

## EARNINGS REVIEW

## Bank of India (BOI.BO)

Neutral

Equity Research

## Below expectations on PAT, but core profits better; retain Neutral

## What surprised us

Bank of India (BOI) reported 3QFY13 PAT of Rs8bn (+12% yoy), 11% below GSe but in line with Bloomberg consensus. However, core profits (PAT excluding provisions and treasury gains) came in 3% above GSe on lower opex. **Key highlights:** **1)** NII came in at Rs23.1bn (+12% yoy, 2% below GSe) on the back of 20% yoy growth in advances, partially offset by 19bp yoy dip (-6bp qoq) in reported NIM to 2.36%. **2)** Non-interest income grew 10% yoy, in line with GSe, as lower-than-estimated fee and investment income were offset by better other income (+21% yoy, 30% above GSe); **3)** Operating expenses grew 17% yoy to Rs13.9bn (2% below GSe), helped by slower growth in employee expenses (+10% yoy, 3% below GSe). However, cost/income ratio surged 280bp qoq; **4)** Gross NPLs declined 3% qoq to 3.1% of loans. However, BOI has written off Rs8.1bn of loans, much higher than the Rs2.5bn average in the previous four quarters. New NPL formation (slippages + fresh restructuring) remains high at 6% of loans, but moderated vs. 6.6% in 2Q. Outstanding standard restructured assets stood at 6.6% of loans vs. 7% in 2Q; and **5)** BOI booked provisions of Rs9.2bn (+32% yoy, 61% above GSe). The bank made Rs3bn in contingent provisions that include Rs220mn towards anticipated wage hikes and the additional 0.75% of provisions required for standard restructured accounts.

## What to do with the stock

We lower our FY13-15E EPS by 1.6-2.5% to incorporate the trends seen in 3Q results. We maintain our 12m CAMELOT-based TP at Rs370 and retain our Neutral rating. **Upside risks:** lower slippages, lower interest rates; **Downside risks:** macro deterioration, higher NPLs.

## Bank of India: Summary of estimates

Rs mn	FY13E	FY14E	FY15E	Y-o-Y Growth (%)		
				FY13E	FY14E	FY15E
NII	89,287	106,189	124,407	7%	19%	17%
PAT	27,947	37,259	43,399	4%	33%	16%
Advances	2,944,744	3,361,667	3,906,144	18%	14%	16%

Source: Goldman Sachs Research estimates.

## INVESTMENT LIST MEMBERSHIP

Neutral

## Coverage View: Neutral

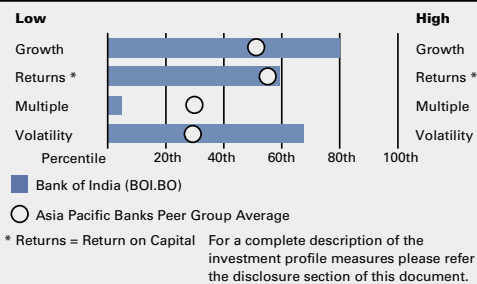
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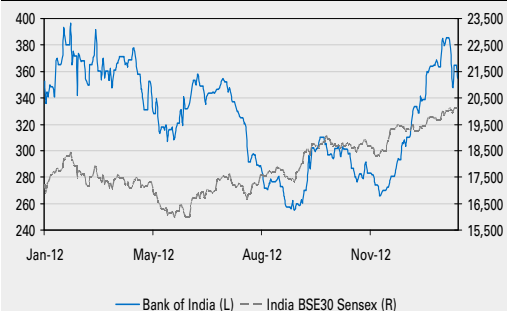
## Investment Profile



Key data	Current
Price (Rs)	355.25
12 month price target (Rs)	370.00
Market cap (Rs mn / US\$ mn)	204,098.1 / 3,801.1
Foreign ownership (%)	14.1

	3/12	3/13E	3/14E	3/15E
EPS (Rs) New	46.60	48.64	64.85	75.54
EPS revision (%)	0.0	(2.5)	(1.6)	(2.5)
P/B (X)	1.0	0.9	0.8	0.7
P/E (X)	7.6	7.3	5.5	4.7
Dividend yield (%)	2.0	2.1	2.3	3.1
P/POP (X)	3.0	2.8	2.4	2.1
PPOP growth (%)	24.3	7.6	17.0	12.6
Preprovision ROA (%)	1.8	1.7	1.8	1.7
Credit cost (%)	1.2	1.2	1.0	0.9
ROA (%)	0.73	0.67	0.78	0.79
ROE (%)	14.0	12.5	14.7	15.1

## Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	23.8	21.9	0.7
Rel. to India BSE30 Sensex	14.7	2.1	(13.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/28/2013 close.

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# Bank of India: Summary Financials

Profit model (Rs mn)	3/12	3/13E	3/14E	3/15E	Balance sheet (Rs mn)	3/12	3/13E	3/14E	3/15E
Net interest income	83,134.4	89,287.5	106,189.1	124,406.5	Gross loans	2,510,708.9	2,968,127.5	3,361,667.2	3,937,839.9
Non-interest income	33,211.7	37,343.7	43,746.8	48,497.3	NPLs	58,939.1	92,250.0	127,750.0	0.0
Operating revenue	116,346.1	126,631.2	149,935.9	172,903.8	Loan loss reserves	22,374.9	41,045.6	54,966.7	0.0
Non-interest expense	(49,406.6)	(54,583.5)	(65,607.8)	(77,955.9)	<b>Total interest earning assets</b>	<b>3,686,008.5</b>	<b>4,297,508.6</b>	<b>4,908,163.9</b>	<b>5,716,380.1</b>
Preprovision operating profit	66,939.6	72,047.6	84,328.1	94,948.0	Other non-interest earning assets	159,346.3	146,541.4	147,946.8	150,207.7
Total provision charge	(31,164.3)	(36,458.8)	(33,635.7)	(35,902.2)	<b>Total assets</b>	<b>3,845,354.8</b>	<b>4,444,050.0</b>	<b>5,056,110.7</b>	<b>5,866,587.9</b>
Associates	0.0	0.0	0.0	0.0	Customer deposits	3,182,160.3	3,732,209.0	4,285,557.6	5,024,535.3
Pretax profit	35,775.3	35,588.8	50,692.4	59,045.7	Total interest-bearing liabilities	3,514,889.7	4,062,687.8	4,643,028.6	5,417,435.4
Tax	(9,000.0)	(7,641.7)	(13,433.5)	(15,647.2)	<b>Total equity</b>	<b>209,617.9</b>	<b>237,185.3</b>	<b>268,905.2</b>	<b>304,975.6</b>
Minorities	--	--	--	--	<b>CAMEL ratios (%)</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>
<b>Net profit</b>	<b>26,775.3</b>	<b>27,947.1</b>	<b>37,258.9</b>	<b>43,398.6</b>	C: Tier 1 capital ratio	8.6	8.7	8.7	9.0
Dividends	4,021.6	4,234.4	4,734.8	6,263.9	C: Equity/loans	8.4	8.1	8.0	7.8
Dividends payout (%)	15.0	15.2	12.7	14.4	C: Equity/assets	5.5	5.3	5.3	5.2
<b>Earnings growth drivers (%)</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>	A: NPL ratio	2.3	3.1	3.8	0.0
Net interest margin	2.26	2.15	2.24	2.28	A: Loan loss reserves/NPLs	38.0	44.5	43.0	NM
Provision charge/total loans	1.25	1.24	1.00	0.92	E: Net interest margin	2.26	2.15	2.24	2.28
<b>YoY Growth (%)</b>					E: Non int inc/oper revenues	28.55	29.49	29.18	28.05
Customer deposits	6.5	17.3	14.8	17.2	E: Cost-income ratio	42.5	43.1	43.8	45.1
Loans	16.8	18.3	14.2	16.2	E: ROAA	0.73	0.67	0.78	0.79
Net interest income	6.4	7.4	18.9	17.2	L: Loan/deposit ratio	78.2	78.9	78.4	77.7
Fee income	7.7	(0.1)	10.0	10.0	<b>Key CAMELOT assumptions</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>
Non-interest income	25.7	12.4	17.1	10.9	GS CAMELOT implied P/B (X)	1.0	--	--	--
Operating revenue	11.3	8.8	18.4	15.3	GS CAMELOT implied P/E (X)	6.9	--	--	--
Operating expenses	2.5	(10.5)	(20.2)	(18.8)	Risk-free rate (%)	7.0	7.0	7.0	7.0
<b>Preprovision operating profit</b>	<b>24.3</b>	<b>7.6</b>	<b>17.0</b>	<b>12.6</b>	Equity risk premium (%)	5.0	5.0	5.0	5.0
Provision charges	118.5	41.7	(5.2)	7.3	CAMELOT beta (X)	1.3	--	--	--
Pretax profit	2.4	(0.5)	42.4	16.5	Risk-adjusted cost of equity (%)	13.7	--	--	--
Net profit	7.6	4.4	33.3	16.5	3-yr adjusted DPS CAGR (%)	10.0	--	--	--
EPS	(1.6)	4.4	33.3	16.5	Sustainable ROE estimate (%)	14.0	--	--	--
DPS	(4.0)	5.3	11.8	32.3	LT dividend payout estimate (%)	64.2	--	--	--
<b>Market dimensions</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>	Ex-growth bond-equivalent P/B (X)	1.0	--	--	--
No of branches	4,029.1	4,172.0	4,372.0	4,572.0	<b>Loan portfolio (%)</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>
No of staff (000)	41.9	43.3	48.3	49.6	Commercial & corporate	91.5	92.0	92.7	92.0
Revenues/staff (US\$)	57,952.2	53,615.8	57,756.7	64,870.3	Mortgages/home loans	3.3	3.7	3.8	3.8
Net profit/staff (US\$)	13,336.8	11,832.8	14,352.5	16,282.3	Consumer	7.6	7.2	7.3	7.2
<b>DuPont analysis (%)</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>	<b>Valuation (current price)</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>
ROE	14.0	12.5	14.7	15.1	P/E basic (X)	7.6	7.3	5.5	4.7
x leverage	5.2	5.4	5.3	5.3	P/B (X)	1.04	0.91	0.80	0.67
=ROA	0.73	0.67	0.78	0.79	P/PPOP (X)	3.0	2.8	2.4	2.1
<b>% of assets</b>	<b>3/12</b>	<b>3/13E</b>	<b>3/14E</b>	<b>3/15E</b>	Dividend yield (%)	2.0	2.1	2.3	3.1
Net interest income	2.26	2.15	2.24	2.28	EPS, basic (Rs)	46.60	48.64	64.85	75.54
Fee income	0.35	0.31	0.29	0.28	EPS, fully-diluted (Rs)	46.60	48.64	64.85	75.54
Non-interest income	0.90	0.90	0.92	0.89	EPS, basic growth (%)	(1.6)	4.4	33.3	16.5
Operating revenue	3.16	3.06	3.16	3.17	EPS, fully diluted growth (%)	(1.6)	4.4	33.3	16.5
Operating expenses	1.34	1.32	1.38	1.43	BVPS (Rs)	339.99	391.33	446.33	530.84
Preprovision operating profit	1.82	1.74	1.78	1.74	DPS (Rs)	7.00	7.37	8.24	10.90
Loan loss provisions	0.63	0.79	0.65	0.61					
Pretax profits	0.97	0.86	1.07	1.08					
Taxes	0.24	0.18	0.28	0.29					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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**Exhibit 1: Bank of India reports 3QFY13 PAT below GS estimate, but core profits came in above expectations**

Bank of India Rs mn unless stated	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q3FY13E	Var.		Act vs est
							Q-o-Q	Y-o-Y	
<b>Income statement</b>									
Interest income	71,501	78,106	77,092	80,055	80,227	78,580	0%	12%	2%
Interest on advances	51,714	55,869	55,412	58,806	57,910	56,955	-2%	12%	2%
Interest on investments	18,414	18,166	18,962	18,355	18,094	18,722	-1%	-2%	-3%
Balance with RBI	1,373	4,072	2,718	2,894	4,223	2,904	46%	207%	45%
Interest expenses	50,826	53,096	56,656	58,095	57,142	55,003	-2%	12%	4%
<b>Net interest income</b>	<b>20,676</b>	<b>25,010</b>	<b>20,436</b>	<b>21,960</b>	<b>23,085</b>	<b>23,578</b>	<b>5%</b>	<b>12%</b>	<b>-2%</b>
<b>yoy growth (%)</b>	<b>4%</b>	<b>8%</b>	<b>11%</b>	<b>15%</b>	<b>12%</b>	<b>14%</b>			
<b>Non-interest income</b>	<b>8,522</b>	<b>9,671</b>	<b>8,409</b>	<b>8,941</b>	<b>9,371</b>	<b>9,311</b>	<b>5%</b>	<b>10%</b>	<b>1%</b>
Net fee income	3,204	3,516	3,030	2,876	2,927	3,524	2%	-9%	-17%
Investment income	712	735	1,004	1,032	860	1,500	-17%	21%	-43%
Other income	4,606	5,420	4,375	5,033	5,584	4,287	11%	21%	30%
<b>Total income</b>	<b>29,197</b>	<b>34,681</b>	<b>28,844</b>	<b>30,901</b>	<b>32,456</b>	<b>32,889</b>	<b>5%</b>	<b>11%</b>	<b>-1%</b>
<b>Operating expenses</b>	<b>11,878</b>	<b>14,535</b>	<b>12,109</b>	<b>12,360</b>	<b>13,898</b>	<b>14,245</b>	<b>12%</b>	<b>17%</b>	<b>-2%</b>
Salary	7,589	8,670	7,432	6,995	8,331	8,574	19%	10%	-3%
Other costs	4,289	5,865	4,676	5,365	5,568	5,671	4%	30%	-2%
<b>Preprovision profit</b>	<b>17,319</b>	<b>20,146</b>	<b>16,736</b>	<b>18,541</b>	<b>18,558</b>	<b>18,644</b>	<b>0%</b>	<b>7%</b>	<b>0%</b>
Provisions	6,931	7,018	4,722	15,521	9,158	5,696	-41%	32%	61%
Loan loss provisions	4,630	6,280	5,692	14,772	5,910	5,546	-60%	28%	7%
Prov. on depre. In Investments	1,190	769	-1,356	-660	200	-650	-130%	-83%	na
Other provisions	1,111	-31	386	1,409	3,048	800	116%	174%	281%
Profit before tax	10,388	13,128	12,013	3,020	9,400	12,948	211%	-10%	-27%
Tax	3,227	3,601	3,139	1	1,365	3,884	NM	-58%	-65%
<b>Net profit</b>	<b>7,162</b>	<b>9,527</b>	<b>8,875</b>	<b>3,019</b>	<b>8,035</b>	<b>9,063</b>	<b>166%</b>	<b>12%</b>	<b>-11%</b>
<b>yoy growth (%)</b>	<b>10%</b>	<b>93%</b>	<b>71%</b>	<b>-39%</b>	<b>12%</b>	<b>27%</b>			
Effective tax rate(%)	31%	27%	26%	0%	15%	30%			
PBT-Invt income+NPL provisions	16,607	19,411	15,732	17,509	17,698	17,144	1%	7%	3%
<b>Key balance sheet items (Rs mn)</b>									
<b>Deposits</b>	<b>3,072,522</b>	<b>3,182,160</b>	<b>3,389,826</b>	<b>3,326,947</b>	<b>3,491,171</b>	<b>3,546,987</b>	<b>5%</b>	<b>14%</b>	<b>-2%</b>
Domestic CASA ratio (%)	32.2	32.7	31.2	31.8	32.8				
<b>Advances</b>	<b>2,303,546</b>	<b>2,488,333</b>	<b>2,641,616</b>	<b>2,561,479</b>	<b>2,764,864</b>	<b>2,773,233</b>	<b>8%</b>	<b>20%</b>	<b>0%</b>
Retail loans	180,040	191,160	236,240	202,800	209,140	264,043	3%	16%	-21%
<b>Key ratios</b>									
<b>NIMs</b>	<b>2.55</b>	<b>2.86</b>	<b>2.27</b>	<b>2.42</b>	<b>2.36</b>				
Cost/Income (%)	40.7	41.9	42.0	40.0	42.8	43.3			
Loan/Deposit Ratio (%)	75.0	78.2	77.9	77.0	79.2	78.2			
<b>Asset quality details</b>									
Gross NPLs (Rs mn)	63,860	58,940	67,518	88,986	86,251	99,379	-3%	35%	-13%
Gross NPLs to advances (%)	2.74	2.34	2.56	3.47	3.12	3.58			
Additions	5,196	3,770	17,470	27,334	12,210	16,000	-55%	135%	-24%
Slippage ratio (%)	1.10	0.71	3.30	5.10	2.12	2.78			
Net NPLs (Rs mn)	40,931	36,564	44,134	52,283	54,555		4%	33%	
Net NPLs to advances (%)	1.78	1.47	1.67	2.04	1.97				
Coverage ratio	60.9%	64.2%	60.9%	61.0%	60.7%				
Restructured assets (Rs mn)	84,419	113,742	152,460	178,522	181,358		2%	115%	
% of total loans	3.7%	4.6%	5.8%	7.0%	6.6%				
<b>Restructured loans + GNPLs</b>	<b>148,279</b>	<b>172,682</b>	<b>219,978</b>	<b>267,508</b>	<b>267,609</b>		<b>0%</b>	<b>80%</b>	
% of total loans	6.4%	6.9%	8.3%	10.4%	9.7%				
<b>Capital adequacy details</b>									
CAR (%)	11.18	11.95	11.42	11.10	10.59				
Tier I (%)	7.65	8.59	8.29	8.07	7.64				
Tier II (%)	3.53	3.36	3.13	3.03	2.95				

Source: Company data, Goldman Sachs Research estimates.

# Disclosure Appendix

## Reg AC

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We, Rahul Jain and Tabassum Inamdar, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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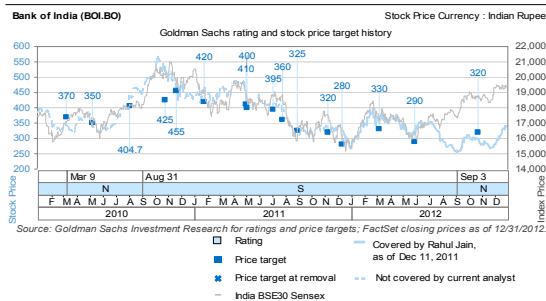
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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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