

ICICI Bank Ltd.

INR: 540



Mixed Performance

HOLD

ICICI Bank reported mixed results with higher than expected Net Interest Income and lower than expected Net Profit.

Mixed Earnings - ICICI Bank reported mixed results with a better than expected Net Interest Income, which grew 7.5% q-o-q to Rs. 2,138 crore at the end of Q4FY09, on account of lower interest expense, which fell 7.8% q-o-q to Rs 5,390 crore, due to decline in bulk deposit rates and higher CASA ratio. NII grew inspite of the bank shrinking its assets by 3% q-o-q (8.4% excluding impact of exchange rates). Other Income was lower than expectation showing a decline 29% y-o-y and 33% q-o-q on account of lower fee income. Economic slowdown hit the banks fee income from corporates. Reduction in fees from the distribution of third party products also impacted retail fee income. We expect fee income growth to remain subdued in the subsequent quarters in light of the prevailing economic conditions. Growth in Insurance, Asset Management and Capital Markets subsidiaries also declined due to economic conditions. The New Business Profit of the life insurance business declined 20% y-o-y Rs 1,004 crore in FY09 from Rs 1,245 crore in FY08, primarily on account of lower sales of unit linked insurance products. The gross written premiums of the non life insurance business was flat y-o-y at Rs 3457 crore at the end of FY09 while profits declined 77% y-o-y to Rs 24 crore due to lower business and de-tariffing in the industry.

Lower Cost of Funds - Net Interest Margins increased 20 bps q-o-q to 2.6% at the end of Q4FY09 from 2.4% at the end of Q3FY09 due to a sharp decline of 150 - 200 bps in the cost of wholesale deposits in Q4FY09 and 130 bps improvement in the CASA ratio from 27.4% in Q3FY09 to 28.7% in Q4FY09.

Asset Quality Stress - Banks asset quality has continued to deteriorate over the past four quarters. The net NPA ratio of the bank was at 2.09% at the end of Q4FY09 as compared to 2.07% at the end of Q3FY09 and 1.49% in Q4FY08. Gross NPA of the bank stood at 4.32%, an increase of 102bps from last year and 18bps from Q3FY09. In FY09 the bank has restructured loans valued at Rs.1,012 crores. Asset quality will remain stressed due to its large retail loan book (~50% of total advances) with high exposure to commercial vehicle loans, personal loans and credit cards and a large overseas loan book (~25% of total advances)

Our View - We remain cautious on ICICI bank as we expect NII to decline in the coming quarters due to a decline in asset size. Fee income growth will be subdued due to lower distribution of third party financial products and lower capital markets related income. The growth in the life insurance and asset management subsidiaries will also slow down or even decline due to economic conditions. At current price of Rs 540 the stock is trading at 1.12x FY10E P/BV. We recommend a 'hold' rating on ICICI bank raising the target price from Rs 545 to Rs 580 with an upside potential of 7.40% from the current levels, due to: 1) lower funding costs due to 150 - 200 bps reduction in wholesale deposit rates in Q4FY09; 2) focus on corporate advances and away from retail advances will diversify risk; 3) reduced asset size will allow management to improve asset quality and boost margins; 4) reduced concerns in the banks overseas subsidiary on account of improved funding mix and strong capital adequacy; 5) improved operating efficiency due to managements focus on reducing operating expenses and employee costs; 6) branch expansion will be a channel for low cost deposit mobilization, improving funding mix and boosting CASA ratio.

Key Financials

Rs. Crore

	FY07	FY08	FY09	FY10E
Net Profit	3110.0	4158.0	3758.13	4419.9
Growth		33.7%	(-9.62%)	17.61%
EPS	32.9	36.0	33.8	39.7
Growth		9.42%	(-6.11%)	17.45%
BV	270.4	417.6	447	480
P/E	25.9	21.4	15.98	13.0
P/BV	3.2	1.8	1.21	1.12

Source: Company, KRC Research

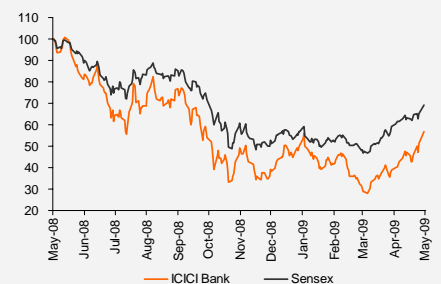
Price Outlook (INR): 580

Market Data	May 6, 2009
Shares outs (Cr)	111.32
Equity Cap (Rs. Cr)	1113.26
Mkt Cap (Rs. Cr)	61,371
52 Wk H/L (Rs)	960/252
Avg Vol (1yr avg)	986114
Face Value (Rs)	10
Bloomberg Code	ICICIB IN

Market Info:

SENSEX	11,963
NIFTY	3,625

Price Performance



Share Holding pattern (%)

Particulars	31-Mar	31-Dec	Chg
Promoters	0.00	0.00	0.0
Institutions	22.58	22.38	0.2
FII's	35.47	36.60	-1.13
Public & Others	41.95	41.02	0.93
Total	100.0	100	

Source: BSE

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Improved NII despite shrinking balance sheet size

Other Key Highlights

- Net Profit declined 35% Y-o-Y and 41.5% Q-o-Q to Rs 3760 crore due to higher tax rate and absence of dividend income and capital gains
- Decrease of 3.2% q-o-q (8.4% excluding impact of exchange rates) in loan book as the bank focused on capital conservation and risk containment
- Improvement in overseas subsidiaries' profitability largely due to reclassification of securities Available for Sale category (AFS) to 'loans and receivables' category and buyback of debt at lower cost
- Growth in subsidiaries, especially insurance and asset management, declined
- APE for insurance business fell 19% y-o-y due to weak demand for unit linked products
- ICICI Securities and ICICI Prudential Asset Management Company also reported weak numbers on account of decline in financial markets
- BPLR at 16.25%, higher than most public and private sector banks
- Improvement in NIM to 2.6% on the back of reduced interest expense due to reduction in bulk deposit rates and improvement in CASA ratio
- Increase of 130 bps in CASA ratio from 27.40% at the end of Q3FY09 to 28.7% at the end of Q4FY09
- Modest growth of 3% q-o-q and 14.6% y-o-y to Rs. 21.39 bn in Net Interest Income despite assets shrinking by 3%
- Decline of 30% q-o-q and 13.7% y-o-y to Rs. 19.28 bn in fee based income due to slowdown in corporate activity and reduced third party distribution fees
- Increase of 30.5% q-o-q in treasury income to Rs 2.14 bn from Rs 1.64 bn
- Decline of 14% y-o-y Operating expenses on account of lower direct marketing expenses and drop in employee variable pay
- Improvement in Operating Efficiency with Cost to Income ratio declining 660 bps y-o-y to 43.4% at the end of FY09 from 50% at the end of FY08
- Increase of 12% y-o-y in Operating Profits to as lower other income and treasury income was more than offset by higher NII and lower operating expenses
- Capital Adequacy Ratio (CAR) of 15.5% and Tier I capital at 11.8% at the end of Q4FY09
- Strong CAR of 18.4% at bank's UK subsidiary and 19.9% at bank's Canada subsidiary
- Increase of 10 bps q-o-q in Net NPA to 1.96% at the end of Q4FY09 from 1.95% at the end of Q3FY09

Q4 FY09 Result (Rs In Crore)

Key Financial

Particulars	Q4FY08	Q3FY09	Q4FY09	Q-o-Q (%)	Y-o-Y (%)	Comments
Interest earned	8,029.3	7,836.1	7,529.7	-3.9%	-6.2%	Lower due to reduction in advances
-Interest on advances/bills	5,826.2	5,658.4	5,199.8	-8.1%	-10.8%	
-Income on investments	2,008.8	1,846.8	1,874.0	1.5%	-6.7%	
-Interest on bal. with RBI	116.6	148.3	105.4	-28.9%	-9.6%	
-Others	77.7	182.6	350.5	91.9%	351.1%	
Interest expenses	5,949.8	5,845.7	5,390.9	-7.8%	-9.4%	Lower wholesale deposit rates
Net Interest Income (NII)	2,079.5	1,990.4	2138.8	7.5%	2.9%	
Other Income	2,361.7	2,514.5	1,673.7	-33.4%	-29.1%	Slowdown in corporate activity and lower fees on distribution of third party financial products
Total income	4,441.2	4,504.9	3812.5	-15.4%	-14.2%	
Operating expenses	2,150.4	1,734.1	1657.1	-4.4%	-22.9%	Decrease in marketing expenses and improvement in operating efficiencies
-Employee cost	466.6	503.0	457.4	-9.1%	-2.0%	Decrease in Variable Pay
-Other operating expenses	1,683.8	1,231.1	1,199.6	-2.6%	-28.8%	
Operating profit	2,290.8	2,770.8	2155.5	-22.2%	-5.9%	
Provision for contingencies	947.5	1,007.7	1,084.5	7.6%	14.5%	
PBT	1,343.3	1,763.1	1,070.9	-39.3%	-20.3%	
Provision for taxes	193.3	491.0	327.2	-33.4%	69.2%	
Net profit	1,150.0	1,272.1	743.8	-41.5%	-35.3%	Lower due to higher tax rates and absence of dividend income and capital gains
Equity	1112.3	1113.3	1113.3			
EPS	10.3	11.4	6.7	-41.5%	-35.4%	
Ratios (%)						
Int. exp/Int earned (%)	74.1	74.6	71.6	-	-	
Cost/Income ratio (%)	48.4	38.5	43.5	-	-	
Emp. cost/Int. Income (%)	5.8	6.4	6.1	-	-	
GPM (%)	28.5	35.4	28.6	-	-	
Prov & Cont/Int Income (%)	11.8	12.9	14.4	-	-	
Tax/PBT (%)	14.4	27.8	30.5	-	-	
NPM (%)	14.3	16.2	9.9	-	-	
Gross NPAs (Rs)	7579.5	8988.1	9649.3	7.4%	27.3%	
Net NPAs (Rs)	3490.5	4400.2	4553.9	3.5%	30.5%	
Gross NPAs (%)	3.3%	4.1%	4.3%			
Net NPAs (%)	1.55%	2.07%	2.09%			
ROA (%)	1.14%	1.36%	0.80%			
CAR (%)	13.97%	15.58%	15.53%			

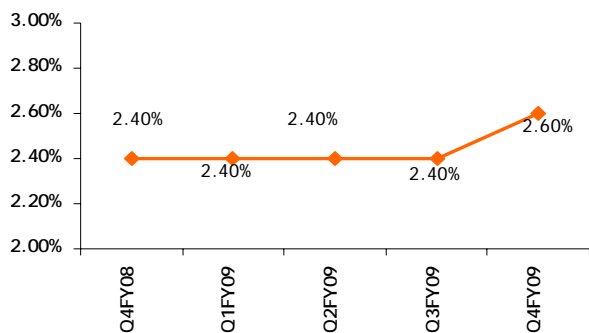
Source: Company, KRC Research

Key Financials (Rs In crore)

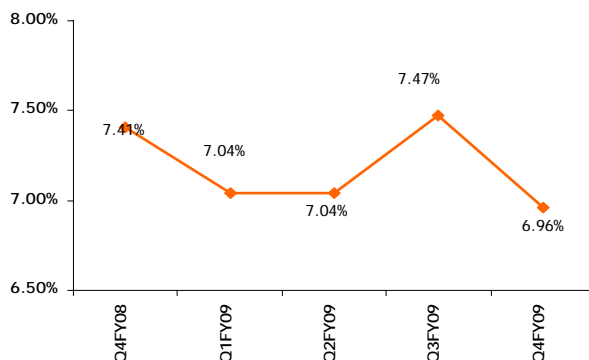
Particulars	FY07	FY08	FY09	FY10E
Interest earned	21,995.6	30,788.3	31092.55	31,048.2
-Interest on advances/bills	16,096.3	22,601.0	22323.83	21,877.4
-Income on investments	4,989.8	7,466.0	7403.06	7,773.2
-Interest on bal. with RBI	808.6	612.0	518.71	508.3
-Others	100.9	109.4	846.95	889.3
Interest expenses	16,358.5	23,484.2	22725.93	22,157.8
Net Interest Income (NII)	5637.1	7,304.1	8366.62	8,890.4
Other Income	6,927.9	8,810.8	7603.72	7,755.8
Total income	12565.0	16,114.9	15970.34	16,646.2
Operating expenses	6690.6	8,154.2	7045.11	6,498.3
-Employee cost	1,616.8	2,078.9	1971.7	1,932.3
-Other operating expenses	5,073.8	6,075.3	5073.41	4,566.1
Operating profit	5874.4	7,960.7	8925.23	10,147.9
Provision for contingencies	2,226.4	2,904.6	3808.26	4,760.3
PBT	3,648.0	5,056.1	5116.97	5,387.6
Provision for taxes	537.8	908.4	1358.84	491.0
Net profit	3110.2	4,147.7	3758.13	4,896.6
Equity	899.34	1112.2	1113.3	1113.3
EPS	34.6	37.3	33.8	44.0
Ratios (%)				
Int. exp/Int earned (%)	74.4	76.3	73.1	71.4
Cost/Income ratio (%)	53.2	50.6	44.1	39.0
Emp. cost/Int. Income (%)	7.4	6.8	6.3	6.2
GPM (%)	26.7	25.9	28.7	32.7
Prov & Cont/Int Income (%)	10.1	9.4	12.2	15.3
Tax/PBT (%)	14.7	18.0	26.6	9.1
NPM (%)	14.1	13.5	12.1	15.8
Gross NPAs (Rs)		7579.54	9649.31	11579.172
Net NPAs (Rs)		3490.55	4553.94	4645.0188
Gross NPAs (%)		3.3%	4.3%	4.1%
Net NPAs (%)		1.55%	2.09%	2.05%
ROA (%)		1.12%	0.98%	0.98%
CAR (%)		13.97%	15.53%	15.53%

Source: Company, KRC Research

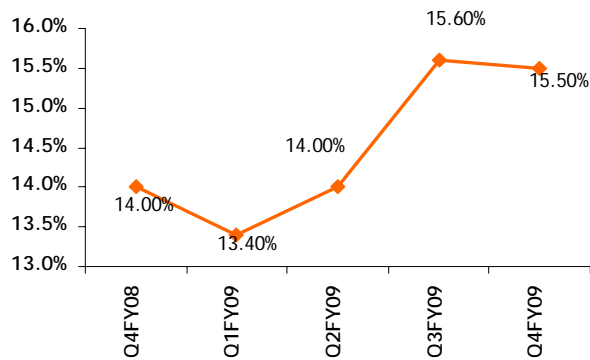
Net Interest Margins



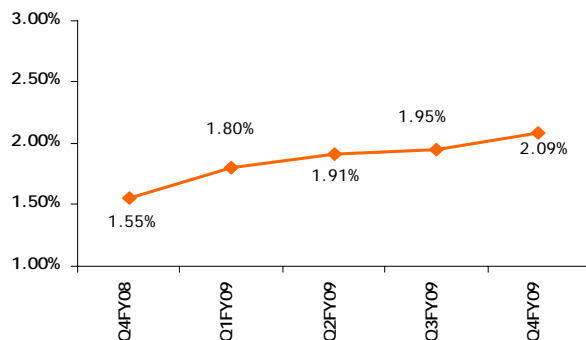
Cost of Funds



Capital Adequacy Ratio

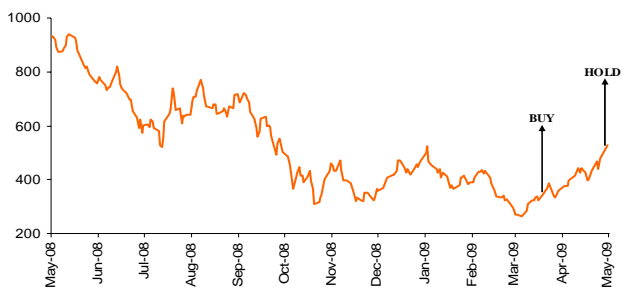


Net NPA



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ICICI Bank Ltd



Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

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