

HOLD

TP: INR 1,075.00

▲ 18.3%

ICICI Bank

ICICIB IN

Results in line but slowdown to hurt earnings growth

ICICIB's Q1FY14 NII came in marginally below estimates but PAT in line (+25% YoY to Rs 23bn) buoyed by strong trading profits (of Rs 4bn vs. Rs 1bn in Q4FY13). Advances grew at 3.8% QoQ (12.3% YoY) while NIMs contracted ~6bps QoQ to 3.27%. Asset quality was under pressure with incremental slippages/restructuring at Rs 11.2bn/Rs 8bn. We believe a poor macro could hurt credit offtake/asset quality, and therefore trim our FY14/FY15 earnings estimates and our Mar'14 TP to Rs 1,075 (from Rs 1,225). **Maintain HOLD.**

- ➔ **Advances growth lower than expected:** Overall advances growth moderated to 12.3% YoY (from 14.4% YoY in Mar'13) driven by slower domestic credit growth (at 14% YoY). The overseas book grew by ~8% YoY largely due to INR depreciation. The retail book grew only by 12.6% YoY, but growth was healthy at 26.6% adjusted for buyouts. Corporate growth picked up with advances growing by 3.9% QoQ while the SME segment remained weak. Deposits were up 3.7% QoQ and the domestic LDR was higher by 80bps QoQ. SA deposits mobilisation was strong at 3.7% QoQ (14% YoY) and the average CASA proportion improved by 90bps QoQ to 39%.
- ➔ **Asset quality slips; credit costs higher:** Slippages were higher at Rs 11.2bn (slippage ratio: 1.6%), while incremental restructuring at Rs 8bn was in line. Gross retail NPLs shot up to Rs 54.1bn from Rs 41.8bn in Q4FY13. Outstanding net restructured loans rose from Rs 53.1bn to Rs 59.1bn. Credit costs were higher than expectations at 82bps; however, the bank maintained its FY14 credit cost guidance at 75bps.
- ➔ **NIMs decline marginally; fee income sluggish:** Domestic NIMs declined by 7bps QoQ to 3.63%, leading to a 6bps QoQ drop in Q1FY14 NIMs even as international NIMs improved to 1.6%. The uptick in NIMs was due to a dip in the yield on advances. The management has maintained its guidance for a 10bps NIM expansion in FY14. Fee income remained muted (+9% YoY). A sharp slowdown in corporate fee income coupled with negligible growth in other fee avenues hurt fee growth. The C/I ratio was flat QoQ at 40%.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
Net interest income (INR mln)	90,169	107,342	138,664	162,991	187,254
Net revenues (INR mln)	156,648	182,369	222,121	253,943	288,212
Pre-provision profits (INR mln)	90,475	103,865	131,992	151,074	169,324
Adj. PAT (INR mln)	51,514	64,653	83,255	91,846	107,023
Adj. EPS (INR)	44.7	56.1	72.2	79.6	92.8
ROE (%)	9.7	11.2	13.1	13.2	14.3
ROA (%)	1.3	1.5	1.6	1.6	1.6
Gross NPA (%)	4.5	3.6	3.2	3.6	3.8
Tier I ratio (%)	13.2	12.7	12.8	13.5	12.3
P/BV (x)	1.9	1.7	1.6	1.4	1.4
P/E (x)	20.3	16.2	12.6	11.4	9.8

Source: Company, Bloomberg, RCML Research



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REPORT AUTHORS

Siddharth Teli

+91 22 6766 3463

siddharth.teli@religare.com

Ishank Kumar

+91 22 6766 3467

ishank.kumar@religare.com

Vamsi Krishna Duvvuri

+91 22 6766 3474

vamsi.duvvuri@religare.com

PRICE CLOSE (31 Jul 13)

INR 909.05

MARKET CAP

INR 1,049,212 mln

USD 17,221 mln

SHARES O/S

1,152.8 mln

FREE FLOAT

100.0%

3M AVG DAILY VOLUME./VALUE

3.7 mln/ USD 65.1 mln

52 WK HIGH

INR 1,238.40

52 WK LOW

INR 866.75

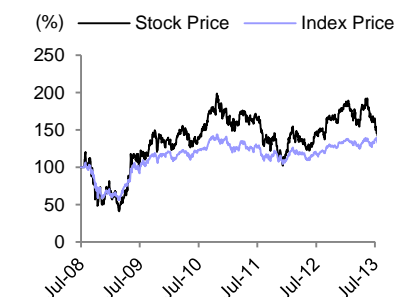




Fig 1 - Actual vs. estimated performance

(Rs mn)	Actual	Estimate	% Variance
NII	38,205	39,033	(2.1)
Net revenues	63,048	60,242	4.7
PPP	38,142	35,821	6.5
PAT	22,742	22,499	1.1

Source: RCML Research, Company

Results largely in line with estimates

Fig 2 - Quarterly performance

(Rs mn)	Q1FY14	Q1FY13	% Chg YoY	Q4FY13	% Chg QoQ
Interest income	104,207	95,457	9.2	103,653	0.5
Interest expenses	66,002	63,527	3.9	65,621	0.6
Net interest income	38,205	31,929	19.7	38,032	0.5
Other income	24,843	18,799	32.1	22,082	12.5
Total Income	63,048	50,729	24.3	60,114	4.9
Operating expenses	24,906	21,235	17.3	24,073	3.5
- Staff expenses	10,894	9,870	10.4	9,997	9.0
PPP	38,142	29,493	29.3	36,041	5.8
Provisions and W/off	5,932	4,659	27.3	4,600	28.9
PBT	32,210	24,835	29.7	31,441	2.4
Taxes	9,468	6,684	41.6	8,400	12.7
PAT	22,742	18,151	25.3	23,041	(1.3)
Cost to Income ratio (%)	39.5	41.9		40.0	
Tax rate (%)	29.4	26.9		26.7	
NIMs	3.3	3.0		3.3	
Advances (Rs bn)	3,014	2,684	12.3	2,902	3.8
Deposits (Rs bn)	2,912	2,678	8.7	2,926	(0.5)
Credit to deposit ratio (%)	103.5	100.2		99.2	
CASA (%)	43.2	40.6		41.9	
Gross NPA (Rs mn)	100,094	98,166	2.0	96,078	4.2
Gross NPA (%)	3.2	3.5		3.2	
Net NPA (Rs mn)	24,628	19,410	26.9	22,306	10.4
Net NPA (%)	0.8	0.7		0.8	
Provision coverage ratio (%)	75.4	80.2		76.8	

Source: RCML Research, Company



Key results highlights

Decent loan growth in a challenging environment

Overall advances grew by 3.8% QoQ/12.3% YoY, largely led by the corporate segment which saw a revival in growth (+3.9% QoQ, 20.1% YoY) likely driven by undisbursed sanctions and demand for working capital loans. The retail book grew only by 12.6% YoY/1% QoQ, but growth was healthy at ~26.6% adjusted for buyouts. Home loans grew by 19.6% YoY/3.5% QoQ to Rs 596bn and personal loans 14.5% QoQ albeit off a low base. International advances grew by 8% YoY (+10.4% QoQ) largely due to INR depreciation.

While overall deposit base came down by 0.5% QoQ (up 8.7% YoY) largely driven by shedding of wholesale term deposits, CASA deposit mobilisation was robust at 2.7% QoQ as saving deposits grew by 3.7% QoQ (Rs 32bn in absolute terms). As a result, the CASA proportion as of Q1FY14-end picked up by 120bps to 43.2%. Average CASA for Q1FY14 was at 39% (38.1% for Q4FY13).

Fig 3 - Loan book growth trend

Growth	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Advances (Rs bn)	2,537	2,684	2,751	2,868	2,902	3,014
QoQ growth (%)	3.1	5.8	2.5	4.2	1.2	3.8
YoY growth (%)	17.3	21.6	17.6	16.5	14.4	12.3

Source: RCML Research, Company

Credit growth driven by retail growth and a QoQ pick-up in corporate growth

Fig 4 - Broad break-up of advances

(Rs bn)	Q1FY14	Q1FY13	YoY growth (%)	Q4FY13	QoQ growth (%)
Overseas	811	752	7.9	734	10.4
Domestic Corporate	980	816	20.1	943	3.9
SME	139	153	(9.4)	151	(8.1)
Retail Loans	1,085	964	12.6	1,074	1.0
-Home Loans	596	498	19.6	576	3.5
-Vehicle Loans	246	258	(4.6)	260	(5.2)
-Credit cards revolved	30	25	21.3	27	13.2
-Personal Loans	18	10	91.4	16	14.5
-Business Banking	194	172	12.6	195	(0.6)

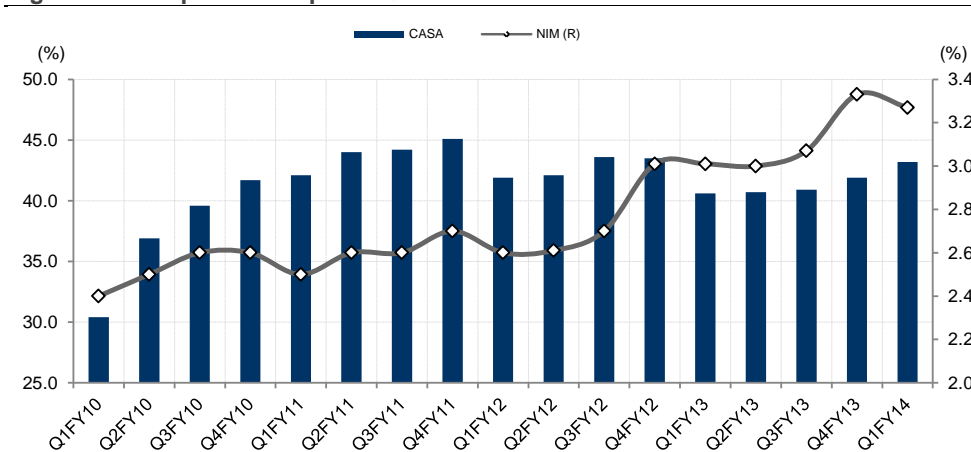
Source: RCML Research, Company

NIMs higher than expected

ICICIBC's domestic NIMs contracted 7bps QoQ to 3.63%, led by a ~40bps dip in the yield on advances despite lower cost of funds, while international NIMs expanded to ~1.6%. Overall NIMs declined ~6bps QoQ to 3.27% in Q1FY14. The management has maintained its FY14 NIM guidance at a 10bps YoY increase over FY13 levels.



Fig 5 - NIMs improved 20bps QoQ



Source: RCML Research, Company

NIMs slip 7bps QoQ; expansion likely on improvement in international NIMs

Asset quality stable

Incremental slippages in Q1 were higher at Rs 11.2bn (slippage ratio: 1.6%), while incremental restructuring at Rs 8bn was in line. As per the management, the pipeline for restructured assets under the CDR route is ~Rs 10bn-11bn. Gross retail NPLs increased from Rs 41.8bn in Q4FY13 to Rs 54.1bn. Outstanding net restructured loans rose from Rs 53.1bn in Q4FY13 to Rs 59.1bn. While credit costs during the quarter were higher at ~82bps, the management maintained its FY14 credit cost guidance at 75bps.

Fig 6 - Trend in asset quality

	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Gross NPA (Rs mn)	94,753	98,166	100,364	97,634	96,078	100,094
Gross NPA (%)	3.6	3.5	3.5	3.3	3.2	3.2
Net NPA (Rs mn)	18,940	19,410	21,371	21,815	22,306	24,628
Net NPA (%)	0.7	0.7	0.8	0.8	0.8	0.8
Provision coverage ratio (%)	80.0	80.2	78.7	77.7	76.8	75.4

Source: RCML Research, Company

Slippages higher during the quarter

Core fee income tepid; costs in line

Fee growth was weak at 8.9% YoY on muted corporate fees (related to project financing activities). Overall, other income was up 32% YoY due to strong trading profits of Rs 4bn (vs. losses of Rs 0.21bn in Q1FY13). The C/I ratio was largely flat QoQ at ~39.5%.

Fig 7 - Other income break-up

(Rs mn)	Q1FY14	Q1FY13	% Chg YoY	Q4FY13	% Chg QoQ
Fee Based Income	17,930	16,470	8.9	17,750	1.0
Treasury Income	4,030	(210)	NM	930	333.3
Lease and other income	2,880	2,540	13.4	3,400	(15.3)
Total	24,840	18,800	32.1	22,080	12.5

Source: RCML Research, Company

Performance of other key businesses

The performance of Life Insurance business was weak on all counts with annualised premium equivalent (APE) declining from Rs 5.7bn in Q1FY13 to Rs 5.4bn in Q1FY14, and renewal/total premium in the life insurance business falling from Rs 17bn/Rs 23.9bn in Q1FY13 to Rs 15bn/Rs 20.9bn in Q1FY14. The reported NBAP margin was stable QoQ at



~15%. AUM increased marginally from Rs 742bn in Q4FY13 to Rs748bn in Q1FY14. ICICI Lombard's gross premium increased by 21% YoY to Rs 18.6bn and the company reported a marginal profit of Rs 2bn in Q1FY14. Management expects the business to deliver sustainable ROEs of ~25%.

Overseas banking subsidiaries continued to report weak ROEs. Total assets of the UK subsidiary increased marginally from US\$ 3.9bn in Q1FY13 to US\$ 3.8bn in Q1FY14 and those of ICICI Bank Canada declined from CAD 5.3bn in Q1FY13 to CAD5.2bn in Q1FY14. Since both these subsidiaries remain over-capitalised with a CAR of 26.6%/31% despite capital repatriation over the past few months for UK/Canada, their ROEs too remained suppressed. ICICI Home Finance's loan book fell marginally from Rs 65.2bn in Q4FY13 to Rs 62.8bn.

Valuations fair; improvement in growth outlook key for re-rating

ICICIB is currently trading at 1.4x FY14E BV/11.4x FY14E EPS (after adjusting Rs 213 for valuation of subsidiaries in FY14). We trim our FY14/FY15 earnings by 2%/3% as we tone down our growth expectations. We now expect ICICIB's earnings CAGR to be 13% over FY13-FY15E and ROEs to improve only marginally from 14.3% in FY13 to ~15.5% in FY15.

Valuations fair but improvement in growth outlook key for re-rating

Fig 8 - SOTP valuations – FY14E

Businesses	Valuation method	AUM/PAT/BV (Rs mn)	Multiple (x)	Valuation of business (Rs mn)	% stake of ICICI Bank	Per share Value
Banking – Standalone	P/BV	599,636	1.7	989,399	100	856
Other businesses						
ICICI Prudential Life				225,215	74	134
ICICI Home Finance	P/BV	20,933	1.3	26,167	100	23
ICICI Bank UK	P/BV	37,087	0.7	24,107	100	21
ICICI Bank Canada	P/BV	53,413	0.7	34,719	100	30
ICICI Lombard	P/BV	22,741	1.0	22,741	74	15
ICICI Securities	P/E	1,453	7.0	10,173	100	9
Mutual Fund	% of AUM	841,252	3.0	25,238	51	11
Venture capital	% of AUM	103,500	10.0	10,350	100	9
Value of other businesses (with 15% discount)						213
Total						1,070

Source: RCML Research, Company



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13A	FY14E	FY15E
Reported EPS	44.7	56.1	72.2	79.6	92.8
Adjusted EPS	44.7	56.1	72.2	79.6	92.8
DPS	15.8	18.4	22.5	25.9	30.2
Book value	475.3	521.0	575.2	628.9	664.9
Adjusted book value	459.3	509.1	561.1	610.7	643.3

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13A	FY14E	FY15E
P/E	20.3	16.2	12.6	11.4	9.8
P/BV	1.9	1.7	1.6	1.4	1.4
P/ABV	2.0	1.8	1.6	1.5	1.4

Financial Ratios

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14E	FY15E
Spread Analysis					
Yield on advances	8.3	9.4	10.1	10.2	10.1
Yield on investments	6.2	6.6	6.7	6.7	6.7
Cost of funds	5.4	6.2	6.3	6.3	6.2
NIMs	2.5	2.6	2.9	3.0	3.0
Operating Ratios					
Operating cost to income	42.2	43.0	40.6	40.5	41.3
Operating expenses / Avg assets	1.7	1.8	1.8	1.8	1.8
Proportion of CASA deposits	45.1	43.5	41.9	39.5	39.5
Non-int inc / Total income	42.4	41.1	37.6	35.8	35.0
Credit / Deposit ratio	95.9	99.3	99.2	99.4	98.8
Investment / Deposit	59.7	62.5	58.6	58.4	56.8
Asset Quality and Capital					
Gross NPA	4.5	3.6	3.2	3.6	3.8
Net NPA	1.1	0.7	0.8	0.9	0.9
Coverage ratio	76.0	80.4	76.8	76.4	78.0
CAR	19.5	18.5	18.7	20.0	17.8
Tier I ratio	13.2	12.7	12.8	13.5	12.3
Growth Ratios					
Net interest income	11.1	19.0	29.2	17.5	14.9
Non-interest income	14.2	(1.4)	0.5	9.0	13.0
Non-interest income (ex-treasury)	99.4	109.9	102.7	109.8	112.9
Pre-provisioning profit	(7.0)	14.8	27.1	14.5	12.1
Net profit	28.0	25.5	28.8	10.3	16.5
Assets	11.8	16.6	13.3	13.9	15.1
Advances	19.9	16.7	13.9	15.4	17.4
Deposits	11.7	13.3	14.5	14.9	17.8
Book value per share	3.3	9.6	10.4	9.3	5.7
EPS	23.9	25.4	28.7	10.3	16.5

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14E	FY15E
Net interest income / Assets	2.3	2.4	2.7	2.8	2.8
Non-interest income / Assets	1.7	1.7	1.7	1.6	1.5
Operating expenses / Assets	1.7	1.8	1.8	1.8	1.8
Provisions / Assets	0.6	0.4	0.4	0.4	0.4
Taxes / Assets	0.4	0.5	0.6	0.6	0.6
ROA	1.3	1.5	1.6	1.6	1.6
Equity / Assets	13.9	13.1	12.6	12.2	11.4
ROAE	9.7	11.2	13.1	13.2	14.3



Profit and Loss Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Interest income	259,741	335,427	400,756	461,645	528,335
Interest expense	(169,572)	(228,085)	(262,092)	(298,654)	(341,081)
Net interest income	90,169	107,342	138,664	162,991	187,254
Non-interest income	66,479	75,028	83,457	90,953	100,958
Non-interest income (ex-treasury)	68,913	75,767	77,806	85,453	96,458
Net revenue	156,648	182,369	222,121	253,943	288,212
Operating expenses	(66,172)	(78,504)	(90,129)	(102,870)	(118,889)
Pre-provision profits	90,475	103,865	131,992	151,074	169,324
Provisions & contingencies	(22,868)	(15,830)	(18,025)	(24,215)	(23,317)
PBT	67,607	88,034	113,967	126,859	146,007
Extraordinaries	0	0	0	0	0
Income tax	(16,093)	(23,382)	(30,712)	(35,013)	(38,984)
Reported PAT	51,514	64,653	83,255	91,846	107,023
Adj. net profit	51,514	64,653	83,255	91,846	107,023

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Cash in hand & bal with RBI	209,070	204,613	190,527	209,580	230,538
Bal with banks, money at call	131,831	157,680	223,648	246,013	270,614
Investments	1,346,860	1,595,600	1,713,936	1,962,892	2,250,636
Advances	2,163,659	2,537,277	2,902,494	3,341,066	3,913,415
Fixed assets (net)	47,443	46,147	46,471	51,118	56,229
Other assets	163,475	195,154	290,871	305,414	320,685
Total Assets	4,062,337	4,736,471	5,367,947	6,116,083	7,042,118
Equity capital	11,518	11,528	11,536	11,536	11,536
Reserves & surplus	313,010	313,591	314,030	314,030	314,030
Net worth (ex-pref capital)	547,406	600,552	663,560	725,556	767,070
Preference capital	3,500	3,500	3,500	3,500	3,500
Deposits	2,256,024	2,555,000	2,926,136	3,362,131	3,960,590
- CASA deposits	1,016,465	1,110,194	1,225,763	1,328,042	1,564,433
- Term deposits	1,239,559	1,444,806	1,700,374	2,034,089	2,396,157
Borrowings (+sub-ord bonds)	1,095,543	1,401,649	1,453,415	1,671,427	1,922,141
Other liabilities & provisions	159,863	175,770	321,336	353,470	388,817
Total Equity & Liabilities	4,062,337	4,736,471	5,367,947	6,116,083	7,042,117

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