

**Impacted NIMs need attention
towards better pricing of Retail Assets**

CMP: INR 1,011

Rating: Accumulate

Target Price: INR 1,171

Stock Info

BSE	532174
NSE	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Bn)	1,4
Mkt Cap (INR Bn)	7,076
52w H/L (INR)	1,044 / 796
Avg Yearly Vol (in 000')	16,663

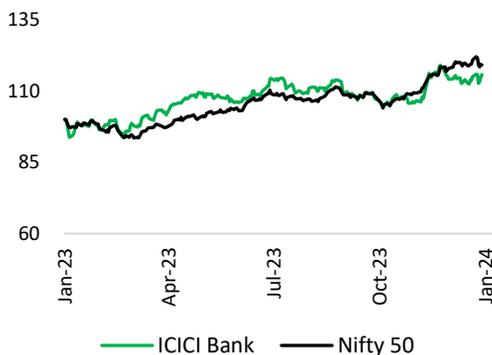
Shareholding Pattern %

(As on Dec, 2023)

Promoters	NIL
Public & Others	100

Stock Performance (%)	1m	6m	12m
ICICI Bank	1.7	2.0	16.0
Nifty 50	1.0	9.7	19.1

ICICI Bank Vs Nifty 50



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ICICI Bank reported profit of INR 103 bn (up 23.6% YoY/0.1% QoQ), driven by better operating profit growth at INR 147 bn (up 10.9% YoY/3.5% QoQ) and a decline in Provisions by 53.5% YoY and up by 80% QoQ to INR 10.5 bn. NII for the quarter grew moderately by 13.4% YoY/2% QoQ to INR 187 bn, led by strong growth in retail advances of 21.4% YoY/4.5% QoQ. NIM of the bank declined by 10 bps QoQ to 4.43%. Operating profit increased by 10.9% YoY/3.5% QoQ to INR 147 bn, driven by better performance on other income front which grew by 21.4% YoY/5.5% QoQ to INR 61 bn. Asset quality of the bank was stable with marginal decline in GNPA by 18bps QoQ to 2.30% and NNPA increased marginally to 0.44% from 0.43% in Q2FY24.

NIMs declined sequentially, driven by increasing cost of funds: NIM of the bank came at 4.43% v/s 4.53% in Q2FY24, down by 10 bps QoQ. Cost of deposits increased by 19 bps QoQ to 4.72%. Further, yield on advances decreased by 2 bps to 9.79% from 9.81% in Q2FY24, whereas the overall cost of funds increased 18 bps QoQ to 4.96% in Q3FY24, similar to previous quarters increase of 18 bps. Going forward, cost of funds are expected to rise further, which will put the NIMs under more pressure. We expect the bank to focus growth in high yield assets while trying to maintain their spreads.

Loan growth remained strong driven by Retail portfolio: Loan growth for the quarter was at 18.5% YoY/3.9% QoQ was to INR 11.54 tn led by retail loan growth of 21.4% YoY, business banking by 31.9% YoY and SME advances by 27.5% YoY. Within retail, PL grew by 37.3% YoY, Credit cards by 39.5% YoY and Vehicle loans by 19.6% YoY. Mortgage book which formed 59.8% of retail loans grew by 15.9% YoY.

Increase in OPEX led by increasing employee costs: Total operating expenditure stood at INR 99 bn as against INR 95 bn in Q1FY23 (+20.8% YoY, +3.5% QoQ). The increase in employee cost seen in previous quarter due to increments and incentives, came down sequentially to INR 37 bn down 4.1% QoQ. Further, cost of deposits increased 22 bps to 4.53%, and will increase furthermore in the subsequent quarters. The Cost to Income ratio decreased sequentially by 35 bps while the bank opened 123 branches in Q3FY24 against 174 branches opened during Q2FY24.

Valuation & View: ICICI bank has reported a rather stable set of numbers amidst increase in interest rate costs for all banks. We believe the bank has to focus on increasing its high yielding assets even more going ahead so as to beat the impact of rising Cost of Deposits. In domestic business, we believe there are opportunities of slightly better growth in the corporate segment, while the rural and vehicle loans could have better yields. The Group's subsidiary companies meanwhile performed in a muted manner in their respective businesses, especially the insurance subsidiaries showing declining Profits sequentially. We continue to maintain our positive stance on its leveraging capabilities, market share position, granular liability franchise and improving return ratios. We downgrade the stock to Accumulate from our earlier Buy rating with a revised target price of INR 1,171, based on SOTP basis with the bank valued at 2.3x FY26E P/ABV for the standalone bank.

Particulars (INR bn)	FY22	FY23	FY24e	FY25e	FY26e
NII	474.7	621.3	717.5	824.8	953.7
PAT	233.4	319.0	340.0	373.3	432.3
BV (Rs)	245.0	286.3	318.8	371.3	379.0
P/ABV (x)	3.3	3.6	3.3	2.8	2.8
ROA (%)	1.8	2.1	2.0	1.9	2.3
PCR (%)	79.5	75.5	74.1	75.5	77.0

Q3FY24 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	367	349	285	5.1%	28.7%
Interest Expense	180	166	120	8.4%	49.6%
Net Interest Income	187	183	165	2.0%	13.4%
Non Interest Income	61	58	50	5.5%	21.4%
Total Income	248	241	215	2.9%	15.3%
Employee Costs	38	37	29	2.3%	30.5%
Other Operating Expenses	62	61	53	1.8%	17.8%
Operating Expenses	101	99	82	2.0%	22.3%
Pre-Provision Profit	147	142	133	3.5%	10.9%
Provisions	10	6	23	80.1%	-53.5%
Profit Before Tax	137	136	110	0.2%	24.2%
Tax Expense	34	34	27	0.5%	25.9%
Net Profit	103	103	83	0.1%	23.6%
Balance Sheet Analysis					
Deposits	13,323	12,947	11,220	2.9%	18.7%
CASA (%)	39.4%	43.5%	44.6%	-409bps	-520bps
Advances	11,538	11,105	9,740	3.9%	18.5%
Total Assets	17,832	17,208	15,217	3.6%	17.2%
Capital Adequacy Ratio (%)	14.61%	16.07%	16.26%	-146bps	-165bps
Spread Analysis					
Cost of Deposits (%)	4.72%	4.53%	3.65%	19bps	107bps
NIM (%)	4.43%	4.53%	4.65%	-10bps	-22bps
Asset Quality					
Gross NPA	2,87,746	2,98,369	325282	-3.6%	-11.5%
Net NPA	53,785	50,465	56512	6.6%	-4.8%
GNPA (%)	2.30%	2.48%	3.07%	-18bps	-77bps
NNPA (%)	0.44%	0.43%	0.55%	1bps	-11bps
Key Ratios					
Cost to Income Ratio (%)	40.57%	40.92%	38.24%	-35bps	233bps
C/D Ratio (%)	86.60%	85.77%	86.81%	83bps	-21bps
RoA (%) (annualized)	2.32%	2.41%	2.20%	-9bps	12bps

Source: Arianth Research, Company Filings

Q3FY24 – Key Concall Highlights**Guidance:**

- Management expects Cost of Deposits to rise further in Q4FY24 across banking sector as well as for them.
- NIMs could further moderate owing to rising funding costs.
- The rate of recruitment across the bank is expected to come down and help maintaining steady employee expense growth for the bank.
- Credit cost on an overall basis to vary around ~50 bps in the future.

Key Highlights:

- PBT excl Treasury grew by 23.4% YoY to INR 135.51 bn in Q3FY24.
- Among the Retail Loan portfolio, the Mortgage Portfolio grew by 15.9% YoY, Vehicles Loans grew by 19.6%, Personal Loans grew by 37.3% YoY, Credit Cards by 39.5% YoY and Other Loans grew by 29.3%.
- The Business Banking Portfolio grew by 31.9% YoY, Rural loans by 18.2% YoY, SME by 27.5% YoY and moderate growth in the Domestic Corporate growth at 13.3% YoY.
- Total domestic Loan Portfolio grew by 18.8% YoY.
- NIM came at 4.43% for Q3FY24, against 4.53% in Q2FY24 and 4.65% in Q3FY23.
- Net Interest Income was up 13.4% YoY/2% QoQ to INR 186.8 bn and was driven by healthy loan growth.
- NIM was down by 22 bps YoY/10 bps QoQ to 4.43%, mainly due to higher cost of deposits, especially from the corporate deposits segment.
- Domestic NIMs stood at 4.52% versus 4.61% QoQ.
- Non-interest income was up 21.4% YoY/5.5% QoQ to INR 61 bn, in which fee income was up 19.4% YoY to INR 53.1 bn.
- Cost to Income ratio increased 233 bps YoY/down 35 bps QoQ to 40.57%.
- Provisions were up 80% QoQ due to AIF investment related provisions worth INR 6.27 bn in Q3FY24.
- Net Profit increased by 23.6% YoY/0.1% QoQ to INR 102.7 bn for Q3FY24.
- Advances grew by 18.5% YoY/3.9% QoQ to INR 11.5 trillion.
- Retail loans increased by 21.4% YoY/4.5% QoQ and formed 54.3% of total advances, while Business Banking and SME loans also registered strong growth by 31.9% YoY and 27.5% YoY respectively.
- In the Retail portfolio, personal loans and credit cards showed robust growth of 37.3% YoY and 39.5% YoY respectively, while mortgage and vehicle loans were up 15.9% YoY and 19.6% YoY respectively.
- Deposits for the quarter jumped by 18.7% YoY/2.9% QoQ to INR 13.3 tn in which CASA deposits increased 3.8% YoY to INR 5.3 tn making a CASA ratio of 39.6% in Q3FY24 against 44.6% a year ago.
- Asset Quality was mixed as GNPA ratio declined by 77 bps YoY/18 bps QoQ to 2.3% however Net NPA ratio increased by 1 bps sequentially to 0.44%.
- Slippages for the quarter stood at INR 57.1 bn as compared to INR 46.9 bn in Q2FY24. Slippage from retail, rural and business banking segment stood at INR 54.8 bn against INR 43.6 bn, i.e., up 26% QoQ.
- Retail rural slippages increased owing to slippage worth INR 6.2 bn from Kisan credit card segment.
- Recoveries and upgrades during the quarter stood at INR 53.5 bn while write-offs amounted to INR 13.9 bn YoY. Recoveries and upgrades from retail, rural and business banking segment stood at INR 31.8 bn.
- The bank has contingent provision of INR 131 bn on its balance sheet while the provision coverage ratio for the bank stood at 80.7% as of Q3FY24.
- Loans under RBI resolution framework stands at 0.3% of total advances as on Q3 FY24. Except for two accounts, the maximum single borrower outstanding in the BB and below portfolio was less than INR 5 bn. Provisions on BB and below portfolio were INR 9.25 bn as against INR 8.17 bn in Q2FY24 on a sequential basis.

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Rs. Bn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
INTEREST EARNED	791.2	863.7	1,092.3	1,257.8	1,459.0	1,750.8
Interest/Discount on advances/Bills	572.9	638.3	839.4	956.9	1,122.9	1,347.5
Income from Investment	165.4	164.1	208.9	259.1	285.9	343.0
Interest on Balances with RBI & Others	16.3	15.6	18.5	13.8	19.3	23.2
Others	36.6	45.7	25.5	28.0	30.8	37.0
INTEREST EXPENDED	401.3	389.1	471.0	557.5	664.2	797.0
Net Interest Income (NII)	389.9	474.7	621.3	700.3	794.8	953.7
OTHER INCOME	189.7	185.2	198.3	221.3	249.3	299.2
TOTAL INCOME	579.6	659.8	819.6	921.6	1,044.1	1,252.9
Employee Expenses	80.9	96.7	120.6	124.6	143.3	172.0
Other Operating Expenses	134.7	170.6	208.1	235.4	287.2	344.7
Operating Expenses	215.6	267.3	328.7	360.0	430.5	516.6
OPERATING PROFIT	364.0	392.5	490.9	561.6	613.6	736.3
PROVISIONS	162.1	86.4	66.7	133.7	154.3	169.7
Profit Before Tax (PBT)	201.8	306.1	424.2	427.9	459.3	566.6
PROVISIONS FOR TAXES	39.9	72.7	105.2	101.4	108.9	134.3
PAT	161.9	233.4	319.0	326.5	350.4	432.3

Balance Sheet (INR Bn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Assets						
Cash & bank balances	460.3	1,095.2	685.3	891.3	1,081.1	1,297.3
Bal. with banks and money at call & short notice	871.0	583.0	509.1	1,120.2	1,154.7	1,385.6
Advances	7,337.3	8,590.2	10,196.4	11,800.2	13,720.8	16,464.9
Investments	2,812.9	3,102.4	3,623.3	3,778.8	4,273.8	5,128.5
Fixed Assets	88.8	93.7	96.0	100.8	106.8	128.2
Other Assets	734.1	648.4	732.0	695.4	674.5	809.5
TOTAL ASSETS	12,304.3	14,113.0	15,842.1	18,386.7	21,011.7	25,214.0
Equity & Liability						
Total Paid-Up Capital	13.8	13.9	14.0	14.0	14.0	16.8
RESERVES & SURPLUS	1,461.2	1,688.6	1,985.6	2,328.5	2,688.1	3,225.7
ESOPs	0.0	2.7	7.6	7.6	7.6	9.1
DEPOSITS	9,325.2	10,645.7	11,808.4	13,573.6	15,398.3	18,478.0
BORROWINGS	916.3	1,072.3	1,193.3	1,475.7	1,743.5	2,092.1
OTHER LIABILITIES & PROVISIONS	587.7	689.8	833.3	987.4	1,160.2	1,392.2
TOTAL LIABILITIES	12,304.3	14,113.0	15,842.1	18,386.7	21,011.7	25,214.0

Source: Arianth Research, Company Filings

Ratios	FY21A	FY22	FY23	FY24E	FY25E	FY26E
Growth rates						
Advances (%)	13.70	17.10	18.70	15.73	16.28	16.65
Deposits (%)	21.00	14.20	10.92	14.95	13.44	13.56
Total assets (%)	12.0%	14.7%	12.0%	16.0%	14.0%	20.0%
NII (%)	17.20	21.70	30.89	12.72	13.49	16.14
Pre-provisioning profit (%)	29.50	7.80	25.06	14.41	9.26	12.13
PAT (%)	104.20	44.10	36.66	2.35	7.35	9.65
Balance sheet ratios						
CASA (%)	46.30%	48.70%	45.84%	48.30%	48.30%	47.00%
Advances/Total assets (%)	59.60%	60.90%	64.00%	68.00%	70.00%	70.00%
Operating efficiency						
Cost/income (%)	37.20%	40.50%	40.10%	42.00%	42.00%	41.50%
Profitability						
NIM (%)	3.60%	3.80%	4.48%	4.35%	4.25%	4.40%
RoA (%)	1.30%	1.70%	2.16%	2.30%	2.23%	2.30%
RoE (%)	11.00%	13.70%	17.30%	14.60%	16.50%	17.20%
Asset quality						
Gross NPA (%)	5.00%	3.60%	2.81%	2.30%	2.20%	2.30%
Net NPA (%)	1.10%	0.80%	0.48%	0.50%	0.63%	0.65%
PCR (%)	77.80%	73.20%	82.80%	85.00%	87.00%	88.00%
Per share data / Valuation						
EPS (INR)	23.41	33.58	45.67	46.74	50.18	55.02
BVPS (INR)	213	245	286.31	320.41	369.38	379.02
ABVPS (INR)	194	226	274.12	306.03	353.81	361.93
P/E (x)	34.2	23.8	21.90	21.39	19.93	18.18
P/BV (x)	3.8	3.3	3.49	3.12	2.71	2.64
P/ABV (x)	4.1	3.5	3.65	3.27	2.83	2.76

Source: Arian Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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