

April 13, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs1,099	Rs1,200
EPS change CY10E/11E (%)	NA
Target Price change (%)	NA
Nifty	5,786
Sensex	19,263

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	5	(3)	12
Rel. to Nifty	3	7	3	4

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	ICICIBC@IN
Equity Capital (Rs mn)	11,518
Face Value(Rs)	10
No of shares o/s (mn)	1.152
52 Week H/L	1,277/803
Market Cap (Rs bn/USD mn)	1,265/28,525
Daily Avg Volume (No of sh)	4787889
Daily Avg Turnover (US\$m)	111.4

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	-	-	-
FII/NRI	67.4	67.6	67.6
Institutions	23.3	23.0	23.7
Private Corp	3.8	3.8	2.6
Public	5.5	5.7	6.0

Source: Capitaline

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- **ICICI Bank eyeing a growth of 20% in advances over next couple of years. The growth to be driven by both, corporate and retail (secured) loans**
- **Better utilisation of branches to drive CASA. Opened 300 new branches and acquired 460 BOR branches in FY11 which have low utilisation. Confident of 40%+ CASA ratio**
- **Operating costs likely to move up as bank moves on growth path. Opex to grow at 20% in FY12E. However, provision costs to be much lower than FY11**
- **Valuations at 2.3x FY11E/2.1x standalone FY11E/FY12E ABV not unreasonable. Maintain HOLD rating with TP of Rs1200**

Back to growth path – targeting 20% growth

ICICI Bank is targeting 20% growth in advances over next two years driven by both, the corporate and retail loans. ICICI Bank's corporate loan book has seen strong growth over last two years which will continue. In the retail segment, the growth drivers will be mortgages, commercial vehicles and auto loans. The growth in the standalone book may also be driven by the international branches as ICICI Bank may have to book some of the overseas loans of Indian corporate in branches (not in subsidiaries) due to regulatory constraints.

Growth in portfolio

Rs bn	Q3FY10	Q3FY11	CAGR (%)
Retail	1,148	790	-17.1
International	531	504	-2.6
Rural	85	153	34.1
SME	85	87	1.1
Others	276	533	38.9
Total	2,125	2,067	-1.4

Source: Company, Emkay Research

Better utilizations to drive low cost liability growth

Over M9FY11, ICICI Bank has expanded its branch network by 770 branches by opening new branches (~300 branches) and taking over 460 BOR branches. The productivity of most of the BOR's urban/metro branches and ICICI Bank's own new branches is significantly low.

We believe that improvement in utilization levels and recruitment of 8,000+ people this year at the branch level will help ICICI Bank to grow its CASA at 20%, in line with advances growth and thereby maintaining CASA at 40%+ level.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY09	159,703	37,581	33.8	404.0	1.0	7.8	32.6	2.7
FY10	155,920	39,307	35.3	428.5	1.1	8.0	31.1	2.6
FY11E	156,129	51,429	46.2	485.0	1.4	9.3	23.8	2.3
FY12E	187,780	61,959	55.7	527.8	1.5	10.1	19.7	2.1

Source: Company, Emkay Research

Branch utilisation

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q3FY11/ Q4FY10
No of branches	1,626	1,741	2,016	2,501	2,512	771
Advances per branch	1,103	1,041	915	776	823	-20.9%
Deposits per branch	1,216	1,160	997	892	867	-25.3%
Demand Deposits per branch	167	178	139	139	126	-29.2%
Savings deposits per branch	314	306	280	253	257	-15.9%
Term deposits per branch	734	677	577	500	484	-28.5%

Source: Company, Emkay Research

Low cost deposits may help NIMs at 2.6%

A 20% growth in advances alongwith 40%+ CASA will help ICICI Bank to maintain its NIMs in FY12 at 2.6%.

Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.6	8.5	8.3	8.3	8.3	-29	-4
Yield on investments*	5.6	5.1	5.3	5.8	6.3	73	48
Yield on assets*	6.7	6.5	6.4	6.7	6.8	10	15
Cost of funds*	4.5	4.2	4.2	4.4	4.5	2	12
NIM*	2.3	2.3	2.2	2.3	2.4	8	2
NIM (Reported)	2.5	2.6	2.5	2.6	2.6	10	0

Source: Company, Emkay Research

* Calculated on average quarterly balances

Treasury gains may be better in H2FY12

ICICI Bank has been providing ~Rs750mn per quarter for NAV losses on the ARCIL bonds (obtained in lieu of asset sale) which may continue for next two quarters. Hence, ICICI Bank may be in position to show better treasury gains/lower losses in H2FY12.

Operating costs likely to move up

For M9FY11, ICICI Bank's operating costs have grown by 13% yoy despite consolidation of costs of BOR. However, for FY12E, the operating costs are more likely to go up by 20% as ICICI Bank has recruited large number of people in H2CY10 and also as BOR costs will be consolidated for full year.

Provision costs likely to be lower in F12E

ICICI Bank expects to consolidate the gains made in M9FY11 in containing slippages and consequently the provision expenses are more likely to remain in line with H2CY10 (~Rs4.5-5.5bn/quarter). Also, the bank doesn't expect anymore NPAs to come from BOR loan portfolio.

During the quarter, ICICI Bank has restructured ~70% of its exposure to MFIs. The total exposure to MFIs is at Rs15bn.

Asset quality

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	90,700	96,270	99,770	102,330	102,300	12.8	0.0
Net NPAs	44,160	39,010	35,140	31,920	28,727	-34.9	-10.0
Gross NPAs (%)	5.1	5.3	5.4	5.3	4.8		
Net NPAs (%)	2.2	1.9	1.6	1.4	1.4		
Net NPAs/Net worth (%)	8.5	7.6	6.7	5.9	5.2		
Provision cover (%)	51.3	59.5	64.8	68.8	71.9		

Source: Company, Emkay Research

No further investments in subsidiaries

The investments in subsidiaries may remain minimal and only required in ICICI Lombard General Insurance due to losses (Rs3bn) incurred on account of contribution to the third party insurance pool.

Valuations and view

We maintain our estimates of 25% CAGR in earnings over FY10-12E for ICICI Bank with core RoE of 12.5% (9.4% in FY10) as the credit costs come down. We have valued the banking (including subsidiary) operations of ICICI Bank at 2x on FY12E P/ABV and maintain HOLD rating with price target of Rs1200.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	83,666	81,144	89,274	106,536
Other income	76,037	74,777	66,855	81,245
Net income	159,703	155,920	156,129	187,780
Operating expenses	70,451	58,598	63,987	75,990
Pre provision profit	89,252	97,322	92,143	111,790
PPP excl treasury	71,248	90,005	92,043	110,690
Provisions	38,113	43,899	24,473	29,179
Profit before tax	51,140	53,423	67,670	82,612
Tax	13,558	13,173	16,241	20,653
<i>Tax rate</i>	<i>26.51%</i>	<i>24.66%</i>	<i>24.00%</i>	<i>25.00%</i>
Profit after tax	37,581	40,250	51,429	61,959

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	11,133	11,149	11,510	11,510
Reserves	484,197	505,035	576,760	624,883
Net worth	495,330	516,184	588,270	636,393
Deposits	2,183,478	2,020,166	2,110,958	2,718,273
Borrowings	1,114,203	1,102,319	1,165,657	1,215,489
Total liabilities	3,793,011	3,638,668	3,864,884	4,570,154
Assets				
Cash and bank	299,666	388,737	256,562	330,374
Investments	1,004,582	1,172,574	1,227,231	1,432,499
Customer assets	2,209,109	1,848,410	2,177,123	2,605,277
Others	279,652	228,947	205,289	203,657
Total assets	3,793,011	3,638,668	3,864,884	4,570,154

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.1	2.2	2.4	2.4
Non-ll/avg assets	2.0	2.0	1.8	1.9
Fee income/avg assets	1.4	1.3	1.4	1.5
Opex/avg assets	6.8	5.5	5.2	5.6
Provisions/avg assets	1.8	1.6	1.7	1.8
PBT/avg assets	1.3	1.5	1.8	1.8
Tax/avg assets	0.4	0.4	0.4	0.5
RoA	1.0	1.1	1.4	1.5
RoAE	7.8	8.0	9.3	10.1
Core RoAE	9.2	9.4	11.5	12.5
GNPA (%)	4.3	4.7	5.2	5.2
NNPA (%)	2.1	2.1	1.4	1.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	37,581	39,307	51,429	61,959
Shares in issue (mn)	1,113	1,115	1,151	1,151
EPS (Rs)	33.8	35.3	44.7	53.8
PER (x)	32.6	31.2	24.6	20.4
FDEPS(Rs)	33.8	35.3	46.2	55.7
FDPER (x)	32.6	31.1	23.8	19.7
Book value (Rs)	444.9	463.0	511.1	552.9
P/BV (x)	2.5	2.4	2.2	2.0
Adj book value (Rs)	404.0	428.5	485.0	527.8
P/ABV (x)	2.7	2.6	2.3	2.1
P/PPP (x)	13.7	12.6	13.7	11.3
Dividend yield (%)	1.1	1.2	1.1	1.1

Recommendation History: ICICI Bank – ICICIBC IN

Date	Reports	Reco	CMP	Target
24/01/2011	<u>ICICI Bank Q3FY11 Result Update</u>	Hold	1,084	1,200
29/10/2010	<u>ICICI Bank Q2FY11 Result Update</u>	Hold	1,162	1,200
02/08/2010	<u>ICICI Bank Q1FY11 Result Update</u>	Hold	904	900
26/04/2010	<u>ICICI Bank Q4FY10 Result Update</u>	Hold	976	900

Recent Research Reports

Date	Reports	Reco	CMP	Target
05/04/2011	<u>Future Capital Holding Management Meet Update</u>	Not Rated	157	NA
17/03/2011	<u>Banking Sector Update</u>			
08/03/2011	<u>M & M Financial Services Initiating Coverage</u>	Buy	703	870
10/02/2011	<u>Manappuram General Finance Company Update</u>	Buy	91	120

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