ICICI Bank – BUY

(Q3 FY12)

Sector: Banking	
Sensex:	17,194
CMP (Rs):	902
Target price (Rs):	1,200
Upside (%):	33.3
52 Week h/l (Rs):	1138 / 641
Market cap (Rscr) :	103,962
6m Avg vol ('000Nos):	5,523
No of o/s shares (mn):	1,153
FV (Rs):	10
Bloomberg code:	ICICIBC IB
Reuters code:	ICBK.BO
BSE code:	532174
NSE code:	ICICIBANK

Prices as on 31 Jan, 2012

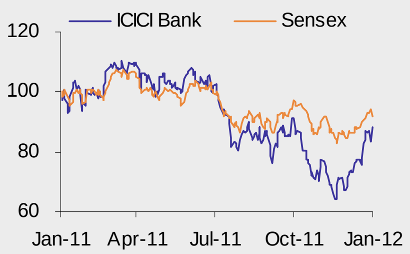
Shareholding pattern

December '11	(%)
Institutions	62.7
Non promoter corp hold	4.4
Public & others	32.9

Performance rel. to sensex

(%)	1m	3m	1yr
ICICI Bank	20.3	(0.3)	(5.6)
YES Bank	26.9	7.6	31.4
HDFC Bank	3.5	3.1	25.8
Axis Bank	21.7	(4.7)	(8.0)

Share price trend



- Brisk loan growth continues; bank set to achieve its target of 18% annual growth
- NIM improves by 10bps qoq; both domestic and international margin expand
- C/I ratio improves substantially on the back of higher non-interest income and margin
- Consistent improvement in asset quality was the key positive; annual credit cost guidance upgraded again
- Capital adequacy stands robust; RoA improves to multi-year high of 1.6%
- Robust performance amid challenging credit environment calls for a steep valuation re-rating

Result table

(Rs mn)	Q3 FY12	Q2 FY12	% qoq	Q3 FY12	% yoy
Total Interest Income	85,919	81,576	5.3	66,960	28.3
Interest expended	**(58,799)**	**(56,512)**	**4.0**	**(43,842)**	**34.1**
Net Interest Income	**27,120**	**25,064**	**8.2**	**23,117**	**17.3**
Other income	18,919	17,396	8.8	17,490	8.2
Total Income	**46,039**	**42,460**	**8.4**	**40,607**	**13.4**
Operating expenses	(19,168)	(18,922)	1.3	(17,179)	11.6
Provisions	(3,411)	(3,188)	7.0	(4,643)	(26.5)
PBT	23,460	20,350	15.3	18,786	24.9
Tax	(6,179)	(5,318)	16.2	(4,413)	40.0
Reported PAT	**17,281**	**15,032**	**15.0**	**14,372**	**20.2**
EPS	**60.0**	**52.2**	**14.9**	**49.9**	**20.1**

(Rs bn)	Q3 FY12	Q2 FY12	% qoq	Q3 FY12	% yoy
Loans	2,462	2,340	5.2	2,067	19.1
Deposits	2,606	2,451	6.3	2,177	19.7
LDR (%)	94.5	95.5	(1.0)	94.9	(0.5)
Total assets	4,593	4,407	4.2	3,929	16.9

Key Ratios (%)	Q3 FY12	Q2 FY12	% qoq	Q3 FY12	% yoy
NIM (%)	**2.7**	**2.6**	**0.1**	**2.6**	**0.1**
Yield on adv (%)*	10.0	10.1	(0.0)	8.6	1.4
Yield on inv (%)*	7.0	6.6	0.4	6.6	0.4
CASA (%)	**43.6**	**42.1**	**1.5**	**44.2**	**(0.6)**
C/D (%)	**94.5**	**95.5**	**(1.0)**	**94.9**	**(0.5)**
Non-int income (%)	41.1	41.0	0.1	43.1	(2.0)
Cost to Income (%)	**41.6**	**44.6**	**(2.9)**	**42.3**	**(0.7)**
Prov/Income (%)	7.4	7.5	(0.1)	11.4	(4.0)
BV (Rs)	529.0	508.5	20.5	481.4	47.6
RoE (%)	**11.9**	**10.7**	**1.2**	**10.7**	**1.2**
RoA (%)	1.6	1.4	0.2	1.5	0.1
CAR (%)	**18.9**	**19.0**	**(0.1)**	**20.0**	**(1.1)**
Gross NPA (%)	**3.8**	**4.1**	**(0.3)**	**4.8**	**(0.9)**
Net NPA (%)	0.8	0.8	0.0	1.4	(0.6)

*Source: Company, India Infoline Research. *calculated*

Brisk loan growth continues; bank set to achieve its target of 18% annual growth

ICICI Bank's advances grew strongly at 19% yoy and 5% qoq in Q3 FY12. Consistent with the previous quarter, robust growth was witnessed in the corporate book (15% qoq and 22% yoy) and marginal growth (1% qoq and 4% yoy) was registered in retail segment. The growth in corporate segment was mainly driven by working capital loans and strong disbursements in the sanctioned limits. Within the retail segment, growth was strong in auto loans (7% qoq and 12% yoy; contrary to averseness shown in the past) while bank continued to run down personal loans and credit cards. The share of these credit segments has combined declined by 400bps to 4% over the past five quarters. Healthy growth was also witnessed in SME segment (5% qoq and 33% yoy). For the full-year, ICICI Bank maintained its loan growth target at 18%. Bank's deposits growth was slightly higher than loan growth at 6% qoq; daily average CASA balance was higher at 39% v/s 38.3% in the previous quarter. While admitting that mobilizing CASA is difficult in a high interest rate environment, the bank targets to sustain average CASA ratio at ~40% in the longer term.

NIM improves by 10bps qoq; both domestic and international margin expand

Beating our expectation of steady NIM, ICICI delivered a sequentially higher margin at 2.7%. The bank reported improvement in both domestic (6bps qoq to 2.98%) and international (30bps qoq to 1.4%) margins. The significant improvement in overseas NIM was driven by lagged re-pricing of book and maturing of some lower-yielding loans. The domestic margin expansion was a function of higher yield on investments and improved CASA contribution. The bank expects NIM to remain near 2.7% in the medium term.

C/I ratio improves substantially on the back of higher non-interest income and margin

Fee income traction (flat qoq and 5% growth yoy) continues to be weak impacted by moderation in corporate banking fees (slowdown in new project announcements). MTM provisioning on equity investments led to a treasury loss of Rs650mn. Other non-interest income jumped on sequential basis driven by dividend income of ~Rs1.5bn from the life insurance subsidiary. Such quarterly dividends are expected to continue. After having increased substantially in the previous quarter due to strong headcount addition and salary revisions, employees cost was flat during Q3 FY12. Other opex rose by modest 3% qoq. Aided by higher non-interest income, benign opex and improved margin, C/I ratio declined substantially from 44.6% to 41.6% on sequential basis.

Consistent improvement in asset quality was the key positive; annual credit cost guidance upgraded again

The key positive highlight of the bank's performance was continued improvement in asset quality. Absolute GNPLs declined both on qoq and yoy basis. Fresh addition to GNPL was modest (Rs8.8bn; 1.5% slippage ratio) while recoveries and upgradations were robust (combined Rs11.5bn). There was a material improvement in GNPL ratio on sequential basis to 3.8% from 4.1%. In response to the encouraging trend witnessed in asset quality, provisioning was kept benign at Rs3.4bn with annualized credit cost at 0.6%. However, it was enough to marginally improve the PCR (79%) and sustain net NPL ratio at 0.8%. Credit cost guidance for the year was upgraded to utmost 70bps (was previously upgraded to <80bps post Q2 FY12 results) on the back of resilient 9m performance and sanguine outlook. As seen for other banks, restructuring was sequentially higher for ICICI bank also at Rs8.8bn. The bank has outstanding CDR proposals of Rs13bn which include corporates like GTL Infra and 3i Infotech. The restructured book comprised 1.25% of advances.

Capital adequacy stands robust; RoA improves to multi-year high of 1.6%

ICICI Bank's CAR and Tier-1 ratio stood at 19% and 13% respectively. At the current pace of credit growth, the bank seems well-capitalized for the next 2-3 years. Material improvement in C/I ratio and improvement in asset quality drove substantial RoA expansion of 20bps qoq. At 1.6% for Q3 FY12, it stands at a multi-year high. RoE improved by 100bps qoq to 11.9% due to higher RoA. We expect RoA to remain near 1.4% in the medium term aided by steady NIM and modest credit cost (expected at 75bps in FY13 also). RoE, on the other hand, is likely to improve by ~200bps over the next two years driven by higher financial leverage.

Robust performance amid challenging credit environment calls for steep valuation re-rating

ICICI Bank's financial performance over the past few quarters has been consistently strong reflected in brisk loan growth, resilient NIMs, stable asset quality and improved RoA. Valuation gap with peers HDFC Bank and Axis Bank is likely to contract materially in the medium term. We have upgraded our BV estimates for FY12 and FY13 on the back of robust Q3 FY12 and lowered credit cost assumptions. Reiterate ICICI Bank as our Top BUY in the banking sector with 9-month price target of Rs1,200.

Financial summary

Y/e 31 Mar (Rs m)	FY11	FY12E	FY13E	FY14E
Total operating income	156,648	178,231	203,648	239,533
yoy growth (%)	0.5	13.8	14.3	17.6
Operating profit (pre-provisions)	90,476	100,809	114,613	135,362
Net profit	51,514	63,579	70,234	83,976
yoy growth (%)	28.0	23.4	10.5	19.6
EPS (Rs)	44.7	55.2	61.0	72.9
BVPS (Rs)	457.4	493.6	529.7	571.9
P/E (x)	20.1	16.3	14.8	12.3
P/BV (x)	2.0	1.8	1.7	1.6
ROE (%)	9.7	11.1	11.4	12.6
ROA (%)	1.3	1.4	1.4	1.4
Dividend yield (%)	1.6	1.8	2.0	2.4
CAR (%)	19.5	18.4	16.8	15.6

Source: Company, India Infoline Research

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

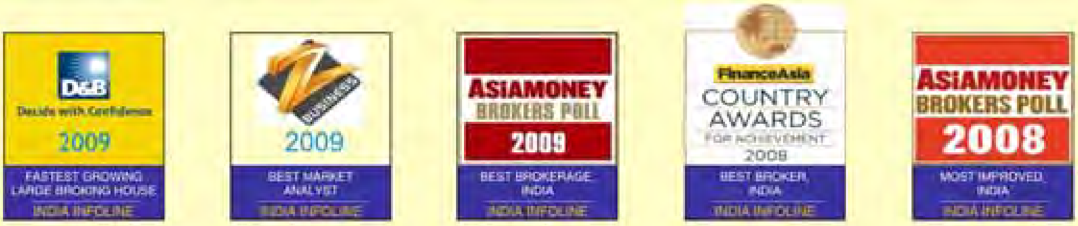
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-44 4007 1000