

October 28, 2010

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs1,011	Rs1,160
EPS change FY11E/12E (%)	NA
Target Price change (%)	26
Nifty	5,998
Sensex	19,941

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	41	46	103
Rel. to Nifty	16	27	28	64

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	BOB@IN
Equity Capital (Rs mn)	3643
Face Value(Rs)	10
No of shares o/s (mn)	364
52 Week H/L	1,049/467
Market Cap (Rs bn/USD mn)	368/8,268
Daily Avg Volume (No of sh)	455202
Daily Avg Turnover (US\$mn)	8.7

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	53.8	53.8	53.8
FII/NRI	18.5	17.8	17.1
Institutions	16.9	17.4	18.2
Private Corp	4.8	4.9	4.9
Public	6.1	6.1	6.1

Source: Capitaline

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com

+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com

+91 22 6612 1340

- **BOB's Q2FY11 net profit at Rs10.2bn was far ahead of our expectations driven by better than expected NII and lower than expected provisions**
- **The slippages were extremely positive surprise at just Rs2.9bn (0.6% annualised). Consequently, the provision requirement was also down**
- **No provision for pensions was the only negative surprise in the results. However, we believe that with strong revenue traction, BOB can easily provide upto Rs2bn/quarter for same**
- **Expect strong performance to continue on better NPA ratios, strong RoEs and inexpensive valuations at 2.4x FY11E/1.9x FY12E ABV. Maintain BUY with TP of Rs1,160**

Strong NII growth with better margins...

BOB's NII for Q2FY11 has grown by 9.7% qoq to Rs20.4bn. The strong growth in NII was driven by 29% yoy (4.0% qoq) growth in advances and 12bps qoq expansion NIMs. The expansion in NIMs was driven by better yield on advances.

Yield analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.5	8.3	7.8	7.9	8.1	-42	20
Yield on investments*	6.5	6.5	6.4	6.4	7.0	48	57
Yield on assets*	7.0	6.8	6.6	6.6	6.8	-21	19
Cost of funds*	4.6	4.2	4.0	4.0	4.1	-54	7
NIM*	2.3	2.6	2.6	2.5	2.7	33	13
Yield on Advances#	8.7	8.6	8.2	8.2	8.4	-31	23
Cost of deposits#	5.2	4.7	4.4	4.4	4.5	-65	11
NIM#	2.6	3.0	3.0	2.9	3.0	39	12

Source: Company, Emkay Research Note:* Calculated on basis of average quarterly balances # reported

...And strong advances growth

BOB's advances for the quarter have grown by 4.0% qoq driven by strong growth in retail and large corporate segment.

Advances mix

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Foreign	393	402	434	499	513	30.5	2.8
Mid-corporate/SME	167	202	211	216	216	29.3	-0.2
Agriculture	186	188	216	231	235	26.6	2.0
Retail	214	223	242	250	272	27.0	8.8
Others	530	547	647	661	694	31.0	5.1
Total	1,489	1,562	1,750	1,856	1,930	29.6	4.0

Source: Company, Emkay Research

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	78,811	22,272	60.9	282.0	1.1	18.7	16.6	3.6
FY2010	87,458	30,583	83.7	339.9	1.2	21.9	12.1	3.0
FY2011E	106,536	39,598	108.3	421.7	1.3	23.7	9.3	2.4
FY2012E	121,764	46,991	128.6	520.2	1.3	23.3	7.9	1.9

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	13,886	16,012	17,449	18,580	20,381	46.8	9.7	38,961	25,933	50.2
Other Income	5,953	6,597	7,669	6,172	6,813	14.4	10.4	12,985	12,983	0.0
Fee Income	2,040	3,132	3,575	2,015	2,483	21.7	23.2	4,498	4,050	11.1
Net Income	19,839	22,609	25,118	24,752	27,194	37.1	9.9	51,947	38,916	33.5
Total Operating Expenses	9,524	9,959	9,645	9,474	10,627	11.6	12.2	20,101	18,503	8.6
<i>As % Of Net Income</i>	<i>48.0</i>	<i>44.1</i>	<i>38.4</i>	<i>38.3</i>	<i>39.1</i>			<i>38.7</i>	<i>47.5</i>	
Employee Expenses	5,958	6,292	5,318	5,767	6,562	10.1	13.8	12,329	11,899	3.6
<i>As % Of Net Income</i>	<i>30.0</i>	<i>27.8</i>	<i>21.2</i>	<i>23.3</i>	<i>24.1</i>			<i>23.7</i>	<i>30.6</i>	
Other Expenses	3,567	3,668	4,327	3,706	4,065	14.0	9.7	7,772	6,603	17.7
<i>As % Of Net Income</i>	<i>18.0</i>	<i>16.2</i>	<i>17.2</i>	<i>15.0</i>	<i>14.9</i>			<i>15.0</i>	<i>17.0</i>	
Operating Profit	10,315	12,650	15,473	15,279	16,567	60.6	8.4	31,846	20,414	56.0
<i>As % Of Net Income</i>	<i>52.0</i>	<i>55.9</i>	<i>61.6</i>	<i>61.7</i>	<i>60.9</i>			<i>61.3</i>	<i>52.5</i>	
Provisions	1,163	2,425	3,773	2,513	1,855	59.5	-26.2	4,368	774	464.5
Prov for NPA	1,722	2,430	2,318	2,775	1,423	-17.4	-48.7	4,198	4,807	-12.7
PBT	9,152	10,225	12,514	12,765	14,712	60.8	15.3	27,478	19,640	39.9
Total Tax	2,811	1,900	3,452	4,174	4,519	60.8	8.3	8,693	6,446	34.9
Adjusted PAT	6,341	8,325	8,472	8,592	10,193	60.8	18.6	18,785	13,194	42.4
Extra Ordinary Items	0	0	-814	0	0					
Reported PAT	6,341	8,325	9,062	8,592	10,193	60.8	18.6	18,785	13,194	42.4
Reported EPS	17.3	22.8	24.8	23.5	27.9	60.8	18.6	51.4	36.1	42.4

Source: Company, Emkay Research

CASA remains stable despite high growth

The domestic CASA mix expanded by 90bps qoq despite strong growth in advances book as the CASA deposits grew by 7.7% qoq.

CASA Mix

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
CASA	581	614	660	687	739	27.3	7.7
Term deposits	1,025	1,048	1,138	1,275	1,321	28.8	3.6
Foreign deposits	467	490	558	585	637	36.2	8.8
Total Deposits	2,074	2,151	2,356	2,547	2,697	30.0	5.9
CASA (%)	36.2	36.9	36.7	35.0	35.9	-28	90

Source: Company, Emkay Research

Fee income growth remains strong

The fee income for the quarter has grown by 21% yoy (23% qoq) and has helped to mitigate the lower trading gains during the quarter.

Other income

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	2,040	3,132	3,575	2,015	2,483	21.7	23.2	4,498	4,050	11.1
Trading gains/(losses)	1,205	1,393	1,254	1,279	1,000	-17.0	-21.8	2,280	3,760	-39.4
Forex gains/(losses)	842	987	1,067	1,216	1,101	30.7	-9.4	2,317	1,806	28.4
Recoveries	666	655	1,181	561	692	3.8	23.2	1,253	1,166	7.5
Other non int income	1,199	430	592	1,100	1,537	28.2	39.7	2,637	2,202	19.8
Total	5,953	6,597	7,669	6,172	6,813	14.4	10.4	12,985	12,983	0.0

Source: Company, Emkay Research

Core operating profit grows by 11% qoq; but not providing for pension

The strong growth in NII coupled with stable expenses resulted in 8.4% qoq growth in operating profit notwithstanding unfavourable base effect of trading gains. In fact, the core operating profit grew by stronger 11% qoq for Q2FY11.

However, BOB has not started providing for the pension liabilities under the new pension scheme. Nonetheless, we believe that the strong traction in BOB's revenues can easily meet provisions of upto Rs2bn/quarter. The management has not given any guidance on the probable pension liabilities.

Core operating profit

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Reported operating profit	10,315	12,650	15,473	15,279	16,567	60.6	8.4	31,846	20,414	56.0
Less: Treasury gains	1,205	1,393	1,254	1,279	1,000	-17.0	-21.8	2,280	3,760	-39.4
Core operating profit	9,110	11,257	14,219	13,999	15,567	70.9	11.2	29,566	16,654	77.5

Source: Company, Emkay Research

Provisions come down sharply with lower slippages

The provisions came down sharply during the quarter (almost half qoq) as the slippages surprised positively at very low number. Since, there were also write back of depreciation on investments during the quarter, the total provisions stood at just Rs1.9bn.

Break up of provisions

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
On NPL	1,722	2,430	2,318	2,775	1,423	-17.4	-48.7	4,198	4,807	-12.7
As % of advances	0.12	0.16	0.13	0.15	0.07			0.22	0.32	
On Standard Assets	15	174	792	288	520		80.6	809	101	702.9
Investment Dep	-611	-216	617	-589	-201	-67.1	-65.9	-790	-4,209	-81.2
Others	38	38	46	39	113	201.3	190.5	152	75	102.5
Total	1,163	2,425	3,773	2,513	1,855	59.5	-26.2	4,368	774	464.5

Source: Company, Emkay Research

Sharply lower slippages – a positive surprise

The slippages for the quarter stood sharply lower at Rs2.9bn (0.6% annualized) during the quarter. While we are positively surprised by this number, we have built in full year slippages of 1.0% for FY11.

NPA profile

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	19,566	22,603	24,007	26,674	27,199	39.0	2.0
Net NPA (Rs bn)	4,053	4,877	6,023	7,173	7,313	80.4	1.9
Gross NPA (%)	1.3	1.4	1.4	1.4	1.4		
Net NPA (%)	0.3	0.3	0.3	0.4	0.4		
Net NPLs/Net worth (%)	2.9	3.2	4.0	4.5	4.3		
Provision cover (%)	79.3	78.4	74.9	73.1	73.1		

Source: Company, Emkay Research

Slippages

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Cumulative (Rs mn)	7,744	12,160	16,712	6,662	9,543	23.2	
Quarterly (Rs mn)	3,244	4,416	4,552	6,662	2,881	-11.2	-56.8
Cumulative (%)	0.5	0.8	1.0	0.4	0.5		
Quarterly (%)	0.2	0.3	0.3	0.4	0.1		

Source: Company, Emkay Research

Valuations and view

The stock is currently quoting at 2.4x FY11E ABV and 1.9x FY12E ABV with attractive average RoEs of 23.5%. We believe that the valuations are not unreasonable looking at (1) strong returns profile and (2) better NPAs profile than peers. We maintain our ACCUMULATE rating on the stock with price target of Rs1160.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	51,234	59,395	77,625	89,724
Other income	27,577	28,064	28,910	32,040
Net income	78,811	87,458	106,536	121,764
Operating expenses	35,761	38,106	40,941	44,493
Pre provision profit	43,050	49,353	65,595	77,271
PPP excl treasury	34,049	42,120	60,095	71,771
Provisions	9,621	6,972	10,723	12,154
Profit before tax	33,429	42,381	54,872	65,118
Tax	11,157	11,797	15,274	18,127
<i>Tax rate</i>	33%	28%	28%	28%
Profit after tax	22,272	30,583	39,598	46,991

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	3,655	3,655	3,655	3,655
Reserves	124,700	147,409	179,308	217,319
Net worth	128,355	151,064	182,964	220,974
Deposits	1,923,970	2,410,443	2,835,651	3,285,936
Borrowings	221,742	221,661	247,658	277,938
Total liabilities	2,274,067	2,783,167	3,266,273	3,784,848
Assets				
Cash and bank	240,871	354,671	368,256	426,733
Investments	494,318	588,306	686,647	782,364
Customer assets	1,469,999	1,773,871	2,132,116	2,480,722
Others	68,878	66,320	79,254	95,029
Total assets	2,274,067	2,783,167	3,266,273	3,784,848

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.7	2.5	2.8	2.8
Non-ll/avg assets	1.4	1.1	1.0	0.9
Fee income/avg assets	0.4	0.4	0.4	0.4
Opex/avg assets	1.8	1.5	1.4	1.3
Provisions/avg assets	0.2	0.6	0.4	0.4
PBT/avg assets	1.5	1.5	1.7	1.7
Tax/avg assets	0.5	0.4	0.5	0.5
RoA	1.1	1.2	1.3	1.3
RoAE	18.7	21.9	23.7	23.3
GNPA (%)	1.5	1.5	1.7	1.9
NNPA (%)	0.3	0.3	0.4	0.4

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	22,272	30,583	39,598	46,991
Shares in issue (mn)	366	366	366	366
EPS (Rs)	60.9	83.7	108.3	128.6
PER (x)	16.1	11.7	9.1	7.6
FDEPS(Rs)	60.9	83.7	108.3	128.6
FDPER (x)	16.1	11.7	9.1	7.6
Book value (Rs)	294.3	356.4	443.7	547.7
P/BV (x)	3.3	2.8	2.2	1.8
Adj book value (Rs)	282.0	339.9	421.7	520.2
P/ABV (x)	3.5	2.9	2.3	1.9
P/PPP (x)	8.3	7.3	5.5	4.6
Dividend yield (%)	0.9	1.5	1.8	2.1

Recommendation History: Bank of Baroda – BOB IN

Date	Reports	Reco	CMP	Target
30/07/2010	Bank of Baroda Q1FY11 Result Update	Accumulate	734	800
29/04/2010	Bank of Baroda Q4FY10 Result Update	Accumulate	687	750
28/01/2010	Bank of Baroda Q3FY10 Result Update	Accumulate	522	550
29/10/2009	Bank of Baroda Q2FY10 Result Update	Accumulate	489	480

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/10/2010	Punjab National Bank Q2FY11 Result Update	Buy	1,310	1,500
27/10/2010	Union Bank of India Q2FY11 Result Update	Hold	393	400
26/10/2010	United Bank of India Q2FY11 Result Update	Hold	141	150
22/10/2010	Bank of India Q2FY11 Result Update	Reduce	537	450

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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