

November 8, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs328	Rs320
EPS change FY12E/13E (%)	-23/-16
Target Price change (%)	-24
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(8)	(20)	(35)
Rel. to Nifty	(3)	(11)	(16)	(23)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	BOI@IN
Equity Capital (Rs mn)	5465
Face Value(Rs)	10
No of shares o/s (mn)	546
52 Week H/L	529/290
Market Cap (Rs bn/USD mn)	179/3,617
Daily Avg Volume (No of sh)	705296
Daily Avg Turnover (US\$m)	4.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	65.9	65.9	65.9
FII/NRI	15.3	15.5	14.7
Institutions	12.4	12.4	12.5
Private Corp	0.8	0.7	1.4
Public	5.7	5.6	5.6

Source: Capitaline

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- **BOI's Q2FY12 NII (Rs19bn) marginally ahead of estimates. Higher non-int inc. and tax w/back compensated for higher provisions. PAT at Rs4.9bn (-20% yoy) below estimates**
- **Slippages at Rs45bn (H1FY12) primarily due to system-based NPA recognition and 23% NPA's from restructured accounts. Management confident of higher recoveries in H2FY12**
- **Balance sheet expansion of 1.6% qoq led by 15%/10% qoq growth in foreign deposits/advances. On a contrary, domestic deposits/loans were down 0.4%/2% qoq respectively**
- **Net NPL/networth now stands at 23% with Tier I CAR at 8.3% Lowered our estimates by 23%/16% for FY12E/FY13E driven by growth moderation and higher provisions. Maintain HOLD**

Results well below estimates; disappointment on NPA front continues

BOI's Q2FY12 NII at Rs19bn was marginally above our estimates. NII growth at 7.2% yoy was led by 17.7% yoy growth in loan portfolio and 94bps yoy increase in yield on advances. Global NIM at 2.44% expanded 33bps qoq largely led by 34bps qoq improvement in domestic NIM. Further higher non-int income (primarily being in nature of higher trading gains and improved recoveries) and tax w/back were off-set by higher provisioning. Resultant, net profit at Rs4.9bn was down 20% yoy.

GNPA at Rs65.4bn (3.02%) were up primarily due to migration to system-based NPA recognition and 23% NPA from restructured accounts. We believe upside risk to our estimates could arise given (1) lowering pressure on growth as Net NPLs / net worth ratio (23%) comes down and (2) credit costs may trail the slippage rate. Balance sheet expanded 1.6% qoq largely being in nature of foreign assets. Loan/deposit book during the quarter grew by 17.7% yoy / 24.1% yoy.

Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on assets*	7.3	7.4	7.8	7.6	7.9	65	29
Cost of funds*	4.8	4.7	4.9	5.5	5.7	96	22
NIM*	2.5	2.7	2.8	2.1	2.2	-31	7
Yield on Advances#	8.5	8.8	8.8	8.9	9.4	94	52
Yield on Funds#	7.3	7.4	7.8	7.6	8.1	81	45
Cost of Deposit#	5.0	5.0	5.3	6.0	6.1	110	8
Cost of funds#	4.8	4.7	4.9	5.5	5.6	85	10
NIM#	2.5	2.7	2.8	2.1	2.5	-4	35
NIM-Domestic#	2.7	3.0	3.2	2.3	2.7	0	41

Source: Company, Emkay Research Note:* Calculated on basis of average quarterly balances # reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	83,726	17,410	33.1	201.4	0.7	14.2	10.3	1.6
FY2011	104,524	24,885	45.5	256.3	0.8	17.3	7.2	1.3
FY2012E	111,695	24,174	44.2	250.9	0.6	14.3	7.4	1.3
FY2013E	129,811	33,210	60.7	321.5	0.8	17.3	5.4	1.0

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	17,761	19,869	23,072	18,410	19,039	7.2	3.4	37,448	35,165	6.5
Other Income	5,845	6,483	8,230	6,601	8,418	44.0	27.5	15,019	11,705	28.3
<i>Fee Income</i>	3,007	2,838	3,465	2,737	3,258	8.3	19.0	5,995	5,507	8.9
Net Income	23,606	26,352	31,302	25,011	27,457	16.3	9.8	52,467	46,870	11.9
Total Operating Expenses	9,810	12,464	19,251	11,051	11,942	21.7	8.1	22,993	18,968	21.2
<i>As % Of Net Income</i>	41.6	47.3	61.5	44.2	43.5			43.8	40.5	
Employee Expenses	6,031	8,369	14,616	7,000	7,275	20.6	3.9	14,275	11,769	21.3
<i>As % Of Net Income</i>	25.5	31.8	46.7	28.0	26.5			27.2	25.1	
Other Expenses	3,779	4,094	4,635	4,052	4,667	23.5	15.2	8,718	7,199	21.1
<i>As % Of Net Income</i>	16.0	15.5	14.8	16.2	17.0			16.6	15.4	
Operating Profit	13,796	13,888	12,051	13,959	15,515	12.5	11.1	29,474	27,903	5.6
<i>As % Of Net Income</i>	58.4	52.7	38.5	55.8	56.5			56.2	59.5	
Provisions	5,274	4,979	4,777	5,672	11,544	118.9	103.5	17,216	9,133	88.5
<i>Prov for NPA</i>	2,863	1,236	3,367	3,880	8,240	187.8	112.4	12,120	5,941	104.0
PBT	8,522	8,909	7,274	8,287	3,971	-53.4	-52.1	12,259	18,770	-34.7
Total Tax	2,355	2,377	2,340	3,111	-940	-139.9	-130.2	2,172	5,350	-59.4
Adjusted PAT	6,167	6,533	4,934	5,176	4,911	-20.4	-5.1	10,087	13,420	-24.8
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	6,167	6,533	4,934	5,176	4,911	-20.4	-5.1	10,087	13,420	-24.8
Reported EPS	11.7	12.4	9.0	9.5	9.0	-23.5	-5.1	18	26	-27.8

Source: Company, Emkay Research

NIM expansion led by higher yields and investment income

Domestic NIM at 2.77% (+34bps qoq) was led by a) 85bps qoq improvement in yields on advances (raised base rate by 50bps) b) completion of cost transmission (+20bps increase in domestic cost of deposits) and c) Rs1.3bn of income from liquid mutual funds. On the international front, margins have remained in 1.2-1.22% trajectory primarily due to higher proportion of loan portfolio being in the nature of buyer credit. However, the management has guided for loan mix in favor of ECB financing, which enjoys higher margin. While the management has guided for global NIM at 2.6% for FY12, with loan growth moderation and increasing cost pressures (SB deregulation, higher proportion of bulk deposits) we expect NIM to come in at 2.4%.

Domestic loan book declines; foreign book gained due to INR depreciation

Loan growth at 17.7% (0.9% qoq) was primarily driven by strong growth on the international front (+49% yoy / +9.8% qoq). A large part of growth on international front was due to INR depreciation. On the domestic front, loan portfolio at Rs1.5tn declined 2% qoq (up mere 9% yoy). SME + large corporate portfolio at Rs1.2tn were down 0.6% qoq (+11% yoy). Exposure to Power sector stood at Rs170bn (8% of total book); SEB exposure stands at Rs80bn (3.7% of total book). With lower tier-I capital (8.3%) and system-wide growth moderation, we have now factored lower 16% CAGR in loan portfolio over FY11-13E.

Advances mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Foreign	397	419	510	538	591	48.9	9.8
Mid-corporate/SME	273	279	356	339	252	-7.5	-25.7
Agriculture	193	205	227	222	196	1.8	-11.5
Retail	153	156	166	163	164	7.0	0.5
Others	828	869	902	887	966	16.7	8.9
Total	1,843	1,928	2,162	2,149	2,170	17.7	0.9

Source: Company, Emkay Research

CASA ratio improves further; foreign deposits were up 15% qoq

As against 24% yoy growth in total deposits, foreign deposits were up 51% yoy (15% qoq). A large part of the increase was due to INR depreciation and we expect the proportion of foreign deposits / total deposits to restore back to normal levels in the coming quarters. On the domestic front, branch addition (238 branches in H1) and customer acquisition has attributed for significant rise in CASA deposits. CASA deposits for the bank were up 13% yoy (3.4% qoq) and comprised 31.3% of total deposits. **The bank has 70% of its savings deposits below Rs0.1mn and is yet to decide on deregulation on SB deposits.**

CASA Mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Savings Deposits	139	136	144	153	131	-5.6	-14.3
Current Deposits	542	557	587	588	635	17.3	7.9
CASA	681	693	731	742	767	12.6	3.4
Term deposits	1,368	1,454	1,798	1,714	1,679	22.8	-2.1
Foreign deposits	362	378	459	475	545	50.5	14.8
Total Deposits	2,411	2,525	2,989	2,931	2,991	24.1	2.0
CASA (%)	33.2	32.3	28.9	30.2	31.3	-189	115

Source: Company, Emkay Research

Other income boosted by higher trading gains and improved recoveries

Other income at Rs8.4bn (up 44% yoy / 28% qoq) was primarily driven by higher treasury gains and improved recoveries from w/off accounts. While growth in fee income remained muted at 8.3% yoy (19% qoq), treasury gains and recoveries were up 2.6x yoy and comprised 29% of non-interest income.

Other income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Fee/Commission income	3,007	2,838	3,465	2,737	3,258	8.3	19.0	5,995	5,507	8.9
Trading gains/(losses)	360	592	1,267	1,097	1,544	328.9	40.7	2,641	1,360	94.2
Forex gains/(losses)	1,111	1,271	1,333	1,471	1,483	33.5	0.8	2,954	2,421	22.0
Recoveries	301	658	918	312	876	191.0	180.8	1,188	671	77.0
Other non int income	1,066	1,124	1,247	984	1,257	17.9	27.7	2,241	1,746	28.4
Total	5,845	6,483	8,230	6,601	8,418	44.0	27.5	15,019	11,705	28.3

Source: Company, Emkay Research

Asset quality deteriorates; mgmt confident of higher recoveries in H2FY12

Bank of India continues to grapple with concerns on its asset quality. GNPA at Rs65.4bn during Q2FY12 was up 35% yoy (13% qoq). Slippages during the quarter came in at Rs28bn being in nature of a) Complete migration to system based NPA recognition (57%), b) restructured accounts slipped into NPA (23%) and c) balance being in nature of regular slippages. On the international front, slippages were due to acquisition financing. On the domestic front, slippages were witnessed in the segments of textile, sugar and construction related activities. Resultant, bank provided Rs824bn (credit cost at 1.5% annualized) towards NPA provisioning.

However, despite higher slippages, management has guided for improved recoveries in H2FY12. The bank has separated its sourcing and sanctions models. Also, all legacy accounts have been cleared. Further with processing centers in place, human intervention is on a decline. Resultant, the management is confident of higher recoveries (~60%) in H2FY12.

NPA profile

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	48,696	45,421	48,116	57,910	65,481	34.5	13.1
Net NPA (Rs bn)	20,704	16,603	19,450	26,897	42,446	105.0	57.8
Gross NPA (%)	2.6	2.4	2.2	2.7	3.02		
Net NPA (%)	1.1	0.9	0.9	1.3	2.0		
Net NPLs/Net worth (%)	13.3	10.2	11.2	15.1	22.8		
Provision cover (%)	57.5	63.4	59.6	53.6	35.2		

Source: Company, Emkay Research

Slippages

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	14,364	19,129	29,122	16,837	45,054	213.7	167.6
Quarterly (Rs mn)	8,184	4,765	9,993	16,837	28,217	244.8	67.6
Cumulative (%)	0.8	1.0	1.3	0.8	2.1		
Quarterly (%)	0.5	0.2	0.5	0.8	1.3		

Source: Company, Emkay Research

Capital remains a constrain; growth rate to ease

BOI's capital adequacy at 11.9% was up 40bps qoq (Tier-I CAR at 8.26% up 24bps qoq). This increase in CAR was largely due to lower risk-weights on capital market exposure. However, with very high net NPLs/net worth ratio (23%), growth rate is likely to ease to 15% CAGR over FY11-13E. The management has already approached GoI for capital infusion

Valuations and view

Bank of India has been grappling with concerns over its asset quality for long now. While Q2FY12 GNPA at Rs65bn included one-off event, we expect asset quality concerns to prevail. Resultant, credit cost is expected to remain higher at average 90bps over FY11-13E, thereby dragging RoA. Further with capital constrain, growth rate is set to ease. We have thereby downgraded our FY12E/FY13E ABV estimates by 23%/16% respectively. The stock is currently quoting at 1.3x FY12E/1.1x FY13E ABV. We maintain our HOLD rating but reduce target price to Rs320.

We believe upside risk to our estimates could arise given (1) lowering pressure on growth as Net NPLs / net worth ratio (23%) comes down and (2) credit costs may trail the slippage rate. Also, any surprise in form of lower slippages / improved recoveries will act as a positive for the bank and drag valuations upwards.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	57,560	78,106	79,890	94,001
Other income	26,166	26,418	31,806	35,809
Net income	83,726	104,524	111,695	129,811
Operating expenses	36,678	50,683	48,329	52,115
Pre provision profit	47,048	53,841	63,366	77,695
PPP excl treasury	53,011	57,060	66,366	80,695
Provisions	22,110	18,889	31,135	30,252
Profit before tax	24,938	34,952	32,232	47,443
Tax	7,528	10,067	8,058	14,233
<i>Tax rate</i>	30%	29%	25%	30%
Profit after tax	17,410	24,885	24,174	33,210

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	5,259	5,472	5,472	5,472
Reserves	137,041	167,435	185,847	213,295
Net worth	142,300	172,907	191,319	218,767
Deposits	2,297,619	2,988,858	3,397,315	4,057,467
Borrowings	309,745	349,960	384,848	421,275
Total liabilities	2,749,665	3,511,725	3,973,482	4,697,509
Assets				
Cash and bank	312,301	373,100	322,532	404,006
Investments	649,440	831,037	1,018,092	1,242,683
Customer assets	1,706,269	2,158,649	2,476,024	2,880,005
Others	81,654	148,940	156,834	170,814
Total assets	2,749,665	3,511,725	3,973,482	4,697,509

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.5	2.8	2.4	2.4
Non-ll/avg assets	1.0	0.8	0.8	0.8
Fee income/avg assets	0.4	0.4	0.4	0.4
Opex/avg assets	1.3	1.4	1.2	1.1
Provisions/avg assets	1.1	0.6	1.2	1.1
PBT/avg assets	0.9	1.0	0.8	1.0
Tax/avg assets	0.3	0.3	0.2	0.3
RoA	0.7	0.8	0.6	0.8
RoAE	14.2	17.3	14.3	17.3
GNPA (%)	3.1	2.5	3.0	2.7
NNPA (%)	1.3	0.9	1.7	1.0

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	17,410	24,885	24,174	33,210
Shares in issue (mn)	526	547	547	547
EPS (Rs)	33.1	45.5	44.2	60.7
PER (x)	9.9	7.2	7.4	5.4
FDEPS(Rs)	31.8	45.5	44.2	60.7
FDPER (x)	10.3	7.2	7.4	5.4
Book value (Rs)	233.4	281.9	315.5	365.7
P/BV (x)	1.4	1.2	1.0	0.9
Adj book value (Rs)	201.4	256.3	250.9	321.5
P/ABV (x)	1.6	1.3	1.3	1.0
P/PPP (x)	3.7	3.3	2.8	2.3
Dividend yield (%)	2.1	2.1	2.8	2.8

Recommendation History: Bank of India – BOI IN

Date	Reports	Reco	CMP	Target
25/07/2011	Bank of India Q1FY12 Result Update	Hold	404	420
02/05/2011	Bank of India Q4FY11 Result Update	Accumulate	422	510
21/01/2011	Bank of India Q3FY11 Result Update	Accumulate	461	510
22/10/2010	Bank of India Q2FY11 Result Update	Reduce	537	450

Recent Research Reports

Date	Reports	Reco	CMP	Target
04/11/2011	Manappuram Finance Q2FY12 Result Update	Hold	61	65
02/11/2011	Allahabad Bank Q2FY12 Result Update	Accumulate	161	200
02/11/2011	ICRA Q2FY12 Result Update	Reduce	990	900
02/11/2011	United Bank of India Q2FY12 Result Update	Hold	71	73

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