

Bank of Baroda

Rs834
OUTPERFORMER
RESULT NOTE
Mkt Cap: Rs303.9bn; US\$6.6bn

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Result: Q3FY11

Comment: Rock solid

Revision: FY11E earnings upgraded by 2.5%

Key valuation metrics

Year to March 31 (Rs m)	NII	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	Adj. Book Value per share (Rs)	P/Adj.Bk (x)	PER (x)	RoE (%)
FY07	35,772	12.7	10,251	24.0	28	235	3.6	29.6	12.8
FY08	39,118	9.4	14,355	40.0	39	263	3.2	21.2	16.0
FY09	51,234	31.0	22,272	55.1	61	315	2.7	13.6	21.3
FY10	59,395	15.9	30,583	37.3	84	377	2.2	9.9	24.5
FY11E	85,352	43.7	41,032	34.2	113	463	1.8	7.4	27.1
FY12E	101,593	19.0	49,294	20.1	135	569	1.5	6.2	26.6

Highlights of Q3FY11 results

Bank of Baroda ('BoB') reported a robust set of numbers with a PAT of Rs10.7bn (28% yoy rise), marginally ahead of our estimates of Rs10.5 bn. The core performance remained robust led by sequential expansion in margins, healthy loan growth and steady asset quality.

- **Traction in NII – led by sequential expansion in margins...:** BoB's NII increased by a stellar 43% yoy to Rs22.9bn (up 12% qoq) led by sequential expansion in margins and traction in business volumes. Reported margins increased by 18bp qoq to 3.2% (3.02% in Q2FY11) with domestic margins rising 20bp qoq to 3.82% and overseas margins up 7bp qoq to 1.4%. (Exhibit 1)
- **...as also strong credit off-take:** Advances grew by 33% yoy and 7% qoq to Rs2072bn in Q3FY11. Growth was broad based driven by 7% qoq (31% yoy) rise in domestic loans and 8% qoq (37% yoy) rise in foreign loans. Within domestic loans traction was led by retail loans which increased by 9% qoq. The bank is targeting credit growth of 23-24% in FY11. (Exhibit 4)
- **Robust growth in CASA deposits:** CASA ratio (as a proportion of domestic deposits) came in at 35.1% as of Q3FY11 – a decline of 77bp yoy owing to a rise in systemic deposit rates. Domestic CASA deposits have grown at a robust pace of 23% yoy and 2% qoq, while domestic term deposits are up 27% yoy. During the quarter, BoB's deposits grew by 31% yoy to Rs2815bn driven by 35% yoy growth in foreign deposits and 30% yoy growth in local deposits. As a result, BoB's domestic CD ratio remains healthy at 70.6% as of December 2010 (69% in Q2FY11). (Exhibit 2)
- **Non-interest income in-line:** Non-trading income grew at a modest pace of 14% yoy and 4% qoq to Rs5.9bn. The traction was led by 47% qoq expansion in forex income to Rs1.5bn. The bank also recorded recovery from written-off accounts to the tune of Rs615m in the quarter. Owing to rising G-Sec yields, treasury profits came in at Rs848m as against Rs1.4bn in Q3FY10 and Rs1.1bn in Q2FY11. (Exhibit 3)

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- **Provisions rise:** BoB's Q3FY11 provisions came in at Rs3bn – a 25% yoy rise. Specific NPA provisions came in at Rs2.1bn (a 15% yoy decline). MTM on investments came in at Rs535m compared to a write-back of Rs216m in Q3FY10. The bank also booked standard provisions of Rs369m during the quarter. (Exhibit 6)
- **Gross NPAs steady:** Gross NPAs were steady at 1.32% as against 1.39% in Q2FY11 – an absolute increase of Rs504m. Net NPAs stood stable at 0.36% in Q3FY11. Slippages came in at Rs3.9bn as against Rs3.2bn in the previous quarter. Of this Rs220m of slippages emanated from restructured accounts – taking the cumulative slippages from the restructured accounts to ~9% in Q3FY11. The bank restructured ~Rs6bn of advances during Q3FY11, amounting to 0.3% of net advances, with cumulative restructured assets staying stable qoq at 3% of net advances. (Exhibit 5)
- **Muted rise in opex; pension provisions made:** Operating expenses rose by modest 12% to Rs11.1bn in Q3FY11. While employee expenses rose by 10% yoy to Rs6.9bn, other operating expenses grew by 15% yoy to Rs4.2bn. The management indicated total liability towards second pension plan stood at Rs20.6bn and the bank has till date provided Rs3.1bn towards the same (equivalent to liability for past 3 quarters assuming a 5 year amortization period). Gratuity liability is seen at Rs920m, of which Rs690m is already provided with balance likely to be booked in Q4FY11.
- **Comfortably capitalized:** BoB's Tier I ratio came in at 7.7% in Q3FY11 (9.2% including YTDFY11 profits). Overall CRAR came in at 12.45% (13.95% inclusive of YTD profits) as per Basel II.

Valuations & View

Bank of Baroda yet again delivered strong results, backed by robust all-round performance in Q3FY11. NII growth momentum remained strong led by sequential expansion in margins, while core fee income evidenced traction on the back of healthy credit growth. At the same time delinquency accretion remained slow, providing comfort on asset quality of the bank. Factoring in stronger NII momentum, we are upgrading our earning estimates by 2.5% for FY11. We expect the bank to deliver a 27% CAGR in PAT over FY10-12E, with an average ROE of ~26%. Over the past few years, the bank has consistently delivered a significant traction across all parameters, which we believe would continue to drive the stock performance. Reiterate Outperformer with a 12-month price target of Rs1,250 (~2.2x FY12E adjusted book value).

Quarterly results

P&L (Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	FY10	FY11E	FY12E
Interest income	41,770	43,058	47,270	51,587	56,662	166,983	223,293	277,847
Interest expenses	25,757	26,089	28,690	31,205	33,739	107,589	137,941	176,254
Net interest income	16,012	16,969	18,580	20,381	22,923	59,395	85,352	101,593
<i>yoy growth (%)</i>	9.54	15.38	54.23	46.78	43.16	15.9	43.7	19.0
Non fund income	6,597	7,669	6,172	6,813	6,762	27,249	27,632	29,580
Trading profits	1,393	1,254	1,279	1,101	848	7,233	3,900	3,000
Fee Income	5,203	6,415	4,893	5,712	5,914	20,016	23,732	26,580
Net revenue	22,609	24,638	24,752	27,194	29,684	86,644	112,984	131,173
Operating expenses	9,959	9,645	9,474	10,627	11,172	38,106	42,942	51,501
Operating profit	12,650	14,993	15,279	16,568	18,512	48,538	70,042	79,672
<i>yoy growth (%)</i>	(6.0)	15	51	61	46.3			
Provisions	2,425	3,773	2,513	1,855	3,041	6,972	10,575	8,232
PBT	10,225	12,034	12,765	14,713	15,471	42,381	59,466	71,440
Tax	1,900	3,452	4,174	4,520	4,783	11,797	18,435	22,146
PAT	8,325	8,583	8,592	10,193	10,689	30,583	41,032	49,294
<i>yoy growth (%)</i>	17.5	14.0	25.4	60.7	28.4	37.3	34.2	20.1
Ratios (%)*								
NIMs - Reported	2.95	2.97	2.9	3.02	3.20			
NIMs - calculated	2.61	2.57	2.58	2.67	2.86	2.35	2.72	2.64
Non-fund income/Avg assets	1.1	1.2	0.9	0.9	0.8	1.1	0.9	0.8
Core fee incom/avg assets	0.8	1.0	0.7	0.7	0.7	0.6	0.8	0.7
Trading income / pre provision profit	11.0	8.4	8.4	6.6	4.6	14.9	5.6	3.8
Operating exp/avg assets	1.6	1.5	1.3	1.4	1.4	1.5	1.4	1.3
Cost/Net rev.	44.1	39.1	38.3	39.1	37.6	44.0	38.0	39.3
Prov/avg assets	0.4	0.6	0.3	0.2	0.4	0.28	0.34	0.21
PBT/Avg assets	1.7	1.8	1.8	1.9	1.9	1.68	1.90	1.86
RoA	1.4	1.3	1.2	1.3	1.3	1.21	1.31	1.28
Tax/PBT	18.6	28.7	32.7	30.7	30.9	27.8	31.0	31.0
CRAR	14.3	14.36	13.25	13.22	12.45			
Tier-I CRAR	9.31	9.3	8.16	8.16	7.7			
Overall CD ratio	72.6	72.6	72.9	71.6	73.6			
Balance Sheet (Rs bn)								
Credit	1,562	1,750	1,856	1,930	2,072			
<i>yoy change (%)</i>	22.8	21.6	30.1	29.6	32.7			
Deposits	2,151	2,410	2,547	2,697	2,815			
<i>yoy change (%)</i>	27.6	25.3	28.2	30.0	30.9			

* Calculated on average quarterly balances

Exhibit 1: Margins expand

Reported (%)	Q3FY10	Q2FY11	Q3FY11	yoy (bps)	qoq (bps)
Domestic					
Yield on advances	10.21	10.17	10.34	13	17
Cost of Deposits	5.36	5.27	5.27	(9)	-
Loan Spreads	4.85	4.90	5.07	22	17
NIMs	3.40	3.62	3.82	42	20
Foreign					
Yield on advances	3.96	3.75	3.70	(26)	(5)
Cost of Deposits	2.24	2.02	1.94	(30)	(8)
Loan Spreads	1.72	1.73	1.76	4	3
NIMs	1.37	1.33	1.40	3	7

Exhibit 2: CASA remains resilient

Rs bn	Q3FY10	Q2FY11	Q3FY11	yoy gth (%)	qoq gth (%)
Global Deposits	2,151	2,697	2,815	30.9	4.4
Foreign Deposits	490	637	662	35.2	3.9
Local Deposits	1,662	2,060	2,153	29.6	4.5
Current Deposits	170	160	205	20.0	28.3
Saving Deposits	495	580	615	24.2	6.1
CASA as % of dom dep	36.9	35.9	35.1	(1.8)	(0.8)
Total term deposits*	1,538	1,957	1,995	29.7	1.9
Overall CASA (%)	28.5	27.4	29.1	0.6	1.7

Exhibit 3: Non-interest income - break up

Rs m	Q3FY10	Q2FY11	Q3FY11	yoy gth (%)	qoq gth (%)
Other Income	6,597	6,813	6,762	2.5	(0.8)
Trading profits	1,393	1,101	848	(39.2)	(23.0)
Non-trading other income	5,203	5,712	5,914	13.7	3.5
CEB	2,309	2,483	2,445	5.9	(1.5)
Forex income	987	1,000	1,471	49.0	47.1
Recoveries	655	691	615	(6.1)	(11.1)
Incidental charges	823	905	741	(9.9)	(18.1)
Misc. other income	430	632	642	49.3	1.5

Exhibit 4: Composition of loan book

Rs bn	Q3FY10	Q2FY11	Q3FY11	yoy (%)	% of tot adv
Total advances	1,562	1,930	2,072	32.7	100.0
Foreign advances	402	512	551	37.2	26.6
Domestic advances	1,160	1,417	1,521	31.1	73.4
Of which:					
Retail	223	272	296	32.8	14.3
Agriculture	188	216	231	22.9	11.2
SME	202	235	253	24.8	12.2
Others (Corporate)	547	695	741	35.6	35.8
Total	1,160	1,417	1,521	31.1	73.4

Exhibit 5: Gross NPAs stable

	Q3FY10	Q2FY11	Q3FY11	yoy gth/ chg	qoq gth/ chg
Gross NPAs (Rsm)	22,603	27,199	27,703	23	2
Gross NPAs (%)	1.43	1.39	1.32	(11)	(7)
Net NPAs (Rs m)	4,877	7,313	7,443	53	2%
Net NPAs (%)	0.31	0.38	0.36	5	(2)
Loan loss coverage (%)	78.4	73.1	73.1	(529)	2

Exhibit 6: Provisioning expenses breakup

Rs m	Q3FY10	Q2FY11	Q3FY11
NPA provision	2,430	1,423	2,064
Investment depreciation	(216)	(201)	535
Other provisions	211	633	442
Total Provisions	2,425	1,855	3,041

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