ICICI Bank retains performance edge over HDFC Bank

THE PERFORMANCE GAP between the country's two largest private sector lenders is becoming more pronounced. HDFC Bank remains comfortably ahead of ICICI Bank in scale, with a larger balance sheet, loan book, deposit franchise and absolute profits, reports **Kshipra Petkar**. But on several metrics that investors closely track — growth, margins, return ratios — ICICI Bank has established a clear edge. ■ PAGE 6

ICICI Bank retains edge over HDFC Bank on performance

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COMPARATIVE STUDY

THE PERFORMANCE GAP between the country's two largest private sector lenders is becoming more pronounced. HDFC Bank remains comfortably ahead of ICICI Bank in scale, with a larger balance sheet, loan book, deposit franchise and absolute profits. But on several metrics that investors closely track — growth, margins, return ratios and earnings momentum — ICICI Bank has established a clear edge.

That divergence was evident in the June-quarter results. HDFC Bank reported a net profit of ₹19,060 crore, up 5% year-on-year, against ICICI Bank's ₹14,804.5 crore, which represented a sharper 15.9% increase.

ICICI Bank also reported stronger return ratios, with return on assets (RoA) at 2.5% and return on equity (RoE) at around 17%, compared with HDFC Bank's RoA of about 1.9% and RoE of around 14%.

"Given its sector-leading loan growth, better NIM management and strong asset quality trends, ICICI Bank shall continue to command a premium valuation among large banks," JM Financial said.

The difference in recent operating performance has also found reflection in the stock market. HDFC Bank shares fell 5.12% to ₹777.65 on the BSE on Monday, while ICICI Bank gained 1.32% to ₹1,461. The Sensex declined 0.57% and the BSE Bankex slipped 0.77%.

Over a longer period, too, ICICI Bank has outperformed on the bourses. HDFC Bank shares have fallen 22.2% over the past year, compared with a marginal 0.4% decline for ICICI Bank. Over three years, HDFC Bank has declined 7.9%, while ICICI has gained 46.7%.

The contrast is particularly significant because HDFC Bank continues to possess formidable advantages of scale and franchise. Its absolute profit remains substantially higher and its deposit base is among the strongest in the industry. However, since the merger with mortgage lender HDFC, the bank has had to manage the challenge of integrating a much larger balance sheet while simultaneously improving its funding mix and restoring some of its pre-merger return metrics.

ICICI Bank, meanwhile, has been able to combine faster growth with stronger profitability. Aadvances grew 19.6% year-on-year, driven by business banking, rural lending, mortgages and corporate loans, while retail loan growth returned to double digits. HDFC Bank's gross advances rose a healthy 15.4%, supported by corporate and SME lending, though retail loan growth remained relatively subdued at around 7%.

On deposits, HDFC Bank marginally outpaced ICICI Bank, recording 14.7% growth against 14%. However, its loan growth continued to run ahead of deposit growth, leaving its credit-deposit ratio at nearly 96%, compared with around 89% for ICICI Bank. HDFC Bank's average liquidity coverage ratio stood at 115%, against ICICI Bank's 124%.

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Analysts believe these balance-sheet constraints partly explain the difference in growth and profitability. "HDFC Bank has been unable to close the post-merger gap with ICICI across key operating metrics, including NIM, loan growth and CASA ratio," Anand Rathi said. With CASA growth lagging loan growth, it said narrowing the funding-cost gap could take more time.

The difference was particularly visible in net interest income and margins. HDFC Bank's net interest income (NII) rose 6.7% year-on-year, while its net interest margin (NIM) contracted around 14 basis points sequentially to a multi-quarter low of 3.26%, reflecting its loan mix, lower CASA ratio and elevated funding costs.

ICICI Bank reported stronger NII growth of 12.7%, while its NIM stood at 4.36%. Even after adjusting for the one-off benefit from interest on income-tax refunds, analysts said underlying margins remained broadly resilient. Anand Rathi attributed this partly to ICICI Bank's stronger liquidity position despite faster loan growth.

Asset quality, however, remains a source of strength for both lenders. HDFC Bank's gross non-performing asset (GNPA) ratio stood at 1.17%, compared with 1.38% for ICICI Bank. ICICI Bank had a lower net NPA ratio of 0.35%, against HDFC Bank's 0.41%, and reported credit costs of just 32 basis points, aided by recoveries. Both banks also retain adequate provisioning buffers as the banking system prepares for the transition to the expected credit loss framework.

The comparison, therefore, is less about HDFC Bank losing its position as India's dominant private-sector banking franchise and more about ICICI Bank extracting better returns from its balance sheet at this stage of the cycle. HDFC Bank's scale remains unmatched among private lenders, but the legacy of its merger with HDFC continues to weigh on margins, funding ratios and return metrics. ICICI Bank, having completed its own balance-sheet clean-up and restructuring earlier, is currently in a stronger position to translate growth into profitability.

Analysts remain constructive on HDFC Bank over the medium term, particularly if deposit mobilisation improves, margins recover and the benefits of the merged franchise become more visible. A resolution of the uncertainty surrounding managing director and chief executive officer Sashidhar Jagdishan's tenure could also remove an overhang on the stock.

Nuvama has flagged recent management and governance developments, including the chairman's resignation and other management issues, as factors contributing to uncertainty around the MD's term extension. At the same time, it noted that the bank has a capable leadership team.