

ICICI Bank

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New strategy to take time to pay off

- ICICI Bank's Q4FY09 net profit of Rs 7.44bn was lower than our expectation due to the higher tax rate, whereas operating profit of Rs 21.5bn was in line.
- As the bank continues to restructure its balance sheet, the effect can be visible in terms of the muted quarterly performance. The loan book declined as the retail assets run down and the bank is wary of making fresh addition. Also on the liability side, the retail deposits are replacing wholesale deposits. The restructuring and cost containment exercise has till date given fruitful results in terms of margin improvement due to reduction in the cost of funds and decline in cost to income ratio. Fee income has shown de-growth with the slowdown in the disbursements. Provision for NPLs remained at the higher level due to higher delinquencies. Tax incidence increased as proportion of dividend income and capital gain in total income declined. The bank has been conserving capital by slowing growth and is well capitalised. We believe that the muted performance would continue for the next couple of quarters before the restructuring benefits start to pay off.
- Muted NII Growth:** NII growth remains muted, driven by credit de-growth and 20bps YoY improvements in NIMs. The decline in the credit is the reflection of a slowdown in retail lending. The NIMs have increased sequentially at 2.6% due to reduction in the cost of funds.
- De-growth in non-interest income:** Fee-based income registered de-growth of 30% YoY, which is the reflection of the decline in business activity. Treasury operations reported a gain of Rs 2.14bn contributed by G-sec.
- Improvement in cost to income ratio:** Various cost containment measures resulted in the cost to income ratio declining to 46% vs. 50% last year. Payroll costs declined by 2% YoY. Commission to DMA has declined by 85% YoY to Rs 0.53bn. Other operating expenses declined by 13.5% YoY to Rs 13.3bn. Pre-provisioning profit declined by 6% YoY to Rs 21.55bn.
- Provisions and contingencies:** Registered a 14.5% YoY growth to Rs 10.85bn, largely towards NPLs. Effective tax rate increased to 30.6% vs. 14.4% last year. PAT declined by 35% YoY to Rs 7.44bn.
- Asset quality:** Incremental slippages during the quarter were Rs 12.5bn (0.50% of gross customer asset). GNPL net of sell down stood at 4.12% vs. 3.42% last year. The bank has been selling distressed assets to ARCs. The GNPL, including sales and write-offs, would stand at 6.2% of gross customer advances.

Outlook and Valuation: The bank is adequately capitalised with CRAR above 15.5%. We reduce our target price to Rs 500 from Rs 640 due to the muted growth outlook. We see the overhang persisting through the current market dislocation and the potential of a bounce-back much faster when the dust settles down. We maintain our Buy rating on the stock with a revised target price of Rs 500.

Valuation summary

Y/E Mar, Rs mn	FY 06	FY 07	FY 08	FY 09	FY 10E
Pre-prop ROE (%)	26.3	24.9	22.3	18.5	17.7
Pre-prod ROA (%)	2.4	2.1	2.3	2.4	2.5
Net Profit	25,400	31,089	41,577	37,581	38,650
% growth	26.7	22.4	33.7	-9.6	2.8
EPS (Rs)	28.5	34.6	37.4	33.8	34.7
Adj BVPS (Rs)	241.7	252.1	389.4	407.3	423.9
ROE (%)	14.3	13.2	11.6	7.8	7.6
P/E (x)	15.2	12.5	11.6	12.8	12.5
Adj. P/BV (x)	1.79	1.72	1.11	1.06	1.02

Source: Company, MF Global India Research Estimates

Maintain Buy / Rs 433
Target Rs 500 (+15%)

Sector (Relative to market)

OW	N	UW

Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for:

- Q4FY09 results analysis
- Revision in earnings and price target

Bloomberg code:
Reuters code:
www.icicibank.com

ICICIBC IN
ICBK.BO

BSE Sensex: 11329
NSE Nifty: 3481

Company data

O/S shares:	1113mn
Market cap (Rs):	481bn
Market cap (USD):	9.7bn
52 - wk Hi/Lo (Rs):	961 / 253
Avg. daily vol. (3mth):	21.2mn
Face Value (Rs):	10

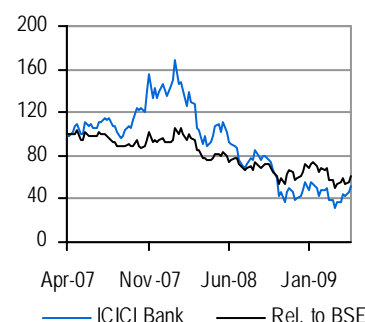
Share holding pattern, %

FII / NRI:	65.6
FI / MF:	19.5
Non-Promoter Corp. Holdings:	4.7
Public & Others:	7.9

Price performance, %

	1mth	3mth	1yr
Abs	22.1	19.3	-50.6
Real to BSE	2.5	-11.3	-18.4

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Q4FY09 Earnings

(Rs mn)	Q4FY09	Q4FY08	YoY gwth	FY09	FY08	YoY gwth
Net interest income	21,388	20,795	2.9	83,666	73,041	14.5
NIMs	2.60	2.40		2.40	2.20	
Non interest income	16,737	23,620	-29.1	76,037	88,108	-13.7
Fee & Other Income	13,430	19,280	-30.3	66,143	56,053	18.0
Portfolio gains	2,140	1,640	30.5	3,000	18,802	-84.0
% of Total Income (excl'd portfolio income)	5.9	3.8		1.9	13.2	
Total Income	38,125	44,415	-14.2	159,703	161,149	-0.9
Total operating expenses	16,571	21,505	-22.9	70,451	81,542	-13.6
Payroll costs	4,574	4,666	-2.0	19,717	20,789	-5.2
Others	11,996	16,838	-28.8	50,734	60,753	-16.5
Pre-provision Profit	21,555	22,910	-5.9	89,252	79,607	12.1
Provisions & Contingencies	10845	9475	14.5	38083	29046	31.1
% Operating income	50.3	41.4		42.7	36.5	
PBT	10,709	13,435	-20.3	51,170	50,561	1.2
Provision for Taxes	3,272	1,933	69.2	13588	8984	51.3
% of PBT	30.6	14.4		26.6	17.8	
Net Profit	7,437	11,502	-35.3	37,581	41,577	-9.6
Equity	11,133	11,126		11,130	11,127	
EPS, Rs	7	10	-35.4	34	37	-9.6

Advances	2,183,109	2,256,160	-3.2
Deposits	2,183,478	2,444,310	-10.7
Advances / Deposits (%)	100.0	92.3	7.7
Gross NPAs	96493.1	75795.0	27.3
Gross NPAs (%)	4.3	3.3	1.0
Net NPAs	45539.4	34900.0	30.5
Net NPAs (%)	2.1	1.5	0.6
CAR - Tier I	11.80	11.76	0.0
CAR - Tier II	3.70	2.21	1.5
CAR - Total	15.5	14.0	1.5

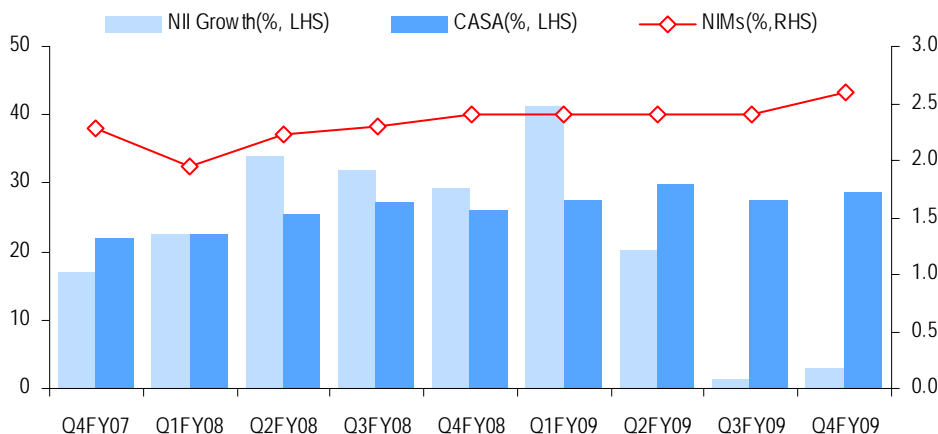
Source: Company, MF Global India Research Estimates

Business Highlights

Net Interest Income

NII reported a YoY rise of 2.9% to Rs 21.4bn, the margins improved by 20bps YoY to 2.6%. The credit book showed a decline of 3.2% YoY to Rs 2183bn. The domestic book showed a decline of 8% YoY whereas international book (in the parents' portfolio) showed a rise of 14% YoY, largely on account of rupee depreciation. The margins improved mainly on the back of the decline in the cost of funds by 40bps to 7%; on the back of higher CASA ratio. The CASA increased by 2.6% YoY to 28.7%; sequentially moved up by 1.2%.

NIM Movement



Source: Company, MF Global India Research

Other income

Other income, during the quarter, showed a decline of 29% to Rs 16.7bn on the back of lower fee income of Rs 13.4bn, contributing 80% to the total non-interest income. The fee income showed a dip on the back of slow disbursements affecting the income from the corporate and retail sector. The portfolio gains showed a growth of 30.5% to Rs 2.1bn.

Constituents of Non-Interest Income

Rs bn	Q4FY09	Q4FY08	YoY Gwth, %
Commission / Brokerage	13.4	19.3	-30.3
Portfolio gains	2.1	1.6	30.5
Other Misc Income	1.2	2.7	-56.8
Total	16.7	23.6	-29.1

Source: Company, MF Global India Research

Operating Expenses

Operating expenses declined by 23% YoY to Rs 16.6bn on the back of containment of expenses, of which DMA expenses were to the tune of Rs 0.53bn against Rs 3.58bn last year, leading to a decline in other operating expenses by 29% YoY. The DMA expenses during the quarter contributed 4.4% of the other operating expenses vs. 21% last year. The employee cost shows a dip of 2% YoY to Rs 4.57bn. The branch network as on March '09 is 1438; and the bank plans to increase the network to ~2000 branches by FY10. The cost to income ratio has reduced to 46% as against 50% last year.

Provision and contingencies

Provision and contingencies showed a growth of 14.5% YoY to Rs 10.85bn (largely towards NPL), translating into a proportion to the operating profit of 50% against 41.4% last year. The core operating profit showed a decline of 9% YoY to Rs 19.4bn. PBT showed a decline of 20% YoY to 10.7bn; while PAT declined by 35% year-on-year to Rs7.4bn on the back of higher taxes. The tax provisions were higher on the back of lower contribution from the dividend and capital gain, thereby translating into a higher tax rate of 30.6% as against 14.4% last year.

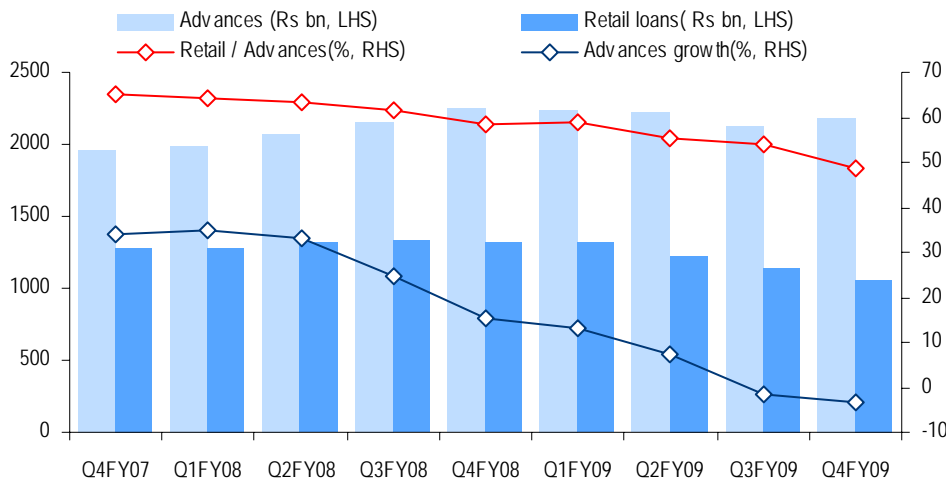
Capital Adequacy ratio

The bank is sufficiently capitalised with its capital adequacy as per Basel II at 15.5% (Tier I = 11.8%). The bank's capital adequacy was maintained at the same levels of Q3FY09; on the back of de-growth in advances of 3.2% YoY, which helped the bank to conserve capital.

Advances and Deposits

Advances showed a decline of 3.2% YoY to Rs 2183bn; sequentially, it increased by 2.7%. The proportion of retail advances to total advances has reduced to 49% as against 58% last year. The bank has gone slow on the retail front; the personal loans within the retail segment declined by 16% QoQ to Rs 92bn. The deposits declined by 10.7% YoY to Rs 2183bn; sequentially an increase of 4%. The demand deposits declined by 2% YoY to Rs 626bn; while the term deposits declined by 14% YoY to Rs 1556bn. The low-cost deposit mix increased by 2.6% YoY to 28.7%; sequentially an increase of 1.2%.

Credit mix

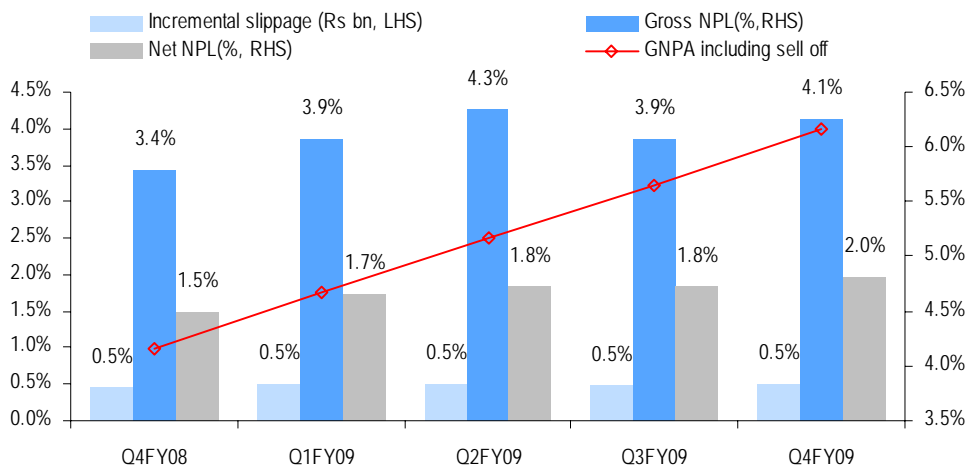


Source: Company, MF Global India Research

Asset Quality

The asset quality remains a concern with gross NPL, including write-offs has increased to ~4.52% from ~3.42% last year. The NNPA net of technical write-offs stands at 2.09% as against 1.55% last year. The gross retail NPA as a proportion to total advances has increased from 2.27% last year to 2.96% currently. The incremental slippage during the quarter was Rs 12.5bn, which is equivalent to ~0.52% of the gross customer assets. The loans restructured during the quarter of Rs11bn and the pending applications to the tune of Rs 20bn; together account for 1.42% of the advances.

Asset Quality



Source: Company, MF Global India Research

Overseas banking subsidiaries

The UK subsidiary registered a profit of US\$ 6.8mn for FY09 vs. US\$ 38.4mn in FY08. The UK book has total assets of US\$ 7.3bn and a net worth of US\$ 438mn after the capital infusion of ~US\$ 120mn by the parent during the FY09 and MTM losses adjusted through reserves of US\$ 164mn.

The Canada subsidiary registered a PAT of US\$ 33.9mn for FY09. The liability profile seems more stable with term deposit comprising 88% of the total deposit base of CAD 5.12bn. Net worth of the bank's Canada subsidiary increased significantly as a result of capital infusion of CAD 650mn, leading to a net worth of CAD 960mn for the year ended March' 09.

The Eurasia subsidiary witnessed significant decline in asset size since Dec' 07, largely due to declining currency and downsizing of the portfolio. The assets declined to US\$ 441mn by the end of March' 09 vs. US\$ 772mn by the end of Dec' 07. PAT increased to US\$ 2mn for the year ended Dec '08 vs. a loss of US\$ 1.8mn for the year ended Dec' 07.

Other Business highlights

The life insurance business registered a new business profit of Rs 10.04bn for FY09 vs. Rs 12.54bn, registering a YoY decline of 20%. NBAP margin stood at 18.9% against 19.2% in FY08. Annualised business equivalent registered a decline of 19% YoY to Rs 53.02bn. ICICI Lombard reported a gross written premium of Rs 34.57bn for FY09, flat compared to last year. PAT in general insurance declined by 77% to Rs 0.24bn, largely due to lower business and de-tariffing in the industry.

Sum-of-the-Parts valuation

	Share holding of ICICI	Valuation per share Rs	Valuation Criteria
ICICI Bank		315	DDM
ICICI Securities Ltd	99.9%	10	10 times 1-yr forward PAT of Rs 1.1bn
ICICI Prudential life insurance company Ltd	74.0%	108	15 times 1-yr forward NBAP of Rs 11bn (NBAP margin of 19%)
ICICI Lombard General insurance company Ltd	74.0%	8	10 times 1-yr forward PAT of Rs 570mn
ICICI AMC	51.0%	20	4% of 1-yr forward AUM of Rs566bn
ICICI Venture capital fund management company Ltd	100.0%	6	4% of FY09E AUM of Rs 142bn
Other banking subsidiary including HFC's		33	0.5x, 1-yr forward ABV
Total		500	

Source: MF Global India Research

FINANCIALS (STANDALONE)

Income Statement

Rs mn	FY06	FY07	FY08	FY09	FY10E
Interest on Loans	96,850	160,963	226,010	223,238	224,354
Interest on Investments	36,927	49,885	74,660	74,031	75,511
Others	4,068	9,094	7,213	13,657	15,022
Total Interest Earned	137,844	219,943	307,883	310,926	314,888
Total Interest Expended	95,974	163,585	234,842	227,259	218,383
Net Interest Income	41,870	56,358	73,041	83,666	96,505
Total non interest income	49,831	69,279	88,108	76,037	65,454
Total Income	91,701	125,637	161,149	159,703	161,959
Personnel Expenses	10,823	16,167	20,789	19,717	20,703
Other Expenses	34,199	50,738	60,753	51,965	50,714
Total Op expenses	45,022	66,906	81,542	70,451	71,416
Net Inc (Loss) before prov	46,679	58,731	79,607	89,252	90,543
Provisions	-1571	-2226	-2905	-3808	-3760
Net Inc (Loss) before tax	30,966	36,467	50,561	51,170	52,945
Provision for Income Tax	5,565	5,378	8,984	13,588	14,295
Net Profit	25,400	31,089	41,577	37,581	38,650

Source: Company, MF Global India Research Estimates

Balance Sheet

As at 31st Mar (Rs mn)	FY 06	FY 07	FY 08	FY 09	FY 10E
Assets					
Cash & Bal with RBI	170,402	371,213	380,411	299,660	259,472
Loans, Adv & Int accrued	1,461,631	1,958,656	2,256,161	2,183,110	2,357,759
Investments	737,017	941,996	1,149,411	1,072,431	1,211,408
Fixed Assets (Net)	39,807	39,234	41,089	49,307	59,168
Other assets	105,032	135,482	170,879	188,503	185,588
Total Assets	2,513,889	3,446,581	3,997,951	3,793,010	4,073,394
Liabilities					
Share capital	8,898	8,993	11,127	11,130	11,130
Reserves and Surplus	213,162	234,139	453,575	484,200	507,224
Preference Capital	3,500	3,500	3,500	3,500	3,500
Hybrid Capital	0	9,560	24,663	46,820	49,883
Debt	101,444	184,491	182,839	201,122	221,235
Borrowing	385,219	512,560	656,484	680,107	714,113
Total Deposits	1,664,678	2,325,511	2,470,279	2,219,291	2,406,899
Other liab incld prov	136,989	167,827	195,483	146,839	159,411
Total Liabilities	2,513,889	3,446,581	3,997,951	3,793,010	4,073,394

Source: Company, MF Global India Research Estimates

Profitability, Productivity, Liquidity and Valuation Ratios

	FY 06	FY 07	FY 08	FY 09	FY 10E
Earnings and Valuation Ratios					
Pre-provision Operating RoAE (%)	26.3	24.9	22.3	18.5	17.7
RoAE (%)	14.3	13.2	11.6	7.8	7.6
Pre-provision Operating ROA (%)	2.2	2.0	2.1	2.3	2.3
RoAB (%)	1.3	1.1	1.2	1.0	1.0
EPS (Rs.)	28.5	34.6	37.4	33.8	34.7
Dividend per share (Rs.)	8.5	10.0	11.0	11.0	12.0
Book Value (Rs.)	253.5	274.2	420.8	448.2	468.9
Adj BV (Rs.)	241.7	252.1	389.4	407.3	423.9
Roe of banking business	15.3	14.7	12.0	8.9	8.6
Revenue Analysis					
Interest income on IBA (%)	7.0	7.8	8.7	8.5	8.5
Interest cost on IBL (%)	5.4	6.3	7.4	7.0	6.7
NIM on IBA / AWF (%)	2.1	2.0	2.1	2.3	2.6
Core fee Inc / AWF (%)	1.8	1.8	2.0	2.0	1.8
Portfolio gains / Total Inc (%)	8.2	9.7	13.2	1.9	0.3
Op.Exp / TI (%)	53.1	58.4	57.3	45.0	44.2
Op.Exp / AWF (%)	2.3	2.4	2.3	1.9	1.9
Employee exps / Op exps (%)	24.0	24.2	25.5	28.0	29.0
Tax / Pre-tax earnings (%)	18.0	14.7	17.8	26.6	27.0
Asset Quality					
GNPAs / Gr Adv (%)	1.5	2.1	3.4	4.3	5.2
NNPAs / Net Adv (%)	0.7	1.0	1.6	2.1	2.2
Growth Ratio					
Loans (%)	59.9	34.0	15.2	(3.2)	8.0
Investments (%)	38.7	27.8	22.0	(6.7)	13.0
Deposits (%)	64.6	39.7	6.2	(10.2)	8.5
Net worth (%)	74.9	9.3	89.8	6.5	4.6
Net Int Income (%)	47.5	34.6	29.6	14.5	15.3
Non-fund based income (%)	49.4	35.6	19.2	5.4	(11.1)
Non-Int Exp (%)	36.1	48.6	21.9	(13.6)	1.4
Profit Before Tax (%)	22.5	17.8	38.6	1.2	3.5
Net profit (%)	26.7	22.4	33.7	(9.6)	2.8
Asset / Liability Profile					
Avg CASA/ Deposits (%)	23.1	22.0	23.8	27.0	29.8
Avg Adv / Avg Dep (%)	86.9	84.1	85.4	91.0	93.4
Avg Invst / Avg Dep (%)	47.4	42.1	43.6	47.4	49.4
Incr Adv / Deposits (%)	83.8	75.2	205.5	29.1	93.1
Avg Cash / Avg Dep (%)	11.2	13.6	15.7	14.5	12.1
Capital Adequacy Ratio					
Tier I (%)	13.4	11.3	14.0	15.5	15.5
Tier II (%)	9.2	7.4	11.8	11.8	11.7
Internal Capital Generation rate (%)	14.2	9.9	12.1	5.5	5.1
NNPAs to Equity (%)	4.7	8.1	7.5	9.1	9.6

Source: Company, MF Global India Research Estimates

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