

BANK OF BARODA LTD

BUY

Bank of Baroda Ltd [BOB], incorporated in 1908, is the third largest PSU Bank with a network of more than 3000 branches and 70 overseas offices. It is one of the conservative but consistent performers in PSU banking space with a balance sheet size of more than Rs 2,274bn.

- BOB underwent a re-branding exercise in FY2006 [Baroda Sun] as a part of a major transformation process, which coincides with the improvement in banks overall fundamental and regained transformation.
- BOB has the best asset quality in the PSU banking space because of its relatively low exposure to high risk assets.
- BOB has entered into a life insurance JV under the name 'India First Life Insurance Co Ltd, where BOB holds about 44% stake while UK's Legal and General Group and Andhra Bank hold 26% and 30% respectively. It has received all approvals & will commence its operation in CY2010.
- The loan book of BOB, universally witnessed a consistent growth of 23% Y-o-Y ahead of the Industry average as well as ahead of management guidance.
- BOB's CASA has declined as compared to FY2006 but currently it has been stabilized in the range of 30-34% while NIM is expected to be in the range of 2.5-2.9% till FY12E.

Based on a standalone FY12 P/Adj. BV multiple of 1.3x, the fair value per share for the company works out to Rs 660.

Financial Snapshot

Projections (Rs Mn)	FY2009	FY2010E	FY2011E	FY2012E
Net Interest Income	51,234	58,097	83,196	111,297
Y-o-Y Growth %		13%	43%	34%
Non-Interest Income	27,845	25,579	28,500	25,000
Y-o-Y Growth %		-8%	11%	-12%
Total Income	178,761	194,073	244,172	303,217
Y-o-Y Growth %		9%	26%	24%
PAT	22,272	25,765	32,566	40,554
Y-o-Y Growth %		16%	26%	25%
EPS Rs	60.9	70.5	89.1	111.0
Adj Book Value Rs	338.8	398.3	441.9	508.2
NIM %	2.5%	2.3%	2.7%	2.9%
RoE %	17.4%	17.3%	19.4%	20.4%
PERx	9.6	8.3	6.5	5.3
Price/ BV	1.7	1.4	1.3	1.1
Price/Adjusted BV	1.7	1.5	1.3	1.1

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0 % to 10% p.a.

Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk

Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	532134 / BANKBARODA
Bloomberg Code	BOBIN Equity
No. of Shares (Mn)	365.3
Sensex / Nifty	16,430 / 4,922

PRICE DATA

CMP Rs (26th Feb '10)	583.55
Beta	0.93
Market Cap (Rs mn)	213,171
52 Week High-low	605 - 181
Average Daily Volume	187,851

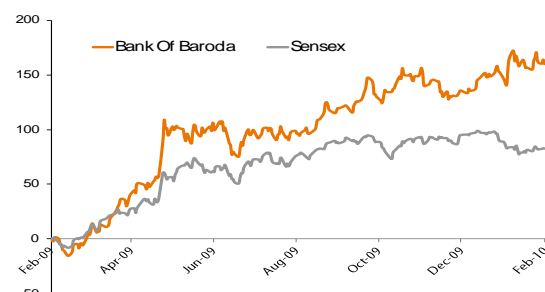
STOCK RETURN (%)

	30D	3M	6M	1Y
Bank of Baroda	9%	4%	36%	174%
Sensex	-3%	-6%	4%	82%
Nifty	-3%	-5%	4%	75%

SHARE HOLDING PATTERN (%)

Promoter	53.8
Institution	33.2
Non Institution	13.0
Total	100.0

1 Year Price Performance (Rel. to Sensex)



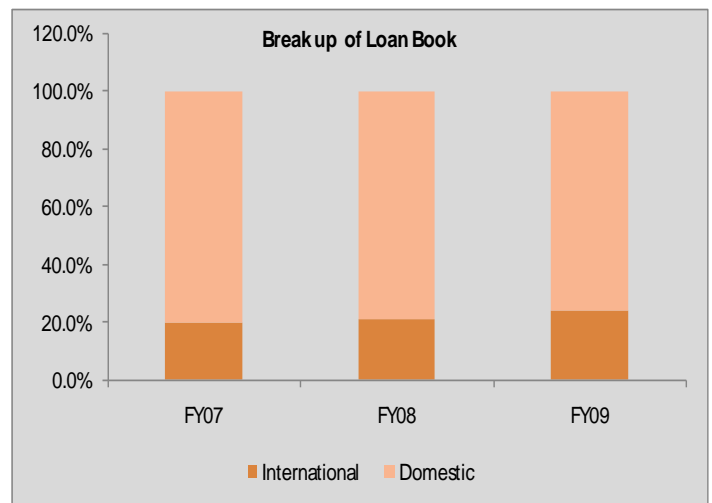
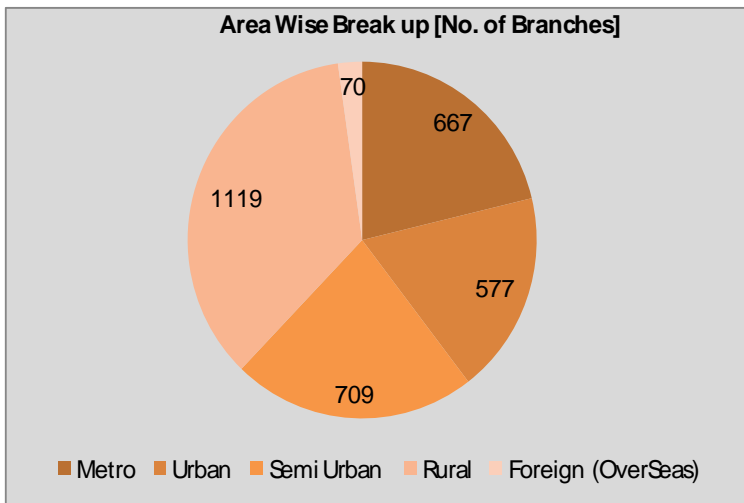
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BUSINESS PROFILE

Established in 1908 by Maharaja Sayajirao Gaekwad of Baroda, BoB was one of the 14 banks that were nationalized in 1969. With nearly over 3,000 branches within India and over 70 offices abroad, and a balance sheet size of Rs 2,274bn, BoB is amongst the top 5 Indian banks in terms of balance sheet size and is the third largest amongst PSU banks in deposit franchise. It has a well-diversified balance sheet within India, while it has leveraged its international branch network to build a 25% balance sheet from outside India. It has been one of the early players to have identified the potential and importance of international presence and is currently operating through its eight banking subsidiaries apart from the parent.

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Attractive Deposit Franchisee and strong international operations

With the third largest branch network (excluding SBI group) of approximately 3,029 branches, built over a century, BoB has one of the most attractive franchisee, enabling it to build a strong retail liability franchisee that funds the bank's growth, not only within the country but also abroad. Importantly, the bank has been aggressively increasing its deposit franchise, especially in the past 4 years, from 2,700 branches in FY2006 to 3,029. As of Q3 FY2010, BoB is adequately capitalized with overall capital adequacy ratio at a comfortable 14.7% and a Tier 1 capital of 8.9%. The international business that contributed 16% in FY2006 is now contributing 24% by end of Q3 FY2010. BOB is further in process of identifying more overseas centers for increasing its global presence, which will improve its future business prospects.

Current Capital adequacy ratio stands at 14.7 %

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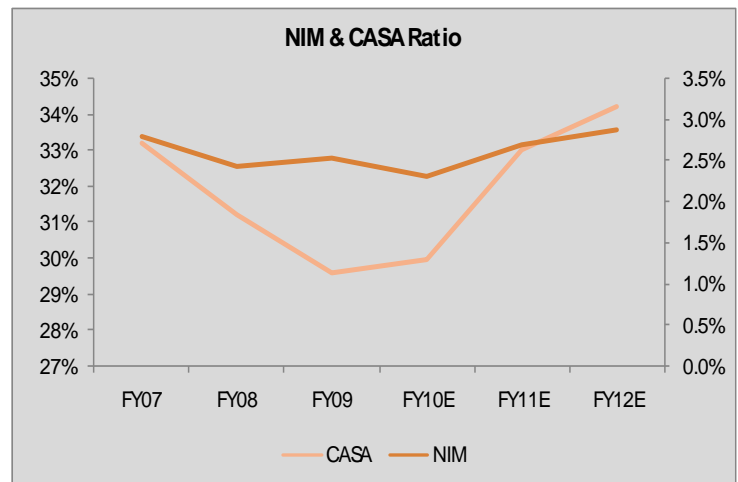
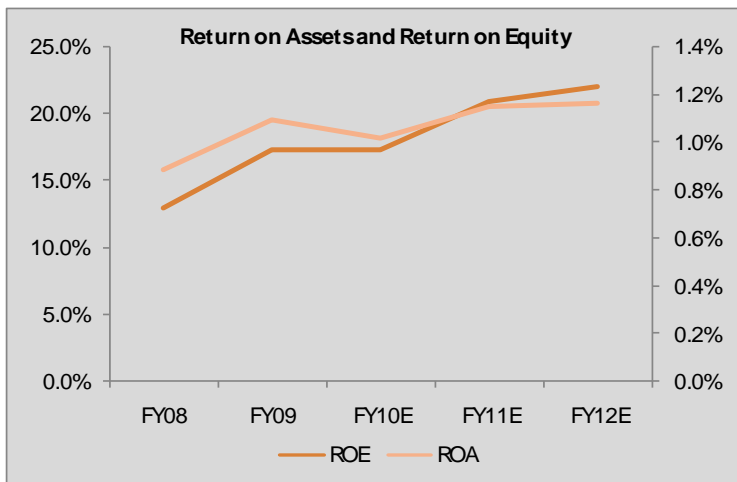


BUSINESS PERFORMANCE

Q3FY10 Results better than expectations

The Net Interest Margin [NIM] has improved to 2.9% as against 2.6% in the last quarter; it is down however compared to 3.3% in the corresponding quarter last year. Margins in domestic segment have increased by 50bps sequentially to 3.4%. Credit has grown by 23.5% and deposits grew by 27.6% during the quarter. Overseas segment has grown at a higher rate, with foreign deposits and advances growing at 52.5% and 37.9% respectively. ROA continued to remain consistent at 1% level. PAT grew by 16% Y-o-Y to Rs 8.2bn. It is mainly on account of improved margins, higher balance sheet growth, healthy growth in fee income, and cost efficiency.

Overseas segment has grown faster than the domestic segment



Peer Comparison

We believe that the bank has come a long way and has improved its operating metrics significantly post restructuring. The comparable ratios are much better as compared to other PSU's in the banking space. Its international operations are increasing and contributing significantly to the loan book. BOB has improved its ROE significantly and has been consistent in terms of their ROA at 1%.

Provision coverage ratio stands at 78% well above the RBI Benchmark of 70%.

Peer Group Comparison

Companies	NIM Margins %	Net NPA Ratio %	RoE %	ROA %	P/E	P/B	CMP	FV
Bank of Baroda	2.5%	0.3%	17%	1%	7.3	1.7	583.5	10
State Bank of India	2.6%	1.8%	17%	1.0%	9.8	1.7	1974.3	10
Punjab National Bank	3.0%	0.1%	22%	1.0%	9.0	2.0	901.0	10
Bank of India	2.4%	0.4%	25.0%	1.5%	5.6	1.4	333.4	10

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VALUATIONS

We believe BOB's key strengths lies in its franchise, strong balance sheet, improving metrics and strong management team. We expect ROE to cross 20% in the coming years while maintaining asset quality. At the CMP of Rs 583.5, the stock is trading at a P/Adj BV. multiple of 1.3 & 1.1 based on FY 2011E and FY 2012E figures respectively.

Based on a standalone FY12 P/Adj. BV multiple of 1.3x, the fair value per share for the company works out to Rs 660.

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We recommend a '**BUY**' rating on the stock.

Financial Analysis and Projections

Particulars(RsMn)	FY2009	FY2010E	FY2011E	FY2012E
Interest Earned	150,916	168,494	215,672	278,217
Interest Expenditure	99,682	110,397	132,476	166,920
Net Interest Income	51,234	58,097	83,196	111,297
Other Income	27,845	25,579	28,500	25,000
Total income	178,761	194,073	244,172	303,217
Non-Interest Expense	32,397	34,221	42,484	49,898
Provisions & Contingencies	13,253	11,000	20,606	25,870
Less: Tax	11,157	12,690	16,040	19,975
Profit After Tax	22,272	25,765	32,566	40,554
EPS (Rs)	60.9	70.5	89.1	111.0
Adjusted Book Value (Rs)	338.8	398.3	441.9	508.2
Net Interest Margin (%)	2.5%	2.3%	2.7%	2.9%
RoA (%)	1.1%	1.0%	1.0%	1.0%
RoE (%)	17.4%	17.3%	19.4%	20.4%
Valuation Ratios (x)				
P/E	9.6	8.3	6.5	5.3
Price/ BV	1.7	1.4	1.3	1.1
Price/ Adjusted BV	1.7	1.5	1.3	1.1

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Board Of Directors

Director Name	Current Position	Description
MD Mallya	Managing Director & Chairman	Shri M.D. Mallya is Chairman of the Board, Managing Director of Bank of Baroda. He has Bachelor of Engineering degree. He has Post Graduate Diploma in Management from Indian Institute of Science, Bangalore. He started his banking career from Corporation Bank in August 1976. In a career spanning over 31 years, he acquired rich experience in banking at various positions and assignments. He was Executive Director of Oriental Bank of Commerce (OBC). As a Chairman & Managing Director, Bank of Maharashtra, he has made rapid strides in all its spheres of activities, like business growth, technology, HR, organizational restructuring, etc.
Rajiv Kumar Bakshi	Executive Director	Shri. Rajiv Kumar Bakshi is Executive Director of Bank of Baroda. He joined Bank-of-India as an Probationary Officer on July 07, 1975. He posses long and varied experience in branch operations in India and Overseas, i.e. London and Singapore. Prior to joining Bank of Baroda as an Executive Director, he was working as General Manager (Business Process " Reengineering & New initiatives) at Bank of India.
Maulin A Vaishnav	Non Executive Director	Shri. Maulin A. Vaishnav is on the board of Bank of Baroda. He is an accomplished Social Worker. He previously held the position of the Chairman of the Gujarat Maritime Board, the Primary Schools Board and Baroda Municipal Corporation. He was also a national director-Indian Jaycees.
A Somasundaram	Non Executive Director	Mr. Somasundaram is an Non Executive Director of Bank of Baroda. He retired as Chief General Manager, Reserve Bank of India (RBI). During his stint with RBI, he worked in various departments in various capacities at various places, including his tenure as Regional Director, Chennai and Chief General Manager Dept. of Banking Supervision, Central Office, Mumbai. He also served as director on the board of Lakshmi Vilas Bank Ltd., Indian Bank and Tamil Nadu Mercantile Bank Ltd.
Atul Agarwal	Non Executive Director	Dr. Atul Agarwal is a Director nominated by the Government of India since 23rd November, 2007. Dr. Agarwal is a fellow member of the Institute of Chartered Accountants of India and has over two decades of professional experience as a Chartered Accountant in the areas of corporate consulting, strategic thinking, business reengineering and development and implementation of accounting systems. Dr. Agarwal is also Government of India nominated Director on the Board of Deposit Insurance and Credit Guarantee Corporation (DICGC) and as well as the Chairman of Audit Committee of DICGC. He has been the Central Council Member of the Institute of Cost and Works Accountants of India and was a Director of U.P. Stock Exchange Association Limited as SEBI nominated public representative during 1993-94 as well as member of various expert committees of the U.P. Stock Exchange.

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Board Of Directors (contd.)

Alok Nigam	Non Executive Director	Shri Alok Nigam, I A S Officer of 1986 batch is at present Joint Secretary (BO) in the Ministry of Finance, Department of Financial Services. He is a graduate in Mathematics and also holds a post-graduate degree in Mathematics, Statistics & Psychology. He is appointed on the Board of our Bank from 9th December, 2009. He brings with him rich experience of having worked in various departments of State and Central Government.
Ranjit Kumar Chaterjee	Non Executive Director	Shri Ranjit Kumar Chatterjee, post graduate in M.Sc. Agriculture joined the Bank as an Officer on 19th August, 1981. He has 26 years of banking experience both in branch operations as well as in administrative offices. At present he is Senior Branch Manager of Asansol Branch, Dist. Burdwan, West Bengal. He is appointed on the Board of the Bank representing non workmen employees from 20th December, 2007 for a period of 3 years from the date of notification or till he ceases to be an officer of the Bank or until further orders, whichever is earlier.
Milind N Nadkarni	Non Executive Director	Shri Milind N. Nadkarni, joined the Bank on 1st November, 1971 in clerical cadre. Right from the beginning he was attracted to the trade union movement. In 1973 he was appointed as workmen representative on the Managing Committee of the Staff Welfare fund and continue to hold since then. He has undergone various training programmes in both India and abroad and has participated in conferences abroad of employees working in the Finance Sector in his capacity as the President of UNI Indian Liaison Council. He was appointed as the Director on the Board from 1st May, 2007 for a period of 3 years from the date of his appointment or until his successor is duly appointed or till he ceases to be a workmen employee of the Bank or until further orders, whichever is the earliest.
Dharmendra Bhandhari	Director	Dr. Dharmendra Bhandari is an elected director representing the shareholders of the Bank other than Central Government. He is a Chartered Accountant and also holds a Doctorate degree in Taxation of Nonresidents in India. He has been Associate Professor, Department of Accountancy, University of Rajasthan, Jaipur. Earlier he has worked as an Officer on Special Duty, Reserve Bank of India and also as a Consultant to the Joint Parliamentary Committee, on securities scam. He has several papers to his credit at the national and international conferences and has also authored several books.
Deepak Bhaskar Phatak	Director	Dr. Deepak B. Phatak is an elected director representing the shareholders of the Bank other than Central Government. He is a Chair Professor, Kanwal Rekhi School of Information Technology, IIT, Mumbai. He holds B.E., M.Tech degree and also a Ph.D. He has been working at IIT, Mumbai since 1971. He served as the first Dean of Resource Development, IIT, Mumbai from 1995 to 1998. He has also been a consultant to several financial and industrial organizations including RBI, State Bank of India, Unit Trust of India, New India Assurance Company Limited, Rashtriya Chemicals and Fertilizers and Larsen & Toubro on various issues related to Information Technology. He has also been a Director on the boards of IDBI, ISIL, UTISL and IDRBT.

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