



Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,229	BOI IN
	REUTERS CODE
S&P CNX: 4,178	BOI.BO

26 April 2007

Buy

Previous Recommendation: Buy

Rs200

Equity Shares (m)	488.1
52-Week Range	214/80
1,6,12 Rel.Perf.(%)	8/16/43
M.Cap. (Rs b)	97.5
M.Cap. (US\$ b)	2.4

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	50,034	11,232	23.0	60.2	8.7	1.8	11.6	20.8	0.9	1.9
3/08E	55,128	13,382	27.4	19.1	7.3	1.5	11.5	20.9	0.9	1.6
3/09E	64,115	16,196	33.2	21.0	6.0	1.2	10.5	21.4	0.9	1.3

Bank of India's (BoI) performance for 4QFY07 has beaten our estimates on all business parameters. Reported earnings grew by 76% YoY to Rs4.5b (v/s our estimate of 1% growth) on account of largely contained cost of deposits, improved yield on advances along with strong growth of ~30% in advances and robust fee income growth. Reported net interest income (NII) grew 16% YoY to Rs9.7b, ahead of our estimate of 5% growth. Adjusting for the one-off items, NII growth was higher at 27% YoY. Asset quality continued to improve.

- ✍ Adjusted NII grew by 27% YoY
- ✍ Margins improved 17bp to 3.2% in FY07
- ✍ Core fee income grew 48% YoY in 4QFY07
- ✍ Business growth remained robust
- ✍ Asset quality improved further, with net NPAs at 0.74%

BoI has been improving on all key parameters for the last few quarters. We believe that it would be a beneficiary of low operating expenses, steady NII growth, robust fee income growth and stable margins, with very low risk on the AFS portfolio (89% of SLR securities are in HTM). While we expect PAT to grow 19% in FY08 and 21% in FY09, we believe that the bank has enough levers for a positive surprise on earnings. Post 4QFY07, we have revised our earnings estimates upwards by 17% for FY08 and by 13% for FY09. The stock trades at 6x FY09E EPS and 1.2x FY09E BV. We maintain **Buy**, with a revised target price of Rs242.

Y/E MARCH	(RS MILLION)									
	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	15,645	16,614	18,006	20,022	20,211	22,582	23,187	26,154	70,287	91,803
Interest Expense	10,056	10,828	11,440	11,644	12,566	14,088	14,599	16,474	43,967	57,399
Net Interest Income	5,590	5,786	6,566	8,378	7,644	8,494	8,588	9,680	26,320	34,405
% Change (Y-o-Y)	3.8	-2.9	6.1	73.2	36.8	46.8	30.8	15.5	17.7	30.7
NII adjusted for one-offs*	5,590	5,786	6,566	7,308	7,644	8,494	8,588	9,230	25,320	33,955
Other Income	2,944	3,031	2,625	3,244	3,107	3,533	3,223	5,767	11,844	15,630
Net Income	8,533	8,818	9,191	11,622	10,751	12,026	11,811	15,447	38,164	50,034
% Change (Y-o-Y)	4.9	3.1	7.8	33.4	26.0	36.4	28.5	32.9	12.5	31.1
Operating Expenses	4,867	5,517	5,444	5,324	6,075	7,236	6,279	6,495	21,151	26,084
Operating Profit	3,666	3,301	3,747	6,298	4,676	4,791	5,532	8,952	17,012	23,950
Other Provisions	1,392	1,521	1,804	3,140	1,685	1,587	2,286	3,064	7,856	8,621
Profit Before tax	2,275	1,780	1,943	3,159	2,991	3,204	3,246	5,888	9,157	15,329
Tax Provisions	557	459	512	614	904	1,083	697	1,414	2,142	4,097
Net Profit	1,717	1,322	1,431	2,544	2,087	2,121	2,549	4,474	7,014	11,232
% Change (Y-o-Y)	5.6	166.8	90.7	381.9	21.5	60.5	78.1	75.9	106.1	60.1
Cost to Income Ratio (%)	57.0	62.6	59.2	45.8	56.5	60.2	53.2	42.0	55.4	52.1
Interest Expense/Interest Income (%)	64.3	65.2	63.5	58.2	62.2	62.4	63.0	63.0	62.6	62.5
Other Income/Net Income (%)	34.5	34.4	28.6	27.9	28.9	29.4	27.3	37.3	31.0	31.2

E: MOST Estimates * NII adjusted of one-off items, but not for amortization

Bank of India's (BoI) performance for 4QFY07 has beaten our estimates on all business parameters. Reported earnings grew by 76% YoY to Rs4.5b (v/s our estimate of 1% growth) on account of largely contained cost of deposits, improved yield on advances along with strong growth of ~30% in advances and robust fee income growth. Reported net interest income (NII) grew 16% YoY to Rs9.7b, ahead of our estimate of 5% growth. Adjusting for the one-off items, NII growth was higher at 27% YoY. Asset quality continued to improve.

Adjusted NII grew by 27% YoY (net of amortization expenses)

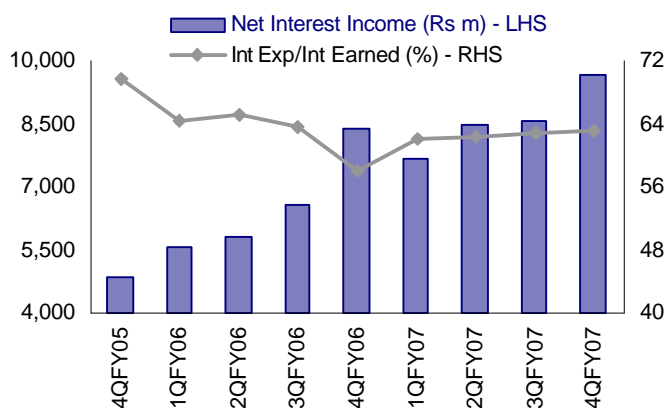
While on a reported basis, NII increased by 16% YoY to Rs9.7b, adjusted NII grew 27% YoY, as 4QFY06 had a one-off item (interest on income tax refund) of Rs1b.

NII WORKING (RS M)

	4QFY07	4QFY06	GR. (%)
Interest Income	26,154	20,022	30.6
Interest Expenses	16,474	11,644	41.5
Reported NII	9,680	8,378	15.5
Amortization	630	400	-
One of Interest	-	1,070	-
Additional CRR Interest	500	-	-
Adjusted NII	9,810	7,708	27.3

Source: Company/Motilal Oswal Securities

TREND IN NET INTEREST INCOME



Source: Company/Motilal Oswal Securities

Margins improve as yields expand

Excluding amortization expenses, the global NIM has increased to 3.2% in FY07 compared with 3.03% in FY06.

The expansion was the result of an increase in the yield on funds by 49bp YoY to 7.89% from 7.4% in FY07, while cost of funds increased by just 32bp to 4.69% in FY07 from 4.37% in FY06. Domestically, NIMs have improved to 3.7% in FY07 from 3.55% in FY06.

In 4QFY07, global NIMs decreased by 20bp to 3.34%, as 4QFY06 included a one-off interest income of Rs1b. The management has guided that it would be able to maintain the domestic margins of 3.7%, going forward.

NIM (%) (EXCLUDING AMORTIZATION EXPENSE)

	FY06	FY07	INCREASE YOY (BP)
Global NIM (%)			
Yield on Advances	7.58	8.52	94
Yield on Investments	7.15	7.31	16
Yield on Funds	7.40	7.89	49
Cost of Deposits	4.05	4.31	26
Cost of Funds	4.37	4.69	32
Global Spreads	3.03	3.20	17
Domestic NIM (%)			
Yield on Funds	7.95	8.43	48
Cost of Funds	4.40	4.73	33
Domestic Spreads	3.55	3.70	15

Source: Company/Motilal Oswal Securities

Loans grow by 30%, deposits by 28%

Business momentum remained strong in 4QFY07. Global deposits grew by 28% YoY to Rs1,199b. Domestic deposits increased by 22% YoY to Rs947b. Low cost deposit (CASA) ratio decreased marginally to 40% QoQ, but remained steady YoY. Global gross advances grew by 30% to Rs868b (loans in India grew 29% YoY to Rs698b in 4QFY07).

Within loans, retail continued its growth momentum, recording an increase of 35% YoY to Rs174b. Advances to the agricultural sector registered a growth of 25% to Rs113b, while SME credit increased by 22% to Rs193b in FY07.

Bank of India expects retail, small and medium enterprises (SME), and agriculture to drive loan growth and thereby derive better yields. Management is targeting a growth of 20% in deposits and 25% in loans in FY08.

GROWTH YOY (%)

	FY06	FY07
Indian Deposits	18.4	21.7
Foreign Deposits	23.3	56.3
Global Deposits	19.2	27.6
Indian Advances	23.3	29.2
Foreign Advances	-4.9	34.4
Global Advances	16.7	30.2

Source: Company/ Motilal Oswal Securities

Other income increased by 77% in 4QFY07 and 32% in FY07

Management attributes this growth to rationalization of services charges and aggressive marketing undertaken by the bank during the year. International operations, cross-selling opportunities helped the bank to show robust fee income growth.

OTHER INCOME INCREASED BY 77% IN 4QFY07 AND 32% IN FY07

	4Q FY07	4Q FY06	YOY GR. (%)	FY07	FY06	YOY GR. (%)
Core Fee Income	2,850	1,930	48	8,860	7,350	21
Trading Profits	480	130	269	2,050	1,140	80
Exch. Trans.	770	480	60	2,240	1,820	23
Recovery in w/off Accounts	1,140	710	61	1,830	1,530	20
One off Items	520	-	-	650	-	-
Total	5,760	3,250	77	15,630	11,840	32

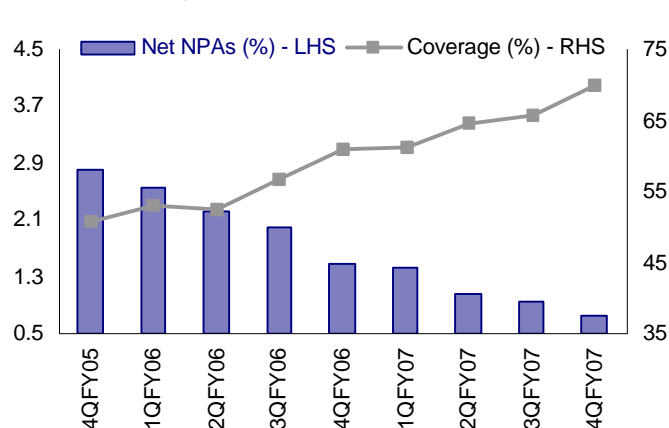
Source: Company/ Motilal Oswal Securities

Asset quality improves, with net NPAs at 0.74%

Asset quality improved further on the back of aggressive provisioning and strong recoveries. Net NPAs halved to 0.74% (QoQ decline of 21bp). Even the gross NPAs declined by 130bp from 3.72% to 2.42% in FY07 (QoQ decline of 30bp). In absolute terms, gross NPAs declined by Rs0.9b QoQ to Rs21b in FY07, while net NPAs have declined by Rs1.2b QoQ to Rs6.3b in FY07. Coverage ratio stood at 70%.

Management intends to bring its provision cover up to 75% by the next couple of quarters. Post this, we believe that the bank's incremental provisioning requirements would be much lower, with low net NPAs. This would also reflect in earnings, positively.

TREND IN NET NPAS



Source: Company/ Motilal Oswal Securities

GROSS NPA MOVEMENT (RS M)

	FY05	FY06	FY07
Opening Gross NPA	37,340	31,560	24,790
Total Reduction	13,350	13,860	13,260
Recovery	8,040	7,210	7,520
Upgradation	2,020	1,420	1,320
Write-off	3,290	5,230	4,410
Slippages	7,570	7,090	9,470
Net Reduction	5,780	6,770	3,790
Closing Gross NPA	31,560	24,790	21,000
Total Nettable Credits	16,020	15,100	14,680
NPA Provision	14,150	13,320	13,540
Other Credit	1,870	1,780	1,140
Net NPA	15,540	9,690	6,320
Gross NPA Ratio (%)	5.5	3.7	2.4
Net NPA Ratio (%)	2.8	1.5	0.7
Provision Cover Ratio (%)	50.8	60.9	69.9

Source: Company/ Motilal Oswal Securities

Operating expenses up by 22% YoY in 4QFY07

Opex has increased by 22% YoY in 4QFY07 and 23% in FY07 on the back of increased expenses on CBS implementation and manpower training. During the quarter, the bank created additional provision of Rs1.9b towards meeting current AS-15 requirements. BoI is actually expensing the CBS related costs, while most other banks are capitalizing it. The bank expensed Rs1.5b towards CBS during FY07, which it expects to come down gradually over the coming years (Rs1.2b in FY08). We believe that on the operating expenses front, BoI would have significant leverage that could be reflected in its earnings from FY09. The total impact of the revised AS-15 requirements is

estimated to be ~Rs7.5b (~14% FY07 BV), which the bank hopes to amortize over the next five years.

Capital adequacy at 11.6%

BoI's CAR is currently at 11.6%, with tier-1 at 6.5%. The bank issued hybrid tier-I capital bond of US\$85m in March 2007 to strengthen its capital adequacy. The management mentioned that they could still raise Rs30b through tier-I and tier-II capital, which would increase BoI's CAR by 150bp. Also, the lowered risk weights towards specific housing loans and loans against gold would release ~25bp of capital for the bank. Considering the growth plans for FY08, the management ruled out any equity dilution in the near term. We believe that the bank may raise equity towards the end of FY08 to shore up its core tier-I capital to maintain asset growth, going forward.

Valuation and view

BoI has been improving on all key parameters for the last few quarters. We believe that it would be a beneficiary of low operating expenses, steady NII growth, robust fee income growth and stable margins, with very low risk on the AFS portfolio (89% of SLR securities are in HTM). While we expect PAT to grow 19% in FY08 and 21% in FY09, we believe that the bank has enough levers for a positive surprise on earnings. Post 4QFY07, we have revised our earnings estimates upwards by 17% for FY08 and by 13% for FY09. The stock trades at 6x FY09E EPS and 1.2x FY09E BV. We maintain **Buy**, with a revised target price of Rs242.

Bank of India: an investment profile

Company description

Bank of India (BoI) was incorporated in 1906 by a group of eminent businessmen in Bombay. It was under private ownership until 1969. Later it was nationalized along with 13 other major banks. The bank is the sixth largest bank (fifth largest state-owned bank) in India assets-wise. It has a large branch network of 2,845 chiefly present in the western and the eastern regions of India. BoI has 1,044 branches under CBS, covering more than 80% of its business. It has an international presence through 25 overseas offices in 13 countries.

Key investment arguments

- ✍ Asset quality to continue to improve.
- ✍ Bank is gearing up on the technology platform.
- ✍ Core business is expected to do well.

Key investment risks

- ✍ Huge workforce, resulting in a higher wage bill.

Recent developments

- ✍ The bank raised US\$85m through innovative perceptual debt instruments (IPDI), with call option after 10 years, to augment the bank's tier-I capital in 4QFY07.
- ✍ The bank entered into life insurance business in tie up with Union Bank and Dia Ichi Mutual Life Insurance where the bank will have 51% stake.
- ✍ The Bank has finalised acquiring 76% stake in PT Bank Swadesi Tbk, a listed bank in Indonesia.

Valuation and view

- ✍ Improvement in core RoE, significant clean-up in balance sheet and superior technology platform will drive re-rating.
- ✍ The stock trades at 6x FY09E EPS and 1.2x FY09E BV. We reiterate **Buy**.

Sector view

- ✍ YTD loan growth of 28%.
- ✍ Volatility in interest rates will impact bond gains.
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings, valuations.
- ✍ We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		BOI	PNB	BOB
P/E (x)	FY08E	7.3	7.3	7.1
	FY09E	6.0	5.9	5.9
P/ABV (x)	FY08E	1.6	1.3	1.0
	FY09E	1.3	1.1	0.9
RoE (%)	FY08E	20.9	19.0	13.9
	FY09E	21.4	20.0	14.9
RoA (%)	FY08E	0.9	1.2	0.8
	FY09E	0.9	1.3	0.9

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	69.5	69.5	69.5
Domestic Inst	5.6	7.1	4.7
Foreign	16.2	14.8	16.3
Others	8.7	8.6	9.5

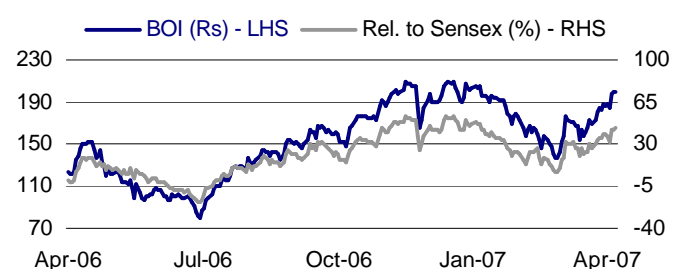
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	27.4	23.8	15.0
FY09	33.2	29.3	13.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
200	242	21.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				
(Rs Million)				
Y/E MARCH	2006	2007E	2008E	2009E
Interest Income	70,287	91,803	119,131	146,745
Interest Expended	43,967	57,399	78,908	98,441
Net Interest Income	26,320	34,405	40,223	48,305
Change (%)	17.7	30.7	16.9	20.1
Other Income	11,844	15,630	14,905	15,811
Net Income	38,164	50,034	55,128	64,115
Change (%)	2.5	31.1	10.2	16.3
Operating Expenses	21,151	26,084	28,641	32,620
Operating Income	17,012	23,950	26,487	31,495
Change (%)	16.5	40.8	10.6	18.9
Other Provisions	7,859	8,621	7,900	9,000
PBT	9,154	15,329	18,587	22,495
Tax	2,142	4,097	5,204	6,299
Tax Rate (%)	23.4	26.7	28.0	28.0
PAT	7,012	11,232	13,382	16,196
Change (%)	106.0	60.2	19.1	21.0
Proposed Dividend	1,660	1,708	2,441	2,929

BALANCE SHEET				
(Rs Million)				
Y/E MARCH	2006	2007E	2008E	2009E
Capital	4,881	4,881	4,881	4,881
Reserves & Surplus	44,507	53,740	64,267	77,036
Net Worth	49,389	58,622	69,148	81,918
Deposits	939,320	1,198,820	1,438,584	1,654,372
Change (%)	19.2	27.6	20.0	15.0
Borrowings	88,425	110,531	123,795	138,650
Other Liabilities & Prov.	45,159	49,675	54,643	60,107
Total Liabilities	1,122,293	1,417,648	1,686,170	1,935,047
Current Assets	114,021	147,638	157,804	180,924
Investments	317,818	375,025	442,529	508,909
Change (%)	10.8	18.0	18.0	15.0
Advances	651,727	854,095	1,041,995	1,198,295
Change (%)	17.4	31.1	22.0	15.0
Net Fixed Assets	8,100	7,813	7,456	6,895
Other Assets	30,628	33,079	36,386	40,025
Total Assets	1,122,293	1,417,648	1,686,170	1,935,047

ASSUMPTIONS				
	(%)			
Deposit Growth	19.2	27.6	20.0	15.0
Advances Growth	17.4	31.1	22.0	15.0
Investments Growth	10.8	18.0	18.0	15.0
Dividend	34.0	35.0	50.0	60.0

E: M O S t Estimates

RATIOS				
Y/E MARCH	2006	2007E	2008E	2009E
Spreads Analysis (%)				
Avg. Yield-Earn. Assets	7.0	7.5	7.9	8.3
Avg. Cost-Int. Bear. Liab.	4.6	4.9	5.5	5.9
Interest Spread	2.4	2.6	2.4	2.4
Net Interest Margin	2.6	2.8	2.7	2.7

Profitability Ratios (%)				
RoE	14.9	20.8	20.9	21.4
RoA	0.7	0.9	0.9	0.9
Int. Expended/Int. Earned	62.6	62.5	66.2	67.1
Other Inc./Net Income	31.0	31.2	27.0	24.7

Efficiency Ratios (%)				
Op. Exps./Net Income	55.4	52.1	52.0	50.9
Empl. Cost/Op. Exps.	62.8	619	59.5	58.1
Busi. per Empl. (Rs m)	34.8	43.6	55.1	65.8
NP per Empl. (Rs lac)	1.7	2.7	3.3	4.0

Asset-Liability Profile (%)				
Adv./Deposit Ratio	69.4	71.2	72.4	72.4
Invest./Deposit Ratio	33.8	31.3	30.8	30.8
G-Sec/Invest. Ratio	71.6	63.7	56.7	51.7
Gross NPAs to Adv.	3.7	2.4	2.0	1.8
Net NPAs to Adv.	1.5	0.7	0.5	0.4
CAR	10.8	11.6	11.5	10.5
Tier 1	6.8	6.5	6.7	6.5

VALUATION				
Book Value (Rs)	98.0	112.9	134.7	161.1
Price-BV (x)	2.0	1.8	1.5	1.2
Adjusted BV (Rs)	85.0	104.5	128.2	155.4
Price-ABV (x)	2.3	1.9	1.6	1.3
EPS (Rs)	14.4	23.0	27.4	33.2
EPS Growth (%)	106.0	60.2	19.1	21.0
Price-Earnings (x)	13.9	8.7	7.3	6.0
OPS (Rs)	34.9	49.1	54.3	64.5
OPS Growth (%)	16.5	40.8	10.6	18.9
Price-OP (x)	5.7	4.1	3.7	3.1

E: M O S t Estimates

N O T E S



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Bank of India

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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