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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

22 January 2024

## ICICI Bank

### PPOP in-line; net earnings lower on AIF related provisions

#### RESULT UPDATE

Sector: Banks Rating: BUY

CMP: Rs 1008 Target Price: Rs 1,175

#### Stock Info

Sensex/Nifty	71,423/21,571
Bloomberg	ICICIBCN IN
Equity shares	7,003mn
52-wk High/Low	Rs 1042/796
Face value	Rs 2
M-Cap	Rs 6,923bn/ USD 84bn
3-m Avg volume	USD 166mn

#### Financial Snapshot (Rs bn)

Y/E March	FY24E	FY25E	FY26E
NII	744	826	922
PPP	582	641	723
PAT	404	421	464
EPS (Rs)	58	60	66
EPS Gr. (%)	26.1	4.3	10.1
BV/Sh (Rs)	319	359	406
Adj. BV/Sh (Rs)	314	352	397

#### Ratios

NIM (%)	4.5	4.3	4.2
C/I ratio (%)	40.6	41.8	41.9
RoA (%)	2.3	2.1	2.0
RoE (%)	18.9	17.5	17.1
Payout (%)	19.5	19.5	19.5

#### Valuations

P/E (x)	17.3	16.6	15.1
P/BV (x)	3.1	2.8	2.5
P/Adj. BV	3.2	2.8	2.5
Div. Yield (%)	1.1	1.2	1.3

#### Shareholding pattern (%)

	Mar'23	Jun'23	Sep'23
Promoter	-	-	-
-Pledged	-	-	-
FII	44.2	44.5	44.4
DII	45.1	45.0	45.5
Others	10.7	10.5	10.1

#### Stock Performance



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ICICI bank reported 3QFY24 earnings of Rs 103bn (flat qoq, +24% yoy) which was lower than estimates largely due to Rs6.3bn provisions on AIF investments. However, Operating profit was 3% higher than estimates on account of lower than expected NIM decline (aided by IT refund), higher other income and tighter opex control. Key highlights for the quarter were: 1) Net Advances growth of 4% qoq, 18% yoy (YTD annualized run rate of 18%) was led by 5-7% qoq growth in retail, business banking, SME and rural while domestic corporate advances growth (+3% qoq) remained subdued. 2) While deposit growth was muted at 3% qoq, 19% yoy. and CASA growth was also flat qoq, average CA balances increased 2.4% qoq on the back of improved traction in payments products. 3) NIMs (4.4%) decline of -10bps qoq was lower vs expectation of 15bps qoq decline due to 19bps qoq increase in cost of deposits which was partly offset by benefits from IT refund (4bps) and higher investment yields 5) Other income was aided by treasury gains of Rs1.2bn (vs Rs0.85bn loss in 2Q) due to lowering bond yields. 6) Cost to income declined to 40.6% (-35bp qoq) 6) Slippages were higher due to seasonally higher slippages, in the Kisan Credit portfolio. Higher recovery from one large corporate account aided in GNPA declining qoq. The bank delivered an RoA of 2.3% (9M: 2.4%) and RoE of 18.5% (9M: 18.9%).

We rollover the forecasts to Mar-26 and maintain our BUY rating with Mar-25 TP of Rs1,175 (from 1,125). We value the bank at 2.5x Mar-26 adj BVPS and retain our BUY rating on the stock. We assign a value of Rs180 per share for the subsidiaries. We estimate the bank to report FY24-26 ROA/ROE of 2.1%/17.7%. We moderately trim our growth estimates (to 16% for FY25/26E; FY24E: 18%yoy) considering the regulator's focus on CD ratios and trim some of the associated growth-related costs whilst continuing to assume ~60 bps of credit costs for FY25/26 vs current run rate of net credit costs of 32bps. Overall, ICICI bank remains one of our preferred picks within the banking sector.

#### Advances growth driven by retail. Corporate advances growth remains subdued:

Net Advances growth of 4% qoq, 18% yoy (YTD annualized run rate of 18%) was led by 5-7% qoq growth in retail, business banking, SME and rural while domestic corporate advances growth was subdued at 3% qoq. Retail portfolio which constitutes 56% of total credit has seen an improving mix. This is reflected in (i) YTD basis, higher yielding unsecured loans (PL/credit cards) contributed to 40% of incremental retail credit vs 25% share in outstanding retail credit. Consequently, the share of unsecured loans has increased by 200bps YTD (ii) lower yielding home loans which constitute 60% of retail loans have grown by 15% (YTD annualized) vs overall retail loan growth of 20%+. While competitive intensity remains elevated in mortgages, the bank remains focused on maintaining pricing discipline.

**NIM decline on deposit re-pricing and subdued yields:** Deposit growth was muted at 3% qoq, 19% yoy. While period end CASA growth was flat qoq, average CA balances increased 2.4% qoq on the back of improved traction in payments products, while average SA balance growth was 0.6% qoq. Average CASA ratio declined to 39.4% (-140bps qoq). NIMs (4.4%) decline of -10bps qoq was lower vs expectation of 15bps qoq decline due to (i) 19bps qoq increase in cost of deposits which was partly offset by benefits from IT refund (4bps) and higher investment yields (ii) C-D ratio increase of 83bp qoq to 86.6%. However, despite increased proportion of higher yielding

assets, yield on advances decreased -2bps qoq due to interest reversals from higher KCC slippages. Going forward, cost of funds is likely to remain under pressure due to (i) hardening of wholesale deposit rates (although peak retail deposit rates remain stable) (ii) 2 more quarters of back-book repricing remaining (iii) industry wide challenge in CASA mobilization. However, the rate of increase is likely to be more gradual as compared to 3Q with the bank remaining confident of maintaining FY24 NIM similar to FY23 levels (9M: 4.57%) on improving advances mix.

**Operating profit benefitted from treasury gains and tighter opex control:** While NII increased 2% qoq, +13% yoy, PPOP increased by 3.5% qoq, 11% yoy and was also 3% higher than estimates due to higher other income and tighter opex control. Other income was aided by treasury gains of Rs1.2bn (vs Rs0.85bn loss in 2Q). Cost to income declined to 40.6% (-35bp qoq) and is likely to moderate further as 3Q had higher festive led promotional spends and higher employee additions which will moderate from here on.

**Credit costs increased due to higher slippages and AIF investments:** While GNPA: 2.3% (-18bp qoq), NNPA: 0.4% (stable qoq) improved sequentially, credit costs increased to 37bps vs 21bps in 2QFY24 due to (i) Rs6.3bn (22bps of average net advances) provisions on AIF investments (ii) increase in gross and net slippage ratio to 2%/0.13% vs 1.8%/Nil in 2QFY24 due to seasonally higher slippages in the Kisan Credit card portfolio partly offset by higher recovery from one large corporate account. While PCR declined to 80.7% (vs 82.6% qoq), the bank continues to hold contingency provision of Rs131bn, 2% of net advances. Within unsecured, the company has tightened its risk filters in the credit card portfolio and trimmed the bottom cohorts and has also increased pricing in personal loans by 20-25bps. The management reiterated its calibrated approach to growth in the unsecured segment and remains flexible to trim the growth in case of any emergent stress in future. Exposure to AA- and above rated corporates reduced to 41.7% (vs 44.5% in 2Q) while BBB+ and below increased to 28.2% (vs 26.8% in 2Q) due to: i) rating upgrade of key corporate account on upgrade from NPA to standard asset. ii) exit of higher rated NBFCs as a fallout of price increases due to higher risk weights as per latest RBI regulations.

**Valuation and recommendation:** We rollover the forecasts to Mar-26 and maintain our BUY rating with Mar-25 TP of Rs1,175 (from 1,125). We value the bank at 2.5x Mar-26 adj BVPS and retain our BUY rating on the stock. We assign a value of Rs180 per share for the subsidiaries. We estimate the bank to report FY24-26 ROA/ROE of 2.1%/17.7%. We moderately trim our growth estimates (to 16% for FY25/26E; FY24E: 18%yoy) considering the regulator's focus on CD ratios and trim some of the associated growth-related costs whilst continuing to assume ~60 bps of credit costs for FY25/26 vs current run rate of net credit costs of 32bps. Overall, ICICI bank remains one of our preferred picks within the banking sector.

## Key takeaways from 3QFY24 earnings call:

### Balance sheet

- Including 9MFY24 profits, total CAR was 16.7%, Tier-1 was 16.03%,
- Overseas loan portfolio increased 7% qoq, 10.5% yoy, with the non-India linked corporate portfolio declining 30% yoy
- Loan book mix: 49% of outstanding net advances are repo linked (vs 48% qoq), 2% EBLR linked (vs 3% qoq), 18% MCLR (vs similar qoq), 31% fixed rates (similar qoq)
- The bank has historically maintained LDR around 80% in the domestic portfolio
- LCR was 121% as of Dec'23
- Loans to NBFCs declined to Rs740bn (6.4% of net advances) vs 799bn (7.2% of net advances) 2QFY24 due to prepayment by a few borrowers on price increases due to higher risk weights. Also the company has not done any large fresh lending in this segment

### P&L

- 9MFY24 basis, overseas NIM has increased to 1.35% (vs 0.61% in FY23)
- Fees from retail, rural, business banking and SME customers constituted 79% of total fees
- Dividend income from subsidiaries/associates was Rs6.5mn, flat qoq, +26% yoy

### Opex

- On YoY basis, opex increased 23% yoy due to (i) higher employee additions which started in 2H FY23. The bank added 23,600 employees in last 12 months (1700 adds in 3Q) (ii) higher non-employee expenses due to higher promotional spends which got pushed out into 3Q this year vs split between 2Q and 3Q last year

### Asset Quality

- Net Investments in SRs was Rs1.42bn as of Dec'23 vs Rs1.52bn as of Sep'23
- The fund and non-fund based outstanding to performing corporate and SME borrowers rated BB and below was Rs58.5bn vs Rs 48bn qoq. Other than 2 accounts, the maximum single borrower outstanding in the BB and below portfolio was less than INR 5 billion as of 3Q'FY24.
- The company holds provisions of Rs9.3bn on this portfolio (16% of the O/s BB and below portfolio) vs (Rs. 8.2bn qoq, 17% of the O/s)
- The bank has not diluted its credit filters and continues to focus on the upper end of the credit spectrum

**Exhibit 1: Quarterly performance**

P&L (INR, mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)
Interest income	3,66,946	2,85,056	29%	3,49,204	5%
Interest expenses	1,80,160	1,20,407	50%	1,66,125	8%
<b>NII</b>	<b>1,86,786</b>	<b>1,64,650</b>	<b>13%</b>	<b>1,83,079</b>	<b>2%</b>
Other income	60,971	50,230	21%	57,767	6%
<b>Operating income</b>	<b>2,47,756</b>	<b>2,14,880</b>	<b>15%</b>	<b>2,40,846</b>	<b>3%</b>
Operating expenses	1,00,520	82,174	22%	98,553	2%
- Staff expenses	38,127	29,212	31%	37,254	2%
<b>PPOP</b>	<b>1,47,236</b>	<b>1,32,706</b>	<b>11%</b>	<b>1,42,293</b>	<b>3%</b>
Provisions	10,494	22,574	-54%	5,826	80%
<b>Profit before tax</b>	<b>1,36,743</b>	<b>1,10,132</b>	<b>24%</b>	<b>1,36,466</b>	<b>0%</b>
Taxes	34,027	27,019	26%	33,856	1%
<b>Profit after tax</b>	<b>1,02,715</b>	<b>83,112</b>	<b>24%</b>	<b>1,02,610</b>	<b>0%</b>
Key Ratios (%)	3QFY24	3QFY23	YoY (bps)	2QFY24	QoQ (bps)
Net Advances growth (YoY, %)	18.5%	19.7%	-121 bp	18.3%	13 bp
Net Advances growth (QoQ, %)	3.9%	3.8%	11 bp	5.0%	-112 bp
Deposit growth (YoY, %)	18.7%	10.3%	846 bp	18.8%	-4 bp
Deposit growth (QoQ, %)	2.9%	2.9%	-4 bp	4.5%	-162 bp
Avg. CASA Ratio	39.4%	44.6%	-520 bp	40.8%	-140 bp
CD Ratio	86.6%	86.8%	-21 bp	85.8%	83 bp
NIM (reported)	4.4%	4.7%	-22 bp	4.5%	-10 bp
Cost to Income	40.6%	38.2%	233 bp	40.9%	-35 bp
Credit costs	0.4%	0.2%	13 bp	0.2%	16 bp
GNPA (%)	2.3%	3.1%	-77 bp	2.48%	-18 bp
NNPA (%)	0.4%	0.6%	-11 bp	0.4%	1 bp
PCR (%)	81.3%	82.6%	-132 bp	83.1%	-178 bp
CAR	14.6%	16.3%	-165 bp	16.1%	-146 bp
Tier-I	13.9%	15.5%	-157 bp	15.4%	-141 bp

Source: Company, Systematix Institutional Research

**Exhibit 2: DuPont analysis**

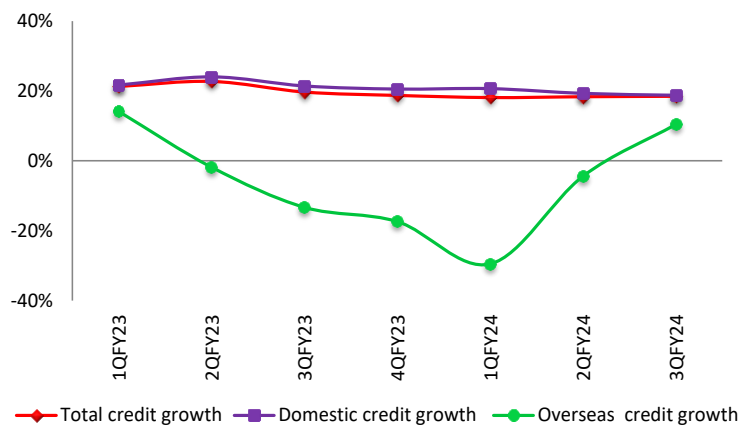
Du Pont (% of average assets)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
<b>Net interest income</b>	<b>4.4%</b>	<b>4.6%</b>	<b>4.5%</b>	<b>4.3%</b>	<b>4.3%</b>
Other income	1.3%	1.3%	1.3%	1.4%	1.4%
<b>Total income</b>	<b>5.7%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.7%</b>	<b>5.7%</b>
Operating expenses	2.2%	2.3%	2.4%	2.3%	2.3%
Employee expenses	0.8%	0.9%	1.0%	0.9%	0.9%
<b>PPOP</b>	<b>3.5%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.4%</b>
Provisions	0.6%	0.4%	0.3%	0.1%	0.2%
<b>PBT</b>	<b>2.9%</b>	<b>3.1%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.1%</b>
<b>PAT (RoAA)</b>	<b>2.2%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.3%</b>
Leverage	8.1	7.9	7.8	7.9	7.9
<b>ROE</b>	<b>17.8%</b>	<b>18.6%</b>	<b>18.7%</b>	<b>19.2%</b>	<b>18.6%</b>

Source: Company, Systematix Institutional Research

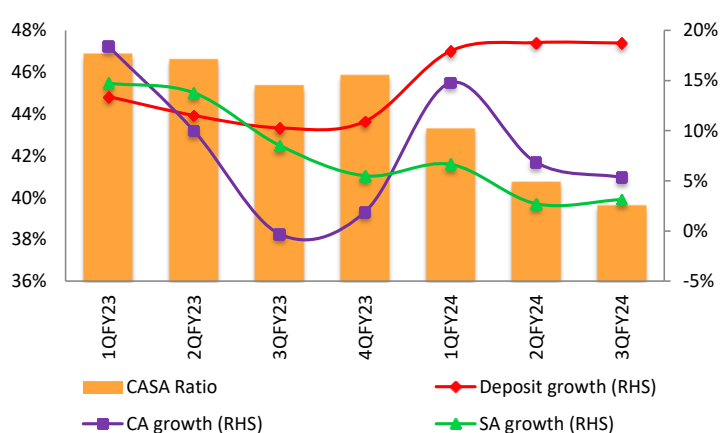
**Exhibit 3: Earnings Revision**

(INR, Mn)	FY24E			FY25E			FY26E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Advances	1,21,28,714	1,20,39,599	0.7%	1,40,81,364	1,40,30,582	0.4%	1,63,29,556	1,63,33,560	0.0%
Deposits	1,39,53,605	1,40,17,671	-0.5%	1,62,06,721	1,62,64,280	-0.4%	1,87,78,056	1,88,25,851	-0.3%
NII	7,44,080	7,48,709	-0.6%	8,25,562	8,42,054	-2.0%	9,21,969	9,32,237	-1.1%
Opex	3,97,498	3,98,705	-0.3%	4,59,617	4,62,582	-0.6%	5,21,783	5,24,378	-0.5%
PPOP	5,81,772	5,82,750	-0.2%	6,40,779	6,49,579	-1.4%	7,22,758	7,22,608	0.0%
Provisions	44,431	64,992	-31.6%	80,568	83,799	-3.9%	1,05,982	1,07,197	-1.1%
PAT	4,04,080	3,89,353	3.8%	4,21,278	4,25,467	-1.0%	4,63,816	4,62,789	0.2%
EPS	57.6	55.6	3.5%	60.0	60.8	-1.2%	66.1	66.1	0.0%
Adj. BVPS	313.9	311.6	0.7%	352.0	351.6	0.1%	397.4	396.6	0.2%

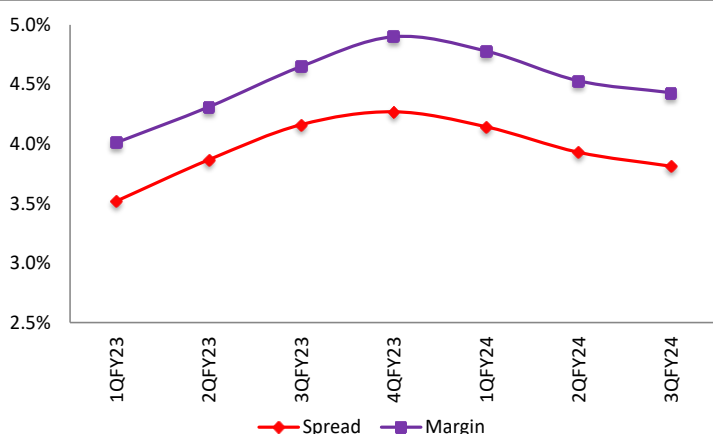
Source: Company, Systematix Institutional Research

**Exhibit 4: Credit growth driven by retail. Corporate growth was subdued**

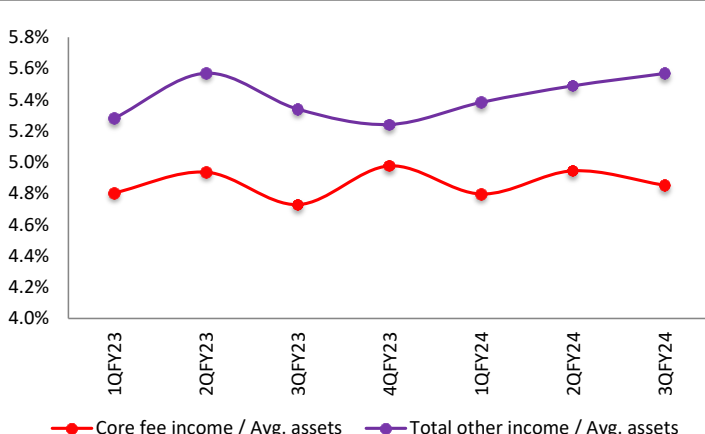
Source: Company, Systematix Institutional Research

**Exhibit 5: Deposit growth was led by term deposit growth CASA growth remained flattish qoq**

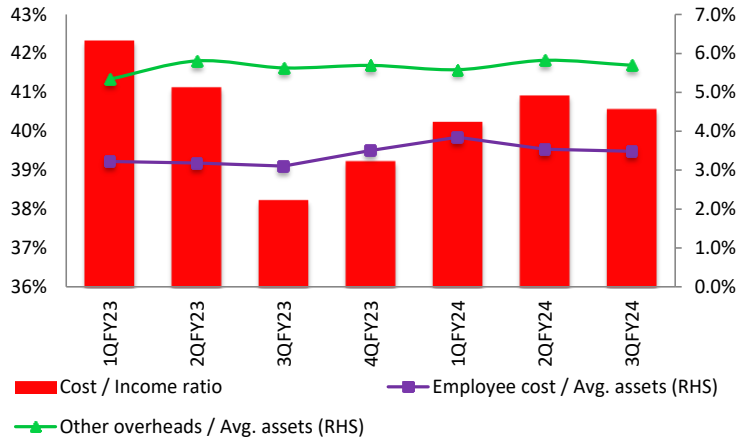
Source: Company, Systematix Institutional Research

**Exhibit 6: Margins decline lower than expected**

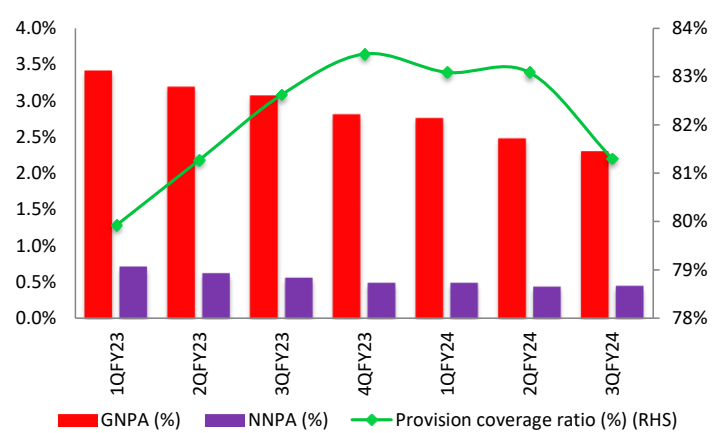
Source: Company, Systematix Institutional Research

**Exhibit 7: Other income growth led by treasury gains**

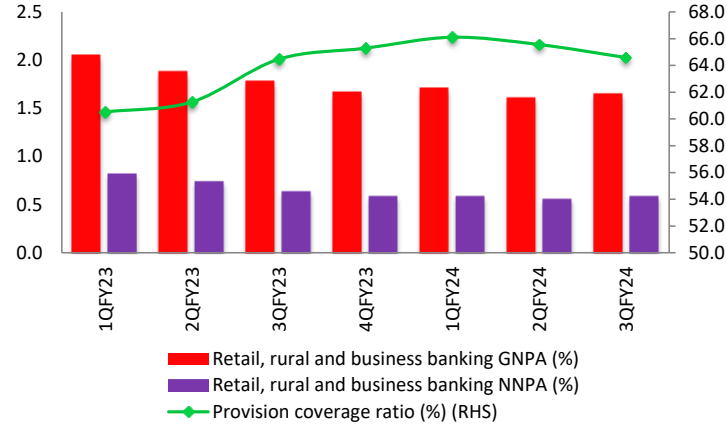
Source: Company, Systematix Institutional Research

**Exhibit 8: C/I to moderate further on moderation in headcount addition**

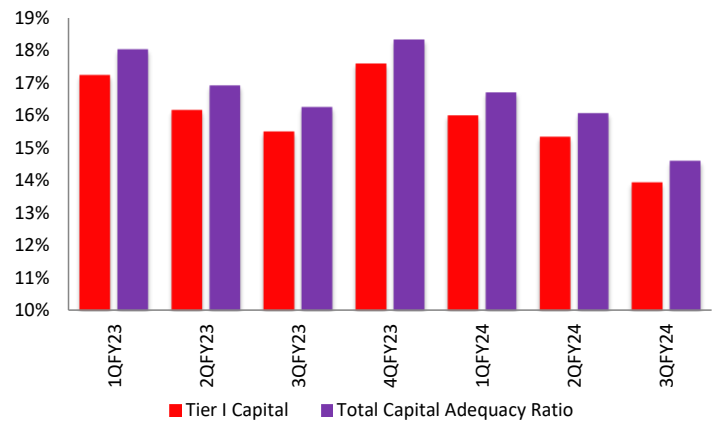
Source: Company, Systematix Institutional Research

**Exhibit 9: GNPA, NNPA stable qoq**

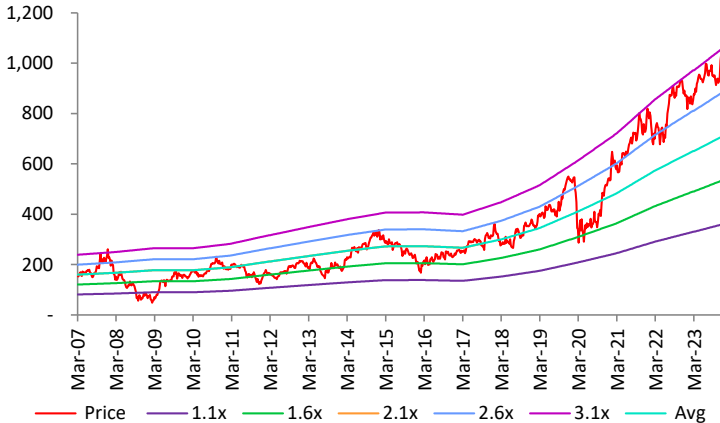
Source: Company, Systematix Institutional Research

**Exhibit 10: Slippages elevated in retail due to seasonally higher additions from KCC portfolio**

Source: Company, Systematix Institutional Research

**Exhibit 11: Capital ratios decline marginally due to higher risk weights**

Source: Company, Systematix Institutional Research

**Exhibit 12: 1-year forward P/ABV (x) multiple trajectory**

Source: Company, Systematix Institutional Research

**Exhibit 13: 1-year forward P/ABV (x)**

Source: Company, Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	864	1,092	1,436	1,684	1,908
Interest Expenses	389	471	692	859	986
<b>Net Interest Income</b>	<b>475</b>	<b>621</b>	<b>744</b>	<b>826</b>	<b>922</b>
Change (%)	21.7	30.9	19.8	11.0	11.7
Commission, Ex. & Br. Inc.	126	148	179	216	262
Add: Other income	185	198	235	275	323
<b>Net Income</b>	<b>660</b>	<b>820</b>	<b>979</b>	<b>1,100</b>	<b>1,245</b>
Change (%)	13.8	24.2	19.5	12.4	13.1
Operating Expenses	256	329	397	460	522
<b>Operating Profit</b>	<b>404</b>	<b>491</b>	<b>582</b>	<b>641</b>	<b>723</b>
Change (%)	11.1	21.4	18.5	10.1	12.8
Provisions	86	67	44	81	106
<b>PBT</b>	<b>318</b>	<b>424</b>	<b>537</b>	<b>560</b>	<b>617</b>
Tax	73	105	133	139	153
Tax Rate (%)	23.7	24.8	24.8	24.8	24.8
<b>PAT</b>	<b>245</b>	<b>319</b>	<b>404</b>	<b>421</b>	<b>464</b>
Change (%)	51.4	30.1	26.7	4.3	10.1
Proposed Dividend	35	56	79	82	91

Source: Company, Systematix Institutional Research

## Dupont

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6.5	7.3	8.3	8.4	8.2
Interest Expended	2.9	3.1	4.0	4.3	4.3
<b>Net Interest Income</b>	<b>3.6</b>	<b>4.1</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>
Commission, Ex. & Br. Inc.	1.0	1.0	1.0	1.1	1.1
Other Fee Income	0.4	0.3	0.3	0.3	0.2
<b>Net Operating Income</b>	<b>4.9</b>	<b>5.5</b>	<b>5.6</b>	<b>5.4</b>	<b>5.3</b>
Profit on sale of investment	0.1	0.0	0.0	0.0	0.0
Net Income	5.0	5.5	5.7	5.5	5.4
Operating Expenses	2.0	2.2	2.3	2.3	2.2
<b>Operating Income</b>	<b>3.0</b>	<b>3.3</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>
Provisions	0.7	0.4	0.3	0.4	0.5
<b>PBT</b>	<b>2.3</b>	<b>2.8</b>	<b>3.1</b>	<b>2.8</b>	<b>2.7</b>
Tax	0.6	0.7	0.8	0.7	0.7
<b>PAT</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>
Leverage	8	8	8	8	9
<b>RoE</b>	<b>14.7</b>	<b>17.2</b>	<b>18.9</b>	<b>17.5</b>	<b>17.1</b>

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Capital	14	14	14	14	14
Reserves & Surplus	1,689	1,986	2,253	2,537	2,864
<b>Net Worth</b>	<b>1,705</b>	<b>2,007</b>	<b>2,279</b>	<b>2,563</b>	<b>2,890</b>
Change (%)	15.6	17.7	13.5	12.5	12.7
<b>Deposits</b>	<b>10,646</b>	<b>11,808</b>	<b>13,954</b>	<b>16,207</b>	<b>18,778</b>
Change (%)	14.2	10.9	18.2	16.1	15.9
CASA Ratio (%)	48.7	45.8	39.6	38.6	37.6
<b>Borrowings</b>	<b>1,072</b>	<b>1,193</b>	<b>1,396</b>	<b>1,550</b>	<b>1,658</b>
Other Liabilities	690	833	1,042	1,250	1,500
<b>Total Liabilities</b>	<b>14,113</b>	<b>15,842</b>	<b>18,670</b>	<b>21,570</b>	<b>24,826</b>
Change (%)	14.7	12.3	17.9	15.5	15.1
Investments	3,102	3,623	4,529	5,299	6,094
Cash & Bank balance	1,678	1,194	1,084	1,149	1,241
<b>Loans</b>	<b>8,590</b>	<b>10,196</b>	<b>12,129</b>	<b>14,081</b>	<b>16,330</b>
Change (%)	17.1	18.7	19.0	16.1	16.0
Fixed Assets	94	96	105	111	118
Other Assets	648	732	823	929	1,043
<b>Total Assets</b>	<b>14,113</b>	<b>15,842</b>	<b>18,670</b>	<b>21,570</b>	<b>24,826</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Spreads Analysis (%)</b>					
Yield on Advances	8.0	8.9	10.0	10.0	9.8
Yield on Earning Assets	7.0	7.7	8.8	8.8	8.6
Cost of Deposits	3.3	3.5	4.6	5.0	5.0
Cost of Funds	3.5	3.8	4.9	5.2	5.2
NIM	3.8	4.4	4.5	4.3	4.2
<b>Profitability Ratios (%)</b>					
Cost/Income	40.5	40.1	40.6	41.8	41.9
PPOP / Avg. assets	3.0	3.3	3.4	3.2	3.1
RoE	14.7	17.2	18.9	17.5	17.1
RoA	1.8	2.1	2.3	2.1	2.0
<b>Asset Quality (%)</b>					
GNPA (Rs bn)	333	300	273	320	372
NNPA (Rs bn)	69	52	44	68	79
GNPA	3.8	2.9	2.2	2.2	2.2
NNPA	0.8	0.5	0.4	0.5	0.5
PCR	79.2	82.8	83.7	78.9	78.8
<b>Capitalisation (%)</b>					
CAR	19.2	18.3	18.7	18.2	17.8
Tier I	18.3	17.6	17.9	17.5	17.1
Tier II	0.8	0.7	0.7	0.7	0.6
Average Leverage on Assets (x)	8.3	8.1	8.1	8.4	8.5
<b>Valuations</b>					
Book Value (Rs)	240	282	319	359	406
Adj. Book Value (Rs)	233	276	314	352	397
Price-BV (x)	4.1	3.5	3.1	2.8	2.5
Price-Adj. BV (x)	4.5	3.7	3.2	2.8	2.5
EPS (Rs)	34	46	58	60	66
EPS Growth (%)	43.5	36.0	26.1	4.3	10.1
Price-Earnings (x)	29.7	21.8	17.3	16.6	15.1
Dividend (Rs)	5	8	11	12	13
Dividend Yield (%)	0.5	0.8	1.1	1.2	1.3

Source: Company, Systematix Institutional Research



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