



Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE SENSEX: 15,261	BOB IN
	REUTERS CODE
S&P CNX: 4,440	BOB.BO

30 July 2007

Buy

Previous Recommendation: Buy

Rs293

Equity Shares (m)	365.5
52-Week Range	319/189
1,6,12 Rel.Perf.(%)	4/11/-13
M.Cap. (Rs b)	107.2
M.Cap. (US\$ b)	2.6

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07	49,593	10,265	28.1	24.1	10.4	1.3	11.8	12.4	0.8	1.3
3/08E	55,522	12,417	34.0	21.0	8.6	1.1	11.0	13.6	0.8	1.2
3/09E	63,375	14,912	40.8	20.1	7.2	1.0	11.0	14.7	0.8	1.1

Adjusted net interest income (NII) grew 20% YoY as margins remained stable but business growth slowed down. Other income grew 64% YoY on account of higher treasury profits. Provisions were lower on account of lower losses from transfer of securities from AFS to HTM. Asset quality continued to remain robust, despite marginal NPA rise QoQ.

- ✍ Loan growth down at 27%; adjusted NII grows by 20% YoY
- ✍ Margins remain stable at 3.2%
- ✍ Other income surges on higher treasury profits
- ✍ Lower provisions boost earnings
- ✍ Gross NPAs down to 2.8% and net NPAs to 0.7%

With strong loan growth, coupled with lower provisioning requirement going forward (as NPAs are just 0.7% and investment book is fairly insulated from MTM losses), we believe that earnings progression is likely to be strong for the bank in FY08 and FY09. We expect 21% earnings CAGR over next two years and RoEs should improve to 15% in FY09E. The stock trades at a PE of 7.2x and P/B of 1.0x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE

	FY07				FY08*				FY07	FY08E
	1QA	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	19,677	21,859	23,870	26,721	26,546	27,761	30,554	34,039	92,126	118,899
Interest Expense	11,378	12,952	14,262	15,674	16,961	17,744	19,396	21,637	54,266	75,737
Net Interest Income	8,299	8,908	9,608	11,046	9,586	10,018	11,157	12,402	37,861	43,162
% Change (YoY)	9.4	13.9	17.8	27.5	15.5	12.5	16.1	12.3	19.3	14.0
Other Income	2,775	3,217	3,337	3,978	3,702	2,675	2,704	3,080	11,732	12,160
Net Income	11,074	12,125	12,945	15,024	13,287	12,692	13,861	15,482	49,593	55,322
% Change (YoY)	14.5	11.1	19.0	21.3	20.0	4.7	7.1	3.0	15.3	11.6
Operating Expenses	6,040	5,968	6,375	7,584	6,843	7,162	7,204	8,554	25,443	29,763
Operating Profit	5,034	6,157	6,569	7,440	6,445	5,531	6,657	6,928	24,150	25,560
Provision & Contingencies	2,531	1,593	1,417	3,118	1,414	1,500	2,100	2,486	7,608	7,500
PBT	2,503	4,564	5,153	4,322	5,030	4,031	4,557	4,442	16,543	18,060
Tax Provisions	871	1,680	1,861	1,866	1,722	1,290	1,458	1,309	6,278	5,779
Net Profit	1,632	2,884	3,292	2,457	3,308	2,741	3,099	3,133	10,265	12,281
% Change (YoY)	4.0	11.3	62.8	17.7	102.7	-4.9	-5.9	27.5	24.1	19.6
Cost to Income Ratio (%)	54.5	49.2	49.3	50.5	51.5	56.4	52.0	55.3	51.3	53.8
Int Exp/ Int Earned (%)	57.8	59.2	59.7	58.7	63.9	63.9	63.5	63.6	58.9	63.7
Other Income / Net Income (%)	25.1	26.5	25.8	26.5	27.9	21.1	19.5	19.9	23.7	22.0

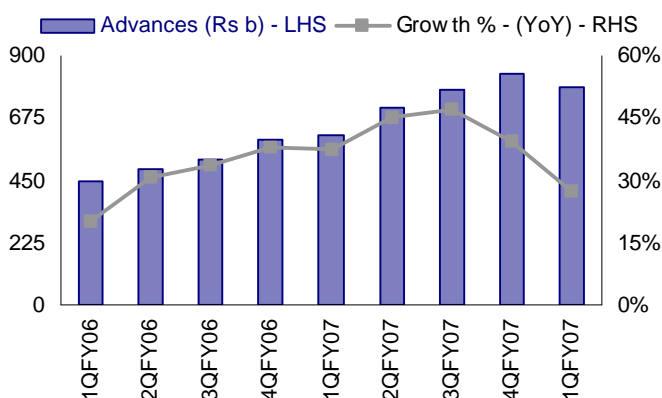
E: MOST Estimates

Adjusted net interest income (NII) grew 20% YoY as margins remained stable but business growth slowed down. Other income grew 64% YoY on account of higher treasury profits. Provisions were lower on account of lower loss on transfer of securities from AFS to HTM. Asset quality continued to remain robust, despite some increase QoQ.

Loan growth down at 27%; adjusted NII grows by 20% YoY

Advances grew by 27% in 1QFY08 to Rs782.6b v/s 40% growth in 4QFY07 and 37% in 1QFY07. On a QoQ basis advances declined 7%. Management aims to achieve advances growth of 22-25% for FY08. Retail (up 39% YoY), SME (up 42% YoY) and agriculture (up 48% YoY) would continue to be the drivers of credit growth. Deposit growth also slowed down to 23% YoY in 1QFY08 v/s 33% in 4QFY07. On a QoQ basis, deposits declined 2%. CASA ratio as a percentage of domestic deposits remained stable QoQ at 38%, however down 300bp YoY.

TREND OF GROWTH IN ADVANCES



Source: Company/Motilal Oswal Securities

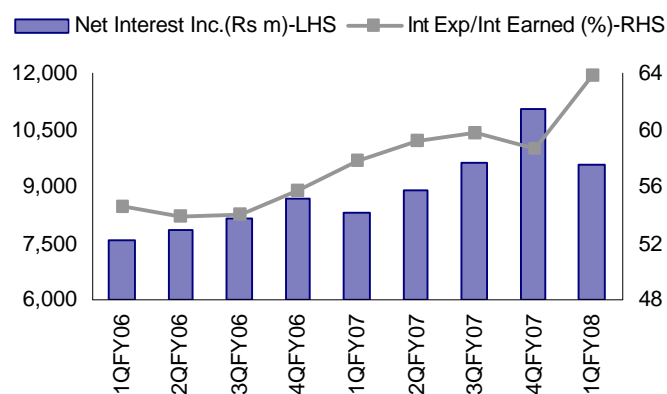
Bank has started reclassifying loss on redemption of AFS securities as a deduction from income from investment in line with RBI's guidelines. This amount was earlier reported as a part of other expenses. Thus the numbers of 1QFY07 have been restated accordingly. On an adjusted basis NII growth was strong at 20% YoY.

ADJUSTED NII GROWTH STRONG AT 20% YOY (RS M)

	1QFY08	1QFY07	YOY GR (%)
Reported NII	9,586	8,299	15.5
AFS Redemption Loss incl. in NII	970	524	85.1
Adjusted NII	10,556	8,823	19.6

Source: Company/Motilal Oswal Securities

TREND IN NET INTEREST INCOME



Source: Company/Motilal Oswal Securities

Margins remain stable at 3.2%

BoB reported NIMs of 3.2% in 1QFY08, stable YoY, as yields on advances expanded and asset growth slowed down. For FY07 the NIMs were similar at 3.2%, while in 4QFY07 they were 3.4%. Yield on advances improved by 130bp to 9.5% in 1QFY08, while cost of deposits increased by 101bp to 5.4%. Investment yields decreased by 62bp YoY to 6.9% as some high coupon bonds matured during the quarter and the loss on redemption of AFS securities was higher at Rs970m.

NIMs (OVERALL) BREAKDOWN (%)

	1QFY08	FY07	1QFY07
Yield on Advances	9.51	8.37	8.21
Yield on Investments	6.90	8.32	7.52
Cost of deposits	5.42	4.77	4.41
NIMs - Overall	3.20	3.23	3.19

Source: Company/Motilal Oswal Securities

Other income surges on higher treasury profits

Other income increased by 64% YoY, on account of higher treasury profits, which increased from Rs68m in 1QFY07 to Rs1.3b in 1QFY08. The bank made a profit of Rs0.9b on account of its stake sale in NSE. Core fee income growth (ex-amortization on HTM investment) was muted at 9% YoY, while commission, exchange and brokerages grew by 14% YoY and forex income declined by 9% YoY.

Lower provisions boost earnings

Provisions were lower on account of lower loss on transfer of securities from AFS to HTM. NPA provision also reduced YoY as asset quality has improved significantly for the bank.

BREAK UP OF PROVISION

	1QFY08	1QFY07
NPAs	1,129	1,241
Standard Assets	-50	70
HTM Trf loss on investments	530	3,920
Depreciation on investments	-235	-2,726
Others	40	26
Total	1,414	2,531

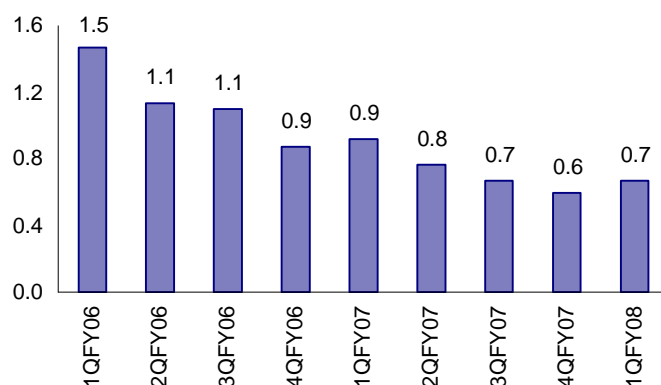
Source: Company/Motilal Oswal Securities

Gross NPAs down to 2.8% and net NPAs to 0.7%

Gross NPAs decreased YoY from 4.1% in 1QFY07 to 2.8% in 1QFY107 (up 32bp QoQ). Net NPAs have decreased YoY from 0.9% in 1QFY07 to 0.67% (up 7bp QoQ). In

absolute terms, gross NPAs increased by 5% QoQ while net NPAs increased by 4%. Provision cover stands at 76.5%. BoB continues to enjoy amongst the best asset quality across peers.

NET NPAS (%)



Source: Company/Motilal Oswal Securities

Valuation and view

With strong loan growth, coupled with lower provisioning requirement going forward (as NPAs are just 0.7% and investment book is fairly insulated from MTM losses), we believe that earnings progression is likely to be strong for the bank in FY08 and FY09. We expect a CAGR of 21% in earnings over next two years and RoEs to improve to 15% in FY09E. Stock trades at a PE of 7.2x and P/B of 1.0x FY09E. Maintain **Buy**.

Bank of Baroda: an investment profile

Company description

Bank of Baroda, incorporated in 1908, is the fourth largest state-owned bank in India. It has a balance sheet size of over Rs1.4t, a large network of 2,755 domestic branches, 62 overseas offices and 1,001 ATMs. 60% of its branches are located in the rural and semi-urban regions of India. The government owns 53.8% of the bank's equity.

Key investment arguments

- ✍ Loan growth has picked up momentum in past two years
- ✍ Net NPAs have been brought down to 0.7%
- ✍ Management is targeting to improve RoA to 1% in FY08.

Key investment risks

- ✍ Lower-than-expected recoveries and higher delinquencies can significantly affect the earnings growth as well as balance sheet quality for the bank.

Recent developments

- ✍ BoB is negotiating with Japanese insurance companies to establish a life insurance joint venture company.

Valuation and view

- ✍ We expect the bank to grow its earnings at a CAGR of 21% over next two years
- ✍ The stock trades at a PE of 7.2x and P/B of 1.0x FY09E
- ✍ We maintain **Buy**.

Sector view

- ✍ YTD loan growth of 24% and deposit growth of 24%
- ✍ Macro economic factors remain conducive for strong profitable growth for Indian banks
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings, valuations.
- ✍ We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		BOB	BOI	PNB
P/E (x)	FY08E	8.6	8.8	8.8
	FY09E	7.2	7.4	7.4
P/ABV (x)	FY08E	1.2	1.9	1.5
	FY09E	1.1	1.6	1.3
RoE (%)	FY08E	13.6	22.2	16.5
	FY09E	14.7	22.1	17.3
RoA (%)	FY08E	0.8	0.9	1.0
	FY09E	0.8	0.9	1.0

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	53.8	53.8	53.8
Domestic Inst	15.9	14.7	12.7
Foreign	20.8	20.9	20.9
Others	9.5	10.6	12.6

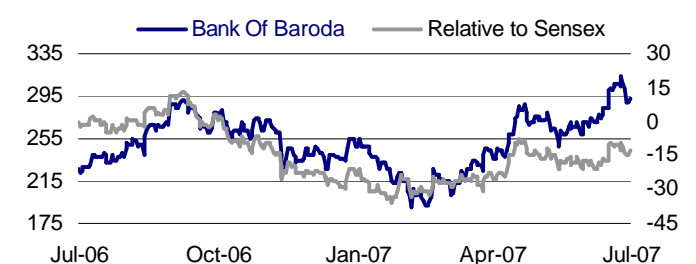
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	33.6	34.0	-1.2
FY09	40.4	40.6	-0.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
293	315	7.4	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2006	2007	2008E	2009E	
Interest Income	70,500	92,126	118,899	142,954	
Interest Expended	38,751	54,266	75,737	93,074	
Net Int. Income	31,749	37,861	43,162	49,880	
Change (%)	6.6	19.3	14.0	15.6	
Other Income	11,274	11,732	12,360	13,495	
Net Income	43,023	49,593	55,522	63,375	
Change (%)	0.4	15.3	2.0	14.1	
Operating Expenses	23,848	25,443	29,763	33,246	
Operating Income	19,175	24,150	25,760	30,129	
Change (%)	-16.7	25.9	6.7	17.0	
Other Provisions	8,029	7,608	7,500	8,200	
PBT	11,146	16,543	18,260	21,929	
Tax	2,876	6,278	5,843	7,017	
Tax Rate (%)	25.8	37.9	32.0	32.0	
PAT	8,270	10,265	12,417	14,912	
Change (%)	22.2	24.1	21.0	20.1	
Proposed Dividend	2,077	2,193	2,559	2,924	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2006	2007E	2008E	2009E	
Capital	3,655	3,655	3,655	3,655	
Reserves & Surplus	74,789	82,844	92,267	103,757	
Net Worth	78,444	86,499	95,922	107,413	
Deposits	936,620	1,249,160	1,498,992	1,723,841	
Change (%)	15.2	33.4	20.0	15.0	
Borrowings	70,722	38,617	46,340	55,608	
Other Liab. & Prov.	48,139	57,186	62,905	69,195	
Total Liabilities	1,133,925	1,431,462	1,704,159	1,956,056	
Current Assets	134,546	182,804	180,758	177,492	
Investments	351,142	349,436	401,852	462,129	
Change (%)	-5.3	-0.5	15.0	15.0	
Advances	599,118	836,209	1,053,623	1,243,275	
Change (%)	38.0	39.6	26.0	18.0	
Net Fixed Assets	9,207	10,888	10,588	10,088	
Other Assets	39,912	52,125	57,338	63,071	
Total Assets	1,133,925	1,431,462	1,704,159	1,956,056	

ASSUMPTIONS	(%)			
Deposit Growth	15.2	33.4	20.0	15.0
Advances Growth	38.0	39.6	26.0	18.0
Investments Growth	-5.3	-0.5	15.0	15.0
Dividend	50.0	60.0	70.0	80.0

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	
Spreads Analysis (%)					
Avg. Yield-Earn. Assets	7.1	7.5	7.8	7.9	
Avg. Cost-Int. Bear. Liab.	4.2	4.7	5.3	5.6	
Interest Spread	3.0	2.8	2.5	2.3	
Net Interest Margin	3.2	3.1	2.8	2.8	

Profitability Ratios (%)					
RoE	12.3	12.4	13.6	14.7	
RoA	0.8	0.8	0.8	0.8	
Int. Expended/Int. Earned	55.0	58.9	63.7	65.1	
Other Inc./Net Income	26.2	23.7	22.3	21.3	

Efficiency Ratios (%)					
Op. Exps./Net Income	55.4	51.3	53.6	52.5	
Empl. Cost/Op. Exps.	63.9	64.6	62.9	61.3	
Busi. per Empl. (Rs m)	35.9	46.9	61.3	74.4	
NP per Empl. (Rs mln)	0.2	0.3	0.3	0.4	

Asset-Liability Profile (%)					
Adv./Deposit Ratio	64.0	66.9	70.3	72.1	
Invest./Deposit Ratio	37.5	28.0	26.8	26.8	
G-Sec/Invest. Ratio	74.8	76.2	76.2	76.2	
Gross NPAs to Adv.	3.9	2.5	2.2	2.2	
Net NPAs to Adv.	0.9	0.6	0.5	0.5	
CAR	13.7	11.8	11.0	11.0	
Tier 1 (inc. IFR)	11.0	8.7	8.5	8.5	

VALUATION					
Y/E MARCH	2006	2007	2008E	2009E	
Book Value (Rs)	207.4	229.5	255.3	286.7	
Price-BV (x)	14	13	11	10	
Adjusted BV (Rs)	198.2	220.6	245.6	276.2	
Price-ABV (x)	15	13	12	11	
EPS (Rs)	22.6	28.1	34.0	40.8	
EPS Growth (%)	-15	24.1	21.0	20.1	
Price-Earnings (x)	13.0	10.4	8.6	7.2	
OPS (Rs)	52.5	66.1	70.5	82.4	
OPS Growth (%)	-32.9	25.9	6.7	17.0	
Price-OP (x)	5.6	4.4	4.2	3.6	

E: MOST Estimates



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Disclosure of Interest Statement

Bank of Baroda

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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