

June 15, 2007

BUY

Price Target Price
Rs906 Rs1,200

Sensex **14,204**

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	9	4	99
Rel. to Sensex	0	(4)	(1)	25

Source: Capitaline

Stock Details

Sector	Banks
Reuters	ICBK.BO
Bloomberg	ICICIBC@IN
Equity Capital (Rs mn)	8989
Face Value	10
52 Week H/L	1,007/442
Market Cap	Rs814bn/USD19.9bn
Daily Avg Volume (No of shares)	1.6mn
Daily Avg Turnover (US\$)	35.7

Shareholding Pattern (%)

(31st Dec.'06)	
Promoters	-
FII	71.6
Institutions	16.4
Private Corp.	5.2
Public	6.9

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ICICI Bank

Company Update

Price target revised to Rs1,200

The much awaited \$5bn follow on offering of ICICI Bank will hit the street on June 19, 2007. The bank is planning to offer stock worth Rs100bn in the domestic market as well as overseas market (both including green shoe option of Rs13.1bn each). We expect the offering to result in an equity dilution of 25.4% for the bank.

We believe that there are several positive triggers lined up for the stock in medium and long term future like a) the bank's ability to speedily leverage balance sheet and eventually ramp up ROE b) above consensus valuation of ICICI Financial Services Ltd (FKA: ICICI Holding) and c) equity dilution may open up the FII investment limit which will sustain the demand for the stock post FPO.

Despite the bank diluting its equity by 25%+ we have downgraded our EPS estimates on the stock only by 11.5% and 8.3% respectively for FY08E and FY09E respectively to take into account aggressive growth in balance sheet size. We have revised our EPS estimates on the stock by 11.5% and 8.3% respectively for FY08E and FY09E respectively. We are revising our price target on the stock to Rs1,200 (earlier Rs1,080) to take into the account incremental growth in the book value and upside from the ICICI Financial Services Ltd. We maintain our BUY recommendation on the stock.

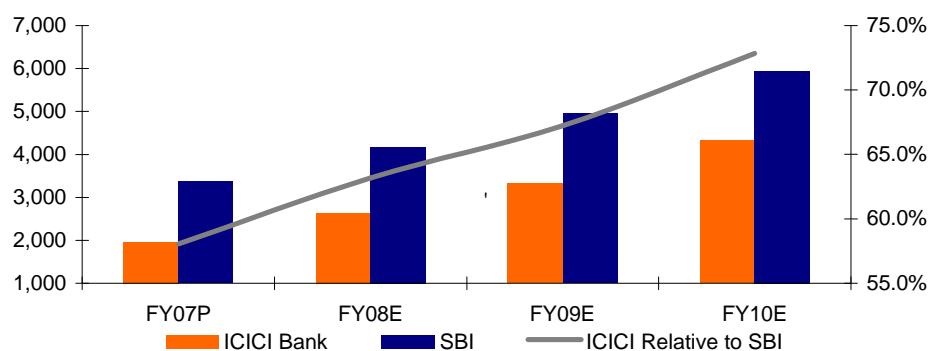
Ambition to become larger than life

While ICICI Bank's mega FPO has come at a time when the market wasn't expecting one, we believe that the bank is now aggressively looking at capturing its share of the investment demand in the Indian economy.

"There's opportunity probably that's not seen. If this opportunity has to be seized, you need to create a banking sector commensurate with the size of the growing economy. The huge gap between the market valuation of banks in China and India indicate the potential for growth. The market capitalisation of all the banks in India is less than half of the second-biggest bank in China"

- KV Kamath, CEO and MD, ICICI Bank

The bank is already the market leader in the retail loan segment. We believe that two key segments that now will come to core focus are a) Corporate and b) international business. The corporate loan growth was on a back foot over last couple of years driven by sharper focus on retail segment. We now expect the corporate and international loan books to grow at much faster pace ~30-40% and ~50% respectively and the retail to be lower at ~25% over FY07-09E. We expect the bank to sharply close in on India's largest bank in terms of advances book

Behemoths closing in (advances book in Rs bn)

Source: Company, Emkay Research

The focus on the corporate and international loan books will help the bank in two ways:

- It will help the bank to sustain the momentum in fee income which has been the bank's forte. We expect the fee income to grow at CAGR of 33% over FY07-09E
- It will help the bank to bring down the provisioning requirement as the focus shifts from retail assets requiring higher standard asset provisioning

FPO structure announced

ICICI Bank yesterday announced its FPO structure with the stock being offered in equal size in the domestic as well as overseas markets. We expect the bank to issue 219mn fresh shares (25.8% of the existing equity) through FPO to raise Rs201bn (\$5bn).

FPO structure

Category	No of shares (mn)	Rs bn	US\$ bn
MF	6	5	0.1
QIB (1)	49	44	1.1
Non-QIB	17	15	0.4
Retail	41	35	0.9
ADR (2)	107	101	2.5
Total	219	201	5.0

Source: Company, Emkay Research

Assumption: Domestic offer at Rs900, ADR at Rs945 and retail offering at Rs855

May open space for foreign investment

The current foreign holding in ICICI Bank stands at 71.6% which is within the RBI's prescribed limit (for any additional purchase FII will have to obtain RBI's permission). With half of the issue having been offered in overseas market, the foreign holding in the bank may go below the prescribed limit unless whole of the domestic QIB portion goes to FII or retail portion is highly undersubscribed, which is quite unlikely. This, consequently, may open up the limit for foreign investment.

Shareholding structure

Category	Pre-FPO		Post-FPO	
	No of shares (mn)	%	No of shares (mn)	%
Foreign	644 ⁽³⁾	71.6	800#	71.4
Domestic	256	28.4	320	28.6
Total	899	100.0	1,120	100.0

Source: Company, Emkay Research

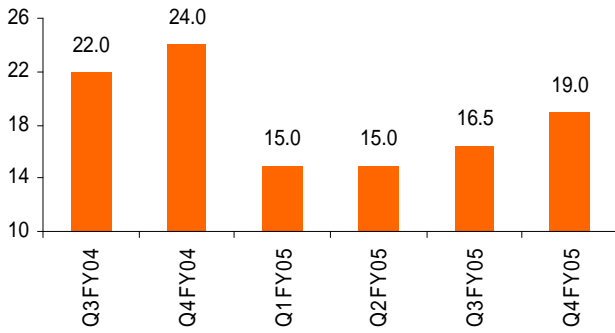
If whole QIB portion goes to FII = (1)+(2)+(3)

Ability to ramp up RoE will take care of dilution

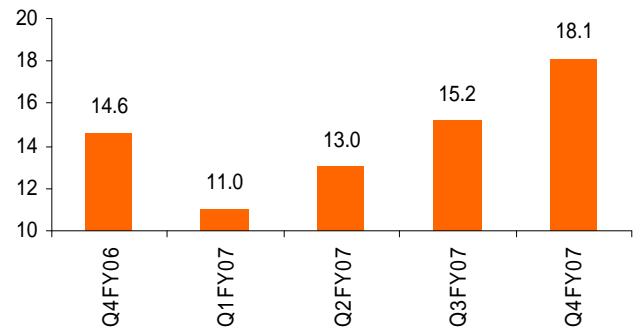
The bank is looking at 30-35% yoy growth in the balance sheet size over next couple of years which means they would be more than doubling their balance sheet size over next three years i.e., FY2010. Looking at robust growth in balance sheet and Basel II norms, the bank would require new equity capital. Notably, the management has guided that on the existing loan book there will not be any fresh capital requirement under Basel II.

The bank has had two huge dilutions previously [Rs3.5bn (17.7% dilution) and Rs9.0bn (20% dilution) in Feb 2004 and Dec-Mar2006 respectively]. The bank has rapidly ramped up its RoE after each dilution it has made which means equity dilution has not remained dampener on RoE for more than four quarters.

Annualised RoE after dilution (February 2004)



Annualised RoE after dilution (December 2005)



Source: Company, Emkay Research,

Note: Numbers for Q4FY07 are excluding one-time provisions of Rs3.1bn

Value unlocking begins in the subsidiaries

ICICI Financial Services Ltd (currently 100% subsidiary) has seemingly received commitment of \$650mn from couple of investors for 5.9% stake in the company (slightly above earlier news reports of 5% stake). ICICI Financial Services holds 74% stake in life and non-life insurance and 51% stake in the asset management business. The stake sale puts the valuation of the subsidiary at \$11bn which is far ahead of street expectations. As the majority of the value is likely to come from the life insurance business, at \$11bn ICICI Financial Services is being valued at 42-45x FY08E NBAP of the life insurance business which seem to high. We see this stake placement as a big positive for the forthcoming FPO.

Valuations and view – faster growth to contain earnings dilution

Despite the bank diluting its equity by 25%+ we have downgraded our EPS estimates on the stock only by 11.5% and 8.3% respectively for FY08E and FY09E respectively to take into account aggressive growth in balance sheet size. We are revising our price target on the stock to 1,110 (earlier Rs1,080) to take into the account incremental growth in the book value and upside from the ICICI Financial Services Ltd. We maintain our BUY recommendation on the stock.

Sum of the parts valuation

Particulars	Rs bn	Rs per share	Comment
Standalone bank	1,211	1,062	2.3x FY09E ABV
Life insurance	155	136	17.0x FY08E NBAP
General insurance	9	8	11.0x FY08E net profit
AMC	16	14	6%of AUM
Total	1,371	1,220	

Income Statement (Rs. Mn)

	FY06	FY07	FY08E	FY09E
NII	41,871	66,358	96,594	127,504
Other income	49,831	59,640	73,959	91,733
Net income	91,702	125,997	170,552	219,238
Operating exp.	44,795	66,906	87,376	103,904
PPP	46,907	59,092	83,176	115,333
PPP excl treasury	39,944	47,940	77,176	109,333
Provisions	15,971	22,679	25,356	30,848
Profit before tax	30,936	36,413	57,820	84,485
Tax	5,535	5,348	12,720	22,811
Tax rate	17.89%	14.69%	22.00%	27.00%
Profit after tax	25,401	31,064	45,099	61,674

Key Ratios (%)

	FY06	FY07	FY08E	FY09E
NIM	2.2	2.2	2.4	2.6
Non-ll/avg assets	2.4	2.0	1.8	1.9
Fee income/avg assets	1.4	1.4	1.5	1.5
Opex/avg assets	4.4	5.9	6.3	6.3
Provisions/avg assets	2.1	2.2	2.2	2.1
PBT/avg assets	1.2	1.1	1.3	1.6
Tax/avg assets	0.2	0.2	0.3	0.4
RoA	1.2	1.0	1.1	1.2
RoAE	14.6	13.4	12.5	12.3
GNPA (%)	1.5	2.4	2.9	3.1
NNPA (%)	0.7	1.0	1.1	1.0
Tier I (%)	9.2	6.7	10.4	10.2

Balance Sheet (Rs. Mn)

	FY06	FY07	FY08E	FY09E
Equity	8,898	8,993	11,335	11,406
Reserves	213,162	234,155	465,905	515,350
Net worth	222,060	243,148	477,240	526,756
Deposits	1,650,832	2,305,102	3,111,888	3,765,384
Borrowings	647,695	904,890	970,967	1,024,626
Total liabilities	2,520,587	3,453,140	4,560,094	5,316,766
Cash and bank	170,402	371,213	385,771	466,783
Investments	697,434	887,952	1,335,564	1,310,552
Customer assets	1,479,671	1,983,284	2,655,319	3,351,786
Others	173,079	210,677	179,776	185,336
Total assets	2,520,587	3,453,140	4,560,094	5,316,766

Valuations Table

	FY06	FY07	FY08E	FY09E
Net profit (Rs mn)	25,345	31,064	45,099	61,674
Shares (mn)	890	899	1,134	1,141
EPS (Rs)	28.5	34.5	39.8	54.1
PER (x)	32.8	27.0	23.5	17.3
FDEPS(Rs)	28.5	34.5	39.5	54.1
FDPER (x)	32.8	27.0	23.6	17.3
Book value (Rs)	249.6	270.4	421.0	461.8
P/BV (x)	3.7	3.5	2.2	2.0
Adj book value (Rs)	237.7	248.2	396.0	433.2
P/ABV (x)	3.9	3.8	2.4	2.2
P/PPP (x)	17.7	14.2	12.7	9.2
Dividend yield (%)	1.0	1.3	1.2	1.3

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