

March 4, 2008

Rating	BUY
Price	Rs972
Target Price	Rs1,590
Implied Upside	63.5%
Sensex	16,340

(Prices as on March 4, 2008)

Trading Data

Market Cap. (Rs bn)	1,081.2
Shares o/s (m)	1,112.3
Free Float	82.0%
Avg. Daily Vol ('000)	680.5
Avg. Daily Value (Rs m)	820.6

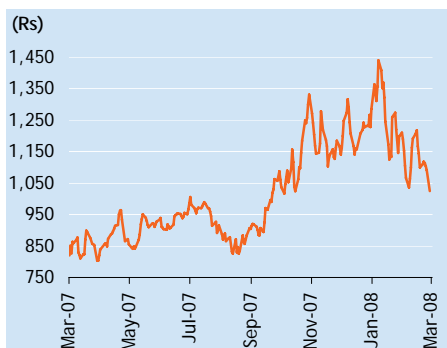
Major Shareholders

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

Stock Performance

(%)	1M	6M	12M
Absolute	(19.7)	7.5	14.9
Relative	(7.3)	1.8	(11.9)

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



Source: Bloomberg

ICICI Bank

Higher MTM provision scorches ICICI Bank

- The surprise news of a total Rs10bn (US\$265m) mark-to-market (MTM) provision related to sub-prime losses for ICICI Bank had a negative impact on the stock, which corrected by 5%. However, the bank has reiterated that it has no US sub-prime exposure and major portion of the expected provisions have already been provided for during 9MFY08.
- The bank's total credit derivative exposure stood at Rs80bn (US\$2.1bn), of which Rs65bn (US\$1.6bn) was in its standalone books and US\$500m in subsidiary books of ICICI Bank UK & ICICI Bank Canada.
- Apart from the credit derivative exposure, the bank also has a US\$3.8bn exposure to international investments through its UK & Canada subsidiaries. The management has indicated that so far there have been no defaults and ratings downgrade on these investments.
- Total MTM provision is expected to be around Rs10.6bn (US\$265m), of which the bank has already provided for Rs7.6bn (US\$190m) during 9MFY08; with Rs2.8bn (US\$70m) charged to standalone P&L, another Rs2bn (US\$50m) through subsidiary P&L and the remaining Rs2.8bn (US\$70m) reduced from equity of subsidiaries. Based on current movement in yields in the global market, the bank expects to make further MTM provisions of Rs3bn (US\$50m standalone & another US\$25m in subsidiaries) during Q4FY08.
- **Valuation:** Expectations of higher MTM provisions have weighed heavy on the stock price. We feel that the stock is likely to remain subdued due to the ongoing negative global investment sentiment and news flows. However, post the sharp correction witnessed in the last two days (down 11%), we feel the valuations at 16x FY10E EPS and 2x FY10E BV & 2.2x FY10E ABV is extremely attractive. We maintain BUY recommendation on the stock with a reduced price target of Rs1,590 (from Rs1,654 earlier).

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Net interest income*	66,358	85,180	109,460	133,738
<i>Growth (%)</i>	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
<i>Growth (%)</i>	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
<i>NIM (%)</i>	2.4	2.4	2.5	2.5
<i>RoAE (%)</i>	13.4	12.1	10.8	12.5
<i>RoAA (%)</i>	1.0	1.1	1.1	1.2
P / BV (x)	3.6	2.3	2.1	2.0
P / ABV (x)	3.9	2.5	2.3	2.2
PE (x)	28.1	25.1	20.5	16.4
<i>Net dividend yield (%)</i>	1.0	1.2	1.5	1.8

Source: Company Data; PL Research

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International investments other than credit derivatives also attracting MTM provisions for subsidiaries

Apart from the credit derivative exposure, the bank also has a US\$3.8bn exposure to international investments through its UK & Canada subsidiaries. As per the management, its UK & Canada subsidiaries holds around US\$3.5bn of retail deposits, which is currently held in investments (in UK book US\$3.3bn and Canadian book US\$500m) as the same deposits would need some time before it could be deployed into loans. International investments have almost gone up by four times in FY07; the amount is likely to be higher as on December 2007.

Investments held in the two subsidiaries

(Rs bn)

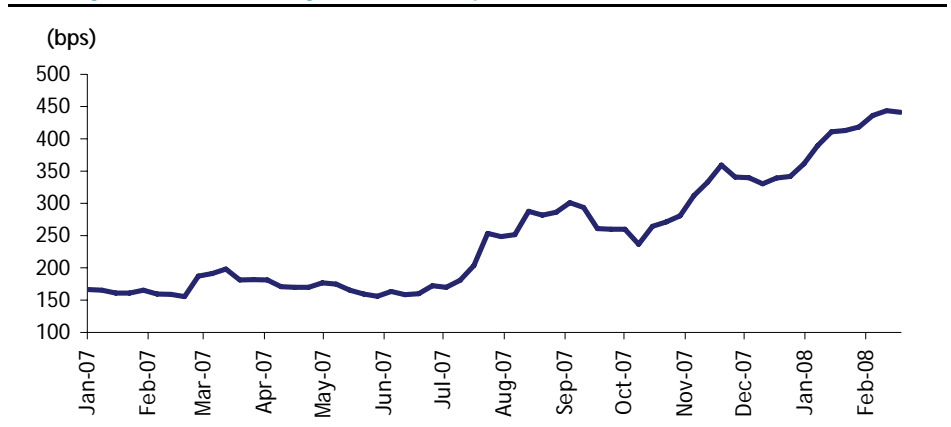
	UK			Canada	
	FY07	FY06		FY07	FY06
AFS	85	19	ABS	1.1	0
HFT	24	4	CLN	8.7	2.9
			CDOs	3.2	0
Total	108	22	Total	13	2.9

Source: Annual report

Increase in spreads have resulted in the MTM provisions

Since the spreads have moved up in the global markets, the bank had to provide another Rs4bn (US\$100m) in the investment book of subsidiaries. Till 9MFY08, the bank has provided Rs1.2bn (US\$30m) on the trading book (taken through P&L) and Rs2.8bn (US\$70m) on the AFS book (reduced from networth).

JP Morgan Credit Index High Yield Govt Spread



Source: Bloomberg



Outlook & valuation

Fourth quarter provisions is expected to be in the region of Rs2bn (standalone book) and is likely to negatively impact our FY08E PAT by 5% and implied Q4FY08 earnings by 16%. The total US\$265m MTM provision is on a consolidated basis, and what has mainly come as a surprise is the US\$100m provision on subsidiary books. The impact may be visible on lower dividends received from subsidiaries (ICICI Bank receives around Rs4bn of dividend from its subsidiaries annually).

We continue to like ICICI Bank post the sharp correction witnessed in the last two days (down 11%), we feel valuations at 16x FY10E EPS, 2x FY10E BV & 2.2x FY10E ABV is extremely attractive. Strategic changes to book incremental mortgage business (above Rs2m) in the housing finance subsidiary and opening of 425 branches are likely to be the key drivers of business growth, improvement in margins and RoE going forward. We maintain BUY recommendation on the stock with a reduced price target of Rs1,590 (from Rs1,654 earlier). The reduction is on account of lower value provided to its international banking subsidiaries.



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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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