

July 12, 2007

**Not Rated**

Price	Target Price
<b>Rs86</b>	<b>N.A.</b>

<b>Sensex</b>	<b>14,911</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	30	114	99	186
Rel. to Sensex	23	89	78	103

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	BOR.BO
Bloomberg	BOR@IN
Equity Capital (Rs mn)	1,076
Face Value (Rs)	10
52 Week H/L (Rs)	82/26
Market Cap	Rs8.8bn/US\$217mn
Daily Avg Volume (No of shares)	1,348,669
Daily Avg Turnover (US\$)	2.7mn

**Shareholding Pattern (%)**

(31st Mar.'07)	
Promoters	44.2
FII	1.0
Institutions	2.7
Private Corp.	11.0
Public	41.1

Kashyap Jhaveri

[Kashyap.jhaveri@emkayshare.com](mailto:Kashyap.jhaveri@emkayshare.com)

+91 22 6612 1249

**Bank of Rajasthan****Visit Note**

We recently met the management of Bank of Rajasthan (BOR). BOR is one of the oldest private banks in India established in 1943. The bank has 442 branches of which 294 (60%+ of the total) are located in Rajasthan. The promoter, Tayal group took over the bank in 1998 and holds 44.1% stake in the bank. After two years of dull performance (hit by wage arrears and treasury losses), the bank has staged a turnaround in FY07. At the current market price of Rs86, the stock is quoting at 10.3x FY07 EPS and 2.2x FY07 ABV.

**Dull performance over FY05-06**

Over FY05 and FY06, BOR saw a significant deterioration in profitability. The key reasons leading to the poor profitability were:

**A very low credit-deposit ratio – hit on NIMs**

The CD ratio of the bank at the end of FY04 was as low as 31% which gradually improved to (but still a low of) 36% in FY05 and 45% in FY06. A low CD ratio implied that the bank was highly dependent on the treasury gains and short term money market operations for its profitability.

As the CD ratio remained low and dependence on short term money market opportunities remained high, the NIM also took a hit as they declined steeply from high of 3.7% in FY04 to 2.5% in FY06.

**High dependence on treasury gains**

The bank's heavy dependence on treasury gains hit it hard over FY05 and FY06. During FY05 and FY06, the bank's treasury gains tumbled to Rs78mn and a loss of Rs154mn from high of Rs1.3bn in FY04.

During these two years, the bank also transferred securities worth more than Rs15bn from AFS to HTM category and took cumulative one-time losses of Rs300mn on its books.

**Wage arrears**

During FY06, the bank also settled wage arrears worth Rs360mn which were pending for 2-3 years due to dispute with the employees.

**Stages a turnaround in FY07**

BOR has staged a significant turnaround in FY07 with improvement in all the key parameters

**Improving CD Ratio**

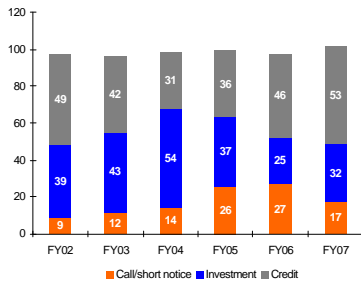
During FY07, the CD ratio of the bank has furthered improved to 53%. Moreover, the bank's dependence on the money market operations has also declined substantially, with the short money market asset having come down to (but still a high of) 17% of the assets.

**Increase in investment yield**

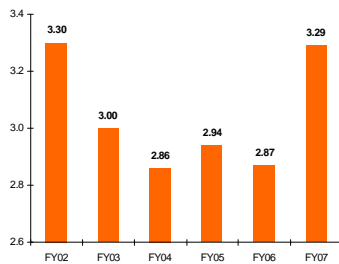
With heavy dependence on the treasury gains over FY2002-04, the bank had significantly reduced its portfolio of high yielding securities resulting in significant decline in the yield on investment. During FY07, the yield on investment has also seen significant jump from 6.3% to 7.0% over FY05-07 with investment in high yielding securities.

**Increase in PLR**

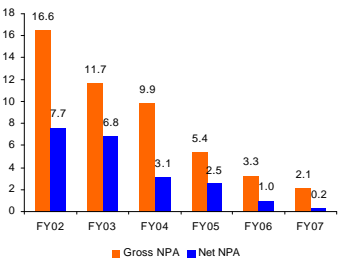
During FY07, the bank has taken a 250bps increase in its PLR which now stands at 14.5%. The increase in PLR has significantly helped the bank to improve its yield on advances and consequently its NIMs.

**As % of deposits**

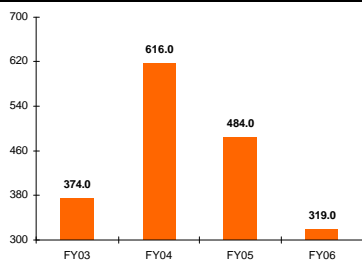
Source: Company, Emkay Research

**NIM (%)**

Source: Company, Emkay Research

**NPA (%)**

Source: Company, Emkay Research

**Recoveries (Rs mn)**

Source: Company, Emkay Research

**Robust growth in fee income with technology in place**

Over past few years, the bank has aggressively focused on the implementation of technology. Nearly 390 branches (~87%) of the bank are currently on CBS which cover more than 90% of the bank's business. As a result of the technology implementation, the bank has been able to keep its operational expenses low and also to boost its fee income. Over FY04-07, BOR has seen a 27% CAGR in fee income to Rs454mn. The sale of third party products (LIC, UIC, MFs) and ramp up in CMS driven by the technology backup has been key drivers of fee income. The sale of third party products contributes nearly 20% of the fee income.

**Significant reduction in NPA**

NPA has been a long plaguing problem for BOR. From gross NPAs of as high as 16.6% in FY02, the bank has been able to significantly bring them down to 2.1% by the end of FY07. The reduction in GNPA has been on account of significant decline in fresh slippages which have come down to 0.4% from as high as 1.8% in FY03 and also due to strong recoveries. Coupled with the same, the net NPA have also come down significantly.

**Target for FY08**

The bank is targeting a growth of 40% in its advances book over FY08 with a deposit growth of 25% and thereby taking CD ratio to 60%. The growth in the advances book is likely to be achieved with rapid growth in the retail and SME segment. The bank plans to achieve 60% growth in retail advances with help of both, outsourcing as well as direct marketing efforts.

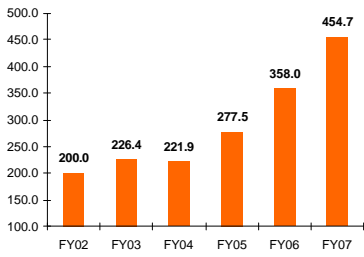
The bank has achieved a decent NIM of 3.79% in Q4FY07 driven by sharp increase in advances yield which it finds sustainable. Driven by robust NIM and strong growth in fee income, the bank targeting an RoA of 1.5% by FY09. The bank would also benefit from Rs250mn of recoveries that it is planning over next two years.

**Low tier I may require capital infusion**

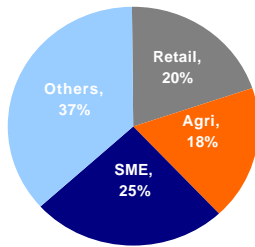
At the end of FY07, the bank had a total capital adequacy ratio of 11.3% with tier I capital adequacy of 6.4%. Looking at the growth plans of the bank, it would require equity capital infusion over period of next three months.

**Can be a good regional acquisition target**

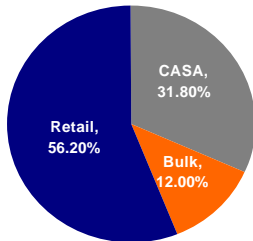
With its strong presence in Rajasthan (60%+ branches located there) and good mix of branches in semi-urban and rural area (40%+ branches), BOR makes a good target for the banks looking at expanding presence in Western India.

**Fee income (Rs mn)**

Source: Company, Emkay Research

**Portfolio mix (%)**

Source: Company, Emkay Research

**Deposit mix (%)**

Source: Company, Emkay Research

**Risk and concerns****Promoter holding higher than RBI norms**

The Tayal group IIHL, the promoter company of IIB holds around 21.4% stake in the bank, which is much higher than 10% allowed by the RBI. IIHL may have to reduce its holding in the bank if the RBI desires so.

**Financials and valuations**

At the current market price of Rs86, the stock is quoting at 8.3x its FY07 EPS of Rs10.3 and 2.2x its ABV of Rs38.4.

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY04	FY05	FY06	FY07
Net interest income	1,898	2,135	2,223	3,185
Other income	1,770	638	616	1,358
Net income	3,669	2,772	2,840	4,543
Operating expenses	1,816	1,948	2,551	2,507
Pre provision profit	1,853	825	289	2,036
PPP excl treasury	573	746	443	1,622
Provisions	887	309	60	439
Profit before tax	966	516	229	1,596
Tax	276	166	77	491
Tax rate	29%	32%	33%	31%
Profit after tax	690	350	153	1,105

## Key Ratios (%)

(Year Ending Mar 31)	FY04	FY05	FY06	FY07
NIM	2.8	2.6	2.5	3.1
Non-ll/avg assets	2.4	0.7	0.6	1.2
Opex/avg assets	2.5	2.2	2.7	2.3
Provisions/avg assets	1.0	0.0	0.3	0.3
PBT/avg assets	1.1	0.6	0.2	1.3
Tax/avg assets	0.3	0.2	0.1	0.4
RoA	0.9	0.4	0.2	1.0
RoAE	24.2	11.0	4.6	28.8
GNPA	9.9	5.4	3.3	2.1
NNPA	3.1	2.5	1.0	0.2
Tier I	8.9	7.2	6.8	6.4

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY04	FY05	FY06	FY07
Equity	1,076	1,076	1,076	1,076
Reserves	2,219	2,432	2,551	3,405
Net worth	3,295	3,507	3,627	4,481
Deposits	76,389	81,203	88,913	108,159
Borrowings	5,018	6,966	6,069	8,333
Total liabilities	84,703	91,676	98,609	120,973
Cash and bank	13,758	24,494	29,188	24,594
Investments	41,267	30,434	21,998	34,237
Customer assets	26,633	33,675	44,317	59,210
Others	3,045	3,074	3,106	2,932
Total assets	84,703	91,676	98,609	120,973

## Valuations Table

(Year Ending Mar 31)	FY04	FY05	FY06	FY07
Net profit (Rs mn)	691	351	152	1,105
Shares in issue (mn)	108	108	108	108
EPS (Rs)	6.4	3.3	1.4	10.3
PER (x)	13.4	26.4	60.9	8.4
FDEPS(Rs)	6.4	3.3	1.4	10.3
FDPER (x)	13.4	26.4	60.9	8.4
Book value (Rs)	28.6	30.6	31.7	39.6
P/BV (x)	3.0	2.8	2.7	2.2
Adj book value (Rs)	21.8	23.8	28.0	38.4
P/ABV (x)	3.9	3.6	3.1	2.2
P/PPP (x)	5.0	11.2	32.0	4.5

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Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299