



Incorporating **FPK**, the Global FIG Specialist

INDIA

ICICIBC IN Outperform
Price 17 Dec 10 Rs1,104.30

12-month target Rs 1,400.00
Upside/Downside % 26.8

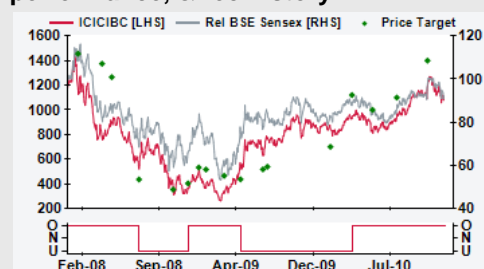
Valuation Rs 1,400.00
- Sum of Parts

GICS sector Banks
Market cap Rsbn 1,268
Market cap US\$m 27,969
Number shares on issue m 1,148

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Net interest Inc	bn	81.1	92.2	117.3	154.0
Non interest Inc	bn	74.8	76.0	90.6	107.2
PBT	bn	53.5	73.7	98.4	127.3
PBT growth	%	4.6	37.9	33.5	29.4
Reported profit	bn	40.2	55.3	73.8	95.5
EPS rep	Rs	36.15	49.64	66.26	85.77
EPS rep growth	%	7.4	37.3	33.5	29.4
EPS adj growth	%	7.4	37.3	33.5	29.4
PER rep	x	30.5	22.2	16.7	12.9
PER adj	x	30.5	22.2	16.7	12.9
Total DPS	Rs	12.02	13.00	14.00	14.00
Total div yield	%	1.1	1.2	1.3	1.3
ROA	%	1.1	1.4	1.6	1.7
ROE	%	7.9	10.3	12.6	14.6
Equity to assets	x	14.3	13.1	12.2	11.5
EV/EBITDA	x	22.3	16.2	12.1	9.4
P/BV	x	2.4	2.2	2.0	1.8

ICICIBC IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, December 2010
(all figures in INR unless noted)

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21 December 2010

ICICI Bank

Takeaways from a quick chat with management

Event

- We recently had a chat with management of ICICI Bank to get a quick update on the business.

Impact

- Near-term pressure on margins; however, international business spreads to improve:** There could be some near-term pressure on margins due to a sharp spike in wholesale as well as retail deposit rates without a commensurate increase in lending rates. However, incremental international business is being done at a 1.20% spread compared to the current portfolio spread of 80bps. Also, the CASA balance this quarter has been quite robust due to the float money from IPOs and this should also cushion the impact on margins arising out of the tight liquidity experienced this quarter.
- Credit charges to decline further; however, MFI exposure could be a risk:** Credit charges are expected to decline further and they will continue with the current provisioning policy. Though the MFI exposure is currently not creating any issues, if the recoveries for MFIs continue to be low, there could be some delinquencies on this portfolio and consequently credit charges could rise. ICICI Bank has close to a Rs23bn exposure to MFIs, constituting 1.4% of the loan book (Sep'10) and 4% of FY11E book value.
- Expects around 18% loan growth for FY11E:** Management is confident of achieving around 18% loan growth for FY11E. Their guidance incorporates the delays that infrastructure projects are facing due to environmental/land clearances issues, lack of fuel availability, etc. Fee income growth should broadly mirror loan growth in the longer term. However, near-term fee income growth could be lower due to lower fee income from distribution of third party products like mutual funds and insurance, which have been affected by the recent regulatory changes.
- Integration with Bank of Rajasthan proceeding well:** ICICI Bank has almost integrated the back-office and systems, and BOR (unlisted) branches have also started selling various products of ICICI Bank. It's too early to comment on the synergies as they will take sometime to flow through.

Earnings and target price revision

- No impact.

Price catalyst

- 12-month price target: Rs1,400.00 based on a Sum of Parts methodology.
- Catalyst: Positive surprises on loan growth and asset quality

Action and recommendation

- Our top pick in the sector:** It's better to own a bank which is likely to show significant improvements in RoA and is also capitalised well to expand its balance sheet. Even if the cycle were to reverse, ICICI Bank is a good defensive stock to own by virtue of doing little business in the past two years coupled with a much better deposit franchise.

Our views

Long term margins could settle at around 3.00–3.10%

ICICI Bank reported a NIM of 2.60% in 2QFY11. Since the focus of the bank is to grow its domestic business much faster than the international business, we believe over the longer term nearly 15% of the business could be coming from the international business and around 85% from the domestic business.

Fig 1 Comparison of domestic NIMs of other banks with ICICI Bank

2QFY11	Domestic NIMs	CASA	Comments
Bank of Baroda	3.62%	35.89%	
Bank of India	3.30%	33.50%	
Axis Bank	3.68%	42.00%	This is the blended NIM. Domestic business NIMs could be higher
HDFC Bank	4.20%	50.63%	
PNB	4.06%	40.60%	
SBI	3.42%	47.70%	This is the blended NIM. Domestic business NIMs could be higher
ICICI Bank	3.00%	44.00%	

Source: Company data, Macquarie Research, December 2010

If we look at the domestic NIMs of most of the other banks, their NIMs are much higher than ICICI Bank despite them having a much lower CASA ratio. If we assume that over the longer term domestic business NIMs will gravitate towards 3.30% and international business NIMs would be around 1.20%, the blended NIMs could stabilise at around 3.00%. The current reported NIM is 2.60%.

Fig 2 Long-term NIMs for ICICI Bank

	Portfolio Mix	NIMs
Domestic business	85%	3.3%
International business	15%	1.2%
Blended - NIMs		3.00%

Source: Company data, Macquarie Research, December 2010

MFI exposure could be a risk and could impact earnings

The collections for MFIs in the state of AP are less than 20% and many of the MFIs there are facing a liquidity crunch due to banks unwilling to give them fresh loans. There could be some delinquencies from this portfolio if the current situation persists for a few more quarters. If we assume that 20% of this MFI portfolio gets completely wiped off, the impact on FY12E earnings for ICICI Bank is closer to 6%.

Fig 3 ICICI Bank vs others – MFI exposure

Rs mn	MFI exposure	Loan book - 2QFY11	As % of loan book	FY11E Book Value	As % of book value	Comments
ICICI Bank	23,000	1,942,010	1.2%	558,296	4.1%	
Axis Bank	13,000	1,105,928	1.2%	185,340	7.0%	
HDFC Bank	10,000	1,570,906	0.6%	247,452	4.0%	
SBI	9,000	6,807,490	0.1%	738,380	1.2%	
PNB	9,000	2,087,644	0.4%	214,356	4.2%	
BOB	1,500	1,929,586	0.1%	178,808	0.8%	

Source: Company data, Macquarie Research, December 2010

Valuations

We value ICICI Bank on a sum-of-parts basis in which the core banking business is valued using a single stage Gordon growth model and the life insurance business is valued using the appraisal value method which is sum of embedded value and new business value. Other businesses are valued either as a percentage of AUM or a multiple of book value.

Fig 4 ICICI Bank: Sum-of-parts valuation

(INR m except per share data)	Total value	% Stake	Value attributable to ICICI Bank	Per Share value	Comments
Core business	1,253,336	100%	1,253,336	1,126	2.75x FY12E adjusted book value
ICICI Securities including PD	34,398	100%	34,398	31	15x FY12E Profits
ICICI Venture	15,416	100%	15,416	14	10% of FY12E AUM
ICICI Prudential Life	183,625	74%	135,883	122	Appraisal value, New business margin 12%. NBAP multiple 12x
ICICI Lombard General Insurance	26,136	74%	19,341	17	15.0x FY12E profits
Prudential ICICI AMC	48,703	51%	24,838	22	5% of FY12E AUM
ICICI Home Finance	23,329	100%	23,329	21	1.5x FY12E NW
International banking subs	49,613	100%	49,613	44	15.0x FY12E profits
Final target price			1,430,184	1,400	

Source: Company data, Macquarie Research, December 2010

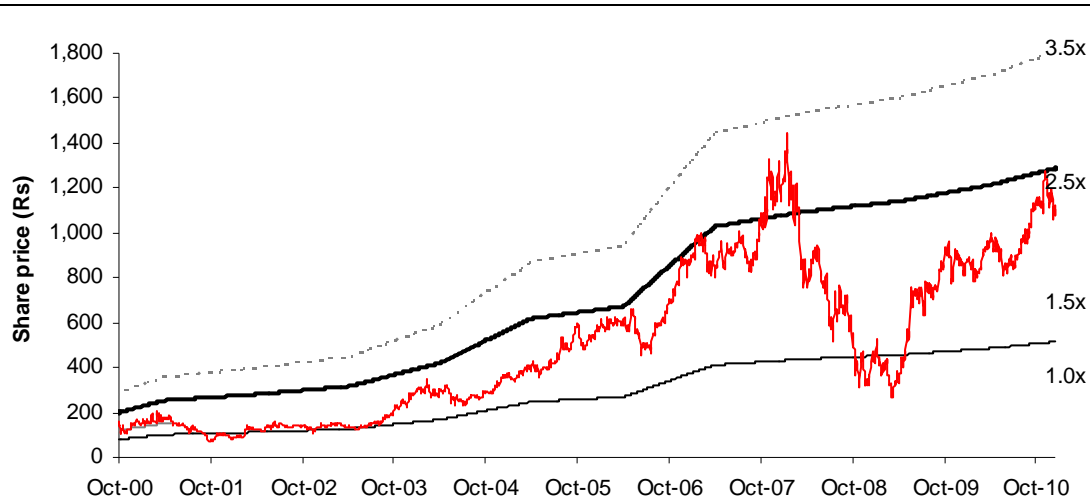
Core banking business is valued using a two stage Gordon growth model where $P/BV = RoE * \{ (p(1+g)^n * (1 - (1+g)^n / (1+r)^n) + (pn(1+g)^n(1+gn)) / ((r-gn)(1+r)^n) \}$, where g = growth rate for the first n (high-growth period) years, p = payout ratio in the first n years, gn = perpetual growth rate and pn = perpetual payout ratio.

Fig 5 Valuation of core business using two stage Gordon growth model

RoE	17.7%
g (initial growth)	25%
r (CoE)	14%
gn (perpetual growth rate)	5%
n (initial growth period, yrs)	10
Target P/BV	2.75x

Source: Company data, Macquarie Research, December 2010

Fig 6 ICICI Bank: 1 yr fwd P/BV band chart



Source: Company data, Macquarie Research, December 2010

ICICI Bank (ICICIB IN, Outperform, Target Price: Rs1,400.00)

Quarterly Results					Profit & Loss						
		2Q/11A	3Q/11E	4Q/11E	1Q/12E		2010A	2011E	2012E	2013E	
Net Interest Income	bn	22	25	25	26	Net Interest Income	bn	81	92	117	154
+ Loan Fees	bn	17	17	24	16	+ Loan Fees	bn	63	74	73	88
+ Trading Income	bn	-1	1	2	1	+ Trading Income	bn	12	2	2	3
+ Insurance Income	bn	0	0	0	0	+ Insurance Income	bn	0	0	0	0
+ Other Income	bn	0	0	0	3	+ Other Income	bn	0	0	15	17
Non Interest Income	bn	16	17	26	20	Non Interest Income	bn	75	76	91	107
Total Operating Inc	bn	38	42	51	45	Total Operating Inc	bn	156	168	208	261
+ Staff expenses	bn	6	6	4	5	+ Staff expenses	bn	19	21	25	29
+ Other expenses	bn	9	14	17	13	+ Other expenses	bn	39	49	59	72
Total Operating Exp	bn	16	19	21	18	Total Operating Exp	bn	59	71	84	100
Pre-Provision Profit	bn	22	23	30	27	Pre-Provision Profit	bn	97	97	124	161
Loan Provisions	bn	6	6	3	6	Loan Provisions	bn	44	24	26	33
Post Provision Profit	bn	16	17	28	21	Post Provision Profit	bn	53	74	98	127
Other Profit	bn	0	0	0	0	Other Profit	bn	0	0	0	0
- Amortisation	bn	0	0	0	0	- Amortisation	bn	0	0	0	0
- Non Recurring Items	bn	0	0	0	0	- Non Recurring Items	bn	0	0	0	0
- Associates	bn	0	0	0	0	- Associates	bn	0	0	0	0
Pre-Tax Profit	bn	16	17	28	21	Pre-Tax Profit	bn	53	74	98	127
- Taxation	bn	3	5	6	5	- Taxation	bn	13	18	25	32
Net Profit After Tax	bn	12	12	21	16	Net Profit After Tax	bn	40	55	74	95
- Minority Interests	bn	0	0	0	0	- Minority Interests	bn	0	0	0	0
Reported Profit	bn	12	12	21	16	Reported Profit	bn	40	55	74	95
Adjusted Profit	bn	12	12	21	16	Adjusted Profit	bn	40	55	74	95
Attributable Profit	bn	12	12	21	16	Attributable Profit	bn	40	55	74	95
EPS (rep)		11.10	10.34	18.98	14.48	EPS (rep)		36.15	49.64	66.26	85.77
EPS growth pcp (rep)	%	18.8	4.6	110.2	57.1	EPS growth yoy (rep)	%	7.4	37.3	33.5	29.4
EPS (adj)		11.10	10.34	18.98	14.48	EPS (adj)		36.15	49.64	66.26	85.77
EPS growth pcp (adj)	%	18.8	4.6	110.2	57.1	EPS growth yoy (adj)	%	7.4	37.3	33.5	29.4
DPS		3.25	3.25	3.25	3.50	DPS		12.02	13.00	14.00	14.00
						Payout ratio	%	33.2	26.2	21.1	16.3
						Book Value p.s (wgted)		466.8	501.5	551.6	621.3
						Tangible Book Value p.s (wgted)		466.8	501.5	551.6	621.3
						Weighted average shares	m	1,113	1,113	1,113	1,113
Key Ratios					Key Ratios						
		2Q/11A	3Q/11E	4Q/11E	1Q/12E		2010A	2011E	2012E	2013E	
Interest Spread	%	0.84	0.94	0.89	0.94	Interest Spread	%	1.36	1.71	2.09	2.54
Net Interest Margin	%	1.14	1.30	1.29	1.22	Net Interest Margin	%	2.40	2.38	2.58	2.88
Non Int Inc / Total Inc	%	41.7	40.5	51.2	43.6	Non Int Inc / Total Inc	%	47.9	44.8	43.6	41.0
Cost to Income	%	41.5	45.7	40.9	40.4	Cost to Income	%	37.6	42.1	40.4	38.5
Cost to Assets	%	0.74	0.91	0.98	0.73	Cost to Assets	%	1.61	1.66	1.66	1.67
Provisions / Loans	%	0.58	0.58	0.25	0.42	Provisions / Loans	%	2.35	1.07	0.95	1.02
Tax Rate	%	21.3	30.5	23.2	25.0	Tax Rate	%	24.7	25.0	25.0	25.0
Loan Deposit Ratio (LDR)	%	87.2	87.2	87.2	87.3	Loan Deposit Ratio (LDR)	%	89.7	87.2	87.3	87.3
NPLs	%	4.78	4.78	4.78	4.27	NPLs	%	5.07	4.78	4.27	3.83
Reserve Cover	%	70.5	70.5	70.5	75.1	Reserve Cover	%	59.5	70.5	75.1	78.8
Tier 1 Capital Ratio	%	12.7	12.7	12.7	11.6	Tier 1 Capital Ratio	%	14.0	12.7	11.6	10.8
Total Capital Ratio	%	17.5	17.5	17.5	15.6	Total Capital Ratio	%	19.4	17.5	15.6	14.2
Equity to Assets	%	13.1	13.1	13.1	12.2	Equity to Assets	%	14.3	13.1	12.2	11.5
ROA (ave)	%	0.63	0.58	1.07	0.69	ROA (ave)	%	1.08	1.40	1.59	1.73
ROE (ave)	%	4.6	4.3	7.8	5.5	ROE (ave)	%	7.9	10.3	12.6	14.6
ROTE (ave)	%	4.6	4.3	7.8	5.5	ROTE (ave)	%	7.9	10.3	12.6	14.6
					Growth rates						
							2010A	2011E	2012E	2013E	
Income Growth	%					Income Growth	%	-2.4	7.9	23.6	25.6
Cost Growth	%					Cost Growth	%	-16.8	21.0	18.4	19.7
Pre-Prop Profit Growth	%					Pre-Prop Profit Growth	%	9.0	-0.0	27.4	29.7
PBT Growth	%					PBT Growth	%	4.6	37.9	33.5	29.4
Loan Growth	%					Loan Growth	%	-17.0	18.0	22.0	22.0
Ave Int Earning Assets	%					Ave Int Earning Assets	%	-3.1	14.8	17.1	17.8
					Valuation data						
							2010A	2011E	2012E	2013E	
P/E (rep)	x					P/E (rep)	x	30.5	22.2	16.7	12.9
P/E (adj)	x					P/E (adj)	x	30.5	22.2	16.7	12.9
P/B (wgted)	x					P/B (wgted)	x	2.4	2.2	2.0	1.8
P/TB (wgted)	x					P/TB (wgted)	x	2.4	2.2	2.0	1.8
Dividend yield	%					Dividend yield	%	1.1	1.2	1.3	1.3
					Balance Sheet						
							2010A	2011E	2012E	2013E	
Cash & Equivalent	bn					Cash & Equivalent	bn	32	35	35	35
Net Loans to Customer	bn					Net Loans to Customer	bn	1,812	2,138	2,609	3,183
Other Interest Earning Assets	bn					Other Interest Earning Assets	bn	1,566	1,740	1,933	2,167
Other Assets	bn					Other Assets	bn	223	344	461	617
Total Assets	bn					Total Assets	bn	3,633	4,257	5,039	6,002
Customer Deposits	bn					Customer Deposits	bn	2,020	2,451	2,988	3,645
Other Int Bearing Liab	bn					Other Int Bearing Liab	bn	796	947	1,132	1,358
Other Liabilities	bn					Other Liabilities	bn	297	301	304	308
Total Liabilities	bn					Total Liabilities	bn	3,113	3,699	4,424	5,310
Ordinary Equity	bn					Ordinary Equity	bn	11	11	11	11
Retained Earnings	bn					Retained Earnings	bn	0	0	0	0
Reserves	bn					Reserves	bn	509	547	603	681
Minority Interests	bn					Minority Interests	bn	0	0	0	0
Total S/H's Funds	bn					Total S/H's Funds	bn	520	558	614	692

All figures in INR unless noted.

Source: Company data, Macquarie Research, December 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

Company Specific Disclosures:

Within the past 12 months, Fox-Pitt, Kelton, Cochran, Caronia & Walker ("Fox-Pitt") has entered into an investment banking relationship with ICICI Bank ("ICBK"). Within the last 12 months, Fox-Pitt has received compensation for financial services from ICBK. Fox-Pitt became a part of Macquarie on Nov. 30, 2009.

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