ASK | RJ
INDIA EQUITY RESEARCH

27 November 2006

ICICI Bank

Initiating Coverage — **Rs875, Hold**

Sector: Banking

Target Price	**Rs903**
Market cap (bn)	Rs778.2/US$17.4
52-week range	Rs925/440
Shares in issue (mn)	889.8
6-mon avg daily vol no of shares	1,606,890
6-mon avg daily vol (mn)	Rs1,405.3/US$31.4
Bloomberg	ICICIBC IN
Reuters	ICBK.BO
BSE Sensex	13617
Website	www.icicibank.com

Shareholding Pattern (%)

FIIs	45.9
MFs/FIs/Banks	15.4
ADR	26.7
Others	12.0

(As of 30 September 2006)

Price Performance (%)

	1M	3M	12M
Absolute	21.4	48.5	62.4
Relative*	12.8	29.6	5.7

**To the BSE Sensex*

Relative Performance

(As of 24 November 2006)

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Moderation in growth, stability in revenues

Highlights

- **Focus on profitable growth:** The loan growth is expected to moderate to 32% CAGR over FY06-08E, with retail and overseas book growing at 29% CAGR and 70% CAGR respectively. The Bank is expected to post 25% CAGR in earnings led by NII growth of 35% CAGR (stable margins expected) and 45% CAGR in fee income.

- **ICICI Prudential Life - adding significant value:** The new business premiums of ICICI Prudential Life is expected to grow at 63% CAGR over FY06-08E, apart from higher contribution from renewal premiums. We assign a value of Rs141 per share of ICICI Bank for the company.

- **Equity dilution not likely for the next three years:** The Bank is not likely to dilute equity over the next three years, aided by hybrid capital (room to raise Rs10 bn) and implementation of Basel II releasing about 40 bps of CAR in FY08E.

Investment concerns

- The ability to control cost of funds (given the low CASA ratio and smaller retail funding franchise) and NPAs (arising from rapid advances growth of last two years and general economy-wide risk) remain the key to performance of the core banking business of the Bank.

Valuations

- **Valuations:** We value Bank's core banking business at Rs717/share (3x core adjusted book value for FY08E) and the subsidiaries at Rs185/share (post-discount of 10%), thus arriving at Rs903/share on sum-of-the-parts valuation. The improving RoE trajectory (17% by FY08E), likely success of rural foray and fast growing life insurance business will add to the upside in valuations. **Hence, though, the stock is fairly valued at 2.9x core adjusted book for FY08E, we recommend Holding the stock with a 12 months target price of Rs903/share.**

Exhibit 1: Key financials **(Rs mn)**

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Net Interest Income	19,871	28,390	47,100	67,307	85,690
Net Income (NII + OI)	50,521	62,552	96,932	128,409	165,388
Profit before prov. & taxes	24,808	29,554	46,900	64,220	82,861
Profit before tax	19,022	25,266	30,960	38,450	51,765
Net Profit (Reported)	16,371	20,046	25,394	30,971	39,997
Net Interest Margins (NIMs) (%)	1.77	1.99	2.29	2.30	2.25
EPS Growth (%)	34.9	2.5	4.9	21.6	29.1
Core ROE (%)	23.7	21.3	17.0	14.1	17.0
ROAA (%)	1.4	1.4	1.2	1.0	1.0
PE (x)	32.9	32.1	30.6	25.2	19.5
Price/Book Value (x)	6.7	5.1	3.5	3.2	2.9
Price/Adjusted Book Value (x)	8.2	5.8	3.7	3.4	3.1
Price/Core ABV (ex-subsidiaries) (x)	NA	NA	NA	3.5	2.9

Source: Company, ASK Raymond James. Note: Valuations as of 24 November 2006.

Investment highlights

After growing at 53% CAGR over FY04-06, the advances growth of ICICI Bank is expected to moderate to 32% CAGR over FY06-08E. The growth in retail business is expected to slow down to 29% CAGR, with the incremental growth being led by international and rural business. Its international business is expected to contribute more than 20% of consolidated advances by FY08E, while the rural business contributing about 15% of advances by FY08E. The implementation of Basel II norms and raising of hybrid capital will postpone equity dilution to FY09E or beyond.

Rapid expansion of international business

- Since 2001, ICICI Bank has identified international business as a key growth opportunity, catering to cross border transactions of Indian corporates and NRIs. It has expanded its presence through branches in Singapore, Hong Kong, Sri Lanka and Dubai and subsidiaries in UK, Russia and Canada. It also has representative offices in US, UAE, China, South Africa and Bangladesh.
- The two important levers in its international strategy leading to cost effective value proposition have been: a) intensive use of technology to offer banking services to local/NRI population and b) outsourcing back office operations to India.

The lower margins on overseas book is compensated by robust fee growth.

- The build-up in its international business has been rapid - advances from overseas branches stand at about Rs150 bn and from international subsidiaries stand at about Rs94 bn (UK being the largest subsidiary) in 1H FY07. The international assets now contribute 15% of total consolidated assets. The fee income from international operations (driven by remittance transactions, loan syndication and others) contributed about 12% of its total fee income in 1H FY07.
- Its UK subsidiary has been performing well, posting PAT of Rs740 mn in 1H FY07 (annualized RoE of 22%). Though, not profitable, its Canada subsidiary has seen rapid asset build-up and is emerging as a well recognized brand in the local financial services segment.
- **We believe that ICICI Bank's international business will continue to be in high growth phase, led by rapid growth in existing markets (both, fund and non-fund business) as well as charting into newer geographies. The overseas advances of the Bank (including subsidiaries) are expected to grow at more than 65% CAGR over next two years and form about 20% of its total consolidated advances by FY08E.**

Retail advances growth to moderate..

- ICICI Bank has been the pioneer in consumer lending business - with its aggressive ground level origination capabilities through extensive and multiple distribution network (branches and DMAs), cost efficient and scalable back office processes and high degree of technology leverage. The retail loan book of the Bank has grown by 70% CAGR over FY03-06, resulting in the share of retail to total advances increasing to 63% in FY06 (from 36% in FY03).
- Though mortgages have been the dominant segment forming nearly 50% of retail advances, the unsecured lending segment (credit card receivables/personal loans) has grown rapidly in the last few

Non mortgage loans to grow faster than mortgage loans.

quarters with growth rates in excess of 100% YoY. In 1H FY07, its contribution has increased to 12% of retail advances (from 8% in 1H FY06). The unsecured lending portfolio is expected to form 15-17% of retail advances by FY08E.

- There is some moderation visible with retail assets growing at less than 60% YoY for first two quarters of FY07, compared to average 70% YoY growth during FY06. The disbursals during 2Q FY07 were lower at 24% YoY, as compared to 36% YoY during 1Q FY07.
- **We expect the growth in retail advances to further slow down due to 29% CAGR during FY06-08E due to: a) high base effect and b) tapering off of marginal demand at higher interest rates. Even then, retail advances will continue to form about 60% of total advances of the Bank in FY08E.**

Rural business - the next frontier?

- ICICI Bank has chalked out a comprehensive strategy to penetrate the rural economy through multiple branch and non-branch channels, utilizing local knowledge and offering exhaustive product suite for corporate agri-business, retail credit products (like micro finance, commodity finance, jewel loans, etc) and supply chain linkages. The Bank has partnered with more than 100 micro-finance institutions (MFIs) for loan disbursals and installed more than 4,300 internet-based kiosks as the last mile link for village connectivity. It plans to be present in about 450 district headquarters by FY10E, through branch network and percolate down to village level, using non-branch channels and leveraging technology.

The rural book comprises of 47% in rural retail loans (including individual loans and through MFIs) and 34% in corporate linked loans.

Many activities are at an experimental stage. Though margins are higher, cost of delivery and deliquency is also high.

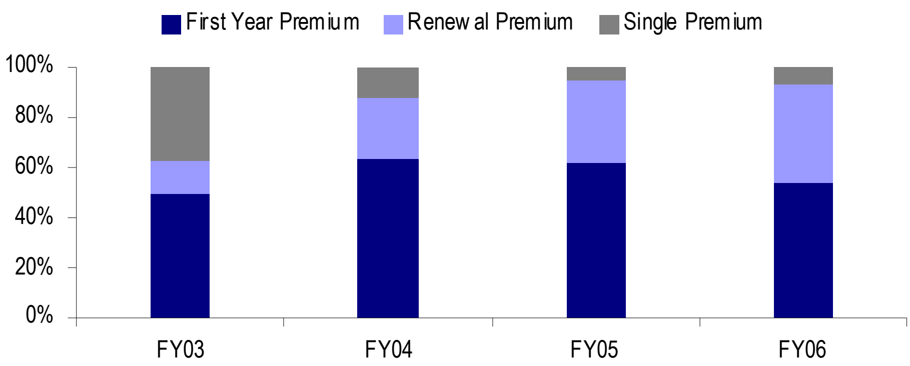
- **In FY06, its rural book stood at about Rs163 bn, registering a 117% YoY growth and forms about 11% of the total advances.**
- **Given the size of opportunity and the management's past track record of scalable execution, we believe that rural business will be a significant growth driver for the Bank over next 4-5 years. The proportion of rural advances is likely to increase to about 15% over the next two years.**

ICICI Prudential Life - adding significant value

- Since inception, ICICI Prudential Life has been the largest private insurer in terms of market share of weighted new business premium. Its new business premiums (NBP) have grown at 93% CAGR over FY03-06, commanding an overall market share of 7.2% and 25.5% amongst private life insurers in FY06. The company's new business achieved profits (NBAP) have grown at 95% CAGR over FY03-06, with average NBAP margins (on weighted premiums) of 25%.
- The company has invested heavily in creating a large-scale, multi channel distribution network, with 120,000 advisors, more than 200 branches, 19 bancassurance partners and over 200 corporate agents and brokers across India. More than 37% of NBP in FY06 was contributed from non-agency channels. The company enjoys enormous cross-selling opportunities with its parent, ICICI Bank, with about 21% of NBP being originated from its branches. Led by strong volume growth and increasing non-agency share, the expense ratios have fallen from a high of 54% in FY03 to 14% in FY06.

Strong volume growth and increased non agency share has led to decline in expense ratios.

Exhibit 2: Low single premiums, higher renewal premiums



Source: Company data, ASK Raymond James.

- Its renewal premiums have grown at a faster clip at 213% CAGR over the period (albeit, from a small base) and contributed 39% of the total premium in FY06. The company has been able to maintain high persistency rates of about 90% (in terms of retail conservation ratio) upto FY06. Given sustained persistency rates (80-90%), growth in total premiums will be aided by strong growth in renewal premium streams, thereby contributing a larger proportion (>50%) from the current ratio of 39%.

- During 1H FY07, it registered robust growth of 113% YoY in NBP, with its market share improving to 28%, from 25.5% as on FY06. The NBAP has grown by 105% YoY, with margins maintained at about 22%.

The faster than expected growth in new business premiums in last two years has postponed accounting breakeven beyond FY09E.

- **We expect robust growth in NBP at about 63% CAGR over FY06-08E, driven by rapid network expansion, new product launches (e.g. health insurance) and strong demand from under penetrated semi-urban markets. We expect NBAP to grow by 46% CAGR over FY06-08E, with margins declining to 18% by FY08E (on conservative estimates). The major NBAP assumptions in terms of lapses, mortality and investment returns are yet to be "time-tested" and hence, we are assigning a lower NBAP multiple of 15x, despite strong volume and NBAP growth. We arrive at a value of Rs169 bn for the company on FY08E estimates, thus resulting in value of Rs141/ICICI Bank's share.**

Exhibit 3: NBAP growth and valuation matrix (Rs mn)

	FY04	FY05	FY06	FY07E	FY08E
Single Premium	1,217	1,300	3,090	5,254	6,830
Regular Premium	6,291	14,543	22,935	41,282	61,923
New Business Premium (NBP)	**7,508**	**15,843**	**26,025**	**46,536**	**68,753**
% growth	107	111	64	79	48
Weighted NBP	**6,413**	**14,673**	**23,244**	**41,808**	**62,606**
NBAP Margin (on weighted NBP)	32%	21%	23%	20%	18%
NBAP (New Business achieved profit)	2,040	3,120	5,280	8,362	11,269
At P/NBAP of 15x	**30,600**	**46,800**	**79,200**	**125,423**	**169,037**
Value/ ICICI's share	**25**	**39**	**66**	104	141

Source: Company, ASK Raymond James.

Equity dilution not likely in next 2-3 years

- During FY03-06, the Bank had raised capital two times resulting in 38% dilution in the equity base. This would compare unfavourably to HDFC Bank, which has diluted equity only by 8% during the same period, despite having similar advances growth (~44% CAGR over FY03-06). Moreover, ICICI Bank has a sizeable portfolio of mortgage-backed loans (~35% of total advances as on 1H FY07), which attracts a lower risk weight (at 75%), compared to other forms of consumer credit (at 125%).

Exhibit 4: Larger size of equity dilutions

Timing	Capital Raised Rs mn	Total Funds raised Rs mn	% dilution	After a gap of no. of years	P/ABV Multiple
Dec-05	1,419	77,500	19.3%	1.7	3.20
Apr-04	1,159	32,458	18.9%	1.8	2.60

Source: Company, ASK Raymond James.

- The key reasons, which led to the larger dilutions include:
  - The Bank infused about Rs21 bn into its subsidiaries in the last three years, out of which Rs5.6 bn has been allocated to fast growing life insurance subsidiary. As per current regulations, investment in subsidiaries is deducted from Tier I capital in capital adequacy computation, which reduces stated Tier I capital and, in turn, accentuates the future capital requirements.
  - The equity issuances were not as significantly book accretive as compared to HDFC Bank. For instance, the equity issue by ICICI Bank in December 2005 was done at P/ABV of 3.2x, whereas equity issue of HDFC Bank in January 2005 was done at P/ABV of 5.3x.
- The hybrid capital regulations have been particularly useful for the Bank - which had seen its capital adequacy decline by 200 bps (to 12.5% in 1Q FY07), since its last dilution. During 2Q FY07, the Bank raised Tier I capital in the form of perpetual bonds of Rs22.7 bn (US340 mn from overseas markets and Rs7.75 bn from domestic markets) and upper Tier II capital of Rs12.6 bn. This resulted in its capital adequacy improving to 14.34%, with Tier I at 9.4% in 2Q FY07.
- **We do not anticipate equity dilution in next three years, aided by raising hybrid capital and release of capital on Basel II norms:**
  - The Bank has room to raise Rs10 bn in the form of perpetual bonds by FY08E and also possibly leverage the entire Tier II capital upto 100% of Tier I (with current leverage at 35%). The usage of hybrid capital will also restrict the size of equity dilutions in future.
  - The implementation of Basel II in FY08E will release CAR by about 40 bps, mainly due to its non-mortgage retail portfolio (~ 35% of total advances in 2Q FY07) being reckoned at 75% risk weight (from the current 125%).
  - The positive impact on Tier I capital will be higher at 70-75 bps, as the deduction of investment in subsidiaries from Tier I capital will be reduced to 50%, with the balance being reduced from Tier II funds, under Basel II norms.

Basel II implementation to release about 70-75 bps of Tier I CAR and 40-45 bps of total CAR.

Investment concerns

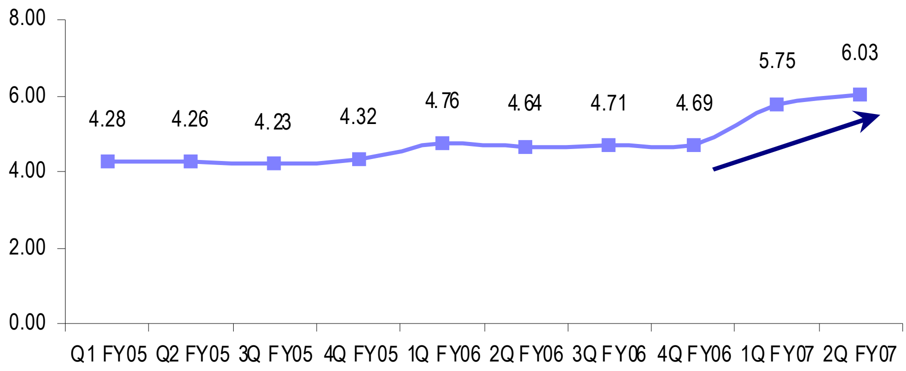
Controlling funding costs - key to profitable growth

- We believe that mobilizing adequate resources at reasonable costs to maintain the growth momentum remains the key challenge to ICICI Bank's profitability:

  - Over FY06-08E, we expect the CASA growth to be better than growth in term deposits, as the inorganic funding process through wholesale deposits is likely to moderate in line with advances growth. However, with the banking system running at C/D ratio of 70% since last nine months, the incremental cost of retail deposits has also increased by 100-150 bps and is expected to rise further, in case of continued credit demand.

  - Compared to strong loan origination skills of the Bank through its large DMA network, it has relatively weaker retail funding franchise. For example, it has about 2x the loan book of Punjab National Bank (PNB), but has only 625 branches compared to 4,100+ branches of PNB. This has resulted in low CASA ratio (of 23-24%) and reliance on wholesale deposits (about 50% of term deposits).

Exhibit 5: Rising cost of deposits **(%)**



Source: Company data, ASK Raymond James.

  - The positive re-pricing impact on repayment of eICICI borrowings is now neutralized because: a) these constitute only 5% of total borrowed funds and b) differential on marginal cost on fresh borrowings has narrowed.

  - The funding profile of ICICI Bank has tended to be short-term, with average deposit duration of about 1-1.2 years. Though, the average duration of its advances book has reduced to about 2.5 years in FY06 (from >3.25 years in FY03), the Bank still carries a negative duration mismatch. The duration mismatch can lead to pressure on NIMs with tightening of liquidity in the current high interest rate scenario, thus affecting the overall profitability growth.

Exhibit 6: Maturity pattern of assets and liabilities

66% of deposits reprice in one year, whereas 77% of the loans mature beyond one year.

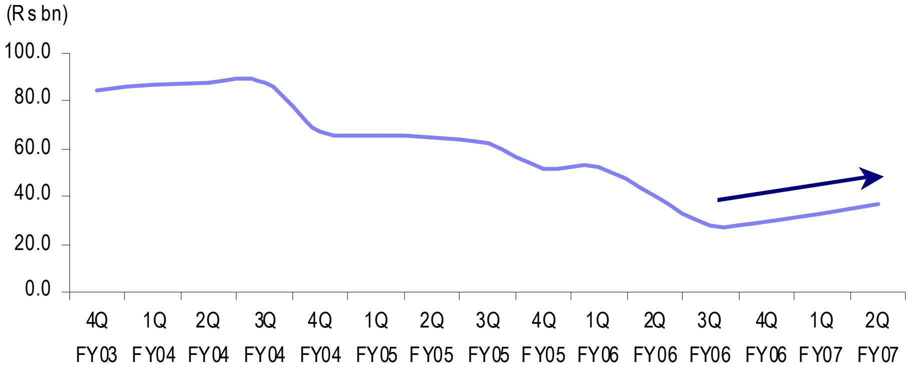
	FY06			FY03		
Type	< 1 year	1-3 years	> 3 years	< 1 year	1-3 years	> 3 years
Deposits	66%	32%	2%	54%	43%	4%
Borrowings	51%	19%	31%	35%	41%	24%
Advances	27%	40%	33%	19%	31%	50%
Investments	54%	20%	26%	43%	31%	25%

Source: Company, ASK Raymond James.

NPA provisioning to rise..

- Over FY03-06, the gross NPAs of ICICI Bank have shown a steady decline from Rs84 bn in FY03 to Rs29.6 bn, through recovery, restructuring and sale to asset reconstruction companies. Much of the legacy clean-up process has been done - reflected in net restructured assets at a low of Rs49 bn in 2Q FY07 (from as high as Rs108.4 bn in 1Q FY04). The incremental slippages (as % of gross advances) have also been brought under control, declining from 2.5% in FY03 to 1.1% in FY06.
- However, from here on, we believe that asset quality of ICICI Bank has most likely peaked. In the last three quarters, there have been visible increases in the gross NPAs of the Bank - increases of 33% from Rs27.9 bn in 3Q FY06 to Rs37 bn in 2Q FY07. Inline with increases in gross NPAs, net NPAs have also shown an uptrend. Much of the incremental net NPAs in the last three quarters have flowed in from retail segments - on a net basis, retail NPAs have increased to 0.98% in 2Q FY07 from 0.77% in 4Q FY06 - thus, making up for 73% incremental net NPAs during the period.

Exhibit 7: Upward trend in gross NPAs



Source: Company, ASK Raymond James.

The maturing of retail book and increase in share of unsecured loans to increase NPA provisioning requirements.

- Though the overall asset quality is not likely to deteriorate (aided by continued strength of the overall economy), we expect the NPA provisioning requirements to increase over next 2-3 years: a) all major potential upgrades in corporate NPAs have been done and, b) slippages likely to increase to about 1.3-1.4% due to changing loan mix (with higher proportion of unsecured loans) and seasoning of the retail portfolio disbursed in last few years. **The gross NPAs and net NPAs are likely to be about 2% and 1% respectively over the next two years.**

Financials

- **Advances growth to moderate:** The growth in advances is likely to slow down to 32% CAGR over FY06-08E (from 53% CAGR during FY04-06), due to moderation in growth in retail advances to 29% CAGR during the period. The incremental growth is likely to be driven by international and rural business, with its share likely to increase to about 20% (of total consolidated advances) and 15% (of standalone advances) respectively by FY08E.

Marginal improvement in CASA mix, as CASA to grow faster than term deposits.

- **Marginal improvement in CASA mix:** The growth in deposits is likely to be lower at 37% CAGR over FY06-08E (as compared to 56% CAGR over FY04-06), mainly in line with lower funding requirements from wholesale deposits due to moderation in advances growth. We expect the CASA to grow at 43% CAGR during the period, with improvement in CASA mix to about 25%.

- **Stable margins likely for next 2-3 quarters:** The incremental loan rates across various segments are higher by at least 100 bps, than its existing portfolio yields. This will lead to stable NIMs for next 2-3 quarters, offsetting for rising cost of retail deposits and high cost hybrid capital. The Bank exercises pricing power, being the market leader in almost all retail segments. Hence, the Bank has the ability to take pre-emptive increases in interest rates to tackle any excessive pressure on NIMs, in case of tighter liquidity environment.

- **Fee income to remain important profit driver:** The Bank's fee income grew at 57% CAGR during FY03-06 and contributed 35% of its net income in FY06. In the last two years, international business has been a key growth driver, contributing about 12% of total fees in 1H FY07. We expect growth in fee income at about 45% CAGR, led by expansion in international operations, increasing retail customer base, debt syndication business (aided by strong domestic capex cycle) and credit linked fees. The fee income as a % of average working funds is likely to improve by 20 bps to 1.8% by FY08E (from 1.6% in FY06).

Lower DMA expenses to save atleast 10 bps of AWF by FY08E.

- **Lower DMA expenses to slow down opex growth:** The moderation in retail loan disbursals and downward re-negotiation in distribution commission will lead to slower growth in DMA expenses at 21% CAGR during FY06-08E. The operating expenses is likely to grow at 29% CAGR during the period, mainly on account of rapid network expansion, though the lower DMA expenses will act as an important cost lever saving about 10 bps of AWF in FY08E.

- **Earnings to grow at 25% CAGR during FY06-08E:** During FY06-08E, the Bank is expected to post 25% CAGR in earnings led by 35% CAGR in net interest income (NII) and 45% CAGR in fee income during the period. The growth in NII would be largely driven by 32% CAGR in advances, while its margins are likely to be stable at around 2.2-2.3%. The overall provisioning requirement for the Bank is expected to increase to Rs26 bn in FY07E and Rs31 bn in FY08E (from Rs16 bn in FY06), on account of higher NPA and standard asset provisioning and amortization of HTM investments.

Valuations

- **3x multiple to core adjusted BV:** The Bank has been heavily investing in its subsidiaries (more than Rs21 bn since FY03), which accentuates its regulatory capital requirements and hence, the larger dilutions. Therefore, we believe core-banking networth (networth excluding investments in subsidiaries and net NPAs) is an appropriate metric to value ICICI Bank. Our multiple is based, amongst other factors, on core RoE - [PAT (excluding dividend from subsidiaries)/core banking networth]. We have not taken value of equity investments as a separate component in our sum-of-the-parts (SOTP) value, because possible gains on their sale will form part of normalized profit projections in regular course of banking business.

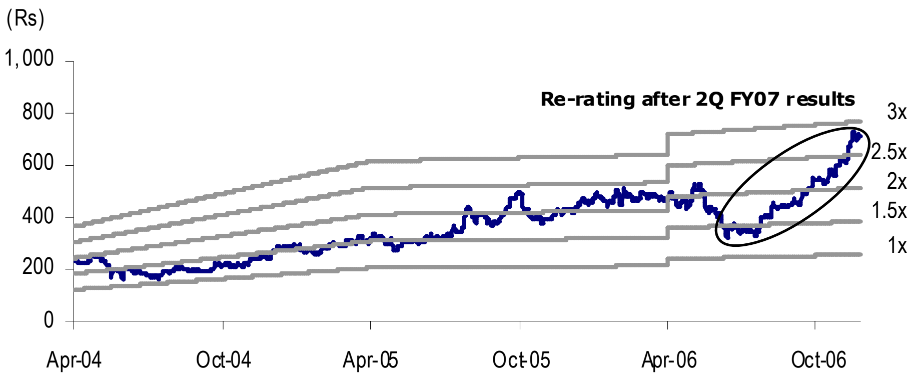
  We value ICICI Bank's banking business at 3x on its adjusted core BV for FY08E (adjusted for net NPAs), based on: a) average core RoE of 16%, b) earnings growth of 25% CAGR over FY06-08E, c) scale of operations, market leadership and pricing power and d) relative valuations compared with HDFC Bank and UTI Bank.

Exhibit 8: Peer set comparision

Peer Group	PPP growth (FY06-08E)	PAT growth (FY06-08E)	Average RoE (FY07-08E)	Target P/ABV (FY08E)	Core value (Rs)
ICICI Bank*	33%	26%	16%	3x	717
HDFC Bank	31%	31%	21%	4x	917
UTI Bank	28%	34%	22%	3x	405

Source: Company, ASK Raymond James, ***Note: *on core banking business, PPP - Pre provision profit.***

Exhibit 9: Rolling 1-year forward P/core ABV band chart



Source: Bloomberg, ASK Raymond James.

Exhibit 10: Valuation of subsidiaries

Company	Value/ share (Rs)	Rationale
ICICI Securities	21	10x PAT for FY08E
ICICI Venture Funds	4	5% of AUM
Pru ICICI AMC	9	5% of AUM
ICICI Pru Life	141	15x NBAP for FY08E
ICICI Lombard General	6	10x PAT for FY08E
ICICI Bank UK	22	2x P/BV for FY08E, RoE of 20%
Other overseas subsidiaries	3	1x P/BV for FY08E
Total Subsidiary Value	**206**	

Source: Company, ASK Raymond James.

Exhibit 11: Sum-of-the-parts valuation

Company	Value/ share (Rs)	Rationale
Imputed Subsidiary Value	185	subsidiary discount @ 10%
ICICI Bank	717	3x core P/ABV for FY08E
Group Value	**903**	**Total SOTP value**

Source: Company, ASK Raymond James.

Improving RoE trajectory, success of rural foray and life insurance business to provide upside to valuations over next 1-2 years.

- **Recommendation:** ICICI Bank remains a perfect proxy to participate in the continued strength in domestic credit cycle and consumption boom, now with better visibility of margins. The improving RoE trajectory (17% by FY08E) will help to narrow the valuation gap with peer private sector banks, over next 1-2 years. The success of rural foray and fast growing life insurance business is likely to add to the upside in valuations. **Hence, though the stock is fairly valued at 2.9x core adjusted book for FY08E, we recommend Holding the stock with a 12 months target price of Rs903/share.**

Exhibit 12: Financials

Income Statement					(Rs mn)
Y/E March	**FY04**	**FY05**	**FY06**	**FY07E**	**FY08E**
Income on Advances	60,739	67,528	102,080	156,878	218,518
Income on Investments	25,401	22,294	36,928	59,548	82,492
Income on other balances	3,884	4,276	4,068	7,782	5,673
Total Interest Income	90,024	94,099	143,075	224,208	306,682
Interest Expenses	70,152	65,709	95,974	156,901	220,992
Net Interest Income	**19,871**	**28,390**	**47,100**	**67,307**	**85,690**
Fee-based income	11,750	20,980	32,582	48,221	68,715
Treasury Profits	13,151	7,112	9,272	5,149	3,250
Misc Income	5,748	6,063	7,971	7,732	7,732
Total non-fund income	**30,649**	**34,155**	**49,825**	**61,102**	**79,697**
Net Income	**50,521**	**62,545**	**96,925**	**128,409**	**165,388**
Employee cost	5,461	7,374	10,823	16,126	23,544
DMA Expenses	2,937	4,855	11,784	14,612	17,170
Other Operating Expenses	17,315	20,763	27,418	33,450	41,812
Total Expenses	25,712	32,991	50,025	64,189	82,526
Profit before provisions and tax	**24,808**	**29,554**	**46,900**	**64,220**	**82,861**
Loan Loss provisions	4,591	(1,214)	4,325	14,470	16,997
Investment provisions	0	0	8,020	11,200	14,000
Other provisions	1,195	5,502	3,596	100	100
Total Provisions	5,786	4,288	15,941	25,770	31,097
Profit before tax	**19,022**	**25,266**	**30,960**	**38,450**	**51,765**
Tax	2,651	5,220	5,565	7,478	11,767
Net Profit	**16,371**	**20,046**	**25,394**	**30,971**	**39,997**

Source: Company data, ASK Raymond James.

The Bank is expected to raise about Rs19 bn of hybrid capital bonds from 2H FY07E to FY08E

Balance Sheet					(Rs mn)
Y/E March	**FY04**	**FY05**	**FY06**	**FY07E**	**FY08E**
Equity Share Capital	6,164	7,368	8,898	8,920	8,920
Reserves & Surplus	73,942	118,132	213,162	234,557	263,971
Net Worth	**80,106**	**125,500**	**222,060**	**243,477**	**272,891**
Preference Share Capital	3,500	3,500	3,500	3,500	3,500
Perpetual Debt	0	0	0	26,710	26,710
Deposits	681,086	998,188	1,650,832	2,336,465	3,111,490
Other borrowings	307,402	335,445	385,219	521,484	552,550
Total Borrowed Funds	**988,488**	**1,333,633**	**2,036,051**	**2,857,949**	**3,664,040**
Other Liabilities & Prov	180,195	213,962	252,279	289,389	320,899
Total Sources	**1,252,289**	**1,676,594**	**2,513,890**	**3,421,025**	**4,288,040**
Cash & Bank bal	84,706	129,300	170,402	280,892	301,817
Investments	434,355	504,874	715,474	973,824	1,225,955
Loans & Advances	626,476	914,052	1,461,631	1,995,737	2,533,130
Net Fixed Assets	40,564	40,380	39,807	40,807	41,507
Other Assets	66,187	87,989	126,575	129,765	185,632
Total Assets	**1,252,289**	**1,676,594**	**2,513,890**	**3,421,025**	**4,288,040**

Source: Company data, ASK Raymond James.

Dividend and treasury gains form the major component.

RoA Tree* (%)

Y/E March	FY06	FY07E	FY08E
Interest Income	6.96	7.66	8.04
Interest Expenses	4.67	5.36	5.80
Net Interest Income	**2.29**	**2.30**	**2.25**
Fee Income	1.59	1.65	1.80
Other Income	0.84	0.44	0.29
Net Income	**4.72**	**4.39**	**4.34**
Personnel Costs	0.53	0.55	0.62
DMA	0.57	0.50	0.45
Other Expenses	1.33	1.14	1.10
Total Expenses	**2.43**	**2.19**	**2.16**
Pre provision profit	**2.28**	**2.19**	**2.17**
Loan loss provisions	0.21	0.49	0.45
Investments provisions	0.39	0.38	0.37
Other Provisions	0.17	0.00	0.00
Provisions	**0.78**	**0.88**	**0.82**
PBT	**1.51**	**1.31**	**1.36**
Tax	0.27	0.26	0.31
PAT	**1.24**	**1.06**	**1.05**

*Source: Company data, ASK Raymond James, *All line items as a % of average working funds (AWF).*

43% CAGR in CASA over FY06 - FY08E.

Growth (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Advances	17.6	45.9	59.9	36.5	26.9
Deposits	41.4	46.6	65.4	41.5	33.2
Investments	22.5	16.2	41.7	36.1	25.9
Net Interest Income	39.5	42.9	65.9	42.9	27.3
Fee-based income	38.7	78.6	55.3	48.0	42.5
Net Income	(2.9)	11.4	45.9	22.6	30.4
Operating expenses	27.8	28.3	51.6	28.3	28.6
Pre provision profit	(3.5)	19.2	58.7	36.9	29.0
Net profit	35.7	22.5	26.7	21.9	29.1
EPS (Rs)	**34.9**	**2.5**	**4.9**	**21.6**	**29.1**

Source: Company data, ASK Raymond James.

Yield, cost & spread (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Avg yield on advances	10.48	8.77	8.59	9.08	9.65
Avg yield on investments	6.44	4.75	6.05	7.05	7.50
Avg cost of deposits	5.20	3.87	4.41	5.62	6.20
Net interest income/AWF	1.77	1.99	2.29	2.30	2.25

Source: Company data, ASK Raymond James.

Non-fund ratios (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Fee Income/ AWF	0.84	1.05	1.47	1.65	1.80
Fee-based income/Net Income	23.5	33.5	34.6	37.6	41.5
Treasury profits/Net Income	26.3	11.4	9.9	4.0	2.0

Source: Company data, ASK Raymond James.

Core RoE on an improving trajectory, 17% by FY08E.

Efficiency Ratios (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
OOpex as % of AWF	2.3	2.3	1.9	1.7	1.7
DMA exp as % of AWF			0.6	0.5	0.5
Cost to income ratio	50.9	52.7	51.6	50.0	49.9
Credit/Deposit Ratio	92.0	91.6	88.5	85.4	81.4
Credit/ Borrowed Funds Ratio	**63.4**	**68.5**	**71.8**	**70.3**	**69.7**
Asset/ Equity Ratio	15.6	13.4	11.3	14.1	15.7
Asset/ Core equity Ratio	19.0	16.0	13.0	16.6	18.5
RoE	21.9	19.5	16.5	13.3	15.5
Core RoE	**23.7**	**21.3**	**17.0**	**14.1**	**17.0**
RoAA	**1.4**	**1.4**	**1.2**	**1.0**	**1.0**

Source: Company data, ASK Raymond James.

Deposit mix (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Demand	10.7	12.9	10.0	9.2	8.7
Savings	12.3	11.4	12.7	14.3	16.1
CASA	**23.0**	**24.3**	**22.7**	**23.6**	**24.8**
Term	77.0	75.7	77.3	76.4	75.2

Source: Company data, ASK Raymond James.

NPAs (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Gr NPAs as % of gr assets	4.7	3.0	1.5	1.6	1.7
Prov as % of gross NPAs	53.3	44.6	51.4	51.4	58.6
Net NPAs as % of net adv	2.3	1.7	0.7	0.8	0.7

Source: Company data, ASK Raymond James.

No equity dilution before FY09E.

Capital Adequacy Ratios (%)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Tier I CAR	6.1	7.6	9.2	7.9	8.1
Tier II CAR	4.3	4.2	4.2	4.7	4.1
Total CAR	**10.4**	**11.8**	**13.3**	**12.6**	**12.2**

Source: Company data, ASK Raymond James.

Valuation

Y/E March	FY04	FY05	FY06	FY07E	FY08E
EPS (Rs)	26.6	27.2	28.5	34.7	44.8
Book Value (Rs)	130.0	170.3	249.6	273.0	305.9
Adjusted Book Value (Rs)	106.9	149.5	237.5	255.5	285.8
Core Adjusted Book Value (Rs)	83.8	121.5	205.3	213.4	239.1
P/E (x)	32.9	32.1	30.6	25.2	19.5
P/BV (x)	6.7	5.1	3.5	3.2	2.9
P/ABV (x)	8.2	5.8	3.7	3.4	3.1
P/core ABV (ex-subdiaries) (x)	NA	NA	NA	3.5	2.9

Source: Company data, ASK Raymond James.

Notes

Notes

Rating Structure

Our Equity Rating Structure is based on Absolute Valuations– based on a Discounted Cash-Flow (DCF) Model, though we also look at PE, EV/EBITDA and other related valuation metrics. Our implicit belief is that stock prices tend to approximate, at one time or another, their true value based on future cash flows, if these estimates materialize.

Our Rating Structure is based on the following levels of expected Absolute Returns:

Rating	Target Price *(if the value exceeds the Current Market Price)*
Buy	by more than 14%
Hold	by 6% to 14%
Sell	is below 6%

The Percentage Bands are based on the current Risk-free Rate (RFR) of 6% and the Equity Risk Premium of 8% which are empirically observed in India's Debt and Equity markets. Therefore, for a **'BUY'** recommendation on Indian equities, the minimum under-valuation or expected return in absolute terms must be greater than 14% to compensate for the market risk of equities. Similarly, we think that for a **'HOLD'** recommendation, the minimum under-valuation or expected return must be at least equivalent to the risk-free rate and, ideally, much higher. But if the expected return is below even the risk-free rate or if the stock is over-valued, implying a negative absolute return, then the stock under consideration is a clear **'SELL'.**

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