ICICI Bank

Consolidation off, growth on

Outperform

Rs 889

Target price: Rs 1,041

Financial services

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Bloomberg code	ICICIBC IN
Reuters code	ICBC.BO
3m avg. traded value (Rs mn)	6131.9
52-wk H/L (Rs)	983.7/252.8
Sensex	16498.8
Mcap (US$ mn/Rs bn)	21321.8/989.9

Shareholding (%)

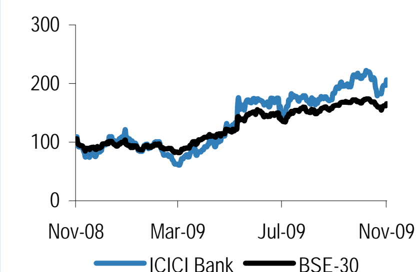
	Sep-09	Jun-09
Promoters	-	-
MFs, FIs, banks	24.5	23.5
FIIs	66.1	66.3
Others	9.5	10.3

Stock performance (%)

	1m	6m	1yr
Absolute	-1.4	70.7	106.1
BSE 30 Index	-0.9	38.9	65.6

Share price performance

Base = 100



Source: Bloomberg, Capitaline.

With the final 'C' of their 4C strategy, credit quality, falling in place, we believe ICICI Bank is set to switch from consolidation to the growth phase with a leaner and more robust business model. RoA will witness meaningful improvement to 1.3% by FY11E, a key rating trigger. We upgrade the stock to Outperform. We value the core book at 1.85x in the interim, with the potential for further re-rating as return ratios improve. Valuing the subsidiaries at Rs 287, we arrive at a revised target price of Rs 1,041—a potential upside of 18% over the next 12 months.

- **Consolidation over; growth set to return**
  The success of the bank's 4C strategy has been exemplary and ahead of our expectations. With a 37% cost-to-income ratio, it has become one of the most efficient Indian banks. Low-cost deposits, particularly savings deposits which registered 11% growth QoQ, have put the October 2008 negative news flow to rest. With Tier-1 at 13.3%, ICICI Bank is well capitalised to withstand asset-quality shocks and take advantage of emerging growth opportunities. Asset-quality concerns have abated with NPL formation peaking in 1Q FY10.

  We believe the migration to better-quality assets and lower-than-average restructured pool will restrict further asset-quality shocks. With an improved liability profile and exit from the volatile credit derivatives portfolios, we believe the bank's international subsidiaries are in a much better position to withstand any new potential global financial shocks. With all the 4Cs of the strategy in place, we expect ICICI Bank to return to the growth phase soon.

- **Re-rating in progress**
  On the back of improving core performance and lower credit cost, we expect ICICI Bank to deliver an 18% compound annual growth rate (CAGR) in profits over FY09–11. RoA will likely improve to 1.3% in the near term; however, RoE will pick up slowly due to lower leverage. Hence, in the interim period, we value the core book at 1.85x FY11E adjusted book with the potential for further re-rating as return ratios improve (core ROE has the potential to improve to 17-18% by FY13E). We upgrade the stock from Neutral to **Outperform**, with a target price of Rs 1,041.

Figure 1: Key financials

Units as shown, year-end March

	FY09	FY10E	FY11E	FY09-11E CAGR
EPS (Rs)	33.8	37.1	46.9	17.9
ABVPS (Rs)	404.0	432.1	468.5	7.7
P/E (x)	26.3	24.0	18.9	-
P/ABV (x)	2.2	2.1	1.9	-
ROE (%)	7.8	8.1	9.6	-

Source: Company data, Reliance Equities estimates.

Please refer to the important disclosures on the last page.

Summary

We are turning positive on ICICI Bank as the ‘credit quality’ portion of the 4C— current and savings account (CASA), cost control, capital consumption and credit quality—strategy outlined by the bank is within control. We had rated the stock Neutral despite the fact that the bank was successful in the other pillars of its consolidation strategy and because deterioration in the credit environment was delaying credit quality improvement. Now, with all the 4Cs falling in place, we expect ICICI Bank’s performance to enter the growth phase with a fitter and leaner business model. We expect core profitability to improve (with RoAs likely to witness meaningful improvement from 1% to 1.3% by FY11). However, return on equity (RoE) improvement will lag given the bank’s low leverage. With an improved liability profile and given its exit from the volatile credit derivatives portfolios, we believe the bank’s international subsidiaries are in a much better position to withstand any further global financial shocks. We value the core book at 1.85x in the interim, with the potential for further re-rating as return ratios improve. Valuing the subsidiaries at Rs 287, we arrive at a revised price target of Rs 1041—a potential upside of 18% over the next 12 months.

4Cs: Where do we stand now?

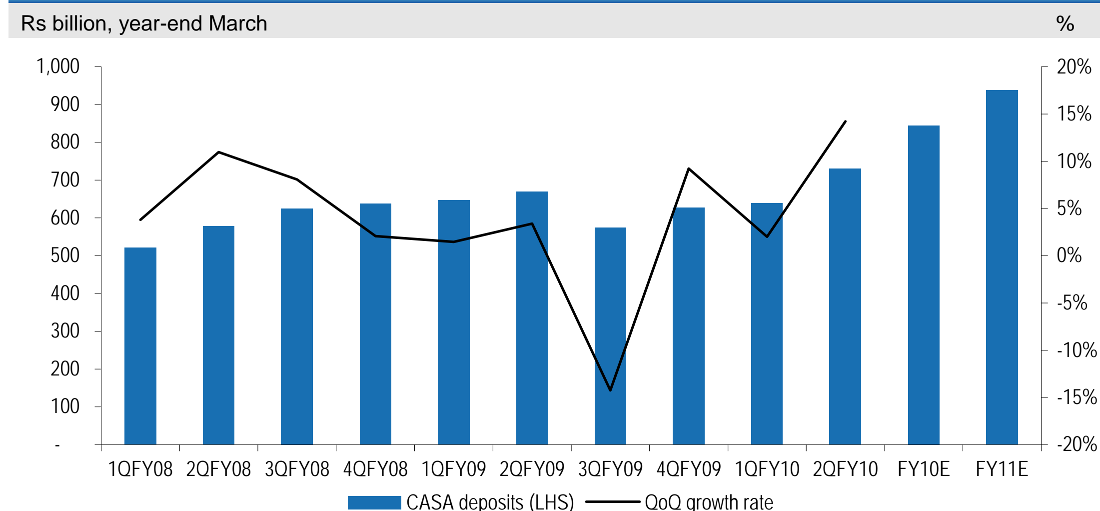
Hit by multiple factors—asset quality pains and marked to market (MTM) woes on the international book—management had started focusing on consolidation by adopting a four-pronged strategy in FY08. Growth took a back seat, as management consolidated the retail portfolio, reined in delinquencies, focused on improving its liability franchise, re-jigged the business model and concentrated on cost containment. As demonstrated by the bank’s 2Q results, all the 4Cs are falling in place—the last one being credit quality. This ensures that the bank has built a sustainable business model, which is well placed to capitalise on the next upturn.

CASA: 40% by FY10E—Phenomenal success

Improving the bank’s liability profile is at the cornerstone of managements’ consolidation strategy. Management’s focus on improving the share of low-cost deposits is delivering commendable results. After a severe hit on the bank’s image post the bankruptcy rumours, which potentially derailed the CASA improvement process (in 3Q FY09, saving bank deposits declined by 10.7% QoQ), ICICI Bank has come back stronger. In 3Q FY09, saving bank deposits grew 10.9% QoQ—absolute accretion of Rs 48.6 billion, in line with HDFC Bank—leading us to believe that the negative public perceptions about ICICI Bank no longer linger. ICICI Bank also benefited from the inflow of float money in 2Q FY10 on account of a pick-up in corporate fund-raising activity—in all leading to CASA accretion of Rs 90.9 billion (up 14% QoQ). The CASA ratio improved by 650 bps to 36.9%, benefiting because of the denominator effect—i.e., a reduction in liabilities on account of run-offs in high-cost term deposits.

Figure 2: CASA deposits: Steady growth from here on

Rs billion, year-end March %



Source: Company data, Reliance Equities estimates.

Management's committed focus coupled with the improving productivity of the new branches should augur well for CASA accretion, in our view. Management highlighted that the savings account inflow continues to be strong at around Rs 10 billion per month. We believe the CASA ratio could inch closer to 40% by FY10 and continue to stay at around 36–37%, higher than management's guidance of a sustainable 33–34%. We are building in a 22% CAGR over FY09–11E in CASA deposits. We believe the emphasis on building a low-cost deposit base will help the bank to accelerate balance sheet growth at a similar pace without compromising on margins and CASA ratio.

Not repeating past mistakes

Management's commitment to altering the funding mix can also be gauged from the reluctance to take advantage of the prevailing low wholesale deposit rates to mobilise term deposits. Accumulating CASA has never been a problem for ICICI Bank—it grew at a 47% CAGR over FY04–07, in line with the trend seen for other private banks such as Axis Bank and HDFC Bank. The problem was the accelerated advances growth of 47% on the back of easy wholesale money, which undermined the good show on CASA.

Figure 3: Savings per branch

Rs million, year-end March

		FY 04	FY 05	FY 06	FY 07
Axis Bank	Current	53,937	71,548	79,701	113,043
	Savings	25,845	48,909	80,654	121,259
	Branches		339	450	561
	Savings/Branch		144	179	216
	Current/Branch		211	177	202
HDFC Bank	Current	88,351	106,305	147,525	198,118
	Savings	78,043	114,184	161,858	195,848
	Branches		467	535	684
	Savings/Branch		245	303	286
	Current/Branch		228	276	290
ICICI Bank	Current	72,591	128,369	165,735	213,756
	Savings	83,720	113,918	209,370	288,388
	Branches		562	614	755
	Savings/Branch		203	341	382
	Current/Branch		228	270	283

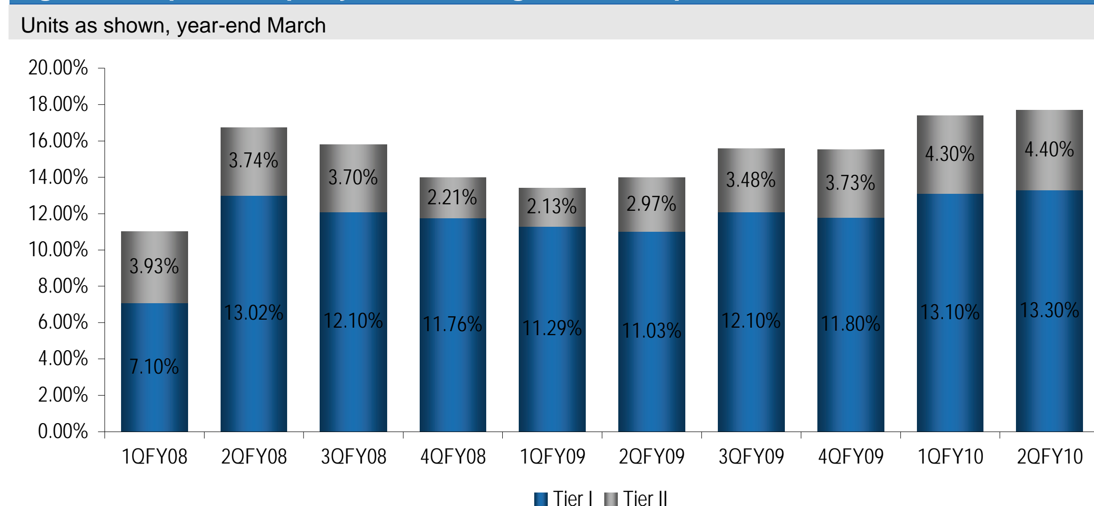
Source: Company data, Reliance Equities research.

Capital conservation: Ready for leverage

The run-down of risky retail assets has freed up capital, leading to a 201 bps improvement in Tier-1 capital adequacy since 1Q FY09. Going forward, as management continues the shift towards corporate and secured retail loans, leading to de-risking of the balance sheet, capital consumption from incremental asset growth will be limited. Capital support to subsidiaries—life insurance and international banking—is expected to be limited, further conserving capital for the domestic asset build-up. With a 13.3% tier-1 ratio, ICICI Bank is among the most capitalised Indian banks and is well poised to grow its loan book once balance sheet consolidation is complete. According to our analysis, a 15% CAGR from FY09–FY12E in risk-weighted assets will bring down the tier-1 ratio by 550 bps from the current level (13.3%) to 7.8% by FY12E—still a very comfortable level.

Figure 4: Capital adequacy ratio: Among the best capitalised Indian banks

Units as shown, year-end March



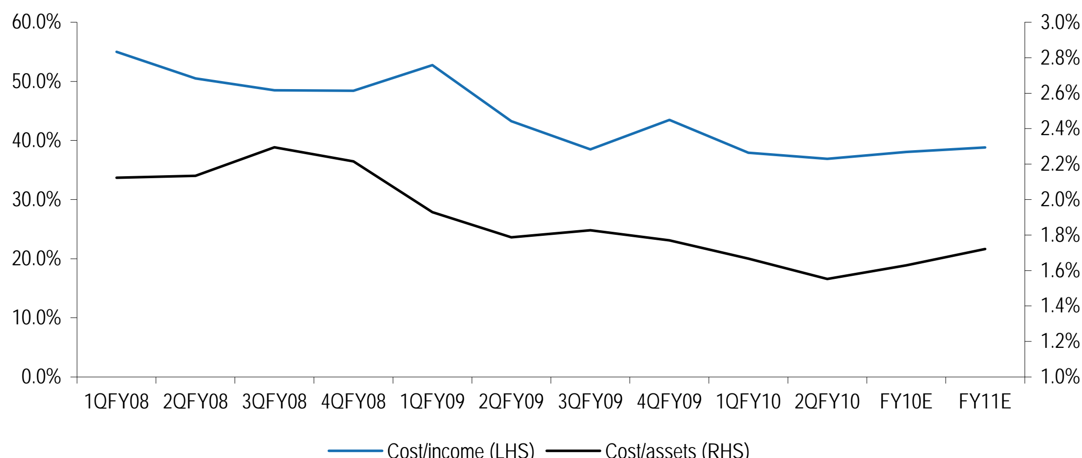
Source: Company data, Reliance Equities estimates.

Cost control: Fitter and leaner

One of the most significant achievements of the bank over the last two years has been a tight control on operating expenses. Efficiency ratios—cost-to-average assets has improved from 2.24% in FY07 to 1.55% in 2Q FY10 despite the decline in assets—demonstrate the significant reduction in cost undertaken by the bank. The reduction in operating costs, especially employee expenses, is a key flexibility available with private banks as demonstrated by ICICI Bank. Management's strategy on cost containment focused on outsourced manpower, retail collection expenses and the excess physical infrastructure.

Figure 5: Improving cost ratios

Units as shown, year-end March

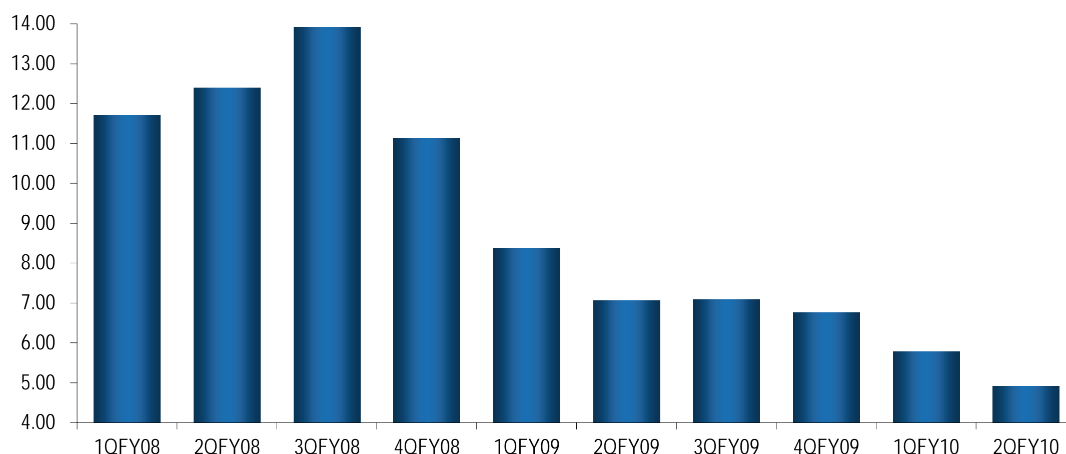


Source: Company data, Reliance Equities estimates.

Cost-control was also achieved through improved productivity of the existing employee base and branch base (cost/branch declined steadily). Employee costs fell sharply as headcount was reduced. DMA expenses declined sharply (down ~91% from the peak level) as asset origination outsourcing was reduced, along with the slowdown in retail disbursements.

Figure 6: Improving productivity of channels

(Operating costs – Employee Cost – DMA expenses)/Number of branches



Source: Reliance Equities research.

Such low cost ratios are not sustainable and will pick up as ICICI Bank re-embarks on channel expansion and asset growth. Newer branches will need investment before they yield results in the form of asset and liability mobilisation, depressing productivity ratios in the short term. Management aims to contain absolute cost (excluding direct marketing agents' expenses) in FY10 at the same levels as those in FY09. We are penciling in an 11% operating expenses increase in FY11 as the bank embarks on channel expansion (~500 branches to be opened in 2H FY10). However, DMA expenses will continue to decline as the bank primarily relies on its branches to originate assets.

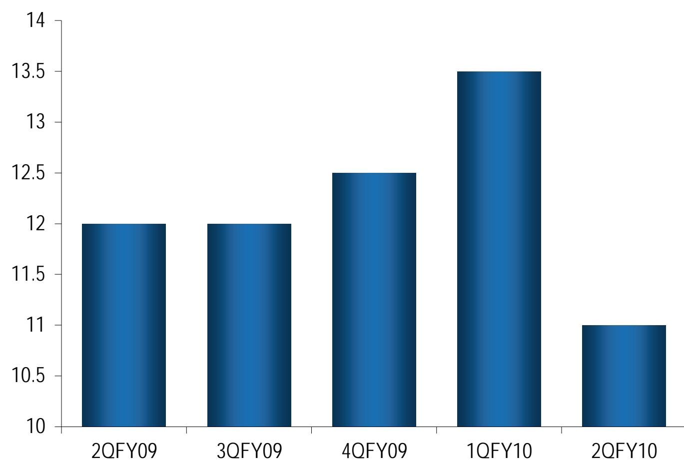
Credit quality: End of pain in sight

We had a Neutral rating on ICICI Bank, despite the fact that the bank was achieving success on the other pillars of its consolidation strategy and because deterioration in the credit environment was delaying credit quality improvement. In our view, the worst of asset quality deterioration is behind ICICI Bank. The bank's 2Q results, coupled with management's commentary, confirm that quarterly non-performing loan (NPL) formation peaked in 1Q FY10 at Rs 13.5 billion and will trend downwards to ~Rs 8.5 billion by 4Q FY10E. Gross NPL levels are likely to trend downwards, barring some surprise on account of chunky corporate loan slippages. We are building in a 20% slippage from the restructured pool (restructured assets are expected to be around Rs 60 billion by FY10E). Management's conscious attempt to change asset composition from unsecured retail to corporate and secured retail will limit future delinquencies.

However, credit costs will continue to remain at elevated levels of Rs 10 billion until 1Q FY11E as ICICI Bank follows an accelerated provisioning policy of providing 100% of the delinquent retail assets within 360 days. Also, the Reserve Bank of India's recent policy, asking banks to shore up provisioning coverage to 70% by September 2010, will keep provisioning levels high. We are modelling ~166 bps of credit costs in FY11E after reaching a peak of 210 bps in FY10E.

Figure 7: GNPL formation

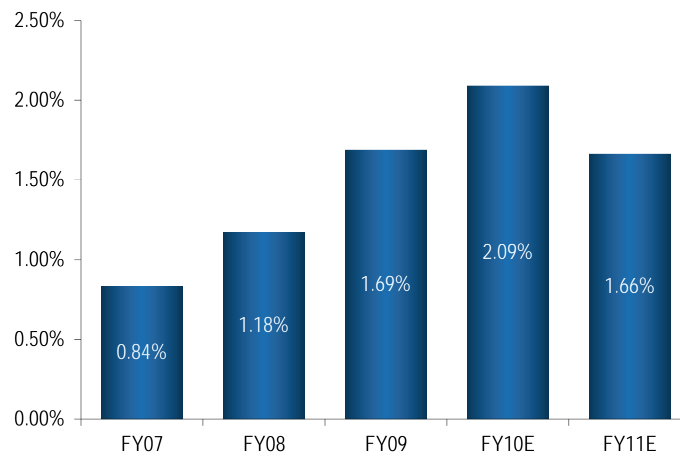
Rs billion, year-end March



Source: Company data, Reliance Equities estimates.

Figure 8: Credit costs

%, year-end March



Source: Company data, Reliance Equities estimates.

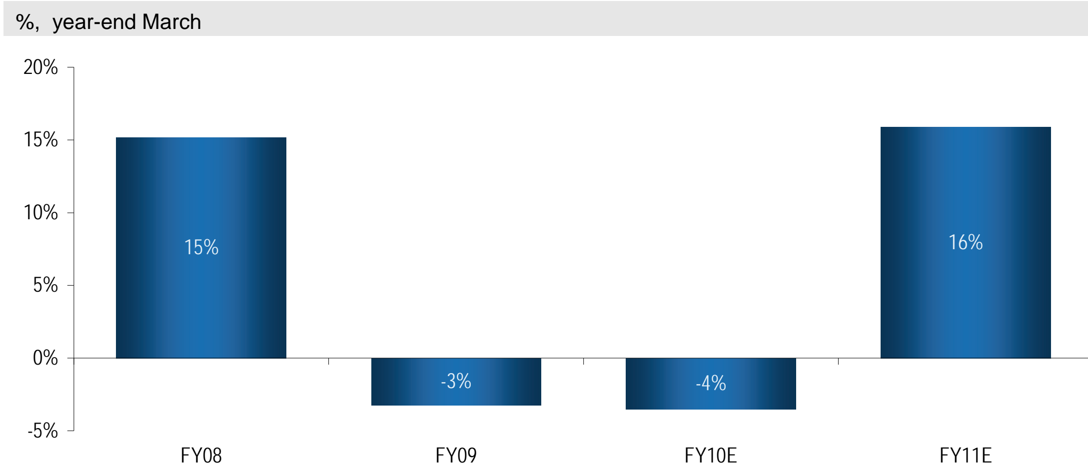
Financial analysis and forecasts

ICICI Bank will deliver an 18% CAGR in profits over FY09–11E on the back of better core performance and lower credit cost. Return on assets is expected to inch up to 1.3% by FY11 from 1% in FY09. RoE is still expected to remain subdued due to slower traction on leverage. Advances will likely decline in FY10E as the bank runs down its retail asset portfolio; however, they will grow in line with the system as credit demand, particularly in the corporate segment, returns. Margins will likely increase as funding cost declines on the back of CASA accretion, liability repricing and a decrease in the proportion of low-margin international business. Fee income growth will return as corporate activity and credit growth pick up.

- **Advances:** Given the pace of balance sheet contraction in 1H FY09 and our less-than-sanguine view on system-wide credit growth for FY10E, we revise our loan growth estimates for ICICI Bank downwards to -4%. Management has indicated that run downs in retail portfolio (repayment of ~Rs 175 billion in 2HFY10E) will continue and incremental advances growth will be selective. However, interactions with management indicate that the bank will try to grow in line with the system in FY11. Accordingly, we revise our FY11 loan growth estimates upwards to 16%. With balance sheet consolidation over, management can focus on advances growth. Given the pent-up demand, particularly in the infrastructure and mortgage segments, we believe there may be some upside risk to our loan growth estimates.

Figure 9: Advances growth

%, year-end March

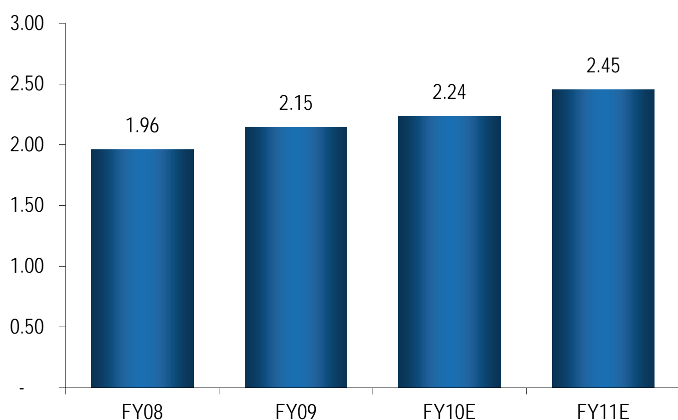


Source: Company data, Reliance Equities estimates.

- **Margins:** We increase our margin estimates for FY11 to account for a higher share of CASA deposits and lower funding costs as a result of liability repricing. Balance sheet liquidity, which depressed margins in 1H FY10, will likely decline in FY11E as advances growth returns. Loan spreads will expand as liabilities are repriced and incremental funding costs remain benign.

Figure 10: Net interest margin (NIM)

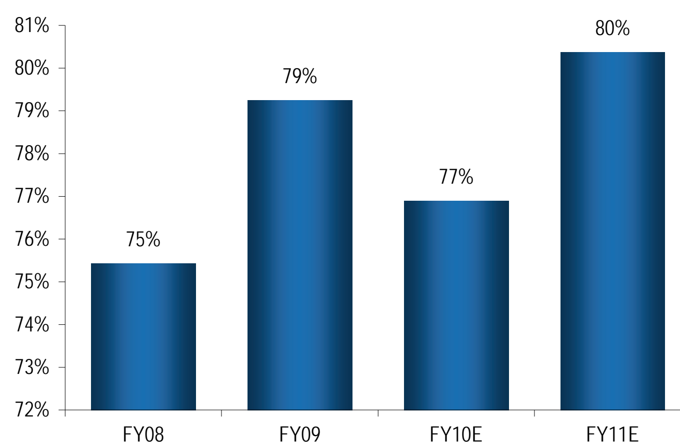
%, year-end March



Source: Company data. Reliance Equities estimates.

Figure 11: Adjusted CD ratio

%, year-end March



Source: Company data, Reliance Equities estimates.

- **Net interest income (NII):** After two years of being subdued, strong NII growth will return in FY11 as ICICI Bank grows its loan book and margins expand ~22 bps in FY 11E YoY.
- **Fee income:** After remaining subdued in 1H FY10 on account of low asset growth, fee income will rebound in FY11E as advances growth returns. The bank's recently opened branches will also add to fee income growth. Channel expansion and higher productivity will more than offset headwinds to fee income growth from regulatory changes, capping fees for mutual fund distribution and insurance margins.
- **Expenses:** ICICI Bank's cost-control measures have succeeded beyond our expectations. However, we do not expect such high operating efficiency (36.9%) to be sustainable. We expect the cost-to-income ratio to inch up to 38.8% by FY11E, as the bank resumes channel expansion.
- **Provisions:** With NPLs peaking, provisions will decline in FY11. We are building in 166 bps of credit cost in FY11E.
- **Profit**: ICICI Bank will report strong profit growth (18% CAGR from FY09–FY11E) on the back of higher margins and lower costs.
- **RoE:** We expect core RoE (excluding investments in subsidiaries) to increase to 13% as margins improve and credit costs decline. However, the low leverage will limit RoE ramp-up, even as RoA increases sharply from 1% to 1.3% by FY11E.

International subsidiaries

The negative news flow about Citibank having to mark down the value of deferred tax credit, thereby reducing its net worth; and RBS having to divest profitable assets, including branches and insurance and commodities trading subsidiaries, to be eligible to participate in the UK government's Asset Protection Scheme have rekindled concerns over the health of financial systems. CDS spreads of large US banks have expanded post the news flow (Morgan Stanley's CDS increased 23 bps, and Goldman Sachs's CDS increased 24 bps). We decided to revisit ICICI Bank's international subsidiaries' overseas investments to gauge the extent of potential MTM losses.

In the last one year, ICICI Bank has materially de-risked the asset and liability profile of its overseas subsidiaries.

ICICI Bank UK increased the proportion of retail deposits and long-term liabilities and eliminated non-India credit derivatives exposure.

Figure 12: ICICI UK balance sheet

US$ million, year-end March

	2Q FY10		1Q FY10		4Q FY09	
Loans and advances	50%	4,000	46%	3,818	45%	3,285
India-linked investments	5%	400	5%	415	4%	292
Bonds/notes of financial institutions	27%	2,160	25%	2,075	28%	2,044
Asset-backed securities	2%	160	2%	166	4%	292
Other assets and investments	4%	320	6%	498	4%	292
Cash and liquid securities	12%	960	16%	1,328	15%	1,095
Total		**8,000**		**8,300**		**7,300**
Term deposits	43%	3,440	42%	3,486	38%	2,774
Long-term debt	14%	1,120	14%	1,162	16%	1,168
Syndicated loans and interbank borrowings	9%	720	10%	830	11%	803
Other liabilities	5%	400	4%	332	4%	292
Net worth	7%	560	6%	498	6%	438
Demand deposits	22%	1,760	24%	1,992	25%	1,825
Total		**8,000**		**8,300**		**7,300**

Source: Company data.

ICICI Bank Canada increased the proportion of federally insured mortgages to 15% from 2% even as it shrunk its balance sheet.

Figure 13: ICICI Canada—Balance sheet

US$ million, year-end March

		2Q FY10		1Q FY10		4Q FY09
Loans	61%	3,318	60%	3,545	64%	3,841
Federally insured mortgages	15%	816	2%	118	2%	120
India-linked investments	3%	163	5%	295	3%	180
Cash and liquid securities	11%	598	17%	1,004	14%	840
Other assets and investments	8%	435	3%	177	3%	180
Asset-backed securities	2%	109	13%	768	14%	840
Total		**5,439**		**5,908**		**6,001**
Term deposits	69%	3,753	72%	4,253	70%	4,201
Demand deposits	11%	598	9%	531.7	10%	600
Borrowings	1%	54	1%	59.1	1%	60
Other liabilities	2%	109	3%	177.2	4%	240
Net worth	17%	925	15%	886.1	15%	900
Total		**5,439**		**5,908**		**6,001**

Source: Reliance Equities research.

In the parent book, ICICI Bank has de-risked its balance sheet by selling off all its non-India-lined credit derivatives exposure, booking a loss of Rs 2.75 billion in the process.

We have assumed, under our stress scenario, that ICICI Bank UK has MTM losses of 50–60% on its investments in ABS, bonds of financial institutions and corporate bonds. This scenario prices in a cataclysmic breakdown of the financial system. In our view, such a scenario is unlikely to materialise as governments have become unwilling to compromise claims of senior and junior debt holders of financial institutions after the confidence crisis created by the Washington Mutual failure.

A more likely scenario, in the event of a 'double dip' in economic recovery, is the widening of spreads of corporate bonds, ABS and bonds of financial institutions. In our view, the MTM impact of such a scenario will be limited (a Rs 20–50 hit to book value per share). In our view, the likelihood of such a scenario, while non-trivial, is negligible, given the governments' explicit commitment to not letting any 'systemically important' financial institution fail.

Figure 14: MTM scenarios

US$ million (unless stated otherwise)

		Assumptions			Loss		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
UK							
India-linked Investments	400	5%	10%	20%	20	40	80
Bonds/notes of financial institutions	2,160	20%	30%	60%	432	648	1,296
Asset-backed securities	160	10%	20%	50%	16	32	80
Other assets and investments	320	0%	5%	10%	-	16	32
Cash and liquid securities	960	0%	0%	10%	-	-	96
Total investment book	**4,000**				**468**	**736**	**1,584**
Loans and advances	**4,000**	**0%**	**5%**	**10%**	**-**	**200**	**400**
Total UK loss (US$ mn)					**468**	**936**	**1,984**
Canada							
India-linked investments	163	5%	10%	20%	8	16	33
Cash and liquid securities	598	0%	0%	10%	-	-	60
Other assets and investments	435	0%	5%	10%	-	22	44
Asset-backed securities	109	10%	20%	50%	11	22	54
Total investment book	**1,305**				**19**	**60**	**190**
Loans and advances (other than federally insured mortgages)	**3,318**	0%	5%	10%	-	166	332
Federally insured mortgages	816	0%	0%	5%	-	-	41
Total Canada loss (US$ mn)					**19**	**226**	**563**
Eurasia							
Corporate bonds	32	10%	30%	50%	3	10	16
Cash and liquid securities	168	0%	0%	10%	-	-	17
Other assets	5	0%	5%	10%	-	0	0
Total investment book	**204**				3	10	33
Loans to corporates and banks	177						
Retail loans	72						
Loans and advances	**249**	0%	5%	10%	-	12	25
Total Eurasia loss (US$ mn)					3	22	58
Total (US$ mn)					**490**	**1,184**	**2,605**
Rs (bn)					**23**	**56**	**122**
Parent							
SLR investments	1,200	0%	0%	0%	-	-	-
Equity investment in subsidiaries	778	0%	0%	0%	-	-	-
Others	121	0%	5%	10%	-	6	12
Total (Rs bn)					**-**	**6**	**12**
Total (Rs bn)					**23**	**62**	**135**
BVPS hit					**21**	**55**	**121**

Source: Reliance Equities estimates.

Valuation and risks

As the bank returns to its growth phase, its core RoA will improve to 1.3% from 1% in FY09. RoE, however, will continue to remain subdued at 9.6% (core RoE is better at 13%) due to low levels of leverage. Hence, in the interim, we value the core book at 1.85x FY11E adjusted book value. We believe that as the leverage increases to around 9x by FY13E from the current levels of 7.3x, core RoE could improve 17–18%, leading to further re-rating of the stock. We arrive at a target price of Rs 1,041, including Rs 287 for the value of subsidiaries. This offers an 18% upside potential, despite the volatility, which makes a case for an **Outperform** rating.

Risks to our estimates, valuation and target price

- **Upside risks:** A further improvement in the capital markets should see the biggest delta for ICICI Bank relative to the sector, given its high exposure to capital market subsidiaries and treasury income. The stock will also benefit from any significant improvement in the global financial markets. The passage of the insurance bill will allow the bank to unlock value through its insurance subsidiaries.
- **Downside risks:** Unexpected deterioration in the asset quality position and relapse of the global financial crisis would be key downside triggers.

Figure 15: RoA tree

%, year-end March

	FY08	FY09	FY10E	FY11E
Net interest income	2.0%	2.1%	2.2%	2.5%
Other income	2.0%	2.0%	2.1%	2.2%
Fee income	1.8%	1.5%	1.6%	1.7%
Trading	0.2%	0.5%	0.5%	0.5%
Operating expenses	2.2%	1.8%	1.6%	1.7%
Operating profit	1.8%	2.3%	2.7%	2.9%
Provisions	0.8%	1.0%	1.2%	0.9%
PBT	1.4%	1.3%	1.5%	1.8%
Tax	0.2%	0.3%	0.4%	0.5%
PAT	1.1%	1.0%	1.1%	1.30%
Leverage	10.5	8.1	7.5	7.4
RoE	12%	8%	8%	10%

Source: Company data, Reliance Equities estimates.

Figure 16: SOTP valuation

US $ million (unless stated otherwise)

Business	Economic interest	Valn method	Valn metrics	Multiple	Bus. valn	Less: Minority int.	Value attrib. to ICICI	Rs/shr
Core business								
ICICIB - core	100%	P/ABV		1.85	840	-	840	**754**
Subsidiaries and associates								
Banking subsidiaries								
Canada	100%	P/ABV		1.5	44			40
UK	100%	P/ABV		1.5	46			41
Life Insurance	74%	Appraisal value	17 (NBAP)	15	255	67	188	169
AMC	51%	% of AUM	800 (AUM)	6%	48	24	24	22
General insurance	74%	Norm. earnings	(Norm. PAT)	12	24	6	18	16
ICICI Ventures	100%	% of AUM	160	12%	19.2		19	17
ICICI Securities	100%	P/E	(PAT)	17	38		38	34
ICICI Home Finance	100%	P/BV	(PAT)	2.0	41		41	37
ICICI PD	100%	P/E	(PAT)	12	24		24	22
Total subsidiaries								**398**
Less : 50% investment in subsidiaries								61
Adj. subsidiaries valuation								**338**
Less: Holding co. discount	15%							51
Net subsidiaries valuation								**287**
Total								**1,041**

Source: Reliance Equities estimates.

Figure 17: Summary financials

Rs million (unless shown otherwise), year-end March

Income statement	FY08	FY09	FY10E	FY11E
Interest income	307,883	310,926	293,772	303,491
Interest expended	(234,842)	(227,259)	(208,543)	(204,964)
Net interest income	73,041	83,666	85,229	98,526
Fee income	68,650	57,857	60,760	68,500
Trading profits	19,458	18,180	17,110	11,000
Other income	88,108	76,037	77,870	79,500
Net revenue	161,149	159,703	163,099	178,026
Employee cost	(20,789)	(19,717)	(18,731)	(20,979)
Other op. exp.	(60,753)	(50,734)	(43,342)	(48,134)
Op. exp.	(81,542)	(70,451)	(62,073)	(69,113)
Op. profits pre-prov.	79,607	89,252	101,026	108,914
NPA provisions	(24,786)	(37,501)	(44,865)	(37,851)
Other provisions	(4,261)	(582)	-	-
Prov. & contingencies	(29,047)	(38,083)	(44,865)	(37,851)
PBT	50,561	51,169	56,161	71,063
Provision for taxes	(8,984)	(13,588)	(14,883)	(18,832)
Minority interest	-	-	-	-
Reported net profit	41,577	37,580	41,278	52,231
Preference dividend	-	-	-	-
REIPL net income	41,577	37,580	41,278	52,231
Per share data	**FY08**	**FY09**	**FY10E**	**FY11E**
Wtd avg # of shares	1,059.3	1,113.3	1,113.3	1,113.3
EPS (basic, rep., Rs)	39.2	33.8	37.1	46.9
EPS (dil., rep., Rs)	37.4	33.8	37.1	46.9
EPS (dil., adj., Rs)	37.4	33.8	37.1	46.9
DPS (Rs)	12.4	12.4	12.4	12.4
Divid. payout (%)	33.1	36.6	33.4	26.4
BVPS (Rs)	438.7	444.9	469.6	504.2
Adj. BVPS (Rs)	405.7	404.0	432.1	468.5
Growth ratios (%)	**FY08**	**FY09**	**FY10E**	**FY11E**
Net interest income	29.6	14.5	1.9	15.6
Other income	27.2	(13.7)	2.4	2.1
Net revenue	28.3	(0.9)	2.1	9.2
Operating expenses	21.9	(13.6)	(11.9)	11.3
Profit before tax	38.6	1.2	9.8	26.5
Net income	33.7	(9.6)	9.8	26.5
Asset	16.0	(5.1)	0.9	10.0
Advances	15.2	(3.2)	(3.5)	15.9
Deposits	6.0	(10.7)	(2.1)	9.7
EPS	13.5	(14.0)	9.8	26.5
Book value	54.5	6.5	5.6	7.4
Net int. income (peers)	17.1	29.1	17.2	18.2
Net rev. (peers)	23.1	24.0	14.6	17.3
EPS (peers)	31.1	32.7	9.2	20.6
Quality of earnings (%)	**FY08**	**FY09**	**FY10E**	**FY11E**
NII/net revenue	45.3	52.4	52.3	55.3
Tax charge/pre-tax inc.	17.8	26.6	26.5	26.5

Balance sheet	FY08	FY09	FY10E	FY11E
Cash/bank balances	380,411	299,666	311,289	331,283
SLR investments	753,875	633,868	716,782	724,432
Other investments	360,668	396,715	429,265	433,265
Investments	1,114,543	1,030,583	1,146,047	1,157,696
Advances	2,256,160	2,183,108	2,106,385	2,441,014
Fixed assets	33,118	33,393	36,733	40,406
Other assets	213,717	246,259	224,973	235,846
Total assets	3,997,950	3,793,010	3,825,426	4,206,245
Capital	11,127	11,133	11,133	11,133
Reserves & surplus	453,575	484,197	511,702	550,159
Net worth	464,702	495,330	522,835	561,292
Current deposits	246,913	216,317	277,863	293,122
Savings deposits	390,893	410,361	566,414	644,868
Term deposits	1,806,505	1,556,800	1,293,133	1,406,985
Total deposits	2,444,311	2,183,478	2,137,411	2,344,975
Borrowings	863,986	928,055	979,034	1,104,699
Other liab. and prov.	221,452	182,647	182,647	191,779
Total liab. & equity	3,997,951	3,793,010	3,825,426	4,206,245
Tier 1 capital	442,833	422,110	427,110	432,110
Risk weighted assets	3,765,588	3,564,630	3,921,093	4,313,202
GNPA	75,795	96,493	99,613	124,213
NNPA	34,906	45,539	41,838	39,748
Profitablity ratios (%)	**FY08**	**FY09**	**FY10E**	**FY11E**
Net int. margin	2.0	2.1	2.2	2.5
Costs/income	50.6	44.1	38.1	38.8
Op. costs/avg assets	2.1	2.3	2.7	2.7
Net int. margin (peers)	2.8	3.0	2.9	2.9
ROA	1.1	1.0	1.1	1.3
ROE	11.7	7.8	8.1	9.6
ROE (peers)	15.2	17.4	16.4	16.5
Asset quality & capital (%)	**FY08**	**FY09**	**FY10E**	**FY11E**
Gross NPA/gross advances	3.4	4.4	4.7	5.1
GNPA (peer group)	2.1	2.0	3.1	3.7
Net NPA/net advances	1.5	2.1	2.0	1.6
NNPA (peer group)	0.8	0.8	1.3	1.6
Provisioning coverage	53.9	52.8	58.0	68.0
Loan loss prov/avg loans (bps)	117.6	169.0	209.2	166.5
Tier 1 capital adequacy	11.8	11.8	10.9	10.0
Total capital adequacy	14.0	15.5	17.9	18.0
Valuation	**FY08**	**FY09**	**FY10E**	**FY11E**
P/E (x)	23.8	26.3	24.0	18.9
P/E (peers, x)	10.7	8.1	7.2	5.9
P/BV (x)	2.1	2.0	1.9	1.8
P/AB (x)	2.2	2.2	2.1	1.9
P/AB peer group (x)	1.7	1.5	1.3	1.2
Div. yield (%)	1.4	1.4	1.4	1.4

Source: Company data, Reliance Equities estimates.

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Outperform = Expected total return is more than the hurdle rate.
Neutral = Expected total return is less than the hurdle rate but more than zero.
Underperform = Expected total return is negative.

Expected total return is defined as expected price appreciation over the next 12 months plus our dividend yield forecast for the stock.
Hurdle rate is defined as the ten-year government securities yield + our market risk premium assumption.

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