

Bank of Baroda

Relative to sector: **Outperformer**

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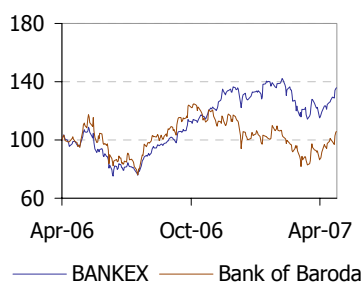
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 364mn
Market cap	: Rs 88.5bn
52 week high/low	: Rs 296/ Rs 176
Avg. daily vol. (6mth)	: 832,800 shares
Bloomberg code	: BOB IN
Reuters code	: BOB.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 53.8	0.0
FII's	: 20.1	0.0
MFs / UTI	: 9.8	(1.0)
Banks / FIs	: 4.9	0.6
Others	: 11.4	0.4

Financial summary

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	BV (Rs)	P/BV (x)	NPAs (%)	P/Adj.BV (x)	RoE (%)	RoA (%)
2006	8,270	25.1	9	9.7	208	1.2	0.9	1.2	12.7	0.8
2007	10,265	28.1	12	8.6	231	1.1	0.6	1.1	12.8	0.8
2008E	12,530	34.3	22	7.1	258	0.9	0.5	1.0	14.0	0.8
2009E	14,352	39.3	15	6.2	288	0.8	0.3	0.9	14.4	0.8

Source: Company, ENAM estimates

MARCHING AHEAD

Bank of Baroda's Q4 FY07 net profit growth at 17.7% has been in line with our expectations. Core profitability remained intact; NII growth at 27.1% (25% adjusted for NII from BoB Housing Finance merger) has been above expectations, driven by steady margins (3.23%) and high deposits growth (33.4%). Asset quality improvement remained on track with Net NPAs at 0.6% despite low NPA provisioning.

Q4FY07 highlights

- Credit growth remained strong with global advances up 39.6% and domestic advances up 33.5% YoY. Growth in retail assets was 46.42% yoy, with retail now comprising 21% of gross domestic advances. Yield on overall advances rose 94bps YoY and 21 bps QoQ, to 8.61%.
- Total Deposits growth stood at 33.4% YoY (domestic deposits growth at 26.2%); CASA however, declined sequentially from 40.4% to 38.6% as it failed to keep pace with overall deposits growth (CASA grew at 16.7% yoy). Cost of deposits rose 62 bps YoY and 10 bps QoQ.
- NIM has slightly risen sequentially from 3.21% to 3.23%, though on a YoY basis, NIMs declined 8 bps. The slight expansion in FY07 NIM was largely due to the fact that NIM for Q407 rose to 3.42%. Despite rising cost of deposits and falling CASA, the bank has done well on the NIM front by steadily increasing its yield on advances. During FY07, BoB has hiked its PLR four times from 11% to 12.5%.

BoB's performance has been gaining traction in terms of NIMs, fee income, recoveries and asset quality. We expect margins to remain steady and buildup in fee income & recoveries to continue. While RoE remains low, we expect steady progression in RoE going forward. (14% for FY08). At Rs 243 the stock trades at 0.9x FY08E BV. Maintain our sector **Outperformer** rating on the stock.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07	Mar-06	% Chg
Interest Income	26,721	19,551	36.7	23,870	11.9	92,126	70,500	30.7
Interest Expended	15,674	10,883	44.0	14,262	9.9	54,266	38,751	40.0
Net Interest Income	11,046	8,667	27.5	9,608	15.0	37,861	31,749	19.3
Non-Interest Income	2,403	3,720	(35.4)	3,337	(28.0)	11,732	11,274	4.1
Net Income	13,450	12,387	8.6	12,944	3.9	49,593	44,166	12.3
Operating Expenses	7,584	6,667	13.8	6,375	19.0	25,443	23,848	6.7
% of Net Income	56	54	4.8	49	14.5	51	54	(5.0)
- Staff costs	4,418	3,819	15.7	4,325	2.2	16,441	13,811	19.0
Operating Income	5,866	5,721	2.5	6,569	(10.7)	24,150	20,319	18.9
Provision & Contingencies	1,543	3,097	(50.2)	1,417	8.9	7,608	8,029	(5.2)
PBT	4,322	2,624	64.7	5,152	(16.1)	16,543	11,146	48.4
Tax	1,865.8	535.6	248.4	1,860.9	0.3	6,278	2,876	118.3
Net Profit	2,457	2,088	17.6	3,291	(25.4)	10,265	8,270	24.1
EPS (Rs.)	7	6	17.6	9	(25.4)	28	25	12.3
NIM (%)	3.23	3.31	-	3.21	-	3.23	3.31	-
Yield on Advances (%)	8.37	7.43	-	8.16	-	8.37	7.43	-
Cost of Deposits (%)	4.77	4.15	-	4.67	-	4.77	4.15	-
Advances (Rs.bn)	836.2	599.1	39.6	776.6	7.7	836.2	599.1	39.6
Retail Advances (Rs.bn)	143.2	97.8	46.4	122.4	17.0	143.2	97.8	46.4
Investments (Rs.bn)	337.8	351.4	(3.9)	367.1	(8.0)	337.8	351.4	(3.9)
Deposits (Rs.bn)	1,249.2	936.6	33.4	1,123.0	11.2	1,249.2	936.6	33.4
Gross NPAs (Rs.bn)	20.92	23.90	-	23.89	-	20.92	23.90	-
Gross NPAs (%)	2.47	3.90	-	3.02	-	2.47	3.90	-
Net NPAs (Rs.bn)	5.02	5.20	-	5.15	-	5.02	5.20	-
Net NPAs (%)	0.60	0.90	-	0.67	-	0.60	0.87	-
CAR (%)	11.80	13.65	-	12.24	-	11.80	13.65	-

Source: Company

Strong growth in fee income and recoveries

Growth in core fee-based income remained robust with forex income, core fee income and recoveries rising 34%, 31% and 55% respectively during FY07. While the bank has not reported the break-up of other income on a quarterly basis, we estimate that for Q407, growth in forex income, core fee income and recoveries stood at 43%, 36% and 9% respectively.

Operating costs rise higher than expected

Operating expenses growth was higher than expected at 13.8% yoy and 19% qoq, largely driven by a 15.7% spike in staff costs for Q407. Management attributes the rise to high consultancy fees paid during the quarter.

Asset quality on track

Asset quality showed a improvement both on a qoq and yoy basis. Gross NPAs fell 50 bps qoq to 2.5%, whereas NNPAs fell 30 bps qoq to 0.6% .The bank enjoyed a coverage ratio of 76% (excluding write-offs) in FY07. We expect provisioning requirements to remain sedate, given the strong outlook on recoveries and lower slippages.

International Business gains further momentum

Strong build-up in international business continues with overseas advances and deposits growing 71.4% & 72.4% respectively during FY07. Asset quality of overseas loan book remained robust with GNPs at 0.73% and nil NNPA's. Overseas business contributed 20% to bank's total business and 33% of the bank's net profit; management has guided for a further traction in international business and intends to open 10 more overseas branches during the year.

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