



## NEUTRAL

Price	Rs319
Target Price	-
Investment Period	-

### Stock Info

Sector	Banking
Market Cap (Rs cr)	16,742
Beta	0.9
52 WK High / Low	333/180
Avg Daily Volume	596245
Face Value (Rs)	10
BSE Sensex	15,332
Nifty	4,564

BSE Code	532149
NSE Code	BANKINDIA
Reuters Code	BOI.BO
Bloomberg Code	BOI@IN

### Shareholding Pattern (%)

Promoters	64.5
MF/Banks/Indian FIs	14.5
FII/ NRIs/ OCBs	14.6
Indian Public	6.4

Abs.	3m	1yr	3yr
Sensex (%)	39.4	6.8	43.6
Bank of India (%)	27.1	8.1	189.4

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## Performance Highlights

- Slowdown in Balance Sheet growth:** The bank's growth in Advances slowed from 27.5% yoy in 4QFY2009 to 20.3% yoy in 1QFY2010, and growth in deposits slowed down from 26.5% to 22.5% over the same period. The Bank's CASA ratio improved by 100bp, sequentially, to 32% of Domestic Deposits (26.3% of overall Deposits), on the back of a healthy 5.5% sequential growth.
- NIMs fall more than expected:** While a sequential fall in NIMs was expected, the bank reported a larger-than-expected fall of 56bp in reported NIMs, as the yield on assets came down sharply by 60bp on the back of PLR cuts and lower-yielding investments, even as the cost of funds declined by only 30bp. This led to a sequential de-growth of 9% in Net Interest Income, in spite of the reasonably healthy balance sheet growth.
- Slowdown in Non-Interest Income growth:** On the Non-interest income front, the bank booked substantial treasury profits of Rs240cr, during the quarter, in line with sectoral trends. However, this could add only limited support to the bottom-line, as the bank faced a sharp slowdown in other segments. Forex-related income declined by a substantial 68%, on a sequential and a yoy basis, and recoveries were down 62% yoy and 40% qoq. Core Fee income also declined 15%, sequentially, on slowing balance sheet growth.
- Large slippages:** The Bank reported gross additions to NPAs (slippages) of Rs594cr, almost twice as much as those in 1QFY2009. As a result, the Gross NPA ratio increased by a substantial 20bp, sequentially, to 1.9%. The NPA provision coverage declined to 55.7%, though this was partly on account of the RBI guideline to treat floating provision as part of Tier 2 capital, instead of netting against NPAs. Further details regarding restructuring, etc. were not yet available from the management.
- Net Profit grew 4%:** The Bank reported a Net Profit growth of 4% yoy, to Rs584cr (Rs562cr), marginally below estimates, due to lower-than-expected NIMs and, consequently, lower Net Interest Income growth.

## Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>NII</b>	<b>4,229</b>	<b>5,499</b>	<b>6,050</b>	<b>6,913</b>
% chg	22.9	30.0	10.0	14.3
<b>Net Profit</b>	<b>2,009</b>	<b>3,007</b>	<b>2,850</b>	<b>3,029</b>
% chg	78.9	49.7	(5.2)	6.3
NIM (%)	2.7	2.8	2.6	2.5
<b>EPS (Rs)</b>	<b>38.2</b>	<b>57.2</b>	<b>54.2</b>	<b>57.6</b>
P/E (x)	8.3	5.6	5.9	5.5
P/BV (x)	1.9	1.5	1.2	1.1
P/ABV (x)	1.9	1.5	1.3	1.1
RoAA (%)	1.3	1.5	1.2	1.0
RoANW (%)	27.6	29.8	22.9	20.5

Source: Company, Angel Research

**Exhibit 1: Composition of Non-Interest Income**

Particulars (Rs cr)	1QFY2010	1QFY2009	yoy growth (%)	4QFY2009	qoq growth (%)
Commission, Exchange & Brokerage	263	230	14	311	(15)
Treasury Gains	240	68	253	224	7
Forex-related profits	36	113	(68)	118	(69)
Recovery in Written off Accounts	33	87	(62)	55	(40)
Other	74	68	9	77	(4)
Total Non-Interest Income	646	566	14	785	(18)
Core Non-Interest Income	337	298	13	388	(13)

Source: Company, Angel Research

- The Bank's SLR investments in the AFS Segment doubled sequentially to Rs10,036cr, leading to an overall sequential increase in the proportion of AFS securities from 21% to 28% of Total Domestic Investments.
- The Bank's Capital Adequacy, as per Basel 2 norms, was at a comfortable 13.3%, of which Tier 1 capital was 9.2%. The bank's leverage (Assets to Net Worth) at 20x is, however, already at the high-end of the range that we consider reasonable for PSU banks. Once the RBI withdraws the counter-cyclical relaxations in risk weightages implemented in the past two quarters and potentially recalibrates Basel 2 risk weightages for rated exposures (based on the view that the ongoing substantial release of capital being enjoyed by banks is an unintended outcome of Basel 2 implementation), Capital Adequacy ratios are likely to come down. This will be exacerbated by the expected increase in the credit/deposit ratio from 2HFY2010E onwards.
- Operating expenses continued to grow at a fast clip, increasing 26% yoy, driven by Other Operating Expense heads such as rent and core banking, which, together with pressure on core earnings, led to an increase in the cost-to-income ratio to a substantial 44%.
- The Bank's effective Tax rate continued to be volatile from quarter to quarter, increasing sequentially from 20.8% to 33%.

**Outlook and Valuation**

BOI is among the better performing large PSU Banks, with a balanced funding mix, moderate operating costs, efficient capital management and strong Fee Income. However, the Bank may experience higher Asset-quality pressures than its peers, on account of its Credit mix, which comprises of relatively larger SME and Retail book than the peers. We have reduced our earnings estimates for FY2010E by 13%, in light of the higher-than-expected slowdown in core income and high asset-quality deterioration. At the CMP, the stock is trading at 5.5x FY2011E EPS of Rs57.6 and 1.1x FY2011E Adjusted Book Value of Rs289.7. **We maintain a Neutral on the stock.**

**Exhibit 2: 1QFY2010 Performance**

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Interest Earned	4,378	3,548	23.4	16,347	12,355	32.3
Interest Expenses	3,077	2,368	30.0	10,848	8,126	33.5
<b>Net Interest Income</b>	<b>1,301</b>	<b>1,181</b>	<b>10.1</b>	<b>5,499</b>	<b>4,229</b>	<b>30.0</b>
Non-Interest Income	646	566	14.0	3,052	2,117	44.2
Total Income	1,946	1,747	11.4	8,551	6,346	34.7
Operating Expenses	853	675	26.4	3,094	2,645	17.0
Pre-Prov. Profit	1,094	1,072	2.0	5,457	3,701	47.4
Provisions & Cont.	223	349	(36.0)	1,292	1,017	27.1
PBT	870	723	20.3	4,164	2,685	55.1
Prov. for Taxes	286	161	77.1	1,157	675	71.3
<b>PAT</b>	<b>584</b>	<b>562</b>	<b>4.0</b>	<b>3,007</b>	<b>2,009</b>	<b>49.7</b>
EPS (Rs)	11.1	10.7	4.0	57.2	38.2	49.7
Cost to Income (%)	43.8	38.6		36.2	41.7	
Effective Tax Rate (%)	32.9	22.3		27.8	25.2	
Net NPA (%)	0.8	0.5				

Source: Company, Angel Research



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Ratings (Returns) : **Buy (Upside > 15%)**  
**Reduce (Downside upto 15%)**

**Accumulate (Upside upto 15%)**  
**Sell (Downside > 15%)**

**Neutral (5 to -5%)**