

Back to basics

CMP: Rs.728
Target Price: Rs.914
Upside/(Downside) % 26%
Recommendation: Buy

Stock Info

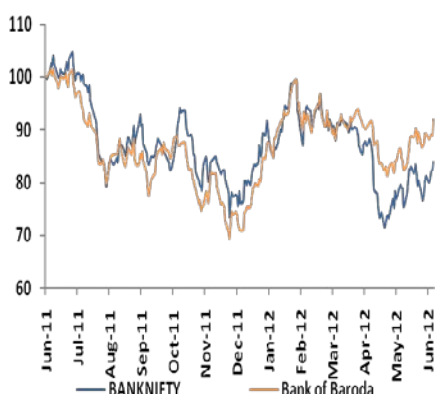
BSE Group	A
BSE Code	532134
NSE Symbol	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
BSE Sensex	17399
NSE Nifty	5279

Market Info

Market Capital	₹ 30315cr
Equity Capital	₹ 414cr
Avg. Trading Vol. (NSE Qtly)	897432
52 Wk High/ Low	919/615
Face Value	10

Shareholding Pattern (%) (31st Mar 2012)

Promoters	-
Domestic Institutions	20.5
Foreign Institutions	13.5
Non Promoters Corp.	6.3
Public & Others	5.4
Govt. Holdings	54.3



July 02, 2012

Generating Wealth. Satisfying Investors.

We met Dr Rupa Rege Nitsure, Chief Economist, Bank of Baroda to gain insights into the latest developments of the bank and to capture the business and the economy perspective. Following are the key takeaways from the Meet.

- While the macro picture remains gloomy, the banking sector too remains vulnerable to the macro headwinds with no major revival expected even in H2FY13. The Monetary Policy easing could be delayed given the high inflationary scenario and lack of policy reforms.
- BoB balance sheet remains resilient to the tough environs and the business would remain intact since the bank enjoys dominance in industrially rich states. Therefore, Q1 being the first quarter would remain slack, but in-line with guidance and basic banking to continue.
- The credit growth for the bank is expected to fall in the range of 18-19% for the full year FY13, followed by 17-18% deposit growth for the bank
- Margins to be under moderate pressure primarily due to reduction in base rate and BPLR in the recent period and also due to otherwise gloomy climate. However, margins are expected to settle down at current levels by the year end.
- Overseas business remains largely unaffected mainly because 85% of the overseas clients are Indians. Although the business growth may not see the current 35% growth levels, still the sustenance of growth remains assured due to spread out overseas branches of the bank.
- The lumpiness in bad assets observed in Q4FY12 would not continue this year and Q1 would not witness any failure in large accounts. Also, the recoveries would be on the higher side which would arrest any significant delinquencies. Therefore, the GNPLs would settle down in the range of 1.25-1.35% by the fiscal year end. Though the bank admits worst is not behind us, but the quantum of restructured assets and bad loans to be witnessed on lower side for the bank. The sectors that witnessed pain would definitely not see a sudden daylight; but the bank's prudent measures of higher provisioning and strong core Tier I would act as cushion.
- The bank is well prepared for BASEL III with core Tier I standing at 9.95% and overall capital adequacy in excess of 14.5% which stands well above the Regulatory limit.
- In a scenario wherein the credit growth would not pick up to the desirable levels, the bank would continue to focus on CASA deposit mobilization and would not compromise on bottom-line thereby striving to maintain the return ratios at the current levels.

Outlook: Bank of Baroda continues to outperform its peers primarily due to its ability to deliver on balance sheet growth front, inherent business strength of the bank, capital adequacy and high provisioning cushion. We derive comfort in the bank given its valuations at 0.9X FY13E and average RoE/RoA of 20% and 1.2% respectively. We estimate earnings CAGR of 17% for FY11-14E and ABV to grow at 20% CAGR during the same period. We continue to remain cautious on the asset quality pressures and concede that significant recoveries and the much required upgradations in accounts would definitely prove as a catalyst for the stock momentum. Our target price stands as Rs 914 valuing the bank at 1.0X P/ABV FY14E. The bank being a play on the economy; with any significant revival in govt measures or reforms, the upside potential would get stronger.

**Business Overview and Annual report (FY12) Analysis**

Business: Given the RBI guidance for FY13 for credit and deposit growth that stands in the range of 16-17%, Bank of Baroda is quite confident of growing above the industry levels. The Management expects 18-19% growth in advances followed by 17-18% growth in deposits, maintaining robust growth in balance sheet. We estimate the bank to record 20% CAGR in total business for the period FY12-14E.

Earnings: The bank ardently follows the strategy of strengthening of balance sheet and aggressive provisioning. The bank is confident of healthy top-line growth for the current fiscal backed by diversified loan book and CASA deposit mobilization strategy. We estimate the bank to record the Net Interest income growth at 20-21% levels. Healthy core income, strong recovery and robust fee-based income to drive the earnings for the current fiscal year. Though margin pressures would be witnessed owing to the recent decrease in base rate and BPLR and the otherwise challenging conditions, NIMs at above 3% levels will be maintained. The Bank is on the right track as far as incremental growth and incremental ROAs are concerned.

Asset quality: The Management is of the opinion that asset quality pressures for BoB per se would ease this fiscal vis-a-vis previous year. The bank witnessed deterioration in asset quality for FY12 with increase in gross NPA to 1.53% compared to 1.36% the previous year. However, for the current year the bank has guided for 1.25-1.3% for Gross NPLs. A couple of lumpy accounts have contributed to the incremental NPAs in Q3 and Q4 for FY12. Therefore, on a conservative note we factor in rise in bad loans given the uncertain macro-economic conditions, weak credit growth and rising credit risks and exposure to certain pain sectors. We estimate Gross NPLs to fall in the range of 1.5%-1.6% for FY13-14E. Despite building higher NPLs, the bank is poised to deliver robust earnings growth with one of the best return ratios in the PSU space.

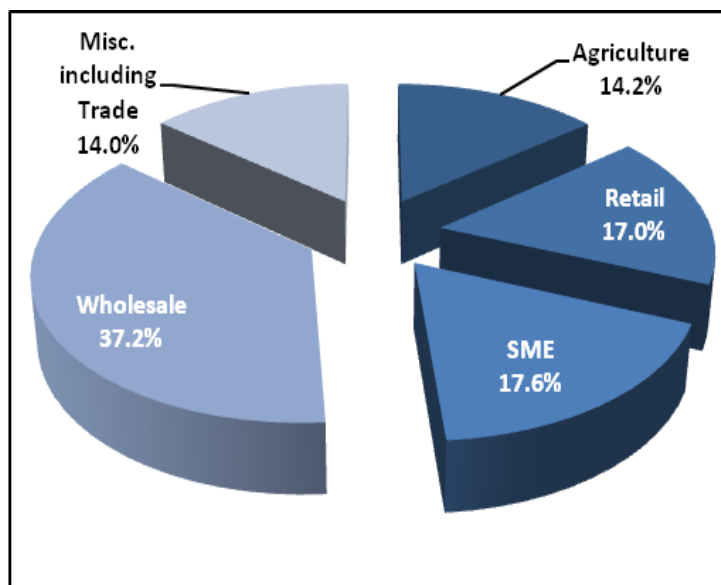


Table 1:- Business overview – While domestic business growth remains above industry average, overseas business too witnessed good amount of traction

Particulars (Rs. cr)	Q1FY11	Q2FY11	Q3FY11	FY11	Q1FY12	Q2FY12	Q3FY12	FY12
Global Business	440262	462618	488721	534116	545283	568305	609867	672249
Domestic Business	331878	347733	367417	402731	405156	413753	435228	482211
Overseas Business	108384	114885	121304	131385	140127	154552	174639	190038
Global Deposits	254668	269660	281512	305439	312943	329186	349206	384871
Domestic Deposits	196166	206001	215378	233323	236536	244720	254994	280135
Overseas Deposits	58502	63659	66134	72116	76407	84466	94212	104736
Global CASA Deposits	74784	79814	81996	87588	87221	90179	94823	103524
Domestic CASA	69114	73944	75632	80181	80225	83250	86836	92948
Overseas CASA	5670	5870	6364	7407	6996	6929	7987	10576
Global Advances (Net)	185594	192959	207209	228677	232340	239121	260661	287377
Domestic Advances	135712	141732	152039	169408	168621	169034	180234	202075
Overseas Advances	49882	51227	55170	59269	63719	70087	80427	85302

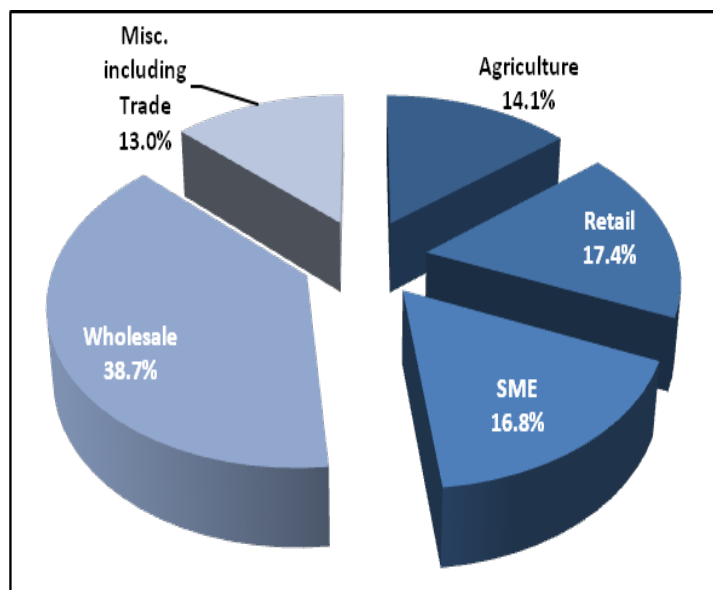
Source: - Company, Arihant Research

Chart 1:- Diversified credit mix- Dec 2011



Source: - Company, Arihant Research

Chart 2:- Diversified credit mix- Mar 2012



Source: - Company, Arihant Research



Table 2:- Spreads matrix- Increasing costs denting margins

Particulars (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Global Cost of Deposits	4.4	4.5	4.5	4.8	5.4	5.6	5.7	5.8
Domestic Cost of Deposits	5.1	5.3	5.3	5.6	6.4	6.8	6.9	7.2
Overseas Cost of Deposits	2.0	2.0	1.9	1.8	1.8	1.8	2.0	1.7
Global Yield on Advances	8.2	8.4	8.6	8.7	9.1	9.6	9.5	9.3
Domestic Yield on Advances	9.8	10.2	10.3	10.7	11.2	12.1	12.0	11.7
Overseas Yield on Advances	3.7	3.8	3.7	3.5	3.4	3.4	3.1	3.8
Global Yield on Investment	6.7	7.1	7.4	6.8	7.5	7.6	7.7	7.5
Domestic Yield on Investment	6.8	7.2	7.6	7.0	7.6	7.7	7.8	7.7
Overseas Yield on Investment	3.7	3.7	3.9	3.9	4.9	4.2	4.9	3.8
Global NIM	2.9	3.0	3.2	3.5	2.9	3.1	3.0	3.0
Domestic NIM	3.4	3.6	3.8	4.2	3.4	3.7	3.5	3.4
Overseas NIM	1.3	1.3	1.4	1.4	1.4	1.4	1.6	1.7

Source: - Company, Arihant Research

Table 3:- Business Segment Reporting – geography-wise

Particulars (Rs. cr)	FY12	FY11	FY10	FY09
Domestic				
Revenues	29063	21744	17014	15465
Assets	319460	267629	210330	177106
	71.4%	74.7%	75.6%	77.9%
International				
Revenues	4033	2951	2491	2384
Assets	127862	90768	67987	50300
	28.6%	25.3%	24.4%	22.1%
Consolidated				
Revenues	33096	24695	19505	17849
Assets	447321	358397	278317	227407

Source: - Company, Arihant Research

Table 4:- Branch Classification (Area wise)
as on 31st March 2012

India	Number of Branches	% Share in Total
Metro	871	22.3
Urban	718	18.4
Semi-urban	1045	26.8
Rural	1270	32.5
Total	3904	100.0

Source: - Company, Arihant Research

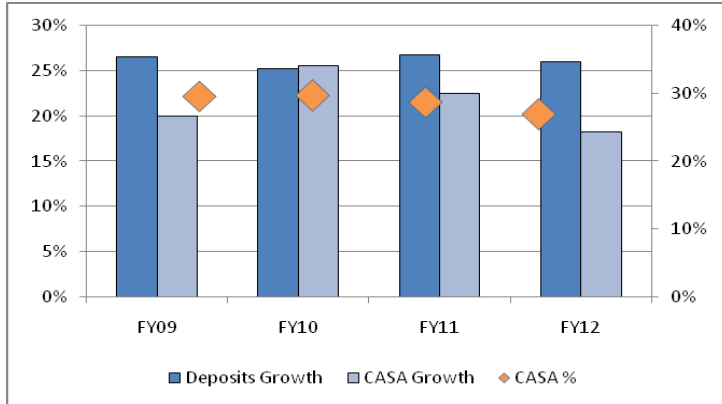
Table 5:- International Presence

Particulars	No of Branches
Bank's Overseas Branches/Offices	55
Bank's Representative Offices	2
Branches of Bank's Overseas Subsidiaries	32
Total	89
In addition to the above, your Bank's associate in Zambia has 14 branches	

Source: - Company, Arihant Research

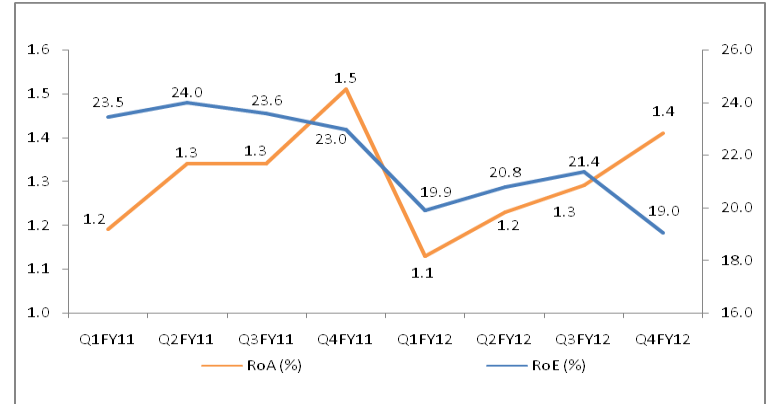


Chart 3:- Deposits growth stagnant, CASA witnessed dip



Source: - Company, Arianth Research

Chart 4:- While Q4 proved challenging w.r.t. RoEs, RoAs rose



Source: - Company, Arianth Research

Table 6:- Sectoral Deployment of Credit- Wholesale and retail portfolio dominate

Sectors	% of share in Gross Domestic Credit			
	Q1FY12	Q2FY12	Q3FY12	FY12
Agriculture	13.6	13.2	14.2	14.1
Retail	18.1	17.4	17.0	17.4
SME	16.6	17.6	17.6	16.8
Wholesale	37.4	36.7	37.2	38.7
Misc. including Trade	14.3	15.1	14.0	13.0
Total	100.0	100.0	100.0	100.0

Source: - Company, Arianth Research

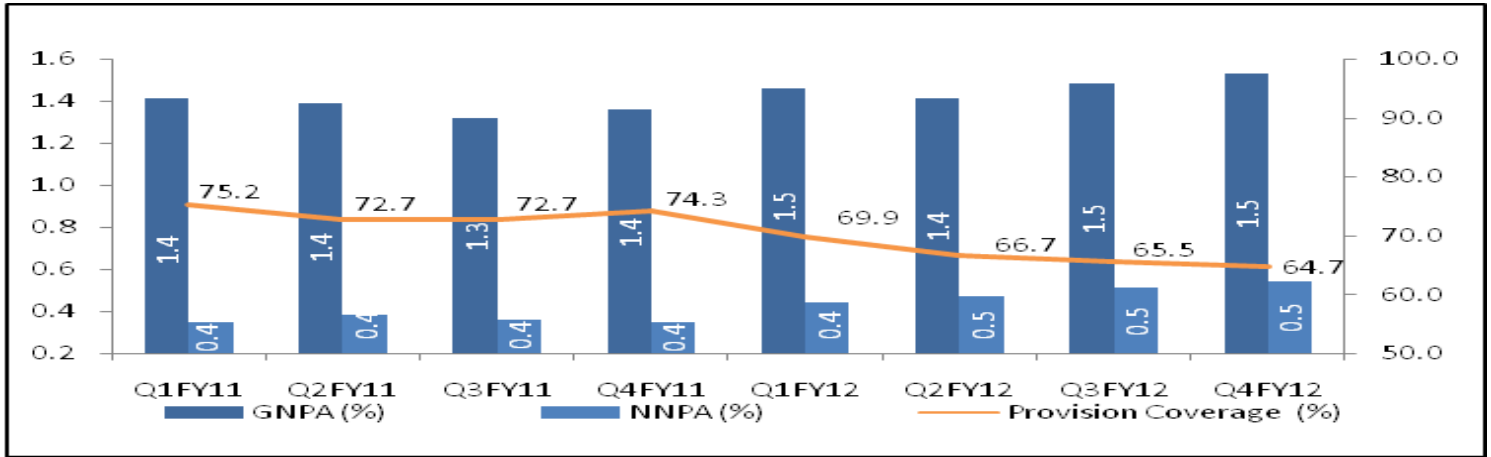
Table 7:- Industry wise Credit Exposures –Top 10 Sectors

Industry	% of Total Exposures		
	Fund Based	Non Fund Based	Total
Infrastructure	15.4	3.5	19.0
Trading	6.0	4.1	10.1
Iron & Steel	6.9	2.4	9.3
NBFC's	8.7	0.1	8.8
All Engineering	3.9	3.3	7.2
Chemicals, Dyes, Paints & Phar	4.7	1.9	6.6
Other Industries	3.7	1.5	5.2
Electricity (Trans. & Distr.)	4.7	0.3	5.0
Other Textile	3.9	0.9	4.8
Construction	3.3	0.6	3.9

Source: - Company, Arianth Research



Chart 5:- Controlled NPLs indicate stable asset quality, though pressures likely going ahead



Source: - Company, Arianth Research

Table 8:- Sector-wise NPAs- Agri and personal loans (unsecured segment) dominate the bad loans book

Sectors	Percentage of NPAs to Total Advances in that sector			
	FY09	FY10	FY11	FY12
Agriculture & allied activities	1.6	3.3	3.5	4.0
Industry (Micro & small, Medium and Large)	0.9	1.1	1.8	1.1
Services	1.2	0.8	1.2	2.7
Personal Loans	4.9	3.7	1.7	3.7

Source: - Company, Arianth Research

Table 9:- Accounts Restructured - total restructured book stands on the higher side with CDR cases dominating the book

Assets Restructured (Rs. cr) (As at 31.03.2012)		CDR Mechanism	SME Restructuring	Others	Total
Standard	Amt. Outstanding	1534.0	505.8	6813.3	8853.1
		17.3%	5.7%	77.0%	
	Sacrifice	262.8	4.3	33.7	300.8
		87.4%	1.4%	11.2%	
Sub-standard	Amount Outstanding	0.0	17.0	5.1	22.1
		0.0%	77.0%	23.0%	
	Sacrifice	0.0	0.1	0.2	0.3
		0.0%	26.9%	73.1%	
Doubtful	Amount Outstanding	0.0	1.9	2.1	4.0
		0.0%	48.4%	51.6%	
	Sacrifice	0.0	0.0	0.1	0.1
		0.0%	0.0%	100.0%	
Total	Amount Outstanding	1534.0	524.7	6820.4	8879.2
		17.3%	5.9%	76.8%	
	Sacrifice	262.8	4.3	34.0	301.1
		87.3%	1.4%	11.3%	

Source: - Company, Arianth Research



Table 10:- Restructured Loans- Summary

Particulars (Rs. cr)	FY10	FY11	FY12
No. of Borrowers	20749	10266	12003
Total Amount Outstanding	2455	3026	8879

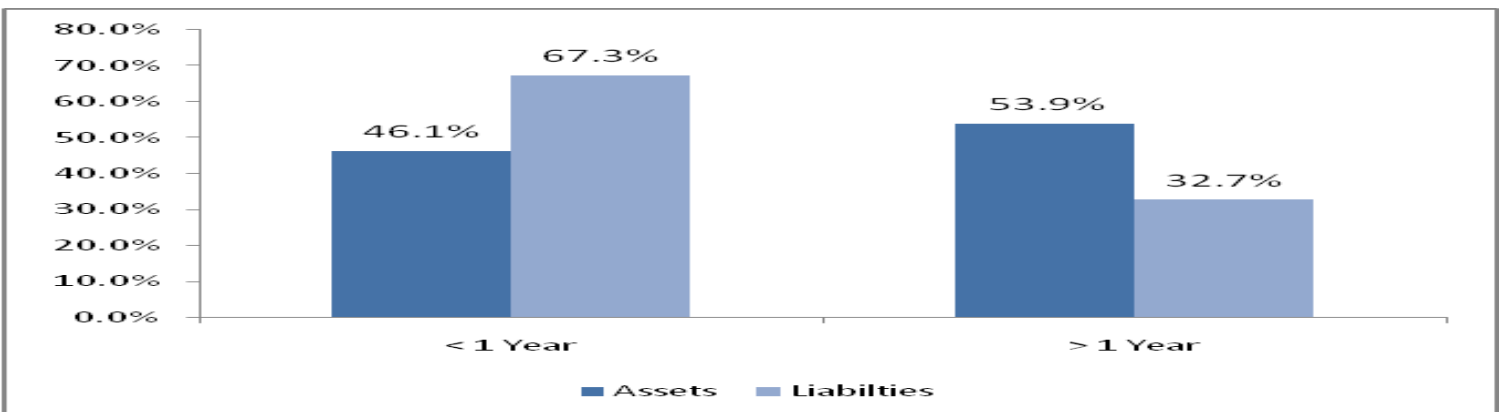
Source: - Company, Arihant Research

Table 11:- Maturity pattern across various buckets as on March 31, 2012

Particulars (%)	1-14 days	15-28 days	29days-3m	>3m to 6m	>6m to 12m	>1yr to 3yr	>3yr to 5yr	>5yr
Deposits	9.1	3.7	14.9	12.2	26.3	18.1	3.8	11.8
Advances	5.7	2.4	13.2	10.9	10.8	31.2	10.9	15.0
Investments	2.3	0.9	6.9	1.5	2.0	15.4	12.7	58.3
Borrowings	2.6	0.1	7.4	10.1	8.7	5.9	20.1	45.1
Foreign Currency assets	17.8	4.5	21.9	17.9	11.4	13.6	9.1	3.8
Foreign Currency liabilities	18.9	4.4	20.3	17.0	16.5	3.7	12.4	6.7

Source: - Company, Arihant Research

Chart 6:- Asset-Liability Management status



Source: - Company, Arihant Research

Table 12:- Capital Adequacy Status- Favorable

Particulars (%)	Basel I	Basel II
FY10	12.8	14.3
FY11	13.0	14.5
FY12	13.0	14.7

Source: - Company, Arihant Research

Table 13:- Basel III Preparations- Bank well on track

Key Parameters (%)	Basel - II	Basel - III
Common Equity Capital	NA	5.5
Tier I Capital	6.0	7.0
Total Capital	9.0	9.0
Capital Conservation Buffer (a buffer of capital that can be used to absorb losses during periods of financial and economic stress.) (in the form of Common Equity)	NA	2.5

Source: - Company, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	21886	29674	35292	42130
Interest Expenses	13084	19357	22765	27273
Net Interest Income	8802	10317	12527	14857
- growth %	48	17	21	19
Fee-based Income	1822	2104	2647	3231
Treasury Income	444	607	649	708
Other Non-interest Income	543	713	823	906
Total Non-interest Income	2809	3423	4120	4844
Operating Income	11611	13740	16647	19701
- growth %	34	18	21	18
Operating Expenses	4630	5159	5960	7013
- Staff Cost	2917	3035	3361	3759
- Other Operating Exp.	1713	2123	2599	3255
Gross Profits	6982	8581	10687	12688
- growth %	44	23	25	19
Provisions	1331	2555	3270	3233
Exceptional Item	-	-	-	1
Profit Before Taxes	5650	6027	7416	9456
Taxes	1409	1019	1632	2742
Profit After Taxes	4242	5008	5785	6713
- growth %	39	18	16	16

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	111.8	124.4	140.3	162.8
Book Value per share	555.0	682.5	790.4	935.9
70% Adjusted Book Value	559.1	698.5	802.3	967.2
Dividend per share	16.5	17.0	17.0	18.0
Asset Quality (%)				
Gross NPAs	1.4	1.6	1.6	1.6
Net NPAs	0.3	0.5	0.3	0.2
NPA Coverage	74.9	84.5	79.0	89.3
Profitability ratios (%)				
RoAE	24.4	20.6	19.3	18.9
RoAA	1.3	1.3	1.2	1.1
NIM	3.1	3.0	2.9	2.8
Operating Profit Margin	28.3	25.9	27.1	27.0
Net Profit Margin	17.2	15.1	14.7	14.3
Cost to Income	39.9	37.5	35.8	35.6
Fee-based income to Operating Income	15.7	15.3	15.9	16.4

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	393	412	412	412
Reserves & Surplus	20,650	27,064	32,032	37,881
Deposits	305,439	384,871	455,719	544,183
- growth %	27	26	18	19
Borrowings	22,308	23,573	28,288	37,905
Other liabilities & provisions	9,606	11,400	14,306	21,175
TOTAL LIABILITIES	358,397	447,321	530,758	641,557
ASSETS				
Cash, Inter-bank, etc	19,868	21,651	21,996	27,807
Money at call and short notice	30,066	42,517	45,611	49,672
Advances	228,676	287,377	342,832	412,422
- growth %	31	26	19	20
Investments	71,396	83,209	102,848	132,357
Fixed assets	2,300	2,342	3,137	3,533
Other assets	6,090	10,225	14,334	15,767
TOTAL ASSETS	358,397	447,321	530,758	641,557

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	8.0	8.7	8.6	8.6
Yield on investments	7.2	7.9	7.4	7.0
Yield on interest-earning assets	7.8	8.6	8.2	8.0
Cost of deposits	4.3	5.1	5.0	5.1
Cost of borrowings	6.8	7.5	6.7	5.4
Cost of funds	4.5	5.4	5.1	5.1
Spread	3.3	3.2	3.1	2.9
Net Interest Income to AWF	2.9	2.6	2.6	2.6
Non Interest Income to AWF	0.9	0.9	0.9	0.9
Operating Profit to AWF	2.3	2.2	2.2	2.2
Net Profit to AWF	1.4	1.3	1.2	1.2

Valuation ratios (x)				
P/E	6.5	5.9	5.2	4.5
P/BV	1.3	1.1	0.9	0.8
P/ABV	1.3	1.0	0.9	0.8

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Stock Rating Scale

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

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