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RESULTS REVIEW

Bank of India (BoI)

Rs. 200

Q4FY07 results update

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Nifty: 4178; Sensex: 14229

Key Stock Data

Sector	Banking
Bloomberg/Reuters	BOI@IN/BOI.BO
Shares o/s (m)	487.4
Market cap (Rs m)	97,334
Market cap (US$ m)	2,378
3-m daily average vol.	485,797

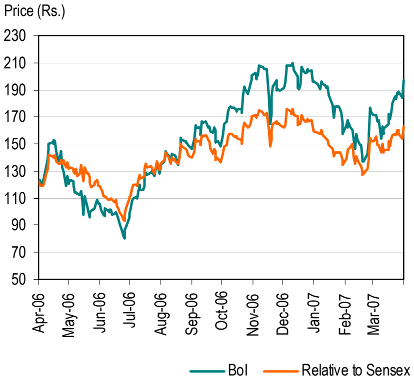
Price Performance

52-week high/low			Rs214/80
	-1m	-3m	-12m
Absolute (%)	13.7	0.4	61.5
Rel to Sensex (%)	7.3	0.2	40.1

Shareholding Pattern (%)

Promoters	69.47
FIIs/NRIs/OCBs/GDR	16.21
MFs/Banks/FIs	5.61
Non Promoter Corporate	0.96
Public & Others	7.76

Stock vs Relative to Sensex



Source: Capitaline

Summary

The results are great, so hats off again. To put things in perspective at the outset, we think Bank of India's (BoI) FY07 results are reflective of a robust earnings quality and cost effectiveness not very common to the PSB's. It has managed balance sheet growth well without allowing leverage work to it's disadvantage.

In a nutshell, we feel BoI is another potential star of FY08 (the other one short listed on an earlier count is UTI Bank). After a nosedive in FY05, the bank's performance has been consistently on the rise (NIM, RoA), it has built an international presence that reflects in it's business (20% overseas), and should keep the momentum in fee business.

Not many issues. Just to remind, incumbent CMD Mr. Balachandran retires this month-end. Will the bank's focus and approach change when a new CMD takes charge next month? Syndicate, UBI, Corporation all are still fresh episodes and the next CMD for BoI is not officially declared though it is learnt (rather heard of) that Mr. T. S. Narayanasami, currently the CMD of IOB may take over as the new BoI CMD...

Result highlights

- The bank's total business has increased to Rs.2,067bn registering a YoY growth of 29%. BoI's global deposits increased 28% YoY to Rs.1,199bn while the domestic deposits saw an increase of 22% YoY to Rs.947bn. The bank's global advances have recorded a 30% YoY growth to Rs.868bn whereas the domestic advances have similarly grown, 29% YoY to Rs.698bn.
- Deposits from overseas operations constitute Rs.251bn of total deposits whereas overseas advances stand at Rs.170bn. Bank's overseas business contributes 20% to the overall business.
- NII growth has been slower at 16% YoY against a YoY growth rates of 37%, 47%, and 31% in the preceding three quarters indicating margins have probably started coming under pressure. This is not captured by the FY07 global NIM that has registered a solid 17bps rise to 3.7%. However, the micro picture gets clearer when we spot a suppressed 3.34% NIM in Q4FY07. The interest income has been impacted by a one time extraordinary item in Q4FY06, which included interest on IT refund Rs.1,080m and is absent in Q4FY07.
- The blended cost of deposits has increased 26bps against an improvement of 94bps in blended yield on advances. The cost of deposits in FY07 was 4.31% whereas the yield on advances 8.52%.
- Strong momentum in other income growth has been maintained. Fee income has shown a growth of 29% YoY to Rs.9,509m. The other income has been impacted by higher amortisation costs in Q4FY07 as compared to Q4FY06.
- Asset quality has improved with GNPA's declining sharply to 2.42% from 3.72%. The NNPA's have fallen to 0.74% from 1.49%. BoI has pursued recoveries on non-performing accounts during FY07 vigorously. As a result, the falling NPA's have necessitated a need for lower provisioning. NPA provisions during Q4FY07 were lower 2% while they were up just 4% in FY07.
- The bank raised Tier II capital to the tune of Rs.7,320m and US$ 325m during FY07 which includes US$ 85m through MTN. BoI's capital adequacy has shown a YoY improvement of 78bps to 11.58%, it appears the bank may manage growth and future capital requirements through hybrid Tier I and Tier II additions and may likely address capital augmentation in similar way going forward. However, it can be the most opportune moment for Bank of India to dilute equity with it's strong performance.
- The networth of BoI has increased 20% YoY to Rs.55,040m, an addition of Rs.9,260m over FY06 networth. The BV/share stands at Rs.112.75 in FY07 against Rs.93.77 in FY06.

Business events

- The bank has completed the acquisition formalities of a small Indonesian bank acquired during November 2005. The P T Bank Swadesi Tbk branches will now started operating as Bank of India branches.
- **New CMD for the bank:** Bank of India benefited from Mr. Balachandran's long stint as he was earlier it's Executive Director and later on became the CMD when his predecessor Mr. M. Venugopalan retired. North Block has been conducting interviews for posts of ED and CMD due to fall vacant in quite a few PSB's. Though a formal announcement for BoI CMD is yet to come through, Mr. T. S. Narayanasami, CMD, Indian Overseas Bank is tipped to be the next CMD of BoI. It should be in the fit of things for Mr. Narayanasami to take over from Mr. Balachandran. Mr. Narayanasami has steered IOB to new performance highs. He shall inherit the top post in BoI when it is going through a high performance phase similar to that of IOB. Mr. Narayanasami's appointment to BoI should be looked upon as a big positive for BoI. However, we would prefer to be cautious unless the name is confirmed.

Result analysis and outlook

Moving towards a more sustainable CD ratio

We had observed while reviewing the Q3FY07 results that Bank of India's CD ratio was peaking and was on way to moderation arguing the bank will abstain from leveraging it's balance sheet further through non-retail borrowings which can in turn put a downward pressure on it's NIM. The CD ratio has climbed down to 72.4% for FY07 (75% in 9MFY07) whereas the domestic CD ratio is a shade higher at 73.7%.

The bank might work it's way towards a more sustainable CD ratio going forward. The additional leverage above the threshold 69% CD ratio has been achieved utilizing capital funds bank raised during the year. Assuming the bank pursues a balance sheet growth similar to FY07, Bank of India will have more capital plans on the anvil – both Tier I and II. Given this scenario, we think BoI shall keep lending around 70-71% of it's deposits. The domestic CD ratio should in that case move about proportionately to around 72% levels.

Amortisation expenses dent last quarter earnings

Amortisation expenses on bonds and a one-time interest income from tax refund in Q4FY06, which is absent in Q4FY07, has dented the interest earnings in Q4FY07. Overall, the 31% YoY increase in NII is a result of a better fund profile with low cost deposits comprising 40% of the total deposits. BoI has contracted bulk deposits at not more than 7% and for a period less than a year, which is quite lower than what most other banks are offering. This has kept the increase in it's fund costs benign while the yield on advances has on the increase seen a significant expansion. This has caused a strong expansion in Bank of India's global and domestic NIM. We are of view that BoI can sustain it's margins if it tries and remains a consistent player without deviating from the way it has expanded the balance sheet in FY07.

Momentum maintained in fee income

BoI's fee income has recorded an increase of 15% YoY while the overall other income has increased 32% YoY. The increase in fee income is the result of a strong focus on the fee income areas following which it has increased through areas like commission and exchange, loan syndication, third party distribution of products etc.

Extraordinaries include Rs.500m earned from the sale of 20,000 Nigerian oil warrants and about Rs.150m from the sale of a piece of real estate. While the real estate sale income is more of a one time character, the bank still holds close to 125,000 Nigerian oil warrants and is likely to make money off-loading portions of the same. Apart from these two factors, BoI seems poised to sustain a good growth in it's fee income.

- **NPA's decline further, recoveries stepped-up**

  The incremental addition to NPA's has been lower in FY07. Bank of India added Rs.854m to GNPA's, which are just 0.4% of incremental gross advances. The recoveries proceeded well during the year as targeted and BoI has been able to recover Rs.1,830m from written-off accounts. The GNPA's for FY07 stand at 2.42% and NNPA's stand at 0.74%.

  The NPA provisions therefore in the Q4FY07 have been lower 53% YoY. The overall incremental provisions for NPA's have increased by just 4% YoY while the total provisions excluding taxes increased 10% YoY.

- **Equity dilution still appears a far cry**

  BoI has always kept equity dilution as the last option to raise capital and appears in no hurry to utilise the massive headroom it has on that count. The government holding in BoI stands at 69%. Given the bank's strong performance since last two quarters, an equity dilution appears a better and enduring solution to capital requirements. Nevertheless, though the bank we think is well positioned presently to squeeze the best premium on it's share, it seems equally unlikely BoI shall so easily look upon it as an option.

  As summarised earlier, BoI raised Rs.7,320m and US$ 325m Tier II capital in FY07. The bank's capital adequacy currently stands at 11.58% against 10.75% in FY06. The year-end addition to profits and incremental additions in FY08 will no doubt create further headroom for fresh Tier II. As in FY07, BoI will likely weather FY08 too without diluting equity.

Valuations

BoI's networth appreciated by Rs.9,260m in FY07. The per share book value has increased by Rs.19 to Rs.112.75. The ABV stands at Rs.108 and the present stock price is 1.8x this value. The EPS has also increased 60% YoY to Rs.23 and the bank's share is current 8.7x the FY07 EPS.

IDBI capital

Table 1: Consolidated / Standalone Quarterly Results (Rs. m)

Year-end: March	Q4FY07	Q4FY06	FY07	FY06	FY05
Interest Income	26,154	20,022	92,133	70,287	60,315
Interest expended	16,474	11,644	57,728	43,967	37,946
NII	9,680	8,378	34,405	26,320	22,369
YoY Change (%)	*16*	*73*	*31*	*18*	*2*
Other Income	5,767	3,244	15,630	11,844	11,556
Fee and other income	3,370	1,930	9,509	7,359	4,500
Treasury income (non-interest)	2,397	1,314	6,120	4,486	7,056
Net Income	15,447	11,622	50,034	38,164	33,925
YoY Change (%)	*33*	*33%*	*31*	*12*	*(15)*
Operating expenses	6,495	5,324	26,084	21,151	19,323
Payments to employees	4,477	3,271	16,140	13,281	12,632
Other expenses	2,018	2,053	9,944	7,870	6,691
YoY Change (%)	*22*	*(2)*	*23*	*9*	*10*
Operating income	8,952	6,298	23,950	17,013	14,602
YoY Change (%)	*42*	*92*	*41*	*17*	*(35)*
Provisions and contingencies	3,064	3,140	8,621	7,856	9,993
NPA provisions	1,006	2,148	5,569	5,356	4,857
Other provisions	2,058	992	3,052	2,500	5,137
YoY Change (%)	*(2)*	*11*	*10*	*(21)*	*12*
PBT	5,888	3,159	15,329	9,157	4,609
Taxes	1,414	614	4,097	2,142	1,210
Tax rate (%)	24	19	27	23	26
PAT	4,474	2,544	11,232	7,015	3,399
YoY Change (%)	*76*	*382*	*60*	*106*	*(66)*
Extraordinary income	150	1,078	150	1,078	0
Normalised PAT	4,324	1,467	11,082	5,937	3,399
YoY Change (%)	*195*	*178*	*87*	*75*	*(66)*

Source: Company reports; IDBI Capital Market Services

Table 2: Key ratios and valuations

Year-end: March	FY07	FY06	FY05
CASA (%)	40.0	40.6	40.0
CD	79.0	71.0	72.5
Cost of Deposits (blended) (%)	4.3	4.1	4.1
NIM – Domestic (%)	3.7	3.6	N.A.
NIM – Global (%)	3.2	3.0	N.A.
C/I (%)	52.1	55.4	57.0
GNPA's (%)	2.4	3.7	5.5
NNPA's (%)	0.7	1.5	2.8
CAR (%)	11.6	10.8	11.5
EPS (Rs.)	23.0	14.4	7.0
PE (x)	8.3	13.2	27.2
BV (Rs.)	112.8	93.8	82.9
ABV (Rs.)	108.4	88.7	51.1
P/ABV (x)	1.8	2.3	3.9

Source: Company reports; IDBI Capital Market Services

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