

Q3FY13- Decent performance

CMP: Rs.59
Target Price: Rs.79
Upside/(Downside) % 34%
Recommendation: BUY

Stock Info

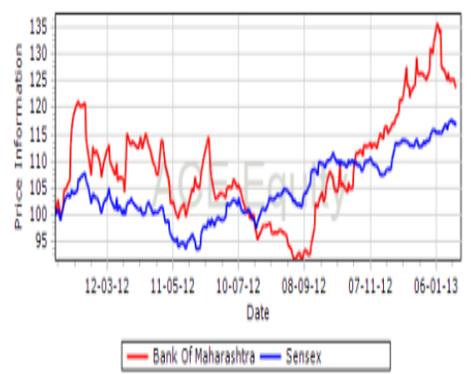
BSE Group	B
BSE Code	532525
NSE Symbol	MAHABANK
Bloomberg	BOMH IN
Reuters	BMBK.BO
BSE Sensex	18846.3
NSE Nifty	5738.8

Market Info

Market Capital	3484 cr
Equity Capital	589.6 cr
Avg. Trading Vol. (NSE Qtly) ('000)	317.5
52 Wk High/ Low	66/43
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



January 25, 2013

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, the bank needs to be cognizant about fresh slippages and maintaining low-cost deposit base.

Strong earnings performance: PAT at Rs 194 crs jumped by whopping 43% on YoY basis and 17% on QoQ basis primarily on account of lower credit costs and decent show on interest income. NII at Rs 792 crs recording 23% YoY growth was largely backed by sustainable business growth. Though, CASA deposits grew 18% YoY in absolute terms, CASA ratio however, was down to 34% for Q3 as against 41% same quarter a year ago. The term deposits that stood on the higher side for the quarter with lower accretion in SA accounts resulted in lower CASA ratio. Capitalizing on bank's rich presence in industrial states, CASA franchise should only strengthen for the bank and remains a key priority going ahead in order to maintain the sustained business growth. Simultaneously, controlling Cost/income ratio stand essential for the bank and Q3 witnessed C/I ratio dropping marginally to 46% and operating efficiency stands as another concern area to remain on the radar for the bank. All-in-all, it proved to be a fairly good quarter for the bank on the earnings and asset quality front and we expect the bank to report 3% close margins with accretion in return ratios going ahead.

Asset quality improves: On annual and sequential basis, the GNPA's were down to 1.7%, while NNPA's moved up to 0.7% as provisions stood lower for the quarter. Provision coverage ratio improved for the quarter; with the bank providing little higher for NPAs and restructured assets. While the fresh slippages for the quarter at Rs 244 crs spiked up YoY, the increased quantum of upgradation and recoveries were satisfying. While the pain from certain SEBs and other stressed sectors continue, 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 few quarters.

Outlook: Improvement in liability franchise, improving over operating efficiency, improvement in asset quality and beefing up capital base remain the priority areas for the bank. Improving signs of business growth and earnings outlook, presence in rich states and the current cheap valuations (0.6X P/ABV FY14E) form the positives for the bank. We, therefore, continue to maintain BUY rating on the stock, valuing the bank at 0.9X P/ABV FY14E with price target of Rs 79.

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	1968	2517	3109	3928
Operating Profit	855	1515	1948	2626
PAT	330	431	603	767
EPS (Rs)	7.2	8.0	10.2	13.0
EPS Growth (%)	-29.1	11.2	27.2	27.1
RoE (%)	12.4	12.9	14.6	15.6
P/E (x)	8.2	7.3	5.8	4.5
PABV (x)	1.0	0.9	0.8	0.7

Source: Company, Arianth Research.



Q3FY13 Earnings Update

Particulars (Rs. cr)	Q3FY13	Q2FY12	YoY%	Q2FY13	QoQ %	Comments
Interest Earned	2,537	1,871	35.6	2,257	12.4	
Interest Expended	1,744	1,226	42.3	1,538	13.4	
Net Interest Income	792	646	22.7	719	10.2	Decent interest income performance
Other Income	174	150	15.9	177	-2.0	Non-interest income performance not very impressive QoQ, but better off YoY
<i>Other income / Net Income (%)</i>	18.0	18.8		19.8		
Total income	966	795	21.5	896	7.8	
Employee Expenses	288	233	23.3	277	3.8	
Non-Employee expenses	153	136	12.3	146	4.9	
Operating Expenses	441	370	19.2	423	4.2	
<i>Cost-income Ratio (%)</i>	45.6	46.5		47.2		Cost/Income ratio improved marginally
Pre-Prov Profits	525	426	23.4	473	11.0	
Provisions & Contingencies	144	210	-31.5	223	-35.3	Credit costs have fallen significantly
PBT	381	216	76.8	250	52.2	
Provisions for Tax	187	80	134.3	84	121.8	Tax expenses stood higher for the quarter
<i>Effective Tax Rate (%)</i>	49.1	37.0		33.7		
PAT (reported)	194	136	42.9	166	16.9	Strong bottom-line on account of decent interest income performance and lower credit costs
EPS Basic	3.0	2.5		2.6		
EPS Diluted	3.0	2.5		2.6		
GNPA	1284	1045		1292		
NNPA	487	272		559		
GNPA (%)	1.7	2.1		2.0		Improvement in asset quality is a good sign
NNPA (%)	0.7	0.5		0.9		
Total CAR (%)	10.7	11.8		10.8		Need to beef up capital base

Source: - Company, Arihant Capital



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	5563	7214	8745	10591
Interest Expenses	3595	4697	5636	6663
Net Interest Income	1968	2517	3109	3928
- growth %	57	28	24	26
Total Non-interest Income	531	641	831	1014
Operating Income	2499	3158	3940	4942
- growth %	42	26	25	25
Operating Expenses	1644	1643	1993	2317
- Staff Cost	1157	1113	1386	1598
- Other Operating Exp.	487	529	606	719
Gross Profits	855	1515	1948	2626
- growth %	8	77	29	35
Provisions	467	856	1061	1498
Profit Before Taxes	388	659	887	1128
Taxes	58	228	284	361
Profit After Taxes	330	431	603	767
- growth %	-25	31	40	27

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	4,276	5,084
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	4,926	9,019
TOTAL LIABILITIES	76,464	88,017	103,667	124,471
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	67,832	82,077
- growth %	16	20	21	21
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	103,667	124,471

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	7.2	8.0	10.2	13.0
Book Value per share	64.4	70.2	76.5	90.5
70% Adjusted Book Value	58.6	68.7	74.4	84.6
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	1.2
NPA Coverage	47.3	63.8	62.4	53.1
Profitability ratios (%)				
RoAE	12.4	12.9	14.6	15.6
RoAA	0.4	0.5	0.6	0.7
NIM	3.0	3.4	3.6	3.8
Operating Profit Margin	14.0	19.3	20.3	22.6
Net Profit Margin	5.4	5.5	6.3	6.6
Cost to Income	65.8	52.0	50.6	46.9
Fee-based income to Operating Income	13.8	18.4	19.0	16.4

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	9.2	10.7	11.1	11.2
Yield on investments	6.9	7.5	7.4	7.3
Yield on interest-earning assets	8.0	9.2	9.3	9.3
Cost of funds	5.1	5.8	6.0	6.1
Spread	2.9	3.3	3.2	3.2
Net Interest Income to AWF	2.8	3.2	3.4	3.7
Non Interest Income to AWF	0.8	0.8	0.9	1.0
Operating Profit to AWF	1.2	1.9	2.1	2.5
Net Profit to AWF	0.5	0.5	0.7	0.7

Valuation ratios (x)				
P/E	8.2	7.3	5.8	4.5
P/BV	0.9	0.8	0.8	0.7
P/ABV	1.0	0.9	0.8	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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