



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. 51,240 cr
52-week high/low:	Rs. 121/ 66
NSE volume: (No of shares)	178.7 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	86.5 cr

Shareholding (%)

Promoters	73.4
FII	6.2
DII	14.4
Others	6.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.6	3.7	56.9	31.4
Relative to Sensex	-1.5	-6.2	43.8	13.1

Sharekhan Research, Bloomberg

Bank of India

Return ratio inching up steadily; Maintain buy

Banks	Sharekhan code: BANKINDIA		
Reco/View: Buy	↔	CMP: Rs. 113	Price Target: Rs. 135
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- The stock continues to outperform on the back of sustained improvement return ratio profile aided by strong asset quality trends.
- Strong sector tailwinds are supporting overall performance. RoA in H2FY2024 is expected to reach ~1.0% and is likely to sustain in the near to medium term.
- The bank has been highlighting that the quality of loans sanctioned/disbursed in post-COVID times is far superior with very low delinquency. Thus, lower slippages trend is likely to sustain and narrow the perceived gap in underwriting with respect to peers.
- At CMP, the stock trades at 0.7x/0.6x its FY2025E/FY2026E ABV estimates. We maintain a Buy with a revised PT of Rs. 135, rolling forward our valuation to FY2026E.

According to company's management, the bank's balance sheet has further strengthened after the recent capital raise – capital ratios are healthy, with CET-1 Capital at ~13.8% (post capital raise vs minimum requirement of ~8%). The bank's excess liquidity profile (credit-deposit ratio ~74%, LCR ~160%) in an environment of deposit growth challenges, places it well to grow the book without worrying about deposit growth. The bank is eyeing an 11-12% loan growth in FY24E. The bank is guiding that it has a strong credit pipeline of Rs. 70,000 crore (Rs. 50,000 crore in the domestic corporate book; Rs 12,000 crore in RAM & rest is in international book). We believe the bank is likely to deliver higher growth led by a strong credit pipeline, balance sheet strength has also been improving passing each quarter coupled with some of the new initiatives taken recently like- formation of 18 emerging corporate credit branches to cater to corporate needs in their specific area of operation, signed various MOU for financing large infra projects etc.

- Asset quality outlook stable:** The bank is guiding for sustained lower slippages and higher recoveries, which would result in the latter outpacing the former in H2FY2024, driven by the resolution of some of the accounts under NCLT, led by the power sector and OTS. Total slippages are expected to be around Rs. 8,000 crore (~1.5%) and, in turn, credit cost is expected to be 60-70 bps as a percentage of average advances in FY2024. A benign credit cycle along with the fact that trailing loan growth in the corporate segment has been muted in the past few years should keep low fresh NPA formation. Moreover, BOI has been highlighting that quality of loans sanctioned/disbursed in post-COVID times is far superior with very low delinquency. Provision coverage ratio stands at ~75%. Overall asset-quality trends are stable and should see consistent improvement.
- Growth outlook:** The bank is confident of achieving an 11-12% loan growth in FY2024E. The bank has a strong credit pipeline of Rs. 70,000 crore (Rs. 50,000 crore in the domestic corporate book; Rs 12,000 crore in RAM, and the remaining in the international book). The bank intends to keep the share of RAM advances at 55% and the rest 45% for the wholesale corporate book. We believe the bank is likely to deliver higher growth led by strong credit pipeline, balance sheet strength has also been improving passing each quarter coupled with some of the new initiatives taken recently such as the formation of 18 Emerging Corporate Credit branches to cater to corporate needs in their specific area of operation, signed various MOU for financing large infra projects.
- NIMs outlook:** Although NIMs would stay stressed in the coming quarters led by repricing of deposits driven by sharp increase in cost of deposits in recent times but the bank is aiming to maintain the NIMs above 3% (Currently ~3.1%) driven by increasing yield on advances through RAM and Corporate segment. BOI aims to protect margins rather than chasing growth.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 135: Valuations are still reasonable, considering the improvement in RoA trajectory, which is expected to reach closer to ~1% in coming quarters. Strong asset quality trends are likely to sustain and narrow the perceived gap in underwriting with respect to peers. Valuations are expected to inch higher as the return ratio profile improves in the coming quarters on account of stable loan growth/margins and lower credit cost. The stock currently trades at 0.7x/0.6x its FY2025E/FY2026E ABV.

Key Risks

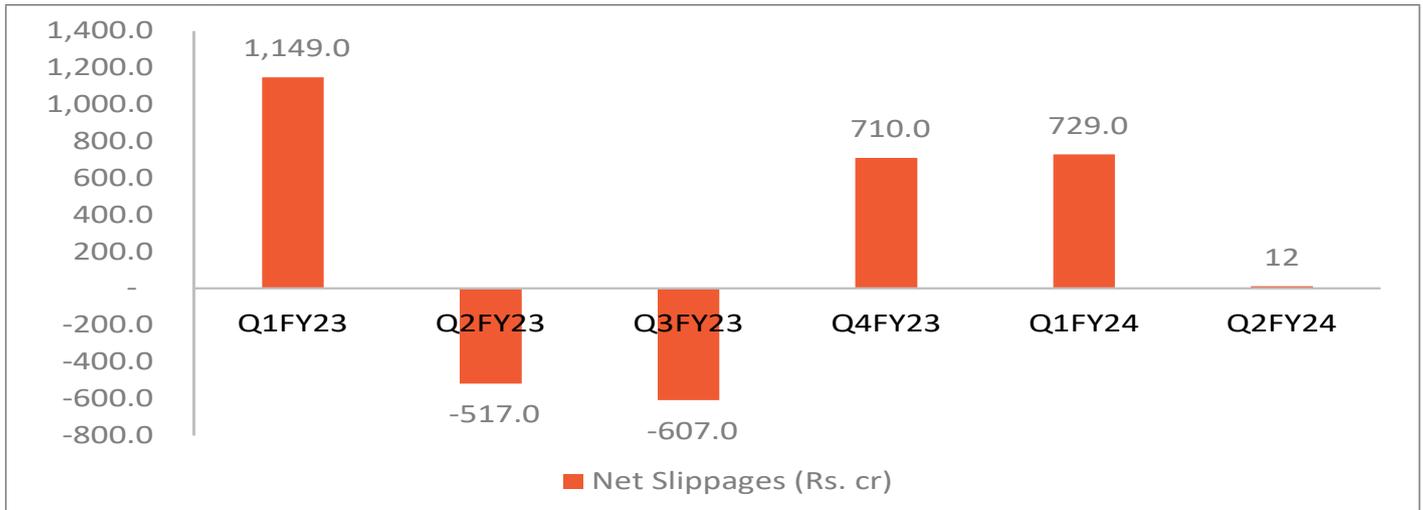
Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost and lower-than-expected margins.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	14,062	20,275	23,787	25,562	27,787
Net profit	3,405	4,023	7,150	9,321	9,809
EPS (Rs.)	8.8	9.8	15.7	20.5	21.5
P/E (x)	12.8	11.5	7.2	5.5	5.2
P/BV (x)	1.0	0.9	0.8	0.7	0.6
RoE	6.6	7.1	11.0	12.4	11.6
RoA	0.4	0.5	0.8	1.0	1.0

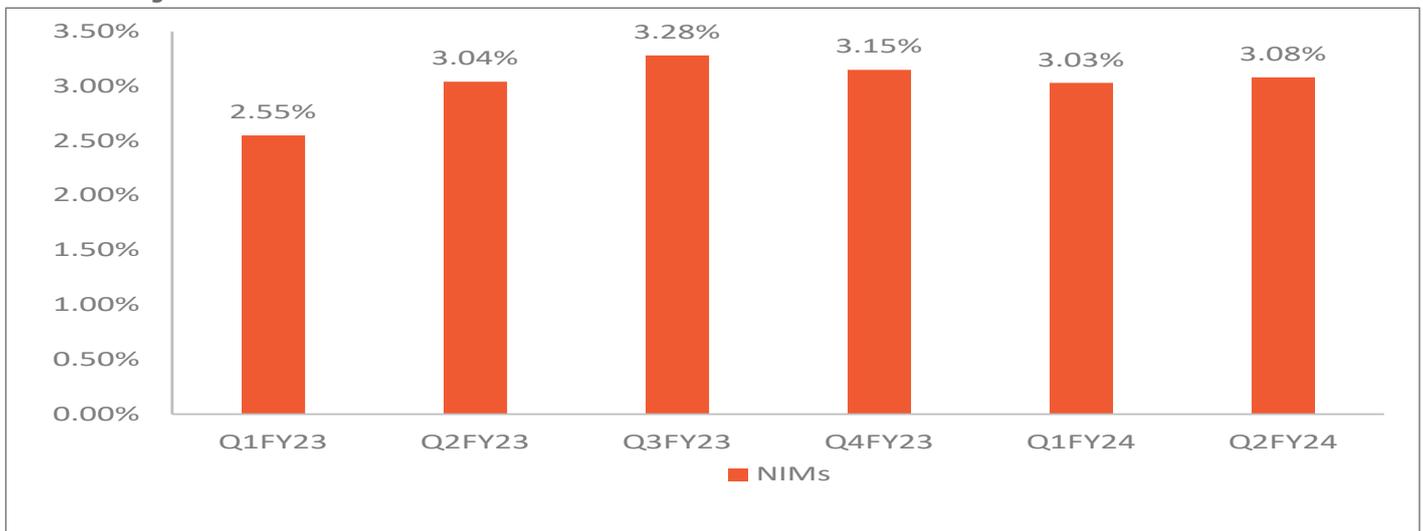
Source: Company; Sharekhan estimates

Trend in net slippages



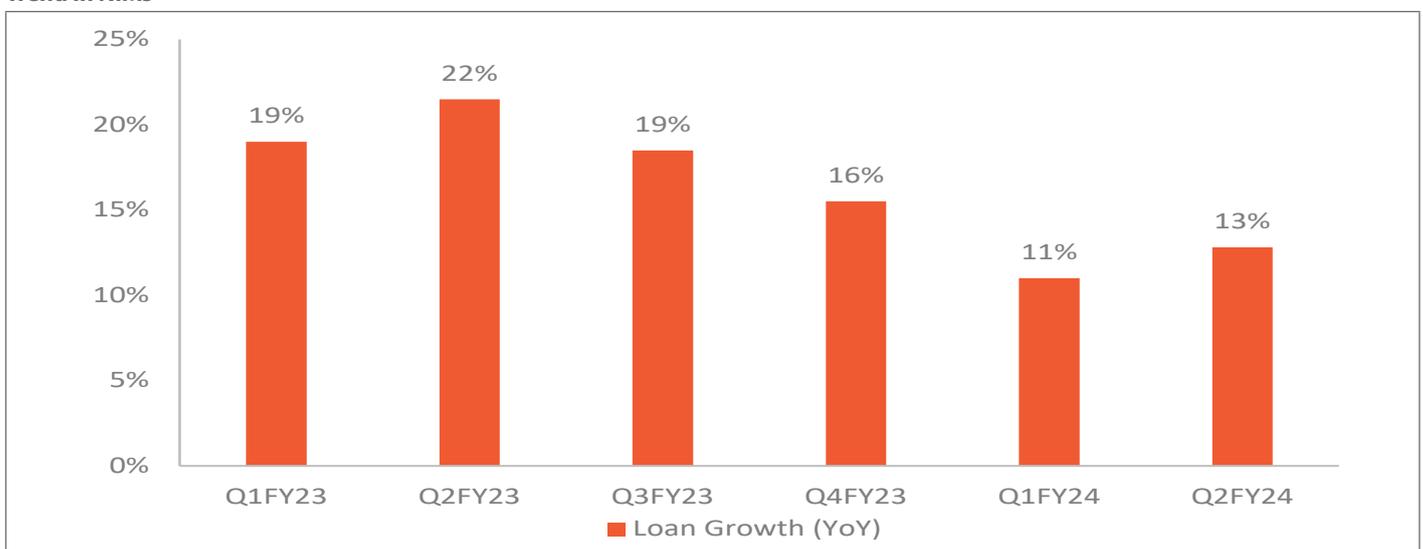
Source: Company data, Sharekhan Research

Trend in loan growth



Source: Company data, Sharekhan Research

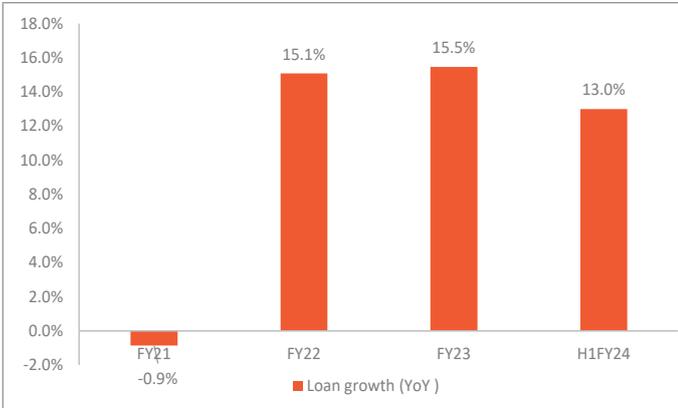
Trend in NIMs



Source: Company data, Sharekhan Research

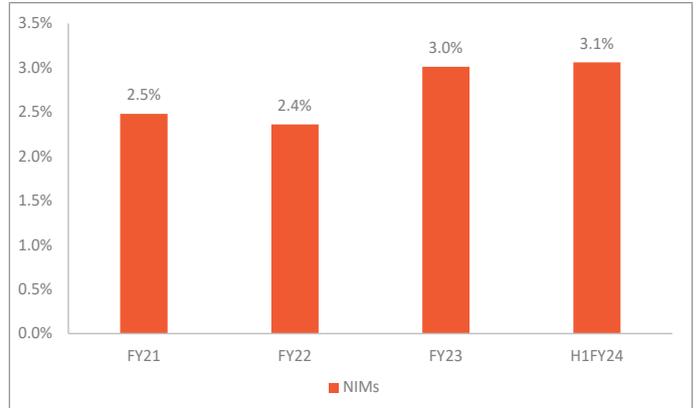
Financials in charts

Trend in Loan growth



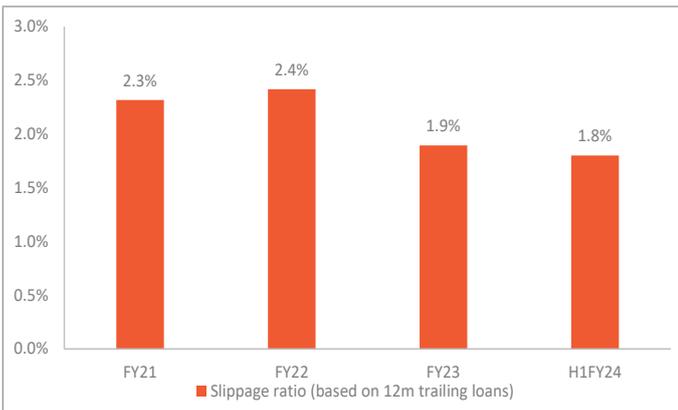
Source: Company, Sharekhan Research

Trend in NIMs



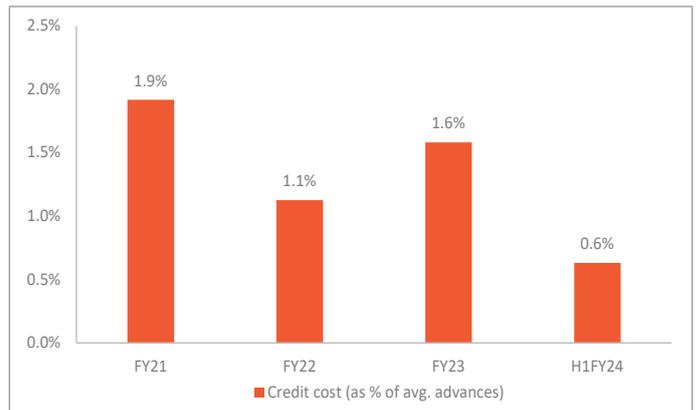
Source: Company, Sharekhan Research

Trend in Slippages



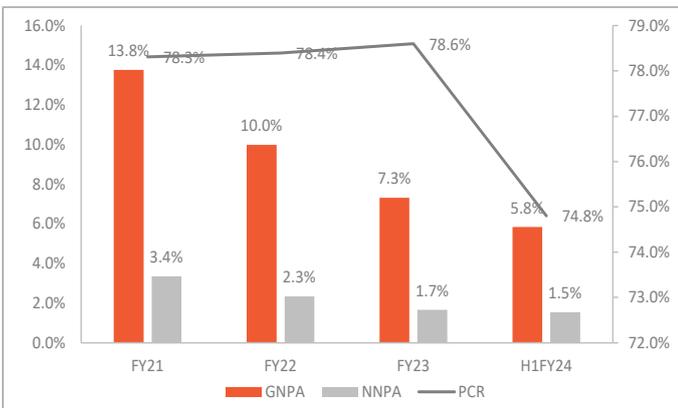
Source: Company, Sharekhan Research

Trend in Credit Cost



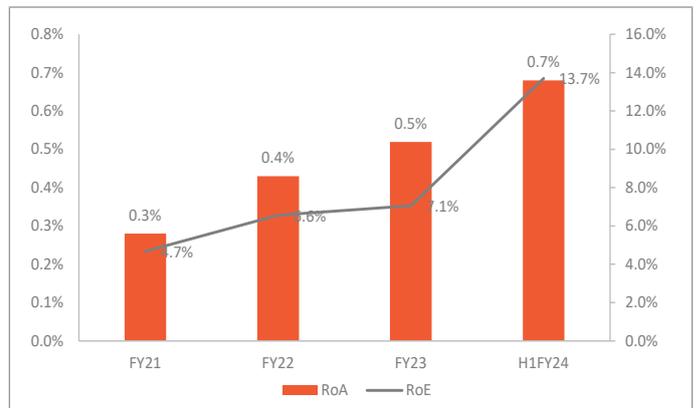
Source: Company, Sharekhan Research

Trend in Asset quality



Source: Company, Sharekhan Research

Trend in return ratio



Source: Company, Sharekhan Research

Outlook and Valuation

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

System-level credit offtake grew by ~20.8% y-o-y in the fortnight ending December 01, 2023, indicating loan growth has been strong, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13.8%. 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 going ahead, but loan growth is expected to remain healthy. Margins have peaked in Q4FY2023 and are expected to be lower going ahead led by repricing of deposit cost given limited room for repricing of asset book. The overall asset-quality outlook continues to remain stable to positive for the sector. We believe that 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 – Bright outlook

Strong sector tailwinds are supporting the overall performance. We expect better asset-quality trends, led by lower slippages and strong recoveries, which are likely to augur well for the bank's earnings trajectory, driven by lower credit costs. RoA is expected to reach closer to ~1% in the near term.

■ Valuation – Maintain Buy with a revised PT of Rs. 135

Valuations are still reasonable, considering the improvement in RoA trajectory, which is expected to reach closer to ~1% in coming quarters. Strong asset quality trends are likely to sustain and narrow the perceived gap in underwriting with respect to peers. Valuations are expected to inch higher as the return ratio profile improves in the coming quarters on account of stable loan growth/margins and lower credit cost. The stock currently trades at 0.7x/0.6x its FY2025E/FY2026E ABV.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY24E	FY26E	FY25E	FY26E	FY25E	FY26E
Bank of India	113	51,240	5.5	5.2	0.7	0.6	12.4	11.6	1.0	1.0
PNB	95	1,04,924	7.5	6.1	0.9	0.8	12.3	13.3	0.9	1.0

Source: Company, Sharekhan estimates

About the 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 5,157 branches, out of which 22 are overseas branches.

Investment theme

We 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	81.4
2	Life Insurance Corp of India	7.1
3	Vanguard Group Inc.	0.7
4	Aditya Birla Sun Life Asset Management Co Ltd.	0.6
5	Nippon Life India Asset Management Ltd.	0.2
6	Dimensional Fund Advisors Lp	0.1
7	Kotak Mahindra Asset Mangement Co. Ltd.	0.1
8	SBI Funds Management Ltd.	0.1
9	Norges Bank	0.1
10	Allianz Se	0.1

Source: Bloomberg, November 2023

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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

Sharekhan

by BNP PARIBAS

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