

Initiating Coverage
June 30, 2011

ICICI Bank Ltd.



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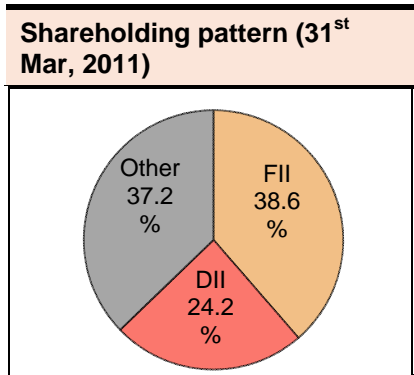
ICICI Bank

Truly Universal Bank...

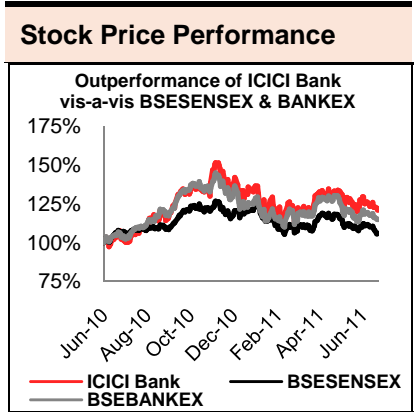
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Key Stock Data	
Sector	Banking
CMP	₹1087.15
52wk High/Low	1277/830
Market Cap	₹1252.2bn (\$27826mn)
6m Avg. daily vol	480246
BSE Sensex	18693.86
Reco	'Buy'
Target Price	₹1250

Stock Codes	
Bloomberg Code	ICICIBC.IN
Reuters Code	ICBK.BO
BSE Code	532174
NSE Code	ICICIBANK
Face Value	₹10



Price Performance (%)				
	1 Mth	3 Mths	6 Mths	1 Yr
	1.3%	-1.5%	-2.8%	24.8%



ICICI Bank is the flag bearer of private banking domain in India, incorporated in the year 1994 as a part of the ICICI group with the name ICICI Banking Corporation Ltd. It is India's second-largest private sector bank with total assets of ₹4062.34bn as on Mar 31, 2011. It has a wide spread network of 2529 branches and about 6104 ATMs in India, and has presence in 19 countries. It fulfills the needs of its Corporate and Retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of Investment Banking, Asset Management Company, Life and Non-life Insurance and Venture Capital. Also, the bank in order to reap the overseas opportunities and increase its presence of the Indian Corporate abroad, it has opened up its subsidiaries across the continents. ICICI was amongst the first banks from India, that got listed it's American Depository Receipts (ADRs) on the New York Stock Exchange. It also has its presence in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Its UK subsidiary has established branches in Belgium and Germany.

- **Expansion in loan book:** The bank has been reporting sequential growth in advances since 4QFY10 and is expected to grow at ~17% CAGR during FY11-13E, driven by infrastructure, industrial capex and working capital requirements.
- **Strengthening its liability mix:** Re-pricing of half of the long-term borrowings in FY12-13E along with sustained high level of CASA will strengthen the bank's liability mix, resulting in lower cost of funds in the prevailing high interest rate scenario.
- **Efficient Asset-liability management leading to improvement in margins:** An analysis of the bank's assets-liability position shows that NIMs will stabilize at current levels of ~2.7% in FY12E and further improve to 2.8% in FY13E.
- **Adequately capitalized to support earnings quality:** The bank is well capitalized and in a position to meet lending targets. The core operating performance and growth is expected to increase ROE and ROA.

(continued...)

Key Financials

(₹cr)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Advances	218310.85	181205.60	216365.90	255305.77	296794.64
Deposits	218347.83	202016.60	225602.11	262826.46	310135.22
NII	8366.62	8114.36	9016.90	11004.57	13282.18
Total Income	38696.27	33184.58	32621.95	38319.73	44198.53
Profit after Tax	3758.13	4024.98	5151.38	6056.17	7070.72
EPS (₹)	33.78	36.10	44.72	52.58	61.39
Book Value (₹)	444.92	462.99	478.29	513.78	557.06
Adj. Book Value (₹)	404.02	428.54	457.39	491.57	534.11
RONW (%)	7.8%	8.0%	9.7%	10.6%	11.5%
ROA (%)	1.0%	1.1%	1.3%	1.4%	1.4%

(E- Keynote Capitals Institutional Research Estimates)

- **Merger - a big strategic move:** The deal with BoR is a strategic move taken by the bank to combine BoR branch franchise through its strong capital base.

The key concerns are:

- a) Any possible rise in NPAs could see higher provisioning than estimated, and may impact profitability and ROE.
- b) As a consequence of change in IRDA's policies on Insurance business, growth and margins could be impacted marginally.

At CMP of ₹1087.15, the stock is trading 2.21x of FY12E and 2.04x of FY13E adjusted book value. Considering the overall growth prospects of the bank, we Initiate coverage on the stock with a Buy recommendation for 12months period with a target price of ₹1250 (based on SOTP methodology), which implies 15.0% potential upside from current levels.

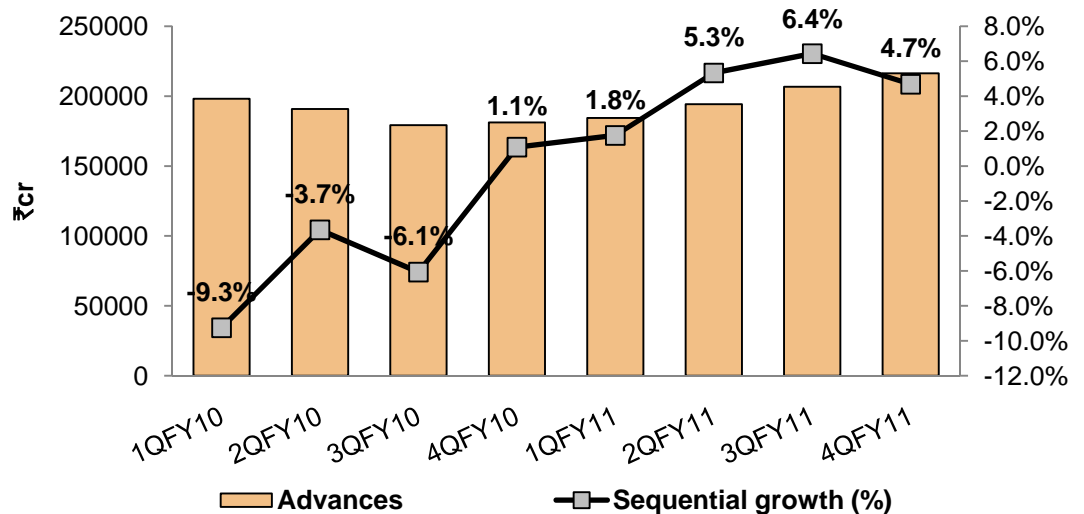
Investment Rationale

1. Expansion in loan book

The bank is the second-largest bank in India with a market share of ~10%. It enjoys a leading market share in most retail loan segments. It consolidated its loan book over FY08-10 with a larger focus on profitability and now back on a growth path. The core issue of loan book contraction is over and since 4QFY10 the bank has been reporting sequential growth in advances. The recovery in loan growth during the past two quarters was driven by rising disbursements of housing loans and project finance. We expect the loan book to grow at ~17% CAGR during FY11-13E, driven by infrastructure, industrial capex and working capital requirements.

Chart 1

Advances q-o-q growth (%)

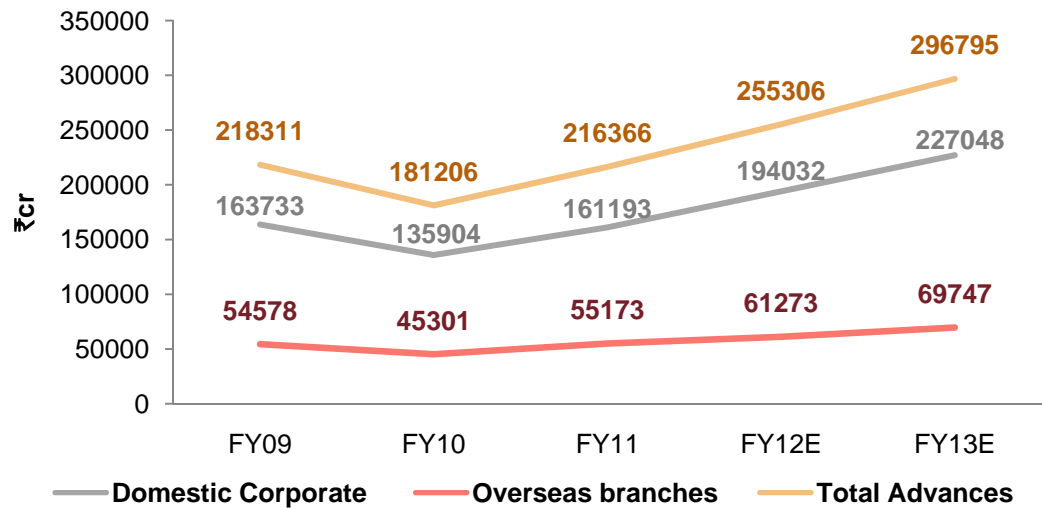


(Source: Company & Keynote Capitals Institutional Research)

In FY10-11, majority of credit growth was contributed by domestic markets, mainly from corporate and retail loan books. The bank's focus to expand in rural areas and higher credit demand in domestic markets across sectors would enhance its compositions resulting in decline in proportion of relatively lesser spread overseas business. We estimate 18.7% CAGR in the domestic loan book and 12.4% growth in overseas book during FY11-13E.

Chart 2

Advances Mix (Geographical-wise)



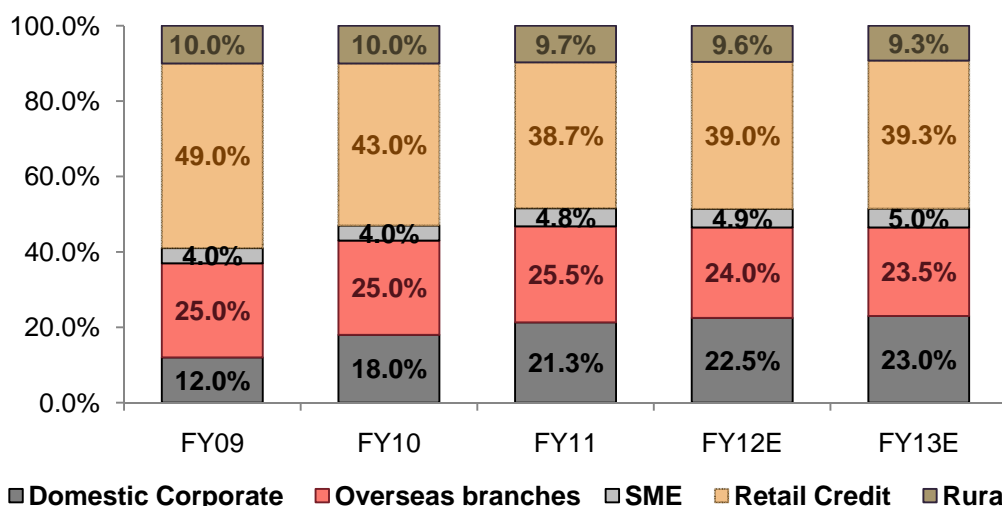
(E- Keynote Capitals Institutional Research Estimates)

The total loan book of the bank contracted by 17.0% on y-o-y basis in FY10, whereas large and mid corporate loans grew by 24.5% on y-o-y basis. The slowdown in the loan book was on account of (i) aggressive focus on retail loans, which led to increased delinquencies, (ii) slowdown in overseas operation, and (iii) greater dependence on term and bulk deposits affecting spreads. However, over the last few quarters, the bank has completely revamped its loan portfolio, wherein it has reduced its exposure in unsecured loan portfolio and repayments. Also, the acquisition of BoR will marginally impact the composition of the loan book as the BoR loan book is only 4.6% of the ICICI bank's total loan book.

The bank is predominately focusing on growing the secured loan book such as corporate loans, home loans and four-wheeler loans. The corporate loan book grew by 41.3% in FY11 and contributed 21.3% to overall loan book due to increased disbursement to the infrastructure segments. Going forward, we expect this trend to continue as a major amount of sanctions pending disbursement are to the power and infrastructure sectors. Also, the bank has plans to enhance business growth moderately by leveraging the new decentralized customer-oriented organizational structure along with an enhanced risk management system. Domestic Corporate, Infrastructure and SME lending is expected to grow at a higher pace in the coming years as compared to the retail loans. The SME loans grew by 43.3% in FY11 and contributed 4.8% to overall loan book. Further, improving margins and the recent US\$1bn bond issue would enable the bank to fund the growth in the international loan book.

Chart 3

Loan Book Mix



(E- Keynote Capitals Institutional Research Estimates)

Over the last few quarters, the share of retail loan portfolio has come down to 38.7% in FY11 from 43.0% in FY10 due to repayment and strategic decision to lessen the risky and unsecured assets. Within retail portfolio, unsecured personal loan has contracted by 49.9% and credit card by 29.1% in FY11. The management strategy is to maintain the qualitative loan growth and lessen the high risks attached to it. And in order to re-enter the market, the bank priced its loan products in the market at low and competitive rates. Hence, it is expected that the proportion of retail loans is likely to stabilize at ~39% in FY12-13E.

Retail Loans Break-up

Particulars	Retail Loans (₹cr)			As a % of Retail Loan Book			y-o-y growth (%)		
	FY09	FY10	FY11	FY09	FY10	FY11	FY09	FY10	FY11
Home Loans	57,765.05	46,751.04	53,924.44	54.0%	60.0%	65.0%	-11.4%	-19.1%	15.3%
Vehicle Loans	31,021.97	21,037.97	22,524.34	29.0%	27.0%	27.0%	-22.6%	-32.2%	7.1%
Personal Loan	9,627.51	4,675.10	2,344.54	1.0%	2.0%	3.0%	-31.9%	-51.4%	-49.9%
Credit Cards	7,488.06	3,895.92	2,763.21	9.0%	6.0%	3.0%	-21.3%	-48.0%	-29.1%
Others	1,069.72	1,558.37	2,177.07	7.0%	5.0%	3.0%	-67.6%	45.7%	39.7%
Total Retail	106,972.3	77,918.41	83,733.60	100.0%	100.0%	100.0%	-19.1%	-27.2%	7.5%

(Source: Company & Keynote Capitals Institutional Research)

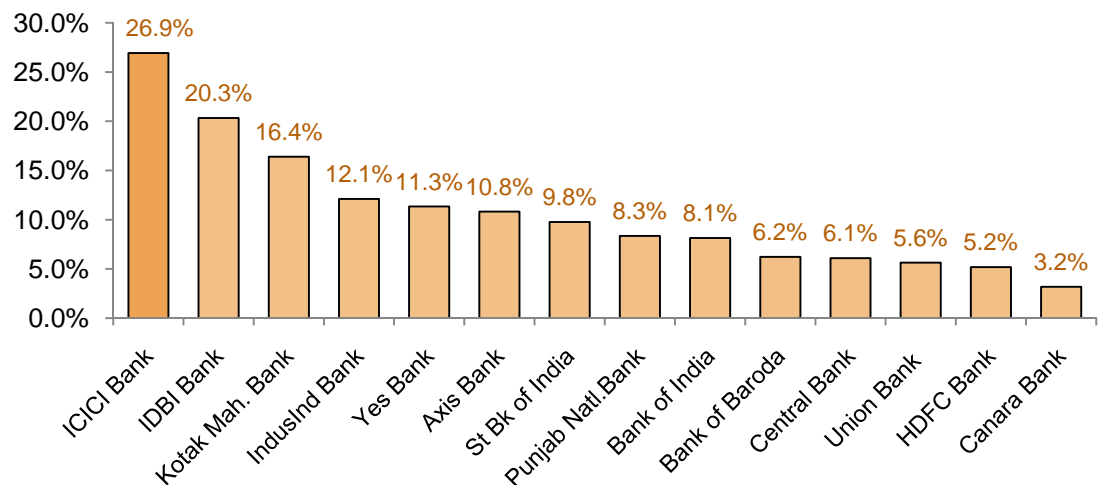
Under the retail segment, the bank focuses more on home and other secured personal loans compared to auto loans, credit cards and unsecured personal loans. During FY11, secured lending like housing and vehicle loan book grew at a faster pace on account of the shift from unsecured loan to assets backed corporate loan book. During FY11-13E, we expect the bank's retail loan book would grow at ~18% CAGR.

2. Strengthening its liability mix

The bank's liability mix consists of ~27.0% borrowings/ long-term loans as on FY11, which is higher as compared to other major banks in India. Half of the borrowings are coming up for re-pricing in FY12-13E which will lessen the bank's cost of funds going forward. A substantial proportion of the bank's overseas borrowings raised five years back will be re-priced, leading to the benefit of decrease in cost of funds, thereby supporting its NIMs. Hence, on an aggregate basis, ~75-100bps decline in cost of borrowing/long term loans is expected over the next two years.

Chart 4

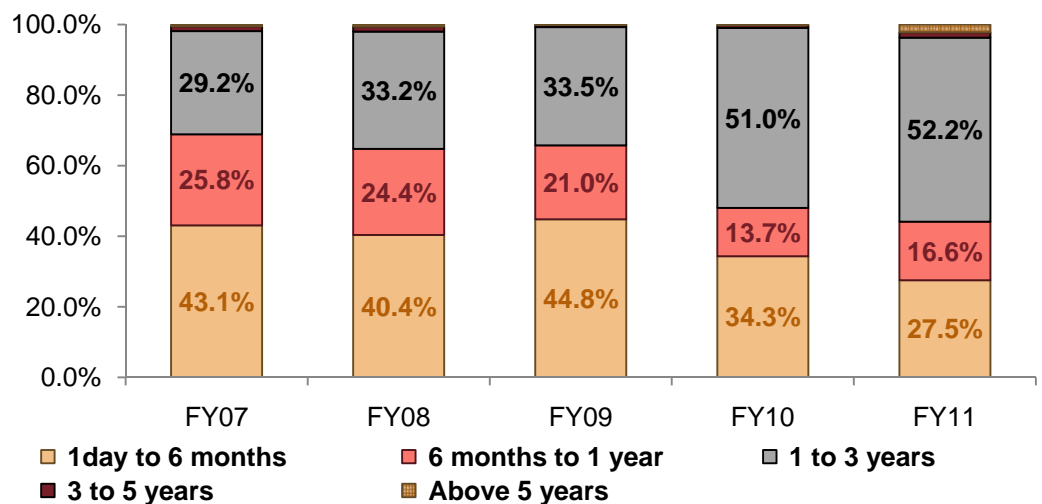
Borrowings as % to total liabilities (FY11)



(Source: Company & Keynote Capitals Institutional Research)

Chart 5

Mobilization of long term deposits in line with growth strategy

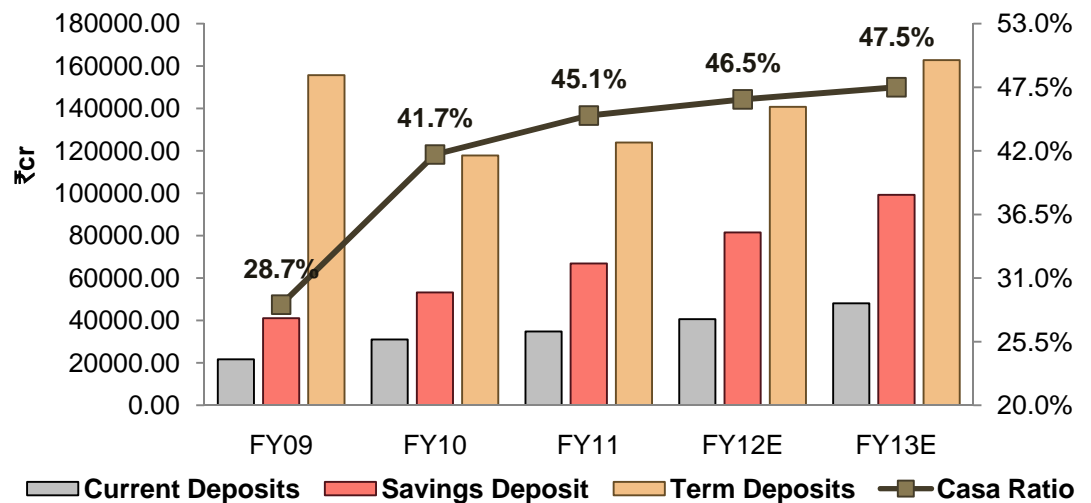


(Source: Company & Keynote Capitals Institutional Research)

The bank's deposit portfolio has considerably improved over the last few years, which has further strengthened its liability mix. CASA deposits of the bank increased by 20.7% to ₹101647cr in FY11 from ₹84216cr in FY10. The bank's CASA ratio has increased to 45.1% in FY11 from 41.7% in FY10, resulting in a considerably enhanced low cost deposit base. During the past few quarters, the bank was ahead of its peers in savings deposits growth. The bank has improved its CASA deposits through aggressive branch expansion with change in its deposit portfolio. Hence, we expect a CAGR of ~20% in savings deposits during FY11-13E, driven by the addition of ~750 branches in next two years. Also, it is expected that the CASA ratio will stabilize at ~47.5% in FY13E, which will be one of the best among its peers. The deposit growth is expected to be in line with the industry average of 17-18% in FY12-13E.

Chart 6

Deposit Portfolio (%)



(E- Keynote Capitals Institutional Research Estimates)

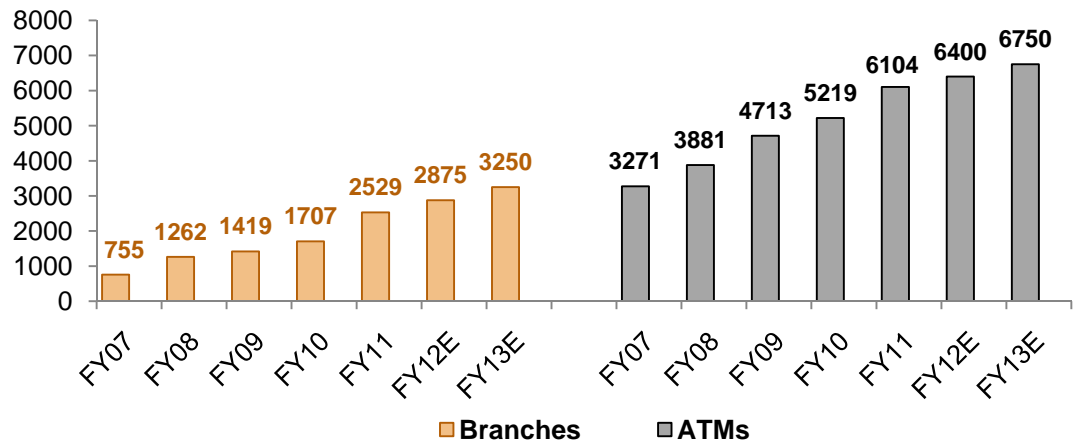
3. Expansion of branch network

As of March-2011, the Bank has a network of 2529 branches & extension counters (excluding foreign branches and offshore banking units) and about 6104 ATMs in India with a geographical presence in 19 countries. With a continued focus on increasing its branch network to enhance the source of low cost deposits, the bank has added above 1100 branches in last couple of years. The bank has taken continuous efforts to increase its branch network, thereby improving its deposit franchise and create an integrated distribution network for both asset and liability products.

The bank has already added 359 new branches excluding Bank of Rajasthan (BoR) branches in FY11 to its network and is in the process of implementing the branch licenses received from Reserve Bank of India, thereby expanding the domestic branch network. Further, with the acquisition of BoR, ICICI Bank has got 463 branches which increased its branch network to 2529 as of March-2011. Around 70% of BoR's branches are located in northern states, improving the bank's coverage in these areas, which are CASA rich states, thus increasing the productivity and business of the bank.

Chart 7

Network



(E- Keynote Capitals Institutional Research Estimates)

Increased branches will enable the bank to maintain the CASA ratio above 40% and balanced loan growth would be the key driver for improving the core income. The bank plans to add 1000 more branches by the end of FY14 (increase of 39.5%), to sustain its high CASA base. However, the RBI's mandate to open 1/3rd of the new branches in tier 5 and 6 cities may make the bank's task challenging.

4. Merger - a big strategic move for ICICI Bank as it fits in very well in their current strategy of being a branch-led and a customer-centric bank

After the structural change in the balance sheet and acquisition of BoR, we believe that bank is edging towards growth. In May-2010, the bank approved for the amalgamation of BoR through share-swap in a non-cash deal at ₹3041cr, subject to further approvals. In August 2010, as per the scheme of amalgamation, BoR was amalgamated with the bank with effect from the close of business on August-2010. The swap ratio was fixed at 25:118 (25 shares of ICICI Bank for 118 shares of BoR). This is the third merger for the bank, after it took over Bank of Madura and Sangli Bank. The amalgamation of BoR is indeed a strategic importance to them as it helps strengthen their competitive position in the Indian banking sector. It is clearly in alignment with their aim to move towards a more branch-centric and customer-centric model – the model that they have been working towards over the last 18 to 24 months.

The main benefit of the merger for the bank is BoR's branch network especially in northern states (high per capita income geographical zone) like Rajasthan (~58% of total branch network), Punjab, Haryana and Delhi. Amongst the old private sector banks, BoR was the potential acquisition target to have such a presence in northern and western states, while its other peers have largely branch networks concentrated in the south. BoR offers network of 463 branches of which, 271 are in metropolitan and urban areas. Besides getting 463 branches, bank will also get control of 58 branches of a regional rural bank sponsored by BoR. BoR's some of the semi-urban and rural branches in Rajasthan currently are more productive than the ICICI bank's branches. However, there is a scope for improvement in most of the other branches i.e. the metro and urban branches of Rajasthan and all the other non-Rajasthan branches with an opportunity to increase not just the deposit base but also offer their asset and investment products.

The valuation implied by the share exchange ratio is in line with the market capitalization per branch of old private sector banks in India

Name of the Bank	Mcap (₹cr)	No. of Branches	Mcap/Branches (₹cr)
South Ind.Bank	1645.43	580	2.84
Lak. Vilas Bank	775.20	270	2.87
Dhanalaksh.Bank	943.85	265	3.56
Karnataka Bank	2033.45	458	4.44
City Union Bank	1328.00	202	6.57
Bank of Rajasthan	3068.00	463	6.63
Federal Bank	5255.75	672	7.82
Karur Vysya Bank	2770.72	320	8.66
Average			5.42

(Source: Company & Keynote Capitals Institutional Research)

- Adding 25% to the branch network through acquisition with a 3% dilution is a great strategic value. As per our calculations, old private banks are trading at an average MCap/branch of ₹5.42cr at market prices as on 18th May, 2010. Based on the swap ratio announced, the MCap/Branch paid for BoR works out to ₹6.63cr, which indicates a premium of 22.2% to the peer average.
- On a market cap per branch basis, this deal is less expensive and the consideration paid by the ICICI bank is less at ₹6.57cr per branch in comparison to the HDFC Bank and CBoP deal in FY08, where HDFC bank had paid a consideration of ₹24.14cr per branch for CBoP.
- Also, there is a competitive advantage in the asset quality through this BoR merger.

Consideration of last M&A transaction that has been done in the private sector banking industry

Acquirer	Acquiree	Consideration (₹cr)	No. of Branches	Consideration/branch (₹cr)
IDBI Bank	United Western Bank	150	230	0.65
ICICI Bank	Sangli Bank	300	198	1.52
CBOP	Lord Krishna Bank	336	112	3.00
ICICI Bank	BoR	3041	463	6.57
HDFC Bank	CBOP	9510	394	24.14

(Source: Company & Keynote Capitals Institutional Research)

Compared to ICICI Bank, pre-merged BoR's branches were grossly underutilized and its business per branch was ₹50.52cr compared to that of ICICI bank's ₹224.50cr. Increase in branch network by 822 during FY10-11 compared to yearly increase of 229 branches (on an average) coupled with expected increase in business per branch would result in substantial growth in balance sheet in FY12 and onwards. Also the incremental overheads on recently acquired branches would be limited.

Particulars	ICICI Bank	BoR-Prememger	As % of ICICI bank
Net Advances	181205.60	8329.47	4.6%
Deposits	202016.60	15062.35	7.5%
Net-worth	51618.37	541.34	1.0%
Total Asset	363866.83	17320.23	4.8%
No. of Branches	1707	463	27.1%
NII	8114.36	335.01	4.1%
Operating Profit	9732.18	102.10	1.0%
Net Profit	4024.98	-102.13	-2.5%
Gross NPAs	9480.65	293.81	3.1%
Business per branch	224.50	50.52	22.5%

(Source: Company & Keynote Capitals Institutional Research)

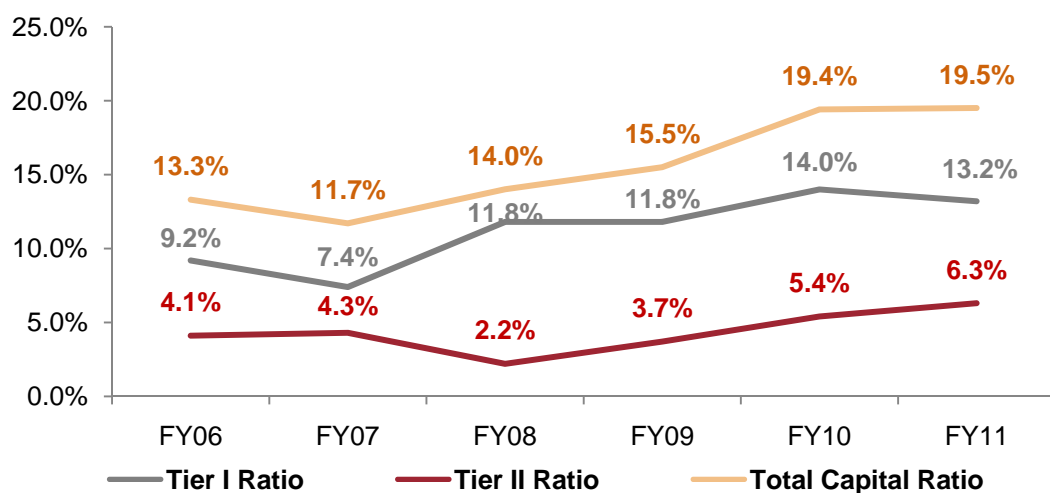
(* All figures as on FY10)

5. Adequately capitalized to support earnings quality

The bank is well capitalized and in a position to meet lending targets in coming years. At the end of FY11, CAR stood at 19.5% and tier I ratio was 13.2%, well above the RBI's requirement of total capital adequacy of 9% and Tier-I capital adequacy of 6%. The bank has adequate headroom for raising capital through bonds or debentures, which would support the bank's growth prospects in future.

Chart 8

Capital Adequacy Ratio (%)



(Source: Company & Keynote Capitals Institutional Research)

6. Efficient Asset-liability management leading to improvement in margins

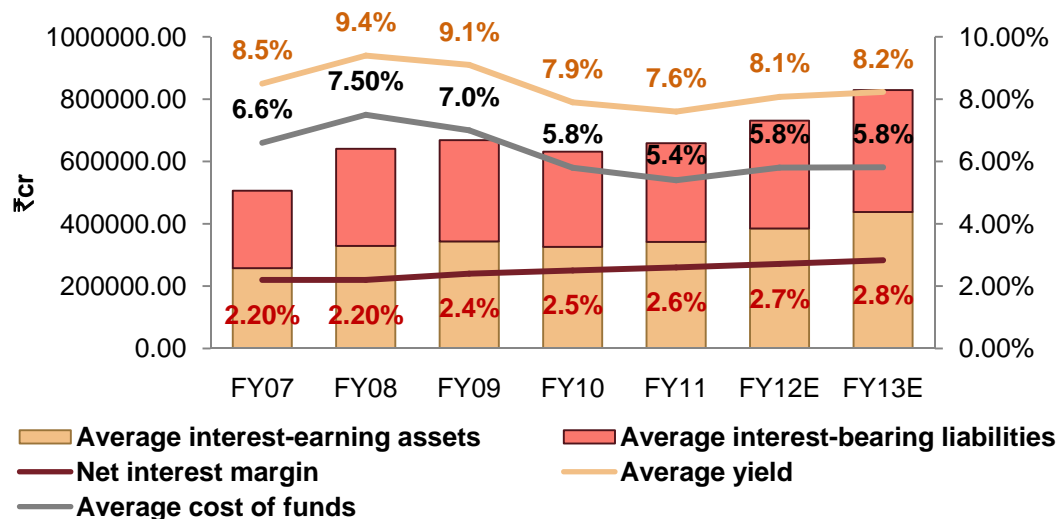
Post re-vamping its asset portfolio, the bank is now maintaining an efficient asset-liability mix to optimize margins. An analysis of the bank's assets-liability position shows that NIMs will stabilize at current levels of ~2.7% in FY12E and further improve to 2.8% in FY13E. The maturity pattern of the bank's deposits as of FY11 indicates that 55.9% of its deposits and 65.9% of the total borrowings (27.0% of total liability) are pegged for the long term (more than one year), giving major benefit in the rising interest rate scenario. Further, it has excess liquidity which is currently deployed in low-yielding short term securities. Re-deployment of these funds will result in improvement in margins.

Particulars	Loans	Investment	Deposits	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1day to 3 mths	9.8%	20.9%	19.6%	11.6%	21.8%	17.4%
3 to 6 mths	8.8%	5.7%	7.9%	9.9%	3.8%	13.7%
6 mths to 1 yr	12.1%	9.0%	16.6%	12.7%	6.9%	18.3%
1 to 3 yrs	41.1%	26.7%	52.2%	20.9%	28.0%	24.2%
3 to 5 yrs	15.8%	7.9%	1.5%	10.1%	17.2%	9.7%
Above 5 yrs	12.4%	29.8%	2.2%	34.8%	22.2%	16.6%

(Source: Company & Keynote Capitals Institutional Research)

Chart 9

Margins (%)



(E- Keynote Capitals Institutional Research Estimates)

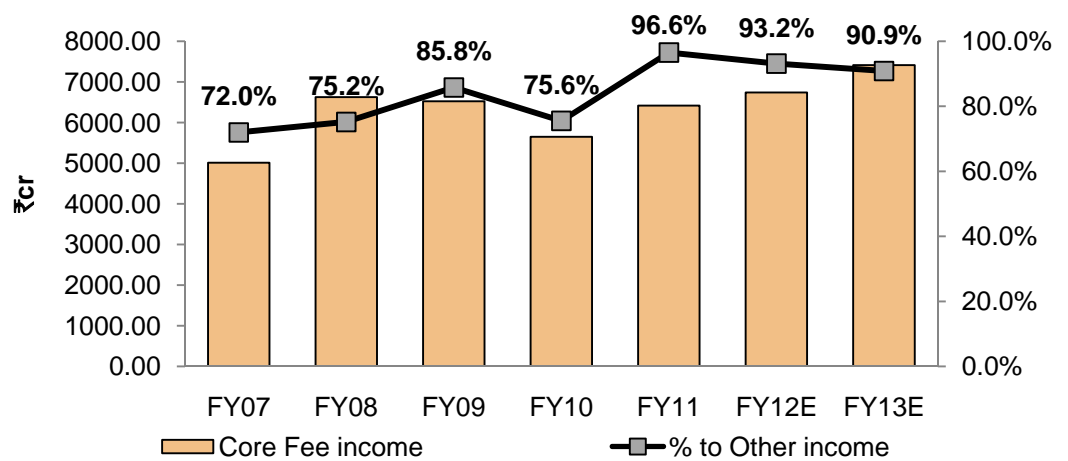
The bank has adopted the strategy wherein the borrowings are increased from overseas, thereby taking advantage of available cheaper funds to expand the international business and reducing the cost of funds. Despite sharp rise in cost of funds in domestic markets, the NIMs were maintained at 2.6%, mainly on account of improved yield on investments (as some floating rate investments got re-priced upwards), effective asset-liability management, cheaper cost of overseas funds, improvement in CD ratio and stability in its CASA ratio. Further, the improvement in NIMs would be seen due to base rate implementation where the loans will be re-priced, enabling the bank to earn higher income on funds given to corporate.

7. Increase in Fee income in line with assets growth

Fee income increased to ₹64.19 billion in FY11 from ₹56.50 billion in FY10, primarily due to an increase in corporate fees. Higher credit demand and increased business activity in the corporate sector due to economic recovery resulted in an increase in loan processing fees and transaction banking related fees from corporate clients. Over past few years, there was dip in business growth which resulted in lower fee income. However, with ramp up in credit demand going forward, fee income from cross selling of third party products, loan processing charges and other trade finance income would start flowing. The corporate fees are expected to dominate growth whereas retail fees are expected to grow over FY12-13E at a lower rate due to cautious exposure to credit cards and personal loans.

Chart 10

Fee Income



(E- Keynote Capitals Institutional Research Estimates)

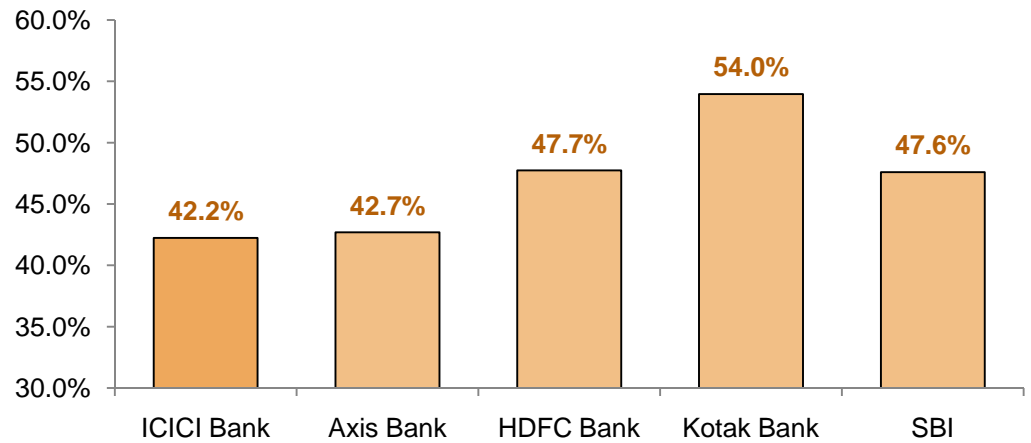
In FY11, other income de-grew mainly on account of loss in treasury income. However, fee income grew at 13.6% in FY11 on account of good traction in corporate and retail banking. Going forward, it is expected that this trend will continue and there will be further improvement in the bank’s core fee businesses such as commission, brokerage etc owing to improve fee-based income. Also income from treasury and foreign exchange transactions is expected to stabilize around FY11 levels, which will support overall other income growth in future.

8. Operating efficiency is likely to be maintained in the near future

The bank managed to reduce the cost to income ratio at 42.2% in FY11 from 44.1% in FY09 by taking adequate steps to cut costs both on the employees and operational costs. This enabled the bank to add over 1100 branches in the past couple of years while reducing cost to income ratio. The expenses incurred on account of BoR merger related to wage hike, pension liability etc would likely to be routed through the reserves. Fresh hiring, wage revision and branch network expansion plans in coming quarters may stabilize the cost to income ratio at ~44% over FY12-13E. Going forward, an increase in operating revenue will aid to maintain a stable cost to income ratio. Once the productivity of the bank improves, we may expect the uptrend in operating efficiency.

Chart 11

Cost to Income ratio (%)



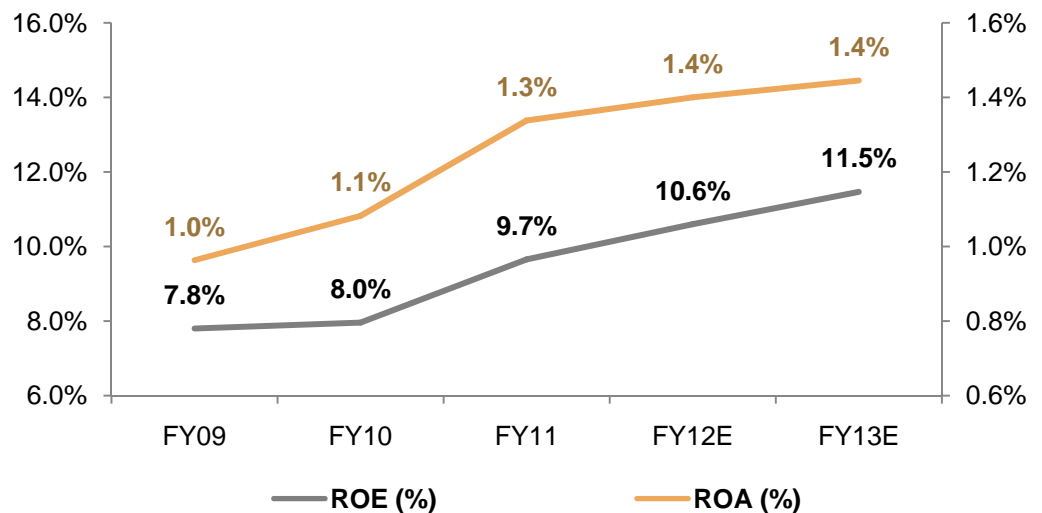
(Source: Company & Keynote Capitals Institutional Research)

9. ROE is expected to increase to 11.5% in FY13E

The bank's books are likely to show an improvement in margins and return ratios due to core and non core business growth coupled with productivity improvement and lower provisioning. We expect the bank's standalone net profit to post ~18% CAGR over FY11-13E mainly due to the decline in expenses, enabling the bank to substantially improve its ROE to 11.5% in FY13E from 9.7% in FY11.

Chart 12

Return ratios (%)



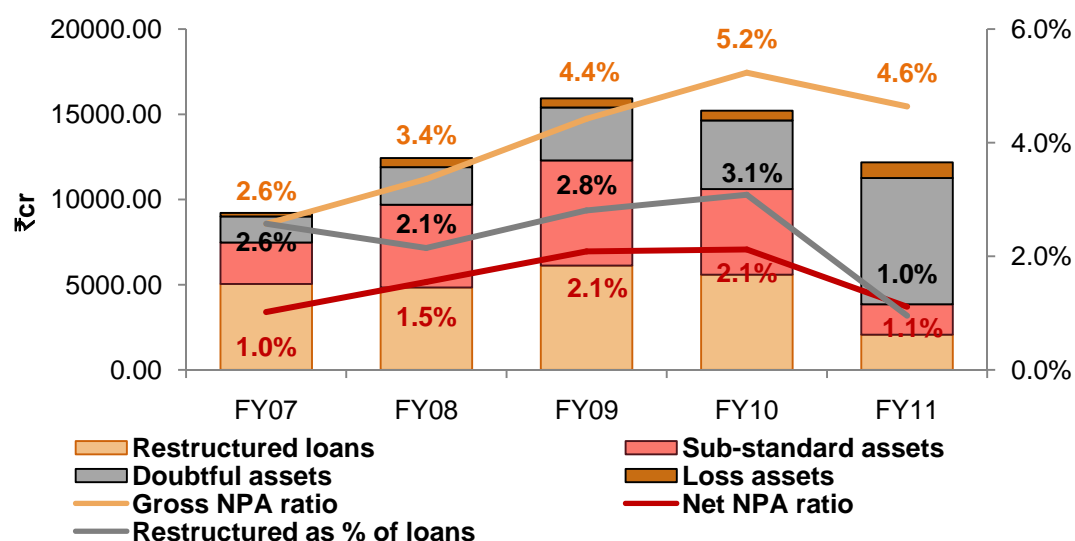
(E- Keynote Capitals Institutional Research Estimates)

10. Restructuring exercise paved the way to improve the asset quality

Over the last few years, the bank’s focus has been on cleaning their balance sheet, leading to a considerable improvement in the quality of its loan book. The restructured loan portfolio has declined on the back of up-gradation of performing restructured assets which aggregates to ₹2064cr (1.0% of gross advances) as on FY11. The restructured loan book with consistent track record of at least one year period has been upgraded to standard assets and further up-gradation in FY12E is expected, resulting into lesser burden of NPAs.

Chart 13

Asset Quality



(Source: Company & Keynote Capitals Institutional Research)

As on FY11, the net non-performing loans in the retail portfolio were 1.5% of net retail loans as compared with 3.1% as on FY10. The decrease in the ratio was primarily on account of sharp decline in accretion to retail NPAs and higher provisioning against retail loans. Hence, a detailed analysis of the NPAs and restructured assets indicates that the balance sheet clean-up is over as of now and the bank may not likely to witness any negative surprises on the asset quality.

Segment-wise non-performing assets

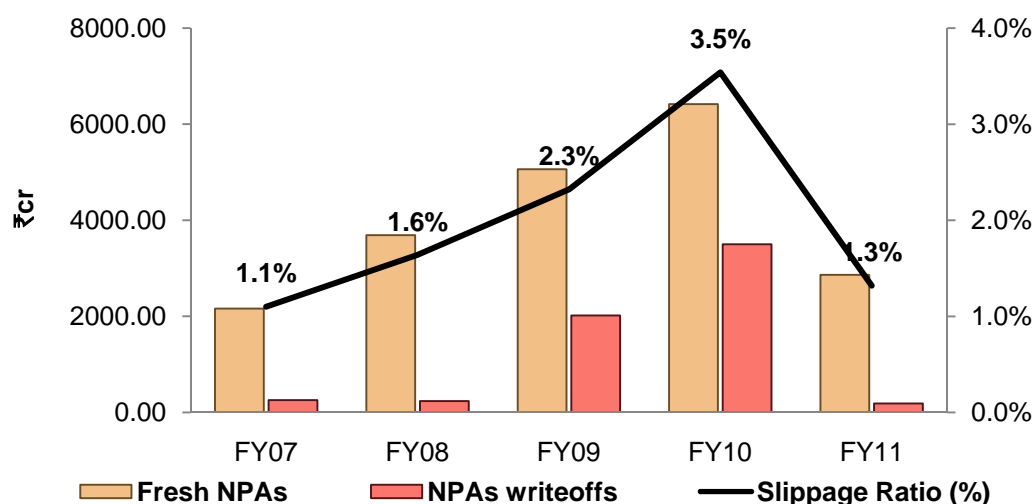
Particulars	FY09		FY10		FY11	
	Gross	Net	Gross	Net	Gross	Net
Agriculture	3.6%	2.1%	5.6%	3.1%	7.6%	3.0%
Industry (MSME and large)	1.8%	0.9%	2.4%	1.2%	2.1%	0.8%
Services	2.5%	1.7%	2.6%	1.2%	1.8%	0.5%
Personal loans	7.5%	3.2%	9.0%	3.3%	9.8%	1.8%
Total	4.3%	2.1%	5.1%	2.1%	4.5%	1.1%

(Source: Company & Keynote Capitals Institutional Research)

The bank's focus on improving the asset quality has been successful in curbing the slippage ratio to 1.3% in FY11 from 3.5% in FY10. As a result, the delinquency ratio has fallen to 0.7% as on FY11. During FY09 and FY10, the bank cautiously wrote off loans worth ₹2019.07cr and ₹3501.65cr, respectively and focuses on improvement in their asset quality.

Chart 14

Asset Quality



(Source: Company & Keynote Capitals Institutional Research)

Subsidiaries Valuations

Life insurance business: post the New Regulatory Regime

The life insurance sector in India is witnessing major changes on account of the new guidelines issued by the Insurance Regulatory Development Authority of India (IRDA) in FY10-11. Effective Sept-2010, the Insurance Regulatory and Development Authority (IRDA) introduced revisions to the regulations governing unit linked insurance products such as increase in the lock-in period from three years to five years, increase in minimum mortality cover, cap on surrender and other charges and minimum guaranteed return on pension annuity products.

ICICI Life: Key Financials

Particulars	FY07	FY08	FY09	FY10	FY11
Statutory Profit/ (Loss)	-187.88	-1395.10	-779.70	258.00	807.60
Assets Under Management	14298.70	28578.00	32788.00	57318.00	68150.00
Expense Ratio (%)	19.3%	28.8%	23.0%	19.5%	17.3%
Commission Ratio (%)	6.6%	6.0%	4.6%	3.6%	3.1%
Net Retention Ratio (%)	99.8%	99.8%	99.8%	99.7%	99.6%
NBAP Margin (%)	20.11%	19.20%	18.90%	19.0%	17.9%
Solvency Ratio	1.53	1.74	2.31	2.9	3.27

(Source: Company & Keynote Capitals Institutional Research)

In FY11, in the private sector insurance segment, ICICI Prudential Life Insurance Company (ICICI Life), the 73.9% subsidiary of the bank, has maintained its market leadership in the private sector with an overall market share of 7.3% based on retail new business weighted received premium and reported 8.2% growth in total premium of ₹17881cr in FY11.

Going ahead, we expect ICICI Life new business premium to grow 10-11% in line with the industry. ICICI life was also able to maintain renewal premiums (55 - 60% retention) over past couple of years. We expect a 13.9% CAGR growth in total premiums over FY11-13E. Further, the IRDA recently announced the final guidelines to allow life insurance companies to raise resources from the capital market and is expected to be implemented during July this year. This would be a big positive for ICICI Bank as it is already planning to float an IPO for its life insurance business to unlock value.

ICICI Life: Valuations						(₹cr)
Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Single Premium Business	664.30	466.70	275.00	2169.70	2443.51	2735.86
as % of New Business Premium	8.3%	6.9%	4.3%	27.6%	28.0%	28.5%
Non-Single Premium Business	7370.70	6345.30	6059.00	5692.30	6283.31	6863.64
as % of New Business Premium	91.7%	93.1%	95.7%	72.4%	72.0%	71.5%
Total New Business Premium	8035.00	6812.00	6334.00	7862.00	8726.82	9599.50
% growth	52.9%	-15.2%	-7.0%	24.1%	11.0%	10.0%
Renewal Premium	5526.00	8544.00	10197.90	10019.00	11822.42	13595.78
% growth	101.0%	54.6%	19.4%	-1.8%	18.0%	15.0%
Total Premium	13561.00	15356.00	16531.90	17881.00	20549.24	23195.29
Annualized premium equivalent (APE)	7437.13	6391.97	6086.50	5909.27	6527.66	7137.23
New Business Achieved Profit (NBAP)	1264.31	1086.63	1034.71	1004.58	1109.70	1213.33
Value of New Business	18964.68	16299.52	15520.58	15068.64	16645.54	18199.94
Value of Existing Business	1547.90	2393.28	2856.55	2806.44	3311.60	3808.34
Total Value of Business	20512.58	18692.80	18377.13	17875.08	19957.14	22008.28
ICICI Bank's share	73.9%	73.9%	73.9%	73.9%	73.9%	73.9%
Per share value	136.24	124.09	121.82	114.69	128.05	141.21
No of shares	111.27	111.33	111.48	115.18	115.18	115.18

(E- Keynote Capitals Institutional Research Estimates)

International Banking subsidiaries: ICICI Bank UK and ICICI Bank Canada

ICICI Bank along with its international subsidiaries (UK, Canada and Eurasia) has access to around eighteen nations which gives it an edge over other domestic banks. We expect the margins to improve due to proposed new business and the reprising of the loan book. Both the subsidiaries (UK and Canada) have improved their deposit mix and are focusing on their profitability. Key risks for these subsidiaries include mark-to-market (MTM) loss on derivatives and lower gains realized on buyback of bonds.

ICICI Bank UK PLC: Key parameters

Particulars	FY09	FY10	FY11	FY12E	FY13E
PAT (₹cr)	30.69	166.10	167.00	171.36	174.41
Networth (₹cr)	3028.66	3197.53	3456.08	3536.88	3584.82
Value per share	40.81	43.02	45.01	46.06	46.69

(E- Keynote Capitals Institutional Research Estimates)

ICICI Bank Canada: Key parameters

Particulars	CY08	CY09	CY10	CY11E	CY12E
PAT (₹cr)	139.00	154.00	145.00	147.84	153.91
Networth (₹cr)	3077.55	4240.15	4463.55	4543.65	4646.40
Value per share	41.47	57.05	58.13	59.17	60.51

(E- Keynote Capitals Institutional Research Estimates)

Other Subsidiaries

In March-2011, IRDA conducted an audit of the Third Party Motor Insurance Pool and concluded that the pool reserves needed to be enhanced significantly. Accordingly, IRDA stipulated that all general insurance companies should increase these reserves based on a provisional loss ratio of 153% for the pool for all years commencing from the year ended March 31, 2008, with the final loss ratio to be determined through a further review in FY12. Accordingly, the loss before tax of ICICI General for FY11 includes the impact of the additional pool losses of ₹272cr.

PAT of ICICI Securities Limited decreased marginally to ₹113cr in FY11 from ₹123cr in FY10 primarily due to decrease in brokerage income on account of market conditions and increase in staff cost. Also the profits of ICICI Securities Primary Dealership Limited decreased as fixed income markets offered limited opportunities for trading profits during FY11 and higher funding costs reduced the net interest income.

ICICI Home Finance Company Ltd. profits increased to ₹233cr in FY11 from ₹161cr in FY10 primarily due to increase in NII, an increase in NIMs and controlled expenditure on staff, administrative costs & lower provisions. Decline in debt and money market funds has impacted AUMs and management fees in the AMC business. PAT of ICICI Prudential Asset Management Company Ltd. decreased to ₹0.72cr in FY11 from ₹1.28cr in FY10 on account of decrease in management fees (on account of depleted assets under management) and higher administrative expenses.

Other Information**1. Dividend History**

Particulars	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Dividend-Amount	632.96	759.33	901.17	1223.96	1224.58	1337.86	1612.6
Dividend-%	85.0%	85.0%	100.0%	110.0%	110.0%	120.0%	140.0%

(Source: Company & Keynote Capitals Institutional Research)

2. More than 1% holdings as on March 31st, 2011

Name of the Shareholder	No of shares	% of Holding
Deutsche Bank Trust Company Americas (Depository for ADS holders)	310840032	27.0%
Life Insurance Corporation of India	107847146	9.4%
Allamanda Investments Pte. Limited	57586922	5.0%
Government of Singapore	17152264	1.5%
Aberdeen Asset Managers Limited A/c Aberdeen International India Opportunities Fund (Mauritius) Limited	17080000	1.5%
New Perspective Fund.INC.	17072207	1.5%
Europacific Growth Fund	16981777	1.5%
Carmignac Geston A/c Carmignac Patrimone	13900000	1.2%
Bajaj Allianz Life Insurance Company Limited	13831757	1.2%
Abu Dhabi Investment Authority - Gulab	13018858	1.1%
IVY Funds Inc Asset Strategy Fund	12667088	1.1%
Bajaj Holdings and Investments Limited	12176817	1.1%
Total	610154868	53.0%

(Source: Company & Keynote Capitals Institutional Research)

Concerns

- Challenging macroeconomic scenario i.e. higher inflation coupled with volatile industrial growth, the RBI raised the repo reverse repo rates which may lead to increase in interest rates and thereby affecting the credit demand growth and immense pressure on asset-liability management and in turn increases the risks of earnings fluctuation.
- Restructuring exercise in lending to different verticals under RBI's guidelines may lead to increase in NPAs and may affect the bank's asset quality. And increase in number of accounts turning into NPA's from the restructured portfolio would lead to increase in provisioning amount, having a negative impact on the profits.
- The exposure of ICICI bank to MFIs as a proportion of their overall loan book is around one per cent and if these institutions faces difficulty in recovering dues, it may cascade into a liquidity and solvency crisis.
- The bank can face stiff competition from other private banks and might reduce its market share in future.
- As a consequence of change in IRDA's policies on Insurance business, growth and margins could be impacted marginally.
- Implementation of more stringent Basel III norms may impact their operational and financial performances.

Valuations

The bank's total business, multiple sources of sustainable fee-income, distribution network, comfortable capital adequacy and vast customer base in CASA-franchise enable it to leverage significant business opportunities in the current rising interest rate scenario and is expected to report improved return ratios compared to its peers. This along with a balanced loan portfolio and high proportion of low-cost funds will help the bank to earn better margins in future. Considering the above factors, we Initiate coverage on the stock with a Buy recommendation for 12months period with a target price of ₹1250, which implies 15.0% potential upside from current levels. At CMP of ₹1087.15, the stock is trading 2.21x of FY12E and 2.04x of FY13E adjusted book value.

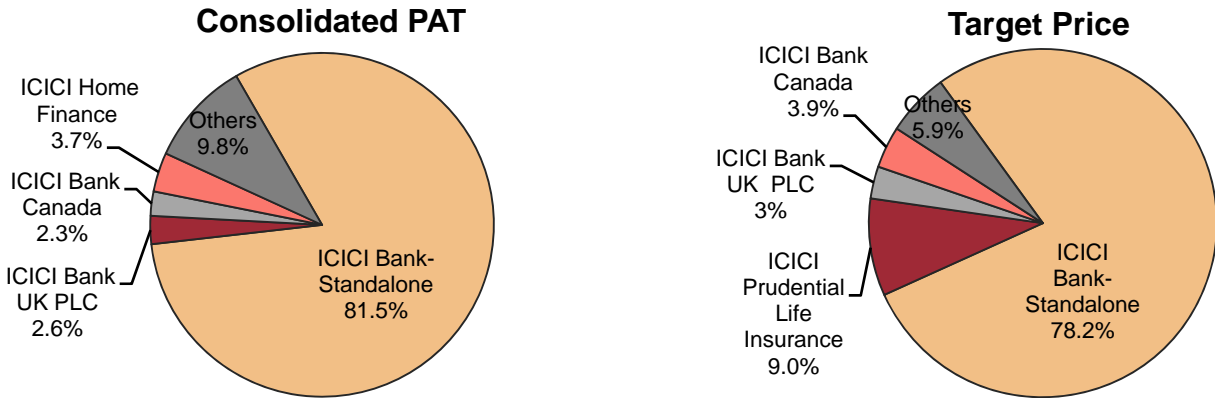
SOTP Valuation

Particulars	ICICI Bank Stake	Value of firm (₹cr)	Value of ICICI Bank Stake (₹cr)	Value per share	Valuation Methodology
ICICI Bank-Standalone	-	112669.49	112669.49	978.19	Residual Income Model assuming Cost of Equity @ 8.1%, ROE @ 11.5% and terminal growth rate @4.0%
Domestic Subsidiaries					
ICICI Prudential Life Insurance	73.9%	22009.19	16264.79	141.21	15.0x FY13E NBAP and existing business
ICICI Lombard General Insurance	73.7%	2825.60	2082.47	18.08	10.0x FY13E Earnings
ICICI AMC	51.0%	3714.37	1894.33	16.45	5% of FY12E AUM
ICICI Venture Funds Mgmt	100.0%	783.00	783.00	6.80	5% of FY12E AUM
ICICI Home Finance	100.0%	2013.39	2013.39	17.48	1.5x FY13E Book Value
ICICI Securities Limited	100.0%	2759.80	2759.80	23.96	15.0x FY13E Earnings
ICICI Securities Primary Dealership	100.0%	680.74	680.74	5.91	1.0x FY13E Book value
International Subsidiaries					
ICICI Bank UK	100.0%	5377.23	5377.23	46.68	1.5x FY13E Book Value
ICICI Bank Canada	100.0%	6969.89	6969.89	60.51	1.5x CY12E Book Value
ICICI Bank Eurasia LLC	100.0%	334.95	334.95	2.91	1.5x CY12E Book Value
Value of Subsidiaries			39160.59	339.99	
Holding company discount	20.0%		(7832.12)	(68.00)	
Target Price (SOTP)				1250.18	

(E- Keynote Capitals Institutional Research Estimates)

Chart 15

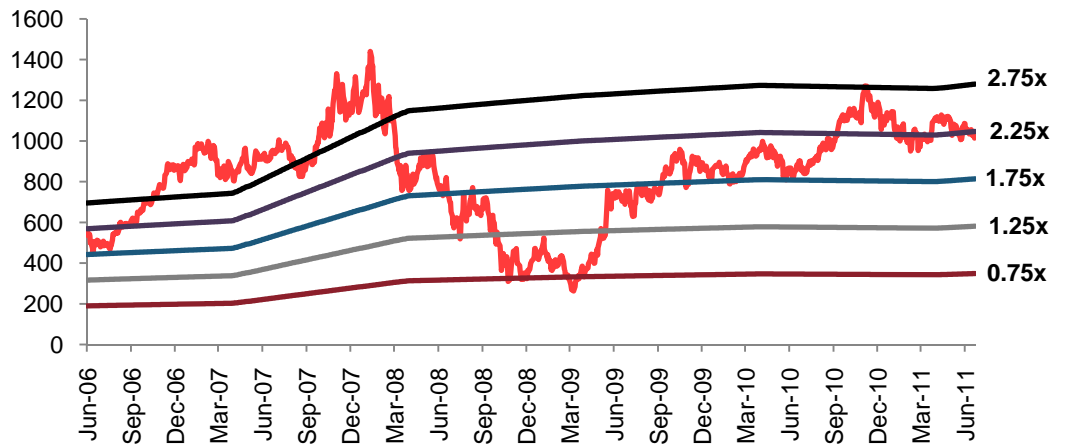
Standalone & Subsidiaries PAT & Target Price Contribution



(Source: Company & Keynote Capitals Institutional Research)

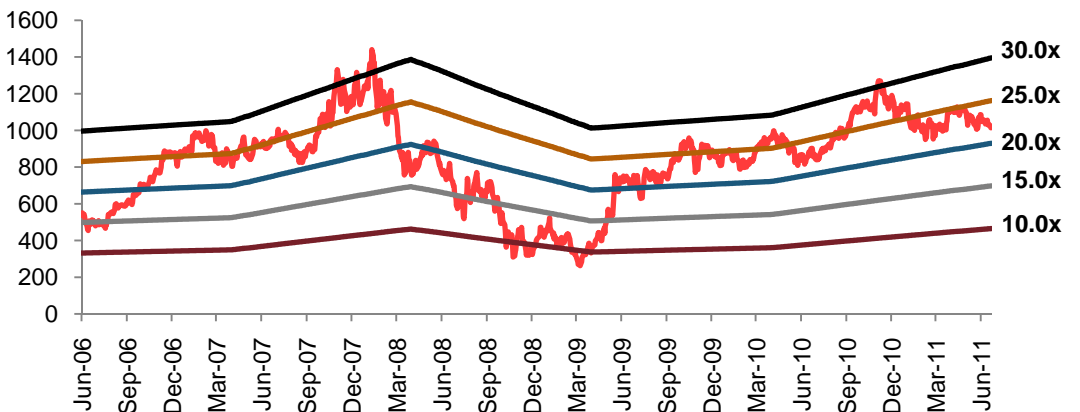
Chart 16

P/ABV Bands



(Source: Company & Keynote Capitals Institutional Research)

PE Bands



(Source: Company & Keynote Capitals Institutional Research)

Peer Comparison

Key Operating parameters of Peer Group (FY11)				(₹cr)
Particulars	ICICI Bank	Axis Bank	HDFC Bank	
Net worth	55090.65	18894.61	25376.36	
Deposits	225602.11	189237.80	208586.41	
Advances	216365.90	142407.83	159982.67	
Total Income	32621.95	19786.94	24263.36	
Net Profit	5151.38	3388.49	3926.40	
EPS	44.72	82.54	81.72	
Book Value	478.29	462.77	545.46	
NIM (%)	2.6%	3.7%	4.2%	
CASA %	45.1%	41.1%	51.0%	
Cost to income ratio	42.2%	42.7%	47.7%	
ROAA (%)	1.1%	1.7%	1.6%	
ROANW (%)	9.6%	20.2%	16.7%	
Gross NPAs (%)	4.6%	1.1%	1.1%	
Net NPAs (%)	1.1%	0.3%	0.2%	
Provision Coverage Ratio	76.0%	80.9%	82.5%	
Capital Adequacy Ratio	19.5%	12.7%	15.3%	
P/E (x)	24.31	15.67	30.43	
P/BV (x)	2.27	2.80	4.56	
Market Price (₹)	1087.15	1293.70	2486.90	
Market Capitalization	125220.11	53112.85	115698.05	

(Source: Company & Keynote Capitals Institutional Research)

Quarterly Performance Trends

Particulars	(₹cr)							
	Q1- FY10	Q2- FY10	Q3- FY10	Q4- FY10	Q1- FY11	Q2- FY11	Q3- FY11	Q4- FY11
Interest Earned	7133.44	6656.94	6089.57	5826.98	5812.54	6309.10	6695.96	7156.45
Interest on advances	5086.56	4493.03	3976.36	3816.78	3778.53	3949.17	4161.95	4535.13
Income from Investment	1576.10	1627.99	1691.33	1570.93	1658.55	1916.13	2121.23	2209.28
Interest on RBI bal.	200.72	185.68	108.08	130.51	98.06	82.30	95.35	91.06
Others	270.06	350.24	313.80	308.76	277.40	361.50	317.43	320.98
Interest expended	5148.18	4620.87	4031.48	3792.04	3821.49	4104.72	4384.22	4646.72
Net Interest Income	1985.26	2036.07	2058.09	2034.94	1991.05	2204.38	2311.74	2509.73
Non-Interest Income	2089.88	1823.79	1673.14	1890.84	1680.51	1577.93	1748.79	1640.67
Net Total Income	4075.14	3859.86	3731.23	3925.78	3671.56	3782.31	4060.53	4150.40
Operating Expenses	1546.02	1424.53	1362.39	1526.89	1483.49	1570.37	1717.92	1845.47
Staff costs	466.52	449.55	427.02	582.7	575.59	624.26	760.47	856.62
Other expenses	1079.5	974.98	935.37	944.19	907.9	946.11	957.45	988.85
Pre-provisioning profit	2529.12	2435.33	2368.84	2398.89	2188.07	2211.94	2342.61	2304.93
Provisions and Contin.	1323.65	1071.30	1002.16	989.75	797.82	641.14	464.27	383.61
PBT	1205.47	1364.03	1366.68	1409.14	1390.25	1570.80	1878.34	1921.32
Tax	327.25	323.90	265.62	403.57	364.27	334.53	441.32	469.21
PAT	878.22	1040.13	1101.06	1005.57	1025.98	1236.27	1437.02	1452.11
EPS (₹)	7.89	9.34	9.88	9.02	9.20	10.74	12.48	12.61
Equity Share Capital	889.83	899.34	1112.68	1113.29	1114.89	1151.82	1151.82	1151.82
Gross NPAs Ratio	4.8%	4.8%	5.0%	5.2%	5.3%	5.2%	4.9%	4.6%
% Net NPAs Ratio	2.3%	2.4%	2.4%	2.1%	1.9%	1.6%	1.4%	1.1%

(Source: Company & Keynote Capitals Institutional Research)

Financials

Profit & Loss Statement

(₹cr)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Interest Earned	30788.34	31092.55	25706.93	25974.05	31085.78	36040.58
Interest on advances	22600.99	22323.83	17372.73	16424.78	20056.28	23839.87
Income from Investment	7466.01	7403.06	6466.35	7905.19	9416.62	10598.06
Interest on RBI balances	611.99	518.71	624.99	366.77	376.88	427.99
Others	109.35	846.95	1242.86	1277.31	1236.00	1174.66
Interest expended	23484.24	22725.93	17592.57	16957.15	20081.20	22758.41
Net Interest Income	7304.10	8366.62	8114.36	9016.90	11004.57	13282.18
Non-Interest Income	8810.77	7603.72	7477.65	6647.90	7233.95	8157.95
Net Total Income	16114.87	15970.34	15592.01	15664.80	18238.52	21440.12
Operating Expenses	8154.18	7045.11	5859.83	6617.25	7925.55	9370.75
Staff costs	2078.90	1971.70	1925.79	2816.94	3460.32	4114.55
Other expenses	6075.28	5073.41	3934.04	3800.31	4465.23	5256.19
Pre-provisioning profit	7960.69	8925.23	9732.18	9047.55	10312.97	12069.38
Provisions and Contin.	2904.59	3808.26	4386.86	2286.84	2155.94	2553.67
PBT	5056.10	5116.97	5345.32	6760.71	8157.03	9515.71
Tax	898.37	1358.84	1320.34	1609.33	2100.85	2444.99
PAT	4157.73	3758.13	4024.98	5151.38	6056.17	7070.72
EPS (₹)	46.23	33.78	36.10	44.72	52.58	61.39
Book Value (₹)	417.64	444.92	462.99	478.29	513.78	557.06
Adj. Book Value (₹)	417.64	444.92	462.99	457.39	491.57	534.11

(E- Keynote Capitals Institutional Research Estimates)

Balance Sheet

(₹cr)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Sources of Funds						
Equity Share Capital	1112.68	1113.29	1114.89	1151.82	1151.82	1151.82
Pref. Share Capital	350	-	-	-	-	-
Reserves	45357.53	48419.73	50503.48	53938.83	58026.75	63011.60
Net Worth	46470.21	49533.02	51618.37	55090.65	59178.57	64163.42
Deposits	244431.05	218347.83	202016.60	225602.11	262826.46	310135.22
Borrowings	65648.43	93155.45	94263.57	109554.28	114780.71	123186.76
Other Liab. & Prov.	43517.43	18813.30	15968.29	15986.34	16397.10	17835.25
Total Liabilities	400417.12	379849.60	363866.83	406233.38	453182.84	515320.66
Application of Funds						
Cash & Bal. with RBI	29377.53	17536.33	27514.30	20906.97	21368.75	24350.87
Bal with Banks	8663.60	12430.23	11359.40	13183.11	12821.25	14324.04
Investments	111454.34	103058.31	120892.80	134685.96	144554.55	158168.96
Advances	225616.08	218310.85	181205.60	216365.90	255305.77	296794.64
Fixed Assets	4108.90	3801.62	3212.69	4744.26	4807.61	4975.64
Other Assets	21196.67	24712.26	19682.04	16347.47	14324.91	16706.50
Total Assets	400417.12	379849.60	363866.83	406233.67	453182.84	515320.66

(E- Keynote Capitals Institutional Research Estimates)

Return Ratios (%)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Net Interest Margin (NIM)	2.2%	2.4%	2.5%	2.6%	2.7%	2.8%
Average yield	9.4%	9.1%	7.9%	7.6%	8.1%	8.2%
Average cost of funds	7.5%	7.0%	5.8%	5.4%	5.8%	5.8%
Interest spread	1.8%	2.1%	2.1%	2.2%	2.3%	2.4%
Return on Average Assets	1.1%	1.0%	1.1%	1.3%	1.4%	1.4%
ROAE	11.6%	7.8%	8.0%	9.7%	10.6%	11.5%
Dividend Yield (%)	1.0%	1.0%	1.1%	1.3%	1.4%	1.5%
Effective tax rate	17.8%	26.6%	24.7%	23.8%	25.8%	25.7%

(E- Keynote Capitals Institutional Research Estimates)

Efficiency Ratios (%)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Net Interest Income/ Net total Income	45.3%	52.4%	52.0%	57.6%	60.3%	62.0%
Non Interest Income/ Net total Income	54.7%	47.6%	48.0%	42.4%	39.7%	38.0%
Interest expended/ Interest earned	76.3%	73.1%	68.4%	65.3%	64.6%	63.1%
Cost to income	50.6%	44.1%	37.6%	42.2%	43.5%	43.7%
Opex/ Avg. assets	2.2%	1.8%	1.6%	1.7%	1.8%	1.9%
Credit Deposit ratio (C-D ratio)	92.3%	100.0%	89.7%	95.9%	97.1%	95.7%
Incremental C-D ratio	213.7%	28.0%	227.2%	149.1%	104.6%	87.7%
Investment Deposit ratio (I-D ratio)	45.6%	47.2%	59.8%	59.7%	55.0%	51.0%
Incremental I-D ratio	145.1%	32.2%	-109.2%	58.5%	26.5%	28.8%
Credit/ Assets	56.3%	57.5%	49.8%	53.3%	56.3%	57.6%
Loan growth	15.2%	-3.2%	-17.0%	19.4%	18.0%	16.3%
Deposits/Assets	61.0%	57.5%	55.5%	55.5%	58.0%	60.2%
Deposit growth	6.0%	-10.7%	-7.5%	11.7%	16.5%	18.0%

(E- Keynote Capitals Institutional Research Estimates)

Per share Data

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
EPS (₹)	46.23	33.78	36.10	44.72	52.58	61.39
Book Value (₹)	417.64	444.92	462.99	478.29	513.78	557.06
Adjusted Book value (₹)	386.27	404.02	428.54	457.39	491.57	534.11

(E- Keynote Capitals Institutional Research Estimates)

Valuation ratios

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
P/e (x)	23.52	32.19	30.11	24.31	20.68	17.71
P/BV (x)	2.60	2.44	2.35	2.27	2.12	1.95
P/ABV (x)	2.81	2.69	2.54	2.38	2.21	2.04

(E- Keynote Capitals Institutional Research Estimates)

Growth ratios (%)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Adjusted Book value	54.5%	6.5%	4.1%	-1.2%	7.5%	8.7%
Advances	15.2%	-3.2%	-17.0%	19.4%	18.0%	16.3%
Deposits	6.0%	-10.7%	-7.5%	11.7%	16.5%	18.0%
Investments	22.1%	-7.5%	17.3%	11.4%	7.3%	9.4%
Net interest income	29.6%	14.5%	-3.0%	11.1%	22.0%	20.7%
Non-interest Income	26.5%	-13.7%	-1.7%	-11.1%	8.8%	12.8%
Net total Income	27.9%	-0.9%	-2.4%	0.5%	16.4%	17.6%
Pre-provisioning profit	34.7%	12.1%	9.0%	-7.0%	14.0%	17.0%
Net profit	33.7%	-9.6%	7.1%	28.0%	17.6%	16.8%
EPS	32.3%	-26.9%	6.9%	23.9%	17.6%	16.8%

(E- Keynote Capitals Institutional Research Estimates)

Productivity ratios (%)

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
No. of employees	46632	37839	50094	60132	64942	68189
% growth	12.3%	-18.9%	32.4%	20.0%	8.0%	5.0%
No. of branches	1262	1419	1707	2529	2875	3250
% growth	67.2%	12.4%	20.3%	48.2%	13.7%	13.0%
Total Business (₹cr)	470047	436659	383222	441968	518132	606930
% growth	10.2%	-7.1%	-12.2%	15.3%	17.2%	17.1%
Business per employee (₹cr)	10.08	11.54	7.65	7.35	7.98	8.90
Cost per employee (₹cr)	0.17	0.19	0.12	0.11	0.12	0.14
Net Profit per employee (₹cr)	0.09	0.10	0.08	0.09	0.09	0.10

(E- Keynote Capitals Institutional Research Estimates)

Asset quality

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Gross NPA (₹cr)	7579.54	9649.31	9480.65	10034.26	10441.63	11027.43
Net NPA (₹cr)	3490.55	4553.94	3841.11	2407.36	2558.20	2756.86
Gross NPA ratio	3.4%	4.4%	5.2%	4.6%	4.1%	3.7%
Net NPA ratio	1.5%	2.1%	2.1%	1.1%	1.0%	0.9%
Provision Coverage	53.9%	52.8%	59.5%	76.0%	75.5%	75.0%

E: Keynote Capitals Institutional Research Estimates

Asset Liability

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Credit-Deposit ratio	92.3%	100.0%	89.7%	95.9%	97.1%	95.7%
Investment/Deposit	45.6%	47.2%	59.8%	59.7%	55.0%	51.0%
Proportion of CASA deposits	26.1%	28.7%	41.7%	45.1%	46.5%	47.5%

(E- Keynote Capitals Institutional Research Estimates)

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