

January 23, 2008

NEUTRAL

Price **Rs408** Target Price **Rs425**

Sensex **17,594**

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	52	50	91
Rel. to Sensex	28	60	42	63

Source: Capitaline

Stock Details

Sector	Banks
Reuters	BOI.BO
Bloomberg	BOI @IN
Equity Capital (Rs mn)	4874
Face Value	10
52 Week H/L	466/132
Market Cap	Rs191 bn/US\$4.7bn
Daily Avg Volume (No of shares)	2.3mn
Daily Avg Turnover (US\$)	22mn

Shareholding Pattern (%)

(30th Jul.'07)

Promoters	69.5
FII	17.1
Institutions	5.5
Private Corp.	1.0
Public	7.0

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Bank of IndiaResult
Update**Strong operating performance**

Bank of India (BOI) has once again surprised us with excellent operational results driven by strong growth in NII (25.7% yoy to Rs10.8bn), strong growth in fee income (42.0% yoy to Rs1.9bn) and controlled expenses. The asset quality improved with GNPA and NNPA having declined to 1.9% (2.74% Q3 FY07) and 0.62% (1.14% Q3 FY07) respectively.

We believe that our earning estimates for the bank were quite understated and we have upgraded the same by about 21-24% for FY08-10E. The stock currently trades at valuations of 7.8x FY10E EPS and 1.7x FY10E ABV are ripe. We change our rating on the stock to NEUTRAL with price target of Rs425.

Robust advances growth and higher NIM push NII

BOI's NII (net of amortisation expenses) grew by 25.7% yoy to Rs10.8bn driven by 30% growth in advances and higher margins. The growth in the advances book was driven by 32% growth in foreign advances (comprising 21.0% of loan book) and 29.1% yoy growth in domestic advances.

Yield analysis

%	Q3FY08	Q3FY07	Q2FY08	Change in bps	
				yoy	qoq
Yield on Advances	9.46	8.29	9.95	117	-49
Yield on assets	8.25	7.49	8.22	76	3
Cost of funds	5.43	4.64	5.50	79	-7
NIM	2.83	2.85	2.72	-2	10
NIM-Reported	3.14	2.97	3.04	17	10

Source: Company, Emkay Research; calculated on basis of average balances, adjusted for Amortisation exp

Non interest income grow strong

The higher Fee income, Treasury gains and NPA recovery drove the other income which grew by 71.8% yoy to Rs5.5bn. Fee income grew 42% yoy to Rs1.9bn whereas treasury income increased 109% yoy to Rs1.2bn during the quarter

Other income

Rs mn	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Trading	1,160	555	1,250	109.0	-7.2
CEB	1,860	1,310	1,940	42.0	-4.1
Forex income	870	562	660	54.8	31.8
Recovery	750	149	590	404.7	27.1
Misc. other income	900	650	840	38.5	-
Total	5,540	3,226	5,280	71.8	4.9

Source: Company, Emkay Research

Attractive term deposits hurt savings account float

BOI's CASA proportion has declined by 400bps yoy. However, we do not attribute the slippages in CASA to steeper balance sheet growth. The slippages in the CASA deposits has come mainly because of the attractiveness of term deposits vis-à-vis saving account and availability of flexi products that allow switching between the two deposits.

To the contrary, the bank has been able to grow its current account float at faster pace than the overall deposit growth as it has grown by 32.5% yoy compared with 29.3% yoy growth for domestic deposits. The current account float contributes 8.3% of the total deposits compared with 8.1% last year.

Deposit profile

Rs bn	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Deposits	1,358.4	1,066.1	1,295.9	27.4	4.8
Domestic deposits	1,120.3	866.7	1,048.6	29.3	6.8
Current account	93.5	70.6	80.8	32.5	15.7
Savings account	316.7	281.8	302.2	12.4	4.8
CASA	410.2	352.4	383.0	16.4	7.1
CASA (%)	36.6	40.7	36.5		
Foreign deposits	238.1	199.5	247.4	19.4	-3.7
Cost of deposits (%)	5.5	4.5	5.5		

Source: Company, Emkay Research

Controlled Opex lead to higher operating profit

The operating expenditure increased by just 5.5% yoy to Rs9.7bn driven by lower expenditure on advertising, promotions and miscellaneous charges (Same quarter last year the bank had centenary year celebrations where it spend lot of amount on advertisement, promotions and staff welfare.

As a result cost/income ratio fell to 40.5% in Q3FY08 from 53.2% in Q3FY07. Driven by robust growth in other income and controlled expenses, the operating profit has grown by 75.6% yoy to Rs9.7bn.

Flat provisioning helps further

Robust asset quality has helped the bank to keep provisioning under check as the same has remained flat over last year. Driven by the same net profit has doubled over last year to Rs5.1bn.

Robust asset quality

Despite a strong growth in balance sheets the bank has significantly brought down GNPA and NNPA as the same have declined to 1.9% and 0.62% of advances from 2.74% and 1.14% respectively last year.

NPA provisioning remains strong

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
NPA related provisions	2,100	1,909	2,120	10.0	-0.9
<i>As % of advances</i>	<i>0.20</i>	<i>0.24</i>	<i>0.22</i>		
Investment depreciation	130	50	-240	160.0	-154.2
Other provisions	80	330	1,110	-75.8	-92.8
Total	2,310	2,289	2,990	0.9	-22.7

Source: Company

NPA position

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Gross NPA (Rs Cr)	1,969.0	2,186.0	1,963.7	-9.9	0.3
Net NPA (Rs Cr)	633.0	898.0	713.7	-29.5	-11.3
Gross NPA (%)	1.9	2.7	2.1		
Net NPA (%)	0.6	1.1	0.8		
Provision cover (%)	67.4	57.8	63.3		

Source: Company

Valuations and view

We believe that our earning estimates for the bank were quite understated and we have upgraded the same by about 21-24% for FY08-10E. The stock currently trades at valuations of 7.8x FY10E EPS and 1.7x FY10E ABV are ripe. We change our rating on the stock to NEUTRAL with price target of Rs 425.

Quarterly results

	M9FY08	M9FY07	% y-o-y chg	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Net interest income	30,124	24,725	21.8	10,795	8,588	9,858	25.7	9.5
Other Income	14,635	9,862	48.4	5,541	3,223	5,284	71.9	4.9
<i>Fee income</i>	5,310	4,100	29.5	1,860	1,310	1,940	42.0	-4.1
Others	9,325	5,762	61.8	3,681	1,913	2,504	92.4	47.0
Net income	44,760	34,588	29.4	16,336	11,811	15,142	38.3	7.9
Operating expenses	19,871	19,589	1.4	6,622	6,279	6,743	5.5	-1.8
Pre-provision profit	24,889	14,998	65.9	9,714	5,532	8,399	75.6	15.7
Provisions	7,299	5,561	31.3	2,314	2,286	2,993	1.2	-22.7
NPA	5,142	4,563	12.7	2,100	1,909	2,120	10.0	-0.9
Profit before tax	17,590	9,438	86.4	7,400	3,246	5,406	128.0	36.9
Taxes	5,067	2,683	88.8	2,281	697	1,153	227.4	97.9
Net Profit	12,523	6,754	85.4	5,119	2,549	4,253	100.8	20.4

Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	PE	P/ABV
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2007	52,474	11,232	23.0	94.8	0.9	21.2	19.3	4.3
FY2008E	62,486	16,643	34.1	124.6	1.1	25.7	13.0	3.3
FY2009E	73,480	21,896	41.6	188.0	1.1	24.7	9.9	2.2
FY2010E	86,223	27,672	52.6	240.5	1.2	23.4	7.8	1.7

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