



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Grey	↔	Grey
RV	Green	↔	Green

Reco/View

Reco: Buy	Change ↑
CMP: Rs. 85	
Price Target: Rs. 100	Change ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

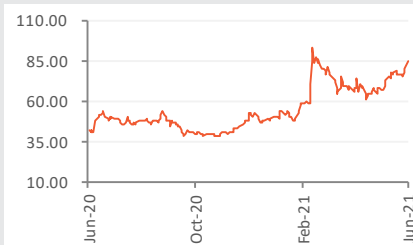
Company details

Market cap:	Rs. 27,739 cr
52-week high/low:	Rs. 101/38
NSE volume: (No of shares)	47.2 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	35.7 cr

Shareholding (%)

Promoters	89.1
FII	0.5
DII	4.3
Others	6.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	24.0	5.0	89.4	106.5
Relative to Sensex	17.1	3.2	71.1	52.4

Sharekhan Research, Bloomberg

Summary

- Bank of India (BOI) posted mixed results for Q4FY2021 where, operational numbers were below expectations and NIMs contracted, but despite challenges, the asset quality improved.
- Weak topline resulted in margin contraction and FY2021 domestic NIMs stood at 2.7%, down 58 bps, while global NIM at 2.48% was down 45 bps from FY2020 levels.
- Asset quality improved with GNPA/NNPA at 13.77%/3.35%, down 83 bps/38 bps, respectively, from proforma GNPA/NNPA ratio, SMA 1 and 2 book has nearly halved on a q-o-q basis; CET-1 improved to 11.5%.
- We have fine tuned our estimates and target multiples. We upgrade the stock to Buy with a revised PT of Rs. 100.

Bank of India (BOI) posted mixed results for Q4FY2021. Operational numbers were below expectations; however, asset quality improved (as compared to proforma numbers) on a sequential basis, which is a positive despite challenges. Net interest income (NII) came at Rs. 2,936 crore, down 22.6% y-o-y and down 21.5% q-o-q and was below estimates. Pre-provision profits (PPOP) stood at Rs. 2,094 crore, down 26.4% y-o-y and 26.1% q-o-q, coming again lower than expectations. Provisions, however, were lower at Rs. 1,831 crore, down 7.5% q-o-q and much lower than Rs. 8,141 crore in Q4 FY2020. However, despite lower provisions, tepid NII performance resulted in PAT at Rs. 250 crore, down 53.7% q-o-q, and was below expectations. Weak traction in operational performance resulted in weakening of global NIM declining to 2.01% for Q4FY2021 compared to 2.58% in Q3FY2021 and 2.90% in Q4FY2020. Even on full-year basis, FY2021 domestic NIM stood at 2.7%, down from 3.28% in FY2020, while global NIMs stood at 2.48%, down from 2.93% in FY2020. Performance on the asset-quality side was on the brighter side, with reported GNPA/NNPA came at 13.77%/3.35% for Q4FY2021, which were down 83 bps/38 bps, respectively, on comparison with proforma GNPA ratio and NNPA ratio of 14.6%/3.73% as of Q3FY2021 and NPL position has improved. Moreover, SMA 1 and 2 accounts have declined from Rs. 11,979 crore in Q3FY2021 to Rs 6,948 crore in Q4 FY2021, indicating reduced pressure from legacy book. The bank is reasonably well placed in terms of capital position, with CET 1 at 11.51%, much improved from Q3 levels. We have fine tuned our estimates and target multiples. We upgrade the stock to Buy with a revised price target (PT) of Rs. 100.

Key positives

- Steady performance on the other income stream, which stood at Rs. 2,053 crore for Q4FY2021, steady from Q3FY2021 but up 21.6% y-o-y.
- Healthy provision coverage ratio (PCR) at 86.24% as of Q4FY2021, which has improved from 83.75% in Q4FY2020 and provides cushion to profitability.

Key negatives

- Sharp NIM contraction seen during the quarter, with Q4FY2021 domestic NIM at 2.16% compared to 2.81% in Q3FY2021 and 3.18% in Q4FY2020.

Our Call

Valuation: BOI currently trades at 0.6x/0.5x its FY2022E/FY2023E ABVPS, which is reasonable. Due to the recent capital raise and healthy traction in fee income with improved asset-quality performance, we believe the bank is structurally better placed, even as challenges and a weak growth outlook due to COVID-19 persist. We expect growth outlook to improve with incrementally improved asset-quality performance and resolutions/recoveries going forward to be supportive. We expect the bank to post RoA/RoE of 0.36%/6.6% by FY2023E, led by stable balance sheet growth along with higher PCR and stable asset quality. However, we expect asset-quality performance to still be a key monitorable during the medium term. We have fine tuned our estimates and target multiples. We upgrade the stock to Buy rating with a revised PT of Rs. 100.

Key risk

Risk of further NPAs cropping up, especially in the corporate, agriculture, and/or retail segments due to prolonged lockdowns etc. would impact growth and profitability.

Valuation

Particulars	FY19	FY20	FY21	FY22E	FY23E
Net interest income	13,658	15,399	14,270	17,009	19,550
Net profit	(5,547)	(2,929)	2,160	3,063	3,351
EPS (Rs.)	(20.1)	(9.4)	6.6	9.3	10.2
PE (x)	(4.2)	(9.5)	12.8	9.1	8.3
Adj book value (Rs./share)	82	86	116	138	161
P/ABV (x)	1.03	0.98	0.73	0.62	0.53
RoE (%)	(13.6)	(6.4)	4.6	6.1	6.6
RoA (%)	(0.9)	(0.4)	0.28	0.36	0.36

Source: Company; Sharekhan estimates

Key Conference call takeaways

- ◆ **Business Update:** Higher credit growth seen in the RAM segment reached 50%, centralised digital processes for MSME credit are being revamped and being increased. These centres will aid in higher credit growth.
- ◆ **Slippages:** The bank believes its slippage performance in FY2021 was favourably comparable for major peer banks and would expect them to be sustainable on yearly basis.
- ◆ **SMA book:** SMA 2 of which Rs. 4,076 crore, corporate credit is Rs. 6,423 crore and expect SMA2 to be lower at Rs. 3,000 crore in Q1.
- ◆ **Cost-to-Income ratio:** Major factor was wage revision and lower operating profits. Income part was subdued. The bank has given guidance of 47% levels for FY2022E.
- ◆ Credit growth expected to see gradual pick up. It gradually expects the spread to decline for the banking sector.
- ◆ **COVID impact on operations and strategy:** The bank's operations were intact during the lockdown. The Alternate Delivery Channel was fully operational. There was not much impact on functioning of branches/ATMs of the bank. The bank used to hold meetings through video conference or other audio electronics mode.
- ◆ **Monitoring and recovery efforts of SMA accounts:** Various campaigns such as Star Chunauti, Star SANKALP, Star Focus launched during February and March 2021 and continuation of StarSANKALP scheme. These schemes involved the staff at all levels, including the sub-ordinate staffs for recovery and monitoring efforts. Large value stressed accounts were discussed in the asset-quality monitoring committee meetings for possible resolutions in the presence of top executives from HO.
- ◆ Interest Reversal was Rs. 660 crore during Q4FY2021.
- ◆ Credit growth will be around 6.5% for FY2022E.
- ◆ **Restructured book:** Totally BOI has received Rs. 23,400 crore of restructuring proposals, of which BOI did Rs. 4,428 crore restructuring. Of which, personal Rs. 738 crore SME was Rs. 3,449 crore rest in corporate credit. Due to COVID-19 second wave, Rs. 91,000 crore will be eligible for restructure, of which around 50% may result in restructured.
- ◆ **Benefits of NHRCL:** The advantage of transfer of assets to NHRCL will result in lowering of GNPA and reversal of provisions possible. BOI has around 21 accounts of Rs. 5,500 crore, all of them are fully provided, which it may transfer to NHRCL.

Particulars	Results					Rs cr
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	
Interest income	9,326.6	10,528.0	-11.4	10,243.1	-8.9	
Interest expense	6,390.7	6,735.0	-5.1	6,503.6	-1.7	
Net interest income	2,935.9	3,793.1	-22.6	3,739.5	-21.5	
Non-interest income	2,053.2	1,687.8	21.7	2,067.8	-0.7	
Net total income	4,989.1	5,480.8	-9.0	5,807.4	-14.1	
Operating expenses	2,894.7	2,634.3	9.9	2,971.7	-2.6	
Pre-provisioning profit	2,094.4	2,846.6	-26.4	2,835.7	-26.1	
Provisions	1,831.0	8,141.9	-77.5	1,980.1	-7.5	
Profit before tax	263.3	-5,295.4	NA	855.6	-69.2	
Tax	13.1	-1,918.0	NA	314.8	-95.8	
Profit after tax	250.2	-3,377.4	NA	540.7	-53.7	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Credit growth yet to pick up; Strong banks to gain

System-level credit offtake is still subdued, with credit growth still at sub 6% mark. The offtake can be said to be still tepid as compared to earlier years and compared to nominal GDP growth. While credit growth remains sluggish, there was stronger deposit momentum and healthy deposits growth, which indicate the underlying strength of the economy in our view. Moreover, the Reserve Bank of India's (RBI) accommodative stance, surplus liquidity regime, and supportive monetary/fiscal measures provide succour at these uncertain times. They allow easy availability of funds and lower cost of funds for banks and financial services companies, which is key for the continued smooth functioning of financial systems. Going forward, while collections efficiency (CE) and recovery are likely to be a key monitorable, it will likely be a function of book quality, client profile, as well as economic pick-up. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains only for well-placed players. While recent supportive regulatory measures and the gradual return to normalised business traction will be positive for BFSI companies, we expect capital availability or constrained and asset quality to be key differentiators. PSU banks, which are still burdened with legacy NPAs, are likely to take longer to recover; but well-capitalised banks are better placed to gain market share.

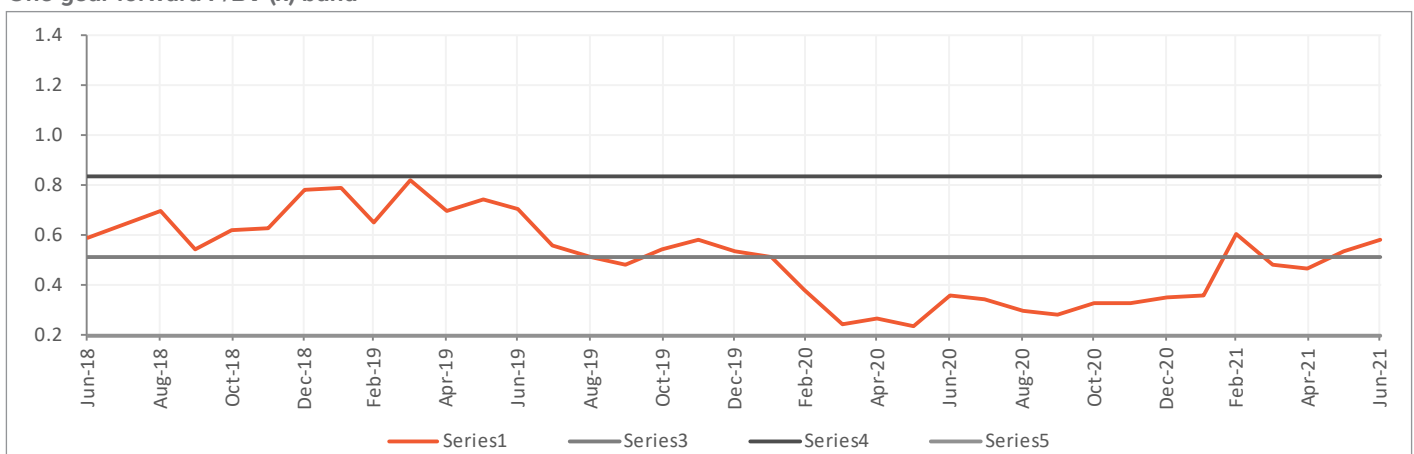
■ Company Outlook – Mixed performance, improved metrics

Q4FY2021 results were mixed. While asset-quality performance improved, margins declined both on a y-o-y and q-o-q basis. However, improved PCR and lower SMA 1 and 2 book are positives. The overhang of restructuring may keep asset quality to be the key monitorable. Going forward, likely resolutions in NCLT/IBC recovery etc. would be positive. Management has indicated its view of lesser pressure from legacy books, and we believe improved capital levels presently have brightened long-term outlook, even though near-term uncertainties due to the pandemic persist. The bank may have reduced its liability pricing, but softening yields and slow credit growth may keep NIMs muted. Going forward, we believe asset quality is likely to be a key monitorable in the medium term.

■ Valuation – We upgrade our rating to Buy with a revised PT of Rs. 100

BOI currently trades at 0.6x/0.5x its FY2022E/FY2023E ABVPS, which is reasonable. Due to the recent capital raise and healthy traction in fee income with improved asset-quality performance, we believe the bank is structurally better placed, even as challenges and a weak growth outlook due to COVID-19 persist. We expect growth outlook to improve with incrementally improved asset-quality performance and resolutions/recoveries going forward will prove to be supportive. We expect the bank to post RoA/RoE of 0.36%/6.6% by FY2023E, led by stable balance sheet growth along with higher PCR and stable asset quality. However, we expect asset-quality performance to still be a key monitorable during the medium term. We have fine tuned our estimates and target multiples. We upgrade the stock to Buy with a revised PT of Rs. 100.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Bank of India	85	0.6	0.5	9.1	8.3	0.4	0.4	6.1	6.6
State Bank of India	424	1.5	1.3	11.5	9.4	0.7	0.4	12.4	13.6
Punjab National Bank	42	0.5	0.4	8.0	5.9	0.8	0.6	5.8	7.5

Source: Company, Sharekhan Research

About company

Established in 1906, BOI is one of the largest PSU banks in the country. The bank, headquartered in Mumbai, has an established presence in western and eastern regions of the country. As of March 2020, the bank had 5,083 branches (along with 23 overseas branches) and 5,750 ATMs. The bank is present in five overseas subsidiary banks in Indonesia, Tanzania, New Zealand, Uganda, and Botswana. Government of India's shareholding in the bank stood at ~89%.

Investment theme

BOI has a network of over 5,000+ branches, spread across the country and abroad, along with a diversified products and services portfolio. Operating performance and earnings had eroded due to a sharp rise in NPAs. However, going forward, credit traction is expected to improve, buoyed by improved capital position and high PCR levels. Given the pandemic-related uncertainties for the near term, we believe asset-quality performance is likely to be a key monitorable.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agriculture, and/or retail segments due to prolonged lockdowns etc. would impact growth and profitability.

Additional Data

Key management personnel

Atanu Kumar Das	Managing Director & Chief Executive Director
Sripad D S	Chief Risk officer
P R Rajagopal	Executive Director
Shankar Sen	Chief financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.04
2	Vanguard Group Inc/The	0.32
3	HDFC Asset Management Co Ltd	0.26
4	Nippon Life India Asset Management	0.04
5	Kotak Mahindra Asset Management Co	0.03
6	Charles Schwab Corp/The	0.02
7	Allianz SE	0.02
8	State Street Corp	0.01
9	BlackRock Inc	0.01
10	LIC MF	0.01

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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