

ICICI Bank

Apple Green

Stock Update

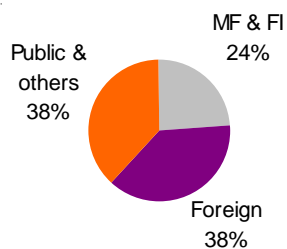
Uptick in core operating performance

Buy; CMP: Rs940

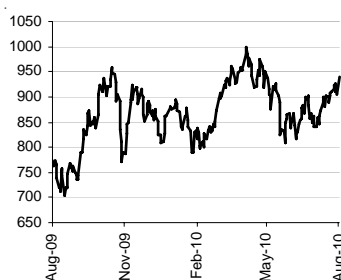
Company details

Price target:	Rs1,243
Market cap:	Rs104,825 cr
52 week high/low:	Rs1,001/691
NSE volume: (No of shares)	38.6 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	111.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	-3.6	10.6	21.0
Relative to Sensex	3.9	-6.0	0.2	4.7

Result highlights

- Lower provisions boost bottom line:** For Q1FY2011 ICICI Bank has reported a net profit of Rs1,026 crore, indicating a growth of 16.8% year on year (yoy). The bottom line, in line with our expectation (Rs1,027 crore), was primarily driven by a sharp drop in the provisions even as the net interest income (NII) was flattish on a year-on-year (y-o-y) basis.
- NII in line:** As expected, the NII was flattish at Rs1,991.1 crore, as the advances book contracted by 6.9% yoy even though it grew by a muted 2% sequentially. The reported net interest margin (NIM) of 2.5% indicates an expansion of ten basis points on a y-o-y basis, though the same contracted by ten basis points sequentially.
- Healthy fee income:** The non-interest income witnessed a decline of 19.6% yoy to Rs1,680.5 crore, driven by a sharp drop of 85.4% in the treasury gains that outweighed the pick-up in the fee income (up 7% yoy). The fee income growth was driven by the corporate segment as the retail segment continued to see weakness in its fee revenues due to the bank's lower focus on the credit card segment.
- Leash on opex:** With the ongoing rationalisation of its operations and resources, the bank managed to lower its operating expenses (opex) further by 4% yoy and by 2.8% sequentially. Notably, despite the ongoing branch expansion the opex declined by 17% even as the staff expenses grew by 23.4% yoy (due to the regularisation of temporary employees).
- Though the weak treasury income and flattish NII led to a 13.5% decline in the operating profit, but the core operating profit (excluding the treasury gains) grew by a healthy 14.8%.

Results table

Rs (cr)

Particulars	Q1FY2011	Q1FY2010	% yoy	% qoq
Net interest income	1991.1	1985.3	0.3	-2.2
Non-interest income	1680.5	2089.9	-19.6	-11.1
CEB	1413.0	1319.0	7.1	-7.1
Treasury income	104.0	714.0	-85.4	-46.9
Net income	3671.6	4075.1	-9.9	-6.5
Operating expenses	1483.5	1546.0	-4.0	-2.8
Staff expenses	575.6	466.5	23.4	-1.2
Direct marketing expenses	35.8	27.5	30.2	-22.2
Other operating expenses	872.1	1052.0	-17.1	-2.9
Operating profit	2188.1	2529.1	-13.5	-8.8
Core operating profit (excluding treasury)	2084.1	1815.1	14.8	-5.4
Provisions & contingencies	797.8	1323.7	-39.7	-19.4
PBT	1390.3	1205.5	15.3	-1.3
Provision for taxes	364.3	327.3	11.3	-9.7
Net profit	1026.0	878.2	16.8	2.0

- ♦ **Drop in provisions:** During the quarter, provisions declined by 39.7% yoy and by 19.4% quarter on quarter (qoq) to Rs797.8 crore as the slippages came off significantly. Despite lower provisions, the provisioning coverage improved to 64.8% during the quarter as the slippages came off sharply.
- ♦ **Slippages come off sharply:** On the asset quality front, the bank saw a 3.7% sequential increase in its gross non-performing assets (GNPAs) to Rs9,829 crore, forming 5.14% of the gross advances. Importantly, the gross slippages came off sharply and stood at Rs350 crore for the quarter (half of the Rs700 crore worth gross slippages seen in Q4FY2010).
- ♦ **Advances up qoq:** ICICI Bank's advances dipped by 7% yoy to Rs184,378 crore, though the same were up 2.8% qoq driven by improved disbursals in the corporate segment. Meanwhile, the deposits contracted by 4.4% yoy (and remained flattish qoq) to Rs200,913 crore during the quarter. Importantly, the current account and savings account (CASA) ratio improved further to 42.1% from 41.7% in Q4FY2010.
- ♦ **Well capitalised:** The bank's capital adequacy ratio (CAR) as on June 30, 2010 was 20.2% (as per Basel II norms) compared with 19.41% at the end of FY2010. Importantly, the tier-I CAR stood high at 14%, one of the highest among its peers.
- ♦ Clearly, the Q1FY2011 earnings have marked a smart uptick in the operating performance of the bank. We maintain our positive stance on the bank and are tweaking our estimates to factor in the additional information. At the current market price of Rs940, ICICI Bank trades at 15.2x its FY2012E earnings per share (EPS), 8.8x FY2012E pre-provisioning profit (PPP) per share and 1.7x its FY2011E stand-alone book value (BV) per share. We maintain our Buy recommendation and price target of Rs1,243 on the stock.

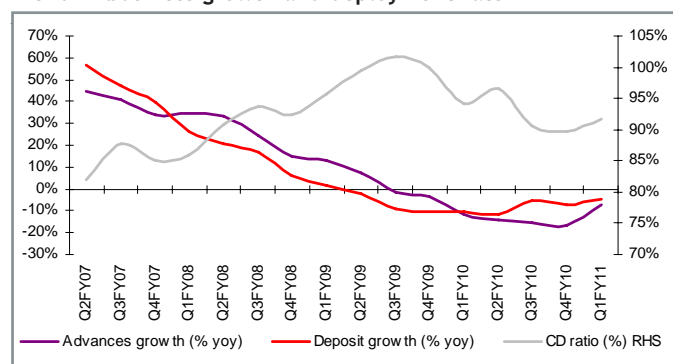
NII in line with estimate

As expected, the NII was flattish at Rs1,991.1 crore, as the advances book contracted by 6.9% yoy even though the same saw a muted growth of 2% sequentially. The reported NIM of 2.5% indicates an expansion of ten basis points on a y-o-y basis, though the same contracted by ten basis points sequentially. Though the bank is definitely focusing on balance sheet growth, the retail segment is yet to see meaningful pick-up.

Advances book expands qoq

ICICI Bank's advances dipped by 7% yoy to Rs184,378 crore, though the same saw a growth of 2.8% qoq driven by improved disbursals in the corporate segment. Though the bank is definitely focusing on balance sheet growth, the retail segment is yet to see any meaningful pick-up. Meanwhile, the deposits contracted by 4.4% yoy (and were flattish qoq) to Rs200,913 crore during the quarter. Importantly, the CASA ratio improved further to 42.1% from 41.7% in Q4FY2010.

Trend in business growth and deployment rate



Margins contract sequentially

The reported NIM of 2.5% indicates an expansion of ten basis points on a y-o-y basis, though the same contracted by ten basis points sequentially. Clearly, the bank continues to face a challenge in improving its NIM as (1) the NIM in its international business remains low; (2) it continues to experience pressure due to the shift from high-yielding unsecured retail segment to the low-yielding corporate segment; and (3) the bank has shifted to the method of calculating interest on the savings account on a daily basis.

Yield analysis (%)

Particulars	Q1FY11	Q1FY10	yoy bps	qoq bps
Yield on advances (C)	8.27	9.77	-150	-20
Yield on assets (C)	6.39	7.64	-125	-9
Cost of funds (R)	4.20	5.52	-131	-1
NIM (C)	2.19	2.13	6	-7
NIM (R)	2.50	2.40	10	-10

R-reported

C - calculated

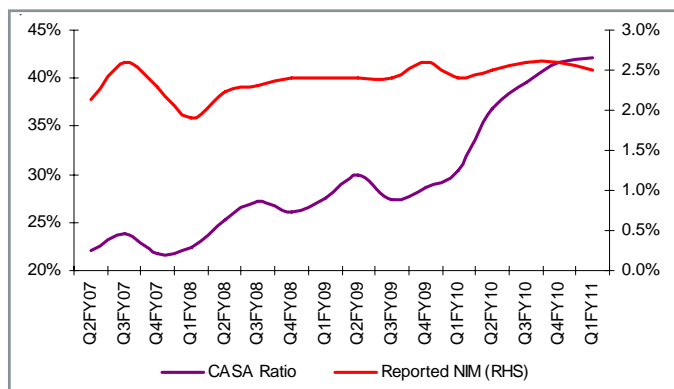
CASA improves sequentially

The bank continues to run down its wholesale deposits, in line with its objective of improving its liability franchise. The deposits contracted by 4.4% yoy (and were flattish qoq) to Rs200,913 crore during the quarter driven by a

20.5% decline in term deposits. Importantly, the CASA balance grew by a strong 32.4%, thereby pushing the CASA ratio upwards to 42.1% from 41.7% in Q4FY2010.

Deposits break-up		Rs (cr)		
Particulars	Q1FY11	Q1FY10	% yoy	% qoq
Total deposits	200,913	210,236	-4.4	-0.5
Demand deposits	84,618	63,912	32.4	0.5
Term deposits	116,295	146,324	-20.5	-1.3
CASA ratio	42.1%	30.4%	1172bps	43bps

Trend in CASA ratio and NIM



Revival in core fee income

Driven by the improved activity in the corporate segment, the core fee income grew by 7% yoy even as the retail segment continued to see weakness in its fee revenues due to the bank's lower focus on the credit card segment. However, the non-interest income witnessed a decline of 19.6% yoy to Rs1,680.5 crore, driven by a sharp drop of 85.4% in the treasury gains that outweighed the pick-up in the fee income.

Leash on opex

With the ongoing rationalisation of its operations and resources, the bank managed to lower its opex further by 4% yoy and by 2.8% sequentially. Notably, despite the ongoing branch expansion the opex declined by 17% even as the staff expenses grew by 23.4% yoy (due to the regularisation of the temporary employees).

Lower provisions boosted bottom line

During the quarter, the provisions declined by 39.7% yoy and by 19.4% qoq to Rs797.8 crore as the slippages came off significantly. A major portion of the provisions pertained to the loan loss provisions. Despite the lower provisions, the provisioning coverage improved to 64.8% during the quarter as the slippages came off sharply.

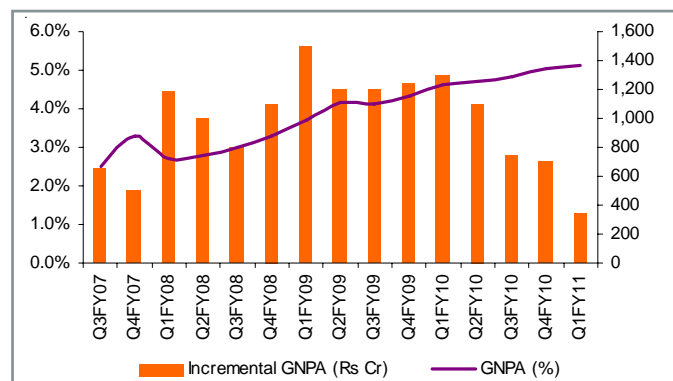
Asset quality stable qoq

On the asset quality front, the bank saw a 3.7% sequential increase in its GNPA to Rs9,829 crore that formed 5.14% of its gross advances. Importantly, the gross slippages came off sharply and stood at Rs350 crore for the quarter (half of the Rs700 crore worth of gross slippages seen in Q4FY2011). The restructured assets at end of Q1FY2011 stood reduced at Rs3,737 crore, constituting 2% of the bank's total outstanding advances. The behaviour of the restructured assets remained satisfactory with almost no slippages during the quarter.

Trend in asset quality

Asset quality	Q1FY11	Q1FY10	% yoy	% qoq
GNPA	9829.0	9416.3	4.4	3.7
%GNPA	5.1	4.6	51bps	8bps
NNPA	3456.2	4607.8	-25.0	-10.0
%NNPA	1.9	2.3	-46bps	-25bps
Provisioning coverage (%)	64.8	51.1	670.2%	535bps

Trend in incremental GNPA



Subsidiaries' performance

The performance of the domestic subsidiaries of the bank was healthy with ICICI Prudential Life Insurance's new business profit (NBP) jumping by 90.7% yoy in Q1FY2011 to Rs225 crore. Though the statutory profit after tax (PAT) remained negative, if we include the surplus of Rs235 crore in the non-participating policyholders' funds, ICICI Prudential Life turned profitable during the first quarter of FY2011 with a PAT of Rs119 crore. Having said that, the revised guidelines from the Insurance Regulatory and Development Authority (IRDA) pertaining to the cap on charges could bring down the NBP margins significantly and hence affect the company's profitability. Meanwhile, the capital market subsidiaries, ICICI Prudential AMC and ICICI Securities, registered a y-o-y growth of 68.4% and 78.6% respectively in their bottom line.

Subsidiary performance		Rs (cr)		
Subsidiary	Measure	Q1FY11	Q1FY10	% yoy
ICIC Home Finance	PAT	57	27	111.1
ICICI Pru Life	New Business Profit	225	118	90.7
	NBP Margin	19%	19%	0.0
	Expense Ratio	10%	12%	-1.8
ICICI Lombard	Gross Premium	11.18	8.78	27.3
	PAT	33	38	-13.2
ICICI AMC	PAT	32	19	68.4
ICICI Securities	PAT	25	14	78.6
ICICI Bank (Consolidated)	PAT	1091	1035	5.4%

Capital position comfortable

The bank's CAR as on June 30, 2010 was 20.2% (as per Basel II norms) compared with 19.41% at the end of FY2010. Importantly, the tier-I CAR stood high at 14%, one of the highest among its peers.

Capital adequacy ratio (%)

Subsidiary	As on Jun 30, 2010
ICICI Bank	20.2
ICICI Bank UK	18.4
ICICI Bank Canada	22.5
ICICI Bank Eurasia	30.4

Valuation

Clearly, the Q1FY2011 earnings have marked a smart uptick in the operating performance of the bank. We maintain our positive stance on the bank and are tweaking our estimates to factor in the additional information. At the current market price of Rs940, ICICI Bank trades at 15.2x its FY2012E EPS, 8.8x FY2012E PPP per share and 1.7x its FY2011E stand-alone BV per share. We maintain our Buy recommendation and price target of Rs1,243 on the stock.

Valuation table

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net profit (Rs cr)	4157.7	3758.1	4025.0	5169.5	6784.8
Shares in issue (cr)	111.3	111.3	111.5	111.5	111.5
EPS (Rs)	37.4	33.8	36.1	46.4	60.9
EPS growth (%)	125.5	-9.6	6.9	28.4	31.2
PE (x)	24.7	27.3	25.6	19.9	15.2
P/PPP (x)	12.9	11.5	10.6	10.1	8.8
Book value (Rs/share)	417.5	445.0	463.0	492.1	530.4
P/BV (x)	2.2	2.1	2.0	1.9	1.7
Adj. BV (Rs/share)	386.2	404.1	429.3	475.5	526.7
P/ABV (x)	2.4	2.3	2.2	1.9	1.8
RONW (%)	10.9	7.8	8.0	9.7	11.9

The author doesn't hold any investment in any of the companies mentioned in the article.

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