ENAM

ENAM DIRECT

EQUITY RESEARCH

For private circulation only

ICICI Bank

RESULTS UPDATE

Visible signs of improvement

- ICICI Bank's PAT grew 3% YoY and 18% sequentially driven by better operating efficiencies. NII declined 5% YoY as loan book fell 14%. Sequentially too loans and deposits have contracted. Margin at 2.5% improved by 10 bps both YoY and sequentially and the bank expects it to improve further to 2.6% by March 2010. Accretion to NPAs slowed down with slippages of Rs 1,000 cr in Q2 as against Rs 1,300 cr witnessed in Q1. A moderate improvement was noticed in gross and net NPAs sequentially in absolute amounts. Gross and net NPAs stood at 4.7% and 2.4% respectively. ICICI restructured Rs 850 cr of loans leading to total restructured book of Rs 4,800 cr (2.5% of loan book).
- Retail loan book continued to decrease with all retail segments witnessing a decline both YoY and sequentially. The bank wants to focus on mortgages and auto loans going forward and maintains its strategy to run down its unsecured retail loan portfolio which it targets to reduce from 6.6% of loan book to less than 6%.

Valuations

- ICICI has achieved the desired outcome from the consolidation exercise undertaken over the last four-five quarters, with majority of the ratios showing an improvement other than asset quality. There has been immense focus on diversifying the book, reducing the proportion of unsecured lending, reducing reliance on third party channels, curtailing costs and de-risking the international balance sheet. The outcome is visible but asset quality still remains a challenge with management expecting further additions to the restructured book and low coverage ratio on the existing book. We believe ICICI is moving up the right path but will take some time to deliver growth in line with industry. Going forward, the drivers for growth will be different and focus will be on sustainable and qualitative growth. We are revising our EPS upwards moderately by 7% in FY11E. We recommend a **BUY** on **ICICI Bank** with a target price of Rs 900 (1.7x FY11E Adj. Banking BV + Rs 317 for value of investments).

BUY

CMP (Rs)	845
Target price (Rs)	900
Potential upside	6%

Stock data

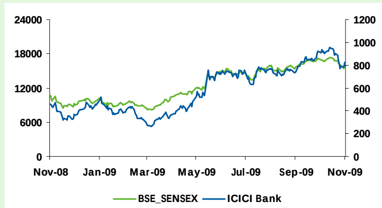
No. of shares (cr)	111.4
FV (Rs)	10
Market cap (Rs cr)	94,100
52 week high/low (Rs)	984 / 253
Avg. daily vol.* (shares)	1.05 cr
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg code	ICICIBC IN
Reuters Code	ICBK.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Sep-09	QoQ chg
Promoter	0.0	0.0
FIIs	35.3	(0.9)
MFs / UTI	7.1	0.2
Banks / FIs	17.4	0.8
Others	40.3	(0.1)

Price performance



Source: Cline, ENAM Research

Financial summary

Y/E Mar	PAT (Rs. Cr)	EPS (Rs)	EPS chg (%)	P/E (x)	P/E (x)*	Adj. BV (Rs.)	P/Adj. BV (x)	P/Adj. BV (x)*	RoE (%)	RoA (%)	Net NPA (%)
2008	4,158	37.0	8.0	22.8	14.3	398.0	2.1	1.3	11.7	1.1	1.5
2009	3,758	34.0	(10.0)	24.8	15.5	419.0	2.0	1.3	7.8	1.0	2.1
2010E	4,071	37.0	8.0	22.8	14.3	446.0	1.9	1.2	8.0	1.1	1.8
2011E	4,867	44.0	20.0	19.2	12.0	480.0	1.8	1.1	9.0	1.2	1.2

Source: Company, ENAM Research. *P/Adj. BV and P/E calculated after adjusting for the value and cost of investments.

Results update

	Quarter ended					12 months ended		
(Rs cr)	Sep-09	Sep-08	% Chg	Jun-09	% Chg	Mar-10E	Mar-09	% Chg
Interest Income	6,657	7,835	(15)	7,133	(7)	29,303	31,093	(6)
Interest Expended	4,621	5,687	(19)	5,148	(10)	21,033	22,726	(7)
Net Interest Income	**2,036**	**2,148**	**(5)**	**1,985**	**3**	**8,270**	**8,367**	**(1)**
Non-Interest Income	1,824	1,877	(3)	2,090	(13)	8,244	7,604	8
Net Income	**3,860**	**4,025**	**(4)**	**4,075**	**(5)**	**16,514**	**15,970**	**3**
Operating Expenses	1,425	1,740	(18)	1,546	(8)	6,376	7,045	(9)
Operating profit	**2,435**	**2,285**	**7**	**2,529**	**(4)**	**10,138**	**8,925**	**14**
Provision & Contingencies	1,071	924	16	1,324	(19)	4,637	3,808	22
PBT	**1,364**	**1,361**	**0**	**1,206**	**13**	**5,501**	**5,117**	**8**
Tax	324	347	(7)	327	(1)	1,430	1,359	5
Net Profit	**1,040**	**1,014**	**3**	**878**	**18**	**4,071**	**3,758**	**8**
No. of shares (cr)	111	111	-	111	-	111	111	-
Rep. EPS - non-annualized (Rs.)	**9**	**9**	**3**	**8**	**18**	**37**	**34**	**8**
Yields & Margins (%)								
Net interest margin	2.5	2.4	0.1	2.4	0.1	2.4	2.3	0.0
Cost to income ratio	36.9	43.2	(6.3)	37.9	(1.0)	38.6	44.1	(5.5)
Asset quality								
Gross NPAs (Rs cr)	9,201	9,501	(3.0)	9,416	(2.0)	9,930	9,650	3.0
Gross NPAs (%)	4.7	4.2	0.5	4.6	0.1	4.3	4.3	(0.0)
Net NPAs (Rs cr)	4,499	4,233	6.0	4,608	(2.0)	3,970	4,550	(13.0)
Net NPAs (%)	2.4	1.9	0.5	2.3	0.0	1.8	2.1	(0.3)
Provisioning coverage (%)	51.1	55.4	(4.3)	51.0	0.0	60.0	52.8	7.2
Capital (%)								
Tier-I	13.3	11.0	2.3	13.1	0.2	13.4	11.8	1.6
CAR	17.7	14.0	3.7	17.4	0.3	16.5	15.5	1.0
Balance sheet (Rs. cr)								
Advances	190,900	222,000	(14.0)	198,100	(3.7)	224,200	218,300	2.7
Deposits	197,800	223,400	(11.4)	210,200	(5.9)	221,900	218,300	1.6
CASA (%)	36.9	30.0	6.9	30.0	6.5	35.0	29.0	6.1

Source: Company

Q2FY10 Highlights

- The bank's policy to improve CASA started yielding results. CASA improvement to 37% was encouraging as the bank witnessed improved traction in savings deposits (savings grew 14% YoY and 11% sequentially). Term loans declined 20% YoY and 15% sequentially.

- Demand was witnessed in corporate loan segment (mostly for short term loans). The bank expects corporate loans to drive the loan book growth in H2 as the bank has sanctioned pipeline of loans for project finance. Some loan demand is also being witnessed in SME segment.

- Margin improvement primarily came from better domestic NIM which stood at 2.8% since the margin on international book remained low at 0.5%.

- Non-interest income declined both sequentially and YoY. The bank was able to earn the same amount of fee income as in Q1 despite contraction in business. However, treasury contribution was much lower sequentially thereby impacting non-core income.

- Life insurance: New business annualized premium equivalent fell 20% YoY to Rs 1,212 cr in Q2FY10, however renewal premiums increased 28% YoY. New business profit for the quarter stood at Rs 233 cr translating into an NBAP margin of 19.2%. Expense ratio also reduced to 10.8% (11.6% in Q1FY09).

- In the UK subsidiary, ICICI has adjusted MTM profits of USD 61 mn through reserves. ICICI's UK subsidiary's balance sheet contracted to USD 8 bn from USD 8.3 bn in Q1. Similarly, the Canadian subsidiary's balance sheet size reduced from CAD 6.3 bn in Q1 to 5.8 bn.

Key subsidiaries: Profit after Tax

(Rs cr)	Q2FY10	Q2FY09	YoY (%)	H1FY10	H1FY09	YoY (%)
ICICI Securities	38	10	280	52	24	117
ICICI Securities PD	-	9	-	67	22	205
ICICI Venture	14	10	40	30	139	(78)
ICICI Prudential AMC	48	16	200	67	44	52
ICICI Home Finance	28	18	56	55	39	41
ICICI General Insurance	51	1	5,000	89	2	4,350
ICICI Pru Life Insurance	(69)	(308)	-	(105)	(630)	-
ICICI Bank UK	59	NA	NA	82	NA	NA
ICICI Bank Canada	60	NA	NA	99	NA	NA

Source: Company

Sum of the parts valuation

Rs cr	Valuation basis	Val/ share	Total val (Rs cr)
JVs		**207**	**23,050**
ICICI Prudential Life Insurance	17x FY11E NBAP + EV	180	20,080
ICICI Lombard General Insurance	10x FY11E earnings	8	930
Pru- ICICI AMC	5% of AUM	18	2,040
Domestic subsidiaries		**65**	**7,250**
ICICI Securities Ltd.	12x FY11E earnings	11	1,200
ICICI Securities Primary Dealership Ltd	12x FY11E earnings	20	2,210
ICICI Venture	10% of AUM	13	1,410
ICICI Home Finance	1.5x FY11E BV	22	2,430
Overseas banking subsidiaries		40	4,500
Listed subsidiaries		4	470
ICICI Bk (Standalone business) - 1.7x FY11E ABV		**583**	**64,850**
Value per share of ICICI Bank		**900**	**100,120**

Source: Company, ENAM Research

ENAM Securities Direct Pvt. Ltd.

201, Laxmi Towers, 'A' Wing, Bandra-Kurla Complex, Bandra East, Mumbai - 400 051.

Board: 6680 3600 **Helpline**: 6680 ENAM **Fax** : 6680 3700

Website: www.enam.com / www.enamdirect.in Email: directresearch@enam.com