



# Pick of the Week

## Bank of India

Feb 24, 2025



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – PSU Bank	Rs 102	Buy in Rs 101-103 band & add on dips in Rs 90-92 band	Rs 113	Rs 126	2-3 quarters

HDFC Scrip Code	BANINDEQNR
BSE Code	532149
NSE Code	BANKINDIA
Bloomberg	BOI IN
CMP Feb 22, 2025	101.5
Equity Capital (Rs Cr)	4552.7
Face Value (Rs)	10
Equity Share O/S (Cr)	455.3
Market Cap (Rs Cr)	46214
Adj. Book Value (Rs)	136.1
Avg. 52 Wk Volumes	1,13,84,000
52 Week High	158.0
52 Week Low	90.1

Share holding Pattern % (Dec 2024)	
Promoters	73.4
Institutions	19.3
Non Institutions	7.3
Total	100.0



For details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Bank of India (BoI) has made a rapid growth over the last few years after coming out of RBI's PCA required list in FY19 and strengthened into a mighty institution. It is the 6<sup>th</sup> largest PSU bank and has a national presence with sizable international operations. In business volume, the Bank occupies a premier position among the nationalized banks having a total business of over Rs 14 lakh crore.

BoI has strengthened its capital position on the back of the declining net stressed assets level. The bank's overall potential stress book, comprising the overdue and restructured book, has declined gradually from the higher level during the Covid-19 pandemic. It has also shown its ability to raise capital by successfully completing a QIP of Rs 4500cr in Q3FY24. Sovereign ownership of the bank provides further comfort. The Bank is increasingly focusing on retailization with retail loans growing at 21.2% YoY in Q3FY25 against overall growth of 16.7% in advances. RAM (Retail, Agriculture, MSME) advances now comprise 57% of the total loan book as compared to 47% in FY20.

### Valuation & Recommendation:

Minimal exposure to unsecured retail lending (~2% of loan book) insulates the bank from recent sector headwinds. Management has guided for 70 bps credit cost and 51% cost-to-income ratio. Strong corporate demand, particularly in infrastructure, coupled with projected NIMs of 2.7% positions the bank for enhanced earnings and returns.

The bank's robust PCR of 92% for NCLT-admitted stressed assets sets the stage for improved profitability through gradual resolutions. Reduced provisioning requirement is likely to aid profitability and return ratios. The RoA of the bank is expected to improve to 1.1% by FY27 from 0.7% in FY24. We feel that investors can buy the stock in the band of Rs 101-103 and add on dips in Rs 90-92 band (0.5x FY27E ABV) for base case fair value of Rs 113 (0.63x FY27E ABV) and bull case fair value of Rs 126 (0.7x FY27E ABV) over the next 2-3 quarters.

### Financial Summary:

Particulars (Rs cr)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Interest Income	6070	5463	11.1	5985	1.4	23053	25034	28272	32349
PPoP	3703	3004	23.3	4147	-10.7	14069	15684	17728	20973
APAT	2517	1870	34.6	2374	6.0	6318	9200	10910	13212
Diluted EPS (Rs)	5.5	4.1	34.6	5.2	6.0	13.9	20.2	24.0	29.0
P/E (x)						7.3	5.0	4.2	3.5
P/ABV (x)						0.8	0.7	0.6	0.6
RoAA (%)						0.7	0.9	1.0	1.1

### Q3Y25 Result Update

BoI reported strong growth of 35% in PAT aided by better net interest income (NII) and gains from treasury operations. NII expanded 11% YoY to Rs 6,070 crore in Q3FY25 on back of increasing yield and strong growth in advances. However, overall NIM moderated by 5/2 bps YoY/QoQ to 2.80% on higher cost of deposits. Oper profit rose 23% to Rs 3703cr driven by treasury gains on revaluation of investments.

GNPA/NNPA improved to 3.69%/0.85% (Q2FY25: 4.41%/0.94%), as fresh slippages moderated while there was sharp reduction in written off accounts due to resolutions. Fresh slippages reduced significantly to Rs 1105cr from Rs 2546cr in Q2FY25. Credit costs stood at 0.39% against 0.97% in the previous quarter. The Management maintained its guidance of 0.7% for credit costs for FY25.

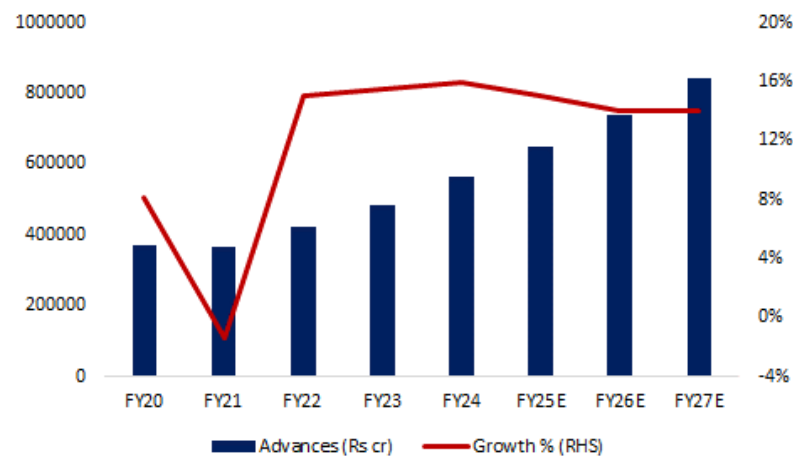
Management has projected domestic credit growth of 14-15% and deposit growth of 13-14% for FY25. Cost to Income ratio expected to stabilize around 51% despite an increase to 52.63% in Q3FY25. It has expressed confidence in achieving guidance and improving operational efficiencies through technology and digital transformation initiatives.

### Key Triggers

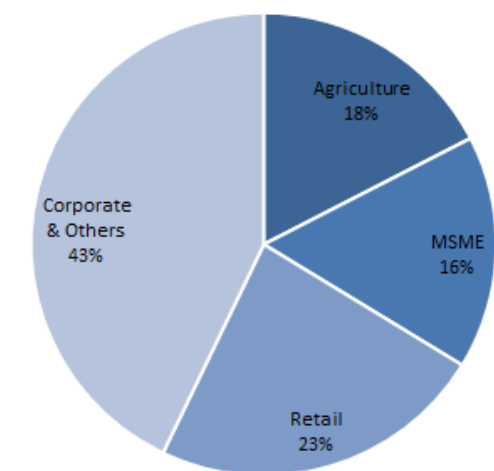
#### Credit growth to remain strong

BoI has a strong disbursement pipeline with sanction of ~Rs 70000cr in Retail as well as Corporate book. The share of retail loans is gradually increasing and accounts for 57% of the total loan book. Sanctions include Rs 15000cr of infrastructure projects, renewable energy projects, warehouses and data centers. The management is confident of strong credit growth and has guided for 14-15% in FY25.

Advance growth



Composition of Advances



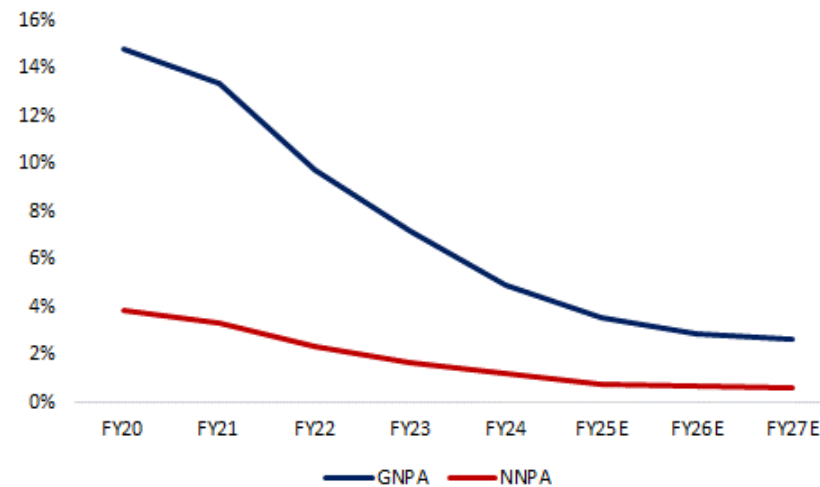
Source: Company, HDFCsec

Over the last few years, the government has already taken multiple steps to improve credit availability to small borrowers, including announcing a new credit model in the Budget to lend to borrowers with no previous financial records. Financial Services Secretary M Nagaraju announced public sector banks will launch new products in the coming months to boost credit growth, particularly for MSMEs.

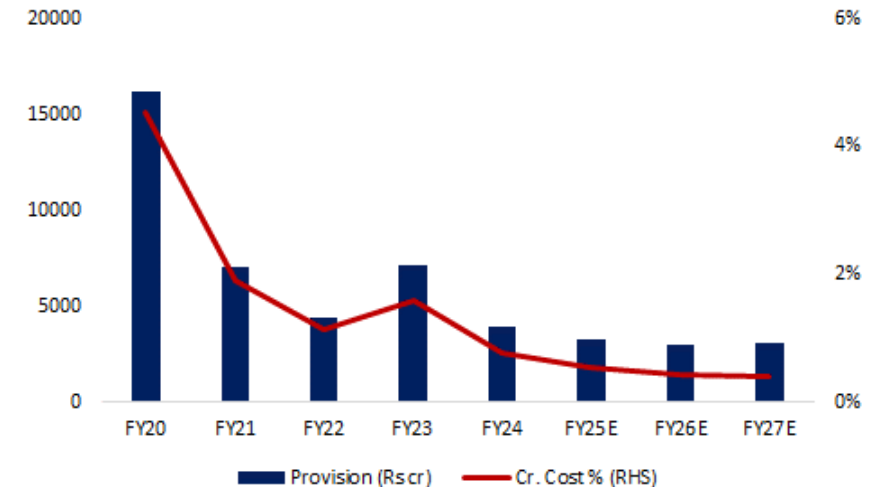
### Recoveries in written off accounts to aid profitability

BoI has a large pool of written off accounts which are under various stages of resolution. It has booked profits of Rs 1278cr from such accounts in 9MFY25. There are almost 310 accounts filed by BoI and other banks amounting to ~Rs 31600cr which are under NCLT resolution process. The bank has made provisions of Rs 29151cr (92%) against these receivables. Overall the bank has a written off book of Rs 45000cr and GNPA of ~24000cr. We expect the Bank to book profits of Rs ~1600-1800cr in FY25.

Improving asset quality...



...leading to lower credit costs



Source: Company, HDFCsec

### Digital initiatives to drive higher cost efficiencies

Inline with the growing use of digital infrastructure for banking transaction, BoI has also taken many initiatives to enhance consumer experience and reduce turnaround time. Over the last couple of years BoI has added many features to its BOI Mobile Omni Neo App which is now equipped with 300+ features and acts as a one stop solution for all banking, investment, and payment needs. also made major upgrades to our digital infrastructure by adding a new state of the art data centre, upgrading Intrabank networks and investing in new technologies like Artificial Intelligence/Machine Learning/Generative AI to ensure a faster and more robust digital platform.

BoI garnered new business of Rs 15516cr in FY24 under Digital Lending Products with adoption level of 44%. The Digital Lending Department of the Bank intends to go live with 20 new digital products in FY24-25 with the aim to add new business of Rs 30000cr through digital journeys with adoption level of 60%.

### Digital product portfolio as of FY24

Loans	Key products	Number of accounts	% of Total Accounts	Launch of branch-assisted services	Launch of web-enabled services	Milestones
MSME (Mudra)	Shishu	13510	1.7%	2QFY23	3QFY23	End-to-end digital in Shishu (existing to bank customer); disbursement time reduced from 7 days to 10 minutes
	Kishore	62592	8.1%	3QFY23	2QFY24	
	Tarun	27895	3.6%	3QFY23	2QFY24	
Agriculture	KCC-Crop	61564	8.0%	3QFY23	2QFY24	Online retrieval of land records and crop reports – KCC pilot in MP
Retail	Personal	8346	1.1%	2QFY23	4QFY23	Recent addition of pensioner loan to web-platform
	Pensioner	640	0.1%	2QFY23	1QFY24	
	Vehicle	8537	1.1%	3QFY23	Not Enabled	
	Home	457	0.1%	3QFY24	Not Enabled	
	Gold <sup>18</sup>	584586	75.6%	2QFY23	2QFY23	Moving to phygital

(Source: Company, HDFCsec)

### Strong support of Government

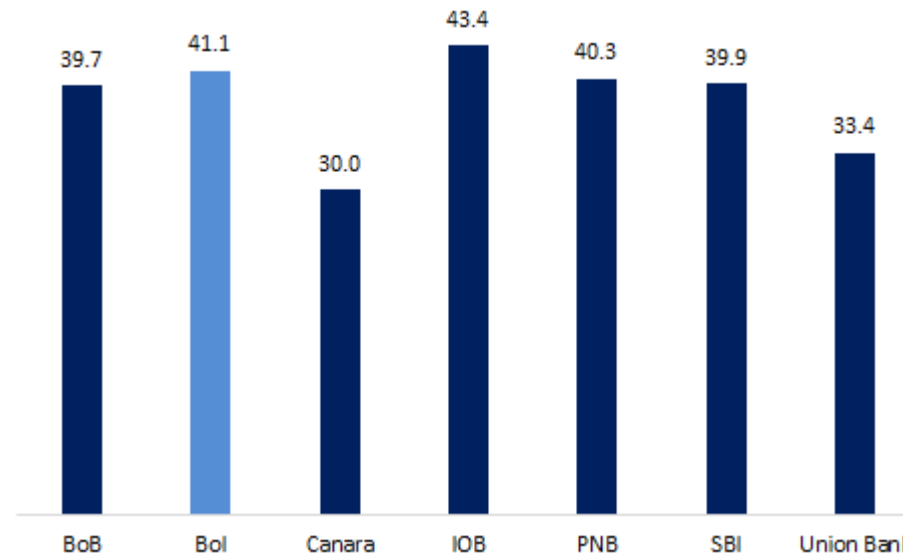
The Government of India is the majority owner in the bank with 73% stake. Stability of the banking sector is of prime importance to the government, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs, and severe implications of any PSB's failure, in terms of a political fallout, systemic stability, and investor confidence. The majority ownership creates a moral obligation on the government to support PSBs, including BoI.

BoI has received substantial capital infusion from the GoI in the past, whenever its stressed assets escalated and capital adequacy ratio fell sharply. We believe the strong government support, on an ongoing basis, is a key positive for the bank. Supported by the regular capital infusion made by the government and higher cash accrual, BOI's capital adequacy ratios are adequate with Tier 1 and overall capital to risk-weighted adequacy ratio of 14.3% and 16.2% respectively

### High CASA ratio leading to competitive cost of funds

BoI has a higher CASA ratio as compared to many other PSU banks. As of Q3FY25 its CASA ratio stood at 41%. Higher CASA provide the bank with the ability to lend at competitive rates. Going forward, we believe BoI's liability profile to remain a significant positive for supporting its credit growth while maintaining strong liquidity and profitability.

*Higher CASA ratio as compare to many PSU banks*



Source: Company, HDFCsec

### Established market position in the banking industry

BOI has an established market position, with gross advances of Rs 6.3 lakh crore as on December 31, 2024 which marks a growth of 16.7% on a YoY basis (15.9% for fiscal 2024). Total business stood at Rs 14.3 lakhs crore, registering growth of 14.2% on a YoY basis (growth in total business for fiscal 2024 was 12.6%). The bank has presence across the country which gives it access to a wide distribution network and retail depositors. The bank had 5,224 branches as on Dec'24, including 22 overseas branches. Almost 64% of branches are in rural and semi-urban areas, thereby offering access to low-cost deposits and enhancing financial penetration.

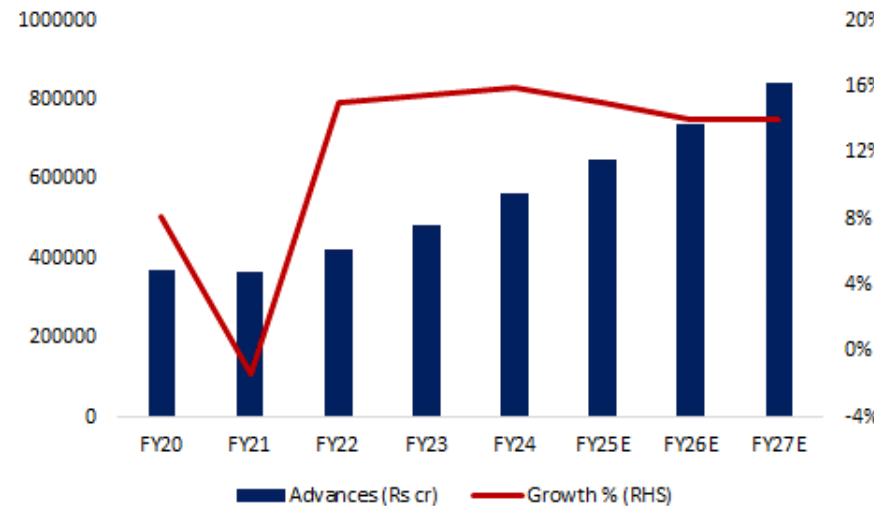
### Risks & Concerns

- Although slippages have moderated, the recent economic slowdown could lead to increasing NPAs.
- Credit growth is outpacing deposit growth leading to higher cost of funds and compression of NIMs.
- Bank has been investing in upgrading its digital infrastructure which could lead to higher operating expenses.
- Profitability has been aided by recoveries from written-off accounts. Delays in expected recoveries could result in lower profits.

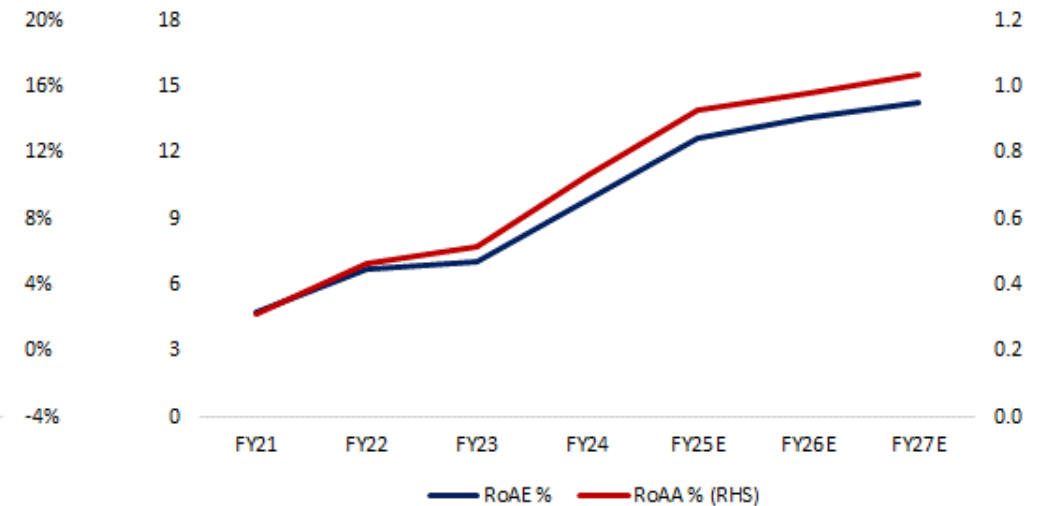
### Company Background

Founded in 1906 by a group of eminent businessmen from Mumbai, the Bank was under private ownership and control till July 1969 when it was nationalised along with 13 other banks. BoI is the sixth largest Public Sector Bank in India with a network of 5,224 branches and 8,236 automated teller machines across India as on Dec'24. These branches are controlled through 69 Zonal Offices and 13 FGMO Offices. There are 47 branches/ offices abroad which includes 22 own branches including IBU Gift City at Gandhinagar Gujarat, 1 representative office and 4 Subsidiaries (23 branches) and 1 joint venture. A significant number of its branches cater to rural and semi-urban areas. It has strong presence in the corporate segment with bulk of its business and earnings coming from large corporate clients

Loan Book



Return Ratios



(Source: Company, HDFCsec)

## Financials

### Income Statement

(Rs cr)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	47648	60709	70017	78707	86834
Interest Expenses	27373	37657	44982	50435	54485
<b>Net Interest Income</b>	<b>20275</b>	<b>23053</b>	<b>25034</b>	<b>28272</b>	<b>32349</b>
Non interest income	7100	6095	7265	7622	8295
<b>Operating Income</b>	<b>27375</b>	<b>29148</b>	<b>32299</b>	<b>35894</b>	<b>40644</b>
Operating Expenses	13982	15079	16615	18167	19671
PPP	13393	14069	15684	17728	20973
Prov & Cont	7163	3970	3252	2985	3118
Profit Before Tax	6229	10099	12432	14743	17855
Tax	2206	3781	3232	3833	4642
<b>PAT</b>	<b>4023</b>	<b>6318</b>	<b>9200</b>	<b>10910</b>	<b>13212</b>

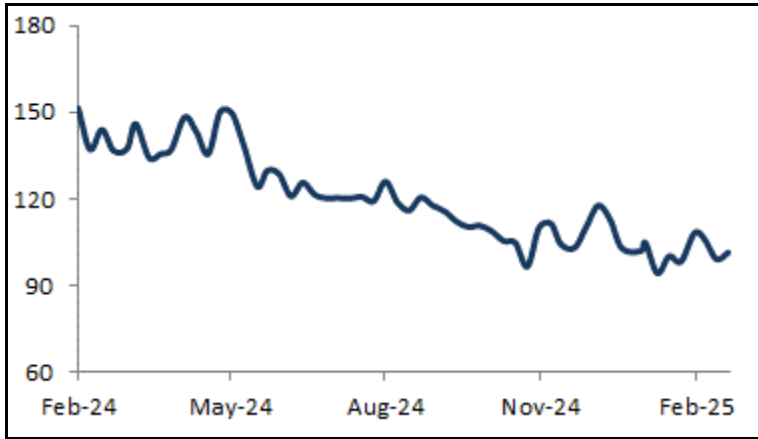
### Balance Sheet

(Rs cr)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	4104	4553	4553	4553	4553
Reserves & Surplus	54866	64327	71524	79929	90000
<b>Shareholder funds</b>	<b>58971</b>	<b>68881</b>	<b>76077</b>	<b>84483</b>	<b>94553</b>
Deposits	669586	737920	807256	884984	971761
Borrowings	64979	80924	142476	155039	176745
Other Liab & Prov.	24134	26515	35561	46122	55608
<b>SOURCES OF FUNDS</b>	<b>817670</b>	<b>914240</b>	<b>1061370</b>	<b>1170627</b>	<b>1298667</b>
Cash & Bank Balance	84395	82937	103619	97453	104364
Investment	204398	227144	271999	295313	311408
Advances	485900	563145	647616	738283	841642
Fixed Assets	9961	10226	10428	10484	10705
Other Assets	33016	30787	27709	29094	30549
<b>TOTAL ASSETS</b>	<b>817670</b>	<b>914240</b>	<b>1061370</b>	<b>1170627</b>	<b>1298667</b>

### Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E	FY27E
<b>Return Ratios (%)</b>					
Yield on adv	10.5	11.6	11.6	11.4	11.0
Cost of funds	3.9	4.8	5.1	5.1	5.0
NIM	2.9	2.9	2.8	2.7	2.8
RoAE	7.1	9.9	12.7	13.6	14.8
RoAA	0.5	0.7	0.9	1.0	1.1
<b>Asset Quality Ratios (%)</b>					
GNPA	7.2	4.9	3.6	2.9	2.6
NNPA	1.7	1.2	0.8	0.7	0.6
PCR	83.8	83.8	78.1	77.3	76.2
<b>Growth Ratios (%)</b>					
Advances	15.5	15.9	15.0	14.0	14.0
Borrowings	142.8	24.5	76.1	8.8	14.0
NII	44.2	13.7	8.6	12.9	14.4
PPoP	34.1	5.0	11.5	13.0	18.3
PAT	18.2	57.0	45.6	18.6	21.1
<b>Valuation Ratios</b>					
EPS (Rs)	9.8	13.9	20.2	24.0	29.0
P/E (x)	10.4	7.3	5.0	4.2	3.5
Adj. BVPS (Rs)	107.3	121.3	140.9	159.9	181.0
P/ABV (x)	0.9	0.8	0.7	0.6	0.6
Dividend per share (Rs)	2.0	2.8	4.4	5.5	6.9
Dividend Yield (%)	2.0	2.8	4.3	5.4	6.8
<b>Other Ratios</b>					
Cost-Income	51.1	51.7	51.4	50.6	48.4
Credit-Deposit	0.73	0.76	0.80	0.83	0.87

## Price chart



### HDFC Sec Prime Research Rating description

#### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

#### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

#### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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