

January 25, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs790	Rs950
EPS change FY12E/13E (%)	-1.5/-1
Target Price change (%)	NA
Nifty	5,158
Sensex	17,077

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	10	(10)	(9)
Rel. to Nifty	8	11	(3)	0

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	BOB@IN
Equity Capital (Rs mn)	3915
Face Value(Rs)	10
No of shares o/s (mn)	392
52 Week H/L	1,007/630
Market Cap (Rs bn/USD mn)	309/6,171
Daily Avg Volume (No of sh)	566591
Daily Avg Turnover (US\$m)	8.3

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	57.0	57.0	57.0
FII/NRI	14.1	14.9	16.6
Institutions	17.2	16.8	16.3
Private Corp	6.5	6.2	4.8
Public	5.2	5.1	5.2

Source: Capitaline

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- BOB's Q3FY12 NII at Rs26.6bn / PAT at Rs12.9bn – inline with our estimates. Despite improved recoveries, steep rise in gross slippages (1.5% of loans) warranted higher provisioning
- Problem loans (GNPA + restructured loan portfolio) now account for 7% of total book. Global NIM at 3.0% (-7bps qoq) was aided by 27bps qoq improvement in international NIM
- Growth in balance sheet remains satisfactory at 6% qoq (26% yoy). Domestic book witnessed steady 18%+ yoy growth. Adjusted for INR dep., int. book grew by 22%+ yoy levels
- Deterioration in asset quality was compensated by higher provisioning. Given healthy capital and superior return ratios, we drive comfort at current valuations. ACCUMULATE

Good operational performance; one-offs push up stressed assets

Bank of Baroda Q3FY12 NII at Rs26.6bn (up 16%yoy) and adjusted net profit at Rs12.9bn (up 21% yoy) was inline with our estimates. Strong growth in non-interest income (primarily from trading gains) and muted growth in operating expenses compensated for substantially higher NPA provisioning. Gross slippages during the quarter came in at Rs9.5bn (64% higher than Q2) which was higher driven by Rs5.0bn account in aviation. Resultant, the bank made NPA provisions of Rs5.1bn (up 71% qoq). Even on restructuring front, the bank restructured loans to the tune of Rs21.1bn (1.2% of loan book) during the quarter which included one large account in telecom. Domestic NIM at 3.0% were - 8bps qoq; international NIM on the other hand were +27bps qoq to 1.7%.

On the balance sheet side: Loan portfolio expanded 26% yoy and 9% qoq. On the domestic front, growth remains healthy at 18%+ each on both loan / deposit front. The growth on international book appears seemingly higher primarily due to INR depreciation during the quarter. Adjusted for the same, growth on international front remains at steady 22%+ yoy growth levels on both loans / deposits front.

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.4	8.4	8.8	9.3	9.2	76	-12
Yield on investments*	7.4	7.4	7.0	7.2	7.7	25	42
Yield on assets*	7.1	7.4	7.3	7.7	7.7	61	2
Cost of funds*	4.2	4.3	4.8	4.9	5.0	81	7
NIM*	2.9	3.0	2.5	2.7	2.7	-20	-5
Yield on Advances#	8.6	8.7	9.1	9.6	9.5	87	-19
Cost of deposits#	4.5	4.8	5.4	5.6	5.7	112	4
NIM#	3.2	3.5	2.9	3.1	3.0	-21	-8

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	9.4	2.0
FY2011	116,114	42,417	108.0	514.3	1.3	23.5	7.3	1.5
FY2012E	139,361	47,489	120.9	610.0	1.2	20.8	6.5	1.3
FY2013E	156,849	56,415	143.6	723.5	1.2	20.8	5.5	1.1

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	22,923	26,139	22,972	25,669	26,555	15.8	3.5	75,196	61,884	21.5
Other Income	6,762	8,345	6,279	7,343	11,493	70.0	56.5	25,115	19,747	27.2
Fee Income	3,187	2,522	2,748	3,137	4,520	41.8	44.1	10,404	7,685	35.4
Net Income	29,684	34,484	29,251	33,013	38,048	28.2	15.3	100,311	81,631	22.9
Total Operating Expenses	11,172	15,026	11,068	11,613	11,967	7.1	3.0	34,647	31,273	10.8
As % Of Net Income	37.6	43.6	37.8	35.2	31.5			34.5	38.3	
Employee Expenses	6,942	9,897	6,454	6,466	6,740	-2.9	4.2	19,660	19,271	2.0
As % Of Net Income	23.4	28.7	22.1	19.6	17.7			19.6	23.6	
Other Expenses	4,230	5,129	4,614	5,147	5,226	23.5	1.5	14,987	12,002	24.9
As % Of Net Income	14.3	14.9	15.8	15.6	13.7			14.9	14.7	
Operating Profit	18,512	19,458	18,183	21,400	26,082	40.9	21.9	65,664	50,358	30.4
As % Of Net Income	62.4	56.4	62.2	64.8	68.5			65.5	61.7	
Provisions	3,041	5,904	3,911	4,833	8,368	175.2	73.1	17,112	7,409	131.0
Prov for NPA	2,064	4,244	1,320	2,981	5,089	146.5	70.7	9,390	6,262	49.9
PBT	15,471	13,554	14,272	16,436	17,584	13.7	7.0	48,292	42,949	12.4
Total Tax	4,783	611	3,944	4,776	4,686	-2.0	-1.9	13,405	13,476	-0.5
Adjusted PAT	10,689	12,944	10,329	11,753	12,993	21.6	10.6	35,075	29,474	19.0
Extra Ordinary Items	0	0	0	130	130			260	0	
Reported PAT	10,689	12,944	10,329	11,661	12,898	20.7	10.6	34,887	29,474	18.4
Reported EPS	29.2	33.0	26.3	29.7	32.8	12.3	10.6	88.8	80.6	10.1

Source: Company, Emkay Research

Loan growth remains broad based...

Domestic loan growth at 19% yoy and 7% qoq remained broad based – SME (up 7% qoq), agriculture (up 15% qoq), retail (4% qoq) and corporate and others (up 6% qoq). In the backdrop of loan growth moderation, the management has taken a conscious strategy towards growth. On the international front, INR depreciation attributed for seemingly higher growth of 46% yoy. However, adjusted for the same, loan growth on international front remains healthy at 25% yoy. The bank has been witnessing increasing demand from trade-financing, ECB segment.

.... and has thereby attributed for higher NIM on international front

International NIM at 1.7% is currently at a multi-quarter high. However, given uncertain global environment with increasing cost pressures, we believe this high level of NIM is unsustainable. Even on the domestic front, NIM at 3.5% is far too higher and we expect the same to ease.

Advances mix – Loan growth remains broad based...

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Foreign	552	593	637	701	804	45.8	14.8
Mid-corporate/SME	253	274	284	301	321	27.2	6.5
Agriculture	231	245	232	226	259	12.2	14.6
Retail	296	324	309	299	310	4.9	3.9
Others	741	851	861	864	911	23.1	5.5
Total	2,072	2,287	2,323	2,391	2,607	25.8	9.0

Source: Company, Emkay Research

CASA share continues to remain healthy at 34% levels

Even on deposit front, domestic deposits grew 18% yoy and 4% qoq. Growth in CASA deposits came in at 15% yoy and 4% qoq and comprises 34% of total domestic deposits. International deposits (adjusted for INR depreciation) grew 22.5% yoy.

Deposit mix - CASA proportion continues to remain at 34% levels.

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Savings Deposits	155	172	161	162	167	7.3	2.6
Current Deposits	601	630	642	670	702	16.8	4.7
CASA	756	802	802	833	868	14.8	4.3
Term deposits	1,397	1,531	1,563	1,615	1,682	20.3	4.1
Foreign deposits	661	721	764	845	942	42.5	11.5
Total Deposits	2,815	3,054	3,129	3,292	3,492	24.0	6.1
CASA (%)	35.1	34.4	33.9	34.0	34.1	-106	4

Source: Company, Emkay Research

Healthy traction in core-fee income and higher trading gains

Non-interest income at Rs11.5bn was up by whopping 70% yoy and 57% qoq. Strong traction was witnessed in segments: Core-fee income at Rs4.5bn (up 42% yoy), trading gains at Rs3.9bn (up 3.5x) and forex gains Rs2.4bn (up 64% yoy). We believe such huge trading gains are one-off item.

Other income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Fee/Commission income	3,187	2,522	2,748	3,137	3,672	15.2	17.1	9,556	7,685	24.3
Trading gains/(losses)	848	1,310	740	102	3,855	354.8	3,698.0	4,697	3,127	50.2
Forex gains/(losses)	1,471	1,359	1,400	1,473	2,407	63.7	63.4	5,281	3,788	39.4
Recoveries	615	859	288	1,220	711	15.7	-41.7	2,219	1,868	18.8
Other non int income	642	2,295	1,103	1,412	848	32.1	-40.0	3,363	3,279	2.6
Total	6,762	8,345	6,279	7,343	11,493	70.0	56.5	25,115	19,747	27.2

Source: Company, Emkay Research

Asset quality disappoints due of one-offs; so does higher MTM

GNPA at Rs39bn was up 15% qoq (41% yoy). Despite strong recoveries of Rs3bn (36% of opening NPA) during the quarter, gross slippages at Rs9.5bn (up 64% qoq and 1.5% of total loans) was a key negative. The management attributed higher slippages from Airlines / other segment. Adjusted for the same, slippages were flat sequentially. NPA provisioning at Rs5.1bn was up 71% qoq.

Even investment depreciation at Rs2.2bn was up 55% qoq. While there has not been any provisioning on the bond portfolio, the bank made higher provisions towards its equity book. We believe a large part of this volatile in nature and should reverse in coming quarters.

Break up of provisions

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
On NPL	2,064	4,244	1,320	2,981	5,089	146.5	70.7	9,390	6,262	49.9
As % of advances	0.10	0.19	0.06	0.12	0.20			0.62	0.30	
On Standard Assets	369	1,061	1,129	469	995	169.6	112.1	2,594	1,178	120.3
Investment Dep	535	346	1,385	1,450	2,241	319.3	54.6	5,076	-256	-2,085.3
Others	73	253	76	-67	43	-41.5	-163.6	52	225	-76.9
Total	3,041	5,904	3,911	4,833	8,368	175.2	73.1	17,112	7,409	131.0

Source: Company, Emkay Research

NPA profile

Rs Mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	27,703	31,525	34,255	34,021	38,951	40.6	14.5
Net NPA (Rs bn)	7,442	7,909	10,244	11,186	13,253	78.1	18.5
Gross NPA (%)	1.3	1.4	1.5	1.4	1.5		
Net NPA (%)	0.4	0.4	0.4	0.5	0.5		
Net NPLs/Net worth (%)	4.1	3.8	4.7	4.7	5.2		
Provision cover (%)	73.1	74.9	70.1	67.1	66.0		

Source: Company, Emkay Research

Slippages

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	12,305	18,970	5,848	11,673	21,200	72.3	
Quarterly (Rs mn)	2,762	6,665	5,848	5,825	9,527	244.9	63.5
Cumulative (%)	0.8	0.8	1.0	1.0	1.1		
Quarterly (%)	0.5	1.2	1.0	1.0	1.5		

Source: Company, Emkay Research

Restructuring loan portfolio now stands at 6% of total book

Traditionally, Bank of Baroda had operated at a relatively comfortable restructured portfolio. However, during the quarter, the bank witnessed substantial spike in its restructuring portfolio. The bank restructured loans to the tune of Rs21.1bn (1.2% of domestic loans) during Q3, taking the total book to Rs99.5bn (5.5% of domestic book). Restructuring was witnessed in the segment of telecom/infra.

Adequately capitalised for growth

Bank of Baroda remains adequately capitalized with total CAR at 13.45% including Tier I CAR 9.3% (excluding 9m profit). During the quarter, through better capital efficiencies and reduction in investment portfolio (MF instruments), CAR actually increased 72bps qoq. Additional, the bank is expecting capital infusion to the tune of Rs6.8bn from Gol by end-March 2012. We expect Bank of Baroda to report healthy 21% CAGR in loan / balance sheet over FY11-13E.

Valuations and view

Bank of Baroda continues to outperform its peers primarily due to its ability to deliver on balance sheet growth front with stable asset quality. While Q3 witnessed sudden spike in GNPA and also restructured assets, the same has been adequately provided through.

We only find one negative in the numbers which is very poor recoveries and upgradation rates despite having NPLs lower than peers. The recoveries and upgradation rates as % of opening GNPLs is just at 29% annualized for M9FY12 compared to 40-50%+ for few of the peers. In case of any slippage shock, the cushion from the recoveries may not be available to the bank unlike its peers like PNB. This may also have implications for credit costs which have remained fairly low at an average of 0.3% for last six years.

We drive comfort in the bank given its valuations of 1.3x/1.1x FY12E/FY13E ABV respectively with average RoE / RoA of 22%/1.2% over FY11-13E. Maintain ACCUMULATE with price target of Rs950.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	59,395	88,023	104,229	120,204
Other income	28,064	28,092	35,132	36,644
Net income	87,458	116,114	139,361	156,849
Operating expenses	38,106	46,298	48,986	56,256
Pre provision profit	49,353	69,816	90,375	100,593
PPP excl treasury	42,120	65,379	83,875	96,093
Provisions	6,972	13,313	19,496	16,391
Profit before tax	42,381	56,503	70,879	84,202
Tax	11,797	14,086	23,390	27,787
Tax rate	28%	25%	33%	33%
Profit after tax	30,583	42,417	47,489	56,415

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	3,655	3,928	3,928	3,928
Reserves	147,409	206,003	243,841	290,605
Net worth	151,064	209,931	247,769	294,534
Deposits	2,410,443	3,054,395	3,799,044	4,557,008
Borrowings	221,661	319,647	362,533	406,710
Total liabilities	2,783,167	3,583,973	4,409,346	5,258,252
Assets				
Cash and bank	354,671	499,341	566,732	724,367
Investments	588,306	689,045	842,494	998,393
Customer assets	1,773,871	2,310,325	2,888,246	3,392,405
Others	66,320	85,261	112,654	144,019
Total assets	2,783,167	3,583,973	4,409,346	5,258,252

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.3	2.8	2.6	2.5
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	0.6	0.4
PBT/avg assets	1.5	1.6	1.6	1.6
Tax/avg assets	0.4	0.4	0.5	0.5
RoA	1.2	1.3	1.2	1.2
RoAE	21.9	23.5	20.8	20.8
GNPA (%)	1.5	1.6	1.6	1.7
NNPA (%)	0.3	0.3	0.3	0.3

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	30,583	42,417	47,489	56,415
Shares in issue (mn)	366	393	393	393
EPS (Rs)	83.7	108.0	120.9	143.6
PER (x)	9.4	7.3	6.5	5.5
FDEPS(Rs)	83.7	108.0	120.9	143.6
FDPER (x)	9.4	7.3	6.5	5.5
Book value (Rs)	413.3	534.4	630.8	749.8
P/BV (x)	1.9	1.5	1.2	1.1
Adj book value (Rs)	396.8	514.3	610.0	723.5
P/ABV (x)	2.0	1.5	1.3	1.1
P/PPP (x)	5.8	4.4	3.4	3.1
Dividend yield (%)	1.9	2.1	2.7	2.7

Recommendation History: Bank of Baroda – BOB IN

Date	Reports	Reco	CMP	Target
31/10/2011	Bank of Baroda Q2FY12 Result Update	Accumulate	772	950
27/07/2011	Bank of Baroda Q1FY12 Result Update	Hold	875	950
28/04/2011	Bank of Baroda Q4FY11 Result Update	Buy	940	1,160
28/01/2011	Bank of Baroda Q3FY11 Result Update	Buy	835	1,160

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	Yes Bank Q3FY12 Result Update	Accumulate	319	370
23/01/2012	Federal Bank Q3FY12 Result Update	Accumulate	383	425
23/01/2012	M & M Financial Services Q3FY12 Result Update	Buy	659	800
20/01/2012	Axis Bank Q3FY12 Result Update	Hold	1,008	1,380

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