

# Bank of India

**Rs461**  
**UNDERPERFORMER**

**Mkt Cap: Rs242bn; US\$5.3bn**

## RESULT NOTE

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**Result:** Q3FY11

**Comment:** Positive surprise

**Revision:** Upgrading FY11E earnings by 3.7%

### Key valuation metrics

Year to March 31 (Rs m)	NII	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	Adj. Bk Value per sh (Rs)	P/ Adj.Bk (x)	PER (x)	RoE (%)
FY07	34,405	30.7	11,232	60.1	23.0	118	3.92	20.0	21.4
FY08	42,293	22.9	20,094	78.9	40.6	164	2.81	11.3	30.3
FY09	54,989	30.0	30,074	49.7	57.2	214	2.15	8.1	30.4
FY10	57,559	4.7	17,410	(42.1)	33.1	223	2.07	13.9	14.8
FY11E	75,528	31.2	27,275	56.7	51.9	275	1.67	8.9	20.0
FY12E	88,588	17.3	31,964	17.2	60.8	339	1.36	7.6	19.8

### Highlights of Q3FY11 results

Bank of India ('BOI') reported profit of Rs6.5bn, marginally ahead of our expectations of Rs6.4bn. While NII growth at 33% yoy was stronger than estimated, it was offset by provisions for pension liability and provisions on derivatives made during the quarter.

- ♦ **Recovery in margins drives healthy NII performance:** BOI reported NII growth of 33% yoy to Rs19.9bn ahead of our estimate of Rs18.7bn. Reported margins expanded by ~30bp to 3.1% in Q3FY11 from 2.8% in Q2FY11. Owing to repricing of assets at higher yields – as also lower slippages (which had led to reversal of interest income) – the loan yields expanded by ~30bp qoq in Q3FY11. Cost of funds remained steady qoq, driving an expansion in spreads by ~20bp qoq. (Exhibit 1)
- ♦ **CASA dips:** Saving deposits increased at a healthy momentum of 26% yoy and 3% qoq. However, owing to low systemic liquidity, current deposits declined by 2% qoq leading to a ~100bp decline in CASA ratio to 32.3%. Overall CASA deposits increased at a pace of 22% yoy to ~Rs693bn. (Exhibit 2)
- ♦ **Modest business growth:** Total advances grew by 23% yoy to Rs1923bn (6% qoq growth). While domestic advances increased at 4% qoq to Rs1509bn, foreign advances witnessed traction at 14% qoq to Rs419bn (~22% of the total). Deposit growth was healthy at ~23% yoy (5% qoq) to Rs2525bn. Led by higher advances growth, CD ratio expanded by 110bp qoq to 76.3% in Q3FY11. (Exhibit 6)
- ♦ **Sharp decline in slippages; provisions elevated on one-offs:** The bank's slippages declined steeply to Rs4.8bn (1.05% of opening advances annualized) during the quarter, as against Rs8.2bn in Q2FY11. Of the total slippage, 5% emanated from the restructured portfolio taking the cumulative slippage from this book to ~20%. Further, upgradations were elevated at Rs6.1bn in the quarter, bulk of which is attributed to one large aviation account. In line

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with the lower NPA accretion, the bank made lower NPA provisions of Rs1.2bn – a 57% qoq decline. However, overall provisions remained elevated at Rs5bn (only a 6% qoq decline) due to Rs2.02bn of provisions pertaining to Lehman derivatives. The bank also booked MTM provisions of Rs658m primarily on the bond book owing to higher rise in shorter duration yields. (Exhibit 5 & 6)

- ♦ **Core fee income displays traction:** Core fee income growth remained robust (35% yoy rise) led by 68% yoy rise in forex fees to ~Rs1.3bn. As expected, treasury gains stood muted at Rs592m. The bank booked recoveries of Rs658m during the quarter. Overall non-interest income increased by ~13 yoy to Rs6.5bn (Exhibit 3).
- ♦ **Operating expenses – providing for pension liability:** Operating expenses were well ahead of estimates at Rs12.5bn registering a 33% yoy and 27% qoq rise. The steep rise can be attributed to Rs3.5bn of employee provisions made during the quarter (as against Rs1.2bn made in Q1 and Q2 each). While, the actuarial estimate of pension liability is not ascertained yet, the management expects it to be in the range of Rs40-45bn. The bank now holds Rs6.6bn of pension provisions and intends to provide the liability evenly over next five years.
- ♦ **Capital adequacy:** Overall CAR came in at 12.4% with a tier I ratio of 8% in Q3FY11. Inclusive of YTD profits, Tier I ratio would stand increased to 8.9% in Q3FY11 compared to 8.48% in FY10.

## **Valuations & View**

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**Bank of India's Q3FY11 results surprised positively with lower slippages as well as expansion in NIMs. Decline in delinquencies has aided margin expansion and the management has utilized gains to make provisions for pension liability and some derivative contracts. Though lower slippage is a positive, in view of the bank's erratic slippage history we stay cautious and continue to build elevated provisioning costs. Owing to stronger than expected margin expansion, we are upgrading our FY11E earnings estimates by 3.7%. While the bottom-line performance is expected to stay strong at 36% CAGR over FY10-12 on a low base, unfavorable G-Sec environment is likely to dampen the stock performance in the near term. The stock currently trades at 1.4x FY12E adjusted book. Owing to availability of better plays in the PSU banking space, we maintain our Underperformer stance with a 12-month price target of Rs440 (1.3x FY12E ABV).**

## Quarterly results

P&L (Rs m)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	FY10	FY11E	FY12E
Interest income	44,862	45,251	48,217	51,556	54,675	178,780	213,959	279,460
Interest expenses	29,915	29,734	30,813	33,795	34,806	121,220	138,431	190,871
<b>NII</b>	<b>14,948</b>	<b>15,517</b>	<b>17,405</b>	<b>17,761</b>	<b>19,869</b>	<b>57,559</b>	<b>75,528</b>	<b>88,588</b>
yoy growth (%)	(1.77)	8.26	33.82	26.06	32.92	4.7	31.2	17.3
<b>Non fund income</b>	<b>5,716</b>	<b>7,232</b>	<b>5,859</b>	<b>5,845</b>	<b>6,482</b>	<b>26,166</b>	<b>25,138</b>	<b>28,110</b>
yoy growth (%)	(45.6)	(7.9)	(9.3)	(13.5)	13.4	(14.3)	(3.9)	11.8
Trading profits	1,365	661	1,000	360	592	5,936	2,200	2,200
Non-trading income	4,351	6,571	4,871	5,485	5,890	20,042	22,938	25,910
Net revenue	20,664	22,749	23,264	23,606	26,351	83,726	100,667	116,698
Operating expenses	9,366	9,993	9,158	9,810	12,464	36,678	43,176	51,021
yoy growth (%)	15.5	23.3	7.4	11.6	33.1	18.5	17.7	18.2
<b>Operating profit</b>	<b>11,298</b>	<b>12,756</b>	<b>14,106</b>	<b>13,796</b>	<b>13,888</b>	<b>47,048</b>	<b>57,490</b>	<b>65,677</b>
Provisions	5,764	8,090	3,859	5,274	4,979	22,110	18,525	20,014
yoy growth (%)	111.9	110.3	72.7	(12.4)	(13.6)	71.1	(16.2)	8.0
PBT	5,534	4,666	10,247	8,522	8,908	24,938	38,965	45,663
Tax	1,479	385	2,995	2,355	2,377	7,528	11,689	13,699
<b>PAT</b>	<b>4,055</b>	<b>4,281</b>	<b>7,251</b>	<b>6,168</b>	<b>6,532</b>	<b>17,410</b>	<b>27,275</b>	<b>31,964</b>
yoy growth (%)	(53.5)	(47.2)	24.1	90.8	61.1	(42.1)	56.7	17.2
<b>Ratios (%)</b>								
NIM (reported)	2.6	2.6	2.9	2.8	3.1			
NIM (Calc*)	2.4	2.4	2.5	2.5	2.7	2.3	2.5	2.5
Other inc/Avg assets	0.9	1.1	0.8	0.8	0.9	1.0	0.8	0.8
Op exp/avg assets	1.5	1.5	1.3	1.4	1.7	1.5	1.4	1.4
Cost/Net rev.	45.3	43.9	39.4	41.6	47.3	43.8	42.9	43.7
Prov/avg assets	0.9	1.2	0.6	0.7	0.7	0.9	0.6	0.6
PBT/Avg assets	0.9	0.7	1.5	1.2	1.2	1.0	1.3	1.3
RoA	0.7	0.7	1.0	0.9	0.9	0.7	0.9	0.9
Tax/PBT	26.7	8.3	29.2	27.6	26.7	30.2	30.0	30.0
CRAR	13.6	12.9	13.3	13.0	12.4			
Tier-I CRAR	9.4	8.5	8.5	8.4	8.0			
Domestic CD ratio	70.1	68.8	69.4	70.6	70.3			
<b>Balance sheet (Rs bn)</b>								
Credit	1,570	1,685	1,768	1,814	1,928			
yoy change (%)	15.3	16.4	19.6	20.8	22.8			
Deposits	2,060	2,298	2,337	2,411	2,525			
yoy change (%)	20.0	21.1	19.8	21.3	22.6			
Investments	705	671	686	634	717			
yoy change (%)	69.5	25.8	20.0	(1.9)	1.8			

Exhibit 1: Margins expand...

%	Q3FY10	Q2FY11	Q3FY11	yoy chg (bps)	QoQ chg (bps)
<b>Global</b>					
Yield on Advances	8.41%	8.47%	8.78%	37	31
Cost of Deposits	5.26%	4.99%	4.97%	(29)	(2)
NIM (total)	2.60%	2.81%	3.09%	49	28
<b>Domestic</b>					
Yield on Advances	9.91%	10.04%	10.35%	44	31
Cost of Deposits	5.90%	5.65%	5.61%	(29)	(4)
NIM	3.11%	3.17%	3.49%	38	32
<b>Overseas book</b>					
Yield on Advances	3.00%	3.09%	3.05%	5	(4)
Cost of Deposits	1.58%	1.30%	1.28%	(30)	(2)
NIM	0.82%	1.37%	1.45%	63	8

Exhibit 2: ...even as CASA ratio dips

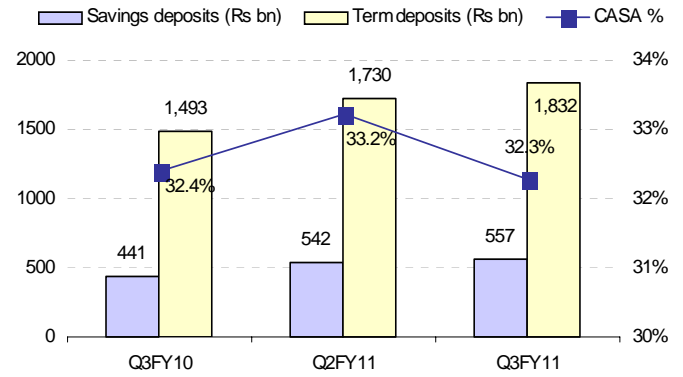


Exhibit 3: Non fund income displays traction (Rs m)

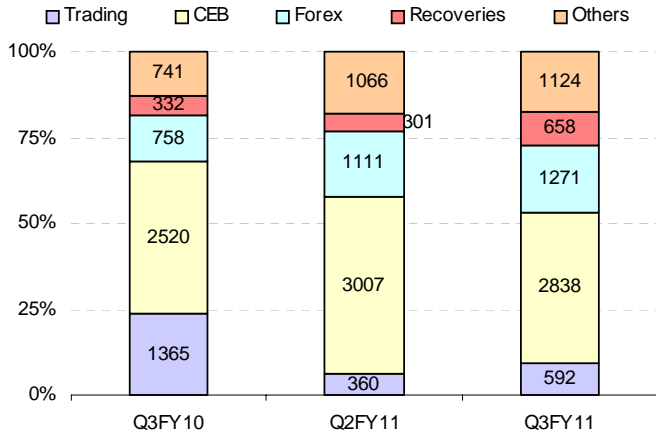


Exhibit 4: Composition of advances book (Rs bn)

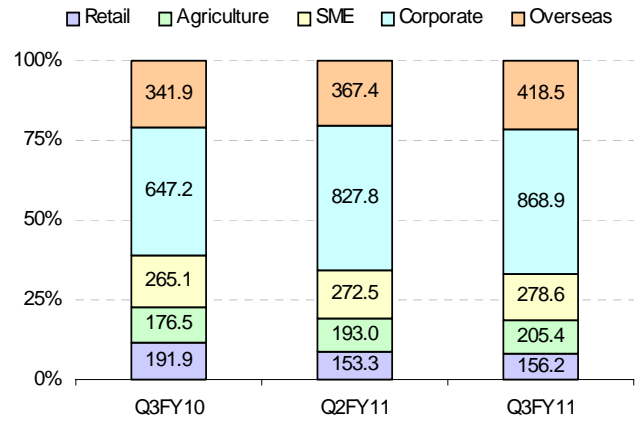


Exhibit 5: Slippages decline

	Q3FY10	Q2FY11	Q3FY11	Incremental (Rs m/bps)
Gross NPAs (Rs m)	41,886	48,696	45,421	(3,274)
Gross NPAs (%)	2.67	2.64	2.36	(28)
Net NPAs (Rs m)	15,958	20,704	16,603	(4,101)
Net NPAs (%)	1.03	1.14	0.88	(26)
Slippages (Rs m)	6,520	8,184	4,765	(3,419)
Slippages/avg. advances (%)	0.43	1.85	1.05	(80)
Loan loss coverage (%)	61.9	57.5	63.4	596

Exhibit 6: Break up of provisions (Rs m)

	Q3FY10	Q2FY11	Q3FY11
Provision for NPA	4,465	2,863	1,236
Investment depreciation	1,306	628	658
Other provisions	(7)	1,783	3,085
<b>Total Provisions</b>	<b>5,764</b>	<b>5,274</b>	<b>4,979</b>

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