

5 July 2011

MF Global Management Meet

Bank of India

| NPA woes continues

BANKING

BOI IN: DOWNGRADE TO NEUTRAL

RS 412

In our recent meeting with the management of Bank of India, we were given to understand that the stress in asset quality will persist through H1FY12. The bank's migration to system-driven NPA recognition will cause some of the small ticket loans to slip to the NPA category. Unlike its earlier outlook for decline in slippages ratio, the bank expects its slippage ratio to remain stable for FY12, thus ruling out the possibility of a major reduction in loan loss provision.

Key takeaways

- The bank is expected to report incremental slippage of over Rs 10bn in Q1FY12, driven by small ticket loans (loans below Rs 1mn), which constitutes 17% of its portfolio. The slippage ratio for FY12 is expected to be 1.5% of average advances, in line with FY11.
- NIMs in Q1FY12 will be affected by higher interest on savings deposit, leading to a sharp decline of 25bps sequentially. The margin in the international business to remain stable. We expect NIMs for FY12 to decline by 20bps to 2.70%.
- Fee income to moderate due to a slowdown in sanctions and third party product sale. Operating expenses to grow in line with balance sheet growth.
- Ageing of the NPA portfolio and additional standard provision of Rs 1.5bn towards restructured asset to put pressure on credit charges.
- The more-than-expected rise in slippages and steep margin compression has warranted downward revision of earnings by 14% in FY12 and 13.5% in FY13.
- Give the moderate earnings growth and return ratios, a premium valuation over its median level could not be justified. Hence, we downgrade the stock from Buy to Neutral. We also revise our target price to Rs 450 from Rs 550.

Target Rs 450 (+9%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	546MN
MARKET CAP (RS) :	227BN
MARKET CAP (USD) :	5.4MN
52 - WK HI/LO (RS) :	589 / 354
LIQUIDITY 3M (USD) :	11.8MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	65.9
FII / NRI :	14.7
FI / MF :	12.5
NON PROMOTER CORP. HOLDINGS :	1.5
PUBLIC & OTHERS :	5.6

PRICE PERFORMANCE, %

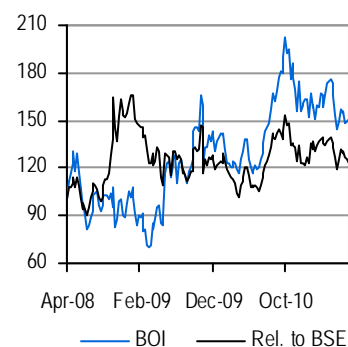
	1MTH	3MTH	1YR
ABS	-2.0	-14.6	16.5
REL TO BSE	-4.6	-10.6	8.2

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-PROV ROE (%)	53.0	38.3	37.4	33.2	34.5
PRE-PROV ROA (%)	2.8	1.9	1.8	1.5	1.6
NET PROFIT	30,073	17,411	24,887	28,267	37,844
% GROWTH	49.7	-42.1	42.9	13.6	33.9
EPS (RS)	57.2	33.1	45.5	51.7	69.2
ADJ BVPS (RS)	212.1	201.4	254.0	289.5	337.9
ROE (%)	29.2	14.2	17.3	16.5	19.1
P/E (X)	7.2	12.5	9.1	8.0	6.0
ADJ. P/BV (X)	2.0	2.1	1.6	1.4	1.2

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Valuation and Recommendation

We believe that it would be difficult for the bank to converge to 1% median level Return on Asset over the next two years given margin pressure and slippage. Despite the muted return ratio, the bank is trading in line with its median valuation of 1.35x 1-yr forward ABVPS. We have revised downward our earnings estimate for FY12E by 14% to Rs 28.3bn and for FY13E by 13% to Rs 37.8bn. Given the moderate earnings growth and return ratios, a premium valuation over its median level could not be justified. Hence, we downgrade the stock from Buy to Neutral. We also revise our target price to Rs 450 from Rs 550 on account of downward revision of adjusted book value per share by Rs 30 to Rs 337 and decline in the targeted multiple.

Financials

INCOME STATEMENT

RS MN	FY09	FY10	FY11	FY12E	FY13E
INTEREST ON LOANS	125,392	131,032	155,002	193,753	232,503
INTEREST ON INVESTMENTS	33,703	44,643	51,717	60,509	69,585
OTHERS	4,378	3,105	10,798	12,741	15,035
TOTAL INTEREST EARNED	163,474	178,780	217,517	267,003	317,124
TOTAL INTEREST EXPENDED	108,485	121,220	139,410	178,390	211,514
NET INTEREST INCOME	54,989	57,559	78,107	88,614	105,610
TOTAL NON INTEREST INCOME	30,519	26,166	26,418	24,669	27,040
TOTAL INCOME	85,508	83,726	104,525	113,282	132,650
PERSONNEL EXPENSES	19,374	22,961	34,754	38,577	43,978
OTHER EXPENSES	11,566	13,717	15,928	17,933	20,452
TOTAL OP EXPENSES	30,940	36,678	50,682	56,510	64,430
NET INC (LOSS) BEFORE PROV	54,568	47,048	53,842	56,772	68,220
PROVISION FOR NPAS	8,183	19,674	17,519	14,891	12,658
PROVISION FOR INVST DEPRN	4,741	2,435	1,369	1,500	1,500
NET INC (LOSS) BEFORE TAX	41,644	24,939	34,954	40,381	54,063
PROVISION FOR INCOME TAX	11,571	7,528	10,067	12,114	16,219
NET PROFIT	30,073	17,411	24,887	28,267	37,844

Source: Company, MF Global India Research Estimates

BALANCE SHEET

RS MN	FY09	FY10	FY11	FY12E	FY13E
ASSETS					
CASH & BAL WITH RBI	217,613	312,301	373,100	429,065	493,425
LOANS, ADV & INT ACCRUED	1,429,094	1,684,907	2,130,962	2,587,920	3,091,162
INVESTMENTS	537,944	684,218	873,619	1,010,670	1,176,529
FIXED ASSETS (NET)	25,319	23,518	24,807	26,807	28,807
OTHER ASSETS	45,048	44,720	109,237	119,918	133,310
TOTAL ASSETS	2,255,018	2,749,665	3,511,725	4,174,391	4,923,252
LIABILITIES					
SHARE CAPITAL	5,259	5,259	5,472	5,472	5,472
RESERVES AND SURPLUS	112,587	122,755	154,240	176,744	207,546
HYBRID CAPITAL	14,859	17,611	20,579	22,478	25,273
DEBT	47,003	65,593	87,291	112,291	137,291
BORROWING	94,870	140,795	112,344	132,566	156,428
TOTAL DEPOSITS	1,904,206	2,304,902	2,996,887	3,603,098	4,286,933
OTHER LIAB INCLD PROV	59,131	78,464	121,718	109,546	93,114
TOTAL LIABILITIES	2,255,018	2,749,665	3,511,726	4,174,391	4,923,252

Source: Company, MF Global India Research Estimates

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY09	FY10	FY11	FY12E	FY13E
EARNINGS AND VALUATION RATIOS					
PRE-PROVISION OPERATING ROAE (%)	53.0	38.3	37.4	33.2	34.5
ROAE (%)	29.2	14.2	17.3	16.5	19.1
PRE-PROVISION OPERATING ROA (%)	2.7	1.9	1.7	1.5	1.5
ROAB (%)	1.5	0.7	0.8	0.8	0.9
EPS (RS.)	57.2	33.1	45.5	51.7	69.2
DIVIDEND PER SHARE (RS.)	9.3	7.0	7.0	9.0	11.0
BOOK VALUE (RS.)	256.6	270.6	316.0	355.3	409.7
ADJ BV (RS.)	212.1	201.4	254.0	289.5	337.9
EPS CAGR FY07-09	57.6%	-6.9%	-10.8%	24.9%	23.3%
REVENUE ANALYSIS					
INTEREST INCOME ON IBA (%)	8.3	7.3	7.2	7.2	7.2
INTEREST COST ON IBL (%)	5.9	5.3	4.9	5.0	5.0
NIM ON IBA / AWF (%)	2.8	2.4	2.6	2.4	2.4
CORE FEE INC / AWF (%)	0.9	0.6	0.5	0.5	0.4
PORTFOLIO GAINS / TOTAL INC (%)	9.6	7.7	5.1	1.3	1.1
OP.EXP / TI (%)	39.6	47.2	50.9	50.6	49.1
OP.EXP / AWF (%)	1.6	1.5	1.7	1.5	1.5
EMPLOYEE EXPS / OP EXPS (%)	62.6	62.6	68.6	68.3	68.3
TAX / PRE-TAX EARNINGS (%)	27.8	30.2	28.8	30.0	30.0
ASSET QUALITY					
GNPAS / GR ADV (%)	1.7	2.9	2.3	2.2	2.2
NNPAS / NET ADV (%)	0.4	1.3	1.0	0.9	0.9
GROWTH RATIO					
LOANS (%)	25.9	17.9	26.5	21.4	19.4
INVESTMENTS (%)	25.7	27.2	27.7	15.7	16.4
DEPOSITS (%)	26.4	21.0	30.0	20.2	19.0
NETWORTH (%)	27.4	5.4	21.5	12.4	15.3
NET INT INCOME (%)	30.0	4.7	35.7	13.5	19.2
NON-FUND BASED INCOME (%)	31.7	(12.4)	5.9	8.3	10.2
NON-INT EXP (%)	17.0	18.5	38.2	11.5	14.0
PROFIT BEFORE TAX (%)	55.1	(40.1)	40.2	15.5	33.9
NET PROFIT (%)	49.7	(42.1)	42.9	13.6	33.9
ASSET / LIABILITY PROFILE					
AVG CASA/ DEPOSITS (%)	28.3	27.3	26.4	25.4	25.5
AVG ADV / AVG DEP (%)	73.9	72.2	70.1	69.9	70.4
AVG INVST / AVG DEP (%)	28.3	29.0	29.4	28.5	27.7
INCR ADV / DEPOSITS (%)	74.0	63.8	64.5	75.4	73.6
AVG CASH / AVG DEP (%)	11.6	12.6	12.9	12.2	11.7
CAPITAL ADEQUACY RATIO:					
TIER I (%)	8.9	8.5	9.0	8.7	8.6
INTERNAL CAPITAL GENERATION RATE (%)	28.5	11.7	16.4	14.6	17.5
NNPAS TO EQUITY (%)	4.7	15.5	12.0	12.2	12.5

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	450	414	5 JULY 2011
BUY	550	420	3 MAY 2011
BUY	550	460	22 JANUARY 2011
NEUTRAL	480	536	25 OCTOBER 2010
NEUTRAL	382	358	29 OCTOBER 2009
NEUTRAL	376	333	28 JULY 2009
BUY	315	235	29 APRIL 2009
BUY	385	295	29 JULY 2008
SELL	385	391	23 JANUARY 2008

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
SAJID KHALID	HEAD – INSTITUTIONAL EQUITIES	91-22-6667 9972	SAKHALID@MFGLOBAL.COM
JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

MANISH AGARWALLA	VP - BANKING	91-22-6667 9962	MAGARWALLA@MFGLOBAL.COM
ABHISHEK RANGANATHAN, CFA	RETAIL, REAL ESTATE	91-22-6667 9952	ABHISHEKR@MFGLOBAL.COM
ALOK DALAL	PHARMACEUTICALS	91-22-6667 9950	ALDALAL@MFGLOBAL.COM
ANJALI VERMA	ECONOMIST	91-22-6667 9969	ANVERMA@MFGLOBAL.COM
ANKUR SHARMA	ENGINEERING, CAPITAL GOODS	91-22-6667 9759	ASHARMA@MFGLOBAL.COM
DEEPAK JAIN	AUTOMOBILES & AUTO ANCILLARIES	91-22-6667 9758	DJAIN@MFGLOBAL.COM
DHAWAL DOSHI	METALS, POWER	91-22-6667 9769	DDOSHI@MFGLOBAL.COM
DIPESH SOHANI	REAL ESTATE, MIDCAP	91-22-6667 9756	DSOHANI@MFGLOBAL.COM
ENNETTE FERNANDES	FMCG	91-22-6667 9764	EFERNANDES@MFGLOBAL.COM
GAURI ANAND	OIL & GAS, FERTILISER	91-22-6667 9943	GANAND@MFGLOBAL.COM
KAPIL BAGARIA	MIDCAP, SUGAR	91-22-6667 9965	KBAGARIA@MFGLOBAL.COM
NAVEEN KULKARNI, CFA, FRM	TELECOM, FMCG, MEDIA	91-22-6667 9947	NKULKARNI@MFGLOBAL.COM
SACHIT MOTWANI	BANKING	91-22-6667 9956	SMOTWANI@MFGLOBAL.COM
VAIBHAV AGARWAL	CEMENT	91-22-6667 9967	VAGARWAL@MFGLOBAL.COM
VIHANG NAIK, CFA	IT SERVICES, MIDCAP	91-22-6667 9768	VNAIK@MFGLOBAL.COM
VIVEKANAND SUBBARAMAN	TELECOM, MEDIA	91-22-6667 9766	VSUBBARAMAN@MFGLOBAL.COM
DHARMESH SHAH	RESEARCH ASSOCIATE	91-22-6667 9974	DHSHAH@MFGLOBAL.COM
JISHAR THOOMBATH	RESEARCH ASSOCIATE	91-22-6667 9986	JTHOOMBATH@MFGLOBAL.COM
NEHA GARG	RESEARCH ASSOCIATE	91-22-6667 9996	NGARG@MFGLOBAL.COM
SAPNA SHAH	RESEARCH ASSOCIATE	91-22-6667 9992	SAPSHAH@MFGLOBAL.COM
SAURABH RATHI	RESEARCH ASSOCIATE	91-22-6667 9951	SRATHI@MFGLOBAL.COM
VARUN VIJAYAN	RESEARCH ASSOCIATE	91-22-6667 9766	VVIJAYAN@MFGLOBAL.COM
GANESH DEORUKHKAR	PRODUCTION	91-22-6667 9966	GDEORUKHKAR@MFGLOBAL.COM
ROSHNI KALLOOR	RESEARCH COMPLIANCE OFFICER	91-22-6667 9762	RKALLOOR@MFGLOBAL.COM

TECHNICAL & QUANT RESEARCH

NEPPOLIAN PILLAI	CHIEF TECHNICAL STRATEGIST	91-22-6667 9989	PNEPPOLIAN@MFGLOBAL.COM
SHIKHA KHURANA	QUANT ANALYST	91-22-6667 9948	SKHURANA@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADDIYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADIYAR@MFGLOBAL.COM
KINSHUK TIWARI	EQUITY SALES	91-22-6667 9946	KTIWARI@MFGLOBAL.COM
NASIR MOHAMED	EQUITY SALES	91-22-6667 9973	NMOHAMED@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHIV CHANANI	EQUITY SALES	91-22-6667 9944	SCHANANI@MFGLOBAL.COM
SHUBHANGI AGRAWAL	EQUITY SALES	91-22-6667 9964	SAGRAWAL@MFGLOBAL.COM
PAYAL PANCHAL	ASSOCIATE SALES (DMA)	91-22-6667 9949	PPANCHAL@MFGLOBAL.COM
ROSIE FERNS	SR. EXEC. – EQUITIES SALES SUPPORT	91-22-6667 9971	RFERNS@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES TRADING

SUNIL KAMATH	VP - SALES TRADER	91-22-6667 9747	SKAMATH@MFGLOBAL.COM
CHETAN SAVLA	SALES TRADER	91-22-6667 9749	CSAVLA@MFGLOBAL.COM
RAJESH ASHAR	SALES TRADER	91-22-6667 9746	RASHAR@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY DEALING

MAYUR SHAH	DEALER	91-22-6677 9945	MASHAH@MFGLOBAL.COM
GURUDATT UCHIL	DEALER	91-22-6667 9745	GUCHIL@MFGLOBAL.COM

Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Institutional Equities Research. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice. Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.

Furthermore, the Firm is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to the Firm. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the Firm's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited, 2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011

**MF Global Sify Securities
India Pvt. Limited**
2nd Floor, C-Block, Modern Centre
Mahalaxmi, Mumbai
400 011

mfglobal.com