

Investors' Delight: Bank of India Ltd. – "BUY"

"Healthier balance sheet, good growth and attractive valuations demands re-rating"

Date	July 27, 2013
BSE Code/NSE Code	532149/BANKINDIA
Bloomberg/Reuters Code	BOI IN/BOI.BO
Industry	Public Sector Banking
FV	₹10
No. of outstanding shares	59.66 crore shares
Market Capitalization	₹ 10,934 cr
52 week high/low	₹392.20(18th Jan, 2013)/₹179.2(26 th July, 2013)
CMP	₹183.5
Recommendation	"BUY" Target Price: Rs. 245 Upside: 34%

Investment Summary – Ajcon's view

At CMP, the stock is available at attractive valuation of P/BV: 0.49x (FY13 Book value) which we feel is undervalued considering Bank's good performance in all fronts despite stressful economic conditions and peer PSU banks reporting dismal numbers with higher P/BV ratio. The bank scrip tanked 4.55 percent to Rs 183.50 on announcement of Q1FY14 result on the BSE, whose 30-share benchmark Sensex ended the session with 0.29 percent losses. The bank is not affected much on the liquidity and the costs front as a result of the recent RBI moves to tighten liquidity, conceding that treasury operations can face some pressure going forward if the measures continue for long. At Ajcon, we view the Bank's stock price has been hammered irrationally considering the scale and new initiatives taken by the bank to improve its asset quality. The Bank stood out as a winner amongst all the PSU's which declared results so far. We believe the Bank deserves premium as compared to other PSU's owing to a) positive spirit enthused by new Chairperson – Mrs. VR Iyer, b) no major exposure to chunky accounts, c) healthy growth in domestic and international loans aided by rupee depreciation, d) improvement in domestic NIMs, e) comfortable Cost to Income Ratio of 41.4 percent, f) lower fresh restructuring of around Rs. 755 crores in Q1FY14 and Bank's guidance of Rs. 800-1000 crores of restructuring in Q2FY14 in depressed macro conditions instills confidence which makes us optimistic on future performance, f) slippages of Rs. 1900 (only one chunky account of Rs. 271 crores in Gems & Jewellery) while balance is across sectors like Textiles, Pharma, Metals where the risk is minimal as compared to sectors like Gold, Infrastructure, Power and Real Estate, g) lower slippages expected in Q2FY14 as compared to Q1FY14 and h) Bank confident of reducing its NPA levels.

At current levels, we recommend investors to "BUY" with a target price of Rs. 245 (P/BV of 0.65x at FY14E Book Value – Q1FY14 Book value stood at Rs. 379) an upside of 34% from current levels.

Financial Summary - Q1FY14

Particulars (Rs in Crore)	Q1FY14	Q4FY13	QoQ (%)	Q1FY13	YoY (%)
Interest Earned (A)	8541	8172	4.5	7709	10.8
a) Interest-Discourt on Advances/ Bills	6190	5926	4.5	5541	11.7
b) Income on Investments	1885	1720	9.6	1896	(0.6)
c) Interest on Balances with RBI and other interbank funds	465	398	16.8	272	71.3
d) Others	0.2	127	(99.8)	0	1000.0
Other Income (B)	1181	1094	7.9	841	40.4
Total Income (A+B)	9722	9266	4.9	8550	13.7
Interest Expended	6004	5696	5.4	5666	6.0
Net Interest Income	2537	2476	2.5	2043	24.2
Operating Expenses	1537	1495	2.8	1211	27.0
Employee Cost	963	855	12.6	743	29.5
Other Operating Expenses	575	640	(10.2)	468	22.9
Total Expenditure	7542	7190	4.9	6876	9.7
Operating Profit	2180	2075	5.1	1673	30.3
Provisions(other than tax) and contingencies	695	1511	(54.0)	472	47.1
Exceptional Items	0	0	0.0	0	0.0
Profit and Loss from Ordinary Activities before tax	1486	564	163.2	1201	23.7
Tax Expenses	522	(192)	0.0	314	0.0
Net Profit/Loss from Ordinary Activities after tax	964	757	27.4	887	8.7
Net Profit for the period	964	757	27.4	887	8.7

No. of Shares (cr)	59.66	59.66	-	57.45	3.8
EPS Rs.	16.16	12.68	27.4	15.44	4.6

Top Line Momentum (Rs in Crore)					
Advances	305600	289368	5.6	264162	15.7
Deposits	414964	381840	8.7	338983	22.4
CASA	96687	93800	3.1	83233	16.2
Key Financial Indicators					
ROA (%)	0.8	0.68	12 bps	0.86	(6) bps
CASA (%)	23.3	24.6	(126.5) bps	24.55	(125.4) bps
C/D (%)	73.6	75.78	(213.8) bps	77.93	(428.3) bps
Cost/Income (%)	41.4	41.9	(52) bps	42 bps	(63) bps
Net Interest Margin (%)	2.5	2.5	4 bps	2.27	23 bps
Book Value per share (Rs.)	378.5	362.4	4.5	341.97	10.7
Gross NPA (Cr)	9413	8765	7.4	6752	39.4
Net NPA (Cr)	6409	5947	7.8	4413	45.2
% of Gross NPA	3.04	2.99	5.0	2.56	244.0

% of Net NPA	2.10	2.06	4.00	1.69	231.00
Provision Coverage Ratio (%)	60.97	60.92	5.0	60.86	11.0
CRAR (%) as per BASEL II	10.7	11.02	(3.3)	11.42	(6.7)
Tier I	8.0	8.20	(2.7)	8.29	(3.7)
Tier II	2.7	2.82	(5.0)	3.13	(14.4)

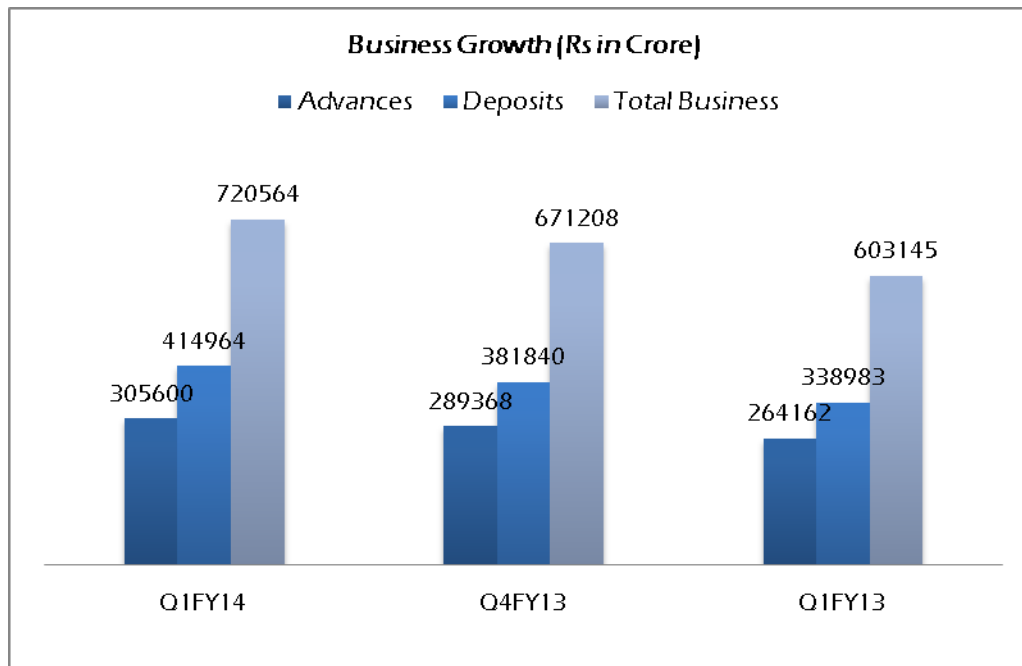
Source: Company, Ajcon Research

Bank of India (Bloomberg Code: BOI IN) Q1FY14 results delighted us after 10 previous quarters.....

Bank of India reported 8 percent rise in the June quarter profit at Rs. 964 crore, driven by a healthy rise in both interest and non-interest income components. Net profit growth has to be seen in the context of the overall economic conditions, where there has been a slowdown in growth.

Net interest income grew 24.15 percent to Rs. 2,044 crore during the quarter, while the non-interest income went up 40 percent to Rs. 1,181 crore on the back of treasury gains which is also plays a crucial role in Banking.

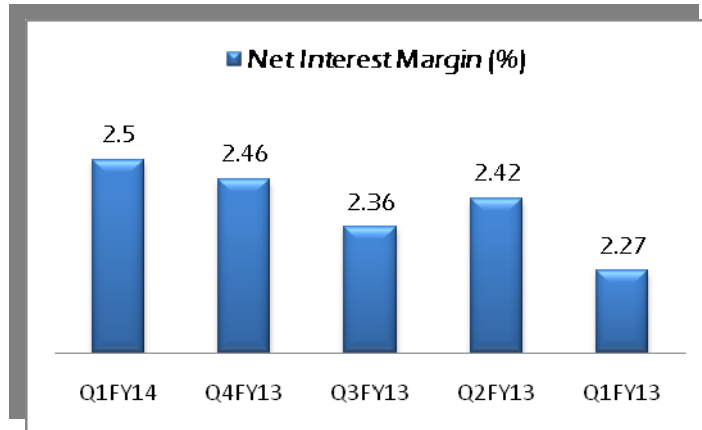
Business Growth



Source: Company, Ajcon Research

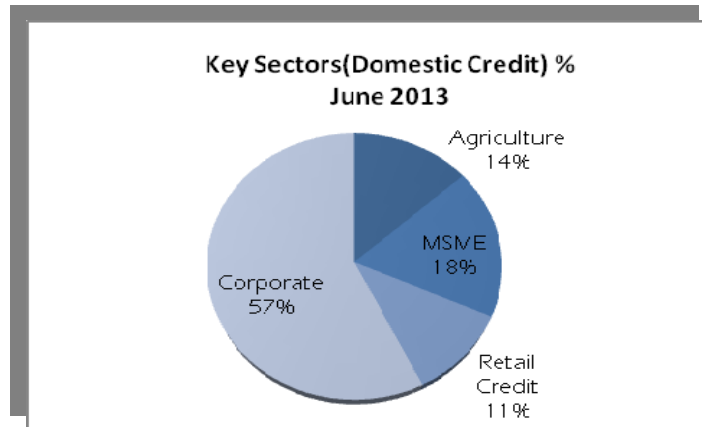
Net Interest Margin

The bank, which cut its lending rates on a finance ministry diktat earlier this month, was able to expand its domestic net interest margin to 3.07 percent from the 2.56 percent year ago, even though the share of the low-cost current and saving account deposits fell marginally. The incremental lending and some reduction in the cost of funds will help it expand the domestic margins to 3.15 percent for the fiscal.



Source: Company, Ajcon Research

Loan Book Exposure



Source: Company, Ajcon Research

The Bank has adopted various strategies in FY13 to achieve sustainable credit growth, improve asset quality and maintaining well diversified credit portfolio. Priority sector advances of the Bank reached at a level of 65,5618 crore as on March, 2013 registering a growth of 21.2 percent over last year. It constitutes 36.7 percent of Adjusted Net Bank Credit (ANBC). *Note: ANBC is added to investments made by banks in non – SLR bonds (in held –to- maturity (HTM) or it is the credit equivalent of off- balance sheet exposures, whichever is higher.* Credit to agriculture sector reached a level of Rs. 27,041 crore, registering a growth of 27.68 percent over last year.

Industry-wise Advances – Domestic

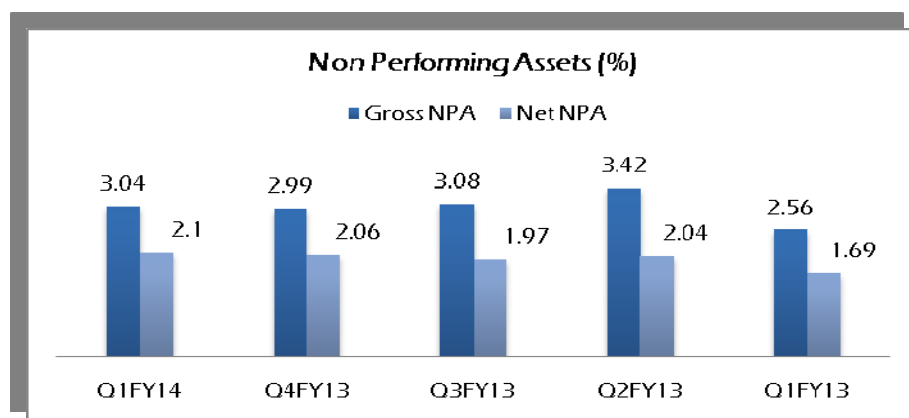
Particulars	Q1FY14	(%)	Q4FY13	(%)	Q1FY13	(%)
Textiles	8652	9.0	8882	9.3	8038	9.7
Chemicals & Chemical products	5429	5.6	5110	5.4	4886	5.9
Rubber Plastics and their Products	2385	2.5	2549	2.7	2309	2.8
Basic metal and metal Products	13497	14.0	13699	14.4	12310	14.9
Vehicles, vehicles parts and Transport equipment	1952	2.0	2052	2.1	2357	2.9
Gems and Jewellery	4462	4.6	4605	4.8	3791	4.6
Construction	1786	1.9	1770	1.9	1363	1.7
Infrastructure	34932	36.3	33495	35.1	28320	34.3
Other Industries	23117	24.0	23288	24.4	19164	23.2
Total	96212	100.0	95450	100.0	82538	100.0

Source: Company, Ajcon Research

Asset Quality:

Asset quality pressures continue to weigh on the banking sector. RBI has progressively tightened the provisioning norms for restructured assets to reach 5 percent by the end of FY14 from 2.5 percent at the initial level, which will have a further impact on Bank's bottom line.

In case of BOI, Gross non-performing assets (NPAs) ratio increased to 3.04 percent from 2.56 percent in the comparable period, driven down by fresh slippages of nearly Rs 1,900 crore during the quarter. Iyer, however, said the slippages are still below the peak of around Rs. 2,000 crore the bank witnessed throughout the past fiscal and added it is targeting to bring down gross NPA numbers to 2.90 percent. A majority of the slippages came from the textiles, steel and metals sector and only Rs. 271 crore worth of slippages was from one leading Gems and Jewellery Company.



Source: Company, Ajcon Research

In FY13, standard assets constitute 97.01 percent of the Bank's credit. Gross NPA dropped from 3.42% in September 2012 to 2.99 percent as on 31st March, 2013. Net NPAs stood at 2.06 percent. In order to address the asset quality concerns, the Bank has continuous vigorous follow up and recovery of NPA accounts. The Bank has also stepped up credit monitoring system for preventing further slippages and speedy monitoring of advances. Unlike its peers, Bank's exposure is mainly to sectors where risks are minimal and we do not foresee major NPAs and write offs coming in future

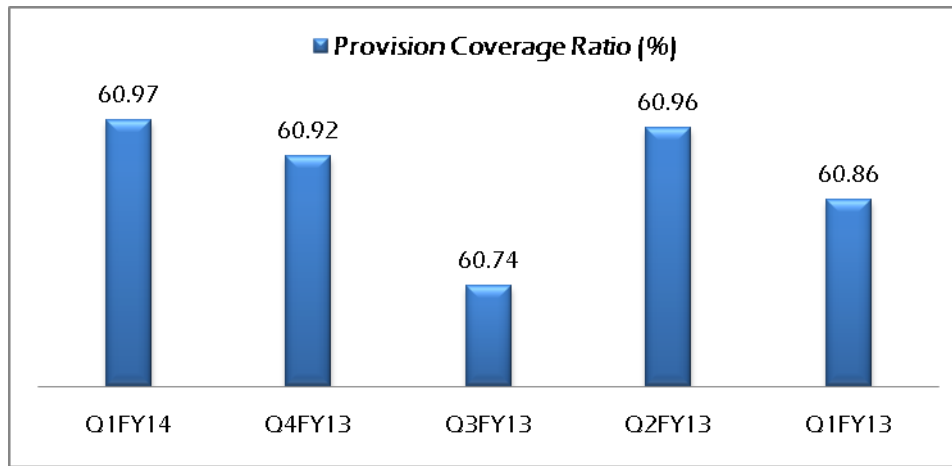
Restructured Advances: During the quarter, the bank undertook fresh restructuring of Rs. 755 crore of assets and as per the Bank management it has a pipeline of up to Rs. 1,000 crore for restructuring in the second quarter.

Sectorwise Breakup of Standard Restructured Advances (Domestic)

Sector	Amount (Rs in Cr)	%
Infra	5946	39.52
Aviation	2408	16.01
Textiles	1182	7.86
Steel	849	5.65
Hotels	690	4.59
Engineering	615	4.09
Computer/IT Related	523	3.48
Sugar	373	2.48
Education	285	1.89
Pharmaceuticals	179	1.19
Other Metals	170	1.13
Paper & Paper Production	113	0.75
Chemicals	227	1.51
Agriculture	119	0.79
Trade	196	1.30
CRE	39	0.26
Services	2	0.02
Misc	1128	7.50
Total	15045	100.00

Source: Company, Ajcon Research

Provisions and Provision Coverage ratio (PCR)

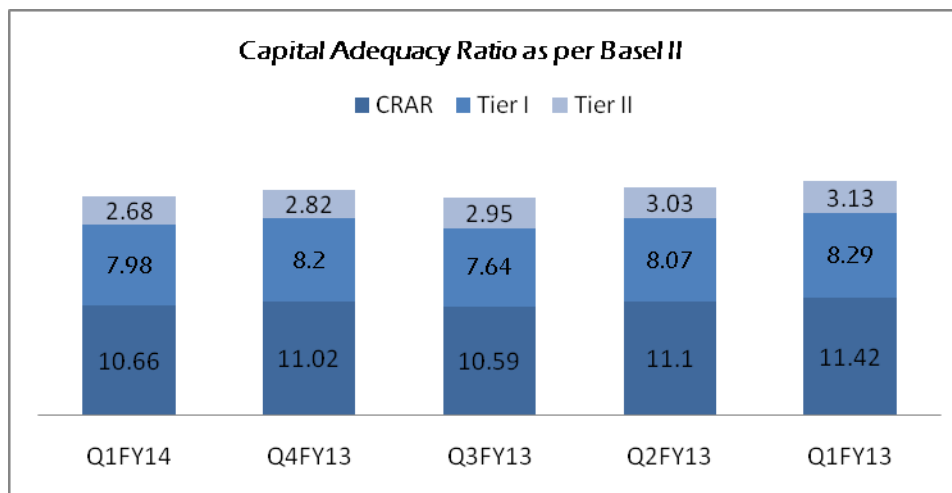


Source: Company, Ajcon Research

Its total provisions nearly doubled to Rs. 694.56 crore from Rs. 472.23 crore. The Bank has consistently maintained PCR of around 60 percent.

Capital Adequacy ratio

The bank's capital adequacy stood at 10.66 percent, with the core tier-I capital at 7.98 percent. According to the bank requires a total capital of Rs. 6,200 crore during the fiscal, excluding the ploughback of profits. BOI will be raising Rs. 2,000 crore through a mix of QIP or bonds and we will be applying to the government for it.



Source: Company, Ajcon Research

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