March 8, 2011

Buy

ICICI Bank

Industry: **Commercial Banks** | Industry View: **Neutral**

Reflecting growth

Investment Highlights

- The bank continues to move positively towards achieving the 5C strategies laid down by the current management. We believe buoyancy of economic growth will continue over the next 2-3 years and ICICI Bank will benefit from infrastructure and corporate growth. We expect the bank to grow by 19% CAGR over FY10-13E.The significant capital accretion, through roll off and lower disbursement of unsecured assets has translated higher liquidity and CAR of 19% (Dec'10).

- Branch expansion and implementing CASA accretive strategies, the bank has garnered ₹346 bn of CASA deposits (44% share Dec'10) and shed ₹342 bn of high cost deposits over the past 7 quarters (aided by the 2.6% de-growth in loans). However, we express concern on maintaining the share of CASA during the tight liquidity environment which is likely to impact capital market float and exert pressure on SA balance.

- Unlike a situation 7-8 quarters back, the bank now has a leaner loan portfolio, healthier liquidity (19% CAGR, 30% SLR) and CASA mix which improves its ability to pass on rising cost of funds. However, ~40% of assets are linked to PLR, which re-price on a reset date and 10% linked to base rate which re-prices when base rates are changed creates a lag in higher yields. Thus we expect short term pressure on NIMs to continue and NIMs of 2.6% in FY13E.

- The bank has made considerable head way on improving asset quality. Gross npas have peaked in Q2FY11and the bank has improved PCR to 72%. Significant PAT accretion was driven by lower npa provisions; which were expected at 1% of loans v/s peak of 2.5%.

- We expect the benefit of lower provisions to be the most effective contributor to return ratios while lower accretion to fee income (on account of retail and syndication) and NIMs of 2.6% (lag in pass on of CoDs) to dampen increase in ratios. We expect RoA and RoE to increase from 1.1% and 8.0% to 1.4% and 11.6% in FY13E.

- We have used SOTP method to value the core banking business and subsidiaries. At the CMP of ₹1008, the standalone business trades (adj for subsidiary valuations) at 1.1x on our FY13E ABV and 1.3x at our FY11E ABV. Based on a 1.6x P/ABV multiple the standalone book is valued at ₹804 per share. This translates to a SoTP valuation of ₹1,246 per share.

Key financials (₹ mn)

YE March (₹mn)	FY09	FY10	FY11E	FY12E	FY13E
Op Inc.	159,703	155,920	154,299	185,495	210,440
PAT	37,581	40,250	47,926	60,857	72,234
NII	83,666	81,144	89,319	105,201	116,819
NIMs (%)	2.4	2.4	2.5	2.6	2.6
RoE (%)	7.8	8.0	9.0	10.6	11.6
ABV (Rs)	444.9	463.0	492.5	533.6	584.9
P/ABV (x)	1.6	1.5	1.4	1.3	1.1
P/E (x)	17.0	15.9	13.3	10.5	8.8

Source: Company, LKP Research

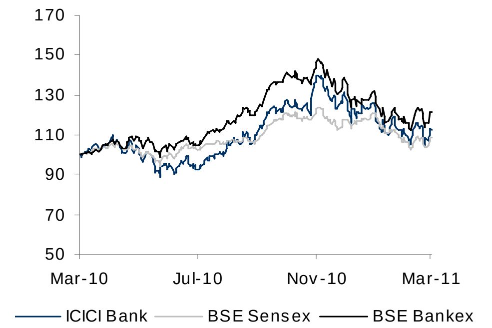
Stock Data

Current Market Price (₹)	1,008
12 Month Target Price (₹)	1,246
Potential upside (%)	24
Reuters	ICBK.BO
Bloomberg	ICICIBC IN

Key Data

Market Cap (₹.bn)	1,167
52-Week Range(₹)	1,277 / 803
Avg. Daily Trading Value (₹mn)	506
Promoters (%)	-
FII Holding (%)	39
DII Holding (%)	23
Public & Others Holding (%)	38

Relative price performance



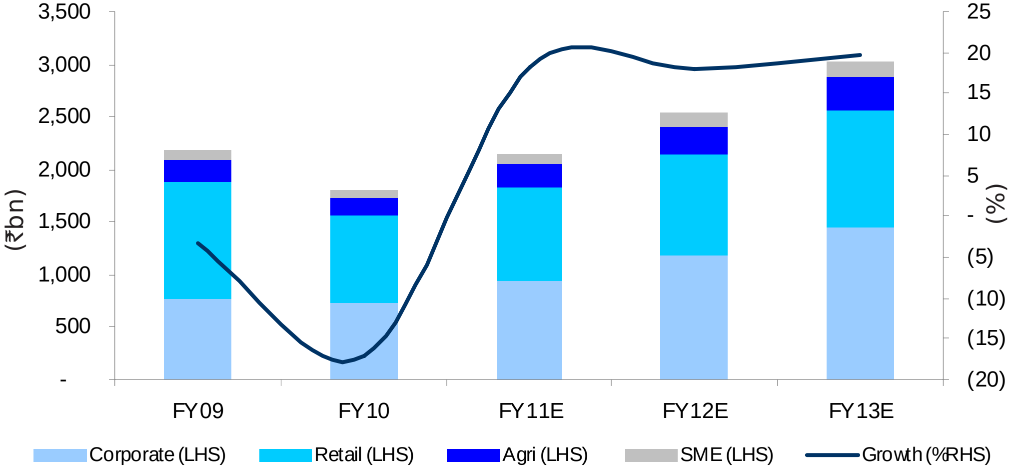
One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	2	(11)	12.0
BSE Relative	0	(6)	3.2

Analyst	Chaitra Bhat
Phone :	022 - 66351211
Email :	chaitra_bhat@lkpsec.com

Scaling corporate and infra growth v/s retail

Loan book to grow at 19% CAGR over FY10-13



Source: Company , LKP Research

ICICI Bank's loan book de-grew by 2.6% CAGR over FY07-FY10 as the bank slowed down growth in the retail portfolio. **Over FY10-13 we have factored a 19% CAGR** driven by growth in the corporate and infrastructure loans.

The phase of loan book de-growth has come to an end with incremental ₹255 bn of credit in 9MFY11 (incl. ₹65 bn BoR).

Although we expect growth to be broad based the bank will remain cautious on unsecured retail credit.

- Leaning on the strength of project finance and corporate relationships, domestic corporate book is expected to grow by 37% CAGR over FY10-13E. Slow down in investment cycle for corporates over the past 2 years had slowed down disbursements in the project finance book of the bank. Over the next 2-3 quarters the management expects sanctions of ₹150 bn to convert to disbursements. Although sanctions were in place over the past few quarters, land and environmental clearance issues among the general investment environment contributed to the delay. However, the management expects disbursements to pick up from H2FY11 as technical issues hindering project commencement are sorted out.

- Roll of unsecured portfolio from peak levels of ₹263 bn in Q2FY09 to ₹76 bn in Q3FY11 has resulted in the share of retail loans decrease from ~55% v/s 38%. Although the bank has been increasing retail credit, prepayments to the extent of ₹250 bn (during FY11) net off the increase in the book.Going forward we expect retail credit to grow at 8% CAGR over FY10-13E driven by disbursements in mortgage and auto portfolio.

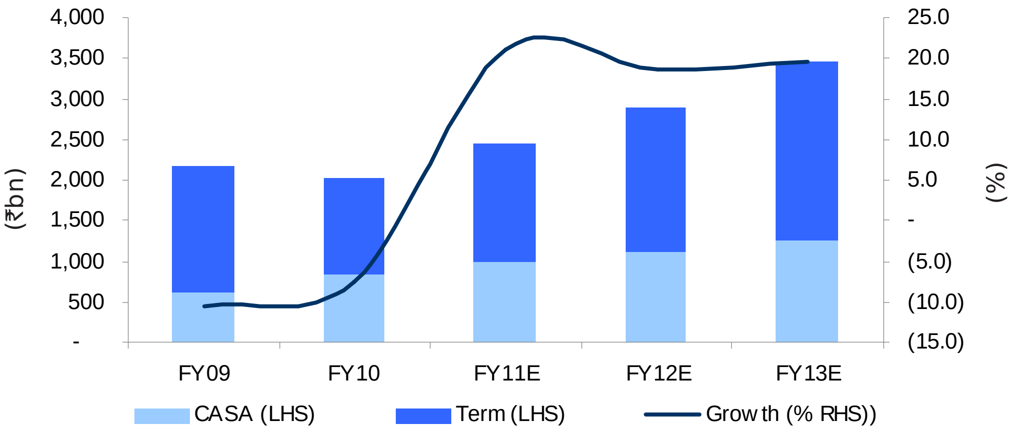
- Slow off take of credit by Indian corporates and unfavorable yields resulted in the write down of the international book. From peak levels in ₹577 bn in Q2FY09 the portfolio is ₹504 bn in Q3FY11. The book has begun to show traction in Q3FY11 and we expect a 18% CAGR over FY10-13E.

Loan book Assumptions

₹ mn	FY10	FY11E	FY12E	FY13E
Domestic corporate	274,164	438,694	571,757	697,544
Growth (%)	19	60	30	22
Overseas Corporates	453,014	510,943	610,741	745,104
Growth (%)	(17)	13	20	22
SME	72,482	89,402	116,950	142,679
Growth (%)	(17)	23	31	22
Retail	831,190	870,522	968,631	1,110,713
Growth (%)	(25)	5	11	15
Agri	181,206	234,292	264,305	334,011
Growth (%)	(17)	29	13	26
Total	**1,812,056**	**2,144,372**	**2,532,384**	**3,030,051**
Growth (%)	**(17)**	**18**	**18**	**20**

Deposits to move in line with loan book

Deposits to grow at 20% CAGR over FY10-13E



Source: Company , LKP Research

In line with the slow down in the loan book , deposits de-grew by 4.3% over FY07-10 mainly on account of the roll off of term and wholesale deposit book. The bank has rolled off over ₹250 bn high cost deposits on its book,since peak levels in FY09.

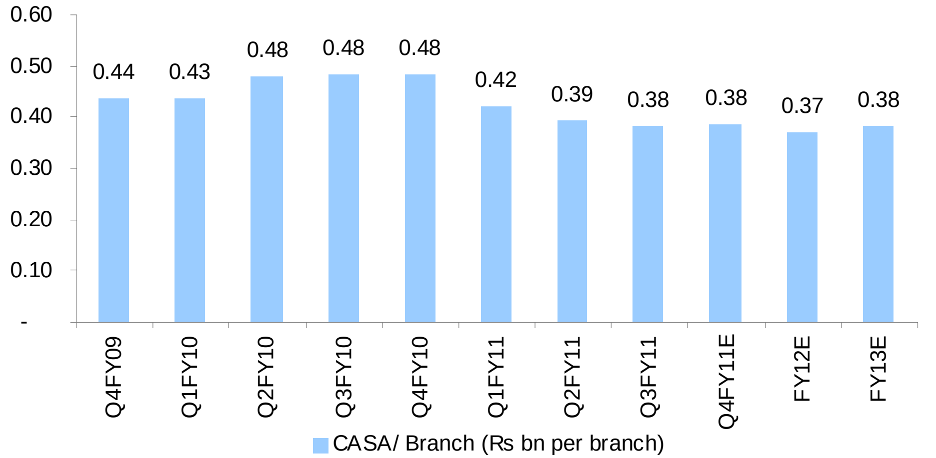
The management continues to remain cautious on building excess liquidity in wholesale term deposits due to rising CoDs. We expect deposits to grow by 20% over FY10-13E inline with loan book expansion.

₹ bn	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11E	FY12E	FY13E
CA	216	195	236	272	310	281	349	317	320	333	348
SA	410	445	493	511	532	565	632	646	665	778	918
CASA	627	640	729	782	842	846	981	962	985	1,111	1,267
CASA (share %)	29	30	37	40	42	42	44	44	40	38	37
Term	1,557	1,463	1,249	1,194	1,178	1,163	1,250	1,215	1,458	1,784	2,196
Deposits	2,183	2,102	1,978	1,977	2,020	2,009	2,231	2,177	2,443	2,896	3,463
CASA/ Branch (Rs bn per branch)	0.44	0.43	0.48	0.48	0.48	0.42	0.39	0.38	0.38	0.37	0.38

Source: Company , LKP Research

Maintaining CASA a challenge under liquidity pressure

CASA per branch



Source: Company , LKP Research

Defocusing on market share and building a retail liability base we expect branch expansion and CA and SA accretive products to aid growth of low cost deposits by 15% CAGR over FY10-13.

However, the current tight liquidity conditions have resulted in banks increasing term deposit rates by 200-250 bps over the past 6 months. This will make it difficult to garner low cost deposits as average balances come under pressure. Also, reduction in capital market activities will reduce floats which are CA accretive.

The share of 44% in CASA (Dec'10) has been aided by slow down in term deposit growth*. As the bank is looking at a system growth rate over the next 3 years, the growth in term deposits and prevailing tight liquidity conditions are likely to impact CASA and share is expected to fall to 39% by FY13E.

*CASA has increased by ₹180 bn while term deposits increased by ₹201 bn in Dec'10 yoy.

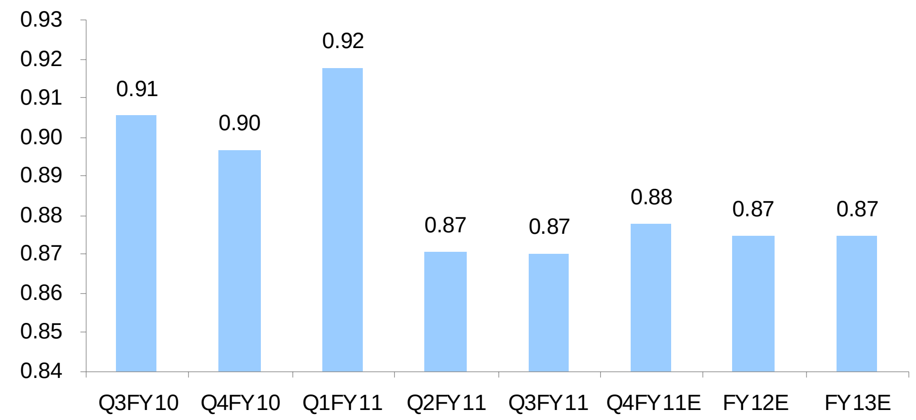
Over the past 2 years the bank has added 1,100 branches despite a slow down in the overall balance sheet growth.

We believe that aggression on branch expansion will decrease over the next 3 years to ~ 750 branches.

Liquidity on the book (CD ratio, CAR…)

- CD ratio has reduced from the 1x plus and ICICI Bank now has a C/D ratio 0.87x as compared to the system ratio of 0.72x.
- Although the ratio is expected to come down from peak levels it will continue to be higher than system rates in the medium term as the management will avoid excess liquidity in a rising interest rate scenario.

CD (x)



Source: Company , LKP Research

Re-pricing pressure caps NIMs

We expect NII to grow by 13% CAGR over FY10-13E v/s 7% over FY07-10. Over the next 3 years NIMs will be a function of balance sheet growth v/s the situation of contraction. NIMs during the period are likely to expand from 2.4% in FY10 to 2.5% in FY13E.

Tight liquidity situation which is likely to prevail over the next 2-3 quarters will put pressure on CoDs. However, lower term deposit growth in FY11 will push the impact on CoDs to FY12. We expect cost of funds of 5.6% in FY11 and an increase to 5.9% in FY12.

The management has indicated comfort on the asset side with a 50-75 bps increase in lending rates without hurting demand. Low asset growth during H1FY11 will translate to yields of 8.5% in FY11 and push the full year impact of higher interest rates to 9.2% in FY12.

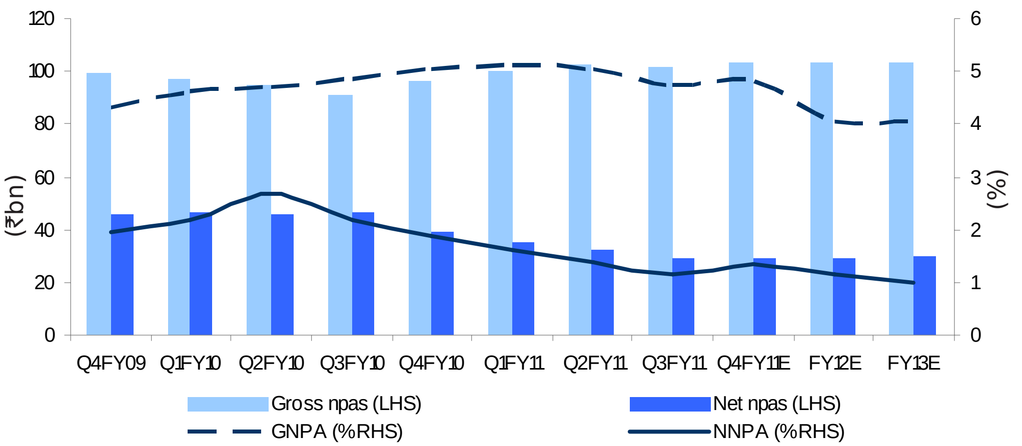
₹ bn	FY09	FY10	FY11E	FY12E	FY13E
Interest Income	310,925	257,069	260,971	313,215	358,430
Interest Expended	227,259	175,926	171,652	208,014	241,611
NII	83,666	81,144	89,319	105,201	116,819
Growth (%)	14.5	(3.0)	10.1	17.8	11.0
NIMs (%)	2.4	2.4	2.5	2.6	2.6
Yield on advances (%)	10.5	9.1	8.5	9.2	9.3
Cost of funds (%)	7.1	6.0	5.6	5.9	5.9

Source: Company , LKP Research

Although higher systemic rates will be cushioned partly by 39% CASA ratio, we believe that NIMs are likely to get capped at 2.5%.

Loan book break up (FY11E)	₹ mn	Share	Comment
Domestic corporate	438,694	20	Corporate book (incl agri), 50% is short term (<=1 year) fixed rate loans and the rest re-prices on the reset date (3 -12 months) and not with immediate PLR changes. Hence there will be lag over which costs will get passed on.The level of RIDF investments which have increased since FY10 would also hurt NIMs by 20-25 bps.
Agri	234,292	11	
SME	89,402	4	
Corporate	762,387	36	
- 50% of corporate	381,194	18	
- 50% of corporate	381,194	18	
Overseas Corporate	510,943	24	NIMs during FY11 are expected ~85 bps and incremental lending will increase overall NIMs to 1.25% at a gradual stage over FY12 and FY13.
Retail	870,522	41	Mortgage book rates (8.25-8.5%) are lower v/s cost of funds and current market rates (9.5-9.75%)on account of dual rate loans which have locked the book at fixed rates over FY11 and FY12.
Total	2,144,372	100	Effectively ~40% of assets are linked to PLR, which reset when the date falls due and 10% of assets are linked to base rate which reprices as and when base rates are changed. Thus we expect short term pressure on NIMs to continue.

Npas at a standstill



Source: Company , LKP Research

- Outstanding general provisions of ₹15 bn to provide cushion to valuations.

  –The bank has stepped up provisions in 9MFY11 to 71%

  – We continue to watch how npas levels pan out as the bank expands loan book in corporate and mortgage assets.

- NPAs peaked in Q2FY11 and the bank has significantly written down the troubled portfolios. We expect gross npas to increase by 2% to ₹103bn by FY13 and lower net npas at ₹29 bn due to higher PCR of 70% plus.

  – the roll off of the unsecured portfolio by ₹187bn from the peak in Q2FY09 has helped stabilize retail npas at ₹67 bn (Dec'10), ~3% of loan book, and reduce net retail npas to ₹14 bn from peak levels of ₹31 bn in FY09.

  – The merger with BoR during Q2FY11 has added ~₹3 bn of net gross npas and we believe there could be addition to npas as the BoR portfolio matures in ICICI Bank's books.

Provisioning to remain a burden

The bank has improved coverage ratio to 72% in the Dec'10 quarter. Lower addition to gross npas, improvement in restructured portfolio has enabled the bank to improve PCR. Going forward we have assumed a PCR of 70% plus.

Since the peak of the restructured assets in Q2FY09 (₹61 bn) the bank has brought down the restructured portfolio to ₹26 bn in Q3FY11. The additions to the restructured portfolio have been negligible over the past 2-3 quarters and since March 2010 (₹53 Bn) there have been upgrades based on performance of accounts, which have offset additions. Going forward, the bank expects to improve the performance on this portfolio.

	FY09	FY10	FY11E	FY12E	FY13E
P&L provisons	38,083	43,869	26,292	24,088	23,432
As a % of loans	1.7	2.4	1.2	1.0	0.8

Source: Company , LKP Research

The run rate of provisions has come down from 2.5% (peak level) to 1% of advances. Going forward, the management has guided and we have assumed a ~1% ratio.

We expect provisions to decrease by 19% CAGR over FY10-13E v/s 25% increase over FY07-10. Improvement in asset quality and reduction in provision burden on the P&L is imperative for the management to deliver on the RoE targets of 15%.

Fee income: traction to increase on the back of loan growth

Lower business growth resulted in low growth in fee income of 3.7% CAGR over FY07-FY10. However, we expect branch expansion and loan book driven fee income to increase fee income by 21% CAGR over FY10–FY13E.

Growth in fee income is likely to mimic growth in the loan book. Thus we expect corporate and international fees to dominate growth. While retail fees are expected to grow over FY12 and FY13, the quantum of growth is likely to be lower due to cautious exposure to credit cards and personal loans. Thus the share of retail and corporate (incl international) fees which was more or less equal is now tilted 30:70 in favour of corporate book.

Fee Income

₹ bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11E	FY11E	FY12E	FY13E
Treasury	1.0	(1.4)	(2.1)	(1.5)	(4.0)	1.4	1.9
Fee	14.1	15.9	16.1	17.1	63.2	72.7	85.0
Others	1.6	1.3	1.3	1.5	5.7	6.2	6.7
Non int. income	16.8	15.8	15.3	17.1	65.0	80.3	93.6

Source: Company , LKP Research

C/I Ratio to benefit

The bank took active steps to cut costs both on the employee side and operational costs. This enabled the bank to add over 1,000 branches in the past 2 years while reducing C/I ratio. However, much of the benefit through lower costs has already been acquired. Going forward, an increase in operating revenue by 11% CAGR will aid to maintain a stable C/I ratio.

C/I ratio to increase from 38% in FY10 to 41% in FY13.

- Operating expenses to increase 8% CAGR due to increase in infrastructure expenses (branch expansion) v/s 2% CAGR over FY07-10. Full year impact of branch addition and BoR operating costs will reflect in higher C/I ratio in Q4FY11.
- Employee expenses to increase 14% CAGR (v/s decrease by 4%) due to addition of 4,000 plus BoR employees and fresh hiring within the bank. Bonus provisioning also translate in higher H2FY11employee costs.

₹ bn	FY09	FY10	FY11E	FY12E	FY13E
C/I (%)	44.1	37.6	42.1	41.4	41.2
Operating revenue	160	156	154	185	210
Operating costs	70	59	65	77	87
Employee expenses	20	19	27	32	37
DMA expenses	5	1	2	2	2
Other operating expenses	45	38	36	43	48

Operating profit and PAT – Business driven

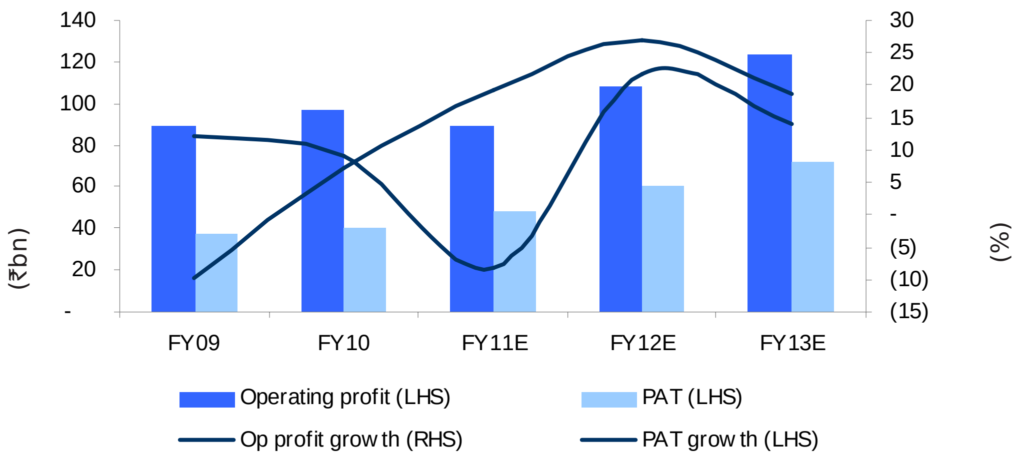
Operating income is expected to grow at 11% CAGR over FY10-FY13E driven by higher growth in core business

Although operating expenses is expected to grow 14% over the next 3 years (CAGR), productivity is likely to benefit operating margins.

Reducing provisioning burden will result in PAT growth of 23% CAGR over FY10-13.

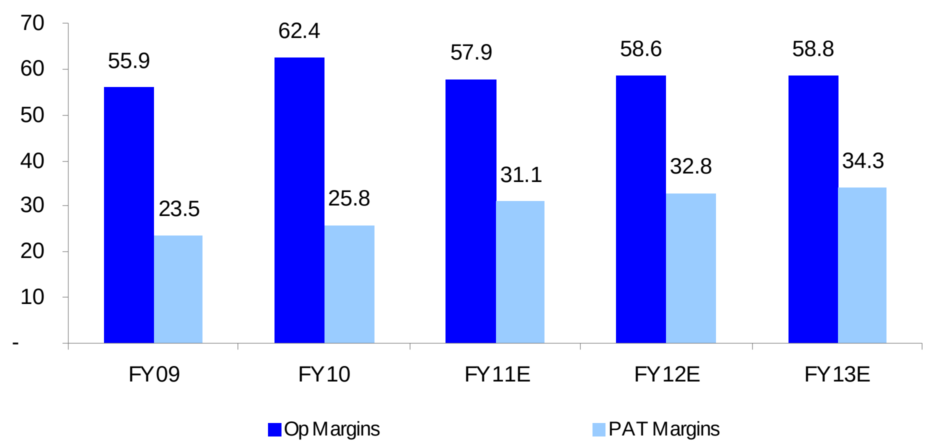
Core and non core business growth coupled with productivity improvement and lower provisioning, the Bank's books are likely to show an improvement in margins and return ratios.

Operating & PAT growth



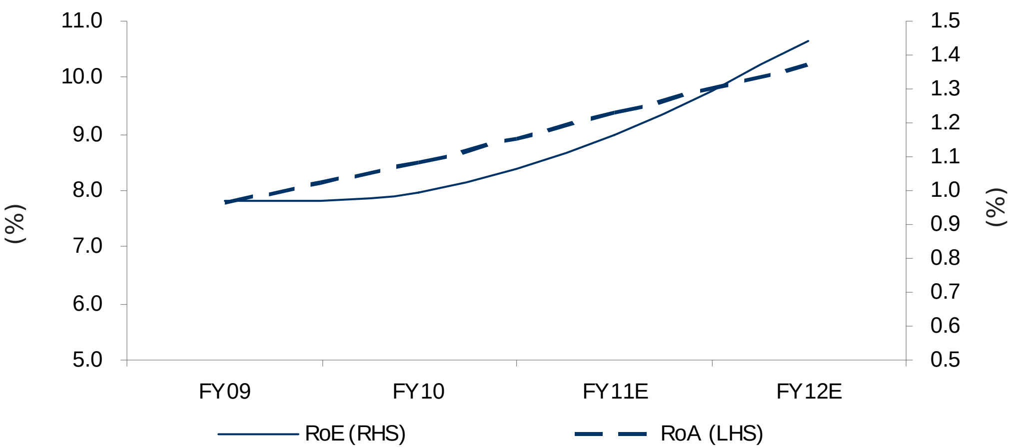
Source: Company , LKP Research

Operating & PAT margins



Source: Company , LKP Research

Return ratios – to trend upwards



Source: Company , LKP Research

Improvement in asset quality and the resultant lower provisioning burden will benefit return ratios . However, to reach the 15% RoE level the bank has to increase growth while continually improving asset quality and maintaining costs.

Dividing income into domestic and international fees, the RoE levels would be similar. Domestic business has higher NIMs (spreads driven) however, international book (fee driven) has a low cost to asset ratio (due to lower retail activity).

RoE and RoA is expected to increase to 11.6% and 1.4% in FY13.

Subsidiary Valuations

Valuation of ICICI Bank's subsidiaries

	FY11E	FY12E	FY13E	Valuation Method
Value of subsidiaries (A)	294	350	442	
International Business	33	34	35	0.5x of BV
Isec	20	23	30	10x PAT multiple
Home Finance	18	13	10	10x PAT multiple
Asset Management	14	15	17	5% of AUM
Venture Funds	4	5	5	5% of AUM
Life Insurance	115	135	172	Appraisal value method
General Insurance	90	125	174	Combined ratio of 64%, investment multiplier of 1.6x

- The bank is comfortable with the current spreads of ~1% in the international subsidiaries. On the growth front, UK and Canada still face concerns on fund allocation. The bank seeks cross border opportunities (Indian corporates) Vs funding local credit. We expect growth to remain slow over the next few quarters. Although the management has expressed no urgency to increase growth in order to leverage capital, the concern on excess liquidity continues to prevail.

- Decline in debt and money market funds has impacted AUMs and management fees in the AMC business. ICICI AMC is focusing on increasing its equity AMC business to increase profitability which over the next couple of quarters is likely to increase marketing expenses. AMC business remains largely driven by liquidity and equity market sentiments and the current scenario is likely to impact AMC valuations.

- ICICI life insurance business has begun traction in new premium growth. First year premiums were higher by 21% April – January 2011 yoy (as compared to private sector growth of 8% and overall industry of 28% yoy) and market share increased 220 bps to 18.6% among private players. The bank was also able to maintain renewal premiums (55 - 60% retention) which had been a concern over past 2 years. We expect a 12% CAGR growth in overall premiums over FY10-13E. We have valued the business both as a AUM and Appraisal Method.

- Keeping in trend with the overall strategy of the bank, ICICI, general insurance business grew at 30% in Apr- Jan 2011 yoy as compared to the industry growth of 22% and private sector growth of 24% yoy. We expect gross premiums to grow 33% CAGR over FY10-13E, combined ratios to improve and PAT to clock a 52% CAGR over FY10-13E. We have valued the business using combined ratio and investment multiplier.

- The bank has moved away from the original strategy, of booking non priority home loans in HFC and priority loans in the bank to booking priority & non priority home loans in the bank balance sheet. Thus, we expect the subsidiary home finance loan book to decrease over the next 3 years by 22% CAGR.

Life Insurance

Valuation of Life insurance business based on Appraisal value

Particulars (₹mn)	FY10	FY11E	FY12E	FY13E
Share Capital	14,281	14,431	14,581	14,781
New capital infusion	59	6,000	6,000	8,000
R&S	33,529	33,588	39,588	45,588
Less accumulated deficit	(34,734)	(43,369)	(49,002)	(52,603)
Total shareholders fund	13,136	10,650	11,167	15,767
Opening value of VIF business	11,265	18,544	29,223	51,624
APE	53,450	64,766	72,522	84,049
NBAP margin (%)	17	17	17	17
New business value	8,861	10,908	12,299	14,253
In-force business unwinding	1,464	2,411	3,799	6,711
VIF	21,590	31,863	45,320	72,588
Embedded value	34,726	42,513	56,488	88,355
Structural value				
Multiple (x)	12	12	12	12
Structural Value	**106,328**	**130,901**	**147,584**	**171,041**
Appraisal value	**141,055**	**173,414**	**204,072**	**259,396**
Per share Value	127	156	183	233
ICICI Bank's Share (%)	74	74	74	74
Per share value	**94**	**115**	**135**	**172**

Source: Company , LKP Research

Valuation of Life insurance business as an AUM

Particulars (₹mn)	FY10	FY11E	FY12E	FY13E
Initial Premiums	60,585	63,229	70,816	82,147
Single Premiums	2,755	15,368	17,058	19,020
Renewal Premiums	101,980	102,498	113,184	126,667
Total	165,320	181,095	201,058	227,833
Growth (%)	8	10	11	13
Asset under management	573,190	668,306	769,119	881,584
Valued at 7% of AUM	40,123	46,781	53,838	61,711
Per share value	**36**	**42**	**48**	**55**

Source: Company , LKP Research

General Insurance

General Insurance P&L

₹mn	FY10	FY11E	FY12E	FY13E
Gross written premiums	34,320	44,616	58,893	80,095
Net written premiums	21,928	28,507	37,629	51,175
Growth (%)	(1)	30	32	36
Income form investments	2,879	3,864	4,967	6,755
Other Income	6	-	-	-
Total Income	24,813	32,371	42,596	57,930
Commissions (net of reinsurance comm brokerage)	211	(1,140)	(1,881)	(2,610)
Commission ratio (%)	1	(4)	(5)	(5)
Operating expenses	5,551	4,561	5,842	7,932
Operating ratio (%)	16	16	16	16
Claims, increase in Unexpired Risk Reserve & other outgoes	18,928	24,093	30,919	41,249
Claim ratio (%)	55	54	53	52
Operating Profit / (loss)	124	4,858	7,717	11,359
PAT	1,439	2,722	3,799	5,246
Growth (%)	509	89	40	38
PAT margins	4	6	6	7

Source: Company , LKP Research

Valuation of General Insurance Business

₹mn	FY10	FY11E	FY12E	FY13E
Combined Ratio	72	66	63	62
Investments	35,231	45,611	60,206	81,880
Multiplier (x)	1.6	*1.6*	*1.6*	*1.6*
Assumed Returns (%)	8	*8*	*8*	*8*
Normalized Earnings	8,956	13,557	18,880	26,253
Multiple (x)	10.0	10.0	10.0	10.0
Value of company (US$MM)	1,791	2,711	3,776	5,251
Value of ICICI Bank's share (US$MM)	1,322	2,001	2,787	3,875
Share in Profits	66,098	100,048	139,337	193,746
Value per share	**59**	**90**	**125**	**174**

Source: Company , LKP Research

AMC, Home Finance and International Subsidiaries

Valuation of Asset Management Business

₹mn	FY10	FY11E	FY12E	FY13E
FUM	809,888	632,072	666,836	726,852
Valuations at 5%	40,494	31,604	33,342	36,343
Value of the company (US$MM)	810	632	667	727
Value of ICICI Bank's stake (US$MM)	413	322	340	371
Value per share	**19**	**14**	**15**	**17**

Source: Company , LKP Research

Valuation of Home Finance

₹mn	FY10	FY11E	FY12E	FY13E
Loans	111,469	82,070	65,656	52,524
Growth (%)	0.3	(26.4)	(20.0)	(20.0)
Revenues	15,900	12,527	9,520	7,091
Yields on asset (%)	14	15	15	14
Growth (%)	8	(21)	(24)	(26)
PAT	1,607	2,004	1,476	1,099
Growth (%)	12	25	(26)	(26)
PAT margins(%)	10	16	16	16
Multiple (x)	10	10	10	10
Value of the company (US$MM)	357	445	328	244
Value per share	**14**	**18**	**13**	**10**

Valuing International Subsidiaries

	FY10	FY11E	FY12E	FY13E
UK subsidiary				
PAT ($US Mn)	37.0	39.3	39.8	43.8
Networth ($US Mn)	592	665	705	724
Value per share (₹)	**12**	**14**	**14**	**15**
Canada Subsidiary				
PAT ($US Mn)	34.3	35.8	36.5	40.1
Networth ($US Mn)	951	945	964	984
Value per share (₹)	**19**	**19**	**20**	**20**

I-sec and primary dealership

Break up of I-Sec Group Revenue and PAT

₹mn	FY10	FY11E	FY12E	FY13E
I-sec PD				
Revenue	3,212	3,923	4,708	6,120
PAT	850	1,020	1,271	1,836
Margins	26	26	27	30
I-sec Broking				
Revenue	7,560	7,456	8,016	9,058
PAT	1,227	1,210	1,292	1,495
Margins	16	16	16	17
I-sec group				
Revenues	**10,772**	**11,379**	**12,723**	**15,178**
PAT	**1,887**	**2,230**	**2,563**	**3,331**

Source: Company , LKP Research

Valuation of I-Sec

₹mn	**FY10**	**FY11E**	**FY12E**	**FY13E**
Revenues	10,772	11,379	12,723	15,178
Growth (%)	(14.2)	5.6	11.8	19.3
PAT	1,887	2,230	2,563	3,331
Growth (%)	(27)	18	15	30
PAT margins(%)	17.5	19.6	20.1	21.9
Multiple (x)	10	10	10	10
Value of I-sec (US$MM)	410	485	557	724
PAT per share	2	2	2	3
Value per share	17	20	23	30

Source: Company , LKP Research

Subsidiary Valuations

International subsidiaries continue to witness flat growth as weakness in the underlying markets continue. In this backdrop we expect investments and advances to pick up at a lower pace. On the other hand insurance subsidiaries are regaining lost market leadership and have begun growth. However, weakness in the underlying capital and debt markets are likely to impact asset management business.

Unlike a situation in FY09, the bank has addressed various operating (rationalized marketing channel and operating costs, expansion plans) and management issues and although external factors such as disposable income could emerge as concerns, the bank is better placed.

As disposable liquidity is likely to come under pressure over the next 2-3 quarters, business segments such as insurance, brokerage & IB and fund management are likely to get impacted in the medium term. We have factored in a subdued outlook for FY12 and an improvement in business growth in FY13.

Valuations & Outlook

Peer comparison - Banking Ratios (Dec'10)

%	NIMs	PAT (₹bn)	Loans (₹bn)	RoEs	RoA	Gross NPAs (₹bn)	GNPA (%)	PCR	C/I	CASA	CAR
ICICI Bank	2.6	37	2,067	9.2	1.3	102	4.8	71.8	41.1	44.2	20.0
HDFC Bank	4.2	11	1,606	17.1	1.2	18	1.1	81.0	47.8	50.5	16.2
Axis Bank	3.7	2	1,235	18.9	1.6	15	1.1	74.0	42.9	42.0	12.5
SBI	3.4	82	7,400	15.3	0.9	234	3.2	64.1	45.7	48.2	13.8
PNB	4.0	32	2,213	22.2	1.3	45	2.0	77.2	41.8	39.1	11.9
BoB	3.2	29	2,072	23.5	1.3	28	1.3	85.5	38.3	29.1	12.5

The bank compares well in terms of CAR, which gives it significant room to grow its balance sheet . However, where it lags behind is NIMs and lower RoEs. NIMs are likely to improve as the bank adds traction to its core business. This along with improvement is productivity (branch leverage) and lower provisioning burden going forward is likely to improve RoEs, albeit the bank will still have some catching up to do as compared to its peers.

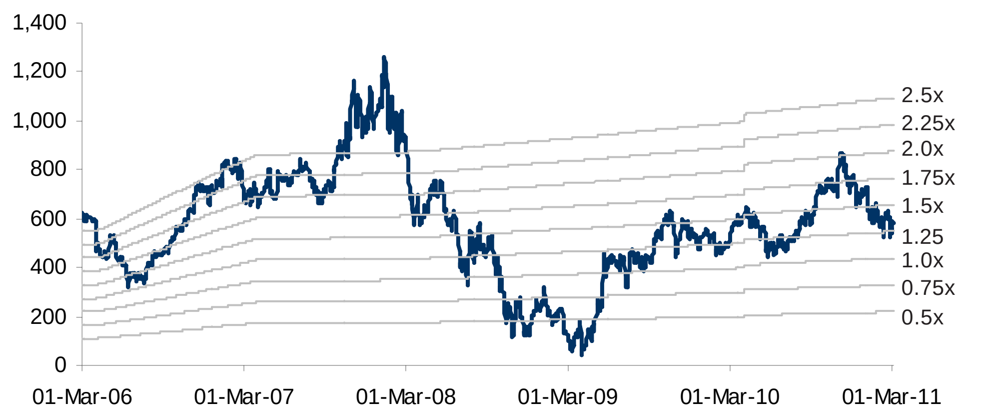
ICICI Bank has added positively to improvement in asset quality and RoEs through the slow down process. The challenge going forward would be to maintain banking ratios such as CASA (44% Dec'10), C/I ratio (37% Dec'10) and improve NIMs (2.5% Dec'10) and RoEs (8% Dec'10) while growing at 19% CAGR over FY10-13. The bank is looking at growth through corporate (infra and project finance) assets and increase leverage from the 1000 plus branches added over the past 2 years. The management has restructured the balance sheet to give the bank a level playing field versus peer banks. (low cost liability base and productivity levels). Although the bank does not compare well vis-à-vis peers on asset quality, the reduction in incremental npas and restructured portfolio has aided an improvement in P&L.

	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
	RoE		RoA		P/E		P/BV	
ICICI Bank	9.0	10.6	1.2	1.4	23.4	18.4	2.0	1.9
HDFC Bank	17.0	16.3	-	-	25.4	23.0	4.0	3.5
Axis Bank	18.6	20.2	1.6	1.6	16.6	13.2	2.9	2.5
SBI	15.1	16.4	0.9	0.9	12.5	10.2	1.8	1.6
BoB	21.2	22.2	1.2	1.2	9.5	7.6	1.9	1.6

Source: Bloomberg, LKP Research

In order to arrive at a multiple for the core banking business we have estimated subsidiary valuations (assumed to be factored in the price) and derived a price excluding subsidiaries.

Rolling PB Band (adjusted for subsidiary valuations)



Source: Company , LKP Research

SOTP Valuation

	FY11E	FY12E	FY13E
Value of the Bank (₹ per share)	**952**	**1,073**	**1,246**
ICICI Bank (1.6x P/ABV)	657	723	804
Value of subsidiaries (A)	294	350	442

Financial Summary (Standalone)

Income statement

YE March (₹mn)	FY09	FY10	FY11E	FY12E	FY13E
Interest earned	310,925	257,069	260,971	313,215	358,430
Interest Expended	227,259	175,926	171,652	208,014	241,611
Net Interest Income	**83,666**	**81,144**	**89,319**	**105,201**	**116,819**
Growth (%)	*14.5*	*(3.0)*	*10.1*	*17.8*	*11.0*
Other income	76,037	74,777	64,980	80,294	93,621
Operating income	**159,703**	**155,920**	**154,299**	**185,495**	**210,440**
Growth (%)	*(0.9)*	*(2.4)*	*(1.0)*	*20.2*	*13.4*
Operating expenses	**70,451**	**58,598**	**64,946**	**76,885**	**86,683**
Employee expenses	19,717	19,258	27,185	32,025	37,049
DMA expenses	5,289	1,255	1,620	1,781	1,894
Other operating expenses	45,445	38,086	36,140	43,079	47,740
Operating profit	**89,252**	**97,322**	**89,353**	**108,611**	**123,757**
Growth (%)	*12.1*	*9.0*	*(8.2)*	*21.6*	*13.9*
Operating margins	*56*	*62*	*58*	*59*	*59*
Provisions and contingencies	38,083	43,869	26,292	24,088	23,432
PBT	**51,170**	**53,453**	**63,061**	**84,523**	**100,325**
Provision for Tax	13,588	13,203	15,135	23,666	28,091
PAT	**37,581**	**40,250**	**47,926**	**60,857**	**72,234**
Growth (%)	*(10)*	*7*	*19*	*27*	*19*
PAT Margins	*23.5*	*25.8*	*31.1*	*32.8*	*34.3*

Balance sheet

YE March (₹mn)	FY09	FY10	FY11E	FY12E	FY13E
Sources of Funds					
Share capital	11,133	11,149	11,150	11,150	11,150
Reserves & Surpluss	484,197	505,035	537,942	583,780	640,996
Shareholders funds	**495,330**	**516,184**	**549,092**	**594,930**	**652,146**
Preference share capital	3,500	3,500	3,500	3,500	3,500
Deposits	2,183,478	2,020,166	2,442,998	2,895,724	3,463,103
Borrowings	673,237	634,466	621,286	621,286	631,286
Debentures and bonds	254,818	304,669	345,369	372,369	394,369
Other liabilities&provisions	182,647	155,012	192,997	234,554	283,974
Total	**3,793,010**	**3,633,997**	**4,155,243**	**4,722,364**	**5,428,379**
Application of funds					
Net Fixed Assets	38,016	32,127	33,627	34,477	35,327
Investments	1,030,583	1,208,928	1,323,776	1,429,780	1,572,646
Advances	**2,183,108**	**1,812,056**	**2,144,372**	**2,532,384**	**3,030,051**
Cash & bank balance with RBI	175,363	275,143	146,580	144,786	173,155
Balances with bank	124,302	113,594	269,917	291,365	274,353
Other assets	241,636	192,149	236,971	289,572	342,847
Total	**3,793,010**	**3,633,997**	**4,155,243**	**4,722,364**	**5,428,379**

Key Ratios

Particulars	FY09	FY10	FY11E	FY12E	FY13E
Yield on Investments	6.9	5.8	6.3	6.2	6.0
Yield on advances	10.5	9.1	8.5	9.2	9.3
Cost of deposits	6.8	5.7	5.1	5.5	5.6
Cost of funds	7.1	6.0	5.6	5.9	5.9
NIM	2.4	2.4	2.5	2.6	2.6
Interest Spread	3.0	2.9	2.9	3.2	3.2
Other income to total income	47.6	48.0	42.1	43.3	44.5
RoA	1.0	1.1	1.2	1.4	1.4
RoE	7.8	8.0	9.0	10.6	11.6
Gross NPA	4.4	5.2	4.8	4.1	3.4
Net NPA	2.1	2.1	1.4	1.2	1.0
Growth in advances	(3.2)	(17.0)	18.3	18.1	19.7
Growth in deposits	(10.7)	(7.5)	20.9	18.5	19.6
Growth in investments	(7.5)	17.3	9.5	8.0	10.0
Growth in retail credit	(18.2)	(24.6)	4.7	11.3	14.7
CASA share	28.7	41.7	40.3	38.4	36.6
Retail advances share	50.5	45.9	40.6	38.2	36.7
CD ratio	100.0	89.7	87.8	87.5	87.5
ID ratio	47.2	59.8	54.2	49.4	45.4
Tier 1 capital (₹bn)	422.0	454.0	463.6	532.7	590.0
Tier 2 capital (₹bn)	131.6	161.6	208.4	224.6	237.8
CAR (₹bn)	553.6	615.5	671.9	757.3	827.7
Risk Weighted Assets (₹bn)	3,564.6	2,941.8	3,401.6	3,985.2	4,622.0
Tier 1 ratio	11.8	14.0	13.0	13.4	12.8
Tier 2 ratio	3.7	5.4	6.1	5.6	5.1
CAR	15.5	19.4	19.2	19.0	17.9
EPS (₹)	33.8	36.1	43.0	54.6	64.8
BV (₹)	444.9	463.0	492.5	533.6	584.9
ABV (₹)	349.1	372.7	410.7	451.7	502.6
P/E (x)	17.0	15.9	13.3	10.5	8.8
P/BV (x)	1.3	1.2	1.1	1.1	1.0
P/ ABV (x)	1.6	1.5	1.4	1.3	1.1

Research Team

S. Ranganathan	Head of Research	Pharmaceuticals , Agriculture	6635 1270	s_ranganathan@lkpsec.com
Ashwin Patil	Research Analyst	Automobiles & Telecom	6635 1271	ashwin_patil@lkpsec.com
Chaitra Bhat	Research Analyst	Banking & Financial Services	6635 1211	chaitra_bhat@lkpsec.com
Ami Shah	Research Analyst	Cement & Sugar	6635 1247	ami@lkpsec.com
Deepak Darisi	Research Analyst	Energy	6635 1220	deepak_darisi@lkpsec.com
Dwaipayan Poddar	Technical Analyst		6635 1272	dwaipayan_poddar@lkpsec.com

Institutional Equities

Pratik Doshi	Director	98210 47676	-	pratik_doshi@lkpsec.com
Hardik Mehta	Sales	98190 66569	6635 1246	hardik_mehta@lkpsec.com
Varsha Jhaveri	Sales	93241 47566	6635 1296	varsha_jhaveri@lkpsec.com
Hitesh Doshi	Sales	93222 45130	6635 1281	hitesh_doshi72@lkpsec.com
Kalpesh Vakharia	Dealing	98193 08082	6635 1267	kalpesh_vakharia@lkpsec.com
Gurdarshan Singh	Dealing	93228 61461	6635 1246	gurdarshan_singh@lkpsec.com