

January 28, 2013

<b>Rating</b>	<b>Previous Reco</b>
Reduce	Reduce
<b>CMP</b>	<b>Target Price</b>
Rs355	Rs270
EPS Chg FY13E/FY14E (%)	NA/-26
Target Price change (%)	13
Nifty	6,075
Sensex	20,103

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	5	24	22	1
Rel. to Nifty	1	15	2	-14

Source: Bloomberg

**Relative price chart**



Source: Bloomberg

**Stock Details**

Sector	Banking & Financial Services
Bloomberg	BOI IB
Equity Capital (Rs mn)	5,738
Face Value(Rs)	10
No of shares o/s (mn)	574
52 Week H/L	408/ 253
Market Cap (Rs bn/USD mn)	204/ 3,782
Daily Avg Volume (No of sh)	1,143,737
Daily Avg Turnover (US\$m)	6.8

**Shareholding Pattern (%)**

	<b>D'12</b>	<b>S'12</b>	<b>J'12</b>
Promoters	62.7	62.7	62.7
FII/NRI	14.8	15.4	15.1
Institutions	16.2	16.1	16.1
Private Corp	0.7	0.5	0.6
Public	5.6	5.3	5.5

Source: Bloomberg

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- **BOI Q3FY13 adj. NII at Rs21.8bn (+6% yoy) below consensus. NIMs contract qoq by 4/10bps for both, domestic and foreign business. Despite low tax rate, adj PAT at Rs7bn disappoints**
- **Stress asset addition still higher at Rs34bn (1.2% of loans for the quarter), fails to improve over last many quarters. Total slippages from restructured assets at 31% of TTM loans**
- **Steep loan growth (7.7% qoq) plus aggressive write off cosmetically bring down GNPA at 3.1%. Impairment ratio at 23% clearly reflects the strain on capital**
- **Factoring in capital infusion into our FY13E while retaining our estimates. Valuations at 1.3x / 1.1x FY13/FY14ABV seems unreasonable. Maintain REDUCE with TP of Rs270**

**Results aided by one-time income; asset quality pressure persist**

Bank of India Q3FY13 NII at Rs23.1bn (+12% yoy) was marginally ahead of our / street est of Rs22.5bn. *However, adjusting for interest on income tax refund of Rs1.2bn, NII at Rs21.8bn grew by mere +6% yoy with adjusted domestic margins down 19bps qoq.* Even as higher recovery income (1.5x qoq) boosted the other income, the core operating profit at Rs17.7bn grew just 8% yoy, down 5.6% qoq. While some cosmetic factors like, Rs8bn of write offs and steep 8% qoq loan growth helped reduced GNPA's to 3.1% vs. 3.4% in Q2FY13, *our contention on asset quality risks (i.e. fresh slippages + addition to restructured portfolio) continues with Q3FY13 addition to stressed assets at Rs34.2bn or 1.2% of loans.* In fact, PCR (including tech-w/off) stood reduced marginally at 60.7% vs. 61% in Q2FY13.

**Balance sheet:** Loan growth at 20% yoy was driven by 31% yoy growth in international portfolio and 16% yoy growth in domestic book. Similarly, deposit growth at 13.6% yoy was led by 29% yoy growth in international deposits. Share of CASA deposits as % of domestic deposits has inched to 32.8%

**Exhibit 1: Yield analysis**

%	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (bps)	QoQ (bps)
Yield on assets*	8.0	8.1	7.9	8.0	7.9	-8	-14
Cost of funds*	5.7	5.7	5.8	5.8	5.6	-5	-20
NIM*	2.3	2.4	2.1	2.2	2.3	-3	7
Yield on Advances#	9.5	9.7	8.9	9.2	8.9	-58	-32
Yield on Funds#	8.0	8.3	7.9	8.0	7.9	-8	-13
Cost of Deposit#	6.0	6.0	5.9	6.1	6.0	4	-10
Cost of funds#	5.7	5.7	5.8	5.8	5.6	-5	-21
NIM#	2.6	2.9	2.3	2.4	2.4	-19	-6
NIM-Domestic#	2.9	3.3	2.6	2.8	2.8	-6	-4
NIM-Foreign#	1.4	1.5	1.5	1.2	1.1	-25	-10

Source: Company, Emkay Research

Note:\* Calculated on basis of average quarterly balances # reported

**Financial Snapshot (Standalone)**

(Rsmn)

Y/E	Net Income	Net Profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY11A	104,524	24,885	45.5	256.3	0.8	17.3	7.8	1.4
FY12A	116,346	26,775	46.6	279.7	0.7	15.0	7.9	1.3
FY13E	124,311	26,680	44.7	285.0	0.6	12.7	7.9	1.2
FY14E	143,566	26,211	43.9	312.5	0.5	11.3	8.1	1.1

## Exhibit 2: Key financials - Quarterly

Rs mn	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)	YTD' 13	YTD' 12	YoY (%)
Net Interest Income	20,674	22,507	20,436	21,960	23,085	11.7	5.1	65,480	58,123	12.7
Other Income	8,522	9,671	8,409	8,941	9,371	10.0	4.8	26,721	23,541	13.5
Fee Income	3,204	3,516	3,030	2,876	2,927	-8.6	1.8	8,833	9,199	-4.0
Net Income	29,196	32,178	28,845	30,901	32,456	11.2	5.0	92,201	81,663	12.9
Total Operating Expenses	13,829	14,535	12,109	12,360	13,898	0.5	12.4	38,367	36,822	4.2
As % Of Net Income	47.4	45.2	42.0	40.0	42.8			41.6	45.1	
Employee Expenses	7,589	8,670	7,432	6,995	8,331	9.8	19.1	22,758	21,864	4.1
As % Of Net Income	26.0	26.9	25.8	22.6	25.7			24.7	26.8	
Other Expenses	4,289	5,865	4,676	5,365	5,568	29.8	3.8	15,609	13,007	20.0
As % Of Net Income	14.7	18.2	16.2	17.4	17.2			16.9	15.9	
Operating Profit	15,367	17,642	16,736	18,541	18,558	20.8	0.1	53,835	44,841	20.1
As % Of Net Income	52.6	54.8	58.0	60.0	57.2			58.4	54.9	
Provisions	5,431	7,018	4,722	15,521	9,158	68.6	-41.0	29,401	22,647	29.8
Prov for NPA	3,330	4,807	5,692	14,772	5,910	77.5	-60.0	26,374	15,450	70.7
PBT	8,436	10,624	12,014	3,020	9,400	11.4	211.3	24,434	20,694	18.1
Total Tax	3,227	3,601	3,139	1	1,365	-57.7	136,430.0	4,505	5,398	-16.5
Adjusted PAT	6,135	7,023	8,875	3,019	8,035	31.0	166.2	19,929	16,222	22.8
Extra Ordinary Items	-1,500	0	0	0	0			0	-1,500	
Reported PAT	5,209	7,023	8,875	3,019	8,035	54.2	166.2	19,929	15,296	30.3
Reported EPS	9.5	12.2	15.4	5.3	14.0	46.9	166.2	34.7	28.0	24.1

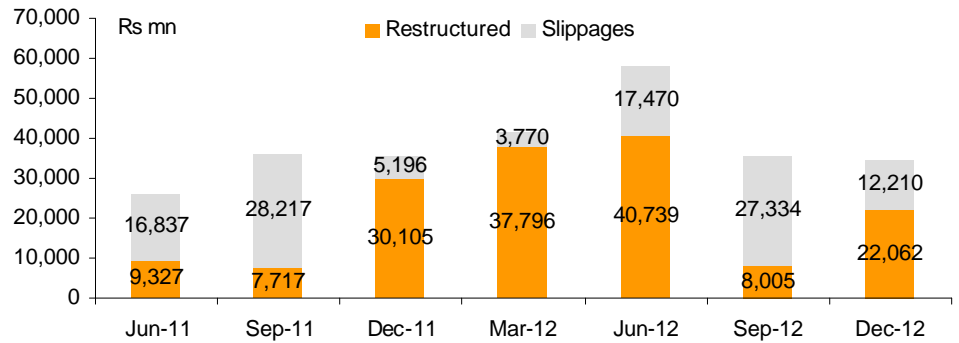
Source: Company, Emkay Research

## Key Highlights:

- **International portfolio drive loan growth higher:** Q3FY13 loan growth at 20.3% yoy / 7.7% qoq was driven by 31% yoy / 17% qoq growth in international loan portfolio. Mgmt attributed the reason for such a large expansion in portfolio towards short term credit requirement albeit at lower margins.
  - Growth in international portfolio was driven by – trade credit (+25% yoy), buyers credit (+32% yoy) and others (+44% yoy)
  - Domestic loan growth at 15.7% yoy / 3.5% qoq was inline with systemic growth and aided by agri (+20.1% yoy), large corporates (+18.4% yoy) and retail (+16.2% yoy). Credit to MSME segment at 5% yoy has slowed down in past 4-quarters.
  - We also remain wary of the fact that exposure to risky segments of infra, textile and metals combined at Rs532bn has grown by 17.5% and comprises 28% of domestic loan portfolio
- **Margin contraction may be higher than reported:** While Q3FY13 reported margins (global) at 2.36% declined 6bps qoq, adjusting for interest on income tax refund of Rs1.2bn, margins would had been much lower at 2.28-2.3% levels (ie -12bps qoq). **Domestic cost of deposits has failed to move materially during this quarter (down just 7bps qoq despite no new domestic term deposits).** Easing cost pressures are unlikely to benefit the bank in near term as lending pressure will drag overall margin performance
- **Improving CASA more a fallout of lower domestic loan growth:** Q3FY13 domestic deposit growth at 10% yoy / 1.3% qoq was led by 12% growth in CASA deposits. Share of CASA deposits has increased to 32.8% of domestic deposits vs 31.2% in Q1FY13.
- **Other income boosted by higher recovery + trading / forex gains:** Non-interest income at Rs9.4bn (+10% yoy) was on back of 37% yoy increase in trading / forex gains and 32% yoy rise in recovery from w/off accounts. Cash recovery is more of seasonal in nature and is likely to repeat in Q4.
- **... and offset higher operating expenses:** Employee expenses at Rs8.3bn were up 19% qoq as bank resorted to some employee related provisioning during the quarter. As a result, cost / income ratio shot up to 43% vs 41% avg in previous two quarters.

- Stressed asset addition still remains higher:** *Our contention on addition to stressed asset was clearly visible from Q3FY13 results as the bank witnessed stressed asset addition to the tune of Rs34.2bn (1.2% of loans – slippages from loan portfolio at Rs12.2bn and from restructured portfolio at Rs22bn)* and compares against Rs35.3bn in Q2FY13. Fresh slippages at Rs12.2bn included one-lumpy account from steel sector (almost 50%) while slippages from restructured pool included one-lumpy account from textile sector (almost 40%). We have factored in 2.4% slippages over FY12-14E

**Exhibit 3: Additions to stressed assets has remained higher at 1.2%+ of loans**



Source: Company, Emkay Research

- Cosmetic factors help reduce GNPA's even as PCR slips:** Q3FY13 results saw bank resorting to technical w/off's to the tune of Rs8.1bn coupled with steep 8% qoq growth in loans. As a result, GNPA came in at 3.1% vs. 3.4% in Q2FY13 and declined 3% qoq. However, the NNPA at Rs54.5bn was up 4% qoq as calculated PCR declined 450bps qoq to 36.7%. PCR (including tech-woff) was at 60.7% vs 61% in Q2FY13
  - Q3 saw restructured loans to the tune of Rs8.2bn slipping into NPA category (5% of loans). Cumulative NPA pool from restructured assets has now increased to Rs41.7bn or 25% of portfolio as at FY12. Infrastructure, aviation, textile and steel account for 65% of domestic restructured portfolio and are prone to higher risk of slippages into NPA category.
  - Impairment ratio (NNPL/networth ratio) still remains higher at 23% and clearly signifies stress on capital. Even after factoring for capital infusion and full-year profit, we believe impairment ratio to remain higher at ~20%+ as at end-FY13.
  - Tax rate too came in lower at 14.5% as mgmt resorted to higher write-off in Q3

### Valuations and view

Bank of India Q3FY13 results clearly vindicates our negative stance given a) concerns on asset quality (stressed asset addition still higher at Rs34.2bn or 1.2% of loans) with impairment ratio higher at 23% b) weak operating matrix with NIM (global) at 2.4% vs 2.7% levels for Bank of Baroda and c) higher exposure to risky assets (infra, textile and metals account for 28% of domestic loan portfolio).

We have incorporated the capital infusion (Rs8.1bn) into our numbers while largely retaining our estimates. We are now factoring 12% CAGR in NII and flat margins at 2.2% led by 14% CAGR in customer assets over FY12-14E. We have cut our NII / PAT estimates for FY14E by 7% / 23% respectively factoring lower than expected credit growth, significant pressure on margins and no let up on the cost of deposits. Increased levels of stressed asset addition will warrant higher provisioning and we have factored credit cost at 130bps (avg) over FY13-14E. Valuations at 1.3x FY13ABV and 1.1x FY14ABV seem unreasonable in context of sub-optimal return ratios (RoA at 0.6%- 0.7% and RoE at 13-15% over FY13-14E). Retain REDUCE with target price of Rs270

**Exhibit 4: Revised estimates**

Rs mn	FY14E		
	New	Old	% chg
NII	104,728	112,210	-6.7
Operating profit	84,382	91,848	-8.1
Profit after tax	26,211	34,224	-23.4
EPS (Rs)	43.9	59.6	-26.3
ABV (Rs)	312.5	323.6	-3.4

Source: Company

**Exhibit 5: Advance mix**

Rs bn	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)	% of total
Foreign	698	735	808	779	914	30.9	17.4	32.6
Mid-corporate/SME	312	323	310	315	326	4.5	3.5	11.6
Agriculture	208	212	229	230	249	20.1	8.3	8.9
Retail	180	191	236	203	209	16.2	3.1	7.5
Others	934	1,054	1,059	1,078	1,106	18.4	2.6	39.4
<b>Total</b>	<b>2,331</b>	<b>2,515</b>	<b>2,642</b>	<b>2,604</b>	<b>2,804</b>	<b>20.3</b>	<b>7.7</b>	<b>100.0</b>

Source: Company, Emkay Research

**Exhibit 6: Deposit profile**

Rs bn	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)
Savings Deposits	150	150	159	132	160	6.7	21.1
Current Deposits	636	664	673	710	720	13.2	1.4
CASA	786	814	832	842	880	12.0	4.5
Domestic term deposits	1,657	1,671	1,838	1,805	1,801	8.7	-0.2
Foreign deposits	630	697	720	680	810	28.6	19.1
Total Deposits	3,073	3,182	3,390	3,327	3,491	13.6	4.9
CASA (%) of domestic deposits	32.2	32.7	31.2	31.8	32.8	64	101

Source: Company, Emkay Research

**Exhibit 7: Other income**

Rs mn	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)	YTD' 13	YTD' 12	YoY (%)
Fee/Commission income	3,204	3,516	3,030	2,876	2,927	-8.6	1.8	8,833	9,199	-4.0
Trading gains/(losses)	712	736	1,004	1,032	860	20.8	-16.7	2,896	3,353	-13.6
Forex gains/(losses)	1,239	1,700	934	1,840	1,812	46.2	-1.5	4,586	4,193	9.4
Recoveries	1,858	1,906	2,637	1,666	2,460	32.4	47.7	6,763	3,046	122.0
Other non int income	1,509	1,813	804	1,527	1,312	-13.0	-14.0	3,643	3,750	-2.8
<b>Total</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>26,721</b>	<b>23,541</b>	<b>13.5</b>

Source: Company, Emkay Research

**Exhibit 8: Asset quality**

Rs mn	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)
Gross NPA (Rs mn)	63,860	58,940	67,518	88,986	86,251	35.1	-3.1
Net NPA (Rs mn)	40,931	36,564	44,134	52,283	54,555	33.3	4.3
Gross NPA (%)	2.7	2.3	2.6	3.4	3.1		
Net NPA (%)	1.8	1.5	1.7	2.0	2.0		
Net NPLs/Net worth (%)	20.9	17.4	20.2	23.4	23.4		
Provision cover (%)	35.9	38.0	34.6	41.2	36.7		
Provision cover incl tech write off (%)	60.9	64.2	60.9	61.0	60.7		

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Net interest income</b>	<b>78,106</b>	<b>83,134</b>	<b>88,681</b>	<b>104,728</b>
Other income	26,418	33,212	35,630	38,837
Net income	104,524	116,346	124,311	143,566
Operating expenses	50,683	49,407	53,872	59,184
Pre provision profit	53,841	66,940	70,439	84,382
PPP excl treasury	0	0	0	0
Provisions	18,889	31,164	36,666	46,395
Profit before tax	34,952	35,775	33,773	37,988
Tax	10,067	9,000	7,092	11,776
Tax rate	28.8	25.2	21.0	31.0
Profit after tax	24,885	26,775	26,680	26,211

## Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Liabilities</b>				
Equity	5,472	5,745	5,970	5,970
Reserves	167,435	203,873	230,735	247,169
Net worth	172,907	209,618	236,705	253,138
Deposits	2,988,858	3,182,160	3,763,611	4,343,543
Borrowing & Others	349,960	453,577	491,996	545,170
Total liabilities	3,511,725	3,845,355	4,492,312	5,141,852
<b>Assets</b>				
Cash and bank	373,100	347,113	430,353	496,746
Investments	858,723	867,536	1,070,386	1,215,369
Customer assets	2,130,962	2,488,333	2,842,183	3,269,729
Others	148,940	142,373	148,893	160,007
Total assets	3,511,725	3,845,355	4,491,815	5,141,852

## Key Ratio (%)

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
NIM	2.5	2.3	2.1	2.2
Non-Il/avg assets	0.8	0.9	0.9	0.8
Fee income/avg assets	0.4	0.3	0.3	0.3
Opex/avg assets	1.4	1.3	1.2	1.2
Provisions/avg assets	0.6	0.9	1.2	1.4
PBT/avg assets	1.1	1.0	0.8	0.8
Tax/avg assets	0.3	0.2	0.2	0.2
RoA	0.8	0.7	0.6	0.5
RoAE	17.3	15.0	12.7	11.3
GNPA (%)	2.5	2.6	3.6	3.8
NNPA (%)	0.9	1.5	1.9	1.7

## Valuation Table

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Net profit (Rs mn)	24,885	26,775	26,680	26,211
Shares in issue (mn)	547	575	597	597
EPS (Rs)	45.5	46.6	44.7	43.9
PER (x)	7.8	7.6	7.9	8.1
FDEPS(Rs)	45.5	44.9	44.7	43.9
FDPER (x)	7.8	7.9	7.9	8.1
Book value (Rs)	291.9	343.3	375.8	403.3
P/BV (x)	1.2	1.0	0.9	0.9
Adj book value (Rs)	256.3	279.7	285.0	312.5
P/ABV (x)	1.4	1.3	1.2	1.1
P/PPP (x)	3.6	3.0	3.0	2.5
Dividend yield (%)	2.0	2.0	3.1	3.9

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