



Bank of India

 Relative to sector: **Neutral**
Praveen Agarwal

Executive Director – BFSI

Email: praveen.agarwal@enam.com

Tel: 9122 6754 7609

Namesh Chhangani

AVP – BFSI

Email: namesh.chhangani@enam.com

Siddharth Goel

AVP – BFSI

Email: siddharth.goel@enam.com

Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 526 mn
Market cap	: Rs 242.3 bn
52 week high/low	: Rs 588 / Rs 309
Avg. daily vol. (6mth)	: 1.5 mn shares
Bloomberg code	: BOI IB
Reuters code	: BOI.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	: 64.5	0.0
FIs	: 15.2	0.3
MFs / UTI	: 1.3	(1.0)
Banks / FIs	: 10.9	(0.1)
Others	: 8.1	0.8

Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs.)	Adj. BV (Rs.)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	30,074	57	50	8.1	224	216	2.1	2.1	29.2	1.5	0.4
2010	17,411	33	(42)	13.9	243	215	1.9	2.1	14.2	0.7	1.3
2011E	26,301	50	51	9.2	285	264	1.6	1.8	18.9	0.9	0.8
2012E	31,167	51	1	9.1	345	328	1.3	1.4	17.2	0.9	0.7

Source: Company, ENAM estimates

IMPRESSIVE TURNAROUND

Bank of India (BOI) reported significant improvement in core business performance led by improved asset quality, higher margins and balanced business growth. PAT rose 61% YoY mainly driven by robust NII growth (up 33% YoY) and decline in provision expenses (down 14% YoY). Asset quality improved as gross NPAs declined by 7% QoQ mainly due to significant upgradation (Rs 6 bn) and lower slippages (Rs 4.7 bn).

Key highlights

- **Balanced business growth:** Business rose 22.7% with equitable growth from deposits and advances. Credit grew 22.8% YoY driven by strong growth in corporate sector (up 47% YoY).
- **Improved margins:** Net interest margins improved 28 bps QoQ and 49 bps YoY to 3.09%. The bank targets NIM of ~3% for FY11.
- **High staff cost:** Operating expenses rose 33% YoY driven by 35% YoY growth in staff expenses. BOI has an estimated pension liability of ~Rs 45 bn of which it has provided ~Rs 6.6 bn till date (~ Rs 2.2 bn in Q3FY11). Cost-to-income ratio was up by 575 bps to 47.3%.
- **Asset quality improved** as BOI's gross NPAs declined 7% QoQ, while higher provisioning led to 25% QoQ decline in net NPAs. Overall capital adequacy ratio stood at 12.4% with a Tier-I of 8.0%.

Valuations

Going forward, BOI's focus will remain on maintaining its margins and asset quality, which have witnessed a significant turnaround in the current quarter. Further, the mid corporate and SME segments will remain its key focus areas for future growth (which will provide cushion to the margins). BOI improved its provision coverage ratio to 74% which will provide cushion to absorb any asset quality shock in future. We have upgraded our earnings by 5% for FY11 and 3% for FY12. On the back of BOI's improved performance, we have upgraded our target P/ABV multiple to 1.5x. We assign a **HOLD** rating on the stock with a target price to Rs 492 (1.5x FY12E ABV and 10x FY12E earnings).

Results Update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	54,675	44,862	22	51,555	6	212,388	178,780	19
Interest Expended	34,806	29,915	16	33,795	3	138,208	121,220	14
Net Interest Income	19,869	14,948	33	17,760	12	74,181	57,559	29
Non-Interest Income	6,482	5,716	13	5,845	11	24,088	26,166	(8)
Net Income	26,351	20,664	28	23,605	12	98,269	83,726	17
Operating Expenses	12,464	9,366	33	9,808	27	42,843	36,678	17
Operating profit	13,888	11,298	23	13,797	1	55,426	47,048	18
Provision & Contingencies	4,979	5,764	(14)	5,273	(6)	18,897	22,109	(15)
PBT	8,908	5,534	61	8,524	5	36,529	24,938	46
Tax	2,377	1,479	61	2,354	1	10,228	7,528	36
Net Profit	6,532	4,055	61	6,170	6	26,301	17,411	51
No. of shares (mn)	526	526	-	526	-	526	526	-
Rep. EPS - non-annualized (Rs.)	12.4	7.7	61	11.7	6	50	33	51
Yields & Margins (%)								
Yield on advances	8.78	8.41	37 bps	8.47	31 bps	8.40	8.45	(5) bps
Yield on investment	7.71	7.36	35 bps	7.26	45 bps	7.47	7.46	1 bps
Cost of deposits	4.97	5.26	(29) bps	4.99	(2) bps	4.88	5.16	(28) bps
Net interest margin	3.09	2.60	49 bps	2.81	28 bps	2.58	2.38	19 bps
Cost to income ratio	47.3	45.3	197 bps	41.6	575 bps	43.6	43.8	(21) bps
Asset quality								
Gross NPAs (Rs bn)	45.42	41.87	8	48.70	(7)	47.29	48.83	(3)
Gross NPAs (%)	2.36	2.67	(31) bps	2.64	(28) bps	2.30	2.85	(55) bps
Net NPAs (Rs bn)	15.50	15.96	(3)	20.70	(25)	16.55	22.07	(25)
Net NPAs (%)	0.88	1.03	(15) bps	1.14	(26) bps	0.82	1.31	(49) bps
Provisioning coverage (%)	65.9	61.9	399 bps	57.5	839 bps	65.0	54.8	1,021 bps
Capital (%)								
Tier-I	8.0	9.4	(141) bps	8.4	(41) bps	8.0	8.5	(47) bps
CAR	12.4	13.6	(123) bps	13.0	(63) bps	12.2	12.9	(72) bps
Balance sheet (Rs. Bn)								
Advances	1,928	1,570	22.8	1,814	6.2	2,023	1,685	20.1
Deposits	2,525	2,060	22.6	2,411	4.8	2,708	2,298	17.9
CASA (%)	32.5	33.0	(51) bps	33.5	(99) bps	29.0	27.8	115 bps

Source: Company, ENAM Research; Note: For full year, numbers and ratios are on calculated basis & CASA represents global CASA.

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.