ICICIdirect.com
On-line Share Trading

Initiating Coverage

Bank of Baroda (BANBAR)

Current Price	Target Price
Rs 427	Rs 532
Potential upside	**Time Frame**
25%	12-15 months

OUTPERFORMER

A pure banking play...

Bank of Baroda (BoB) is the third largest public sector bank (PSB), differentiating itself on account of higher share of international business, conservative approach and qualitative growth. We expect its profits to grow at 18% CAGR over FY09-FY11E to Rs 3117 crore while market share is likely to consolidate at current levels.

- **Business growth: Conservative yet consistent**

  The balance sheet of BoB grew at 26% CAGR to Rs 227406 crore. This resulted in an improvement in its market share from 3.5% to the 4% level in the last three years in spite of stiff competition from private banks. BoB has cautiously not reduced BPLR below 12%. Most loans are now priced near PLR, reducing sub-PLR loans gradually, whereby margins are maintained at 2.6-2.7%. We anticipate balance sheet growth of 17% CAGR over FY09-FY11E to Rs 310995 crore.
  The bank's stressed assets (GNPA and restructured) are lowest among comparable PSBs at approximately 4.2% of advances. This gives some comfort on asset quality concerns.

- **Productivity improving due to CBS implementation and employee mix**

  In spite of high growth, employee strength has reduced from 39529 to 36838. This has improved productivity whereby business per employee is up 28% CAGR to Rs 7.6 crore in FY09 from Rs 4.6 crore in FY07. Also, profit per branch has improved from Rs.40 lakh to Rs 80 lakh in three years.

- **Valuation…**

  We value the core business of the bank at 1.1x FY11E ABV, a discount of 20% to it P/ABV multiple of 1.4x as per single stage Gordon growth model due to uncertain market conditions. We have considered cost of equity at 13.9%, perpetual growth of 3% and sustainable RoE of 18%. This translates into fair value of Rs 514 per share for the bank. With RoE of 17-18%, RoA of over 1%, NIM@ 2.6-2.7%, well controlled asset quality and a well diversified loan book, we believe the bank's valuations at 0.95x is quite attractive. We value its 25% stake in UTI AMC at Rs 18/ share (valued @4% of weighted average AUM for the previous three months). Hence, on an SOTP basis we have arrived at a target price of Rs 532 and rate the stock as an **OUTPERFORMER.**

Exhibit 1: Key financials

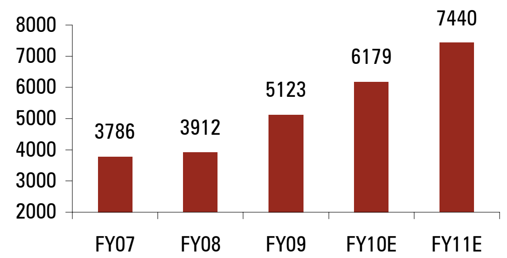
Year to March	FY07	FY08	FY09	FY10E	FY11E
Net Profit (Rs crore)	1026.5	1335.5	2227.2	2582.0	3117.6
EPS (Rs)	28.2	39.4	61.1	70.6	85.3
Growth (%)	4.0	39.9	55.1	15.5	20.7
P/E (x)	15.2	10.8	7.0	6.0	5.0
Price / Book (x)	1.8	1.4	1.2	1.0	0.9
Price / Adj Book (x)	1.9	1.5	1.3	1.1	1.0
GNPA (%)	2.5	1.9	1.3	1.5	1.6
NNPA (%)	0.6	0.5	0.7	1.0	0.9
RoNA (%)	0.8	0.8	1.1	1.1	1.1
RoE (%)	12.4	13.6	18.7	18.4	18.7

Source: ICICIdirect.com Research

Analysts' Name

Kajal Jain
kajal.jain@icicisecurities.com
Chirag Shah
chirag.shah@icicisecurities.com
Viraj Gandhi
viraj.gandhi@icicisecurities.com

NII trend (Rs Crore)



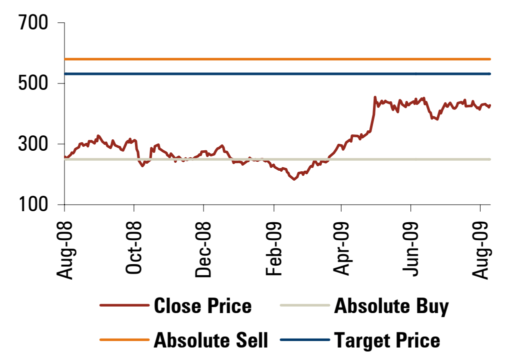
Stock Metrics

Bloomberg Code	BOB.IN
Reuters Code	BOB.BO
Face value (Rs)	10
Promoters Holding	54%
Market Cap (Rs cr)	15755
52 week H/L	485 / 170
Sensex	15467
Average volumes	88833

Comparative return metrics

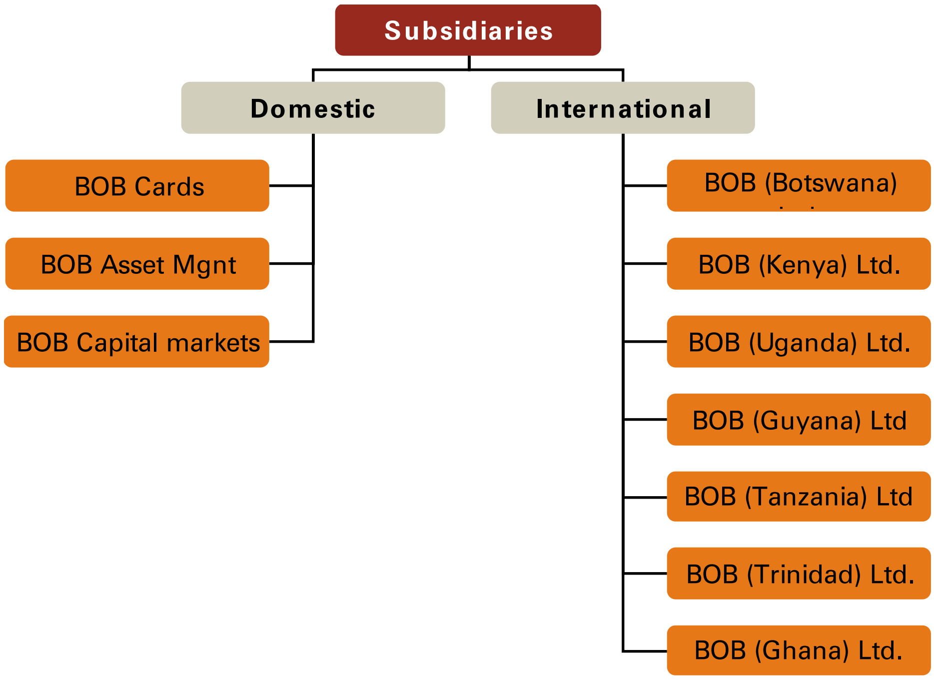
Stock return (%)	3m	6m	12m
BOB	-4	91	54
BOI	-6	41	27
PNB	-11	96	47
UBI	4	63	60

Price Trend



Company background

Bank of Baroda is the third largest public sector bank in India in which the government holds approximately 54%stake. Established in 1908, the bank has a pan-India presence and operations in 25 countries apart from India. The bank has increasingly pursued a strategy of increasing its foothold in international markets. Currently, the international business mix stands at approximately Rs 803 billion, registering 35% CAGR over FY07-FY09. Recently, the bank underwent re branding, with a change of its corporate logo replicating a rising sun. This proved to be a step in the right direction. The bank has a wide range of products in offerings catering to all segments i.e. SME, retail, corporate and agriculture. At present, the bank has approximately 2927 operational branches out of which 1987 branches are under the CBS platform covering 94% of the bank's business. Various subsidiaries of the bank are listed below.



Shareholding pattern (June 09)

Shareholder	Holding (%)
Promoters	53.8
Institutional investors	36.0
Other investors	3.6
General public	6.7

Promoter & Institutional holding trend (%)

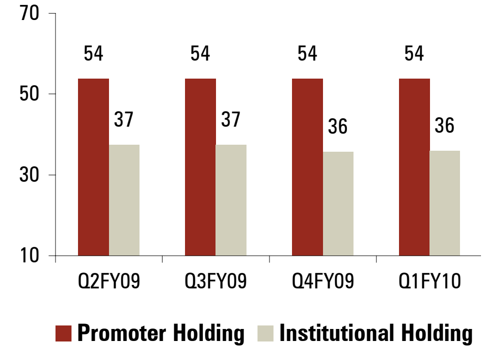
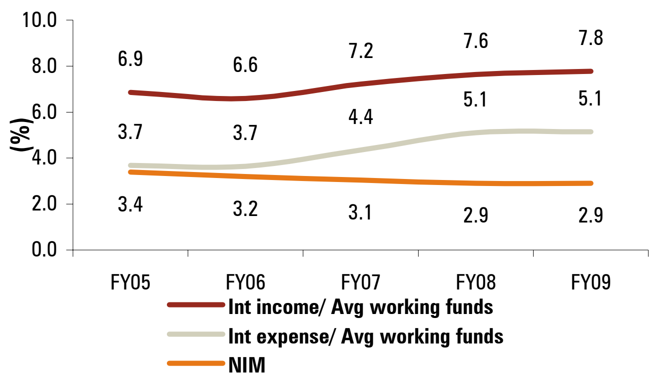
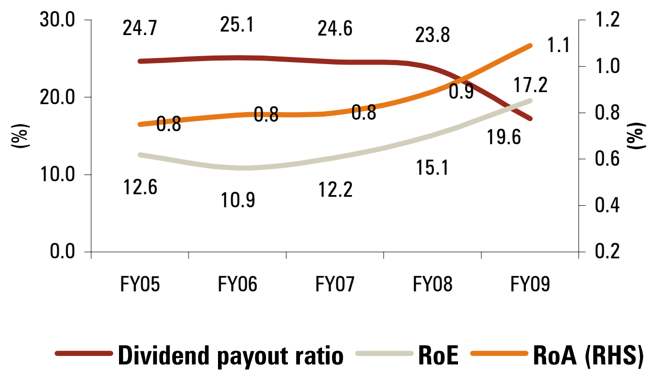


Exhibit 2: Margin picture



Source: Company, ICICIdirect.com Research

Exhibit 3: Returns metrics



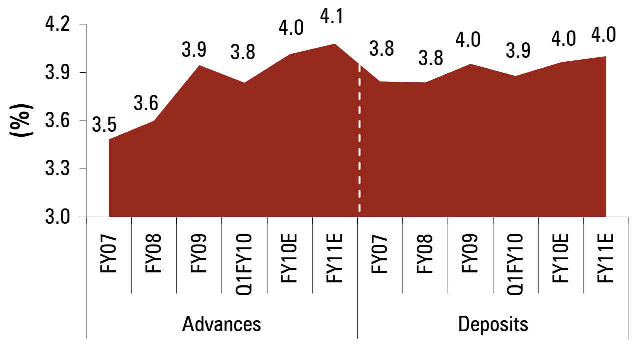
Source: Company, ICICIdirect.com Research

Investment rationale

Business growth: Conservative yet consistent

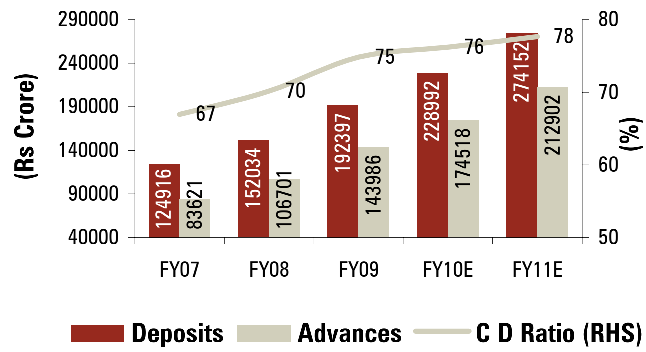
BoB has been growing ahead of the industry in the past many quarters in line with most PSBs. We expect this trend to moderate. The bank will consolidate its market share at current 4% levels. We anticipate balance sheet growth of 17% CAGR over FY09-FY11E to Rs 311148 crore. This anticipated asset growth will lead to 21% and 18% CAGR growth in NII and PAT, respectively, over the same period.

Exhibit 4: Market share to consolidate at current levels



Source: Company, ICICIdirect.com Research

Exhibit 5: C/D ratio to stabilise around 76-78%



Source: Company, ICICIdirect.com Research

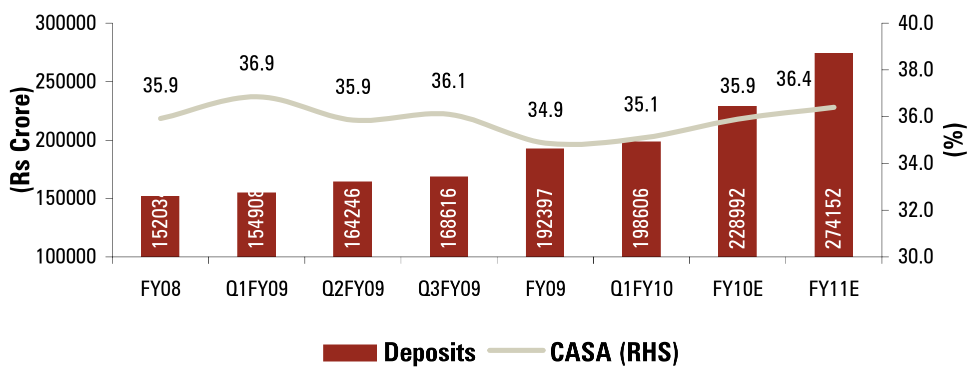
The C/D ratio for the bank has been improving consistently due to higher growth in the international business. The international business that contributed 16% in FY06 is now contributing 24% by the end of Q1FY10. The C/D ratio for the international business is in the range of 82-85%, which led to higher C/D ratio for BoB. On the other hand, the C/D ratio for the domestic market is always in the range of 68-70%. We expect it to stabilise in this range in the coming years as well.

Liability franchise

High share of CASA – A real boost

BoB has traditionally depended on higher deposit mobilisation and very less borrowings. The bank has been growing ahead of the industry and is utilising the opportunity to improve its market share in uncertain times. BoB has been a beneficiary of the flight of deposits from private sector banks to public sector because of uncertain economic conditions in the recent past. We expect a growth of 19% CAGR over FY09-FY11E to Rs 274152 crore for global deposits with international deposits growing at 20% CAGR and domestic deposits growing at 19% CAGR over FY09-FY11E.

Exhibit 6: CASA to provide cushion to control cost

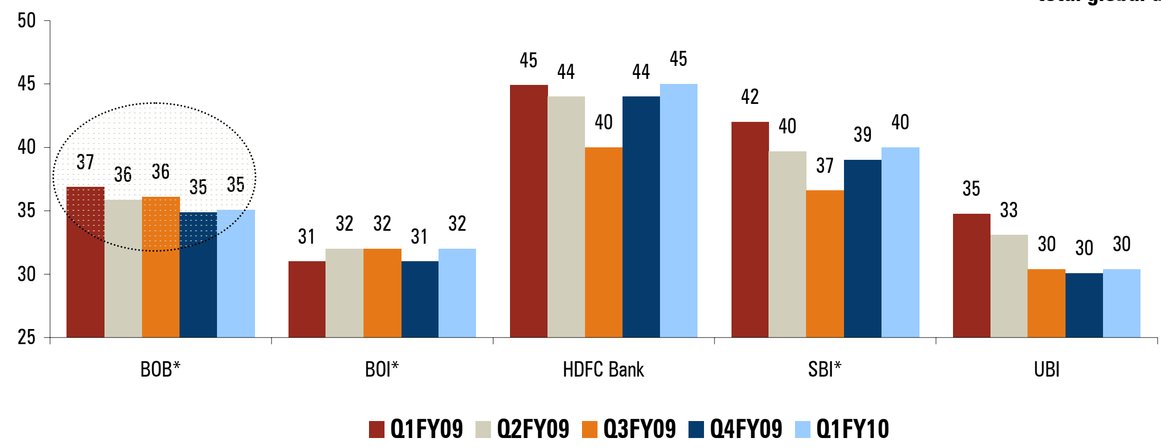


Source: Company, ICICIdirect.com Research

BoB has been able to maintain a strong CASA ratio on the back of the well diversified branch distribution. The bank is mainly concentrated in the western part of the country, which is CASA rich by nature. This helps the bank to maintain CASA levels even in uncertain times and with less volatility.

For Q1FY10, the savings account balance stands at Rs 44237 crore and current account balance at Rs 14246 crore. For FY10E, we expect Rs 53109 crore of savings balance and Rs 17396 crore of current account deposits of total global deposits

Exhibit 7: CASA for BoB maintained around 35-37%; expected to stay stable

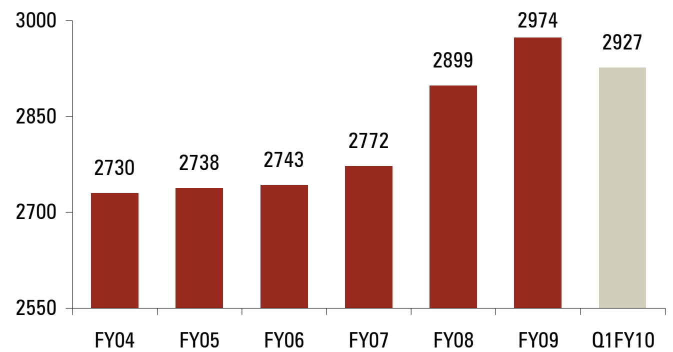


Source: Company, ICICIdirect.com Research **- Only domestic share is considered*

Distribution platform

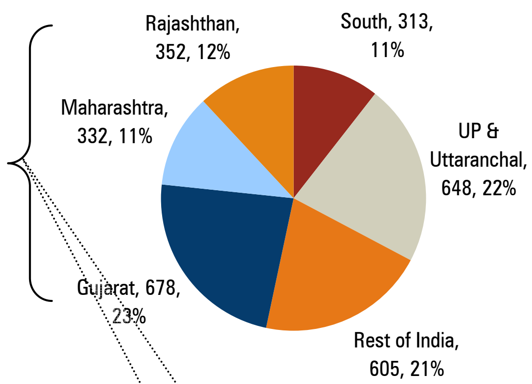
- Network of 2,927 domestic branches
- 74 overseas branches/offices, operations extended in 25 countries
- CBS rollout in 1987 branches, covering more than 94% of bank's business
- 1183 ATM network

Exhibit 8: Rationalisation of branches



Source: Company, ICICIdirect.com Research

Exhibit 9: Branch distribution for Q1FY10



Source: Company, ICICIdirect.com Research

BoB has been sluggish on the branch expansion front as compared to its peers in the previous two years. BoB rationalised many branches in Q1FY10. The tally now stands at 2927 branches against 2974 in FY09. The bank plans to add another 120-130 branches by FY10E, concentrating on urban market. This should help the bank to improve its share of CASA by around 75-100 bps in the coming years.

High concentration in CASA rich western region of India

Regional Break-up of Domestic Branches

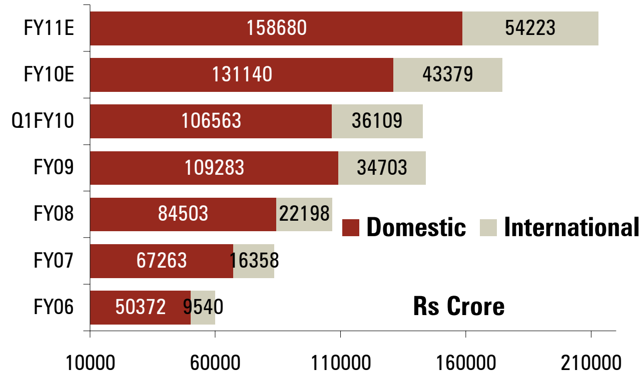
Metro	Urban	Semi-Urban	Rural
637	540	649	1,101

Advance book growing consistently

The loan book of BoB grew by 23% CAGR over FY07-FY09 to Rs 143986 crore. The growth in the international book was higher than domestic growth for more than three years now. The two main reasons for such higher growth were lower base of international loan book (refer Exhibit 10) and non-SLR requirement in the international market. The bank is now present in 25 countries with a network of 76 offices. The 'round the clock around the globe', concept is working quite well for it. BoB is further in the process of identifying/opening more overseas centres for increasing its global presence to serve its 36 million global customers in a better way. We expect a pick-up in loan demand from H2FY10E because of

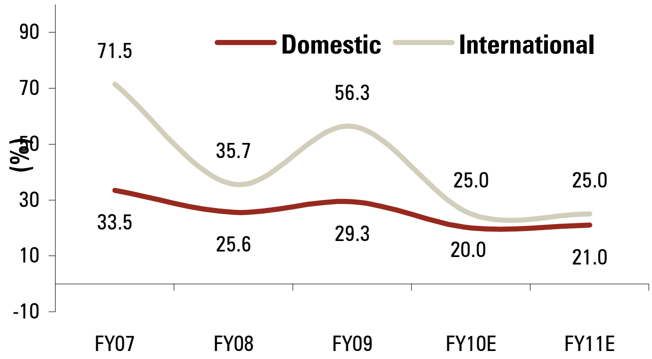
- Improving IIP data
- Increased government spending on infrastructure
- Improvement in demand from corporate sector both on capex and working capital front and increase in risk appetite among banks
- H2 is considered as busy season for the banking industry than H1

Exhibit 10: Loan book distribution



Source: Company, ICICIdirect.com Research

Exhibit 11: Higher growth from international market



Source: Company, ICICIdirect.com Research

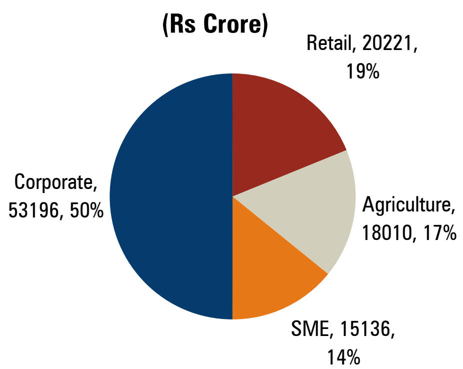
SME loan factory: Real thrust area

The domestic loan book of BoB is very healthy with more than half of it concentrated with big corporates. SME is a major focus area for the bank. To promote the growth of the SME sector, BoB has launched a special and novel delivery model, viz. SME Loan Factory, which is currently functioning in 34 centres of the bank and is well accepted in the market. The SME Loan Factory is an innovative model for streamlining processes, timely sanctions of SME loan proposals and controlling risk. We expect the share of SMEs to inch up from the current 14% levels to around 16% in FY11E. We expect the global loan book to grow at 22% CAGR over FY09-FY11E to Rs 212903 crore.

Growth rate (%)

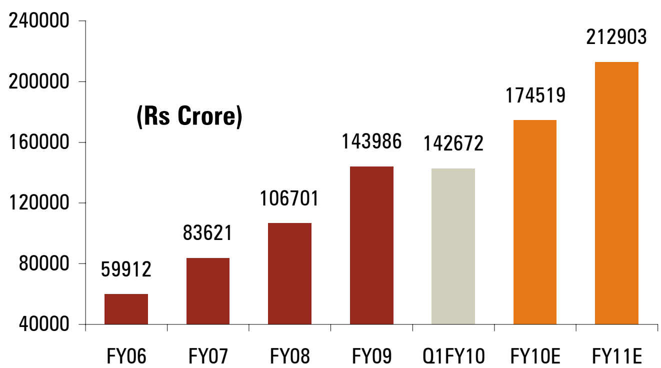
	FY07	FY08	FY09
SME Loan	31.4	31.1	24.2

Exhibit 12: Domestic loan book for Q1FY10



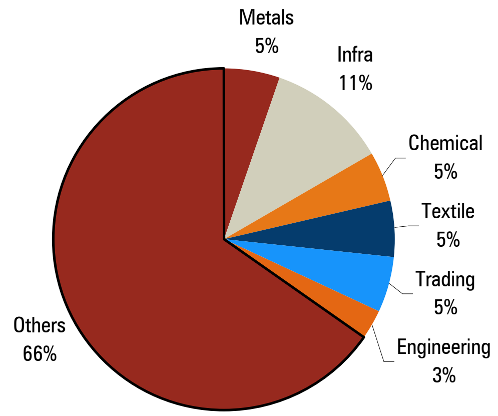
Source: Company, ICICIdirect.com Research

Exhibit 13: Movement in loan book



Source: Company, ICICIdirect.com Research

Exhibit 14: Sectoral break-up of credit for Q1FY10



Source: Company, ICICIdirect.com Research

Strong asset quality with healthy coverage ratio

The bank has restructured loans of Rs 4200 crore (3.9% of domestic loan book, 2.9% of total loan book) cumulatively by Q1FY10. Of this Rs 1596 crore was restructured in Q1FY10. GNPA stood at Rs 2068 crore, which was 1.44% of the loan book with coverage ratio of 82% for Q1FY10. We expect GNPA to inch up from current levels to around 1.5-1.6% in coming years and coverage ratio to stabilise above 75-76% for FY11E.

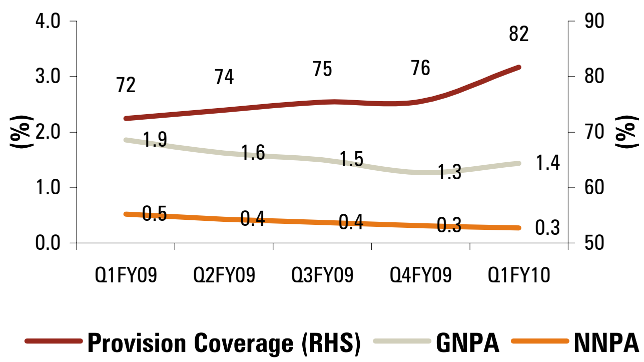
Exhibit 15: BoB well placed compared to peer PSBs by end of Q1FY10

(Rs Crore)	Loan restructured	% of Total Loan book	GNPA (%)	Total stessed assets (%)
Bank of Baroda	4200	2.9	1.4	4.4
Canara Bank	5190	3.7	1.7	5.4
SBI	18812	3.5	2.8	6.3
OBC	3600	5.0	1.6	6.6
Bank of India	7300	4.9	1.9	6.8
Union Bank	5519	5.8	2.0	7.8
PNB	9462	6.0	1.8	7.8
IDBI bank	9000	9.2	1.8	11.0
IOB	8200	10.7	3.0	13.7

We have cautiously built in rise in GNPA and NNPA of the bank from current levels due to restructured assets

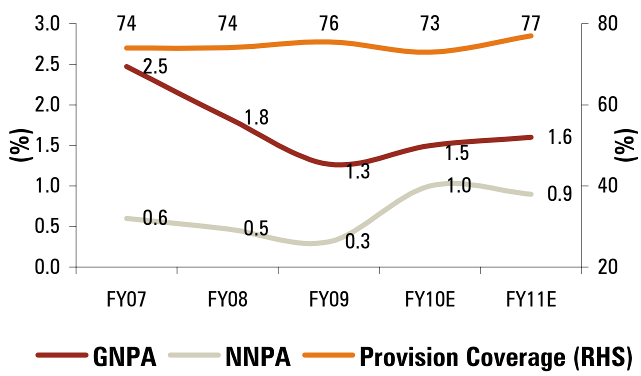
Source: Company, ICICIdirect.com Research

Exhibit 16: Asset quality under check



Source: Company, ICICIdirect.com Research

Exhibit 17: Provision coverage ratio to be stable

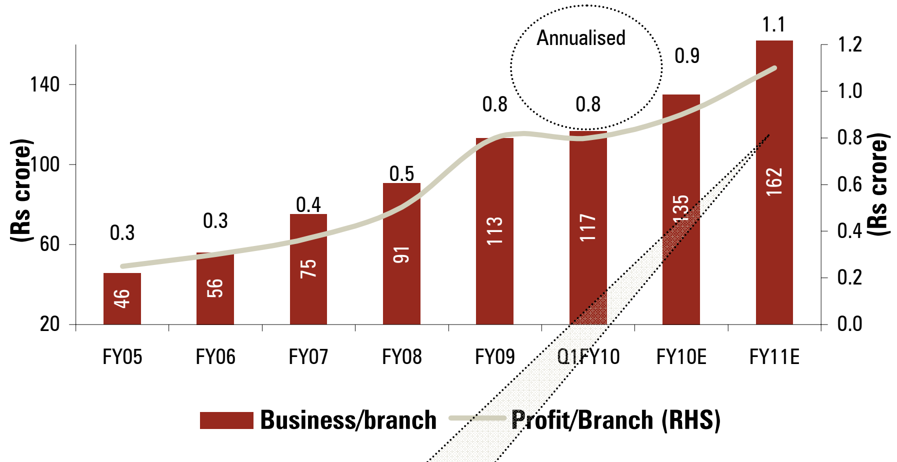


Source: Company, ICICIdirect.com Research

Productivity parameters: Improving on technological shift, employee mix

We have modelled in improving operating efficiencies for the coming period because of technological advancement. By Q1FY10, the bank has completed CBS rollout in 1,987 domestic branches and 66 overseas offices, covering 94% of the bank's business. The bank proposes to bring 100% of its business under CBS by September 2009. All CBS branches have been enabled for inter-bank remittances through RTGS and NEFT. This will enable customers to make inter-bank money transfer without approaching the branch.

Exhibit 18: Result of improving efficiencies



Source: Company, ICICIdirect.com Research

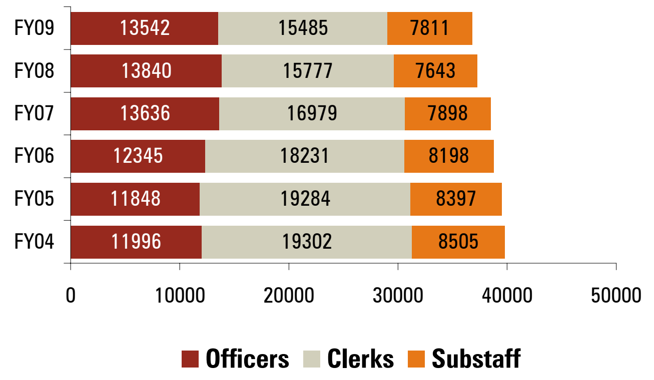
We expect 2990 branches by FY10E against the bank's plan of adding 110-120 branches from current levels of 2927 branches

Business per branch of the bank is improving because of better use of technology and rationalisation of human resource in previous years

We have modelled in growth of 20% CAGR in total business of the bank for FY09-FY11E to Rs 487054 crore

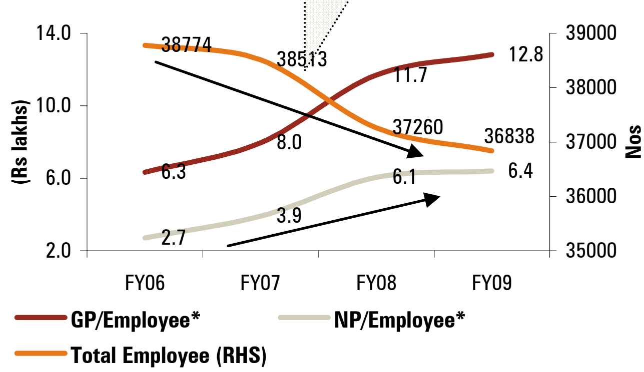
Rationalisation of employee strength on the one hand and growing business on the other hand led to improvement in profitability parameters as depicted below

Exhibit 19: Employee mix improving consistently



Source: Company, ICICIdirect.com Research

Exhibit 20: Profitability parameters on the rise



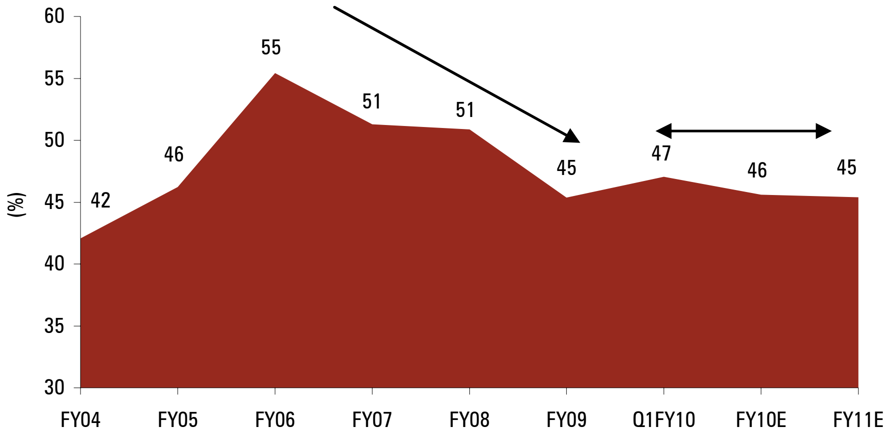
Source: Company, ICICIdirect.com Research,

* GP- Gross profit, NP- Net profit

In 2006, the bank intensified on an IT-enabled "business transformation project" with the purpose of offering better customer service and to reduce costs. In combination with technology implementation, the bank has also taken efforts to orient its human resources on a large scale. The benefits of all these efforts in the last three years would be visible in the coming quarters. We, therefore, expect the cost to income ratio to stabilise in the range of 45-46% in the coming years.

Earlier investments in IT solutions are bringing in efficiencies. This will prove to be a step in the right direction

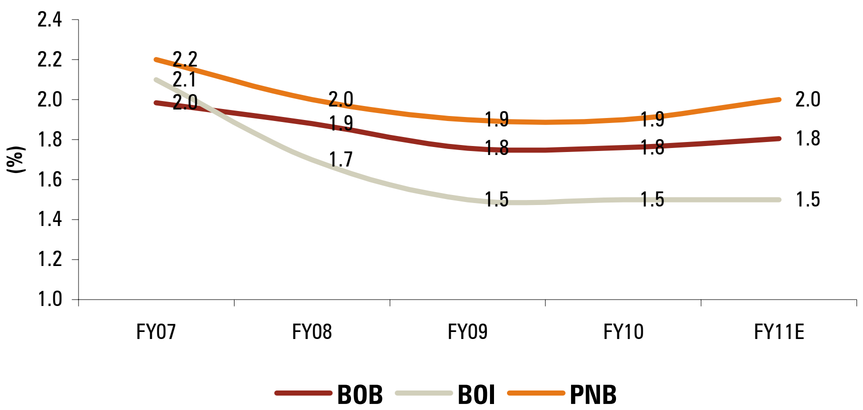
Exhibit 21: Cost to income ratio to improve from current levels



Source: Company, ICICIdirect.com Research

CBS will enable the customers of the bank to transact more conveniently, it will be anywhere anytime banking. This should also stabilise the cost to income ratio for the bank

Exhibit 22: Competitive stance on operating expense/average assets



Source: Company, ICICIdirect.com Research

Rationalisation of employees and CBS rollout in all branches will control cost. Thus, we expect the operating expense to be stable for BoB in the coming years

Financials

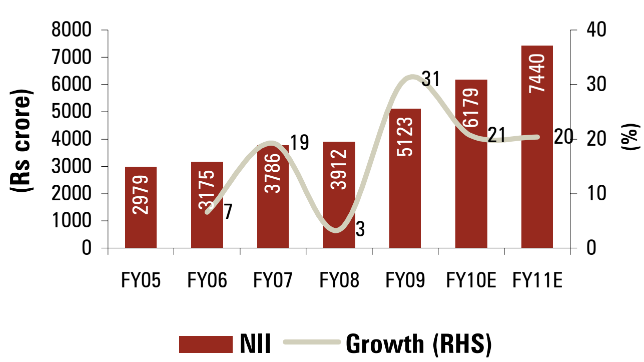
Margins: Dip in line with industry

We do not expect a further BPLR cut from BoB as interest rates are not expected to come down from current levels. We also expect loan sanction and disbursement to pick up from H2FY10. This should improve yield on advances from current levels. On the other hand, shedding of high cost bulk deposit should keep a check on cost of funds. Overall, we feel NIMs should moderate to come down in the range of 2.6-2.7% in FY10E on account of BPLR cuts announced in previous quarters. We expect the NII to grow at 21% CAGR over FY09-FY11E to Rs 7440 crore supported by 22% CAGR growth in advances. The pick-up in business activity should also improve non-interest income in the coming period.

Currently, bulk deposits form only 11-12% of total bank's deposit

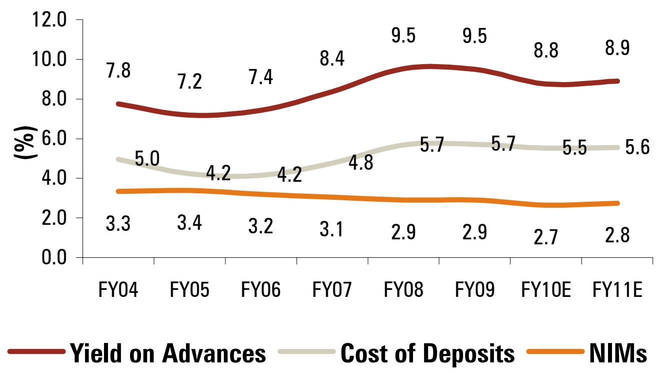
For Q1FY10, NIMs stood at 2.4%, since yield on advances took a hit because of reduction in BPLR by 50 bps in the beginning of the quarter

Exhibit 23: NII growth to stabilise around 20%



Source: Company, ICICIdirect.com Research

Exhibit 24: NIM to improve from Q1FY10 levels

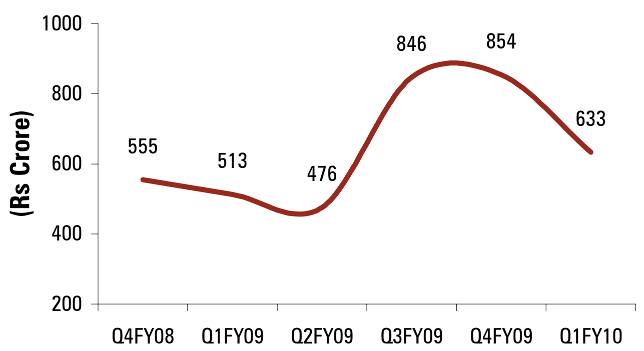


Source: Company, ICICIdirect.com Research

Non-interest income: Scope for improvement

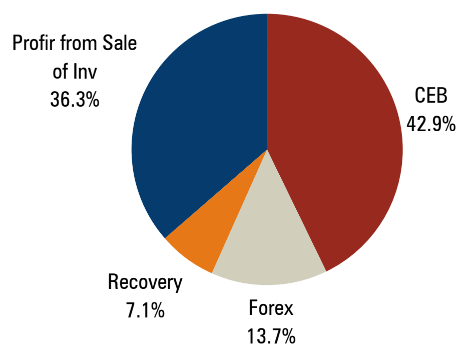
The bank expects 100% CBS rollout by September 2009. This should support non-interest income growth in the coming quarters. The bank expects some moderation in the fee income segment due to fall in incidental charges. So far, growth has been reasonable but further improvement cannot be ruled out on anticipation of a pick-up in business activity in H2FY10E and better use of technology. However, there is no clear competitive advantage for the bank, so we have not forecast any runaway growth for FY10E. We have factored in 20% CAGR growth in non-interest income over FY09-FY11E to Rs 3938 crore.

Exhibit 25: Trend in non-interest income (QoQ)



Source: Company, ICICIdirect.com Research

Exhibit 26: Contribution to non-interest income for Q3FY09



Source: Company, ICICIdirect.com Research

The bank had a high dependence on treasury gains in the last couple of quarters and is vulnerable to swings in G-sec yields like most PSBs. However, we feel that till 7.5-7.8% yields, banks are protected from material MTM risk.

Investment book

Exhibit 27: Break-up of investment book

Rs Crore

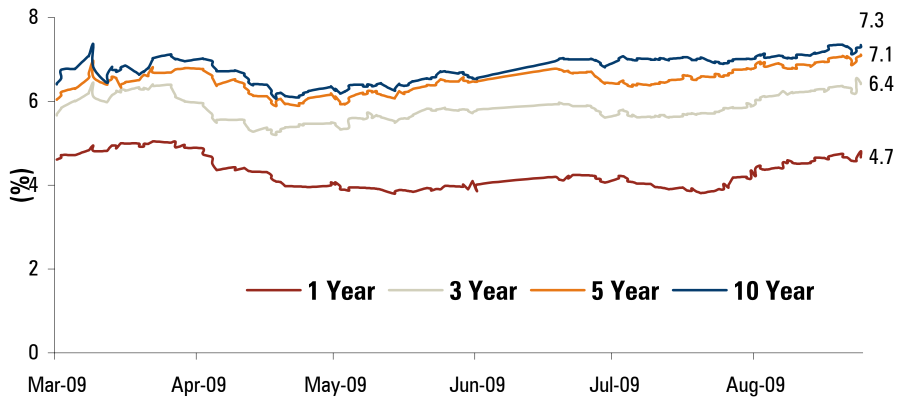
Category	Q3FY08	Q3FY09	Q1FY10
SLR	32,655	39,833	45,969
Non-SLR	6,348	6,228	10,570
Total Investments	39,002	46,061	56,539
HTM (%)*	64.0	75.4	77.9
AFS (%)**	36.0	24.6	21.7
AFS Duration (Modified) (yrs)	2.9	1.8	3.0

HTM*- HTM as % of Total SLR Investment
AFS**- AFS as % of Total SLR Investment

Source: Company, ICICIdirect.com Research

We feel G Sec yields will move up from current levels because of long government borrowing programme and inflation concerns. This will result in an MTM hit on the bond portfolio of the bank. The management is confident that gains on equity portfolio will compensate for such an MTM hit. We anticipate an MTM hit of Rs 126 crore for FY10E, which is 3% of PBT for FY10E

Exhibit 28: G sec yields of various maturities

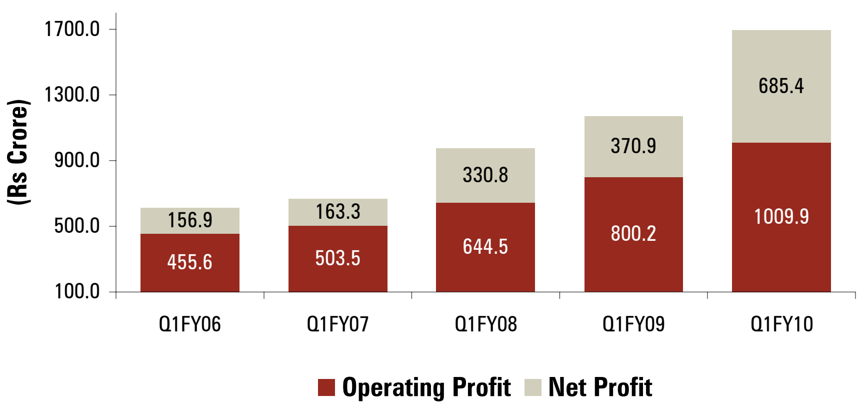


Source: Company, ICICIdirect.com Research

Operating profit & PAT growth

PAT for the bank grew by 35% CAGR over FY05-FY09 and by 44.6% over Q1FY06-Q1FY10. We expect some moderation based on the assumption of slowing balance sheet growth in the coming two years. We expect 18% CAGR in PAT over FY09-FY11E to Rs 3118 crore.

Exhibit 29: Improvement in profitability YoY



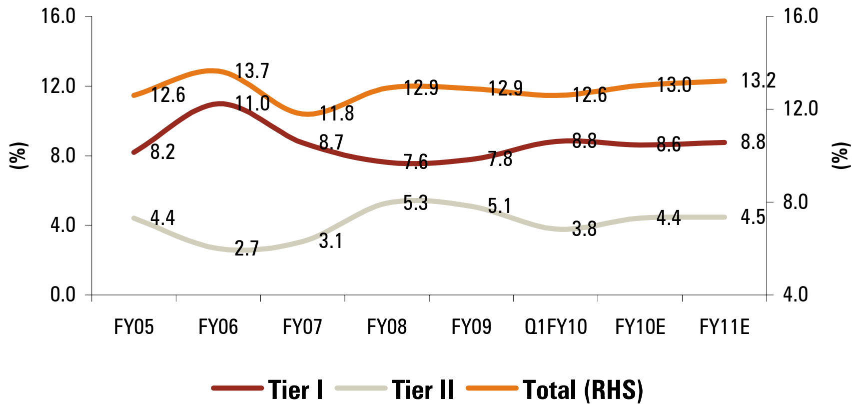
Source: Company, ICICIdirect.com Research

On the back of expected 21% and 20% CAGR growth in NII and non-interest income, we expect PPP growth of 20% over FY09-FY11E. We anticipate a modest 18% CAGR growth in PAT since we expect 22% growth in provisioning other than tax because of anticipated rise in NPL

Capital adequacy

Bank of Baroda is one of the few PSBs that are comfortable on the capital front at least in the near term. RBI has raised the bar to maintain minimum CAR of 12% for the banks to maintain a cushion against unforeseen events. The current CAR looks higher. The primary reason is lower credit growth. We feel that loan growth should pick up from H2FY10E. Hence, we expect a CAR of 13% for FY10E.

Exhibit 30: Capital adequacy comfortable for future growth



Source: Company, ICICIdirect.com Research

We have not factored in any Tier I capital raising for the bank in FY10E

International business

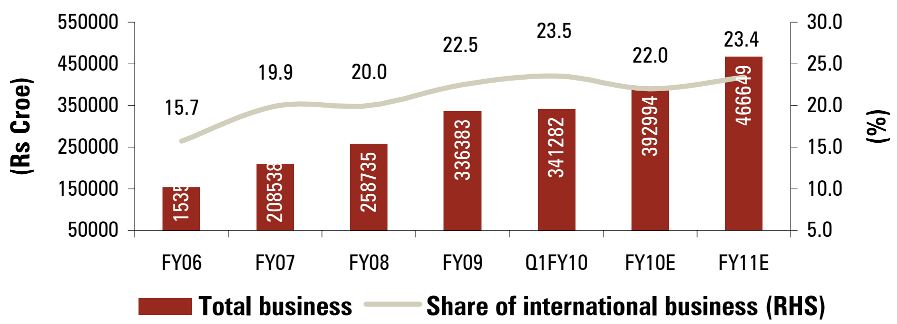
Contribution of International business

- 23.5% to total business, 23.2% to gross profits, 39% to fee base income
- Cost to income ratio of 19.8% (51.9% for domestic market)
- GNPA of 0.5% (1.8% for domestic market)
- Cost of deposits at 2.65% (6.2% for domestic market)
- Yield on advances at 4.7% (10.1% for domestic market)
- NIM @ 1.5% (2.9% for domestic market)

The bank's overseas operation extends across 25 countries through 74 offices. The bank has recently opened two more branches at its Trinidad & Tobago subsidiary. The bank proposes to open two more branches at its Uganda subsidiary in this financial year.

US, UK, Hong Kong, UAE and Singapore all contribute equally to the bank's international business. The bank is not highly concentrated in any particular area

Exhibit 31: Share of international business to moderate



Source: Company, ICICIdirect.com Research

We expect the share of the international business to stabilise in the range of 22-24% due to the uncertain global economic scenario

About 85% of the bank's international liabilities come from deposit base and the rest from bank borrowings. This was a major reason on account of which BoB was unaffected by the turmoil in the lending market specially after Lehman collapse

On the overseas investment book of Rs 3,677 crore, the bank held provisions worth Rs 281.43 crore during Q1FY10. We do not expect further deterioration and more MTM hit on this front.

Risks & concerns

International business: This contributes significantly to revenues

The contribution from the foreign business of the bank is around 25% on the bottomline. The lull in foreign markets for a sustained period of time can impact the performance of the bank and, thus, the profitability that we have forecast. Currently, NPL on the foreign books is very less as compared to the domestic portfolio. However, a longer financial crisis can impact the quality of the overseas book and, thus, rise in NPLs cannot be ruled out in this situation.

Sharp rise in NPA

The domestic book of the bank is highly skewed to corporate and SMEs, which forms more than 55% of the advance book for Q1FY10. The Indian corporate sector is isolated from the financial turmoil to a certain extent. Many biggies have announced production cuts and also delay in expansion plans, showing some signals of probable problems ahead. In the current scenario we do not rule out GNPA and NNPA rising two fold. The restructured assets of the bank stand at ~4% of the loan book. A sustained slowdown in our economy can lead to higher NPLs.

Economic growth: Slower than expected

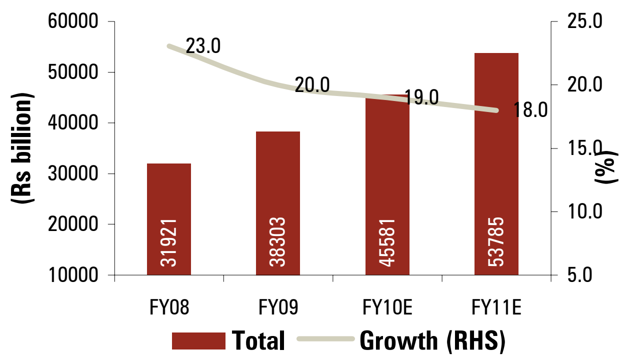
We forecast economic activity will pick up steam from H2FY10E on the back of improving IIP data, increased expenditure from GoI on infrastructure and increase in risk appetite from banks. However, if this slowdown persists for a longer duration then our forecast of higher credit growth in H2FY10E will get impacted to that extent.

Industry Overview

Banking sector currently is passing through a phase of lower credit off take due to slowdown in industrial capex cycle, lower working capital requirement and higher risk in retail loans. Overall credit growth has come down to 14.9% y-o-y as on August 2009 at Rs.2801970 crore. We anticipate credit disbursements to take off in H2FY10E with busy season expected to start along with economic revival. Overall 18% credit growth in the system for FY10E has been factored in our estimates wherein public sector banks are believed to grow faster than private sector banks.

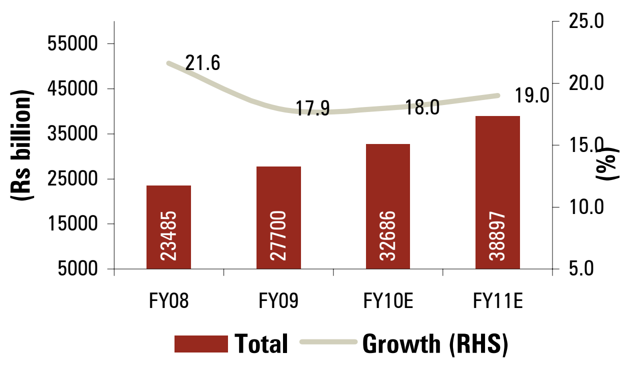
Deposit growth has been strong this year so far with 21.8% growth at Rs.4060052 crore. We anticipate slight pressure on CASA deposits growth as other asset classes are also performing well now. We expect overall deposit growth to be higher at 19% this year due to competitive pressure on term deposit rates to remain high.

Exhibit 32: Deposit growth



Source: Company, ICICIdirect.com Research

Exhibit 33: Advances growth



Source: Company, ICICIdirect.com Research

With ample liquidity in the system, bankers are parking excess funds in investments wherein current SLR of sector stands at near 29 – 30% levels leaving little scope for fresh investment in G-Sec bonds of government. Unless HTM category limits are extended beyond 25% of SLR, it would be harmful for banks to add fresh paper from government borrowing programme in AFS category leading to MTM risks. We expect MTM hit on current portfolio for banks due to 10 year G-Sec yields rising to 7.4%, but it should not materially impact bottom-line due to better realizations in equity portfolio and write back of past provisions.

Overall, we expect the coming quarter to be slightly dull for the sector as a whole with lower credit growth and rising 10 year G-sec yields which may touch 8% by year end. However we remain bullish on the sector from a long term perspective as credit demand is large in the economy in infrastructure and power sectors in particular apart from retail & SME piece where potential is huge

Valuations

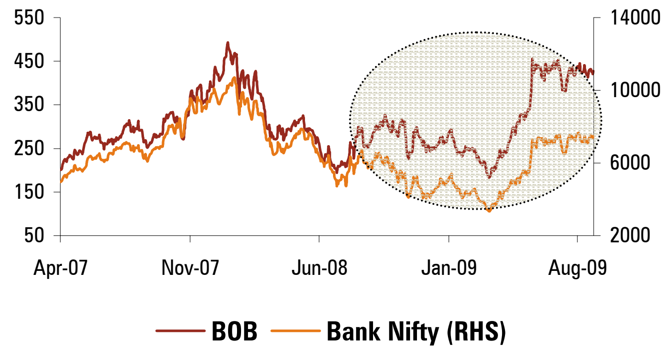
BoB is one of most conservative banks in the entire PSU space. Most PSBs are growing very aggressively on low cost housing loan schemes in recent times but BoB has stayed away from such schemes to maintain margins and asset quality. For Q1FY10, GNPA@1.4%, NNPA@0.3% provision coverage@ 82% is one of the best among PSBs. Also, the restructured assets for BoB are lowest in the category. This gives us confidence that asset quality will not deteriorate from here.

We value the core business of BoB at 1.1x FY11E ABV, at a discount of 20% to it P/ABV multiple of 1.4x according to the single-stage Gordon growth model because of uncertain market conditions. We have considered cost of equity at 13.9%, perpetual growth of 3% and sustainable RoE of 18%. This translates into a fair value of Rs 514 per share for the bank. With an RoE of 17-18%, RoA of over 1%, NIM @ 2.6-2.7%, well controlled asset quality and well diversified loan book, we believe the bank's valuations at 0.95x is quite attractive. We value its 25% stake in UTI AMC at Rs 18/share (valued @4% of weighted average AUM for the previous three months). Hence, on an SOTP basis, we have arrived at a target price of Rs 532 and rate the stock as an **Outperformer**

Valuation Matrix	
Core banking	
1.1x FY11E ABV (Rs)	514
UTI AMC Ltd (AUM)	**Rs Crore**
May-09	63438
Jun-09	67978
Jul-09	67252
Weighted Avg	66858
Value @ 4%	2674
BOB's share @25%	669
Value / share (Rs)	18
Total	**532**

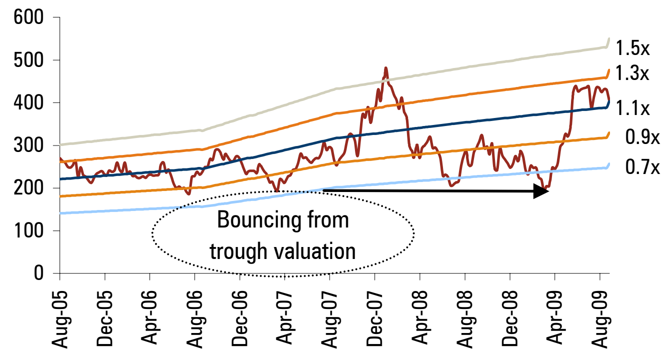
Valuation band

Exhibit 34: Prices discounts the performance



Source: Company, ICICIdirect.com Research

Exhibit 35: P/ABV band



Source: Company, ICICIdirect.com Research

BoB recorded below industry average RoE of around 13-14% till FY08. Hence, the stock price performance mirrored the bank index (Bank Nifty). The business transformation began from Q1FY09 where the bank started performing ahead of the industry and was clearly visible in price performance in the above exhibit. The market share of the bank improved in FY09 from 3.7% to nearly 4% of the total business done by SCB. We expect this trend in price movement to continue in the coming year as well due to measured growth approach by the management.

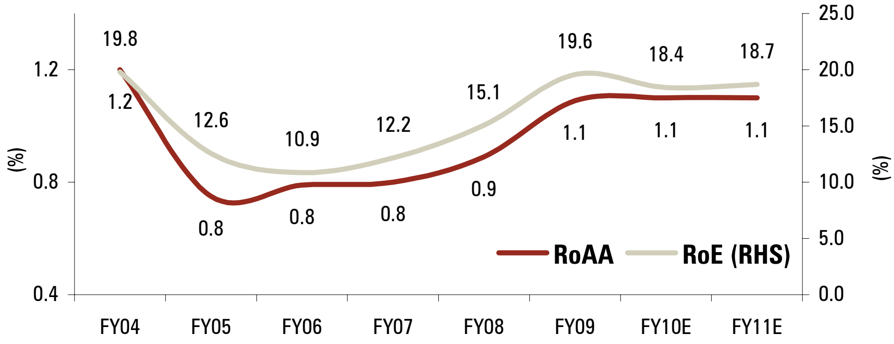
Exhibit 36: RoE decomposition

(%)	FY07	FY08	FY09	FY10	FY11E
Net interest income/ Avg. assets	3.0	2.4	2.5	2.5	2.6
Non-interest income/ Avg. assets	0.9	1.3	1.4	1.3	1.4
Net total income/ Avg. assets	3.9	3.7	3.9	3.9	4.0
Operating expenses/ Avg. assets	2.0	1.9	1.8	1.8	1.8
Operating profit/ Avg. assets	1.9	1.8	2.1	2.1	2.2
Provisions/ Avg. assets	0.6	0.5	0.5	0.5	0.5
Return on Avg. assets	0.8	0.8	1.1	1.1	1.1
Leverage(Avg assets/ Avg equity)(x)	15.6	16.4	17.0	17.5	17.2
Return on equity	12.4	13.6	18.7	18.4	18.7

RoA improved from 0.8 levels in FY08 to above 1.1% in FY09. We expect this to stay at current levels in the coming year as well.

Source: Company, ICICIdirect.com Research

Exhibit 37: Return matrices very stable



Source: Company, ICICIdirect.com Research

Exhibit 38: Profit and loss account

Rs. Crore

	FY07	FY08	FY09	FY10E	FY11E
Interest Earned	9213	11813	15092	18433	22152
Interest Expended	5427	7902	9968	12254	14712
Net Interest Income	**3786**	**3912**	**5123**	**6179**	**7440**
growth (%)	19	3	31	21	20
Non Interest Income	1173	2051	2758	3279	3938
Fees and advisory	473	540	746	895	1118
Treasury Income and sale of Invt.	136	532	900	810	891
Net Income	**4959**	**5963**	**7881**	**9458**	**11379**
Employee cost	1644	1904	2348	2739	3189
Other operating Exp.	900	1131	1228	1549	1960
Operating Income	**2415**	**2929**	**4305**	**5170**	**6230**
Provisions	761	821	962	1198	1434
PBT	**1654**	**2107**	**3343**	**3972**	**4796**
Taxes	628	772	1116	1390	1679
Net Profit	**1026**	**1336**	**2227**	**2582**	**3118**
growth (%)	24	30	67	16	21

Source: Company, ICICIdirect.com Research

Exhibit 39: Balance sheet

Rs. Crore

	FY07	FY08	FY09	FY10E	FY11E
Liabilities					
Capital	366	366	366	366	366
Reserves and Surplus	8284	10678	12470	14860	17786
Networth	**8650**	**11044**	**12836**	**15226**	**18151**
Deposits	124916	152034	192397	228992	274152
Borrowings	1143	3927	5636	3304	3730
Subordinated Debt	2719	5423	7132	9132	11132
Other Liabilities & Provisions	5719	7172	9406	5972	4017
Total	**143146**	**179600**	**227407**	**262624**	**311183**
Assets					
Fixed Assets	1089	2427	2310	2406	2602
Investments	34944	43870	52446	59238	66767
Advances	83621	106701	143986	174518	212902
Other Assets	5212	4302	4578	3144	3231
Cash with RBI & call money	18280	22299	24087	23317	25681
Total	**143146**	**179600**	**227407**	**262624**	**311183**

Source: Company, ICICIdirect.com Research

Exhibit 40: Ratio analysis

	FY07	FY08	FY09	FY10E	FY11E
Valuation					
No. of Equity Shares	36.6	36.6	36.6	36.6	36.6
EPS (Rs.)	28.2	39.4	61.1	70.6	85.3
BV (Rs.)	236.6	302.1	351.2	416.5	496.6
BV-ADJ (Rs.)	222.9	288.9	334.1	388.4	465.1
P/E	15.2	10.8	7.0	6.0	5.0
P/BV	1.8	1.4	1.2	1.0	0.9
P/ABV	1.9	1.5	1.3	1.1	1.0
Div. Yield (%)	0.8	1.1	1.3	1.1	1.1
DPS (Rs.)	3.5	4.5	5.5	4.7	4.7
Yields & Margins (%)					
Yield on avg int earning assets	7.5	7.7	7.7	7.9	8.2
Avg. cost on funds	4.7	5.4	5.5	5.5	5.5
Net Interest Margins	3.1	2.9	2.9	2.6	2.7
Avg. Cost of Deposits	4.6	5.3	5.3	5.3	5.4
Yield on average advances	8.3	8.8	8.9	8.8	8.9
Profitabilty (%)					
Interest expense / total avg. assets	4.2	4.9	4.9	5.0	5.1
Interest income/ total avg. assets	7.2	7.3	7.4	7.5	7.7
Non-interest income/ avg. assets	0.9	1.3	1.4	1.3	1.4
Non-interest income/ Net income	23.7	34.4	35.0	34.7	34.6
Net-interest income/ Net income	76.3	65.6	65.0	65.3	65.4
Cost / Total net income	51.3	50.9	45.4	45.3	45.2
Quality and Efficiency (%)					
Credit/Deposit ratio	66.9	70.2	74.8	76.2	77.7
GNPA	2.5	1.9	1.3	1.5	1.6
NNPA	0.6	0.5	0.7	1.0	0.9
RONW	12.4	13.6	18.7	18.4	18.7
ROA	0.8	0.8	1.1	1.1	1.1

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;
Performer (P): Between 10% and 20%;
Hold (H): $\pm$10% return;
Underperformer (U): -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruti Centre Point,
MIDC Main Road, Marol Naka,
Andheri (E)
Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would Endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Kajal Jain CA Chirag Shah PGDBM Viraj Gandhi MBA-CM* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.