

RESULTS REVIEW

Share Data

Market Cap	Rs. 803.8 bn
Price	Rs. 722.0
BSE Sensex	14,493.8
Reuters	ICBK.BO
Bloomberg	ICICIBC IN
Avg. Volume (52 Week)	3.41 mn
52-Week High/Low	Rs. 800 / 252.3
Shares Outstanding	1,113.3 mn

Valuation Ratios (Standalone)*

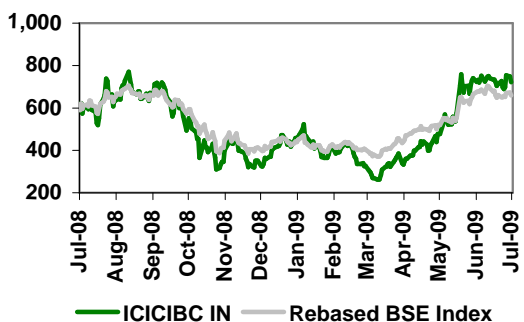
	2010E	2011E
EPS (Rs.)	46.3	60.2
PER (x)	15.6x	12.0x
P / PPP (x)	7.5x	5.9x
P / ABV (x)	1.51x	1.39x

* Based on the current stock price

Shareholding Pattern (%)

Promoter	0
FII's	35
Institutions	23
Public & Others	42

Relative Performance



ICICI Bank

Hold

Cautious approach

ICICI Bank reported a 41.5% sequential decline in its net profit for Q4'09 to Rs. 7.4 bn and a 9.6% fall in the net profit for FY09 to Rs. 37.6 bn. The decline was mainly due to higher tax expenses and lower non-interest income. The net interest income, on the other hand, rose 15% for FY09 to Rs. 83.7 bn as net interest margin increased from 2.2% in FY08 to 2.4% in FY09. Our outlook for the upcoming quarters remains cautious given its subdued operating performance and the deterioration in its asset quality. However, the Bank's strategy to conserve capital, improve CASA, control cost, and maintain credit quality will help the Bank to post a strong recovery. Our SOTP valuation suggests a fair value of Rs. 785. Thus, we reiterate our Hold rating on the stock.

Margins are likely to remain stable: We believe the margins are unlikely to fall in the foreseeable future and will remain in the range of 2.5%–2.7% till FY2012 as the Bank boost its CASA ratio via branch expansion and repays its high-cost bulk deposits by Q3'10. In FY09, the Bank's NIM improved from 2.2% in FY08 to 2.4% as the cost of funds declined from 7.5% in FY08 to 7% in FY09. This decline in the funding costs was mainly due to increase in the CASA and sharp decline in the wholesale deposit rates.

Asset quality concerns in near term: Given the Bank's aggressive growth strategy in the past and the current muted growth phase of the economy, investors' concerns about the Bank's asset quality and restructuring of assets continue. The gross NPA ratio increased to

Key Figures (Standalone)

Quarterly Data	Q4'08	Q3'09	Q4'09	YoY%	QoQ%	FY08	FY09	YoY%
(Figures in Rs mn, except per share data)								
Net Interest Income	20,795	19,904	21,388	2.9%	7.5%	73,041	83,666	14.5%
Net Operating Income	44,411	45,050	38,125	(14.2%)	(15.4%)	161,149	159,703	(0.9)%
Pre-Prov Optng. Profit	22,907	27,708	21,555	(5.9%)	(22.2%)	79,607	89,252	12.1%
Net Profit	11,498	12,722	7,438	(35.3%)	(41.5%)	41,577	37,581	(9.6)%
Cost/Optng. Inc.(%)	48.4%	38.5%	43.5%	-	-	50.6%	44.1%	-
Net Interest Margin	2.4%	2.4%	2.6%	-	-	2.2%	2.4%	-
NPA ratio	1.55%	2.07%	2.09%	-	-	1.55%	2.09%	-
Per Share Data (Rs.)								
PPP per share	20.6	24.9	19.4	(5.9%)	(22.2%)	75.4	80.2	6.3%
EPS	10.3	11.4	6.7	(35.3%)	(41.5%)	39.4	33.8	(14.3)%
BVPS	418.0	449.7	444.9	6.4%	(1.1%)	418.0	444.9	6.4%

4.32% in March'09 from 3.30% in March'08. Additionally, a total of Rs. 11.2 bn of assets were restructured during FY09 and applications for restructuring of Rs. 20 bn loans were received by March'09. We believe rising defaults in unsecured portfolios will put pressure on asset quality and increase the NPAs over the current fiscal. However, even after assuming 5% gross NPA for FY2010 in our base case scenario, the current stock price discounts the potential increase in the NPAs.

Loans growth to slowdown amid asset quality concerns: We expect advances to grow by 11.2% in FY10 given the management's strategy of capital conservation and prudent lending in the current economic scenario. As the Bank expands its network to extract CASA deposits, the Bank will also be successful in bringing down its credit deposit ratio. Given a sluggish economic activity in H2'09 and the management's conscious effort to slow down the advances led to a 3.2% fall in advances in FY09.

Other income to play a key role: ICICI Bank's other income showed a sharp decline of 33.4% qoq and 29.1% yoy to Rs. 16.7 bn in Q4'09. This was mainly due to a severe fall in its treasury income as the interest rate environment stabilised in the last quarter of FY09. The fee income edged down from Rs. 13.5 bn in Q3'09 to Rs. 13.4 bn in Q4'09. However, for FY09, the fee income witnessed a marginal decline of 1.6%, despite a sharp deterioration in economic activity. We believe this decline is a short-term phenomenon, led by the global economic slowdown, and therefore, expect other income to grow by 14% in FY10 and 23% in FY11. We expect the share of other income in total operating income to rise from the current level of 47.6% to 52% by FY12.

Valuation:

We have valued ICICI Bank's stock by using the sum-of-the-parts methodology:

- The standalone ICICI Bank has been valued at Rs. 485, assuming a 16.24% cost of equity and a 10.4% terminal growth rate.
- The Bank's overseas banking subsidiaries have been valued at 1.0x its FY10 books, leading to a valuation of Rs. 39.
- ICICI Prudential Life has been valued at a new business achieved profit (NBAP) multiple of 17.5x, which is lower than the industry's average on account of its aggressive growth in the past, which may affect the quality of underwriting. This gives the life insurance business a valuation of Rs. 138.
- ICICI Lombard has been valued at Rs. 30 by assigning a multiple of 18x to its normalised profit.
- The AMC has been valued at 4.5% of its AUM, leading to a valuation of Rs. 12.
- We have valued ICICI Securities and ICICI Securities Primary Dealership at Rs. 66, based on a target P/E multiple of 18x.

This helps us arrive at the consolidated price of Rs. 785. Therefore, we give a Hold rating to the stock.

Company	Value	Basis
ICICI Bank - Standalone Business	485	Based on DECF valuation with 16.24% cost of equity
ICICI Bank UK and ICICI Bank Canada	39	Based on 1.0x BV
ICICI Prudential Life Insurance	138	Based on our target NBP multiple of 17.5x
ICICI Lombard General Insurance	30	Based on normalised P/E multiple of 18x
ICICI Prudential Asset Management	12	4.5% of AUM
ICICI Securities and ICICI PD	66	Based on our target P/E multiple of 18x
ICICI Venture Funds Management	4	4% of AUM
ICICI Home Finance	10	Based on 0.8x BV
Total	785	

Sensitivity Analysis of the Estimate

Terminal growth	Cost of equity				
	15.74%	15.99%	16.24%	16.49%	16.74%
9.90%	797	773	751	731	712
10.15%	816	791	768	746	726
10.40%	838	811	785	762	741
10.65%	862	832	805	780	757
10.90%	888	856	826	799	775

Result Highlights and Outlook

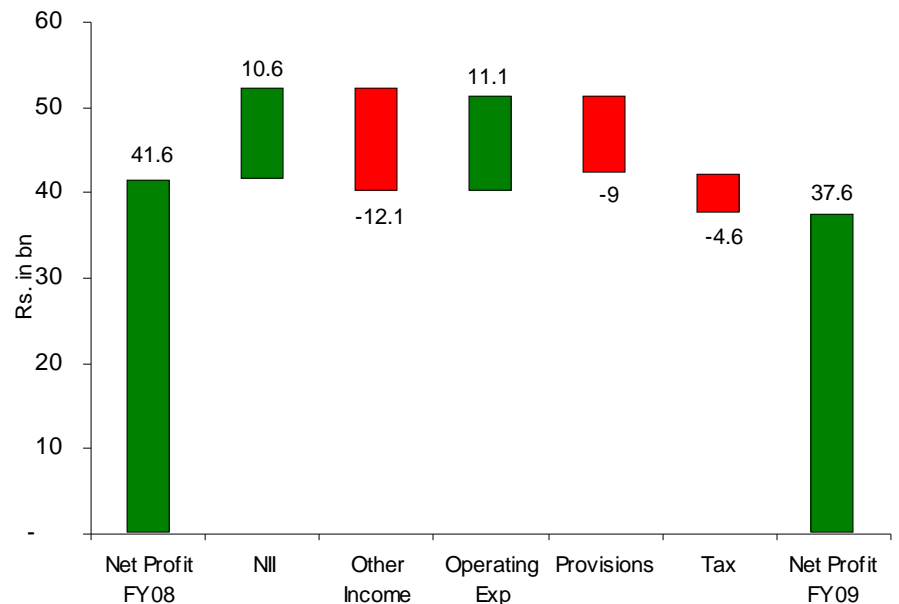
Net interest income and margins: The Bank's net interest income for FY09 increased 15% to Rs. 83.7 bn, while its net interest income for Q4'09 rose to Rs. 21.4 bn, up 7% (q-o-q). The Bank's NIM for the year and the quarter stood at 2.4% and 2.6% (annualised), respectively. The NIM saw an improvement due to the reduction in the borrowing costs in the last quarter of FY09. Going forward, in a quarter or two the Bank's margins will be under pressure due to mandatory lending to the low-yield Agriculture sector. However, with the Bank's strategy of increasing CASA deposits yield results, we expect to see a steady increase in the margins.

Non interest income: In FY09, non-interest income declined 13.7% to Rs. 76 bn because of a sharp fall in the share of other income and also due to heavy treasury losses in H1'08. However, the fee income, which is around 86% of the non-interest income, witnessed a marginal fall of 1.6% to Rs. 65.2 bn. In Q4'09, non-interest income declined 29.1% yoy to Rs. 16.7 bn, mainly due to weak fee income. As the economic scenario improves and the Bank increases its geographical presence, we expect the share of non-interest income to pick up.

Operating expenses: Operating expenses (including direct marketing agency expenses) decreased 13.6% to Rs. 70.5 bn in FY09. However, excluding direct marketing agency expenses, operating expenses were almost flat, while other expenditures declined 20% to Rs. 43.9 bn. As a result of the fall in operating expenses, the cost-to-income ratio for the Bank dropped from 50.6% in FY08 to 44.1% in FY09. Going forward, taking in account the proposed branch expansion in FY10, the Bank's cost-to-income ratio is likely to remain in the range of 35-38%.

Provisions, Taxes, and Net Profit: Pre-provisioning profit increased 12.1% to Rs. 89.3 bn. Total provisions and contingencies jumped from Rs 29 bn in FY08 to Rs. 38.1 bn in FY09 as loan-loss provisions increased significantly from Rs. 25.4 bn to Rs. 37.7 bn. The effective tax rate is now more than 26.6% vis-à-vis 17.8% last year as the gain from equity shares has declined sharply. The net profit of the Bank fell 9.6% in FY09 to Rs. 37.6 bn, while for Q4'09 the net profit stumbled 35.3% to Rs. 7.4 bn. This decline was mainly due to the feeble non-interest income, higher provisioning, and higher effective tax rates.

YOY Net Income Walk



Source: Company data

Key Ratios: Profitability ratios, return on equity (ROE) and return on assets (ROA), declined in FY09. ROA decreased 14 bps to 0.98% this year; while ROE dropped from 11.1% to 7.7%. At the close of FY09, the Bank's total capital adequacy ratio stood at a comfortable 15.5%, of which Tier I capital adequacy was 11.8%. The basic and diluted EPS increased from Rs. 39.4 in FY08 to Rs. 33.8 in FY09. Book value per share increased from Rs 418 in March'08 to Rs 445 by March'09. The CASA ratio improved 26.1% in FY08 to 28.7% in FY09.

Advances, investments, and deposits: For FY09, the total business of the Bank fell 7.1% to Rs. 4.4 tn, as deposits declined 10.7% to Rs 2.2 tn and advances decreased 3.2% to Rs. 2.2 tn. The advances-to-deposit ratio increased from 92.3% in FY08 to 100% in FY09. Investments de-grew by 7.5% to Rs. 1 tn. The balance sheet of the Bank declined by 5.1% from Rs. 4 tn to Rs. 3.8 tn.

Subsidiaries put up mixed performances

ICICI Prudential's new-business premium has slowed down significantly from Rs. 12.5 bn in FY08 to Rs. 10 bn in FY09. Further, the reported new business profit margin has decreased marginally from 19.2% in FY08 to 18.9% in FY09 and the expense ratio declined from 14.9% in FY08 to 11.8% in FY09.

ICICI Canada's total assets marginally decreased by 1.5% q-o-q to CAD 6.4 bn and its loan book increased by 14% qoq to CAD 4.1 bn. Meanwhile, the subsidiary's CAR increased by 380 bps to 19.9%.

ICICI UK's total assets declined q-o-q from USD 7.6 bn to USD 7.3 bn; however, its loan book jumped 21.7% to USD 3.3 bn in March. ICICI UK earned a profit of USD 6.8 mn in FY09, as compared with a profit of USD 38.5 mn in FY08.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09	FY10E	FY11E
Interest Income	307,883	310,925	314,411	355,484	Per share data (Rs.)				
Interest Expense	234,842	227,259	227,489	251,669	Shares outstanding (mn)	1,112.7	1,113.3	1,113.3	1,113.3
Net Interest Income	73,041	83,666	86,922	103,815	Basic EPS	39.4	33.8	46.4	60.4
YoY Growth (%)	29.6%	14.5%	3.9%	19.4%	Diluted EPS	39.1	33.7	46.3	60.2
Other Income	88,108	76,037	86,866	106,708	Book value per share	417.6	444.9	477.4	519.6
Net Operating Income	161,149	159,703	173,788	210,523	Adj. book value per share	417.6	444.9	477.4	519.6
YoY Growth (%)	28.3%	-0.9%	8.8%	21.1%	Valuation ratios (x)				
Operating Expense	81,542	70,451	65,725	73,353	P/PPP	10.3x	9.0x	7.5x	5.9x
Pre-Provisioning Profit	79,607	89,252	108,063	137,170	P/E	19.7x	21.4x	15.6x	12.0x
Provisions and Contingencies	29,046	38,083	37,772	45,685	P/B	1.8x	1.6x	1.5x	1.4x
Profit Before Tax	50,561	51,170	70,291	91,485	P/ABV	1.8x	1.6x	1.5x	1.4x
Tax	8,984	13,588	18,666	24,294	Performance ratio (%)				
Net Profit	41,577	37,581	51,625	67,190	Return on avg. assets	1.1%	1.0%	1.3%	1.5%
YoY Growth (%)	33.7%	-9.6%	37.4%	30.2%	Return on avg. net worth	11.7%	7.8%	10.1%	12.4%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY08	FY09	FY10E	FY10E	Advances to deposits	93.9%	102.4%	98.0%	95.0%
Cash and balances with RBI	380,411	299,666	261,416	354,766	Borrowings to advances	29.1%	30.8%	35.2%	36.4%
Investments	1,114,543	1,030,583	1,162,234	1,394,681	Investments to assets	27.9%	27.2%	28.0%	28.4%
YoY Growth (%)	22.1%	-7.5%	12.8%	20.0%	Investments to deposits	45.6%	47.2%	45.5%	45.5%
Advances	2,256,161	2,183,108	2,427,779	2,822,943	Tier I capital adequacy	11.8%	11.8%	13.8%	12.8%
YoY Growth (%)	15.2%	-3.2%	11.2%	16.3%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	41,089	38,016	42,521	40,390	Opt. expense per employee	2.0	2.0	1.8	1.8
Other Assets	205,746	241,636	255,436	306,523	Net profit per employee	1.0	1.1	1.4	1.7
Total Assets	3,997,951	3,793,010	4,149,386	4,919,303	Asset per employee	98.3	109.6	115.3	121.5
Deposits	2,444,311	2,183,478	2,554,361	3,065,233	Operating ratios (%)				
YoY Growth (%)	6.0%	-10.7%	17.0%	20.0%	Operating cost to income	50.6%	44.1%	37.8%	34.8%
Borrowings	656,484	673,237	855,711	1,026,853	Operating cost to avg. assets	2.2%	1.8%	1.7%	1.7%
YoY Growth (%)	28.1%	2.6%	27.1%	20.0%					
Other Liabilities & Provisions	428,954	437,464	204,349	245,219					
Total Liabilities	3,529,749	3,294,179	3,614,420	4,337,305					
Share Capital	11,127	11,133	11,133	11,133					
Preference Capital	3,500	3,500	3,500	3,500					
Reserves & Surplus	453,575	484,197	520,333	567,366					
Total Equity & Liabilities	3,997,951	3,793,010	4,149,386	4,919,303					
<i>Note: ICICI Bank Standalone Numbers</i>					<i>Source: Bank data, Indiabulls research</i>				
					<i>Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank</i>				

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