

ICICI Bank Result Synopsis**BUY****CMP: Rs.954****Target: Rs.1080**

PAT up 36% YoY driven by robust NII, NIMs stable. Fee income sluggish, CASA deteriorates, Restructured book declines on sale of KFA loan

ICICI bank witnessed robust PAT growth of 36% to Rs.1815cr, ahead of estimates on account of strong NII, deceleration in opex and flat provisions. Net interest income witnessed robust growth of 32%YoY to Rs.3193cr driven by robust advances growth at higher yields and stable cost of funds. Net interest margins improved 40bps YoY to 3.01% but flat QoQ. Non-interest income grew 14% driven by dividend income from subsidiaries, while fee income grew mere 4% YoY. ICICIBK witnessed higher gross slippages during the quarter, however as a percentage of loan book, NPAs declined marginally QoQ. Restructured book contracted (-2%) sequentially due to sale of KFA restructured loan during the quarter. Management remains confident of asset quality and expects credit costs to remain less than 75bps for the full year.

ICICI Bank currently trading 1.5x FY14e ABV which is a discount to 3yr Avg. of 1.8x-1yr fwd ABV. We have a SOTP target price of Rs.1080. **BUY**

Advances grew 22% driven by corporate loan book

ICICIBK witnessed strong credit growth, with advances growing 22% to Rs.2684.3bn, significantly higher than industry growth of 17%. Corporate loans which account for 25% of loan book grew 28.3%YoY driven by working capital demand and higher disbursement from earlier sanctions. Retail loans grew 10.3%YoY with mortgage, auto loans growing 9% and 20% respectively. The management expects retail book to grow 15-20% while corporate loan book to grow 20% during the year.

Deposits grow 16%YoY, CASA base driven by SA deposits, CASA ratio deteriorates

Deposits grew 16% YoY to Rs.2677.94bn on account of strong 19% growth in term deposits. SA deposits witnessed healthy traction growing 17% however the CA deposits remained sluggish, growing modest 3%. CASA consequently deteriorated to 40.6% vs. 43.5% and 41.9% in Q412 and Q112 respectively. Average CASA remained within comfort band of 38-40% at 39.1%.

Opex rises but C/I stable

Operating expense grew 17%YoY however the cost to income improved to 41.9% from 44.9% last year. Opex declined QoQ due to the provision for bonus in Q412. ICICI added mere 3 branches during the quarter, aiding C/I ratio. The cost to asset ratio remained stable at 1.8%. The bank expects to open 200-250 branches during FY13.

Asset quality stable, restructured assets dip on KFA loan sale

ICICIBK gross NPAs rose to Rs.9816.6cr compared to Rs.9475.3cr in Q412. Slippages grew during the quarter at Rs. 868 cr compared to Rs. 635 cr seen in Q412, resulting in deterioration in slippage ratio to 1.3% vs. 1.02% in Q412. Gross NPAs ratio improved to 3.54% versus 3.62% in Q412 while Net NPA ratio improved to 0.71% vs. 0.73% in Q412. ICICIBK gross added Rs.353cr to restructured book but sale of Kingfisher loan resulted in overall restructured book declining to Rs.4172cr vs. Rs.4256cr seen in Mar-12. The management expects further restructuring to remain minimal and exposure to current CDR references are insignificant.

Other Income improves on dividend income, fee income weak

Other Income recorded a rise of 14%YoY to Rs.1879.92cr which has come on account of maiden dividend received from ICICI Bank Canada (Rs.133cr) and from ICICI Prudential Life (Rs.75cr). Fee income stream remained sluggish, as corporate banking fee income remains impacted by slowdown in new projects/financial closures. Fee Income grew 4% to Rs.1647cr. However fee income from forex/derivatives, transaction banking, remittances continue to witness traction. Treasury reported loss of Rs.21cr compared to loss of Rs.25cr last year driven by loss on security receipts (Rs.100cr) and equity investments, partly offset by gains from fixed income portfolio and proprietary trading.

Net Profit surges 36%YoY

ICICIBK Q113 bottom-line grew 36% to Rs.1815cr on the back of robust growth in PPOP (+32%) and augmented by marginal increase in provision. During the quarter provisions rose 3% YoY to Rs.466cr on account of lower provisions on restructured assets while partly offset by higher provisions on standard assets on incremental lending.

Quarterly	Jun-12	Jun-11	YoY (%)	Mar-12	QoQ (%)
Interest Earned	9546	7619	25%	9175	4%
Interest Expended	6353	5208	22%	6070	5%
NII	3193	2411	32%	3105	3%
Other Income	1880	1643	14%	2228	-16%
Operating Expenses	2124	1820	17%	2222	-4%
PPOP	2949	2234	32%	3112	-5%
Provisions and Contingencies	466	454	3%	469	-1%
PBT	2483	1780	40%	2642	-6%
Tax	668	448	49%	741	-10%
Profit After Tax	1815	1332	36%	1902	-5%
% of Net NPAs	0.71%	1.04%	(33)bps	0.73%	(2)bps
% of Gross NPAs	3.54%	4.36%	(82)bps	3.62%	(8)bps
Provisions Coverage%	80.6%	76.9%		80.4%	
Capital Adequacy Ratio	18.54%	19.57%		18.52%	
CASA%	40.6%	41.90%		43.50%	

Source: Company, Banham Research

Loan Book Profile:

ICICIBK witnessed advances growth of 22% to Rs.2684bn driven by domestic corporate loan book and SME advances which together account for 30% of loan book. Domestic loan book grew 17.2%YoY. International loan book grew 34.6%YoY largely on account of the currency impact, excluding which the growth was 8.1%YoY.

Corporate advances grew 28.3% to Rs.671.07bn powered by working capital demand and disbursements from previous sanctions. ICICIBK expects corporate loan book to grow 20%+ during the year. **SME loans grew 28.9%YoY** to Rs.142.27bn. These two segments were instrumental in driving the domestic loan growth of 17.2%. Rural loan share of total advances declined 110bps QoQ due to annual spike seen in Q4 as the bank attempts to meet the PSL requirement. Rural loan book stood at Rs.206.69bn (-7.4%QoQ).

Retail loans which account for 34% of total advances grew 10.3%YoY to Rs.912.7bn. Vehicle loans witnessed the most traction, growing 20%YoY driven by Commercial business loans(22%YoY) and Auto loans(17%YoY). Home loans which account for 64% of retail loan book grew 9%. Other secured loans which account for 2.6% of retail loans grew 15%YoY.

The unsecured loans witnessed a marginal uptick QoQ however the bank said it remains cautious on the segment and prefers to lend only to existing customers. Unsecured loan share stands at 3.9% vs. 5.6% last year. The bank has successfully pared down its personal loan book, with outstanding declining 49% YoY (+1.2%QoQ) to Rs.10.03bn. The other component, credit card loans have dropped 4%YoY (+1.2%QoQ) to Rs.25.54bn.

Deposits Profile:

ICICIBK reported deposit growth of 16%YoY to Rs.2678bn driven by term and savings deposit. Term deposits grew 19% YoY to Rs.1591.17bn.

CA deposits grew 3% YoY while declined 12% on a QoQ basis. The sequential drop is in line with industry peers. SA deposits witnessed healthy traction growing 17% YoY and 2%QoQ to Rs.779.23bn. CASA deposits grew 12%YoY however dropped 2%QoQ. Term deposits grew 19%YoY and 10%QoQ resulting in CASA ratio declining to 40.6% vs. 43.5% and 41.9% seen in Q412 and Q112 respectively

NIMs stable - a positive

Net interest income witnessed a robust growth of 32%YoY to Rs.3193cr driven by robust advances growth at higher yields and stable cost of funds. Net interest margins grew 40bps YoY to 3.01%, flat QoQ. NIM on domestic business was at 3.32% vs. 3.31% in Q412 while NIMs on the international business improved 8 bps QoQ to 1.60% on account of re-pricing of some assets. ICICIBK did well on sustaining NIMs sequentially despite the full impact priority sector loans given and bulk deposits garnered during Q412 besides the sharp decline in CA deposits in the quarter (Q113).

Asset Quality ratios improve, restructured portfolio declines on KFA loan sell down

ICICIBK gross NPAs rose to Rs.9816.6cr compared to Rs.9475.3cr in Q412. Slippages grew during the quarter, at Rs. 868 cr compared to Rs. 635 cr seen in Q412, resulting in deterioration in slippage ratio to 1.3% vs. 1.02% in Q412. Gross NPAs ratio improved to 3.54% versus 3.62% in Q412 while Net NPA ratio improved to 0.71% vs. 0.73% in Q412. PCR rose to 80.6% vs. 80.4% in Q412. Provisions grew 3%YoY to Rs.466cr

Restructured portfolio declined to Rs.4172cr primarily on account of sell down of KFA restructured loan asset. Restructured assets now account for 1.6% of advances vs. 1.7% at the end of Mar-12.

ICICIBK has mentioned that its CDR pipeline remains insignificant and bulk of its restructuring has been completed.

Subsidiary performance

ICICI Life reported PAT of Rs.349cr compared to Rs.339cr in Q112. ICICI Life market share stood at 5.3%. APE during Q113 grew 28.7% to Rs.570cr.

ICICI General reported profit after tax of Rs.83cr vs. Rs.40cr in Q112. ICICI General had absorbed the additional impact of Rs.685cr due to dismantling of third party pool during FY12. The management expects ICICI General to be profitable in FY13.

ICICIBK UK continued to consolidate its balance sheet. Total assets as on June 12 have declined to USD3.9bn from USD 6.0 bn in Q112. ICICIBK UK Profit after tax of USD 4.4 mn in Q113 compared to USD 5.0 mn in Q112.

ICICI BK Canada reported Q113 PAT at CAD 11.9mn compared to CAD 12.3 mn in Q112 as per IFRS financials. Total assets for the bank were CAD 5.3bn compared to CAD5.1bn reported in Q112.

The international subsidiaries remain over-capitalized with capital adequacy ratio at 34.1% and 31.8% for UK and Canada respectively. The bank received its maiden dividend from ICICI Bank Canada of Rs.133cr during the quarter.

PAT(Rs.cr)	Q112	Q113
ICICI Home Finance	70	49
ICICI Securities	10	12
ICICI Securities PD	23	33
ICICI Venture	5	6
ICICI Prudential Asset Management	25	28

Consolidated Q113 PAT grew 24.6%YoY to Rs.2077cr. Consolidated RoE has improved to 13.3% in Q113 versus 12.0% in Q112.

View:

ICICI Bank strong performance in Q113 is driven by robust NII (+32%YoY), which reiterates our confidence of strong core performance. Though the weak fee income is a disappointment, the management remains confident of the sustained traction in granular fee income streams such as forex & derivative fees, transaction banking, remittance and retail assets. ICICI Bank has delivered its second consecutive quarter of 30%-plus bottom-line growth on the back of robust NII growth.

ICICI did well in sustaining NIMs on sequential basis despite the fall in share of low cost deposits. The sustained traction in saving deposit base is huge positive and would aid NIMs going forward. Avg. CASA at 39.1% remains well within the guided band of 38-40%. International NIMs improved to 1.6% vs. 1.52 in Q412 due to repricing of some assets. The management expects NIMs to be stable hereon and expects to achieve NIMs of 3% in FY13 compared to 2.73% in FY12. We expect the advances and deposits to grow 18%CAGR over FY12-14e.

The bank remains focused on driving retail loans while past sanctions and working capital demand is expected to drive corporate loan book. The bank continues to shed its unsecured portfolio (-23%YoY) as it strives to improve the quality of loan assets and is seeks to extend the facility primarily to existing customers. The bank has delivered on its objective of delivering healthy profitability as well as improving quality of loan book.

The bank despite the uptick in slippages during the quarter remains fairly confident of sustaining asset quality and keeping credit costs within 75bps for FY13. We have modeled in credit costs of 80bps and 75bps for FY13/14 respectively. The management expects further restructuring to remain minimal and exposure to current CDR references are insignificant.

Overall we expect ICICIBK to deliver healthy 19% and 18% growth in NII and PAT over FY12-14e on CAGR basis. We remain extremely positive on ICICIBK given that the management has delivered successfully on its aim to de-risk the balance sheet and has strategically created growth drivers to deliver industry leading growth. The growth drivers are 1) Large low cost deposit base 2) Focus on secured retail portfolio 3) Wide branch network 4) Well capitalized to scale up advances growth. We expect the bank to improve ROAE by 193bps over FY12-14e and expect ROAA to sustain around the 1.5% mark. We have a SOTP target price Rs.1080 wherein we value the standalone bank at Rs. 888(1.8x FY14e ABV*) and value the subsidiaries at Rs.192. Maintain BUY

*BV adj. for NPA and value of investment

ICICI Bank SOTP (FY14e) Valuation	ICICI Stake	Value /shr	Valuation Methodology
ICICI Bank -Standalone	100%	888	P/BV Multiple 1.8x FY14ABV
<i>Subsidiaries</i>			
ICICI Pru Life	74%	102	NBAP margin 16%, 16x FY14NBAP+EV
ICICI General	74%	18	2x FY14 BV
ICICI Bank Canada	100%	37	0.8x FY14 BV
ICICI Bank UK	100%	25	0.8x FY14 BV
ICICI Home Finance	100%	21	1.5x FY14 BV
ICICI Bank AMC	51%	13	4% of FY14AUM
ICICI Primary Dealership	100%	7	1x FY14 BV
ICICI Securities	100%	8	10x FY14 PAT
ICICI Venture	100%	10	12% of AUM
Total Value of Key Subsidiaries		240	
Holding Co. disc		20%	
Value of Key Subsidiaries		192	
Value of Bank		1080	

Quarterly (Rs.cr)	Q113	Q112	YoY
NII	3193	2411	32%
Other Income	1880	1643	14%
Operating Inc	5073	4054	25%
Operating Exp	2124	1820	17%
C/I	41.9%	44.9%	
PPOP	2949	2234	32%
Provisions	466	454	3%
PBT	2483	1780	40%
Tax	668	448	49%
PAT	1815	1332	36%

Asset Quality	Q113	Q412	Q312	Q212	Q112
Gross NPA%	3.54	3.62	3.82	4.14	4.36
Net NPA%	0.39	0.73	0.83	0.93	1.04
PCR%	80.6	80.4	78.9	78.2	76.9
Advances%	22	17	19	20	20
Deposits%	16	13	20	10	15
Business%	19	15	19	15	17
NIMs%	3.01	3.01	2.70	2.61	2.60
CASA%	40.6	43.5	43.6	42.1	41.9

All figures in Rs.cr

Profit & Loss	FY11	FY12	FY13e	FY14e
NII	9016	10734	12829	15179
Other Income	6648	7503	8703	10183
Total Opex	6617	7850	8828	10399
PPOP	9048	10386	12704	14964
Provisions	2287	1583	2413	2648
PBT	6761	8803	10292	12316
Tax	1609	2338	2738	3276
PAT	5151	6465	7554	9040
EPS	44.73	56.08	65.53	78.42

Balance sheet	FY11	FY12	FY13e	FY14e
Sources of Funds				
Share Capital	1152	1152	1152	1152
Reserves & Surplus	53939	59250	64470	70916
Deposits	225602	255500	301490	355758
Borrowings	109554	140165	162591	195110
Other Liabilities	15986	17577	17577	17577
Total Liabilities	406234	473647	547281	640513
Application of Funds				
Cash and Bal with RBI	20907	20461	19438	18466
Bal. with Bks and money at call	13183	15768	18133	19947
Investments	134686	159560	183494	211018
Advances	216366	253728	299399	353290
Net Block	4744	4615	5076	5584
Other Assets	16347.47	19515.39	21740	32208
Total	406234	473647	547281	640513

Key Figures	FY11	FY12	FY13e	FY14e
EPS	44.73	56.08	65.53	78.42
BV	478.3	524.0	569.3	625.2
ABV	457.4	507.8	551.0	602.1
NIMs (reported)	2.6%	2.7%		
NIMs (calculated)	2.5%	2.6%	2.7%	2.7%
GNPA	4.5%	3.6%	3.7%	3.8%
NNPA	1.1%	0.7%	0.7%	0.7%
CAR	19.5%	18.5%	19.0%	18.5%

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RATINGS

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

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