

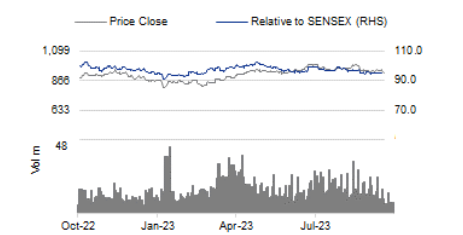
India

ADD (no change)

Consensus ratings*:	Buy 47 Hold 4 Sell 0
Current price:	Rs933
Target price:	Rs1,150
Previous target:	Rs1,160
Up/downside:	23.3%
InCred Research / Consensus:	-2.5%
Reuters:	ICBK.NS
Bloomberg:	ICICIBC IN
Market cap:	US\$78,601m
	Rs6,533,308m
Average daily turnover:	US\$199.4m
	Rs16571.9m
Current shares o/s:	7,281.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

➤ With a diversified lending portfolio and an already executed branch expansion plan, HDFC Bank is better placed on the growth, margin & profitability fronts vs. ICICI Bank.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.5)	(6.3)	5.0
Relative (%)	(4.6)	(4.5)	(4.8)

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

Analyst(s)



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ICICI Bank

Nothing new under the sun

- ICICI Bank posted an in-line 2QFY24 PAT of Rs102.6bn, as the sequential decline in margins (~25bp) was compensated by the dip in credit cost (~14bp).
- 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 the standalone ICICI Bank at ~2.5x FY25F BV and its arms at Rs200/share. Retain ADD rating on it with a Rs1,150 TP, or ~3.1x FY25F BV.

Steady quarter: margin pressure compensated by lower provision

ICICI Bank reported 2QFY24 advances at Rs11.1tr (+18.3% yoy, +5% qoq), but domestic advances grew better at ~19.3% yoy to Rs10.7tr as overseas loans witnessed a decline of ~4.4% yoy. The growth in unsecured personal loans and credit card loans (~24% of retail book against ~23.3% in the previous quarter) continued, outperforming growth in mortgages (~60.2% of the retail book against ~61% in the previous quarter). Margins, on expected lines, witnessed a sequential decline of ~25bp to ~453bp amid a surge in the cost of funds. Operating expenses (opex) witnessed a surge at +20.8% yoy/+3.5% qoq amid rapid branch expansion, but a qoq dip in provisioning (-54.9%) 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 the demand slowdown. However, we expect the bank to face headwinds on margin and operating expense fronts in the coming quarters. With ~70% of its 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 the standalone ICICI Bank at ~2.5x FY25F BV (relative discount to HDFC Bank at ~2.7x) and its subsidiaries at Rs200/share. We have adjusted our target price to Rs1,150 (Rs1,160 earlier) or ~3.1x FY25F BV. We have retained our ADD rating on the stock. The target multiple is lower than that of HDFC Bank, considering its 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 ~25.7% CAGR in PAT over FY23F-26F against ICICI Bank's ~15.9%. Key downside risks: Lower-than-expected margins and higher operating expenses could dent the profitability of ICICI Bank.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	474,663	621,286	740,279	854,645	1,005,133
Total Non-Interest Income (Rsm)	185,174	198,314	226,641	259,678	292,533
Operating Revenue (Rsm)	659,836	819,601	966,920	1,114,324	1,297,667
Total Provision Charges (Rsm)	(86,413)	(66,656)	(44,887)	(79,243)	(102,642)
Net Profit (Rsm)	233,396	318,965	392,976	429,868	496,999
Core EPS (Rs)	33.66	45.79	56.14	61.42	71.01
Core EPS Growth	34%	36%	23%	9%	16%
FD Core P/E (x)	27.71	20.37	16.61	15.19	13.14
DPS (Rs)	5.00	8.00	11.00	12.00	14.00
Dividend Yield	0.54%	0.86%	1.18%	1.29%	1.50%
BVPS (Rs)	205.9	186.0	215.2	247.1	284.0
P/BV (x)	4.53	5.01	4.33	3.77	3.28
ROE	14.7%	17.2%	18.2%	17.2%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,32,100	1,47,868	1,64,650	1,76,668	1,82,265	1,83,079	23.8%	0.4%
<i>NIM (% of AUM)</i>	4.4%	4.8%	5.1%	5.2%	5.1%	4.9%		
Fee-Based Income	46,652	50,549	50,236	50,878	54,353	57,767	14.3%	6.3%
Operating Expenses	75,663	81,614	82,174	89,282	95,226	98,553	20.8%	3.5%
Operating Profit	1,03,089	1,16,803	1,32,712	1,38,264	1,41,392	1,42,293	21.8%	0.6%
Provisions	11,438	16,445	22,574	16,198	12,924	5,826	-64.6%	-54.9%
Exceptional Items	-	-	-	-	-	-		
PBT	91,651	1,00,358	1,10,138	1,22,066	1,28,467	1,36,466	36.0%	6.2%
Tax	-22,601	-24,780	-27,019	-30,847	-31,985	-33,856	36.6%	5.9%
<i>Tax rate (%)</i>	24.7%	24.7%	24.5%	25.3%	24.9%	24.8%		
PAT	69,049	75,578	83,119	91,219	96,483	1,02,610	35.8%	6.4%
Advance (Rs bn)	8,956	9,386	9,740	10,196	10,576	11,105	18.3%	5.0%
Deposit (Rs bn)	10,503	10,900	11,220	11,808	12,387	12,947	18.8%	4.5%

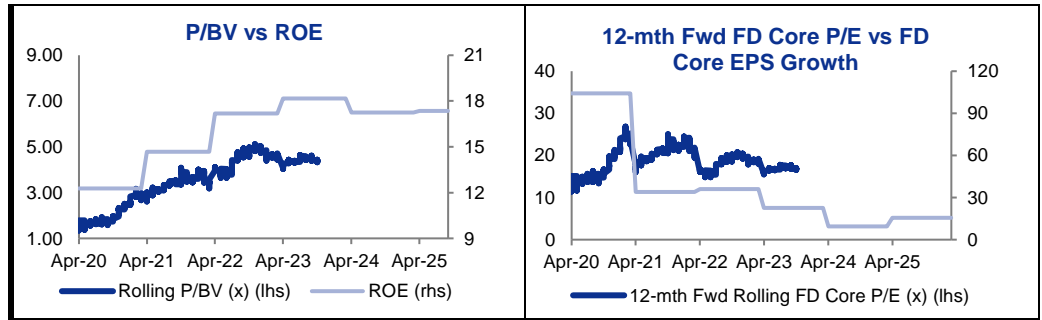
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	7,50,477	7,40,279	-1.4%	8,63,646	8,54,645	-1.0%	10,08,397	10,05,133	-0.3%
Non-Interest Income	2,22,256	2,26,641	2.0%	2,48,623	2,59,678	4.4%	2,80,087	2,92,533	4.4%
PPOP	5,77,909	5,67,462	-1.8%	6,54,045	6,50,876	-0.5%	7,60,246	7,63,545	0.4%
PAT	3,84,075	3,92,976	2.3%	4,32,275	4,29,868	-0.6%	4,94,558	4,96,999	0.5%
EPS (Rs)	54.9	56.1	2.3%	61.8	61.4	-0.6%	70.7	71.0	0.4%
BV (Rs)	324.6	325.8	0.4%	373.2	374.2	0.3%	428.6	429.9	0.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	474,663	621,286	740,279	854,645	1,005,133
Total Non-Interest Income	185,174	198,314	226,641	259,678	292,533
Operating Revenue	659,836	819,601	966,920	1,114,324	1,297,667
Total Non-Interest Expenses	(267,146)	(328,533)	(395,903)	(460,736)	(532,764)
Pre-provision Operating Profit	392,503	490,868	567,462	650,876	763,545
Total Provision Charges	(86,413)	(66,656)	(44,887)	(79,243)	(102,642)
Operating Profit After Provisions	306,090	424,212	522,575	571,633	660,903
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	306,090	424,212	522,575	571,633	660,903
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	306,090	424,212	522,575	571,633	660,903
Exceptional Items					
Pre-tax Profit	306,090	424,212	522,575	571,633	660,903
Taxation	(72,694)	(105,247)	(129,598)	(141,765)	(163,904)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	233,396	318,965	392,976	429,868	496,999
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	233,396	318,965	392,976	429,868	496,999
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%	86.5%	87.8%	90.0%
Avg Liquid Assets/Avg Assets	71.7%	72.3%	72.5%	73.1%	73.4%
Avg Liquid Assets/Avg IEAs	118.9%	115.3%	111.9%	110.3%	107.4%
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	10,196,380	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	10,196,380	12,100,977	14,254,115	16,799,868
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	8,590,200	10,196,380	12,100,977	14,254,115	16,799,868
Intangible Assets					
Other Non-Interest Earning Assets	648,398	732,008	734,219	760,898	791,554
Total Non-Interest Earning Assets	742,137	828,006	835,945	870,538	910,305
Cash And Marketable Securities	1,678,224	1,194,383	1,462,141	1,259,194	1,031,601
Long-term Investments	3,102,405	3,623,297	4,180,813	4,802,581	5,483,216
Total Assets	14,112,965	15,842,066	18,579,876	21,186,428	24,224,990
Customer Interest-Bearing Liabilities					
Bank Deposits	10,645,716	11,808,407	13,978,620	16,046,343	18,461,900
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,072,311	1,193,255	1,249,552	1,336,497	1,427,048
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	11,718,027	13,001,662	15,228,172	17,382,840	19,888,948
Total Liabilities	689,825	833,251	1,029,956	1,137,481	1,272,695
Shareholders Equity	12,407,852	13,834,913	16,258,128	18,520,322	21,161,644
Minority Interests	1,705,120	2,007,154	2,321,747	2,666,107	3,063,346
Total Equity	1,705,120	2,007,154	2,321,747	2,666,107	3,063,346

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	21.7%	30.9%	19.2%	15.4%	17.6%
Operating Profit Growth	7.8%	25.1%	16.3%	14.5%	17.0%
Pretax Profit Growth	52%	39%	23%	9%	16%
Net Interest To Total Income	71.9%	75.8%	76.6%	76.7%	77.5%
Cost Of Funds	3.54%	3.81%	4.80%	4.16%	3.93%
Return On Interest Earning Assets	10.8%	11.6%	12.7%	11.6%	11.2%
Net Interest Spread	7.30%	7.82%	7.92%	7.47%	7.26%
Net Interest Margin (Avg Deposits)	4.75%	5.53%	5.74%	5.69%	5.83%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	22%	14%	8%	12%	13%
Interest Return On Average Assets	3.59%	4.15%	4.30%	4.30%	4.43%
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%	2.28%	2.16%	2.19%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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