



Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,287	BOI IN
	REUTERS CODE
S&P CNX: 5,166	BOI.BO

30 April 2008

Buy

Previous Recommendation: Buy

Rs342

Equity Shares (m)	525.9
52-Week Range	466/182
1,6,12 Rel.Perf.(%)	20/22/53
M.Cap. (Rs b)	180.0
M.Cap. (US\$ b)	4.5

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	50,034	11,232	23.0	60.2	14.9	2.9	11.6	21.3	0.9	3.1
3/08E	63,462	20,094	38.2	66.1	9.0	2.0	12.0	27.5	1.3	2.1
3/09E	72,516	23,528	44.7	17.1	7.7	1.7	11.3	23.9	1.2	1.7
3/10E	82,962	26,786	50.9	13.8	6.7	1.4	10.9	22.4	1.1	1.5

Superlative performance: BoI reported 26% NII growth in 4QFY08 to Rs12.2b, higher than our estimate of 16% growth. Net profit grew by 69% to Rs7.6b, significantly higher than our estimate (Rs4.5b) due to stronger core operating numbers, treasury profits and recoveries. Strong balance sheet growth (advances up 32%, deposits up 25%), stable margins (3% in FY08, 3.2% in 4QFY08), traction in fees (up 30%) and reduction in NPAs (net NPAs at 0.5%) are indicators of BoI's superior performance across parameters.

Global deposits grew 25% (domestic deposits by 32%) to Rs1.5t, while global loan book grew 32% (domestic loans by 31%) to Rs1.15t. CASA ratio declines to 36% from 40%. Global NIMs improved by 10bp YoY and QoQ to 3.24% in 4QFY08 (domestic NIMs remain high at 3.7%). BoI has sustained its global margins at 3% and domestic margins at 3.4% in FY08.

Core fee income excluding forex grew by 31% YoY to Rs3.8 in 4QFY08 and ~30% in FY08. In line with our expectations, operating leverage is providing a boost to BoI's profits in FY08. Opex increased YoY by mere 2% in 4QFY08 and 1% in FY08. Cost to income (ex treasury) has reduced to 44% in FY08.

Maintain Buy: We expect RoA to sustain at 1.1-1.2% over next two years for BoI and RoE to sustain at 22-23%. We believe BoI is one of the best managed PSU bank with focus on improving core operating profitability and shareholder returns. The stock trades at a P/E of 6.7x FY10E EPS and P/BV of 1.4x FY10E BV. **Buy** with a target price of Rs500, an upside of 46%.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	20,211	22,582	23,187	26,154	27,273	29,752	31,511	35,016	89,363	123,552
Interest Expense	12,566	14,088	14,599	16,474	17,801	19,895	20,717	22,848	54,959	81,260
Reported Net Interest Income	7,644	8,494	8,588	9,680	9,472	9,858	10,795	12,168	34,405	42,293
% Change (Y-o-Y)	36.8	46.8	30.8	15.5	23.9	16.1	25.7	25.7	30.7	22.9
Reported Other Income	3,107	3,533	3,223	5,767	3,812	5,284	5,541	6,533	15,630	21,169
Net Income	10,751	12,026	11,811	15,447	13,284	15,142	16,336	18,701	50,034	63,462
% Change (Y-o-Y)	26.0	36.4	28.5	32.9	23.6	25.9	38.3	21.1	31.1	26.8
Operating Expenses	6,075	7,236	6,279	6,495	6,506	6,744	6,622	6,579	26,084	26,450
Operating Profit	4,676	4,791	5,532	8,952	6,778	8,398	9,714	12,122	23,950	37,012
Other Provisions	1,685	1,587	2,286	3,064	1,992	2,993	2,314	2,866	8,621	10,165
Profit Before tax	2,991	3,204	3,246	5,888	4,786	5,405	7,400	9,256	15,329	26,847
Tax Provisions	904	1,083	697	1,414	1,634	1,153	2,281	1,686	4,097	6,753
Net Profit	2,087	2,121	2,549	4,474	3,152	4,253	5,119	7,570	11,232	20,094
% Change (Y-o-Y)	21.5	60.5	78.1	75.9	51.0	100.5	100.8	69.2	60.1	78.9
Cost to Income Ratio (%)	56.5	60.2	53.2	42.0	49.0	44.5	40.5	35.2	52.1	41.7
Interest Expense/Interest Income (%)	62.2	62.4	63.0	63.0	65.3	66.9	65.7	65.2	61.5	65.8
Other Income/Net Income (%)	28.9	29.4	27.3	37.3	28.7	34.9	33.9	34.9	31.2	33.4

E: MOST Estimates

RESULTS ANALYSIS (RS M)

	4QFY08	4QFY07	YOY GR. %	3QFY07	QOQ GR. %	FY07	FY08	FY09E
Interest Income	35,016	25,523	37	31,511	11	89,363	123,552	153,297
Interest Expense	22,848	15,843	44	20,717	10	54,959	81,260	103,315
Net Interest Income (NII)	12,168	9,680	26	10,795	13	34,405	42,292	49,982
Other Income	6,533	5,767	13	5,541	18	15,630	21,169	22,534
- Fees	3,753	2,857	31	2,761	36	8,989	11,599	13,934
- Treasury Income (including forex)	1,490	1,770	(16)	2,030	(27)	4,810	6,730	6,100
- Recovery from w/off	1,290	1,140	NA	750	NA	1,830	2,840	2,500
Net Income	18,701	15,447	21	16,336	14	50,034	63,462	72,516
Total Operating Costs	6,579	6,495	1	6,622	(1)	26,084	26,450	29,221
- Staff Costs	4,138	4,477	(8)	4,498	(8)	16,140	16,570	18,126
- Other Opex	2,440	2,018	21	2,124	15	9,944	9,880	11,095
Operating Profit	12,122	8,952	35	9,714	25	23,950	37,012	43,294
Provisions	2,864	3,064	(7)	2,309	24	8,621	10,165	11,064
- NPAs	1,800	1,009	78	2,100	(14)	5,569	6,970	8,364
- Others	1,064	2,055	(48)	209	409	3,052	3,195	2,700
PBT	9,258	5,888	57	7,405	25	15,329	26,847	32,230
Tax	1,686	1,414	19	2,281	(26)	4,097	6,753	8,702
Tax payout %	18	24		31		27	25	27
PAT	7,572	4,474	69	5,124	48	11,232	20,094	23,528
Deposits	1,500,120	1,198,820	25	1,358,350	10	1,198,817	1,500,120	1,845,148
CASA Ratio % (domestic)	36	40		37		36	35	34
Advances#	1,147,930	867,910	32	1,036,560	11	849,359	1,134,760	1,373,060
Gross NPA %	1.7	2.4		1.9		2.4	1.7	2.0
Net NPA %	0.5	0.7		0.6		0.7	0.5	0.6
Yields on Advances %*	9.7	9.1		9.6		8.5	9.3	9.4
Cost of Funds %*	5.4	4.7		5.2		4.7	5.5	5.7
NIM %**	3.2	3.1		3.1		3.0	3.0	2.9
Tier I CAR %	7.7	6.7		7.3		6.7	7.7	7.3
Tier II CAR %	4.3	5.0		5.2		5.0	4.3	4.0

quarterly numbers are gross * as reported for quarterly numbers and calculated for annual numbers, ** as reported

Highlights

Margins sustained: Global NIMs improved by 10bp YoY and QoQ to 3.24% in 4QFY08 (domestic NIMs remain high at 3.7%). Cost of funds increased to 5.4% in 4QFY08 from 4.7% in 4QFY07. BoI continues to have one of the lowest cost of funds amongst peer sector PSU banks. Management is very clear about maintaining its focus on margins and growing volumes aggressively. BoI has sustained global margins at 3% and domestic margins at 3.4% in FY08, while all other PSU banks have witnessed margin declines ranging from 20bp to 60bp.

Operating leverage giving boost to profits: In line with our expectations, operating leverage is providing a boost to BoI's profits in FY08. Opex increased YoY by a mere 2% in 4QFY08 and 1% in FY08. In FY07, management had provided close to Rs5b for staff costs to lower its transitional liability towards AS-15. The CBS implementation costs are fully written off as against capitalizing the same. Thus up-fronting of expenses in FY07, has led to lower growth in opex in FY08.

Management has made provisions on an ad hoc basis for the expected staff hikes due to wage settlement agreement in FY08. The transitional liability on account of AS-15 is crystallized at Rs6.2b, which would be amortized over five years. In FY08 BoI has recognized Rs2.6b towards AS-15, including Rs1.2b towards amortization of transitional liability. Cost-to-income ratio has reduced to 38% in 4QFY08, 48% a year ago, and 46% in 3QFY08. We expect operating leverage to play a key role in BoI's profitability growth going forward.

International business impacted by MTM losses: BoI's global advances have grown by a strong 38% in FY08 to Rs234b. While operating profit from international operations has grown in line with asset growth at 36% in FY08 to Rs5.5b; PAT growth is muted at 15% to Rs3.5b. BoI has provided Rs730m in FY08 toward MTM on its international investment book due to widening of credit spreads. Management highlighted that there is no weakening on the underlying credit quality of these investments and these provisions are technical in nature.

Fees growth commendable: Other income grew by 13% YoY in 4QFY08 and 35% in FY08. Core fee income excluding forex grew by 31% YoY to Rs3.8 in 4QFY08 and ~30% in FY08. Forex grew by 16% YoY to Rs0.9b. Treasury profit (including exceptionals of Rs520m in 4QFY07) decreased 40% YoY to Rs0.6b. For FY08 treasury profits have increased by ~40%. Recoveries from written-off accounts grew 13% YoY and 72% QoQ to Rs1.3b in 4QFY08 and 55% in FY08. We are impressed by the continued traction in fee income growth for the bank for several quarters. BoI is one of the very few PSU banks that are witnessing strong and sustained traction in fee income. While we expect treasury income to slow down in FY09, recoveries are expected to remain strong.

Maintain Buy with a target price of Rs500: BoI has been improving on all key parameters over several previous quarters. The organizational restructuring and business process reengineering along with ramp of technology coverage (90% of business on CBS) has started yielding returns for the bank. BoI has been amongst the very few PSU banks that has been able to manage its margins, asset quality, fee income and profitability growth consistently over several previous quarters. We expect RoA to sustain at 1.1-1.2% over next two years for BoI and RoE to sustain at 22-23%. We believe BoI is one of the best managed PSU banks with a focus on improving core operating profitability and shareholder returns. Buy with a target price of Rs500, an upside of 47%.

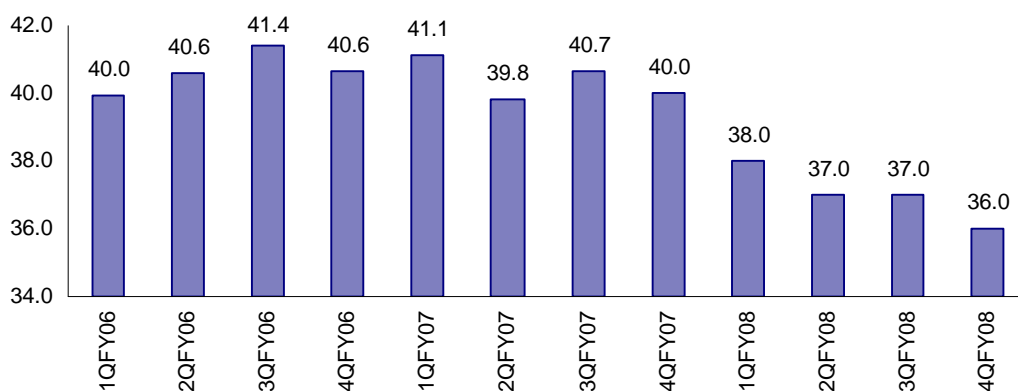
Consistent growth in business despite slowdown in industry

BUSINESS GROWTH YOY (%)

	4QFY08	3QFY08	2QFY08	1QFY08	4QFY07	3QFY07	2QFY07	1QFY07
Indian Deposits	32.4	29.3	22.6	26.0	21.7	22.3	21.9	18.7
Foreign Deposits	-2.0	19.4	39.4	35.5	56.3	17.7	13.0	20.8
Global Deposits	25.1	27.4	25.5	27.7	27.6	21.4	20.3	19.0
Indian Advances	30.9	29.2	24.9	26.3	29.2	29.6	28.4	25.8
Foreign Advances	37.8	32.7	38.0	28.8	34.4	22.7	9.1	7.7
Global Advances	32.3	29.9	27.6	26.8	30.2	28.1	23.9	21.6

Source: Company/Motilal Oswal Securities

TREND IN CASA RATIO (%)



CASA ratio declines ...however still higher v/s peers CASA ratio

Source: Company/Motilal Oswal Securities

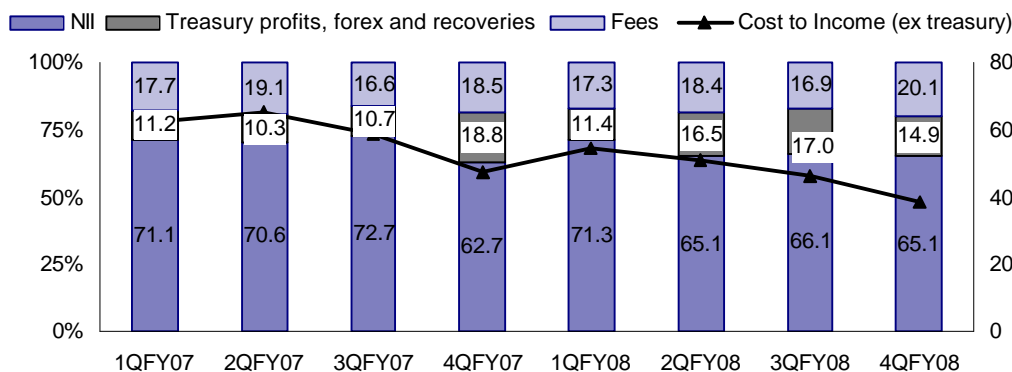
TREND IN YoF, CoF AND NIM (%)

	4QFY08			4QFY07			3QFY08		
	OVERALL	FOREIGN	DOMESTIC	OVERALL	FOREIGN	DOMESTIC	OVERALL	FOREIGN	DOMESTIC
Yields on funds	8.2	5.8	8.8	7.5	5.7	8.0	8.0	6.0	8.5
Cost of funds	5.4	4.3	5.6	4.7	4.4	4.7	5.2	4.6	5.4
Spread	2.9	1.5	3.2	2.9	1.4	3.2	2.7	1.4	3.1
NIM	3.2	1.4	3.7	3.1	1.2	3.7	3.1	1.2	3.7

Source: Company/Motilal Oswal Securities

INCOME COMPOSITION AND COST STRUCTURE

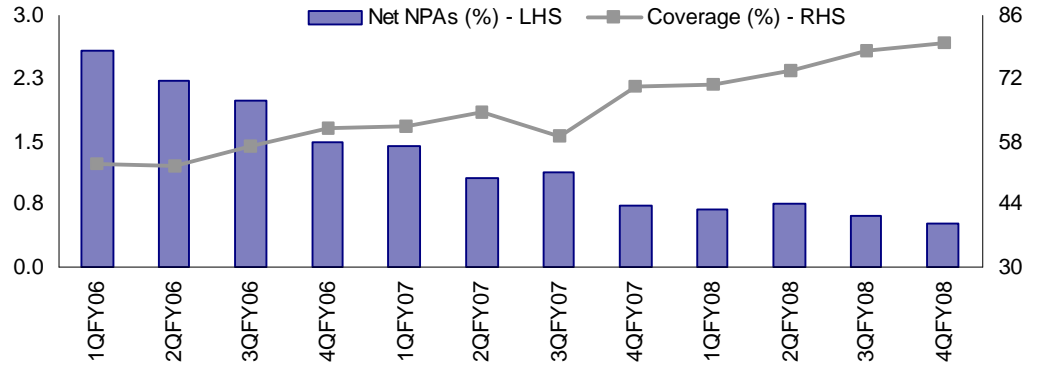
Fees are growing fast and operating leverage is phenomenal



Source: Company/Motilal Oswal Securities

TREND IN ASSET QUALITY

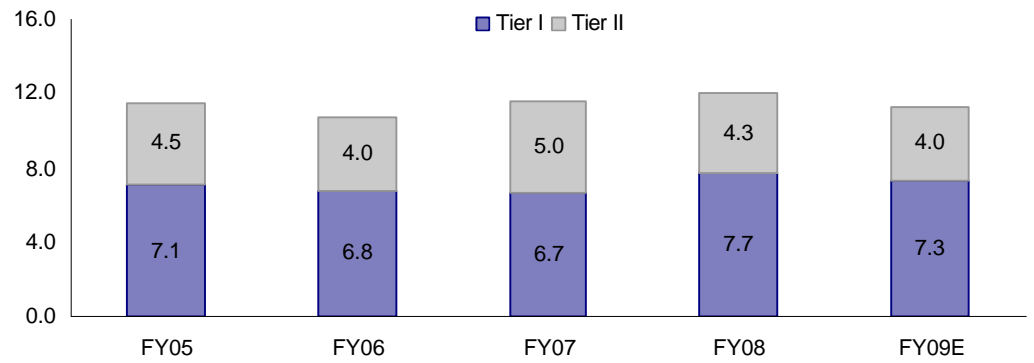
Adjusted for floating provisions, net NPAs at 0.34%; provision coverage at > 80%



Source: Company/Motilal Oswal Securities

CAR (%)

CAR strong at 12% as per Basel II norms



Source: Company/Motilal Oswal Securities

Bank of India: an investment profile

Company description

Bank of India (BoI) was incorporated in 1906 by a group of eminent businessmen in Mumbai. It was under private ownership until 1969. Later, it was nationalized along with 13 other major banks. The bank is the sixth largest bank (fifth largest state-owned bank) in India assets-wise. It has a large branch network of 2,845 chiefly present in the western and the eastern regions of India. BoI has 1,044 branches under CBS, covering more than 80% of its business. It has an international presence through 25 overseas offices in 13 countries.

Key investment arguments

- ✍ Asset quality is one of the best in country.
- ✍ Bank is gearing up on the technology platform.
- ✍ Core business is expected to do well.

Key investment risks

- ✍ Huge workforce, resulting in a higher wage bill.
- ✍ Strong business growth currently can lead to built-up of NPAs in future

Recent developments

- ✍ BoI raised Rs14b of equity through a QIP at Rs360 per share.
- ✍ The bank entered into life insurance business in tie up with Union Bank and Dia Ichi Mutual Life Insurance where the bank will have 51% stake.
- ✍ The Bank has finalized acquiring 76% stake in PT Bank Swadesi Tbk, a listed bank in Indonesia.

Valuation and view

- ✍ Improvement in core RoE, significant clean-up in balance sheet and superior technology platform will drive re-rating.
- ✍ The stock trades at 6.7x FY10E EPS and 1.4x FY10E BV. We reiterate **Buy**.

Sector view

- ✍ YTD loan growth of 22% and deposit growth of 23%
- ✍ Macro economic factors remain conducive for strong profitable growth
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings and valuations.

COMPARATIVE VALUATIONS

		BOI	PNB	BOB
P/E (x)	FY09E	7.7	7.9	6.7
	FY10E	6.7	6.6	5.6
P/ABV (x)	FY09E	1.7	1.4	1.1
	FY10E	1.5	1.2	1.0
RoE (%)	FY09E	23.9	17.7	16.2
	FY10E	22.4	18.5	17.1
RoA (%)	FY09E	1.2	1.1	0.9
	FY10E	1.1	1.1	0.9

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	64.5	69.5	69.5
Domestic Inst	11.8	5.5	5.6
Foreign	15.8	17.1	16.2
Others	7.9	8.0	8.7

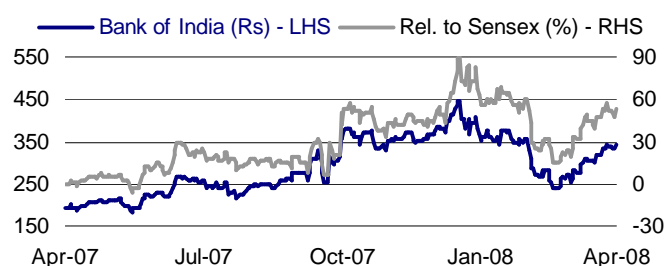
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	44.7	37.6	18.9
FY10	50.9	45.2	12.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
342	500	46.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs Million)
Y/E MARCH	2006	2007	2008 E	2009 E	2010 E	
Interest Income	67,850	89,363	123,552	153,297	185,010	
Interest Expended	41,531	54,959	81,260	103,315	126,749	
Net Interest Income	26,320	34,405	42,292	49,982	58,260	
Change (%)	17.7	30.7	22.9	18.2	16.6	
Other Income	11,844	15,630	21,169	22,534	24,702	
Net Income	38,164	50,034	63,462	72,516	82,962	
Change (%)	2.5	31.1	26.8	14.3	14.4	
Operating Expenses	21,151	26,084	26,450	29,221	32,998	
Operating Income	17,012	23,950	37,012	43,294	49,964	
Change (%)	16.5	40.8	54.5	17.0	15.4	
Other Provisions	7,859	8,621	10,165	11,064	12,237	
PBT	9,154	15,329	26,847	32,230	37,727	
Tax	2,142	4,097	6,753	8,702	10,941	
Tax Rate (%)	23.4	26.7	25.2	27.0	29.0	
PAT	7,011	11,232	20,094	23,528	26,786	
Change (%)	106.0	60.2	78.9	17.1	13.8	
Proposed Dividend	1,660	1,708	2,104	3,418	3,944	

BALANCE SHEET						(Rs Million)
Y/E MARCH	2006	2007	2008 E	2009 E	2010 E	
Capital	4,881	4,881	5,259	5,259	5,259	
Reserves & Surplus	44,507	54,072	84,925	104,454	126,625	
Net Worth	49,389	58,954	90,184	109,713	131,884	
Deposits	939,320	1,198,817	1,500,120	1,845,148	2,251,080	
Change (%)	19.2	27.6	25.1	23.0	22.0	
Borrowings	88,425	113,798	127,453	142,748	159,878	
Other Liabilities & Prov.	45,159	45,101	49,611	54,573	76,402	
Total Liabilities	1,122,293	1,416,670	1,767,369	2,152,181	2,619,243	
Current Assets	114,021	174,055	164,921	235,447	316,834	
Investments	317,818	354,928	425,913	498,318	578,049	
Change (%)	10.8	11.7	20.0	17.0	16.0	
Advances	651,727	849,359	1,134,760	1,373,060	1,675,133	
Change (%)	17.4	30.3	33.6	21.0	22.0	
Net Fixed Assets	8,100	7,893	8,296	8,529	8,718	
Other Assets	30,628	30,435	33,479	36,827	40,509	
Total Assets	1,122,293	1,416,670	1,767,369	2,152,180	2,619,243	

ASSUMPTIONS						(%)
Deposit Growth	19.2	27.6	25.1	23.0	22.0	
Advances Growth	17.4	30.3	33.6	21.0	22.0	
Investments Growth	10.8	11.7	20.0	17.0	16.0	
Dividend	34.0	35.0	40.0	65.0	75.0	

E: Most Estimates

RATIOS

Y/E MARCH	2006	2007	2008 E	2009 E	2010 E
Spreads Analysis (%)					
Avg. Yield-Earn. Assets	6.8	7.3	7.9	7.9	7.9
Avg. Cost-Int. Bear. Liab.	4.4	4.7	5.5	5.7	5.8
Interest Spread	2.4	2.6	2.3	2.1	2.2
Net Interest Margin	2.6	2.8	2.7	2.6	2.5

Profitability Ratios (%)

RoE	15.4	21.3	27.5	23.9	22.4
RoA	0.7	0.9	1.3	1.2	1.1
Int. Expended/Int. Earned	61.2	61.5	65.8	67.4	68.5
Other Inc./Net Income	31.0	31.2	33.4	31.1	29.8

Efficiency Ratios (%)

Op. Exps./Net Income*	57.1	54.4	44.2	41.9	41.0
Empl. Cost/Op. Exps.	62.8	61.9	62.6	62.0	62.5
Busi. per Empl. (Rs m)	34.8	43.8	57.3	72.7	90.0
NP per Empl. (Rs lac)	1.7	2.7	4.9	5.8	6.8

*** ex treasury****Asset-Liability Profile (%)**

Adv./Deposit Ratio	69.4	70.8	75.6	74.4	74.4
CASA Ratio	35.0	32.2	30.6	29.0	29.5
Invest./Deposit Ratio	33.8	29.6	28.4	27.0	25.7
G-Sec/Invest. Ratio	71.6	75.0	77.5	81.5	85.7
Gross NPAs to Adv.	3.7	2.4	1.7	2.0	2.1
Net NPAs to Adv.	1.5	0.7	0.5	0.6	0.8
CAR	10.8	11.6	12.0	11.3	10.9
Tier 1	6.8	6.7	7.7	7.3	6.9

VALUATION

Book Value (Rs)	98.0	117.7	168.8	206.2	248.5
Price-BV (x)	3.5	2.9	2.0	1.7	1.4
Adjusted BV (Rs)	85.0	109.3	161.5	196.4	231.8
Price-ABV (x)	4.0	3.1	2.1	1.7	1.5
EPS (Rs)	14.4	23.0	38.2	44.7	50.9
EPS Growth (%)	106.0	60.2	66.1	17.1	13.8
Price-Earnings (x)	23.8	14.9	9.0	7.7	6.7
OPS (Rs)	34.9	49.1	70.4	82.3	95.0
OPS Growth (%)	16.5	40.8	43.4	17.0	15.4
Price-OP (x)	9.8	7.0	4.9	4.2	3.6

E: Most Estimates

N O T E S



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Bank of India

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.