

July 23, 2007

BUY

Price	Target Price
Rs985	Rs1,180
Sensex	15,566

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	9	(0)	100
Rel. to Sensex	(4)	(5)	(9)	33

Source: Capitaline

Stock Details

Sector	Banking
Reuters	ICBK.BO
Bloomberg	ICICIBC@IN
Equity Capital (Rs mn)	9,030
Face Value	10
52 Week H/L	1,010/478
Market Cap	Rs1.0tn/USD25.9bn
Daily Avg Volume (No of shares)	1.8mn
Daily Avg Turnover (US\$)	43.9mn

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	-
FII	71.6
Institutions	16.4
Private Corp.	5.2
Public	6.9

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Asset quality continues to worry

ICICI Bank's operating performance was below our expectations with NII growing by just 16.2% yoy to Rs17.1bn, mainly driven by 22bps yoy and 36bps sequential downward pressure on NIM. The lower NII was partially supported by stronger fee income and treasury gains and modest increase in Opex.

What worries us more is the continuation in the deterioration in the asset quality as the gross slippages continue to rise. The level of gross NPA and net NPA continued to rise at 3% and 1.3% respectively, mainly driven by non-collateralized retail loans. However, during quarter NPAs in the non-retail portfolio (adjusted for Sangli Bank NPAs) have also risen substantially.

We have adjusted our full year numbers for pressure on NIMs which is likely to continue over next two quarters. We do not expect the slippages to impact our numbers as we have already factored the same earlier. The stock is currently quoting at 2.3x FY09E ABV with likely RoE of 11.0% in FY09E. We maintain our BUY recommendation on the stock with a revised price target of Rs1, 180.

NII growth – hit by dip in NIMs

ICICI Bank's NII grew by modest 16.2% yoy to Rs17.1bn (our estimate Rs20.0bn) driven by 22bps yoy and 36bps sequential contraction in NIM.

The contraction in NIMs was partially explained by non-receipt of interest on CRR balances, it was also impacted due to rising cost of funds.

Yield analysis (%)

	Q1FY08	Q1FY07	Q4FY07	yoy chg (bps)	qoq chg (bps)
Yield on advances*	11.06	9.37	10.21	169	85
Yield on investments*	7.63	7.21	7.58	42	4
Yield on assets*	9.15	8.26	8.86	89	29
Cost of funds*	7.08	5.84	6.37	124	71
NIM*	2.07	2.42	2.49	(35)	(42)
Yield on assets - Reported	10.10	8.95	9.76	115	34
Cost of funds - Reported	7.80	6.43	7.10	137	70
NIM – reported	2.30	2.52	2.66	(22)	(36)
NIM – reported #	2.30	2.45	2.53	(15)	(23)

Source: Company, Emkay Research

* Calculated on basis of average quarterly balances

adjusted for interest on CRR balances

Lower CASA mix – repricing of term deposits hits hard

ICICI Bank has one of lowest CASA mix amongst the Indian bank, which has hurt severely during the quarter. The repricing of the term deposits has resulted in 210bps yoy and 110bps sequential rise in the deposit cost despite bank having kept the proportion of CASA deposits at the same level.

CASA mix

Rs bn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Total deposits	2,308	1,830	2,305	26.1	0.1
Savings account	320	240	290	33.3	10.3
Current account	200	160	220	25.0	-9.1
CASA as % Of total	22.5	21.9	22.1		
Term deposits	1,788	1,430	1,795	25.0	-0.4
Cost of deposits (%)	7.90	5.80	6.80	210bps	110bps

Source: Company

International business and retail portfolio see sharp growth

ICICI Bank's strong advances book growth of 34.7% was led by almost 2.5x increase in the international loan portfolio and 31.2% growth in the retail loan portfolio.

We expect the international loan book to continue to grow at 50%+ CAGR over FY07-10 and increase to 20% of the total portfolio over the same period. The rural lending will also be another key driver of the advances book and grow at 30%+ over the same period.

Portfolio mix

Rs bn	Q1FY08	Q1FY07	Q4FY07	% of total portfolio	% yoy chg	% qoq chg
Retail	1,274	971	1,280	64.3	31.2	-0.5
International	325	134	244	16.4	142.7	33.2
Rural	141	114	202	7.1	24.3	-29.9
Total advances	1,983	1,472	1,959		34.7	1.2

Source: Company, Emkay Research

Retail loan mix

	Rs bn	% yoy change	Proportion	Change in bps	
				yoy	Qoq
2-wheelers	26,000	30.0	2.0	-2	4
Cars	190,000	1.1	14.9	-445	41
CV	170,000	47.8	13.3	150	-116
Personal loans	112,000	93.1	8.8	282	-71
Credit cards	61,000	96.8	4.8	159	29
Mortgages	650,000	30.5	51.0	-27	101
Others	65,160	6.8	5.1	-117	11
Total	1,274,160	31.2	100.0		

Source: Company, Emkay Research

Robust other income and ...

The fee income continued its robust growth, up 35.4% yoy to Rs14.3bn in line with our expectations. During the quarter under review, the treasury gains also grew 10-fold driven by equity gains, thereby driving the other income to Rs17.2bn, a growth of 70%.

Fee income

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Fee income	14,280	10,550	14,270	35.4	0.1
Treasury	1,950	180	4,460	983.3	-56.3
Lease/ dividend	3,270	2,046	2,270	59.8	44.1
Amortisation	-2,350	-2,670	-2,660	-12.0	-11.7
Total	17,150	10,106	18,340	69.7	-6.5

Source: Company, Emkay Research

... Stable operating expenses help

Aided by much slower growth in the direct marketing agency (DMA) expenses, the operating expenses grew by much slower 28.5% yoy. In Q1FY07, The lower DMA expenses are result of slower growth auto loans coupled with renegotiated DMA charges.

Stable operating expenses

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Staff expenses	5,218	3,568	4,408	46.3	18.4
DMA expenses	3,827	3,908	4,229	-2.1	-9.5
Other operating expenses	10,008	7,739	10,569	29.3	-5.3
Total expenses	19,053	15,215	19,206	25.2	-0.8

Source: Company, Emkay Research

Driven by sedate growth in NII, the core operating profit grew by slower 22.6% yoy, albeit the reported operating profit has grown by 60% yoy.

Core operating profit grows by slower 22.6%

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Reported operating profit	15,239	9,644	17,881	58.0	-14.8
Less:					
Treasury gains	1,950	180	4,460	983.3	-56.3
Securitisation income	-	-	-		
Lease income	3,270	2,046	2,270	59.8	44.1
Add: Amortisation expenses	2,350	2,670	2,660	-12.0	-11.7
Core operating profit	12,369	10,088	13,811	22.6	-10.4

Source: Company, Emkay Research

NIMs do not justify the slippages

While we have liked the bank's strategy of going for higher yielding retail assets, particularly personal loans and credit cards, the double whammy of higher provisioning requirement and rising cost of deposits has actually sort of back fired during current quarter.

The gross slippages have gone up during the quarter not only in the retail loan portfolio but also in non-retail portfolio (adjusted for Rs1bn of NPA taken over from Sangli Bank). As a result the provisioning requirement has also gone up

NPA portfolio

	Q1FY08	FY07
Gross NPA	60,430	48,500
% of gross advances	3.0	2.5
Slippages (as % of advances book)		
Overall	1.4	1.0
Retail	1.6	1.3
Non-retail (adjusted for Sangli Bank)	0.8	0.3
Net NPA	27,420	20,190
% of net advances	1.3	1.0

Source: Company, Emkay Research

Break up of provisions

Rs mn	Q1FY08	Q1FY07	Q4FY07
NPA	4,700	1,690	4,190
As % of advances	0.24	0.11	0.21
Standard assets	220	470	1,470
Others	603	0	3,103
Total	5,523	2,160	8,763

Source: Company, Emkay Research

Higher provisioning, low NIM hurting RoA

% of average assets	Q1FY08	Q1FY07	Q1FY08	yoy chg in bps	qoq chg in bps
NIM	2.07	2.42	2.49	(34.5)	(42.1)
Non interest income	2.07	1.66	2.44	41.7	(36.6)
NII	4.15	4.07	4.93	7.2	(78.8)
Opex	2.30	2.49	2.55	(19.0)	(25.1)
Provisions	0.67	0.35	1.17	31.4	(49.8)
Tax	0.40	0.27	0.36	12.2	3.5
PAT	0.94	1.02	1.10	(7.9)	(16.1)

Source: Company, Emkay Research

Valuations and view

We expect ICICI Bank's NIMs to remain subdued over next two quarter driven by higher cost funds as the deposits taken over last two quarters will be repaid only over next two quarters. The higher cost of funds will be partly offset by equity funds mobilized during July 2007.

We have revised our EPS estimates for FY08E and FY09E by 12% each to take into account the pressure on NIMs. We have already taken into account the higher slippages and consequent higher provisioning. Hence, there is no impact of the same on our numbers.

Revised numbers

	FY08E	FY09E
FDEPS (Rs)		
Old estimates	34.3	47.6
New estimates	39.8	54.1
% change	-13.8	-12.0
ABV (Rs)		
Old estimates	421.0	461.8
New estimates	390.7	421.6
% change	-7.2	-8.7

Source: Company, Emkay Research

The stock is currently quoting at 2.3x FY09E ABV with likely RoE of 11.0% in FY09E. We maintain our BUY recommendation on the stock with a revised price target of Rs1, 180.

Quarterly results

Rs mn		Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
NII		17,143	14,753	18,747	16.2	-8.6
Other Income		17,150	10,106	18,339	69.7	-6.5
	<i>Fee income</i>	14,280	10,550	14,270	35.4	0.1
<i>Other</i>		28,700	-4,440	40,694	-746.4	-29.5
Net income		34,293	24,859	37,087	37.9	-7.5
Operating expenses		19,053	15,215	19,206	25.2	-0.8
Pre-provision profit		15,239	9,644	17,881	58.0	-14.8
Provisions & Contingencies		5,523	2,160	8,763	155.7	-37.0
	<i>NPA</i>	4,700	1,690	4,190	178.1	12.2
Profit before tax		9,717	7,484	9,117	29.8	6.6
Total Tax		1,969	1,286	866	53.1	127.3
Net Profit		7,748	6,198	8,251	25.0	-6.1

Valuation table

Y/E March 31	Net income Rs mn	Net profit Rs mn	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	91,702	25,345	28.5	237.7	1.2	14.6	4.0
FY2007E	125,997	31,064	34.5	248.2	1.0	13.4	3.8
FY2008E	165,080	39,147	34.3	390.7	1.0	11.0	2.4
FY2009E	211,886	54,320	47.6	421.6	1.1	11.0	2.3

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