

BUZZING

STOCK

Bank of India

CMP – Rs.202

Analyst

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Key Stock Data

Sensex	13,773
Nifty	3,969
Sector	Banks – Public Sector
Bloomberg	BOI@IN
Reuters	BOI.BO
No. of shares (m)	488
Market Cap (Rs m)	98,726
Market Cap (US\$ m)	2,212
52-week H/L	Rs.204/80

Shareholding Pattern (%)

Promoters	69.47
Mutual Funds	5.76
FII's	15.70
Corporate Bodies	1.11
Pubic & Others	7.97

Robust fundamentals

Bank of India (BoI) has sprung into action in the past few quarters and the results have been increasingly consistent and improving upon earlier quarters. After a year of low RoA and RoE in FY05, BoI did exceedingly well in FY06 with RoA improving 40bps to 0.7% and RoE by 7% to 15.4%. The bank made good start to FY07 reporting a 28% YoY growth in net profit in 1QFY07. Keeping up with the performance, BoI again reported strong numbers in Q2FY07.

The most encouraging change that has happened in BoI in the last few quarters is the strong improvement in fundamentals along with the robust growth seen in business. Unlike a few other banks in BoI's peerset who have seen a drag on their margins with a surge in their business, BoI has managed to improve the margin and its key return ratios have seen uptick. While BoI has managed credit risk well consistently improving the asset quality, reducing the GNPA's and NNPA's, the bank has also taken adequate care of the interest rate risk. BoI's 83% investment portfolio is classified as HTM and the duration of AFS and HFT remains less than one – something unique for a PSB. BoI already holds pre-emptive provisions for investment depreciation. Hence, with the yields remaining soft and not showing any signs of sudden spike, there seems to be no way how BoI's bottomline would be affected mid-way by provisioning on account of investment depreciation.

Results in Q2FY07

BoI's net profit in the latest quarter has zoomed 60% YoY to Rs.2,121m. The operating profit was up 45% YoY Rs.4,791. The interest income, on back of improved yield on advances, increased 36% while, interest expenses registered a less than proportionate 30% YoY growth. BoI's yield on funds showed an improvement of 89bps YoY to 7.6% while the cost of funds accelerated only 46 bps to 4.54%. The NIM has improved from 2.63% a year back to 3.06% in Q2FY07.

A 36% YoY growth in retail credit and a rise in low cost deposits to 40.4% have contributed a 47% growth in the bank's NII to Rs.8,494m. The fee income too has seen a healthy growth of 17% resulting in a net income YoY growth of 36% to Rs.12,026m.

An extremely slower growth in provisions (4% YoY) because of lower non loan-loss provisions remained translated an already strong operating profit into a strong bottomline.

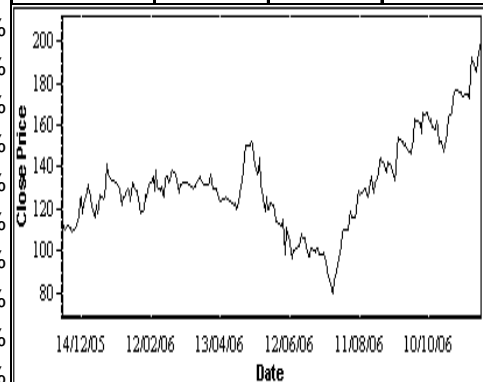
Valuations

Reacting to the bank's results, the markets have rallied behind the bank stock, which has witnessed a surge from Rs.80 to the current levels in a short span of just over a quarter.

Bank of India's BVPS for 1HFY07 is Rs.102.4. The CMP is 2x the BV. Given the positive outlook on BoI fundamentals and the likelihood of the current growth continuing we can safely assume a low credit and interest rate risk environment for the remaining part of FY07. Based on the trend so far, therefore, we can expect an 18-20% rise in BoI's BVPS in FY07 over FY06.

The BVPS therefore may move up beyond Rs.120. Giving the bank similar valuations as those prevailing now, it appears the bank stock may show further appreciation of Rs.20 – Rs.30+.

Financial Snapshot										
Bank of India							Rs.m		Ratios (%)	
	Q2FY07	Q2FY06	Chg .	FY06	FY05	Chg.		FY06	FY05	Chng (%)
Interest Income	22,582	16,614	36%	70,287	60,315	17%	CD	69.9%	67.5%	3.6%
Interest expended	14,088	10,828	30%	43,967	37,946	16%	CAR	10.8%	11.5%	-6.7%
NII	8,494	5,786	47%	26,320	22,369	18%	NIM	2.8%	2.7%	4.5%
Other Income	3,533	3,031	17%	11,844	11,558	2%	RoA	0.7%	0.4%	78.9%
Net Income	12,026	8,818	36%	38,164	33,927	12%	RoANW	15.4%	8.4%	83.9%
Operating expenses	7,236	5,517	31%	21,151	19,323	9%				
Payments to employees	4,136	3,430	21%	13,281	12,632	5%				
Other expenses	3,100	2,087	49%	7,870	6,691	18%				
Operating income	4,791	3,301	45%	17,012	14,604	16%				
Provisions and contg.	1,587	1,521	4%	7,856	9,993	-21%				
NPA provisions	1,500	1,170	28%	5,356	3,512	52%				
Other provisions	87	351	-75%	2,500	6,481	-61%				
PBT	3,204	1,780	80%	9,157	4,610	99%				
Taxes	1,083	459	136%	2,142	1,210	77%				
PAT	2,121	1,322	60%	7,014	3,400	106%				



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