

Extends good performance on all major fronts

Bank of Baroda net profits stood marginally higher to our estimates primarily on account of strong growth in NII along with write-back of investment provisions. Substantial growth in the NII was on account of sequential improvement in both domestic as well as international NIM's by 10bp and 9bp respectively to 2.94% and 1.18%. However, other income growth was subdued due to lower core fee income.

Asset quality concern has started subsiding: Asset quality of the bank has start improving during 1QFY15 with upgrades and recovery improving to 11.1% of the opening GNPA v/s 5.71% in Q4FY14 and 4.74% in Q1FY14. Further, the bank improved PCR to 50.2% v/s 44.3% in Q1FY14. GNPA and NNPA ratio stood at managable level of 3.11% and 1.58% respectively. The bank reported fresh slippage of Rs20.2bn v/s Rs21.6bn in Q1FY14. The bank restructured Rs9.9bn of standard loans v/s Rs11.6bn in Q4FY14, taking the total o/s standard restructured assets to Rs197.8bn or 5.2% of the loan book. Management guided fresh NPL's and restructuring to moderate from the current level's.

Decent Business Growth: Deposits as well as advances have grown at a decent pace of 18.1% and 21.1% respectively. Core CASA has seen a compression of 43bps to 31.33%. Bulk of the growth came in from SME segment which grew by 21.8%, whereas retail segment has seen a healthy growth of 16.7%.

Outlook & Valuation: Amid the challenging interest rates and macroeconomic regime, Bank of Baroda has been delivering reasonable operating and asset quality performance. We expect bank's overall performance to improve further in coming quarter. At the CMP, the stock is trading at 1.13x FY15E and 0.97x FY16E adjusted P/BV. We recommend "BUY" Bank of Baroda with a Target Price of Rs1,064 (1.1x FY16E Adj. BV).

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
Net Interest Income	1,03,170	1,13,153	1,19,653	1,36,566	1,58,007
Other Income	34,223	36,306	44,627	46,013	50,478
Pre-Provision Profit	85,806	89,992	92,910	1,02,211	1,17,348
PAT	50,070	44,807	44,789	55,182	64,693
EPS (Rs)	121.79	106.37	105.75	128.13	150.21
ABV (Rs)	621	709	768	844	967
P/E (x)	5.54	8.19	8.23	6.80	5.80
P/ABV (x)	1.12	1.32	1.25	1.13	0.97
Gross NPA (%)	1.55	2.43	2.99	2.81	2.69
Net NPA (%)	0.54	1.28	1.52	1.38	1.31
Avg. ROA (%)	1.24	0.90	0.75	0.78	0.79
Avg. ROE (%)	18.22	14.02	12.62	13.62	14.09

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs871
Target Price:	Rs1,064
Upside (%)	22%

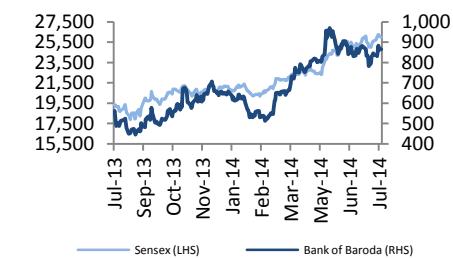
Stock Information

Market Cap. (Rs bn / US\$ mn)	372/6,189
52-week High/Low (Rs)	1,010/429
3m ADV (Rs mn / US\$ mn)	1,713/28.5
Beta	1.7
Sensex/ Nifty	25,991/7,749
Share outstanding (mn)	429

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.4	5.6	50.7	34.2
Rel. to Sensex	(1.1)	(8)	14.5	9.3

Performance



Source: Bloomberg

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Exhibit 1: Income Statement Analysis

(Rs mn)	1Q FY14	2Q FY14	3Q FY14	4Q FY14	1Q FY15	yoY %	qoq %
Interest on Advance	66,686	68,323	70,610	73,162	77,404	16.07	5.80
YoA - Calculated (%)	8.29	8.34	8.16	7.81	7.95	(34)	14
Income on Investment	21,007	22,203	21,751	22,000	22,605	7.61	2.75
Interest on Balances	5,118	2,813	2,452	4,955	4,531	(11.47)	(8.56)
Others Interests	2,058	1,396	2,095	2,770	2,040	(0.89)	(26.34)
Interest Earned	94,869	94,735	96,907	1,02,886	1,06,580	12.34	3.59
Interest Expended	65,978	65,787	66,336	71,643	73,297	11.09	2.31
CoF - Calculated (%)	4.98	4.89	4.75	4.74	4.62	(36)	(11)
Net Interest Income	28,891	28,948	30,571	31,243	33,283	15.20	6.53
NIM - Calculated (%)	2.26	2.24	2.28	2.14	2.17	(9)	3
NIM - Reported (%)	2.41	2.32	2.37	2.29	2.35	(6)	6
NII as % of Operating Income	70.13	74.83	76.64	70.20	76.46	633	626
Core Fee Income	4,520	5,682	4,948	6,016	4,833	6.92	(19.66)
Fee Inc. as % of OI	10.97	14.69	12.40	13.52	11.10	13	(241)
Non Core Fee Income	7,786	4,057	4,373	7,247	5,413	(30.48)	(25.31)
Non core fee Inc. as % of OI	18.90	10.49	10.96	16.28	12.43	(646)	(385)
Total Other Income	12,306	9,739	9,321	13,263	10,245	(16.74)	(22.75)
Other Inc. as % of OI	29.87	25.17	23.36	29.80	23.54	(633)	(626)
Operating Income (OI)	41,197	38,687	39,892	44,506	43,529	5.66	(2.20)
Core Operating Income	33,411	34,630	35,519	37,259	38,116	14.08	2.30
Employees Expenses	10,140	10,302	10,557	10,399	11,055	9.03	6.31
Employees Expenses. as % of OI	24.61	26.63	26.46	23.37	25.40	78	203
Other Operating Expenses	6,541	7,139	7,360	8,311	7,678	17.38	(7.63)
Other Operating Exp. as % of OI	15.88	18.45	18.45	18.67	17.64	176	(104)
Total Operating Expenses	16,680	17,441	17,917	18,710	18,733	12.30	0.12
Cost to income Ratio (%)	40.49	45.08	44.91	42.04	43.04	4,204	(287)
Operating Profit (OP)	24,516	21,246	21,975	25,796	24,796	1.14	(3.87)
Provisions and Counting.	10,179	8,608	7,619	11,532	5,267	(48.25)	(54.32)
Pro Burden as % of OP	41.52	40.52	34.67	44.70	21.24	(2,028)	(2,346)
Profit Before Tax	14,338	12,638	14,356	14,264	19,529	36.21	36.91
Tax Expenses	2,503	801	3,722	2,536	5,910	136.08	133.07
Effective Tax Rate (%)	17.46	6.34	25.93	17.78	30.26	1,280	1,249
Net Profit	11,834	11,837	10,634	11,728	13,619	15.08	16.12
EPS (RS)	27.64	27.65	24.80	26.95	31.62	14.40	17.33

Source: Company, Karvy Institutional Research

Profitability improved sequentially: Net Profit for 1QFY14 stood at Rs13.6bn (+15.1% yoy; 16.1% qoq) which was primarily driven by higher growth in NII to Rs33.3bn (+15.2% yoy; 6.53% qoq) and decline in provision expenses to Rs5.3bn (-48.3% yoy; -54.3% qoq). Decline in provision expenses was on account of reversal of Rs3.2bn on investment portfolio. Cost to income ratio of the bank improved sequentially by 99bp to 43.04% as operating income growth was much higher to growth in operating expenses.

Margins improved on better loan mix: Continued focus of the bank to increase proportion of its retail loan book in the overall loan book mix has started to yield results as Global NIM's improved by 6bp qoq to 2.35%. Domestic retail loan book of the bank grew 16.7% yoy to Rs435bn in FY14 and now stands at 14.7% of the bank's global loan book.

Exhibit 2: Loan Book Analysis

(Rs bn)	1Q FY14	2Q FY14	3Q FY14	4Q FY14	1Q FY15	yoY %	qoq %
Agriculture	2,65,343	2,56,239	2,56,688	2,77,612	3,06,189	15.4	10.3
Retail	3,73,550	4,01,672	4,18,306	4,51,801	4,35,930	16.7	(3.5)
SME		4,60,201	5,07,861	5,32,390	5,52,503	5,60,481	21.8
Wholesale	8,44,744	7,27,165	7,58,180	8,73,662	7,78,446	(7.8)	(10.9)
Misc. including Trade	2,11,671	4,15,523	4,11,176	5,66,112	5,13,774	142.7	(9.2)
Overseas	10,57,630	10,90,090	11,47,720	12,48,370	12,22,910	15.6	(2.0)

Source: Company, Karvy Institutional Research

Exhibit 3: Loan Book Analysis (% Break Up)

(%)	1Q FY14	2Q FY14	3Q FY14	4Q FY14	1Q FY15	yoY (bps)	qoq (bps)
Agriculture	8.3	7.5	7.3	7.0	8.0	(24)	103
SME	11.6	11.8	11.9	11.4	11.4	(21)	4
Retail	14.3	14.9	15.1	13.9	14.7	36	76
Mid Corporate Group	26.3	21.4	21.5	22.0	20.4	(590)	(162)
Large Corporate	6.6	12.2	11.7	14.3	13.5	687	(80)
Overseas	32.9	32.1	32.6	31.4	32.0	(88)	59

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet Analysis

(Rs bn)	1Q FY14	2Q FY14	3Q FY14	4Q FY14	1Q FY15	yoY %	qoq %
Net Worth	338.3	355.5	356.5	359.9	374.1	10.57	3.96
Deposit	4,670	4,849	5,038	5,689	5,516	18.12	(3.03)
Savings Deposits	835	883	904	964	960	14.91	(0.47)
- Current Deposits	347	394	417	501	426	23.01	(14.79)
- CASA Deposit	1,456	1,583	1,626	1,465	1,386	(4.77)	(5.36)
- Term Deposit	3,215	3,266	3,412	4,224	4,130	28.48	(2.22)
Investments	1,193	1,118	1,152	1,161	1,217	1.96	4.77
Advances	3,154	3,399	3,524	3,970	3,818	21.06	(3.84)
Total Business	9,017	9,366	9,714	10,820	10,551	17.01	(2.49)
Avg Int. Earning Assets (as per Reported NIM)	4,795	4,991	5,160	5,457	5,665	18.14	3.81
Risk Weighted Assets (Rs mn)	3,189	3,298	3,458	3,686	3,774	18.35	2.38
CAR (%)	12.70	12.32	12.01	12.28	11.91	(79)	(37)
Tier I Capital (%)	9.68	9.36	8.72	9.28	9.06	(62)	(22)

Source: Company, Karvy Institutional Research* as per Basel III

Exhibit 5: Asset Quality Analysis

	1Q FY14	2Q FY14	3Q FY14	4Q FY14	1Q FY15	yoY %	qoq %
Gross Non Performing Assets	97,626	1,08,879	1,19,258	1,18,759	1,20,868	23.81	1.78
Fresh Slippages	21,655	20,170	15,339	11,175	20,221	(6.62)	80.94
Net Non Performing Assets	54,406	63,155	66,236	60,348	60,208	10.66	(0.23)
GNP Ratio (%)	2.99	3.15	3.32	2.99	3.11	12	12
NNP Ratio (%)	1.69	1.86	1.88	1.52	1.58	(11)	6
NPA Coverage Ratio	44.27	42.00	44.46	49.18	50.19	592	100
Restructured Gross Loans	1,74,500	1,81,227	2,33,681	2,25,763	1,97,791	13.35	(12.39)
Restructured Loan as % of Adv.	6.64	6.52	6.63	5.69	5.99	(65.19)	30.22

Source: Company, Karvy Institutional Research

Financials

Exhibit 6: Income Statement

Y/E March (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
Interest Earned	2,96,737	3,51,967	3,89,397	4,47,841	5,10,155
Interest Expenditure	1,93,567	2,38,814	2,69,744	3,11,276	3,52,148
Net Interest Income	1,03,170	1,13,153	1,19,653	1,36,566	1,58,007
Fee Income	12,261	12,574	14,374	17,384	19,314
Non Fee Income	21,962	23,733	30,254	28,629	31,164
Other Income	34,223	36,306	44,627	46,013	50,478
Net Operating Income	1,37,393	1,49,459	1,64,281	1,82,578	2,08,485
Core Operating Income	1,15,431	1,25,726	1,34,027	1,53,950	1,77,321
Employee Expenses	29,856	34,496	41,397	48,228	55,944
Other Expenses	21,731	24,971	29,973	32,140	35,193
Operating Expenses	51,587	59,467	71,371	80,368	91,137
Operating Profit	85,806	89,992	92,910	1,02,211	1,17,348
Provisions and Contingencies	25,548	41,679	37,937	27,134	29,925
Profit Before Tax	60,258	48,312	54,973	75,077	87,423
Taxes	10,188	3,505	9,562	19,895	22,730
Profit After Tax	50,070	44,807	45,411	55,182	64,693

Source: Company, Karvy Institutional Research

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
Capital & Liabilities					
Capital	4,124	4,225	4,307	4,319	4,319
Reserves Total	2,70,645	3,15,469	3,55,550	4,00,965	4,54,879
Net Worth	2,74,769	3,19,694	3,59,857	4,05,284	4,59,198
Deposits	38,48,711	47,38,833	56,88,944	66,27,620	77,37,746
- Current deposits	2,89,444	3,56,783	5,00,504	5,96,486	7,04,135
- Saving deposits	7,45,795	8,43,026	9,64,374	11,26,695	13,46,368
- Term Deposits	28,13,472	35,39,024	42,24,066	49,04,439	56,87,243
Borrowings	2,35,731	2,65,793	3,68,130	3,98,630	4,31,830
Other Liabilities & Provisions	1,14,005	1,47,034	1,78,115	2,00,829	1,73,076
Total Liabilities	44,73,215	54,71,354	65,95,045	76,32,363	88,01,850
Assets					
Cash & Cash Equivalents	6,41,685	8,53,989	13,08,779	14,98,878	16,55,279
Investments	8,32,094	12,13,937	11,61,127	12,83,629	14,67,839
Advances	28,73,773	32,81,858	39,70,058	46,84,669	55,04,486
Fixed Assets	23,415	24,531	27,341	30,421	32,742
Other Assets	1,02,247	97,039	1,27,740	1,34,766	1,41,504
Total Assets	44,73,215	54,71,354	65,95,045	76,32,363	88,01,850
Risk Weight Assets	25,37,338	30,47,568	37,50,288	44,47,656	52,00,269

Source: Company, Karvy Institutional Research

Exhibit 8: Key Ratios

	FY12	FY13	FY14	FY15E	FY16E
Growth Ratio (%)					
Net interest Income	17.2	9.7	5.7	14.1	15.7
Other Income	21.8	6.1	22.9	3.1	9.7
Operating Profit	22.9	4.9	3.2	10.0	14.8
Provisions Expense	91.9	63.1	(9.0)	(28.5)	10.3
PAT	18.0	(10.5)	1.3	21.5	17.2
Deposits	26.0	23.1	20.0	16.5	16.8
Advances	25.7	14.2	21.0	18.0	17.5
Risk Weighted Assets	20.9	20.1	23.1	18.6	16.9
Yields / Margins (%)					
Cost of Funds (CoF)	4.93	4.93	4.59	4.50	4.39
Yield on Advance	8.67	8.40	7.69	7.60	7.45
Yield on funds	7.91	7.53	6.85	6.68	6.57
Net Interest Margin (NIM)	2.75	2.42	2.10	2.04	2.04
Balance Sheet Ratio					
Credit / Deposit Ratio	74.67	69.25	69.79	70.68	71.14
Incremental C/D Ratio	73.90	45.85	72.43	76.13	73.85
Investment-Deposit Ratio	21.62	25.62	20.41	19.37	18.97
CASA Ratio	26.90	25.32	25.75	26.00	26.50
Asset Quality (%)					
Gross NPA/Gross Advances	1.55	2.43	2.99	2.81	2.69
Net NPA/Net Advances	0.54	1.28	1.52	1.38	1.31
Provisioning Burden as % of PPP	29.77	46.31	40.83	26.55	25.50
Provisioning Coverage Ratio	65.43	47.49	49.18	51.03	51.25
Slippage ratio (%)	1.51	2.38	2.08	1.60	1.25
Provis. Exp. to Avg. Advance (%)	0.99	1.35	1.05	0.63	0.59
RoA Tree Analysis					
NII / Avg. Assets	2.56	2.28	1.98	1.92	1.92
Core Fee / Avg. Assets	0.30	0.25	0.24	0.24	0.24
Core Rev. / Avg. Assets	2.87	2.53	2.22	2.16	2.16
Ope. Exp. / Avg. Assets	1.28	1.20	1.18	1.13	1.11
Cost to Income	37.55	39.79	43.44	44.02	43.71
Emp. cost / Avg. Assets	0.74	0.69	0.69	0.68	0.68
Oprt. Exp. / Avg. Assets	0.54	0.50	0.50	0.45	0.43
Core OP/ Avg. Assets	1.58	1.33	1.04	1.03	1.05
Trading & Ot/ Avg. Assets	0.55	0.48	0.50	0.40	0.38
OP/ Avg. Assets	2.13	1.81	1.54	1.44	1.43
Provisions / Avg. Assets	0.63	0.84	0.63	0.38	0.36
NPA prov. / Avg. Assets	0.39	0.62	0.49	0.35	0.29
PBT / Avg. Assets	1.50	0.97	0.91	1.06	1.06
Tax / Avg. Assets	0.25	0.07	0.16	0.28	0.28
Effective Tax Rate	16.91	7.26	17.39	26.50	26.00
RoA	1.24	0.90	0.75	0.78	0.79
Leverage (x)	16.28	17.11	18.33	18.83	19.17
RoE	18.22	14.02	12.62	13.62	14.09
Capital Adequacy Ratio (%)					
Total CAR	14.68	13.67	12.01	11.31	10.72
Tier 1	10.84	10.49	9.39	9.06	8.76

Source: Company, Karvy Institutional Research

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

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