Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 26.74

Updated Dec 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

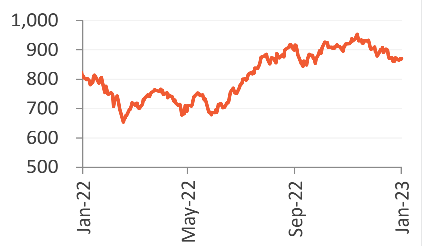
Company details

Market cap:	Rs. 6,07,345 cr
52-week high/low:	Rs. 958/642
NSE volume: (No of shares)	112.5 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	697.0 cr

Shareholding (%)

Promoters	-
FII	45.1
DII	44.5
Others	10.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.4	-2.1	11.1	7.4
Relative to Sensex	-3.7	-4.4	2.2	4.7

Sharekhan Research, Bloomberg

ICICI Bank

Higher NIMs drives beat, prudently scales up contingent provisions

Banks	Sharekhan code: ICICIBANK

Reco/View: Buy	↔	CMP: Rs. 870	Price Target: Rs. 1,120	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ICICI Bank reported strong earnings growth of 34% y-o-y/10% q-o-q, with RoA at 2.2%. Core PPOP grew 35% y-o-y. NIM expanded by 34 bps q-o-q to 4.65%. We believe NIMs are expected to peak out for the bank by Q1FY2024, taking a base case as the last hike by the RBI in February 2023.
- Slippages were higher at 2.8% annualised vs. 2.3% in the last quarter. However, higher recoveries restricted the increase in net slippages to Rs. 1,119 crore. Asset quality showed improvement q-o-q and coverage ratio stands comfortable at 83%. While reported credit costs were at 90 bps (annualised), the bank made a contingent provision of 15 bps of loans this quarter, taking the total contingent provision to 1.2% of loans.
- Loan growth remained healthy and was broad-based, up 20% y-o-y and 4% q-o-q, led by the retail and corporate segments. Total deposits grew by 10% y-o-y and 3% q-o-q, while CASA deposits grew by 6% y-o-y/ flat q-o-q. CASA ratio moderated to 45.3% vs. 46.6% q-o-q.
- The stock is currently trading at 2.5x/2.1x/1.8x its FY2023E/FY2024E/FY2025E core BV estimates. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,120. The strong outperformance in recent years implies that further re-rating is likely to be a very gradual one.

ICICI Bank reported steady performance in Q3FY2023. Net interest income (NII) grew by 35% y-o-y/11% q-o-q, aided by healthy loan growth and margin improvement. Net interest margin (NIM) improved by 34 bps q-o-q at 4.65%. The sequential increase in NIM reflects the impact of repricing of floating loans due to repo rate hike, while repricing of deposits occurs with a lag. However, the bank guided that the impact of repricing of deposits should be reflected higher going forward. Core fee income growth was muted at 4% y-o-y/down 1% q-o-q. The retail, business banking, and SME segments constituted 78% of the total fee income during the quarter. There was a treasury profit of Rs. 36 crore versus loss of Rs. 85 crore q-o-q. Total operating expenses grew by 16% y-o-y/1% q-o-q. Opex-to-average assets were stable q-o-q at 2.2%. Operating profit grew by 31% y-o-y/14% q-o-q, driven by strong NII growth and operating leverage. Provisions were higher by 12% y-o-y/ 37% q-o-q, as the bank made additional contingent provisions of Rs. 1,500 crore during the quarter. In addition, the bank has changed its provisioning norms on non-performing assets to make them more conservative. This change resulted in higher provisions of Rs. 1,196 crore; however, there were reversal of provisions on account of the restructured book amounting to Rs. 530 crore which partly offsetted higher provisions. Total contingent provisions stood at Rs. 11,500 crore as of December 2022 (1.2% of loans). PAT grew by 34% y-o-y/10% q-o-q. Advances grew by 20% y-o-y and 4% q-o-q, with retail loans growing at 23% y-o-y/5% q-o-q; business banking grew by 37.9% y-o-y/5.2% q-o-q, SME grew by 25% y-o-y/ 8.3% q-o-q. Domestic wholesale corporate book grew by 18.2% y-o-y/3.8% q-o-q. Deposits grew by 10% y-o-y/3% q-o-q. Average CA and SA balances grew by 7.9% y-o-y and 11.4% y-o-y, respectively. The average CASA mix declined 40 bps q-o-q to 44.6%. Slippages were up 31% q-o-q and stood at Rs. 5,723 crore. However, higher recoveries and upgrades led to improvement in asset quality. GNPA and NNPA ratios fell by 12 bps q-o-q and 6 bps q-o-q to 3.07% and 0.55%, respectively, during the quarter. Restructured book stood at 0.5% of advances versus 0.7% q-o-q. BB and below-rated book (from Corporate and SME) stood at Rs. 5,581 crore versus Rs. 7,638 crore sequentially.

Key positives

- Total contingent buffers now stand at 1.2% of advances
- Margin expansion ahead of expectations led to robust NII growth
- Opex growth moderated

Key negatives

- Slippages were higher sequentially
- Core fee income muted
- CASA growth moderated

Management Commentary

- The bank reiterated its strategy to grow its franchise – both assets as well as liability – in a granular manner, sustainably with a risk-calibrated approach, enabling a 360-degree focus on the customer and increased wallet share with a focus on contribution to core operating profit from the overall product portfolio.
- The bank guided that the impact of repricing of deposits should reflect relatively higher in the coming quarters.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,120: ICICI Bank currently trades at 2.5x/2.1x/1.8x its FY2023E/FY2024E/FY2025E core BV estimates. The bank reported steady performance on all fronts – NII, core operating profits, earnings, and advances – recording healthy growth with better asset-quality trends and lower core credit cost. However, deposits mobilisation was tepid. We believe the bank is on a sustainable growth path trajectory; however, growth may moderate if retail deposit accretion does not pick up pace with advances growth. Ahead of this new growth cycle, the bank is already positioned well with superior margins, strong RoE, asset quality, contingency buffers, and robust capitalisation levels. The bank has given strong outperformance in recent years. Further re-rating is unlikely if growth moderates in the coming quarters.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost could affect earnings; slower growth in retail liability franchise; and lower-than-expected margins.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	47,466	61,674	71,228	82,894
Net profit	23,339	31,374	35,609	40,409
EPS (Rs.)	33.0	45.1	51.2	58.1
P/E (x)	21.7	15.9	14.0	12.3
P/Core BV (x)	2.9	2.5	2.1	1.8
RoE	14.7	16.9	16.2	15.7
RoA	1.8	2.1	2.1	2.1

Source: Company; Sharekhan estimates

Key result highlights

Strong NII growth driven by NIM expansion: NII grew by 35% y-o-y/11% q-o-q, led by healthy advances growth of 20% y-o-y/4% q-o-q and margin improvement. NIM improved by 34 bps q-o-q to 4.65%. The sequential increase in NIM reflects the impact of repricing of the floating rate book due to repo hike, while repricing of deposits occurs with a lag. The bank guided that the impact of repricing of deposits should be reflected higher going forward. We believe NIM is expected to peak out for the bank by Q1FY2024, taking a base case as the last hike by the RBI in February 2023. The quantum of margin expansion is expected to be lower on account of repricing of floating rate loans compared to the previous quarters due to higher cost of deposits relatively in the coming quarters.

Opex growth moderated aiding operating leverage: Total operating expenses grew by 16% y-o-y/1% q-o-q. Opex-to-average assets reported at 2.2% were stable q-o-q. Overall, technology spends were ~9% of total opex for 9MFY2023 vs. 8.5% in FY2022. Opex growth moderated during the quarter, which led to operating leverage.

Credit cost remained lower: Although, total provisions were higher by 12% y-o-y/37% q-o-q, as the bank made additional contingent provisions of Rs. 1,500 crore during the quarter. In addition, the bank has changed its provisioning norms on non-performing assets to make them more conservative. This change resulted in higher provisions of Rs. 1,196 crore. However, there were reversal of provisions on account of the restructured book amounting to Rs. 530 crore which partly offsetted higher provisions. Core credit cost was negligible. Total contingent provisions stood at Rs. 11,500 crore as of December 2022 (1.2% of loans). The bank is not seeing any potential risk from any portfolio and credit cost is expected to remain benign in the near to medium term.

Bank guided that loan growth is not constrained going ahead: Advances grew by 20% y-o-y and 4% q-o-q with the retail book growing by 23% y-o-y. Rural loans grew by 13% y-o-y. In the retail loan segment, mortgages grew by 19% y-o-y, vehicle loans grew by 15% y-o-y, personal loans increased by 42% y-o-y, and the credit cards business grew by 52% y-o-y. Business banking and SME grew by 38% y-o-y and 25% y-o-y, respectively. Robust growth in business banking and SME portfolio can be fully attributed to leveraging branch network and digital offerings such as InstaBIZ and Merchant Stack. Digital sourcing has increased significantly across products. The wholesale domestic corporate book grew by 18% y-o-y. The overseas loan portfolio was about 4% of the overall loan book and declined by 13% y-o-y. The bank reiterated its strategy to grow its asset franchise in a granular manner, with a risk-calibrated approach and in a sustainable manner focusing on contribution to core operating profit from the overall product portfolio by leveraging digital platform offerings. The bank also guided that loan growth is not a constrained for the bank. Quarterly average LCR was 123%.

Deposit mobilisation was tepid: Deposits grew by 10% y-o-y/3% q-o-q. Average CA and SA balances grew by 8% y-o-y and 11% y-o-y, respectively. Average CASA mix declined by 40 bps q-o-q to 44.6%. Cost of deposits stood at 3.65% versus 3.55% q-o-q. Term deposits (14% y-o-y/ 5% q-o-q) witnessed good traction as rates are accelerating, thus inflows will be higher going forward also.

Asset quality gets better: GNPA and NNPA improved by 12 bps q-o-q and 6 bps q-o-q to 3.07% and 0.55%, respectively. Fresh slippages stood at Rs. 5,723 crore versus Rs. 4,366 crore in Q2FY2023. Recoveries and upgrades stood at Rs. 4,604 crore in Q3FY2023 versus Rs. 3,761 crore in Q2FY2023. Write-offs stood at Rs. 1,162 crore versus Rs. 1,103 crore in Q2FY2023. There was sequential reduction in the restructured book also, which now stands at 0.5% as of December 2022. BB and below book in the corporate and SME segment stood at Rs. 5,581 crore in Q3FY2023 versus Rs. 7,638 crore in Q2FY2023.

Clear focus on risk-reward: The bank reiterated its strategy to grow its loan book in a granular manner, with a risk-calibrated approach and in a sustainable manner focusing on contribution to core operating profit from the overall product portfolio by leveraging digital platform offerings. Digital platform would drive up sell and cross-sell activity. Customer acquisition is based on a 360-degree portfolio offering and not on loan offerings only.

Results Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Interest Inc.	28,506	22,083	26,033	29%	9%
Interest Expenses	12,041	9,847	11,246	22%	7%
Net Interest Income	**16,465**	**12,236**	**14,787**	**35%**	**11%**
NIM (%)	4.65	3.96	4.31	17%	8%
Core Fee Income	4,448	4,291	4,480	4%	-1%
Other Income	576	696	575	-17%	0%
Net Income	**21,489**	**17,223**	**19,842**	**25%**	**8%**
Employee Expenses	2,921	2,485	2,889	18%	1%
Other Opex	5,296	4,590	5,273	15%	0%
Total Opex	**8,217**	**7,075**	**8,161**	**16%**	**1%**
Cost to Income Ratio	38.2%	41.1%	41.1%		
Pre-Provision Profit	**13,271**	**10,148**	**11,680**	**31%**	**14%**
Provisions & Contingencies – Total	2,257	2,007	1,645	12%	37%
Profit Before Tax	**11,014**	**8,141**	**10,036**	**35%**	**10%**
Tax	2,702	1,947	2,478	39%	9%
Effective Tax Rate	25%	24%	25%		
Reported Profits	**8,312**	**6,194**	**7,558**	**34%**	**10%**
Basic EPS (Rs.)	11.92	8.93	10.86	33%	10%
Diluted EPS (Rs.)	11.68	8.74	10.64	34%	10%
RoA (%)	2.2	1.9	2.06		
Advances	9,74,048	8,13,992	9,38,563	20%	4%
Deposits	11,22,049	10,17,467	10,90,008	10%	3%
Gross NPA	**32,528**	**37,053**	**32,571**	**-12%**	**0%**
Gross NPA Ratio (%)	3.07	4.13	3.19		
Net NPA	**5,651**	**7,344**	**6,099**	**-23%**	**-7%**
Net NPAs Ratio (%)	0.55	0.85	0.61		
PCR - Calculated	82.6%	80.2%	81.3%		

Source: Company, Sharekhan Research

SOTP valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value	966
ICICI Prudential Life Insurance	74
ICICI Lombard General Insurance	49
ICICI Prudential AMC	31
ICICI Securities	17
ICICI Home Finance	3
ICICI Bank UK Plc	5
ICICI Bank Canada	5
ICICI Venture	4
ICICI PD business	4
Sum of subs/ associates	192
Holding Co. discount @20%	38
Value of subs/ associates post holdco discount	154
Fair Value	**1,120**

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Deposit mobilisation to be in focus; Banks with strong deposit franchise placed better

System-level credit offtake grew by ~17.4% y-o-y in the fortnight ending December 16, 2022, indicating loan growth has been sustaining, given distinct signs of an improving economy, and revival of investments and loan demand. On the other hand, deposits rose by ~9.4% but are trailing advances growth. We should see sustained acceleration in loan growth. Margins are likely to improve, but momentum is expected to moderate and margins are expected to peak out by H1FY2024. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals. In the past few years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate loan portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks with a strong capital base, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company outlook - Attractive franchise over the long term

ICICI Bank's strong positioning across retail, business banking, SME, and corporate banking segments with improved return ratio matrix make it an attractive and strong franchise over the long term. Looking ahead, we believe growth in the economy, digital initiatives, and the bank's strong retail franchise, prudent risk management practices, and strong capital ratios make the bank well placed to capture opportunities that will arise in the near to medium term. A healthy provision buffer and strong liability franchise indicate a robust business outlook for the bank. The bank has underwritten higher-rated loans in the past 3-4 years with minimal legacy burden. Ahead of the new growth cycle, the bank is already positioned well with superior margins, strong RoE/asset quality, and robust capitalisation. The stock return will be a function of earnings growth. The bank has all the ingredients in place to take over the pole position in the Indian banking space. We find ICICI Bank to be an attractive franchise with a strong balance sheet and improved return ratio matrix, which makes it attractive over the long term. Moreover, its well-performing subsidiaries, which are strong players in their respective fields, add value to the overall business.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 1,120

ICICI Bank currently trades at 2.5x/2.1x/1.8x its FY2023E/FY2024E/FY2025E core BV estimates. The bank reported steady performance on all fronts – NII, core operating profits, earnings, and advances – recording healthy growth with better asset-quality trends and lower core credit cost. However, deposits mobilisation was tepid. We believe the bank is on a sustainable growth path trajectory; however, growth may moderate if retail deposit accretion does not pick up pace with advances growth. Ahead of this new growth cycle, the bank is already positioned well with superior margins, strong RoE, asset quality, contingency buffers, and robust capitalisation levels. The bank has given strong outperformance in recent years. Further re-rating is unlikely if growth moderates in the coming quarters.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs. cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Bank	870	6,07,345	15.9	14.0	2.5	2.1	16.9	16.2	2.1	2.1
Axis Bank	931	2,86,229	13.1	10.6	2.0	1.7	16.4	17.1	1.6	1.8

Source: Company; Sharekhan Research

About company

ICICI Bank is India's second-largest private bank and has a leadership position in other financial services businesses through its subsidiaries. The bank offers the entire spectrum of financial services to customer segments covering large and mid-corporates, MSME, agriculture, and retail businesses. The bank has currently 5,718 branches with 51% of branches in rural and semi urban areas.

Investment theme

ICICI Bank has a well-diversified loan book having strengths in both retail and corporate segments. The bank has built a strong liability franchise, which would be helpful in sustaining margins at healthy levels. Loan book quality has significantly improved, which we believe is positive for its profitability and growth going forward. With comfortable PCR, contingency buffers, healthy capitalisation levels, strong RoE, and better asset quality matrix, the bank is well poised for growth going ahead along with market share gains.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost could affect earnings; slower growth in retail liability franchise; and lower-than-expected margins.

Additional Data

Key management personnel

Mr. Sandeep Bakhshi	CEO/Managing Director
Mr. Anup Bagchi	Executive Director
Mr. Rakesh Jha	Executive Director
Mr. Anindya Banerjee	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DEUTSCHE BANK TRUST CO AMERICAS	16.97
2	LIFE INSURANCE CORP OF INDIA	6.56
3	SBI FUNDS MANAGEMENT LTD.	5.61
4	REPUBLIC OF SINGAPORE	3.07
5	ICICI PRUDENTIAL ASSET MANGEMENT CO. LTD.	2.74
6	BLACKROCK INC.	2.33
7	HDFC ASSET MANAGEMENT CO. LTD.	2.22
8	CAPITAL GROUP COS INC.	1.95
9	NPS TRUST A/C UTI RETIREMENT SOLUTIONS LTD	1.80
10	UTI ASSET MANAGEMENT CO. LTD.	1.65

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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