



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey with check	Red
Right Valuation (RV)	Green with check	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/View	Change
Reco: Hold	↔
CMP: Rs. 61	
Price Target: Rs. 68	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

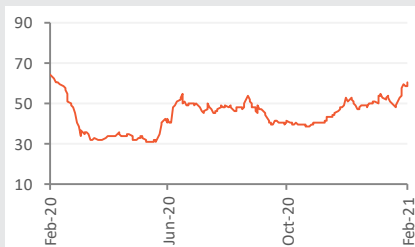
Company details

Market cap:	Rs. 19,923 cr
52-week high/low:	Rs. 65/30
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	0.4
DII	5.7
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.8	48.5	24.7	-5.5
Relative to Sensex	17.7	30.8	-9.7	-30.0

Sharekhan Research, Bloomberg

Summary

- Bank of India (BOI) reported mixed results, wherein operating performance was below expectations (NII, PPOP, PAT below estimates), but CASA deposits rose on a q-o-q basis and encouraging asset-quality performance.
- Global net interest margin (NIM) fell by 8 bps from 2.66% in Q2FY2021 to 2.58% in Q3FY2021, down 40 bps y-o-y. Domestic NIM also contracted to 2.81% in Q3FY2021, down 7 bps from Q2FY2021.
- We believe asset-quality headwinds are likely to persist in the medium term; however, high PCR and the expected recovery may somewhat soften the impact.
- BOI currently trades at 0.31x/0.26x its FY2022E/FY2023E ABVPS. We have finetuned our estimates. We maintain our Hold rating with a revised PT of Rs. 68.

Bank of India (BOI) posted mixed results with operational numbers below estimates. Asset-quality performance was also encouraging. NII stood at Rs. 3,739.5 crore, down 9.2% y-o-y and down 9.1% q-o-q. However, the rise in operating expenses stood at Rs. 2,971 crore, up 19.5% y-o-y and up 13% q-o-q, which resulted in PAT missing estimates. PAT came at Rs. 540 crore, up 2.8% q-o-q and much higher on a y-o-y basis. Asset-quality performance was enthralling; proforma gross NPA and net NPA (as per IRAC norms) would have been at 14.59% / 3.73%, which is only marginally up from reported GNPA/NNPA of 13.25%/2.46%. The bank has made a provision of Rs. 1,162.15 crore (including unrealised interest) for proforma NPA accounts. Currently, provision coverage ratio (PCR) of the bank at 89.32% provides investor comfort. Provisions include Rs.761.60 crore provisioning made in respect of proforma NPA and other provision, which is over and above the requirement. Global net interest margin (NIM) fell by 8 bps from 2.66% in Q2FY2021 to 2.58% in Q3FY2021, down 40 bps y-o-y. Domestic NIM also contracted to 2.81% in Q3FY2021, down 7 bps from Q2FY2021. Business traction was healthy, with domestic advances rising by 9.10% y-o-y, as against domestic deposits growth of 18.2% y-o-y. We believe asset-quality headwinds are likely to be key monitorable in the medium term as well. Hence, while high PCR and expected recovery may soften the impact, we expect asset-quality niggles to continue to impact FY2021 performance. Moreover, with weak capitalisation (Tier 1 at 9.44%) BOI has little elbowroom. Hence, capital-conservation mode is likely. We have finetuned our estimates. We maintain our Hold rating on the stock with a revised price target (PT) of Rs. 68.

Key positives

- Domestic CASA deposits recorded 12.04% y-o-y growth. The share of CASA deposits improved from 39.49% in September 2020 to 40.61% in December 2020.

Key negatives

- Global net interest margin (NIM) fell by 8 bps from 2.66% in Q2FY2021 to 2.58% in Q3FY2021. Domestic NIM stood at 2.81% in Q3FY2021 compared to 2.88% during Q2FY2021.
- Cost-to-income ratio (global) increased to 51.17% in Q3FY2021 from 45.91% in Q2FY2021 due to increased wage bill and provisions towards pension and gratuity.

Our Call

Valuation: BOI currently trades at 0.31x/0.26x its FY2022E/FY2023E ABVPS. We believe its valuation, though reasonable, reflect asset-quality concerns and a weak growth outlook due to COVID-19, besides capital position. We expect growth outlook to remain weak and asset-quality performance to continue facing challenges as resolutions/recoveries are likely to be delayed. We have finetuned our estimates. We maintain our Hold rating with a revised PT of Rs. 68.

Key risk

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

Valuation

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	13,658	15,399	15,553	17,009	19,550
Net profit	(5,547)	(2,929)	2,663	3,063	3,351
EPS (Rs)	(20.1)	(9.4)	8.1	9.3	10.2
PE (x)	(2.0)	(4.6)	5.0	4.4	4.0
Adj book value (Rs)	82	86	109	131	155
P/ABV (x)	0.50	0.48	0.37	0.31	0.26
RoE (%)	(13.6)	(6.4)	5.8	6.4	6.9
RoA (%)	(0.9)	(0.4)	0.35	0.36	0.36

Source: Company; Sharekhan estimates

Key Conference call takeaways

- ◆ **Performance Highlights:** Deposits went up from Rs. 5,22,138 crore in December 2019 to Rs. 6,11,879 crore in December 2020, up by 17.19% y-o-y. Domestic deposits and advances grew at a higher rate than that of the banking system. Domestic CASA deposits recorded 12.04% y-o-y growth. The share of CASA deposits improved from 39.49% in September 2020 to 40.61% in December 2020. Retail advances grew by 10.70% y-o-y and MSME advances grew by 14.10%.
- ◆ **Guidance and outlook:** Deposits growth stood at 8%, credit growth was at 7%, gross NPA at 12%, The bank guided for NNPA of < 2%. The bank will continue to expand the bank's retail, agriculture, and MSME lending profile by leveraging its existing customer base. Bol looks to contain funding cost by sourcing low-cost deposits such as CASA. Focus on improving asset quality and containing NPA levels. Leverage technology to increase cross-selling opportunities, reduce cost, and enhance customer experience.
- ◆ **Collection efficiency:** During December, collection efficiency stood at 75%, wherein the retail segment's SME and corporate collection efficiency stood at 89%, 79%, and 74%, respectively.
- ◆ **Technical slippages** amounted to Rs. 29,000 crore-30,000 crore. Management expects Rs. 4,500 crore recovery from Deewan Housing exposure through NCLT.
- ◆ **Restructured assets:** Standard restructured advances (Total) stood at Rs. 9,358 crore.
- ◆ **Guidance for credit cost:** Guidance for credit cost would be hovering around 1%-2%. Working collection efficiency for working capital stood at 90%; while for term loan, collection remains at 70%-75% levels.
- ◆ **NCLT loans:** Gross loan exposure in NCLT stood at Rs. 39,403 crore.
- ◆ **Capital raising:** Management plans to raise Rs. 4,000 crore through QIP during early new year.
- ◆ **NIM** will be at 2.5%-2.75%. Due to the need to push for rate cuts, yields may have a downside bias. Pressure on margins would likely to continue, and uptick in margins will be limited.
- ◆ **Treasury income trends:** The bank expects treasury income to be similar if benign interest rates continue for the next two quarters.

Results					Rs cr	
Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	
Interest income	10,243.1	10,834.9	-5.5	10,795.5	-5.1	
Interest expense	6,503.6	6,716.0	-3.2	6,682.2	-2.7	
Net interest income	3,739.5	4,118.9	-9.2	4,113.3	-9.1	
Non-interest income	2,067.8	2,503.2	-17.4	1,613.2	28.2	
Net total income	5,807.4	6,622.1	-12.3	5,726.5	1.4	
Operating expenses	2,971.7	2,486.3	19.5	2,628.8	13.0	
Pre-provisioning profit	2,835.7	4,135.8	-31.4	3,097.7	-8.5	
Provisions	1,980.1	4,015.2	-50.7	2,312.3	-14.4	
Profit before tax	855.6	120.6	609.6	785.4	8.9	
Tax	314.8	14.2	2,123.4	259.6	21.3	
Profit after tax	540.7	106.4	408.1	525.8	2.8	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Headwinds continue for PSU banks

The economy is showing signs of a gradual recovery, which augurs well for long-term demand outlook. However, potential risks due to stress in the economy along with uncertainty on COVID-19 related developments continue to pose a challenge, especially for PSU banks. While recent regulatory measures have cushioned earnings (especially on the asset-quality recognition part) and the gradual return to normalised business traction will be positive for BFSI companies, we believe the capital-constrained PSU banks, which are still burdened with legacy NPAs, may take longer to recover. Hence, near-term return ratios may remain weak. However, in this scenario, well-capitalised banks may utilise the opportunity to gain market share from the weaker PSU banks.

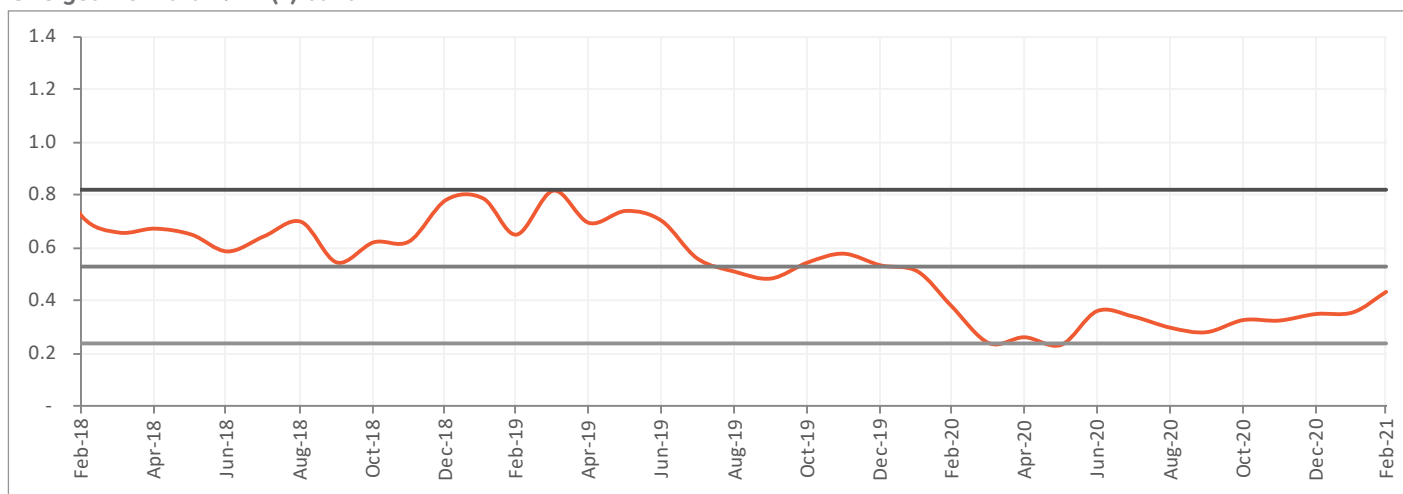
■ Company Outlook – Headwinds persist, low visibility on growth and asset quality

Q3FY2021 results were mixed. While asset-quality performance improved, margins declined both on a y-o-y and q-o-q basis. However, lack of clarity on asset quality and an overhang of restructuring asset keep asset quality to be the key monitorable. Going forward, likely resolutions in NCLT/IBC recovery etc. would be positive. However, we expect credit cost to be elevated in Q4 as well. The merged entity's exposure to various stressed groups add to the uncertainty as well as 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 are 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 above-mentioned factors.

■ Valuation – Maintain Hold, with revised PT of Rs 68

BOI currently trades at 0.31x/0.26x its FY2022E/FY2023E ABVPS. We believe its valuations, though reasonable, reflect asset-quality concerns and a weak growth outlook due to COVID-19, besides capital position. We expect growth outlook to remain weak and asset-quality performance to continue facing challenges as resolutions/recoveries are likely to be delayed. We maintain our Hold rating with a revised PT of Rs. 68.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Bank of India	61	0.6	0.5	7.5	6.5	0.4	0.4	5.8	6.4
State Bank of India	392	1.5	1.4	22.3	14.8	0.4	0.5	7.9	10.4
Punjab National Bank	39	0.5	0.5	41.6	10.1	0.1	0.3	2.0	4.7

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 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 be subdued, as although the bank has exited the PCA framework, capitalisation remains 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.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agriculture, and/or retail segments due to prolonged recovery 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	4.56
2	Vanguard Group Inc/The	0.33
3	HDFC Asset Management Co Ltd	0.26
4	Norges Bank	0.17
5	Allianz SE	0.03
6	Kotak Mahindra Asset Management Co	0.02
7	Nippon Life India Asset Management	0.01
8	Charles Schwab Corp/The	0.01
9	State Street Corp	0.01
10	BlackRock Inc	0.01

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.