

**Q2FY12 Result Update**
**November 14, 2011**

ICICI Bank recently came out with its Q2FY12 results. On a standalone basis the bank reported a net interest income of Rs 2506.44 crs in Q2FY12 as against Rs 2204.38 crs in Q2FY11. The PAT of the bank stood at Rs 1503.19 crs as against Rs 1236.27 crs in Q2FY11 hence growing by 21.59% y-o-y. During the quarter the bank reported a fall in the provisions and contingencies, which stood at Rs 318.79 crs as against Rs 641.14 crs in Q2FY11 and Rs 453.86 crs in Q1FY12.

**Consolidated Financials Summary**

Particulars	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	H1FY12	H1FY11	% Chg
Total Income	16110.61	14464.55	11.38	14749.79	9.23	30860.40	27999.86	10.22
Net Profit	1991.68	1394.94	42.78	1666.77	19.49	3658.45	2485.94	47.17
EPS	17.28	12.31	40.37	14.47	19.42	31.75	22.10	43.67

On a consolidated basis, the group reported a net profit of Rs 1991.68 crs in Q2FY12 as against Rs 1394.94 crs in Q2FY11 and Rs 1666.77 crs in Q1FY12.

**Financials - Standalone**

Particulars	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	H1FY12	H1FY11	% Chg
<b>Interest Earned</b>	<b>8157.62</b>	<b>6309.10</b>	29.30	<b>7618.52</b>	7.08	<b>15776.14</b>	<b>12121.64</b>	30.15
Interest/Discount on Advances	5380.74	3949.17	36.25	4935.13	9.03	10315.87	7727.70	33.49
Income on Investments	2344.98	1916.13	22.38	2251.03	4.17	4596.01	3574.68	28.57
Interest on bal with RBI	115.27	82.30	40.06	113.83	1.27	229.10	180.36	27.02
Others	316.63	361.50	-12.41	318.53	-0.60	635.16	638.90	-0.59
Other Income	1739.55	1577.93	10.24	1642.89	5.88	3382.44	3258.44	3.81
<b>Total Income</b>	<b>9897.17</b>	<b>7887.03</b>	25.49	<b>9261.41</b>	6.86	<b>19158.58</b>	<b>15380.08</b>	24.57
Interest Expended	5651.18	4104.72	37.68	5207.60	8.52	10858.78	7926.21	37.00
Employee Expenses	842.70	624.26	34.99	732.85	14.99	1575.55	1199.85	31.31
Other Operating Expenses	1049.54	946.11	10.93	1086.93	-3.44	2136.47	1854.01	15.24
Operating Expenses	1892.24	1570.37	20.50	1819.78	3.98	3712.02	3053.86	21.55
<b>Total Expenditure</b>	<b>7543.42</b>	<b>5675.09</b>	32.92	<b>7027.38</b>	7.34	<b>14570.80</b>	<b>10980.07</b>	32.70
Net Interest Income	2506.44	2204.38	13.70	2410.92	3.96	4917.36	4195.43	17.21
<b>Operating Profit before Prov &amp; Cont</b>	<b>2353.75</b>	<b>2211.94</b>	6.41	<b>2234.03</b>	5.36	<b>4587.78</b>	<b>4400.01</b>	4.27
Provisions & Contingencies	318.79	641.14	-50.28	453.86	-29.76	772.65	1438.96	-46.30
<b>PBT</b>	<b>2034.96</b>	<b>1570.80</b>	29.55	<b>1780.17</b>	14.31	<b>3815.13</b>	<b>2961.05</b>	28.84
Tax	531.77	334.53	58.96	447.97	18.71	979.74	698.80	40.20
<b>PAT</b>	<b>1503.19</b>	<b>1236.27</b>	21.59	<b>1332.20</b>	12.84	<b>2835.39</b>	<b>2262.25</b>	25.33
Equity	1152.47	1150.83	0.14	1152.18	0.03	1152.47	1150.83	0.14
CAR - Basel II	<b>18.99</b>	20.23	-6.13	19.57	-2.96	18.99	20.23	-6.13
EPS	13.04	10.74	21.42	11.56	12.81	24.60	19.66	25.16
Gross NPA	10021.25	10141.16	-1.18	9982.76	0.39	10021.25	10141.16	-1.18
Net NPA	2183.77	3145.23	-30.57	2302.52	-5.16	2183.77	3145.23	-30.57
Gross NPA%	4.14	5.03	-17.69	4.36	-5.05	4.14	5.03	-17.69
Net NPA%	0.93	1.37	-32.12	1.04	-10.58	0.93	1.62	-42.59
Return On Assets	1.41	1.31	7.63	1.30	8.46	1.36	1.23	10.57

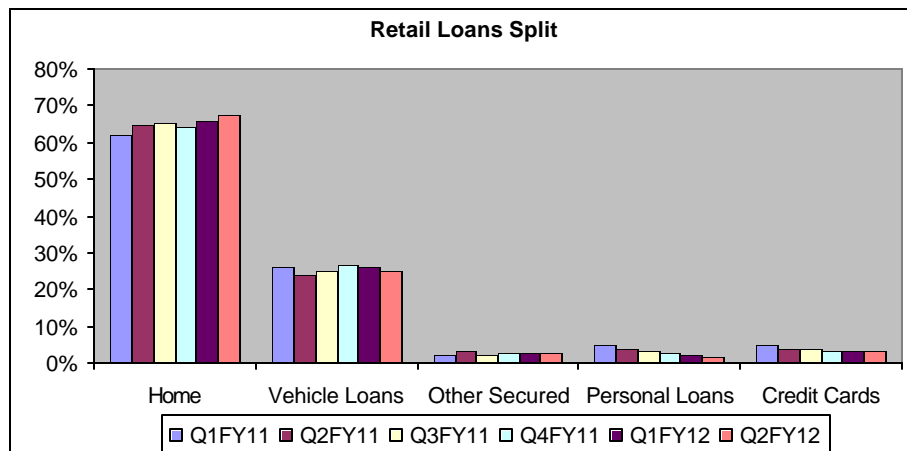
**Segmental Financials - Standalone**

Particulars	Q2FY12	Q2FY11	Q1FY12	H1FY12	H1FY11
<b>Segmental Revenue</b>					
Retail Banking	4852.42	3943.78	4682.83	9535.25	7771.56
Wholesale Banking	6344.67	4625.18	5644.05	11988.72	8840.07
Treasury	7230.43	5597.34	7013.95	14244.38	11116.14
Other Banking	65.50	130.73	70.02	135.52	204.48
Others	0.00	0.00	0.00	0.00	0.00
<b>Total Segmental Revenue</b>	<b>18493.02</b>	<b>14297.03</b>	<b>17410.85</b>	<b>35903.87</b>	<b>27932.25</b>
Less Inter Segment Revenue	8595.85	6410.00	8149.44	16745.29	12552.17
<b>Income from Operations</b>	<b>9897.17</b>	<b>7887.03</b>	<b>9261.41</b>	<b>19158.58</b>	<b>15380.08</b>
<b>Segmental PBT</b>					
Retail Banking	105.60	-116.74	-84.14	21.46	-334.07
Wholesale Banking	1595.29	1210.68	1205.52	2800.81	2140.52
Treasury	347.12	430.97	635.05	982.17	1087.12

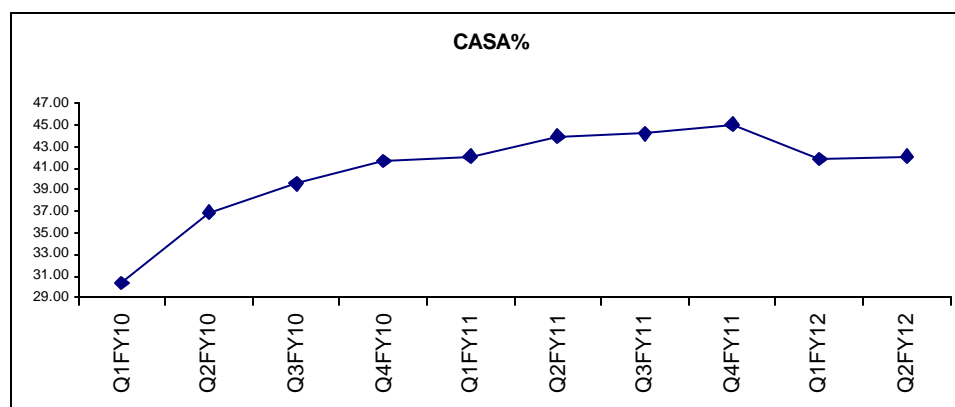
Other Banking	-13.05	45.89	23.74	10.69	67.48
Others	0.00	0.00	0.00	0.00	0.00
<b>Total Segmental PBT</b>	<b>2034.96</b>	<b>1570.80</b>	<b>1780.17</b>	<b>3815.13</b>	<b>2961.05</b>
<b>Capital Employed</b>					
Retail Banking	-98663.37	-72171.99	-90850.77	-98663.37	-72171.99
Wholesale Banking	88891.70	45168.68	82868.20	88891.70	45168.68
Treasury	61675.92	74327.81	58192.33	61675.92	74327.81
Other Banking	1224.37	724.74	817.29	1224.37	724.74
Unallocated	5473.62	5925.61	5434.08	5473.62	5925.61
<b>Total</b>	<b>58602.24</b>	<b>53974.85</b>	<b>56461.13</b>	<b>58602.24</b>	<b>53974.85</b>

**Some of the key highlights of the results are as follows:**

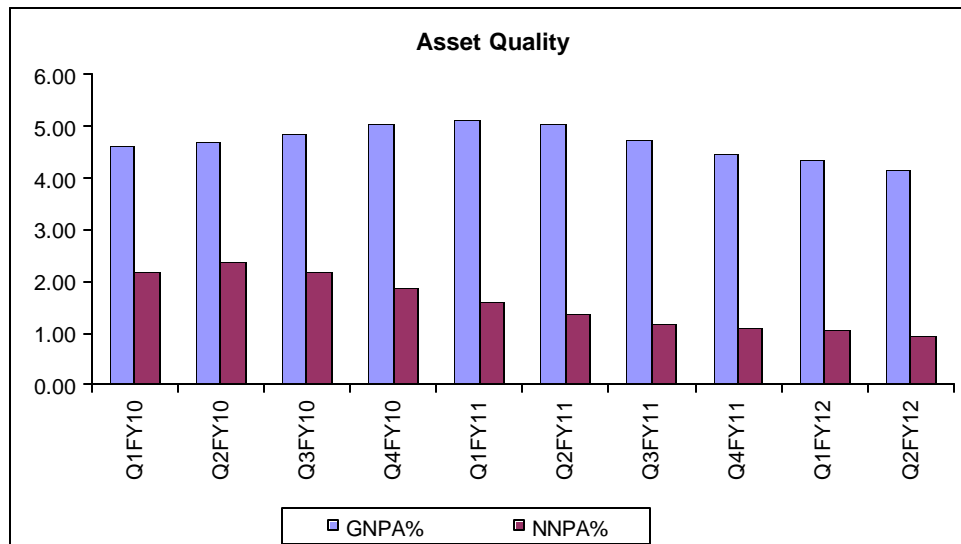
- Credit and deposit growth** - Advances increased by 20.5% y-o-y to Rs 233952 crs primarily due to 37.3% growth in international advances. The total deposits of the bank at the same time grew by 9.9% y-o-y to Rs 245092 crs during Q2FY12. The credit deposit ratio of the bank stood at a massive 95.45% in Q2FY12. The credit deposit ratio on the domestic balance sheet stood at 72.3% in Q2FY12 as against 75.5% in Q1FY12. Of the total advances in Q2FY12, the loans to retail business group consisted of 35%, SME at 4.7%, Overseas Branches at 28.6%, Rural at 7.5% and Domestic Corporate at 24.2%. The total retail loan book of the bank stood at Rs 81900 crs in Q2FY12 as against Rs 82700 crs at the end of Q1FY12. Home loans increased to 67.30% of the total retail loan book in Q2FY12 as against 66% of the total retail loans in Q1FY12 while the Vehicle Loans decreased to 25.3% in Q2FY12 from 25.9% on Q1FY12. Personal Loans showed a decline to 1.5% as against 2.5% in Q1FY12 while credit cards were almost flat at 3.1% in Q2FY12 vs. 3.2% in Q1FY12. International advances rose sharply aided by INR depreciation



On the deposit front, the bank has done well. The total deposits of the bank at the end of Q2FY12 stood at Rs 245092 crs as against Rs 223094 crs in Q2FY11 and Rs 230678 crs in Q1FY12. The CASA of the bank at the end of Q1FY12 stood at 42.10% in Q2FY12 as against 41.9% in Q1FY12, despite the systemic decline in the demand deposits. The bank's deposit franchise seems to be strengthening due to less dependence on wholesale deposits and a rising proportion of CASA deposits. This augurs well for NIM ahead – a higher CASA share would give it an edge over peers in protecting margins. The stable share of low-cost deposits and a better credit-deposit ratio have helped hold margins steady. The savings deposits of the bank at the end of Q2FY12 stood at Rs 70149 crs while the current account deposits stood at Rs 32997 crs in Q2FY12. The term deposits of the bank stood at Rs 141946 crs in Q2FY12.



- Asset quality** – The bank continued to perform well in terms of its asset quality. The bank managed to reduce its delinquencies further on a percentage basis during the quarter. The gross NPA of the bank at the end of Q2FY12 stood at Rs 10021.25 crs as against Rs 9982.76 crs in Q1FY12. GNPA% stood at 4.14% in Q2FY12 as against 4.36% in Q1FY12. Net non-performing assets decreased to Rs 2183.77 crs in Q2FY12 as against Rs 2302.52 crs Q1FY12. Net NPA% stood at 0.93% in Q2FY12 as against 1.04% in Q1FY12. The bank managed to bring down its Net NPA even on an absolute basis during the quarter. The Bank's provisioning coverage ratio computed in accordance with RBI guidelines at September 30, 2011 was 78.2% compared to 76.9% at June 30, 2011. The gross retail NPLs of the bank at the end of Q2FY12 stood at Rs 6317 crs while the Net retail NPLs stood at Rs 976 crs in Q2FY12. The net restructured loans of the bank stood at Rs 2501 crs while the outstanding general provision on standard assets stood at Rs 1480 crs in Q2FY12 unchanged from that in Q1FY12. Slippages during the quarter at Rs 787 crs were mainly in line with expectations.

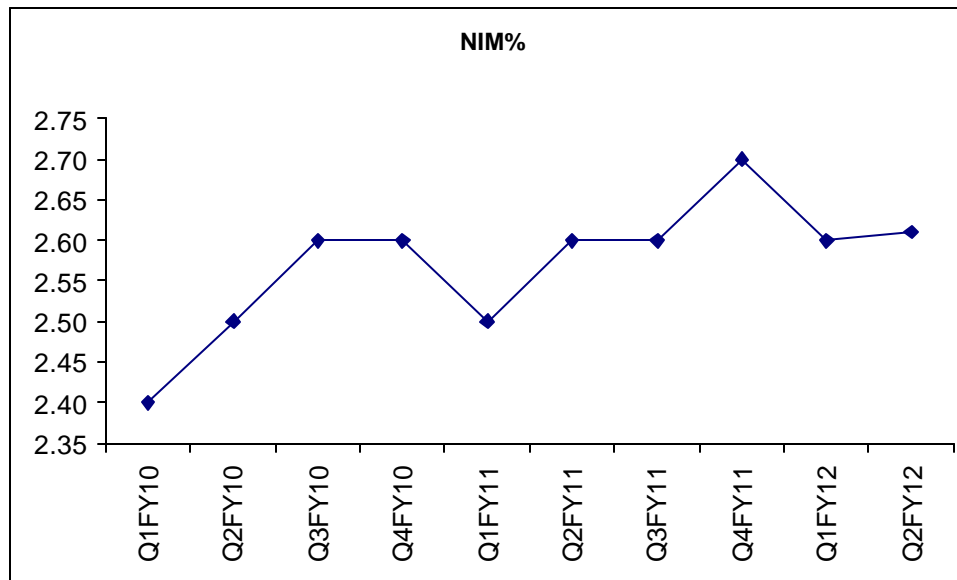


Movement of NPAs	Q2FY12
Opening NPA	9982.8
Slippages during the quarter	787.0
Recoveries and Upgrades	669.0
Net Addition	118.0
Additional write offs	79.0
Gross NPAs	10021.8
Provisions	7838.0
Net NPA	2183.7

- The borrowing profile of the bank at the end of Q2FY12** was healthy. It had total borrowings of Rs 121324 crs in Q2FY12 as against Rs 97010 crs in Q2FY11 and Rs 114051 crs in Q1FY12. The borrowings were mainly done through capital instruments and other borrowings from both domestic and international markets.

Borrowings Split	Q2FY12	Q2FY11	Q1FY12
Domestic	54370	48151	54776
-Capital Instruments	34930	33360	34710
-Other borrowings	19440	14791	20066
Overseas	66954	48859	59275
-Capital Instruments	1660	1522	1514
-Other borrowings	65294	47337	57761
<b>Total</b>	<b>121324</b>	<b>97010</b>	<b>114051</b>

- Net interest income and margins** – One of the key parameters that has been under scanner for all banks during the quarter has been the margins. The bank reported a NIM of 2.61% for Q2FY12 marginally above than that of 2.6% in Q1FY12 and Q2FY11. The bank has been able to maintain its NIMs in the range of 2.4% – 2.7% over the past many quarters. The net interest income of the bank stood at Rs 2506.44 crs in Q2FY12 as against Rs 2410.92 crs for Q1FY12 and Rs 2204.38 crs in Q2FY11 reflecting a growth of 13.70% on a y-o-y basis and 3.96% q-o-q basis. Going ahead, the funding cost in the short term could continue to be higher without a corresponding increase on the asset side. This could mean a pressure on the NIMs in the coming quarters.



- Other Income** – The other income of the bank continued to grow during the quarter after witnessing a fall during the last quarters of FY11. The total non-interest income stood at Rs 1740 crs in Q2FY12 as against Rs 1643 crs in Q1FY12 and Rs 1578 crs in Q2FY11. The bank continued to incur losses in the treasury segment. Though the treasury segment loss was higher in Q2FY12 as against that incurred in Q1FY12, the bank managed to report a jump in the overall other income due to a substantial jump in the fee income and other income. The fee income stood at Rs 1700 crs in Q2FY12 as against Rs 1578 crs in Q1FY12 and Rs 1590 crs in Q2FY11. The management has guided that the fee income going ahead will be in line with the balance sheet growth. The fee income could recover going ahead due to the likely rise in disbursements by end-FY12.

Particulars	Q2FY12	Q1FY12	Q4FY11	Q3FY11	Q2FY11
Non Interest Income	1740	1643	1641	1749	1578
-Fee Income	1700	1578	1791	1625	1590
-Treasury	-80	-25	-196	103	-144
-Other income	120	90	46	21	132

- Branch Network** -The Bank has continued with its strategy of pursuing profitable credit growth by leveraging on its improved fund mix, lower credit costs, efficiency improvement and cost rationalization. In this direction, the bank continues to leverage its expanded branch network to enhance its deposit franchise and create an integrated distribution network for both asset and liability products. However Q1FY12 saw an addition of just 2 branches, a rate that going ahead needs to improve sharply in order to gain more market share and enhance the CASA ratio. As of September 30, 2011, the bank had 2,535 branches and 6913 ATMs. This is the largest branch network among private sector banks in the country.
- Capital adequacy** - The Bank's capital adequacy at September 30, 2011 as per Reserve Bank of India's guidelines on Basel II norms was 18.99% and Tier-1 capital adequacy was 13.14%, well above RBI's requirement of total capital adequacy of 9.0% and Tier-1 capital adequacy of 6.0%.
- Key Ratios**  
 The Bank's RoE at ~10.4% is lower than most peers and hence it would need to improve on this parameter going ahead.

Ratios - Standalone	Q2FY12	Q2FY11	Q1FY12
ROANW	10.40	9.20	9.60
ROAA	1.41	1.30	1.29
EPS (Weighted Avg)	51.90	43.30	46.50
BV	509.00	470.00	490.00
NIM	2.61	2.60	2.60
Fee/Income	40.20	42.40	39.00
Cost/Income	44.40	41.00	44.70
Cost/Average Assets	1.80	1.60	1.70
CASA Ratio	42.10	44.00	41.90

### Performance of Some Domestic Subsidiaries

- ICICI Life's profit after tax for Q2FY12 was Rs 350 crore (US\$ 71 million) compared to Rs 15 crore (US\$ 3 million) during Q2FY11 (excluding surplus of Rs 254 crore in non-participating policyholders' funds in Q2FY11). Assets held increased by Rs 64,889 crore (US\$ 13.2 billion) at September 30, 2011
- ICICI General's gross premium income in Q2FY12 increased by 20% to Rs 1306 crore (US\$ 267 million) from Rs 1,091 crore (US\$ 223 million) in Q2FY11. ICICI Lombard's profit after tax for Q2FY12 was Rs 56 crore (US\$ 11 million) compared to a profit of Rs 104 crore (US\$ 21 million) for Q2FY11 mainly due to higher sourcing costs and lower investment income.

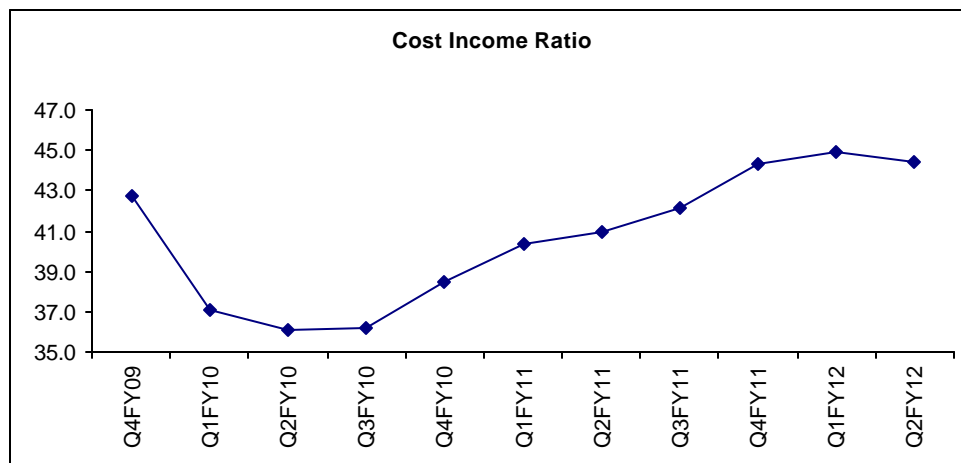
### Subsidiaries PAT performance In Q1FY12

Company	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg
ICICI General	56.0	104.0	-46.2	40.0	40.0
ICICI Life	350.0	15.0	2233.3	339.0	3.2
ICICI Home Finance	56.1	53.9	4.1	70.0	-19.8
ICICI Securities	16.0	29.0	-44.8	10.0	60.0
ICICI Securities Primary Dealership	17.0	-2.0	950.0	23.0	-26.1
ICICI Venture AMC	3.0	22.0	-86.4	5.0	-40.0

Most of the subsidiaries of the bank reported a drop in its PAT as can be observed from the table above. However, the foreign subsidiaries of the bank have done well in Q2FY12. Consolidated profit after tax of the Bank increased by 47% to Rs 1991.68 crore in Q2FY12 from Rs 1394.94 crore in Q2FY11.

### Concerns

- The bank has been fully able to reduce its dependency on wholesale deposits and maintain the CASA% more or less in a healthy range. If this trend for some reason does not sustain then the bank could see an increase in the cost of deposits and therefore witness shrinkage in the overall NIMs.
- The RBI has recently deregulated the savings account interest rates and this could lead to stiff competition in the interest rate scenario and lead to a shrink in the margins of the bank going ahead.
- The domestic subsidiary businesses of the bank (except life insurance) have reported drop in the PAT or flat PAT in most cases. Going ahead, continuation of this trend could impact the consolidated numbers of the bank.
- ICICI faces very stiff competition from its peers largely Axis Bank, HDFC Bank and Yes Bank in the private sector and SBI, BOB and PNB in the public sector. Now with public sector banks, stepping up on their technology and service front, ICICI could witness increasing competition going ahead.
- If interest rates continue to rise it could impact demand for credit and increase slippages and also have a negative impact on the margins of the bank. Slowdown in macro economy could also affect volume growth and increase provisioning requirements.
- The cost to income ratio of the bank showed a marginal improvement to 44.4% in Q2FY12 from 44.9% in Q1FY12. Even though the bank managed to bring down the ratio this quarter, going ahead, if it fails to sustain this trend and if the bank remains unable to curtail its expenses, then it could impact the margins of the bank.



## Conclusion

ICICI Bank is India's second-largest private sector bank and has a large international base. The bank has 2,535 branches as at the end of Q2FY12. The CAR of the bank under Basel II norms stood at 18.99% in Q2FY12 much higher than the RBI requirement of 9%. The bank needs to improve on some parameters, especially NIMs, Cost to Income and NPA.. The bank's substantial branch expansion (sans Q1 & Q2) in the past 24 months is expected to sustain a far more favorable deposit mix going forward. It has guided for 18% loan growth in FY12.

Rising inflation and increase in the interest rates could call for a worry for the banking sector as a whole. This could impact credit growth on one hand and increase slippages on the other. Currently the bank has a good asset portfolio and is well capitalized. For consolidated valuation, a large portion of valuation comes from valuation of insurance subsidiary. Hence the macro developments in that sector need to be watched closely. This also leads to quarter-to-quarter volatility in consolidated earnings.

In our Q1FY12 result update on 18<sup>th</sup> August 2011, we had mentioned that the stock could trade in the could trade in the range of Rs 849 to Rs 1045 (1.7 to 2.1x FY12E Standalone Adj. BV or 13-16x FY12E Cons EPS) band in the next quarter. Post the report the stock touched a low of Rs 762.05 on 5th October 2011 and a high of Rs 953 on 31st October 2011. We presently maintain our FY12 estimates.

**We feel that the stock could trade in the range of Rs 722 to Rs 896 (1.45x to 1.80x FY12E Adj. BV or 11 to 14.75x FY12E Cons EPS) band in the next quarter.**

### Quick Estimates -Standalone

	Rs Crs				
Particulars	FY08	FY09	FY10	FY11	FY12E
Net Interest Income	7304.10	8367.16	8114.36	9016.90	10245.71
% Chg	0.00	14.55	-3.02	11.12	13.63
Profit before Provisions	7960.69	8925.77	9732.18	9047.55	10766.35
% Chg	0.00	12.12	9.03	-7.03	19.00
PBT	5056.10	5117.51	5345.32	6760.71	8309.71
% Chg	0.00	1.21	4.45	26.48	22.91
PAT	4157.73	3758.67	4024.98	5151.38	6190.73
% Chg	0.00	-9.60	7.09	27.99	20.16
EPS	37.37	33.76	36.10	44.72	55.53
% Chg	0.00	-9.65	6.93	23.88	24.16
BV	417.64	438.32	459.77	478.29	531.79
% Chg	0.00	4.95	4.89	4.03	11.19
Adj. BV	385.61	396.83	424.78	457.39	497.79
% Chg	0.00	2.91	7.04	7.68	8.83

Source: Capitaline, HDFC Sec Estimates

**Analyst:** Tiju K Samuel ([tiju.samuel@hdfcsec.com](mailto:tiju.samuel@hdfcsec.com))

**RETAIL RESEARCH Fax: (022) 3075 3435**

**Corporate Office:** HDFC Securities Limited, I Think Techno Campus, Building –B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Fax: (022) 30753435 Website: [www.hdfcsec.com](http://www.hdfcsec.com)

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