

Bank of Baroda

23 October 2012

Reuters: BOB.BO; Bloomberg: BOB IN

Asset Quality Deterioration Continues

Bank of Baroda (BoB) reported net earnings of Rs13.0bn for 2QFY13 against our estimate of Rs12.3bn, aided by growth in advances of 22.2% YoY and a sequential decline in loan provisioning. We, however, remain negative on the stock as we feel the weak macro-economic environment will exert further strain on asset quality going forward. We have retained our Sell rating on BoB and well as our target price of Rs570, down 27% from the current market price.

Operational performance: BoB posted 2QFY13 earnings of Rs13,014mn backed by a modest YoY growth of 11.5% in net interest income (NII), which was above our net profit estimate of Rs12,291mn by 5.9%. The earnings were also above Bloomberg consensus estimate by 7.7%. BoB reported interest income growth of 20.3% YoY and 1.9% QoQ, while interest costs grew 25.1% YoY and 1.7% QoQ to fuel NII growth of 11.5% YoY and 2.3% QoQ at Rs28,623mn against our estimate of Rs29,362mn. NII showed a negative deviation of 2.5% from our estimate. BoB reported YoY growth of 12.8% and sequential growth of 7.5% in non-interest income at Rs8,283mn against our estimate of Rs9,837mn. Overheads rose 12.6% YoY, but contracted 0.6% QoQ at Rs13,080mn, with staff costs increasing 16.2% YoY and other overheads rising 8.2% YoY. Profit before loan provisioning stood at Rs23,826mn against our estimate of Rs24,657mn, a growth of 11.3% YoY and 5.7% QoQ. BoB reported YoY growth of 11.0% and decline of 3.0% QoQ in total loan provisioning at Rs10,812mn against our estimate of Rs12,366mn. Profit after tax clocked growth of 11.6% YoY and 14.3% QoQ at Rs13,014mn against our estimate of Rs12,291mn.

Loan book growth in line with 1QFY13: For 2QFY13, BoB posted balance sheet expansion of 22.9% YoY led by loan book growth of 22.2% YoY and deposit growth of 24% YoY. Balance sheet expansion remained in line with 1QFY13 expansion of 22.8%, led by growth in advances of 23.0% YoY and deposit growth of 22.3% YoY. However, investment growth in 2QFY13 stood at 14.8% YoY compared to 18.7% YoY in 1QFY13. We have factored in loan book CAGR of 20.1% over FY12-FY14E amid weak macro-economic environment and sluggish corporate demand.

SELL

Sector: Banking

CMP: Rs783

Target Price: Rs570

Downside: 27%

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Key Data

| | |
|--------------------------|-----------|
| Current Shares O/S (mn) | 391.5 |
| Mkt Cap (Rsbn/US\$bn) | 307.1/5.7 |
| 52 Wk H / L (Rs) | 881/606 |
| Daily Vol. (3M NSE Avg.) | 837,078 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|-------------|-----|-----|------|
| BOB | 0.5 | 3.2 | 5.5 |
| Nifty Index | 0.5 | 8.1 | 13.2 |

Source: Bloomberg

| Y/E March (Rsmn) | 2QFY12 | 1QFY13 | 2QFY13 | YoY (%) | QoQ (%) | 1HFY12 | 1HFY13 | YoY (%) |
|------------------------------|----------|----------|----------|---------|---------|----------|-----------|---------|
| Interest on credit | 54,824 | 64,267 | 64,387 | 17.4 | 0.2 | 105,596 | 128,654 | 21.8 |
| Interest on investments | 15,461 | 17,315 | 18,699 | 20.9 | 8.0 | 28,986 | 36,014 | 24.2 |
| Interest on inter-bank funds | 2,079 | 2,879 | 3,388 | 62.9 | 17.7 | 3,707 | 6,267 | 69.1 |
| Other interest | 150 | 1,115 | 752 | 400.4 | (32.6) | 544 | 1,867 | 243.5 |
| Interest income | 72,514 | 85,576 | 87,226 | 20.3 | 1.9 | 138,832 | 172,802 | 24.5 |
| Interest expenses | (46,845) | (57,595) | (58,603) | 25.1 | 1.7 | (90,191) | (116,198) | 28.8 |
| Net interest income | 25,669 | 27,981 | 28,623 | 11.5 | 2.3 | 48,641 | 56,604 | 16.4 |
| Total other operating income | 7,343 | 7,708 | 8,283 | 12.8 | 7.5 | 13,752 | 15,991 | 16.3 |
| Total income | 33,013 | 35,689 | 36,906 | 11.8 | 3.4 | 62,393 | 72,595 | 16.4 |
| Staff expenses | (6,466) | (7,610) | (7,512) | 16.2 | (1.3) | (12,920) | (15,122) | 17.0 |
| Overheads | (5,147) | (5,547) | (5,568) | 8.2 | 0.4 | (9,761) | (11,115) | 13.9 |
| Profit before provisions | 21,400 | 22,532 | 23,826 | 11.3 | 5.7 | 39,712 | 46,358 | 16.7 |
| Bad debt provisions | (4,834) | (8,121) | (6,464) | 33.7 | (20.4) | (6,153) | (14,585) | 137.0 |
| Income tax | (4,775) | (2,081) | (4,223) | (11.6) | 103.0 | (8,719) | (6,304) | (27.7) |
| Total provisions | (9,739) | (11,143) | (10,812) | 11.0 | (3.0) | (17,723) | (21,955) | 23.9 |
| Net profit | 11,661 | 11,389 | 13,014 | 11.6 | 14.3 | 21,989 | 24,403 | 11.0 |
| EPS (Rs) | 29.8 | 27.6 | 31.7 | - | - | 56.1 | 59.3 | - |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

| Y/E March (Rsmn) | FY10 | FY11 | FY12 | FY13E | FY14E |
|-------------------------------|--------|---------|---------|---------|---------|
| Total income | 87,458 | 116,114 | 137,393 | 166,393 | 194,349 |
| Profit before provisions | 49,353 | 69,816 | 85,806 | 104,081 | 123,218 |
| NIM (%) | 2.4 | 2.8 | 2.6 | 2.6 | 2.6 |
| Net profit | 30,583 | 42,417 | 50,070 | 52,107 | 58,542 |
| EPS (Rs) | 83.7 | 108.0 | 121.4 | 126.4 | 142.0 |
| EPS growth (%) | 37.3 | 29.1 | 12.4 | 4.1 | 12.3 |
| PE (x) | 9.4 | 7.3 | 6.5 | 6.2 | 5.5 |
| Price/book value (x) | 2.1 | 1.7 | 1.3 | 1.1 | 0.9 |
| Price/adjusted book value (x) | 2.7 | 2.1 | 1.9 | 1.8 | 1.6 |
| Dividend yield (%) | 2.2 | 2.4 | 2.5 | 2.4 | 2.7 |
| Cost-to-income (%) | 43.6 | 39.9 | 37.5 | 37.4 | 36.6 |
| RoA (%) | 1.2 | 1.3 | 1.2 | 1.1 | 1.0 |
| RoE (%) | 22.8 | 24.9 | 21.9 | 18.2 | 17.4 |
| Tier-1 capital (%) | 9.2 | 9.2 | 10.8 | 10.7 | 10.5 |

Source: Company, Nirmal Bang Institution Equities Research

Asset quality concerns persisted in 2QFY13: BoB reported GNPA (gross non-performing asset) growth of 72.8% YoY and 10.5% QoQ at Rs58,790mn against our estimate of Rs58,824mn, and NNPA (net non-performing asset) growth of 113.2% YoY and 29.3% QoQ at Rs23,846mn against our estimate of Rs22,045mn. Consequently, gross NPAs and net NPAs in percentage terms for the quarter stood at 1.98% and 0.82%, respectively, against 1.41% and 0.47% during the corresponding quarter a year ago. We expect 57.0% and 90.7% YoY growth in GNPA and NNPA, respectively, in FY13E. For 2QFY13, BoB reported asset restructuring to the extent of Rs9730mn, while loan recoveries stood at Rs1,740mn.

Valuation and outlook: At the current market price (CMP), BoB trades at 1.1x FY13E BV and 1.8x FY13E adjusted book value. We have retained our Sell rating on the stock and also our target price of Rs570, down 27% from the CMP.

Ratings track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|----------------|--------|-------------------|-------------------|
| 21 August 2012 | Sell | 636 | 570 |
| 4 October 2012 | Sell | 780 | 570 |

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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