Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bank of India

Strong performance

Banks	Sharekhan code: BANKINDIA
Reco/View: Hold ↔	CMP: Rs. 93
	Price Target: Rs. 102 ↑

↑ 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 51.21

Updated Oct 10, 2022

Severe Risk

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

Source: Morningstar

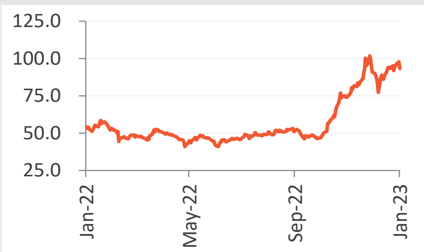
Company details

Market cap:	Rs. 38,307 cr
52-week high/low:	Rs. 104/ 40
NSE volume: (No of shares)	150.8 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	78.0 cr

Shareholding (%)

Promoters	81.4
FII	2.2
DII	10.6
Others	5.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.2	97.9	102.2	72.2
Relative to Sensex	5.4	93.1	88.6	73.1

Sharekhan Research, Bloomberg

Summary

- Bank of India (BoI) reported strong growth in operating profits up (74% y-o-y/ 8% q-o-q) led by robust growth in NII (64% y-o-y/ 10% q-o-q) driven by sharp improvement in NIMs (up 24 bps q-o-q/ 101 bps y-o-y) and strong loan growth (18.5% y-o-y/ 3.4% q-o-q). We believe NIMs are probably closer to its peak.
- Core credit cost (annualized) was reported at 0.93% versus 0.60% of average advances in the last quarter. The bank has guided that core credit cost is expected to undershoot from current levels and remain well below 1% going forward over the medium term. PAT reported at Rs. 1,151 crore grew by 12% y-o-y/ 20% q-o-q.
- Slippages were down by 6% q-o-q at 1.2% (annualised) versus 1.4% q-o-q, coupled with higher recoveries & upgrades and higher write offs, asset quality saw sharp improvement with GNPA and NNPA ratios falling by 85 bps/31 bps q-o-q to 7.66%/1.61%. PCR at 80% vs 79% q-o-q.
- At CMP, BoI trades at 0.8x/ 0.7x/ 0.6x its FY2023E/ 24E/ 25E ABV estimates. We maintain our hold rating on the stock with a revised PT of Rs. 102. Overall, the outlook remains strong going forward however we await better price entry point factoring in margin of safety.

Bank of India (BoI) reported strong beat in operational performance versus our estimates in Q3FY2023. Net interest income (NII) grew by 64% y-o-y/10% q-o-q, led by healthy loan growth and a sharp improvement in margins. NIMs improved by 24 bps q-o-q/ 101 bps y-o-y to 3.28% led by a higher share of RAM advances, strong domestic corporate book growth and the repricing of floating loans higher. There would be some moderation in NIMs going forward due to an increase in cost of deposits to garner incremental deposits. The bank has guided for NIMs at ~3-3.25% in Q4FY23E. Core fee income was higher by 18% y-o-y / 16% q-o-q. Bank reported treasury profit amounting to Rs. 115 crore versus Rs. 151 crore in last quarter. Momentum in recovery from w/off accounts slowed down during the quarter. Total operating expenses grew by 7% y-o-y/ 8% q-o-q. Operating profit grew by 74% y-o-y/8% q-o-q. Core credit costs stood at 0.93% versus 0.60% of average advances during the last quarter. PAT grew by 12% y-o-y/ 20% q-o-q. Net advances grew by 18.5% y-o-y/3.4% q-o-q. Retail loans rose by 21% y-o-y, agri and MSME loans grew by 9% y-o-y and 8% y-o-y, respectively. The wholesale domestic corporate book grew by 19% y-o-y, while the overseas loan book grew by 47% y-o-y however was flat sequentially. Total deposit growth was muted at 4.9% y-o-y with below sub-par growth in CASA at 3.7% y-o-y. Slippages were down by 6% q-o-q at 1.2% (annualized) vs 1.4% q-o-q, coupled with higher recoveries & upgrades and higher write-offs, asset quality saw sharp improvement with GNPA and NNPA ratios falling by 85 bps/31 bps q-o-q to 7.66%/1.61%. PCR at 80% vs 79% q-o-q. The restructured book stood at ~2.7% of net advances versus 3.1% of net advances q-o-q. SMA 1 and 2 books combined stood at Rs. 1,944 crores versus Rs. 1,678 crore in the past quarter.

Key positives

- Bank clocked healthy loan growth along with sharp margin improvement.
- Strong PPoP growth
- Slippages were lower sequentially as well as on y-o-y basis.

Key negatives

- Weak deposit growth
- Higher write-offs

Management Commentary

- The bank has maintained its loan growth guidance on the lower end of ~12% for FY2023E which looks quite achievable looking at 9MFY23 loan growth. Also, bank believes 14-15% loan growth is expected in FY24E. There would be some moderation in NIMs in Q4FY23. NIMs are expected at ~3-3.25% in Q4FY23.
- Core Credit cost guidance maintained, to remain below 1% (avg. advances) going forward. Bank intends to keep Gross NPA lower than 7% in FY2023E. Bank is targeting ROA closer to ~1% in FY24E.

Revision in estimates – We have raised the earnings estimates for FY23E & FY24E factoring in marginally higher NIMs and introduced FY25E.

Our Call

Maintain a Hold rating with a revised PT of Rs. 102: BoI currently trades at 0.8x/0.7x /0.6x its FY2023E/ 24E/ 25E ABV estimates. The bank has been improving its core operating profitability led by strong sector tailwinds along with improvement in the credit cycle is resulting into lower credit cost which should augur well for earnings trajectory and return ratios going ahead. Overall outlook remains strong going forward however we await better price entry point, factoring in margin of safety.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	14,062	20,190	22,435	25,968
Net profit	3,405	4,026	5,419	6,066
EPS (Rs.)	8.8	9.6	12.6	14.1
P/E (x)	10.6	9.8	7.4	6.6
P/BV (x)	0.8	0.8	0.7	0.6
RoE	6.6%	7.0%	8.7%	8.9%
RoA	0.4%	0.5%	0.6%	0.7%

Source: Company; Sharekhan estimates

Key Results Highlights

Robust NII growth: Net interest income (NII) grew by 64% y-o-y/10% q-o-q, led by healthy loan growth along with a sharp improvement in margins. NIMs improved by 101 bps y-o-y/ 24 bps q-o-q to 3.29% led by a higher share of RAM advances, strong domestic corporate book growth and the repricing of floating loans higher. The bank expects to grow faster in the higher-yield retail segment. There would be some moderation in NIMs going forward due to increase in cost of deposits to garner incremental deposits. Bank has guided for NIMs at ~3-3.25% in Q4FY23E. We believe NIMs are closer to its peak.

Core credit cost guidance maintained: The company has maintained its core credit cost guidance, to remain below 1% (Avg. advances) going forward. Bank intends to keep Gross NPA lower than 7% in FY2023E.

Asset quality continues to fare better: GNPA and NNPA ratios sharply rose by 85 bps q-o-q and 31 bps q-o-q to 7.66% and 1.61%, respectively, in Q3FY2023. Gross slippages stood at Rs. 1,217 crore versus Rs. 1,294 crore q-o-q. Recoveries and upgrades amounted to Rs. 1,824 crore versus Rs. 1,811 crore q-o-q. Write-offs stood at Rs. 2,522 crore versus Rs. 1,883 crore q-o-q. The management intends to bring down the GNPA ratio to less than 7% in FY2023E. PCR at 80% versus 79% q-o-q. The restructured book stood at ~2.7% of net advances versus 3.1% of net advances q-o-q. SMA-1 and -2 books combined stood at Rs. 1,944 crores versus Rs. 1,678 crore in the past quarter.

Credit growth remained strong: Net advances grew by 18.5% y-o-y/3.4% q-o-q. Retail, agriculture, and MSME advances rose by 21% y-o-y, 9% y-o-y, and 8% y-o-y, respectively. Retail book growth was primarily aided by robust rise in home loans (18% y-o-y) and vehicle books (42% y-o-y). The wholesale domestic corporate book grew by 19% y-o-y, while overseas book grew by 47% y-o-y however was sequentially flat. Bank sounded too conservative and guided for loan growth around ~12% in advances for FY2023E despite achieving 18.5% growth in 9MFY23. With focus to grow RAM advances faster, growth momentum likely to sustain in retail as well as in the wholesale domestic corporate book going forward. LCR during the quarter was stable at 164%.

Weak deposit momentum: Total deposit growth was muted at 4.9% y-o-y / 0.9% q-o-q with below sub-par growth in CASA at 3.7% y-o-y. Domestic CASA ratio at 44.6%.

Capital Raising: Bank intends to raise Rs. 1,500 via QIP soon.

Results Rs cr

Particulars	Q3FY23	Q2FY23	Q3FY22	Y-o-Y %	Q-o-Q %
Interest Income	12,728	11,497	9,376	36%	11%
Interest Expenses	7,133	6,414	5,968	20%	11%
Net Interest Income	**5,595**	**5,084**	**3,408**	**64%**	**10%**
NIM (%)	3.28	3.04			
Core fee income	384	332	325	18%	16%
Other Income	1,048	1,085	1,510	-31%	-3%
Net Operating Revenue	**7,027**	**6,501**	**5,243**	**34%**	**8%**
Employee Expenses	1,783	1,933	1,832	-3%	-8%
Other Opex	1,592	1,194	1,315	21%	33%
Total Opex	**3,375**	**3,127**	**3,147**	**7%**	**8%**
Cost to Income Ratio (%)	**48.0%**	**48.1%**	**60.0%**		
Pre Provision Profits	**3,652**	**3,374**	**2,096**	**74%**	**8%**
Provisions & Contingencies - Total	1,879	1,912	335	461%	-2%
Profit Before Tax	**1,773**	**1,462**	**1,761**	**1%**	**21%**
Tax	622	502	733.4	-15%	24%
Effective Tax Rate (%)	35.1	34.3	41.6		
Reported Profits	**1,151**	**960**	**1,027**	**12%**	**20%**
Basic EPS	2.8	2.3	2.5	12%	20%
Diluted EPS	2.8	2.3	2.5		
RoA (%)	0.6	0.5	0.5		
Advances	4,76,101	4,60,232	4,01,873	18.5%	3.4%
Deposits	6,53,691	6,47,541	6,23,120	4.9%	1%
Gross NPA	38,885	42,014	45,760	-15%	-7%
Gross NPA Ratio (%)	7.66	8.51	10.46		
PCR - (%)	80.3	79.0	76.6		
Net NPA	7,646	8,836	10,708	-29%	-13%
Net NPAs Ratio (%)	1.61	1.92	2.66		

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deposits mobilisation to be in focus; Banks with strong deposit franchise placed better

System-level credit offtake grew by ~17.4% y-o-y in the fortnight ending December 16, 2022, indicating loan growth has been sustaining, given distinct signs of an improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.4% but are trailing advances growth. We should see sustained acceleration in loan growth. Margins are likely to improve but momentum is expected to moderate, and margins are expected to peak out by H1FY2024. 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. In the past few years, lenders have been cautious about lending to the 'BB & below' category, thus the general risk, which they are carrying on the corporate loan 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 that 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, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company outlook - Await good entry point

The bank has been improving its core operating profitability led by strong sector tailwinds along with improvement in credit cycle is resulting into lower credit cost which should augur well for earnings trajectory and return ratios going ahead. Overall outlook remains strong going forward.

■ Valuation - Maintain a Hold rating with a revised PT of Rs. 102

BoI currently trades at 0.8x/0.7x /0.6x its FY2023E/ 24E/ 25E ABV estimates. The bank has been improving its core operating profitability led by strong sector tailwinds along with improvement in credit cycle is resulting into lower credit cost which should augur well for earnings trajectory and return ratios going ahead. Overall outlook remains strong going forward however we await better price entry point factoring in margin of safety.

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	93	38,307	9.8	7.4	0.8	0.7	7.0	8.7	0.5	0.6
PNB	58	63,534	10.6	6.2	0.8	0.7	6.1	9.7	0.4	0.7

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 5,100 branches (along with 21 overseas branches). 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. Capital Adequacy Ratio (CAR) currently stands at 15.6%.

Investment theme

BoI has a network of over 5,100+ branches, spread across the country and abroad, along with a diversified products and services portfolio. Operating performance and earnings had earlier eroded due to past NPA cycles. Now the bank has been improving its core operating profitability led by strong sector tailwinds along with improvement in credit cycle is resulting into lower credit cost which should augur well for earnings trajectory and return ratios going ahead. Overall outlook remains strong going forward however we await better price entry point factoring in margin of safety.

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

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	0.37
4	KOTAK MAHINDRA ASSET MANGEMENT CO LTD	0.28
5	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO LTD	0.25
6	NIPPON LIFE INDIA ASSET MANAGEMENT LTD	0.20
7	DIMENSIONAL FUND ADVISORS LP	0.13
8	QUANT MONEY MANAGERS LTD	0.12
9	NORGES BANK	0.06
10	ICICI PRUDENTIAL LIFE INSURANCE CO LTD	0.05

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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