

BUZZING

STOCK

Bank of Baroda

CMP – Rs.216

Analyst

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Key Stock Data

Sensex	12884
Nifty	3761
Sector	Banks – Public
Bloomberg	BOB@IN
Reuters	BOB.BO
No. of shares (m)	367
Market Cap (Rs m)	78,844
Market Cap (US\$ m)	1,828
52-week H/L	Rs.296/176

Shareholding Pattern (%)

Promoters	53.81
Mutual Funds	15.07
FII's	20.84
Corporate Bodies	2.14
Pubic & Others	8.14

A strong Q3FY07..

Making a strong comeback in the core areas, BoB has reported good numbers in Q3FY07. While the bank was not an exception to the increasing margin pressures being faced because of rate increases, it has been able to leverage its deposits adequately in the third quarter period to finally report a very meaningful increase in NIM. BoB's other income, which has witnessed a steady growth this year, has been augmented in the third quarter giving a boost to the bank's net income.

This looks to us a comeback and not just an exceptional quarter. However, we should remain cautious on the provisioning front as sharp rise in loan book may report delinquencies. Also, bond market volatility has again pushed the short end as well as the long end rates beyond 8% and we feel the bank might now be beyond the comfort zone of tolerable rate levels and may be forced to book MTM losses.

Core income increases substantially

The interest income of BoB has risen substantially – 35% YoY to Rs.23,870m. Though interest expenses have also seen a sharp increase of 49% YoY, it has been on a much smaller base, thanks to a still dormant rate scenario leading to lower deposit costs a year ago. The change to NII therefore has been 18% YoY. This should be considered significant looking at the fact that most PSB's and a few in BoB's peerset have been facing margin pressures.

BoB has been able to sequentially improve its NIM further to 3.31%.

Other income also exhibits strong growth

BoB had revised its fees structure and the effect is now evident in the bank's rising other income. BoB's other income for Q3FY07 has shown a YoY increase of 22% to Rs.3,337m. The same for the period 9MFY07 has shown a 29% YoY increase. The net income as a result has seen a YoY increase of 22%.

Interest rates have been revised...

Earlier in the year, BoB announced changes to its deposit and advances rates. While there is a growing competition to access more deposits, we feel the loan growth might temper on back of higher interest rates (though not prohibitive for an economy who continues to have a high appetite to borrow) but more because of a loan growth rate that is already running high.

The bank has revised its PLR to 12.5% in February this year. The spread between the bank's costliest deposits (8.75%) and the new PLR now remains at 3.75%. The balance in the deposit mix might tilt a little in favor of long tenor deposits in Q4FY07. However, the PLR change that shall affect all the floating rate loans should more than offset the impact. Secondly, not all deposits shall be contracted at the highest rate and that gives a comfort that margins may be protected even if they don't show an improvement in Q4FY07.

Valuations

Bank of Baroda's closing price of Rs.216 is 7.4x its FY07E EPS Rs.29. At an ABV Rs.220 for FY07E, the share is still at a discount.

Recent developments

BoB has announced an interim dividend payment of 30% or Rs.3 on a share of FV Rs.10.

Financial Snapshot										
Bank of Baroda						Rs.m	Ratios (%)			
	Q3FY07	Q3FY06	Chng (%)	FY06	FY05	Chng (%)		FY06	FY05	Chng (%)
Interest Income	23,870	17,733	35	71,000	64,314	10	CD	59	51	15.3
Interest expended	14,262	9,599	49	38,751	34,522	12	CAR	14	13	8.2
NII	9,608	8,134	18	32,249	29,793	8	NIM	3.3	3.4	(2.6)
Other Income	3,337	2,744	22	11,917	13,133	(9)	RoA	0.79	0.75	5.3
Net Income	12,944	10,877	19.0	44,166	42,926	3	RoE	12	13	(2.4)
Operating expenses	6,375	5,785	10	23,848	19,798	20				
Payments to employees	4,325	4,001	8	15,238	13,811	10				
Other expenses	2,051	1,784	14.9	8,610	5,988	44				
Operating income	6,569	5,092	29	20,319	23,128	(12)				
Provisions and contg.	1,417	2,251	(37.0)	9,173	14,497	(37)				
Provisions	0	0	-	0	0					
PBT	5,152	2,842	81	11,146	8,631	29				
Taxes	1,861	820	127	2,877	1,863	54				
PAT	3,291	2,022	62.8	8,270	6,768	22				

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