



## Economy News

- ▶ The Prime Ministers of India and Japan have decided to enhance the earlier bilateral currency swap arrangement to \$15 billion from the current \$3 billion. Japan also decided to provide a \$1.7-billion assistance to two projects, including the Delhi Metro. (BL)
- ▶ At the peak of the interest rate rise cycle, the growth in bank advances fell to a 21-month low, according to data released by RBI. High lending rates, coupled with the slowdown in fresh investments and an uncertain economic environment, were the major reasons that capped credit off take. As on December 16, bank advances grew 17.08% annually. This is the lowest rate of growth since March 2010. (BS)
- ▶ RBI on Wednesday has allowed cooperative and primary urban cooperative banks to fix their interest rates on various non-resident deposit schemes. (BS)
- ▶ NHAI which is selling bonds to raise Rs. 50bn, received bids for at least Rs. 70bn. It has the option to retain an additional Rs 50bn which is known as a greenshoe option, taking the total size to Rs 100bn. The issue may be closed ahead of its January 11 deadline due to strong demand. (ET)

## Corporate News

- ▶ The petroleum ministry has asked a ministerial panel to decide if **Reliance Industries** can charge a marketing margin over-and-above the government-approved sale price for KG-D 6 gas. The issue of the \$0.135 per mmBtu marketing margin charged by RIL to cover for the risk and cost associated with marketing of gas has been referred to an empowered group of ministers (EGoM) headed by finance minister Pranab Mukherjee. (ET)
- ▶ **DLF** on Wednesday announced that the company and its partner have sold an IT SEZ in Pune to private equity firm Blackstone for Rs 8.1bn, as part of an ongoing programme to divest 'non-core' assets. Crisil has downgraded a slew of DLF debt programmes and terming the outlook "negative". The downgrade might force DLF to accelerate the sell-off of its land banks and other assets in order to deleverage its reduce pile. (BL)
- ▶ The Government will shortly write to **Sterlite**, asking it to submit a formal plan to buy the remaining Government stake in Balco. Sterlite holds 51% in Balco while the remaining 49% is with the Government. (BL)
- ▶ **TVS Motor** has announced the development of the new technology engine termed TVS Automatic Transmission. It is 20% more fuel efficient and is usable both in scooters and motorcycles. The company plans to first roll out a scooter with this technology in 2013. (BL)
- ▶ **Reliance Power Ltd** has commenced generation at the first of the two 300 MW units that make up the second phase of the company's Rosa Project in Uttar Pradesh. The Rosa Project, with cumulative capacity of 1200 MW, entails an investment outlay of over Rs 60bn, the company said in a statement. (BL)
- ▶ **Punj Lloyd** has bagged a project worth Rs 10.5bn from GMR Projects Private Ltd. Punj Lloyd will undertake the design and EPC of 124 km of the six-lane Chittorgarh bypass to Udaipur (Rajasthan). It has got the letter of intent from GMR for the project that is scheduled for commissioning in 36 months and has got it on a turnkey fixed EPC price basis. (BL)

### Equity

	28 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	15,728	(0.9)	(1.8)	(5.8)
NIFTY Index	4,706	(0.9)	(2.1)	(6.2)
BANKEX Index	9,304	(2.0)	(6.1)	(15.8)
BSET Index	5,778	(0.1)	5.8	8.2
BSETCG INDEX	8,274	0.3	(14.6)	(23.9)
BSEOIL INDEX	7,848	(1.6)	(2.2)	(8.2)
CNXMcap Index	6,128	(1.0)	(7.9)	(13.9)
BSESMCAP INDEX	5,587	(1.1)	(9.0)	(19.5)
<b>World Indices</b>				
Dow Jones	12,151	(1.1)	5.2	8.9
Nasdaq	2,590	(1.3)	3.0	4.4
FTSE	5,507	(0.1)	3.2	6.0
NIKKEI	8,424	(0.2)	(1.3)	(3.9)
HANGSENG	18,519	(0.6)	0.4	1.7

### Value traded (Rs cr)

	28 Dec 11	% Chg - Day
Cash BSE	1,247	(5.1)
Cash NSE	6,218	10.2
Derivatives	152,971	22.1

### Net inflows (Rs cr)

	27 Dec 11	% Chg	MTD	YTD
FII	364	136.6	405	(3,194)
Mutual Fund	7	(87.4)	463	5,869

### FII open interest (Rs cr)

	27 Dec 11	% Chg
FII Index Futures	13,081	10.7
FII Index Options	45,349	(3.0)
FII Stock Futures	27,172	0.0
FII Stock Options	1,005	1.2

### Advances / Declines (BSE)

	28 Dec 11	A	B	S	Total	% total
Advances	58	827	169	1,054	37	
Declines	144	1,315	206	1,665	59	
Unchanged	2	88	32	122	4	

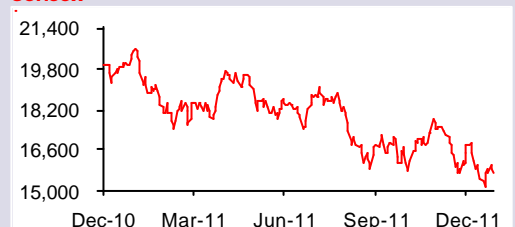
### Commodity

	28 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	99.5	0.2	(0.3)	21.2
Gold (US\$/OZ)	1,562.6	(1.8)	(9.3)	(3.8)
Silver (US\$/OZ)	27.4	(4.8)	(15.7)	(11.4)

### Debt / forex market

	28 Dec 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.49	8.53	8.87	8.40
Re/US\$	53.1	53.0	52.0	48.8

### Sensex



**MANAGEMENT MEET UPDATE****Saday Sinha**saday.sinha@kotak.com  
+91 22 6621 6312**ICICI BANK****PRICE: Rs.697****TARGET PRICE: Rs.1089****RECOMMENDATION: BUY****FY13E P/E: 11.2x, P/ABV: 1.3x**

- We recently met with the management and found their tone to be more of 'cautious optimism'. They indicated that loan growth for FY12 is likely to be in the range of 17-18%, while next year (FY13) could be even more subdued (in the range of 15-16%). They have also indicated that focus on asset quality and NIM would continue, going forward.
- Strong liability franchise is key to the likely improvement in its future NIM beside some kicker coming from the run-off of ~Rs.4.0 bn (FY12) worth of credit losses on securitized book being booked under the interest income line. We are modeling blended NIM to come at 2.66%/2.73% during FY12/13, after factoring in interest paid on saving deposits to be 4.50% during FY13 (hike of 50 bps from current level).
- Exposure to power sector (~Rs.98 bn; ~4.4% of advances in FY11) remains a concern; however, high exposure to retail (~35%) and low exposure to SME (~4.7%) provides some relative comfort. We are also less worried on CRE (commercial real estate) book where exposure stands at ~Rs.250 bn (FY11) but encompasses lower risk as LTV is high (~2x cover).
- International book has well matched ALM; during next 3-4 months of FY12, overseas branches have ~\$1.25 bn of forex liability maturing while they carry ~\$900 mn of B/S liquidity and expect another ~\$500 mn to be generated from asset maturity. Similarly, they have guided that ~\$2.4 bn liquidity from asset maturity will largely match the ~\$2.5 bn liability maturity coming during FY13.
- Management has once again maintained their earlier guidance of subdued performance (7-8% YoY growth) on fee-based income front on back of limited corporate investment activity and meek performance of retail loan growth. On the concern arising out of off-B/S items, they tried to allay our concern by pointing to the fact that out of total guarantee, ~70% is towards performance guarantee and rest ~30% is towards financial guarantee.
- Focus on CASA, NIM and asset quality is likely to continue, in our view; management focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock. We reiterate BUY on the stock with the revised TP of Rs.1089 (SOTP method), where the value of its standalone business comes to Rs.865 (1.6x FY13E ABV) and the value of subsidiaries at Rs.224 (holding company discount: 20% to the fair value of its subsidiaries at Rs.280).

**Management tone was of 'cautious optimism'; focus continues to remain on asset quality and margins.**

We recently met with the management and found their tone to be more of 'cautious optimism'. They indicated that loan growth for FY12 is likely to be in the range of 17-18%, while next year (FY13) could be even more subdued (in the range of 15-16%).

While retail book is likely to grow in the early teens, corporate book will track the overall system trends with more focus on working capital loans. Although recent rupee depreciation will inflate the overseas book in INR term, the recent surge in funding costs (May 2011: LIBOR+250bps; Recent: LIBOR+470bps) could definitely act as a dampener to overseas loan growth.

They have also indicated that focus on asset quality and NIM would continue, going forward. After successfully executing the 4Cs strategy (CASA, Cost optimization, Credit quality and Capital conservation) earlier, bank has now adopted the 5Cs strategy (Credit growth, CASA, Cost optimization, Credit quality and Customer service). We believe profitable growth would remain the centre-stage for the bank. We have moderated the loan growth assumption for FY12/13 to 16.8%/16.3%, respectively as against ~18% earlier, during the same period.

### Trend in loan book

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2 FY12
<b>Advances (bn)</b>	<b>1,843.8</b>	<b>1,942.0</b>	<b>2,066.9</b>	<b>2,163.7</b>	<b>2,206.9</b>	<b>2,339.5</b>
Retail including CV	763	781	790	837	827	819
Corporate & Project Finance	443	542	620	565	633	676
Agriculture	166	132	153	210	188	175
International	451	487	504	552	558	669

Source: Company

### Strong liability franchise is key to the likely improvement in its future NIM

The bank has been focusing on improving its funding mix by increasing the share of CASA mix (low cost deposits). This has improved sharply over the last few years (28.7% at the end of FY09 to 41.7% at the end of FY10 and further to 45.1% at the end of FY11) and now stands at ~42% at the end of Q2FY12.

### Trend in Deposit growth

	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12
<b>Deposits (bn)</b>	<b>2,230.9</b>	<b>2,177.5</b>	<b>2,256.0</b>	<b>2,306.8</b>	<b>2,450.9</b>
Saving deposits	632.5	645.8	668.7	668.6	701.5
Current deposits	348.6	316.2	347.8	297.8	330.0
CASA (Low Cost Deposits)	981.1	962.0	1,016.5	966.4	1,031.5
Term deposits	1,249.9	1,215.5	1,239.6	1,340.4	1,419.5
<b>CASA (%)</b>	<b>44.0</b>	<b>44.2</b>	<b>45.1</b>	<b>41.9</b>	<b>42.1</b>

Source: Company

Management has guided that domestic NIM would sustain at the current level during FY12 but is likely to witness some improvement during FY13 as ~Rs.4.0 bn worth of credit losses on securitized book which are booked under the interest income line would run-off from next year (i.e. FY13 onwards).

On the international book NIM, they have maintained their guidance at ~1.2% as against the current NIM at ~1.1%. We are modeling blended NIM to come at 2.66%/2.73% during FY12/13, after factoring in interest paid on saving deposits to be 4.50% during FY13 (hike of 50 bps from current level).

**Exposure to power sector (~4.4% of advances in FY11) remains a concern; however, high exposure to retail (~35%) and low exposure to SME (~4.7%) provides some relative comfort.**

Exposure to power sector (~Rs.98 bn; ~4.4% of advances in FY11) remains a concern; however, high exposure to retail (~35%) and low exposure to SME (~4.7%) provides some relative comfort. We are also less worried on CRE (commercial real estate) book where exposure stands at ~Rs.250 bn (FY11) but encompasses lower risk as LTV is high (~2x cover).

In power sector, they don't have any major exposure to UMPP or gas based power projects. Their ~50% exposure is towards projects under implementation and also their ~50% of projects have access to captive coal. Management also tried to assuage our concern by stating the result of the stress test done with the assumption of 20-30% of coal shortage, where borrower's DSCR still remains above one. They further said that there has been no perceptible change during last 2-3 quarters on the power book.

Out of ~Rs.320 bn loans referred to CDR during H1FY12, ICICI bank's exposure has been ~Rs.11 bn and we believe this could be restructured during H2FY12. One major account is GTL where exposure is ~Rs.6.5 bn including ~Rs.2.0 bn equity exposure.

On Kingfisher exposure (~Rs.6.0 bn including ~Rs.1.7 bn of equity), its interests are partially protected with the guarantees on group companies of promoters. Going forward, we could see some restructuring on other stressed sectors as well e.g. Infrastructure segments other than power (exposure: 5.8%), Mining (1.9%), Construction (1.6%) and textiles (0.9%).

**Lower risk on overseas book with well matched ALM; concern of rise in CDS spread is overblown**

Management has assuaged our concern on international book by pointing to well matched ALM. They have indicated that during next 3-4 months of FY12, overseas branches have ~\$1.25 bn of forex liability maturing while they carry ~\$900 mn of B/S liquidity and expect another ~\$500 mn to be generated from asset maturity. Similarly, they have guided that ~\$2.4 bn liquidity from asset maturity will largely match the ~\$2.5 bn liability maturity coming during FY13.

Market has also been concerned about the rise in CDS spread (albeit with very thin volume!!) in recent times which increased from LIBOR+250bps during May 2011 to LIBOR+470bps during recent times. They argued that this could not impact them unless they are borrowing from the market. The biggest challenge could be in terms of its impact on the overseas loan growth; the interest risk is manageable as they have well matched ALM.

**Management maintains 7-8% growth guidance on fee income; they also point to lower risk arising from off-B/S items.**

Management has once again maintained their earlier guidance of subdued performance (7-8% YoY growth) on fee-based income front on back of limited corporate investment activity and meek performance of retail loan growth. They also agreed that recent RBI norm on forex trading could impact their forex income but did not quantify the impact on the same.

On the concern arising out of off-B/S items, they tried to allay our concern by pointing to the fact that out of total guarantee, ~70% is towards performance guarantee and rest ~30% is towards financial guarantee. They are also confident of the quality of the guaranteed portfolio and many are even rated higher than the funded exposure.

## Valuation and Recommendation

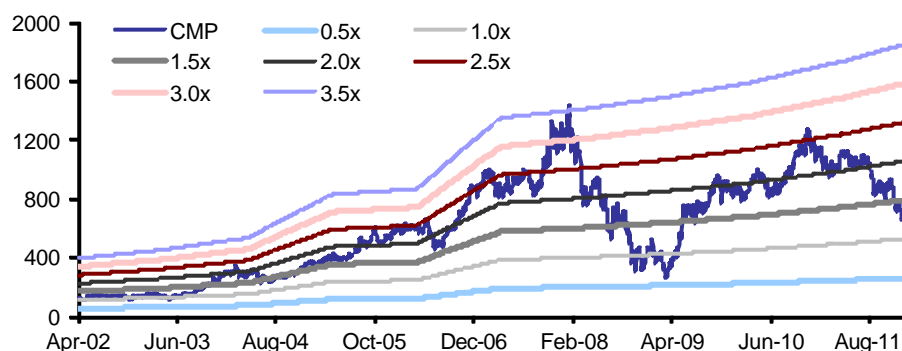
At the current market price of Rs.697, the stock is trading at 11.2x its FY13E earnings and 1.3x its FY13E ABV. We are modeling earnings to grow 18.2% CAGR during FY11-13E. We expect bank to focus on liability franchise (CASA mix) and profitability (RoA; RoE will improve with increase in leverage in next 2-3 years); loan growth target would track the deposit mobilization with CASA share being maintained at ~40%.

### Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	1.60	FY13	865
Overseas Banking Subsidiaries	ABV	1.50	FY13	61
Life Insurance Business	NBAP	12	FY13	158
ICICI Securities	PAT	12	FY13	14
Asset Management	AUM	5%	FY13	23
Private Equity	AUM	10%	FY13	21
Non Life Insurance	PAT	12	FY13	4
<b>Total Value of subsidiaries</b>				<b>280</b>
20% discounted value				224
<b>Total Value</b>				<b>1,089</b>

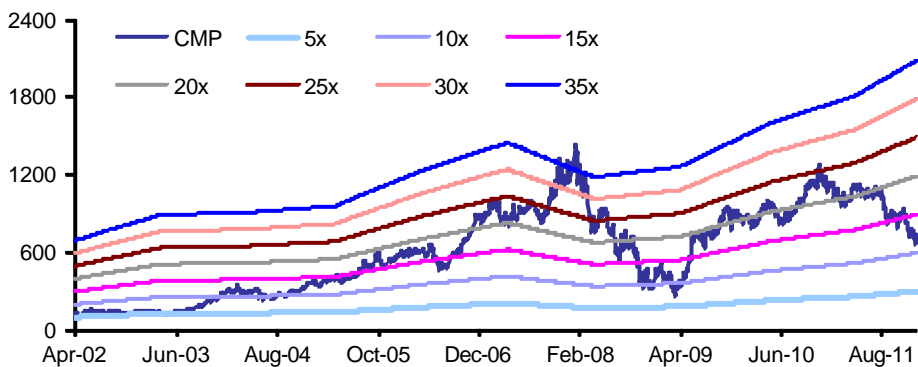
Source: Kotak Securities - Private Client Research

### Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

### Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

Low return ratios have been the primary reason for relatively lower valuation for the stock. RoA is likely to improve from 1.0% in FY09 to 1.5% in FY13E. Although, slower B/S growth could marginally delay the leveraging up process, it is expected to inch-up closer to its peers, and hence driving lower discount vis-à-vis its peers.

Focus on CASA, NIM and asset quality is likely to continue, in our view; management focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock.

**We reiterate BUY on ICICI Bank with a revised price target of Rs.1089**

We reiterate **BUY** on the stock with the revised TP of Rs.1089 (SOTP method), where the value of its standalone business comes to Rs.865 (1.6x FY13E ABV) and the value of subsidiaries at Rs.224 (holding company discount: 20% to the fair value of its subsidiaries at Rs.280).

#### Key data

(Rs bn)	FY10	FY11	FY12E	FY13E
Interest income	257.07	259.74	325.57	378.06
Interest expense	175.93	169.57	221.34	255.46
<b>Net interest income</b>	<b>81.14</b>	<b>90.17</b>	<b>104.23</b>	<b>122.60</b>
Growth (%)	-3.0	11.1	15.6	17.6
Other income	74.78	66.48	67.90	81.13
Gross profit	97.32	90.48	95.98	114.87
<b>Net profit</b>	<b>40.26</b>	<b>51.52</b>	<b>59.23</b>	<b>71.99</b>
Growth (%)	7.1	28.0	15.0	21.5
Gross NPA (%)	5.2	4.6	4.3	4.0
Net NPA (%)	2.1	1.1	1.0	1.0
Net interest margin (%)	2.5	2.7	2.7	2.7
CAR (%)	19.4	19.5	18.6	17.5
RoE (%)	8.0	9.7	10.3	11.5
RoA (%)	1.1	1.3	1.4	1.5
Dividend per share (Rs.)	12.0	14.0	15.0	15.0
<b>EPS (Rs)</b>	<b>36.1</b>	<b>45.5</b>	<b>51.4</b>	<b>62.5</b>
Adjusted BVPS (Rs)	428.5	457.4	494.9	540.7
<b>P/E (x)</b>	<b>19.3</b>	<b>15.3</b>	<b>13.6</b>	<b>11.2</b>
P/ABV (x)	1.6	1.5	1.4	1.3

Source: Kotak Securities - Private Client Research

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
28-Dec	Amara Raja	Beaver Investment Holdings	B	600,174	200.0
28-Dec	Ashutosh Paper	Ramrajya Projects	B	56,500	168.1
28-Dec	Ashutosh Paper	Sara International Ltd	B	48,800	170.0
28-Dec	Ashutosh Paper	Anita Kumar	B	150,000	170.0
28-Dec	Ashutosh Paper	Salasar Techno Engineering Pvt Ltd	S	242,700	170.0
28-Dec	Borosil Glass	Borosil Glass Works Ltd Buy Back	B	34,400	850.0
28-Dec	Clarus Finance	Ramrajya Projects	B	105,000	63.6
28-Dec	Clarus Finance	Scope Vyapar Pvt Ltd	S	200,000	63.6
28-Dec	Clarus Finance	Overall Vincom Pvt Ltd	S	105,000	63.6
28-Dec	Dhvanil Chem	Narendrasinh Karansinh Rana	B	42,100	28.4
28-Dec	Dhvanil Chem	Rachna Dhirajlal Kyada	S	43,000	28.0
28-Dec	Dinesh Allorga	Rakeshkumar K Patel	B	23,000	51.1
28-Dec	Gujarat Medi	Gold Dust Trading Co	B	202,598	20.3
28-Dec	Gujarat Medi	Indu Jain	S	40,600	20.3
28-Dec	Gujarat Medi	Anil Bhargava	S	30,500	20.3
28-Dec	Gujarat Medi	Anil Bhandari	S	120,000	20.3
28-Dec	Kanchan Intl	Tarachand Moolchand Agrawal	S	24,000	68.0
28-Dec	PFL Infotech	Kasturi Towers Ltd	B	102,120	121.8
28-Dec	PFL Infotech	K D Jag Holdings Pvt Ltd	B	41,000	121.8
28-Dec	PFL Infotech	High Value Traders Pvt Ltd	B	45,000	121.8
28-Dec	PFL Infotech	Vista Food Prooduct Pvt Ltd	B	44,250	121.8
28-Dec	PFL Infotech	P.R.B.Securities Pvt Ltd	B	55,000	121.8
28-Dec	PFL Infotech	Sushila Kavur	B	74,000	121.8
28-Dec	PFL Infotech	Rakesh Kumar Chordia	B	80,000	121.8
28-Dec	PFL Infotech	Kiran Bhiku Bhaaes	S	123,000	121.8
28-Dec	PFL Infotech	Sidharth Ratanlal Bafna	S	45,312	121.8
28-Dec	PFL Infotech	Tripurari Properties Pvt Ltd	S	123,595	121.8
28-Dec	PFL Infotech	Vital Vintrade Pvt Ltd	S	100,000	121.8
28-Dec	PFL Infotech	Appear Commodeal Pvt Ltd	S	50,000	121.8
28-Dec	PFL Infotech	Satyam Retails Pvt Ltd	S	50,000	121.8
28-Dec	Rajeswari Found	Amit Kamal Bhargav	B	25,200	30.3
28-Dec	Rajeswari Found	Pradeep Narendra Bhatt	S	32,300	30.4
28-Dec	Rajvir Inds	Suman Khemka	B	20,000	88.0
28-Dec	Rajvir Inds	Prem Prakash Khemka	S	21,000	88.0
28-Dec	Rama Paper	Pka Projects Pvt.Ltd.	B	70,505	25.5
28-Dec	Rama Paper	Vora Financial Services Pvt Ltd	S	42,836	25.3
28-Dec	Raymed Labs	Mathew Chacko	B	69,000	29.0
28-Dec	Raymed Labs	Ritu Ashish Agarwal	S	40,000	29.0
28-Dec	Smartlink Net	Kamalaksha Rama Naik	B	249,674	52.9
28-Dec	Smartlink Net	Alphaplus Commodities Pvt Ltd	S	167,663	52.8
28-Dec	VMS Inds	Kaushik Shah Shares & Sec. Ltd	B	130,626	26.0
28-Dec	VMS Inds	Tripurari Properties Pvt Ltd	S	90,656	26.0

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Infosys Ltd	2,782	0.8	3.6	0.9
NTPC	161	2.8	1.9	2.1
BHEL	247	2.6	1.7	3.2
<b>Losers</b>				
ICICI Bank	697	(4.0)	(10.9)	3.7
Reliance Ind	739	(1.9)	(7.8)	2.8
ITC	202	(1.5)	(5.3)	3.1

Source: Bloomberg

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