

ICICI Bank (ICBK.NS - INR 835.70) Buy

Market Commentary/Strategy

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Incorrect news report on bad loans

Investment Conclusion

□ The Economic Times published a news report on 13 September 2009 that the Institute of Chartered Accountants of India (ICAI) at the behest of some borrowers has asked the RBI to carry out a special audit of the NPLs sold by ICICI Bank to ARCIL. According to the news report, of a total of INR100bn of home loans sold by ICICI to ARCIL, some are fraudulent as multiple loans have been lent against the same property. Both ICICI Bank and ICAI have denied the news report publicly. ICAI says it has not asked the RBI for an audit. ICICI Bank has clarified that there was a fraud of INR10mn (not material) in five home loans, which was detected in an internal audit and reported to the police. Hence, management says the figure of INR100bn in the news report is exaggerated.

Summary

□ Since both ICAI and ICICI Bank have denied the news report, we do not expect much of an impact on the stock price. ICICI Bank has sold INR15bn of home loans to ARCIL. If the entire amount is written off, the price target will come down by INR22 per share. But given the denials, we do not see this worst case materialising.

Stock Rating

Target Price

New: Buy New: INR 910.00
Old: Buy Old: INR 910.00

Sector View: Neutral

FY Mar	2009A	2010E	2011E	2012E			
Currency INR	Actual	Old	New	Old	New	Old	New
Adjusted Net Profit	37581.3	43785.7	43785.7	50206.8	50206.8	N/A	N/A
Adjusted EPS	33.8	39.3	39.3	45.1	45.1	N/A	N/A
Adjusted PE Ratio	24.7	21.3	21.3	18.5	18.5	N/A	N/A
BVPS	445.0	458.9	458.9	478.4	478.4	N/A	N/A
P/BV	1.9	1.8	1.8	1.7	1.7	N/A	N/A
ROE	7.8	8.7	8.7	9.6	9.6	N/A	N/A
Dividend Yield	1.3	1.1	1.1	1.1	1.1	N/A	N/A

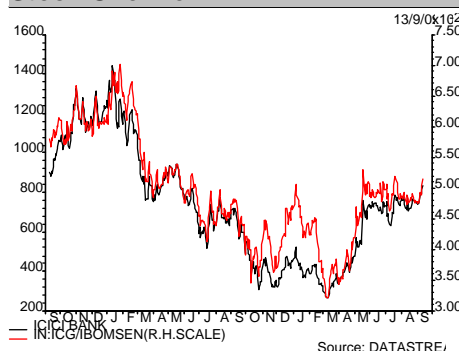
Market Data

Market Cap (mn)	930482.7
Shares Outstanding (mn)	1113.3
Free float (%)	100.0
Trading Volume	N/A
Convertible	0
Share per ADR	2

Financial Summary

Net Interest Margin	2.5
Net NPL/Loans	2.0
PL provisions/Loans	2.0
Tier 1 ratio	11.8

Stock Overview



Reuters ICBK.NS
Bloomberg ICIC IBC IN
ADR

Performance	1M	3M	12M
Absolute %	17	11	22
Rel. Market %	9	6	8
Rel. Sector %	6	3	-2

52 Week Range 835.70 - 262.90

The *Economic Times* on September 13, 2009, published a news report that the Institute of Chartered Accountants of India (ICAI) at the behest of some borrowers has asked the RBI to carry out a special audit of the NPLs sold by ICICI Bank to the Asset Reconstruction Company of India (ARCIL). According to the news report, of a total of INR100bn of home loans sold by ICICI Bank to ARCIL, some loans are fraudulent as multiple loans have been lent against the same property. The news report implied that these loans are irrecoverable and should not have been sold to ARCIL.

The ICAI, on its website, has denied this news report and clarified that it has not been approached by the central bank or asked for an audit. It has further clarified that it did receive some complaints from some chartered accountants, who have been victims of this fraud. But ICAI's advice to them is to first approach the bank and sort it out directly with the bank. For more details, refer to: http://www.icai.org/resource_file/17164ICAI_denys_news_item.pdf

ICICI Bank has also sent a clarifying email to analysts on September 13, 2009. Here is the most important extract, "The facts are that there was a fraud in respect to five loan accounts aggregating to less than INR10mn, which were part of a sale of assets to ARCIL in December 2007. The borrowers had obtained loans on the basis of forged documents. This fraud was detected by the Bank itself as part of its regular monitoring. A police complaint has been filed and the fraud has also been reported to the RBI."

ICICI Bank has sold gross loans worth INR90bn to ARCIL, according to the company. The net amount of the loans, which is a more relevant figure, is INR30bn. Gross housing loans sold to ARCIL account for INR15bn. As such, the figure of housing loans sold to ARCIL of INR100bn in the *Economic Times* news report is incorrect.

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ICICI Bank has gross NPLs of INR96.9bn in 1Q FY10. Housing loans sold to ARCIL of INR15bn account for 15% of gross NPLs and total loans sold to ARCIL of INR90bn account for 93% of total NPLs. In our view, the fair value provision on loans sold to ARCIL is close to 70% for corporate loans and around 20% for home loans.

The maximum impact to the price target, if all home loans sold to ARCIL are written off will be INR22 per share, and if all loans sold to ARCIL are written off, will be INR49 per share. Given that the ICAI and ICICI Bank have denied the news report, we do not see this worst case materialising. Our price target for the stock is INR910, and our current rating is BUY. ICICI Bank stock is among the best performers in the Bankex, with the stock price moving up 12% over the past one week, while the Sensex moved up 4% during the same period.

Analyst Certification:

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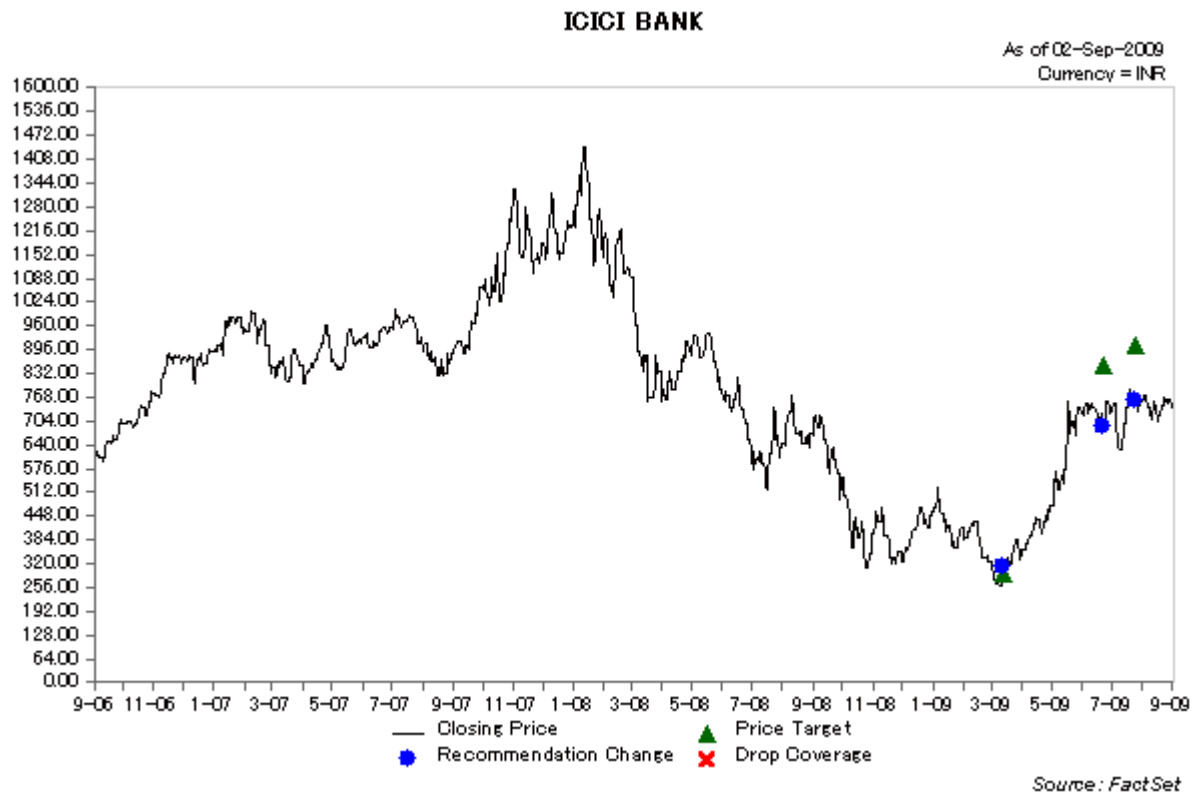
Company Description:

ICICI Bank is India's largest financial institution by market capitalisation. It was originally set up to provide financing for industrial projects. Over the years it has built up a strong retail franchise and is today the market leader in the retail lending segment. The company is currently focusing on its international business, which at present is engaged in funding Indian corporates for their overseas forays as well as domestic capex. Its life and non-life insurance subsidiaries are market leaders within their respective private sector segments. Other subsidiaries include an asset management company, a securities brokerage and a venture capital business.

Important Disclosures:

ICICI Bank (ICBK.NS)**INR 835.70 (11-Sep-2009)****Buy / Neutral**

Rating and Price Target Chart:



Currency=INR

Date	Closing Price	Rating	Price Target	Date	Closing Price	Rating	Price Target
27-Jul-09	757.60		910.00	24-Jun-09	689.35	Buy	
27-Jul-09	757.60	Buy		15-Mar-09	308.70		295.00
24-Jun-09	689.35		855.00	15-Mar-09	308.70	Neutral	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

I, Mahrukh Adajania, research analyst of Nomura Financial Advisory & Securities India Pvt. Ltd. has an interest in the issuer as a shareholder.

I, Mahrukh Adajania, and/or my family member, have a financial interest in relation to the listed company referred to in this research report.

Mahrukh Adajania beneficially owns 100 shares of ICICI Bank Limited as of the date of this report.

Valuation Methodology: We value ICICI Bank's core business at 1.7x P/BV FY11F. We have valued life insurance at 20x one-year forward new business profit, asset management at 7% of equity funds and 2% of debt funds, ICICI Ventures at 18x one-year forward earnings, general insurance at 10x one-year forward P/E, ICICI Securities at 18x one-year forward P/E and I-Sec PD at 5x one-year forward P/E. We have applied a 15% subsidiary discount to arrive at our final consolidated subsidiary value.

Risks Which May Impede the Achievement of the Price Target: Upside risks to our estimates from faster-than-expected growth: we build in 5% loan growth for FY10F and 15% for FY11F. We believe the bank could review its strategy of slow growth in certain segments, especially mortgages if there are favourable policy changes, such as tax sops in the budget.

Downside risks to our earnings estimates: slower-than-expected economic growth, a rapid rise in bond yields owing to rising fiscal deficit and increasing global stress that will hurt ICICI's international book, are key downside risks to our estimates.

Other Material Conflicts: I, Sreekanth Akula, research analyst of Nomura Financial Advisory & Securities India Pvt. Ltd. has an interest in the issuer as a shareholder.

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Sreekanth Akula beneficially owns 10 shares and his spouse owns 15 shares of ICICI Bank Limited as of the date of this report.

Important Disclosures Continued:

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
ICICI Bank	ICBK.NS	INR 835.70	11-Sep-2009	Buy / Neutral

All share prices mentioned are closing prices unless otherwise stated.

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As at 30 June 2009.

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- A rating of "2", or "**Neutral**", indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
- A rating of "3", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
- A rating of "**RS-Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

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- A rating of "1", or "**Buy**" recommendation indicates that potential upside is 15% or more.
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- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
- A rating of "2", or "**Buy**" recommendation indicates that upside is between 10% and 20%.
- A rating of "3", or "**Neutral**" recommendation indicates that upside or downside is less than 10%.
- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

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