# ICICI Bank Equity Research Report

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Date: 11 Jan 2025

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## Executive Summary

ICICI Bank has redefined its trajectory over the last five years, transforming into one of India's most dynamic and profitable private banks. From FY2020 to FY2024, the bank executed a disciplined strategy that combined strong balance sheet repair, digital innovation, and customer-centric growth, enabling it to overcome legacy asset-quality concerns and emerge as a market leader.

Core earnings have expanded consistently, with Net Interest Income (NII) and Profit After Tax (PAT) growing at double-digit rates. Supported by robust CASA deposits, the bank sustained a healthy Net Interest Margin (NIM) of 4.53% in FY2024 — a clear competitive advantage. Asset quality has reached historic lows, with Gross NPA at 2.26% and Net NPA below 0.5%, reflecting superior underwriting and proactive provisioning.

Returns to shareholders have strengthened in parallel: Return on Equity (ROE) improved to 18.7% and Return on Assets (ROA) continued its upward trend. Operational efficiency has been enhanced by digital platforms such as iMobile Pay and InstaBIZ, alongside an extensive API ecosystem, driving scale and engagement.

ICICI Bank now stands as a structurally stronger, digitally advanced, and growth-focused institution. Its transformation not only challenges HDFC Bank's long-standing dominance but also positions ICICI as a preferred choice for investors seeking sustainable value creation in India's banking sector.

## Company Overview

### Brief History

ICICI Bank was originally established in 1994 as part of the Industrial Credit and Investment Corporation of India (ICICI), a development finance institution formed in 1955 to support Indian industry. Over the years, ICICI transitioned from a financial institution into a diversified financial services group. In 2002, ICICI merged with ICICI Bank, creating one of India's first universal banks with a full-service model. Today, ICICI Bank is among the leading private sector banks in India, listed on the NSE and BSE domestically, and on the NYSE internationally, with a strong reputation for innovation, retail banking leadership, and digital adoption.

### Current Business Model

ICICI Bank operates as a **full-service universal bank**, offering a wide range of financial services to retail, corporate, and institutional clients. The business model is built on three pillars:

- **Retail banking scale** – strong presence in mortgages, personal loans, credit cards, and liabilities franchise.
- **Corporate and SME banking** – relationship-driven approach, focusing on working capital, trade finance, and project finance.
- **Digital-first approach** – end-to-end digital onboarding and product journeys, with platforms like iMobile Pay (retail) and InstaBIZ (SMEs) driving customer engagement.
- **Risk-calibrated growth** – emphasis on maintaining asset quality, high provision coverage, and strong capital adequacy.
  The bank's strategy balances growth with stability, underpinned by its customer-centric "One Bank, One ROE" framework, leveraging data analytics, APIs, and partnerships.

## Major Business Segments

1. **Retail Banking**
   - Core strength of ICICI, contributing ~45–50% of advances.
   - Includes mortgages, vehicle loans, personal loans, credit cards, deposits, and distribution of third-party products.
   - CASA (Current Account Savings Account) franchise provides a stable low-cost funding base.
2. **Corporate & SME Banking**
   - Provides financing solutions to large corporates and mid-market firms.
   - Products include working capital loans, trade finance, treasury solutions, and structured lending.
   - Growing focus on MSMEs through digital platforms like InstaBIZ.
3. **Digital Banking**
   - iMobile Pay app for retail (payments, UPI, investments, loans).
   - InstaBIZ for business clients, offering >400 banking services.
   - Extensive use of APIs, AI, and data analytics to integrate with ecosystems (e-commerce, fintech, supply chains).
4. **Treasury Operations**
   - Manages liquidity, statutory reserves, and investment portfolios.
   - Provides forex, derivatives, and balance sheet risk management solutions.
   - Plays a role in maintaining NIM and interest rate risk balance.
5. **Subsidiaries**
   - **ICICI Prudential Life Insurance** – leading private life insurer.
   - **ICICI Lombard General Insurance** – one of the top general insurers.
   - **ICICI Securities** – retail and institutional brokerage & wealth management.
   - **ICICI Prudential AMC** – asset management services.
   - These subsidiaries complement the bank's universal banking model, providing cross-sell opportunities and diversified earnings.

# Industry & Macro Analysis

## Indian Banking Sector Overview

The Indian banking sector has undergone a strong growth phase in the last five years, supported by rising retail credit, digital adoption, and stable regulatory oversight. As of FY2024, total credit growth was around **15% YoY**, led by retail loans (housing, personal, credit cards) and MSME financing. Deposit growth, while slower at ~12%, has been supported by rising term deposits amid elevated interest rates. Banks continue to strengthen balance sheets, with the sector-wide **Gross Non-Performing Assets (NPA) ratio declining to ~3% in FY2024** compared to double-digit levels in FY2018, reflecting improved asset quality. Public sector banks have also returned to profitability, narrowing the gap with private peers, though large private banks like ICICI, HDFC, Axis, and Kotak remain leaders in profitability and digital capabilities.

## Regulatory Environment (RBI, Basel Norms)

The Reserve Bank of India (RBI) remains the primary regulator, ensuring stability and prudence in the banking system.

- **Monetary Policy:** The repo rate was maintained at **6.5% in FY2024**, balancing growth and inflation risks.
- **Basel III Implementation** *(specific levels of capital)***:** Indian banks adhere to Basel III norms, with requirements for CET1, Tier 1, and total capital adequacy. Private banks such as ICICI report CET1 levels well above the minimum 8%, providing a strong cushion.
- **Other Regulatory Measures:** RBI has pushed for stricter provisioning norms, better recognition of stressed assets, and tighter oversight on unsecured lending. It has also guided banks toward greater cybersecurity and digital governance as digital transactions scale rapidly.

## Credit Growth & NPA Trends

Credit growth has been broad-based:

- **Retail Credit**: The largest driver, growing over **18% YoY in FY2024**, led by housing and unsecured personal loans.
- **Corporate Credit**: Witnessed a revival, supported by infrastructure and manufacturing investment, though still moderate compared to retail.
- **MSME Lending**: Boosted by government schemes like ECLGS, contributing to sectoral credit expansion.

Asset quality has improved significantly:

- System-wide **Gross NPAs declined to ~3% in FY2024**, down from ~8% in FY2018.
- Private banks like ICICI and HDFC maintain **GNPA ratios well below industry average (~2%)**, supported by strong provisioning (PCR > 80%).
- Net NPA ratios are now at multi-year lows, enabling banks to reduce credit costs and enhance profitability.

### Macro Drivers: GDP, Inflation, Interest Rates

- **GDP Growth:** India remained one of the fastest-growing major economies, expanding at **7% in FY2024**, driven by consumption, infrastructure push, and exports. Strong GDP growth translates into rising credit demand, particularly for retail and SME segments.
- **Inflation:** Headline CPI inflation averaged **5.4% in FY2024**, within RBI's tolerance band but above the 4% target. Sticky food inflation remains a risk, influencing monetary policy.
- **Interest Rates:** RBI's policy rate hikes in 2022–23 have stabilized, with the repo rate at **6.5%** throughout FY2024. Elevated rates supported deposit mobilization but pressured net interest margins (NIMs). Going forward, expectations of moderate easing could improve credit growth while slightly compressing margins.

## Competitive Positioning

ICICI Bank has firmly established its position as a top-tier private bank in India, demonstrating robust financial performance and a strategic focus on digital innovation. The bank's Return on Equity (ROE) of **18.71%** and Return on Assets (ROA) of **2.37%** for FY2024 place it among the most profitable players in the industry, showcasing a strong ability to generate returns for shareholders. This is further supported by a healthy Net Interest Margin (NIM) of **4.53%**, which is higher than HDFC Bank's **3.6%** NIM on interest-earning assets. The bank's aggressive push in digital banking, as highlighted by over 30 million users on its iMobile Pay app, has given it a significant edge in customer engagement and operational efficiency.

However, its peers possess unique strengths. **HDFC Bank**, following its merger, remains the largest private bank by a significant margin in terms of market capitalization, loan book, and deposit base. It is the market leader in almost every asset category. **Kotak Mahindra Bank** is highly regarded for its prudent and conservative approach, which is reflected in its superior profitability metrics, including an ROA of **2.66%** and a high NIM of **5.28%** for Q4 FY24. **Axis Bank** has a formidable CASA franchise with a ratio of **43%** and has delivered strong profitability metrics.

In summary, ICICI is positioned as a "top 2" private bank in terms of profitability and is actively narrowing the gap with market leader HDFC Bank. Its digital capabilities are a key differentiator, and its balanced growth strategy, coupled with a focus on retail and small and medium-sized enterprises (SMEs), positions it for continued success.

| Metric | ICICI Bank | HDFC Bank | Axis Bank | Kotak Mahindra Bank |
|---|---|---|---|---|
| NIM (%) | 4.53% | 3.60% | 4.07% | 5.32% |
| CASA Ratio (%) | 40.40% | 38.20% | 43% | 45.50% |
| Gross NPA (%) | 2.26% | 1.24% | 1.43% | 1.39% |
| Net NPA (%) | 0.45% | 0.35% | 0.31% | 0.34% |
| ROA (%) | 2.37% | 1.59% | 1.84% | 2.66% |
| ROE (%) | 18.71% | 14.10% | 19.29% | 15.08% |
| P/E (x) | 19.05 | 20.68 | 1.75 | 20.44 |
| P/B (x) | 3.21 | 2.8 | 1.75 | 3.01 |
| Market Cap (F Cr) | 9,94,649 | 14,59,788 | 3,27,513 | 3,91,450 |
| Loan Size (R bn) | 11,844.06 | 25,078 | ~10,838.66 | 4,791.69 |
| Deposit Size ( bn) | 14,128.25 | 23,798 | ~12,108.32 | ~5,601.40 |

## Financial Analysis (FY2020–FY2024)

ICICI Bank's financial performance over the last five years demonstrates a clear trend of consistent improvement across key metrics. The bank has successfully executed its strategy of building a high-quality, high-return franchise.

| FY | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|
| **Net Interest Income (₹ bn) – Standalone** | ₹332.67 | ₹389.89 | ₹474.66 | ₹621.29 | 743.06 |
| **Net Profit / PAT (₹ bn) – Standalone** | ₹79.31 | ₹161.93 | ₹233.39 | ₹318.96 | 408.88 |
| **Net Interest Margin (NIM, %) – Standalone** | 3.73% | 3.69% | 3.96% | 4.48% | 4.53% |
| **Gross NPA (%)** | 5.53% | 4.96% | 3.84% | 2.87% | 2.26% |
| **Net NPA (%)** | 1.41% | 1.14% | 0.76% | 0.48% | 0.45% |
| **Provision Coverage Ratio (PCR, %)** | 75.70% | 77.70% | 79.20% | 82.80% | 80.30% |
| **CASA Ratio (%)** | 38.60% | 41.60% | 45.30% | 44.70% | 40.40% |
| **Return on Assets (ROA, %)** | 0.81% | 1.34% | 1.84% | 2.16% | 2.37% |
| **Return on Equity (ROE, %)** | 6.82% | 12.23% | 14.77% | 17.28% | 18.71% |
| **Cost-to-Income Ratio (%)** | 44.48% | 37.19% | 40.51% | 40.11% | 40.23% |
| **Profit Before Tax ex-Treasury (₹ bn) – Standalone** | ₹268.08 | ₹313.51 | ₹383.47 | ₹424.73 | 544.79 |
| **Total Deposits (₹ bn) – Period-end** | ₹7,709.69 | ₹9,325.22 | ₹10,645.72 | ₹11,808.41 | 14,128.25 |
| **Total Advances (₹ bn) – Period-end** | ₹6,452.90 | ₹7,337.29 | ₹8,590.20 | ₹10,196.38 | 11,844.06 |
| **CET1 Ratio (%)** | 15.60% | 16.80% | 17.60% | 17.12% | 15.60% |
| **Total Capital Adequacy Ratio (%)** | 16.11% | 19.12% | 19.16% | 18.34% | 16.33% |
| **Credit Cost (%)** | 1.36% | 1.12% | 0.88% | 0.61% | 0.51% |
| **Fee/Other Income (₹ bn)** | ₹132.88 | ₹159.20 | ₹156.87 | ₹180.01 | 229.58 |
| **Operating Expenses (₹ bn)** | ₹200.73 | ₹215.61 | ₹267.33 | ₹328.73 | 391.33 |
| **Net Worth (₹ bn)** | ₹1,165.04 | ₹1,475.09 | ₹1,705.12 | ₹2,007.16 | 2,383.99 |

## Analytical interpretation

### *Earnings quality and drivers*

Revenue mix: Strong NII growth (22% CAGR) is the primary earnings engine. Fee income also grew (≈14.6% CAGR), but NII remains the dominant contributor to rising PAT. The bank expanded higher-yielding retail & business banking exposures while preserving fee growth from cards, payments and distribution.

Margin dynamics: NIM expanded materially through FY22–FY23 to ~4.5% in FY24. This reflects favorable repricing of assets during the tightening cycle, improved loan mix (more retail/business banking), and relatively stable low-cost funding (CASA). NIM resilience is a key pillar of ROE expansion.

### *Profitability recovery*

ROE / ROA: ROE rose from c.7% (FY20) to ~18.7% (FY24); ROA improved to ~2.4%. This is a textbook post-cleanup profitability rebound driven by higher core earnings and much lower credit costs. The outsized PAT CAGR (~50% p.a.) is mostly the combined effect of (a) falling credit cost and (b) operating leverage as revenues scaled faster than opex.

### *Asset quality turnaround*

GNPA / NNPA: Gross NPA fell from ~5.5% → 2.26%, Net NPA from 1.41% → 0.45%. The bank's provision coverage remained high (≈80%+), leaving the balance sheet with material buffers. Falling credit cost (1.36% → 0.51%) freed up P&L, accelerating PAT recovery.

### *Funding & liquidity*

CASA & deposits: CASA was strong historically (peak ~45% in FY22) but moderated to ~40.4% in FY24 as term deposits rose; nonetheless, deposits grew ~16% CAGR — a robust deposit franchise that supports asset growth. Maintaining CASA will be important for margin stability when funding competition intensifies.

### *Efficiency / cost*

Cost-to-income moved between ~37–44% over the period and is ~40% in FY24. Operating expenses have increased as the bank invested in digital platforms, but revenue growth has largely kept pace so scale benefits have been realized. Maintaining or improving the ratio near current levels would support further ROE expansion.

### *Capital adequacy*

CET1 & CAR: CET1 remained comfortably above regulatory minima during the period, but the FY24 dip in CET1 (to ~15.6%) and CAR (~16.3%) reflects capital used to support growth. The bank still has a healthy buffer for organic growth, but continued high loan growth should be accompanied by active capital planning.

### Future outlook & actionable insights (forward-looking interpretation)

- Expect continued double-digit advance growth (mid-teens) given the bank's distribution, digital engine and SME focus. With credit cost normalized and PCR strong, a majority of incremental operating profit will flow to the bottom line unless NIM compresses materially.
- NIM direction: If the interest-rate cycle stabilizes or eases, gradual margin pressure is possible as deposit costs reprice; however, the bank's large CASA base and product repricing power (retail/business) should limit downside — NIM likely trends inside a 4.0–4.6% band near term.
- ROE sustainability: With ROA ~2.3% and disciplined capital deployment, ROE near 16–19% appears sustainable in the medium term, subject to capital management (dividends, buybacks, or small raises).

## Valuation

*Based on the provided data, we can calculate the SGR for ICICI Bank for FY2024:*
Return on Equity (ROE): 18.71%
Dividend Payout Ratio: 17.1% (calculated from a DPS of ₹10.00 and an EPS of ₹58.38)
Retention Ratio: 1 - 0.171 = 0.829
Sustainable Growth Rate (SGR) = ROE x Retention Ratio = 18.71% x 0.829 SGR ≈ **15.51%**

### EPS Projection (18 % CAGR)

FY24 EPS = ₹ 58.38
FY25E EPS = 58.38 × 1.18 = ₹ 68.89
FY26E EPS = 68.89 × 1.18 = ₹ 81.29

### P/E-Based Fair Value

Using FY26E EPS:
Low multiple 18× → 81.29 × 18 = ₹ 1,463
High multiple 21× → 81.29 × 21 = ₹ 1,707
Peer average ≈20.2× → ₹ 1,640

### P/B-Based Fair Value

FY24 BVPS = ₹ 339.49
ROE ~18.7 %, sustainable book growth ~15.5 %.
FY26E BVPS ≈ ₹ 339.49 × (1 + 15 %)$^2$ ≈ ₹ 449
Applying peer average P/B ~2.9× ⇒ ₹ 1,300

### Dividend Discount Model (sanity check)

FY24 DPS = ₹ 10
Cost of equity (CoE) = 12 %, dividend growth g = 10 %
Fair value ≈ $DPS_1$/(CoE−g) ≈ 11/(0.12−0.10) ≈ ₹ 550
(DDM gives a low value as ICICI has a modest payout ratio.)

### Blended Target Price

Typical sell-side weight: 70 % P/E + 20 % P/B + 10 % DDM

= 0.7(₹ 1,640) + 0.2(₹ 1,300) + 0.1(₹ 550)
**Blended Fair Value ≈ ₹ 1,540.**

At the current market price (~₹ 1,275), this implies a **12-month upside of ~20 %**.

### Key Valuation Assumptions

- Base year (FY24): EPS ₹58.38, BVPS ₹339.49, ROE 18.71%, dividend payout 17.1% → retention 82.9%, SGR 15.5%.
- Growth: EPS CAGR 18% (FY24–26); BVPS grows at ~15.5%.
- Cost of equity: 12%.
- Multiples: Forward P/E 18–21× (base 20×), Forward P/B 2.7–3.0× (base 2.9×).
- Dividend growth (DDM): 15.5% for 3 years, terminal 5%.
- Blend weights: 70% P/E, 20% P/B, 10% DDM.
- Target horizon: 12 months.

## Investment Thesis

### 3 Key Reasons to BUY

1. **Digital Leadership & Efficiency** – 95% of transactions already digital, strong platforms (iMobile Pay, InstaBIZ) lower cost-to-income and enable low-cost customer acquisition.
2. **Prudent Risk Management** – Gross NPA down to ~2.3% (FY24) and further improving, with disciplined underwriting and high provision coverage supporting earnings stability.

3. **Sustainable Growth** – Mid-teens loan CAGR, high-yield SME/business banking focus, and a strong CASA base allow ~15% self-funded growth and consistent ROE of ~18–19%.

### 3 Key Risks

1. **Margin Compression** – Rising deposit costs and RBI policy actions could squeeze NIMs despite a strong funding base.
2. **Unsecured Lending Stress** – Industry-wide pressure in retail unsecured loans could trigger higher defaults even with tighter underwriting.
3. **Competitive Pricing** – Aggressive rate cuts by public-sector and private peers may force ICICI to sacrifice margins to defend market share.

## Conclusion & Recommendation

ICICI Bank presents a compelling **growth–quality–valuation** proposition among Indian private sector banks. Over FY2020–FY2024, the Bank has delivered **industry-leading earnings growth**, expanding Net Interest Income at a 22% CAGR and improving Return on Equity to **18.7%**, while steadily strengthening its balance sheet with a Gross NPA of only 2.26% and a high Provision Coverage Ratio of 80%**.** Its digital-first strategy has transformed customer acquisition and operating efficiency, supporting a cost-to-income ratio of ~40% and providing structural advantages over peers.

Looking ahead, ICICI's sustainable growth rate of ~15.5%**,** supported by strong internal capital generation and a robust CASA franchise, positions it to fund mid-teens loan growth without external equity. Earnings are projected to compound at ~18% over FY25–FY26, underpinned by stable margins, disciplined risk management, and increasing penetration in high-yielding SME and business-banking segments.

Valuation remains attractive. Using a blended approach—70% P/E (forward EPS × 20×), 20% P/B (forward BVPS × 2.9×), and 10% DDM—we derive a **12-month fair value of ₹1,540**, implying **~21% upside** from the current market price (~₹1,275). This target reflects ICICI's superior profitability profile, best-in-class asset quality, and scalable digital ecosystem.

**INVESTMENT RECOMMENDATION: BUY**

(12-Month Target Price ₹1,540, ~21% Upside)

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