

## JCR Affirmed BBB+ Ratings on ICICI Bank

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

### *Rationale*

The Bank's rating is mainly supported by (i) its strong operational base as India's second-largest commercial bank in the robustly growing economy, (ii) its competitiveness as the country's largest private bank that provides high quality of services, (iii) its solid capital base and stable profitability and (iv) the stringent and comprehensive regulatory and supervisory framework maintained by the Reserve Bank of India. The rating, meanwhile, is constrained by its relatively smaller branch network and deposit base and the consequently higher dependence on wholesale funding as compared to large public-sector banks in India. The higher proportion of wholesale funding is due to the fact that the overseas branches of the Bank are largely wholesale funded given the regulatory limitations on raising retail deposits in those geographies. In its domestic business, the Bank has been steadily expanding its branch network and deposit base both organically and through mergers and acquisitions.

The rating outlook is stable. In recent years, the Bank has enhanced its financial position by focusing on (a) expanding the CASA (i.e., current account and saving account) deposit, (b) tightening the cost management, (c) improving the asset quality and (d) maintaining the capital base, and has articulated a policy to expand its asset size with focus on profitability. JCR will keep monitoring this strategy amid the economic slowdown in India.

### **(1) India's second-largest commercial bank originated from a development finance institution**

The Bank is a private commercial bank formed through the merger in 2002 of Industrial Credit and Investment Corporation of India Limited (which changed its name to "ICICI" in 1999), ICICI Bank Limited, ICICI Personal Financial Services Limited and ICICI Capital Services Limited. ICICI was a development finance institution established in 1955 under the initiative of the Indian Government and the World Bank to provide medium- to long-term financing to Indian industries. ICICI Bank Limited was originally established by ICICI in 1994 as its banking subsidiary. The Bank's total assets as of the end of March 2011 stood at Indian Rupee (INR) 4.1 trillion (approximately JPY7.6 trillion) on an unconsolidated basis and INR5.3 trillion (JPY9.9 trillion) on a consolidated basis, next only to the State Bank of India (SBI), the country's largest commercial bank, whose assets on a standalone and consolidated basis totaled INR12.2 trillion and INR 16.5 trillion, respectively. In India, public-sector banks account for 75% of the total lending (as of the end of March 2011) and many bigger lenders are public-sector banks. In such circumstances, the Bank is rather exceptional, being the largest private-sector commercial bank 65% owned by foreign investors and 35% by domestic investors. The Bank's shares are listed on the New York Stock Exchange as well as exchanges in India. The Bank as a group owns subsidiaries in a wide variety of fields such as securities, venture capital, asset management, life insurance and general insurance. It also owns foreign banking subsidiaries in the UK, Canada and Russia.

Commercial banks in India are placed under the stringent and comprehensive regulatory and supervisory framework of the RBI. They are required to allocate 40% of their advances to priority sectors such as agriculture, micro and small enterprises, low value mortgages and education etc. They are also obliged to hold at least 24% of their deposits and borrowings in highly liquid assets (mainly government bonds), which are defined as the Statutory Liquidity Ratio. Moreover, as the opening of branches is regulated by the authorities, the Bank, due to its origin as a development finance institution, has fewer branches than its rival state-run banks. However the Bank has the largest branch network amongst the private sector banks.

Further, in view of the fact that its overseas branches are largely wholesale-funded, the Bank's ratio of borrowings to total liabilities was 31.2% (unconsolidated) as of the end of March 2011, much higher than 3-10% at large public-sector banks. Likewise, the Bank's loan-deposit ratio was high at 96% as of the end of March 2011, as compared with just over 70% with its competitors. Excluding the overseas branches, which are largely wholesale funded, the domestic loan-deposit ratio was 75%. However, the Bank has been rapidly expanding its branch network in recent years, thanks partly to RBI's branch licensing deregulation (in tier 3 to tier 6 centers) as well as the acquisition of Bank of Rajasthan in FY2011 with 457 branches. The number of branches increased from 755 at the end of March 2007 to 2,535 at the end of September 2011, the largest among private-sector banks in India. Though it is way

below SBI's more than 13,000 branches, the gap with other large public-sector banks (that have 3,000-4,000 branches) is narrowing. Moreover, the CASA ratio, the ratio of current accounts (bearing no interest) and saving accounts (whose interest rate was liberalized by regulation on October 25, 2011) to the total deposit rose to 42% at the end of September 2011, closer to SBI's 48%. The Bank is also focusing on diversifying the funding profile of its overseas branches. With the deregulation of interest rates on saving account, JCR will keep monitoring how this expansion of the Bank's branch network will strengthen its funding structure.

## **(2) Shifting management strategy from asset size to asset quality and profitability**

In keeping with the progress in India's financial reforms since 1992, the former ICICI not only expanded the volume of its lending but also diversified and streamlined its operations by establishing various subsidiaries. Aiming to become a universal bank, it launched, ahead of its competitors, various new businesses such as investment banking, commercial banking, asset management, personal financial services and insurance business in 2000. This universal banking strategy has been further intensified since the 2002 merger that created the ICICI Bank group. Among others, it focused on the retail segment, establishing a solid brand of financial services and providing innovative financial products and services nationwide. The Bank won the top position in various fields such as mortgage loan, automobile loan, commercial vehicle loan, personal loan and credit card.

The Bank's lending centered on retail loans rapidly expanded from FY2004/5 through FY 2006/7. It doubled from INR0.9 trillion to INR2.0 trillion on an unconsolidated basis during the period. However, the rapid expansion of the loan assets brought a deterioration of asset quality. The Bank's nonperforming loan (NPL) ratio that had been on the downtrend until FY2006/7 turned upward thereafter on an increase of nonperforming unsecured retail loans, reaching 4.47% in gross terms (1.87% in net terms) on an unconsolidated basis at the end of March 2010. This prompted the Bank to launch a four-point strategy calling for (a) an expansion of the CASA deposit base, (b) a stricter cost management, (c) improvement of the asset quality and (d) maintenance of the capital base in order to enhance the financial position. To ensure a stricter cost management, the Bank has restrained new hiring despite a major expansion of its branch network. As a result, the expense ratio declined from 50.04% (unconsolidated) in FY07/08 to 41.95% in FY10/11. To improve the asset quality, the Bank has significantly reduced lending to unsecured retail segments resulting in reduction in provisions for unsecured retail loans. This led the outstanding balance of retail loans to shrink to INR0.9 trillion at the end of March 2011, down 31% from the end of March 2008. The ratio of the retail loan balance to the total lending also declined from 59% to 40% during the same period. Increased lending combined with a stricter curb on bad loans helped the Bank lower the NPL ratio to 3.73% in gross terms (0.94% in net terms) on an unconsolidated basis at the end of March 2011. The provision coverage ratio stood at 76% at the same date, well above the 70% norm set for all banks by RBI. As to the maintenance of the capital base, the Bank's BIS capital adequacy ratio (CAR) and Tier 1 ratio rose to 19.6% and 13.4%, respectively, on an unconsolidated basis at the end of June 2011 from 13.96% and 11.76% at the end of March 2008. Much of the improvement in CAR resulted from accretion of profits and a reduction of risky assets through curtailment of unsecured retail loan assets whose risk weight is high at 125% under RBI's conservative regulation.

Thanks to these efforts, the Bank's FY 2010/11 net profit grew 28% year-on-year on an unconsolidated basis and 31% on a consolidated basis which was mainly due to the increased income reported by its life insurance subsidiary. Despite the country's economic slowdown, the Bank's performance stayed solid on an unconsolidated basis in Q1 FY2011/12. JCR will keep watching how the Bank will expand its lending in a profitable manner by capitalizing on the outcome of its efforts for improving the financial position.

Yoshihiko Tamura, Chief Analyst  
Hiroshi Tonegawa, Analyst

### *Rating*

*Issuer: ICICI Bank*

<Affirmation>

Issues	Rating	Outlook
FC (Foreign Currency Long-Term Senior Debts)	BBB+	Stable

Outline of the method for the determination of the credit rating is posted as "Rating Methodology (Financial Institutions)" on JCR's home page (<http://www.jcr.co.jp>). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against

that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above

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