

28 January 2013

**BUY**

TP: INR 440.00

▲ 23.9%

# Bank of India

BOI IN

## On the path to recovery

**BOI reported a good Q3FY13 with improvement in asset quality and strong advances growth. Slippages moderated to Rs 12.2bn (2% of advances) and restructuring stood at Rs 22bn. While NIMs contracted 7bps QoQ, the management is confident of a sharp improvement in 4Q along with lower slippages and better LDR. We believe asset quality issues have peaked out for BOI and the risk-reward is favourable at current valuations (0.8x FY14 BV) given the improvement in asset quality, peaking of rates and a likely growth pick up. We roll over to a Mar'14 TP of Rs 440 (from Rs400 earlier).**

- ➔ **Improvement in asset quality:** Slippages in 3Q fell sharply to Rs 12.2bn, 55% of which were from a single account in the Iron & Steel sector. Also, recoveries and upgrades could be strong in the coming quarters as ~65% of total GNPA's are of sub-standard category. Incremental restructuring was at Rs 22bn, ~40% of which emanated from a single textile group. Repayments from restructured accounts were strong at Rs 18bn, resulting in an addition of only Rs 2.8bn to net restructuring. Advances grew at a robust 7.7% QoQ (infrastructure segment growing only by 3% QoQ). PAT in 3Q stood at Rs8bn (up 12% YoY; 166% QoQ).
- ➔ **Reported NIMs lower QoQ; improvement likely:** Though BOI saw a compression of 7bps QoQ in NIMs (4bps in domestic to 2.8%; 10bps in international to 1.13%) on a reported basis, the management indicated that adjusted for Rs 1.3bn of interest on tax, NIMs would have been at ~2.5%. The cost of funds declined by ~21bps largely due to lower cost of deposits (down 10bps) on de-bulking and an improved CASA ratio (up 100bps QoQ to 32.8%). Management expects sharp NIM expansion led by lower slippages, better LDRs, higher international NIMs and de-bulking of deposits.
- ➔ **Upbeat outlook, attractive valuations; maintain BUY:** With asset quality problems likely to have peaked out, we expect the stock to re-rate from current levels given the likely improvement in ROEs. Current valuations (at 0.8x FY14BV) are attractive. We roll over to a March'14 TP of Rs 440, valuing the stock at 1x FY14 BV.

### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income (INR mln)	78,106	83,134	90,951	110,260	130,294
Net revenues (INR mln)	104,524	116,346	128,078	151,548	175,055
Pre-provision profits (INR mln)	53,842	66,939	72,949	87,924	101,888
Adj. PAT (INR mln)	24,887	26,775	28,129	38,049	45,086
Adj. EPS (INR)	45.5	46.6	49.0	66.2	78.5
ROE (%)	17.3	15.0	13.5	16.1	16.7
ROA (%)	0.8	0.7	0.7	0.8	0.8
Gross NPA (%)	2.2	2.3	3.0	3.0	3.1
Tier I ratio (%)	8.3	8.7	8.2	7.9	7.6
P/BV (x)	1.6	1.1	0.9	0.8	0.7
P/E (x)	10.5	7.8	7.3	5.4	4.5

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (28 Jan 13)

INR 355.25

MARKET CAP

INR 204,098 mln

USD 3,786 mln

SHARES O/S

574.5 mln

FREE FLOAT

37.3%

3M AVG DAILY VOLUME./VALUE

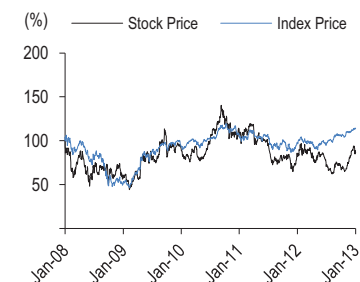
1.1 mln/ USD 7.0 mln

52 WK HIGH

INR 396.90

52 WK LOW

INR 255.00



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Results Review

**INDIA**  
FINANCIALS**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	45.5	46.6	49.0	66.2	78.5
Adjusted EPS	45.5	46.6	49.0	66.2	78.5
DPS	7.0	7.0	7.6	10.2	12.1
Book value	291.9	343.3	383.5	437.8	502.1
Adjusted book value	266.6	295.7	307.2	361.0	416.4

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
P/E	10.5	7.8	7.3	5.4	4.5
P/BV	1.6	1.1	0.9	0.8	0.7
P/ABV	1.8	1.2	1.2	1.0	0.9

**Financial Ratios**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Spread Analysis</b>					
Yield on advances	8.1	8.8	8.6	8.6	8.6
Yield on investments	6.8	8.3	8.2	8.2	8.2
Cost of funds	4.9	6.0	6.1	6.0	6.0
NIMs	2.6	2.4	2.3	2.3	2.3
<b>Operating Ratios</b>					
Operating cost to income	48.5	42.5	43.0	42.0	41.8
Operating expenses / Avg assets	1.6	1.3	1.3	1.3	1.3
Proportion of CASA deposits	25.4	26.7	25.5	25.5	25.5
Non-int inc / Total income	25.3	28.5	29.0	27.2	25.6
Credit / Deposit ratio	71.3	78.2	78.7	78.7	78.7
Investment / Deposit	28.7	27.3	26.8	26.7	26.9
<b>Asset Quality and Capital</b>					
Gross NPA	2.2	2.3	3.0	3.0	3.1
Net NPA	0.9	1.5	1.9	1.8	1.7
Coverage ratio	59.6	38.0	37.0	42.0	45.1
CAR	12.2	12.0	11.8	11.5	11.2
Tier I ratio	8.3	8.7	8.2	7.9	7.6
<b>Growth Ratios</b>					
Net interest income	35.7	6.4	9.4	21.2	18.2
Non-interest income	1.0	25.7	11.8	11.2	8.4
Non-interest income (ex-treasury)	14.7	25.5	12.9	13.4	10.4
Pre-provisioning profit	14.4	24.3	9.0	20.5	15.9
Net profit	42.9	7.6	5.1	35.3	18.5
Assets	27.9	9.6	17.6	17.4	17.4
Advances	26.5	16.8	19.0	18.0	18.0
Deposits	30.1	6.5	18.3	18.0	18.0
Book value	19.9	17.6	11.7	14.2	14.7
EPS	37.4	2.5	5.1	35.3	18.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	2.5	2.3	2.2	2.3	2.3
Non-interest income / Assets	0.8	0.9	0.9	0.8	0.8
Operating expenses / Assets	1.6	1.3	1.3	1.3	1.3
Provisions / Assets	0.6	0.9	0.9	0.7	0.7
Taxes / Assets	0.3	0.2	0.2	0.3	0.3
ROA	0.8	0.7	0.7	0.8	0.8
Equity / Assets	4.6	4.9	5.0	4.8	4.7
<b>ROAE</b>	<b>17.3</b>	<b>15.0</b>	<b>13.5</b>	<b>16.1</b>	<b>16.7</b>

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**Results Review****INDIA  
FINANCIALS****Profit and Loss Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Interest income	217,517	284,807	324,666	383,048	451,027
Interest expense	(139,411)	(201,673)	(233,715)	(272,787)	(320,733)
Net interest income	78,106	83,134	90,951	110,260	130,294
Non-interest income	26,418	33,212	37,128	41,288	44,762
Non-interest income (ex-treasury)	23,199	29,124	32,878	37,288	41,162
Net revenue	104,524	116,346	128,078	151,548	175,055
Operating expenses	(50,682)	(49,407)	(55,130)	(63,624)	(73,167)
Pre-provision profits	53,842	66,939	72,949	87,924	101,888
Provisions & contingencies	(18,888)	(31,164)	(36,886)	(34,335)	(37,480)
PBT	34,953	35,775	36,063	53,590	64,408
Extraordinaries	0	0	0	0	0
Income tax	(10,067)	(9,000)	(7,934)	(15,541)	(19,323)
Reported PAT	24,887	26,775	28,129	38,049	45,086
<b>Adj. net profit</b>	<b>24,887</b>	<b>26,775</b>	<b>28,129</b>	<b>38,049</b>	<b>45,086</b>

**Balance Sheet**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Cash in hand & bal with RBI	217,824	149,867	175,345	205,153	230,797
Bal with banks, money at call	155,276	197,245	230,777	270,009	303,760
Investments	858,724	867,536	1,007,203	1,185,421	1,408,650
Advances	2,130,962	2,488,333	2,961,117	3,494,118	4,123,059
Fixed assets (net)	24,807	27,716	28,409	29,119	31,303
Other assets	110,938	102,298	105,164	108,103	117,137
<b>Total Assets</b>	<b>3,498,531</b>	<b>3,832,996</b>	<b>4,508,015</b>	<b>5,291,922</b>	<b>6,214,706</b>
Equity capital	5,472	5,745	5,745	5,745	5,745
Reserves & surplus	154,240	191,514	214,579	245,779	282,750
Net worth (ex-pref capital)	159,712	197,259	220,325	251,524	288,495
Preference capital	0	0	0	0	0
Deposits	2,988,858	3,182,160	3,762,905	4,440,227	5,239,468
- CASA deposits	759,676	848,056	959,541	1,132,258	1,336,064
- Term deposits	2,229,182	2,334,105	2,803,364	3,307,969	3,903,404
Borrowings (+sub-ord bonds)	220,214	321,142	379,108	439,925	510,473
Other liabilities & provisions	129,747	132,434	145,678	160,245	176,270
<b>Total Equity &amp; Liabilities</b>	<b>3,498,531</b>	<b>3,832,996</b>	<b>4,508,015</b>	<b>5,291,922</b>	<b>6,214,706</b>