

## Asset quality concerns refuse to die

**Bol's Q3FY13 core performance came largely in line though bottom-line performance was below our expectations led by a spike in provisions. Though slippages eased QoQ, it remained high at ~2% but was offset by aggressive write-offs, optically improving %GNPA. We maintain Neutral rating with our revised fair value estimate on the stock as we expect the stock to underperform the sector and broader markets due to volatility in the asset quality matrix.**

- **NIM stable QoQ:** The in line NII performance (up 11.7% YoY) was driven by a sequentially flattish NIM along with 15.5% advances growth YoY. NIM stood flattish QoQ as the benefit of lower cost of funds was offset by 35bps contraction in loan yields (due to interest income reversal). While NIM can improve in quarters to come, big-ticket restructuring or slippages remain a key risk. We retain our conservative NIM assumptions (10 bps contraction over an already weak NIM in FY12).
- **Asset quality, a mixed bag:** Asset quality matrix remained a mixed bag with %GNPA coming off by 34bps QoQ though led by high write offs (explaining spike in provisions as well). The slippage rate at 1.9%, though lower than ~7% in the previous quarter, is still high. Standard restructured assets now form 6.5% of global loans though domestic restructured assets as % of domestic advances is high at 8.4%. We maintain our view that the restructured assets are likely to rise further in quarters ahead, though the quantum may be lesser. The management once again exuded confidence over improving asset quality matrix though we remain cautious.

Y/E March (Rsmn)	Q3FY13	Q3FY12	% YoY	% QoQ	Q3FY13E	Var %
Net Interest Income	23,085	20,676	11.7	5.1	23,369	(1.2)
Non-Interest Income	9,371	8,522	10.0	4.8	9,000	4.1
<b>Net Total Income</b>	<b>32,456</b>	<b>29,197</b>	<b>11.2</b>	<b>5.0</b>	<b>32,369</b>	<b>0.3</b>
Operating Expenses	13,898	11,878	17.0	12.4	13,020	6.7
<b>Pre-Prov. Profit</b>	<b>18,558</b>	<b>17,319</b>	<b>7.2</b>	<b>0.1</b>	<b>19,349</b>	<b>(4.1)</b>
Provisions	9,158	6,931	32.1	(41.0)	6,500	40.9
Profit Before Tax	9,400	10,388	(9.5)	211.3	12,849	(26.8)
Tax	1,365	3,227	(57.7)	n.m.	3,212	(57.5)
<b>Profit After Tax</b>	<b>8,035</b>	<b>7,162</b>	<b>12.2</b>	<b>167.0</b>	<b>9,637</b>	<b>(16.6)</b>

Source: Company, Centrum Research

- **Credit growth moderates to 15.5%:** Loan growth came in at 15.5% YoY with domestic advances book expanding by 15.7% YoY. Within domestic segments, growth was driven by agriculture (20% YoY) and corporate (18.4% YoY) while SME book expanded by a tepid 4.5% YoY. For FY2013, the management expects the credit book to grow by 17-18%. The bank is expecting capital infusion of Rs8 bn from Gol, which along with profits for current fiscal should shore up Tier I to 8.7% and hence support further loan expansion.
- **Weak non-interest income:** Non-interest income at Rs9.4bn, up 10% YoY, was weak considering that CEB contracted by ~9% YoY. Importantly, the positive growth was due to strong recoveries (up 32% YoY) and healthy forex related income (up 46% YoY).
- **Remain Neutral:** We continue to expect the stock to underperform industry indices given the volatility in asset quality matrix. We have revisited our earnings estimates and are revising the fair value estimate upwards to Rs400. At the current market price of Rs355, the stock trades at 5.3x FY2014E EPS and 1.0x FY2014E ABVPS. Current valuations, in our view, largely factor in potential benefit from anticipated upturn in economic activity and resulting expansion in return ratios. We remain neutral on the stock given the volatility in asset quality matrix and challenges to expansion in return ratios.

Y/E Mar (Rsmn)	NII	NonInt. Inc.	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	ROE (%)	ROA (%)
FY11	78,107	26,418	24,887	42.9	45.5	7.8	280.4	1.3	17.3	0.8
FY12	83,135	33,212	26,775	7.6	46.6	7.6	301.2	1.2	15.0	0.7
FY13E	89,672	35,490	28,889	7.9	50.3	7.1	301.0	1.2	13.9	0.7
FY14E	111,874	40,079	37,079	28.4	64.5	5.5	351.9	1.0	15.7	0.8
FY15E	130,770	45,021	48,700	31.3	84.8	4.2	413.8	0.9	17.9	0.9

Source: Company, Centrum Research Estimates

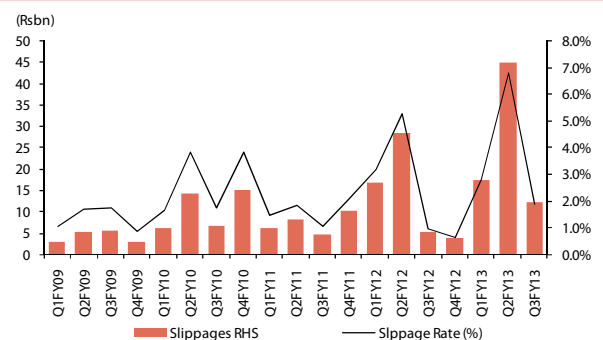
### Key Data

Target Price	Rs380	Bloomberg Code	BOI IN
CMP	Rs355*	Reuters Code	BOI.BO
Upside	7%	Current Shares O/S (mn)	573.8
<b>Stock to Sector</b>	Neutral	Diluted Shares O/S(mn)	573.8
<b>Sector to Market</b>	Neutral	Mkt Cap (Rsbn/USDbn)	203.8/3.8
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	408/253
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
BOI	4.7	22.3	0.7
NIFTY	2.8	19.1	16.7
		Daily Vol. (3M NSE Avg.)	1,005,080
		Face Value (Rs)	10
		<b>USD = Rs53.9</b>	

\*as on 28 January 2013

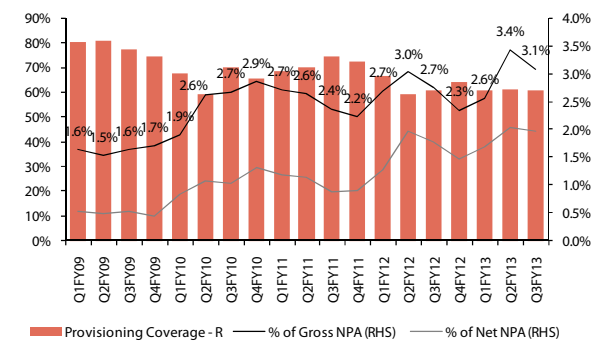
Source: Bloomberg, Centrum Research

### Slippages eased QoQ but remains high



Source: Company, Centrum Research

### Volatile asset quality matrix



Source: Company, Centrum Research

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Please refer to important disclosures/disclaimers inside

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

## Financials

### Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Interest Income	217,517	284,807	305,807	370,822	442,010
Interest Expense	139,410	201,672	216,135	258,948	311,241
<b>Net Interest Income</b>	<b>78,107</b>	<b>83,135</b>	<b>89,672</b>	<b>111,874</b>	<b>130,770</b>
YoY Growth (%)	35.7	6.4	7.9	24.8	16.9
<b>Non Interest Income</b>	<b>26,418</b>	<b>33,212</b>	<b>35,490</b>	<b>40,079</b>	<b>45,021</b>
YoY Growth (%)	1.0	25.7	6.9	12.9	12.3
Fee & Other Income	23,200	29,124	31,740	36,079	40,771
Treasury gain	3,219	4,088	3,750	4,000	4,250
<b>Total Net Income</b>	<b>104,525</b>	<b>116,347</b>	<b>125,162</b>	<b>151,953</b>	<b>175,790</b>
<b>Total Operating Expenses</b>	<b>50,682</b>	<b>49,407</b>	<b>55,371</b>	<b>67,124</b>	<b>78,676</b>
YoY Growth (%)	38.2	(2.5)	12.1	21.2	17.2
Employee Expenses	34,754	30,534	32,936	41,118	48,709
Other Operating Expenses	15,928	18,872	22,435	26,006	29,967
<b>PPP (Pre-excep)</b>	<b>53,843</b>	<b>66,940</b>	<b>69,791</b>	<b>84,829</b>	<b>97,114</b>
<b>Pre-provision Profit</b>	<b>53,843</b>	<b>66,940</b>	<b>69,791</b>	<b>84,829</b>	<b>97,114</b>
<b>Provisions &amp; Contingencies</b>	<b>18,888</b>	<b>31,165</b>	<b>31,272</b>	<b>34,036</b>	<b>30,402</b>
NPA Provisions	10,543	20,252	29,986	28,890	25,041
Other Provisions	8,345	10,913	1,287	5,146	5,361
<b>Profit Before Tax</b>	<b>34,954</b>	<b>35,775</b>	<b>38,518</b>	<b>50,793</b>	<b>66,712</b>
Taxes	10,067	9,000	9,630	13,714	18,012
<b>Net Profit</b>	<b>24,887</b>	<b>26,775</b>	<b>28,889</b>	<b>37,079</b>	<b>48,700</b>
<b>Adj Net Profit</b>	<b>24,887</b>	<b>26,775</b>	<b>28,889</b>	<b>37,079</b>	<b>48,700</b>

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Cash & balance with RBI	217,824	149,867	214,331	213,451	284,748
Inter-bank borrowings	155,276	197,246	218,981	269,913	299,457
Loans & Advances	2,130,962	2,488,333	2,917,631	3,391,817	3,892,192
Investments	858,724	867,536	1,074,855	1,206,652	1,450,410
<b>Total Int Earning Assets</b>	<b>3,362,786</b>	<b>3,702,982</b>	<b>4,425,798</b>	<b>5,081,834</b>	<b>5,926,806</b>
Fixed Assets	24,807	27,716	27,350	30,110	31,254
Other Assets	124,132	114,657	79,935	90,438	96,883
<b>Total Assets</b>	<b>3,511,726</b>	<b>3,845,355</b>	<b>4,405,820</b>	<b>5,275,471</b>	<b>6,001,548</b>
Deposits	2,988,858	3,182,160	3,754,949	4,393,291	5,096,217
Other Int Bearing Liab	220,214	321,142	219,454	427,264	337,557
<b>Interest Bearing Liab</b>	<b>3,209,072</b>	<b>3,503,303</b>	<b>3,974,403</b>	<b>4,820,555</b>	<b>5,433,774</b>
Other non int Liab	129,747	132,434	197,613	189,639	261,442
Total Liabilities	3,338,819	3,635,737	4,172,016	5,010,194	5,695,216
Equity	172,907	209,618	233,804	265,278	306,333
<b>Total Liabilities</b>	<b>3,511,726</b>	<b>3,845,355</b>	<b>4,405,820</b>	<b>5,275,471</b>	<b>6,001,548</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
<b>BS Structure Ratios (%)</b>					
Loans/Deposits	71.3	78.2	77.7	77.2	76.4
Investments / Deposits	28.7	27.3	28.6	27.5	28.5
CASA Ratio	25.4	23.0	23.5	23.5	23.5
Loan Growth	26.5	16.8	17.3	16.3	14.8
Deposit Growth	30.1	6.5	18.0	17.0	16.0
<b>Operating Ratios (%)</b>					
NIM	2.8	2.5	2.3	2.5	2.5
Non-int income/Net income	25.3	28.5	28.4	26.4	25.6
Emp Costs (% of Opex)	68.6	61.8	59.5	61.3	61.9
Cost/Income	48.5	42.5	44.2	44.2	44.8
Operating cost growth	38.2	(2.5)	12.1	21.2	17.2
Total prov as % of avg. loans	1.0	1.3	1.2	1.1	0.8
Tax Rate (%)	28.8	25.2	25.0	27.0	27.0
<b>Credit Quality Ratios (%)</b>					
Gross NPA	2.23	2.30	3.33	3.31	3.12
Net NPA	0.91	1.47	2.09	1.86	1.76
Slippage	1.7	2.5	2.8	1.8	1.5
NPA coverage ratio	69.5	46.0	43.9	49.5	49.0
<b>Profitability Ratios (%)</b>					
RoAE	17.3	15.0	13.9	15.7	17.9
RoAA	0.8	0.7	0.7	0.8	0.9
<b>Valuations Ratios</b>					
BVPS (Rs)	316.0	364.9	407.0	461.7	533.2
Price/BV (x)	1.1	1.0	0.9	0.8	0.7
Adjusted BVPS (Rs)	280.4	301.2	301.0	351.9	413.8
Price/Adj. BV (x)	1.3	1.2	1.2	1.0	0.9
EPS (Rs)	45.5	46.6	50.3	64.5	84.8
P/E (x)	7.8	7.6	7.1	5.5	4.2
Dividend Yield	2.0%	2.0%	2.0%	2.4%	3.2%

Source: Company, Centrum Research Estimates

## Appendix A

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	Neutral	Neutral
	Underperform	Neutral
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	Neutral	Sell
	Underperform	Sell

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