MOTILAL OSWAL

3QFY06 Results Update
SECTOR: BANKING

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,521	ICICIBC IN
	REUTERS CODE
S&P CNX: 2,901	ICBK.BO

Equity Shares (m)	884.8
52-Week Range (Rs)	621/330
1,6,12 Rel.Perf.(%)	-1/2/13
M.Cap. (Rs b)	513.1
M.Cap. (US$ b)	11.6

20 January 2006

Neutral

Previous Recommendation: Neutral Rs580

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/05A	62,552	20,052	27.2	2.5	21.3	3.4	11.8	19.5	1.4	3.7
3/06E	87,927	24,543	27.7	1.9	20.9	2.3	13.9	14.1	1.2	2.4
3/07E	113,329	30,804	34.8	25.5	16.7	2.1	12.1	13.2	1.1	2.2

ICICI Bank continued to witness strong growth in its core business with net customer assets increasing by 50% in 3QFY06 and deposits witnessing 63% growth. Net interest income (NII) grew by 59% for 3QFY06 (50% adjusting for one-offs) while core fee income grew by 52% YoY. Overall margins improved by 10bp to 2.5%. NPAs continued to improve QoQ, both gross as well as net NPAs witnessed improvement. Net NPAs are now at 0.8%.

- Strong balance sheet expansion – retail drives growth
- Net interest margins (NIMs) improves at 2.5%, fee growth robust
- Asset quality improves further
- Successful capital raising improves capital adequacy

Margin expansion has been a key positive for ICICI Bank. However, going forward, we believe that strong volume growth coupled with robust traction in fee revenues will drive earnings growth for the bank. Improving performance of its subsidiaries will act as a key valuation driver for the bank (currently the subsidiaries are valued at Rs125 per share in our estimates). The stock trades at 16.7x FY07E EPS and 2.1x FY07E book value. Adjusting for the value of its subsidiaries, the stock is trading at 1.6x FY07E BV. We expect RoE to remain depressed at 14% for the next couple of years. We maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	21,958	22,305	23,784	26,052	29,978	32,133	35,836	38,025	94,099	135,972
Interest Expense	15,652	15,453	16,452	18,151	21,465	22,598	24,168	25,929	65,709	94,160
Net Interest Income	**6,306**	**6,852**	**7,332**	**7,901**	**8,512**	**9,535**	**11,668**	**12,097**	**28,390**	**41,812**
Growth (%)	*38.7*	*45.1*	*42.8*	*44.4*	*35.0*	*39.2*	*59.1*	*53.1*	*42.9*	*47.3*
Other Income	6,577	8,354	8,907	10,323	10,905	11,115	11,792	12,303	34,161	46,115
Net Income	**12,883**	**15,206**	**16,239**	**18,224**	**19,417**	**20,650**	**23,460**	**24,400**	**62,552**	**87,927**
Operating Expenses	7,324	7,688	8,527	9,452	9,710	10,210	11,514	12,528	32,991	43,961
Operating Profit	**5,558**	**7,518**	**7,712**	**8,772**	**9,708**	**10,440**	**11,946**	**11,872**	**29,560**	**43,966**
Growth (%)	*10.2*	*8.5*	*13.2*	*45.6*	*74.7*	*38.9*	*54.9*	*35.3*	*19.1*	*48.7*
Provisions and Contingencies	458	1,947	1,082	800	2,979	3,038	3,951	2,533	4,288	12,500
Profit before tax	**5,100**	**5,571**	**6,630**	**7,971**	**6,729**	**7,402**	**7,995**	**9,340**	**25,272**	**31,466**
Provision for Taxes	793	1,150	1,453	1,824	1,429	1,602	1,593	2,298	5,220	6,923
Net Profit	**4,307**	**4,421**	**5,177**	**6,147**	**5,300**	**5,800**	**6,402**	**7,042**	**20,052**	**24,543**
Growth (%)	*26.6*	*10.1*	*17.6*	*35.0*	*23.0*	*31.2*	*23.7*	*14.6*	*22.5*	*22.4*
Interest Expense/Interest Income (%)	*71.3*	*69.3*	*69.2*	*69.7*	*71.6*	*70.3*	*67.4*	*68.2*	*69.8*	*69.2*
Other Income/Net Income (%)	*51.1*	*54.9*	*54.9*	*56.6*	*56.2*	*53.8*	*50.3*	*50.4*	*54.6*	*52.4*
Cost /Income (%)	*56.9*	*50.6*	*52.5*	*51.9*	*50.0*	*49.4*	*49.1*	*51.3*	*52.7*	*50.0*

E: MOSt Estimates

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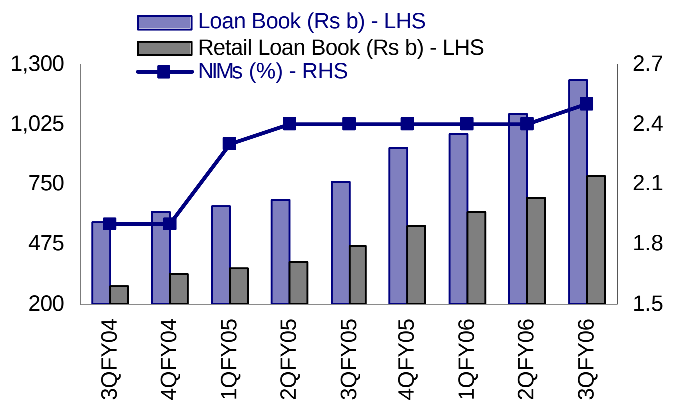
ICICI Bank continued to witness strong growth in its core business with net customer assets increasing by 50% in 3QFY06 and deposits witnessing a 63% growth. NII grew by 59% for 3QFY06 (50%, adjusting for one-offs) while core fee income grew by 52% YoY. Overall margins improved by 10bp to 2.5%. NPAs continued to improve QoQ, both gross as well as net NPAs witnessed improvement. Net NPAs are now at 0.8%.

Strong balance sheet expansion – retail drives growth

ICICI Bank has grown its balance sheet aggressively by 45% YoY and by 12% QoQ to Rs2,124b. This strong growth has been fuelled by aggressive deposit raising and strong growth in loans (mainly fuelled by retail). While the bank has started to witness traction in its corporate loans, it is still the retail loans which are fuelling loan growth for the bank. Retail loans have increased by 70% YoY. The proportion of retail has increased to 64% of total loans and 61% of customer assets.

QUARTERLY TREND OF LOAN BOOK AND RETAIL LOANS



Source: Company/Motilal Oswal Securities

In order to support this strong loan growth, the bank is aggressively growing its deposit base. Overall deposit base has increased by 63% YoY and 11% QoQ. The deposit costs on a YoY basis have gone up to 4.9% from 4.3% (no change QoQ). However on account of improving loan yields, as the bank has raised rates for housing and auto (both constitute nearly 50% of the loan book) over the last 3 quarters, it has been able to improve margins to 2.5%.

NIMs improves at 2.5%

Net interest margins have improved by 10bp for ICICI Bank to 2.5%, after remaining flat at 2.4% over the last few quarters. This has been as a result of an improving asset yield for the bank coupled with sharp improvement in asset quality (Dabhol getting upgraded, aggressive selling to ARCIL, lower incremental slippages). In deposits the CASA component too has increased to 26% (compared with 22.5% at end-2QFY06).

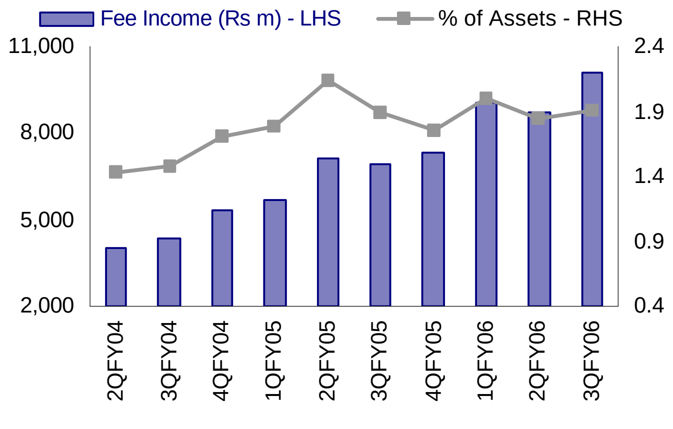
ICICI Bank is clearly focused on volumes, which has been a key driver for 59% growth in NII. During 3QFY06, the bank changed its policy on account of its subvention income, which resulted in a Rs500m gain in the bottom line and ~Rs700m in NII. Even after adjusting for the one-off gain, NII growth has been strong at 50% YoY.

While margins have improved, we believe that NII will continue to be a function of volumes over the next few quarters. Even as yields are likely to expand further, the higher deposit cost will result in margins being steady at current levels. Further the growth in international operations will result in lower margins (as the international business has lower margins at ~1%).

Fee growth continues to outperform

A key highlight for ICICI Bank is the continued traction in its core fee revenues. Fees (non-interest non-treasury) to total assets are now at 1.9%. In 3QFY06, core fees increased by 52% YoY to Rs.8.46b, while other non-fund income (dividend income, asset management income etc.) increased by 23% YoY. Out of the current fee income, nearly 60% of the fees are from retail. Further, 13% (increased from 11% in 2QFY06) of the fees come from international operations. With a strong fee focus, we expect growth in fee income to continue to remain strong going forward.

FEE INCOME – STRONG GROWTH OVER THE LAST FEW QUARTERS



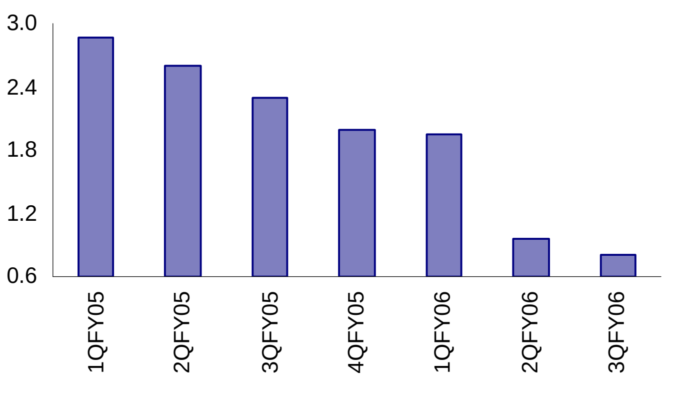
Source: Company/Motilal Oswal Securities

Treasury income declined by 16% YoY to Rs1.68b, which has been mainly driven by gains from its equity portfolio. Equity gains were Rs1.2b (gains from sale of shares of Federal Bank included) out of the total of treasury gains.

Asset quality improves sharply as Dabhol gets resolved

Post the upgradation of Dabhol in 2QFY06, ICICI Bank has further managed to bring down its gross as well as net NPAs during the quarter. Gross NPAs have declined by Rs12.5b during the quarter, as ICICI Bank sold a chunk of its bad loan portfolio to ARCIL which resulted in a loss of Rs0.5b. However, this transfer resulted in lower NPAs on its books. Net NPAs as a % of customer assets has improved to 0.8% (declined from 0.97% QoQ and 2.3% YoY). Average delinquencies on the retail portfolio continues to be at 1.4%.

NET NPAS QOQ (%)



Source: Company/Motilal Oswal Securities

Successful capital raising, Tier-I improves to 10.5%

ICICI Bank has successfully raised Rs8b worth of capital during 3QFY06. This has improved its overall capital adequacy to 14.5% with Tier-I capital at 10.5% (likely to improve further as Rs13b worth of capital has come in the month of January).

As the capital has come at a premium, it has enhanced the BV for ICICI Bank. However, on the back of its expanded capital, RoE will remain depressed at 14% over the next couple of years.

CHANGE IN BV & ROE ESTIMATES DUE TO CAPITAL RAISING

	PRE ISSUE	POST ISSUE
BV (FY06) - (Rs)	199	251
BV (FY07) - (Rs)	230	276
RoE (FY06) - (%)	18.2	14.1
RoE (FY07) - (%)	19.1	13.2

Source: Company/Motilal Oswal Securities

Valuation and view

Margin expansion has been a key positive for ICICI Bank. However, going forward, we believe that strong volume growth coupled with strong traction in fee revenues will drive earnings growth for the bank. Improving performance of its subsidiaries will act as a key valuation driver for the bank (currently the subsidiaries are valued at Rs125 per share in our estimates). The stock trades at 16.7x FY07E EPS and 2.1x FY07E book value. Adjusting for the value of its subsidiaries, the stock is trading at 1.6x FY07E BV. We expect RoE to remain depressed at 14% for the next couple of years. We maintain **Neutral**.

ICICI Bank: an investment profile

Company description

ICICI Bank was incorporated in 1994 under the leadership of the erstwhile ICICI. Bank of Madura was merged with it during 2001. In 2002, it underwent a reverse merger with its promoter ICICI and emerged as the largest private sector bank in India. This was followed by a fundamental shift in the business profile from project and corporate business toward retail loans. The bank has a balance sheet size of Rs2,124b and has a wide geographical reach with 600 branches and extension counters and over 2,000 internet kiosks across the country.

Key investment arguments

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

Key investment risks

- Net NPAs have declined to below 1%; however higher delinquencies may arise on account of robust loan book expansion.
- Frequent capital dilution with a view support growth.

Recent developments

- Has successfully raised Rs80b capital from domestic and international sources along with a green shoe option of 15%.
- Dabhol is settled, which has resulted in a sharp improvement in asset quality for ICICI Bank.

Valuation and view

- Robust loan growth, high fee income and reduction in net NPAs will be the key triggers to look for in the stock.
- We expect earnings to grow by 22% in FY06 and 26% in FY07. The stock trades at 16.7x FY07E earnings and 2.1x FY07E book value.

Sector view

- Loan growth of 29%+ at the beginning of capex cycle.
- Volatility in interest rates will impact bond gains.
- Benefits of significant improvement in asset quality, yet not factored in earnings, valuations.
- We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		ICICI BANK	HDFC BANK	HDFC
P/E (x)	FY06E	20.9	25.6	20.2
	FY07E	16.7	19.5	16.0
P/ABV (x)	FY06E	2.4	4.3	3.5
	FY07E	2.2	3.7	3.0
RoE (%)	FY06E	14.1	18.0	17.9
	FY07E	13.2	20.1	19.4
RoA (%)	FY06E	1.2	1.4	1.0
	FY07E	1.1	1.5	1.0

EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	27.7	30.2	-8.1
FY07	34.8	37.0	-5.9

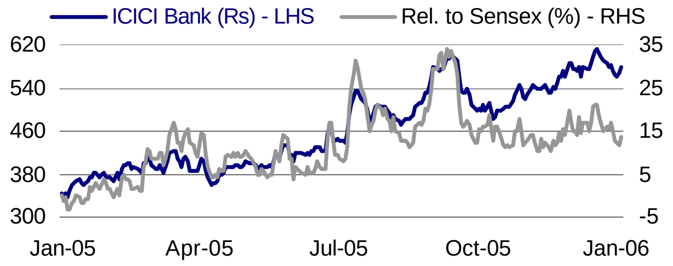
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
580	-	-	Neutral

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	0.0	0.0	0.0
Domestic Institutions	15.7	17.2	17.1
FIIs/FDIs	70.3	72.8	71.2
Others	14.0	10.0	11.7

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Interest Income	90,023	94,099	135,972	181,149	230,886
Interest Expended	70,152	65,709	94,160	124,297	157,233
Net Int. Income	**19,871**	**28,390**	**41,812**	**56,853**	**73,653**
Change (%)	*39.5*	*42.9*	*47.3*	*36.0*	*29.6*
Other Income	30,649	34,161	46,115	56,477	67,820
Net Income	**50,520**	**62,552**	**87,927**	**113,329**	**141,472**
Operating Expense	25,712	32,991	43,961	56,702	72,982
Oper. Income	**24,807**	**29,560**	**43,966**	**56,627**	**68,490**
Change (%)	*-3.5*	*19.2*	*48.7*	*28.8*	*20.9*
Other Provisions	5,790	4,288	12,500	15,000	17,000
PBT	**19,018**	**25,272**	**31,466**	**41,627**	**51,490**
Tax	2,651	5,220	6,923	10,823	14,417
PAT	**16,367**	**20,052**	**24,543**	**30,804**	**37,073**
Change (%)	*35.7*	*22.5*	*22.4*	*25.5*	*20.3*
Proposed Dividend	5,441	6,263	7,963	8,848	9,733

BALANCE SHEET					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Capital	6,164	7,368	8,848	8,848	8,848
Reserves & Surplus	73,942	118,132	213,596	235,553	262,893
Net Worth	**80,106**	**125,500**	**222,444**	**244,401**	**271,741**
Deposits	**681,086**	**998,188**	**1,497,371**	**1,996,582**	**2,485,831**
Borrowings	307,402	335,445	418,500	468,500	568,500
Other Liab & Prov.	180,195	213,962	243,962	276,962	311,962
Total Liabilities	**1,252,289**	**1,676,594**	**2,385,777**	**2,989,945**	**3,641,533**
Current Assets	84,706	129,300	194,783	177,640	190,831
Investments	427,429	504,874	697,227	832,395	1,034,114
Advances	**620,955**	**914,052**	**1,327,330**	**1,776,506**	**2,205,176**
Net Fixed Assets	40,564	40,380	46,437	53,403	61,413
Other Assets	78,634	87,989	120,000	150,000	150,000
Total Assets	**1,252,289**	**1,676,594**	**2,385,777**	**2,989,945**	**3,641,533**

KEY ASSUMPTIONS					(%)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Deposit Growth	41.4	46.6	50.0	33.3	24.5
Advances Growth	16.5	47.2	45.2	33.8	24.1
Investments Growth	20.5	18.1	38.1	19.4	24.2
CRR	4.5	5.0	5.0	5.0	5.0
Provision Coverage	53.3	44.6	53.7	56.0	60.1
Dividend	75.0	85.0	90.0	100.0	100.0

E: MOSt Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Spreads Analysis (%)					
Avg.Yield-Earn. As	8.7	7.0	7.4	7.4	7.5
AvgCost-Int.Bear.L	6.9	5.2	5.3	5.2	5.3
Interest Spread	1.8	1.9	2.0	2.2	2.2
Net Interest Margin	1.9	2.1	2.3	2.3	2.4
Profitability Ratios (%)					
RoE	21.9	19.5	14.1	13.2	14.4
RoA	1.4	1.4	1.2	1.1	1.1
Int.Exp./Int.Earned	77.9	69.8	69.2	68.6	68.1
Other Inc./Net Inc.	60.7	54.6	52.4	49.8	47.9
Efficiency Ratios (%)					
Op Exp/Net Income	50.9	52.7	50.0	50.0	51.6
Empl. Cost/Op.Exp	21.2	22.4	23.5	23.8	24.9
Business/Emp(Rs m)	95.7	106.2	122.8	139.7	142.2
NP/Empl. (Rs lac)	12.0	11.1	10.7	11.4	11.2
Asset Liability Profile (%)					
Adv./Dep. Ratio	91.2	91.6	88.6	89.0	88.7
Invest./Dep. Ratio	62.8	50.6	46.6	41.7	41.6
Gross NPAs to Adv	4.2	2.7	1.7	1.7	1.6
Net NPAs to Cust.	2.0	1.5	0.8	0.8	0.7
CAR	10.4	11.8	13.9	12.1	11.3
Tier 1	6.1	7.6	10.3	8.8	8.0
Valuation					
Book Value (Rs)	130.0	170.3	251.4	276.2	307.1
Price-BV (x)	4.5	3.4	2.3	2.1	1.9
Adjusted BV (Rs)	115.0	156.8	242.0	265.3	295.5
Price-ABV (x)	5.0	3.7	2.4	2.2	2.0
EPS (Rs)	26.6	27.2	27.7	34.8	41.9
EPS Growth	34.9	2.5	1.9	25.5	20.3
Price Earnings (x)	21.8	21.3	20.9	16.7	13.8
OPS (Rs)	40.2	40.1	49.7	64.0	77.4
Price-OP (x)	14.4	14.5	11.7	9.1	7.5

*E: MOSt Estimates * Assumed equity dilution at Rs500 per share*

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Disclosure of Interest Statement	**ICICI Bank**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.