## ICICI Bank Result Synopsis

**BUY**
**CMP: Rs.848**
**Target: Rs.1089**

# PAT up 30% YoY driven by robust NII, healthy uptick in NIMs. Fee income sluggish, CASA stable, Restructured assets rise but largely expected.

**ICICI bank witnessed a strong quarter with PAT surging 31% to Rs.1902cr driven by strong improvement in core operations. Net interest income for the private sector lender grew 24% to Rs.3105cr significantly higher than estimates. The full impact of higher base rates and investment yields were seen during the quarter. Net interest margins rose 31bpsQoQ to 3.01% as domestic and international NIMs rose 33bps and 12bps respectively. Asset quality for the bank remained largely stable driven by strong recoveries, while restructured assets rose as impact of restructuring GTL, 3i exposure was seen during the quarter. Management had guided on the spike to be seen in restructured assets in Q412, hence no surprises there.**

**ICICI Bank currently trading 1.4xFY14e ABV which is a steep discount to 3yr Avg. of 1.8x-1yr fwd ABV. We have a SOTP target price of Rs.1089 (raised from Rs.917 earlier). BUY**

### Advances grew 17.3% driven by higher disbursement and pick up in secured retail loans

ICICIBK reported loan growth in line with system, growing 17.3YoY to Rs.2.54trillion largely driven by corporate loans (+25.9% YoY) and SME loans(+29.5%YoY) which together account for 28% of advances. Auto (+13%YoY) and Commercial business loans (20% YoY) were instrumental in driving retail loan book. Home loan disbursements grew 26.8%YoY, however on account of higher repayment and prepayments, the portfolio grew just 7.5%YoY. The bank remains focused on reducing its unsecured book, declined 30.5%YoY to Rs.35.74bn, in its aim to lower risks on the B/S.

### Deposits growth sluggish, CASA base driven by SA deposits, CASA ratio stable.

Deposits declined by Rs.50.89bn QoQ as term deposits and CA deposits declined. Consequently deposits grew 13.3% YoY to Rs.1.44tn significantly slower than industry. CA deposits declined 13% QoQ(+1% YoY) as the NHAI bond issue receipts seen in previous quarter were not available in the fourth quarter. CASA ratio stood at 43.5% while average CASA ratio remained within the comfort band at 39%. SA deposits witnessed healthy traction growing 14%YoY and 3%QoQ resulting in CASA deposit base expanding 9%YoY.

### Opex rises but C/I stable

Operating expense for the bank rose 15.8%QoQ on account of the bonus provision for employees and 200 branches added during the quarter. The spike in opex was eased out by the healthy surge in NII, resultantly the Cost to income ratio remained flat at 41.7% versus 41.6% in Q312.

### Asset quality stable, restructured assets expectedly rise

ICICIBK has managed to maintain asset quality, with gross NPA declining to Rs.9563cr compared to Rs.9820cr at end of Q312. Slippages during the quarter declined to Rs.635cr (vs.877cr in Q312) resulting in slippage ratio improving to 1% vs. 1.5% at end of Q312. Restructured loans grew to Rs.4256cr (up 39%QoQ) majorly on account of restructuring of exposures to GTL and 3i Infotech. The rise in restructured loans was largely expected as the bank had guided for the same at the end of the Q312. RA now account for 1.7% of advances. The bank remains well capitalized with CAR at 18.5% with tier -1 capital at 12.7%.

### Other Income surges on dividend income, treasury gains; fee income sluggish

Other Income recorded a rise of 36%YoY to Rs.2228cr which has come on account of the large dividends received from ICICI Bank UK (Rs.100cr) and from ICICI Prudential Life (~Rs.75cr). The bank however continued to witness sluggishness on its Fee income stream, as corporate banking fee income remains impacted by slowdown in new projects/financial closures. Fee Income declined 3.5% to Rs.1728cr while growing 1.6% sequentially. However fee income from forex/derivatives, transaction banking, remittances continue to witness traction. Treasury income rose sharply to Rs.158cr compared to loss of Rs.196cr driven by higher income on equity portfolio and proprietary trading, partly offset by loss on security receipts (Rs.150-200cr).

### Net Profit advances 31%YoY despite higher provisions.

ICICIBK Q412 bottom-line grew a robust 31% to Rs.1902cr on the back of robust growth in PPOP(+35%) which completely shielded the impact of higher provisions. During the quarter provisions rose 22% YoY to Rs.469cr on account of the higher provisions on restructured assets.

| Quarterly | Mar-12 | Mar-11 | YoY(%) | Dec-11 | QoQ(%) |
|---|---|---|---|---|---|
| Interest Earned | 9175 | 7156 | 28% | 8592 | 7% |
| Interest Expended | 6070 | 4647 | 31% | 5880 | 3% |
| **NII** | **3105** | **2510** | **24%** | **2712** | **14%** |
| Other Income | 2228 | 1641 | 36% | 1892 | 18% |
| Operating Expenses | 2222 | 1845 | 20% | 1917 | 16% |
| **PPOP** | **3112** | **2305** | **35%** | **2687** | **16%** |
| Provisions and Contingencies | 469 | 384 | 22% | 341 | 38% |
| PBT | 2642 | 1921 | 38% | 2346 | 13% |
| Tax | 741 | 469 | 58% | 618 | 20% |
| **Profit After Tax** | **1902** | **1452** | **31%** | **1728** | **10%** |
| | | | | | |
| % of Net NPAs | 0.73% | 1.11% | (38)bps | 0.83% | (10)bps |
| % of Gross NPAs | 3.62% | 4.47% | (85)bps | 3.82% | (20)bps |
| Provisions Coverage% | 80.4% | 76% | | 78.90% | |
| Capital Adequacy Ratio | 18.52% | 19.54% | | 18.88% | |
| | | | | | |
| CASA% | 43.50% | 45.10% | | 43.60% | |

Source: Company, Banhem Research

## Loan Book Profile:

ICICIBK witnessed advances growth of 17.3% to Rs.2537bn driven by domestic corporate loan book and SME advances which together account for 28% of loan book. Domestic loan book grew 14.3%YoY. International loan book grew 26%YoY largely on account of the currency impact, excluding which the growth was 10%YoY.

**Corporate advances grew 26.6%** to Rs.583.6bn. **SME loans grew 29.5%YoY** to Rs.134.5bn. These two segments were instrumental in driving the domestic loan growth of 14.3%. Rural loan share of total advances grew 170bpsQoQ on account of its attempt to meet the PSL norms. Rural loan book stood at Rs.223.28bn (28%QoQ).

**Retail loans** which account for 35.5% of loans grew 7.6%YoY to Rs.900.7bn largely on account of large repayment and prepayment in the home loan segment hurting overall growth. Vehicle loans witnessed the most traction, growing 18%YoY driven by Commercial business loans(20%YoY) and Auto loans(13%YoY). Home loans which account for 64% of retail loan book grew 7% due to large repayments, however disbursements grew at a healthy pace of 26.8%YoY. Other secured loans which account for 2.6% of loans grew 12%YoY.

**The bank continued to pare down its unsecured loan book** which currently account for 3.9% of retail loans compared to 6.1% last year. The bank has successfully pared down its personal loan book, with outstanding declining 58%YoY to Rs.9.91bn. The other component, credit card loans have dropped 9%YoY to Rs.25.23bn.

## Deposits Profile:

ICICIBK reported tepid growth of 13%YoY in deposits to Rs.2555bn on account of the 2% QoQ decline in term deposits and 13%QoQ fall in current account deposits. Term deposits grew 17% YoY to Rs.1444.81bn.

CA deposits were flat on YoY basis however declined sequentially with the float due to NHAI issue no longer available. SA deposits witnessed healthy traction growing 14% YoY and 3%QoQ to Rs.760.46bn. CASA deposits grew 9%YoY however dropped 2%QoQ however the proportionate drop in term deposits helped CASA ratio to remain largely stable(-10bps) sequentially, at 43.5%.

## NIMs improvement a positive

Net interest income witnessed a robust growth of 24% to Rs.3104cr on account of healthy improvement in yields on advances as the full impact of base rate hikes undertaken earlier reflected in the quarter while higher yields on investments also buoyed NII growth. Near zero securitization losses also aided NII. **Net interest margins rose to 3.01% from 2.70% in Q312 primarily driven by domestic NIMs which improved to 3.31% compared to 2.98% in Q312**. NIM on the international business also improved to 1.52% on account of the higher yields on incremental lending.

The management has guided for lower NIMs in the June quarter (Q113) as the impact of the priority sector loans and high rates offered to garner bulk deposits during Q412 would be seen in the first quarter of FY13.

## Asset Quality ratio improves, restructured portfolio grows but anticipated

ICICIBK healthy improvement in asset quality with Gross NPAs declining to Rs.9563cr compared to Rs.9820cr at the end of Q312. Slippages during the quarter stood at Rs.635cr which were the lowest compared to an average of Rs.805cr seen in the previous three quarters. Consequently slippage ratio declined to 1% compared to 1.46% seen in Q312. Gross NPA ratio declined to 3.62% compared to 3.8% and 4.47% in Q312 and Q411 respectively. Net NPA ratio declined to 0.73% compared to 0.83% and 1.11% in Q312 and Q411 respectively. PCR rose to 80.4% vs. 78.9% in Q312. Provisions grew to Rs.469.3cr vs. Rs.341.3cr in Q312.

Restructured portfolio rose to 39% to Rs.4256cr primarily on account of restructuring of GTL and 3i Infotech exposures during the quarter. The management had guided for the same and hence was widely anticipated. Restructured assets now account for 1.7% of advances.

ICICIBK has mentioned that its CDR pipeline remains insignificant and bulk of its restructuring has been completed. Besides, exposures to troubled companies such as HCC, Bharti Shipyard etc remain negligible.

## Subsidiary performance

ICICI Life reported PAT of Rs.328cr compared to Rs.295cr in Q411. ICICI Life maintained its market share of 5.9%. APE during FY12 declined 21% to Rs.3118cr. PAT in FY12 grew to Rs.1384cr from Rs.808cr in FY11.

ICICI General reported loss after tax of Rs.613cr and Rs. 416cr for Q412 and FY12 respectively on account of the recognition of additional pool losses amounting to Rs.685cr post the dismantling of the third party pool. The management expects ICICI General to be profitable in FY13.

ICICIBK UK continued to consolidate its balance sheet. Total assets as on Mar12 have declined to USD4.1bn from USD6.4bn in Mar-11. ICICIBK UK Profit after tax of USD 25.4 mn in FY12 compared to USD 36.6 mn in FY11.

ICICI BK Canada reported Q412 PAT at CAD 10.2mn compared to CAD 6.6mn in Q312 as per IFRS financials. Total assets for the bank were CAD 5.25bn marginally lower than the CAD5.3bn reported in Q312. PAT for FY12 at CAD 34.4mn compared to CAD 32.4mn last year.

The international subsidiaries remain over-capitalized with capital adequacy ratio at 32.4% and 31.7% for UK and Canada respectively. The parent has received a dividend on Rs.100cr from the ICICIBK UK, however given the high capitalization and weak profitability; they continue to remain a drag on consolidated RoEs.

| | FY11 | FY12 |
|---|---|---|
| ICICI Home Finance | 233 | 260 |
| ICICI Securities | 113 | 77 |
| ICICI Securities PD | 53 | 86 |
| ICICI Venture | 74 | 68 |
| ICICI Prudential Asset Management | 72 | 88 |

**Consolidated FY12PAT grew 25.4%YoY to Rs.7643cr.**

**View:**

ICICIBK has performed well on key areas such as net interest margins, asset quality and containment of credit costs. The robust NII growth during the quarter provides confidence of sustainability of core operations however dismal growth in fee income continues. The management has guided for fee income to remain in low double digits but expects traction in granular streams such as forex & derivative fees, transaction banking and remittance fees and retail related fees.

The bank has managed to sustain its low cost deposit base which has been largely unaffected by the high saving deposit rates offered by smaller pvt. sector peers. The healthy level of CASA base should comfort NIMs going forward as the lending rates in the system have begun to move lower. ICICIBK has lowered its base rate by 25bps however the full impact of the same should be seen with a lag. ICICI bank has guided for an improvement in NIMs by 10-15bps in FY13. We expect deposits to grow 18%CAGR over FY12-14e.

The management remains focused on paring down its unsecured portfolio which largely consists of credit card and personal loans. Thus furthering growth in the secured retail loans (Vehicle, mortgage) remains a key strategy for the bank to boost its retail asset base. Corporate loan growth remains healthy and expected to sustain going forward driven by disbursements of past sanctions and working capital loans. We expect advances to grow 18%CAGR over FY12-14e.

The bank has successfully managed asset quality pressures and kept credit costs (68bps) well within the guidance of 70bps. The bank given that bulk of the restructuring is behind it seems confident of sustaining asset quality as well as keeping credit costs within 75bps for FY13. We have however modeled in credit costs of 80bps for FY13.

**Overall we expect ICICIBK to deliver healthy ~19% and 18% growth in NII and PAT over FY12-14e on CAGR basis. We remain extremely positive on ICICIBK given that the management has delivered successfully on its aim to de-risk the balance sheet and has strategically created growth drivers to deliver industry leading growth. The growth drivers are 1) Large low cost deposit base 2) Focus on secured retail portfolio 3) Wide branch network 4) Well capitalized to scale up advances growth. We expect the bank to improve ROAE by 193bps over FY12-14e and expect ROAA to sustain around the 1.5% mark. We have a SOTP target price Rs.1089 wherein we value the standalone bank at Rs. 891(1.8xFY14eABV*) and value the subsidiaries at Rs.197. Maintain BUY**

*BV adj. for NPA and value of investment

| ICICI Bank SOTP (FY14e) Valuation | ICICI Stake | Value /shr | Valuation Methodology |
|---|---|---|---|
| ICICI Bank -Standalone | 100% | 891 | P/BV Multiple 1.8x FY14ABV |
| *Subsidiaries* | | | |
| ICICI Pru Life | 74% | 108 | NBAP margin 16%, 16xFY14NBAP+EV |
| ICICI General | 74% | 18 | 2xFY14 BV |
| ICICI Bank Canada | 100% | 37 | 0.8x FY14 BV |
| ICICI Bank UK | 100% | 25 | 0.8x FY14 BV |
| ICICI Home Finance | 100% | 21 | 1.5xFY14 BV |
| ICICI Bank AMC | 51% | 13 | 4% of FY14AUM |
| ICICI Primary Dealership | 100% | 7 | 1x FY14 BV |
| ICICI Securities | 100% | 8 | 10x FY14 PAT |
| ICICI Venture | 100% | 10 | 12% of AUM |
| Total Value of Key Subsidiaries | | 247 | |
| Holding Co. disc | | 20% | |
| Value of Key Subsidiaries | | 197 | |
| **Value of Bank** | | **1089** | |

| Quarterly (Rs.cr) | Q412 | Q411 | YoY |
|---|---|---|---|
| **NII** | **3105** | **2510** | **24%** |
| Other Income | 2228 | 1641 | 36% |
| Operating Inc | 5333 | 4150 | 29% |
| Operating Exp | 2222 | 1845 | 20% |
| *C/I* | *41.7%* | *44.5%* | |
| **PPOP** | **3112** | **2305** | **35%** |
| Provisions | 469 | 384 | 22% |
| PBT | 2642 | 1921 | 38% |
| Tax | 741 | 469 | 58% |
| **PAT** | **1902** | **1452** | **31%** |

| Asset Quality | Q412 | Q312 | Q212 | Q112 | Q411 |
|---|---|---|---|---|---|
| Gross NPA% | 3.62 | 3.82 | 4.14 | 4.36 | 4.47 |
| Net NPA% | 0.73 | 0.83 | 0.93 | 1.04 | 1.11 |
| PCR% | 80.4 | 78.9 | 78.2 | 76.9 | 76 |

| | | | | | |
|---|---|---|---|---|---|
| Advances% | 17 | 19 | 20 | 20 | 19 |
| Deposits% | 13 | 20 | 10 | 15 | 12 |
| Business% | 15 | 19 | 15 | 17 | 15 |
| NIMs% | 3.01 | 2.70 | 2.61 | 2.60 | 2.74 |
| CASA% | 43.5 | 43.6 | 42.1 | 41.9 | 45.1 |

All figures in Rs.cr

| Profit & Loss | FY11 | FY12 | FY13e | FY14e |
|---|---|---|---|---|
| **NII** | **9016** | **10734** | **12829** | **15179** |
| Other Income | 6648 | 7503 | 8703 | 10183 |
| Total Opex | 6617 | 7850 | 8828 | 10399 |
| **PPOP** | **9048** | **10386** | **12704** | **14964** |
| Provisions | 2287 | 1583 | 2413 | 2648 |
| PBT | 6761 | 8803 | 10292 | 12316 |
| Tax | 1609 | 2338 | 2738 | 3276 |
| **PAT** | 5151 | 6465 | **7554** | **9040** |
| EPS | 44.73 | 56.08 | 65.53 | 78.42 |

| Balance sheet | FY11 | FY12 | FY13e | FY14e |
|---|---|---|---|---|
| **Sources of Funds** | | | | |
| Share Capital | 1152 | 1152 | 1152 | 1152 |
| Reserves& Surplus | 53939 | 59250 | 64470 | 70916 |
| **Deposits** | **225602** | **255500** | **301490** | **355758** |
| Borrowings | 109554 | 140165 | 162591 | 195110 |
| Other Liabilities | 15986 | 17577 | 17577 | 17577 |
| **Total Liabilities** | **406234** | **473647** | **547281** | **640513** |
| **Application of Funds** | | | | |
| Cash and Bal with RBI | 20907 | 20461 | 19438 | 18466 |
| Bal. with Bks and money at call | 13183 | 15768 | 18133 | 19947 |
| Investments | 134686 | 159560 | 183494 | 211018 |
| **Advances** | **216366** | **253728** | **299399** | **353290** |
| Net Block | 4744 | 4615 | 5076 | 5584 |
| Other Assets | 16347.47 | 19515.39 | 21740 | 32208 |
| **Total** | **406234** | **473647** | **547281** | **640513** |

| Key Figures | FY11 | FY12 | FY13e | FY14e |
|---|---|---|---|---|
| EPS | 44.73 | 56.08 | 65.53 | 78.42 |
| BV | 478.3 | 524.0 | 569.3 | 625.2 |
| ABV | 457.4 | 507.8 | 551.0 | 602.1 |
| NIMs (reported) | 2.6% | 2.7% | | |
| NIMs (calculated) | 2.5% | 2.6% | 2.7% | 2.7% |
| GNPA | 4.5% | 3.6% | 3.7% | 3.8% |
| NNPA | 1.1% | 0.7% | 0.7% | 0.7% |
| CAR | 19.5% | 18.5% | 19.0% | 18.5% |

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**RATINGS**

| Buy | Accumulate | Neutral | Reduce | Sell |
|---|---|---|---|---|
| >15% | +5>15% | +5%/-5% | -5%<-15% | >-15% |

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