

Slippages rise but asset quality under control

July 30, 2010

ACCUMULATE

Price Rs734	Target Price Rs800
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	6	37	72
Rel. to Sensex	(1)	4	24	47

Source: Bloomberg

Stock Details

Sector	Banks
Reuters	BOB.BO
Bloomberg	BOB@IN
Equity Capital (Rs mn)	3655
Face Value(Rs)	10
No of shares o/s (mn)	366
52 Week H/L	753/381
Market Cap (Rs bn/USD mn)	261/5,583
Daily Avg Volume (No of sh)	642,457
Daily Avg Turnover (US\$m)	9.7

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	53.8	53.8	53.8
FII/NRI	17.8	17.1	14.8
Institutions	17.4	18.2	19.0
Private Corp	4.9	4.9	6.2
Public	6.1	6.1	6.2

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- BOB's Q1FY11 NII at Rs18.6bn in line with expectations driven by 6% qoq growth in advances and stable NIMs at 2.6%. Net profit at Rs8.6bn was also on expected lines
- Slippages were high as they stood at Rs6.7bn for the quarter; 1.4% annualised vs. 1.0% for FY10. Of total slippages of Rs6.5mn, Rs580mn were from restructured accounts
- The NPA profile still remain better than comparable banks with net NPAs of 0.4% (4.5% NNPA/network) and provision cover of 73% reported and 86% including technical write off
- Expect to outperform peers on better NPA ratios, strong RoEs and inexpensive valuation at 1.8x FY11E/1.4x FY12E ABV. Continue ACCUMULATE rating with TP of Rs800

Strong NII growth with stable margins...

BOB's NII for Q1FY11 has grown by 54.2% yoy to Rs18.6bn. The strong growth in NII was driven by 30% yoy (6.0% qoq) growth in advances and stable NIMs. The NIMs remained stable qoq driven by stable yields and cost of deposits.

Yield analysis

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.5	8.5	8.3	7.8	7.9	-56	7
Yield on investments*	6.5	6.7	6.8	6.4	6.4	-10	-3
Yield on assets*	7.0	7.0	6.8	6.6	6.6	-41	-3
Cost of funds*	4.9	4.6	4.2	3.9	4.0	-91	4
NIM*	2.1	2.3	2.6	2.6	2.6	50	-6
Yield on Advances#	8.7	8.7	8.6	8.2	8.2	-55	-6
Cost of deposits#	5.4	5.2	4.7	4.4	4.4	-102	-3
NIM#	2.4	2.6	3.0	3.0	2.9	53	-7

Source: Company, Emkay Research Note:* Calculated on basis of average quarterly balances # reported

...And strong advances growth

BOB's advances for the quarter have grown by 6.0% qoq driven by strong growth in overseas and agriculture segment.

Advances mix

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Foreign	361.1	392.8	401.7	433.9	498.7	38.1	14.9
Mid-corporate/SME	151.4	166.7	202.3	211.1	216.0	42.7	2.3
Agriculture	180.1	185.8	188.0	216.2	230.5	28.0	6.6
Retail	202.2	214.0	223.0	242.5	249.9	23.6	3.1
Others	532.0	530.0	546.6	646.7	660.8	24.2	2.2
Total	1,426.7	1,489.2	1,561.7	1,750.4	1,856.0	30.1	6.0

Source: Company, Emkay Research

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2009	78,811	22,272	60.9	282.0	1.1	18.7	2.5	11.8
FY2010	87,458	30,583	83.7	339.9	1.2	21.9	2.1	8.6
FY2011E	106,536	39,598	108.3	421.7	1.3	23.7	1.7	6.6
FY2012E	121,764	46,991	128.6	520.2	1.3	23.3	1.4	5.6

Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Interest Income	12,047	13,886	16,012	17,449	18,580	54.2	6.5
Other Income	7,030	5,953	6,597	7,669	6,172	-12.2	-19.5
Fee Income	2,010	2,040	3,132	3,575	2,015	0.3	-43.6
Net Income	19,077	19,839	22,609	25,118	24,752	29.7	-1.5
Total Operating Expenses	8,978	9,524	9,959	9,645	9,474	5.5	-1.8
As % Of Net Income	47.1	48.0	44.1	38.4	38.3		
Employee Expenses	5,942	5,958	6,292	5,318	5,767	-2.9	8.5
As % Of Net Income	31.1	30.0	27.8	21.2	23.3		
Other Expenses	3,036	3,567	3,668	4,327	3,706	22.1	-14.3
As % Of Net Income	15.9	18.0	16.2	17.2	15.0		
Operating Profit	10,099	10,315	12,650	15,473	15,279	51.3	-1.3
As % Of Net Income	52.9	52.0	55.9	61.6	61.7		
Provisions	-390	1,163	2,425	3,773	2,513	-745.3	-33.4
Prov for NPA	3,085	1,722	2,430	2,318	2,775	-10.0	19.7
PBT	10,488	9,152	10,225	12,514	12,765	21.7	2.0
Total Tax	3,635	2,811	1,900	3,452	4,174	14.8	20.9
Adjusted PAT	6,853	6,341	8,325	8,472	8,592	25.4	1.4
Extra Ordinary Items	0	0	0	-814	0		
Reported PAT	6,853	6,341	8,325	9,062	8,592	25.4	-5.2
Reported EPS	18.8	17.3	22.8	24.8	23.5	25.4	-5.2

Source: Company, Emkay Research

CASA remains stable despite high growth

The domestic CASA deposits grew by 27% yoy with the CASA mix remaining stable at 35.0% in Q1FY11

CASA Mix

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
CASA	542	581	614	715	687	26.7	-3.9
Term deposits	1,002	1,025	1,048	1,138	1,275	27.2	12.0
Foreign deposits	442	467	490	558	585	32.4	4.9
Total Deposits	1,986	2,074	2,151	2,410	2,547	28.2	5.7
CASA (%)	35.1	36.2	36.9	38.6	35.0	-9	-357

Source: Company, Emkay Research

Fee income growth remains moderate

The fee income for the quarter remained flat driven by structural decline in income on traditional banking products. Heavy trading gains in the same quarter last year also created unfavourable base effect and consequently the total other income dipped by 12% yoy and 19% qoq.

Other income

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Fee/Commission income	2,010	2,040	3,132	3,575	2,015	0.3	-43.6
Trading gains/(losses)	2,554	1,205	1,393	1,254	1,279	-49.9	2.1
Forex gains/(losses)	963	842	987	1,067	1,216	26.3	14.0
Recoveries	499	666	655	1,181	561	12.4	-52.5
Other non int income	1,003	1,199	430	592	1,100	9.7	85.9
Total	7,030	5,953	6,597	7,669	6,172	-12.2	-19.5

Source: Company, Emkay Research

Core operating profit grows by 86% yoy

The strong growth in NII coupled with stable expenses resulted in 51% yoy growth in operating profit notwithstanding unfavourable base effect of trading gains. In fact, the core operating profit grew by stronger 86% for Q1FY11.

Core operating profit

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Reported operating profit	10,099	10,315	12,650	15,473	15,279	51.3	-1.3
Less: Treasury gains	2,554	1,205	1,393	1,254	1,279	-49.9	2.1
Core operating profit	7,545	9,110	11,257	14,219	13,999	85.6	-1.5

Source: Company, Emkay Research

Provisions high with higher slippages

The provisions remained high in Q1FY11 as BOB provided Rs2.8bn for the higher slippages incurred during the quarter. Since, there were also write back of MTM losses in the same quarter last year, the total provisions stood at Rs2.5bn compared to a write back of Rs390mn in Q1FY10.

Break up of provisions

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
On NPL	3,085	1,722	2,430	2,318	2,775	-10.0	19.7
As % of advances	0.22	0.12	0.16	0.13	0.15		
On Standard Assets	86	15	174	792	288	235.8	-63.6
Investment Depreciation	-3,598	-611	-216	617	-589	-83.6	-195.5
Others	38	38	38	46	39	3.7	-15.4
Total	-390	1,163	2,425	3,773	2,513	-745.3	-33.4

Source: Company, Emkay Research

Slippages rise sharply but loss assets still better than peers

The slippages rose sharply during the quarter at 0.4% (1.4% annualized) as Rs6.7bn of assets (including Rs580mn from the restructured asset portfolio) slipped during the quarter.

However, BOB is much better placed than many of its peer banks on asset quality front as the net NPAs stood at 0.4% of advances or 4.5% of net worth with strong provision cover of 73% (86% including technical write offs).

NPA profile

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	20,682	19,566	22,603	24,007	26,674	29.0	11.1
Net NPA (Rs bn)	3,787	4,053	4,877	6,023	7,173	89.4	19.1
Gross NPA (%)	1.4	1.3	1.4	1.4	1.4		
Net NPA (%)	0.3	0.3	0.3	0.3	0.4		
Net NPLs/Net worth (%)	2.8	2.8	3.2	4.0	4.5		
Provision cover (%)	81.7	79.3	78.4	74.9	73.1		

Source: Company, Emkay Research

Slippages

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Cumulative (Rs mn)	4,500	7,744	12,160	16,712	6,662	48.0	
Quarterly (Rs mn)	4,500	3,244	4,416	4,552	6,662	48.0	46.3
Cumulative (%)	0.3	0.5	0.8	1.0	0.4		
Quarterly (%)	0.3	0.2	0.3	0.3	0.4		

Source: Company, Emkay Research

Valuations and view

The stock is currently quoting at 1.8x FY11E ABV and 1.4x FY11E ABV with attractive average RoEs of 23.5%. We believe that the valuations are not unreasonable looking at (1) strong returns profile and (2) better NPAs profile than peers. We have already factored in slippage rate of 120bps and provision cost of 6bps in our numbers. We maintain our ACCUMULATE rating on the stock with price target of Rs800.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	51,234	59,395	77,625	89,724
Other income	27,577	28,064	28,910	32,040
Net income	78,811	87,458	106,536	121,764
Operating expenses	35,761	38,106	40,941	44,493
Pre provision profit	43,050	49,353	65,595	77,271
PPP excl treasury	34,049	42,120	60,095	71,771
Provisions	9,621	6,972	10,723	12,154
Profit before tax	33,429	42,381	54,872	65,118
Tax	11,157	11,797	15,274	18,127
Tax rate	33%	28%	28%	28%
Profit after tax	22,272	30,583	39,598	46,991

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	3,655	3,655	3,655	3,655
Reserves	124,700	147,409	179,308	217,319
Net worth	128,355	151,064	182,964	220,974
Deposits	1,923,970	2,410,443	2,835,651	3,285,936
Borrowings	221,742	221,661	247,658	277,938
Total liabilities	2,274,067	2,783,167	3,266,273	3,784,848
Assets				
Cash and bank	240,871	354,671	368,256	426,733
Investments	494,318	588,306	686,647	782,364
Customer assets	1,469,999	1,773,871	2,132,116	2,480,722
Others	68,878	66,320	79,254	95,029
Total assets	2,274,067	2,783,167	3,266,273	3,784,848

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.7	2.5	2.8	2.8
Non-Il/avg assets	1.4	1.1	1.0	0.9
Fee income/avg assets	0.4	0.4	0.4	0.4
Opex/avg assets	1.8	1.5	1.4	1.3
Provisions/avg assets	0.2	0.6	0.4	0.4
PBT/avg assets	1.5	1.5	1.7	1.7
Tax/avg assets	0.5	0.4	0.5	0.5
RoA	1.1	1.2	1.3	1.3
RoAE	18.7	21.9	23.7	23.3
GNPA (%)	1.5	1.5	1.7	1.9
NNPA (%)	0.3	0.3	0.4	0.4

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	22,272	30,583	39,598	46,991
Shares in issue (mn)	366	366	366	366
EPS (Rs)	60.9	83.7	108.3	128.6
PER (x)	11.8	8.6	6.6	5.6
FDEPS(Rs)	60.9	83.7	108.3	128.6
FDPER (x)	11.8	8.6	6.6	5.6
Book value (Rs)	294.3	356.4	443.7	547.7
P/BV (x)	2.4	2.0	1.6	1.3
Adj book value (Rs)	282.0	339.9	421.7	520.2
P/ABV (x)	2.5	2.1	1.7	1.4
P/PPP (x)	6.1	5.3	4.0	3.4
Dividend yield (%)	1.3	2.1	2.5	2.9

Recommendation History: Bank Of Baroda – BOB IN

Date	Reports	Reco	CMP	Target
29.04.2010	Bank of Baroda Q4FY10 Result Update	Accumulate	687	750
08.01.2010	Bank of Baroda Q3FY10 Result Update	Accumulate	522	550
29.10.2009	Bank of Baroda Q2FY10 Result Update	Accumulate	489	480
28.07.2009	Bank of Baroda Q1FY10 Result Update	Accumulate	418	430

Recent Research Reports

Date	Reports	Reco	CMP	Target
29.07.2010	Corporation Bank Q1FY11 Result Update	Accumulate	565	600
27.07.2010	Union Bank of India Q1FY11 Result Update	Reduce	321	300
23.07.2010	Allahabad Bank Q1FY11 Result Update	Accumulate	185	220
22.07.2010	Punjab National Bank Q1FY11 Result Update	Accumulate	1,056	1,100

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