

**January 25, 2012**

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Rating	Accumulate
Price	Rs789
Target Price	Rs900
Implied Upside	14.1%
Sensex	17,077
Nifty	5,158

**(Prices as on January 25, 2012)**
**Trading data**

Market Cap. (Rs bn)	309.1
Shares o/s (m)	391.8
3M Avg. Daily value (Rs m)	470.3

**Major shareholders**

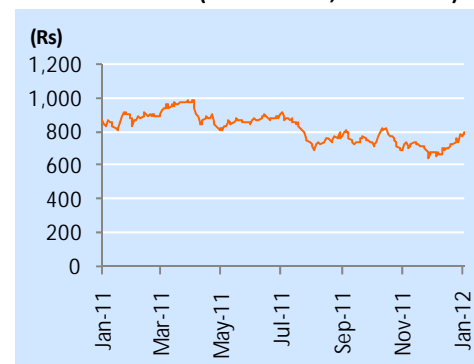
Promoters	57.03%
Foreign	13.61%
Domestic Inst.	17.18%
Public & Other	12.18%

**Stock Performance**

(%)	1M	6M	12M
Absolute	16.8	(13.7)	(9.2)
Relative	8.3	(4.2)	0.8

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	137.3	140.0	-2.0
2014	165.7	NA	NA

**Price Performance (RIC: BOB.BO, BB: BOB IN)**


Source: Bloomberg

**BOB reported strong set of numbers in 3Q12 with loan growth remaining higher than the industry, fee income adjusted for treasury also showing strong growth and asset quality continuing to remain robust. Air India and SEB restructuring remain near term risks but 3Q12 highlights bank's ability to provide without having a significant P&L impact. We increase our PT to Rs900/share (8% increase) mainly due to rollover to Mar-13. Though the stark asset quality difference seen in reported NPAs relative to peers may not hold up in the restructuring cycle for BOB but valuations at 1.1x FY13 book seem reasonable.**

- Robust growth trends:** BOB continues to report strong growth trends with domestic loan growth at ~6.7% q/q and international book adjusted for rupee depreciation growing at ~25% y/y. Non interest income jumped due to one-off treasury gains, adjusted for which core fee income growth was robust at ~18% y/y growth. BOB management seemed confident to deliver ~18-19% growth in FY13 with capital levels being the most comfortable among PSUs. The only red flag high is high growth in the SME space which could have credit implications.
- Asset quality:** (1) Gross slippages did inch up to Rs9.5bn with recognition of Kingfisher (~Rs5bn) as NPA but overall delinquency levels still remained manageable at ~1.5% with some tick up in upgradations. (2) Accretion to the restructured book was higher than expected at ~Rs21bn including GTL (~Rs11bn) but no SEB restructuring concluded in 3Q12 for BOB. Management reiterated it's guidance of 1.2-1.3% of gross slippages even for FY13, though some risks from the restructured book remain.
- Investment outlook:** The vast asset quality divide between BOB and peers may bridge somewhat especially on performance relating to restructuring, but we do not expect BOB's delinquency to converge to industry levels in the near term. Restructuring risks remain but valuations at 1.1x FY13 book look reasonable.

**Key financials ( Y/e March)**

	2011	2012E	2013E	2014E
Net interest income (Rs m)	88,023	103,258	122,554	143,564
Growth (%)	48.2	17.3	18.7	17.1
Operating profit (Rs m)	69,816	88,360	101,617	118,679
PAT (Rs m)	42,417	47,798	53,776	64,916
EPS (Rs)	108.3	122.0	137.3	165.7
Growth (%)	—	12.7	12.5	20.7
Net DPS (Rs)	16.5	18.6	20.9	25.3

**Profitability & Valuation**

	2011	2012E	2013E	2014E
NIM (%)	2.78	2.62	2.63	2.63
RoAE (%)	25.3	22.0	20.8	21.1
RoAA (%)	1.34	1.21	1.15	1.19
P / BV (x)	1.6	1.3	1.1	0.9
P / ABV (x)	1.6	1.3	1.1	0.9
PE (x)	7.3	6.5	5.7	4.8
Net dividend yield (%)	2.1	2.4	2.7	3.2

Source: Company Data; PL Research

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**Exhibit 1: BOB 3Q12 Financials**

	3Q11A	2Q12A	3Q12	YoY	QoQ
Interest income	56,662	72,514	76,720	35.4%	5.8%
Interest expenses	33,739	46,845	50,165	48.7%	7.1%
<b>Net interest income</b>	<b>22,923</b>	<b>25,669</b>	<b>26,555</b>	<b>15.8%</b>	<b>3.5%</b>
Non-interest income	6,762	7,343	11,493	70.0%	56.5%
Operating expenses	11,172	11,613	11,967	7.1%	3.0%
<b>Pre prov profit</b>	<b>18,512</b>	<b>21,400</b>	<b>26,082</b>	<b>40.9%</b>	<b>21.9%</b>
Provisions	3,041	4,834	8,367	175.2%	73.1%
<b>Profit before tax</b>	<b>15,471</b>	<b>16,566</b>	<b>17,715</b>	<b>14.5%</b>	<b>6.9%</b>
Provision for tax	4,783	4,775	4,686	-2.0%	-1.9%
<b>Profit after tax</b>	<b>10,689</b>	<b>11,661</b>	<b>12,899</b>	<b>20.7%</b>	<b>10.6%</b>
<b>NIMs</b>	<b>3.20%</b>	<b>3.07%</b>	<b>2.99%</b>	<b>-0.21%</b>	<b>-0.08%</b>
<b>Domestic NIMs</b>	<b>3.82%</b>	<b>3.67%</b>	<b>3.51%</b>	<b>-0.31%</b>	<b>-0.16%</b>
<b>International NIMs</b>	<b>1.40%</b>	<b>1.42%</b>	<b>1.64%</b>	<b>0.24%</b>	<b>0.22%</b>
Cost - Income	37.6%	35.2%	31.5%	-6.19%	-3.73%
Prov / PPP	16.4%	22.6%	32.1%	15.7%	9.5%
Tax rate	30.9%	28.8%	26.5%	-4.5%	-2.4%
<b>Balance sheet</b>					
Loans	2,072,088	2,391,203	2,286,760	10.4%	-4.4%
Deposits	2,815,119	3,291,854	3,054,390	8.5%	-7.2%
Credit Deposit ratio	73.6%	72.6%	74.9%	1.3%	2.2%
<b>Asset Quality</b>					
Gross NPA	27,703	34,021	38,951	40.6%	14.5%
Net NPA	7,442	11,186	13,253	78.1%	18.5%
Gross NPA (%)	1.32%	1.41%	1.48%	0.16%	0.07%
Net NPA (%)	0.36%	0.47%	0.51%	0.15%	0.04%
LLP/Loans	0.41%	0.51%	0.87%	0.5%	0.4%

Source: Company Data, PL Research

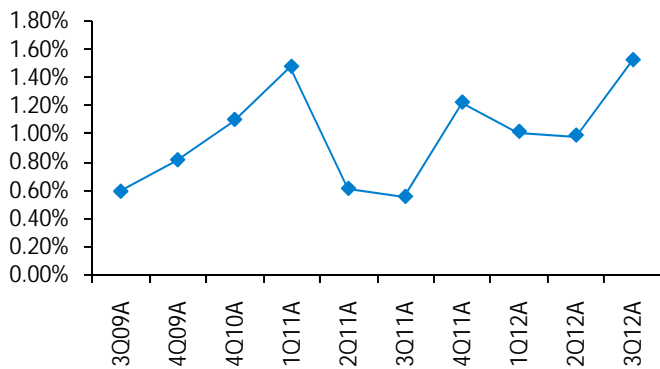
### Key asset quality highlights from group meeting conducted by us:

- **Restructuring/GTL:** The restructured book increased by Rs21bn in 3Q12 which included GTL (~Rs11-12bn) but did not include any SEB restructuring. BOB booked ~Rs1.4bn of additional provisions on GTL which is ~12-13% NPV impact on its GTL exposure. This is lower than provisions made by Union bank for their GTL exposure at ~20%.
- **SEB restructuring:** BOB has not done any SEB restructuring in 3Q12. They do not have exposure to Haryana SEB but have exposure to TN and Rajasthan which would likely get restructured in the next qtr. BOB has ~Rs60bn of SEB portfolio with large exposure to profit making SEBs like Gujarat where we see limited concerns. Management believes ~20-30% of their SEB portfolio could come under restructuring.
- **Slippages:** Incremental slippages at Rs9.5bn included Kingfisher exposure of ~Rs5.0bn. Even including Kingfisher, BoB's slippages remain manageable at ~1.5% with ~0.5% of upgrades/recoveries in 3Q 12. Management re-iterated its guidance of 1.2-1.3% of gross slippages for the next 3-4 qtrs.
- **Infra portfolio:** Management remained sanguine about its private Infra portfolio. Though private power exposure may not hit banks in the very near term, our interactions with industry experts and CDR cell make us believe that there could be some stress (restructuring) from the road portfolio though BOB's management does not see any significant stress from their road portfolio.
- **Asset quality outlook:** Near term risks from Air India/ SEB restructuring remain but apart from that management re-iterated its guidance of 1.2-1.3% of gross slippages for FY13 as well.
- **Treasury income:** BOB has booked Rs3.9bn of treasury gain in 3Q12 largely from sale of liquid MFs which many peer banks booked in 1HFY12. Also, FX income was up by ~63% mainly due to high volatility and some trading gains booked.

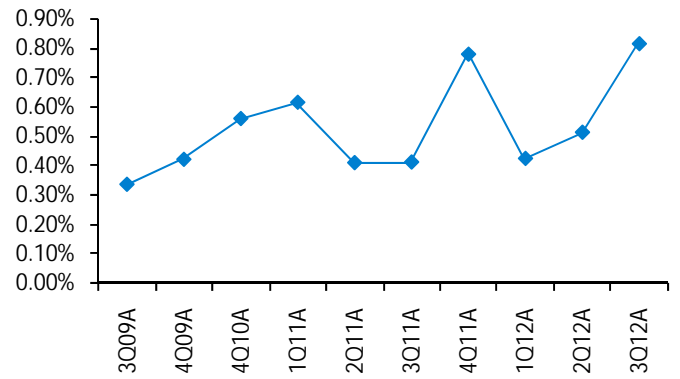
**Exhibit 2: Slippages high mainly relating to Kingfisher**

	2Q11A	3Q11A	4Q11A	1Q12A	2Q12A	3Q12A
<b>Opening</b>	<b>26,574</b>	<b>27,199</b>	<b>27,700</b>	<b>31,527</b>	<b>34,256</b>	<b>34,023</b>
Additions	2,881	2,762	6,665	5,848	5,825	9,527
Recovery	991	1,069	1,061	1,255	1,454	1,389
Up-gradations	351	(18)	461	715	421	1,656
Write offs	914	1,210	1,315	1,149	4,184	1,552
<b>Closing NPAs</b>	<b>27,199</b>	<b>27,700</b>	<b>31,527</b>	<b>34,256</b>	<b>34,023</b>	<b>38,952</b>
Annualized Slippages %	0.61%	0.55%	1.22%	1.01%	0.99%	1.52%
Reductions (ex write offs %)	0.28%	0.21%	0.28%	0.34%	0.32%	0.29%
Net Slippages (%)	0.33%	0.34%	0.94%	0.67%	0.67%	1.03%

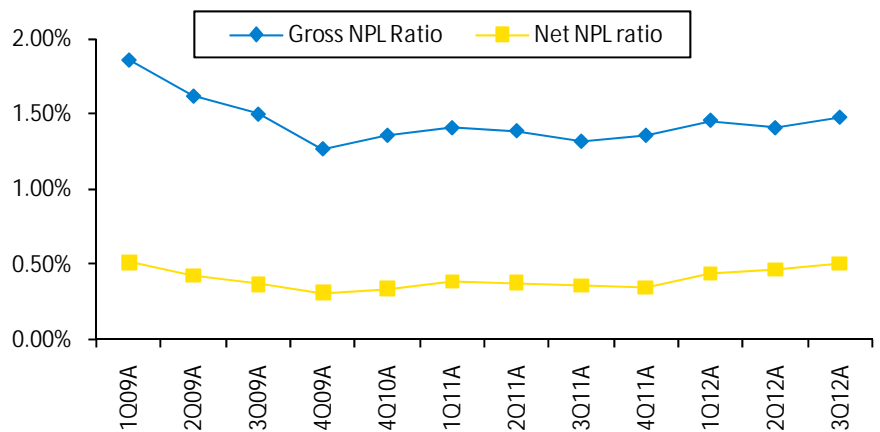
Source: Company Data, PL Research

**Exhibit 3: Slippages inch up but still at manageable levels**


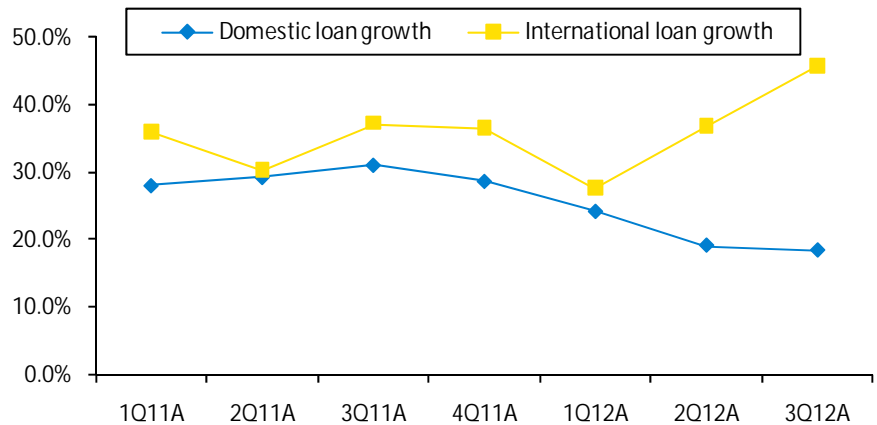
Source: Company Data, PL Research

**Exhibit 4: LLP/Loans high due to Rs1.5bn provisions for restructuring**


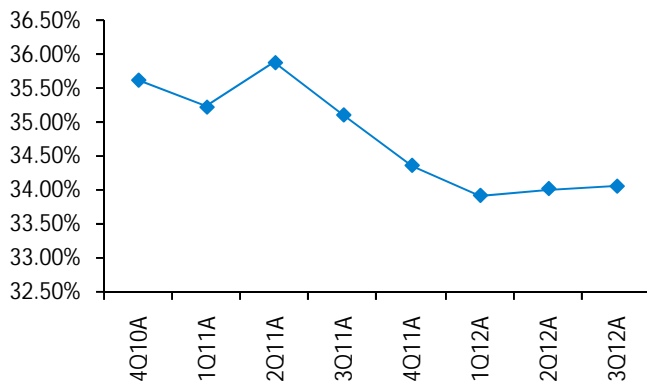
Source: Company Data, PL Research

**Exhibit 5: Some inch up in NPAs in 3Q12**


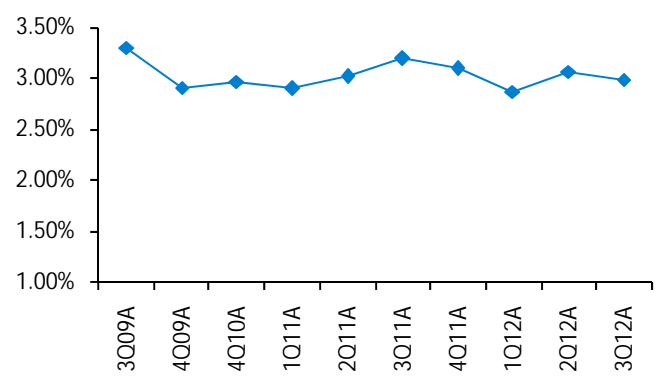
Source: Company Data, PL Research

**Exhibit 6: Domestic growth moderating but still higher than industry levels**


Source: Company Data, PL Research

**Exhibit 7: CASA % did see a marginal increase q/q**


Source: Company Data, PL Research

**Exhibit 8: Marginal moderation in NIMs as expected**


Source: Company Data, PL Research

**Exhibit 9: ROA inching up in spite of high provisioning**

	2Q11A	3Q11A	4Q11A	1Q12A	2Q12A	3Q12A
<b>Net Interest Income/Assets</b>	<b>2.72%</b>	<b>2.90%</b>	<b>3.05%</b>	<b>2.55%</b>	<b>2.79%</b>	<b>2.72%</b>
Fees/Assets	0.76%	0.75%	0.83%	0.63%	0.79%	0.78%
Investment profits/Assets	0.15%	0.11%	0.14%	0.08%	0.01%	0.40%
<b>Net revenues/Assets</b>	<b>3.63%</b>	<b>3.75%</b>	<b>4.03%</b>	<b>3.26%</b>	<b>3.59%</b>	<b>3.90%</b>
Operating Expense/Assets	-1.42%	-1.41%	-1.75%	-1.23%	-1.26%	-1.23%
Provisions/Assets	-0.25%	-0.38%	-0.69%	-0.45%	-0.53%	-0.86%
Taxes/Assets	-0.60%	-0.60%	-0.07%	-0.44%	-0.52%	-0.48%
Total Costs/Assets	-2.27%	-2.40%	-2.52%	-2.12%	-2.31%	-2.56%
<b>ROA</b>	<b>1.36%</b>	<b>1.35%</b>	<b>1.51%</b>	<b>1.15%</b>	<b>1.28%</b>	<b>1.34%</b>
Equity/Assets	5.23%	5.28%	5.77%	5.78%	5.97%	5.96%
<b>ROE</b>	<b>26.91%</b>	<b>26.40%</b>	<b>28.37%</b>	<b>20.37%</b>	<b>22.06%</b>	<b>23.05%</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Int. Earned from Adv.	162,035	227,767	271,187	317,439
Int. Earned from Inv.	47,748	62,366	76,797	88,220
Others	9,077	8,312	9,262	9,809
Total Interest Income	218,859	298,445	357,247	415,469
Interest expense	130,837	195,187	234,692	271,904
<b>NII</b>	<b>88,023</b>	<b>103,258</b>	<b>122,554</b>	<b>143,564</b>
<i>Growth (%)</i>	<i>48.2</i>	<i>17.3</i>	<i>18.7</i>	<i>17.1</i>
Treasury Income	4,435	4,800	3,500	3,500
NTNII	23,657	28,494	33,338	39,005
Non Interest Income	28,092	33,294	36,838	42,505
Total Income	246,951	331,739	394,084	457,974
<i>Growth (%)</i>	<i>26.6</i>	<i>34.3</i>	<i>18.8</i>	<i>16.2</i>
Operating Expense	46,298	48,192	57,775	67,390
<b>Operating Profit</b>	<b>69,816</b>	<b>88,360</b>	<b>101,617</b>	<b>118,679</b>
<i>Growth (%)</i>	<i>41.5</i>	<i>26.6</i>	<i>15.0</i>	<i>16.8</i>
NPA Provisions	12,745	17,331	25,928	26,888
Investment Provisions	90	5,100	1,000	1,000
Total Provisions	13,313	22,431	26,928	27,888
<b>PBT</b>	<b>56,503</b>	<b>65,929</b>	<b>74,689</b>	<b>90,791</b>
Tax Provisions	14,086	18,130	20,913	25,876
<i>Effective Tax Rate (%)</i>	<i>24.9</i>	<i>27.5</i>	<i>28.0</i>	<i>28.5</i>
<b>PAT</b>	<b>42,417</b>	<b>47,798</b>	<b>53,776</b>	<b>64,916</b>
<i>Growth (%)</i>	<i>38.7</i>	<i>12.7</i>	<i>12.5</i>	<i>20.7</i>

**Balance Sheet (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	392	392	392	392
Equity	3,918	3,918	3,918	3,918
Networth	197,682	236,957	281,144	334,484
Adj. Networth	189,773	224,034	263,274	310,816
Deposits	3,054,395	3,716,222	4,311,905	5,087,578
<i>Growth (%)</i>	<i>26.7</i>	<i>21.7</i>	<i>16.0</i>	<i>18.0</i>
Low Cost deposits	875,887	1,046,193	1,224,670	1,457,696
<i>% of total deposits</i>	<i>28.7</i>	<i>28.2</i>	<i>28.4</i>	<i>28.7</i>
<b>Total Liabilities</b>	<b>3,571,722</b>	<b>4,317,058</b>	<b>5,013,309</b>	<b>5,915,492</b>
Net Advances	2,286,764	2,717,842	3,179,875	3,798,975
<i>Growth (%)</i>	<i>30.6</i>	<i>18.9</i>	<i>17.0</i>	<i>19.5</i>
Investments	712,606	947,295	1,078,530	1,228,299
<b>Total Assets</b>	<b>3,571,722</b>	<b>4,317,058</b>	<b>5,013,309</b>	<b>5,915,492</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Interest Income	63,342	66,318	72,514	76,720
Interest Expense	37,203	43,346	46,845	50,165
<b>Net Interest Income</b>	<b>26,139</b>	<b>22,972</b>	<b>25,669</b>	<b>26,555</b>
Non Interest Income	8,345	6,409	7,343	11,493
CEB	4,817	3,981	4,549	4,520
Treasury	859	288	1,220	711
<b>Net Total Income</b>	<b>34,484</b>	<b>29,380</b>	<b>33,013</b>	<b>38,048</b>
Operating Expenses	15,026	11,068	11,613	11,967
Employee Expenses	9,897	6,454	6,466	6,740
Other Expenses	5,129	4,614	5,147	5,226
<b>Operating Profit</b>	<b>19,458</b>	<b>18,313</b>	<b>21,400</b>	<b>26,082</b>
Core Operating Profit	18,599	18,025	20,180	25,371
Provisions	5,904	4,041	4,834	8,367
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
<b>Profit before tax</b>	<b>13,554</b>	<b>14,272</b>	<b>16,566</b>	<b>17,715</b>
Tax	611	3,944	4,775	4,686
<b>PAT before EO</b>	<b>12,944</b>	<b>10,328</b>	<b>11,791</b>	<b>13,029</b>
Extraordinary item	—	—	130	130
<b>PAT</b>	<b>12,944</b>	<b>10,328</b>	<b>11,791</b>	<b>13,029</b>

**Key Ratios**

Y/e March	2011	2012E	2013E	2014E
CMP (Rs)	789	789	789	789
Equity Shrs. Os. (m)	392	392	392	392
Market Cap (Rs m)	309,052	309,052	309,052	309,052
<i>M/Cap to AUM (%)</i>	<i>8.7</i>	<i>7.2</i>	<i>6.2</i>	<i>5.2</i>
EPS (Rs)	108.3	122.0	137.3	165.7
Book Value (Rs)	505	605	718	854
Adj. BV (75%) (Rs)	505	604	717	853
P/E (x)	7.3	6.5	5.7	4.8
P/BV (x)	1.6	1.3	1.1	0.9
P/ABV (x)	1.6	1.3	1.1	0.9
DPS (Rs)	16.5	18.6	20.9	25.3
<i>Dividend Yield (%)</i>	<i>2.1</i>	<i>2.4</i>	<i>2.7</i>	<i>3.2</i>

**Profitability (%)**

Y/e March	2011	2012E	2013E	2014E
NIM	2.8	2.6	2.6	2.6
RoAA	1.3	1.2	1.2	1.2
RoAE	25.3	22.0	20.8	21.1

**Efficiency**

Y/e March	2011	2012E	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>39.9</i>	<i>35.3</i>	<i>36.2</i>	<i>36.2</i>
<i>C-D Ratio (%)</i>	<i>74.9</i>	<i>73.1</i>	<i>73.7</i>	<i>74.7</i>
Business per Emp. (Rs m)	133	140	141	146
Profit per Emp. (Rs m)	11	10	10	11
Business per Branch (Rs m)	1,563	1,637	1,657	1,709
Profit per Branch (Rs m)	12	12	12	12

**Asset Quality**

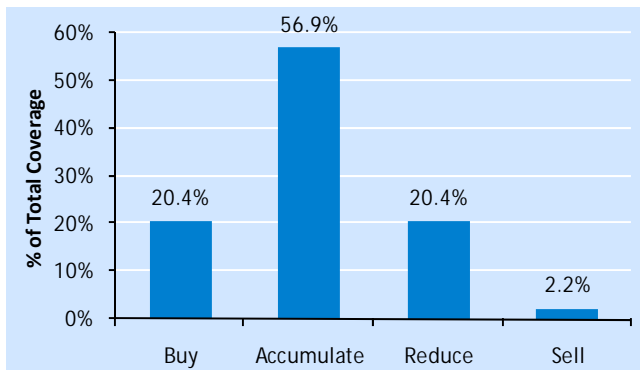
Y/e March	2011	2012E	2013E	2014E
Gross NPAs (Rs m)	31,525	43,077	59,565	78,894
Net NPAs (Rs m)	7,909	12,923	17,869	23,668
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>1.4</i>	<i>1.6</i>	<i>1.9</i>	<i>2.1</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>0.3</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>
<i>NPA Coverage (%)</i>	<i>74.9</i>	<i>70.0</i>	<i>70.0</i>	<i>70.0</i>

Source: Company Data, PL Research.



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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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