Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Bank

Moving from strength to strength

Banks	Sharekhan code: ICICIBANK
Reco/View: Buy ↔	CMP: **Rs. 932**
Price Target: **Rs. 1,200** ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ICICI Bank reported yet another strong quarter with earnings (~8% beat) rising by 36% y-o-y and RoA sustaining at ~2.4%. Healthy credit growth (+5% q-o-q)/core fee income (+7% q-o-q) and lower credit cost (21 bps annualised) helped to sustain strong performance despite NIM compression, which was on expected lines (~25 bps q-o-q).
- Core PPoP grew by 23% y-o-y/1% q-o-q. Asset quality improved sequentially on the back of lower slippages and higher recoveries and upgrades. Net slippages were just at Rs. 116 crore vs. Rs. 1,807 crore q-o-q. Contingent provision buffer stood at ~1.2% of loans.
- Loan growth picked up (+5% q-o-q vs. 4% in the last quarter) and remained broad-based. Total deposits grew by 4.5% q-o-q, driven by term deposits (~9% q-o-q). CASA balances were down ~2% q-o-q.
- We maintain our Buy rating with an unchanged PT of Rs. 1,200. The stock currently trades at 2.3x/2.0x its FY2024E/FY2025E core BV estimates. NIM pressure is likely to persist in the near term, but we still see the bank delivering best-in-class performance in our coverage universe.

ICICI Bank continued to report strong performance in Q2FY2024. Net interest income (NII) grew by 24% y-o-y/flat q-o-q. Net interest margin (NIM) declined by 25 bps q-o-q to 4.53% on expected lines, as the cost of funds is rising faster, led by repricing of deposits. The bank has guided that NIM pressure is likely to persist in the near term, but the pace of contraction would moderate. Core fee income grew by 16% y-o-y/7% q-o-q. The retail, business banking, and SME segments constituted ~78% of the total fee income during the quarter. There was a treasury loss of Rs. 85 crore vs. gain of Rs. 252 crore q-o-q and loss of Rs. 85 crore in Q2FY2023. Total operating expenses grew by 21% y-o-y/3% q-o-q, driven by higher business volumes and tech expenses. Opex-to-average assets moderated to 2.3% vs. 2.4% q-o-q. Operating profit grew by 22% y-o-y/1% q-o-q. Total credit cost stood at 21 bps vs. 50 bps q-o-q and 72 bps y-o-y. PBT grew by 36% y-o-y/6% q-o-q. Advances growth picked up and remained broad-based (up 18% y-o-y/ 5% q-o-q), with retail loans growing at 21% y-o-y/6% q-o-q; business banking grew by 30% y-o-y/11% q-o-q, SME grew by 29% y-o-y/ 7% q-o-q. The domestic wholesale corporate book grew by 15% y-o-y/3% q-o-q. Total deposits grew by 19% y-o-y/5% q-o-q, led by term deposits (up 32% y-o-y/9% q-o-q). CASA balances were down by 2% q-o-q. Headline asset-quality trends improved q-o-q, with GNPA/NNPA ratio at 2.48%/0.43% vs. 2.72%/0.48% q-o-q. Slippages ratio was lower at 2.0% vs. 2.4% q-o-q (calculated as a % of 12-month trailing loans). Net slippages were just at Rs. 116 crore vs. Rs. 1,807 crore q-o-q, led by higher recoveries in the corporate and SME segments. Restructured book stood at 0.32% of advances vs. 0.37% q-o-q. BB and below-rated book (from corporate and SME) stood at Rs. 4,789 crore vs. Rs. 4,276 crore sequentially. Total contingent provisions remained at Rs. 13,100 crore (1.2% of loans).

Key positives

- Strong business momentum sustained along with healthy retail term deposit growth.
- Lower credit cost trajectory sustained led by lower slippages and higher recoveries.

Key negatives

- BB and below-rated book (from corporate and SME) increased to Rs. 4,789 crore vs. Rs. 4,276 crore sequentially.
- CASA ratio stood at 40.8% vs. 43.3% q-o-q.

Management Commentary

- The bank has maintained its negative outlook on NIMs, as cost of deposits would put further pressure on the cost of funds in H2FY2024, but the pace of margin contraction would moderate.
- The bank guided that it has very minimal presence in small ticket size unsecured PL loans where stress is emerging and its overall unsecured portfolio continues to perform well, thus growth is strong.

Our Call

Valuation – -Maintain Buy with an unchanged PT of Rs. 1,200: ICICI Bank currently trades at 2.3x/2.0x its FY2024E/FY2025E core BV estimates. The bank reported another solid quarter, led by healthy credit growth and strong asset quality. NIM pressure is likely to persist in the near term, but we still see the bank delivering best-in-class performance in our coverage universe. From here on, only operating leverage can help to sustain a strong return ratio, which could be partly offset by lower NIMs and gradual normalisation of credit cost. We believe the bank is on the path of delivering a sustainable earnings growth trajectory with sustainable RoA at ~2%.

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit costs; slower growth in retail deposits; and lower-than-expected margins.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Net Interest Income	47,466	62,129	69,986	79,834
Net profit	23,339	31,897	39,013	41,111
EPS (Rs.)	33.0	44.9	55.9	58.9
P/E (x)	24.4	17.9	14.4	13.7
P/Core BV (x)	3.3	2.8	2.3	2.0
RoE	14.7	17.2	17.7	15.8
RoA	1.8	2.1	2.3	2.1

Source: Sharekhan Research

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 23.96

Updated Aug 08, 2023

Medium Risk

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

Source: Morningstar

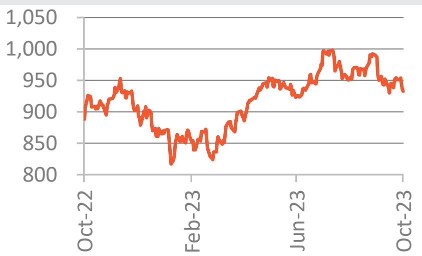
Company details

Market cap:	Rs. 6,53,121 cr
52-week high/low:	Rs. 1,009/ 796
NSE volume: (No of shares)	168.9 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	700.4 cr

Shareholding (%)

Promoters	-
FII	44.4
DII	45.5
Others	10.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.6	-6.4	4.3	4.8
Relative to Sensex	-3.5	-3.2	-5.4	-5.6

Sharekhan Research, Bloomberg

Key result highlights

- **NIM outlook negative:** NII grew by 24% y-o-y/flat q-o-q. NIM declined by 25 bps q-o-q to 4.53% on the expected lines as the cost of funds is rising faster led by the repricing of deposits. The bank guided that NIM pressure is likely to persist in the near term, but the pace of contraction would moderate. Yield on advances declined by 5 bps q-o-q. Cost of deposits stood at 4.53% vs. 4.31% q-o-q and overall cost of funds was at 4.78% vs. 4.60% q-o-q.
- **Lower credit cost sustained:** Total credit cost stood at 21 bps vs. 50 bps q-o-q and 72 bps y-o-y. Total contingent provisions stood at Rs. 13,100 crore (1.2% of loans). The bank is not seeing any potential risk from any portfolio segment including the unsecured portfolio and credit cost is expected to remain lower at least in the near term.
- **Strong loan growth momentum:** Advances growth picked up and remained broad-based, grew by 18% y-o-y and 5% q-o-q with the retail book growing by 21% y-o-y. Rural loans grew by 17% y-o-y. in the retail loan segment, mortgages grew by 16% y-o-y, vehicle loans grew by 20% y-o-y, personal loans increased by 40% y-o-y, and the credit cards business grew by 30% y-o-y. Business banking and SME grew by 30% y-o-y and 29% 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. The wholesale domestic corporate book grew by 15% y-o-y. The overseas loan portfolio was about 3% of the overall loan book and declined by 4% 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, it is focusing on contribution to core operating profit from the overall product portfolio by leveraging digital platform offerings. Quarterly average LCR was at 122%, stable on a q-o-q basis. With growing distribution, improving product portfolio, and strong digital offering stack, overall loan growth outlook is expected to remain healthy and broad-based.
- **Deposit mobilisation healthy:** Deposits grew by 19% y-o-y/5% q-o-q, led by term deposits. CASA deposits declined by 2% q-o-q. CASA ratio stood at 40.8% vs. 43.3% y-o-y. Term deposits (32% y-o-y/9% q-o-q) witnessed strong traction and the majority is retail deposits.
- **Asset quality pristine:** Headline asset-quality trends improved q-o-q with GNPA/NNPA ratio at 2.48%/0.43% vs. 2.72%/0.48% q-o-q. PCR is stable at 83% q-o-q. Slippages ratio was lower at 2.0% vs. 2.4% q-o-q (calculated as a % of 12-month trailing loans). Net slippages were just at Rs. 116 crore vs. Rs. 1,807 crore q-o-q, led by higher recoveries in the corporate and SME segments. Restructured book stood at 0.32% of advances vs. 0.37% q-o-q. BB and below-rated book (from corporate and SME) stood at Rs. 4,789 crore vs. Rs. 4,276 crore sequentially. Fresh slippages stood at Rs. 4,687 crore vs. Rs. 5,318 crore q-o-q. Recoveries and upgrades stood at Rs. 4,571 crore vs. Rs. 3,511 crore q-o-q. Write-offs stood at Rs. 1,922 crore vs. Rs. 1,169 crore q-o-q. The bank has guided that it has very minimal presence in the small ticket-size unsecured PL loans where stress is emerging and its overall unsecured portfolio continues to perform well, thus growth is strong.

Results Rs cr

Particulars	2QFY24	2QFY23	1QFY24	Y-o-Y	Q-o-Q
Interest Inc.	34,920	26,033	33,328	34%	5%
Interest Expenses	16,612	11,246	15,101	48%	10%
Net Interest Income	**18,308**	**14,787**	**18,226**	**24%**	**0%**
NIM (%)	4.53	4.31	4.78	5%	-5%
Core Fee Income	5,204	4,480	4,843	16%	7%
Other Income	573	575	592	0%	-3%
Net Income	**24,085**	**19,842**	**23,662**	**21%**	**2%**
Employee Expenses	3,725	2,889	3,884	29%	-4%
Other Opex	6,130	5,273	5,639	16%	9%
Total Opex	**9,855**	**8,161**	**9,523**	**21%**	**3%**
Cost to Income Ratio	40.9%	41.1%	40.2%		
Pre-Provision Profits	**14,229**	**11,680**	**14,139**	**22%**	**1%**
Provisions & Contingencies – Total	583	1,645	1,292	-65%	-55%
Profit Before Tax	**13,647**	**10,036**	**12,847**	**36%**	**6%**
Tax	3,386	2,478	3,198	37%	6%
Effective Tax Rate	25%	25%	25%		
Reported Profits	**10,261**	**7,558**	**9,648**	**36%**	**6%**
Basic EPS (Rs.)	14.66	10.86	13.80	35%	6%
Diluted EPS (Rs.)	14.40	10.64	13.54	35%	6%
RoA (%)	2.39	1.98	2.39		
Advances	11,10,542	9,38,563	10,57,583	18%	5%
Deposits	12,94,742	10,90,008	12,38,737	19%	5%
Gross NPA	**29,837**	**32,571**	**31,822**	**-8%**	**-6%**
Gross NPA Ratio (%)	2.48	3.19	2.76		
Net NPA	**5,046**	**6,099**	**5,382**	**-17%**	**-6%**
Net NPAs Ratio (%)	0.43	0.61	0.48		
PCR - Calculated	83.1%	81.3%	83.1%		

Source: Company, Sharekhan Research

SOTP valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value	1,072
ICICI Prudential Life Insurance	63
ICICI Lombard General Insurance	50
ICICI Prudential AMC	12
ICICI Securities	13
ICICI Home Finance	4
ICICI Bank UK Plc	5
ICICI Bank Canada	5
ICICI Venture	4
ICICI PD business	4
Sum of subs/ associates	160
Holding Co. discount @20%	32
Value of subs/ associates post holdco discount	128
Fair Value	**1,200**

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~20% y-o-y in the fortnight ending September 22, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13%. The gap between advances and deposits growth has again widened. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. Overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

■ Company Outlook – Attractive franchise

The bank is positioned well with superior margins, strong RoE, asset quality, contingency buffers, and robust capitalisation levels. Strong liability franchise indicates a robust business outlook for the bank. We find ICICI Bank to be an attractive franchise with a strong balance sheet and a better return ratio matrix, which makes it attractive over the mid to long term. Moreover, its well-performing subsidiaries, which are strong players in their respective fields, add value to the overall business. The franchise is looking towards more predictable performance, which is a key positive.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,200

ICICI Bank currently trades at 2.3x/2.0x its FY2024E/FY2025E core BV estimates. The bank reported another solid quarter, led by healthy credit growth and strong asset quality. NIM pressure is likely to persist in the near term, but we still see the bank delivering best-in-class performance in our coverage universe. From here on, only operating leverage can help to sustain a strong return ratio, which could be partly offset by lower NIMs and gradual normalisation of credit cost. We believe the bank is on the path of delivering a sustainable earnings growth trajectory with sustainable RoA at ~2%.

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs. cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
ICICI Bank	932	6,53,121	14.4	13.7	2.3	2.0	17.7	15.8	2.3	2.1
HDFC Bank	1,523	11,54,748	15.6	14.0	2.2	2.0	13.9	14.4	1.8	1.8
Axis Bank	980	3,02,126	11.6	10.7	1.9	1.6	17.4	16.2	1.7	1.7

Source: Company; Sharekhan Research

About the 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, agri, and retail businesses. The bank has currently 6,248 branches with 51% of branches in rural and semi-urban areas.

Investment theme

ICICI Bank is an attractive franchise with a strong balance sheet and a better sustainable return ratio matrix, which makes it attractive over the mid to long term. Moreover, its well-performing subsidiaries, which are strong players in their respective fields, add value to the overall business. The franchise is looking towards a more predictable performance, which is a key positive.

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost; slower growth in retail deposits; and lower-than-expected margins.

Additional Data

Key management personnel

Mr. Sandeep Bakhshi	Managing Director & CEO
Mr. Rakesh Jha	Executive Director
Mr. Anindya Banerjee	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.1
2	SBI Funds Management Ltd.	6.0
3	ICICI Prudential Asset Mangement Co. Ltd.	3.2
4	Republic of Singapore	2.7
5	Hdfc Asset Management Co. Ltd.	2.6
6	Blackrock Inc.	2.5
7	NPS Trust A/C UTI Retirement Solutions Ltd	2.1
8	UTI Asset Management Co. Ltd.	1.8
9	Capital Group Cos. Inc	1.5
10	Aditya Birla Sun Life AMC Co. Ltd	1.4

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

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