

## Company Flash

11 March 2008 | 7 pages

# ICICI Bank (ICBK.BO)

 Meeting with management   
 Conference 

## Citi India Conference 2008: Day 1 Takeaways

- Conference takeaways** — ICICI Bank spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Provisions on investment portfolio** — ICICI Bank has made US\$264m of provisions till Jan 2008, of which US\$110m relate to international subsidiaries. Management suggests that these investments will be held till maturity (3-5 years term to maturity), in which case, the provisions will be reversed. However, in the event credit spreads widen, further provisioning cannot be ruled out.
- Asset quality** — Expect provisioning costs to increase slightly over the next 9-12 months, especially in the retail segment as retail growth slows down to 10-12%. Impact of the farm loan waiver on provisioning is not clear (expects clarity by end of week), though management is confident of getting reimbursed for the waiver.
- Asset growth – international and rural focus** — Management reiterated aggressive growth in international, corporate and rural loan portfolios to be the mainstay; will likely reduce margins though management expects to offset this by lower costs and higher fees.
- Listing of subsidiaries** — Listing of the securities/brokerage subsidiary is currently on track (expects listing before end CY08). It does not have immediate plans to list life insurance subsidiary separately.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (11 Mar 08)	Rs854.45
Target price	Rs1,510.00
Expected share price return	76.7%
Expected dividend yield	1.2%
<b>Expected total return</b>	<b>78.0%</b>
Market Cap	Rs950,668M
	US\$23,531M

### Price Performance (RIC: ICBK.BO, BB: ICICIBCN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	25,397	28.13	5.2	30.4	3.4	14.6	1.0
2007A	31,097	34.46	22.5	24.8	3.1	13.4	1.2
2008E	43,396	39.12	13.5	21.8	2.0	12.1	1.2
2009E	58,356	52.60	34.5	16.2	1.8	11.7	1.3
2010E	78,380	70.65	34.3	12.1	1.6	14.3	1.4

Source: Powered by dataCentral

### Aditya Narain, CFA<sup>1</sup>

 +91-22-6631-9879  
 aditya.narain@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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<sup>1</sup>Citigroup Global Markets India Private Limited

## ICICI Bank

### Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in all consumer-finance segments. ICICI Bank has international banking operations as its key focus area.

### Investment strategy

Our Buy/Low Risk (1L) rating is premised on: (1) ICBK's broad exposure to the strong momentum in the Indian economy, and its strong market position in the Indian market; (2) a broad asset mix, which should reduce the risk and profitability strain from concentration; (3) the growing value of its subsidiary businesses; (4) the bank, in our view, offers one of the best exposures to the consumer finance and financial services opportunity in India, and has been at the forefront of building market leadership in most products; and (5) its strong and deep management team. ICICI Bank also offers large exposure to the corporate lending and capex cycle, which should be viewed against the economy's bright prospects.

### Valuation

Our target price of Rs1,510 is based on our EVA model. Our target price incorporates Rs386 for its securities unit ; b) risk free rate – we factor in 7.75%. Our EVA methodology is a standard valuation measure for our India banking universe. Our target price is premised on the following: (1) a risk-free rate of 7.75%; (2) a long-term loan loss of 100bps; and (3) subsidiary value of Rs386 per share.

We also use the sum of parts methodology, benchmarking valuations to individual businesses. On our sum-of-the-parts methodology, our fair value for ICICI Bank is Rs1,383. We value ICICI Bank's banking business on a 2.25x FY09E PBV, reflecting the leverage potential of the business as also peer company valuations, but also factor in the ROE, which is currently below its cost of capital. In addition, we are factoring in Rs386 as the value of its subsidiaries – specifically, these are; Life insurance Business at Rs246 per share (18X FY09E NBAP), General Insurance at Rs40per share (20X FY09E PE), AMC at Rs27 per Share (8% of AUM), ICICI securities at Rs55 per Share (20X FY09E), Venture Fund at Rs21per share (15% of FY09E AUM).

We prefer to use EVA as our primary methodology as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

## **Risks**

Our risk rating is Low based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. The downside risks that could impede the shares from reaching our target price include: (1) continued deterioration in asset quality; (2) low margins, with a limited cushion if there is further downside pressure; (3) aggressive growth in a range of business areas raises the risk of some failures; (4) aggressive international operations where returns appear low, and risk levels relatively high, and (5) inability to leverage capital, which keeps ROEs low.

# Appendix A-1

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### ICICI Bank (ICBK.BO)

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Analyst: Aditya Narain, CFA



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