NALANDA RESEARCH

October 31, 2018

Bank of Baroda

Q2FY19 Result Update

BUY *

Downside Scenario	Current Price	Price Target	Upside Scenario
	111	127	
		14% ▲	

Healthy deposit growth; Borrowings grew 4% QoQ

Deposits grew 4% QoQ to 6.06 trillion. CASA reported growth of 4% QoQ to 2.14 trillion. Term deposits reported growth of 4% QoQ to 3.9 trillion. CASA ratio came at 35.3% as compare to 35.5% in previous quarter. Borrowings came at 66278cr (+115% YoY growth).

Advances reported 5% QoQ growth; improving rating profile

Advances came at 4.33 trillion. Domestic advances came at 3.37 trillion (grew 3.4% QoQ). Within domestic credit, agricultural loan book grew 6% QoQ, retail book grew 6% QoQ, MSME book grew 8% QoQ while wholesale book reported 1% QoQ. Within retail book (contributes 21% of domestic book), education loan/vehicle loan/home loans reported growth of 9%/10%/4% QoQ respectively.

Overall, above A rated loans constitute 56% of total loans (v/s 42% in Q2FY18). While percentage of loan below investment grade has reduced from 19% in Q2FY18 to 9.5% in current quarter.

Better NIMs on the back of higher yields; low operational efficiency

Yield on average advances came at 7.8% (v/s 7.6% QoQ & 7.5% YoY), yield on average investments came at 7.2% (v/s 7.1% QoQ & 6.9% YoY). Resultant yield on funds came at 7.0% (v/s 6.8% QoQ & 6.7% YoY). Cost of funds remained flat, came at 4.6% (v/s 4.5% QoQ & 4.6% YoY). Net interest margin came at 2.6% (v/s 2.57% QoQ & 2.33% YoY). Cost to income ratio came at 47.3% (v/s 45.6% QoQ, 44.3% YoY).

Asset quality improved

GNPA/NNPA came at 11.8%/4.9% (v/s 12.5%/5.4% QoQ, 11.2%/5.1% YoY). Fresh slippage came at 2281 crore, lowest in seven quarters. Credit cost decreased to 1.31% in 1.82% in Q2FY18. Provision for NPAs at 1467cr was at a nine-quarter low. Within, MSME book, NPA came down from 15.6% in Q2FY18, 14.4% in Q1FY19 to 11.4% in Q2FY19.

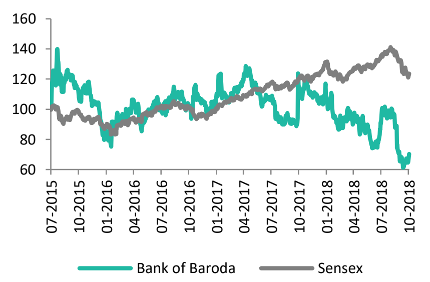
Valuations

Bank reported profit after tax of 4.25bn (+20% YoY, -19% QoQ), registering annualized ROA of 0.23%. We expect yields to improve given MCLR regime, although, we expect moderate growth in advances going forward. At INR 111, stock is trading at FY20E P/ABV of 1.0x. We assign P/ABV of 1.1x and arrive at target price of INR 127, implying upside of 14%.

Market Data	
Industry	BFSI
Sensex	33891
Nifty	10198
Bloomberg Code	BOB:IN
Eq. Cap. (INR Crores)	530
Face Value (INR)	2
52-w L/H	91/191
Market Cap (INR Crores)	29.497

Valuation Data	FY18A	FY19E	FY20E
NIM	2.3%	2.5%	2.5%
Yield on advances	7.2%	7.7%	7.9%
Cost of funds	4.2%	4.5%	4.6%
Book value	164	172	184
Adj BV	97	105	116

Bank of Baroda Vs SENSEX



Shareholding Pattern	Sept'18	Jun'18	Sept'17
Promoters	63.7	63.7	64.0
FIIs	10.4	13.1	13.9
MF	12.5	11.2	11.3
Retail	5.2	5.0	4.7
Others	8.2	7.0	6.1
	100.0	**100.0**	**100.0**

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	12,739.9	13,513.4	15,521.8	17,737.9	19,342.1
Growth%	*-3%*	*6%*	*15%*	*14%*	*9%*
Pre-provisioning profit	8,815.6	10,975.1	12,005.6	12,500.8	13,679.9
Growth%	*-11%*	*24%*	*9%*	*4%*	*9%*
Adjusted PAT	-5,395.5	1,383.1	-2,431.8	2,134.6	3,022.5
BVPS (INR)	174.5	174.9	164.0	172.1	183.5
ABVPS (INR)	111.3	116.1	97.5	104.8	115.9
P/B (x)	0.8x	1.0x	0.7x	0.6x	0.6x
P/ABV (x)	1.3x	1.5x	1.2x	1.1x	1.0x

Source: Company, NSPL Research

** Read last page for disclaimer & rating rationale*

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Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest on Advances/Bills	8218	7146	7986	15%	3%
Interest on Investment	3220	2492	2998	29%	7%
Interest on bal. with RBI & Others	460	759	442	-39%	4%
Other Interest	181	357	214	-49%	-16%
INTEREST EARNED	**12078**	**10753**	**11640**	**12%**	**4%**
NII	**4493**	**3721**	**4381**	**21%**	**3%**
Other Income	1352	1737	1148	-22%	18%
Total Income	**5844**	**5458**	**5529**	**7%**	**6%**
Operating Expenses	2762	2416	2523	14%	9%
Pre-Provisional Profits	**3082**	**3042**	**3006**	**1%**	**3%**
Provisions & Contingencies	2430	2329	2166	4%	12%
PBT	**652**	**712**	**840**	**-8%**	**-22%**
Provision for Taxes	227	357	312	-36%	-27%
Adjusted Net Profit	**425**	**355**	**528**	**20%**	**-19%**

Source: Company, NSPL Research

- Bank's total operating income grew 7% YoY & 6% QoQ to 5844cr in this quarter on the back of 21% YoY growth in net interest income propelled by 12% YoY growth in advances and 23% YoY growth in investments.

- Bank's Net Interest Income grew 21% YoY & 3% QoQ to 4493cr in this quarter. Domestic yield on advances slipped from 8.59% in Q2FY18 to 8.47% in Q2FY19 and global yield on advances improved from 6.93% in Q2FY18 to 7.41% in Q2FY19 , although, domestic yield on investments marginally contracted from 7.17% in Q2FY18 to 7.16% in Q2FY19 and global yield on investments notched up from 6.93% in Q2FY18 to 6.97% in Q2FY19.

- Bank's quarterly cost to income ratio came at 47.3% (v/s 45.6% QoQ, 44.3% YoY).

- Bank's quarterly pre-provisioning profit grew 1% YoY & 3% QoQ to 3082cr in this quarter.

- Bank's net profits came at 425cr in this quarter, up 20% YoY.

- Gross NPA ratio came at 11.78% (v/s 11.16% in Q2FY18) and NNPA came at 4.86% (v/s 5.05% in Q2FY18). Provision coverage ratio was 61.79% (v/s 59.9% in Q1FY19).

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Deposits	606,973	583,212	581,484	4%	4%
Borrowings	66,278	30,782	64,015	115%	4%
Investments	184,204	149,889	174,643	23%	5%
Advances	433,549	387,302	414,517	12%	5%
Total Assets	741,434	676,916	714,402	10%	4%

Source: Company, NSPL Research

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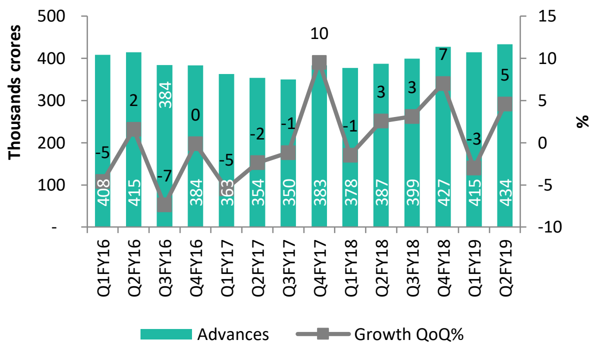
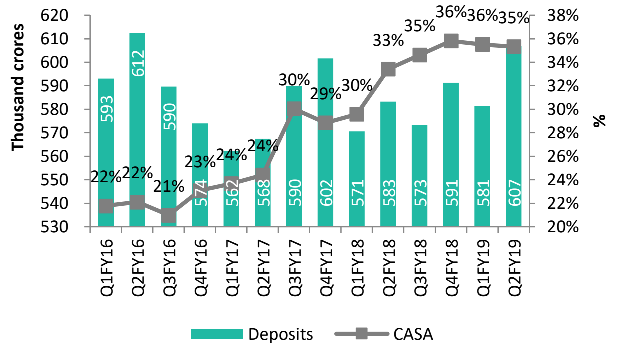
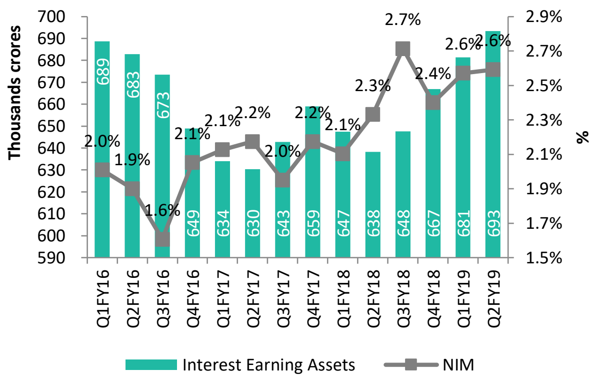
Advances Profile



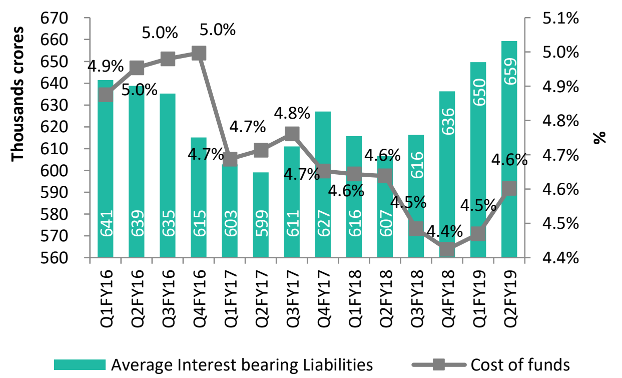
Deposits Profile



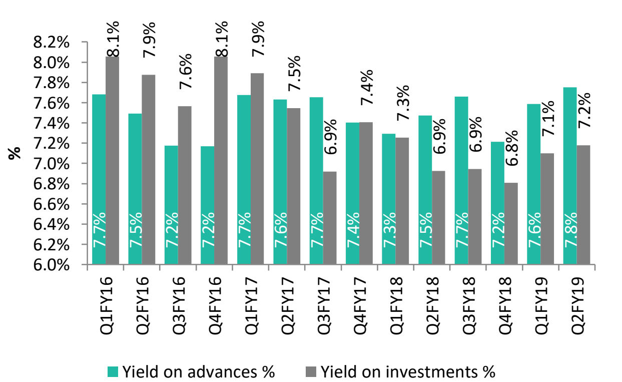
Interest Earning Assets



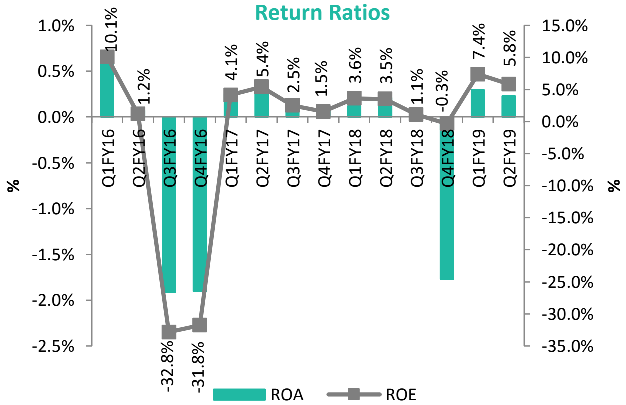
Interest Bearing Liabilities



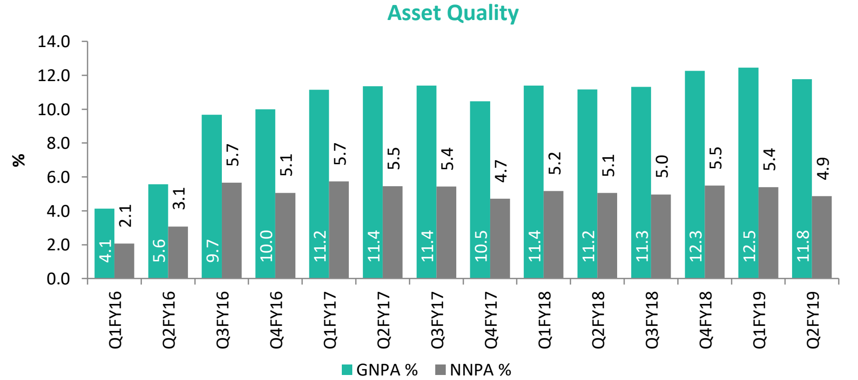
Yield Profile



Return Ratios



Asset Quality



Source: Company, NSPL Research

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(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	44,061.3	42,199.9	43,648.5	49,546.3	54,764.1
Interest expended	31,321.4	28,686.5	28,126.8	31,808.3	35,422.0
Net interest income	**12,739.9**	**13,513.4**	**15,521.8**	**17,737.9**	**19,342.1**
Non-interest income	4,998.9	6,758.1	6,657.2	5,249.8	5,698.7
Total income	**17,738.7**	**20,271.5**	**22,178.9**	**22,987.7**	**25,040.7**
Operating expenses	8,923.1	9,296.4	10,173.4	10,486.9	11,360.9
Pre-provisioning profit	**8,815.6**	**10,975.1**	**12,005.6**	**12,500.8**	**13,679.9**
Provisions	15,513.7	8,502.4	14,796.3	9,266.6	9,100.4
Profit before tax (PBT)	**-6,698.1**	**2,472.7**	**-2,790.7**	**3,234.2**	**4,579.5**
Tax expense	-1,302.5	1,089.6	-358.9	1,099.6	1,557.0
Adjusted PAT	**-5,395.5**	**1,383.1**	**-2,431.8**	**2,134.6**	**3,022.5**

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	462.1	462.1	530.4	530.4	530.4
Shareholder's Fund	40,199.0	40,303.3	43,394.8	45,529.3	48,551.8
Deposits	574,037.9	601,675.2	591,314.8	632,706.9	701,977.4
Borrowings	33,471.7	30,611.4	62,572.0	66,952.0	74,282.1
Cash & Balances with RBI	133,900.3	150,469.9	92,897.4	99,400.2	114,619.8
Investments	120,450.5	129,630.5	163,184.5	174,607.4	193,724.0
Advances	383,770.2	383,259.2	427,431.8	457,352.1	503,087.3
Total Assets	671,376.5	694,875.4	719,999.8	770,399.8	847,439.7

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	-10.3%	-0.1%	11.5%	7.0%	10.0%
Deposits (%)	-7.0%	4.8%	-1.7%	7.0%	10.9%
Total assets (%)	-6.1%	3.5%	3.6%	7.0%	10.0%
NII (%)	-3.4%	6.1%	14.9%	14.3%	9.0%
Pre-provisioning profit (%)	-11.1%	24.5%	9.4%	4.1%	9.4%
Balance sheet ratios					
Credit/Deposit (%)	66.9%	63.7%	72.3%	72.3%	71.7%
CASA (%)	26.4%	32.2%	0.0%	0.0%	0.0%
Advances/Total assets (%)	59.9%	57.2%	55.2%	59.4%	59.4%
Leverage (x)	16.7x	17.2x	16.6x	16.9x	17.5x
Operating efficiency					
Cost/income (%)	50.3%	45.9%	45.9%	45.6%	45.4%
Opex/total assets (%)	1.3%	1.3%	1.4%	1.4%	1.3%
Opex/total interest earning assets (%)	1.4%	1.4%	1.5%	1.4%	1.4%
Profitability					
NIM (%)	1.9%	2.1%	2.3%	2.5%	2.5%
Yield on advances (%)	7.3%	7.2%	7.2%	7.7%	7.9%
Cost of funds (%)	4.7%	4.4%	4.2%	4.5%	4.6%
Asset quality					
Gross NPA (%)	10.0%	10.5%	12.3%	12.0%	11.6%
Net NPA (%)	5.1%	4.7%	5.5%	5.2%	4.7%
PCR (%)	52.1%	57.7%	58.4%	60.0%	62.0%
Credit Cost (%)	3.5%	2.1%	3.5%	2.0%	1.8%
Per share data / Valuation					
BV (Rs.)	174.5	174.9	164.0	172.1	183.5
ABV (Rs.)	111.3	116.1	97.5	104.8	115.9
P/BV (x)	0.8x	1.0x	0.7x	0.6x	0.6x
P/ABV (x)	1.3x	1.5x	1.2x	1.1x	1.0x

Source: Company, NSPL Research

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Bank of Baroda				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	**Strong Buy**	**More than 15%**
October 31, 2018	111	127	Buy	**Buy**	**5% - 15%**
July 30, 2018	138	173	Strong Buy	**Hold**	**0 – 5%**
				Reduce	**-5% - 0**
				Sell	**Less than -5%**

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	• NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI • **SEBI Registration Number: INH000004617**
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
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Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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