

March 5, 2008

BUY

| | |
|---------------|---------------|
| Price | Target Price |
| Rs286 | Rs425 |
| Sensex | 16,542 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|------|------|----|-----|
| Absolute | (24) | (18) | 18 | 87 |
| Rel. to Sensex | (14) | (4) | 11 | 44 |

Source: Capitaline

Stock Details

| | |
|---------------------------------|--------------------|
| Sector | Banks |
| Reuters | BOI.BO |
| Bloomberg | BOI @IN |
| Equity Capital (Rs mn) | 5252 |
| Face Value | 10 |
| 52 Week H/L | 466/132 |
| Market Cap | Rs150 bn/US\$3.7bn |
| Daily Avg Volume (No of shares) | 1.9 mn |
| Daily Avg Turnover (US\$) | 17.8mn |

Shareholding Pattern (%)

| | |
|----------------------------|------|
| (31 st Dec.'07) | |
| Promoters | 69.5 |
| FII | 17.1 |
| Institutions | 5.5 |
| Private Corp. | 1.0 |
| Public | 7.0 |

Kashyap Jhaveri

Kashyap.jhaveri@emkayshare.com

+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayshare.com

+91 22 6612 1340

Bank of India

Company
Update

Minimal subprime risk – Raise to BUY

Bank of India's (BOI) stock price has corrected by 38% over its 52-week high driven by concerns over its exposure to the international markets and exposures to CDS/CDO. Our conversation with the management of the bank has revealed that the bank's exposure to such investments is only US\$400mn and the additional MTM losses could only be to the tune of US\$1mn.

We have preferred other stocks in the PSU banks over BOI mainly driven by its rich valuations. The valuations have been bitten down to 1.2x FY10E ABV from a high of 1.7-1.8x. We believe that valuations are very attractive looking at an average RoE of 24% over FY08-10E. We upgrade the stock to BUY from NEUTRAL while maintaining our price target of Rs425.

Risk of exposure to international book minimal

BOI is currently carrying an investment book of US\$1bn in its international operations, of which US\$400mn in to the credit linked notes (funded CDS). The bank has already done MTM provisions of US\$8.5mn on this book and additional provisions are likely to be only to the tune of US\$1mn.

The underlying assets in the CLN are all Indian corporates with ratings of AA and above. The bank intends to carry the book till maturity.

Break up of international investment portfolio

| | US\$ mn |
|-----------------------|---------|
| Government securities | 250 |
| CLN | 400 |
| Others | 350 |
| Total | 1,000 |

Source: Company, Emkay Research

Debt waiver scheme may not affect too much

The bank's management has mentioned that the debt waiver scheme may apply only to the agriculture loans which is overdue as on December 2007 have to be waived off. For BOI the NPAs in agriculture loans (total portfolio of Rs110bn) are about Rs4bn.

Agriculture portfolio details

| | Rs mn |
|-----------------------------|----------|
| Total agriculture portfolio | 110 |
| NPA | 4 |
| W/Off (a) | ~1.0-1.5 |
| Provided for (b) | ~1.0-1.5 |
| Total (a) + (b) | ~2.0-3.0 |

Source: Company, Emkay Research

Valuations have corrected – attractive BUY

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Valuation table

| Y/E March 31 | Net income Rs mn | Net profit Rs mn | EPS (Rs) | ABV (Rs) | RoA (%) | RoE (%) | PE (x) | P/ABV (x) |
|--------------|---------------------|---------------------|-------------|-------------|------------|------------|-----------|--------------|
| FY2007 | 52,474 | 11,232 | 23.0 | 94.8 | 0.9 | 21.2 | 13.4 | 3.0 |
| FY2008E | 62,486 | 16,643 | 34.1 | 124.6 | 1.1 | 25.7 | 9.0 | 2.3 |
| FY2009E | 73,387 | 21,833 | 41.5 | 185.0 | 1.1 | 24.8 | 6.9 | 1.5 |
| FY2010E | 86,030 | 27,542 | 52.4 | 237.3 | 1.2 | 23.7 | 5.5 | 1.2 |

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Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299