

Strong show continues...

BFSI - Banks ▶ Result Update ▶ July 23, 2023

TARGET PRICE (Rs): 1,330

ICICI Bank continues to report strong profitability — Rs97bn/40% YoY, led by system-beating credit growth @18% YoY and NII growth @38% YoY as well as lower LLP, as Bank pauses to shore-up the already high contingent buffer (1.2% of loans). We expect NIMs to moderate QoQ (down 12bps QoQ in 1Q), as costs catch up, but should be still up 15-20bps for full year in FY24E, as the pace of fall should be slower vs the rise in FY23. Factoring-in the healthy NIMs, coupled with fees/lower LLP, we revise earnings for FY24-26E by 3-7% and expect Bank to deliver superior RoA of ~2.2-2.3%/RoE of ~18% over the same period. We retain BUY, with revised TP of Rs1,330/share, valuing the core bank at 3x its Jun-25E ABV (assigning a slight premium over HDFCB) and subsidiaries at Rs170/share. Our 12-Jul-2023 sector note *The Old Order Changeth, Yielding place to New* highlighted the rising mid/senior Management attrition across banks, as also for ICICIB. However, we take comfort from the strong leadership back-up at ICICIB and are hopeful that the bank remains adaptive to limit the unwarranted attrition/business dislocation, as it aspires to build up into a "sustainable & profitable bank" in the long run.

ICICI Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	233,395	323,832	395,956	456,188	514,643
Loan growth (%)	17.1	18.7	17.5	19.5	20.1
NII growth (%)	21.7	31.9	18.9	13.0	14.4
NIM (%)	3.8	4.4	4.6	4.5	4.3
PPOP growth (%)	7.8	26.3	16.9	17.4	18.4
Adj. EPS (Rs)	33.7	46.5	56.6	65.2	73.5
Adj. EPS growth (%)	39.2	38.1	21.9	15.1	12.8
Adj. BV (INR)	234.7	278.7	325.0	379.6	441.0
Adj. BVPS growth (%)	15.3	17.5	17.0	17.0	16.4
RoA (%)	1.8	2.2	2.3	2.3	2.2
RoE (%)	15.0	17.7	18.5	18.2	17.6
P/E (x)	24.6	17.8	14.6	12.7	11.2
P/ABV (x)	3.6	3.0	2.6	2.2	1.9

Source: Company, Emkay Research

Higher deposit growth plus rising CoF drag down margin from its peak

ICICIB reported healthy credit growth at 18% YoY/3.7% QoQ, far outpacing the system's as well as HDFCB's. Overseas business continued to contract — down 30% YoY, with its share now standing low, at 3%. Retail growth remained healthy at 22% YoY, driven by mortgage (up 17% YoY), VF and unsecured loans, including cards/PL. SME growth also continued to fire up at a strong pace — up 29% YoY. But Deposits further accelerated, reporting 18% YoY/5% QoQ growth, led by retail TD growth; this in turn led to a fall in CASA ratio to 43%. This, coupled with the sharp rise in CoF, resulted to a 12bps contraction in NIM from its peak, to 4.8%. We believe margins would continue sliding QoQ, as cost catches up, but should improve by 15-20bps YoY for FY24 vs FY23 which, partly offset by the elevated opex, should lead to healthy PPOP/core-PPoP at 17% YoY/15% YoY, respectively.

Asset quality in control; Bank pauses contingent buffer build-up

Gross slippages were seasonally higher at Rs53bn/2.4% of loans due to some stress in the KCC book, but healthy recoveries and credit growth led to a 5-bps QoQ reduction in the GNPA ratio to 2.76%. The restructured loan book too reduced, to Rs39.5bn/0.4% of loans, on which the bank carries 31% PCR. The FB/NFB exposure rated below BB declined to Rs43bn/0.4% of loans from Rs47bn/0.5% of loans in Q4; the bank carries specifics on this. Specific PCR remains best among peers at 83% and thus leads to lower NNPA ratio at 0.5% of loans. Bank has paused creating contingent provision buffer, which now stands at Rs131bn/1.2% of loans/Rs19 per share, again the highest among peer banks.

ICICIB remains our top pick; We retain BUY on ICICIB with revised TP of Rs1,330

We have raised our earnings for FY24-26E by 3-7%, led by better margins/fees and lower LLP. ICICIB remains our top pick in the banking space, given its superior returns profile (RoA at ~2.2-2.3%/RoE at ~18% over FY24-26E), top-Management credibility and strong capital/provision buffers. We retain BUY on the stock, with revised TP of Rs1,330/share, valuing the bank at 3x Jun-25E ABV (assigning a slight premium over HDFCB) and subsidiaries at Rs170/share. Key risks: Higher middle/senior Management attrition leading to business dislocation and slower than expected growth/margin trajectory, led by macro disruptions.

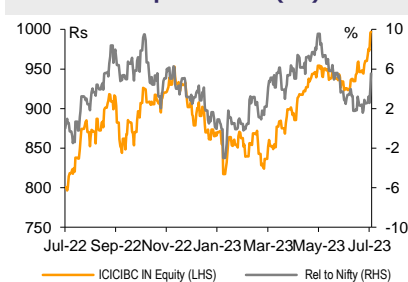
Target Price – 12M	Jun-24
Change in TP (%)	6.4
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.4
CMP (21-Jul-23) (Rs)	997.0

Stock Data	Ticker
52-week High (Rs)	1,002
52-week Low (Rs)	780
Shares outstanding (mn)	6,997.2
Market-cap (Rs bn)	6,976
Market-cap (USD mn)	85,119
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	18
ADTV-3M (Rs mn)	17,090.4
ADTV-3M (USD mn)	208.5
Free float (%)	100.0
Nifty-50	19,745
INR/USD	82.0
Shareholding, Mar-23	
Promoters (%)	-
FPIs/MFs (%)	35.7/36.7

Price Performance

(%)	1M	3M	12M
Absolute	7.8	12.6	26.8
Rel. to Nifty	3.0	0.5	6.7

1-Year share price trend (Rs)



Anand Dama

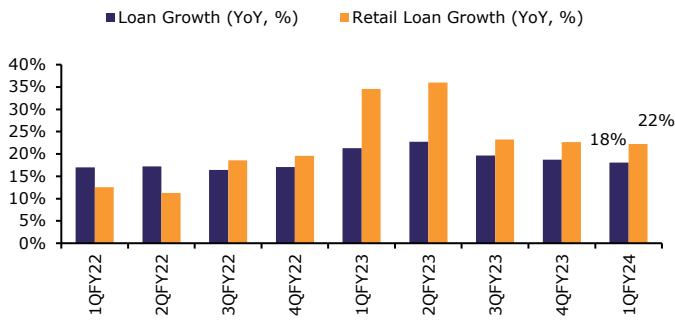
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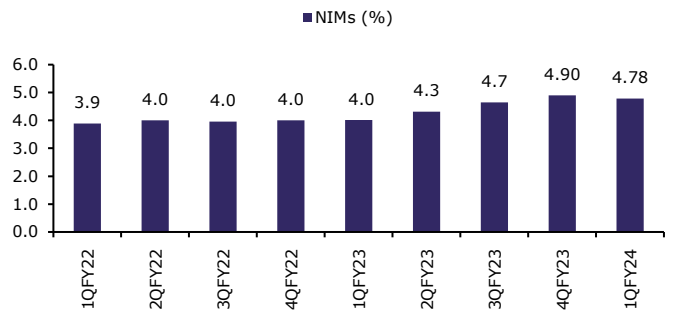
Story in Charts

Exhibit 1: Credit growth stood healthy, led by Retail



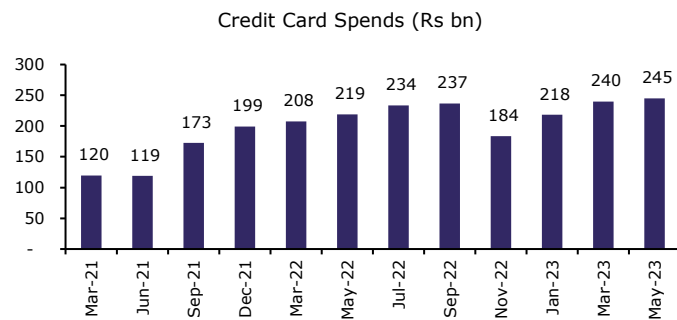
Source: Company, Emkay Research

Exhibit 2: Rising CoF caused contraction in NIMs to 4.78%



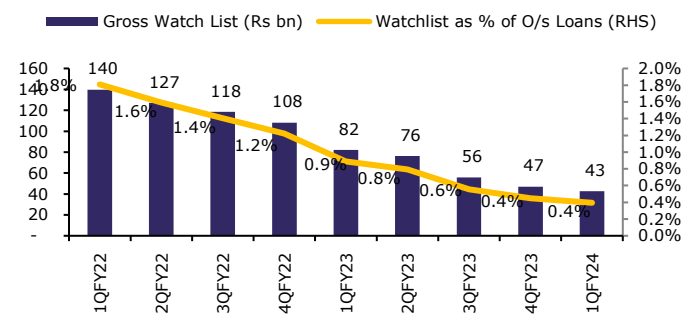
Source: Company, Emkay Research

Exhibit 3: Credit card spending remained robust in May-23



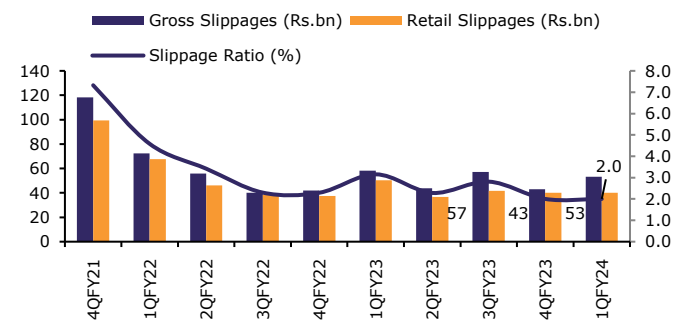
Source: Company, Emkay Research

Exhibit 4: Corporate watch-list continues, to decline now at Rs43bn/0.4% of loans, due to upgrades and slippages into NPA



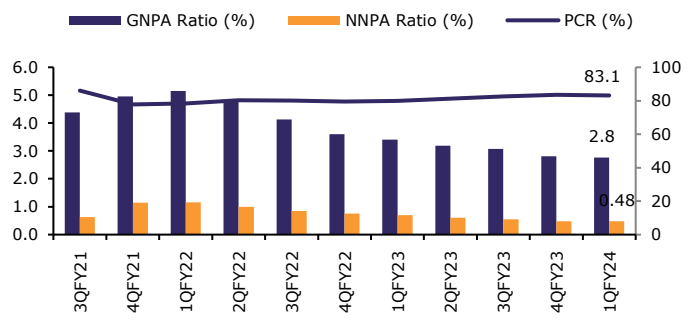
Source: Company, Emkay Research

Exhibit 5: Slippages were higher due to higher slippages from the KCC portfolio...



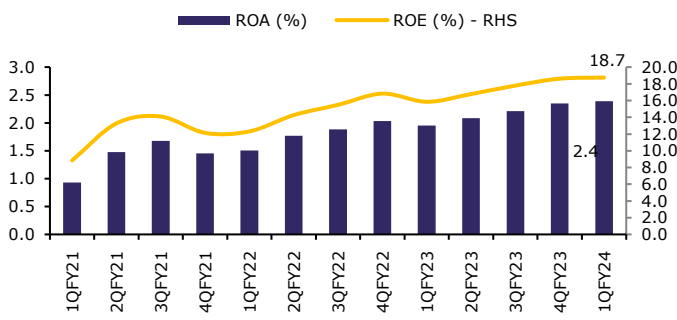
Source: Company, Emkay Research

Exhibit 6: ...although higher recoveries/credit growth led to moderation in GNPA ratio



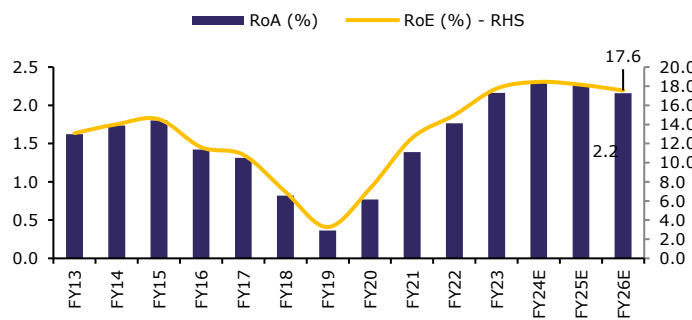
Source: Company, Emkay Research

Exhibit 7: Return ratios remain strong, led by healthy core profitability and lower LLP



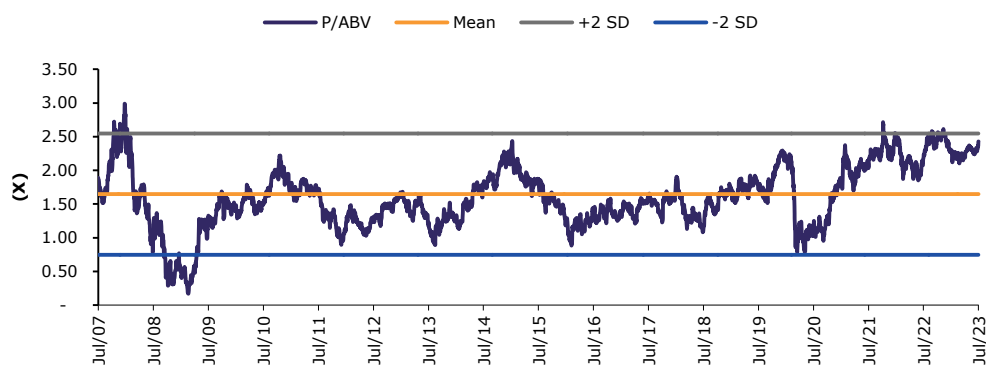
Source: Company, Emkay Research

Exhibit 8: Strong core profitability led by healthy margins/fees and lower LLP to drive up RoA/RoE to a decadal high



Source: Emkay Research

Exhibit 9: The stock is trading at 2.5x its one-year forward P/ABV, adjusted for the subsidiary's valuation



Source: Bloomberg, Emkay Research

Exhibit 10: ICICI Bank's SOTP-based valuation

ICICIB - SOTP valuation	Stake (%)	Value per share (Rs)	Basis of valuation
ICICI Bank - Standalone (A)		1,160	3x June 25E ABV (adj for investments)
Non-Banking Subsidiaries			
ICICI Prudential Life Insurance	53%	71	2x June 25E EV
ICICI Lombard General Insurance	48%	53	30x June 25E PAT
ICICI Asset Management Company	51%	34	7% of June 25E AUM
ICICI Securities	75%	28	15x June 25E PER
Other Subsidiaries	100%	26	
Value of Non-Banking Business		212	
Value, Post Holding Co. discount (20%) (B)		170	
Value of the bank (A+B)		1,330	
Current market price		997	
Upside (%)		33%	
Contribution of subs to TP (%)		13%	

Source: Company, Emkay Research

Exhibit 11: Actual vs Estimates (Q1FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	236,617	231,441	211,330	2%	12%	Better margins and higher other income led to a beat
PPOP	141,391	137,992	120,868	2%	17%	Higher net income partly offset by higher opex led to a beat
PAT	96,482	89,082	88,543	8%	9%	Lower LLP led to a beat

Source: Company, Emkay Research

Exhibit 12: Quarterly Summary

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	236,715	260,330	285,056	310,211	333,276	41	7	1,092,313	1,427,335	31
Interest Exp	104,615	112,462	120,407	133,543	151,012	44	13	466,160	682,702	46
Net Interest Income	132,100	147,868	164,650	176,668	182,265	38	3	626,153	744,633	19
Global NIMs (reported)	4.01	4.31	4.65	4.90	4.78	77bps	-12bps	4.43	4.62	18bps
Non-interest Income	46,652	50,549	50,236	50,878	54,353	17	7	198,315	235,372	19
Operating Expenses	75,663	81,614	82,174	89,282	95,226	26	7	328,732	400,580	22
Pre Provisioning Profit	103,089	116,803	132,712	138,264	141,391	37	2	495,736	579,425	17
Provision & Contingencies	11,438	16,445	22,574	16,198	12,924	13	-20	66,656	50,071	-25
PBT	91,651	100,358	110,138	122,066	128,467	40	5	429,080	529,354	23
Income Tax Expense (Gain)	22,601	24,780	27,019	30,847	31,985	42	4	105,247	133,397	27
Net Profit/(Loss)	69,049	75,578	83,119	91,219	96,482	40	6	323,832	395,956	22
Gross NPA (%)	3.41	3.19	3.07	2.81	2.76	-65bps	-5bps	2.98	2.47	-51bps
Net NPA (%)	0.70	0.61	0.55	0.48	0.48	-22bps	0bps	0.51	0.55	5bps
Deposits (Rs bn)	10,503	10,900	11,220	11,808	12,387	18	5	11,808	13,816	17
Net Advances (Rs bn)	8,956	9,386	9,740	10,196	10,576	18	4	10,196	11,978	17

Source: Company, Emkay Research

Exhibit 13: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	953,647	980,005	2.76%	1,107,010	1,144,557	3.39%	1,299,221	1,341,801	3.28%
PPOP	563,725	579,425	2.8%	655,131	680,301	3.8%	777,642	805,689	3.6%
PAT	383,111	395,956	3.4%	435,539	456,188	4.7%	479,915	514,643	7.2%
EPS (Rs)	54.6	56.6	3.7%	61.9	65.2	5.3%	68.2	73.5	7.9%
BV (Rs)	327.2	330.9	1.2%	380.1	387.1	1.9%	438.2	450.7	2.8%

Source: Emkay Research

Exhibit 14: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	18.7	17.5	19.5	20.1
Deposit Growth	10.9	17.0	19.0	20.3
NIM	4.4	4.6	4.5	4.3
GNPA	3.0	2.5	2.0	2.0
Credit Cost	0.9	0.5	0.6	0.8
Yield on Advances	9.0	10.0	9.7	9.4
Cost of Deposits	3.6	4.6	4.5	4.4

Source: Emkay Research

Exhibit 15: Key ratios and trends

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Loans (Rs mn)	7,385,979	7,649,374	8,139,916	8,590,204	8,956,248	9,385,628	9,740,475	10,196,383	10,575,826
- growth (% YoY)	17.0	17.2	16.4	17.1	21.3	22.7	19.7	18.7	18.1

Composition (%)

- Corporate - Domestic	24	23	24	23	23	23	23	23	23
- Overseas	5	5	5	5	5	4	4	3	3
- SME	4	4	4	5	4	4	5	5	5
- Retail + Rural + BB	67	68	68	68	68	69	70	70	71
- Retail	52	52	53	53	53	54	54	55	55
- Rural	10	9	9	9	9	9	9	9	9
- Business Banking	5	6	6	6	6	7	7	7	7

Deposit (Rs mn)	9,262,239	9,774,486	10,174,667	10,645,716	10,503,490	10,900,080	11,220,495	11,808,407	12,387,366
- growth (% YoY)	15.5	17.4	16.4	14.2	13.4	11.5	10.3	10.9	17.9
CASA (%)	45.9	46.1	47.2	48.7	46.9	46.6	45.3	45.8	43.3
CA (%)	12.8	13.5	14.4	14.9	13.4	13.3	13.0	13.7	13.0
SA (%)	33.1	32.6	32.9	33.8	33.5	33.3	32.4	32.2	30.3

Asset Quality / Capital

GNPA (%)	5.2	4.8	4.1	3.6	3.4	3.2	3.1	2.8	2.8
NNPA (%)	1.2	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.5
PCR (%)	78.4	80.3	80.2	79.5	79.9	81.3	82.6	83.5	83.1
Slippages (Rs mn)	72,310	55,780	40,180	42,040	58,250	43,660	57,230	42,970	53,180
Slippages (%)	4.6	3.4	2.3	2.3	3.2	2.3	2.8	2.0	2.4
Restructured loans (% of loans)	0.7	1.3	1.2	1.0	0.8	0.7	0.5	0.4	0.4
CAR (%)	18.7	18.3	19.4	19.2	18.0	16.9	16.3	18.3	16.7
Tier I %	17.7	17.3	18.4	18.4	17.3	16.2	15.5	17.6	16.0

ROE Decomposition (%)

NII	3.6	3.7	3.7	3.6	3.7	4.1	4.4	4.6	4.5
Other Income (Ex Treasury)	1.2	1.4	1.5	1.3	1.3	1.4	1.3	1.3	1.3
Treasury	0.1	0.1	0.0	0.0	0.0	(0.0)	0.0	(0.0)	0.1
Opex	2.0	2.1	2.2	2.0	2.1	2.2	2.2	2.3	2.4
PPOP	2.9	3.2	3.1	3.0	2.9	3.2	3.5	3.6	3.5
Provisions	0.9	0.9	0.6	0.3	0.3	0.5	0.6	0.4	0.3
PBT	2.0	2.3	2.5	2.7	2.6	2.8	2.9	3.1	3.2
Tax	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8	0.8
ROA	1.5	1.8	1.9	2.0	2.0	2.1	2.2	2.3	2.4
ROE	12.3	14.3	15.5	16.8	15.9	16.8	17.8	18.6	18.7

Source: Company, Emkay Research

ICICI Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	863,745	1,092,313	1,427,335	1,623,711	1,870,057
Interest Expense	389,085	466,160	682,702	782,620	907,619
Net interest income	474,661	626,153	744,633	841,091	962,438
NII growth (%)	21.7	31.9	18.9	13.0	14.4
Other income	185,175	198,315	235,372	303,466	379,363
Total Income	659,836	824,468	980,005	1,144,557	1,341,801
Operating expenses	267,333	328,732	400,580	464,256	536,112
PPOP	392,503	495,736	579,425	680,301	805,689
PPOP growth (%)	7.8	26.3	16.9	17.4	18.4
Core PPOP	385,477	496,266	568,295	646,911	755,604
Provisions & contingencies	86,414	66,656	50,071	70,425	117,664
PBT	306,089	429,080	529,354	609,877	688,025
Extraordinary items	0	0	0	0	0
Tax expense	72,694	105,247	133,397	153,689	173,382
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	233,395	323,832	395,956	456,188	514,643
PAT growth (%)	44.1	38.7	22.3	15.2	12.8
Adjusted PAT	233,395	323,832	395,956	456,188	514,643
Diluted EPS (Rs)	33.5	46.3	56.4	64.9	73.3
Diluted EPS growth (%)	39.2	38.1	21.9	15.1	12.8
DPS (Rs)	5.0	8.0	8.0	9.0	10.0
Dividend payout (%)	14.9	17.3	14.1	13.8	33.9
Effective tax rate (%)	23.7	24.5	25.2	25.2	25.2
Net interest margins (%)	3.8	4.4	4.6	4.5	4.3
Cost-income ratio (%)	40.5	39.9	40.9	40.6	40.0
Shares outstanding (mn)	6,949.9	6,983.9	6,997.7	6,997.7	6,997.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	332,949.2	311,837.0	301,455.6	296,659.4	341,133.3
Net NPLs	69,310.4	51,550.7	66,320.2	80,098.0	102,340.0
GNPA ratio (%)	3.8	3.0	2.5	2.0	2.0
NNPA ratio (%)	0.8	0.5	0.6	0.6	0.6
Provision coverage (%)	79.2	83.5	78.0	73.0	70.0
Gross slippages	192,910.1	202,110.0	207,627.6	239,809.9	296,492.3
Gross slippage ratio (%)	2.2	1.9	1.7	1.7	1.7
LLP ratio (%)	0.7	0.9	0.5	0.6	0.8
NNPA to networth (%)	3.9	2.5	2.7	2.8	3.1
Capital adequacy					
Total CAR (%)	19.2	18.3	18.0	17.9	17.5
Tier-1 (%)	18.3	17.6	17.3	17.2	16.8
CET-1 (%)	17.6	17.3	17.1	17.0	16.7
RWA-to-Total Assets (%)	62.6	67.6	70.0	70.0	70.0
Miscellaneous					
Total income growth (%)	6.9	23.0	28.8	15.9	16.7
Opex growth (%)	24.0	23.0	21.9	15.9	15.5
Core PPOP growth (%)	23.5	28.7	14.5	13.8	16.8
PPOP margin (%)	37.4	38.4	34.8	35.3	35.8
PAT/PPOP (%)	59.5	65.3	68.3	67.1	63.9
LLP-to-Core PPOP (%)	22.4	13.4	8.8	10.9	15.6
Yield on advances (%)	8.1	9.0	10.0	9.7	9.4
Cost of funds (%)	3.5	3.8	4.8	4.7	4.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	13,900	13,968	13,995	13,995	13,995
Reserves & surplus	1,691,220	1,993,186	2,332,535	2,725,129	3,169,193
Net worth	1,705,120	2,007,154	2,346,530	2,739,125	3,183,189
Deposits	10,645,716	11,808,407	13,815,912	16,439,266	19,773,413
Borrowings	1,072,314	1,193,255	1,396,967	1,623,736	1,944,782
Interest bearing liab.	11,718,030	13,001,662	15,212,879	18,063,002	21,718,195
Other liabilities & prov.	689,828	833,250	839,169	907,259	1,055,306
Total liabilities & equity	14,112,977	15,842,066	18,398,578	21,709,386	25,956,689
Net advances	8,590,204	10,196,383	11,978,254	14,317,373	17,201,927
Investments	3,102,410	3,623,297	4,098,298	4,732,045	5,581,939
Cash, other balances	1,678,224	1,194,383	1,293,095	1,445,040	1,737,456
Interest earning assets	13,370,838	15,014,063	17,369,648	20,494,457	24,521,322
Fixed assets	93,738	95,998	106,607	117,267	128,994
Other assets	648,401	732,005	922,324	1,097,661	1,306,373
Total assets	14,112,977	15,842,066	18,398,578	21,709,386	25,956,689
BVPS (Rs)	241.3	283.6	331.3	387.1	450.7
Adj. BVPS (INR)	234.7	278.7	325.0	379.6	441.0
Gross advances	8,853,843	10,456,669	12,213,390	14,533,934	17,440,721
Credit to deposit (%)	80.7	86.3	86.7	87.1	87.0
CASA ratio (%)	48.7	45.8	43.1	41.6	41.3
Cost of deposits (%)	3.3	3.6	4.6	4.5	4.4
Loans-to-Assets (%)	60.9	64.4	65.1	66.0	66.3
Net advances growth (%)	17.1	18.7	17.5	19.5	20.1
Deposit growth (%)	14.2	10.9	17.0	19.0	20.3
Book value growth (%)	11.9	17.5	16.8	16.9	16.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	24.6	17.8	14.6	12.7	11.2
P/B (x)	3.4	2.9	2.5	2.1	1.8
P/ABV (x)	3.6	3.0	2.6	2.2	1.9
P/PPOP (x)	17.6	14.0	12.0	10.2	8.6
Dividend yield (%)	0.5	0.8	0.8	0.9	1.0
DuPont-RoE split (%)					
NII/avg assets	3.6	4.2	4.3	4.2	4.0
Other income	1.4	1.3	1.4	1.5	1.6
Fee income	1.0	1.0	1.0	1.1	1.1
Opex	2.0	2.2	2.3	2.3	2.2
PPOP	3.0	3.3	3.4	3.4	3.4
Core PPOP	2.9	3.3	3.3	3.2	3.2
Provisions	0.7	0.4	0.3	0.4	0.5
Tax expense	0.6	0.7	0.8	0.8	0.7
RoA (%)	1.8	2.2	2.3	2.3	2.2
Leverage ratio (x)	8.5	8.2	8.0	8.0	8.1
RoE (%)	15.0	17.7	18.5	18.2	17.6

Quarterly data					
Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	132,100	147,868	164,650	176,668	182,265
NIM (%)	4.0	4.3	4.7	4.9	4.8
PPOP	103,089	116,803	132,712	138,264	141,391
PAT	69,049	75,578	83,119	91,219	96,482
EPS (Rs)	9.92	10.85	11.91	13.06	13.79

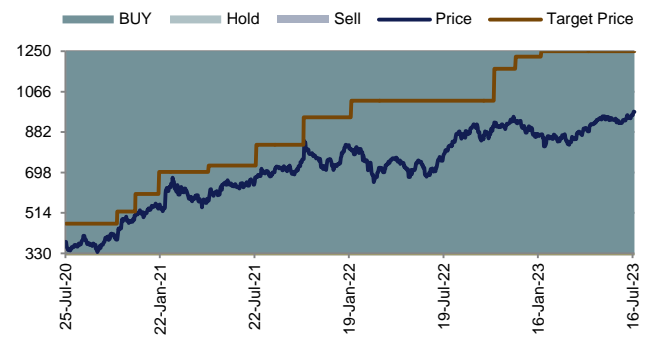
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
13-Jul-23	956	1,250	Buy	Anand Dama
24-Apr-23	905	1,250	Buy	Anand Dama
09-Mar-23	856	1,250	Buy	Anand Dama
22-Jan-23	870	1,250	Buy	Anand Dama
04-Dec-22	931	1,225	Buy	Anand Dama
24-Oct-22	926	1,170	Buy	Anand Dama
24-Jul-22	800	1,025	Buy	Anand Dama
24-Apr-22	748	1,025	Buy	Anand Dama
23-Jan-22	805	1,025	Buy	Anand Dama
04-Dec-21	716	950	Buy	Anand Dama
24-Oct-21	759	950	Buy	Anand Dama
25-Aug-21	691	825	Buy	Anand Dama
25-Jul-21	677	825	Buy	Anand Dama
25-Apr-21	570	730	Buy	Anand Dama
31-Jan-21	537	700	Buy	Anand Dama
20-Jan-21	551	700	Buy	Anand Dama
06-Dec-20	502	600	Buy	Anand Dama
01-Nov-20	393	520	Buy	Anand Dama
26-Jul-20	382	465	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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