

31 January 2008

ACCUMULATE

Price **Rs391** Target Price **Rs440**

Sensex **17,759**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(15)	20	36	58
Rel. to Sensex	(3)	34	15	27

Source: Capitaline

Stock Details

Sector	Banks
Reuters	BOB.BO
Bloomberg	BOB@IN
Equity Capital (Rs mn)	3643
Face Value	10
52 Week H/L	501/189
Market Cap	Rs142.5bn/US\$3.6bn
Daily Avg Volume (No of shares)	961,836
Daily Avg Turnover (US\$)	9.7

Shareholding Pattern (%)(31st Dec.'07)

Promoters	53.8
FII	20.4
Institutions	17.8
Private Corp.	1.7
Public	6.3

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Bank of BarodaResult
Update**Healthy performance**

Bank of Baroda (BOB) reported a net profit of Rs5bn, far ahead of our expectation of Rs3.4bn led by buoyant treasury gains and controlled Opex. However NII growth remained subdued at 9.4% yoy driven by dip in NIM's on account of high cost of funds. The asset quality continued on the improvement track with decline in the NPAs at gross as well as net level.

The stock is currently quoting at 8.0x its FY10E EPS and 1.2x FY10E ABV. The bank is likely to report an RoE of 15% for FY10E. We maintain our ACCUMULATE rating on the stock with a revised price target of Rs440.

High cost of funds put pressure on NII growth

BOB's NII (net of amortisation expenses) grew by a slower 9.4%yoy to Rs10bn driven by lower NIM's which contracted 34bps to 2.79% on account of high cost of funds, which expanded 69bps to 5.62%.

Yield Analysis

%	Q3FY08	Q3FY07	Q2FY08	y-o-y chg in bps	q-o-q chg in bps
Yield on advances	9.32	8.41	9.75	91	-43
Yield on assets	8.41	8.06	8.52	35	-11
Cost of funds	5.62	4.92	5.62	69	0
NIM	2.79	3.14	2.91	-34	-11

Source: Company, Emkay Research

Net of amortisation expenses

Calculated based on average quarterly balances

Business growth remains healthy.....

The advances have grown by 23% yoy to Rs955bn, which was driven by smart growth in all segments. The international business continued to contribute healthy 23% to the total advances book. During the quarter the CD ratio remained at a higher 69.8% mainly driven by the substantial growth in SME and retail segment which has helped in improvement in yield on advances.

Advances mix

Rs bn	Q3FY08	Q3FY07	Q2FY08	As % of total	% yoy chg	% qoq chg
SME	107	80	102	14.4	33.9	5.0
Retail	154	122	145	20.6	25.8	6.5
Domestic	746	622	692	78.1	20.0	7.9
Foreign	209	155	210	21.9	35.0	-0.3
Foreign (%)	21.9	19.9	23.3			
Total	955	777	901		23.0	6.0

Source: Company, Emkay Research

The deposits have grown by 22% yoy to Rs1.4tn. The CASA remained healthy at 37.3% for the quarter.

Deposit Mix

s bn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Total deposits	1,369	1,123.0	1,292.2	21.9	5.9
Foreign deposits	1124	904	1014	24.3	10.8
Domestic deposits	245	219	278	12.0	-11.8
CASA (Rs)	511	453.7	484.6	12.6	5.4
CASA ratio (%)	37.3	40.4	37.5		

Source: Company, Emkay Research

Buoyant other income led by higher Treasury income

The other income during the quarter has grown by a whopping 85.2% yoy to Rs6.2bn driven by higher treasury gains and recoveries. The fee income has grown by modest 10% over last quarter. However, the same is likely to gain momentum going forward, as the bank continues to bring more branches under CBS. As of today, 1532 of the bank's domestic branches and 44 overseas branches are covered under the CBS.

Controlled Opex drives operating income

The operating expenditure has grown by just 7.1% during the quarter, primarily driven by lower employee expenses, which registered a decline of 8.5%yoy to Rs3.9bn. As a result bank's operating profit grew 54.3%yoy to Rs9.3bn.

Treasury gains used for higher provisioning

The bank has used higher treasury gains for making higher provisioning for loss assets. The total provisions for the quarter stood at Rs1.6bn compared with Rs891mn in the same quarter last year.

Rs mn	Q3FY08	Q3FY07	Q2FY08
NPA	1,350	310	611
As % of advances	0.14	0.04	0.07
Investment Depreciation	-251	511	221
Other	471	70	149
Total	1,570	891	981

Source: Company, Emkay Research

Asset quality continues to improve

The bank has continued on the asset quality improvement. The gross NPA during the quarter have declined to 2.11% (3.02% last year) and net NPA to 0.54% (0.66% last year). The provision cover also remains higher at 75%, albeit lower than 78.4% reported in same quarter last year.

Rs bn	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Gross NPAs	20.4	23.9	21.3	-14.6	-4.2
Net NPAs	5.2	5.2	5.0	0.4	4.2
Gross NPAs (%)	2.1	3.0	2.3		
Net NPAs (%)	0.5	0.7	0.6		
Provision cover (%)	74.6	78.4	76.7		

Source: Company, Emkay Research

Capital adequacy remains comfortable

With overall capital adequacy ratio of 13.51 and Tier I capital adequacy ratio of 9.06%, the bank is very comfortably capitalised for future growth and would not require any equity dilution soon.

Valuations and view

We believe that BOB is heading in the right direction with moderation in the balance sheet growth and focus on NIMs which is likely to result in improved quality of and strong growth in earnings over next two years. The stock is currently quoting at 8.0 x its FY10E EPS and 1.2x FY10E ABV. The bank is likely to report an RoE of 15% for FY10E. We maintain our ACCUMULATE rating on the stock with a revised price target of Rs440.

Quarterly results

Rs mn	M9FY08	M9FY07	% y-o-y chg	Q3FY08	Q3FY07	Q2FY08	% y-o-y chg	% q-o-q chg
Net interest income	28,833	25,240	14.2	9,975	9,082	9,815	9.8	1.6
Other Income	14,964	9,329	60.4	6,180	3,337	4,541	85.2	36.1
<i>Fee income</i>	3,676	3,293	11.6	1,386	1,260	1,213	10.0	14.2
Net income	43,797	34,569	26.7	16,155	12,418	14,355	30.1	12.5
Operating expenses	21,656	17,859	21.3	6,831	6,375	7,983	7.1	-14.4
Pre-provision profit	22,141	16,710	32.5	9,324	6,043	6,373	54.3	46.3
Provisions & Contingencies	3,965	4,490	-11.7	1,570	891	981	76.2	60.1
<i>NPA</i>	3,090	2,183	41.6	1,350	310	611	335.5	120.9
Profit before tax	18,177	12,220	48.7	7,754	5,152	5,392	50.5	43.8
Taxes	6,586	4,412	49.3	2,744	1,861	2,120	47.5	29.4
Net Profit	11,591	7,808	48.4	5,011	3,291	3,272	52.2	53.1

Valuation table

Y/E March 31	Net income	Net profit	EPS	ABV	RoA	RoE	P/ABV	PE
	Rs mn	Rs mn	(Rs)	(Rs)	(%)	(%)	(x)	(x)
FY2007	51,679	10,265	28.1	231.4	0.8	12.4	1.7	13.9
FY2008E	59,279	15,658	42.8	260.5	1.0	16.8	1.5	9.1
FY2009E	62,175	14,774	40.4	293.8	0.8	14.0	1.3	9.7
FY2010E	69,861	17,772	48.6	336.4	0.8	15.0	1.2	8.0

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