

Bank of Baroda

Better business growth but asset quality woes continue

May 28, 2018

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Rating	Accumulate
Price	Rs145
Target Price	Rs163
Implied Upside	12.4%
Sensex	35,165
Nifty	10,689

(Prices as on May 28, 2018)

Trading data

Market Cap. (Rs bn)	385.6
Shares o/s (m)	2,651.8
3M Avg. Daily value (Rs m)	2310.9

Major shareholders

Promoters	64.03%
Foreign	13.94%
Domestic Inst.	14.03%
Public & Other	8.00%

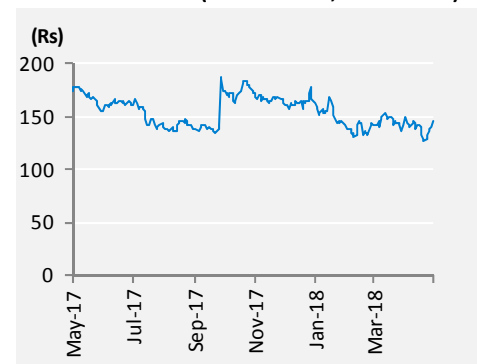
Stock Performance

(%)	1M	6M	12M
Absolute	1.5	(15.6)	(19.1)
Relative	0.9	(20.2)	(32.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	13.6	13.4	1.6
2020	21.1	21.7	-2.5

Price Performance (RIC: BOB.BO, BB: BOB IN)



Source: Bloomberg

BOB reported Rs31bn of loss on back of recognition of NPAs mainly from the existing stressed asset pool keeping provisions at much higher levels. Momentum on business front has been encouraging post consolidation in FY17 on both liabilities & assets. Retail remains in forefront (42% YoY growth), while CASA has touched +41% best in many quarters and has started coming in-line with peer banks. Management's efforts towards lending strategy seems to be working gradually mainly in retail, while fee income has seen renewed focus. Key development to watch out for will be ending of the current MD's term in Q2FY19 and succession plan remains important. Retain Accumulate with PT of Rs163 (from Rs174) based on 1.4x Mar-20 ABV (rolled over from Sep-19 ABV).

■ **Improving trends in operating performance:** Bank's operating performance has been seeing an improving trend with NII growth of 12% YoY despite interest reversals of Rs1.2bn and CoF benefit still continues to carry in, but we see margins see gradual uptrend from hereon as loan growth improves with lower asset quality issues than past. Fee income growth also continued its momentum with bank seeing opportunities to grow in various segments such as CMS and non-fund credit. Encouraging has been the trend in CASA over last few quarters steadying domestic ratio at +41% and remains a focus area.

■ **Large corporate stress now limited, more worries in MSME:** Slippages of Rs125.7bn (Rs117.7bn fresh) were high mainly from watch list (Rs89.6bn) both from large corporate and MSME. However, bank continues to be optimistic with FY19 guidance of better asset quality with Rs100bn slippages and better recoveries from NCLT resolutions thus keeping credit cost below 100bps with PCR remaining intact in FY19. Watch list of Rs100bn now contains mainly several small a/cs including MSME, with largest exposure of Rs6.8bn in power.

■ **Business growth on track:** Loan growth of 11.5% YoY was better with renewed focus on retail (42% YoY)/SME with new products and strengthening of channels. Increased exposure to better rated corporates which is currently low; however, maintain balance between Retail and Corporate.

Key financials (Y/e March)	2017	2018	2019E	2020E
Net interest income	135,126	155,215	176,966	199,823
Growth (%)	6.1	14.9	14.0	12.9
Operating profit	109,743	120,053	133,344	146,919
PAT	13,823	(24,320)	35,993	56,004
EPS (Rs)	6.0	(9.8)	13.6	21.1
Growth (%)	(125.1)	(263.8)	(238.5)	55.6
Net DPS (Rs)	1.2	—	2.4	3.5

Profitability & Valuation	2017	2018	2019E	2020E
NIM (%)	1.98	2.19	2.43	2.59
RoAE (%)	3.4	(5.8)	8.0	11.5
RoAA (%)	0.20	(0.34)	0.49	0.73
P / BV (x)	0.9	1.0	0.9	0.8
P / ABV (x)	1.4	1.6	1.4	1.1
PE (x)	24.3	(14.8)	10.7	6.9
Net dividend yield (%)	0.8	—	1.7	2.4

Source: Company Data; PL Research

Exhibit 1: Reported loss on higher provision; operating performance was decent

NII was decent on benefit from lower cost of funds

Other Income was low on lower treasury income, however core fees and Fx fees were strong

Provisions were quite high due to RBI guidelines and also due to divergence

Advances growth was decent at 11.5%; retail growth was strong at 42% YoY

Asset quality deteriorated on higher slippages from watch list, whereas recoveries and upgrades were quite low

CASA Ratio is highest at 41.2% mainly on better growth from domestic segment on reduction in TAT in opening of accounts

P&L (Rs m)	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	QoQ gr. (%)
Interest Income	1,10,393	1,08,752	1.5	1,13,032	(2.3)
Interest Expense	70,370	72,933	(3.5)	69,092	1.8
Net Interest Income (NII)	40,023	35,819	11.7	43,940	(8.9)
- Treasury income	1,700	6,770	(74.9)	5,090	(66.6)
Other income	16,959	19,773	(14.2)	16,730	1.4
Total income	56,982	55,591	2.5	60,671	(6.1)
Operating expenses	30,327	25,381	19.5	24,170	25.5
-Staff expenses	12,685	12,222	3.8	11,104	14.2
-Other expenses	17,642	13,158	34.1	13,065	35.0
Operating profit	26,655	30,211	(11.8)	36,501	(27.0)
Core operating profit	22,085	21,601	2.2	29,281	(24.6)
Total provisions	66,724	26,230	154.4	34,265	94.7
Profit before tax	(40,069)	3,981	NA	2,236	NA
Tax	(9,046)	2,425	NA	1,118	NA
Profit after tax	(31,023)	1,556	NA	1,118	NA
Balance sheet (Rs m)					
Deposits	59,13,148	60,16,752	(1.7)	57,32,652	3.1
Advances	42,74,318	38,32,592	11.5	39,93,808	7.0
Profitability ratios					
RoaA	(1.8)	0.1	NA	0.1	NA
NIM	2.8	2.2	64	2.7	9
Yield on Advances	7.1	7.1	(4)	7.2	(6)
Cost of Deposits	4.5	4.7	(24)	4.4	7
Asset Quality					
Gross NPA (Rs m)	5,64,804	4,27,187	32.2	4,84,804	16.5
Net NPA (Rs m)	2,34,827	1,80,802	29.9	1,98,522	18.3
Gross NPL ratio	12.3	10.5	180	11.3	95
Net NPL ratio	5.5	4.7	77	5.0	52
Coverage ratio	58.4	57.7	75	59.1	(63)
Business & Other Ratios					
Low-cost deposit mix	41.2	39.4	174	40.6	61
Cost-income ratio	53.2	45.7	757	39.8	1,338
Non int. inc / total income	29.8	35.6	(581)	27.6	219
Credit deposit ratio	72.3	63.7	859	69.7	262
CAR	12.1	12.2	(11)	11.6	58
Tier-I	10.5	9.9	53	9.5	94

Source: Company Data, PL Research

BOB Q4FY18 Key Analyst Meet Highlights

Business Outlook:

- **Loan Book** – Growth was led by retail (42% YoY) on strong disbursements of home, auto and PL. Total Rs107bn disbursements was made where Rs83bn was home loans of which Rs48bn was bought. Personal loans also saw strong growth of 40% YoY. This was on account of digitisation and centralisation of processes, changed products and strengthening of channels. **Outlook:** Bank expects to grow loan book at 15% YoY with retail at 30% YoY for FY19. Focus to granulise the portfolio by growing in retail and SME and keep it balanced. Opportunity also lies in growing better rated corporates as have low exposure.
- **Deposits** – CASA Ratio was highest at 41.2% led by domestic deposits both CA and SA. This is led by reducing TAT in opening of accounts from days to minutes. Deposits saw de-growth as Rs100bn domestic bulk deposits and Rs370 bn international deposits was paid.

Margins:

- Global NIMs saw deterioration of 21bps QoQ at 2.51% as 3Q18 saw IT refund of Rs1.3bn excluding which the impact would be 9bps QoQ on interest reversals of Rs1.7bn despite benefitting from lower CoF.

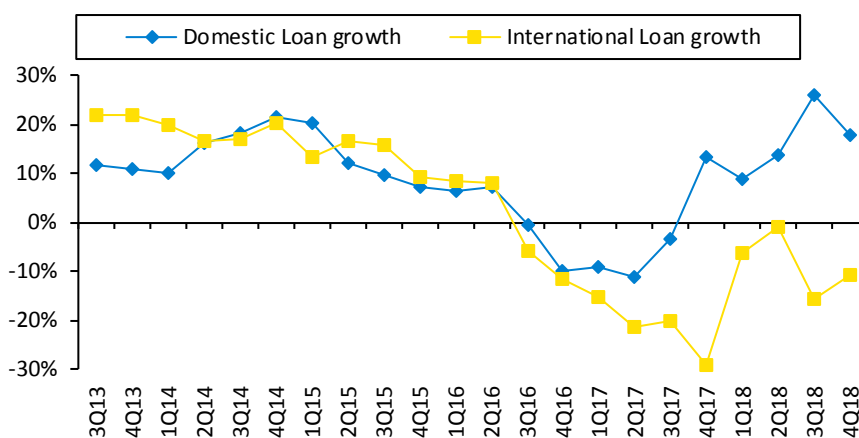
Fees/Opex:

- Fees continue to see good traction from insurance side, corporate and MSME fees. Bank also sees opportunity in cash management desk and increase exposure to non-fund credit thus generating fees.
- Bank has taken dispensation related to gratuity provision and provided for Rs870mn in 4Q18 and remaining Rs2.9bn is deferred to subsequent 3 quarters.

Asset Quality:

- Bank saw higher fresh slippages of Rs117.7bn of which Rs89.6bn came from watch list (both MSME and corporate). Corporate slippages amount to Rs82bn which came mainly from infra and 1-2 A/cs from telecom, food processing, textile and petro products sectors. Retail, SME and overseas slippages were Rs 5.3bn, Rs9.5bn and Rs13.6bn respectively. Non-fund stress exposure has mostly been devolved and bank has adequately provided on the same. **Outlook** – Bank expects Rs100bn slippages for FY19 and recoveries to improve on account of NCLT resolutions.
- **Other stressed assets** – Bank reports watch list of Rs100bn which included several small MSME a/cs as well. Watch list contains mainly small accounts with exposure of Rs1.5-2.5bn, with largest exposure to power sector of Rs6.8bn. Bank has exposure to 9 A/cs related to 5/25 having exposure of Rs27.4bn.

- **Credit Cost** – Bank has reported high credit cost on provisions made pertaining to divergence, 12th Feb circular by RBI (Rs18.5bn). **Outlook:** Bank expects credit cost to be below 100bps for FY19. (3.48% in FY18).
- **BOB has been the first bank to recognise the large issues from the stressed assets category way back with the 2QFY16 results.** Since then, while the bank has taken a number of initiatives to improve the operations, increase the fee income etc, the increased stressed asset level has taken more notice than the operations one. The leadership has been good and certain processes set, however it remains to be seen whether the current MD continues or a new person comes in place. Of the three executive directors, one is retiring at the end of the month (home grown BOB personnel), while the other two are from other PSU banks. Continuity of management remains the biggest issue here as well. From our perspective, after SBI, BOB is the other PSU bank which is relatively at a better position. Retain Accumulate with a revised PT of Rs163 (earlier Rs174).

Exhibit 2: Business growth better in domestic operations


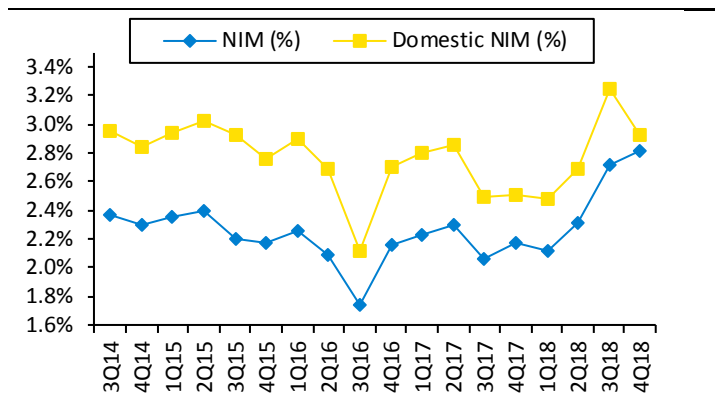
Source: Company Data, PL Research

Exhibit 3: Domestic Gross Advances grew mainly on retail, agri and better rated corporate

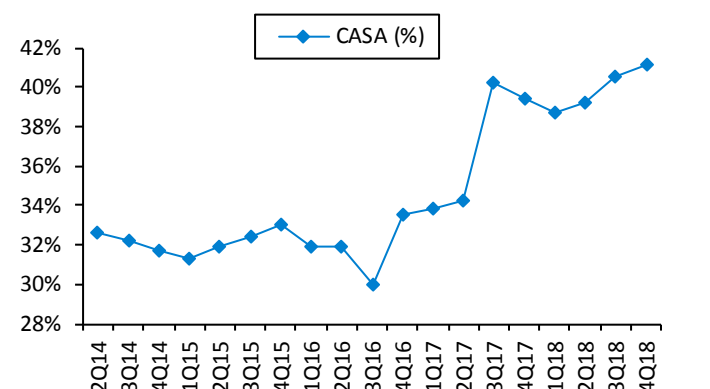
Loan break up (Rs mn)	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	QoQ gr. (%)
Domestic Advances	35,12,690	29,77,550	18.0	31,49,760	11.5
Corporate	16,47,830	14,10,690	16.8	14,54,830	13.3
SME	5,17,300	4,85,450	6.6	5,20,280	(0.6)
Agri	8,26,040	5,79,940	42.4	6,84,470	20.7
Retail	4,95,830	4,72,970	4.8	4,66,510	6.3
Other/Misc	25,690	28,500	(9.9)	23,670	8.5

Source: Company Data, PL Research

Q1FY18 - Reclassified

Exhibit 4: Margins improve mainly on lower CoF despite high interest reversals


Source: Company Data, PL Research

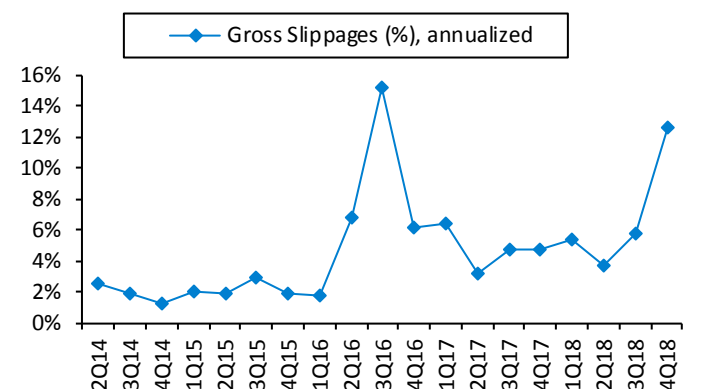
Exhibit 5: CASA grew better on domestic front on both CA and SA


Source: Company Data, PL Research

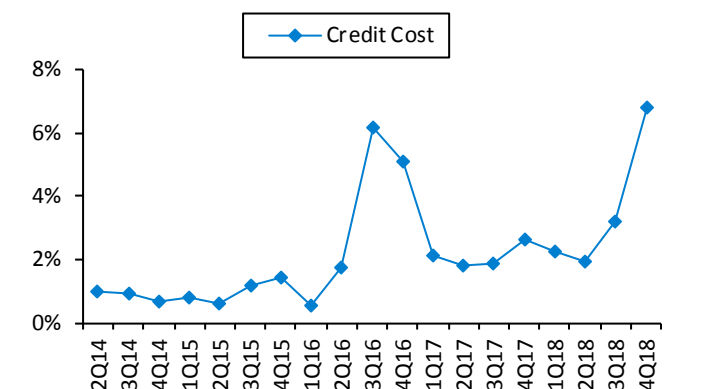
Exhibit 6: Slippages remain high, recoveries were better with lower write-offs this quarter

	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Gross Slippages	17,893	19,079	69,623	157,850	59,320	60,960	28,610	41,350	40,770	52,000	34,510	56,300	125,690
- Fresh slippages	13,590	16,850	68,165	156,030	50,300	55,270	22,520	30,730	35,610	43,840	25,860	47,970	117,650
Recovery	10,291	3,002	3,344	3,110	14,340	10,810	16,530	13,450	15,410	10,210	9,090	14,600	14,790
Up-gradations	6,753	5,265	793	140	17,660	14,010	10,340	13,220	8,840	5,890	6,400	7,070	10,850
Write offs	3,538	686	1,122	2,360	11,420	11,430	2,160	17,750	15,760	1,160	18,740	11,290	20,050
Closing GNPA	162,522	172,740	237,103	389,339	405,239	429,904	429,484	426,404	427,174	461,728	463,068	484,804	564,804
GNPA Ratio %	3.7%	4.1%	5.6%	9.7%	10.0%	11.2%	11.4%	11.4%	10.5%	11.4%	11.2%	11.3%	12.3%
Annualized Slippages %	1.8%	1.8%	6.4%	15.0%	5.2%	5.8%	2.5%	3.5%	4.1%	4.6%	2.7%	5.0%	11.8%
O/s Standard Restructured	259,050	255,411	229,300	171,350	137,350	141,640	138,600	140,590	107,850	118,190	117,220	90,210	
% of loans	6.1%	6.3%	5.5%	4.5%	3.6%	3.9%	3.9%	4.0%	2.8%	3.1%	3.0%	2.3%	

Source: Company Data, PL Research

Exhibit 7: Fresh slippages were high mainly from watch list...


Source: Company Data, PL Research

Exhibit 8: Credit cost increased on divergence and RBI circular


Source: Company Data, PL Research

Exhibit 9: Return ratios to gradually improve on improvement in margins, business growth & lowering provision cost

ROAE decomposition	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
NII/Assets	2.63%	2.33%	2.03%	1.96%	1.91%	2.08%	2.30%	2.56%	2.74%
Fees/Assets	0.72%	0.62%	0.63%	0.51%	0.57%	0.64%	0.71%	0.71%	0.69%
Investment profits/Assets	0.15%	0.13%	0.13%	0.15%	0.18%	0.40%	0.28%	0.29%	0.29%
Net revenues/Assets	3.50%	3.08%	2.79%	2.62%	2.66%	3.12%	3.29%	3.55%	3.71%
Operating Expense/Assets	-1.31%	-1.23%	-1.20%	-1.14%	-1.34%	-1.43%	-1.51%	-1.62%	-1.70%
Provisions/Assets	-0.65%	-0.86%	-0.65%	-0.67%	-2.33%	-1.31%	-2.20%	-1.19%	-0.92%
Taxes/Assets	-0.26%	-0.07%	-0.16%	-0.30%	0.20%	-0.17%	0.05%	-0.22%	-0.33%
Total Costs/Assets	-2.23%	-2.16%	-2.02%	-2.11%	-2.15%	-1.22%	-1.87%	-1.10%	-0.93%
ROAA	1.28%	0.92%	0.77%	0.51%	-0.81%	0.21%	-0.36%	0.52%	0.77%
Equity/Assets	5.87%	5.90%	5.66%	5.65%	6.01%	6.19%	6.21%	6.49%	6.65%
ROAE	21.7%	15.7%	13.6%	9.2%	-14.4%	3.8%	-6.4%	8.7%	12.5%

Source: Company Data, PL Research

Exhibit 10: Change in estimates table – We improve estimates on business growth & margin, while slightly increase credit cost estimates

Rs Mn	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net Interest Income	166,630	186,211	176,966	199,823	6.2	7.3
Operating Profit	127,626	137,020	133,344	146,919	4.5	7.2
Net Profit	38,847	56,805	35,994	56,005	(7.3)	(1.4)
EPS (Rs)	16.8	24.6	13.6	21.1	(19.3)	(14.1)
ABVPS (Rs)	119.3	155.3	104.8	128.6	(12.1)	(17.2)
Price target (Rs)	174		163		(6.4)	
Recommendation	ACCUMULATE		ACCUMULATE			

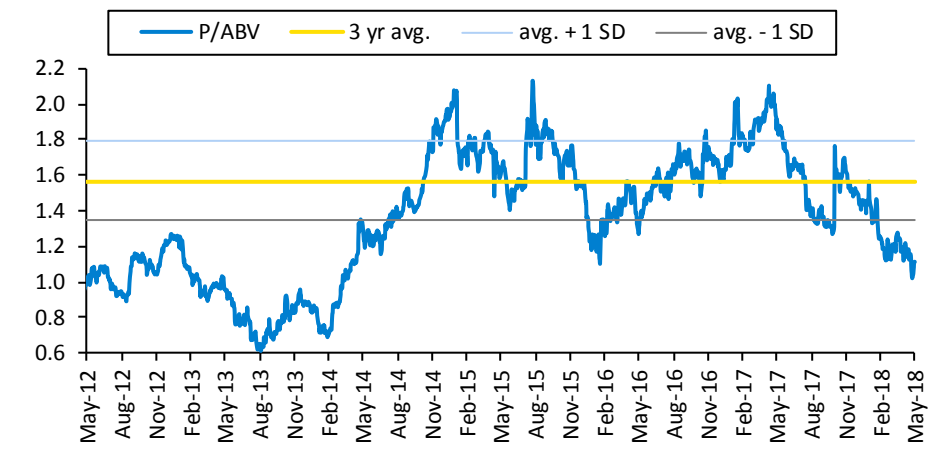
Source: Company Data, PL Research

Exhibit 11: We revise our TP to Rs163 (from Rs174) based on 1.4x Mar-20 ABV on rollover

PT calculation and upside	
Fair price - EVA	163
Fair price - Two stage GGM	163
Average of the two	163
Target P/ABV	1.4
Target P/E	7.7
Current price, Rs	141
Upside (%)	16%
Dividend yield (%)	2%
Total return (%)	18%

Source: Company Data, PL Research

Exhibit 12: BOB - one year forward P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Int. Earned from Adv.	275,239	290,698	329,967	377,248
Int. Earned from Inv.	105,963	104,202	104,912	94,190
Others	40,789	41,586	35,379	39,051
Total Interest Income	421,991	436,485	470,258	510,489
Interest expense	286,865	281,270	293,292	310,666
NII	135,126	155,215	176,966	199,823
Growth (%)	6.1	14.9	14.0	12.9
Treasury Income	26,180	18,770	19,709	21,088
NTNII	41,401	47,802	48,860	50,223
Non Interest Income	67,581	66,572	68,569	71,311
Total Income	489,572	503,057	538,827	581,801
Growth (%)	(0.2)	2.8	7.1	8.0
Operating Expense	92,964	101,734	112,191	124,216
Operating Profit	109,743	120,053	133,344	146,919
Growth (%)	24.5	9.4	11.1	10.2
NPA Provisions	76,798	142,122	74,582	60,765
Investment Provisions	193	7,680	5,376	3,763
Total Provisions	85,024	147,963	81,924	66,911
PBT	24,719	(27,910)	51,420	80,008
Tax Provisions	10,896	(3,589)	15,427	24,003
Effective Tax Rate (%)	44.1	12.9	30.0	30.0
PAT	13,823	(24,320)	35,993	56,004
Growth (%)	(125.6)	(275.9)	(248.0)	55.6

Balance Sheet (Rs m)

Y/e March	2017	2018	2019E	2020E
Par Value	2	2	2	2
No. of equity shares	2,310	2,652	2,652	2,652
Equity	4,621	5,304	5,304	5,304
Networth	403,033	433,948	462,559	507,798
Adj. Networth	222,231	199,121	250,043	320,561
Deposits	6,016,749	5,913,148	6,238,371	6,768,633
Growth (%)	4.8	(1.7)	5.5	8.5
Low Cost deposits	1,934,955	2,117,790	2,239,575	2,443,476
% of total deposits	32.2	35.8	35.9	36.1
Total Liabilities	6,948,752	7,199,998	7,378,479	8,046,587
Net Advances	3,832,592	4,274,318	4,765,865	5,361,598
Growth (%)	(0.1)	11.5	11.5	12.5
Investments	1,296,305	1,631,845	1,241,786	1,271,147
Total Assets	6,948,754	7,199,998	7,378,479	8,046,587

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Interest Income	105,527	107,533	113,032	110,393
Interest Expense	71,478	70,328	69,092	70,370
Net Interest Income	34,050	37,205	43,940	40,023
Non Interest Income	15,512	17,371	16,730	16,959
CEB	6,420	1,720	8,000	9,320
Treasury	2,370	1,720	2,130	2,870
Net Total Income	49,561	54,576	60,671	56,982
Operating Expenses	23,080	24,158	24,170	30,327
Employee Expenses	10,148	12,131	11,104	12,685
Other Expenses	12,932	12,026	13,065	17,642
Operating Profit	26,481	30,418	36,501	26,655
Core Operating Profit	24,111	28,698	34,371	23,785
Provisions	23,681	23,294	34,265	66,724
Loan loss provisions	21,567	18,472	31,553	70,530
Investment Depreciation	1,330	1,300	1,730	3,320
Profit before tax	2,801	7,125	2,236	(40,069)
Tax	767	3,571	1,118	(9,046)
PAT before EO	2,034	3,554	1,118	(31,023)
Extraordinary item	—	—	—	—
PAT	2,034	3,554	1,118	(31,023)

Key Ratios

Y/e March	2017	2018	2019E	2020E
CMP (Rs)	145	145	145	145
Equity Shrs. Os. (m)	2,310	2,652	2,652	2,652
Market Cap (Rs m)	335,942	385,572	385,572	385,572
M/Cap to AUM (%)	4.8	5.4	5.2	4.8
EPS (Rs)	6.0	(9.8)	13.6	21.1
Book Value (Rs)	159	150	161	178
Adj. BV (100%) (Rs)	104	88	105	129
P/E (x)	24.3	(14.8)	10.7	6.9
P/BV (x)	0.9	1.0	0.9	0.8
P/ABV (x)	1.4	1.6	1.4	1.1
DPS (Rs)	1.2	—	2.4	3.5
Dividend Yield (%)	0.8	—	1.7	2.4

Profitability (%)

Y/e March	2017	2018	2019E	2020E
NIM	2.0	2.2	2.4	2.6
RoAA	0.2	(0.3)	0.5	0.7
RoAE	3.4	(5.8)	8.0	11.5

Efficiency

Y/e March	2017	2018	2019E	2020E
Cost-Income Ratio (%)	45.9	45.9	45.7	45.8
C-D Ratio (%)	63.7	72.3	76.4	79.2
Business per Emp. (Rs m)	141	127	119	114
Profit per Emp. (Rs lacs)	2.0	(3.0)	3.9	5.3
Business per Branch (Rs m)	9,849	10,187	10,993	12,118
Profit per Branch (Rs m)	14	(24)	36	56

Asset Quality

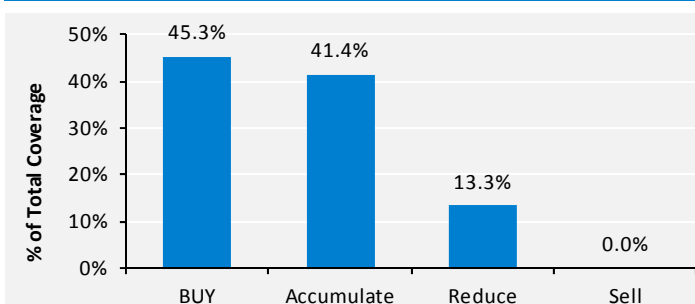
Y/e March	2017	2018	2019E	2020E
Gross NPAs (Rs m)	427,187	564,797	519,665	478,364
Net NPAs (Rs m)	180,802	234,827	212,516	187,238
Gr. NPAs to Gross Adv. (%)	10.5	12.3	10.2	8.5
Net NPAs to Net Adv. (%)	4.7	5.5	4.5	3.5
NPA Coverage (%)	57.7	58.4	59.1	60.9

Source: Company Data, PL Research.

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