



Ajcon's Xpress Idea

ICICI Bank Ltd. – Attractively valued in private sector space - "BUY"

January 02, 2016

CMP: 263 | Target: Rs. 359 | Upside: 37% | Market Capitalisation: Rs. 1,529bn. | FV: Rs. 2

About the Company

ICICI Bank is India's largest private sector bank with more than 5% market share in credit. Its subsidiaries include India's leading private sector insurance companies and among India's largest securities brokerage, asset management and private equity companies. The Bank's presence spans 17 countries, including India. The bank has a pan-India extensive network of 4,054 branches and around 12,964 ATMs. The bank has a large overseas presence (overseas loans comprise 23.3% of total loans).

Price performance

Price performance (%) – 1 month: (2.70), 3months: (1.63), 6 months: (15.96), 12 months: (27.34)



Q2FY16 result update

Asset quality stable with controlled provisions: ICICI Bank PAT stood at Rs. 30.3 bn led by steady NII and controlled provisions. On the asset quality front, GNPLs witnessed a rise of 5% on Qoq basis led by slippages of Rs. 22.4 bn (of which Rs. 9.3 bn was from restructured assets) while the outstanding restructured assets declined to 2.9% of total loans at Rs. 118.7 bn. The bank did fresh refinancing of Rs20bn under 5/25 scheme. Management re-affirmed its guidance of stressed accretion to be lower in FY16 than FY15.



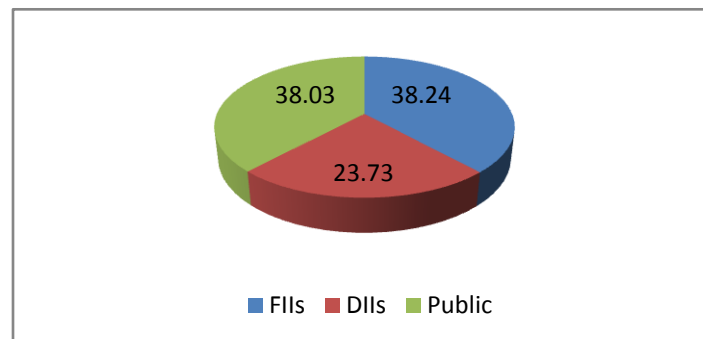
Slippages remain high but guidance on FY16 positive: Slippages stood high at Rs. 22.4bn versus Rs. 16.7bn in Q1FY16 with those from restructured book playing spoil sport (contributed >45% of slippages versus >50% for full year FY15). However, ICICI expects this trend to stabilise given: (a) reduced lumpy exposure (largest account contributes ~5% to restructured book); and (b) improving macros.

NII remains steady: The bank witnessed 13% yoy growth in NII led by steady CASA mix at 45%. NIMs declined marginally by 2 bps on qoq basis led by 6bps qoq decline in domestic margins while overseas NIMs expanded to 2% on cheaper refinancing opportunities. Fee income growth stood low at 6% on yoy basis owing to weak corporate loan demand while the proportion of retail in total fees has now increased to 65%.

Decent advances growth led by strong growth in retail loans: Advances saw a decent growth of 13% on yoy basis led by strong growth of 25% on yoy basis in retail with contribution from all the segments, especially housing and unsecured. Retail portfolio now accounts for ~44% of the total loan mix vs ~40% last year. The main drivers leading to the growth in the retail loan book were Personal loans and Home loans, which grew by 56% and 25% yoy respectively. The corporate book grew 7.2% yoy. Advances were made mainly towards working capital requirements while some of the incremental lending was done to PSU companies and other better rated companies. Management has guided for 18-20% loan growth with 25% growth in retail for FY16 and stable margins at ~3.5%.

General Insurance business stake sold at premium valuations: ICICI Bank sold 9% stake in general insurance subsidiary to foreign venture partner (Fairfax Financial Holdings Limited) valuing the total entity at Rs172.2bn which is >12x the networth invested in this business and >30x FY15 profits.

Shareholding Pattern as on Sep. 2015 (%)



Source: BSE

Outlook & Valuation

We believe the current valuation of the Bank discounts in factors in the relatively higher stressed assets in the bank's books and is substantially cheaper than its peers like like HDFC Bank, Axis Bank, Kotak Mahindra Bank, Karur Vysya and Indusind Bank in the private sector space.

With due consideration to factors like a) strong liability franchise, b) healthy CASA base c) ICICI Bank's guidance of curtailing stress in FY16 below FY15 level, d) triggers from non-banking subsidiaries and current distressed banking business valuations, we recommend a "BUY" on the stock



with a price target of Rs. 359 on SOTP basis (2x FY17E BV for the standalone bank) an upside of 37%, over a period of 3 months.

SOTP Valuation Summary

Particulars	Target multiple	Value per share (Rs.)
ICICI Bank	2x FY17estimated Book Value by street	300
Life Insurance	25x FY17E NBP by street	24
General Insurance	30x FY14 PAT	15
Others (Home Finance, AMC, VC, Securities PD and Overseas Subsidiaries)		20
SOTP Value		359



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Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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