



# Between the Lines

Daily Corporate News Analysis

Aug 31st' 2007

## ICICI Bank

### Update: Q1FY08 Results

#### Key Data

CMP	Rs 885
Date	August 31 <sup>st</sup> 2007
Sector	Banking
Face Value	Rs.10
BSE Code	532174
52 Week H/L	Rs 1010 / 465
Market Cap	Rs 79916 Cr

#### Investment Rationale

The bank showed healthy growth in net profit at 25 percent yoy in Q1FY08 driven by higher treasury gains, good business growth and marginal increase in the provisions. Total advances of the bank showed growth of 35 percent yoy, retail advances grew by 29 percent whereas loan portfolio of international branches grew at astonishing rate of 143 percent. There has been slow down in the credit offtake on yoy since there has been deliberate effort by the bank to cut down retail credit offtake due to higher delinquency level and increase in the provisions norms for certain categories of retail loans. Deposits grew at healthy rate of 26 percent yoy in Q1FY08. Asset quality hampered marginally in this quarter; Gross NPAs increased by 68 bps from 2.48 percent in FY07 to 3.16 percent in Q1FY08 and Net NPAs increase by 40 bps from 1.03 percent to 1.43 percent for the same period. Management of the bank is very aggressive in increasing the business and profitability of the bank which is clearly reflected the way the balance sheet size of the bank has grown in the last 2-3 years. Also, recently the stock has corrected sharply, it is available below FPO price. At the CMP of Rs888, the bank is trading at attractive valuations of 25.6x FY07 earnings and 3.5x FY07 book value.

#### Key Developments:

**Business growth slowing down from larger base (but still higher than industry average)** Business growth of the bank seem to be slowing down which is the effect of the larger base. The bank has shown very extraordinary growth rates in its deposits and advances over the last 2-3 years. Advances of the bank showed the growth of 35 percent yoy to Rs198277 crores in Q1FY08. However the retail advances showed a growth of 29 percent yoy to Rs127416 crores; lower growth than the earlier quarters due to the fact that there has been deliberate effort by the bank cut down retail loan portfolio due to higher delinquency and increase in the provision norms for some categories of retail loans. Retail loans now constitute 64 percent of the total advances as on June 2007.



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The Bank's total deposits increased by 26 percent yoy to Rs230788 crores in Q1FY08 from Rs183006 crores in Q1FY07. During this period, savings deposits increased by 33 percent yoy to Rs32121 crores. Going forward, we expect loan growth to slow down to 30-35 percent in FY07 and deposits to grow by 25 percent in FY08E

### Financial Performance:

#### Net profit showed healthy growth of 25 percent in Q1FY08

Net profit of the bank showed healthy growth of 25 percent yoy to Rs775 crores in Q1FY08 largely driven by increase in the treasury income, marginal increase in the provisions and good growth in interest income. Going forward we expect the Net profit of the bank to grow by 25 percent in FY08 driven by healthy business growth coupled with stable margins.

### Valuations:

Recently the bank has raised Rs.8750 crores through an FPO from domestic market and it has raised the similar amount in foreign market. At the CMP of Rs885, the bank is trading at 25.5x FY07 earnings and 3.5x FY07 book value. Though the recent capital raising exercise by the bank will lead to equity dilution of more than 20 percent but the bank is expected to show strong profit growth outpacing equity dilution. We expect the profits of the bank to grow by 24 percent to Rs.3856.4 crores in FY08E and by 28 percent to Rs.4936.2 crores in FY09E. We value ICICI Bank's core business at Rs.798 by assigning the multiple of 2x FY08E adjusted book value of Rs.399 and ICICI Financial Services at Rs.410. Thus ICICI Bank's core business, life and non life insurance and asset management business gives the total value of Rs.1208.



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