ICICI Bank

Price Objective Change

BUY

Equity | India | Banks-Retail
10 July 2012

CEO mtg: Comfort on asset quality & earnings; Raise PO

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Strong EPS growth & comfort on asset quality; Raising PO

We recently met Ms. Chanda Kochhar, MD & CEO of ICICI Bank. We reiterate our Buy and raise our PO to Rs1200 (from Rs1075), as we think asset quality, a key investor issue, may be much better than expected. We believe a sustained demonstration by the bank in managing the credit cycle and high visibility in earnings growth (+20%) can lead to a re-rating of the stock. Further, its high Tier I capital also makes it better positioned to manage potential regulatory changes. We think the stock can re-rate to 2.0x (Bk biz.) one year forward (FY13) multiple. This is a ~10% premium to its average historical multiple over last 6-yr period; but still at 20-60% discount to many peers. It's our top pick in the sector.

Net slippages may be much lower than our est.

The most positive takeaway from the meeting was the enhanced comfort on asset quality. Consistent with past guidance, Ms. Kochhar was confident that slippages may trend down in FY13 and the worst may be behind. Further, it was reiterated that restructured loans may also not see a marked rise. Hence, we cut our gross NPL (net of recoveries) est. by ~10% and now est. 15% rise in gross NPL's (ex. w/o's) v/s 25% earlier factoring some impact of a credit cycle underway. ICICI Bank is much better positioned to manage credit cycle owing to its high share of retail loans and low % of SME loans.

~23/21% earnings growth in FY13/14E

Earnings growth to sustain at +23/21% through FY13/14E led by 1) 15-17% loan growth driven by retail loans; 2) margins on o/s basis expanding to ~2.9% (with room for upside) and 3) narrowing of fee-cost gap as fees rise while C-I ratio benefits from its expanding distribution. ROA to rise to 1.7% in FY14E. Earnings capture higher credit costs, leaving some buffer if asset quality better than est.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	40,250	51,514	64,653	79,707	96,385
EPS	36.13	45.45	56.11	69.14	83.61
EPS Change (YoY)	7.0%	25.8%	23.4%	23.2%	20.9%
Dividend / Share	12.00	14.00	16.50	21.00	25.00
ADR EPS (US$)	1.52	2.00	2.04	2.51	3.03
ADR Dividend / Share (US$)	0.506	0.615	0.599	0.762	0.907

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	25.7x	20.5x	16.6x	13.4x	11.1x
Dividend Yield	1.29%	1.51%	1.77%	2.26%	2.69%
Pre-exceptional PE	25.74x	20.46x	16.57x	13.45x	11.12x
Price / Book	2.08x	1.95x	1.77x	1.63x	1.49x
RoE / PB	3.83x	4.96x	6.31x	7.75x	9.41x
Price / Pre-Provision Profit	10.65x	11.84x	10.32x	8.39x	6.91x

Stock Data

Price (Common / ADR)	Rs929.90 / US$33.54
Price Objective	Rs1,200 / US$44.00
Date Established	10-Jul-2012 / 10-Jul-2012
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs641.00-Rs1,084
Market Value (mn)	US$19,282
Market Value (mn)	Rs1,071,961
Shares Outstanding (mn)	1,152.8 / 576.4
Average Daily Volume	4,199,474
BofAML Ticker / Exchange	ICIJF / BSE
BofAML Ticker / Exchange	IBN / NYS
Bloomberg / Reuters	ICICIBC IN / ICBK.BO
ROE (2012E)	11.2%
Total Dbt to Cap (Mar-2011A)	NA
Est. 5-Yr EPS / DPS Growth	24.0% / 12.0%
Free Float	74.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	1,075.00	1,200.00
2013E EPS	69.05	69.14
2014E EPS	81.46	83.61

Refer to important disclosures on page 19 to 23. Analyst Certification on Page 16. Price Objective Basis/Risk on page 16. Link to Definitions on page 16.11181680

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Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Net Interest Income	81,144	90,169	107,342	129,524	152,420
Net Fee Income	59,369	64,315	67,070	75,906	90,158
Securities Gains / (Losses)	8,662	(2,022)	(130.00)	2,000	2,500
Other Income	6,746	4,186	8,088	9,705	11,452
Total Non-Interest Income	74,777	66,479	75,028	87,611	104,110
Total Operating Income	155,920	156,648	182,369	217,135	256,530
Operating Expenses	(58,598)	(66,173)	(78,504)	(89,418)	(101,496)
Pre-Provision Profit	97,322	90,475	103,865	127,717	155,035
Provisions Expense	(43,869)	(22,868)	(15,830)	(18,529)	(23,001)
Operating Profit	54,036	67,854	91,134	112,238	134,587
Non-Operating Income	NA	NA	NA	NA	NA
Pre-Tax Income	53,453	67,607	88,034	109,188	132,034
Net Income to Comm S/Hold.	40,250	51,514	64,653	79,707	96,385
Adjusted Net Income (Operating)	40,250	51,514	64,653	79,707	96,385

Key Balance Sheet Data

Total Assets	3,633,997	4,062,337	4,736,471	5,269,239	6,010,037
Average Interest Earning Assets	3,381,543	3,542,080	4,074,916	4,626,113	5,185,495
Weighted Risk Assets	2,941,810	3,414,980	3,985,860	4,685,389	5,603,720
Total Gross Customer Loans	1,812,056	2,163,659	2,537,277	2,943,049	3,514,816
Total Customer Deposits	2,020,166	2,256,021	2,555,000	2,852,328	3,277,998
Tier 1 Capital	410,620	449,750	505,180	546,562	597,322
Tangible Equity	515,024	550,906	604,029	656,623	720,730
Common Shareholders' Equity	516,184	550,906	604,029	656,623	720,730

Key Metrics

Net Interest Margin	2.40%	2.55%	2.63%	2.80%	2.94%
Tier 1 Ratio	14.0%	13.2%	12.7%	11.7%	10.7%
Effective Tax Rate	24.7%	23.8%	26.6%	27.0%	27.0%
Loan / Assets Ratio	47.9%	51.0%	51.6%	53.8%	56.4%
Loan / Deposit Ratio	86.2%	91.9%	95.7%	99.4%	103.4%
Oper Leverage (Inc Growth - Cost Growth)	14.5%	-12.5%	-2.2%	5.2%	4.6%
Gearing (Assets / Equity)	7.0x	7.4x	7.8x	8.0x	8.3x
Tangible Common Equity / Assets	14.2%	13.6%	12.8%	12.5%	12.0%
Tangible Common Equity / WRAs	17.5%	16.1%	15.2%	14.0%	12.9%
Revenue Growth	-2.4%	0.5%	16.4%	19.1%	18.1%
Operating Expense Growth	-16.8%	12.9%	18.6%	13.9%	13.5%
Provisions Expense Growth	15.2%	-47.9%	-30.8%	17.0%	24.1%
Operating Revenue / Average Assets	4.2%	4.1%	4.1%	4.3%	4.5%
Operating Expenses / Average Assets	1.6%	1.7%	1.8%	1.8%	1.8%
Pre-Provision ROA	2.6%	2.4%	2.4%	2.6%	2.7%
ROA	1.1%	1.3%	1.5%	1.6%	1.7%
Pre-Provision ROE	19.2%	17.0%	18.0%	20.3%	22.5%
ROE	8.0%	9.7%	11.2%	12.6%	14.0%
RoTE	7.8%	9.4%	10.7%	12.1%	13.4%
RoWRAs	1.4%	1.5%	1.6%	1.7%	1.7%
Dividend Payout Ratio	33.2%	30.8%	29.4%	30.4%	29.9%
Efficiency Ratio	39.8%	41.7%	43.0%	41.6%	40.0%
Headline Cost/Income Ratio	37.6%	42.2%	43.0%	41.2%	39.6%
Total Non-Interest Inc / Operating Inc	48%	42%	41%	40%	41%
Market-Related Revenue / Total Revenues	5.6%	-1.3%	-0.1%	0.9%	1.0%
Provisioning Burden as % of PPP	45.1%	25.3%	15.2%	14.5%	14.8%
NPLs plus Foreclosed Real Estate / Loans	5.4%	4.8%	3.9%	3.7%	3.4%
Loan Loss Reserves / NPLs	74.6%	90.7%	96.0%	101.4%	109.1%
Loan Loss Reserves / Total Loans	4.1%	4.4%	3.7%	3.8%	3.7%
Provisions Expense / Average Loans	2.3%	1.2%	0.7%	0.7%	0.7%

Other Metrics

Income / Employee	12.47	12.05	13.51	15.51	17.69
(Operating Expenses) / Employee	4.69	5.09	5.82	6.39	7.00
Pre-Provision Profit / Employee	7.79	6.96	7.69	9.12	10.69
Net Profit / Employee	3.22	3.96	4.79	5.69	6.65

Company Description

ICICI, originally set up to provide direct finance for development of industrial projects, is India's leading financial institution. It has built a strong retail franchise to complement its corporate banking activities and capitalize on the fast growing retail market. It has a multi-channel distribution network, wide product range and a strong brand. Managing growth is the key issue.

Investment Thesis

We are bullish on ICICI Bank as it has built a strong retail franchise to complement its corporate banking activities and capitalize on the fast growing retail market. It has a multi-channel distribution network, wide product range and a strong brand. Other positives - risk-return attractive, beneficiary of macro cycle, rapid gain in market share on distribution leverage and customer acquisition.

Stock Data

Shares / ADR	2.00
Price to Book Value	1.8x

Key Changes (ADR)

(US$)	Previous	Current
Price Obj.	41.00	44.00
2013E EPS	2.50	2.51
2014E EPS	2.95	3.03

Meeting with the CEO of ICICI Bank

We met with Ms. Chanda Kochhar, CEO of ICICI Bank to get her perspective on the overall outlook for both the bank and India and also the bank's future strategy.

Our meeting reinforced our positive stance on ICICI Bank. We believe the bank remains well positioned to not only manage the current credit cycle underway; but to also sustain a +20% earnings growth trajectory for the next few years. Key takeaways are:

- **Loan growth** through FY13/14 is likely to remain at +15-17%, rising to possibly ~19-20% in FY14. Moreover, loan growth may be ~20% in the domestic book, driven by corporate, mortgage and autos.
- **Margins**, after jumping to 3% in the 4QFY12, may sustain around these level on an incremental basis (barring 1Q13 decline by ~10-15bps qoq on priority sector lending), as the bank changes its loan mix and also gets the full benefit of the "absence of securitization drag" seen in FY12. On an overall basis, margins are forecast to expand from ~2.7% to +2.9% in FY13.
- Ms. Kochhar remains confident in the bank's ability to sustain **CASA** levels at +39-40% average, as the bank leverages it expanding distribution and continues to ramp up its customer base. The bank is adding about ~225,000 customers / month.
- The most encouraging aspect is that Ms. Kochhar remains confident of **managing asset quality very well.** Ms. Kochhar believes slippages are likely to trend in FY13 and the worst may be behind the bank. Based on our meeting, we think there is reasonable upside to our forecasts. Hence, we cut our gross NPL's (closing) by 9% and now forecast only a 10% rise v/s 19% earlier. Importantly, we are still penciling gross slippages of Rs40bn for Fy13 (v/s Rs30bn done in FY12) as we still try to build in some impact of the credit cycle underway.
- **Restructured loans** is an area where, at the sector level, we expect a spurt in restructured loans. However, in this area too, the bank clarified that it may not see a marked rise. Most of the restructured loans, as expected, are likely to be from power and infra projects – but may be visible only from mid-FY14 onwards. We also expect restructured loans to be around 2.7-2.8% of loans.
- The bank remains committed to pursuing its **overseas strategy**. As indicated by Ms. Kochhar, it is not likely to compromise on margins (at ~1.5%) for growth. While the bank is guiding for flattish growth overseas, we think they may end the year with ~5-6% growth as Indian corporates seek more loans from Indian banks / substitute loans from foreign banks with Indian bank loans. More importantly, the bank has minimal ALM mismatch on its international book. It has about ~US$2.5-2.8bn of liabilities re-pricing in FY13; and the bank has a similar amount of asset re-pricing. Further, it has excess B/s liquidity of ~US$900mn to meet any short-term ALM mismatches.
- The bank is **not in a hurry to unlock value or monetize its stake** in the life insurance subsidiary given that it does not need any capital. For other subsidiaries, the bank may need to infuse capital in the general insurance venture owing to the step-up in regulatory solvency ratios.

We raise our PO to Rs1200 (from Rs1075) following our meeting owing to the enhanced comfort on asset quality which as been the key issue for investors relating to the bank owing to its project finance exposure. We believe the bank is likely to mange the credit cycle much better owing to its lower share of SME loans and high share of retail (that is least vulnerable).

Further, the meeting also reinforced our view on the bank's ability to sustain earnings growth at +20% through FY13/14. Finally, we believe the bank, by virtue of its high Tier I capital, is also better positioned to mange future regulatory changes that may occur.

We believe the stock can re-rate as the bank delivers ahead of expectations on asset quality, which has been a key investor concern. Furthermore, as detailed inside, the bank is also well positioned to manage any ALM mismatch on its international book.

Hence, we think the stock can, arguably, re-rate to 2.0x (Bk biz.) one year forward (FY13) multiple. This is a ~10% premium to its average historical multiple over the last 6-yr period. But it is still at a 10% to 65% discount to most other private banks Our PO includes Rs218/shr. value of subs.

Less bullish on the bank's debt *(Vishal Mahtani)*

We are, however, less positive on the banks' traded debt. **Our debt analyst Vishal Mahtani** had downgraded the ICICI senior bonds back in late April from OW-70% to OW-30% based on valuations and on supply expectations in senior in order to refi the upcoming USD1.7bn ICICI Bahrain bond (October 2012 maturity) and overhang from a potential sovereign rating downgrade. ICICI is the largest issuer in the Indian bank bond sector and has some of the more liquid issues. We attach the link to the debt report.
http://research1.ml.com/C?q=ebKb54Yo3RIFWLN-mY1bYA&e=vishal.mahtani%40baml.com&h=d40Lqw

Raise FY14 EPS; ~23/21% growth in FY13E/14E

In light of our meeting with Ms. Kochhar, we have raised our earnings estimate by ~3% for FY14 (largely maintain FY13e) factoring in higher fee traction. We believe ICICI Bank will deliver earnings growth of ~23/21% in FY13/14 factoring in a credit cycle and moderation in loan growth. Earnings visibility for FY13 driven by margin uptick from no securitization drag and retail loan growth normalizing, as unsecured book runs down.

- Topline growth estimated at +20/18% in FY13/14 driven by +16/19% loan growth and moreover, margins rising by +15bps in FY13, as there is no securitization drag and retail growth (high yields) props up the margins.
- Fee growth to be +13/18% in FY13/14E, marginally lower than the B/s growth as corporate fees continue to be sluggish. Cost Income ratio estimated at ~42% in FY13, lower than 43% in FY12, as the bank benefits from operating leverage from recently expanded distribution.
- Finally, we still estimate credit costs at ~70bps for FY13/14 driven by ~70% rise in slippages, by our calculations. Coverage forecast to be flat at +85%. Net NPLs at <0.5% through FY14E.

Asset quality (slippages) may surprise

The most encouraging aspect, in our view, is that asset quality continues to be very manageable. This remains one of the most contentious and challenging issue at the sector level, especially for banks having project finance / infra exposures. We think it may surprise for ICICI Bank.

ICICI Bank's total exposure to projects under implementation is, on our estimates, around ~10-12% as of FY12. Its total Infra. exposure (including power sector) is ~12.4% and power exposure is about ~5%.

The bank continues to focus on cleaning up its balance sheet, as and when required. A case in point is its recent sale of its Kingfisher debt to SREI. The KF debt has already been recognized as a NPL by many banks. The bank sold the KF debt without taking any "haircut". In fact, we understand that the bank also managed to receiver some penal interest. This is because the bank had additional collateral unlike many other banks.

Also, the bank's low exposure to SME sector bodes well. In our view, SME is currently witnessing the biggest stress arising from both high domestic rates and also the worsening of the global environment hurting Indian exports.

Further, as shown in the table below, even in FY12E (as in FY11), almost 63% of its NPLs are still coming from its legacy retail loans, primarily its personal loan portfolio where NPLs are estimated at +9%. This implies is that even if we were to assume a sharp jump in NPLs from some of the sectors seeing greater stress like textiles, parts of construction and also include parts of the infra loans (to power sector), the overall rise in slippages is likely to be less than the 20% rise we are estimating. This corroborates with the banks' view that overall slippages may have peaked.

Table 1: NPL / Loan Mix Table- ICICI Bank

ICICI NPLs -Loans	NPLs			Loan			NPL Mix			Loan Mix			NPL / Segment		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Retail finance	64,730	66,350	59,790	831,190	890,740	953,930	67.2%	65.6%	62.5%	44.4%	39.7%	36.4%	7.8%	7.4%	6.3%
Wholesale/retail trade	2,170	3,850	2,120	44,470	52,000	50,600	2.3%	3.8%	2.2%	2.4%	2.3%	1.9%	4.9%	7.4%	4.2%
Food and beverages	1,620	2,880	2,640	61,540	70,630	67,790	1.7%	2.8%	2.8%	3.3%	3.1%	2.6%	2.6%	4.1%	3.9%
Services – finance	2,430	2,300	1,070	64,560	161,430	156,410	2.5%	2.3%	1.1%	3.4%	7.2%	6.0%	3.8%	1.4%	0.7%
Textiles	1,900	2,250	1,840	19,160	21,010	21,010	2.0%	2.2%	1.9%	1.0%	0.9%	0.8%	9.9%	10.7%	NA
Chemicals and fertilizers	2,470	2,050	1,560	46,270	29,240	34,980	2.6%	2.0%	1.6%	2.5%	1.3%	1.3%	5.3%	7.0%	4.5%
Electronics and engineering	690	680	2,380	31,540	44,720	56,610	0.7%	0.7%	2.5%	1.7%	2.0%	2.2%	2.2%	1.5%	4.2%
Automobiles	590	550	180	166,238	178,148	190,786	0.6%	0.5%	0.2%	8.9%	7.9%	7.3%	0.4%	0.3%	0.1%
Services – non finance	380	380	390	135,210	173,360	194,810	0.4%	0.4%	0.4%	7.2%	7.7%	7.4%	0.3%	0.2%	0.2%
Power	140	180	90	56,490	98,110	141,240	0.1%	0.2%	0.1%	3.0%	4.4%	5.4%	0.2%	0.2%	0.1%
Iron/steel and metals	2,110	1,470	2,060	90,830	113,620	170,500	2.2%	1.5%	2.2%	4.8%	5.1%	6.5%	2.3%	1.3%	1.2%
Other Industries	17,030	18,140	21,510	325,642	411,142	582,094	17.7%	17.9%	22.5%	17.4%	18.3%	22.2%	5.2%	4.4%	3.7%
Total	96,260	101,080	95,630	1,873,140	2,244,150	2,620,760	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	5.1%	4.5%	3.6%

Source: BofA Merrill Lynch Global Research estimates

Table 2: Stock of distressed loans (estimates)

As % of total loans (%)	FY12	FY13	FY14
Gross NPL's (% of loans)	3.6%	3.5%	3.2%
Restructured Loans (% of loans)	1.6%	2.1%	2.6%
Total Distressed Loan (% of loans)	5.3%	5.6%	5.8%

Source: BofA Merrill Lynch Global Research estimates

As indicated earlier, we are still penciling in almost a +35/25% rise in slippages in our forecasts for FY13/14, which leave some room for upside (as shown in the chart below). Moreover, even after cutting our gross slippage estimate to Rs40bn (from Rs50bn) we are factoring in a net increase in slippages (net of Upgradation and recoveries) of almost Rs14bn in FY13 and Rs19bn in FY14 v/s just Rs6bn in FY12 to capture some impact of a credit cycle that is underway.

As shown in table 3, we are still maintaining the slippage run rate at +1.6-1.7% to reflect the credit cycle – though we believe there may be even more room for cutting the FY14 estimates as we get more visibility on the asset quality. We estimate gross NPLs to be around 3.2% by FY14. Net NPLs to remain manageable at <0.5% in FY13/14E. NPL provision cover forecast at +85-90% through FY14. This excludes general provisions amounting to +60% net NPLs. Including general provisions, we estimate total provision cover at +100%. The stock of total distressed loans (gross NPLs + restructured loans) today stands at ~5.3%, which could peak out at ~5.8-5.9% by FY14.

Table 3: NPL movement

NPL Calculations	FY10	FY11	FY12	FY13E	FY14E
Gross NPL - Beginning	96.5	94.8	100.3	94.8	104.2
Fresh Accretion	64.2	28.7	29.9	40.6	50.0
Reduction (incl. w/o)	65.9	23.1	35.4	31.2	38.7
- Recoveries	24.2	13.7	16.2	18.7	22.4
- Upgradation	6.7	7.6	7.4	7.5	8.3
Write Offs	35.0	1.9	11.8	5.0	8.0
Gross NPLs- Closing	94.8	100.3	94.8	104.2	115.6
Net NPLs	38.4	24.1	18.6	12.1	4.3
Gross NPL's / Loans	5.1	4.5	3.6	3.4	3.2
Net NPL's / Loans	2.1	1.1	0.7	0.4	0.1
Coverage	59.5	76.0	80.4	88.4	96.3
Slippages (1-yr lag loans)	2.9%	1.6%	1.4%	1.6%	1.7%

Source: BofA Merrill Lynch Global Research estimates

Restructuring: Thorny issue for Sector; but seems manageable for IBank

Restructured loans remain the other key area of concern for investors and markets across the banking sector. At the sector level, we are expecting to see a sharp rise in restructured loans as many of the infra (especially power projects) get restructured. While we also expect a rise for ICICI Bank, though less v/s sector, our meeting suggested that this could also be an area where we may be positively surprised through the year. ICICI restructured Rs38bn in FY12 (including Rs25bn under CDR scheme). These include Rs7.2bn of MFI, Rs6.5bn of GTL and Rs5.5bn of 3i Infotech. The sacrifice on restructured pool was ~10% (13% for restructuring under CDR scheme and 3-4% on balance). Reversal in interest income due to conversion into FITL was Rs869mn in FY12.

Table 4: Restructuring under check

	FY10			FY11			FY12		
	CDR	Others	Total	CDR	Others	Total	CDR	Others	Total
Restructured advances	14,827	41,890	56,716	994	13,264	14,258	24,909	13,112	38,021
- Standard	14,187	41,316	55,503	994	11,727	12,721	24,668	12,688	37,356
- NPLs	640	573		-	1,537	1,537	241	424	666
Sacrifice	1,087	1,443	2,530	133	1,296	1,429	3,319	450	3,769
Sacrifice (%)	7.3%	3.4%	4.5%	13.3%	9.8%	10.0%	13.3%	3.4%	9.9%
FITL			704			177			869

Source: BofA Merrill Lynch Global Research estimates

While this is largely expected, ICICI Bank once again highlighted that power loans under implementation could potentially see some restructuring over the next few years, are likely to account for ~10-15% of its total power loans (~5% of total loans). We also estimate the total quantum of restructured loans to be < 3% of total loans.

Also, based on our discussion, we reckon there has not been a sharp rise in its restructured loan portfolio YTD v/s FY12 level. In contrast, the sector has seen almost a 40% rise in the CDR referrals during this quarter, from an estimated Rs350bn in Fy12 to about +Rs500bn in Jun'12. In regard to likely "haircuts" on restructured loans, as per the bank, "haircut" required in many instances may be <10% based on the past trends (average hair cut to date is 10%). We are factoring in a 12% charge on all restructured loans.

We reckon most of the restructuring is likely to be back ended in FY14/15. Also in power there is increased hope that the power projects may be allowed some pass through (of their higher input costs) and / or are able to ensure better coal supply in coming years. In case they manage that, then we do think the possibility of the project achieving commissioning post restructuring is high – and given the demand supply gap, offtake should be less of an issue. Hence, while the loans would, however, have to be restructured, the "final haircut" may be < 10-12%, the level being assumed by us.

Loan growth to be driven by retail

As expected, loan growth is likely to be driven by retail as the drag arising from past mortgage repayments reduces and retail disbursals remain strong at +18-20%. As per the bank, the main areas seeing some growth are housing, selectively autos and working capital loans as well as disbursements from earlier projects. As per the bank, the pipeline of projects (seeing ongoing disbursements) is likely to last for another 12-18 months. Additionally, in retail, the gains are coming from market share gains as the bank's market share today in the mortgage market is <10% v/s its legacy share of ~30% at peak.

Table 5: Loan Mix / Growth Table

(Rs bn)	FY11	FY12	FY13E	FY14E
Corporate (incl SME / Capex etc)	565.1	718.0	883.2	1,095.2
Rural loans	209.9	223.3	250.1	287.6
Overseas loans	551.7	695.2	736.9	810.6
Retail	837.0	901.0	1,072.8	1,321.4
- Mortgage	539.0	576.6	709.3	879.5
- Non-Mortgage Retail Loans	276.2	300.0	363.6	442.0
Total Credit	2,164	2,537	2,943	3,515
Loan Growth	*19.4%*	*17.3%*	*16.0%*	*19.4%*
Growth Rates (yoy)	FY11	FY12	FY13E	FY14E
Corporate (incl SME / Capex etc)	46.0%	27.1%	23.0%	24.0%
Rural loans	15.8%	6.4%	12.0%	15.0%
Overseas loans	21.8%	26.0%	6.0%	10.0%
Retail	5.8%	7.6%	19.1%	23.2%
- Mortgage	9.8%	7.0%	23.0%	24.0%
- Non-Mortgage Retail Loans	-8.0%	8.6%	21.2%	21.6%
Total Credit	19.4%	17.3%	16.0%	19.4%
Loan Mix (% of total credit)	FY11	FY12	FY13E	FY14E
Corporate (incl SME / Capex etc)	26.1%	28.3%	30.0%	31.2%
Rural Loans	9.7%	8.8%	8.5%	8.2%
Overseas loans	25.5%	27.4%	25.0%	23.1%
Retail	38.7%	35.5%	36.5%	37.6%
- Mortgage (as % of retail)	64.4%	64.0%	66.1%	66.6%
- Non-Mortgage Retail Loans	33.0%	33.3%	33.9%	33.4%
Total Credit	100%	100%	100%	100%

Source: BofA Merrill Lynch Global Research estimates

Uncertainty in the international markets would constrain growth opportunities in overseas loans owing to the sharp rise in funding costs. While the bank is guiding for flat growth this year (FY13) owing to the sharp rise in global funding costs, we reckon growth may see a pick up in the 2H and especially in FY14 as Indian corporates are increasingly going to Indian banks for loans as most foreign banks have begun to pull back. Hence, overall loan growth is still likely to be high at +16/19% in FY13/14, as shown below.

Margins to expand; Fee growth higher yoy; Opex leverage

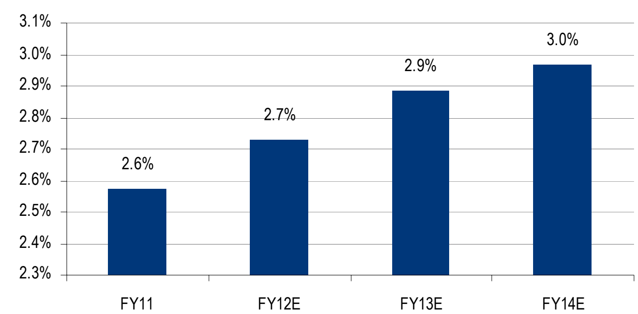
Net interest margins are expected to improve as a result of securitization losses completely running off and the share of overseas book reducing. We expect NIM's of ~2.9% in FY13 and ~3.0% in FY14, on the back of CASA share stable at ~43%. Upside to NIM would arise if a larger proportion of international loans are converted into rupee loans

Employee expenses in FY12 grew by 25% as the bank hired close to 10,000 employees (in addition to the 4,000 from the BoR acquisition). So, while the bank plans to continue adding approx ~150-200 branches in FY13, operating efficiencies should improve as the employee base stays relatively stable. We expect **C/I ratio** to settle back at FY11 levels of <42% after spiking in FY12.

We expect **fees** to grow at +13-14% in FY13-14 vs. ~4% in FY12. Moreover, fee revenues should also benefit from the banks' expanded branch distribution. The bank has increased its branch network ~40% in last two years (total branches at +2750 in Mar'12). This should help sustain a high level of savings deposits and customer acquisition. Expanding customer base should positively impact both the saving deposit franchise and also retail fees and asset cross sell.

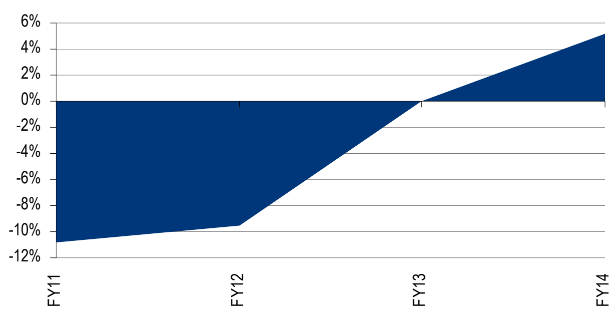
Hence, the "Jaws" (Fee- Opex - see table below) should still expand as fee growth remains better, especially as the bank begins to gain momentum from its expanded distribution. We reckon many of its branches may begin to break even by FY13. Almost +35-40% of the +2750 branches has yet to break even.

Chart 1: NIMs set to expand



Source: BofA Merrill Lynch Global Research estimates

Chart 2: 'Jaws' (Fees- Opex) set to revert in positive space & expand



Source: BofA Merrill Lynch Global Research estimates

International Operations: Risks overdone

One of the other key investor issues has been with the bank's international operations, especially given the global challenges today and the hit that the bank had to take during the global financial crisis. While ~27% of bank loans are overseas, the bank again clarified in our meeting that almost 90% of these are to Indian companies. Even if we adjust for the total exposure including through its UK and Canadian subsidiaries, the total overseas loans are ~33% and almost +85-90% are still to Indian companies.

Table 6: International operations smaller % of total

Particulars	UK (US$)	Canada (CAD$)	Eurasia (US$)*	Int'l branches	Total Int'l	Parent	Banking Biz.	UK -% banking Biz.	Canada -% of banking Biz.
Loans	2.4	2.6	0.2	13.4	18.5	37.0	55.6	4.4%	4.6%
India-linked	1.9	2.1	-	12.0	16.0	-	16.0	-	-
Others	0.5	0.5	0.2	1.3	2.5	37.0	39.6	-	-
Investments	0.6	2.0	0.0	1.6	4.1	29.8	33.9	1.8%	5.8%
RMBS / Fed. Insured mortgage	-	1.4	-	NM	NM	-	-	0.0%	0.0%
Bonds of Fin. Inst. (large global banks)	0.2	-	0.0	NM	NM	-	-	-	-
Others	0.2	0.5	0.0	NM	NM	-	-	-	-
India linked investment	0.2	0.0		NM	NM	-	-	-	-
Cash & Others	1.0	0.7	0.1	-	1.7	12.3	14.0	6.9%	4.7%
Total Assets	4.1	5.2	0.3	14.9	24.5	79.1	103.6	4.0%	5.0%
Deposits	2.4	2.9	0.1	-	5.3	51.8	57.2	-	-
Borrowings / Others	1.0	1.4	0.2	14.9	17.4	13.8	31.2	-	-
Equity	0.7	1.0	0.1	-	-	12.7	12.7	-	-
Total Liabilities	4.1	5.2	0.3	14.9	24.5	79.1	103.6	4.0%	5.0%

Source: BofA Merrill Lynch Global Research estimates

Mismatch on ALM in B/s for overseas ops. not real cash flow mismatch

Looking at the table below, one does see an apparent mismatch on foreign currency assets and foreign currency liabilities to the extent of 13% for up to 1 year. However, we clarified with ICICI Bank.

Table 7: Maturity pattern- ICICI Bank

ICICI Bank	Up to 1 year	1-3yrs	3-5 yrs	Over 5 yrs
Deposits	48%	27%	9%	16%
Advances	29%	41%	15%	14%
Investments	45%	15%	10%	30%
Borrowings	46%	12%	14%	27%
Foreign Currency assets	39%	18%	16%	27%
Foreign Currency liabilities	52%	19%	14%	15%
FCA- US$bn	6.7	3.1	2.7	4.6
FCL- US$bn	9.7	3.6	2.6	2.8
Gap- FCA- FCL	-13%	-1%	2%	12%

Source: ICICI Bank Annual Report

While looking at the table above, foreign currency assets are US$6.7bn, but liabilities are US$9.7, implying a gap (mismatch) of US$3bn. However, there are two key things to note:

- The RBI allows banks to borrow up to 50% of respective Tier 1 in dollars and swap in to rupee for rupee lending. So the Foreign current assets (ALM on the B/s) will not match to that extent, as foreign dollar liabilities get converted to rupee assets and will not show up in foreign currency assets.
- Secondly, overseas branches also have deposits, mostly NRI (~US$2bn in ICICI Bank's case), with a reasonable assumption that these deposits will be rolled over.

Hence, while there may be an apparent mismatch on the ALM of a bank's B/s, cash flow mismatch, which is more relevant, is lesser of an issue for the bank owing to the above two reasons; adjusting for the above mismatch is minimal. Importantly, the bank also has ~US$900mn of liquid assets over and above to manage any temporary ALM gaps, if they were to arise.

Ms. Kochhar, however, clarified that the bank remains committed to having an overseas presence and is not looking to exit the key areas that they operate in. However, the focus will continue to be to focus on Indian companies.

Earnings growth at +20%; ROE to rise to ~16.5% by FY14E

We estimate earnings growth will continue to sustain at ~20% through FY13/14 driven by:

- Loan growth of +16/19% supported by retail as repayments recede and disbursals grow at +15-20%. Share of retail likely to see some rise. Margins expected to expand on an o/s basis by +15bps benefitting from changing loan mix and the absence of the securitization drag (see in 4Q).
- The fee-cost gap should narrow as the bank benefits from both its expanding distribution and also gain from operating leverage as more of its branches achieve break even.
- Credit costs likely to remain at around 70bps. This, however, implies a ~20% rise in our NPL provision estimates, in sync with the growth in the loan book.

As shown below, the encouraging aspect is that the ROE is being driven by an expanding ROA that is likely to expand to 1.7% by FY14. ROE, at the headline, level appears modest at 14% in FY14E; but core ROE is likely to be +16.5% and could inch closer to +18-19% by FY16.

Table 8: DuPont

ICICI Bank- Du Pont Analysis	FY11	FY12	FY13E	FY14E
Net Interest Income	2.3%	2.4%	2.6%	2.7%
Non Interest Income	1.7%	1.7%	1.8%	1.8%
- of which treasury gains	*-0.1%*	*0.0%*	*0.0%*	*0.0%*
Total Income	4.1%	4.1%	4.3%	4.5%
Operating Expenses	1.7%	1.8%	1.8%	1.8%
- Employee expenses	0.7%	0.8%	0.8%	0.8%
Pre-provision Profit	2.4%	2.4%	2.6%	2.7%
Provisions	0.6%	0.4%	0.4%	0.4%
Pre-tax ROA	1.8%	2.0%	2.2%	2.3%
Tax	0.4%	0.5%	0.6%	0.6%
ROAA	1.3%	1.5%	1.6%	1.7%
Equity / Assets	13.9%	13.1%	12.6%	12.2%
ROAE	9.7%	11.2%	12.6%	14.0%

Source: BofA Merrill Lynch Global Research estimates

Capital comfort high: Tier 1 estimate at +10.5% in FY14

ICICI Bank's Tier 1 stands at 12.7%, probably amongst the highest in the Indian Banks context. We reckon Tier 1 to still be well above 10% even by FY14, limiting any further dilution until FY15. Moreover, even on Basel 3 proposed guidelines (see below for more), we reckon ICICI would not need any fresh capital till FY16 even after factoring in RBI phased timeline for Basel 3.

Table 9: Remains well capitalized

	FY11	FY12	FY13E	FY14E
Tier I CAR	13.2%	12.7%	11.7%	10.7%
Tier II CAR	6.4%	5.8%	6.2%	6.5%
Total CAR	19.5%	18.5%	17.9%	17.2%

Source: BofA Merrill Lynch Global Research estimates

Positioned well v/s regulatory changes

An area that is oft not looked at in detail is the positioning of the banks or their preparedness for potential future regulatory changes. While it is difficult to quantify all likely changes, some key changes being evaluated include

- Basel 3 and the level of capital that may be required longer term
- Banks' ability to manage dynamic provisioning and extent of provision required if DP is introduced
- RBI has also recently released its FSR (Financial stability report).

Basle 3: May not need capital till FY16 based on RBI's timeline

As per the most recent RBI report on Basle 3 (Read our report - Banks-Retail, 03 May 2012), we estimate the total capital requirements may be very large (US$850bn) but would be back ended towards FY16-18. But again, the govt. banks, especially SBI, may need large doses of capital. As discussed in that report, private banks are likely to be much less impacted, especially Kotak, ICICI Bank and HDFC Bank. Moreover, as highlighted, we believe profitability for many private banks including ICIC Bank is likely to sustain even adjusting for Basel 3. In fact, based on the proposed regulations, we reckon ICICI would not need any fresh capital till FY16 even after factoring in RBI's phased timeline for Basle 3. And may require just US$2.5-3bn by FY18.

ICICI Bank, HDFC Bank least impacted by dynamic provisioning

As highlighted in our report on Dynamic Provisioning (DP), we think the impact on private banks like HDFC Bank or ICICI Bank is negligible owing to their high level of general provisions and floating provisions (for HDFC Bank) as the DP methodology captures both general provisions (GP) and floating provisions (FP). This is assuming banks are not allowed, initially, to use their own credit history (for retail loans); DP is difference between banks' current credit costs and (EL) during a downturn. (Please read our report - Banks-Retail, 11 April 2012). ICICI Bank appears reasonably well positioned to manage these new changes owing to its high level of Tier I capital and its higher share of retail loans.

ICICI Bank likely to be amongst the banks better placed in FSR

Similarly, based on RBI's most recent Financial Stability Report (FSR), banks with high share of retail loans and having high capital appear to have been the least impacted by the stress tests carried out by RBI. While not naming banks, we reckon ICICI Bank should, by virtue of its capital, be amongst the better placed banks. (See our report - Banks-Retail, 28 June 2012).

Valuations

Core RoE at ~15.3% by FY13E, +16.5% in FY14E

ICICI Bank's *reported* RoEs is at +11% in FY12. But the RoE is depressed owing to capital infusion of almost +US$2.5bn in its various ventures which earn minimal returns today, creating a drag on its ROE. The *adjusted core* ROE (if we just look at the profit made from the capital deployed in the banking entity) is likely to rise to ~15.3% by FY13 and further to +16.5% in FY14.

Table 10: Core RoEs

ICICI's Bank's Residual Value	FY12	FY13E	FY14E
Adj. BV (Per Share) (adj. for NPL's)	505	553	608
Less: Investment in Domestic Subs	56	56	56
Less: Investment in International Operations	52	52	52
Adjusted BV (excl. International Subs + Non Bank subs)	397	445	500
Adjusted BV (excl. Non Bank subs only)	449	497	552
Banking Business	463	514	572
Reported RoEs	11.2%	12.6%	14.0%
Adj. ROE of banking business (excl. Non-Banks subs only	13.9%	15.3%	16.6%
Current Market Price	920	920	920
Less : Value of subs	160	218	259
Adjusted Mkt Price	760	702	661
P/Adj. BV for entire Banking biz. (excl. only Non-Bank biz.)	1.6	1.4	1.2
P/Adj. BV for ICICI Bk (excl only NPLs)	1.8	1.7	1.5

Source: BofA Merrill Lynch Global Research estimates

Offers possibly the best risk reward across private banks

When compared to it private sector banks peers it is today the cheapest amongst all of them – in part owing to concerns relating to asset quality and international operations that we believe are somewhat overplayed and priced in. As shown in the matrix below, ICICI Bank, in our view, currently offers the best risk reward trade off across banks which we believe captures the relatively higher risks associated with project finance loans. Its core ROE is forecast to rise to 16.5% by FY14. More importantly, beyond FY14, the bank should be in a position to deliver core RoE's closer to +18-19% by FY16 without potentially needing fresh capital.

Further, it is amongst the few banks that would also be able to reasonably mange the proposed regulatory changes without having to materially sacrifice its earnings growth. This relates to Basel 3 as well as the dynamic provisioning proposed by RBI. The only area where all private banks including ICICI Bank would face some challenges may be in relation to the proposed changes in priority sector lending, if implemented. The RBI seeks, over the medium term, to increase the share of loans directed to marginal farmers etc. But within the private banks, ICICI Bank and HDFC Bank should be the best positioned to manage these issues given their expanding reach and distribution.

Table 11: Private Banks - A comparison across key variables (FY13)

Banks (FY13E)	Balance Sheet buffer			Earnings Visibility				Asset Quality			Valuations	
	NPLs/ NW	CASA	Tier 1	Pre Prov. RoA	Earnings growth	ROA	ROE	% Project Finance	Credit Cost	Slippages	P/B-x	P/E-x
Axis Bank	3%	41%	8.7%	2.9%	21.8%	1.7%	20.7%	15.0%	0.7%	1.5%	1.6	8.2
HDFC Bank	2%	48%	10.6%	3.1%	28.0%	1.8%	20.4%	2.0%	0.8%	1.0%	4.0	20.5
ICICI Bank*	2%	43%	11.7%	2.6%	20.9%	1.6%	15.3%	10.0%	0.7%	1.6%	1.4	10.1
IndusInd Bank	3%	29%	10.6%	2.8%	25.1%	1.6%	19.5%	2.0%	0.6%	1.6%	3.1	16.0
Yes Bank	1%	19%	9.0%	2.5%	25.6%	1.5%	23.8%	2.0%	0.3%	0.6%	2.2	10.0
Kotak Bank**	2%	34%	15.3%	3.3%	17.7%	2.1%	15.5%	2.0%	0.3%	1.3%	3.0	20.6

Source: BofA Merrill Lynch Global Research estimates
* ICICI Bank- core RoE; PB, PE (ex subs)
** Kotak Bank consolidated

Table 12: Private Banks - A comparison across key variables (FY14)

Banks (FY14E)	Balance Sheet buffer			Earnings Visibility				Asset Quality			Valuations	
	NPLs/ NW	CASA	Tier 1	Pre Prov. RoA	Earnings growth	ROA	ROE	% Project Finance	Credit Cost	Slippages	P/B-x	P/E-x
Axis Bank	3%	40%	8.0%	3.0%	23.3%	1.8%	21.4%	15.0%	0.6%	1.2%	1.3	6.7
HDFC Bank	2%	47%	9.5%	3.2%	27.0%	1.9%	21.9%	2.0%	0.8%	1.0%	3.3	16.1
ICICI Bank*	0%	43%	10.7%	2.7%	21.0%	1.7%	16.6%	10.0%	0.7%	1.7%	1.2	7.9
IndusInd Bank	4%	31%	9.7%	2.8%	24.1%	1.6%	20.3%	2.0%	0.6%	1.5%	2.6	12.9
Yes Bank	2%	22%	8.3%	2.6%	25.2%	1.6%	24.3%	2.0%	0.4%	0.8%	1.8	8.0
Kotak Bank	1%	34%	13.8%	3.2%	16.3%	2.0%	15.5%	2.0%	0.4%	1.3%	2.6	17.7

Source: BofA Merrill Lynch Global Research estimates
* ICICI Bank- core RoE; PB, PE (ex subs)
** Kotak Bank consolidated

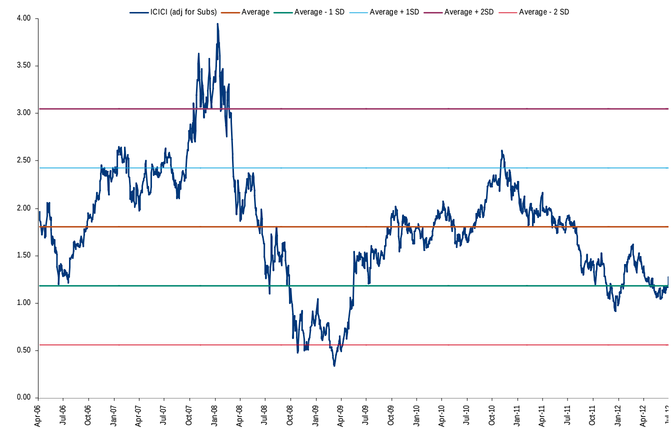
Raise PO to Rs1,200; Banking book can trade up to ~2.0x

The stock is trading at 1.4x FY13E adj. BV and 1.2x FY14E adj. BV (BV is adjusted for 100% write off of all net NPLs). As shown in chart s, the stock trades at 0.5SD below its average trading multiple of the past 5 years – both adjusting for value of subs and assigning no value to the subsidiaries.

As mentioned earlier in the report, we believe the stock can re-rate as the bank delivers ahead of expectations on asset quality as that has been one of the key investor concerns. Further, the bank is also well positioned to manage any ALM mismatch on its international book and provides high earnings visibility (+20%).

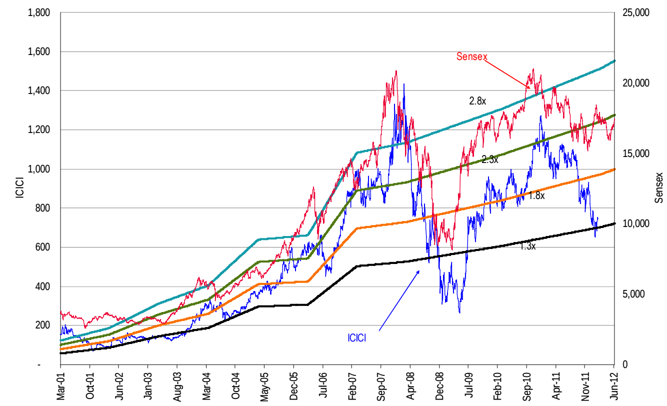
Hence, we think the stock can, arguably, re-rate to 2.0x (Bk biz.) one year forward (FY13) multiple. This is a ~10% premium to its average historical multiple over last 6-yr period. But it is still at a 10% to 65% discount to most other private banks Our PO includes Rs218/shr. value of subs.

Chart 3: PB- SD- trading below average



Source: BofA Merrill Lynch Global Research estimates

Chart 4: ICICI Bk PB vs. Market (Sensex)



Source: BofA Merrill Lynch Global Research estimates

SOTP: Insurance may see some traction

We value ICICI Bank on SOTP basis and the biggest driver, as highlighted earlier, is the life insurance business that contributes almost 60% to our SOTP.

ICICI Pru Life continues to build its regular premium portfolio, however still dominated by ULIPs. Though ULIPs are not as profitable as they were before the September 2010 regulations, they still continue to offer a profitable proposition. With the lock-in period of 5 years (earlier it was 3 years), persistency ratios tend to grow. Post the new regulatory regime in September 2010, the company did suffer on top line growth but now we do see an uptick.

We expect gross written premiums to grow by 15% in FY13 and 20% in FY14, from a low base. The NBAP margins have bottomed for the company and expect them to be 15% in FY13 and 16% in FY14. The life company has also been working to reduce its operating costs. We value the life business at 9xFY13E NBAP and 1xFY12E EV, which translates into Rs133/share for ICICI Bank.

We remain positive on ICICI Bank's life insurance biz. prospects as we believe players like ICICI Bank are in a very strong position on economies of scale, already reporting profits, and adopting a bancassurance model, which will provide an edge vis-à-vis other players in this uncertain scenario.

Table 13: SOTP- Non-Bank Subsidiaries est.

SOTP - US$ mn	FY12	FY13	FY14
Life Insurance -	3,819	4,625	5,242
General Insurance -	-520	489	776
Asset Management -	914	1,126	1,540
Venture-	401	417	507
Home Finance	309	325	343
Broking -	387	439	491
Mkt value of Non-Banks Subsid.	5,310	7,421	8,900
Aggregate SOTP - Per Share	FY12	FY13	FY14
Life Insurance (74% stake)	110.6	133.3	151.1
General Insurance (74% stake)	-16.8	15.8	25.1
Asset Management (51% stake)	20.3	25.1	34.3
Venture (100%)	19.4	21.4	24.6
Home Finance	23.4	22.0	23.3
Broking (100%)	20.9	24.9	29.6
Total of Non-Bank Subs / Share	178	242	288
Final Subs Value (Post Disc. 10%)	160	218	259

Source: BofA Merrill Lynch Global Research estimates

Financials

Table 14: Profit and loss account

Year to March (Rs mn)	FY11	FY12E	FY13E	FY14E
Interest income	259,741	335,427	372,224	418,255
Interest expense	169,572	228,085	242,700	265,835
Net interest income	90,169	107,342	129,524	152,420
Other income	66,479	75,028	87,611	104,110
- Treasury Gains	*-2,434*	*-130*	*2,000*	*2,500*
Total income	156,648	182,369	217,135	256,530
Operating expenses	66,173	78,504	89,418	101,496
Pre-provision profit	90,475	103,865	127,717	155,035
Provisions	22,868	15,830	18,529	23,001
Provision - NPL	*19,769*	*12,780*	*15,976*	*19,171*
PBT	67,607	88,034	109,188	132,034
Tax	16,093	23,382	29,481	35,649
Net Income	51,514	64,653	79,707	96,385

Source: BofA Merrill Lynch Global Research estimates

Table 15: Balance sheet

Year to March (Rs bn)	FY11	FY12E	FY13E	FY14E
Cash balances	341	362	297	262
Advances	2,164	2,537	2,943	3,515
Investments	1,347	1,596	1,732	1,842
Total Assets	4,062	4,736	5,269	6,010
Shareholders' funds	551	604	657	721
Preference Capital	4	4	4	4
Deposits	2,256	2,555	2,852	3,278
Borrowings	1,092	1,398	1,578	1,826
Current liabilities	160	176	179	182
Total Liabilities	4,062	4,736	5,269	6,010

Source: BofA Merrill Lynch Global Research estimates

Table 16: Key Ratios

	FY11	FY12E	FY13E	FY14E
EPS	45.45	56.11	69.14	83.61
Earnings growth	26%	23%	23%	21%
BV/share	475	521	567	622
Adjusted BV / Share	454	505	553	608
ROAA	1.3%	1.5%	1.6%	1.7%
ROAE	9.7%	11.2%	12.6%	14.0%
NIM	2.6%	2.7%	2.9%	3.0%
Adj. ROE	12.4%	13.9%	15.3%	16.6%
Gross NPLs	4.5%	3.6%	3.4%	3.2%
Net NPLs	1.1%	0.73%	0.4%	0.1%
Coverage Ratio	76%	80%	88%	96%
Total Capital Adequacy Ratio (CAR)	19.5%	18.5%	17.9%	17.2%
- Tier I CAR	13.2%	12.7%	11.7%	10.7%
L/D ratio	92%	96%	101%	105%
Cost-Income ratio (Excl Treasury)	41.6%	43.0%	41.6%	40.0%
Other Inc (Ex treas) / Total Inc (Ex Treas)	21%	18%	19%	20%
Cost Asset Ratio	1.6%	1.7%	1.7%	1.7%
Equity / Assets	13.6%	12.8%	12.5%	12.0%
Equity / Loans	25%	24%	22%	21%
Specific Provision/ Loans	0.9%	0.5%	0.5%	0.5%
Total provis. / Loans	1.0%	0.7%	0.7%	0.7%
CASA	45.1%	43.5%	43.3%	42.7%
Tax Rates	24%	27%	27%	27%
Yield on Advances	8.2%	9.4%	9.2%	9.0%
Yield on Investments	6.7%	7.1%	7.2%	7.2%
Cost of funds	5.4%	6.2%	5.8%	5.6%
Dividend per Share	14.0	16.5	21.0	25.0
Dividend Payout	36%	33%	34%	33%
Dividend yield	1.5%	1.8%	2.3%	2.7%
P/E (assuming subs value = NIL)	20.2	16.4	13.3	11.0
P/PPP	11.7	10.2	8.3	6.8
P/ABV (assuming subs value = NIL)	2.0	1.8	1.7	1.5
P/ABV (excl subs)	1.9	1.7	1.4	1.2
PER (excl subs)	16.7	13.5	10.1	7.9

Source: BofA Merrill Lynch Global Research estimates

Price objective basis & risk

ICICI Bank (ICIJF / IBN)

We set our PO at Rs1200/USD44 (including Rs218/shr. for the subs). We believe a sustained demonstration by the bank in managing the credit cycle and high visibility in earnings growth (+20%) can lead to a re-rating of the stock. Further, its high Tier I capital also makes it better positioned to manage potential regulatory changes. We think the stock can re-rate to 2.0x (Bk biz.) one year forward (FY13) multiple. This is a 10% premium to its average historical multiple over last 6-yr period, but still at 20-60% discount to many peers. On a PE basis, our PO implies that the bank sustains its earnings multiples of 17x, one year forward given that there is still a visibility of earnings growth of +23/21%. Risks are that a sharp rise in interest rates could hurt margins (approx 30% of total deposits wholesale for ICICI Bank) and slowdown in macro growth could lead to lower volume growth and earnings trajectory for FY13-14.

Link to Definitions

Financials

Click here for definitions of commonly used terms.

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Security pricing

ICICI Bank / ICICI

Security	Amt (Millions)	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
5.500, Senior, USD, 2015:B	750	25-MAR-2015	Baa2/BBB-/	102.80	06-Jul-2012	4.39	401
7.250,T1,USD, Perpetual:B	340	29-AUG-2049	Ba3/BB/	88.50	06-Jul-2012	10.64	1,005
6.625, Senior, USD, 2012:B	1,695	03-OCT-2012	Baa2/BBB-/	101.04	06-Jul-2012	2.25	212
6.375,UT2,USD,30-Apr-2022:B	750	30-APR-2022	Ba1/BB/	91.00	06-Jul-2012	8.70	803
6.375000,UT2,USD, Perpetual:B	85	29-DEC-2049	Ba2/N.A./N.A.	80.50	06-Jul-2012	11.37	1,071
5.000, Senior, USD, 2016:B	500	15-JAN-2016	Baa2/BBB-/	101.05	06-Jul-2012	4.67	420
5.750, Senior, USD, 2020:B	1,000	16-NOV-2020	Baa2/BBB-/	99.68	06-Jul-2012	5.80	446
4.750, Senior, USD, 2016:B	1,000	25-NOV-2016	Baa2/BBB-/	99.71	06-Jul-2012	4.82	423
Senior Unsecured, USD, Y5, CDS:CDS					06-Jul-2012		398

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

India - Financials Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Axis Bank	XAXSF	AXSB IN	Rajeev Varma
	Axis Bank - GDR	XBKSF	AXB LI	Rajeev Varma
	Corporation Bank	XCRRF	CRPBK IN	Veekesh Gandhi
	Federal Bank	XFDRF	FB IN	Veekesh Gandhi
	HDFC	HGDFF	HDFC IN	Rajeev Varma
	HDFC Bank	XHDFF	HDFCB IN	Rajeev Varma
	HDFC Bank	HDB	HDB US	Rajeev Varma
	ICICI Bank	ICIJF	ICICIBC IN	Rajeev Varma
	ICICI Bank - A	IBN	IBN US	Rajeev Varma
	IndiaBulls Financial Services	IBLFF	IBULL IN	Veekesh Gandhi
	Indian Bank	INDIF	INBK IN	Rajeev Varma
	LIC Housing Finance, Ltd.	LHFLF	LICHF IN	Veekesh Gandhi
	Manappuram	XMGPF	MGFL IN	Veekesh Gandhi
	Max India	XMXIF	MAX IN	Anubhav Adlakha
	Power finance corporation Ltd	PWFEF	POWF IN	Veekesh Gandhi
	Punjab	PUJBF	PNB IN	Rajeev Varma
	Reliance Capital	RLCCF	RCAPT IN	Veekesh Gandhi
	Rural Electrification Corporation Ltd	XULEF	RECL IB	Veekesh Gandhi
	SBI	SBINF	SBIN IN	Rajeev Varma
	SBI -G	SBKFF	SBID LI	Rajeev Varma
	Shriram Transport Finance	SHTFF	SHTF IN	Veekesh Gandhi
	Yes Bank Ltd	YESBF	YES IN	Veekesh Gandhi
NEUTRAL				
	Bank of Baroda	BKBAF	BOB IN	Rajeev Varma
UNDERPERFORM				
	Bank of India	XDIIF	BOI IN	Rajeev Varma
	Canara Bank	CNRKF	CBK IN	Rajeev Varma
	IDBI	XDBIF	IDBI IN	Veekesh Gandhi
	Indusind Bank	IDUBF	IIB IN	Veekesh Gandhi
	Infrastruct Dev	IFDFF	IDFC IN	Rajeev Varma

India - Financials Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Kotak Mahindra Bank	XXRVF	KMB IN	Rajeev Varma
	ORBC	ORBCF	OBC IN	Rajeev Varma
	Union Bank India	UBOIF	UNBK IN	Rajeev Varma

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Important Disclosures

Opinion history

ICICI Bank / ICICI

Security	Date^	Action	Recommendation
5.500, Senior, USD, 2015:B	30-Jun-2011		Underweight-30%
	11-Jul-2011	Upgrade	Overweight-30%
	22-Sep-2011	Upgrade	Overweight-70%
	29-Apr-2012	Downgrade	Overweight-30%
7.250,T1,USD, Perpetual:B	30-Jun-2011		Underweight-30%
	22-Sep-2011	Upgrade	Overweight-30%
6.625, Senior, USD, 2012:B	28-Sep-2011	Initial	Overweight-30%
6.375,UT2,USD,30-Apr-2022:B	28-Sep-2011	Initial	Underweight-30%
6.375000,UT2,USD, Perpetual:B	28-Sep-2011	Initial	Underweight-30%
5.000, Senior, USD, 2016:B	30-Jun-2011		Underweight-30%
	11-Jul-2011	Upgrade	Overweight-30%
	22-Sep-2011	Upgrade	Overweight-70%
	29-Apr-2012	Downgrade	Overweight-30%
5.750, Senior, USD, 2020:B	28-Sep-2011	Initial	Underweight-30%
4.750, Senior, USD, 2016:B	30-Jun-2011		Underweight-30%
	11-Jul-2011	Upgrade	Overweight-30%
	22-Sep-2011	Upgrade	Overweight-70%
	29-Apr-2012	Downgrade	Overweight-30%
Senior Unsecured, USD, Y5, CDS:CDS	30-Jun-2011		Underweight-30%

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within last 12 months. The BofA Merrill Lynch Credit Opinion key is contained below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

BofA Merrill Lynch Credit Opinion Key

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Issuer Recommendations: If an issuer credit recommendation is provided, it is applicable to all bonds of the issuer except bonds specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds with specific recommendations are covered.

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Equity Preferreds: Equity preferreds are recommended on an individual basis under the Credit Opinion Key. Issuer credit recommendations do not apply to equity preferreds.

Recommendation	Investor Action Points (Cash and/or CDS)	Primary Investment Return Driver
Overweight-100%	Up to 100% Overweight of investor's guidelines	Compelling spread tightening potential
Overweight-70%	Up to 70% Overweight of investor's guidelines	Carry, plus some spread tightening expected
Overweight-30%	Up to 30% Overweight of investor's guidelines	Good carry, but little spread tightening expected
Underweight-30%	Down to 30% Underweight of investor's guidelines	Unattractive carry, but spreads unlikely to widen
Underweight-70%	Down to 70% Underweight of investor's guidelines	Expected spread underperformance
Underweight-100%	Down to 100% Underweight of investor's guidelines	Material spread widening expected

Time horizon – our recommendations have a 3 month trade horizon

ICIJF Price Chart

B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of May 31, 2012 or such later date as indicated.

IBN Price Chart

B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Banks Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	127	48.66%	Buy	95	93.14%
Neutral	67	25.67%	Neutral	49	84.48%
Sell	67	25.67%	Sell	51	82.26%

Investment Rating Distribution: Global Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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