



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

Updated Oct 08, 2022

51.21

Severe Risk

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

Source: Morningstar

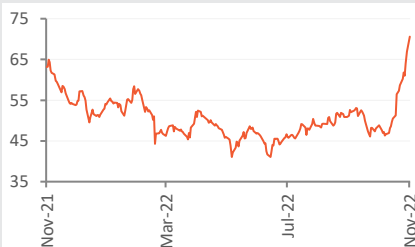
Company details

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

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	

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)

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 Kalra	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

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 and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates 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: Ms. Binkle Oza; 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, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. 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.