

Below expectation

31<sup>st</sup> Jan,2015

CMP: Rs. 193  
Target Price: Rs. 206  
Recommendation: HOLD

Stock Info

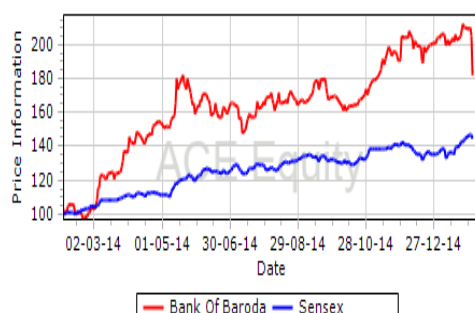
BSE Group	A
BSE Code	532134
NSE Symbol	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
BSE Sensex	29,183
NSE Nifty	8,809

Market Info

Market Capital	Rs. 41,840cr
Equity Capital	Rs. 431cr
Avg. Trading Vol	17,31,430
52 Wk High/ Low	229/102
Face Value	2

Shareholding Pattern (%) (Dec 2014)

Promoters	56.3
Domestic Institutions	17.9
Foreign Institutions	18.0
Public & Others	7.8



Bank of Baroda's 3QFY15 earnings were below estimates largely due to higher provisions for bad assets. NII growth during the quarter slowed down substantially. Slippages increased substantially to Rs. 3,042 crs from Rs. 1,758 crs on QoQ basis signifying slower than expected economic recovery. Asset quality deteriorated with NNPA increasing to 2.11% from 1.74% on QoQ basis.

Net interest income reported 7.5% YoY growth to Rs. 3,286 crs. However, it declined by 3.4% QoQ. Net interest margins declined QoQ by 20 bps to 2.20%. Domestic NIM's declined to 2.92 % ( 3.02%) while overseas NIM's declined to 0.93 % ( 1.16%).

Bank was able to improve its domestic CASA to 32.42 % which is higher than its peers. Bank is expecting Rs. 5000 crs 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 12.1% yoy:** Domestic deposits grew by 12.2% to Rs 3,82,467 crs while overseas deposits grew by 11.9% to Rs 1,82,133 crs. Global CASA deposits grew by 12.9%. Domestic CASA deposits grew by 12.7% to Rs 1,24,013 crs while overseas CASA deposits grew by 14.0% to Rs 25,128 crs.

**Advances growth at 11.7%:** Global advances reported yoy growth of 11.7%. Overall retail credit growth reported 14.0% growth. Within this segment, home loan reported 17.5% yoy growth. SME segment reported 9.1% yoy increase, while farm credit reported 33.4% growth yoy.

**Bank restructured loan worth Rs 1,598 crs vs. 1,175 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 1.1x on its FY16 adjusted book value of Rs 191 per share and recommend **HOLD** rating with a target price of Rs 210 per share.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	11315	11965	12374	15475
Operating Profit	14946	16428	17941	22284
PAT	4481	4541	4751	6276
EPS (Rs)	21.5	21.3	22.1	29.1
EPS Growth (%)	(11)	1	5	32
RoE (%)	15.1	13.4	12.5	14.7
P/E (x)	9.1	9.1	8.8	6.7
P/ABV (x)	1.48	1.40	1.22	1.02
ABV	131	139	159	191

Source: Company data, Arianth Research.



Q3FY15 Earnings Snapshot

Particulars (Rs Cr)	Q3FY15	Q3FY14	YoY (%)	Q2FY15	QoQ (%)	Comments
Interest Earned	10,718	9,691	10.6	10,826	-1.0	
Interest Expended	7,432	6,634	12.0	7,425	0.1	
<b>Net Interest Income</b>	<b>3,286</b>	<b>3,057</b>	<b>7.5</b>	<b>3,401</b>	<b>-3.4</b>	Core income performance not encouraging
Other Income	1,090	932	17.0	992	10.0	Growth disappoints
<i>Other income / Net Income(%)</i>	25	23		23		
<b>Total income</b>	<b>4,376</b>	<b>3,989</b>	<b>9.7</b>	<b>4,393</b>	<b>-0.4</b>	
Employee Expenses	1,120	1,056	6.1	1,108	1.1	
Non-Employee expenses	918	736	24.7	882	4.0	
<b>Operating Expenses</b>	<b>2,037</b>	<b>1,792</b>	<b>13.7</b>	<b>1,990</b>	<b>2.4</b>	
<i>Cost-income Ratio(%)</i>	47	45		45		C/I ratio although better than peers, below expectations
<b>Pre-Prov Profits</b>	<b>2,339</b>	<b>2,197</b>	<b>6.4</b>	<b>2,403</b>	<b>-2.7</b>	
Provisions & Contingencies	1,262	762	65.7	888	42.1	Provisions also includes Other Provisions (including Provision for staff welfare) of Rs. 109 crs
<b>PBT</b>	<b>1,077</b>	<b>1,436</b>	<b>-25.0</b>	<b>1,515</b>	<b>-28.9</b>	
Exceptional (Reported)	0	-16		0		
Provisions for Tax	743	372	99.6	411	80.9	
<i>Effective Tax Rate (%)</i>	69	26		27		
<b>PAT (reported)</b>	<b>334</b>	<b>1,048</b>	<b>-68.1</b>	<b>1,104</b>	<b>-69.8</b>	Far below expectations
EPS Basic	1.6	5.0		5.1		
EPS Diluted	1.6	5.0		5.1		
BVPS	177.4	164.2		175.2		
GNPA	15,453	11,926		13,058		
NNPA	8,291	6,624		6,705		
GNPA (%)	3.9	3.3		3.3		
NNPA (%)	2.11	1.9		1.74		
Total CAR (%)	12.9	12.3		12.9		
NIM (%)	2.20	2.37		2.40		
Advances	3,93,631	3,52,446	11.7	3,85,766	2.0	
Deposits	5,64,600	5,03,772	12.1	5,66,926	-0.4	

Source: Company data, Arihant Research.



Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	35,197	38,940	43,767	50,940
Interest Expenses	23,881	26,974	31,393	35,465
<b>Net Interest Income</b>	<b>11,315</b>	<b>11,965</b>	<b>12,374</b>	<b>15,475</b>
- growth %	10	6	3	25
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>17,941</b>	<b>22,284</b>
- growth %	9	10	9	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	4,253
Gross Profits	8,999	9,291	9,714	12,903
- growth %	5	3	5	33
Provisions	4,168	3,794	3,990	5,248
Exceptional Item	-	-	-	-
<b>Profit Before Taxes</b>	<b>4,831</b>	<b>5,497</b>	<b>5,724</b>	<b>7,654</b>
Taxes	351	956	973	1,378
<b>Profit After Taxes</b>	<b>4,481</b>	<b>4,541</b>	<b>4,751</b>	<b>6,276</b>
- growth %	(11)	1	5	32

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
<b>Basic Ratio (Rs.)</b>				
EPS	21.5	21.3	22.1	29.1
Book Value per share	151	167	185	210
Adjusted Book Value	131	139	159	191
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	58.3	72.0
<b>Profitability ratios (%)</b>				
RoAE	15.1	13.4	12.5	14.7
RoAA	0.90	0.75	0.66	0.74
NIM	2.6	2.4	2.2	2.3
<b>Operating Profit Margin</b>				
	<b>23.2</b>	<b>21.4</b>	<b>19.7</b>	<b>22.3</b>
Net Profit Margin	11.5	10.5	9.6	10.9
Cost to Income	39.8	43.4	45.9	42.1
Fee-based income to Op Inc	14.5	16.1	18.8	18.7

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	39,545	44,906
Deposits	4,73,883	5,68,894	6,71,302	7,92,257
- growth %	23	20	18	18
Borrowings	26,579	36,813	46,006	57,000
Other liabilities & provisions	14,703	17,812	20,781	24,669
<b>Total Liabilities</b>	<b>5,47,135</b>	<b>6,59,505</b>	<b>7,78,065</b>	<b>9,19,265</b>
<b>ASSETS</b>				
Cash on hand & with RBI	13,452	18,629	24,224	27,316
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>7,78,065</b>	<b>9,19,265</b>

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
<b>Yield on advances</b>	8.4	7.7	7.3	7.2
Yield on investments	7.3	7.3	7.2	7.1
Yield on interest-earning assets	8.2	7.8	7.7	7.6
Cost of deposits	5.2	4.8	4.7	4.5
Cost of borrowings	5.7	5.5	4.9	4.4
Cost of funds	5.25	4.88	4.75	4.53
<b>Spread</b>	2.94	2.96	2.92	3.05
Net Interest Income to AWF	2.3	2.0	1.8	1.9
Non Interest Income to AWF	0.75	0.76	0.80	0.82
Operating Profit to AWF	1.9	1.6	1.4	1.6
Net Profit to AWF	0.93	0.77	0.68	0.76
	0	0	0	0
Valuation ratios (x)	0.0	0.0	0.0	0.0
P/E	9.1	9.1	8.8	6.7
P/BV	1.3	1.2	1.0	0.9
P/ABV	1.48	1.40	1.22	1.02

Source: Company data, Arihant Research.



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### Stock Rating Scale

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

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