

ICICI Bank Ltd.



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Strong margins led by healthy business momentum; Returns ratio and asset quality remains superior

CMP INR 905	Target INR 1,175	Potential Upside 29.8%	Market Cap (INR Mn) INR 63,22,126	Recommendation BUY	Sector Banking
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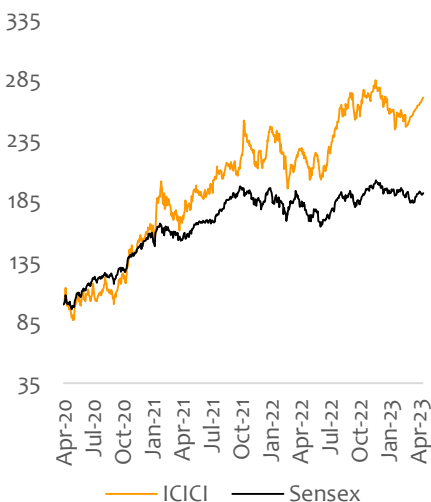
Result Highlights of Q4 FY23:

- Net interest income (NII) grew by 40.2% YoY (+7.3% QoQ) to INR 1,76,668 Mn in Q4FY23 from INR 1,26,046 Mn in Q4FY22. The net interest margin was 4.9% in Q4FY23 compared to 4.0% in Q4FY22 (vs 4.7% in Q3FY23).
- Pre-Provision Operating Profit (PPOP) for Q4FY23 grew by 34.3% YoY/ 4.2% QoQ to INR 1,38,264 Mn.
- The profit after tax surged by 30.0% YoY (+9.7% QoQ) to INR 91,219 Mn in Q4FY23 compared to INR 70,187 Mn in Q4FY22.
- The overall advances as of March 31, 2023, stood at INR 1,01,96,383 Mn, a growth of 18.7% YoY (+4.1% QoQ). Total deposits increased by 10.9% YoY (+5.2% QoQ) to INR 1,18,08,407 Mn as of March 31, 2023.
- Gross NPA improved by 26 bps QoQ to 2.81% as of March 31, 2023, vs 3.07% as of December 31, 2022. The net NPA ratio improved from 0.55% as of December 31, 2022, to 0.48% as of March 31, 2023.
- The total capital adequacy ratio was 18.34%, and the Tier-1 capital adequacy ratio was 17.60% on a standalone basis as of March 31, 2023.

MARKET DATA

Shares outs (Mn)	6,983
Equity Cap (INR Mn)	19,99,545
Mkt Cap (INR Mn)	63,22,126
52 Wk H/L (INR)	958/670
Volume Avg (3m K)	20,970
Face Value (INR)	2
Bloomberg Code	ICICIB IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

Particulars (INR Mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
NII	3,89,894	4,74,661	6,21,286	7,01,321	8,28,818
PPOP	3,63,971	3,92,503	4,90,868	5,65,284	6,71,372
PAT	1,61,927	2,33,395	3,18,968	3,74,011	4,48,429
EPS	23.4	33.6	45.8	53.6	64.2
NIM	3.9%	4.0%	4.4%	4.3%	4.3%
Advances Growth	13.7%	17.1%	18.7%	18.0%	18.0%

Source: Company, KRChoksey Research

Credit growth remained broad-based across all its segments; Deposit growth continues to lag:

As of March 31, 2023, the loan book stood at INR 1,01,96,383 Mn, a growth of 18.7% YoY/ 4.7% QoQ, primarily led by strong growth in the domestic loan portfolio. The domestic loan book grew by 20.5% YoY/ 5.0% QoQ as of March 31, 2023, while the overseas book declined by 17.4% YoY contributing 3.3% to the overall loan book. On the domestic side, the retail loan growth was 22.7% YoY/ 5.4% sequentially. The mortgage portfolio grew by 17.6% YoY/ 4.0% QoQ within retail loans. Auto loans grew by 23.0% YoY/ 5.1% QoQ. The personal loan & credit card segment continues to see strong momentum, with a growth of 43.2% YoY/ 9.0% QoQ. The business banking portfolio grew 34.9% YoY/ 7.8% QoQ, while the SME portfolio grew 19.2% YoY/ 6.2% QoQ due to leveraging the branch network. The corporate loan book grew 21.2% YoY/ 5.5% QoQ, mainly led by a shift from bond markets to banks. The bank sees a healthy opportunity in NBFCs, the public sector and real estate in the coming quarters. The bank remains positive on the loan outlook for FY24E. On the deposits side, the bank reported an increase of 10.9% YoY/ 5.2% QoQ, with an average CASA ratio of 43.6%. The term deposits reported healthy growth of 17.1% YoY/ 4.3% QoQ as of March 31, 2023. The bank continues to focus on retail and granular deposit growth. We expect the bank will see healthy traction in retail deposits, resulting in an overall deposit growth of 15.0% CAGR over FY 23–25E. This is expected to support loan growth of 18.0% CAGR over FY23–25E.

Asset quality continues to improve; Created adequate additional contingent buffer: GNPA and NNPA improved by 26 bps/ 7 bps sequentially to 2.81% and 0.48%, respectively, as of March 31, 2023.

Recoveries and upgrades from gross NPAs, excluding write-offs and sales, were INR 42,830 Mn in Q4FY23, compared to INR 46,040 Mn in Q3FY23. The bank had a write-off of INR 11,580 Mn in Q4FY23. The bank has built in additional contingent provisions of INR 16 Bn during the quarter with almost zero/ negligible core credit costs.

NIMs at All-time high giving boost to earnings growth: The NIMs for Q4FY23 expanded by 90 bps YoY/ 25 bps QoQ to 4.9%, which is at an all-time high, led by strong business momentum and the lag of the transmission on deposits rate hike. The bank expects NIMs to see some pressure going forward, given the lag rise in the cost of deposits. The fee income grew by 10.6% YoY in Q4FY23, driving an 11.3% YoY growth in non-interest income, excluding treasury losses. The cost-to-income ratio continued to be elevated at 39.2%, led by higher investment in employees and branches.

MARKET INFO

SENSEX	60,056
NIFTY	17,743

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	0	0	0
FIIIs	44.2	45.1	42.7
DIIIs	45.6	44.7	47.1
Others	10.2	10.2	10.2
Total	100	100	100

15.5%

NII CAGR between FY23 and FY25E

18.6%

PAT CAGR between FY23 and FY25E

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

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Key Concall Highlights:

- The Indian economy has continued to show resilience amidst a volatile global environment. The underlying growth momentum is visible in increasing steel and cement output, GST collections, capacity utilisation, and rising demand for electricity and travel. The government led CapEx cycle is continuing, financial stability has been maintained, and inflation, which was too elevated, has moderated from its peak.
- ICICIB's strategic focus is growing a risk calibrated core operating profit through a 360-degree customer-centric approach and by serving opportunities across customer segments and ecosystems. The bank continues to operate within its strategic framework, strengthen its franchise, enhance its delivery and servicing capabilities, and expand its technology and digital offerings.
- The bank continues to enhance its digital offerings and platforms to onboard new customers in a seamless manner, provide them with end-to-end digital journeys and personalised solutions, and enable more effective data-driven cross-sell and up-sell.
- The sequential increase in NIM reflects the impact of an increase in interest rates on loan yields, and while repricing of deposits occurs with a lag, the bank expects to see the cost of deposits increase in future quarters.
- Dividend income from subsidiaries and associates was INR 2.73 mn in this quarter, compared to INR 2.32 bn in Q4FY22. The dividend income this quarter included an interim dividend from ICICI Prudential Asset Management and a dividend from ICICI Bank Canada.
- The bank had about 129,000 employees as of March 31, 2023. The employee count has increased by about 23,200 in FY23. Employee expenses increased by 40.0% in Q4FY23.
- In Q4FY23, the bank took a more conservative approach on certain assumptions underlying the provisions for retirement benefit obligations, which resulted in an additional expense of INR 3.35 Bn.
- Non-employee expenses increased by 19.6% YoY in this quarter, primarily due to retail business-related expenses and technology expenses. The branch count has increased by about 480 in the last 12 months, and the bank had 5,900 branches as of March 31, 2023.
- In Q4FY23, the bank made contingency provisions of INR 56.5 Bn and the impact of the change in provisioning norms for corporate SME and business banking NPAs to make them more conservative was about INR 11.96 Bn.
- There have been more than 9 Mn activations of iMobile Pay by non-ICICI Bank account holders as of March 23. The value of transactions by non-ICICI Bank account holders in Q4FY23 was 1.3x the value of transactions in Q4FY22.
- The bank launched an array of digital solutions for capital market participants and clients of its custody services. The solutions enabled various participants, including brokers, portfolio management service providers, foreign portfolio investors, foreign direct investors, and alternative investment funds, to seamlessly meet all their banking requirements.
- The total outstanding to NBFCs and HFCs was INR 834.9 Bn as of March 31, 2023, compared to INR 765.4 Bn as of December 31, 2022. The sequential increase in the outstanding to NBFCs and HFCs was mainly due to disbursements to entities having long vintage and entities owned by well established corporate groups.
- The builder portfolio was INR 398.9 Bn as of March 31, 2023, compared to INR 360.1 Bn as of December 31, 2022. The builder portfolio is about 4% of the bank's total loan portfolio, the portfolio largely comprises well-established builders and this is also reflected in the sequential increase in the portfolio.

Valuation and view: ICICIB reported another stellar performance in Q4FY23. The credit book continued to witness a resilient growth momentum in its domestic loan portfolio led by healthy demand scenario across all the segments. The overall earnings were strongly led by robust growth in operating income and tight control over the credit cost, following a conservative approach in terms of provisions. The asset quality continued to improve for the quarter-ended period, led by a decline in the restructuring of stress accounts and moderation of the slippages. The bank holds an adequate amount of contingent provision at the end of the year FY23, which will help to have tighter control over the credit costs going ahead. ICICIB reported an industry leading PCR at ~82.8%. ICICIB will continue to focus on a granular and retail segment for deposit mobilisation, which will aid in long-term sustainable growth in the loan book. NIMs for the quarter reported a significant expansion due to high yields on assets and a lower cost of funds. However, as the deposit repricing is ongoing, the bank expects the impact to be seen in the upcoming quarters. Thus, we expect NIMs to be around ~4.3% for FY24E/FY25E. ICICIB has been investing in the expansion of manpower as well as branches and the enhancement of digital infrastructure, which has resulted in an escalation in the cost-to-income ratio. However, we expect the ratio to go down gradually, which will drive overall business growth, and partially manage the pressure on the NIMs, resulting in sustainable earnings growth. We are optimistic about the bank's outlook given its strong operating performance and superior return ratio compared to its peers. We have factored in CAGR 18.6% growth in profits over FY23-24E with 18.0% CAGR growth in advances and 16.9% growth in operating profits over FY23-25E. **We have applied a P/ABV multiple of 2.6x to the FY24E ABV of INR 400.1 per share, implying a SOTP valuation of INR 1,175 per share (unchanged). It has a potential upside of 29.8% at the CMP of INR 905 per share. As a result, we maintain our "BUY" rating on ICICI Bank's shares.**

Entity	Valuation Methodology	Holding	Value per share (INR)
ICICI Bank – Standalone Banking business / Parent	2.6x FY25E BV	100.0%	1,041.2
ICICI Prudential Life Insurance	2.0x FY25E EV	51.4%	61.3
ICICI Lombard General Insurance	Current MCAP	51.9%	42.5
ICICI Prudential AMC	5% of FY25E AUM	51%	21.7
ICICI Securities	Current MCAP	77.2%	15.4
ICICI Home Finance	2x FY25E BV	100.0%	4.9
ICICI Bank UK Plc	1x FY25E BV	100.0%	7.0
ICICI Bank Canada	1x FY25E BV	100.0%	5.0
Holding Co. Discount			15%
Value of subs after discount (INR Per share)			134
Value of Total			1,175
CMP			905
Upside			29.8%

Source: Company, KRChoksey Research

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

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is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

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www.krchoksey.com

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KEY FINANCIALS (standalone)

Exhibit 1: Profit & Loss Statement

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Interest Income	7,91,183	8,63,746	10,92,313	13,38,522	15,74,748
Interest Expense	4,01,288	3,89,085	4,71,027	6,37,200	7,45,930
Net Interest Income	3,89,894	4,74,661	6,21,286	7,01,321	8,28,818
Non interest income	1,89,685	1,85,175	1,98,315	2,45,286	2,72,908
Operating income	5,79,580	6,59,836	8,19,601	9,46,607	11,01,725
- Employee expense	80,918	96,728	1,20,599	1,50,200	1,71,448
- Other operating expense	1,34,691	1,70,606	2,08,133	2,31,123	2,58,905
Operating Expense	2,15,608	2,67,333	3,28,732	3,81,323	4,30,353
PPOP	3,63,971	3,92,503	4,90,868	5,65,284	6,71,372
Provisions	1,62,144	86,414	66,656	67,967	73,466
PBT	2,01,827	3,06,089	4,24,212	4,97,317	5,97,906
Tax Expense	39,900	72,694	1,05,245	1,23,306	1,49,476
PAT	1,61,927	2,33,395	3,18,968	3,74,011	4,48,429
Diluted EPS (INR)	23.7	33.0	44.9	53.6	64.2

Source: Company, KRChoksey Research

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Exhibit 2: Balance Sheet

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Source of Funds					
Share capital	13,834	13,900	13,968	13,968	13,968
Reserves & Surplus	14,61,227	16,88,556	19,85,577	23,81,534	28,29,964
Networth	14,75,061	17,02,456	19,99,545	23,95,502	28,43,932
ESOP	31	2,664	7,609	7,609	7,609
Borrowings	9,16,310	10,72,314	11,93,255	14,24,084	15,61,140
Deposits	93,25,222	1,06,45,716	1,18,08,407	1,35,62,704	1,56,11,398
Other liabilities & provisions	5,87,704	6,89,828	8,33,251	12,03,628	18,52,026
Total Equity & Liabilities	1,23,04,327	1,41,12,977	1,58,42,067	1,85,93,527	2,18,76,105
Uses of Funds					
Balances w/ banks & others	13,31,283	16,78,224	11,94,383	14,37,647	16,54,808
Investments	28,12,865	31,02,410	36,23,297	41,36,625	48,39,533
Loans & advances	73,37,291	85,90,204	1,01,96,383	1,20,31,001	1,41,99,260
Fixed assets	88,776	93,738	95,998	98,498	1,00,998
Other assets	7,34,112	6,48,401	7,32,005	8,89,757	10,81,505
Total Assets	1,23,04,327	1,41,12,977	1,58,42,067	1,85,93,527	2,18,76,105

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23	FY 24E	FY 25E
Growth Rates					
Advances (%)	13.7%	17.1%	18.7%	18.0%	18.0%
Deposits (%)	21.0%	14.2%	10.9%	14.9%	15.1%
Total assets (%)	12.0%	14.7%	12.3%	17.4%	17.7%
NII (%)	17.2%	21.7%	30.9%	12.9%	18.2%
Pre-provisioning profit (%)	29.5%	7.8%	25.1%	15.2%	18.8%
PAT (%)	104.2%	44.1%	36.7%	17.3%	19.9%
B/S Ratios					
Credit/Deposit (%)	78.7%	80.7%	86.3%	88.7%	91.0%
CASA (%)	46.3%	45.0%	45.8%	45.9%	45.6%
Advances/Total assets (%)	59.6%	60.9%	64.4%	64.7%	64.9%
Leverage - Total Assets to Equity	8.34	8.29	7.92	7.76	7.69
Operating efficiency					
Cost/income (%)	37.2%	40.5%	40.1%	40.3%	39.1%
Opex/total assets (%)	2.6%	2.9%	3.0%	2.9%	2.8%
Opex/total interest earning assets	2.6%	3.4%	3.5%	3.4%	3.3%
Profitability					
NIM (%)	3.9%	4.0%	4.4%	4.3%	4.3%
RoA (%)	1.4%	1.8%	2.1%	2.2%	2.2%
RoE (%)	12.3%	14.7%	17.2%	17.0%	17.1%
Asset quality					
Gross NPA (%)	4.96%	3.60%	2.81%	2.77%	2.73%
Net NPA (%)	1.14%	0.76%	0.48%	0.42%	0.35%
PCR (%)	77.7%	79.2%	82.8%	85.2%	87.4%
Credit cost (%)	2.0%	1.1%	0.7%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	23.4	33.6	45.8	53.6	64.2
BVPS (INR)	213.2	245.0	286.4	343.1	407.3
ABVPS (INR)	200.0	235.0	279.0	335.8	400.1
P/E (x)	37.2	26.0	19.8	16.9	14.1
P/BV (x)	4.1	3.6	3.2	2.6	2.2
P/ABV (x)	4.4	3.7	3.2	2.7	2.3

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
25-Apr-23	905	1,175	BUY	Buy	More than 15%
24-Jan-23	872	1,175	BUY		
25-Oct-22	925	1,115	BUY	Accumulate	5% – 15%
25-Jul-22	801	1,055	BUY		
24-Jan-22	798	955	BUY	Hold	0 – 5%
27-Dec-22	737	955	BUY	Reduce	-5% – 0
25-Oct-21	847	955	ACCUMULATE		
31-Aug-21	712	787	ACCUMULATE	Sell	Less than – 5%

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Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd.
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.