

RESULTS

REVIEW

ICICI Bank Ltd.

Good show continues

ACCUMULATE

Analyst

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Nifty: 5,327; Sensex: 17,705

CMP	Rs931
Target Price	Rs1,026
Potential Upside/Downside	+10%

Key Stock Data

Sector	Banking
Bloomberg / Reuters	ICICIBC IN / ICBK.BO
Shares o/s (mn)	1,152.1
Market cap. (Rs mn)	1,072,896
Market cap. (US\$ mn)	21,953
3-m daily average vol.	502,473

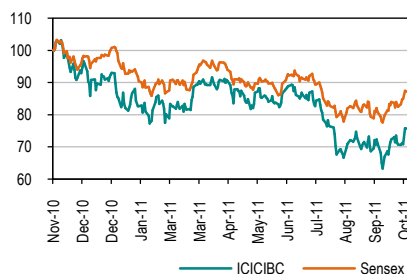
Price Performance

52-week high/low	Rs1,277/762
	-1m -3m -12m
Absolute (%)	6 (10) (24)
Rel to Sensex (%)	(1) (8) (11)

Shareholding Pattern (%)

Promoters	-
FII/NRI/OCBs/GDR	65.0
MFs/Banks/FIs	25.1
Non Promoter Corporate	4.2
Public & Others	5.7

Relative to Sensex



Summary

ICICI Bank reported PAT of Rs15.0 bn, up 22% YoY and 13% sequentially, ahead of our estimates (IDBIest Rs14.0 bn). Lower than estimated provisioning expenses of Rs3.2 bn (IDBIest Rs4.5 bn) led to higher growth in earnings. Net interest income (NII) stood at Rs25.1 bn, up 13.7% YoY due to stable margins of 2.6% and 20.5% YoY growth in advances. Capital adequacy ratio (CAR) stood at 19.0% with Tier 1 ratio at 13.1% in this quarter. While provision coverage ratio improved to 78.2% from 76.9% sequentially and NNPA ratio fell by 10bps to 0.8%, restructured assets increased to Rs25.0 bn from Rs19.6 bn QoQ. Increase in restructured assets was on account of exposure to the micro finance sector.

The management has maintained its guidance of 18% YoY credit growth and stable margins of 2.6% by FY12-end. Accordingly, we maintain our earnings estimates of Rs56.9 bn/Rs68.4 bn in FY12/FY13. Our NII and earnings CAGR over FY11-13E remains at 17% and 15% respectively. We reiterate our SOTP based price target of Rs1,026. Due to the recent rally in stock price, we downgrade the stock from BUY to ACCUMULATE.

Key Highlights

- Stable balance sheet growth

Advances stood at Rs2,339.5 bn, up 20.5% YoY and 6% sequentially. The growth in loan book came mainly from domestic corporate (22% YoY), agricultural (29% YoY) and SME (42% YoY). Further, Retail loan book was up 5% YoY after posting a 9% growth last quarter. Management has maintained its guidance of 18% growth in overall loan book for FY12E.

- Margins likely to be maintained at current levels

Overall margins remained flat at 2.6% sequentially, as well as YoY. Domestic margins stood at 2.9% while overseas margins were at 1.1%. Overseas margins are expected to increase by 20-30bps over H2FY12; however, that would be negated by a fall in domestic margins due to pressure on cost of funds.

- CASA remains stable

CASA ratio remained largely stable at ~42% despite the rising rate environment. We believe that CASA will be maintained around this level due to continued focus on mobilizing low cost deposits.

- Restructured assets increase due to MFI exposure

GNPA Ratio declined 22bps sequentially to 4.1% and NNPA ratio by 10bps to 0.8% in this quarter. Provision coverage ratio improved to 78.2% from 69.0% in Q2FY11. Restructured book increased to Rs25.0 bn from Rs19.7 bn sequentially. The stress asset portfolio (GNPA + Restructured assets) stood flat at 5.4% of the total loan book sequentially.

Table: Financial snapshot

Year-end	NII	PAT	BV	ABV	P/BV	P/ABV	ROA	ROE	CAR	Div.yield	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(Rs)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)
FY10	81.1	40.2	350.1	315.6	2.1	2.9	1.1	7.9	19.4	1.3	5.1	2.1
FY11	90.2	51.5	368.2	347.3	2.0	2.7	1.3	9.6	19.5	1.5	4.6	1.1
FY12E	104.3	56.9	397.5	377.1	1.8	2.5	1.3	9.9	18.6	1.2	4.1	0.9
FY13E	122.9	68.4	430.1	409.7	1.7	2.3	1.3	11.1	15.9	1.5	3.9	0.8

Source: Company; IDBI Capital Research

■ Stable domestic subsidiary performance

Life Insurance subsidiary reported a profit of Rs3.5 bn in this quarter, as against a profit of Rs0.15 bn (excluding surplus on non participating policyholder's funds) in Q2FY11. ICICI Lombard General Insurance Company (ICICI General) maintained its leadership in the private sector. ICICI General's gross premium income in this quarter increased by 20% to Rs13.1 bn from Rs10.9 bn in Q2FY11. Consolidated profit after tax increased by 43% YoY to Rs19.9 bn in Q2FY12 as against Rs13.9 bn in Q2FY11. Consolidated RoE stood at 13.7% compared to 10.7% in Q2FY11.

Table: Domestic subsidiary performance

(Rs bn)

Name of the subsidiaries	Q2FY12	Q2FY11
ICICI Securities Limited	0.2	0.3
ICICI Securities PD	0.2	-0.0
ICICI Venture	0.0	0.2
ICICI Prudential Asset Management	0.2	0.1
ICICI Home Finance	0.6	0.5
ICICI Lombard General Insurance	0.6	1.0

Source: Company; IDBI Capital Research

■ Outlook and Valuation – Maintain ACCUMULATE

Bank has maintained its credit growth guidance of 18% citing subdued economic environment. We maintain our estimates of 17% CAGR in NII and 15% CAGR in profits during FY11-FY13E. The bank has reported a RoE of 10.4% as against 9.2% in Q2FY11. On a standalone basis, the stock is currently trading at 1.8x our FY13E ABV.

We believe that RoE will improve to ~11.2% in FY13E. However, as ROE will remain lower than that of peers, the bank will not be able to command superior valuation compared to peers. We estimate that due to the improvement in core banking business, the bank is likely to trade at 2x its FY13E ABV of Rs410. Further, we maintain our valuation of life insurance subsidiary at Rs123.7 per share due to headwinds on regulation and shrinking NBAP margins. We also maintain our ex-life insurance subsidiary valuation of Rs119 per share. Hence, we value the subsidiaries at Rs243 per share. We maintain our price target of Rs1,026. However, due to the recent rally in stock price, we downgrade our rating from BUY to **ACCUMULATE**

Table: SOTP Valuation

Particulars	Value (bn)	Rs. per share	Valuation methodology
ICICI Bank	943.7	819.3	2.25x of FY13E book value
ICICI UK subsidiary	14.4	12.5	1x of book value
ICICI Canada Subsidiary	26.4	22.9	1x of book value
Value of Banking Business	984.4	854.7	
ICICI Prudential Life Insurance	192.8	123.7	15x FY13E NBAP
ICICI Lombard General Insurance	25.9	16.7	10x FY13E Profits
ICICI Asset Management Company	52.6	23.3	5% of Assets under management
ICICI Securities	17.7	16.3	10x FY13E Profits
ICICI Ventures	6.0	5.2	5% of Assets under management
ICICI Home Loan	18.2	15.8	1x of FY13E BV
ICICI Securities Primary dealership ltd.	9.0	8.8	10x FY13E Profits
Value of Non Banking Business	322.1	209.7	
Holding Co. discount (15%)	54.4	38.0	
Value of the bank	1,252.1	1,026.4	

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs bn)

Particulars	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
Interest Earned	81.6	63.1	29.3	76.2	7.1
- Interest/Discount on Advance/Bills	53.8	39.5	36.2	49.4	9.0
- Income on Investments	23.4	19.2	22.4	22.5	4.2
- Int on RBI bal	1.2	0.8	40.1	1.1	1.3
- Other Interest	3.2	3.6	(12.4)	3.2	(0.6)
Interest Expense	56.5	41.0	37.7	52.1	8.5
Net Interest income	25.1	22.0	13.7	24.1	3.9
Other Income	17.4	15.8	10.2	16.4	5.9
- Fee and Other Income	17.0	15.9	6.9	15.8	7.7
- Treasury Profit	(0.8)	(1.4)	(44.4)	1.0	(176.9)
Net Operating Income (NOI)	42.5	37.8	12.3	40.6	4.7
Operating Expenses	18.9	15.7	20.5	18.2	4.0
- Employee cost	8.4	6.2	35.0	7.3	15.0
- Other Costs	10.1	9.1	11.3	10.5	(3.8)
Operating Profit	23.5	22.1	6.4	22.4	5.3
Prov for Contingencies	3.2	6.4	(50.3)	4.5	(29.8)
PBT	20.3	15.7	29.5	17.8	14.2
TAX	5.3	3.3	59.0	4.5	18.7
PAT	15.0	12.4	21.6	13.3	12.7
Equity	11.5	11.5	-	11.5	-
EPS (Rs)	13.0	10.7	-	11.6	-
CAR	19.0	20.2	-	19.6	-

Source: Company; IDBI Capital Research

Table: Balance sheet**(Rs bn)**

Year-end: March	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
Advances	2,339.5	1,942.0	20.5	2,207.0	6.0
Deposit	2,450.9	2,230.9	9.9	2,306.8	6.2
CASA (%)	42.1	44	-	41.9	-
CD Ratio (%)	95.5	87.0	-	95.7	-
ID Ratio (%)	60.3	61.1	-	60.0	-

Source: Company; IDBI Capital Research

Table: Ratios**(%)**

Ratios (%)	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
NIMs	2.6	2.6	-	2.6	-
Int. exp/Int earned	69.3	65.1	-	68.3	-
Cost/income ratio	44.6	41.5	-	44.9	-
Gross NPA	4.1	5.0	-	4.4	-
Net NPA	0.8	1.6	-	0.9	-
Provision Coverage	78.2	69.0	-	76.9	-

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY10	FY11	FY12E	FY13E
Interest earned	257.1	259.7	330.3	396.0
Interest expended	175.9	169.6	226.1	273.1
NII	81.1	90.2	104.3	122.9
Other Income	74.8	66.5	77.1	88.1
Fee Based	48.3	55.1	63.4	72.9
Treasury Profit	5.5	2.2	3.5	3.9
Net Opt. Inc. (NOI)	155.9	156.6	181.4	211.0
Employee Cost	19.3	28.2	32.6	37.8
Opt. Expenses	39.3	38.0	41.8	47.9
Opt. Profit	97.3	90.5	107.0	125.3
Provisions	43.9	22.9	30.1	32.9
Profit before tax	53.5	67.6	76.8	92.4
Net Profit	40.2	51.5	56.9	68.4

Balance Sheet

(Rs bn)

Year-end: March	FY10	FY11	FY12E	FY13E
Capital	14.6	15.0	15.0	15.0
Net Worth	519.7	554.4	591.9	636.2
Deposit	2,020.2	2,256.0	2,674.9	3,178.9
Total Liab. & Equity	3,634.0	4,062.3	4,667.3	5,384.3
Investments	1,208.9	1,346.9	1,426.6	1,690.4
Advances	1,812.1	2,163.7	2,548.7	3,021.2
Total Assets	3,634.0	4,062.3	4,667.3	5,384.3

Growth

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Deposits	(7.5)	11.7	18.6	18.8
Advances	(17.0)	19.4	17.8	18.5
Total Assets	(4.2)	11.8	14.9	15.4
NII	(3.0)	11.1	15.7	17.8
Other Income	(1.7)	(11.1)	16.0	14.2
Net Profit	7.1	28.0	10.4	20.3

Productivity

Year-end: March	FY10	FY11	FY12E	FY13E
Bus./Employee (mn)	123.0	107.8	124.4	118.7
Profit/Employee ('000)	1,133.8	1,256.4	1,353.7	1,554.3
Bus./Branch (mn)	2,508.1	1,747.6	1,801.2	1,632.4
NP/Branch (mn)	23.1	20.4	19.6	21.4
CASA Per Branch	483.7	401.9	420.6	470.5

Opt. Ratio

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Int Exp/Int Earned	68.4	65.3	68.4	69.0
Cost/NOI	37.6	42.2	41.0	40.6
Cost/NOI (Ex. treasury inc.)	39.4	41.6	41.8	41.4
Other Income/NOI	48.0	42.4	42.5	41.8
Ot. Inc. (ex. treasury)/NOI	44.5	41.0	40.6	39.9
NPM	25.8	32.9	31.3	32.4

Spreads

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
NII/Avg Total Assets	2.2	2.3	2.4	2.4
NII/Avg Int Earning Assets	2.5	2.7	2.7	2.7
NIMs	2.2	2.3	2.3	2.4
CASA	41.7	45.1	42.0	42.5
Avg Int earnings assets	3,236.3	3,388.5	3,901.6	4,526.5
Avg Int bearing liabilities	3,058.1	3,184.4	3,688.5	4,326.3

Solvency

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Credit-Deposit Ratio	89.7	95.9	95.3	95.0
Incremental CD Ratio	(227.2)	149.1	91.9	93.7
Investment/Deposit Ratio	60.4	59.7	54.1	53.9
GNPA Ratio	5.1	4.6	4.1	3.9
Prov. Cover	59.5	76.0	77.8	80.0
NNPA Ratio	2.1	1.1	0.9	0.8
CAR	19.4	19.5	18.6	15.9
Tier1	14.0	13.2	12.5	10.8
Tier2	5.5	6.4	6.2	5.1

Return

Year-end: March	FY10	FY11	FY12E	FY13E
ATA (Avg. Total Assets)	3,713.5	3,848.2	4,364.8	5,025.8
Total Busi.(Dep+Adv)	4,366.6	4,419.7	5,223.6	5,223.6
Interest Income/ATA (%)	6.9	6.7	7.6	7.9
PBT/ATA (%)	1.4	1.8	1.8	1.8
PAT/ATA (%)	1.1	1.3	1.3	1.4
ROA (%)	1.1	1.3	1.3	1.3
ROE (%)	7.9	9.6	9.9	11.1
Assets/Equity	7.3	7.2	7.6	8.2

Valuation

Year-end: March	FY10	FY11	FY12E	FY13E
P/E – Average (x)	2.9	2.7	2.5	2.3
P/BV (x)	2.1	2.0	1.8	1.7
Book Value* (Rs)	350.1	368.2	397.5	430.1
EPS (Rs)	315.6	347.3	377.1	409.7

* After deducting investment in subsidiaries



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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