ENAM Securities
India Research

CMP: Rs 318
Target Price: Rs 390
Potential Upside: 23%
Absolute Rating: BUY

Bank of India

Relative to sector: Outperformer

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Relative Performance

Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 546 mn
Market cap	: Rs 174 bn
52 week high/low	: Rs 588 / Rs 290
Avg. daily vol. (6mth)	: 1.0 mn shares
Bloomberg code	: BOI IB
Reuters code	: BOI.BO

Shareholding (%)		Jun-11	QoQ chg
Promoters	:	65.9	0.0
FIIs	:	15.1	0.8
MFs / UTI	:	1.0	(0.8)
Banks / FIs	:	11.3	0.7
Others	:	6.7	(0.6)

SLIPPAGES – AN OVERHANG; NEGATIVES PRICED IN

We met with the management of Bank of India (BoI), to understand their view on slippages in the near-term and its impact on profitability. Credit growth is expected to be in-line with industry average (~18% YoY) with stable margins (at ~2.2%); however, slippages are likely to remain high in the short-term (3.8% slippage ratio in Q1FY12). Slippages and higher provisioning to impact the bank's profitability in Q2FY12.

Slippages to remain high: Due to migration towards 100% system driven NPA recognition, slippages are likely to remain at elevated levels. In Q1FY12, fresh slippages were at Rs 16.8 bn (slippage ratio of ~3.8%) and the management expects it to remain at similar levels. In current quarter ~10% of the total loan book has migrated to system based NPA recognition. Though the management expects strong recoveries in coming quarters, FY12E is likely to be a challenging year with respect to asset quality.

NPA Provisioning to remain high: As per their internal policy, BoI maintains higher than mandated provisioning coverage. With higher slippages anticipated in the coming quarter, we expect provisioning expenses to remain at elevated levels which may impact the bottom line. We have estimated a 4% YoY decline in FY12E PAT assuming higher provisioning expenses. 2.7% slippages assumed in FY12E (vs. 1.7% in FY11) with 56% coverage ratio (without technical write offs).

Valuations: At CMP of Rs 318, BOI is trading at 1.1x FY12E ABV and 0.9x FY13E ABV. Since majority of the negatives are already factored in our assumptions and as valuations give us comfort at current levels, we maintain our **BUY rating** with a target price of Rs 390 (1.2x FY13E ABV).

Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2010	17,411	33	(42)	9.6	237	209	1.3	1.5	14.4	0.7	1.3
2011	24,887	45	37	7.0	283	248	1.1	1.3	17.8	0.8	0.9
2012E	23,793	43	(4)	7.3	319	290	1.0	1.1	14.4	0.6	0.9
2013E	31,487	58	32	5.5	367	339	0.9	0.9	16.8	0.7	0.8

Source: Company, ENAM estimates

Credit growth: Mgmt expects business growth to be in-line with industry average. However, there is very limited investment demand in the system.

Main drivers for credit growth: Majority of the credit demand is for working capital requirements with limited demand for investments. Amongst the sectors, SME & Mid Corporate are the key drivers for growth. BOI expects its credit growth at ~18% for FY12E which is inline with our estimates.

SEB exposure: (~5.1% of total advances) BoI has ~Rs 110 bn of outstanding loans to SEBs which are mainly for financing the working capital requirements. The bank has not witnessed any default from this portfolio but is maintaining a cautious approach for incremental lending to the SEBs.

Private power sector exposure: (~5.6% of total advances) the bank has an exposure of ~Rs 120 bn towards private power projects, wherein the majority are under implementation stage. Hence, mgmt is keeping a close tab on the progress of these projects, to check on any possible delays / slippages.

Airline exposure: (~1.9% of advances) BoI has an exposure of ~Rs 42 bn in the airline industry wherein majority is towards a PSU Airline. This portfolio is experiencing some stress and may see restructuring in the coming quarters.

Reduction in proportion of bulk deposits: BoI has reduced its high cost bulk deposits by ~Rs 120 bn (~4% of total deposits) in the current fiscal which will help the bank in lowering the burden of rising rates and protecting margins.

Net interest margins may witness some improvement: Management is confident on margin improvement in Q2FY12 supported by a reduction in proportion of bulk deposits and base rate increases (twice in Q2FY12). However, we expect NIMs to remain stable as higher slippages may lead to interest income reversals as witnessed in Q1FY12. In Q1FY12, due to the system based NPAs, BoI had reversed ~Rs 1.8 bn of interest income which led to a lower NIM at 2.2% (domestic NIM at 2.4%).

Capital: BoI is anticipating Rs 10 bn of capital infusion from the GOI and may not raise fresh capital from equity market in FY12E. Currently, GOI has 65.8% stake in the bank and post the planned infusion, the stake may increase to 67.7% at CMP. Current Tier-I is at 8.0% and total CAR is at 11.6%. Without assuming any dilution, ROE for FY12E is at 14.4% while ROA stands at 0.6%.

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