

Retail Equity Research Bank of India

Banking

BSE CODE: 532149

NSE CODE: BANKINDIA

Bloomberg CODE: BOI:IN

SENSEX: 37,060

REDUCE

12M Investment period

Rating as per Mid cap

CMP Rs. 65

TARGET Rs. 63

RETURN -3%

(Closing: 21-08-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↔

Margins under pressure

BOI is one of the largest Indian banks with strong domestic presence spanning 5,090 branches. The bank also has a significant international presence with a network of 25 branches across 22 countries.

- Loans and advances grew moderately at 1.6% YoY in Q1FY20, as de-growth in International market has offset strong growth in retail sector.
- Pre-provision profit up by 21.5% YoY to Rs. 2,271 Cr in Q1FY20 but declined 1.4% QoQ
- Net interest margin (NIM) decreased 26bps QoQ, owing to increase in cost of funds and lower yield on advances
- GNPA/NNPA ratio stood at 16.5%/5.8% in Q1FY20 (vs. 15.8%/5.6% in Q4FY19), respectively.
- We value the stock at 0.25x on FY20E BVPS of Rs. 252 with a target price of Rs. 63 and maintain our REDUCE rating on the stock.

Flat business performance

Growth in the loan book remained flat at 1.6% YoY in Q1FY20, with retail loans up 15.9% YoY to Rs 56,897 Cr while the share of retail loans to domestic loans has reached 17.6%. Deposits also remained weak and witnessed de-growth of 0.5% YoY in the current quarter mainly driven by reduction in bulk deposits. CASA has increased by 6.0% YoY to Rs. 1,80,187 Cr in Q1FY20. Saving account deposits has increased by 7.6% YoY, whereas current account deposits has decreased by 2.9% YoY in Q1FY20.

Subdued operating performance

In Q1FY20, NIM decreased by 26bps QoQ to 2.7% (up 18bps YoY), as yield on advances declined 36bps QoQ to 8.3% while cost of funds increased 6bps QoQ to 4.6%. Net interest income and Non-interest income grew by 3.9% and 43.9% YoY (-13.8% and -25.5% QoQ) to Rs. 3,485 cr. and Rs. 1,195 cr. respectively. Cost-to-income ratio improved from 52.9% in Q1FY19 to 51.5% in Q1FY20. Pre-provision profit and net income increased 21.5% and 155.1% YoY, respectively.

Key highlights

- Plan to bring down Gross NPA to Rs. 56,000 cr. by Q4FY20, Net NPA% to be contained below 6%
- Bank will continue its effort for optimization of Risk Weighted Assets and plans for augmenting capital base by around Rs. 3,500 cr.

Deteriorating asset quality

The company's GNPA reached Rs. 62,068 cr., and GNPA ratio deteriorated slightly in Q1FY20 (+66bps QoQ to 16.5%). NNPA ratio also witnessed similar weakness (+18bps QoQ to 5.8%). Capital adequacy ratio increased to 14.4% in Q1FY20 versus 11.4% in Q1FY19 and 14.2% in Q4FY19. Provision coverage ratio remained flat on QoQ basis, while it increased by 1,051bps YoY to 77.2% in Q1FY20.

Outlook & Valuation

Considering weak business and operating performance, and deteriorating asset quality, we maintain our REDUCE rating on the stock with a revised target price of Rs. 63 based on 0.25x FY20E BVPS.

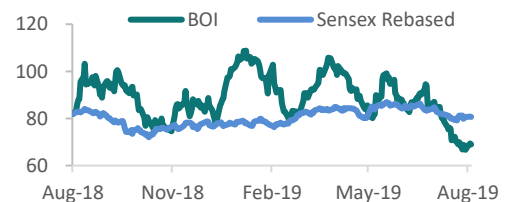
Company Data

Market Cap (cr)	Rs. 21,316
Outstanding Shares (cr)	315.1
Free Float	16.0%
Dividend Yield	0.0%
52 week high	Rs. 110
52 week low	Rs. 64
6m average volume (cr)	0.9
Beta	1.8
Face value	Rs. 10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	83.1	87.1	89.1
FIIIs	1.1	0.7	0.5
MFs/Insti	11.6	7.3	6.1
Public	3.3	2.1	3.8
Others	0.9	2.8	0.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-23.0%	-17.1%	-27.8%
Absolute Sensex	-5.1%	4.4%	-2.5%
Relative Return*	-17.9%	-21.5%	-25.3%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY19A	FY20E	FY21E
Net Interest Income	13,658	15,037	18,410
Growth (%)	30.0	10.1	22.4
NIM (%)	2.8	2.9	3.3
Pre-Provision Profit	8,092	7,742	9,511
Net Profit	(5,547)	534	1,133
Growth (%)	-8.2	-109.6	112.1
Adj. EPS	-29.8	2.9	6.1
Growth (%)	-43.3	-109.6	112.1
BVPS	248.8	251.6	257.7
P/E	-	23.2	10.9
P/B	0.4	0.3	0.3
P/ABV	0.4	0.3	0.3
ROE (%)	-13.6	1.1	2.4
ROA (%)	-0.9	0.1	0.2

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs. cr)	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Interest Income	10,332	10,013	3.2	10,814	(4.5)
Interest Expense	6,847	6,659	2.8	6,770	1.1
Net Interest Income (NII)	3,485	3,354	3.9	4,044	(13.8)
Non-Interest Income	1,195	830	43.9	1,603	(25.5)
Total Net Income	4,680	4,184	11.8	5,647	(17.1)
Total Income	11,527	10,843	6.3	12,417	(7.2)
Operating Expenses	2,409	2,315	4.0	3,344	(28.0)
Total Expenditure	9,256	8,974	3.1	10,114	(8.5)
Pre-Provision profit	2,271	1,869	21.5	2,303	(1.4)
Provisions	1,912	2,564	(25.4)	1,897	0.8
Profit Before Tax	359	(695)	n.m.	406	(11.4)
Tax	117	(790)	n.m.	154	(24.2)
Net Profit	243	95	155.1	252	(3.6)
EPS (Rs.)	0.8	0.6	40.0	1.1	(31.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	39,291	38,071	40,768	42,958	48,549
Interest Expense	27,465	27,565	27,110	27,922	30,139
Net Int. Income	11,826	10,506	13,658	15,037	18,410
% Change	0.9	(11.2)	30.0	10.1	22.4
Non-Int. Income	6,772	5,734	5,132	4,593	4,318
Net Income	18,598	16,240	18,790	19,630	22,728
Total Income	46,063	43,805	45,900	47,552	52,867
Operating Exp.	8,866	9,101	10,697	11,888	13,217
Total Exp.	36,331	36,666	37,808	39,810	43,356
Pre-Prov. Profit	9,733	7,139	8,092	7,742	9,511
Provisions	12,105	15,772	16,806	7,000	8,000
PBT	(2,373)	(8,633)	(8,713)	742	1,511
Tax	(814)	(2,590)	(3,167)	208	378
Tax Rate (%)	34.3	30.0	36.3	28.0	25.0
Net Profit	(1,558)	(6,044)	(5,547)	534	1,133
% Change	(74.4)	287.8	(8.2)	n.m	112.1
No. of Shares (cr)	99	115	186	186	186
Adj. EPS (Rs)	(15.7)	(52.5)	(29.8)	2.9	6.1
% Change	(81.1)	234.3	(43.3)	n.m	112.1
DPS (Rs)	-	-	-	-	-

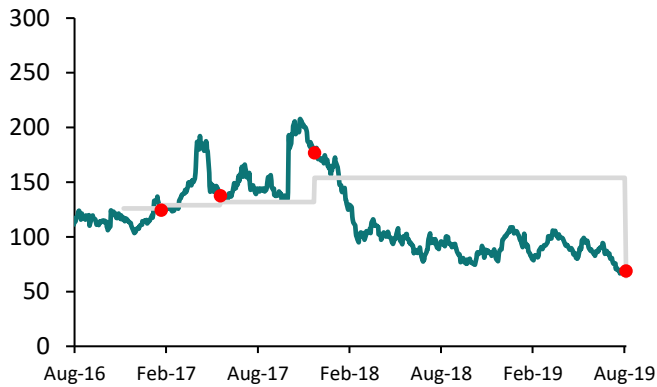
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	95,888	95,883	94,811	107,307	122,421
Investments	127,827	137,111	147,639	158,975	171,182
Advances	366,482	341,380	341,006	375,107	412,617
Fixed Assets	8,462	8,265	8,920	9,098	9,280
Other Assets	27,651	26,936	32,846	33,503	34,173
Total Assets	626,309	609,575	625,223	683,990	749,674
Capital	1,055	1,744	2,760	2,760	2,760
Reserves & Surplus	31,432	33,797	43,559	44,093	45,227
Deposits	540,032	520,854	520,862	578,157	641,755
Borrowings	39,406	43,589	44,241	44,903	45,575
Other Liabilities	14,385	9,591	13,800	14,076	14,358
Total Liabilities	626,309	609,575	625,223	683,990	749,674
BVPS (Rs)	327.7	309.0	248.8	251.6	257.7
% Change	(25.6)	(5.7)	(19.5)	1.2	2.4

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	-	-	-	23.2	10.9
P/BV (x)	0.4	0.3	0.4	0.3	0.3
Div. Yield (%)	-	-	-	-	-
Profitab. & Return (%)					
Yield on Advances	7.5	7.1	8.0	8.1	8.2
Cost of Deposits	4.8	4.8	4.8	4.7	4.6
Spread	2.7	2.3	3.2	3.4	3.6
NIM	2.4	2.2	2.8	2.9	3.3
ROE	(4.8)	(17.8)	(13.6)	1.1	2.4
ROA	(0.3)	(1.0)	(0.9)	0.1	0.2
Capital Adequacy (%)					
CAR	12.1	12.9	14.2	13.1	12.3
Tier I	8.9	9.7	11.1	10.3	9.7
Tier II	3.2	3.2	3.1	2.8	2.6
Asset Quality (%)					
GNPA	14.2	18.3	17.8	16.0	16.2
NNPA	6.9	8.3	5.6	6.0	6.2
Operating Ratios (%)					
Credit/Deposit	67.9	65.5	65.5	64.9	64.3
Cost/Income	78.9	83.7	82.4	83.7	82.0
CASA	30.9	33.2	34.9	41.5	42.7

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
3-Dec-16	HOLD	126
17-Feb-17	HOLD	129
13-Jun-17	REDUCE	132
15-Dec-17	REDUCE	154
22-Aug-19	REDUCE	63

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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