

India

ADD (no change)

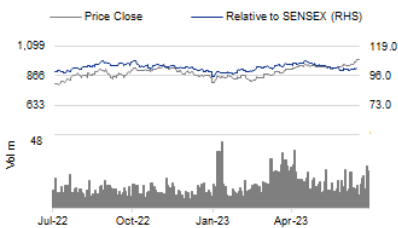
Consensus ratings*: Buy 47 Hold 2 Sell 0

Current price:	Rs997
Target price:	Rs1,160 ▲
Previous target:	Rs1,040
Up/downside:	16.3%
InCred Research / Consensus:	2.7%
Reuters:	
Bloomberg:	ICICIBC IN
Market cap:	US\$96,072m
	Rs6,976,234m
Average daily turnover:	US\$228.1m
	Rs16563.3m
Current shares o/s:	7,281.0m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- ▶ With a diversified lending portfolio & already executed branch expansion plan, HDFC Bank is better placed on the growth, margin & profitability fronts.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.0	12.6	24.6
Relative (%)	2.0	1.4	4.8

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

Analyst(s)



Jignesh SHIAL
 T (91) 22 4161 1547
 E jignesh.shial@incredcapital.com
Mayank AGARWAL
 T (91) 22 4161 0000
 E mayank.agarwal@incredcapital.com

ICICI Bank

Consistency drives valuation premium

- ICICI Bank posted an in-line 1QFY24 PAT of Rs96.5bn because the decline in margins was well compensated by lower credit cost.
- With a diversified lending portfolio and an already executed branch expansion plan, HDFC Bank is better placed on the growth, margin & profitability fronts.
- We valued standalone ICICI Bank at ~2.7x FY25F BV (~2.6x earlier) and its arms at Rs170/share. Retain ADD rating with Rs1,160 TP, or ~3.1x FY25F BV.

Healthy quarter; margin pressure compensated by lower provision

ICICI Bank reported 1QFY24 advances at Rs10.5tr (+18.1% yoy, +3.7% qoq) but domestic advances grew better at ~20.6% yoy to Rs10.2tr as overseas loans witnessed a decline of ~29.5% yoy. The growth in unsecured personal loans and credit card loans (~23.3% of retail book against ~22.6% in the previous quarter) continued, outperforming growth in mortgages (~61% of retail book against ~61.8% in the previous quarter). Margins, on expected lines, witnessed a sequential decline of ~12bp to ~478bp amid a surge in the cost of funds. Operating expenses (opex) witnessed a surge at +25.9% yoy/+6.7% qoq amid rapid branch expansion and higher employee expenses, but a qoq dip in provisioning (-20.2%) aided profitability.

Headwinds likely going ahead on margin & operating expense fronts

We expect ICICI Bank to post healthy growth compared to the 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-rate ones, a further surge in yields is unlikely amid stagnant policy rates. On the contrary, the surge in 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 from 490bp in 4QFY23. Similarly, management has an aggressive branch expansion plan, which will keep the overall operating expenses elevated. We assume the cost- to-income ratio at ~41% for FY24F against ~40% currently. Assuming a flat YoY provision (backed by contingent provision of Rs131bn), the overall profitability for FY24F is likely to grow in line with loan growth.

HDFC Bank offers a better upside over ICICI Bank

We have valued standalone ICICI Bank at ~2.7x FY25F BV and its subsidiaries at Rs160/share. Accordingly, we have revised our target price to Rs1,160 (Rs1,040 earlier) or ~3.2x FY25F ABV. We have retained our ADD rating on the stock. The target multiple is like that of HDFC Bank (post-HDFC merger) considering a similar RoE but with a relatively more diversified portfolio and already executed aggressive branch expansion strategy, HDFC Bank is better placed than ICICI Bank on the growth, margin and profitability fronts. We expect HDFC Bank to post ~24.7% CAGR in PAT over FY23F-26F against ICICI Bank, at ~15.7%. Key downside risks: Better-than-expected margins & lower operating expenses could support the profitability of ICICI Bank better than our expectation.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	474,663	621,286	750,477	863,646	1,008,397
Total Non-Interest Income (Rsm)	185,174	198,315	222,256	248,623	280,087
Operating Revenue (Rsm)	659,836	819,601	972,733	1,112,270	1,288,484
Total Provision Charges (Rsm)	(86,413)	(66,656)	(67,171)	(79,211)	(102,589)
Net Profit (Rsm)	233,396	318,965	384,075	432,275	494,558
Core EPS (Rs)	32.98	45.62	54.93	61.83	70.74
Core EPS Growth	31%	38%	20%	13%	14%
FD Core P/E (x)	30.23	21.85	18.15	16.13	14.09
DPS (Rs)	5.00	8.00	11.00	12.00	14.00
Dividend Yield	0.50%	0.80%	1.10%	1.20%	1.40%
BVPS (Rs)	205.9	186.0	214.4	246.5	283.1
P/BV (x)	4.84	5.36	4.65	4.04	3.52
ROE	14.7%	17.2%	17.8%	17.4%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	109,358	116,897	122,360	126,047	132,100	147,868	164,650	176,668	182,265	38.0%	3.2%
<i>NIM (% of AUM)</i>	4.3%	4.5%	4.6%	4.4%	4.4%	4.8%	5.1%	5.2%	5.1%		
Fee-based Income	39,959	47,972	49,871	47,373	46,652	50,549	50,236	50,878	54,353	16.5%	6.8%
Operating Expenses	60,372	65,722	70,749	70,490	75,663	81,614	82,174	89,282	95,226	25.9%	6.7%
Operating Profit	88,944	99,147	101,483	102,930	103,089	116,803	132,712	138,264	141,392	37.2%	2.3%
Provisions	28,517	27,135	20,073	10,688	11,438	16,445	22,574	16,198	12,924	13.0%	-20.2%
Exceptional Items	-	-	-	-	-	-	-	-	-		
PBT	60,427	72,012	81,410	92,241	91,651	100,358	110,138	122,066	128,467	40.2%	5.2%
Tax	-14,267	-16,903	-19,471	-22,053	-22,601	-24,780	-27,019	-30,847	-31,985	41.5%	3.7%
<i>Tax rate (%)</i>	23.6%	23.5%	23.9%	23.9%	24.7%	24.7%	24.5%	25.3%	24.9%		
PAT	46,160	55,109	61,938	70,189	69,049	75,578	83,119	91,219	96,483	39.7%	5.8%
Advances (Rs bn)	7,386	7,649	8,140	8,590	8,956	9,386	9,740	10,196	10,576	18.1%	3.7%
Deposits (Rs bn)	9,262	9,774	10,175	10,646	10,503	10,900	11,220	11,808	12,387	17.9%	4.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

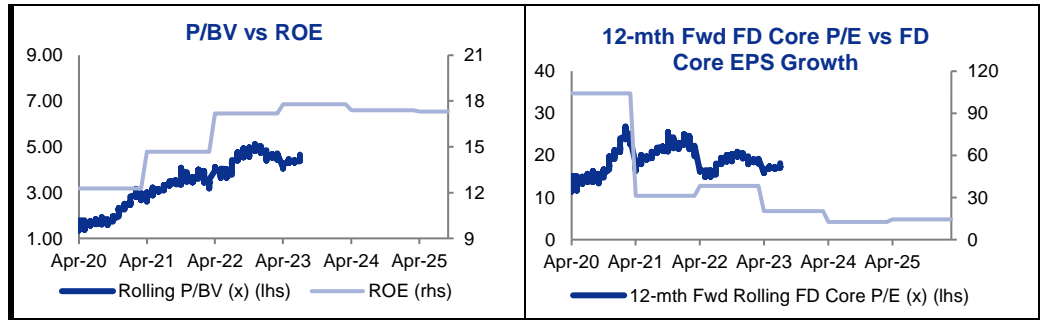
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	688,154	750,477	9.1%	864,189	863,646	-0.1%	940,316	1,008,397	7.2%
Non-interest Income	214,066	222,256	3.8%	272,061	248,623	-8.6%	251,551	280,087	11.3%
PPOP	511,568	577,909	13.0%	699,794	654,045	-6.5%	697,360	760,246	9.0%
PAT	337,090	384,075	13.9%	435,486	432,275	-0.7%	447,903	494,558	10.4%
EPS (Rs)	48.3	54.9	13.7%	62.5	61.8	-1.1%	64.2	70.7	10.2%
BV (Rs)	320.7	324.6	1.2%	365.7	373.2	2.1%	414.0	428.6	3.5%

SOURCE: INCRED RESEARCH

Conference-call highlights

- Gross non-performing assets or GNPA's increased due to Kissan credit card and lower recoveries compared to the previous quarter.
- Cost of funds to continue rising in the coming quarters, like in 1QFY24.
- ICICI Bank to continue witnessing a decent opportunity for its unsecured products from its current customer base.
- ICICI Bank to continue acquiring customers in its focused customer segment.
- Retail deposits' share is maintained at 75% to 80%.
- ICICI Bank has a lower MCLR than other private banks due to lower cost of deposits.
- Net interest margin or NIM for the quarter had a 4bp impact of income-tax interest refund, which was not there in the previous quarter.
- ICICI Bank will continue making investments in increasing its network and technology.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	474,663	621,286	750,477	863,646	1,008,397
Total Non-Interest Income	185,174	198,315	222,256	248,623	280,087
Operating Revenue	659,836	819,601	972,733	1,112,270	1,288,484
Total Non-Interest Expenses	(267,146)	(323,656)	(390,294)	(454,342)	(525,475)
Pre-provision Operating Profit	392,503	490,868	577,909	654,045	760,246
Total Provision Charges	(86,413)	(66,656)	(67,171)	(79,211)	(102,589)
Operating Profit After Provisions	306,090	424,212	510,738	574,834	657,657
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	306,090	424,212	510,738	574,834	657,657
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	306,090	424,212	510,738	574,834	657,657
Exceptional Items					
Pre-tax Profit	306,090	424,212	510,738	574,834	657,657
Taxation	(72,694)	(105,247)	(126,663)	(142,559)	(163,099)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	233,396	318,965	384,075	432,275	494,558
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	233,396	318,965	384,075	432,275	494,558
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%	87.0%	88.5%	90.3%
Avg Liquid Assets/Avg Assets	71.7%	72.3%	72.2%	72.8%	73.3%
Avg Liquid Assets/Avg IEAs	118.9%	115.3%	110.7%	108.5%	106.5%
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					

SOURCE: 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	12,100,977	14,254,115	16,799,868
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	8,590,200	10,196,383	12,100,977	14,254,115	16,799,868
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	8,590,200	10,196,383	12,100,977	14,254,115	16,799,868
Intangible Assets					
Other Non-Interest Earning Assets	648,398	732,005	756,326	783,182	814,017
Total Non-Interest Earning Assets	742,137	828,003	863,143	898,771	939,670
Cash And Marketable Securities	1,678,224	1,194,383	1,185,692	1,064,771	954,526
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	18,316,344	20,988,480	24,124,896
Customer Interest-Bearing Liabilities	10,645,716	11,808,407	13,824,387	15,945,127	18,450,610
Bank Deposits					
Interest Bearing Liabilities: Others	1,072,311	1,193,255	1,267,474	1,377,957	1,493,909
Total Interest-Bearing Liabilities	11,718,027	13,001,662	15,091,862	17,323,084	19,944,520
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	689,825	833,251	911,636	1,005,785	1,125,967
Total Liabilities	12,407,852	13,834,913	16,003,498	18,328,868	21,070,488
Shareholders Equity	1,705,120	2,007,154	2,312,846	2,659,612	3,054,410
Minority Interests					
Total Equity	1,705,120	2,007,154	2,312,846	2,659,612	3,054,410

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	21.7%	30.9%	20.8%	15.1%	16.8%
Operating Profit Growth	7.8%	26.3%	17.4%	13.0%	16.0%
Pretax Profit Growth	52%	39%	20%	13%	14%
Net Interest To Total Income	71.9%	75.8%	77.2%	77.6%	78.3%
Cost Of Funds	3.54%	3.81%	4.53%	4.15%	3.93%
Return On Interest Earning Assets	10.8%	11.6%	12.4%	11.7%	11.2%
Net Interest Spread	7.30%	7.82%	7.91%	7.51%	7.28%
Net Interest Margin (Avg Deposits)	4.75%	5.53%	5.86%	5.80%	5.86%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	22%	14%	12%	12%	13%
Interest Return On Average Assets	3.59%	4.15%	4.39%	4.39%	4.47%
Effective Tax Rate	23.7%	24.8%	24.8%	24.8%	24.8%
Net Dividend Payout Ratio					
Return On Average Assets	1.77%	2.13%	2.25%	2.20%	2.19%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in 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	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.