# ICICI Bank ICBK.NS ICICIBC IN

BANKS

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## Low LLPs drive beat, loan growth to remain strong

## Quick Note

January 31, 2012

| | |
|---|---|
| Rating<br>Remains | Buy |
| Target price<br>Remains | INR 1050 |
| Closing price<br>January 30, 2012 | INR 852 |

### Key takeaways:

ICICI Bank's 3QFY12 PAT of INR17.28bn beat our expectations by 15.9%, largely driven by lower-than-expected loan loss provisions. Total provisions at INR3.4bn were 50% lower than our expected INR6.9bn, driving much of the beat.

Loan growth was 19.1% y/y, with key contributions coming from domestic corporate loans (y/y growth of 21.9%) and international loans (y/y growth of 38.1%, 22% adjusted for INR depreciation). Retail loans grew at a modest 4.3% y/y, as mortgages grew only by 5.7%. The bank continues to shrink its personal loan and credit card portfolio.

Total deposits grew 19.7% y/y, with CASA deposits growing 18% and term deposits registering a growth of 21%. Savings deposits grew at 13.8% y/y, while current deposits grew 26.6% y/y.

NIM was flat at 2.7% sequentially, in line with our expectations.

GNPL ratio declined to 3.82% from 4.14% in 2QFY12, and NNPL ratio declined to 0.83% from 0.93% with a healthy provision cover of 78.94%. Incremental delinquency ratio was 1% and LLPs were at 0.57%.

Tier-1 capital was at a sector-leading 13.13%, and ROA was 1.54% (1.41% in 2QFY12).

### Outlook and key notes from management discussion:

**Loan growth to remain robust** – ICICI guided for 18% loan growth in FY12, driven by auto, mortgage, working capital loans, disbursals on existing sanctions and priority sector lending. International book is expected to stay flat. We expect 20% in FY13.

**Expect marginal uptick in NIMs** – ICICI expects NIM to stay at 2.7% for FY12 and is targeting 2.8% beyond that. While overseas NIM has peaked at 1.4%, increase in domestic mix and CASA focus would drive improvement. We have built in 2.65% for FY13 at present.

**Asset quality to remain stable** – ICICI expects LLPs to stay within 70bps in FY12 and 75bps in FY13, including the NPV hit from restructured assets. We had factored in 88bps and 100bps for FY12 and FY13, respectively. The bank expects to add another INR13bn in Q4FY12 to its existing outstanding restructured book of INR30bn. The bank has brought down its proportion of unsecured retail loans to1.3% and has reduced builder loans by 10% q-q. Delinquency ratio and LLPs have improved in FY12 (Exhibit 1).

**Focus on reducing drag on RoE** – ICICI started receiving dividends from its life insurance subsidiary and expects to do so every quarter going forward as a means of generating returns on its capital beyond the requisite solvency margin. It is also working towards rationalizing the capital structure of its UK and Canada subsidiaries over the next 1-2 years.

**Opex ratios to improve** – The bank expects the cost-to-income ratio to clock around 43-44% for FY12 and improve further to 41% by FY13 through increases in employee productivity despite adding another 300 branches from here. We are budgeting a 42% cost-to-income ratio for FY12 and FY13.

**Comfortable on overseas ALM** – The bank has paid for bond redemptions of $700m in Jan'12 and has sufficient liquidity to meet repayments coming up in FY13.

**Fee income growth to recover** – The bank expects fee income from transaction banking and third-party distribution to add to strong growth in FY13 on a lower FY12 base.

### Valuation:

ICICI Bank currently trades at 1.4x our FY13F ABV and 13x our FY13F EPS. At our TP for the core bank, ICICI would trade at 1.7x FY13F ABV and 15.6x FY13F EPS for an ROE of 11%.


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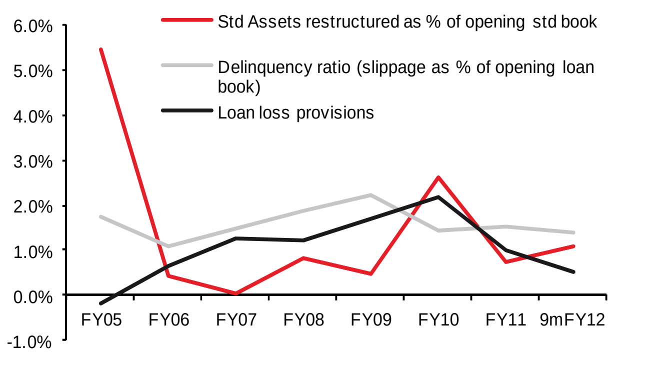
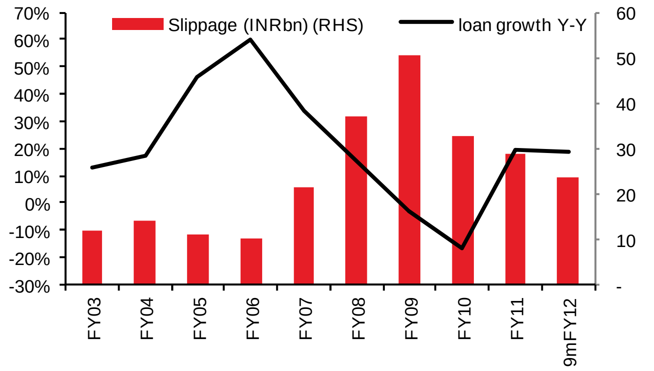
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**Fig. 1: Asset quality trends**




Source: Company data, Nomura research

**Fig. 2: Slippage vs loan growth**




Source: Company data, Nomura research

**Fig. 3: Earnings summary**

| Earnings summary (INRmn) | 3QFY12 | 2QFY12 | 3QFY11 | %y/y | %q/q | 3QFY12F | Variance |
|---|---|---|---|---|---|---|---|
| Interest Income | 85,919 | 81,576 | 66,960 | 28.3 | 5.3 | 81,835 | 5.0 |
| Interest on advances | 56,858 | 53,807 | 41,620 | 36.6 | 5.7 | 55,615 | 2.2 |
| Income on investments | 24,725 | 23,450 | 21,212 | 16.6 | 5.4 | 21,565 | 14.7 |
| Interest on balances with RBI | 1,341 | 1,153 | 954 | 40.7 | 16.3 | 1,234 | 8.7 |
| Others | 2,994 | 3,166 | 3,174 | (5.7) | (5.4) | 3,422 | (12.5) |
| Interest expended | 58,799 | 56,512 | 43,842 | 34.1 | 4.0 | 54,512 | 7.9 |
| **Net Interest Income** | **27,120** | **25,064** | **23,117** | **17.3** | **8.2** | **27,322** | **(0.7)** |
| Non-interest income | 18,919 | 17,396 | 17,488 | 8.2 | 8.8 | 19,355 | (2.3) |
| Fees | 17,010 | 17,000 | 16,250 | 4.7 | 0.1 | 18,004 | (5.5) |
| Trading gains | (650) | (800) | 210 | (409.5) | (18.8) | 339 | (291.5) |
| Total Operating expenses | 19,168 | 18,922 | 17,179 | 11.6 | 1.3 | 19,091 | 0.4 |
| Employee expenses | 8,366 | 8,427 | 7,605 | 10.0 | (0.7) | 8,122 | 3.0 |
| Other Operating expenses | 10,802 | 10,495 | 9,575 | 12.8 | 2.9 | 10,969 | (1.5) |
| DMA Expense | 373 | 362 | 405 | (7.8) | 3.0 | 344 | 8.4 |
| **Operating Profit** | **26,871** | **23,538** | **23,426** | **14.7** | **14.2** | **27,587** | **(2.6)** |
| Core operating profit | 27,521 | 24,338 | 23,216 | 18.5 | 13.1 | 27,247 | 1.0 |
| Total Provisions | 3,411 | 3,188 | 4,643 | (26.5) | 7.0 | 6,886 | (50.5) |
| PBT | 23,460 | 20,350 | 18,783 | 24.9 | 15.3 | 20,700 | 13.3 |
| Core PBT | 24,110 | 21,150 | 18,573 | 29.8 | 14.0 | 20,361 | 18.4 |
| Tax | 6,179 | 5,318 | 4,413 | 40.0 | 16.2 | 5,796 | 6.6 |
| **Net profit** | **17,281** | **15,032** | **14,370** | **20.3** | **15.0** | **14,904** | **15.9** |
| EPS | 15.0 | 13.0 | 12.4 | 20.5 | 15.1 | 12.9 | 16.2 |

Source: Company data, Nomura estimates

**Fig. 4: Loans & Deposits**

| Loans & Deposits (INRmn) | 3QFY12 | 2QFY12 | 3QFY11 | %y/y | %q/q |
|---|---|---|---|---|---|
| Advances | 2,461,575 | 2,339,522 | 2,066,920 | 19.1 | 5.2 |
| Total Deposits | 2,605,894 | 2,450,917 | 2,177,468 | 19.7 | 6.3 |
| CASA Deposits | 1,135,370 | 1,031,460 | 962,000 | 18.0 | 10.1 |
| Savings Account Deposits | 734,980 | 701,490 | 645,770 | 13.8 | 4.8 |
| Current Account Deposits | 400,390 | 329,970 | 316,230 | 26.6 | 21.3 |
| Term Deposits | 1,470,524 | 1,419,457 | 1,215,468 | 21.0 | 3.6 |
| Investments | 1,497,914 | 1,476,849 | 1,337,027 | 12.0 | 1.4 |
| Total Assets | 4,592,930 | 4,407,252 | 3,928,970 | 16.9 | 4.2 |

Source: Company data, Nomura research

**Fig. 5: Breakup of loans**

| Breakup of loans (INRmn) | 3QFY12 | 2QFY12 | 3QFY11 | %y/y | %q/q |
|---|---|---|---|---|---|
| Domestic Corporate | 649,856 | 566,164 | 533,265 | 21.9 | 14.8 |
| SME | 115,694 | 109,958 | 86,811 | 33.3 | 5.2 |
| Rural | 174,772 | 175,464 | 152,952 | 14.3 | (0.4) |
| Retail advances | 824,000 | 819,000 | 790,000 | 4.3 | 0.6 |
| - Home Loans | 547,136 | 551,187 | 517,450 | 5.7 | (0.7) |
| - Auto | 220,832 | 206,388 | 196,710 | 12.3 | 7.0 |
| - Personal Loans | 9,888 | 12,285 | 25,280 | (60.9) | (19.5) |
| - Credit cards | 24,720 | 25,389 | 31,600 | (21.8) | (2.6) |
| Total Loans | 2,461,575 | 2,339,522 | 2,066,920 | 19.1 | 5.2 |
| International Loans | 696,626 | 669,103 | 504,329 | 38.1 | 4.1 |

Source: Company data, Nomura research

**Fig. 6: Key Ratios**

| Key Ratios | 3QFY12 | 2QFY12 | 3QFY11 | y/y bps | q/q bps |
|---|---|---|---|---|---|
| Net Interest Margin, % | 2.70 | 2.61 | 2.64 | 6 | 9 |
| Cost/Income Ratio, % | 41.63 | 44.57 | 42.31 | (67) | (293) |
| CASA, % | 43.57 | 42.08 | 44.18 | (61) | 148 |
| Total CAR, % | 18.88 | 18.99 | 19.98 | (110) | (11) |
| Tier I, % | 13.13 | 13.14 | 13.72 | (59) | (1) |
| RoE (annualised), % | 12.57 | 11.34 | 11.27 | 130 | 124 |
| RoA (annualised), % | 1.54 | 1.41 | 1.46 | 8 | 13 |

Source: Company data, Nomura research

**Fig. 7: Asset Quality**

| Asset Quality (INRmn) | 3QFY12 | 2QFY12 | 3QFY11 | %y/y | %q/q | |
|---|---|---|---|---|---|---|
| Gross NPL | 97,230 | 100,213 | 101,866 | (4.6) | (3.0) | |
| Net NPL | 20,477 | 21,838 | 28,727 | (28.7) | (6.2) | |
| Gross NPL, % | 3.82 | 4.14 | 4.75 | (93) | (32) | bps |
| Net NPL, % | 0.83 | 0.93 | 1.39 | (56) | (10) | bps |
| Provision cover, % | 78.94 | 78.21 | 71.80 | 714 | 73 | bps |
| LLP, % | 0.57 | 0.56 | 0.64 | (7) | 1 | bps |

Source: Company data, Nomura research

# Appendix A-1

## Analyst Certification

We, Vijay Sarathi, Abhishek Bhattacharya and Amit Nanavati, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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**Mentioned companies**

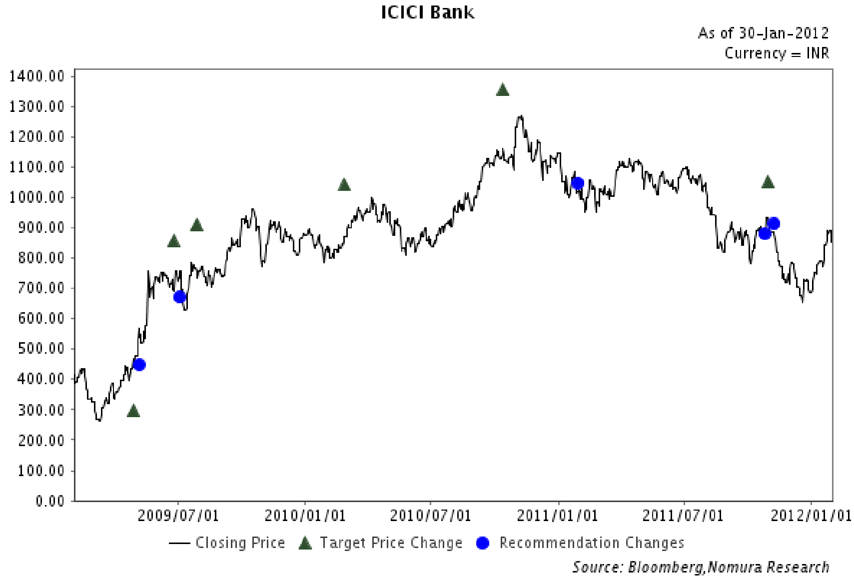
| Issuer name | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|---|---|---|---|---|---|---|
| ICICI Bank | ICICIBC IN | INR 852 | 30-Jan-2012 | Buy | Not rated | |

## Previous Rating

| Issuer name | Previous Rating | Date of change |
|---|---|---|
| ICICI Bank | Not Rated | 31-Oct-2011 |

**ICICI Bank (ICICIBC IN)** **INR 852 (30-Jan-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)




| Date | Rating | Target price | Closing price |
|---|---|---|---|
| 31-Oct-11 | Buy | | 931.15 |
| 31-Oct-11 | | 1,050.00 | 931.15 |
| 17-Oct-11 | Not Rated | | 898.85 |
| 21-Jan-11 | Suspended | | 1,065.55 |
| 13-Oct-10 | | 1,355.00 | 1,158.70 |
| 26-Feb-10 | | 1,040.00 | 872.15 |
| 27-Jul-09 | | 910.00 | 757.90 |
| 24-Jun-09 | Buy | | 689.40 |
| 24-Jun-09 | | 855.00 | 689.40 |
| 27-Apr-09 | Neutral | | 467.55 |
| 27-Apr-09 | | 295.00 | 467.55 |

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We arrive at our target price of INR1,050 by valuing the subsidiaries on a sum-of-the-parts basis at INR180 and using a three-stage residual-income valuation method for core banking business which assumes the following: 1) a 19.3% CAGR for its average interest-earning assets over FY11-14E, followed by a CAGR of 16% over FY14-20E and a terminal growth rate of 4% beyond that; 2) average ROE of 14.5% over FY12-20E and a 16.6% terminal value ROE; and 3) discount rates ranging from 15.45% (current cost of equity) for FY12-14E, 12.25% for FY15-20F and a 10% terminal rate. At our TP for the core bank, ICICI will trade at 1.7x our FY13E ABV and 15.6x the FY13E EPS for an ROE of 11%. Our book value estimates do not factor in any equity dilution.

**Risks that may impede the achievement of the target price** Accelerated monetary policy easing, policy intervention to resolve power sector bottlenecks like fuel availability and SEB (state electricity board) financial health are key upside catalysts. RBI persisting with a tight money policy, policy logjam with respect to power sector bottlenecks and continued global macro uncertainty are downside risks.

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