

29 January 2013

Bank of India

Core earnings weak, lower taxes drive profits; Sell

Rating: **Sell**

Target Price: ₹342

Share Price: ₹355

Key takeaways

Credit growth modest, NIM declines. At 20% yoy, the Bank of India's advances growth was modest on account of subdued growth in corporate (18.4% yoy) and SME (4.5% yoy). Deposits grew slower than credit at 13.6% yoy, resulting in credit-to-deposits increasing 422bps yoy to 79.2%. Adjusting for the interest on income tax refund, NIM declined 32bps yoy (12bps qoq) to 2.31%, led by a 37-bp yoy (10-bp qoq) drop in the share of CASA to 25.2%. We estimate a 25.4% CAGR in business over FY12-15, with CAGRs of 23.6% in advances and 26.7% in deposits over the same period.

Fee-based income weak, productivity declines. While core fee-income declined 8.6% yoy, treasury profits grew 20.8% yoy and comprised 4.6% of pre-provisioning profits (4.1% in 3QFY12). Also, income on foreign exchange transactions (₹1.8bn) and recoveries (₹2.46bn) supported non-interest income growth of 10% yoy. Productivity suffered, with core cost-income rising 229bps yoy (261bps qoq) to 44% and cost-to-assets rising 10bps qoq to 1.42%.

Asset quality improves, yet high slippages persist. Despite fresh slippages of ₹12.2bn (2.1% of loans), gross NPA fell 3.1% qoq, led by aggressive write-offs of ₹8.1bn. During the quarter, the bank saw fresh restructuring of ₹22.1bn (annualized, 3.8% of loans), with total restructured loans at ₹181.4bn (6.6% of overall loans). With tier-1 capital of 7.6%, the bank's capital cushion is stretched by the high restructured book and net NPA (1.97%). Perceptions of default risk would persist until the economic environment improves, restricting a sharp short-term valuation re-rating.

Our take. We expect the bank's modest core earnings and high NPA provisioning to hold its RoE below its past peak. Hence, we maintain our Sell rating. At our Mar'14 target, the stock would trade at a PABV of 1x FY13e and 0.8x FY14e. Our target is based on the two-stage DDM (CoE: 15.5%; beta: 1.2; Rf: 8%). **Risk:** Sharp improvement in asset quality.

Quarterly results (YE: Mar)	3QFY12	3QFY13	% yoy	9MFY12	9MFY13	% yoy
Net interest income (₹m)	20,675	23,085	11.7	58,124	65,480	12.7
Non-interest income (₹m)	8,522	9,371	10.0	23,541	26,721	13.5
Operating expenses (₹m)	11,878	13,898	17.0	34,871	38,367	10.0
Cost-to-income (%)	40.7	42.8	214bps	42.7	41.6	(109)bps
Pre-provisioning profit (₹m)	17,319	18,558	7.2	46,793	53,834	15.0
Provisions (₹m)	6,931	9,158	32.1	24,147	29,401	21.8
PBT (₹m)	10,388	9,400	(9.5)	22,647	24,433	7.9
Tax (₹m)	3,227	1,365	(57.7)	5,399	4,505	(16.6)
PAT (₹m)	7,161	8,035	12.2	17,248	19,928	15.5
EPS (₹)	13.1	14.0	6.9	31.6	34.7	10.0

Source: Company, Anand Rathi Research

Key data	BOI IN / BOI.BO
52-week high / low	₹408 / ₹254
Sensex / Nifty	20103 / 6075
3-m average volume	US\$6.8m
Market cap	₹204bn / US\$3.8bn
Shares outstanding	574.5m

Shareholding pattern (%)	Dec-12	Sep-12	Jun-12
Promoters	62.7	62.7	62.7
- of which, Pledged	-	-	-
Free Float	37.3	37.3	37.3
- Foreign Institutions	14.1	14.4	15.0
- Domestic Institutions	16.5	16.2	16.1
- Public	6.7	6.7	6.2

Financials (YE: Mar)	FY13e	FY14e
Net interest income (₹m)	91,144	118,526
Net profit (₹m)	31,693	48,153
EPS (₹)	55.2	83.8
Growth (%)	18.4	51.9
PE (x)	5.8	3.8
PABV (x)	1.1	0.9
RoE (%)	14.2	18.8
RoA (%)	0.8	0.9
Dividend yield (%)	2.3	3.5
Net NPA (%)	1.8	1.7

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net interest income	78,107	83,134	91,144	118,526	150,822
NII growth (%)	35.7	6.4	9.6	30.0	27.2
Non-interest inc	26,418	33,212	37,642	41,336	45,737
Total income	104,525	116,346	128,786	159,862	196,559
Total Inc growth (%)	24.8	11.3	10.7	24.1	23.0
Op. expenses	50,682	49,407	53,446	68,581	85,896
Operating profit	53,842	66,939	75,340	91,281	110,663
Op profit growth (%)	14.4	24.3	12.5	21.2	21.2
Provisions	18,888	31,164	36,213	31,090	36,896
PBT	34,954	35,775	39,127	60,191	73,767
Tax	10,067	9,000	7,434	12,038	16,598
PAT	24,887	26,775	31,693	48,153	57,169
PAT growth (%)	42.9	7.6	18.4	51.9	18.7
FDEPS (₹/share)	45.5	46.6	55.2	83.8	99.5
DPS (₹/share)	7.0	7.0	8.3	12.6	14.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	5,472	5,745	5,745	5,745	5,745
Reserves & surplus	167,435	203,873	230,057	269,841	317,075
Deposits	2,988,858	3,182,160	3,708,303	5,183,885	6,479,856
Borrowings	349,961	453,577	514,991	584,956	664,687
Minority interests	-	-	-	-	-
Total liabilities	3,511,725	3,845,355	4,459,097	6,044,427	7,467,363
Advances	2,130,962	2,488,333	2,929,559	3,758,316	4,697,895
Investments	858,724	867,536	964,159	1,503,327	1,879,158
Cash & bank bal	373,100	347,113	418,228	583,318	643,886
Fixed & other assets	148,940	142,373	147,150	199,466	246,423
Total assets	3,511,725	3,845,355	4,459,097	6,044,427	7,467,363
No. of shares (m)	547	575	575	575	575
Deposits growth (%)	30.1	6.5	16.5	39.8	25.0
Advances growth (%)	26.5	16.8	17.7	28.3	25.0

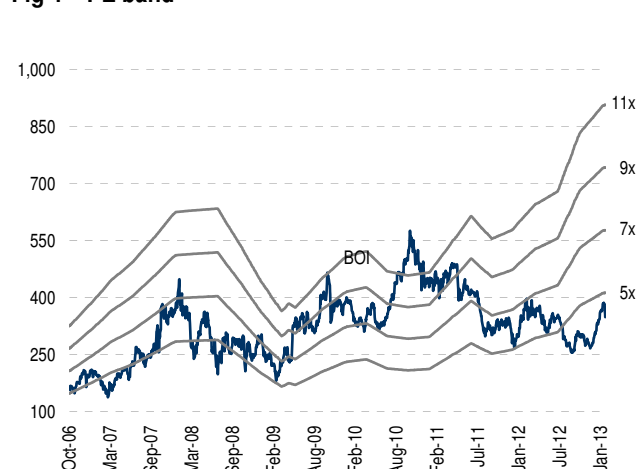
Source: Company, Anand Rathi Research

Fig 3 – Key ratios

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
NIM (%)	2.6	2.4	2.3	2.3	2.3
Other inc / total inc (%)	25.3	28.5	29.2	25.9	23.3
Cost-income (%)	48.5	42.5	41.5	42.9	43.7
Provision coverage (%)	59.6	38.0	38.0	30.3	26.9
Dividend payout (%)	15.4	15.0	15.0	15.0	15.0
Credit-deposit (%)	71.3	78.2	79.0	72.5	72.5
Investment-deposit (%)	28.7	27.3	26.0	29.0	29.0
Gross NPA (%)	2.3	2.4	3.0	2.4	2.0
Net NPA (%)	0.9	1.5	1.8	1.7	1.5
BV (₹)	316.0	364.9	410.4	479.7	561.9
Adj. BV (₹)	256.3	279.7	295.1	348.0	419.9
CAR (%)	12.3	12.1	11.4	10.2	9.5
- Tier 1 (%)	8.5	8.7	8.3	7.5	7.1
RoE (%)	15.8	14.0	14.2	18.8	19.1
RoA (%)	0.8	0.7	0.8	0.9	0.8

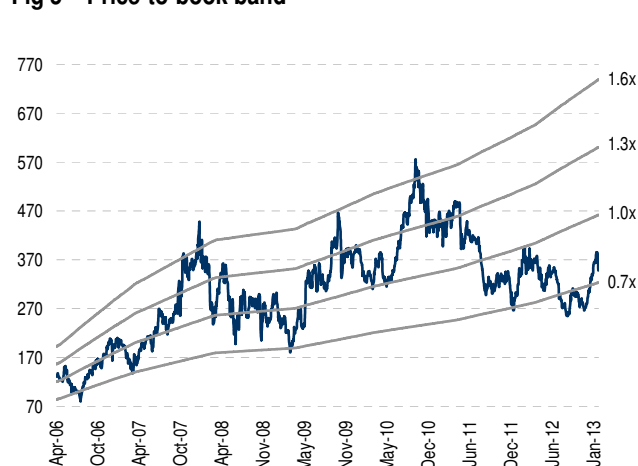
Source: Company, Anand Rathi Research

Fig 4 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 5 – Price-to-book band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Bank of India vs. Bankex



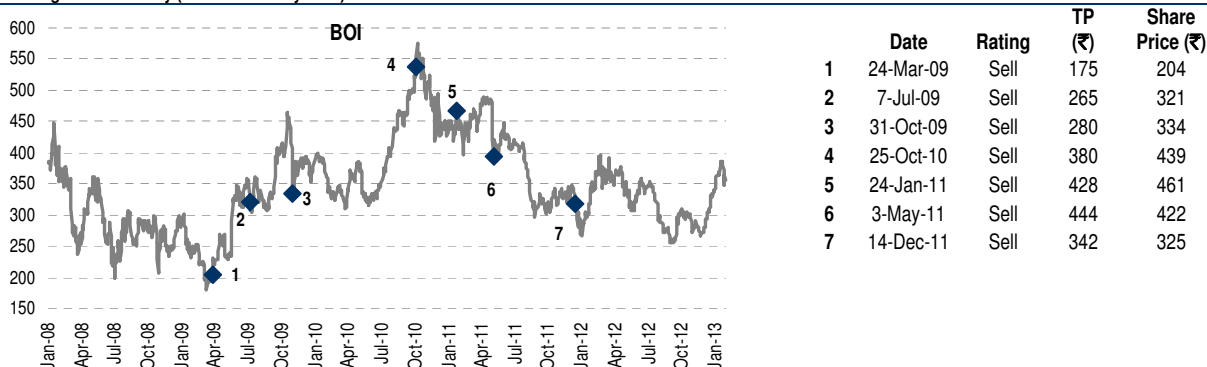
Source: Bloomberg

Appendix

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