Investors' Delight: ICICI Bank Ltd. – "BUY"

"Healthy performance in all fronts makes ICICI Bank outperformer in present stressful scenario"

Investment Summary

Date	6th August, 2013
Industry	Private Sector Banking
CMP	Rs. 866
Target Price	Rs. 1,050
Upside	21%
BSE/NSE Code	532174/ICICIBANK
Bloomberg Code	ICICIBC IN
Reuters Code	ICBK.BO
52 Week High	Rs. 1236.90 (28th May, 2013)
52 Week Low	Rs. 862 (06 Aug, 2013)
Face Value	Rs. 10
No. of outstanding shares	1,154 mn
Market Capitalization	Rs. 1,000 bn/ (US$ 16.25 bn)
Book Value	Rs. 628 (Q1FY14)
Price/Book Value (x)	1.37
Shareholding Pattern (%)	As on June 2013
FIIs	39.24 %
DIIs	22.98 %
Public and Others	37.78%

Robust Q1FY14 performance: The Company reported a healthy performance which was evident in the form of 25.3% growth in standalone profit after tax to Rs. 22.74 bn in Q1-2014 on account of healthy growth of 12.6% on yoy basis in Retail loan book which forms 36% of the total Loan Book. On a consolidated basis too, PAT witnessed yoy growth of 32.3 percent to touch Rs. 27.47 bn in Q1FY14. Net interest income too increased by 19.6% on yoy basis; net interest margin improved from 3.01% in Q1-2013 to 3.27% in Q1-2014 owing to improvement in CASA ratio to 43.2% in Q1FY14 as compared to 41.9% as on March 31, 2013. Operating profit jumped by 29.3 percent on yoy basis to Rs. Rs. 38.14 bn owing to NII growth and non interest income growing by 32.1%. The bank sees a growth in the fee income especially on the retail side and forex and commercial side. This quarter treasury income increased on account of realized gains in fixed income portfolio while other income increased due to dividend income of subsidiary companies Going further the bank expects to improve NIM by 10bps and to maintain Cost to Income at 40%. Net NPA ratio of 0.69% at June 30, 2013 (March 31, 2013: 0.64%; June 30, 2012: 0.61%). Consolidated return on equity (annualised) for Q1- 2014 stood at 15.6% compared to 13.3% for Q1-2013 and one of the best Return on Asset ratio (1.76 percent) in the industry.

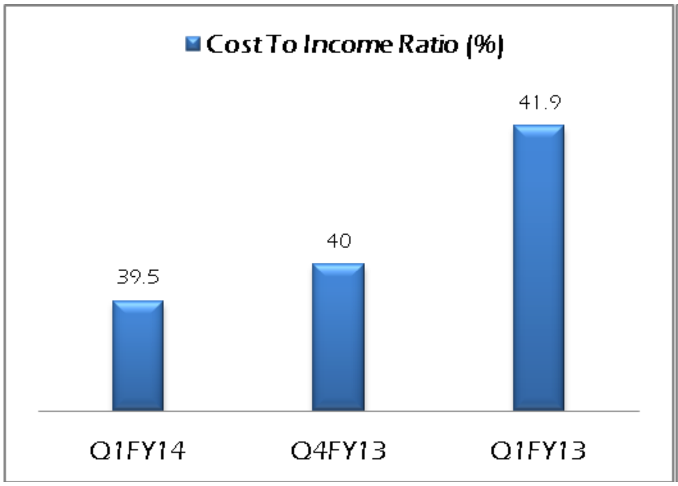
Ajcon's view: At Ajcon, we believe ICICI Bank is poised for a big leap similar to its immediate peer HDFC Bank. Structural factors like focus on retail segment, high CASA ratio with 3,350 branches, steady loan growth, low cost structure, lower NPAs, high CRAR, good return ratios, makes it a value buy at CMP and believe that rerating is on the cards soon. The current stock price reflects temporary aberrations. In our view, ICICI Bank is well placed to tackle the current difficult circumstances. According to us, the Bank's stock needs to be rerated on the valuation front owing to the above factors and robust Q1FY14 result among all Private Sector Banks so far. We believe the Bank deserves premium vis-à-vis peers as compared owing to a) healthy growth in overall business, b) higher retail lending, c) improvement in domestic NIMs, d) domestic CD ratio of 80%, e) low NPA's amidst difficult environment, f) high PCR of 75.4%, g) favorable Cost to Income Ratio of 39.5 percent, in depressed macro conditions instills confidence which makes us optimistic on future performance.

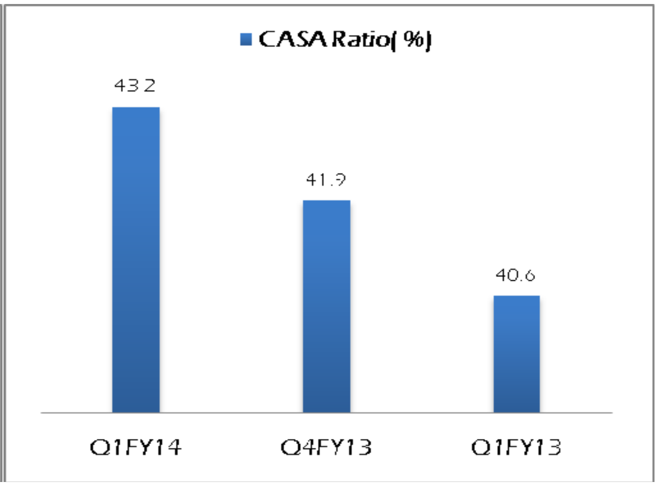
At CMP, the stock is available at attractive valuation of P/BV: 1.37x (Q1FY14 Book value) which we feel is undervalued compared to its peers like HDFC Bank, Axis Bank, Kotak Mahindra Bank, ING Vysya, Karur Vysya and Indusind Bank. Considering Bank's good performance in all fronts despite stressful economic conditions, we recommend investors to "BUY" with a target price of Rs. 1,050 (P/BV of 1.5x at FY14E Consolidated Book Value – Q1FY14 stood at Rs. 628) an upside of 21% from current levels.

Akash Jain - MBA (Financial Markets), BMS (Finance)
Email: research@ajcon.net Website: www.ajcononline.com

Improving Branch Network

The Bank has continued with its strategy of pursuing profitable growth by leveraging its strong corporate franchise, its international presence and its branch network in India. During the quarter, the Bank added 250 branches, including 150 low cost Gramin branches, and 421 ATMs to its network. As on June 30, 2013, the Bank had 3,350 branches, the largest branch network among private sector banks in the country. The Bank's ATM network increased to 10,902 ATMs at June 30, 2013 as compared to 9,366 at June 30, 2012. ICICI Bank structurally enjoys a high CASA ratio and in Q1FY14 too the trend was on an up move. CASA ratio improved by 260 bps on yoy basis to 43.2% in Q1FY14.





Source: Company, Ajcon Research

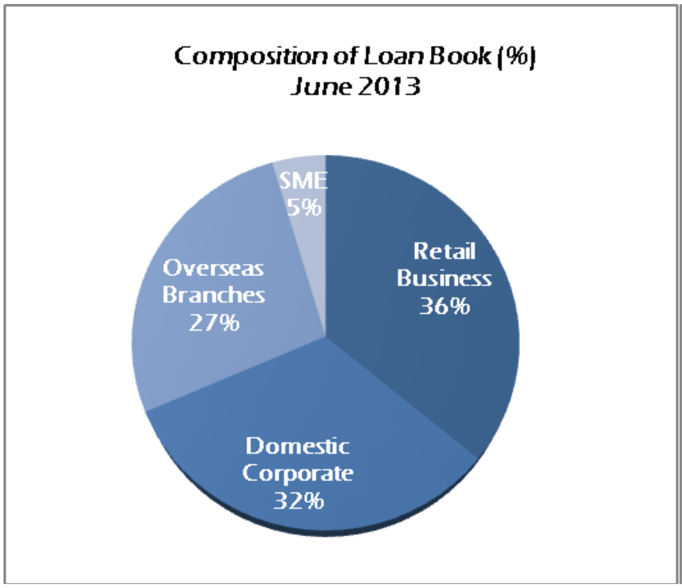
Credit growth

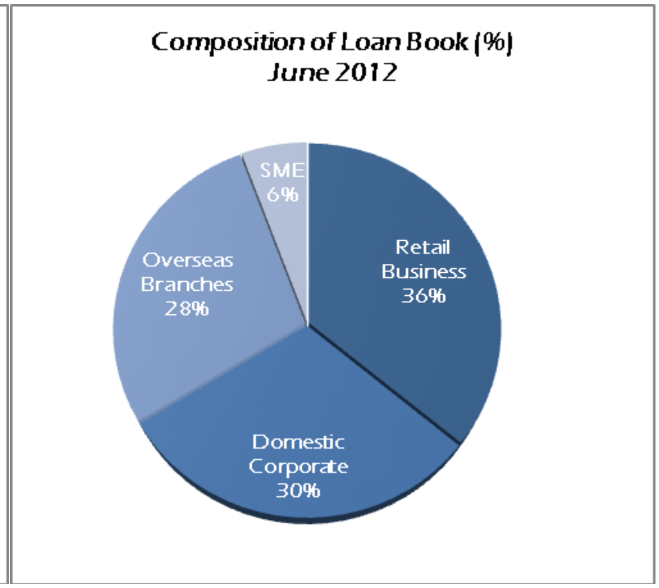
Total advances increased by 12% year-on-year to Rs. 301,370 crore (US$ 50.7 billion) at June 30, 2013 from Rs. 268,430 crore (US$ 45.2 billion) at June 30, 2012. The year-on-year growth in domestic advances was 14%. The Bank has continued to see healthy growth in its retail disbursements, with mortgage and auto loan disbursements during the quarter increasing by about 36% and 17% respectively year-on-year. As a result, the outstanding mortgages and auto loan portfolios for the Bank have grown by 20% and 21% respectively on a year-on-year basis at June 30, 2013. Retail lending is strong whereas commercial loans have decreased. For Fiscal 2014, as per management guidance loan growth to be around 2 to 3%out of which retail will be 18 to 20%.

Deposit growth

The Bank has seen healthy trends in current and savings account (CASA) deposits mobilization, especially savings deposits. During Q1FY14, savings account deposits increased by Rs. 3,202 crore (US$ 539 million) and current account deposits remained stable. At June 30, 2013, savings account deposits were ` 88,853 crore (US$ 15.0 billion) and current account deposits were Rs. 36,981 crore (US$ 6.2 billion). The Bank's CASA ratio improved to 43.2% as on Q1FY14 compared to 41.9% at March 31, 2013. The average CASA ratio improved to 39.0% during Q1FY14 compared to 38.1% during the quarter ended March 31, 2013. Term deposits have come down, wholesale deposits have sequentially declined. Out of the Term deposits retail deposits would be 60%.Out of the total deposits retail comprises 70%. Due to the bank's exposure to retail deposits it does not feel the need to resort to increasing the rates. Going forward CASA Ratio to be around 38 to 39%

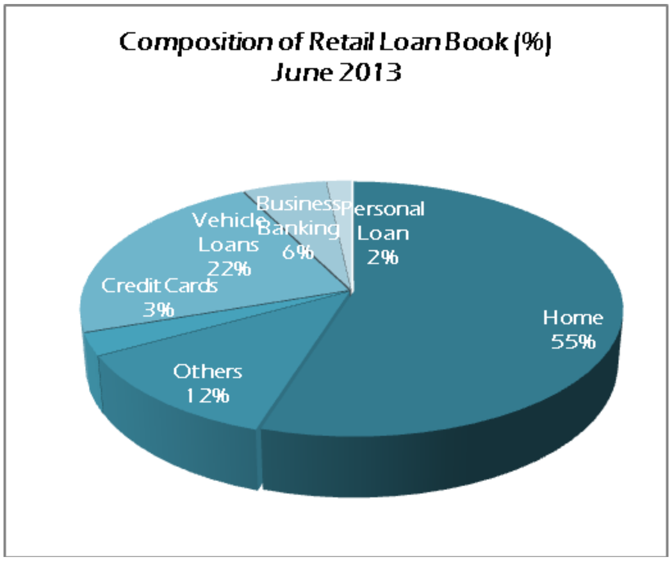
Loan Book

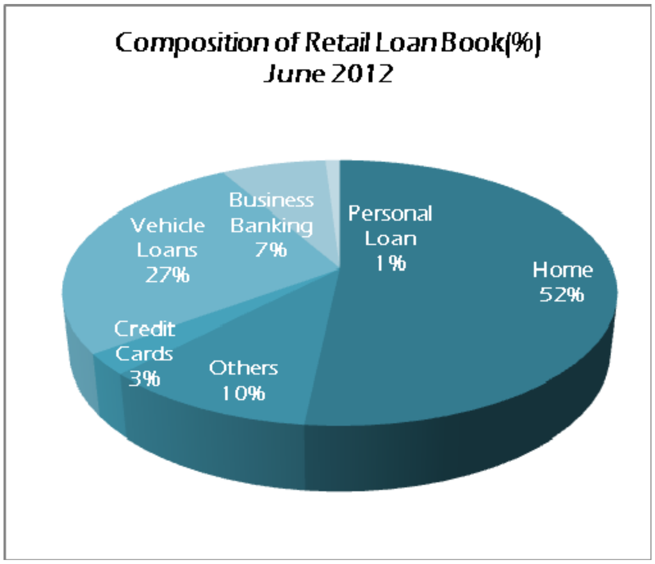




Source: Company, Ajcon Research

Composition of Retail Loan Book





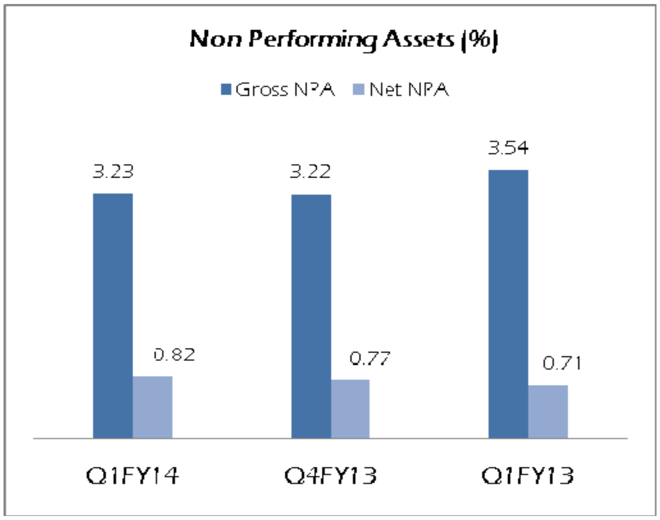
Source: Company, Ajcon Research

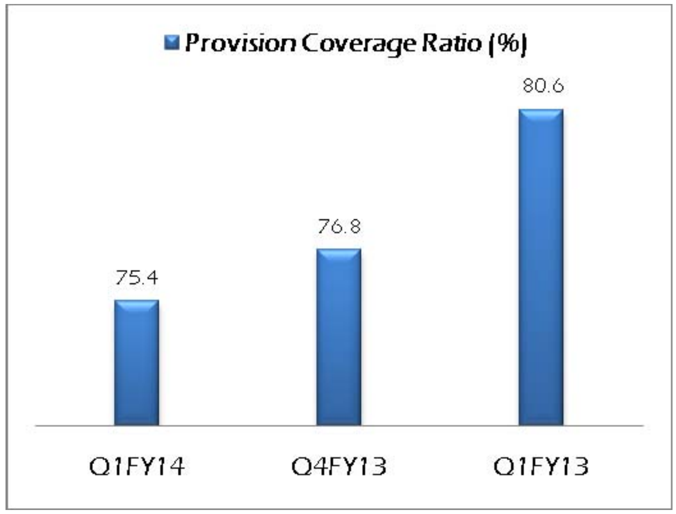
Asset quality, Restructured assets and provisions

Net non-performing assets as on Q1FY14 stood at Rs. 2,4.7 bn (US$ 416 million) compared to Rs. 22.34 bn (US$ 376 million) at March 31, 2013. The net non-performing asset ratio was 0.69% in Q1FY14 versus 0.64% in Q4FY13. The Bank's provision coverage ratio, computed in accordance with the RBI guidelines was 75.4% at June 30, 2013. Net loans to companies whose facilities have been restructured were Rs. 59.15 bn (US$ 996 million) at June 30, 2013 compared to Rs. 53.15 bn (US$ 895 million) at March 31, 2013. Slippages mainly occurred in the SME and Mid size Cap and write offs were of about Rs 3.96 cr mainly from retail books. Cumulative slippages were around 8% over the last 5 years. The bank has a pipeline of Rs. 10 -11 billion of restructured advances which also includes CDRs. We feel a major exposure is towards Lanco Infratech Ltd.

Akash Jain - MBA (Financial Markets), BMS (Finance)
Email: research@ajcon.net Website: www.ajcononline.com

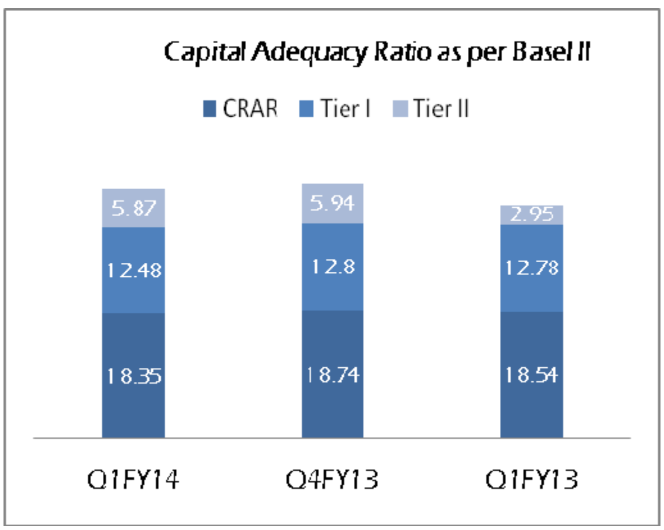
The bank generally makes an excess provision in retail loans while in corporate and SMEs it is in line with RBI norms. Provisions will be mainly made in the corporate and SME portfolios. Bank has made a provision of Rs. 2 billion which is in excess of RBI's provisioning norms. In Q1FY14, specific provisions were made against specific NPAs. Overall, outstanding general provisions stood at Rs. 16 bn. The Bank's provisions witnessed increase of 27.3% on yoy basis and 28.9% on qoq basis to touch Rs. 5.9 bn. The provisions are made for restructured assets and include around Rs. 2 bn worth of specific provisions.

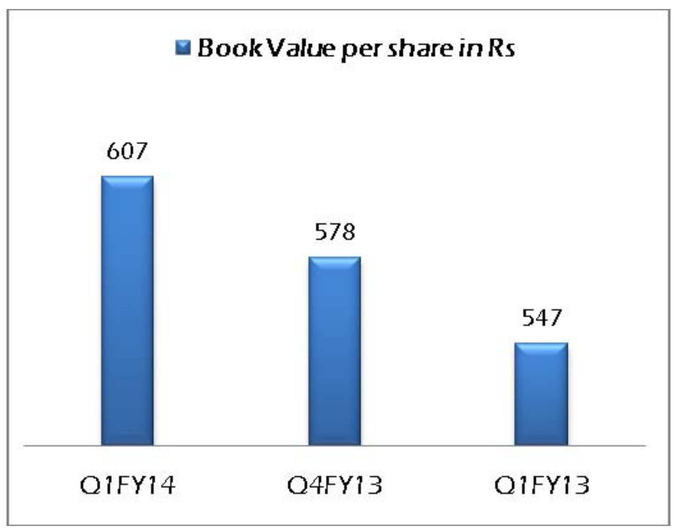




Source: Company, Ajcon Research

Robust Capital adequacy ratio in stressful times...





Source: Company, Ajcon Research

The Bank's capital adequacy as on Q1FY14 as per Reserve Bank of India's guidelines on Basel III norms stood at 17.04% and Tier-1 capital adequacy was 11.72% (exceeded norm of 6 percent), well above regulatory requirements. In line with applicable guidelines, the Basel III capital ratios reported by the Bank for the quarter ended June 30, 2013 do not include the profits for the quarter. On a comparable basis, the total capital adequacy ratio as per Basel II norms is 18.35% and Tier-1 capital adequacy is 12.48%. Including the profits for Q1-2014, the capital adequacy ratio for the Bank as per Basel III norms would have been 17.39% and the Tier I ratio would have been 12.07%. Going back to basics: Tier I includes Paid up Equity Capital + Statutory Reserves + Other Disclosed Reserves + Capital Reserves + Innovative Perpetual Debt Instruments and Tier II Capital includes revaluation reserves + general provisions and loss reserves + investment reserve + upper Tier 2 bonds and surbordinate debt instruments eligible for inclusion in Tier – II Capital. ICICI Bank and its subsidiaries have issued debt instruments that form a part of Tier I and Tier II capital.

Financial Summary - Q1FY14

Particulars (Rs in Crore)	Q1FY14	Q4FY13	QoQ (%)	Q1FY13	YoY (%)
Interest Earned (A)	10,421	10,365	0.5	9546	9.2
a) Interest-Discount on Advances/ Bills	7196	6971	3.2	6456	11.5
b) Income on Investments	2885	2820	2.3	2702	6.8
c) Interest on Balances with RBI and other inter bank	58	134	(57.0)	124	(53.3)
d) Others	283	440	(35.7)	264	7.0
Other Income (B)	2,484	2,208	12.5	1880	32.1
Total Income (A+B)	12905	12574	2.6	11426	12.9
Interest Expended	6600	6562	0.6	6353	3.9
Net Interest Income	3820	3803	0.5	3193	19.7
Operating Expenses	2491	2407	3.5	2124	17.3
Employee Cost	1089	1000	9.0	987	10.4
Other Operating Expenses	1401	1408	(0.5)	1137	23.3
Total Expenditure	9091	8969	1.4	8476	7.3
Operating Profit	3814	3604	5.8	2949	29.3
Provisions(other than tax) and contingencies	**593**	**460**	**28.9**	**466**	**27.3**
Profit and Loss from Ordinary Activities before tax	3221	3144	2.4	2483	29.7
Tax Expenses	947	840	12.7	668	41.6
Current Period Tax	985	842	17.0	737	33.8
Deferred Tax Adjustment	(39)	(2)	1536.0	(68)	(43.3)
Net Profit/Loss from Ordinary Activities after tax	2274	2304	(1.3)	1815	25.3
Net Profit for the period	**2274**	**2304**	**(1.3)**	**1815**	**25.3**
No. of Shares (Cr)	115.41	115.63	(0.2)	115.29	0.1
EPS (Rs.)	19.70	19.93	(1.1)	15.74	25.2
Key Financial Indicators					
ROA (%)	1.8	1.80	(4.0)	1.51	25.0
CASA (%)	43.2	41.9	131.4	40.60	261.5
Cost/Income %	39.5	40.0	(54.1)	41.9	(235.6)
Net Interest Margin (%)	3.3	3.3	(6.0)	3.01	26
Book Value per share (Rs.)	607.0	578.0	5.0	547.00	11
Gross NPA (Cr)	10009	9608	4.2	9817	2
Net NPA (Cr)	2463	2231	10.4	1905	29.3
(%)of Gross NPA	3.23	3.22	1.0	3.54	(31)
(%)of Net NPA	0.82	0.77	5.0	0.71	11
Provision Coverage Ratio (%)	75.40	76.80	(140) bps	80.6	(520)bps
CRAR as per BASEL II *	**17.0**	18.74	(170) bps	18.54	(150)
Tier I (%)	11.7	12.80	(108) bps	12.78	(106)
Tier II (%)	5.32	5.94	(62)bps	5.76	(44)

Source: Company, Ajcon Research, * Q1FY14 CRAR is as per Basel III

Disclaimer

The content in this research report has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. The content in the research report should not be research reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global Services Ltd. would not be responsible for any loss to the investors; they should verify all the fundamentals before investing. Investors should not soley rely on the information contained in this research report and must make investment decisions based on their own investment objectives, goals, risk profile, financial position and based on their own analysis.. The securities discussed in this research report may not be suitable for all investors. The recepients of this material should take their own professional advice before acting on this information. Ajcon Global Services Ltd., its directors and employees, will not in any way be responsible for the contents of this research report. This is not an offer to sell or a solicitation to buy any securities.

Ajcon Global Services Ltd. proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in Futures and Options Segment, and buy or sell the securities in Cash market thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this research report certifies that all of the views expressed in this research report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this research report. Ajcon Global Services Ltd., may be considered as interested party in view of its relationship as the financial advisors and consultants to some of the companies discussed in the research report.

AJCON GLOBAL

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

Our research reports are also available on Bloomberg [AGSL<Go]

Corporate and Broking Division: 408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160421

City Office : 904, Raheja Centre, Plot No. 214, Free Press Journal Marg, Near MLA Hostel and Mantralaya, Nariman Point, Mumbai – 400021. Tel: 91-22-66551960

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40