

ICICI Bank

Rs846

OUTPERFORMER**Event Update – Value Unlocking begins**

Mkt Cap: Rs752bn; US\$17.0bn

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ICICI Bank has announced that it would transfer its investments in key subsidiaries like ICICI Prudential Life Insurance Company (ICICI PRU), ICICI Lombard General Insurance Company (ICICI Lombard), Prudential ICICI Asset Management Company (PRU ICICI) and Prudential ICICI Trust to a wholly owned subsidiary ICICI Holdings. With a positive macroeconomic environment, insurance business is likely to sustain the strong growth being witnessed. The forming of ICICI Holdings and its possible subsequent listing on the bourses would lead to value unlocking for ICICI Bank. In our report "ICICI Bank: Crossing the Rubicon" dated 15 February 2007, we had valued ICICI Bank's stake in these businesses at ~USD 7bn before a 10% subsidiary discount. The key positive from this development is that value unlocking is now closer at hand than before. With its leadership in retail lending and ability to rapidly scale up new businesses such as rural and international banking, we reiterate Outperformer on ICICI Bank with a price target of Rs1,428.

□ Roadmap to value unlocking

ICICI Bank has approved, subject to requisite approvals, the incorporation of a new wholly owned subsidiary, ICICI Holdings by transferring its stake in ICICI PRU, ICICI Lombard, PRU ICICI and Prudential ICICI Trust to ICICI Holdings. ICICI Bank currently holds ~74% each in ICICI PRU and ICICI Lombard, and 51% each in PRU ICICI and ICICI Trust. These investments are proposed to be transferred to ICICI Holdings at the book value (currently about Rs. 19.5bn). However, ICICI Bank intends to retain majority ownership in ICICI Holdings.

As the insurance sector is growing rapidly on the back of positive macroeconomic factors like rising household incomes and growing penetration of insurance products, ICICI Bank's insurance business requires fund infusion to sustain the pace of growth. ICICI Holdings is likely to consider a public listing of its equity shares in the next 12 months to meet a part of the further capital requirements of the insurance business.

Ms Kalpana Morparia, Joint Managing Director, ICICI Bank, would be assuming the responsibility for ICICI Holdings as its Managing Director and CEO, subject to the necessary approvals. We expect the move to add management depth to the venture.

In our report "ICICI Bank: Crossing the Rubicon" dated 15 February 2007, we had revised our stock price target to Rs1428, which highlights the compelling valuations on a sum-of-parts basis. We had emphasized that significant value resides in the subsidiary business, to be unlocked in the due course of time. Significant value in bank's subsidiaries resides in the life insurance business – a juggernaut, which we believe will compound in value faster than the bank's other businesses over the longer term. We had valued ICICI Bank's holding in key subsidiaries (ICICI Holdings) at ~USD 7bn before a 10% subsidiary discount. The recent announcement brings the timing of the public offering closer than before; and the listing of equity shares of ICICI Holdings would ascribe significant market value to ICICI Bank. We have valued ICICI Bank's stake in subsidiaries at Rs312 after providing for a 10% subsidiary discount. Reiterate Outperformer with a price target of Rs1, 428.

(Price as on 2nd March 2007)

Valuation of key businesses

(Rs bn)	ICICI Bank's share (%)	Valuation metric		Valuation of business	ICICI Bank's share
Life insurance	74	NBAP	Multiple		
		18.1	18.0	326.3 (a)	
		Embedded Value		63.3 (b)	389.6 (a+b)
288.3					
Non-life insurance	74	PAT	Multiple		
		1.1	15	16.6	12.3
Asset Management	51	AUM	Multiple		
		330.0	5.1%	16.5	8.4
Total				422.7	309.0
In USD					~7 bn

Source: SSKI Research

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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