

2QFY15 Result Update

10<sup>th</sup> Nov,2014

CMP: Rs. 983  
Target Price: Rs.1,031  
Recommendation: HOLD

Stock Info

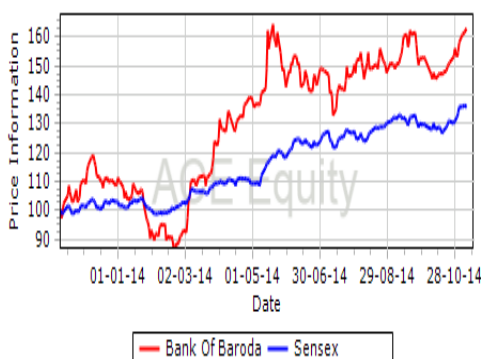
BSE Group	A
BSE Code	532134
NSE Symbol	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
BSE Sensex	27,875
NSE Nifty	8,344

Market Info

Market Capital	Rs. 42,329 cr
Equity Capital	Rs. 431cr
Avg. Trading Vol	18,46,880
52 Wk High/ Low	1,009/509
Face Value	10

Shareholding Pattern (%) (Sep 2014)

Promoters	56.3
Domestic Institutions	17.6
Foreign Institutions	18.0
Public & Others	8.1



Bank of Baroda's 2QFY15 earnings were below estimates largely due to higher tax provisions. NII growth during the quarter continues to remain strong. Slippages declined marginally to Rs. 1,757 crs from Rs. 1,881 on QoQ basis signifying slower than expected economic recovery. Asset quality deteriorated with NNPA increasing to 1.74% from 1.58% on QoQ basis.

Net interest income reported 17.5% YoY and 2.2% QoQ growth to Rs. 3,401cr. Net interest margins improved QoQ by 5 bps to 2.40%. Improvement in NIMs was driven by improvement in domestic NIMs. Domestic NIMs improved by 8bps qoq to 3.02% (2.94%), however overseas NIMs declined marginally by 2bps to 1.16% (1.18%).

Bank was able to maintain its CASA at 31.89% 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 16.9% yoy:** On the back of healthy overseas deposit growth, global deposits jumped 16.9% yoy to Rs 5,66,926 cr. However, domestic deposits growth was lower at 15.2% yoy, while overseas deposits rose 20.5%

**Advances growth at 13.5%:** Global advances reported yoy growth of 13.5%. Overall retail credit growth reported 15.8% growth. Within this segment, home loan reported 20.1% yoy growth. SME segment reported 13.5% yoy increase, while farm credit reported 28.5% growth yoy.

Bank restructured loan worth Rs 1,175 crs vs. 986 crs on QoQ basis

**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 **HOLD** 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	14946	16428	19885	24627
PAT	4481	4541	5917	8091
EPS (Rs)	107.3	106.4	137.3	187.5
EPS Growth (%)	(11)	1	30	37
RoE (%)	15.1	13.4	15.3	18.1
P/E (x)	9.2	9.2	7.2	5.2
P/ABV (x)	1.49	1.41	1.19	0.95
ABV	657	696	826	1031

Source: Company data, Aриhant Research.



Q2FY15 Earnings Snapshot

Particulars (Rs Cr)	Q2FY15	Q2FY14	YoY (%)	Q1FY15	QoQ (%)	Comments
Interest Earned	10,826	9,473	14.3	10,658	1.6	
Interest Expended	7,425	6,579	12.9	7,330	1.3	
<b>Net Interest Income</b>	<b>3,401</b>	<b>2,895</b>	<b>17.5</b>	<b>3,328</b>	<b>2.2</b>	Core income performance remains encouraging
Other Income	992	974	1.8	1,025	-3.2	Other income declined due to increased competition in Retail loan portfolio
<i>Other income / Net Income(%)</i>	23	25		24		
<b>Total income</b>	<b>4,393</b>	<b>3,869</b>	<b>13.5</b>	<b>4,353</b>	<b>0.9</b>	
Employee Expenses	1,108	1,030	7.5	1,106	0.2	
Non-Employee expenses	882	714	23.5	768	14.9	
<b>Operating Expenses</b>	<b>1,990</b>	<b>1,744</b>	<b>14.1</b>	<b>1,873</b>	<b>6.2</b>	
<i>Cost-income Ratio(%)</i>	45	45		43		C/I ratio is better compared to peers
<b>Pre-Prov Profits</b>	<b>2,403</b>	<b>2,125</b>	<b>13.1</b>	<b>2,480</b>	<b>-3.1</b>	
Provisions & Contingencies	888	861	3.2	527	68.6	Provisions also includes Other Provisions (including Provision for staff welfare) of Rs. 109 crs
<b>PBT</b>	<b>1,515</b>	<b>1,264</b>	<b>19.9</b>	<b>1,953</b>	<b>-22.4</b>	
Exceptional (Reported)	0	-16		0		
Provisions for Tax	411	80	412.7	591	-30.5	
<i>Effective Tax Rate (%)</i>	27	6		30		
<b>PAT (reported)</b>	<b>1,104</b>	<b>1,168</b>	<b>-5.5</b>	<b>1,362</b>	<b>-18.9</b>	Bottom-line looks subdued due to higher provisions for tax
EPS Basic	25.7	27.6		31.6		
EPS Diluted	25.7	27.6		31.6		
BVPS	875.9	812.8		847.0		
GNPA	13,058	10,888		12,087		
NNPA	6,705	6,316		6,021		
GNPA (%)	3.3	3.2		3.1		
NNPA (%)	1.74	1.9		1.58		
Total CAR (%)	12.7	12.3		12.9		
NIM (%)	2.40	2.32		2.35		
Advances	3,85,766	3,39,855	13.5	3,81,772	1.0	
Deposits	5,66,926	4,84,931	16.9	5,51,649	2.8	

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
<b>Net Interest Income</b>	<b>11,315</b>	<b>11,965</b>	<b>14,318</b>	<b>17,818</b>
- 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
<b>Operating Income</b>	<b>14,946</b>	<b>16,428</b>	<b>19,885</b>	<b>24,627</b>
- 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	-	-	-	-
<b>Profit Before Taxes</b>	<b>4,831</b>	<b>5,497</b>	<b>7,128</b>	<b>9,867</b>
Taxes	351	956	1,212	1,776
<b>Profit After Taxes</b>	<b>4,481</b>	<b>4,541</b>	<b>5,917</b>	<b>8,091</b>
- growth %	(11)	1	30	37

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
<b>LIABILITIES</b>				
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
<b>Total Liabilities</b>	<b>5,47,135</b>	<b>6,59,505</b>	<b>7,78,011</b>	<b>9,19,136</b>
<b>ASSETS</b>				
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
<b>Total Assets</b>	<b>5,47,135</b>	<b>6,59,505</b>	<b>7,78,011</b>	<b>9,19,136</b>

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
<b>Basic Ratio (Rs.)</b>				
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
<b>Asset Quality (%)</b>				
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
<b>Profitability ratios (%)</b>				
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
<b>Operating Profit Margin</b>	<b>23.2</b>	<b>21.4</b>	<b>23.0</b>	<b>25.7</b>
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

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
<b>Yield on advances</b>	8.4	7.7	7.6	7.5
Yield on investments	7.3	7.3	7.2	7.1
Yield on interest-earning assets	8.2	7.8	7.9	7.8
Cost of deposits	5.2	4.8	4.6	4.4
Cost of borrowings	5.7	5.5	4.9	4.5
Cost of funds	5.25	4.88	4.65	4.44
<b>Spread</b>	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	9.2	9.2	7.2	5.2
P/BV	1.3	1.2	1.0	0.9
P/ABV	1.49	1.41	1.19	0.95

Source: Company data, Aриhant Research.



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### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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