ICICI Bank

Estimate Change | BUY

Equity | India | Banks-Retail
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Bank of America Merrill Lynch
RESEARCH

Better earnings quality; Maintain Buy

Rajeev Varma >> +91 22 6632 8666
Research Analyst
DSP Merrill Lynch (India)
rajeev_varma@ml.com

Veekesh Gandhi >> +91 22 6632 8677
Research Analyst
DSP Merrill Lynch (India)
veekesh_gandhi@ml.com

Earnings in line; Quality of earnings improve sharply

While ICICI Bank's 4QFY09 net profit at Rs7.45bn (down 35% yoy) was largely in-line with our est., the quality of the earnings was much better than expected. NIMs expanded by 20bps qoq to 2.6% led by expansion of CASA to 28.7%. NPL accretion (Rs12.5bn) also surprised being at prior quarter levels. The bank, while reiterating its focus on capital preservation (Tier I was >11.8%) is confident of margin improvement in ensuing quarters & NPL accretion peaking at current levels. Results re-affirm our view of the bank being better positioned in FY10.

Earnings positioned to rise by 2H; +25% in FY11

We expect to see some rebound in earnings growth in FY10 (8%) & +26% in FY11 as the bank reaps the benefits of its expanding distribution (& resultant rise in CASA), re-pricing of its liabilities & peaking of the NPL cycle (less credit costs). We also believe there is upside to earnings from its int'l biz. , due to lower investment hits margin expansion.

Reiterate Buy & our Rs570/US$25 (ADR) PO

While we've cut value of subs (15% of SOTP) to Rs144/shr. (owing to weak performance & lower multiples), we're much more positive on the banks' operations, NPL cycle likely peaking (ahead of peers), & upside to earnings. We contend the stock can arguably trade at >1.0x book, 1 year fwd, given its better positioning. Hence, adding Rs144/shr. for subs (20% disc. to sub value) & Rs423 for bank (valued at 1.0-1.1x, 1 year fwd book), 1 year from today, we get our PO.

Estimates (Mar)

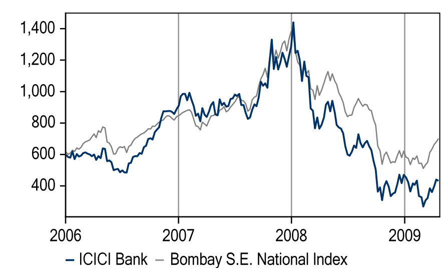
(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	31,102	41,577	37,581	40,426	51,463
EPS	34.96	41.53	33.77	36.32	46.24
EPS Change (YoY)	11.9%	18.8%	-18.7%	7.6%	27.3%
Dividend / Share	10.00	11.00	11.00	13.00	14.00
ADR EPS (US$)	1.55	2.06	1.36	1.46	1.86
ADR Dividend / Share (US$)	0.442	0.546	0.442	0.522	0.562

Valuation (Mar)

	2007A	2008A	2009E	2010E	2011E
P/E	12.4x	10.5x	12.9x	12.0x	9.4x
Dividend Yield	NA	NA	NA	NA	NA
Pre-exceptional PE	12.42x	10.45x	12.86x	11.95x	9.39x
Price / Book	1.99x	1.04x	0.975x	0.930x	0.873x
RoE / PB	6.73x	11.30x	8.03x	8.57x	10.99x
Price / Pre-Provision Profit	6.57x	6.07x	5.41x	4.76x	3.90x

Stock Data

Price (Common / ADR)	Rs434.10 / US$18.08
Price Objective	Rs570.00 / US$25.00
Date Established	26-Jan-2009 / 26-Jan-2009
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs252.30-Rs971.00
Market Value (mn)	US$9,700
Shares Outstanding (mn)	1,113.0 / 556.5
Average Daily Volume	27,143,030
ML Symbol / Exchange	ICIJF / BSE
ML Symbol / Exchange	IBN / NYS
Bloomberg / Reuters	ICICIBC IN / ICBK.BO
ROE (2009E)	7.8%
Total Dbt to Cap (Mar-2008A)	NA
Est. 5-Yr EPS / DPS Growth	24.0% / 12.0%
Free Float	74.0%



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Refer to important disclosures on page 14 to 17. Analyst Certification on Page 12. Price Objective Basis/Risk on page 12.

*iQprofile*SM ICICI Bank

Key Income Statement Data (Mar)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Net Interest Income	56,371	73,041	83,666	87,563	101,701
Net Fee Income	49,748	66,270	65,240	69,556	81,446
Securities Gains / (Losses)	11,954	8,150	4,430	6,590	4,638
Other Income	7,577	13,687	6,367	7,259	9,073
Total Non-Interest Income	69,279	88,108	76,037	83,405	95,158
Total Operating Income	125,650	161,149	159,703	170,968	196,859
Operating Expenses	(66,906)	(81,542)	(70,451)	(69,373)	(72,830)
Pre-Provision Profit	58,744	79,607	89,252	101,595	124,029
Provisions Expense	(21,593)	(26,046)	(37,783)	(45,717)	(53,032)
Operating Profit	37,822	56,561	51,769	56,177	71,497
Non-Operating Income	(670.70)	(3,000)	(300.00)	(500.00)	(500.00)
Pre-Tax Income	36,480	50,561	51,169	55,377	70,497
Net Income to Comm S/Hold.	31,102	41,577	37,581	40,426	51,463
Adjusted Net Income (Operating)	31,102	41,577	37,581	40,426	51,463

Key Balance Sheet Data					
Total Assets	3,446,580	3,997,960	3,793,010	4,068,713	4,661,523
Average Interest Earning Assets	2,719,431	3,388,197	3,475,685	3,435,217	3,799,440
Weighted Risk Assets	2,898,984	3,754,526	3,860,318	4,427,566	5,320,989
Total Gross Customer Loans	1,958,655	2,256,170	2,183,110	2,412,547	2,865,469
Total Customer Deposits	2,305,102	2,444,310	2,183,480	2,401,333	2,760,488
Tier 1 Capital	215,033	441,532	457,934	473,780	498,433
Tangible Equity	243,033	464,710	495,330	519,550	553,561
Common Shareholders' Equity	243,033	464,710	495,330	519,550	553,561

Key Metrics					
Net Interest Margin	2.07%	2.16%	2.41%	2.55%	2.68%
Tier 1 Ratio	7.4%	11.8%	11.9%	10.7%	9.4%
Effective Tax Rate	14.7%	17.8%	26.6%	27.0%	27.0%
Loan / Assets Ratio	56.0%	55.1%	55.9%	56.6%	58.5%
Loan / Deposit Ratio	83.7%	90.1%	97.1%	95.9%	98.8%
Oper Leverage (Inc Growth - Cost Growth)	-4.1%	6.4%	12.7%	8.6%	10.2%
Gearing (Assets / Equity)	14.2x	8.6x	7.7x	7.8x	8.4x
Tangible Common Equity / Assets	7.1%	11.6%	13.1%	12.8%	11.9%
Tangible Common Equity / WRAs	8.4%	12.4%	12.8%	11.7%	10.4%
Revenue Growth	29.6%	28.3%	-0.9%	7.1%	15.1%
Operating Expense Growth	33.7%	21.9%	-13.6%	-1.5%	5.0%
Provisions Expense Growth	171.7%	20.6%	45.1%	21.0%	16.0%
Operating Revenue / Average Assets	4.2%	4.3%	4.1%	4.3%	4.5%
Operating Expenses / Average Assets	2.2%	2.2%	1.8%	1.8%	1.7%
Pre-Provision ROA	2.0%	2.1%	2.3%	2.6%	2.8%
ROA	1.0%	1.1%	1.0%	1.0%	1.2%
Pre-Provision ROE	25.3%	22.5%	18.6%	20.0%	23.1%
ROE	13.4%	11.7%	7.8%	8.0%	9.6%
RoTE	12.8%	8.9%	7.6%	7.8%	9.3%
RoWRAs	1.1%	1.1%	1.0%	0.9%	1.0%
Dividend Payout Ratio	28.6%	26.5%	32.6%	35.8%	30.3%
Efficiency Ratio (Cost / Income Ratio)	58.8%	53.3%	45.4%	42.2%	37.9%
Total Non-Interest Inc / Operating Inc	55%	55%	48%	49%	48%
Market-Related Revenue / Total Revenues	9.5%	5.1%	2.8%	3.9%	2.4%
Provisioning Burden as % of PPP	36.8%	32.7%	42.3%	45.0%	42.8%
NPLs plus Foreclosed Real Estate / Loans	2.2%	3.5%	4.5%	6.3%	6.2%
Loan Loss Reserves / NPLs	68.3%	72.0%	65.5%	75.1%	81.4%
Loan Loss Reserves / Total Loans	1.5%	2.5%	3.0%	4.7%	5.0%
Provisions Expense / Average Loans	1.3%	1.3%	1.7%	2.1%	2.1%

Other Metrics					
Income / Employee	11.42	14.01	13.31	13.68	15.14
(Operating Expenses) / Employee	6.08	7.09	5.87	5.55	5.60
Pre-Provision Profit / Employee	5.34	6.92	7.44	8.13	9.54
Net Profit / Employee	2.83	3.62	3.13	3.23	3.96

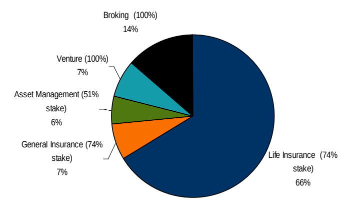
Company Description

ICICI, originally set up to provide direct finance for development of industrial projects, is India's leading financial institution. It has built a strong retail franchise to complement its corporate banking activities and capitalize on the fast growing retail market. It has a multi-channel distribution network, wide product range and a strong brand. Managing growth is the key issue.

Investment Thesis

We are bullish on ICICI Bank as it has built a strong retail franchise to complement its corporate banking activities and capitalize on the fast growing retail market. It has a multi-channel distribution network, wide product range and a strong brand. Other positives - risk-return attractive, beneficiary of macro cycle, rapid gain in market share on distribution leverage and customer acquisition.

Chart 1: SOTP -% contribution by various subs



Source: Banc of America Securities- Merrill Lynch Research Estimates

Stock Data

Shares / ADR	2.00
Price to Book Value	1.0x

Key results summary

ICICI Bank reported profit of Rs7.4bn (down 35% yoy) was in-line with our estimates. But we were positively surprised with the quality of earnings that were much better than expected. In particular, the sharp expansion in margins by 20bps sequentially (qoq) and rise in CASA levels was very encouraging. Further, asset quality also continues to be in line, with NPL accretion (Rs12.5bn) remaining in sync with previous quarter levels (and not spiking).

As a result, net interest income (topline) was 14% higher than our estimates due to the margin expansion as borrowing costs fell. CASA improved by 260bps yoy to 28.7% as expanding distribution enabled the bank to penetrate further. NPL accretion of Rs12.5bn is after adjusting for sell down to asset reconstruction company and write-offs totaling Rs5bn.

Results summary

Key results highlights are:

- The biggest positive surprise was top line as net interest income grew by a 3% yoy v/s. BAS-MLe of 10% contraction (14% higher than BAS-MLe) despite loan book (standalone) de-growing by 3% yoy. However, reported margins were up 20bps yoy and qoq as the bank derived the benefit of lower borrowing costs.

- Loan de-growth was driven principally by the retail book contraction of 16% yoy and flat corporate growth. International advances growth too slowed down to 14% yoy v/s. +50% yoy until 2QFY09. The surprise was the 46% jump in rural loans, largely as the bank stepped up some rural lending in the 4Q to meet its priority sector norms.

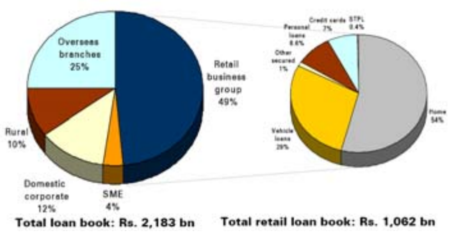
- Core fee income contracted by 34% yoy, resulting in non-interest income de-growth by 29% yoy. This was largely expected as the volume growth has come off sharply as has distribution revenues. Treasury income booked was R2.1bn. Retail still accounts for 50% of fee income; while corporate and international contribute about 35% and 15% respectively.

- ICICI Bank's opex growth was in line with asset de-growth. Operating expenses de-grew by 23% yoy, given the slowdown in retail and corporate lending, the bank abstained from hiring rapidly, rationalized marketing expenses and increased productivity of existing staff and DMA exp.

- Low-cost deposits (CASA) rose by 260bps yoy to 28.7% as new network. Share of retail deposit share increased to 48% from 45% in FY08.

- In absolute levels, gross NPLs (post sell down and write offs) increased by Rs6.6bn as the bank in 4QFY09 wrote-off Rs4bn of retail NPLs (fully provided for). Also, includes Rs1.5bn of sell down to ARC. Adjusting for this, accretion was at Rs12bn (in-line with est.). The encouraging aspect is we have not seen NPL accretion rising relative to prior quarters (unlike for most other banks and sector). Close to 75% of gross NPLs continue to be from retail. 55% of the retail book net NPLs come from unsecured products. For FY09, the bank has written-of Rs18bn and sell down to ARC's was Rs13bn taking the gross accretion to Rs50 in FY09.

Chart 2: Break down of loan book



Source: Banc of America Securities- Merrill Lynch Research Estimates

- The bank also restructured loans worth Rs10bn. This is only about 0.5% of total loans, substantially lower than our expectation of almost 2% (>Rs16-20bn). Majority of the loans did not involve any reduction in rates, as per the bank. It has applications for an additional Rs20bn pending. We typically take a 20% charge in our book value adjustments.

- CAR continues to be comfortable at 15.5%, with Tier 1 at 11.8%, as per revised RBI guidelines on Basel 2 norms.

Table 1: 4QFY09 results summary

(Rs mn)	4QFY08	4QFY09	YoY
Interest earned	80,293	75,297	-6.2%
- on Advances / Bills	58,262	51,998	-10.8%
- Income on investments	20,088	18,740	-6.7%
- on bal with RBI and other banks	1,166	1,054	-9.6%
- Others	777	3,505	351.3%
Interest Expended	59,498	53,909	-9.4%
Reported Net Interest Income	20,795	21,388	2.9%
Other income	23,617	16,737	-29.1%
- Fees and commissions	21,977	14,597	-33.6%
- Profit on sale of investments	1,640	2,140	30.5%
Operating income	44,411	38,125	-14.2%
Total Operating expenses	21,505	16,571	-22.9%
Operating profit	22,907	21,555	-5.9%
Provisions and contingencies	9,475	10,845	14.5%
- NPL Provisions	7,903	10,845	37.2%
PBT	13,432	10,709	-20.3%
Provision for Tax	1,933	3,272	69.2%
PAT	11,498	7,438	-35.3%

Source: Banc of America Securities- Merrill Lynch Research Estimates

International book

UK subsidiary

- UK sub reported a net profit of US$6.8mn in FY09 (US$5.4mn for 4Q v/s US$1.4mn for the 9MFY09), after reporting a net loss of US$36mn in H1FY09. The bank, post revised FSA guidelines, had in 3QFY09 transferred its investments from trading book to banking book, which effectively means that all MTM losses are going to be booked through the net worth as opposed to the P&L hit. Total hit through balance sheet in FY09 was US$164mn (post-tax).

- The CAR stands at 18.4% owing to the re-classification mentioned above. The losses booked through reserves are excluded in calculation of CAR, per UK Regulatory Authority.

- Total Assets of UK arm were at US$7.3bn (US$7.6bn in 3QFY09; US$8.7bn in H1FY09), deposits at US$4.6bn, of which 38% are term deposits for period ranging from 12-18 months. Proportion of retail term deposits in total deposits increased from 16% at FY08 to 58% at FY09. Of the total assets of US$7.3bn, 45% (36% in 3QFY09) are loans and advances to customers (80% Indian corporates); 4% are India-linked investments (6% as in 3QFY09); 15% (21% in 3QFY09) is cash and liquid investments; 4% (6% in 3QFY09) is asset-backed investments.

- 100% of non-India investments are rated investment grade, 90% of which are rated ‘A-‘ or higher.

Canada Subsidiary

- Canada subsidiary asset book stands at CAD$6.4 (CAD$6.5bn in 3QFY09), with deposits of CAD$5.1 (CAD$5.4bn in 3QFY09), 70% term deposits.
- Net profit of Canada arm is at CAD$33.9 (CAD$32.9mn in 9MFY09). The <CAD$1mn in profits in 4QFY09 is due to bank marking down (by ~40%) its asset backed securities.
- CAR of Canada arm is at 19.9% (16.1 in 9MFY09).
- 64% (55% as on 9MFY09 of Canadian assets are loans (80% to Indian corporates), 14% (23% in 9MFY09) cash and liquid securities, 14% (17%in 9MFY09) federally insured mortgages, 3% India linked investments, 2% asset-backed securities, and the balance other assets.

Eurasia Subsidiary

- Total assets of US$441mn at FY09 compared to US$772mn at Dec'07. The change has to do with management consciously not growing its balance sheet and allowing all loan re-payments during the period.
- Total borrowings of US$357mn at FY09
- Capital adequacy of 15.1% as on FY09
- Net profit of US$2mn for the year ended Dec'08

Below we have tried to estimate the hits taken by the bank since FY08 for its various investments in UK book and CDS paper on banks balance sheet. We estimate that the bank has taken a hit of 3.0-3.5% of its balance sheet in UK during FY09 (see details inside).

Other subsidiaries

ICICI Bank's other subs, collectively reported a 7% yoy growth in profits in FY09, although the 4Q was tough for most of them as markets remained challenged, with AMC Broking, and PD biz. arm reporting a sharp contraction in earnings on weak equity and debt markets. ICICI HFC also reported a 40% yoy contraction in profits.

The only encouraging aspect (in relation to the subs) was the sharp reduction in losses by ICICI Pru Life Insurance Rs7.8bn in FY09 from Rs14bn in FY08. This was primarily owing to the sharp slowdown in the business growth, a strategy the company expects to follow in FY10 too.

Table 2: Profitability of domestic subs

	4QFY09	9MFY09	QoQ grth	FY08	FY09	YoY grth
ICICI Sec.	-210	250	NA	1500	40	-97%
ICICI PD	-510	3230	NA	1400	2720	94%
ICICI Ventures	60	1420	-96%	900	1480	64%
ICICI AMC	-290	300	NA	820	10	-99%
ICICI HFC	540	890	-39%	700	1430	104%

Source: Banc of America Securities- Merrill Lynch Research Estimates

Better positioned to manage FY10 challenges

Post 4QFY09, we were encouraged by the better quality of earnings and positive management guidance relating to asset quality and margins. We reiterate that ICICI Bank appears to be much better positioned to manage the challenges during FY10 owing to its ability to acquire customers at a rapid pace (supported by its expanded branch network as well as additional +580 new licenses), expand its CASA as it expands distribution (and savings accounts), leveraging its technology platform for both risk management and in tapping new fee based opportunities.

To benefit from expanded distribution; falling rates

We believe savings deposits could see a much sharper jump in coming quarters as it benefits from both its expanded distribution, especially as it has got licenses for an additional +580 branches. This should directly impact its CASA levels positively. Further, the bank is also a key beneficiary of falling rates as almost ~50% of its deposits are wholesale that would get re-priced downwards (by almost 300-400bps).

Likely to be less impacted by the expected NPL spike in sector

Further, we believe IBank is also likely to be less impacted by the expected spike in NPL's in the SME segment. The bank has the lowest exposure across banks to SME's (4% of loans). Moreover, we believe the bank probably has the most 'seasoned' book amongst all banks as it has not been growing its loan book for the past 18 months and we are beyond the mid-way in the retail NPL cycle. The bank also mentioned (during analyst call) that retail NPL formation may begin to fall in the next few quarters. We are, however, factoring in a sustained NPL cycle through FY10, building in some rise in the corporate book.

Table 3: Asset Quality

(Rs bn)	FY06	FY07	FY08	FY09	FY10	FY11
Gross NPL's (excl w/o)	29.6	42.1	76.1	96.4	144.9	168.1
Write Offs + Sell Downs	6.0	6.4	7.4	37.4	37.4	37.4
Gross NPL's + W/o's	35.6	48.5	83.5	133.8	182.3	205.5
Net accretion	-15.8	12.9	35.0	50.3	48.5	23.2
% % of book (1-yr lag)	NA	0.9%	1.7%	2.2%	2.1%	0.9%
Restructured Loans	53.2	48.8	42.5	53.0	83.0	100.4
Total Distressed Loans	82.8	90.9	118.6	149.4	227.9	268.5
Net NPL's (Rs bn)	16.8	20.3	33.5	45.5	48.4	43.5
As % of total loans (%)						
Gross NPL's (% of loans)	2.0%	2.1%	3.3%	4.3%	5.7%	5.6%
Restructured Loans (% of loans)	3.5%	2.4%	1.8%	2.3%	3.3%	3.3%
Total Distressed Loans (% of loans)	5.5%	4.5%	5.1%	6.6%	9.0%	8.9%
Provision coverage (% of NPL's)	43%	52%	56%	53%	67%	74%
Coverage (% of distressed loans)	23%	32%	46%	42%	48%	51%
Cumul. Provisions / Gross NPL's (%)	64%	68%	72%	65%	75%	81%
Cumul. General Provisions / Loans	0.39%	0.36%	0.54%	0.56%	0.51%	0.43%
Net NPL's (% of loans)	1.1%	1.0%	1.46%	2.1%	2.0%	1.5%
Net NPl's (incl. All provis) (% of loans)	0.7%	0.7%	0.9%	1.5%	1.5%	1.1%
Net Distressed Loans (% of loans)	4.3%	3.1%	2.8%	3.9%	4.9%	4.5%
Specific Provisions / Loans	0.30%	0.73%	0.92%	1.73%	1.89%	1.85%
General provisions / Loans	0.22%	0.37%	0.23%	0.00%	0.00%	0.00%
Total Provisions / Loans	0.52%	1.10%	1.15%	1.73%	1.89%	1.85%
Net NPLs / cust. Assets	0.7	0.7	0.9	1.5	1.5	1.1
Net NPls + restruc. Loans / cust assets	4.3	3.1	2.8	3.9	4.9	4.5

Source: Banc of America Securities- Merrill Lynch Research Estimates

Amongst the best capitalized banks

Finally, ICICI Bank is also amongst the best capitalized banks in India. Its Tier I is at +11.8% and is forecast to remain at above 10.5% through FY10 and possibly in FY11 over +9.5% as the bank has markedly moderated its asset growth. Hence, in our view, the bank is unlikely to require any additional capital for at least the next 2 years.

Earnings Outlook

For FY10, earnings should see an improvement at operating level; though trading profits may be weak. Top line growth should still be very low at 5-6% driven principally by some pick up in volume growth and benefits from restructuring of liabilities. We also hope to see some pick up in fees that have seen a sharp growth moderation in FY09.

We think it is very possible that by end of CY09 IBank may begin to alter its strategy and begin focusing on growing its loan book again, especially in select retail segments (including housing) once rates fall sharply.

Key assumptions driving earnings

- We are estimating loan book to grow by <10% for FY10 on back of some pick up in the corporate loans and potentially re-financing of some external commercial borrowings. Retail loans may see some fresh contraction in the 1H; though we could see some positive growth in the mortgage biz. if we also factor in the lending being done through its housing finance subsidiary (where most of the home loans are being booked).

- The key aspect is that the bank is changing its deposit mix. The expanded branch distribution would help the bank raise the level of savings deposits that is likely to grow by +20-25% through FY10-11. As a result share of CASA deposits should begin to rise to +31% by FY10 and 33% by FY11.

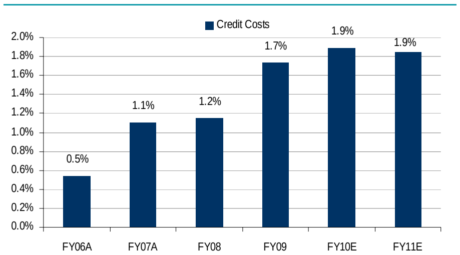
- Margins are also forecast to expand to +2.6% in FY10 and 2.7% in FY11 from 2.4% in FY09 as the bank benefits from re-pricing of wholesale deposits and as retail deposit rates come down systemically. It is worth noting that margins in the 4QFY09 were already at 2.6%.

- Fee revenues, linked to loan growth, also likely to see modest growth in FY10 at 5-6% as loan growth remains modest. It should potentially see a much stronger rebound in FY11 (leaving room for upside) as loan growth picks up and we see any pick up in equity linked products (mutual funds and insurance).

- Asset quality should be manageable; even though we factor in NPL accretion at around Rs12bn every quarter. As a % of loans, gross NPL's forecast to rise to +5.5% due to muted loan growth. Net NPLs could rise to +2.0%.

- Leverage its branch distribution, that has doubled between Mar'09 v/s Mar'08. Further, it has new branch licenses for additional +580. We believe the market is under estimating the impact of customer acquisition on both retail fees and CASA deposits. This should be visible in FY10.

Chart 3: Credit Costs



Source: Banc of America Securities- Merrill Lynch Research Estimates

Upside to earnings not captured

While earnings came in lower than estimated for FY09 due to lower treasury gains and fees, we believe that there is upside to earnings as we continue to build in lower vol. growth for international biz. lower fees and also there could be upside from lower credit costs than estimated by us in FY10/11.

International Book remains 'wild card'

The bank has been letting its international book run down given the high cost of borrowings in global markets for the bank. However, the international biz. can potentially be its 'wildcard' as it is still seeing deposit accretion at its UK and Canadian subsidiaries. This should eventually help lower its funding costs as it substitutes some of its high cost borrowings through deposits. Moreover, the demand from Indian companies (that have taken ECBs) still remains high. We could potentially see a more visible uptick in growth in the latter half of FY10. Further, this is coming off a low base.

Further, the ALM mismatch appears to be very manageable. For instance, the bank can resort to bilateral tie ups with global banks that have operations in India and need rupee liquidity, which the bank is able to provide against forex loans overseas. It has about US$2bn of liabilities that are likely to be re-financed; while against that it also has assets of US$1bn that would mature. Hence, the mismatch is <US$1bn.

Table 4: Int'l Book

US$bn; Mar'09	UK	Canada	Eurasia	Int'l branches	Total Int'l	Parent	Consolidated	UK -% of Cons.	Canada -% of Cons.
Loans	3.3	4.1	0.3	10.8	7.7	43.0	50.7	6.5%	8.1%
Investments	2.6	1.1	0.0	1.1	3.8	20.3	24.1	10.9%	4.5%
Cash & Others	1.4	1.1	0.1	NA	2.6	11.6	14.2	12.0%	7.7%
Total Assets	7.3	6.4	0.4	12.3	14.0	74.9	89.0	8.2%	7.2%
Deposits	4.6	5.1	0.0	NA	9.7	43.1	52.8	8.7%	9.7%
Borrowings / Others	2.3	0.3	0.4	12.3	2.9	22.0	24.9	9.1%	1.3%
Equity	0.4	1.0	0.0	NA	1.4	9.8	11.2	3.9%	8.5%
Liabilities	7.3	6.4	0.4	12.3	14.1	74.9	89.0	8.2%	7.2%

Source: Banc of America Securities- Merrill Lynch Research Estimates

Further, there is liquidity in its overseas subsidiaries, which, in our view, could also be tapped if required. Its Canadian subsidiary raised US$0.5bn of deposits last quarter itself (barring exchange rate fluctuations); and the bank has changed the deposit mix of its UK subsidiary with 58% (36% in H1FY09) being retail term deposits (<16% as on FY08; >12 months duration) that can potentially be tapped into, if required.

Int'l biz. pegged at amount invested in biz; 0.8-0.9x book

We are pegging the value of its international businesses to the amount of capital invested by ICICI Bank in these subsidiaries. This was around US$1.4bn as of FY09 (see table). Assuming the bank invests an additional US$0.2-0.3bn in these ventures next year (infused US$0.4bn in FY09, especially as capital adequacy of both UK and Canada is >18% now), the aggregate investment in these subs. is estimated to be around US$1.5bn by FY10.

We assign the same value for the biz.; though the book value would arguably be >US$1.8bn (net worth is US$1.4bn as of Mar'09). On per share basis, this works out to Rs59/shr for FY10 and Rs67/shr. for FY11. Hence, the overseas subsidiaries are being effectively valued at 0.8-0.9x book. This, in our view, actually leaves potential room for upside if global markets see an improvement.

Subsidiaries value cut to reflect weaker perf.

We've cut our FY10 subs value by 15% to Rs128/share to reflect the weaker FY09 performance & lower growth. Further, we continue to assign lower multiples for the biz., given their linkages to equity markets that remain very volatile.

The silver lining is that the life insurance company has almost halved its loss from Rs14bn in FY08 to Rs7.8bn in FY09. The company expects to break-even in next two years. Further, from a valuation perspective, if equity markets continue to see a rally, markets may begin ascribing higher multiples and hence higher value to these biz. in ensuing quarters.

Below, we show our current value of the subs. The int'l. biz., as detailed above is valued at cost. We also deduct the same value while computing the standalone value of the bank.

Table 5: SOTP

SOTP Non-Banking Subs - US$ mn	FY08	FY09	FY10	FY11
Life Insurance - 13x NBAP	4,704	3,519	3,758	4,159
General Insurance -12x FY10	386	75	369	409
Asset Management - <3% of AUMs	436	343	392	460
Venture- 10% of AUMs	227	225	255	288
Broking - 8x FY10 earnings	728	554	528	635
Mkt value of Non-Banks Subsid.	6,480	4,716	5,302	5,951
Aggregate SOTP - Per Share	FY08	FY09	FY10	FY11
Life Insurance (74% stake)	126.6	94.7	101.1	111.9
General Insurance (74% stake)	10.4	2.3	11.2	12.4
Asset Management (51% stake)	9.1	7.2	8.2	9.6
Venture (100%)	8.2	9.2	11.1	12.6
Broking (100%)	26.5	20.1	19.2	23.1
Total of Non-Bank Subs / Share (pre- Holdco disc.)	181	133	151	170

Source: Banc of America Securities- Merrill Lynch Research Estimates

Stock trading at 0.8x FY10 adj. BV; can trade upto 1.0-1.1x

The stock is trading at 1.0x FY10 book if we assign 'NO' value to its subs and after deducting Rs144/shr for its subs value, the stock is trading at 0.7-0.8x FY10 book. Our adj. book assumes 100% NPL coverage on forecast NPL's which, as discussed above as we factor in an extension of the NPL cycle.

Table 6: Final Value

	FY08	FY09	FY10	FY11
Networth (Rs bn)	461	492	516	550
Less: Adj. for NPLs + Restructured. (Rs bn)	32	44	53	51
Adjusted BV (Rs bn)	429	448	463	499
Adj. BV (Per Share)	386	402	416	448
Less : Investment in Subs etc (Rs Shr)	34	48	56	64
Adj. BV for subs + NPLs(Rs Shr)	352	355	360	384
Value of Subs (Rs / Share)	181	133	151	170
Final Subs Value (Post Disc. = 20%)	154	113	128	144
Bank CMP	430			
Value of stand alone bank (CMP-Subs)	276	317	302	286
P/ Adj. BV (ex-Subs)	0.8	0.9	0.8	0.7
P/ Adj. BV	1.1	1.1	1.0	1.0

Source: Banc of America Securities- Merrill Lynch Research Estimates

We do believe the stock offers value at these levels given its overall strong retail franchise; positioning for FY10, better capitalization and expected improvement in operating earnings.

Hence, we believe the stock, one year from today, can arguably trade up to at least 1.0-1.1x book, one year forward (FY11 book in Apr'10) *adjusted* book. This is despite its lower ROE (8%, rising to 9.6% by Fy11) as the ROE itself is depressed owing to capital infusion of almost US$2bn in its various ventures on which it earns minimal today.

Bank + Subs Value (20% discount) = PO

We arrive at our final price target of Rs570 after assigning a 20% discount to the value of the subsidiaries – akin to a holding company discount. Hence, we add Rs144/shr. (Rs128/shr for FY10), underpinning our PO of Rs570.

Financials

Table 7: Profit and Loss Account

Year to March (Rs mn)	FY08	FY09E	FY10E	FY11E
Interest income	307,883	310,926	288,834	314,987
Interest expense	234,842	227,259	201,271	213,286
Net interest income	73,041	83,666	87,563	101,701
Other income	88,108	76,037	83,405	95,158
- Treasury Gains	*8,150*	*4,430*	*6,590*	*4,638*
Total income	161,149	159,703	170,968	196,859
Operating expenses	81,542	70,451	69,373	72,830
Pre-provision profit	79,607	89,252	101,595	124,029
Provisions	29,046	38,083	46,217	53,532
Provision - NPL	*20,806*	*37,783*	*45,717*	*53,032*
PBT	50,561	51,169	55,377	70,497
Tax	8,984	13,588	14,952	19,034
Net Income	41,577	37,581	40,426	51,463

Source: Banc of America Securities- Merrill Lynch Research Estimates

Table 8: Balance Sheet

Year to March (Rs mn)	FY08	FY09E	FY10E	FY11E
Cash balances	380	300	215	204
Advances	2,256	2,183	2,413	2,865
Investments	1,115	1,031	1,114	1,207
Total Assets	3,998	3,793	4,069	4,662
Shareholders' funds	465	495	520	554
Preference Capital	4	4	4	4
Deposits	2,444	2,183	2,401	2,760
Borrowings	864	928	959	1,155
Current liabilities	221	183	186	189
Total Liabilities	3,998	3,793	4,069	4,662

Source: Banc of America Securities- Merrill Lynch Research Estimates

Table 9: Key Ratios

	FY08A	FY09E	FY10E	FY11E
EPS	37.36	33.77	36.32	46.24
Earnings growth	6.8%	-9.6%	7.6%	27.3%
PPP / Share	71.5	80.2	91.3	111.4
BV/share	414	442	464	494
Adjusted BV / Share	386	402	416	448
ROAA	1.12%	0.96%	1.03%	1.18%
ROAE	11.7%	7.8%	8.0%	9.6%
NIM	2.2%	2.4%	2.5%	2.7%
Gross NPLs	3.3%	4.3%	5.7%	5.6%
Net NPLs	1.5%	2.1%	2.0%	1.5%
Coverage Ratio	56%	53%	67%	74%
Total Capital Adequacy Ratio (CAR)	14.0%	15.5%	14.2%	13.0%
- Tier I CAR	11.8%	11.8%	10.7%	9.4%
L/D ratio	90%	99%	100%	104%
Cost-Income ratio (Excl Treasury)	53.3%	45.4%	42.2%	37.9%
Other Inc (Ex treas) / Total Inc (Ex Treas)	21%	19%	21%	22%
Cost Asset Ratio	2.0%	1.9%	1.7%	1.6%
Equity / Assets	11.6%	13.1%	12.8%	11.9%
Equity / Loans	21%	23%	22%	19%
Specific Provision/ Loans	0.92%	1.73%	1.89%	1.85%
Total provis. / Loans	1.15%	1.73%	1.89%	1.85%
CASA	26.1%	28.7%	31.3%	33.0%
Tax Rates	18%	27%	27%	27%
Yield on Advances	10.7%	10.0%	9.3%	9.0%
Yield on Investments	7.9%	7.8%	7.3%	7.2%
Cost of funds	7.4%	7.1%	6.2%	5.9%
Dividend per Share	11.0	11.0	13.0	14.0
Dividend Payout	33%	36%	40%	34%
Dividend yield	2.5%	2.5%	3.0%	3.2%
P/E (assuming subs value = NIL)	11.8	13.0	12.1	9.5
P/PPP	6.2	5.5	4.8	3.9
P/ABV (assuming subs value = NIL)	1.14	1.09	1.06	0.98
P/ABV (excl subs)	0.7	0.8	0.7	0.7
PER (excl subs)	7.7	9.7	8.6	6.4

Source: Banc of America Securities- Merrill Lynch Research Estimates

Price objective basis & risk

ICICI Bank (ICIJF / IBN)

Our PO is Rs570. ICICI Bank, while exposed to the global market vagaries, appears much better positioned, relative to its peers to brace the challenges in CY09 in the domestic market. Beginning with having the lowest % exposure to SME and also the lowest loan growth in the past 2 years, it should, in our view, be the least impacted from a possible spike in SME NPLs. Further, despite having only 20% G-secs in its AFS portfolio, it is a key beneficiary of falling rates owing to high % of wholesale deposits and also benefits from the expanded branch distribution (+1430 currently, has got license for 580 new branches) that should further help the bank to expand its customer base (and CASA deposits). The stock is trading at 1.0x FY10 book if we assign NO value to its subs and after deducting Rs144/shr for its subs value, the stock is trading at 0.7-0.8x FY10 book. Hence, we believe the stock could still trade up to 1.0-1.1x book on a standalone basis. Risks are a sharp rise in NPLs or the investment hits arising from the CDO/domestic investment book or inability to grow.

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India - Financials Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
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	Corporation Bank	XCRRF	CRPBK IN	Veekesh Gandhi
	HDFC	HGDFF	HDFC IN	Rajeev Varma
	HDFC Bank	HDB	HDB US	Rajeev Varma
	HDFC Bank	XHDFF	HDFCB IN	Rajeev Varma
	ICICI Bank	ICIJF	ICICIBC IN	Rajeev Varma
	ICICI Bank - A	IBN	IBN US	Rajeev Varma
	IndiaBulls Finan	IBLFF	IBULL IN	Rajeev Varma
	Indian Bank	INDIF	INBK IN	Rajeev Varma
	Max India	XMXIF	MAX IN	Rajeev Varma
	Punjab	PUJBF	PNB IN	Rajeev Varma
	Reliance Capital	RLCCF	RCFT IN	Rajeev Varma
	SBI	SBINF	SBIN IN	Rajeev Varma
	SBI -G	SBKFF	SBID LI	Rajeev Varma
	Union Bank India	UBOIF	UNBK IN	Rajeev Varma
NEUTRAL				
	Bank of Baroda	BKBAF	BOB IN	Rajeev Varma
	Infrastruct Dev	IFDFF	IDFC IN	Rajeev Varma
UNDERPERFORM				
	Axis Bank	UTBKF	AXSB IN	Rajeev Varma
	Axis Bank - GDR	UTIBY	AXB LI	Rajeev Varma
	Canara Bank	CNRKF	CBK IN	Rajeev Varma
	Federal Bank	XFDRF	FB IN	Veekesh Gandhi
	IDBI	XDBIF	IDBI IN	Veekesh Gandhi
	ORBC	ORBCF	OBC IN	Rajeev Varma
	Vijaya Bank	VJYAF	VJYBK IN	Rajeev Varma
	Yes Bank Ltd	YESBF	YES IN	Veekesh Gandhi

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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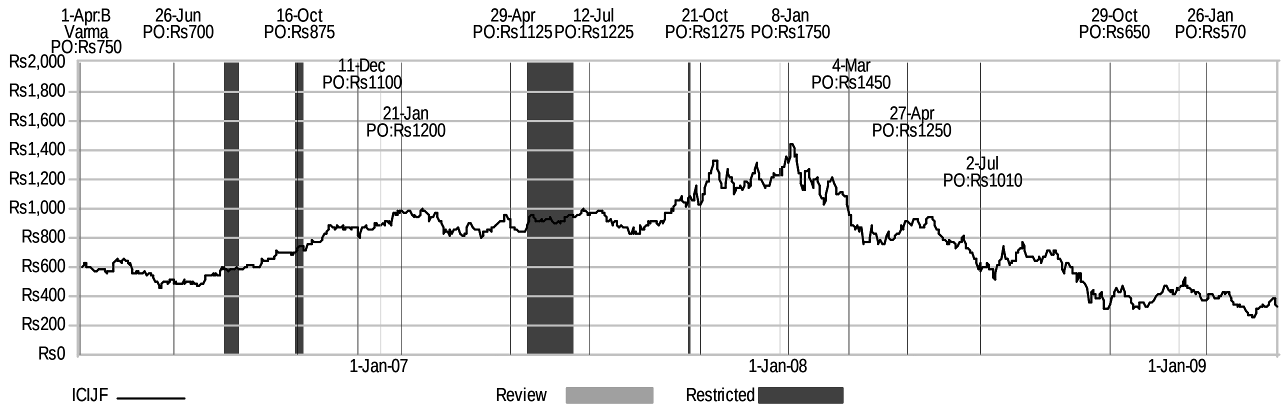
Important Disclosures

ICIJF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of March 31, 2009 or such later date as indicated.

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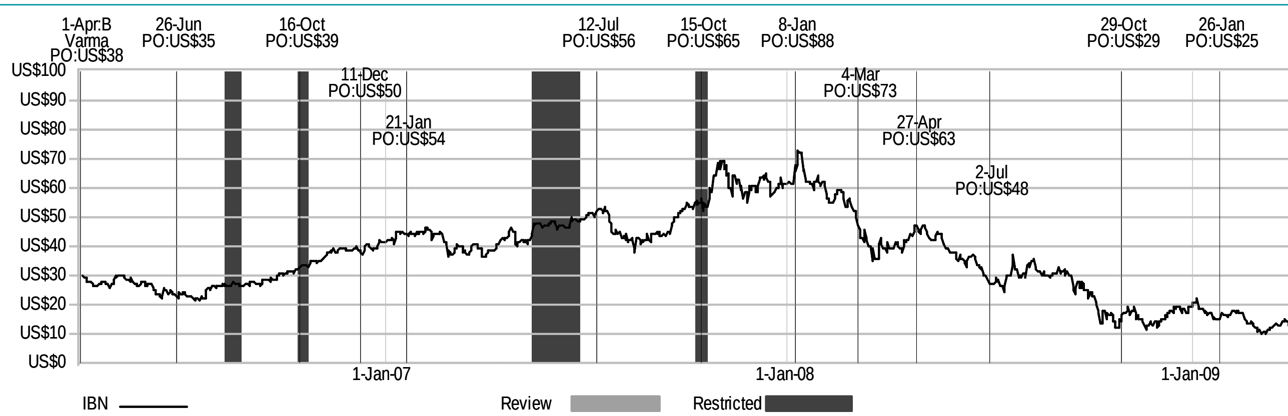
IBN Price Chart



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Investment Rating Distribution: Banks Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	66	26.83%	Buy	27	49.09%
Neutral	61	24.80%	Neutral	31	57.41%
Sell	119	48.37%	Sell	63	60.58%

Investment Rating Distribution: Global Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1243	38.21%	Buy	520	46.39%
Neutral	841	25.85%	Neutral	349	47.04%
Sell	1169	35.94%	Sell	388	36.30%

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