Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Bank of India

Mixed Bag Q4; Loan growth accelerates but higher credit cost reported

Banks	Sharekhan code: BANKINDIA	
Reco/View: Hold ↓	CMP: **Rs. 47**	Price Target: **Rs. 50** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)			✓
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Neutral	↑	Positive
RQ	Neutral	↓	Negative
RV	Positive	↓	Neutral

ESG Disclosure Score NEW

ESG RISK RATING 51.21

Updated Feb 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

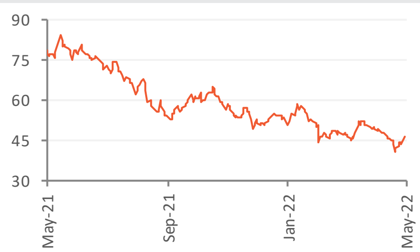
Company details

Market cap:	Rs. 19,348 cr
52-week high/low:	Rs. 87 / 40
NSE volume: (No of shares)	51.05 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	78.2 cr

Shareholding (%)

Promoters	81.4
FII	0.7
DII	10.9
Others	7.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.0	-7.8	-20.3	-40.5
Relative to Sensex	-1.8	-4.9	-15.3	-47.5

Sharekhan Research, Bloomberg

Summary

- Bank of India (BOI) reported strong loan growth of 15% y-o-y/ 5% q-o-q versus 9% y-o-y in the last quarter, led by strong growth in retail (18.5% y-o-y), agri, and overseas book (19% y-o-y /31% y-o-y). However, the bank has guided for 10-12% loan growth in FY2023E.
- Total credit cost reported stood at 1.5% (of average advances) versus 0.3% q-o-q. Restructured book stood at 4.0% of net advances versus 4.7% q-o-q. Credit cost guidance given by the bank stands at 1% for FY2023E versus 1.1% reported in FY2022.
- NII grew by 36% y-o-y/17% q-o-q, led by higher loan growth and margin improvement. NIM improved by 31 bps q-o-q to 2.58%, led by increased investment yields due to reclassification. Core operating profit also saw healthy growth due to higher NII and contained opex.
- Asset quality saw sharp improvement with GNPA and NNPA ratios falling by 48 bps/32 bps q-o-q to 9.98%/2.34%. PCR improved by 180 bps q-o-q to 78.4%.
- At the CMP, BOI trades at 0.4x and 0.4x its FY2023E and FY2024E core ABV, reflecting weak business franchise and below par return profile. We have downgraded the stock from Buy to Hold with a revised PT of Rs. 50. We believe the bank would continue to report higher slippages and higher credit cost accruing from its restructured book, which is significantly higher than peers.

Bank of India (BOI) reported good operational performance in Q4FY2022. However, higher credit cost remained key irritant. Net interest income (NII) grew by 36% y-o-y/17% q-o-q, led by higher loan growth and margins. Net interest margin (NIM) improved by 31 bps q-o-q to 2.58% due to change in some of the investment classification, which impacted yield on investments positively. Core fee income fell by 7% y-o-y/10% q-o-q. Other income declined 26% y-o-y/14% q-o-q due to treasury loss. Total operating expenses grew by 7% y-o-y and declined by 1% q-o-q. Operating profit grew by 18% y-o-y/18% q-o-q due to higher NII and contained opex, offsetting lower other income. However, core operating profit grew by 3.3x y-o-y/2x q-o-q. Provisions were down 16% y-o-y and grew by 4.6x q-o-q. Total credit cost stood at 1.5% of average advances during the quarter versus 0.3% q-o-q. Gross slippages were at Rs. 1,828 crore versus Rs. 1,845 crore q-o-q. PAT grew by 2.4x y-o-y but declined 41% q-o-q, led by higher credit cost sequentially. Advances grew by 15% y-o-y/5% q-o-q. Retail loans (led by mortgages) rose by 18.5% y-o-y, agri and MSME loans grew by 19.2% y-o-y and 9.5% y-o-y, respectively. Wholesale book remained flat y-o-y, while overseas book grew by 31% y-o-y. Total deposits growth remained flat y-o-y with CASA growing at 9% y-o-y. Asset quality saw sharp improvement with GNPA and NNPA declining by 48 bps/32 bps q-o-q to 9.98%/2.34%. Restructured book stood at ~4.0% of net advances versus 4.7% of net advances q-o-q. SMA 1 and 2 book stood at Rs. 3,015 crore versus Rs. 4,849 crore in the past quarter.

Key positives

- Higher advance growth witnessed during the quarter led by retail, agri, and overseas book.
- Asset quality saw sharp improvement q-o-q, besides reduction in restructured book and SMA 1 and 2 book q-o-q.

Key negatives

- Retail term deposits saw a decline of 1% y-o-y.
- Total credit cost stood at 1.5% (of average advances) versus 0.3% q-o-q

Management Commentary

- The bank expects 10-12% growth in advances for FY2023E, led by high yield products in retail. Bank expects domestic NIMs to improve to ~3% vs 2.90% in Q4FY22.
- Credit cost guidance given by the bank stands at 1% for FY2023E versus 1.1% reported in FY2022. Bank intends to keep Gross NPA lower than 8% in FY2023E.

Our Call

We downgrade the stock from Buy to Hold with a revised PT of Rs. 50: BOI currently trades at 0.4x/0.4x its FY2023E/FY2024E core ABV, which reflects weak business franchise and below-par return profile. We believe slippages and credit cost are not expected to normalise sooner, which will keep its return profile below par compared to peers, as higher slippages are expected to flow from the restructured book, which is significantly higher than peers. Higher credit cost would keep earnings under pressure going ahead. Thus, we downgrade our rating on the stock from Buy to Hold with a revised price target (PT) of Rs. 50.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost especially from corporate and MSME book could affect earnings.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
NII	14,270	14,062	16,774	18,621
PAT	2,160	3,405	1,114	1,474
EPS (Rs.)	6.6	8.8	2.7	3.4
P/E (x)	7.1	5.3	17.7	13.7
P/ABV (x)	0.4	0.4	0.4	0.4
RoA (%)	0.3%	0.4%	0.1%	0.2%
RoE (%)	4.7%	6.6%	2.0%	2.6%

Source: Company; Sharekhan estimates

Key Results Highlights

- **Strong NII growth led by higher margins:** NII grew by 36% y-o-y/17% q-o-q, led by higher loan growth and margin improvement. NIM improved by 31 bps q-o-q to 2.58%, led by increased investment yields due to reclassification. Core fee income fell by 7% y-o-y/10% q-o-q. Other income fell by 26% y-o-y/14% q-o-q due to treasury loss. Going forward, the bank expects to grow higher yield retail segment faster, which would help it to achieve domestic NIM target of ~3.0% in FY2023E.
- **Higher credit cost reported:** Total credit cost stood at 1.5% of average advances during the quarter versus 0.3% q-o-q. Provisions fell by 16% y-o-y, but grew by 4.6x sequentially. Credit cost guidance given by the bank stands at 1% for FY2023E versus 1.1% in FY2022.
- **Better asset quality:** GNPA ratio and NNPA ratio improved by 48 bps q-o-q and 32 bps q-o-q to 9.98% and 2.34%, respectively, in Q4FY2022. Gross slippages for the quarter stood at Rs. 1,828 crore versus Rs. 1,845 crore q-o-q. Recoveries and upgrades amounted to Rs. 1,670 crore versus Rs. 1,455 crore q-o-q. Write-offs stood at Rs. 313 crore versus Rs. 4,900 crore q-o-q. Management intends to bring down GNPA ratio to less than 8% in FY2023E, led by higher recoveries from NCLT resolutions in FY2023E.
- **Pick-up in credit growth:** Advances grew by 15% y-o-y/5% qoq. Retail, agriculture, and MSME advances rose by 18.5% y-o-y, 19% y-o-y, and 9.5% y-o-y, respectively. Retail book growth was primarily aided by strong growth in home loans (12% y-o-y) and vehicle book (50% y-o-y). Wholesale book remained flat y-o-y, while overseas book grew by 31% y-o-y. Management has guided for credit growth of 10-12% for FY2023E.
- **Dividend:** The board has recommended dividend of Rs. 2.0 per share.

Results Rs cr

Particulars	Q4FY22	Q3FY22	Q4FY21	y-o-y	q-o-q
Interest Income	9,856	9,376	9,327	6%	5%
Interest Expenses	5,870	5,968	6,391	-8%	-2%
Net Interest Income	**3,986**	**3,408**	**2,936**	**36%**	**17%**
NIM (%)	2.58	2.27	2.01		
Core fee income	293	325	316	-7%	-10%
Other Income	1,294	1,510	1,737	-26%	-14%
Net Operating Revenue	**5,573**	**5,243**	**4,989**	**12%**	**6%**
Employee Expenses	1,778	1,832	1,663	7%	-3%
Other Opex	1,330	1,315	1,231	8%	1%
Total Opex	**3,108**	**3,147**	**2,895**	**7%**	**-1%**
Cost-to-Income Ratio (%)	**55.8%**	**60.0%**	**58.0%**		
Pre-Provision Profits	**2,466**	**2,096**	**2,094**	**18%**	**18%**
Provisions & Contingencies - Total	1,541	335	1,831	-16%	360%
Profit Before Tax	**925**	**1,761**	**263**	**251%**	**-47%**
Tax	319	733	13	2326%	-57%
Effective Tax Rate (%)	34.5	41.6	5.0		
Reported Profits	**606**	**1,027**	**250**	**142%**	**-41%**
Basic EPS (Rs.)	1.5	2.5	0.8	95%	-41%
Diluted EPS (Rs.)	1.5	2.5	0.8		
RoA (%)	0.3	0.5	0.1		
Advances	4,20,842	4,01,873	3,65,687	15%	5%
Deposits	6,27,896	6,23,120	6,27,114	0%	1%
Gross NPA	45,605	45,760	56,535	-19%	0%
Gross NPA Ratio (%)	9.98	10.5	13.8		
PCR - (%)	78.4	76.6	78.3		
Net NPA	9,852	10,708	12,262	-20%	-8%
Net NPA Ratio (%)	2.34	2.7	3.4		

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Credit growth has started to pick up, large banks placed better

System-level credit offtake grew by ~10% y-o-y for the fortnight ending April 22, 2022, indicating a gradual pick up in loans, given the distinct signs of improved economy and revival in investments and loan demand. On the other hand, deposits rose by ~10%, which reflect a healthier economic scenario. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe the banking sector is likely to see a higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

Company Outlook – Long way to normalcy

BOI would continue to post below-par earnings and returns ratios going ahead, as higher slippages are expected to flow from the restructured book, which is significantly higher than peers. Higher credit cost would keep earnings under pressure going ahead. We believe improvement in operating performance and asset quality matrix with higher return ratios is yet to be seen. We believe the road to normalcy is still a long one for BOI.

Valuation – We downgrade the stock from Buy to Hold with a revised PT of Rs. 50

BOI currently trades at 0.4x/0.4x its FY2023E/FY2024E core ABV, which reflects weak business franchise and below-par return profile. We believe slippages and credit cost are not expected to normalise sooner, which will keep its return profile below par compared to peers, as higher slippages are expected to flow from the restructured book, which is significantly higher than peers. Higher credit cost would keep earnings under pressure going ahead. Thus, we downgrade our rating on the stock from Buy to Hold with a revised PT of Rs. 50.

Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Bank of India	47	19,348	17.7	13.7	0.4	0.4	2	2.6	0.1	0.2
Bank of Baroda	96	49,542	7.1	5.2	0.6	0.5	7.8	9.8	0.5	0.7
PNB	30	33,418	9.7	8.8	0.5	0.4	3.5	3.7	0.3	0.3

Source: Company, Sharekhan Research

About company

Established in 1906, BOI is one of the oldest 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 2022, the bank had over 5,000 branches (along with 23 overseas branches) and ~5,750 ATMs. The bank has overseas presence in 18 foreign countries, spread over five continents – with 45 offices including four subsidiaries, one representative office, and one joint venture at key banking and financial centres viz. Tokyo, Singapore, Hong Kong, London, Paris, New York, and DIFC Dubai.

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 rise in NPAs. However, we believe improvement in operating performance and asset quality matrix with higher return ratios is yet to be seen.

Key Risks

- Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost especially from the corporate and MSME book could affect earnings.

Additional Data

Key management personnel

Mr. Atanu Kumar Das	MD and CEO
Mr. P R Rajagopal	Executive Director
Mr. Swarup Dasgupta	Executive Director
Mr. M Karthikeyan	Executive Director
Ms. Monika Kalia	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.1
2	HDFC Asset Management Co. Ltd.	0.4
3	Vanguard Group Inc.	0.4
4	Nippon life India Asset Management	0.1
5	Kotak Mahindra Asset Management	0.1
6	Norges Bank	0.1
7	Dimensional Fund Advisors LP	0.1
8	Wisdom Tree Investments Inc.	0.1
9	Indiabulls Asset Management	0.1
10	Charles Schwab Corp	0.1

Source: Bloomberg

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 detoriating 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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