

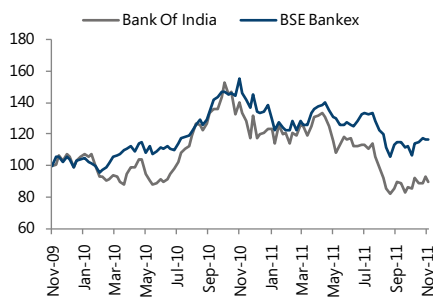
Q2FY12 - Result Update

Sell

Reco	Downgraded
CMP	₹ 325
Target Price	₹ 300
Downside Potential	7.7%

Price Performance

52 wk Hi/Lo	530/289
All time Hi/Lo	589/9
6 mnth Average Vol	793128
Stock Beta	1.03



Valuation

	FY11	FY12P	FY13P
P/E (x)	7.2	7.0	5.5
P/BV (x)	1.1	1.0	0.9
P/ABV (x)	1.3	1.3	1.1
RONW (%)	17.3	15.1	16.8

Peer Valuation (FY12)

	BOB	PNB	Avg
PE	5.8	5.4	5.3
P/BV (x)	1.4	1.1	1.0

Equity Data

Market Cap. (₹ bln)	178
Face value (₹)	10
No of shares o/s (mln)	547

	Sep'10	Sep'11	Δ %
Promoters	64.47	65.86	2.15
DFI's	13.33	12.43	-6.75
FII's	14.92	14.80	-0.80
Public	7.28	6.91	-5.08

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Bank of India

Respite – Not as yet!!!

Yet again Bank of India (BOI) delivered disappointing set of numbers with NII growth at 7.2% y-o-y while Net Profit declined by 20.4% on account of higher slippages and subsequent provisions. Few positives from the current numbers are complete transition to system based NPL recognition, improvement in Tier-I capital q-o-q (+24bps) due to reduction in risk weights on investments and reduction in bulk deposits. However high stressed assets at 8.1%, low coverage ratio of 59% (including w/off) and probable stress on asset quality due to additional restructuring continues to be an overhang on the earnings.

Business growth driven by international book

The Business of the bank grew by 21.3% y-o-y though the growth was largely driven by International business which grew by ~50%, partly due to rupee depreciation (about 10%). Growth in domestic advances was muted (+9.1% y-o-y/-2% q-o-q) while deposits grew by 19.4% y-o-y. Domestic CASA ratio stood at 31.4% (+115bps q-o-q).

Margins improve sequentially

The Net Interest income (NII) of the bank grew by 7.2% as against our estimates of 11.8% due to interest reversal of Rs 1bln. However margins for the bank improved by 33bps q-o-q to 2.44% as yield on advances and investments witnessed sharp sequential improvement. Management has guided margins at 2.6% for FY12. Net profit declined by 20.4% as provisions more than doubled for the bank on y-o-y basis.

System recognition inflates NPA's

The slippage ratio of the bank increased to 5.6% (annualized) as against 3.4% in the previous quarter as bank witnessed additions worth ₹ 28.2bln during the quarter. Around 57% of the slippages are due to System based NPA recognition while the remaining emanated from restructured and normal book. Despite of strong recoveries and write-offs, the Gross NPA's on absolute basis was up by 13.1% q-o-q. While management has guided for strong recoveries ahead, additional restructuring from sensitive sectors and weak economic environment could add stress to the asset quality.

Valuation

The stock has corrected by almost 26% since past six months and at current valuations it is trading at 1.3x & 1.1x of its FY12 & FY13E ABV respectively. We cut our estimates by 13% & 16% for FY12E & FY13E respectively to factor in lower business growth & higher Loan loss provisions. While the valuations look attractive, peer banks with similar risk profiles are trading at 0.8 - 0.9x of their FY13 ABV. We downgrade our recommendation from 'Hold' to 'Sell' with a Target price of ₹ 300, given the volatile asset quality trend and thereby stress on earnings.

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Interest Income	57559	78106	81420	96862
Other Income	26166	26418	31734	34780
Pre-Provisioning Profit	47048	53842	63938	77525
Net Profit	17411	24886	25657	32648
EPS	33.1	45.5	46.9	59.7
Networth	128014	159712	180566	207102
Deposits	2297619	2988858	3496953	4091434
Advances	1684907	2130962	2514535	2967151

Exhibit 1: Q2FY12 Performance Highlights

Bank of India

Particulars (₹ in mln)	Q2FY12	Q2FY11	(y-o-y)	(q-o-q)	H1FY12	H1FY11	(y-o-y)
Interest Income	68,864	51,556	33.6	3.8	135,199	99,773	35.5
Interest Expense	49,825	33,795	47.4	4.0	97,751	64,608	51.3
Net Interest Income (NII)	19,039	17,761	7.2	3.4	37,449	35,165	6.5
Other Income	8,418	5,845	44.0	27.5	15,019	11,704	28.3
Net Total Income	27,457	23,606	16.3	9.8	52,468	46,869	11.9
Operating Expenses	11,942	9,810	21.7	8.1	22,993	18,968	21.2
Pre-Provisioning Profit (PPP)	15,515	13,796	12.5	11.1	29,475	27,902	5.6
Provisions & Contingencies	11,544	5,274	118.9	103.5	17,216	9,133	88.5
PBT	3,972	8,522	-53.4	-52.1	12,259	18,769	-34.7
Tax	-940	2,355	-139.9	-130.2	2,172	5,350	-59.4
PAT	4,911	6,168	-20.4	-5.1	10,086	13,419	-24.8
EPS	9.0	11.7	-23.4	-5.1	0.0	25.6	-100.0
Cost to Income (%)	43.5	41.6	193.7	-69.4	43.8	40.5	335.4
GNPA (%)	3.0	2.6	38.0	33.0	3.0	2.6	38.0
NNPA (%)	2.0	1.1	84.0	71.0	2.0	1.1	84.0

Key Q2FY12 Result Highlights

International book drives Business growth

The Business of the bank witnessed 21.3% y-o-y growth with Advances and Deposits growing by 17.7% & 24.1% respectively. However the International book has grown sharply with each of Advances and Deposits showing ~50% growth, partly due to rupee depreciation. Domestic Advances and Deposits grew at a slower pace of 9.1% and 19.4% y-o-y respectively. Domestic CASA Ratio stood at 31.4% as against 20.2% in the previous year. The C-D Ratio of the bank stood at 72.5% as against 76.5% a year ago.

Exhibit 2: Trend in Business Growth

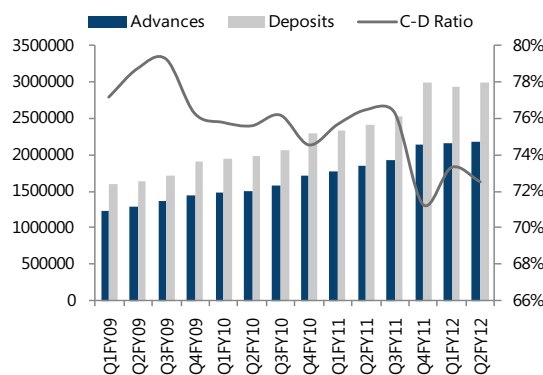
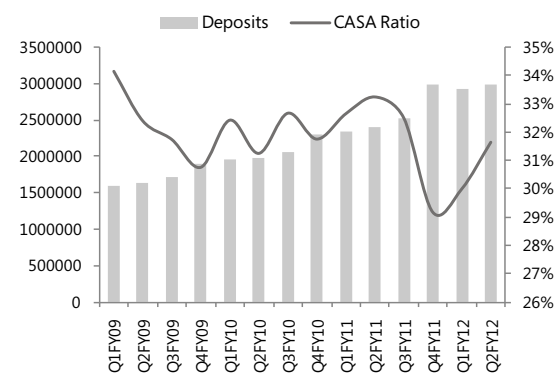


Exhibit 3: Trend in Deposit growth



Source: Company, MSFL Research

The Advance growth was largely driven by Corporate (+16.7%) and Retail lending (+7%) on y-o-y basis while growth in Agri and SME was fairly muted.

Exhibit 4: Loan Book break-up

	Q2FY12	Q2FY11	y-o-y	Q1FY12	q-o-q
Retail	163,950	153,270	7.0%	163,160	0.5%
SME	252,140	272,530	-7.5%	339,390	-25.7%
Agriculture	196,410	193,020	1.8%	221,910	-11.5%
Corporate & Other	966,140	827,790	16.7%	886,780	8.9%
Overseas	590,870	396,805	48.9%	538,110	9.8%
Total Advances	2,169,500	1,843,768	17.7%	2,149,355	0.9%

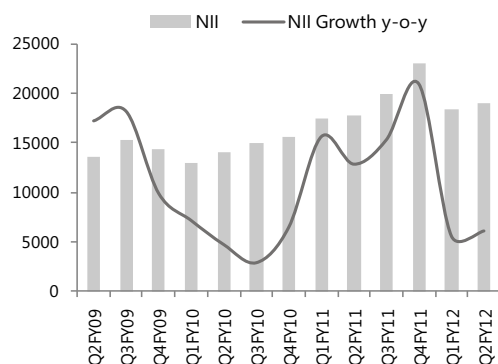
Source: Company, MSFL Research

Margins improve sequentially

The Net Interest income (NII) of the bank grew by 7.2% as against our estimates of 11.8% due to interest reversal of ₹ 1bln. However margins for the bank improved by 33bps q-o-q to 2.44% yield on advances and investments witnessed sharp sequential improvement.

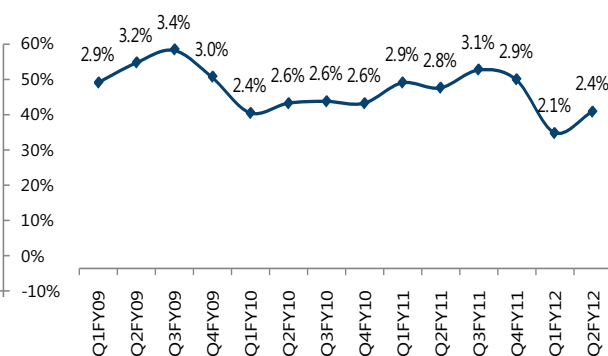
Bank could further witness improvement in its margin on account of better recoveries ahead as well as full benefit of asset re-pricing. Management has guided for another 15bps of margin improvement in H2FY12 with FY12 margin guidance at 2.6%.

Exhibit 5: NII Growth Trend



Source: Company, MSFL Research

Exhibit 6: NIM Growth Trend



Other Income grows strongly

The Other Income of the bank grew by 44% y-o-y on account of 3 fold growth in Treasury income and 191% y-o-y growth in recoveries. Management has guided for better recoveries for H2FY12 as well.

Exhibit 7: Non-Interest Income break-up

	Q2FY12	Q2FY11	y-o-y	Q1FY12	q-o-q
Fee income	3,258	3,007	8.3%	2737	19.0%
Forex	1,483	1,111	33.5%	1471	0.8%
Treasury	1,544	360	328.9%	1097	40.7%
Other	2,133	1,366	56.1%	1296	64.6%
Total	8,418	5,845	44.0%	6601	27.5%

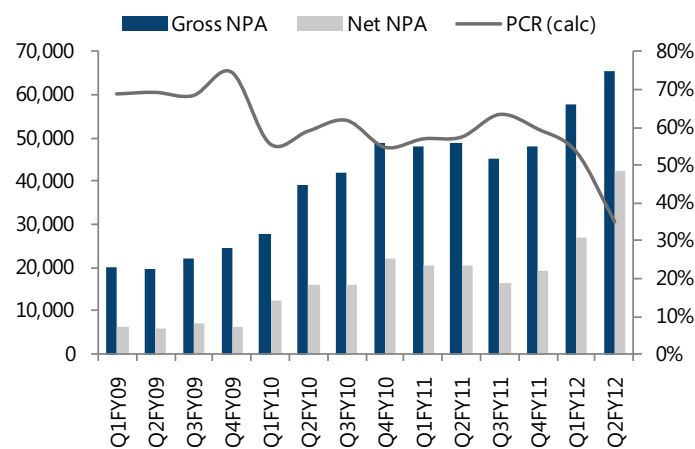
Source: Company, MSFL Research

System recognition inflates NPA's

The slippage ratio of the bank increased to 5.6% (annualized) as against 3.4% in the previous quarter as bank witnessed additions worth ₹ 28.2bln during the quarter. Around 57% of slippages are due to System based NPA recognition while the remaining emanated from restructured and normal book. Despite of strong recoveries and write-offs, the Gross NPA's on absolute basis was up by 13.1% q-o-q. GNPA and Net NPA stands at 3.02% and 1.98% respectively as against 2.71% and 1.18% in the previous quarter. On account of the above, the provision coverage ratio (including write-offs) dipped by 763bps to 59% q-o-q.

The bank additionally restructured accounts worth ₹ 7.7bln during the quarter with total restructured book now forming 5.1% of the loan book. Accounts worth ₹ 4.6bln from this book slipped with cumulative slippages at 24%. Going ahead, we expect certain lumpy accounts from infrastructure space to get restructured, thus further inflating the restructured book and thereby putting pressure on the asset quality.

Exhibit 8: Asset Quality Trend



Source: Company, MSFL Research

Other Highlights

- The CAR of the bank stood at 11.97% with Tier I ratio at 8.26% and Tier II ratio at 3.71%. Tier I ratio improved by 24bps q-o-q as risk weights on certain investments had come down during the quarter.
- Tax write back of ₹ 940mln during the quarter on account of higher NPA provisions during the quarter. Going ahead the bank expects to have a normalized tax rate.

Outlook and Valuation

The stock has corrected by almost 26% since past six months and at current valuations it is trading at 1.3x & 1.1x of its FY12 & FY13E ABV respectively. We cut our estimates by 13% & 16% for FY12E & FY13E respectively to factor in lower business growth & higher Loan loss provisions. The peer banks with similar risk profiles are trading at 0.8 -0.9x of their FY13 ABV and believe that BOI too should be trading at second tier bank peer averages given its volatile earnings and asset quality profile. We downgrade our recommendation from 'Hold' to 'Sell' with a Target price of ₹ 300.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Interest Income	163,474	178,780	217,517	283,301	336,036
Interest Expense	108,485	121,220	139,411	201,881	239,174
Net Interest Income (NII)	54,989	57,559	78,106	81,420	96,862
Other Income	30,519	26,166	26,418	31,734	34,780
Net Total Income	85,508	83,726	104,524	113,153	131,642
Operating Expenses	30,940	36,678	50,682	49,215	54,118
Pre-Provisioning Profit (PPP)	54,568	47,048	53,842	63,938	77,525
Provisions & Contingencies	12,924	22,109	18,888	29,729	30,885
PBT	41,644	24,938	34,953	34,209	46,640
Tax	11,571	7,528	10,067	8,552	13,992
PAT	30073	17411	24886	25657	32648
Net Interest Margin (NIM)	2.7%	2.3%	2.5%	2.1%	2.2%
EPS	57.2	33.1	45.5	46.9	59.7
NII Growth (%)	30.0%	4.7%	35.7%	4.2%	19.0%
PAT Growth (%)	49.7%	-42.1%	42.9%	3.1%	27.2%

Source: Company, MSFL Research

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Liabilities					
Equity	5,259	5,259	5,472	5,472	5,472
Reserves & Surplus	112,587	122,755	154,240	175,093	201,630
Networth	117,846	128,014	159,712	180,566	207,102
Deposits	1,897,085	2,297,619	2,988,858	3,496,953	4,091,434
Borrowings	156,732	223,999	220,214	209,184	205,265
Other Liabilities & Provisions	66,252	85,746	129,747	202,682	218,166
Total Liabilities	2,255,018	2,749,665	3,511,725	4,102,579	4,735,162
Assets					
Cash & balances with RBI	89,153	156,026	217,824	256,696	268,799
Balances with banks & money at call	128,460	156,275	155,276	194,574	227,652
Investments	526,072	670,802	858,724	979,147	1,104,687
Advances	1,429,094	1,684,907	2,130,962	2,514,535	2,967,151
Fixed Assets	25,319	23,518	24,807	27,288	30,017
Other Assets	56,920	58,136	124,132	130,339	136,856
Total Assets	2,255,018	2,749,665	3,511,725	4,102,579	4,735,162

Source: Company, MSFL Research

Ratios

Valuation Ratios	2009	2010	2011	2012P	2013P
P/E	5.7	9.9	7.2	7.0	5.5
P/BV	1.5	1.3	1.1	1.0	0.9
P/ABV	1.5	1.6	1.3	1.3	1.1
P/PPP	3.2	3.7	3.3	2.8	2.3
EPS	57.2	33.1	45.5	46.9	59.7
DPS	8.0	7.0	7.0	7.5	9.5
Book Value (BV)	224.1	243.4	291.9	330.0	378.5
Adjusted Book Value (ABV)	212.1	201.4	256.3	247.4	305.7

Profitability Ratios

ROE	30.6%	14.2%	17.3%	15.1%	16.8%
ROA	1.5%	0.7%	0.8%	0.7%	0.7%

Source: Company, MSFL Research

Spread Analysis	2009	2010	2011	2012P	2013P
Yield on Advances	9.8%	8.4%	8.1%	9.0%	9.2%
Yield on Investments	7.1%	7.5%	6.8%	7.0%	7.1%
Cost of Deposits	5.8%	5.2%	4.6%	5.7%	5.8%
Cost of Funds	6.0%	5.3%	4.9%	5.8%	6.0%
Net Interest Margin (NIM)	2.7%	2.3%	2.5%	2.1%	2.2%

Key Assumptions

Credit Growth	-	-	-	18.0%	18.0%
Deposit Growth	-	-	-	17.0%	17.0%
CASA Ratio	-	-	-	30.0%	30.0%
Slippage Ratio	-	-	-	2.6%	2.0%
Provisioning coverage (calc)	-	-	-	40.5%	46.6%

Source: Company, MSFL Research

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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