ICICI Bank

2QFY2010 Result Update

BUY

Price	**Rs790**
Target Price	**Rs1,068**
Investment Period	**12 months**

Stock Info

Sector	Banking
Market Cap (Rs cr)	87,939
Beta	1.5
52 WK High / Low	984 / 253
Avg. Daily Volume	2878274
Face Value (Rs)	10
BSE Sensex	15,896
Nifty	4,712
BSE Code	532174
NSE Code	ICICIBANK
Reuters Code	ICBK.BO
Bloomberg Code	ICICIBC@IN

Shareholding Pattern (%)

Promoters	-
MF/Banks/Indian FIs	26.8
FII/ NRIs/ OCBs	66.3
Indian Public	6.9

Abs.	3m	1yr	3yr
Sensex (%)	3.3	75.8	22.1
ICICIBK (%)	4.5	128.4	0.5

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Performance Highlights

ICICI Bank reported an almost flat Net Profit growth of 2.6% yoy, slightly ahead of our estimates, due to better control over operating costs. The key positives from the results are the 690bp yoy improvement in CASA to 36.9% and the 630bp yoy decline in the cost-to-income ratio to 36.9%. Together with the large branch expansion due in 2HFY2010 and large capital adequacy, we believe the Bank is getting very well-positioned for the imminent upturn in GDP growth. At the current levels, we believe that the stock is trading at attractive valuations. **Hence, we maintain a Buy on the stock.**

- **Strong progress on strategic front:** As an outcome of the Bank's ongoing strategy over the past few quarters, the total deposits of the Bank declined by 5% sequentially, while loans decreased by 4% sequentially. However, the highlight of the quarter was the improvement in the Bank's CASA ratio to 37% (transformative considering that the ratio was as low as 22% at the end of FY2007 and 29% even as recently as FY2009). While Fee income remained lower on a yoy basis (by 26%), however, sequentially it improved by 5% to Rs1,387cr. At the same time, operating expenses remained firmly in check, with staff expenses increasing marginally by 2% qoq and other operating expenses declining by a further 8% qoq. The asset quality of the bank showed signs of stabilising, with slippages continuing at the run-rate about Rs1,000cr per quarter. The Bank has restructured loans of Rs4,857cr on a cumulative basis (2.5% of total loans, 9.5% of the networth).

- **Outlook and Valuation:** We have a positive view on ICICI Bank given its market-leading businesses across the financial services spectrum. Moreover, we believe that the Bank is decisively executing a credible strategy of consolidation that is resulting in an improved deposit and loan mix. Further, in our view, the Bank's substantial branch expansion and large Capital Adequacy, especially on Tier 1 are a precursor to marketshare gains that will contribute to substantial Core business growth as the macro-environment continues to improve. We believe on account of this, the bank will be well-positioned by FY2010E to capitalise on the imminent revival in overall GDP growth, resulting in materially improved balance sheet and earnings over the next two years. At the CMP, the Bank's Core Banking business (after adjusting Rs307 per share towards the value of the subsidiaries) is trading at 1.4x FY2011E ABV of Rs339. Including subsidiaries, the stock is trading at 1.7x FY2010E ABV of Rs461. We value the Bank's subsidiaries at Rs307 per share of ICICI Bank and the core Bank at Rs761 (2.25x FY2011E ABV). **We maintain a Buy on the stock, with a Target Price of Rs1,068, implying an upside of 35%.**

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
NII	**8,202**	**9,264**	**9,652**	**11,433**
% chg	*23.6*	*13.0*	*4.2*	*18.5*
Net Profit	**4,158**	**3,758**	**3,989**	**5,128**
% chg	*33.7*	*(9.6)*	*6.1*	*28.6*
NIM (%)	2.4	2.6	2.7	2.9
EPS (Rs)	**37.4**	**33.8**	**35.8**	**46.1**
P/E (x)	21.1	23.4	22.0	17.2
P/ABV (x)	2.0	1.9	1.8	1.7
RoAA (%)	1.1	1.0	1.0	1.2
RoANW (%)	11.7	7.9	8.0	9.9

Source: Company, Angel Research

Result Analysis

Exhibit 1: 2QFY2010 Performance

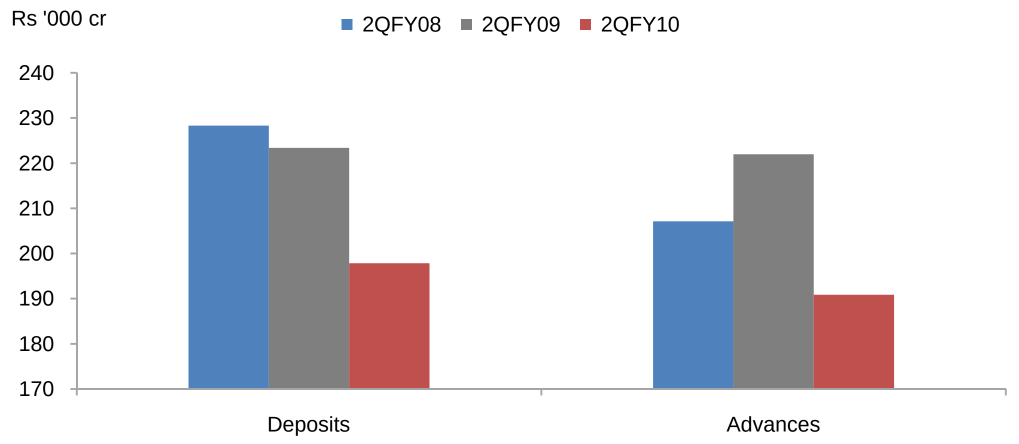
Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	1QFY2010	% chg
Interest Earned	6,657	7,835	*(15.0)*	7,133	*(6.7)*
Interest Expenses	4,621	5,687	*(18.8)*	5,148	*(10.2)*
Net Interest Income	2,036	2,148	*(5.2)*	1,985	*2.6*
Non-Interest Income	1,824	1,877	*(2.9)*	2,090	*(12.7)*
Total Income	3,860	4,025	*(4.1)*	4,075	*(5.3)*
Operating Expenses	1,425	1,740	*(18.1)*	1,546	*(7.9)*
Pre-Prov. Profit	2,435	2,285	*6.6*	2,529	*(3.7)*
Provisions & Cont.	1,071	924	*16.0*	1,324	*(19.1)*
PBT	1,364	1,361	*0.2*	1,205	*13.2*
Prov. for Taxes	324	347	*(6.7)*	327	*(1.0)*
PAT	1,040	1,014	*2.6*	878	*18.4*
EPS (Rs)	9.3	9.1	*2.6*	7.9	*18.4*
Cost to Income (%)	36.9	43.2		37.9	
Effective Tax Rate (%)	23.7	25.5		27.1	
Net NPA	2.4	1.9		2.3	

Source: Company, Angel Research

- **Strategic transformation continues:** The Bank's Balance Sheet contraction continued in 2QFY2010, as an outcome of the ongoing strategy over the past few quarters to favorably realign the mix of assets and liabilities. Total deposits of the Bank declined by 5% sequentially (11% yoy) to Rs1,97,832cr during 2QFY2010, while loans declined by 4% sequentially (14% yoy) to Rs1,90,860cr.

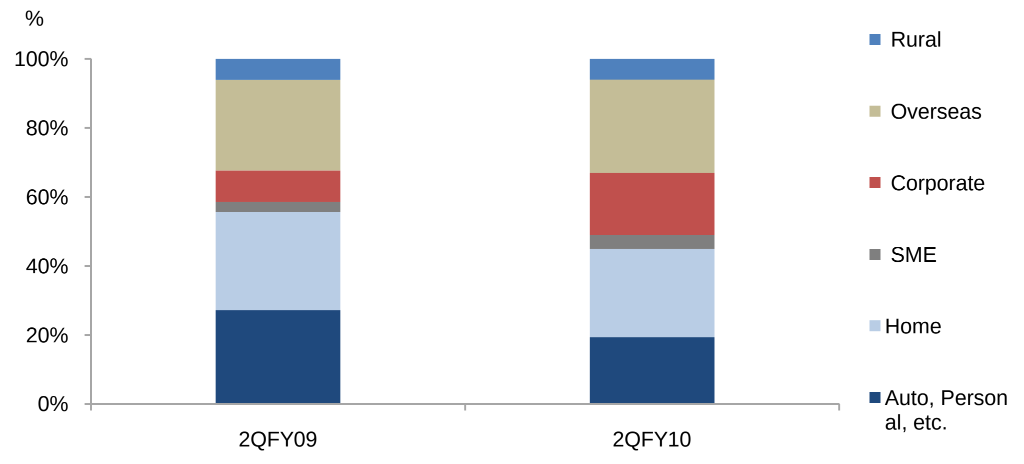
  The proportion of Retail loans in the overall loan mix came down from 55% in 2QFY2009 to 45%, driven by about 40% yoy reduction in the vehicle loan, personal unsecured loan and credit card segments due to ongoing repayments and negligible new disbursements. In the retail segment, the Bank has indicated that going forward, the focus will mainly be on Home loans (which are largely being booked in the Home Loan subsidiary) as well as Car loans. Reflective of the external demand as well as the Bank's conscious efforts to realign its risk exposures, this reduction in the proportion of relatively riskier retail loan segments was mainly offset by a doubling in the proportion of large corporate loans from just 9% of total loans in 2QFY2009 to 18%.

Exhibit 1 (a): Balance Sheet de-growth continues…



Source: Company, Angel Research

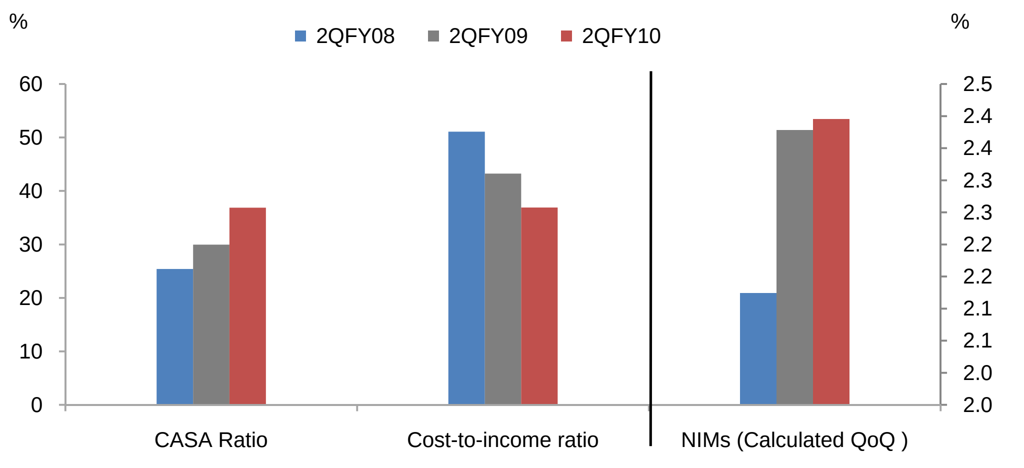
Exhibit 1 (b): … but loan mix changes in favour of large corporate loans



Source: Company, Angel Research

- **Strong CASA; NIMs improve:** The highlight of the quarter was the improvement in the Bank's CASA ratio to 37% (transformative considering that the ratio was as low as 22% at the end of FY2007 and 29% even as recently as FY2009). During 2QFY2010, the bank registered a further reduction in term deposits by Rs21,359cr sequentially (de-growth of 20% yoy). At the same time, the bank was able to garner substantial savings account deposits of Rs4,859cr (14.2% yoy and 11% qoq growth) and current account deposits of Rs4,094cr (flattish yoy and 21% growth qoq). The surge in Current accounts was partly attributable to large floats on account of substantial Capital markets activity during the quarter. As a result of the improved deposit mix, although overall Balance Sheet de-grew by about 2% qoq, Net Interest Income increased by 2.5%, as NIMs improved by a further 10bp sequentially.

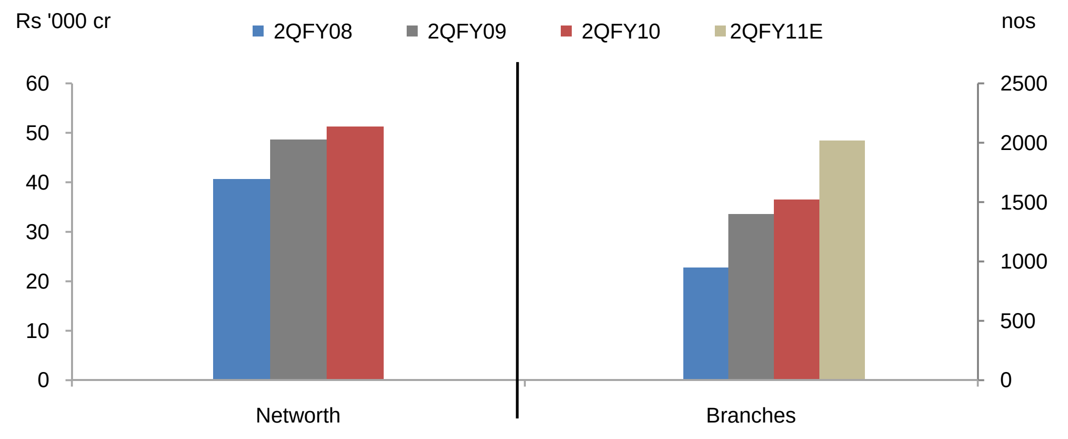
Exhibit 1 (c): … and performance on CASA and cost control remains impressive



Source: Company, Angel Research

- **Costs remain in check:** Moreover, the Bank is building a strong pipeline for CASA growth through aggressive branch expansion (100 branches added in 1HFY2010, 480 more in 2HFY2010). At the same time, operating expenses have remained firmly in check, with the management consistently delivering on its enunciated strategic goals. During 2QFY2010, while staff expenses increased marginally by 2% qoq, other operating expenses even excluding direct marketing expenses declined by a further 8% qoq.

Exhibit 1 (d): … with Net Worth and Network buildup to drive marketshare gains



Source: Company, Angel Research

- **Capital Adequacy:** Driven by the large Networth, Capital adequacy remained strong at 17.7%, comprising a substantial Tier-1 component of 13.3%. We believe this positions the bank well for the imminent improvement in Credit growth as the GDP outlook continues to improve.

- **Sequential improvement in Fee income:** Non-interest income was down 3% yoy and 13% qoq to Rs1,824cr. The sequential decline was attributable to lower Treasury gains, though still large in absolute terms at Rs297cr. Moreover, the bank recorded Rs140cr of Other income, comprising Rs102cr of Dividends. While Fee income remained lower on a yoy basis (by 26%), due to lack of loan growth and lower Capital-markets related activity, however, sequentially it improved by 5% to Rs1,387cr.

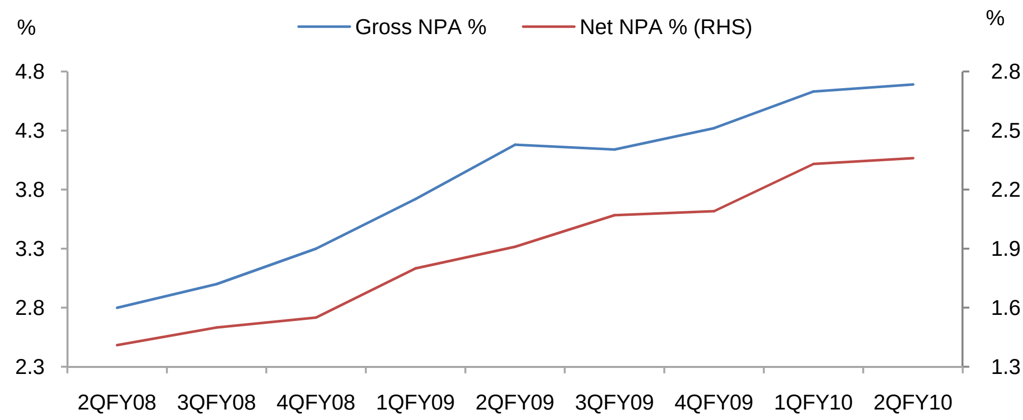
Exhibit 2: Break-up of Non-Interest Income

(Rs cr)	2QFY2010	2QFY2009	*yoy (%)*	1QFY2010	*qoq (%)*
Fee Income	1,387	1,876	*(26.1)*	1,319	*5.2*
Treasury Gains	297	(153)	*(294.1)*	714	*(58.4)*
Dividends	102	41	*148.8*	53	*93*
Others	38	113	*(66.4)*	4	*850*
Total	**1,824**	**1,877**	***(2.8)***	**2090**	***(12.7)***

Source: Company, Angel Research

- **Asset-quality stable:** The asset quality of the bank showed signs of stabilising, with slippages continuing at the run-rate about Rs1,000cr per quarter. In absolute terms, the Gross NPAs of the bank declined marginally, both on a yoy basis by 3% and on a sequential basis by 2%, to Rs9,201cr. Net NPAs were higher by 6% on a yoy basis, but declined sequentially by 2% to Rs4,499cr. The Gross NPA ratio of the bank was up at 4.7% (as against 4.6% in 1QFY2010 and 4.2% in 2QFY2009) mainly on account of the ongoing contraction in the loan book. The Provision coverage ratio of the bank declined to 51.1% in 2QFY2010, as against 55.4% in 2QFY2009. The Bank has restructured loans of Rs4,857cr on a cumulative basis (2.5% of total loans, 9.5% of the networth). Going forward, while we have conservatively factored in NPA provisions to remain at similar levels in FY2011E as in FY2010E, before showing a declining trend in FY2012E, however there could potential upsides to our earning estimates for FY2011E on account of better than expected performance on the asset quality front.

Exhibit 3: Asset quality stabilising



Source: Company, Angel Research

- **Overview of Overseas banking subsidiaries**

  ICICI Bank-Canada delivered a net profit of CAD13.8mn for 2QFY2010, up 55% yoy. The subsidiary's remained very well capitalised, with a capital adequacy ratio of 23.2% at the end of 2QFY2010. ICICI Bank-UK's net profit for 2QFY2010 was US$ 12.6mn, up 157% qoq, with a similarly strong capital position, with a capital adequacy ratio of 16.3% at the end of 2QFY2010.

- **Overview of Insurance subsidiaries**

  ICICI Life's total premium in 2QFY2010 was Rs3,634cr, flattish on a yoy basis. New business on Annualised Premium Equivalent basis was down 20% on a yoy basis to Rs1,212cr, though almost doubling on a qoq basis. Unaudited New Business Profit in 2QFY2010 stood at Rs233cr, up 97% qoq. Assets under management increased by 66% yoy, from Rs30,107cr in 2QFY2009 to Rs50,093cr in 2QFY2010. ICICI Lombard's premium in 2QFY2010 was Rs801cr, down 9% qoq.

- **Overview of Securities and AMC Business**

  ICICI Prudential AMC registered a net profit of Rs48cr in 2QFY2010, up significantly from Rs16cr in 2QFY2009. ICICI Securities' net profit also registered a significant jump during 2QFY2010 to Rs38cr, as against Rs10cr in 2QFY2009.

Outlook and Valuation

We have a positive view on ICICI Bank given its market-leading businesses across the financial services spectrum. Moreover, we believe that the Bank is decisively executing a credible strategy of consolidation that should result in an improved deposit and loan mix, and consequently improved operating metrics over the medium term.

The strategy involves maintaining strong capital adequacy in the current environment, while building the necessary base for strong CASA mobilisation going forward. This is to be achieved through substantial branch expansion without diluting the current focus on stringent cost control measures. We believe on account of this, the bank will be well-positioned by FY2010E to capitalise on the imminent revival in overall GDP growth, resulting in materially improved balance sheet and earnings over the next two years. Having a total of 955 branches at the end of 3QFY2008, the Bank has added more than 550 branches since then and an additional 480 additions are planned in 2HFY2010E. The Bank's Capital Adequacy is also amongst the highest at 17.7%, with a substantial 13.3% Tier 1 capital.

We believe the Bank's substantial branch expansion and large Capital Adequacy, especially on Tier 1 are a precursor to marketshare gains that will contribute to substantial Core business growth as the macro-environment continues to improve. Meanwhile, the Bank has largely exited all its businesses outside its core competency including small-ticket personal loans in the Domestic Segment and most non-India related exposures in its International business, focusing again on replacing wholesale funds with retail deposits in the international subsidiaries as well. In the short term, while Asset quality deterioration is likely to start reversing only a few quarters hence, increased focus on Treasury as a profit centre as well as continued focus on cost controls should provide some support to the Bank's P/L account.

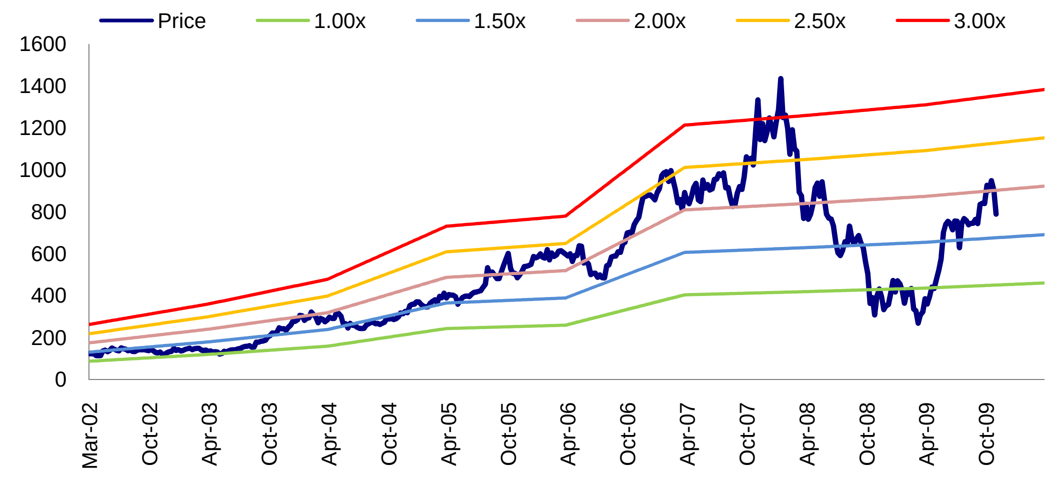
At the CMP, the Bank's Core Banking business (after adjusting Rs307 per share towards the value of the subsidiaries) is trading at 1.4x FY2011E ABV of Rs339. Including subsidiaries, the stock is trading at 1.7x FY2010E ABV of Rs461. We value the Bank's subsidiaries at Rs307 per share of ICICI Bank and the core Bank at Rs761 (2.25x FY2011E ABV). **We maintain a Buy on the stock, with a Target Price of Rs1,068, implying an upside of 35%.**

Exhibit 4: SOTP Valuation

(Rs)	Value Per Share
ICICIBK	761
ICICI Pru Life	154
ICICI Lombard General Insurance	13
ICICI Prudential AMC	15
ICICI Securities & PD	27
ICICI Venture Funds management	14
ICICI UK, Canada	66
ICICI Home Finance	19
SOTP Value	**1,068**

Source: Angel Research

Exhibit 5: P/ABV Band



Source: Company, Angel Research

Income Statement (Rs cr)

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Net Interest Income	**8,202**	**9,264**	**9,652**	**11,433**
YoY Growth (%)	23.6	13.0	4.2	18.5
Other Income	**8,879**	**7,604**	**7,568**	**8,582**
YoY Growth (%)	27.5	(14.4)	(0.5)	13.4
Operating Income	**17,081**	**16,868**	**17,221**	**20,015**
YoY Growth (%)	25.6	(1.2)	2.1	16.2
Operating Expenses	**8,154**	**7,045**	**6,615**	**7,634**
YoY Growth (%)	21.9	(13.6)	(6.1)	15.4
Pre - Provision Profit	**8,926**	**9,823**	**10,605**	**12,381**
YoY Growth (%)	29.2	10.0	8.0	16.7
Prov. & Cont.	**3,870**	**4,706**	**5,277**	**5,513**
YoY Growth (%)	18.6	21.6	12.1	4.5
Profit Before Tax	**5,056**	**5,117**	**5,328**	**6,868**
YoY Growth (%)	38.7	1.2	4.1	28.9
Prov. for Taxation	**898**	**1,359**	**1,339**	**1,740**
as a % of PBT	17.8	26.6	25.1	25.3
PAT	**4,158**	**3,758**	**3,989**	**5,128**
YoY Growth (%)	33.7	(9.6)	6.1	28.6

Balance Sheet (Rs cr)

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Share Capital	1,463	1,463	1,463	1,463
Reserve & Surplus	45,358	47,407	49,528	52,234
Deposits	244,431	218,348	229,265	279,704
Growth (%)	6.0	(10.7)	5.0	22.0
Borrowings	65,648	68,321	70,544	83,511
Tier 2 Capital	20,750	23,863	27,442	33,479
Other Liab. & Prov.	22,145	21,997	15,474	20,844
Total Liabilities	**399,795**	**381,398**	**393,717**	**471,236**
Cash balances	29,378	12,009	11,463	13,985
Bank balances	8,664	12,926	13,346	16,016
Investments	111,454	118,210	119,090	136,992
Advances	225,616	218,311	229,226	279,656
Growth (%)	15.2	(3.2)	5.0	22.0
Fixed Assets	4,109	3,324	3,432	3,995
Other Assets	20,575	16,619	17,159	20,592
Total Assets	**399,795**	**381,398**	**393,717**	**471,236**
Growth (%)	14.9	(5.6)	3.3	20.0

Ratio Analysis

Y/E March	FY2008	FY2009	FY2010E	FY2011E
Profitability ratios (%)				
NIMs	2.4	2.6	2.7	2.9
Cost to Income ratio	47.7	41.8	38.4	38.1
RoA	1.1	1.0	1.0	1.2
RoE	11.7	7.9	8.0	9.9
B/S ratios (%)				
CASA ratio	26.1	28.7	32.8	34.1
Credit/Deposit ratio	92.3	100.0	100.0	100.0
CAR	14.0	14.0	15.1	14.2
- Tier I	11.8	10.7	10.8	9.2
Asset Quality (%)				
Gross NPAs	3.6	5.1	6.4	6.5
Net NPAs	1.6	2.1	2.6	2.4
Slippages	1.9	2.4	2.7	2.4
NPA prov. / avg. assets	0.7	1.0	1.1	1.0
Provision coverage	57.3	59.3	61.7	64.1
Per Share Data (Rs)				
EPS	37.4	33.8	35.8	46.1
ABVPS (75% Cover.)	404.4	419.6	436.5	460.8
DPS	11.0	11.0	12.0	16.0
Valuation Ratios				
P/E (x)	21.1	23.4	22.0	17.2
P/ABVPS (x)	2.0	1.9	1.8	1.7
Dividend Yield	1.4	1.4	1.5	2.0
DuPont Analysis (standalone bank, excluding subsidiaries)				
NII	2.24	2.44	2.57	2.73
(-) Prov. Exp.	1.06	1.24	1.41	1.31
Adj. NII	1.18	1.20	1.17	1.41
Treasury	0.22	0.12	0.24	0.04
Int. Sens. Inc.	1.41	1.32	1.40	1.45
Other Inc.	1.89	1.79	1.68	1.90
Op. Inc.	3.30	3.11	3.08	3.36
Opex	2.23	1.85	1.76	1.82
PBT	1.07	1.26	1.32	1.54
Taxes	0.25	0.36	0.36	0.41
RoA	0.82	0.90	0.96	1.12
Leverage	12.57	10.23	10.05	10.76
RoE	10.33	9.20	9.70	12.07

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Ratings (Returns):	**Buy (> 15%)** **Reduce (-5% to -15%)**	**Accumulate (5% to 15%)** **Sell (< -15%)**	**Neutral (-5% to 5%)**