

Sector: Banks & Finance
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 48	
Price Target: Rs. 53	↓
↑ Upgrade ↔ No change ↓ Downgrade	

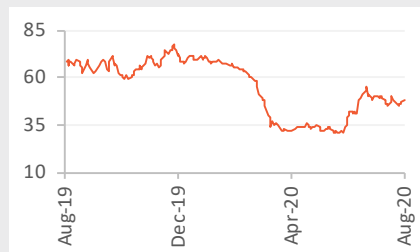
Company details

Market cap:	Rs. 15,745 cr
52-week high/low:	Rs. 80/30
NSE volume: (No of shares)	36.9 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	-5.0	42.4	-26.3	-30.4
Relative to Sensex	-7.6	26.0	-18.9	-31.0

Sharekhan Research, Bloomberg

Bank of India (BOI) posted positive results for Q1FY2021 with operational performance better than expectations, and sequentially asset quality improving in both absolute as well as percentage basis. Net interest income (NII) came at Rs. 3,481 crore, flat y-o-y and down 8.2% q-o-q, below expectations. However, PPOP at Rs. 2,845 crore was up 25.2% y-o-y and flat q-o-q, helped by sequentially lower operating expenses and strong non-interest income (led by treasury gains). Deposit growth sequentially was strong at 7.3%, but advances were flat (up 0.5% q-o-q), which would be a main reason for tepid NII growth as well as NIM decline. Asset quality improved for the bank, with GNPA % at 13.91% (down 87 bps q-o-q) and NNPA % at 3.58% (down 30 bps q-o-q), which is impressive. Moratorium book is at 53% by value (up from 46% in Q4), but around ~10% borrowers have two or more EMIs due, which is reasonable.

For the quarter, the bank has made a provision of Rs. 620 crore in SMA accounts, wherein moratorium due to COVID-19 pandemic was extended. Total provision of Rs. 1,034.78 crore is held by the bank as on June 30, 2020. As a result of which, provisions for the quarter continued to be elevated at Rs. 1,512 crore, up 20.9% y-o-y but much lower than Q4, due to which PAT came at Rs. 843 crore, ahead of expectations. Going forward, high PCR and expected recovery are cushions, but we expect asset-quality niggles to continue to impact FY2021 performance. At present, the bank's capitalisation is weak (Tier 1 at 9.48%) and, hence, fund-raising would be key for growth as well as stability. Management has indicated its intention to raise capital, but till then capital conservation mode is more likely. We have fine-tuned our estimates for FY2021E and FY2022E and the target multiples. We maintain our Hold rating on the stock with a revised price target (PT) of Rs. 53.

Key positives

- Cost-to-income ratio goes down from 51.47% in Q1FY2020 to 45.18% in Q1FY2021.
- Asset quality improves with GNPA declining to 13.91% (down 87 bps q-o-q) and net NPA ratio at 3.58% (down 30 bps) sequentially, with provision coverage ratio at healthy 84.87%.

Key negatives

- The impact of wage revision on employee cost is likely to be Rs. 161 crore (as per the bank's estimates), which will come in subsequent quarters.
- NIM (Domestic) stood at 2.73% for Q1FY2020 (down 30 bps y-o-y and down 17 bps q-o-q). The decline in NIM could be attributed to muted growth in loan book and reduction in lending rates.

Our Call

Valuation: BOI currently trades at <1.0x its FY2021E book value. However, due to COVID-19 impact, we expect the growth outlook to remain weak and asset-quality performance to keep facing challenges. We have fine-tuned 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. 53.

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	10,506	13,658	15,399	14,202	16,080
Net profit	(6,056)	(5,547)	(2,929)	1,477	1,536
EPS (Rs.)	(34.7)	(20.1)	(9.4)	4.5	4.7
PE (x)	NA	NA	NA	11.2	10.8
Book value (Rs./share)	183	157	128	132	135
P/BV (x)	0.26	0.31	0.38	0.36	0.35
RoE (%)	NA	NA	NA	3.3	3.3
RoA (%)	NA	NA	NA	0.2	0.2

Source: Company; Sharekhan estimates

Key Concall Highlights

- ♦ **Business:** Rs. 38,000 crore of incremental business during Q1FY2021. Most of the business acquisition is by deposits (post April), which is in line with industry performance. Saw high liability due to lack of consumption demand and was able to enhance deposit in both retail and institutional. This is why NII was slow.
- ♦ **RWA:** Small capital erosion, capital conservation focus, has adequate capital for Q3. Additional capital raising proposal of Rs. 8,000 crore given to board.
- ♦ **Other Income:** Treasury helped, Q2 will also see higher treasury income.
- ♦ **Advances:** Revised guidance to 7% of credit growth for FY2021E from 8.5% earlier.
- ♦ **Moratorium:** Around 41% by borrowers and 53% (Rs 1.66 lakh crore) as per amount have been given moratorium. Out of these, 52% are now without overdue, and 38% have one EMI remaining. Only 10% have more than two or more EMI due.
- ♦ **Stress test:** Slippage of Rs. 3,200 crore (moderate scenario) and Rs. 4,500 crore (as per stress test; more stringent) out of the Moratorium book. Hence, management has decided to provide 10% for SMA 0,1,2 accounts, which is provision buffer.
- ♦ **Write-offs and slippages:** Slippages may go up, which are low due to the moratorium. There are few chunky accounts in the written-off account. Once NCLT process resumes, it can get strong additional recovery.
- ♦ **TLTRO 1 & 2:** Total comes to Rs. 2,000 crore. Of the entire NBFC segment, around 87% are A rated above and in HFC segment around 85% are rated A and above.
- ♦ **Recovery:** Impacted by the lockdown, will look to focus more from Q2, along with ARC sales. Out of Rs. 58,000 crore, Rs. 35,000 crore is in NCLT. Hope NCLT also catches up, which will likely give handsome returns for BOI.
- ♦ **Moratorium 2:** Had given opt-out to all in Moratorium-1, which was 52.9% of borrower. The proportion of borrowers who have paid all the four instalments in the last three months are 52% of the moratorium amount, and 38% of borrowers have paid three instalments. Borrowers of Rs 91,000 crore has paid part EMIs. Around Rs. 63,000 crore worth of loans have paid three EMIs and the balance of outstanding of Rs. 28,000 crore has paid <3 EMIs.
- ♦ **SMA category loans:** The total overdue loans stood at Rs. 4,100 crore were at Q4 where bank had taken standstill arrangement and BOI had provided 10%. This balance (Including SMA0,1,2 loans) presently stands at Rs. 11,500 crore. The Standstill loans at present are Rs. 1,700 crore which if not paid, can potentially slip in Q2FY2021.
- ♦ **Regulatory stance:** Prefer restructuring rather than extension of moratorium.
- ♦ **Treasury outlook:** Have done good on sale of securities and yields looking benign, expect decent treasury income in Q2 as well.
- ♦ **Digital Banking:** By October end, BOI will migrate to Finacle-10 (a core banking software). Till then, digital banking changes and innovations are on hold. Early warning system (EWS) is developing along well. New internet banking will be launched by CBS system migration.
- ♦ **Cost to Income:** Usually should be around 47-48% levels by FY2021E.
- ♦ **PCR:** Do not expect it to grow more from here. Expect 85% to be the ceiling.
- ♦ **NCLT Accounts:** Rs. 38,000 crore is outstanding, expect Rs. 1,900 crore recovery/resolution for near-term from NCLT accounts.
- ♦ **NIM Outlook:** NIM declined due to higher deposits and, therefore, higher deposit expense. NIM may increase, as deposit rate cut impact is expected to flow in Q2 FY2021 and Q3FY2021. CASA may improve, as BOI is trying to bring down the bulk deposits component.

- ♦ **Slowing retail credit:** Retail credit slowed due to the pandemic, and mostly low footfalls in branches, contacting SME and self-employed was difficult. It will see pickup from September.
- ♦ **Recovery seen from NPA:** Looking at Rs. 2,500 crore recovery in Q2 (including NCLT, receiving ARC sales of Rs. 800 crores, and OTS proposals etc) so by September expect decent traction. Full Year of Rs 2000 per quarter for next three quarters.
- ♦ **Direct Assignment:** Has done Rs. 4,500 crore in DA in Q1, which will be retail and SME. The risk will be on BOI for assets.
- ♦ **Moratorium book breakup:** Moratorium breakup will be agriculture 8%, retail 20%, SME 20%, corporate 36%, and others 18%.
- ♦ **Mudra loans:** Overall exposure is Rs. 13,000 crores, out of which Rs. 750 crore is Shishu loans (19-20% GNPA's) and rest is Tarun etc. (8-10% GNPA's). Overall Mudra Loans book has 9-10% GNPA's.
- ♦ **Restructuring:** Management would like to restructure for selective sectors due to disruption because of the lockdown, if allowed by the regulator. Sectors like hospitality and construction may need restructuring.
- ♦ **RWA:** RWA gone up because of higher liquidity and elevated market-linked risk.

Results					Rs cr
Particulars	Q1FY21	Q1FY20	YoY%	Q4FY20	QoQ%
Interest income	10,234.2	10,332.2	-0.9	10,528.0	-2.8
Interest expense	6,753.1	6,846.8	-1.4	6,735.0	0.3
Net interest income	3,481.1	3,485.4	-0.1	3,793.1	-8.2
Non-interest income	1,707.3	1,194.8	42.9	1,687.8	1.2
Net total income	5,188.4	4,680.2	10.9	5,480.8	-5.3
Operating expenses	2,343.9	2,408.9	-2.7	2,634.3	-11.0
Pre-provisioning profit	2,844.5	2,271.4	25.2	2,846.6	-0.1
Provisions	1,512.1	1,912.0	-20.9	8,141.9	-81.4
Profit before tax	1,332.5	359.4	270.8	-5,295.4	NA
Tax	488.9	116.8	318.7	-1,918.0	NA
Profit after tax	843.6	242.6	247.7	-3,377.4	NA

Source: Company, Sharekhan Research

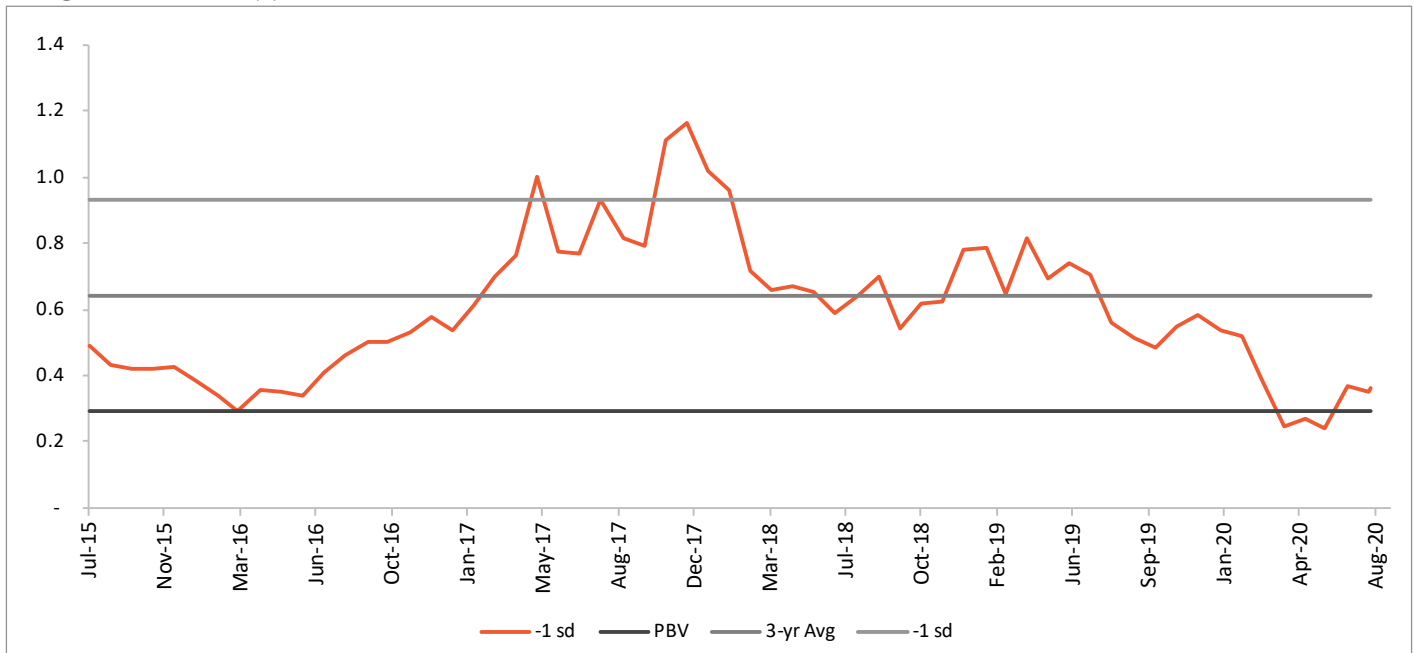
Outlook

BOI posted mixed numbers in Q1FY2021 with improved asset quality and margin improvement. 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 management has indicated its view of lesser pressure from legacy books, we believe the present weak capital levels and uncertainties due to the pandemic have increased risks significantly and pose concerns. 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 the outlook remains weak owing to the abovementioned factors. Going forward, we expect asset quality to be a key monitorable in the medium term.

Valuation

BOI currently trades at <1.0x its FY2021E book value. However, due to COVID-19 impact, we expect the growth outlook to remain weak and asset-quality performance to keep facing challenges. We have fine-tuned our estimates for FY2021E and FY2022E, considering the risks to asset quality, weak capitalisation, and growth uncertainty. Considering the risks, we maintain our Hold rating in the stock with a revised PT of Rs. 53.

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	48	0.4	0.4	10.6	10.2	0.2	0.2	3.3	3.3
State Bank of India	192	0.8	0.7	8.1	6.6	0.5	0.6	8.8	10.0
Union Bank of India	29	0.3	0.3	13.8	5.5	0.1	0.3	2.4	6.5

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 is a constraint and asset quality performance is likely to be still wobbly. There are pockets and segments that are undergoing significant stress, which can be exacerbated by the current economic slowdown, and recovery is delayed. Moreover, the overhang of big-ticket infrastructure and corporate loans still exists, which is likely to keep upside limited. The 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. Shankar Sen	Chief financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.56
2	HDFC Asset Management Co Ltd	0.39
3	Vanguard Group Inc/The	0.24
4	Norges Bank	0.17
5	Allianz SE	0.05
6	Reliance Capital Trustee Co Ltd	0.03
7	Charles Schwab Corp/The	0.01
8	Kotak Mahindra Asset Management Co	0.01
9	Danske Bank A/S	0.01
10	State Street Corp	0.01

Source: Bloomberg

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