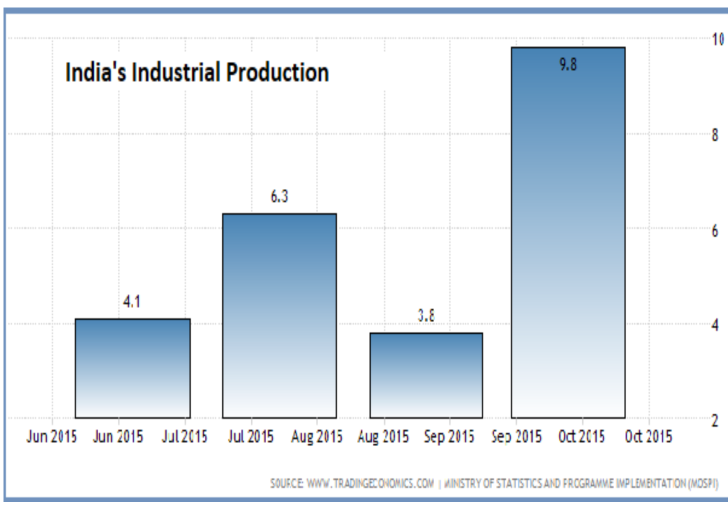
ICICI Bank Ltd.

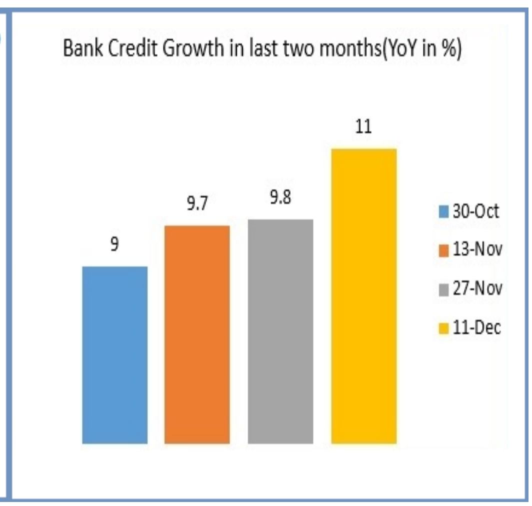
CMP: Rs.264

Dear members,

The Indian stock market is remained highly volatile due to uncertainty around the passage of GST bill, Fed rate hike and major factor being the continuing down trend in the commodity prices which already have touched multi year lows. This volatility in the markets is expected to continue further during the next quarter.

The major banking stocks have corrected decently with their share prices are trading nearly to 52 – week lows. As the Indian economy does well with over 7.5%+ growth in recent times, banks tend to be one of the biggest beneficiaries due to the demand for credit and the fact that market conditions are suitable for growing the loan book. The recent industry data and credit growth data being very positive, the banking stocks are looking very attractive. One stock which has corrected significantly is ICICI Bank Ltd. The stock is trading at nearly 52 – week low at less than 2x of its book value.





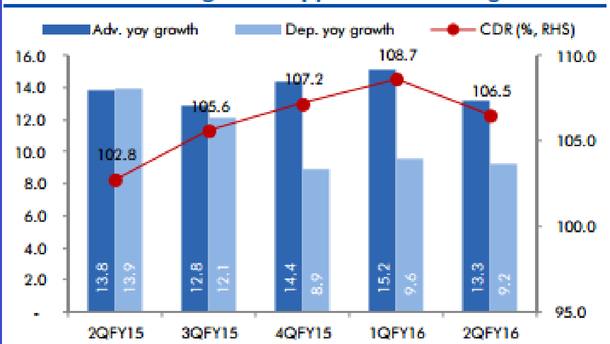
ICICI Bank is India's largest private sector bank, with more than 5% market share in credit. The bank has a pan-India extensive network of 4,054 branches and around 12,964 ATMs. The bank has a large overseas presence (overseas loans comprise 23.3% of total loans). The bank also has market-leading subsidiaries in life insurance, general insurance and asset management segments.

Key rationale behind ICICI Bank Ltd:

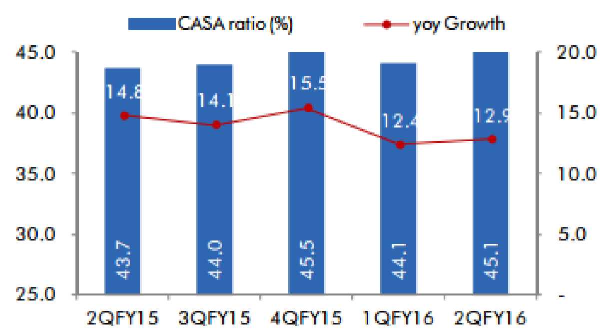
ICICI Bank is one of the largest private banks in India with rich history. The bank is ready to leverage its strong network across India on the back of reduced interest rates, increasing retail credit demand, revival in industrial growth and economic cycle.

The bank continued to grow its business with increased focus on retail segment. Strong CASA flow helped the bank to maintain its margin even though it cut its base rate by 25 bps in April 2015 and 5 bps in June 2015. Asset quality pressure remained during Q2FY16. However, the management guidance on asset quality remained intact for FY16E. Strong liability franchise, increasing retail penetration & healthy capital position provides comfort to the Bank to exploit future growth opportunities. Overall, retail strategy has been shaping well amidst challenging environment.

Retail segment supports Advances growth



CASA ratio rises, CASA deposits up 12.9% yoy



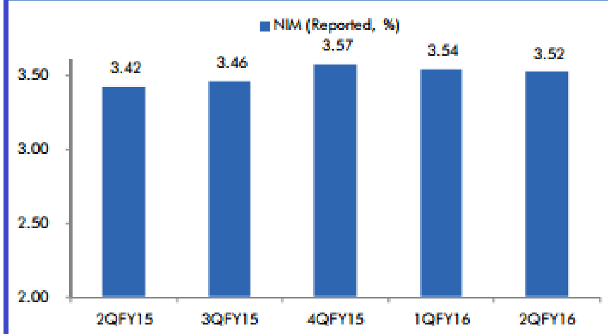
Source: Company, Angel Research

During 2QFY2016, the bank's advances grew by 13.3% yoy (2.5% qoq), aided by healthy retail loan book growth of 25.2% yoy. 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. Retail contribution to total loans increased to 44.0% as compared to 39.8% in the corresponding quarter of the previous year. The corporate book grew 7.2% yoy, where advances were mainly towards working capital requirements while some of the incremental lending was done to PSU companies and other better rated companies. Deposits growth was modest at 9.2% yoy, while CASA deposits saw a moderate growth of 12.9% yoy, resulting in improvement in CASA ratio by 144bp yoy to 45.1% as of 2QFY2016. The bank is well placed in terms of capital required to support its growth. Given its current capital position, the bank is of the view that the bank does not need to raise further capital till March 2018.

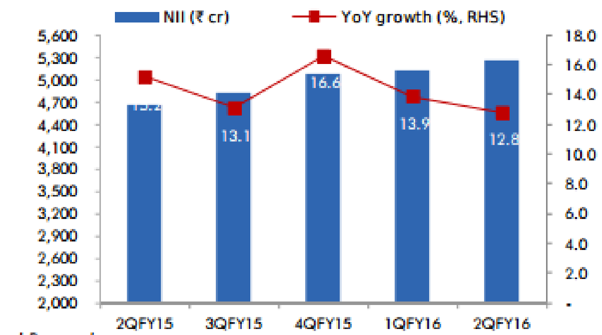
<u>Stable NIM:</u>

NIM (Net Interest Margin) was stable sequentially as it declined marginally by 2 bps to 3.52%. However, the domestic NIM declined by 6 bps q-o-q to 3.84%. The sequential decrease in domestic margins was largely on account of lower tax related interest income (Rs 0.5 bn as against Rs 1.0 bn in Q1FY16). In addition, the bank also reduced its base rate by 5 bps on June 26, 2015. We expect NIM of the bank to decline by 8-10 bps in Q3FY16E due to 35 bps base rate reduction effective from October 05, 2015. However, cost of fund will also come down gradually during H2FY16E which will help the bank to maintain NIM around current level in H2FY16E.

NIM dips marginally by 2bp on qoq basis



NII growth trends



Source: Company, Angel Research

The asset quality of ICICI Bank deteriorated further in Q2FY16 as Gross NPA and Net NPA increased 9 bps and 7 bps sequentially to 3.77% and 1.65%, respectively. In absolute terms, GNPA / NNPA of bank increased 5% / 7% q-o-q to Rs 159 bn and Rs 68 bn, respectively. PCR (Provision Coverage Ratio) decreased further by 80 bps q-o-q to 57.4%. However, the management stood by its earlier guidance of lower slippages and fresh restructuring in FY16E as compared to FY15 (Rs 133 bn).

ICICI Bank has emerged as the market leader with a market share of about 32%, based on value of mobile banking transactions in June and July 2015. Currently, about 85% of savings accounts opened for the household segment every month are through Tab Banking resulting in improved customer experience, faster turnaround time and better efficiency of operations. As a result of the bank's various initiatives on digital channels, currently about 61% of total transactions for the bank's savings account customers are done through new age digital channels and less than 10% of the transactions are done through branches. The bank's aggressive focus on technology will not only help the bank to gain competitive advantage but it will also reduce the bank's cost to income ratio from the current level.

The performance of banks subsidiaries which are main leaders in their segments is very good. In the insurance business the company continues to retain its market leadership among the private players and had a market share of about 9.0% in H1FY16.

At the current market price of Rs.263, the stock is trading at P/ABV of 1.8x and 1.5x for FY16E and FY17E respectively. The key subsidiaries at ICICI from a valuation perspective are the life insurance and general insurance operations. On sum of the part basis, the share price is trading well below its intrinsic value. We believe the stock is available at very cheap valuations and can be good stock for the next six to eight quarters where risk reward is clearly in favor of investor.