

ICICI Bank

BUY

NIMs continue to decline; Asset quality improved

Summary

ICICI Bank's (one of our top picks) NIM continue to decline during Q3FY24 led by higher cost of deposits. Further, management guided for margin pressure to sustain in Q4FY24 however, extent of compression will be lower. Asset quality improved led by lower slippages. Credit growth remains strong led by domestic book. We expect 16% CAGR (FY23-26E) loan growth. Bank reported strong profitability growth at 24% YoY led by decline in provisions. PPOP grew by 1% YoY led by higher operating expense. Lower credit costs led by better recoveries resulted in best return ratios in last few years; RoA at 2.3%. We have moved to FY26E estimates and expect EPS to grow at 17% CAGR (FY23-26). We maintain 'BUY' with a new TP of Rs.1,350 (Rs.1,240), valuing parent business at Rs.1,192 at 2.7X P/ABV FY26E and rest for the subsidiaries.

Key Highlights and Investment Rationale

- **Credit growth maintained:** Credit growth remains strong at 18.5% YoY (18.3% YoY Q2FY24); while overseas book reported 10% YoY growth. Retail / SME portfolio continue to grow strongly at 21%/28% YoY respectively while corporate book (incl. IBPC) growth declined to 6% YoY. Deposit growth remain strong at 19% YoY (19% YoY Q2FY24); Avg CASA ratio at 39% vs 41% QoQ.
- **NIMs declined by 10bps QoQ:** NIMs declined by 10bps QoQ to 4.43% led by increase in cost of deposits (up 19bps QoQ). Management highlighted that NIM should largely remain in the range of FY23 margins.
- **Asset quality improved:** Asset quality improved as GNPA stood at 2.3% vs 2.48% QoQ; PCR stood at 80.7% which is the highest among its peers.
- **Outlook:** ICICI Bank has been investing heavily in building its digital capabilities, which has helped it to expand its customer base and improve its operational efficiency. We remain positive on ICICIB given its ability to maintain RoA above 2% for foreseeable future.

TP	Rs.1,350
CMP	Rs.1,008
Potential upside/downside	34%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	0.2	8.1	15.8
Rel to Sensex	(1.1)	(1.1)	(2.0)

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	56.9	63.0	71.9
Consensus	55.7	61.0	69.9
% difference	2.2	3.3	2.8

Key Stock Data	
Bloomberg/Reuters	ICICIB IN/ICBK.BO
Sector	Banking
Shares o/s (mn)	7,016
Market cap. (Rs mn)	7,073,901
3-m daily average value (Rs mn)	183.0
52-week high / low	Rs1,043 / 796
Sensex / Nifty	71,424 / 21,572

Shareholding Pattern (%)	
Promoters	0.0
FII	43.7
DII	42.5
Public	13.8

Financial snapshot

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	4,74,661	6,21,286	7,35,870	8,33,191	9,55,761
Change (yoy, %)	22%	31%	18%	13%	15%
Net Profit	2,33,395	3,18,965	3,98,919	4,42,214	5,04,204
Change (yoy, %)	44%	37%	25%	11%	14%
EPS (Rs)	33.6	45.7	56.9	63.0	71.9
Change (yoy, %)	43%	36%	24%	11%	14%
ABV (Rs)	223.8	267.9	317.2	370.7	445.6
PER (x)	29.4	21.6	17.3	15.7	13.7
P/ABV (x)	4.4	3.7	3.1	2.7	2.2
ROE (%)	14.7	17.2	18.3	17.3	16.9
ROA (%)	1.8	2.1	2.3	2.2	2.2
GNPA (%)	3.8	2.9	2.2	2.4	2.6
NNPA (%)	0.8	0.5	0.5	0.6	0.7
CAR (%)	19.2	18.3	17.7	18.3	18.6

Source: IDBI Capital Research

Bunty Chawla

Bunty.chawla@idbicapital.com
+91-22-2217 1843

Conference Call Highlights

Operational Performance:

- Impact of interest on income tax refund on net interest margin stood at 4bps
- Sequential NIM compression reflects the lag effect of deposit re-pricing impact (mainly on the corporate deposits).
- Domestic NIM stood at 4.52% in Q3FY24 vs 4.61% in Q2FY24 (4.79% YoY).
- 49% of total domestic loans linked to repo rates, 18 % to MCLR, 2% to other external benchmarks and balance are fixed interest rate loans.
- Employee costs (30.5% YoY) have gone up mainly on account of increased employee base (up 1700 in Q3FY24 and 23,600 YoY).
- Further, the employee costs increase has slowed down in Q3FY24 since the bank is now looking to moderate the increase in headcount as compared to the pace seen in past 4-5 quarters.
- 123 new branches in Q3FY24 and 6371 total branches at end of Q3FY24.
- Technology spends stood at 9% of opex for 9M FY24.
- Provisions included the impact of RBI's circular on provisions for investments to the tune of Rs.6.27bn.

Advances and Deposits:

- The bank's average LCR stood at ~121% for Q3FY24.
- Retail loan portfolio (46.4% of the overall loan portfolio) grew by 21.4% YoY and 4.5% QoQ.
- Business banking portfolio grew by 31.9% YoY and 4.6% QoQ while the SME portfolio grew by 6.5% QoQ and rural portfolio grew by 4.6% QoQ.
- Overseas loan portfolio (3.4% of the total loan book) in US\$ terms grew by 9.8% YoY.
- Non India linked corporate portfolio declined by ~30.4% YoY.
- Builder portfolio constitutes ~4% of the total loan portfolio.
- The bank focussed on increasing pricing, further refining credit parameters and optimizing fund sourcing cost during the quarter resulting in lower disbursal of personal loans.
- The retail deposit rates have now stabilized largely. The wholesale deposit rates saw some hardening in Q3FY24.

Asset Quality:

- The bank held contingency provision funds of ~Rs.131bn (1.1% of total loans) at the end of Q3FY24.
- Net addition in GNPA pertaining to retail rural banking portfolio were ~Rs.23.02bn while there were net deletions in GNPA pertaining to corporate and SME portfolio of ~Rs.19.39bn for Q3FY24.
- GNPA additions from retail rural and business banking portfolio were Rs.54.82bn (vs Rs.43.64bn QoQ) while Recoveries and upgrades stood at Rs.30.8bn (vs Rs.30.19bn QoQ.)
- GNPA additions from Kisan credit card portfolio stood at Rs. 6.14bn (typically higher in Q1 and Q3 as seen historically)
- The bank witnessed increased provisioning on AIF investments. There was an upgrade in a couple of large corporate accounts however the same was set off by increased AIF provisioning.

Future Guidance

- The Bank will continue to strategically focus on growing its PAT (excluding treasury income) by adopting a 360 degree customer centric approach while expanding the bank's reach and providing enhanced digital offerings to customers.
- The management re-iterated its commitment to continue investing in technology, human capital and brand improvement.
- CD ratio has historically hovered around the mid 80s and the management expects the same to remain stable at current levels.
- The management expects some further margin compression in Q4FY24, however the extent of margin compression should be lower than the levels seen in Q2 and Q3FY24.
- The management does not expect the credit costs to spike up materially, however, there may be marginal fluctuations in the same.
- The management expects a major impact of re-pricing of deposits to show in Q4FY24 with nominal spill-over effect to Q1FY25.
- The bank follows a bottom-up approach for branch opening. Currently, the management has not set any specific target on the number of branch openings.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Interest Income	3,66,946	2,85,056	3,49,204	28.7	5.1
Interest Expenses	1,80,160	1,20,407	1,66,125	49.6	8.4
Net Interest Income	1,86,786	1,64,650	1,83,079	13.4	2.0
NIM (%)	4.43	4.65	4.53	-22 bps	-10 bps
Non-Interest Income	60,971	50,236	57,767	21.4	5.5
Operating Income	2,47,756	2,14,886	2,40,846	15.3	2.9
Staff Cost	38,127	29,212	37,254	30.5	2.3
Other Op Exp	62,393	52,962	61,299	17.8	1.8
Total Operating Expenses	1,00,520	82,174	98,553	22.3	2.0
<i>Cost to Income (%)</i>	<i>40.6</i>	<i>38.2</i>	<i>40.9</i>	<i>233 bps</i>	<i>-35 bps</i>
Operating Profit	1,47,236	1,32,712	1,42,293	10.9	3.5
Provisions	10,494	22,574	5,826	(53.5)	80.1
PBT	1,36,743	1,10,138	1,36,466	24.2	0.2
Tax	34,027	27,019	33,856	25.9	0.5
<i>-effective tax rate</i>	<i>24.9</i>	<i>24.5</i>	<i>24.8</i>	<i>35 bps</i>	<i>7 bps</i>
PAT	1,02,715	83,119	1,02,610	23.6	0.1
EPS (Rs)	14.6	11.9	14.6	22.9	(0.1)
BV (Rs)	323.3	274.1	308.5	18.0	4.8
Deposits	1,33,23,145	1,12,20,495	1,29,47,417	18.7	2.9
Advances	1,15,37,710	97,40,475	1,11,05,421	18.5	3.9

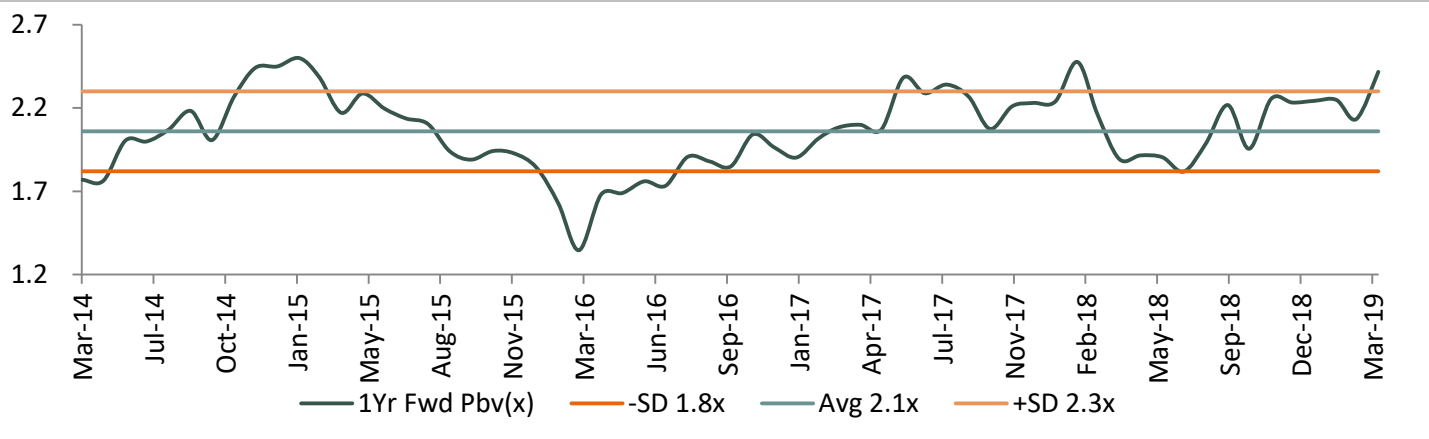
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	3.6	4.1	4.3	4.2	4.2
Fees	1.0	1.0	1.2	1.1	1.1
Other Income	0.4	0.3	0.1	0.2	0.2
Net Revenue	5.0	5.5	5.7	5.5	5.5
Op.Exp	2.0	2.2	2.3	2.2	2.2
Op.Profit	3.0	3.3	3.3	3.3	3.2
Provisions	0.7	0.4	0.2	0.3	0.3
PBT	2.3	2.8	3.1	3.0	2.9
Tax	0.6	0.7	0.8	0.7	0.7
ROA	1.8	2.1	2.3	2.2	2.2
Leverage (x)	8.3	8.1	7.9	7.8	7.7
ROE	14.7	17.2	18.3	17.3	16.9

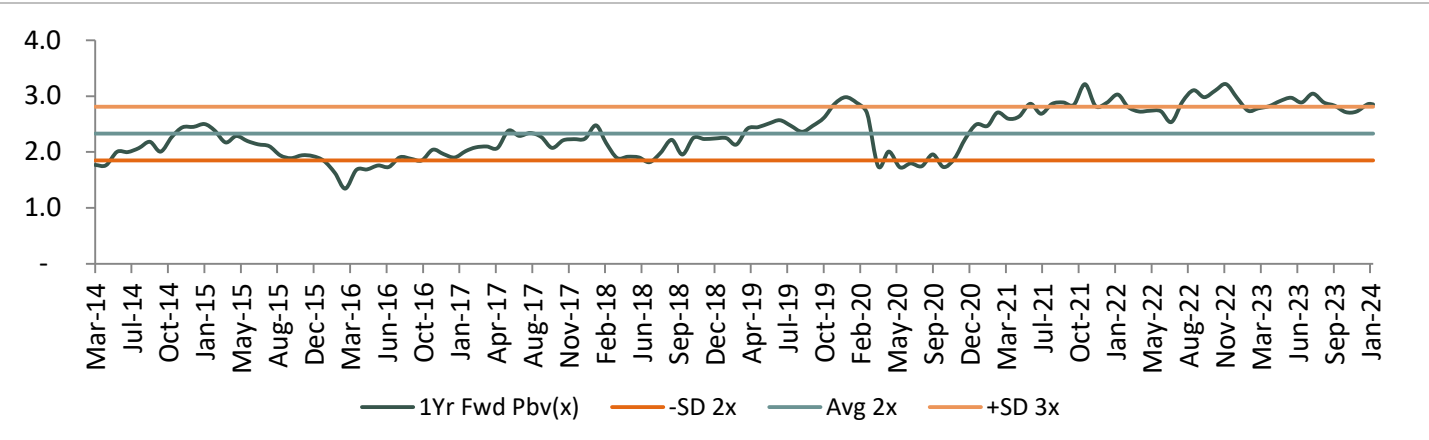
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



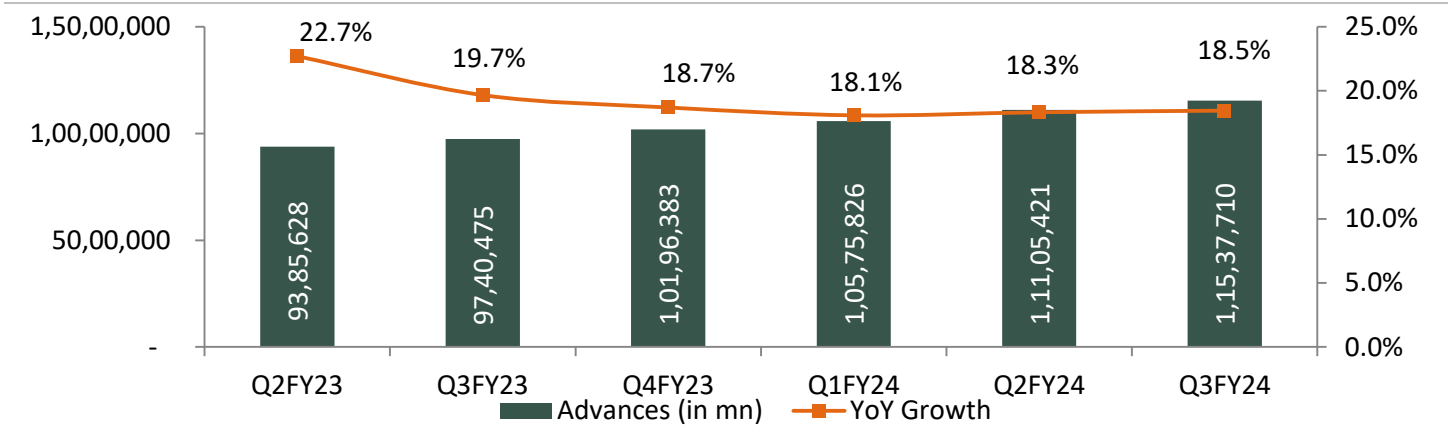
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-24)



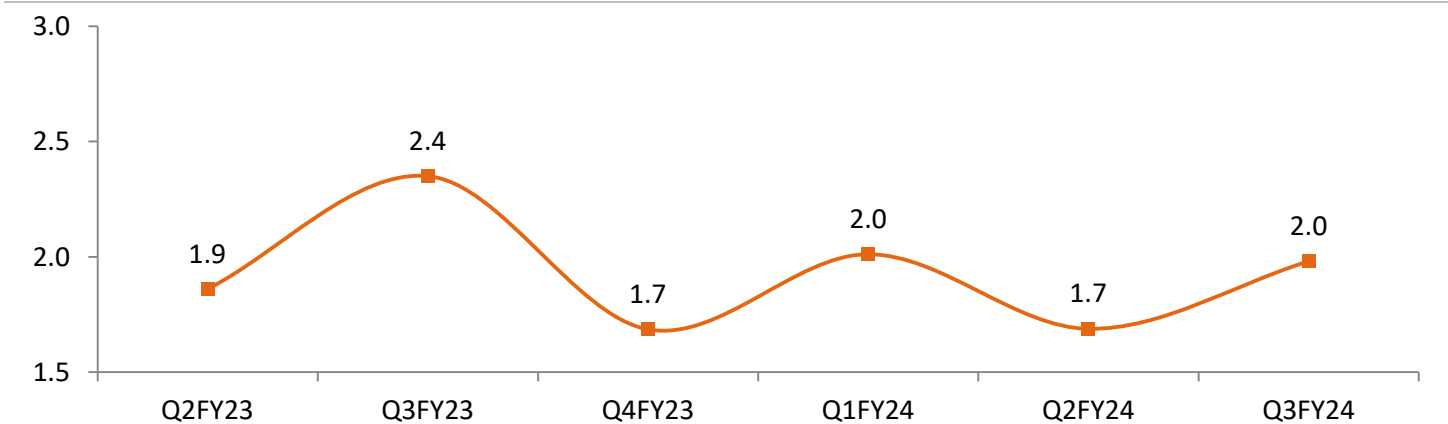
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth (YoY) continued to remain strong



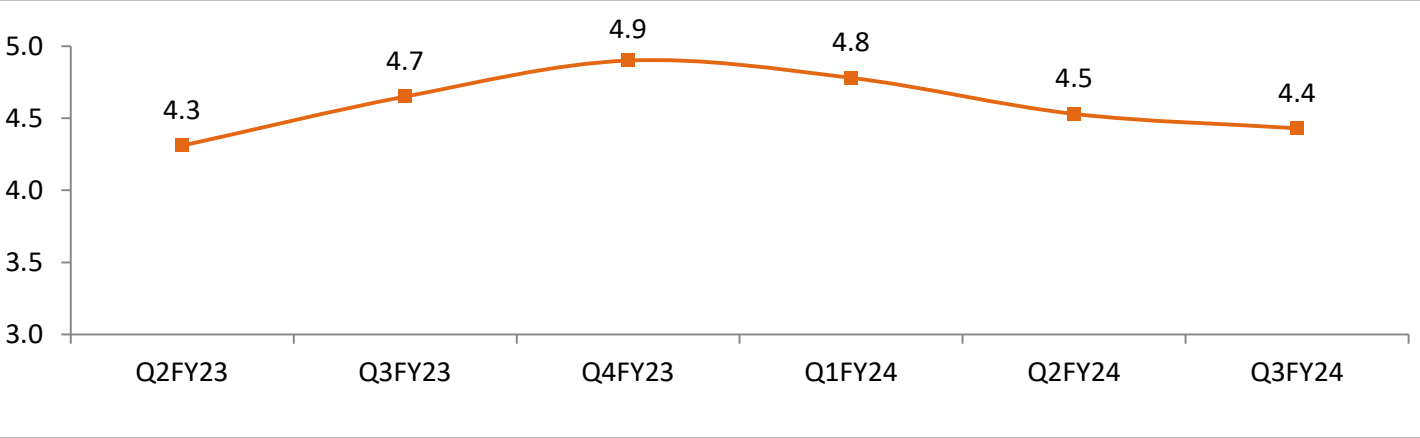
Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio inched up on a sequential basis



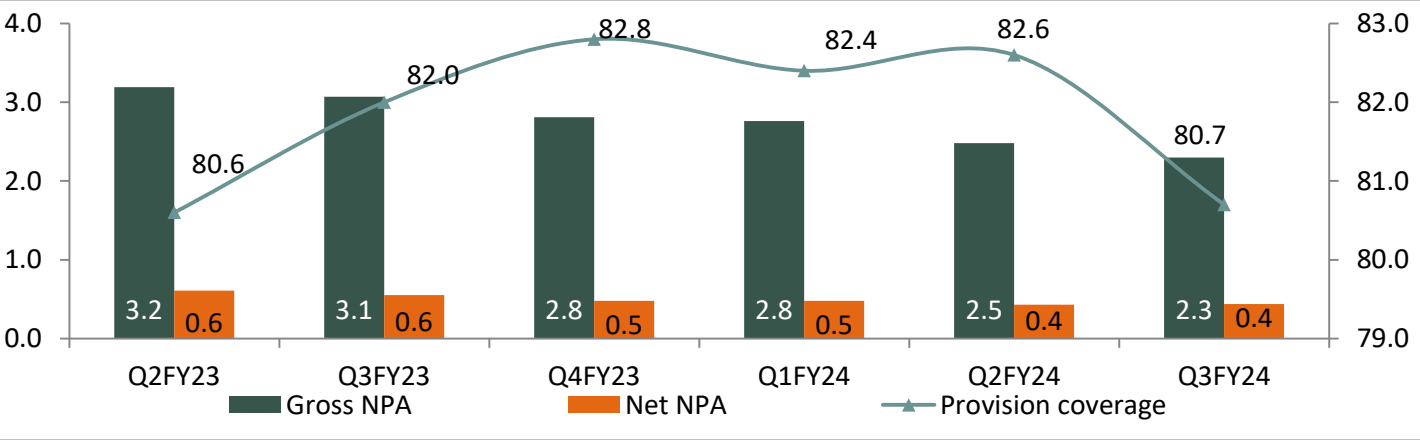
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins witnessed downtick on a sequential basis on account of re-pricing of deposit book



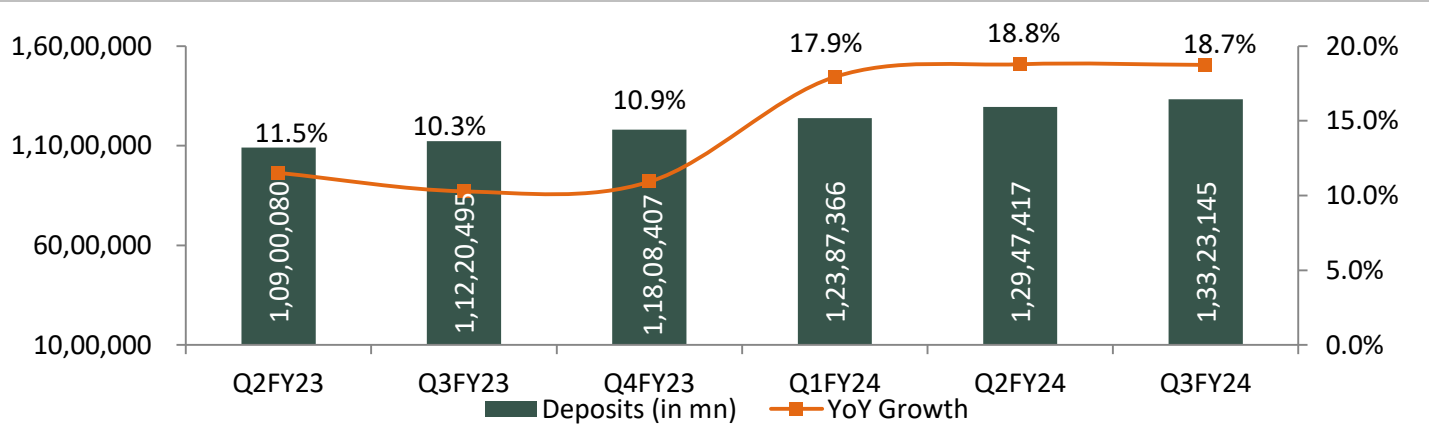
Source: Company; IDBI Capital Research

Exhibit 8: Asset Quality improved on a QoQ basis



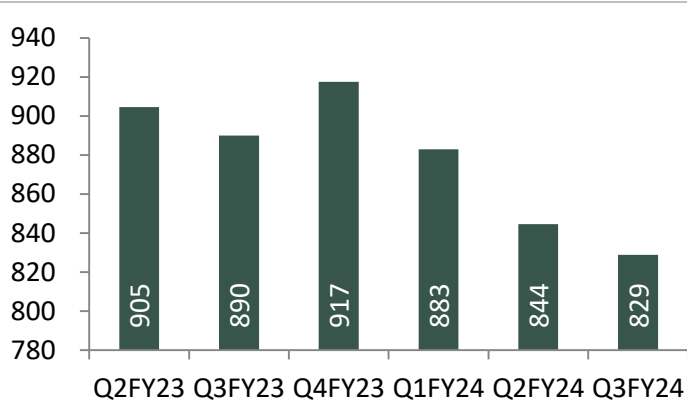
Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth (YoY) witnessed slight moderation during the quarter



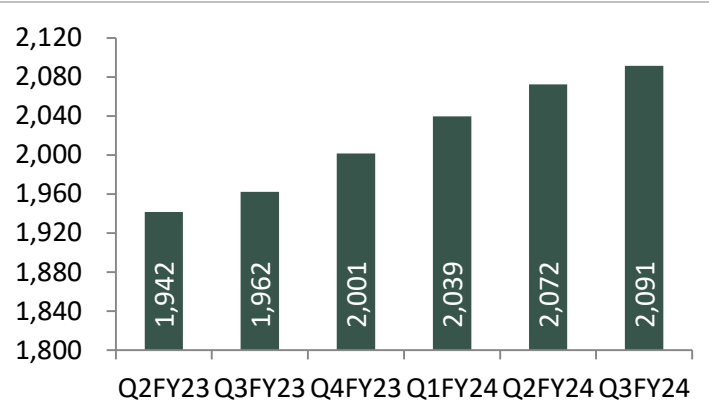
Source: Company; IDBI Capital Research

Exhibit 10: CASA Per Branch



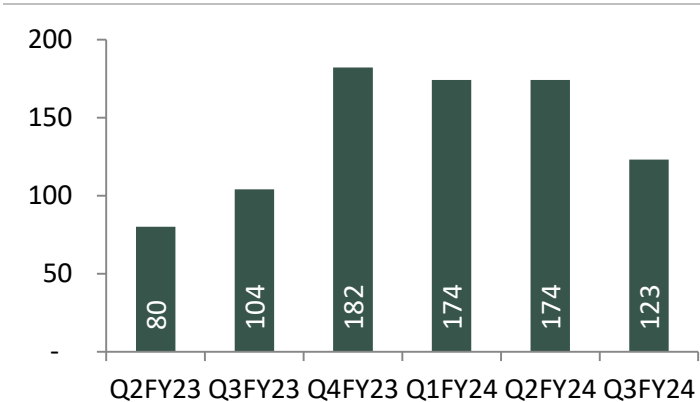
Source: Company; IDBI Capital Research

Exhibit 11: Deposits Per Branch



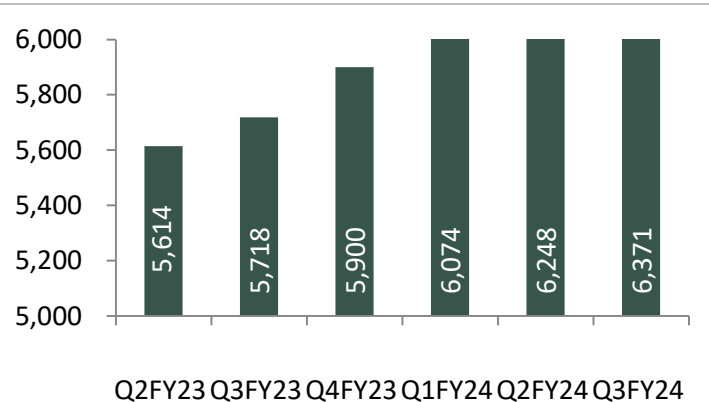
Source: Company; IDBI Capital Research

Exhibit 12: Incremental no of Branches per qtr



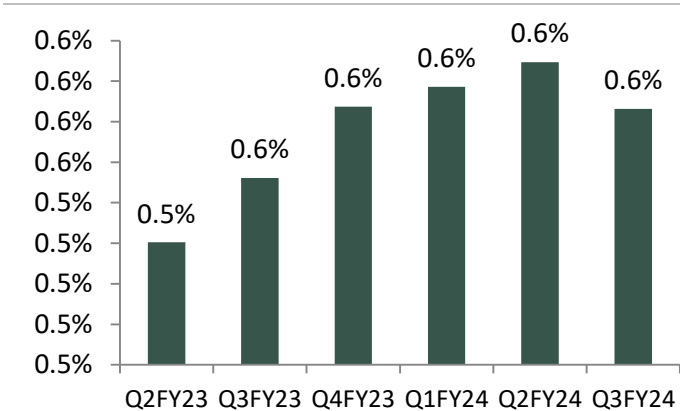
Source: Company; IDBI Capital Research

Exhibit 13: Added around 123 new branches in Q3FY24



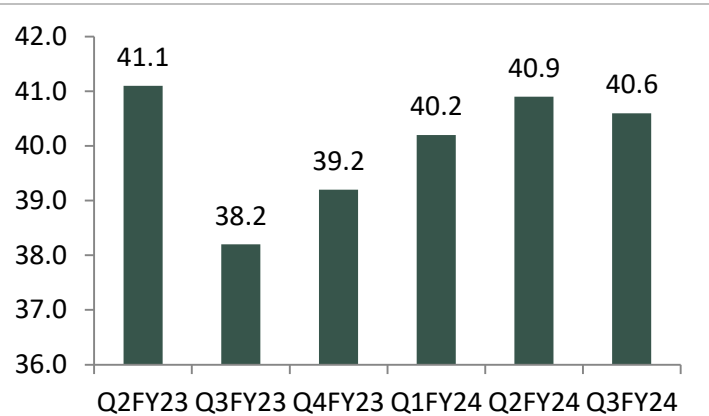
Source: Company; IDBI Capital Research

Exhibit 14: RoA (non-annualized); remained stable



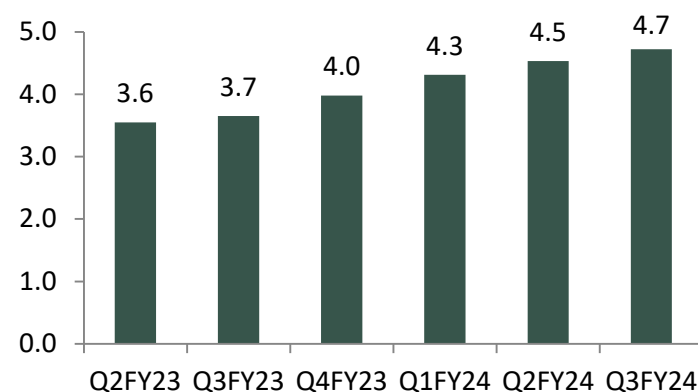
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio to moderated due to moderation in branch and employee additions



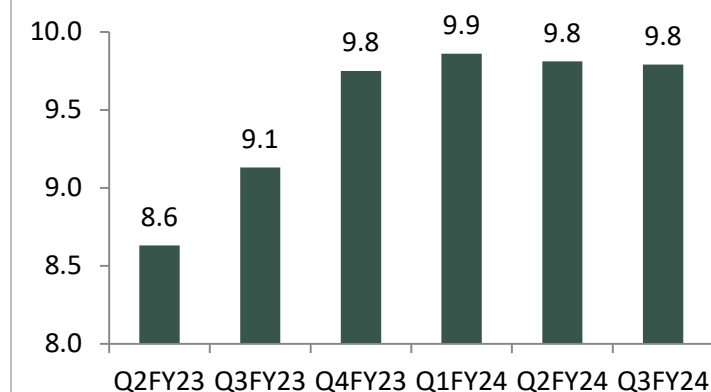
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Deposits to remain at elevated for some qtrs going forward



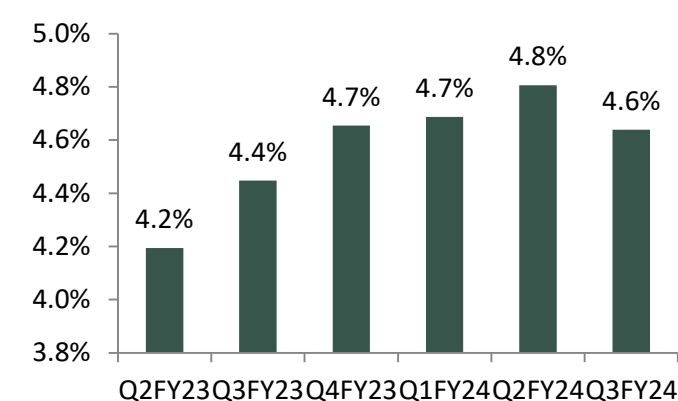
Source: Company; IDBI Capital Research

Exhibit 17: Yield on Advances remained stable QoQ



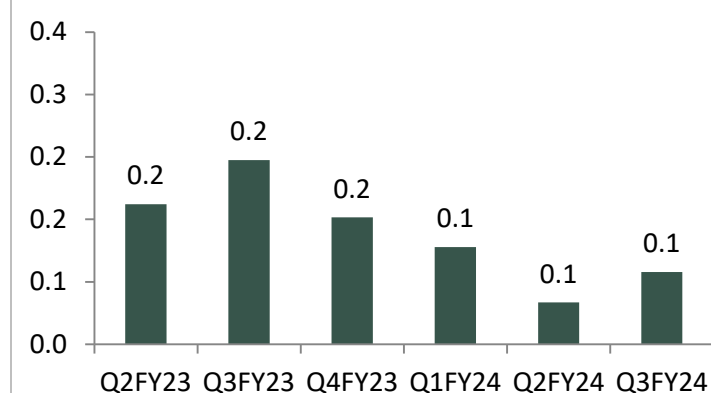
Source: Company; IDBI Capital Research

Exhibit 18: Return on Equity (non-annualized) moderated sequentially

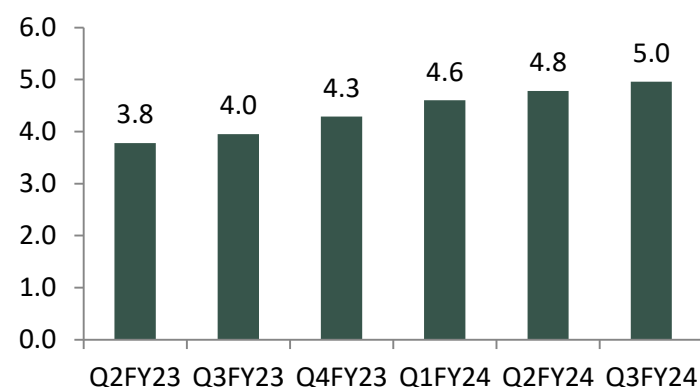


Source: Company; IDBI Capital Research

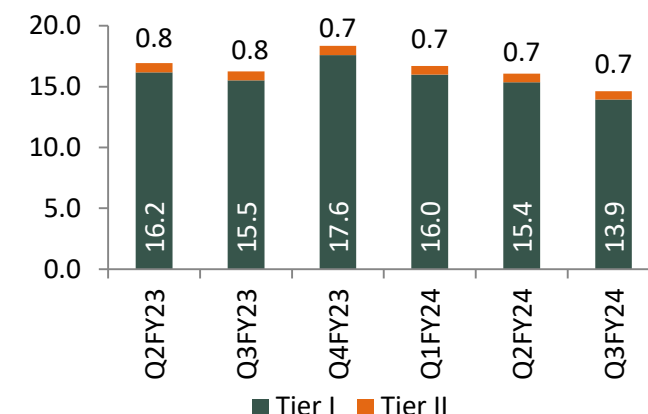
Exhibit 19: Credit Cost (non-annualized) witnessed marginal uptick on a sequential basis



Source: Company; IDBI Capital Research

Exhibit 20: Cost of funds inched up QoQ led by higher cost of deposit

Source: Company; IDBI Capital Research

Exhibit 21: CAR remains comfortable

Source: Company; IDBI Capital Research

Exhibit 22: Statement of Standard Assets & Other Provisions

Product Wise Advances (In Mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Contingency Provisions	1,00,000	1,15,000	1,31,000	1,31,000	1,31,000	1,31,000
Provision on Non-Fund based o/s to NPAs	20,240	19,930	20,050	19,640	20,640	20,610
Provisions on Fund based o/s to standard borrowers under resolution	20,590	15,290	13,800	12,240	11,070	10,320
General provisions on other Standard Assets and Other Provisions	59,760	63,180	61,500	60,580	66,390	68,320
Total Provisions	2,00,590	2,13,400	2,26,350	2,23,460	2,29,100	2,30,250
Total Provisions as a % of Net Advances	2.1	2.2	2.2	2.1	2.1	2.0

Source: Company; IDBI Capital Research

Exhibit 23: Composition of Advances-In Mn

Product Wise Advances (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Domestic Loan	1,11,48,210	93,87,820	1,07,42,060	18.8	3.8
Retail Loan	64,25,720	52,92,360	61,48,720	21.4	4.5
Rural Loan	9,80,360	8,29,060	9,37,570	18.2	4.6
Business Banking	8,82,390	6,68,830	8,28,330	31.9	6.5
SME Loans	5,79,180	4,54,240	5,42,640	27.5	6.7
Corporate & Others	22,80,560	21,43,330	22,84,800	6.4	(0.2)
Overseas Loan	3,89,510	3,52,650	3,63,360	10.5	7.2
Total Loan Book	1,15,37,720	97,40,470	1,11,05,420	18.5	3.9

Source: Company; IDBI Capital Research

Exhibit 24: Composition of Advances-In %

Product Wise Advances (In %)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Domestic Loan	96.6	96.4	96.7	24 bps	-10 bps
Retail Loan	55.7	54.3	55.4	136 bps	33 bps
Rural Loan	8.5	8.5	8.4	-1 bps	5 bps
Business Banking	7.6	6.9	7.5	78 bps	19 bps
SME Loans	5.0	4.7	4.9	36 bps	13 bps
Corporate & Others	19.8	22.0	20.6	-224 bps	-81 bps
Overseas Loan	3.4	3.6	3.3	-24 bps	10 bps
Total Loan Book	100.0	100	100		

Source: Company; IDBI Capital Research

Exhibit 25: Composition of Retail Loan Book

Product Wise Retail Advances (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Mortgages	38,41,320	33,13,790	37,03,510	15.9	3.7
Vehicle loans	9,05,010	7,56,930	8,70,430	19.6	4.0
Auto finance	5,78,740	4,72,630	5,53,610	22.5	4.5
CV/CE	3,04,480	2,65,320	2,94,670	14.8	3.3
2W	21,790	18,980	22,150	14.8	(1.6)
Personal Loans	11,10,990	8,09,320	10,44,280	37.3	6.4
Credit Cards	4,81,970	3,45,460	4,32,300	39.5	11.5
Others	86,430	66,850	98,200	29.3	(12.0)
Total Retail Loan Book	64,25,720	52,92,350	61,48,730		

Source: Company; IDBI Capital Research

Exhibit 26: Composition of Retail Loan Book

Product Wise Retail Advances (In %)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Mortgages	59.8	62.6	60.2	-283 bps	-45 bps
Vehicle loans	14.1	14.3	14.2	-22 bps	-7 bps
Auto finance	9.0	8.9	9.0	8 bps	0 bps
CV/CE	4.7	5.0	4.8	-27 bps	-5 bps
2W	0.3	0.4	0.4	-2 bps	-2 bps
Personal Loans	17.3	15.3	17.0	200 bps	31 bps
Credit Cards	7.5	6.5	7.0	97 bps	47 bps
Others	1.3	1.3	1.6	8 bps	-25 bps
Total Retail Loan Book	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	3,89,894	4,74,661	6,21,286	7,35,870	8,33,191	9,55,761
<i>Change (yoy, %)</i>	17%	22%	31%	18%	13%	15%
Fees	1,04,868	1,26,397	1,47,766	2,08,784	2,18,948	2,51,790
Other Income	84,818	58,779	50,549	25,612	45,627	50,756
Net Revenue	5,79,579	6,59,836	8,19,600	9,70,266	10,97,767	12,58,308
Operating expenses	2,15,608	2,67,333	3,28,732	3,98,705	4,47,915	5,16,955
Employee expenses	80,918	96,727	1,20,599	1,53,818	1,77,450	2,05,920
Other expenses	1,34,690	1,70,606	2,08,133	2,44,887	2,70,465	3,11,035
Pre-Provision Profit	3,63,971	3,92,503	4,90,868	5,71,561	6,49,851	7,41,353
<i>Change (yoy, %)</i>	30%	8%	25%	16%	14%	14%
Provision	1,62,143	86,414	66,656	40,144	58,656	67,283
PBT	2,01,828	3,06,089	4,24,212	5,31,417	5,91,196	6,74,070
Taxes	39,901	72,694	1,05,247	1,32,498	1,48,981	1,69,866
<i>Effective tax rate (%)</i>	20%	24%	25%	25%	25%	25%
Net profit	1,61,927	2,33,395	3,18,965	3,98,919	4,42,214	5,04,204
<i>Change (yoy, %)</i>	104%	44%	37%	25%	11%	14%
EPS	23.4	33.6	45.7	56.9	63.0	71.9
Return on Equity (%)	12.3	14.7	17.2	18.3	17.3	16.9
Return on Assets (%)	1.4	1.8	2.1	2.3	2.2	2.2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	13,834	13,900	13,968	14,032	14,032	14,032
Reserves	14,61,257	16,91,219	19,93,186	23,39,496	27,36,710	31,95,915
Networth	14,75,091	17,05,118	20,07,154	23,53,528	27,50,742	32,09,947
Deposits	93,25,221	1,06,45,716	1,18,08,404	1,38,96,116	1,59,62,796	1,83,39,477
Current deposits	13,61,701	15,84,797	16,14,860	20,84,417	23,94,419	27,50,922
Saving deposits	29,54,533	35,99,569	37,97,759	43,91,173	50,44,243	57,95,275
Term deposit	50,08,987	54,61,350	63,95,788	74,20,526	85,24,133	97,93,281
Borrowings	9,16,310	10,72,314	11,93,255	12,52,223	19,05,369	21,30,725
Other liabilities	5,87,704	6,89,828	8,33,251	9,00,133	8,88,186	8,72,738
Total Liab. & Equity	1,23,04,326	1,41,12,976	1,58,42,063	1,84,02,001	2,15,07,093	2,45,52,887
Cash	13,31,282	16,78,223	11,94,383	10,94,978	20,16,298	23,18,033
Advances	73,37,290	85,90,204	1,01,96,383	1,19,80,750	1,37,77,863	1,58,44,542
Investments	28,12,864	31,02,410	36,23,297	43,78,868	47,46,580	54,04,633
Fixed Assets	88,776	93,738	95,998	1,05,598	1,07,710	1,09,864
Other Assets	7,34,114	6,48,401	7,32,005	8,41,806	8,58,642	8,75,815
Total assets	1,23,04,326	1,41,12,976	1,58,42,063	1,84,02,001	2,15,07,093	2,45,52,887

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Deposits	21.0	14.2	10.9	17.7	14.9	14.9
Advances	13.7	17.1	18.7	17.5	15.0	15.0
NII	17.2	21.7	30.9	18.4	13.2	14.7
Pre-Provision Profit	29.5	7.8	25.1	16.4	13.7	14.1
Net Profit	104.2	44.1	36.7	25.1	10.9	14.0
Spreads						
Yield on Assets	7.6	7.2	7.9	9.1	9.0	9.0
Cost of Funds	4.1	3.5	3.8	4.9	5.0	5.0
NIM	3.7	3.9	4.5	4.7	4.5	4.5
CASA	46.3	48.7	45.8	46.6	46.6	46.6
Operating Efficiency						
Cost-to-Income	37.2	40.5	40.1	41.1	40.8	41.1
Cost-to-Assets	1.9	2.0	2.2	2.3	2.2	2.2
Asset Quality						
GNPA	5.3	3.8	2.9	2.2	2.4	2.6
NNPA	1.2	0.8	0.5	0.5	0.6	0.7
Provision Coverage	77.7	79.2	82.8	78.8	76.1	74.0
Credit Cost	2.4	1.1	0.7	0.4	0.5	0.5
Capital Adequacy						
CAR	19.1	19.2	18.3	17.7	18.3	18.6
Tier I	18.1	18.4	17.6	17.0	17.6	17.8
Valuation						
EPS	23.4	33.6	45.7	56.9	63.0	71.9
ABV	186.0	223.8	267.9	317.2	370.7	445.6
P/E	42.1	29.4	21.6	17.3	15.7	13.7
P/ABV	5.3	4.4	3.7	3.1	2.7	2.2
ROE	12.3	14.7	17.2	18.3	17.3	16.9
ROA	1.4	1.8	2.1	2.3	2.2	2.2
RORWA	2.1	2.8	3.3	3.3	3.2	3.2

Source: Company; IDBI Capital Research