

July 26, 2007

REDUCE

Price	Target Price
Rs257	Rs225

Sensex	15,699
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Price Performance

(%)	1M	3M	6M	12M
Absolute	17	30	31	160
Rel. to Sensex	8	17	17	73

Source: Capitaline

Stock Details

Sector	Banks
Reuters	BOI.BO
Bloomberg	BOI @IN
Equity Capital (Rs mn)	4874
Face Value	10
52 Week H/L	276/94
Market Cap	Rs125.2 bn/US\$3.1bn
Daily Avg Volume (No of shares)	2.4mn
Daily Avg Turnover (US\$)	13.2mn

Shareholding Pattern (%)

(30th Jul.'07)

Promoters	69.5
FII	16.8
Institutions	5.7
Private Corp.	0.9
Public	7.2

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Bank of IndiaResult
Update**Exceptional results**

Bank of India (BOI) reported excellent operational results driven by strong growth in NII (22%yoy to Rs10.0bn, normalised), strong growth in fee income (21.3% yoy to Rs2.3bn) and controlled provisioning. The asset quality improved with GNPA and NNPA having declined to 2.29% (3.61% Q1 FY07) and 0.69% (1.4% Q1 FY07) respectively.

While we believe that the robust performance exhibited by the bank over past few quarters is likely to continue over next two years, we believe that the valuations at 9.4x FY09E EPS and 1.6x FY09E ABV are ripe. We assign REDUCE rating on the stock with price target of Rs225.

Strong asset growth and NIM drive NII

BOI's NII (adjusted for amortisation expenses) grew by 22.0% yoy to Rs10.0bn driven by 24% growth in assets and an 8bps expansion in margins.

%	Q1FY08	Q1FY07	Q4FY07	Change in bps	
				yoy	qoq
Yield on Advances	9.23	7.97	8.92	127	31
Yield on Investments	6.89	7.82	8.72	-93	-183
Yield on assets	8.22	7.58	7.89	64	33
Cost of funds	5.05	4.48	4.68	57	37
NIM	3.17	3.10	3.21	7	-4

Calculated on basis of average balances

Adjusted for Amortisation expenses and one time CRR income

Source: Company, Emkay Research

The NIM expanded despite a sharp rise in cost of funds (driven by rising deposit cost and tier II borrowings) as the yield on assets also rose by 97bps. On qoq basis the NIM was slightly lower by 4bps primarily because of non-receipt of normal interest on CRR balances and decline in yield on investments.

The growth in the advances book was led by foreign advances which grew by 28% yoy to Rs184bn (comprising 21.0% of total loan book) and also domestic loans which grew by 26.5% yoy.

Fee income and treasury gains grow strong

During the quarter under review the total non-interest income grew by robust 29% yoy to Rs 3.2bn driven by a) strong growth in fee income and b) robust treasury gains

Rs mn	Q1FY08	Q1FY07	Q4FY07	% y-o-y chg	% q-o-q chg
Trading	650	514	1,000	26.6	-35.0
CEB	2,300	1,896	2,750	21.3	-16.4
Forex income	660	503	770	31.2	-14.3
Recovery	200	194	1,140	3.0	-82.5
Misc. other income	-	-	100	-	-
Amortisation	-580	-602	-630	-3.7	-7.9
Total	3,230	2,505	5,130	29.0	-37.0

Source: Company, Emkay Research

Expenditure grows in line

The operating expenditure grew by 7.1% yoy to Rs6.5bn with driven by higher employee expenses.. The other operating expenses have declined by 0.7% on sequential basis as the bank has spent significantly on CBS roll out over M9FY07.

Robust asset quality

Despite a strong growth in balance sheets and particularly in retail assets, the bank has significantly brought down GNPA and NNPA. Resultantly the provisioning requirement has also come down significantly.

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
NPA related provisions	922	1,154	1,006	-20.1	-8.4
As % of advances	0.10	0.17	0.12		
Investment Amortization	580	602	630	-3.7	-7.9
Depreciation	370	160	851	131.3	-56.5
Others	710	380	1,210	86.8	-41.3
Total	2,582	2,296	3,697	12.4	-30.2

Source: Company

Equity dilution imminent

BOI had a Tier I capital adequacy ratio of 6.66% at the end of June 2007 as the bank did \$85mn perpetual bond issue in FY07.

With strong growth in assets we expect BOI's tier I CAR to fall below the stipulated 6% by the end of FY08. We expect the bank to first use quasi tier I bonds (Rs8bn) and then go in for plain equity raising (5mn shares @RS240; Rs20bn) in FY08. Post that we expect BOI's tier I CAR to remain comfortable at least till FY2011.

Valuations and view

While we believe that the robust performance exhibited by the bank over past few quarters is likely to continue over next two years, we believe that the valuations at 9.4x FY09E EPS and 16x FY09E ABV, are ripe. We assign REDUCE rating on the stock with price target of Rs225.

Quarterly results

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Net interest income	9,472	7,644	9,680	23.9	-2.1
Other Income	3,812	3,107	5,767	22.7	-33.9
<i>Fee income</i>	2,300	1,896	2,750	21.3	-16.4
<i>Others</i>	1,512	1,211	3,017	24.9	-49.9
Net income	13,284	10,750	15,447	23.6	-14.0
Operating expenses	6,506	6,075	6,495	7.1	0.2
Pre-provision profit	6,778	4,675	8,952	45.0	-24.3
Provisions & Contingencies	1,992	1,685	3,067	18.3	-35.0
<i>NPA</i>	922	1,154	1,006	-20.1	-8.4
Profit before tax	4,786	2,991	5,885	60.0	-18.7
Taxes	1,634	904	1,414	80.7	15.6
Net Profit	3,152	2,087	4,471	51.1	-29.5

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)
FY2006	40,600	7,014	14.4	69.0	0.7	15.4	17.9	3.7
FY2007	52,474	11,232	23.0	96.1	0.9	21.2	13.1	2.7
FY2008E	59,177	12,372	21.6	136.6	0.8	17.1	11.9	1.9
FY2009E	69,930	15,615	27.2	159.9	0.8	16.7	9.4	1.6

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