

## RESULTS

## REVIEW

## ICICI Bank Ltd.

Core income strong; one off in slippages

HOLD

Analyst

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Nifty: 5,664; Sensex: 18,625

CMP	Rs1,078
Target Price	Rs1,045
Potential Upside/Downside	(3)%

## Key Stock Data

Sector	Banking
Bloomberg / Reuters	ICICIB IN / ICBK.BO
Shares o/s (mn)	1,153
Market cap. (Rs mn)	1,243,252
Market cap. (US\$ mn)	23,212
3-m daily average vol.	402,593

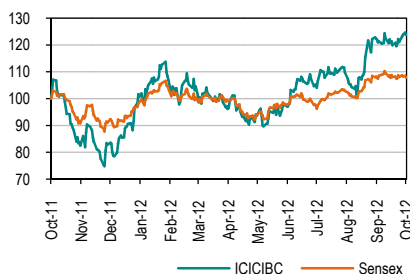
## Price Performance

52-week high/low	Rs1,102/641
	-1m -3m -12m
Absolute (%)	1 19 24
Rel to Sensex (%)	1 7 16

## Shareholding Pattern (%)

Promoters	-
FII/NRI/OCBs/GDR	65.79
MFs/Banks/FIs	25.27
Govt.	0.01
Non Promoter Corporate	3.19
Public & Others	5.75

## Relative to Sensex



## Summary

ICICI Bank Ltd. (ICICIB) reported Net Interest Income (NII) of Rs33.7 bn (IDBlest Rs 32.6 bn), up 34.5% YoY and 5.6% sequentially. Flat overall sequential margin at 3% (IDBlest 2.9%) led to higher than estimated NII. Domestic margin improved 11bps sequentially to 3.43% while overseas margin declined 38bps sequentially. Reduction in cost of funds led by lower term deposits rates led to rise in domestic margin. Sharp fall in overseas margin was largely led by one off bond issue expenses (contributed 15bps). The management has guided 3% overall margin for FY13. Other income grew by 17.4% YoY to Rs20.4 bn. Despite muted fee income growth (0.5% YoY) dividend from ICICI Prudential Life of Rs0.8 bn and treasury income of Rs1.7 bn led growth in other income.

Incremental slippages stood at Rs12.2 bn as against Rs8.7 bn of last quarter. However, better recoveries of Rs5.6 bn and write off of Rs5.1 bn led to flat GNPA ratio sequentially at 3.5%. Higher incremental slippages were on account of one media account of Rs5 bn. Higher slippages led decline in provision coverage ratio to 78.7% as against 80.6% in last quarter. Total restructured assets stood flat QoQ at Rs41.6 bn. Total stress assets (GNPA + Restructured assets) also remain flat at 5.2% of total advances in Q2FY13. RoE stood at 12.2% in Q2FY13 as compared to 11.8% in Q1FY13 and RoA stood at 1.6% for the quarter.

We maintain our earnings estimate at Rs76.5 bn for FY13E and Rs91.1 bn for FY14E. We estimate 19% CAGR in loan book during FY12-14 and stable margin of ~2.6% (calculated). Hence, we estimate 20.3% CAGR growth in NII and 18.7% in PAT during FY12-14. Barring the one off account in media, asset quality stood firm and margins remained constant at 3%. Owing to stable core income growth, we continue to value the standalone book at 1.8x of FY14E P/ABV, thus maintaining our SOTP based price target of Rs1,045. Downgrade to HOLD.

## Key Highlights

- Higher incremental slippages due to one offs

One large account of Rs5 bn led to sequential rise in slippages to Rs12.2 bn as against Rs8.7 bn in last quarter. Barring that, asset quality remained firm with nil incremental slippages in retail portfolio. The bank has made Rs4.3 bn of provision towards that media account. The bank has indicated Rs5 bn of pending restructuring cases in pipeline.

- Advances growth in line with the industry

Advances stood at Rs2,750 bn, up 17.6% YoY and 2.5% sequentially. Growth in loan book came mainly from domestic corporate (38% YoY), agricultural (7% YoY) and SME (28% YoY). Retail grew by 14% YoY largely led by vehicle loan (24% YoY) and home loan (11% YoY).

Table: Financial snapshot

Year-end	NII	PAT	BV	ABV	P/BV	P/ABV	ROA	ROE	CAR	Div. yield	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(Rs)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)
FY11	90.2	51.5	368.2	347.3	2.4	3.1	1.3	9.6	19.5	1.3	4.6	1.1
FY12	107.3	64.7	405.4	389.3	2.2	2.8	1.3	11.1	18.5	1.2	3.7	0.7
FY13E	128.4	76.5	442.9	426.8	2.0	2.5	1.3	12.2	18.3	1.4	3.6	0.6
FY14E	155.4	91.1	487.9	471.7	1.9	2.3	1.3	13.4	17.3	1.7	3.6	0.5

Source: Company; IDBI Capital Research

### ■ Steady insurance subsidiary performance

The Life Insurance subsidiary reported a profit of Rs4 bn in the quarter, as against a profit of Rs3.5 bn in Q2FY12. ICICI Lombard General Insurance Company (ICICI General) PAT stood at Rs1 bn as against Rs0.6 bn of Q2FY12. ICICI General's gross premium income in the quarter increased 16% to Rs15.2 bn from Rs13.1 bn in Q2FY12.

### ■ Outlook and Valuation: Downgrade to HOLD

The bank reported an impressive core operating performance in Q2FY13 due to flat margins and in line industry average loan growth. The bank has maintained its FY12 credit growth guidance of 16%-18% citing subdued economic environment. Further, with stable margin, we estimate 20.3% CAGR in NII and 18.7% CAGR in profits during FY12-FY14. The bank has reported RoE of 12.2% as against 11.8% in Q1FY13. On a standalone basis, the stock is currently trading at 1.9x on our FY14E ABV. We believe that RoE will improve to ~13.4% in FY14E. However, as ROE will remain lower than peers, the bank will continue to trade at discount compared to peers. With improving core banking business and return ratios, ICICIBC is likely to trade at 1.8x of its FY14E ABV of Rs472. Further, we maintain our valuation of life insurance subsidiary at Rs162.4/share due to headwinds on regulation and shrinking NBAP margins. We value the ex-life insurance subsidiary at Rs129/share, taking the total value of subsidiaries at Rs204.6/share (after 30% holding company discount). We maintain our price target at Rs1,045. Downgrade to **HOLD**.

**Table: SOTP Valuation**

Particulars	Value (bn)	Rs. per share	Valuation methodology
ICICI Bank	978.0	849.1	1.8x of FY14E adjusted book value
ICICI UK subsidiary	14.4	12.5	1x of book value
ICICI Canada Subsidiary	26.4	22.9	1x of book value
<b>Value of Banking Business</b>	<b>1,018.8</b>	<b>884.5</b>	
ICICI Prudential Life Insurance	235.0	150.8	15x FY13E NBAP
ICICI Lombard General Insurance	31.1	20.0	10x FY13E Profits
ICICI Asset Management Company	52.6	23.3	5% of Assets under management
ICICI Securities	17.7	16.3	10x FY13E Profits
ICICI Ventures	6.0	5.2	5% of Assets under management
ICICI Home Loan	22.8	19.8	1.0x of FY13E BV
ICICI Securities Primary dealership Ltd.	9.0	8.8	10x FY13E Profits
<b>Value of Non Banking Business</b>	<b>374.1</b>	<b>244.1</b>	
<b>Holding Co. discount(30%)</b>	<b>62.2</b>	<b>83.8</b>	
Value of the bank	1,330.6	1,044.8	

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs bn)

Particulars	Q2FY13	Q2FY12	% YoY	Q1FY13	% QoQ
<b>Interest Earned</b>	<b>100.3</b>	<b>81.6</b>	<b>22.9</b>	<b>95.5</b>	<b>5.0</b>
- Interest/Discount on Advance/Bills	68.5	53.8	27.3	64.6	6.1
- Income on Investments	27.4	23.4	17.0	27.0	1.6
- Int on RBI bal	1.5	1.2	29.1	1.2	20.4
- Other Interest	2.8	3.2	(10.3)	2.6	7.5
Interest Expense	66.6	56.5	17.8	63.5	4.8
<b>Net Interest income</b>	<b>33.7</b>	<b>25.1</b>	<b>34.5</b>	<b>31.9</b>	<b>5.6</b>
Other Income	20.4	17.4	17.4	18.8	8.7
- Fee and Other Income	17.1	17.0	0.5	16.5	3.8
- Misc Income	1.6	0.0	-	2.5	(36.2)
- Treasury Profit	1.7	(0.8)	-	(0.2)	-
<b>Net Operating Income (NOI)</b>	<b>54.1</b>	<b>42.5</b>	<b>27.5</b>	<b>50.7</b>	<b>6.7</b>
Operating Expenses	22.2	18.9	17.4	21.2	4.6
- Employee cost	9.7	8.4	14.6	9.9	(2.1)
- Other Costs	12.6	10.1	23.9	11.4	10.4
<b>Operating Profit</b>	<b>31.9</b>	<b>23.5</b>	<b>35.7</b>	<b>29.5</b>	<b>8.3</b>
Prov for Contingencies	5.1	3.2	59.3	4.7	9.0
<b>PBT</b>	<b>26.9</b>	<b>20.3</b>	<b>32.0</b>	<b>24.8</b>	<b>8.1</b>
Tax	7.3	5.3	37.1	6.7	9.1
<b>PAT</b>	<b>19.6</b>	<b>15.0</b>	<b>30.1</b>	<b>18.2</b>	<b>7.8</b>
Equity	11.5	11.5	-	11.5	-
<b>EPS (Rs)</b>	<b>17.0</b>	<b>13.0</b>	<b>-</b>	<b>15.7</b>	<b>-</b>
<b>CAR (%)</b>	<b>18.3</b>	<b>19.0</b>	<b>-</b>	<b>18.5</b>	<b>-</b>

Source: Company; IDBI Capital Research

Table: Balance sheet

(Rs bn)

Year-end: March	Q2FY13	Q2FY12	% YoY	Q1FY13	% QoQ
Advances	2,750.8	2,339.5	17.6	2,684.3	2.5
Deposit	2,814.4	2,450.9	14.8	2,677.9	5.1
CASA (%)	40.7	42	-	40.6	-
CD Ratio (%)	97.7	95.5	-	100.2	-
ID Ratio (%)	56.1	60.3	-	57.9	-

Source: Company; IDBI Capital Research

Table: Ratios

(%)

Ratios (%)	Q2FY13	Q2FY12	% YoY	Q1FY13	% QoQ
NIMs	3.0	2.6	-	3.0	-
Int. exp/Int earned	66.4	69.3	-	66.6	-
Cost/income ratio	41.0	44.6	-	41.9	-
Gross NPA	3.5	4.1	-	3.5	-
Net NPA	0.8	0.8	-	0.7	-
Provision Coverage	78.7	78.2	-	80.6	-

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Interest earned	259.7	335.4	402.6	475.1
Interest expended	169.6	228.1	274.2	319.7
<b>NII</b>	<b>90.2</b>	<b>107.3</b>	<b>128.4</b>	<b>155.4</b>
<b>Other Income</b>	<b>66.5</b>	<b>75.0</b>	<b>88.4</b>	<b>99.1</b>
Fee Based	55.1	54.4	62.5	70.6
Treasury Profit	2.2	3.3	3.2	4.4
<b>Net Opt. Inc. (NOI)</b>	<b>156.6</b>	<b>182.4</b>	<b>216.8</b>	<b>254.5</b>
Employee Cost	28.2	35.2	39.6	44.4
Opt. Expenses	38.0	43.4	50.3	58.3
<b>Opt. Profit</b>	<b>90.5</b>	<b>103.9</b>	<b>126.9</b>	<b>151.8</b>
Provisions	22.9	15.8	23.6	28.7
Profit before tax	67.6	88.0	103.3	123.1
<b>Net Profit</b>	<b>51.5</b>	<b>64.7</b>	<b>76.5</b>	<b>91.1</b>

### Balance Sheet

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Capital	15.0	15.0	15.0	15.0
Net Worth	554.4	607.6	648.7	707.7
<b>Deposit</b>	<b>2,256.0</b>	<b>2,555.0</b>	<b>3,037.9</b>	<b>3,695.6</b>
<b>Total Liab. &amp; Equity</b>	<b>4,062.3</b>	<b>4,736.5</b>	<b>5,515.7</b>	<b>6,361.7</b>
Investments	1,346.9	1,595.6	1,580.1	1,909.7
Advances	2,163.7	2,537.3	3,007.6	3,566.8
<b>Total Assets</b>	<b>4,062.3</b>	<b>4,736.5</b>	<b>5,515.7</b>	<b>6,361.7</b>

### Growth

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Deposits	11.7	13.3	18.9	21.6
Advances	19.4	17.3	18.5	18.6
<b>Total Assets</b>	<b>11.8</b>	<b>16.6</b>	<b>16.5</b>	<b>15.3</b>
NII	11.1	19.0	19.6	21.0
Other Income	(11.1)	12.9	17.8	12.1
<b>Net Profit</b>	<b>28.0</b>	<b>25.5</b>	<b>18.3</b>	<b>19.1</b>

### Productivity

Year-end: March	FY11	FY12	FY13E	FY14E
Bus./Employee (mn)	107.8	121.2	115.7	125.9
Profit/Employee ('000)	1,256.4	1,539.3	1,737.8	1,897.5
Bus./Branch (mn)	1,747.6	1,850.4	1,725.0	1,918.0
NP/Branch (mn)	20.4	23.5	25.9	28.9
CASA Per Branch	401.9	403.4	432.5	472.2

### Opt. Ratio

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Int Exp/Int Earned	65.3	68.0	68.1	67.3
Cost/NOI	42.2	43.0	41.5	40.4
Cost/NOI (Ex. treasury inc.)	41.6	42.9	42.1	41.1
Other Income/NOI	42.4	41.1	40.8	39.0
Ot. Inc. (ex. treasury)/NOI	41.0	39.3	39.3	37.2
<b>NPM</b>	<b>32.9</b>	<b>35.5</b>	<b>35.3</b>	<b>35.8</b>

### Spreads

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
NII/Avg. Total Assets	2.3	2.4	2.5	2.6
NII/Avg. interest earning assets	2.7	2.7	2.8	2.9
<b>NIMs</b>	<b>2.3</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
<b>CASA</b>	<b>45.1</b>	<b>42.0</b>	<b>42.5</b>	<b>40.3</b>
Avg. Int earnings assets	3,388.5	3,966.5	4,574.7	5,291.5
Avg. Int bearing liabilities	3,184.4	3,685.5	4,392.1	5,187.2

### Solvency

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Credit-Deposit Ratio</b>	<b>95.9</b>	<b>99.3</b>	<b>99.0</b>	<b>96.5</b>
Incremental CD Ratio	149.1	125.0	97.4	85.0
Investment/Deposit Ratio	59.7	62.5	52.9	52.5
<b>GNPA Ratio</b>	<b>4.6</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>
<b>Prov. Cover</b>	<b>76.0</b>	<b>80.4</b>	<b>83.1</b>	<b>85.6</b>
NNPA Ratio	1.1	0.7	0.6	0.5
<b>CAR</b>	<b>19.5</b>	<b>18.5</b>	<b>18.3</b>	<b>17.3</b>
Tier1	13.2	12.7	12.8	12.1
Tier2	6.4	5.8	5.5	5.2

### Return

Year-end: March	FY11	FY12	FY13E	FY14E
ATA (Avg. Total Assets)	3,848.2	4,399.4	5,126.1	5,938.7
Total Busi.(Dep+Adv)	4,419.7	5,092.3	5,092.3	6,045.5
Interest Income/ATA (%)	6.7	7.6	7.9	8.0
PBT/ATA (%)	1.8	2.0	2.0	2.1
PAT/ATA (%)	1.3	1.5	1.5	1.5
<b>ROA (%)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>ROE (%)</b>	<b>9.6</b>	<b>11.1</b>	<b>12.2</b>	<b>13.4</b>
Assets/Equity	7.2	7.6	8.2	8.8

### Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
<b>P/Adj. BV (x)</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>
<b>P/BV (x)</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>
<b>Book Value* (Rs)</b>	<b>368.2</b>	<b>405.4</b>	<b>442.9</b>	<b>487.9</b>
<b>Adjusted Book Value* (Rs)</b>	<b>347.3</b>	<b>389.3</b>	<b>426.8</b>	<b>471.7</b>

\* After deducting investment in subsidiary



# Notes

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### Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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