

October 31, 2011

Reco Previous Reco
Accumulate Accumulate

CMP Target Price
Rs931 Rs1,200

EPS change FY12E/13E (%) NA
Target Price change (%) NA
Nifty 5,327
Sensex 17,705

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(10)	(15)	(20)
Rel. to Nifty	(1)	(8)	(9)	(10)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector Banks
Bloomberg ICICIB@IN
Equity Capital (Rs mn) 11524
Face Value(Rs) 10
No of shares o/s (mn) 1152
52 Week H/L 1,277/762
Market Cap (Rs bn/USD mn) 1,072/21,965
Daily Avg Volume (No of sh) 4565783
Daily Avg Turnover (US\$m) 83.0

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	-	-	-
FII/NRI	65.0	65.5	66.5
Institutions	25.1	24.9	24.0
Private Corp	4.2	4.0	3.9
Public	5.7	5.6	5.5

Source: Capitaline

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- **ICICI Bank's NII at Rs25.1bn inline with consensus estimates. PAT at Rs15bn above estimates driven by lower provisions**
- **Advances grew by robust 6%qoq aided by strong growth in international and domestic corp book. But, retail reported 1.1%qoq decline led by decline across retail portfolio**
- **The bank asset quality remained largely stable with just 1.2% increase in GNPA, while NNPA reported decline of 2.9%qoq to Rs22.4bn**
- **Valuations at 1.9x/1.7x FY12E/FY13E standalone ABV not unreasonable with improving operating matrix. Maintain ACCUMULATE rating with TP of Rs1200**

NII inline; Earnings above estimates led by lower provisioning

ICICI Bank's NII came in at Rs25.1bn, slightly above our/consensus expectations. The net profit was higher than our/consensus expectations mainly driven by lower provisioning. With strong 20.5% yoy (6.0%qoq) growth in loan portfolio and stable NIM's at 2.6%, NII during the quarter came in at Rs25.0bn (up 13.7% yoy).

The strong advances growth was driven by ~20%qoq growth in international book (aided by INR depreciation) along with ~8%qoq growth in corporate book. SME and Retail however reported 0.5-1% decline in growth. Adjusted for INR depreciation, the overall standalone loan growth would have been 17.5%.

Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.3	8.3	8.6	9.0	9.5	112	43
Yield on investments*	5.8	6.3	6.6	6.6	6.5	72	-4
Yield on assets*	6.7	6.8	7.2	7.4	7.6	93	20
Cost of funds*	4.4	4.5	4.7	5.1	5.3	93	21
NIM*	2.3	2.4	2.5	2.3	2.3	0	-1
NIM (Reported)	2.6	2.6	2.6	2.6	2.6	-1	0

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

NIM remain stable; both domestic and international margins hold up

The margin remained stable at 2.6% even as the cost of funds rose by 21bps during the quarter. The yield on advances more than compensated for the same. Also, the international NIMs which averaged at 80bps in FY12 have expanded to 1.2% in Q2FY12.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY10	155,920	39,307	35.3	428.5	1.1	8.0	26.4	2.2
FY11	156,648	51,514	44.7	457.4	1.3	9.7	25.0	2.4
FY12E	179,049	60,633	52.6	498.7	1.4	10.6	17.7	1.9
FY13E	211,979	70,676	61.4	544.9	1.4	11.3	15.2	1.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	22,044	23,117	25,097	24,109	25,064	13.7	4.0	49,174	41,954	17.2
Other Income	15,780	17,488	16,410	16,429	17,396	10.2	5.9	33,825	32,580	3.8
Fee Income	15,900	16,250	17,910	15,780	17,000	6.9	7.7	32,780	30,030	9.2
Net Income	37,824	40,605	41,507	40,538	42,460	12.3	4.7	82,999	74,534	11.4
Total Operating Expenses	15,699	17,179	18,455	18,198	18,922	20.5	4.0	37,120	30,534	21.6
As % Of Net Income	41.5	42.3	44.5	44.9	44.6			44.7	41.0	
Employee Expenses	6,243	7,605	8,566	7,329	8,427	35.0	15.0	15,756	11,999	31.3
As % Of Net Income	16.5	18.7	20.6	18.1	19.8			19.0	16.1	
Other Expenses	9,106	9,170	9,436	10,533	10,133	11.3	-3.8	20,666	17,827	15.9
As % Of Net Income	24.1	22.6	22.7	26.0	23.9			24.9	23.9	
Operating Profit	22,125	23,426	23,053	22,340	23,538	6.4	5.4	45,878	44,000	4.3
As % Of Net Income	58.5	57.7	55.5	55.1	55.4			55.3	59.0	
Provisions	6,410	4,643	3,836	4,539	3,188	-50.3	-29.8	7,727	14,388	-46.3
PBT	15,715	18,783	19,217	17,802	20,350	29.5	14.3	38,152	29,612	28.8
Total Tax	3,345	4,413	4,692	4,480	5,318	59.0	18.7	9,797	6,988	40.2
Adjusted PAT	12,369	14,370	14,524	13,322	15,032	21.5	12.8	28,354	22,624	25.3
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	12,369	14,370	14,524	13,322	15,032	21.5	12.8	28,354	22,624	25.3
Reported EPS	10.7	12.5	12.6	11.6	13.0	21.4	12.8	25	20	23.4

Source: Company, Emkay Research

Corporate and international book drive loan growth

ICICI Bank reported strong 6%qoq increase in loan book primarily driven by spike in international and other domestic corporate book, which grew by 20%qoq and 8.2%qoq respectively. Cumulatively, exposure to these segments was up 14.2 % qoq and comprised 52.8% of total loan portfolio. A large part of the increase in international book was driven by rupee depreciation against base currency. Adjusted for which the growth in international book comes at ~10%qoq with 3.4%qoq growth in overall loan book.

On the retail loan front, loan growth came in lower at 4.8% yoy (-1.1%qoq) driven by a sequential decline in loan book across the portfolio.

Advances mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Retail	781	790	837	828	819	4.8	-1.1	35.0
International	486	504	552	558	669	37.8	19.8	28.6
Rural	136	153	210	188	175	29.1	-6.5	7.5
SME	78	87	104	110	110	41.6	-0.4	4.7
Others	462	533	461	523	566	22.6	8.2	24.2
Total	1,942	2,067	2,164	2,207	2,340	20.5	6.0	100.0

Source: Company, Emkay Research

Retail advances mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Cars	70	71	77	78	75	7.2	-3.2	9.2
CV	117	121	148	137	131	11.8	-4.1	16.0
Personal loans	31	25	23	20	12	-60.7	-38.2	1.5
Credit cards	31	32	28	26	25	-18.7	-4.2	3.1
Mortgages	508	517	539	554	551	8.6	-0.6	67.3
Others	23	19	21	21	23	-2.1	10.8	2.8
Total	781	790	837	828	819	4.8	-1.1	99.9

Source: Company, Emkay Research

CASA mix maintained despite strong growth

Despite strong growth in balance sheet the bank maintained its CASA mix at ~42%, driven by 10.8%qoq growth in current deposits, while term deposits grew by a lower 5.9% qoq.

CASA Mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Current Deposits	348	317	348	298	330	-5.3	10.8
Savings Deposits	633	646	669	669	701	10.9	4.9
CASA	981	962	1,016	966	1,031	5.1	6.7
Term deposits	1,250	1,215	1,240	1,340	1,419	13.6	5.9
Total Deposits	2,231	2,177	2,256	2,307	2,451	9.9	6.2
CASA (%)	44.0	44.2	45.1	41.9	42.1	-189	19

Source: Company, Emkay Research

Fee income picks up after dull performance in last quarter

Despite reporting a trading loss of Rs804mn, the bank's non interest income grew by a respectable 5.9%qoq helped by 7.7%qoq growth in fee income. Fee income for the bank grew largely driven by growth in corporate finance and international front.

Other income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Fee/Commission income	15,900	16,250	17,910	15,780	17,000	6.9	7.7	32,780	30,030	9.2
Trading gains/(losses)	-1,440	210	-1,960	-250	-804	-44.2	221.6	-1,054	-400	163.5
Others	1,320	1,028	460	899	1,200	-9.1	33.5	2,099	2,950	-28.9
Total	15,780	17,488	16,410	16,429	17,396	10.2	5.9	33,825	32,580	3.8

Source: Company, Emkay Research

Employee expenses drive Opex

The Opex for the quarter has grown by 21% yoy, largely driven by employee expenses (up 35% qoq) as the bank has almost grown its employee base by 23% yoy and almost 10% h-o-h. The other Opex grew by moderate 11% yoy.

Slippages remain under control at 1.1% annualised

The bank asset quality remained largely stable with just 1.2% increase in GNPA, while NNPA reported decline of 2.9%qoq to Rs22.4bn. The slippages at Rs7.9bn or annualized 1.1% are in line with our estimates.

During the quarter, ICICI Bank restructured MFI portfolio worth Rs7.5bn. As ICICI Bank has already classified Rs2bn of MFI loans into NPAs in Q1FY12, almost whole of the MFI loans portfolio of Rs10bn now stands either restructured or classified into NPAs.

Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPAs	102.3	102.3	100.3	99.8	101.1	-1.2	1.2
Net NPAs	31.9	28.7	24.1	23.0	22.4	-29.9	-2.9
Gross NPAs (%)	5.3	4.8	4.5	4.4	4.1		
Net NPAs (%)	1.4	1.4	1.1	1.3	0.8		
Net NPAs/Net worth (%)	5.9	5.2	4.4	4.1	3.8		
Provision cover (%)	68.8	71.9	76.0	76.9	77.9		

Source: Company, Emkay Research

International subs. continues dismal business; capital repatriation attempts started

The bank reported sequential decline on its UK subsidiary front. The balance sheet for the bank as at Q2FY12 stood at US\$5.1bn (US\$6.0bn in Q1FY12). With CAR at 29.8%, profit after tax came in lower at US\$2.2mn (US\$8.4mn in Q2FY11). Canadian balance sheet stood stable at CAD 5.1bn with net profit under IFRS at CAD 5.2mn and CAR at 29.3% ICICI Bank has started attempts to repatriate the capital and begun negotiating with the respective authorities at least in UK to begin with.

UK subsidiary asset book

USD bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Cash & liquid securities	1.1	1.2	1.3	1.2	1.2	11.9	-2.2
Loans & advances	4.0	4.0	3.6	3.4	3.0	-25.3	-14.1
India linked investments	0.3	0.3	0.3	0.2	0.2	-30.9	0.5
Bonds/notes of fin inst	1.3	1.1	0.7	0.6	0.3	-78.0	-55.5
Asset backed securities	0.1	0.1	0.1	0.1	0.1	-36.3	-23.5
Other assets & investments	0.4	0.4	0.4	0.4	0.4	-17.4	-0.8
Total	7.2	7.0	6.4	6.0	5.1	-29.2	-15.0

Source: Company, Emkay Research

Canada subsidiary asset book

CAD bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Cash & liquid securities	0.8	0.7	0.5	0.6	0.5	-36.3	-13.8
India linked investments	0.2	0.1	0.1	0.0	0.0	-72.8	0.0
Federally insured mortgage	0.2	0.3	0.3	1.1	1.3	560.5	20.5
Loans to customers	3.4	3.1	3.0	2.8	2.6	-22.2	-4.1
Asset backed securities	0.1	0.1	0.1	0.1	0.1	-28.6	0.0
Other assets & investments	0.4	0.4	0.5	0.5	0.5	45.7	-4.8
Total	5.0	4.7	4.5	5.1	5.1	2.0	0.0

Source: Company, Emkay Research

Mixed performance from domestic subsidiaries

The performance of non-banking subsidiaries was mixed with yoy decline in profits in ICICI Securities, ICICI Venture and ICICI Prudential life insurance and general insurance business. On the flip side, ICICI Securities PD reported higher net profit.

On the life insurance front, ICICI Bank continues to enjoy healthy market share. As at Q2FY12, the bank reported APE business of Rs7.4bn with NBAP margin at 16% and assets under management of Rs649bn. Life insurance subsidiary reported a profit of Rs3.5bn as against profit of Rs0.15bn in corresponding period of previous year. General insurance business reported a net profit of Rs560mn. On ICICI Home finance, the subsidiary reported net profit of Rs561mn with CAR at 25.5% and Net NPA well within comfort level of 1.3%.

Profit after tax

Rs bn	Q2FY12	Q2FY11	% yoy chg
ICICI Securities Ltd.	160	290	-45
ICICI Securities PD	170	-20	-
ICICI Venture	30	220	-86
ICICI Prudential Asset Management	200	140	43
ICICI Home Finance Company	561.3	539	4
ICICI Prudential Life Insurance	1,180	2,540	-54
ICICI Lombard General Insurance	560	1,040	-46
Total	2,861	4,749	-40

Source: Company, Emkay Research

Adequate capital for balance sheet growth

Capital adequacy for ICICI Bank remains comfortable with CAR at 19.0% including tier I CAR at 13.1%. Improved loan mix (more in favor of secured loans) and enhanced asset quality has enabled the bank to conserve capital and in-turn suffice balance sheet growth.

Valuations and view

We expect the bank to report 15% CAGR in balance sheet over FY11-13E with loan CAGR of 19% and net profit CAGR of 17% over similar period. We expect ICICI Bank's core RoEs to improve to 14.7% by FY13E as the bank augments its revenue base with stable credit costs (0.5% of advances) and cost/income ratio at 44%. The revenue augmentation will be driven by advances CAGR of 18% over FY11-13E, consequent growth in NII. Recent exposure to troubled assets/groups is likely to remain a concern. We have valued the banking (including subsidiary) operations of ICICI Bank at 2x on FY13E P/ABV. We maintain ACCUMULATE with price target of Rs1200.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	81,144	90,169	105,488	122,415
Other income	74,777	66,479	73,561	89,564
Net income	155,920	156,648	179,049	211,979
Operating expenses	58,598	66,173	79,612	97,309
Pre provision profit	97,322	90,476	99,436	114,670
PPP excl treasury	90,005	88,299	100,436	113,570
Provisions	43,899	22,898	17,500	19,162
Profit before tax	53,423	67,577	81,937	95,508
Tax	13,173	16,063	21,304	24,832
Tax rate	24.66%	23.77%	26.00%	26.00%
Profit after tax	40,250	51,514	60,633	70,676

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	11,149	11,518	11,518	11,518
Reserves	505,035	539,391	586,176	643,007
Net worth	516,184	550,909	597,694	654,525
Deposits	2,020,166	2,256,021	2,803,163	3,353,892
Borrowings	1,102,319	1,259,850	1,298,654	1,342,648
Total liabilities	3,638,668	4,066,781	4,699,510	5,351,064
Assets				
Cash and bank	388,737	340,901	327,338	391,649
Investments	1,172,574	1,185,397	1,408,329	1,483,352
Customer assets	1,848,410	2,325,122	2,764,582	3,275,205
Others	228,947	215,361	199,262	200,858
Total assets	3,638,668	4,066,781	4,699,510	5,351,064

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.2	2.3	2.4	2.4
Non-ll/avg assets	2.0	1.7	1.7	1.8
Fee income/avg assets	1.3	1.4	1.4	1.5
Opex/avg assets	1.6	1.7	1.8	1.9
Provisions/avg assets	2.2	1.0	0.6	0.5
PBT/avg assets	1.5	1.7	1.7	1.8
Tax/avg assets	0.4	0.4	0.5	0.5
RoA	1.1	1.3	1.4	1.4
RoAE	8.0	9.7	10.6	11.3
Core RoAE	9.3	12.0	13.7	14.7
GNPA (%)	4.7	5.0	4.5	4.0
NNPA (%)	2.1	1.1	0.9	0.9

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	39,307	51,514	60,633	70,676
Shares in issue (mn)	1,115	1,152	1,152	1,152
EPS (Rs)	35.3	44.7	52.6	61.4
PER (x)	26.4	25.0	17.7	15.2
FDEPS(Rs)	35.3	44.7	52.6	61.4
FDPER (x)	26.4	25.0	17.7	15.2
Book value (Rs)	463.0	478.3	518.9	568.3
P/BV (x)	2.0	2.3	1.8	1.6
Adj book value (Rs)	428.5	457.4	498.7	544.9
P/ABV (x)	2.2	2.4	1.9	1.7
P/PPP (x)	10.7	11.9	10.8	9.4
Dividend yield (%)	1.4	1.7	1.3	1.3

Recommendation History: ICICI Bank – ICICIBC IN

Date	Reports	Reco	CMP	Target
08/09/2011	ICICI Bank Management Meet Update	Accumulate	897	1,200
28/04/2011	ICICI Bank Q4FY11 Result Update	Accumulate	1,118	1,250
13/04/2011	ICICI Bank Management Meet Update	Hold	1,099	1,200
24/01/2011	ICICI Bank Q3FY11 Result Update	Hold	1,084	1,200

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/10/2011	M&M Financial Services Q2FY12 Result Update	Buy	640	800
24/10/2011	Union Bank of India Q2FY12 Result Update	Reduce	212	210
24/10/2011	Axis Bank Q2FY12 Result Update	Accumulate	1,124	1,380
20/10/2011	Yes Bank Q2FY12 Result Update	Accumulate	285	340

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