Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Bank

Bellwether pick

Bank	Sharekhan code: ICICIBANK
Reco/View: Buy ↔	CMP: **Rs. 1,083**
	Price Target: **Rs. 1,300** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy rating on ICICI Bank with a revised PT of Rs. 1,300. Pressure on NIMs is likely to persist in the near term, but we still see the bank sustaining its RoA at over ~2% in near to medium term.
- Pressure on NIMs is expected to be partly offset by contained opex growth. Deposit growth continues to be in line with loan growth and LDR remains lowest among large private banks thus loan growth outlook continues to remain healthy for the bank.
- Asset quality continues to be healthy along with strong provisioning buffer outside PCR (1.1% of loans) should keep credit cost lower.
- Thus, we believe that among large private banks, it is well-positioned to deliver superior growth/ return trajectory. The stock trades at 2.3x/1.9x its FY2025E/FY2026E core BV estimates.

ICICI Bank remains our top pick in large private banks space and is well positioned to deliver superior performance despite cyclicals headwinds. A consistent healthy loan growth trajectory and strong asset quality is helping the bank to sustain strong performance despite NIMs compression. The bank continues to have a negative outlook on NIMs, but it is optimistic that it will be able to hold the margins in line with FY23. NIMs pressure is expected to be partly offset by contained opex growth. The sector is also facing a challenge in terms of tight liquidity, which is likely to call for faster deposit mobilisation to sustain loan growth. For ICICI bank, deposit growth remains in line with loan growth and LDR remains lowest among large private banks thus loan growth outlook continues to remain healthy for the bank. Overall, the asset quality outlook continues to remain stable along with higher contingent provisions should keep credit cost lower. We believe bank is likely to sustain RoA at over ~2% in near to medium term despite cyclical headwinds.

Growth outlook: The bank is consistently outpacing system credit growth driven by higher growth in retail and SME segment while the wholesale segment's growth is relatively lower. Deposit growth remains in line with loan growth and the LDR (~ 87%) remains lowest among large private banks thus loan growth outlook continues to remain healthy for the bank given tight liquidity conditions. Also, growth in retail was earlier primarily driven by the unsecured segment. The share of unsecured loans (credit cards + personal loans) now stands at ~14% of the total portfolio. Going forward, moderation of growth in the unsecured segment would be offset by strong growth in SME segment and growth picking up in the corporate loan segment.

Credit cost to normalize gradually: The retail segment is accounting for most of the slippages in past few quarters however strong recoveries and upgrades have kept the credit cost lower. Overall, asset quality remains stable (except early delinquencies seen in the unsecured segment). 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. Normalisation of credit costs is expected to happen very gradually for the bank as strong provisioning buffer outside PCR (1.1% of loans) should keep credit cost lower.

NIMs to decline on expected lines: The bank continues to have a negative outlook on NIMs but it is optimistic that it will be able to hold the margins in line with FY23. The moderation in unsecured loan growth and increase in cost of funds as deposits get repriced higher is likely to put pressure on margins but this is not confined to ICICI Bank. The bank guided that NIM pressure is likely to persist in the near term, but the pace of contraction would moderate.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,300: ICICI Bank currently trades at 2.3x/1.9x its FY2025E/FY2026E core BV estimates. The bank has been consistently sustaining its growth leadership while simultaneously managing a superior asset quality. We believe the bank is on the path of delivering a sustainable and predictable earnings growth trajectory. Despite NIMs contraction and normalisation of credit costs, we see the bank sustaining its RoA over 2% in near to medium term. Key monitorable remains that the bank should be able to keep healthy deposit mobilisation in line with the loan growth in order to sustain healthy growth given tight liquidity conditions.

Key Risks

Economic slowdown; 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)	28.0	20.6	15.9	14.8	13.2
P/Core BV (x)	3.8	3.2	2.7	2.3	1.9
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

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. 7,60,442 cr
52-week high/low:	Rs. 1,113 / 811
NSE volume: (No of shares)	143.9 lakh
BSE code:	532174
NSE code:	ICICIBANK
Free float: (No of shares)	701.9 cr

Shareholding (%)

Promoters	-
FII	43.6
DII	46.2
Others	10.1

Price chart

Price performance

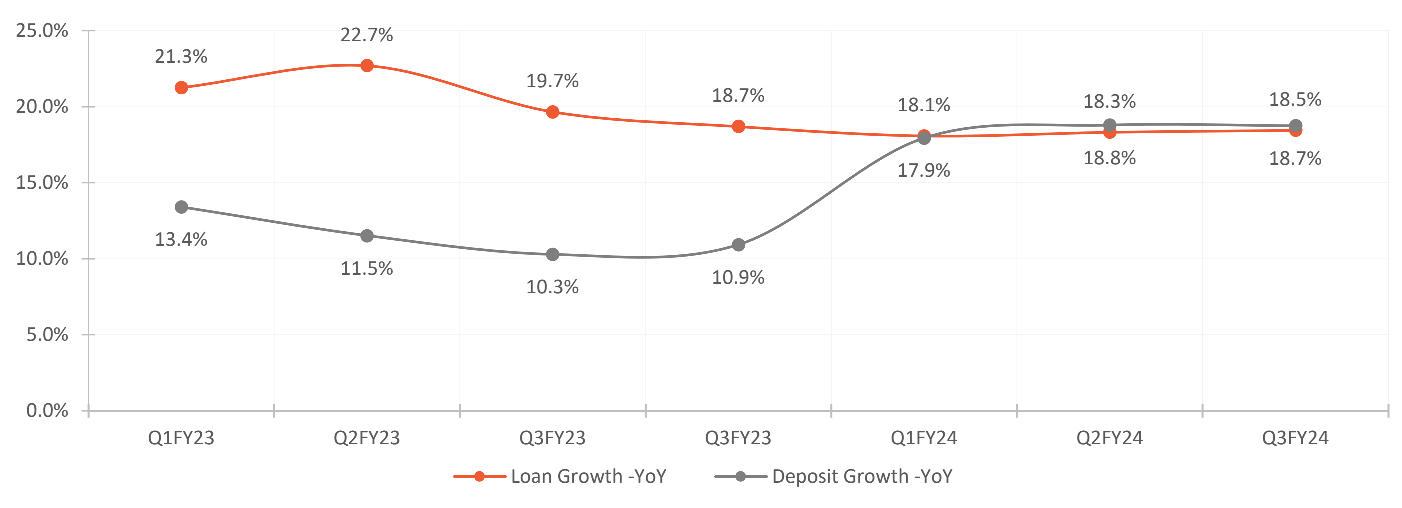
(%)	1m	3m	6m	12m
Absolute	7.9%	6.8%	9.4%	30.8%
Relative to Sensex	6.2%	2.2%	1.5%	5.9%

Sharekhan Research, Bloomberg

Stock Update

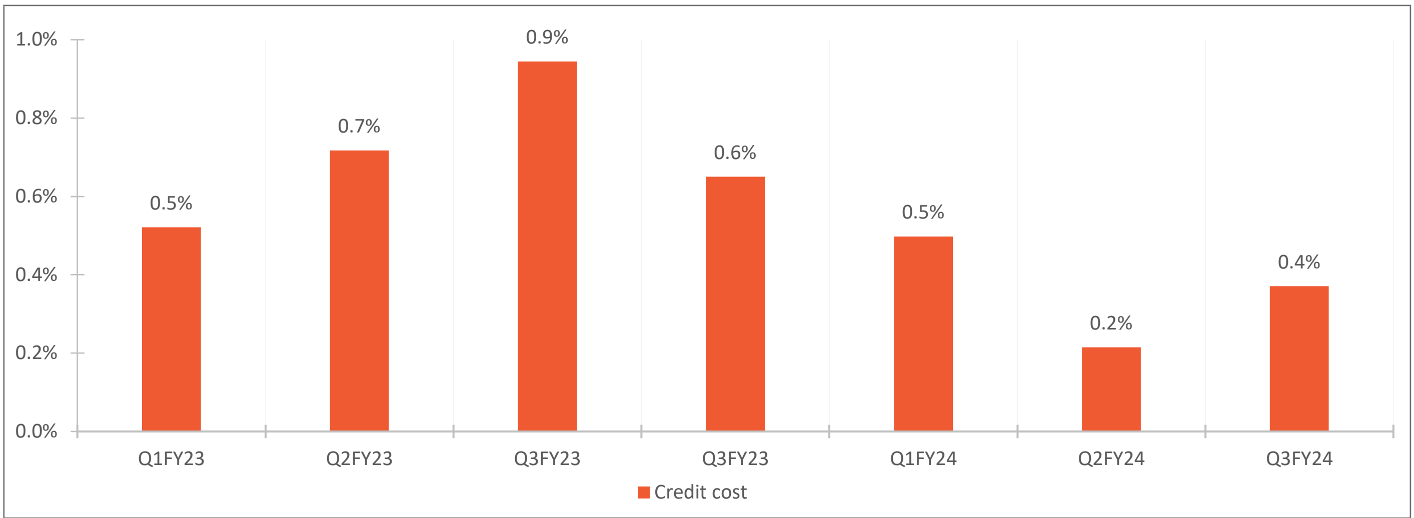
Company Update

Trend in Loan & Deposit growth



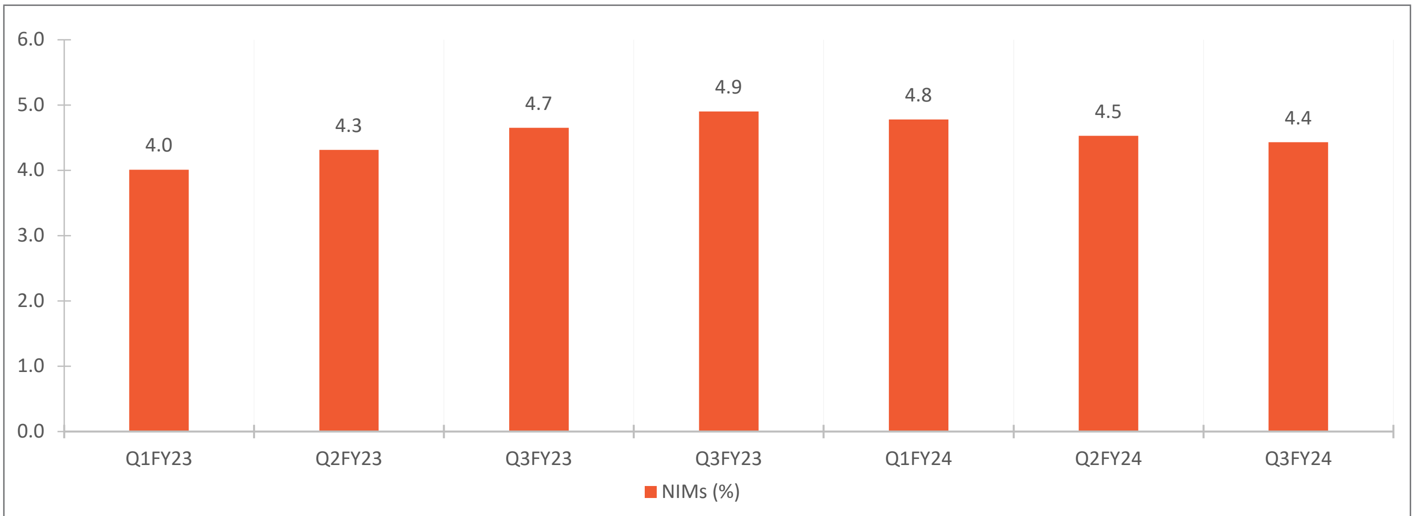
Source: Sharekhan Research

Trend in Credit cost



Source: Sharekhan Research

Trend in NIMs



Source: Sharekhan Research

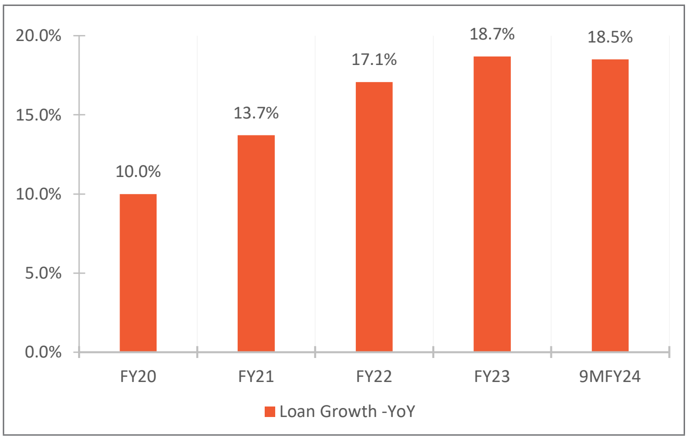
SOTP valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value	1,140
ICICI Prudential Life Insurance	70
ICICI Lombard General Insurance	52
ICICI Prudential AMC	33
ICICI Securities	24
ICICI Home Finance	3
ICICI Bank UK Plc	5
ICICI Bank Canada	5
ICICI Venture	4
ICICI PD business	4
Sum of subs/ associates	**200**
Holding Co. discount @20%	40
Value of subs/ associates post holdco discount	160
Fair Value	**1,300**

Source: Company, Sharekhan Research

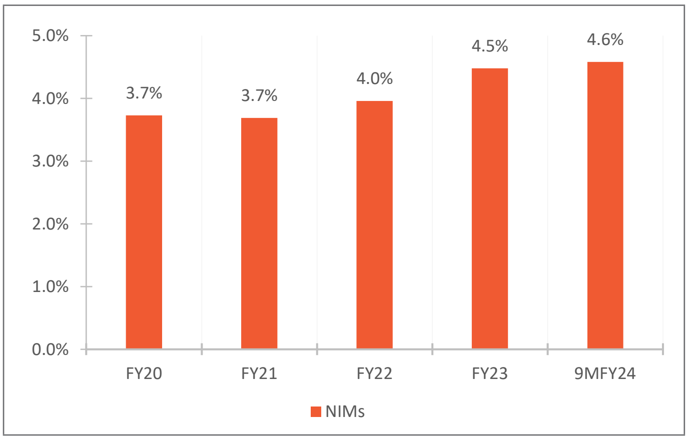
Financials in charts

Trend in Loan growth



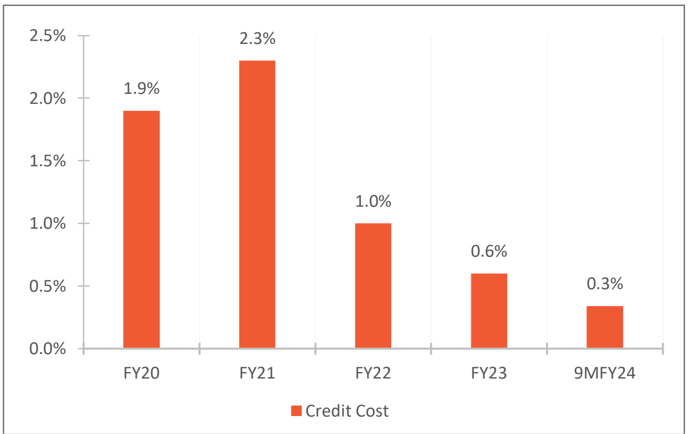
Source: Company, Sharekhan Research

Trend in NIMs



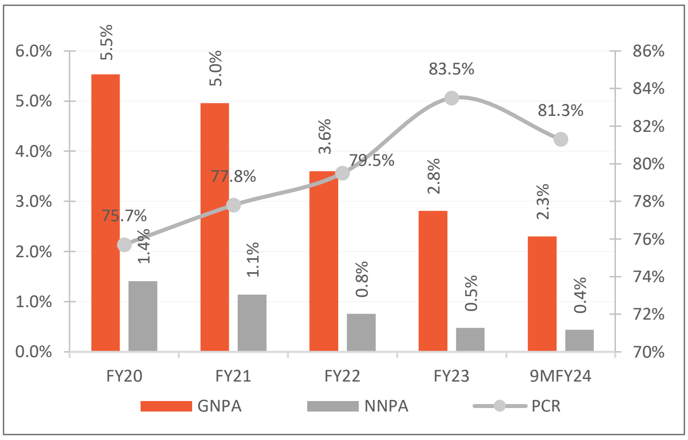
Source: Company, Sharekhan Research

Trend in Credit Cost



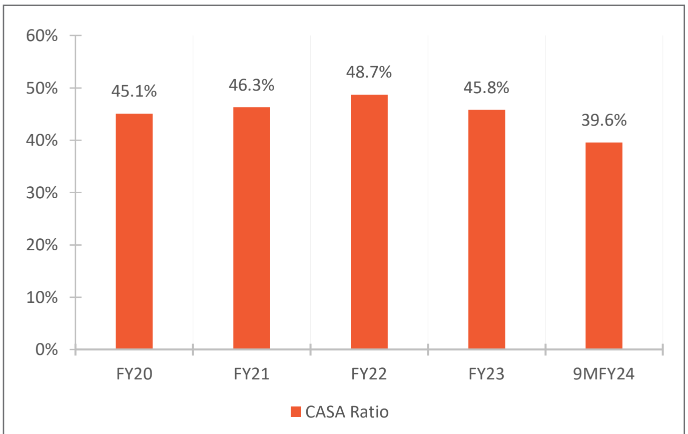
Source: Company, Sharekhan Research

Trend in Asset quality



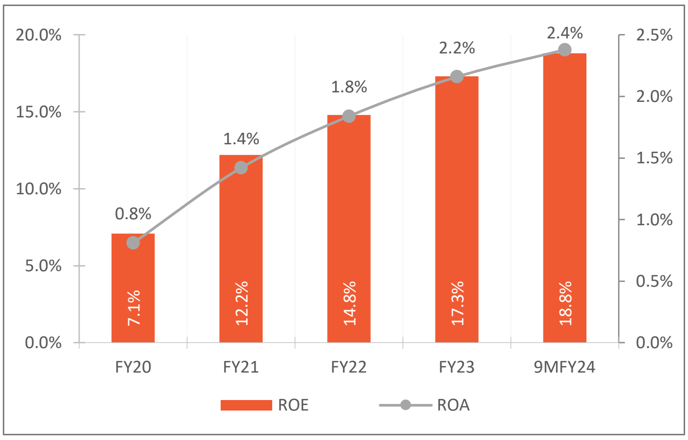
Source: Company, Sharekhan Research

Trend in CASA



Source: Company, Sharekhan Research

Trend in Return ratio



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 by ~20% y-o-y in the fortnight ending February 23, 2024, 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% y-o-y. The gap between advances and deposit growth is large. 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 – An attractive franchise

ICICI bank is positioned well with superior margins, strong RoE, asset quality, contingency buffers, and robust capitalisation. A 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 a revised PT of Rs. 1,300

ICICI Bank currently trades at 2.3x/1.9x its FY2025E/FY2026E core BV estimates. The bank has been consistently sustaining its growth leadership while simultaneously managing a superior asset quality. We believe the bank is on the path of delivering a sustainable and predictable earnings growth trajectory. Despite NIMs contraction and normalisation of credit costs, we see the bank sustaining its RoA over 2% in near to medium term. Key monitorable remains that the bank should be able to keep healthy deposit mobilisation in line with the loan growth in order to sustain healthy growth given tight liquidity conditions.

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	1,083	7,60,442	14.8	13.2	2.3	1.9	16.6	15.8	2.2	2.2
Axis Bank	1,080	3,33,158	12.0	10.7	1.8	1.5	16.1	15.4	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; higher-than-anticipated credit costs; 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	SBI Funds Management Ltd	5.81
2	Life Insurance Corp of India	5.57
3	ICICI Prudential Asset Management	3.57
4	HDFC Asset Management Co Ltd	2.79
5	BlackRock Inc	2.73
6	Republic of Singapore	2.55
7	NPS Trust A/c Uti Retirement Solut	2.19
8	UTI Asset Management Co Ltd	1.80
9	Nippon Life India Asset Management	1.46
10	Franklin Resources Inc	1.30

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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