

India

ADD (no change)

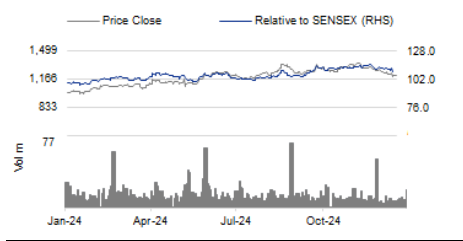
Consensus ratings*: Buy 46 Hold 5 Sell 0

Current price:	Rs1,209
Target price:	Rs1,500
Previous target:	Rs1,500
Up/downside:	24.1%
InCred Research / Consensus:	0.5%
Reuters:	ICBK.NS
Bloomberg:	ICICIBC IN
Market cap:	US\$117,575m
	Rs8,537,687m
Average daily turnover:	US\$233.9m
	Rs16982.5m
Current shares o/s:	7,036.2m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

- Interestingly, the incremental CD ratio in 9MFY25 for ICICI Bank stood at ~121% against ~39% for HDFC Bank.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.8)	(3.7)	19.7
Relative (%)	(3.7)	0.4	11.1

Major shareholders	% held
LIC	7.1
SBI MF	6.5
ICICI Prudential MF	4.5

Analyst(s)



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ICICI Bank

Read the message between the lines

- ICICI Bank posted an in-line 3Q PAT of Rs117.9bn amid its superior operating leverage; however, there was weak deposit momentum & slowing retail loans.
- Deposit augmentation remains a challenge whereas business banking solely drives credit momentum as retail loans & NPAs still pose a challenge.
- The results remain a mixed bag with several loops in performance. We continue to prefer HDFC Bank. Maintain our ADD rating with a TP of Rs1,500.

Credit growth tilts towards business banking, retail loses momentum

ICICI Bank (ICICIB) reported 3QFY25 advances at Rs13.1tr (+2.9% qoq); however, retail & rural loans grew at a slower pace (+1.4% qoq) vs. business banking (+6.4% qoq) & domestic corporate loans (+4.3% qoq). This runs contrary to HDFC Bank, which saw a relative surge in retail loans (+2.1% qoq). In retail loans, HDFC Bank had better momentum in unsecured retail loans while ICICI Bank posted a qoq dip in personal unsecured loans. Thus, the market share momentum to favour HDFC Bank over ICICI Bank.

Margin pressure continues despite the surge in CD ratio

Deposit augmentation continues to remain a challenge, with ~1.5% qoq growth in deposits to Rs15.2tr. The CASA ratio remained steady at ~40.5% amid a surge in business banking/corporate loans. However, like most peers, the credit-deposit (CD) ratio for the bank inched up to ~86.5% against ~85.3% last quarter. Interestingly, the incremental CD ratio in 9MFY25 for ICICI Bank was ~121% vs. ~39% for HDFC Bank. Despite such a surge in the CD ratio, the margin continues to remain under pressure at ~425bp against ~427bp last quarter & ~443bp last year amid softening of yields & a surge in the cost of deposits.

Asset quality manageable; caution on unsecured loans continues

ICICI Bank saw a gross slippage ratio of ~1.6% (HDFC Bank at ~1.4%) and net slippage of ~0.8%, like that of HDFC Bank, with cyclical volatility visible in the rural portfolio. Overall coverage continues to slide, at ~78.7% vs. ~81.3% last year. Like HDFC Bank, ICICI Bank has used Rs3.2bn from the provision pool of fund & non-fund based outstanding NPAs.

Current trends in low opex & high fee income remain challenging

The cost-to-income ratio remained sequentially steady at ~38.5%, supported by flat operating expenses (amid a decline in employee costs) and a surge in fee income (+5% qoq). We attribute the same to a gradual shift in the lending profile towards business banking. However, sustainability of the trend remains challenging over the mid- to long-term amid retail loans regaining momentum and a probable surge in branch expansion.

Outlook & valuation

We retain ADD rating on the stock with a target price of Rs1,500 as we have valued the standalone bank at ~2.8x FY26F BV & its arms at Rs250/share. We continue to prefer HDFC Bank over ICICI Bank. Downside risks: Lower-than-expected margins & higher operating expenses.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	621,286	743,057	807,083	940,595	1,123,411
Total Non-Interest Income (Rsm)	198,314	229,578	281,903	324,932	377,173
Operating Revenue (Rsm)	819,601	972,635	1,088,986	1,265,528	1,500,584
Total Provision Charges (Rsm)	(66,656)	(36,429)	(50,342)	(76,688)	(106,902)
Net Profit (Rsm)	318,965	408,883	465,595	523,426	610,715
Core EPS (Rs)	44.89	57.33	64.95	73.02	85.19
Core EPS Growth	33%	28%	13%	12%	17%
FD Core P/E (x)	26.94	21.09	18.62	16.56	14.19
DPS (Rs)	8.00	10.00	13.00	15.00	17.00
Dividend Yield	0.66%	0.83%	1.08%	1.24%	1.41%
BVPS (Rs)	282.5	334.3	384.5	442.5	510.7
P/BV (x)	4.28	3.62	3.14	2.73	2.37
ROE	17.2%	18.6%	18.1%	17.7%	17.9%
% 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	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,82,265	1,83,079	1,86,786	1,90,928	1,95,529	2,00,480	2,03,706	9.1%	1.6%
<i>NIM (% of AUM)</i>	5.1%	4.9%	4.8%	4.7%	4.7%	4.6%	4.6%		
Other Income	54,353	57,767	60,971	56,488	70,019	71,767	70,681	15.9%	-1.5%
Operating Expenses	95,226	98,553	1,00,520	97,028	1,05,300	1,05,015	1,05,521	5.0%	0.5%
Operating Profit	1,41,392	1,42,293	1,47,236	1,50,388	1,60,248	1,67,232	1,68,866	14.7%	1.0%
Provisions	12,924	5,826	10,494	7,185	13,322	12,331	12,267	16.9%	-0.5%
Exceptional Items	-	-	-	-	-	-	-		
PBT	1,28,467	1,36,466	1,36,743	1,43,203	1,46,927	1,54,901	1,56,599	14.5%	1.1%
Tax	-31,985	-33,856	-34,027	-36,127	-36,336	-37,442	-38,675	13.7%	3.3%
<i>Tax rate (%)</i>	24.9%	24.8%	24.9%	25.2%	24.7%	24.2%	24.7%		
PAT	96,483	1,02,610	1,02,715	1,07,075	1,10,591	1,17,459	1,17,924	14.8%	0.4%
Advance (Rs bn)	10,576	11,105	11,538	11,844	12,232	12,772	13,144	13.9%	2.9%
Deposit (Rs bn)	12,387	12,947	13,323	14,128	14,261	14,978	15,203	14.1%	1.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

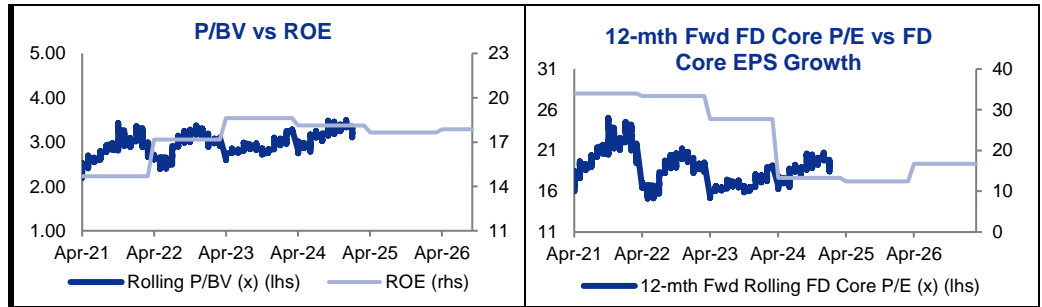
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	8,08,853	8,07,083	-0.2%	9,51,571	9,40,595	-1.2%	11,52,435	11,23,411	-2.5%
Non-Interest Income	2,87,417	2,81,903	-1.9%	3,31,629	3,24,932	-2.0%	3,85,051	3,77,173	-2.0%
PPOP	6,65,222	6,67,023	0.3%	7,81,355	7,72,733	-1.1%	9,41,100	9,19,023	-2.3%
PAT	4,66,637	4,65,595	-0.2%	5,35,379	5,23,426	-2.2%	6,26,720	6,10,715	-2.6%
EPS (Rs)	66.6	66.0	-0.9%	76.4	74.2	-2.9%	90	86.6	-3.3%
BV (Rs)	386.7	384.5	-0.6%	446.8	442.5	-1.0%	517	510.7	-1.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key takeaways from 3QFY25 earnings call

- Mortgages, as a segment, remains competitive as incremental disbursements are not growing much, but there is movement in the mid- and higher-ticket sub-segments.
- In the vehicle loan segment, the bank is mainly into the passenger vehicle sub-segment. There was significant growth in the past few quarters, but currently it is experiencing moderation.
- Management avoids taking chunky long-term corporate loan exposure to maintain growth. The focus is on meeting short-term fund requirements, working capital requirements and long-term loans, which fits the bank's profitability needs.
- Business banking loan portfolio witnessed a shift from BB rating to BBB and BBB+ ratings, as incremental disbursements are more towards BBB-rated entities.
- Business banking has gone through changes to bring in more formalization, adoption of digitalization and credit discipline, which provide more comfort on the underwriting front. The portfolio is granular like retail lending and secure. There is continuous monitoring of the portfolio.
- Management does not see the bank's asset quality restricting the growth of loan portfolio, but retail unsecured loans witnessed some asset quality problems, resulting in flat growth.
- The outperformance in CASA growth is more a result of building relationships and engaging them to do transactions with banks, bringing stickiness in CASA.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	621,286	743,057	807,083	940,595	1,123,411
Total Non-Interest Income	198,314	229,578	281,903	324,932	377,173
Operating Revenue	819,601	972,635	1,088,986	1,265,528	1,500,584
Total Non-Interest Expenses	(328,533)	(374,701)	(416,637)	(488,300)	(576,194)
Pre-provision Operating Profit	490,868	581,308	667,023	772,733	919,023
Total Provision Charges	(66,656)	(36,429)	(50,342)	(76,688)	(106,902)
Operating Profit After Provisions	424,212	544,878	616,682	696,045	812,121
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	424,212	544,878	616,682	696,045	812,121
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	424,212	544,878	616,682	696,045	812,121
Exceptional Items					
Pre-tax Profit	424,212	544,878	616,682	696,045	812,121
Taxation	(105,247)	(135,996)	(151,087)	(172,619)	(201,406)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	318,965	408,883	465,595	523,426	610,715
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	318,965	408,883	465,595	523,426	610,715
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%	85.4%	87.7%	89.2%
Avg Liquid Assets/Avg Assets	72.3%	71.3%	72.1%	73.6%	74.2%
Avg Liquid Assets/Avg IEAs	115.3%	111.8%	112.1%	111.5%	109.9%
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	13,673,959	15,911,393	18,700,634
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	10,196,380	11,844,060	13,673,959	15,911,393	18,700,634
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	10,196,380	11,844,060	13,673,959	15,911,393	18,700,634
Intangible Assets					
Other Non-Interest Earning Assets	732,008	743,801	727,036	754,584	787,701
Total Non-Interest Earning Assets	828,006	852,399	836,673	873,382	916,615
Cash And Marketable Securities	1,194,383	1,399,260	1,688,907	1,716,885	1,693,518
Long-term Investments	3,623,297	4,619,423	4,772,594	5,348,008	6,108,674
Total Assets	15,842,066	18,715,142	20,972,132	23,849,668	27,419,440
Customer Interest-Bearing Liabilities	11,808,407	14,128,250	15,738,276	17,990,460	20,825,116
Bank Deposits					
Interest Bearing Liabilities: Others	1,193,255	1,249,676	1,324,911	1,403,072	1,499,590
Total Interest-Bearing Liabilities	13,001,662	15,377,925	17,063,188	19,393,532	22,324,706
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	833,251	953,227	1,152,550	1,283,845	1,433,595
Total Liabilities	13,834,913	16,331,153	18,215,736	20,677,378	23,758,302
Shareholders Equity	2,007,154	2,383,993	2,756,395	3,172,291	3,661,139
Minority Interests					
Total Equity	2,007,154	2,383,993	2,756,395	3,172,291	3,661,139

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	30.9%	19.6%	8.6%	16.5%	19.4%
Operating Profit Growth	25.1%	21.8%	12.4%	15.6%	18.9%
Pretax Profit Growth	39%	28%	13%	13%	17%
Net Interest To Total Income	75.8%	76.4%	74.1%	74.3%	74.9%
Cost Of Funds	3.81%	4.83%	5.09%	4.74%	4.25%
Return On Interest Earning Assets	11.6%	13.0%	12.8%	12.2%	11.6%
Net Interest Spread	7.82%	8.13%	7.71%	7.46%	7.36%
Net Interest Margin (Avg Deposits)	5.53%	5.73%	5.40%	5.58%	5.79%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	14%	6%	8%	10%	12%
Interest Return On Average Assets	4.15%	4.30%	4.07%	4.20%	4.38%
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%	2.35%	2.34%	2.38%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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CIN: U74999MH2016PTC287535

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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.

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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.