ICICI Bank Limited

Instrument	Amount (in Rs. crore)	Rating Action
Basel III Compliant Tier I Bonds Programme	3,500	[ICRA]AA(hyb)(stable); assigned
Lower Tier II Bonds Programme	22,000 (outstanding as on Nov-16 is 14,936)	[ICRA]AAA(stable); reaffirmed
Unsecured Redeemable Long Term Bonds Programme	35,000 (outstanding as on Nov-16 is 18,450)	[ICRA]AAA(stable); reaffirmed
Subordinated Debt Programme*	137	[ICRA]AAA(stable); reaffirmed
Long Term Bonds programme#	1,036	[ICRA]AAA(stable); reaffirmed
Term Deposits Programme	NA	MAAA(stable); reaffirmed
Certificate of Deposits Programme	50,000	[ICRA]A1+; reaffirmed
Long Term Borrowings	146	[ICRA]AAA(stable); withdrawn
Lower Tier II Bonds Programme	1,050	[ICRA]AAA(stable); withdrawn

**taken over from erstwhile Bank of Rajasthan Limited*
#taken over from erstwhile ICICI Limited

ICRA has assigned the rating of [ICRA]AA(hyb)(stable) (pronounced ICRA double A hybrid with a stable outlook) to the Rs. 3,500 crore Basel III Compliant Tier I Bonds Programme of ICICI Bank Limited (IBL, or, the bank)[1]. ICRA has also reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) with a stable outlook to Rs. 22,000 crore of Lower Tier II Bonds Programme and Rs. 35,000 crore Unsecured Redeemable Long Term Bonds Programme. ICRA also has reaffirmed the rating of [ICRA]AAA(stable) to the debts taken over by IBL from the erstwhile ICICI Limited and erstwhile The Bank of Rajasthan Limited (long term bonds of Rs. 1,036 crore and sub debt of Rs. 137 crore). Further, ICRA has reaffirmed the rating of MAAA (pronounced M triple A) rating with stable outlook outstanding to the Term Deposit Programme and [ICRA] A1+ (pronounced ICRA A one plus) rating to Rs. 50,000 crore Certificates of Deposit Programme of IBL. ICRA has also withdrawn the rating of [ICRA]AAA(stable) assigned earlier to Rs. 146 crore Long Term Borrowings and Rs. 1,050 crore Lower Tier II Bonds Programme of IBL as the instruments have matured.

The letters “hyb” in parenthesis suffixed to a rating symbol stand for “hybrid”, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à-vis conventional debt instruments.

Furthermore, the rating for the Basel III compliant Tier I bonds is two notches lower than the Basel III complaint Tier II bonds of the bank as these instruments have the following loss absorption features that make them riskier.

- Bank has full discretion at all times to cancel distribution/payments and cancellation of discretionary payments shall not be an event of default.
- The minimum capital conservation ratio applicable to the banks may restrict the bank from servicing these Tier I bonds in case the Common Equity Tier-I falls below limit as prescribed by RBI.

These Tier I bonds are expected to absorb losses through Write-Down Mechanism at the Objective PreSpecified Trigger Point fixed at Bank’s Common Equity Tier-I ratio as prescribed by RBI, 5.5% till March 2019 and thereafter 6.125% of Total Risk Weighted Assets (RWA) of the Bank or when the “Point of Non Viability” (PONV) trigger is breached in the RBI’s opinion.

Given the above distinguishing features of the Tier I bonds, ICRA has notched down the rating of Tier I bonds by two notches from the rating on Tier II instruments. The rating on Tier I bonds is supported by sound capitalization levels (CRAR: 16.67%; CET I capital of 12.63% and Tier I Capital: 13.26% as on September 30, 2016) and adequate level of distributable reserves (Rs. 20,275 crore, which is ~3% of RWA as on March 31, 2016). In a situation of in-adequacy of profits or loss during the year, these distributable reserves can be

[1] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

utilised for servicing the coupon for the year. The distributable reserves as % of RWA are also relatively lower than similar sized peer banks due to lower profitability and higher dividend payout ratio in relation to similar sized peer banks. The rating on these Tier I bonds also reflect pressure on profitability which is expected to continue in near term due asset quality related concerns. However, adequate operating profits and additional buffers in terms of high capital levels and the ability to monetize its investments provide comfort.

The highest credit quality ratings on other debt instruments are supported by IBL's strong position in the Indian financial system, strong operating performance, its sound capitalization levels and its extensive corporate relationships, besides its retail franchise. ICRA has taken note of the increase in slippages in H2FY2016 and H1FY2017. In light of the bank's exposure to stressed sectors, the pace of fresh NPA generation as well as recoveries from the existing stock of Gross NPAs and standard restructured advances would be a key monitorable. Going forward, the ratings would be sensitive to the bank's ability to improve its asset quality indicators.

The loan book of the bank stood at Rs. 435,264 crore as on March 31, 2016 as against Rs. 387,522 crore as on March 31, 2015, indicating a growth of ~12%. In H1FY2017, on YoY basis, the advances grew by further 10.9% to Rs. 454,256 crore. As at September 30, 2016, wholesale advances constituted 27.7% of the Bank's overall advances (28.8% as at March 31, 2015 and 27.5% as at March 31, 2016), retail advances constituted 47.9% (42.5% as at March 31, 2015 and 46.6% as at March 31, 2016), overseas advances constituted 20.1% (24.3% as at March 31, 2015 and 21.6% as at March 31, 2016) and the SME advances accounted for 4.3% (4.4% as at March 31, 2015 and 4.3% as at March 31, 2016).

Headline asset quality of the Bank has deteriorated on account of increase in reported slippages in H2FY2016 and H1FY2017. Consequently, there was an increase in Gross NPAs to 6.82% and Net NPAs to 3.57% as at September 30, 2016 as compared to 3.78% and 1.61% as at March 31, 2015 and 5.82% and 2.98% as at March 31, 2016. The fresh NPA generation rate has remained high during the current year with annualised fresh NPA generation of 7.94% and 7.39% during Q1 and Q2FY2017 and with net restructured book of Rs 6,336 crore (~1.4% of net advances) as on September 30, 2016 (Rs 8573 crore (2% of net advances) in March 2016), the NPA generation rate is expected to remain high in the current year. Due to fresh NPA generation, provisioning cover (excluding prudential/ technical write-offs) has declined to 50% as at September 30, 2016 as compared to 59% as at March 31, 2015 and 51% as at March 31, 2016. Consequently Net NPA as a % of net worth stands higher at 17.3% as at September 30, 2016 as compared to 7.9% as at March 31, 2015 and 14.8% as at March 31, 2016. In ICRA's view, while retail advances asset quality has held up well, the same for the wholesale book shall remain a key monitorable.

CASA stood at ~46% as at September 30, 2016 and remains stable as compared ~45% in March 31, 2015 and ~46% in March 31, 2016. CASA ratio remains one of the highest amongst peer group and a significant credit positive in light of more granularity of depositor base as well as lowering the cost of borrowings. As at September 30, 2016, the bank had 4,468 branches and 14,295 ATMs.

Despite a decline in yield on advances, lower cost of funds resulted in a marginal improvement in Net Interest Margins from ~3.07% in FY2015 to 3.11% during FY2016. Historically, fee income (transaction based income and forex income) has been a strong source of income for the Bank at ~1.45% of average assets. However, in FY2016, fee income growth was muted at ~8%% YoY as against ~11 in FY2015. This was offset by the gains in treasury income primarily driven by stake sale in the insurance subsidiaries in FY2016. While corporate fee income growth was muted, in FY2016, retail fees grew 13% YoY and its share is 65% in total fee income. The operating expenses remained stable at 1.8-1.9% of average assets during FY2016 and FY2015. With higher slippages, credit provisions for the bank were higher at 1.7% of ATA in FY2016 (0.6% in FY2015). Overall the bank reported PAT to ATA was 1.4% in FY2016 (1.8% in FY2015) and ROE was 11.4% (14.6% in FY2015).

In H1FY2017, as earlier guided by management, NIMs were lower at ~2.84% on account of non-accrual of income on the higher level of additions to non-performing assets. During Q2FY2017, the bank created additional provisions of Rs. 3,588 crore, of which Rs. 1,678 crore were provisions on standard loans, Rs. 395 crore towards the loss on sale of NPAs (which can be amortised) and Rs. 1,515 crore towards floating provisions. The impact of these provisions was neutralized by profit on sale of investment in ICICI Prudential Life. Consequently, the overall profitability improved with PAT/ATA of 1.45% and RONW of 11.91% in H1FY2017 as against 1.08% and 8.58% respectively in H2FY2016. Going ahead, the pressure on profitability is expected to continue in near term due to pressure on asset quality, however operating profits remain stable and the bank has additional buffers in terms of high capital levels and the ability to monetize its investments.

Bank Profile

IBL is the largest private sector bank in India. For the year ended March 31, 2016, IBL reported net profit of Rs. 9,726 crore on total assets of Rs. 7.21 lakh crore and had a regulatory capital adequacy of 16.64% (Tier I:13.09%).

For the half year ended September 30, 2016, IBL reported net profit of Rs. 5,335 crore on total assets of Rs. 7.52 lakh crore and a regulatory capital adequacy of 16.67% (Tier I: 13.26%). The bank reported Gross NPA% at 6.82% and Net NPA% at 3.57% as on September 30, 2016. With a presence in the banking, insurance, asset management, investment banking and private equity, the ICICI Group is an important and large player in the Indian

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