

January 24, 2011

**Reco** Previous Reco  
Hold Hold  
**CMP** Target Price  
Rs1,084 Rs1,200

EPS change CY10E/11E (%) NA  
Target Price change (%) NA  
Nifty 5,743  
Sensex 19,151

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(4)	18	29
Rel. to Nifty	1	1	12	13

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector Banks  
Bloomberg ICICIBC@IN  
Equity Capital (Rs mn) 11486  
Face Value(Rs) 10  
No of shares o/s (mn) 1149  
52 Week H/L 1,277/773  
Market Cap (Rs bn/USD mn) 1,245/27,294  
Daily Avg Volume (No of sh) 4729191  
Daily Avg Turnover (US\$m) 116.5

### Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	-	-	-
FII/NRI	67.4	67.6	67.6
Institutions	23.3	23.0	23.7
Private Corp	3.8	3.8	2.6
Public	5.5	5.7	6.0

Source: Capitaline

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- **ICICI Bank's NII for Q3FY11 grew by 12.3% yoy Rs23.1bn driven by 6.4% qoq growth in advances and stable NIMs. Savings on provisions resulted in 30% yoy growth in profits**
- **The cost of funds incrementally could have seen sharp rise as it rose by 12bps qoq despite lower deposits. The reset in floating rate investments helped sustain NIMs**
- **The net addition to ICICI Bank's NPAs was almost zero during the quarter. Total/retail net slippages at Rs2.6bn/1.7bn only due to BoR merger**
- **Valuations at 2.2x FY11E/2.0x standalone FY12E ABV not unreasonable. Maintain HOLD rating with TP of Rs1200**

### Double digit yoy growth in NII after ten quarters

ICICI Bank's NII for Q3FY11 grew by 12.3% yoy (4.9% qoq) driven by stable NIMs and 6.4% qoq growth in advances. Adjusted for BoR, the growth could have been 7.6% yoy.

### Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.6	8.5	8.3	8.3	8.3	-29	-4
Yield on investments*	5.6	5.1	5.3	5.8	6.3	73	48
Yield on assets*	6.7	6.5	6.4	6.7	6.8	10	15
Cost of funds*	4.5	4.2	4.2	4.4	4.5	2	12
NIM*	2.3	2.3	2.2	2.3	2.4	8	2
NIM (Reported)	2.5	2.6	2.6	2.6	2.6	10	0

Source: Company, Emkay Research

Note:\* Calculated on basis of average quarterly balances

### Adjusted NII

Rs mn	Q3FY10	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
ICICI Bank	20,581	22,044	23,117	12.3	4.9
BoR	900				
ICICI Bank consolidated	21,480	22,044	23,117	7.6	4.9

Source: Company, Emkay Research

### Partially aided by investment yields and expanding CDR

Despite sharp rise in cost of funds, the NIMs were maintained at 2.6% driven by improved yield on investments (as some floating rate investments got repriced upwards) and also as the CDR expanded to ~95%, up almost 700bps qoq (including international book). Even the domestic CDR would have expanded by ~600bps qoq.

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY09	159,703	37,581	33.8	404.0	1.0	7.8	31.5	2.6
FY10	155,920	39,307	35.3	428.5	1.1	8.0	30.2	2.5
FY11E	162,284	51,692	46.4	484.5	1.4	9.4	22.9	2.2
FY12E	192,185	62,284	55.9	532.1	1.5	10.2	19.0	2.0

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	20,581	20,349	19,910	22,044	23,117	12.3	4.9	65,071	60,794	7.0
Other Income	14,710	18,910	16,800	15,780	17,488	18.9	10.8	50,068	53,848	-7.0
Fee Income	14,220	15,210	14,130	15,900	16,250	14.3	2.2	46,280	41,280	12.1
Net Income	35,291	39,259	36,710	37,824	40,605	15.1	7.4	115,139	114,642	0.4
Total Operating Expenses	13,624	15,269	14,835	15,699	17,179	26.1	9.4	47,713	43,329	10.1
As % Of Net Income	38.6	38.9	40.4	41.5	42.3			41.4	37.8	
Employee Expenses	4,270	5,827	5,756	6,243	7,605	78.1	21.8	19,603	13,431	46.0
As % Of Net Income	12.1	14.8	15.7	16.5	18.7			17.0	11.7	
Other Expenses	9,041	8,984	8,721	9,106	9,170	1.4	0.7	26,997	29,101	-7.2
As % Of Net Income	25.6	22.9	23.8	24.1	22.6			23.4	25.4	
Operating Profit	21,667	23,991	21,876	22,125	23,426	8.1	5.9	67,426	71,313	-5.5
As % Of Net Income	61.4	61.1	59.6	58.5	57.7			58.6	62.2	
Provisions	10,022	9,898	7,978	6,410	4,643	-53.7	-27.6	19,031	33,971	-44.0
PBT	13,665	14,093	13,897	15,715	18,783	37.5	19.5	48,395	39,362	23.0
Total Tax	2,656	4,036	3,643	3,345	4,413	66.1	31.9	11,401	9,168	24.4
Adjusted PAT	9,382	10,057	10,255	12,369	14,370	53.2	16.2	36,994	28,567	29.5
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	11,009	10,057	10,255	12,369	14,370	30.5	16.2	36,994	30,194	22.5
Reported EPS	9.9	9.0	9.2	10.7	12.5	26.3	16.1	32.4	27.1	19.6

Source: Company, Emkay Research

Note: Numbers not strictly comparable due to merger of BoR with ICICI Bank wef August 12, 2010

**Incr cost of funds moving up sharply; NIMs may come under pressure**

Despite having redeemed its term deposits by ~2.8% sequentially, the cost of funds for Q3FY11 has still gone up by ~12bps indicating that the cost of incremental deposits is sharply higher than the retiring deposits. The costs can move up even higher as the deposit repricing usually happens over longer period of time. A 50bps increase in the lending rates effective from this quarter would help mitigate the costs partially.

**Advances grow 6.4% qoq on higher base**

The advances have grown by 6.4% qoq to Rs2.1tn. The advances have in fact grown on higher base as Bank of Rajasthan advances (Rs65.3bn) were consolidated with ICICI Bank in Q2FY11. The growth was driven by strong qoq jump in PSL loans (rural), SME and large corporate business.

**Advances mix**

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Retail	807	790	763	781	790	-2.1	1.1	38.2
International	466	453	479	486	504	8.2	3.9	24.4
Rural	125	181	166	136	153	21.9	12.5	7.4
SME	72	72	74	78	87	21.1	11.8	4.2
Others	323	315	362	462	533	65.3	15.5	25.8
<b>Total</b>	<b>1,793</b>	<b>1,812</b>	<b>1,844</b>	<b>1,942</b>	<b>2,067</b>	<b>15.3</b>	<b>6.4</b>	<b>100.0</b>

Source: Company, Emkay Research

**Retail book largely remains stable**

The retail asset book grew by just 1.1% qoq as the bank continued to reduce exposure to unsecured loans. Also, the disbursements to retail segment at Rs71bn in Q3FY11 were lower than Rs78bn in Q2FY11.

**Retail advances mix**

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
2-wheelers	8	8	0	-	5	-41.3	NA	0.6
Cars	81	79	76	70	71	-11.9	1.1	9.0
CV	113	126	122	117	121	7.0	3.1	15.3
Personal loans	56	47	38	31	25	-55.3	-19.1	3.2
Credit cards	48	40	38	31	32	-34.8	1.1	4.0
Mortgages	484	474	473	508	517	6.8	1.9	65.5
Others	16	16	15	23	19	17.4	-19.1	2.4
<b>Total</b>	<b>807</b>	<b>790</b>	<b>763</b>	<b>781</b>	<b>790</b>	<b>-2.1</b>	<b>1.1</b>	<b>100</b>

Source: Company, Emkay Research

**Sheds term deposits; decline in current deposits due to ASBA**

The CASA during the quarter has expanded by 22bps qoq to 44.2% despite healthy balance sheet growth. As there were no big primary market issuances this quarter, the current account deposits have declined 9.1% qoq due to drop in ASBA balances.

**CASA Mix**

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Savings Deposits	272	310	281	348	317	16.5	-9.1
Current Deposits	511	532	565	633	646	26.5	2.0
CASA	782	842	846	981	962	23.0	-1.9
Term deposits	1,194	1,178	1,163	1,250	1,215	1.8	-2.8
Total Deposits	1,977	2,020	2,009	2,231	2,177	10.2	-2.4
CASA (%)	39.6	41.7	42.1	44.0	44.2	461	22

Source: Company, Emkay Research

**Strong corporate business continues to drive fees**

The fee income grew by 14.3% yoy driven by the corporate business. The fee income as % of assets continued to be strong at 1.7% vs 1.5% average for FY10.

**Other income**

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	14,220	15,210	14,130	15,900	16,250	14.3	2.2	32,150	27,410	17.3
Trading gains/(losses)	-260	1,960	1,040	-1,440	210	-180.8	-114.6	-1,230	6,880	-117.9
Others	750	1,740	1,630	1,320	1,028	37.1	-22.1	2,348	1,320	77.9
<b>Total</b>	<b>14,710</b>	<b>18,910</b>	<b>16,800</b>	<b>15,780</b>	<b>17,488</b>	<b>18.9</b>	<b>10.8</b>	<b>33,268</b>	<b>35,610</b>	<b>-6.6</b>

Source: Company, Emkay Research

**Integration of BoR hurts core profitability**

Since, Q3FY11 number had full impact of BoR merger, the operating profit growth was lower than the revenue growth. During BOR expenses were to the tune of Rs900mn. In FY09 and FY10, BOR's cost/income ratios were at almost 87% and 105% respectively.

**Core operating profit growth**

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	21,667	23,991	21,876	22,125	23,426	8.1	5.9	67,426	71,313	-5.5
Less: Treasury gains	-260	1,960	1,040	-1,440	210			-190	9,848	-101.9
<b>Adjusted operating profit</b>	<b>21,927</b>	<b>22,031</b>	<b>20,836</b>	<b>23,565</b>	<b>23,216</b>	<b>5.9</b>	<b>-1.5</b>	<b>67,616</b>	<b>61,465</b>	<b>10.0</b>

Source: Company, Emkay Research

### Improvement in slippages continues

The moderation in slippages continued as ICICI Bank has virtually nil NPAs on incremental basis, The provision cover stood at 71.8%.

#### Asset quality

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	90,700	96,270	99,770	102,330	102,300	12.8	0.0
Net NPAs	44,160	39,010	35,140	31,920	28,727	-34.9	-10.0
Gross NPAs (%)	5.1	5.3	5.4	5.3	4.8		
Net NPAs (%)	2.2	1.9	1.6	1.4	1.4		
Net NPAs/Net worth (%)	8.5	7.6	6.7	5.9	5.2		
Provision cover (%)	51.3	59.5	64.8	68.8	71.9		

Source: Company, Emkay Research

### Overseas subsidiaries remain stable

The performance of UK and Canada banking subsidiaries continued to remain stable as the profitability continued to improve qoq.

Profit after tax	UK (USD mn)	Canada (CAD mn)
Q1	9.0	6.5
Q2	8.4	7.6
Q3	11.0	10.7
<b>M9FY11</b>	<b>28.4</b>	<b>24.8</b>

Source: Company, Emkay Research

During Q3FY11, the UK subsidiary's contracted by 2.8% qoq; however the much of the mobilisations were parked in cash and liquid securities. Canada subsidiary's book continued to shrink as the same was down 6.0% qoq.

#### UK subsidiary asset book

USD bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Cash & liquid securities	0.8	1.3	0.8	1.1	1.2	40.0	6.9
Loans & advances	3.9	3.8	3.9	4.0	4.0	1.4	-0.1
India linked investments	0.5	0.4	0.3	0.3	0.3	-36.2	-0.3
Bonds/notes of fin inst	1.9	1.4	1.2	1.3	1.1	-39.9	-13.0
Asset backed securities	0.2	0.1	0.1	0.1	0.1	-20.7	-17.4
Other assets & investments	0.3	0.4	0.4	0.4	0.4	19.0	-17.4
<b>Total</b>	<b>7.5</b>	<b>7.4</b>	<b>6.9</b>	<b>7.2</b>	<b>7.0</b>	<b>-6.7</b>	<b>-2.8</b>

Source: Company, Emkay Research

#### Canada subsidiary asset book

CAD bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Cash & liquid securities	0.8	1.2	0.7	0.8	0.7	-5.3	-10.7
India linked investments	0.2	0.2	0.2	0.2	0.1	-32.5	-21.7
Federally insured mortgage	0.9	0.6	0.4	0.2	0.3	-63.8	57.5
Loans to customers	3.5	3.3	3.5	3.4	3.1	-12.2	-8.6
Asset backed securities	0.1	0.1	0.1	0.1	0.1	-31.1	-20.1
Other assets & investments	0.3	0.3	0.4	0.4	0.4	5.3	4.7
<b>Total</b>	<b>5.8</b>	<b>5.7</b>	<b>5.2</b>	<b>5.0</b>	<b>4.7</b>	<b>-19.0</b>	<b>-6.0</b>

Source: Company, Emkay Research

### Other subsidiaries' performance robust

The performance of non-banking subsidiaries was robust during the quarter as the profits in almost all businesses improved significantly.

**Profit after tax**

Rs bn	M9FY11	M9FY10	% yoy chg
ICICI Securities Ltd.	520	1,070	-51.4
ICICI Securities PD	890	390	128.2
ICICI Venture	710	830	-14.5
ICICI Prudential Asset Management	360	900	-60.0
ICICI Home Finance Company	1,610	980	64.3
ICICI Prudential Life Insurance	5,130	-980	-623.5
ICICI Lombard General Insurance	2,100	1,320	59.1
<b>Total</b>	<b>11,320</b>	<b>4,510</b>	<b>151.0</b>

Source: Company, Emkay Research

# Profit for ICICI Prudential Life Insurance includes surplus in non-participatory policies

**Capital adequacy remains comfortable**

The bank is comfortably placed with Capital adequacy at 20.0% and tier I at 13.76%.

**Valuations and view**

We maintain our estimates of 25% CAGR in earnings over FY10-12E for ICICI Bank with core RoE of 12.5% (10% in FY10) as the credit costs come down. We have valued the banking (including subsidiary) operations of ICICI Bank at 2x on FY12E P/ABV and maintain HOLD rating with price target of Rs1200.

**Key Financials****Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	83,666	81,144	91,357	108,451
Other income	76,037	74,777	70,927	83,734
Net income	159,703	155,920	162,284	192,185
Operating expenses	70,451	58,598	65,943	74,815
Pre provision profit	89,252	97,322	96,340	117,370
PPP excl treasury	71,248	90,005	95,530	116,560
Provisions	38,113	43,899	28,325	34,325
Profit before tax	51,140	53,423	68,015	83,045
Tax	13,558	13,173	16,324	20,761
Tax rate	26.51%	24.66%	24.00%	25.00%
Profit after tax	37,581	40,250	51,692	62,284

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Liabilities</b>				
Equity	11,133	11,149	11,510	11,510
Reserves	484,197	505,035	577,022	625,470
Net worth	495,330	516,184	588,532	636,980
Deposits	2,183,478	2,020,166	2,170,767	2,771,631
Borrowings	1,114,203	1,102,319	1,169,592	1,224,678
Total liabilities	3,793,011	3,638,668	3,928,891	4,633,290
<b>Assets</b>				
Cash and bank	299,666	388,737	263,832	336,860
Investments	1,004,582	1,172,574	1,245,772	1,449,040
Customer assets	2,209,109	1,848,410	2,177,123	2,605,277
Others	279,652	228,947	242,165	242,114
Total assets	3,793,011	3,638,668	3,928,891	4,633,290

**Key Ratios (%)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.1	2.2	2.4	2.4
Non-ll/avg assets	2.0	2.0	1.9	2.0
Fee income/avg assets	1.4	1.3	1.4	1.5
Opex/avg assets	6.8	5.5	5.0	5.5
Provisions/avg assets	1.8	1.6	1.7	1.7
PBT/avg assets	1.3	1.5	1.7	1.8
Tax/avg assets	0.4	0.4	0.4	0.4
RoA	1.0	1.1	1.4	1.5
RoAE	7.8	8.0	9.4	10.2
Core RoAE	9.2	9.4	11.4	12.4
GNPA (%)	4.3	4.7	5.4	5.3
NNPA (%)	2.1	2.1	1.4	1.0

**Valuations Table**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	37,581	39,307	51,692	62,284
Shares in issue (mn)	1,113	1,115	1,151	1,151
EPS (Rs)	33.8	35.3	44.9	54.1
PER (x)	31.5	30.2	23.7	19.7
FDEPS(Rs)	33.8	35.3	46.4	55.9
FDPER (x)	31.5	30.2	22.9	19.0
Book value (Rs)	444.9	463.0	511.3	553.4
P/BV (x)	2.4	2.3	2.1	1.9
Adj book value (Rs)	404.0	428.5	484.5	532.1
P/ABV (x)	2.6	2.5	2.2	2.0
P/PPP (x)	13.3	12.2	12.7	10.4
Dividend yield (%)	1.2	1.3	1.1	1.1

**Recommendation History: ICICI Bank – ICICIBC IN**

Date	Reports	Reco	CMP	Target
29/10/2010	<a href="#">ICICI Bank Q2FY11 Result Update</a>	Hold	1,162	1,200
02/08/2010	<a href="#">ICICI Bank Q1FY11 Result Update</a>	Hold	904	900
26/04/2010	<a href="#">ICICI Bank Q4FY10 Result Update</a>	Hold	976	900
22/01/2010	<a href="#">ICICI Bank Q3FY10 Result Update</a>	Hold	854	800

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
24/01/2011	<a href="#">State Bank of India Q3FY11 Result Update</a>	Accumulate	2,598	3,000
24/01/2011	<a href="#">United Bank of India Q3FY11 Result Update</a>	Buy	95	130
21/01/2011	<a href="#">Punjab National Bank Q3FY11 Result Update</a>	Buy	1,123	1,500
21/01/2011	<a href="#">Bank of India Q3FY11 Result Update</a>	Accumulate	461	510

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