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Flash Update

ICICI Bank

Bloomberg: ICICIB IB

Buy

Price: Rs. 572

Target Price (Aug 09): Rs. 1,000

US Bail-out Plan to Reduce Risk

- US Treasury's USD 700 bn bail-out plan** could get approved by the US Congress next week. The plan, if approved, would be a positive for ICICI Bank and reverse the stock's recent underperformance.
- Bail out plan to reduce credit risk on ICICI UK Bank's Investment book** - The current investment book of ICICI UK is ~USD 4.7bn, of which close to 2/3rd (i.e. ~USD 3.1bn) is the exposure towards global financial companies in the form of debt securities. The bail-out would ensure that there are no further major bankruptcies, which should significantly reduce the credit risk on ICICI Bank's investment book. The break-up of exposure towards global banks in terms of US/European banks or banks /investment banks is not known.

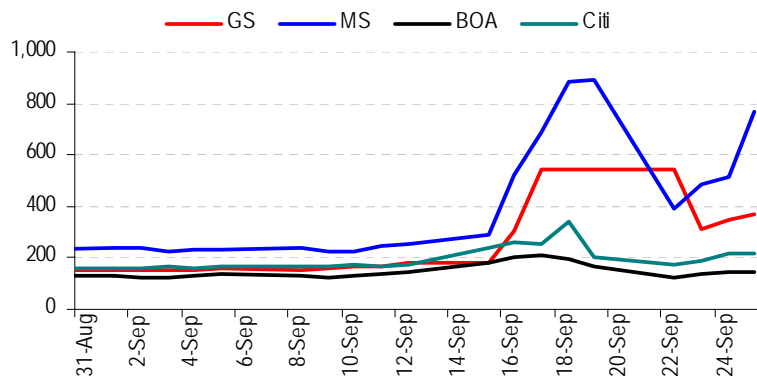
Exhibit 1: ICICI UK Investment Book

Current ICICI UK Investment book	USD mn
Global Banks	3,133
RMBS	600
Others	967
Total	4,700

Source: Company, JM Financial

- CDS spreads would also contract** - The bail-out programme should also lead to contraction in credit spreads, which should positively impact ICICI Bank. As shown in Exhibit 2, post the Lehman bankruptcy, CDS spreads for Morgan Stanley has widened from ~290 bps to ~892 bps. However, post the news of the bail-out proposal the spreads have narrowed.
- However, ICICI UK might be required to take considerable MTM hit in Q2'09 as the positive impact on yields due to bail-out plan (if passed) would possibly be visible post 30th Sept'08. Consequently, 3Q'09 should witness a reversal of MTM provisions.

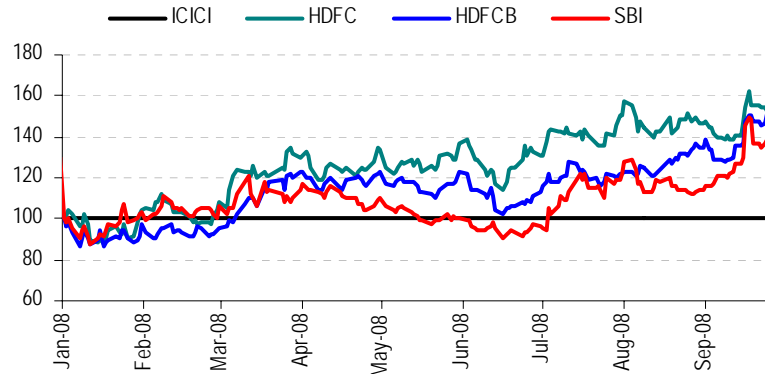
Exhibit 2: CDS Spreads of major US Financials



Source: Company, JM Financial

- Recent stock under-performance would reverse** - Due to the recent global uncertainty, ICICI Bank has significantly underperformed its peers on account of its exposure to international business and domestic issues. In our opinion, if the bail-out programme gets cleared by the US Congress, the recent underperformance would reverse.

Exhibit 3: ICICI Bank: Relative Performance on stock Price basis



Source: Company, JM Financial

- Risks:** If the bail-out plan does not get approved, we would possibly witness more bankruptcies. Any exposure towards bankrupt companies would impair ICICI UK Bank's investment book (as in the case of Lehman). It would also result in widening of credit spreads resulting in further MTM hit.
- Our View:** The recent developments in US financial markets have considerably heightened the credit and market risk on ICICI UK investment book. However, the bail-out plan is expected to provide significant relief. We also believe ICICI parent would undergo significant fundamental improvements which would result in core banking profitability for ICICI Bank to improve significantly going ahead, driven by a) margin improvement (supported by substantial improvement in its liabilities franchisee) b) fee to assets improvement and c) cost to assets improvement (refer to our initiation report on ICICI Bank dated 10th Aug'08). We also expect NPL trends to stabilise from FY10 onwards for ICICI Bank. **We reiterate our bullish view on ICICI Bank.**

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