

RESULTS

REVIEW

Bank of India

Running ahead of fundamentals

REDUCE

Analysts

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Nifty: 6,075; Sensex: 20,103

CMP	Rs355
Target Price	Rs311
Potential Upside/Downside	(12)%

Key Stock Data

Sector	Banking
Bloomberg / Reuters	BOI IN / BOI.BO
Shares o/s (mn)	574
Market cap. (Rs mn)	203,692
Market cap. (US\$ mn)	3,778
3-m daily average vol.	136,888

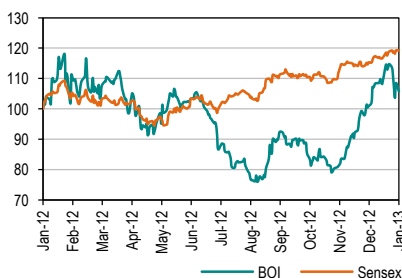
Price Performance

52-week high/low	Rs408/254
	-1m -3m -12m
Absolute (%)	5 27 6
Rel to Sensex (%)	1 19 (13)

Shareholding Pattern (%)

Promoters	62.7
FII/IRIs/OCBs/GDR	14.5
MFs/Banks/FIs	16.5
Non Promoter Corporate	0.8
Public & Others	5.5

Relative to Sensex



Source: Capitaline

Summary

Bank of India (BoI) PAT stood at Rs8 bn (IDBIest Rs6.7 bn), up 12.2%/166% YoY/QoQ. Higher than expected PAT was led by lower than expected tax provisions (tax rate stood at 15% as against estimated 26%). The bank prudently wrote off Rs8.1 bn, which provided tax benefit. Net Interest Income (NII) stood at Rs23.1 bn (IDBIest Rs24.2 bn), up 11.7%/5.1% YoY/QoQ. Overall margin slipped 6bps sequentially to 2.36% led by reduction in international margin.

Lower than estimated slippages, higher write off and lower tax rate has led to higher than estimated bottom line performance. Going ahead, the new management has guided better recovery and improvement in the return ratios. The bank has also indicated that they still have buffer provision left for taxation. We cut our tax rate assumption (from 30% to 22%) and revise our earnings estimates upwards by 3.4%/3% at Rs28.1 bn/Rs34.9 bn for FY13/FY14. The management seems confident about declining trend in slippages and better recovery in future but BoI has history of inconsistent performance in this area.

We estimate RoA of 0.6%/0.7% for FY13/FY14 and RoE of 12.5% and 13.7% for the same period. Further, we estimate ABV of Rs299.1/345.6 for FY13/FY14 (after taking Rs8.1 bn infusion by GoI to be completed by FY13-end). We believe that current valuation of 1.2x/1x on our FY13E/FY14E ABV is expensive factoring its inconsistency in performance and lower return ratios. We value the stock at 0.9x its FY14E adjusted book value of Rs345.6, translating to price target of Rs311.

Key Highlights

- Lower delinquencies but consistency is key

Slippages stood at Rs12.2 bn as against Rs27.3 bn of last quarter. Up gradation and recovery stood at ~Rs6.8 bn as against Rs5.2 bn of last quarter. Further, the bank has written off Rs8.1 bn this quarter. Lower slippages and huge write off has led to QoQ decrease in GNPA by Rs2.7 bn. However, NNPA has increased by Rs2.3 bn due to lower specific provisions. The bank has restructured Rs22.1 bn in Q3FY13 as against Rs8.1 bn in last quarter. ~Rs7 bn of total restructuring done this quarter consists of one large textile account.

- Recovery led other income growth

Despite moderated fee income growth, recovery of Rs2.5 bn has led to other income growth of 10%/4.8% YoY/QoQ to Rs9.4 bn. Fee income stood at Rs2.9 bn, down 8.6% YoY. Trading income grew 46% YoY to Rs1.8 bn in this quarter.

- Valuation and Outlook: Downgrade to REDUCE

BoI reported RoA of 0.7% as against 0.3% and RoE of 13.8% as against 6% of last quarter. Moreover, inconsistency in performance and lower return ratios will continue to be a drag on its valuation. We value the bank at 0.9x its FY14E adjusted book value of Rs345.6, translating to a price target of Rs311. Due to recent rally in stock, we downgrade the stock to **REDUCE**.

Table: Financial snapshot

Year-end	NII	PAT	BV	ABV	P/BV	P/ABV	ROA	ROE	CAR	Div. yield	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(Rs)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)
FY11	78.1	24.9	283.4	253.7	1.3	1.4	0.7	15.8	12.2	2.0	2.3	0.9
FY12	83.1	26.8	326.5	273.8	1.1	1.3	0.7	14.0	12.0	2.0	2.4	1.5
FY13E	90.3	28.1	365.3	299.1	1.0	1.2	0.6	12.5	11.2	2.3	3.1	1.7
FY14E	105.8	34.9	412.1	345.6	0.9	1.0	0.7	13.7	11.0	2.8	2.9	1.5

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs bn)

Year-end: March	Q3FY13	Q3FY12	% YoY	Q2FY13	% QoQ
Interest Earned	80.2	71.5	12.2	80.1	0.2
- Interest/Discount on Advance/Bills	57.9	51.7	12.0	58.8	(1.5)
- Income on Investments	18.1	18.4	(1.7)	18.4	(1.4)
- Int on RBI bal	3.0	1.8	63.1	2.9	2.9
Interest Expense	57.1	50.8	12.4	58.1	(1.6)
Net Interest income	23.1	20.7	11.7	22.0	5.1
Other Income	9.4	8.5	10.0	8.9	4.8
- Fee and Other Income	2.9	3.2	(8.6)	2.9	1.8
- Trading Income	1.8	1.2	46.2	1.8	(1.5)
- Treasury Profit	0.9	0.7	20.8	1.0	(16.7)
Net Operating Income (NOI)	32.5	29.2	11.2	30.9	5.0
Operating Expenses	13.9	11.9	17.0	12.4	12.4
- Employee cost	8.3	7.6	9.8	7.0	19.1
- Other Costs	5.6	4.3	29.8	5.4	3.8
Operating Profit	18.6	17.3	7.2	18.5	0.1
Prov for Contingencies	9.2	6.9	32.1	15.5	(41.0)
- For NPAs	5.9	3.3	77.5	14.8	(60.0)
- For Investment Depreciation	0.2	(1.2)	-	(0.1)	-
- Others	1.3	2.4	-	0.4	253.8
PBT	9.4	10.4	(9.5)	3.0	211.3
Tax	1.4	3.2	-	0.0	-
PAT	8.0	7.2	12.2	3.0	166.2
Equity	5.7	5.5		5.7	
EPS (Rs)	14.0	13.1		5.3	

Source: Company; IDBI Capital Research

Table: Balance sheet

(Rs bn)

Year-end: March	Q3FY13	Q3FY12	% YoY	Q2FY13	% QoQ
Advances	2,764.9	2,303.5	20	2,561.5	7.9
Deposit	3,491.2	3,072.5	14	3,326.9	4.9
CASA (%)	33.8	32.4		32.8	
CD Ratio (%)	79.2	75.0		77.0	
ID Ratio (%)	24.7	27.9		27.1	

Source: Company; IDBI Capital Research

Table: Ratios

(%)

Year-end: March	Q3FY13	Q3FY12	% YoY	Q2FY13	% QoQ
NIMs	2.5	2.6	-	2.4	-
Int. exp/Int earned	71.2	71.1	-	72.6	-
Cost/income ratio	42.8	40.7	-	40.0	-
Gross NPA	3.1	2.7	-	3.4	-
Net NPA	2.0	1.8	-	2.0	-
Provision Coverage	60.7	60.9	-	61.0	-

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Interest earned	217.5	284.8	311.2	351.9
Interest expended	139.4	201.7	220.9	246.1
NII	78.1	83.1	90.3	105.8
Other Income	26.4	33.2	36.2	40.0
Fee Based	11.8	12.7	13.7	15.0
Trading & Forex	5.0	5.9	5.9	5.3
Treasury Profit	3.2	4.1	2.4	2.2
Net Opt. Inc. (NOI)	104.5	116.3	126.5	145.8
Employee Cost	34.8	30.5	33.4	39.1
Opt. Expenses	15.9	18.9	22.1	26.9
Opt. Profit	53.8	66.9	71.1	79.8
Provisions	18.9	31.2	35.0	32.0
Profit before tax	35.0	35.8	36.1	47.8
Net Profit	24.9	26.8	28.1	34.9

Balance Sheet

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Capital	5.5	5.7	6.0	6.0
Net Worth	172.9	209.6	240.2	268.2
Deposit	2,988.9	3,182.2	3,681.0	4,350.0
Total Liab. & Equity	3,511.7	3,845.4	4,384.2	5,113.2
Investments	855.4	867.5	1,017.3	1,199.7
Advances	2,131.0	2,488.3	2,870.5	3,320.0
Total Assets	3,511.7	3,845.4	4,384.2	5,113.2

Growth

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Deposits	30.1	6.5	15.7	18.2
Advances	26.5	16.8	15.4	15.7
Total Assets	27.7	9.5	14.0	16.6
NII	35.7	6.4	8.6	17.1
Other Income	1.0	25.7	9.1	10.5
Net Profit	42.9	7.6	5.1	24.0

Productivity

Year-end: March	FY11	FY12	FY13E	FY14E
Bus./Employee (mn)	127.4	139.4	159.8	187.1
Profit/Employee ('000)	619.5	658.3	686.2	850.7
Bus./Branch (mn)	1,467.0	1,493.0	1,638.7	1,918.5
NP/Branch (mn)	7.1	7.0	7.0	8.7
CASA Per Branch	217.7	223.3	257.9	313.5

Opt. Ratio

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Int Exp/Int Earned	64.1	70.8	71.0	69.9
Cost/NOI	48.5	42.5	43.8	45.3
Cost/NOI (Ex. treasury inc.)	50.0	44.0	44.7	46.0
Other Income/NOI	25.3	28.5	28.6	27.5
Ot. Inc. (ex. treasury)/NOI	22.2	25.0	26.8	25.9
NPM	23.8	23.0	22.2	23.9

Spreads

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
NII/Avg Total Assets	3.0	2.3	2.2	2.2
NII/Avg Int Earning Assets	3.3	2.5	2.4	2.4
NIMs	2.8	2.5	2.3	2.3
CASA	30.0	34.1	35.0	36.2
Avg Int earnings assets	2,828.5	3,349.0	3,814.6	4,409.5
Avg Int bearing liabilities	2,865.3	3,356.2	3,747.7	4,352.5

Solvency

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Credit-Deposit Ratio	71.3	78.2	78.0	76.3
Incremental CD Ratio	64.5	184.9	76.6	67.2
Investment/Deposit Ratio	28.7	27.3	28.0	28.0
GNPA Ratio	2.3	2.4	3.1	2.9
Prov. Cover	64.7	39.9	58.7	50.5
NNPA Ratio	0.9	1.5	1.7	1.5
CAR	12.2	12.0	11.2	11.0
Tier 1	8.3	8.6	8.2	8.0
Tier 2	3.8	3.4	3.1	3.0

Return

Year-end: March	FY11	FY12	FY13E	FY14E
ATA (Avg. Total Assets)	3,130.6	3,678.5	4,114.8	4,748.7
Total Busi. (Dep + Adv)	5,119.8	5,670.5	6,551.6	7,670.0
Interest Income / ATA (%)	6.9	7.7	7.6	7.4
PBT / ATA (%)	1.1	1.0	0.9	1.0
PAT / ATA (%)	0.8	0.7	0.7	0.7
ROA (%)	0.7	0.7	0.6	0.7
ROE (%)	15.8	14.0	12.5	13.7
Assets / Equity	19.9	19.2	18.3	18.7

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
P/E (x)	7.8	7.6	7.5	6.1
P/BV (x)	1.3	1.1	1.0	0.9
Price / Adj Bk Value (x)	1.4	1.3	1.2	1.0
Book Value/share (Rs)	283.4	326.5	365.3	412.1
Adj Book Value (Rs)	253.7	273.8	299.1	345.6



Notes

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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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