

## Q1FY13- Lull quarter

CMP:	Rs.47
Target Price:	Rs.79
Upside/(Downside) %	68%
Recommendation:	Buy

**Q1FY13 proved a lull quarter for the State owned Bank of Maharashtra (BoM) with weak top-line but impressive bottom-line that came primarily due to lower tax benefit and improved operating efficiency.**

### Stock Info

BSE Group	B
BSE Code	532525
NSE Symbol	MAHABANK
Bloomberg	BOMH IN
Reuters	BMBK.BO
BSE Sensex	17158.4
NSE Nifty	5205.1

### Market Info

Market Capital	2765.2 cr
Equity Capital	589.6 cr
Avg. Trading Vol. (NSE Qtly)	121434
52 Wk High/ Low	59/38
Face Value	10

### Shareholding Pattern (%) (30<sup>th</sup> June 2012)

#### Promoters

Domestic Institutions	11.1
Foreign Institutions	0.9
Non Promoters Corp.	1.3
Public & Others	7.8
Govt. Holdings	78.9

**Strong bottom-line:** PAT at Rs 140 crs jumped by whopping 93% on QoQ basis and 15% on YoY basis primarily on account of lower tax benefit and improved operating efficiency. While the top-line remained weak, the major tax benefit during the quarter shored up the profitability for the bank. However, improved operating efficiency came as a positive sign with 32% improvement on sequential basis translating into controlled Cost/income ratio of 47% for the quarter. The operating efficiency that remained a concern area for the bank continues to be on the radar.

**Weak top-line:** The top-line stood weak with NII at Rs 651 crs growing at mere 10% YoY and meager 1% on QoQ basis primarily due to spike in costs of funds. Moreover, the non-interest income performance too remained subdued at Rs 179 crs with mere 3% increase both on annual and sequential basis. We expect the core performance to improve in H2FY13 with the busy season setting in.

**Asset quality improves:** On annual basis, the GNPA's and NNPA's were down to 2.2% and 1% respectively and provision coverage stood at 58% for the quarter. However, the credit costs more than doubled on sequential basis indicating rough patch lying ahead in terms of asset quality. That said, we stand confident of the improvement in bad loans steadily as demonstrated by the bank since past 3 quarters. However, the restructured book needs to have a closer look.

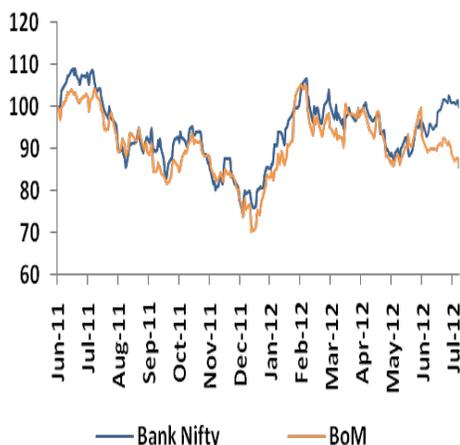
**Outlook:** Asset quality pressures with restructured book, stagnant return ratios and more scope for operating efficiency remain concern areas for the bank. Improving signs of business growth, capital and provision cushion, presence in rich states and the current cheap valuations (0.6X P/ABV FY14E) form the positives for the bank. We continue to maintain BUY rating on the stock, valuing the stock at 0.9X P/ABV FY14E with price target of Rs 79.

**Note: Further details; post the Management Interaction.**

### Financials:

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	1968	2517	2980	3661
Operating Profit	855	1515	1738	2211
PAT	330	431	495	597
EPS (Rs)	7.2	8.0	8.4	10.1
EPS Growth (%)	-29.1	11.2	4.3	20.8
RoE (%)	12.4	12.9	12.1	12.6
P/E (x)	6.5	5.8	5.6	4.6
PABV (x)	0.8	0.7	0.6	0.6

Source: Company, Aриhant Research.



July 23, 2012



## Q1FY13 Earnings Update

Particulars (Rs. cr)	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ %	Comments
Interest Earned	2,039	1,644	24.0	1,898	7.4	
Interest Expended	1,387	1,053	31.8	1,251	10.9	
<b>Net Interest Income</b>	<b>651</b>	<b>591</b>	<b>10.1</b>	<b>647</b>	<b>0.6</b>	While annual growth looks decent, QoQ stands poor
Other Income	179	173	3.1	173	3.4	Non-interest income performance not very impressive
<i>Other income / Net Income (%)</i>	21.5	22.7		21.1		
<b>Total income</b>	<b>830</b>	<b>765</b>	<b>8.5</b>	<b>820</b>	<b>1.2</b>	
Employee Expenses	259	229	13.4	423	-38.6	
Non-Employee expenses	130	121	7.5	148	-11.8	
<b>Operating Expenses</b>	<b>390</b>	<b>350</b>	<b>11.3</b>	<b>570</b>	<b>-31.7</b>	
<i>Cost-income Ratio (%)</i>	47.0	45.8		69.5		Cost/Income ratio in control
<b>Pre-Prov Profits</b>	<b>440</b>	<b>415</b>	<b>6.1</b>	<b>250</b>	<b>76.1</b>	
Provisions & Contingencies	316	224	41.1	144	118.9	Credit costs stand on the higher side
<b>PBT</b>	<b>125</b>	<b>191</b>	<b>-34.8</b>	<b>106</b>	<b>17.8</b>	
Provisions for Tax	(16)	69	-123.0	33	-148.3	
<i>Effective Tax Rate (%)</i>		36.2		31.1		
<b>PAT (reported)</b>	<b>140</b>	<b>122</b>	<b>15.1</b>	<b>73</b>	<b>92.9</b>	<b>Strong bottom-line on account of tax benefit</b>
EPS Basic	2.1	2.5		7.6		
EPS Diluted	2.1	2.5		7.6		
BVPS	0.0	0.0		54.1		
GNPA	1294	1148		1297		
NNPA	549	531		470		
GNPA (%)	2.2	2.4		2.3		Improvement in asset quality on annual basis
NNPA (%)	1.0	1.2		0.8		
Total CAR (%)	12.5	12.6		12.4		

Source: - Company, Aриhant Capital



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	5563	7214	8620	10473
Interest Expenses	3595	4697	5640	6813
<b>Net Interest Income</b>	<b>1968</b>	<b>2517</b>	<b>2980</b>	<b>3661</b>
- growth %	57	28	18	23
Total Non-interest Income	531	641	745	908
<b>Operating Income</b>	<b>2499</b>	<b>3158</b>	<b>3724</b>	<b>4569</b>
- growth %	42	26	18	23
Operating Expenses	1644	1643	1986	2358
- Staff Cost	1157	1113	1374	1615
- Other Operating Exp.	487	529	612	743
<b>Gross Profits</b>	<b>855</b>	<b>1515</b>	<b>1738</b>	<b>2211</b>
- growth %	8	77	15	27
Provisions	467	856	1031	1358
<b>Profit Before Taxes</b>	<b>388</b>	<b>659</b>	<b>707</b>	<b>853</b>
Taxes	58	228	212	256
<b>Profit After Taxes</b>	<b>330</b>	<b>431</b>	<b>495</b>	<b>597</b>
- growth %	-25	31	15	21

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
<b>LIABILITIES</b>				
Capital	1,070	1,178	1,178	1,178
Reserves & Surplus	2,901	3,545	4,168	4,806
Deposits	66,845	76,529	88,773	103,865
- growth %	6	14	16	17
Borrowings	3,077	3,825	4,513	5,326
Other liabilities & provisions	2,572	2,941	3,914	7,273
<b>TOTAL LIABILITIES</b>	<b>76,464</b>	<b>88,017</b>	<b>102,545</b>	<b>122,447</b>
<b>ASSETS</b>				
Cash, Inter-bank, etc	3,846	4,535	4,751	5,274
Money at call and short notice	203	1,209	911	1,035
Advances	46,881	56,060	66,711	80,053
- growth %	16	20	19	20
Investments	22,491	22,911	26,730	32,297
Fixed assets	667	601	637	700
Other assets	2,376	2,701	2,807	3,087
<b>TOTAL ASSETS</b>	<b>76,464</b>	<b>88,017</b>	<b>102,545</b>	<b>122,447</b>

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
<b>Basic Ratio (Rs.)</b>				
EPS	7.2	8.0	8.4	10.1
Book Value per share	64.4	70.2	74.6	85.8
70% Adjusted Book Value	58.6	68.7	75.8	86.0
Dividend per share	2.0	2.2	2.5	3.5
<b>Asset Quality (%)</b>				
Gross NPAs	2.5	2.3	2.5	2.7
Net NPAs	1.3	0.9	0.7	0.8
NPA Coverage	47.3	63.8	74.3	70.5
<b>Profitability ratios (%)</b>				
RoAE	12.4	12.9	12.1	12.6
RoAA	0.4	0.5	0.5	0.5
NIM	3.0	3.4	3.5	3.6
Operating Profit Margin	14.0	19.3	18.6	19.4
Net Profit Margin	5.4	5.5	5.3	5.2
Cost to Income	65.8	52.0	53.3	51.6
Fee-based income to Operating Income	13.8	18.4	18.1	15.6

	FY11	FY12	FY13E	FY14E
<b>Spread analysis (%)</b>				
Yield on advances	9.2	10.7	11.2	11.4
Yield on investments	6.9	7.5	6.9	7.0
Yield on interest-earning assets	8.0	9.2	9.3	9.3
Cost of funds	5.1	5.8	6.0	6.2
Spread	2.9	3.3	3.2	3.1
Net Interest Income to AWF	2.8	3.2	3.3	3.5
Non Interest Income to AWF	0.8	0.8	0.8	0.9
Operating Profit to AWF	1.2	1.9	1.9	2.1
Net Profit to AWF	0.5	0.5	0.5	0.6

	FY11	FY12	FY13E	FY14E
<b>Valuation ratios (x)</b>				
P/E	6.5	5.8	5.6	4.6
P/BV	0.7	0.7	0.6	0.6
P/ABV	0.8	0.7	0.6	0.6



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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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