

India

ADD (no change)

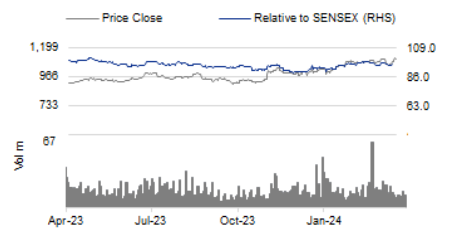
Consensus ratings*: Buy 48 Hold 3 Sell 0

Current price:	Rs1,108
Target price: ▲	Rs1,300
Previous target:	Rs1,150
Up/downside:	17.3%
InCred Research / Consensus:	5.7%
Reuters:	ICBK.NS
Bloomberg:	ICICIB IN
Market cap:	US\$93,375m Rs7,782,771m
Average daily turnover:	US\$194.6m Rs16223.8m
Current shares o/s:	7,132.1m
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 (%)	2.2	9.7	21.1
Relative (%)	2.1	7.0	0.4

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

Research Analyst(s)



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ICICI Bank

Consistent performance

- ICICI Bank posted a better-than-estimated 4QFY24 PAT of Rs107.1bn, despite declining margins, lower provisioning & consolidation in operating expenses.
- We continue to believe that HDFCB is better placed than ICICIB on the growth (due to improved reach) and profitability (improved operating leverage) fronts.
- We valued standalone ICICI Bank at ~2.4x FY26F BV & its arms at Rs250/share. Retain ADD rating with a higher target price of Rs1,300.

Credit growth slows; dominance of unsecured loans continues

ICICI Bank reported 4QFY24 advances at Rs11.8tr (+16.2% yoy, +2.7% qoq), primarily aided by retail (+19.4% yoy), SME (+24.6% yoy), and business banking (+29.3% yoy) segments while the domestic & foreign corporate lending remained a laggard. Within retail, personal loans (+32.5% yoy) and credit cards (+35.6% yoy) continue to dominate the overall portfolio.

Margin pressure inevitable; opex may witness consolidation

Margin, on expected lines, witnessed a sequential decline of ~3bp to ~440bp amid a surge in the cost of funds. However, the bank has managed to increase rates in the case of a few retail lending sub-segments, including personal loans, which supported yields. Though the liquidity coverage ratio (LCR) at ~123% and the credit-deposit ratio at ~84% do provide some comfort, management expects the repricing of deposits to continue, which may impact margin in 1HFY25F. Management highlighted that cost optimization in most lending products resulted in superior operating efficiency.

Outlook & valuation

We have valued standalone ICICI Bank at ~2.4x FY26F BV (relative discount to HDFC Bank at ~2.6x) and its arms at Rs200/share. We have maintained our estimates and raised the target price to Rs1,300 or ~3.0x FY26F BV. We have retained our ADD rating on the stock. Key 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 in respect of deposit growth and a weak LCR, any probable deposit rate hike adopted by HDFC Bank needs to be followed by ICICI Bank to manage their market share. Also, on the yield front, HDFC Bank has superior access compared to ICICI Bank on unsecured retail & SME/MSME fronts amid a wider branch network and improved rural/semi-urban reach. Thus, both the banks are similarly placed on the margin front. We also expect improving operating leverage to play a key trigger for HDFC Bank with a rise in the size of large-ticket mortgage loans, which attracts 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) & profitability (improved operating leverage) fronts.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	621,286	743,057	851,554	995,570	1,191,835
Total Non-Interest Income (Rsm)	198,314	229,578	271,538	298,583	337,023
Operating Revenue (Rsm)	819,601	972,635	1,123,092	1,294,153	1,528,858
Total Provision Charges (Rsm)	(66,656)	(36,429)	(64,215)	(91,452)	(125,552)
Net Profit (Rsm)	318,965	408,883	454,975	511,187	600,497
Core EPS (Rs)	44.89	57.33	63.79	71.67	84.20
Core EPS Growth	33%	28%	11%	12%	17%
FD Core P/E (x)	24.68	19.32	17.37	15.46	13.16
DPS (Rs)	8.00	10.00	13.00	14.00	17.00
Dividend Yield	0.72%	0.90%	1.17%	1.26%	1.53%
BVPS (Rs)	282.5	334.3	385.1	442.7	509.9
P/BV (x)	3.92	3.31	2.88	2.50	2.17
ROE	17.2%	18.6%	17.7%	17.3%	17.7%
% 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	3QFY24	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,32,100	1,47,868	1,64,650	1,76,668	1,82,265	1,83,079	1,86,786	1,90,928	8.1%	2.2%
NIM (% of AUM)	4.4%	4.8%	5.1%	5.2%	5.1%	4.9%	4.8%	4.7%		
Fee-Based Income	46,652	50,549	50,236	50,878	54,353	57,767	60,971	56,488	11.0%	-7.4%
Operating Expenses	75,663	81,614	82,174	89,282	95,226	98,553	1,00,520	97,028	8.7%	-3.5%
Operating Profit	1,03,089	1,16,803	1,32,712	1,38,264	1,41,392	1,42,293	1,47,236	1,50,388	8.8%	2.1%
Provisions	11,438	16,445	22,574	16,198	12,924	5,826	10,494	7,185	-55.6%	-31.5%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	91,651	1,00,358	1,10,138	1,22,066	1,28,467	1,36,466	1,36,743	1,43,203	17.3%	4.7%
Tax	-22,601	-24,780	-27,019	-30,847	-31,985	-33,856	-34,027	-36,127	17.1%	6.2%
Tax rate (%)	24.7%	24.7%	24.5%	25.3%	24.9%	24.8%	24.9%	25.2%		
PAT	69,049	75,578	83,119	91,219	96,483	1,02,610	1,02,715	1,07,075	17.4%	4.2%
Advance (Rs bn)	8,956	9,386	9,740	10,196	10,576	11,105	11,538	11,844	16.2%	2.7%
Deposit (Rs bn)	10,503	10,900	11,220	11,808	12,387	12,947	13,323	14,128	19.6%	6.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

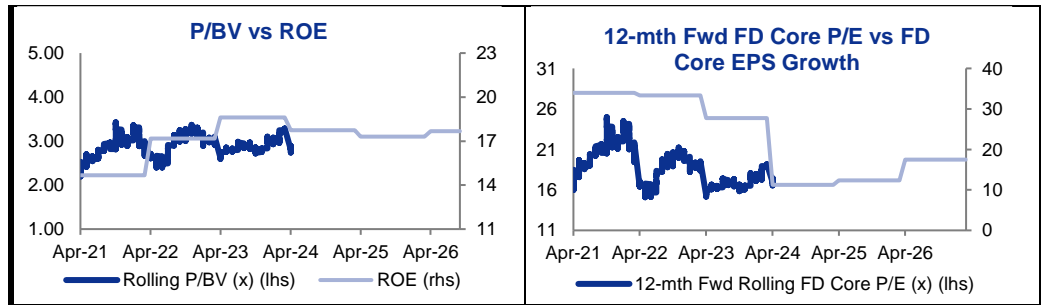
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	8,54,645	8,51,554	-0.4%	10,05,133	9,95,570	-1.0%	NA	11,91,835	NA
Non-Interest Income	2,59,678	2,71,538	4.6%	2,92,533	2,98,583	2.1%	NA	3,37,023	NA
PPOP	6,50,876	6,69,234	2.8%	7,63,545	7,71,222	1.0%	NA	9,24,085	NA
PAT	4,29,868	4,54,975	5.8%	4,96,999	5,11,187	2.9%	NA	6,00,497	NA
EPS (Rs)	61.4	65.0	5.8%	71.0	73.0	2.8%	NA	85.7	NA
BV (Rs)	247.1	385.1	55.8%	284.0	442.7	55.9%	NA	509.9	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 earnings conference-call highlights

- ICICI Bank consciously slowed down its personal loan business with higher pricing, refining the credit parameters and optimizing sourcing costs.
- Operating expenses moved at a slower pace during the quarter (+8.6% yoy/-3.5%) due to slower movement in unsecured loans and low employee addition at 180 vs. 1,700 in 3QFY24.
- There was moderation in higher-rated and higher-priced corporate loans and non-banking finance company or NBFC loans. NBFC loans were at Rs 771bn, down by -1.8% qoq.
- Management gave guidance of costs rising in 1QFY25F amid increments and business-related costs.
- Tech expenses stood at 9.4% of total operating expenses.
- The decline in provisioning was led by ~2.8% fall in gross non-performing assets or GNPA's.
- The bank raised its retail deposit rates by 10bp, although it does not expect a large rise in costs.
- Net interest margin or NIM is guided to be range-bound for the next two quarters.
- The glitch in ~17,000 credit cards that were newly onboarded was due to a mapping issue.
- CET-1 ratio remained healthy at 15.6%, with a capital adequacy ratio of 16.3%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	621,286	743,057	851,554	995,570	1,191,835
Total Non-Interest Income	198,314	229,578	271,538	298,583	337,023
Operating Revenue	819,601	972,635	1,123,092	1,294,153	1,528,858
Total Non-Interest Expenses	(328,533)	(387,772)	(451,146)	(521,574)	(603,171)
Pre-provision Operating Profit	490,868	581,308	669,234	771,222	924,085
Total Provision Charges	(66,656)	(36,429)	(64,215)	(91,452)	(125,552)
Operating Profit After Provisions	424,212	544,878	605,020	679,770	798,533
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	424,212	544,878	605,020	679,770	798,533
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	424,212	544,878	605,020	679,770	798,533
Exceptional Items					
Pre-tax Profit	424,212	544,878	605,020	679,770	798,533
Taxation	(105,247)	(135,996)	(150,045)	(168,583)	(198,036)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	318,965	408,883	454,975	511,187	600,497
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	318,965	408,883	454,975	511,187	600,497
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	83.7%	85.0%	84.3%	85.8%	87.6%
Avg Liquid Assets/Avg Assets	72.3%	69.3%	70.4%	73.4%	73.9%
Avg Liquid Assets/Avg IEAs	115.3%	111.8%	113.2%	113.1%	110.6%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	10,196,380	11,844,064	13,712,883	16,126,887	19,139,198
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	10,196,380	11,844,064	13,712,883	16,126,887	19,139,198
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	10,196,380	11,844,064	13,712,883	16,126,887	19,139,198
Intangible Assets					
Other Non-Interest Earning Assets	732,008	743,801	755,485	784,824	820,197
Total Non-Interest Earning Assets	828,006	1,832,399	865,126	903,575	949,016
Cash And Marketable Securities	1,194,383	1,399,260	1,980,613	1,914,084	1,832,318
Long-term Investments	3,623,297	4,619,423	4,872,910	5,563,390	6,356,406
Total Assets	15,842,066	19,695,146	21,431,532	24,507,936	28,276,936
Customer Interest-Bearing Liabilities	11,808,407	14,128,250	16,171,257	18,614,466	21,650,512
Bank Deposits					
Interest Bearing Liabilities: Others	1,193,255	1,249,676	1,383,038	1,471,262	1,571,944
Total Interest-Bearing Liabilities	13,001,662	15,377,925	17,554,294	20,085,728	23,222,456
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	833,251	953,227	1,130,986	1,264,620	1,417,642
Total Liabilities	13,834,913	16,331,153	18,685,280	21,350,346	24,640,096
Shareholders Equity	2,007,154	2,383,993	2,746,251	3,157,589	3,636,840
Minority Interests					
Total Equity	2,007,154	2,383,993	2,746,251	3,157,589	3,636,840

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	30.9%	19.6%	14.6%	16.9%	19.7%
Operating Profit Growth	25.1%	19.1%	14.9%	15.0%	19.8%
Pretax Profit Growth	39%	28%	11%	12%	17%
Net Interest To Total Income	75.8%	76.4%	75.8%	76.9%	78.0%
Cost Of Funds	3.81%	4.83%	4.81%	4.59%	4.31%
Return On Interest Earning Assets	11.6%	13.0%	12.9%	12.5%	12.1%
Net Interest Spread	7.82%	8.13%	8.05%	7.87%	7.74%
Net Interest Margin (Avg Deposits)	5.53%	5.73%	5.62%	5.72%	5.92%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	14%	6%	10%	12%	14%
Interest Return On Average Assets	4.15%	4.18%	4.14%	4.33%	4.52%
Effective Tax Rate	24.8%	25.0%	24.8%	24.8%	24.8%
Net Dividend Payout Ratio					
Return On Average Assets	2.13%	2.30%	2.21%	2.23%	2.28%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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