

BUY

CMP* Rs789

Target Price Rs923

Stock Info

Sector Banking

Market Cap (Rs cr) 30,885

52 Week High/Low 1,007/630

Avg. Daily Volume (3m, '000) 526

Avg. Daily Value (3m, cr) 39

Dividend Yield (%) 2.4

Sensex 17,077

Nifty 5,158

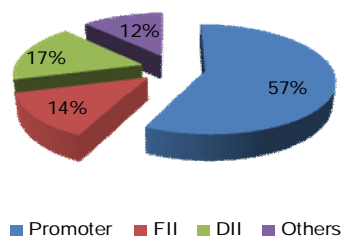
BSE Code 532134

NSE Code BANKBARODA

Stock Performance

(%)	Bank of Baroda	NIFTY
1-week	6.1	4.1
1-month	16.8	9.4
1-year	(9.2)	(9.3)

Shareholding Pattern (%)



Stock Price Chart



Note: *CMP as on January 25, 2012

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Net profit intact despite deteriorating asset quality

Key highlights of the result

- Net Profit growth high, backed by impressive fee income:** In 3QFY2012, Bank of Baroda's (BOB) Net Interest Income (NII) grew 15.8% yoy and 3.5% qoq to Rs2,656cr. Interest income increased 35.4% yoy and 5.8% qoq to Rs7,672cr on the back of high growth in advances of 25.8% yoy and 9.0% qoq. Interest expense increased 48.7% yoy and 7.1% qoq to Rs5,016cr in 3QFY2012. Non-Interest income grew impressively by 70% yoy and 56.5% qoq to Rs1,149cr. Provisions and Contingencies (excluding tax provisions) for the bank grew 175.2% yoy and 73.1% qoq to Rs837cr on account of higher provisions for bad loans and depreciation on investments. Net Profit reported an increase of 20.7% yoy and 10.6% qoq to Rs1,290cr.
- Steady balance sheet:** Total net advances (including overseas) book grew 25.8% yoy and 9% qoq to Rs2.6 lakh crore as on December 31, 2012. Major growth was seen from its overseas loan book which contributed ~31% of the total advances. Total deposits (including overseas) grew 24% yoy and 6.1% qoq to Rs3.5 lakh crore. Growth was primarily witnessed in the bank's overseas deposits which contributed ~27% of the total deposits. Savings deposits contributed ~21% of the total deposits.
- Asset quality deteriorates:** GNPA's of the bank stood at Rs3,895cr (1.5%) and %Net NPAs were reported at 0.5% as on 3QFY2012. The bank witnessed an increase in slippages primarily in Agriculture and MSME portfolio. Provision coverage ratio (excl. technical write offs) stood at 66%. Restructured loans increased from telecom & infra sectors to ~4% of the loan book and ~13% loans slipped into NPA out of the restructured book.
- Other highlights of the quarter:** The bank's capital adequacy ratio was at 13.5% (including Tier 1 at 9.3%) as on 3QFY2012, despite a growth of 25.8% yoy in the bank's loan book. The bank currently has over 3,690 branches and 1,840 ATMs.

Outlook and Valuation

A robust growth in other income and tight control on operating expenses helped Bank of Baroda report a ~21% increase in Net Profit at Rs1,290cr in 3QFY2012. The asset quality, however, deteriorated on the back of challenging domestic environment. We remain cautious on any signs of further slippages and have factored the same in our estimates. We like the bank for its wide distribution network, firm asset quality, above average loan growth, good return ratios and modest margins as compared to its peers. Bank of Baroda has been consistently growing its assets above the industry growth rate since the last many years. We expect the bank to outperform the industry going forward, since it has major portion of its operations in the growing states of Gujarat and Maharashtra. **At the CMP of Rs789, the bank is trading at 1.1x FY2013E ABV. We keep our estimates broadly unchanged and maintain our Buy recommendation on Bank of Baroda with a target price of Rs923, implying an upside of ~17% from the CMP.**

Risks to the view

- Any global uncertainty and unprecedented domestic slowdown holds downside risk to our overall balance sheet growth and credit quality estimates
- Lower than anticipated CASA and sharp increase in savings account rate due to competitive pressures holds a downside risk to our margin estimates

Year End	Net Interest Income		Net Profit		EPS	NIM	GNPA	ROA	ROE	Valuation (x)	
	(Rs cr)	% growth	(Rs cr)	% growth	(Rs)	%	%	%	(%)	P/E	P/ABV
FY2010	5,939	15.9	3,058	37.3	83.7	2.4	1.4	1.2	21.9	9.4	2.0
FY2011	8,802	48.2	4,242	38.7	108.0	2.8	1.4	1.3	23.5	7.3	1.6
FY2012E	10,549	19.8	4,710	11.0	119.9	2.8	1.6	1.2	20.5	6.6	1.3
FY2013E	12,163	15.3	5,557	18.0	141.5	2.7	1.5	1.2	20.5	5.6	1.1

Net Profit reported an increase of 20.7% yoy and 10.6% qoq to Rs1,290cr in 3QFY2012

The ratio of non-interest income/total income surged to 30% in 3QFY2012

Net Profit increased impressively despite higher provisioning

In 3QFY2012, Bank of Baroda's Net Interest Income (NII) grew 15.8% yoy and 3.5% qoq to Rs2,656cr. Interest income increased 35.4% yoy and 5.8% qoq to Rs7,672cr on the back of high growth in advances of 25.8% yoy and 9.0% qoq. Interest expense increased 48.7% yoy and 7.1% qoq to Rs5,016cr in 3QFY2012, due to elevated cost of retail term deposits. Non-Interest income grew impressively by 70% yoy and 56.5% qoq to Rs1,149cr, mainly on the back of trading and forex income gains. Provisions and Contingencies (excluding tax provisions) for the bank grew 175.2% yoy and 73.1% qoq to Rs837cr, on account of higher provisions for bad loans and depreciation on investments. Despite higher provisioning the overall Net Profit reported an increase of 20.7% yoy 10.6% qoq to Rs1,290cr, due to surge in other income.

Exhibit 1: Quarterly performance

(Rs cr)	3QFY12	3QFY11	%yoy	2QFY12	%qoq	9MFY12	9MFY11	%yoy
Interest income	7,672	5,666	35.4	7,251	5.8	21,555	15,552	38.6
Interest expense	5,016	3,374	48.7	4,685	7.1	14,036	9,363	49.9
Net interest income	2,656	2,292	15.8	2,567	3.5	7,520	6,188	21.5
Non-interest income	1,149	676	70.0	734	56.5	2,525	1,975	27.8
Total income	3,805	2,968	28.2	3,301	15.3	10,044	8,163	23.0
Operating expenses	1,197	1,117	7.1	1,161	3.0	3,465	3,127	10.8
Pre-provisioning profits	2,608	1,851	40.9	2,140	21.9	6,579	5,036	30.7
Provisions	837	304	175.2	483	73.1	1,711	741	131.0
Exceptional items	13	0	-	13	0.0	39	0	-
Profit before tax	1,758	1,547	13.7	1,644	7.0	4,829	4,295	12.4
Taxes	469	478	(2.0)	478	(1.9)	1,341	1,348	(0.5)
Net profit	1,290	1,069	20.7	1,166	10.6	3,489	2,947	18.4

Source: Company, RSec Research

Impressive growth in other income

Non-interest income reported an impressive growth of 70% yoy and 56.5% qoq to Rs1,149cr in 3QFY2012. It was primarily led by high trading and forex transactions gains. However, recovery from written off assets was subdued due to challenging business environment, which is why we saw an increase in GNPA to Rs3,895cr in 3QFY2012 as compared to Rs3,402cr in 2QFY2012. We believe that the other income in this quarter was above the run-rate of the past few quarters and we don't anticipate the other income to sustain at these levels, and hence, forecast a reasonable ~23% ratio of non-interest income/total income.

Exhibit 2: Other income (Fee income)

(Rs cr)	3QFY12	3QFY11	% yoy	2QFY12	% qoq
CEB	293	245	19.8	314	(6.6)
Incidental charges	74	74	0.1	75	(0.9)
Other misc. charges	85	64	32.1	66	27.7
Total fee-based income	452	383	18.1	455	(0.6)
Trading gains	386	85	354.8	10	3,698.0
Profit on forex transactions	241	147	63.7	147	63.4
Recovery from w/o accounts	71	61	15.7	122	(41.7)
Total non-interest income	1,149	676	70.0	734	56.5

Source: Company, RSec Research

The total net loan book grew 25.8% yoy and 9.0% qoq to Rs2.6 lakh crore as on 3QFY2012

Total deposits grew by 24% yoy and 6.1% qoq to Rs3.5 lakh crore led by overseas deposits growth

Blended NIMs declined 21bp yoy and 8bp qoq to 3% in 3QFY2012

Robust loan book growth

Total net advances (including overseas) book grew 25.8% yoy and 9% qoq to Rs2.6 lakh crore as on December 31, 2012. Major growth was seen from its overseas loan book which contributed ~30% of the total advances and grew 45.8% yoy and 14.8% qoq this quarter. From the domestic book, retail credit grew marginally 4.9% yoy to Rs31,047cr (home loans which form part of retail grew 15.2% yoy to Rs13,700cr). MSME credit grew 27.2% to Rs32,123cr as on 3QFY2012. We have factored 20% yoy loan book growth for FY2013E.

Exhibit 3: Loan book composition

(Rs cr)	3QFY12	3QFY11	%yoy	2QFY12	%qoq
Domestic advances	180,234	152,039	18.5	169,034	6.6
Overseas advances	80,427	55,170	45.8	70,087	14.8
Total advances	260,661	207,209	25.8	239,121	9.0

Source: Company, RSec Research

Deposits growth aided by overseas deposit growth

Total deposits grew 24% yoy and 6.1% qoq aided by the growth in overseas deposits, which contributed ~27% of the total deposits. Overall, domestic CASA deposits grew 14.8% yoy and 4.3% qoq. CASA proportion dipped 190bp yoy and 20bp qoq to 27.2%. Savings deposits contributed ~21% of the total deposits. The bank currently has over 3,690 branches and 1,840 ATMs.

Exhibit 4: Deposits composition

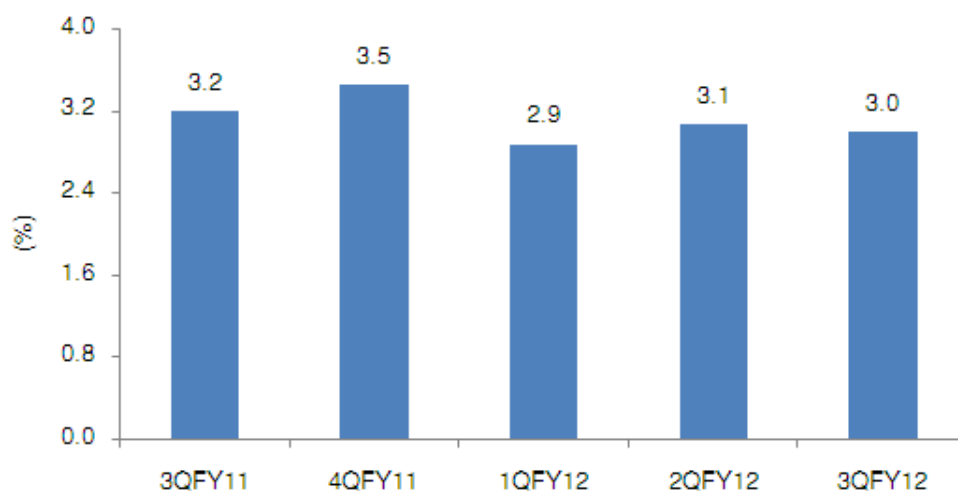
(Rs cr)	3QFY12	3QFY11	%yoy	2QFY12	%qoq
Domestic savings	70,169	60,092	16.8	67,013	4.7
Overseas savings	1,674	1,448	15.6	1,528	9.6
Total savings	71,843	61,540	16.7	68,541	4.8
Domestic current	16,667	15,540	7.3	16,237	2.6
Overseas current	6,314	4,916	28.4	5,401	16.9
Total current	22,981	20,456	12.3	21,638	6.2
Domestic deposits	254,994	215,378	18.4	244,720	4.2
Overseas deposits	94,212	66,134	42.5	84,466	11.5
Total deposits	349,206	281,512	24.0	329,186	6.1

Source: Company, RSec Research

Stable NIMs

Domestic NIMs declined 31bp yoy and 16 qoq to 3.5% in 3QFY2012 driven by higher cost of deposits which increased by 63bp yoy and 6bp qoq. However, Overseas NIMs increased 24bp yoy and 22bp qoq to 1.6%. Overall, Blended NIMs declined 21bp yoy and 8bp qoq to 3%. We have factored lower NIMs of 2.7% for FY2013E.

Exhibit 5: NIMs trend



Source: Company, RSec Research

Asset quality deteriorates

The slippage ratio increased to 1.4% from the previous 5 quarter average of 0.8%

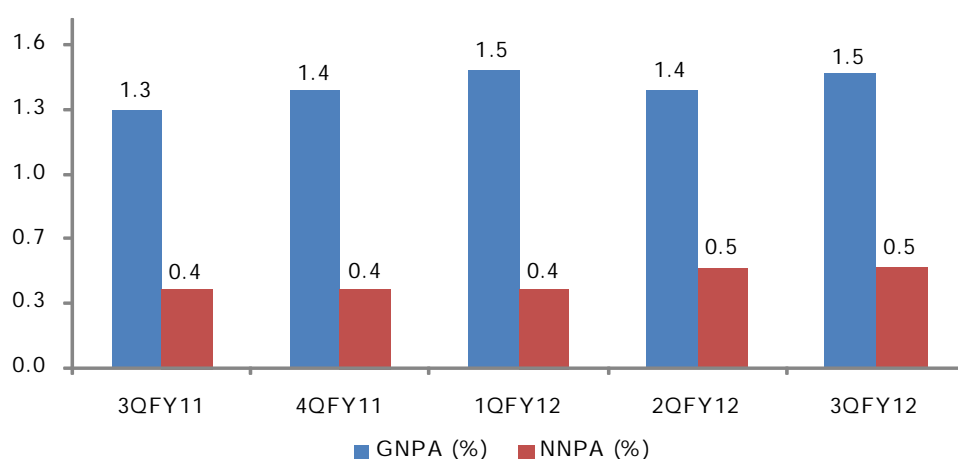
GNPAs of the bank stood at Rs3,895cr (1.5%) and %Net NPAs were reported at 0.5% or Rs1,326cr as on 3QFY2012. The management has mentioned that it has guided for upto 1.5% of GNPAs. The bank witnessed an increase in slippages primarily in Agriculture, MSME & also one account in the aviation sector portfolio. The slippage ratio increased to 1.4% from the previous 5 quarter average of 0.8%. We have changed our estimates to expect similar trend for the asset quality, since the current environment remains challenging and the full impact of interest rate hikes is still being borne by the end users of loans. Provision coverage ratio (excl. technical write offs) stood at 66%. Restructured loans increased from telecom & infra sectors to ~4% of the loan book and ~13% loans slipped into NPA out of the restructured book.

Exhibit 6: GNPA movement

(Rs cr)	3QFY12	3QFY11	%yoy	2QFY12	%qoq
Opening GNPA	3,402	2,720	25.1	3,425	(0.7)
Addition	953	276	244.9	583	63.5
Reduction	460	225	104.2	606	(24.1)
Recovery/Upgradation	304	103	195.1	187	62.6
Write offs	156	121	28.7	418	(62.8)
Closing GNPA	3,895	2,771	40.6	3,402	14.5

Source: Company, RSec Research

Exhibit 7: Asset quality trend



Source: Company, RSec Research

Outlook and Valuation

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Profit & Loss

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Interest income	16,698	21,886	29,641	34,059
Interest expenses	10,759	13,084	19,092	21,896
Net interest income	5,939	8,802	10,549	12,163
Non-interest income	2,806	2,809	3,263	3,679
Total income	8,746	11,611	13,812	15,842
Operating expenses	3,811	4,630	4,870	5,476
Pre provision profits	4,935	6,982	8,942	10,366
Provisions	697	1,331	2,400	2,648
Profit before tax	4,238	5,650	6,541	7,718
Income tax	1,180	1,409	1,832	2,161
Net profit	3,058	4,242	4,710	5,557

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Asset quality ratios (%)				
GNPA	1.4	1.4	1.6	1.5
NNPA	0.3	0.3	0.5	0.4
LLP as % of avg. assets	0.4	0.4	0.6	0.5
Growth ratios (%)				
Advances growth	22.2	30.6	18.0	20.0
Deposits growth	25.4	26.6	17.5	19.5
CD ratio (%)	70.4	71.1	71.6	72.0
CASA deposit ratio (%)	29.6	28.7	27.9	27.9
Net interest income	15.9	48.2	19.8	15.3
Fee income	1.8	0.1	16.1	12.8
Core earnings growth	11.0	32.8	18.9	14.7
Pre-provision profits	14.6	41.5	28.1	15.9
Net profit	37.3	38.7	11.0	18.0
Total assets	22.8	28.8	17.1	18.5
NIM % - calculated	2.4	2.8	2.8	2.7
ROE (%)	21.9	23.5	20.5	20.5
ROA (%)	1.2	1.3	1.2	1.2
Cost-to-income ratio (%)	43.6	39.9	35.3	34.6
Capital adequacy ratio (%)				
Tier 1	9.2	10.0	9.1	8.6
Tier 2	5.2	4.5	4.3	4.0
Total CAR	14.4	14.5	13.4	12.6
Per share data (Rs)				
EPS	83.7	108.0	119.9	141.5
DPS	17.5	19.2	21.6	25.5
BVPS	403.3	524.4	622.8	738.8
Adj. BVPS	386.8	504.3	589.8	709.9
P/E (x)	9.4	7.3	6.6	5.6
P/ABV (x)	2.0	1.6	1.3	1.1
Dividend yield (%)	2.2	2.4	2.7	3.2

Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Cash and bank balances	35,467	49,934	56,612	63,056
Investments (net)	61,182	71,261	84,280	101,136
Loans	176,834	231,038	272,860	327,399
Loan loss reserves	1,798	2,362	3,022	3,593
Loans (net)	175,035	228,676	269,838	323,806
Fixed assets	2,285	2,300	2,447	2,533
Other assets	4,347	6,226	6,471	6,724
Total assets	278,317	358,397	419,649	497,256
Total deposits	241,262	305,439	358,950	429,108
Total borrowings	13,350	22,308	24,366	25,985
Other liabilities	8,598	9,657	11,478	12,751
Total liabilities	263,210	337,404	394,794	467,844
Shareholders' equity	15,106	20,993	24,855	29,412
Total liabilities & equity	278,317	358,397	419,649	497,256

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