

## Bank of Baroda (BANBAR)

Rs 734

### WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY11E) .....	Unchanged
EPS (FY12E) .....	Unchanged
RATING.....	Unchanged

### Consistency coupled with quality...

Bank of Baroda (BoB) amazed us with a 29% YoY jump in the global business driven by 35% and 28% growth in the overseas and domestic business, respectively. Global deposits grew by 28% YoY to Rs 2,54,668 crore (domestic deposits up 27% and overseas 32%YoY). CASA improved to 35.2% (35.1% in Q4FY10). The global loan book recorded a healthy 31% YoY rise with overseas advances growing at 38% YoY ahead of domestic loans (28% YoY). NII at Rs 1858 crore and PAT at Rs 859 crore was higher than our and the Street estimates. We expect 20% CAGR in PAT over FY10-12E to Rs 4373 crore.

#### Prudent cost control arrests NIM fall, improved investment yield helps

BoB managed to control its global cost of deposits at 4.39% (4.42% in Q4FY10) despite higher interest outgo on savings deposits. On the other hand, yield on advances slid by only 6 bps QoQ to 8.17% while yield on investments improved by 15 bps to 6.66%. This helped to arrest the fall in NIM at only 7 bps QoQ to 3.43%.

#### Non-interest income down, to pick up in coming quarters

Non-interest income came below our estimate at Rs 617 crore (down 12% YoY and 20% QoQ). Lower trading gains and slow growth in the core fee-based income (despite higher business growth) led to the lacklustre performance. We expect other income to show 19% CAGR over FY10-12E to Rs 3959 crore.

#### Higher slippage : In line with peers

On the negative side, GNPA was at Rs 2657 crore (1.4% of total advances), a growth of 29% YoY and 11% QoQ, which looks hefty. Consequently, NNPA at Rs 717 crore (0.4% of advances), shot up 92% YoY and 20% QoQ. The bank managed to maintain PCR of 86% (including write-off). We expect GNPA of 1.7% and NNPA of 0.9% by FY12E.

### Valuation

Despite a better Q1FY11 performance we are not revising up our PAT estimate since we see higher provisioning offsetting additional NII growth. Therefore, we maintain our target price at Rs 764 (1.5x FY12E ABV) and recommend an **ADD** rating on the stock.

#### Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q4FY10E	Q4FY09	Q4FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	1858.0	1752.8	1204.7	1745.0	54.2	6.5
Other Income	617.2	729.6	703.0	766.9	-12.2	-19.5
Total Income	2475.2	2482.4	1907.7	2511.8	29.7	-1.5
PPP	1527.9	1455.3	1009.9	1547.4	51.3	-1.3
PAT	859.2	788.8	685.4	906.3	25.4	-5.2

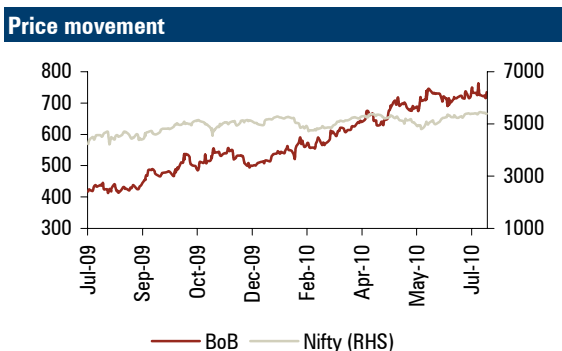
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 764
Target Period	: 12 months
Potential Upside	: 4%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	5123	5939	7350	8992
PPP	4305	4935	6208	7646
PAT	2227	3058	3683	4373

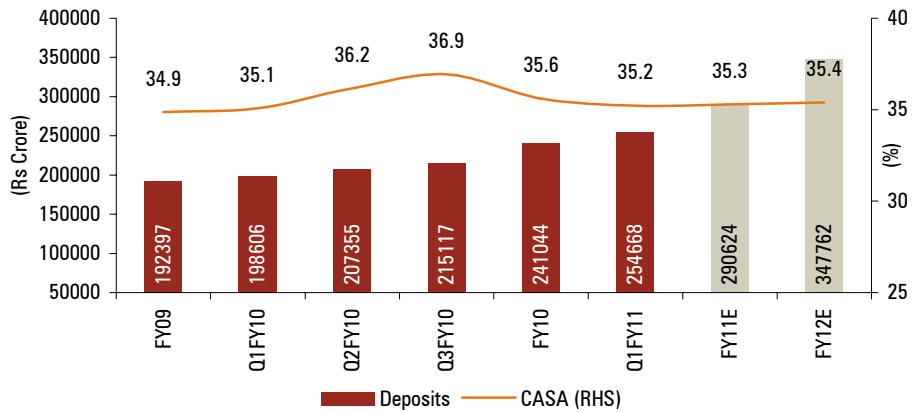
Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	2227.2	3058.3	3683.2	4373.2
EPS (Rs)	61.1	83.7	100.8	119.6
Growth (%)	55.1	36.8	20.4	18.7
P/E (x)	12.0	8.8	7.3	6.1
ABV (Rs)	276.6	333.4	412.8	510.0
Price / Book (x)	2.4	2.0	1.6	1.3
Price / Adj Book (x)	2.6	2.1	1.8	1.4
GNPA (%)	1.3	1.4	1.6	1.7
NNPA (%)	0.7	0.7	0.8	0.9
RoNA (%)	1.1	1.2	1.2	1.2
RoE (%)	18.6	21.9	21.9	21.1

Stock data	
Market Capitalisation	Rs 26830 crore
GNPA (Q1FY11)	Rs 2657 crore
NNPA (Q1FY11)	Rs 717 crore
NIM (Q1FY11)	3.4 %
52 week H/L	754 / 402
Equity capital	Rs 365 crore
Face value	Rs.10
DII Holding (%)	17.5
FII Holding (%)	17.2



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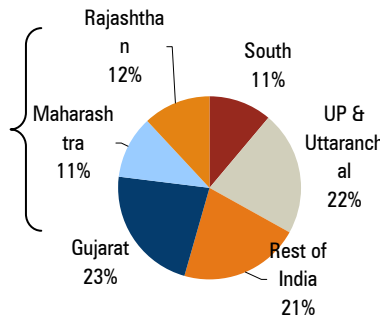
**Exhibit 2: CASA maintained despite higher than industry deposit growth**



We expect deposit to grow at 20% CAGR over FY10-FY12E and CASA to improve steadily

Source: Company, ICICIdirect.com Research

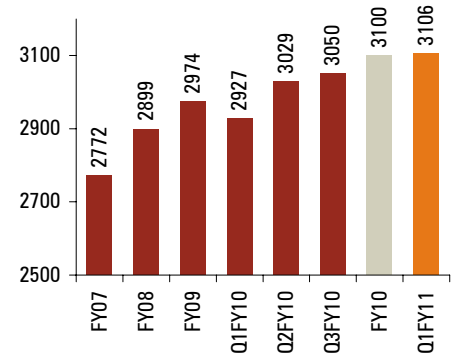
**Exhibit 3: Branch distribution**



Higher concentration in the CASA rich western region enables the bank to consistently report CASA in the range of 35-36%. The bank is planning to add another 383 branches in FY11E

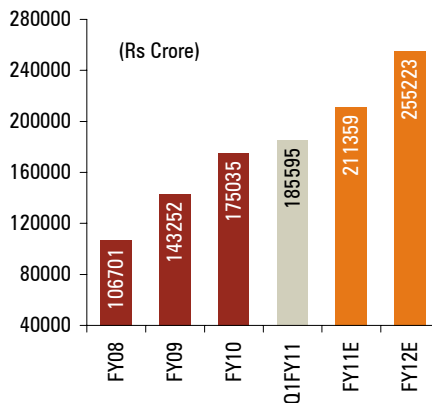
Source: Company, ICICIdirect.com Research

**Exhibit 4: Branch addition**



Source: Company, ICICIdirect.com Research

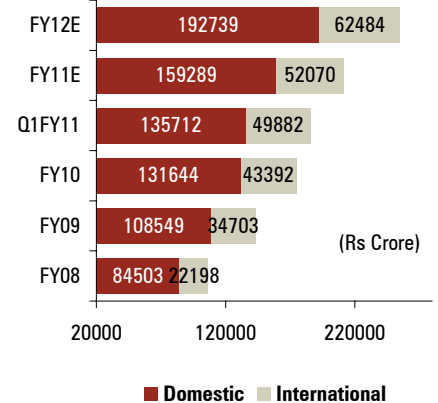
**Exhibit 5: Trend in loan book**



The bank has been concentrating more on corporate lending compared to retail lending in recent times

Source: Company, ICICIdirect.com Research

**Exhibit 6: International book growing well**

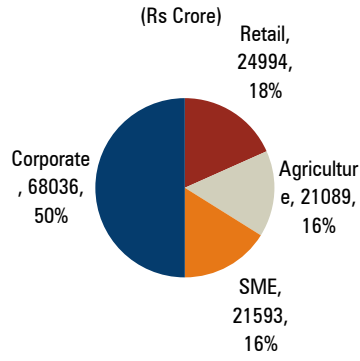


Source: Company, ICICIdirect.com Research

**International banking driving global growth**

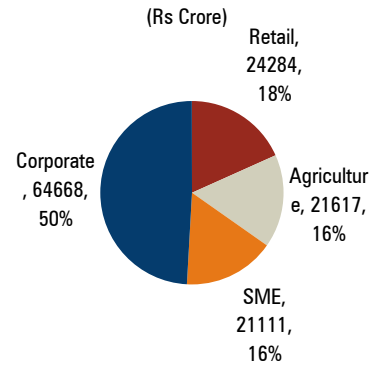
The international loan book constitutes around 27% of the total loan book at Rs 49,882 crore. We expect it to register CAGR of 22% over FY09-12E to Rs 62,484 crore. The overseas business also accounted for over 24% of the total business, 16% of gross profits and 27% of the fee-based income of the bank in Q1FY11. Going forward, we expect this share to increase marginally because of higher growth from the international market.

**Exhibit 7: Q1FY11: Loan distribution**



Source: Company, ICICIdirect.com Research

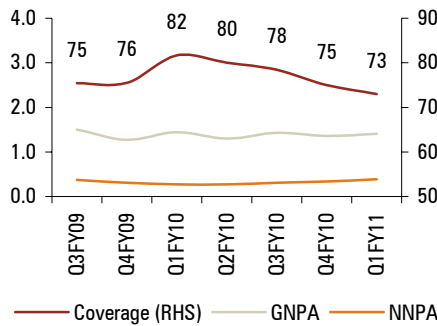
**Exhibit 8: Q4FY10: Loan distribution**



Source: Company, ICICIdirect.com Research

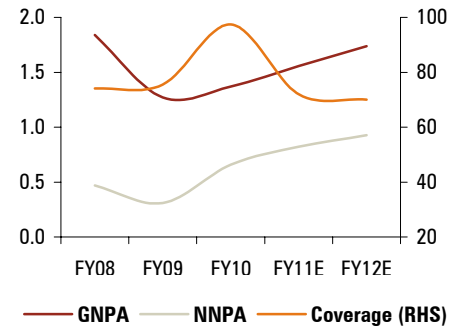
The bank added Rs 170 crore to restructured assets in Q1FY11. Cumulative restructuring now stands at 2.9% of the loan book

**Exhibit 9: Coverage ratio going strong (%)**



Source: Company, ICICIdirect.com Research

**Exhibit 10: Moderation in coverage ratio**



Source: Company, ICICIdirect.com Research

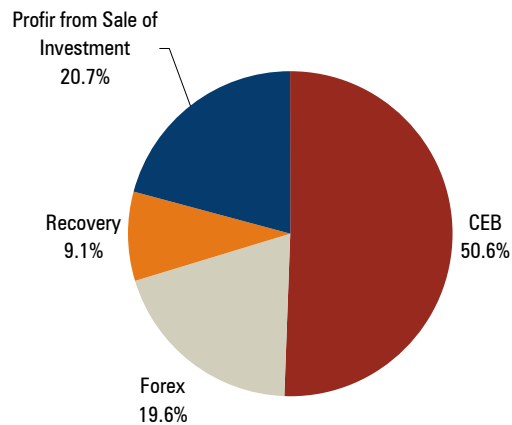
**Exhibit 11: Sectoral wise GNPA**

(%)	Q1FY10	Q1FY11
Agriculture	2.2	3.4
Corporate	1.1	1.7
Retail	2.7	2.4
Housing	3.0	2.4
SME	2.5	2.9

Source: Company, ICICIdirect.com Research

We have factored in 19% CAGR over FY09-FY12E for non interest income

**Exhibit 12: Contribution to non-interest income**



Source: Company, ICICIdirect.com Research

## Financial scorecard

### Exhibit 13: Profit and loss account

Rs Crore	FY08	FY09	FY10	FY11E	FY12E
Interest Earned	11813	15092	16698	20785	25656
Interest Expended	7902	9968	10759	13434	16665
Net Interest Income	3912	5123	5939	7351	8992
growth (%)	3	31	16	24	22
Non Interest Income	2051	2758	2806	3329	3959
Fees and advisory	540	746	897	1077	1292
Treasury Income and sale of Invnt.	532	900	723	796	875
Other income	979	1112	1186	1457	1792
Net Income	5963	7881	8746	10680	12951
Employee cost	1904	2348	2351	2737	3084
Other operating Exp.	1131	1228	1460	1735	2220
Operating Income	2929	4305	4935	6209	7647
Provisions	821	962	697	670	1070
PBT	2107	3343	4238	5539	6576
Taxes	772	1116	1180	1855	2203
Net Profit	1336	2227	3058	3683	4373
growth (%)	30	67	37	20	19

Source: Company, ICICIdirect.com Research

### Exhibit 14: Balance sheet

Rs Crore	FY08	FY09	FY10	FY11E	FY12E
<b>Sources of Funds</b>					
Capital	365.5	365.5	365.5	365.5	365.5
Reserves and Surplus	10678.4	12514.2	14740.9	18232.1	22413.5
Networth	11043.9	12879.7	15106.4	18597.7	22779.0
Deposits	152034.1	192397.0	241044.3	290624.0	347762.2
Borrowings	9349.8	12767.9	13350.1	15984.3	19014.0
Subordinated Debt	5422.7	5310.0	5990.0	7990.0	9990.0
Other Liabilities & Provisions	1749.0	3317.7	2826.0	-2205.7	-5949.5
<b>Total</b>	<b>179599.5</b>	<b>226672.2</b>	<b>278316.7</b>	<b>330990.3</b>	<b>393595.7</b>
<b>Uses of Funds</b>					
Fixed Assets	2427.0	2309.7	2284.8	2378.6	2579.8
Investments	43870.1	52445.9	61182.4	75091.0	90935.2
Advances	106701.3	143251.4	175035.3	211358.8	255223.4
Other Assets	4301.8	4578.1	4347.2	3589.9	3728.0
Cash with RBI & call money	22299.3	24087.1	35467.1	38571.9	41129.3
<b>Total</b>	<b>179599.5</b>	<b>226672.2</b>	<b>278316.7</b>	<b>330990.3</b>	<b>393595.8</b>

Source: Company, ICICIdirect.com Research

Current CAR of the bank stands at 13.3% (Tier I- 8.2%) should not restrict near term balance sheet growth which we have forecasted

## ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	410	FY10	1741.1	33.1	12.4	2.1	0.7	12.6
		<b>Target</b>	373	FY11E	2872.0	54.6	7.5	1.8	1.0	18.7
<b>Mcaps (Rs Cr)</b>	21562	<b>Upside (%)</b>	-9.0	FY12E	3367.6	55.7	7.4	1.5	0.9	18.1
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	734	FY10	3058.3	83.7	8.8	2.2	1.2	21.9
		<b>Target</b>	765	FY11E	3683.2	100.8	7.3	1.8	1.2	21.9
<b>Mcaps (Rs Cr)</b>	26830	<b>Upside (%)</b>	4.2	FY12E	4373.2	119.6	6.1	1.4	1.2	21.1
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	98	FY10	511.3	17.8	5.5	1.4	1.0	21.4
		<b>Target</b>	107	FY11E	621.0	18.2	5.4	1.2	1.0	20.3
<b>Mcaps (Rs Cr)</b>	2807	<b>Upside (%)</b>	9.4	FY12E	746.0	21.8	4.5	1.0	1.0	19.5
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	114	FY10	707.0	13.0	8.8	1.1	0.6	9.6
		<b>Target</b>	105	FY11E	964.1	17.7	6.5	1.3	0.7	12.8
<b>Mcaps (Rs Cr)</b>	6227	<b>Upside (%)</b>	-8.1	FY12E	1224.4	22.5	5.1	1.1	0.8	15.2
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	118	FY10	1031.1	8.8	13.5	1.8	0.5	13.2
		<b>Target</b>	134	FY11E	1220.2	12.4	9.5	1.3	0.5	11.9
<b>Mcaps (Rs Cr)</b>	8582	<b>Upside (%)</b>	13.2	FY12E	1503.6	15.3	7.7	1.2	0.5	11.6
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	378	FY10	1134.7	45.3	8.3	1.3	0.9	14.5
		<b>Target</b>	488	FY11E	1359.4	54.3	7.0	1.1	0.9	15.4
<b>Mcaps (Rs Cr)</b>	9469	<b>Upside (%)</b>	29.1	FY12E	1650.5	65.9	5.7	1.0	0.9	16.2
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	1056	FY10	3905.4	123.9	8.5	2.2	1.4	23.9
		<b>Target</b>	1062	FY11E	4593.7	145.7	7.2	1.8	1.4	23.5
<b>Mcaps (Rs Cr)</b>	33282	<b>Upside (%)</b>	0.6	FY12E	5361.0	170.0	6.2	1.7	1.4	24.0
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2461	FY10	91.7	144.4	17.0	2.8	0.9	14.8
		<b>Target</b>	2556	FY11E	103.5	146.9	16.8	2.2	0.9	13.3
<b>Mcaps (Rs Cr)</b>	156273	<b>Upside (%)</b>	3.8	FY12E	127.1	180.3	13.7	2.0	0.9	13.4
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	319	FY10	2074.9	41.1	7.8	2.0	1.2	26.2
		<b>Target</b>	358	FY11E	2444.0	48.4	6.6	1.7	1.1	24.8
<b>Mcaps (Rs Cr)</b>	16113	<b>Upside (%)</b>	12.2	FY12E	2948.7	53.1	6.0	1.4	1.2	22.8
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	1351	FY10	2514.5	62.1	21.8	3.5	1.7	19.2
		<b>Target</b>	1400	FY11E	3306.9	81.6	16.6	3.0	1.5	19.0
<b>Mcaps (Rs Cr)</b>	54739	<b>Upside (%)</b>	3.6	FY12E	4236.2	104.6	12.9	2.5	1.4	20.5
<b>Dhanlaxmi Bank</b>										
<b>Idirect Code</b>	DHABAN	<b>CMP</b>	180	FY10	23.3	3.6	49.6	2.9	0.3	5.4
		<b>Target</b>	190	FY11E	61.3	7.2	25.0	2.0	0.6	9.5
<b>Mcaps (Rs Cr)</b>	1155	<b>Upside (%)</b>	5.4	FY12E	99.8	11.7	15.4	1.8	0.7	11.1
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	2040	FY10	2948.7	64.4	32.5	4.5	1.5	16.3
		<b>Target</b>	2151	FY11E	3927.6	85.8	24.4	4.0	1.6	17.2
<b>Mcaps (Rs Cr)</b>	95705	<b>Upside (%)</b>	5.4	FY12E	5078.0	110.9	18.8	3.6	1.8	19.6
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	767	FY10	561.1	16.1	47.4	6.3	1.7	13.5
		<b>Target</b>	831	FY11E	793.6	21.8	35.1	4.8	1.9	15.0
<b>Mcaps (Rs Cr)</b>	26658	<b>Upside (%)</b>	8.4	FY12E	1009.7	27.7	27.6	4.3	2.0	15.7
<b>South Indian bank</b>										
<b>Idirect Code</b>	SOUINO	<b>CMP</b>	190	FY10	233.7	20.7	9.2	1.5	1.1	17.9
		<b>Target</b>	195	FY11E	272.5	24.1	7.9	1.4	1.0	17.4
<b>Mcaps (Rs Cr)</b>	2147	<b>Upside (%)</b>	2.6	FY12E	335.6	29.7	6.4	1.2	1.0	18.6
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	293	FY10	477.7	14.1	20.8	3.2	1.6	20.3
		<b>Target</b>	316	FY11E	685.7	20.2	14.5	2.7	1.6	20.2
<b>Mcaps (Rs Cr)</b>	8798	<b>Upside (%)</b>	7.8	FY12E	885.6	26.1	11.2	2.2	1.5	21.6

## Continued...

**NBFC**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	189	FY 09	848.0	6.5	28.8	3.9	2.8	14.3
		<b>Target</b>	200	FY10	1062.1	8.2	23.0	3.5	3.2	15.9
<b>Mcap (Rs Cr)</b>	24437	<b>Upside (%)</b>	6.0	FY11E	1326.8	9.1	20.7	2.5	3.4	14.7
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	1131	FY 09	531.6	62.6	18.1	4.4	2.0	26.1
		<b>Target</b>	1161	FY10	662.1	69.7	16.2	3.0	1.9	22.7
<b>Mcap (Rs Cr)</b>	10739	<b>Upside (%)</b>	2.7	FY11E	861.9	90.8	12.5	2.5	1.9	21.9
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	782	FY10	434.6	17.7	44.3	2.5	2.4	5.7
		<b>Target</b>	800	FY11E	771.3	31.3	25.0	2.3	4.0	9.5
<b>Mcap (Rs Cr)</b>	19208	<b>Upside (%)</b>	2.3	FY12E	761.9	31.0	25.3	2.1	3.5	8.7

**Brokerage firms**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
<b>Edelweiss Capital</b>										
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	500	FY10	244.9	30.5	16.4	1.7	5.3	11.2
		<b>Target</b>	455	FY11E	268.1	33.6	14.9	1.5	4.0	11.3
<b>Mcap (Rs Cr)</b>	3753	<b>Upside (%)</b>	-9.0	FY12E	288.2	36.1	13.9	1.4	3.7	11.1
<b>India Infoline</b>										
<b>Idirect Code</b>	INDINF	<b>CMP</b>	93	FY10	232.0	8.1	11.4	1.6	5.7	14.9
		<b>Target</b>	111	FY11E	244.0	8.6	10.9	1.5	4.1	15.3
<b>Mcap (Rs Cr)</b>	2651	<b>Upside (%)</b>	19.4	FY12E	258.4	9.1	10.3	1.3	4.5	14.6
<b>MOFSL</b>										
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	164	FY10	170.4	11.9	13.8	2.6	10.3	18.6
		<b>Target</b>	167	FY11E	176.7	12.1	13.6	2.2	9.5	16.4
<b>Mcap (Rs Cr)</b>	2346	<b>Upside (%)</b>	1.8	FY12E	188.2	12.9	12.7	1.9	8.8	15.0

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;  
 Buy: Between 10% and 20%;  
 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

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## ANALYST CERTIFICATION

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