

August 30, 2010

Rating	Accumulate
Price	Rs447
Target Price	Rs491
Implied Upside	9.9%
Sensex	17,998

(Prices as on August 27, 2010)
Trading Data

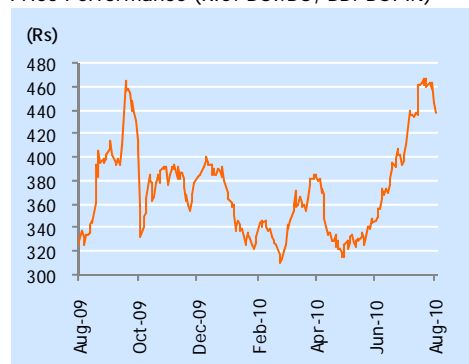
Market Cap. (Rs bn)	235.0
Shares o/s (m)	525.9
Free Float	35.53%
3M Avg. Daily Vol ('000)	1,198.8
3M Avg. Daily Value (Rs m)	479.0

Major Shareholders

Promoters	64.47%
Foreign	14.00%
Domestic Inst.	13.11%
Public & Others	8.42%

Stock Performance

(%)	1M	6M	12M
Absolute	6.8	31.5	34.5
Relative	5.9	21.9	21.3

Price Performance (RIC: BOI.BO, BB: BOI IN)


Source: Bloomberg

We met the management of Bank of India (BoI) and the key takeaways of the meeting are as follows:

- Asset quality - worst seems to be behind:** BoI witnessed significant asset quality stress during FY10 on account of higher slippages and aggressive NPL recognition and write-off policy of the bank. For FY11, the management expects slippages to come down, with the bank targeting to close the year with gross NPAs not exceeding last year's level of ~Rs49bn. Some stress is seen in the aviation sector exposure held by the bank. However, stressed accounts in this sector have already been classified as non-performing (-Rs7bn) and hence, does not pose significant threat to asset quality.
- Credit growth yet to pick up meaningfully:** BoI clocked 19.6% YoY advances growth in Q1FY11, with its domestic as well as overseas advances growing at an equal pace. However, in the current quarter, the credit growth remains sluggish. In terms of segments, while the Q1 loan growth was partially fuelled by higher 3G advances, infrastructure withdrawals continue to witness traction currently. Meanwhile, other segments yet to see meaningful pick up in credit offtake.
- Cost of deposits bottomed out, but margins likely to be maintained:** BoI's global NIM stood at 2.9% in Q1FY11. Though the costs of deposits have bottomed out and have an upward bias from here, the management is confident of maintaining margins at ~3% levels with a positive bias.
- Fee income growth contingent to credit growth:** BoI recorded a 5.0% YoY and 25.0% QoQ decline in the core fee income (commission, exchange and brokerage income) in Q1FY11. The management indicated that, going forward, the fee income growth would mirror credit growth, but with a lag.
- Valuation and Outlook:** BoI made a strong comeback with smart improvement in its core operating performance, along with stable asset quality during Q1FY11. With management's aggressive NPL recognition and write-off policy, we believe risks of substantial incremental slippages are lower. At the CMP, the stock trades at 1.6x and 1.3x its FY11E and FY12E ABV. We maintain our 'Accumulate' rating on the stock, with a price target of Rs491.

Key financials (Rs m)	FY09	FY10	FY11E	FY12E
Net interest income	54,989	57,560	70,114	85,337
Growth (%)	30.0	4.7	21.8	21.7
Operating profit	54,568	47,048	50,086	64,126
PAT	30,074	17,411	26,904	37,114
EPS (Rs)	57.2	33.1	51.2	70.6
Growth (%)	49.7	(42.1)	54.5	38.0
Net DPS (Rs)	8.0	7.0	9.0	9.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
NIM (%)	2.8	2.4	2.4	2.5
RoAE (%)	25.0	12.6	17.7	20.8
RoAA (%)	1.5	0.7	0.9	1.1
P / BV (x)	2.0	1.8	1.6	1.3
P / ABV (x)	2.0	2.0	1.6	1.3
PE (x)	7.8	13.5	8.7	6.3
Net dividend yield (%)	1.8	1.6	2.0	2.0

Source: Company Data; PL Research

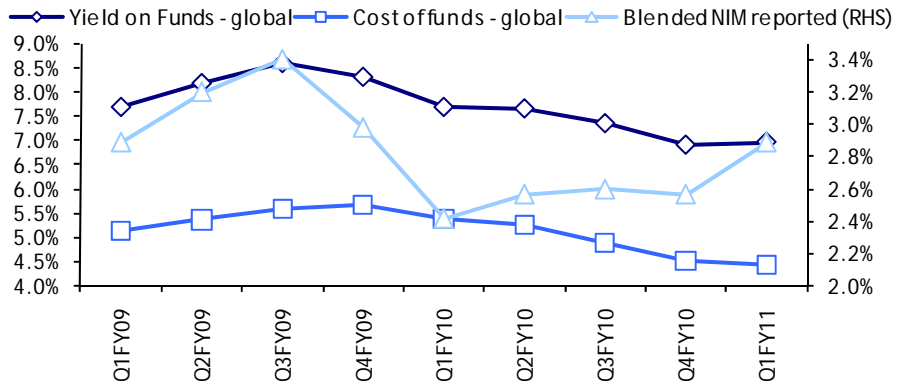
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In Q1FY11, global NIMs improved by 32bps QoQ to 2.89%, as the global yield on advances increased by 26bps QoQ, while the global cost of deposits remained flat sequentially.

Domestic NIM improved considerably by 46bps YoY and 28bps QoQ to 3.29%, which is commendable. Meanwhile, foreign NIM too has expanded by 24bps QoQ to 1.20%.

Trend in global reported margins



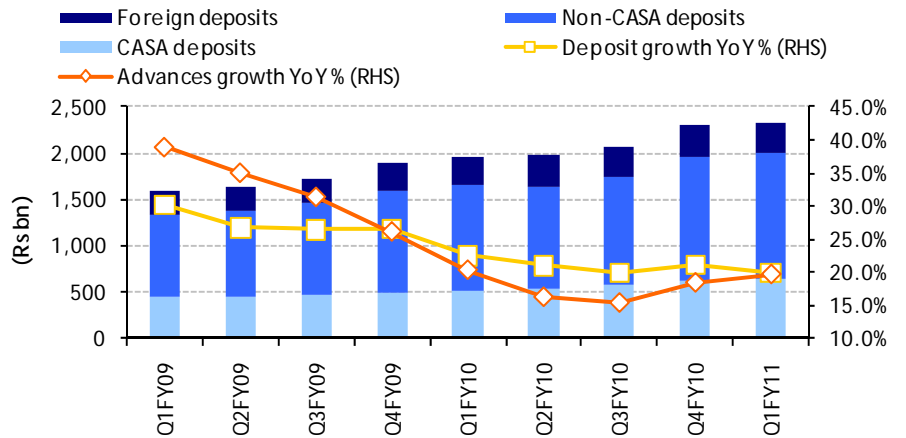
Source: Company Data, PL Research

During Q1FY11, advances grew by 19.6% YoY and 3.2% QoQ, with domestic and foreign advances growing at a similar pace.

Deposits grew by 19.8% YoY and 1.7% QoQ, mainly driven by healthy 20.9% YoY and 2.1% QoQ increase in domestic deposits.

Notably, the domestic CASA deposits grew at a much faster rate, at 26.4% YoY and 4.9% QoQ. Resultantly, CASA ratio improved to 32.3% from 31.5% in Q4FY10.

Trend in deposits and advances

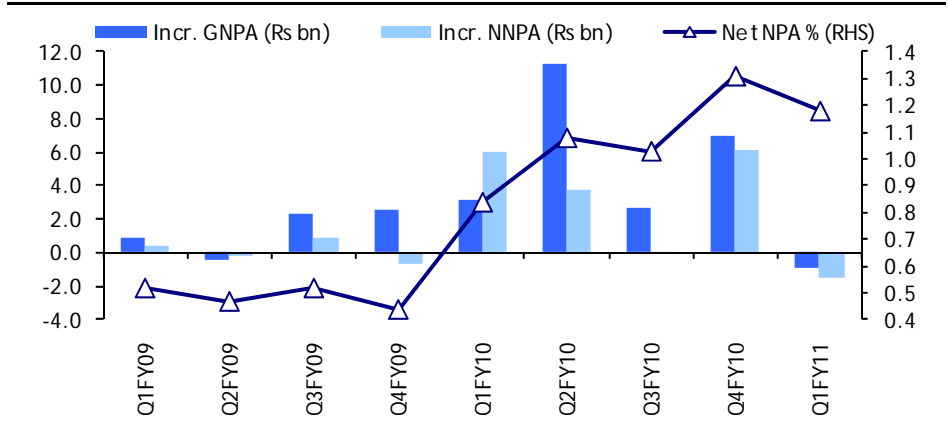


Source: Company Data, PL Research

In Q1FY11, GNPA's declined marginally by 1.8% QoQ, thereby, breaking the increasing trend in GNPA's of past six quarters. NNPA's, too, declined by Rs1.5bn QoQ to 1.18%. Provision coverage improved to 57.0% from 54.8% in Q4FY10.

No major assets were restructured during the quarter. Cumulative restructured advances stand at Rs100.0bn or 5.7% of global advances.

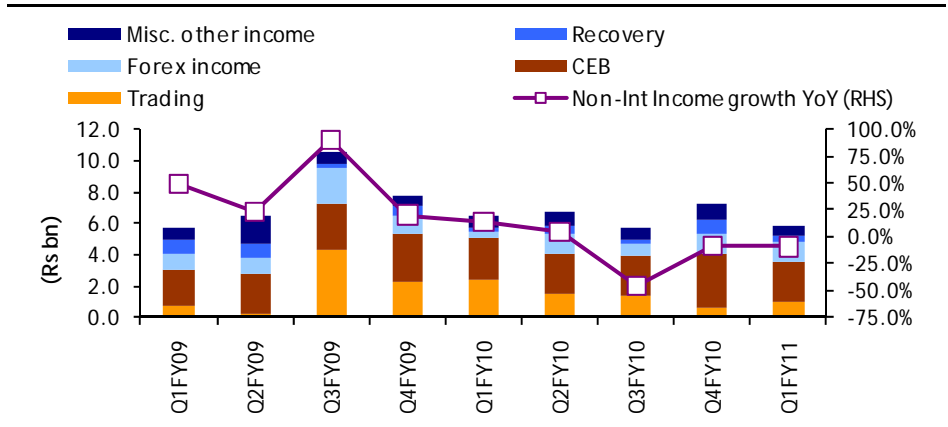
QoQ change in GNPA and NNPA



Source: Company Data, PL Research

Non-interest income continued to decline during Q1FY11, as it contracted by 9.3% YoY, mainly due to a sharp decline in the treasury income during the quarter. Core fee income declined by 4.9% YoY and 25.1% QoQ.

Trend in other income - continues to decline



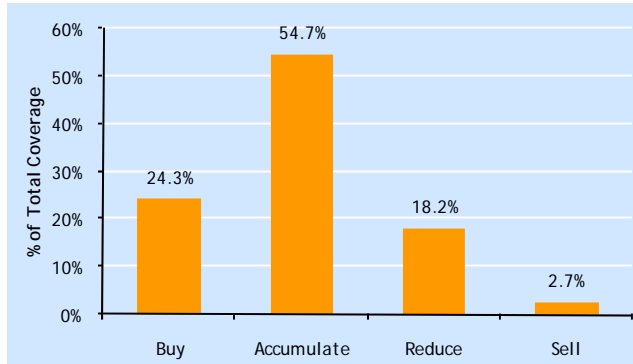
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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