

ICICI Bank Ltd.**Current Price: Rs. 1136 Target Price: Rs. 1275****BUY****QUICK DATA**

Face Value (Rs)	10.0
Div. Yield (%)	1.5
No of shares ('mn)	1149.5
52 week High/Low(Rs)	1149 / 641
NSE Symbol	ICICIBANK
BSE Code	532174
Edel Code	ICIBAN
Market cap (Rs. bn.)	1292.9

BUSINESS OVERVIEW

ICICI Bank (**ICIBAN**) 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.

SHAREHOLDING PATTERN (%)

Promoters	-
MFs, FIs & Banks	26.8
FII's	35.8
Others	37.4

INVESTMENT THEME

- We believe that the current stage of economic growth in India, where savings and capital formation are at ~34% of GDP, offers serious opportunities in financial intermediation. Core to our hypothesis is our belief that, over the next ten years nominal GDP (excluding agriculture) is expected to grow at ~13%, and revenues from the financial services sector (which would lead this growth) are expected to grow at 22% to Rs. 266.4 trillion by FY20E.
- ICICI Bank's 4C (Cost, Credit, CASA, Capital) strategy is on track and, in fact, well ahead of our expectations. The bank's business model has emerged fitter and leaner through aggressive cost control. Structurally, improving the liability profile was the cornerstone of management's consolidation strategy—low-cost deposits improved to ~40% and will be maintained at 33-35%. A big positive has emerged on the asset quality front, where NPL formation is declining; reinforcing that worst of retail NPL cycle is behind us.
- In FY13, we expect the bank to grow its domestic book in line with the system; overall loan book growth is likely to settle at ~15-18%. Higher share from high-margin domestic business, coupled with further traction on CASA could boost margin in FY13 to 2.9%. Moreover, ICIBAN is adequately capitalised with CAR above 12.8%, it has one of the highest capital adequacy ratio's (CAR 18%) in the sector that can be deployed to ramp up business as the economic scenario improves.

EDELWEISS CLASSIFICATION

Market Cap	Large Cap
Liquidity	High
Relative Reco	Sector Outperformer
Relative Risk	Low
Sector Rating	BFSI – Overweight

GROWTH METRICS (%)

Year to March	FY12	FY13E	FY14E
Net Interest Income Growth	19	27.6	15.4
Fees Growth	4.1	7.6	12.8
PAT Growth	25.5	22.0	13.9
EPS Growth	25.4	22.0	13.9

- ICIBAN has best in class retail liability franchise. Around 40.7% of its deposits comprise low-cost current account and savings account (CASA) deposits, which collectively enable the bank to contain its deposit costs. AXIBAN has decent asset quality, with net NPA at 0.8%, restructured advances at 1.5% & provision coverage at 79%.
- We believe ICIBAN a better play on capital market revival, given its strong franchise, leadership positioning and quality management. We like the bank for its strong credit & fee income, best in class liability franchise and decent asset quality. The stock trades at 1.8x FY14 P/ABV – 55% discount to HDFCB – attractive given it is expected to deliver RoAs of 1.7%, RoEs of ~15% and is well positioned to capture maximum upside to improvement in macros.

INVESTMENT 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 balancesheet. Sharp increase in interest rates can affect the margins, as its deposit mix has higher share of bulk deposits.

OUTLOOK AND VALUATIONS

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%. On our FY13E and FY14E EPS estimate of Rs. 68.4 and Rs. 77.9, the stock is currently trading at a P/E of 16.6x and P/BV of 2.0x on FY13E basis and at a P/E of 14.6x and P/ABV of 1.8x on FY14E basis. Given these attractive valuations and its growth prospects, we believe the stock offers upside potential in the near term.

EDELWEISS RATIOS - COMPARATIVE VALUATIONS

Company	ICICI Bank	Axis Bank	HDFC Bank	Kotak Mah. Bank
1 Wk Price performance (%)	(1.2)	(2.9)	(0.4)	(2.2)
3 M Price performance (%)	17.0	39.6	15.7	12.0
PE (x)	17.7	13.8	32.2	25.2
Price to Book Value (x)	2.1	2.5	5.4	3.8

FINANCIAL SNAPSHOT

Year to March (Rs. mn)	FY12	FY13E	FY14E
Net revenue	182,369	220,935	252,326
Operating expense	78,504	91,299	105,427
- Employee exp	35,153	42,447	51,255
- Other opex	43,352	48,852	54,173
Preprovision profit	103,865	129,636	146,899
Provisions	15,891	23,027	25,474
Loan loss provisions	9,932	23,027	25,474
Investment depreciation	4,132	-	-
Profit before tax	87,973	106,610	121,425
Provision for tax	23,321	27,719	31,570
Profit After Tax	64,653	78,891	89,854
Diluted EPS (INR)	56.1	68.4	77.9
Diluted P/E (x)	20.2	16.6	14.6
Adjusted Book Value (Rs.)	524	574	633
P/BV (x)	2.2	2	1.8
ROAE (%)	11.2	12.5	12.9

TECHNICAL VIEW

Resistance

Resistance 1 - 1150

Resistance 2 - 1170

Support

Support 1 - 1108

Support 2 - 1080



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