

**BUY**

**CMP: Rs.730**

**Target: Rs.917**

**Upside: 26%**

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**Corporate loans and Stable CASA cushion NIMs, Provisions decline sharply on improved asset quality, aiding Net profit beat consensus estimates.**

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ICICI Bank reported healthy Q212 performance with Net profit growing 22%YoY and 12.9%QoQ to Rs.1503.2cr compared to 1236.27cr seen last year. The sharp growth was majorly on account of sharp 50.2% percent decline in provisions while PPOP grew 6%YoY.

Advances recorded a 20.1% YoY rise to 2,33,952cr (6%QoQ) driven by corporate loans(24.2%) and international loan book (26%YoY excl. forex impact). The retail loan book however declined 1% to Rs.81,873 cr on account of slowdown in commercial business(-4%QoQ), auto(-3%) and personal loans(-38%QoQ) due to spike in borrowing rates. However home loans inched higher by 1%QoQ while other secured loans grew 11%QoQ underlining the banks focus on secured lending than high lending yields.

Deposits growth continued to be driven by saving deposits which grew 11%YoY and 5%QoQ and a rebound in current account deposits (11% QoQ) base after sharp erosion in Q112(-15%QoQ). Term deposits grew QoQ by 6% as fund flows towards term deposits grew given the attractive rates.

Net interest income(NII) grew 14%YoY which is relatively slower compared to 22%YoY avg. growth seen in previous two quarters. However the moderation is largely due to decline in high yielding retail loan book particularly the unsecured personal loans (-60%YoY and -38%QoQ). The share of personal loans of the retail book has declined 90bps QoQ to 1.5%. Interest expended rose sharply by 38%YoY driven by higher term deposits (14%YoY) and higher borrowings (25%YoY and 6%QoQ). NIMs remained stable at 2.6% as improved traction in saving deposits and higher lending yields comfort margins.

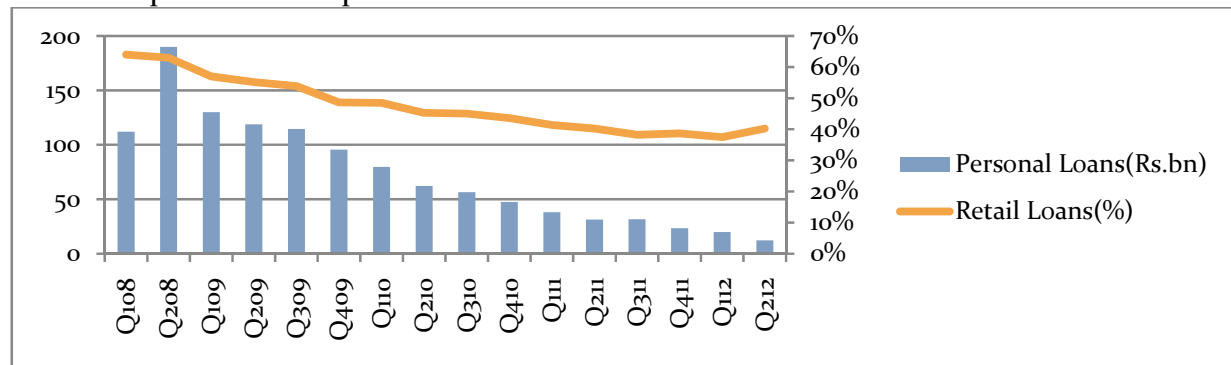
The Bank continued to improve on its asset quality ratios, with Gross NPAs declining 1%YoY and flat QoQ on absolute basis. Gross NPA ratio declined to 4.14% vs. 4.36% in Q112 and 5.03% in Q211. Net NPA ratio declined to 0.93% vs. 1.04% in Q112 and 1.62% in Q211 as net NPAs declined 5%QoQ and 31%YoY in absolute terms. Consequently, provisions declined by 50.3% to 318.79cr, resulting in credit costs slipping to 0.56% compared to 0.84% in Q112.

## Loan Book Profile:

ICICI Bank reported healthy advances growth of 20.5% to Rs.233952cr driven by corporate loans and international advances which grew 24.2% and 37.3% respectively.

Domestic Corporate loans share of total loan book has grown 50bps to 24.2% while overseas loan book share has grown 25.3% in Q112 to 28.6% at end of Q212. The surge in international loans was aided by forex movement, excluding which loans by overseas branches grew 26%YoY.

Retail loans continue to dominate overall advances, with a share of 35%. However the bank has consciously reduced its focus on unsecured loans which had a powered its loan book over pre-Lehmann period.



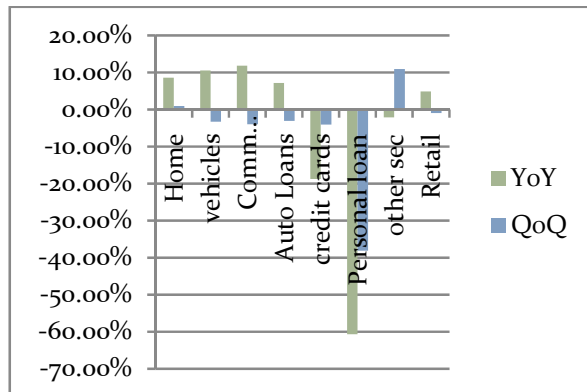
Source: Company, Banham Research

The bank continues to pare its unsecured loan book with share of personal loans of retail loan book declining to 1.5% from 2.4% in June 2011. Personal loans have declined 60.7% YoY and 38% QoQ basis. Credit cards outstanding have declined 18.7%YoY and 4% QoQ.

Home loan growth continues to remain relatively robust, growing 8.6% YoY and 1%QoQ; however the pressure on demand was evident, considering the 15.3% YoY and 14% YoY growth shown in previous two quarters.

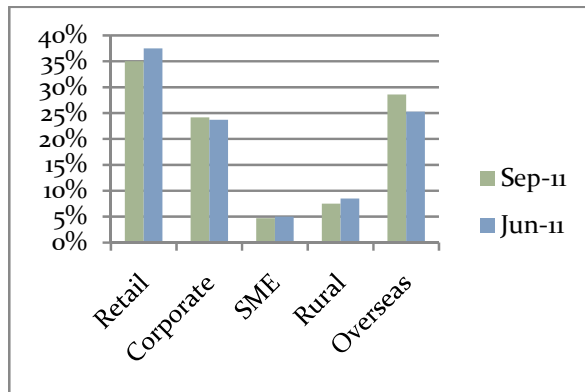
Vehicle loans recorded 10.5%YoY growth driven by the commercial business loans (11.9%) while Auto loans grew 7.2%. On a sequential basis, the contraction in vehicle loans was more severe, declining 3% compared to 1% fall in overall retail book.

Other secured lending dipped 2.1%YoY however its share of loan book grew to 2.8% vs. 2.5% in June11. On sequential basis, other secured loans grew 11 percent.



Retail loan growth slip on pers.loans

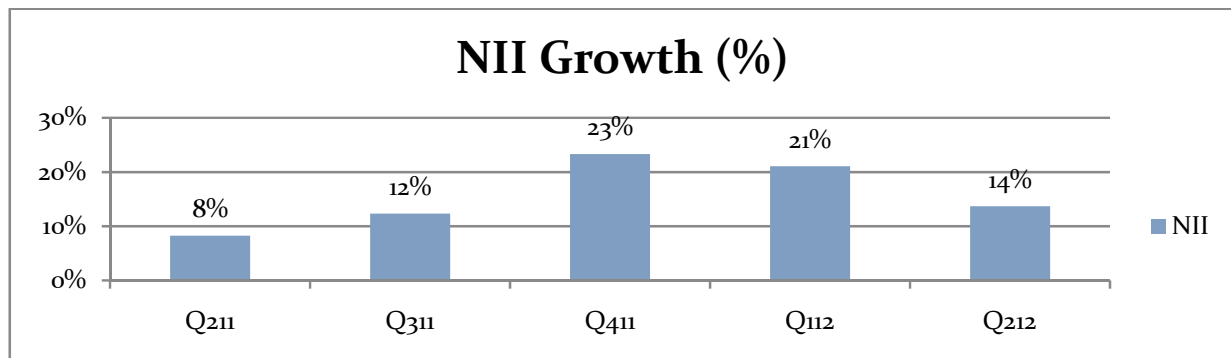
Source: Company, Banham Research



Advances driven by Corp & Overseas Loans

## NII growth moderates

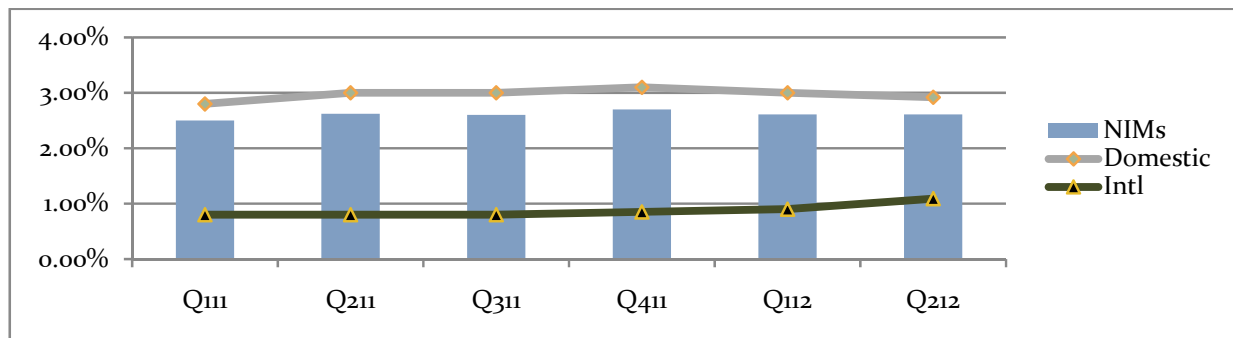
Net interest income growth was slightly below estimates, growing 14% to Rs.2506.4cr compared to average YoY growth of 22% seen in previous two quarters. However the moderation in growth is largely on account of contraction in high yielding personal loans, high outgo on term deposits and large uptick in borrowings.



Source: Company, Banham Research

NII growth moderates; NIMs sustain...

Yields on advances improved 44bps QoQ and 112bps YoY to 9.5% despite the sharp decline in personal loans however its benefit was moderated on account of higher cost of funds (up 23bps QoQ and 103bps YoY to 6.4%). As a result interest spread improved marginally, thereby aiding NII growth. Net interest margins were maintained at 2.6%.



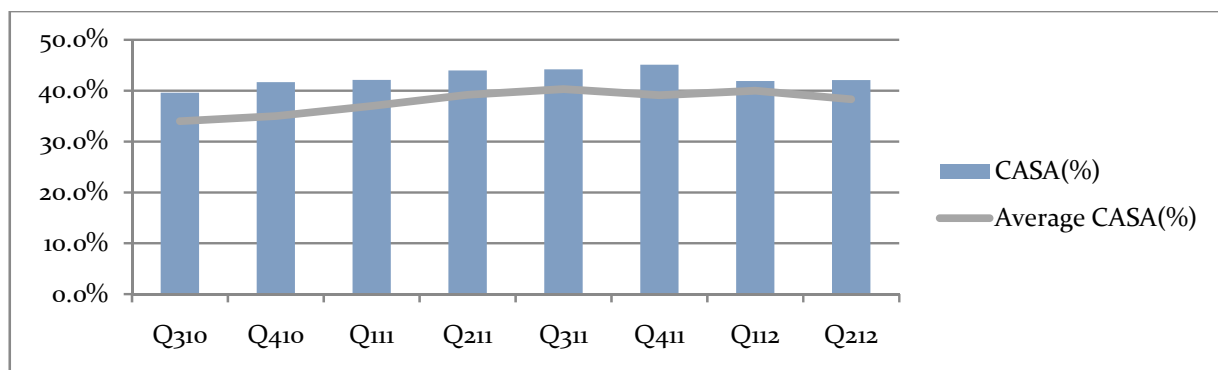
Source: Company, Banham Research

ICICI expects Intl NIMs to touch 120bps

## Liabilities Profile

Deposits recorded mediocre growth of 9.9%YoY growth to Rs.245,092cr driven by savings deposits and term deposit base. The growth in deposits was significantly lower compared to system growth of 19.2%.

Savings deposits grew 11%YoY and 5%QoQ to 70,149cr while Current account deposits declined 5%YoY. CA deposits however rebounded sequentially, growing 11%QoQ. CASA deposits grew 5%YoY which was in-line with system growth. CASA deposit share stood at 42.1% compared to 41.9% in Q112 however 190bps lower on YoY basis. Average CASA during the quarter was at 38% vs.40% in Q112.

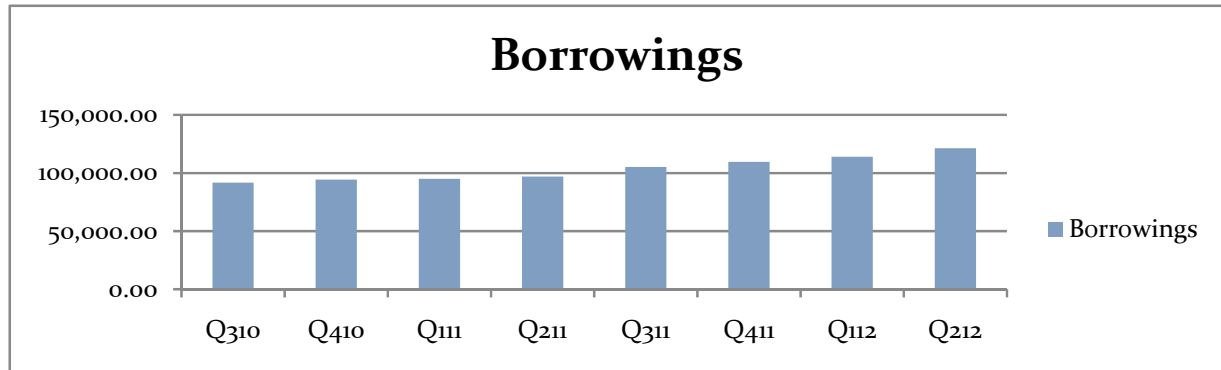


Source: Company, Banham Research

Average CASA remains in comfort zone...

Term deposits growth was relatively more robust, increasing 14% however was much slower than system growth of ~21% on account of the sharp rise in term deposits rates.

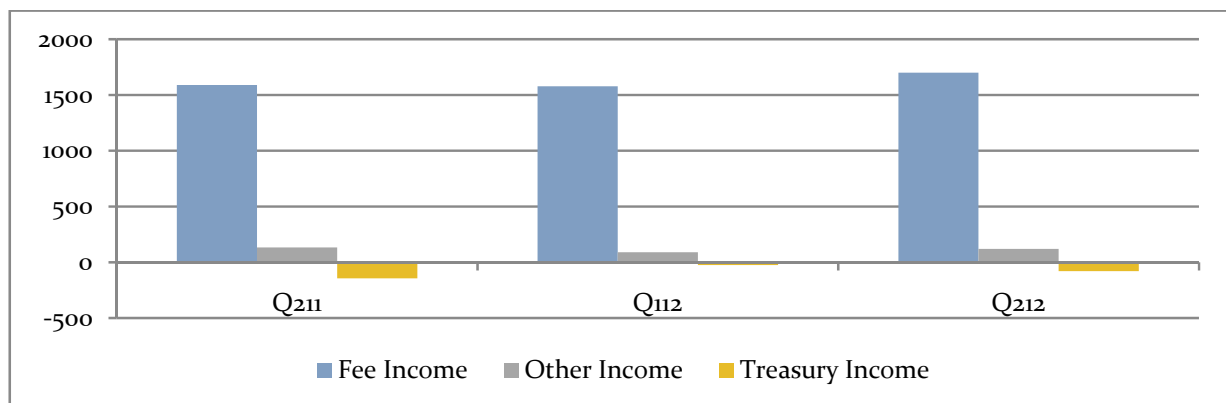
Borrowing grew sharp 25%YoY and 6% QoQ to Rs.121324cr. The bank maintained it will continue to lock in funds whenever funds are available at attractive rates.



Source: Company, Banhem Research

## Non Interest Income:

Non-interest income grew 10.3%YoY as fee income grew a tepid 6.9% YoY to Rs.1700cr on account of slowdown in corporate banking fee income due to slowdown in new projects/financial closures. The bank maintained it continues to witness traction in streams such as forex & derivative fees, transaction banking fees and remittance fees. Other income declined 9.1%YoY to Rs.120cr. Treasury income in-line with industry trend remained weak, recording a loss of Rs.80cr vs. loss of Rs.25cr in Q112 however improved YoY from loss of Rs.144cr seen in Q211.



Source: Company, Banhem Research

## Operating Costs:

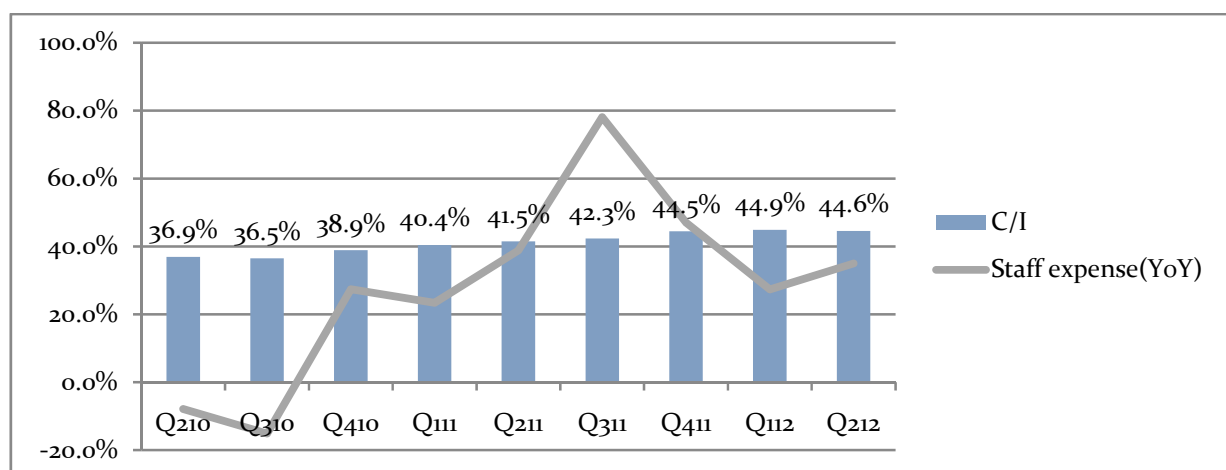
ICICI Bank recorded a growth of 20.5% in operating costs driven by the staff expenses which grew 35% to Rs.842.70cr. Staff expenses grew as average employee count rose from 48,360 in Q211 to 59,995 at end of Q212. Staff expenses also grew sharply on account of wage hikes of ~11% effected during Q112 as well as full impact of the BoR merger coming through this quarter given the BoR merger was effected from August13, 2010.

The tepid non-interest income failed to cushion the impact of higher wage expense; consequently cost to income ratio grew to 44.4% from 41.5% in Q211 however remained stable on sequential basis. Core cost to income ratio rose to 45% compared to 41.4% last year and 45.6% in Q112 due to the impact of the merger and largely due to the moderation in the income component.

Other operating expense grew 10.9% as branch additions (excl. BoR) remained flat. However bank expects to expand branch network in the second half of this fiscal, majorly in Q412. It currently holds about 300-350 branch licenses for FY12.

ICICI bank expects operating costs to grow 20% in FY12 and does not foresee any large incremental additions to employee base (~59995) above and beyond staffing of new branches.

Cost to asset ratio for Q212 stood at 1.8% compared to 1.7% in Q112 and aims to maintain the ratio within the 1.7-1.8% band.



Source: Company, Banham Research

**Spike in Q311 due to BoR merger**

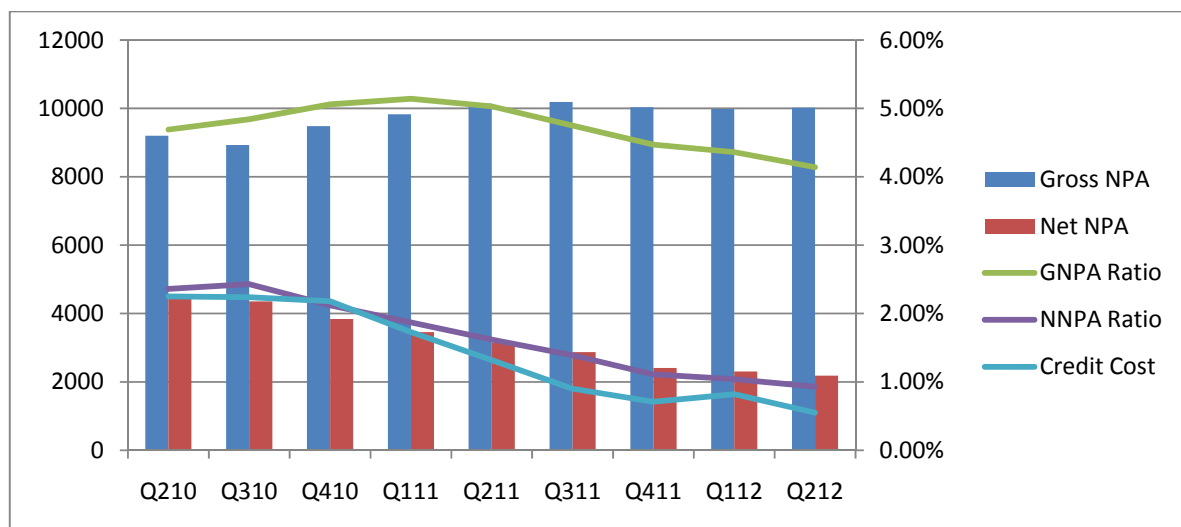
## Asset Quality

ICICI Bank has managed to improve asset quality ratios largely on account of the improved recoveries, up gradations. Fresh slippages have grown to Rs.787cr compared Rs.750cr in Q112, as a result slippage ratio remains at 1.35% vs. 1.36% seen in Q112.

The bank continued to improve on its asset quality ratios, Gross NPA ratio declined to 4.14% vs. 4.36% in Q112 and 5.03% in Q211. Gross NPAs declined 1%YoY and remained flat QoQ on absolute basis. Provisions declined by 50.3% to Rs.318.79cr, resulting in credit costs slipping to 0.56% compared to 0.84% in Q112. Provision coverage ratio rose to 78.2% vs. 76.9% in Q112.

Net NPA ratio declined to 0.93% vs. 1.04% in Q112 and 1.62% in Q211 as net NPAs declined 5%QoQ and 31%YoY in absolute terms.

Restructured loans have grown to Rs.2501cr compared to Rs.1966cr at Q112 primarily on MFI loans. Consequently o/s restructured advances as a percentage of overall advances have moved up to 1.1% vs. 0.9% in Q112.



Source: Company, Banham Research

### Key notes on Asset quality

- Power sector loans were 5% of total loans and exposure at 7% of total exposure
- Of these, 50% in commission stage; 50% in implementation stage
- No asset quality pressure being witnessed on power sector portfolio, however some minor delays seen in commissioning schedules
- No asset quality pressure being witnessed on real estate portfolio
- Will continue to pare unsecured loan portfolio
- Restructured loans will rise in Dec Quarter as GTL undergoes CDR process
- Kingfisher account already part of restructured loan portfolio

## Subsidiaries Performance:

ICICI Life reported net profit of Rs.350cr, recording a growth of 30% YoY if Q211 PAT is adjusted for the Rs.254cr non-par surplus registered last year. Annualized premium equivalent (APE) witnessed a sharp 45%YoY fall during the quarter however sequentially APE rose 65.4%. New business profit margin remained stable at 16%QoQ.

ICICI General reported Q212 PAT at Rs.56cr compared to Rs.104cr last year, due to sourcing costs and fall in investment income. Market share stood at 9.6% for April-Aug 2011.

ICICI Home Finance reported Q212 PAT of Rs.56.13mn compared to Rs.539mn in Q211. Loan book continued to contract, declining 5.6%QoQ as bank has been booking new business at parent bank level. Hence as repayments and prepayment take place, there is a run-down in HFC loan book.

## Other Subsidiaries

Profit after tax	Q211	Q212	Var(%)
ICICI Securities Ltd	29	16	-45%
ICICI Securities Primary Dealership	-2	17	LP
ICICI Venture	22	3	-86%
ICICI Prudential Asset Mgmt	14	20	43%

LP=Loss to Profit

Source: Company, Banham Research

## International Subsidiaries

As per IFRS financials, ICICI Bank Canada reported net profit of CAD 5.2 mn in Q2-2012 compared to CAD 12.3 mn in Q1-2012. Capital adequacy ratio stood at 29.3%. The bank has initiated talks with regulators in regard to repatriation of excess capital however, would take time for things to materialize on the front. Balance sheet size remains stagnant at CAD 510bn and bank has guided B/S sizes to stagnant/decline for its Canada & UK subsidiaries.

ICICI Bank UK reported Q212 net profit at \$2.2mn significantly lower compared to USD5 mn in Q112. Balance sheet size continued to contract from USD 5.96bn to USD 5.13 bn as the bank pared down its investments in bonds in foreign financial institutions (i.e. excl. Indian entities) from USD 665 mn in June to USD 288 mn as on Sep 30, 2011 consisting of entities from US, Canada, Asia Pacific region. Exposure to European entities is less than USD 35mn and largely to UK institutions.

Consolidated Profits grew 42.8% to Rs.1992cr vs. Rs.1395bn in Q211.



## ICICI Bank

### Capital Adequacy

ICICI Bank remains well capitalized with CRAR at 18.99% with Tier- 1 capital at 13.14%. The bank informed that it has initiated talks with Canadian regulators for a possibility to repatriate excess capital at its Canadian subsidiary. However no similar measures have been taken in UK.

### **View:**

ICICI bank has witnessed moderation in the core business largely in-line with the industry environment. NII and fee income growth of 14% and 7% respectively is significantly slower than the growth seen by peers Axis (NII 24% and Fee 32%), HDFC Bk (NII 17%YoY and Fee +15%). The management expects loan growth to remain in line with system growth of 18% for FY12. The bank maintains it will continue to pare down its unsecured loan portfolio as it prefers quality loan book to high risk incremental yields. The bank remains confident of sustaining average CASA within the 38-40% band despite the challenging environment in garnering low cost deposits. The management clarified that it remains in wait and watch mode to see how situation evolves post the saving bank rate deregulation and does not foresee any impact on margins as costs would be passed through.

However the bank remains confident of achieving its advances growth target (18%) as sanctioned pipeline remains strong, corporate loans are likely to remain key driver sustained by WC finance and balance-sheet funding. We are factoring in loan growth of 19% in FY12 and 18% in FY13. Fee income continues to witness traction in transaction banking, forex & derivatives and remittance fees however fee income from project finance has been impacted due to the slowdown in project announcement/closures.

The bank has guided for margins to sustain at current levels(2.6%) and could witness marginal improvement as it expects international NIMS to improve to 1.2% from the 1.1% seen currently. We are factoring in marginal compression of NIMs as garnering low cost deposits could get competitive as well as loan pricing power could deteriorate if lending rates in the system remain firm.

Overall we believe the 18% advances growth target seems reasonable and attainable given the economic environment. However traction in fee income would be necessary in-order to comfort the rise in operating expense, especially the other operating expense which would rise further given the bank's branch opening plans in the H2FY12.

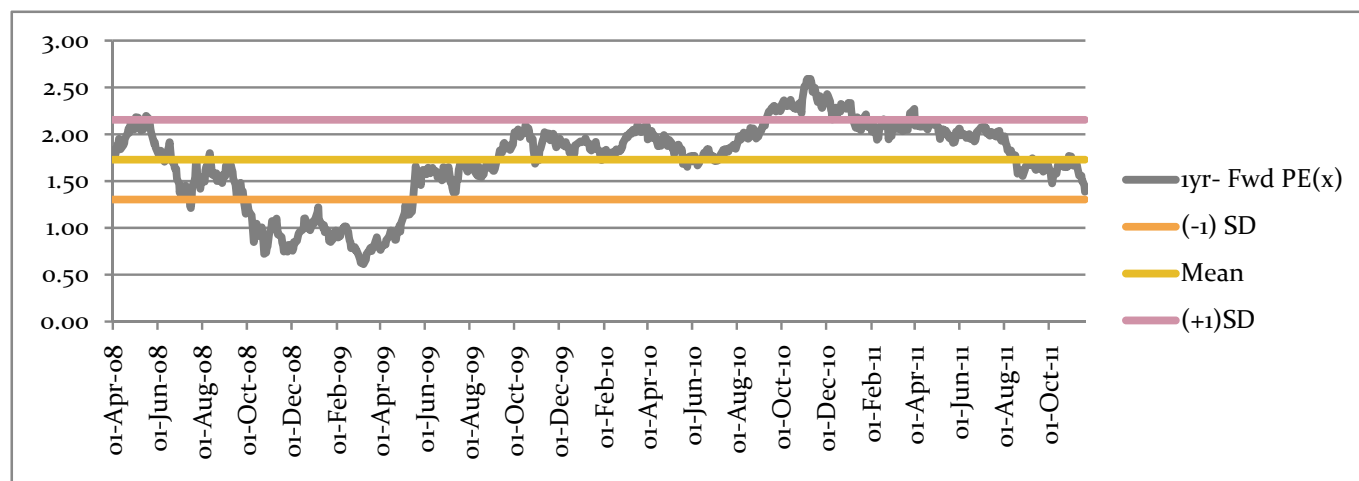
The sustained improvement in asset quality provides comfort however needs to be watched out for as fresh slippages remain high. The management remains confident of asset quality holding up and expects credit costs to remain at H1FY12 levels compared to 80bps guided earlier.

We believe despite the moderation in performance in Q212, ICICI Bank is well placed to satisfy pent up demand for credit as the interest rate cycle peaks off given its wide branch network as well as well capitalized nature of operations. The continued focus on boosting corporate loan share provides some comfort as asset quality pressures remain in the system. NIMs could witness marginal moderation as loan demand may not sustain at high rates while benefits of deposits re-pricing at lower levels would be seen towards H2FY13.

The stock is currently trading at extremely attractive levels, at 1.3x FY13 ABV on standalone basis. We rate the stock a buy with a SOTP price of **Rs.917**. We value standalone bank at 1.7x FY13 ABV of Rs.413.9 and value the subsidiaries at Rs.252.2/share with life insurance business at 111.8/shr.

ICICI Bank SOTP (FY13e) Valuation	ICICI Stake	Value /shr	Valuation Methodology
ICICI Bank -Standalone	100%	715.3	P/BV Multiple 1.7x ABV
Subsidiaries			
			NBAP margin 16%,
ICICI Pru Life	74%	111.8	16x FY13 NBAP
ICICI General Life	74%	20.2	2x FY13 BV
ICICI Bank Canada	100%	34.6	0.8x FY13 BV
ICICI Bank UK	100%	24.4	0.8x FY13 BV
ICICI Home Finance	100%	19.4	1.5x FY13 BV
ICICI Bank AMC	51%	15.0	4% of FY13 AUM
ICICI Primary Dealership	100%	5.6	1x FY13 BV
ICICI Securities	100%	10.8	10x FY13 PAT
ICICI Venture	100%	10.4	12% of AUM
<b>Total Value of Key Subsidiaries</b>		<b>252.2</b>	
Holding Co. disc		20%	
<b>Value of Key Subsidiaries</b>		<b>201.8</b>	
<b>SOTP Value of Bank</b>		<b>917</b>	

\*ABV= BV adj. for NNPA and investment in key subsidiaries  
Source: Company data, Banham Research



Source: Company, Banham Research

Quarterly	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)
Interest Earned	8158	6309	29%	7619	7%
Interest Expended	5651	4105	38%	5208	9%
<b>NII</b>	<b>2506</b>	<b>2204</b>	<b>14%</b>	<b>2411</b>	<b>4%</b>
Other Income	1740	1578	10%	1643	6%
Operating Expenses	1892	1570	20%	1820	4%
<b>PPOP</b>	<b>2354</b>	<b>2212</b>	<b>6%</b>	<b>2234</b>	<b>5%</b>
Provisions and Contingencies	319	641	-50%	454	-30%
PBT	2035	1571	30%	1780	14%
Tax	532	335	59%	448	19%
<b>Profit After Tax</b>	<b>1503</b>	<b>1236</b>	<b>21.59</b>	<b>1332</b>	<b>13%</b>
% of Net NPAs	0.93%	1.62%	(69)bps	1.04%	(11)bps
% of Gross NPAs	4.14%	5.03%	(89)bps	4.36%	(22)bps
Provisions Coverage%	78.2%	69%		76.90%	
<b>CASA%</b>	<b>42.1</b>	<b>44</b>		<b>41.9</b>	

Source: Company, Banham Research

<b>P&amp;L</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Interest Earned	31093	25707	25974	34224	39652
Interest Expended	22726	17593	16957	23695	27237
<b>NII</b>	<b>8367</b>	<b>8114</b>	<b>9017</b>	<b>10529</b>	<b>12415</b>
Other Income	7604	7478	6648	6980	7678
Operating Income	15970	15592	15665	17509	20093
Operating Expenses	7045	5860	6617	7742	8904
PPOP	8925	9732	9048	9767	11190
<b>Provisions and Contingencies</b>	<b>3808</b>	<b>4387</b>	<b>2287</b>	<b>2091</b>	<b>2436</b>
PBT	5117	5345	6761	7676	8754
<b>PAT</b>	<b>3758</b>	<b>4025</b>	<b>5151</b>	<b>5834</b>	<b>6653</b>

<b>Balance Sheet</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
<b>Liabilities</b>					
Share Capital	1113	1115	1152	1152	1152
Reserves & Surplus	48420	50503	53939	57829	62409
Networth	49533	51618	55091	58981	63561
Deposits	218348	202017	225602	268467	316790
Borrowings	93155	94264	109554	136943	156302
Other Liabilities	18265	15501	15986	13429	12354
<b>Total Liabilities</b>	<b>379301</b>	<b>363400</b>	<b>406234</b>	<b>477819</b>	<b>549008</b>
<b>Assets</b>					
Cash & Balance with RBI	17536	27514	20907	26607	25213
Balances with banks and money at call	12430	11359	13183	15095	17401
Investments	103058	120893	134686	155966	179109
Advances	218311	181206	216366	256394	302544
Net Block	3802	3213	4744	5860	6890
Other Assets	24164	19215	16347	17897	17851
<b>Total Assets</b>	<b>379301</b>	<b>363400</b>	<b>406234</b>	<b>477819</b>	<b>549008</b>

<b>Growth Rates</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Advances	-3%	-17%	19%	19%	18%
Deposits	-11%	-7%	12%	19%	18%
NII	15%	-3%	11%	17%	18%
Opex	-14%	-17%	13%	17%	15%
PPOP	12%	9%	-7%	8%	15%
PAT	-10%	7%	28%	13%	14%

Margin Ratios	FY09	FY10	FY11	FY12	FY13
Yield on Advances	10.1%	8.7%	8.3%	9.0%	8.9%
Avg. Yield on Interest Bearing Assets	9.3%	8.0%	7.7%	8.4%	8.3%
Cost of Deposits	6.8%	5.5%	4.7%	5.9%	5.7%
Avg. Cost of funds	7.1%	5.8%	5.5%	6.5%	6.3%
Spread	2.2%	2.2%	2.2%	1.9%	2.1%
NIMs(calc)	2.3%	2.3%	2.5%	2.5%	2.5%
NIM reported	2.4%	2.5%	2.6%		

Return Ratios	FY09	FY10	FY11	FY12	FY13
ROE	7.8%	8.0%	9.7%	10.2%	10.9%
ROA	1.0%	1.1%	1.3%	1.3%	1.3%

Asset Quality Ratios	FY09	FY10	FY11	FY12	FY13
GNPA (%)	4.4%	5.2%	4.6%	4.1%	4.2%
NNPA (%)	2.1%	2.1%	1.1%	1.0%	0.9%
Slippage Ratio	2.3%	2.3%	1.4%	1.2%	1.1%
PCR	53%	59%	76%	76%	76%
Credit Costs	1.7%	2.2%	1.0%	0.8%	0.8%

Liquidity& Capitalization Ratios	FY09	FY10	FY11	FY12	FY13
C/D Ratio	100%	90%	96%	96%	96%
Incremental C/D Ratio	28%	227%	149%	93%	96%
Investment/ Deposit Ratio	47%	60%	60%	58%	57%
CRAR	15.53%	19.41%	19.54%	19.40%	19.30%
Tier I	11.84%	13.96%	13.17%	13.10%	13.00%

## Analyst:

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 91 22 421 20 934

## RATINGS

Buy	Accumulate	Neutral	Reduce	Sell
>15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

## Research:

Vikas Salunkhe	Technical	91 22 421 20 935
Swati Hotkar	Technical	91 22 421 20 938
Hedley Albuquerque	Fundamental	91 22 421 20 934

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