

August 2, 2010

	Accumulate
Rating	
Price	Rs905
Target Price	Rs986
Implied Upside	9.0%
Sensex	17,868

(Prices as on July 30, 2010)
Trading Data

Market Cap. (Rs bn)	1,009.4
Shares o/s (m)	1,115.5
Free Float	100.0%
Avg. Daily Vol ('000)	4,949.5
Avg. Daily Value (Rs m)	4,326.1

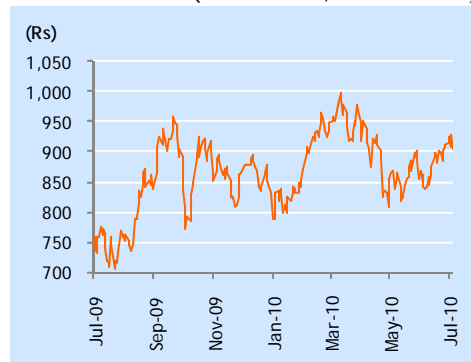
Major Shareholders

Promoters	—
Foreign	37.70%
Domestic Inst.	23.91%
Public & Others	38.39%

Stock Performance

(%)	1M	6M	12M
Absolute	5.0	9.0	19.3
Relative	4.1	(0.3)	3.2

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



Source: Bloomberg

■ **Operating performance in line, improving asset quality trends:** ICICI Bank's Q1FY11 PAT grew by 16.8% YoY and 2.0% QoQ to Rs10.26bn, which was largely in line with our as well as street expectations. Net interest income (NII) at Rs19.9bn was flattish YoY and down marginally by 2.2% QoQ. Margins contracted by 10bps QoQ to 2.5%, which could be due to higher interest outgo on savings bank balances. Balance sheet contraction continued on a YoY basis, albeit at a slower pace, as advances and deposits declined by 6.9% and 4.4% YoY, respectively. On a sequential basis, advances grew marginally by 1.8% QoQ on account of higher growth in the domestic corporate loan book (43.2% YoY and 13.1% QoQ). Notably, driven by rapid branch expansion and focus on increasing CASA share, the CASA deposits grew at a much faster pace by 32.3% YoY and 0.5% QoQ, taking the CASA ratio to 42.5 v/s 41.7% in Q4FY10. Bank of Rajasthan-ICICI Bank merger is pending for RBI approval. Gross slippages during the quarter reduced to -Rs3.5bn. Provision coverage improved substantially to 64.8% from 59.5% in Q4FY10. At this pace, the bank should be able to achieve 70% provision cover much before March 2011. Restructured loans declined to Rs37.4bn v/s Rs53.1bn in Q4FY10 and constitute 2.0% of the advances book.

■ **Consolidated profit influenced by profitability of life insurance business and passive subsidiaries performance:** ICICI Bank's consolidated PAT declined by 18.7% QoQ to Rs10.9bn, though up 5.4% YoY, as the surplus of Rs2.35bn surplus in the policyholder's account to be transferred at the end of the year lowered the consolidated profits, adjusting for which the consolidated profits would have been largely in line with the Q4FY10 consolidated PAT. In terms of subsidiaries, AMC business recorded a PAT growth of 68.4% YoY and 52.4% QoQ to Rs0.3bn. Rest all other subsidiaries (except primary dealership) have posted a sequential decline in profits.

■ **Valuations and Outlook:** At the CMP, the stock is quoting at 11.9x FY12E EPS, 1.6x FY12E BV and 1.6x FY12E ABV. We maintain our 'Accumulate' rating on the stock and the price target of Rs986. Any global negative development leading to weakness in the stock should be used as an entry opportunity, going forward.

Key financials (Rs m)	FY09	FY10	FY11E	FY12E
Net interest income	83,666	81,144	100,960	118,926
<i>Growth (%)</i>	<i>14.5</i>	<i>(3.0)</i>	<i>24.4</i>	<i>17.8</i>
Operating profit	89,252	97,322	105,693	128,261
PAT	37,581	40,250	46,775	66,316
EPS (Rs)	33.8	36.1	41.8	59.3
<i>Growth (%)</i>	<i>(9.7)</i>	<i>6.9</i>	<i>15.9</i>	<i>41.8</i>
Net DPS (Rs)	11.0	12.5	12.5	12.5

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
<i>NIM (%) *</i>	<i>2.3</i>	<i>2.3</i>	<i>2.7</i>	<i>2.8</i>
<i>RoAE (%)</i>	<i>7.8</i>	<i>7.9</i>	<i>8.9</i>	<i>12.0</i>
<i>RoAA (%)</i>	<i>1.0</i>	<i>1.1</i>	<i>1.2</i>	<i>1.5</i>
<i>P / BV (x)**</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>	<i>1.6</i>
<i>P / ABV (x)**</i>	<i>2.1</i>	<i>1.9</i>	<i>1.8</i>	<i>1.6</i>
<i>PE (x) **</i>	<i>23.1</i>	<i>21.3</i>	<i>17.5</i>	<i>11.9</i>
<i>Net dividend yield (%)</i>	<i>1.2</i>	<i>1.4</i>	<i>1.4</i>	<i>1.4</i>

Source: Company Data; PL Research

*calculated on avg. assets

**Rs55 & Rs64 per share reduced for investment in subsidiaries from Book Value & Rs174 & Rs202 per share reduced from the CMP for value of subsidiaries for FY11E & FY12E.

 Abhijit Majumder
 AbhijitMajumder@PLIndia.com
 +91-22-6632 2236

 Umang Shah
 UmangShah@PLIndia.com
 +91-22-6632 2242



Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Interest Income	58,125	71,334	(18.5)	58,270	264,943	257,069	3.1
Interest on Advances	37,785	50,866	(25.7)	38,168	171,627	173,727	(1.2)
Income on investments	16,586	15,761	5.2	15,709	77,924	64,664	20.5
Bal with RBI & others	3,755	4,708	(20.2)	4,393	14,679	18,679	(21.4)
Interest Expense	38,215	51,482	(25.8)	37,920	179,393	175,926	2.0
Net Interest Income	19,911	19,853	0.3	20,349	100,960	81,144	24.4
Non-Interest Income	16,805	20,899	(19.6)	18,908	80,550	74,777	7.7
Treasury Income	1,040	7,140	(85.4)	1,960	4,500	9,768	(53.9)
CEB	14,130	13,190	7.1	15,210	65,311	58,057	12.5
Lease & other Income	1,630	569	186.6	1,740	5,232	4,185	25.0
Net total Income	36,716	40,751	(9.9)	39,258	181,510	155,920	16.4
Operating Expenses	14,835	15,460	(4.0)	15,269	70,034	58,598	19.5
Employee	5,756	4,665	23.4	5,827	25,597	19,258	32.9
Other operating expenses	9,079	10,795	(15.9)	9,442	44,437	39,340	13.0
Operating profit	21,881	25,291	(13.5)	23,989	105,693	97,322	8.6
Core operating profits	20,841	18,151	14.8	22,029	101,193	87,554	15.6
Provisions	7,978	13,237	(39.7)	9,898	36,179	43,869	(17.5)
Profit before tax	13,903	12,055	15.3	14,091	69,515	53,453	30.0
Tax	3,643	3,273	11.3	4,036	18,579	13,203	40.7
Net Profit after tax	10,260	8,782	16.8	10,056	46,775	40,250	16.2
Asset Quality							
Gross NPA's	98,290	94,163	4.4	94,807	111,091	94,807	17.2
<i>Gross NPA's %</i>	<i>5.1</i>	<i>4.6</i>		<i>5.1</i>	<i>5.0</i>	<i>5.1</i>	
Net NPA's	34,562	46,078	(25.0)	38,411	33,327	38,411	(13.2)
<i>Net NPA's %</i>	<i>1.9</i>	<i>2.3</i>		<i>2.1</i>	<i>1.6</i>	<i>2.1</i>	
<i>Provision Coverage (%)</i>	<i>64.8</i>	<i>51.1</i>		<i>59.5</i>	<i>70.0</i>	<i>59.5</i>	
Capital Adequacy (%)							
<i>CAR</i>	<i>19.4</i>	<i>15.5</i>		<i>19.4</i>	<i>16.0</i>	<i>19.4</i>	
<i>Tier 1</i>	<i>14.0</i>	<i>11.8</i>		<i>14.2</i>	<i>13.3</i>	<i>14.2</i>	
Balance Sheet Items							
Deposits	2,020,166	2,183,478	(7.5)	1,976,529	2,383,784	1,976,529	20.6
CASA	842,160	626,678	34.4	782,706	905,838	782,706	15.7
<i>CASA (%)</i>	<i>41.7</i>	<i>28.7</i>		<i>39.6</i>	<i>38.0</i>	<i>39.6</i>	
Advances	1,812,056	2,183,109	(17.0)	1,792,691	2,144,060	1,792,691	19.6
Investments	1,208,928	1,030,583	17.3	1,234,090	1,120,379	1,234,090	(9.2)
Total Assets	3,633,997	3,804,550	(4.5)	3,562,284	3,965,657	3,562,284	11.3
<i>NIM reported (%)</i>	<i>2.6</i>	<i>2.6</i>		<i>2.6</i>	<i>-</i>	<i>2.5</i>	
<i>NIM calculated (%)</i>	<i>2.2</i>	<i>2.3</i>		<i>2.3</i>	<i>2.7</i>	<i>2.2</i>	

Highlights

Reported NIM declined by 10bps QoQ to 2.5%. CASA deposits grew by 32.3% YoY, while the term deposits contracted by 20.5% YoY, resulting into a 10bps YoY improvement in margins.

Rapid branch expansion and continued focus on increasing CASA share should lend support to margins, going forward.

The balance sheet continues to decline on a YoY basis, albeit at a slower pace than before.

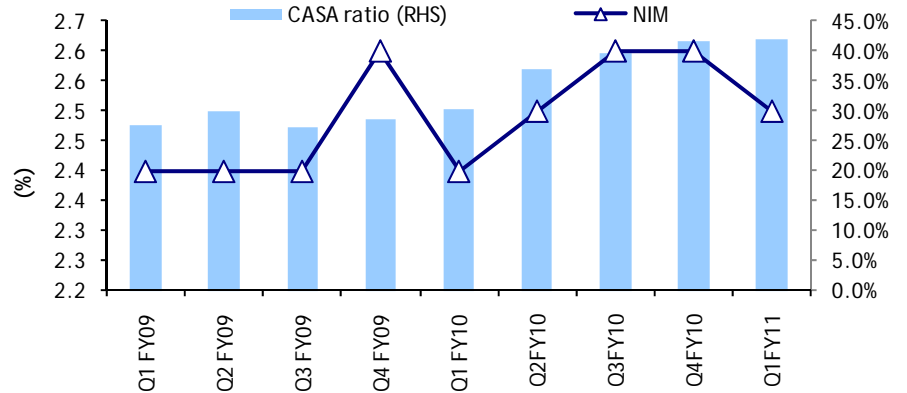
Deposits declined by 4.4% YoY and 0.5% QoQ. But CASA deposits grew much faster by 32.3% YoY and 0.5% QoQ.

Advances declined by 6.9% YoY but increased marginally by 1.8% QoQ. Domestically, corporate loans grew by robust 43.2% YoY and 13.1% QoQ.

Over the past 4 quarters, the bank has been clear on the strategy of consolidation of balance sheet.

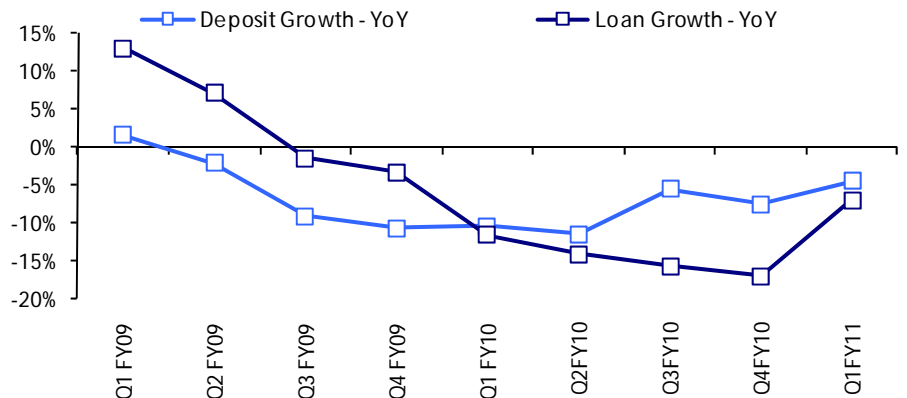
Tier I ratio, hence, has shot up considerably due to reduction in risk weighted assets (RWA). Rating of corporate loan portfolio and reduction in assets has resulted in this decline.

Trend in margins and CASA



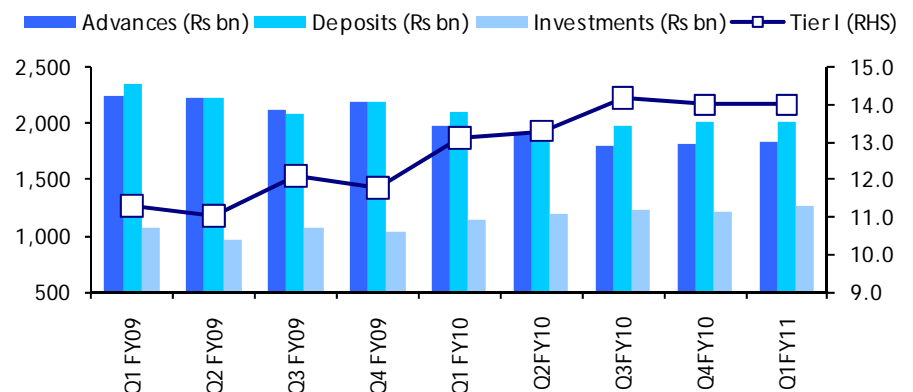
Source: Company Data, PL Research

Trend in advances and deposit growth



Source: Company Data, PL Research

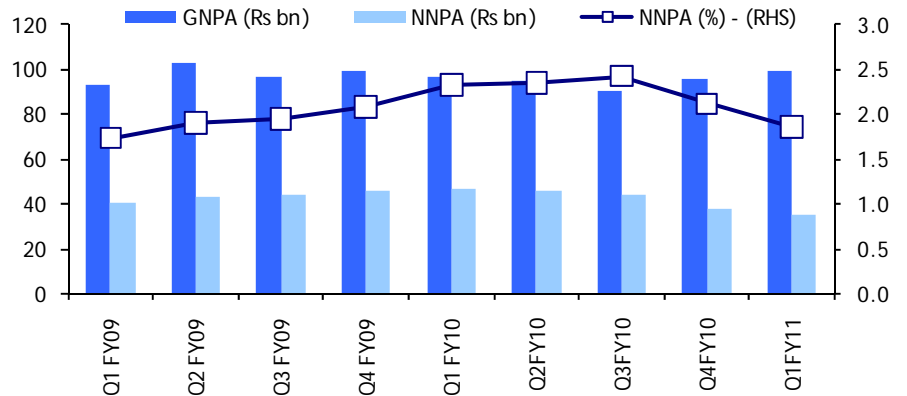
Trend in absolute advances, investments and deposits with Tier I ratio



Source: Company Data, PL Research

GNPA and NNPA trend

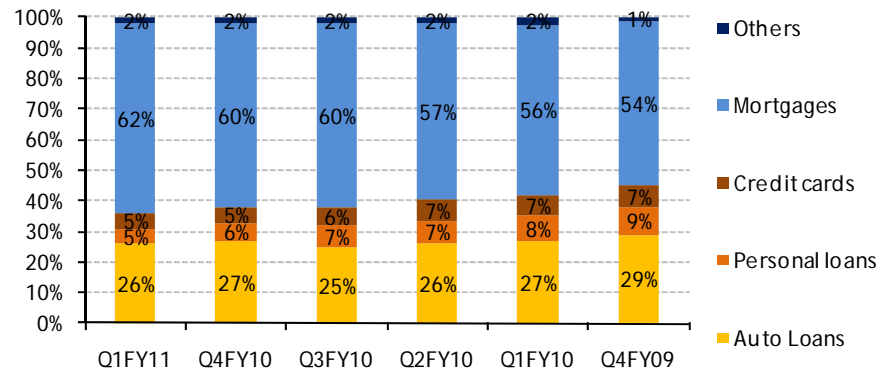
Slippages during the quarter were lower at Rs3.5bn v/s Rs5bn in Q4FY10. However, there were no write-offs and the provisions made were higher, thereby, pushing up the provision cover. Provision coverage ratio improved to 64.8% from 59.5% in Q4FY10. The bank should be able to meet the 70% provision cover guideline well before the extended deadline of March 2011.



Source: Company Data, PL Research

Retail loans portfolio split

Retail loan book continued to contract as it declined by 21.4% YoY and 2.1% QoQ to Rs763bn. Maximum decline QoQ in % terms in the retail portfolio was seen in the non-collateralised personal loan portfolio, which was down 18.4% QoQ, while mortgages continued to grow its share in the book.



Source: Company Data, PL Research

Trend in PAT for major subsidiaries

(Rs bn)

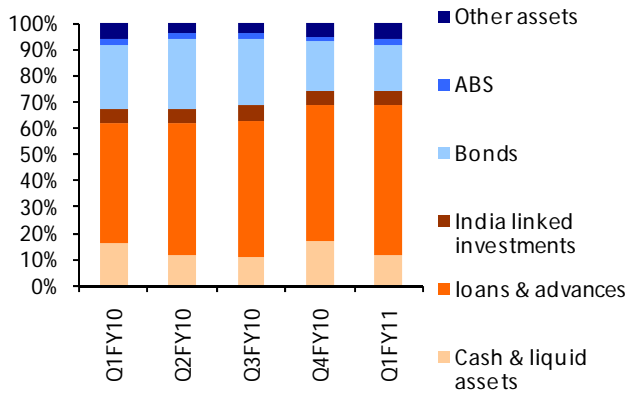
	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	QoQ gr. (%)	Remarks
ICICI Sec	0.25	0.14	78.6	0.34	(26.5)	YoY increase reflects the recovery in capital markets, but sequentially the profits take a knock
ICICI Sec PD	0.34	0.67	(49.3)	0.02	-	Primary dealership has reported strong bottom-line in Q1FY11 after subdued Q4FY10
ICICI Venture	0.11	0.16	(31.3)	0.12	(8.3)	-
ICICI AMC	0.32	0.19	68.4	0.21	52.4	Earnings momentum robust, both on a YoY as well as on a QoQ basis
ICICI Home Finance	0.57	0.27	111.1	0.62	(8.1)	Substantial improvement in earnings YoY, but profits decline sequentially

Source: Company Data, PL Research

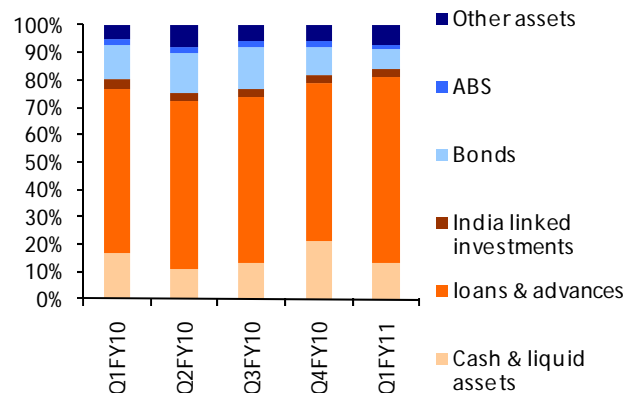
Overseas banking subsidiaries

Total assets of UK and Canada banking subsidiaries stood at US\$6.9bn and US\$5.0bn, respectively. The Canadian and UK subsidiary's assets declined by 8.8% and 6.8% on a QoQ basis.

Asset profile - UK subsidiary (US\$6.9bn)

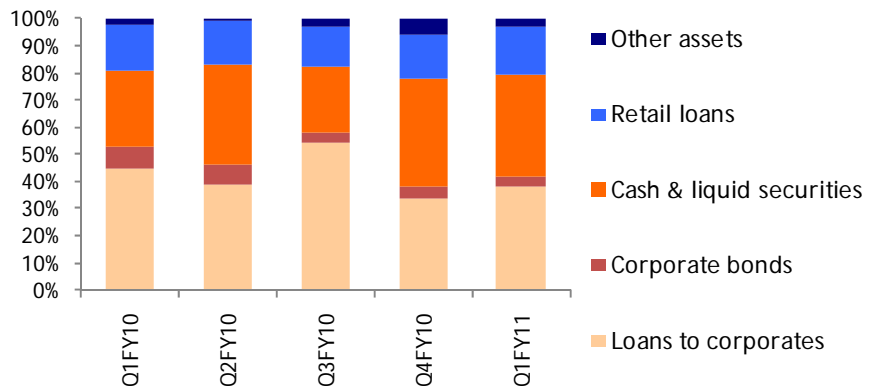


Asset profile - Canadian subsidiary (US\$5.0bn)



Source: PL Research, Company data

Asset profile - Eurasia (US\$353m)



Asset base for the Russian subsidiary stood at US\$353m, down 13.1% QoQ.

Notably, the capital adequacy improved substantially to 30.4% from 26.6% on a QoQ basis.

Source: PL Research, Company data

**SOTP valuation (FY12E)**

Business	Basis	Value per share	% of SOTP
Standalone Core Banking	2.0 x ABV*	787	79.9%
ICICI Prudential Life Ins.	15 x NBAP	99	10.0%
ICICI Lombard General Ins.	12 x PAT	10	1.0%
ICICI Securities (combined)	12 x PAT	49	5.0%
ICICI Venture Funds	8% of AUMs	7	0.7%
Pru - ICICI Asset Mgt	6% of AUMs	17	1.8%
Home finance company	1.8 x BV	16	1.6%
Total		986	100.0%

Source: PL Research

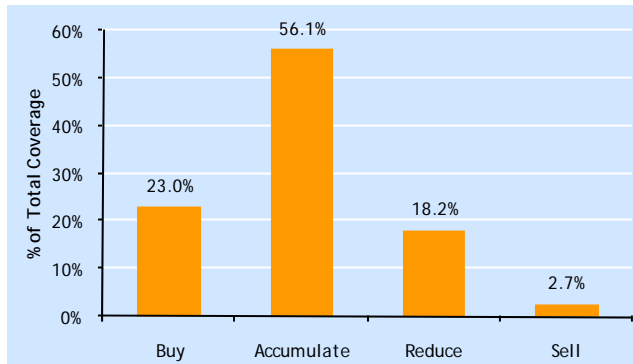
**For ICICI Rs64 per share reduced for investment in subsidiaries from Book Value & Rs198 per share reduced from the CMP for value of subsidiary for FY12. We have also applied a 15% holding company discount.*

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This is material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties, Additionally you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.