

Sector: Banks & Finance  
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 71	
Price Target: Rs. 80	↓

↑ Upgrade ↔ No change ↓ Downgrade

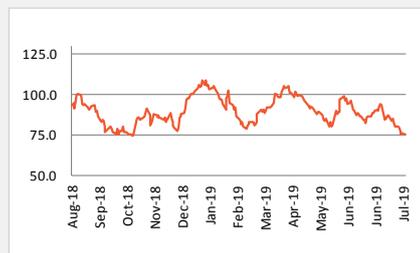
## Company details

Market cap:	Rs. 23,168 cr
52-week high/low:	Rs. 110/70
NSE volume: (No of shares)	91.7 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BANKINDIA
Free float: (No of shares)	35.7 cr

## Shareholding (%)

Promoters	89.1
FII	0.0
DII	4.8
Others	6.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-16.0	-18.0	-22.9	-22.6
Relative to Sensex	-12.5	-15.5	-27.8	-24.3

Sharekhan Research, Bloomberg

Bank of India (BOI) posted a mixed operating performance during Q1FY2020, with lower-than-expected growth in NII and PAT. Net interest income (NII) growth was sluggish due to weak growth in advances. Provisions during the quarter declined significantly by 25.4% y-o-y as a result BOI registered profit growth of 155% y-o-y. BOI saw deterioration in overall asset quality, as gross non-performing asset (GNPA) ratio increased by 66 BPS and net NPA increased by 18 BPS q-o-q during the quarter. Increased fresh slippages (gross) were largely contributed by corporate and agri segment. Recoveries were subdued due to delay in NCLT accounts. We maintain our Hold rating on the stock with a revised price target (PT) of Rs. 80.

## Key positives

- ◆ The bank has made a 100% provision on NCLT accounts in Q1FY2020. Going forward, as and when resolution happens, it can be positive for earnings and margins.
- ◆ Risk-weighted assets declined by 2.1% q-o-q, providing support to capital adequacy.

## Key negatives

- ◆ Credit cost during the quarter increased to 2.22%, which indicates that elevated trend of credit cost will still take some time to improve/normalise.
- ◆ Exposure to troubled accounts continues to be a major overhang on the stock.

## Our Call

**Valuation** – BOI currently trades at <1x its book value, which reflects its weak operating parameters and an overall business outlook. We believe the concern of stressed accounts still persists and continues to be a major overhang on the stock. Thus, we maintain our Hold rating on the stock with a revised PT of Rs. 80.

## Key Risks

Exposure to troubled accounts continues to be a major overhang on the stock.

Valuation Particulars	FY18	FY19	FY20E	FY21E
Net interest income (Rs)	10,506	13,658	14,480	16,562
Net profit (Rs)	(6,056)	(5,547)	1,833	2,679
EPS (Rs)	(34.7)	(16.2)	5.4	7.8
PE (x)	(2.0)	(4.4)	13.2	9.0
Book value (Rs/share)	183	127	93	99
P/BV (x)	0.4	0.6	0.8	0.7
RoE (%)	(17.8)	(13.5)	4.5	7.6
RoA (%)	(1.0)	(0.9)	0.3	0.4

Source: Company, Sharekhan Research

**Mixed operating performance:** BOI posted mixed operating performance during Q1FY2020, with lower-than-expected growth in NII and PAT. Net interest income (NII) growth was sluggish, which grew by 3.9% y-o-y to Rs. 3,485.4 crore due to weak growth in advances. Net interest margin (NIM) for the quarter was also impacted and declined by 26 BPS q-o-q to 2.67%, mainly as yield on advances fell by 36 BPS q-o-q to 8.3% as well as due to higher slippages. Non-interest income witnessed robust growth of 93.3% y-o-y during the quarter to Rs. 1,195 crore, supported by fee income growth of 21.1% y-o-y. Provisions during the quarter declined significantly by 25.4% y-o-y and stood flat on a q-o-q basis to Rs. 1,912 crore; as a result, BOI reported profit of Rs. 242.6 crore as compared to profit of Rs. 95 crore in Q1FY2019, which grew by 155% y-o-y.

**Muted business growth continues:** During Q1FY2020, BOI witnessed muted business performance, as its overall loan book remained flat y-o-y and deposits declined marginally. CASA deposits showed growth of 6% y-o-y, despite decline in deposits. CASA ratio improved by 135 BPS y-o-y to 43.11%. Domestic credit growth was better at 11.2% y-o-y, which in-turn was aided by 15.9% y-o-y uptick in retail portfolio and 12.13% y-o-y rise in corporate advances. Retail credit growth was driven by home loans (up 18.8% y-o-y) and auto loans (up 10.3% y-o-y). Going ahead, we expect overall growth to improve slowly. Management has guided for overall loan growth of ~10% y-o-y in FY2020E, which we believe is achievable. Proceeds from stake sale in non-core assets will be positive for earnings growth in the medium term. The board has approved capital raising of Rs. 3,500 crore, likely to be done in Q2FY2020, which will improve the pace of loan growth.

**Asset-quality performance deteriorates:** BOI saw deterioration in overall asset quality, as gross non-performing asset (GNPA) ratio increased by 66 BPS q-o-q to 16.5% and net NPA increased by 18 BPS sequentially to 5.79% during the quarter. Fresh slippages (gross) improved to Rs. 3,683 crore (as compared to Rs. 3,102 crore in Q4FY2019), largely due to corporate and agri slippages. Corporate slippages are majorly due to EPC and aviation accounts, which turned to NPA. BOI has guided GNPA to come down to Rs. 56,000 level by FY2020. Recoveries and upgrades stood at Rs. 1,052 crore and Rs. 535 crore, respectively (these were Rs. 1,982 crore and Rs. 477 crore, respectively, in Q4FY2019). Recoveries were subdued due to delay in NCLT accounts. SMA 2 book has increased significantly to Rs. 5,579 crore in Q1FY2020 from Rs. 1,838 crore in Q4FY2019. SMA 2 book consists of six accounts, of which resolution is almost near. Credit cost during the quarter increased to 2.22% in Q2FY2020 from 1.79% in Q4FY2019, which indicates that elevated trend of credit cost will still take some time to improve/normalise. The bank has made a 100% provision on NCLT accounts in Q1FY2020. Going forward, as and when resolution happens, it can be positive for earnings and margins.

**Results**

Particulars	Rs cr				
	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Interest income	10,332.2	10,012.9	3.2	10,814.1	-4.5
Interest expense	6,846.8	6,658.6	2.8	6,769.7	1.1
Net interest income	3,485.4	3,354.3	3.9	4,044.4	-13.8
Non-interest income	1,194.8	618.2	93.3	1,479.5	-19.2
Net total income	4,680.2	3,972.5	17.8	5,523.9	-15.3
Operating expenses	2,408.9	2,103.3	14.5	3,220.7	-25.2
Pre-provisioning profit	2,271.4	1,869.2	21.5	2,303.2	-1.4
Provisions	1,912.0	2,564.2	-25.4	1,897.4	0.8
Profit before tax	359.4	-695.0	NA	405.7	-11.4
Tax	116.8	-790.1	NA	154.0	-24.2
Profit after tax	242.6	95.1	155.1	251.8	-3.6

Source: Company; Sharekhan Research

**Loan Mix (%)**

Quarterly	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Foreign	23.1	39.0	22.0	19.5	18.0	17.0	15.6	13.8	13.5
Domestic	76.9	61.0	78.0	80.5	82.0	83.0	84.4	86.2	86.5
Large & Mid Corporate	30.3	22.2	30.1	33.6	35.5	37.4	39.6	42.1	42.5
SME	10.6	8.8	11.8	12.8	13.1	13.0	13.6	13.8	13.9
Agriculture	9.8	7.9	10.4	11.5	12.1	12.0	12.7	12.7	13.0
Retail	8.7	7.6	10.1	11.3	12.3	12.4	13.7	14.3	14.8
Overseas	23.1	39.0	22.0	19.5	18.0	17.0	15.6	13.8	13.5

Source: Company; Sharekhan Research

**Reported Margins, Cost of deposits and Yield on Advances**

Quarterly	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
NIM (%)	2.0%	2.2%	1.9%	1.7%	2.5%	2.3%	2.6%	2.9%	2.7%
COD (%)	4.7%	4.6%	4.5%	4.6%	4.5%	4.5%	4.5%	4.5%	4.6%
YOA (%)	7.4%	7.5%	7.0%	6.7%	8.1%	7.9%	8.3%	8.6%	8.3%

Source: Company; Sharekhan Research

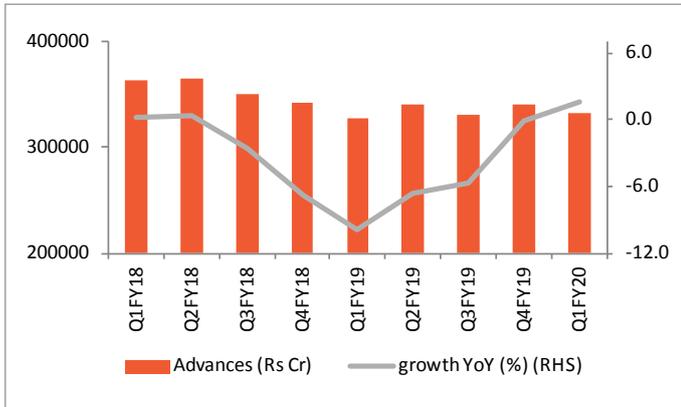
**Movement in NPAs**

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Opening GNPA	520.4	510.2	493.1	642.5	623.3	606.0	615.6	608.0	606.6
Recovery	13.6	5.3	11.8	114.2	27.0	9.6	23.5	19.8	10.5
Upgradation	13.8	5.4	1.7	15.4	17.7	17.4	1.7	4.8	5.4
Write off	23.2	27.9	20.4	19.4	39.2	1.6	25.5	7.8	39.2
Reduction	50.6	38.5	33.9	148.9	84.0	28.6	50.8	32.4	55.1
Additions	40.4	21.4	183.3	129.7	66.7	38.2	43.2	31.0	66.7
Net Additions	-10.3	-17.1	149.4	-19.2	-17.2	9.6	-7.6	-1.4	11.6
Closing gross NPA	510.2	493.1	642.5	623.3	606.0	615.6	608.0	606.6	620.7

Source: Company; Sharekhan Research

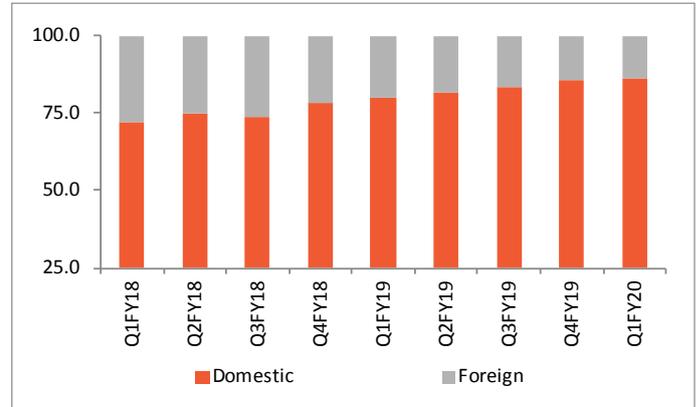
**Financials in charts**

**Advances trend**



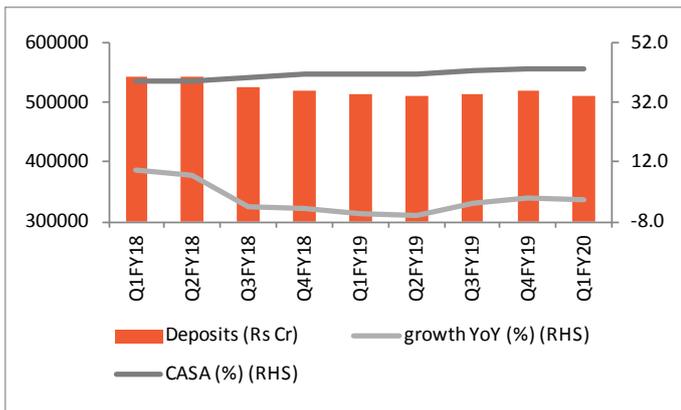
Source: Company, Sharekhan Research

**Loan Mix**



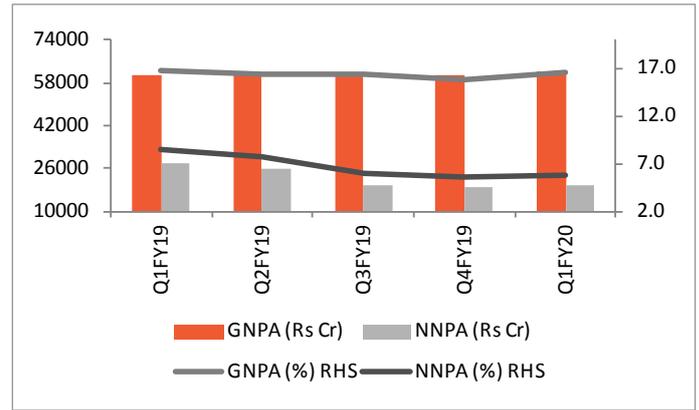
Source: Company, Sharekhan Research

**Deposits trend**



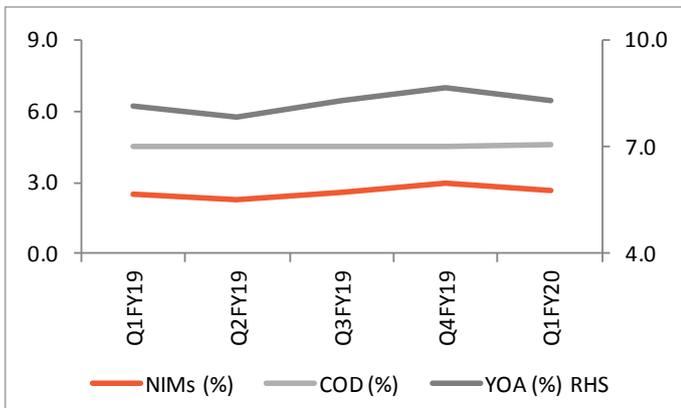
Source: Company, Sharekhan Research

**Asset Quality Movement**



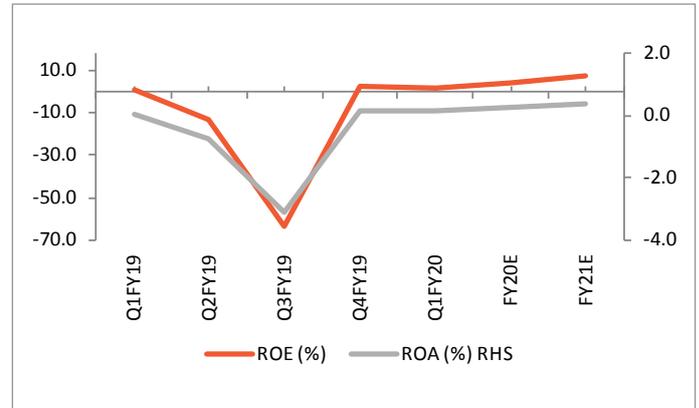
Source: Company, Sharekhan Research

**NIMs, Yields on Advances, Cost of Deposits**



Source: Company, Sharekhan Research

**Return Ratios (Calc.)**



Source: Company, Sharekhan Estimates

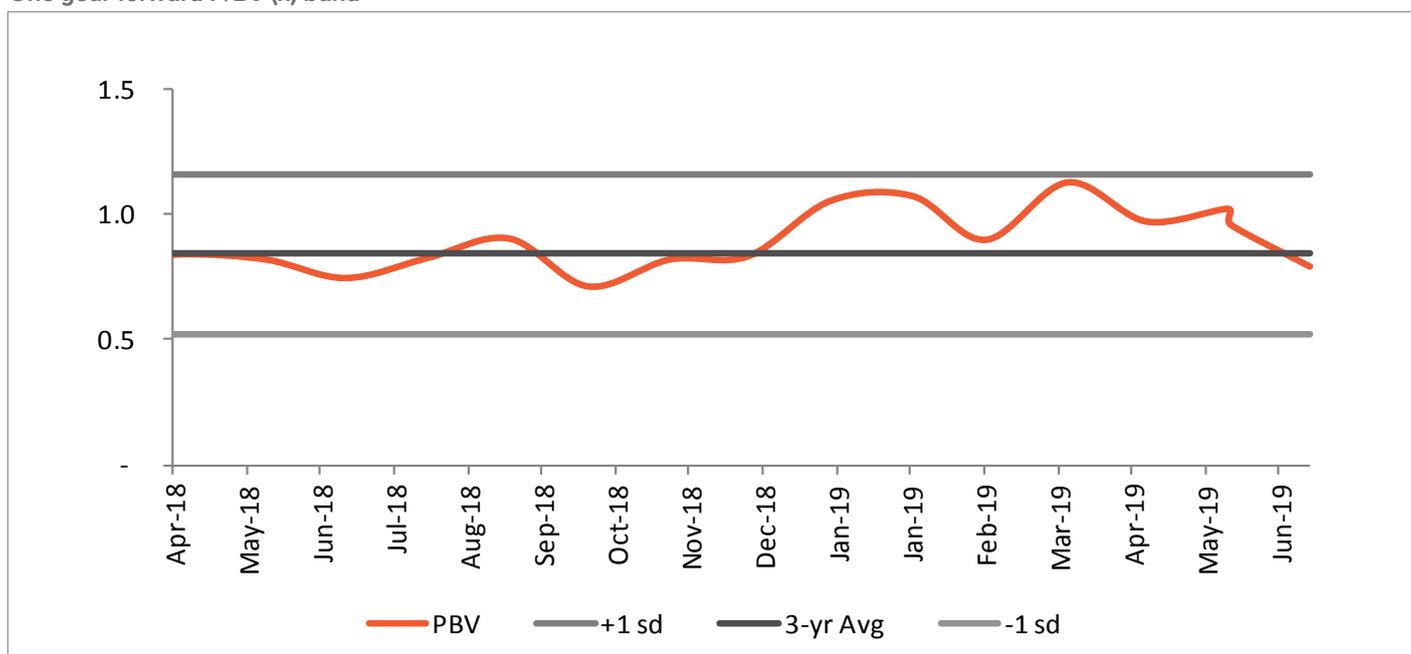
## Outlook

While business growth has been understandably muted in the past few quarters, going forward we expect credit traction to incrementally start to recover. However, asset-quality challenges in the near term exist. Notably, there are pockets and segments undergoing significant stress, which can be exacerbated by the current economic slowdown, if it persists. Moreover, the overhang of big-ticket infrastructure and corporate loans still exists, which is likely to keep upside limited. We believe caution is still warranted with most PSU banks. BOI has reasonably adequate capital at the current stage (tier I at 11.2%) and further capital raising of Rs. 3,500 crore will provide growth capital.

## Valuation

BOI currently trades at <1x its book value, which reflects its weak operating parameters and an overall business outlook. We believe the concern of stressed accounts still exists and continues to be a major overhang on the stock. Thus, we maintain our Hold rating on the stock with a revised PT of Rs. 80.

One year forward P/BV (x) band



Source: Sharekhan Research

## Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Bank of India	71	0.8	0.7	13.2	9.0	0.3	0.4	4.5	7.6
Bank of Baroda	103	0.8	0.7	7.1	5.8	0.6	0.7	9.6	11.5
Punjab National Bank	67	0.6	0.5	4.1	3.4	0.4	0.4	9.7	14.6
State Bank of India	328	1.4	1.3	18.6	14.6	0.4	0.5	6.9	8.3

Source: Company, Sharekhan research

## About company

Bank of India, established in 1906, 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 June 30, 2019, the bank had 5,115 branches and 6,061 ATMs. The bank has presence in 5 overseas subsidiary banks in Indonesia, Tanzania, New Zealand, Uganda and Botswana. Government of India shareholding in the bank stood at ~89%.

## Investment theme

Bank of India 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 start gradually as the bank exits PCA framework. There are pockets and segments that are undergoing significant stress, which can be exacerbated by the current economic slowdown, if it persists. Moreover, the overhang of big-ticket infrastructure and corporate loans still exists, which is likely to keep upside limited.

## Key Risks

Exposure to troubled accounts continues to be a major overhang on the stock.

## Additional Data

### Key management personnel

Mr. G Padmanabhan	Non-Executive Chairman
Mr. Dinabandu Mohapatra	Managing Director & CEO
Mr. Neelam Damodharan	Executive Director
Mr. Atanu Kumar Das	Executive Director
Chaitanya Gayatri Chintapalli	Executive Director
Mr. Shri Devendra Sharma	Chief Vigilance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	89.1
2	Life Insurance Corp of India	4.7
3	HDFC Asset Management Co Ltd	0.4
4	Vanguard Group Inc/The	0.3
5	Kotak Mahindra Asset Management Co	0.1
6	Norges Bank	0.1
7	Birla Sun Life Insurance Co Ltd	0.1
8	Reliance Capital Trustee Co Ltd	0.0
9	IDFC Mutual Fund/India	0.0
10	Aditya Birla Sun Life Asset Manage	0.0

Source: Bloomberg

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