

# Upbeat post management meet; Raise PO

## Raising PO post management meeting

We are raising our PO on Bank of India to Rs490 (from Rs410) after our meeting with BOI management. The focus of the bank is shifting towards generating CASA and margins (v/s deposit growth) and credit. As per BOI: 1) Loan sanctions (Rs280bn YTD), up sharply, but disbursements lagging and very back-ended; 2) NPLs, after factoring in re-lapse from restructuring (est. at 15-20%) to be Rs6bn/qtr, below est. of Rs30bn for FY10; 3) 15-17% of deposits (high cost) are due to mature by Mar'10 and CASA levels to rise to +27% (of total). Further, BOI's earnings least impacted from rising bond yields as >80-85% of G-secs in HTM.

## Maintain FY10E earnings; Raise FY11E-12E earnings by 7-8%

While we maintain FY10E earnings (not lowering NPL's or credit costs in FY10E), we are raising FY11E-12E earnings by 7-8% on stronger loan growth (23%) and lower NPL provisions as asset quality may surprise on upside. BOI's margins to expand in FY11 as LDR rises and BOI gets benefits of deposit re-pricing. Earnings growth of (post +6-7% in FY10) +24% in FY11E. Amongst highest RoEs at +23% in FY11E.

## PO still 10% discount on "Gordon model"

We believe the stock, trading at 2.0x FY10E adj. BV and 6.5x FY10E PE can continue to trade at least at 1.7x FY11E book, given its high ROE, improving visibility of earnings and renewed focus on CASA etc. Moreover, we still factor in a 50% rise in gross NPL accretion and our adj. BV is adjusted for 100% NPL coverage and 20% of restructured loans. Our revised PO is pegged at 10% discount to the "theoretical P/B multiple" using the Gordon model.

## Estimates (Mar)

| (Rs)                             | 2008A  | 2009A  | 2010E  | 2011E  | 2012E  |
|----------------------------------|--------|--------|--------|--------|--------|
| Net Income (Adjusted - mn)       | 20,095 | 30,073 | 32,022 | 40,068 | 52,151 |
| EPS                              | 38.21  | 57.18  | 60.89  | 76.19  | 99.16  |
| EPS Change (YoY)                 | 66.1%  | 49.7%  | 6.5%   | 25.1%  | 30.2%  |
| Dividend / Share                 | 4.68   | 8.00   | 6.50   | 7.50   | 8.50   |
| Pre-exceptional EPS              | 38.21  | 57.18  | 60.89  | 76.19  | 99.16  |
| Pre-exceptional EPS Change (YoY) | 66.1%  | 49.7%  | 6.5%   | 25.1%  | 30.2%  |
| Book Value / Share               | 156.57 | 212.13 | 200.76 | 290.48 | 375.18 |

## Valuation (Mar)

|                              | 2008A  | 2009A  | 2010E  | 2011E  | 2012E  |
|------------------------------|--------|--------|--------|--------|--------|
| P/E                          | 10.4x  | 6.9x   | 6.5x   | 5.2x   | 4.0x   |
| Dividend Yield               | NA     | NA     | NA     | NA     | NA     |
| Pre-exceptional PE           | 10.36x | 6.92x  | 6.50x  | 5.20x  | 3.99x  |
| Price / Book                 | 1.97x  | 1.54x  | 1.38x  | 1.06x  | 0.901x |
| RoE / PB                     | 12.40x | 16.19x | 16.26x | 21.70x | 27.14x |
| Price / Pre-Provision Profit | 5.63x  | 3.82x  | 3.70x  | 3.06x  | 2.42x  |

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Refer to important disclosures on page 5 to 7. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

## Bank of America Merrill Lynch

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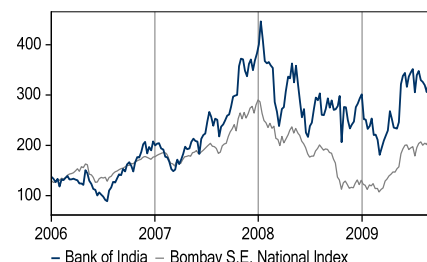
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## Stock Data

|                              |                      |
|------------------------------|----------------------|
| Price                        | Rs395.90             |
| Price Objective              | Rs410.00 to Rs490.00 |
| Date Established             | 24-Sep-2009          |
| Investment Opinion           | C-1-7                |
| Volatility Risk              | HIGH                 |
| 52-Week Range                | Rs179.00-Rs410.70    |
| Mrkt Val / Shares Out (mn)   | US\$4,338 / 525.9    |
| Average Daily Volume         | 2,640,105            |
| ML Symbol / Exchange         | XDIIF / BSE          |
| Bloomberg / Reuters          | BOI IN / BOI.BO      |
| ROE (2010E)                  | 22.4%                |
| Total Dbt to Cap (Mar-2009A) | NA                   |
| Est. 5-Yr EPS / DPS Growth   | 20.0% / 18.0%        |
| Free Float                   | 18.0%                |



## iQprofile<sup>SM</sup> Bank of India

| Key Income Statement Data (Mar)        | 2008A         | 2009A         | 2010E         | 2011E         | 2012E         |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>(Rs Millions)</b>                   |               |               |               |               |               |
| Net Interest Income                    | 42,293        | 54,989        | 63,925        | 77,836        | 95,860        |
| Net Fee Income                         | 7,830         | 10,916        | 13,100        | 15,720        | 19,178        |
| Securities Gains / (Losses)            | 3,660         | 7,461         | 4,551         | 2,401         | 1,561         |
| Other Income                           | 9,680         | 12,142        | 9,680         | 10,736        | 11,926        |
| <b>Total Non-Interest Income</b>       | <b>21,170</b> | <b>30,519</b> | <b>27,331</b> | <b>28,856</b> | <b>32,665</b> |
| Total Operating Income                 | 63,463        | 85,508        | 91,256        | 106,692       | 128,525       |
| Operating Expenses                     | (26,450)      | (30,940)      | (35,029)      | (38,752)      | (42,634)      |
| <b>Pre-Provision Profit</b>            | <b>37,013</b> | <b>54,568</b> | <b>56,227</b> | <b>67,940</b> | <b>85,891</b> |
| Provisions Expense                     | (8,628)       | (7,103)       | (9,552)       | (9,895)       | (9,450)       |
| <b>Operating Profit</b>                | <b>29,922</b> | <b>53,285</b> | <b>47,603</b> | <b>58,851</b> | <b>77,300</b> |
| Non-Operating Income                   | (1,537)       | (5,821)       | (928.74)      | (805.61)      | (859.39)      |
| <b>Pre-Tax Income</b>                  | <b>26,848</b> | <b>41,644</b> | <b>45,746</b> | <b>57,240</b> | <b>75,581</b> |
| Net Income to Comm S/Hold.             | 20,095        | 30,073        | 32,022        | 40,068        | 52,151        |
| <b>Adjusted Net Income (Operating)</b> | <b>20,095</b> | <b>30,073</b> | <b>32,022</b> | <b>40,068</b> | <b>52,151</b> |

### Key Balance Sheet Data

|                                    |                  |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total Assets                       | 1,788,300        | 2,255,018        | 2,599,164        | 3,110,198        | 3,764,319        |
| Average Interest Earning Assets    | 1,554,154        | 1,951,372        | 2,341,561        | 2,762,309        | 3,337,497        |
| <b>Weighted Risk Assets</b>        | <b>1,152,800</b> | <b>1,399,310</b> | <b>1,597,226</b> | <b>2,267,920</b> | <b>2,827,712</b> |
| Total Gross Customer Loans         | 1,134,763        | 1,429,094        | 1,672,040        | 2,056,609        | 2,550,195        |
| Total Customer Deposits            | 1,500,120        | 1,897,085        | 2,196,880        | 2,626,217        | 3,194,062        |
| <b>Tier 1 Capital</b>              | <b>94,390</b>    | <b>124,660</b>   | <b>135,914</b>   | <b>181,653</b>   | <b>218,667</b>   |
| Tangible Equity                    | 94,390           | 124,660          | 135,914          | 181,653          | 218,667          |
| <b>Common Shareholders' Equity</b> | <b>105,894</b>   | <b>134,949</b>   | <b>151,307</b>   | <b>195,507</b>   | <b>231,135</b>   |

### Key Metrics

|   |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| Net Interest Margin                           | 2.72%        | 2.82%        | 2.73%        | 2.82%        | 2.87%        |
| <b>Tier 1 Ratio</b>                           | <b>8.2%</b>  | <b>8.9%</b>  | <b>8.5%</b>  | <b>8.0%</b>  | <b>7.7%</b>  |
| Effective Tax Rate                            | 25.2%        | 27.8%        | 30.0%        | 30.0%        | 31.0%        |
| Loan / Assets Ratio                           | 63.5%        | 63.4%        | 64.3%        | 66.1%        | 67.7%        |
| <b>Loan / Deposit Ratio</b>                   | <b>75.6%</b> | <b>75.3%</b> | <b>76.1%</b> | <b>78.3%</b> | <b>79.8%</b> |
| Oper Leverage (Inc Growth - Cost Growth)      | 25.4%        | 17.8%        | -6.5%        | 6.3%         | 10.4%        |
| Gearing (Assets / Equity)                     | 16.9x        | 16.7x        | 17.2x        | 15.9x        | 16.3x        |
| Tangible Common Equity / Assets               | 5.3%         | 5.5%         | 5.2%         | 5.8%         | 5.8%         |
| Tangible Common Equity / WRAs                 | 8.2%         | 8.9%         | 8.5%         | 8.0%         | 7.7%         |
| Revenue Growth                                | 26.8%        | 34.7%        | 6.7%         | 16.9%        | 20.5%        |
| Operating Expense Growth                      | 1.4%         | 17.0%        | 13.2%        | 10.6%        | 10.0%        |
| Provisions Expense Growth                     | 11.5%        | -17.7%       | 34.5%        | 3.6%         | -4.5%        |
| Operating Revenue / Average Assets            | 3.5%         | 3.8%         | 3.5%         | 3.4%         | 3.4%         |
| Operating Expenses / Average Assets           | 1.5%         | 1.4%         | 1.3%         | 1.2%         | 1.1%         |
| <b>Pre-Provision ROA</b>                      | <b>2.1%</b>  | <b>2.4%</b>  | <b>2.2%</b>  | <b>2.2%</b>  | <b>2.3%</b>  |
| ROA   | 1.1%         | 1.3%         | 1.2%         | 1.3%         | 1.4%         |
| <b>Pre-Provision ROE</b>                      | <b>35.0%</b> | <b>40.4%</b> | <b>37.2%</b> | <b>34.8%</b> | <b>37.2%</b> |
| ROE   | 24.4%        | 25.0%        | 22.4%        | 23.1%        | 24.4%        |
| RoTE  | 21.3%        | 24.1%        | 23.6%        | 22.1%        | 23.8%        |
| RoWRAs  | 1.7%         | 2.1%         | 2.0%         | 1.8%         | 1.8%         |
| Dividend Payout Ratio                         | 12.2%        | 15.7%        | 12.0%        | 11.1%        | 9.6%         |
| <b>Efficiency Ratio (Cost / Income Ratio)</b> | <b>44.2%</b> | <b>39.6%</b> | <b>40.4%</b> | <b>37.2%</b> | <b>33.6%</b> |
| <b>Total Non-Interest Inc / Operating Inc</b> | <b>33%</b>   | <b>36%</b>   | <b>30%</b>   | <b>27%</b>   | <b>25%</b>   |
| Market-Related Revenue / Total Revenues       | 10.6%        | 16.0%        | 9.8%         | 6.8%         | 5.4%         |
| Provisioning Burden as % of PPP               | 23.3%        | 13.0%        | 17.0%        | 14.6%        | 11.0%        |
| NPLs plus Foreclosed Real Estate / Loans      | 1.7%         | 1.7%         | 2.6%         | 2.6%         | 2.2%         |
| <b>Loan Loss Reserves / NPLs</b>              | <b>69.3%</b> | <b>74.6%</b> | <b>63.2%</b> | <b>68.2%</b> | <b>79.7%</b> |
| Loan Loss Reserves / Total Loans              | 1.2%         | 1.3%         | 1.7%         | 1.8%         | 1.7%         |
| Provisions Expense / Average Loans            | 0.9%         | 0.6%         | 0.6%         | 0.5%         | 0.4%         |

### Other Metrics

|                                 |       |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|-------|
| Income / Employee               | 1.33  | 1.77  | 1.87  | 2.17  | 2.58  |
| (Operating Expenses) / Employee | 0.554 | 0.641 | 0.718 | 0.786 | 0.857 |
| Pre-Provision Profit / Employee | 0.775 | 1.13  | 1.15  | 1.38  | 1.73  |
| Net Profit / Employee           | 0.421 | 0.623 | 0.657 | 0.813 | 1.05  |

### Company Description

Bank of India, established in 1906, is a large state-owned bank, with a balance sheet size of Rs2.3tn and a network of +3,000 branches, mainly in western and eastern India. Since FY05, BOI seems to have been taking the maximum initiative to improve its asset quality and drive business growth, which was reflected by a sharp decline in NPL and significant improvement in business operations in FY05.

### Investment Thesis

BOI has a strong deposit franchise and SME network in western India (along with BOB - key competitor). It has shown the maximum improvement in asset quality. Earnings CAGR should sustain at around 15-16% through FY09-11E. It looks poised to benefit from its technology platform, which should boost fees. It features among the lowest cost of deposits, and faces minimal risk from rising rates on G-sec book.

### Stock Data

Price to Book Value 1.4x

## Price objective basis & risk

### Bank of India (XDIIIF)

Our PO on Bank of India is at Rs490. We believe the stock, trading at 2.0x FY10 adj. BV and 6.5x FY10 PE can continue to trade at least at 1.7x FY11 book, given its high ROE, improving visibility of earnings and renewed focus on CASA etc. Moreover, we still factor in a 50% rise in gross NPL accretion and our adj. BV is adjusted for 100% NPL coverage and 20% of restructured loans. Our PO is pegged at 10% discount to the theoretical P/B multiple using the Gordon model. A spike in NPLs as the cycle turns, the ability to sustain strong earnings/loan growth (premium valuation implies market is pricing in stronger delivery for BOI) and ensuring margins are maintained as it expands its overseas loan book are risks to our PO.

## Analyst Certification

I, Rajeev Varma, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### India - Financials Coverage Cluster

| Investment rating | Company          | ML ticker | Bloomberg symbol | Analyst        |
|-------------------|------------------|-----------|------------------|----------------|
| BUY               | Bank of India    | XDIIIF    | BOI IN           | Rajeev Varma   |
|                   | Corporation Bank | XCRRF     | CRPBK IN         | Veekesh Gandhi |
|                   | HDFC             | HGDFF     | HDFC IN          | Rajeev Varma   |
|                   | HDFC Bank        | HDB       | HDB US           | Rajeev Varma   |
|                   | HDFC Bank        | XHDF      | HDFCB IN         | Rajeev Varma   |
|                   | ICICI Bank       | ICIJF     | ICICIB IN        | Rajeev Varma   |

India - Financials Coverage Cluster

| Investment rating   | Company                       | ML ticker | Bloomberg symbol | Analyst        |
|---------------------|-------------------------------|-----------|------------------|----------------|
|                     | ICICI Bank - A                | IBN       | IBN US           | Rajeev Varma   |
|                     | IndiaBulls Financial Services | IBLFF     | IBULL IN         | Veekesh Gandhi |
|                     | Indian Bank                   | INDIF     | INBK IN          | Rajeev Varma   |
|                     | Max India                     | XXMIF     | MAX IN           | Rajeev Varma   |
|                     | Punjab                        | PUJBF     | PNB IN           | Rajeev Varma   |
|                     | Reliance Capital              | RLCCF     | RCFT IN          | Rajeev Varma   |
|                     | SBI                           | SBINF     | SBIN IN          | Rajeev Varma   |
|                     | SBI -G                        | SBKFF     | SBID LI          | Rajeev Varma   |
|                     | Union Bank India              | UBOIF     | UNBK IN          | Rajeev Varma   |
| <b>NEUTRAL</b>      |                               |           |                  |                |
|                     | Axis Bank                     | XAXSF     | AXSB IN          | Rajeev Varma   |
|                     | Axis Bank - GDR               | XBKSF     | AXB LI           | Rajeev Varma   |
|                     | Bank of Baroda                | BKBAF     | BOB IN           | Rajeev Varma   |
|                     | Federal Bank                  | XDFRF     | FB IN            | Veekesh Gandhi |
|                     | Yes Bank Ltd                  | YESBF     | YES IN           | Veekesh Gandhi |
| <b>UNDERPERFORM</b> |                               |           |                  |                |
|                     | Canara Bank                   | CNRKF     | CBK IN           | Rajeev Varma   |
|                     | IDBI                          | XDBIF     | IDBI IN          | Veekesh Gandhi |
|                     | Infrastruct Dev               | IFDFF     | IDFC IN          | Rajeev Varma   |
|                     | ORBC                          | ORBCF     | OBC IN           | Rajeev Varma   |
|                     | Vijaya Bank                   | VJYAF     | VJYBK IN         | Rajeev Varma   |

iQmethod<sup>SM</sup> Measures Definitions

| Business Performance       | Numerator  | Denominator  |
|----------------------------|--|--|
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$   | $\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$ |
| Return On Equity           | Net Income   | Shareholders' Equity   |
| Operating Margin           | Operating Profit   | Sales  |
| Earnings Growth            | Expected 5-Year CAGR From Latest Actual  | N/A  |
| Free Cash Flow             | Cash Flow From Operations – Total Capex  | N/A  |
| <b>Quality of Earnings</b> |  |  |
| Cash Realization Ratio     | Cash Flow From Operations  | Net Income   |
| Asset Replacement Ratio    | Capex  | Depreciation   |
| Tax Rate                   | Tax Charge   | Pre-Tax Income   |
| Net Debt-To-Equity Ratio   | Net Debt = Total Debt, Less Cash & Equivalents   | Total Equity   |
| Interest Cover             | EBIT   | Interest Expense   |
| <b>Valuation Toolkit</b>   |  |  |
| Price / Earnings Ratio     | Current Share Price  | Diluted Earnings Per Share (Basis As Specified)  |
| Price / Book Value         | Current Share Price  | Shareholders' Equity / Current Basic Shares  |
| Dividend Yield             | Annualised Declared Cash Dividend  | Current Share Price  |
| Free Cash Flow Yield       | Cash Flow From Operations – Total Capex  | Market Cap. = Current Share Price * Current Basic Shares   |
| Enterprise Value / Sales   | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$ |  |
| EV / EBITDA                | Enterprise Value   | Basic EBIT + Depreciation + Amortization   |

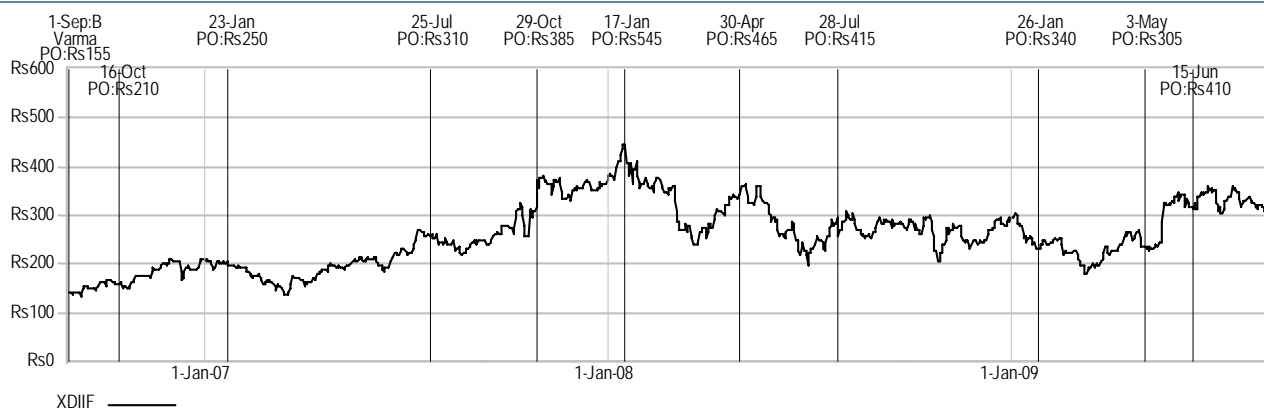
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### XDIIF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of August 31, 2009 or such later date as indicated.

BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of August 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

### Investment Rating Distribution: Banks Group (as of 01 Jun 2009)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 70    | 29.29%  | Buy                         | 30    | 52.63%  |
| Neutral           | 57    | 23.85%  | Neutral                     | 29    | 58.00%  |
| Sell              | 112   | 46.86%  | Sell                        | 64    | 64.65%  |

### Investment Rating Distribution: Global Group (as of 01 Jun 2009)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 1303  | 40.83%  | Buy                         | 602   | 51.10%  |
| Neutral           | 807   | 25.29%  | Neutral                     | 362   | 51.49%  |
| Sell              | 1081  | 33.88%  | Sell                        | 394   | 39.96%  |

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster* |
|-------------------|---|---|
| Buy               | ≥ 10%   | ≤ 70%   |
| Neutral           | ≥ 0%  | ≤ 30%   |
| Underperform      | N/A   | ≥ 20%   |

\* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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