

## BANKING: Quarterly Update

The current economic downturn is proving to be a testing time for banks, with asset quality concerns does not seem to subside soon. The impaired asset (net slippage + fresh restructured asset) of the bank remained elevated at 1.2% during Q1FY14. The outstanding impaired asset (net NPA + Standard restructured loan) increased to 8.14% from 7.15% in Q4FY13. Moderation in balance sheet growth along with decline in margin has decelerated the core earnings momentum. Moreover rising delinquencies and have depressed the coverage ratio sequentially by 4.6% to 63.64%.

### Key highlights

- NII growth (+3.3% YoY) was subdued on account of NIM compression and moderation in advances growth. NIMs declined by 10 bps QoQ to 2.41% with domestic NIMs witnessing a compression of 9 bps QoQ to 2.84%. The decline in sequential NIMs is attributable to decline in lending rate owing to base rate. The management has guided for domestic NIM of +3% over FY13-14E driven by improvement in domestic CD ratio which currently stands at 66%.
- Advances grew by 12.4% YoY with a sharp deceleration in domestic advances growth of 10% YoY whereas overseas advance witnessed growth of 18% YoY owing to rupee depreciation. Total Deposits grew by 22% YoY driven by a 36% YoY growth in overseas deposits owing to rupee depreciation. Domestic CASA stood at 31.2% (+80 bps QoQ).
- The YTM of AFS book stands at 8.1% allaying some concern pertaining to MTM in Q2 given the rise in yields.
- Non-interest income witnessed a sharp growth (59% YoY) driven by forex and treasury gains. Recovery from PWO accounts too remained strong at Rs1.2bn.
- Operating profit increased by 9% YoY as bank made provision of Rs0.75bn towards wage revision & Rs1bn (recurring in subsequent quarters) towards change in mortality assumption for pension calculation.
- Provisions increased by 14% YoY to Rs 10.2 bn due to MTM on investment book (equity portion) and high standard provision for restructured asset (bank made entire accelerated provision on outstanding restructured book as required under new RBI guideline). PCR declined by 2.6% QoQ to 68.24%.
- Slippages remained high at Rs 22 bn (Rs1.25bn from foreign operations), translating to high GNPA's QoQ to 3% (+50bps QoQ). Accordingly net NPA increased by 41bps QoQ to 1.7%, thus declining the PCR. The bank restructured assets worth Rs 20 bn (Rs28bn in Q4) taking the outstanding standard restructured book to Rs 207bn.

### Outlook and Valuation

Business condition is unlikely to witness any improvement in near term translating to negative impact on core earnings growth. The management has indicated that current trend in slippages to continue in Q2FY14 and then reverse in subsequent quarters. However the restructuring pipeline remains high at Rs25bn. Domestic NIMs have been on a downward trajectory since Q3FY12. Going forward, we expect the domestic NIMs to improve on the back of improvement in CD ratio. However, given favorable valuations, we retain our Buy rating on the stock with a PT of Rs 700 (0.8x FY15E Adj BV).

## BUY

BOB IN | CMP RS 515

TARGET RS 700 (+36%)

### Company Data

O/S SHARES (MN) :	421
MARKET CAP (RSBN) :	236
MARKET CAP (USDBN) :	3.9
52 - WK HI/LO (RS) :	900 / 530
LIQUIDITY 3M (USDMN) :	13.3
FACE VALUE (RS) :	10

### Share Holding Pattern, %

PROMOTERS :	55.4
FII / NRI :	17.2
FI / MF :	17.8
NON PROMOTER CORP. HOLDINGS :	4.7
PUBLIC & OTHERS :	5.0

### Price Performance, %

	1mth	3mth	1yr
ABS	-1.9	-19.4	-14.2
REL TO BSE	-1.8	-18.7	-26.5

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY13	FY14E	FY15E
Pre-prov ROE (%)	31.9	30.7	30.4
Pre-prov ROA (%)	1.9	1.8	1.7
Net Profit	44,807	49,636	58,856
% growth	-10.5	10.8	18.6
EPS (Rs)	106.0	117.5	139.3
Adj BVPS (Rs)	657.5	746.2	841.3
ROE (%)	16.0	15.5	16.0
P/E (x)	4.9	4.4	3.7
Adj P/BV (x)	0.8	0.7	0.6

Source: PhillipCapital India Research Est.

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**Result Update**

(Rs mn)	Q1FY14	Q1FY13	YoY Gwth
Interest earned	94,869	85,576	10.9
Interest expended	65,978	57,595	14.6
Net interest income	28,891	27,981	3.3
Net interest margins	2.41	2.73	-0.3
Non interest income	12,306	7,708	59.6
Total Income	41,197	35,689	15.4
Total operating expenses	16,680	13,157	26.8
Payroll costs	10,140	7,610	33.2
Others	6,541	5,547	17.9
Pre-provision Profit	24,516	22,532	8.8
Provisions & Contingencies	10179	8938	13.9
% Operating income	41.5	39.7	
PBT	14,338	13,594	5.5
Provision for Taxes	2,503	2,081	20.3
% of PBT	17.5	15.3	
Exceptional item	156	124	25.0
Net Profit	11,679	11,389	2.5
Equity	4,124	3,928	5.0
EPS, Rs	28.3	29.0	-2.3
Advances	3,213,140	2,858,132	12.4
Deposits	4,670,257	3,827,386	22.0
Advances / Deposits (%)	68.8	74.7	-5.9
Gross NPAs	97626	53194	83.5
Gross NPAs (%)	3.0	1.8	1.2
Net NPAs	54407	18445	195.0
Net NPAs (%)	1.7	0.7	1.0
CAR – Total	12.5	13.7	-1.3

Source: Company, PhillipCapital India Research; Exceptional item: Merger loss of Memon co-operative bank

## Financials

### Income Statement

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Interest on Loans	223,694	258,671	289,711	327,373
Interest on Investments	61,847	74,834	86,059	96,386
Others	11,196	18,462	20,308	22,339
Total Interest Earned	296,737	351,967	396,078	446,099
Total Interest Expended	193,567	238,814	268,888	297,624
<b>Net Interest Income</b>	<b>103,170</b>	<b>113,153</b>	<b>127,190</b>	<b>148,475</b>
<b>Total non interest income</b>	<b>34,223</b>	<b>36,306</b>	<b>40,001</b>	<b>40,331</b>
<b>Total Income</b>	<b>137,393</b>	<b>149,459</b>	<b>167,191</b>	<b>188,806</b>
Personnel Expenses	29,856	34,497	39,671	45,622
Other Expenses	21,234	24,225	27,402	31,023
<b>Total Op expenses</b>	<b>51,090</b>	<b>58,721</b>	<b>67,073</b>	<b>76,645</b>
<b>Net Inc (Loss) before prov</b>	<b>86,304</b>	<b>90,738</b>	<b>100,118</b>	<b>112,162</b>
Provision and contingencies	25,548	41,679	26,126	26,629
<b>Net Inc (Loss) before tax</b>	<b>60,755</b>	<b>49,059</b>	<b>73,992</b>	<b>85,533</b>
Provision for Income Tax	10,188	3,505	18,498	21,383
<b>Net Profit</b>	<b>50,070</b>	<b>44,807</b>	<b>54,748</b>	<b>64,150</b>

### Balance Sheet

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
<b>Assets</b>				
Cash & Bal with RBI	641,685	853,989	754,835	797,912
Loans, Adv & Int accrued	2,873,773	3,281,858	3,835,275	4,487,272
Investments	867,253	1,254,722	1,322,863	1,502,645
Fixed Assets (Net)	23,415	24,531	25,758	27,046
Other assets	67,088	56,255	59,067	62,021
<b>Total Assets</b>	<b>4,473,215</b>	<b>5,471,354</b>	<b>5,997,798</b>	<b>6,876,904</b>
<b>Liabilities</b>				
Share capital	4,124	4,225	4,225	4,225
Reserves and Surplus	258,910	304,427	347,310	398,113
Hybrid Capital	19,117	20,617	22,679	24,947
Debt	74,900	80,900	84,945	89,192
Borrowing	141,714	164,276	180,703	198,774
Total Deposits	3,876,770	4,753,887	5,278,563	6,034,586
Other liab incld prov	85,945	131,980	69,086	117,505
<b>Total Liabilities</b>	<b>4,473,215</b>	<b>5,471,354</b>	<b>5,997,798</b>	<b>6,876,904</b>

Source: Company, PhillipCapital India Research

### Valuation Ratios

	FY12	FY13E	FY14E	FY15E
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	37.5	31.7	30.3	29.8
RoAE (%)	22.0	15.9	16.8	17.0
Pre-provision Operating ROA (%)	2.1	1.8	1.7	1.7
RoAB (%)	1.3	0.9	1.0	1.0
EPS (Rs.)	121.4	106.0	129.6	151.8
Dividend per share (Rs.)	17.0	21.5	24.0	27.0
Book Value (Rs.)	666.3	756.6	856.3	974.9
Adj BV (Rs.)	611.6	661.1	761.9	869.5

### Revenue Analysis

Interest income on IBA (%)	7.5	7.2	7.0	7.0
Interest cost on IBL (%)	5.2	5.2	5.1	5.0
NIM on IBA / AWF (%)	2.6	2.3	2.3	2.3
Core fee Inc / AWF (%)	0.5	0.4	0.4	0.4
Portfolio gains / Total Inc (%)	4.6	4.3	5.0	3.6
Op.Exp / TI (%)	38.9	41.0	42.1	42.0
Op.Exp / AWF (%)	1.3	1.2	1.2	1.2
Employee exps / Op exps (%)	58.4	58.7	59.1	59.5
Tax / Pre-tax earnings (%)	16.8	7.1	25.0	25.0

### Asset Quality

GNPAs / Gr Adv (%)	1.6	2.4	2.1	2.1
NNPAs / Net Adv (%)	0.5	1.3	1.1	1.1

### Growth Ratio

Loans (%)	25.7	14.2	16.9	17.0
Investments (%)	17.7	44.7	5.4	13.6
Deposits (%)	26.0	22.6	11.0	14.3
Networth (%)	30.9	16.3	13.2	13.8
Net Int Income (%)	17.2	9.7	12.4	16.7
Non-fund based income (%)	19.0	7.0	6.2	5.7
Non-Int Exp (%)	10.3	14.9	14.2	14.3
Profit Before Tax (%)	7.5	(19.3)	50.8	15.6
Net profit (%)	18.0	(10.5)	22.2	17.2

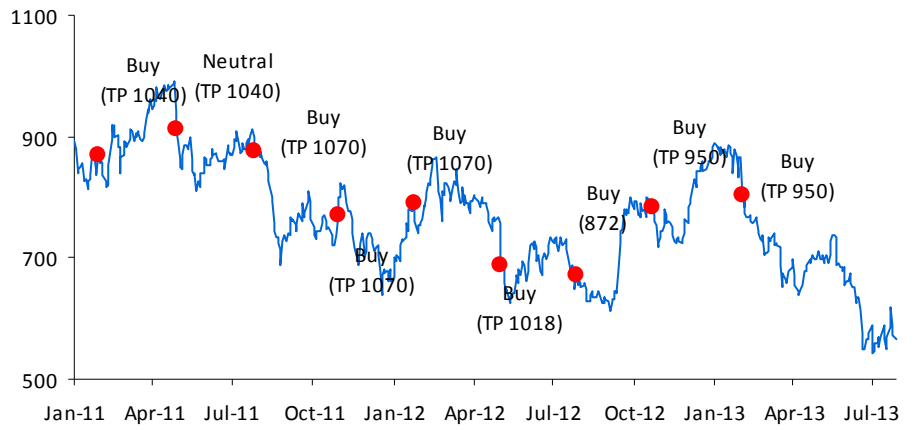
### Asset / Liability Profile

Avg CASA/ Deposits (%)	27.5	25.9	25.6	26.1
Avg Adv / Avg Dep (%)	73.1	69.9	69.3	72.0
Avg Invst / Avg Dep (%)	23.1	24.6	25.7	25.0
Incr Adv / Deposits (%)	73.3	46.5	105.5	86.2
Avg Cash / Avg Dep (%)	16.4	17.3	16.0	13.7

### Capital Adequacy Ratio:

Tier I (%)	14.7	13.3	13.2	13.0
Tier I (%)	10.8	10.1	10.7	10.7
Internal Capital Generation rate (%)	21.8	13.6	14.5	15.0
NNPAs to Equity (%)	5.6	13.1	11.7	12.1

### Recommendation History



Source: PhillipCapital India Research

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