Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Bank

Steady Q3

Bank	Sharekhan code: ICICIBANK
Reco/View: Buy ↔	CMP: Rs. 1,008 / Price Target: Rs. 1,200 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

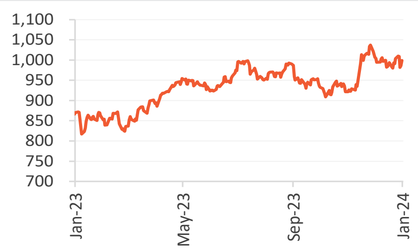
Company details

Market cap:	Rs. 7,07,374 cr
52-week high/low:	Rs. 1009/796
NSE volume: (No of shares)	153.7 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	701.6 cr

Shareholding (%)

Promoters	-
FII	43.6
DII	46.2
Others	10.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.1	8.0	1.2	15.9
Relative to Sensex	-0.5	-0.9	-6.2	-1.6

Sharekhan Research, Bloomberg

Summary

- ICICI Bank clocked another steady quarter led by consistent loan growth (+18% y-o-y /4% q-o-q) and lower credit costs (37 bps of loans), maintaining its robust asset quality with an RoA of 2.3%.
- Asset quality trends remained stable despite higher slippages (2.3% vs 2.0% q-o-q), mainly due to higher recoveries & upgrades. Net slippages were at Rs. 363 crore vs. Rs. 116 crore q-o-q.
- NIMs fell by 10 bps q-o-q / 22 bps y-o y to 4.43%. Thus, core PPoP growth was muted at 10% y-o-y/2% q-o-q. Total deposits grew by 19% y-o-y/ 3% q-o-q, driven by term deposits (~5% q-o-q). CASA balances were flat q-o-q.
- We maintain a Buy with an unchanged PT of Rs. 1,200. The stock trades at 2.2x/1.8x its FY2025E/FY2026E core BV estimates. NIM pressure is likely to persist in the near term, but we still see the bank sustaining RoA over ~2% in near to medium term.

ICICI Bank continued to report steady performance in Q3FY2024. Net interest income (NII) grew by 13% y-o-y/2% q-o-q. Net interest margin (NIM) fell by 10 bps q-o-q/ 22 bps y-o-y to 4.43% led by rise in cost 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 19% y-o-y/2% q-o-q. There was a treasury gain of Rs. 123 crore vs. loss of Rs. 85 crore q-o-q and gain of Rs. 36 crore in Q3FY2023. Total operating expenses grew by 22% y-o-y/2% q-o-q. Opex growth has started to moderate and is likely to be lower going forward driven by lower headcount addition. Operating profit grew by 11% y-o-y/3% q-o-q. Total credit cost stood at 37 bps vs. 21 bps q-o-q. Out of the total credit costs, of which 22 bps were attributable to provisions pertaining to investments in AIFs. Pre-tax profits grew by 24% y-o-y/ flat q-o-q. PAT came in at Rs. 10,272 crore up 24% y-o-y/ flat q-o-q. Advances growth remained healthy & broad-based (up 18% y-o-y/ 4% q-o-q), with retail loans growing by 21% y-o-y/4% q-o-q; business banking grew by 32% y-o-y/7% q-o-q, SME grew by 28% y-o-y/ 7% q-o-q. The domestic wholesale corporate book grew by 13% y-o-y/3% q-o-q. Total deposits grew by 19% y-o-y/3% q-o-q, led by term deposits (up 31% y-o-y/5% q-o-q). CASA balances were flat q-o-q. Headline asset-quality trends improved q-o-q, with GNPA/NNPA ratio at 2.30%/0.44% vs. 2.48%/0.43% q-o-q. Slippages ratio was higher at 2.3% versus 2.0% q-o-q (calculated as a % of 12-month trailing loans) led by Agri segment. Net slippages were at Rs. 363 crore vs. Rs. 116 crore q-o-q, led by higher recoveries in the corporate & SME segment. The restructured book stood at 0.29% of advances vs. 0.32% q-o-q. BB and below-rated book (from corporate and SME) stood at Rs. 5,853 crore vs. Rs. 4,789 crore sequentially. Total contingent provisions remained at Rs. 13,100 crore (1.1% of loans).

Key positives

- Strong business momentum sustained along with healthy retail term deposit growth.
- Including provisions pertaining to AIFs (one-offs), total credit cost was still lower at ~37 bps annualised led by higher recoveries & upgrades.

Key negatives

- Core PPoP growth slowed owing to lower NIMs.
- 'BB and below'-rated book (from corporate and SME) increased to Rs. 5,853crore vs. Rs. 4,789 crore sequentially.
- CASA ratio stood at 39.6% versus 40.8% q-o-q.

Management Commentary

- Bank has maintained its negative outlook on NIMs, as cost of deposits would put further pressure on the cost of funds in Q4FY2024 & Q1FY25, but the pace of margin contraction would moderate.
- Bank highlighted that it has improvised the credit filters in personal loan segment as a risk measure and has also increased the pricing of new personal loans by 25-30 bps. Growth trajectory is expected to slow down a bit however currently no adverse trends are seen on unsecured portfolio and it continues to perform well.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,200: ICICI Bank currently trades at 2.2x/1.8x its FY2025E/FY2026E core BV estimates. The bank reported another steady quarter, led by healthy credit growth and strong asset quality. Despite NIMs contraction in the near term and gradual normalisation of credit costs over the medium term, we see bank sustaining RoA over 2% in near to medium term. We believe the bank is on the path of delivering a sustainable and predictable earnings growth trajectory.

Key Risks

Economic slowdown can impact 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	FY26E
Net Interest Income	47,466	62,129	74,426	84,250	94,807
Net profit	23,339	31,897	40,566	43,665	48,655
EPS (Rs.)	33.0	44.9	58.1	62.5	69.7
P/E (x)	26.7	19.6	15.2	14.1	12.6
P/Core BV (x)	3.6	3.1	2.6	2.2	1.8
RoE	14.7	17.2	18.4	16.6	15.8
RoA	1.8	2.1	2.4	2.2	2.2

Source: Company; Sharekhan estimates

Key result highlights

NIM outlook negative: NII grew by 13% y-o-y/2% q-o-q. NIM declined by 10 bps q-o-q / 22 bps y-o-y to 4.43% 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 fell by 2 bps q-o-q. Cost of deposits stood at 4.72% vs. 4.53% q-o-q, while the overall cost of funds was at 4.96% vs. 4.78% q-o-q.

Lower credit costs sustain: Total credit cost stood at 37 bps vs. 21 bps q-o-q. Out of the total credit cost, 22 bps were attributable to provisions pertaining to investments in AIFs. 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 will gradually normalise over the medium term.

Healthy loan growth momentum: Advances growth remained healthy and broad-based, grew by 18% y-o-y/ 4% q-o-q with the retail book growing by 21% y-o-y. Rural loans grew by 18% 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 37% y-o-y, while credit cards grew by 40% y-o-y. Business banking and SME grew by 32% y-o-y and 28% y-o-y, respectively. Robust growth in business banking and the 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 13% y-o-y. Overseas loan portfolio was about 3% of the overall loan book and grew by 11% 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 121%, stable q-o-q basis.

Deposit mobilisation remains a key monitorable: Deposits grew by 19% y-o-y/3% q-o-q, led by term deposits. CASA deposits were flat q-o-q. CASA ratio stood at 39.6% versus 45.3% y-o-y. Term deposits (31% y-o-y/5% q-o-q) witnessed strong traction and the majority is retail deposits.

Asset quality stable: Headline asset-quality trends improved q-o-q, with GNPA/NNPA ratios at 2.30%/0.44% vs. 2.48%/0.43% q-o-q. Slippages ratio was higher at 2.3% vs. 2.0% q-o-q (calculated as a % of 12-month trailing loans) led by Agri segment. Net slippages were at Rs. 363 crore vs. Rs. 116 crore q-o-q, led by higher recoveries in the corporate & SME segments. The restructured book stood at 0.29% of advances vs. 0.32% q-o-q. BB and below-rated book (from corporate and SME) stood at Rs. 5,853 crore versus Rs. 4,789 crore sequentially. Total contingent provisions remained at Rs. 13,100 crore (1.1% of loans). Fresh slippages stood at Rs. 5,714 crore vs. Rs. 4,687 crore q-o-q. Recoveries and upgrades stood at Rs. 5,351 crore vs. Rs. 4,571 crore q-o-q. Write-offs stood at Rs. 1,389 crore versus Rs. 1,922 crore q-o-q. The bank highlighted that it has improvised the credit filters in personal loan segment as a risk measure and has also increased the pricing of new personal loans by 25-30 bps. Growth trajectory is expected to slow down a bit however currently no adverse trends are seen on unsecured portfolio, and it continues to perform well.

Results (Standalone) Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	Y-o-Y %	Q-o-Q %
Interest Inc.	36,695	28,506	34,920	29%	5%
Interest Expenses	18,016	12,041	16,612	50%	8%
Net Interest Income	**18,679**	**16,465**	**18,308**	**13%**	**2%**
NIM (%)	4.43	4.65	4.53	-5%	-2%
Core Fee Income	5,313	4,448	5,204	19%	2%
Other Income	784	576	573	36%	37%
Net Income	**24,776**	**21,489**	**24,085**	**15%**	**3%**
Employee Expenses	3,813	2,921	3,725	31%	2%
Other Opex	6,239	5,296	6,130	18%	2%
Total Opex	**10,052**	**8,217**	**9,855**	**22%**	**2%**
Cost to Income Ratio	40.6%	38.2%	40.9%		
Pre-Provision Profits	14,724	13,271	14,229	11%	3%
Provisions & Contingencies – Total	1,049	2,257	583	-54%	80%
Profit Before Tax	**13,674**	**11,014**	**13,647**	**24%**	**0%**
Tax	3,403	2,702	3,386	26%	1%
Effective Tax Rate	25%	25%	25%		
Reported Profits	**10,272**	**8,312**	**10,261**	**24%**	**0%**
Basic EPS (Rs.)	14.65	11.92	14.66	23%	0%
Diluted EPS (Rs.)	14.40	11.68	14.40	23%	0%
RoA (%)	2.3	2.2	2.4		
Advances	11,53,771	9,74,048	11,10,542	18%	4%
Deposits	13,32,315	11,22,049	12,94,742	19%	3%
Gross NPA	28,745	32,528	29,837	-12%	-4%
Gross NPA Ratio (%)	2.30	3.07	2.48		
Net NPA	5,378	5,651	5,046	-5%	7%
Net NPAs Ratio (%)	0.44	0.55	0.43		
PCR - Calculated	81.3%	82.6%	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 Research

Outlook and Valuation

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

System-level credit offtake grew ~20% y-o-y in the fortnight ending December 29, 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 ~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 2.2x/1.8x its FY2025E/FY2026E core BV estimates. The bank reported another steady quarter, led by healthy credit growth and strong asset quality. Despite NIMs contraction in near term and gradual normalisation of credit cost over the medium term, we see bank sustaining RoA over 2% in near to medium term. We believe the bank is on the path of delivering a sustainable and predictable earnings growth trajectory.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
ICICI Bank	1,008	7,07,374	14.1	12.6	2.2	1.8	16.6	15.8	2.2	2.2
HDFC Bank	1,479	11,22,663	12.0	10.7	1.9	1.6	16.0	15.3	2.0	2.0
Axis Bank	1,121	3,45,679	12.3	11.0	1.9	1.6	16.3	15.5	1.8	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, agri, and retail businesses. The bank has currently 6,371 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	5.95
2	Life Insurance Corp of India	5.9
3	ICICI Prudential Asset Management	3.57
4	HDFC Asset Management Co Ltd	2.77
5	BlackRock Inc	2.61
6	Republic of Singapore	2.57
7	NPS Trust A/c Uti Retirement Solut	2.13
8	UTI Asset Management Co Ltd	1.81
9	Nippon Life India Asset Management	1.46
10	Kotak Mahindra Asset Management Co	1.31

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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