

Sector: Banks & Finance  
Result Update

	Change
Reco: <b>Hold</b>	↔
CMP: <b>Rs. 50</b>	
Price Target: <b>Rs. 55</b>	↓
↑ Upgrade   ↔ No change   ↓ Downgrade	

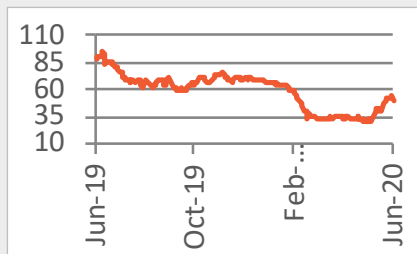
## Company details

Market cap:	Rs. 16,515 cr
52-week high/low:	Rs. 96/30
NSE volume: (No of shares)	31.3 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BANKINDIA
Free float: (No of shares)	35.7 cr

## Shareholding (%)

Promoters	89.1
FII	0.4
DII	5.0
Others	5.5

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	60.0	58.3	-25.8	-43.2
Relative to Sensex	46.2	27.6	-9.5	-31.2

Sharekhan Research, Bloomberg

Bank of India (BOI) posted a mixed set of numbers, where operational performance largely met expectations, but a high share of moratoriums in the loan book and subdued margins were dampeners. Moratoriums formed 46% of the loan book, which is relatively higher as compared to peers. Net interest Income (NII) stood at Rs. 3,793 crore, falling 6.2% y-o-y and 7.9% q-o-q, despite improved growth traction. Domestic gross advances grew by 9.0% y-o-y to Rs. 3,57,670 crore. NIMs slipped marginally to 2.9% in Q4 FY20, from 2.93% in Q4 FY19 and 3.07% in Q3FY20. Non-interest income increased by 14.13% y-o-y to 1,688 crore in March 2020, supported by a rise in treasury income. Provisions jumped to Rs 8141.9 crore in Q4FY20 (which includes COVID-19 related provisions of Rs. 414 crore and six large accounts) which increased by 2x and ~4x on QoQ and y-o-y basis. The jump in provisions resulted in a net loss of Rs 3571 crore in Q4 FY20. Asset quality performance showed an improvement sequentially (as seen across peers as well). Gross NPA ratio reduced to 14.78% (from 15.84% in Q4FY19 and 16.30% in Q3FY20) while the net NPA ratio declined over 200 bps to 3.88% (was 5.97% in Q3FY20). As per the management, setting aside upfront provisions dragged down GNPA and thus provision coverage ratio (PCR) improved by ~600 bps q-o-q to 83.75% in March 2020. We believe that clarity will emerge on the asset quality picture by end of H1FY2020 and we prefer a cautious approach, due to a rise in moratorium owing to COVID-19 and a rise in uncertainties. We expect growth outlook to remain weak and asset-quality performance to keep facing challenges. At present the bank's capitalization is weak (CET 1 at 9.88%, Tier-1 capital at 9.9%) and hence fund-raising would be key for growth as well as stability. The management indicated their intention to raise capital in Q3 FY21E, but till then capital conservation mode is more likely. We have cut our estimates for FY2021E and FY2022E, considering the risks to asset quality, weak capitalisation and uncertainty on growth. We maintain our Hold rating with a revised PT of Rs. 55.

## Key positives

- Relatively better business growth, with global gross advances rising to Rs. 4,16,521 crore as on March 31, 2020, with a y-o-y growth of 8.79%.
- GNPA ratio declined both sequentially and y-o-y to 14.78% in March 2020. Also, the provision coverage ratio jumped from 77.15% in Q3 FY20 to 83.75% in March 2020.

## Key negatives

- NIMs slipped slightly to 2.9% in Q4FY20, from 2.93% in Q4FY19 and 3.07% in Q3 FY20.
- At present the bank's capitalization is weak (CET 1 at 9.88%, Tier-1 capital at 9.9%) and hence fund-raising would be key for growth as well as stability.

## Our Call

**Valuation:** Bank of India currently trades at <1.0x its FY2021E book value. However, due to the COVID-19 impact, we expect the growth outlook to remain weak and asset-quality performance to keep facing challenges. We have cut our estimates for FY2021E and FY2022E, considering the risks to asset quality, weak capitalisation and uncertainty on growth. Considering the risks, we maintain our Hold rating with a revised PT of Rs. 55.

## Key Risks

Risk of further NPAs cropping up, especially in the corporate, agriculture and/or retail segments due to the overall macroeconomic slowdown and prolonged pandemic recovery would impact growth and profitability.

## Valuation

	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Net interest income (Rs cr)	10,506	13,658	15,399	14,267	16,212
Net profit (Rs cr)	(6,056)	(5,547)	(2,929)	424	1,598
EPS (Rs)	(34.7)	(20.1)	(9.4)	1.3	4.9
PE (x)	NA	NA	NA	38.9	10.3
Book value (Rs/share)	183	157	128	129	133
P/BV (x)	0.3	0.3	0.4	0.4	0.4
RoE (%)	(17.8)	(13.6)	(6.4)	0.9	3.5
RoA (%)	(1.0)	(0.9)	(0.4)	0.1	0.2

Source: Company; Sharekhan estimates

## Concall Highlights

- ♦ **Capital:** The bank has sufficient capital and will opt for capital conservation. It plans to go for higher-rated accounts and PSU accounts. It has increased share of 'AA and above' assets to 49% from 44%. It however does not expect a government capital infusion. It had planned to raise funds in February, but didn't do so due to COVID-19. It will now raise capital in Q3 (after 1-2 quarters of profit).
- ♦ **Aggressive provisioning in Q4:** There were six large accounts, of which 2 accounts resulted in provisions of Rs ~3000 crore. Upfront provisions dragged down PAT.
- ♦ **Moratorium:** Aggregate percentage of moratoriums by value is 46% and the nature of option was universal "opt-in" Moratorium. The break-up of the moratorium book includes agriculture: Rs. 44,000 crore, corporate: Rs 19000 crores, SME: Rs. 18,000 crore.
- ♦ **Low legacy book pressure:** The SMA-0, etc, book is not significantly large and stands at Rs 30,000 crore. The management, doesn't expect stress increasing, especially from legacy books. The bank has already done lot of significant de-leveraging and also due to a high provisioning coverage ratio, and their already cautious stance, the bank expects NPA pressure to be manageable.
- ♦ **Capital raising:** The bank has board approval to go for a capital raise of Rs. 6,500 crores, which they may raise in 2-3 tranches probably in Q2/Q3 of FY21. The bank intends to return to ROA/ROE positive in Q2 and aims at 1% ROA for FY21E.
- ♦ **Treasury operations:** The management expects strong treasury income to continue in FY21E, expect yields to remain soft.
- ♦ **Wage Revision:** The bank has set aside provisions assuming a 10% wage increase (peer PSU banks have taken a ~12% hike). The wage bill may increase by ~100 crore in FY21E to account for the salary hike impact.
- ♦ **Non-SLR book:** Except Essar, remaining are all 'A and above' rated exposures.
- ♦ **Subsidiaries:** The bank is closely looking at revenue models and is targeting to improve returns of subsidiaries and will give a roadmap for the same in H1FY2021.
- ♦ **High standard asset provisions:** Provisions have gone up due to funds set aside for restructured assets and COVID-19 related provision on the moratorium book.
- ♦ **Guidance:** The bank expects advances growth of ~9% in FY21E, and 12-15% y-o-y PPOP growth.
- ♦ **COVID-19 impact:** Currently, all statistical models (for lending and risk monitoring) are not working due to the unprecedented nature of situation. The CASA ratio is positive cushion for the bank.
- ♦ **MSME:** Within 2 weeks, the bank plans to come out with apps for MSME and Mudra loans.
- ♦ **New tax rate:** The bank carries deferred tax assets and hence may take an impact of ~Rs 3,400 crore if it moves to new tax regime.

Results	Rs cr				
Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Interest income	10,528.0	10,814.1	-2.6	10,834.9	-2.8
Interest expense	6,735.0	6,769.7	-0.5	6,716.0	0.3
<b>Net interest income</b>	<b>3,793.1</b>	<b>4,044.4</b>	<b>-6.2</b>	<b>4,118.9</b>	<b>-7.9</b>
Non-interest income	1,687.8	1,479.5	14.1	2,503.2	-32.6
Net total income	5,480.8	5,523.9	-0.8	6,622.1	-17.2
Operating expenses	2,828.3	3,220.7	-12.2	2,486.3	13.8
<b>Pre-provisioning profit</b>	<b>2,652.6</b>	<b>2,303.2</b>	<b>15.2</b>	<b>4,135.8</b>	<b>-35.9</b>
Provisions	8,141.9	1,897.4	329.1	4,015.2	102.8
Profit before tax	-5,489.4	405.7	NA	120.6	-4,652.8
Tax	-1,918.0	154.0	NA	14.2	-13,644.8
<b>Profit after tax</b>	<b>-3,571.4</b>	<b>251.8</b>	<b>NA</b>	<b>106.4</b>	<b>-3,456.3</b>

Source: Company, Sharekhan Research

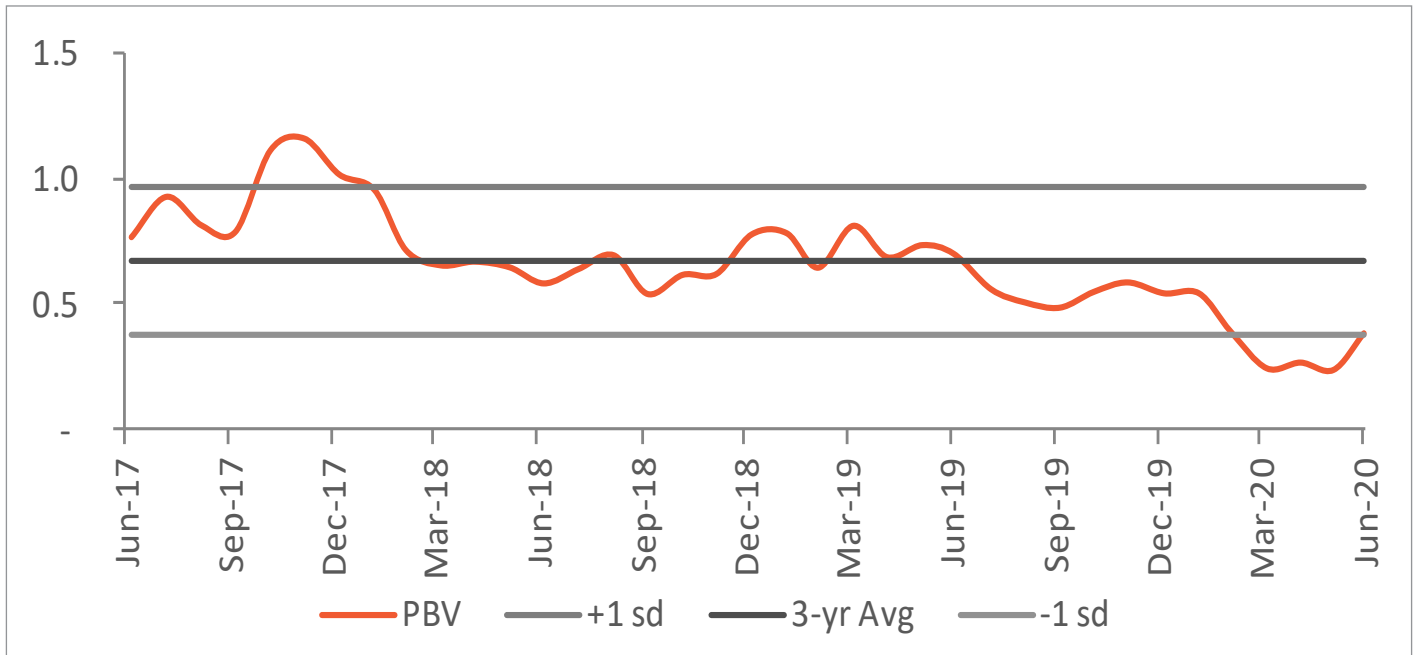
## Outlook

BOI posted mixed numbers in Q4FY2020 with improved asset quality and improvement in margins. However, a high share of moratorium in the loan book is a concern. We expect fresh slippages to be elevated in FY2021E, driven by the merged entity's exposure to various stressed groups and uncertainty on the outcome of resolutions and recoveries. While the management has indicated their view of lesser pressure from legacy books, we believe that the present weak capital levels and the uncertainties due to the pandemic have increased risks significantly and is a concern. 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. We believe that the outlook remains weak owing to the above-mentioned factors. Going forward, we expect the asset quality to be a key monitorable in the medium term.

## Valuation

Bank of India currently trades at <1.0x its FY2021E book value. However, due to the COVID-19 impact, we expect the growth outlook to remain weak and asset-quality performance to keep facing challenges. We have cut our estimates for FY2021E and FY2022E, considering the risks to asset quality, weak capitalisation and uncertainty on growth. Considering the risks, we maintain our Hold rating with a revised PT of Rs. 55.

One-year forward P/B (x) band



Source: Sharekhan Research

## Peer Comparison

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Bank of India	50	0.4	0.4	38.8	10.3	0.1	0.2	0.9	3.5
State Bank of India	185	0.7	0.7	12.2	7.2	0.4	0.5	5.6	8.8
Punjab National Bank	37	0.4	0.4	NM	8.4	0.1	0.4	1.2	4.7

Source: Company, Sharekhan estimates

## 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 Mar 2020, the bank had 5,083 branches (along with 23 overseas branches) and 5750 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 has now exited the PCA framework but capitalization and asset quality performance is still wobbly. 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. Moreover, the recent COVID-19 pandemic is likely to result in slower growth and higher credit costs for the banking sector and will impact the outlook of BOI as well in the medium term.

## Key Risks

- ♦ Risk of further NPAs cropping up, especially in the corporate, agriculture and/or retail segments due to the overall macroeconomic slowdown and prolonged pandemic recovery would impact growth and profitability.

## Additional Data

### Key management personnel

Mr. G Padmanabhan	Non-Executive Chairman
Mr. Atanu Kumar Das	Managing Director & Chief Executive Director
Shri Chaitanya Gayatri Chintapalli	Executive Director
Mr. Rajiv Bhatia	Company Secretary
Mr. Shri Devendra Sharma	Chief Vigilance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.6
2	HDFC Asset Management Co Ltd	0.4
3	Vanguard Group Inc/The	0.2
4	Norges Bank	0.2
5	Allianz SE	0.1
6	Reliance Capital Trustee Co Ltd	0.0
7	Charles Schwab Corp/The	0.0
8	Kotak Mahindra Asset Management Co	0.0
9	Danske Bank A/S	0.0
10	State Street Corp	0.0

Source: Bloomberg

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