

May 28, 2015

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Rating	BUY
Price	Rs192
Target Price	Rs235
Implied Upside	22.4%
Sensex	27,507
Nifty	8,319

(Prices as on May 28, 2015)

Trading data

Market Cap. (Rs bn)	127.7
Shares o/s (m)	665.7
3M Avg. Daily value (Rs m)	1368.4

Major shareholders

Promoters	64.43%
Foreign	8.32%
Domestic Inst.	18.40%
Public & Other	8.85%

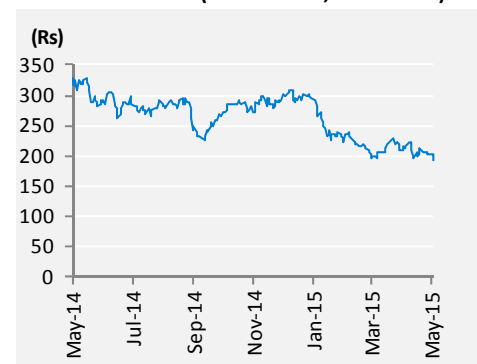
Stock Performance

(%)	1M	6M	12M
Absolute	(11.1)	(33.6)	(39.1)
Relative	(11.5)	(29.4)	(51.2)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2016	34.4	48.1	-28.6
2017	45.3	59.5	-24.0

Price Performance (RIC: BOI.BO, BB: BOI IN)



Source: Bloomberg

BOI reported very disappointing results impacted by higher provisions (wage + NPL provisions), deteriorating asset quality and subdued business growth. Fresh slippages increased to Rs65.5bn (6.5% on annualized basis), of which, management says 41% are technical in nature. The bank changed its accelerated provisioning policy with respect to doubtful assets and aligned it with RBI guidelines, while it also sold loans worth Rs9.36bn to the ARC during the quarter. BOI has to make provisions of Rs15.9bn over the next two years towards unamortized losses though it would get offset by lower opex requirements as pension & gratuity liability has now been done fully (except for adopting the new mortality table). Management has guided for sedate 0.35% to 0.4% RoA for FY16E. We maintain 'BUY' but cut earnings by ~30% in FY16E & FY17E and reduce our PT to Rs235 (from Rs285).

■ **Weak growth in core revenues:** BOI reported 3% YoY decline in core revenues led by 7% YoY decline in NII even as core other income fared better aided by strong FX gains. NII growth was affected by interest reversals arising from elevated slippage rate of 6.5% (Rs65.5bn). Other income growth at 23% YoY was further boosted by treasury gains of Rs2.15bn.

■ **Guidance highly anaemic; capital position though has improved:** Outlook for BOI remains weak as it has guided for 10-12% advances growth, 2.4% NIMs, 4.75% of GNPL and 35-40bp of RoA for FY16E. However, BOI has raised Rs6.4bn via issuing shares to LIC & New India and further raised Rs25bn of AT1-bonds leading to 40bps QoQ improvement in its Tier-I.

■ **Asset quality deteriorates sharply; management change an added risk:** BOI reported highest ever slippages of Rs65.5bn (6.5% annualized, 41% technical in nature) and further sold loans amounting to Rs9.36bn (1.9% SR portfolio). RA portfolio also stands at 5.4% of total loans, while slippages from restructured assets stood at Rs21bn. The bank changed its accelerated provisioning policy with respect to doubtful assets and aligned it with RBI guidelines, while it also sold loans worth Rs9.36bn to ARC during the quarter. We maintain "BUY" but cut FY15E/FY16E earnings by 30%/30%, respectively, on lower earnings visibility and revise our PT to Rs235 (from Rs285).

Key financials (Y/e March)	2014	2015	2016E	2017E
Net interest income (Rs m)	108,305	113,438	136,285	157,855
Growth (%)	20.0	4.7	20.1	15.8
Operating profit (Rs m)	84,229	74,877	89,623	105,859
PAT (Rs m)	27,293	17,084	22,879	30,128
EPS (Rs)	44.0	26.1	34.4	45.3
Growth (%)	(6.2)	(40.7)	31.6	31.7
Net DPS (Rs)	5.8	4.9	6.0	7.0

Profitability & Valuation	2014	2015	2016E	2017E
NIM (%)	2.11	1.92	2.05	2.06
RoAE (%)	10.1	5.6	7.1	8.8
RoAA (%)	0.53	0.29	0.34	0.39
P / BV (x)	0.5	0.5	0.4	0.4
P / ABV (x)	0.7	0.9	0.8	0.6
PE (x)	4.4	7.3	5.6	4.2
Net dividend yield (%)	3.0	2.6	3.1	3.6

Source: Company Data; PL Research

Exhibit 1: Q4FY15: Disappointment continues on all counts

NII growth was disappointing as Bank slowed down its loan book, while also was on high reversal of interest on NPAs

Opex growth was high as Bank had enhanced pension provisions in the last quarter and provided for lower discount rate. The Bank also incrementally provided for wage revision at 15% rate from 13% (Rs2bn run rate now)

Loan growth has come off which could be regarded as positive in purview with its lower capital levels

NIMs remain under pressure on the back of high interest reversals as well as base rate cut impact from the last quarter

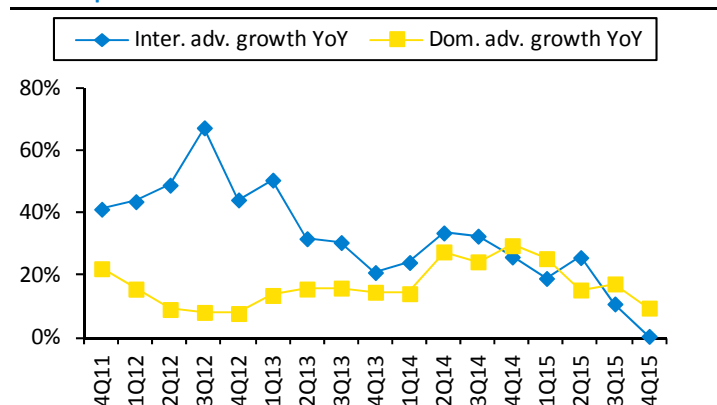
Asset Quality – Slippages remain high at Rs64bn (6% of loans on annualized basis), of which, Rs20bn is from restructured book. Management mentioned total slippages of 41% based on prudent measure of recognizing NPAs (technical in nature), while 45% belonged to the infrastructure sector

The Bank's fresh restructuring was ~Rs27bn in Q4FY15 which were spread across sectors and into smaller accounts with some accounts of >Rs1bn exposure

Profit and Loss (Rs m)	4QFY15	4QFY14	YoY gr. (%)	3QFY15	QoQ gr. (%)
Interest income	111,648	103,604	7.8	108,678	2.7
Interest expended	83,185	73,131	13.7	80,876	2.9
Net interest income (NII)	28,463	30,473	(6.6)	27,802	2.4
Treasury income	2,150	830	159.0	3,200	(32.8)
Other income exc. Treasury	11,222	9,137	22.8	10,797	3.9
Total income	39,684	39,610	0.2	38,599	2.8
Operating expenses	25,419	19,649	29.4	19,945	27.4
-Staff expenses	14,903	11,432	30.4	12,882	15.7
-Other expenses	10,516	8,218	28.0	7,063	48.9
Operating profit	14,266	19,961	(28.5)	18,654	(23.5)
Core operating profit	12,116	19,131	(36.7)	15,454	(21.6)
Total provisions	22,555	15,473	45.8	15,807	42.7
Profit before tax	(8,289)	4,488	(284.7)	2,847	(391.2)
Tax	(7,728)	(1,087)	610.8	1,113	(794.5)
Profit after tax	(561)	5,575	(110.1)	1,734	(132.4)
Balance sheet					
Deposits	5,319,066	4,769,741	11.5	5,302,134	0.3
Advances	4,020,256	3,707,335	8.4	4,026,358	(0.2)
Profitability ratios					
RoaA	0.3	0.4		0.1	
RoaE	6.7	9.1		9.3	
NIM	2.1	2.3		2.2	
Yield on Advances	8.4	8.5		8.4	
Cost of Deposits	5.7	5.6		5.7	
Asset Quality					
Gross NPL (Rs m)	221,932	118,686	87.0	166,937	32.9
Net NPL (Rs m)	135,176	74,172	82.2	100,613	34.4
O/s Std. Restructured Assets (Rs m)	218,280	207,550	10.6	218,360	(0.1)
Gross NPL ratio	5.4	3.2		4.1	
Net NPL ratio	3.4	2.0		2.5	
Coverage ratio	39.1	37.5		39.7	
Std. Restr. Assets/ Total adv.	5.4	5.6		5.4	
Business & Other Ratios					
Low-cost deposit mix	29.5	30.0		28.7	
Cost-income ratio	64.1	49.6		51.7	
Non int. inc / total income	28.3	23.1		28.0	
Credit deposit ratio	75.6	77.7		75.9	
CAR	10.7	9.97		10.7	
Tier-I	8.2	7.2		7.8	

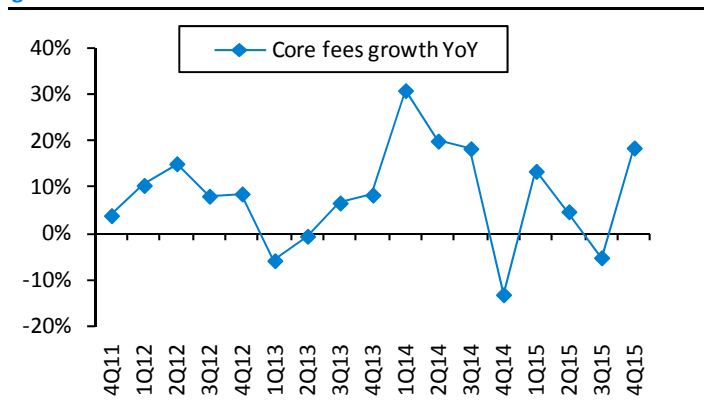
Source: Company Data, PL Research

Exhibit 2: Lower loan growth can be seen as positive in view with lower capital levels



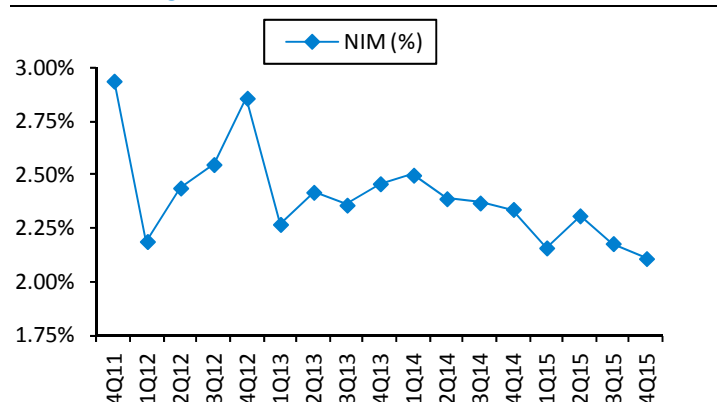
Source: Company Data, PL Research

Exhibit 3: Core fee growth remains sluggish and was led by exchange gains



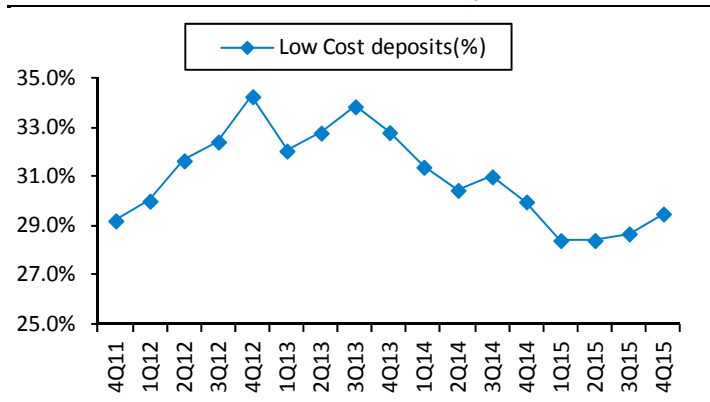
Source: Company Data, PL Research

Exhibit 4: Margins came off in both domestic & overseas business



Source: Company Data, PL Research

Exhibit 5: CASA mix was stable at ~29% of deposits



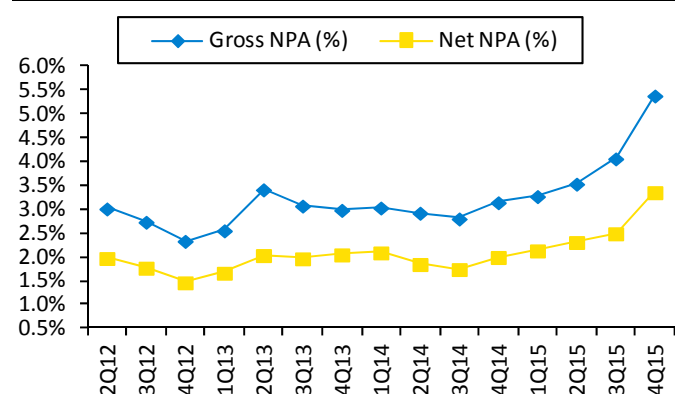
Source: Company Data, PL Research

Exhibit 6: Addition to stressed assets loans continue to rise

BOI	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Opening	94,540	98,801	100,231	118,690	125,330	141,270	166,940
Slippages	14,690	17,500	36,060	37,770	29,710	33,560	65,470
Recovery	4,260	10,010	5,680	12,030	6,130	4,430	2,880
Up gradation	4,630	1,030	370	10,340	6,100	2,060	2,690
Write off	1,200	5,000	4,551	8,760	1,550	640	340
Closing	99,140	100,231	118,690	125,330	141,260	166,940	221,932
Annualized Slippages %	1.82%	2.03%	3.9%	4.0%	3.1%	3.4%	6.5%
Net Slippages (%)	0.72%	0.75%	3.3%	1.6%	1.8%	2.7%	5.5%
Incremental Restructuring	8,553	11,463	23,940	16,310	13,850	7,690	27,430
% of Loan book	1.06%	1.32%	2.61%	1.72%	1.43%	0.76%	2.7%

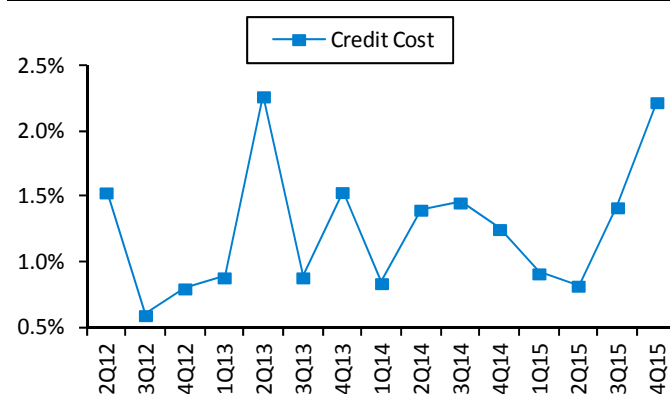
Source: Company Data, PL Research

Exhibit 7: Stress assets continues on higher slippages but partly done as prudent measure according to management



Source: Company Data, PL Research

Exhibit 8: Credit cost remains high on elevated stress loans from restructured & fresh slippages



Source: Company Data, PL Research

Exhibit 9: Details of ARC sale – NPA sale picked up with few large accounts

ARC Sale	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Total NPAs Sold	17,440	26,860	17,640	1,060	110	9,360
- URI/FITL	1,540	1,710	2,250	-	-	-
- W.off's a/c	5,680	7,180	700	880	-	770
- Existing GNPA's sold	4,280	14,090	5,800	180	10	8,590
- Current Year GNPA's sold	5,940	3,880	8,890	-	-	-
% of Gross NPAs	17.40%	22.63%	14.08%	0.75%	NA	4.22%
% of Loan book	0.74%	1.02%	0.67%	0.04%	NA	0.23%

Exhibit 10: ROAs to remain sub ~0.4% in FY16E impacted by high credit cost/opex provisions

RoA decomposition (%)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Interest income	7.14	6.95	7.74	7.62	7.39	7.29	7.20	7.14
Interest expenses	4.84	4.45	5.48	5.47	5.28	5.38	5.16	5.09
Net interest income	2.30	2.49	2.26	2.16	2.11	1.90	2.04	2.06
Treasury income	0.39	0.26	0.27	0.26	0.29	0.27	0.20	0.05
Other Inc. from operations	0.66	0.58	0.63	0.64	0.54	0.44	0.49	0.62
Total income	3.35	3.34	3.16	3.06	2.95	2.61	2.73	2.72
Employee expenses	0.92	1.11	0.83	0.75	0.78	0.84	0.78	0.74
Other operating expenses	0.55	0.51	0.51	0.53	0.53	0.52	0.62	0.61
Operating profit	1.88	1.72	1.82	1.78	1.64	1.26	1.34	1.38
Tax	0.30	0.32	0.24	0.06	0.16	0.01	0.13	0.16
Loan loss provisions	0.88	0.60	0.85	1.06	0.95	0.96	0.87	0.83
Net profit	0.70	0.79	0.73	0.66	0.53	0.29	0.34	0.39

Source: Company Data, PL Research

Exhibit 11: We cut our earnings estimate by 30% for FY15E & for FY16E each on higher credit cost assumptions and pressure on margins along with weak business outlook

(Rs m)	Old		Revised		% Change	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Net interest income	135,130	157,560	136,285	157,855	0.9	0.2
Operating profit	99,346	118,452	89,623	105,859	(9.8)	(10.6)
Net profit	32,808	43,320	22,879	30,128	(30.3)	(30.5)
ABVPS (Rs)	295.2	374.0	241.6	330.0	(18.2)	(11.7)
EPS (Rs)	51.0	67.4	34.4	45.3	(32.6)	(32.8)
Price target (Rs)	285		235		(17.5)	
Recommendation	BUY		BUY			

Source: Company Data, PL Research

Exhibit 12: Our PT of Rs235 is based upon 0.7x FY17E ABV (1.0x adjusting to 20% slippage from restructured)

PT calculation and upside	
Fair price - EVA	243
Fair price - P/ABV	227
Average of the two	235
Target P/ABV	0.7
Target P/ABV adj for 20% slippages from restr. assets	1.0
Target P/E	5.2
Current price, Rs	191
Upside (%)	23%
Dividend yield (%)	3%
Total return (%)	26%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2014	2015	2016E	2017E
Int. Earned from Adv.	271,193	316,782	338,356	372,643
Int. Earned from Inv.	84,050	93,999	115,894	150,839
Others	23,859	23,518	26,459	25,024
Total Interest Income	379,101	434,299	480,708	548,507
Interest expense	270,796	320,861	344,423	390,652
NII	108,305	113,438	136,285	157,855
Growth (%)	20.0	4.7	20.1	15.8
Treasury Income	7,956	9,310	3,686	3,686
NTNII	34,962	33,016	42,660	47,666
Non Interest Income	42,918	42,326	46,346	51,352
Total Income	422,019	476,625	527,055	599,859
Growth (%)	18.3	12.9	10.6	13.8
Operating Expense	66,995	80,886	93,009	103,348
Operating Profit	84,229	74,877	89,623	105,859
Growth (%)	12.9	(11.1)	19.7	18.1
NPA Provisions	39,704	53,050	52,540	55,896
Investment Provisions	726	(490)	(392)	(314)
Total Provisions	48,779	56,932	57,846	63,721
PBT	35,451	17,945	31,777	42,138
Tax Provisions	8,158	861	8,898	12,009
Effective Tax Rate (%)	23.0	4.8	28.0	28.5
PAT	27,293	17,084	22,879	30,128
Growth (%)	(0.7)	(37.4)	33.9	31.7

Balance Sheet (Rs m)

Y/e March	2014	2015	2016E	2017E
Par Value	10	10	10	10
No. of equity shares	643	666	666	666
Equity	6,430	6,657	6,657	6,657
Networth	299,231	314,267	330,993	355,716
Adj. Networth	225,059	179,253	198,265	257,102
Deposits	4,769,741	5,319,066	5,967,992	6,749,799
Growth (%)	24.9	11.5	12.2	13.1
Low Cost deposits	1,094,385	1,292,533	1,533,774	1,815,696
% of total deposits	22.9	24.3	25.7	26.9
Total Liabilities	5,731,902	6,186,778	7,172,554	8,183,625
Net Advances	3,707,335	4,020,256	4,386,099	4,929,975
Growth (%)	28.1	8.4	9.1	12.4
Investments	1,141,524	1,197,720	1,821,592	2,159,178
Total Assets	5,731,902	6,111,974	7,172,554	8,183,625

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Interest Income	103,043	110,931	108,678	111,648
Interest Expense	76,178	80,623	80,876	83,185
Net Interest Income	26,865	30,307	27,802	28,463
Non Interest Income	10,245	10,064	10,797	11,222
CEB	4,270	3,970	3,780	4,080
Treasury	2,430	1,530	3,200	2,150
Net Total Income	37,110	40,371	38,599	39,684
Operating Expenses	16,507	19,016	19,945	25,419
Employee Expenses	10,726	11,348	12,882	14,903
Other Expenses	5,781	7,668	7,063	10,516
Operating Profit	20,603	21,355	18,654	14,266
Core Operating Profit	18,173	19,825	15,454	12,116
Provisions	8,931	9,634	15,807	22,555
Loan loss provisions	8,570	7,920	14,160	22,400
Investment Depreciation	—	—	—	—
Profit before tax	11,672	11,721	2,847	(8,289)
Tax	3,615	3,861	1,113	(7,728)
PAT before EO	8,057	7,860	1,734	(561)
Extraordinary item	—	—	—	—
PAT	8,057	7,860	1,734	(561)

Key Ratios

Y/e March	2014	2015	2016E	2017E
CMP (Rs)	192	192	192	192
Equity Shrs. Os. (m)	643	666	666	666
Market Cap (Rs m)	123,360	127,705	127,705	127,705
M/Cap to AUM (%)	2.2	2.1	1.8	1.6
EPS (Rs)	44.0	26.1	34.4	45.3
Book Value (Rs)	407	416	441	478
Adj. BV (100%) (Rs)	292	213	242	330
P/E (x)	4.4	7.3	5.6	4.2
P/BV (x)	0.5	0.5	0.4	0.4
P/ABV (x)	0.7	0.9	0.8	0.6
DPS (Rs)	5.8	4.9	6.0	7.0
Dividend Yield (%)	3.0	2.6	3.1	3.6

Profitability (%)

Y/e March	2014	2015	2016E	2017E
NIM	2.1	1.9	2.1	2.1
RoAA	0.5	0.3	0.3	0.4
RoAE	10.1	5.6	7.1	8.8

Efficiency

Y/e March	2014	2015	2016E	2017E
Cost-Income Ratio (%)	44.3	51.9	50.9	49.4
C-D Ratio (%)	77.7	75.6	73.5	73.0
Business per Emp. (Rs m)	196	188	181	178
Profit per Emp. (Rs lacs)	6.3	3.4	4.0	4.6
Business per Branch (Rs m)	1,803	1,806	12,181	11,680
Profit per Branch (Rs m)	6	3	27	30

Asset Quality

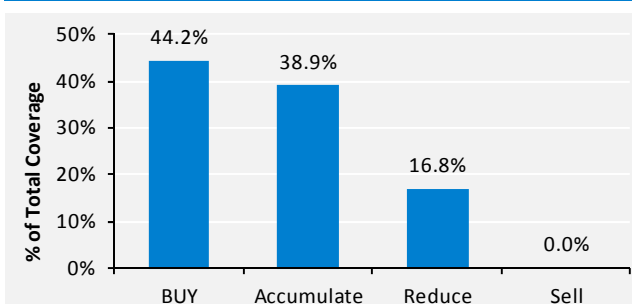
Y/e March	2014	2015	2016E	2017E
Gross NPAs (Rs m)	118,686	221,926	244,288	227,002
Net NPAs (Rs m)	74,172	135,015	132,727	98,614
Gr. NPAs to Gross Adv. (%)	3.2	5.5	5.6	4.6
Net NPAs to Net Adv. (%)	2.0	3.4	3.0	2.0
NPA Coverage (%)	37.5	39.2	45.7	56.6

Source: Company Data, PL Research.

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Reduce	: Underperformance to Sensex over 12-months
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Trading Buy	: Over 10% absolute upside in 1-month
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