

Sustains strong RoA

- ICICI Bank (ICICIBC) reported a beat on operational fronts, aided by lower NIM compression and lower credit cost from our expectations, opex in-line with estimate and an in-line growth in advances and deposits. LDR and LCR both remain at comfortable level of 86.6% and 121% respectively. Slippages increased, but higher recoveries & upgradation and write-offs led to an improvement in asset quality.
- Advances grew 18% YoY and 4% QoQ aided by a healthy growth in retail and SME advances. Domestic loans grew 19% YoY and 4% QoQ. Overseas loans grew 7% QoQ and 10% YoY and constituted ~3.4% of overall advances. Deposits grew 3% QoQ and 19% YoY, led by term deposits (up 31% YoY and 5% QoQ). CASA grew a mere ~4% YoY (flat QoQ), resulting in a decline in the CASA ratio (down 572bp YoY and 112bp QoQ). Average LCR stood at 121%.
- NIM (reported) compressed by 22bp YoY and 10bp QoQ to 4.43% (2bp higher than our estimate) due to a 18bp QoQ jump in CoF v/s 7bp QoQ jump yield on assets. NII grew 13% YoY and 2% QoQ due to a compression in margin (in line).
- Other income grew 21% YoY and 6% QoQ led by treasury income, which stood at INR123cr versus (INR85cr)/INR36cr in Q2FY24/Q3FY23. Fee income grew at moderate pace of 2% QoQ and 19% YoY. Net revenue grew 15% YoY and 3% QoQ.
- Operating expenses were broadly in line, up 22% YoY and 2% QoQ to ~INR10,050cr. Hiring has been elevated for the last four-to-five quarters; however, it started moderating from last quarter. Other operating expenses were elevated due to promotional activities during the festive season and marketing and branding-related costs. PPOP grew better than expected at 11% YoY and ~3% QoQ. Core operating profit grew by ~10% YoY.
- Credit cost, at 36bp (annualised), was lower than our estimate of 40bp and this includes INR 627cr of provision for an investment in AIFs. As a result, PAT grew 24% YoY (flat QoQ).
- RoA/RoE rose 12bp/90bp YoY, but fell 9bp/60bp QoQ, to 2.3%/18.5%. Although NIM is likely to face some pressure, ICICIBC will sustain its strong performance on most parameters. We reaffirm 'Tactical BUY' with a TP of INR1,195.

Retail and SME loans drive credit growth

Advances grew 18% YoY and 4% QoQ led by retail loans (mix: 54.3%), which grew 21% YoY and ~5% QoQ. Within retail loans, PL/CC grew at a healthy 37%/40% YoY and 6%/11% QoQ. This led to the share of unsecured loans within the retail book rising to 25% from 22% in Q3FY23. Housing and vehicle loans each grew 4% QoQ. SME/business banking grew 28%/32% YoY and 7% each QoQ. The domestic corporate book grew at a moderate pace of 13% YoY and 3% QoQ, partly aided by ~7% QoQ decline in NBFC loans, constituting 6.4% of advances v/s 7.2% in Q2FY24.

Slippages elevated but healthy recoveries and write-offs led to better asset quality

Slippages rose 22% QoQ to INR5,710cr led by retail, rural, and business banking, which contributed 96% to total slippages. Of this, slippages from kisan credit card stood ~INR620cr. Recoveries and upgrades stood at INR5,350cr, of this, retail, rural, and BB contributed 59%. In Q3FY24, write-offs stood at INR1,390cr versus INR1,920cr QoQ and INR1,160cr YoY. This resulted in a 4% QoQ decline in absolute GNPA. GNPA improved by 18bp QoQ to 2.3% and NNPA stood unchanged at 0.44%. The restructured book stood ~INR3,320cr (0.3% of net advances) versus ~INR3,540cr QoQ and INR4,990cr YoY. The bank holds provisions of INR1,030cr against this. PCR stood ~81% versus 83% in Q2FY24 — one of the highest among large private banks.

Valuation and view

ICICIBC reported a steady set of earnings with a comfortable LCR and LDR. NIM contraction was lower than expectation, resulting in a beat on the operating front. We expect superior performance on most parameters to continue, given its strong digital push, focus on risk-calibrated operating returns, and a strong Balance Sheet. We maintain 'BUY' with a TP of INR1,195, a 19% upside from its CMP.

Key financials

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	57,958	65,984	81,960	96,450	1,12,222
PPOP	36,397	39,250	49,087	57,218	67,026
Adjusted profit	16,193	23,339	31,897	40,121	44,699
Diluted EPS (INR)	23.4	33.6	45.9	57.7	64.3
RoAE (%)	12.3	14.7	17.2	18.4	17.4
P/E ratio (x)	35.4	24.7	18.0	14.34	12.9
P/ABV ratio (x)	4.3	3.7	3.1	2.6	2.2

CMP: INR1008

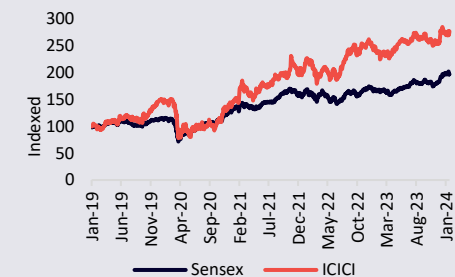
Rating: BUY

Target price: INR1,195

Upside: 19%

Date: January 21, 2024

Bloomberg:	ICICIBC:IN
52-week range (INR):	796/1,044
M-cap (INR cr):	7,00,989
Promoter holding (%)	-



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Q3FY24 result highlights

INR cr	Q3FY24	Q3FY23	YoY change (%)	Q2FY24	QoQ change (%)
Interest earned	36,695	28,506	28.7	34,920	5.1
Interest expended	18,016	12,041	49.6	16,612	8.4
Net interest income	18,679	16,465	13.4	18,308	2
Other income	6,097	5,024	21.4	5,777	5.5
Net revenue	24,776	21,489	15.3	24,085	2.9
Operating expenses	10,052	8,217	22.3	9,855	2
Employee expenses	3,813	2,921	30.5	3,725	2.3
Other expenditure	6,239	5,296	17.8	6,130	1.8
Operating profit	14,724	13,271	10.9	14,229	3.5
Provisions and contingencies	1,049	2,257	-53.5	583	80.1
PBT	13,674	11,014	24.2	13,647	0.2
Taxes	3,403	2,702	25.9	3,386	0.5
PAT	10,272	8,312	23.6	10,261	0.1
Adjustment	-	-	-	-	-
Adjusted PAT	10,272	8,312	23.6	10,261	0.1
No. of equity shares (in cr)	702	698	0.5	700	0.2
Adjusted EPS (INR)	14.6	11.9	22.9	14.6	-0.1

Ratios	Q3FY24	Q3FY23	YoY change (%)	Q2FY24	QoQ change (%)
Cost-to-income ratio	40.6%	38.2%	233bp	40.9%	-35bp
Yield on IEA (Reported)	8.71%	8.07%	64bp	8.64%	7bp
Cost of funds (Reported)	4.96%	3.95%	101bp	4.78%	18bp
Spread	3.75%	4.12%	-37bp	3.86%	-11bp
NIM (Reported)	4.43%	4.65%	-22bp	4.53%	-10bp
RoA	2.3%	2.2%	12bp	2.4%	-9bp
RoE	18.5%	17.6%	90bp	19.1%	-60bp

Balance Sheet	Q3FY24	Q3FY23	YoY change (%)	Q2FY24	QoQ change (%)
Advances	11,53,771	9,74,048	18	11,10,542	4
Deposits	13,32,315	11,22,049	19	12,94,742	3
C/D ratio	86.6%	86.8%	-21bp	85.8%	83bp
CASA	39.6%	45.3%	-572bp	40.8%	-112bp

Asset quality	Q3FY24	Q3FY23	YoY change (%)	Q2FY24	QoQ change (%)
Gross NPA	28,774	32,528	-11.5	29,836	-3.6
Net NPA	5,378	5,651	-4.8	5,046	6.6
% of gross NPAs on advances	2.3	3.07	-77bp	2.48	-18bp
% of net NPAs on advances	0.44	0.55	-11bp	0.43	1bp
Reported PCR	82.6	80.6	200bp	82.4	20bp

Profit & Loss Statement (INR cr)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest income	23,672	26,033	28,506	31,021	33,328	34,920	36,695
Interest expense	10,462	11,246	12,041	13,354	15,101	16,612	18,016
Net interest income	13,210	14,787	16,465	17,667	18,226	18,308	18,679
Other income	4,665	5,055	5,024	5,088	5,435	5,777	6,097
Net revenue	17,875	19,842	21,489	22,755	23,662	24,085	24,776
Operating expense	7,566	8,161	8,217	8,928	9,523	9,855	10,052
- Employee expense	2,849	2,889	2,921	3,401	3,884	3,725	3,813
- Other operating expenses	4,717	5,273	5,296	5,527	5,639	6,130	6,239
Operating profit (PPOP)	10,309	11,680	13,271	13,826	14,139	14,229	14,724
Provisions and contingencies	1,144	1,645	2,257	1,620	1,292	583	1,049
Profit before tax	9,165	10,036	11,014	12,207	12,847	13,647	13,674
Provision for tax	2,260	2,478	2,702	3,085	3,198	3,386	3,403
Profit after tax	6,905	7,558	8,312	9,122	9,648	10,261	10,272
EPS (INR)	9.9	10.8	11.9	13.1	13.8	14.6	14.6

Ratios	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Cost/income ratio	42.3%	41.1%	38.2%	39.2%	40.2%	40.9%	40.6%
Yield on interest earning assets	7.2%	7.6%	8.1%	8.6%	8.7%	8.6%	8.7%
Cost of funds	3.7%	3.8%	4%	4.3%	4.6%	4.8%	5%
Spread	3.5%	3.8%	4.1%	4.3%	4.1%	3.9%	3.8%
NIM	4%	4.3%	4.7%	4.9%	4.8%	4.5%	4.4%
RoA	2%	2.1%	2.2%	2.4%	2.4%	2.4%	2.3%

Balance Sheet	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Advances	8,95,625	9,38,563	9,74,048	10,19,638	10,57,583	11,10,542	11,53,771
Deposits	10,50,349	10,90,008	11,22,049	11,80,841	12,38,737	12,94,742	13,32,315
C/D ratio	85.3%	86.1%	86.8%	86.3%	85.4%	85.8%	86.6%
CASA	46.9%	46.6%	45.3%	45.8%	43.3%	40.8%	39.6%

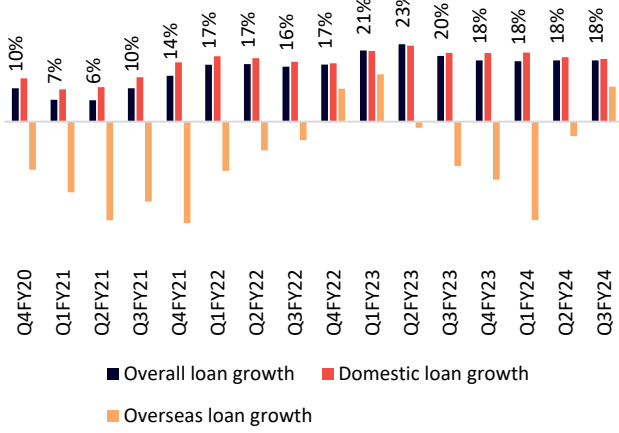
Asset quality	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Gross NPA	33,163	32,571	32,528	31,183	31,821	29,836	28,774
Net NPA	6,656	6,099	5,651	5,155	5,382	5,046	5,378
Gross NPA (%)	3.4	3.2	3.1	2.8	2.8	2.5	2.30
Net NPA (%)	0.7	0.6	0.6	0.5	0.5	0.4	0.44
Restructured	0.8%	0.7%	0.5%	0.4%	0.4%	0	0
Provision coverage ratio	79.6%	80.6%	82%	82.8%	82.4%	82.6%	80.7%

NPA movement	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Opening gross NPA	33,920	33,163	32,571	32,528	31,183	31,821	29,836
Gross additions	5,825	4,366	5,723	4,297	5,318	4,687	5,714
Recovery and upgrades	5,443	3,761	4,604	4,283	3,511	4,571	5,351
Write-offs and sale	1,139	1,197	1,162	1,359	1,169	2,101	1,425
Closing gross NPA	33,163	32,571	32,528	31,183	31,821	29,836	28,774

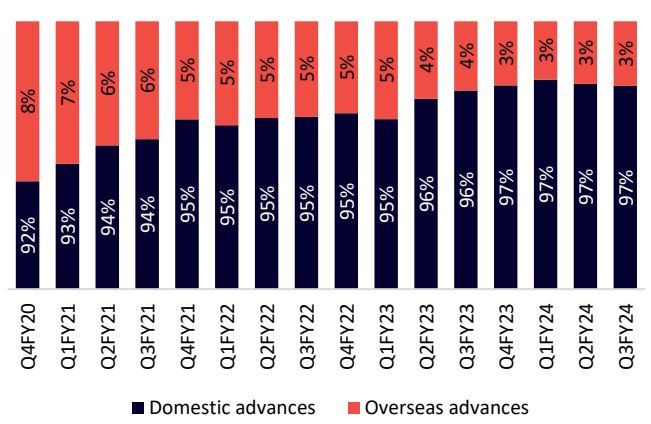
Breakdown of advances	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
- Domestic	8,49,862	9,00,572	9,38,782	9,85,529	10,25,311	10,74,206	11,14,821
- Retail advances	6,08,185	6,42,641	6,67,175	7,02,490	7,33,308	7,70,967	8,00,662
- SME advances	39,385	41,925	45,424	48,221	50,615	54,264	57,918
- Corporate advances	2,02,292	2,16,006	2,26,183	2,34,818	2,41,388	2,48,975	2,56,241
- Overseas book	45,763	37,991	35,265	34,110	32,273	36,336	38,951
Total	8,95,625	9,38,563	9,74,047	10,19,639	10,57,584	11,10,542	11,53,772

Story in charts

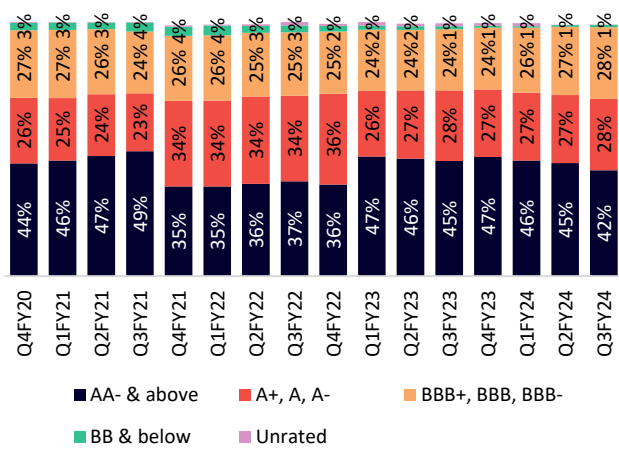
Retail and SME drive credit growth



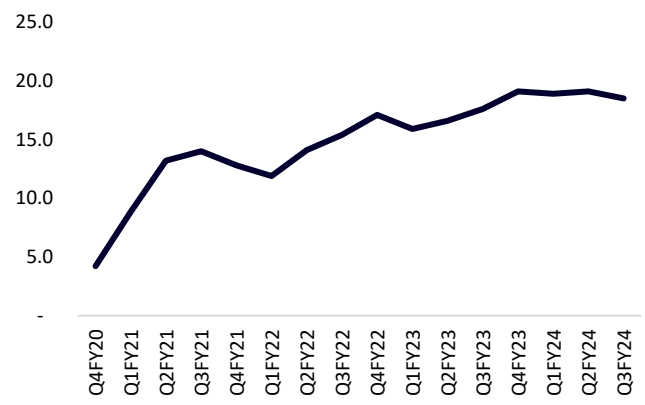
Share of domestic loans remains stable



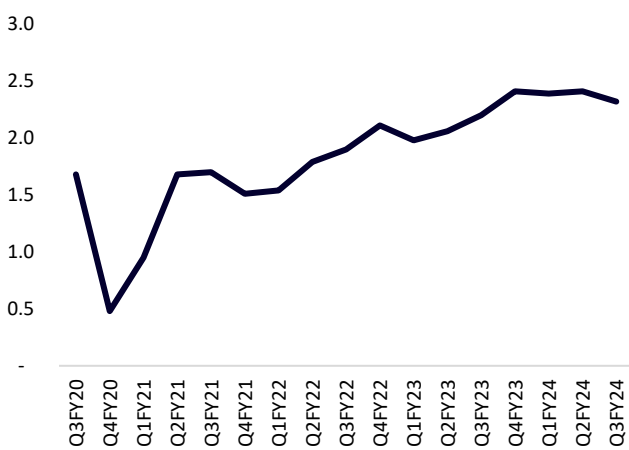
Marginal deterioration in AA-& above



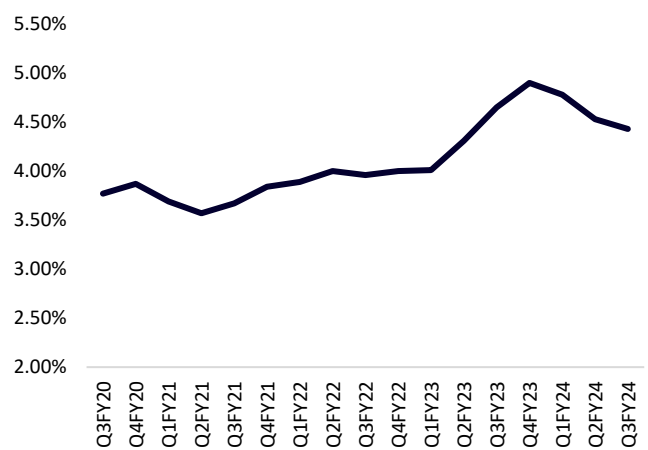
Sustains RoE



RoA stable



NIM moderation was in line with our estimate



Source: Nuvama Wealth Research

Key takeaways from the management interaction:

Balance Sheet:

- Average CASA deposits grew 5.3% YoY and 0.2% QoQ. Average LCR was ~121% in Q3FY24.
- The domestic/retail loan portfolio grew 18.8%/21.4% YoY and 3.8%/4.5% QoQ in Q3FY23.
- The overseas portfolio constituted ~3.4% of the overall loan book. The non-India linked corporate portfolio fell 30.4% YoY, or ~USD116mn. Of the overseas corporate portfolio, Indian/overseas corporates (with Indian linkage) constituted ~92%/4%, 2% comprised companies owned by NRIs or PIOs, and the balance is non-India corporates.
- About 3% of the builder portfolio, as of December 31, was either rated BB & below internally or was classified as non-performing as compared to 3.5% as of September 30, 2023.
- Including 9M profit, CET 1 ratio stood at 16.03% and total capital adequacy ratio stood at 16.7%. This includes the impact of RBI's recent guidelines on higher risk weights on consumer loans and credit to NBFCs.
- ICICIB worked on raising pricing, further refining credit parameters, and optimising sourcing costs, resulting in a sequentially lower disbursement of personal loans in Q3FY24.
- The bank will go ahead with broad based growth and not rely on only one segment (personal loans) for growth.

P&L:

- Systemic liquidity is negative. The management sees some hardening in wholesale deposit rates, which is reflected in CD rates. On a full-year basis, it expects margin to be similar to FY23 levels.
- This implies a further margin compression in Q4, but it should be lower than Q3FY24 levels.
- Net interest margin was 4.43% in Q3FY24 vis-à-vis 4.53% QoQ and 4.65% YoY. The sequential movement in NIM reflects the lagged impact of an increase in term deposit rates over the last one-year on the cost of deposits.
- Out of total domestic loans, interest rates on 49% of the book are linked to the repo rate, 2% to other external benchmarks, and 18% to MCLR and other older benchmarks. The remaining loans command a fixed interest rate.
- Fees from retail, rural, business banking, and SME customers constitute ~79% of the total fees in Q3FY24.
- Employee expenses rose 30.5% YoY in Q3FY24, reflecting an increase in the employee base from H2FY23. The number of employees grew by ~23,600/~1,700 in the last 12 months/Q3FY24 to 141,000 employees as of December 31, 2023.
- Provisions in Q3FY24 included the impact of INR627cr due to the recent RBI circular on investments in AIFs.
- The provisioning coverage on NPAs stood at 80.7% as of December 31, 2023. In addition, the bank holds INR1,032cr of provisions on borrowers under resolution and a contingency provision of INR13,100cr. At the end of December 2023, total provisions, other than the specific provisions on fund-based outstanding to borrowers classified as non-performing, stood at INR23,025cr, or 2% of loans.

Asset quality:

- Total provisions stood at INR1,050cr in Q3FY24, or 7.2%/0.36% of core operating profit/average advances.
- Typically, ICICIB sees higher NPA additions from the kisan credit card portfolio in the first and third quarter of a fiscal.

Miscellaneous:

- There have been more than 1cr activations of iMobile Pay by non-ICICIB account holders as of December 31, 2023.
- Around 72% of trade transactions were undertaken digitally in Q3FY24. The volume of transactions through the trade online platform grew 26.2% YoY in Q3FY24.
- A bank with higher capital levels tends to command a higher C/D ratio, mathematically. In its overseas operations, the bank has relatively limited deposit taking capabilities. When the bank calculates its C/D ratio, it individually looks at its overseas operations and the domestic Balance Sheet as both are managed separately.

Previous outlook

Q2FY24: The bank continues to post a stellar set of numbers, with a continuous improvement in asset quality and sustained return ratios. The compression in NIM was expected. A strong digital push, focus on risk-calibrated operating returns, and a strong Balance Sheet will result in a re-rating in the stock. We maintain our 'BUY' rating with a TP of INR1,195, a 28% upside from its CMP.

Q1FY24: ICICIB reported a great set of numbers on most fronts. NIM was under pressure, but return ratios were maintained and asset quality was sound. A strong digital push, focus on risk-calibrated operating returns, and a strong Balance Sheet will result in a re-rating in the stock. We maintain 'Tactical BUY' with a TP of INR1,195, a 20% upside from its CMP.



Financials

Income Statement					(INR cr)
Year to March	FY21	FY22	FY23	FY24E	FY25E
Interest income	79,118	86,375	1,09,231	1,40,624	1,62,426
Interest charges	40,129	38,908	47,103	67,959	78,117
Net interest income	38,989	47,466	62,129	72,665	84,309
Non-interest income	18,969	18,518	19,831	23,785	27,913
Net revenues	57,958	65,984	81,960	96,450	1,12,222
Operating expense	21,561	26,733	32,873	39,232	45,196
- Employee exp	8,092	9,673	12,060	14,363	16,966
- Other opex	13,469	17,061	20,813	24,869	28,230
Preprovision profit	36,397	39,250	49,087	57,218	67,026
Provisions	16,214	8,641	6,666	4,079	7,823
PBT	20,183	30,609	42,421	53,140	59,203
Taxes	3,990	7,269	10,525	13,019	14,505
PAT	16,193	23,339	31,897	40,121	44,699
Extraordinaries	0	0	0	0	0
Reported PAT	16,193	23,339	31,897	40,121	44,699
Basic number of shares (crs)	691.6	695.0	695.0	695.0	695.0
Basic EPS (INR)	23.4	33.6	45.9	57.7	64.3
Diluted number of shares (mn)	691.6	695.0	695.0	695.0	695.0
Diluted EPS (INR)	23.4	33.6	45.9	57.7	64.3
DPS (INR)	1.0	1.5	4.0	2.0	2.5
Payout ratio (%)	10.2	10.7	20.9	8.2	9.2

Balance Sheet					(INR cr)
Year to March	FY21	FY22	FY23	FY24E	FY25E
Paid Capital	1,383	1,390	1,397	1,397	1,397
Reserve & Surplus	1,46,126	1,69,122	1,99,319	2,35,379	2,75,954
Shareholder's Fund	1,47,509	1,70,512	2,00,715	2,36,776	2,77,350
Deposits	9,32,522	10,64,572	11,80,841	13,99,343	16,38,549
Borrowings	91,631	1,07,231	1,19,325	1,32,938	1,39,277
Other Liabilities	58,771	68,983	83,325	95,268	1,13,363
Total Liabilities	12,30,433	14,11,298	15,84,206	18,64,325	21,68,540
Cash & Bank Balance	1,33,128	1,67,822	1,19,438	1,41,539	1,49,348
Investment	2,81,287	3,10,241	3,62,330	4,29,375	5,02,773
Loan & Advances	7,33,729	8,59,020	10,19,638	12,03,483	14,12,908
Net Fixed Assets	8,878	9,374	9,600	10,080	10,584
Other assets	73,411	64,840	73,201	79,848	92,926
Total Assets	12,30,433	14,11,298	15,84,206	18,64,325	21,68,540

Growth ratios (%)					
Year to March	FY21	FY22	FY23	FY24E	FY25E
Growth in NII	17.2	21.7	30.9	17.0	16.0
Growth in net revenue	16.6	13.8	24.2	17.7	16.4
Growth in opex	(0.2)	24.0	23.0	19.3	15.2
Growth in PPP	29.5	7.8	25.1	16.6	17.1
Growth in provisions	15.4	(46.7)	(22.9)	(38.8)	91.8
Growth in PAT	104.2	44.1	36.7	25.8	11.4

Operating ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Yield on advances	8.3	8.0	8.9	9.8	9.6
Yield on Investments	6.2	5.5	6.2	6.7	6.5
Yield on Interest Earning Assets	7.3	7.0	7.7	8.6	8.5
Cost of Deposits	3.9	3.4	3.6	4.7	4.7
Cost of funds	4.1	3.5	3.8	4.8	4.7
Spread	3.2	3.4	3.9	3.8	3.7
Net interest margins	3.61	3.8	4.4	4.4	4.4
Cost-to-income	37.2	40.5	40.1	40.7	40.3
Tax rate	19.8	23.7	24.8	24.5	24.5

Balance Sheet ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Loan growth	13.7	17.1	18.7	18.0	17.4
IEA growth	13.2	16.5	12.3	18.2	16.4
Deposits growth	21.0	14.2	10.9	18.5	17.1
IBL growth	9.7	14.4	11.0	17.9	16.0
Gross NPA ratio	5.3	3.6	2.8	2.5	2.2
Net NPA ratio	1.2	0.8	0.5	0.6	0.6
Provision coverage	76.7	78.9	82.9	75.8	73.5
CAR	19.1	16.3	18.3	17.3	17.2

RoE decomposition (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net interest income/Assets	3.6	3.8	4.4	4.4	4.4
Other Income/Assets	1.8	1.5	1.4	1.5	1.5
Net revenues/Assets	5.4	5.3	5.8	5.9	5.8
Operating expense/Assets	2.0	2.2	2.3	2.4	2.4
Provisions/Assets	1.5	0.7	0.5	0.2	0.4
Taxes/Assets	0.4	0.6	0.7	0.8	0.8
Total costs/Assets	3.9	3.4	3.5	3.4	3.5
ROA	1.5	1.9	2.2	2.4	2.3
Assets/Equity	8.2	7.8	7.7	7.5	7.5
ROAE	12.3	14.7	17.2	18.4	17.4

Valuation metrics

Year to March	FY21	FY22	FY23	FY24E	FY25E
Basic EPS (INR)	23.4	33.6	45.9	57.7	64.3
Diluted EPS (INR)	23.4	33.6	45.9	57.7	64.3
Book Value per Share(INR)	199.1	230.8	272.2	325.0	383.1
Adjusted BV per share (INR)	193.8	226.8	269.3	320.6	378.1
Price/ Earning (x)	35.4	24.7	18.0	14.3	12.9
Diluted P/E (x)	35.4	24.7	18.0	14.34	12.9
Price/Book Value (x)	4.2	3.6	3.0	2.5	2.2
Price/Adj. Book Value(x)	4.3	3.7	3.1	2.6	2.2

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