

July 30, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	165		163	
NII (Rs. m)	184,190	202,255	176,966	199,823
% Chng.			4.1	1.2
Op. Profit (Rs. m)	147,210	153,750	133,344	146,919
% Chng.			10.4	4.6
EPS (Rs.)	15.4	22.1	13.6	21.1
% Chng.			13.2	4.6

Key Financials

	FY17	FY18	FY19E	FY20E
NII (Rs m)	135,126	155,218	184,190	202,255
Op. Profit (Rs m)	109,743	120,056	147,210	153,750
PAT (Rs m)	14,090	(24,146)	40,729	58,573
EPS (Rs.)	6.0	(9.8)	15.4	22.1
Gr. (%)	(125.1)	(263.8)	(256.7)	43.8
DPS (Rs.)	1.2	-	2.4	3.5
Yield (%)	0.8	-	1.6	2.3
NIM (%)	2.1	2.3	2.6	2.7
RoAE (%)	3.5	(5.8)	9.0	11.9
RoAA (%)	0.2	(0.3)	0.6	0.8
P/BV (x)	1.0	1.0	0.9	0.8
P/ABV (x)	1.5	1.7	1.4	1.1
PE (x)	25.4	(15.5)	9.9	6.9
CAR (%)	11.3	12.2	10.1	10.1

Key Data

BOB.BO | BOB IN

52-W High / Low	Rs.207 / Rs.110
Sensex / Nifty	37,494 / 11,320
Market Cap	Rs.401bn/ \$ 5,846m
Shares Outstanding	2,646m
3M Avg. Daily Value	Rs.4008.84m

Shareholding Pattern (%)

Promoter's	63.71
Foreign	13.10
Domestic Institution	14.88
Public & Others	8.31
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	34.7	(5.3)	(6.1)
Relative	27.3	(9.0)	(19.1)

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Much respectable quarter, NPAs bottoming out

Quick Pointers

- Fresh slippages of Rs28.7bn were much lower than anticipated and mainly from the watch list
- SMA 1 & SMA 2 loans o/s both each have come below 1% of loans

BOB reported PAT of Rs5.28bn (1.5x increase YoY) v/s PLe: Rs2.75bn on back of very strong NII growth of 29% (v/s 20% YoY expected), better NIM management, good opex control and lower provisions owing to lower slippages. Business momentum is improving each quarter on both assets which is led by retail, agri, corporate and liabilities with stable CASA. Also stress levels have seen good improvement as combined SMA1 & SMA2 is now less than 2% of loans and watch list of Rs86.0bn is at 2% of loans (incl. stressed SMA) which gives management confident of containing slippages especially in corporate. We wait and watch out for NIM sustenance, management retention/succession while we expect credit cost to still remain elevated as recoveries are slow and gradual. Retain Accumulate with PT of Rs165 (from Rs163) based on 1.2x Mar-20 ABV.

- Strong NII leads to strong PPOP:** NII grew by strong 29% YoY on better loan growth & good control over cost of funds (just 1.6% YoY growth) leading to NIM improvement by 14bps QoQ to 2.65%. Domestic margins remained steady (improved QoQ if adjustment on IT refund is taken in) and international margins improved 35bps QoQ to 1.49%, best in many quarters. Other income was lower but was offset by good opex control leading to PPOP growth of 13.5% YoY (core PPOP grew by 48% YoY. We build-in some delta on the yields side on loan growth momentum and lower slippages keeping our NIMs steady).
- Fresh slippages lower; stressed book is now within comfort: bank reported fresh slippages of Rs28.7bn lower than expectations but saw marginal asset quality deterioration as fresh debits to existing NPA rose as some borrowers utilized non-fund limits. Overall standard stressed book (watch list) stood at Rs86.0bn (or 2% of loans) which included dispensation pools and stressed SMA, while the whole SMA 1 & SMA 2 combines stood at <2% of loans (with SMA 2 itself less than 1%. We believe stress has stabilized from both corporate & SME (SMA1&2 down 200bps QoQ to 12.3%) and hence impairment should be contained at similar levels.**
- Loan growth led by domestic:** Overall loan growth was at 10% YoY but domestic loan grew by 20% YoY led by corporate (25% YoY) & Retail (34% YoY). Loan growth in SME/MSME was slower (1.9% YoY de growth) as bank recalibrates strategy for better underwriting SME, while process changes on corporate side has been working well as seen in corporate loan growth. Bank continues to consolidate loan growth in international operations in more profitable segments which is reflected in the better margins posted and hence we build-in loan growth of 11% YoY with steady margins of 2.65% in FY19.

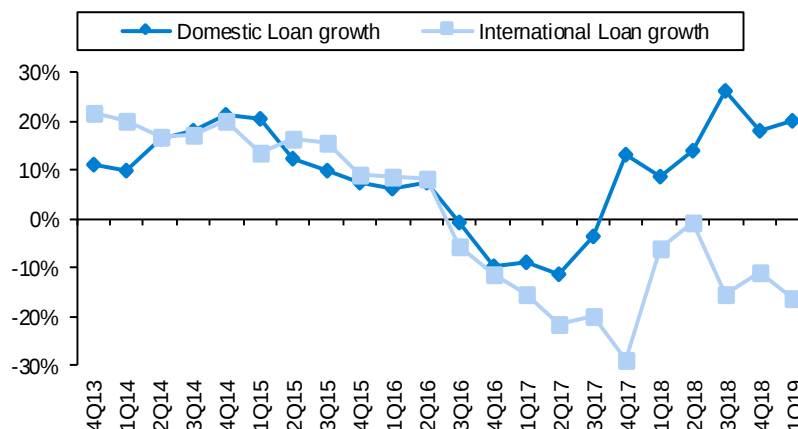
- **Risks to Our Accumulate Call:** It has taken a while for the new CEO to address the issues and challenges that he had been facing ever since he had taken charge in Q3FY16. While a reasonable predictability has been bought into the business with the SMA 2 accounts at less than 1%, the bank has also have added professionals in various fields as experts in lateral hiring which a traditional PSU banks faced as a big challenge. The current CEOs term expires at the end of the quarter and we believe a continuity in terms of the thought processes is crucial for the growth to sustain.

Exhibit 1: Strong NII & lower provisions lead to better earnings

P&L (Rs m)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Interest Income	116,399	105,527	10.3	110,393	5.4
Interest Expense	72,588	71,478	1.6	70,370	3.2
Net Interest Income (NII)	43,811	34,050	28.7	40,023	9.5
- Treasury income	1,050	5,530	(81.0)	1,700	(38.2)
Other income	11,478	15,512	(26.0)	16,959	(32.3)
Total income	55,289	49,561	11.6	56,982	(3.0)
Operating expenses	25,233	23,080	9.3	30,327	(16.8)
-Staff expenses	11,009	10,148	8.5	12,685	(13.2)
-Other expenses	14,224	12,932	10.0	17,642	(19.4)
Operating profit	30,056	26,481	13.5	26,655	12.8
Core operating profit	27,486	18,581	47.9	22,085	24.5
Total provisions	21,656	23,681	(8.5)	66,724	(67.5)
Profit before tax	8,400	2,801	199.9	(40,069)	NA
Tax	3,117	767	306.5	(9,046)	NA
Profit after tax	5,283	2,034	159.7	(31,023)	NA
Balance sheet (Rs m)					
Deposits	5,814,839	5,706,075	1.9	5,913,148	(1.7)
Advances	4,145,173	3,776,067	9.8	4,274,318	(3.0)
Profitability ratios					
RoaA	0.3	0.1	NA	(1.8)	NA
NIM	2.7	2.1	53	2.5	20
Yield on Advances	7.5	6.9	53	7.1	37
Cost of Deposits	4.5	4.6	(9)	4.5	2
Asset Quality					
Gross NPA (Rs m)	558,748	461,728	21.0	564,804	(1.1)
Net NPA (Rs m)	223,841	195,193	14.7	234,827	(4.7)
Gross NPL ratio	12.5	11.4	106	12.3	20
Net NPL ratio	5.4	5.2	23	5.5	(9)
Coverage ratio	59.9	57.7	221	58.4	152
Business & Other Ratios					
Low-cost deposit mix	40.8	38.8	205	41.2	(36)
Cost-income ratio	45.6	46.6	(93)	53.2	(758)
Non int. inc / total income	20.8	31.3	(1,054)	29.8	(900)
Credit deposit ratio	71.3	66.2	511	72.3	(100)
CAR	12.1	11.8	32	12.1	-
Tier-I	10.5	9.8	73	10.5	4

Source: Company, PL

Exhibit 2: Domestic operations lead, while international operations consolidating



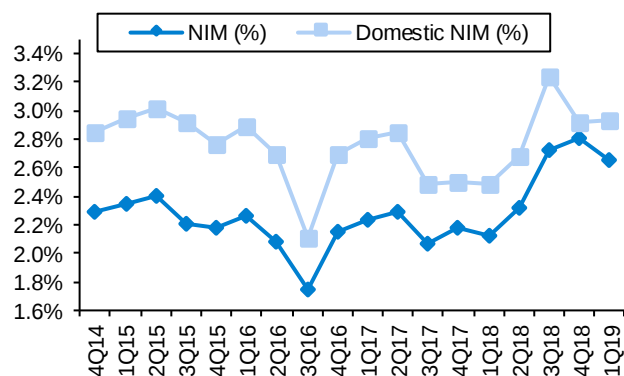
Source: Company, PL

Exhibit 3: Domestic advances continued to be strong led by corporate & Agri

Loan break up (Rs mn)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Domestic Advances	3,533,350	2,945,560	20.0	3,512,690	0.6
Corporate	1,698,140	1,356,710	25.2	1,609,180	5.5
SME	487,130	496,360	(1.9)	517,300	(5.8)
Agri	721,380	538,930	33.9	687,650	4.9
Retail	488,020	433,640	12.5	495,830	(1.6)
Other/Misc	138,680	119,920	15.6	202,730	(31.6)

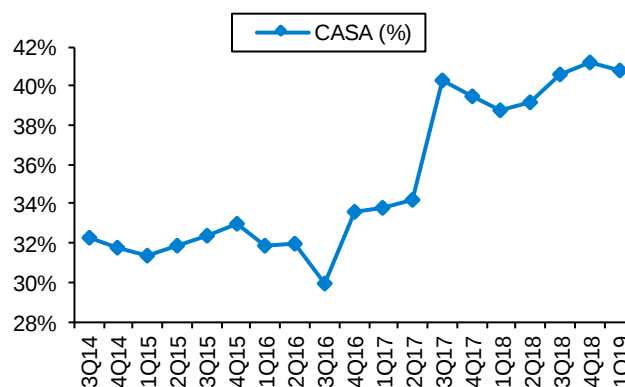
Source: Company, PL

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



Source: Company, PL

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

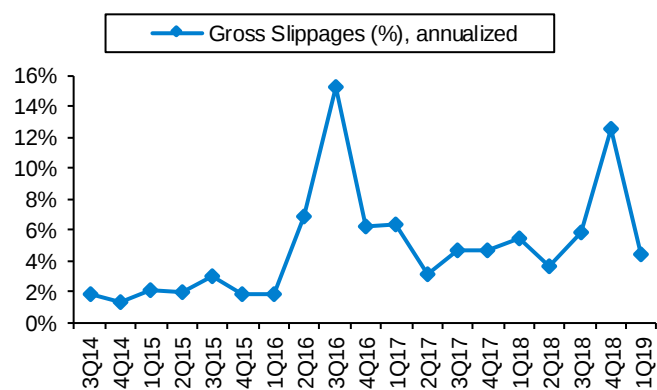


Source: Company, PL

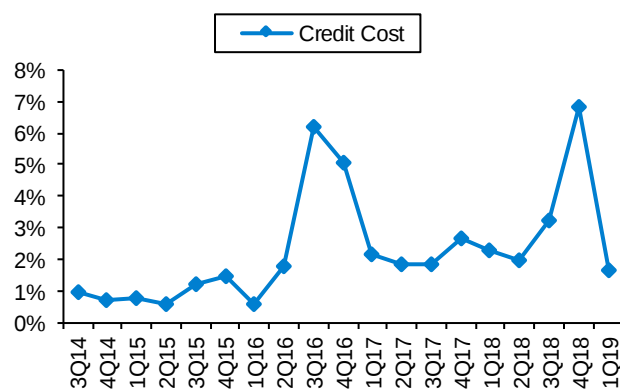
Exhibit 6: Slippages remain high, recoveries were better with lower write-offs this quarter

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Gross Slippages	19,079	69,623	157,850	59,320	60,960	28,610	41,350	40,770	52,000	34,510	56,300	125,690	47,330
- Fresh slippages	16,850	68,165	156,030	50,300	55,270	22,520	30,730	35,610	43,840	25,860	47,970	117,650	28,680
Recovery	3,002	3,344	3,110	14,340	10,810	16,530	13,450	15,410	10,210	9,090	14,600	14,790	25,790
Up-gradations	5,265	793	140	17,660	14,010	10,340	13,220	8,840	5,890	6,400	7,070	10,850	5,460
Write offs	686	1,122	2,360	11,420	11,430	2,160	17,750	15,760	1,160	18,740	11,290	20,050	22,140
Closing GNPA	172,740	237,103	389,339	405,239	429,904	429,484	426,404	427,174	461,728	463,068	484,804	564,804	558,748
GNPA Ratio %	4.1%	5.6%	9.7%	10.0%	11.2%	11.4%	11.4%	10.5%	11.4%	11.2%	11.3%	12.3%	12.4%
Annualized Slippages %	1.8%	6.4%	15.0%	5.2%	5.8%	2.5%	3.5%	4.1%	4.6%	2.7%	5.0%	11.8%	5.4%
O/s Standard Restructured	255,411	229,300	171,350	137,350	141,640	138,600	140,590	107,850	118,190	117,220	90,210		
% of loans	6.3%	5.5%	4.5%	3.6%	3.9%	3.9%	4.0%	2.8%	3.1%	3.0%	2.3%		

Source: Company, PL

Exhibit 7: Fresh slippages were lower...


Source: Company, PL

Exhibit 8: ..which led to lower credit cost with decent PCR


Source: Company, PL

Exhibit 9: ROEs should move up to decent levels on improving loan growth supported by steady margins and lower credit cost requirements

ROAE decomposition	2014	2015	2016	2017	2018	2019E	2020E
NII/Assets	2.03%	1.96%	1.91%	2.08%	2.30%	2.65%	2.74%
Fees/Assets	0.63%	0.51%	0.57%	0.64%	0.70%	0.69%	0.69%
Investment profits/Assets	0.13%	0.15%	0.18%	0.40%	0.29%	0.29%	0.29%
Net revenues/Assets	2.79%	2.62%	2.66%	3.12%	3.29%	3.63%	3.72%
OpEx/Assets	-1.20%	-1.14%	-1.34%	-1.43%	-1.51%	-1.51%	-1.64%
Provisions/Assets	-0.65%	-0.67%	-2.33%	-1.31%	-2.20%	-1.24%	-0.95%
Taxes/Assets	-0.16%	-0.30%	0.20%	-0.17%	0.05%	-0.29%	-0.34%
Total Costs/Assets	-2.02%	-2.11%	-2.15%	-1.22%	-1.87%	-0.92%	-0.84%
ROAA	0.77%	0.51%	-0.81%	0.21%	-0.36%	0.59%	0.79%
Equity/Assets	5.66%	5.65%	6.01%	6.19%	6.21%	6.48%	6.67%
ROAE	13.6%	9.2%	-14.4%	3.8%	-6.3%	9.7%	12.7%

Source: Company, PL

Exhibit 10: Change in estimates table – We adjust margins and tinker on credit cost to enhance PCR

Rs Mn	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net Interest Income	184,801	199,420	184,190	202,255	(0.3)	1.4
Operating Profit	144,142	150,119	147,210	153,750	2.1	2.4
Net Profit	43,552	58,245	40,729	58,573	(6.5)	0.6
EPS (Rs)	16.4	22.0	15.4	22.1	(6.5)	0.6
ABVPS (Rs)	109.3	133.9	108.0	135.9	(1.2)	1.5
Price target (Rs)	163		165		1.2	
Recommendation	ACCUMULATE		ACCUMULATE			

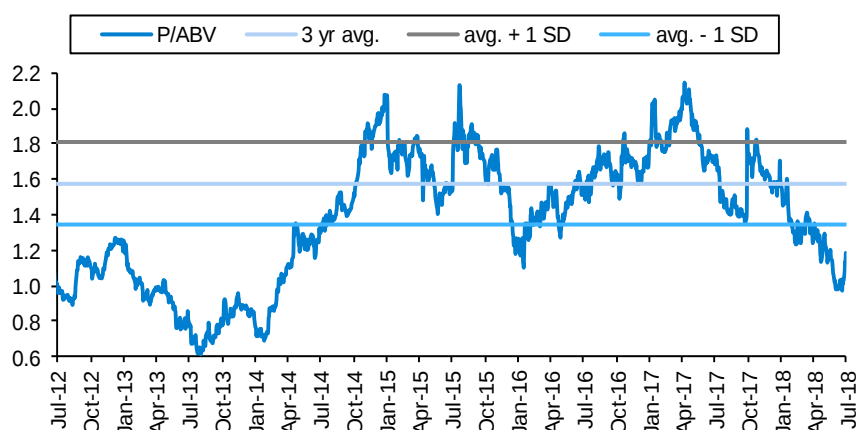
Source: Company, PL

Exhibit 11: We have largely retained our PT at Rs165 (from Rs163) based on 1.2x Mar-20 ABV

PT calculation and upside	
Fair price - EVA	161
Fair price - Two stage GGM	168
Average of the two	165
Target P/ABV	1.2
Target P/E	7.5
Current price, Rs	152
Upside (%)	9%
Dividend yield (%)	2%
Total return (%)	11%

Source: Company, PL

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



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Int. Earned from Adv.	275,239	290,698	342,715	391,599
Int. Earned from invt.	105,963	104,202	108,077	99,096
Others	20,880	17,438	13,036	13,276
Total Interest Income	421,991	436,485	486,480	530,708
Interest Expenses	286,865	281,268	302,290	328,453
Net Interest Income	135,126	155,218	184,190	202,255
Growth(%)	14.3	9.4	13.7	8.8
Non Interest Income	67,581	66,572	67,903	71,977
Net Total Income	202,707	221,789	252,093	274,232
Growth(%)	(0.2)	2.8	10.2	8.7
Employee Expenses	46,378	46,069	47,681	50,065
Other Expenses	41,473	47,034	55,030	63,835
Operating Expenses	92,964	101,734	104,883	120,482
Operating Profit	109,743	120,056	147,210	153,750
Growth(%)	24.5	9.4	22.6	4.4
NPA Provision	76,798	143,799	81,169	65,688
Total Provisions	84,757	147,791	86,421	70,075
PBT	24,986	(27,736)	60,789	83,675
Tax Provision	10,896	(3,589)	20,060	25,103
Effective tax rate (%)	43.6	12.9	33.0	30.0
PAT	14,090	(24,146)	40,729	58,573
Growth(%)	(137.8)	(271.4)	(268.7)	43.8

Balance Sheet (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Face 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	467,294	515,100
Growth(%)	0.3	7.7	7.7	10.2
Adj. Networth to NNPA's	234,826	213,431	176,106	160,022
Deposits	6,016,749	5,913,148	6,179,240	6,797,164
Growth(%)	4.8	(1.7)	4.5	10.0
CASA Deposits	1,934,955	2,117,786	2,218,347	2,453,776
% of total deposits	32.2	35.8	35.9	36.1
Total Liabilities	6,948,752	7,199,998	7,466,926	8,092,144
Net Advances	3,832,592	4,274,318	4,744,493	5,361,277
Growth(%)	(0.1)	11.5	11.0	13.0
Investments	1,296,305	1,631,845	1,401,203	1,305,630
Total Assets	6,948,754	7,199,998	7,466,926	8,092,144
Growth (%)	3.5	3.6	3.7	8.4

Asset Quality

Y/e Mar	FY17	FY18	FY19E	FY20E
Gross NPAs (Rs m)	564,804	548,682	499,937	466,738
Net NPAs (Rs m)	234,826	213,431	176,106	160,022
Gr. NPAs to Gross Adv.(%)	12.3	10.8	8.8	7.3
Net NPAs to Net Adv. (%)	5.5	4.5	3.3	2.6
NPA Coverage %	58.4	61.1	64.8	65.7

Profitability (%)

Y/e Mar	FY17	FY18	FY19E	FY20E
NIM	2.1	2.3	2.6	2.7
RoAA	0.2	(0.3)	0.6	0.8
RoAE	3.5	(5.8)	9.0	11.9
Tier I	9.0	9.9	8.7	8.7
CRAR	11.3	12.2	10.1	10.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Interest Income	107,533	113,032	110,393	116,399
Interest Expenses	70,328	69,092	70,370	72,588
Net Interest Income	37,205	43,940	40,023	43,811
YoY growth (%)	(0.4)	(5.0)	(3.5)	1.6
CEB	-	5,870	6,450	5,970
Treasury	-	-	-	-
Non Interest Income	17,371	16,730	16,959	11,478
Total Income	124,904	129,763	127,352	127,877
Employee Expenses	12,131	11,104	12,685	11,009
Other expenses	12,026	13,065	17,642	14,224
Operating Expenses	24,158	24,170	30,327	25,233
Operating Profit	30,418	36,501	26,655	30,056
YoY growth (%)	13.1	40.6	(11.8)	13.5
Core Operating Profits	-	-	-	-
NPA Provision	18,472	31,553	70,530	17,597
Others Provisions	23,294	34,265	66,724	21,656
Total Provisions	23,294	34,265	66,724	21,656
Profit Before Tax	7,125	2,236	(40,069)	8,400
Tax	3,571	1,118	(9,046)	3,117
PAT	3,554	1,118	(31,023)	5,283
YoY growth (%)	(35.6)	(55.8)	(2,093.5)	159.7
Deposits	5,832,120	5,732,652	5,913,148	5,814,839
YoY growth (%)	2.8	(2.8)	(1.7)	1.9
Advances	3,873,016	3,993,808	4,274,318	4,145,173
YoY growth (%)	9.4	14.1	11.5	9.8

Key Ratios

Y/e Mar	FY17	FY18	FY19E	FY20E
CMP (Rs)	152	152	152	152
EPS (Rs)	6.0	(9.8)	15.4	22.1
Book Value (Rs)	159	152	164	182
Adj. BV (70%)(Rs)	104	90	108	136
P/E (x)	25.4	(15.5)	9.9	6.9
P/BV (x)	1.0	1.0	0.9	0.8
P/ABV (x)	1.5	1.7	1.4	1.1
DPS (Rs)	1.2	-	2.4	3.5
Dividend Payout Ratio (%)	20.1	-	15.6	15.8
Dividend Yield (%)	0.8	-	1.6	2.3

Efficiency

Y/e Mar	FY17	FY18	FY19E	FY20E
Cost-Income Ratio (%)	45.9	45.9	41.6	43.9
C-D Ratio (%)	63.7	72.3	76.8	78.9
Business per Emp. (Rs m)	188	191	203	223
Profit per Emp. (Rs lacs)	3	(5)	8	11
Business per Branch (Rs m)	1,797	1,834	1,940	2,133
Profit per Branch (Rs m)	3	(4)	7	10

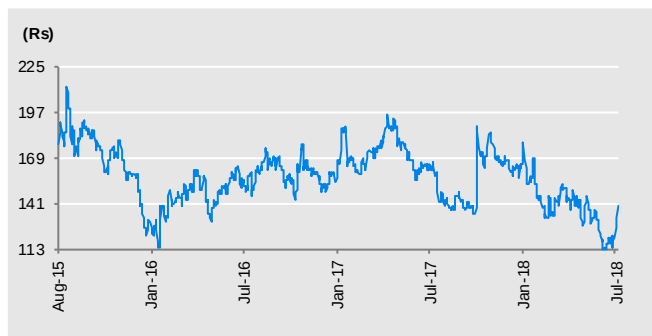
Du-Pont

Y/e Mar	FY17	FY18	FY19E	FY20E
NII	1.87	2.07	2.37	2.45
Total Income	2.80	2.96	3.24	3.32
Operating Expenses	1.29	1.36	1.35	1.46
PPoP	1.52	1.60	1.89	1.86
Total provisions	1.18	1.97	1.11	0.85
RoAA	0.19	(0.32)	0.52	0.71
RoAE	3.80	(6.32)	9.72	12.74

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Aug-17	Accumulate	162	143
2	9-Oct-17	Accumulate	162	142
3	16-Nov-17	Accumulate	190	183
4	10-Jan-18	Accumulate	180	164
5	13-Apr-18	Accumulate	174	153
6	28-May-18	Accumulate	163	145
7	10-Jul-18	Accumulate	163	117

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. R Sreesankar- B.Sc , Ms. Pritesh Bumb- MBA, M.com, Ms. Vidhi Shah- CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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