

July 27, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs875	Rs950
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,547
Sensex	18,432

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(11)	1	21
Rel. to Nifty	(1)	(6)	3	19

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

	Banks
Sector	BOB@IN
Bloomberg	BOB@IN
Equity Capital (Rs mn)	3928
Face Value(Rs)	10
No of shares o/s (mn)	393
52 Week H/L	588/383
Market Cap (Rs bn/USD mn)	343/7,242
Daily Avg Volume (No of sh)	302313
Daily Avg Turnover (US\$m)	2.6

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	57.0	57.0	53.8
FII/NRI	16.6	17.1	18.8
Institutions	16.3	16.0	16.6
Private Corp	4.8	4.7	5.3
Public	5.2	5.2	5.6

Source: Capitaline

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- BOB's NII below our/street estimates at Rs22.9bn, PAT at Rs10.3bn in line driven by lower provisions . But, lower provisions jacked up net NPAs by 30% qoq
- Balance sheet grew 3.2% sequentially; Deposits / loans were up 2.5%/1.6% qoq respectively. Margin compression came in at 58bps qoq to 2.9%
- Asset quality deteriorates, albeit superior vis-à-vis peers; Slippages came in at Rs5.7bn (1% annualized). The bank has moved all its accounts to system based NPA recognition
- Valuation at 1.4x/1.2x FY12E/FY13E ABV commensurate with 1.2% RoAs. Maintain HOLD rating on the stock with price target of Rs950

### NII below our estimates; PAT however grew aided by lower provisioning

Bank of Baroda Q1FY12 net profit at Rs10.3bn (up 20.2% yoy) was ahead of our estimates driven by lower provisions. NII growth at Rs22.9bn (up 24% yoy) was however below our estimates primarily due to delay in hike in lending rates. Margins came in at 2.9% down 58bps sequentially.

Balance sheet during the quarter grew 3.2% qoq aided by 2.5% qoq growth in deposits and 1.6%qoq growth in loans . On the domestic front, loan book expanded 24.2% yoy (down 0.5% qoq) with growth in deposits marginally lower at 20.6% yoy and 1.4% qoq.

### Contraction in domestic margin restricted to ~30bps sequentially

Adjusted for income tax refund in Q4FY11, domestic margins for the bank declined by ~31bps qoq to 3.39% as against 77bps decline on a reported basis

### Yield analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (bps)	QoQ (bps)
Yield on advances*	7.9	8.1	8.4	8.4	8.8	90	39
Yield on investments*	6.4	7.0	7.4	7.4	7.0	60	-34
Yield on assets *	6.6	6.8	7.1	7.4	7.3	72	-10
Cost of funds*	4.0	4.1	4.2	4.3	4.8	78	42
NIM*	2.6	2.7	2.9	3.0	2.5	-6	-53
Yield on Advances#	8.2	8.4	8.6	8.7	9.1	94	37
Cost of deposits#	4.4	4.5	4.5	4.8	5.4	97	57
NIM#	2.9	3.0	3.2	3.5	2.9	-3	-58

Source: Company, Emkay Research Note:\* Calculated on basis of average quarterly balances # reported

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	87,458	30,583	83.7	396.8	1.2	21.9	10.5	2.2
FY2011	120,613	44,154	112.4	514.3	1.3	21.0	7.5	1.7
FY2012E	131,664	48,297	123.0	603.0	1.2	19.4	6.6	1.5
FY2013E	150,406	56,921	144.9	714.6	1.2	20.9	5.6	1.2

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	18,580	20,381	22,923	26,139	22,972	23.6	-12.1
Other Income	6,172	6,813	6,762	8,345	6,279	1.7	-24.8
Fee Income	2,015	2,483	3,187	2,522	2,748	36.3	9.0
Net Income	24,752	27,194	29,684	34,484	29,251	18.2	-15.2
Total Operating Expenses	9,474	10,627	11,172	15,026	11,068	16.8	-26.3
As % Of Net Income	38.3	39.1	37.6	43.6	37.8		
Employee Expenses	5,767	6,562	6,942	9,897	6,454	11.9	-34.8
As % Of Net Income	23.3	24.1	23.4	28.7	22.1		
Other Expenses	3,706	4,065	4,230	5,129	4,614	24.5	-10.0
As % Of Net Income	15.0	14.9	14.3	14.9	15.8		
Operating Profit	15,279	16,567	18,512	19,458	18,183	19.0	-6.6
As % Of Net Income	61.7	60.9	62.4	56.4	62.2		
Provisions	2,513	1,855	3,041	5,904	3,911	55.6	-33.8
Prov for NPA	2,775	1,423	2,064	4,244	1,320	-52.5	-68.9
PBT	12,765	14,712	15,471	13,554	14,272	11.8	5.3
Total Tax	4,174	4,519	4,783	611	3,944	-5.5	546.0
Adjusted PAT	8,592	10,193	10,689	12,944	10,329	20.2	-20.2
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	8,592	10,193	10,689	12,944	10,329	20.2	-20.2
Reported EPS	23.5	27.9	29.2	33.0	26.3	11.9	-20.2

Source: Company, Emkay Research

**Loan growth driven by growth on international front**

Loan book during the quarter grew 25.2% yoy (1.6% qoq) aided by growth on international front. International book was up 27.8% yoy (7.5% sequentially). On the domestic front, growth was witnessed in segments of mid-corporate and SME (up 31% yoy) and retail (up 23.8% yoy). The bank has also reduced its exposure to unsecured loans and now constitutes ~20% of domestic book.

**Advances mix**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Foreign	499	513	552	593	637	27.8	7.5
Mid-corporate/SME	216	216	253	274	284	31.3	3.7
Agriculture	231	235	231	245	232	0.7	-5.4
Retail	250	272	296	324	309	23.8	-4.6
Others	661	694	741	851	861	30.3	1.2
<b>Total</b>	<b>1,856</b>	<b>1,930</b>	<b>2,072</b>	<b>2,287</b>	<b>2,323</b>	<b>25.2</b>	<b>1.6</b>

Source: Company, Emkay Research

**CASA continues to remain in 34-35% range**

Domestic CASA declined by 45bps qoq to 33.9%. With planned branch additions particularly in Tier III to Tier VI cities we expect CASA ratio to inch upwards.

**CASA Mix**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
CASA	687	739	756	802	802	16.8	0.1
Term deposits	1,275	1,321	1,397	1,531	1,563	22.6	2.1
Foreign deposits	585	637	661	721	764	30.6	5.9
Total Deposits	2,547	2,697	2,815	3,054	3,129	22.9	2.5
CASA (%)	35.0	35.9	35.1	34.4	33.9	-108	-45

Source: Company, Emkay Research

**Muted non-interest income growth; core fee income however grew 36% yoy**

While core fee income for the bank grew 36% yoy, lower trading gains of Rs740mn (down 42% yoy) resulted in muted growth in non-interest income growth (up 3.8% yoy). The ratio of non-int income / total income at 22% was by far the lowest in past several quarters.

**Other income**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Fee/Commission income	2,015	2,483	3,187	2,522	2,748	36.3	9.0
Trading gains/(losses)	1,279	1,000	848	1,310	740	-42.1	-43.5
Forex gains/(losses)	1,216	1,101	1,471	1,359	1,400	15.1	3.0
Recoveries	561	692	615	859	288	-48.8	-66.5
<b>Total</b>	<b>6,172</b>	<b>6,813</b>	<b>6,762</b>	<b>8,345</b>	<b>6,279</b>	<b>1.7</b>	<b>-24.8</b>

Source: Company, Emkay Research

**Asset quality deteriorates; albeit superior vis-à-vis peers**

GNPA at Rs34.2bn was up 8.7% qoq (29% yoy). The increase in GNPA was primarily witnessed in the segments of agriculture (4.1%) and large and medium industries (1.8%). The bank has made a provision of Rs1.3bn towards NPA including provision of Rs1.1bn towards standard assets. During the quarter Rs4.5bn of loans were restructured taking the cumulative restructured loan portfolio to Rs71.6bn or 3.1% of total loan portfolio.

**Break up of provisions**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
On NPL	2,775	1,423	2,064	4,244	1,320	-52.5	-68.9
As % of advances	0.15	0.07	0.10	0.19	0.06		
On Standard Assets	288	520	369	1,061	1,129	292.0	6.4
Investment Dep	-589	-201	535	346	1,385	-335.2	300.6
Others	39	113	73	253	76	95.9	-69.9
<b>Total</b>	<b>2,513</b>	<b>1,855</b>	<b>3,041</b>	<b>5,904</b>	<b>3,911</b>	<b>55.6</b>	<b>-33.8</b>

Source: Company, Emkay Research

**NPA profile**

Rs Mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	26,574	27,199	27,703	31,525	34,255	28.9	8.7
Net NPA (Rs bn)	7,173	7,313	7,442	7,909	10,244	42.8	29.5
Gross NPA (%)	1.4	1.4	1.3	1.4	1.5		
Net NPA (%)	0.4	0.4	0.4	0.4	0.4		
Net NPLs/Net worth (%)	4.5	4.3	4.1	3.8	4.7		
Provision cover (%)	73.0	73.1	73.1	74.9	70.1		

Source: Company, Emkay Research

**Slippages well under 1% mark**

Slippages during the quarter came in at Rs5.7bn or 1% annualized. Having already migrated completely to system based NPA recognition, the management has guided for lower slippages in coming quarters.

**Slippages**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	6,662	9,543	11,940	18,452	5,848	-12.2	
Quarterly (Rs mn)	6,662	2,881	2,397	6,512	5,848	-12.2	-10.2
Cumulative (%)	0.36	0.49	0.58	0.81	0.25		
Quarterly (%)	0.36	0.15	0.12	0.28	0.25		

Source: Company, Emkay Research

**Valuations and view**

The stock is currently quoting at 1.4x FY12E ABV and 1.2x FY13E ABV which we believe is commensurate with 1.2% RoAs over next two years. We are not changing our numbers despite lower provisions in this quarter as we believe that the same will be made in the coming quarters. We maintain our HOLD rating on the stock with price target of Rs950.

**Key Financials****Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Net interest income</b>	59,395	92,415	96,708	110,851
Other income	28,064	28,198	34,956	39,554
Net income	87,458	120,613	131,664	150,406
Operating expenses	38,106	47,893	48,864	55,004
Pre provision profit	49,353	72,720	82,800	95,401
PPP excl treasury	42,120	65,379	78,363	90,964
Provisions	6,972	14,710	15,721	16,344
Profit before tax	42,381	56,503	67,080	79,057
Tax	11,797	13,856	18,782	22,136
<i>Tax rate</i>	28%	25%	28%	28%
Profit after tax	30,583	44,154	48,297	56,921

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity	3,655	3,928	3,928	3,928
Reserves	147,409	206,003	244,649	291,920
Net worth	151,064	209,931	248,577	295,848
Deposits	2,410,443	3,054,395	3,728,069	4,484,323
Borrowings	221,661	319,647	354,150	392,630
Total liabilities	2,783,167	3,583,973	4,330,796	5,172,800
<b>Assets</b>				
Cash and bank	354,671	499,341	556,125	712,778
Investments	588,306	689,045	828,379	983,856
Customer assets	1,773,871	2,310,325	2,838,246	3,342,405
Others	66,320	85,261	108,046	133,760
Total assets	2,783,167	3,583,973	4,330,796	5,172,800

**Key Ratios (%)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.3	2.8	2.4	2.3
Non-ll/avg assets	1.1	0.9	0.9	0.8
Fee income/avg assets	0.4	0.3	0.3	0.3
Opex/avg assets	1.5	1.5	1.2	1.2
Provisions/avg assets	0.6	0.5	0.4	0.4
PBT/avg assets	1.5	1.6	1.5	1.5
Tax/avg assets	0.4	0.4	0.4	0.4
RoA	1.2	1.3	1.2	1.2
RoAE	21.9	21.0	19.4	20.9
GNPA (%)	1.5	1.6	1.6	1.7
NNPA (%)	0.3	0.3	0.4	0.5

**Valuations Table**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	30,583	44,154	48,297	56,921
Shares in issue (mn)	366	393	393	393
EPS (Rs)	83.7	112.4	123.0	144.9
PER (x)	10.5	8.1	7.1	6.0
FDEPS(Rs)	83.7	116.0	132.1	155.7
FDPER (x)	10.5	7.5	6.6	5.6
Book value (Rs)	413.3	534.4	632.8	753.2
P/BV (x)	2.1	1.6	1.4	1.2
Adj book value (Rs)	396.8	514.3	603.0	714.6
P/ABV (x)	2.2	1.7	1.5	1.2
P/PPP (x)	6.5	4.9	4.2	3.6
Dividend yield (%)	1.7	1.9	2.4	2.4

**Recommendation History: Bank of Baroda – BOB IN**

Date	Reports	Reco	CMP	Target
28/04/2011	<a href="#">Bank of Baroda Q4FY11 Result Update</a>	Buy	940	1,160
28/01/2011	<a href="#">Bank of Baroda Q3FY11 Result Update</a>	Buy	835	1,160
27/12/2010	<a href="#">Bank of Baroda Company Update</a>	Buy	889	1,160
28/10/2010	<a href="#">Bank of Baroda Q2FY11 Result Update</a>	Buy	1,011	1,160

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
25/07/2011	<a href="#">Bank of India Q1FY12 Result Update</a>	Hold	404	420
22/07/2011	<a href="#">Union Bank of India Q1FY12 Result Update</a>	Hold	309	330
22/07/2011	<a href="#">Allahabad Bank Q1FY12 Result Update</a>	Accumulate	218	240
22/07/2011	<a href="#">Axis Bank Q1FY12 Result Update</a>	Hold	1,297	1,380

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