

**ICICI Bank -----Maintain NEUTRAL**

**Profitability pressures likely to be visible from the 2Q results**

EPS: ◀▶ TP: ▼

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- We expect the adverse shift in the macro environment to start reflecting in ICICI profitability from the upcoming 2Q results as loan and fee growth decelerates and asset quality deteriorates.
- Even as domestic corporate segment loan growth is likely to remain at ~20% on the disbursements to infra projects, with rise in rates, its retail disbursements have likely slowed. Lack of fresh approvals and syndication activity will impact fee growth, which we expect to start lagging asset growth, resulting in ROA moderation.
- Credit costs that had moved up to 80 bp in 1Q (70 bp in 4Q11) are likely to remain moderate. However, restructured asset levels for the bank are expected to start rising from 2Q on account of its microfinance, telecom and power sector exposures.
- While stock valuations have moderated to 1.7x FY12E book, with stress assets increasing and ROAs under pressure, re-rating is unlikely. Retain NEUTRAL and lowering target price to Rs934 (from Rs1,065) at 1.7x FY13E BV.

(currently ICICI Bank's CDS spreads are at LIBOR + 445 bp), these are likely to be difficult to achieve. Even though near term international loan growth shall be aided by the recent rupee depreciation, this may come under pressure in the medium term. The NIMs that had dropped 10 bp in 1Q are likely to remain under pressure even in 2Q as deposit cost re-pricing will continue. Also, given the sharp rise in the term deposit rates, CASA growth shall be under pressure and CASA share is likely to come down from the 40% levels in 1Q12.

Figure 1: ICICI Bank 2Q12 estimates

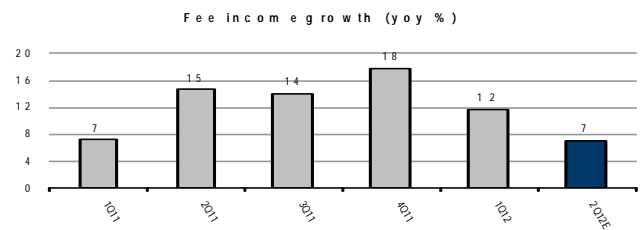
Rs mn	2Q11	1Q12	2Q12E	% YoY	% QoQ
Net interest income	22,044	24,109	24,414	11	1
Total income	39,264	40,788	42,247	8	4
Operating expenses	(15,704)	(18,198)	(18,561)	18	2
Pre-prov profits	23,560	22,590	23,686	1	5
Total provisions	(6,411)	(4,539)	(4,488)	-30	-1
Operating profits	17,149	18,052	19,198	12	6
Profit after tax	12,363	14,006	13,313	8	-5

Source: Company data, Credit Suisse estimates

**Fees to start lagging asset growth**

ICICI draws 50% of its fees from the corporate segment, which are largely driven by loan approvals and syndication fees. With the slowdown in investment activity and fresh approvals, we expect fee growth to moderate further in 2Q12.

Figure 2: Fee income growth likely to moderate further in 2Q12

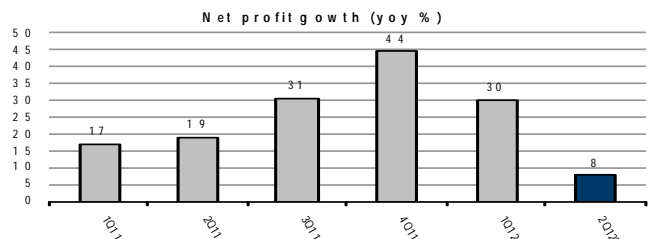


Source: Company data, Credit Suisse estimates

**Asset quality likely to deteriorate going forward**

While the bank expects credit costs to remain at 0.8% levels in FY12, restructured asset levels for ICICI Bank are expected to start rising from 2Q12 on account of its microfinance, telecom and power sector exposures. Post the sharp increase in the bank's exposure to sectors such as real estate and infrastructure, given the headwinds being faced by most of these highly leveraged corporate segments, we expect negative news flow on these corporates/ restructurings to weigh on the stock performance.

Figure 3: Net profit growth to moderate in 2Q12



Source: Company data, Credit Suisse estimates

Bbg/RIC	ICICIBC IN / ICBK.BO	Price (30 Sep 11 , Rs)	875.35		
Rating (prev. rating)	N (N)	TP (prev. TP Rs)	934.47 (1,065.63)		
Shares outstanding (mn)	1,152.41	Est. pot. % chg. to TP	7		
Daily trad vol - 6m avg (mn)	3.9	52-wk range (Rs)	1269.7 - 820.2		
Daily trad val - 6m avg (US\$ mn)	79.6	Mkt cap (Rs/US\$ bn)	1,008.8/ 20.6		
Free float (%)	100.0	Performance	1M 3M 12M		
Major shareholders	Deutsche Bank Trust Company (26%), LIC (9%)	Absolute (%)	0.2 (20.0) (21.2)		
		Relative (%)	1.6 (7.7) (3.1)		
Year	03/10A	03/11A	03/12E	03/13E	03/14E
Pre-prov Op profit (Rs mn)	82,098.9	90,324.0	102,955.3	127,762.2	160,408.0
Net profit (Rs mn)	40,250	51,514	66,010	76,538	98,363
EPS (CS adj. Rs)	35.6	43.8	56.1	65.1	83.6
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	56.0	65.5	77.7
EPS growth (%)	7.0	23.1	28.1	15.9	28.5
P/E (x)	24.6	20.0	15.6	13.5	10.5
Dividend yield (%)	1.4	1.6	2.1	2.5	3.0
BVPS (CS adj. Rs)	456	468	504	545	599
P/B (x)	1.92	1.87	1.74	1.61	1.46
ROE (%)	8.0	9.7	11.5	12.4	14.6
ROA (%)	1.1	1.3	1.5	1.5	1.6
Tier 1 Ratio (%)	14.0	13.2	12.4	11.6	10.9

Note 1: ICICI Bank Limited (the Bank) is a banking company engaged in providing a range of banking and financial services, including commercial banking and treasury operations. It operates under four segments: retail banking, wholesale banking, treasury and other banking.

**Valuation metrics**

Company	Ticker	Rating	Price		Year	P/E (x)		P/B (x)	
			Local	Target		T	T+1	T+2	T+1
ICICI	ICBK.BO	N (N)	875.35	934.47	03/11	15.6	13.5	1.7	

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

**Macro-headwinds are visible**

The rise in interest rates and slowdown in the pace of economic growth will likely manifest in a deceleration in loan growth, a compression in NIMs and deterioration in asset quality. The bank expects FY12 loan growth to be in line with system growth at ~18% levels (versus 18% levels in FY11), mainly driven by the infrastructure, project finance and mortgage loans. While the bank has earlier international loan book growth guidance of 15-20% and expansion in international NIMs, given the recent increase in CDS spreads

**Companies Mentioned** (Price as of 30 Sep 11)  
 IICI Bank (ICBK.BO, Rs875.35, NEUTRAL, TP Rs934)

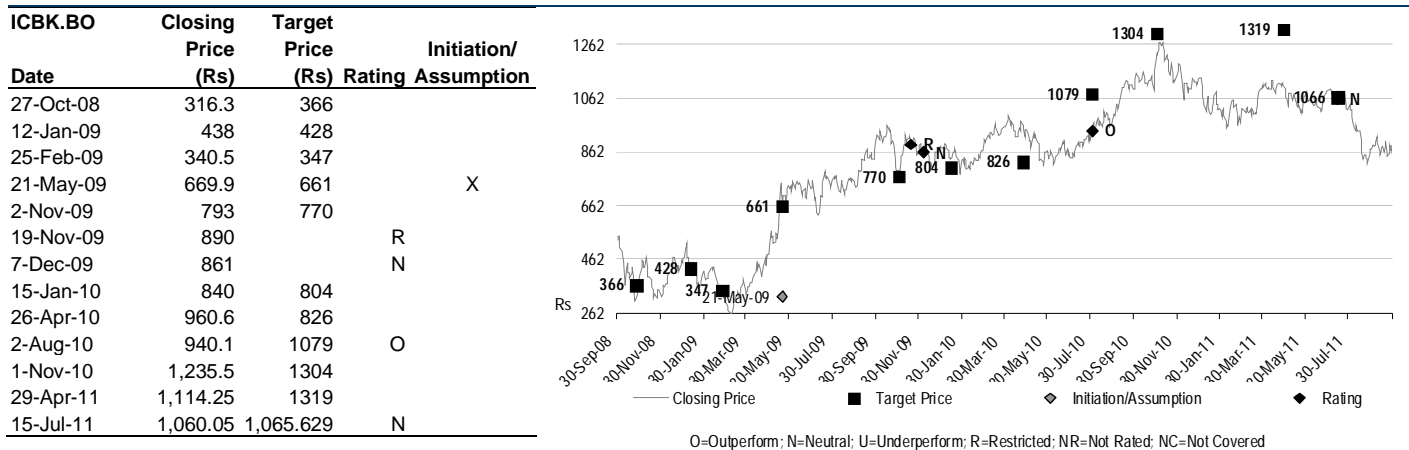
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**Method:** We value ICICI based on sum of the parts at Rs934. We value the core bank on the Gordon growth model with an implied FY13 P/B multiple of 1.7x.

**Risks:** Key risks to our Rs934 target for ICICI Bank price (1) further monetary tightening leading to high interest rate environment; (2)substantial deterioration in asset quality environment; (3)slower international growth; (4) Deterioration in the insurance business worse than expected.

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