

Company In-Depth

5 March 2007 | 6 pages

ICICI Bank (ICBK.BO)

Buy: Subsidiary Unlock

- Spinning off Insurance and AMC into a listable entity** — ICICI will be spinning off its holdings in Life Insurance, General Insurance and Asset Management businesses into a 100%-owned holding company. The transfer – Rs19.5b (9% of capital) of its investment will be at book value. Management suggests a listing timeframe of 6-9 months, within regulatory approvals needed for this structure.
- Objectives: Raise and generate capital, crystalize value, management continuity** — Primary drivers for this move appear to be: (1) creating structure to generate capital for and from these business and avoid regulatory roadblocks with the current holding structure; (2) better recognize value of its investments through a market-priced holding; (3) ensure management continuity – Ms Kalpana Morporia, Joint MD, slated to retire in mid-2007, will now be CEO of this entity.
- Capital self-sufficiency for the parent, the big gain** — This structuring and expected capital raising thereafter should bring capital self-sufficiency for the parent, for the medium term. We see this as a positive for ICBK valuations; frequent access to the capital markets has, in our view, been a drag on ROEs, and an overhang on valuations. This should now no longer be the case.
- How much is the subsidiary business worth?** — The value of the subsidiaries has not been ignored by the market; the issue is how much is recognized in ICBK's stock price. Our estimates suggest a value of Rs177 per share for the 3 entities (Rs160 for Life Insurance). This translates into about 21% of market value or about 16% of our target price of Rs1,125.

Buy/Low Risk	1L
Price (05 Mar 07)	Rs818.00
Target price	Rs1,125.00
Expected share price return	37.5%
Expected dividend yield	1.1%
Expected total return	38.6%
Market Cap	Rs731,378M
	US\$16,581M

Price Performance (RIC: ICBK.BO, BB: ICICIBC IN)



See Appendix A-1 for Analyst Certification and important disclosures.

Figure 1. Statistical Abstract

Year to	Net profit	FD EPS	EPS Growth	P/E	P/BV	ROAE	ROAA	Div Yld
31 Mar	(Rs mn)	(Rs)	(%)	(x)	(x)	(%)	(%)	(%)
FY05	20,049	26.7	2.7	30.6	4.8	19.5	1.4	1.0
FY06	25,397	28.1	5.2	29.1	3.3	14.6	1.2	1.0
FY07E	35,130	38.9	38.3	25.3	3.5	14.9	1.2	1.1
FY08E	41,194	45.6	17.3	21.6	3.1	15.6	1.2	1.1
FY09E	51,539	57.1	25.1	17.3	2.7	17.1	1.2	1.2

Source: Citigroup Investment Research estimates

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¹Citigroup Global Market India Private Limited

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	30.6	29.1	21.0	17.9	14.3
P/E reported (x)	30.6	29.1	21.0	17.9	14.3
P/BV (x)	4.8	3.3	2.9	2.6	2.3
P/Adjusted BV diluted (x)	4.9	3.3	3.0	2.6	2.3
Dividend yield (%)	1.0	1.0	1.1	1.1	1.2
Per Share Data (Rs)					
EPS adjusted	26.74	28.13	38.91	45.63	57.09
EPS reported	26.74	28.13	38.91	45.63	57.09
BVPS	170.35	249.55	278.91	315.09	362.33
Tangible BVPS	170.35	249.55	278.91	315.09	362.33
Adjusted BVPS diluted	167.40	245.96	274.90	310.55	357.11
DPS	8.50	8.50	9.00	9.00	9.50
Profit & Loss (RsM)					
Net interest income	28,390	41,870	66,562	88,290	113,560
Fees and commissions	19,210	30,019	43,528	57,457	74,695
Other operating Income	14,952	20,347	25,679	23,438	26,619
Total operating income	62,552	92,237	135,769	169,185	214,874
Total operating expenses	-32,991	-44,795	-64,908	-84,404	-108,521
Oper. profit bef. provisions	29,561	47,442	70,862	84,781	106,353
Bad debt provisions	1,128	-8,173	-15,818	-17,345	-20,720
Non-operating/exceptionals	-5,416	-8,303	-10,000	-11,000	-12,000
Pre-tax profit	25,272	30,966	45,044	56,436	73,633
Tax	-5,220	-5,565	-9,910	-15,238	-22,091
Extraord./Min. Int./Pref. Div.	-4	-4	-3	-4	-4
Attributable profit	20,049	25,397	35,130	41,194	51,539
Adjusted earnings	20,049	25,397	35,130	41,194	51,539
Growth Rates (%)					
EPS adjusted	2.7	5.2	38.3	17.3	25.1
Oper. profit bef. prov.	24.4	60.5	49.4	19.6	25.4
Balance Sheet (RsM)					
Total assets	1,676,593	2,513,890	3,123,338	3,816,703	4,594,540
Avg interest earning assets	1,358,109	1,953,003	2,651,655	3,299,608	4,030,989
Customer loans	965,132	1,496,945	2,001,439	2,467,960	2,977,855
Gross NPLs	27,704	22,226	40,818	60,250	81,084
Liab. & shar. funds	1,676,593	2,513,890	3,123,338	3,816,703	4,594,540
Total customer deposits	998,188	1,650,832	2,143,685	2,729,966	3,386,009
Reserve for loan losses	22,541	17,274	34,097	50,691	70,281
Shareholders' equity	128,999	225,560	251,685	283,876	325,911
Profitability/Solvency Ratios (%)					
ROE adjusted	19.5	14.6	14.9	15.6	17.1
Net interest margin	2.1	2.1	2.5	2.7	2.8
Cost/income ratio	52.7	48.6	47.8	49.9	50.5
Cash cost/average assets	2.3	2.1	2.3	2.4	2.6
NPLs/customer loans	2.9	1.5	2.0	2.4	2.7
Reserve for loan losses/NPLs	81.4	77.7	83.5	84.1	86.7
Bad debt prov./avg. cust. loans	-0.1	0.7	0.9	0.8	0.8
Loans/deposit ratio	96.7	90.7	93.4	90.4	87.9
Tier 1 capital ratio	7.6	9.2	8.5	7.9	7.5
Total capital ratio	11.8	13.4	11.2	10.3	9.8

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ICICI Bank

Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in all consumer-finance segments. ICICI Bank has international banking operations as its key focus area.

Investment thesis

Our Buy/Low Risk (1L) rating is premised on: (1) the bottoming of ICICI Bank's margin cycle, which we expect will start picking up from FY08; (2) a broadening asset mix, which should reduce the risk and profitability strain from concentration; (3) the growing value of its subsidiary businesses; (4) and its broad exposure to the strong momentum in the Indian economy. The bank, in our view, offers one of the best exposures to the consumer finance and financial services opportunity in India, and has been at the forefront of building market leadership in most products. ICICI Bank also offers large exposure to the corporate lending and capex cycle, which should be viewed against the economy's bright prospects.

Valuation

Our target price of Rs1,125 is based on our EVA methodology, which captures the long-term value of the business and is a standard valuation measure for our India banking universe. Our target price is premised on the following: (1) a risk-free rate of 8%; (2) a long-term loan loss of 100bps; and (3) subsidiary value of Rs216 per share. We prefer to use EVA as our primary methodology because we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business. On our sum-of-the-parts methodology, our fair value for ICICI Bank is Rs1,051. We value ICICI Bank's banking business on a 3x FY08E PBV to reflect sustained growth, healthy asset quality and a profitable operating environment. We value the subsidiaries at Rs185 based on FY08E multiples.

Risks

Our risk rating is Low based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. The downside risks that could impede the shares from reaching our target price include: (1) a large NPA book; (2) low margins could also be affected by NPAs, interest-rate volatility and competition; (3) aggressive growth in a range of business areas raises the risk of some failures; (4) international operations without much experience; and (5) additional capital calls.

Appendix A-1

Analyst Certification

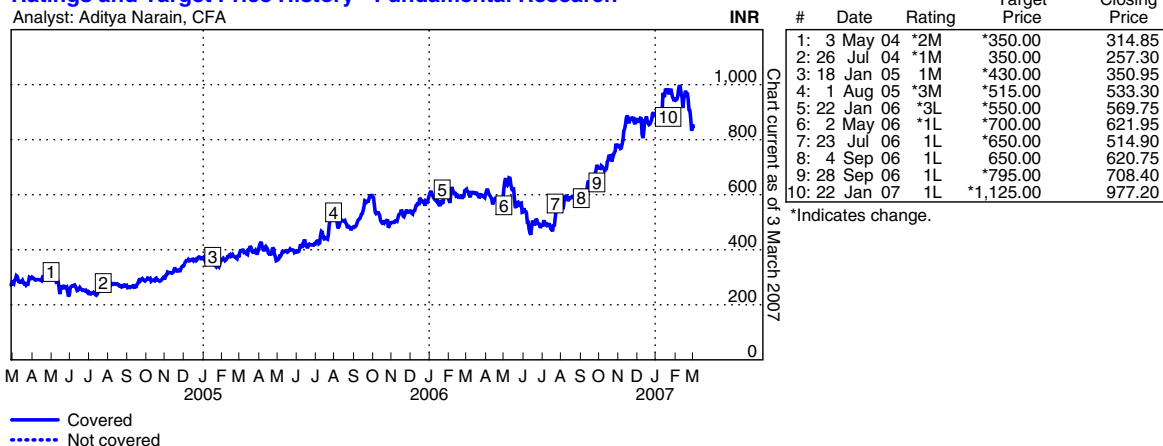
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ICICI Bank (ICBK.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Aditya Narain, CFA



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