RESULT UPDATE

# ICICI BANK

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India Equity Research| Banking and Financial Services

**ICICI Bank's Q2FY13 PAT of INR19.6bn came ahead of expectations, riding on stable NIMs (against expectation of a decline) and controlled opex. Asset quality performance was steady despite the bank recognizing Deccan Chronicle as NPL (exposure of INR5bn), and providing adequately to the tune of 85%. There is no major addition or pipeline of restructured assets (guided at INR5bn). Core fee income continued to be muted (flat YoY); treasury/dividend income provided support. Despite too much of noise around asset quality, it has been consistently delivering above expectations. It is also strengthening liability as well as asset franchise by adding retail flavor. Maintain 'BUY' with TP of INR 1,230.**

***This report contains Q2/Q1FY13 earnings concall highlights***

### Asset quality stable despite Deccan Chronicle recognition

Gross NPLs were maintained at 3.54% as incremental slippages of INR12.7bn (INR 8.68 bn in Q1FY13) were offset by recoveries/upgrades of INR5.58bn and write-offs of INR5.06bn. Deccan Chronicle exposure of INR5bn was classified as NPL. Despite INR4.25bn of provisioning on this account, the overall LLP was merely INR5.03bn as incremental general provisioning was close to zero and there were some write-backs on retail portfolio (due to recovery in some segments). There were near zero net slippages in retail portfolio. Some stress was witnessed in the SME segment but since it is only 5% of advances, it did not translate into any material impact. Overall restructured pool came off marginally QoQ despite the addition of INR1.29bn due to repayments.

### Outlook and valuations: Marching on; maintain 'BUY'

After delivering stable asset quality performance, the bank is targeting LLP at 75bps. It continues to hold on to the domestic advance growth of 20% (15-20% in retail) and flat-to-negative overseas advances. Cost/income will be sustained closer to 40% and CASA at 38-40%. Led by 18% CAGR in earnings on the back of a 15% loan growth and 2.9% margin, we expect core ROA/core RoE to come in at 1.7%/15%. Adjusting for subsidiaries valuation of INR223 per share, the stock trades at 1.6x (1-year fwd) adj book. Maintain **'BUY/Sector Outperformer**.

**Financials** (INR mn)

| Year to March | Q2FY13 | Q2FY12 | *Growth %* | Q1FY13 | *Growth %* | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|---|---|
| Net int. inc. | 33,712 | 25,064 | *34.5* | 31,929 | *5.6* | 107,342 | 136,973 | 158,056 |
| Net profit | 19,561 | 15,032 | *30.1* | 18,151 | *7.8* | 64,653 | 78,891 | 89,854 |
| B/V per share (INR) | | | | | | 405.8 | 452.4 | 509.0 |
| Diluted EPS (INR) | 17.0 | 13.0 | *30.5* | 15.7 | *8.0* | 56.1 | 68.4 | 77.9 |
| Price/ Book (x) | | | | | | 2.7 | 2.4 | 2.1 |
| Price/ PPOP (x) | | | | | | 12.4 | 9.7 | 8.5 |
| Price/ Earnings (x) | | | | | | 19.2 | 15.8 | 13.8 |

**EDELWEISS 4D RATINGS**

| | |
|---|---|
| **Absolute Rating** | **BUY** |
| Rating Relative to Sector | Outperformer |
| Risk Rating Relative to Sector | Low |
| Sector Relative to Market | Overweight |

**MARKET DATA** *(R: ICBK.BO, B: ICICIBC IN)*

| | |
|---|---|
| CMP | : INR 1,078 |
| Target Price | : INR 1,230 |
| 52-week range (INR) | : 1,103 / 641 |
| Share in issue (mn) | : 1,149.5 |
| M cap (INR bn/USD mn) | : 1,240/ 23,138 |
| Avg. Daily Vol.BSE/NSE('000) | : 5,074.9 |

**SHARE HOLDING PATTERN (%)**

| | Current | Q1FY13 | Q4FY12 |
|---|---|---|---|
| Promoters * | - | - | - |
| MF's, FI's & BK's | 25.4 | 27.8 | 26.8 |
| FII's | 36.4 | 34.8 | 35.8 |
| others | 38.2 | 37.4 | 37.4 |

** Promoters pledged shares (% of share in issue) : NIL*

**PRICE PERFORMANCE (%)**

| | Stock | Nifty | EW Banks and Financial Services Index |
|---|---|---|---|
| 1 month | 1.4 | (0.0) | 10.6 |
| 3 months | 18.3 | 11.2 | 4.7 |
| 12 months | 24.1 | 12.7 | 22.7 |

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October 26, 2012

## Domestic NIMs see an uptick; international NIMs dip

Against anticipation of some decline in margin, overall NIMs were sustained at 3%. International NIMs actually declined from 1.6% in Q1FY13 to 1.22% in Q2FY13 due to excess liquidity and upfront booking of bond issuance expenses which had an impact of 15 bps on international NIMs. Domestic NIMs, however, improved to 3.43% from 3.32% in Q1FY13. The management maintained its guidance of achieveing 3% NIMs on an average for FY13, though there could be some volatility in quarterly NIMs. International NIMs on a steady state basis should stabilize at 1.5%. Run down of securitised pool ensures no further losses.

## Pickup in retail loan growth; corporate loans (adjusted) grow at 27%

ICICI Bank witnessed a balanced growth across various loan segments, growing overall book at 17.6% YoY. Pace of growth in retail book has picked upto 14% (from 10%). Domestic corporate portfolio growth was optically higher at 38%, but it contained an element of chunky interbank lending, adjusting for which, growth would have been 27%. International loans declined QoQ by 5.5% (in USD term, it was almost flat). Managament maintained its guidance of growing domestic loan book at 20% - slightly above the system average of 17-18% with the retail portfolio expected to grow at 15% plus. In corporate segment, incremental lending would be more towards working capital and past sanctions of few project loans. Overseas book is estimated to grow in single digits.

## Average CASA: Drops 160bps to 37.5%; maintains guidance of 38%-40%

Improving ICICI Bank's liability profile is the cornerstone of the management's consolidation strategy. Savings account momentum continued well in Q2FY13 (3.5% QoQ, 15% YoY) but current account balances have been quite volatile during the quarter. Consequently, the average CASA dropped 160 bps to 37.5%. Management has stated that given the expansion (to reach 4,000 branches in next two years) and its strategy to enhance retail share, average CASA could sustain at 38-40%. ICICI Bank intends to open about ~300 branches over the next few quarters.

## Core fee income muted; treasury gains/dividend provide support

Core fee income growth continued to be modest in Q2FY12 as well (flat YoY, up 4% QoQ) due to subdued activity in the corporate space. Management expects the fee income to grow in low double digits on the back of retail driven granular fee. What supported 17% growth in non-interest income was the dividend income of INR0.75bn from life insurance and treasury profits of INR 1.72 bn (proprietary gains and profits in fixed income portfolio). Retail segment contributes 50% to the overall fee income, 10% comes from international/rural business and balance 40% from corporate segment.

## Other highlights

- Tier I stands strong at 12.8%.
- Consolidated profits grew 20% to INR 23.9 bn.
- Life insurance business profits of INR 3.96 bn. APE grew 6% YoY to INR 7.8 bn and NBAP margins were maintained at 15%.

**Table 1: Loan growth clocks 18% growth aided by domestic corporate book**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| Advances (INR Bn) | 2,340 | 2,462 | 2,537 | 2,684 | 2,751 |
| *Growth Y-o-Y* | *20.5* | *19.1* | *17.3* | *21.6* | *17.6* |
| *Growth Q-o-Q (%)* | *6.0* | *5.2* | *3.1* | *5.8* | *2.5* |
| Deposits (INR Bn) | 2,451 | 2,606 | 2,555 | 2,678 | 2,814 |
| *Growth Y-o-Y* | *9.9* | *19.7* | *13.3* | *16.1* | *14.8* |
| *Growth Q-o-Q (%)* | *6.2* | *6.3* | *(2.0)* | *4.8* | *5.1* |
| CD ratio (%) | 95.5 | 94.5 | 99.3 | 100.2 | 97.7 |

**Table 2: Retail loans too gained momentum**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| Retail (INR mn) | 819 | 825 | 901 | 912 | 933 |
| *Growth Q-o-Q (%)* | *(1.0)* | *0.7* | *9.2* | *1.3* | *2.3* |
| International (INR mn) | 669 | 697 | 695 | 752 | 710 |
| *Growth Q-o-Q (%)* | *19.9* | *4.1* | *(0.2)* | *8.1* | *(5.6)* |
| Others (INR mn) | 851 | 940 | 941 | 1,021 | 1,108 |
| *Growth Q-o-Q (%)* | *3.6* | *10.5* | *0.1* | *8.4* | *8.5* |

**Table 3: Gross NPLs stable despite recognition of Deccan Chronicle as NPL**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| Gross NPA (INR mn) | 100,213 | 97,230 | 94,753 | 98,166 | 100,364 |
| *Gross NPA (%)* | *4.1* | *3.8* | *3.6* | *3.5* | *3.5* |
| Net NPA (INR mn) | 21,838 | 20,477 | 18,608 | 19,050 | 21,341 |
| *Net NPA (%)* | *0.9* | *0.8* | *0.7* | *0.7* | *0.8* |
| Provision coverage (%) | 78.2 | 78.9 | 80.4 | 80.6 | 78.7 |

**Table 4: NIMs steady at 3% - domestic NIMs improved 11 bps**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| NIM (rep) | 2.6 | 2.7 | 3.0 | 3.0 | 3.0 |
| Cost of funds (cal) | 6.4 | 6.3 | 6.2 | 6.3 | 6.5 |
| Yield on advances (cal) | 9.5 | 9.5 | 9.8 | 9.9 | 10.1 |

*Source: Company*

**Table 5: Savings momentum continue; current deposits volatile during the quarter**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| Savings (INR bn) | 701 | 735 | 760 | 779 | 806 |
| *Growth Q-o-Q* | *4.9* | *4.8* | *3.5* | *2.5* | *3.5* |
| Current (INR bn) | 330 | 400 | 350 | 308 | 338 |
| *Growth Q-o-Q* | *10.7* | *21.3* | *(12.7)* | *(12.1)* | *9.9* |
| CASA ratio | 42.1 | 43.6 | 43.0 | 40.6 | 40.7 |
| Fixed (INR bn) | 1,419 | 1,471 | 1,445 | 1,591 | 1,670 |
| *Growth Q-o-Q* | *5.9* | *3.6* | *(1.7)* | *10.1* | *5.0* |

**Table 6: Cost-income steady at 41%**

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| Cost-income | 44.6 | 41.6 | 41.7 | 41.9 | 41.0 |
| Opex/assets (RHS) | 1.8 | 1.8 | 2.0 | 1.8 | 1.9 |

*Source: Company*

**Table 7: Subsidiaries profitable** (INR mn)

| | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|
| ICICI Life Insurance | 3,590 | 3,580 | 3,280 | 3,490 | 3,960 |
| ICICI General | 560 | 1,010 | (6,130) | 830 | 1,010 |
| ICICI Securities | 160 | 180 | 330 | 120 | 80 |
| ICICI Securities PD | 170 | 490 | (30) | 330 | 270 |
| ICICI Venture | 30 | 530 | 70 | 60 | 60 |
| ICICI AMC | 200 | 220 | 210 | 280 | 230 |
| ICICI Home Finance | 561 | 670 | 665 | 490 | 534 |

*Source: Company*

**Table 8: SOTP valuation (based on 1-year forward book, earnings, AUMs)**

| | Method | AUMs / earnings/ book (INR mn) | Multiple | Value of business (INR mn) | ICICI Bank's holding | Value of ICICI Bank's interest (INR mn) | Value per share (INR) |
|---|---|---|---|---|---|---|---|
| Bank | Price / adj book | 554,122 | 1.9 | 1,063,914 | 100.0% | 1,063,914 | 923 |
| Banking Subs | Price / adj book | 96,977 | 1.0 | 96,977 | 100.0% | 96,977 | 84 |
| **Subsidiary** | | | | | | | |
| **Home Finance** | Price / adj book | 15,764 | 2.0 | 31,529 | 100.0% | 31,529 | 27 |
| Domestic asset management | % of AUM | 1,155,000 | 5.0% | 57,750 | 51.0% | 29,453 | 26 |
| Venture capital | % of AUM | 150,000 | 10.0% | 15,000 | 100.0% | 15,000 | 13 |
| Securities | Price / Earnings | 1,100 | 15.0 | 16,500 | 100.0% | 16,500 | 14 |
| Life insurance | Appraisal value | 166,336 | 1.5 | 248,599 | 74.0% | 183,963 | 160 |
| General insurance | PE | 1,000 | 12.0 | 12,000 | 74.0% | 8,880 | 8 |
| Other subs | | | | | | | |
| | | | | | | | |
| **Value of subsidiaries** | | | | | | | **248** |
| Value of subs (after 20% holding company discount) | | | | | | | 223 |
| **Total** | | | | | | | **1,230** |

*Source: Edelweiss research*

**Financial snapshot** **(INR mn)**

| Year to March | Q2FY13 | Q2FY12 | *% Change* | Q1FY13 | *% Change* | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|---|---|
| Interest on advances | 68,488 | 53,807 | *27.3* | 64,558 | *6.1* | 221,299 | 272,306 | 301,954 |
| Interest on investments | 27,445 | 23,450 | *17.0* | 27,019 | *1.6* | 96,840 | 107,037 | 110,979 |
| Interest on other resources | 1,488 | 1,153 | *29.1* | 1,236 | *20.4* | 17,287 | 19,054 | 23,128 |
| Interest income | 100,263 | 81,576 | *22.9* | 95,457 | *5.0* | 335,427 | 398,397 | 436,062 |
| Interest exp | 66,551 | 56,512 | *17.8* | 63,527 | *4.8* | 228,085 | 261,424 | 278,006 |
| Net int. inc. (INR mn) | 33,712 | 25,064 | *34.5* | 31,929 | *5.6* | 107,342 | 136,973 | 158,056 |
| Fee income | 18,710 | 18,196 | *2.8* | 19,009 | *(1.6)* | 71,731 | 82,462 | 92,770 |
| Other income | 20,430 | 17,396 | *17.4* | 18,799 | *8.7* | 75,028 | 83,962 | 94,270 |
| Operating expenses | 22,209 | 18,922 | *17.4* | 21,235 | *4.6* | 78,504 | 91,299 | 105,427 |
| Staff expense | 9,659 | 8,427 | *14.6* | 9,870 | *(2.1)* | 35,153 | 42,447 | 51,255 |
| Other opex | 12,550 | 10,495 | *19.6* | 11,365 | *10.4* | 43,352 | 48,852 | 54,173 |
| Pre prov op profit (ppop) | 30,213 | 24,338 | *24.1* | 29,703 | *1.7* | 100,568 | 128,136 | 145,399 |
| Provisions | 5,079 | 3,188 | *59.3* | 4,659 | *9.0* | 15,891 | 23,027 | 25,474 |
| Loan loss provisions | 5,209 | 3,188 | *63.4* | - | | 9,932 | 23,027 | 25,474 |
| Profit before tax | 26,854 | 20,350 | *32.0* | 24,835 | *8.1* | 87,973 | 106,610 | 121,425 |
| Provision for taxes | 7,293 | 5,318 | *37.1* | 6,684 | *9.1* | 23,321 | 27,719 | 31,570 |
| PAT | 19,561 | 15,032 | *30.1* | 18,151 | *7.8* | 64,653 | 78,891 | 89,854 |
| Diluted EPS (INR) | 17.0 | 13.0 | *30.5* | 15.7 | *8.0* | 56.1 | 68.4 | 77.9 |
| NII/GII (%) | 33.6 | 30.7 | | 33.4 | | 32.0 | 34.4 | 36.2 |
| Cost/income (%) | 41.0 | 44.6 | | 41.9 | | 43.0 | 41.3 | 41.8 |
| Provisions / ppop | 16.8 | 13.1 | | 15.7 | | 15.8 | 18.0 | 17.5 |
| Tax rate (%) | 27.2 | 26.1 | | 26.9 | | 26.5 | 26.0 | 26.0 |
| Gross NPA | 100 | 100 | *0.2* | 98 | *2.2* | 95 | 106 | 115 |
| Gross NPA (%) | 3.5 | 4.1 | | 3.5 | | 3.4 | 3.5 | 3.3 |
| Net NPA | 21 | 22 | *(2.3)* | 19 | *12.0* | 19 | 24 | 28 |
| Net NPA (%) | 0.8 | 0.9 | | 0.7 | | 0.7 | 0.8 | 0.8 |
| Provision coverage (%) | 78.7 | 78.2 | | 80.6 | | 80.4 | 77.5 | 75.4 |
| Advances | 2,751 | 2,340 | *17.6* | 2,684 | *2.5* | 2,537 | 2,918 | 3,419 |
| Deposits | 2,814 | 2,451 | *14.8* | 2,678 | *5.1* | 2,555 | 2,938 | 3,438 |
| CD Ratio | 98 | 95 | | 100 | | 99 | 99 | 99 |
| Capital adequacy (%) | 18.3 | 19.0 | | 18.5 | | 17.7 | 18.2 | 17.8 |

## Key takeaways from ICICI Bank's Q2FY13 conference call

- Advance growth 17.6% YoY – **balanced growth witnessed across various loan segments**.
    - Pace of growth in retail book picked up to 14% (from 10%). Corporate/international book grew 21% YoY
    - ***38% growth in domestic corporate portfolio (excluding interbank lending, growth would have been 27%).***
    - International loans declined QoQ by 5.5% (in USD term, it was almost flat).
- Overall NIMs were sustained at 3%
    - ***International NIMs declined from 1.6% in Q1FY13 to 1.22% i***n Q2FY13 due to excess liquidity and upfront expense booking on bond issuance which had impact of 15 bps on international NIMs.
    - Domestic NIMs improved to 3.43% from 3.32% in Q1FY13.
- Average CASA of 37.5% (compared to 39.1% in Q1FY13). ***Savings account momentum continued well but current account balances have been quite volatile during the quarter***.
- Dividend received from ICICI Life of INR 750 mn (ICICI Canada dividend of INR 1.13 bn received in Q1FY13).
- **Asset quality trends**
    - ***Near zero net slippages in retail portfolio***. Some stress SME segment but since its only 5% of advances it doesn't have any material impact at bank level.
    - In corporate segments, it has ***classified Deccan Chronicle exposure of INR 5 bn as NPL and provided 85% on this account.***
    - ***Gross slippages in Q2FY13 were INR 12.68 bn*** (compared to INR 8.68 bn in Q1FY13), recoveries/upgrades were INR 5.58 bn and it has written-off INR 5.06 bn.
    - Provisioning coverage was maintained at 78.2% (compared to 80.6% in Q1FY13).
    - ***Additions to restructuring were INR 1.29 bn.***
- Market share in home loan segment improved from 5-6% to 7-8%. For nominal increase in market share, it will not require to sacrifice either on NIMs or quality. Unsecured loans only for existing liability customers.
- ***Government agency business is not significant as this business is given in a fairly limited way to private banks.*** So if directive is there to take away government business from private bank if they do not meet PSL norms, the impact would be only opportunity loss.

## Outlook

- Domestic ***loan growth estimated at 20%*** - to be slightly above system growth of 17-18%.
    - Retail book to grow at 15% plus
    - In corporate segment more on working capital demand; project loans to be from past sanctions.
    - Overseas book to grow in single digit.
- To add 200-250 branches in this financial year.
- Average CASA ratio of 38-40%.

- Some ***volatility in quarterly NIMs but would endeavor to achieve average of 3% margins for FY13***, International NIMs on steady state basis to be at 1.5%
- ***Cost/income ratio*** at 41-42%
- ***Credit cost to be 75 bps for FY13.***
- Targets ***standalone RoA of 1.7% over 2 years***
- Aims at ***consolidated RoE of 15% (exit run-rate for FY13).***
- No significant losses from securitized receipt portfolio going forward.
- ***Restructuring pipeline of INR 5 bn out of system-wide restructuring of INR 480 bn.***

## Relevant datapoints

- ***Incremental general provisioning close to zero; some write-back on retail portfolio (due to recovery in some segments) cushioned provisioning line item.***
- Life insurance business profits of INR 3.96 bn (more than 30% return on investment for ICICI Bank from this subsidiaries). NBAP margin of 15%.
- Treasury profits of INR 1.72 bn mainly include proprietary gains and profits in fixed income portfolio.
- Retail segment contributes 50% of fee income, 10% international/rural and 40% rural.
- ***Builder loans at 3.0-3.5% of advances.***
- ***Working capital would be 30% of domestic corporate loan book.***
- Power exposure at 7% (50% operating assets and no gas based exposure) and overall infra at 13%.
- ***Retail deposits will account for 70% of total deposits.***

## Key takeaways from ICICI Bank's Q1FY13 conference call

- ***NIMs in domestic business at 3.32% at same level as Q4FY12*** and international NIMs to 1.6% (from 1.52% in Q4FY12).
- ***Slippages in Q1FY13 at INR 8.68 bn (compared to INR 6.35 bn in Q4FY12),*** recoveries at INR 4.05 bn (INR 5.75 bn)and write-offs of INR 1.21 bn (INR 3 bn). Slippages mainly from retail, SME etc.
- No provisioning reversal on restructured loan upgraded during the quarter.
- ***5-6% of cumulative restructuring has till date slipped into NPLs***. It takes assets out of restructured pool after one year of satisfactory performance.
- International book loan growth was 35% (if adjusted for rupee depreciation it would have been 8%).
- Fee income continues to slow in corporate segment.
- ***Received INR 1.13 bn from ICICI Canada (received for full year) and it has also received dividend from ICICI Life of INR 750 mn*** (which was not there in Q1FY12).
- In general insurance business, profits led by increase in gross premium and investment income. Despite third party pool losses, it expects this business to be in profit in FY13.
- Corporate loans, home loans and buyouts to be classified as PSL according to the new guideline. This offsets negative emerging from investments in RIDF on outstanding basis. ***Hence, no disproportionate impact of new guideline on PSL.***
- Current account decline is more an industry phenomenon – as corporates staying away from keeping cash without interest etc.

## Outlook

- Domestic loan growth to be higher than industry – targeted at 20% (retail to be 15-20% depending on market and in corporate segment more on working capital demand; project loans to be from past sanctions). Overseas book to remain stable to negative.
- Average CASA to be 38-40%
- NIMs guidance revised of 3% (from 2.85-2.9%) – internally focusing a lot on margin improvement and efforts visible in Q1FY13 NIMs as it is fully utilizing all the opportunities of refinancing.
- Fee income growth in double digits led by forex, transaction banking, remittances etc.
- Exit run-rate of 15% for consolidated RoE.
- ***Credit cost not to exceed 75 bps.***
- ***No major restructuring pipeline – only small number of cases, nothing substantial.***
- ***To maintain NBAP margins in life insurance business at 15-16%***

## Relevant datapoints

- Losses on security receipts – INR 1 bn.
- Corporate developer loans – 3.5% of the loan book.
- Commercial business is largely commercial vehicle business with some component of construction equipment business. It targets largely MCV segment.
- Overall retail disbursements up 40% YoY. In unsecured segment, lending is being done to existing customers.

## Company Description

Incorporated in 1994, ICICI Bank is India's second largest bank and the largest among private banks with total assets of about INR 4.9tn as of September 2012. The bank has a network of over 2770 branches and over 10,000 ATMs. The bank's focus is on retail lending with retail financing representing 35% of total loans and advances while International and corporate are the new growth drivers. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. Its subsidiaries ICICI venture funds, Pru ICICI AMC, ICICI securities, ICICI prudential, and ICICI Lombard are amongst the leading companies in their respective fields.

## Investment Theme

Despite too much of noise around asset quality, ICICI Bank has been consistently delivery better than expectation. Moreover, it is strengthening liability as well asset franchise adding retail flavor on both the front. There has been structural improvement in NIMs from 2.5-2.6% to 3% levels with management confidently articulating maintaining it at these levels. Management is aiming for 1.7% RoA (standalone)/15% RoE (consol) over the next two years. The bank is targeting LLP at 75bps and cost/income sustaining closer to 40%. It continues to hold on to the domestic advance growth of 20% (15-20% in retail) and flat-to-negative overseas advances. Led by 18% CAGR in earnings on the back of a 15% loan growth and 2.9% margin, we expect core ROA/core RoE to come in at 1.7%/15%.

## Key Risks

Main risks for ICICI is NPA risk due to its low cumulative provisions. With ~40% of retail asset book, it is vulnerable to system-wide deterioration in the quality of retail assets. Moreover, share of non-collateralized assets in retail assets bring in more risk to the bank's balance sheet. Sharp increase in interest rates can affect the margins, as its deposit mix has higher share of bulk deposits

# Financial Statements

**Key Assumptions**

| Year to March | | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|
| **Macro -** | GDP(Y-o-Y %) | 8.4 | 8.4 | 6.5 | 5.8 | 6.5 |
| | Inflation (Avg) | 3.6 | 9.9 | 8.8 | 7.8 | 6.0 |
| | Repo rate (exit rate) | 5.0 | 6.8 | 8.5 | 7.5 | 6.8 |
| | USD/INR (Avg) | 47.4 | 45.6 | 47.9 | 53.5 | 52.0 |
| **Sector -** | Credit growth | 17.0 | 21.5 | 17.1 | 17.0 | 16.0 |
| | Deposit growth | 17.1 | 16.0 | 13.4 | 15.0 | 14.0 |
| | CRR | 5.8 | 6.0 | 4.8 | 4.5 | 4.5 |
| | SLR | 24.0 | 24.0 | 24.0 | 23.0 | 23.0 |
| | G-sec yield | 7.8 | 8.2 | 8.5 | 7.8 | 7.4 |
| **Company -** | Credit growth | (16.3) | 25.8 | 17.5 | 14.3 | 16.3 |
| | Deposit growth | (7.5) | 11.7 | 13.3 | 15.0 | 17.0 |
| | CASA | 41.7 | 45.1 | 43.5 | 43.5 | 43.5 |
| | Slippages | 2.9 | 1.5 | 1.3 | 1.3 | 1.3 |
| | NIMs | 2.3 | 2.5 | 2.6 | 2.9 | 2.9 |

**Income statement** (INR mn)

| Year to March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| Interest income | 257,069 | 259,741 | 335,427 | 398,397 | 436,062 |
| Interest expended | 175,926 | 169,572 | 228,085 | 261,424 | 278,006 |
| Net interest income | 81,144 | 90,169 | 107,342 | 136,973 | 158,056 |
| Non interest income | 74,803 | 66,479 | 75,028 | 83,962 | 94,270 |
| - Fee & forex income | 59,369 | 64,315 | 66,941 | 72,005 | 81,227 |
| - Misc. income | 6,773 | 4,186 | 4,790 | 10,457 | 11,543 |
| - Investment profits | 8,662 | (2,022) | 3,297 | 1,500 | 1,500 |
| Net revenue | 155,947 | 156,648 | 182,369 | 220,935 | 252,326 |
| Operating expense | 58,598 | 66,173 | 78,504 | 91,299 | 105,427 |
| - Employee exp | 19,258 | 28,169 | 35,153 | 42,447 | 51,255 |
| - Other opex | 39,340 | 38,003 | 43,352 | 48,852 | 54,173 |
| Preprovision profit | 97,348 | 90,475 | 103,865 | 129,636 | 146,899 |
| Provisions | 43,925 | 22,898 | 15,891 | 23,027 | 25,474 |
| Loan loss provisions | 43,622 | 19,769 | 9,932 | 23,027 | 25,474 |
| Investment depreciation | - | 2,038 | 4,132 | - | - |
| Profit before tax | 53,423 | 67,577 | 87,973 | 106,610 | 121,425 |
| Provision for tax | 13,173 | 16,063 | 23,321 | 27,719 | 31,570 |
| Profit After Tax | 40,250 | 51,514 | 64,653 | 78,891 | 89,854 |
| Diluted EPS (INR) | 36.1 | 44.7 | 56.1 | 68.4 | 77.9 |
| Dividend per share (INR) | 12.0 | 14.0 | 16.0 | 16.0 | 16.0 |
| Dividend payout (%) | 37.3 | 35.2 | 32.8 | 27.3 | 23.9 |

**Growth ratios (%)**

| Year to March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| NII growth | (3.0) | 11.1 | 19.0 | 27.6 | 15.4 |
| Fees growth | 5.0 | 8.3 | 4.1 | 7.6 | 12.8 |
| Opex growth | (16.8) | 12.9 | 18.6 | 16.3 | 15.5 |
| PPOP growth | 16.1 | 4.3 | 8.7 | 27.4 | 13.5 |
| Provisions growth | 16.3 | (54.7) | (49.8) | 131.8 | 10.6 |
| Net profit | 7.1 | 28.0 | 25.5 | 22.0 | 13.9 |

**Operating ratios**

| Year to March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| Yield on advances | 8.7 | 8.3 | 9.4 | 10.0 | 9.5 |
| Yield on investments | 6.7 | 7.1 | 7.4 | 7.3 | 7.0 |
| Yield on assets | 7.4 | 7.2 | 8.0 | 8.4 | 8.1 |
| Net interest margins | 2.3 | 2.5 | 2.6 | 2.9 | 2.9 |
| Cost of funds | 5.5 | 5.1 | 6.0 | 6.0 | 5.6 |
| Cost of deposits | 5.5 | 4.7 | 5.9 | 5.0 | 4.6 |
| Cost of borrowings | 6.5 | 6.8 | 6.8 | 7.3 | 6.8 |
| Spread | 1.9 | 2.0 | 2.1 | 2.4 | 2.5 |
| Cost-income | 37.6 | 42.2 | 43.0 | 41.3 | 41.8 |
| Tax rate | 24.7 | 23.8 | 26.5 | 26.0 | 26.0 |

**Balance sheet** (INR mn)

| As on 31st March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| Equity capital | 11,149 | 11,518 | 11,528 | 11,528 | 11,528 |
| Reserves & surplus | 505,035 | 539,388 | 592,525 | 649,908 | 718,255 |
| Net worth | 516,184 | 550,906 | 604,052 | 661,436 | 729,782 |
| Sub bonds/pref cap | 308,170 | 367,414 | 379,647 | 384,647 | 389,647 |
| Deposits | 2,020,166 | 2,256,021 | 2,555,000 | 2,937,843 | 3,437,548 |
| Borrowings | 634,466 | 728,132 | 1,022,002 | 1,091,684 | 1,256,322 |
| Other liabilities | 155,012 | 159,864 | 180,045 | 208,852 | 246,445 |
| **Total liabilities** | **3,633,997** | **4,062,337** | **4,740,746** | **5,284,463** | **6,059,745** |
| Loans | 1,812,056 | 2,163,659 | 2,537,277 | 2,918,241 | 3,418,524 |
| Gilts | 685,681 | 641,613 | 873,884 | 926,796 | 1,079,594 |
| Others | 523,247 | 705,247 | 721,716 | 740,651 | 756,364 |
| Cash and equivalents | 388,737 | 340,901 | 362,293 | 420,152 | 485,136 |
| Fixed assets | 32,127 | 47,443 | 46,147 | 47,285 | 47,148 |
| Other Assets | 192,149 | 163,475 | 199,429 | 231,338 | 272,978 |
| **Total assets** | **3,633,997** | **4,062,337** | **4,740,746** | **5,284,463** | **6,059,745** |
| Credit growth | (16.3) | 25.8 | 17.5 | 14.3 | 16.3 |
| Deposit growth | (7.5) | 11.7 | 13.3 | 15.0 | 17.0 |
| EA growth | (2.9) | 13.0 | 16.7 | 11.4 | 14.7 |
| SLR ratio | 25.8 | 21.5 | 24.4 | 23.0 | 23.0 |
| C-D ratio | 97.8 | 108.9 | 112.1 | 111.0 | 109.8 |
| Low-cost deposits | 41.7 | 45.1 | 43.5 | 43.5 | 43.5 |
| Gross NPA ratio | 5.0 | 4.2 | 3.4 | 3.5 | 3.3 |
| Net NPA ratio | 2.1 | 1.1 | 0.7 | 0.8 | 0.8 |
| Provision coverage | 59.5 | 76.0 | 80.4 | 77.5 | 75.4 |
| Incremental slippage | 2.9 | 1.5 | 1.3 | 1.3 | 1.3 |
| Net NPA / Equity | 7.4 | 4.4 | 3.1 | 3.6 | 3.9 |
| Capital adequacy | 19.0 | 17.7 | 18.2 | 17.8 | 17.2 |
| - Tier 1 | 14.1 | 13.2 | 13.4 | 12.9 | 12.4 |
| Book value per share (INR) | 463.0 | 478.3 | 524.0 | 573.8 | 633.1 |

**RoE decomposition (%)**

| Year to March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| Net interest income/assets | 2.3 | 2.5 | 2.6 | 2.9 | 2.9 |
| Fees/Assets | 1.9 | 1.9 | 1.7 | 1.7 | 1.7 |
| Investment profits/Assets | 0.3 | (0.1) | 0.1 | - | - |
| Net revenues/assets | 4.5 | 4.3 | 4.4 | 4.7 | 4.7 |
| Operating expense/assets | (1.7) | (1.8) | (1.9) | (1.9) | (2.0) |
| Provisions/assets | (1.3) | (0.6) | (0.4) | (0.5) | (0.5) |
| Taxes/assets | (0.4) | (0.4) | (0.6) | (0.6) | (0.6) |
| Total costs/assets | (3.3) | (2.9) | (2.8) | (3.0) | (3.0) |
| ROA | 1.2 | 1.4 | 1.5 | 1.7 | 1.7 |
| Equity/assets | 14.6 | 14.7 | 13.8 | 13.3 | 12.9 |
| ROAE (%) | 8.0 | 9.7 | 11.2 | 12.5 | 12.9 |

**Valuation parameters**

| Year to March | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| Diluted EPS (INR) | 36.1 | 44.7 | 56.1 | 68.4 | 77.9 |
| *Y-o-Y growth (%)* | *6.9* | *23.9* | *25.4* | *22.0* | *13.9* |
| Book value per share (INR) | 463.0 | 478.3 | 524.0 | 573.8 | 633.1 |
| Adjusted book value per share (INR) | 319.8 | 356.4 | 405.8 | 452.4 | 509.0 |
| Diluted PE (x) | 29.9 | 24.1 | 19.2 | 15.8 | 13.8 |
| Price/BV (x) | 2.3 | 2.3 | 2.1 | 1.9 | 1.7 |
| Price/ Adj. BV (x) | 3.4 | 3.0 | 2.7 | 2.4 | 2.1 |
| Dividend yield (%) | 1.1 | 1.3 | 1.5 | 1.5 | 1.5 |
| Price to income (x) | 11.4 | 11.7 | 10.8 | 9.5 | 8.5 |

**Peer comparison valuation**

| | | | P/ABV | | ROAE (%) | | P/E (x) | |
|---|---|---|---|---|---|---|---|---|
| | Price | Market Cap (INR bn) | FY13E | FY14E | FY13E | FY14E | FY13E | FY14E |
| **SOE Banks** | | | | | | | | |
| Allahabad | 134 | 67 | 0.7 | 0.6 | 18 | 19 | 3.5 | 2.9 |
| BOB | 763 | 299 | 1.1 | 0.9 | 18 | 19 | 6.3 | 5.0 |
| IOB | 75 | 59 | 0.6 | 0.6 | 12 | 13 | 4.6 | 3.8 |
| OBC | 310 | 90 | 0.9 | 0.7 | 14 | 15 | 5.5 | 4.5 |
| PNB | 749 | 254 | 1.0 | 0.8 | 17 | 18 | 5.1 | 4.2 |
| SBI | 2,173 | 1,458 | 1.3 | 1.2 | 16 | 16 | 9.1 | 7.8 |
| Union | 206 | 114 | 0.9 | 0.8 | 14 | 17 | 6.9 | 5.3 |
| **Private Banks** | | | | | | | | |
| Axis | 1,232 | 511 | 1.9 | 1.6 | 20 | 20 | 10.3 | 7.7 |
| Federal | 489 | 84 | 1.3 | 1.2 | 15 | 16 | 9.3 | 7.5 |
| HDFC Bank | 637 | 1,505 | 4.3 | 3.7 | 20 | 21 | 23.1 | 18.9 |
| ICICI Bank | 1,078 | 1,240 | 1.7 | 1.5 | 12 | 13 | 11.4 | 10.0 |
| IndusInd Bank | 363 | 170 | 3.2 | 2.6 | 20 | 21 | 17.0 | 13.4 |
| ING Vysya | 458 | 69 | 1.6 | 1.4 | 11 | 14 | 11.9 | 10.4 |
| Kotak | 615 | 457 | 3.2 | 2.8 | 15 | 15 | 25.1 | 21.5 |
| South Indian | 22 | 29 | 1.1 | 0.9 | 20 | 19 | 6.1 | 5.0 |
| Yes | 413 | 147 | 2.5 | 2.0 | 24 | 24 | 11.5 | 9.3 |

*Source: Bloomberg, Edelweiss research*

| Company | Absolute reco | Relative reco | Relative risk | Company | Absolute reco | Relative reco | Relative Risk |
|---|---|---|---|---|---|---|---|
| Allahabad Bank | HOLD | SP | M | Axis Bank | BUY | SO | L |
| Bank of Baroda | BUY | SP | M | Federal Bank | BUY | SO | L |
| HDFC | HOLD | SP | L | HDFC Bank | HOLD | SP | L |
| ICICI Bank | BUY | SO | L | Indian Overseas Bank | HOLD | SP | M |
| IndusInd Bank | BUY | SO | L | Infrastructure Development Finance Co Ltd | BUY | SO | L |
| ING Vysya | BUY | SO | L | Karnataka Bank | BUY | SO | M |
| Kotak Mahindra Bank | REDUCE | SU | M | LIC Housing Finance | BUY | SO | M |
| Mahindra & Mahindra Financial Services | BUY | SO | M | Manappuram General Finance | BUY | SO | M |
| Multi Commodity Exchange of India | BUY | SO | M | Muthoot Finance | BUY | SO | M |
| Oriental Bank Of Commerce | BUY | SO | L | Power Finance Corp | BUY | SO | M |
| Punjab National Bank | HOLD | SU | M | Reliance Capital | BUY | SO | M |
| Rural Electrification Corporation | BUY | SO | M | Shriram City Union Finance | BUY | SO | M |
| South Indian Bank | HOLD | SP | M | State Bank of India | BUY | SO | L |
| Union Bank Of India | BUY | SO | M | Yes Bank | BUY | SO | M |

## ABSOLUTE RATING

| Ratings | Expected absolute returns over 12 months |
|---|---|
| Buy | More than 15% |
| Hold | Between 15% and - 5% |
| Reduce | Less than -5% |

## RELATIVE RETURNS RATING

| Ratings | Criteria |
|---|---|
| Sector Outperformer (SO) | Stock return > 1.25 x Sector return |
| Sector Performer (SP) | Stock return > 0.75 x Sector return |
| | Stock return < 1.25 x Sector return |
| Sector Underperformer (SU) | Stock return < 0.75 x Sector return |

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

| Ratings | Criteria |
|---|---|
| Low (L) | Bottom 1/3rd percentile in the sector |
| Medium (M) | Middle 1/3rd percentile in the sector |
| High (H) | Top 1/3rd percentile in the sector |

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

| Ratings | Criteria |
|---|---|
| Overweight (OW) | Sector return > 1.25 x Nifty return |
| Equalweight (EW) | Sector return > 0.75 x Nifty return |
| | Sector return < 1.25 x Nifty return |
| Underweight (UW) | Sector return < 0.75 x Nifty return |

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### *Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services*

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

**Recent Research**

| Date | Company | Title | Price (INR) | Recos |
|---|---|---|---|---|
| 25-Oct-12 | **Oriental Bank of Commerce** | Risk-reward finely poised; *Result Update* | 314 | Buy |
| 25-Oct-12 | **Kotak Mahindra Bank** | Growth moderation to cap RoEs; *Result Update* | 626 | Reduce |
| 23-Oct-12 | **Yes Bank** | Proactive provisions ensure well covered stressed assets; *Result Update* | 399 | Buy |

**Distribution of Ratings / Market Cap**

**Edelweiss Research Coverage Universe**

| | Buy | Hold | Reduce | Total |
|---|---|---|---|---|
| Rating Distribution*<br>* 1 stocks under review | 113 | 53 | 19 | 186 |

| | > 50bn | Between 10bn and 50 bn | < 10bn |
|---|---|---|---|
| Market Cap (INR) | 114 | 58 | 14 |

**Rating Interpretation**

| Rating | Expected to |
|---|---|
| **Buy** | appreciate more than 15% over a 12-month period |
| **Hold** | appreciate up to 15% over a 12-month period |
| **Reduce** | depreciate more than 5% over a 12-month period |

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