

ICICI Bank

BUY

NIMs & RoA at historical highs; sustainability remains crucial

Summary

ICICI Bank's (one of our top picks) reported improvement in NIMs by 25bps QoQ to 4.9% led by re-pricing of loans. Asset quality improved with GNPA at 2.81% vs 3.07% QoQ led by lower slippages. Also, restructured assets stood at 0.4% vs 0.5% QoQ. Credit growth declined to 19% YoY vs 20% YoY (Q3FY23) as corporate (including IBPC) growth declined to 14% YoY vs 15% YoY (Q3FY23). Bank reported strong profitability growth at 30% YoY led by strong NII growth. During Q4FY23, NII grew by 40% YoY against a loan growth of 19% YoY; margins improved sequentially. PPop grew by 34% YoY led by lower other income (up 7% YoY). Lower credit costs led by better recoveries resulted in best return ratios in last few years; RoA at 2.4%. We maintain 'BUY' with a TP of Rs.1,210, valuing parent business at Rs.1,081 at 2.9X P/ABV FY25E and rest for the subsidiaries.

Key Highlights and Investment Rationale

- Advances growth slightly down:** Advances growth slightly down to 19% YoY (20% YoY Q3FY23). Robust growth was led by domestic advances growth at 21% YoY; overseas book reported negative growth (down 17% YoY). Retail / SME portfolio continue to grow strongly at 23%/19% YoY respectively while corporate book (incl. IBPC) growth declined to 14% YoY. Deposit growth stood at 11% YoY (10% YoY Q3FY23); Avg CASA ratio at 44% vs 45% YoY.
- NIMs improved to all time high at 4.9%:** NIMs improved by 25bps QoQ to 4.9% (all time high) led by increase in yield on advances (up 62bps QoQ). For FY23, NIMs improved by 52bps YoY and stood at 4.5%; all time high for the bank. However, cost of funds continues to rise (Q4FY23; up 34bps QoQ) in FY23 which should have impact on the NIMs going forward. Management highlighted that liability growth is inching up and impact of re-pricing on deposit rates should be visible in FY24.

TP	Rs.1,210
CMP	Rs.884
Potential upside/downside	37%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	2.8	1.6	18.3
Rel to Sensex	0.4	3.2	14.0

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	49.7	59.2
Consensus	51.5	59.3
% difference	(3.5)	(0.2)

Key Stock Data	
Bloomberg/Reuters	ICICIBC IN/ICBK.BO
Sector	Banking
Shares o/s (mn)	6,984
Market cap. (Rs mn)	6,175,051
3-m daily average value (Rs mn)	301.9
52-week high / low	Rs958 / 670
Sensex / Nifty	59,655 / 17,624

Shareholding Pattern (%)	
Promoters	0.0
FII	44.2
DII	42.0
Public	13.8

Financial snapshot

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	3,89,894	4,74,661	6,21,286	6,73,831	7,78,294
Change (yoy, %)	17%	22%	31%	8%	16%
Net Profit	1,61,927	2,33,395	3,18,965	3,45,612	4,12,028
Change (yoy, %)	104%	44%	37%	8%	19%
EPS (Rs)	23.4	33.6	45.7	49.5	59.0
Change (yoy, %)	91%	43%	36%	8%	19%
ABV (Rs)	186.0	223.8	267.9	312.6	375.8
PER (x)	37.8	26.3	19.4	17.9	15.0
P/ABV (x)	4.8	4.0	3.3	2.8	2.4
ROE (%)	12.3	14.7	17.2	16.0	16.5
ROA (%)	1.4	1.8	2.1	2.0	2.1
GNPA (%)	5.3	3.8	3.0	2.8	2.8
NNPA (%)	1.2	0.8	0.5	0.4	0.5
CAR (%)	19.1	19.2	18.4	18.3	18.6

Source: IDBI Capital Research

- **Asset quality improved:** Asset quality improved as GNPA stood at 2.81% vs 3.07% QoQ; NNPA declined to 0.48% vs 0.55% as PCR stood at 82.8% which is the highest among its peers. During Q4FY23, recoveries and upgrades were Rs.42.8bn vs 46bn QoQ, while write-offs were Rs. 11.6bn vs 11.6bn QoQ. This resulted into lower credit cost at 0.65% vs 0.93% QoQ. Further, restructured assets stood at 0.4% vs 0.5% QoQ. Contingent provisions stood 131bn (1.3% of net advances) provides the cushion on the P&L.
- **Cost to income ratio inched up QoQ:** Cost to income ratio has increased to 39% vs 38% QoQ (vs 41% YoY) due to provisions on retirement obligations of employees which led to an additional expense of around 3.35Bn. Added 480 branches in FY23 and 180 branches in Q4FY23; management guided further branch additions to increase in FY24 (vs 480 branches in FY23). Thus, cost to income ratio to remain elevated in short to medium term.
- **Capital adequacy ratio (CAR) remains strong:** CAR remains healthy with CET I at 17.12% as FY23 and total CAR at 18.34%. Management guided for no capital raising plans as of now and LCR for Q4FY23 stood at 124%.
- **Outlook:** Bank has reported improvement in return ratios (RoA) consistently over last many quarters and touched RoA of 2.4% (all time high) backed by improvement in NIMs (4.9% all time high) and better asset quality. We expect NIMs have peaked in FY23 as re-pricing of deposits will be visible in FY24 along with focus on liability franchise backed by branch expansion continues. ICICI Bank has been investing heavily in building its digital capabilities, which has helped it to expand its customer base and improve its operational efficiency. We remain positive on ICICIB given its ability to maintain RoA above 2% for foreseeable future.

	NII (In Bn)		PPoP (In Bn)		PAT (In Bn)		Advances(In Bn)		Deposits (In Bn)		RoA (%)	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
HDFC Bank	475	621	383	491	233	319	8,590	10,196	10,646	11,808	1.84	2.16

Conference Call Highlights

- Employee expenses were up by 40% YoY in Q4FY23 on account of bank taking conservative approach in certain assumptions relating to provisions on retirement obligations of employees which led to an additional expense of around 3.35Bn.
- Technology related expenses were around 9.3% of the total operating expenses in FY23 (vs. 8.6% in FY22).
- Had benefit of repo rate hike in Dec'22 during Q4FY23 which led to increase in yield on advances to 9.75 (vs. 9.13% in Q3FY23).
- Yield might have peaked out and expecting some moderation in the same going forward.
- Expecting further growth in earning to be led by growth in business and not by growth in margins.
- Had a treasury loss of around 0.4Bn in Q4FY23 (vs. profit of 0.36Bn in Q3FY23 and 1.29Bn in Q4FY23).
- Personal Loan and Credit Card portfolio comprised of 12.3% of the overall loan book as on 31st Mar'23.
- Bank holds contingency provisions of around 131Bn (around 1.3% of total advances) as on 31st Mar'23.
- Net additions to NPA during Q4FY23 stood at 0.14Bn (vs. 11.19Bn in Q3FY23) comprising of addition of around 8.73Bn from Retail, Rural and Business Banking and deletion of 8.59Bn from Corporate and SME portfolio.
- Added 480 branches in FY23 and 180 branches in Q4FY23. Going forward expect branch additions to increase in FY24 (as compared to additions of 480 branches in FY23).
- The bank has a time limit of 1.5 years to comply with the requirement of either maintaining stake in insurance subsidiary above 50% or below 30%.
- Exposure to builder (comprising of construction finance, lease rental discounting, term loans and working capital) stood at around 4% of the total advances.
- Yields on investment have also gone up due to increased investments in higher yielding government securities.
- Had stronger recoveries from the corporate loan book during FY23.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Interest Income	3,10,211	2,26,749	2,85,056	36.8	8.8
Interest Expenses	1,33,543	1,00,703	1,20,407	32.6	10.9
Net Interest Income	1,76,668	1,26,046	1,64,650	40.2	7.3
NIM (%)	4.90	4.00	4.65	90 bps	25 bps
Non-Interest Income	50,878	47,374	50,236	7.4	1.3
Operating Income	2,27,545	1,73,420	2,14,886	31.2	5.9
Staff Cost	34,010	24,289	29,212	40.0	16.4
Other Op Exp	55,272	46,201	52,962	19.6	4.4
Total Operating Expenses	89,282	70,490	82,174	26.7	8.6
<i>Cost to Income (%)</i>	<i>39.2</i>	<i>40.6</i>	<i>38.2</i>	<i>-141 bps</i>	<i>100 bps</i>
Operating Profit	1,38,264	1,02,929	1,32,712	34.3	4.2
Provisions	16,198	10,690	22,574	51.5	(28.2)
PBT	1,22,066	92,240	1,10,138	32.3	10.8
Tax	30,847	22,053	27,019	39.9	14.2
<i>-effective tax rate</i>	<i>25.3</i>	<i>23.9</i>	<i>24.5</i>	<i>136 bps</i>	<i>74 bps</i>
PAT	91,219	70,187	83,119	30.0	9.7
EPS (Rs)	13.1	10.1	11.9	29.3	9.7
BV (Rs)	287.4	245.3	274.1	17.1	4.9
Deposits	1,18,08,407	1,06,45,716	1,12,20,495	10.9	5.2
Advances	1,01,96,383	85,90,204	97,40,475	18.7	4.7

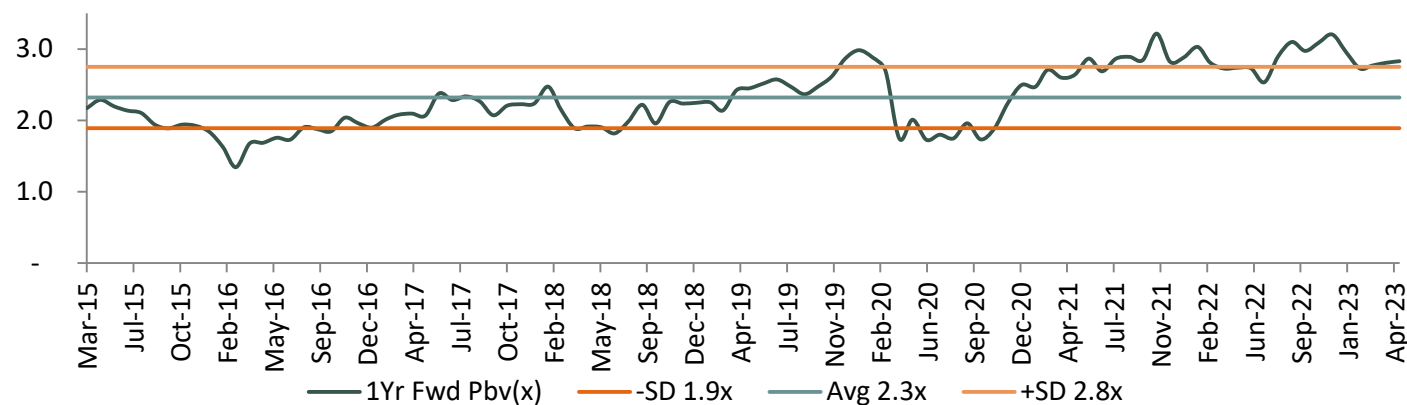
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	3.3	3.6	4.1	3.9	4.0
Fees	0.9	1.0	1.2	1.1	1.1
Other Income	0.7	0.4	0.1	0.2	0.2
Net Revenue	5.0	5.0	5.5	5.2	5.3
Op.Exp	1.9	2.0	2.2	2.2	2.2
Op.Profit	3.1	3.0	3.3	3.0	3.1
Provisions	1.4	0.7	0.4	0.3	0.3
PBT	1.7	2.3	2.8	2.7	2.8
Tax	0.3	0.6	0.7	0.7	0.7
ROA	1.4	1.8	2.1	2.0	2.1
Leverage (x)	8.8	8.3	8.1	7.9	7.8
ROE	12.3	14.7	17.2	16.0	16.5

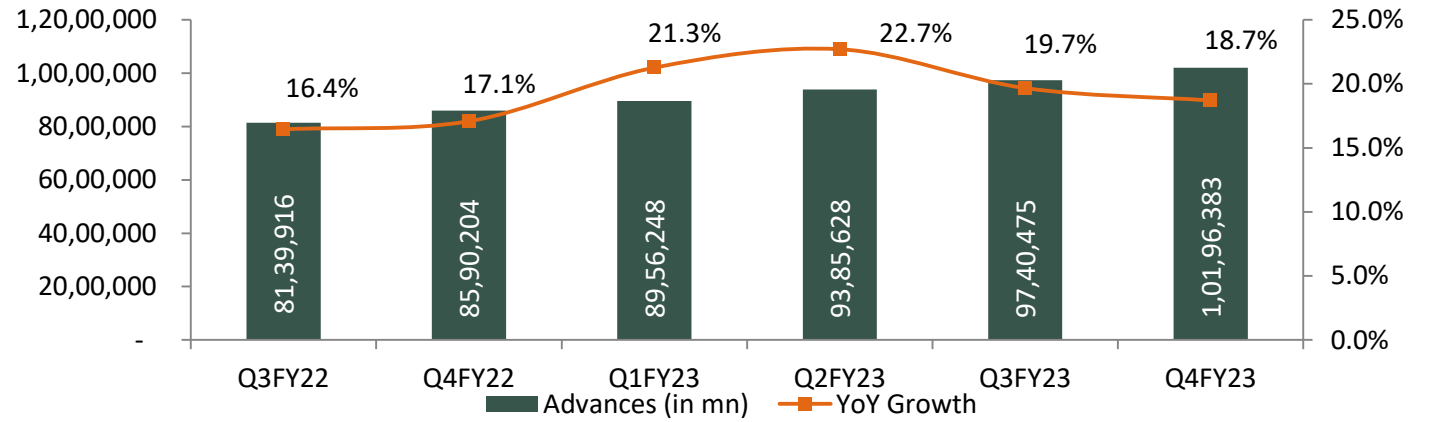
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



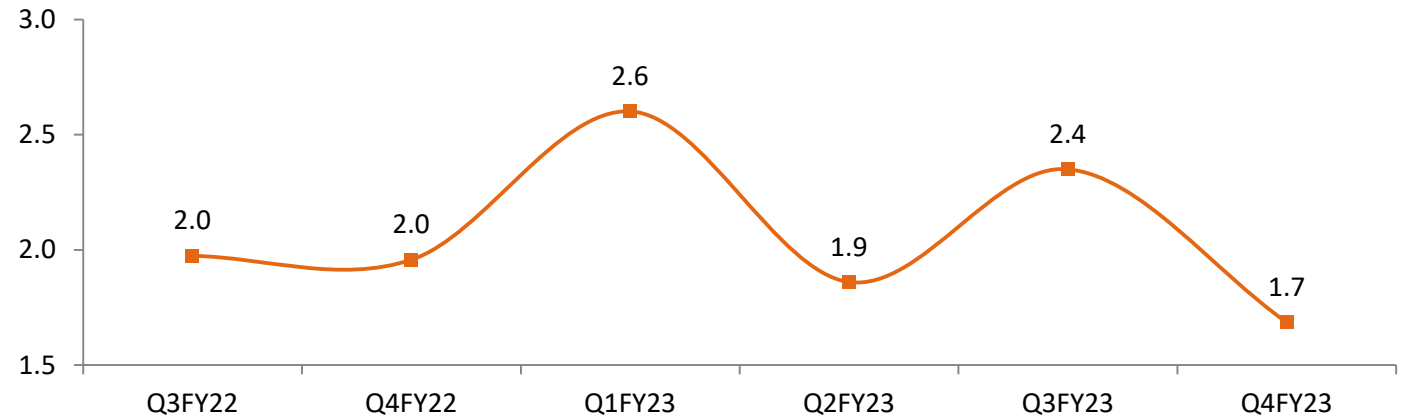
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth continued to moderate on a QoQ basis due to decline in overseas portfolio



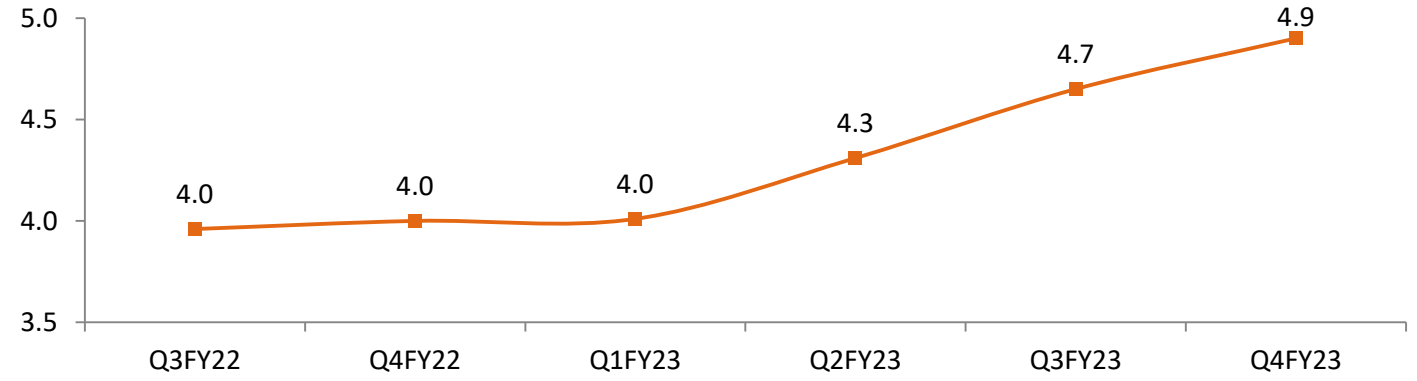
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio witnessed downtick on a sequential basis



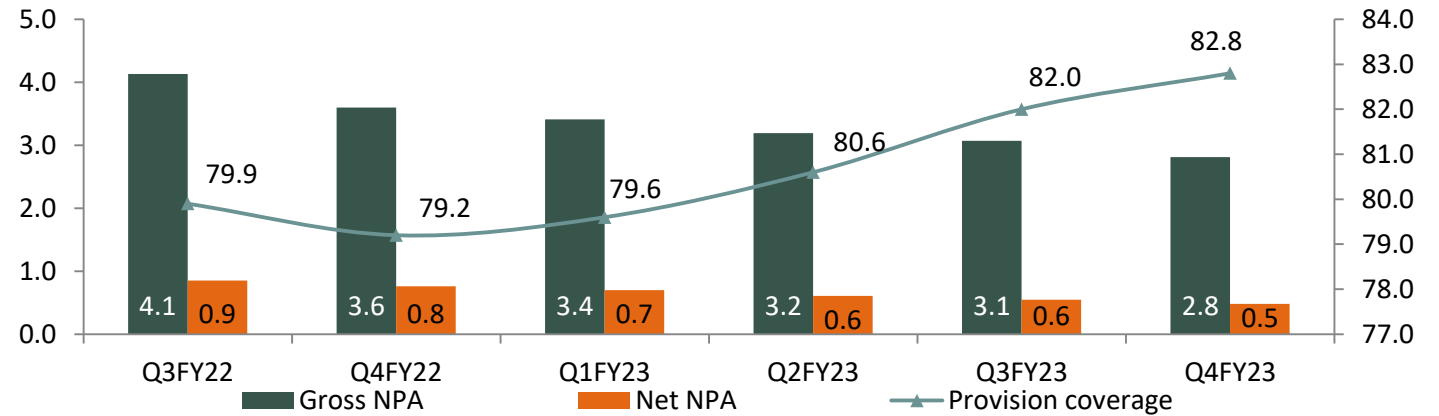
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins continues to witness up-tick led by re-pricing of advances



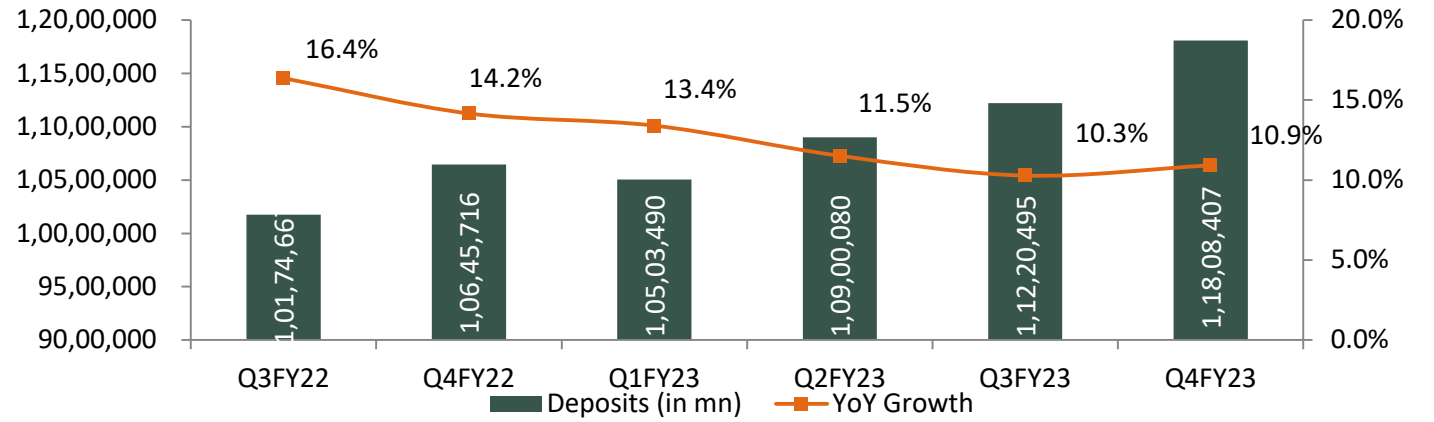
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality continued to improve sequentially



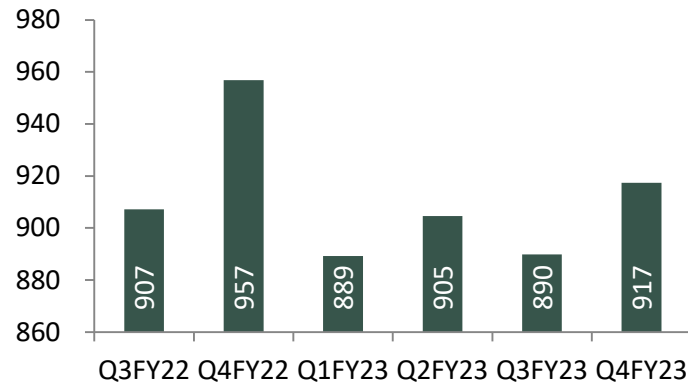
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth remained stable QoQ



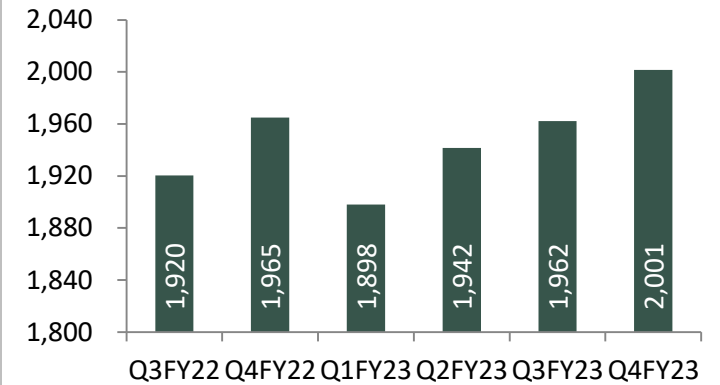
Source: Company; IDBI Capital Research

Exhibit 9: CASA Per Branch



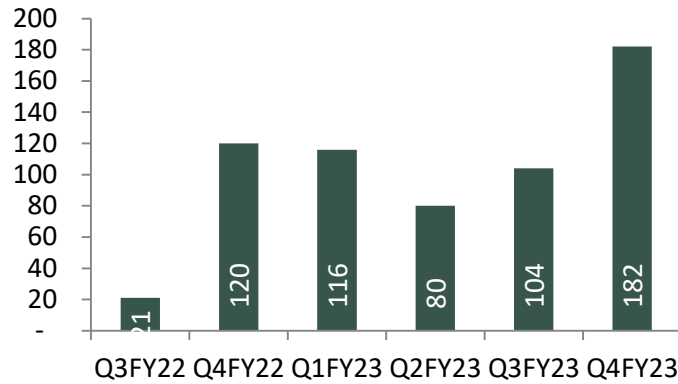
Source: Company; IDBI Capital Research

Exhibit 10: Deposits Per Branch



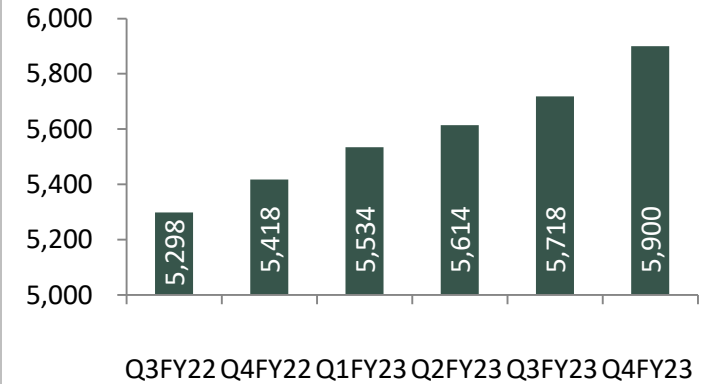
Source: Company; IDBI Capital Research

Exhibit 11: Incremental no of Branches per qtr



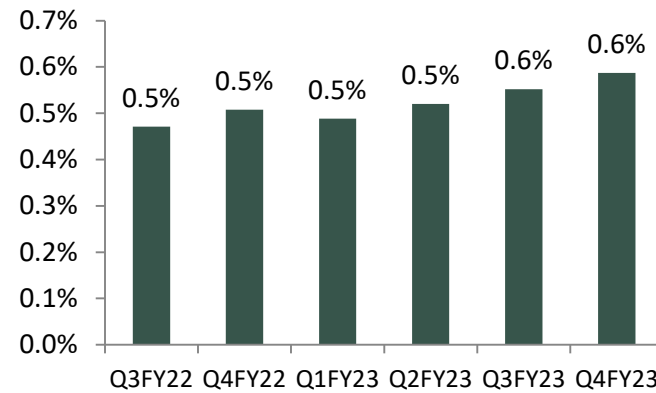
Source: Company; IDBI Capital Research

Exhibit 12: Added around 482 branches in FY23 and would continue to add branches in accelerate mode



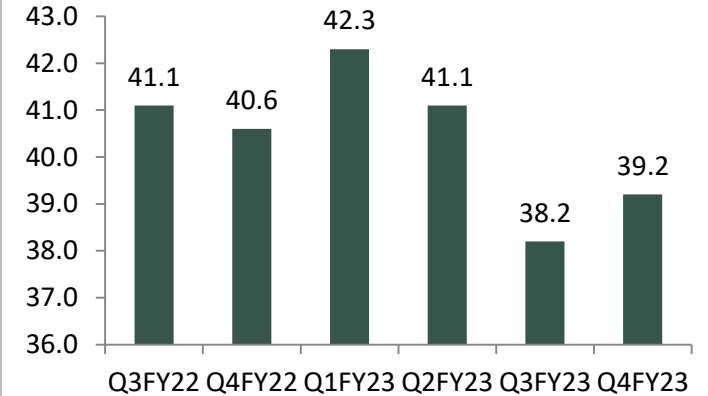
Source: Company; IDBI Capital Research

Exhibit 13: RoA (non-annualized); stood at all time high levels.



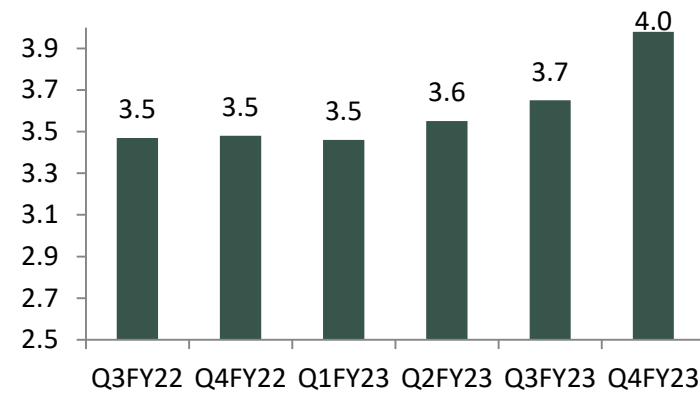
Source: Company; IDBI Capital Research

Exhibit 14: Cost to Income Ratio to inched up due to increased branch and employee additions



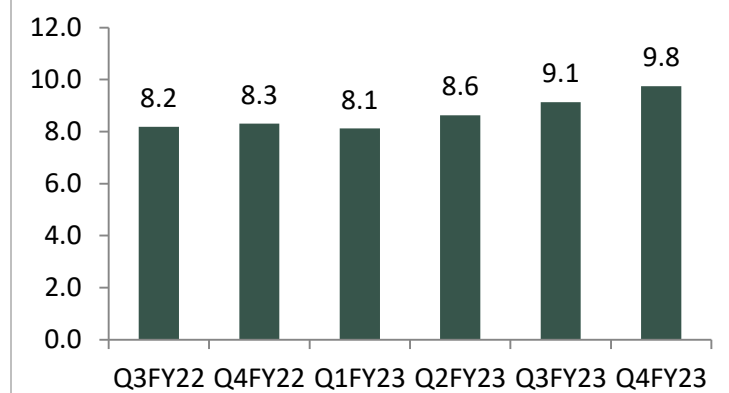
Source: Company; IDBI Capital Research

Exhibit 15: Cost of Deposits to remain at elevated for some qtr going forward



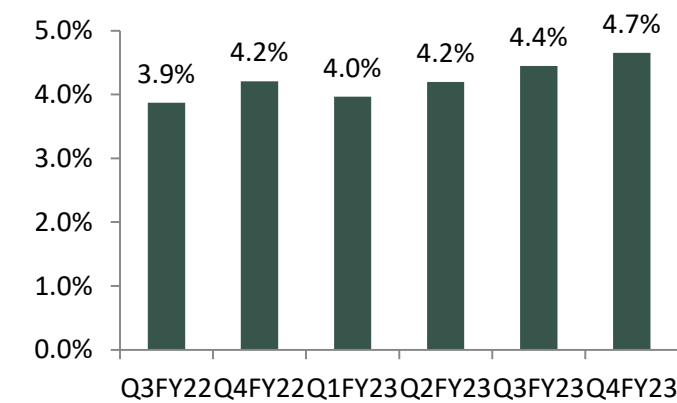
Source: Company; IDBI Capital Research

Exhibit 16: Yield on Advances continued to inch up led by re-pricing of advances



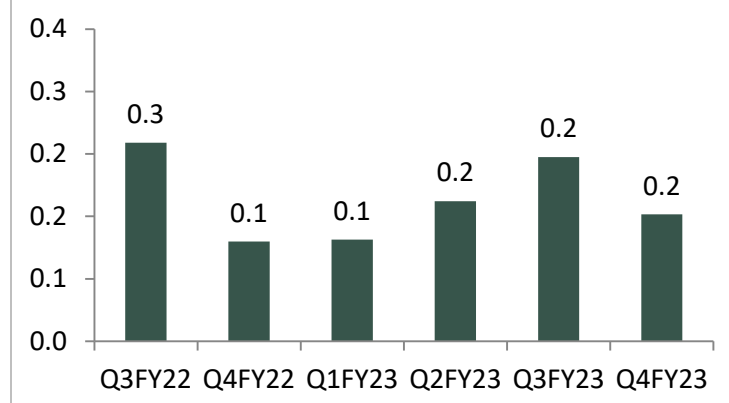
Source: Company; IDBI Capital Research

Exhibit 17: Return on Equity (non-annualized) continued to improve on a QoQ basis



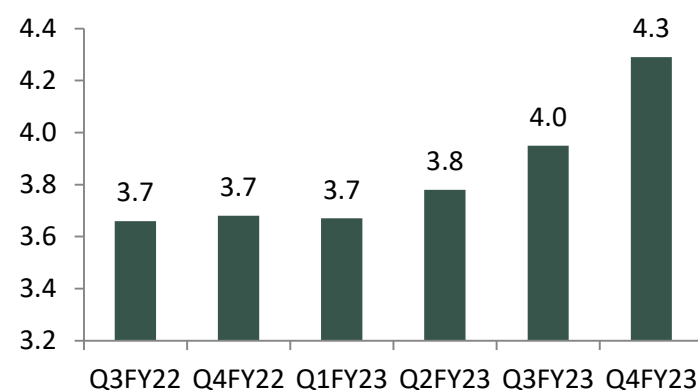
Source: Company; IDBI Capital Research

Exhibit 18: Credit Cost (non-annualized) inched up sequentially led by accelerated provisioning



Source: Company; IDBI Capital Research

Exhibit 19: Cost of funds inched up sharply QoQ led by higher cost of deposit



Source: Company; IDBI Capital Research

Exhibit 20: CAR remains comfortable



Source: Company; IDBI Capital Research

Exhibit 21: Statement of Standard Assets & Other Provisions

Product Wise Advances (In Mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Contingency Provisions	64,250	74,500	85,000	1,00,000	1,15,000	1,31,000
Provision on Non-Fund based o/s to NPAs	19,570	20,510	20,750	20,240	19,930	20,050
Provisions on Fund based o/s to standard borrowers under resolution	24,360	25,300	22,900	20,590	15,290	13,800
General provisions on other Standard Assets and Other Provisions	52,080	58,870	59,050	59,760	63,180	61,500
Total Provisions	1,60,260	1,79,180	1,87,700	2,00,590	2,13,400	2,26,350
Total Provisions as a % of Net Advances	2.0	2.1	2.1	2.1	2.2	2.2

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Advances-In Mn

Product Wise Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Domestic Loan	98,55,290	81,77,360	93,87,820	20.5	5.0
Retail Loan	55,78,170	45,46,350	52,92,360	22.7	5.4
Rural Loan	8,74,310	7,68,300	8,29,060	13.8	5.5
Business Banking	7,21,120	5,34,370	6,68,830	34.9	7.8
SME Loans	4,82,210	4,04,500	4,54,240	19.2	6.2
Corporate & Others	21,99,480	19,23,840	21,43,330	14.3	2.6
Overseas Loan	3,41,100	4,12,840	3,52,650	(17.4)	(3.3)
Total Loan Book	1,01,96,390	85,90,200	97,40,470	18.7	4.7

Source: Company; IDBI Capital Research

Exhibit 23: Composition of Advances-In %

Product Wise Advances (In %)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Domestic Loan	96.7	95.2	96.4	146 bps	28 bps
Retail Loan	54.7	52.9	54.3	178 bps	37 bps
Rural Loan	8.6	8.9	8.5	-37 bps	6 bps
Business Banking	7.1	6.2	6.9	85 bps	21 bps
SME Loans	4.7	4.7	4.7	2 bps	7 bps
Corporate & Others	21.6	22.4	22.0	-82 bps	-43 bps
Overseas Loan	3.3	4.8	3.6	-146 bps	-28 bps
Total Loan Book	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 24: Composition of Retail Loan Book

Product Wise Retail Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Mortgages	34,46,960	29,30,630	33,13,790	17.6	4.0
Vehicle loans	7,94,190	6,80,510	7,56,930	16.7	4.9
Auto finance	4,96,870	4,03,200	4,72,630	23.2	5.1
CV/CE	2,75,410	2,61,670	2,65,320	5.3	3.8
2W	21,910	15,640	18,980	40.1	15.4
Personal Loans	8,80,550	6,28,730	8,09,320	40.1	8.8
Credit Cards	3,78,410	2,50,620	3,45,460	51.0	9.5
Others	78,050	55,860	66,850	39.7	16.8
Total Retail Loan Book	55,78,160	45,46,350	52,92,360		

Source: Company; IDBI Capital Research

Exhibit 25: Composition of Retail Loan Book

Product Wise Retail Advances (In %)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Mortgages	61.8	64.5	62.6	-267 bps	-82 bps
Vehicle loans	14.2	15.0	14.3	-73 bps	-6 bps
Auto finance	8.9	8.9	8.9	4 bps	-2 bps
CV/CE	4.9	5.8	5.0	-82 bps	-8 bps
2W	0.4	0.3	0.4	5 bps	3 bps
Personal Loans	15.8	13.8	15.3	196 bps	49 bps
Credit Cards	6.8	5.5	6.5	127 bps	26 bps
Others	1.4	1.2	1.3	17 bps	14 bps
Total Retail Loan Book	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net interest income	3,32,670	3,89,894	4,74,661	6,21,286	6,73,831	7,78,294
<i>Change (yoy, %)</i>	23%	17%	22%	31%	8%	16%
Fees	1,16,451	1,04,868	1,26,397	1,80,010	1,85,472	2,11,438
Other Income	48,035	84,818	58,779	18,304	29,002	43,677
Net Revenue	4,97,156	5,79,579	6,59,836	8,19,600	8,88,306	10,33,409
Operating expenses	2,16,144	2,15,608	2,67,333	3,28,732	3,76,569	4,25,964
Employee expenses	82,712	80,918	96,727	1,20,599	1,47,456	1,64,775
Other expenses	1,33,432	1,34,690	1,70,606	2,08,133	2,29,113	2,61,189
Pre-Provision Profit	2,81,012	3,63,971	3,92,503	4,90,868	5,11,737	6,07,445
<i>Change (yoy, %)</i>	20%	30%	8%	25%	4%	19%
Provision	1,40,532	1,62,143	86,414	66,656	49,690	56,605
PBT	1,40,480	2,01,828	3,06,089	4,24,212	4,62,048	5,50,840
Taxes	61,172	39,901	72,694	1,05,247	1,16,436	1,38,812
<i>Effective tax rate (%)</i>	44%	20%	24%	25%	25%	25%
Net profit	79,308	1,61,927	2,33,395	3,18,965	3,45,612	4,12,028
<i>Change (yoy, %)</i>	136%	104%	44%	37%	8%	19%
EPS	12.3	23.4	33.6	45.7	49.5	59.0
Return on Equity (%)	7.1	12.3	14.7	17.2	16.0	16.5
Return on Assets (%)	0.8	1.4	1.8	2.1	2.0	2.1

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	12,948	13,834	13,900	13,968	13,968	13,968
Reserves	11,52,097	14,61,257	16,91,219	19,93,186	22,92,131	26,59,160
Networth	11,65,045	14,75,091	17,05,118	20,07,154	23,06,099	26,73,127
Deposits	77,09,690	93,25,221	1,06,45,716	1,18,08,407	1,35,21,399	1,53,11,476
Current deposits	10,22,275	13,61,701	15,84,797	16,14,860	20,28,210	22,96,721
Saving deposits	24,55,909	29,54,533	35,99,569	37,97,760	42,72,762	48,38,427
Term deposit	42,31,506	50,08,987	54,61,350	63,95,790	72,20,427	81,76,328
Borrowings	16,28,968	9,16,310	10,72,314	11,93,255	16,04,234	18,45,863
Other liabilities	4,79,949	5,87,704	6,89,828	8,33,251	8,50,634	8,44,455
Total Liab. & Equity	1,09,83,652	1,23,04,326	1,41,12,977	1,58,42,067	1,82,82,367	2,06,74,921
Cash	11,91,557	13,31,282	16,78,223	11,94,383	17,03,244	19,37,581
Advances	64,52,900	73,37,290	85,90,204	1,01,96,383	1,16,23,877	1,32,51,219
Investments	24,95,315	28,12,864	31,02,410	36,23,297	41,10,683	46,24,666
Fixed Assets	84,103	88,776	93,738	95,998	97,918	99,877
Other Assets	7,59,777	7,34,114	6,48,401	7,32,005	7,46,645	7,61,578
Total assets	1,09,83,652	1,23,04,326	1,41,12,977	1,58,42,067	1,82,82,367	2,06,74,921

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth						
Deposits	18.1	21.0	14.2	10.9	14.5	13.2
Advances	10.0	13.7	17.1	18.7	14.0	14.0
NII	23.1	17.2	21.7	30.9	8.5	15.5
Pre-Provision Profit	19.9	29.5	7.8	25.1	4.3	18.7
Net Profit	135.8	104.2	44.1	36.7	8.4	19.2
Spreads						
Yield on Assets	8.2	7.6	7.2	7.9	8.0	8.0
Cost of Funds	4.7	4.1	3.5	3.8	4.1	4.1
NIM	3.6	3.7	3.9	4.5	4.3	4.3
CASA	45.1	46.3	48.7	45.8	46.6	46.6
Operating Efficiency						
Cost-to-Income	43.5	37.2	40.5	40.1	42.4	41.2
Cost-to-Assets	2.1	1.9	2.0	2.2	2.2	2.2
Asset Quality						
GNPA	6.0	5.3	3.8	3.0	2.8	2.8
NNPA	1.5	1.2	0.8	0.5	0.4	0.5
Provision Coverage	75.7	77.7	79.2	83.5	85.2	82.9
Credit Cost	2.3	2.4	1.1	0.7	0.5	0.5
Capital Adequacy						
CAR	16.1	19.1	19.2	18.4	18.3	18.6
Tier I	14.7	18.1	18.4	17.6	17.5	17.7
Valuation						
EPS	12.3	23.4	33.6	45.7	49.5	59.0
ABV	164.6	186.0	223.8	267.9	312.6	375.8
P/E	72.2	37.8	26.3	19.4	17.9	15.0
P/ABV	5.4	4.8	4.0	3.3	2.8	2.4
ROE	7.1	12.3	14.7	17.2	16.0	16.5
ROA	0.8	1.4	1.8	2.1	2.0	2.1
RORWA	1.1	2.1	2.8	3.3	3.0	3.1

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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