

BOB IN
BANK OF BARODA
INDIA / BANKS**BUY**

TARGET	INR941.00
PRIOR TP	N/A
CLOSE	INR740.55
UP/DOWNSIDE	+27.1%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	941.00	994.32	(5.4)
EPS 2012 (INR)	129	120	7.5
EPS 2013 (INR)	151	144	5.2
	Positive	Neutral	Negative
Market Recs	46	9	3

INDUSTRY OUTLOOK ↔

In a league of its own**CHANGE**

Initiate coverage at BUY with a target price of INR941

Bank of Baroda (BoB) is the most improved PSU bank on all counts, and we expect above-industry-average performance to continue. BoB has historically traded at a premium to peers, but the bank's valuations have eroded in the current market correction despite earnings momentum and performance being largely intact. We remain positive on BoB.

**CATALYST**

Improvement in macro and stability in Eurozone financial situation

BoB's stock performance has mirrored the sector, although financials are superior. Hence, the triggers largely are improvement in the domestic macro scenario and global outlook on recession and Eurozone issues, as 20-25% of BoB's business is driven by the UK, UAE and the US. We expect earnings CAGR to remain healthy at 18.1% over FY11-13E.

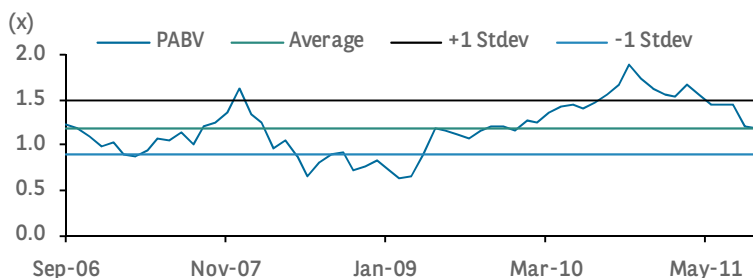
**VALUATION**

Remains attractive for a bank which is outperforming peers

BoB trades at 1x FY13E ABV (with ROE of 21.5% over FY11-13E). The 5-year average valuation is 1.2x, but the bank was re-rated during FY09-11 (average 1.4x), so comparatively valuations appear much more attractive now. Downside risks to our TP and estimates are higher-than-expected slippages from SME, infrastructure and overseas loan book.

**KEY CHART**

1-year forward P/ABV at 5-year trading average



Sources: Bloomberg consensus; BNP Paribas estimates



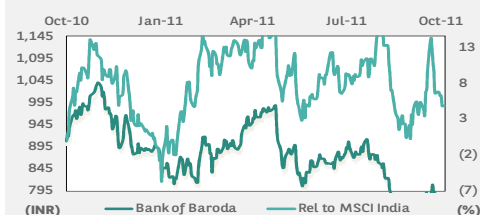
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KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Operating Profit	70,360	82,115	91,333
Rec. net profit	50,659	59,122	65,760
Recurring EPS (INR)	129	151	167
Prior rec. EPS (INR)	N/A	N/A	N/A
Chg. In EPS est. (%)	-	-	-
EPS growth (%)	10.8	16.7	11.2
Recurring P/E (x)	5.7	4.9	4.4
Dividend yield (%)	2.4	2.4	2.4
Price/book (x)	1.1	1.0	0.8
ROE (%)	21.9	21.1	19.6
ROA (%)	1.29	1.27	1.19



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(3.4)	(18.5)	(19.6)
Relative to country (%)	1.1	(3.4)	2.5
Next results	October 2011		
Mkt cap (USD m)	5,918		
3m avg daily turnover (USD m)	7.4		
Free float (%)	43		
Major shareholder	Govt of India (57%)		
12m high/low (INR)	1,041.80/691.25		
3m historic vol. (%)	27.8		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	393		

Sources: Bloomberg consensus; BNP Paribas estimates

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**BNP PARIBAS** | The bank for a changing world



RISK EXPERTS

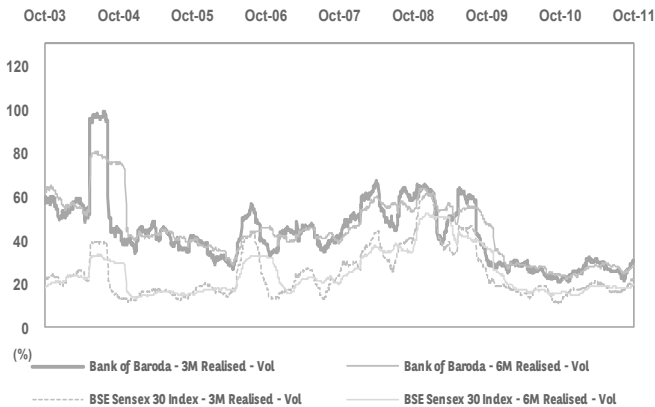
Key Earnings Drivers & Sensitivity

- The key macro factors that can impact BoB's earnings are credit growth, interest rate environment, and deterioration/improvement in asset quality
- In our bear and bull case we have assumed slippages in FY12 and FY13 to be 20bp below and above the base-case scenario

Year-end 31 Mar	----- 2012E -----			----- 2013E -----		
	Bear	Base	Bull	Bear	Base	Bull
Advance growth (%)	15.9	19.6	22.6	17.3	18.4	22.4
NIM (%)	2.57	2.67	2.76	2.36	2.55	2.72
Slippages (%)	1.50	1.30	1.10	1.70	1.50	1.30
EPS (INR)	117.2	129.0	140.9	126.8	150.5	178.5
ABV (INR)	598.8	613.3	628.0	687.5	726.8	770.9
ROE (%)	20.1	21.9	23.6	18.4	21.1	24.2

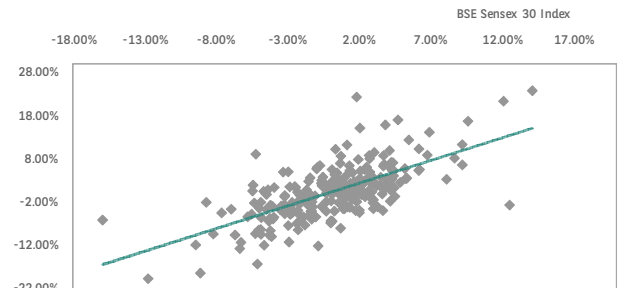
Source: BNP Paribas estimates

BoB and SENSEX Index (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression - BoB to SENSEX Index



Bank of Baroda

$$\text{Bank of Baroda} = -464 + 0.0604 * \text{SENSEX Index}$$

R Square = 0.4477

Regression based on 261 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square

Sources: Bloomberg; BNP Paribas

India sector correlation matrix at 25 July 2011

	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
Autos	1.00	0.67	0.64	0.66	0.50	0.43	0.36	0.58	0.62
Banks		1.00	0.71	0.70	0.58	0.46	0.36	0.63	0.66
Engineering & Construction			1.00	0.71	0.58	0.46	0.41	0.65	0.68
Metals & Mining				1.00	0.66	0.50	0.40	0.69	0.72
Oil & Gas					1.00	0.40	0.30	0.57	0.57
IT Services						1.00	0.27	0.45	0.38
Telecom							1.00	0.43	0.43
Utilities								1.00	0.63
Property									1.00

Source: BNP Paribas Sector Strategy

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process

Long/Short Chart



Sources: Bloomberg; BNP Paribas

Sources: Bloomberg; BNP Paribas

In its own league

Best among peer nationalised banks we cover across operating parameters, thus deserves a premium

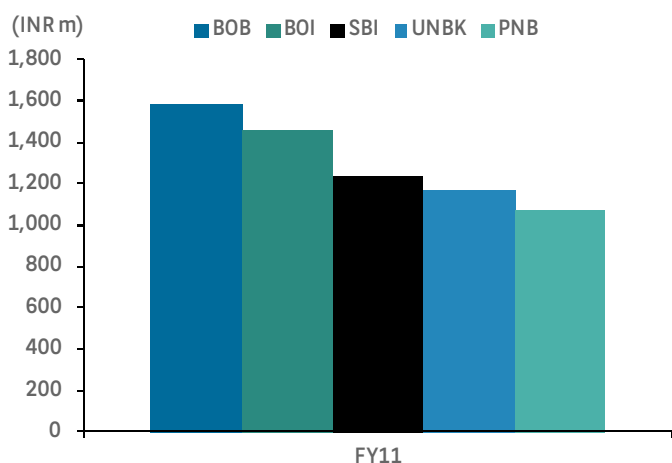
BoB has consistently delivered healthy operating performance and has managed to improve return ratios across interest rate scenarios. The bank has grown to become superior to its peer nationalised banks we cover across various operating parameters.

Although BoB's infrastructure exposure (including electricity) is in line with that of peers, its restructured book remains small and slippages from the book have also been fairly low, which enhances our confidence in the bank's book. Also, BoB has moved to a system-based NPA recognition, which means it will have no slippages from small-ticket-sized agriculture loans, which we believe will plague most of its peers.

Additionally, a large presence in industrially advanced states like Gujarat and Maharashtra ensures that credit growth will likely remain healthy.

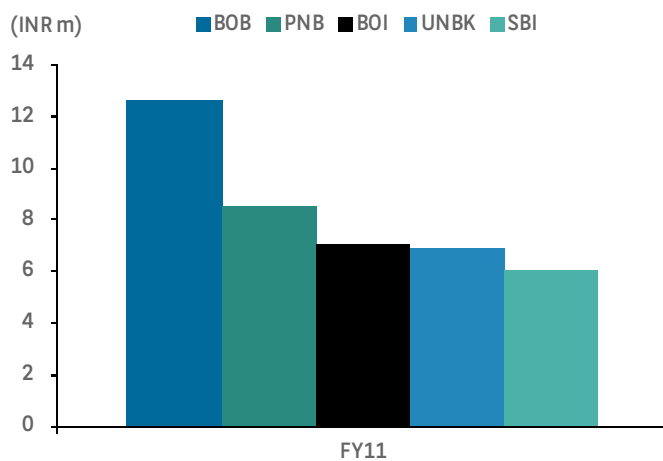
In view of the above, we believe BoB deserves to trade at a premium to peers, who have shown less discipline while vying for growth and, as a result, are suffering from asset quality issues. Furthermore, the peers have not been as proactive as BoB in implementing system-based NPA recognition.

EXHIBIT 1: Most productive branch network (business per branch)



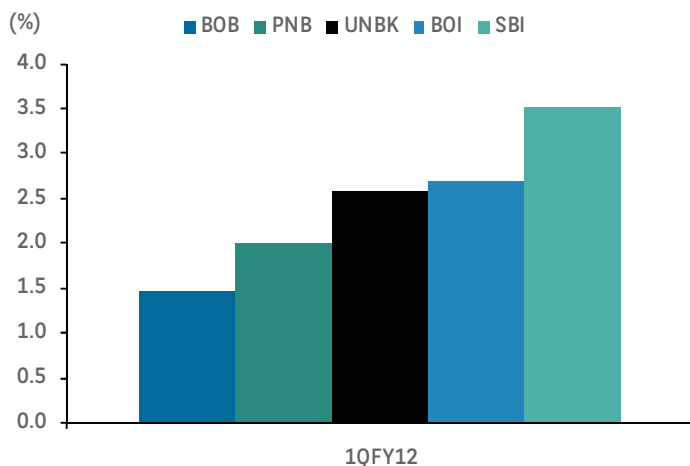
Sources: Company data; BNP Paribas

EXHIBIT 2: Most profitable branch network (PAT per branch)



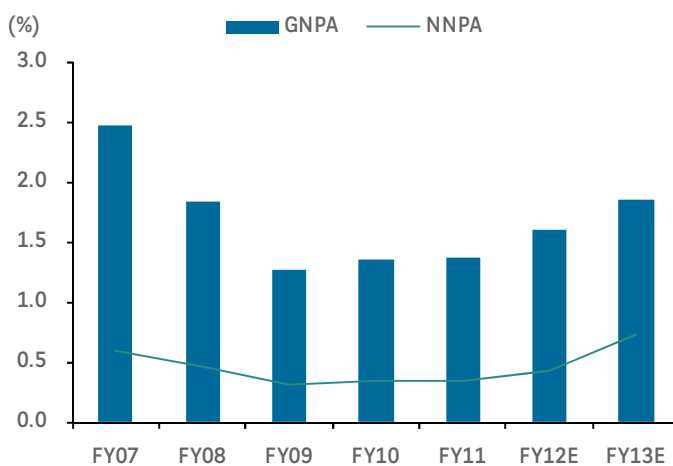
Sources: Company data; BNP Paribas

EXHIBIT 3: Best-in-class asset quality (% GNPA)



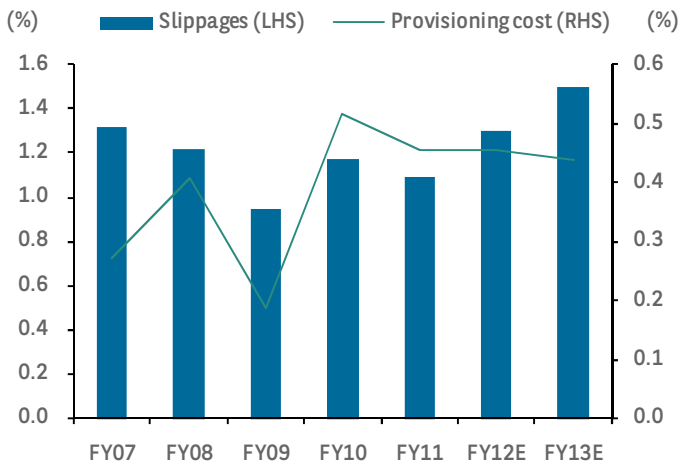
Sources: Company data; BNP Paribas

EXHIBIT 4: Asset quality has improved and remained stable...



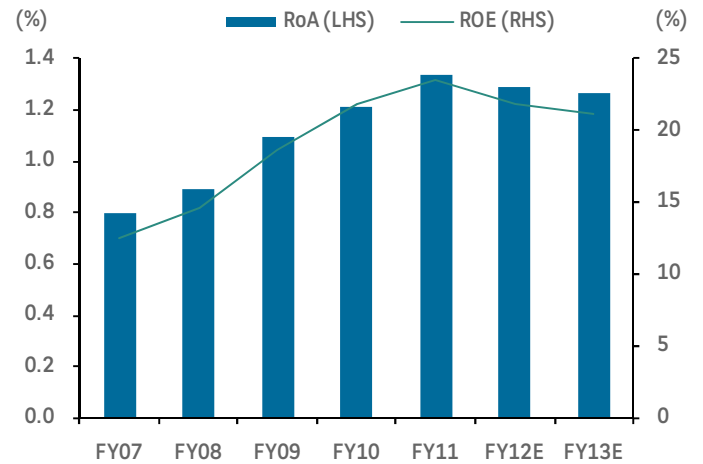
Sources: Company data; BNP Paribas estimates

EXHIBIT 5: ...on lower slippages, resulting in low provisioning cost



Sources: Company data; BNP Paribas estimates

EXHIBIT 6: Lower provisioning cost than peers and better cost efficiency has resulted in improvement in return ratios



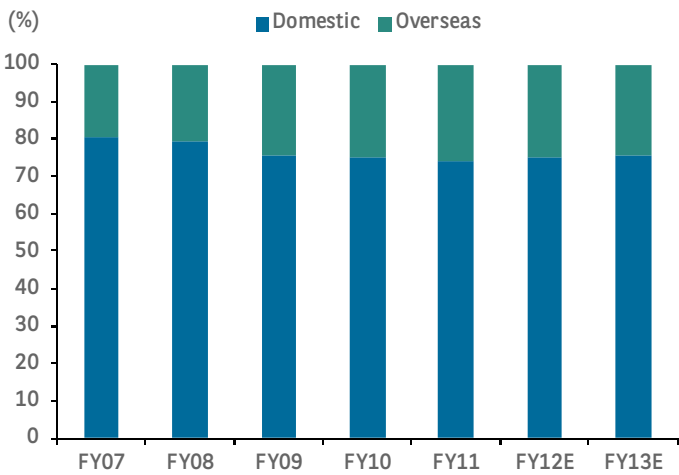
Sources: Company data; BNP Paribas estimates

Succession issues and overseas exposure may act as an overhang

Mr. Mallya will end his term as BoB's CMD in November 2012. Under Mr Mallya, BoB has delivered strong improvement in return ratios, with ROAA up from 0.9% (FY08) to 1.3% (FY11) with stable asset quality. We expect the succession issue to remain an overhang on the stock's performance until clarity emerges.

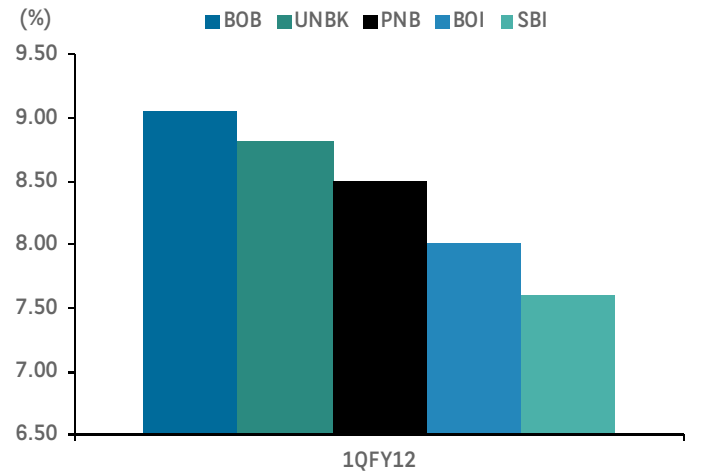
Additionally, BoB has a 20-25% overseas business contributed by the UK, UAE and US regions. Although its direct exposure to PIIGS countries may be nominal the large overseas presence (which adds to the fear of the unknown) in itself should remain an overhang on the stock's performance.

EXHIBIT 7: BoB - Composition of advances



Sources: Bank of Baroda; BNP Paribas estimates

EXHIBIT 8: Higher tier-1 capital than peers



Sources: Company data; BNP Paribas

Prefer banks with higher Tier 1 capitals

In the current macroeconomic scenario where the GoI is running a large fiscal deficit and may find it difficult to fund the equity requirement of the PSU banks, we find more comfort with banks which have a higher tier-1 capital as they can continue to grow at a robust pace without further equity infusion for two more years by when we believe the macro situation will have improved. We like BoB as its higher-than-peer tier-1 (refer exhibit 8 above) should allow it to grow its book for at least next two years and also we expect healthy internal accruals over the same period.

Valuation

Base case (GGM valuation)

In the base case, we value BoB on single-stage Gordon Growth Model. Based on this, we arrive at an implied P/BV of 1.46x on FY13E adjusted book value. Adjusted book value is calculated assuming 75% provisioning coverage ratio (PCR) for the bank. This gives us a fair value of INR1,060/share for BoB.

EXHIBIT 9: Single-stage Gordon growth model

Assumptions	
Risk free rate (%)	8.25
Risk premium (%)	7.00
Beta - current	0.89
Cost of equity (%)	14.49
ROE - FY13E (%)	21.1
ROE - normalised (%)	17.5
Blended ROE (%) (average of FY13E & normalised RoEs)	19.3
Perpetual growth (%)	4.00
P/BV (x)	1.46
FY13E ABV (INR)	727
Fair value (INR)	1,060

Source: BNP Paribas estimates

Probability-based target price

We arrive at our target price for BoB on probability-based value, where we assign 75% probability to case 1 (base-case GGM value as discussed above) and 25% probability to case 2 (worst case). The worst-case P/ABV multiple of 0.8x for BoB is the trough multiple touched by the bank post the Lehman crisis. Taking these into account, we arrive at a target price of INR941 (for calculations refer Exhibit 10). At our target price, the stock offers 27.0% upside potential from current levels. Therefore, we initiate with a BUY rating.

EXHIBIT 10: Calculation for probability-based price target

Banks	Fair P/BV	Min P/BV	Adj P/BV	FY13E ABV	Base case	Worst case	Core bank	Subs	TP
	(x)	(x)	(x)	(INR)	(INR)	(INR)	(INR)	(INR)	(INR)
Bank of Baroda	1.5	0.8	1.3	727	1,060	581	941	-	941

Source: BNP Paribas estimates

Downside risks to our TP are higher-than-expected slippages from the SME and infrastructure segment and overseas loan book.

DuPont analysis

Below we analyse in detail RoA decomposition, showing the key parameters impacting the overall profitability of BoB. We expect ROE to remain healthy at 21-22% over FY11-13E.

EXHIBIT 11: DuPont analysis

Year-end 31 Mar		2009	2010	2011	2012E	2013E	2014E
% of average assets							
Interest income	A	7.43	6.61	6.87	7.15	6.91	6.81
Interest expense	B	4.91	4.26	4.11	4.54	4.42	4.28
Net interest income	C = (A-B)	2.52	2.35	2.76	2.61	2.50	2.53
Non-interest income	D	0.55	0.47	0.42	0.37	0.38	0.35
Fee income	E	0.37	0.36	0.32	0.31	0.28	0.26
Treasury income	F	0.44	0.29	0.14	0.08	0.16	0.05
Operating income	G = (C+D+E+F)	3.88	3.46	3.65	3.36	3.31	3.20
Staff cost	H	1.16	0.93	0.92	0.70	0.71	0.73
Other expenses	I	0.60	0.58	0.54	0.50	0.50	0.49
Operating costs	J = (H+I)	1.76	1.51	1.45	1.20	1.20	1.22
Pre-provision operating profit	K = (G-J)	2.12	1.95	2.19	2.16	2.11	1.98
Loan loss provisions	L	0.13	0.36	0.33	0.31	0.30	0.28
Other provisions and exceptionals	M	0.34	-0.08	0.09	0.06	0.05	0.05
Total provisions	N = (L+M)	0.47	0.28	0.42	0.37	0.35	0.33
Pre-tax profit	O = (K-N)	1.65	1.68	1.77	1.79	1.76	1.65
Taxes	P	0.55	0.47	0.44	0.50	0.49	0.46
ROAA	Q = (O-P)	1.10	1.21	1.33	1.29	1.27	1.19
Avg assets/Avg net worth	R	16.98	18.04	17.64	16.99	16.66	16.51
ROAE	S = (Q*R)	18.6	21.9	23.5	21.9	21.1	19.6

Sources: Bank of Baroda; BNP Paribas estimates

Financial statements

Bank of Baroda

Profit and Loss (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Interest income	166,983	218,859	281,480	322,343	377,283
Interest expense	(107,589)	(130,837)	(178,633)	(205,961)	(237,048)
Net interest income	59,395	88,023	102,846	116,381	140,235
Net fees & commission	8,973	10,206	12,050	12,838	14,233
Foreign exchange trading income	3,860	5,148	6,027	7,680	9,153
Securities trading income	7,232	4,437	3,000	7,500	3,000
Dividend income	292	285	100	100	100
Other income	7,707	8,016	8,407	9,996	10,307
Non interest income	28,064	28,092	29,584	38,114	36,793
Total income	87,458	116,114	132,430	154,496	177,029
Staff costs	(23,509)	(29,168)	(27,505)	(32,962)	(40,355)
Other operating costs	(14,597)	(17,131)	(19,802)	(23,120)	(27,100)
Operating costs	(38,106)	(46,298)	(47,307)	(56,082)	(67,455)
Pre provision operating profit	49,353	69,816	85,123	98,414	109,573
Provisions for bad and doubtful debts	(9,007)	(10,401)	(12,404)	(14,153)	(15,575)
Other provisions	2,035	(2,912)	(2,359)	(2,147)	(2,665)
Operating profit	42,381	56,503	70,360	82,115	91,333
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	42,381	56,503	70,360	82,115	91,333
Tax	(11,797)	(14,086)	(19,701)	(22,992)	(25,573)
Profit after tax	30,583	42,417	50,659	59,122	65,760
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	30,583	42,417	50,659	59,122	65,760
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	30,583	42,417	50,659	59,122	65,760
Per share (INR)					
Recurring EPS *	83.96	116	129	151	167
Reported EPS	83.96	116	129	151	167
DPS	17.49	19.18	17.43	17.43	17.43
Growth					
Net interest income (%)	15.9	48.2	16.8	13.2	20.5
Non interest income (%)	1.8	0.1	5.3	28.8	(3.5)
Pre provision operating profit (%)	14.6	41.5	21.9	15.6	11.3
Operating profit (%)	26.8	33.3	24.5	16.7	11.2
Reported net profit (%)	37.3	38.7	19.4	16.7	11.2
Recurring EPS (%)	37.3	38.6	10.8	16.7	11.2
Reported EPS (%)	37.3	38.6	10.8	16.7	11.2
Income breakdown					
Net interest income (%)	67.9	75.8	77.7	75.3	79.2
Net fees & commission (%)	10.3	8.8	9.1	8.3	8.0
Foreign exchange trading income (%)	4.4	4.4	4.6	5.0	5.2
Securities trading income (%)	8.3	3.8	2.3	4.9	1.7
Dividend income (%)	0.3	0.2	0.1	0.1	0.1
Other income (%)	8.8	6.9	6.3	6.5	5.8
Operating performance					
Gross interest yield (%)	6.80	7.04	7.31	7.05	6.93
Cost of funds (%)	4.68	4.50	4.96	4.84	4.69
Net interest spread (%)	2.11	2.55	2.35	2.21	2.24
Net interest margin (%)	2.42	2.83	2.67	2.55	2.58
Cost/income (%)	43.6	39.9	35.7	36.3	38.1
Cost/assets (%)	1.51	1.45	1.20	1.20	1.22
Effective tax rate (%)	27.8	24.9	28.0	28.0	28.0
Dividend payout on recurring profit (%)	20.8	16.5	13.5	11.6	10.4
ROE (%)	21.9	23.5	21.9	21.1	19.6
ROE - COE (%)	6.8	8.4	6.8	6.0	4.5
ROA (%)	1.21	1.33	1.29	1.27	1.19
RORWA (%)	2.14	2.32	2.18	2.13	1.99

*Pre exceptional, pre-goodwill and fully diluted

Reported NIM for FY10 and FY11 were 2.74% and 3.12% respectively. NIMs as indicated here are calculated by dividing net interest income by average interest earning assets

Sources: Bank of Baroda; BNP Paribas estimates

Bank of Baroda

Balance Sheet (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Gross customer loans	1,768,337	2,310,380	2,766,453	3,274,374	3,921,027
Total provisions	(17,984)	(23,616)	(32,551)	(37,046)	(41,741)
Interest in suspense	0	0	0	0	0
Net customer loans	1,750,353	2,286,764	2,733,901	3,237,327	3,879,286
Bank loans	219,271	300,659	364,858	402,846	453,019
Government securities	504,437	602,054	752,429	908,135	1,077,569
Trading securities	0	0	0	0	0
Investment securities	107,387	110,553	90,584	78,190	157,482
Cash & equivalents	135,400	198,682	261,715	315,873	374,807
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	22,848	22,997	26,693	30,942	35,829
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	43,472	62,264	62,264	62,264	62,264
Total assets	2,783,167	3,583,972	4,292,443	5,035,578	6,040,255
Customer deposits	2,410,443	3,054,395	3,665,274	4,288,370	5,146,044
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	133,501	223,079	257,547	302,135	362,415
Non interest bearing liabilities	88,160	96,567	115,881	139,057	166,868
Hybrid Capital	0	0	0	0	0
Total liabilities	2,632,103	3,374,041	4,038,701	4,729,562	5,675,328
Share capital	3,655	3,928	3,928	3,928	3,928
Reserves	147,409	206,003	249,814	302,088	360,999
Total equity	151,064	209,931	253,742	306,016	364,927
Minority interests	0	0	0	0	0
Total liabilities & equity	2,783,167	3,583,972	4,292,443	5,035,578	6,040,255
Supplementary items					
Risk weighted assets (RWA)	1,560,914	2,098,905	2,557,482	2,985,385	3,615,437
Average interest earning assets	2,457,346	3,107,779	3,851,099	4,572,929	5,442,267
Average interest bearing liabilities	2,297,796	2,910,708	3,600,147	4,256,663	5,049,482
Tier 1 capital	143,569	209,742	234,798	286,697	345,233
Total capital	224,172	304,834	253,388	307,378	368,649
Gross non performing loans (NPL)	24,007	31,525	44,209	60,459	73,462
Per share (INR)					
Book value per share	413	534	646	779	929
Tangible book value per share	413	534	646	779	929
Growth					
Gross customer loans (%)	22.3	30.7	19.7	18.4	19.7
Average interest earning assets (%)	25.2	26.5	23.9	18.7	19.0
Total assets (%)	22.8	28.8	19.8	17.3	20.0
Risk weighted assets (%)	19.8	34.5	21.8	16.7	21.1
Customer deposits (%)	25.3	26.7	20.0	17.0	20.0
Leverage & capital measures					
Customer loans/deposits (%)	72.6	74.9	74.6	75.5	75.4
Equity/assets (%)	5.4	5.9	5.9	6.1	6.0
Tangible equity/assets (%)	5.4	5.9	5.9	6.1	6.0
RWA/assets (%)	56.1	58.6	59.6	59.3	59.9
Tier 1 CAR (%)	9.2	10.0	9.2	9.6	9.5
Total CAR (%)	14.4	14.5	9.9	10.3	10.2
Asset quality					
Change in NPL (%)	30.3	31.3	40.2	36.8	21.5
NPL/gross loans (%)	1.4	1.4	1.6	1.8	1.9
Total provisions/gross loans (%)	1.0	1.0	1.2	1.1	1.1
Total provisions/NPL (%)	74.9	74.9	73.6	61.3	56.8
Valuation					
Recurring P/E (x) *	8.8	6.4	5.7	4.9	4.4
Recurring P/E @ target price (x) *	11.2	8.1	7.3	6.3	5.6
Reported P/E (x)	8.8	6.4	5.7	4.9	4.4
Dividend yield (%)	2.4	2.6	2.4	2.4	2.4
Price/book (x)	1.8	1.4	1.1	1.0	0.8
Price/tangible book (x)	1.8	1.4	1.1	1.0	0.8
Price/tangible book @ target price (x)	2.3	1.8	1.5	1.2	1.0

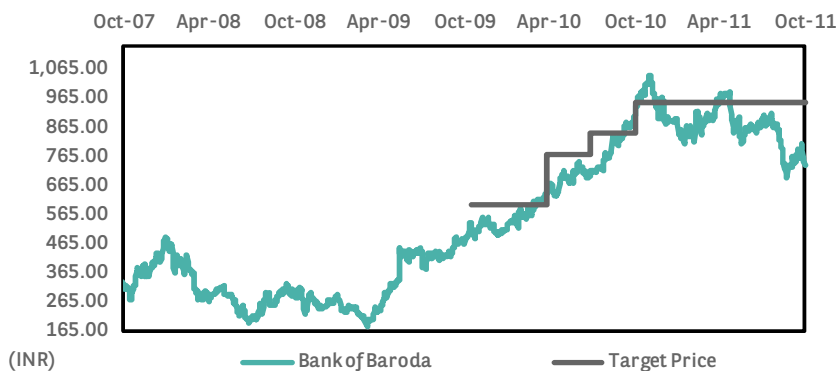
ABVPS - FY10: INR377.1, FY11: INR503.2, FY12E: INR613.3, FY13E: INR726.8, FY14E: INR863.9. ABVPS is calculated by subtracting revaluation reserve and standard PCR at 75% for all banks. Hence, if PCR is below (or above) 75%, we reduce (or add back) the difference from (to) total shareholder equity

* Pre exceptional, pre-goodwill and fully diluted

Sources: Bank of Baroda; BNP Paribas estimates

History of change in investment rating and/or target price

Bank of Baroda (BOB IN)



Abhijit Majumder started covering this stock from 12 October 2011

Price and TP are in local currency

Valuation and risks: Downside risks to our probability-based TP and estimates are higher-than-expected slippages from SME, infrastructure and overseas loan book

Sources: Bloomberg; BNP Paribas

Disclaimers and Disclosures

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-	-

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BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

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Hold	158	Hold	2.53
Reduce	53	Reduce	1.85

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