

# Bank of Baroda

**CMP: ₹ 692**
**TP: ₹ 780**
**Accumulate**

Bank of Baroda's core operating performance during Q4FY13 was impacted considerably by the high provisions (NPL related as well as investment depreciation), while the tax write-back of ₹ 4.8bn aided the bank achieve ₹ 10.5bn net profit.

Asset quality showed some signs of stabilizing with fresh NPL formations of ₹ 21bn, almost flat QoQ. While NPL recoveries and upgrades did not show any meaningful improvement, the bank made significant NPL write-off of ₹12.2bn. Domestic slippages at ₹ 17.2bn were marginally lower on QoQ basis while in the international book, slippages increased significantly to ₹ 8.8bn. The management while maintaining their cautious stance on asset quality has guided for current levels of slippages in the domestic loan book for the next two quarters and lower slippages in the international loan book.

The bank restructured loans of ₹ 26bn while benefiting from a reduction of ₹ 30.5bn in the restructured loan portfolio (as per RBI guidelines). Total restructured loans stood at ₹ 226bn (domestic ₹ 186bn and international ₹ 40bn) forming 6.9% of total loan book.

## High Points

- Fresh NPL formations almost stable QoQ
- Slippages in the international loan book likely to trend down while in the domestic loan book could remain at current levels for next 2 quarters.

## Scip Details

Equity	₹ 4225mn
Face Value	₹ 10/-
Market Cap	₹ 293bn
	USD 5.4bn
52 week High / Low	₹ 900 / 606
Avg. Volume (no)	967601
BSE Sensex	19,692
NSE Nifty	5,980
Bloomberg Code	BOB IN
Reuters Code	BOB.BO

Q4FY13 Result (₹ mn)	Mar-13	Mar-12	% Chg	Dec-12	% Chg
Interest Income	90,716	81,185	12	88,449	3
Interest Expended	62,576	53,211	18	60,040	4
<b>Net Interest Income</b>	<b>28,140</b>	<b>27,974</b>	<b>1</b>	<b>28,409</b>	<b>(1)</b>
Non-Interest Income	11,909	8,978	33	8,406	42
<b>Net Income</b>	<b>40,049</b>	<b>36,952</b>	<b>8</b>	<b>36,815</b>	<b>9</b>
Operating Expenses	18,229	16,443	11	14,255	28
<b>Operating profit</b>	<b>21,820</b>	<b>20,509</b>	<b>6</b>	<b>22,560</b>	<b>(3)</b>
Provision & Contingencies	15,984	8,437	89	10,293	55
<b>PBT</b>	<b>5,836</b>	<b>12,073</b>	<b>(52)</b>	<b>12,267</b>	<b>(52)</b>
Tax	(4,825)	(3,217)	50	2,026	(338)
<b>Net Profit</b>	<b>10,662</b>	<b>15,289</b>	<b>(30)</b>	<b>10,241</b>	<b>4</b>
Extraordinary Income	124	130		124	
<b>Net Profit</b>	<b>10,537</b>	<b>15,159</b>	<b>(30)</b>	<b>10,116</b>	<b>4</b>
<b>Yields &amp; Margins (%)</b>			bps		bps
Yield on advances	8.6	9.3	(69)	9.0	(32)
Cost of deposit	5.8	5.8	(6)	5.8	(7)
Net interest margin (global)	2.5	3.0	(45)	2.7	(14)
<b>Asset quality</b>					
Gross NPLs (₹ mn)	79,826	44,648	78.8	73,215	9.0
Gross NPLs (%)	2.4	1.5		2.4	
Net NPLs (₹ mn)	41,920	15,436	171.6	33,632	24.6
Net NPLs (%)	1.3	0.5		1.1	
<b>Capital (%)</b>			bps		bps
Tier-I	10.1	10.8	(70)	9.3	80
CAR	13.3	14.7	(137)	12.7	64
<b>Balance sheet (₹ bn)</b>					
Advances	3,282	2,874	14.2	2,993	9.6
Deposits	4,739	3,849	23.1	4,147	14.3
CASA (%)	30.4	33.2		32.2	

Note: CASA figures for full year is global whereas for quarters is domestic.

## Financials

Year	NII	PPP	NP	NIM (%)	BV (₹)	ABV (₹)	RoAA (%)	RoAE (%)	P/B (x)	P/ABV (x)	P/E (x)
FY12	103,170	85,806	50,069	2.6	638	600	1.2	21.7	1.08	1.15	5.6
FY13	113,153	90,738	44,808	2.3	731	631	0.9	15.7	0.95	1.10	6.4
FY14E	136,579	109,337	55,398	2.4	839	738	0.9	16.7	0.82	0.94	5.3
FY15E	167,097	133,085	67,680	2.5	974	861	1.0	17.7	0.71	0.80	4.3

Figures in ₹ mn

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NIM at 2.51% declined 14bps QoQ largely as loan yields reduced and the cost of deposits in the domestic business increased QoQ.

Going forward, the bank intends to grow at around 2% above industry average rates, both on loans and deposits and maintain its asset quality. The bank's asset quality has remained better than most of its PSB peers and we believe that despite the headwinds that the bank is likely to face over the next couple of quarters, BOB's delinquency ratio should remain lower than most of its peers. Maintain our Accumulate rating with target price of ₹ 780, based on PBR of 0.9x on FY14 BVPS forecasts.

**INCOME STATEMENT**

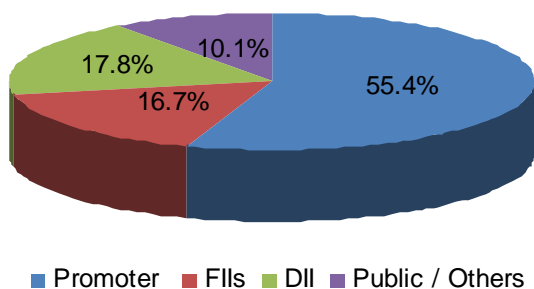
₹ mn

Particulars	Mar12	Mar13	Mar14E	Mar15E
Interest Income	296,737	351,967	407,236	464,659
Interest Expenses	193,567	238,813	270,657	297,562
<b>Net Interest Income</b>	<b>103,170</b>	<b>113,153</b>	<b>136,579</b>	<b>167,097</b>
CEB	12,261	12,574	13,831	15,491
Profits on sale of investments	6,067	6,173	6,790	7,809
Profits on foreign exchange	6,861	8,025	8,828	9,887
Other operating income	9,035	9,535	10,488	11,327
Total other income	34,223	36,306	39,937	44,514
<b>Total Income</b>	<b>137,393</b>	<b>149,459</b>	<b>176,516</b>	<b>211,610</b>
Salaries	29,856	34,497	40,047	47,324
Other operating costs	21,731	24,225	27,132	31,201
Total Overheads	51,587	58,721	67,179	78,526
<b>Profit before provisions</b>	<b>85,806</b>	<b>90,738</b>	<b>109,337</b>	<b>133,085</b>
Total provisions	25,548	42,426	41,778	42,844
<b>Profit before tax</b>	<b>60,258</b>	<b>48,313</b>	<b>67,559</b>	<b>90,241</b>
Tax	10,188	3,505	12,161	22,560
<b>Reported Net profit</b>	<b>50,069</b>	<b>44,808</b>	<b>55,398</b>	<b>67,680</b>

**BALANCE SHEET**

Particulars	Mar12	Mar13	Mar14E	Mar15E
Cash with RBI and Call Money	641,685	853,989	982,087	1,080,296
Investments	832,094	1,213,937	1,335,331	1,468,864
Advances	2,873,773	3,281,858	3,905,411	4,764,601
Fixed Assets	11,678	13,489	16,187	19,424
Other Assets	102,247	97,039	81,669	110,485
<b>Total Assets</b>	<b>4,461,478</b>	<b>5,460,312</b>	<b>6,320,685</b>	<b>7,443,670</b>
Demand Deposits	289,444	356,780	498,999	659,788
Savings Deposits	745,795	843,030	942,554	1,121,639
Term Deposits	2,813,472	3,539,023	4,102,882	4,816,451
Total Deposits	3,848,711	4,738,833	5,544,435	6,597,878
Borrowings	235,731	265,793	252,503	239,878
Other Liabilities & Provisions	114,005	147,034	169,089	194,452
Equity	4,124	4,225	4,225	4,225
Reserves	258,908	304,427	350,432	407,237
Total Equity	263,032	308,652	354,658	411,462
<b>Total Liab &amp; Equity</b>	<b>4,461,478</b>	<b>5,460,312</b>	<b>6,320,685</b>	<b>7,443,670</b>

E-estimates

**Shareholding Pattern as on Mar'13 (%)**

**IMPORTANT RATIOS**

Particulars	Mar12	Mar13	Mar14E	Mar15E
DPS (₹)	17.0	17.0	19.0	22.0
Book Value (₹)	637.8	730.5	839.4	973.8
Adjusted Book Value (₹)	600.4	631.3	737.7	861.1
EPS (₹)	124.4	107.3	131.1	160.2
Payout (%)	13.7	15.8	14.5	13.7
Tier 1 (%)	10.8	10.1	9.8	9.4
CAR (%)	14.7	13.3	12.8	12.4
Net interest margin (%)	2.6	2.3	2.4	2.5
Credit Spread (%)	3.8	3.1	3.3	3.4
Cost-to-income (%)	37.5	39.3	38.1	37.1

**ROAA breakdown**

Gross Interest spread	2.6	2.3	2.3	2.4
Less Provisions	0.6	0.9	0.7	0.6
Net Interest spread	1.9	1.4	1.6	1.8
Less Overheads	1.3	1.2	1.1	1.1
Net spread	0.6	0.2	0.5	0.7
Other income	0.9	0.7	0.7	0.6
Less Tax	0.3	0.1	0.2	0.3
ROAA	1.2	0.9	0.9	1.0
ROAE	21.7	15.7	16.7	17.7

**Valuation**

Price Earnings (x)	5.6	6.4	5.3	4.3
Price to Book Value (x)	1.08	0.95	0.82	0.71
Price to Adjusted BV (x)	1.15	1.10	0.94	0.80
Dividend Yield (%)	2.5	2.5	2.7	3.2

**Asset Quality**

Gross NPLs	44,648	79,826	93,429	107,185
Net NPLs	15,436	41,920	42,960	47,646
Provision coverage ratio (%)	65.4	47.5	54.0	55.5
Gross NPLs (%)	1.5	2.4	2.4	2.2
Net NPLs (%)	0.5	1.3	1.1	1.0

**Assumptions**

Yield on Advances (%)	8.5	8.3	8.2	8.0
Yield on Investment (%)	8.0	7.3	7.1	6.9
Cost of Deposits (%)	5.1	5.3	5.0	4.7
Growth in credit book (%)	25.7	14.2	19.0	22.0
Growth in Deposits (%)	26.0	23.1	17.0	19.0
Growth in Investments (%)	16.8	45.9	10.0	10.0
Gross slippages ratio (%)	1.5	2.3	2.0	1.8
Credit Cost (%)	0.77	1.23	0.90	0.85

E-estimates

<b>BUY</b>	Upside above 20%
<b>ACCUMULATE</b>	Upside above 5% and up to 20%
<b>REDUCE</b>	Upside of upto 5% or downside of upto 15%
<b>SELL</b>	Downside of more than 15%

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