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ICICI Bank

4QFY2008 Result Update

Buy

Price	**Rs916**
Target Price	**Rs1,228**
Investment Period	**12 months**

Stock Info

Sector	Banking
Market Cap (Rs cr)	1,01,940
Beta	1.27
52 WK High / Low	1465/720
Avg Daily Volume	714526
Face Value (Rs)	10
BSE Sensex	17,126
Nifty	5,112
BSE Code	532174
NSE Code	ICICIBANK
Reuters Code	ICBK.BO
Bloomberg Code	ICICIBC@IN

Shareholding Pattern (%)

Promoters	-
MF/Banks/Indian FIs	17.2
FII/ NRIs/ OCBs	69.3
Indian Public	13.5

Abs.	3m	1yr	3yr
Sensex (%)	(6.7)	20.5	170.1
ICICI Bank (%)	(27.3)	(4.8)	127.0

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Performance Highlights

- **Balance Sheet growth slows down further:** The Bank continued to witness moderation in Balance Sheet growth, with Advances growing 15% yoy to Rs2,25,616cr and Deposits growing 6% yoy to Rs2,44,431cr. Term Deposits showed no increase yoy, with the Bank relying mainly on Equity and CASA balances for funding incremental growth in FY2008. The CASA ratio improved from 22% at the end of FY2007 to 26% in FY2008. Growth in Advances was largely attributable to the International Book (96% yoy growth and comprising 20% of Total Advances), while Retail Advances grew 3% yoy and comprised 58% of Total Advances.

- **Operating Income boosted by Treasury gains:** Net Interest Income (NII) grew 29% yoy, with Net Interest Margins (NIM) drawing support from increased Net worth and CASA. Non-Interest Income grew 12.5% yoy, with Treasury Gains contributing 7% even after setting off MTM provisions in respect of the Bank's International Investment book.

- **Operating Expenses lower due to cost-cutting:** The process of implementing significant reduction in Staff Expenses was initiated in 4QFY2008 and resulted in an 18% sequential decline. Management has indicated that going forward, further rationalisation can be expected and wage inflation is also expected to be lower than the 12-15% levels seen in the past few years.

- **Net Profits driven by cost-cutting and Treasury gains:** The Bank delivered a yoy Net Profit growth of 39% to Rs1,150cr, which came ahead of our expectations on the back of the sharp cut-back in Staff Expenses and substantial Treasury gains.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
NII	**6,635.8**	**8,202.0**	**10,510.6**	**13,046.1**
% chg	58.5	23.6	28.1	24.1
Net Profit	**3,110.2**	**4,157.7**	**5,214.0**	**6,353.7**
% chg	22.4	33.7	25.4	21.9
NIM (%)	2.4	2.4	2.6	2.7
EPS (Rs)	**34.6**	**37.4**	**46.9**	**57.1**
P/E (x)	26.5	24.5	19.5	16.0
P/BV (x)	3.4	2.2	2.1	1.9
P/ABV (x)	3.5	2.3	2.1	2.0
RoAA (%)	1.0	1.1	1.2	1.2
RoANW (%)	13.4	11.7	10.9	12.5

Source: Company, Angel Research

- **NPAs and Forex Derivatives:** Provisioning Expenses stood at Rs948cr in 4QFY2008 (up 8% yoy), which include provisions made for the Forex Derivative exposures of customers who have filed lawsuits against the Bank. The Bank did not make any specific disclosures regards the Forex Derivatives however, its clients' exposures are likely to be the highest among the domestic Banks. The Bank essentially faces a Credit risk in respect of this exposure, especially in respect of its SME clients who comprise about 17% of the total exposure. The Bank's Net NPA ratio has increased from 1% at the end of FY2007 to 1.6% in FY2008. Management continues to indicate that the increase in Gross and Net NPAs is driven by changing credit mix and seasoning of portfolio and is in line with its expectations (and hence priced in). However, ongoing developments regarding recovery procedures and the Bank's shift of focus away from the unsecured Personal Loan portfolio indicate downside risks arising from the Bank's existing portfolio.

- **Balance Sheet growth outlook:** Going forward, management expects the Bank's International Book to continue to drive growth (with the global credit markets expected to start recovering in their view). Corporate capex and investment in Infrastructure is expected to be the other major driver of Credit growth, with the Bank's own surveys indicating an investment demand of over US $700bn in the country, albeit involving execution risks. However, with the Monetary Policy expected to remain tight longer than earlier anticipated, the NIM-Credit growth trade-off has deteriorated for the sector and may eventually impact Investment-driven Credit demand as well. With Retail and International Credit (comprising 80% of the Bank's total Credit) already facing headwinds, the Bank may find it difficult to fully leverage the Equity Capital raised in 1HFY2008, over the next two years.

- **Significant Branch expansion:** On a positive note, the Bank added a large number of branches during 4QFY2008, taking the total number of branches to 1,308 (including 190 branches of Sangli Bank) as against 755 branches at the end of FY2007. Further, about 125 branches are expected to be opened by 1QFY2009 and management has indicated that they plan to have about 2,500 branches by FY2010E. In addition, the Bank's subsidiary, ICICI Securities plans to have about 1,000 branches by FY2010E (aimed primarily at ramping up the Wealth Management business catering to High-Net Worth Individuals). The Bank has built tremendous scale and achieved market leadership in largely all the Credit segments it operates in. Going forward, management clearly intends to focus on improving its funding mix, which is the key to improving Return on Equity (RoE) to 17% levels in the medium term.

Outlook and Valuation

At the CMP, the stock is trading at 16x FY2010E EPS of Rs57 and 2.0x FY2010E Adjusted Book Value (ABV) of Rs460 (including the value of subsidiaries). The core banking business (after adjusting Rs360 per share towards the value of the subsidiaries) is trading at 1.4x FY2010E ABV of Rs396. For our SOTP valuation, we have adjusted FY2009E and FY2010E ABV downwards to reflect further investments in subsidiaries during FY2008 (amounting to around Rs42 per share). In light of the slowdown (and downside risks) in Capital Market-related businesses, we have reduced our valuation of the Bank's key subsidiaries from Rs428 to Rs360. The progressive slowdown in the Bank's Balance Sheet growth has increased concerns about recovery of Return on Equity (at 11.7% for FY2008 and expected to remain below 13% up to FY2010E). Accordingly, we have valued the core banking business at 2.2x FY2010E ABV of Rs396. Accordingly, we have arrived at our revised Target Price of Rs1,228 (our earlier Target Price of Rs1,508 had been placed under review in March 2008; the downward revision reflects the general deterioration in the macro environment rather than the 4QFY2008 results). The revised Target Price implies an upside of 34%. **Hence, we maintain a Buy on the stock.**

Exhibit 1: 4QFY2008 Performance

Y/E March (Rs cr)	4QFY2008	4QFY2007	*% chg*	FY2008	FY2007	*% chg*
Interest Earned	8,029.3	6,395.6	25.5	30,788.6	21,994.3	40.0
Interest Expenses	5,949.8	4,786.9	24.3	23,484.2	16,358.5	43.6
Net Interest Income	**2,079.5**	**1,608.7**	**29.3**	**7,304.4**	**5,635.8**	**29.6**
Non-Interest Income	2,361.7	2,099.9	12.5	8,810.5	6,928.2	27.2
Total Income	4,441.1	3,708.7	19.7	16,114.9	12,564.0	28.3
Operating Expenses	2,150.5	1,920.6	12.0	8,154.2	6,690.6	21.9
Pre-Prov Profit	2,290.7	1,788.1	28.1	7,960.7	5,873.5	35.5
Provisions & Cont.	947.5	876.3	8.1	2,904.6	2,225.4	30.5
PBT	1,343.2	911.7	47.3	5,056.1	3,648.0	38.6
Prov. for Taxes	193.3	86.6	123.2	898.4	537.8	67.0
PAT	**1,149.8**	**825.1**	**39.4**	**4,157.7**	**3,110.2**	**33.7**
EPS (Rs)	10.3	9.2	12.6	37.4	34.6	8.0
Cost to Income (%)	48.4	51.8		50.6	53.3	
Effective Tax Rate (%)	14.4	9.5		17.8	14.7	
Net NPA	1.6	1.0				

Source: Company, Angel Research

Angel Broking Limited

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Ratings (Returns)	Buy (> 15%)	Accumulate (5 to 15%)	Neutral (5 to -5%)	Reduce (> -5%)	Sell (> -15%)