

January 27, 2009

**BUY**

Price **Rs364** Target Price **Rs720**

Sensex **8,674**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(17)	(0)	(45)	(68)
Rel. to Sensex	(9)	12	(9)	(36)

Source: Capitaline

**Stock Details**

Sector	Banking
Reuters	ICBK.BO
Bloomberg	ICICIBC@IN
Equity Capital (Rs mn)	11,130
Face Value	10
No of shares o/s (mn)	1113
52 Week H/L	1,300/282
Market Cap	Rs405bn/USD8.2bn
Daily Avg Volume (No of shares)	14.3mn
Daily Avg Turnover (US\$)	115.9mn

**Shareholding Pattern (%)**

	D'08	S'08	J'08
Promoters	-	-	-
FII/NRI	65.4	65.6	68.3
Institutions	22.1	19.5	17.5
Private Corp	4.7	6.9	6.5
Public	7.8	7.9	7.7

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**ICICI Bank**Result  
Update**Weaker operational results**

ICICI Bank (ICICI) reported net profit of Rs12.7bn, in line with our estimates. However, the operational performance was weaker with less than expected growth in NII and sharp dip in the fee income. The core operating profit declined by 9.2%yoy and 26.4%qoq.

The balance sheet has continued to contract helping the bank to protect CASA and control the cost of deposits. However, the bank has continued to disappoint on the asset quality as the gross slippages continue to rise.

The stock is currently quoting at 8.8x FY10E FDEPS and 0.9x FY10E ABV. We maintain our BUY recommendation on the stock with price target to Rs720.

**NII growth lower than expected**

ICICI Bank's NII grew by 1.6% yoy to Rs19.9bn, below our expectations. The NIMs remained stable on sequential basis, although they expanded by 10bps yoy.

**Yield analysis (%)**

	Q3FY09	Q3FY08	Q2FY09	yoy chg (bps)	qoq chg (bps)
Yield on advances #	10.4	10.9	10.2	(47)	18
Yield on investments #	7.3	7.6	7.0	(30)	26
Yield on assets #	8.3	8.5	8.0	(28)	21
Cost of funds #	6.2	6.4	5.8	(26)	32
NIM #	2.1	2.1	2.2	(2)	(11)
NIM – reported	2.4	2.3	2.4	10	0

Source: Company, Emkay Research

# Calculated on basis of average quarterly balances

**NIMs could go up in Q1FY10 as more deposits get repriced**

The wholesale deposits still form more than 50% of the total deposits for ICICI Bank. The wholesale deposits have seen sharp drop in rates over Q3FY09. With maturity profile of less than twelve months, 25% of its deposits will get repriced each quarter which should help the bank to improve the NIMs in Q1FY10.

However, we expect some pressure on NIMs in Q4FY09 driven by two things: 1) full impact of the higher cost term deposits that replaced the current account float during Q3FY09 and 2) priority sector lending norms to be met in Q4FY09.

**Balance sheet contraction continues**

The balance sheet contraction continued as the advances declined by 1.4% yoy and 4.3% qoq. The deposits also contracted by 9% yoy and 6.4% qoq. The consolidated advances have grown by 9.5% yoy to Rs2.6tn driven by growth in the overseas banking subsidiaries and also INR depreciation

**Advances book break up**

Rs bn	Q3FY09	Q3FY08	Q2FY09	% of portfolio	% yoy chg	% qoq chg
Retail#	1,148	1,323	1,225	54.0	-13.3	-6.3
2-wheelers	23	35	31	2.0	-34.4	-25.1
Cars	149	170	162	13.0	-12.2	-8.1
CV	149	180	162	13.0	-17.1	-8.1
Personal loans	115	138	119	10.0	-16.8	-3.4
Credit cards	80	78	86	7.0	3.0	-6.3
Mortgages	608	668	625	53.0	-8.9	-2.6
Others	23	54	40	2.0	-57.6	-43.2
International#	531	448	577	25.0	18.7	-7.9
Others#	446	384	418	21.0	16.1	6.8
Total advances	2,125	2,155	2,220	100.0	-1.4	-4.3

Source: Company, Emkay Research

However, during the quarter, the bank has invested ~Rs82.8bn in investments which should help it to report robust treasury gains in coming quarters.

### CASA hurt by current account float

The CASA mix was lower at 27.4% (29.9% in Q2FY09) driven by sharp liquidity squeeze witnessed in Q3FY09. Consequently the cost of deposit also went up by 40bps qoq as the bank replaced the current account float with higher cost term deposits.

#### CASA mix

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Total deposits	2,091	2,298	2,234	-9.0	-6.4
Savings account	385	380	432	1.3	-10.9
Current account	188	240	237	-21.7	-20.7
Total CASA	573	620	669	-7.6	-14.3
CASA as % Of total	27.4	27.0	29.9	43bps	-254bps
Term deposits	1,518	1,678	1,565	-9.5	-3.0
Cost of deposits	7.4	6.7	7.0	70bps	40bps

Source: Company, Emkay Research

### Fee income drops sharply

The fee income declined sharply during the quarter as the retail and international business didn't contribute much to the fee income. Driven by a 24.5% decline in the fee income, the total other income grew by just 3.6% yoy.

#### Fee income

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Fee income	13,470	17,850	18,760	-24.5	-28.2
Treasury	9,760	2,820	-1,527	246.1	-739.3
Other	1,920	3,600	1,540	-46.7	24.7
<b>Total</b>	<b>25,150</b>	<b>24,270</b>	<b>18,773</b>	<b>3.6</b>	<b>34.0</b>

Source: Company, Emkay Research

### Core operating profit declines by 9.2%

While a 18.5% decline in the operating expenses did help the reported operating profit to grow by 22.7% yoy, the core operating profit declined by 9.2% yoy to Rs17.9bn, led by weaker operating performance..

#### Core operating profit declines

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Reported operating profit	27,708	22,587	22,849	22.7	21.3
Less: Treasury gains	9,760	2,820	-1,527	246.1	NA
Core operating profit	17,948	19,767	24,376	-9.2	-26.4

Source: Company, Emkay Research

### Provisioning continues to remain high

The provisions and contingencies grew by 32.5%yoy to Rs10.1bn led mainly by higher NPA provisions. During the quarter there was no standard asset provision due to change in the RBI norms.

### Asset quality continues to worry

The asset quality continues to worry as the bank added further Rs12bn assets at gross level. However, the GNPA declined to Rs96.4bn driven by write off of Rs16bn. The provision cover slipped to 53.7% as the bank has written back the provisions which was not required on the assets written off.

**Loss assets analysis**

Rs mn	Q3FY09	Q3FY08	Q2FY09
Gross NPA (Rs bn)	96.4	72.5	102.7
Net NPA (Rs bn)	44.7	33.0	43.0
Gross NPA (%)	4.5	3.4	4.6
Net NPA (%)	2.0	1.5	1.8
Provision cover (%)	53.7	54.4	58.1
Delinquencies (%)	1.7	1.6	1.6

Source: Company, Emkay Research

# Annualised

**Capital adequacy remains comfortable**

The bank is comfortably placed with Capital adequacy at 15.6% and tier I at 12.1%.

**Valuations and view**

The stock is currently quoting at 8.8x FY10E FDEPS and 0.9x FY10E ABV. We maintain our BUY recommendation on the stock with price target to Rs720.

## Quarterly results

Rs mn	M9FY09	M9FY08	% yoy chg	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
NII	62,278	52,249	19.2	19,904	19,597	21,476	1.6	-7.3
Other Income	59,303	64,489	-8.0	25,145	24,266	18,773	3.6	33.9
<i>Fee income</i>	51,810	46,990	10.3	13,470	17,850	18,760	-24.5	-28.2
<i>Others</i>	7,493	17,499	-57.2	11,675	6,416	13	82.0	NA
Net income	121,581	116,738	4.1	45,050	43,863	40,250	2.7	11.9
Operating expenses	53,881	60,037	-10.3	17,341	21,276	17,400	-18.5	-0.3
Operating Profit	67,701	56,701	19.4	27,708	22,587	22,849	22.7	21.3
Provisions & Contingencies	26,161	18,963	38.0	10,077	7,603	9,235	32.5	9.1
<i>NPA</i>	25,406	17,320	46.7	8,501	6,960	8,680	22.1	-2.1
Profit before tax	41,539	37,738	10.1	17,631	14,983	13,614	17.7	29.5
Total Tax	10,317	7,050	46.3	4,910	2,681	3,472	83.1	41.4
Net Profit	31,223	30,688	1.7	12,722	12,302	10,142	3.4	25.4

## Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2007	125,997	31,064	34.5	248.2	1.0	13.4	10.9	1.5
FY2008	161,833	41,550	37.1	386.3	1.1	11.7	10.2	1.0
FY2009E	171,120	41,600	37.2	393.6	1.0	8.7	10.2	1.0
FY2010E	191,273	46,183	41.2	423.9	1.0	9.0	9.2	0.9

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