

May 10, 2007

BUY

Price	Target Price
Rs243	Rs300
Sensex	13,782

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	(2)	(5)	(9)
Rel. to Sensex	3	3	(9)	(17)

Source: Capitaline

Stock Details

Sector	Banks
Reuters	BOB.BO
Bloomberg	BOB @IN
Equity Capital (Rs mn)	3643
Face Value	10
52 Week H/L	296/176
Market Cap	Rs88.6bn/US\$2.1bn
Daily Avg Volume (No of shares)	757,750
Daily Avg Turnover (US\$)	4.1mn

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	53.8
FII	20.9
Institutions	14.7
Private Corp.	2.1
Public	8.5

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Bank of Baroda

Quarterly Update

Steep loan growth may hit NIMs

Bank of Baroda has reported 16.4% yoy growth in net profit for Q4FY07 to Rs2.5bn, lower than our estimates of Rs2.7bn driven by higher provisioning for standard assets and taxes. The adjusted NII has grown by 21.1% yoy to Rs10.5bn driven by 39.6% yoy growth in advances and a marginal 4bps expansion in NIM. Core fee income has grown by 36.4% yoy to Rs1.4bn. With strong operational performance, the pre-provision profits have grown by 29.5% yoy to Rs7.4bn.

However, the steep loan growth (39.6% yoy to Rs836bn) has started putting pressure on the low cost deposits as their proportion has declined by 155bps qoq to 38.8%. With no excess SLR on books we believe that the NIM would remain under pressure for next few quarters.

We have downgraded our earnings for FY08E and FY09E by 5.4% and 3.7% respectively to Rs35.8 and Rs43.2 to take into account the margin pressure that could come in the coming quarters. The stock is trading at 0.9x its FY09E ABV and 5.8x FY09E EPS. We maintain a BUY on stock with price target of Rs300.

Strong growth in NII driven by advances; NIM remain flat

While BOB's reported NII has grown by a strong 27.1% yoy to Rs.11.0bn, adjusted for one-time income, the NII has grown by 21.1% yoy to Rs10.5bn.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% y-o-y chg	% q-o-q chg
Reported NII	11,046	8,690	9,608	27.1	15.0
Less: NII of BOB housing	220	-	-	-	-
Less: Interest on CRR bal.	300	-	-	-	-
Adjusted NII	10,526	8,690	9,608	21.1	9.6

Source: Company, Emkay Research

The strong growth in NII was driven by a 39.6% yoy growth in advances to Rs836.2bn, which was mainly driven by retail, SME and foreign advances book.

Rs bn	Q4FY07	Q4FY06	% yoy chg	As % of domestic/Total
Retail	143	98	46.4	21.3
SME	90	69	31.3	13.4
Agri	103	69	50.5	15.4
Others	336	269	25.1	50.0
Total Domestic	673	504	33.5	80.4
Foreign	164	95	71.5	19.6
Total	836	599	39.6	

Source: Company, Emkay Research

Steep loan growth may hurt margins

The steep growth in the balance sheet and reducing SLR portfolio have started putting pressure on BOB's low cost deposits as their proportion has declined sequentially by 155bps to 38.8. The CASA deposits have grown by paltry 9% yoy compared with overall deposit growth of 33.4% yoy. As a result, the NIMs have remained stagnant despite nearly 100bps increase in advances yield.

%	Q4FY07	Q4FY06	Q3FY07	Change in bps yoy	qoq
Yield on assets	8.44	7.48	8.24	97	20
Cost of funds	5.11	4.19	4.92	93	19
NIM	3.33	3.29	3.32	4	1

Source: Company, Emkay Research

We believe that lower CASA franchise will continue to put pressure on NIM over next quarter, till the bank moderates its balance sheet growth.

Fee income growth continues on strong foot

While the reported fee income has grown by a sedate 6.9% yoy to Rs3.9bn, the core fee income has continued to grow at robust pace. The core fee income grew by 36.4% yoy to Rs1.4bn. In fact, excluding the amortisation expenses, which from Q4FY07 onwards are net off against the other income; the total non-interest income has grown by a stronger 11.3% yoy.

Fee income

Rs mn	Q4FY07	Q4FY06	% y-o-y chg
Trading	275	718	-61.7
Core fee income	1,436	1,053	36.4
Forex income	835	584	43.0
Others	1,432	1,365	4.9
Reported Other Income	3,978	3,720	6.9
Other income excl amortisation	4,489	4,034	11.3

Source: Company, Emkay Research

Moderate expenses growth helps further

The operating expenditure grew by a moderate 14% yoy driven mainly by technology related expenses and advertising and promotion expenses. With robust growth in NII and fee income and moderate growth in expenses, the operating profit has grown by a strong 29.5% yoy to Rs7.4bn. The adjusted core operating profit has in fact grown much faster by 32.0% yoy to Rs6.6bn.

Rs mn	Q4FY07	Q4FY06	% y-o-y chg
Reported operating profit	7,439.9	5,743.6	29.5
Less: Treasury income	275.1	718.2	-61.7
Less: extraordinary income	530.0		
Adjusted operating profit	6,634.8	5,025.4	32.0

Robust asset quality

Despite a strong growth in balance sheets and particularly in retail assets, the bank has significantly brought down GNPA and NNPA. Resultantly the provisioning requirement has also come down significantly.

Rs mn	Q4FY07	Q4FY06	% yoy chg
NPA related provisions	33.5	173.5	-80.7
As % of advances	0.04%	0.29%	
Investment depreciation	163.5	228.9	-28.6
Standard assets	100.2	-17.0	-
Other provisions	14.5	-75.8	-
Total provisions	311.7	309.7	0.6

Source: Company

Capital adequacy remains comfortable

With Tier I capital adequacy ratio of 8.7%, the bank is very comfortably capitalised for future growth and would not require any equity dilution soon. Even under Basel II norms, the tier I CAR would be comfortable at 8.2%..

Valuations and view

We have downgraded our earnings for FY08E and FY09E by 5.4% and 3.7% respectively to Rs35.8 and Rs43.2 to take into account the margin pressure that could come in the coming quarters. The stock is likely to see a 21.8% CAGR in earnings over FY07-09E with an expected RoE of 14.8% by FY09E. The stock is trading at 0.9x its FY09E ABV and 5.8x FY09E EPS. We maintain our BUY recommendation on stock with price target of Rs300.

Quarterly results

Rs mn	FY07	FY06	% yoy chg	Q4FY07	Q4FY06	% yoy chg	% qoq chg
Net interest income	38,385	31,749	20.9	11,046	8,690	9,608	27.1
Other Income	11,732	11,274	4.1	3,978	3,720	3,337	6.9
<i>Fee income</i>	4,729	3,610	31.0	1,436	1,053	1,260	36.4
Net income	50,118	43,023	16.5	15,024	12,410	12,944	21.1
Operating expenses	25,967	23,650	9.8	7,584	6,667	6,375	13.8
Pre-provision profit	24,150	19,374	24.7	7,440	5,744	6,569	29.5
Provisions & Contingencies	7,608	8,229	-7.6	3,117	3,097	1,417	0.6
<i>NPA</i>	2,198	3,602	-39.0	335	1,735	1	-80.7
Profit before tax	16,543	11,145	48.4	4,323	2,646	5,152	63.3
Taxes	6,278	2,876	118.3	1,866	536	1,861	248.4
Net Profit	10,265	8,268	24.1	2,457	2,111	3,291	16.4

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	44,171	8,270	22.6	200.4	0.8	12.3	1.2	10.7
FY2007E	50,118	10,265	28.1	218.8	0.8	12.4	1.1	8.6
FY2008E	55,294	12,373	33.8	244.9	0.8	13.5	1.0	7.1
FY2009E	63,678	15,211	41.6	278.5	0.8	14.8	0.9	5.8

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