



**Bank of Baroda – Asset quality deteriorated, Retain Buy**

BoB announced its un-audited results for Q3FY12. The bank reported higher than expected bottom line driven by robust other income growth partly offsetted by higher provisions (led by higher slippages).

**Key Highlights**

- **Net Profit after tax** for the current quarter increased 20.7% YoY (10.6% QoQ) to ₹12898.5 mn from ₹10688.8 mn for Q3 FY11. The growth in PAT on YoY basis was mainly driven by 15.8% YoY (3.5% QoQ) increase in the NII at ₹26555.1 mn (led by robust growth in advances 25.8% YoY and 9.0% QoQ) and 70.0% YoY (56.5% QoQ) increase in other income (led by higher trading gains). Higher net income aided in better operational efficiency during the quarter at 31.5% down 619 bps YoY and 373 bps QoQ. However, higher provisions during the quarter (increase by 179.5% YoY and 71.2% QoQ) led by higher slippages (~9.5 bn) has moderated the growth in profit to some extent.
- Global **Net Interest Margins** (reported) declined both on a YoY basis and sequentially by 21 bps and 8 bps respectively to 2.99% driven by sharp decline in domestic NIMs by 31bps and 16 bps on a YoY and QoQ basis respectively. Overseas NIMs on the other hand increased by 22 bps sequentially. On the flip side higher yield on investments both in the domestic and overseas book has provided some support to the margins.
- **Total business** of the bank registered a robust growth of ~24.8% YoY (7.3% QoQ) as at Q3FY12 (partly supported by robust growth in overseas book due to currency depreciation). Deposits grew by 24.0% YoY (6.1% QoQ) from ₹ 2815.1 bn in Q3 FY11 to ₹3492.1 bn in the current quarter, whereas Net Advances grew by 25.8% YoY (9.0% QoQ) from ₹2072.1 bn to ₹2606.6 bn over the same period. Share of domestic CASA deposits remained stable at 34.05% an increase of 3 bps QoQ despite higher term deposit rates, mainly on the back of higher branch additions.
- **Asset quality** deteriorated during the quarter with gross NPA increasing by 14.5% QoQ and 40.6% YoY (led by one large aviation account). In percentage term GNPA increased by 16 bps YoY (7 bps QoQ). The slippages during the quarter stood at ~1.6% annualised. The restructured book during the quarter increased by ₹21.2 bn taking the total restructured book to ₹99.5 bn (~3.8% of the loan book). The management has indicated that the large part of the restructured account during the quarter pertains to one account in telecom infrastructure sector. Till date 12.7% of the total restructured book of ₹99.5 bn has slipped into NPAs.
- The bank had opened 199 new **branches** in this quarter taking the total number of branches to 3691. Large numbers of branches were opened in UP & Uttaranchal; Gujarat; Southern Zones & Rajasthan.

**Outlook and Valuations**

The bank has witnessed sharp deterioration in its asset quality during the quarter with restructured book going up from 3.3% of the loan book to 3.8%. Considering the risk of higher slippages in the restructured portfolio we have increased our provisioning assumptions for FY12E and FY13E by 26.0% and 23.0% respectively. We estimate BoB to report an EPS CAGR of 14.9% over FY11-FY13E. ABV is estimated to grow at 18.9% CAGR during the same period. **We believe with the deterioration in asset quality, the premium valuation that bank commands over its peer group is likely to come under pressure going forward and consequently we have reduced our target multiple from ~1.4x to ~1.3x with a revised target price of ₹968.4 (₹999.7 earlier), providing an upside potential of 27.4% from current levels.**

**Financial Snapshot (₹ mn)**

In ₹ mn	NII	YoY (%)	Operating Profit	YoY (%)	Net Profit	YoY (%)	NIM (%)	EPS (₹)	YoY (%)	ABV (₹)	RoAE (%)	RoAA (%)	P/E (x)	P/ABV (x)
FY11	88023	48.2	69816	41.5	42417	38.7	3.0	108.0	29.1	514.3	23.5	1.3	6.9	1.4
FY12E	102701	16.7	90040	29.0	48080	13.4	2.8	122.4	13.4	620.4	20.6	1.2	6.0	1.2
FY13E	121418	18.2	103112	14.5	55995	16.5	2.6	142.5	16.5	726.8	20.0	1.1	5.2	1.0

Source: Company, ABML Research

Rating	Closing Price (₹)	Target Price (₹)	Upside / Downside %
Buy	740.5	968.4	30.8

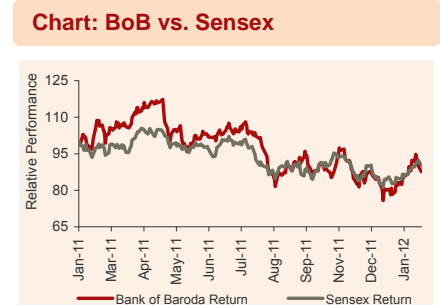
Source: ABML Research

Company Data	
BSE Code	532134
NSE Code	BANKBARODA
Equity Capital (₹ mn)	3928.1
Face Value (₹)	10.0
Market Cap (₹ bn)	290.9
Avg Daily Volume (Qty)	621886
52 week H/L (₹)	1006.7 / 630.4

Source: NSE, BSE

Shareholding (%)			
Holders	Dec 11	Sep 11	Jun 11
Promoters	57.0	57.0	57.0
FII's	13.6	14.3	16.1
MFs/Banks & FI's	17.2	16.8	16.3
Public & Others	12.2	11.9	10.6

Source: BSE



Source: Capitaline

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## Standalone Financial Results (Q3 FY12) - BoB

Quarterly Results Table (₹ mn)	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY11	QoQ (%)
<b>Income</b>					
Interest Earned	76719.9	56661.5	35.4	72514.4	5.8
Other Income	11493.3	6761.5	70.0	7343.4	56.5
<b>Total Income</b>	<b>88213.2</b>	<b>63423</b>	<b>39.1</b>	<b>79857.8</b>	<b>10.5</b>
<b>Expenditure</b>					
Interest Expended	50164.8	33738.9	48.7	46845.3	7.1
Operating Expenses	11966.5	11172.1	7.1	11612.8	3.0
<b>Total Expenditure</b>	<b>62131.3</b>	<b>44911</b>	<b>38.3</b>	<b>58458.1</b>	<b>6.3</b>
<b>Operating Profit (Profit before provisions and contingencies)</b>	<b>26081.9</b>	<b>18512</b>	<b>40.9</b>	<b>21399.7</b>	<b>21.9</b>
Other Prov. & Contingencies	8497.4	3040.6	179.5	4963.5	71.2
Prov for tax	4686.0	4782.6	-2.0	4775.4	(1.9)
<b>Net profit for the year</b>	<b>12898.5</b>	<b>10688.8</b>	<b>20.7</b>	<b>11660.8</b>	<b>10.6</b>
<b>Earning per share</b>					
Basic & Diluted EPS (₹)	32.94	29.34	12.3	29.78	10.6
<b>Key Ratios (%)</b>	<b>Q3 FY12</b>	<b>Q3 FY11</b>	<b>YoY (%)</b>	<b>Q2 FY11</b>	<b>QoQ (%)</b>
Deposits (₹ bn)	3492.1	2815.1	24.0	3291.9	6.1
Advances (₹ bn)	2606.6	2072.1	25.8	2391.2	9.0
NIM(%)	3.0	3.2	(21) bps	3.1	(8) bps
ROAA (%)	1.3	1.3	(5) bps	1.2	6 bps
CD Ratio (%)	74.6	73.6	104 bps	72.6	200 bps
Gross NPA (%)	1.5	1.3	16 bps	1.4	7 bps
Net NPA (%)	0.5	0.4	15 bps	0.5	4 bps
Provision Coverage (%)	67.1	73.1	(601) bps	67.1	0 bps
Cost to Income (%)	31.5	37.6	(619) bps	35.2	(373) bps
CAR (%)	13.5	12.5	100 bps	12.7	72 bps

Source: Company data, ABML Research

## Recommendation summary

Date	Reports	Rating	Closing Price (₹)	Target Price (₹)	Upside / Downside %
21-Oct-11	Initiating Coverage	Buy	750.0	989.1	31.9
03-Nov-11	Result Update (Q2FY12)	Buy	800.3	999.7	24.9
30-Jan-12	Result Update (Q3FY12)	Buy	740.5	968.4	30.8

Source: ABML Research



## Standalone Financials – Bank of Baroda

## Income Statement

Financial Year (₹ mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Net Interest Income</b>	<b>51234</b>	<b>59395</b>	<b>88023</b>	<b>102701</b>	<b>121418</b>
Growth (%)	31	16	48	17	18
Other Income	27577	28064	28092	34334	34362
<b>Net Income</b>	<b>78811</b>	<b>87458</b>	<b>116114</b>	<b>137035</b>	<b>155781</b>
Operating Expenses	35761	38106	46298	46995	52669
<b>Operating Profit (pre-prov)</b>	<b>43050</b>	<b>49353</b>	<b>69816</b>	<b>90040</b>	<b>103112</b>
Other Prov. & Contingencies	9621	6972	13313	23576	25342
<b>Profit Before Taxes</b>	<b>33429</b>	<b>42381</b>	<b>56503</b>	<b>66464</b>	<b>77770</b>
Prov for tax	11157	11797	14086	18384	21776
<b>Net profit for the year</b>	<b>22272</b>	<b>30583</b>	<b>42417</b>	<b>48080</b>	<b>55995</b>
Growth (%)	67	37	39	13	16

## Balance Sheet

Financial Year (₹mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Sources of Funds</b>					
Capital	3655	3655	3928	3928	3928
Reserve and Surplus	125142	147409	206003	253782	299698
<b>Net Worth</b>	<b>128797</b>	<b>151064</b>	<b>209931</b>	<b>257710</b>	<b>303626</b>
<b>Deposits</b>	<b>1923970</b>	<b>2412619</b>	<b>3054395</b>	<b>3770546</b>	<b>4675477</b>
Growth (%)	27	25	27	23	24
Borrowings	127679	133501	223079	264277	325697
Other Liabilities and Prov.	86277	85983	96567	128371	153712
<b>Total Liabilities</b>	<b>2266722</b>	<b>2783167</b>	<b>3583972</b>	<b>4420904</b>	<b>5458513</b>
<b>Application of Funds</b>					
Cash and balances with RBI	105963	135400	198682	200183	265818
Bal. with banks & call money	134908	219271	300659	422109	523415
Investments	524459	611824	712606	867183	1047254
<b>Advances</b>	<b>1432514</b>	<b>1750353</b>	<b>2286764</b>	<b>2827910</b>	<b>3506608</b>
Growth (%)	34	22	31	24	24
Fixed assets	23097	22848	22997	23874	25776
Other assets	45781	43472	62264	79645	89642
<b>Total Assets</b>	<b>2266722</b>	<b>2783167</b>	<b>3583972</b>	<b>4420904</b>	<b>5458513</b>

Source: ABML Research, company data

## Key Ratios

Financial Year (₹ mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Return Ratios</b>					
Average Yield on Advances	9.0%	7.9%	8.0%	8.8%	8.6%
Average Cost of Deposits	5.3%	4.6%	4.3%	5.5%	5.3%
NIM	2.7%	2.5%	3.0%	2.8%	2.6%
Non Int Income / Net Income	35.0%	32.1%	24.2%	25.1%	22.1%
Return on Avg Equity	18.6%	21.9%	23.5%	20.6%	20.0%
Return on Avg Assets	1.1%	1.2%	1.3%	1.2%	1.1%
<b>Asset Quality</b>					
Gross NPA to Advances	1.27%	1.36%	1.36%	1.55%	1.72%
Net NPA to Advances	0.31%	0.34%	0.35%	0.50%	0.52%
Provision Coverage	74.5%	74.9%	74.9%	68.0%	69.9%
Slippage Ratio	0.9%	1.2%	1.1%	1.3%	1.1%
<b>Efficiency Ratios</b>					
Business Per Emp. (in mn)	91.1	106.9	133.4	156.5	193.6
Net Profit Per Emp. (in lakh)	6.0	7.8	10.6	11.4	13.3
Business Per Branch (in mn)	1128.6	1322.4	1562.7	1752.1	2012.3
Cost / Income Ratio	45.4%	43.6%	39.9%	34.3%	33.8%
<b>Business Ratios</b>					
Credit Deposit Ratio	74.5%	72.5%	74.9%	75.0%	75.0%
Investment Deposit Ratio	27.3%	25.4%	23.3%	23.0%	22.4%
CASA Ratio		29.6%	28.7%	27.3%	28.0%
<b>Valuations Ratio</b>					
EPS	60.9	83.7	108.0	122.4	142.5
P/E (x)	12.2	8.9	6.9	6.0	5.2
BVPS	352.4	413.3	534.4	656.1	773.0
P/BV (x)	2.2	1.8	1.4	1.1	1.0
Adj. BVPS	340.1	396.8	514.3	620.4	726.8
P/ABV (x)	2.2	1.9	1.4	1.2	1.0



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ABML research is also accessible in Bloomberg at ABMR



## Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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