

January 21, 2008

Rating	BUY
Price	Rs1,245
Target Price	Rs1,654
Implied Upside	32.8%
Sensex	19,014

(Prices as on January 18, 2007)

Trading Data

Market Cap. (Rs bn)	1,384.9
Shares o/s (m)	1,112.3
Free Float	90.5%
Avg. Daily Vol ('000)	656.4
Avg. Daily Value (Rs m)	792.4

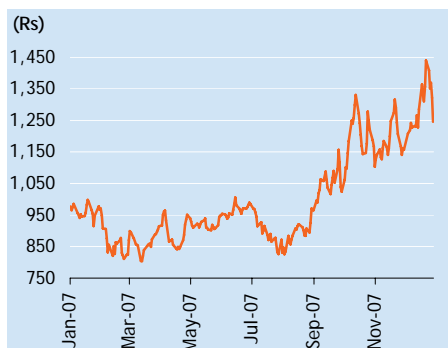
Major Shareholders

Promoters	—
Foreign	70.4%
Domestic Inst.	22.2%
Public & Others	7.4%

Stock Performance

(%)	1M	6M	12M
Absolute	7.6	26.4	26.4
Relative	8.4	4.3	(7.7)

Price Performance (RIC: ICBK.BO,BB: ICICIBC IN)



Source: Bloomberg

ICICI Bank

Strong operating performance

- Profits above estimates:** ICICI Bank's Q3FY08 net profit grew by 35% YoY at Rs12.3bn, which was higher than our estimates by 7.5% at Rs11.5bn. Better than expected improvement in margins and fee income growth resulted in higher earnings, thus we have revised our FY08 earnings and EPS estimates upwards by 3%.
- Net interest income (NII) growth remains strong:** NII (gross of amortisation expenses) grew by 27% YoY to Rs21.7bn. Margins mostly remained stable on a YoY basis but improved by almost 15bps on QoQ basis. Margin improvement was mainly aided by a 20bps QoQ improvement in cost of deposits and stable asset yields.
- Other income continues to report robust growth:** Other income (net of amortisation costs) grew by 26% YoY and 19% QoQ to Rs22.2bn, of which fee income grew by 33% YoY and 20% QoQ to Rs17.9bn. Treasury income declined by 9% YoY (mainly due to a higher base in Q3FY07 influenced by a one-time IDFC stake sale of Rs2.5bn), but increased 61% QoQ to Rs2.8bn.
- NPLs on the uptrend:** Asset quality continues to deteriorate as defaults in non-collateralised portfolio adds to higher NPLs. MTM provisions on CDO investments during the quarter amounted to around Rs1.5bn.
- Valuation:** At the CMP, adjusted for total subsidiary value of Rs587 per share, the stock is currently quoting at 11x FY10E EPS, 1.3x FY10E BV and 1.5x FY10E ABV. The valuations are extremely attractive considering the value unlocking prospects in the bank going forward. We upgrade our rating on the bank to BUY with a 15-month forward price target of Rs1,654.

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Net interest income*	66,358	85,180	109,460	133,738
Growth (%)	40.9	28.4	28.5	22.2
Operating profit	58,744	76,682	96,367	123,370
PAT	31,100	43,012	52,671	65,995
EPS (Rs)	34.6	38.7	47.4	59.3
Growth (%)	21.2	11.8	22.5	25.3
Net DPS (Rs)	10.0	11.6	14.2	17.8

Source: Company Data; PL Research

* Gross of amortisation expenses

Profitability & valuation	FY07	FY08E	FY09E	FY10E
NIM (%)	2.4	2.4	2.5	2.5
RoAE (%)	13.3	11.2	10.8	12.5
RoAA (%)	1.0	1.1	1.1	1.2
P / BV (x)*	2.4	1.6	1.5	1.3
P / ABV (x)*	2.7	1.7	1.6	1.5
PE (x)*	19.0	17.0	13.9	11.1
Net dividend yield (%)	0.8	0.9	1.1	1.4

Source: Company Data; PL Research

* CMP adjusted for subsidiary value of Rs587

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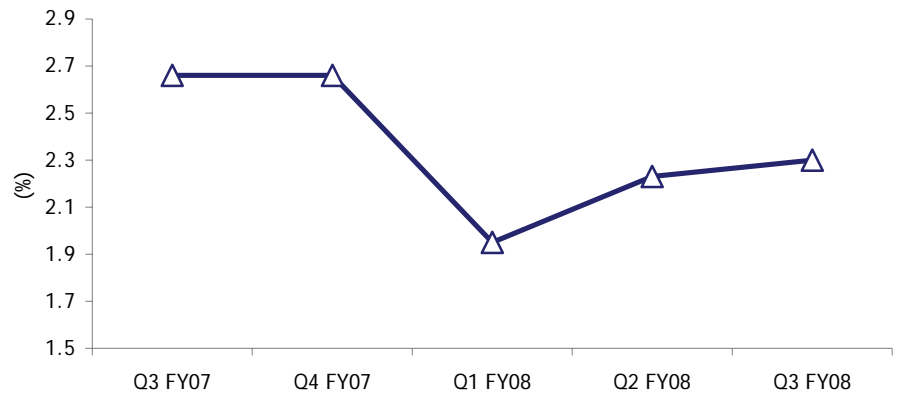
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Highlights

NIMs up sequentially as deposit costs ease

Margin improvement was mainly aided by 20bps QoQ improvement in cost of deposits and stable asset yields.

Trend in margins



Source: Company Data, PL Research

Deposit growth moderates as bulk deposits are not replaced

Deposits grew by 17% YoY and remained almost flat on QoQ basis. The bank has not replaced bulk deposits (mostly raised during Q4FY07), which have started to mature as capital requirement remains low post capital raising and moderation in domestic loan growth. This resulted in 2% QoQ decline in term deposits, while CASA grew by 8% QoQ resulting in 200bps improvement in CASA ratio at 27%. This has mainly helped deposit costs to decline by 20bps sequentially.

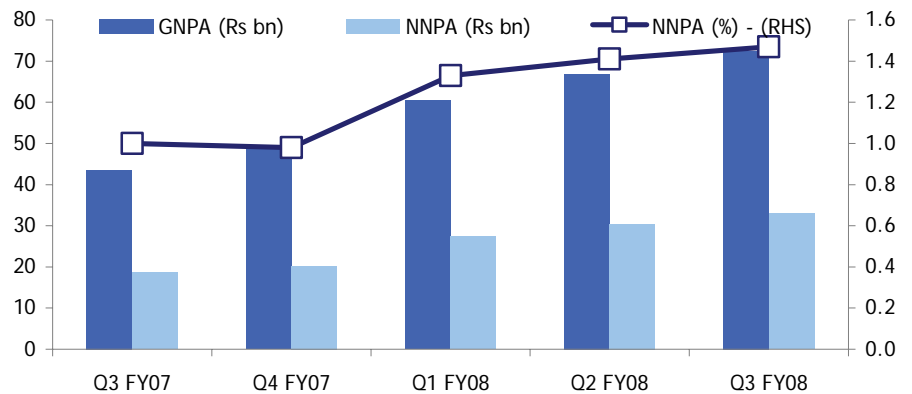
Loan growth mainly driven by the international business

Advances growth stood at 25% YoY, mainly driven by 115% YoY growth in international business, while domestic retail loan grew by only 12% YoY. However, lower growth in the domestic segment is influenced by a sell down of Rs40bn mortgage assets during the quarter. Adjusted for which the growth is 15% YoY and 4% QoQ.

NPAs continue to rise

Asset quality continues to deteriorate as defaults in non-collateralised portfolio adds to higher NPLs. The bank sold GNPA's worth Rs2.6bn during the quarter to ARCIL.

NPA trend



Source: Company Data, PL Research

Performance and key developments in subsidiaries

- ICICI Prudential Life Insurance continues to be the market leader among private life insurance companies in India, with private market share of 26% and 12% overall. New business (a key measure for insurance companies in the early stages) achieved a profit of Rs3.2bn for Q3FY08, up 64% YoY and up 39% YoY for M9FY08 at Rs7.5bn, which is in line with our FY08 estimates.
- ICICI Lombard General Insurance continues to be the market leader among private general insurance companies in India, with private market share of 32% and 13% overall. The subsidiary achieved a PAT of Rs1.2bn in M9FY08 up 134% YoY.
- ICICI Securities reported revenue of Rs2.6bn and PAT of Rs0.7bn during Q3FY08. It has received board approval to raise capital through an IPO in the next 3-6 months. Pre-IPO placement of a maximum of 15% post issue equity is also on the cards.
- Asset management businesses - mutual fund and venture fund - reported robust AUMs. ICICI Pru AMC's AUM stood at Rs692bn and ICICI Venture's AUM stood at Rs96bn as of December 2007.



Mortgage business to be executed through HFC

Going forward, the bank is likely to book its incremental mortgage business with ICICI Home Finance. The change in strategy is driven by the fact that the bank has received RBI's approval to invest in the HFC, and also due to advantages with regards to non-maintenance of CRR and SLR on deposits taken by HFCs.

Outlook

We feel margins are likely to further improve sequentially, as more bulk deposits get repriced at much lower rates despite the strong growth in international loan book, which acts as a drag on margins. The bank has a significant pipeline of new branches (around 400-450), which should provide some fillip to its business growth going forward. RBI's stance on policy rates and unfolding of the global financial environment is key to certain revenue drivers for ICICI Bank. Hence, we need to closely monitor the domestic and global developments. After the recent correction in the stock price, we feel current valuations at 11x FY10E EPS, 1.3x FY10E BV and 1.5x FY10E ABV are extremely attractive. We therefore upgrade the bank's rating to BUY with a 15-month forward price target of Rs1,654.



Q3 FY08 Result Overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Total interest earned	81,238	58,249	39.5	77,265	234,171	163,327	43.4
Total non interest income	22,150	17,570	26.1	18,620	57,910	40,960	41.4
Total income	103,388	75,819	36.4	95,885	292,081	204,287	43.0
Int. expanded	59,521	41,159	44.6	57,305	175,344	115,716	51.5
Net int. income*	21,717	17,091	27.1	19,960	58,826	47,611	23.6
Net total income	43,867	34,661	26.6	38,580	116,736	88,571	31.8
Op. expenses	21,276	17,133	24.2	19,708	60,037	47,700	25.9
Op. profit	22,591	17,528	28.9	18,872	56,699	40,871	38.7
Core op profit	19,771	14,428	37.0	17,122	50,189	35,191	42.6
Provisions	7,603	6,670	14.0	6,445	19,571	13,499	45.0
PBT	14,987	10,858	38.0	12,427	37,128	27,372	35.6
Prov. for taxes	2,681	1,751	53.1	2,401	7,050	4,512	56.3
Net profit	12,306	9,107	35.1	10,027	30,078	22,851	31.6
<i>Income tax rate (%)</i>	<i>17.9</i>	<i>16.1</i>		<i>19.3</i>	<i>19.0</i>	<i>16.5</i>	
<i>CAR (%)</i>	<i>15.8</i>	<i>13.4</i>		<i>16.8</i>	<i>15.8</i>	<i>13.4</i>	
EPS (Rs)	11.0	10.1	8.8	10.9	27.0	25.6	5.8
Gross NPA	72,460	43,540	66.4	66,890	72,460	43,540	66.4
Net NPA	33,010	18,570	77.8	30,360	33,010	18,570	77.8
<i>% of gross NPAs</i>	<i>3.0</i>	<i>2.1</i>		<i>2.8</i>	<i>3.0</i>	<i>2.1</i>	
<i>% of net NPAs</i>	<i>1.5</i>	<i>1.1</i>		<i>1.4</i>	<i>1.5</i>	<i>1.1</i>	
Deposits	2,297,790	1,968,930	16.7	2,283,066	2,297,790	1,968,930	16.7
Advances	2,155,166	1,727,630	24.7	2,071,211	2,155,166	1,727,630	24.7

* Gross of amortisation expenses



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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