January 27, 2012

Bank of Baroda (BANBAR)

₹ 765

Rating matrix

Rating	:	Buy
Target	:	₹ 954
Target Period	:	12 months
Potential Upside	:	23%

Key Financials

₹ crore	FY10	FY11	FY12E	FY13E
NII	5939	8802	10286	12181
PPP	4935	6982	8089	9338
PAT	3058	4242	4776	5681

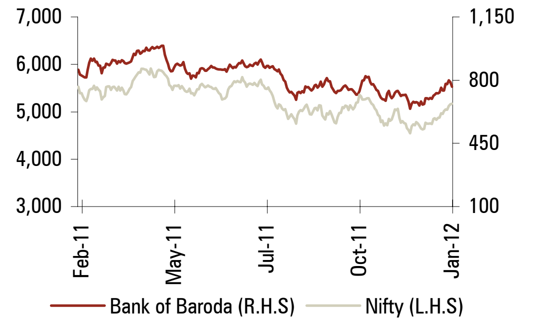
Valuation summary

	FY10	FY11	FY12E	FY13E
Net Profit (₹ crore)	3058.3	4241.7	4776.2	5681.3
EPS (₹)	83.7	108.0	121.6	144.6
Growth (%)	36.8	29.1	12.6	19.0
P/E (x)	9.1	7.1	6.3	5.3
ABV (₹)	348.4	469.3	564.6	671.0
Price / Book (x)	2.1	1.6	1.3	1.1
Price / Adj Book (x)	2.2	1.6	1.4	1.1
GNPA (%)	1.4	1.4	1.5	1.6
NNPA (%)	0.3	0.3	0.4	0.6
RoA (%)	1.2	1.3	1.2	1.2
RoE (%)	22.2	23.5	20.8	20.7

Stock data

Market Capitalisation	₹ 27963 crore
GNPA (Q3FY12)	₹ 3895 crore
NNPA (Q3FY12)	₹ 1325 crore
NIM (Q3FY12)	3.0%
52 week H/L	1007/631
Equity capital	₹ 393 Crore
Face value	₹ 10
DII Holding (%)	17.2
FII Holding (%)	13.6

Price movement



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WHAT'S CHANGED...

PRICE TARGET..Unchanged
EPS (FY12E)..Unchanged
EPS (FY13E)..Unchanged
RATING..Unchanged

Asset quality stress visible, restructuring rises...

A significant rise of 70% YoY in non interest income booked in all segments, i.e. portfolio gains, forex as well as fee income led to net profit growing 20% YoY to ₹ 1289 crore despite higher provisions. Margins declined 8 bps QoQ to 2.99% from 3.07%. Asset quality surprised negatively. Deposits grew 24% while advances grew 26% YoY slightly ahead of our estimates mainly due to international book growth of 45.8% YoY. However, we continue with our 20% growth in credit and deposit for FY12E. We estimate 16% CAGR in PAT over FY11-13E to ₹ 5681 crore.

- **Asset quality surprises negatively, provisions surge…**
  GNPA increased to ₹ 3895 crore from ₹ 3402 crore sequentially. Slippages were at ~₹ 920 crore and increased mainly due to aviation sector NPAs. Also, the restructured book grew by ₹ 2116 crore QoQ in absolute terms and increased to 3.8% of the loan book due to one large telecom infra player getting restructured. Nearly 13% of restructured assets have slipped to NPA till date. These restructured assets (RA) comprise 65% wholesale banking, 20% SME, 9% agriculture and 6% retail. Hence, NNPA rose to ₹ 1325 crore from ₹ 1118.6 crore rising to 0.51% from 0.47%. Asset quality is expected to remain under stress. Hence, we have factored in GNPA and NNPA reaching 1.6% and 0.5%, respectively by FY13E.
  Provisions grew 175% YoY to ₹ 837 crore marred by higher slippages, provision on RA of ~₹ 150 crore and ₹ 78 crore of increased prudential provisions on secured sub standard assets to 20% vs. 15% (as per RBI) to maintain PCR above 80%.
- **Non interest income growth supports bottomline…**
  Non interest income surged 70% YoY to ₹ 1149 crore though core commission fee based income grew only 20% YoY to ₹ 293 crore. Some withdrawals for MF investments led to gains of ~₹ 300 crore leading to trading gains of ₹ 385 crore from ₹ 85 crore in Q3FY11. Forex income also grew to ₹ 240 crore vs. average of ~₹ 140 crore every quarter.

Valuation

Though NPA concerns have risen, we expect BoB's strong profitability record to enable it to maintain profit growth of 16% CAGR with RoE and RoA above 20% and 1.2%, respectively. We maintain our TP of ₹ 954.

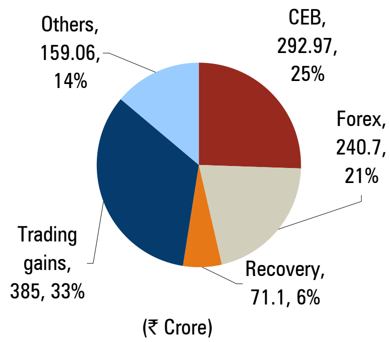
Exhibit 1: Financial Performance

₹ Crore	Q3FY12	Q2FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	2655.5	2691.0	2292.3	2566.9	15.8	3.5
Other Income	1149.3	741.6	676.2	734.3	70.0	56.5
PPP	2608.2	2273.9	1851.2	2140.0	40.9	21.9
PAT	1289.8	1285.9	1068.9	1166.1	20.7	10.6

Source: Company Quarterly Presentation, ICICIdirect.com Research

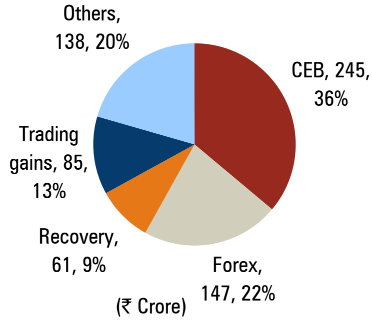
Core fee income (CEB) grew by 20% YoY to ₹ 292 crore. Trading gains were strong at ₹385 crore

Exhibit 2: Q3FY12: Other income composition



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 3: Q3FY11: Other income composition



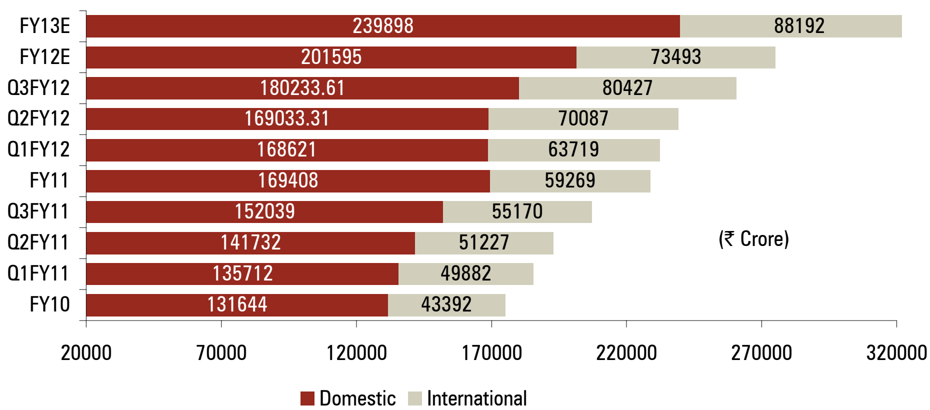
Source: Company quarterly presentation, ICICIdirect.com Research

The bank reported a 45.8% increase in the international loan book and 18.5% growth in the domestic book.

Global advances grew 25.8% YoY to ₹ 260660.6 crore with domestic and overseas advances expanding 18.5% and 45.8% YoY, respectively

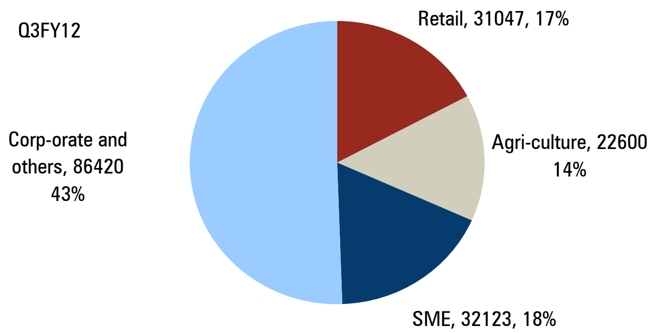
We expect advances to grow at 20% CAGR over FY11-13E

Exhibit 4: Overseas share grows to 31% from 29% in total credit



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 5: Loan book break-up tilted towards corporate and SME

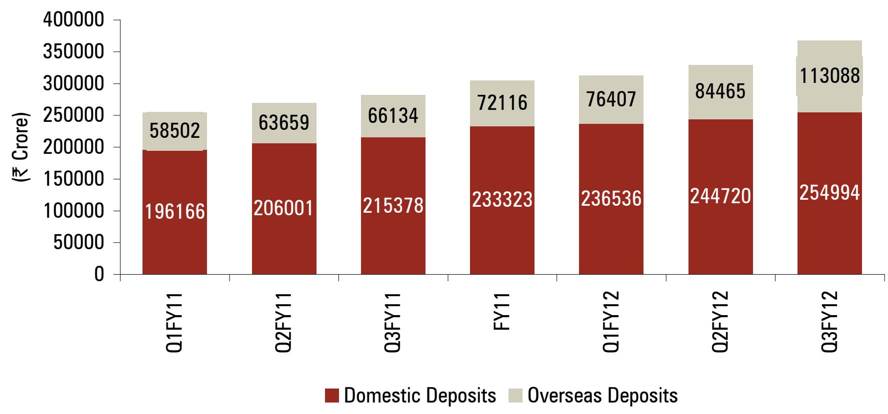


Source: Company quarterly presentation, ICICIdirect.com Research

Global deposits increased by 24% YoY to ₹ 349206 crore. Domestic deposits grew 18.4% YoY while overseas deposits expanded 42.5% YoY

We expect 20% CAGR in deposits over FY11-13E

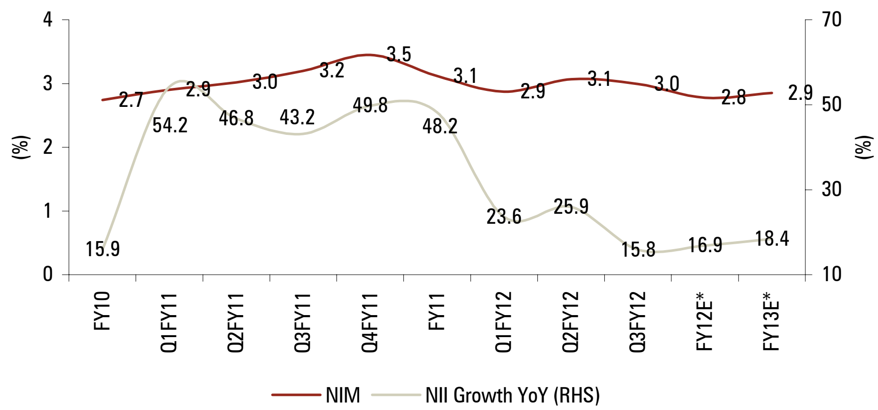
Exhibit 6: Overseas deposit growth helps deposits surge 24.1% YoY



Source: Company quarterly presentation, ICICIdirect.com Research

Domestic NIM declined by 16 bps to 3.51% from 3.67% sequentially. A strong liability franchise has helped maintain CASA at 34.05%

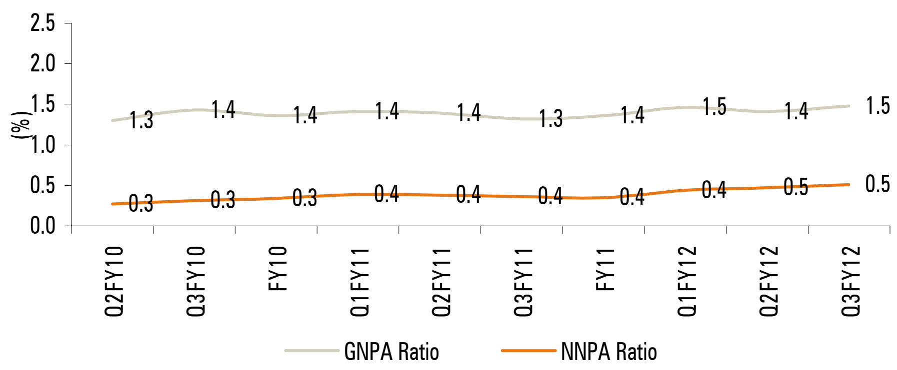
Exhibit 7: NII growth slows down to 16% YoY as international book rises…



Source: Company quarterly presentation, ICICIdirect.com Research

GNPA increased to ₹3895 crore from ₹3402 crore sequentially. Slippages were at ~₹920 crore and increased mainly due to aviation sector NPAs. GNPA @ 1.5%, NNPA @ 0.51% and coverage ratio of 80.5% for Q3FY12

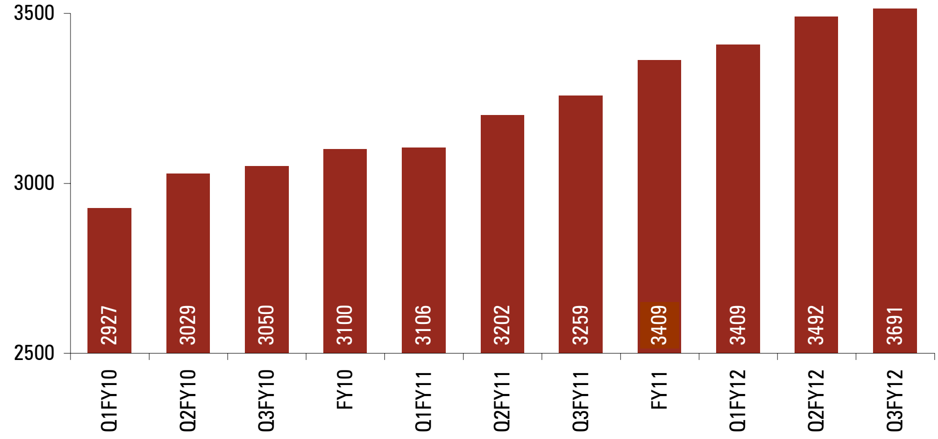
Exhibit 8: Asset quality stable…



Source: Company Quarterly Presentation, ICICIdirect.com Research

Provisions grew by 175% YoY to ₹ 837 crore marred by higher slippages, provision on RA of ~₹ 150 crore and ₹ 78 crore of increased prudential provisions on secured sub standard assets to 20% vs. 15% (as per RBI) to maintain PCR above 80%.

Exhibit 9: Branch expansion on track



Source: Company Quarterly Presentation, ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	16698.3	21885.9	27158.8	32433.3
Interest Expended	10758.9	13083.7	16872.7	20251.9
Net Interest Income	5939.5	8802.3	10286.2	12181.4
growth (%)	15.9	48.2	16.9	18.4
Non Interest Income	2806.4	2809.2	2986.1	3255.4
Fees and advisory	897.3	1020.6	1199.3	1379.1
Treasury Income /sale of Invt.	723.2	443.7	355.0	372.7
Other income	1185.8	1344.8	1431.9	1503.6
Net Income	8745.8	11611.4	13272.2	15436.8
Employee cost	2350.9	2916.8	3230.5	3730.8
Other operating Exp.	1459.7	1713.1	1952.3	2367.2
Operating Income	4935.3	6981.6	8089.4	9338.8
Provisions	697.2	1331.3	1591.3	1556.1
PBT	4238.1	5650.3	6498.2	7782.7
Taxes	1179.7	1408.6	1722.0	2101.3
Net Profit	3058.3	4241.7	4776.2	5681.3
growth (%)	37.3	38.7	12.6	19.0
EPS	83.7	108.0	121.6	144.6

Source: Company, ICICIdirect.com Research

Ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Valuation				
No. of Equity Shares	36.6	39.3	39.3	39.3
EPS (₹)	83.7	108.0	121.6	144.6
BV (₹)	364.9	489.4	591.7	717.0
BV-ADJ (₹)	348.9	469.8	565.8	680.2
P/E	9.1	7.1	6.3	5.3
P/BV	2.1	1.6	1.3	1.1
P/ABV	2.2	1.6	1.4	1.1
Yields & Margins (%)				
Net Interest Margins	2.4	2.8	2.8	2.9
Yield on avg earning assets	6.8	7.1	7.3	7.6
Avg. cost on funds	4.7	4.5	4.7	4.8
Avg. Cost of Deposits	4.6	4.3	4.6	4.7
Yield on average advances	7.9	8.0	8.2	8.3
Quality and Efficiency (%)				
Cost / Total net income	43.6	39.9	39.0	39.5
Credit/Deposit ratio	72.5	74.9	74.7	74.8
GNPA	1.4	1.4	1.5	1.6
NNPA	0.3	0.3	0.4	0.6
RONW	21.9	23.5	20.8	20.7
ROA	1.2	1.3	1.2	1.2

Source: Company, ICICIdirect.com Research

Balance sheet

(₹Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	365.5	392.8	392.8	392.8
Reserves and Surplus	14740.9	20600.3	24618.2	29541.2
Networth	15106.4	20993.1	25011.0	29934.0
Deposits	241261.9	305439.5	368082.2	438709.5
Borrowings	13350.1	22307.9	23750.7	21983.0
Other Liab & Prov (incl sub-debt)	8598.3	9656.7	10756.8	11325.1
Total	278316.7	358397.2	427600.7	501951.7
Uses of Funds				
Fixed Assets	2284.8	2299.7	2402.4	2611.1
Investments	61182.4	71260.6	84272.5	99425.0
Advances	175035.3	228676.4	275088.3	328090.0
Other Assets	4347.2	6226.4	9162.9	9579.2
Cash with RBI & call money	35467.1	49934.1	56674.6	62246.5
Total	278316.7	358397.2	427600.7	501951.7

Source: Company, ICICIdirect.com Research

Growth ratios

(% growth)

(Year-end March)	FY10	FY11	FY12E	FY13E
Total assets	22.8	28.8	19.3	17.4
Advances	22.2	30.6	20.3	19.3
Deposits	25.4	26.6	20.5	19.2
Total Income	9.3	26.6	22.1	18.4
Net interest income	15.9	48.2	16.9	18.4
Operating expenses	6.6	21.5	11.9	17.7
Operating profit	14.6	41.5	15.9	15.4
Net profit	37.3	38.7	12.6	19.0
Book value	20.0	44.1	20.9	21.2
EPS	36.8	29.1	12.6	19.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Public Sector Banks

Bank of India					**NP (₹ Cr)**	**EPS (₹)**	**PE (x)**	**P/ABV (x)**	**RoNA (%)**	**RoE(%)**
Idirect Code	BANIND	CMP	353	FY11	2488.7	45.5	7.8	1.4	0.8	15.8
		Target	331	FY12E	2155.3	39.4	9.0	1.5	0.6	11.9
Mcap (₹ Cr)	18551	Upside (%)	-6.2	FY13E	3140.3	57.4	6.1	1.3	0.7	16.0
Bank of Baroda										
Idirect Code	BANBAR	CMP	765	FY11	4241.7	108.0	7.1	1.6	1.3	23.5
		Target	954	FY12E	4776.2	121.6	6.3	1.4	1.2	20.8
Mcap (₹ Cr)	27963	Upside (%)	24.7	FY13E	5681.3	144.6	5.3	1.1	1.2	20.7
Dena Bank										
Idirect Code	DENBAN	CMP	68	FY11	611.6	21.3	3.2	0.8	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.7	0.7	0.9	18.6
Mcap (₹ Cr)	2255	Upside (%)	24.2	FY13E	847.3	29.5	2.3	0.6	0.9	18.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	89	FY11	1072.5	17.3	5.1	0.8	0.7	14.8
		Target	94	FY12E	927.7	13.3	6.7	0.8	0.5	10.4
Mcap (₹ Cr)	4821	Upside (%)	6.2	FY13E	1196.9	17.1	5.2	0.7	0.5	11.9
IDBI Bank										
Idirect Code	IDBI	CMP	101	FY11	1650.3	18.4	5.5	1.1	0.7	15.8
		Target	UR	FY12E	1817.0	18.5	5.5	1.0	0.7	13.6
Mcap (₹ Cr)	9915	Upside (%)	-	FY13E	2021.4	20.5	4.9	0.9	0.7	13.6
OBC										
Idirect Code	ORIBAN	CMP	259	FY11	1502.9	45.3	5.7	0.8	0.9	14.5
		Target	322	FY12E	1111.5	51.5	5.0	0.8	1.0	17.9
Mcap (₹ Cr)	7567	Upside (%)	24.2	FY13E	1506.5	38.1	6.8	0.7	0.6	9.7
Punjab National Bank										
Idirect Code	PUNBAN	CMP	971	FY11	4433.5	124.9	7.8	1.7	1.3	22.6
		Target	1050	FY12E	4886.9	154.3	6.3	1.4	1.2	20.8
Mcap (₹ Cr)	30767	Upside (%)	8.1	FY13E	5991.5	189.1	5.1	1.2	1.2	21.3
SBI										
Idirect Code	STABAN	CMP	2041	FY11	82.7	130.2	15.7	2.5	0.7	12.6
		Target	2200	FY12E	96.2	144.6	14.1	2.2	0.7	13.5
Mcap (₹ Bn)	129578	Upside (%)	7.8	FY13E	129.4	187.6	10.9	1.8	0.8	15.1
Syndicate Bank										
Idirect Code	SYNBN	CMP	96	FY11	1047.9	18.3	5.2	1.0	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.3	0.9	0.8	17.0
Mcap (₹ Cr)	5500	Upside (%)	15.7	FY13E	1612.3	28.1	3.4	0.8	0.8	19.3
Union Bank of India										
Idirect Code	UNIBAN	CMP	215	FY11	2081.9	39.7	5.4	1.2	1.0	20.9
		Target	220	FY12E	1914.9	36.5	5.9	1.2	0.8	16.2
Mcap (₹ Cr)	11276	Upside (%)	2.3	FY13E	2438.6	46.5	4.6	1.0	0.8	17.9
Private Sector Banks										
Axis Bank										
Idirect Code	UTIBAN	CMP	1073	FY11	3388.5	83.0	12.9	2.4	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.9	2.0	1.5	19.5
Mcap (₹ Cr)	44054	Upside (%)	18.7	FY13E	5092.8	124.0	8.7	1.7	1.6	20.7
City Union Bank										
Idirect Code	CITUNI	CMP	44	FY11	215.1	5.3	8.2	1.8	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.5	1.4	1.7	24.2
Mcap (₹ Cr)	1748	Upside (%)	19.0	FY13E	361.3	8.5	5.1	1.1	1.8	23.8
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	61	FY11	26.0	3.3	18.3	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	24.2	0.6	0.2	3.0
Mcap (₹ Cr)	514	Upside (%)	-	FY13E	48.9	4.1	14.9	0.6	0.2	4.1
DCB										
Idirect Code	DCB	CMP	43	FY11	21.4	1.1	40.2	1.7	0.3	3.9
		Target	60	FY12E	51.1	2.6	16.9	1.5	0.6	8.7
Mcap (₹ Cr)	861	Upside (%)	39.5	FY13E	63.6	2.6	16.2	1.2	0.7	8.2
Federal Bank										
Idirect Code	FEDBAN	CMP	404	FY11	587.1	34.3	11.8	1.4	1.5	13.5
		Target	472	FY12E	741.8	43.4	9.3	1.4	1.3	14.2
Mcap (₹ Cr)	6914	Upside (%)	16.7	FY13E	832.9	48.7	8.3	1.3	1.2	15.1

Continued...

HDFC Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	484	FY11	3926.4	16.9	28.7	4.5	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.2	4.0	1.7	18.7
Mcap (₹ Cr)	112524	Upside (%)	9.9	FY13E	6560.0	28.2	17.2	3.5	1.8	21.2
Kotak Bank										
Idirect Code	KOTMAH	CMP	493	FY11	818.3	11.1	43.8	5.4	1.9	14.5
		Target	436	FY12E	1037.8	14.1	34.5	4.8	1.9	14.3
Mcap (₹ Cr)	36324	Upside (%)	-11.6	FY13E	1315.9	17.9	27.2	4.2	2.0	15.8
South Indian Bank										
Idirect Code	SOUINO	CMP	23	FY11	292.6	2.6	8.8	1.6	1.0	18.5
		Target	26	FY12E	381.2	3.4	6.8	1.3	1.0	20.6
Mcap (₹ Cr)	2588	Upside (%)	13.5	FY13E	468.9	3.2	7.2	1.0	1.0	17.6
Yes Bank										
Idirect Code	YESBAN	CMP	326	FY11	727.1	20.9	15.6	3.0	1.5	21.1
		Target	369	FY12E	970.5	26.6	12.2	2.3	1.5	21.6
Mcap (₹ Cr)	11317	Upside (%)	13.2	FY13E	1281.7	33.5	9.7	1.8	1.6	21.1

***UR: Under Review**

Exhibit 10: Recommendation History

Source: Bloomberg, ICICIdirect.com Research

Exhibit 11: Recent Releases

Date	Event	CMP	Target Price	Rating
29-Jul-11	Q1FY12 Result Update	867	954	Buy
23-Sep-11	Banking Industry Vol VI	768	954	Buy
5-Oct-11	Q2FY12 Result Preview	735	954	Buy
1-Nov-11	Q2FY12 Result Update	795	954	Buy
16-Dec-11	Banking Industry Vol VII	720	954	Buy
6-Jan-12	Q3FY12 Result Preview	695	954	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: >15%/20% for large caps / midcaps, respectively, with high conviction;
Buy: > 10%/ 15% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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