

India

ADD (no change)

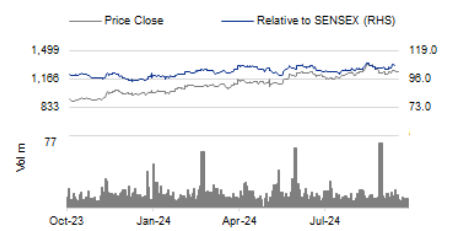
Consensus ratings*: Buy 45 Hold 5 Sell 0

Current price:	Rs1,255
Target price:	Rs1,500 ▲
Previous target:	Rs1,450
Up/downside:	19.5%
InCred Research / Consensus:	6.8%
Reuters:	ICBK.NS
Bloomberg:	ICICIBC IN
Market cap:	US\$121,859m Rs8,848,760m
Average daily turnover:	US\$266.0m Rs19317.0m
Current shares o/s:	7,036.2m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

► With ~85% mortgage, ~75% auto & ~60% credit card/personal loan customers having existing relations, ICICI Bank is riding on its cross-selling franchise.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.5)	4.0	38.2
Relative (%)	1.8	6.5	11.0

Major shareholders	% held
LIC	7.3
SBI MF	6.7
ICICI Prudential MF	4.5

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ICICI Bank

The quality-led cross-sell franchise

- ICICI Bank posted a better-than-estimated 2Q PAT of Rs117.5bn, despite qoq softening (-9bp) in margin, as healthy asset quality led to lower provisioning.
- With ~85% mortgage, ~75% auto & ~60% credit card/ personal loan customers having existing relations, ICICI Bank is riding on its cross-selling franchise.
- We appreciate ICICIB's consistent delivery and quality-led cross-sell franchise. Retain ADD rating with a new Rs1,500 TP or ~3.4x FY26 BV.

Credit growth stable; business banking/SME drives the momentum

ICICI Bank (ICICIB) reported 2QFY25 advances at Rs12.7tr (+4.4% qoq), but retail loans grew at a slower pace (+2.9% qoq). Business banking (+10.7% qoq) and domestic corporate loans (+4.9% qoq) remained outliers whereas rural loans & foreign corporate lending remained laggards. Within retail loans, the share of secured loans (mortgages) and unsecured (personal loans/credit cards) remained flat sequentially.

Margin pressure inevitable; opex may witness consolidation

Margin, on expected lines, witnessed a sequential decline of ~9bp to ~427bp amid a surge in the cost of funds whereas lending yields remained stagnant amid a competitive environment. Though the liquidity coverage ratio (LCR) at ~120% and the credit-deposit ratio at ~86% do provide some comfort, management expects the repricing of deposits to continue, which may impact margins in 2HFY25F. Management has highlighted that cost optimization in most lending products resulted in superior operating efficiency.

Asset quality manageable; caution on unsecured loans continues

During the quarter, the overall asset quality trend remained within the comfort zone. The bank expressed caution in personal loans and credit cards, growing them at a slow pace. However, credit card offerings are being streamlined as per regulatory requirement. We remain watchful of any rise in asset quality stress in the unsecured lending space.

Future branch expansion may create disruption

We believe the gap in maintaining physical branches between HDFC Bank (HDFCB) and ICICI Bank has widened significantly. ICICI Bank has 6,613 branches as of Sep 2024-end vs. 9,092 branches of HDFC Bank in the same period. Like HDFC Bank and Bajaj Finance, ICICI Bank also needs to expand its physical presence in rural/semi-urban areas of India to augment a new set of customers. This process can be delayed but can't be ignored. This will disrupt the cost-to-income matrix & can even slow down growth for a few quarters.

Outlook & valuation

We have valued standalone ICICI Bank at ~2.8x FY26F BV and its subsidiaries at Rs250/share. We have revised our target price upwards to Rs1,500 or ~3.4x FY26F BV from Rs1,450 earlier. We have maintained our ADD rating on the stock. Key downside risks: Lower-than-expected margins and higher operating expenses.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	621,286	743,057	808,853	951,571	1,152,435
Total Non-Interest Income (Rsm)	198,314	229,578	287,417	331,629	385,051
Operating Revenue (Rsm)	819,601	972,635	1,096,270	1,283,200	1,537,486
Total Provision Charges (Rsm)	(66,656)	(36,429)	(47,159)	(69,415)	(107,696)
Net Profit (Rsm)	318,965	408,883	466,637	535,379	626,720
Core EPS (Rs)	44.89	57.33	65.43	75.07	87.87
Core EPS Growth	33%	28%	14%	15%	17%
FD Core P/E (x)	27.97	21.90	19.19	16.72	14.29
DPS (Rs)	8.00	10.00	13.00	15.00	18.00
Dividend Yield	0.64%	0.80%	1.04%	1.19%	1.43%
BVPS (Rs)	282.5	334.3	386.7	446.8	516.6
P/BV (x)	4.44	3.76	3.25	2.81	2.43
ROE	17.2%	18.6%	18.2%	18.0%	18.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,82,265	1,83,079	1,86,786	1,90,928	1,95,529	2,00,480	9.5%	2.5%
NIM (% of AUM)	5.1%	4.9%	4.8%	4.7%	4.7%	4.6%		
Other Income	54,353	57,767	60,971	56,488	70,019	71,767	24.2%	2.5%
Operating Expenses	95,226	98,553	1,00,520	97,028	1,05,300	1,05,015	6.6%	-0.3%
Operating Profit	1,41,392	1,42,293	1,47,236	1,50,388	1,60,248	1,67,232	17.5%	4.4%
Provisions	12,924	5,826	10,494	7,185	13,322	12,331	111.6%	-7.4%
Exceptional Items	-	-	-	-	-	-		
PBT	1,28,467	1,36,466	1,36,743	1,43,203	1,46,927	1,54,901	13.5%	5.4%
Tax	-31,985	-33,856	-34,027	-36,127	-36,336	-37,442	10.6%	3.0%
Tax Rate (%)	24.9%	24.8%	24.9%	25.2%	24.7%	24.2%		
PAT	96,483	1,02,610	1,02,715	1,07,075	1,10,591	1,17,459	14.5%	6.2%
Advances (Rs bn)	10,576	11,105	11,538	11,844	12,232	12,772	15.0%	4.4%
Deposits (Rs bn)	12,387	12,947	13,323	14,128	14,261	14,978	15.7%	5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

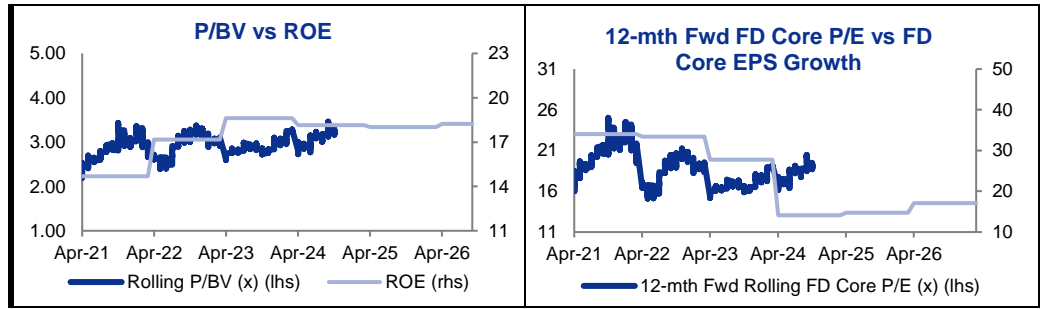
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	8,51,554	8,08,853	-5.0%	9,95,570	9,51,571	-4.4%	11,91,835	11,52,435	-3.3%
Non-Interest Income	2,71,538	2,87,417	5.8%	2,98,583	3,31,629	11.1%	3,37,023	3,85,051	14.3%
PPOP	6,69,234	6,65,222	-0.6%	7,71,222	7,81,355	1.3%	9,24,085	9,41,100	1.8%
PAT	4,54,975	4,66,637	2.6%	5,11,187	5,35,379	4.7%	6,00,497	6,26,720	4.4%
EPS (Rs)	65.0	66.6	2.6%	73.0	76.4	4.7%	86	89.5	4.4%
BV (Rs)	385.1	386.7	0.4%	442.7	446.8	0.9%	510	516.6	1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings-call highlights

- Management expects the cost of deposits to rise further, although the net interest margin or NIM is guided to be stable in 2HFY25F.
- The pace of growth has slowed down further sequentially in personal loans and credit cards.
- Wholesale deposits rates were higher than the expected rates.
- Total loans comprised ~51% linked to the repo rate, ~1% to the external benchmark, ~16% to the MCLR and ~32% fixed.
- Slippage stood at Rs51bn for the quarter, of which ~86% was from retail, rural and business banking segments and ~14% from corporate and SME loan segments.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	621,286	743,057	808,853	951,571	1,152,435
Total Non-Interest Income	198,314	229,578	287,417	331,629	385,051
Operating Revenue	819,601	972,635	1,096,270	1,283,200	1,537,486
Total Non-Interest Expenses	(328,533)	(374,701)	(425,722)	(497,350)	(591,019)
Pre-provision Operating Profit	490,868	581,308	665,222	781,355	941,100
Total Provision Charges	(66,656)	(36,429)	(47,159)	(69,415)	(107,696)
Operating Profit After Provisions	424,212	544,878	618,063	711,941	833,404
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	424,212	544,878	618,063	711,941	833,404
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	424,212	544,878	618,063	711,941	833,404
Exceptional Items					
Pre-tax Profit	424,212	544,878	618,063	711,941	833,404
Taxation	(105,247)	(135,996)	(151,425)	(176,561)	(206,684)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	318,965	408,883	466,637	535,379	626,720
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	318,965	408,883	466,637	535,379	626,720
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%	84.5%	85.8%	87.4%
Avg Liquid Assets/Avg Assets	72.3%	71.3%	72.0%	73.4%	73.9%
Avg Liquid Assets/Avg IEAs	115.3%	111.8%	113.1%	113.2%	111.1%
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	11,844,060	13,615,558	15,925,261	18,871,074
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	10,196,380	11,844,060	13,615,558	15,925,261	18,871,074
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	10,196,380	11,844,060	13,615,558	15,925,261	18,871,074
Intangible Assets					
Other Non-Interest Earning Assets	732,008	743,801	726,452	754,722	789,406
Total Non-Interest Earning Assets	828,006	852,399	836,088	873,521	918,319
Cash And Marketable Securities	1,194,383	1,399,260	1,948,217	1,954,742	1,924,522
Long-term Investments	3,623,297	4,619,423	4,885,272	5,555,336	6,345,029
Total Assets	15,842,066	18,715,142	21,285,136	24,308,860	28,058,944
Customer Interest-Bearing Liabilities	11,808,407	14,128,250	16,018,184	18,399,636	21,398,932
Bank Deposits					
Interest Bearing Liabilities: Others	1,193,255	1,249,676	1,357,190	1,438,901	1,539,719
Total Interest-Bearing Liabilities	13,001,662	15,377,925	17,375,374	19,838,538	22,938,652
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	833,251	953,227	1,151,849	1,284,012	1,435,640
Total Liabilities	13,834,913	16,331,153	18,527,222	21,122,550	24,374,292
Shareholders Equity	2,007,154	2,383,993	2,757,913	3,186,311	3,684,654
Minority Interests					
Total Equity	2,007,154	2,383,993	2,757,913	3,186,311	3,684,654

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	30.9%	19.6%	8.9%	17.6%	21.1%
Operating Profit Growth	25.1%	21.8%	12.1%	17.2%	20.4%
Pretax Profit Growth	39%	28%	13%	15%	17%
Net Interest To Total Income	75.8%	76.4%	73.8%	74.2%	75.0%
Cost Of Funds	3.81%	4.83%	5.08%	4.76%	4.36%
Return On Interest Earning Assets	11.6%	13.0%	12.9%	12.4%	12.0%
Net Interest Spread	7.82%	8.13%	7.81%	7.68%	7.62%
Net Interest Margin (Avg Deposits)	5.53%	5.73%	5.37%	5.53%	5.79%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	14%	6%	7%	9%	11%
Interest Return On Average Assets	4.15%	4.30%	4.04%	4.17%	4.40%
Effective Tax Rate	24.8%	25.0%	24.5%	24.8%	24.8%
Net Dividend Payout Ratio					
Return On Average Assets	2.13%	2.37%	2.33%	2.35%	2.39%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.