



ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,560	ICICIBC IN
	REUTERS CODE
S&P CNX: 5,215	ICBK.BO

19 October 2007

Under Review

Previous Recommendation: Neutral

Rs1,024

Equity Shares (m)	1,108.3
52-Week Range	1,180/719
1,6,12 Rel.Perf.(%)	-2/-17/0
M.Cap. (Rs b)	1,136.1
M.Cap. (US\$ b)	28.5

YEAR	NET INCOME	PAT	EPS	EPS	P/E*	P/BV*	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	125,650	31,102	34.6	21.2	20.4	2.6	11.7	13.4	1.0	2.8
3/08E	168,868	40,648	36.7	6.0	19.2	1.7	14.2	11.4	1.0	1.7
3/09E	223,528	53,980	48.7	32.8	14.5	1.5	12.4	11.0	1.1	1.6

*Adjusted for Rs320/sh of subsidiaries value

- 2QFY08 net profit grew 33% YoY higher than our estimates (28%) on account of higher treasury profits and income from subsidiaries. Reported NII growth was 34% as margins improved on account of capital raising. NIM improved to 2.23% in 2QFY08 v/s 1.95% in 1QFY08 and 2.13% in 2QFY07. Cost of funds as well as yields declined QoQ.
- Loan growth slowed down to 33% YoY in 2QFY08 driven by traction in international loan book. Retail disbursements were down by 16% YoY driven by 23% YoY decline in mortgage disbursements. Deposit growth was lower at 20% YoY as bank avoided term deposits on account surplus liquidity post capital raising. CASA ratio improved to 25.4%.
- Other income rose 32% YoY on account of strong income from venture capital funds. Fee income growth slowed down to 25% YoY. Treasury income increased 16% YoY to Rs2.75b in 2QFY08 mainly on account of stake sales in some strategic investments. Miscellaneous other income grew 183% YoY (26% QoQ) to Rs4.1b driven by gains from venture capital fund.
- Gross NPAs in absolute numbers (including Rs3.6b of mortgage NPAs sell off during 2QFY08) increased sharply by 17% QoQ, 91% YoY and net NPAs by 20% QoQ, 113% YoY. Net NPAs rose to 1.4% v/s 1.3% in 1QFY08.
- Adjusting for value of subsidiaries of Rs320/sh (post 20% holding discount), the stock trades at 1.5x FY09E BV. While, we expect margins to improve over the next few quarters resulting in stronger NII growth, the trend is asset quality remains disappointing. The stock has underperformed the BSE Sensex by 17% in last 6 months (since our downgrade, ICICI Bank is up 9% v/s Sensex return of 26%). We believe that valuations will respond positively to any improvement in the key parameters of NIMs, NPAs, subs. valuations. We place our recommendation **Under Review**.

QUARTERLY PERFORMANCE

(RS MILLION)

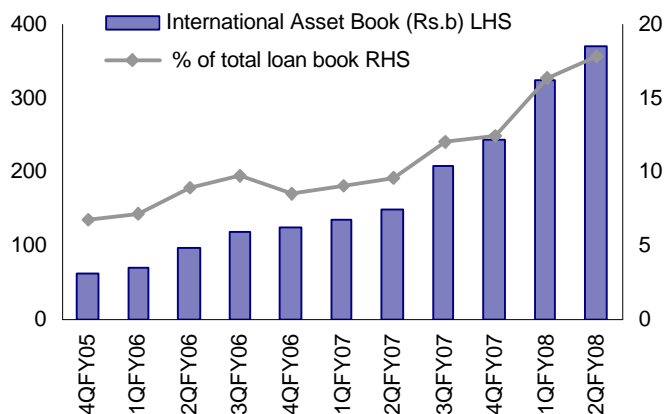
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	47,721	52,267	56,007	63,956	73,308	75,165	81,178	89,523	219,956	319,174
Interest Expense	35,634	38,924	41,159	47,869	58,519	57,305	60,170	64,409	163,585	240,403
Net Interest Income	12,088	13,343	14,848	16,087	14,790	17,860	21,008	25,114	56,371	78,771
Growth (%)	N.M.	N.M.	N.M.	N.M.	22.4	33.9	41.5	56.1	19.7	39.7
Other Income	12,776	15,701	19,806	21,000	19,506	20,719	23,000	26,872	69,279	90,097
Net Income	24,863	29,044	34,654	37,087	34,295	38,579	44,008	51,985	125,650	168,868
Operating Expenses	15,215	15,352	17,133	19,206	19,053	19,708	21,800	24,855	66,906	85,416
Operating Profit	9,648	13,691	17,521	17,881	15,242	18,871	22,208	27,130	58,744	83,452
Growth (%)	-0.6	31.1	46.7	20.7	58.0	37.8	26.7	51.7	51.1	42.1
Provisions and Contingencies	2,169	4,660	6,670	8,760	5,523	6,445	7,800	12,874	22,294	32,642
Profit before Tax	7,480	9,031	10,852	9,121	9,720	12,427	14,408	14,256	36,450	50,810
Provision for Taxes	1,286	1,475	1,751	870	1,969	2,401	3,026	2,767	5,348	10,162
Net Profit	6,194	7,556	9,101	8,251	7,751	10,026	11,382	11,489	31,102	40,648
Growth (%)	16.9	30.3	42.2	4.5	25.1	32.7	25.1	39.2	22.4	30.7
Interest Expense/Interest Income (%)	74.7	74.5	73.5	74.8	79.8	76.2	74.1	71.9	74.4	75.3
Other Income/Net Income (%)	51.4	54.1	57.2	56.6	56.9	53.7	52.3	51.7	55.1	53.4
Cost /Income (%)	61.2	52.9	49.4	51.8	55.6	51.1	49.5	47.8	53.2	50.6

E: MOST Estimates; *Amortisation on HTM investments deducted from NII

International book driving growth

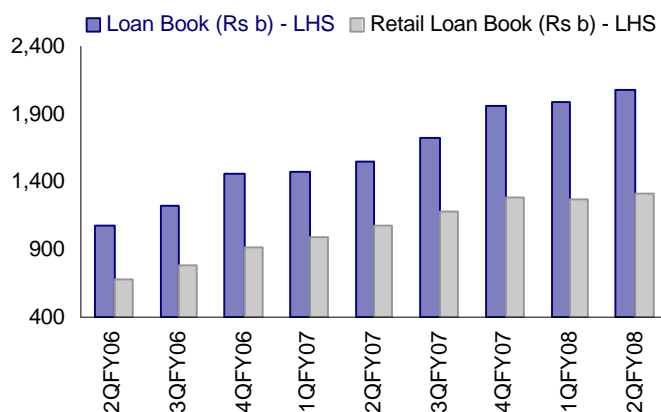
Loan growth slowed down to 33% YoY in 2QFY08 driven by the international loan book. On a QoQ basis loan growth was 4.5%. The retail loan book grew by 22% YoY, down from 29% in 1QFY08 and 39% in FY07. Retail disbursements were down by 16% YoY driven by 23% YoY decline in mortgage disbursements. Slowdown in retail has been offset by strong growth in international loan book (+146% YoY; accounts for 17.9% of the total advances vs 9.7% a year ago and 16.4% a quarter ago). Going forward, the slower disbursements in retail over the last few quarters would lead to retail loan book growth to be slower in FY08, while corporate and international would drive growth for ICICI Bank.

ICICI BANK: INTERNATIONAL LOAN BOOK – STRONG GROWTH



Source: Company/Motilal Oswal Securities

TREND IN LOAN AND RETAIL BOOK

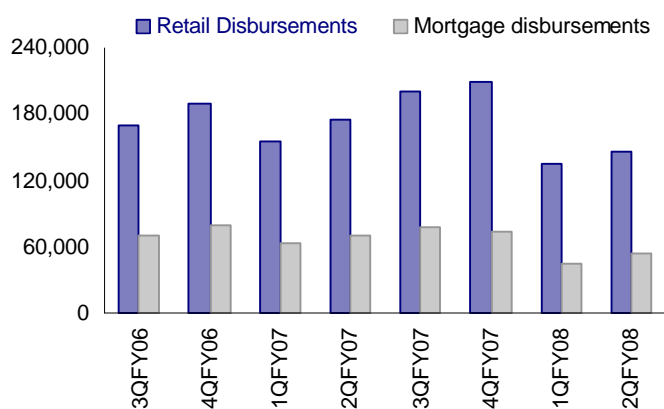


Source: Company/Motilal Oswal Securities

Deposit growth slowing

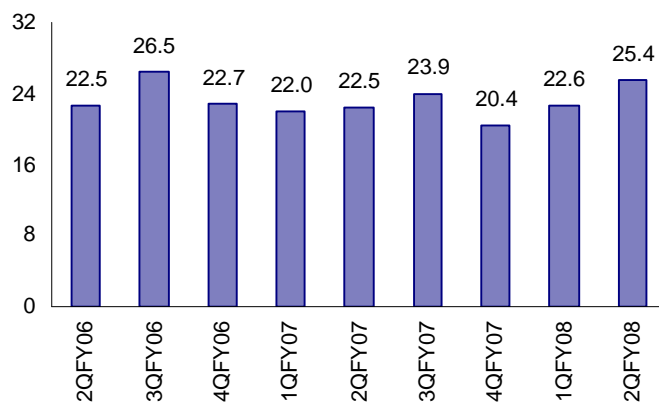
Deposit growth slowed to 20% in 2QFY08 from 28% in 1QFY08 and 40% in FY07. Savings accounts grew by 29% while current accounts, by 48% YoY. CASA ratio increased to 25.4% in 2QFY08 from 22.5% in 2QFY07. While total deposits reduced by 1% QoQ, term deposits registered a decline of 5%. Cost of funds reduced by 10bp QoQ from 7.7% in 1QFY08 to 7.6%. Bank has replaced some of its high cost bulk deposits with the equity money raised during the quarter – leading to overall shrinkage in term deposits for the bank.

TREND IN RETAIL DISBURSEMENT AND MORTGAGE DISBURSEMENT



Source: Company/Motilal Oswal Securities

CASA RATIO % INCREASING AS HIGH COST DEPOSITS ARE REPAYD



Source: Company/Motilal Oswal Securities

NIMs improve on account of capital raising

Margins improved by 10bps to 2.23% YoY. The impact of ~Rs20b of capital raising during July 07 enabled the bank to improve NIM by 28bp QoQ. Excluding the impact of capital raising NIM improvement was marginal at ~5-6bp.

BREAK-DOWN OF NIIM (%)

	FY07*				FY08*	
	1Q	2Q	3Q	4Q	1Q	2Q
Yield on Advances	9.4	9.8	10.0	10.5	11.0	11.0
Cost of Deposits	5.8	6.1	6.3	6.7	7.9	7.7
Cost of Funds	6.2	6.5	6.5	7.0	7.8	7.7
NIMs	2.1	2.1	2.3	2.3	2.0	2.2

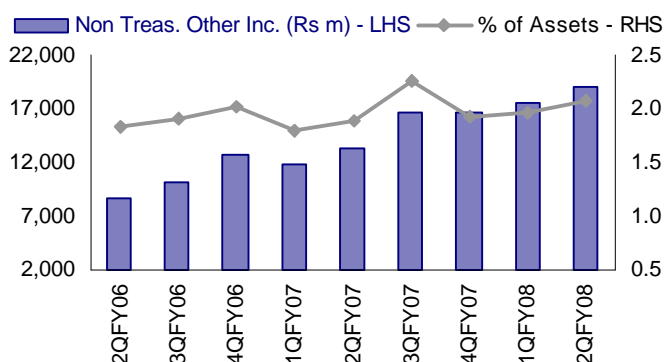
Source: Company/ Motilal Oswal Securities (* NIM adjusted for amortization expense reclassification as part of NII)

We expect a gradual increase in margins over the next few quarters, with a larger impact coming in 4QFY08 and 1QFY09, as the high cost liabilities would get repriced. With a large number of new branches expected to be rolled out (~400 branches) over the next 6-9 months, growth in CASA deposits is likely to remain strong for the bank which shall support margin over the longer run.

Fee income growth slows down to 25% YoY

Fee income growth slowed down to 25% YoY vs 35% in 1QFY08 and 29% in 4QFY07. The uncertainty on ECBs raising by corporates on account of revised guidelines from RBI have impacted growth in fee income. Out of total fees, retail accounts for 56% while corporates and international business account 40%. Management guided for fee income growth to accelerate over the next few quarters to ~30% growth levels.

NON TREASURY OTHER INCOME – AS % OF ASSETS



Source: Company/Motilal Oswal Securities

Treasury gains and misc. other income grew fast

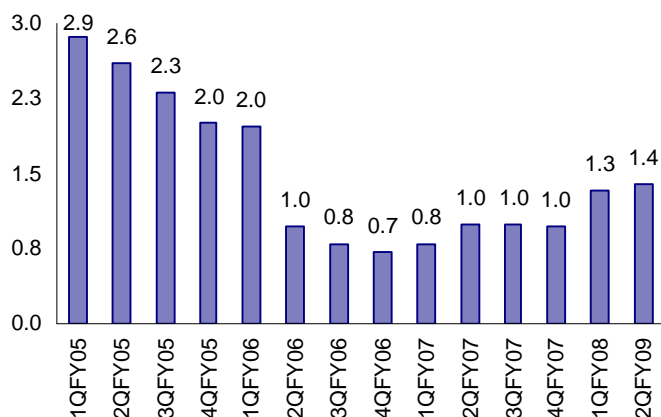
Treasury income increased 16% YoY to Rs2.75b in 2QFY08 mainly on account of stake sales in some strategic investments. The bank took a MTM hit of Rs1b on its investments in overseas credit derivatives instruments. Miscellaneous other income grew 183% YoY (26% QoQ) to Rs4.1b driven by gains from venture capital fund.

Asset quality worsens - net NPAs at 1.4%

Our concerns on asset quality aggravated with net NPAs being at 1.4%. Gross NPAs in absolute numbers (including Rs3.6b of mortgage NPAs sell off during 2QFY08) increased sharply by 17% QoQ, 91% YoY. Net NPAs increased by 20% QoQ and 113% YoY. Provisions continued to remain high as uncollateralized retail loans have been growing faster. ICICI Bank provided Rs5.7b (a YoY growth of 67% and QoQ growth of 13%) for NPAs during the quarter. Management reiterated that increase in NPAs have been mainly on account of the faster growth in high yielding unsecured loans.

The fast deterioration in asset quality of the bank remains our key concern, especially in an environment where all other banks are reporting improvement in their asset book. Considering the increasing trend in NPAs for the bank, we also believe that the NPA provisions would increase going forward.

NET NPAS QOQ (%)



Source: Company/Motilal Oswal Securities

ICICI Prudential's market share declines

ICICI Pru Life maintained its leadership amongst private players with 26% share based on APE. However, the share has dropped from 29% in FY07. NBAP for 1HFY08 was Rs4.32b vs Rs3.47b in 1HFY07 - a growth of 25%. NBAP margins were at 19.7% The new premium (based on APE) grew by 45% YoY in 1HFY08 for the company (vs 93% in FY07). Management guided of 60%+ growth in APE for FY08.

Recommendation; Under Review

Adjusted for the value of its subsidiaries of Rs320/sh (post 20% holding company discount and on a diluted basis), the stock trades at 1.5x FY09E BV. On account of its recent US\$5b capital raising, RoEs would remain subdued at ~11% over next two years.

While, we expect margins to improve over the next few quarters resulting in stronger NII growth, the trend is asset quality remains dissapointing.

The stock has underperformed the BSE Sensex by 17% in last 6 months (since our downgrade, ICICI Bank is up 9% v/s Sensex return of 26%). It has also underperformed other large banks - SBI (up 52%), HDFC Bank (up 34%) and Axis Bank (82%) in this time period. We believe that valuations will respond positively to any improvement in the key parameters of NIMs, NPAs, subs valuations. We place our recommendation **Under Review**.

ICICI Bank: an investment profile

Company background

ICICI Bank was incorporated in 1994 under the leadership of the erstwhile ICICI Ltd. Bank of Madura was merged with it during 2001. In 2002, the entity underwent a reverse merger with its promoter ICICI Ltd. and emerged as the largest private sector bank in India. This was followed by a fundamental shift in the business profile from project and corporate businesses to retail loans. The bank has a balance sheet size of Rs3,650b and a wide geographical reach with 950 branches; extension counters and about 3,600 ATMs across the country.

Key investment arguments

- ✍ Robust loan growth with improving margin would result in significant net interest income growth; fee income is expected to remain buoyant
- ✍ Subsidiaries hold significant values
- ✍ Capital dilution to result in lower ROEs and value derating for the stock

Key investment risks

- ✍ NPAs have been increasing over the last few quarters and have reached 1.4% (net) as on September 2007
- ✍ NIM continues to be one of the lowest in the industry

Recent developments

- ✍ Completed Rs200b follow on offering
- ✍ Amalgamated Sangli Bank with itself

Valuation and view

- ✍ Robust loan growth, high fee income and reduction in net NPAs will be the key triggers to watch out for.
- ✍ We value subsidiaries at Rs320. Adjusting for the value of its subsidiaries, ICICI trades 1.5x FY09E book and 14.5x FY09E EPS.

Sector view

- ✍ YTD loan growth of 22% and deposit growth of 24%
- ✍ Macro economic factors remain conducive for strong profitable growth for Indian Banks
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings, valuations.
- ✍ We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		ICICI BANK*	HDFC BANK	AXIS BANK
P/E (x)	FY08E	19.2	30.7	28.6
	FY09E	14.5	22.1	20.3
P/BV (x)	FY08E	1.7	4.1	3.4
	FY09E	1.5	3.5	3.0
RoE (%)	FY08E	11.4	17.2	17.2
	FY09E	11.0	17.1	15.9
RoA (%)	FY08E	1.0	1.4	1.1
	FY09E	1.1	1.5	1.2

* Valuations adjusted for Rs320 per share of sub

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	0.0	0.0	0.0
Domestic Inst	16.0	16.6	15.4
Foreign	70.3	70.9	72.6
Others	13.7	12.6	11.9

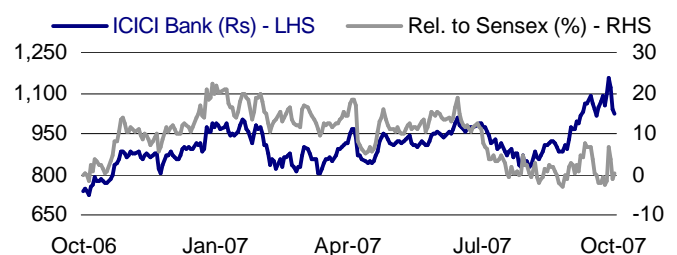
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	36.7	38.3	-4.3
FY09	48.7	48.3	0.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,024	1,010	-	UR

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E March	2006	2007	2008E	2009E	
Interest Income	135,039	219,956	319,174	402,259	
Interest Expended	95,974	163,585	240,403	293,060	
Net Interest Income	39,064	56,371	78,771	109,198	
Change (%)	46.2	44.3	39.7	38.6	
Other Income	49,831	69,279	90,097	114,329	
Profit on sale of inv.	6,963	10,802	8,000	8,500	
Other non-int. inc.	42,869	58,477	82,097	105,829	
Net Income	88,896	125,650	168,868	223,528	
Change (%)	46.0	41.3	34.4	32.4	
Operating Exp.	50,012	66,906	85,416	111,616	
Employee Exp.	10,823	16,167	22,494	30,206	
Operating Income	38,884	58,744	83,452	111,912	
Change (%)	61.1	51.1	42.1	34.1	
Provisions & cont.	7,918	22,294	32,642	39,939	
Provision for NPAs	7,947	14,283	26,442	31,739	
PBT	30,966	36,450	50,810	71,973	
Tax	5,565	5,348	10,162	17,993	
PAT	25,401	31,102	40,648	53,980	
Change (%)	26.7	22.4	30.7	32.8	
Proposed Dividend	7,593	8,993	11,083	12,192	

BALANCE SHEET		(Rs Million)			
Y/E March	2006	2007	2008E	2009E	
Capital	8,898	8,993	11,083	11,083	
Preference Capital	3,500	3,500	3,500	3,500	
Reserves & Surplus	213,162	234,139	460,370	500,085	
Net Worth	225,560	246,633	474,953	514,668	
Deposits	1,650,830	2,305,100	2,927,477	3,717,896	
Change (%)	65.4	39.6	27.0	27.0	
Borrowings	385,221	706,613	777,274	932,729	
Other Liabilities & Prov.	252,281	188,235	239,059	303,605	
Total Liabilities	2,513,890	3,446,581	4,418,763	5,468,898	
Current Assets	170,402	371,213	432,663	430,454	
Investments	715,474	912,578	1,186,352	1,506,667	
Change (%)	41.7	27.5	30.0	27.0	
Advances	1,461,631	1,958,656	2,559,635	3,249,788	
Change (%)	59.9	34.0	30.7	27.0	
Net Fixed Assets	39,807	39,234	42,234	44,534	
Other Assets	126,575	164,899	197,879	237,455	
Total Assets	2,513,890	3,446,581	4,418,763	5,468,898	

ASSUMPTIONS	(%)			
Deposit Growth	65.4	39.6	27.0	27.0
Advances Growth	59.9	34.0	30.7	27.0
Investments Growth	41.7	27.5	30.0	27.0
Dividend	85.0	100.0	100.0	110.0

E: Most Estimates

RATIOS					
Y/E March	2006	2007	2008E	2009E	
Spreads Analysis (%)					
Avg. Yield - Earning Assets	7.0	7.9	8.7	8.6	
Avg. Cost-Int. Bear. Liab.	5.7	6.5	7.2	7.0	
Interest Spread	13	14	15	16	
Net Interest Margin	2.0	2.0	2.1	2.3	
Profitability Ratios (%)					
RoE	14.6	13.4	11.4	11.0	
RoA	12	10	10	11	
Int. Expended/Int. Earned	71.1	74.4	75.3	72.9	
Other Inc./Net Income	56.1	55.1	53.4	51.1	
Efficiency Ratios (%)					
Op. Exps./Net Income	56.3	53.2	50.6	49.9	
Empl. Cost/Op. Exps.	216	24.2	26.3	27.1	
Busi. per Empl. (Rs m)	98.9	110.7	128.3	138.4	
NP per Empl. (Rs lac)	10.0	9.3	10.7	12.0	
Asset-Liability Profile (%)					
Adv./Deposit Ratio	88.5	85.0	87.4	87.4	
Invest./Deposit Ratio	43.3	39.6	40.5	40.5	
G-Sec/Invest. Ratio	71.4	73.8	76.7	81.5	
Gross NPAs to Adv.	15	2.1	2.8	2.9	
Net NPAs to Adv.	0.7	1.0	1.5	1.5	
CAR	13.4	11.7	14.2	12.4	
Tier 1	9.2	7.4	10.4	8.7	
VALUATION					
Book Value (Rs)	249.6	270.3	425.4	461.2	
Price-BV (x)	2.8	2.6	1.7	1.5	
Adjusted BV (Rs)	241.9	255.9	403.0	433.2	
Price-ABV (x)	2.9	2.8	1.7	1.6	
EPS (Rs)	28.5	34.6	36.7	48.7	
EPS Growth (%)	4.9	21.2	6.0	32.8	
Price-Earnings (x)	24.7	20.4	19.2	14.5	
OPS (Rs)	43.7	65.3	75.3	101.0	
OPS Growth (%)	33.3	49.5	15.3	34.1	
Price-OP (x)	16.1	10.8	9.4	7.0	

E: Most Estimates

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

ICICI Bank

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.