

NOVEMBER 5, 2011

BUY

MEDIUM RISK

PRICE Rs.815

TARGET Rs.1078

BFSI

EARLIER RECO

BUY	
Price	Rs.736
Target	Rs.1078
Date	Aug 30, 2011

SHARE HOLDING (%)

Govt.	57.0
FII	14.8
FI	16.8
Body Corporates	6.2
Public & Others	5.2

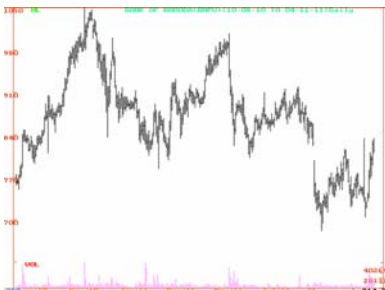
STOCK DATA

Reuters Code	BOB.BO	
Bloomberg Code	BOB.IN	
BSE Code	532134	
NSE Symbol	BANKBARODA	
Market Capitalization*	Rs.320.1 bn US\$ 6.5 bn	
Shares Outstanding*	392.8 mn	
52 Weeks (H/L)	Rs.1052 / 681	
Avg. Daily Volume (6m)	55,475 Shares	
Price Performance (%)		
1M	3M	6M
12	(6)	(4)

200 Days EMA: Rs.823

*On fully diluted equity shares

Part of  Classic



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Bank of Baroda (BOB) has posted decent numbers during Q2FY12, which were in-line with our expectations. Its net profit grew by 14% YoY to Rs.11.7 bn, largely driven by strong NII & lower operating expenses.

Key Highlights of Q2FY12

- During Q2FY12, NII grew by 26% YoY and stood at Rs.25.67 bn, on the back of a decent 24% YoY Advances growth & 22% YoY Deposits growth. Its term deposits profile saw a growth of 26% YoY while CASA grew by 13% YoY. However, CASA's share in total deposits declined by 202 bps YoY & 50 bps QoQ, now forming 27.4% of the total deposits.
- The Bank's non interest income saw a subdued growth of 8% YoY on lower treasury & fee income, while recoveries from written off accounts saw a growth of 76% YoY.
- Its operating expenses was largely contained with marginal increase of 9% YoY, mainly due to lower employee expenses (1% YoY decline). Its Cost to Income ratio stood at 35.3% in Q2FY12 as compared to 40.7% in Q2FY11, indicating a substantial improvement in productivity.
- The Bank's total provisions in Q2FY12 increased by 160.6% YoY to Rs.4.83 bn. This was largely driven by higher provisions on investment depreciation (Rs.1.45bn in Q2FY12 as against writeback of Rs.0.20 bn in Q2FY11), higher provision on fresh NPAs and revised provisioning norms mandated by RBI on NPAs & restructured assets.
- The Bank's Net Profit saw a growth of 14% and stood at Rs.11.67 bn for Q2FY12.

NIMs stable YoY and improves QoQ after steep fall seen in Q1FY12

- In Q2FY12, Global NIMs improved by 5 bps YoY & 20 bps QoQ and stood at 3.07%, while Domestic NIMs improved by 5 bps YoY & 28 bps QoQ and stood at 3.67%, mainly due to efficient passing of rate hikes without compromising of Advances growth or the asset quality. Although the Bank has been able to improve NIMs to sub +3% levels after the steep fall seen on QoQ basis in Q1FY12, we still retain our estimate of 2.86% in FY12E given the challenging business environment.

Asset quality stable, also superior among peers

- The Bank's incremental delinquencies were contained at 0.47% (<1% annualized) of advances for H1FY12 contributed by agriculture, SME & wholesale banking. Its restructured loan portfolio now stands at 3.3% of advances in Q2FY12.
- In absolute terms, Gross NPLs increased by 25% YoY but decreased by 1% QoQ and Net NPLs increased by 9% QoQ & 53% YoY. In percentage terms, Gross NPA's stood at 1.41% i.e. an increase of 2 bps YoY & decrease by 5 bps QoQ, while Net NPLs stood at 0.47% i.e. an increase of 9 bps YoY & 3 bps QoQ in Q2FY12. The Bank also has already migrated to 100% system based NPA recognition system from Q1FY12.
- The Bank has been able to maintain good provision coverage ratio of 82% (incl. technical write-offs) and the Bank's CAR stands at a healthy 12.7% with a Tier-I ratio of 8.8%.

Update on Business

- Overseas business contributed 27.2% to the Bank's total business with robust asset quality. Its Overseas Gross NPAs stood at 0.69% of total advances.
- During Q2FY12, the Bank has opened 83 new branches & 143 new ATMs taking its tally to 3492 branches & 1800 ATMs. In FY12, it intends to open 264 branches in Tier I & Tier II cities and 305 branches in Tier III to Tier VI towns.

OUTLOOK & VALUATION

Bank of Baroda is one of the best managed PSB with a consistently strong business growth & superior asset quality. Considering its decent H1FY12 performance, we have largely retained our FY12 & FY13 estimates. Going forward, we expect its Advance & Deposit to grow by 18.5% & 17.8% in FY12E and 18% & 17.5% in FY13E, while its Net Profit to grow at 2% in FY12E & at 16% in FY13E. BOB currently trades at an attractive valuation of 1.2x FY13E ABV & 6.1x FY13E Earnings. We believe the stock can trade at 1.5x P/ABV given its sustainable 20% ROE. We maintain BUY with a price target of Rs.1078.

KEY FINANCIALS

Y/E Mar.	EPS (Rs.)	EPS (% chg)	RoE (%)	NIM (%)	Net NPL(%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div. Yield(%)
FY10	87	33.4	24.2	2.7	0.3	29.8	14.4	2.2	9.4	1.9
FY11	113	29.8	25.4	3.1	0.3	28.8	14.5	1.6	7.2	2.0
FY12E	115	2.2	20.2	2.9	0.4	28.4	14.1	1.4	7.1	2.3
FY13E	134	16.0	19.9	2.8	0.4	28.1	13.4	1.2	6.1	2.7

QUARTERLY RESULTS STATEMENT

(In mn)

Y/E March	Q2FY12	Q2FY11	YoY Chg	Q1FY12	QoQ Chg
Interest earned	72,514	51,587	40.6%	66,318	9.3%
- on Advances / Bills	54,824	38,383	42.8%	50,772	8.0%
- Income on investments	15,461	11,565	33.7%	13,525	14.3%
- on bal with RBI and other banks	2,079	1,469	41.5%	1,628	27.7%
- others	150	169	-11.2%	393	-61.8%
Interest Expended	46,845	31,205	50.1%	43,346	8.1%
Net Interest Income	25,669	20,381	25.9%	22,972	11.7%
Other income	7,343	6,813	7.8%	6,409	14.6%
- Treasury Income	102	1,101	-90.8%	740	-86.3%
Operating income	33,013	27,194	21.4%	29,381	12.4%
- Employee expenses	6,466	6,562	-1.5%	6,454	0.2%
- Other Operating expenses	5,147	4,065	26.6%	4,614	11.5%
Total Operating Expenses	11,613	10,627	9.3%	11,068	4.9%
Operating profit	21,400	16,567	29.2%	18,313	16.9%
Provisions and contingencies	4,833	1,855	160.6%	3,911	23.6%
- NPL Provisions	2,981	1,423	109.6%	1,320	125.9%
- Investment Provisions	1,450	(201)	621.0%	1,385	4.7%
PBT	16,436	14,713	11.7%	14,402	14.1%
Provision for Tax	4,775	4,520	5.7%	3,944	21.1%
Exceptional Items	130	-	-	-	-
APAT	11,661	10,193	14.4%	10,459	11.5%
EPS	30	28	6.5%	27	11.5%
PPP (Ex-Treasury)	21,298	15,466	37.7%	17,573	21.2%

Business	Q2FY12	Q2FY11	YoY Chg	Q1FY12	QoQ Chg
Advances	2,391,203	1,929,590	23.9%	2,323,401	2.9%
Deposits	3,291,854	2,696,600	22.1%	3,129,429	5.2%
- CASA Deposits	901,790	798,150	13.0%	872,210	3.4%
- Term deposits	2,390,064	1,898,450	25.9%	2,257,219	5.9%
Gross NPL	34,021	27,199	25.1%	34,255	-0.7%
Net NPL	11,186	7,313	53.0%	10,244	9.2%

Ratio (%)	Q2FY12	Q2FY11	YoY chg (bps)	Q1FY12	QoQ chg (bps)
Gross NPAs	1.4	1.4	2.0	1.5	(5)
Net NPAs	0.5	0.4	9.0	0.4	3
ROA Annualized	1.2	1.3	(11)	1.1	10
C/I Ratio	35.3	40.7	(544)	38.6	(336)
CAR	12.7	13.2	(49)	13.1	(37)
-Tier I	8.8	8.2	66	9.1	(24)
Yield on Advances	9.6	8.4	124	9.1	53
Cost of Deposits	5.6	4.5	111	5.4	25
NIM- Global	3.1	3.0	5	2.9	20
NIM- Domestic	3.7	3.6	5	3.4	28
CASA Ratio (Global)	27.4	29.6	(220)	27.9	(50)
Credit / Deposit ratio	72.6	71.6	108	74.2	(160)

Source: Company, Sushil Finance Research Estimate

PROFIT & LOSS STATEMENT (Consol.) (Rs.bn)

Y/E March	FY10	FY11	FY12E	FY13E
Interest income	172.3	225.1	286.4	334.7
Interest expense	110.2	133.5	183.6	216.3
Net interest income	62.1	91.6	102.7	118.4
<i>NII Growth %</i>	<i>15.5</i>	<i>47.5</i>	<i>12.1</i>	<i>15.3</i>
Other income	29.7	32.9	33.8	36.2
- Treasury profits	7.3	4.8	3.3	3.5
Total income	91.8	124.5	136.5	154.6
Operating expenses	39.8	48.5	48.7	54.0
Pre-provision Profit	52.0	76.0	87.9	100.7
Total Provisions	8.1	17.0	22.0	22.5
- NPL Provision	11.0	13.1	15.6	17.0
PBT	43.9	59.0	65.9	78.2
Tax	12.4	14.8	20.8	25.8
PAT	31.8	44.3	45.3	52.6
<i>PAT Growth %</i>	<i>33.4</i>	<i>39.5</i>	<i>2.2</i>	<i>16.0</i>
PPP (Ex Treasury)	44.6	71.3	84.6	97.2
<i>PPP Growth %</i>	<i>23.6</i>	<i>59.6</i>	<i>18.7</i>	<i>14.9</i>

BALANCE SHEET STATEMENT (Consol.) (Rs.bn)

As on 31 st March	FY10	FY11	FY12E	FY13E
Cash balances	365.7	514.2	517.0	535.9
Advances	1,777.1	2,320.9	2,750.2	3,245.2
Investments	631.6	740.2	927.1	1,129.3
- Govt. Securities	500.7	599.6	779.4	974.3
Fixed assets	23.7	23.8	26.2	28.8
Current assets	44.6	63.0	67.4	72.2
Total assets	2,842.7	3,662.1	4,287.9	5,011.5
Equity Cap	3.7	3.9	3.9	3.9
Reserves and Surplus	153.5	213.8	250.9	293.8
Shareholders' funds	157.1	217.7	254.9	297.7
Deposits	2,459.5	3,116.0	3,671.9	4,314.3
- Demand deposits	733.4	897.9	1,043.5	1,212.8
- Term deposits	1,726.1	2,218.1	2,628.5	3,101.6
Borrowings	74.1	148.9	163.8	180.1
Subordinated debt	59.9	74.9	82.4	90.6
Current liabilities	91.4	103.9	114.3	128.0
Total liabilities	2,842.7	3,662.1	4,287.9	5,011.5

FINANCIAL RATIO STATEMENT (Consol.)

Y/E March	FY10	FY11	FY12E	FY13E
Profitability Ratios				
EPS (Rs)	87.0	112.9	115.4	133.8
Earnings growth (%)	33.4	29.8	2.2	16.0
CEPS (Rs)	93.6	119.5	122.6	141.7
PPP / Share (Rs)	142.1	193.5	223.7	256.3
ROAA (%)	1.2	1.4	1.1	1.1
ROAE (%)	24.2	25.4	20.2	19.9
DPS (Rs)	15.2	16.5	18.5	22.0
Dividend Payout (%)	20.5	17.0	18.0	18.5
Efficiency Ratios (%)				
Salary / Non Int. Cost	60.9	62.2	58.9	59.5
C-I ratio (Excl Treasury)	47.1	40.5	36.5	35.7
Other Inc (Ex tr.) / Net Total Inc (Ex Tr.)	26.5	23.5	22.9	21.7
Cost Asset Ratio	1.5	1.5	1.2	1.2
CASA	29.8	28.8	28.4	28.1
Tax Rates	28.2	25.1	31.5	33.0
Asset Quality Ratios (%)				
Gross NPLs	1.3	1.3	1.5	1.5
Net NPLs	0.3	0.3	0.4	0.4
Coverage	87.0	85.0	82.5	82.9
Provision / Loans	0.6	0.6	0.6	0.5

Y/E March	FY10	FY11	FY12E	FY13E
Asset-Liab. Profile (%)				
Capital Adequacy Ratio	14.4	14.5	14.1	13.4
- Tier I CAR	9.2	10.0	9.8	9.5
Adv. / Deposit Ratio	72.3	74.5	74.9	75.2
Loan Growth	22.1	30.6	18.5	18.0
Deposit Growth	25.1	26.7	17.8	17.5
Balance Sheet Growth	22.8	28.8	17.1	16.9
Equity / Assets	5.5	5.9	5.9	5.9
Equity / Loans	8.8	9.4	9.3	9.2
Spreads Analysis (%)				
Yield on Advances	7.9	8.1	8.4	8.2
Yield on Investments	6.6	7.3	7.2	7.2
Cost of funds	4.8	4.6	5.2	5.2
Net Interest Margin	2.7	3.1	2.9	2.8
Valuation				
BV / Share	429.9	554.3	648.9	757.9
Adjusted BV / Share	377.3	503.0	590.1	696.1
Dividend Yield (%)	1.9	2.0	2.3	2.7
P/E (x)	9.4	7.2	7.1	6.1
P/PPP (x)	5.7	4.2	3.6	3.2
P/ABV (x)	2.2	1.6	1.4	1.2

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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