

India

ADD (no change)

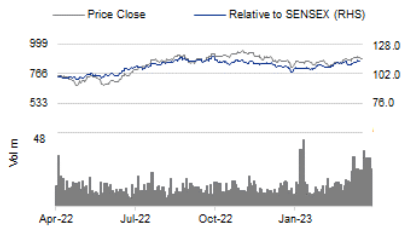
Consensus ratings*: Buy 50 Hold 2 Sell 0

Current price:	Rs886
Target price:	Rs1,040
Previous target:	Rs1,080
Up/downside:	17.4%
InCred Research / Consensus:	-6.9%
Reuters:	
Bloomberg:	ICICIBC IN
Market cap:	US\$85,174m
	Rs6,184,901m
Average daily turnover:	US\$183.0m
	Rs13290.6m
Current shares o/s:	7,281.0m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- With a higher share of fixed-rate portfolio & the branch expansion plan already executed, HDFC Bank is better placed on growth, margin & profitability fronts.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	1.8	18.5
Relative (%)	(0.7)	4.0	13.6

Major shareholders	% held
LIC	7.9
SBI MF	5.9
ICICI Prudential MF	3.6

Analyst(s)



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ICICI Bank

Steady 4Q performance; headwinds ahead

- ICICI Bank posted an in-line 4QFY23 PAT of Rs91.2bn, led by improved margins and lower credit cost. However, sustainability remains a challenge.
- With a higher share of the fixed-rate portfolio & branch expansion plan already executed, HDFC Bank is better placed on growth, margin & profitability fronts.
- We value the standalone bank at ~2.5x FY25F ABV (~2.6x earlier) and its subsidiaries at Rs170/share. Retain ADD rating with a revised TP of Rs1,040.

Healthy 4QFY23 aided by margin surprise and lower provisioning

ICICI Bank reported 4QFY23 advances at Rs101.9tr (+18.7% yoy, +4.7% qoq) but domestic advances grew better at ~20.5 yoy to Rs9.86bn as the overseas book witnessed a decline of ~17.4% yoy. Growth in unsecured personal and credit card loans (~22.6% of retail book vs. ~21.8% last quarter) continued to outperform growth in mortgages (~61.8% of retail book vs. ~62.6% last quarter). Margins witnessed a sequential surge of ~25bp to ~490bp amid a surge in better-yield unsecured loans as well as continued repricing of advances book. Operating expenses (opex) witnessed a surge (+26.7% yoy/+8.6% qoq) amid rapid branch expansion, but a sequential dip in provision (-28.2%) aided profitability.

Headwinds ahead on margin and operating expense fronts

We expect ICICI Bank to post healthy growth compared to industry average in the coming years, despite demand slowdown. However, we expect the bank to face headwinds on margin and operating expense fronts in the coming quarters. With ~70% of advances being floating-rated ones, further surge in yields remains unlikely amid stagnant policy rates. On the contrary, a surge in the cost of funds is inevitable amid the rise in cost of deposits as well as a surge in the deposit base. Thus, we are building in ~30bp yoy margin compression to ~460bp for FY24F. Similarly, management has an aggressive branch expansion plan which will keep overall operating expenses elevated. We assume the cost-to-income ratio at ~43% for FY24F vs. ~40% currently. Assuming flat YoY provision (backed by contingent provision of Rs131bn), overall profitability for FY24F is likely to remain flat for the bank.

HDFC Bank to command a valuation premium over ICICI Bank

We have valued the standalone ICICI Bank at ~2.5x FY25F ABV (~2.6x FY25F ABV earlier) and the subsidiaries at Rs170/share. Accordingly, we have revised our target price to Rs1,040 (Rs1,080 earlier) or ~3x FY25F ABV, retaining our ADD rating. With a relatively higher share of the fixed-rate portfolio and the aggressive branch expansion strategy already executed, HDFC Bank is better placed than ICICI Bank on growth, margin and profitability fronts. We expect HDFC Bank to post ~24.7% CAGR in PAT over FY23F-26F vs, ICICI Bank's ~11.1%. ICICI Bank's ROE to fall to ~16% in FY24F vs. ~17% currently, which is at par with HDFC Bank (post-HDFC merger). This will enable HDFC Bank to command a superior premium of ~2.7x FY25F BV vs. ICICI Bank's ~2.5x FY25F BV. Key downside risks: Better-than-expected margins & lower operating expenses could support the profitability of ICICI Bank better compared to our expectations.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	474,663	621,286	688,154	802,525	940,316
Total Non-Interest Income (Rsm)	185,174	198,315	214,066	230,604	251,551
Operating Revenue (Rsm)	659,836	819,601	902,220	1,033,130	1,191,867
Total Provision Charges (Rsm)	(86,413)	(66,656)	(63,309)	(80,233)	(101,745)
Net Profit (Rsm)	233,396	318,965	343,090	385,675	447,903
Core EPS (Rs)	32.98	45.70	49.16	55.26	64.18
Core EPS Growth	31%	39%	8%	12%	16%
FD Core P/E (x)	26.85	19.38	18.02	16.03	13.80
DPS (Rs)	5.00	8.00	9.00	11.00	13.00
Dividend Yield	0.56%	0.90%	1.02%	1.24%	1.47%
BVPS (Rs)	205.9	186.0	211.4	239.9	272.8
P/BV (x)	4.30	4.76	4.19	3.69	3.25
ROE	14.7%	17.2%	16.0%	15.8%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	109,358	116,897	122,360	126,047	132,100	147,868	164,650	176,668	40.2%	7.3%
NIM (% of AUM)	4.3%	4.5%	4.6%	4.4%	4.4%	4.8%	5.1%	5.2%		
Fee-based Income	39,959	47,972	49,871	47,373	46,652	50,549	50,236	50,878	7.4%	1.3%
Operating Expenses	60,372	65,722	70,749	70,490	75,663	81,614	82,174	89,282	26.7%	8.6%
Operating Profit	88,944	99,147	101,483	102,930	103,089	116,803	132,712	138,264	34.3%	4.2%
Provision	28,517	27,135	20,073	10,688	11,438	16,445	22,574	16,198	51.5%	-28.2%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	60,427	72,012	81,410	92,241	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%
Tax rate (%)	23.6%	23.5%	23.9%	23.9%	24.7%	24.7%	24.5%	25.3%		
PAT	46,160	55,109	61,938	70,189	69,049	75,578	83,119	91,219	30.0%	9.7%
Advance (Rs bn)	7,386	7,649	8,140	8,590	8,956	9,386	9,740	10,196	18.7%	4.7%
Deposit (Rs bn)	9,262	9,774	10,175	10,646	10,503	10,900	11,220	11,808	10.9%	5.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net Interest Income	730,550	688,154	-5.8%	864,189	802,525	-7.1%	940,316
Non-interest Income	233,143	214,066	-8.2%	272,061	230,604	-15.2%	251,551
PPOP	586,644	511,568	-12.8%	699,794	593,098	-15.2%	697,360
PAT	365,264	337,090	-7.7%	435,486	385,675	-11.4%	447,903
EPS (Rs)	52.4	48.3	-7.8%	62.5	55.3	-11.6%	64.2
BV (Rs)	316.2	320.7	1.4%	365.7	364.0	-0.5%	414.0
Advances (Rs bn)	12,334	11,869	-3.8%	14,818	13,876	-6.4%	16,382
Deposits (Rs bn)	13,807	13,739	-0.5%	16,358	15,846	-3.1%	18,336

SOURCE: INCRED RESEARCH

Figure 3: HDFC Bank & ICICI Bank - 4QFY23 performance comparison

4QFY23 comparison	HDFC Bank	ICICI Bank
Key Operational Parameters		
Advances growth (Y/Y)	16.9%	18.7%
Advances growth (Q/Q)	6.2%	4.7%
Retail loan growth	19.3%	22.7%
Commercial and rural loan growth	29.2%	21.8%
Domestic corporate loan growth	30.0%	21.2%
Deposit growth	21.3%	10.9%
CASA growth	11.3%	4.4%
CASA ratio	44.4%	45.8%
NIM (reported)	4.3%	4.9%
Fee income % of total assets (annualized)	1.1%	1.0%
Cost-to-income	42.0%	40.1%
Cost-to-assets	2.3%	1.8%
Core operating profit growth (YoY)	14.4%	32.4%
Operating profit growth	13.8%	30.8%
Credit cost (including buffer provision)	0.7%	0.7%
Credit cost (excluding buffer provision)	0.6%	0.1%
PAT growth	19.8%	30.0%
ROA	2.1%	2.3%
ROE	17.2%	18.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HDFC Bank & ICICI Bank loan book breakup

Loan book bifurcation	HDFC Bank	ICICI Bank
Retail share	39.3%	53.9%
Commercial and rural	39.0%	20.3%
Corporate share	25.3%	26.0%
Retail book		
Fixed rate book % of total advances	33.0%	19.6%
Floating rate book % of total advances	6.3%	34.3%

SOURCE: INCRED RESEARCH

Figure 5: HDFC Bank & ICICI Bank - 4QFY23 performance comparison

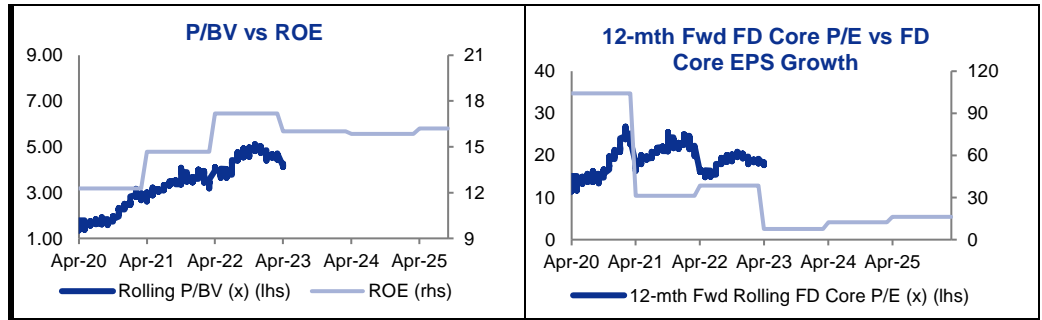
	HDFC Bank	ICICI Bank
Opex comparison		
Employee expense (% of total assets)	0.2%	0.2%
	0.6%	0.6%
Asset quality		
GNPA ratio	1.1%	2.8%
NNPA ratio	0.3%	0.5%
Contingency provision (% of total advances)	0.7%	1.3%
CRAR	19.3%	18.3%
Branch network		
Branches	7,821	5,900
Rural and semi-urban branches	52.0%	51.4%
Valuation		
Standalone book value (FY24F)	610	322
Subsidiaries per share value	200	165
CMP	1,673	887
P/ABV-standalone	2.7	2.8
P/ABV-(adjusted for subsidiaries)	2.4	2.2

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Conference-call highlights

- ICICI Bank will continue to make investments in increasing its network and technology.
- Spending on technology by the bank stood at 9.3% of operating expenses in FY23 vs. 8.6% in FY22.
- There were 9m activations on iMobile Pay app by non-ICICI Bank customers and in 4QFY23 the value of transactions increased by 30% yoy. On InstaBiz app, the value of transactions increased by 22% yoy.
- ICICI Bank will add more branches next year than this year.
- ICICI Bank is focused on acquiring retail deposits and it does not take high-value bulk deposits.
- There was some mark-to-market loss on security receipts held by the bank, which resulted in lower treasury gains.
- The growth in SME and business banking portfolios was driven by leveraging branch network and digital offerings such as InstaBIZ and Merchant Stack.
- ICICI Bank, which added 23,200 employees in FY23, has 1,29,000 employees currently. It expects these employees to become productive from next year.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	474,663	621,286	688,154	802,525	940,316
Total Non-Interest Income	185,174	198,315	214,066	230,604	251,551
Operating Revenue	659,836	819,601	902,220	1,033,130	1,191,867
Total Non-Interest Expenses	(267,146)	(323,656)	(380,122)	(436,149)	(491,745)
Pre-provision Operating Profit	392,503	490,868	517,567	593,098	697,360
Total Provision Charges	(86,413)	(66,656)	(63,309)	(80,233)	(101,745)
Operating Profit After Provisions	306,090	424,212	454,258	512,866	595,615
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	306,090	424,212	454,258	512,866	595,615
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	306,090	424,212	454,258	512,866	595,615
Exceptional Items					
Pre-tax Profit	306,090	424,212	454,258	512,866	595,615
Taxation	(72,694)	(105,247)	(111,168)	(127,191)	(147,713)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	233,396	318,965	343,090	385,675	447,903
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	233,396	318,965	343,090	385,675	447,903
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	79.8%	83.7%	86.4%	87.0%	88.5%
Avg Liquid Assets/Avg Assets	71.7%	72.3%	72.2%	72.6%	73.1%
Avg Liquid Assets/Avg IEAs	118.9%	115.3%	111.4%	110.2%	108.2%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	8,590,200	10,196,383	11,869,079	13,875,557	16,381,941
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	8,590,200	10,196,383	11,869,079	13,875,557	16,381,941
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	8,590,200	10,196,383	11,869,079	13,875,557	16,381,941
Intangible Assets					
Other Non-Interest Earning Assets	648,398	732,005	754,007	779,396	809,838
Total Non-Interest Earning Assets	742,137	828,003	860,824	894,985	935,491
Cash And Marketable Securities	1,678,224	1,194,383	1,329,778	1,305,832	1,184,393
Long-term Investments	3,102,405	3,623,297	4,166,532	4,770,823	5,430,833
Total Assets	14,112,965	15,842,066	18,226,212	20,847,196	23,932,658
Customer Interest-Bearing Liabilities	10,645,716	11,808,407	13,738,725	15,845,539	18,336,242
Bank Deposits					
Interest Bearing Liabilities: Others	1,072,311	1,193,255	1,298,610	1,412,692	1,532,266
Total Interest-Bearing Liabilities	11,718,027	13,001,662	15,037,334	17,258,230	19,868,508
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	689,825	833,251	908,622	1,001,243	1,120,952
Total Liabilities	12,407,852	13,834,913	15,945,956	18,259,474	20,989,458
Shareholders Equity	1,705,120	2,007,154	2,280,256	2,587,723	2,943,199
Minority Interests					
Total Equity	1,705,120	2,007,154	2,280,256	2,587,723	2,943,199

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	21.7%	30.9%	10.8%	16.6%	17.2%
Operating Profit Growth	7.8%	26.3%	5.3%	14.3%	17.3%
Pretax Profit Growth	52%	39%	7%	13%	16%
Net Interest To Total Income	71.9%	75.8%	76.3%	77.7%	78.9%
Cost Of Funds	3.54%	3.81%	4.29%	4.00%	3.75%
Return On Interest Earning Assets	10.8%	11.6%	11.7%	11.3%	10.8%
Net Interest Spread	7.30%	7.82%	7.40%	7.25%	7.07%
Net Interest Margin (Avg Deposits)	4.75%	5.53%	5.39%	5.43%	5.50%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	22%	14%	12%	14%	15%
Interest Return On Average Assets	3.59%	4.15%	4.04%	4.11%	4.20%
Effective Tax Rate	23.7%	24.8%	24.5%	24.8%	24.8%
Net Dividend Payout Ratio					
Return On Average Assets	1.77%	2.13%	2.01%	1.97%	2.00%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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