

RESULT UPDATE Q3FY10:

HOLD

Date	03 rd February 2010
CMP	Rs.569
52 week High / Low	Rs.596 / Rs.170
Equity Cap (current)	Rs.365 crs
Face Value	10 per share
Mkt. Capitalization	Rs.20768 crs
Avg. Daily Vol. (12 M)	1.1 Mn shares

BSE SENSEX	16163
NSE - NIFTY	4830
NSE Code	BOB
Bloomberg Code	BOB IN Equity
BSE Code	532134

SHAREHOLDING PATTERN @ 31-12-09

Promoters	53.81
Indian Institutions	19.00
FDI & FII	14.20
Public & Others	12.99

	3-MTS	6 MTS	1-YR
BOB	11.8%	29.9%	133.2%
NIFTY	5.8%	2.5%	73.5%
SENSEX	4.9%	1.5%	76.7%

(Rs. In mn)

PARTICULARS	FY09A	FY10E	FY11E
NII	51,234	58,996	70,853
NII Growth	31.0	15.2	20.1
PAT	22,272	28,810	32,250
PAT Growth	55.2	29.4	11.9
EPS	60.9	78.8	88.2
BV	294.3	362.5	440.2

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BANK OF BARODA

STRONG OPERATING PERFORMANCE

BoB's PAT growth stood at 18% y-o-y in Q3 FY10 on back of strong NII growth and lower provisions (incl tax). Advances grew by 23% whereas margins expanded by 32bp sequentially. Fee income growth was 27% y-o-y and CASA improved by improved by 84 bps y-o-y. Asset quality remains one of the best in the industry with the PCR (incl technical write offs) at 89%, Net NPAs at 0.31% and restructured loans of just 3% of outstanding loans

KEY HIGHLIGHTS

- **Business growth remains healthy:** Advances registered a growth of 23.5% y-o-y and 5% q-o-q to Rs.156200 crs. whereas deposits grew 28% y-o-y (4% q-o-q). Domestic advances grew 19% Y-o-Y and 6% Q-o-Q to Rs1160b whereas Overseas advances growth was healthy at 40% y-o-y growth. Overseas advances constituted 25.7% of total advances as against 26.4% for Q2FY10. Share of CASA deposits to domestic deposits improved 84bps to 37%.
- **Strong NII supported by sequential improvement in NIM:** BoB's reported NII growth of 9.5% y-o-y (15% q-o-q) which was supported by sequential improvement in NIMs. Margins improved 32bp QoQ to 2.95% due to reduction in cost of deposits by 46bp QoQ and just 11bp fall in yield on loans. Going forward, we expect NIM to be stable as bank has started reducing the reliance on bulk business. Proportion of high cost bulk deposits in overall deposits is down from 22% a year ago to 15% and proportion of low yielding large loans is down from 15% to 6% now. Management expects margins to remain stable at ~3% in 4QFY10 and FY11.
- **Steady growth in Non-interest income:** Fee income showed a strong growth of 27% y-o-y whereas trading profits declined from Rs415 crs in 3QFY09 (the bank reported the exceptional profit of Rs69 cr. on winding up of HK subsidiary in 3QFY09) to Rs139 cr. in 3QFY10 (Rs120 cr. in 2QFY10). The bank has not yet recognized the profit on sale of stake in UTI MF which we expect to be recognized in 4QFY10. Recoveries from written off accounts remained stable at Rs.65 crs.
- **Delinquencies under control:** BoB's gross and net NPAs remained increased to 1.43% and 0.31% from 1.30 and 0.27% sequentially. The main reason was that bank has classified debt relief scheme outstanding loan of ~Rs210 cr, however it has been fully provided for during the quarter Bank restructured Rs.248 crs. during the quarter taking the total restructured asset to Rs.4801cr. (~3.1% of loan book facility-wise classification). Large corporate formed ~50%, SME formed ~25%, Retail ~11% and Agriculture loans ~12% of the overall restructured loans. Slippages continued to remain low at ~0.8% while provision coverage ratio was stable at ~80%.
- **Lower tax improves bottom line:** Tax rate was lower at 19% as the as excess tax provisions made in 1HFY10 and some tax benefits on international operations. In 9MFY10, tax rate is 29%.
- **VALUATION:** We have upgraded our earnings by 11% for FY10 and 8% for FY11 to factor in a) better NII and b) lower provisions (given investment write-backs in 9MFY10). We expect EPS CAGR of 20% over FY09-1E and RoE to sustain at ~21% with RoA at 1.1%. At CMP of Rs.569 bank is trading at P/Bv of 1.3 and P/E of 6.4 for FY11E. **With continuous improvement in operating performance strong deposit mix and asset quality better than peers we feel valuation is reasonable. With ROE of 21%, ROA of 1.1% and NIM of 2.5%, we suggest "HOLD" on the stock with a price target of Rs.616 per share.**

RESULT HIGHLIGHTS

(Rs. in Mn.)

	DEC-09	DEC-08	(Y-O-Y GROWTH)	SEP-09	(Q-O-Q GROWTH)	FY 10 E	FY 11 E
Interest Income	41769.7	41,080	1.7%	41,354	1.0%	167,537	202,154
Interest Expense	25757.4	26,462	-2.7%	27,468	-6.2%	108,540	131,301
Net Interest Income (NII)	16012.3	14,618	9.5%	13,886	15.3%	58,996	70,853
Other Income	6596.5	8,465	-22.1%	5,953	10.8%	27,681	31,388
- Fees (including forex)	5203.5	3,938	32.1%	4,082	27.5%	15,006	20,388
- Treasury Income	1393	4,159	-66.5%	1,205	15.6%	9,001	7,000
- Recovery from w/off	655	824	-20.5%	666	-1.7%	3,674	4,000
Net Income	22608.8	23,083	-2.1%	19,839	14.0%	86,678	102,241
Total Operating Costs	9959.3	8,936	11.4%	9,523	4.6%	39,087	43,087
- Staff Costs	6291.7	5,982	5.2%	5,958	5.6%	23,481	24,303
- Other Opex	3667.6	2,954	24.1%	3,566	2.9%	15,605	18,784
Operating Profit	12649.5	14,147	-10.6%	10,316	22.6%	47,591	59,154
Provisions	2424.9	3,501	-30.7%	1,163	108.5%	5,837	11,019
PBT	10224.6	10,646	-4.0%	9,153	11.7%	41,754	48,135
Tax	1899.7	3,562	-46.7%	2,811	-32.4%	12,944	15,885
Tax Payout (%)	19	33		31		31	33
PAT	8,325	7,084	17.5%	6,342	31.3%	28,810	32,250

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