

## (Investment Idea

## Bank of Baroda (BoB)

Bank of Baroda (BoB), has come out with good numbers for Quarter ended December, 2006 (Q3 FY 2007). Standalone Net Interest Income (interest income less interest expense) grew by a moderate 18.1% to Rs. 961 crore (Rs. 813 crore) due to higher interest expense growth @ 48.6% to Rs. 1,426 crore (Rs. 960 crore) against that of interest income @ 34.6% to Rs. 2,387 crore (Rs. 1,773 crore). This is despite surge in total advances by 46.8% to Rs. 77,661 crore. Total deposits increased by 31.0% to over Rs. 112,298 crore. PBT (before extraordinary items), however zipped ahead by 143.9% to Rs. 515 crore (Rs. 211 crore) as provisions & contingencies halved to Rs. 142 crore (Rs. 298 crore) (attributed mainly to negligible provisioning for NPA, reflecting better recovery, against Rs. 116 crore in Q3 FY 2006) as well as robust fees growth and better operating efficiency. PBT (after extraordinary items) went up by 62.8% after giving effect to write back of provision for NPA Rs. 73 crore in Q3 FY 2006. Higher average tax rate stunted PAT @ 62.8% to Rs. 329 crore (Rs. 202 crore).

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NIM	3.21 %	3.18 %
CAR	12.24 %	12.82 %
Return on assets (annualized)	1.12 %	0.89 %
Net NPA (Rs. in crore) (decline of 10.6%)	515	576
Net NPA as a % of net advances	0.67 %	1.10 %
Gross NPA	3.02 %	5.74 %

BoB has received RBI approval to set shop in 8 more countries (presently has 60 offices across 21 countries); this will augment profitability as presently bank's international operations contribute 18% to total business and 35% to net profit.

BoB has come out with innovative concepts like loan factories (for retail and SME sectors), has over 500 8am to 8pm branches (leader in public sector banks), increased technology adoption as part of its customer (internal and external) centric approach, which will put it in good stead to brace competition. However, bank's ability to manage steadily rising deposit costs, expected interest rate hike by RBI and impact of implementation of Basel II norms on declining CAR continue to be key concerns going forward.

At CMP of Rs. 246/-, share (Rs. 10/- paid up) is trading at 7.45 times FY 2007 consolidated expected EPS of Rs. 33/- and 5.47 times FY 2008 expected consolidated EPS of Rs. 45/-. At CMP, it is available at 1.27 (x) adjusted book value. In view of good business prospects, we recommend to "BUY" the share at CMP.

## Disclosures:

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