

Bank of Baroda

Sensex: 33588

CMP: INR 178

Target: INR 175



BFSI

BOB reported improved operational performance with higher NII growth (9% y-o-y & q-o-q) and controlled opex (5% y-o-y & q-o-q) leading to PPOP growth of 13% y-o-y & 15% q-o-q. Loan book growth was 9% y-o-y & 3% q-o-q to INR 3.9tn on a lower base. Highlight for the quarter was lower slippages of INR 25.9bn vs. 37.6bn (average fresh slippages for last 5 quarters). Credit cost continued to be higher (30% y-o-y & -1.6% q-o-q) due to ageing provisions which resulted in a PAT of INR 3.6bn (-36% y-o-y & 75% q-o-q). We recommend a HOLD on the stock with a TP of INR 175 in 16 months, implying a P/BV multiple of 0.9x on FY19E BV of INR 195.

Decent operating performance

Domestic NIMs improved by 20bps q-o-q to 2.68% led by improvement in spreads (27bps q-o-q). Cost to Income ratio stood at 44.3% (-230bps q-o-q) led by controlled opex (5% q-o-q) and higher net income (10% q-o-q). Management guided global NIMs to be ~2.5% (currently 2.31%) going ahead led by domestic segment. Provision on wage negotiation related expense from Q3 FY18 onwards can shoot up opex cost going ahead. Gross Domestic loan book grew by 13.7% y-o-y led by strong growth in retail loans (+25.5% y-o-y) and corporate credit (+13.8% y-o-y) which constitute 21% & 46% of gross domestic credit respectively. Within retail, home loans and auto loans grew by 34% & 16% y-o-y which constitute 55% and 7% of the retail book respectively. CASA level has remained stable at 39.2% post-demonetization.

Improved asset quality

Fresh Slippages stood at INR 25.9bn vs. INR 37.6bn (average of last 5 quarters). Out of the total fresh slippages of INR 25.9bn, ~INR 6.5bn / 7bn / 3.4bn came from corporate / agri / retail segment. Management has guided slippages to remain below elevated levels of FY17 going ahead. GNPA in absolute terms stood flat at INR 463bn q-o-q as the bank made higher w/offs this quarter. The bank has a PCR of 46% (INR 54.5bn) for the exposure towards NCLT list 1 & 2 (INR 119bn) and aims to increase this to 60%. Total stressed assets (NNPA + Restructured book) as a % of net advances stood at 8.1% (8.3% in Q1 FY18). Management expects expansion of loan base and higher

recoveries to reduce NNPA to ~2.5% (currently 5.05%) by FY19E. Since FY16, rating profile for the bank has improved significantly with respect to lending to corporate (above INR 50mn) as 42.9% of the book was A rated & above as against 29.3% in FY16. Std. Rest. Book/SDR/S4A/5:25 stood at INR 117.2bn/ 39.3bn/34.3bn/5.7bn respectively.

Other highlights

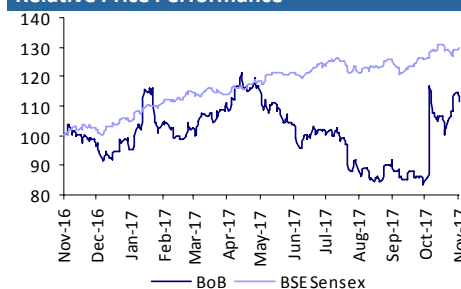
- The bank has added 17 branches during the quarter taking the total strength to 5451.
- Incremental growth in home loans was ~INR 90bn y-o-y of which ~INR 33bn was bought out from other entities (mainly HFCs/NBFCs)
- Write-off has been on fully provided accounts.
- Total SMA-2 stood at INR 140bn as of Q2 FY18.

Outlook and Valuation

Legacy issues continue to haunt BOB resulting in volatile earnings. However, it is one of the strongest liability franchise post SBI within the PSB space with a strong CASA of ~40%. The bank's focus on cleaning up the balance-sheet and keeping a strong PCR at ~67% (one of the highest among peers) lends us comfort. We expect stress addition and credit costs to moderate in FY19E, although ratios will look elevated due to moderate balance sheet growth. We expect ROA / ROE to be ~0.5% / 8.3% for FY19E respectively. We recommend a HOLD on the stock with a TP of INR 175 in 16 months, implying a multiple of 0.9x P/BV on FY19E BV of INR 195.

Shareholding (%)	Sep-17
Promoters	59.24
FII's	12.45
DII's	21.19
Others	7.12

Relative Price Performance

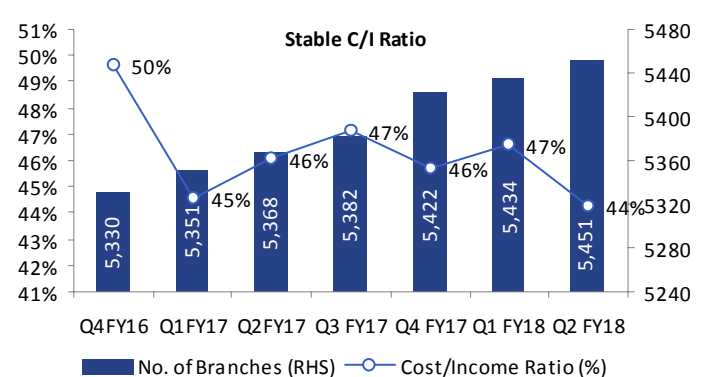
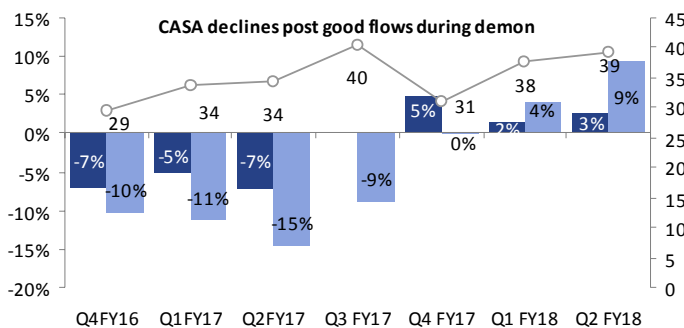
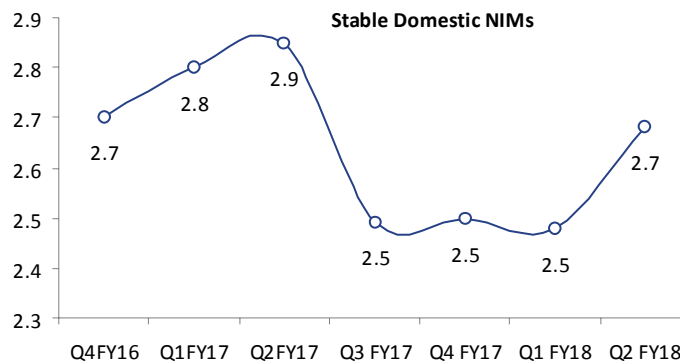


Key Data	
BSE Code	532134
NSE Code	BANKBARODA
Bloomberg Code	BOB IN
Reuters Code	BOB.BO
Shares Outstanding (mn)	2304.16
Face Value	2
Mcap (INR bn)	329.15
52 Week H/L	202.45/136.00
2W Avg. Qty.NSE	16607883
Free Float (INR Bn)	134.17
Beta	1.6

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	440613	421999	427969	442383
Interest Expended	313214	286865	282328	282945
Net interest income	127399	135134	145641	159438
Growth	-3.4%	6.1%	7.8%	9.5%
NIM	1.9%	2.1%	2.2%	2.4%
APAT	-53955	13831	21110	36111
Growth	-258.8%	-125.6%	52.6%	71.1%
Adj. EPS (INR)	(23)	6	9	16
BV (NIR)	174	175	182	195
ABV (INR)	90	96	103	124
P/ABV (x)	1.6	1.8	1.8	1.5
Net NPA (%)	5.06%	4.72%	4.63%	3.88%
RoA	-0.8%	0.2%	0.3%	0.5%
RoE	-13.5%	3.4%	5.1%	8.3%

Quarterly Financials

Particulars (INR mn)	Q2 FY18	Q2 FY17	Q1 FY18	y-o-y	q-o-q	H1 FY18	H1 FY17	y-o-y
Interest Earned	107533	104852	105527	3%	2%	213060	209187	2%
Interest Expended	70328	70591	71478	0%	-2%	141806	141215	0%
Net Interest Income	37205	34261	34050	9%	9%	71255	67972	5%
Domestic NIMs (%)	2.7	2.9	2.5	-17 bps	20 bps	2.6	2.8	-25 bps
Other Income	17371	15614	15512	11%	12%	32882	30058	9%
Net Total Income	54576	49875	49561	9%	10%	104137	98030	6%
Operating Expenses	24158	22973	23080	5%	5%	47237	44433	6%
Employee Cost	12131	11685	10148	4%	20%	22280	22766	-2%
Other operating expenses	12026	11288	12932	7%	-7%	24958	21667	15%
Cost/Income Ratio (%)	44.3%	46.1%	46.6%	-180 bps	-230 bps	45%	45%	3 bps
Operating Profits	30418	26902	26481	13%	15%	56900	53597	6%
Provisions & Contingencies	23294	17958	23681	30%	-1.6%	46974	37999	24%
Profit Before Tax	7125	8944	2801	-20%	154%	9926	15598	-36%
Provision for Tax	3571	3422	767	4%	366%	4338	5840	-26%
Net Profit	3554	5521	2034	-36%	75%	5588	9757	-43%
EPS	1.54	2.39	0.88	-36%	75%	2	4.22	-43%
Equity	4621	4621	4621	0%	0%	9242	4621	100%
Advances	3,873,016	3,541,496	3,776,067	9%	3%	3,873,016	3,541,496	9%
GNPA	463,068	429,493	461,728	8%	0%	463,068	429,493	8%
NNPA	195,726	193,420	195,193	1%	0%	195,726	193,420	1%
GNPA (%)	11.2	11.4	11.4	-19 bps	-24 bps	11.2	11.4	-19 bps
NNPA (%)	5.1	5.5	5.2	-41 bps	-12 bps	5.1	5.5	-41 bps
RoA (%)	0.2	0.3	0.1	-12 bps	9 bps	0.3	0.6	-25 bps
Deposits	5,832,120	5,675,312	5,706,075	2.8%	2.2%	5,832,120	5,675,312	2.8%
C/D Ratio	66.4%	62.4%	66.2%	401 bps	23 bps	66%	62.4%	4 bps



Source: Company, SPA Research

Financials

Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	440613	421999	427969	442383
<i>Growth (%)</i>	2.6%	-4.2%	1.4%	3.4%
Interest Expended	313214	286865	282328	282945
Net interest income	127399	135134	145641	159438
<i>Growth</i>	-3.4%	6.1%	7.8%	9.5%
Other Income	49989	67581	66247	68054
Net Income	177387	202715	211888	227492
Operating Expenditure	89231	92964	96574	100835
Pre Provisioning Profit	88156	109751	115314	126656
Provisions & Contingencies	155136	85024	83035	71440
PBT	-66981	24727	32279	55216
Tax	-13025	10896	11169	19105
PAT	-53955	13831	21110	36111
<i>Growth</i>	-258.8%	-125.6%	52.6%	71.1%
EPS (INR)	(23)	6	9	16

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	4621	4621	4621	4621
Reserves	397369	398412	415828	445620
Total Shareholders Funds	401990	403033	420449	450241
Total Deposits	5740379	6016752	5896417	6250202
<i>Growth</i>	-7.0%	4.8%	-2.0%	6.0%
Borrowings	334717	306114	326987	352439
Other Liabilities & Provisions	236679	222856	242127	268695
Total Liabilities	6713765	6948754	6885980	7321577
APPLICATION OF FUNDS				
C/B with RBI and Call Money	1339003	1504699	1281172	1325137
Investments	1204505	1296305	1326901	1425087
Advances	3837702	3832592	3947568	4223897
<i>Growth</i>	-10%	0%	3%	7%
Fixed Assets	62538	57584	59887	63480
Other Assets	270017	257574	270452	283975
Total Assets	6713765	6948754	6885980	7321577

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
EPS	-23	6	9	16
BVPS	174	175	182	195
ABVPS	90	96	103	124
DPS	-	0.5	1.4	2.3
Profitability Ratios				
Yield on Advances	7.3%	7.2%	7.2%	7.2%
Cost of Deposits	5.3%	4.9%	4.8%	4.7%
Net Interest Margin (Calc)	1.9%	2.1%	2.2%	2.4%
RoA	-0.8%	0.2%	0.3%	0.5%
RoE	-13.5%	3.4%	5.1%	8.3%
Balance Sheet Ratios				
Credit/Deposit Ratio	66.9%	63.7%	66.9%	67.6%
Investment/Deposit Ratio	21.0%	21.5%	22.5%	22.8%
CASA Ratio	26.4%	32.2%	33.7%	33.3%
Capital Adequacy Ratio (CAR)	13.2	12.2	12.3	12.0
Tier I	10.8	9.9	10.0	9.7
Asset Quality Ratios				
GNPA (INR)	405210	427187	434982	409380
NNPA (INR)	194065	180802	182692	163752
Gross NPA	10.1%	10.6%	10.5%	9.3%
Net NPA	5.1%	4.7%	4.6%	3.9%
PCR (incl. technical w/off)	60.1%	66.8%	70.9%	75.8%
Efficiency Ratios				
Cost to Income Ratio	50.3%	45.9%	45.6%	44.3%
Business per Employee (in INR mn)	184	188	186	195
Profit per Employee (in INR mn)	-1.04	0.26	0.40	0.67
Valuation Ratios				
P/E (x)	NA	28.8	19.9	11.6
P/BV (x)	0.8	1.0	1.0	0.9
P/ABV (x)	1.6	1.8	1.8	1.5
Dividend Yield	0.0%	0.3%	0.8%	1.3%

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