

Strong performance continues along with sharp decline in asset quality

Q2FY24 Result Update | Sector: Bank | October 23, 2023

BUY

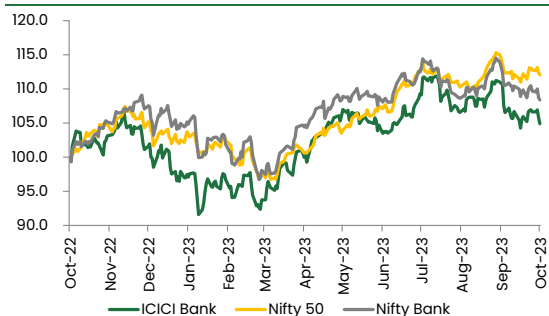
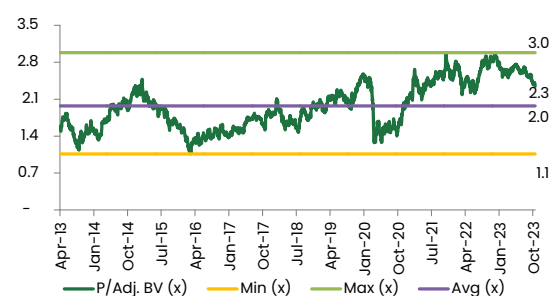
CMP (Rs)	933
Target Price (Rs)	1,252
Potential Upside	34%
Sensex	65,398
Nifty	19,543

Key Stock data

BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC:IN
Shares o/s, Cr (FV 2)	564
Market Cap (Rs Cr)	653,121
3M Avg Volume	15,963,444
52 week H/L	1,009/796

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
FII	44.2	44.5	44.4
DII	45.6	45.5	45.8
Public	10.2	10.0	9.8

1 Year relative price performance

1 year forward P/Adj. BV (x)

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Top-line growth moderate as NIMs cool off: ICICI Bank reported net interest income growth of 0.4% QoQ/23.8% YoY to Rs 183.1 Bn as Net Interest Margins (NIMs) declined on quarterly basis on expected lines. NIMs stood at 4.5% declining by 25bps QoQ as cost of funds grew by 18bps QoQ/100bps YoY to 4.8%. The management expects moderation in NIM over next two quarters and expects full year FY24 NIM to be in similar range as on FY23.

Rise in profits as provisions decline: Profit after tax was Rs 102.6 Bn increased by 6.4% QoQ/35.8% YoY due to decline in provisions and contingencies by 54.9% QoQ/64.6% YoY. Pre-provision operating profit remained steady at Rs 142.3 Bn with growth of 0.6% QoQ/21.8% YoY as operating cost increased. The increase in operating cost was led by other operating cost with increased by 3.5% QoQ/20.8% YoY. This was a result of increase in expenditure on tech which was up by 9% in HIFY24 as compared to HIFY23. Core operating profit increased by 3.1% QoQ/21.7% YoY.

Robust loan growth: The bank continues to report healthy loan growth of 5% QoQ/18.3% YoY to Rs 11,105 Bn. Retail and SMEs segment continue to be the main drivers of growth with 21%/29% YoY. The bank remains confident of the unsecured lending loans and its filtering methods and sees scope for further growth in the segment. It continues to see growth in the retail segment (especially home loans) despite high competition in the segment. Corporate portfolio growth was moderate at 3% QoQ/15% YoY.

Term led deposits growth: Deposits increased by 5% QoQ/19% YoY to Rs 12,947 Bn which was led by strong growth in term deposit of 9% QoQ/32% YoY. CASA deposits remained moderated with a de-growth of 2% on QoQ basis and increase of 4% on YoY basis. The re-pricing of deposits rate in the quarter led to the growth in the term deposits. CASA ratio declined by 254bps QoQ/584bps YoY to 40.8% due to the increase in proportion of term deposits in the overall deposits mix.

Asset quality remains superior: Asset quality continue to improve as GNPA declined by 28bps QoQ/71bps YoY while NNPA declined by 5bps QoQ/18bps YoY. The asset quality remains stable across segments with minimal delinquencies in unsecured portfolio. It has limited presence in small ticket loans, thus, assuring that future asset quality will remain stable. Along with the improvement in asset quality, provision coverage ratio (PCR) improved by 20bps QoQ/200bps YoY at 82.6% which remains one the highest amongst the peers.

Valuation: We remain positive on ICICI Bank on the back of growing loan book, rising deposits franchise and improving asset quality. The provisions saw a decline during the quarter as the management expects asset quality to improve further. The bank's NIM is expected to stabilize by FY24 which will accentuate the top-line growth. The digital push, healthy book quality and risk-calibrated approach will be other drivers of growth going forward. We expect NII/PPOP/PAT to grow at 18%/19%/23% CAGR over FY23-25E. We maintain **Buy** on ICICI Bank with a SOTP-based target price of **Rs 1,252** valuing the standalone bank at 2.7x of its FY25E Adj. BV.

Financial Summary - standalone

Particulars, Rs bn	FY22	FY23	FY24E	FY25E
Total income	1,049	1,291	1,464	1,803
Net interest income	475	621	689	871
Pre-provision operating profit (PPOP)	393	491	551	697
Margin (%)	37.4	38.0	37.7	38.7
Net profit after tax	233	319	372	479
Margin (%)	22.3	24.7	25.4	26.6
Adj. BVPS (Rs)	233	277	330	398
P/Adj. BVPS (x)	4.0	3.4	2.8	2.3
RoA (%)	1.8	2.2	2.2	2.4
RoE (%)	14.8	17.3	17.0	18.3

Source : RBL Research

Con-call highlights: 1) The unsecured loan segments continue to be stable and the credit filters are at the upper end of spectrum, thus, giving the bank to increase the portfolio further. 2) The average liquidity coverage ratio was ~122% in Q2FY24. 3) The bank is looking to increase its branch network aligning with its growth aspirations. It added ~350 branches in H1FY24. 4) Regarding loans, 48% of loans are linked to repo rate, 18% are linked to MCLR, 3% to external benchmarks and balance 31% have fixed interest rates. 5) Employee count as on Q2FY24 stood at 139,000. 6) ~70% of trade transaction in Q2 were processed digitally, up by 77% YoY. 7) It will continue with the broad-based growth strategy instead of relying on just single segment of loan (especially personal loans). 8) Regarding the impact of ICRR, it believes there may have been a couple of points impact 9) In international portfolio, it continues to offer short-term working capital trade finance and NIMs may not see acceleration despite the global rising interest rates scenario.

Income Statement - standalone

Particulars, Rs bn	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Interest earned	349.2	260.3	34.1	333.3	4.8
Other income	57.8	50.5	14.3	54.4	6.3
Total income	407.0	310.9	30.9	387.6	5.0
Core Operating Income	241.7	199.3	21.3	234.1	3.2
Interest expended	166.1	112.5	47.7	151.0	10.0
Net interest income	183.1	147.9	23.8	182.3	0.4
Net interest margin (%)	4.5	4.3	22bps	4.8	-25bps
Total expenditure	264.7	194.1	36.4	246.2	7.5
Operating profit/(loss)	142.3	116.8	21.8	141.4	0.6
Core operating profit	143.1	117.7	21.7	138.9	3.1
Core operating profit excl. dividend income	136.7	111.2	22.9	136.0	0.5
Provisions and contingencies	5.8	16.4	(64.6)	12.9	(54.9)
Profit before tax	136.5	100.4	36.0	128.5	6.2
Tax expense	33.9	24.8	36.6	32.0	5.9
Net profit after tax	102.6	75.6	35.8	96.5	6.4
Margin (%)	25.2	24.3	90bps	24.9	32bps
EPS (Rs.)	14.7	10.9	35.0	13.8	6.2
BVPS (Rs.)	308.5	261.9	17.8	301.5	2.3

Source : RBL Research

Ratios (%)

Particulars	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	Q-o-Q (bps)
Net interest margin (NIM)	4.5	4.3	22bps	4.8	-25bps
Yield on total interest-earning assets	8.6	7.6	105bps	8.7	-10bps
Cost of funds	4.8	3.8	100bps	4.6	18bps
Interest spread	3.9	3.8	5bps	4.1	-28bps
Cost-to-income	40.9	41.1	-20bps	40.2	70bps
RoA	2.4	2.1	35bps	2.4	2bps
RoE	19.1	16.6	250bps	18.9	20bps

Source : RBL Research

Net interest income grew by 24% YoY in Q2FY24 as NIMs increased by 22bps YoY

Net profit after tax increased by 36% YoY as margin improved by 90bps

NIM declined by 25bps mainly due to increase in cost of deposit

RoA/RoE increased by 35bps/250bps YoY in Q2FY24

CASA ratio declined as term deposit reported higher growth

GNPA/NNPA declined by 71bps/18bps YoY in Q2FY24

Interest earned increased by 34.1% YoY driven by healthy loan growth

Net interest income remained flat on QoQ basis as NIM posted a decline of 25bps

Provisions and contingencies declined by 65% YoY in Q2FY24

Business parameters

Particulars	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Advances (Rs Bn)	11,105.4	9,385.6	18.3	10,575.8	5.0
Deposits (Rs Bn)	12,947.4	10,900.1	18.8	12,387.4	4.5
Credit-deposit ratio (%)	85.8	86.1	-33bps	85.4	40bps
CASA (%)	40.8	46.6	-584bps	43.3	-254bps

Source : RBL Research

Asset quality

Particulars	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
GNPA (Rs Bn)	298.4	325.7	(8.4)	318.2	(6.2)
GNPA (%)	2.5	3.2	-71bps	2.8	-28bps
NNPA (Rs Bn)	50.5	61.0	(17.3)	53.8	(6.2)
NNPA (%)	0.4	0.6	-18bps	0.5	-5bps
Provision Coverage Ratio (%)	82.6	80.6	200bps	82.4	20bps

Source : RBL Research

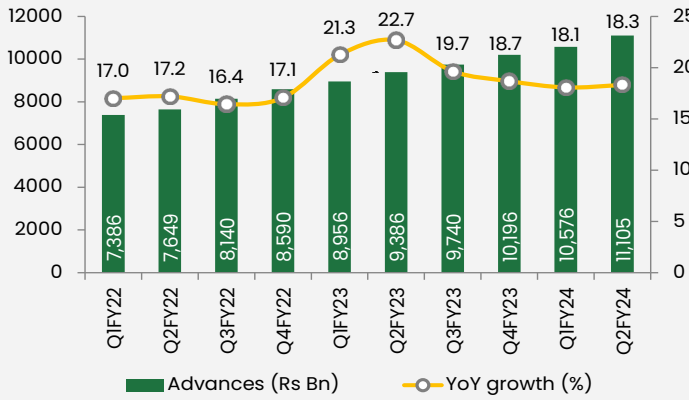
Income statement - Standalone

Particulars, Rs bn	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Interest/discount on advances/bills	271.2	199.3	36.1	258.4	4.9
Income on investments	70.2	51.2	37.0	66.2	6.1
Interest on balances with RBI and others	4.9	3.5	41.9	4.1	19.8
Others	2.9	6.3	(54.6)	4.5	(36.6)
Interest earned	349.2	260.3	34.1	333.3	4.8
Other income	57.8	50.5	14.3	54.4	6.3
Total income	407.0	310.9	30.9	387.6	5.0
Interest expended	166.1	112.5	47.7	151.0	10.0
Net interest income	183.1	147.9	23.8	182.3	0.4
Margin (%)	52.4	56.8	-437bps	54.7	-226bps
Employee cost	37.3	28.9	29.0	38.8	(4.1)
Other operating expenses	61.3	52.7	16.3	56.4	8.7
Operating expenses	98.6	81.6	20.8	95.2	3.5
Total expenditure	264.7	194.1	36.4	246.2	7.5
Operating profit/(loss)	142.3	116.8	21.8	141.4	0.6
Margin (%)	35.0	37.6	-261bps	36.5	-151bps
Core operating profit	143.1	117.7	21.7	138.9	3.1
Margin (%)	35.2	37.8	-267bps	35.8	-65bps
Provisions and contingencies	5.8	16.4	(64.6)	12.9	(54.9)
Profit before tax	136.5	100.4	36.0	128.5	6.2
Tax expense	33.9	24.8	36.6	32.0	5.9
Tax rate (%)	24.8	24.7	12bps	24.9	-9bps
Net profit after tax	102.6	75.6	35.8	96.5	6.4
Margin (%)	25.2	24.3	90bps	24.9	32bps
EPS (Rs.)	14.7	10.9	35.0	13.8	6.2

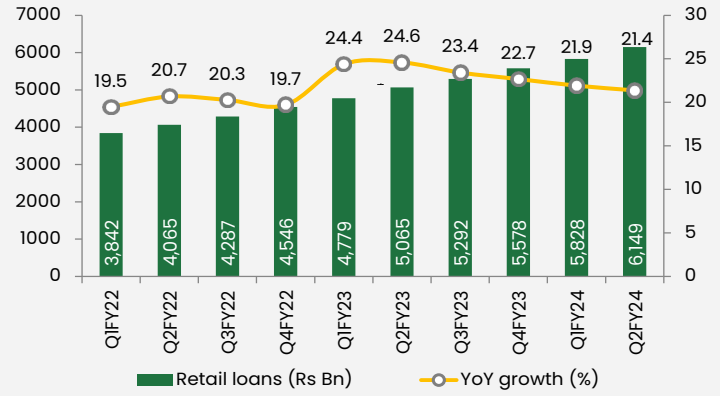
Source : RBL Research

Story in charts

Advances growth remained overall stable in Q2FY24

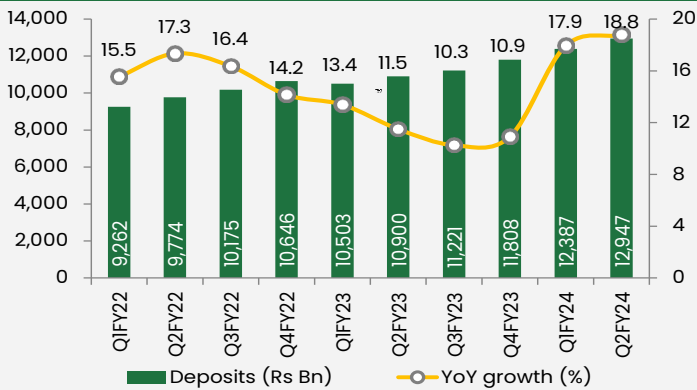


Retail loans growth remains robust

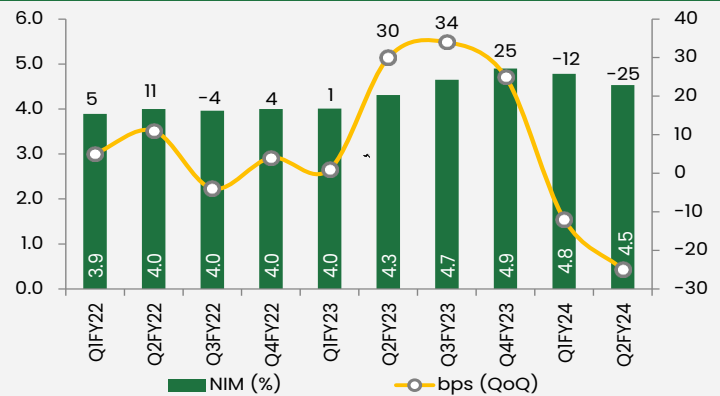


Source : RBL Research

Deposit growth led by term deposits in Q2FY24

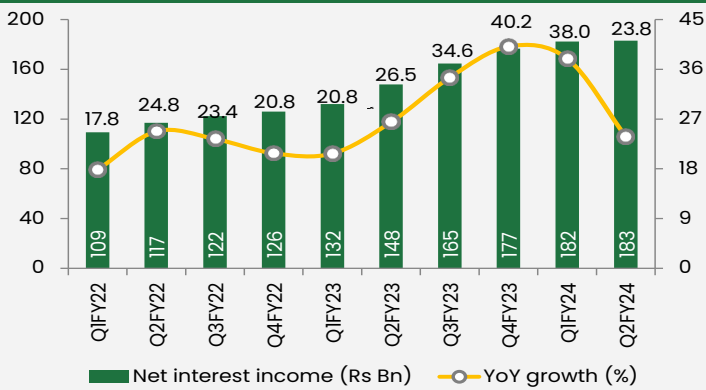


NIM (%) declined by 25bps due to increase in cost of deposit

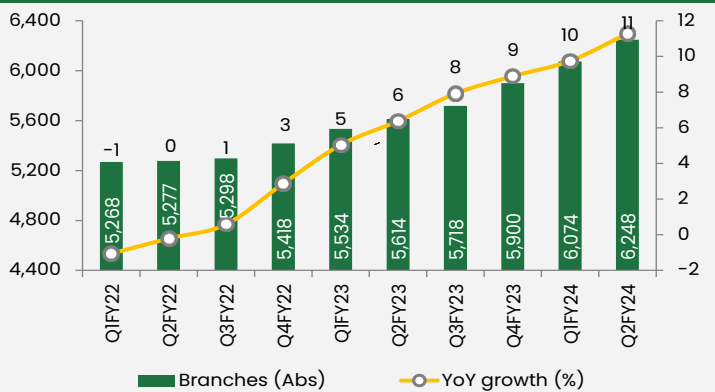


Source : RBL Research

Net interest income increased by 24% YoY in Q2FY24

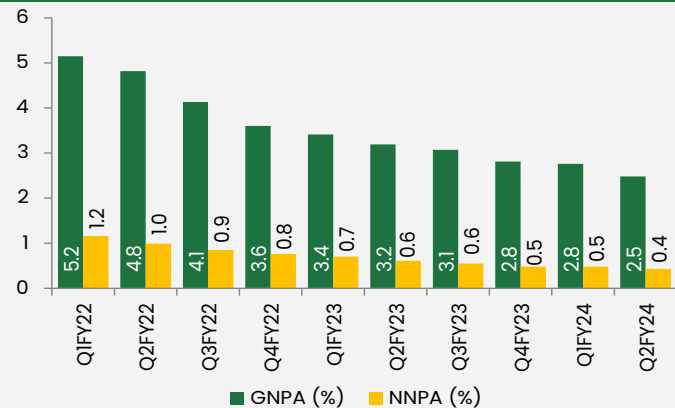


Branch network increased by 11% YoY in Q2FY24

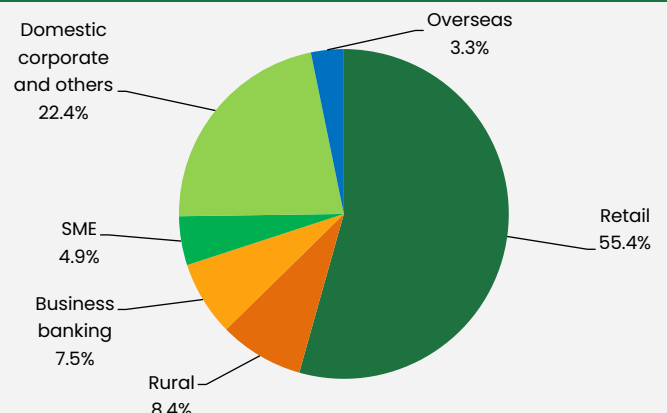


Source : RBL Research

Improving asset quality with declining GNPA (%) / NNPA (%)



Loan book mix (%) in Q2FY24



Source : RBL Research

Income Statement – standalone

Particulars, Rs bn	FY22	FY23	FY24E	FY25E
Interest earned	864	1,092	1,239	1,550
Interest expended	389	471	550	679
Net interest income	475	621	689	871
YoY (%)	21.7	30.9	10.9	26.4
Other income	185	198	226	253
Total income	1,049	1,291	1,464	1,803
YoY (%)	6.9	23.0	13.5	23.1
Operating expenses	267	329	363	427
Operating profit/(loss)	393	491	551	697
YoY (%)	7.8	25.1	12.3	26.5
Provisions and contingencies	86	67	62	67
Profit before tax	306	424	490	630
Tax expense	73	105	118	151
Tax rate (%)	23.7	24.8	24.0	24.0
Net profit after tax	233	319	372	479
YoY (%)	44.1	36.7	16.7	28.7

Source : RBL Research

DuPont Analysis – Standalone

Particulars, Rs bn	FY22	FY23	FY24E	FY25E
Interest earned	864	1,092	1,239	1,550
Interest expended	389	471	550	679
Net interest income	475	621	689	871
Other income	185	198	226	253
Total income	1,049	1,291	1,464	1,803
Employee cost	97	121	140	171
Other operating expenses	171	208	223	256
Operating expenses	267	329	363	427
Provisions and contingencies	86	67	62	67
Profit before tax	306	424	490	630
Tax expense	73	105	118	151
RoA (%)	1.8	2.2	2.2	2.4
RoE (%)	14.8	17.3	17.0	18.3

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs bn	FY22	FY23	FY24E	FY25E
Capital	14	14	14	14
Reserves and surplus	1,689	1,986	2,356	2,828
Net worth	1,702	2,000	2,370	2,842
Deposits	10,646	11,808	13,719	16,153
Borrowings	1,072	1,193	1,460	1,823
Other liabilities and provisions	690	833	842	980
Total Capital and Liabilities	14,113	15,842	18,399	21,806
Current assets	1678	1194	1239	1448
Investments	3,102	3,623	4,034	4,574
Advances	8,590	10,196	12,270	14,950
Fixed assets	94	96	98	100
Other assets	648	732	758	735
Total assets	14,113	15,842	18,398	21,806

Source : RBL Research

Efficiency Ratios (%)

Particulars	FY22	FY23	FY24E	FY25E
Loan/Deposit Ratio	80.7	86.3	89.4	92.6
CASA Ratio	48.7	45.8	43.6	41.6
Cost/Assets	1.9	2.1	2.0	2.0
Cost/Total Income	40.5	40.1	39.7	38.0
Interest exp/Interest earned	45.0	43.1	44.4	43.8
Employee/Operating Cost	36.2	36.7	38.6	40.1
Valuation Ratios (x)				
P/E	27.7	20.4	17.5	13.6
P/BV	3.8	3.2	2.7	2.3
P/ABV	4.0	3.4	2.8	2.3

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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