

Bank of Baroda | BOB IN

Management meet update

- FY12 credit growth target reiterated at 20-22%:** While management acknowledged that conceptualisation of new projects has somewhat slowed down of-late, the bank has kept full year credit growth target at 20-22% (FY11 credit growth: 31%). We forecast credit growth of 19% for FY12 (FY13: 18%).
- 1Q12 margins seen down by c.10bps QoQ:** 1Q12 NIM (adjusting for interest on IT refund) is likely to decline by c.10bps QoQ (4Q11: 3.70%). This sequential decline marks the trend that margins have indeed peaked in 4Q11 and will moderate as funding costs rise faster than yields on advances. We estimate that despite the capital infusion support from Gol, calculated NIM (global) will decline by 23bps to 2.60% in FY12 and stay at that level in FY13. Combined with our asset growth forecast, this implies NII CAGR of 15% for FY11-13E.
- Total credit exposure to SEBs at c.₹70bn (c.3% of loan book):** SEB exposure is largely in the states of Gujarat and Rajasthan. Gujarat portfolio is performing well, but there is no provision of state guarantees. In case of Rajasthan portfolio, the state government has been infusing equity capital in SEB and has also provided guarantees. Exposure to other states such as Punjab, Karnataka and Uttar Pradesh is small and Bank of Baroda has certain amount of comfort due to escrow accounts.
- Exposure to Air India at c.₹22bn (c.1% of loan book):** On 22 June, a GoM (group of ministers) held a review and decided to set up a committee to examine Air India's turnaround and financial restructuring plans, involving restructuring of its massive debt of ₹400bn. While lenders taking a hair-cut is not ruled out, bank's management expects it to be limited to interest income.
- Sustained growth momentum with healthy asset quality; maintain BUY and ₹1,150 TP:** Bank's consistent healthy balance sheet growth, improving cost ratios and strong asset quality would keep driving profitability (ROA and ROE of 1.15% and 21% respectively in FY12E). Despite near-term headwinds in terms of margin compression and higher AFS and regulatory provisioning, we believe Bank of Baroda would deliver consistent performance. Capital infusion of ₹24.6bn by Gol would provide sufficient headroom for growth. We maintain Mar'12 TP of ₹1,150, valuing the stock at 1.6x FY13E BV based on a normalised ROE of 19.4%.

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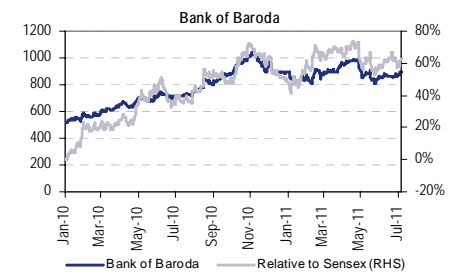
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Key Data

| | |
|--------------------------|--------------------|
| Market cap (bn) | ₹ 350.7 / US\$ 7.9 |
| Shares in issue (mn) | 7,583.1 |
| Diluted share (mn) | 392.8 |
| 3-mon avg daily val (mn) | ₹ 352.3/US\$ 7.9 |
| 52-week range | ₹ 1051.9/695.3 |
| Sensex/Nifty | 18,858/5,661 |
| ₹/US\$ | 44.3 |

Daily Performance



| % | 1M | 3M | 12M |
|-----------|-----|------|------|
| Absolute | 4.9 | -6.9 | 25.1 |
| Relative* | 3.2 | -2.3 | 18.8 |

* To the BSE Sensex

Shareholding Pattern (%)

| | 1QFY 11 | 1QFY 12 |
|-----------------|---------|---------|
| Promoters | 53.8 | 57.0 |
| FII | 16.5 | 16.6 |
| DII | 18.2 | 16.0 |
| Public / others | 11.5 | 10.4 |

Exhibit 1. Financial Summary

| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
|----------------------|--------|--------|--------|--------|--------|
| Net Profit | 22,272 | 30,583 | 42,417 | 44,598 | 52,677 |
| Net Profit (YoY) (%) | 55.1% | 37.3% | 38.7% | 5.1% | 18.1% |
| Assets (YoY) (%) | 26.5% | 23.0% | 28.9% | 17.7% | 17.6% |
| ROA (%) | 1.10% | 1.22% | 1.34% | 1.15% | 1.15% |
| ROE (%) | 21.3% | 24.3% | 25.3% | 20.7% | 20.6% |
| EPS (₹) | 60.9 | 83.7 | 108.0 | 113.5 | 134.1 |
| EPS (YoY) (%) | 55.1% | 37.3% | 29.1% | 5.1% | 18.1% |
| PE (x) | 14.7 | 10.7 | 8.3 | 7.9 | 6.7 |
| BV (₹) | 313 | 377 | 503 | 595 | 704 |
| BV (YoY) (%) | 20.0% | 20.6% | 33.3% | 18.4% | 18.2% |
| P/BV (x) | 2.86 | 2.38 | 1.78 | 1.50 | 1.27 |

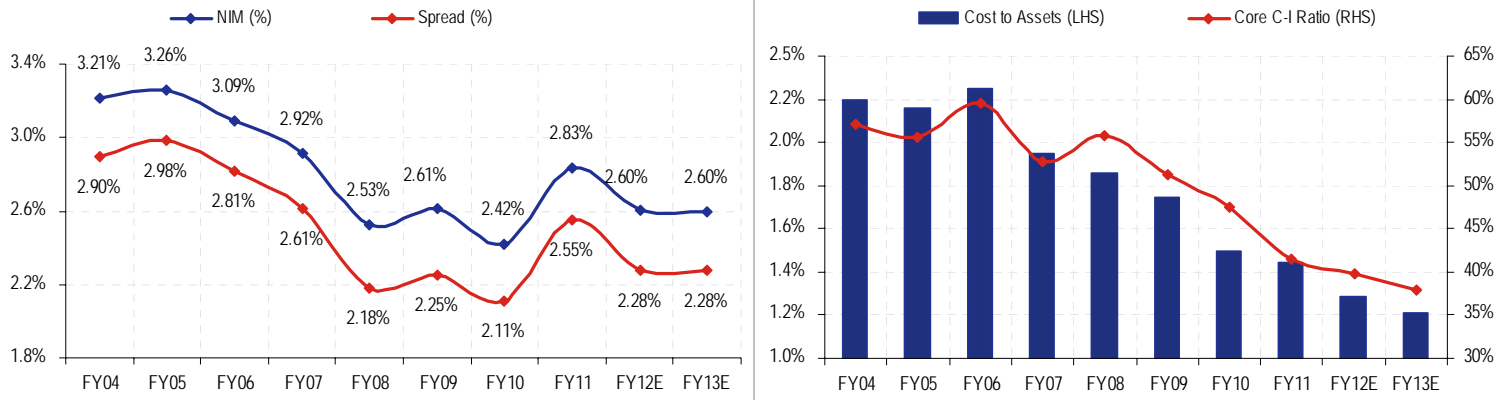
Source: Company data, JM Financial. Note: Valuations as of 08/07/2011

JM Financial Research is also available on:
Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see important disclosure at the end of the report

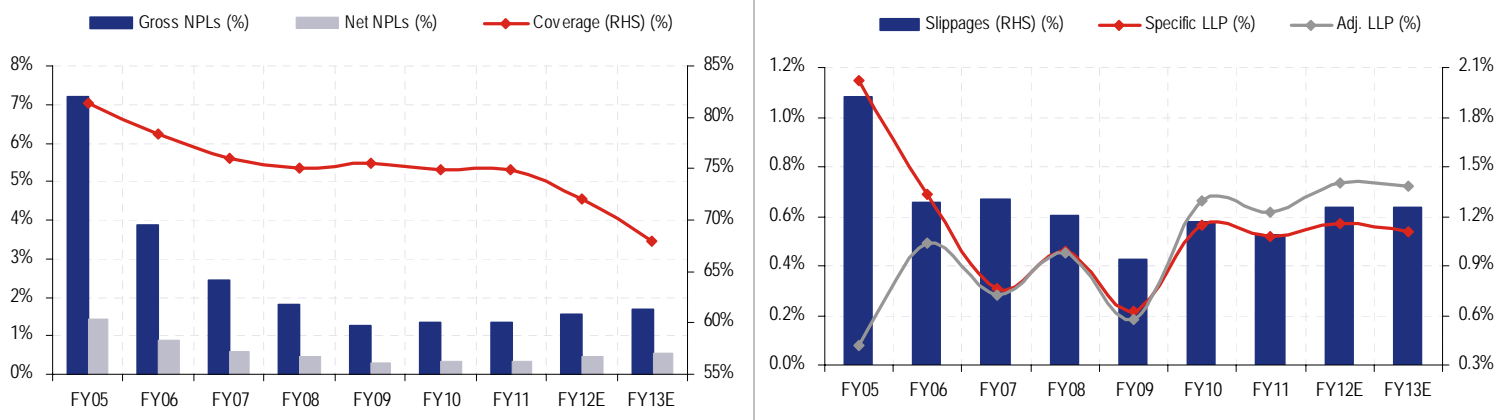
Bank of Baroda – Key Annual Trends

Exhibit 2. Bank of Baroda: Margins and cost ratios (%)



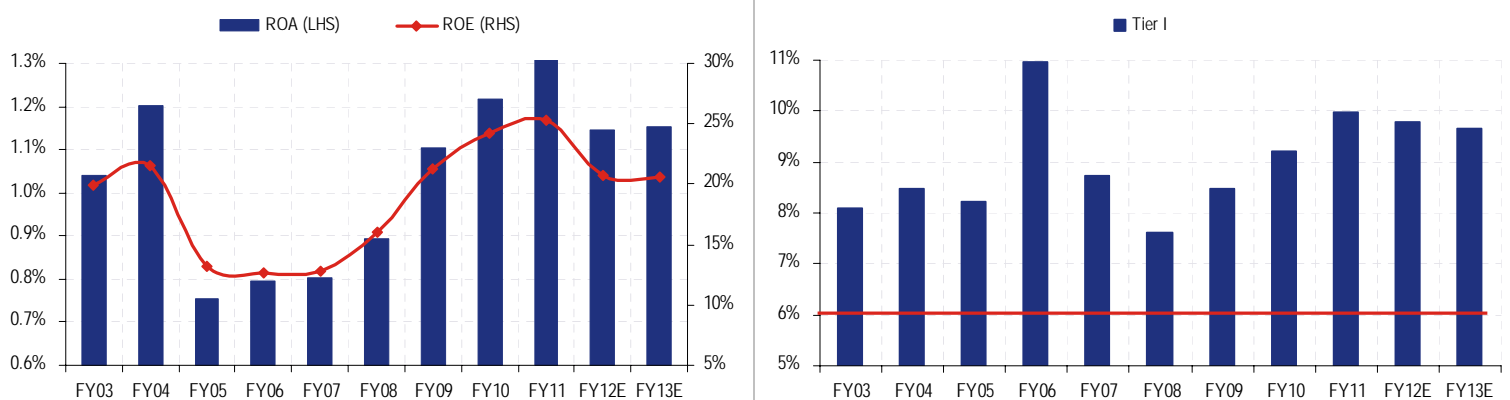
Source: Bloomberg, JM Financial

Exhibit 3. Bank of Baroda: NPA ratios, slippages and LLP



Source: Bloomberg, JM Financial

Exhibit 4. Bank of Baroda: Return ratios and Tier I



Source: Bloomberg, JM Financial

Financial Tables (Standalone)

| Profit & Loss | | | | | |
|-----------------------------------|---------------|---------------|----------------|----------------|----------------|
| | (₹ mn) | | | | |
| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
| Net Interest Income | 51,234 | 59,395 | 88,023 | 99,003 | 115,898 |
| Profit on Investments | 8,051 | 6,418 | 4,437 | 3,800 | 4,000 |
| Exchange Income | 3,724 | 3,860 | 5,148 | 6,023 | 7,047 |
| Fee & Other Income | 14,851 | 16,972 | 18,507 | 21,478 | 24,496 |
| Non-Interest Income | 26,626 | 27,249 | 28,092 | 31,300 | 35,543 |
| Total Income | 77,861 | 86,644 | 116,114 | 130,303 | 151,441 |
| Operating Expenses | 35,761 | 38,106 | 46,298 | 50,282 | 55,908 |
| Pre-provisioning Profits | 42,100 | 48,538 | 69,816 | 80,021 | 95,533 |
| Loan Loss Provisions | 3,441 | 10,073 | 12,745 | 16,010 | 17,767 |
| Provisions on Investments | 5,368 | -3,807 | 90 | 100 | 100 |
| Other Provisions | 812 | 707 | 478 | 200 | 200 |
| Total Provisions | 9,621 | 6,972 | 13,313 | 16,310 | 18,067 |
| PBT | 32,479 | 41,566 | 56,503 | 63,711 | 77,466 |
| Tax | 10,834 | 11,634 | 14,086 | 19,113 | 24,789 |
| PAT (Pre-Extra ordinaries) | 21,645 | 29,932 | 42,417 | 44,598 | 52,677 |
| Extraordinaries (Net of Tax) | 627 | 652 | 0 | 0 | 0 |
| Reported Profits | 22,272 | 30,583 | 42,417 | 44,598 | 52,677 |
| Dividend | 3,836 | 6,393 | 7,583 | 8,273 | 10,111 |
| Retained Profits | 18,436 | 24,191 | 34,834 | 36,325 | 42,566 |

Source: Company, JM Financial

| Key ratios | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| | (%) | | | | |
| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
| Growth (YoY) (%) | | | | | |
| Deposits | 26.5% | 25.3% | 26.7% | 18.0% | 17.5% |
| Advances | 34.3% | 22.2% | 30.6% | 18.9% | 17.6% |
| Total Assets | 26.5% | 23.0% | 28.9% | 17.7% | 17.6% |
| NII | 31.0% | 15.9% | 48.2% | 12.5% | 17.1% |
| Non-Interest Income | 35.8% | 2.3% | 3.1% | 11.4% | 13.6% |
| Operating Expenses | 17.9% | 6.6% | 21.5% | 8.6% | 11.2% |
| Operating Profits | 48.3% | 15.3% | 43.8% | 14.6% | 19.4% |
| Core Operating Profits | 42.1% | 23.7% | 55.2% | 16.6% | 20.1% |
| Provisions | 33.4% | -27.5% | 90.9% | 22.5% | 10.8% |
| Reported PAT | 55.1% | 37.3% | 38.7% | 5.1% | 18.1% |
| Yields / Margins (%) | | | | | |
| Interest Spread (%) | 2.25% | 2.11% | 2.55% | 2.28% | 2.28% |
| NIM (%) | 2.61% | 2.42% | 2.83% | 2.60% | 2.60% |
| Profitability (%) | | | | | |
| Non-IR to Income (%) | 34.2% | 31.4% | 24.2% | 24.0% | 23.5% |
| Cost to Income (%) | 45.9% | 44.0% | 39.9% | 38.6% | 36.9% |
| ROA (%) | 1.10% | 1.22% | 1.34% | 1.15% | 1.15% |
| ROE (%) | 21.3% | 24.3% | 25.3% | 20.7% | 20.6% |
| Assets Quality (%) | | | | | |
| Slippages (%) | 0.94% | 1.17% | 1.09% | 1.25% | 1.25% |
| Gross NPAs (%) | 1.27% | 1.36% | 1.36% | 1.56% | 1.70% |
| Net NPAs (%) | 0.31% | 0.34% | 0.35% | 0.44% | 0.55% |
| Provision Coverage (%) | 75.5% | 74.9% | 74.9% | 72.0% | 68.0% |
| Specific LLP (%) | 0.21% | 0.57% | 0.52% | 0.57% | 0.54% |
| Net NPAs / Networth (%) | 3.95% | 4.37% | 4.00% | 5.15% | 6.36% |
| Capital Adequacy (%) | | | | | |
| Tier I (%) | 8.49% | 9.20% | 9.99% | 9.80% | 9.67% |
| CAR (%) | 14.05% | 14.36% | 14.52% | 13.94% | 13.43% |

Source: Company, JM Financial

| Balance Sheet | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| | (₹ mn) | | | | |
| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
| Equity Capital | 3,655 | 3,655 | 3,928 | 3,928 | 3,928 |
| Reserves & Surplus | 110,659 | 134,196 | 193,578 | 229,903 | 272,469 |
| Deposits | 1,923,970 | 2,410,443 | 3,054,395 | 3,604,186 | 4,234,918 |
| Borrowings | 127,679 | 133,501 | 223,079 | 250,930 | 297,163 |
| Other Liabilities | 86,277 | 88,160 | 96,567 | 112,984 | 133,321 |
| Total Liabilities | 2,252,239 | 2,769,955 | 3,571,547 | 4,201,931 | 4,941,799 |
| Investments | 524,459 | 611,824 | 712,606 | 851,902 | 1,010,882 |
| Net Advances | 1,432,514 | 1,750,353 | 2,286,764 | 2,719,943 | 3,197,910 |
| Cash & Equivalents | 240,871 | 354,671 | 499,341 | 536,573 | 613,914 |
| Fixed Assets | 8,614 | 9,635 | 10,572 | 11,598 | 12,652 |
| Other Assets | 45,781 | 43,472 | 62,264 | 81,915 | 106,441 |
| Total Assets | 2,252,239 | 2,769,955 | 3,571,547 | 4,201,931 | 4,941,799 |

Source: Company, JM Financial

| DuPont Analysis | | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| | (%) | | | | |
| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
| NII / Assets (%) | 2.54% | 2.37% | 2.78% | 2.55% | 2.54% |
| Other income / Assets (%) | 1.32% | 1.09% | 0.89% | 0.81% | 0.78% |
| Total Income / Assets (%) | 3.86% | 3.45% | 3.66% | 3.35% | 3.31% |
| Cost to Assets (%) | 1.77% | 1.52% | 1.46% | 1.29% | 1.22% |
| PPP / Assets (%) | 2.09% | 1.93% | 2.20% | 2.06% | 2.09% |
| Provisions / Assets (%) | 0.48% | 0.28% | 0.42% | 0.42% | 0.40% |
| PBT / Assets (%) | 1.61% | 1.66% | 1.78% | 1.64% | 1.69% |
| Tax Rate (%) | 33.4% | 28.0% | 24.9% | 30.0% | 32.0% |
| ROA (%) | 1.10% | 1.22% | 1.34% | 1.15% | 1.15% |
| RoRWAs (%) | 1.84% | 2.14% | 2.32% | 1.93% | 1.90% |
| Leverage (%) | 19.2 | 19.9 | 18.9 | 18.0 | 17.9 |
| ROE (%) | 21.3% | 24.3% | 25.3% | 20.7% | 20.6% |

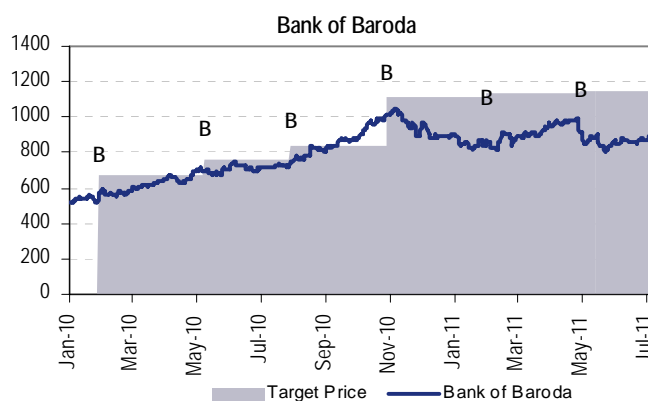
Source: Company, JM Financial

| Valuations | | | | | |
|----------------------|-------|-------|-------|-------|-------|
| | | | | | |
| Y/E March | FY09 | FY10 | FY11 | FY12E | FY13E |
| Shares in issue (mn) | 365.5 | 365.5 | 392.8 | 392.8 | 392.8 |
| EPS (₹) | 60.9 | 83.7 | 108.0 | 113.5 | 134.1 |
| EPS (YoY) (%) | 55.1% | 37.3% | 29.1% | 5.1% | 18.1% |
| PE (x) | 14.7 | 10.7 | 8.3 | 7.9 | 6.7 |
| BV (₹.) | 313 | 377 | 503 | 595 | 704 |
| BV (YoY) (%) | 20.0% | 20.6% | 33.3% | 18.4% | 18.2% |
| P/BV (x) | 2.86 | 2.38 | 1.78 | 1.50 | 1.27 |
| DPS (₹.) | 10.5 | 17.5 | 19.3 | 21.1 | 25.7 |
| Div. yield (%) | 1.2% | 2.0% | 2.2% | 2.4% | 2.9% |

Source: Company, JM Financial

History of earnings estimates and target price

| Date | FY11E EPS (₹) | % Chg. | FY12E EPS (₹) | % Chg. | Target Price | Target Date | % Chg. |
|-----------|------------------|--------|------------------|-----------|-----------------|----------------|-----------|
| 28-Oct-09 | 81.5 | 12.0% | 95.8 | 10.4% | 615 | Oct-10 | 28.1 |
| 28-Jan-10 | 83.1 | 2.0% | 97.6 | 1.8% | 670 | Mar-11 | 8.9% |
| 8-May-10 | 84.7 | 1.9% | 100.4 | 2.9% | 760 | Mar-11 | 13.4% |
| 29-Jul-10 | 88.3 | 4.3% | 104.9 | 4.5% | 840 | Sep-11 | 10.5% |
| 29-Oct-10 | 96.6 | 9.4% | 111.5 | 6.3% | 1,110 | Dec-11 | 32.1% |
| 31-Jan-11 | 109.3 | 13.1% | 117.7 | 5.6% | 1,140 | Dec-11 | 2.7% |
| 29-Apr-11 | 108.0 | -1.2 | 113.5 | -3.6 | 1,150 | Mar-12 | 0.9 |

Recommendation history**JM Financial Institutional Securities Private Limited**

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