



Rating  
**Buy**

Asia  
India

Banking / Finance  
Banks

Company  
**Bank of India**

Reuters BOI.BO      Bloomberg BOI IN      Exchange BSE      Ticker BOI

Date  
28 January 2013

## Results

Price at 28 Jan 2013 (INR)	355.25
Price target - 12mth (INR)	455.00
52-week range (INR)	396.60 - 255.55
BSE 30	20,104

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# 3QFY13 - NPLs improve but margins disappoint; outlook remains positive

### Good results overall; comfort on asset quality

Bank of India reported steady earnings, although we understand that expectations were running high. Slippages have declined and, due to higher write-offs, even gross NPLs declined by 30 bps QoQ. New restructuring was high but was matched by higher repayments. Management guides for better margins and lower NPLs going forward. Although we build in conservative earnings, we expect a 22% CAGR in earnings over FY13-15. Valuation at 0.8x FY14E PBR is attractive, in our view; any near-term weakness should be used to increase exposure to the stock. Buy with a target price of INR 455.

### Earnings were strong; lower taxes boosted profits

Earnings remained strong at INR 8bn, up 12% YoY, driven by lower taxes. Net interest income (NII), at INR 23bn, was up 12% YoY and 5% QoQ. Overall loan growth at +19% YoY was strong, driven by overseas book. Slippages declined sharply to 2%. Gross NPLs were down 3% QoQ. Provisioning remained high at INR 9.2bn. Restructuring during the quarter was high at INR 22bn, and restructured assets (gross) are at 8%.

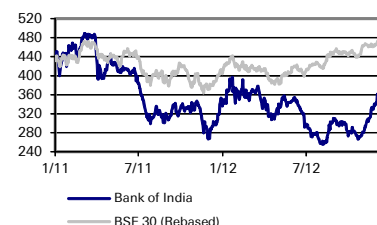
### Combination of lower NPLs, better NIMs and faster growth will drive earnings

We believe that the worst is now behind us in terms of Bank of India's asset quality. The trends were clearly visible this quarter, with both slippages and restructured loans declining on a net basis. We expect NIMs to expand over the next quarter, due to declining funding costs and likely lower interest rate reversals. We expect margins to expand 15 bps in FY14 and slippages to fall to 2.5% vs 3.2% in FY13. We forecast an earnings CAGR of 22% for FY13-15.

### Two-stage residual income valuation; higher credit costs and lower NIM risks

We value Bank of India on a two-stage residual income model (details on page 8). Key risks include a sharper-than-expected decline in asset quality.

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.8	23.8	0.7
BSE 30	3.4	7.9	16.7

### Stock data

Market cap (INRm)	204,098
Market cap (USDm)	3,802
Shares outstanding (m)	574.5
Major shareholders	Gol (64.4%)
Free float (%)	36
Avg daily value traded (USDm)	6.9

### Forecasts And Ratios

	2011A	2012A	2013E	2014E	2015E
Year End Mar 31					
Provisioning (INRm)	10,543	20,252	33,437	37,258	43,793
Pre-prov profit (INRm)	45,497	56,027	69,752	85,361	103,416
Net profit (INRm)	24,887	26,775	28,326	35,596	42,929
EPS (INR)	46.38	47.74	49.30	61.96	74.72
EPS growth (%)	40.1	2.9	3.3	25.7	20.6
PER (x)	9.3	7.6	7.2	5.7	4.8
Price/book (x)	1.51	0.99	0.88	0.79	0.70
DPS (net) (INR)	7.00	7.00	9.35	11.75	14.17
Yield (net) (%)	1.6	1.9	2.6	3.3	4.0
ROE (%)	15.8	14.0	12.8	14.5	15.6

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 28 January 2013

## Running the numbers

Asia

India

Banks

## Bank of India

Reuters: BOI.BO

Bloomberg: BOI IN

## Buy

Price (28 Jan 13) INR 355.25

Target Price INR 455.00

52 Week range INR 255.55 - 396.60

Market Cap (m) INRm 204,098

USDm 3,802

## Company Profile

Bank of India was established in 1906 and was nationalised in 1969. From its modest beginnings, the bank today has an extensive branch network spread across the country and is one of the Top 5 PSU banks in terms of asset size. The bank has opened branches abroad and has a considerable presence in various countries. International business now makes up 20% of the overall business of the bank. The bank provides a host of commercial banking products including housing loans, loans to SMEs, personal loans, etc.

Fiscal year end 31-Mar

2010

2011

2012

2013E

2014E

2015E

## Data Per Share

EPS (stated) (INR)	33.11	46.38	47.74	49.30	61.96	74.72
EPS FD (stated) (INR)	33.11	46.38	47.74	49.30	61.96	74.72
EPS FD (DB adj.) (INR)	33.11	46.38	47.74	49.30	61.96	74.72
Growth rate - EPS (stated) (%)	-42.11	40.10	2.92	3.28	25.67	20.60
DPS (INR)	7.00	7.00	7.00	9.35	11.75	14.17
BVPS (stated) (INR)	270.58	315.97	364.86	403.18	451.37	509.52
BVPS (DB adj.) (INR)	201.44	256.32	266.39	276.75	323.12	383.78
Average market cap	180,917	235,714	208,978	204,098	204,098	204,098
Shares in Issue (m)	526	547	575	575	575	575

## Valuation Ratios &amp; Profitability Measures

P/E (stated)	10.4	9.3	7.6	7.2	5.7	4.8
P/E FD (stated)	10.4	9.3	7.6	7.2	5.7	4.8
P/E FD (DB adj.)	10.4	9.3	7.6	7.2	5.7	4.8
P/B (stated)	1.3	1.5	1.0	0.9	0.8	0.7
P/B (DB adj.)	1.7	1.9	1.4	1.3	1.1	0.9
ROE (adj.) (%)	na	na	na	na	na	na
ROA (adj.) (%)	0.7	0.8	0.7	0.7	0.8	0.8
Dividend yield(%)	2.0	1.6	1.9	2.6	3.3	4.0
Dividend cover(x)	4.7	6.6	6.8	5.3	5.3	5.3
Payout ratio (%)	21.1	15.4	15.0	19.0	19.0	19.0

## Profit &amp; Loss (INRm)

Net interest revenue	57,559	78,107	83,134	90,892	112,956	136,921
Non interest income	23,732	25,049	28,843	38,350	41,952	45,268
Fees & Commissions	10,965	11,811	12,715	14,240	16,376	18,833
Trading Revenue	7,219	6,874	5,613	12,783	13,117	12,730
Insurance revenue	0	0	0	0	0	0
Dividend income	189	265	395	0	0	0
Other revenue	5,359	6,099	10,121	11,327	12,459	13,705
Total revenue	81,291	103,156	111,977	129,242	154,909	182,189
Total operating costs	38,810	57,659	55,951	59,490	69,548	78,774
Pre-provision profit/(loss)	42,481	45,497	56,027	69,752	85,361	103,416
Bad debt expense	17,543	10,543	20,252	33,437	37,258	43,793
Operating Profit	24,938	34,954	35,775	36,315	48,103	59,623
Goodwill	0	0	0	0	0	0
Pre-tax associates	0	0	0	0	0	0
Extraordinary & Other Items	0	0	0	0	0	0
Pre-tax profit	24,938	34,954	35,775	36,315	48,103	59,623
Tax	7,528	10,067	9,000	7,989	12,507	16,694
Minorities	0	0	0	0	0	0
Preference dividends	0	0	0	0	0	0
Stated net profit	17,411	24,887	26,775	28,326	35,596	42,929
DB adj. core earnings	17,411	24,887	26,775	28,326	35,596	42,929

## Key Balance Sheet Items (INRm) &amp; Capital Ratios

Risk-weighted assets	1,618,570	2,047,620	2,354,660	2,657,241	3,145,127	3,730,948
Interest-earning assets	2,661,503	3,355,112	3,691,447	4,230,405	4,993,502	5,826,529
Total loans	1,706,901	2,153,211	2,503,063	2,890,416	3,384,823	3,989,934
Total deposits	2,297,619	2,988,858	3,182,160	3,659,484	4,318,192	5,095,466
Stated shareholders equity	142,300	172,907	209,618	231,634	259,321	292,727
Preference share capital	0	0	0	0	0	0
Tier 1 capital	137,250	170,470	202,300	222,777	248,784	280,323
Tier 1 ratio (%)	8	8	9	8	8	8
Tangible equity/ total assets (%)	5	5	5	5	5	5

## Credit Quality

Gross NPLs / Total loans (%)	2.9	2.2	2.4	3.1	2.9	2.5
Provisions / NPLs (%)	45.0	46.2	25.0	32.3	37.4	39.5
Bad debt exp/ Avg loans (%)	1.1	0.5	0.9	1.2	1.2	1.2

## Growth Rates &amp; Key Ratios

Growth in net interest income (%)	4.7	35.7	6.4	9.3	24.3	21.2
Growth in fee income (%)	0.4	7.7	7.7	12.0	15.0	15.0
Growth in non-interest income (%)	-7.9	5.5	15.1	33.0	9.4	7.9
Growth in revenues (%)	0.6	26.9	8.6	15.4	19.9	17.6
Growth in costs (%)	18.0	48.6	-3.0	6.3	16.9	13.3
Pre-provision earnings growth (%)	-11.3	7.1	23.1	24.5	22.4	21.2
Growth in bad debts (%)	181.7	-39.9	92.1	65.1	11.4	17.5
Growth in RWAs (%)	15.7	26.5	15.0	12.9	18.4	18.6
Growth in loans (%)	18.0	26.1	16.2	15.5	17.1	17.9
Growth in deposits (%)	21.1	30.1	6.5	15.0	18.0	18.0
Loan-to-deposits ratio (%)	74.3	72.0	78.7	79.0	78.4	78.3
Net int. margin (%)	2.4	2.6	2.4	2.3	2.4	2.5
Cost income ratio (%)	47.7	55.9	50.0	46.0	44.9	43.2
Cost asset ratio (%)	1.6	1.8	1.5	1.5	1.5	1.4
Trading income/ Total Rev (%)	8.9	6.7	5.0	9.9	8.5	7.0

Source: Company data, Deutsche Bank estimates



### Gross NPLs decline; slippages also lower QoQ

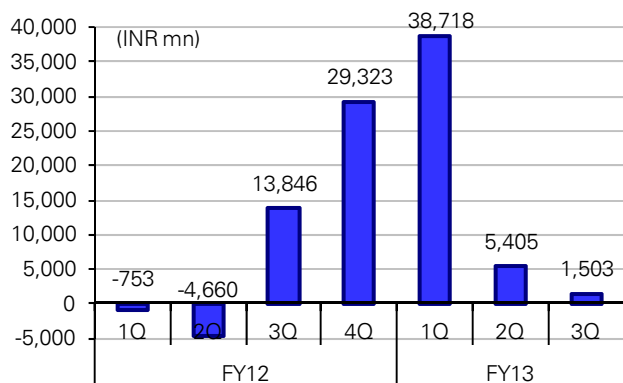
After some disappointing performances, BOI reported a strong quarter on both asset quality and core earnings. Gross NPLs declined 3% QoQ, while net NPLs rose 4% QoQ. Gross slippages at ~2% (INR 12.2bn) were sharply down compared to INR 27bn in 2Q. Of the slippages, ~50% were contributed by one large account in the steel sector. Of the total NPAs, industry contributed 45%, while the service sector contributed 24%. International book accounted for 17% of the total NPAs. We factor in higher slippages at 3.2% / 2.5% for FY13/FY14, which is fairly conservative, in our view. Our credit costs assumption for FY14 is 1.37%, vs. 1.35% in FY13.

### Higher new restructuring, but repayments also strong; net slippages sharply lower

During the quarter the bank restructured INR 22bn of loans, which was higher than expected. Again, this is largely due to one large textile group based in Mumbai, which accounted for 40% of the total new restructuring. However, management highlighted that it has adequate security against this and is unlikely to lose any money. On a positive note, the repayments on restructured loans were also higher due to the repayment from Air India.

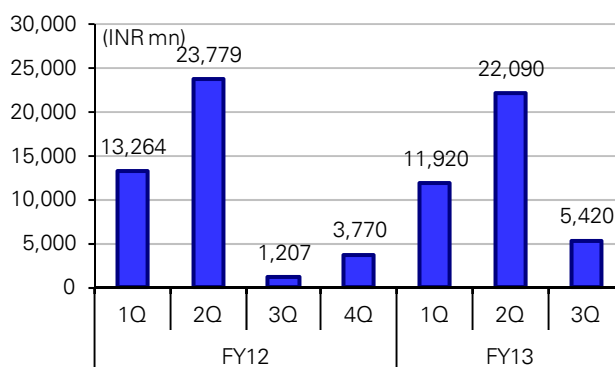
Cumulatively, 18% of restructured loans have slipped into NPAs. Higher restructuring was on account of the infrastructure and textile sectors.

Figure 1: Net additions to restructured loans



Source: Company data, Deutsche Bank

Figure 2: Net slippages



Source: Company data, Deutsche Bank

Figure 3: Movement in NPAs

	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Opening Gross NPLs	48,696	45,421	48,116	57,910	65,481	63,860	58,940	67,520	88,980
Slippages	4,765	9,993	16,837	28,217	5,196	3,770	17,470	27,330	12,210
Total reduction	7,813	6,721	5,072	20,398	6,630	8,980	8,610	5,340	14,900
Recovery	2,076	2,611	2,305	2,980	2,715	NA	3,330	3,160	3,650
Upgradation	6,109	1,026	1,268	1,458	1,274	NA	2,220	2,080	3,140
Write-off	-372	3,084	1,499	15,961	2,640	NA	3,060	100	8,110
Gross NPLs	45,648	48,693	59,881	65,729	64,047	58,939	67,800	89,510	86,290
Less URI ON NPA	227	577	1,970	248	182		280	530	40
Closing Gross NPLs	45,421	48,116	57,911	65,481	63,865	58,939	67,520	88,980	86,250

Source: Company data, Deutsche Bank



Figure 4: Asset quality trends

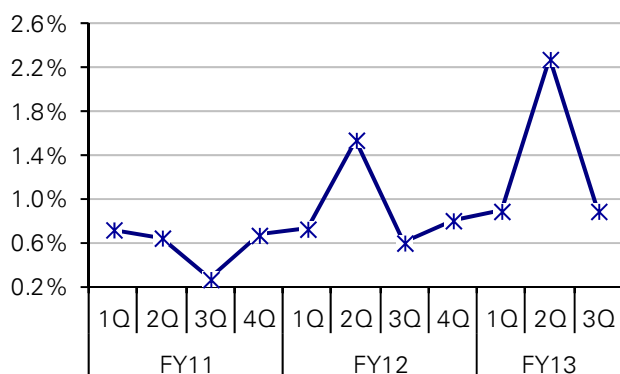
	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Gross NPL (INR bn)	45.42	48.12	57.91	65.48	63.86	58.94	67.52	88.99	86.25
Net NPL (INR bn)	16.60	19.45	26.90	42.45	40.93	36.56	44.13	52.28	54.55
Gross NPL (%)	2.36%	2.23%	2.69%	3.02%	2.74%	2.34%	2.56%	3.42%	3.08%
Net NPL (%)	0.88%	0.91%	1.27%	1.98%	1.78%	1.47%	1.69%	2.04%	1.97%
Rest. assets (gross)	103.48	106.45	111.02	111.15	136.74	163.95	205.89	214.18	223.19
Restructured assets (%)	5.37%	4.92%	5.17%	5.12%	5.87%	6.59%	7.79%	8.23%	8.07%
Rest slipped into NPL	18.89%	17.04%	21.05%	24.00%	23.56%	17.79%	13.08%	16.95%	18.71%
Rest. (Net domestic)			75.23	70.57	84.42	113.74	152.46	157.87	159.37
Rest. (Net domestic %)			3.50%	3.25%	3.62%	4.57%	5.77%	6.06%	5.76%
Slippages (INR m)	4,765	9,993	16,837	28,217	5,196	3,770	17,470	27,330	12,210
Slippages (%)	1.05%	2.11%	3.16%	5.25%	0.97%	0.65%	2.81%	4.14%	1.91%

Source: Company data, Deutsche Bank

### Higher provisions for write-offs and restructuring

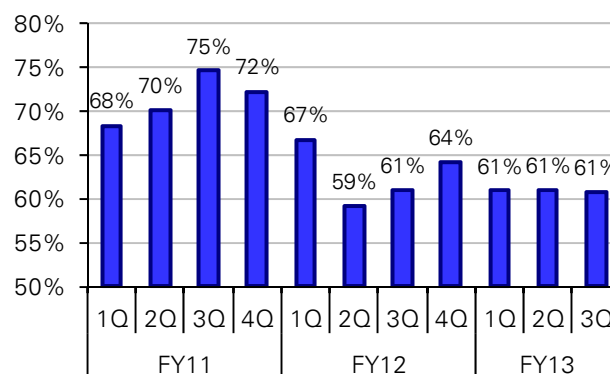
The bank has used this quarter to make sharply higher write-offs, to the tune of INR 3.1bn, which resulted in a lower tax rate (15%) for the quarter. The bank also made higher provisions for two restructured loans of about INR 1.3bn (for an additional 0.75%) and INR 1.8 bn (NPV hit on restructured loans).

Figure 5: Credit costs



Source: Company data, Deutsche Bank

Figure 6: Provision coverage



Source: Company data, Deutsche Bank

### Strong loan growth in international business; domestic growth at 16%

Domestic loan growth for 3QFY13 was +16% YoY and 3.5% QoQ, in line with the banking system. Overall loan growth (+19% YoY and 6% QoQ) was supported by strong growth in foreign loans (+25% YoY and 12% QoQ), which were mostly short-term credit given at lower spreads (70-80bps). Domestic deposits improved 10% YoY and +1% QoQ. The loan-to-deposit ratio (domestic) was constant at 70.5%. The bank expects to increase its loan-to-deposit ratio in the coming quarters. Within domestic loans, some of the categories reported above-average growth. Retail loans were up 16% YoY, real estate loans increased 22% YoY, and infrastructure loans continued to grow at 24% YoY and 3% QoQ, which management highlights are past sanctions which are disbursed now.

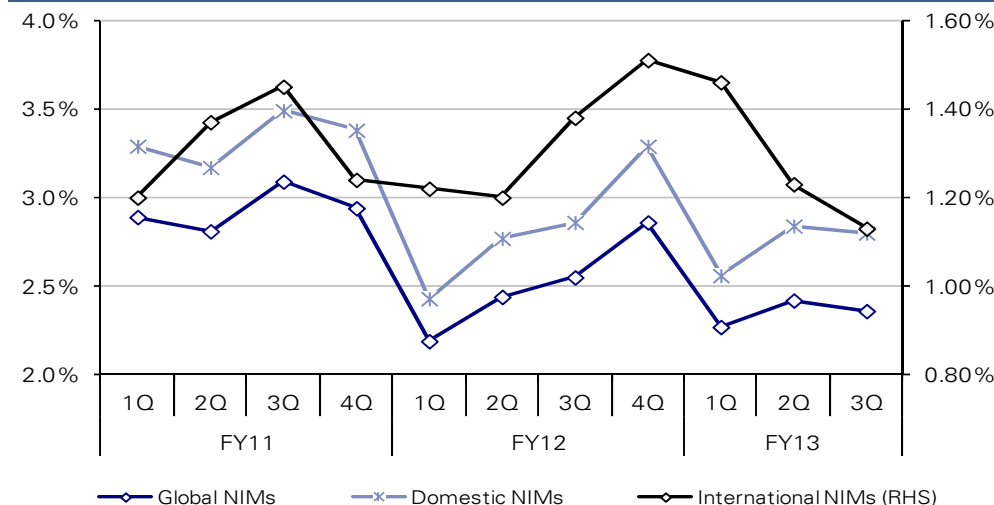
### Margins largely stable; should pick up in the next quarter

Margins declined marginally 6bps QoQ to 2.36%, with domestic margins declining 4bps on account of the full impact of the base rate cut in the previous quarter. Yield on loans



declined sharply (-32bps QoQ) during the quarter, while cost of funds declined 21bps. Despite this, NII increased 12% YoY or 5% QoQ to INR 23bn. International NIMs declined by 10bps QoQ, due to higher NPLs in the international book.

Figure 7: Movement in NIM – improvement in domestic NIMs



Source: Company data, Deutsche Bank

#### Non-interest income up – forex income and recoveries strong

Non-interest income continued to be healthy at INR 9.3bn, up 10% YoY and 5% QoQ. Profit from exchange transactions improved significantly during the quarter at 46% YoY. Income from recoveries also improved sharply, +32% YoY and +48% QoQ. Trading income declined 17% QoQ but was up 21% YoY. Fee income remained muted, down 9% YoY but up 2% QoQ.

#### Other key operational highlights for the quarter

- The Tier 1 ratio was 8.4%, with total CAR at 11.3% (including profits). The government will provide total capital of INR 8bn, which will increase the Tier 1 capital to 8.7%. We also expect the bank to approach the market to raise funds over the next 12 months
- The cost-to-income ratio increased 280bps QoQ to 43%, as staff expenses increased 19% QoQ.
- Tax provisions remained significantly lower at INR 1.4bn, with the tax rate at 15%.



Figure 8: Income statement and balance sheet

INR mn	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	YoY	QoQ	DBe	Actual vs. DBe
<b>Income Statement</b>									
Total interest earned	71,501	78,106	77,092	80,055	80,227	12.2%	0.2%		
Interest/ discount on advances/ bills	51,714	55,869	55,412	58,806	57,910	12.0%	-1.5%		
Income on investments	18,414	18,166	18,962	18,355	18,094	-1.7%	-1.4%		
Interest on RBI balances & others	1,824	2,983	2,717	2,892	2,976	63.1%	2.9%		
Others	-451	1,089	0	2	1,247	NM	NM		
Interest expended	50,826	53,096	56,656	58,095	57,142	12.4%	-1.6%		
<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>11.7%</b>	<b>5.1%</b>	<b>23,191</b>	<b>-0.5%</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>10.0%</b>	<b>4.8%</b>	<b>9,209</b>	<b>1.8%</b>
CEB	3,204	3,516	3,030	2,876	2,927	-8.6%	1.8%		
Trading income	712	736	1,004	1,032	860	20.8%	-16.7%		
Profit from exchange transactions	1,239	1,700	934	1,840	1,812	46.2%	-1.5%		
Recoveries	1,858	1,906	2,367	1,666	2,460	32.4%	47.7%		
Others	1,509	1,813	1,200	1,527	1,312	-13.0%	-14.0%		
<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>11.2%</b>	<b>5.0%</b>	<b>32,401</b>	<b>0.2%</b>
Core Revenues	27,339	32,775	26,477	29,235	29,996	9.7%	2.6%		
Total Operating Expenses	11,878	14,535	12,109	12,360	13,898	17.0%	12.4%	12,492	11.3%
Staff expenses	7,589	8,670	7,432	6,995	8,331	9.8%	19.1%		
Other expenses	4,289	5,865	4,676	5,365	5,568	29.8%	3.8%		
Operating profit	17,319	20,146	16,736	18,541	18,558	7.2%	0.1%	19,908	-6.8%
Core Operating Profit	15,461	18,240	14,369	16,875	16,098	4.1%	-4.6%		
<b>Total provisions</b>	<b>6,931</b>	<b>7,018</b>	<b>4,722</b>	<b>15,521</b>	9,158	32.1%	-41.0%	9,000	1.8%
Provision - NPL	3,330	4,807	5,692	14,772	5,910	77.5%	-60.0%		
Provision for investments	1,190	771	-1,356	-660	200	NM%	-130.3%		
Other provisions	2,411	1,440	386	1,409	3,048	26.4%	116.3%		
Profit before tax	10,388	13,128	12,013	3,020	9,400	-9.5%	211.3%	10,908	-13.8%
Tax	3,227	3,601	3,139	1	1,365	-57.7%	NM		
<b>Profit after tax</b>	<b>7,162</b>	<b>9,527</b>	<b>8,875</b>	<b>3,019</b>	<b>8,035</b>	<b>12.2%</b>	<b>166.2%</b>	<b>7,636</b>	<b>5.2%</b>
<b>Balance Sheet</b>									
Loans	2,331,146	2,488,333	2,641,616	2,603,867	2,764,864	18.6%	6.2%		
Loans - Domestic	1,633,251	1,779,502	1,833,926	1,825,259	1,889,799	15.7%	3.5%		
Loans - International	697,895	708,831	807,690	778,608	875,065	25.4%	12.4%		
Investments - Domestic	820,367	834,803	848,507	867,539	828,745	1.0%	-4.5%		
Deposits	3,072,522	3,182,160	3,389,826	3,326,947	3,491,171	13.6%	4.9%		
Deposits - domestic	2,440,000	2,480,000	2,670,000	2,650,000	2,680,000	9.8%	1.1%		
Deposits - international	632,522	702,160	719,826	676,947	811,171	28.2%	19.8%		

Source: Company data, Deutsche Bank



Figure 9: Key ratios and data

	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	YoY	QoQ
<b>Margin Components (%) (calculated)</b>							
Yield on loans	9.30%	9.33%	8.64%	9.04%	8.70%	-0.61%	-0.34%
Yield on investments	8.33%	8.43%	8.61%	8.18%	8.21%	-0.11%	0.04%
Cost of funds	6.71%	6.79%	6.90%	6.92%	6.70%	0.00%	-0.21%
NIM (calculated)	2.66%	3.07%	2.37%	2.21%	2.61%	-0.06%	0.10%
NIM (reported)	2.55%	2.86%	2.27%	2.42%	2.36%	-0.19%	-0.06%
<b>Asset Quality Ratios</b>							
Gross NPAs	63,860	58,940	67,518	88,986	86,251	35%	-3.1%
Net NPAs	40,931	36,564	44,134	52,283	54,555	33.3%	4.3%
NPL coverage (reported)	60.87%	64.18%	60.86%	60.96%	60.74%	-0.1%	-0.2%
Gross NPA Ratio	2.74%	2.34%	2.56%	3.42%	3.08%	0.3%	-0.3%
Net NPA Ratio	1.78%	1.47%	1.69%	2.04%	1.97%	0.2%	-0.1%
LLP / Advances	0.60%	0.80%	0.89%	2.27%	0.89%	0.3%	-1.4%
Slippage	5,196	3,770	17,470	27,334	12,210	135%	-55.3%
Slippage ratio %	0.97%	0.65%	2.81%	4.14%	1.91%	0.9%	-2.2%
Restructured loans o/s (Gross)	136,737	163,947	205,894	214,177	223,185	63%	4.2%
Restructured loans outstanding / Total loans	5.87%	6.59%	7.79%	8.23%	8.07%	2.2%	-0.2%
Restructured loans o/s (Net domestic)	84,419	113,742	152,460	157,865	159,368	89%	1.0%
Rest. loans o/s / Total loans (Net domestic)	3.62%	4.57%	5.77%	6.06%	5.76%	2.1%	-0.3%
<b>Loans (INR mn)</b>							
Total Domestic loans	1,633,251	1,779,502	1,833,926	1,825,259	1,889,799	16%	3.5%
Retail loans	180,040	191,160	236,240	202,800	209,140	16%	3.1%
Residential mortgage loan	85,750	83,450	86,950	99,680	104,969	22%	5.3%
Agriculture loans	207,800	234,690	229,100	230,340	249,490	20%	8.3%
SME Loans	311,500	322,700	309,660	314,590	325,610	5%	3.5%
Corporate loans	933,910	1,030,950	1,058,926	1,077,529	1,105,559	18%	2.6%
Real estate loans	207,017	227,304	261,275	247,862	251,726	22%	1.6%
Business mortgage loan	16,709	16,640	14,517	15,536	15,990	-4%	2.9%
CRE	41,436	48,479	47,856	47,058	45,424	10%	-3.5%
Capital market	24,256	33,373	34,443	34,417	36,762	52%	6.8%
<b>Deposits (INR mn)</b>							
Domestic deposits	2,440,000	2,480,000	2,670,000	2,650,000	2,680,000	10%	1.1%
Current	149,650	149,646	159,255	131,915	159,719	7%	21.1%
Savings	636,032	663,872	673,078	709,783	720,000	13%	1.4%
Term	1,654,318	1,666,482	1,837,667	1,808,302	1,800,281	9%	-0.4%
CASA deposits	785,682	813,518	832,333	841,698	879,719	12%	4.5%
CASA %	32.41%	34.25%	32.00%	32.77%	33.84%	1.4%	1.1%
<b>Key Ratios</b>							
Cost/Income	40.7%	41.9%	42.0%	40.0%	42.8%	2.1%	2.8%
Core Cost/Income ratio	41.7%	42.8%	43.5%	41.4%	44.0%	2.3%	2.6%
Core Fee Income/Operating Income	29.2%	27.9%	29.2%	28.9%	28.9%	-0.3%	-0.1%
Loan to Deposit ratio	75.0%	78.2%	77.9%	77.0%	79.2%	3.3%	0.9%
LDR - Domestic	66.9%	71.8%	68.7%	68.9%	70.5%	3.6%	1.6%
RoA	0.76%	0.96%	0.86%	0.30%	0.75%	0.0%	0.5%
<b>Capital Adequacy Ratios</b>							
Tier-I Ratio	7.65%	8.59%	8.29%	8.07%	7.64%	0.0%	-0.4%
Tier-II Ratio	3.53%	3.36%	3.13%	3.03%	2.95%	-0.6%	-0.1%
Total CAR Ratio	11.18%	11.95%	11.42%	11.10%	10.59%	-0.6%	-0.5%

Source: Company data, Deutsche Bank



## Valuation and risks

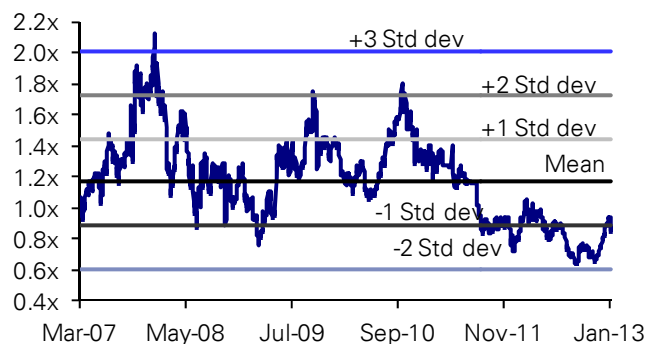
### Valuation

We value Bank of India on a two-stage residual income model. Assumptions for the model: income CAGR of 11%, dividend payout of 15%, cost of equity of 14.80% (Deutsche Bank estimate), terminal growth rate of 5% (nominal growth rate for developed countries). This gives us a March 2014E-based target price of INR 455, which results in a target P/BV of 1.06x.

### Risks

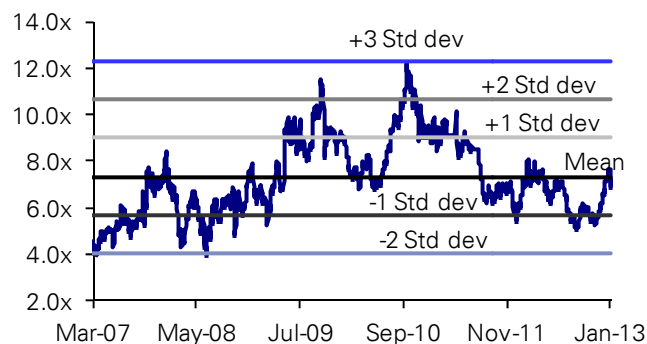
- Higher credit costs than estimated if the bank were to report high incremental slippages.
- Lower NIM as deposits re-price, which is important for the bank as it has only recently managed to bring NIM up and the low-cost deposit ratio is not very high.
- Fee income growth, which has been weak for a while, remaining modest or declining.

Figure 10: P/B std dev chart



Source: Bloomberg Finance LP, Deutsche Bank

Figure 11: P/E std dev chart



Source: Bloomberg Finance LP, Deutsche Bank







# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Bank of India	BOI.BO	355.25 (INR) 28 Jan 13	1

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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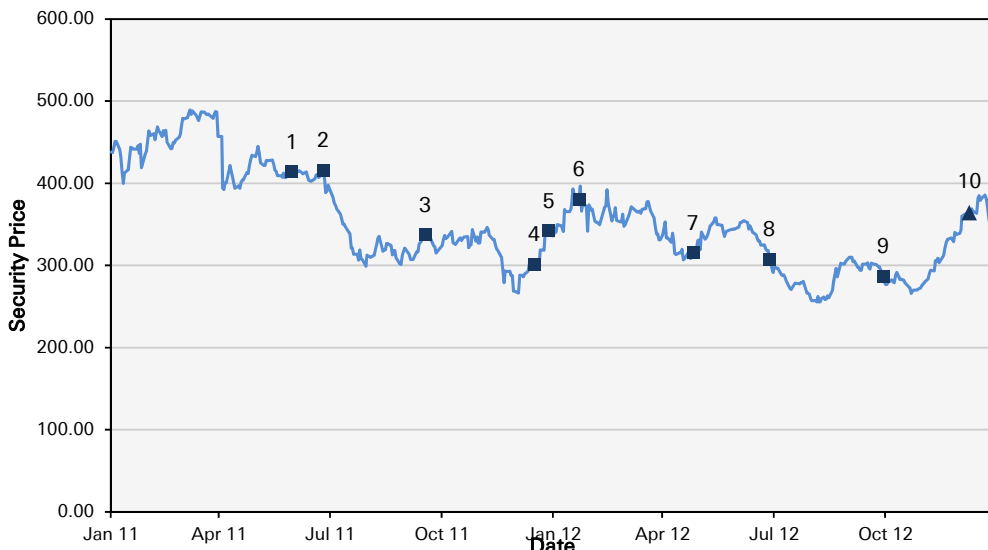
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Historical recommendations and target price: Bank of India (BOI.BO)

(as of 1/28/2013)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

1. 29/06/2011:	Hold, Target Price Change INR440.00	6. 21/02/2012:	Hold, Target Price Change INR400.00
2. 25/07/2011:	Hold, Target Price Change INR415.00	7. 25/05/2012:	Hold, Target Price Change INR380.00
3. 17/10/2011:	Hold, Target Price Change INR390.00	8. 27/07/2012:	Hold, Target Price Change INR345.00
4. 15/01/2012:	Hold, Target Price Change INR365.00	9. 29/10/2012:	Hold, Target Price Change INR315.00
5. 27/01/2012:	Hold, Target Price Change INR380.00	10. 08/01/2013:	Upgrade to Buy, Target Price Change INR455.00

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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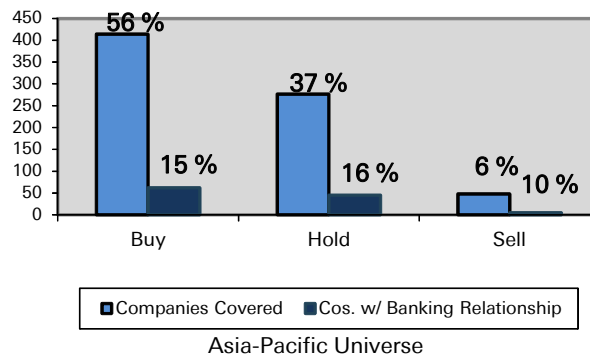
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