



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	✓	↔	✓

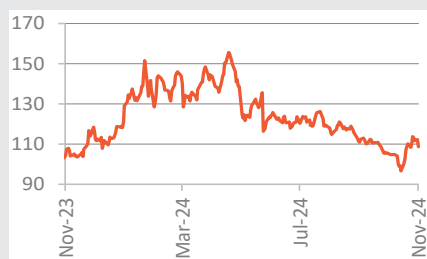
Company details

Market cap:	Rs. 49,533 cr
52-week high/low:	Rs. 158/ 96
NSE volume: (No of shares)	96.5 lakh
BSE code:	532149
NSE code:	BANKINDIA
Free float: (No of shares)	122.9 cr

Shareholding (%)

Promoters	73.4
FII	3.2
DII	16.3
Others	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.8	-7.6	-21.6	4.8
Relative to Sensex	6.9	-6.4	-29.7	-16.4

Sharekhan Research, Bloomberg

Bank of India

Mixed Q2, guiding for stability ahead

Bank	Sharekhan code: BANKINDIA		
Reco/View: Buy	↔	CMP: Rs. 109	Price Target: Rs. 130
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Core operational performance was weak, led by muted NII driven by higher-than-expected NIM compression and higher opex growth (led by employee retiral provisions) despite healthy loan growth (~16% y-o-y). Core PPOP (ex. treasury gains) declined by 7% y-o-y.
- Although, higher other income (mainly led by treasury gains & recovery from written off accounts) along with lower tax expense led to a significant beat in earnings resulting in RoA at ~0.9%.
- Slippages were higher at 1.7% annualised vs. 1.3% q-o-q/ 1.3% y-o-y, led by corporate and agri loans, thus core credit cost was higher at 97 bps vs. 85 bps q-o-q and 54 bps y-o-y annualised.
- We maintain BUY with a revised PT of Rs. 130, given stable outlook ahead. Valuations are cheap; however, it will be lower in our preference order in lower tier PSU banks due to higher volatility in performance. The stock trades at 0.7x/0.6x its FY2025E/FY2026E ABV estimates.

Bank of India's (BOI) Q2FY2025 performance was weak on the operating front. Net interest income at Rs. 5,985 crore (below estimates) grew by 4% y-o-y/down 5% q-o-q, led by higher-than-expected NIM compression despite healthy loan growth. NIM declined by 25 bps q-o-q to 2.82%, led by lower yields on funds (down 10 bps q-o-q) and increased cost of funds (up 13 bps q-o-q). The bank has guided that yield on advances was lower, led by interest reversals on NPA, reclassification of penal charges, and loan growth was largely back ended. Core fee income grew 9% y-o-y/38% q-o-q mainly driven by higher distribution income. Treasury gains stood at Rs. 730 crore vs. Rs. 166 crore q-o-q and Rs. 81 crore y-o-y. Other income excluding treasury gains stood at Rs. 1,263 crore vs. Rs. 756 crore q-o-q and Rs. 1,124 crore y-o-y, led by higher recovery from written-off accounts. Total operating expenses grew 19% y-o-y/12% q-o-q, driven by higher staff cost mainly due to retiral benefit provisions. PPOP grew by 10% y-o-y. Core PPOP (ex. treasury gains) declined by 7% y-o-y. Core credit cost stood 97 bps vs. 85 bps q-o-q and 54 bps y-o-y annualised. PBT increased by 6% y-o-y. PAT at Rs. 2,374 crore (higher than estimates, led by lower tax expense and non-interest income) grew by 63% y-o-y. Net advances grew by 16% y-o-y/4% q-o-q. Retail, agri, and MSME loans rose by 22% y-o-y, 21% y-o-y, and 15% y-o-y, respectively. The wholesale domestic corporate book grew by 9% y-o-y, while overseas loan book increased by 12% y-o-y. Total deposits grew by 10% y-o-y/1% q-o-q with CASA growing at 7% y-o-y. Term deposits grew by 16% y-o-y. Headline asset-quality ratio improved, with GNPA and NNPA ratio declining by 21 bps and 5 bps q-o-q, respectively, to 4.41% and 0.94%. PCR was at 79%, stable q-o-q. Slippages were higher at 1.7% annualised vs. 1.3% q-o-q/1.3% y-o-y, led by corporate and agri loans. Net slippages were higher at Rs. 777 crore vs. Rs. 155 crore negative q-o-q and 12 crore y-o-y positive. The restructured book stood at ~1.1% of net advances, largely stable q-o-q. Total SMA book (Rs. 5 crore and above) was at Rs. 7,656 crore (1.3% vs. 1.7% of net advances q-o-q); however, flows in SMA 1 and 2 substantially increased under corporate loans q-o-q.

Key positives

- Loan growth was healthy at 16% y-o-y.
- Recoveries from written-off accounts was strong at Rs. 685 crore vs. Rs. 202 crore q-o-q and Rs. 560 crore y-o-y.

Key negatives

- NIM declined by 25 bps q-o-q to 2.82% (higher than expected).
- Slippages were higher at 1.7% annualised vs. 1.3% q-o-q/1.3% y-o-y, led by corporate and agri loans.
- Flows in SMA 1 and 2 substantially increased under corporate loans q-o-q.

Management Commentary

- The bank has guided for 14-15% domestic loan growth along with targeting 12-13% domestic deposit growth.
- The bank guided that NIMs have bottomed out and expects ~2.9% overall NIM in FY2025E.
- Flows in SMA 1 and 2 substantially increased under corporate loans q-o-q. The increase is due to a few of the state PSU accounts. The bank is confident of recouping most of the accounts.
- One of the Central PSU accounts had slipped during the quarter, which led to higher slippages in the corporate segment with exposure of more than Rs. 1,000 crore. The bank expects to resolve the same over a period of time.
- The bank is still guiding for 70 bps credit cost and RoA at ~1% in H2FY2025.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 130: We acknowledge that asset quality has been volatile for the bank in the past few quarters. The bank is taking continuous efforts to improve the performance on the asset-quality front. Valuations are cheap, clearly factoring a volatile performance. Given, the stable outlook ahead, with regards to NIM, loan growth, and credit cost, we maintain our BUY rating. However, it will be lower in our preference order in lower tier PSU banks. The stock trades at 0.7x/0.6x its FY2025E/FY2026E ABV estimates.

Key Risks

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

Valuation (Standalone)

	Rs cr				
Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	14,062	20,275	23,053	24,395	27,335
Net profit	3,405	4,023	6,318	8,615	9,607
EPS (Rs.)	8.8	9.8	14.9	18.9	21.1
P/E (x)	12.3	11.1	7.3	5.8	5.2
P/ABV (x)	1.0	0.9	0.8	0.7	0.6
RoE	6.6%	7.1%	9.9%	11.8%	11.7%
RoA	0.4%	0.5%	0.7%	0.9%	0.9%

Source: Company; Sharekhan estimates

Key Results Highlights

- ♦ **NII growth weak led by lower NIM:** NII at Rs. 5,985 crore grew by 4% y-o-y/down 5% q-o-q, led by higher-than-expected NIM compression despite healthy loan growth. NIM declined by 25 bps q-o-q to 2.82%, led by lower yields on funds (down 10 bps q-o-q) and increased cost of funds (up 13 bps q-o-q). The bank has guided that yield on advances (down 15 bps q-o-q) was lower, led by interest reversals on NPA, reclassification of penal charges, and loan growth was back ended. The bank has guided that NIM has bottomed out and expects ~2.9% overall NIM in FY2025E.
- ♦ **Core credit cost was marginally higher:** Core credit cost was lower at 97 bps annualised versus 85 bps q-o-q, led by higher slippages from the corporate and agri segment. The bank has guided for 70 bps credit cost of advances and 1.4% slippages for FY2025E.
- ♦ **Asset quality:** Headline asset-quality ratio improved, with GNPA and NNPA ratio declining by 21 bps/5 bps q-o-q, respectively, to 4.41%/0.94%. PCR was at 79%, stable q-o-q. Slippages were higher at 1.7% annualised vs. 1.3% q-o-q/1.3% y-o-y, led by corporate and agri loans. Net slippages were higher at Rs. 777 crore vs. Rs. 155 crore negative q-o-q and Rs. 12 crore y-o-y positive. The restructured book stood at ~1.1% of net advances, largely stable q-o-q. Total SMA book (Rs. 5 crore and above) was at Rs. 7,656 crore (1.3% vs. 1.7% of net advances q-o-q). However, flows in SMA 1 and 2 substantiality increased under corporate loans q-o-q. The bank is confident of recouping most accounts. Asset quality in the unsecured segment is stable and it is a very small book (~ Rs. 11,500 crore). The bank is targeting recoveries more than the slippages in FY2025E.
- ♦ **Loan growth healthy:** Net advances grew by 16% y-o-y/4% q-o-q. Retail, agri, and MSME loans rose by 22% y-o-y, 21% y-o-y, and 15% y-o-y, respectively. The wholesale domestic corporate book grew by 9% y-o-y, while overseas loan book grew by 12% y-o-y. The bank has guided for 14-15% domestic loan growth along with 14% global credit growth.
- ♦ **Deposit growth:** Total deposits grew by 10% y-o-y/1% q-o-q with CASA growing at 7% y-o-y. Term deposits grew by 16% y-o-y. Credit-deposit ratio stood at 77% vs. 76% q-o-q. The bank is targeting 12-13% growth in retail domestic deposits for FY2025E.

Results (Standalone)

Particulars	Q2FY25	Q2FY24	Q1FY25	y-o-y	Rs cr q-o-q
Interest Income	17,355	14,971	16,938	16%	2%
Interest Expenses	11,369	9,232	10,662	23%	7%
Net Interest Income	5,985	5,740	6,276	4%	-5%
NIM (%)	2.82	3.08	3.07		
Core fee income	525	483	380	9%	38%
Other Income	1,993	1,205	922	65%	116%
Net Operating Revenue	8,503	7,427	7,578	14%	12%
Employee Expenses	2,631	2,178	2,345	21%	12%
Other Opex	1,724	1,494	1,556	15%	11%
Total Opex	4,355	3,672	3,901	19%	12%
Cost to Income Ratio (%)	51.2%	49.4%	51.5%		
Pre Provision Profits	4,147	3,756	3,677	10%	13%
Provisions & Contingencies - Total	1,043	818	1,293	27%	-19%
Profit Before Tax	3,104	2,937	2,384	6%	30%
Tax	731	1,479	681	-51%	7%
Effective Tax Rate (%)	23.5	50.3	28.6		
Reported Profits	2,374	1,458	1,703	63%	39%
Basic EPS (Rs.)	5.2	3.6	3.7	47%	39%
Diluted EPS (Rs.)	5.2	3.6	3.7		
RoA (%)	0.9	0.7	0.7		
Advances	6,00,006	5,19,089	5,78,145	16%	4%
Deposits	7,75,181	7,03,751	7,64,396	10%	1%
Gross NPA	27,455	31,719	27,716	-13%	-1%
Gross NPA Ratio (%)	4.41	5.84	4.62		
PCR - (%)	79.4	74.8	79.4		
Net NPA	5,648	7,978	5,702	-29%	-1%
Net NPAs Ratio (%)	0.94	1.54	0.99		

Source: Company; Sharekhan Research

Outlook and Valuation

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

System credit growth is slowing and has declined to ~11.5% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high credit-deposit ratio. Deposit growth at 11.8% has started to outpace loan growth marginally. However, deposit growth continues to remain range bound at 11-13% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, the asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Guiding for stability ahead

Overall performance has been volatile for the bank in the past few quarters on the operating front as well as the asset-quality front. The bank is taking continuous efforts to improve its performance and is guiding for stability ahead, with regards to NIMs, loan growth, and credit cost. Healthy business momentum and better asset-quality trends are likely to augur well for the bank's earnings trajectory and return ratios.

■ Valuation – Maintain BUY with a revised PT of Rs. 130

We acknowledge that asset quality has been volatile for the bank in the past few quarters. The bank is taking continuous efforts to improve the performance on the asset-quality front. Valuations are cheap, clearly factoring a volatile performance. Given, the stable outlook ahead, with regards to NIM, loan growth, and credit cost, we maintain our BUY rating. However, it will be lower in our preference order in lower tier PSU banks. The stock trades at 0.7x/0.6x its FY2025E/FY2026E ABV estimates.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bank of India	109	49,533	5.8	5.2	0.7	0.6	11.8	11.7	0.9	0.9
PNB	104	1,19,262	7.4	6.6	0.9	0.8	13.6	13.0	1.0	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 5,213 branches, out of which 22 are overseas branches. Capital Adequacy Ratio (CAR) currently stands at 16.6%.

Investment theme

Overall performance has been volatile for the bank in the past few quarters on the operating front as well as asset-quality front. The bank is taking continuous efforts to improve its performance and is guiding for stability ahead, with regards to NIMs, loan growth, and credit cost. Healthy business momentum and better asset-quality trends are likely to augur well for the bank's earnings trajectory and return ratios.

Key Risks

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

Additional Data

Key management personnel

Rajneesh Karnatak	MD and CEO
P R Rajagopal	Executive Director
M. Karthikeyan	Executive Director
SUBRAT KUMAR	Executive Director
Rajiv Mishra	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	73.38
2	Life Insurance Corp of India	7.49
3	SBI Funds Management Ltd.	2.04
4	HDFC Life Insurance Co. Ltd.	1.26
5	SBI Pension Funds Pvt. Ltd.	0.96
6	The Vanguard Group Inc.	0.79
7	Aditya Birla Sun Life AMC Co. Ltd.	0.68
8	Nippon Life India Asset Management	0.59
9	DSP Investment Managers Pvt. Ltd.	0.38
10	Norges Bank	0.25

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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