

RESULTS

REVIEW

Bank of Baroda

Strength in stability

BUY

Analyst

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Nifty: 5,327; Sensex: 17,705

CMP	Rs772
Target Price	Rs884
Potential Upside/Downside	+15%

Key Stock Data

Sector	Banking
Bloomberg / Reuters	BOB IN / BOB.BO
Shares o/s (mn)	391.5
Market cap. (Rs mn)	302,274
Market cap. (US\$ mn)	6,185
3-m daily average vol.	47,463

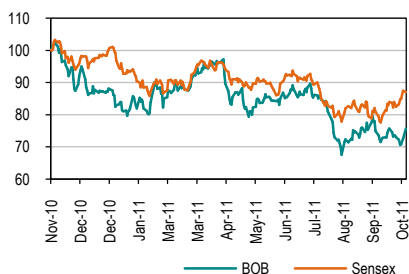
Price Performance

52-week high/low	Rs1,050/681
	-1m -3m -12m
Absolute (%)	1 (12) (24)
Rel to Sensex (%)	(7) (9) (11)

Shareholding Pattern (%)

Promoters	57.0
FII/IRIs/OCBs/GDR	14.9
MFs/Banks/FIs	16.8
Non Promoter Corporate	6.2
Public & Others	5.1

Relative to Sensex



Summary

Bank of Baroda (BoB) reported net profit of Rs11.7 bn as against our estimate of Rs11.2 bn. NII stood at Rs25.7 bn (IDBlest Rs24.9 bn), up 26% YoY, due to increase in margins to 3.1% in this quarter as against 3.0% in Q2FY11 (IDBlest 3%). Domestic margins increased 28bps sequentially to 3.7%, while overseas margins improved 5bps to 1.4%. Incremental slippages remained same sequentially at Rs5.8 bn in the reported quarter. The bank has reported RoA of 1.2% and RoE of 20.8% in Q2FY12.

We maintain our earnings estimates of Rs46.5 bn/Rs53.9 bn for FY12/13. Taking higher slippage ratio of 1.3% and credit cost of 0.7% during FY12/FY13, we estimate RoE/RoA of ~20%/1.2% during both FY12 and FY13. We value the bank at 1.4x its FY13E adjusted book value of Rs631, translating to a price target of Rs884. Maintain **BUY**.

Key Highlights

- Margins higher than expected

Domestic margins increased 28bps sequentially to 3.7% and overseas margins remained firm at 1.4%. Overall margins stood at 3.1% as against 2.9% last quarter. Going ahead, we estimate overall margins of 2.9% for FY12 and FY13, as cost of funds are expected to increase, in our view.

- Strong advances growth

Advances grew 24% YoY to Rs2,391 bn. Within domestic loans, traction was led by SME portfolio which grew 29% YoY followed by Wholesale (21%) and Retail (10%). CD Ratio remained comfortable - domestic CD ratio stood at 69% and overseas CD ratio at 83%.

- Slippages under control

As the bank has already shifted to system based NPA recognition method, delinquencies in this quarter stood at Rs5.8 bn which was same as last quarter. GNPA ratio has decreased to 1.4% in this quarter as against 1.5% of last quarter and NNPA ratio was largely steady at 0.47% as against 0.44% last quarter. Provision coverage ratio remained healthy at 82%. However, the bank has done incremental restructuring of Rs6.6 bn of loans as against Rs4.5 bn last quarter.

- Valuation and Outlook – Reiterate **BUY**

The bank will continue to post strong operating performance in the coming quarters due to its stable margins and better NPA profile than peers, in our view. Risk reward ratio is likely to remain favorable for the bank. At CMP, the bank is trading at 1.2x its one year forward adjusted book value (ABV) of Rs631. We value the bank at 1.4x FY13E ABV of Rs631 and maintain our one year price target at Rs884. Maintain **BUY**.

Table: Financial snapshot

Year-end	NII	PAT	BV	ABV	P/BV	P/ABV	ROA	ROE	CAR	Div.yield	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(Rs)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)
FY10	59.4	30.6	358.6	342.1	2.2	2.3	1.2	22.9	12.8	1.7	1.4	0.3
FY11	88.0	42.4	481.5	461.3	1.6	1.7	1.3	24.4	14.5	2.1	1.4	0.3
FY12E	102.9	46.5	577.6	525.5	1.3	1.5	1.2	20.9	12.7	2.5	1.8	0.8
FY13E	121.3	53.9	692.2	631.1	1.1	1.2	1.2	20.4	12.0	2.5	2.0	0.8

Source: Company; IDBI Capital Research

Table: Quarterly Snapshot

(Rs bn)

Year-end: March	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
Interest Earned	72.5	51.6	40.6	66.3	9.3
- Interest/Discount on Advance/Bills	54.8	38.4	42.8	50.8	8.0
- Income on Investments	15.5	11.6	33.7	13.5	14.3
- Int on RBI bal	2.1	1.5	41.5	1.6	27.7
- Other Interest	0.2	0.2		0.4	
Interest Expense	46.8	31.2	50.1	43.3	8.1
Net Interest income	25.7	20.4	25.9	23.0	11.7
Other Income	7.3	6.8	7.8	6.4	14.6
- Fee and Other Income	4.5	4.0	13.2	4.0	14.3
- Trading Income	1.5	1.0	47.3	1.4	5.2
- Treasury Profit	0.1	1.1	(90.8)	0.7	(86.3)
Net Operating Income (NOI)	33.0	27.2	21.4	29.4	12.4
Operating Expenses	11.6	10.6	9.3	11.1	4.9
- Employee cost	6.5	6.6	(1.5)	6.5	0.2
- Other Costs	5.1	4.1	26.6	4.6	11.5
Operating Profit	21.4	16.6	29.2	18.3	16.9
Prov. for Contingencies	4.8	1.9	160.6	3.9	23.6
- For NPAs	3.0	1.9	53.4	2.4	21.7
- For Investment Depreciation	1.4	(0.2)		1.4	
- Others	(0.1)	0.1		0.1	
PBT	16.4	14.7	11.7	14.3	15.2
TAX	4.8	4.5		3.9	
PAT	11.7	10.2	14.4	10.3	12.9
Equity	3.9	3.7		3.9	
EPS (Rs)	29.7	27.9		26.3	
CAR	12.7	13.2		13.1	

Source: Company; IDBI Capital Research

Table: Balance Sheet

(Rs bn)

Year-end: March	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
Advances	2,391.2	1,929.6	23.9	2,323.4	2.9
Deposit	3,291.9	2,696.6	22.1	3,129.4	5.2
CASA (%)	34.0	35.9	-	33.9	-
CD Ratio (%)	72.6	71.6	-	74.2	-
ID Ratio (%)	26.8	24.5	-	26.4	-

Source: Company; IDBI Capital Research

Table: Ratio

(%)

Year-end: March	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
NIMs	3.1	3.6	-	2.9	-
Int. exp / Int. earned	64.6	60.5	-	65.4	-
Cost / income ratio	35.2	39.1	-	37.7	-
Gross NPA	1.4	1.4	-	1.5	-
Net NPA	0.5	0.4	-	0.4	-
Provision Coverage	82.0	85.6	-	82.5	-

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY10	FY11	FY12E	FY13E
Interest earned	167.0	218.9	277.8	337.1
Interest expended	107.6	130.8	174.9	215.9
NII	59.4	88.0	102.9	121.3
Other Income	28.1	28.1	31.2	35.0
Fee Based	9.0	10.2	13.0	15.2
Trading & Forex	3.9	5.1	5.8	6.2
Treasury Profit	7.2	4.4	2.4	2.9
Net Opt. Inc. (NOI)	87.5	116.1	134.1	156.3
Employee Cost	23.5	29.2	26.9	29.0
Opt. Expenses	14.6	17.1	20.2	24.3
Opt. Profit	49.4	69.8	86.9	103.1
Provisions	7.0	13.3	20.5	26.1
Profit before tax	42.4	56.5	66.4	77.0
Net Profit	30.6	42.4	46.5	53.9

Balance Sheet

(Rs bn)

Year-end: March	FY10	FY11	FY12E	FY13E
Capital	3.7	3.9	3.9	3.9
Net Worth	144.7	203.6	241.3	286.4
Deposit	2,410.4	3,054.4	3,713.2	4,357.5
Total Liab. & Equity	2,783.2	3,584.0	4,199.3	4,928.5
Investments	611.8	712.6	885.0	1,031.0
Advances	1,750.4	2,286.8	2,691.6	3,183.2
Total Assets	2,783.2	3,584.0	4,199.3	4,928.5

Growth

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Deposits	25.3	26.7	21.6	17.4
Advances	22.2	30.6	17.7	18.3
Total Assets	22.8	28.8	17.2	17.4
NII	15.9	48.2	16.9	17.9
Other Income	1.8	0.1	11.0	12.3
Net Profit	37.3	38.7	9.6	15.9

Productivity

Year-end: March	FY10	FY11	FY12E	FY13E
Bus./Employee (mn)	106.8	137.1	160.1	181.7
Profit/Employee ('000)	785.0	1,088.7	1,162.4	1,298.7
Bus./Branch (mn)	1,342.2	1,587.7	1,685.5	1,839.2
NP/Branch (mn)	9.9	12.6	12.2	13.1
CASA Per Branch	230.5	260.4	287.0	320.7

Opt. Ratio

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Int. Exp/Int. Earned	64.4	59.8	63.0	64.0
Cost/NOI	43.6	39.9	35.1	34.0
Cost/NOI (Ex. treasury inc.)	47.5	41.5	35.8	0.0
Other Income/NOI	32.1	24.2	23.3	22.4
Ot. Inc. (ex. treasury)/NOI	23.8	20.4	21.5	20.6
NPM	35.0	36.5	34.7	34.5

Spreads

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
NII/Avg Total Assets	2.4	2.8	2.6	2.7
NII/Avg Int. Earning Assets	2.5	3.0	2.9	2.9
NIMs	2.5	2.9	2.9	2.9
CASA	38.6	37.5	37.7	38.6
Avg Int. earnings assets	2,336.7	2,940.7	3,601.4	4,235.5
Avg Int. bearing liabilities	2,297.8	2,906.1	3,602.0	4,275.2

Solvency

(%)

Year-end: March	FY10	FY11	FY12E	FY13E
Credit-Deposit Ratio	72.6	74.9	72.5	73.1
Incremental CD Ratio	65.3	83.3	61.4	76.3
Investment/Deposit Ratio	25.4	23.3	23.8	23.7
GNPA Ratio	1.4	1.4	1.8	2.0
Prov. Cover	51.0	56.7	57.6	61.7
NNPA Ratio	0.3	0.3	0.8	0.8
CAR	12.8	14.5	12.7	12.0
Tier 1	8.1	10.0	8.8	8.5
Tier 2	4.6	4.5	3.9	3.5

Return

Year-end: March	FY10	FY11	FY12E	FY13E
ATA (Avg. Total Assets)	2,524.9	3,183.6	3,891.6	4,563.9
Total Busi. (Dep. + Adv)	4,160.8	5,341.2	6,404.8	7,540.7
Interest Income / ATA (%)	6.6	6.9	7.1	7.4
PBT / ATA (%)	1.7	1.8	1.7	1.7
PAT / ATA (%)	1.2	1.3	1.2	1.2
ROA (%)	1.2	1.3	1.2	1.2
ROE (%)	22.9	24.4	20.9	20.4
Assets / Equity	18.9	18.3	17.5	17.3

Valuation

Year-end: March	FY10	FY11	FY12E	FY13E
P/E	9.2	6.9	6.5	5.6
P/BV	2.2	1.6	1.3	1.1
Price / Adj Bk Value	2.3	1.7	1.5	1.2
Book Value/share	358.6	481.5	577.6	692.2
EPS (Rs)	342.1	461.3	525.5	631.1



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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