

Q1FY13- NPL risks continue to haunt

CMP:	Rs.673
Target Price:	Rs.914
Upside/(Downside) %	36%
Recommendation:	Buy

Stock Info

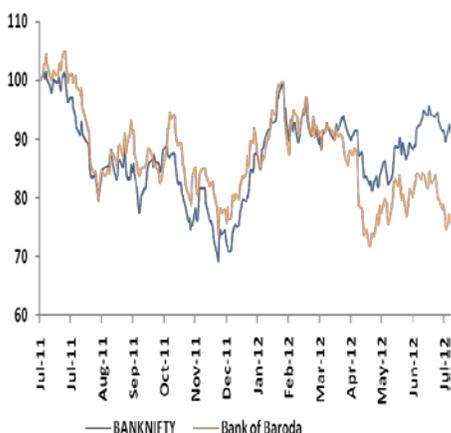
BSE Group	A
BSE Code	532134
NSE Symbol	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
BSE Sensex	17179
NSE Nifty	5199

Market Info

Market Capital	₹ 27836cr
Equity Capital	₹ 414 cr
Avg. Trading Vol. (NSE Qtly)	920841
52 Wk High/ Low	893/615
Face Value	10

Shareholding Pattern (%) (30th June 2012)

Promoters	-
Domestic Institutions	19.7
Foreign Institutions	14.3
Non Promoters Corp.	6.6
Public & Others	5.1
Govt. Holdings	54.3



July 31, 2012

Generating Wealth. Satisfying Investors.

The state lender Bank of Baroda (BoB) reported decent bottom-line marginally below our estimates supported by lower tax expenses and non-interest income YoY growth. The credit costs stood on the higher side that arrested the profitability growth at 10% YoY. Bad loans inched upwards with concerns on asset quality continue to persists, though lumpiness in restructured assets is set to moderate as guided by the Management. In comparison to its like-sized peers, BoB has delivered better performance given the already challenging environment

Decent earnings growth, lower tax expenses drove profits: The Q1 profitability of the bank at Rs 1139 crs reporting 10.4% YoY growth was primarily driven by lower tax expenses and better YoY non-interest income performance. However, sharp increase in credit costs (129% YoY) arrested further increase in profitability. As anticipated, margins continued to face pressure with NIMs for the quarter dipping to 2.7% on account of weak domestic CASA profile (CASA 32.2%) during the quarter and slowdown in international margins due to steep decline in international yields. However, the Management stands confident to maintain margins at > 3% levels. In our opinion, healthy core income, strong recovery and robust fee-based income to drive the earnings for the current fiscal year.

Slowdown in business growth, overseas operations act as a savior: Growth in advances at 23% YoY was primarily driven by 41% YoY growth in overseas advances. The retail portfolio, however, took a hit witnessing sequential fall of 8%. Deposits that grew 22% YoY again were supported by 37% YoY growth in overseas deposit base. However, domestic CASA remained weak and CASA fell by 4% sequentially marking a tough quarter for the bank in terms of domestic business momentum.

Asset quality concerns persists, slippages remain at elevated levels: Dramatic increase in credit costs, higher slippages (Rs 1220 crs) and the heavy restructured book (Rs 771 crs-Q1, total Rs 15747 crs) resulting in 30 bps spike in NPLs both on QoQ and YoY basis increasing asset quality concerns.

Outlook: In our opinion, asset quality risks would continue to haunt BoB given the elevated slippages, insignificant recoveries and bank's major presence in monsoon deficient regions of western part. Return ratios slid due to weak margins and CASA profile and bank needs to take cognizance of the same. That said, bank's resilient book underpinned by provision cushion and earnings visibility and hence maintain BUY with price target of Rs 914 valuing the bank at 1.0X P/ABV FY14E.

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	8802	10317	12527	14857
Operating Profit	6982	8581	10687	12688
PAT	4242	5008	5785	6713
EPS (Rs)	111.8	124.4	140.3	162.8
EPS Growth (%)	34%	11%	13%	16%
RoE (%)	24.4	20.6	19.3	18.9
P/E (x)	6.0	5.4	4.8	4.1
PABV (x)	1.2	1.0	0.8	0.7

Source: Company, Aриhant Research.

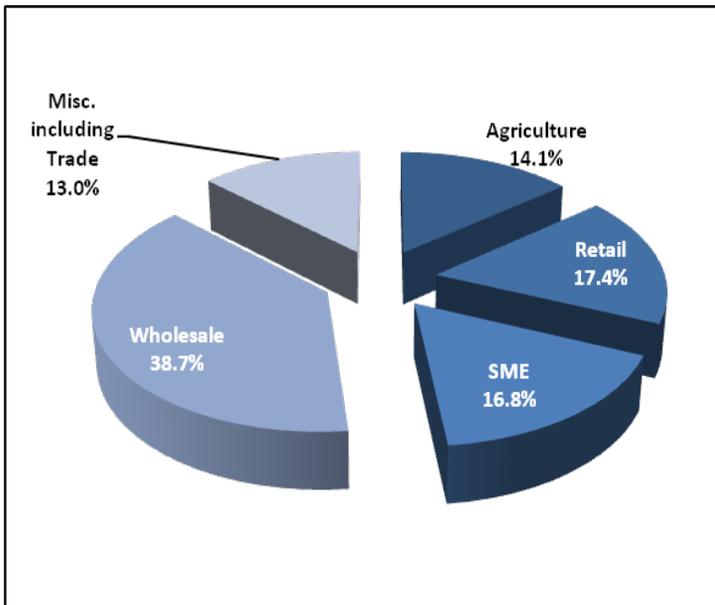


Table 1:- Business overview – Q1 domestic business slowed down, while overseas business witnessed robust growth

Particulars (Rs. cr)	Q1FY11	Q2FY11	Q3FY11	FY11	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Global Business	440262	462618	488721	534116	545283	568305	609867	672249	668551
Domestic Business	331878	347733	367417	402731	405156	413753	435228	482211	473825
Overseas Business	108384	114885	121304	131385	140127	154552	174639	190038	194726
Global Deposits	254668	269660	281512	305439	312943	329186	349206	384871	382738
Domestic Deposits	196166	206001	215378	233323	236536	244720	254994	280135	277839
Overseas Deposits	58502	63659	66134	72116	76407	84466	94212	104736	104899
Global CASA Deposits	74784	79814	81996	87588	87221	90179	94823	103524	99776
Domestic CASA	69114	73944	75632	80181	80225	83250	86836	92948	89551
Overseas CASA	5670	5870	6364	7407	6996	6929	7987	10576	10225
Global Advances (Net)	185594	192959	207209	228677	232340	239121	260661	287377	285813
Domestic Advances	135712	141732	152039	169408	168621	169034	180234	202075	195986
Overseas Advances	49882	51227	55170	59269	63719	70087	80427	85302	89827

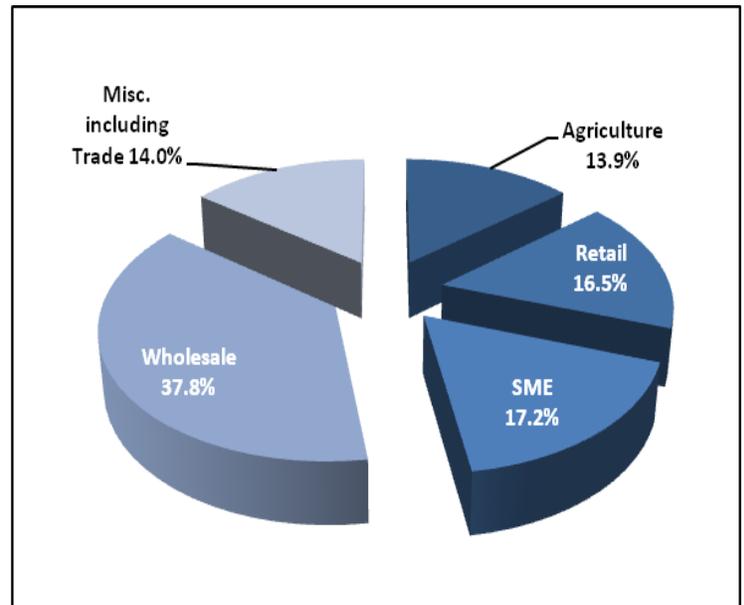
Source: - Company, Arihant Research

Chart 1:- Diversified credit mix- March 2012



Source: - Company, Arihant Research

Chart 2:- Diversified credit mix- June 2012



Source: - Company, Arihant Research



Table 2:- Spreads matrix- Increasing costs and steep fall in international yields dented margins

Particulars (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Global Cost of Deposits	4.4	4.5	4.5	4.8	5.4	5.6	5.7	5.8	5.9
Domestic Cost of Deposits	5.1	5.3	5.3	5.6	6.4	6.8	6.9	7.2	7.3
Overseas Cost of Deposits	2.0	2.0	1.9	1.8	1.8	1.8	2.0	1.7	1.9
Global Yield on Advances	8.2	8.4	8.6	8.7	9.1	9.6	9.5	9.3	9.1
Domestic Yield on Advances	9.8	10.2	10.3	10.7	11.2	12.1	12.0	11.7	11.7
Overseas Yield on Advances	3.7	3.8	3.7	3.5	3.4	3.4	3.1	3.8	3.5
Global Yield on Investment	6.7	7.1	7.4	6.8	7.5	7.6	7.7	7.5	7.7
Domestic Yield on Investment	6.8	7.2	7.6	7.0	7.6	7.7	7.8	7.7	7.8
Overseas Yield on Investment	3.7	3.7	3.9	3.9	4.9	4.2	4.9	3.8	4.9
Global NIM	2.9	3.0	3.2	3.5	2.9	3.1	3.0	3.0	2.7
Domestic NIM	3.4	3.6	3.8	4.2	3.4	3.7	3.5	3.4	3.2
Overseas NIM	1.3	1.3	1.4	1.4	1.4	1.4	1.6	1.7	1.6

Source: - Company, Arihant Research

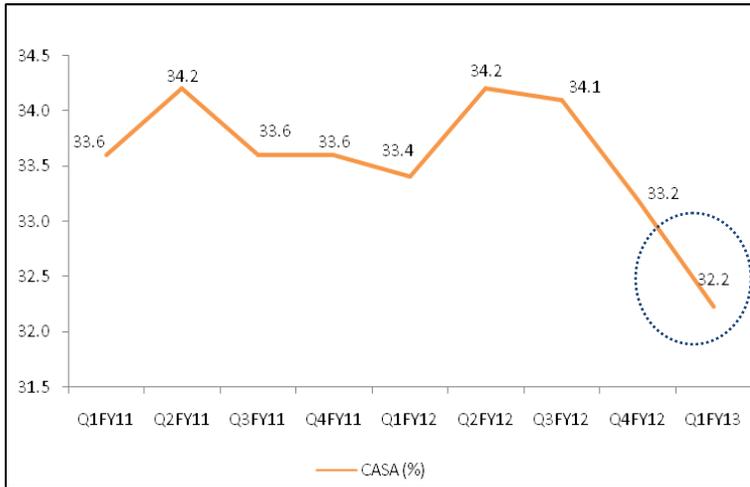
Table 3:- Deposits profile

Particulars (Rs.cr)	Q1FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
Global Saving Deposits	65654	74580	75562	15.1%	1.3%
Domestic Savings Deposits	64162	72575	73519	14.6%	1.3%
Overseas Savings Deposits	1491	2004	2043	37.0%	1.9%
Global Current Deposits	21567	28944	24214	12.3%	-16.3%
Domestic Current Deposits	16063	20372	16033	-0.2%	-21.3%
Overseas Current Deposits	5505	8572	8181	48.6%	-4.6%

Source: - Company, Arihant Research

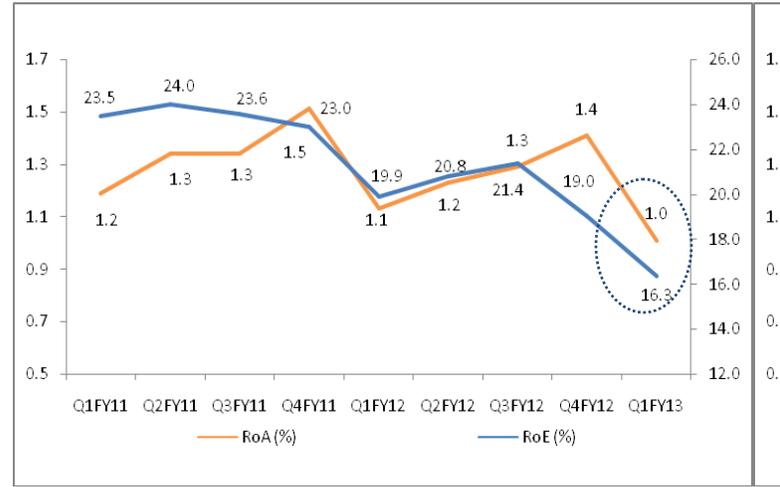


Chart 3:- CASA profile remained weak



Source: - Company, Aриhant Research

Chart 4:- RoEs, RoAs dipped due to margin pressures and weak CASA



Source: - Company, Aриhant Research

Table 4:- Sectoral Deployment of Credit- Wholesale book dominates

Sectors	% of share in Gross Domestic Credit				
	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Agriculture	13.6%	13.2%	14.2%	14.1%	13.9%
Retail	18.1%	17.4%	17.0%	17.4%	16.5%
SME	16.6%	17.6%	17.6%	16.8%	17.2%
Wholesale	37.4%	36.7%	37.2%	38.7%	37.8%
Misc. including Trade	14.3%	15.1%	14.0%	13.0%	14.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: - Company, Aриhant Research

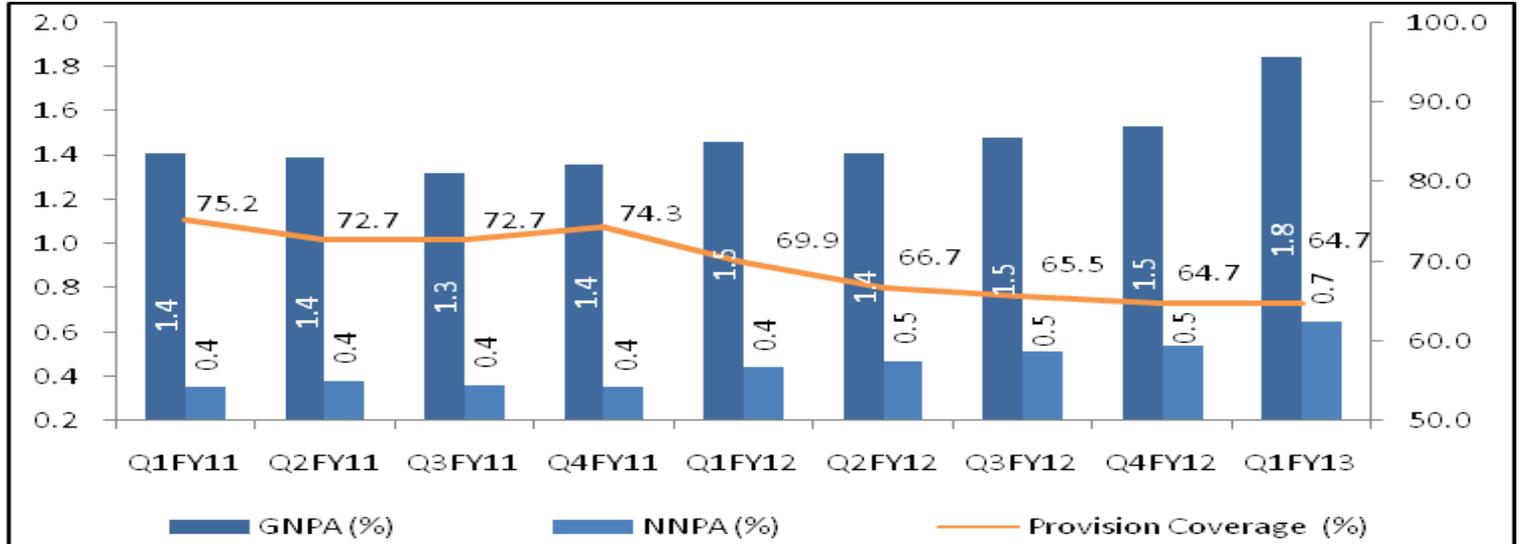
Table 5:- Slowdown in retail credit

Particulars (Rs. cr)	Q1FY12	FY12	Q1FY13	YoY (%)	QoQ (%)
Retail Credit	30934	35668	32922	6.4%	-7.7%
Of which:					
Home Loans	12910	14133	14520	12.5%	2.7%
SME Credit	28367	34512	34346	21.1%	-0.5%
Farm Credit	23211	29036	27774	19.7%	-4.3%
Credit to Weaker Sections	13248	15863	15627	18.0%	-1.5%

Source: - Company, Aриhant Research



Chart 5:- Bad loans inched upwards on the back of elevated slippage levels



Source: - Company, Arihant Research

Table 6:- Sector-wise NPAs- Agri and MSME book witnessed higher NPL risks

Sectors	Gross NPA (%)					
	FY11	Q1FY12	H1FY12	9MFY12	FY12	Q1FY13
Agriculture	3.4	4.1	4.6	4.0	4.0	4.7
Large & Medium Industries	1.8	1.8	1.4	1.4	1.1	1.6
Retail	1.8	2.1	2.2	2.1	1.9	2.0
Housing	1.9	2.0	1.9	1.9	1.9	1.7
SSI (Mfg)	1.3	1.5	1.7	1.4	2.2	4.8
Total MSME	2.7	2.5	3.1	3.1	3.2	3.5
Overseas Operations	0.6	0.6	0.7	0.7	0.7	0.7

Source: - Company, Arihant Research

Table 7:- Restructured Loans Movement

Particulars (Rs. cr)	FY09	FY10	FY11	FY12	Q1FY13
Restructured Loans	2659	2455	1598	8265	771

Source: - Company, Arihant Research



Q1FY13 Earnings Review

Particulars (Rs Cr)	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)	Comments
Interest Earned	8,558	6,631	29.1	8,119	5.4	
Yield on Advances (%)	9	9		9		
Interest Expended	5,760	4,335	32.9	5,321	8.2	
Cost of Deposits (%)	6	6		6		
Net Interest Income	2,798	2,296	21.9	2,797	0.0	Weak sequential perf
Other Income	771	641	20.3	898	-14.1	Yoy other income perf improved
Other income / Net Income(%)	22	22		24		
Total income	3,569	2,937	21.5	3,695	-3.4	
Employee Expenses	761	645	17.9	1,020	-25.4	
Non-Employee expenses	555	461	20.2	625	-11.2	
Operating Expenses	1,316	1,107	18.9	1,644	-20.0	YoY opex stood on the higher side
Cost-income Ratio(%)	37	38		44		
Pre-Prov Profits	2,253	1,830	23.1	2,051	9.9	
Provisions & Contingencies	894	391	128.6	844	5.9	Credit costs went up substantially
PBT	1,359	1,439	-5.5	1,207	12.6	
Exceptional (Reported)	(12)	(13)		(11)	15.8	
Provisions for Tax	208	394	-47.2	(322)	-164.7	
Effective Tax Rate (%)	15	27		-27		
PAT (reported)	1,139	1,032	10.4	1,518	-25.0	Lower tax expenses and other income perf YoY boosted PAT
EPS Basic	27.7	26.4		38.7		
EPS Diluted	27.7	26.4		38.7		
BVPS	678.4	530.9		639.8		
GNPA	5,319	3,425		4,465		Bad loans inched upwards
NNPA	1,845	1,024		1,544		
GNPA (%)	1.8	1.5		1.5		
NNPA (%)	0.7	0.4		0.5		
Total CAR (%)	13.7	13.1		14.7		
Tier 1 (%)	10.1	9.1		10.8		
Tier 2 (%)	3.6	4.0		3.8		
NIM (%)	2.7	2.9		3.0		Sluggish NIMs on account of weak CASA
Advances	285,813	232,340	23.0	287,377	-0.5	
Deposits	382,739	312,943	22.3	384,871	-0.6	

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

	FY11	FY12	FY13E	FY14E
Valuation ratios (x)				
P/E	6.0	5.4	4.8	4.1
P/BV	1.2	1.0	0.9	0.7
P/ABV	1.2	1.0	0.8	0.7



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Stock Rating Scale

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

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