

HOLD

TP: Rs 1,015 | ▲ 12%

ICICI BANK

| Banking

| 24 April 2023

Strong NII and lower provisions aid healthy PAT

- Growth across asset classes coupled with higher NIM led to strong NII in Q4, but the absence of treasury gains muted other income
- Focus on granularity along with a rising cost of funds forecast to compress NIM and keep CI ratio inflated through to FY25
- Assume coverage with HOLD and a TP of Rs 1,015 (2.7x FY25E ABV plus subsidiaries at Rs 132/sh)

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Strong Q4 performance: ICICIB's Q4FY23 PAT increased 10% QoQ (30% YoY) driven by healthy growth across asset classes and higher margins. NIM jumped 18bps QoQ to 4.8% supported by a lower cost of funds (deposit repricing lags credit rate), though management expects some repricing-led margin pressure in H2. A focus on the high-growth retail business led to credit growth of 5% QoQ (19% YoY) while deposit was muted at 11% YoY. CASA stood at 45.8%, up 50bps QoQ.

NII grew 7% QoQ (40% YoY), enabling PPOP growth of 4% (34% YoY) despite elevated operating cost (C/I ratio at 39.2% vs. 38.2% in Q3). Credit cost improved substantially to 67bps (vs. 96bps in Q3), supported by lower slippages (mainly corporate) and higher recoveries and upgrades. GNPA/NNPA improved QoQ by 26bps/7bps.

Focus on high yielding business to boost growth but raise costs: A steady focus on the high-yield retail business and, more lately, SMEs is likely to spur loan growth. We bake in a credit and deposit CAGR of 18.3% and 14.0% respectively over FY22-FY25. A likely thrust on deposit mobilisation (CD ratio of 86% is above the historical average) with rate repricing can lead to additional costs, likely compressing NIM to 4.4% by FY25. We estimate a 20% NII CAGR through to FY25 with C/I ratio likely to stabilise at 41%.

Asset quality to remain stable: The bank's asset quality is likely to hold steady, with GNPA/NNPA estimated at 2.6%/0.4% in FY25 and slippages controlled at 2.6%. Concentration in the unsecured portfolio may bring challenges with the change in credit cycle and is a key monitorable, though high cumulative provisions (2.2% of loans) lend comfort.

HOLD, TP Rs 1,015: We forecast a healthy PPOP CAGR of 18.5% for ICICIB over FY22-FY25 backed by high margins and lower provisioning. In our view, the bank's ability to deliver robust growth and margins is largely priced into valuations, even as growing competition in the retail space could take the sheen off NIMs. We thus assume coverage with HOLD – our SOTP-based TP of Rs 1,015 is set at 2.7x FY25E ABV (Gordon Growth Model), with subsidiaries valued at Rs 132/sh.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ICICIB IN/Rs 905
Market cap	US\$ 77.1bn
Free float	74%
3M ADV	US\$ 198.1mn
52wk high/low	Rs 958/Rs 670
Promoter/FPI/DII	0%/44%/45%

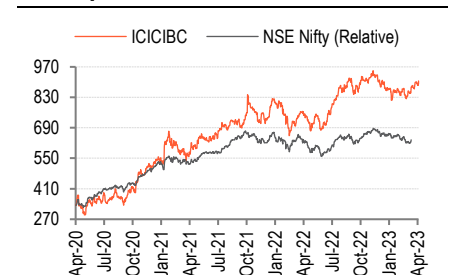
Source: NSE | Price as of 24 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	62,129	72,330	82,133
NII growth (%)	30.9	16.4	13.6
Adj. net profit (Rs mn)	31,897	37,654	42,996
EPS (Rs)	45.8	53.9	61.6
Consensus EPS (Rs)	45.8	51.5	59.3
P/E (x)	19.8	16.8	14.7
P/BV (x)	3.1	2.7	2.4
ROA (%)	2.1	2.2	2.2
ROE (%)	17.2	17.5	17.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly financial statement

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Income Statement										
Interest Income	149,846	157,381	162,342	168,767	176,343	199,289	221,803	241,995	43.4	9.1
Income on investments	40,415	40,981	40,503	42,194	45,818	51,234	53,436	58,398	38.4	9.3
Int. on bal. with RBI & inter-bank funds & Others	13,573	13,975	17,981	15,788	14,554	9,808	9,818	9,819	(37.8)	0.0
Interest income	203,834	212,336	220,826	226,749	236,715	260,330	285,056	310,211	36.8	8.8
Interest expense	94,477	95,439	98,466	100,703	104,615	112,462	120,407	133,543	32.6	10.9
Net interest income	109,358	116,897	122,360	126,046	132,100	147,868	164,650	176,668	40.2	7.3
Growth YoY (%)	17.8	24.8	23.4	20.8	20.8	26.5	34.6	40.2	1933bps	560bps
Fee Income	32,190	38,110	42,910	43,660	42,430	44,800	44,480	48,300	10.6	8.6
Trading gains/(losses)	2,900	3,970	880	1,290	360	(850)	360	(400)	(131.0)	(211.1)
Others	4,869	5,892	6,081	2,424	3,862	6,599	5,396	2,978	(11.3)	(18.2)
Non-interest income	39,959	47,972	49,871	47,374	46,652	50,549	50,236	50,878	7.4	1.3
Growth YoY (%)	(34.9)	19.1	6.4	15.2	16.8	5.4	0.7	7.4	(783bps)	666bps
Non-interest income (Ex- Trading income)	37,059	44,002	48,991	46,084	46,292	51,399	49,876	51,278	11.3	2.8
Total income	149,316	164,869	172,231	173,420	178,752	198,417	214,886	227,545	31.2	5.9
Growth YoY (%)	(3.2)	23.1	18.0	19.3	19.7	20.3	24.8	31.2	1196bps	644bps
Staff expenses	23,744	23,846	24,848	24,289	28,492	28,885	29,212	34,010	40.0	16.4
Other operating expenses	36,628	41,876	45,900	46,201	47,171	52,728	52,962	55,272	19.6	4.4
Operating expenses	60,372	65,722	70,749	70,490	75,663	81,614	82,174	89,282	26.7	8.6
Pre-Provisioning Profit (PPoP)	88,944	99,147	101,483	102,929	103,089	116,803	132,712	138,264	34.3	4.2
Growth YoY (%)	(17.5)	20.0	15.1	20.5	15.9	17.8	30.8	34.3	1380bps	356bps
Pre-Provisioning Profit (Ex- Trading income)	86,044	95,177	100,603	101,639	102,729	117,653	132,352	138,664	36.4	4.8
Growth YoY (%)	22.7	23.3	24.9	18.7	19.4	23.6	31.6	36.4	1776bps	487bps
Provisions	28,517	27,135	20,073	10,690	11,438	16,445	22,574	16,198	51.5	(28.2)
Growth YoY (%)	(62.4)	(9.4)	(26.8)	(62.9)	(59.9)	(39.4)	12.5	51.5	11446bps	3907bps
PBT	60,427	72,012	81,410	92,240	91,651	100,358	110,138	122,066	32.3	10.8
Tax	14,267	16,903	19,471	22,053	22,601	24,780	27,019	30,847	39.9	14.2
PAT	46,160	55,109	61,938	70,187	69,049	75,578	83,119	91,219	30.0	9.7
Growth YoY (%)	77.6	29.6	25.4	59.4	49.6	37.1	34.2	30.0	(2946bps)	(423bps)
Per Share										
FV (Rs)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
EPS (Rs)	6.7	8.0	8.9	10.1	9.9	10.9	11.9	13.1	33.5	9.8
Book Value (Rs)	220	226	235	245	256	262	274	287	16.7	4.7

Source: Company, BOBCAPS Research

Fig 2 – Quarterly Financial Statement

Balance sheet	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Deposits	9,262,239	9,774,486	10,174,667	10,645,716	10,503,490	10,900,080	11,220,495	11,808,407	10.9	5.2
Growth YoY (%)	15.5	17.3	16.4	14.2	13.4	11.5	10.3	10.9	(324bps)	64bps
Advances	7,385,979	7,649,374	8,139,916	8,590,204	8,956,248	9,385,628	9,740,475	10,196,383	18.7	4.7
Growth YoY (%)	17.0	17.2	16.4	17.1	21.3	22.7	19.7	18.7	162bps	(97bps)
Investment	2,948,487	2,852,200	2,848,234	3,102,410	3,212,522	3,330,308	3,370,506	3,623,297	16.8	7.5
Equity	1,523,762	1,567,842	1,630,681	1,705,120	1,778,784	1,825,069	1,912,685	2,007,154	17.7	4.9
Assets	12,206,544	12,760,023	13,541,956	14,112,977	14,155,808	14,886,742	15,217,481	15,842,067	12.3	4.1
Growth YoY (%)	7.2	9.7	13.5	14.7	16.0	16.7	12.4	12.3	(245bps)	(12bps)
Yield (%)										
Yield on Funds	7.13	7.26	7.12	6.93	7.10	7.64	8.06	8.46	152bps	40bps
Cost of Funds	3.71	3.68	3.60	3.50	3.58	3.77	3.90	4.19	68bps	29bps
Spread	3.42	3.58	3.52	3.43	3.52	3.87	4.16	4.27	84bps	11bps
Net Interest Margin	3.82	4.00	3.95	3.85	3.96	4.34	4.65	4.82	96bps	16bps
Ratios (%)										
Other Income / Net Income	26.8	29.1	29.0	27.3	26.1	25.5	23.4	39.2	1192bps	1586bps
Cost to Income ratio	40.4	39.9	41.1	40.6	42.3	41.1	38.2	39.2	(141bps)	100bps
CASA ratio	45.9	46.1	47.2	48.7	46.9	46.6	45.3	45.8	(286bps)	49bps
C/D ratio	79.7	78.3	80.0	80.7	85.3	86.1	86.8	86.3	566bps	(46bps)
Investment to Assets	24.2	22.4	21.0	22.0	22.7	22.4	22.1	22.9	89bps	72bps
Assets Quality										
GNPA	431,483	414,374	370,527	339,195	331,632	325,709	325,282	311,837	(8.1)	(4.1)
NNPA	93,058	81,610	73,439	69,609	66,562	60,993	56,512	51,551	(25.9)	(8.8)
Provision	338,425	332,764	297,089	269,586	265,070	264,716	268,770	260,286	(3.4)	(3.2)
GNPA (%)	5.15	4.82	4.13	3.60	3.41	3.19	3.07	2.81	(79bps)	(26bps)
NNPA (%)	1.16	0.99	0.85	0.76	0.70	0.61	0.55	0.48	(28bps)	(7bps)
PCR (%)	78.4	80.3	80.2	79.5	79.9	81.3	82.6	83.5	399bps	84bps
Slippages (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0bps	0bps
Others										
Branches	5,268	5,277	5,298	5,418	5,534	5,614	5,718	5,900	482	182
ATMs	14,141	14,045	13,846	13,626	13,379	13,254	13,186	16,650	3,024	3,464
Employees	96,682	100,000	102,000	105,800	107,350	110,000	117,200	129,000	23,200	11,800

Source: Company, BOBCAPS Research

Earnings call highlights

Asset quality

- ICICIBC's asset quality improved substantially during FY23 on the back of higher resolution in corporate NPAs. In Q4FY23, GNPA/NNPA improved by 26bps/7bps QoQ (79bps/28bps YoY) with ratios of 2.81%/0.48% and PCR of 83.5%.
- Lower corporate slippages (Rs 2.7bn in Q4 vs. Rs 15.6bn in Q3) aided a reduction in overall slippages to 2% of loans or ~Rs 43bn (vs. Rs 57.2bn or 2.4% in Q3FY23 and Rs 42bn or 2.3% in Q4FY22). Covid-based restructured advances declined to 40bps of loans at Rs 45bn vs. Rs 50bn in the prior quarter.
- Credit cost improved to 67bps (vs. 96bps/53bps in Q3FY23/Q4FY22).
- ICICIBC indicated that recoveries and upgrades amounted to Rs 42.8bn whereas reduction for corporates and non-corporates stood at Rs 11.4bn and Rs 31.5bn respectively, resulting in a net addition of Rs 140 mn to Rs 311.8 bn.
- Total provisions including contingent (Rs 131bn), general (Rs 61.5bn) and others for fund-based restructured and non-fund-based NPA stood at 2.2% of gross loan, which provides an additional cushion against the mandated requirement. Per management, provisions for the quarter include contingent provisions worth Rs 16bn set aside on a prudent basis.
- The non-fund-based outstanding to borrowers classified as NPA stood at Rs 38.7bn against which the bank has provided for Rs 20.5bn. The fund-based outstanding restructured advances stood ~Rs 45.1bn or 0.4% of gross advances and provisions against this stood at Rs 13.8bn.
- Per management, write-offs for the quarter stood at Rs 11.6bn while NPA sale was at ~Rs 2bn.

Loans and deposits

- During Q4FY23, ICICIBC's loans increased by 4.7% QoQ (21.2% YoY) wherein the corporate/retail segments grew 3.8%/5.4% QoQ (18.7%/22.7% YoY). Additionally, business banking outpaced overall growth at 7.8% QoQ (35% YoY) while SMEs were up 6.2% QoQ (19.2% YoY).
- In the retail segment, two-wheeler, personal and credit card loans grew above 40% YoY. Mortgage contributed 34% of total loans, rising 4% QoQ and 17.6% YoY.
- Per management, domestic corporate loans have increased by 3.8% QoQ (21.2% YoY) driven by growth across well-rated companies, and rural loans have moved up by 5.5% QoQ (13.8% YoY).
- On the liability side, deposits grew by 5.2% QoQ (10.9% YoY) led by strong growth in term deposits at 4.3% QoQ (17.1% YoY) while low-cost CASA remained subdued at 4.4% YoY, resulting in a CASA ratio of 45.8% (+30bps QoQ).
- Slower-deposit growth led to a CD ratio of 86.3% vs. 86.8% in Q3.
- LCR for the quarter averaged 124%.

NII and NIM

- A lag in deposit rate repricing reduced the cost of funds while benefits of an asset gearing model led to higher yield on assets. NIM (calc.) thus jumped 18bps to 4.82% vs. 4.65% in Q3 and 3.85% in Q4FY22. The bank witnessed a substantial increase in both domestic (5.02% vs. 4.8% in Q3) and overseas NIM (1.03% vs. 0.63%).
- Per management, the cost of deposits for the quarter amounted to 3.98% (vs. 3.65% in Q3 and 3.48% in Q4FY22). Of the loan book, 46% is linked to repo rate, 3% to other EBLR, 20% to MCLR and other older rates, while the remaining 31% is fixed rate.
- Management is guiding for a higher cost of funds for FY24, on the back of faster deposit repricing, and hence lower margins (we expect NIM compression over the next 1-2 quarters).
- Strong business growth and lower cost of funds led to NII growth of 7.3% QoQ (40.2% YoY) while other income remained flat at Rs 50.8bn (vs. Rs 50.2bn in Q3). Other income decelerated on the back of a treasury loss of Rs 400mn vs. a gain of Rs 360mn in the previous quarter.
- Fee from the retail, rural and business banking segment contributed 80% of fee income and grew 14.8% YoY.

Pre-provisioning operating profit (PPOP)

- Operating cost increased 8.6% QoQ (26.7% YoY) mainly on the back of higher employee expenses which grew 16.4% QoQ (40% YoY). The C/I ratio remained elevated at 39.2% vs. 38.2% in Q3FY23 and 40.6% in Q4FY22.
- The bank's conservative approach towards retirement obligation benefits resulted in an additional cost of ~Rs 3.4bn.
- Supported by healthy NII, PPOP grew 4.2% QoQ (34.3% YoY) and PAT rose 9.7% QoQ (30% YoY) to Rs 91.2bn.
- ICICIBC has added 23,200 employees and 480 branches over FY23 and has guided for higher branch expansion in FY24 as well as employee addition.
- Non-employee expenses were up 19.6% YoY driven by technology and retail business-related expenses. Technology expenses contributed 9.3% of overall expenses vs. 8.6% in Q4FY22.

Fig 3 – Loan book trend

Parameters (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ (%)	YoY (%)
Corporate	1,768,530	1,755,040	1,913,580	1,937,340	2,022,920	2,160,060	2,261,830	2,348,180	3.8	21.2
SME	297,780	331,400	363,530	404,500	393,850	419,250	454,240	482,210	6.2	19.2
Business Banking	396,760	445,670	484,840	534,370	573,960	635,720	668,830	721,120	7.8	34.9
Retail	3,841,920	4,065,080	4,287,350	4,546,350	4,779,410	5,065,150	5,292,360	5,578,170	5.4	22.7
Rural	710,000	715,170	736,850	768,300	769,980	799,040	829,060	874,310	5.5	13.8
Domestic Loan	6,984,990	7,262,360	7,839,150	8,177,360	8,498,620	9,005,720	9,387,820	9,855,290	5.0	20.5
Overseas Loan	400,990	387,010	406,770	412,840	457,630	379,910	352,650	341,100	(3.3)	(17.4)
Total Loan	7,385,980	7,649,370	8,245,920	8,590,200	8,956,250	9,385,630	9,740,470	10,196,390	4.7	18.7

Source: Company, BOBCAPS Research

Fig 4 – Loan book distribution

Parameters (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Corporate	23.9	22.9	23.2	22.6	22.6	23.0	23.2	23.0
SME	4.0	4.3	4.4	4.7	4.4	4.5	4.7	4.7
Business Banking	5.4	5.8	5.9	6.2	6.4	6.8	6.9	7.1
Retail	52.0	53.1	52.0	52.9	53.4	54.0	54.3	54.7
Rural	9.6	9.3	8.9	8.9	8.6	8.5	8.5	8.6
Domestic Loan	94.6	94.9	95.1	95.2	94.9	96.0	96.4	96.7
Overseas Loan	5.4	5.1	4.9	4.8	5.1	4.0	3.6	3.3
Total Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, BOBCAPS Research

Fig 5 – Retail book trend

Parameters (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ (%)	YoY (%)
Mortgage	2,493,870	2,646,950	2,782,670	2,930,630	3,050,760	3,186,130	3,313,790	3,446,960	4.0	17.6
Auto Finance	360,530	374,800	387,370	403,200	424,070	446,140	472,630	496,870	5.1	23.2
Commercial Vehicle & Equipments	251,560	248,430	256,710	261,670	260,850	262,320	265,320	275,410	3.8	5.3
Two wheelers	12,730	12,960	14,560	15,640	17,380	17,720	18,980	21,910	15.4	40.1
Auto Finance	624,820	636,190	658,640	680,510	702,300	726,180	756,930	794,190	4.9	16.7
Personal Loans	494,700	525,740	569,630	628,730	683,750	743,550	809,320	880,550	8.8	40.1
Credit Cards	171,560	198,430	228,000	250,620	280,100	333,940	345,460	378,410	9.5	51.0
Others	56,960	57,770	48,410	55,860	62,500	75,350	66,850	78,050	16.8	39.7
Total Retail Loan	3,841,910	4,065,080	4,287,350	4,546,350	4,779,410	5,065,150	5,292,350	5,578,160	5.4	22.7

Source: Company, BOBCAPS Research

Fig 6 – Retail loan book distribution

Parameters (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Mortgage	33.8	34.6	33.7	34.1	34.1	33.9	34.0	33.8
Auto Finance	4.9	4.9	4.7	4.7	4.7	4.8	4.9	4.9
Commercial Vehicle & Equipment	3.4	3.2	3.1	3.0	2.9	2.8	2.7	2.7
Two wheelers	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Auto Finance	8.5	8.3	8.0	7.9	7.8	7.7	7.8	7.8
Personal Loans	6.7	6.9	6.9	7.3	7.6	7.9	8.3	8.6
Credit Cards	2.3	2.6	2.8	2.9	3.1	3.6	3.5	3.7
Others	0.8	0.8	0.6	0.7	0.7	0.8	0.7	0.8
Total Retail Loan	52.0	53.1	52.0	52.9	53.4	54.0	54.3	54.7

Source: Company, BOBCAPS Research

Fig 7 – Trend in deposits

Parameters (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ (%)	YoY (%)
CA Deposits	1,184,920	1,321,470	1,460,430	1,584,800	1,403,000	1,453,560	1,456,260	1,614,860	10.9	1.9
SA Deposits	3,066,090	3,185,570	3,346,130	3,599,570	3,518,140	3,624,840	3,632,160	3,797,760	4.6	5.5
CASA Deposits	4,251,010	4,507,040	4,806,560	5,184,370	4,921,140	5,078,400	5,088,420	5,412,620	6.4	4.4
Term Deposits	5,011,229	5,267,446	5,368,107	5,461,346	5,582,350	5,821,680	6,132,075	6,395,787	4.3	17.1
Total Deposits	9,262,239	9,774,486	10,174,667	10,645,716	10,503,490	10,900,080	11,220,495	11,808,407	5.2	10.9

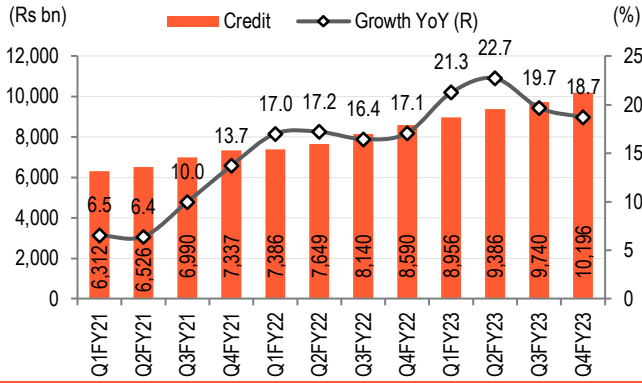
Source: Company, BOBCAPS Research

Fig 8 – Deposit distribution

Parameters (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
CA Deposits	12.8	13.5	14.4	14.9	13.4	13.3	13.0	13.7
SA Deposits	33.1	32.6	32.9	33.8	33.5	33.3	32.4	32.2
CASA Deposits	45.9	46.1	47.2	48.7	46.9	46.6	45.3	45.8
Term Deposits	54.1	53.9	52.8	51.3	53.1	53.4	54.7	54.2
Total Deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

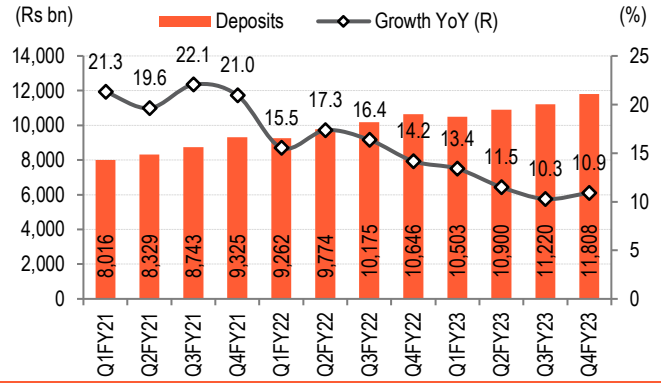
Source: Company, BOBCAPS Research

Fig 9 – Credit growth remained strong QoQ



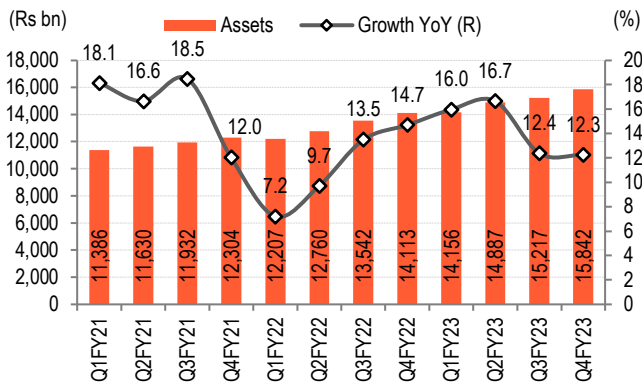
Source: Company, BOBCAPS Research

Fig 10 – ..while deposit growth remained muted



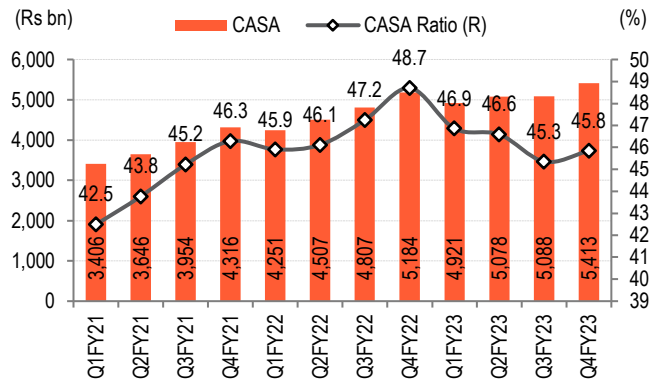
Source: Company, BOBCAPS Research

Fig 11 – Asset growth at 12.3% YoY



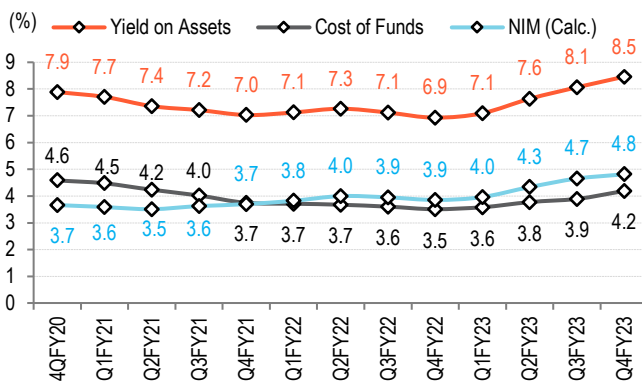
Source: Company, BOBCAPS Research

Fig 12 – CASA ratio up 30 bps to 45.8%



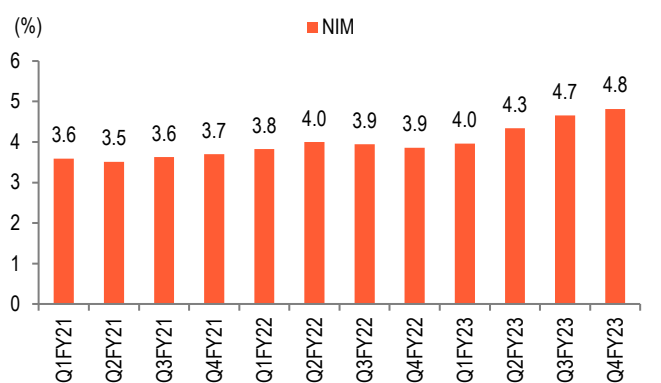
Source: Company, BOBCAPS Research

Fig 13 – Higher yield on asset beat cost of fund



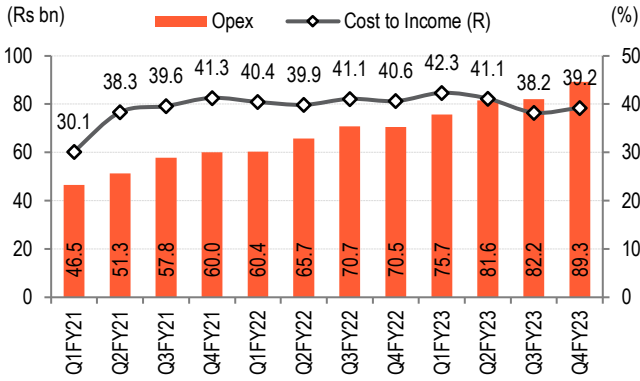
Source: Company, BOBCAPS Research

Fig 14 – Lower cost of fund led NIM jumped 16bps to 4.8%



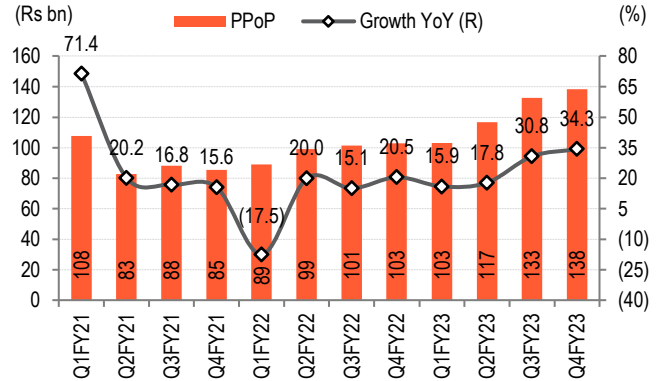
Source: Company, BOBCAPS Research

Fig 15 – Higher employee cost boost opex



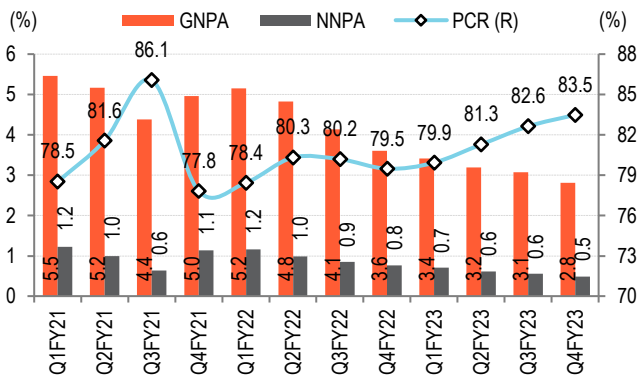
Source: Company, BOBCAPS Research

Fig 16 – Strong topline drive PPOP growth



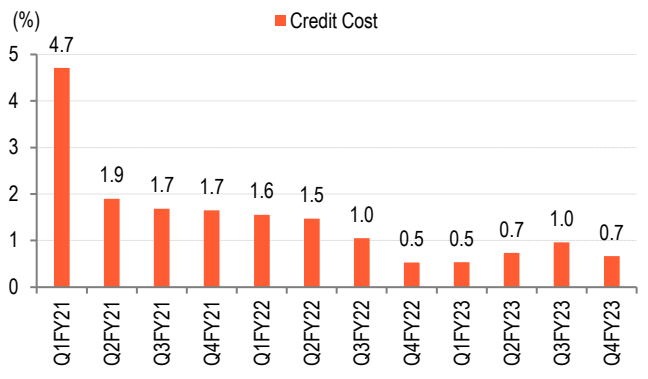
Source: Company, BOBCAPS Research

Fig 17 – Continued improvement in asset quality



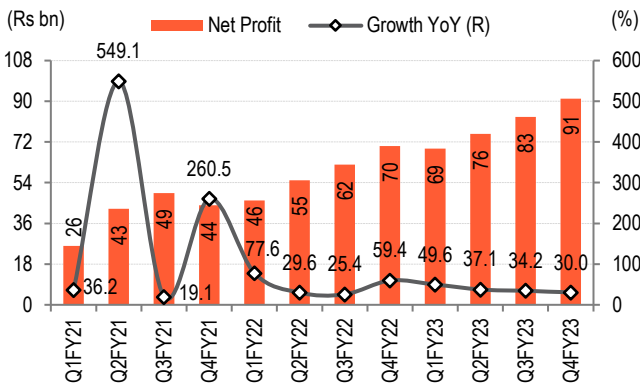
Source: Company, BOBCAPS Research

Fig 18 – Credit cost decline 30bps QoQ



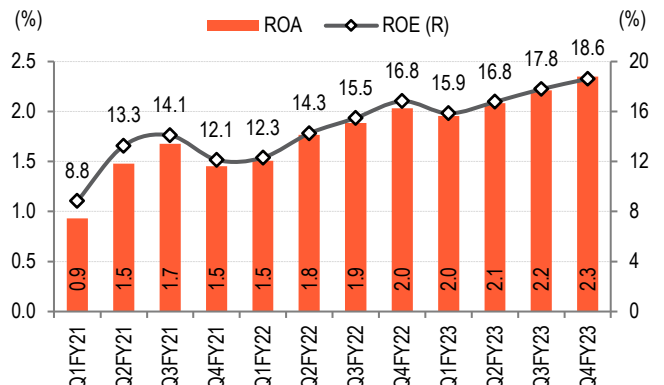
Source: Company, BOBCAPS Research

Fig 19 – High margin and low provision le 30% PAT growth YoY



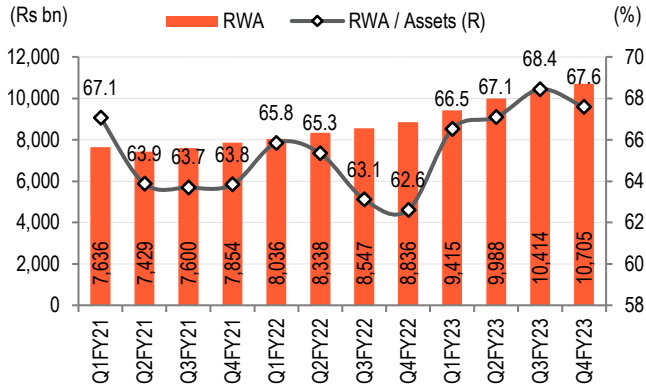
Source: Company, BOBCAPS Research

Fig 20 – Return ratio remained strong (highest in last 8 qtrs)



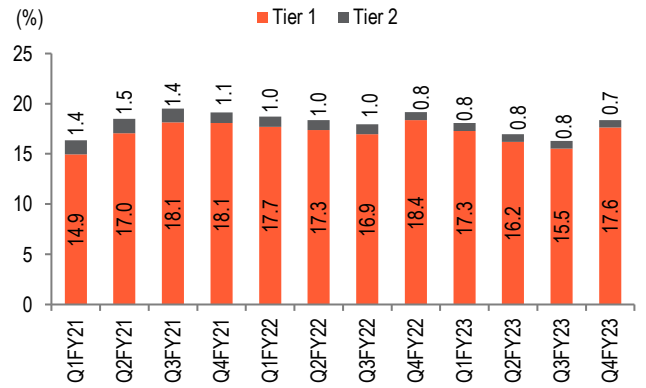
Source: Company, BOBCAPS Research

Fig 21 – Stable RWA to asset aid CAR



Source: Company, BOBCAPS Research

Fig 22 – Well capitalized to fund credit demand



Source: Company, BOBCAPS Research

Valuation methodology

ICICIBC's Q4FY23 performance was strong, supported by healthy credit growth and lower provisions (negligible if we exclude contingent set-asides). We expect the bank to deliver a credit CAGR of 18.3% and deposit CAGR of 14% during FY22-FY25. Strong growth in credit would likely be led by the retail and SME segments while the bank is optimistic of above-industry growth in the corporate segment as well.

In line with management guidance, we expect significant moderation in NIM due to a higher cost of funds on the back of deposit repricing. However, management sounded confident of its ability to set off some margin pressure through higher volumes. Additionally, we believe the bank's healthy CASA mix will keep cost of funds under control and enable it to deliver NIM of 4.4% over FY25 (vs. 4.9% currently)

Growth in non-interest income is likely to remain healthy supported by higher fee income on the back of an increased retail share (15.4% CAGR over FY22-FY25E vs. 7.1% YoY growth in FY23E). On the cost front, the bank is guiding for further network expansion along with employee addition to build a strong granular business franchise. This along with a gradual increase in technology expense is likely to keep the C/I ratio elevated at ~41% through to FY25. We bake in a PPOP CAGR of 18.5% over FY22-FY25 supported by a strong topline.

The bank's proactive strategy towards provisioning and now of setting aside higher contingent provisions towards retail assets will help cushion against any major shocks. We forecast a healthy asset base (GNPA/NNPA/PCR at 2.4%/0.4%/83% in FY25E; one of the best in the industry) with controlled slippages and higher recovery and upgrades. Further, the bank's cumulative provisions including contingent, general and others constitute 2.2% of loans and provide added comfort in terms of regulatory requirements. Supported by buffer provisioning, we estimate credit cost of 70bps over FY22-FY25.

Moreover, ICICIBC is well capitalised with a CAR of 18.3% (tier-1 at 17.6%), and we believe it is well poised to fund the future demand for credit internally. We expect CAR to hold at healthy levels of 18.1%/17.5% in FY24/FY25. Given strong growth, a high-margin portfolio mix and expected lower provision needs, we believe ICICIBC will deliver healthy return ratios. We estimate a 22.6% PAT CAGR over FY22-FY25 with ROA/ROE of 2.2%/17.4% in FY25.

The stock is currently trading at 2.3 FY25E P/ABV. Although the bank's overall business dynamics are robust, we believe these are largely priced into valuations even as growing competition in the retail space could take the sheen off NIMs. We thus assume coverage with a HOLD rating and an SOTP-based TP of Rs 1,015, set at 2.7x FY25E ABV using the Gordon Growth Model plus a value of Rs 132/sh for subsidiaries

Fig 23 – Key operational assumptions

Parameter (%)	FY22	FY23E	FY24E	FY25E
Advances	17.1	18.7	18.3	18.0
Net Interest Income	21.7	30.9	16.4	13.6
PPOP	7.8	25.1	15.9	14.7
PAT	44.1	36.7	18.1	14.2
NIM	3.8	4.4	4.5	4.4
GNPA	3.7	3.0	2.5	2.4
CAR	19.1	18.3	18.1	17.5

Source: Company, BOBCAPS Research

Fig 24 – Valuation summary

Business	Valuation	Holdings (%)	Value (Rs/sh)
ICICI Bank	2.7x FY25E ABV	100	884
ICICI Prudential Life	Market cap	51	42
ICICI Lombard General	Market cap	48	34
ICICI Securities	Market cap	75	15
ICICI Prudential AMC	10% of AUM	51	27
ICICI Home Finance	1x FY25E P/B	100	3
ICICI Bank CANADA & UK	-	100	10
Total	-	-	1,015

Source: Company, BOBCAPS Research

Fig 25 – Key valuation assumptions

Particulars (%)	
Return on Equity (RoE)	17.2
Cost of Equity (Ke)	12.3
Growth (Period 1)	13.8
Growth (Long Term)	6.9
Initial High Growth Period (yrs)	10.0
Dividend Payout (Period 1)	20.0
Dividend Payout (Long Term)	60.0
Factor 1	2.2
Factor 2	13.7
Justified P/BV Multiple (x)	2.7

Source: Company, BOBCAPS Research

Key risks

- Margin expansion with an increase in high yielding assets is a key upside risk to our estimates.
- Inability of the bank to manage a higher cost of funds with faster deposit repricing would represent a key downside risk.

Glossary

Glossary of Abbreviations			
CASA	Current Account and Savings Account	MCLR	Marginal Cost of Funds based Lending Rate
CAR	Capital Adequacy Ratio	NII	Net Interest Income
CET1	Common Equity Tier 1	NIM	Net Interest Margin
CD	Credit-Deposit Ratio	NNPA	Net Non-Performing Assets
C/I	Cost-Income Ratio	PCR	Provision Coverage Ratio
EBLR	External Benchmark based Lending Rate	PPOP	Pre-provision Operating Profit
GNPA	Gross Non-Performing Assets	PSU	Public Sector Unit
LCR	Liquidity Coverage Ratio	RWA	Risk-weighted Assets

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	38,989	47,466	62,129	72,330	82,133
NilI growth (%)	17.2	21.7	30.9	16.4	13.6
Non-interest income	18,969	18,518	19,831	23,780	28,444
Total income	57,958	65,984	81,960	96,109	1,10,577
Operating expenses	21,561	26,733	32,873	39,209	45,301
PPOP	36,397	39,250	49,087	56,901	65,276
PPOP growth (%)	29.5	7.8	25.1	15.9	14.7
Provisions	16,214	8,641	6,666	7,679	9,072
PBT	20,183	30,609	42,421	49,221	56,204
Tax	3,990	7,269	10,525	11,567	13,208
Reported net profit	16,193	23,339	31,897	37,654	42,996
Adjustments	0	0	0	0	0
Adjusted net profit	16,193	23,339	31,897	37,654	42,996

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	1,383	1,390	1,397	1,397	1,397
Reserves & surplus	1,46,126	1,69,122	1,99,319	2,29,442	2,62,979
Net worth	1,47,509	1,70,512	2,00,715	2,30,839	2,64,376
Deposits	9,32,522	10,64,572	11,80,841	13,57,967	15,75,241
Borrowings	91,631	1,07,231	1,19,325	1,34,838	1,54,389
Other liab. & provisions	58,770	68,983	83,325	1,13,677	1,46,887
Total liab. & equities	12,30,433	14,11,298	15,84,207	18,37,320	21,40,894
Cash & bank balance	1,33,128	1,67,822	1,19,438	1,37,096	1,53,993
Investments	2,81,287	3,10,241	3,62,330	4,02,188	4,59,197
Advances	7,33,729	8,59,020	10,19,638	12,06,232	14,23,354
Fixed & Other assets	82,289	74,214	82,800	91,805	1,04,350
Total assets	12,30,433	14,11,298	15,84,207	18,37,320	21,40,894
Deposit growth (%)	21.0	14.2	10.9	15.0	16.0
Advances growth (%)	13.7	17.1	18.7	18.3	18.0

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	24.7	33.7	45.8	53.9	61.6
Dividend per share	2.0	5.0	8.0	10.8	13.5
Book value per share	213.3	245.3	287.4	330.5	378.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	36.7	26.9	19.8	16.8	14.7
P/BV	4.2	3.7	3.1	2.7	2.4
Dividend yield (%)	0.2	0.6	0.9	1.2	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	3.3	3.6	4.1	4.2	4.1
Non-interest income	1.6	1.4	1.3	1.4	1.4
Operating expenses	1.9	2.0	2.2	2.3	2.3
Pre-provisioning profit	312.6	297.2	327.7	332.6	328.2
Provisions	1.4	0.7	0.4	0.4	0.5
PBT	1.7	2.3	2.8	2.9	2.8
Tax	0.3	0.6	0.7	0.7	0.7
ROA	1.4	1.8	2.1	2.2	2.2
Leverage (x)	8.8	8.3	8.1	7.9	8.0
ROE	12.3	14.7	17.2	17.5	17.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Net interest income	17.2	21.7	30.9	16.4	13.6
Pre-provisioning profit	29.5	7.8	25.1	15.9	14.7
EPS	100.9	36.5	36.0	17.8	14.2
Profitability & Return ratios (%)					
Net interest margin	363.5	384.2	440.1	448.0	436.7
Fees / Avg. assets	22.5	23.9	30.0	28.9	28.3
Cost-Income	3720.1	4051.5	4010.9	4079.6	4096.8
ROE	12.3	14.7	17.2	17.5	17.4
ROA	1.4	1.8	2.1	2.2	2.2
Asset quality (%)					
GNPA	5.3	3.8	3.0	2.5	2.4
NNPA	1.2	0.8	0.5	0.4	0.4
Slippage ratio	3.1	3.3	3.1	2.5	2.6
Credit cost	2.4	1.1	0.7	0.7	0.7
Provision coverage	77.7	79.2	83.5	84.0	83.0
Ratios (%)					
Credit-Deposit	7868.2	8069.2	8634.9	8882.6	9035.8
Investment-Deposit	3016.4	2914.2	3068.4	2961.7	2915.1
CAR	19.2	19.1	18.3	18.1	17.5
Tier-1	18.3	18.1	17.6	17.4	16.9

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

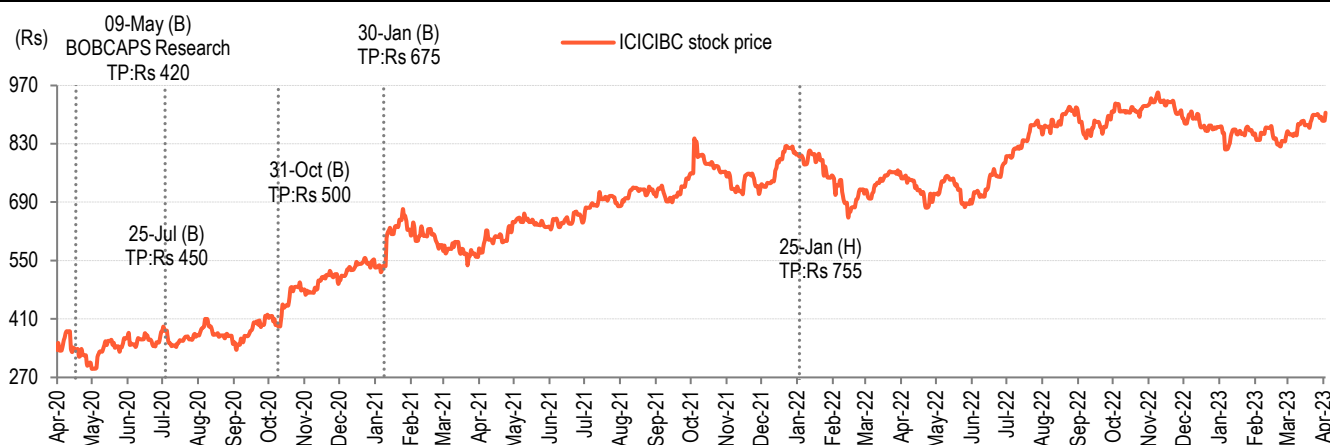
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ICICI BANK (ICICIB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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