



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 **37.87**
Updated Jul 08, 2023

High Risk

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

Source: Morningstar

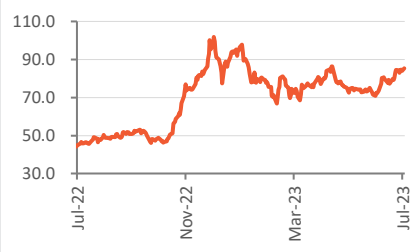
Company details

Market cap:	Rs. 35,040 cr
52-week high/low:	Rs. 104 / 46
NSE volume: (No of shares)	109.2 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	78.0 cr

Shareholding (%)

Promoters	81.4
FII	2.3
DII	9.9
Others	6.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.2	2.4	3.6	79.2
Relative to Sensex	11.5	-9.1	-6.1	59.7

Sharekhan Research, Bloomberg

Banks	Sharekhan code: BANKINDIA		
Reco/View: Buy	↑	CMP: Rs. 85	Price Target: Rs. 102 ↔
	↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- We upgrade our rating on Bank of India (BOI) to Buy from Hold with an unchanged PT of Rs. 102. We expect RoAs of ~0.9% for FY24E/FY25E, driving RoE of ~12% for the respective period.
- PAT stood at Rs. 1,551 crore (up 176% y-o-y/15% q-o-q), above estimates, mainly led by lower-than-expected credit cost, partly offset by a higher effective tax rate, which translated into RoA/RoE of 0.71%/14.62%.
- Total credit cost was reported at ~71 bps annualised (calculated as a % of average advances). The bank has guided credit cost at 60-70 bps for FY2024, led by strong recoveries, which are expected to outpace slippages along with lower write-offs.
- We believe valuations are expected to inch higher as the return ratio profile improves in the coming quarters on the back of uptick in loan growth, stable margins and further lower credit cost. At the CMP, the stock trades at 0.6x/0.5x its FY24E/25E ABV estimates.

Bank of India (BOI) reported better-than-expected performance in Q1FY2024. Net interest income (NII) grew by 45% y-o-y/ 7% q-o-q. Core NIM (excluding interest on IT refund) was reported at 3.03% vs. 3.15% q-o-q, down 12 bps q-o-q, led by higher cost of deposits (+31 bps q-o-q) in turn putting pressure on the cost of funds (+37 bps q-o-q) despite marginally higher yields. The bank has guided for sustainable NIM at 3.0-3.05% going ahead. Core fee income grew by 24% y-o-y/down 3% q-o-q. Total operating expenses grew by 19% y-o-y/down 18% q-o-q. Core operating profit grew by 48% y-o-y/40% q-o-q. Total credit costs stood at 71 bps annualised vs. 171 bps q-o-q. However, total credit cost was higher in the last quarter on account of MTM losses booked on security receipts, which were earlier part of the investments book. PBT grew by 240% y-o-y/37% q-o-q. Net advances grew at a slower pace by 11% y-o-y/1% q-o-q mainly due to run-down of government-guaranteed advances. Retail, agri, and MSME loans rose by 15% y-o-y, 10% y-o-y, and 9% y-o-y, respectively. The wholesale domestic corporate book grew by 11% y-o-y, while the overseas loan book grew by 11% y-o-y. Total deposits grew by 9% y-o-y/4% q-o-q with domestic CASA growing at 3% q-o-q. Slippages were lower at 2.3% (annualised on trailing 12M loans) vs. 2.5% q-o-q. Healthy recoveries and upgrades along with higher write-offs (mainly related to back book in the MSME segment) led to stable asset-quality performance. GNPA and NNPA ratios were reported at 6.67% and 1.65%, respectively. PCR at 77% was stable q-o-q. The restructured book stood at ~2.1% of net advances vs. 2.4% q-o-q. Combined SMA-1 and SMA-2 books (Rs. 5 crore and above) declined 6% q-o-q to Rs. 1,864 crore.

Key positives

- Strong core PPOP growth.
- Core credit cost was significantly lower.
- Domestic CASA growth picked up sequentially.

Key negatives

- Write-offs were higher mainly related to back book in the MSME segment.

Management Commentary

- BOI maintained its 11-12% loan growth guidance along with 10-11% deposit growth in FY2024. The bank also guided that PPOP growth is expected at ~30% in FY2024.
- NIM is expected to be at 3.0-3.05%. Credit cost is expected at 60-70 bps vs. earlier guidance of 75 bps.
- Overall asset-quality outlook continues to remain stable. Management is targeting GNPA at ~6% by FY24 and NNPA at ~1%.

Our Call

Valuation – Upgrade to Buy with an unchanged PT of Rs. 102

We expect return on assets (RoAs) of ~0.9% for FY2024E/FY2025E, driving return on equity (RoE) of ~12% for the respective periods. We believe valuations are expected to inch higher as the return ratio profile improves in the coming quarters on account of uptick in loan growth, stable margins, and further lower credit cost. The stock currently trades at 0.6x/0.5x its FY2024E/FY2025E ABV estimates.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost and lower-than-expected margins.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Net Interest Income	14,062	20,275	23,510	25,629
Net profit	3,405	4,023	7,460	8,014
EPS (Rs.)	8.8	9.8	18.2	19.5
P/E (x)	9.7	8.7	4.7	4.4
P/BV (x)	0.7	0.7	0.6	0.5
RoE	6.6	7.1	11.9	11.4
RoA	0.4	0.5	0.9	0.9

Source: Company; Sharekhan estimates

Key Results Highlights

- ◆ **Stable margin outlook:** NII grew by 45% y-o-y/7% q-o-q. Core NIM (excluding interest on IT refund) was reported at 3.03% vs. 3.15% q-o-q, down 12 bps q-o-q, led by higher cost of deposits (+31 bps q-o-q) in turn putting pressure on cost of funds (+37 bps q-o-q) despite marginally higher yields. The bank is guiding for sustainable NIM at 3.0-3.05% going ahead. Higher cost of funds would be offset by increased yield, led by repricing of the MCLR portfolio.
- ◆ **Credit cost outlook:** Total credit costs stood at 71 bps annualised vs. 171 bps q-o-q. However total credit cost was higher in the last quarter on account of MTM losses booked on security receipts, which were earlier part of the investments book. Credit cost is expected at 60-70 bps vs. earlier guidance of 75 bps.
- ◆ **Stable asset-quality outlook:** Slippages were lower at 2.3% (annualised on trailing 12M loans) vs. 2.5% q-o-q. Healthy recoveries and upgrades along with higher write-offs (mainly related to the back book in the MSME segment) led to stable asset-quality performance. GNPA and NNPA ratios were reported at 6.67%/1.65%. PCR at 77% was stable on a q-o-q basis. The restructured book stood at ~2.1% of net advances vs. 2.4% q-o-q. Combined SMA-1 and SMA-2 books (Rs. 5 crore and above) declined 6% q-o-q to Rs. 1,864 crore.
- ◆ **Credit growth guidance conservative:** Net advances grew at a slower pace by 11% y-o-y/1% q-o-q mainly due to run down of government-guaranteed advances. Retail, agri and MSME loans grew by 15% y-o-y, 10% y-o-y, and 9% y-o-y, respectively. The wholesale domestic corporate book grew by 11% y-o-y, while the overseas loan book grew by 11% y-o-y. The bank is confident of achieving 11-12% loan growth in FY2024. The bank intends to keep the share of RAM advances at 55% and rest 45% for the wholesale corporate book. We believe there is an upside risk to the guidance.

Results (Standalone)

Particulars	Rs cr				
	Q1FY24	Q4FY23	Q1FY23	Y-o-Y %	Q-o-Q %
Interest Income	14,359	13,450	9,973	44%	7%
Interest Expenses	8,445	7,926	5,900	43%	7%
Net Interest Income	5,914	5,524	4,072	45%	7%
NIM (%)	3.03	3.15	2.55		
Core fee income	355	366	286	24%	-3%
Other Income	1,107	2,733	866	28%	-59%
Net Operating Revenue	7,376	8,623	5,224	41%	-14%
Employee Expenses	2,257	2,867	1,809	25%	-21%
Other Opex	1,367	1,572	1,232	11%	-13%
Total Opex	3,625	4,439	3,041	19%	-18%
Cost to Income Ratio (%)	49.1%	51.5%	58.2%		
Pre-Provision Profits	3,752	4,184	2,183	72%	-10%
Provisions & Contingencies - Total	824	2,051	1,322	-38%	-60%
Profit Before Tax	2,928	2,133	861	240%	37%
Tax	1,377	783	300	360%	76%
Effective Tax Rate (%)	47.0	36.7	34.8		
Reported Profits	1,551	1,350	561	176%	15%
Basic EPS	3.8	3.3	1.4	176%	15%
Diluted EPS	3.8	3.3	1.4		
RoA (%)	0.7	0.6	0.3		
Advances	4,91,502	4,85,900	4,42,703	11.0%	1.2%
Deposits	6,96,544	6,69,586	6,40,734	8.7%	4.0%
Gross NPA	34,582	37,686	44,415	-22%	-8%
Gross NPA Ratio (%)	6.67	7.31	9.30		
PCR - (%)	76.5	78.6	78.0		
Net NPA	8,119	8,054	9,775	-17%	1%
Net NPAs Ratio (%)	1.65	1.66	2.21		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~15.4% y-o-y in the fortnight ending June 16, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~12.1%. The gap between advances and deposits growth is narrowing and is expected to further narrow as real deposit rates increase gradually. We should see some moderation in loan growth due to a higher base in FY2024, but loan growth is expected to remain healthy. Margins have likely peaked out in Q4FY2023. The overall asset-quality outlook continues to remain stable to positive for the sector. We believe banks with a robust capital base, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well-placed to capture growth opportunities.

■ Company Outlook – Return ratio outlook improving

We see upside risk in the loan growth guidance. We also expect better asset-quality trends, led by lower slippages and strong recoveries, which would likely augur well for the bank's earnings trajectory, driven by lower credit costs, thus leading to improved RoAs going ahead.

■ Valuation – Upgrade to buy with an unchanged PT of Rs. 102

We expect return on assets (RoAs) of ~0.9% for FY2024E/FY2025E, driving return on equity (RoE) of ~12% for the respective periods. We believe valuations are expected to inch higher as the return ratio profile improves in the coming quarters on account of uptick in loan growth, stable margins, and further lower credit cost. The stock currently trades at 0.6x/0.5x its FY2024E/FY2025E ABV estimates.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Bank of India	85	35,040	4.7	4.4	0.6	0.5	11.9	11.4	0.9	0.9
PNB	62	68,114	11.4	5.6	0.7	0.6	5.8	10.9	0.4	0.7

Source: Company, Sharekhan estimates

About company

Established in 1906, BOI is one of the oldest PSU banks in the country. Headquartered in Mumbai, the bank has an established presence in the western and eastern regions of the country. The bank has 5,153 branches, out of which 22 are overseas branches. Capital Adequacy Ratio (CAR) currently stands at 15.6%.

Investment theme

We see upside risk in the loan growth guidance. We also expect better asset-quality trends, led by lower slippages and strong recoveries, which would likely augur well for the bank's earnings trajectory, driven by lower credit costs, thus leading to improved RoAs going ahead.

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost and lower than expected margin.

Additional Data

Key management personnel

Rajneesh Karnatak	MD and CEO
P R Rajagopal	Executive Director
SHRI SWARUP DASGUPTA	Executive Director
M. Karthikeyan	Executive Director
SHRI SUBRAT KUMAR	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.	0.58
4	ADITYA BIRLA SUN LIFE ASSET MANAGEMENT CO LTD.	0.57
5	SBI Funds Management Ltd.	0.37
6	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	0.22
7	KOTAK MAHINDRA ASSET MANGEMENT CO. LTD.	0.17
8	DIMENSIONAL FUND ADVISORS LP	0.15
9	WISDOM Tree Inc	0.07
10	NORGES BANK	0.06

Source: Bloomberg

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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

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