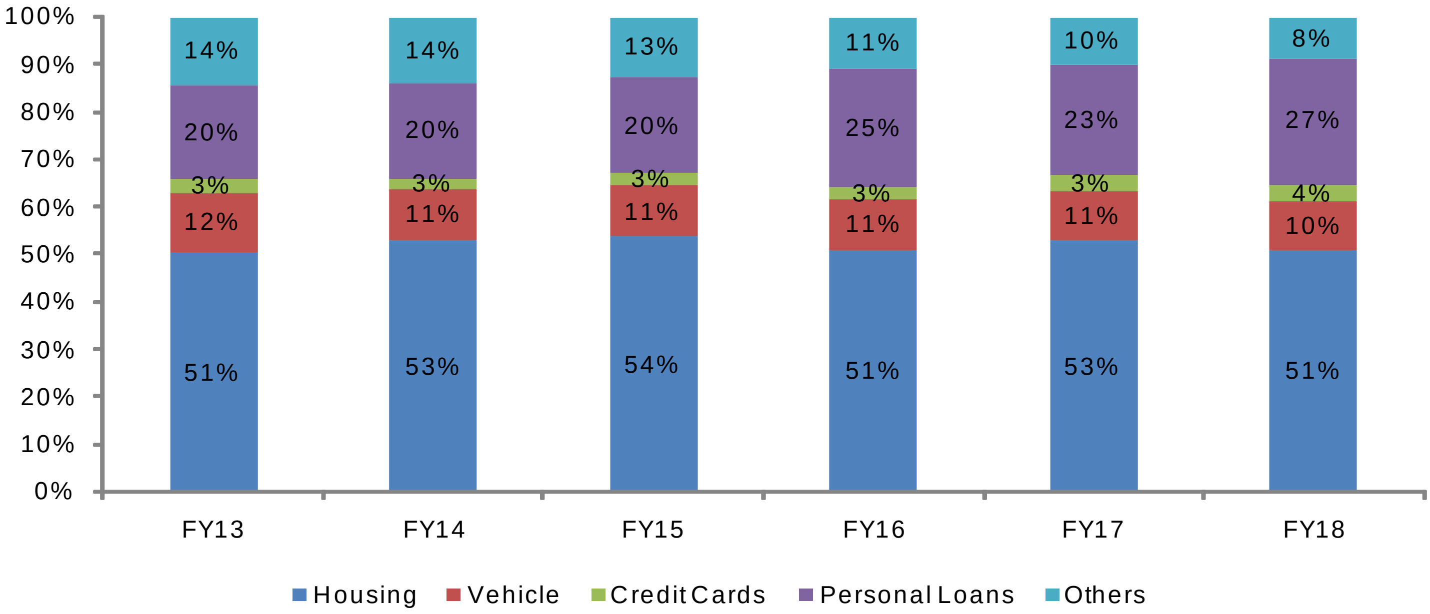
Retail formed ~23% of the banking system credit in FY18.It remains the fastest growing with housing and personal loans forming 50% and ~27%,the largest constituents.

Banking non food advances split(%)



Source: RBI, BP Equities Research

Break up of bank retail loans by category(%)



Source: RBI, BP Equities Research

Overall retail credit is expected to grow at a CAGR of 16-18% over FY18-20E.This would be driven by the Housing and personal loan segment coupled with easy availability of credit on the back of digital initiatives. ICICI bank with a strong brand franchise, well developed branch network and constant investments in technology has been strengthening its position in retail. Focus on retail will help the bank in improving asset quality, lowering credit costs and stabilizing NIM. Subsequently, return ratios would also improve helping to achieve the management targeted ROE of 15% by FY20.

Breakup of Retail Advances

Category (INR Bn)	FY17		FY18	
	Total Advances	% of advances	Total Advances	% of advances
Home loans	1,282	53%	1,505	51%
Rural loans	370	15%	443	15%
Automobile loans	256	10%	295	10%
Personal loans	144	6%	212	7%
Business banking	127	5%	175	6%
Commercial business	150	6%	173	6%
Credit cards	75	3%	96	3%
Others	36	1%	40	1%
Total retail finance portfolio	**2,440**	**100%**	**2,940**	**100%**

Company, BP Equities Research

Branch network comparison

Branches (#)	FY13	FY14	FY15	FY16	FY17	FY18
Axis Bank	1,947	2,402	2,589	2,904	3,304	3,703
HDFC Bank	3,062	3,403	4,014	4,520	4,715	4,787
ICICI Bank	3,100	3,753	4,050	4,450	4,850	4,867
IndusInd Bank	500	602	801	1,000	1,200	1,400

Source: Company, BP Equities Research

The bank's total advances have grown at a CAGR of 10% (FY09-18).Although loan growth has remained more or less consistent over the past six years aside from the slowdown in FY17,most of this growth has been contributed by retail which has been growing strongly at 18-20% over the past 4 years. At the same time corporate loan growth has been much lower. Overall we expect loan growth to be in the mid teens over the next 2-3 years. ICICI bank has been shifting its focus away from corporate lending towards retail lending. Retail segment formed 57% of the total advances in FY18 compared to 39% in FY14.Retail Is expected to form 60% of the total advances in the coming years.

Retail credit is expected to grow at a CAGR of 16-18% over FY18-20E.The banks retail book now forms 57% of advances expected to reach 60% and has been growing strongly at 18-20%.We expect the growth to be contributed largely from this segment.

In the past ,the aggressive push of the bank in the retail segment led to credit losses which in turn deterred ICICI from lending in the unsecured segment. This move led to the bank losing market share in the retail loan segment. However, ICICI has made an effort to regain its hold in the retail segment. With the largest branch network among private peers and investments in technology, which we feel would further help the bank compete effectively amidst rising competition in the retail segment.

Favorable funding costs

The bank has a strong liability franchise with CASA at ~50% as of Q1FY19 compared to ~25% in FY08.Comparision with other large private banks reveals a CASA ratio that is largely in line. The banks' domestic cost of deposit is also in line with most of its peers. This benefits the bank in terms of lower cost of funds. Going ahead we expect the CASA ratio to stabilize at 45% over FY21E.Lower funding costs are helping the bank in adopting a more aggressive approach of lending to retail. While the bank has been conservative in lending to retail segment by focusing only on secured lending, there has been a shift towards unsecured lending. Going ahead we expect the contribution from unsecured lending to increase. The retail segment also offers higher yields over the corporate segment helping the company boost NIMs.

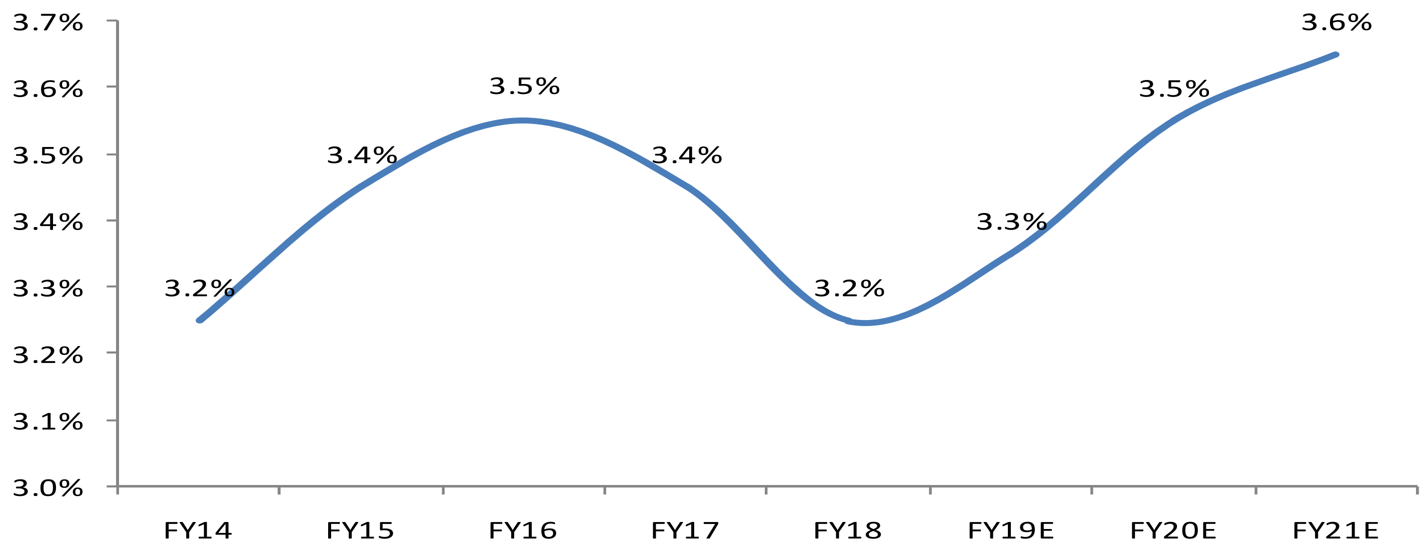
Impressive liability franchise with CASA at~50% is contributing to lowering the cost of funds. We expect NIMs to improve to 3.6% by FY21E.

Savings Account balance Comparison

(INR Bn)	FY13	FY14	FY15	FY16	FY17	FY18
Axis Bank	121	140	105	175	203	222
HDFC Bank	142	149	218	230	457	302
ICICI Bank	96	135	157	194	376	291
IndusInd Bank	23	29	30	43	98	189

Source: Company, BP Equities Research

NIM%



Source: Industry, BP Equities Research

Going ahead the retail business is likely to be driven by segments like personal loans and credit cards mainly through cross selling. Although the NIM of the bank is lower than the peak levels witnessed in FY16, we expect the NIM to improve on the back of a larger contribution from higher yielding segments. We expect NIM to improve to 3.6% by FY21E

Deposit & CASA Ratio					
INR Bn	FY14	FY15	FY16	FY17	FY18
Total Deposits	**3,319**	**3,616**	**4,214**	**4,900**	**5,610**
Average CASA ratio(%)	39.40%	39.50%	40.70%	43.70%	45.60%

Source: Company, BP Equities Research

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Investments in technology to help propel retail growth and guard against future disruptions

ICICI Bank has been at the forefront of making investments in technology for transforming its digital initiatives. We feel that these investments and partnerships would be crucial for ICICI bank in strengthening its presence in the retail segment and also fortifying its position from the disruptive landscape being created by fintech startups and other unconventional players.

Investments in technology would help to strengthen position in retail and guard against disruptions in the fintech space

The bank has set aside INR 100 Cr for investing in startups, of which INR 40 cr has already been invested across 6 companies . A steady pipeline of potential investments spread across areas such as lending, artificial intelligence, digital KYC and mobility provides a roadmap of the banks future avenues. ICICI expects to deploy this amount by the end of the year but has stated that it may not necessarily limit itself to this sum and is open to evaluation on availability of new opportunities.

Areas that the bank is looking at keenly are artificial intelligence and robotic process automation. The bank has also set up an innovation centre called ICICI innovation labs for the purpose of building new business models and bringing down costs through superior use of data.

ICICI has partnered with numerous players to increase its reach in the digital payments and transaction space. The bank has launched a UPI for its mobile banking application and digital wallet-pockets in partnership with the National Payments Corporation of India in FY17.

The Bank also leads many partnerships in enabling government departments to make payments towards welfare schemes through the Public Financial Management System (PFMS) and collections through the Non-Tax Receipt Portal (NTRP). The Bank also offers various integrated collections and payments solutions for development authorities (DAs) and urban local bodies (ULBs).

Shift towards high rated and well established corporates to keep a check on future asset quality

The Indian corporate sector has witnessed a slowdown in growth of sales and profitability over the past couple of years. Several factors have played a role such as stretched working capital cycles, problems in cash flow generation owing to policy changes and delay in approvals impeding project completion. Additionally, structural reforms like GST and demonetization have further added to the woes. All of these factors cumulatively have led to increasing stress for the corporate sector as a whole, resulting in additions to NPAs and slippages for the entire banking industry affecting ICICI as well.

The bank has been shifting the corporate book towards the A– and above category. This would help in keep the future asset quality under control

While the bank has been gradually shifting its focus towards retail lending, the management has indicated that they would not completely abandon the corporate segment. Instead they would focus on lending to higher rated and well established corporates which have relatively strong balance sheets and would also be cautious in lending to projects that are under implementation.

At an overall portfolio level the book is shifting towards the A- and above category. The ratio of A- and above rated loans to total loans increased from 52% in FY16 to 63% in FY18.The proportion of exposure to borrowers internally rated A- and above in the top 20 borrowers (excluding banks) increased from 75% in FY17 to 96% in FY18.The percentage of BB and below loans to total loans has decreased from 19% in FY16 to 9% in FY18.

Internally rated corporate loans			
Rating category	FY16	FY17	FY18
AA -and above	31%	37%	42%
A+,A,A-	21%	19%	20%
A-and above	**52%**	**56%**	**62%**
BBB+,BBB, BBB-	28%	28%	28%
BB and below	19%	15%	9%
Unrated	1%	1%	1%

Source: Company, BP Equities Research

The bank's fund based exposure and non fund based facilities to below investment grade entities belonging to sectors like iron and steel, mining, power, rigs and cement sectors decreased from INR 440.7 Bn to INR 190.4 Bn on account of slippages to NPA, exclusions and upgrades. The SMA-1 and SMA-2 loans are also expected to reduce drastically.

Exposure of the Bank to key sectors impacted by uncertainties and challenges					
% of total exposure of the bank	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Power	5.90%	5.50%	5.40%	5.10%	4.60%
Iron/steel	5.00%	4.80%	4.50%	3.60%	2.80%
Mining	1.70%	1.50%	1.60%	1.80%	1.50%
Others	2.20%	2.00%	1.80%	1.50%	1.20%
Total exposure of bank to key sectors	14.80%	13.80%	13.30%	12.00%	10.10%

Source: Company, BP Equities Research

The bank's exposure primarily lies in power and Iron and steel sector

Sector wise Drilldown list			
Rating category	**% of exposure**		
	FY16	**FY17**	**FY18**
Power	1.30%	0.70%	0.10%
Mining	1.00%	0.60%	0.00%
Iron / Steel	0.80%	0.40%	0.30%
Others	1.70%	0.30%	0.00%
Total	**4.80%**	**2.00%**	**0.40%**

Source: Company, BP Equities Research

Going ahead the asset quality is expected to improve due to the banks effort of focusing on higher rated corporates. Further, reduction in impaired loans and reduction of incremental additions to NPL's due to recoveries and upgrades would help in keeping net additions lower. We also expect provision coverage ratio to reach 70% over the next 2 years as guided by the management. All these factors make us believe that FY20 would be a normalized year for the bank.

Provision Coverage					
	FY16	**FY17**	**FY18**	**FY19E**	**FY20E**
Provision coverage (ex write-off)	48%	36%	43%	62%	70%

Source: Company, BP Equities Research

Subsidiaries have established presences across respective verticals, are value accretive and provide value unlocking opportunities

The bank's subsidiaries are present across various financial services verticals such as insurance, asset management and capital markets. These subsidiaries have also gained an established position in their respective verticals. ICICI general insurance maintains a leadership position with an overall market share of 10.1%.ICICI Securities is the country's largest brokerage by revenue and the second largest non bank distributor of mutual funds in FY17.ICICI prudential mutual fund is the largest by AUM as of Q1FY19.The total market value of the listed subsidiaries was INR 1.04 Trillion, with the bank's shareholding valued at INR 592 Billion. These subsidiaries provide the bank with fee income through cross selling opportunities and have also helped in unlocking value through divestment based on the requirement. With the financialisation theme gaining prominence in India, the bank is poised to benefit on account of the strong position of its subsidiaries present across various verticals. We feel that this would help in further unlocking of value and shield the bank in times of crises as it has done in the past.

Subsidiaries in various financial services verticals provide value accretion through cross selling opportunities and value unlocking potential .They also help in cushioning in times of distress

Subsidiaries and contribution

Subsidiaries	FY18 Contribution		Share in profit or loss	
	% of total net assets	Amount (INR Mn)	% of total net profits	Amount (INR Mn)
Indian				
ICICI Securities Primary Dealership Limited	0.9%	9,742.6	1.4%	1,116.3
ICICI Securities Limited	0.7%	8,250.9	7.2%	5,533.6
ICICI Home Finance Company Limited	1.5%	16,133.2	0.8%	642.5
ICICI Trusteeship Services Limited	0.0%	6.5	0.0%	0.6
ICICI Investment Management Company Limited	0.0%	109.6	0.0%	0.7
ICICI Venture Funds Management Company Limited	0.2%	2,179.8	0.1%	111.8
ICICI Prudential Life Insurance Company Limited	6.2%	68,852.6	21.0%	16,198.3
ICICI Lombard General Insurance Company Limited	4.8%	52,750.4	11.2%	8,617.8
ICICI Prudential Trust Limited	0.0%	14.6	0.0%	1.9
ICICI Prudential Asset Management Company Limited	0.7%	8,233.3	8.1%	6,255.5
ICICI Prudential Pension Funds Management Company Ltd	0.0%	263.3	0.0%	-6.6
Foreign				
ICICI Bank UK PLC	3.0%	33,027.6	-2.1%	1,646.7
ICICI Bank Canada	2.5%	27,670.1	2.9%	2,222.6
ICICI International Limited	0.0%	92.8	0.0%	4.6
ICICI Securities Holdings Inc.	0.0%	127.2	0.0%	0.1
ICICI Securities Inc.	0.0%	181.2	0.1%	43.6

Source: Company, BP Equities Research

Key Milestones	
1955	The Industrial Credit and Investment Corporation of India (ICICI) Ltd incorporated; A R Mudaliar elected as chairman
1977:	ICICI sponsors the formation of Housing Development Finance Corporation, manages its first equity public issue
1982	First Indian borrower to raise European Currency Units; starts leasing business
1986	ICICI, with UTI, sets up Credit Rating Information Services of India, India's first professional credit rating agency; promotes Shipping Credit and Investment Company
1994	ICICI Bank set up
2000	ICICI Bank becomes the first Indian company to list on the NYSE
2002	ICICI Ltd merged with ICICI Bank
2004	Launches mobile banking services in India
2009	Chanda D Kochhar appointed MD & CEO of ICICI Bank
2010	RBI approves amalgamation of Bank of Rajasthan with ICICI Bank
2012	ICICI Bank rolls out 25 electronic branches and launches many next-generation banking solutions; launches the first electronic toll collection project
2015	ICICI Bank opens its first branch in China
2016	ICICI Bank's mortgage portfolio crosses Rs 1 lakh crore
2017	ICICI Bank offers the country's first instant Public Provident Fund (PPF) account facility

Source: Company, BP Equities Research

ICICI Bank Ltd - Management Details

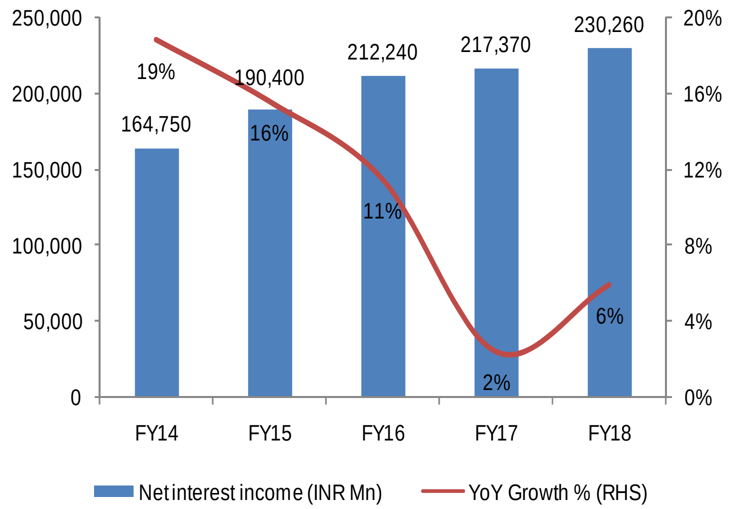
Name	Age	Designation	Qualifications
Chanda Kochhar	56 Years	Managing Director & CEO	Masters of management studies
Sandeep Bakshi	57 Years	Executive Director & COO	M.B.A
Vishaka Mulye	57 Years	Executive Director	CA
Vijay Chandok	50 Years	Executive Director	Masters of management studies

Source: Company, BP Equities Research

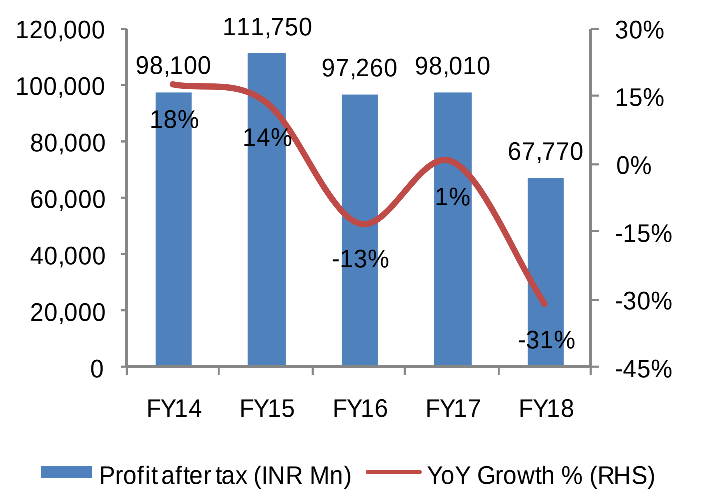
Company Background

ICICI Bank Limited, incorporated in 1994 is India's largest private sector bank with total consolidated assets of INR 11,242.81 billion (US$ 172.5 billion) as of FY18.ICICI Bank currently has a network of 4,867 Branches and 14,367 ATMs across India. The Bank's business segments comprise of Retail banking, Wholesale banking, Treasury and Other banking. ICICI bank provides banking and financial services ranging from commercial & retail banking to investment banking for retail, corporate and SME clients. The bank ‘s subsidiaries have helped developed a formidable position in areas like Insurance, asset management and broking within the gamut of financial services. The bank has an international presence with a footprint across 19 countries. The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Their UK subsidiary has established branches in Belgium and Germany.

Net Interest Income (INR Mn)

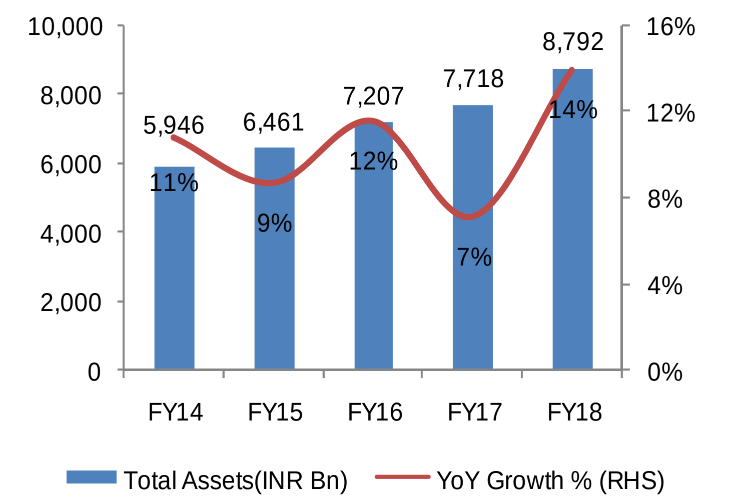


Profit After Tax(INR Mn)

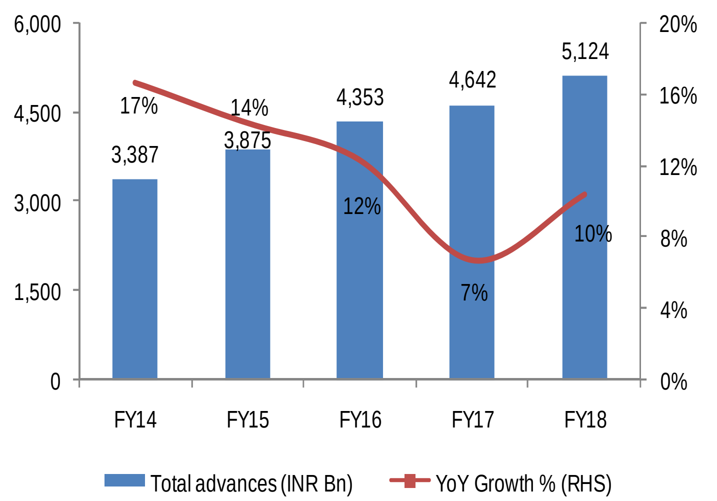


Source: Company, BP Equities Research

Total Assets (INR Bn)



Total Advances (INR Bn)



Source: Company, BP Equities Research

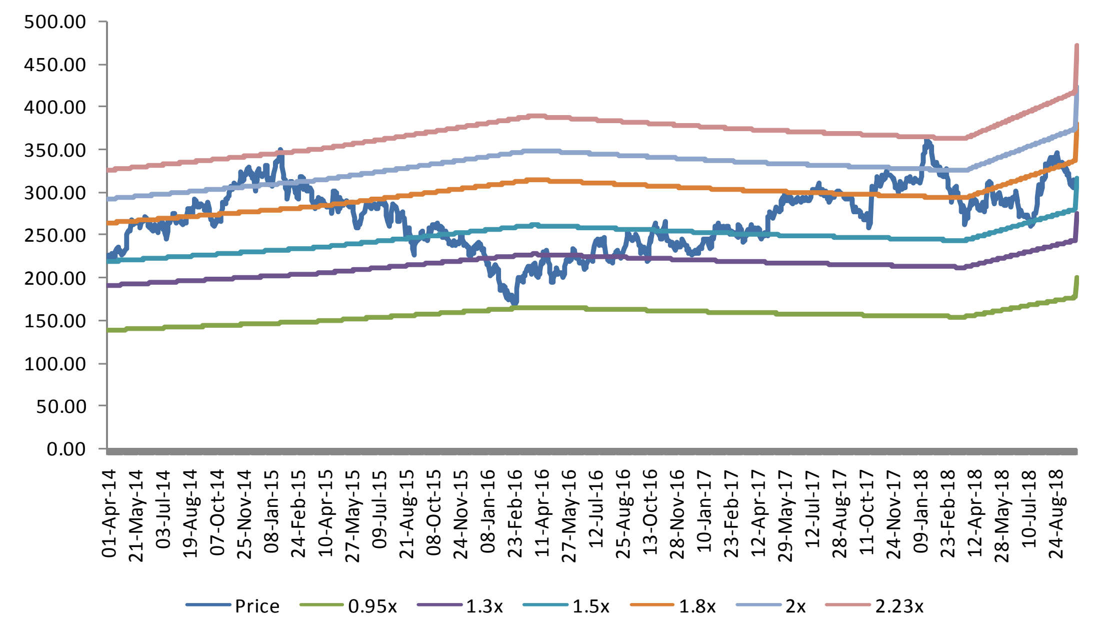
⇒ **Peer group comparison**

Company	CMP (Rs.)	M Cap (Rs. Bn)	P/E FY19E	P/E FY20E	EPS FY19E	EPS FY20E	P/B FY19E	P/B FY20E	RoE (%) FY19E	RoE (%) FY20E
ICICI Bank	303.7	1,961.0	35.1	12.1	8.7	25.1	1.9	1.6	13.4	14.3
HDFC Bank	2031.2	5,289.5	26.4	21.8	77	93	4.3	3.6	16.5	16.0
Axis Bank	572.3	1,469.5	28.6	13.6	20	42	2.1	1.9	7.5	14.4
Kotak Mahindra Bank	1,098.3	2,093.3	35.4	28.9	31	38	4.9	4.2	13.0	14.8

Source: BP Equities Research

⇒ **P/B Band**

P/B Band - ICICI Bank Ltd



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

⇒ Slowdown in the broader economy can impact credit growth of the bank

⇒ Sudden or unexpected increase in NPAs along with delay in recovery and resolution of stressed assets can materially impact profitability and asset quality

⇒ Impending impact of decision around management could result in fines affecting earnings and pose uncertainty around corporate governance

Sum of the parts value(SOTP)	Share of Bank (%)	Per share value (INR)	Valuation methodology
Value of ICICI standalone	100%	306	1.9x FY20 ABV
Subsidiaries			
ICICI Prudential Life	54.8%	32	Current Market Cap & 20% holding company discount
General insurance	55.9%	25	Current Market Cap & 20% holding company discount
Mutual fund	51.0%	12	5% of Q1FY19 AUM & 20% holding company discount
ICICI Securities	79.2%	9	Current Market Cap & 20% holding company discount
Other subsidiaries and associates		10	
Value of company		**395**	

Source: Company, BP Equities Research

We have valued ICICI Bank's core banking business at 1.9X FY20 ABV, resulting in a price of INR 306 per share. Our SOTP based target price of INR 395 (potential upside of 30% from CMP) ascribes the remaining value to the bank's associates and subsidiaries. Our target price considers an investment horizon of 12-15 months.

Valuation & Outlook

ICICI Bank's improving operating metrics are indicative of an underlying recovery currently being witnessed by the bank. The bank is poised to benefit from an upturn in the domestic corporate loan cycle and with a shift towards high rated corporates, asset quality would also be kept in check. Amidst the corporate turmoil, the bank has been heavily focusing on strengthening retail operations which would be contributing to the future growth and profitability for the bank. Additionally, subsidiaries also provide value accretive opportunities .ROE is expected to improve to ~15% and net NPLs set to moderate by the first half of FY21.A strong liability franchise, well diversified asset mix, recovery of bad loans, improving NIMs and strong loan growth are positive contributors. For these reasons we initiate coverage on the stock & recommend **'BUY'** rating with target price of Rs 395 per share. Our target price is based on SOTP valuing the core bank at 1.9 x FY20ABV implying a value of 306 per share, with the rest being contributed by the subsidiaries and associates.

Profit & Loss A/c (Standalone)					
YE March (Rs. mn)	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Interest income	541,563	549,659	615,618	707,961	817,695
Interest expense	324,190	319,401	360,923	409,648	471,095
Net interest income	**217,373**	**230,258**	**254,695**	**298,313**	**346,600**
Non interest income	**195,045**	**174,196**	**162,937**	**189,654**	**216,460**
Fee income(including forex)	97,208	105,346	121,148	139,320	160,218
Misc. income	12,077	10,830	12,779	16,102	20,128
Treasury	85,760	58,020	29,010	34,232	36,115
Net revenue	**412,418**	**404,454**	**417,632**	**487,967**	**563,060**
Operating expense	**147,551**	**157,040**	**177,613**	**201,300**	**230,611**
Employee exp	57,337	59,140	64,049	70,133	77,147
Other opex	90,214	97,900	113,564	131,166	153,465
Pre provision profit	**264,867**	**247,414**	**240,020**	**286,667**	**332,449**
Provisions	**152,081**	**173,070**	**164,417**	**65,767**	**69,055**
Loan loss provisions	143,470	173,070	164,417	65,767	69,055
Other provisions	8,611	-			
Profit Before Tax	**112,786**	**74,344**	**75,603**	**220,901**	**263,394**
Less: Provision for Tax	14,775	6,571	19,713	59,139	68,010
Profit After Tax	**98,011**	**67,773**	**55,890**	**161,762**	**195,384**
EPS (INR)	16.7	10.5	8.66	25.05	30.26

Source: Company, BP Equities Research

Balance Sheet (Standalone)					
YE March(Rs. mn)	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Total shareholders equity	**999,511**	**1,051,589**	**1,049,118**	**1,206,486**	**1,362,123**
Deposits	4,900,391	5,609,752	6,403,789	7,533,152	8,663,125
Borrowings	1,475,562	1,828,586	1,773,729	1,702,779	1,651,696
Other liabilities and provisions	342,452	301,964	318,572	336,093	357,940
Total Capital and Liabilities	**7,717,914**	**8,791,892**	**9,545,208**	**10,778,511**	**12,034,883**
ASSETS					
Cash and balances with Reserve Bank of India & call money	757,131	841,694	884,620	984,582	1,092,886
Investments	1,615,065	2,029,942	2,050,241	2,255,265	2,479,664
Advances	4,642,321	5,123,953	5,738,827	6,564,828	7,478,409
Fixed assets	78,052	79,035	61,007	57,956	40,568
Other assets	625,345	717,268	810,513	915,879	943,356
Total Assets	**7,717,914**	**8,791,892**	**9,545,208**	**10,778,511**	**12,034,883**

Source: Company, BP Equities Research

Key Ratios (Standalone)					
YE March (Rs. mn)	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Key Operating Ratios					
Net Interest Margin (Reported)	3.3%	3.2%	3.3%	3.5%	3.6%
RoE (%)	9.8%	6.4%	5.3%	13.4%	14.3%
RoA (%)	1.3%	0.8%	0.6%	1.5%	1.6%
Capital Adequacy ratio (%)	17.4%	18.4%	16.1%	14.9%	15.2%
Dividend Payout (%)	15%	15%	40%	22%	20%
Book Value Per Share (Rs.)	170.7	162.9	162.5	186.8	211.0
Efficiency Ratios					
Cost Income Ratio (%)	36%	39%	43%	41%	41%
Expenses/Avg Assets	1.9%	1.8%	1.9%	1.9%	1.9%
Asset Quality Ratios					
Gross NPL Ratio	7.4%	9.3%	7.7%	6.4%	6.0%
Net NPL Ratio	4.4%	5.3%	2.7%	2.5%	2.4%
Growth Indicators %					
Net Interest Income	2%	6%	11%	17%	16%
Non Interest Income	27%	-11%	-6%	16%	14%
Operating expenses	16%	6%	13%	13%	15%
Operating Profit	11%	-7%	-3%	19%	16%
Net Profit	1%	-31%	-18%	189%	21%
EPS	1%	-37%	-18%	189%	21%
Deposits	34%	14%	14%	18%	15%
Advances	7%	10%	12%	14%	14%
Total Assets	7%	14%	9%	13%	12%

Source: Company, BP Equities Research

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