



## Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,978	BOI IN
	REUTERS CODE
S&P CNX: 5,906	BOI.BO

29 October 2007

Buy

Previous Recommendation: Buy

Rs316

Equity Shares (m)	488.1
52-Week Range	331/132
1,6,12 Rel.Perf.(%)	-2/20/36
M.Cap. (Rs b)	154.2
M.Cap. (US\$ b)	3.9

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	50,034	11,232	23.0	60.2	13.7	2.7	11.6	21.3	0.9	2.9
3/08E	58,166	15,048	30.8	34.0	10.2	2.2	12.0	23.7	1.0	2.3
3/09E	67,502	17,904	36.7	19.0	8.6	1.8	10.5	23.2	1.0	2.0

- BoI reported 16% NII growth in 1QFY08 to Rs9.9b - in line with estimate. Net profit grew 101% to Rs4.2b, higher than our estimates due to other income and lower opex.
- Global NIMs decreased marginally to 3.04% in 2QFY08 (domestic NIMs intact YoY at 3.6%) compared with 3.09% in 2QFY07. Yield on funds improved 78bp YoY to 8.05%. Cost of funds increased to 5.38% in 2QFY08 from 4.42% in 2QFY07. Management has again demonstrated its ability to maintain its margins and grow volumes aggressively.
- Global deposits grew 26% (domestic deposits by 23%) to Rs1.3t, while global loan book grew 28% (domestic loans by 25%) to Rs958b. Low-cost deposit share has decreased to 37% from 40% a year ago, mainly on account of shift of deposit from savings to term. Current deposits grew strongly by 20% YoY.
- Other income grew 50% YoY helped by strong fees (up 21%), forex (up 65%), recoveries (up 75%) and treasury income (up 150%).
- Gross NPAs declined 3% QoQ and 12% YoY in absolute terms. Gross NPA ratio declined to 2.07% from 2.29% in 1QFY08. BoI's CAR is at 12.6%, with Tier 1 at 7.1%. During the quarter, the bank revalued its certain premises which augmented its Tier II capital by Rs7.3b.
- The stock trades at a premium to other state-owned banks with 8.6x FY09E EPS and 1.8x FY09E BV. Considering the continued traction in its core operations and profits, we maintain **Buy**.

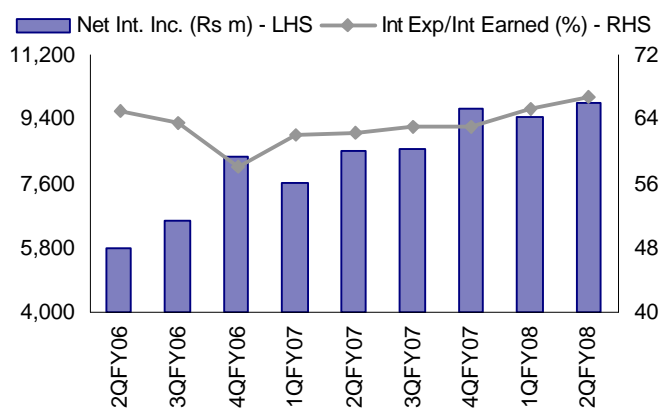
QUARTERLY PERFORMANCE										(RS MILLION)	
Y/E MARCH	FY07				FY08				FY07	FY08E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Interest Income	20,211	22,582	23,187	26,154	27,273	29,752	30,375	29,062	89,363	116,462	
Interest Expense	12,566	14,088	14,599	16,474	17,801	19,895	20,147	17,926	54,959	75,768	
<b>Reported Net Interest Income</b>	<b>7,644</b>	<b>8,494</b>	<b>8,588</b>	<b>9,680</b>	<b>9,472</b>	<b>9,858</b>	<b>10,228</b>	<b>11,136</b>	<b>34,405</b>	<b>40,694</b>	
% Change (Y-o-Y)	36.8	46.8	30.8	15.5	23.9	16.1	19.1	15.0	30.7	18.3	
Reported Other Income	3,107	3,533	3,223	5,767	3,812	5,284	3,500	4,876	15,630	17,472	
<b>Net Income</b>	<b>10,751</b>	<b>12,026</b>	<b>11,811</b>	<b>15,447</b>	<b>13,284</b>	<b>15,142</b>	<b>13,728</b>	<b>16,012</b>	<b>50,034</b>	<b>58,166</b>	
% Change (Y-o-Y)	26.0	36.4	28.5	32.9	23.6	25.9	16.2	3.7	31.1	16.3	
Operating Expenses	6,075	7,236	6,279	6,495	6,506	6,744	7,418	8,098	26,084	28,765	
<b>Operating Profit</b>	<b>4,676</b>	<b>4,791</b>	<b>5,532</b>	<b>8,952</b>	<b>6,778</b>	<b>8,398</b>	<b>6,310</b>	<b>7,914</b>	<b>23,950</b>	<b>29,400</b>	
Other Provisions	1,685	1,587	2,286	3,064	1,992	2,993	1,700	1,815	8,621	8,500	
<b>Profit Before tax</b>	<b>2,991</b>	<b>3,204</b>	<b>3,246</b>	<b>5,888</b>	<b>4,786</b>	<b>5,405</b>	<b>4,610</b>	<b>6,100</b>	<b>15,329</b>	<b>20,900</b>	
Tax Provisions	904	1,083	697	1,414	1,634	1,153	1,500	1,566	4,097	5,852	
<b>Net Profit</b>	<b>2,087</b>	<b>2,121</b>	<b>2,549</b>	<b>4,474</b>	<b>3,152</b>	<b>4,253</b>	<b>3,110</b>	<b>4,534</b>	<b>11,232</b>	<b>15,048</b>	
% Change (Y-o-Y)	21.5	60.5	78.1	75.9	51.0	100.5	22.0	1.3	60.1	34.0	
Cost to Income Ratio (%)	56.5	60.2	53.2	42.0	49.0	44.5	54.0	50.6	52.1	49.5	
Interest Expense/Interest Income (%)	62.2	62.4	63.0	63.0	65.3	66.9	66.3	61.7	61.5	65.1	
Other Income/Net Income (%)	28.9	29.4	27.3	37.3	28.7	34.9	25.5	30.5	31.2	30.0	

E: MOSSt Estimates

### Margins intact, NII grew 16% YoY

BoI reported 16% NII growth in 1QFY08 to Rs9.9b - in line with our estimate. Global NIMs decreased marginally to 3.04% in 2QFY08 (domestic NIMs intact YoY at 3.6%) compared with 3.09% in 2QFY07, which was largely a result of an increase in the yield on funds by 78bp YoY to 8.05%. Cost of funds increased to 5.38% in 2QFY08 from 4.42% in 2QFY07. Management has again demonstrated its ability to maintain its margins and grow volumes aggressively.

#### TREND IN NET INTEREST INCOME



Source: Company/Motilal Oswal Securities

#### YIELDS COST NIM

	2QFY08			2QFY07		
	OVER-ALL	FOREIGN	DOM-ESTIC	OVER-ALL	FOREIGN	DOM-ESTIC
Yields on Funds	8.1	6.1	8.5	7.3	6.0	7.6
Cost of Funds	5.4	4.8	5.5	4.4	4.4	4.4
Spread	2.7	1.3	3.0	2.9	1.6	3.2
NIM	3.0	1.1	3.6	3.1	1.2	3.6

Source: Company/Motilal Oswal Securities

### Business growth remained robust

Global deposits grew 26% (domestic deposits by 23%) to Rs1.3t, while global loan book grew 28% (domestic loans by 25%) to Rs958b. Low-cost deposit share has decreased to 37% from 40% a year ago, mainly on account of shift of deposit from savings to term. Current deposits grew strong by 20% YoY.

#### GROWTH YOY (%)

	2QFY08	1QFY08	2QFY07	1QFY07
Indian Deposits	22.6	26.0	21.9	18.7
Foreign Deposits	39.4	35.5	13.0	20.8
Global Deposits	25.5	27.7	20.3	19.0
Indian Advances	24.9	26.3	28.4	25.8
Foreign Advances	38.0	28.8	9.1	7.7
Global Advances	27.6	26.8	23.9	21.6

Source: Company/Motilal Oswal Securities

### Fees, forex and treasury drive other income growth

The other income grew 50% YoY. While core fee income excluding forex grew by 21% YoY to Rs2.8, forex grew 65% YoY to Rs0.7b. Treasury profits increased 150% YoY to Rs1.25b. Recoveries from written off accounts were stronger, up 74% YoY to Rs0.6b.

#### OTHER INCOME GROWTH (RS M)

	2Q FY08	2Q FY07	YOY GR. (%)	FY07	FY06	YOY GR. (%)
Core Fee Income	2,780	2,290	21	8,860	7,350	21
Trading Profits	1,250	500	150	2,050	1,140	80
Exch. Trans.	660	400	65	2,240	1,820	23
Recovery in w/off Accounts	590	340	74	1,830	1,530	20
One off Items	-	-	-	650	-	-
<b>Total</b>	<b>5,280</b>	<b>3,530</b>	<b>50</b>	<b>15,630</b>	<b>11,840</b>	<b>32</b>

Source: Company/Motilal Oswal Securities

### Asset quality improves, with gross NPAs at 2.1%

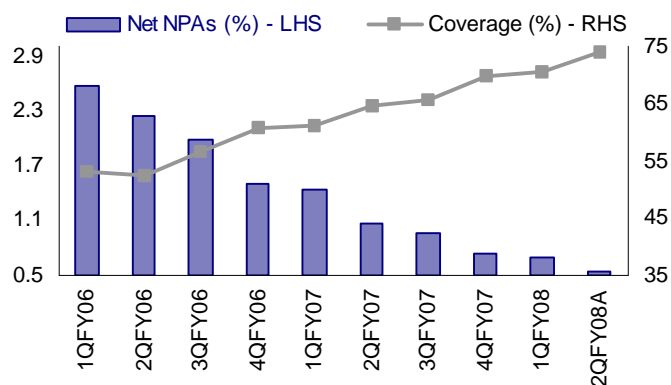
Gross NPA declined 3% QoQ and 12% YoY in absolute terms. Gross NPA ratio declined to 2.07% from 2.29% in 1QFY08. The bank has started treating floating NPA provision of Rs2b as part of Tier II capital, which was earlier netted off with Gross NPAs to arrive at Net NPAs. Thus reported Net NPAs in absolute amount increased to Rs7.13b v/s Rs6b in 1QFY08. On a like to like basis, net NPAs declined 14% QoQ in absolute terms. Reported Net NPA ratio increased to 0.75% in 2QFY08 from 0.69% in 1QFY08; while on like to like basis net NPA ratio has decreased to 0.5% in 2QFY08.

TREND IN ASSET QUALITY

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY06	4QFY07	1QFY08	2QFY08*
Gross NPAs (Rs m)	30,858	28,080	28,050	24,790	25,220	22,193	21,859	21,005	20,270	19,637
Net NPAs (Rs m)	14,479	13,330	12,140	9,700	9,790	7,880	7,484	6,320	5,990	5,137
Gross NPAs (%)	5.4	4.6	4.5	3.7	3.6	3.0	2.7	2.4	2.3	2.1
<b>Net NPAs (%)</b>	<b>2.6</b>	<b>2.2</b>	<b>2.0</b>	<b>1.5</b>	<b>1.4</b>	<b>1.1</b>	<b>1.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.5</b>

\* Deducting floating provision of Rs2b from net NPAs; Reported net NPA at Rs7.1b (0.75%) Source: Company/Motilal Oswal Securities

TREND IN NPAS



Source: Company/Motilal Oswal Securities

**Opex decreased 8% YoY in 2QFY08**

Opex decreased 8% YoY led by 5% degrowth in staff costs, as pension requirement was lower in this quarter. CBS related expense were lower during the quarter by Rs0.9b YoY on account of slower rollout of CBS for incremental branches. Management expects technology cost to increase

in 2HFY08 as CBS rollout speeds up and staff cost to decrease as the bank has fully provided for the annual AS-15 impact Rs1.8b (amortization of ~Rs0.8b + Rs1b for incremental liability) during 1HFY08 itself. The strong traction in operating profits would enable the management to amortize the transitional liability (estimated to be Rs4b) in less than five years time.

**Valuation and view**

Bank of India has continued to witness strong operational performance in the current quarter as well. We expect the strong performance to continue on the back of low operating expenses, steady NII growth and strong fee income growth. We have upgraded our earnings by 7.5% for FY08 and FY09 factoring in higher fee income, lower opex growth and lower provisions. The stock has been one of the best performing banking stocks over the last 12 months (up 93%) and currently quotes at a premium to other state-owned banks. The stock trades at 8.6x FY09E EPS and 1.8x FY09E BV. Maintain **Buy**.

## Bank of India: an investment profile

### Company description

Bank of India (BoI) was incorporated in 1906 by a group of eminent businessmen in Mumbai. It was under private ownership until 1969. Later, it was nationalized along with 13 other major banks. The bank is the sixth largest bank (fifth largest state-owned bank) in India assets-wise. It has a large branch network of 2,845 chiefly present in the western and the eastern regions of India. BoI has 1,044 branches under CBS, covering more than 80% of its business. It has an international presence through 25 overseas offices in 13 countries.

### Key investment arguments

- ✍ Asset quality is one of the best in country.
- ✍ Bank is gearing up on the technology platform.
- ✍ Core business is expected to do well.

### Key investment risks

- ✍ Huge workforce, resulting in a higher wage bill.

### Recent developments

- ✍ The bank raised US\$85m through innovative perceptual debt instruments (IPDI), with call option after 10 years, to augment its tier-I capital in 4QFY07.
- ✍ The bank entered into life insurance business in tie up with Union Bank and Dia Ichi Mutual Life Insurance where the bank will have 51% stake.
- ✍ The Bank has finalized acquiring 76% stake in PT Bank Swadesi Tbk, a listed bank in Indonesia.

### Valuation and view

- ✍ Improvement in core RoE, significant clean-up in balance sheet and superior technology platform will drive re-rating.
- ✍ The stock trades at 8.6x FY09E EPS and 1.8x FY09E BV. We reiterate **Buy**.

### Sector view

- ✍ YTD loan growth of 22% and deposit growth of 23%
- ✍ Macro economic factors remain conducive for strong profitable growth
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings and valuations.
- ✍ We maintain an overweight stance on the sector.

#### COMPARATIVE VALUATIONS

		BOI	PNB	BOB
P/E (x)	FY08E	10.2	8.6	9.6
	FY09E	8.6	7.3	8.0
P/ABV (x)	FY08E	2.3	1.5	1.4
	FY09E	2.0	1.3	1.2
RoE (%)	FY08E	23.7	16.8	13.6
	FY09E	23.2	17.5	14.7
RoA (%)	FY08E	1.0	1.0	0.8
	FY09E	1.0	1.1	0.8

#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	69.5	69.5	69.5
Domestic Inst	5.4	5.7	5.8
Foreign	17.2	16.8	15.7
Others	7.9	8.0	9.0

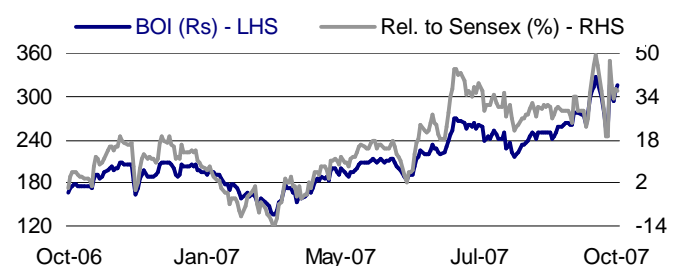
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	30.8	26.8	15.1
FY09	36.7	31.4	16.8

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
316	345	9.3	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2006	2007	2008E	2009E	
Interest Income	67,850	89,363	116,462	148,786	
Interest Expended	41,531	54,959	75,768	99,580	
<b>Net Interest Income</b>	<b>26,320</b>	<b>34,405</b>	<b>40,694</b>	<b>49,206</b>	
Change (%)	17.7	30.7	18.3	20.9	
Other Income	11,844	15,630	17,472	18,296	
<b>Net Income</b>	<b>38,164</b>	<b>50,034</b>	<b>58,166</b>	<b>67,502</b>	
Change (%)	2.5	31.1	16.3	16.1	
Operating Expenses	21,151	26,084	28,765	32,835	
<b>Operating Income</b>	<b>17,012</b>	<b>23,950</b>	<b>29,400</b>	<b>34,667</b>	
Change (%)	16.5	40.8	22.8	17.9	
Other Provisions	7,859	8,621	8,500	9,800	
<b>PBT</b>	<b>9,154</b>	<b>15,329</b>	<b>20,900</b>	<b>24,867</b>	
Tax	2,142	4,097	5,852	6,963	
Tax Rate (%)	23.4	26.7	28.0	28.0	
<b>PAT</b>	<b>7,011</b>	<b>11,232</b>	<b>15,048</b>	<b>17,904</b>	
Change (%)	106.0	60.2	34.0	19.0	
Proposed Dividend	1,660	1,708	2,441	2,929	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2006	2007	2008E	2009E	
Capital	4,881	4,881	4,881	4,881	
Reserves & Surplus	44,507	54,072	66,265	80,742	
<b>Net Worth</b>	<b>49,389</b>	<b>58,954</b>	<b>71,146</b>	<b>85,624</b>	
<b>Deposits</b>	<b>939,320</b>	<b>1,198,817</b>	<b>1,450,569</b>	<b>1,740,683</b>	
Change (%)	19.2	27.6	21.0	20.0	
Borrowings	88,425	113,798	127,453	142,748	
Other Liabilities & Prov.	45,159	45,101	49,611	54,573	
<b>Total Liabilities</b>	<b>1,122,293</b>	<b>1,416,670</b>	<b>1,698,780</b>	<b>2,023,627</b>	
Current Assets	114,021	174,055	193,765	210,107	
<b>Investments</b>	<b>317,818</b>	<b>354,928</b>	<b>418,815</b>	<b>494,201</b>	
Change (%)	10.8	11.7	18.0	18.0	
<b>Advances</b>	<b>651,727</b>	<b>849,359</b>	<b>1,044,711</b>	<b>1,274,548</b>	
Change (%)	17.4	30.3	23.0	22.0	
Net Fixed Assets	8,100	7,893	8,010	7,943	
Other Assets	30,628	30,435	33,479	36,827	
<b>Total Assets</b>	<b>1,122,293</b>	<b>1,416,670</b>	<b>1,698,780</b>	<b>2,023,627</b>	

ASSUMPTIONS	(%)			
Deposit Growth	19.2	27.6	21.0	20.0
Advances Growth	17.4	30.3	23.0	22.0
Investments Growth	10.8	11.7	18.0	18.0
Dividend	34.0	35.0	50.0	60.0

E: M O S t Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	
<b>Spreads Analysis (%)</b>					
Avg. Yield-Earn. Assets	7.0	7.5	7.9	8.4	
Avg. Cost-Int. Bear. Liab.	4.4	4.7	5.2	5.8	
Interest Spread	2.7	2.8	2.6	2.6	
Net Interest Margin	2.9	3.0	2.8	2.9	

Profitability Ratios (%)					
RoE	15.4	21.3	23.7	23.2	
RoA	0.7	0.9	1.0	1.0	
Int. Expended/Int. Earned	61.2	61.5	65.1	66.9	
Other Inc./Net Income	31.0	31.2	30.0	27.1	

Efficiency Ratios (%)					
Op. Exps./Net Income	55.4	52.1	49.5	48.6	
Empl. Cost/Op. Exps.	62.8	61.9	59.3	57.3	
Busi. per Empl. (Rs m)	34.8	43.8	55.6	68.4	
NP per Empl. (Rs lac)	1.7	2.7	3.7	4.4	

Asset-Liability Profile (%)					
Adv./Deposit Ratio	69.4	70.8	72.0	73.2	
Invest./Deposit Ratio	33.8	29.6	28.9	28.4	
G-Sec/Invest. Ratio	71.6	75.0	75.0	76.2	
Gross NPAs to Adv.	3.7	2.4	2.1	2.1	
Net NPAs to Adv.	1.5	0.7	0.5	0.7	
CAR	10.8	11.6	12.0	10.5	
Tier 1	6.8	6.5	7.1	6.5	

VALUATION					
Book Value (Rs)	98.0	117.7	142.9	172.8	
Price-BV (x)	3.2	2.7	2.2	1.8	
Adjusted BV (Rs)	85.0	109.3	135.5	160.7	
Price-ABV (x)	3.7	2.9	2.3	2.0	
EPS (Rs)	14.4	23.0	30.8	36.7	
EPS Growth (%)	106.0	60.2	34.0	19.0	
Price-Earnings (x)	22.0	13.7	10.2	8.6	
OPS (Rs)	34.9	49.1	60.2	71.0	
OPS Growth (%)	16.5	40.8	22.8	17.9	
Price-OP (x)	9.1	6.4	5.2	4.4	

E: M O S t Estimates



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**Bank of India**

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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