

Bank of India (BANIND)

₹ 336

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY12E)	Changed from ₹ 39.4 to ₹ 43.2
EPS (FY13E)	Unchanged at ₹ 57.4 to ₹ 62.9
RATING	Unchanged

Large restructured book to weigh on PAT...

Net profit surged to ₹ 715 crore, up 45% QoQ, much above the estimated ₹ 532 crore. Lower provisions at ₹ 693 crore in Q3FY12 vs. ₹ 1154 crore in Q2FY12 and our estimated ₹ 744 crore, resulted in higher profit growth. Non interest income came strong at ₹ 852 crore growing 31% YoY due to robust recoveries of ₹ 185 crore. The saga of GNPA addition continues with net ₹ 520 crore of fresh slippages, mainly factoring aviation sector. Restructured assets (RA) increased further from ₹11115 crore to ₹ 13673 crore (5.94% of advances) with ₹ 3000 crore fresh restructuring coming from one large telecom infra account and a media company. Around 23% of RA has already slipped to NPA and further restructuring cannot be ruled out keeping the NPA uptick on and with higher provisions continuing. We have revised our PAT estimates by ~10% for both FY12E and FY13E factoring in higher provisions from restructured assets, raising non interest income and lowering operating expenses as the cost to income ratio has improved to ~40% from 44% in Q1 and 47% in Q3FY11.

■ Asset quality pressure continues, incremental slippages lower...

On a sequential basis, GNPA declined to ₹ 6386 crore from ₹ 6548 crore and the ratio improved to 2.74% from 3.02% as recoveries and upgrades remained strong. NNPA also improved to ₹ 4093 crore at 1.78% from 1.98%. We expect slippage ratio of 1.9% against 2% earlier and estimate GNPA @ 2.4% and NNPA @ 1.3% by FY13E.

■ International credit leads to 19.5% jump in global advances...

While domestic advances grew 8% YoY and 3.5% QoQ, foreign loans grew 60% YoY and 13% QoQ leading to total credit growth of 21.67% to ₹ 230354 crore (overseas book - 29% of global advances). Impact of rupee depreciation is close to 20%. Deposits increased 2.7% QoQ (21.7% YoY) to ₹ 299074 crore. Hence, NII grew 4.1% YoY and 8.6% QoQ to ₹ 2068 crore while NIM maintained its improving trend rising 11 bps QoQ to 2.55%, from 2.44% in Q2FY12. Retail and SME credit growth aided NIM increase. We expect reported NIM to stabilise at 2.5-2.6% for FY12E.

Valuation

We expect the adjusted book value to remain suppressed due to higher NPAs and restructured book at 5.94% of advances. Even Tier I Capital at 7.65% will impact growth. RoA at 0.8% and RoE at 17% for FY13E restrict the valuation to 1.2x FY13E ABV. We maintain our target price of ₹ 331 and our **HOLD** rating on the stock.

Exhibit 1: Financial Performance

₹ Crore	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	2067.6	1917.2	1986.9	1903.9	4.1	8.6
Other Income	852.2	809.5	648.2	841.8	31.5	1.2
PPP	1731.9	1499.3	1388.8	1551.5	24.7	11.6
PAT	716.0	532.1	653.2	491.1	9.6	45.8

Source: Company Quarterly Presentation, ICICIdirect.com Research

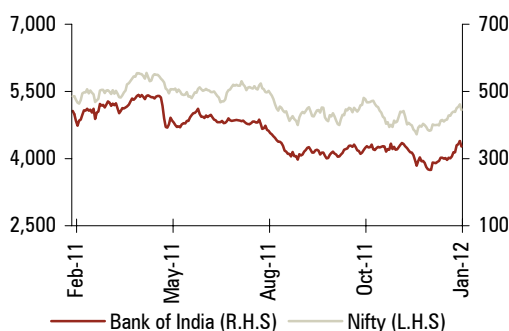
Rating matrix	
Rating	: Hold
Target	: ₹ 331
Target Period	: 12 months
Potential Upside	: -2%

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	5756	7811	8201	9571
PPP	4705	5384	6323	7472
PAT	1741	2489	2364	3441

Valuation summary				
	FY10	FY11	FY12E	FY13E
Net Profit (₹ crore)	1741.1	2488.7	2364.1	3441.0
EPS (₹)	33.1	45.5	43.2	62.9
Growth (%)	-42.1	37.4	-5.0	45.4
P/E (x)	10.1	7.4	7.8	5.4
ABV (Rs)	201.4	256.3	256.1	287.3
Price / Book (x)	1.7	1.3	1.3	1.2
Price / Adj Book (x)	1.7	1.3	1.3	1.2
GNPA (%)	2.9	2.2	2.7	2.4
NNPA (%)	1.3	0.9	1.5	1.3
RoNA (%)	0.7	0.8	0.6	0.8
RoE (%)	12.6	15.8	13.0	17.3

Stock data	
Market Capitalisation	₹ 17676 crore
GNPA (Q3FY12)	₹ 6386 crore
NNPA (Q3FY12)	₹ 4093 crore
NIM (Q3FY12)	2.55%
52 week H/L	499/261
Equity capital	₹ 547 Crore
Face value	₹ 10
DII Holding (%)	11.9
FII Holding (%)	15.2

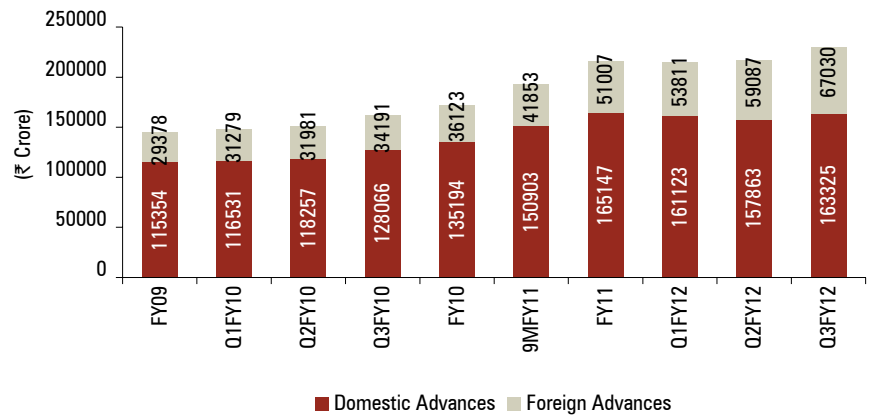
Price movement



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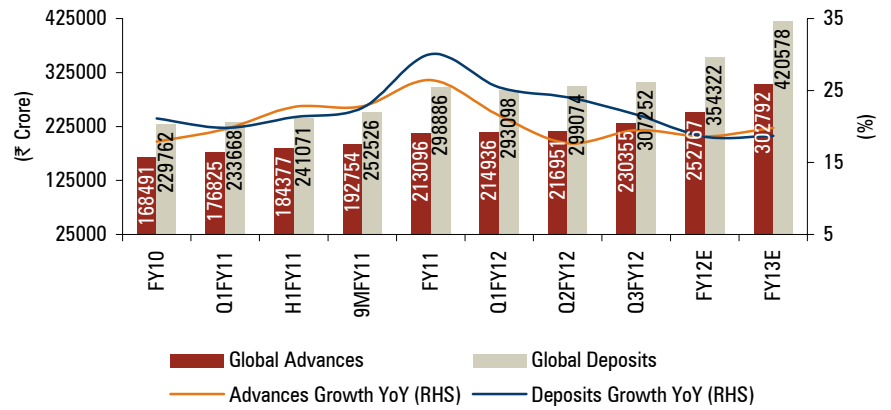
Exhibit 2: Foreign loan book growth at 60% YoY...

Domestic advances grew 8% YoY and 3.5% QoQ, foreign loans grew 60% YoY and 13% QoQ leading to total credit growth of 21.67% to ₹ 230354 crore (overseas book - 29% of global advances)



Source: Company quarterly presentation, ICICIdirect.com Research

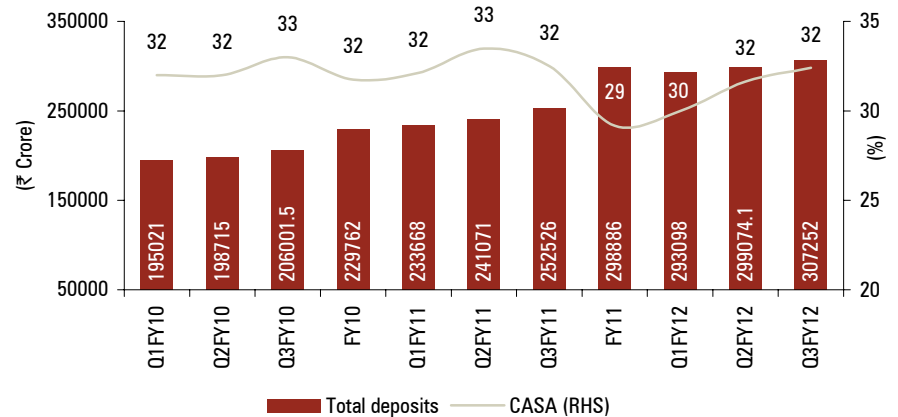
Exhibit 3: Business expected to grow at 19% CAGR over FY11-13E...



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 4: Sequential improvement in CASA continues, current account growth higher...

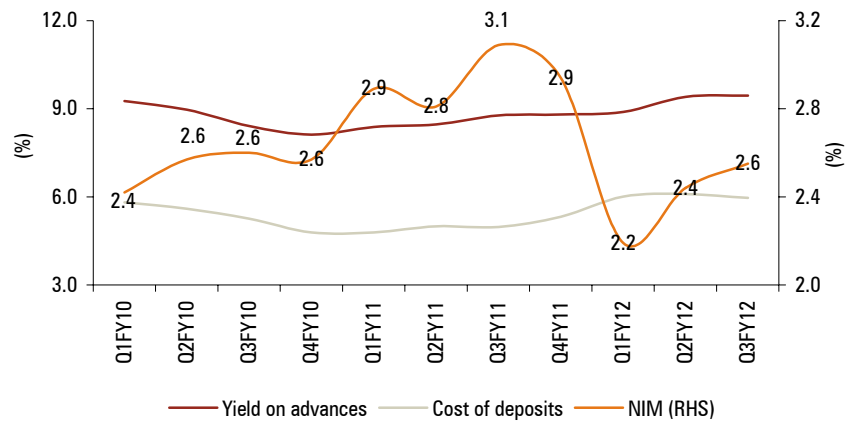
CASA improved to 32.3% from 31.6%



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 5: NIM improves 11 bps QoQ to 2.55%....

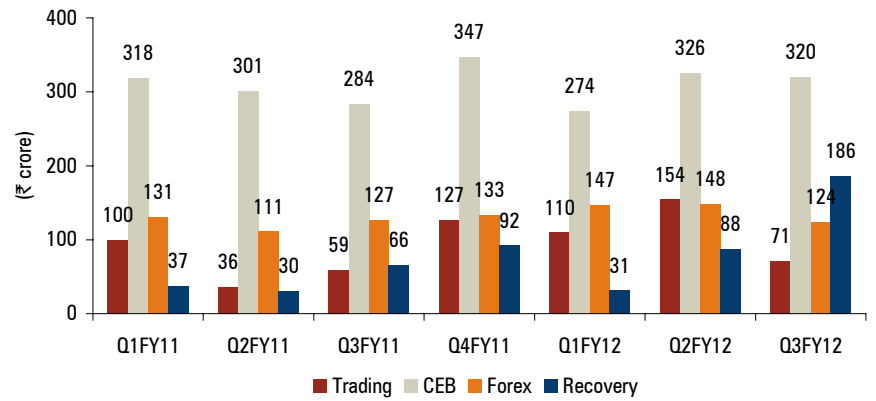
YoA improved to 9.45% from 9.4% with CoD declining to 5.96% from 6.1%. We expect NIM of 2.5-2.6% in FY12E



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 6: Other income up 31% y-o-y

Recoveries of ₹ 185 crore pushed up other income by to ₹ 852 crore

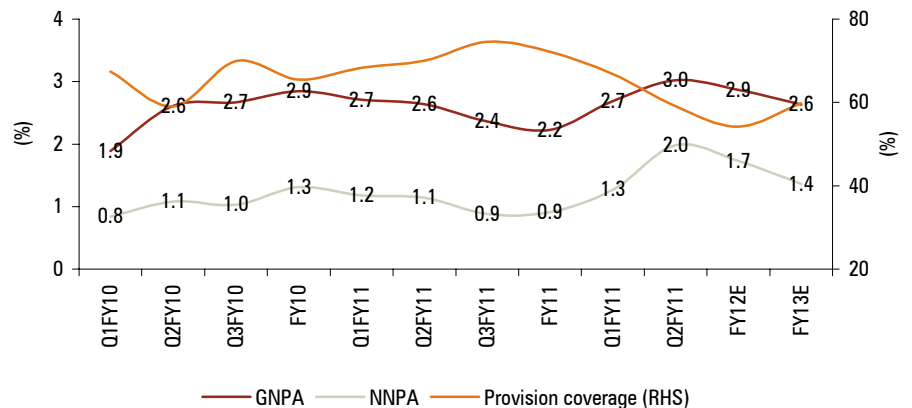


Source: Company quarterly presentation, ICICIdirect.com Research

*CEB: Commission exchange and Brokerage

Exhibit 7: Slippages from restructured assets may increase

GNPA declined to ₹ 6386 crore from ₹ 6548 crore and the ratio improved to 2.74% from 3.02% as recoveries and upgrades remained strong



Source: Company quarterly presentation, ICICIdirect.com Research

Restructured assets (RA) increased further from ₹11115 crore to ₹13673 crore (5.94% of advances) with ₹3000 crore fresh restructuring coming from one large telecom infra account and a media company. Around 23% of RA has already slipped to NPA and further restructuring not ruled out keeping the NPA uptick on and higher provisions continuing.

Financial summary

Profit and loss statement

	(₹Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	17878.0	21751.7	26436.9	30944.2
Interest Expended	12122.0	13941.0	18235.8	21373.2
Net Interest Income	5755.9	7810.7	8201.1	9570.9
growth (%)	4.7	35.7	5.0	16.7
Non Interest Income	2616.6	2641.8	2978.9	3135.9
Fees and advisory	1096.5	1181.1	1358.2	1548.4
Treasury Income	593.6	321.8	257.5	262.6
Other income	926.5	1138.9	1363.2	1324.9
Net Income	8372.6	10452.5	11179.9	12706.8
Staff cost	2296.1	3475.4	3244.5	3447.5
Other operating Expense	1371.7	1592.8	1612.6	1787.2
Operating Profit	4704.8	5384.2	6322.8	7472.1
Provisions	2210.9	1888.8	2993.1	2625.7
PBT	2493.8	3495.4	3329.7	4846.4
Taxes	752.8	1006.7	965.6	1405.4
Net Profit	1741.1	2488.7	2364.1	3440.9
growth (%)	-42.1	42.9	-5.0	45.5
EPS	33.1	45.5	43.2	62.9

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	525.9	547.2	547.2	547.2
Reserves and Surplus	13704.1	16743.5	18464.3	20198.4
Networth	14230.0	17290.7	19011.5	20745.7
Deposits	229761.9	298885.8	354322.2	420394.1
Borrowings	22399.9	22021.4	25564.9	27107.6
Other Liabilities & Provisions	8574.6	12974.7	10799.7	11013.8
Total	274966.5	351172.5	409698.3	479261.0
Application of Funds				
Fixed Assets	2351.8	2480.7	2486.9	2601.4
Investments	67080.2	85872.4	99767.6	115163.3
Advances	168490.7	213096.2	252766.6	301666.7
Other Assets	5813.6	12413.2	13411.4	12278.1
Cash with RBI & call money	31230.1	37310.0	41265.7	47551.5
Total	274966.5	351172.5	409698.3	479261.0

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Valuation				
No. of Equity Shares	525.9	547.2	547.2	547.2
EPS (₹)	33.1	45.5	43.2	62.8
BV (₹)	243.4	291.9	324.8	357.9
ABV (₹)	201.4	256.3	256.1	287.3
P/E	10.1	7.4	7.8	5.4
P/BV	1.7	1.3	1.3	1.2
P/ABV	1.7	1.3	1.3	1.2
Yields & Margins (%)				
Net Interest Margins	2.5	2.8	2.4	2.4
Yield on avg earning assets	7.8	7.7	7.7	7.7
Avg. cost on funds	5.3	4.9	5.2	5.2
Avg. Cost of Deposits	5.2	4.6	5.2	5.1
Yield on average advances	8.4	8.1	8.3	8.2
Quality and Efficiency (%)				
Cost / Total net income	43.8	48.5	43.4	41.5
Credit/Deposit ratio	73.3	71.3	71.3	71.8
GNPA	2.9	2.2	2.7	2.4
NNPA	1.3	0.9	1.5	1.3
ROE	12.6	15.8	13.0	17.3
ROA	0.7	0.8	0.6	0.8

Source: Company, ICICIdirect.com Research

Growth ratios

(Year-end March)	(% growth)			
	FY10	FY11	FY12E	FY13E
Total assets	21.9	27.7	16.7	17.0
Advances	17.9	26.5	18.6	19.3
Deposits	21.1	30.1	18.5	18.6
Total Income	5.6	19.0	20.6	15.2
Net interest income	4.7	35.7	5.0	16.1
Operating expenses	18.5	38.2	-4.2	7.9
Operating profit	-13.8	14.4	17.4	16.8
Net profit	-42.1	42.9	-5.0	45.4
Book value	8.6	24.8	11.3	10.2
EPS	-42.1	37.4	-5.0	45.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Public Sector Banks

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	336	FY11	2488.7	45.5	7.4	1.3	0.8	15.8
		Target	331	FY12E	2364.1	43.2	7.8	1.3	0.6	13.0
Mcap (₹ Cr)	17676	Upside (%)	-1.5	FY13E	3440.9	62.9	5.3	1.2	0.8	17.3
Bank of Baroda										
Idirect Code	BANBAR	CMP	741	FY11	4241.7	108.0	6.9	1.6	1.3	23.5
		Target	954	FY12E	4776.2	121.6	6.1	1.3	1.2	20.8
Mcap (₹ Cr)	27069	Upside (%)	28.8	FY13E	5681.3	144.6	5.1	1.1	1.2	20.7
Dena Bank										
Idirect Code	DENBAN	CMP	66	FY11	611.6	21.3	3.1	0.8	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.6	0.6	0.9	18.6
Mcap (₹ Cr)	2185	Upside (%)	28.1	FY13E	847.3	29.5	2.2	0.5	0.9	18.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	86	FY11	1072.5	17.3	5.0	0.8	0.7	14.8
		Target	94	FY12E	818.9	11.7	7.3	0.8	0.4	9.2
Mcap (₹ Cr)	4685	Upside (%)	9.3	FY13E	1101.7	15.8	5.5	0.7	0.5	11.1
IDBI Bank										
Idirect Code	IDBI	CMP	97	FY11	1650.3	18.4	5.3	1.1	0.7	15.8
		Target	UR	FY12E	1817.0	18.5	5.3	1.0	0.7	13.6
Mcap (₹ Cr)	9595	Upside (%)	-	FY13E	2021.4	20.5	4.7	0.9	0.7	13.6
OBC										
Idirect Code	ORIBAN	CMP	251	FY11	1502.9	45.3	5.6	0.8	0.9	14.5
		Target	322	FY12E	1111.5	51.5	4.9	0.8	1.0	17.9
Mcap (₹ Cr)	7335	Upside (%)	28.1	FY13E	1506.5	38.1	6.6	0.7	0.6	9.7
Punjab National Bank										
Idirect Code	PUNBAN	CMP	955	FY11	4433.5	124.9	7.7	1.7	1.3	22.6
		Target	1050	FY12E	4886.9	154.3	6.2	1.4	1.2	20.8
Mcap (₹ Cr)	30263	Upside (%)	9.9	FY13E	5991.5	189.1	5.1	1.1	1.2	21.3
SBI										
Idirect Code	STABAN	CMP	1985	FY11	82.7	130.2	15.3	2.4	0.7	12.6
		Target	2200	FY12E	96.2	144.6	13.7	2.1	0.7	13.5
Mcap (₹ Bn)	126063	Upside (%)	10.8	FY13E	129.4	187.6	10.6	1.7	0.8	15.1
Syndicate Bank										
Idirect Code	SYNBN	CMP	93	FY11	1047.9	18.3	5.1	0.9	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.2	0.8	0.8	17.0
Mcap (₹ Cr)	5323	Upside (%)	19.5	FY13E	1612.3	28.1	3.3	0.8	0.8	19.3
Union Bank of India										
Idirect Code	UNIBAN	CMP	215	FY11	2081.9	39.7	5.4	1.2	1.0	20.9
		Target	213	FY12E	1617.5	30.8	7.0	1.2	0.6	13.8
Mcap (₹ Cr)	11281	Upside (%)	-1.0	FY13E	2158.7	41.2	5.2	1.0	0.7	16.4

Private Sector Banks

Axis Bank										
Idirect Code	UTIBAN	CMP	1023	FY11	3388.5	83.0	12.3	2.3	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.4	1.9	1.5	19.5
Mcap (₹ Cr)	42017	Upside (%)	24.5	FY13E	5092.8	124.0	8.3	1.6	1.6	20.7
City Union Bank										
Idirect Code	CITUNI	CMP	42	FY11	215.1	5.3	8.0	1.8	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.3	1.4	1.7	24.2
Mcap (₹ Cr)	1694	Upside (%)	22.8	FY13E	361.3	8.5	5.0	1.1	1.8	23.8
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	56	FY11	26.0	3.3	16.9	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	22.3	0.6	0.2	3.0
Mcap (₹ Cr)	474	Upside (%)	-	FY13E	48.9	4.1	13.7	0.6	0.2	4.1
DCB										
Idirect Code	DCB	CMP	41	FY11	21.4	1.1	38.3	1.6	0.3	3.9
		Target	60	FY12E	51.1	2.6	16.1	1.5	0.6	8.7
Mcap (₹ Cr)	820	Upside (%)	46.5	FY13E	63.6	2.6	15.5	1.1	0.7	8.2
Federal Bank										
Idirect Code	FEDBAN	CMP	392	FY11	587.1	34.3	11.4	1.4	1.5	13.5
		Target	472	FY12E	741.8	43.4	9.0	1.3	1.3	14.2
Mcap (₹ Cr)	6706	Upside (%)	20.3	FY13E	832.9	48.7	8.1	1.3	1.2	15.1

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
HDFC Bank										
Idirect Code	HDFBAN	CMP	479	FY11	3926.4	16.9	28.4	4.4	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.0	3.9	1.7	18.7
Mcap (₹ Cr)	111327	Upside (%)	11.1	FY13E	6560.0	28.2	17.0	3.4	1.8	21.2
Kotak Bank										
Idirect Code	KOTMAH	CMP	478	FY11	818.3	11.1	43.8	5.4	1.9	14.5
		Target	436	FY12E	1037.8	14.1	34.5	4.8	1.9	14.3
Mcap (₹ Cr)	35252	Upside (%)	-8.9	FY13E	1315.9	17.9	27.2	4.2	2.0	15.8
South Indian Bank										
Idirect Code	SOUINO	CMP	22	FY11	292.6	2.6	8.7	1.5	1.0	18.5
		Target	26	FY12E	381.2	3.4	6.6	1.3	1.0	20.6
Mcap (₹ Cr)	2531	Upside (%)	16.1	FY13E	468.9	3.2	7.1	1.0	1.0	17.6
Yes Bank										
Idirect Code	YESBAN	CMP	314	FY11	727.1	20.9	15.0	2.9	1.5	21.1
		Target	369	FY12E	970.5	26.6	11.8	2.2	1.5	21.6
Mcap (₹ Cr)	10892	Upside (%)	17.6	FY13E	1281.7	33.5	9.4	1.7	1.6	21.1

*UR: Under Review

Exhibit 8: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
27-Jul-11	Q1FY12 Result Update	389	400	Hold
23-Sep-11	Banking industry Vol VI	309	352	Buy
5-Oct-11	Q2FY12 Result Preview	306	352	Buy
9-Nov-11	Q2FY12 Result Update	326	331	Hold
16-Dec-11	Banking industry Vol VII	318	331	Hold
6-Jan-12	Q3FY12 Result Preview	287	331	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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