

January 11, 2008

Rating	Outperformer
Price	Rs1,440
Target Price	Rs1,654
Implied Upside	15.0%
Sensex	20,827

(Prices as on January 11, 2008)

#### Trading Data

Market Cap. (Rs bn)	1,600
Shares o/s (m)	1,112.0
Free Float	90.4%
Avg. Daily Vol ('000)	613.9
Avg. Daily Value (Rs m)	718.0

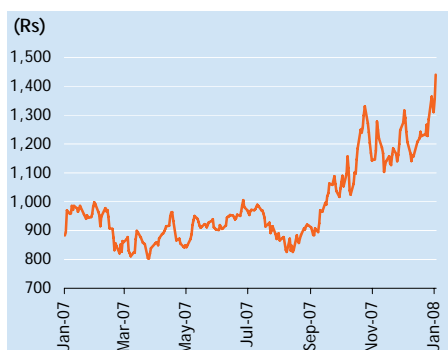
#### Major Shareholders

Promoters	—
Foreign	70.4%
Domestic Inst.	22.2%
Public & Others	7.4%

#### Stock Performance

(%)	1M	6M	12M
Absolute	9.4	51.0	61.0
Relative	6.8	11.3	8.2

Price Performance (RIC: ICBK.BO, BB: ICICIB IN)



Source: Bloomberg

## ICICI Bank

### Value unlocking in subsidiaries

- **Listing of subsidiaries to improve valuation:** ICICI Bank plans to list four of its subsidiaries (brokerage business, two insurance arms and the housing finance company) in the next six months. This exercise by the bank is likely to unlock significant value for shareholders, mainly from its insurance and brokerage businesses.
- **RBI's decision key to listing of insurance and AMC businesses:** RBI is yet to decide on its stance for holding company structures proposed by Indian banks. ICICI Bank and SBI are two banks that have proposed to float holding companies in which they would transfer their insurance and asset management businesses. If the central bank's guidelines on holding companies are not in favour of the banks, they are likely to go ahead and list the insurance businesses separately to raise capital.
- **Subsidiaries contribute almost 35% of our target price:** ICICI Bank's core business growth has been moderate, mainly due to a slowdown in mortgages and retail business; however, earnings growth is likely to remain strong driven by non-interest income. Our SOTP valuation shows that the life insurance venture alone contributes 22% to our target price.
- **Valuation:** We have valued its core business at 18x FY10E earnings and excluding the value of all its subsidiaries of Rs587, the stock is currently quoting at 14.3x FY10E EPS, 1.7x FY10E BV and 1.9x FY10E ABV. The valuations are attractive considering value unlocking prospects in the bank going forward. We continue to remain bullish on the stock with an Outperformer rating and a 15-month forward price target of Rs1,654.

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Net interest income	6,636	9,388	12,065	15,183
<i>Growth (%)</i>	40.9	41.5	28.5	25.9
Operating profit	5,874	8,281	10,550	13,413
PAT	3,110	4,162	5,267	6,599
EPS (Rs)	34.6	37.4	47.4	59.3
<i>Growth (%)</i>	21.2	8.2	26.6	25.3
Net DPS (Rs)	10.0	11.2	14.2	17.8

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
<i>NIM (%)</i>	2.0	2.4	2.5	2.5
<i>RoAE (%)</i>	13.3	10.8	10.8	12.5
<i>RoAA (%)</i>	1.0	1.1	1.1	1.1
P / BV (x)*	3.1	2.0	1.9	1.7
P / ABV (x)*	3.4	2.2	2.0	1.9
PE (x)*	24.5	22.7	17.9	14.3
<i>Net dividend yield (%)</i>	0.7	0.8	1.0	1.2

Source: Company Data; PL Research

\* CMP adjusted for subsidiary value of Rs587

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## Listing of subsidiaries to improve banks valuations

ICICI Bank plans to list four of its subsidiaries in the next six months. The bank is likely to start by listing its brokerage arm, ICICI Securities, followed by life and general insurance arms, and finally its housing finance business. Later the bank may also consider listing its asset management and venture fund businesses. This exercise by the bank is likely to unlock significant value for shareholders, mainly from its insurance and brokerage businesses. Value benchmarking for its mutual fund business, post listing of India's first asset management company UTI, is also likely to improve valuation for its AMC business. The bank also has robust plans to shore-up its venture fund business in the years ahead, this should also contribute to overall value creation for the bank going forward.

## Valuation highlights of ICICI Bank subsidiaries

### Core banking

Valued at 18x FY10E earnings. We expect RoE to remain depressed post the significant capital raising in FY08. Banking business contributes around 65% of the final SOTP price.

### Broking

The first subsidiary likely to get listed is expected to contribute around 3% or Rs57 to the SOTP price. We have valued the business at 25x FY10E earnings, which we feel is conservative as compared to the current high valuation most broking companies are commanding.

### AMC business

The bank's AMC business contributes around 4% or Rs63 per share; we have valued the business at 12.5% FY10E AUM. The likely IPO of UTI AMC in the near-term is likely to improve the valuation of AMC business.

### Life insurance business

ICICI Prudential Life is currently the leader (among private players) in one of India's fastest growing sectors - life insurance, and accounts for 12% of the overall market share. The life insurance venture contributes around 22% or Rs362 per share; we have valued the business at 20x FY10E NBAP.



## Other businesses contribute 6%

The bank's other businesses include its UK banking subsidiary, which is growing phenomenally, venture fund business, listed investments and a home finance company. We have deducted the per share value of Rs47 contributed by investments in subsidiaries and JVs that ICICI Bank is likely to make going forward, keeping the historical trend and future capital needs in mind.

### ICICI Bank sum-of-the-parts valuation (FY10E)

Businesses	% held in subsidiary	Basis of valuation	Multiple	Value held by ICICI Bank (Rs bn)	Value per share (Rs)	% contribution to SOTP
Banking	-	P/E (x)	18.0	-	1,068	64.6
Broking	100%	P/E (x)	25.0	64	57	3.4
AMC business	51%	% of AUM	12.5	39	63	3.8
Life Insurance	74%	NBAP (x)	20.0	403	362	21.9
General Insurance	74%	P/E (x)	18.0	45	40	2.4
Investments	-	50% discount to market value	-	-	9	0.5
Venture Capital	100%	AUM		29	26	1.6
Home finance company	100%	BV (Rs)	2.0	12	11	0.7
International Banking Sub - UK	100%	BV (Rs)	2.5	72	65	3.9
Less: Investments in all sub & JVs					(47)	(2.8)
<b>FINAL ICICI BANK SOTP</b>					<b>1,654</b>	

## Valuation

We have valued its core business at 18x FY10E earnings and excluding the value of all its subsidiaries of Rs587, the stock is currently quoting at 14.3x FY10E EPS, 1.7x FY10E BV and 1.9x FY10E ABV. The valuations are attractive considering value unlocking prospects in the bank going forward. We continue to remain bullish on the stock with an Outperformer rating and a 15-month forward price target of Rs1,654.



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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