

May 2, 2008

BUY

Price	Target Price
Rs343	Rs425

Sensex	17,378
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Price Performance

(%)	1M	3M	6M	12M
Absolute	22	(19)	(11)	73
Rel. to Sensex	15	(15)	2	38

Source: Capitaline

Stock Details

Sector	Banks
Reuters	BOI.BO
Bloomberg	BOI @IN
Equity Capital (Rs mn)	5252
Face Value(Rs)	10
No of shares o/s (mn)	525
52 Week H/L	466/182
Market Cap (Rs bn/USD bn)	175/4.3
Daily Avg Volume (No of shares)	2505781
Daily Avg Turnover (US\$m)	19.2

Shareholding Pattern (%)

	M'08	D'07	S'07
Promoters	64.5	69.5	69.5
FII/NRI	15.8	17.1	17.2
Institutions	11.8	5.5	5.4
Private Corp	1.3	1.0	0.9
Public	6.7	7.0	7.1

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Continues to beat expectations

Bank of India (BOI) has once again surprised us with excellent operational results driven by strong growth in NII (25.7%yoy to Rs12.1bn), strong growth in fee income (34.8% yoy to Rs2.5bn) and controlled expenses. However lower trading and Forex income during the quarter, partially offset the overall non interest income growth. The asset quality improved with GNPA and NNPA having declined to 1.7% (2.4% Q4 FY07) and 0.5% (0.7% Q4 FY07) respectively.

We have revised our EPS estimates for FY09E and FY10E by 11% and 9% to Rs46 and Rs57 respectively. The stock currently trades at valuations of 6.1x FY10E EPS and 1.4x FY10E ABV, with an FY10 ROE of 24%. We maintain BUY rating on the stock with a price target of Rs425.

Robust advances growth and higher yield on advances push NII

BOI's NII (net of amortisation expenses) grew by 25.7% yoy to Rs12.1bn driven by 32% growth in advances and higher yield on advances. The growth in the advances book was driven by 37% growth in foreign advances (comprising 20.0% of loan book) and 30.9%yoy growth in domestic advances.

Yield analysis

%	Q4FY08	Q4FY07	Q3FY08	Change in bps	
				yoy	qoq
Calculated					
Yield on Advances	9.60	8.92	9.46	68	14
Yield on Investments	7.22	7.08	7.71	14	-49
Yield on assets	8.55	7.94	8.26	61	29
Cost of funds	5.58	5.00	5.43	58	15
NIM	2.97	2.94	2.83	3	14
NIM-Adjusted*	3.02	2.98	2.98	4	3
Reported					
Yield on Advances	9.72	9.08	9.58	64	14
Yield on Investments	7.27	6.41	7.67	86	-40
Yield on assets	8.22	7.51	7.98	71	24
Cost of funds	5.36	4.66	5.24	70	12
NIM	2.86	2.85	2.74	1	12

Source: Company, Emkay Research; calculated on basis of average balances, *adjusted for Amortisation exp

We see some margin pressure in Q1FY09 – but very limited

The cost of funds has continued to go up, albeit at moderated pace, as the deposit costs have gone up by 100bps over last year. The expansion in balance sheet for the quarter has come mainly from the term deposits resulting in sharp jump in deposit cost. On sequential basis also the cost of funds has gone up by 12bps due to seasonality.

However, on yield side there has been an inexplicable rise of 9bps in the yield on funds despite a fall in yield on advances as well as yield on investment of 35bps and 150bps respectively. Some reverse calculations suggest that the yield on residual resources in the foreign book could be ~7% which could be unsustainable.

Rise in yield on foreign book is inexplicable

%	Q4FY08	Q4FY07	Q3FY08	Change in bps	
				yoy	qoq
Yield on foreign adv	5.6	6.0	6.2	-35	-58
Yield on foreign investments	5.2	6.7	7.9	-151	-274
Yield on foreign funds	5.8	5.7	6.0	9	-20

Source: Company, Emkay Research

Business growth remain robust

The bank's overall business grew 28.1%yoy to Rs2.6tn driven by 32.3%yoy growth in advances and 25.1%yoy growth in deposits. The advances were mainly driven by higher foreign advances and advances to SME and Agricultural sector. However retail advances witnessed a slowdown as the same grew by just 11.2%yoy to Rs194bn.

Advances profile

Rs bn	Q4FY08	Q4FY07	Q3FY08	% of loan book	% y-o-y chg	% q-o-q chg
Total advances	1,148	868	1,037		32.3	10.7
Foreign	234	170	216	20.4	37.8	8.5
Domestic	914	698	820	79.6	30.9	11.5
Retail	194	174	188	16.9	11.2	2.9
SME	204	162	191	17.8	25.8	6.8
Agri	132	107	121	11.5	23.4	9.2
others	385	255	320	33.5	50.7	20.1

Source: Company, Emkay Research

Attractive term deposits hurt savings account float

BOI's CASA proportion has declined by 382bps yoy. However, we do not attribute the slippages in CASA to steeper balance sheet growth. The slippages in the CASA deposits has come mainly because of the attractiveness of term deposits vis-à-vis saving account and availability of flexi products that allow switching between the two deposits.

To the contrary, the bank has been able to grow its current account float at faster pace than the overall deposit growth as it has grown by 37.9% yoy compared with 32.4% yoy growth for domestic deposits. The current account float contributes 8.7% of the total deposits compared with 8.4% last year.

Deposit profile

Rs bn	Q4FY08	Q4FY07	Q3FY08	% y-o-y chg	% q-o-q chg
Deposits	1,500	1,199	1,358	25.1	10.4
Domestic deposits	1,254	947	1,120	32.4	12.0
Current account	110	80	94	37.9	17.3
Savings account	332	290	317	14.4	4.8
CASA	442	370	410	19.4	7.7
CASA (%)	35.2	39.0	36.6		
Foreign deposits	246	251	238	-2.2	3.3
Cost of deposits (%)	5.6	4.6	5.5		

Source: Company, Emkay Research

Fee income continues to grow strong

The fee income continued to grow strong at 34.8% yoy for the quarter. However, the total non interest income growth in the Q4FY08 slows down to 13.4% mainly led by lower trading and Forex income.

Other income

Rs mn	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Trading	600	480	1,160	25.0	-48.3
CEB	2,520	1,870	1,860	34.8	35.5
Forex income	890	770	870	15.6	2.3
Recovery	1,290	1,140	750	13.2	72.0
Misc. other income	1,230	1,500	900	-18.0	-
Total	6,530	5,760	5,540	13.4	17.9

Source: Company, Emkay Research

Controlled Opex lead to higher operating profit

The operating expenditure remained flat yoy as well as sequentially at Rs6579mn driven by lower employee expenditure. As a result cost/income ratio fell to 35% in Q4FY08 from 42% in Q4FY07.

The employee expenses have seen sharp decline as the bank had provided for AS-15 liabilities last year through profit and loss account whereas, this year the same (Rs1.25bn) has been debited through reserves. However, the bank has provided for wage revision liabilities (Rs600mn) which could arise due to wage revision wef from November 2007.

Driven by strong operating performance and controlled operating expenses, the operating profit has grown by 35% yoy to Rs12.1bn.

Lower provisioning and taxes helps further

Robust asset quality has helped the bank to keep provisioning under check as the same has fallen 6.6% over last year. In addition the effective tax rate was also relatively lower during the quarter at 18% compared with 24% in Q4FY08. . The above factors coupled with robust operating performance helped the bank to post 69.3%yoy growth in net profit.

Asset quality continue to improve

Despite a strong growth in balance sheets the bank has significantly brought down GNPA and NNPA as the same have declined to 1.7% and 0.5% of advances from 2.4% and 0.7% respectively in the same quarter last year.

NPA provisioning remains strong

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
NPA related provisions	1,800	1,006	2,100	78.9	-14.3
<i>As % of advances</i>	<i>0.16</i>	<i>0.12</i>	<i>0.20</i>		
Investment depreciation	580	320	130	81.3	346.2
Other provisions	486	1,741	80	-72.1	507.5
Total	2,866	3,067	2,310	-6.6	24.1

Source: Company

NPA position

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Gross NPA (Rs Cr)	1,931.0	2,100.5	1,969.0	-8.1	-1.9
Net NPA (Rs Cr)	592.0	632.0	633.0	-6.3	-6.5
Gross NPA (%)	1.7	2.4	1.9		
Net NPA (%)	0.5	0.7	0.6		
Provision cover (%)	69.0	69.4	67.4	-37bps	168bps

Source: Company

Valuations and view

We are impressed by the banks strong operating performance, higher business growth and controlled opex. We have revised our EPS estimates for FY09E and FY10E by 11% and 9% to Rs46 and Rs57 respectively.

Estimate change

Rs	Old estimates		New estimates		% change	
	FY09	FY10	FY09	FY10	FY09	FY10
EPS	41.5	52.4	46.1	57.1	11.1	8.9
ABV	185.0	237.3	194.5	246.9	5.1	4.0

The stock currently trades at valuations of 6.1x FY10E EPS and 1.4x FY10E ABV are ripe. We maintain BUY rating on the stock with a price target of Rs425.

Quarterly results

	FY08	FY07	% y-o-y chg	Q4FY08	Q4FY07	Q3FY08	% y-o-y chg	% q-o-q chg
Net interest income	42,293	34,405	22.9	12,168	9,680	10,795	25.7	12.7
Other Income	21,164	15,634	35.4	6,533	5,767	5,541	13.3	17.9
<i>Fee income</i>	7,830	5,970	31.2	2,520	1,870	1,860	34.8	35.5
Others	13,334	9,664	38.0	4,013	3,897	3,681	3.0	9.0
Net income	63,456	50,038	26.8	18,701	15,447	16,336	21.1	14.5
Operating expenses	26,449	26,084	1.4	6,579	6,495	6,622	1.3	-0.7
Pre-provision profit	37,007	23,954	54.5	12,122	8,952	9,714	35.4	24.8
Provisions	10,165	8,628	17.8	2,866	3,067	2,314	-6.6	23.9
NPA	6,942	5,569	24.7	1,800	1,006	2,100	78.9	-14.3
Profit before tax	26,842	15,327	75.1	9,256	5,885	7,400	57.3	25.1
Taxes	6,753	4,097	64.8	1,686	1,414	2,281	19.3	-26.1
Net Profit	20,089	11,230	78.9	7,570	4,471	5,119	69.3	47.9

Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2007	52,474	11,232	23.0	94.8	0.9	21.2	16.0	3.6
FY2008E	63,456	20,089	34.1	124.6	1.1	25.7	10.8	2.7
FY2009E	75,674	24,258	46.1	194.5	1.2	24.4	7.5	1.8
FY2010E	89,401	30,007	57.1	246.9	1.2	24.3	6.1	1.4

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