

ICICI Bank ----- Maintain UNDERPERFORM

4Q results: Banking business under pressure

EPS: ◀▶ TP: ▶▶

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- ICICI Bank's 4QFY3/07 results showed pressure on the banking business – pre-provision profits were flat QoQ despite 12% risk weight assets growth. Excluding extraordinary items, PBT declined 9% QoQ; net profit declined 9% QoQ and rose 4% YoY
- Margins were flat QoQ, and we expect margins to compress in the next 1-2 quarters, as borrowing costs remain high with savings deposits flat QoQ and CASA mix declining 200bp QoQ to 21.9%
- Retail loans have slowed significantly more than expected, with mortgage disbursements declining -8% YoY (-5% QoQ); ICICI Bank has increased monthly instalments for 55-60% of its mortgages by 15%. Auto disbursements also declined 5% YoY.
- Net NPLs have risen 88% YoY, despite a substantial step-up in provisioning in 2H – we expect loan loss provisions to rise further; retail unsecured gross NPLs remained at 13% on a 6-month lag
- ICICI Bank proposes new equity issuance US\$5bn, which will hurt RoE near term; has also indicated a likely pre-IPO placement for the proposed holding company; our forecasts are under review.

Figure 1: ICICI Bank - 4Q summary

| Rs mn | 4Q07 | 4Q06 | % yoy | 3Q07 | % qoq |
|---------------------|-----------|-----------|-------|-----------|-------|
| NII (adj) | 16,087 | 11,326 | 42% | 14,888 | 8% |
| Fee income | 14,270 | 11,050 | 29% | 13,450 | 6% |
| Op income | 30,357 | 22,376 | 36% | 28,338 | 7% |
| Op expenses | (18,766) | (14,232) | 32% | (16,713) | 12% |
| Pre-prov op profit | 11,591 | 8,144 | 42% | 11,626 | 0% |
| Loan loss prov | (5,614) | (3,543) | 58% | (6,260) | -10% |
| Operating profit | 5,977 | 4,601 | 30% | 5,366 | 11% |
| Non-op inc (net) | 1,169 | 4,239 | -72% | 2,486 | -53% |
| Profit before tax | 7,147 | 8,840 | -19% | 7,852 | -9% |
| Extraordinary items | 1,970 | - | NA | 3,000 | -34% |
| Taxes | (866) | (941) | -8% | (1,751) | -51% |
| Profit after tax | 8,251 | 7,899 | 4% | 9,101 | -9% |
| EPS (Rs) | 9.2 | 8.9 | 3.4% | 10.2 | -9.8% |
| BVPS (Rs) | 270.4 | 249.5 | 8.4% | 273.4 | -1.1% |
| Advances | 1,958,660 | 1,461,630 | 34% | 1,727,630 | 13% |
| Total assets | 3,446,580 | 2,513,890 | 37% | 2,958,320 | 17% |
| Risk weight assets | 2,899,930 | 2,085,940 | 39% | 2,586,190 | 12% |
| Net Worth | 243,130 | 222,060 | 9% | 244,450 | -1% |
| Deposits | 2,305,100 | 1,650,830 | 40% | 1,968,930 | 17% |
| Gross NPL | 42,200 | 22,930 | 84% | 37,240 | 13% |
| Net NPL | 20,190 | 10,750 | 88% | 18,570 | 9% |

Source: Company data, Credit Suisse estimates.

Figure 2: ICICI Bank - Key ratios

| | 4Q07 | 4Q06 | YoY bps | 3Q07 | QoQ -bps |
|-------------------|-------|-------|---------|-------|----------|
| NIM (Bps) | 220 | 223 | (3) | 221 | (1) |
| RoA | 1.0% | 1.4% | (33) | 1.3% | (23) |
| RoE | 13.5% | 14.6% | (107) | 15.2% | (163) |
| Tier I Ratio | 7.4% | 9.2% | (178) | 8.6% | (122) |
| Tax rate | 9.5% | 10.6% | (114) | 16.1% | (664) |
| Cost % avg assets | 1.8% | 1.8% | (1) | 1.8% | 3 |
| Fee % avg assets | 1.8% | 1.9% | (12) | 1.9% | (8) |

Source: Company data, Credit Suisse estimates.

Figure 3: Unsecured retail loans – NPL trend

| Rs Mn/ % | 4Q07 | 3Q07 |
|-----------------|--------|--------|
| Gross NPL | 16,686 | 13,446 |
| % | 9.5% | 8.7% |
| Lag (6 month) % | 12.9% | 12.8% |
| Net NPL | 7,106 | 5,544 |
| % | 4.1% | 3.6% |
| Lag % | 5.5% | 5.3% |

Source: Company data, Credit Suisse estimates.

Capital raising timing negative surprise

Tier I declined to 7.4% on investments in subsidiaries (Rs13.5bn) and dividend per share (Rs10). The bank is justifying new equity issuance on strong growth prospects, especially from corporate capex, though it intends to participate more in syndication rather than lending.

Insurance holding company plans pre-IPO placement

Management is also considering a pre-IPO placement for proposed insurance holding company, to be followed by an IPO later (maybe next year).

| Bbg/RIC | ICICIBC IN / ICBK.BO | Price (27 Apr 07, Rs) | 933.65 | | |
|---------------------------------|-------------------------------------|------------------------|------------------|--------|--------|
| Rating (prev. rating) | U (U) | TP (Rs) (prev. TP) | 790 (790) | | |
| Shares outstanding (mn) | 898.88 | Est. pot. % chg. to TP | (15) | | |
| Daily trad vol-6m avg (mn) | 0.4 | 52-wk range (Rs) | 997.90 - 454.50 | | |
| Daily trad val-6m avg (US\$ mn) | 5.7 | Mkt cap (Rs/US\$ bn) | 839.2/ 19.5 | | |
| Free float (%) | 100.0 | Performance | 1M 3M 12M | | |
| Major shareholders | Life Insurance Corporation of India | Absolute | 6.6 (5.2) 64.8 | | |
| | 7.95% | Relative | (1.7) (4.9) 37.0 | | |
| Year | 3/05A | 3/06A | 3/07E | 3/08E | 3/09E |
| Pre-provisioning profit (Rs mn) | 24,058 | 38,913 | 60,530 | 79,145 | 99,954 |
| Net profit (Rs mn) | 20,052 | 25,401 | 31,579 | 37,554 | 45,223 |
| EPS (Rs) | 28.9 | 30.6 | 34.8 | 41.4 | 49.8 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Rs) | n.a. | n.a. | 34.6 | 45.4 | 60.4 |
| EPS growth (%) | 11.0 | 5.7 | 13.9 | 18.9 | 20.4 |
| P/E (x) | 32.3 | 30.5 | 26.8 | 22.6 | 18.7 |
| Dividend yield (%) | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 |
| BVPS (Rs) | 170 | 250 | 275 | 306 | 344 |
| P/B (x) | 5.5 | 3.7 | 3.4 | 3.1 | 2.7 |
| ROE (%) | 19.5 | 14.6 | 13.5 | 14.5 | 15.7 |
| ROA (%) | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| Tier 1 (%) | 7.8 | 9.4 | 8.5 | 7.5 | 6.8 |

Note 1: Ord/ADR=2. Note 2: ICICI Bank has become the second-largest commercial bank in India in asset size following the merger with ICICI. On an asset base of Rs1,253 bn (US\$28.1 bn), it runs 450 branches with 11,500 employees.

Banking business under pressure

NII rose 8% QoQ, 4% better than our expectations, and margins were flat QoQ at about 220bp (adjusted). Fee income growth slowed to 29% YoY on a high base, and was below expectations. Loan growth slowed to 34% YoY (from 41% YoY in 3Q), but without an improvement in margins, on sharply higher wholesale funding costs and a decline in the CASA mix. Excluding the gain on the NSE stake sale (Rs5.12bn) and the increase in general provisioning on select segments (Rs3.15bn), PBT declined 9% QoQ.

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Companies Mentioned (Price as of 27 Apr 07)

ICICI Bank (ICBK.BO, Rs933.65, UNDERPERFORM, TP Rs790.00)

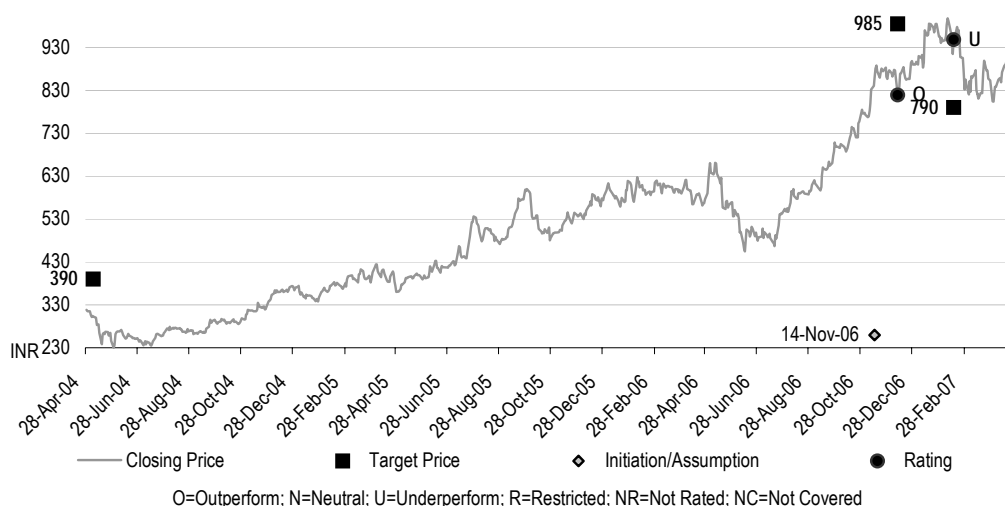
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3-Year Price, Target Price and Rating Change History Chart for ICBK.BO



| ICBK.BO Date | Closing Price Price (INR) | Target Price Price (INR) | Rating | Initiation/ Assumption |
|--------------|---------------------------|--------------------------|--------------|------------------------|
| 7-May-04 | 302.9 | 390 | | |
| 14-Nov-06 | | | | X |
| 11-Dec-06 | 819.4 | 985 | OUTPERFORM | |
| 15-Feb-07 | 948.45 | 790 | UNDERPERFORM | |

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Price Target: (12 months) for (ICBK.BO)

Method: We have valued ICICI Bank at Rs790 on a sum of the parts, as we think it would best capture the value of its diverse business lines. We attribute a 2x FY3/08 BV multiple to the core banking business, on an estimated underlying 17-17.5% RoE, or Rs511 per share, and Rs279 for its subsidiaries.

Risks: Key upside risks to our Rs790 target price are 1) rapid easing in inflation and money supply growth, 2) emergence of a strong securitisation market. There is a potential upside or downside surprise from the market value of the holding company which will include the life & general insurance and the mutual fund subsidiaries, when it lists.

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