

Bank of India

Profit from volatility

BOI has outperformed peers in the past one to three years. The stock trades at 1.9x FY09F adjusted book value and 11.7x FY09F earnings. We believe the improving earnings quality will normalise in the next few years. Downgrade to Hold.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Reported PTP (Rsm)	9156.8	15328.0	18711.5	23444.8	27346.5
Reported net profit (Rsm)	7014.6	11231.0	13098.1	15825.2	18458.9
Reported EPS (Rs)	14.4	23.0	26.8	26.9	31.4
Normalised EPS (Rs)	14.4	23.0	26.8	26.9	31.4
Dividend per share (Rs)	3.00	3.50	4.50	5.00	5.00
Normalised PE (x)	21.9	13.7	11.7▲	11.7▲	10.0▲
Price/book value (x)	3.08	2.45	2.20	1.71	1.49
Dividend yield (%)	0.95	1.11	1.43	1.59	1.59
Return on avg equity (%)	14.8	20.6	20.3	17.7	15.9

Accounting Standard: Local GAAP

Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Best performing public-sector bank in our coverage

BOI has been the best performing stock in our India banks coverage universe and also incidentally our top pick within state-owned banks. The stock has given returns of 113% in the past one year, 202% in two years and 472% in three years. BOI's good earnings quality and high visibility is reflected in its premium valuation relative to peers, in our view. We continue to believe the stock will sustain its premium valuations, but at the current price consider it fairly valued.

Earnings quality set to normalise

In the recent past, the stock has been continuously re-rated, largely due to the improvement in operating earnings. However, we believe BOI's earnings quality will normalise going forward and is unlikely to surprise positively. We expect ROA at 0.91% between FY08 and FY10. For a detailed investor argument, please read our report titled "Ride the rally..." dated 30 July 2007.

Low FII ownership should provide downside support

BOI's FII holdings are 16.44% as of September 2007, up from 14.89% a year ago. Note that BOI is one of the few stocks in the public-sector banking space with an open limit for FIIs. We believe this technical factor will keep demand alive for the stock and, thus, limit downside.

But valuations are rich; profit from volatility

BOI trades at 1.9x FY09F adjusted (for net NPLs) book value and 11.7x FY09F EPS. The stock is now trading above our target price of Rs303.5. Besides, the target P/B multiple includes a 10% premium for the low FII ownership. We consider the stock fairly valued and, hence, downgrade to Hold. We maintain our target price.

Hold

(from Buy)

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Banks

India

Price

Rs314.80

Target price

Rs303.50

Market capitalisation

Rs153.67bn (US\$3.88bn)

Avg (12mth) daily turnover

Rs146.98m (US\$3.39m)

Reuters

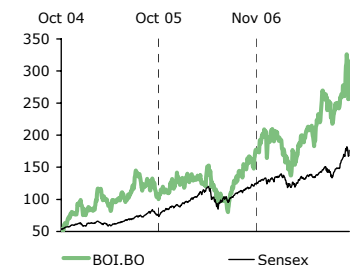
BOI.BO

Bloomberg

BOI IN

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	259.5	260.5	148.0
Absolute %	21.3	20.8	112.7
Rel market %	8.6	2.8	45.2
Rel sector %	10.3	8.9	60.5



Stock borrowing: Difficult

Volatility (30-day): 81.83%

Volatility (6-month trend): ↑

52-week range: 331.00-132.00

Sensex: 18492.84

BBG AP Banks: 208.66

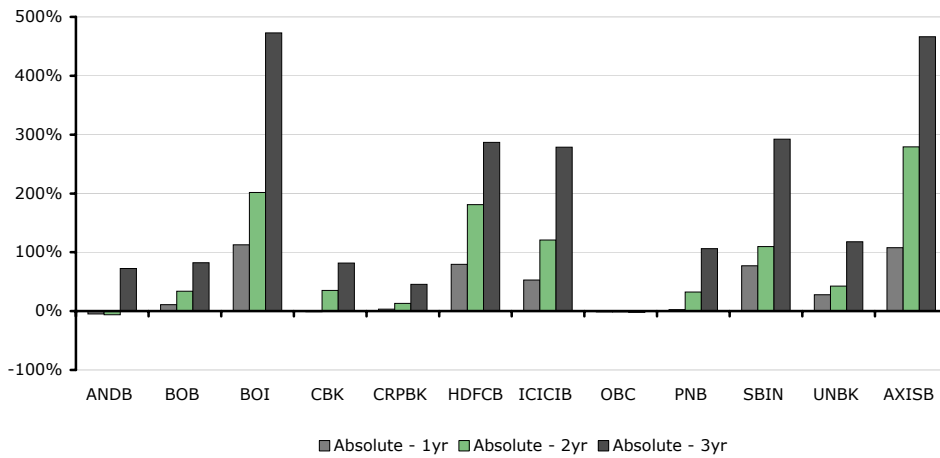
Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

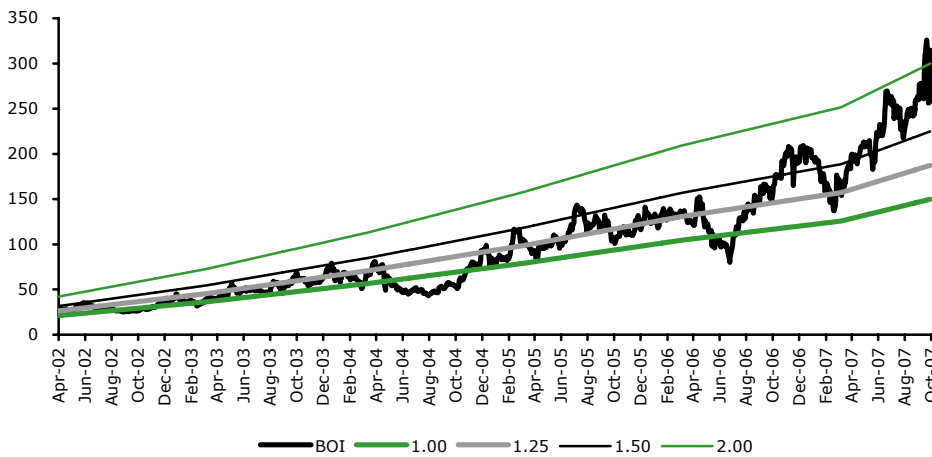
Chart 1 : Share price performance



Source: Bloomberg, ABN AMRO

BOI is one of the few public-sector banks with an open limit for foreign institutional investors. We believe this technical factor will keep demand for the stock alive and, thus, limit the downside

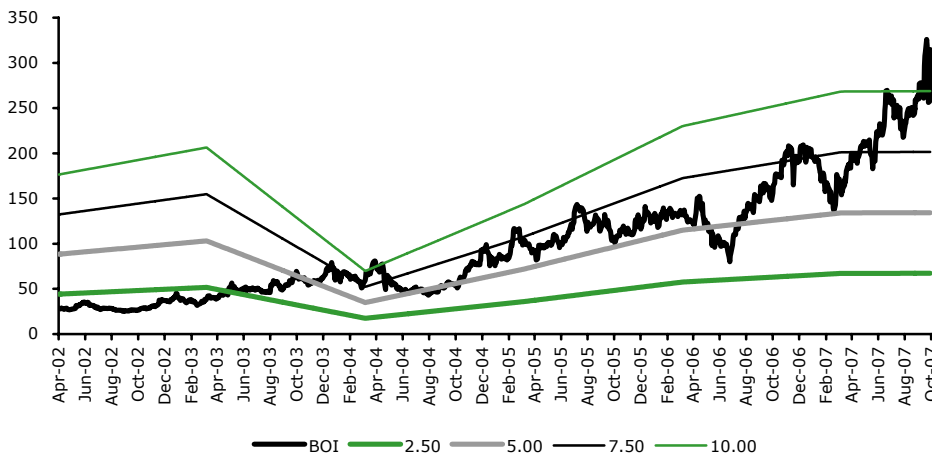
Chart 2 : Price to book (one-year rolling forward)



Source: Bloomberg, ABN AMRO forecasts

The stock trades at 1.9x FY09F book value and 11.7x FY09F EPS

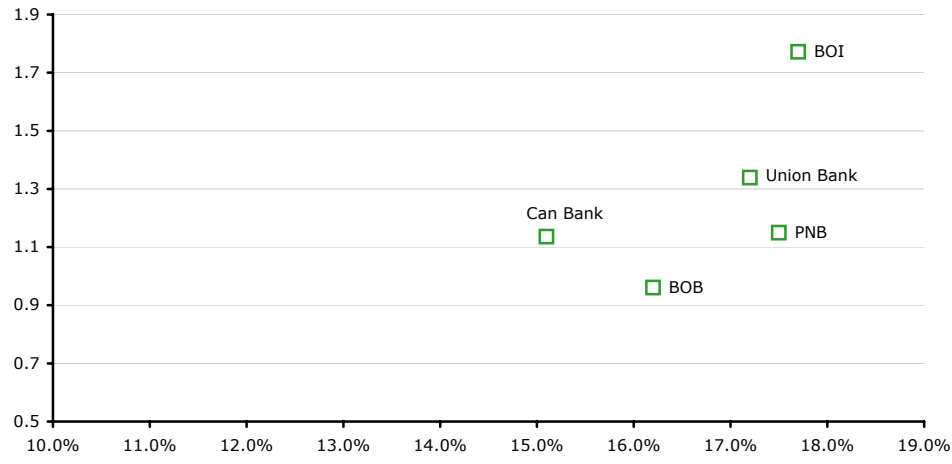
Chart 3 : Price to earnings (one-year rolling forward)



Source: Bloomberg, ABN AMRO forecasts

We consider BOI fairly valued and, hence, downgrade to Hold

Chart 4 : ROEs vs P/B (FY09F)



Source: ABN AMRO forecasts

We believe the improving earnings quality will normalise in the next few years. We estimate the ROA will be 0.91% between FY08 and FY10

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BANK OF INDIA: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Net interest income	28756.5	36844.0	43969.4	51683.9	59416.3
Non-interest income	11843.8	15629.0	15155.1	17086.4	19082.6
Total income	40600.3	52473.0	59124.4	68770.3	78499.0
Operating costs	-20885	-25811	-27636	-30400	-33440
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	-967.2	-967.0	-1063.7	-1170.1	-1287.1
Pre-prov operating profit	18747.7	25695.0	30424.6	37200.5	43772.2
Provisions charges	-9590.9	-10367	-11713	-13756	-16426
Post-prov op prof	9156.8	15328.0	18711.5	23444.8	27346.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	9156.8	15328.0	18711.5	23444.8	27346.5
Taxation	-2142.2	-4097.0	-5613.5	-7619.6	-8887.6
Minority interests	n/a	n/a	n/a	n/a	n/a
Preference dividends	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	7014.6	11231.0	13098.1	15825.2	18458.9

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Net loans to customers	651737	849358	1005804	1190637	1411535
Other int earn assets	324645	363582	432116	493905	557483
Goodwill	n/a	n/a	n/a	n/a	n/a
Oth non-int earn assets	31899.9	29373.0	30832.0	32396.9	34067.3
Total assets	1122742	1416369	1615194	1878025	2180279
Total customer deposits	943806	1203718	1383513	1585549	1866226
Oth int-bearing liabs	88424.1	110104	118301	130433	130433
Non int-bearing liab	40672.9	39898.7	43605.2	53463.5	59602.8
Total liabilities	1072903	1353721	1545419	1769446	2056262
Share capital	4881.4	4881.4	4881.4	5881.4	5881.4
Reserves	44957.4	54072.0	64893.4	102698	118136
Total equity (excl min)	49838.8	62648.4	69774.8	108579	124018
Minority interests	n/a	n/a	n/a	n/a	n/a
Total liab & sh equity	1122742	1416369	1615194	1878025	2180279
Risk weighted assets	674220	854478	1037361	1257922	1486331
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	n/a	n/a	n/a	n/a	n/a
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, ABN AMRO forecasts

year ended Mar

Capital

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Risk weighted assets	674220	854478	1037361	1257922	1486331
Reported net profit	7014.6	11231.0	13098.1	15825.2	18458.9
Opening risk assets	522300	674220	854478	1037361	1257922
Closing risk assets	674220	854478	1037361	1257922	1486331
Change in risk assets	151920	180258	182883	220561	228409
Capital required	10634.4	12618.1	12801.8	15439.3	15988.6
Free capital flow	-3619.8	-1387.1	296.3	385.9	2470.3
Ordinary dividend paid	-1464.4	-1708.5	-2196.6	-2940.7	-2940.7
Share buy back/spec div	n/a	n/a	n/a	n/a	n/a
Equity / preference issue	n/a	n/a	n/a	n/a	n/a
Cash flow from financing	-1464.4	-1708.5	-2196.6	-2940.7	-2940.7
Net capital flow	-5084.2	-3095.6	-1900.3	-2554.8	-470.4
Tier 1 capital	48110.2	60919.8	68046.2	106841	122269
Tier 1 capital ratio (%)	7.14	7.13	6.56	8.49	8.23

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

BANK OF INDIA: PERFORMANCE AND VALUATION

Standard ratios	Bank of India					HDFC Bank			Bank of Baroda		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Non-int inc/gr op inc (%)	29.2	29.8	25.6	24.8	24.3	32.2	32.8	33.3	23.6	22.3	21.7
Cost/income (%)	53.8	51.0	48.5	45.9	44.2	48.8	48.6	48.6	47.4	45.1	42.6
Costs/average assets (%)	2.11	2.11	1.89	1.81	1.71	3.31	3.30	3.35	1.82	1.70	1.60
Net income growth (%)	105.8	60.1	16.6	20.8	16.6	39.1	25.4	24.8	35.4	20.8	21.5
Net cust loan growth (%)	16.4	30.3	18.4	18.4	18.6	29.3	29.2	29.5	25.9	20.0	18.1
Cust deposit growth (%)	19.3	27.5	14.9	14.6	17.7	23.0	27.2	25.0	16.8	18.8	16.4
Net interest margin (%)	2.86	2.97	2.96	3.01	2.98	4.76	4.71	4.73	3.03	3.03	3.03
Return on avg assets (%)	0.68	0.88	0.86	0.91	0.91	1.56	1.58	1.61	0.89	0.91	0.95
Return on avg equity (%)	14.8	20.6	20.3	17.7	15.9	17.3	15.7	17.1	15.1	16.2	17.1
RORWA (%)	0.96	1.28	1.23	1.26	1.24	1.95	1.89	1.83	1.30	1.29	1.32
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
Normalised EPS growth (%)	105.8	60.1	16.6	0.28	16.6	23.3	24.1	23.6	35.4	20.8	21.5
Reported PE (x)	21.9	13.7	11.7	11.7	10.0	33.5	26.9	21.8	7.62	6.31	5.19
Normalised PE (x)	21.9	13.7	11.7	11.7	10.0	33.5	26.9	21.8	7.62	6.31	5.19
Price/book value (x)	3.08	2.45	2.20	1.71	1.49	4.46	3.97	3.48	1.09	0.96	0.83
Price/adjusted BVPS (x)	3.98	3.00	2.50	1.87	1.63	4.56	4.06	3.57	1.18	1.04	0.90
Dividend yield (%)	0.95	1.11	1.43	1.59	1.59	0.61	0.68	0.81	2.93	2.93	2.93
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	488.1	488.1	488.1	588.1	588.1	Tier 1 capital ratio (%)	7.14	7.13	6.56	8.49	8.23
Pre-prov prof/share (INR)	38.4	52.6	62.3	63.3	74.4	Total CAR (%)	11.5	12.3	11.6	13.0	12.1
Reported EPS (INR)	14.4	23.0	26.8	26.9	31.4	Equity/assets (%)	4.44	4.42	4.32	5.78	5.69
Normalised EPS (INR)	14.4	23.0	26.8	26.9	31.4	Net cust loans/dep (%)	69.1	70.6	72.7	75.1	75.6
Book value per sh (INR)	102.1	128.3	142.9	184.6	210.9	Rep NPL/gr cus adv (%)	3.80	2.47	2.30	2.33	2.36
Dividend per share (INR)	3.00	3.50	4.50	5.00	5.00	Tot prov/rep NPLs (%)	55.0	64.5	62.8	58.7	61.5
Dividend cover (x)	4.79	6.57	5.96	5.38	6.28	Bad debts/advances (%)	0.96	0.92	0.89	0.90	0.93
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: BOI.BO - Rs314.80; HDBK.BO - Rs1474.30; BOB.BO - Rs290.05
Source: Company data, ABN AMRO forecasts

BANK OF INDIA: VALUATION METHODOLOGY

Table 1 : BOI – valuation methodology

ROE (2-year avg - FY09 to FY10)	16.8
COE (Rf = 8%)	13.0
g	7.0
Implied P/B	1.6
Target price to book	1.8 (10% premium for open FII limit)
Book value	168.8
Target price	303.5

Sensitivity

COE = Cost of Equity		G= Long term growth				
		6.0	6.5	7.0	7.5	8.0
	12.0	334.4	347.9	364.2	384.0	408.8
	12.5	308.7	318.9	331.1	345.6	363.4
	13.0	286.6	294.4	303.5	314.2	327.0
	13.5	267.5	273.4	280.1	288.0	297.3
	14.0	250.8	255.1	260.1	265.8	272.5

Source: ABN AMRO forecasts

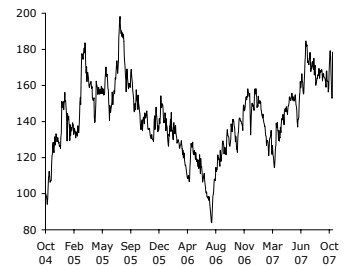
Bank of India

Company description

Bank of India (BOI) is one of the top five state-owned banks in the country and is unique given its significant overseas presence. Nearly one-fifth of its business is derived from overseas operations. BOI did not benefit as much as other state-owned banks from the rapid decline in interest rates between 2001 and 2004 (due to a small proportion of investments in the asset book). On the contrary, the decline in interest rates led to compression in net interest margins for BOI. There has, however, been substantial improvement in financial health over the past 12 months, led by rising net interest margins and improvement in asset quality due to lower incremental defaults, aggressive provisioning and write-offs.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: 4

Shareholders – Sept '07

Strengths

4

Significant overseas presence and competitive funding costs are its strengths. With the government's stake at 70%, the bank has the option to raise further equity to fund growth, flexibility many other state-owned banks lack (regulations require a minimum of 51% stake to be held by the government).

Weaknesses

4

Indirect intervention by the government (majority stakeholder) for social-sector lending. BOI's organisation structure, which may not be fully attuned to best practices, may also hinder the bank's ability to compete with private and foreign banks.

Opportunities

4

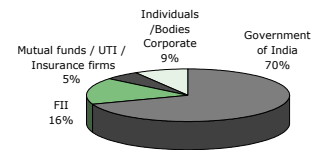
Deepening financial services and a strong technology backbone offer Bank of India the opportunity to grow both its fund and non-fund revenue streams at a fast rate for a longer period.

Threats

3

Competition from private and foreign banks could intensify.

Scoring range is 1-5 (high score is good)



Source: www.bseindia.com

Market data

Headquarters

Star House, C-5, G Block, Bandra Kurla Complex, Bandra East, Mumbai 400 051, India

Website

www.bankofindia.com

Shares in issue

488.1m

Freefloat

30%

Majority shareholders

Govt. of India (70%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 4-

Broker recommendations

Supplier power

4-

Banks typically lack pricing power on the liability side in the long term, as consumers can shift preferences among various financial instruments.

Barriers to entry

4-

Distribution access, brand identity and high capital requirements for infrastructure investment, as well as for growing the balance sheet, act as entry barriers.

Customer power

4+

Asset prices tend to be market-driven. Disintermediation in wholesale lending and competition in retail lending leave no pricing power for banks in the asset market.

Substitute products

4-

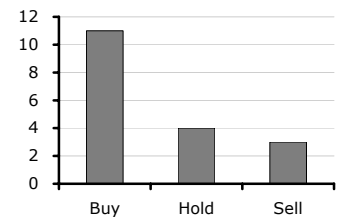
Alternative financial savings pose a threat to the liability franchise. Similarly, disintermediation poses a threat to the asset franchise.

Rivalry

3-

Due to the fragmented nature of the financial services market, rivalries tend to be intense. Product innovation is duplicated easily; hence, the lifecycle tends to be short.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg