

ICICI Bank

REDUCE

Target price met but NIM compression yet to play out CMP: Rs1,110 Target Price: Rs1,100

- Target price met after recent stock performance
- Q4FY11 NIM guidance at 2.6% v/s contraction earlier fueled rally
- Expect NIM contraction in Q1/Q2FY12, market to react negatively
- Downgrade to Reduce, price target increased to Rs1,100 (from Rs1,080) to factor in better Q4FY11 NIM

Recent performance does not reflect NIM pressure two-quarters hence:

In our 9 March 2011 note, "Multiple levers at work; upgrade to Add", we upgraded ICICI Bank to Add highlighting that bank will face NIM pressure through next three quarters (Q4FY11 to Q2FY12) before favourable repricing on both assets and liabilities lead to improvement towards FY12 end. However, the stock rose from ~Rs1,000 to Rs1,100+ over last two weeks as management guided for 2.6% NIM in Q4FY11 (same as Q3FY11) instead of 10-15bps contraction expected earlier. We believe the run up in stock price fully reflects Q4FY11 positives while ignoring NIM contraction that is likely in next two quarters. We increase our target price to Rs1,100 (from Rs1,080) to factor in better Q4FY11 NIM, but downgrade rating to Reduce.

NIM to improve from Q3FY12: We believe NIM expansion post Q2FY11 will be driven by asset repricing on domestic and international book, favourable liability repricing on international book, running off securitisation pool, low duration HTM book offset by higher PSL lending in future years. Our quarterly NIM expectations are 2.58%, 2.47%, 2.50%, 2.51% and 2.58% through Q4FY11-Q4FY12 respectively.

Valuation: Our target price of Rs1,100 reflects domestic bank valuation at Rs770 per share (1.95x FY12 adjusted book ex-subsidiary investments and 12.9x FY12 EPS), overseas bank subsidiary valuation at Rs80 (1.2x FY12 book) and insurance business at Rs141 (based on appraisal value). The rest of businesses are valued at Rs104 per share. On standalone basis, stock trades at 2.2x FY12 adjusted book of Rs501.1 and 18.6x FY12 EPS of Rs59.6.

KEY FINANCIALS	(Rs mn)			
Y/E 31 March	2010	2011E	2012E	2013E
Net interest income	81,144	88,295	100,560	139,117
Other income	74,777	69,513	90,208	107,240
EPS (Rs)	36.1	45.2	59.6	77.5
NIM	2.50%	2.56%	2.50%	2.67%
RoE	7.8%	9.6%	11.7%	13.9%
NPA coverage ratio	59.5%	72.1%	74.0%	75.0%
Tier 1 capital	14.0%	13.2%	11.9%	10.7%
P/ E (x)	-	24.33	18.46	14.19
P/ Adj. BV (x)	-	2.47	2.27	2.06

Source: Company, BRICS Research

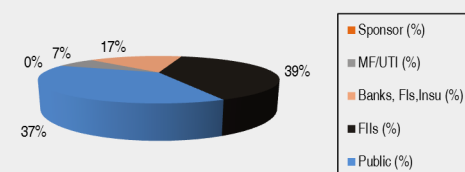
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

Bloomberg	ICICIBC IN
Reuters	ICBK.BO
52-wk H/L (Rs)	1,277/803
6-m avg trd value	US\$113.1mn
Market cap	Rs1,267.5bn/US\$28.7bn
Shares o/s	1,151.8mn
Face value	Rs10

Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE

As of 31 December 2010

PRICE PERFORMANCE



Source: Bloomberg

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Exhibit 1: Changes to estimates**(Rs mn)**

Profit & loss	New			Old			% change		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Net interest income	88,295	100,560	139,117	87,336	100,300	139,757	1.1%	0.3%	-0.5%
Pre provision profit	92,024	110,828	146,759	91,064	110,568	147,406	1.1%	0.2%	-0.4%
Net profit	52,081	68,655	89,292	51,382	68,517	89,868	1.4%	0.2%	-0.6%
Key ratios	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
EPS (Rs)	45.23	59.62	77.55	44.62	59.50	78.05	1.4%	0.2%	-0.6%
BVPS (standalone, adj, Rs)	444.65	484.52	533.89	444.04	483.79	533.68	0.1%	0.1%	0.0%
RoAA	1.33%	1.48%	1.58%	1.32%	1.49%	1.59%	0.01%	0.00%	-0.02%
RoAE	9.58%	11.69%	13.89%	9.46%	11.69%	13.99%	0.13%	0.01%	-0.10%
RoAE (banking business)	12.36%	14.76%	17.14%	12.20%	14.76%	17.27%	0.16%	0.00%	-0.13%
NIM	2.56%	2.50%	2.67%	2.48%	2.40%	2.73%	0.08%	0.09%	-0.06%

Source: Company, BRICS Research

Exhibit 2: Valuation summary

	Valuation basis	(in millions)	FX rate	Stake	Valuation multiple	Value per share
Domestic banking	Adj. BV (Mar-12)	Rs 454,966	1.00	100.0%	1.9x	770
Foreign bank subsidiaries						
UK	Book value (Mar-12)	US\$ 722	45.00	100.0%	1.2x	34
Canada	Book value (Dec-11)	Rs 41,258	1.00	100.0%	1.2x	43
Russia	Book value (Dec-11)	RUR 2,252	1.49	100.0%	1.2x	3
Domestic subsidiaries						
Life	Appraisal value (Mar-12)	Rs 219,316	1.00	74.0%	EV + (15% margin, 15.9x multiple, APE growth FY11 (-17%), FY12 (+10%))	141
General	Book value (Mar-10)	Rs 16,733	1.00	74.0%	2.0x	22
AMC	Avg. AuM (Jun-10)	Rs 815,411	1.00	51.0%	4.0%	14
HFC	Book value (Mar-12)	Rs 13,131	1.00	100.0%	1.5x	17
Isec PD	PAT (Mar-12)	Rs 1,199	1.00	100.0%	15.0x	16
Isec	PAT (Mar-12)	Rs 2,021	1.00	100.0%	15.0x	26
Venture	AuM (Mar-10)	US\$ 2,760	45.00	100.0%	8.0%	9
Value of subsidiaries (Rs)						325
Fair value for ICICI Bank (Rs)						1,100

Source: BRICS Research

Financial summary

Income statement (Rs mn)

Y/E 31 March	2010	2011E	2012E	2013E
Net interest income	81,144	88,295	100,560	139,117
<i>Growth</i>	-3.0%	8.8%	13.9%	38.3%
Other income	74,777	69,513	90,208	107,240
Total income (net of interest expense)	155,920	157,807	190,768	246,357
Employee expenses	19,258	27,371	34,374	42,827
Other operating expenses	38,086	36,933	43,967	54,779
Operating expenses	58,598	65,784	79,940	99,598
Operating profit	97,322	92,024	110,828	146,759
<i>Growth</i>	9.0%	-5.4%	20.4%	32.4%
Provisions and contingencies	43,869	23,698	20,492	29,270
PBT	53,453	68,326	90,336	117,489
Provision for tax	13,203	16,245	21,681	28,197
PAT	40,250	52,081	68,655	89,292
<i>Growth</i>	7.1%	29.4%	31.8%	30.1%

Balance sheet (Rs mn)

Y/E 31 March	2010	2011E	2012E	2013E
Total Assets	3,633,997	4,165,664	5,055,358	6,221,960
Total equity	516,184	551,328	596,770	655,755
Borrowings	939,136	1,005,916	1,394,517	1,846,044
Deposits	2,020,166	2,450,742	2,870,346	3,479,143
CASA Deposits	842,158	1,034,213	1,148,138	1,464,719
Advances	1,812,056	2,191,438	2,659,481	3,273,198
Investments	1,208,928	1,426,720	1,764,536	2,204,637

Per share data and key ratios

Y/E 31 March	2010	2011E	2012E	2013E
Diluted EPS (Rs)	36.1	45.2	59.6	77.5
RoAA	1.11%	1.33%	1.48%	1.58%
RoAE	7.84%	9.58%	11.69%	13.89%
BV / share (Rs)	463	479	518	569
Adj. BV / share (Rs)	422	445	485	534
Other income % of net revenues	48.0%	44.0%	47.3%	43.5%
Cost / income ratio	37.6%	41.7%	41.9%	40.4%
Dividends / share	12.0	14.0	18.0	23.5
Effective tax rate	24.7%	23.8%	24.0%	24.0%
CASA % of deposits	41.7%	42.2%	40.0%	42.1%
Credit / deposit ratio	89.7%	89.4%	92.7%	94.1%

Yields and rates

Y/E 31 March	2010	2011E	2012E	2013E
NIM	2.50%	2.56%	2.50%	2.67%
Net interest spread	1.63%	1.70%	1.57%	1.92%
Yield on advances	9.27%	8.21%	8.92%	9.54%
Cost of deposits	6.10%	0.00%	0.00%	0.00%
Cost of funds	5.80%	5.36%	6.06%	6.14%

Capital ratios

Y/E 31 March	2010	2011E	2012E	2013E
Tier I	14.0%	13.2%	11.9%	10.7%
Total CRAR	19.4%	19.4%	17.3%	15.4%
Equity to assets	14.2%	13.2%	11.8%	10.5%

Asset quality and credit metrics

Y/E 31 March	2010	2011E	2012E	2013E
Gross NPA %	5.06%	4.52%	3.91%	3.70%
Net NPA %	2.12%	1.30%	1.05%	0.95%
Provision % of loans	2.34%	1.18%	0.84%	0.98%
NPA coverage ratio (incl. AUCA)	59.48%	72.10%	74.00%	75.00%
NPA coverage ratio (excl. AUCA)	59.48%	72.10%	74.00%	75.00%
Total gross NPAs	94,807	102,398	107,147	124,548

Valuations

Y/E 31 March	2010	2011E	2012E	2013E
Price/ Book	-	2.3	2.1	1.9
Price/ Adj. Book	-	2.5	2.3	2.1
Price/ Earnings	-	24.3	18.5	14.2

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside upto 15% (between 0% and -15%)
SELL:	More than 15% downside

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