

ICICI BANK

Rs 886



In line with expectation, favorable risk reward

BUY

ICICI Bank reported good set of numbers with PAT of Rs1,503 crore up 21.6% y-o-y but down 12.8% q-o-q. Net interest income grew modestly 13.7% y-o-y & 4.4% q-o-q driven by steady loan growth 20.5% y-o-y and stable NIMs. Fee income slowed down 6.9% y-o-y and 7.7% q-o-q due to lower fee in international business, weaker distribution income and muted growth in retail loan book. Cost to income ratio has been stable 44.6% during the quarter. Broadly asset quality trends have been showing continuous improvement both delinquency and recovery level. Provisions declined 29.8% q-o-q in line with asset quality trends and asset growth. Life and general insurance performance were steady with Rs350crore and Rs56 crore respectively. Consolidated PAT grew strongly 42.8% y-o-y & 19.5% q-o-q led by strong core performance in banking, life insurance & general insurance. Maintain BUY.

Modest NII growth 13.7% y-o-y: Net Interest income grew 13.7% y-o-y supported by steady loan growth and Stable NIMs. Overseas margins increased 19bps to 1.09% vs. 1.20% guidance for FY12. Domestic NIM stood at 2.9%, down 10bps q-o-q. We expect blended NIM is likely to stable ~ 2.6% on the back of improvement in overseas NIM.

Improving Asset Quality trends continue: The bank has steadily improved its asset quality over few quarters. Gross NPA stood at 4.14%, decline of 22bps on q-o-q basis. However, Net NPAs declined by 11bps q-o-q to 0.93%. Provision coverage ratio stands at 78%, an increase of ~127bps on sequential basis. Provisions declined 50.3% y-o-y & 29.8% q-o-q driven by improvement in overall asset quality. Net restructured loans for the quarter stands at Rs 2501 cr (1.1% of advances) lower than peer group banks.

Robust consolidated earnings: Consolidated PAT grew strongly by 42.8% y-o-y & 19.5% q-o-q to Rs 1992 cr from 1395 cr in Q2FY11 led by steady PAT in growth in banking business coupled strong earnings reported by life insurance and general businesses. Capital market linked businesses such as asset management, securities, primary dealership and venture capital remained under pressure both top line and bottom line level due to falling volume and yields.

Valuation & Recommendation: ICICI Bank delivered steady core operating performance and performed well on most of operating parameters in tough quarter. Sharp revival in earnings of life insurance coupled with steady banking business's profitability supported consolidated earnings. Modest NII growth, steady fee income growth, stable operating costs and lower provisions were key drivers for earning growth during the quarter. Focus on profitable growth, improving liability franchise, better branch productivity, improving asset quality emerged key value drivers for the stock. We have cut FY12 & FY13 earnings estimate by 2.5% & 6.4% respectively factoring in lower fee income growth and muted treasury line. **At Rs 886, the stock is trading at 15x FY13 earnings and 1.3x FY12 core book, favorable risk reward in our view. We reiterate our BUY rating on the stock with target price of Rs 1162.**

Key Financials

Rs in crore	FY10	FY11	FY12E	FY13E
Net Interest Income	8,114	9,017	10,115	12,510
Pre-provision profit	9,732	9,048	9,859	12,160
Net Profit	4,025	5,151	6,157	7,228
EPS (Rs)	36.1	44.7	53.4	62.7
BVPS(Rs)	463	478	512	553
PE (x)	27	21	18	15
PB (x)	2.1	2.0	1.9	1.7
P/ABV (x)	2.2	2.1	2.0	1.8
P/Core BV (x)	1.7	1.6	1.5	1.3

Source: Company, KRChoksey Research

Target Price (Rs): 1,162

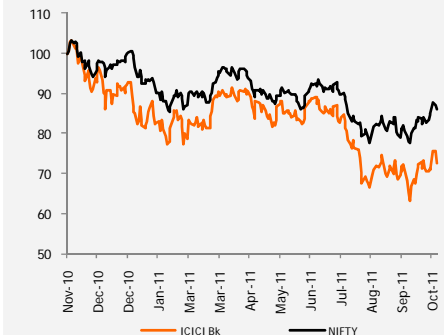
Potential Upside : 31.1%

Previous TP (Rs): 1,168

Market Data	
Eq. sh. O/S(Rs cr)	115.2
Mkt Cap (Rs. cr)	1,03,142
52 Wk H/L (Rs)	1279/ 761
Avg. Vol (3m avg)	40,53,410
Fee float (%)	100%
Face Value (Rs)	10
Bloomberg Code	ICICIB IN

Market Info:

SENSEX	17481
NIFTY	5258

Price Performance**Share Holding pattern (%)**

Particulars	Sep-11	Jun-11	Chg
Promoters	0.0	0.0	0.0
Institutions	38.2	38.6	-0.4
FII	25.2	25.1	0.1
Public/Others	36.6	36.3	0.3
Total	100.0	100.0	

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Fee income continued to drive non interest income

Noninterest income grew 10.3% & 4.9% q-o-q led by steady fee income growth 6.9% y-o-y. Treasury losses were at Rs80 crore vs. Rs25 crore loss in Q1FY12. Corporate, retail and international contributed 40%, 40% and 20% respectively to total fee income. Retail fees moderated due to decline in retail loan book and weaker distribution fee lines. The management indicated that transaction driven fee income is likely to pick up going forward. We are factoring in 13% CAGR in fee income over FY11-FY13E driven by wholesale and retail businesses.

Exhibit : 1 Core fee income driving non-interest income

Rs in crore	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y	1HFY12	1HFY11	Y-o-Y
Fee income	1700	1578	1590	7.7%	6.9%	3278	3003	9%
Lease and other income	120	90	132	33.3%	-9.1%	210	295	-29%
Treasury income	-80	-25	-144	220.0%	-44.4%	-105	-40	163%
Total	1740	1643	1578	5.9%	10.3%	3383	3258	3.8%

Source: Company, KRChoksey Research

Deposit growth in line with asset growth; steady CASA ratio

Deposits grew 10.9% y-o-y & 4.9% q-o-q to Rs 2,45,092 crore. ICICI bank has been able to maintain its CASA above 40% on terminal basis, however, average CASA ratio has declined 170bps q-o-q to 38.3% reflecting migration of funds from current account & saving accounts to term deposits given the higher interest available in the system. The management continues to focus CASA growth and maintain CASA ratio ~ 38-40% going forward. We expect deposits to grow 16.2% CAGR over FY11-FY13E, supporting asset growth of 19.3% CAGR in the same period.

Exhibit : 2 Deposit growth

Rs in crore	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y	Mix
Saving Deposits	70149	66858	63248	4.9%	10.9%	28.6%
Current Deposits	32997	29777	34857	10.8%	-5.3%	13.5%
Term Deposits	141946	134043	124989	5.9%	13.6%	57.9%
Total Deposits	245092	230678	223094	6.2%	9.9%	100.0%
CASA ratio	42.1%	41.9%	44.0%	19	-189	
Avg CASA ratio	38.3%	40.0%	-	-170	-	

Source: Company, KRChoksey Research

Loan book grew 20.5% y-o-y

Loan book grew 20.5% supported by growth in corporate book (21.5% y-o-y) and SME (41.6% y-o-y). Retail loan book continued to shrink 1% q-o-q, driven by rundown of unsecured personal loan portfolio. Overseas advances showed strong traction increasing by 26% y-o-y & 9% q-o-q excluding rupee depreciation. The management expects domestic corporate and SME segment continue to drive loan book growth going forward. We expect loan book to grow 19.3% CAGR between FY11-13E driving NII growth.

Exhibit : 3 Advance growth trend

Rs in crore	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y	Mix
Domestic corporate	56,628	52,306	46,608	8.3%	21.5%	24.2%
SME	10,998	11,035	7,768	-0.3%	41.6%	4.7%
Rural	17,550	18,760	13,594	-6.4%	29.1%	7.5%
Overseas branches	66,924	55,837	48,550	19.9%	37.8%	28.6%
Retail	81,900	82,763	77,680	-1.0%	5.4%	35.0%
- Home Loans	55,119	54,623	50,492	0.9%	9.2%	23.6%
- Vehicle loans	20,721	21,435	18,643	-3.3%	11.1%	8.9%
- Credit cards	2,539	2,648	3,107	-4.1%	-18.3%	1.1%
- Personal Loans	1,229	1,986	3,107	-38.2%	-60.5%	0.5%
- Other secured	2,293	2,069	2,330	10.8%	-1.6%	1.0%
Total Loan book	234,000	220,700	194,200	6.0%	20.5%	100.0%

Source: Company, KRChoksey Research

Cost to income ratio stable at ~ 44.6%

Operating costs increased 20.5% y-o-y, due to rise in employee costs by 35% y-o-y. Employee costs rose sharply by 27% q-o-q due to the wage inflation (11%) and new hiring. Employee cost constitutes 45% of the total operating expenses. We believe cost to income is likely to stable ~ 44-45% in medium term.

Improving Asset Quality trend continue

The bank has steadily improved its asset quality over few quarters. Gross NPA stood at 4.14%, decline of 22bps on q-o-q basis. However, Net NPAs declined by 11bps q-o-q to 0.93%. Provision coverage ratio stands at 78%, an increase of ~127bps on sequential basis. Provisions declined 50.3% y-o-y & 29.8% q-o-q driven by improvement in overall asset quality. During the quarter, gross addition to Gross NPAs was Rs787 crore while recoveries and up gradation were Rs669 crore resulted into Rs118 crore net increase in gross NPAs. Net restructured loans for the quarter stands at Rs 2501 cr (1.1% of advances) lower than peer group banks.

Exhibit : 4 Gross NPA and Net NPA Trend

Rs in crore	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y
Gross NPAs	10021	9983	10141	0.4%	-1.2%
Net NPAs	2184	2303	3145	-5.2%	-30.6%
GNPA ratio	4.14%	4.36%	5.03%	-22	-89
Net NPA ratio	0.93%	1.04%	1.62%	-11	-69
Retail Gross NPAs	6317	6358	6799	-0.6%	-7.1%
Retail Net NPAs	976	1118	1712	-12.7%	-43.0%
Retail GNPA / GNPA	63%	64%	67%	-65	-401
Retail GNPA / NNPA	45%	49%	54%	-386	-974
Provisions / Avg advances	0.56%	0.83%	1.35%	-27	-79

Source: Company, KRChoksey Research

Other Key Highlights

- ICICI Bank has 2,535 branches across the country including acquired bank of Rajasthan (branches 468). The bank is targeting 4,000 branches by 2015 covering both urban and rural markets.
- Banks capital adequacy stands at 19.0%. (Tier I at 13.1%).
- ICICI general Insurance PAT increased from Rs 40 cr in Q1FY12 to Rs 56 cr in Q2FY12. Gross premium income increased by 19.7% to Rs 1,306 cr from Rs 1091 cr in Q2FY11.

Earnings Revision

	FY12E		Change (%)	FY13E		Change (%)
	Old	New		Old	New	
Net Interest Income	10120	10115	0.0%	12535	12510	-0.2%
Pre Provision Profit	10418	9859	-5.4%	12830	12160	-5.2%
Net Profit	6313	6157	-2.5%	7721	7228	-6.4%

Source: Company, KRChoksey Research

ICICI Bank : Sum of Parts Valuation

(Rs per share)	FY13E	Basis of Valuation
ICICI Bank - Standalone	749	Based on RI model
Subsidiaries		
ICICI Pru. Life Insurance	176	Based on 17x FY13 NBAP
ICICI Lombard General Insurance	42	Based on 18x FY13 earnings
ICICI Pru. AMC	54	As a 4.5% of AUM
ICICI Venture Funds Management	14	As a 12 % of AUM
ICICI Home Finance	28	Based on RI model - Fair PB - 2.2
ICICI Sec	23	Price to Earnings multiple
ICICI Securities PD	1	Price to Earnings multiple
ICICI Bank Plc	35	Valued at 1x of FY11 book value
ICICI Bank Canada	80	Valued at 1x of FY11 book value
ICICI Bank Eurasia LLC	25	Valued at 1x of FY11 book value
Subsidiaries value	478	
Intrinsic VPS post holding co discount(Rs.)	1162	

Source: KRChoksey Research

Q2FY12: Result Analysis

Rs in crore	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y
Income Statement					
Interest income	8158	7619	6309	7.1%	29.3%
Interest expenses	5651	5208	4105	8.5%	37.7%
Net interest income	2506	2411	2204	4.0%	13.7%
Non interest income					
- Fee income	1700	1578	1590	7.7%	6.9%
Operating income	4246	4054	3782	4.7%	12.3%
Operating expenses	1892	1820	1570	4.0%	20.5%
Pre-provisioning profit	2354	2234	2212	5.4%	6.4%
Provisions	319	454	641	-29.8%	-50.3%
Profit before tax	2035	1780	1571	14.3%	29.5%
Tax	532	448	335	18.7%	59.0%
Net profits	1503	1332	1237	12.8%	21.6%
Balance Sheet Items & Key Ratios					
Advances	233952	220693	194201	6.0%	20.5%
Deposits	245092	230678	223094	6.2%	9.9%
CA Deposits	30000	29777	34857	0.7%	-13.9%
SA Deposits	68000	66858	63248	1.7%	7.5%
CASA Deposits	98000	96635	98105	1.4%	-0.1%
Term Deposits	147092	134043	124989	9.7%	17.7%
Investments	139556	139556	136276	0.0%	2.4%
Total Assets	440725	415215	389998	6.1%	13.0%
CD ratio	95.5%	95.7%	87.0%	-22 bps	841 bps
CASA ratio	40.0%	41.9%	44.0%	-191 bps	-399 bps
Spread Analysis					
Yield on avg advances	9.5%	9.0%	8.3%	43 bps	112 bps
Yield on avg investments	6.5%	6.6%	5.7%	-4 bps	85 bps
Yield on avg interest bearing assets	6.2%	6.3%	5.7%	-5 bps	46 bps
Cost of funds	6.4%	6.1%	5.3%	23 bps	102 bps
Net interest margin	2.5%	2.5%	2.5%	-1 bps	-3 bps
NIM (reported)				0 bps	0 bps
Asset Quality					
Gross NPAs	10021	9983	10141	0.4%	-1%
Net NPAs	2184	2303	3145	-5.2%	-31%
GNPL %	4.14%	4.36%	5.03%	-22 bps	-89 bps
NNPL %	0.93%	1.04%	1.62%	-11 bps	-69 bps
Coverage	78%	77%	69%	127 bps	922 bps
Provisions / Avg advances					
Capital Adequacy Ratio					
Tier I	13.14%	13.36%	13.80%	-22 bps	-66 bps
CAR	18.99%	19.57%	20.20%	-58 bps	-121 bps

Key Subsidiaries & Consolidated performance**ICICI Life**

Annualized premium equivalent (APE)	736	445	1344	65.4%	-45%
Renewal premium	2311	1807	2264	27.9%	2%
Total premium	3407	2631	3873	29.5%	-12%
New Business Profit (NBP)	118	71	254	66.2%	-54%
NBP margin	16.0%	16.0%	18.9%	0.0%	-15.3%
Statutory profit/ (loss)	350	339	15	-	-
Assets Under Management	64849	67447	65484	-	-
Expense ratio	20.4%	18.9%	8.0%	150 bps	1240 bps

ICICI General

Gross premium	1306	1303	1091	0.2%	19.7%
PAT	56	40	104	-	-

ICICI Home Finance

PAT	56.13	70	54	-20.2%	3.9%
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ICICI Securities Ltd

PAT	16	10	29	60.0%	-44.8%
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ICICI Securities PD

PAT	17	23	-2	-26.1%	-950.0%
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ICICI Venture

PAT	3	5	22	-40.0%	-86.4%
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ICICI Prudential AMC

PAT	20	25	14	-20.0%	42.9%
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Consolidated PAT	1992	1667	1395	19.5%	42.8%
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Source: Company, KRChoksey Research

NII showed a muted growth of 13.7% y-o-y on led by steady NIMs and healthy loan book growth

Provisions declined 50.3% y-o-y, which supported bottom line.

Loan book grew 20.5% y-o-y driven by corporate and SME.

Asset Quality held up well. Gross NPAs increased marginally by 0.4% y-o-y, whereas Net NPAs declined sharply by 31% y-o-y.

Financials

Income Statement

Rs in crore	FY10	FY11	FY12E	FY13E
Interest income	25,707	25,974	30,367	36,054
Interest expense	17,593	16,957	20,252	23,544
Net Interest Income	8,114	9,017	10,115	12,510
-- Core fee Income	5,937	6,432	7,167	8,167
Non interest income	7,478	6,648	7,549	8,885
Operating income	15,592	15,665	17,664	21,395
Operating expenses	5,860	6,617	7,805	9,234
-Employee cost	1,926	2,817	3,455	4,284
-Other operating expenses	3,934	3,800	4,350	4,950
Pre-provision profits	9,732	9,048	9,859	12,160
Provisions	4,387	2,287	1,650	2,392
PBT	5,345	6,761	8,209	9,768
Provision for taxes	1,320	1,609	2,052	2,540
Net profit	4,025	5,151	6,157	7,228
Dividend (Inc. tax)	1502	1815	2155	2530

Spread Analysis

Spread Analysis	FY10	FY11	FY12E	FY13E
Avg Yield On Advances	8.7%	8.3%	8.6%	9.0%
Avg Yield On Investments	5.8%	6.2%	6.0%	6.0%
Avg Yield On IBA	7.4%	7.2%	7.5%	7.8%
Avg Cost Of Deposits	5.5%	4.9%	5.3%	5.5%
Avg Cost of Funds	6.0%	5.4%	5.7%	5.8%
Spread	1.4%	1.8%	1.8%	2.0%
NIM	2.3%	2.5%	2.5%	2.7%

Asset Quality Profile

	FY10	FY11	FY12E	FY13E
Gross NPA	9481	10034	9709	9862
Net NPA	3841	2407	2913	2959
Gross NPA %	5.07%	4.48%	3.71%	3.13%
Net NPA %	2.12%	1.11%	1.14%	0.96%
Credit Costs	2.2%	1.0%	0.7%	0.9%

Per Share Data

(Rs)	FY10	FY11	FY12E	FY13E
EPS (Rs)	36	45	53	63
DPS (Rs)	13	16	19	22
BVPS(Rs)	463	478	512	553
PE (x)	26.6	21.5	18.0	15.3
PB (x)	2.1	2.0	1.9	1.7
P/ABV (x)	2.2	2.1	2.0	1.8
P/Core BV (x)	1.7	1.6	1.5	1.3
Dividend yield	1.4%	1.6%	1.9%	2.3%

Balance Sheet

Rs in crore	FY10	FY11	FY12E	FY13E
Equity capital	1,115	1,152	1,152	1,152
Reserve and Surplus	50,503	53,939	57,854	62,552
Net worth	51,618	55,091	59,006	63,704
Deposits	202,017	225,602	261,698	316,655
Borrowings	94,264	109,554	115,032	120,784
CL and provisions	15,501	15,986	18,864	22,259
Total	363,400	406,234	454,600	523,402
Cash and Bal. with RBI	27,514	20,907	20,726	24,377
Balances with RBI	11,359	13,183	10,468	12,666
Investments	120,893	134,686	143,149	148,828
Advances	181,206	216,366	255,184	307,717
Fixed assets	3,213	4,744	5,456	6,274
Other assets	19,215	16,347	19,617	23,540
Total	363,400	406,234	454,600	523,402

Dupont Analysis

(As % Avg assets)	FY10	FY11	FY12E	FY13E
NII	2.2%	2.3%	2.4%	2.6%
Fee Income	1.6%	1.7%	1.7%	1.7%
Treasury Income	0.1%	0.1%	0.0%	0.0%
Employee Cost	0.5%	0.7%	0.8%	0.9%
Operating Costs	1.6%	1.7%	1.8%	1.9%
Provisions	1.2%	0.6%	0.4%	0.5%
Tax	0.4%	0.4%	0.5%	0.5%
ROAA	1.1%	1.3%	1.4%	1.5%
RoAE	8.0%	9.7%	10.8%	11.8%

Business Profile

	FY10	FY11	FY12E	FY13E
Advances	181,206	216,366	255,184	307,717
CD ratio	89.7%	95.9%	97.5%	97.2%
Deposits	202,017	225,602	261,698	316,655
CASA Deposits	84,216	101,747	118,608	137,691
CASA Ratio	41.7%	45.1%	45%	43%

Growth ratios

	FY10	FY11	FY12E	FY13E
Net interest income	-17.3%	11.1%	12.2%	23.7%
Fee income	-1.4%	14.2%	12.0%	15.0%
Pre-provision Profits	9.0%	-7.0%	9.0%	23.3%
Net Profits	7.1%	28.0%	19.5%	17.4%
Advances	-17.0%	19.4%	17.9%	20.6%
Deposits	-7.5%	11.7%	16.0%	21.0%
Total Assets	-4.2%	11.8%	11.9%	15.1%

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ICICI Bank			
Date	CMP	Target	Recommendation
1-Nov-11	886	1,162	BUY
4-Oct-11	839	1,168	BUY
1-Aug-11	1,040	1,341	BUY
2-May-11	1,114	1,325	BUY
27-Jan-11	1,038	1,325	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 10%
Reduce	0 - 5%
Sell	Less than 0%

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