

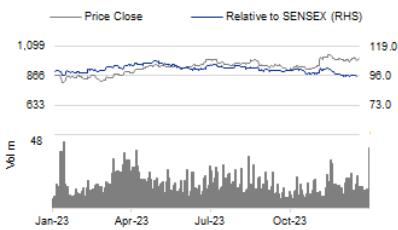
India

ADD (no change)

Consensus ratings*: Buy 49 Hold 3 Sell 0	
Current price:	Rs1,009
Target price:	Rs1,150
Previous target:	Rs1,150
Up/downside:	14.0%
InCred Research / Consensus:	-4.2%
Reuters:	ICBK.NS
Bloomberg:	ICICIBC IN
Market cap:	US\$85,190m Rs7,076,544m
Average daily turnover:	US\$185.2m Rs15380.8m
Current shares o/s:	7,281.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- We continue to believe that HDFC Bank is better placed than ICICI Bank on the growth (due to improved reach) and profitability (improved operating leverage) fronts.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.2	8.1	15.9
Relative (%)	(0.2)	(1.0)	(1.6)

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

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ICICI Bank

We continue to prefer HDFC Bank

- ICICI Bank posted an in-line 3QFY24 PAT of Rs102.7bn, despite declining margins, due to a spurt in other income & consolidation in operating expenses.
- We still feel that HDFC Bank is better placed than ICICI Bank on the growth (due to improved reach) & profitability (improved operating leverage) fronts.
- We have valued the standalone 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.

Dominance of unsecured retail loans continues; PL turns expensive

ICICI Bank reported 3QFY24 advances at Rs11.5tr (+18.5% yoy, +3.9% qoq), primarily aided by retail (+21.4% yoy), SME (+31.9% yoy) & business banking (+27.5% yoy) whereas domestic & foreign corporate lending remained a laggard. Within retail, personal loans (+37.3% yoy) & credit cards (+39.5% yoy) continued to dominate the overall portfolio.

Margin pressure inevitable; opex may witness consolidation

Margins, on expected lines, witnessed a sequential decline of ~10bp to ~443bp amid a surge in the cost of funds. However, the bank has managed to increase interest rates in the case of a few retail-lending segments, including personal loans, which have supported yields. Though the liquidity coverage ratio (LCR) at ~121% and the credit-deposit ratio at ~87% provide some comfort, management expects the repricing of deposits to continue, which may impact margins till 1QFY25F. The bank has added ~123 branches during the quarter against ~174 during the previous quarter, which has cut overall operating expenses. Management also expects a slowdown in fresh hiring which may lead to opex consolidation, at least in the near term.

Outlook & valuation

We have valued the standalone ICICI Bank at ~2.5x FY25F BV (relative discount to HDFC Bank at ~2.7x) and its arms at Rs200/share. We have retained our estimates and kept the target price intact at Rs1,150 or ~3.1x FY25F BV. We have retained our ADD rating on the stock. Downside risks: Lower-than-expected margins & higher operating expenses.

Why do we prefer HDFC Bank over ICICI Bank even now?

Though HDFC Bank has been struggling over deposit growth and weak LCR (110%), any probable deposit rate hike adopted by HDFC Bank needs to be followed by ICICI Bank to manage its market share. Also, on the yield front, HDFC Bank has superior access vs. ICICI Bank on unsecured retail & SME/MSME loans front amid a wider branch network and improved rural/semi-urban reach. Thus, both these banks are similarly placed on the margins front. We also expect improving operating leverage to play a key trigger for HDFC Bank with the rise in the size of large-ticket mortgage loans, which leads to lower operating expenses. Thus, assuming a similar asset quality profile, HDFC Bank is better placed than ICICI Bank on the growth (due to improved reach) and profitability (improved operating leverage) fronts. We expect HDFC Bank to post ~26.1% PAT CAGR over FY23F-26F against ICICI Bank's ~15.9%.

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)	29.97	22.03	17.97	16.42	14.21
DPS (Rs)	5.00	8.00	11.00	12.00	14.00
Dividend Yield	0.50%	0.79%	1.09%	1.19%	1.39%
BVPS (Rs)	205.9	186.0	215.2	247.1	284.0
P/BV (x)	4.90	5.42	4.69	4.08	3.55
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 results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	132,100	147,868	164,650	176,668	182,265	183,079	186,786	13.4%	2.0%
<i>NIM (% of AUM)</i>	<i>4.4%</i>	<i>4.8%</i>	<i>5.1%</i>	<i>5.2%</i>	<i>5.1%</i>	<i>4.9%</i>	<i>4.8%</i>		
Fee-Based Income	46,652	50,549	50,236	50,878	54,353	57,767	60,971	21.4%	5.5%
Operating Expenses	75,663	81,614	82,174	89,282	95,226	98,553	100,520	22.3%	2.0%
Operating Profit	103,089	116,803	132,712	138,264	141,392	142,293	147,236	10.9%	3.5%
Provisions	11,438	16,445	22,574	16,198	12,924	5,826	10,494	-53.5%	80.1%
Exceptional Items	-	-	-	-	-	-	-		
PBT	91,651	100,358	110,138	122,066	128,467	136,466	136,743	24.2%	0.2%
Tax	-22,601	-24,780	-27,019	-30,847	-31,985	-33,856	-34,027	25.9%	0.5%
<i>Tax rate (%)</i>	<i>24.7%</i>	<i>24.7%</i>	<i>24.5%</i>	<i>25.3%</i>	<i>24.9%</i>	<i>24.8%</i>	<i>24.9%</i>		
PAT	69,049	75,578	83,119	91,219	96,483	102,610	102,715	23.6%	0.1%
Advance (Rs bn)	8,956	9,386	9,740	10,196	10,576	11,105	11,538	18.5%	3.9%
Deposit (Rs bn)	10,503	10,900	11,220	11,808	12,387	12,947	13,323	18.7%	2.9%

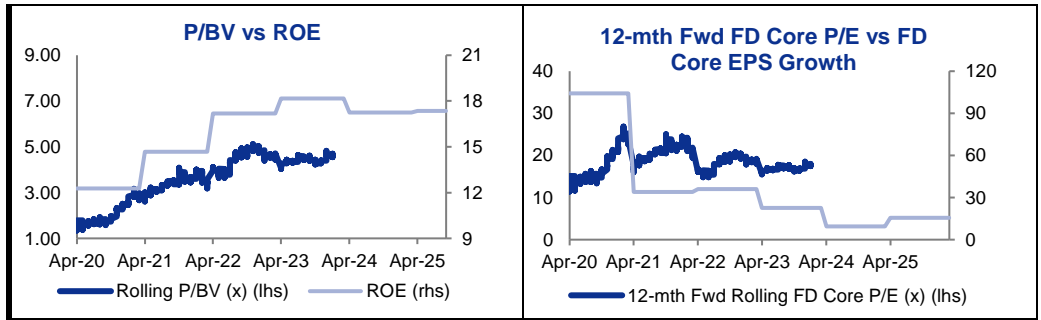
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Total deposits of the bank grew by 18.7% YoY and 2.9% QoQ, where term deposits' growth stood at 31.2% YoY and 4.9% QoQ, current account deposits' growth at 11.6% YoY and 2.4% QoQ and savings account deposits' growth at 2.8% and QoQ decline of 0.6%.
- The growth in overall advances for the bank is 18.2% YoY and 4.6% QoQ, with business banking growing 31.9% YoY and 6.5% QoQ, SME loans growing 27.5% YoY and 6.7% QoQ, retail loans growing 21.4% YoY and 4.5% QoQ, domestic loans growing 18.8% YoY and 3.8% QoQ and domestic corporate loan portfolio growing 13.3% YoY and 2.9% QoQ.
- Out of the total domestic loan book of the bank, 31% has a fixed interest rate, 49% has interest rate linked to the repo rate, 2% has interest rate linked to other external benchmarks and 18% has interest rate linked to MCLR and other older benchmarks.
- The bank had a net interest margin of 4.43% during the quarter compared to 4.53% in the previous quarter and 4.65% in 3Q of last year. The sequential movement in net interest margin or NIM reflects the lagged impact of the rise in term deposit rates over the last one year on the cost of deposits.
- Management expects the margins to remain stable until the monetary policy begins to turn a little more accommodative.
- The cost of deposits was 4.72% for the quarter compared to 4.53% in the previous quarter.
- Gross NPA addition stood at Rs57.14bn for the quarter compared to Rs46.87bn in the previous quarter. Recoveries and upgrades from gross NPAs, excluding write-offs and sales, stood at Rs53.51bn for the quarter compared to Rs45.71bn in the previous quarter.
- The net NPA ratio was 0.44% for the quarter compared to 0.43% in the previous quarter and 0.55% in 3Q of last year. During the quarter, there was net addition of Rs3.63bn to gross NPAs, excluding write-offs and sales.
- The total provision during the quarter stood at Rs10.5bn, which is 7.2% of core operating profit and 0.36% of average advances. The provision coverage ratio on non-performing assets or NPAs was 80.7% for the quarter. The bank continues to hold a contingency provision of Rs131 bn, which is around 1.1% of total loans for the quarter.
- The provision during the quarter includes the impact of Rs6.27bn pursuant to the recent RBI circular on investments in alternative investment funds or AIFs.
- On the corporate side, the bank had one or two large upgrades during the quarter, but in a way the benefit in the provisioning terms of that was offset by the provisioning on AIF investments.
- The bank continues to hold a contingency provision of Rs131bn as of 31 Dec 2023.

- At the end of Dec 2023, the total provision, other than specific provision on fund-based outstanding to borrowers classified as non-performing, stood at Rs230.25bn, which is 2% of the loans.
- The capital position of the bank has CET-1 ratio of 16.03%, payer-1 ratio of 16.03% and total capital adequacy ratio of 16.70% for the quarter, including profit.
- The total outstanding to non-banking finance companies or NBFCs and housing finance companies or HFCs was Rs784.84bn at the end of quarter compared to Rs837.49bn at the end of previous quarter. The total outstanding loans to NBFCs and HFCs were around 6.8% of advances at the end of the quarter.
- The branch count increased by 123 in 3Q of 2024 and it had 6,371 branches as of 31 Dec 2023.
- Non-employee expenses increased by 17.8% YoY for the quarter due to advertising and sales promotion expenses during the festive season.

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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