



Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE SENSEX: 8,198	BOB IN
S&P CNX: 2,577	REUTERS CODE
	BOB.BO

5 March 2009

Buy

Previous Recommendation: Buy

Rs195

Equity Shares (m)	365.5
52-Week Range	338/188
1,6,12 Rel.Perf.(%)	-9/-40/-68
M.Cap. (Rs b)	71.4
M.Cap. (US\$ b)	1.4

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	49,593	10,265	28.1	24.1	7.0	0.9	11.8	12.4	0.8	0.9
3/08A	59,628	14,355	39.3	39.8	5.0	0.7	12.9	15.6	0.9	0.8
3/09E	74,967	19,167	52.4	33.5	3.7	0.6	12.2	18.2	1.0	0.7
3/10E	82,263	19,101	52.3	-0.3	3.7	0.6	12.0	15.9	0.8	0.6

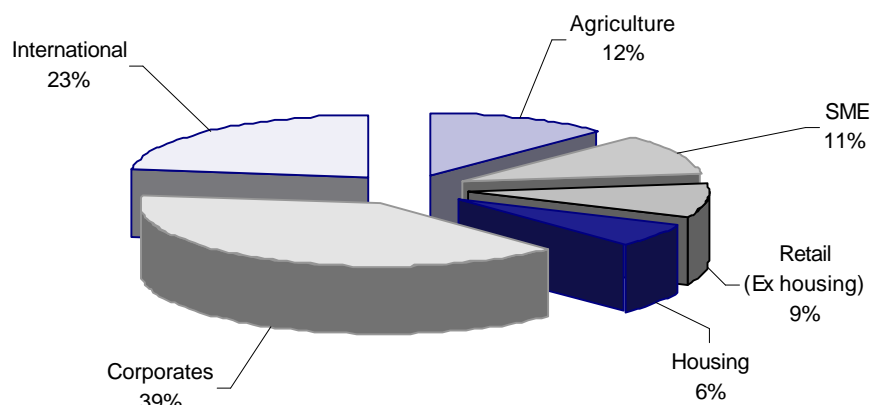
We met Bank of Baroda CMD Mr M D Mallya to get his outlook on asset quality and restructuring of stress assets, business growth, and profitability. Key takeaways:

Restructured assets to be <Rs10b

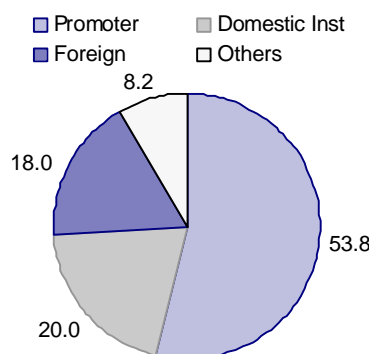
Gross NPA and net NPA were Rs19.2b and Rs4.7b (down 2% and 7% QoQ) respectively as of December 2008. The management expects NPAs in absolute terms to be flat by March 2009. BoB expects total restructuring of new loans to be within ~Rs10b (<1% of the book). The bank is unwilling to extend the restructuring as a general rule for the stressed customer and restructuring would be granted only where recovery prospects are high. Large part of the restructuring is expected in the SME segment. Management admitted that NPAs will rise over the next few quarters, but was unwilling to give any guidance. Management highlighted that the loan book is highly diversified.

DIVERSIFIED LOAN BOOK (RS1.27T AS ON 3QFY09)

Large corporate
(corporate+international)
form >60% of the
loan book



SHAREHOLDING PATTERN % (DEC.08)



Source: Company/MOSL

BoB's loan profile has a bias towards large corporates as compared to peers. SME accounts for ~11% of the loan book v/s ~17.5% for SBI, ~14.5% for PNB, and ~17.5% for BoI. Commercial real estate exposure stands at Rs25-30b (~2.4% of the total loan book v/s 3-4% for peers). The management highlighted that BoB has been always cautious towards risky loan portfolios like SME (~11% of the total loan book), commercial real estate, and other retail loans (ex housing).

BoB has one of the best asset mix in terms of exposure to sensitive sectors

EXPOSURE TOWARDS SENSITIVE SECTORS

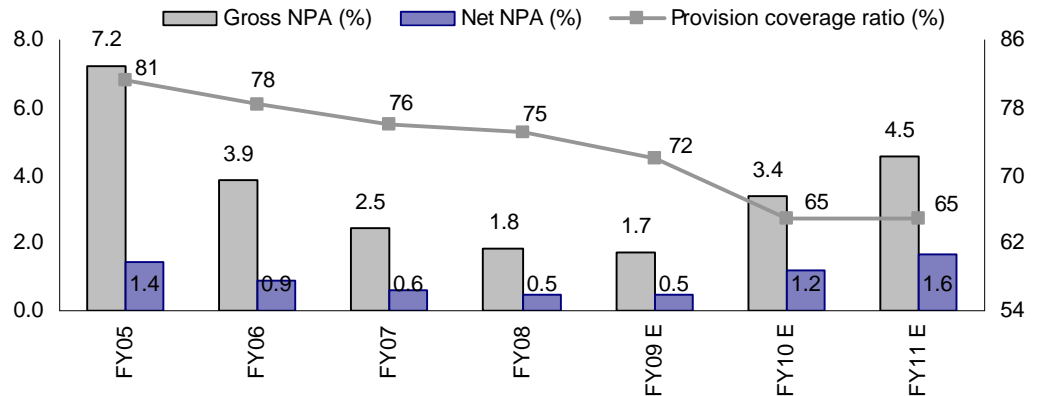
% OF THE LOAN BOOK	BOB	BOI	PNB	SBI
SME Loans	10.8	17.6	14.5	17.4
Retail Loans	14.8	14.0	13.7	20.4
Commercial Real Estate#	2.4	2.9	4.2	3.0
Textiles*	5.3	4.0	4.6	5.9
Metals*	6.0	5.7	7.3	6.8
Gems and Jewelry*	0.6	2.4	0.5	1.8

Based on the interaction with the management, * Based on FY08 disclosed figures

Source: Company/MOSL

Asset quality expected to remain within manageable level

TREND IN ASSET QUALITY

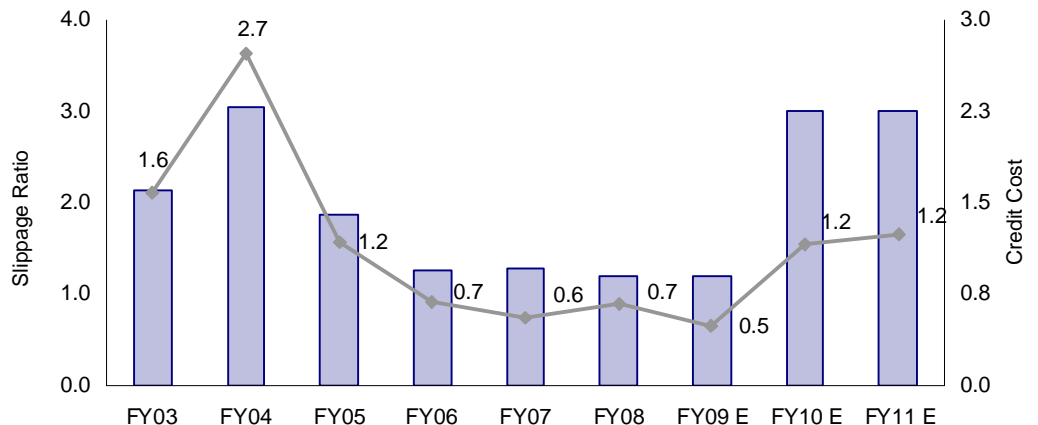


Source: Company/MOSL

We have modeled slippage ratio of 3% over FY10-11 (v/s 0.9% in FY09 (annualized)). We have modeled gross NPAs to increase by ~2.8x in FY10 and ~4.4x in FY11 in absolute terms from December 2008 level. We expect the provision coverage ratio to remain healthy at ~65% over FY10-11. We have modeled credit cost as a percentage of average loans to increase to ~1.2% in FY10-11 v/s 0.5% expected in FY09. We estimate gross NPA ratio to touch 4.5% and net NPA ratio to touch 1.6% in FY11.

We have assumed higher slippages going forward and credit cost is expected to double in next two years

TREND IN SLIPPAGE RATIO AND CREDIT COST (%)



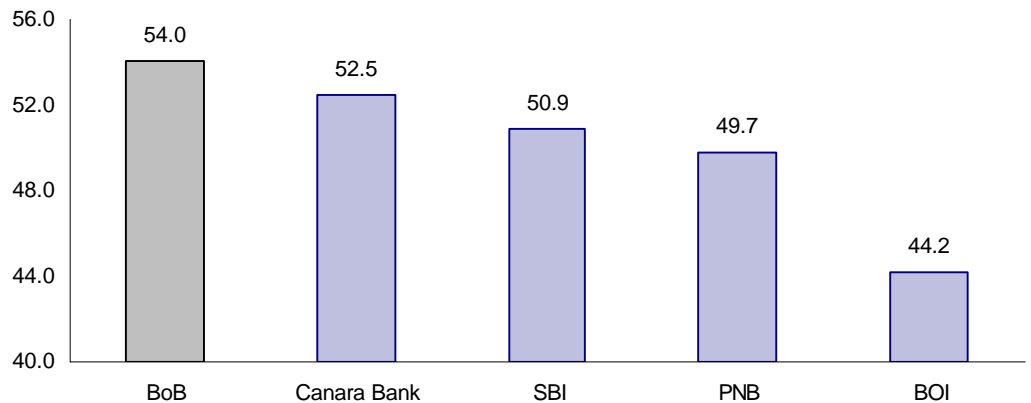
Source: Company/MOSL

Operating efficiency to drive profitability

After budgeting for new recruitments and expected retirements, wage bill will increase by only 5-7% going forward. The management is already making provisions for the likely wage increase at 17.5%. It expects cost to income ratio to improve from current levels despite slower growth in core operating income in FY10. BoB is embarking on improving operational efficiencies to mitigate the expected rise in NPA costs and margin pressure. We have factored in staff cost and opex CAGR of 10% each over FY09-11E.

Management aims to improve its cost efficiency

COST TO INCOME (EX TRADING PROFITS) RATIO FOR STATE-OWNED BANKS % (FY08)



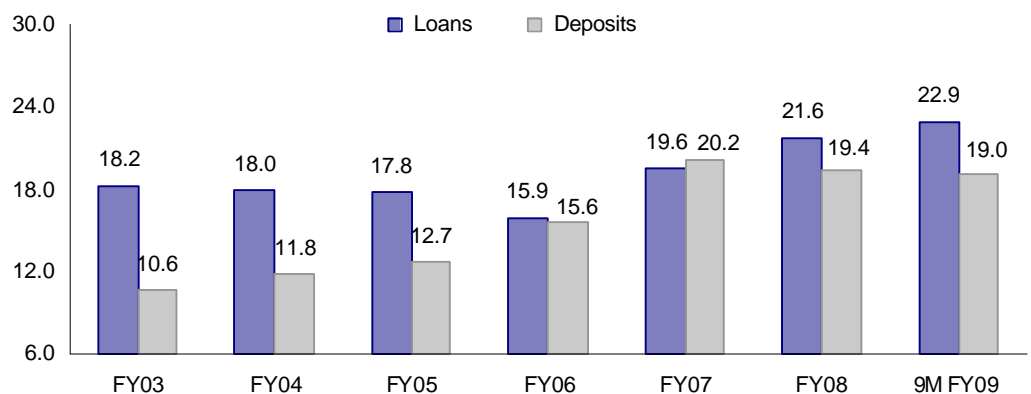
Source: Company/MOSL

International business - cautious outlook

International loans, which form ~23% of total loan book, are largely to Indian corporates for trade credit, M&A, ECBs etc. Management thinks that growth rate would fall from 30%+ in the past to 20% going forward. It has become more selective and cautious in the international business. Incremental international loans are largely trade credit (maturity of 3-9 months) as maintaining a liquid balance sheet is the prime focus.

International book growing at a rapid pace

SHARE OF INTERNATIONAL LOANS AND DEPOSITS IN OVERALL BOOK (%)



Source: Company/MOSL

85% of international loans are in five territories: London, UAE, USA, HK, and Singapore. London, UAE, and USA account for more than 50% of the international loan book. Gross NPAs in international business is at <1%. BoB's exposure in UAE stands at Rs90b (~30% of international loans). UAE's real estate exposure stands at Rs6.5b. Maximum exposure to one single real estate account is Rs0.5b. BoB has not sanctioned a single project in UAE real estate in the last one year and it is not witnessing any pressure on asset quality for existing loan book. Management believes that MTM losses on international investment book (Rs50b) are largely over (~Rs2.5b provided in 9MFY09).

Aiming for loan growth of 20% in FY10

BoB is confident of its FY09 guidance for: (1) loan growth at ~24% (2) NIM at ~3% (3) RoE at ~18%. While the management is confident of a loan growth of ~20% for FY10, the outlook on profit is uncertain. Loan growth is likely to come from infrastructure, agriculture, construction, and pharmaceuticals. Fee income growth could decelerate from 35%+ currently to 20% in FY10. The bank is focusing on gains from operational efficiencies to mitigate the expected rise in NPA costs and margin pressure.

Margin to be under pressure

Margin in FY10 are likely to be under pressure due to (a) lower pricing power (for PSU customers, actual lending rates have come down by >500bp in 4QFY09 v/s 3QFY09), (b) lag effect of deposits repricing, and (c) higher exposure towards large corporate (~60% of the overall loan book).

Capital not a constraint for growth

CAR stood at 13.2% (Tier I at 8.5%) in 3QFY09. BoB has raised Rs3b under perpetual Tier I bond category in 4QFY09, and it is in the process of raising Rs15b under Tier II bonds (of which Rs10b is expected to be from Upper Tier II category and rest from lower Tier II). BoB aims to sustain CAR at 13%+ and management is confident that capital would not be a constraint for growth in the foreseeable future.

Valuation and view

We like BoB for its inherent strengths - large branch network, technological advancements, strong international business, extensive client base, relatively low risk loan book, and clean asset quality. We also like management's strategic focus on (a) core deposits growth, (b) margin stability, (c) fees growth, and (d) NPA management. Execution on each of these parameters has been satisfactory. BoB is one of our preferred bets among state-owned banks. We expect BoB's earnings CAGR to be 4% over FY09-11E. We expect BoB to report EPS of Rs52 in FY09 and FY10. ABV would be Rs297 in FY09 and Rs315 in FY10. We estimate RoA to remain at ~0.8% and RoE above 15% over FY09-11. The stock trades at 0.6x FY10 ABV and 3.7x FY10 EPS. Our target price for BoB is Rs315 (1x FY10E ABV). Maintain **Buy**.

INCOME STATEMENT						(Rs Million)
Y/E MARCH	2007	2008	2009E	2010E	2011E	
Interest Income	90,041	118,135	152,036	172,944	200,457	
Interest Expended	54,266	79,017	100,590	114,706	134,661	
Net Int. Income	35,775	39,118	51,446	58,238	65,797	
<i>Change (%)</i>	16.9	9.3	31.5	13.2	13.0	
Other Income	13,818	20,510	23,522	24,025	26,366	
Net Income	49,593	59,628	74,967	82,263	92,163	
<i>Change (%)</i>	15.3	20.2	25.7	9.7	12.0	
Operating Expenses	25,443	29,343	33,931	37,189	40,954	
Operating Income	24,150	30,286	41,036	45,075	51,208	
<i>Change (%)</i>	25.9	25.4	35.5	9.8	13.6	
Other Provisions	7,608	8,214	12,429	16,566	20,540	
PBT	16,543	22,072	28,607	28,509	30,668	
Tax	6,278	7,716	9,440	9,408	10,121	
<i>Tax Rate (%)</i>	37.9	35.0	33.0	33.0	33.0	
PAT	10,265	14,355	19,167	19,101	20,548	
<i>Change (%)</i>	24.1	39.8	33.5	-0.3	7.6	
Proposed Dividend	2,376	2,924	3,833	3,820	4,110	

BALANCE SHEET						(Rs Million)
Y/E MARCH	2007	2008	2009E	2010E	2011E	
Capital	3,655	3,655	3,655	3,655	3,655	
Reserves & Surplus	82,844	106,784	121,466	136,097	151,836	
Net Worth	86,499	110,439	125,121	139,752	155,492	
Deposits	1,249,160	1,520,351	1,794,014	2,081,056	2,434,836	
<i>Change (%)</i>	33.4	21.7	18.0	16.0	17.0	
CASA Deposits	414,521	474,720	547,174	634,722	742,625	
Borrowings	38,617	93,498	121,547	145,856	175,028	
Other Liab. & Prov.	57,186	71,717	78,889	86,778	95,455	
Total Liabilities	1,431,462	1,796,005	2,119,571	2,453,442	2,860,811	
Current Assets	182,804	223,003	229,703	238,536	277,420	
Investments	349,436	438,701	495,732	604,793	707,607	
<i>Change (%)</i>	-0.5	25.5	13.0	22.0	17.0	
Loans	836,209	1,067,013	1,323,096	1,534,792	1,795,706	
<i>Change (%)</i>	39.6	27.6	24.0	16.0	17.0	
Net Fixed Assets	10,888	24,270	23,720	23,270	22,820	
Other Assets	52,125	43,018	47,320	52,052	57,257	
Total Assets	1,431,462	1,796,005	2,119,571	2,453,442	2,860,811	

ASSUMPTIONS	(%)				
Deposit Growth	33.4	21.7	18.0	16.0	17.0
Loans Growth	39.6	27.6	24.0	16.0	17.0
Investments Growth	-0.5	25.5	13.0	22.0	17.0
Provisions Coverage Ratio	76.0	75.1	72.0	65.0	65.0
Dividend	65.0	80.0	104.9	104.5	112.4

E: MOSL Estimates

RATIOS

Y/E MARCH	2007	2008	2009E	2010E	2011E
Spreads Analysis (%)					
Avg. Yield-Earn. Assets	7.4	8.0	8.6	8.4	8.3
Avg. Cost-Int. Bear. Liab.	4.7	5.4	5.7	5.5	5.6
Interest Spread	2.6	2.6	2.9	2.8	2.7
Net Interest Margin	2.9	2.7	2.9	2.8	2.7

Profitability Ratios (%)

RoE	12.4	15.6	18.2	15.9	15.2
RoA	0.8	0.9	1.0	0.8	0.8
Int. Expended/Int. Earned	60.3	66.9	66.2	66.3	67.2
Other Inc./Net Income	27.9	34.4	31.4	29.2	28.6

Efficiency Ratios (%)

Op. Exps./Net Income*	52.8	54.0	49.2	48.1	47.0
Empl. Cost/Op. Exps.	64.6	61.5	62.7	63.0	62.9
Busi. per Empl. (Rs m)	46.9	62.7	76.5	90.4	105.3
NP per Empl. (Rs mln)	0.3	0.4	0.5	0.5	0.6

*ex treasury

Asset-Liability Profile (%)

Adv./Deposit Ratio	66.9	70.2	73.8	73.8	73.8
CASA Ratio	33.2	31.2	30.5	30.5	30.5
Invest./Deposit Ratio	28.0	28.9	27.6	29.1	29.1
G-Sec/Invest. Ratio	76.2	79.1	80.2	76.2	76.2
Gross NPAs to Adv.	2.5	1.8	1.7	3.4	4.5
Net NPAs to Adv.	0.6	0.5	0.5	1.2	1.6
CAR	11.8	12.9	12.2	12.0	11.7
Tier 1	8.7	7.6	7.4	7.3	7.2

VALUATION

Book Value (Rs)	225.6	267.9	308.0	348.1	391.1
Price-BV (x)	0.9	0.7	0.6	0.6	0.5
Adjusted BV (Rs)	216.7	259.1	296.7	315.0	338.6
Price-ABV (x)	0.9	0.8	0.7	0.6	0.6
EPS (Rs)	28.1	39.3	52.4	52.3	56.2
EPS Growth (%)	24.1	39.8	33.5	-0.3	7.6
Price-Earnings (x)	7.0	5.0	3.7	3.7	3.5
OPS (Rs)	66.1	82.9	112.3	123.3	140.1
OPS Growth (%)	25.9	25.4	35.5	9.8	13.6
Price-OP (x)	3.0	2.4	1.7	1.6	1.4

E: MOSL Estimates

N O T E S



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Bank of Baroda

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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