

Annual Surveillance

Rating Rationale for Bank of Baroda's Upper Tier II Bonds of Rs 1000 Crores

Issue Rating: BWR AAA

Outlook: Stable

Brickwork Ratings has reaffirmed the rating of BWR AAA (Pronounced BWR Triple A) with a stable outlook for the following issue of Bank of Baroda:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History	
						Review As on	Rating As on
Upper Tier II Bonds	Tranche 1: Rs 500 crore	BWR AAA (Stable)	Reaffirmed	June 2009	Call option after 10 years	BWR AAA (Stable) June 2010	BWR AAA (Stable) June 2009
	Tranche 2: Rs 500 crore	BWR AAA (Stable)	Reaffirmed	July 2009	July 2024	BWR AAA (Stable) June 2010	BWR AAA (Stable) June 2009

The rating “BWR AAA” stands for an instrument that is considered to offer the BEST credit quality in terms of timely servicing of debt obligations. A “Stable” rating outlook signifies the expectation of the rating being stable in the near term. The rating has been reaffirmed taking into account the performance of the bank and publicly available information.

The rating, inter alia, factors the strong capital adequacy position, consistent operating efficiency, strong growth in net interest income, higher operating profits, increased provisions and the Government of India's holding in the bank.

Bank of Baroda is one of the larger public sector banks with a total global business of Rs 5,34,116 crores as on 31st March 2011 (as compared to Rs. 4,16,297 crores during the previous year) registering an increase of 28.30% over the last year. The bank's global deposits have grown by 26.60% to reach a level of Rs. 3,05,439 crores in FY11 (Rs. 2,41,262 crores in FY10). Similarly, the bank's global advances has increased by 30.65%

to Rs. 2,28,676 crores in FY11 (Rs. 1,75,035 crores in FY10). Bank of Baroda has reported a growth in profitability of 38.69%.

Bank of Baroda Operations:

Rs. In crore	FY11	FY10
Global Business	534116	416297
Domestic Business	402731	317144
Overseas Business	131385	99153
Global Deposits	305439	241262
Domestic Deposits	233323	185500
Overseas Deposits	72116	55762
Global Advances	228676	175035
Domestic Advances	169408	131644
Overseas Advances	59269	43391
Global CASA Deposits	87589	71468
Domestic CASA Deposits	80181	66024
Overseas CASA Deposits	7407	5444

In FY11, the “Overseas Business” contributed 24.60% to the bank’s total business, 17.10% to its Gross Profit and 32.10% to its Core Fee income.

The bank’s gross NPAs have increased to ₹ 3152.50 crores in FY11 as compared to ₹ 2400.69 crores in FY10. However, gross NPAs as a percentage to total advances remains stable at 1.36% in FY11. The net NPAs have slightly increased from 0.34% in FY10 to 0.35% in FY 11.

The bank is very well placed in terms of provision coverage ratio at 85% (including the technical write-offs), higher than the minimum required provisioning cover as stipulated by the Reserve Bank of India.

The bank’s domestic net interest margins showed an impressive growth and have increased to 3.72% in March 2011 as compared to a NIM of 3.12% in the previous year. The bank’s low cost deposits mix was stable, with its domestic CASA deposits at 34.36% as of March 2011, marginally decreased from 35.59% as of March 2010 due to a sharp increase in retail term deposit rates. While the increasing interest rate scenario in the industry has increased the cost of deposits, the bank’s relatively higher share of CASA

deposits will help it have an edge over most of the other state owned banks. The bank will continue to focus on protecting its CASA share in the coming years as well.

The bank's profitability has increased during FY11. The bank's net profit increased to Rs. 4241.68 crores in FY11 from Rs. 3058.33 crores in FY10, with an impressive growth of 38.69% over the previous year despite of higher provisions. Interest income increased by 31.07% to Rs. 21885.92 crores in FY11 as compared to Rs. 16698.34 crores in FY10. Non Interest income has grown just by 3.12% to Rs. 2809.18 crores in FY11 (Rs. 2724.91 crores in FY10), primarily due to a decline of 38.70% in trading gains caused by a worsening bond market scenario during FY11. Provisions and Contingencies (excluding tax provisions) for the bank have increased substantially by 91% to Rs. 1331.29 crores in FY11 on account of higher provisions against NPAs, bad debts, standard advances and staff welfare schemes.

The return on average assets has increased from 1.21% in FY 10 to 1.33% in FY 11. The Cost to Income Ratio has come down to 39.87% in FY 11 from 43.57% in FY 10 due to better operating efficiency.

During FY11, the bank has received Rs. 2461 crores from Government of India. With this, the Government's shareholding in the bank has increased from 53.81% in FY10 to 57.03% in FY11. As on March 2011, the bank has reported a total capital adequacy ratio and Tier I capital adequacy ratio of 14.52% and 9.99% respectively.

Bank of Baroda has reported a credit-deposit (net advances to total deposits) ratio of 74.87% in March 2011 which is around the average levels reported. The Bank is well-positioned to increasing its credit portfolio.

Brickwork Ratings expects the performance of the bank to be "Stable" over the next one year.

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