

Institutional Equities  
 India Research

# Bank Of Baroda

**RESULT REVIEW**

 Bloomberg: BOB.IN  
 Reuters: BOB.BO

**HOLD**

## Asset quality trending towards peers

BOB's asset quality has continued to deteriorate with slippage at 2.7%, even surpassing last quarter's slippage of 2%. Gross NPA has deteriorated by 43bps sequentially 2.4%. It did restructuring of Rs19.1bn during the quarter aggregating to 10.9% of loan book. Credit growth has moderated to 15% during the quarter; whereas NIMs have dropped sequentially by 6bps to 2.7%. Non-interest income fell by 27% YoY on account of flattish fee income and relatively lower treasury profits of Rs1.4bn as against Rs3.9bn during Q3FY12. As a result despite lower tax rate (16.7%) bottomline has declined by 22% YoY

- Asset quality deterioration continues:** Its asset quality has deteriorated significantly and has now started trending towards other larger PSU peers. Higher pain was seen in corporate and SME segment during the quarter. Management has guided similar pain to continue for another 1-2 quarters. It has also guided for incrementally restructuring of Rs20-25bn over next quarter. Yet provision coverage of 71% does provide us some comfort.
- Balance sheet growth has moderated:** Advances grew by 15%, whereas, deposits grew by 19% as against its earlier run-rate of +20%. Growth in credit is mainly driven by higher growth in overseas and SME book. CASA is flattish sequentially at 26%.
- NIMs under pressure:** NIMs have dipped by 6bps sequentially to 2.7%. Compression of 15bps in domestic segment to 3.1% has negated slight improvement of 4bps in international segment to 1.6%.

## Outlook & Valuation

At the CMP, the stock trades at 5.6x & 4.5x FY14E & FY15E earnings, and at 1.0x & 0.8x P/ABV FY14E & FY15E, respectively. We have downgraded our ABV estimate by 4% for FY14/15. Based on 10% discount to its historical mean valuation implying 0.9x P/ABV FY15E, we reiterate our "HOLD" recommendation on Bank of Baroda with target price of Rs. 850.

## Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Interest Income	88,022	103,170	114,543	137,361	162,460
Pre-Provision Profit	69,816	85,807	92,413	113,649	134,122
PAT	42417	50070	44270	59108	72780
EPS (Rs)	108.0	121.4	107.3	143.3	176.5
ABV (Rs)	536.0	649.5	669.5	800.9	944.6
P/E	7.4	6.6	7.5	5.6	4.5
P/ABV	1.5	1.2	1.2	1.0	0.8
Gross NPA (%)	1.4	1.5	2.4	2.3	2.3
Net NPA (%)	0.3	0.5	1.0	0.7	0.6
ROA (%)	1.3	1.2	0.9	1.0	1.1
ROE (%)	23.5	20.7	15.3	18.1	19.1

Source: Company, Karvy Institutional Research

## Recommendation

CMP:	Rs804
Target Price:	Rs850
Upside (%)	6%

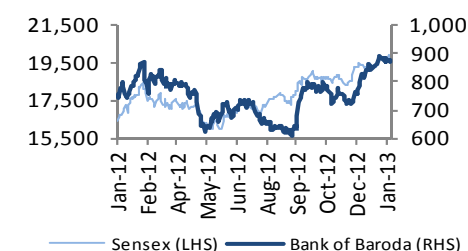
## Stock Information

Market Cap. (Rs bn / US\$ mn)	331/6,209
52-week High/Low (Rs)	900/606
3m ADV (Rs mn / US\$ mn)	594/11.2
Beta	0.9
Sensex/ Nifty	19,751/5,987
Share outstanding (mn)	411

## Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(9.1)	8.2	5.5	(7.2)
Rel. to Sensex	(8.9)	2.8	(6)	(8.7)

## Performance



Source: Bloomberg

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## Chapter title

### Exhibit 1: Quarterly Snapshot

Y/E Mar (Rsmn)	Q3FY13	Q3FY12	Q2FY13	YoY (%)	QoQ (%)
Interest Income	88,449	76,720	87,226		
Interest Expenses	60,040	50,165	58,603		
<b>Net Interest Income</b>	<b>28,409</b>	<b>26,555</b>	<b>28,623</b>	<b>7.0</b>	<b>(0.7)</b>
<i>NIM (%)</i>	<i>2.7</i>	<i>3.1</i>	<i>2.7</i>	<i>-36 bps</i>	<i>-2 bps</i>
Non Interest Income	8,406	11,493	8,283		
<b>Operating Income</b>	<b>36,815</b>	<b>38,048</b>	<b>36,906</b>	<b>(3.2)</b>	<b>(0.2)</b>
Staff Cost	7,981	6,740	7,512		
Other Op Exp	6,274	5,226	5,568		
Total Operating Expenses	14,255	11,966	13,080		
<i>Cost to Income (%)</i>	<i>38.7</i>	<i>31.4</i>	<i>35.4</i>		
<b>Operating Profit</b>	<b>22,560</b>	<b>26,082</b>	<b>23,826</b>	<b>(13.5)</b>	<b>(5.3)</b>
Provisions	10,418	8,497	6,589		
<b>PBT</b>	<b>12,142</b>	<b>17,585</b>	<b>17,237</b>	<b>(31.0)</b>	<b>(29.6)</b>
Tax	2,026	4,686	4,223		
<i>-effective tax rate</i>	<i>16.7</i>	<i>26.6</i>	<i>24.5</i>		
<b>PAT</b>	<b>10,116</b>	<b>12,899</b>	<b>13,014</b>	<b>(21.6)</b>	<b>(22.3)</b>
EPS (Rs)	24.5	32.8	31.6		
BV (Rs)	760.9	645.5	729.7		
Deposits	4,147,334	3,492,060	4,081,500	18.8	1.6
Advances	2,993,178	2,606,610	2,921,809	14.8	2.4

Source: Company, Karvy Institutional Research

### Exhibit 2: Earnings Revision

	Revised Estimate		Earlier Estimate		% Revision	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Interest Income (Rs mn)	137,361	162,460	144,362	170,415	-4.8	-4.7
NIMs	2.6	2.5	2.6	2.6	<i>-7 bps</i>	<i>-7 bps</i>
Operating Profit (Rs mn)	106,936	125,910	115,349	134,053	-7.3	-6.1
Profit after tax (Rs mn)	59,108	72,780	64,798	78,290	-8.8	-7.0
EPS (Rs)	143.3	176.5	157.1	189.8	-8.8	-7.0
ABV (Rs)	800.9	944.6	829.6	984.9	-3.5	-4.1

Source: Company, Karvy Institutional Research

**Exhibit 3: Annexure I - Income Statement**

<b>(Rs bn)</b>	<b>Q3FY12</b>	<b>Q4FY12</b>	<b>Q1FY13</b>	<b>Q2FY13</b>	<b>Q3FY13</b>
Int Adv	57.4	60.7	64.3	64.4	64.9
Int Inv	16.5	16.4	17.3	18.7	19.0
Other	2.9	4.0	4.0	4.1	4.6
<b>Total Int Inc</b>	<b>76.7</b>	<b>81.2</b>	<b>85.6</b>	<b>87.2</b>	<b>88.4</b>
Total Int Exp	50.2	53.2	57.6	58.6	60.0
<b>NII</b>	<b>26.6</b>	<b>28.0</b>	<b>28.0</b>	<b>28.6</b>	<b>28.4</b>
Comm/Exch/Brok	4.5	4.9	4.1	4.7	4.5
Exch	2.4	1.6	1.9	1.8	1.8
Recov in W/o	0.7	1.1	0.8	0.7	0.7
Sale of sec	3.9	1.4	0.8	1.1	1.4
Other	0.0	0.0	0.0	0.0	0.0
<b>Non-Int</b>	<b>11.5</b>	<b>9.0</b>	<b>7.7</b>	<b>8.3</b>	<b>8.4</b>
<b>Op.Inc</b>	<b>38.0</b>	<b>37.0</b>	<b>35.7</b>	<b>36.9</b>	<b>36.8</b>
Staff Cost	6.7	10.2	7.6	7.5	8.0
Other op exp	5.2	6.2	5.5	5.6	6.3
<b>Op.Exp</b>	<b>12.0</b>	<b>16.4</b>	<b>13.2</b>	<b>13.1</b>	<b>14.3</b>
<b>Op.Profit</b>	<b>26.1</b>	<b>20.5</b>	<b>22.5</b>	<b>23.8</b>	<b>22.6</b>
Prov for NPA	5.1	9.3	8.1	7.2	8.2
Prov for std asset	1.0	1.9	0.0	0.4	1.3
Prov for Invst	2.2	-2.7	0.8	-1.3	0.7
Other Prov	0.0	0.0	0.1	0.3	0.2
<b>Total Prov</b>	<b>8.5</b>	<b>8.5</b>	<b>9.1</b>	<b>6.6</b>	<b>10.4</b>
<b>PBT</b>	<b>17.6</b>	<b>12.0</b>	<b>13.5</b>	<b>17.2</b>	<b>12.1</b>
Tax	4.7	-3.2	2.1	4.2	2.0
<b>PAT</b>	<b>12.9</b>	<b>15.2</b>	<b>11.4</b>	<b>13.0</b>	<b>10.1</b>

Source: Company, Karvy Institutional Research

**Bank Of Baroda**
**Exhibit 4: Annexure II – Balance Sheet**

	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Deposits (Rs bn)	3492	3849	3827	4082	4147
Growth %	24.0	26.0	22.3	24.0	18.8
Domestic Deposits (Rs bn)	2550	2801	2778	2929	2954
Overseas Deposits (Rs bn)	942	1047	1049	1153	1193
Advances (Rs bn)	2607	2874	2858	2922	2993
Growth %	25.8	25.7	23.0	22.2	14.8
Domestic Advances Mix (Rs bn)					
Corporate	939	1028	1009	1018	980
SME	321	345	343	369	391
Retail	310	357	329	342	354
Agriculture	231	290	278	257	287
Overseas Advances (Rs bn)	804	853	898	935	981
CD Ratio %	74.6	74.7	74.7	71.6	72.2
Domestic CASA %	34.1	33.2	33.2	31.7	32.2
Overseas CASA %	8.5	10.1	9.7	10.7	10.7
Global CASA %	27.2	26.9	26.1	25.8	26.0
Slippage (Annualized) (%)	1.5	1.8	1.8	2.0	2.7
Gross NPA (Rs bn)	39.0	44.6	53.2	58.8	73.2
Gross NPA %	1.5	1.5	1.8	2.0	2.4
Net NPA (Rs bn)	13.3	15.4	18.4	23.8	33.6
Net NPA %	0.5	0.5	0.7	0.8	1.1
PCR %	66.0	65.4	65.3	59.4	54.1
PCR (Incl w/o) %	80.5	80.1	79.0	75.7	70.9
Restructuing % of loan book	3.8	6.5	6.8	7.2	7.7
NPA in restructured book %	12.7	7.9	7.8	7.1	10.9
Spread Analysis (Calculated)					
Yield on Advance %	9.2	8.9	9.0	8.9	8.8
Yield on Investments %	7.7	7.9	7.6	7.5	7.5
Yield on Assets %	9.1	9.1	9.1	9.0	8.9
Cost of Funds %	5.4	5.3	5.5	5.4	5.3
NIMs (Calculated)	2.9	2.8	2.7	2.6	2.5
NIMs (Disclosed)	3.0	3.0	2.7	2.7	2.7
Domestic	3.5	3.4	3.2	3.2	3.1
Overseas	1.6	1.7	1.6	1.6	1.6
Tier I %	9.3	10.8	10.1	9.6	9.3
Tier II %	4.1	3.8	3.6	3.3	3.3
Total CAR %	13.5	14.7	13.7	12.9	12.7

Source: Company, Karvy Institutional Research

**Exhibit 5: Income Statement**

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Interest Income	218,859	296,737	354,079	402,699	458,281
Interest expense	130,837	193,567	239,536	265,338	295,820
<b>Net interest income</b>	<b>88,022</b>	<b>103,170</b>	<b>114,543</b>	<b>137,361</b>	<b>162,460</b>
Fees	10,206	12,261	12,261	14,713	17,656
Other Income	13,451	15,888	17,597	19,972	22,081
Net Revenue	111,679	131,319	144,401	172,046	202,197
Operating Expense	46,298	51,587	55,663	65,109	76,287
-Employee Exp	29,168	29,856	31,324	35,903	41,239
-Other Exp	17,130	21,731	24,339	29,206	35,048
<b>Operating Profit</b>	<b>65,381</b>	<b>79,732</b>	<b>88,738</b>	<b>106,936</b>	<b>125,910</b>
Investment Profit	4,435	6,075	3,675	6,713	8,212
<b>Pre-provision Profit</b>	<b>69,816</b>	<b>85,807</b>	<b>92,413</b>	<b>113,649</b>	<b>134,122</b>
Provisions	13,313	25,549	35,656	33,773	35,771
-Loan Loss Provisions	12,640	20,171	31,786	32,554	34,700
-Investment Depreciation	90	2,363	(49)	(741)	(889)
-Other Provisions	583	3,015	3,920	1,960	1,960
PBT	56,503	60,258	56,757	79,876	98,351
Taxes	14,086	10,188	12,486	20,768	25,571
<b>PAT</b>	<b>42,417</b>	<b>50,070</b>	<b>44,270</b>	<b>59,108</b>	<b>72,780</b>

Source: Company, Karvy Institutional Research

**Exhibit 6: Balance Sheet**

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Equity Capital	3,928	4,124	4,124	4,124	4,124
Reserves & Surplus	206,003	270,645	298,242	346,750	407,488
<b>Shareholder's Funds</b>	<b>209,931</b>	<b>274,769</b>	<b>302,366</b>	<b>350,874</b>	<b>411,612</b>
<b>Deposits</b>	<b>3,054,395</b>	<b>3,848,711</b>	<b>4,541,479</b>	<b>5,449,775</b>	<b>6,539,730</b>
-Current deposits	231,347	289,444	358,721	449,550	558,546
-Saving deposits	644,540	745,795	849,710	1,031,369	1,249,360
-Term deposit	2,178,508	2,813,472	3,333,048	3,968,855	4,731,824
Borrowings	223,079	235,730	249,585	313,166	389,463
-Sub ordinate debt	107,487	109,280	113,437	132,511	155,400
Other liabilities	96,567	114,005	130,115	126,645	118,427
<b>Total liabilities</b>	<b>3,583,972</b>	<b>4,473,215</b>	<b>5,223,545</b>	<b>6,240,459</b>	<b>7,459,232</b>
Cash/Equivalent	499,341	641,686	721,662	817,033	931,479
Advances	2,286,764	2,873,773	3,358,711	4,039,932	4,857,399
Investments	712,606	832,094	1,005,286	1,232,360	1,504,849
Fixed Assets	22,997	23,415	25,415	27,415	29,415
Other assets	62,264	102,247	112,472	123,719	136,091
<b>Total assets</b>	<b>3,583,972</b>	<b>4,473,215</b>	<b>5,223,545</b>	<b>6,240,459</b>	<b>7,459,232</b>

Source: Company, Karvy Institutional Research

**Bank Of Baroda**
**Exhibit 7: Ratios**

<i>Ratio's</i>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>
<i>Growth</i>					
NII growth	48.2	17.2	11.0	19.9	18.3
Pre-provision profit growth	41.5	22.9	7.7	23.0	18.0
PAT growth	38.7	18.0	-11.6	33.5	23.1
<i>Business (%)</i>					
Deposit growth	26.7	26.0	18.0	20.0	20.0
Advance growth	30.6	25.7	16.9	20.3	20.2
Business growth	28.4	25.9	17.5	20.1	20.1
CD	74.9	74.7	74.0	74.1	74.3
CASA	28.7	26.9	26.6	27.2	27.6
<i>Operating efficiency (%)</i>					
Cost-to-income	41.5	39.3	38.5	37.8	37.7
Cost-to-assets	1.6	1.4	1.2	1.2	1.2
<i>Productivity (Rs mn)</i>					
Business per branch	1562.7	1698.0	1812.4	1994.1	2209.2
Business per employee	135.6	159.4	173.4	198.4	227.0
Profit per branch	12.4	12.6	10.2	12.4	14.1
Profit per employee	1.1	1.2	1.0	1.2	1.4
<i>Spreads (%)</i>					
Yield on advances	8.0	8.7	8.7	8.2	7.7
Yield on investments	7.2	8.0	7.5	7.5	7.2
Cost of deposits	4.3	5.1	5.3	5.0	4.6
Yield on assets	7.4	8.0	7.9	7.6	7.2
Cost of funds	4.4	5.1	5.3	4.9	4.6
NIMs	3.0	2.8	2.5	2.6	2.5
<i>Capital adequacy (%)</i>					
Tier I	10.0	10.8	8.3	8.0	7.9
Tier II	4.5	3.8	2.8	2.7	2.7
Total CAR	14.5	14.7	11.1	10.8	10.6
<i>Asset Quality (%)</i>					
Gross NPA	1.4	1.5	2.4	2.3	2.3
Net NPA	0.3	0.5	1.0	0.7	0.6
Provision coverage	74.9	65.4	57.6	68.7	72.9
Provision coverage (incl w/off)	85.0	80.1	71.6	79.1	81.5
Slippage	0.9	1.3	2.0	1.2	1.2
Credit-cost	0.5	0.6	1.0	0.8	0.7
<i>Return (%)</i>					
ROE	23.5	20.7	15.3	18.1	19.1
ROA	1.3	1.2	0.9	1.0	1.1
<i>Per share (Rs)</i>					
EPS	108.0	121.4	107.3	143.3	176.5
BV	534.4	666.3	733.2	850.8	998.1
ABV	536.0	649.5	669.5	800.9	944.6
<i>Valuation</i>					
P/E	7.4	6.6	7.5	5.6	4.5
P/BV	1.5	1.2	1.1	0.9	0.8
P/ABV	1.5	1.2	1.2	1.0	0.8

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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## Disclosures Appendix

### Analyst certification

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