Bank Of Baroda BOB.NS BOB IN

BANKS

NOMURA

EQUITY RESEARCH

Downgrade to Reduce; TP cut to INR590

Asset quality pain likely to continue

August 14, 2012

Rating Down from Neutral	**Reduce**
Target price Reduced from 820	INR 590
Closing price August 13, 2012	INR 628
Potential downside	-6.1%

Action: Downgrading to Reduce, TP cut to INR590

We downgrade BOB to Reduce from Neutral, and cut our TP to INR590 from INR820, as we believe asset quality risks will continue to derail BOB's earnings trajectory over the next several quarters. We are increasing our delinquency forecast for FY13F to INR50.6bn from INR41.7bn (FY12F loan delinquency: INR34.4bn) and expect loan loss provisions to increase to 97bps from 72bps in FY12.

We estimate delinquency ratio at 1.76% for FY13F, 1.51% for FY12F

Asset quality pain will continue for BOB, in our view. We raise our delinquency ratio estimate from 1.17% in FY10 to 1.51% for FY12F; in 1QFY13, the annualised delinquency ratio was 1.8%. We note, a slowing economy is leading to widespread deterioration across several sectors and we believe BOB's NPL book is still beginning to build up (given NPL ageing) and hence we expect the delinquency ratio to increase to 1.76% by FY13. A key risk event coming up is the expected change in top management later in CY12 and this transition is likely to reiterate the asset quality risk to earnings, in our view.

Catalysts: Continued slowdown in corporate capital spending and increasing delinquency

Valuation: Our TP implies 0.83x FY13F ABV and 5x FY13F EPS

BOB currently trades at 0.88x FY13F ABV of INR715, 1SD below its historical mean of 1.1x one-year forward ABV. At our TP of 590, BOB trades at 0.83x FY13F ABV and 5x FY13F EPS of INR118 for an FY13F ROA of 1% and adjusted ROE of 17.7%.

31 Mar	FY12	FY13F		FY14F		FY15F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
PPOP (mn)	86,304	111,941	101,353	128,475	120,001		140,185
Reported net profit (mn)	50,070	58,424	48,638	63,520	57,764		67,496
Normalised net profit (mn)	50,567	58,424	48,762	63,520	57,764		67,496
FD normalised EPS	123.00	142.11	118.61	154.50	140.50		164.17
FD norm. EPS growth (%)	5.7	16.6	-3.6	8.7	18.5		16.8
FD normalised P/E (x)	5.1	N/A	5.3	N/A	4.5	N/A	3.8
Price/adj. book (x)	1.0	N/A	0.9	N/A	0.8	N/A	0.7
Price/book (x)	0.9	N/A	0.8	N/A	0.7	N/A	0.6
Dividend yield (%)	3.3	N/A	4.2	N/A	5.0	N/A	5.8
ROE (%)	20.6	19.5	16.4	18.3	17.0		17.4
ROA (%)	1.2	1.3	1.0	1.2	1.0		1.0

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Asset quality will likely continue to deteriorate for India's banking sector over the next several quarters, especially for PSU banks. We see limited catalysts to boost banks' earnings growth in the face of slowing loan growth and rising loan loss provisions.

Nomura vs consensus

Our PAT estimate is 6% below consensus for FY13F on higher loan-loss provisions. We are building in LLPs of 0.97% for FY13F.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

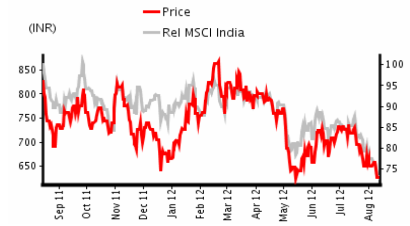
Key data on Bank Of Baroda

Profit and Loss (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Interest income	218,859	296,737	368,726	435,128	504,028
Interest expense	-130,837	-193,567	-240,872	-284,631	-329,565
Net interest income	88,023	103,170	127,854	150,497	174,463
Net fees and commissions	15,781	17,962	19,470	22,575	26,169
Trading related profits	4,437	6,067	4,051	4,756	5,334
Other operating revenue	7,874	10,195	11,928	16,374	20,990
Non-interest income	28,092	34,223	35,449	43,705	52,493
Operating income	116,114	137,393	163,303	194,202	226,956
Depreciation	0	0	0	0	0
Amortisation					
Operating expenses	-17,131	-21,234	-25,631	-30,370	-35,381
Employee share expense	-29,168	-29,856	-36,319	-43,831	-51,390
Op. profit before provisions	69,816	86,304	101,353	120,001	140,185
Provisions for bad debt	-10,506	-18,652	-28,377	-31,889	-37,329
Other provision charges	-2,807	-6,896	-6,169	-5,593	-6,433
Operating profit	56,503	60,756	66,807	82,519	96,423
Other non-operating income					
Associates & JCEs					
Pre-tax profit	56,503	60,756	66,807	82,519	96,423
Income tax	-14,086	-10,188	-18,045	-24,756	-28,927
Net profit after tax	42,417	50,567	48,762	57,764	67,496
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	42,417	50,567	48,762	57,764	67,496
Extraordinary items	0	-498	-124	0	0
Reported NPAT	42,417	50,070	48,638	57,764	67,496
Dividends	-7,534	-8,123	-10,812	-12,841	-15,004
Transfer to reserves	34,883	41,947	37,826	44,923	52,492
Valuation and ratio analysis					
Reported P/E (x)	5.4	5.2	5.3	4.5	3.8
Normalised P/E (x)	5.4	5.1	5.3	4.5	3.8
FD normalised P/E (x)	5.4	5.1	5.3	4.5	3.8
FD normalised P/E at price target (x)	5.1	4.8	5.0	4.2	3.6
Dividend yield (%)	3.3	3.3	4.2	5.0	5.8
Price/book (x)	1.1	0.9	0.8	0.7	0.6
Price/adjusted book (x)	1.2	1.0	0.9	0.8	0.7
Net interest margin (%)	2.99	2.78	2.81	2.80	2.80
Yield on interest earning assets (%)	7.44	7.98	8.10	8.10	8.09
Cost of interest bearing liabilities (%)	4.50	5.26	5.44	5.52	5.51
Net interest spread (%)	2.95	2.73	2.67	2.58	2.59
Non-interest/operating income (%)	24.2	24.9	21.7	22.5	23.1
Cost to income (%)	39.9	37.2	37.9	38.2	38.2
Effective tax rate (%)	24.9	16.8	27.0	30.0	30.0
Dividend payout (%)	17.8	16.2	22.2	22.2	22.2
ROE (%)	23.5	20.6	16.4	17.0	17.4
ROA (%)	1.33	1.24	1.00	1.01	1.02
Operating ROE (%)	31.3	25.0	22.5	24.3	24.8
Operating ROA (%)	1.77	1.51	1.37	1.45	1.46
Growth (%)					
Net interest income	48.2	17.2	23.9	17.7	15.9
Non-interest income	3.1	21.8	3.6	23.3	20.1
Non-interest expenses	17.4	24.0	20.7	18.5	16.5
Pre-provision earnings	43.8	23.6	17.4	18.4	16.8
Net profit	42.5	19.2	-3.6	18.5	16.8
Normalised EPS	42.4	5.7	-3.6	18.5	16.8
Normalised FDEPS	42.4	5.7	-3.6	18.5	16.8

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-12.6	-3.2	-23.9
Absolute (USD)	-12.8	-6.3	-37.7
Relative to index	-15.3	-11.0	-28.5
Market cap (USDmn)	4,436.8		
Estimated free float (%)	36.0		
52-week range (INR)	881/615		
3-mth avg daily turnover (USDmn)	11.03		
Major shareholders (%)			
Govt. of India	57.0		

Source: Thomson Reuters, Nomura research

Notes

Building in LLPs of 97bps and adjusted ROE of 17.7% for FY13F

Balance Sheet (INRmn)

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Cash and equivalents	198,682	216,515	170,030	186,392	218,202
Inter-bank lending	300,659	425,171	513,932	590,830	686,136
Deposits with central bank					
Total securities	713,966	832,094	1,050,044	1,177,553	1,320,694
Other interest earning assets					
Gross loans	2,310,380	2,902,984	3,454,358	4,066,556	4,765,420
Less provisions	-23,616	-29,211	-48,186	-66,824	-86,681
Net loans	2,286,764	2,873,773	3,406,172	3,999,732	4,678,739
Long-term investments					
Fixed assets	22,997	23,415	32,782	43,582	54,382
Goodwill					
Other intangible assets					
Other non IEAs	60,904	102,247	100,781	116,675	135,083
Total assets	3,583,972	4,473,215	5,273,742	6,114,765	7,093,235
Customer deposits	3,054,395	3,848,711	4,539,229	5,300,497	6,192,867
Bank deposits, CDs, debentures	114,883	125,651	125,651	125,651	125,651
Other interest bearing liabilities	108,196	110,080	110,080	110,080	110,080
Total interest bearing liabilities	3,277,473	4,084,442	4,774,960	5,536,228	6,428,597
Non interest bearing liabilities	96,063	114,005	181,009	215,842	249,451
Total liabilities	3,373,536	4,198,446	4,955,969	5,752,069	6,678,048
Minority interest					
Common stock	3,928	4,124	4,124	4,124	4,124
Preferred stock					
Retained earnings	206,507	270,645	313,649	358,572	411,063
Reserves for credit losses					
Proposed dividends					
Other equity					
Shareholders' equity	210,435	274,769	317,773	362,695	415,187
Total liabilities and equity	3,583,972	4,473,215	5,273,741	6,114,765	7,093,235
Non-performing assets (INR)	31,525	44,648	77,247	105,135	135,098
Balance sheet ratios (%)					
Loans to deposits	75.6	75.4	76.1	76.7	77.0
Equity to assets	5.9	6.1	6.0	5.9	5.9
Asset quality & capital					
NPAs/gross loans (%)	1.4	1.5	2.2	2.6	2.8
Bad debt charge/gross loans (%)	0.45	0.64	0.82	0.78	0.78
Loss reserves/assets (%)	0.66	0.65	0.91	1.09	1.22
Loss reserves/NPAs (%)	74.9	65.4	62.4	63.6	64.2
Tier 1 capital ratio (%)	10.0	10.5	10.2	10.1	10.0
Total capital ratio (%)	14.5	14.6	13.7	13.2	12.7
Growth (%)					
Loan growth	30.6	25.7	18.5	17.4	17.0
Interest earning assets	27.9	25.1	20.3	16.1	15.9
Interest bearing liabilities	28.8	24.6	16.9	15.9	16.1
Asset growth	28.8	24.8	17.9	15.9	16.0
Deposit growth	26.7	26.0	17.9	16.8	16.8
Per share					
Reported EPS (INR)	116.37	121.79	118.30	140.50	164.17
Norm EPS (INR)	116.37	123.00	118.61	140.50	164.17
Fully diluted norm EPS (INR)	116.37	123.00	118.61	140.50	164.17
DPS (INR)	20.67	20.74	26.30	31.23	36.50
PPOP PS (INR)	191.54	209.92	246.53	291.89	340.98
BVPS (INR)	577.33	701.55	772.94	882.21	1,009.88
ABVPS (INR)	541.89	653.80	714.85	824.12	951.80
NTAPS (INR)	577.33	701.55	772.94	882.21	1,009.88

Source: Company data, Nomura estimates

Notes

We expect loan growth of 18.5% for FY13F

Further deterioration in asset quality likely

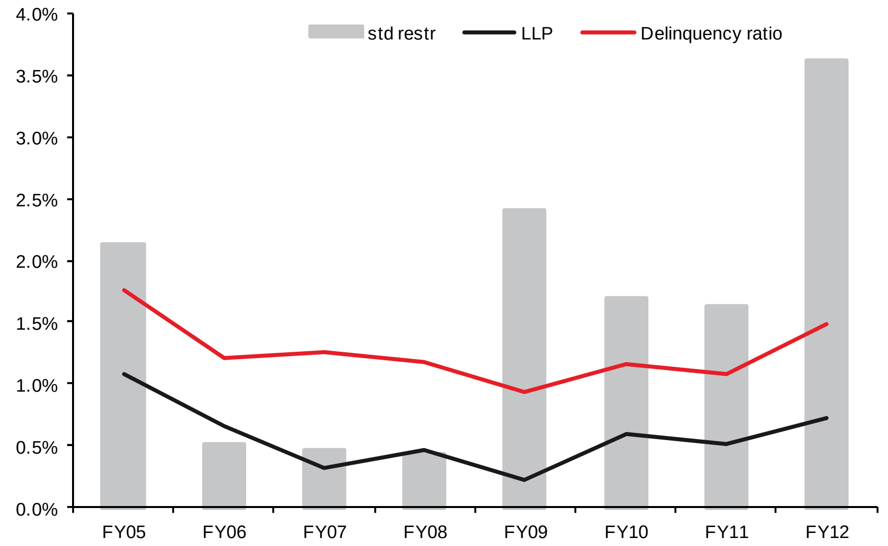
Asset quality will continue to be a drag for BoB, in our view. We raise our incremental delinquency ratio estimate from 1.17% in FY10 to 1.51% in FY12F; in 1QFY13 the annualised delinquency ratio was 1.8%. We believe slowing economic growth will continue to exert pressure on asset quality and we estimate incremental delinquency ratio at 1.76% for FY13F.

BoB has cumulative restructured loans of INR195bn (outstanding restructured loans are at 6.8% of the loan book) and the delinquency ratio from these restructured loans is currently trending at 25% and, we believe, the loans restructured in FY12 are yet to show up in the delinquency numbers reported so far. We are factoring in a delinquency ratio of 1.76% for FY13F. As detailed in the chart below, the loans restructured and classified as 'standard' have increased significantly in FY12. We believe this further highlights the continued deterioration in asset quality over the next few quarters.

PSU banks have seen a 48% increase in the CAGR of restructured loans outstanding and classified as 'standard'. Given the slowing economy, high interest rates and also global headwinds, we expect asset quality in sectors like textiles to deteriorate further.

Based on information released by the Press Information Bureau of the Government of India, as of August 13, 2012, the government has issued directives to nationalised banks to restructure textile industry loans on a case-by-case basis in accordance with the Reserve Bank of India (RBI)'s prudential guidelines. The Press Information Bureau reported that loans of INR360bn need to be restructured. Bank of Baroda has a fund-based exposure of 2.4% (as a percentage of its FY12 loan book) to the textiles sector. Its delinquency ratio has been on a steady climb since FY09 – increasing from 0.94% in FY09 to 1.8% in 1QFY13. Loan loss provisions have not kept pace though, as BoB has cut back on provision cover from 72.5% to 65.3% during the period.

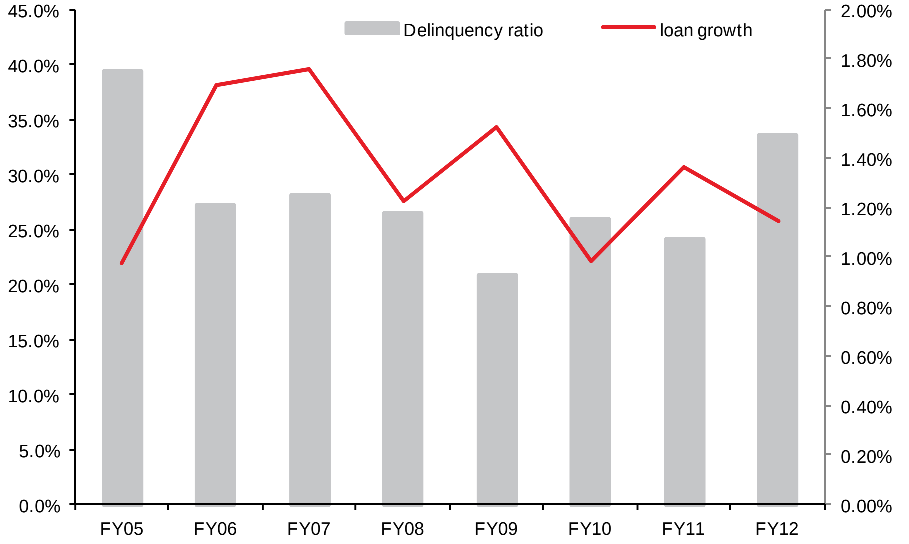
Fig. 1: Risk of rising delinquencies from the restructured book



Source: Reserve Bank of India (RBI), Nomura research

The chart below highlights the rising incidence of delinquencies in periods of slowing loan growth. During a period of slowing growth, we expect delinquencies to continue to increase, rising to 1.76% by FY13F.

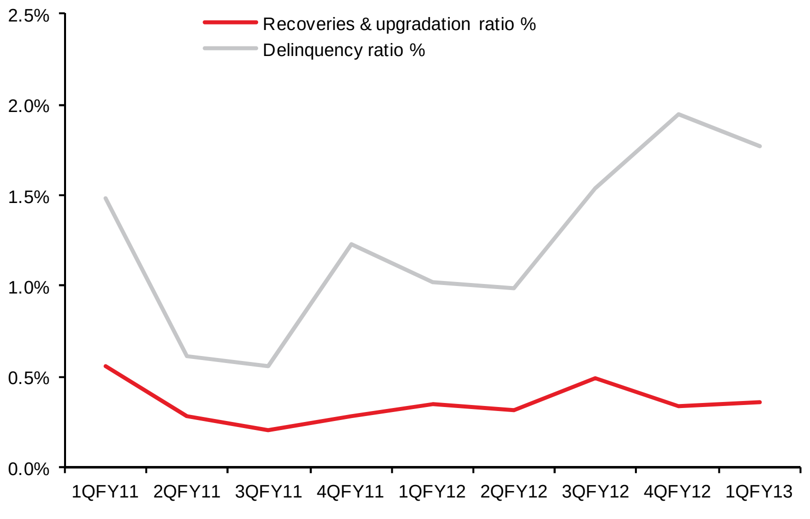
Fig. 2: Delinquencies rising on slowing loan growth



Source: RBI, Nomura research

Management guides for strong recoveries and upgrades from non-performing loans over the next few quarters. The chart below shows the incremental delinquency ratio (as a percentage of the average loan book) and the incremental recovery ratio (recoveries and upgrades as a percentage of the average loan book) for BoB for the past eight quarters. As seen below, the gap between incremental delinquencies and incremental recoveries has been widening over the past four quarters and, we believe, it is too early to conclude that this gap may have peaked. While we expect delinquencies will continue to increase due to slowing growth, incremental recoveries, upgrades especially are likely to take longer to close the gap with the delinquencies. With the gap between recoveries and fresh delinquencies widening, risks to the downside exceed the possible upside potential risks in our view.

Fig. 3: Delinquencies vs. recoveries



Source: Company data, Nomura research

Expect loan growth of 18.5% for FY13F

We are factoring in loan growth of 18.5% y-y for FY13F – with growth contribution coming from (all y-y) - domestic corporate loans of 15.9%, international loans 24.5%, mortgages 18.6%, other retail loans 15.6%, SMEs 17.6% and rural / agri loans 14.3%. We expect core fee income growth of 8.4% for FY13F. We estimate the GNPL ratio to inch up to 2.24% in FY13F from 1.84% in 1QFY13. We expect BOB to clock FY13F NIM of 2.8% and expect non-interest income to remain weak on the back of slower fee income growth.

Fig. 4: Key changes to our assumptions

Assumptions changes	Old	New
Loan growth - FY13	18.3%	18.5%
Non-interest income growth - FY13	15.9%	3.6%
PAT - FY13 (INRmn)	58,424	48,762
Cost-income ratio - FY13	34.9%	37.9%
Slippages for FY13 (INRmn)	41,659	50,632
LLPs for FY13	0.86%	0.97%
GNPL (INRmn)	70,005	77,247
GNPL ratio	2.13%	2.24%
Provision coverage ratio	65.9%	62.4%
RoA - FY13	1.27%	1.00%
RoE - FY13	21.0%	17.7%

Source: Nomura estimates

Key 1QFY13 results highlights and takeaways from the analysts' meeting

- Net interest income came in 5.5% below our estimates, on the back of loan growth of 23% y-y (flat q-q) and a 23bps decline in NIM to 2.73%. Non-interest income grew 20% y-y but declined 14% q-q (21% below Nomura estimates) as fee income remains muted y-y and lower than expected trading income. The cost-income ratio improved by 80bps y-y to 36.9%.
- Loan book remained flat sequentially despite strong 41% y-y international book growth (helped by INR depreciation) as retail loans declined 7.7% q-q (up 6.4% y-y). Corporate loans grew a strong 28% y-y and SME loans grew 21% y-y.
- CASA deposits grew 14.4% y-y, with savings deposits growing 15.1% y-y and current account deposits growing 12.3% y-y. Blended CASA ratio declined 83bps q-q to 26.07%.
- GNPLs increased 19% q-q, with the GNPL ratio inching up 31bps to 1.84%. This was on account of higher slippages of INR12.6bn (INR13.2bn in 4Q) and lower write-offs of INR1.96bn (INR5.3bn in 4Q). The bank restructured loans to the tune of INR7.7bn during the quarter, thus taking restructured loans as a percentage of total loans to 6.82% vs. 6.48% in 4Q. LLPs came in higher at 1.14% vs. our expectation of 0.94%. Provision cover, including technical write-offs remains stable at 79%.
- BOB expects to grow 1.0-1.5% higher-than-the-sector average in FY13F. Management guides for blended NIM of 2.7- 2.75% for FY13F (FY12 blended NIM was 2.96%).
- The bank has cumulatively restructured loans to the tune of INR194.91bn, of which INR7.7bn was restructured in 1QFY13 and INR52.8bn was restructured in 4QFY12 (stripped off a large aviation ac/ & SEB exposures, loans restructured in 4QFY12 would be INR8.8bn).
- While management did not give any guidance on fresh delinquencies, it has indicated that it expects recoveries and upgrades to pick up in 2QFY13F and 3QFY13F. We currently factor in an incremental delinquency ratio of 1.3% for FY13F (which is the annualised run-rate for this quarter approximately).

Fig. 5: Earnings summary

Earnings summary (INRmn)	1QFY13	4QFY12	1QFY12	%y/y	%q/q	1QFY13F	%Variance
Interest Income	85,576	81,185	66,318	29.0	5.4	86,121	(0.6)
Interest on advances	64,267	60,739	50,772	26.6	5.8	66,750	(3.7)
Income on investments	17,315	16,400	13,525	28.0	5.6	16,369	5.8
Interest on balances with RBI	2,879	2,329	1,628	76.9	23.6	2,489	15.7
Others	1,115	1,717	393	183.6	(35.1)	514	117.1
Interest expended	57,595	53,211	43,346	32.9	8.2	56,497	1.9
Net Interest Income	27,981	27,974	22,972	21.8	0.0	29,624	(5.5)
Total Non-interest income	7,708	8,978	6,409	20.3	(14.1)	9,758	(21.0)
Fees	2,759	3,447	2,748	0.4	(19.9)	4,740	(41.8)
Trading gains	815	1,370	740	10.1	(40.5)	2,493	(67.3)
Total Net Income	35,689	36,952	29,381	21.5	(3.4)	39,382	(9.4)
Total Operating expenses	13,157	16,443	11,068	18.9	(20.0)	14,225	(7.5)
Employee expenses	7,610	10,196	6,454	17.9	(25.4)	7,909	(3.8)
Other Operating expenses	5,547	6,247	4,614	20.2	(11.2)	6,317	(12.2)
Operating Profit	22,532	20,509	18,313	23.0	9.9	25,156	(10.4)
Core operating profit	21,717	19,139	17,573	23.6	13.5	22,663	(4.2)
Total Provisions	8,938	8,437	3,911	128.6	5.9	7,651	16.8
Loan loss Provisions	8,121	9,262	1,320	515.5	(12.3)	6,401	26.9
PBT	13,594	12,073	14,402	(5.6)	12.6	17,505	(22.3)
Core PBT	12,779	10,702	13,662	(6.5)	19.4	15,012	(14.9)
Exceptional items	124	107	130	(4.4)	15.8	-	
Tax	2,081	(3,217)	3,944	(47.2)	(164.7)	5,252	(60.4)
Adjusted Net profit	11,389	15,182	10,329	10.3	(25.0)	12,254	(7.1)
EPS	27.7	38.7	26.4	5.0	(28.5)	29.8	(7.1)

Source: Company data, Nomura estimates

Fig. 6: Loans & Deposits

Loans & Deposits (INRmn)	1QFY13	4QFY12	1QFY12	%y/y	%q/q
Advances	2,858,132	2,873,773	2,323,401	23.0	(0.5)
Total Deposits	3,827,386	3,848,711	3,129,429	22.3	(0.6)
CASA Deposits	997,760	1,035,230	872,210	14.4	(3.6)
Savings Account Deposits	755,620	745,790	656,530	15.1	1.3
Current Account Deposits	242,140	289,440	215,680	12.3	(16.3)
Term Deposits	2,829,626	2,813,481	2,257,219	25.4	0.6
Investments	982,161	832,094	827,279	18.7	18.0
Total Assets	4,542,538	4,473,215	3,698,306	22.8	1.5

Source: Company data, Nomura research

Fig. 7: Breakup of loans

Breakup of loans (INRmn)	1QFY13	4QFY12	1QFY12	%y/y	%q/q
Corporate	1,751,442	1,722,983	1,365,801	28.2	1.7
SME	343,460	345,120	283,670	21.1	(0.5)
Rural and weaker section	434,010	448,990	364,590	19.0	(3.3)
Retail advances	329,220	356,680	309,340	6.4	(7.7)
- Home Loans	145,200	141,330	129,100	12.5	2.7
Total Loans	2,858,132	2,873,773	2,323,401	23.0	(0.5)
International Loans	898,270	853,020	637,190	41.0	5.3

Source: Company data, Nomura research

Fig. 8: Key Ratios

Key Ratios	1QFY13	4QFY12	1QFY12	y/y bps	q/q bps
Net Interest Margin, %	2.73	2.96	2.87	(14)	(23)
Cost/Income Ratio, %	36.87	44.50	37.67	(80)	(763)
Cost/Asset Ratio, %	1.17	1.54	1.22	(5)	(37)
CASA, %	26.07	26.90	27.87	(180)	(83)
Total CAR, %	13.74	14.67	13.10	64	(93)
Tier I, %	10.13	10.83	9.06	107	(70)

Source: Company data, Nomura research

Fig. 9: Asset Quality

Asset Quality (INRmn)	1QFY13	4QFY12	1QFY12	%y/y	%q/q	
Gross NPL	53,194	44,648	34,255	55.3	19.1	
Net NPL	18,445	15,436	10,244	80.1	19.5	
Gross NPL, %	1.84	1.53	1.46	38	31	bps
Net NPL, %	0.65	0.54	0.44	21	11	bps
Provision cover, %	65.32	65.43	70.09	(477)	(10)	bps
Provision cover (incl. tech. w/o), %	79.02	80.05	82.52	(350)	(103)	bps
LLP, %	1.14	1.36	0.23	91	(22)	bps

Source: Company data, Nomura research

Fig. 10: Movement in NPLs

Movement in NPLs (INRmn)	1QFY13	4QFY12	1QFY12
Opening NPLs	44,648	38,951	31,525
Add new NPLs	12,567	13,233	5,848
Less write offs	1,955	5,265	1,149
Less recoveries	1,249	1,708	1,255
Less up-gradations	1,342	564	715
Total reduction	4,020	7,537	3,119
Closing NPLs	53,194	44,648	34,255

Source: Company data, Nomura research

Valuation methodology

We downgrade BOB to Reduce from Neutral, and cut our TP to INR590 from INR820, as we believe asset quality risks will continue to derail BOB's earnings trajectory over the next several quarters.

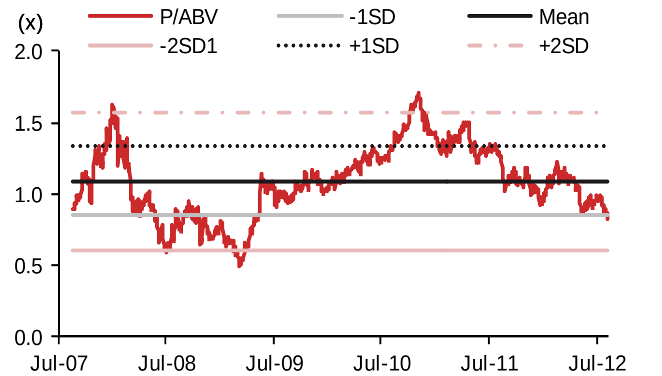
Our target price of INR590 is based on a three-stage residual-income valuation method which assumes the following: 1) 18.8% CAGR for interest-earning assets over FY12-15, 9.7% CAGR over FY15-20 and a terminal growth rate of 4% beyond that, 2) average ROE of 15% over FY12-20 and a 9.3% terminal value ROE, and 3) discount rates ranging from 14.9% (current cost of equity) for FY12-15, 12.8% for FY15-20 and a 11% terminal rate. At our TP, BOB would trade at 0.83x our FY13F ABV and 5x FY13F EPS for an ROE of 17.7%. We show key changes to our valuation assumptions below.

Fig. 11: Key changes in our residual income valuation assumptions

Assumptions changes	Old	New
Interest earning asset (FY12-20 CAGR)	12.2%	13.0%
Terminal NIM	2.23%	2.18%
Terminal cost to asset Ratio	1.1%	1.2%
Terminal P&L provisioning as % of interest earning assets	0.6%	0.8%

Source: Nomura estimates

Fig. 12: P/ABV



Source: Bloomberg, Nomura estimates

Fig. 13: P/E

Source: Bloomberg, Nomura estimates

Risks

Key upside risks include stronger-than-expected recoveries and slowing delinquencies, higher-than-expected economic growth, accelerated monetary policy easing and government policy intervention to revive corporate investment spending. Global liquidity rushing into Indian equity markets is another key upside risk to our thesis.

Appendix A-1

Analyst Certification

We, Vijay Sarathi, Abhishek Bhattacharya and Amit Nanavati, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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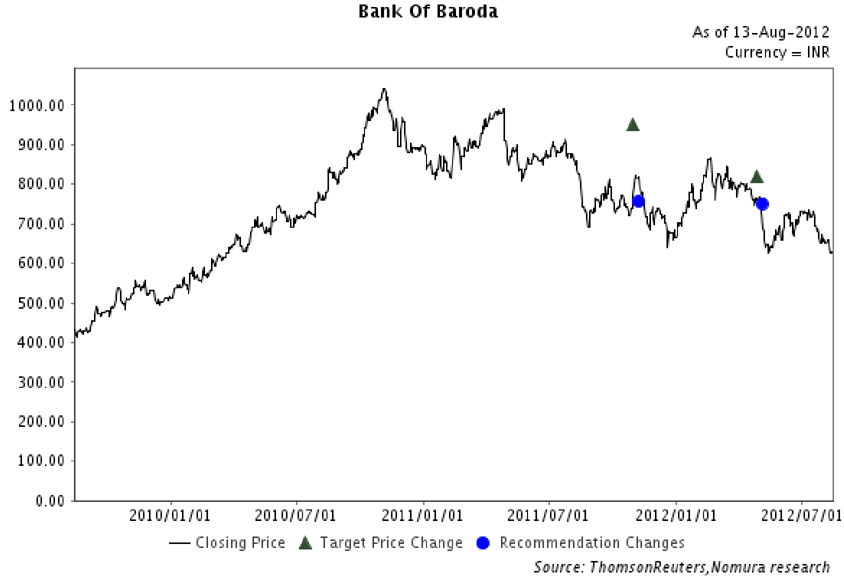
Bank Of Baroda	BOB IN	INR 628	13-Aug-2012	Reduce	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Bank Of Baroda	Neutral	13-Aug-2012

Bank Of Baroda (BOB IN) **INR 628 (13-Aug-2012)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
26-Apr-12	Neutral		766.20
26-Apr-12		820.00	766.20
31-Oct-11	Buy		771.15
31-Oct-11		950.00	771.15

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We arrive at our target price of INR590 using a three-stage residual-income valuation method that assumes the following: 1) 18.8% CAGR for interest-earning assets over FY12-15, 9.7% CAGR over FY15-20 and a terminal growth rate of 4% beyond that, 2) average ROE of 15% over FY12-20 and a 9.3% terminal value ROE, and 3) discount rates ranging from 14.9% (current cost of equity) for FY12-15, 12.8% for FY15-20 and a 11% terminal rate. At our TP, BOB should trade at 0.83x our FY13F ABV and 5x the FY13F EPS for an ROE of 17.7%.

Risks that may impede the achievement of the target price Key upside risks are stronger-than-expected recoveries and slowing delinquencies, higher-than-expected economic growth, accelerated monetary policy easing and government policy intervention to revive corporate investment spending. Global liquidity rushing into Indian equity markets is another key upside risk to our thesis.

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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