

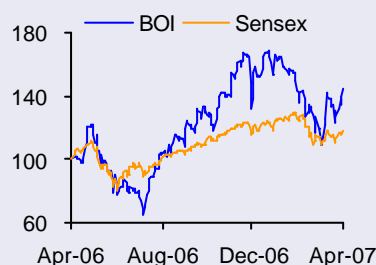
Bank of India (Q4 FY07) - Investment Update

Recommendation	BUY
CMP	Rs184
Target Price	Rs244
Upside	33%
Market Cap	Rs92bn
52 Week H/L	Rs225/80
Face Value	Rs10
BSE Code	532419
NSE Code	BANKINDIA
Bloomberg Code	BOI@IN
Reuters Code	BOI.BO
1 Month avg vol.	359306

Share Holding Pattern

Mar'07	(%)
Government	69.5
Institutions	15.4
FII	5.6
Public	9.5

Share Price Trend



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Our central investment theme of high core profit growth and asset quality improvement is playing out well in Bank of India, which was amply evident in Q4 FY07 results. While results have been far above our expectation, core profit growth was in line with expectation. Net NPAs have halved from the March 06 levels to 0.74%. We have revised our profit growth expectation for FY08 by 2.4%, though maintained flat for FY09. We maintain our BUY rating on the stock with a price target of Rs244.

Result update

Stable margins through sustained CASA of 40%

Despite a 31% loan book (against our expected 26%), pressure on resources remained low as CASA was stable at 40% (expected 39%). Higher yields on the loan book (94bps expansion during FY07), and contained deposit cost (26bps expansion), pushed up margins by 19bps yoy to 3.2%.

Robust fee income traction

BOI has maintained its fee income traction reflected in the 31% growth in commission exchange and brokerage and 23% in the forex income. Sustained domestic business along with robust international operations (20% of the volumes and 30% of the operating profit) has kept fee income growth high.

Asset quality improvement on fast track

We rate BOI as the best play on asset quality improvement. We derive comfort from the Bank's contained loan growth strategy for FY08 and high focus on recoveries. Gross NPAs in FY07 have come down from 3.7% to 2.4% and net NPAs from 1.5% to 0.74%. Recoveries during the year stood at Rs10bn.

Sustained high ROE could improve valuations for the Bank

We expect ROE to average 21% over FY07-09. Even despite a likely equity dilution of 15%, ROE would still remain high at ~17.5% in FY08. This is likely to keep valuations high for BOI. We maintain our BUY rating on the stock with a price target of Rs244.

Table: Valuation Summary

	FY05	FY06	FY07E	FY08E	FY09E
Net Profit (Rs mn)	3,286	7,014	11,232	12,337	15,006
Growth (%)	(67.5)	113.4	60.1	9.8	21.6
EPS (Rs)	6.7	14.4	23.0	25.3	30.7
ROAA (%)	0.4	0.7	0.9	0.8	0.9
ROE (%)	7.8	14.8	21.0	20.1	21.2
PE (x)	27.3	12.8	8.0	7.3	6.0
P/Bv (x)	2.0	1.8	1.6	1.4	1.2
P/Adj Bv (x)	3.1	2.2	1.8	1.6	1.3

Source: Company data, India Infoline Research



Table: Quarterly Financials

(Rs mn)	Q4 FY07 (3)	Q4 FY06 (3)	Growth (%)	Q3 FY07 (3)	Growth (%)	FY07 (12)	FY06 (12)	Growth (%)
Interest Earned	26,154	20,022	30.6	23,187	12.8	91,803	70,287	30.6
Interest Expended	(15,859)	(10,424)	52.1	(13,368)	18.6	(54,957)	(41,531)	32.3
Net Interest Income	10,295	9,598	7.3	9,819	4.8	36,846	28,756	28.1
Other Income	5,767	3,244	77.8	3,223	78.9	15,630	11,844	32.0
Net Total Income	16,063	12,842	25.1	13,042	23.2	52,476	40,600	29.3
Total Operating Expense	(6,495)	(5,324)	22.0	(6,279)	3.4	(26,084)	(21,151)	23.3
Pre Provisioning Profit	9,568	7,518	27.3	6,763	41.5	26,391	19,449	35.7
Total Provisions	(3,680)	(4,360)	(15.6)	(3,518)	4.6	(11,063)	(10,292)	7.5
Profit Before Tax	5,888	3,159	86.4	3,246	81.4	15,329	9,156	67.4
Tax	(1,414)	(614)	130.1	(697)	102.9	(4,097)	(2,142)	91.2
Profit After Tax	4,474	2,544	75.9	2,549	75.6	11,232	7,014	60.1
Advances (Rs bn)	854	651	31.3	787	28.0	854	651	31.3
Deposits (Rs bn)	1,199	939	27.6	1,066	21.0	1,199	939	27.6
Assets (Rs bn)	1,123	950	18.2	1,301	22.3	1,123	950	18.2
CASA (%)	40.0	41.0		41.0		40.0	41.0	
Yield on Advances	8.52	7.58		8.43		8.52	7.58	
Cost of Deposits	4.31	4.05		4.40		4.31	4.05	
NIM (%)	3.20	3.03		3.22		3.20	3.03	
GNPA (%)	2.42	3.72		2.74		2.42	3.72	
NNPA (%)	0.74	1.49		0.95		0.74	1.49	
GNPA (Rs bn)	21.0	24.8		21.9		21.0	24.8	
NNPA (Rs bn)	6.3	9.7		7.5		6.3	9.7	
CAR (%)	11.6	10.8		11.8		11.6	10.8	

Source: Company data, India Infonline Research

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