

## Bank of India (BANIND)

### RESULT UPDATE ✓

#### WHAT'S CHANGED...

PRICE TARGET.....	Upgraded from Rs 267 to Rs 424
EPS (FY08E).....	Upgraded from 31.5 to Rs 34.5
EPS (FY09E).....	Upgraded from Rs 38.1 to Rs 41.5
RATING.....	Upgraded (HOLD to PERFORMER)

<b>Current price</b> Rs 362	<b>Target price</b> Rs 424
<b>Potential upside</b> 16%	<b>Time Frame</b> 12-15 months

### PERFORMER

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## High-growth PSU bank

For the second quarter in a row, Bank of India registered a 100% jump in net profit to Rs 512 crore in Q3FY08 from Rs 255 crore in the corresponding quarter the previous year. Net interest income also showed a comparatively a better performance than other public sector banks growing by 26% to Rs 1,079 crore on account of advances growth of healthy 30%, when the overall industry grew by just 23-24%.

On the NIMs front, the bank exhibited reasonable improvement as NIMs rose from 2.97% in Q3FY07 to 3.14% in Q3FY08. Even on a sequential basis, NIMs improved from 3.06% of Q2FY08. Despite the rise in the cost of funds, the bank was able to report higher NIMs as the yield on advances rose by 115 bps to 9.58%. We expect the bank to maintain NIMs of 3.07%-3.15% through FY07-09E.

Other income growth was a stellar 72% y-o-y, with trading gains growing 111% much higher than expectations. Fee income growth was also strong for the bank as a whole for the quarter and nine-month FY08.

With QIP placement in line for 3.8 crore shares by the bank, where government is divesting 5% stake, we expect bank to get richer valuation higher than its peers due to high growth, good CASA and lower NPAs.

### Valuations

At the current price of Rs 362, the stock trades at 2.0x its FY09E ABV of Rs 184 (post-dilution). We have revised earnings to grow at 40% CAGR over FY07-09E. With private placement being book accretive and expected to fuel further balance sheet expansion, we continue to remain positive on the prospects of the bank and rate the stock a performer with a revised target price of Rs 424, valuing the bank at 2.3x FY09E ABV. Due to its high growth, we give it a premium compared to its peers.

#### Exhibit 1: Key Financials

(Rs crore)

Year to March	Q3FY08	Q3FY07	% change	FY08E	FY09E
Net Interest Income	1079	859	26%	5738.0	4603.0
Non Interest Income	554	322	72%	1900.3	1764.1
Total Income	1634	1181	38%	7638.0	6367.0
Staff expenses	450	384	17%	1967.1	1779.7
Other expenses	212	244	-13%	1395.7	1164.6
Total Operating Expenses	662	628	5%	3362.8	2944.3
Operating profit	971	553	76%	4275.7	3422.3
Total provisions	231	229	1%	1237.2	1080.6
PBT	740	325	128%	3038.0	2342.0
Tax	228	70	227%	850.8	655.7
PAT	512	255	101%	2188.0	1686.0

Source: ICICIdirect Research

## **RATING RATIONALE**

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer:** 20% or more

**Performer:** Between 10% and 20%

**Hold:**  $\pm$ 10% return

**Underperformer:** -10% or more

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