

January 31, 2012

Reco Accumulate	Previous Reco Accumulate
CMP Rs902	Target Price Rs1,200

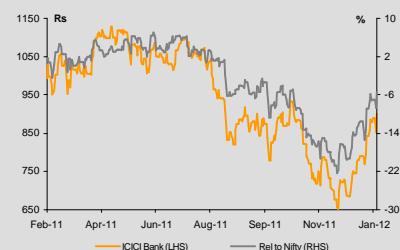
EPS change FY12E/13E (%)	1.6 / 0.8
Target Price change (%)	NA
Nifty	5,199
Sensex	17,194

Price Performance

(%)	1M	3M	6M	12M
Absolute	32	(3)	(12)	(12)
Rel. to Nifty	17	(1)	(7)	(6)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	ICICIBC@IN
Equity Capital (Rs mn)	11526
Face Value(Rs)	10
No of shares o/s (mn)	1153
52 Week H/L	1,138/641
Market Cap (Rs bn/USD mn)	1,040/21,034
Daily Avg Volume (No of sh)	6478278
Daily Avg Turnover (US\$mn)	100.3

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	0.0	0.0	0.0
FII/NRI	61.8	65.0	65.5
Institutions	27.8	25.1	24.9
Private Corp	4.4	4.2	4.0
Public	6.0	5.7	5.6

Source: Capitaline

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- ICICI Bank Q3FY12 NII at Rs27.1bn / PAT Rs17.3bn – much ahead of estimates. Muted growth in non-int inc compensated by stable operating expenses and lower provisioning
- Asset quality improves qoq. Gross slippages at Rs8.8bn offset against Rs11.6bn of recovery/up-grade and w/off. Restructured portfolio stands at Rs30.7bn (1.2% of loans)
- Loan growth aided by growth in SME + domestic corporate. Mgmt reiterated for stronger traction in retail segment in coming quarters. Reported NIM at 2.7% was up 9bps qoq
- Despite likely -ve surprises on NPA / restructuring front in Q4, we believe that valuations at 1.5x/1.3x FY12E/FY13E (banking ops) are reasonable. Maintain ACCUMULATE

Inline results; QoQ improvement in asset quality was a surprise

ICICI Bank Q3FY12 NII at Rs27.1bn was marginally ahead of expectations. The muted growth in non-int income (8% yoy) was compensated against stable operating expenses and lower provisioning. GNPA / NNPA at Rs98.2bn / Rs20.8bn declined 3%+ qoq each and thereby attributed for lower provisioning. This is against over 6%+ qoq increase in GNPA for its peers HDFC Bank (GNPA at Rs20.2bn up 7% qoq) and Axis Bank (GNPA at Rs19bn up 10% qoq). Resultant, net profit at Rs17.3bn was up 20% yoy (15% qoq) and significantly ahead of our / street expectations. Restructured loan portfolio increased to Rs30bn or 1.2% of total loans.

On the balance sheet side: Loan growth at 19.1% yoy (5.2% qoq) was largely led by healthy growth in SME and domestic corporate front. Growth in international book was aided by INR depreciation. However, adjusted for the same, growth in international book was at 16.5% yoy. Deposits were up 20% yoy and 6% qoq. Despite 100bps qoq decline in LDR, NIM actually improved 9bps sequentially to 2.7%.

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.3	8.6	9.0	9.5	9.5	117	1
Yield on investments*	6.3	6.6	6.6	6.5	6.6	36	12
Yield on assets*	6.8	7.2	7.4	7.6	7.6	79	1
Cost of funds*	4.5	4.7	5.1	5.3	5.2	75	-6
NIM*	2.4	2.5	2.3	2.3	2.4	5	7
NIM (Reported)	2.6	2.6	2.6	2.6	2.7	6	9

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

NIMs aided by growth on both international and domestic front

Q3FY12 NIM at 2.7% (+9bps qoq) was aided by strong ~20bps qoq uptick in international NIM and ~6bps increase in domestic NIM. Stable yields on assets with easing cost pressuring compensated for LDR contraction. However, given declining share of retail loans + lending to PSL book in Q4, we expect NIM to ease to 2.6%.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY10	155,920	39,307	35.3	428.5	1.1	8.0	25.6	2.1
FY11	156,648	51,514	44.7	457.4	1.3	9.7	25.0	2.4
FY12E	177,917	61,556	53.4	497.0	1.4	10.8	16.9	1.8
FY13E	210,134	71,285	61.9	536.2	1.4	11.6	14.6	1.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	23,117	25,097	24,109	25,064	27,120	17.3	8.2	76,294	65,071	17.2
Other Income	17,488	16,410	16,429	17,396	18,918	8.2	8.7	52,743	50,068	5.3
Fee Income	16,250	17,910	15,780	17,000	17,010	4.7	0.1	49,790	46,280	7.6
Net Income	40,605	41,507	40,538	42,460	46,038	13.4	8.4	129,037	115,139	12.1
Total Operating Expenses	17,179	18,455	18,198	18,922	19,168	11.6	1.3	56,288	47,713	18.0
As % Of Net Income	42.3	44.5	44.9	44.6	41.6			43.6	41.4	
Employee Expenses	7,605	8,566	7,329	8,427	8,366	10.0	-0.7	24,122	19,603	23.1
As % Of Net Income	18.7	20.6	18.1	19.8	18.2			18.7	17.0	
Other Expenses	9,170	9,436	10,533	10,133	10,429	13.7	2.9	31,095	26,997	15.2
As % Of Net Income	22.6	22.7	26.0	23.9	22.7			24.1	23.4	
Operating Profit	23,426	23,053	22,340	23,538	26,870	14.7	14.2	72,749	67,426	7.9
As % Of Net Income	57.7	55.5	55.1	55.4	58.4			56.4	58.6	
Provisions	4,643	3,836	4,539	3,188	3,411	-26.5	7.0	11,138	19,031	-41.5
PBT	18,783	19,217	17,802	20,350	23,459	24.9	15.3	61,611	48,395	27.3
Total Tax	4,413	4,692	4,480	5,318	6,179	40.0	16.2	15,976	11,401	40.1
Adjusted PAT	14,370	14,524	13,322	15,032	17,280	20.3	15.0	45,635	36,994	23.4
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	14,370	14,524	13,322	15,032	17,280	20.3	15.0	45,635	36,994	23.4
Reported EPS	12.5	12.6	11.6	13.0	15.0	20.1	15.0	39.6	32.4	22.2

Source: Company, Emkay Research

Loan growth at 19% yoy driven by SME + domestic corporates book

Q3FY12 loan growth at 19.1% yoy (5.2% qoq) was largely in the nature of SME (+5.2% qoq), domestic corporates (+15% qoq). The combined book (SME + domestic corporates) actually grew 24% yoy and 13% qoq. Demand from domestic corporate has been in the nature of working capital / term loans and broad based across various sectors. Growth on the international book too came in healthy at 38% yoy and 4% qoq. However, adjusted for INR depreciation, the book actually expanded 17% yoy.

Advances mix – Declining share of retail loans – a bit worrisome

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Retail	790	837	828	819	825	4.4	0.7	33.5
International	504	552	558	669	697	38.1	4.1	28.3
Rural	153	210	188	175	175	14.3	-0.4	7.1
SME	87	104	110	110	116	33.3	5.2	4.7
Others	533	461	523	566	650	21.9	14.8	26.4
Total	2,067	2,164	2,207	2,340	2,462	19.1	5.2	100.0

Source: Company, Emkay Research

... declining share of retail loans remains a bit worrisome

Unlike its peers (HDFC Bank and Axis Bank) who made remarkable improvement in its retail loan mix during Q3, ICICI Bank actually witnessed declining share. Retail loans now account for 33.5% of total loans against 38% in Q3FY11. The bank has been consciously reducing its exposure to risky segments of Personal loans + credit cards which now account for 4% of retail book against 7% in Q3FY11.

Retail advances mix

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Cars	71	77	78	75	80	12.6	6.2	9.7
CV	121	148	137	131	141	16.7	7.6	17.1
Personal loans	25	23	20	12	10	-60.8	-19.4	1.2
Credit cards	32	28	26	25	25	-21.7	-2.5	3.0
Mortgages	517	539	554	551	548	5.9	-0.6	66.4
Others	24	22	12	24	21	-9.5	-9.7	2.6
Total	790	837	828	819	825	4.4	0.7	100.0

Source: Company, Emkay Research

CASA mix still healthy at ~40% levels

A 20% yoy and 6% qoq growth in total deposits was well supported by 18% yoy (10% qoq) growth in CASA deposits. CASA ratio as at Q3FY12 stood at 43.6%. Adjusting for one-offs in CA account (up 21% qoq), CASA ratio actually stood at 39%.

CASA Mix

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	317	348	298	330	400	26.4	21.3
Savings Deposits	646	669	669	701	735	13.8	4.8
CASA	962	1,016	966	1,031	1,135	18.0	10.1
Term deposits	1,215	1,240	1,340	1,419	1,471	21.0	3.6
Total Deposits	2,177	2,256	2,307	2,451	2,606	19.7	6.3
CASA (%)	44.2	45.1	41.9	42.1	43.6	-63	148

Source: Company, Emkay Research

Muted performance on core-fee front; dividend from life insurance subsidiary came in as rescue

Non-int income at Rs18.9bn was up mere 8.2% yoy (9% qoq). Growth in core-fee income continues to remain dismal at mere 5% yoy (flat sequentially). The bank management attributed lower fee income to limited M&A activities and syndication business. It has however guided for increasing traction in transaction banking and remittances business and guided for fee income growth in sync with balance sheet growth. Other income at Rs2.6bn included Rs1.5bn of dividend income from life insurance business for H1FY12. Adjusted for the same, non-inc int would have declined 0.4% yoy.

Other income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Fee/Commission income	16,250	17,910	15,780	17,000	17,010	4.7	0.1	49,790	46,280	7.6
Trading gains/(losses)	210	-1,960	-250	-804	-650	-409.5	-19.2	-1,704	-190	796.8
Others	1,028	460	899	1,200	2,558	148.9	113.2	4,657	3,978	17.1
Total	17,488	16,410	16,429	17,396	18,918	8.2	8.7	52,743	50,068	5.3

Source: Company, Emkay Research

Asset quality improves sequentially...

GNPA / NNPA at Rs98.2bn / Rs20.8bn actually declined 3%+ sequentially. This is against its peers (HDFC Bank and Axis Bank) which have reported uptick in NPA. Gross slippages at Rs8.8bn remained broad based and constituted 1.4% of total loans. Retail GNPA at Rs61.7bn too declined 2% qoq.

Asset quality

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPAs	102,300	100,343	99,828	101,070	98,200	-4.0	-2.8
Net NPAs	28,727	24,074	23,025	22,360	20,820	-27.5	-6.9
Gross NPAs (%)	4.8	4.5	4.4	4.1	3.8		
Net NPAs (%)	1.4	1.1	1.3	0.8	0.7		
Net NPAs/Net worth (%)	5.2	4.4	4.1	3.8	3.4		
Provision cover (%)	71.9	76.0	76.9	77.9	78.8		

Source: Company, Emkay Research

... however, expect sudden shocks on restructuring front

During Q3, bank restructured loans to the tune of Rs8.8bn (0.4% of total loans) taking the total o/s. book to Rs30.7bn or 1.2% of total loans. The management stated for restructuring across large corporates. It also stated for higher restructuring in Q4 as ~Rs13bn of loans are referred to CDR. Assuming 15-25% NPV loss on the CDR portfolio would account for 4-7% of net profit for M9FY12.

International subs continue dismal business

Given tough operating environment, the bank continues with its balance sheet consolidation at the UK subsidiary front. For Q3FY12, balance sheet stood at US\$4.8bn (US\$5.1bn in Q2FY12 and US\$7.0bn in Q3FY11). With CAR at 29.4%, profit after tax came in at US\$7.7mn (US\$2.2mn in Q2FY12, US\$10.9mn in Q3FY11). On contrary, Canadian balance sheet moved to CAD 5.3bn with net profit under IFRS at CAD 6.6mn and CAR at 31.6%. The bank has ~US\$3.2bn of loans / ~US\$2.7bn of liabilities due for re-pricing in FY13.

UK subsidiary asset book

USD bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Cash & liquid securities	1.2	1.3	1.2	1.2	1.2	0.2	-4.3
Loans & advances	4.0	3.6	3.4	3.0	2.8	-28.6	-4.6
India linked investments	0.3	0.3	0.2	0.2	0.2	-33.1	-3.5
Bonds/notes of fin inst	1.1	0.7	0.6	0.3	0.2	-79.6	-19.3
Asset backed securities	0.1	0.1	0.1	0.1	0.1	-27.4	-5.9
Other assets & investments	0.4	0.4	0.4	0.4	0.3	-12.6	-12.6
Total	7.0	6.4	6.0	5.1	4.8	-31.4	-5.9

Source: Company, Emkay Research

Canada subsidiary asset book

CAD bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Cash & liquid securities	0.7	0.5	0.6	0.5	0.6	-9.5	26.8
India linked investments	0.1	0.1	0.0	0.0	0.0	-82.0	-48.0
Federally insured mortgage	0.3	0.3	1.1	1.3	1.6	399.9	19.2
Loans to customers	3.1	3.0	2.8	2.6	2.5	-20.2	-6.3
Asset backed securities	0.1	0.1	0.1	0.1	0.1	-20.4	-10.9
Other assets & investments	0.4	0.5	0.5	0.5	0.5	38.8	-0.2
Total	4.7	4.5	5.1	5.1	5.3	12.8	3.9

Source: Company, Emkay Research

Domestic subsidiaries report sequential improvement

Non-banking subsidiaries reported sequential improvement in PAT. Despite challenging business environment, a 10%+ qoq growth in ICICI securities, ICICI Prudential AMC, ICICI Home Finance is commendable.

ICICI Pru life reported a 2x rise in M9FY12 PAT to Rs10.6bn. It continues to enjoy healthy 6.3% market share in insurance space. The bank reported APE business of Rs8.6bn with NBAP margin at 16% and assets under management of Rs632bn (Rs649bn in Q2FY12, Rs663bn in Q3FY11).

Profit after tax

	Q3FY12	Q3FY11	Q2FY12	YoY (%)	QoQ (%)
ICICI Securities Ltd.	180	350	160	-48.6	12.5
ICICI Securities PD	490	40	170	-	188.2
ICICI Venture	530	380	30	39.5	-
ICICI Prudential AMC	220	70	200	214.3	10.0
ICICI Home Finance	670	497	561	34.8	19.4
ICICI Prudential Life Ins	5,990	3,750	1,180	59.7	-
ICICI Lombard General Ins	1,010	730	560	38.4	80.4
Total	9,090	5,817	2,861	56.3	217.7

Source: Company, Emkay Research

Adequate capital for balance sheet growth;

ICICI Bank remains adequately capitalized with CAR at 18.9% including Tier I CAR at 13.1%. Improved loan mix (more in favor of secured loans) and enhanced asset quality has enabled the bank to conserve capital and in-turn suffice balance sheet growth.

Valuations and view

The clean-up act has started bearing fruits over the past couple of quarters in form of lower NPA accretion, balance sheet growth and in-turn capital conservation. The bank has reported material improvement in its asset quality (including retail GNPA) while holding on to its provisioning requirement. Loan growth too has held up well at 18-19% levels and largely in form of secured assets.

We remain upbeat on the bank given its healthy 1.4% RoA and improving RoE. We expect core-RoE to inch to 15% levels by end-FY13. A sudden spike in restructured portfolio would be compensated by higher provisioning. We expect bank to report 18% / 19% CAGR in net profit / customer assets over FY11-13E. Maintain ACCUMULATE with price target of Rs1200.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	81,144	90,169	105,309	121,674
Other income	74,777	66,479	72,607	88,460
Net income	155,920	156,648	177,917	210,134
Operating expenses	58,598	66,173	78,078	95,488
Pre provision profit	97,322	90,476	99,839	114,646
PPP excl treasury	90,005	88,299	101,839	113,546
Provisions	43,899	22,898	16,654	18,315
Profit before tax	53,423	67,577	83,184	96,331
Tax	13,173	16,063	21,628	25,046
Tax rate	24.66%	23.77%	26.00%	26.00%
Profit after tax	40,250	51,514	61,556	71,285

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.2	2.3	2.4	2.4
Non-ll/avg assets	2.0	1.7	1.7	1.8
Fee income/avg assets	1.3	1.4	1.3	1.4
Opex/avg assets	1.6	1.7	1.8	1.9
Provisions/avg assets	2.2	1.0	0.6	0.5
PBT/avg assets	1.5	1.7	1.8	1.8
Tax/avg assets	0.4	0.4	0.5	0.5
RoA	1.1	1.3	1.4	1.4
RoAE	8.0	9.7	10.8	11.6
Core RoAE	9.3	12.0	14.3	15.5
GNPA (%)	4.7	5.0	4.2	3.8
NNPA (%)	2.1	1.1	0.7	0.6

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	11,149	11,518	11,518	11,518
Reserves	505,035	539,391	579,023	624,925
Net worth	516,184	550,909	590,541	636,443
Deposits	2,020,166	2,256,021	2,816,520	3,384,852
Borrowings	1,102,319	1,259,850	1,298,133	1,341,494
Total liabilities	3,638,668	4,066,781	4,705,193	5,362,789
Assets				
Cash and bank	388,737	340,901	328,898	395,264
Investments	1,172,574	1,185,397	1,412,128	1,491,247
Customer assets	1,848,410	2,325,122	2,764,582	3,275,205
Others	228,947	215,361	199,586	201,072
Total assets	3,638,668	4,066,781	4,705,193	5,362,789

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	39,307	51,514	61,556	71,285
Shares in issue (mn)	1,115	1,152	1,152	1,152
EPS (Rs)	35.3	44.7	53.4	61.9
PER (x)	25.6	25.0	16.9	14.6
FDEPS(Rs)	35.3	44.7	53.4	61.9
FDPER (x)	25.6	25.0	16.9	14.6
Book value (Rs)	463.0	478.3	512.7	552.6
P/BV (x)	1.9	2.3	1.8	1.6
Adj book value (Rs)	428.5	457.4	497.0	536.2
P/ABV (x)	2.1	2.4	1.8	1.7
P/PPP (x)	10.3	11.5	10.4	9.1
Dividend yield (%)	1.5	1.7	2.1	2.4

Recommendation History: ICICI Bank – ICICIBC IN

Date	Reports	Reco	CMP	Target
31/10/2011	ICICI Bank Q2FY12 Result Update	Accumulate	931	1,200
08/09/2011	ICICI Bank Management Meet Update	Accumulate	897	1,200
28/04/2011	ICICI Bank Q4FY11 Result Update	Accumulate	1,118	1,250
13/04/2011	ICICI Bank Management Meet Update	Hold	1,099	1,200

Recent Research Reports

Date	Reports	Reco	CMP	Target
30/01/2012	LIC Housing Finance Q3FY12 Result Update	Hold	246	250
30/01/2012	Allahabad Bank Q3FY12 Result Update	Accumulate	156	200
27/01/2012	Bank of India Q3FY12 Result Update	Reduce	5,353	320
27/01/2012	Canara Bank Q3FY12 Result Update	Hold	464	500

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