



Bank of India BOI IN

INDIA / BANKS

PREPARED BY BNP PARIBAS SECURITIES ASIA

TARGET INR370.00
PRIOR TP INR400.00
CLOSE INR346.40
UP/DOWNSIDE +6.8%

HOLD

FROM BUY

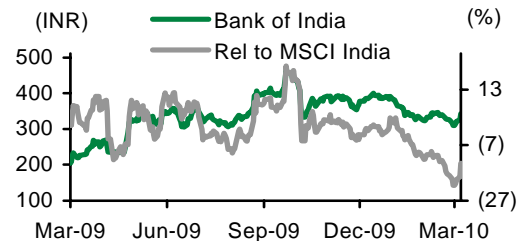
HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	370.00	360.00	2.80
EPS 2010 (INR)	34.64	41.30	(16.2)
EPS 2011 (INR)	41.29	52.80	(21.8)

	Positive	Neutral	Negative
Market Recs.	12	14	19

KEY STOCK DATA

	2010E	2011E	2012E
YE Mar (INR m)	27,021	30,980	42,021
Operating profit	18,192	21,686	29,415
Rec. net profit	34.64	41.29	56.01
Recurring EPS (INR)	35.64	50.27	69.59
Prior rec. EPS (INR)	(2.8)	(17.9)	(19.5)
Chg. in EPS est. (%)	(39.5)	19.2	35.6
EPS growth (%)	10.0	8.4	6.2
Recurring P/E (x)	1.8	2.8	3.8
Dividend yield (%)	1.2	1.1	1.0
Price/book (x)	12.8	13.7	16.5
ROE (%)	0.75	0.76	0.87
ROA (%)			



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	2.8	(11.2)	55.3
Relative to country (%)	(3.5)	(12.7)	(19.2)

Next results/event	April 2010
Mkt cap (USD m)	4,050
3m avg daily turnover (USD m)	4.0
Free float (%)	36
Major shareholder	Govt of India (64%)
12m high/low (INR)	465.10/219.40
3m historic vol. (%)	28.3

Sources: Bloomberg consensus; BNP Paribas estimates

Recent Company Research

BUY - Everyone hates it.....	11 Feb 2010
Negative surprise on NPLs	30 Oct 2009
Banks at BNP India conference.....	11 Mar 2010
Focus on CASA now	16 Nov 2009

INDUSTRY OUTLOOK ↑

CHANGE IN RECOMMENDATION

Wait for better times

- Downgrade to HOLD with a revised TP of INR370.00.
- We expect further 10% slippage from restructured loan book in FY11.
- Fresh positions can wait until more clarity emerges on credit cost.
- Our TP implies 1.4x BV for ROE of 16.1% on adj FY11E numbers.

We downgrade Bank of India to HOLD (from BUY) and lower our TP to INR370 (from INR400), mainly because we anticipate earnings pressure from further slippage from the restructured loan book. We cut our EPS estimate 18% for FY11. Our positive outlook for BOI has been proven wrong since 2QFY10. We did not anticipate the building up of credit-cost pressure and also underestimated the extent of loan losses over the last two quarters. While the stock does look cheap (relative to the adjusted FY11E ROE), we would recommend investors to look to add fresh positions after the credit-cost issues are behind the bank.



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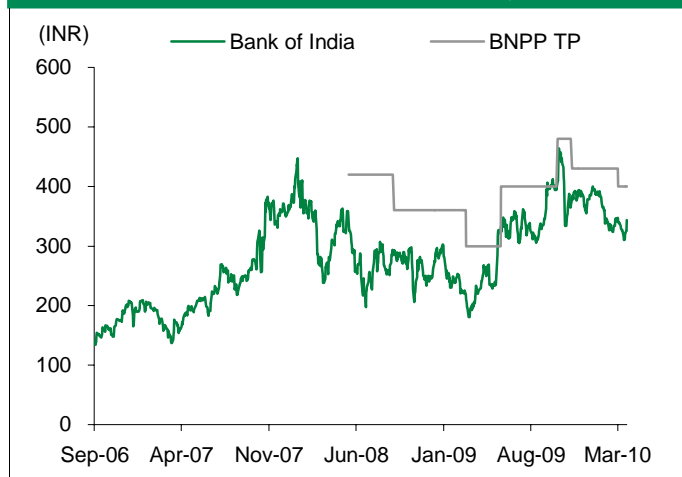
Loan growth – We are baking in loan growth of 20% for FY11, versus our earlier expected 19.5%. We believe loan growth will be driven by 18% growth in retail loans, 20% growth in corporate loans and 20% growth in SME loans. We expect the loan-to-deposit ratio (LDR) to expand about 60bps in FY11, but this will likely be offset by a potential increase in CRR in FY11.

Margins – We expect an average NIM of 2.73% for FY11, compared with an average of 2.63% for FY10. We see no significant deposit repricing benefits for FY11 and our NIM estimate for FY11 takes into account the margin expansion from an increase in LDR and the contraction from the recent increase in CRR and higher funding costs on savings deposits.

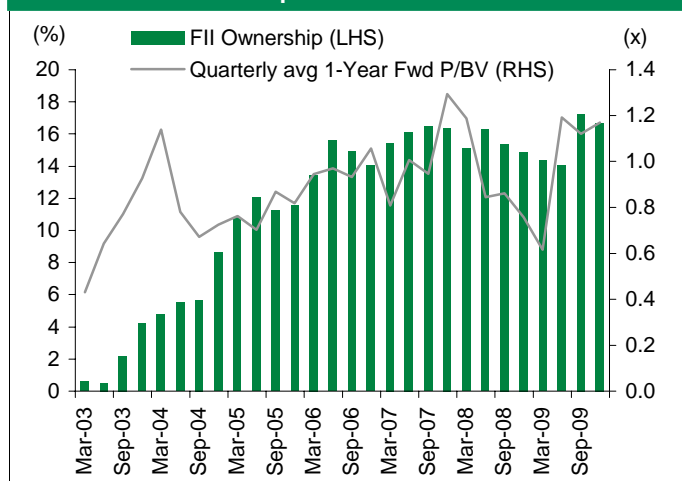
Credit costs – BOI had INR85bn in outstanding restructured loans as of 3QFY10. In 9MFY10, there was a slippage of 14%. We expect an incremental 10% to slip into NPLs from this book over the next few quarters. Overall, we expect GNPL to increase 35% for FY11 and we factor in a LLP of 107bps for FY10 and 106bps for FY11.

Valuation

Our TP of INR370 is based on a 3-stage residual income model, which assumes 8.25% risk-free rate, 6% equity-risk premium, 1.5 beta, 4% terminal growth rate and 10% terminal CoE. At our revised TP, the stock would trade at 1.36x BV for ROE of 16.1% on our adjusted FY11E numbers. Downside risks to TP: aggressive rate tightening by RBI and worse-than-expected NPL performance. Upside risks: lower-than-expected NPLs and higher-than-expected loan-book growth.

Exhibit 1: BNPP's Recommendation History For BOI

Sources: DataStream; BNP Paribas

Exhibit 2: FII Ownership vs P/ABV For BOI

Sources: DataStream; Ban of India; BNP Paribas estimates

Exhibit 3: BOI – Summary Of Estimate Changes

	Previous FY10E	Revised FY10E	Previous FY11E	Revised FY11E
Growth rates (y-y %)				
Deposit growth	13.9	13.9	18.9	18.9
Overall advance growth	15.4	15.4	19.5	19.5
Retail advance growth	19.5	19.5	18.1	18.1
Corporate advance growth	14.9	14.9	19.7	19.7
Gross NPL growth	79.5	83.9	30.1	35.0
Total income growth	(2.5)	(2.5)	20.2	15.1
Net interest income growth	4.7	4.7	22.3	22.2
Fee income growth	(4.4)	(4.4)	24.2	24.1
Pre provisioning profit growth	(12.6)	(12.6)	27.2	18.7
Net profit growth	(37.8)	(39.5)	41.1	19.2
EPS growth	(37.8)	(39.5)	41.1	19.2
Key metrics				
Pro forma diluted EPS (INR)	35.6	34.6	50.3	41.3
Adj book value per share (INR)	241.6	240.7	280.1	272.4
BVPS adjusted for net NPLs (INR)	213.1	211.6	252.5	244.1
Net interest margin	2.6	2.6	2.7	2.7
CASA ratio	27.5	27.5	27.5	27.5
Cost to asset ratio	1.5	1.5	1.4	1.4
Cost to income ratio	42.8	42.8	39.5	41.0
PAT margin	22.5	21.8	26.4	22.6
Gross NPL ratio	2.6	2.7	2.9	3.0
Provision Coverage ratio	66.3	66.3	74.9	75.7
Credit charge/avg int earning assets	0.7	0.7	0.6	0.7
Capital adequacy ratio (CRAR)	13.2	13.2	12.8	12.6
CRAR - Tier 1 ratio	9.1	9.1	8.8	8.6
Adj avg RoE	15.7	15.3	19.3	16.1
Adj avg RoA	0.8	0.7	0.9	0.8
Valuation				
Fair value for core banking (INR)	400	370	400	370
Price to book value (at TP)	1.7	1.5	1.4	1.4
Price to earnings (at TP)	11.2	10.7	8.0	9.0

Sources: Ban of India; BNP Paribas estimates

Exhibit 4: Residual Income Model For BOI

(INR m)	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Terminal
Net profit	30,074	18,192	21,686	29,415	29,898	33,284	36,405	37,139	41,598	45,540	47,896	51,479	49,481
Beginning book value	86,278	111,436	126,435	143,046	165,578	188,001	211,300	236,784	260,924	285,883	313,207	339,550	365,289
Required return	14,779	19,089	21,658	24,504	28,364	26,320	29,582	33,150	36,529	40,024	43,849	47,537	36,529
Residual income	15,294	(897)	28	4,911	1,534	6,964	6,823	3,989	5,069	5,516	4,047	3,942	12,952
Discounted residual income	17,914	(897)	24	3,580	955	3,802	3,267	1,675	1,868	1,783	1,147	980	48,803
Effective cost of equity (%)	17.13					14.00							10.00
Summary													
RFR (%)	8.25												
BETA	1.5												
ERP (Equity Risk Premium) (%)	6.0												
Cost of equity (%)	17.13												
Terminal growth rate (%)	4.00												
Sum of future residual income	67,883												
Beginning book value	126,435												
total equity value	194,318												
Number of shares (m)	525.2												
Value per share (INR)	370												

Source: BNP Paribas estimates

FINANCIAL STATEMENTS

Bank of India

Profit and Loss (INR m) Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Interest income	123,552	163,474	180,444	215,993	257,036
Interest expense	(81,260)	(108,485)	(122,860)	(145,621)	(176,086)
Net interest income	42,293	54,989	57,584	70,372	80,950
Net fees & commission	7,833	10,920	10,442	12,960	15,422
Foreign exchange trading income	3,070	5,700	3,685	5,000	5,200
Securities trading income	3,646	7,450	6,343	409	2,651
Dividend income	0	0	0	0	0
Other income	6,620	6,448	5,287	7,161	8,176
Non interest income	21,169	30,519	25,758	25,529	31,449
Total income	63,462	85,508	83,342	95,901	112,399
Staff costs	(16,570)	(19,374)	(22,998)	(24,804)	(25,811)
Other operating costs	(9,880)	(11,566)	(12,665)	(14,491)	(17,309)
Operating costs	(26,450)	(30,940)	(35,663)	(39,295)	(43,120)
Pre provision operating profit	37,012	54,568	47,679	56,605	69,279
Provisions for bad and doubtful debts	(6,970)	(6,230)	(16,434)	(19,275)	(19,934)
Other provisions	(3,195)	(6,694)	(4,224)	(6,350)	(7,323)
Operating profit	26,847	41,644	27,021	30,980	42,021
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	26,847	41,644	27,021	30,980	42,021
Tax	(6,753)	(11,571)	(8,829)	(9,294)	(12,606)
Profit after tax	20,094	30,074	18,192	21,686	29,415
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	20,094	30,074	18,192	21,686	29,415
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	20,094	30,074	18,192	21,686	29,415

We estimate net interest income and fee income growth of 22% and 24% for FY11

We factor in a 35% increase in gross NPLs, including write-offs on possible further slippages from restructured loans

Per share (INR)

Recurring EPS *	40.83	57.26	34.64	41.29	56.01
Reported EPS	40.83	57.26	34.64	41.29	56.01
DPS	5.00	9.36	6.08	9.66	13.11

Growth

Net interest income (%)	22.9	30.0	4.7	22.2	15.0
Non interest income (%)	35.4	44.2	(15.6)	(0.9)	23.2
Pre provision operating profit (%)	54.5	47.4	(12.6)	18.7	22.4
Operating profit (%)	75.1	55.1	(35.1)	14.7	35.6
Reported net profit (%)	78.9	49.7	(39.5)	19.2	35.6
Recurring EPS (%)	77.2	40.2	(39.5)	19.2	35.6
Reported EPS (%)	77.2	40.2	(39.5)	19.2	35.6

Income breakdown

Net interest income (%)	66.6	64.3	69.1	73.4	72.0
Net fees & commission (%)	12.3	12.8	12.5	13.5	13.7
Foreign exchange trading income (%)	4.8	6.7	4.4	5.2	4.6
Securities trading income (%)	5.7	8.7	7.6	0.4	2.4
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	10.4	7.5	6.3	7.5	7.3

Operating performance

Gross interest yield (%)	8.70	9.08	8.23	8.39	8.43
Cost of funds (%)	5.73	6.09	5.78	5.91	6.02
Net interest spread (%)	2.97	2.99	2.44	2.48	2.41
Net interest margin (%)	2.98	3.05	2.63	2.73	2.66
Cost/income (%)	41.7	36.2	42.8	41.0	38.4
Cost/assets (%)	1.65	1.53	1.46	1.38	1.28
Effective tax rate (%)	25.2	27.8	32.7	30.0	30.0
Dividend payout on recurring profit (%)	12.2	16.3	17.6	23.4	23.4
ROE (%)	24.4	25.0	12.8	13.7	16.5
ROE - COE (%)	2.6	3.2	(9.0)	(8.1)	(5.2)
ROA (%)	1.25	1.49	0.75	0.76	0.87
RORWA (%)	1.90	2.29	1.23	1.27	1.46

ROE on the adjusted book is higher at 16.1% for FY11E

* Pre exceptional, pre-goodwill and fully diluted

Sources: Bank of India; BNP Paribas estimates

Bank of India

Balance Sheet (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Gross customer loans	1,148,153	1,447,520	1,679,897	2,018,586	2,421,690
Total provisions	(13,389)	(18,427)	(30,105)	(46,450)	(60,214)
Interest in suspense	0	0	0	0	0
Net customer loans	1,134,763	1,429,094	1,649,792	1,972,136	2,361,476
Bank loans	59,755	128,460	58,890	71,207	84,369
Government securities	337,739	431,896	607,619	704,327	807,886
Trading securities	0	0	0	0	0
Investment securities	80,290	94,176	110,477	126,559	145,685
Cash & equivalents	117,419	89,153	107,400	122,307	146,524
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	24,261	25,319	26,555	27,892	29,283
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	34,073	56,920	53,001	64,086	75,932
Total assets	1,788,300	2,255,018	2,613,735	3,088,515	3,651,155
Customer deposits	1,500,120	1,897,085	2,161,464	2,569,245	3,072,265
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	71,724	94,870	94,870	99,870	104,870
Non interest bearing liabilities	110,562	128,114	207,452	252,839	284,928
Total liabilities	1,682,406	2,120,068	2,463,785	2,921,954	3,462,062
Share capital	5,259	5,259	5,259	5,259	5,259
Reserves	100,635	129,690	144,689	161,301	183,832
Total equity	105,894	134,949	149,948	166,560	189,092
Minority interests	0	0	0	0	0
Total liabilities & equity	1,788,300	2,255,018	2,613,734	3,088,514	3,651,154
Supplementary items					
Risk weighted assets (RWA)	1,222,210	1,399,310	1,564,718	1,848,946	2,185,772
Average interest earning assets	1,420,812	1,800,881	2,192,993	2,573,054	3,047,599
Average interest bearing liabilities	1,418,435	1,781,899	2,124,144	2,462,724	2,923,125
Tier 1 capital	94,090	124,660	142,231	158,577	180,748
Total capital	147,120	182,110	205,801	232,740	254,911
Gross non performing loans (NPL)	19,309	24,709	45,431	61,321	75,537
Per share (INR)					
Book value per share	215.17	256.96	285.52	317.15	360.05
Tangible book value per share	215.17	256.96	285.52	317.15	360.05
Growth					
Gross customer loans (%)	33.2	26.1	16.1	20.2	20.0
Average interest earning assets (%)	21.7	26.8	21.8	17.3	18.4
Total assets (%)	26.3	26.1	15.9	18.2	18.2
Risk weighted assets (%)	37.2	14.5	11.8	18.2	18.2
Customer deposits (%)	25.1	26.5	13.9	18.9	19.6
Leverage & capital measures					
Customer loans/deposits (%)	75.6	75.3	76.3	76.8	76.9
Equity/assets (%)	5.9	6.0	5.7	5.4	5.2
Tangible equity/assets (%)	5.9	6.0	5.7	5.4	5.2
RWA/assets (%)	68.3	62.1	59.9	59.9	59.9
Tier 1 CAR (%)	7.7	8.9	9.1	8.6	8.3
Total CAR (%)	12.0	13.0	13.2	12.6	11.7
Asset quality					
Change in NPL (%)	(8.1)	28.0	83.9	35.0	23.2
NPL/gross loans (%)	1.7	1.7	2.7	3.0	3.1
Total provisions/gross loans (%)	1.2	1.3	1.8	2.3	2.5
Total provisions/NPL (%)	69.3	74.6	66.3	75.7	79.7
Valuation					
Recurring P/E (x) *	8.5	6.0	10.0	8.4	6.2
Recurring P/E @ target price (x) *	9.1	6.5	10.7	9.0	6.6
Reported P/E (x)	8.5	6.0	10.0	8.4	6.2
Dividend yield (%)	1.4	2.7	1.8	2.8	3.8
Price/book (x)	1.6	1.3	1.2	1.1	1.0
Price/tangible book (x)	1.6	1.3	1.2	1.1	1.0
Price/tangible book @ target price (x)	1.7	1.4	1.3	1.2	1.0

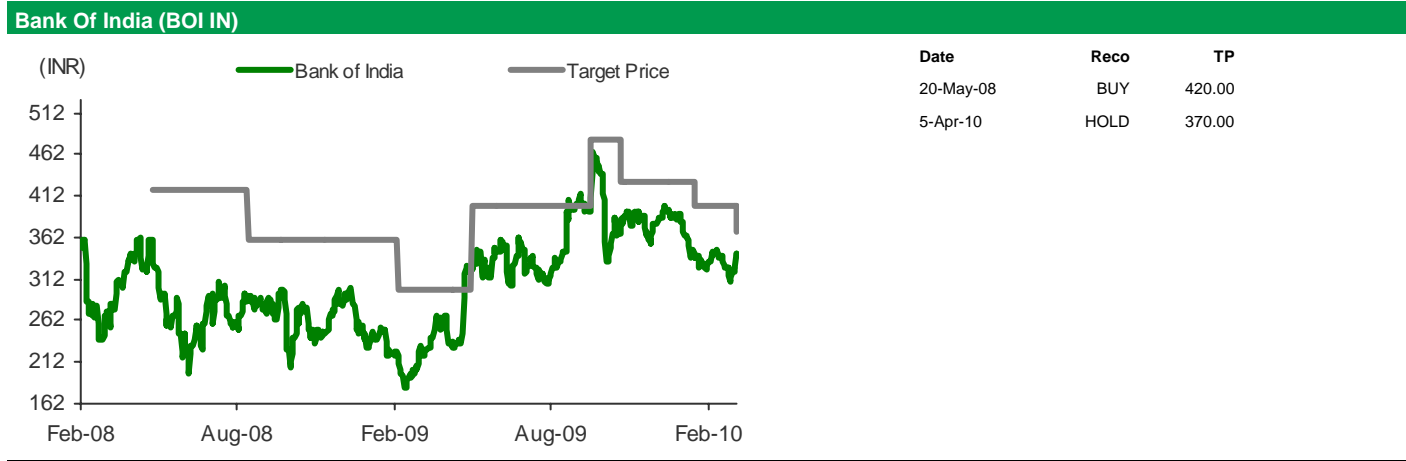
20% loan book growth for FY11E

We estimate adj BVPS of INR272 for FY11 (adj for revaluation reserves)

* Pre exceptional, pre-goodwill and fully diluted

Sources: Bank of India; BNP Paribas estimates

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE



Vijay Sarathi started covering this stock from 20 May 2008
 Price and TP are in local currency
 Sources: Bloomberg, BNP Paribas

DISCLAIMERS & DISCLOSURES

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Recommendation structure

All share prices are as at market close on 1 April 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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