



Bank of Baroda

 Relative to sector: **Outperformer**
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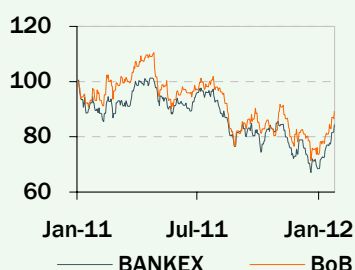
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 392 mn
Market cap	: Rs 309 bn
52 week high/low	: Rs 1007/ Rs 630
Avg. daily vol. (6mth)	: 526,400 shares
Bloomberg code	: BOB IB
Reuters code	: BOB.BO

Shareholding (%)

	Dec-11	QoQ chg
Promoters	: 57.0	0.0
FIs	: 13.6	(0.7)
MFs / UTI	: 8.4	(0.4)
Banks / FIs	: 8.8	0.9
Others	: 12.2	0.3

Financial Summary

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2010	30,583	84	37	9	377	366	2.1	2.2	24.3	1.2	0.3
2011	42,417	108	29	7	503	490	1.6	1.6	25.3	1.3	0.3
2012E	48,035	122	13	6.5	603	579	1.3	1.4	22.1	1.2	0.5
2013E	58,086	148	21	5.3	724	698	1.1	1.1	22.3	1.2	0.5

Source: Company, ENAM estimates

VISIBLE STRESS IN ASSET QUALITY

While Bank of Baroda's (BOB) reported PAT of Rs 12.9 bn (up 21% YoY) was above our estimate of Rs 12.3 bn, Q3 largely disappointed with (1) higher slippages at ~Rs 9.5 bn (slippage ratio of 1.7% v/s average of ~1.2%) and (2) rise in restructured book to ~Rs 99.5 bn (up 27% QoQ). PAT growth was driven by higher treasury income of Rs 3.9 bn (Rs 848 mn in Q3FY11) and forex income of Rs 2.4 bn (Rs 1.5 bn in Q3FY11). However, the impact of higher non-interest income was partially offset by higher provisioning expenses (up 1.8x YoY and 71% QoQ). NIM declined 21 bps YoY and 8 bps QoQ to ~3% mainly due to higher share of international business at 31% (27% in Dec 11).

Key highlights

- Rising share of international business:** Credit growth at 26% YoY was driven by international credit growth of 46% YoY (partially due to exchange rate benefit). Domestic credit grew 19% YoY and 7% QoQ supported by agriculture credit (up 15% QoQ) contributing ~30% of incremental domestic credit.

(Contd. on pg 2...)

Maintain BUY with Target Price of Rs 915

Despite the visible stress in asset quality, BoB has maintained its track record of strong financial performance supported by one of the lowest cost-income ratio (~31%), lower than industry average slippages (1.7%), healthy NIM (~3%), traction in fee income, and a AFS bond book which has potential to give MTM gains from current levels. However, we maintain growth rates are likely to come off in coming quarters along with slight increase in cost-income ratio. We have a BUY rating on the stock with TP of Rs 915 (1.3x FY13E ABV), which implies upside of 16% from CMP of Rs 790.

Key highlights (...Contd. from page 1)

- ❑ **Increased slippages:** Slippages of ~Rs 9.5 bn were mainly from wholesale banking accounts. Management indicated aviation was one of the sectors which witnessed stress. Gross NPA ratio at 1.48% rose by 7 bps QoQ, while net NPA ratio at 0.51% rose by 4 bps QoQ.
- ❑ **Rise in restructured assets:** The bank restructured ~Rs 21 bn of loans in Q3FY12, which mainly included loan accounts from telecom and infra sectors. Cumulative restructured book now stands at ~Rs 99.5 bn (~3.8% of gross loans vs. 3.2% in Sep-11).
 - ▶ Provisioning expenses at Rs 8.5 bn (up 71% QoQ) included Rs 1.5 bn on loans restructured during Q3FY12.
- ❑ **Income from liquid investments spurs treasury profits** – Treasury profits at Rs 3.9 bn were primarily driven by winding up of liquid MFs which led to trading gains of ~ Rs3 bn.
- ❑ **Likely capital infusion by Govt:** The bank's CAR improved to 13.4% (vs. 12.7% in Sep-11), while Tier-I ratio inched up to 9.3% (vs. 8.8% in Sep-11) – led by credit rating exercise which reduced capital requirement. BOB is likely to receive further capital from the Government of India, which currently holds 57% stake in the bank. Though we have not factored in any capital infusion in our estimates, we believe any fresh infusion at current price will be book accretive and will increase leveraging capacity of the bank.

Results Update

(Rs mn)	Quarter ended					12 months ended		
	Dec-11	Dec-10	% Chg	Sep-11	% Chg	Mar-12E	Mar-11	% Chg
Interest Income	76,720	56,662	35	72,514	6	292,710	218,859	34
Interest Expended	50,165	33,739	49	46,845	7	189,663	130,837	45
Net Interest Income	26,555	22,923	16	25,669	3	103,047	88,023	17
Non-Interest Income	11,493	6,762	70	7,343	57	32,869	28,092	17
Net Income	38,048	29,684	28	33,013	15	135,916	116,114	17
Operating Expenses	11,967	11,172	7	11,613	3	46,465	46,298	-
Operating profit	26,082	18,512	41	21,400	22	89,451	69,816	28
Provision & Contingencies	8,497	3,041	179	4,964	71	22,735	13,313	71
PBT	17,585	15,471	14	16,436	7	66,715	56,503	18
Tax	4,686	4,783	(2)	4,775	(2)	18,680	14,086	33
Net Profit	12,899	10,689	21	11,661	11	48,035	42,417	13
No. of shares (mn)	393	366	-	393	-	393	393	-
Rep. EPS - non-annualized (Rs.)	32.8	29.2	12	29.7	11	122.3	108.0	13

Continued...

Key Parameters

(Rs mn)	Quarter ended					12 months ended		
	Dec-11	Dec-10	% Chg	Sep-11	% Chg	Mar-12E	Mar-11	% Chg
Yields & Margins (%)								
Yield on advances	9.45	8.58	87 bps	9.64	(19) bps	8.70	8.04	66 bps
Yield on investment	7.67	7.39	28 bps	7.58	9 bps	7.31	7.21	9 bps
Cost of deposit	5.65	4.53	112 bps	5.61	4 bps	5.15	4.34	82 bps
Net interest margin	2.99	3.20	(21) bps	3.07	(8) bps	2.70	2.85	(15) bps
Asset quality								
Gross NPAs (Rs mn)	38,951	27,703	41	34,021	14	40,767	31,525	29
Gross NPAs (%)	1.48	1.32	16 bps	1.41	7 bps	1.48	1.36	12 bps
Net NPAs (Rs mn)	13,253	7,442	78	11,186	18	14,268	7,909	80
Net NPAs (%)	0.51	0.36	15 bps	0.47	4 bps	0.52	0.35	18 bps
Provisioning coverage (%)	66.0	73.1	(716) bps	67.1	(115) bps	65.0	74.9	(991) bps
Capital (%)								
Tier-I	9.3	7.7	161 bps	8.8	49 bps	9.5	10.0	(51) bps
CAR	13.5	12.5	100 bps	12.7	72 bps	13.8	14.5	(73) bps
Balance sheet								
Advances (Rs. bn)	2,607	2,072	26	2,391	9	2,723	2,287	19
Deposits (Rs. bn)	3,492	2,815	24	3,292	6	3,626	3,054	19
CASA (%)	27.2	35.2	(800) bps	27.4	(24) bps	28.5	28.7	(17) bps
Cost to income (%)	31	38	(619) bps	35	(373) bps	34	40	(569) bps
LDR (%)	75%	74%	1 bps	73%	2 bps	75%	75%	0 bps

Source: Company, ENAM Research; Note: Full year ratios are on calculated basis and may be different from reported numbers

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