

Earnings to remain Sluggish

- BoB reported a loss at PBT level of of Rs17.2bn in 4QFY20 led by higher provisions, though tax reversal resulted in a PAT of Rs5bn.
- Slippages were lower at 2.6%, partly benefitting from asset quality standstill on overdue accounts. Higher recoveries were driven by one large recovery of Rs25bn.
- Moratorium by value stood at ~55% in June. Higher moratorium levels are partly attributable to opt-out extended to borrowers.
- BoB stands out for its conservative recognition and provisioning practices (PCR at 69%). However, with sub-par core earnings (PPOP/assets at 1.8%) and elevated credit costs over the medium term, we expected profitability to remain weak.
- We lower our RoA estimates to 0.1%/0.4% for FY21E/22E, factoring in the benefit of standard provision buffers (Rs27bn) in FY21E credit costs. **We have a REDUCE recommendation on the stock with a TP of Rs54, valuing it at 0.6x of FY22E P/ABV.**

Gross NPAs decline sharply; provisions elevated

Gross NPAs declined by 100 bps QoQ aided by lower slippages, better recoveries and high sequential loan growth at 5% QoQ. However, if not for the standstill benefit, slippages would be high at ~5%. Provisions continued to remain high led by standard asset provisions as the bank made 20% towards standstill accounts and provided Rs15bn against an account as per RBI's June circular. With 26% of corporate loans in the 'BBB and below' category (37% including unrated loans), we expect slippages to remain elevated in FY21E, though rise in credit costs may be less given the high PCR and ~Rs25-30bn of standard asset provisioning buffers.

Concern over core earnings and capitalization remain

Despite lower interest reversals, NIM declined by 13 bps to 2.67% during 4QFY20 driven by lower lending yields from international book. We see margins settling at 2.8-2.9% over the medium term. With pressure on fee income and growth amidst current environment, core earnings will remain subdued despite some cost efficiencies, also hurting capital ratios. With CET1 at 9.4% and weak valuations, raising equity capital will remain a challenge.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Net interest income	67,982	48,635	39.8	71,291	(4.6)
Other income	28,347	21,739	30.4	27,412	3.4
Total Net Income	96,328	70,374	36.9	98,702	(2.4)
Operating expenses	45,120	31,766	42.0	49,118	(8.1)
Pre-provision profits	51,208	38,608	32.6	49,585	3.3
Provisions	68,441	53,993	26.8	71,554	(4.4)
Tax expense	(22,299)	(5,471)	307.6	(7,900)	182.3
Reported Net Profit	5,066	(9,914)	(151.1)	(14,070)	(136.0)
			(bps)		(bps)
Advances Growth (%)	47.2	9.7	NA	45.9	130
NIM (%)	2.7	2.8	(11)	2.8	(13)
RoA (%)	0.2	(0.5)	74	(0.6)	81
RoE (%)	3.3	(8.9)	1218	(9.2)	1253
Gross NPA (%)	9.4	9.6	(21)	10.4	(103)

YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

CMP	Rs 52
Target / Upside	Rs 54 / 5%
BSE Sensex	34,920
NSE Nifty	10,305

Scrip Details

Equity / FV	Rs 9,254mn / Rs 2
Market Cap	Rs 239bn
	USD 3bn
52-week High/Low	Rs 133/Rs 36
Avg. Volume (no)	38,993,700
NSE Symbol	BANKBARODA
Bloomberg Code	BOB IN

Shareholding Pattern Mar'20(%)

Promoters	71.6
MF/Banks/FIs	13.6
FIIIs	4.8
Public / Others	10.0

Valuation (x)

	FY20A	FY21E	FY22E
P/E	43.7	25.6	4.7
P/ABV	0.6	0.6	0.6
ROAA	0.1	0.1	0.4
ROAE	0.9	1.3	7.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
NII	274,513	313,686	333,641
PPOP	196,914	211,959	226,365
PAT	5,462	9,312	51,153
Adj BV	93.3	81.7	91.4

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Other Important Highlights:

- The moratorium ratio has come down from 65% in May to 55% in June. This is expected to come down further (to 35% going forward) as the dispensation adopted by the bank will now allow opt out of loans of upto Rs. 1mn.
- The board has approved capital raise of upto Rs 135bn, of which Rs 45bn is in the form of AT1 bonds. The balance amount will be raised via equity capital in 2HFY21 once market conditions improve

Risks to the View: Higher-than-estimated credit loss from corporate segment, inability to contain opex, higher than anticipated stress on macro-economy from COVID-19

Exhibit 1: Actual v/s estimates

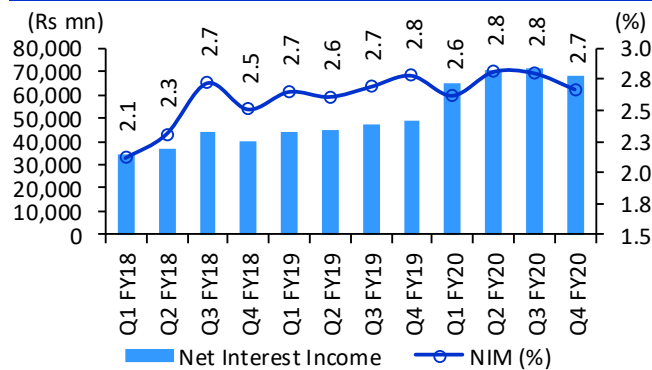
(Rs mn)	Actual	Estimated	% Variance	Comments
NII	67,982	72,447	(6.2)	
Operating Profit	51,208	51,951	(1.4)	
PAT	5,066	7,987	(36.6)	Due to higher standard provisions

Source: Company, DART

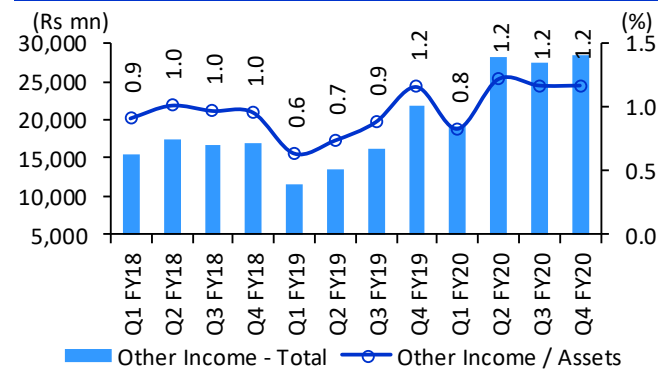
Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %		Comments
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Net Operating Revenue	4,07,545	4,27,980	3,77,686	4,02,538	(7.3)	(5.9)	
Pre Provision Profits	2,19,080	2,25,381	1,96,914	2,11,959	(10.1)	(6.0)	
PAT	41,475	51,648	5,462	9,312	(86.8)	(82.0)	RoA expansion to get further deferred as credit costs remain elevated in FY21-22E.

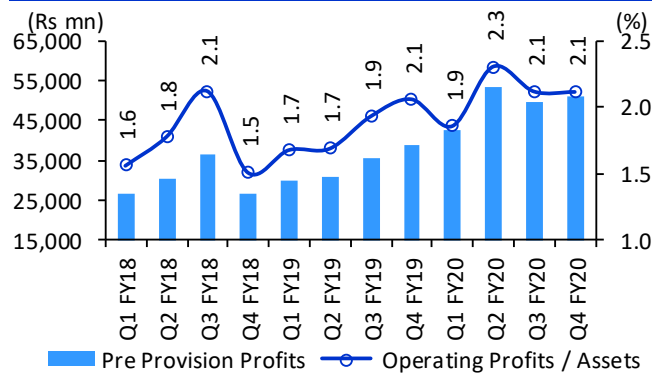
Source: Company, DART

Exhibit 3: Margins continue to be under pressure


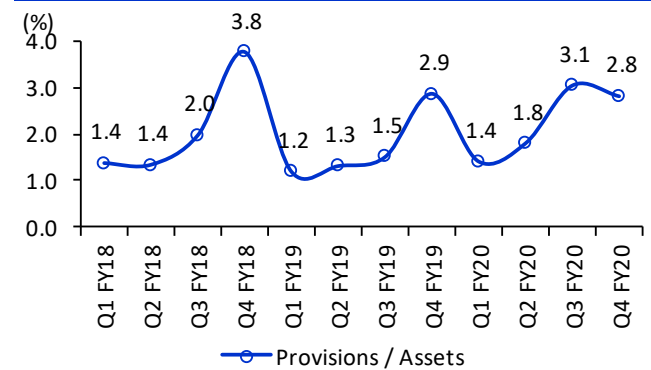
Source: Company, DART

Exhibit 4: High treasury gains and improve fee lines aid other income


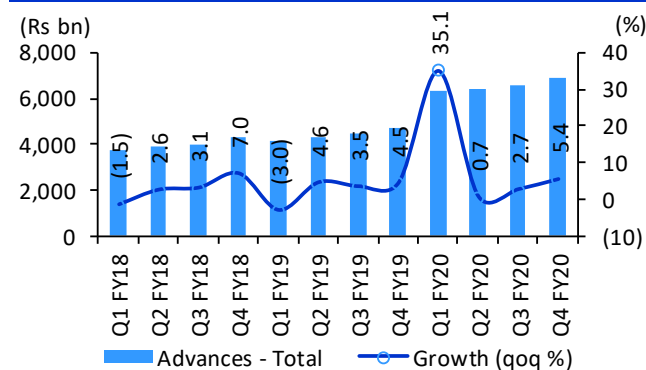
Source: Company, DART

Exhibit 5: Sub-par core earnings...


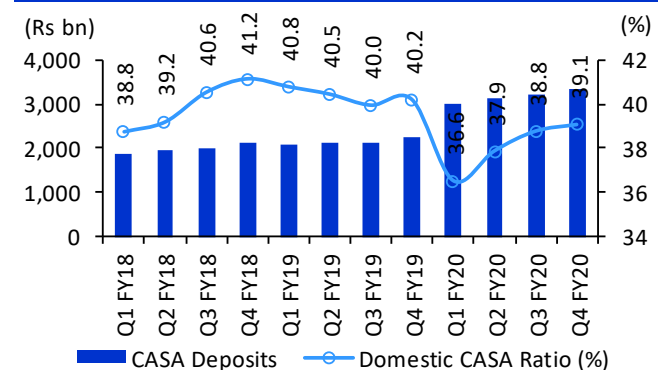
Source: Company, DART

Exhibit 6: ... and elevated credit costs


Source: Company, DART

Exhibit 7: Loan growth remains muted


Source: Company, DART

Exhibit 8: CASA gained traction


Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4FY20	Q4FY19	% yoy / bps	Q3FY20	% qoq / bps
Interest Inc.	1,86,984	1,31,107	42.6	1,90,679	(1.9)
Yield on Advances (%)	7.82	7.87	(5)	7.94	(12)
Global - Yield on Invt. (%)	6.97	7.50	(53)	7.04	(7)
Interest Expenses	1,19,003	82,472	44.3	1,19,389	(0.3)
Global - Cost of Dep. (%)	4.8	4.8	(4)	4.9	(10)
Net Interest Income	67,982	48,635	39.8	71,291	(4.6)
NII to Net Operative Income	70.6	69.1	146	72.2	(165)
NIM (%)	2.7	2.8	(11)	2.8	(13)
Dom. NIM (%)	2.8	3.1	(34)	2.9	(16)
Adjusted NII	62,840	46,251	35.9	65,858	(4.6)
Core Fee Income	15,350	10,760	42.7	13,800	11.2
Profit on Sale / Rev of Investments	8,750	640	1,267.2	5,960	46.8
Forex Income (Trading/ Other)	1,440	4,160	(65.4)	910	58.2
Recovery from PWO	2,800	3,150	(11.1)	5,840	(52.1)
Non Core Other Income	13,000	8,944	45.3	12,950	0.4
Other Income - Total	28,347	21,739	30.4	27,412	3.4
Other Inc to Net Oper. Income (%)	29.4	30.9	(146)	27.8	165
Net Operating Revenue	96,328	70,374	36.9	98,702	(2.4)
Net Operating Revenue - Adj.	91,186	67,990	34.1	93,270	(2.2)
Employee Expenses	19,545	14,130	38.3	25,942	(24.7)
Empl. Cost/Oper. Exps. (%)	20.3	20.1	21	26.3	(599)
Other Opex	25,576	17,636	45.0	23,176	10.4
Other Opex/ Assets (%)	0.3	0.2	3	0.2	2
Total Opex	45,120	31,766	42.0	49,118	(8.1)
Cost to Income Ratio (%)	46.8	45.1	170	49.8	(292)
Pre Provision Profits	51,208	38,608	32.6	49,585	3.3
Provision towards NPAs	31,906	55,500	(42.5)	66,206	(51.8)
Provision for investments	7,400	(3,440)	(315.1)	20	36,900.0
Standard Advances	26,840	1,040	2,480.8	2,170	1,136.9
Other Provisions	2,290	890	157.3	3,150	(27.3)
Provisions & Contingencies - Total	68,441	53,993	26.8	71,554	(4.4)
Credit Cost (%)	1.82	4.42	(260)	3.9	(206)
NPA Provisions as % PPP	133.7	139.8	(620)	144.3	(1,065)
Profit Before Tax	(17,233)	(15,385)	12.0	(21,970)	(21.6)
Tax	(22,299)	(5,471)	307.6	(7,900)	182.3
Effective Tax Rate (%)	129.4	35.6	9,383	36.0	9,343.8
Reported Profits	5,066	(9,914)	(151.1)	(14,070)	(136.0)
RoA (%)	0.2	(0.5)	70	(0.5)	70.0

Source: Company, DART; YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

Balance Sheet Analysis	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Net Worth	4,59,411	6,31,022	6,40,119	7,09,953	7,18,562	1.2	56.4
CET1 (%)	10.5	8.5	9.8	9.9	9.4	(41)	(104)
Tier 1 (%)	11.6	9.6	10.9	11.5	10.7	(74)	(84)
Total CAR (%)	13.5	11.5	13.0	13.5	13.3	(18)	(22)
RWA - Total	40,71,524	57,65,135	57,40,909	57,86,869	60,81,955	5.1	49.4
Advances - Total	46,88,187	63,31,809	63,73,402	65,44,651	69,01,207	5.4	47.2
Investments	18,22,981	25,50,542	26,41,510	26,58,008	27,46,146	3.3	50.6
Total Assets	78,09,874	1,06,19,079	1,07,27,533	1,09,35,633	1,15,79,155	5.9	48.3
RoA (%)	(0.52)	0.49	0.28	(0.52)	0.18	70	70
Deposits	63,86,897	89,55,420	89,41,298	89,61,616	94,59,844	5.6	48.1
Saving Deposit	17,68,930	24,51,160	25,45,370	25,88,380	26,92,430	4.0	52.2
Current Deposit	4,69,010	5,64,560	5,74,850	6,14,260	6,45,820	5.1	37.7
CASA Deposits	22,37,940	30,15,720	31,20,220	32,02,640	33,38,250	4.2	49.2
Domestic CASA Ratio (%)	40.2	36.6	37.9	38.8	39.1	30	(113)
Term Deposits	41,48,957	59,39,700	58,21,078	57,58,976	61,21,594	6.3	47.5
Interest Bearing Liabilities - Total	70,58,910	96,61,126	97,11,181	98,59,477	1,03,90,537	5.4	47.2

Source: Company, DART; YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

Movement of NPA (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Gross Advances	50,19,019	67,81,513	68,26,239	70,12,435	73,81,003	5.3	47.1
Gross NPA	4,82,328	6,97,140	6,99,690	7,31,397	6,93,814	(5.1)	43.8
Gross NPA Ratio (%)	9.61	10.28	10.25	10.43	9.40	(103)	(21)
PCR - Calculated (%)	67.6	64.1	64.4	63.8	68.9	514	126
PCR - Inc. Tech w/o (%)	78.68	77.34	77.88	77.77	81.33	356	265
Net Advances	46,87,538	63,36,782	63,66,849	65,44,198	68,93,479	5.3	47.1
Net NPA	1,56,095	2,50,303	2,48,944	2,65,040	2,15,766	(18.6)	38.2
Net NPAs Ratio (%)	3.33	3.95	3.91	4.05	3.13	(92)	(20)

Source: Company, DART; YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

Loan Book Analysis (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Home	5,46,120	8,03,320	8,08,590	8,17,750	8,30,120	1.5	52.0
Auto	85,580	1,24,150	1,31,960	1,58,710	1,64,900	3.9	92.7
Education	22,870	45,990	49,620	51,190	52,870	3.3	131.2
Other Retail loans.	1,99,340	1,48,870	1,49,040	1,63,200	1,58,680	(2.8)	(20.4)
Retail	8,53,900	11,22,330	11,39,220	11,90,850	12,06,570	1.3	41.3
Agriculture	5,66,230	8,02,010	8,05,190	8,45,480	8,79,210	4.0	55.3
SME	5,54,550	8,49,530	8,45,810	8,70,410	8,73,280	0.3	57.5
Large & Medium Corporate	18,59,430	26,84,280	27,19,010	27,08,960	29,15,430	7.6	56.8
Domestic Misc.	1,32,760	2,56,700	2,10,680	2,28,960	2,35,970	3.1	77.7
Total Domestic Advances	39,66,870	57,14,850	57,19,910	58,44,660	61,10,460	4.5	54.0
Overseas	7,21,317	6,16,959	6,53,492	6,99,991	7,90,747	13.0	9.6
Advances - Total	46,88,187	63,31,809	63,73,402	65,44,651	69,01,207	5.4	47.2

Source: Company, DART; YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

Quarterly Financials – Merged Entity

Profit and Loss (Rs mn)	Q4FY20	Q4FY19	% yoy / bps	Q3FY20	% qoq / bps
Interest Inc.	1,86,984	1,90,550	(1.9)	1,90,679	(1.9)
Interest Expenses	1,19,003	1,22,640	(3.0)	1,19,389	(0.3)
Net Interest Income	67,982	67,910	0.1	71,291	(4.6)
Other Income - Total	28,347	25,220	12.4	27,412	3.4
Net Operating Revenue	96,328	93,130	3.4	98,702	(2.4)
Employee Expenses	19,545	36,170	(46.0)	25,942	(24.7)
Other Opex	25,576	25,380	0.8	23,176	10.4
Total Opex	45,120	61,550	(26.7)	49,118	(8.1)
Cost to Income Ratio (%)	47	66	(1,925)	50	(292)
Pre Provision Profits	51,208	31,820	60.9	49,585	3.3
Provisions & Contingencies - Total	68,441	1,03,410	(33.8)	71,554	(4.4)
Profit Before Tax	(17,233)	(71,590)	(75.9)	(21,970)	(21.6)
Tax	(22,299)	17,160	(229.9)	(7,900)	182.3
Effective Tax Rate (%)	129	(24)	15,337	36	9,344
Reported Profits	5,066	(88,750)	(105.7)	(14,070)	(99.2)

Source: Company, DART

Movement of NPA (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ % / bps	YoY % / bps
Gross NPA	6,99,240	6,97,140	6,99,690	7,31,397	6,93,814	(5.1)	(0.8)
Gross NPAs Ratio (%)	10.0	10.3	10.3	10.4	9.4	(103)	(62)
PCR - Calculated (%)	66	64	64	64	69	514	293
Net NPA	2,37,948	2,50,303	2,48,944	2,65,040	2,15,766	(18.6)	(9.3)
Net NPAs Ratio (%)	3.7	4.0	3.9	4.1	3.1	(92)	(53)
Net Advances	65,13,840	63,31,809	63,73,402	65,44,651	69,01,207	5.4	5.9
Deposits	91,51,591	89,55,420	89,41,298	89,61,616	94,59,844	5.6	3.4

Source: Company, DART

Conference Call Highlights

Moratorium on loans:

- 65% of the book is eligible under moratorium, which is higher than peer banks because customers were allowed an opt-out clause.
- The moratorium ratio has come down from 65% in May to 55% in June. This is expected to come down further as the dispensation adopted by the bank will now allow opt out of loans of upto Rs. 1mn.
- The bank expects the moratorium ratio to come down from 55% currently to 35% going forward.

MSME emergency scheme:

- Total portfolio eligible under MSME emergency scheme is Rs 500bn.
- 2/3rd of incremental lendable amount is Rs 100bn and already sanctioned and 1/3rd is already disbursed.

Asset Quality:

- NBFC- BB & below book reduced from Rs. 29bn to Rs. 9.6bn QoQ due to maturities and fresh underwriting. Incremental underwriting in NBFC is towards high quality NBFCs.
- Addition of Rs. 20bn was made to watchlist on account of an international exposure.
- The bank has taken a stand still clause on an account of Rs 40bn on which 20% has been provided.
 - Slippages split: Rs 5,000mn agri, Rs 10,000mn MSME, Rs 3,500mn Retail, Rs 31,10mn corporate, and Rs 8,000mn International.
- Provisioning for standard assets increased sequentially due to technical reasons where the bank provided Rs15bn for an account which may be reversed going forward.
- Expect faster recovery from the manufacturing sector.

Growth:

- Loan mix is split at 50:50 between corporate and others. Expect similar loan mix going forward.
- Retail loan growth may be weaker while MSME and agriculture segments may see stronger growth than FY20.
- Within retail, car loans growth to remain dampened while home loans to continue as per trend.
- Expect MSME to grow 8-10% and agriculture in double digit for FY21.

Earnings:

- International NIM declined sequentially due to reduction in yield by central banks. There was a lag in re-pricing liabilities post which, bank expects recovery in NIM.
- There is scope to bring down C/I ratio by a further 100bps.
- Have provided 12% against the expected wage hike.
- The new tax rate will be applicable from FY21 |

Profit and Loss Account (Rs Mn)

Particulars	FY19A	FY20A*	FY21E	FY22E
Interest Income	499,741	759,837	839,946	881,176
Interest expenses	312,902	485,324	526,259	547,534
Net interest income	186,839	274,513	313,686	333,641
Other incomes	60,910	103,173	88,852	95,674
Total expenses	112,880	180,772	190,580	202,950
- Employee cost	50,391	87,695	94,711	102,288
- Other	62,489	93,077	95,869	100,662
Pre provisioning profit	134,869	196,914	211,959	226,365
Provisions	127,887	214,935	198,264	151,140
Profit before taxes	6,982	(18,021)	13,694	75,225
Tax provision	2,646	(23,483)	4,382	24,072
Profit after tax	4,336	5,462	9,312	51,153
Adjusted profit	4,336	5,462	9,312	51,153

Balance Sheet (Rs Mn)

Particulars	FY19A	FY20A*	FY21E	FY22E
Sources of Funds				
Equity Capital	6,161	9,254	9,254	9,254
Reserves & Surplus	503,670	709,308	703,595	745,678
Minority Interest	-	-	0	0
Net worth	509,831	718,562	712,848	754,932
Borrowings	672,013	930,693	955,862	1,034,512
- Deposits	6,386,897	9,459,844	9,664,825	10,460,068
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	241,133	470,056	533,744	592,286
Total Liabilities	7,809,874	11,579,155	11,867,280	12,841,797
Application of Funds				
Cash and balances with RBI	892,296	1,219,011	1,100,553	1,131,745
Investments	1,822,981	2,746,146	2,758,762	2,911,270
Advances	4,688,187	6,901,207	7,246,268	7,970,894
Fixed assets	69,903	88,893	87,888	86,698
Other current assets, loans and advances	336,507	623,898	673,809	741,190
Total Assets	7,809,874	11,579,155	11,867,280	12,841,797

E – Estimates, *YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

Important Ratios

Particulars	FY19A	FY20A*	FY21E	FY22E
(A) Margins (%)				
Yield on advances	7.7	9.3	8.3	8.2
Yields on interest earning assets	7.0	8.3	7.6	7.6
Yield on investments	7.4	7.9	7.5	7.5
Costs of funds	4.6	5.6	5.0	5.0
Cost of deposits	4.5	5.5	5.0	4.9
NIMs	2.6	3.0	2.9	2.9
(B) Asset quality and capital ratios (%)				
GNPA	9.6	9.4	10.5	9.4
NNPA	3.3	3.1	3.9	3.5
PCR	67.6	68.9	65.0	65.0
Slippages	3.2	5.0	5.3	3.5
NNPA to NW	33.6	32.8	42.7	39.8
CASA	43.2	41.3	41.3	41.3
CAR	14.1	13.3	11.8	11.6
Tier 1	12.2	10.7	9.2	8.9
Credit - Deposit	73.4	73.0	75.0	76.2
(C) Dupont as a percentage of average assets				
Interest income	6.7	7.8	7.2	7.1
Interest expenses	4.2	5.0	4.5	4.4
Net interest income	2.5	2.8	2.7	2.7
Non interest Income	0.8	1.1	0.8	0.8
Total expenses	1.5	1.9	1.6	1.6
- cost to income	45.6	47.9	47.3	47.3
Provisions	1.7	2.2	1.7	1.2
Tax	0.0	(0.2)	0.0	0.2
RoA	0.1	0.1	0.1	0.4
Leverage	16.8	17.6	18.0	18.3
RoE	0.9	0.9	1.3	7.0
RoRwa	0.1	0.1	0.1	0.7
(D) Measures of Investments				
EPS - adjusted	1.4	1.2	2.0	11.1
BV	150.9	142.2	142.7	151.9
ABV	96.8	93.3	81.7	91.4
(E) Growth Ratios (%)				
Net interest income	20.4	46.9	14.3	6.4
PPoP	12.3	46.0	7.6	6.8
Adj PAT	(117.8)	26.0	70.5	449.3
Advances	9.7	47.2	5.0	10.0
Total borrowings	7.4	38.5	2.7	8.2
Total assets	8.5	48.3	2.5	8.2
(F) Valuation Ratios				
Market Cap (Rs. mn)	238,745	238,745	238,745	238,745
CMP (Rs.)	52	52	52	52
P/E (x)	36.7	43.7	25.6	4.7
P/BV (x)	0.3	0.4	0.4	0.3
P/ABV (x)	0.5	0.6	0.6	0.6

E – Estimates, *YoY numbers not comparable due to merger with Dena Bank and Vijaya Bank

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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