

Bank of India

29 January 2013

Reuters: BOI.BO; Bloomberg: BOI IN

Asset Quality Stabilises; Upgrade To Buy

Bank of India posted net earnings of Rs8.0bn for 3QFY13 aided by NII growth of 11.6% YoY and stable asset quality. Asset quality concerns were capped amid higher recoveries and upgradation during the quarter. Gross non-performing assets (GNPAs) and net non-performing assets (NNPAs) in percentage terms stood at 3.08% and 1.97%, respectively. Factoring in adequate capital cushion of Rs8.1bn likely during 4QFY13E and looking at 9MFY13 operating performance, we have revised upwards our NII/PAT estimates for FY13E by 1.6%/2.2% and for FY14E by 1.8%/2.1%, respectively, and trimmed our provisioning estimates for FY13E/FY14E by 7.7%/0.5%, respectively. Rolling forward our target multiple to FY14, we have revised upwards our rating on the stock to Buy from Sell with a target price of Rs420 from Rs230 earlier, based on 2.1x FY14E adjusted book value or ABV (from 2.2x on FY13E ABV earlier), implying an upside of 18% from the current market price.

Operational performance: Bank of India reported 3QFY13 earnings of Rs8,033mn backed by NII YoY growth of 11.6% and stable asset quality - below our net profit estimate of Rs8,565mn by 6.2% but above Bloomberg consensus estimate by 7.7%. It posted interest income growth of 12.2% YoY and 0.2% QoQ, while interest costs grew 12.4% YoY but declined 1.6%, sequentially. NII showed a deviation of -1.0% against our estimate of Rs23,325mn. The bank posted a growth of 10.0% YoY in non-interest income at Rs9,371mn against our estimate of Rs10,853mn. It reported a 3.6% YoY growth in total provisioning at Rs10,523mn against our estimate of Rs12,530mn led by loan loss provisioning of Rs9,158mn against our estimate of Rs9,492mn.

Margin declines sequentially: Bank of India reported a decline in margin to 2.36% from 2.42% in the previous quarter as cost of deposits fell by 10bps, while yield on advances witnessed a decline of 32bps QoQ. The fall is attributed to system recognition of NPAs and part reversal of interest income.

Pares bulk deposits: Bank of India has pared around Rs210bn of high-cost bulk deposits over the past six months and currently its bulk deposit ratio to domestic advances stands at 18.8%, which the management intends to bring down to 15.0% over a period of time. Low-cost deposits grew 11.9% YoY during the quarter as the CASA (current account savings account) ratio stands at 33.8% currently from 32.4% in 3QFY12.

BUY

Sector: Banking

CMP: Rs355

Target Price: Rs420

Upside: 18%

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Key Data

Current Shares O/S (mn)	573.8
Mkt Cap (Rsbn/US\$b)	203.8/3.8
52 Wk H / L (Rs)	408/253
Daily Vol. (3M NSE Avg.)	1,143,737

Price Performance (%)

	1 M	6 M	1 Yr
BOI	4.7	22.3	0.7
Nifty Index	2.8	19.1	16.7

Source: Bloomberg

Y/E March (Rsmn)	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
Interest on credit	51,714	58,806	57,910	12.0	(1.5)	146,537	172,128	17.5
Interest on investments	18,414	18,355	18,094	(1.7)	(1.4)	53,252	55,411	4.1
Interest income	71,501	80,055	80,226	12.2	0.2	206,701	237,372	14.8
Interest expenses	(50,826)	(58,095)	(57,142)	12.4	(1.6)	(148,576)	(171,893)	15.7
Net interest income	20,676	21,960	23,084	11.6	5.1	58,124	65,479	12.7
Total other operating income	8,522	8,941	9,371	10.0	4.8	23,541	26,721	13.5
Total income	29,198	30,901	32,455	11.2	5.0	81,665	92,200	12.9
Staff expenses	(7,589)	(6,995)	(8,331)	9.8	19.1	(21,864)	(22,758)	4.1
Overheads	(11,878)	(12,360)	(13,898)	17.0	12.4	(34,871)	(38,367)	10.0
Profit before provisions	17,319	18,541	18,557	7.1	0.1	46,794	53,833	15.0
Bad debt provisions	(3,330)	(14,772)	(9,158)	175.0	(38.0)	(15,450)	(29,622)	91.7
Income tax	(3,227)	(1)	(1,365)	(57.7)	-	(5,406)	(4,505)	(16.7)
Total provisions	(10,157)	(15,522)	(10,523)	3.6	(32.2)	(29,546)	(33,906)	14.8
Net profit	7,163	3,019	8,033	12.2	166.1	17,248	19,927	15.5
EPS (Rs)	13.1	5.3	14.0	-	-	31.5	34.7	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Total income	104,525	116,346	131,244	147,082	166,768
Profit before provisions	53,842	66,939	77,349	86,901	99,679
<i>NIM (%)</i>	2.6	2.4	2.4	2.3	2.3
Net profit	24,887	26,774	31,227	35,687	39,596
EPS (Rs)	45.5	46.6	54.4	62.1	68.9
<i>EPS growth (%)</i>	37.4	2.5	16.6	14.3	11.0
PE (x)	7.8	7.6	6.5	5.7	5.2
Price/book value (x)	1.4	1.1	1.0	0.8	0.7
Price/adjusted book value (x)	2.6	3.1	2.2	1.8	1.5
<i>Dividend yield (%)</i>	2.3	2.3	2.3	2.5	2.7
<i>Cost-to-income (%)</i>	48.5	42.5	41.1	40.9	40.2
<i>RoA (%)</i>	0.8	0.7	0.8	0.8	0.7
<i>RoE (%)</i>	17.2	15.6	14.9	14.7	14.2
<i>Tier-1 capital (%)</i>	8.3	8.6	8.5	8.2	7.9

Source: Company, Nirmal Bang Institutional Equities Research

Asset quality remains stable: Bank of India reported GNPA growth of 35.1% YoY but a decline of 3.1% QoQ at Rs86,251mn against our estimate of Rs103,904mn, and NNPA growth of 33.3% YoY and 4.3% QoQ at Rs54,555mn. Consequently, GNPA and NNPA in percentage terms for the quarter stood at 3.08% and 1.97% against 2.74% and 1.78%, respectively, during the corresponding quarter a year ago. Factoring in stable asset quality and 9MFY13 performance, we have revised downwards our GNPA/NNPA/restructured loan book estimates for FY13E by 26.8%/18.8%/20.7% and for FY14E by 26.8%/26.8%/27.3%, respectively. Restructured loan book post 3QFY13 stood at Rs181.3bn as the bank reported addition of around Rs22bn during the quarter.

FY13 and FY14 estimates revised upwards, introducing FY15 estimates: Factoring in stable asset quality and 9MFY13 performance, we have revised upwards our PAT estimates for FY13E by 1.7% and for FY14E by 3.0%. We have also introduced our FY15 numbers expecting NII CAGR of 14.5%, pre-provisioning profit CAGR of 13.5% and profit CAGR of 12.6% over FY13E-FY15E.

Valuation and outlook: At the current market price, Bank of India stock trades at 0.8x FY14E BV and 1.8x FY14E ABV. We have upgraded our recommendation on it from Sell to Buy and raised its target price from Rs230 to Rs420, up 18% from the current market price, as we rolled forward our multiple to FY14.

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
21 August 2012	Sell	277	248
4 October 2012	Sell	305	248
30 October 2012	Sell	280	230
7 January 2013	Sell	364	248

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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