Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Bank of India

## Despite strong performance, return ratio weak

| Banks | Sharekhan code: BANKINDIA | | |
|---|---|---|---|
| **Reco/View: Hold** ↔ | CMP: **Rs. 70** | Price Target: **Rs. 77** ↑ | |

↑ 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 | | ↔ | |
| RQ | | ↔ | |
| RV | | ↑ | |

**ESG Disclosure Score** NEW

| ESG RISK RATING<br>Updated Oct 08, 2022 | 51.21 |
|---|---|

**Severe Risk**

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

*Source: Morningstar*

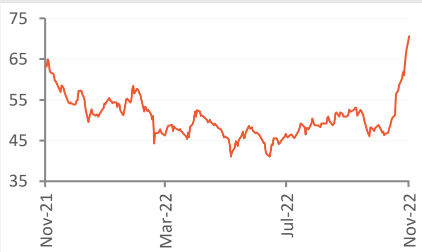
**Company details**

| | |
|---|---|
| Market cap: | Rs. 28,807 cr |
| 52-week high/low: | Rs. 70 / 40 |
| NSE volume:<br>(No of shares) | 51.1 lakh |
| BSE code: | 532149 |
| NSE code: | BANKINDIA |
| Free float:<br>(No of shares) | 78.0 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 81.4 |
| FII | 1.1 |
| DII | 9.9 |
| Others | 7.6 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 42.9 | 42.9 | 52.2 | 11.1 |
| Relative to Sensex | 37.5 | 37.9 | 42.3 | 9.2 |

*Sharekhan Research, Bloomberg*


**Summary**

- Bank of India (BOI) reported robust growth in PPoP up (26% yoy/ 55% qoq) driven by sharp improvement in NIMs (up 49bps qoq/ 62bps yoy) and strong loan growth (21.5% yoy/ 4.0% qoq).
- Total credit cost was contained and reported at 1.7% of Avg. advances. Despite strong performance, PAT was down 9% yoy reported at Rs. 960 crore and return ratio failed to impress with ROA at just ~ 47 bps (annualized) due to weak core operating profitability (1.5% annualized in H1FY23)
- Slippages were down by 54% q-o-q at 1.4% (annualized) vs 3.1% qoq, coupled with higher recoveries & upgrades and contained write offs, asset quality saw sharp improvement with GNPA and NNPA ratios falling by 79 bps/29 bps q-o-q to 8.51%/1.92%. PCR at 79% vs 78% q-o-q.
- At the CMP, BOI trades at 0.6x and 0.5x its FY2023E and FY2024E ABV, reflecting weak business franchise and below par return profile. We maintain our hold rating on the stock with a revised PT of Rs. 77. We believe its restructured book is significantly higher than peers, which is likely to aid higher slippages going forward.


**Bank of India (BOI) reported strong operational performance in Q2FY2023. Net interest income (NII) grew by 44% y-o-y/25% q-o-q, led by healthy loan growth, improvement in credit-deposit (CD) ratio (~200 bps q-o-q/ 930 bps y-o-y) along with sharp improvement in margins. NIMs improved by 49 bps y-o-y/ 62 bps q-o-q to 3.04% led by a higher share of RAM advances, the repricing of loans higher and there was a one-off item pertaining to income tax refund which had a positive impact of ~20 bps on margins. Bank has guided for NIMs at ~3% for FY23E. Core fee income was down by 2% y-o-y but higher by 16% q-o-q. Bank reported treasury profit amounting to Rs. 151 crores vs loss of Rs. 148 crores in last quarter. Total operating expenses grew by 5% y-o-y/ 3% q-o-q. Operating profit grew by 26% y-o-y/55% q-o-q. Total credit costs stood at 1.7% of average advances during the quarter versus 1.2% q-o-q. PAT declined by 9% y-o-y but higher by 71% q-o-q. Net advances grew by 21.5% y-o-y/4.0% q-o-q. Retail loans rose by 23.4% y-o-y, agri and MSME loans grew by 12.9% y-o-y and 9.2% y-o-y, respectively. The wholesale domestic corporate book grew by 14% y-o-y, while the overseas loan book grew by 62% y-o-y. Total deposit growth was muted at 5.6% y-o-y with below sub-par growth in CASA at 4.1% y-o-y. Slippages were down by 54% q-o-q at 1.4% (annualized) vs 3.1% q-o-q, coupled with higher recoveries & upgrades and contained write-offs, asset quality saw sharp improvement with GNPA and NNPA ratios falling by 79 bps/29 bps q-o-q to 8.51%/1.92%. PCR at 79% vs 78% q-o-q. The restructured book stood at ~3.1% of net advances versus 3.5% of net advances q-o-q. SMA 1 and 2 books stood at Rs. 1,678 crores versus Rs. 2,415 crores in the past quarter.**

**Key positives**

- Bank clocked healthy loan growth led by retail, domestic corporate, and overseas books along with sharp margin improvement.
- Asset quality improved driven by lower slippages, besides reduction in the restructured book and SMA-1 and -2 book q-o-q.
- Strong PPoP growth.

**Key negatives**

- Weak deposit growth

**Management Commentary**

- Bank sounded too conservative and guided for loan growth around ~12% in advances for FY2023E despite achieving 21.5% growth in H1FY23. Overall NIMs guidance for FY23E stands at ~3% vs earlier guidance of ~2.8%.
- Credit cost guidance is below 1% (Avg. advances) for H2FY23 vs 1.5% in H1FY23. Bank intends to keep Gross NPA lower than 8% & NNPA below 1.5% in FY2023E. ROA guidance at ~60 bps.

**Revision in estimates –** We have increased our FY2023E/FY2024E earnings estimates, factoring in margin improvement & lower credit cost.

**Our Call**

**Maintain a Hold rating with a revised PT of Rs. 77:** BOI currently trades at 0.6x/0.5x its FY2023E/FY2024E ABV, which reflects a weak business franchise and below-par return profile. Despite a strong performance, the return ratio failed to impress with ROA at just ~ 47 bps (annualized). We prefer top PSU banks which have superior core profitability, a better return profile and a strong balance sheet to withstand any unanticipated risk in future.

**Key Risks**

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost

**Valuation (Standalone)** Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|
| Net Interest Income | 14,270 | 14,062 | 18,020 | 20,373 |
| Net profit | 2,160 | 3,405 | 3,765 | 5,386 |
| EPS (Rs.) | 6.6 | 8.8 | 9.0 | 12.5 |
| P/E (x) | 10.6 | 7.9 | 7.8 | 5.6 |
| P/BV (x) | 0.6 | 0.6 | 0.6 | 0.5 |
| RoE | 4.7% | 6.6% | 6.6% | 8.7% |
| RoA | 0.3% | 0.4% | 0.5% | 0.6% |

*Source: Company; Sharekhan estimates*

## Key Results Highlights

- **Strong NII growth:** Net interest income (NII) grew by 44% y-o-y/25% q-o-q, led by healthy loan growth, improvement in credit-deposit (CD) ratio (~200 bps q-o-q/ 930 bps y-o-y) along with sharp improvement in margins. NIMs improved by 49 bps y-o-y/ 62 bps q-o-q to 3.04% led by a higher share of RAM advances, the repricing of loans higher and there was a one-off item pertaining to income tax refund which had a positive impact of ~20 bps on margins. Going forward, the bank expects to grow faster in the higher-yield retail segment. Bank guided that overall global NIMs should be ~3% in FY23E.
- **Credit cost outlook:** Total credit cost stood at 1.7% of average advances during the quarter versus 1.2% q-o-q. Credit cost guidance is below 1% (Avg. advances) for H2FY23 vs 1.5% in H1FY23.
- **Asset quality improves** GNPA and NNPA ratios improved by 79 bps q-o-q and 29 bps q-o-q to 8.51% and 1.92%, respectively, in Q2FY2023. Gross slippages stood at Rs. 1,294 crores versus Rs. 2,833 crore q-o-q. Recoveries and upgrades amounted to Rs. 1,811 crores versus Rs. 1,684 crore q-o-q. Write-offs stood at Rs. 1,883 crores versus Rs. 2340 crore q-o-q. The management intends to bring down the GNPA ratio to less than 8% & NNPA below 1.5% in FY2023E, led by higher recoveries from NCLT resolutions in H2FY23.
- **Credit growth continued to be strong:** Net advances grew by 22% y-o-y/2% q-o-q. Retail, agriculture, and MSME advances rose by 23% y-o-y, 13% y-o-y, and 9% y-o-y, respectively. Retail book growth was primarily aided by robust rise in home loans (18% y-o-y) and vehicle books (61% y-o-y). The wholesale domestic corporate book grew by 14% y-o-y, while overseas book grew by 62% y-o-y. Bank sounded too conservative and guided for loan growth around ~12% in advances for FY2023E despite achieving 21.5% growth in H1FY23.with focus to grow RAM advances faster and growth momentum likely to pick up in the wholesale domestic corporate book as well, going forward.
- **Weak deposit growth:** Total deposit growth was muted at 5.6% y-o-y with below sub-par growth in CASA at 4.1% y-o-y.

**Results** Rs cr

| Particulars | Q2FY23 | Q1FY23 | Q2FY22 | y-o-y | q-o-q |
|---|---|---|---|---|---|
| Interest Income | 11,497 | 9,973 | 9,522 | 21% | 15% |
| Interest Expenses | 6,414 | 5,900 | 5,999 | 7% | 9% |
| Net Interest Income | 5,084 | 4,072 | 3,523 | 44% | 25% |
| NIM (%) | 3.04 | 2.55 | 2.42 | | |
| Core fee income | 332 | 286 | 340 | -2% | 16% |
| Other Income | 1,085 | 866 | 1,796 | -40% | 25% |
| Net Operating Revenue | 6,501 | 5,224 | 5,660 | 15% | 24% |
| Employee Expenses | 1,933 | 1,809 | 1,736 | 11% | 7% |
| Other Opex | 1,194 | 1,232 | 1,246 | -4% | -3% |
| Total Opex | 3,127 | 3,041 | 2,982 | 5% | 3% |
| Cost to Income Ratio (%) | 48.1% | 58.2% | 52.7% | | |
| Pre Provision Profits | 3,374 | 2,183 | 2,678 | 26% | 55% |
| Provisions & Contingencies - Total | 1,912 | 1,322 | 894 | 114% | 45% |
| Profit Before Tax | 1,462 | 861 | 1,784 | -18% | 70% |
| Tax | 502 | 300 | 732.8 | -31% | 68% |
| Effective Tax Rate (%) | 34.3 | 34.8 | 41.1 | | |
| Reported Profits | 960 | 561 | 1,051 | -9% | 71% |
| Basic EPS | 2.3 | 1.4 | 2.7 | -15% | 71% |
| Diluted EPS | 2.3 | 1.4 | 2.7 | | |
| RoA (%) | 0.5 | 0.3 | 0.5 | | |
| Advances | 4,60,232 | 4,42,703 | 3,78,727 | 21.5% | 4.0% |
| Deposits | 6,47,541 | 6,40,734 | 6,12,961 | 5.6% | 1% |
| Gross NPA | 42,014 | 44,415 | 50,270 | -16% | -5% |
| Gross NPA Ratio (%) | 8.51 | 9.30 | 12.0 | | |
| PCR - (%) | 79.0 | 78.0 | 79.0 | | |
| Net NPA | 8,836 | 9,775 | 10,576 | -16% | -10% |
| Net NPAs Ratio (%) | 1.92 | 2.21 | 2.79 | | |

*Source: Company, Sharekhan Research*

## Outlook and Valuation

### Sector View – Strong credit offtake & benign credit cost; Top private banks and top PSUs placed better

System-level credit offtake grew by ~17.95% y-o-y in the fortnight ending Oct 21, 2022, indicating loan growth has been sustaining, given distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.5% but are trailing advanced growth. We should see loan growth acceleration sustaining. Margins are likely to improve in a higher interest-rate cycle. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see 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, due to its lower core operating profitability vs its top PSU peers. Higher slippages and in turn higher credit cost from the restructured book which is relatively higher than peers would keep earnings under pressure going ahead. We believe improvement in operating performance along with better return ratios is yet to be seen. We believe the road to normalcy is still a long one for BOI.

### Valuation – Maintain Hold rating with a revised PT of Rs. 77

BOI currently trades at 0.6x/0.5x its FY2023E/FY2024E ABV, which reflects a weak business franchise and below-par return profile. Despite a strong performance, the return ratio failed to impress with ROA at just ~ 47 bps (annualized). We prefer top PSU banks which have superior core profitability, a better return profile and a strong balance sheet to withstand any unanticipated risk in future.

**Peer Comparison**

| Companies | 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 | 70 | 28,807 | 7.8 | 5.6 | 0.6 | 0.5 | 6.6 | 8.7 | 0.5 | 0.6 |
| PNB | 42 | 46,081 | 13.6 | 12.4 | 0.6 | 0.6 | 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 the western and eastern regions of the country. The bank had over 5,000 branches (along with 23 overseas branches) and ~5,750 ATMs. The bank has an 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 past NPA cycles. We believe the improvement in operating performance and earnings is yet to be seen compared to its peers.

## Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost

## 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 | REPUBLIC OF INDIA | 81.41 |
| 2 | LIFE INSURANCE CORP OF INDIA | 7.05 |
| 3 | VANGUARD GROUP INC | 0.42 |
| 4 | HDFC ASSET MANAGEMENT CO LTD | 0.40 |
| 5 | KOTAK MAHINDRA ASSET MANAGEMENT CO LTD | 0.20 |
| 6 | NIPPON LIFE INDIA ASSET MANAGEMENT LTD | 0.16 |
| 7 | DIMENSIONAL FUND ADVISORS LP | 0.10 |
| 8 | NORGES BANK | 0.06 |
| 9 | CHARLES SCHWAB CORP | 0.02 |
| 10 | THE ALLIANZ SE | 0.01 |

*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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