Institutional Equities

India Research

September 8, 2010

BANKING

INITIATING COVERAGE

ICICI Bank (Rs1,025)

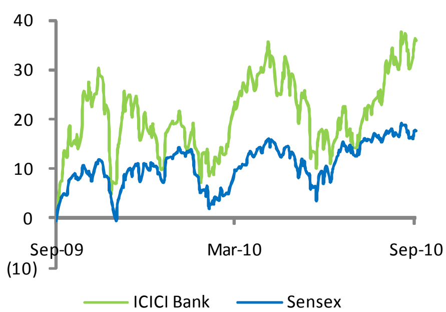
Out performer

Target Price: Rs1,190

Stock Data

Bloomberg Code	ICICIBC.IN
Market Cap. (Rs bn / US$ bn)	1,143/24.6
52-week High/Low (Rs)	1,049/748
Shares Outstanding (mn)	1,115.5
Avg. daily volume ('000)	5,276
Avg. daily value (Rs mn)	4,608
Promoter holding (%)	0.0
Free float (%)	100.0
FII holding (%)	67.1

Relative Performance



BSE Sensex	18,645

Rakesh Kumar
rakesh.kumar@karvy.com
+91-22-22895028

Corrective measures done; phase of consolidation and restructuring to strengthen base to take off later

We initiate coverage on ICICI Bank with an Out Performer rating with a price target of Rs1,190 based on sum-of-parts valuation methodology. Incrementally, expansion in credit book, stable margin, traction in fee income and lesser credit cost would enhance the bank's return ratios. Going forward, strong balance sheet growth and 751 branch addition in FY10 would amplify the bank's operating leverage and aid bottomline growth. Based on our target price, the stock would trade at 2.64x adjusted book value FY12.

- **Expansion in credit book:** ICICI Bank's credit book contractionary phase which started in Q2FY09 has been arrested and since Q4FY10 we witness sequential growth in credit book. During FY10-12, we expect the bank's credit book to grow at 21.5% CAGR.
- **Stability in margin:** Higher volume growth in domestic credit book, focus on CASA deposit mobilization and higher proportion of credits compared to deposits being re-priced at higher rates in increasing interest rate scenario would aid the bank's margin.
- **Drop in credit cost; improvement in return ratio:** Better recovery and upgradation in sub-standard and restructured loan books would improve the asset quality and require lesser NPA provisioning. We expect the bank's credit cost to drift down to 1.86% in FY11 and 1.64% in FY12 from 2.13% in FY10.

  We value ICICI bank consolidated entity at Rs1,190 on sum-of parts valuation methodology with ICICI Bank at Rs748 at 1.66x ABV FY12 and Rs442 for its subsidiaries.

(Rs mn)	FY2009	FY2010	FY2010(M)	FY2011E	FY201E
Total Net Income	159,703	155,920	160,570	175,951	213,270
Profit before provisions	89,252	97,322	97,043	106,166	133,483
NIM (%)	2.30	2.34	2.38	2.38	2.40
Net Profit	37,581	40,250	39,229	48,814	66,582
EPS (Rs)	34	36	34	42	58
EPS Growth (%)	(10)	7	1	24	36
P/E (x)	30.7	28.7	30.4	24.4	17.9
Price/Book Value (x)	2.3	2.2	2.3	2.2	2.0
Price/Adjusted Book Value (x)	2.8	2.6	2.6	2.5	2.3
Dividend Yield (%)	1.1	1.2	1.2	1.4	1.7
Cost-to-income (%)	44.1	37.6	39.6	39.7	37.4
ROAA (%)	1.0	1.1	1.0	1.2	1.4
ROAE (%)	7.8	8.0	7.7	9.1	11.6
Tier-1 Capital (%)	11.8	14.0	13.6	11.8	10.1

Source: Company and Karvy Institutional Research. ** FY10(M) consists of BoR's numbers*

INDEX

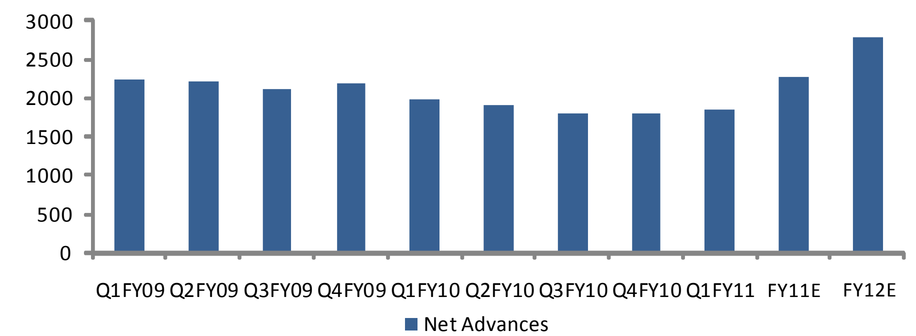
Particulars

Investment Arguments

Investment Arguments

Expansion in credit book: The core issue of prolonged contraction in credit book is over and since Q4FY10 the bank has been reporting sequential growth in loans/advances.

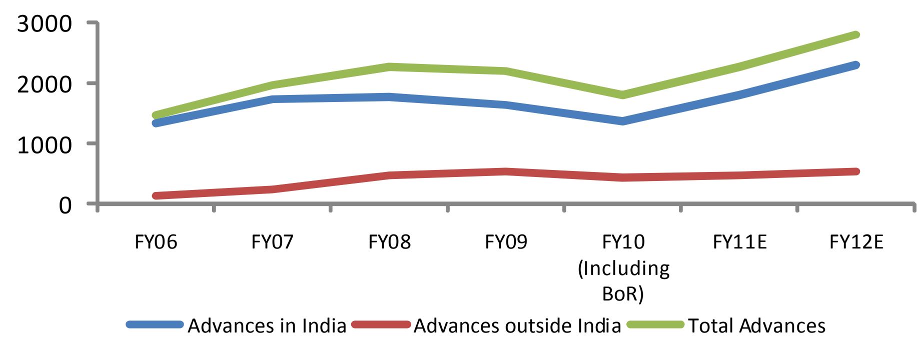
Growth in ICICI Bank's Net advances (Rsbn)



Source: Company & Karvy Institutional Research

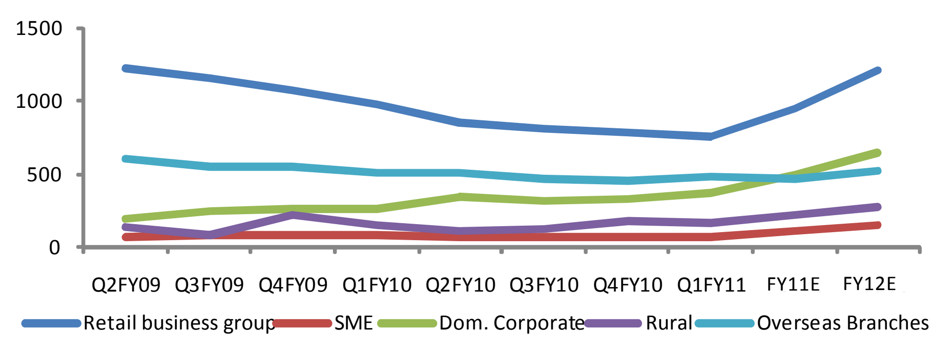
Geography-wise, in FY10-12, majority of credit growth would be contributed by domestic markets; we expect the bank's domestic and overseas credit books would report compounded growth of 25.6% and 7.5% respectively. In domestic market, growth in credit would come from corporate and retail loan books.

Geography-wise growth in Net advances (Rs bn)



Source: Company & Karvy Institutional Research

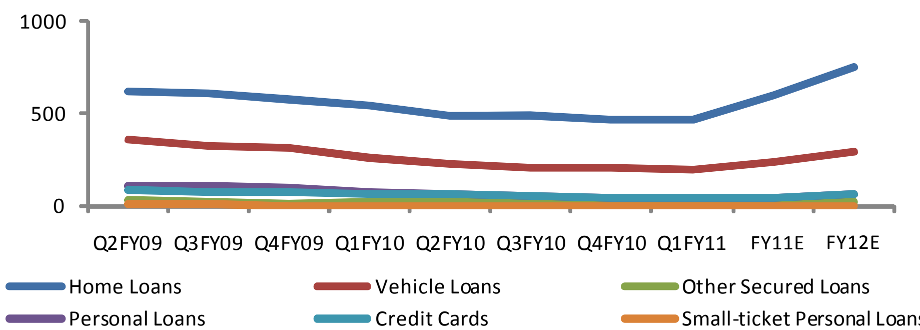
Growth in ICICI Bank's credit book segment-wise (Rs bn)



Source: Company & Karvy Institutional Research

The bank's retail credit book growth has not yet picked up due to repayments and pre-payments; in FY10 total repayments were almost Rs350 bn and in FY11 the figure is expected to be in a range of Rs200-250 bn. In Q1FY11, the corresponding figure was Rs70-75 bn. We expect that with sustained revival in economic activities, credit demand from retail segment would gather steam albait with a time-lag. Under the retail segment, during FY11, secured lending like housing and vehicle loan book would grow at faster pace. Whereas in FY12, we expect that due to expected increase in the bank's risk appetite growth and composition of unsecured retail loan book would start inching up. We expect during FY10-12, the bank's retail loan book would grow at 24% CAGR with its composition increasing to 43.1% from 41% in Q1FY11. Under the segment, housing and vehicle loan books would expand at compounded rate 27% and 19% respectively.

Growth in ICICI Bank's retail credit book subsegment-wise(Rs bn)



Source: Company & Karvy Institutional Research

The bank's domestic corporate segment is expected to grow at 40% CAGR during FY10-12. Although currently the bank's witnesses credit offtake from large-ticket infrastructure lending particularly to power projects. Going forward other infrastructure segments like roads, ports and telecom would also be growth drivers. We expect that domestic corporate segment's composition could inch up from 20% in Q1FY11 to 23% in end-March 12.

Composition of ICICI Bank's credit book

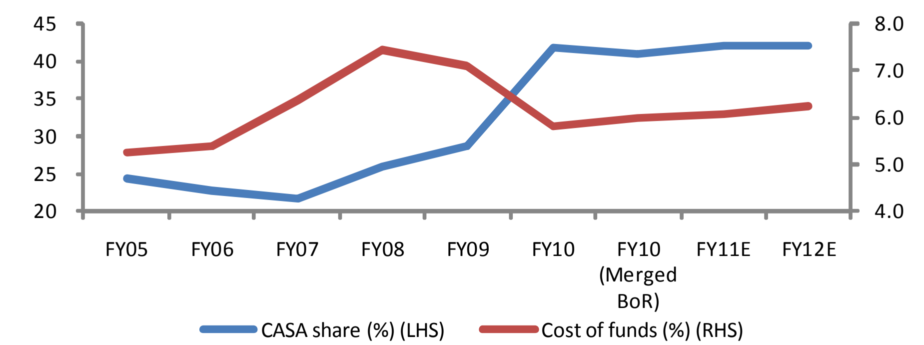
	March-09	March-10	June-10	March-11E	March-12E
Retail business group	49.0	43.0	41.0	42.0	43.1
SME	4.0	4.0	4.0	5.0	5.3
Dom. Corporate	12.0	18.0	20.0	22.0	23.0
Rural	10.0	10.0	9.0	10.0	10.0
Overseas Branches	25.0	25.0	26.0	21.0	18.6

Source: Company & Karvy Institutional Research

Higher credit demand in domestic markets across sectors and the bank's focus in rural areas would enhance their compositions leading to decline in proportion of relatively lesser spread overseas business.

Stability in margin: On asset-side, higher growth in high-yielding advances to retail segment, longer tenure corporate sector (with almost one-year reset period) and SME would aid the bank's margin. Low spread overseas business's proportion would drift down going forward further succoring the bank's margin. On liability-side, we expect the bank to maintain CASA share at 42% in FY11 and FY12 compared to 41.7% in Q4FY10 and 42.1% in Q1FY11. Going forward, we expect retail term deposit proportion to increase to 25%. Therefore, overall on volume-side, we expect the bank to maintain credit-deposit ratio at 87.5% in FY11 and FY12.

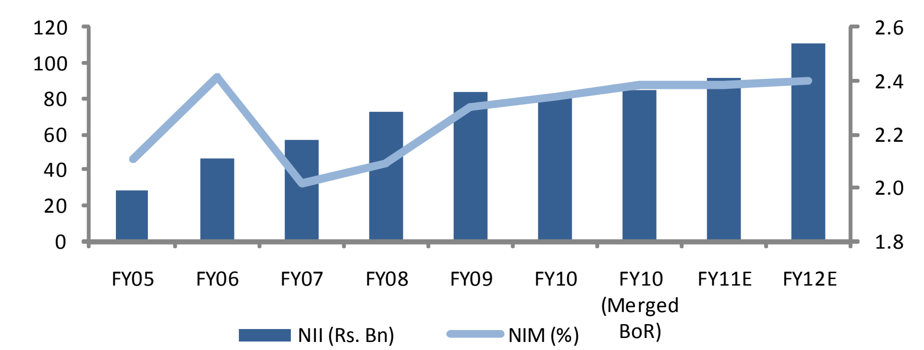
ICICI Bank's CASA share and Cost of funds (%)



Source: Company & Karvy Institutional Research

On value-side, almost 66-70% of the bank's domestic credit book is on floating interest rate and as on end-March 2010, almost 46% of total investment book had residual maturity of one year or less. As on end-March 10, on the basis of asset-liability maturity pattern, 48% of the bank's total deposits would come for re-pricing or redemption in one year or less time horizon. In the prevailing hardening interest rate scenario, higher proportion of assets compared to that of liabilities re-pricing at higher rate could marginally improve margin in FY12 to 2.40% from 2.34% in FY10.

ICICI Bank's Net interest income (Rs bn) and margin (%)

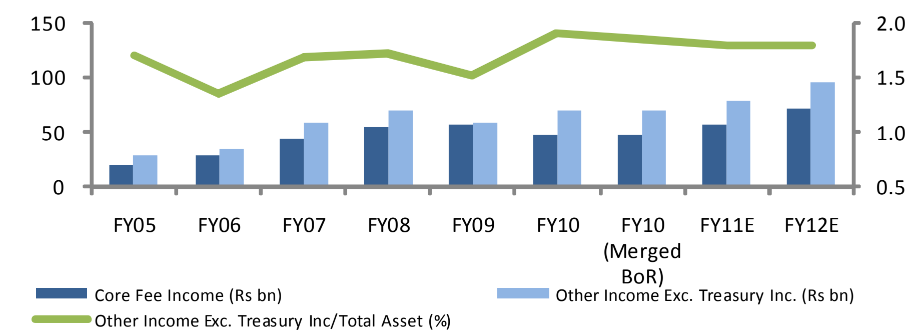


Source: Company & Karvy Institutional Research

In the pre-existing lending rate system (BPLR system), banks used to change their lending rates irrespective of change in their deposit rates depending on their asset-liability mismatch and impact on margin. But, in the prevailing lending rate system (Base rate), banks' lending rates are based on a deposit rate (average deposit rate, incremental deposit rate or a particular tenure deposit rate). As and when a bank changes its deposit rate, base rate changes automatically though with a time lag depending on the deposit rate chosen as a determinant of the base rate.

Traction in fee income; in-line with buildup in asset: With ramp up in credit demand going forward, fee income from retail segment would start flowing. Fee income from cross selling of third party products, loan processing charges and other trade finance income is expected to get traction with higher loan disbursements. In FY10, the bank earned Rs2.96 bn (6.1% of CXB income) of bancassurance income; the income growth might slow down marginally going forward. Other third party products distribution business (MF products) would remain robust. On loan processing front, due to decline in retail credit book transaction volume loan processing income from retail loans has been minimal. Going ahead with pick up in retail credit, loan processing charges would grow. Also, decline in credit card fees on account of lesser issuance of credit cards dented retail fee income in Q1FY11. Trade finance fee income from LC and BG issuance would grow at faster rate on the back of revival in corporate business; in Q1FY11 corporate segment's fee income grew at 20% (Y/Y).

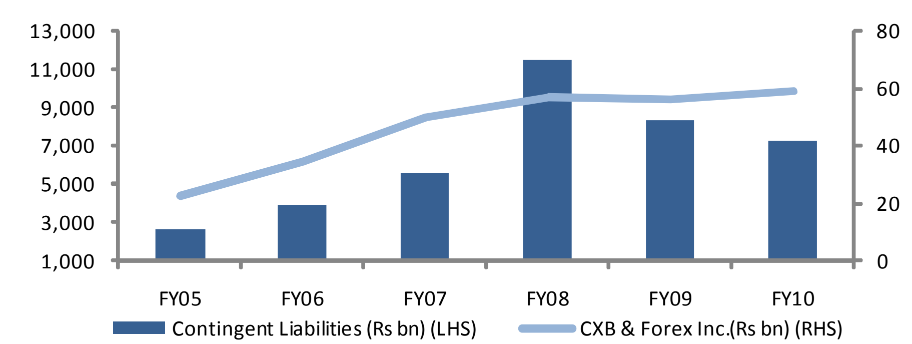
ICICI Bank's core fee income and other income (Ex PoSI) (Rs bn)



Source: Company & Karvy Institutional Research

There has been a sharp increase in contingent liabilities during FY05-08, (in terms of guarantees and interest rate swaps) to enhance non-fund based income from proprietary and clients' outstanding positions. The bank's total fee income (CXB & foreign exchange gains) stagnated after a decline in FY09. Going forward, with traction in demand for non-fund based products from corporate would further improve fee income.

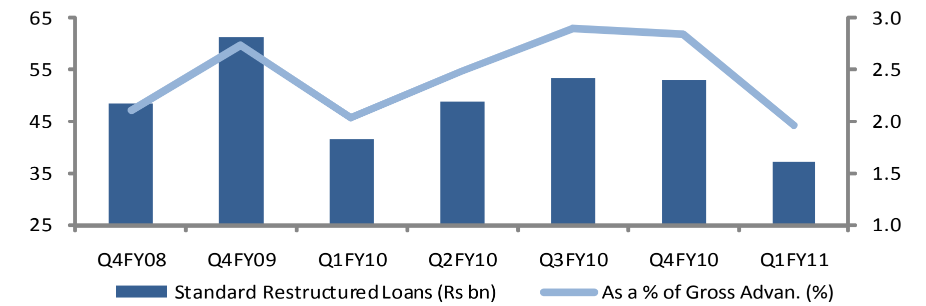
ICICI Bank's contingent Liabilities and core fee income (Rs bn)



Source: Company & Karvy Institutional Research

Non-performing assets burden receding: The bank's total restructured loan book has been on decline on the back of upgradation of performing restructured assets. The restructured loan book with consistent track record of at least one year period has been upgraded to standard assets. In Q3FY10, Q4FY10 and Q1FY11 the bank upgraded restructured loans worth Rs1.0 bn, Rs3.0 bn and Rs17.6 bn respectively. The bank's management expects further upgradations in FY11 resulting into lesser burden of non performing assets. Slippages from the restructured loan book in FY10 and Q1FY11 were negligible.

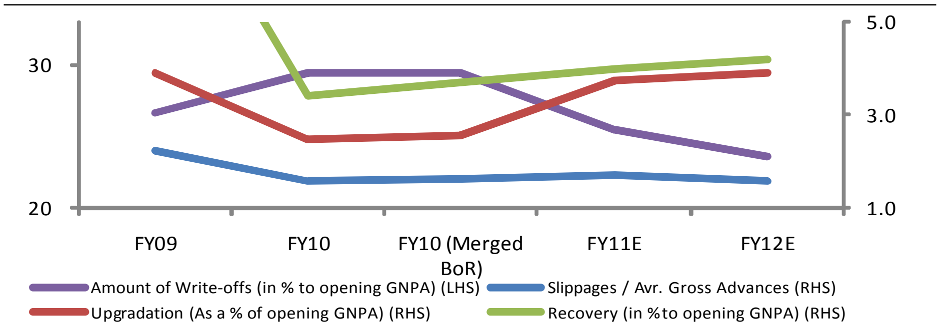
ICICI Bank's Restrutured assets & as a Gross Advances (%)



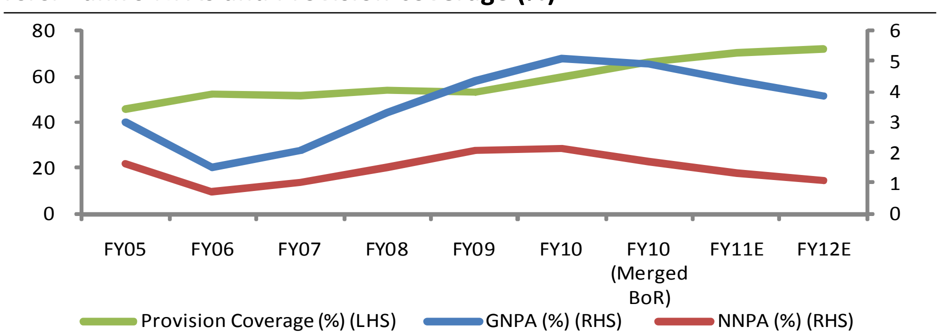
Source: Company & Karvy Institutional Research

Going forward, for other standard assets, we believe that further build-up in gross NPAs would be contained significantly on the back of stagnant gross slippages, higher upgradations and recoveries. Gross slippages ratio of 1.6% in FY10 could slightly move up in FY11 and would drift down in FY12. Broad-based revival in economic activities would aid upgradations and recoveries across sectors. We believe that incrementally write-off of bad debts could reduce due to expected improvement in their asset quality.

ICICI Bank's addition and reduction in gross NPA (%)



ICICI Bank's NPAs and Provision coverage (%)



Source: Company & Karvy Institutional Research

As on end-March 10, the bank holds standard assets provisions of Rs14.4 bn against requirements of Rs7.3 bn. Considering the bank's credit growth at 21.5% CAGR (during FY10-12) in FY11 and FY12, we do not expect the bank to make any further provisions for standard assets.

Underleveraged balance sheet; positive for future return ratio: As on end-March 10, the bank had tier I Capital of 13.96% and leverage (avr. asset/avr. equity) of 7.3x. Going forward with growth in balance sheet size in FY12, we expect leverage to increase to 8.4x. Much higher tier I capital has suppressed RoAE expansion to that extent. On an average, for past 10 years and 5 years, the bank had average tier I capital of 9.3% and 10.8% respectively.

ICICI Bank's leverage and return ratios

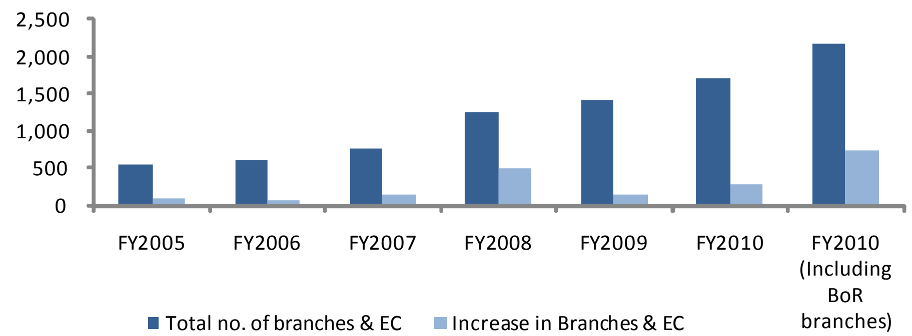
	RBI's Mandatory level	As on end-June 10	An ideal situation
Tier I Capital (%)	6.0	14.0	8.5
RWA/ Tier I capital (x)	0.167	0.071	0.118
RWAs/Assets (x) (5 years average)	0.86	0.86	0.86
Total Assets/Tier I Capital (x)	19.30	8.27	13.63
IPDI/Net Worth (x)	0.055	0.055	0.055
Asset/Total Equity (x)	18.24	7.82	12.88
RoAA (%) (FY12)	1.38	1.38	1.38
RoAE (%)	25.1	10.8	17.7

Source: Karvy Institutional Research

In an ideal situation, with pick up in balance sheet growth in FY12 and onwards, the bank's RoAE would expand at much faster rate; incremental growth in balance sheet would multiply at bottomline level due to expected improvement in financial leverage.

Bank of Rajasthan's acquisition avails underutilized branch network; operating leverage would push bottomline: Since FY05, ICICI Bank's branch network has been expanding at 25% compounded rate with incrementally adding 206 branches yearly on an average. In FY10, the bank added 751 branches on the back of erstwhile Bank of Rajasthan (BoR) acquisition.

ICICI Bank's branch and extension counters network



Source: Company & Karvy Institutional Research

Compared to ICICI Bank, erstwhile BoR's branches were grossly underutilized. Erstwhile BoR's business per branch was Rs505 mn compared to that of ICICI Bank's Rs2.2 bn. Though, erstwhile BoR had strong presence in northern India with almost 75% of its total branches; alone in Rajasthan state, the bank has close to 63% of its total branches. Delhi, Haryana and Punjab contribute almost 4.3%, 3.0% and 2.6% of its total branches. With concentrated presence in northern India (high per capita income geographical zone), ICICI Bank would be able to benefit in longer time horizon.

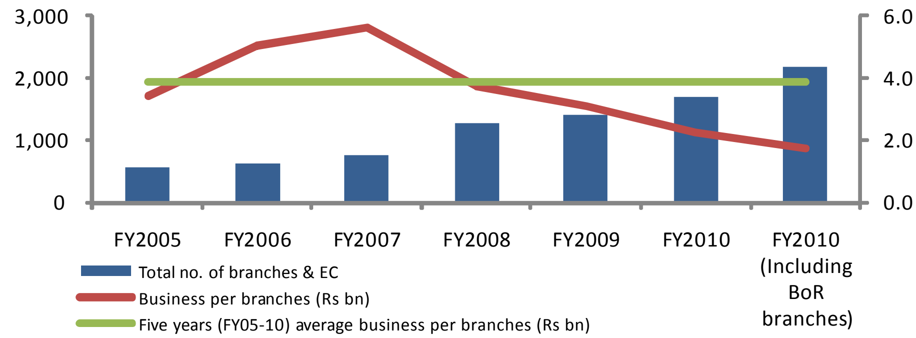
Comparision of ICICI Bank and erstwhile BoR financials

(Rs mn)	ICICI Bank	Erstwhile BoR	Size of erstwhile BoR (compared to ICICI Bank)
Net Advances	1,812,056	83,295	4.60
Deposits	2,020,166	150,624	7.46
Networth	516,184	5,413	1.05
Total Asset	3,633,997	173,001	4.76
RWAs	2,941,806	106,452	3.62
No. of Branches	1,707	463	27.12
NII	81,144	3,350	4.13
Operating Profit	97,322	1,021	1.05
Net Profit	40,250	(1,021)	(2.54)
Gross NPAs	94,807	2,938	3.10
Business per branch	2,245	505	22.50

Source: Company *(All number as on end-March 2010)*

Increase in branch network by 751 in FY10 compared to yearly increase of 206 branches (on an average) coupled with expected increase in business per branch back to normalized level of Rs3.86 bn would result in substantial growth in balance sheet in FY12 and onwards. Incremental overheads on recently acquired branches would be limited. On employees' expenses front, we factor in additional cost of Rs2.5 bn in FY11 on account wage escalation of erstwhile BoR's employees. The bank's employees' expenses would increase in FY11 due to increase in headcounts in recent quarters and expected rise in salaries and perks. The positive impact of operating leverage would be visible in FY12 with high growth in total business and absence of one-time employees' expenses for erstwhile BoR. ICICI Bank's total operating expenses to average assets ratio would drift down to 1.65% in FY12 from 1.71% in FY11 and 1.67% in FY10.

ICICI Bank's branch efficiency (business per branch) (Rs bn)



Source: Company & Karvy Institutional Research

Bank's subsidiaries would provide upside: The bank's subsidiaries contribute almost 33% (Rs352 out of entity's value of Rs1,056) of the consolidated entity value; majority of contribution come from ICICI Prudential Life, ICICI Bank Canada, ICICI Bank UK and ICICI Home Finance. The subsidiaries' performance took a hit in FY10 due to prolonged dullness in economic environment after consistent track record in FY07 and FY08. In recent quarterly result, majority of the bank's subsidiaries performance improved substantially. We expect that with broad based sustained revival taking place, the financial intermediaries' performance would also further improve adding tremendous value to consolidated entity.

ICICI Bank's subsidiaries' performance

	Net Profit		
	Q1FY10	Q1FY11	Growth (%)
ICICI Bank UK PLC (USD mn)	4.90	9.00	84
ICICI Bank Canada (CAD mn)	8.90	6.50	(27)
ICICI Home Finance Company Ltd (Rs mn)	570	270	(53)
ICICI Prudential Life (NBAP in Rs mn)	1,180	2,250	91
ICICI Securities Ltd (Rs mn)	140	250	79
ICICI Venture Funds (Rs mn)	160	110	(31)
ICICI Prudential AMC (Rs mn)	190	320	68

Source: Company & Karvy Institutional Research

ICICI Bank key subsidiaries' yearly financial performance

	ICICI Home Finance Company Ltd			ICICI Securities Ltd			ICICI Venture Funds			ICICI Bank Canada			ICICI Bank UK PLC		
Particulars	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**
Paid-up share capital	7,988	10,988	10,988	611	1,111	2,111	10	10	10	12,261	27,618	41,391	19,863	30,226	26,786
Reserves	904	1,466	1,826	1,159	624	691	368	738	948	-391	204	1,010	-1,166	-9,440	1,349
Total assets	85,473	133,680	134,039	9,747	8,093	8,682	3,438	3,668	3,726	115,204	260,568	258,332	354,221	371,306	333,107
Total liabilities (excluding capital and reserves)	76,582	121,226	121,225	7,977	6,358	5,880	3,059	2,921	2,768	103,335	232,747	215,930	335,525	350,520	304,973
Investments (excluding investments in subsidiaries)	11,384	15,698	12,780	248	1,512	11	320	852	1,008	31,980	57,640	48,362	175,126	148,457	89,818
Turnover (Gross income from operations)	5,948	14,056	14,668	7,490	5,182	7,560	2,258	1,943	1,748	5,026	10,016	12,407	19,023	28,810	15,843
Profit before tax	997	1,844	2,142	2,327	67	1,780	1,271	2,021	744	165	902	1,823	2,276	511	2,348
Provision for taxation	293	415	535	820	23	553	367	540	229	50	333	564	735	165	687
Profit after tax	704	1,429	1,607	1,498	44	1,227	904	1,481	515	116	570	1,259	1,541	347	1,661
Dividend paid (including corporate dividend tax)	505	866	1,247	1,122	281	1,157	848	1,112	304	-	-	315	166	-	-

Source: Company & Karvy Institutional Research

Adjusted Profit & Loss account of FY09 and FY10

For FY09 and FY10, we have adjusted the bank's bottomline and return ratios for one-off non-recurring items to assess core and adjusted growth in bottomline and return ratios. In FY10, fringe benefit tax (FBT) was abolished in accordance with Finance (No.2) Act, 2009. In FY10, the bank gained Rs2.03 bn by way of selling a majority stake in merchant acquiring business to First Data. In FY10, adjusted RoAE drifted down by 140 bps to 6.55%. Though, adjusted profit before tax and net profit grew by 8.6% and 11.4% (Y/Y) compared to growth rates of 4.5% and 7.1% (Y/Y) in case of unadjusted figures.

Adjustment Profit & Loss account

(Rs mn)	FY09	FY10	Growth (Y/Y)	
Reported PBT	51,170	53,453	4.5	
Fringe Benefit Tax	-	(342)		FBT discontinued in FY10
Deferred Tax	4,717	2,804	(40.5)	
Interest on income tax refunds	(3,331)	(1,210)	(63.7)	
Treasury Income	(13,040)	(8,662)	(33.6)	
MTM Losses	977	(27)	(102.7)	
Sale of merchant acquiring Operations	-	(2,030)		By way merchant acquiring business to First Data
Adjusted PBT	40,493	43,987	8.6	
Adjusted PAT	29,740	33,122	11.4	
Adjusted RoAE (%)	6.20	6.55		
Reported PAT	37,581	40,250	7.1	
Reported RoAE (%)	7.83	7.96		

Source: Company & Karvy Institutional Research

Q1FY11 financial result analysis

In Q1FY11, the bank's core income grew by 3.0% (Y/Y) and de-grew 4.3% (Q/Q); during the quarter, NII was flat at Rs19.9 bn and fee income grew by 7.1% (Y/Y). Flat NII was mainly due to 6.9% (Y/Y) de-growth in net advances though the margin improved slightly to 2.5% from 2.4% in Q1FY10. Growth in fee income mainly came from corporate segment; the segment grew by 20% (Y/Y) but fee income from retail segment declined due to lesser loan processing charges and credit card fee income. Treasury income dropped to Rs1.04 bn from Rs7.1 bn in Q1FY10 due to hardening of interest rates across tenures. Decline in operating profit by 13% (Y/Y) was due to sharp drop in treasury income and employees' expenses; increase in headcounts and rise in salary and perks led to 23% (Y/Y) increase in employees' expenses. Much lesser provisions at Rs7.98 bn (other than tax provisions) declined due to lesser slippages in unsecured retail book. In Q1FY11, the bank (standalone) net profit grew by 17% (Y/Y) to Rs10.25 bn; consolidated entity's bottomline grew by 5.4% (Y/Y) to Rs10.9 bn.

In Q1FY11, the bank's total business de-grew by 5.6% (Y/Y) and grew 0.5% (Q/Q) and the bank's assets de-grew by 0.93% (Y/Y) and grew 0.16% (Q/Q). The bank's deposits de-grew by 4.4% (Y/Y), though saving deposits grew by 27% (Y/Y) and 6.2% (Q/Q); the bank's CASA share went to 42.1% from 30.4% in Q1FY10 and 41.7% in Q4FY10. Sequential growth in credit book came from corporate segment and international business; it grew by Rs40 bn and 30 bn respectively. Retail credit book declined by Rs25 bn due to repayments.

On asset quality front, the bank's gross NPA increased by 3.7% (Q/Q) and increased 4.4% (Y/Y) net NPA decreased by 10% (Q/Q) and 25% (Y/Y) respectively. Net addition to gross NPAs was Rs3.5 bn. On restructured assets front, due to upgradations total restructured loan book contracted to Rs37.3 bn from Rs53 bn in Q4FY10 and slippages from the loan book was negligible. Incremental addition to the loan book was Rs2.0 bn. The bank's provision coverage improved to 65% from 59% in Q4FY10 and 51% in Q1FY10. Further upgradation in restructured loan book and contained slippages could reduce the credit costs significantly.

Overall, in Q1FY11 the bank's earning quality improved with higher saving deposit growth, traction in margin, healthy growth in corporate fee income and improvement in asset quality. On yearly basis, the balance sheet growth was subdued but sequentially the bank's deposit base and assets grew marginally.

ICICI Bank's Q1FY11 financial performance

(Rs mn)	Q1FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Interest/Discount on Advances/Bills	50,866	38,168	37,785	(26)	(1)
Interest on Investment	15,761	15,709	16,586	5	6
Interest on bal. with RBI & other inter bank funds	2,007	1,305	981	(51)	(25)
Other Interest	2,701	3,088	2,774		
Total Interest Earned	71,334	58,270	58,125	(19)	(0)
Interest Expenditure	51,482	37,920	38,215	(26)	1
NII	19,853	20,349	19,911	0	(2)
Fee Income	13,190	15,210	14,130		
Lease Income	570	1,740	1,630		
PoSI	7,140	1,960	1,040		
Other Income	20,899	18,908	16,805	(20)	(11)
Total Net Income	40,751	39,258	36,716	(10)	(6)
Payments to / Provisions for employees	4,940	6,285	6,114	24	(3)
Other operating expenses	10,520	8,984	8,721	(17)	(3)
Operating Expenses	15,460	15,269	14,835	(4)	(3)
Operating Profit	25,291	23,989	21,881	(13)	(9)
Tax	3,273	4,036	3,649	11	(10)
Other Provisions	13,237	9,898	7,978	(40)	(19)
PAT	8,782	10,056	10,254	17	2
Equity	11,134	11,149	11,155		
EPS (Rs Unit)	7.9	9.0	9.2	16.5	1.9
GNPA	94,163	94,807	98,290		
NNPA	46,078	38,411	34,562		
GNPA (in %)	4.63	5.06	5.14		
NNPA (in %)	2.33	2.12	1.87		
RoA (%)	0.95	1.15	1.15		

Source: Company & Karvy Institutional Research

Investment Risks

Slippages from erstwhile BoR's loan book: As on end-March 10, erstwhile BoR's total gross and net NPAs were at Rs2.9 bn (3.46%) and Rs1.3 bn (1.6%) with provision coverage of 55%. Erstwhile BoR's gross NPAs and net NPAs were at 3.0% and 1.37% of ICICI Bank's FY10 operating profit.

Erstwhile BoR's employees' cost escalation: In order to bridge-up the gap between ICICI Bank's and erstwhile BoR's employees' remuneration structure, the erstwhile BoR's employees salaries would be hiked. We factor in additional cost of Rs2.5 bn in FY11 on account wage escalation of erstwhile BoR's employees.

Impact on life insurance business: As a consequence of change in IRDA's policies on ULIP products, ICICI Prudential Life's business growth and margin could be impacted marginally. In FY11 and FY12, we build in APE growth of 16.4% and 23.3% respectively. We factor in NBAP margin of 16% compared to Q1FY11 NBP margin of 19%. We believe that majority of downside in business growth and margin has been factored into the life insurance venture's valuation.

Valuation

In FY10-12, we expect the bank to report business growth of 21.5% CAGR with stable margin of 2.35-2.40%. We expect that the bank would report RoAA and RoAE of 1.2-1.4% and 9.0-11.6% respectively. We have valued the bank on three stage dividend discount model considering explicit projection till FY2012 and then assumed 8.11% growth during the high growth phase and thereafter 7.0% during stable growth phase and eventually at 5.0% terminal growth. We determine the bank's intrinsic worth at Rs748 per share at 1.66x adjusted book value FY12. We have valued the bank's subsidiaries at Rs442 and value the consolidated entity at Rs1,190 on sum-of-parts valuation methodology. Based on our target price, the bank would trade at 2.64x of adjusted BVPS and 20x EPS FY2012. We rate the stock as an Out Performer with a target price of Rs1,190.

Key valuation assumptions

Sustainable RoAE	11.60
Avr. Payout ratio	30.07
Sustainable growth rate	8.11
Beta	1.40
Cost of equity (Post high-growth phase)	15.00
Expected stable growth rate	7.00
Terminal growth rate	5.00
Intrinsic worth of the bank (Standalone entity) (Rs Unit per share)	748

Source: Karvy Institutional Research

Value of the subsidiaries

	Total Value (Rs mn)		Value per share (for ICICI Bank)
ICICI Securities PD Ltd	10,198	Based on Price to earning ratio of 12x	10
ICICI Securities Ltd	22,082	Based on Price to earning ratio of 18x	19
ICICI Home Finance Company Ltd	51,255	Based on Price to book ratio of 4x	45
ICICI Venture Funds	19,790	Based on Price to earning ratio of 22x	17
ICICI Lombard General Ins.	10,163	Based on Price to earning ratio of 12x	8
ICICI Bank UK PLC	84,403	Based on Price to book ratio of 3x	73
ICICI Bank Eurasia Ltd	8,915	Based on Price to book ratio of 3x	8
ICICI Bank Canada	127,205	Based on Price to book ratio of 3x	111
ICICI Prudential AMC	37,807	Based on 5.5x of AUM of Rs687 bn	17
ICICI Prudential Life	164,794	Based on appraisal valuation methodology	135
Total value of subsidiaries			442

Source: Karvy Institutional Research

Financials

Profit & loss statement

Rsmn	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Net Interest Income	83,666	81,144	84,494	92,050	110,950
Fees	56,259	48,308	48,625	57,820	71,455
Profits on sale of investments	18,005	5,464	5,789	5,550	6,520
Profits on foreign exchange	84	11,061	11,115	12,650	15,110
Other operating income	1,689	9,944	10,547	7,881	9,235
Total other income	76,037	74,777	76,076	83,901	102,320
Total Net Income	159,703	155,920	160,570	175,951	213,270
Salaries	19,717	19,258	23,079	25,350	27,155
Other operating costs	50,734	39,340	40,448	44,435	52,632
Total Overheads	70,451	58,598	63,527	69,785	79,787
Profit before provisions	89,252	97,322	97,043	106,166	133,483
Bad Debt Provisions	37,690	43,622	44,221	39,920	42,661
Investment Provisions	977	(27)	(27)	265	370
Other provision	(585)	273	846	185	215
Total provisions	38,083	43,869	45,040	40,370	43,246
Profit before tax	51,170	53,453	52,003	65,796	90,237
Tax	13,588	13,203	12,774	16,982	23,655
Reported Net profit	37,581.3	40,249.8	39,228.5	48,814.3	66,581.9
DPS (Rs)	11.0	12.0	12.0	15.0	18.0
EPS (Rs)	33.8	36.1	34.1	42.5	57.9
EPS Growth (%)	(9.7)	6.9	1.1	24.4	36.4
Payout (%)	32.6	33.2	35.2	35.3	31.1
Net interest margin (%)	2.3	2.3	2.4	2.4	2.4
Cost-to-income (%)	44.1	37.6	39.6	39.7	37.4

Balance sheet

Rsmn	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Total Cash	299,666	388,737	402,613	443,521	512,113
Govt. securities	633,868	684,036	728,460	828,378	1,010,624
Other investments	396,715	524,892	547,693	622,372	759,296
Total Investments	1,030,583	1,208,928	1,276,153	1,450,750	1,769,920
Bills discounted	40,611	44,532	44,532	56,520	69,962
Cash credit	343,946	255,552	255,552	316,509	405,779
Term loans	1,798,552	1,511,972	1,511,972	1,887,751	2,322,734
Total Credit	2,183,108	1,812,056	1,895,351	2,260,780	2,798,475
Gross Fixed Assets	74,437	71,141	77,601	82,552	88,634
Accumulated Depreciation	(36,421)	(39,014)	(40,312)	(41,335)	(43,557)
Net Fixed Assets	38,016	32,127	37,288	41,217	45,077
Other Assets	241,636	192,149	194,327	168,699	190,015
Total Assets	3,793,010	3,633,997	3,805,732	4,364,967	5,315,600
Demand Deposits	216,317	309,975	325,766	400,787	495,915
Savings Deposits	410,361	532,184	565,784	685,216	847,854
Term Deposits	1,556,800	1,178,008	1,279,240	1,499,719	1,855,681
Total Deposits	2,183,478	2,020,166	2,170,789	2,585,722	3,199,450
Tier I Capital	30,169	28,210	28,210	38,000	49,230
Upper Tier II Capital	109,350	137,912	138,523	170,770	235,155
Lower Tier II Capital	115,299	138,547	141,385	158,990	238,860
Other Borrowings	673,237	634,466	634,479	669,500	755,337
Total Borrowings	928,055	939,136	942,597	1,037,260	1,278,582
Other liabilities	186,147	158,512	168,068	189,060	242,260
Equity	11,133	11,149	11,491	11,491	11,491
Reserves	484,197	505,035	512,786	541,434	583,817
Total Liab & Equity	3,793,010	3,633,997	3,805,732	4,364,967	5,315,600

RoAA

(%)	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Net Interest Income	2.15	2.19	2.22	2.25	2.29
Other Income	1.95	2.01	2.00	2.05	2.11
Less Overheads	(1.81)	(1.58)	(1.67)	(1.71)	(1.65)
Less Provisions	(1.33)	(1.54)	(1.52)	(1.40)	(1.38)
Less Tax	(0.35)	(0.36)	(0.34)	(0.42)	(0.49)
ROA	0.96	1.08	1.03	1.19	1.38
ROE	7.83	7.96	7.69	9.06	11.60

Asset Quality

Rsmn	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Gross NPLs	96,493	94,807	96,059	100,879	110,547
Restructured standard Loans	61,270	55,870	58,231	64,054	67,897
Gross Impaired Loans	157,763	150,677	154,290	164,933	178,444
Accumulated Provisions	50,954	56,396	63,441	70,811	79,362
Net impaired Loans	106,809	94,281	90,849	94,122	99,082
Provision to gross impaired loans (%)	32.3	37.4	41.1	42.9	44.5
Gross NPLs (%)	4.32	5.07	4.90	4.33	3.84
Net NPLs (%)	2.09	2.12	1.72	1.33	1.11

Adjusted BV

Rsmn	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Book Value (Rs)	445	463	453	478	515
Equity	495,330	516,184	519,969	548,825	591,358
Net Impaired Loans	106,809	94,281	90,849	94,122	99,082
Adjusted Equity	416,885	445,191	451,437	478,996	518,249
Adjusted Equity to RWAs	11.7	15.1	14.8	13.4	11.8
Adjusted BV (Rs)	374	399	393	417	451

Capital Adequacy

Rsmn	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Tier I Capital	421,960	410,615	414,618	420,750	442,596
Tier II Capital	131,590.0	160,409.9	164,412.5	123,115.7	203,891.8
Total Capital	553,550.0	571,025.0	579,030.2	543,865.9	646,487.3
Risk-Weighted Assets	3,564,630	2,941,806	3,048,258	3,565,933	4,377,823
Tier I Capital (%)	11.84	13.96	13.60	11.80	10.11
Tier II Capital (%)	3.69	5.45	5.39	3.45	4.66
Capital Adequacy	15.53	19.41	19.00	15.25	14.77

Valuation

	FY2009	FY2010	FY2010 (Merged)	FY2011E	FY2012E
Price Earnings (x)	30.4	28.4	30.0	24.1	17.7
Price to Book Value (x)	2.30	2.21	2.27	2.15	1.99
Price to Adjusted BV (x)	2.74	2.57	2.61	2.46	2.27
Dividend Yield (%)	1.07	1.17	1.17	1.46	1.76

KARVY STOCK BROKING LIMITED

Institutional Equities

Stock Ratings		Absolute Returns
Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%
Sell	:	<(25%)

Hemindra Hazari

(Head of Research)

hemindra.hazari@karvy.com

For further enquiries please contact:

research@karvy.com

Tel: +91-22-22895000

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

Karvy Stock Broking Limited

Institutional Equities

2nd Floor, Regent Chambers, Nariman Point - Mumbai 400 021.

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.