



## ICICI Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,698	ICICIBC IN
	REUTERS CODE
S&P CNX: 3,678	ICBK.BO

26 October 2006

Buy

Previous Recommendation: Buy

Rs753

Equity Shares (m)	889.8
52-Week Range	760/440
1,6,12 Rel.Perf.(%)	8/26/-12
M.Cap. (Rs b)	670.4
M.Cap. (US\$ b)	14.8

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/06A	96,932	25,401	28.5	4.9	26.4	3.0	13.4	14.6	1.3	3.1
3/07E	129,158	31,429	35.3	23.7	21.3	2.7	11.6	13.5	1.1	2.8
3/08E	166,407	39,641	44.5	26.1	16.9	2.5	10.5	15.3	1.0	2.5

While NII was in line at 47% YoY growth, net profit grew 30% to Rs7.55b, on the back of higher fee income and lower taxes. Margins were flat at 2.5% QoQ. However, excluding securitization, margins improved from 2.2% to 2.5% YoY. Balance sheet continued to expand rapidly (+49% YoY), led by 57% growth in deposits to Rs1,895b and 47% growth in net customer assets to Rs1,638b. Provisions increased YoY due to higher NPA provisions and investment related provisions in the quarter. Performance of subsidiaries was strong with ICICI Pru Life witnessing a 60% increase in NBAP in 2QFY07.

- Strong balance sheet expansion continues
- NIMs flat QoQ at 2.5%
- Fee growth at 62% YoY continues to be robust
- NPAs increase QoQ; net NPLs at 0.9%

While margin expansion is expected to be nominal, strong volume growth and robust traction in fee revenues will drive earnings growth. Improving performance of its subsidiaries will serve as a key valuation driver. We value subsidiaries at Rs157 per share (at 20% holding discount). Adjusting for the value of its subsidiaries, ICICI trades 1.9x FY08E book and 13.4x FY08E EPS. Reiterate **Buy**.

### QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	31,160	33,333	37,106	41,478	50,386	54,694	56,847	61,381	143,075	223,308
Interest Expense	21,465	22,598	24,168	27,742	35,634	38,924	39,877	43,656	95,974	158,091
<b>Net Interest Income</b>	<b>9,695</b>	<b>10,735</b>	<b>12,938</b>	<b>13,736</b>	<b>14,753</b>	<b>15,770</b>	<b>16,969</b>	<b>17,725</b>	<b>47,100</b>	<b>65,217</b>
Growth (%)	53.7	56.7	76.5	73.8	52.2	46.9	31.2	29.0	46.5	38.5
Other Income	10,905	11,115	11,792	16,019	12,776	15,701	16,626	18,839	49,831	63,942
<b>Net Income</b>	<b>20,600</b>	<b>21,850</b>	<b>24,730</b>	<b>29,755</b>	<b>27,528</b>	<b>31,471</b>	<b>33,595</b>	<b>36,563</b>	<b>96,932</b>	<b>129,158</b>
Operating Expenses	10,892	11,410	12,784	14,942	15,215	15,352	16,364	17,129	50,025	64,060
<b>Operating Profit</b>	<b>9,708</b>	<b>10,440</b>	<b>11,946</b>	<b>14,813</b>	<b>12,314</b>	<b>16,119</b>	<b>17,232</b>	<b>19,434</b>	<b>46,907</b>	<b>65,098</b>
Growth (%)	74.7	38.9	54.9	68.9	26.8	54.4	44.3	31.2	58.7	38.8
Provisions and Contingencies	2,979	3,038	3,951	5,973	4,828	7,093	6,321	6,562	15,941	24,805
<b>Profit before Tax</b>	<b>6,729</b>	<b>7,402</b>	<b>7,995</b>	<b>8,840</b>	<b>7,486</b>	<b>9,025</b>	<b>10,911</b>	<b>12,872</b>	<b>30,966</b>	<b>40,294</b>
Provision for Taxes	1,429	1,602	1,593	941	1,286	1,475	2,837	3,267	5,565	8,865
<b>Net Profit</b>	<b>5,300</b>	<b>5,800</b>	<b>6,402</b>	<b>7,899</b>	<b>6,200</b>	<b>7,550</b>	<b>8,074</b>	<b>9,605</b>	<b>25,401</b>	<b>31,429</b>
Growth (%)	23.0	31.2	23.7	28.5	17.0	30.2	26.1	21.6	26.7	23.7
Interest Expense/Interest Income (%)	68.9	67.8	65.1	66.9	70.7	71.2	70.1	71.1	67.1	70.8
Other Income/Net Income (%)	52.9	50.9	47.7	53.8	46.4	49.9	49.5	51.5	51.4	49.5
Cost /Income (%)	52.9	52.2	51.7	50.2	55.3	48.8	48.7	46.8	51.6	49.6

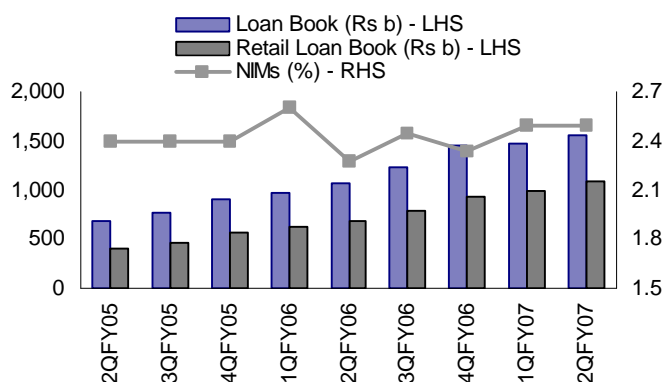
E: MOST Estimates \* Qtlly Nos adjusted for Auto DMA chgs for FY06

While NII was in line at 47% YoY growth, net profit grew 30% to Rs7.55b, on the back of higher fee income and lower taxes. Margins were flat at 2.5% QoQ. However, excluding securitization, margins improved from 2.2% to 2.5% YoY. Balance sheet continued to expand rapidly (+49% YoY), led by 57% growth in deposits to Rs1895b and 47% growth in net customer assets to Rs1,638b. Provisions increased YoY due to higher NPA provisions and investment related provisions in the quarter. Performance of subsidiaries was strong with ICICI Pru Life witnessing a 60% YoY increase in NBAP in 2QFY07.

### Strong balance sheet expansion continues

ICICI Bank has continued its growth momentum on the balance sheet front with growth of by 49% YoY to Rs2,824b. Aggressive deposit raising and strong loan growth (fuelled by retail/rural/international) has led to this strong growth. Retail loans have continued to drive growth for the bank, having grown by 58% YoY. The proportion of retail has increased to 69% of total loans and 66% of customers' assets. In 1HFY07, the bank's total retail disbursements were about Rs335b including home loan disbursements of about Rs134b. The bank's rural portfolio grew by about 70% on YoY basis to Rs105b, while its international loan book has grown by 56% YoY to Rs150b.

QUARTERLY TREND OF LOAN BOOK AND RETAIL LOANS



Source: Company/Motilal Oswal Securities

In order to support this strong loan growth, the bank has been aggressively growing its deposit base. Despite no new branches being opened in the last 4 quarters, the bank has been growing its low-cost deposit base at a strong pace.

While CASA deposit growth of 57% YoY continues to be robust, as a percentage of deposits, the share of CASA has remained flat YoY at 22.5%, however, this has increased QoQ (1Q CASA ratio was 21%). Incremental CASA contribution to incremental deposit mobilization has increased to 40% in 2QFY07 from 14% in 1QFY07 and 10% in FY06.

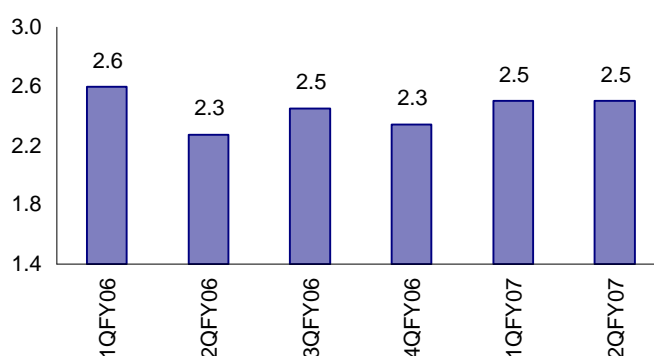
Balance sheet growth continues to be largely fuelled by term deposits (mainly bulk deposits; ~50%-55% of the total). Overall deposit base has increased by 57% YoY to Rs1,895b. Deposit costs have increased from 5.0% to 6.1% YoY and by ~30bp QoQ.

### NIMs flat QoQ at 2.5%

Margins were flat at 2.5% QoQ. However, excluding securitization, margins improved from 2.2% to 2.5% YoY. The bank also did not have the benefit of earning income of CRR balances in this quarter, which we believe would have resulted in a 5bp-7bp margin loss. The improvement has been lower than our expectations, as the bank resorted to hybrid borrowings (which are generally costlier) in 2Q.

We now expect margins to improve by just 5bp-7bp over the next couple of quarters, against our expectations of 10bp-15bp improvement earlier. With deposit raising being well spaced out in this fiscal, we do not expect significant pressure on deposit cost as witnessed during 4QFY06. On the contrary, as the high cost borrowings gets repriced from 3Q onwards, it could be positive for margins. We believe the larger impact of this would be witnessed from 1QFY08 onwards.

QUARTERLY TREND OF NIMS



Source: Company/Motilal Oswal Securities

BREAK-DOWN OF NIIM (%)

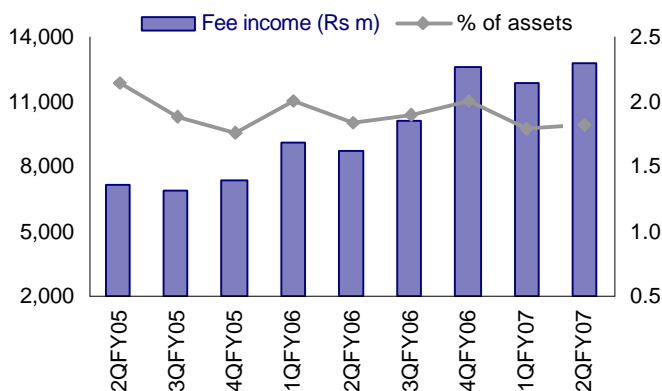
	FY06				FY07	
	1Q	2Q	3Q	4Q	1Q	2Q
Yield on Advances	8.7	8.7	8.7	8.7	9.4	9.8
Cost of Deposits	5.0	5.0	4.8	5.2	5.8	6.1
Cost of Funds	5.9	5.8	5.7	6.0	6.2	6.5
<b>NIMs</b>	<b>2.6</b>	<b>2.3</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>

Source: Company/ Motilal Oswal Securities

**Fee growth at 62% YoY continues to be robust**

A key highlight is the continued traction in its core fee revenues. Fees (non-treasury) to total assets now stand at 1.8% in 2QFY07. Core fees, in the quarter, increased by 62% to Rs11.4b, while treasury rose by 20% YoY to Rs2.9b (70% of gains were from equities, ICICI had sold 3.5% of its holdings in IDFC in 2Q). Other non-interest income (lease income) declined YoY. Of the current fees, 60% arises from retail; ~13% comes from international operations and the balance from corporates. We expect growth in fee income to continue to remain robust going forward on the back of growing fees from distribution products and international operations.

FEE INCOME - STRONG GROWTH OVER THE LAST FEW QUARTERS



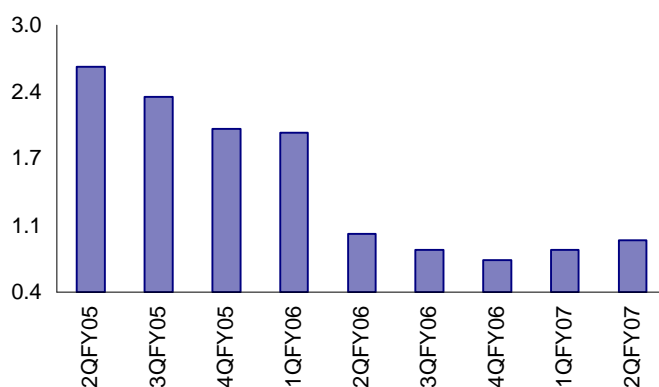
Source: Company/Motilal Oswal Securities

**NPAs increase QoQ; net NPLs at 0.9%**

While asset quality has improved YoY, there is deterioration in asset quality on a QoQ basis. Absolute gross NPAs have increased by 13% QoQ to Rs37b. Absolute net NPAs have increased 19% QoQ to Rs15.5b. Management has indicated

that increase in gross and net NPAs on absolute basis sequentially is in line with the asset growth which the bank has been witnessing over the last 4-6 quarters. Further, incrementally the portfolio mix of retail loans has been changing towards high-yielding retail loans (credit cards, personal loans etc.), wherein the risks are also high. Currently, retail NPAs are at ~2%. The bank's net restructured loans at 2QFY07 were Rs49b, down from Rs57b in 2QFY06.

NET NPAS QOQ (%)



Source: Company/Motilal Oswal Securities

**Provisioning increases sharply on higher investment and NPA provisions**

The bank has provided 0.7% for standard assets (for certain loan categories); further amortization expenses for the bank have also increased to Rs2.4b against Rs1.8b during 2QFY06. NPA related provisions have increased by 183% to Rs3.4 YoY. Overall, the provisions have increased by 133% YoY during 2QFY07.

**Subsidiaries continue to grow**

ICICI Pru Life has continued to witness strong overall growth and has achieved an NBAP of Rs1.6b during 2QFY07 compared with Rs1b in 2QFY06 and Rs5.3b in FY06. NBAP margins are at 21%. I-Sec has achieved profit of Rs350m, while ICICI Lombard and ICICI Ventures continue to post strong growth during the quarter. Overall, we assign a value of ~Rs157 per share for its holding in its core ventures, post a 20% holding discount.

**CAR increased QoQ**

ICICI Bank's CAR increased to 14.3% (13.4% in FY06), with Tier 1 at 9.4% in 2QFY07 from 8.6% in 1QFY07. ICICI Bank has raised US\$340m through the first issue of foreign currency denominated hybrid tier-1 capital from India at 194bp over LIBOR. It has also raised Rs7.8b of hybrid tier-1 from the domestic market and Rs12.6b of upper tier-2 capital from the domestic market. ICICI Bank also has as of 2QFY07 room for ~Rs10b, to raise hybrid Tier 1. The bank has communicated that its Tier I will increase to 10.5% (110bp increase) if BASEL norms are implemented on its current asset book.

**Valuation and view**

While margin expansion is expected to be nominal, strong volume growth and robust traction in fee revenues will drive earnings growth. Improving performance of its subsidiaries will serve as a key valuation driver. We value subsidiaries at Rs157 per share (at 20% holding discount). Adjusting for the value of its subsidiaries, ICICI trades 1.9x FY08E book and 13.4x FY08E EPS. Reiterate **Buy**.

## ICICI Bank: an investment profile

ICICI Bank was incorporated in 1994 under the leadership of the erstwhile ICICI Ltd. Bank of Madura was merged with it during 2001. In 2002, the entity underwent a reverse merger with its promoter ICICI Ltd. and emerged the largest private sector bank in India. This was followed by a fundamental shift in the business profile from project and corporate businesses to retail loans. The bank has a balance sheet size of Rs2,824b and a wide geographical reach with 625 branches; extension counters and over 2,275 ATMs across the country.

### Key investment arguments

- ✍ Robust loan growth with margin stability would result in significant net interest income growth; fee income is expected to remain buoyant
- ✍ Enjoys leadership in a majority of the retail loan segments
- ✍ Subsidiaries hold significant values

### Key investment risks

- ✍ Net NPAs have declined below 1%; however higher delinquencies may arise on account of robust retail loan book expansion
- ✍ Frequent capital dilution in order to support growth

### Recent developments

- ✍ Has successfully raised Rs36b capital from domestic and international sources in hybrid tier 1 and upper tier 2.

### Valuation and view

- ✍ Robust loan growth, high fee income and reduction in net NPAs will be the key triggers to watch out for.
- ✍ We value subsidiaries at Rs157 per share (at 20% holding discount). Adjusting for the value of its subsidiaries, ICICI trades 1.9x FY08E book and 13.4x FY08E EPS. Reiterate **Buy**.

### Sector view

- ✍ YTD loan growth of 30%+, highest in last 12 years
- ✍ Volatility in interest rates will impact bond gains
- ✍ Benefits of significant improvement in asset quality, not yet factored in earnings, valuations
- ✍ We maintain an overweight stance on the sector

#### COMPARATIVE VALUATIONS

		ICICI BANK	HDFC BANK	HDFC
PE (x)	FY07E	21.3	27.4	23.9
	FY08E	16.9	21.1	19.9
P/ABV (x)	FY07E	2.8	5.1	6.8
	FY08E	2.5	4.2	5.5
RoE (%)	FY07E	13.5	19.7	30.6
	FY08E	15.0	21.5	30.2
RoA (%)	FY07E	1.1	1.3	2.6
	FY08E	1.0	1.3	2.5

#### SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoter	0.0	0.0	0.0
Domestic Inst	15.4	16.2	17.2
Foreign	72.6	72.2	72.8
Others	11.9	11.6	10.1

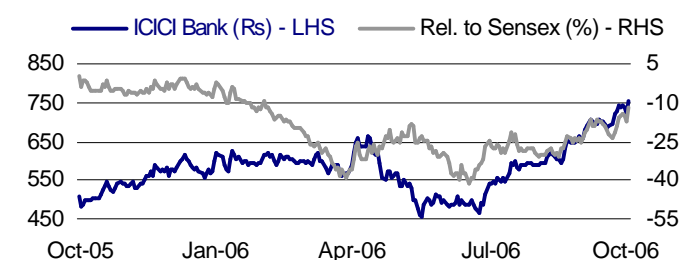
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	35.3	35.7	-1.1
FY08	44.5	45.5	-2.2

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
753	-	-	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E March	2006	2007E	2008E	2009E	
Interest Income	143,075	223,308	316,262	407,754	
Interest Expended	95,974	158,091	230,860	297,517	
<b>Net Interest Income</b>	<b>47,100</b>	<b>65,217</b>	<b>85,402</b>	<b>110,237</b>	
Change (%)	46.5	38.5	31.0	29.1	
<b>Other Income</b>	<b>49,831</b>	<b>63,942</b>	<b>81,005</b>	<b>101,132</b>	
Profit on sale of investment	6,963	5,500	4,500	4,000	
Other non-interest income	42,869	58,442	76,505	97,132	
<b>Net Income</b>	<b>96,932</b>	<b>129,158</b>	<b>166,407</b>	<b>211,369</b>	
Change (%)	46.2	33.2	28.8	27.0	
Operating Expenses	50,025	64,060	80,888	102,778	
Employee expense	10,823	15,331	19,240	25,425	
<b>Operating Income</b>	<b>46,907</b>	<b>65,098</b>	<b>85,519</b>	<b>108,592</b>	
Change (%)	58.7	38.8	31.4	27.0	
Provisions & contingencies	15,941	24,805	32,664	40,859	
Provision for NPAs	7,947	13,155	18,364	24,859	
<b>PBT</b>	<b>30,966</b>	<b>40,294</b>	<b>52,855</b>	<b>67,733</b>	
Tax	5,565	8,865	13,214	18,288	
<b>PAT</b>	<b>25,401</b>	<b>31,429</b>	<b>39,641</b>	<b>49,445</b>	
Change (%)	26.7	23.7	26.1	24.7	
Proposed Dividend	7,593	8,453	8,898	9,788	

BALANCE SHEET		(Rs Million)			
Y/E March	2006	2007E	2008E	2009E	
Capital	8,898	8,898	8,898	8,898	
Preference Capital	3,500	3,500	3,500	3,500	
Reserves & Surplus	213,162	235,080	264,711	303,144	
<b>Net Worth</b>	<b>225,560</b>	<b>247,479</b>	<b>277,109</b>	<b>315,543</b>	
<b>Deposits</b>	<b>1,650,830</b>	<b>2,311,162</b>	<b>3,004,511</b>	<b>3,755,638</b>	
Change (%)	65.4	40.0	30.0	25.0	
CASA	375,105	540,822	736,105	995,244	
CASA Dep (% of total)	22.7	23.4	24.5	26.5	
Borrowings	385,221	577,831	722,289	902,861	
Other Liabilities & Prov.	252,281	308,222	371,609	450,128	
<b>Total Liabilities</b>	<b>2,513,890</b>	<b>3,444,694</b>	<b>4,375,517</b>	<b>5,424,169</b>	
Current Assets	170,402	170,845	206,016	175,838	
Investments	715,474	1,015,973	1,300,445	1,664,570	
Change (%)	41.7	42.0	28.0	28.0	
<b>Advances</b>	<b>1,461,631</b>	<b>2,040,463</b>	<b>2,616,703</b>	<b>3,279,879</b>	
Change (%)	59.9	39.6	28.2	25.3	
Retail	914,738	1,236,790	1,531,745	1,815,185	
Retail (% of total)	62.6	60.6	58.5	55.3	
Net Fixed Assets	39,807	40,207	39,707	48,707	
Other Assets	126,575	177,205	212,646	255,176	
<b>Total Assets</b>	<b>2,513,890</b>	<b>3,444,694</b>	<b>4,375,517</b>	<b>5,424,169</b>	

ASSUMPTIONS	(% )			
Deposit Growth	65.4	40.0	30.0	25.0
Advances Growth	59.9	39.6	28.2	25.3
Investments Growth	41.7	42.0	28.0	28.0
Dividend	85.0	95.0	100.0	110.0
CRR	5.0	5.0	5.0	5.0

E: M OSt Estimates

RATIOS					
Y/E March	2006	2007E	2008E	2009E	
<b>Spreads Analysis (%)</b>					
Avg. Yield - Earning Assets	7.4	8.1	8.7	8.9	
Avg. Cost-Int. Bear. Liab.	5.7	6.4	7.0	7.1	
Interest Spread	1.7	1.7	1.8	1.8	
Net Interest Margin	2.4	2.4	2.4	2.4	

Profitability Ratios (%)					
RoE	14.6	13.5	15.3	16.9	
RoA	1.3	1.1	1.0	1.0	
Int. Expended/Int. Earned	67.1	70.8	73.0	73.0	
Other Inc./Net Income	51.4	49.5	48.7	47.8	

Efficiency Ratios (%)					
Op. Exps./Net Income	51.6	49.6	48.6	48.6	
Empl. Cost/Op. Exps.	21.6	23.9	23.8	24.7	
Busi. per Empl. (Rs m)	98.9	124.4	134.8	140.6	
NP per Empl. (Rs lac)	10.0	10.5	10.7	11.0	

Asset-Liability Profile (%)					
Adv./Deposit Ratio	88.5	88.3	87.1	87.3	
Invest./Deposit Ratio	43.3	44.0	43.3	44.3	
G-Sec/Invest. Ratio	71.4	67.9	71.6	75.5	
Gross NPAs to Adv.	1.5	1.3	1.3	1.2	
Net NPAs to Adv.	0.7	0.6	0.5	0.4	
CAR	13.4	11.6	10.5	10.0	
Tier 1	9.2	7.9	7.0	6.8	

VALUATION					
Book Value (Rs)	249.6	274.2	307.5	350.7	
Price-BV (x)	3.0	2.7	2.5	2.1	
Adjusted BV (Rs)	241.7	265.8	297.6	350.7	
Price-ABV (x)	3.1	2.8	2.5	2.1	
EPS (Rs)	28.5	35.3	44.5	55.6	
EPS Growth (%)	4.9	23.7	26.1	24.7	
Price-Earnings (x)	26.4	21.3	16.9	13.6	
OPS (Rs)	52.7	73.2	96.1	122.0	
OPS Growth (%)	31.4	38.8	31.4	27.0	
Price-OP (x)	14.3	10.3	7.8	6.2	

E: M OSt Estimates

**N O T E S**

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**ICICI Bank**

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|---|----|
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| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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