

Q2FY13- Decent performance

CMP:	Rs.53
Target Price:	Rs.79
Upside/(Downside) %	49%
Recommendation:	BUY

Stock Info

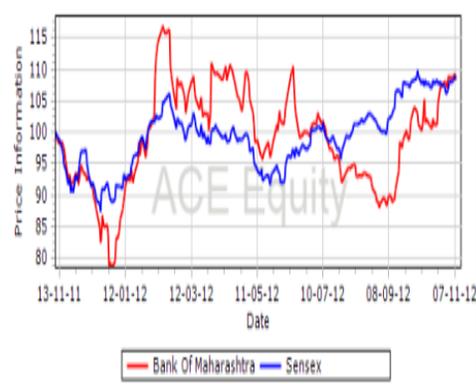
BSE Group	B
BSE Code	532525
NSE Symbol	MAHABANK
Bloomberg	BOMH IN
Reuters	BMBK.BO
BSE Sensex	18846.3
NSE Nifty	5738.8

Market Info

Market Capital	₹ 3133.7 cr
Equity Capital	₹ 589.6 cr
Avg. Trading Vol. (NSE Qtly) ('000)	216.3
52 Wk High/ Low	59/38
Face Value	10

Shareholding Pattern (%) (30th Sep 2012)

Promoters	78.9
Domestic Institutions	11.1
Foreign Institutions	0.8
Non Promoters Corp.	1.3
Public & Others	9.2



Nov 08, 2012

Generating Wealth. Satisfying Investors.

Bank of Maharashtra reported decent set of numbers for the quarter. Profitability turned out to be sturdy which was primarily driven by fairly good interest income performance and lower credit costs. Furthermore, the YoY other income performance proved quite healthy and NPAs showed signs of improvement. However, Cost/Income ratio stood on the higher side with increased opex.

Strong earnings performance: PAT at Rs 166 crs jumped by whopping 65% on YoY basis and 18% on QoQ basis primarily on account of lower credit costs and decent show on interest income. NII at Rs 719 crs recording 14% YoY growth was backed by sustainable business growth and stable margins. CASA deposits grew at a healthy pace and CASA was recorded at strong 41% of total deposits. Lower credit costs at Rs 223 crs came as a positive sign with improvement in asset quality. Cost/income ratio at 47% still stands on the higher side and operating efficiency that remained a concern area for the bank continues to be on the radar. All-in-all, it proved to be a fairly good quarter for the bank on the earnings and asset quality front.

Asset quality improves: On annual and sequential basis, the GNPA's were down to 2.0% and NNPA at 0.9% was down sequentially indicating satisfactory improvement in asset quality. Provision coverage stood at 58% for the quarter; which looked flattish. However, the credit costs at Rs 223 crs fell 30% QoQ and 20% YoY. The restructured assets as at the end of quarter cumulatively stood at Rs 3227 crs as the pain from certain SEBs and other stressed sectors continue and hence the restructured book needs to have a closer look. That said, we stand confident of the improvement in bad loans steadily as demonstrated by the bank since past 3 quarters.

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 tweak our estimates little upwards to accommodate increased earnings and expect the return ratios to witness uptick from hereon. We, therefore, continue to maintain BUY rating on the stock, valuing the bank at 1.0X P/ABV FY14E with price target of Rs 79.

Financials:

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	1968	2517	3133	3892
Operating Profit	855	1515	1866	2406
PAT	330	431	548	699
EPS (Rs)	7.2	8.0	9.3	11.9
EPS Growth (%)	-29.1	11.2	15.6	27.6
RoE (%)	12.4	12.9	13.3	14.5
P/E (x)	7.4	6.7	5.8	4.5
PABV (x)	0.8	0.8	0.7	0.7

Source: Company, Arianth Research.



Q2FY13 Earnings Update

Particulars (Rs. cr)	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ %	Comments
Interest Earned	2,257	1,800	25.4	2,039	10.7	
Interest Expended	1,538	1,167	31.8	1,387	10.9	
Net Interest Income	719	633	13.6	651	10.4	Decent show on top-line backed by healthy business growth
Other Income	177	145	22.5	179	-0.9	Non-interest income performance not very impressive QoQ, but better off YoY
<i>Other income / Net Income (%)</i>	19.8	18.6		21.5		
Total income	896	778	15.2	830	8.0	
Employee Expenses	277	228	21.6	259	6.9	
Non-Employee expenses	146	125	17.2	130	12.1	
Operating Expenses	423	353	20.0	390	8.6	
<i>Cost-income Ratio (%)</i>	47.2	45.3		47.0		Cost/Income ratio stands higher
Pre-Prov Profits	473	425	11.3	440	7.4	
Provisions & Contingencies	223	278	-20.1	316	-29.5	Credit costs have fallen significantly
PBT	250	147	70.7	125	101.0	
Provisions for Tax	84	46	82.4	(16)	-630.4	
<i>Effective Tax Rate (%)</i>		31.5				
PAT (reported)	166	100	65.3	140	18.2	Strong bottom-line on account of decent interest income performance and lower credit costs
EPS Basic	2.6	2.1		2.1		
EPS Diluted	2.6	2.1		2.1		
GNPA	1292	1094		1294		
NNPA	559	284		549		
GNPA (%)	2.0	2.2		2.2		Improvement in asset quality is a good sign
NNPA (%)	0.9	0.6		1.0		
Total CAR (%)	10.8	11.9		12.5		

Source: - Company, Aриhant Capital



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	5563	7214	8773	10657
Interest Expenses	3595	4697	5640	6765
Net Interest Income	1968	2517	3133	3892
- growth %	57	28	24	24
Total Non-interest Income	531	641	745	908
Operating Income	2499	3158	3878	4801
- growth %	42	26	23	24
Operating Expenses	1644	1643	2011	2395
- Staff Cost	1157	1113	1399	1652
- Other Operating Exp.	487	529	612	743
Gross Profits	855	1515	1866	2406
- growth %	8	77	23	29
Provisions	467	856	1060	1406
Profit Before Taxes	388	659	806	999
Taxes	58	228	258	300
Profit After Taxes	330	431	548	699
- growth %	-25	31	27	28

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	1,070	1,178	1,178	1,178
Reserves & Surplus	2,901	3,545	4,221	4,962
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	3,860	7,273
TOTAL LIABILITIES	76,464	88,017	102,545	122,447
ASSETS				
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
TOTAL ASSETS	76,464	88,017	102,545	122,447

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	7.2	8.0	9.3	11.9
Book Value per share	64.4	70.2	75.6	88.4
70% Adjusted Book Value	58.6	68.7	73.6	81.5
Dividend per share	2.0	2.2	2.5	3.5
Asset Quality (%)				
Gross NPAs	2.5	2.3	2.4	2.5
Net NPAs	1.3	0.9	0.9	1.3
NPA Coverage	47.3	63.8	63.0	49.7
Profitability ratios (%)				
RoAE	12.4	12.9	13.3	14.5
RoAA	0.4	0.5	0.6	0.6
NIM	3.0	3.4	3.6	3.8
Operating Profit Margin	14.0	19.3	19.6	20.8
Net Profit Margin	5.4	5.5	5.8	6.0
Cost to Income	65.8	52.0	51.9	49.9
Fee-based income to Operating Income	13.8	18.4	17.3	14.9

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	9.2	10.7	11.5	11.7
Yield on investments	6.9	7.5	6.9	7.0
Yield on interest-earning assets	8.0	9.2	9.4	9.5
Cost of funds	5.1	5.8	6.0	6.2
Spread	2.9	3.3	3.4	3.3
Net Interest Income to AWF	2.8	3.2	3.4	3.7
Non Interest Income to AWF	0.8	0.8	0.8	0.9
Operating Profit to AWF	1.2	1.9	2.1	2.3
Net Profit to AWF	0.5	0.5	0.6	0.7

	FY11	FY12	FY13E	FY14E
Valuation ratios (x)				
P/E	7.4	6.7	5.8	4.5
P/BV	0.8	0.8	0.7	0.6
P/ABV	0.9	0.8	0.7	0.7



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Stock Rating Scale

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

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