

- Our FY09E EPS is 15% lower than the Street due to conservative NPL and growth assumptions.
- We are using adjusted book value for BOI. Hence our FY10 book value estimate is 13% lower than the street.

Net Profit 09 .....INR19.8b  
.....(From INR20.8b)

Diff from Consensus (13.5%)  
Consensus (mean) .....INR22.9b  
Consensus (momentum) ..... ↑

Target Price....INR360.00  
.....(From INR420.00)

Diff from Consensus ....2.9%  
Consensus (median) ....INR350.00  
Consensus (momentum)..... ↑

Current Price.... INR294.15  
Upside/(Downside).....22.4%

**BUY**  
(Unchanged)

Recs in the Market

Positive .....19  
Neutral .....3  
Negative .....3  
Consensus (momentum)..... ↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

**We cut TP to INR360. We met Bank of India's management recently to discuss the outlook for loan growth, interest margins and credit costs for FY09 and beyond. While we reiterate our current loan growth target of 19% for the bank, we are revising the NIM expectations down by approximately 30bps for FY09. Reiterate BUY for prudent loan growth.**

## "Prudent growth" thesis on track: BUY

Revising TP to INR360 to account for lower NIM  
We met the management of Bank of India recently to discuss the outlook for loan growth, net interest margins and the credit cost expectations for FY09 and beyond. Here's a summary of the key issues and assumption changes.

- 1) Significant drivers for our TP change:** A significant driver for our target price cut is the change in our expectations for net interest margins across the banking sector in the medium term. We are revising our NIM assumptions in the medium term to 2.5-2.6% from the earlier 2.8-3.0%. We believe over the medium-to-long term these are sustainable NIM levels in the Indian banking sector. Related to this, another driver for our TP revision is the series of CRR and repo-rate increases over the past few months.
- 2) Loan growth and NIMs:** We reiterate our current aggregate loan growth assumption of 20.2% for FY09 on the back of a 23% growth in corporate book and 8% growth in retail loans. We are revising our net interest margin estimates for FY09 and FY10 to 2.8% and 2.7%, respectively, from 2.9% and 3.0% earlier.
- 3) Credit costs:** We believe Bank of India continues to pursue prudent loan growth in a weak credit market. The robust 1QFY09 results point toward this trend. We see no significant change in our current gross NPL estimate of 1.7% for FY09
- 4) EPS, Book Value and RoE:** Our FY09E and FY10E EPS numbers are revised to INR37.6 and INR36.7, respectively, versus INR39.6 and INR45.3 earlier. FY09E and FY10E adjusted book values are revised to INR193 and INR219, respectively (earlier INR196 and INR230). We are anticipating the bank to post an adjusted RoE of 21% for FY09 versus our earlier assumption of 23%.

**Valuation:** Our revised target price of INR360 (INR420 earlier) is based on a three-stage residual income model. At our target price, Bank of India trades at 1.6x our FY10E adjusted book value. Currently the bank is trading at 1.3x our FY10E adjusted book value.

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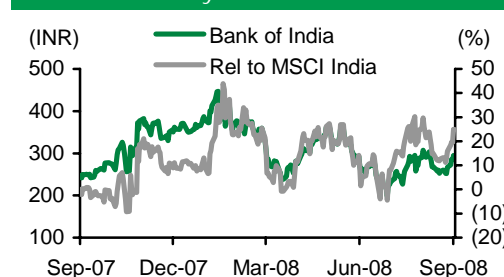
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### Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Operating profit	26,847	27,468	27,477	39,515
Reported net profit	20,094	19,783	19,234	27,661
Recurring net profit	20,094	19,783	19,234	27,661
Previous rec net profit	20,094	20,812	23,840	28,893
Chg from previous (%)	—	(4.9)	(19.3)	(4.3)
Recurring EPS (INR)	40.83	37.62	36.57	52.60
Previous rec EPS	40.83	39.57	45.33	54.94
Rec EPS growth (%)	77.2	(7.9)	(2.8)	43.8
Recurring P/E (x)	7.2	7.8	8.0	5.6
Dividend yield (%)	1.7	2.9	3.6	5.4
Price/book (x)	1.4	1.3	1.1	1.0
Price/tangible book (x)	1.4	1.3	1.1	1.0
ROA (%)	1.25	1.00	0.81	1.00
ROE (%)	24.4	17.4	15.0	19.1

Sources: Bank of India; BNP Paribas estimates

### Share Price Daily vs MSCI India



Next results/event	October 2008
Market cap (USD m)	3,484
12m avg daily turnover (USD m)	19.5
Free float (%)	35
Major shareholder	Govt of India (65%)
12m high/low (INR)	448.00/197.90
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

**Exhibit 1: Q1FY09 Performance vis-à-vis BNPP Estimates**

Year-end 31 Mar	1Q09	vs BNPP est	Change	
	(INR b)	(%)	(q-q %)	(y-y %)
Income statement				
Interest earned	35.5	(4.8)	1.3	30.1
Other income	5.7	0.0	(13.3)	48.6
Fee income	2.3	4.0	(8.8)	52.2
Treasury	1.8	9.0	21.5	38.2
Interest expended	23.7	(5.5)	3.6	33.0
Net interest income	11.8	(3.2)	(3.0)	24.7
Total income	17.5	(2.2)	(6.6)	31.5
Employee cost	4.6	4.1	11.1	11.2
Other operating costs	2.1	(28.5)	(11.9)	(9.4)
Pre-prov operating profit	10.7	2.7	(11.5)	58.2
Provisions & contingencies	3.5	18.9	22.1	75.7
Tax provisions	1.6	(28.2)	(4.3)	(1.2)
Adjusted net profit	5.6	6.9	(25.9)	78.0
Proforma diluted EPS (INR)	10.7	7.2	(25.7)	65.4
Balance sheet				
Total assets	1,902.8	2.2	6.4	34.3
Net worth	95.9	2.2	6.4	34.3
Deposits	1,592.3	1.8	6.1	30.1
CASA	468.4	1.7	6.0	21.6
Investments	449.1	4.5	7.4	26.5
Advances	1,228.9	3.5	8.3	41.1
Retail	195.1	1.2	0.7	12.9
Collateralized	97.8	1.2	0.7	6.0
Non collateralized	97.2	(3.1)	(3.7)	21.0
Corporate	693.7	9.9	14.6	59.1
SME	211.2	(0.0)	3.5	30.1
Rural	129.0	(5.3)	(2.0)	28.7
Gross NPLs	20.2	(1.3)	4.5	(0.5)
Book value per share (INR)	174.7	0.4	6.5	46.6

Focus on operating costs adds weight to our margin expansion

EPS beat by 7%

Growth in low cost deposit base (CASA) buffers loan yields contraction on account

8% q-q loan book growth 15% q-q corporate book growth. BOI consciously cutting down exposure on non collateralized loans

Gross NPLs on track, MTM provisions marginally higher

Sources: Bank of India; BNP Paribas estimates

**Exhibit 2: TP Sensitivity To Expected Earnings Growth And Expected RoE**

INR		Expected earnings CAGR for FY10-20E							
Average Expected ROE FY10-20		4%	6%	8%	10%	12%	14%	16%	18%
	13%	186	182	177	171	165	157	148	138
	14%	208	207	205	203	201	198	195	192
	15%	230	231	233	235	237	240	243	246
	16%	252	256	261	267	273	281	290	300
	17%	274	281	289	299	310	322	337	355
	18%	296	306	317	331	346	364	385	409
	19%	318	331	345	362	382	405	432	463
	20%	340	355	373	394	418	447	479	517
	21%	362	380	401	426	455	488	527	572
	22%	384	405	429	458	491	529	574	626
	23%	406	430	457	490	527	571	621	680
	24%	428	455	486	522	563	612	669	734
	25%	450	479	514	553	600	653	716	789

BNPP estimates

Street estimates

Sources: Bank of India; Bloomberg; BNP Paribas estimates

## FINANCIAL STATEMENTS

## Bank of India

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Interest income	91,803	123,552	156,601	193,543	233,831
Interest expense	(57,399)	(81,260)	(107,995)	(137,787)	(163,881)
<b>Net interest income</b>	<b>34,405</b>	<b>42,293</b>	<b>48,606</b>	<b>55,756</b>	<b>69,950</b>
Net fees & commission	5,967	7,833	9,567	11,613	14,614
Foreign exchange trading income	2,241	3,070	3,280	2,900	3,000
Securities trading income	2,049	3,646	2,838	3,349	5,248
Dividend income	-	-	-	-	-
Other income	5,372	6,620	7,300	8,677	10,513
<b>Non interest income</b>	<b>15,630</b>	<b>21,169</b>	<b>22,985</b>	<b>26,538</b>	<b>33,375</b>
<b>Total income</b>	<b>50,034</b>	<b>63,462</b>	<b>71,591</b>	<b>82,294</b>	<b>103,325</b>
Staff costs	(16,140)	(16,570)	(20,772)	(26,363)	(29,590)
Other operating costs	(9,944)	(9,880)	(10,807)	(13,755)	(16,700)
<b>Operating costs</b>	<b>(26,084)</b>	<b>(26,450)</b>	<b>(31,579)</b>	<b>(40,118)</b>	<b>(46,290)</b>
<b>Pre provision operating profit</b>	<b>23,950</b>	<b>37,012</b>	<b>40,012</b>	<b>42,176</b>	<b>57,035</b>
Provisions for bad and doubtful debts	(5,569)	(6,970)	(5,169)	(4,672)	(5,158)
Other provisions	(3,053)	(3,195)	(7,375)	(10,027)	(12,361)
<b>Operating profit</b>	<b>15,328</b>	<b>26,847</b>	<b>27,468</b>	<b>27,477</b>	<b>39,515</b>
Recurring non operating income	-	-	-	-	-
Associates	-	-	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>15,328</b>	<b>26,847</b>	<b>27,468</b>	<b>27,477</b>	<b>39,515</b>
Tax	(4,097)	(6,753)	(7,685)	(8,243)	(11,855)
<b>Profit after tax</b>	<b>11,232</b>	<b>20,094</b>	<b>19,783</b>	<b>19,234</b>	<b>27,661</b>
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>11,232</b>	<b>20,094</b>	<b>19,783</b>	<b>19,234</b>	<b>27,661</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>11,232</b>	<b>20,094</b>	<b>19,783</b>	<b>19,234</b>	<b>27,661</b>
<b>Per share (INR)</b>					
Recurring EPS *	23.04	40.83	37.62	36.57	52.60
Reported EPS	23.04	40.83	37.67	36.62	52.67
DPS	4.03	5.00	8.66	10.53	15.80
<b>Growth</b>					
Net interest income (%)	30.7	22.9	14.9	14.7	25.5
Non interest income (%)	32.0	35.4	8.6	15.5	25.8
Pre provision operating profit (%)	40.8	54.5	8.1	5.4	35.2
Operating profit (%)	67.4	75.1	2.3	0.0	43.8
Reported net profit (%)	60.1	78.9	(1.5)	(2.8)	43.8
Recurring EPS (%)	60.1	77.2	(7.9)	(2.8)	43.8
Reported EPS (%)	60.1	77.2	(7.7)	(2.8)	43.8
<b>Income breakdown</b>					
Net interest income (%)	68.8	66.6	67.9	67.8	67.7
Net fees & commission (%)	11.9	12.3	13.4	14.1	14.1
Foreign exchange trading income (%)	4.5	4.8	4.6	3.5	2.9
Securities trading income (%)	4.1	5.7	4.0	4.1	5.1
Dividend income (%)	-	-	-	-	-
Other income (%)	10.7	10.4	10.2	10.5	10.2
<b>Operating performance</b>					
Gross interest yield (%)	7.86	8.70	9.03	9.37	9.64
Cost of funds (%)	5.07	5.73	6.23	6.67	6.76
Net interest spread (%)	2.79	2.97	2.80	2.70	2.89
Net interest margin (%)	2.95	2.98	2.80	2.70	2.89
Cost/income (%)	52.1	41.7	44.1	48.7	44.8
Cost/assets (%)	2.05	1.65	1.59	1.69	1.67
Effective tax rate (%)	26.7	25.2	28.0	30.0	30.0
Dividend payout on recurring profit (%)	17.5	12.2	23.0	28.8	30.0
ROE (%)	20.6	24.4	17.4	15.0	19.1
ROE - COE (%)	0.2	4.0	(3.0)	(5.4)	(1.3)
ROA (%)	0.88	1.25	1.00	0.81	1.00
RORWA (%)	1.44	1.90	1.49	1.22	1.47
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					

Net interest income CAGR of 15% and fee income CAGR of 22% from FY08 to FY10

Factoring 23% increase in operating costs from FY08-FY10 on account of fresh employee additions and pay commission hikes

Modelling flat earnings growth over FY08-FY10

Factoring for 30bps compression in NIMs to account for interest rate and CRR hikes

Sources: Bank of India; BNP Paribas estimates

<b>Balance Sheet (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Gross customer loans	864,049	1,148,153	1,381,871	1,620,011	1,899,635
Total provisions	(14,690)	(13,390)	(17,619)	(22,291)	(27,450)
Interest in suspense	-	-	-	-	-
<b>Net customer loans</b>	<b>849,359</b>	<b>1,134,763</b>	<b>1,364,253</b>	<b>1,597,720</b>	<b>1,872,185</b>
Bank loans	102,086	59,755	71,601	87,555	105,454
Government securities	260,929	337,739	409,484	481,081	559,264
Trading securities	-	-	-	-	-
Investment securities	93,998	80,290	104,288	127,130	150,571
Cash & equivalents	71,969	117,419	161,991	190,857	217,134
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	7,893	24,261	25,808	27,085	28,414
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	30,135	34,073	39,778	48,642	58,585
<b>Total assets</b>	<b>1,416,370</b>	<b>1,788,300</b>	<b>2,177,202</b>	<b>2,560,069</b>	<b>2,991,607</b>
Customer deposits	1,198,817	1,500,120	1,825,668	2,165,029	2,537,212
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	66,208	71,724	71,724	71,724	76,724
Non interest bearing liabilities	92,391	110,562	158,682	188,485	223,478
Hybrid capital	-	-	-	-	-
<b>Total liabilities</b>	<b>1,357,416</b>	<b>1,682,406</b>	<b>2,056,075</b>	<b>2,425,238</b>	<b>2,837,414</b>
Share capital	4,881	5,259	5,259	5,259	5,259
Reserves	54,072	100,635	115,868	129,572	148,934
<b>Total equity</b>	<b>58,954</b>	<b>105,894</b>	<b>121,127</b>	<b>134,831</b>	<b>154,193</b>
Minority interests	-	-	-	-	-
<b>Total liabilities &amp; equity</b>	<b>1,416,370</b>	<b>1,788,300</b>	<b>2,177,202</b>	<b>2,560,069</b>	<b>2,991,607</b>
<b>Supplementary items</b>					
Risk weighted assets (RWA)	890,810	1,222,210	1,436,953	1,728,047	2,034,293
Average interest earning assets	1,167,252	1,420,812	1,734,496	2,065,456	2,424,577
Average interest bearing liabilities	1,131,643	1,418,435	1,734,618	2,067,073	2,425,345
Tier 1 capital	58,250	94,090	125,879	144,583	163,944
Total capital	103,120	147,120	196,617	222,821	259,182
Gross non performing loans (NPL)	21,010	19,310	23,492	27,864	32,294
<b>Per share (INR)</b>					
Book value per share	120.93	215.17	230.64	256.74	293.60
Tangible book value per share	120.93	215.17	230.64	256.74	293.60
<b>Growth</b>					
Gross customer loans (%)	29.6	32.9	20.4	17.2	17.3
Average interest earning assets (%)	22.4	21.7	22.1	19.1	17.4
Total assets (%)	26.2	26.3	21.7	17.6	16.9
Risk weighted assets (%)	32.1	37.2	17.6	20.3	17.7
Customer deposits (%)	27.6	25.1	21.7	18.6	17.2
<b>Leverage &amp; capital measures</b>					
Customer loans/deposits (%)	70.8	75.6	74.7	73.8	73.8
Equity/assets (%)	4.2	5.9	5.6	5.3	5.2
Tangible equity/assets (%)	4.2	5.9	5.6	5.3	5.2
RWA/assets (%)	62.9	68.3	66.0	67.5	68.0
Tier 1 CAR (%)	6.5	7.7	8.8	8.4	8.1
Total CAR (%)	11.6	12.0	13.7	12.9	12.7
<b>Asset quality</b>					
Change in NPL (%)	(15.2)	(8.1)	21.7	18.6	15.9
NPL/gross loans (%)	2.4	1.7	1.7	1.7	1.7
Total provisions/gross loans (%)	1.7	1.2	1.3	1.4	1.4
Total provisions/NPL (%)	69.9	69.3	75.0	80.0	85.0
<b>Valuation</b>					
Recurring P/E (x) *	12.8	7.2	7.8	8.0	5.6
Recurring P/E @ target price (x) *	15.6	8.8	9.6	9.8	6.8
Reported P/E (x)	12.8	7.2	7.8	8.0	5.6
Dividend yield (%)	1.4	1.7	2.9	3.6	5.4
Price/book (x)	2.4	1.4	1.3	1.1	1.0
Price/tangible book (x)	2.4	1.4	1.3	1.1	1.0
Price/tangible book @ target price (x)	3.0	1.7	1.6	1.4	1.2

19% CAGR in loan book from FY08-FY10

Factoring for up tick in NPL, 20% CAGR from FY08 to FY10

The estimated adjusted book value per share (excluding revaluation reserves and Forex translation reserve) are INR193 and INR219 for FY09 and FY10 respectively

Sources: Bank of India; BNP Paribas estimates

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All share prices are as at market close on 4 September 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price} - \text{current price}) / \text{current price}$ . 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.

Sector recommendations are based on: OVERWEIGHT – Sector coverage universe fundamentals are improving. NEUTRAL – Sector coverage universe fundamentals are steady, neither improving nor deteriorating. UNDERWEIGHT – Sector coverage universe fundamentals are deteriorating.

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