



ENAM Securities
India Research

Rs 522

Target Price: Rs 706

Potential Upside: 35%

Sector avg. upside: 25% to 30%
(mkt cap wtd)

Bank of Baroda

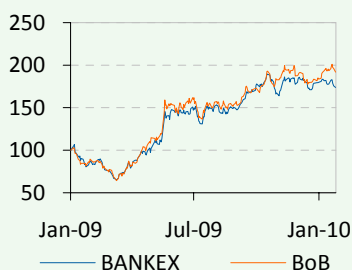
Relative to sector: **Outperformer**

Analyst: **Praveen Agarwal**
Email: praveen.agarwal@enam.com
Tel: 9122 6754 7609

Rajiv Pathak
Email: rajiv.pathak@enam.com

Sumit Agrawal
Email: sumit.agrawal@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 364mn
Market cap : Rs 190.3 bn
52 week high/low : Rs 568/ Rs 181
Avg. daily vol. (6mth) : 812,400 shares
Bloomberg code : BOB IB
Reuters code : BOB.BO

Shareholding (%) Dec-09 QoQ chg

Category	Dec-09 (%)	QoQ chg (%)
Promoters	53.8	0.0
FIs	14.2	(2.1)
MFs / UTI	10.2	(0.9)
Banks / FIs	8.8	0.7
Others	13.0	2.4

Financial Summary

Y/E Mar	PAT (Rs m)	FDEPS (Rs m)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	22,272	61	55	8.6	312	303	1.7	1.7	21.3	1.1	0.3
2010E	29,833	82	34	6.4	383	372	1.4	1.4	23.5	1.2	0.3
2011E	32,746	90	10	5.8	460	448	1.1	1.2	21.3	1.1	0.3
2012E	39,218	107	20	4.9	556	543	0.9	1.0	21.1	1.1	0.3

Source: Company, ENAM estimates

SUPERIOR PERFORMANCE CONTINUES

Bank of Baroda's (BoB) net interest income grew 10% YoY to Rs 16 bn driven by 23% rise in loan book. Despite the 22% fall in non-interest income, PAT grew 26% YoY to Rs 8.3 bn due to write-back of investment depreciation and lower effective tax outflow. Sequentially, margin improved 32 bps to 2.95% aided by 46 bps reduction in cost of deposits and controlled cut in yield on loans. Slippages of Rs 2.12 bn in some accounts covered under the agri-loan waiver scheme impacted asset quality during Q3. Gross and net NPAs stood at 1.4% and 0.3% respectively. While some additions were witnessed in the restructured loans book the proportion as % of total loans remained stable at 3% (restructured book Rs 48 bn).

Q3FY10 highlights

- Loan book growth was primarily driven by 48% rise in SME loans and 38% increase in international loans. The share of overseas loans increased to 26% as against 23% in Q3FY09. The bank is also witnessing increased traction in the corporate loans.
- Domestic CASA deposits increased 25% YoY driven by 23% growth in savings deposits which forms 78% of CASA. The proportion of CASA deposits improved to 37% against 36% in Q2FY10 and Q3FY09.

Valuations

BoB's management continues to focus on CASA generation, granular business growth (low dependence on bulk deposits and advances), fee income growth, NPA management, increase recoveries and leveraging on the technology and customer base to improve cross selling. The bank is not witnessing any stress in the international operations and loans are being serviced regularly. We expect the bank to deliver average RoA and RoE of 1.1% and 21% respectively over the next two years. Maintain sector **Outperformer** rating on the stock with target price of Rs 706 (1.3x FY12E ABV and 6.6x FY12E earnings).

Results Update

(Rs mn)	Quarter ended					12 months ended		
	Dec-09	Dec-08	% Chg	Sep-09	% Chg	Mar-10E	Mar-09	% Chg
Interest Income	41,770	41,080	2	41,354	1	172,665	150,916	14
Interest Expended	25,757	26,462	(3)	27,468	(6)	113,545	99,682	14
Net Interest Income	16,012	14,618	10	13,886	15	59,121	51,234	15
Non-Interest Income	6,597	8,465	(22)	5,953	11	26,131	27,577	(5)
Net Income	22,609	23,083	(2)	19,839	14	85,252	78,811	8
Operating Expenses	9,959	9,627	3	9,523	5	38,204	35,760	7
Operating profit	12,650	13,456	(6)	10,316	23	47,048	43,050	9
Provision & Contingencies	2,425	3,501	(31)	1,163	108	4,430	9,621	(54)
PBT	10,225	9,955	3	9,153	12	42,618	33,430	27
Tax	1,900	3,328	(43)	2,811	(32)	12,785	11,157	15
Adj.Net Profit	8,325	6,628	26	6,342	31	29,833	22,272	34
No. of shares (mn)	366	366	-	366	-	366	366	-
Rep. EPS - non-annualized (Rs.)	22.8	18.1	26	17.3	31	81.6	60.9	34
Yields & Margins (%)								
Yield on advances	8.6	9.9	(1.3)	8.7	(0.1)	8.4	9.0	(0.6)
Yield on investment	6.7	7.9	(1.2)	6.7	(0.0)	6.6	6.9	(0.3)
Cost of deposit	4.7	6.0	(1.3)	5.2	(0.5)	5.0	5.3	(0.3)
Net interest margin	3.0	3.3	(0.4)	2.6	0.3	2.5	2.6	(0.1)
Asset quality								
Gross NPAs (Rs mn)	22,603	19,214	17.6	19,566	15.5	24,657	18,429	33.8
Gross NPAs (%)	1.4	1.5	(0.1)	1.3	0.1	1.4	1.3	0.2
Net NPAs (Rs mn)	4,877	4,726	3.2	4,053	20.3	5,918	4,512	31.2
Net NPAs (%)	0.3	0.4	(0.1)	0.3	0.0	0.3	0.3	0.0
Provisioning coverage (%)	78.4	75.4	3.0	79.3	(0.9)	76.0	75.5	0.5
Capital (%)								
Tier-I	9.3	8.5	0.8	8.9	0.5	8.7	7.8	0.9
CAR	14.7	13.2	1.5	14.6	0.1	12.0	12.9	(0.9)
Balance sheet (Rs. Bn)								
Advances	1,562	1,272	22.8	1,489	4.9	1,711	1,440	18.8
Deposits	2,151	1,686	27.6	2,074	3.7	2,300	1,924	19.5
CASA (%)	36.9	36.1	0.8	36.2	0.8	34.0	29.6	4.4

Source: Company, ENAM Research. Note: CASA figures for full year is global whereas for quarters is domestic. All ratios for the full year are based on calculated numbers.

- ❑ Non-interest income declined due to lower treasury, recoveries and forex related income. Core fee income (comprising commission, exchange and brokerage) however posted healthy 34% YoY growth boosted by fee income from its overseas operations. International operations contributed to 42% of fee based income.
- ❑ BoB has made higher provisions towards standard assets and NPAs. However, a write back of investment depreciation of Rs 216 mn against provision for the same of Rs 2.3 bn in Q3FY09 resulted in 31% decline in the overall provisioning expenses.
- ❑ The dependence on bulk deposits has been falling. Bulk deposits now form 15% of total deposits against 22% a year ago.

- Total investment book stood at Rs 577 bn (domestic Rs 539 bn and overseas Rs 38 bn). HTM and AFS proportion was 79% and 20% with AFS duration of 2.18 years.
- Contrary to perception, NPAs in retail has reduced while in SME and agriculture loans it has increased. The agri-slippages were largely on account of Rs 2.12 bn loans (covered under the agri-loan waiver scheme) being classified as NPAs.

Bank of Baroda: Sector-wise Gross NPA (%)

(%)	Dec-09	Dec-08	Chg (bps)	Sep-09	Chg (bps)
Agriculture	3.45	2.25	120	2.9	55
Large/Medium Corporate	1.23	0.86	37	1.21	2
Housing	2.5	3.43	(93)	2.67	(17)
Retail	2.34	2.85	(51)	2.38	(4)
SME	2.91	2.79	12	1.69	122

Source: Company, ENAM Research

Key Ratios (%)

(%)	Dec-09	Dec-08	Change	Sep-09	Change
Global NIM	2.95	3.3	(0.35)	2.63	0.32
Domestic NIM	3.4	3.61	(0.21)	2.89	0.51
Overseas NIM	1.37	2.08	(0.71)	1.59	(0.22)
Global YoA	8.6	9.91	(1.31)	8.71	(0.11)
Dom. YoA	10.21	11.25	(1.04)	10.23	(0.02)
Overseas YoA	3.96	5.58	(1.62)	4.48	(0.52)
Global CoD	4.69	5.95	(1.26)	5.15	(0.46)
Dom. CoD	5.36	6.45	(1.09)	5.87	(0.51)
Overseas CoD	2.24	3.78	(1.54)	2.49	(0.25)
Global YoI	6.65	7.87	(1.22)	6.69	(0.04)
Dom. YoI	6.87	7.97	(1.10)	6.87	0.00
Overseas YoI	3.76	6.78	(3.02)	4.33	(0.57)

Source: Company, ENAM Research

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.