

ICICI Bank

Visibility improving, leverage to high growth - ALERT

Overweight

ICBK.BO, ICICIBC IN

Price: Rs905.50

18 November 2009

- **Back to growth:** ICICI Bank, after a cautious approach to balance sheet growth for the last six quarters, is kicking back on the growth track. Loan sanctions have picked up especially in the infrastructure segment and management expects this to translate into robust loan growth over next 6-9 mnts. Also ICICI is getting back into the auto and home loan segments. Loan book contraction for the international book would also not be as severe as expected earlier but refinancing costs have not come off enough for the bank to look again at growing the international book aggressively. ***Overall loan book is expected to be flat for FY10 and grow in-line with the system credit in FY11.***
- **Margins to keep improving:** Domestic margins are expected to improve to ~3.0% from 2.8% due to increasing CASA (maintain 33-35% levels) and positive impact of deposit re-pricing though loan pricing would dilute some of the benefits. Margins for the international book are likely to stay ~0.5% in the near term but improve over the medium term (next 2-3 yrs) as re-financing costs come-off. Overall margins would continue to improve due to increasing domestic book mix and higher CASA margins.
- **Worst over for asset quality:** Delinquencies have likely peaked out in 1H10 and expected to be lower going forward. Management expects <Rs12bn of slippages per qtr. Provisioning could remain elevated for next 3-4 qtrs to comply with the RBI's 70% provisioning requirement.
- **Insurance market share improving.** ICICI's 74% life insurance subsidiary, ICICI Prudential is recovering market share after a sustained decline over the past year or so. The growth outlook remains positive, despite the restrictions on distributor payouts.
- **Capital more than adequate?** Management expects ROAs to normalize to industry levels over the medium term but ROE normalisation would be gradual as natural leveraging up would take time, and management is not very inclined to leverage up through higher payout or other measures of aggressive capital deployment.
- **Fee income and costs:** Management expects fee income growth to recover with credit growth and FY11 fee income could surprise with a higher than balance sheet growth. Operating costs have declined by ~15% in 1HFY10 but branch expansions and possible salary hikes could lead to nominal costs increases.
- **Overall, ICICI is returning back to growth after a period of consolidation and we believe ICICI offers leverage to high growth with improving profitability and asset quality.**

Banks

Sunil Garg^{AC}

(852) 2800-8518

sunil.garg@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

Adarsh Parasrampur

(91-22) 6157-3576

adarsh.x.parasrampur@jpmorgan.com

J.P. Morgan India Private Limited

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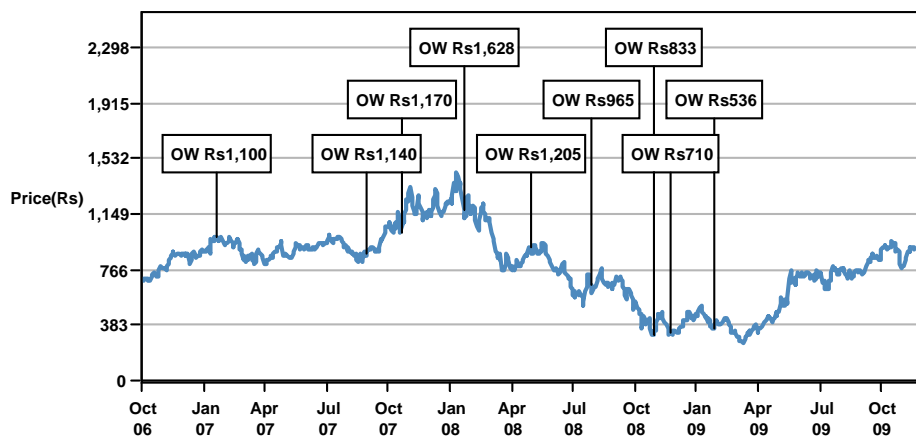
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ICICI Bank (ICBK.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
20-Jan-07	OW	985.55	1100.00
31-Aug-07	OW	872.05	1140.00
21-Oct-07	OW	1024.05	1170.00
21-Jan-08	OW	1173.20	1628.00
28-Apr-08	OW	916.15	1205.00
27-Jul-08	OW	663.45	965.00
28-Oct-08	OW	316.30	833.00
22-Nov-08	OW	335.55	710.00
26-Jan-09	OW	364.30	536.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Mar 07, 2004 - Jun 22, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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ICICI Bank (IBN) Price Chart



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