



ACCUMULATE

| | |
|-------------------|-----------|
| Price | Rs235 |
| Target Price | Rs269 |
| Investment Period | 12 months |

Stock Info

| | |
|--------------------|---------|
| Sector | Banking |
| Market Cap (Rs cr) | 12,349 |
| Beta | 1.0 |
| 52 WK High / Low | 369/180 |
| Avg Daily Volume | 649978 |
| Face Value (Rs) | 10 |

| | |
|------------|--------|
| BSE Sensex | 11,403 |
| Nifty | 3,474 |

| | |
|----------------|-----------|
| BSE Code | 532149 |
| NSE Code | BANKINDIA |
| Reuters Code | BOI.BO |
| Bloomberg Code | BOI@IN |

Shareholding Pattern (%)

| | |
|---------------------|------|
| Promoters | 64.5 |
| MF/Banks/Indian FIs | 14.0 |
| FII/ NRIs/ OCBs | 14.9 |
| Indian Public | 6.6 |

| Abs. | 3m | 1yr | 3yr |
|-------------------|-------|--------|-------|
| Sensex (%) | 23.5 | (34.4) | (5.3) |
| Bank of India (%) | (2.3) | (29.4) | 89.5 |

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Performance Highlights

- Strong Balance Sheet growth:** Bank of India (BOI) continued to grow at an above-the-industry average growth rate and recorded a 27.5% yoy and 6% sequential growth in Advances to Rs1,44,732cr as well as a 26.5% yoy and a substantial 10.5% sequential growth in Deposits to Rs1,89,708cr driven by a 12.5% sequential growth in Term Deposits. Growth in Advances was driven by the Corporate Segment, with especially high growth witnessed in sectors such as metal, engineering, construction and infrastructure. The Bank's CASA ratio further declined to 31% of Domestic Deposits (25.6% of overall Deposits), down from 32% in 3QFY2009 and 36% in 4QFY2008.
- NIMs fall more than expected:** In the two quarters preceding 4QFY2009, PSU Banks had enjoyed strong pricing power on loans, even as Retail Deposit mobilisation picked up, especially in favour of large PSU Banks, which had driven an unsustainable surge in NIMs. While a sequential fall in NIMs was expected, the Bank reported a higher-than-expected fall of 43bp due to an increase in the cost funds, even as the yield on Advances fell sharply on the back of PLR cuts during 4QFY2009. This led to a sequential de-growth of 6% in Net Interest Income (NII), in spite of the strong growth in Balance Sheet.
- Robust Non-Interest Income growth:** On the Non-Interest Income front, the Bank booked substantial Treasury Profits of Rs224cr during the quarter. Fee Income growth was also robust at 23% yoy owing to the strong growth Balance Sheet. Forex-related Income though not as high as 3QFY2009 when volatility was especially high, increased 34% yoy.
- Moderate slippages; large restructuring:** The Bank reported gross additions to NPAs (slippages) for FY2009 of Rs1,682cr, translating into a slippage rate of 1.5%, slightly lower than expected and likely aided by the large restructuring done by the Bank at Rs5,048cr (3.5% of Advances). The NPA provision coverage improved to 74.6% as against 69.3% in 4QFY2008 and 68.4% in 3QFY2009 due to the change in Accounting Policy.
- Net Profit grew 7%:** The Bank reported yoy Net Profit growth of 7% yoy to Rs810cr (Rs757cr), which was marginally below our estimates, though NIMs and Provisions surprised on the downside while Treasury gains were higher than expected, and low effective Tax rates further aided Bottom-line growth.

Key Financials

| Y/E March (Rs cr) | FY2008 | FY2009 | FY2010E | FY2011E |
|-------------------|--------------|--------------|--------------|--------------|
| NII | 4,229 | 5,499 | 6,389 | 7,193 |
| % chg | 22.9 | 30.0 | 16.2 | 12.6 |
| Net Profit | 2,009 | 3,007 | 3,192 | 3,249 |
| % chg | 78.9 | 49.7 | 6.1 | 1.8 |
| NIM (%) | 2.7 | 2.8 | 2.7 | 2.6 |
| EPS (Rs) | 38.2 | 57.2 | 60.7 | 61.8 |
| P/E (x) | 6.2 | 4.1 | 3.9 | 3.8 |
| P/BV (x) | 1.4 | 1.1 | 0.9 | 0.8 |
| P/ABV (x) | 1.4 | 1.1 | 0.9 | 0.8 |
| RoAA (%) | 1.3 | 1.5 | 1.3 | 1.1 |
| RoANW (%) | 27.6 | 29.8 | 25.4 | 21.5 |

Source: Company, Angel Research; Price as on April 29, 2009

Exhibit 1: Composition of Non-Interest Income

| Particulars (Rs cr) | 4QFY09 | 4QFY08 | YoY Growth (%) | | QoQ Growth (%) |
|----------------------------------|--------|--------|----------------|-------|----------------|
| | | | 3QFY09 | | |
| Commission, Exchange & Brokerage | 311 | 252 | 23 | 287 | 8 |
| Treasury Gains | 224 | 60 | 273 | 435 | (49) |
| Forex-related profits | 118 | 88 | 34 | 237 | (50) |
| Recovery in Written off Accounts | 55 | 130 | (58) | 25 | 120 |
| Other | 77 | 123 | (37) | 67 | 15 |
| Total Non- Interest Income | 785 | 653 | 20 | 1,051 | (25) |
| Core Non-Interest Income | 388 | 375 | 3 | 354 | 10 |

Source: Company, Angel Research

booking gains on the HTM book to absorb high NPA provisions from an accounting point of view cannot be ruled out for the Sector in general.

- The Bank's Capital Adequacy, as per Basel 2 norms, was at a comfortable 13%, of which Tier 1 capital was 8.9%.
- Operating expenses grew 23% yoy driven by Other Operating Expense heads such as rent, core banking, etc.
- The Bank's effective Tax rate fell sharply to 20.8% contrary to management guidance of 30-33%.

Outlook and Valuation

BOI is amongst the better performing large PSU Banks, with a balanced funding mix, moderate operating costs, efficient capital management and strong Fee Income. However, the Bank may experience higher Asset quality pressures than peers on account of its Credit mix, which comprises relatively larger SME and Retail book than peers. Over the next few quarters, in our view, the stock performance will continue to be mainly a function of Bond yields and Asset quality trends, especially for PSU Banks. At the CMP, the stock is trading at 3.9x FY2010E EPS of Rs60.7 and 0.9x FY2010E Adjusted Book Value of Rs256.3. **We maintain an Accumulate on the stock, with a Target Price of Rs269, implying an upside of 14%.**

Exhibit 2: 4QFY2009 Performance

| Y/E March (Rs cr) | 4QFY2009 | 4QFY2008 | % chg | FY2009 | FY2008 | % chg |
|----------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Interest Earned | 4,493 | 3,502 | 28.3 | 16,347 | 12,355 | 32.3 |
| Interest Expenses | 3,060 | 2,285 | 33.9 | 10,848 | 8,126 | 33.5 |
| Net Interest Income | 1,433 | 1,217 | 17.8 | 5,499 | 4,229 | 30.0 |
| Non-Interest Income | 785 | 653 | 20.2 | 3,052 | 2,117 | 44.2 |
| Total Income | 2,219 | 1,870 | 18.6 | 8,551 | 6,346 | 34.7 |
| Operating Expenses | 811 | 658 | 23.2 | 3,094 | 2,645 | 17.0 |
| Pre-Prov Profit | 1,408 | 1,212 | 16.2 | 5,457 | 3,701 | 47.4 |
| Provisions & Cont. | 385 | 287 | 34.2 | 1,292 | 1,017 | 27.1 |
| PBT | 1,023 | 926 | 10.6 | 4,164 | 2,685 | 55.1 |
| Prov. for Taxes | 213 | 169 | 26.4 | 1,157 | 675 | 71.3 |
| PAT | 810 | 757 | 7.0 | 3,007 | 2,009 | 49.7 |
| EPS (Rs) | 15.4 | 14.4 | 7.0 | 57.2 | 38.2 | 49.7 |
| Cost to Income (%) | 36.5 | 35.2 | | 36.2 | 41.7 | |
| Effective Tax Rate (%) | 20.8 | 18.2 | | 27.8 | 25.2 | |
| Net NPA (%) | 0.4 | 0.5 | | | | |

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)

