

ICICI Bank

Steady improvement

Sustained control on operating costs resulted in better-than-expected profits for ICICI Bank (ICICIB) during Q2FY10. The bank's strategy of improving its return ratios through cautious growth has started yielding results. Focus on corporate banking would drive business growth from hereon. We maintain our Buy recommendation on the stock

Muted business performance: ICICIB's loan book de-grew 14% YoY and 4% QoQ to Rs 1909bn during the quarter. Retail loans declined 10% to constitute 45% of total advances, down from 48.5% at the end of Q1FY10. Deposits also dropped 11% YoY and 6% QoQ to Rs 1978bn. The share of CASA deposits to total deposits, however, increased to 36.9% from 30.4% at the end of Q1FY10 on lower high-cost deposits and traction in CASA deposits (growth of 9% YoY and 14% QoQ). NII de-grew 5% YoY but improved marginally QoQ. Reduction in balance sheet size kept NII suppressed.

Fee income shows uptick, operating cost in check: Fee income continued to decline YoY (26.1% drop) but improved marginally QoQ. With growth in fee income linked to balance sheet growth and low base impact of Q3FY09, ICICIB's fee income is set to increase from the next quarter. The tight leash on cost control continued in Q2FY10, with operating expenses declining 18% YoY. Consequently, the cost-income ratio improved further to 37%, making the bank's cost structure one of the lowest in the Indian banking system.

Asset quality stabilises: During the quarter, ICICIB's asset quality exhibited some early signs of improvement. Incremental slippages dropped to Rs 10.8bn (calculated) compared to Rs 15bn (calculated) in Q1FY10. Gross and net NPAs increased marginally to 4.7% and 2.4% respectively whereas coverage ratio remained stable at ~52%. The bank would need to provide an additional sum of Rs 17bn to its increase coverage ratio to 70%.

Reiterate Buy: The management is likely to adhere to its conservative growth strategy in the coming quarters. Nevertheless, as the low base effect of last year catches up from Q3FY10 onwards, strengthening of the balance sheet is inevitable. Increase in corporate banking activities would offset the reduction in unsecured retail loan portfolio. Moreover, growth in CASA deposits, margins, and improvement in asset quality augurs well for ICICIB's profitability growth. The only caveat would be the clarification on the inclusion of written-off assets for calculating the coverage ratio.

We reiterate Buy on the stock with a target price of Rs 940. This includes Rs 230 as the valuation of its stake in banking and non-banking subsidiaries. We value the parent bank at 1.5x FY11E ABV.

Financial highlights

(Rs bn)	FY08	FY09	FY10E	FY11E
NII	73.0	83.7	84.8	98.6
Growth (%)	29.6	14.5	1.3	16.4
PPP	79.6	89.3	89.8	102.7
Growth (%)	35.5	12.1	0.6	14.4
FDEPS (Rs)	37.4	33.8	34.1	43.7
Growth (%)	8.0	(9.7)	1.0	28.0

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
Net interest margin	2.3	2.5	2.5	2.7
Non-int inc/Total inc	54.7	47.6	47.2	44.4
Cost/Inc ratio	50.6	44.1	44.1	42.0
RONW	11.7	7.8	7.5	9.1
ROA	1.1	1.0	1.0	1.2
Net NPA	1.5	2.1	2.3	2.1

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 793	Rs 940	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532174	ICICIBANK	ICICIB IN

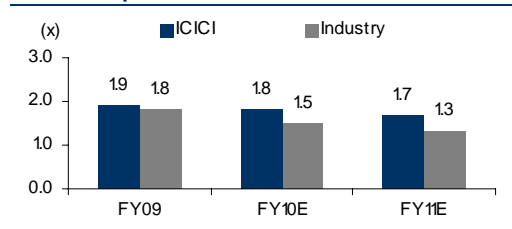
Company data

Market cap (Rs bn / US\$ bn)	882.8 / 17.8
Outstanding equity shares (mn)	1,113
Free float (%)	100
Dividend yield (%)	1.4
52-week high/low (Rs)	984 / 253
3-month average daily volume	7,266,778

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
ICICI	791	(12.9)	4.4	65.0
Bankex	9,336	(5.3)	12.4	64.2
Sensex	15,896	(7.2)	3.3	39.4

P/ABV comparison



Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/ABV @ CMP	2.0	1.9	1.8	1.7
P/ABV @ Target	2.4	2.3	2.2	2.0
P/E@CMP	21.2	23.5	23.3	18.2





Result highlights

Fig 1 - Actual vs. estimated performance

(Rs mn)	Actual	Estimate	% Variance
NII	20,361	20,831	(2.3)
PPP	24,353	23,550	3.4
PAT	10,401	9,176	13.4

Source: RHH

Fig 2 - Quarterly Performance

Rs mn	Q2FY10	Q2FY09	% chg YoY	Q1FY10	% chg QoQ
Int on Adv	44,930	57,114	(21.3)	50,866	(11.7)
Inc on Invest	16,280	17,941	(9.3)	15,761	3.3
Int on Bal with RBI etc.	5,359	3,295	62.6	4,708	13.8
Interest income	66,569	78,350	(15.0)	71,334	(6.7)
Interest expenses	46,209	56,874	(18.8)	51,482	(10.2)
Net interest income	20,361	21,476	(5.2)	19,853	2.6
Other income	18,238	18,773	(2.9)	20,899	(12.7)
Total Income	38,599	40,250	(4.1)	40,751	(5.3)
Operating expenses	14,245	17,400	(18.1)	15,460	(7.9)
PPP	24,353	22,849	6.6	25,291	(3.7)
Provisions and W/off	10,713	9,235	16.0	13,237	(19.1)
PBT	13,640	13,614	0.2	12,055	13.2
Taxes	3,239	3,472	(6.7)	3,273	(1.0)
PAT	10,401	10,142	2.6	8,782	18.4
NIMs (%)	2.5	2.4		2.4	
Cost to Income ratio (%)	36.9	43.2		37.9	
Tax rate (%)	23.7	25.5		27.1	
Advances (Rs bn)	1,909	2,220	(14.0)	1,981	(3.7)
Deposits (Rs bn)	1,978	2,234	(11.4)	2,102	(5.9)
CASA proportion (%)	36.9	30.0		30.4	
C/D ratio	96.5	99.4		94.2	
Gross NPA (%)	4.7	4.2		4.6	
Net NPA (%)	2.4	1.9		2.3	

Source: RHH, Company

Sustained control in operating costs
results in better-than-expected PAT

Loan book contraction, led by
unsecured retail loans, subdues NII
growth

Ex-treasury, non-interest income grows
11% QoQ

As guided, provisioning cost declines
QoQ; Q1FY10 includes Rs 2bn
provisions for restructured assets

4% QoQ decline in employee costs
aides improvement in C/I ratio

CASA deposits grow 9% YoY and 14%
QoQ



Standalone financials

Profit and Loss statement

Y/E March (Rs bn)	FY08	FY09	FY10E	FY11E
Interest earned	307.9	310.9	292.3	318.6
Interest expended	234.8	227.3	207.6	220.0
Net interest income	73.0	83.7	84.8	98.6
Non-interest income	88.1	76.0	75.9	78.6
Non-int income (ex-treasury)	70.0	63.2	63.4	73.6
Operating expenses	81.5	70.5	70.8	74.5
Pre-provisioning profits	79.6	89.3	89.8	102.7
Provision & contingencies	29.1	38.1	37.5	35.2
PBT	50.5	51.1	52.4	67.5
Income tax, interest tax	9.0	13.6	14.4	18.9
Net profit	41.6	37.6	38.0	48.6

Balance sheet

Y/E March (Rs bn)	FY08	FY09	FY10E	FY11E
Cash in hand & bal with RBI	293.8	175.4	149.1	179.6
Bal with banks, money at call	86.6	124.3	130.5	143.6
Investments	1,114.5	1,030.6	1,179.9	1,170.2
Advances	2,256.2	2,183.1	2,245.3	2,584.8
Fixed assets (net)	41.1	38.0	39.0	39.9
Other assets	205.7	241.6	265.8	279.1
Total assets	3,998.0	3,793.0	4,009.5	4,397.2
Equity capital	14.6	14.6	14.6	14.6
Reserves & surplus	453.6	484.2	506.9	540.3
Net worth	464.7	495.3	518.1	551.4
Deposits	2,444.3	2,183.5	2,258.5	2,528.9
CASA deposits	637.8	626.7	740.6	859.3
Term deposits	1,806.5	1,556.8	1,517.9	1,669.7
Borrowings (+sub-ord bonds)	864.0	928.1	1,029.0	1,137.6
Other liabilities & provisions	221.5	182.6	200.4	175.7
Total liabilities	3,998.0	3,793.0	4,009.5	4,397.2

Per share data

Y/E March	FY08	FY09	FY10E	FY11E
Shares outstanding (mn)	1,112.7	1,113.3	1,113.3	1,113.3
FDEPS (Rs)	37.4	33.8	34.1	43.7
DPS (Rs)	11.0	11.0	12.0	12.0
Book value (Rs)	417.6	444.9	465.3	495.3
Adjusted book value (Rs)	394.7	415.1	432.2	459.7

Key ratios

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Valuation ratios (x)				
P/E	21.2	23.5	23.3	18.2
P/BV	1.9	1.8	1.7	1.6
P/ABV	2.0	1.9	1.8	1.7
Return Ratios (%)				
Interest spread	2.1	2.1	2.0	2.3
Net interest margin	2.3	2.5	2.5	2.7
Yield on advances	10.7	10.1	9.6	9.6
Yield on investments	7.4	6.9	6.2	6.4
Cost of funds	7.4	7.1	6.5	6.3
Non-int Inc/ Total income	54.7	47.6	47.2	44.4
Opex cost/ Total income	50.6	44.1	44.1	42.0
Return on average net worth	11.7	7.8	7.5	9.1
Return on average assets	1.1	1.0	1.0	1.2
Growth ratios (%)				
Net interest income	29.6	14.5	1.3	16.4
Non-interest income	27.2	(13.7)	(0.2)	3.6
Non-int inc (Ex-treasury)	19.7	(9.7)	0.3	16.2
Total income	28.3	(0.9)	0.6	10.3
Pre-provisioning profit	35.5	12.1	0.6	14.4
Net profit	33.7	(9.6)	1.0	28.0
EPS	8.0	(9.7)	1.0	28.0
Advances	15.2	(3.2)	2.8	15.1
Deposits	6.0	(10.7)	3.4	12.0
Investments	22.1	(7.5)	14.5	(0.8)
Adjusted book value	55.3	5.1	4.1	6.4
Other Key metrics (%)				
Proportion of CASA deposits	26.1	28.7	32.8	34.0
Credit-Deposit ratio	92.3	100.0	99.4	102.2
Investment/Deposit	45.6	47.2	52.2	46.3
Gross NPA	2.8	4.3	4.5	4.5
Slippage	1.6	2.3	2.3	1.9
Net NPA ratio	1.5	2.1	2.3	2.1
CAR	14.6	15.4	16.5	15.1
Tier-I ratio	11.0	12.0	12.4	11.1



Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
NII (Rs bn)	21.5	19.9	21.4	19.9	20.4
YoY growth (%)	20.2	1.6	2.9	(5.0)	(5.2)
QoQ growth (%)	2.8	(7.3)	7.5	(7.2)	2.6
Total income (Rs bn)	40.2	45.0	38.1	40.8	38.6
YoY growth (%)	4.3	2.7	(14.2)	12.3	(4.1)
QoQ growth (%)	10.9	11.9	(15.4)	6.9	(5.3)
PPP (Rs bn)	22.8	27.7	21.6	25.3	24.4
YoY growth (%)	21.1	22.7	(5.9)	47.6	6.6
QoQ growth (%)	33.3	21.3	(22.2)	17.3	(3.7)
Adj net profit (Rs bn)	10.1	12.7	7.4	8.8	10.4
YoY growth (%)	1.2	3.5	(35.3)	20.6	2.6
QoQ growth (%)	39.3	25.5	(41.6)	18.1	18.4

Company profile

ICICI Bank is the largest private bank in India with a Rs 3,700bn balance sheet. It has also created a significant international footprint with its subsidiaries, ICICI UK and ICICI Canada, together accounting for 10.5% of consolidated banking assets. Apart from banking, the non-banking businesses too are expected to create considerable value for ICICI Bank over the next 2-3 years. Insurance, both life and general insurance, enjoys the highest market share amongst players in India, while the mutual fund business is amongst the largest with a market share of ~10%..

Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	-	-	-
FIs	62.7	65.3	65.3
Banks & FIs	22.5	23.6	24.4
Public	14.8	11.1	10.3

Recommendation history

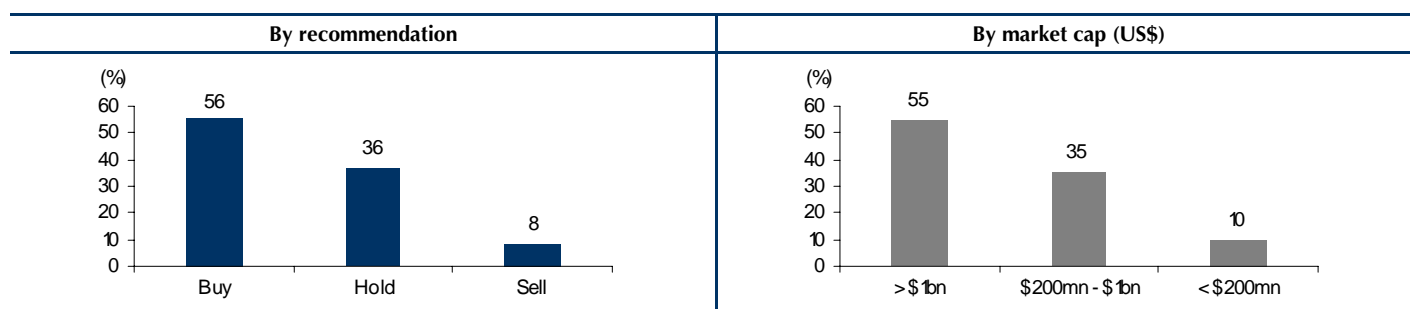
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	641	840	Buy
3-Nov-08	Results Review	346	595	Buy
24-Jan-09	Results Review	364	595	Buy
6-Apr-09	Quarterly Preview	325	455	Buy
27-Apr-09	Results Review	432	455	Hold
2-Jul-09	Quarterly Preview	722	770	Hold
27-Jul-09	Results Review	767	840	Buy
6-Oct-09	Quarterly Preview	938	940	Buy
30-Oct-09	Results Review	793	940	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

Disclaimer

This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).

This document is issued by Religare Hichens, Harrison & Co Plc ("Hichens") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. Hichens is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

Hichens, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

Hichens accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.

"Religare Enterprises Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a rights issue of its equity shares to its existing shareholders and has filed a draft letter of offer ("DLOF") with the Securities and Exchange Board of India ("SEBI"). The DLOF is available on the website of SEBI at www.sebi.gov.in as well as on the websites of the lead manager at www.enam.com. Investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the section titled "Risk Factors" of the DLOF."