

1QFY15 Result Update

CMP: Rs.866
Target Price: Rs.1,031
Recommendation: Accumulate

Stock Info

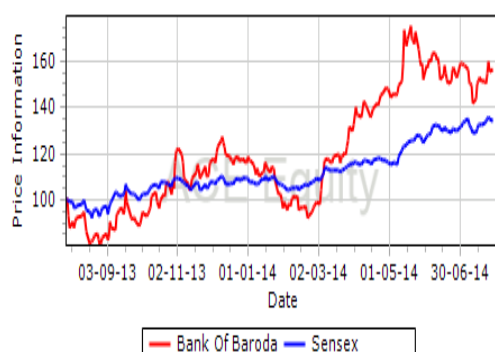
BSE Group	A
BSE Code	532134
NSE Symbol	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
BSE Sensex	25,991
NSE Nifty	7,749

Market Info

Market Capital	Rs. 37,301cr
Equity Capital	Rs. 431cr
Avg. Trading Vol	20,72,310
52 Wk High/ Low	1,009/429
Face Value	10

Shareholding Pattern (%) (Jun 2014)

Promoters	56.3
Domestic Institutions	17.7
Foreign Institutions	16.7
Public & Others	9.3



July 30, 2014

Bank of Baroda's 1QFY15 earnings were largely in-line with estimates. Better performance came on back of strong NII growth during the quarter. Slippages however increased to Rs. 1,881 crs from Rs. 1,295 on QoQ basis signifying slower than expected economic recovery. Bank was able to arrest further deterioration in asset quality with NNPA declining from 1.7% to 1.6% on QoQ basis.

Net interest income reported 15.2% YoY and 6.5% QoQ growth to Rs. 3,328cr. Net interest margins improved QoQ by 6 bps to 2.35%. Improvement in NIMs was driven by improvement in domestic as well as overseas NIMs. Domestic NIMs improved marginally qoq to 2.94% (2.84%), while overseas NIMs increased by 9bps to 1.18% (1.09%).

Bank was able to maintain its CASA at 31.33% which is higher than its peers. Bank is expecting capital infusion of Rs. 1,200cr from Govt and another Rs. 5000 crs will come from its retained profits which in our opinion will take care of its CRAR, hence there will be no need to dilute equity.

Global (Domestic + Overseas) deposits growth at 18.1% yoy: On the back of healthy overseas deposit growth, global deposits jumped 18.1% yoy to Rs 5,51,649cr. However, domestic deposits growth was lower at 12.7% yoy, while overseas deposits rose 30.4%

Advances growth at 18.8%: Global advances reported yoy growth of 18.8%. Overall retail credit growth reported 17.2% growth. Within this segment, home loan reported 22.1% yoy growth. SME segment reported 22.0% yoy increase, while farm credit reported 15.2% growth yoy.

Outlook: In our opinion, asset quality risks would continue to haunt BoB given the elevated slippages, insignificant recoveries and heavy restructuring. While the near-term business dynamics appears to be challenging for the bank with strained operating and financial metrics impacting the return ratio, we are nonetheless confident about management focus on profitable growth. We have valued stock on P/ABV(x) of 1.0x on its FY16 adjusted book value of Rs 1,031 per share and recommend Accumulate rating with a target price of Rs 1,031 per share.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	11315	11965	14318	17818
Operating Profit	8999	9291	11658	15246
PAT	4481	4541	5917	8091
EPS (Rs)	107.3	106.4	137.3	187.5
EPS Growth (%)	-14%	-1%	29%	37%
RoE (%)	15.1	13.4	15.3	18.1
P/E (x)	8.1	8.1	6.3	4.6
P/ABV (x)	1.3	1.2	1.0	0.8
ABV	657	696	826	1031

Source: Company data, Arianth Research.

Financials:

Q1FY15 Earnings Snapshot

Particulars (Rs Cr)	Q1FY15	Q1FY14	YoY (%)	Q4FY14	QoQ (%)	Comments
Interest Earned	10,658	9,487	12.3	10,289	3.6	
Interest Expended	7,330	6,598	11.1	7,164	2.3	
Net Interest Income	3,328	2,889	15.2	3,124	6.5	Core income performance quite encouraging
Other Income	1,025	1,231	-16.7	1,326	-22.7	Other income declined due to lower trading gains
<i>Other income / Net Income(%)</i>	24	30		30		
Total income	4,353	4,120	5.7	4,451	-2.2	
Employee Expenses	1,106	1,014	9.0	1,040	6.3	
Non-Employee expenses	768	654	17.4	831	-7.6	
Operating Expenses	1,873	1,668	12.3	1,871	0.1	
<i>Cost-income Ratio(%)</i>	43	40		42		C/I ratio is better compared to peers
Pre-Prov Profits	2,480	2,452	1.1	2,580	-3.9	
Provisions & Contingencies	527	1,018	-48.3	1,153	-54.3	Provisions also includes write back of investment provisions of Rs. 318.9 crs
PBT	1,953	1,434	36.2	1,426	36.9	
Exceptional (Reported)	0	-16		-16	-100.0	
Provisions for Tax	591	250	136.1	254	133.1	
<i>Effective Tax Rate (%)</i>	30	17		18		
PAT (reported)	1,362	1,168	16.6	1,157	17.7	Strong bottom-line growth
EPS Basic	31.6	27.6		26.9		
EPS Diluted	31.6	27.6		26.9		
BVPS	847.0	773.5		811.1		
GNPA	12,087	9,763		11,876		
NNPA	6,021	5,441		6,035		
GNPA (%)	3.1	3.0		2.9		
NNPA (%)	1.6	1.7		1.5		
Total CAR (%)	12.5	12.7		12.9		
NIM (%)	2.35	2.41		2.29		
Advances	3,81,772	3,21,314	18.8	3,97,006	-3.8	
Deposits	5,51,649	4,67,026	18.1	5,68,894	-3.0	

Source: Company data, Arihant Research.

Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	35,197	38,940	45,077	52,507
Interest Expenses	23,881	26,974	30,760	34,688
Net Interest Income	11,315	11,965	14,318	17,818
- growth %	10	6	20	24
Fee-based Income	2,173	2,639	3,371	4,156
Treasury Income	617	744	855	984
Other Non-interest Income	840	1,080	1,342	1,668
Total Non-Interest Income	3,631	4,463	5,568	6,809
Operating Income	14,946	16,428	19,885	24,627
- growth %	9	10	21	24
Operating Expenses	5,947	7,137	8,228	9,381
- Staff Cost	3,450	4,140	4,608	5,128
- Other Operating Exp.	2,497	2,997	3,620	4,252
Gross Profits	8,999	9,291	11,658	15,246
- growth %	5	3	25	31
Provisions	4,168	3,794	4,529	5,379
Exceptional Item	-	-	-	-
Profit Before Taxes	4,831	5,497	7,128	9,867
Taxes	351	956	1,212	1,776
Profit After Taxes	4,481	4,541	5,917	8,091
- growth %	(11)	1	30	37

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	107.3	106.4	137.3	187.5
Book Value per share	757	836	954	1119
Adjusted Book Value	657	696	826	1031
Dividend per share	21.5	21.5	25.0	30.0
Asset Quality (%)				
Gross NPAs	2.4	3.0	2.9	2.6
Net NPAs	1.3	1.5	1.2	0.7
NPA Coverage	47.5	49.3	59.9	74.3
Profitability ratios (%)				
RoAE	15.1	13.4	15.3	18.1
RoAA	0.90	0.75	0.82	0.95
NIM	2.6	2.4	2.5	2.6
Operating Profit Margin	23.2	21.4	23.0	25.7
Net Profit Margin	11.5	10.5	11.7	13.6
Cost to Income	39.8	43.4	41.4	38.1
Fee-based income to Op Inc	14.5	16.1	17.0	16.9

Source: Company data, Arihant Research.

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	423	431	431	432
Reserves & Surplus	31,547	35,555	40,710	47,886
Deposits	4,73,883	5,68,894	6,71,302	7,92,257
- growth %	23	20	18	18
Borrowings	26,579	36,813	44,788	53,895
Other liabilities & provisions	14,703	17,812	20,780	24,666
Total Liabilities	5,47,135	6,59,505	7,78,011	9,19,136
ASSETS				
Cash on hand & with RBI	13,452	18,629	24,171	27,188
Money at call and short notice	71,947	1,12,249	1,34,699	1,60,472
Advances	3,28,186	3,97,006	4,77,307	5,68,333
- growth %	14	21	20	19
Investments	1,21,394	1,16,113	1,23,499	1,41,441
Fixed assets	2,453	2,734	3,008	3,308
Other assets	9,704	12,774	15,329	18,395
Total Assets	5,47,135	6,59,505	7,78,011	9,19,136

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
Yield on advances	8.4	7.7	7.6	7.5
Yield on investments	7.3	7.3	7.2	7.1
Yield on interest-earning assets	8	8	8	8
Cost of deposits	5	5	5	4
Cost of borrowings	5.7	5.5	4.9	4.5
Cost of funds	5.25	4.88	4.65	4.44
Spread	2.94	2.96	3.24	3.37
Net Interest Income to AWF	2.3	2.0	2.0	2.2
Non Interest Income to AWF	0.75	0.76	0.80	0.82
Operating Profit to AWF	1.9	1.6	1.7	1.8
Net Profit to AWF	0.93	0.77	0.85	0.98
	0	0	0	0
Valuation ratios (x)	0.0	0.0	0.0	0.0
P/E	8.1	8.1	6.3	4.6
P/BV	1.1	1.0	0.9	0.8
P/ABV	1.3	1.2	1.0	0.8

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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