



**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 Aug 08, 2023 **37.87**

**High Risk**

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

Source: Morningstar

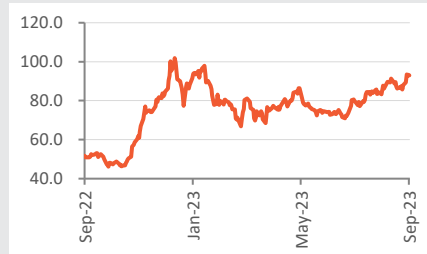
**Company details**

Market cap:	Rs. 40,564 cr
52-week high/low:	Rs. 104 / 46
NSE volume: (No of shares)	109.0 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	8.0	33.8	23.8	90.4
Relative to Sensex	12.6	27.0	10.5	78.4

Sharekhan Research, Bloomberg

**Bank of India**

**Strong asset quality to drive outperformance**

<b>Banks</b>	<b>Sharekhan code: BANKINDIA</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 99</b>	<b>Price Target: Rs. 120</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	↑

**Summary**

- Stock continues to outperform, given a strong asset quality outlook which should boost RoA closer to ~1%. We retain a Buy rating on BOI with a revised PT of Rs. 120.
- Management is guiding for strong cash recoveries amounting to Rs. 12,000 crore in FY24 vs Rs. 7,233 crore in FY23 which would result in recoveries outpacing slippages in FY24 driven by resolution of some of the accounts under NCLT led by the power sector and OTS (One time Settlement Scheme).
- Loan growth momentum is also expected to pick up led by resurgence in MSME and corporate credit growth in 9MFY24, while the retail segment continues to perform well.
- We believe valuations are expected to inch higher as the return ratio 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 0.7x/0.6x its FY24E/25E ABV estimates.

**BOI's balance sheet has strengthened – capital ratios are healthy, with Tier-1 Capital at 13.8%. The bank's excess liquidity profile (CD ratio ~71%, LCR ~179%) in an environment of deposit growth challenges, places it well to accelerate loan growth without worrying about the deposit growth. We see an upside risk to BOI's earnings, led by healthy loan growth, stable margins, lower slippages in turn reduced credit cost along with strong recoveries. This should drive strong earnings growth in the near term and would boost the return ratio profile. Hence, we expect further rerating in the stock. Currently, we have built in RoA estimates of ~0.9% in FY24E/25E which should drive RoE of ~12% for the respective periods.**

- Upside risk to loan growth persists:** The bank is guiding for an 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. The bank's excess liquidity profile (credit-deposit ratio of ~71%, LCR of ~179%) in an environment of deposit growth challenges, places it well to accelerate loan growth. Loan growth momentum is also expected to pick up led by resurgence in MSME and corporate credit growth in 9MFY24, while the retail segment continues to perform well. The bank guided that it has strong pipeline of Rs. 40,000 crore in corporate segment. In Q1FY24, loan growth was muted (+1% q-o-q) mainly due to conscious decision to run down government-guaranteed advances.
- Strong asset quality outlook:** Management is guiding for strong cash recoveries amounting to Rs. 12,000 crore in FY24 vs Rs. 7,233 crore in FY23 which would result in recoveries outpacing slippages in FY24 driven by resolution of some of the accounts under NCLT led by power sector and OTS. Total slippages are expected to be around Rs. 8,000 crore (< 2%) and in turn credit cost at 60-70 bps as % of Avg. advances in FY24. The overall asset quality outlook continues to remain stable to positive.
- NIMs outlook stable:** The bank is guiding for stable NIMs trajectory at 3-3.05% in FY24. Higher cost of funds led by increased cost of deposits would be offset by increased yield, led by repricing of the portfolio linked to MCLR.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 120:** 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 0.7x/0.6x its FY2024E/FY2025E ABV estimates.

**Key Risks**

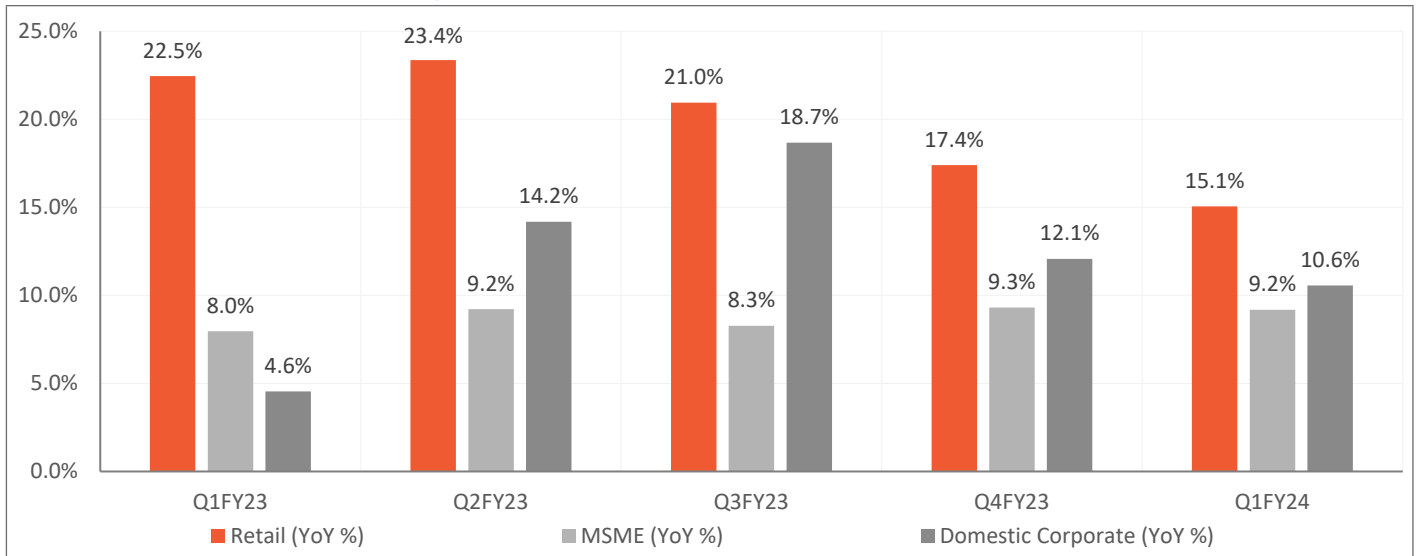
Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost and lower-than-expected margins.

**Valuation (Standalone)**

Particulars	Rs cr			
	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)	11.2	10.1	5.4	5.1
P/BV (x)	0.9	0.8	0.7	0.6
RoE	6.6	7.1	11.9	11.4
RoA	0.4	0.5	0.9	0.9

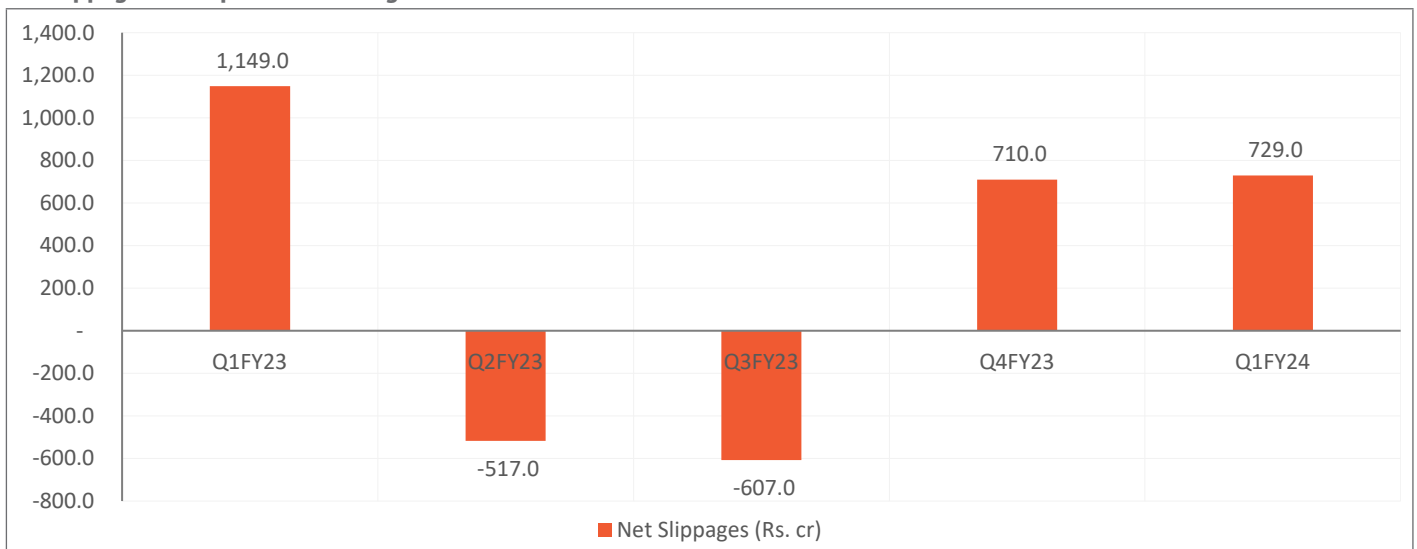
Source: Company; Sharekhan estimates

**Loan growth is expected to pick up led by MSME & domestic Corporate segment in 9MFY24**



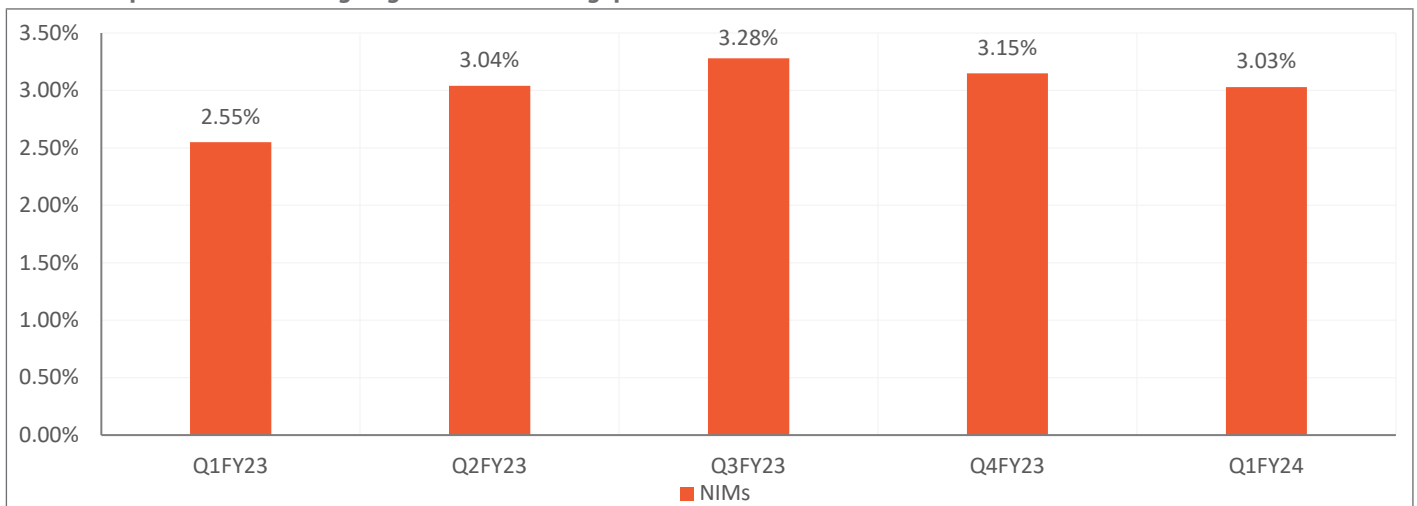
Source: Company, Sharekhan Research

**Net slippages are expected to be negative for 9MFY24**



Source: Company, Sharekhan Research

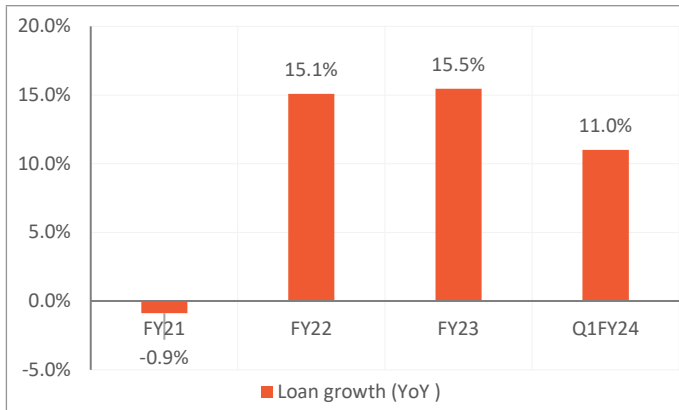
**NIMs are expected to be stable going forward in coming quarters for FY24**



Source: Company, Sharekhan Research

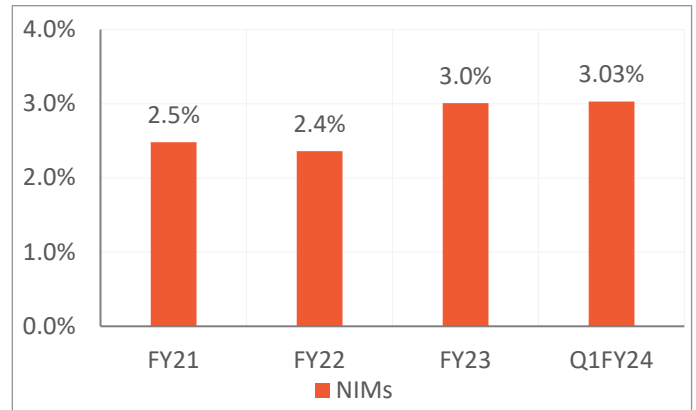
## Financials in charts

### Trend in Loan growth



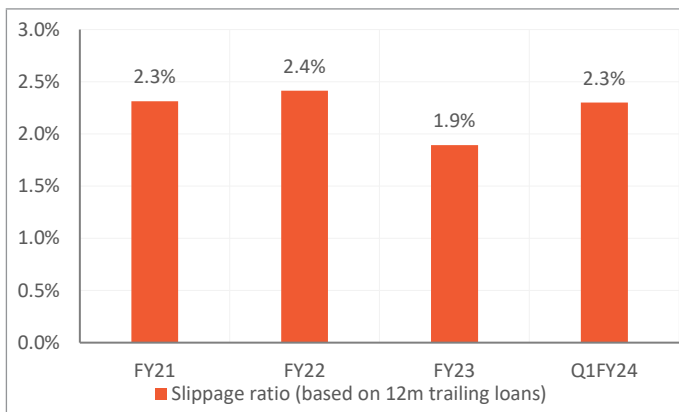
Source: Company, Sharekhan Research

### Trend in NIMs



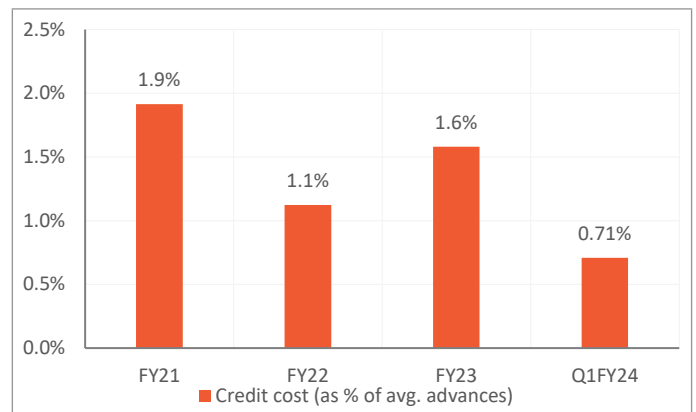
Source: Company, Sharekhan Research

### Trend in Slippages



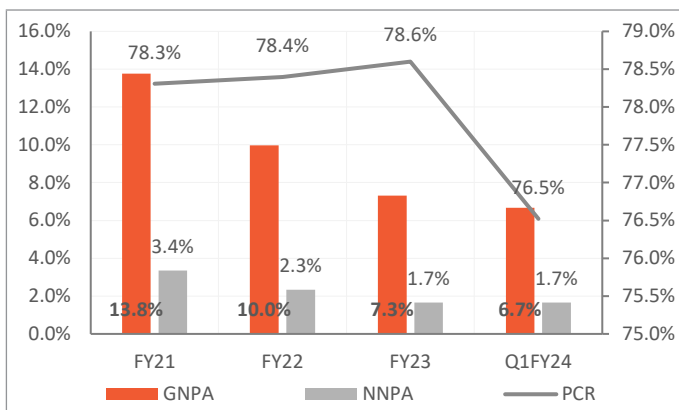
Source: Company, Sharekhan Research

### Trend in Credit Cost



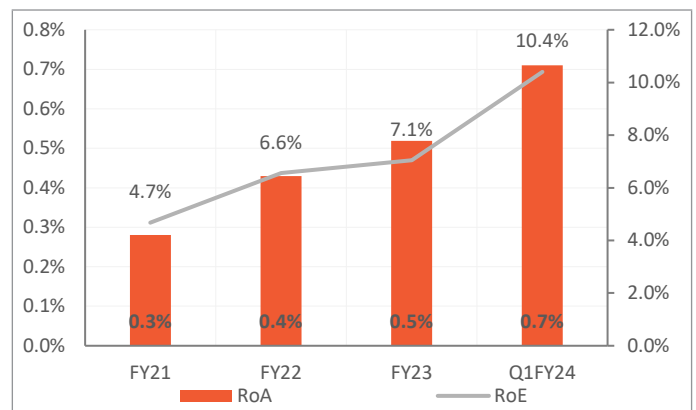
Source: Company, Sharekhan Research

### Trend in Asset quality



Source: Company, Sharekhan Research

### Trend in return ratio



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 ~19.7% y-o-y in the fortnight ending August 11, 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 ~13.5%. 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 stays 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 – Maintain Buy with a revised PT of Rs. 120

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 0.7x/0.6x 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	99	40,564	5.4	5.1	0.7	0.6	11.9	11.4	0.9	0.9
PNB	69	76,185	12.7	6.2	0.8	0.7	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
SWARUP DASGUPTA	Executive Director
M. Karthikeyan	Executive Director
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

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
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
<b>Right Valuation</b>	
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

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