22 June 2024

the Corner Office
Interaction with the CEO

Well poised to sustain best-in-class performance

Operating leverage emerging as an earnings lever; growth outlook steady

We met with the top management team of ICICI Bank (ICICIBC), represented by Mr. Sandeep Bakhshi, MD & CEO, Mr. Abhinek Bhargava, Head-IR, and select business heads to discuss the bank's business outlook and other key focus areas. Following are the key takeaways from the discussion:

Loan growth to remain robust; focusing on quality underwriting

ICICIBC is consistently outpacing system credit growth, driven by higher growth in retail and SME segments, while the wholesale growth remains modest. With a focus on building a diversified and granular portfolio, ICICIBC reported a ~17% CAGR in loans over FY22-24. The bank has adopted data analytics-driven processes for onboarding, credit assessment, and customer monitoring. The share of unsecured loans (credit cards + personal loans) now stands at ~14% of the total portfolio. A major proportion of loans in this portfolio are extended to existing customers, with a notable preference toward the salaried segment. Looking ahead, while the bank remains agnostic to sectors and continues to focus on risk-calibrated core PPoP, the burgeoning pace of activity in SME, business banking and retail will continue to drive overall growth. The bank will continue to tighten its underwriting in unsecured lending, thereby supporting sustained growth and portfolio quality.

ICICI Bank

Mr. Sandeep Bakhshi, MD & CEO

Mr. Bakhshi has been MD and CEO of ICICI Bank since Oct'18. Previously, he was a Wholetime Director and COO of the bank. Mr. Bakhshi has been with the ICICI Group since 1986 and has handled various assignments across the group in ICICI Limited, ICICI Lombard General Insurance, ICICI Bank and ICICI Prudential Life Insurance. He grew up in a defense services family and attended several schools and colleges across India before completing his management studies from XLRI in Jamshedpur.

Liability momentum healthy; superior tech to aid customer acquisition

ICICIBC delivered industry-leading deposit growth of ~20% in FY24. The bank's strategic initiatives in digital banking and branch network expansion should help it sustain healthy momentum in liabilities. Deposit growth has been aided by continuous improvements in digital platforms and the simplification of processes to provide a seamless banking experience to customers. ICICIBC has launched several digital innovations with powerful functionalities and seamless access to digital channels. It has also launched an array of new products (iLens, Insta Export Packing Credit etc.), besides enhancing InstaBIZ and Merchant Stack tools. These tools have the ability to offer customized solutions, enable data-driven cross-sell and up-sell, onboard new customers, and provide value-added features. The bank is also focusing on a 360-degree customer-centric approach by providing various products and solutions for a holistic banking experience, thus improving its customer acquisition run rate and overall engagement levels.

NIMs to remain range-bound in near term

The bank remains focused on bolstering its retail deposit base even as the CASA mix moderated to 42.2% in FY24 (~39% on average basis) owing to a higher rate differential. The management intends to maintain a healthy and stable deposit profile to keep funding cost in control. The conservative LDR of 82.3% on domestic book places the bank well among large private banks to pursue loan growth. Over the past one year, margins have corrected by 50bp to 4.4%; however, the pace of NIM compression has moderated sharply with a tiny 3bp QoQ decline in margins in 4QFY24. The bank expects margins to remain range-bound with a slight downside bias in the near term due to elevated TD rates (recently raised rates by 10bp) and residual repricing of its TD portfolio.

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Fee growth steady; operating leverage emerging as a key lever with focus on "Return on Effort"

ICICIBC delivered ~16% growth in core fees in FY24, driven by strategic initiatives across retail, SME, and business banking segments, which collectively contributed ~78% to overall fees. The bank's focus on enhancing transaction banking, foreign exchange services, and derivatives products has bolstered fee income, complemented by gains in credit cards through an increased market share in cards-in-force and spending volumes. Efficient deployment of data analytics has further augmented digital transactions across retail segments, while a gradual recovery in the corporate portfolio is anticipated to spur fee growth as lending activity remains healthy. The bank has been focusing on enhancing its digital capabilities to support business growth and expand new verticals. Over past three years the bank has reported avg. 22% YoY growth in opex, yet the C/I ratio remains broadly stable at ~40%, supported by healthy revenue growth. The bank is focusing strongly on leveraging technology to increase volumes in the retail and SME segments, with an aim to improve productivity and ensuring that it gets its due **"Return on Effort."** We currently factor in ~15% YoY growth in opex over FY24-26E and remain optimistic on further moderation in the opex run rate.

ICICI Bank's transformation under competent management leading to sustainable growth

Under Mr. Bakhshi's leadership, ICICIBC has undergone a radical transformation characterized by an overhaul of HR policies, thereby shifting emphasis from individual to team performance. Despite facing industry-wide attrition challenges, the bank distinguishes itself with a robust leadership bench and a commitment to structured processes over reliance on individual star performers. This strategic shift has proven effective, enabling the bank to consistently deliver strong outcomes, thus moving away from a culture that previously incentivized individual stardom. 'One Bank, One Team' approach has encouraged employees to collectively work toward the greater organizational goals, thus helping achieve superior results. The management's unwavering focus on fostering a cohesive organizational culture underpins its goal of sustainable and profitable growth, reinforcing the bank's position as a resilient and successful institution poised for continued success in the banking sector.

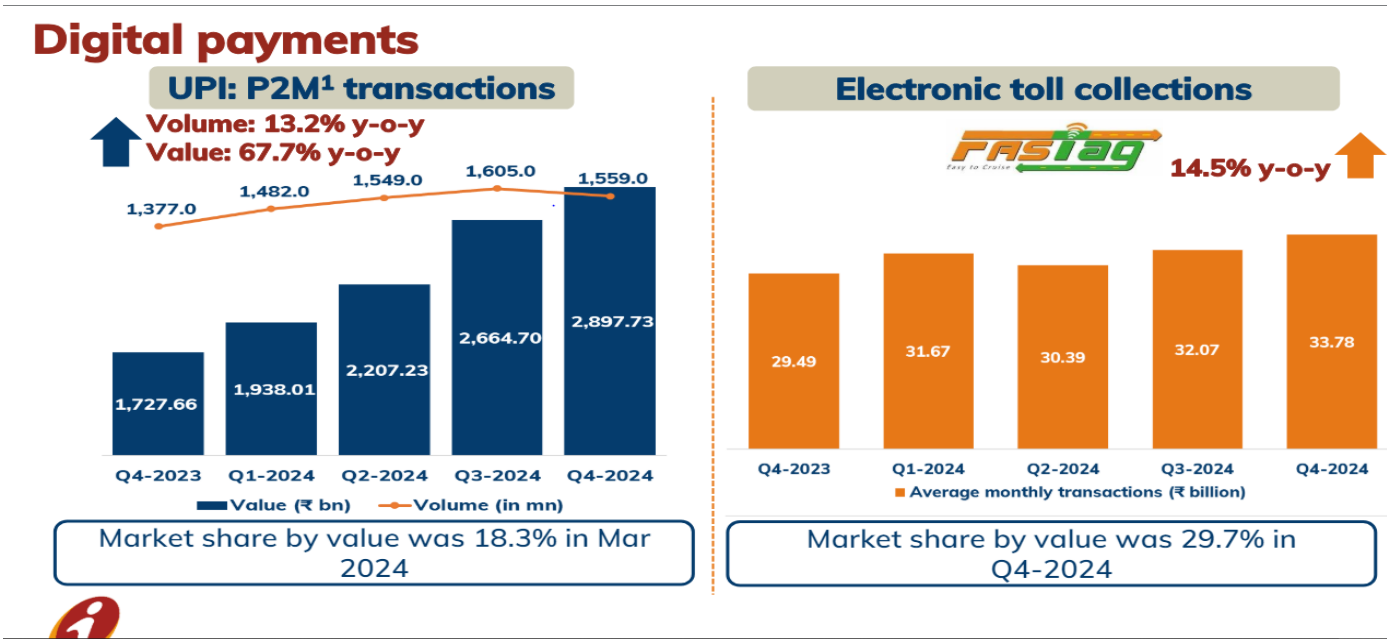
Asset quality remains robust; credit cost to normalize gradually

ICICIBC has made significant progress toward improving its asset quality, with the best-in-class PCR of ~81%, which, coupled with contingent provisions of ~INR131b (1.1% of loans), will keep credit cost benign. An improvement in underwriting, led by increasing adoption of analytics, a lower BB and below book (0.5% of loans), and controlled restructuring (0.26% of loans), will keep slippages under control. The bank highlighted that it has improvised the credit filters in the personal loan segment as a risk measure and has also increased the pricing of new personal loans. However, currently no adverse trends are seen in the unsecured portfolio. The bank has made aggressive investments in technology, wherein it has used analytics and digital capabilities to formulate early delinquency models, which is helping the bank keep slippages under control. We estimate GNPA/NNPA ratios to moderate to 2.17%/0.28% by FY26E, while credit cost increases to ~0.6% by FY26E.

Valuation and view: Growth outlook steady; reiterate Buy with a TP of INR1,350

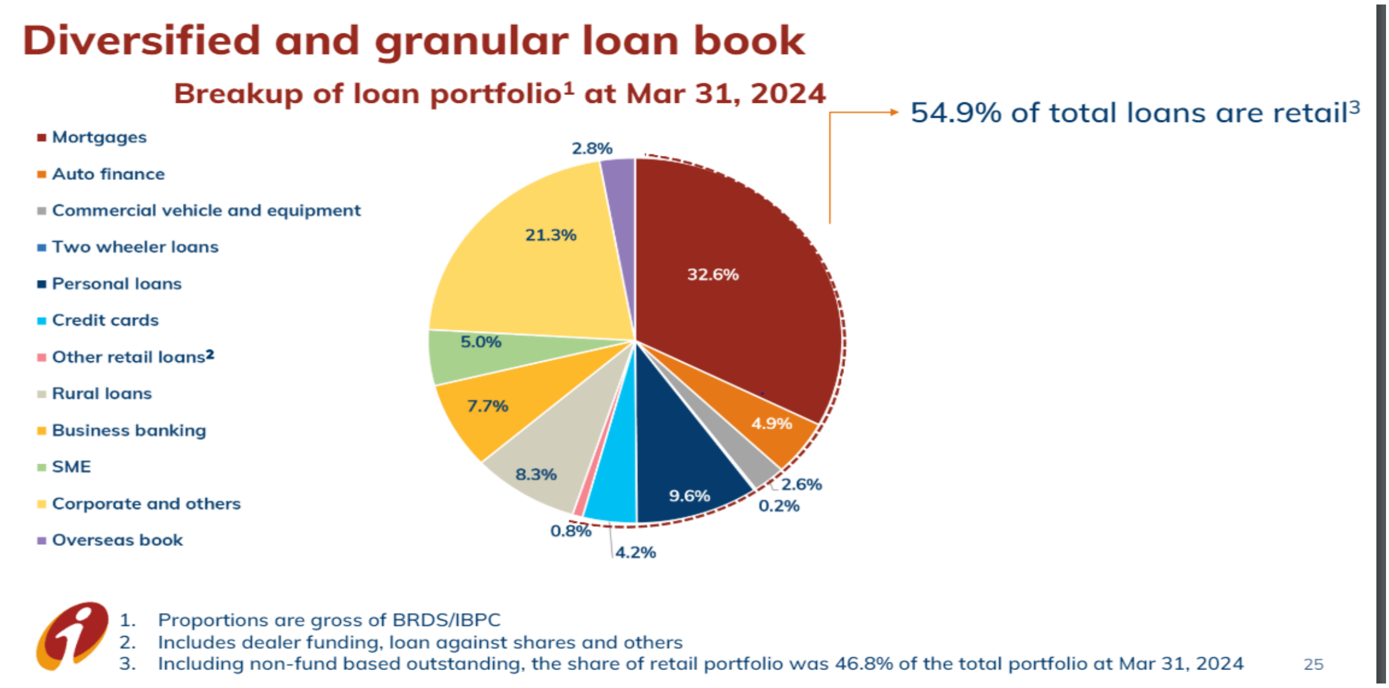
ICICIBC is well positioned to deliver a superior performance characterized by healthy loan growth, strong asset quality and industry-leading return ratios. While we estimate margins to remain range-bound in the near term, the operating leverage is emerging as a lever to support earnings growth. The bank is witnessing healthy deposit inflow, while a benign CD ratio (lowest among large private banks) places it well to focus on profitable growth. The asset quality outlook remains robust as the bank maintains strong PCR and a high contingency buffer (1.1% of loans). We thus estimate ICICIBC to deliver a PPoP/PATCAGR of 16.7%/13.7% over FY24-26E, leading to RoA/RoE of 2.2%/17.7%. **Reiterate BUY with a TP of INR1,350 (premised on 2.5x FY26E ABV).**

Exhibit 1: ICICIBC has increased its market share in digital payments transaction: Market share by value at 18.3% in FY24



Source: Company

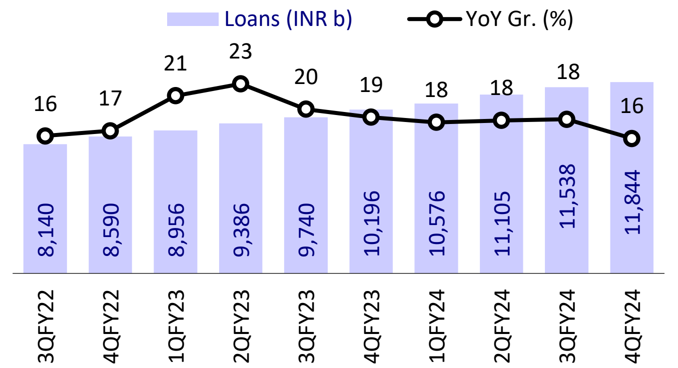
Exhibit 2: Bank is focused on building a diversified and granular portfolio with ~55% of portfolio being retail



Source: Company

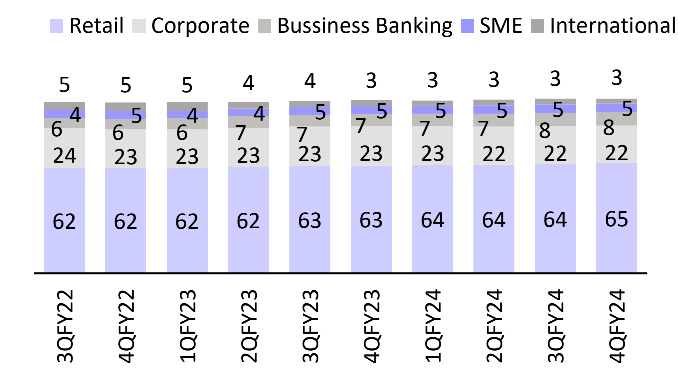
STORY IN CHARTS

Exhibit 3: Overall loan book grew 16.2% YoY (~2.7% QoQ)



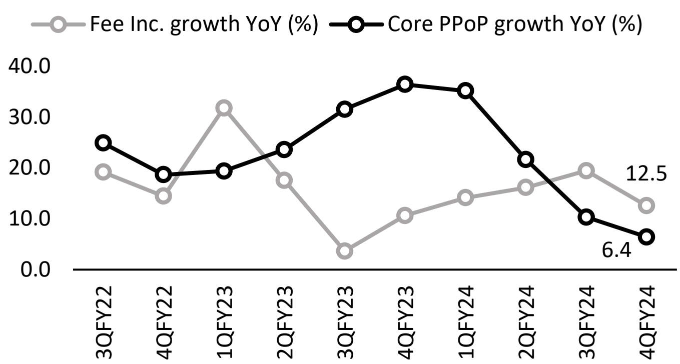
Source: MOFSL, Company

Exhibit 4: Retail loans continue to drive loan growth



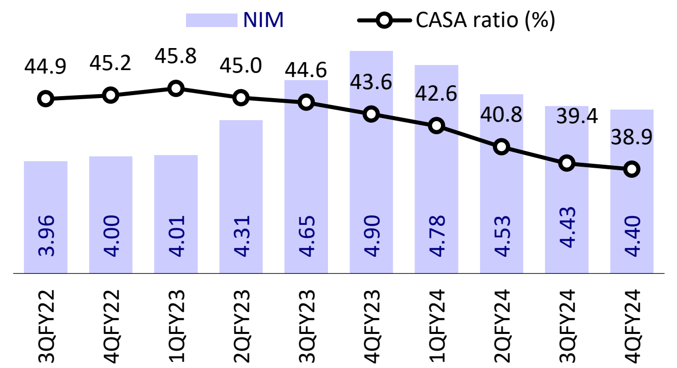
Source: MOFSL, Company

Exhibit 5: Fee income grew 12.5% YoY; Core PPoP at 6% YoY



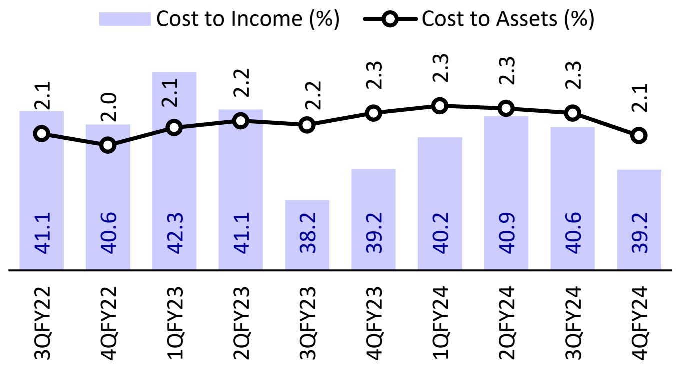
Source: MOFSL, Company

Exhibit 6: NIMs declined 3bp QoQ to 4.4%



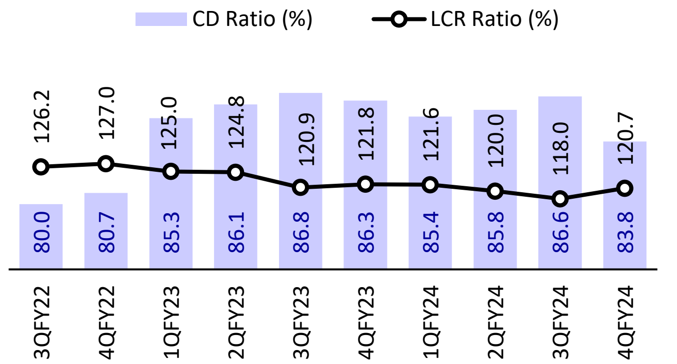
Source: MOFSL, Company

Exhibit 7: C/I ratio eased to ~39% showing strong cost control



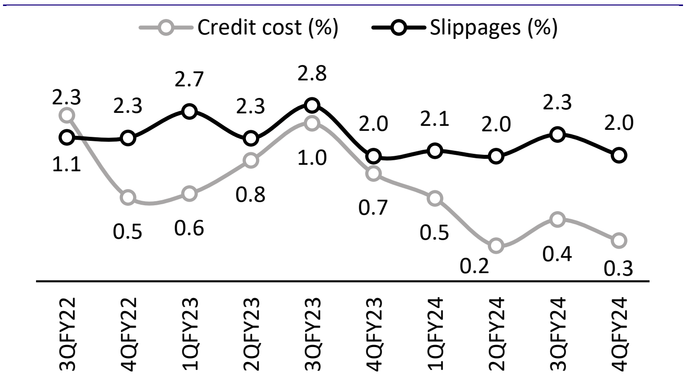
Source: MOFSL, Company

Exhibit 8: CD ratio declined to 83.8% vs 86.6% in 3Q



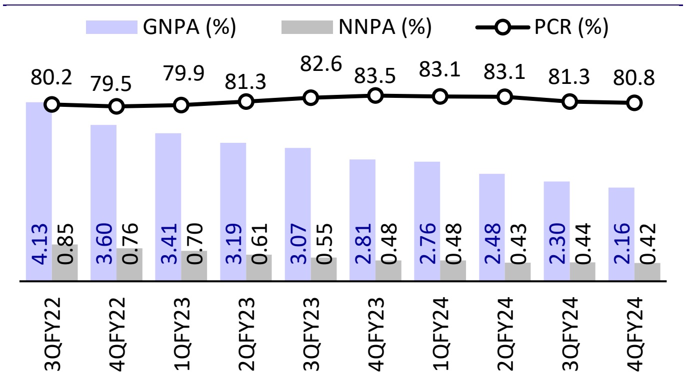
Source: MOFSL, Company

Exhibit 9: Credit cost declined to 0.3% in 4QFY24



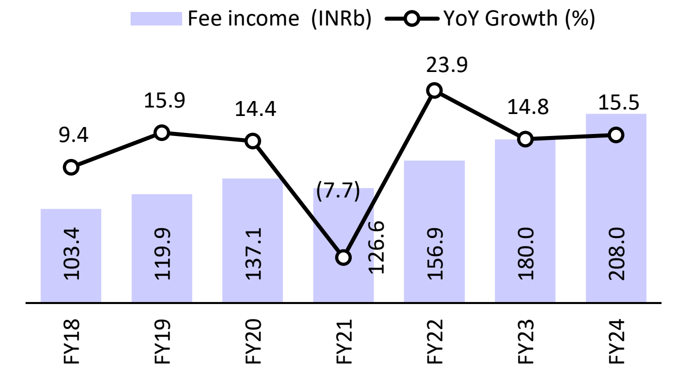
Source: MOFSL, Company

Exhibit 10: GNP/NNPA ratio declined to 2.16%/0.42%



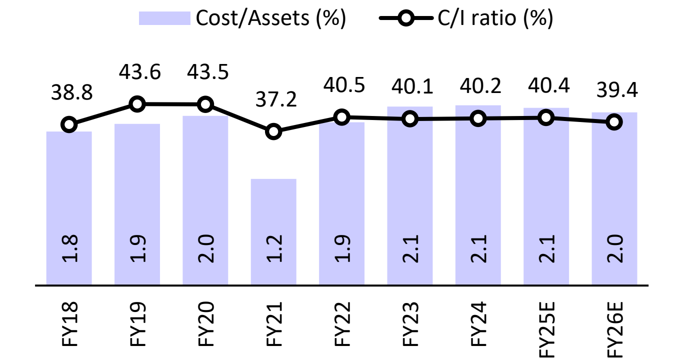
Source: MOFSL, Company

Exhibit 11: Fee income grew at healthy 15.5% YoY in FY24



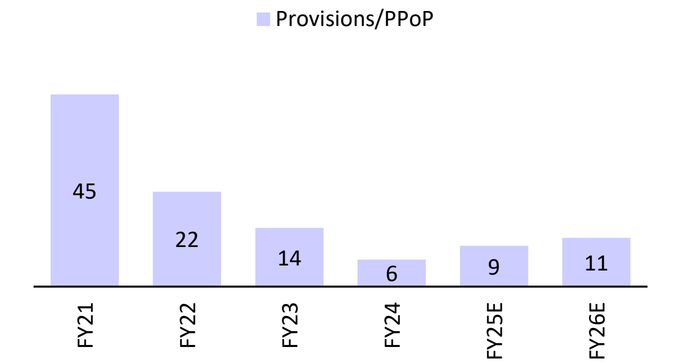
Source: MOFSL, Company

Exhibit 12: Estimate C/I ratio to moderate to 39.4% by FY26E



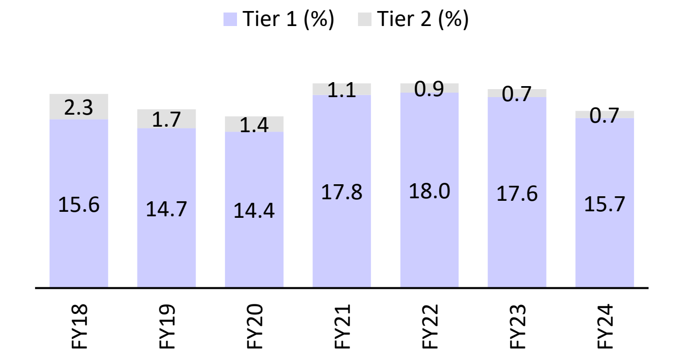
Source: MOFSL, Company

Exhibit 13: Provisions/PPoP remains in control (%)



Source: MOFSL, Company

Exhibit 14: CRAR stands at 16.3% in FY24 vs 18.3% in FY23



Source: MOFSL, Company

Exhibit 15: DuPont Analysis

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	7.25	6.79	6.54	7.29	8.27	8.13	8.04
Interest Expense	4.03	3.45	2.95	3.14	3.97	3.94	3.87
Net Interest Income	**3.23**	**3.35**	**3.59**	**4.15**	**4.30**	**4.18**	**4.17**
Core Fee Income	1.28	1.27	1.04	1.19	1.15	1.13	1.13
Trading and others	0.32	0.36	0.36	0.13	0.18	0.19	0.19
Non Interest income	**1.59**	**1.63**	**1.40**	**1.32**	**1.33**	**1.32**	**1.32**
Total Income	**4.82**	**4.98**	**5.00**	**5.47**	**5.63**	**5.50**	**5.50**
Operating Expenses	**2.10**	**1.85**	**2.02**	**2.19**	**2.26**	**2.22**	**2.16**
Employee cost	0.80	0.69	0.73	0.81	0.86	0.82	0.80
Others	1.29	1.16	1.29	1.39	1.41	1.40	1.36
Operating Profits	**2.72**	**3.13**	**2.97**	**3.28**	**3.36**	**3.28**	**3.33**
Core operating Profits	**2.41**	**2.77**	**2.61**	**3.14**	**3.18**	**3.09**	**3.14**
Provisions	**1.36**	**1.39**	**0.65**	**0.45**	**0.21**	**0.31**	**0.38**
PBT	**1.36**	**1.73**	**2.32**	**2.83**	**3.15**	**2.97**	**2.96**
Tax	0.59	0.34	0.55	0.70	0.79	0.74	0.73
RoA	**0.77**	**1.39**	**1.77**	**2.13**	**2.37**	**2.23**	**2.22**
Leverage	9.4	9.0	8.5	8.2	8.0	8.0	8.0
RoE	**7.3**	**12.6**	**15.0**	**17.5**	**18.9**	**17.8**	**17.7**
Core RoE	**8.0**	**13.6**	**15.9**	**18.4**	**19.7**	**18.4**	**18.2**

Financials and valuations

Income Statement							(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Interest Income	748.0	791.2	863.7	1,092.3	1,428.9	1,651.9	1,910.4
Interest Expended	415.3	401.3	389.1	471.0	685.9	801.7	919.1
Net Interest Income	**332.7**	**389.9**	**474.7**	**621.3**	**743.1**	**850.2**	**991.2**
-growth (%)	23.1	17.2	21.7	30.9	19.6	14.4	16.6
Other Income	164.5	189.7	185.2	198.3	229.6	268.6	314.3
Total Income	**497.2**	**579.6**	**659.8**	**819.6**	**972.6**	**1,118.8**	**1,305.5**
-growth (%)	19.7	16.6	13.8	24.2	18.7	15.0	16.7
Operating Exp.	216.1	215.6	267.3	328.7	391.3	451.9	513.9
Operating Profits	**281.0**	**364.0**	**392.5**	**490.9**	**581.3**	**666.9**	**791.6**
-growth (%)	19.9	29.5	7.8	25.1	18.4	14.7	18.7
Core PPoP	**264.6**	**312.2**	**385.5**	**490.4**	**580.8**	**666.4**	**791.0**
-growth (%)	19.7	18.0	23.5	27.2	18.4	14.7	18.7
Provisions	140.5	162.1	86.4	66.7	36.4	63.1	89.5
PBT	**140.5**	**201.8**	**306.1**	**424.2**	**544.9**	**603.8**	**702.1**
Tax	61.2	39.9	72.7	105.2	136.0	149.7	174.1
Tax Rate (%)	43.5	19.8	23.7	24.8	25.0	24.8	24.8
PAT	**79.3**	**161.9**	**233.4**	**319.0**	**408.9**	**454.0**	**528.0**
-growth (%)	135.8	104.2	44.1	36.7	28.2	11.0	16.3

Balance Sheet							
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Equity Share Capital	12.9	13.8	13.9	14.0	14.0	14.0	14.0
Reserves & Surplus	1,152.1	1,461.2	1,688.6	1,985.6	2,369.9	2,760.8	3,222.0
Net Worth	**1,165.0**	**1,475.1**	**1,702.5**	**1,999.5**	**2,384.0**	**2,774.8**	**3,236.1**
Deposits	**7,709.7**	**9,325.2**	**10,645.7**	**11,808.4**	**14,128.2**	**16,530.1**	**19,340.2**
- CASA Deposits	3,478.2	4,316.2	5,184.4	5,412.6	5,958.7	6,810.4	8,006.8
Borrowings	1,629.0	916.3	1,072.3	1,193.3	1,249.7	1,524.2	1,711.5
Other Liabilities & Prov.	479.9	587.7	689.8	833.3	953.2	1,105.7	1,293.7
Total Liabilities	**10,983.6**	**12,304.3**	**14,110.3**	**15,834.5**	**18,715.1**	**21,934.8**	**25,581.5**
Current Assets	1,191.6	1,331.3	1,678.2	1,194.4	1,399.3	1,548.7	1,658.5
Investments	**2,495.3**	**7,955.5**	**3,102.4**	**3,623.3**	**4,619.4**	**5,450.9**	**6,377.6**
-growth (%)	20.1	218.8	-61.0	16.8	27.5	18.0	17.0
Loans	**6,452.9**	**7,337.3**	**8,590.2**	**10,196.4**	**11,844.1**	**13,916.8**	**16,380.0**
-growth (%)	10.0	13.7	17.1	18.7	16.2	17.5	17.7
Net Fixed Assets	**84.1**	**88.8**	**93.7**	**96.0**	**108.6**	**112.0**	**120.9**
Other Assets	759.8	734.1	648.4	732.0	743.8	906.4	1,044.4
Total Assets	**10,983.7**	**17,446.9**	**14,113.0**	**15,842.1**	**18,715.1**	**21,934.8**	**25,581.5**

Asset Quality							
GNPA	414.5	414.6	332.9	299.9	279.6	310.7	362.0
NNPA	100.5	92.5	64.4	51.5	53.8	47.9	46.3
GNPA Ratio (%)	6.13	5.41	3.76	2.87	2.32	2.19	2.17
NNPA Ratio (%)	1.56	1.26	0.75	0.51	0.45	0.34	0.28
Slippage Ratio (%)	2.2	2.3	2.4	1.9	1.9	2.0	2.0
Credit Cost (%)	2.3	2.4	1.1	0.7	0.3	0.5	0.6
PCR (Excl Technical write off) (%)	75.7	77.7	80.6	82.8	80.8	84.6	87.2

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Yiled and Cost Ratios (%)							
Avg. Yield - Earning Assets	**8.2**	**6.1**	**6.1**	**8.2**	**9.1**	**8.9**	**8.7**
Avg. Yield on loans	9.3	8.3	8.0	8.9	10.1	9.7	9.5
Avg. Yield on Investments	6.4	3.2	3.0	6.2	6.9	7.1	7.0
Avg. Cost-Int. Bear. Liab.	**4.7**	**4.1**	**3.5**	**3.8**	**4.8**	**4.8**	**4.7**
Avg. Cost of Deposits	4.6	3.9	3.3	3.5	4.6	4.6	4.5
Interest Spread	**3.5**	**2.0**	**2.5**	**4.4**	**4.3**	**4.1**	**4.0**
Net Interest Margin	**3.66**	**3.00**	**3.34**	**4.67**	**4.75**	**4.58**	**4.53**
Capitalisation Ratios (%)							
CAR	15.8	18.9	18.9	18.3	16.3	16.1	15.9
Tier I	*14.4*	*17.8*	*18.0*	*17.6*	*15.7*	*15.6*	*15.4*
-CET-1	13.4	16.8	17.6	17.1			
Tier II	*1.4*	*1.1*	*0.9*	*0.7*	*0.7*	*0.6*	*0.5*
Business Ratios (%)							
Loan/Deposit Ratio	83.7	78.7	80.7	86.3	83.8	84.2	84.7
CASA Ratio	45.1	46.3	48.7	45.8	42.2	41.2	41.4
Cost/Assets	2.0	1.2	1.9	2.1	2.1	2.1	2.0
Cost/Total Income	43.5	37.2	40.5	40.1	40.2	40.4	39.4
Cost/Core Income	45.0	40.8	41.0	40.1	40.3	40.4	39.4
Int. Expended/Int.Earned	55.5	50.7	45.0	43.1	48.0	48.5	48.1
Other Inc./Net Income	33.1	32.7	28.1	24.2	23.6	24.0	24.1
Empl. Cost/Op. Exps.	38.3	37.5	36.2	36.7	37.9	37.1	37.2
Efficiency Ratios (INRm)							
Employee per branch (in nos)	18.3	18.5	19.0	21.9	23.3	23.5	23.7
Staff cost per employee	0.8	0.8	0.9	0.9	1.0	1.0	1.1
CASA per branch	653.3	819.6	956.9	917.4	913.5	972.1	1,048.5
Deposits per branch	1,448.1	1,770.8	1,964.9	2,001.4	2,165.9	2,359.5	2,532.7
Business per Employee	145.5	170.9	186.7	170.6	170.6	185.2	197.5
Profit per Employee	0.8	1.7	2.3	2.5	2.7	2.8	2.9

Valuation	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
RoE (%)	7.3	12.6	15.0	17.5	18.9	17.8	17.7
Core RoE (%)	8.0	13.6	15.9	18.4	19.7	18.4	18.2
RoA (%)	0.8	1.1	1.5	2.1	2.4	2.2	2.2
RoRWA (%)	1.0	1.9	2.6	3.1	3.5	3.4	3.3
Book Value (INR)	177.3	210.8	242.8	285.0	337.0	392.7	458.4
-growth (%)	7.1	18.9	15.2	17.4	18.3	16.5	16.7
Price-BV (x)	**5.3**	**4.4**	**3.8**	**3.3**	**2.8**	**2.4**	**2.0**
Adjusted Book Value	151.3	187.3	224.0	267.1	319.7	376.5	442.9
-growth (%)	11.6	23.8	19.6	19.3	19.7	17.8	17.6
Adjusted Price-ABV (x)	**6.2**	**5.0**	**4.2**	**3.5**	**2.9**	**2.5**	**2.1**
Consol Book Value (INR)	190	228	262	306	363	433	503
-growth (%)	7.2	19.9	15.0	16.8	18.5	19.4	16.2
Price-Consol BV (x)	**6.1**	**5.1**	**4.4**	**3.8**	**3.2**	**2.7**	**2.3**
EPS (INR)	12.3	24.2	33.7	45.8	58.4	64.6	75.2
-growth (%)	135.0	97.0	39.2	36.0	27.5	10.7	16.3
Price-Earnings (x)	**94.4**	**47.9**	**34.4**	**25.3**	**19.9**	**17.9**	**15.4**
Adj. Price-Earnings (x)	**76.0**	**38.6**	**27.7**	**20.4**	**16.0**	**14.4**	**12.4**
Dividend Per Share (INR)	1.0	0.0	2.0	5.0	8.5	9.0	9.5
Dividend Yield (%)	**0.1**	**0.0**	**0.2**	**0.4**	**0.7**	**0.8**	**0.8**

E: MOFSL Estimates

N O T E S

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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