

Shubh Nivesh



CMP: ₹ 93

Target: ₹ 117 (26%)

Target Period: 6-12 months

Sep 11, 2023

BUY (HIGH CONVICTION IDEA)

Gradual revival in growth & RoA; recovery to as catalyst...

About the stock: Bank of India is a public sector bank with government's ownership at 81.4%, engaged in lending across segments with focus on improving financial inclusion.

- Pan India presence with 5,131 domestic branches and substantial exposure in rural & semi urban region
- As of June 2023, banks gross advances stood at ~₹5.2 lakh crore, with international exposure at ~16%. Domestic book remains diversified with Corp/ MSME/ retail segment contributing 45%/ 16%/ 22% of domestic advances.

Investment Rationale:

- Healthy business growth with focus on margins:** Bank of India has reported healthy revival in credit growth in FY22-23; in-line with industry. Focus on improving granularity of advances has led to rise in proportion of non-corporate loans from 51.6% in FY21 to ~55% in Q1FY24. Going ahead, bank targets advance growth of 11-12% in FY24-25E with continued focus on retail/ MSME segment, while opening of new mid-corporate branches & pipeline of ₹40,000 crore in corporate sanctions is seen to aid traction in corporate segment.
- GNPA to decline further; recovery from stressed exposure to aid earnings:** Asset quality has been on improving trend with GNPA declining from 14.8% in FY20 to 6.7% in Q1FY24. Steady slippages (₹8,000 crore in FY24E) & healthy upgrades/recoveries (₹12,000 crore in FY24E) coupled with write-offs is expected to result in further decline in GNPA and keep credit cost benign at 60-70 bps. Increased focus on recovery from stressed assets through opening of 18 ARBs and shifting of NPA account (₹50 lakh & above) to these ARBs remains a catalyst for higher traction in other income and thereby earnings. Additional provision requirement, on implementation of ECL guidelines, is ascertained at ₹10,000 crore.
- Focus to keep margins steady; moderation in credit cost to aid RoA:** Moderation in slippages and increase in interest rates has led to improvement in NIM from 2.55% in Q1FY22 to 3.03% in Q1FY24 (~3.23% excluding income tax refund). Focus on retail & MSME segment, repricing of MCLR based advances (53% of loans) is expected to aid yields, while healthy liabilities with ~88% from retail deposits, huge customer base of ~11 crore is seen to enable accretion of liabilities at competitive cost thereby keeping NIM steady at ~3%. Operational performance is expected to remain steady with recovery from stressed exposure seen to offset anticipated lower treasury income and efficiency improvement (hired a CTO & undertaken digital spends of ₹800 crore) is expected to limit impact of wage provision, thus aiding earnings and return ratios.

Rating and Target Price

- Continued healthy business growth, steady margins and moderation in credit cost is seen to aid gradual improvement in RoA at 0.8% in FY25E. Recovery from stressed and written off exposure to provide boost to earnings and thus act as re-rating catalyst
- At CMP, the stock is trading 0.6x FY25E ABV which seems relatively lower. Assigning a multiple of ~0.8x FY25E ABV, we ascribe target of ₹ 117 per share and a **BUY** rating

Key Financial Summary

₹crore	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25)
NII	13658.0	15257.0	14269.0	14062.0	20275.0	74.4%	22377.6	24819.0	10.6%
PPP	8093.0	11519.0	10272.0	9989.0	13393.0	68.5%	14922.9	16842.0	12.1%
PAT	-5546.0	-2956.0	2160.0	3405.0	4023.0	NA	6084.5	7384.7	35.5%
BV	167.8	133.7	148.5	117.4	126.9		138.89	153.46	
P/E	-46.3	-103.1	141.1	112.1	94.9		62.7	51.7	
P/ABV	0.6	0.7	0.6	0.8	0.7		0.7	0.6	
RoA	-24.6	-0.4	0.3	0.4	0.5		0.7	0.8	
RoE	-0.8	-12.4	8.8	10.6	10.3		9.5	10.6	

Source: Company, ICICI Direct Research



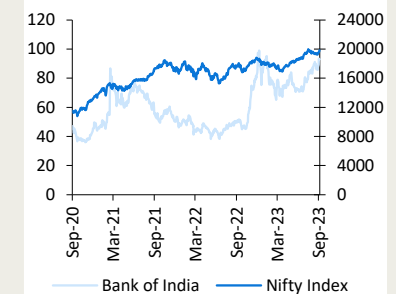
Particulars

Particulars	Amount
Market Capitalisation	38,163
52 week H/L	104/45.8
Net Worth	58,971
Face Value	10.00
DII Holding (%)	9.90
FII Holding (%)	2.25

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	81.4	81.4	81.4	81.4	81.4
FII	0.8	1.1	2.2	2.7	2.3
DII	11.1	10.8	10.6	10.4	9.9
Others	6.7	6.6	5.8	5.6	6.4

Price Chart



Recent Event & Key risks

- Strong earnings momentum led by robust margins & moderation in provisions
- Key Risk:** (i) Accretion of liabilities at competitive cost, (ii) Lower recovery could impact earnings growth

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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