

# Bank of Baroda

Refer to important disclosures at the end of this report

## Healthy 4Q, but managing asset quality to be key monitorable

CMP: Rs 52  
as of (June 23, 2020)TP: Rs 58 (▼)  
12 months

Rating: HOLD (■)

Upside: 12.7 %

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- BOB reported strong numbers in Q4 with a net profit of Rs5.1bn, mainly aided by higher other income, lower staff cost and contained NPA provisions, despite NIM compression due to lower yield on loans/investments.
- GNPA ratio improved 103 bps qoq to 9.4%, due to higher upgrades and standstill benefit on overdue loans (Rs40bn). BOB has a high moratorium rate of 65% among PSBs due to the opt-out option, but it is likely to fall as it has revised modalities in the second round.
- Management expects long due integration to be completed in FY21. However, we believe that managing Covid-19-induced asset quality pain will be challenging and thus, factoring in higher NPAs/LLP, we cut FY21/FY22 estimates by 141/48%.
- We retain Hold/UW in EAP, with a revised TP of Rs58, based on 0.5x FY22E ABV (vs. Rs62, based on 0.6x FY22E ABV earlier), given its reasonable valuations, healthy capital position and higher retail orientation, which should be structurally positive in the long run.

**Credit growth picks-up:** On a merged basis, loan growth stood at 5.4% qoq/6% yoy, mainly due to healthy traction in corporate/overseas loans (up 8% qoq/9% qoq). Domestic corporate growth was, in turn, driven by PSU-NBFCs and the metal sector, while overseas growth partly driven by the currency movement. Deposit growth also picked up to 5.6% qoq/3% yoy partly due to the benefit of the flight to safety toward PSBs and currency movement. Global NIM compressed by 13bps qoq to 2.67% and domestic NIM by 10bps qoq to 2.8% on lower yield on loans/investments. The bank has sanctioned Rs65bn under the MSME guarantee scheme out of the total opportunity of Rs100bn.

**Headline NPA improves; higher moratorium rate concerning:** GNPA improved by 103bps qoq to 9.4% due to upgrades (57bps of loans) and the standstill benefit on loans to the tune of Rs40bn (58bps). As per management, 65% (as on April) of customers by value availed the moratorium, including SMA pool of Rs795bn (11% for loans). However, the moratorium rate declined in May at 55% and is expected to significantly fall in the second round due to migration to "Opt-in" vs. "Opt-out" earlier. The bank's stress watch list increased by Rs25bn due to one account (possibly Dubai based B R Shetty group) of Rs125bn (1.7% of loans). However, the bank has accelerated provisioning buffer with specific PCR now at 69% vs. 64% in Q3, while the bank has made higher provisioning at 20% on loans under the standstill benefit (vs. RBIs requirement of 5%).

**Outlook and valuations:** We believe that managing Covid-19-induced asset quality pain will be challenging and thus factoring in higher NPAs/LLP, we cut FY21/FY22 estimates by 141/48%. The bank plans to raise AT1 capital in Q2 and would also consider equity capital raise in H2FY21, if required. We retain Hold/UW in EAP, with a revised TP of Rs58 (based on 0.5x FY22E ABV), given its reasonable valuations, healthy capital position and higher retail orientation, which we believe should be structurally positive in the long run. Key risks to our call are higher NPA formation and slower-than-expected growth.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	247,748	377,680	397,825	423,749	466,532
Net profit	4,335	5,461	(7,527)	20,489	58,738
EPS (Rs)	1.6	1.5	(1.6)	4.4	12.7
ABV (Rs)	153.4	120.4	111.9	116.3	130.3
RoA (%)	0.1	0.1	(0.1)	0.2	0.4
RoE (%)	1.0	0.9	(1.1)	2.8	7.7
PE (x)	31.6	34.4	(31.7)	11.7	4.1
P/ABV	0.3	0.4	0.5	0.4	0.4

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	(141)/(48)
Target Price change (%)	(6.2)
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	(1.6)	4.4
Consensus	7.5	12.5
Mean Consensus TP (12M)	Rs 71	

### Stock Details

Bloomberg Code	BOB IN
Face Value (Rs)	2
Shares outstanding (mn)	4,621
52 Week H/L	133 / 36
M Cap (Rs bn/USD bn)	238 / 3.15
Daily Avg Volume (nos.)	38,752,780
Daily Avg Turnover (US\$ mn)	23.3

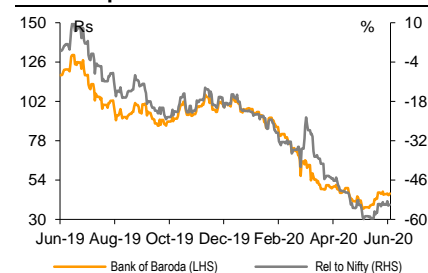
### Shareholding Pattern Mar '20

Promoters	71.6%
FIIIs	4.6%
DIIIs	14.0%
Public and Others	9.9%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	38	(7)	(48)	(56)
Rel. to Nifty	21	(29)	(39)	(50)

### Relative price chart



Source: Bloomberg

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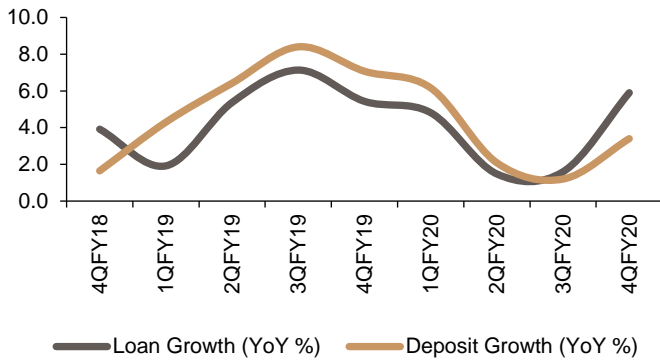
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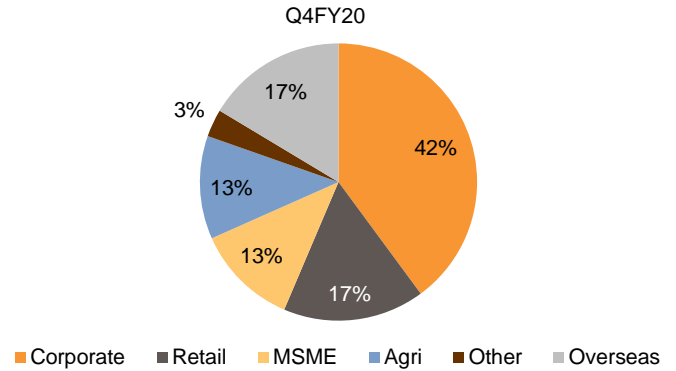
## Story in Charts

**Exhibit 1: Loan growth was driven by Corporate/ overseas loans**



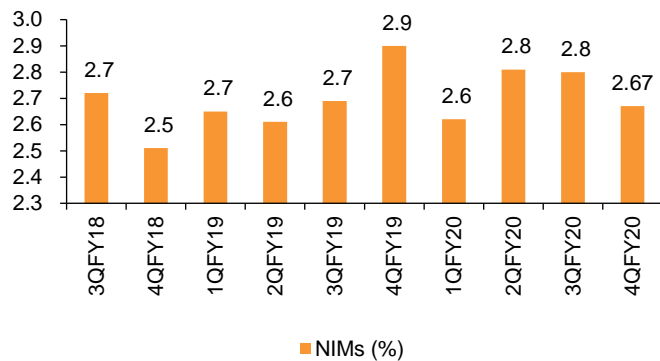
Source: Company, Emkay Research

**Exhibit 2: Corporate loan share increased by 85bps qoq and Overseas loans increased by 59bps qoq**



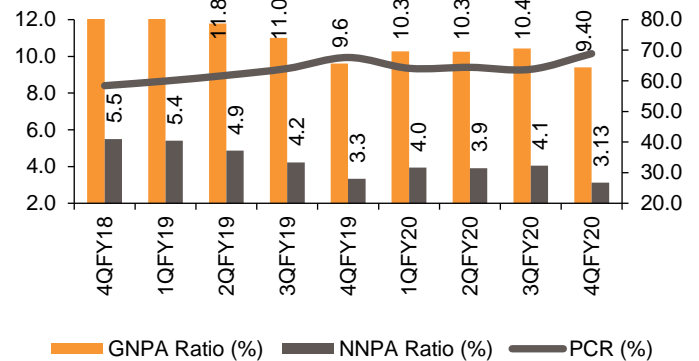
Source: Company, Emkay Research

**Exhibit 3: NIM compressed by 13bps qoq due to lower yields on Loan/ Investment**



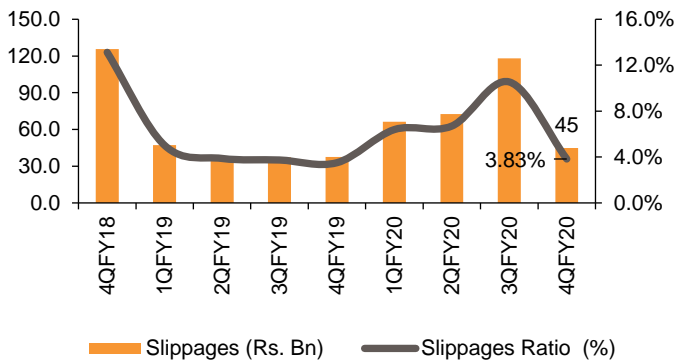
Source: Company, Emkay Research

**Exhibit 4: GNPA improved by 103bps due to upgrades and standstill benefit on loans to the tune of Rs40bn**



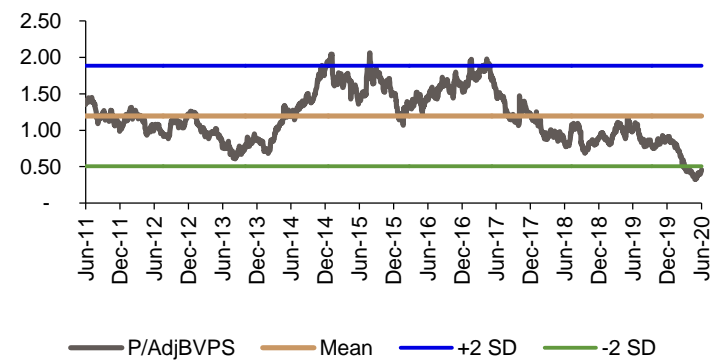
Source: Company, Emkay Research

**Exhibit 5: Slippages moderated sequentially due to moratorium**



Source: Company, Emkay Research

**Exhibit 6: The stock currently trades at 0.5x – 1 year forward ABV**



Source: Company, Emkay Research

**Exhibit 7: Actual vs. Estimates**

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	96,328	101,593	98,310	-5%	-2%	NIM compression led to a slight miss
PPOP	51,208	52,383	48,380	-2%	6%	Lower staff cost offset lower net income
PAT	5,066	4,149	-1,610	22%	-415%	Tax adjustment despite higher LLP led to a beat

Source: Company, Emkay Research

**Exhibit 8: Quarterly Summary**

Rs (mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	133,142	189,453	192,740	190,679	186,984	40	-2	759,837	768,112	1
Interest Exp	82,472	124,472	122,460	119,389	119,003	44	0	485,330	481,958	-1
Net Interest Income	50,670	64,981	70,279	71,291	67,982	34	-5	274,507	286,154	4
Global NIMs (reported)	2.90	2.62	2.81	2.80	2.67	-23bps	-13bps	3.07	2.62	-45bps
Non-interest Income	19,704	19,156	28,239	27,412	28,347	44	3	103,173	111,671	8
Operating Expenses	31,766	41,375	45,160	49,118	45,120	42	-8	180,772	187,108	4
Pre Provisioning Profit	38,608	42,762	53,359	49,585	51,208	33	3	196,908	210,717	7
Provision & Contingencies	53,993	32,849	42,092	71,554	68,441	27	-4	214,930	220,125	2
PBT	-15,385	9,913	11,268	-21,970	-17,233	12	-22	-18,022	-9,408	-48
Income Tax Expense (Gain)	-5,471	2,815	3,901	-7,900	-22,299	308	182	-23,483	-1,882	-92
Net Profit/(Loss)	-9,914	7,099	7,367	-14,070	5,066	-151	-136	5,461	-7,527	-238
Gross NPA (%)	9.61	10.28	10.25	10.43	9.40	-21bps	-103bps	9.40	10.55	115bps
Net NPA (%)	3.33	3.95	3.91	4.05	3.13	-20bps	-92bps	3.13	3.53	40bps
Deposits (Rs in bn)	6,387	8,955	8,941	8,962	9,460	48	6	9,460	10,014	6
Net Advances (Rs in bn)	4,688	6,332	6,373	6,545	6,901	47	5	6,901	7,253	5

Source: Company, Emkay Research

**Exhibit 9: Change in Estimates**

Y/E Mar (Rs mn)	FY21E			FY22E			FY23
	Earlier	Revised	% change	Earlier	Revised	% change	
Net income	406,119	397,825	-2.04%	430,005	423,749	-1.46%	466,532
PPOP	199,352	210,717	5.7%	201,181	224,543	11.6%	249,839
PAT	18,448	-7,527	-140.8%	39,085	20,489	-47.6%	58,738
EPS (Rs)	4.0	-1.6	-140.8%	8.4	4.4	-47.6%	12.7
BV (Rs)	143.2	153.3	7.0%	148.3	158.2	6.7%	173.1

Source: Company, Emkay Research

We believe that managing Covid-19-induced asset quality pain will be challenging and thus, factoring in higher NPAs/LLP, we cut FY21/FY22 estimates by 141/48%.

**Exhibit 10: Key Assumptions**

	FY20	FY21E	FY22E	FY23E
Loan Growth %	47.2	5.1	7.1	11.7
Deposit Growth %	48.1	5.9	8.4	11.1
NIM %	3.1	2.6	2.6	2.7
GNPA %	9.4	10.5	10.3	9.5
Credit Cost %	3.1	3.2	2.5	1.9

Source: Company, Emkay Research

**Exhibit 11: Key Ratios and Trends**

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
<b>Loans Rs mn</b>	<b>4,274,318</b>	<b>4,145,173</b>	<b>4,335,491</b>	<b>4,486,794</b>	<b>4,688,187</b>	<b>6,331,809</b>	<b>6,373,402</b>	<b>6,544,651</b>	<b>6,901,207</b>
<b>Balance Sheet</b>									
Loans (Rs bn)	4,274	4,145	4,335	4,487	4,688	6,332	6,373	6,545	6,901
-growth (YoY) %	11.5	9.8	11.9	12.3	9.7	52.8	47.0	45.9	47.2
-growth (QoQ) %	7.0	-3.0	4.6	3.5	4.5	35.1	0.7	2.7	5.4
<b>Liability Profile</b>									
Deposit (Rs bn)	5,913	5,815	6,070	6,106	6,387	8,955	8,941	8,962	9,460
-growth (YoY) %	-1.7	1.9	4.1	6.5	8.0	54.0	47.3	46.8	48.1
-growth (QoQ) %	3.1	-1.7	4.4	0.6	4.6	40.2	-0.2	0.2	5.6
CASA %	35.8	35.5	35.3	35.0	35.0	33.7	34.9	35.7	35.3
CA %	7.8	7.5	7.5	7.1	7.3	6.3	6.4	6.9	6.8
SA %	28.0	28.1	27.9	27.8	27.7	27.4	28.5	28.9	28.5
<b>Capital Adequacy</b>									
CAR (%)	12.1	12.1	11.9	11.7	13.4	11.5	13.0	13.5	13.3
Tier I (%)	10.5	10.5	10.3	9.9	11.6	9.6	10.9	11.5	10.7
<b>Asset Quality</b>									
GNPA (%)	12.3	12.5	11.8	11.0	9.6	10.3	10.3	10.4	9.4
NNPA (%)	5.5	5.4	4.9	4.2	3.3	4.0	3.9	4.1	3.1
PCR (%)	58.4	59.9	61.8	64.0	67.6	64.1	64.4	63.8	68.9
Slippages %	13.1	5.0	3.9	3.7	3.5	6.4	6.7	10.5	3.8
NIM (%) - Global	2.5	2.7	2.6	2.7	2.9	2.6	2.8	2.8	2.7
NIM (%) - Domestic	2.9	2.9	2.8	2.8	3.0	2.7	3.0	2.9	2.8
Cost/ Income (%)	53.2	45.6	47.3	44.4	45.1	49.2	45.8	49.8	46.8
<b>ROE Decomposition %</b>									
NII	2.8	3.0	3.0	3.1	3.2	3.7	3.4	3.2	2.9
Other Income (Ex Treasury)	1.1	0.7	0.8	0.8	1.0	0.9	0.9	1.0	0.8
Treasury	0.1	0.1	0.1	0.2	0.3	0.2	0.5	0.3	0.4
Opex	2.2	1.7	1.9	1.8	2.0	2.3	2.2	2.2	1.9
PPOP	1.9	2.1	2.1	2.3	2.4	2.4	2.6	2.2	2.2
Provisioning Cost	4.7	1.5	1.6	1.8	3.4	1.9	2.0	3.2	3.0
PBT	-2.8	0.6	0.4	0.5	-1.0	0.6	0.5	-1.0	-0.7
Tax	-0.6	0.2	0.2	0.2	-0.3	0.2	0.2	-0.3	-1.0
ROA	-1.8	0.3	0.2	0.3	-0.5	0.3	0.3	-0.5	0.2
Leverage (x)	16.7	16.4	16.3	16.5	15.9	16.2	15.9	15.3	15.8
ROE	-29.5	4.8	3.8	4.2	-8.2	5.0	4.4	-7.9	2.8

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>186,838</b>	<b>274,507</b>	<b>286,154</b>	<b>304,973</b>	<b>340,167</b>
<b>Other income</b>	<b>60,910</b>	<b>103,173</b>	<b>111,671</b>	<b>118,776</b>	<b>126,366</b>
Fee income	19,894	53,650	55,260	58,022	63,825
<b>Net income</b>	<b>247,748</b>	<b>377,680</b>	<b>397,825</b>	<b>423,749</b>	<b>466,532</b>
Operating expenses	112,880	180,772	187,108	199,206	216,693
<b>Pre provision profit</b>	<b>134,868</b>	<b>196,908</b>	<b>210,717</b>	<b>224,543</b>	<b>249,839</b>
<b>PPP excl treasury</b>	<b>124,974</b>	<b>169,398</b>	<b>180,456</b>	<b>195,795</b>	<b>222,528</b>
Provisions	127,887	214,930	220,125	198,932	176,416
<b>Profit before tax</b>	<b>6,982</b>	<b>(18,022)</b>	<b>(9,408)</b>	<b>25,611</b>	<b>73,423</b>
Tax	2,646	(23,483)	(1,882)	5,122	14,685
Tax rate	38	130	20	20	20
<b>Profit after tax</b>	<b>4,335</b>	<b>5,461</b>	<b>(7,527)</b>	<b>20,489</b>	<b>58,738</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	5,304	9,254	9,254	9,254	9,254
Reserves	454,107	709,308	699,900	722,735	791,531
<b>Net worth</b>	<b>459,411</b>	<b>718,562</b>	<b>709,154</b>	<b>731,989</b>	<b>800,785</b>
Deposits	6,386,897	9,459,844	10,013,609	10,859,292	12,064,237
Borrowings	547,833	793,076	872,384	828,765	787,326
<b>Total liabilities</b>	<b>7,809,874</b>	<b>11,579,155</b>	<b>12,248,073</b>	<b>13,099,252</b>	<b>14,405,244</b>
Cash and bank	266,617	326,459	315,449	281,780	209,344
Investments	1,822,981	2,746,146	2,892,308	3,067,175	3,313,773
Loans	4,688,187	6,901,207	7,252,606	7,765,531	8,673,175
Others	336,507	623,898	674,232	730,880	796,837
<b>Total assets</b>	<b>7,809,874</b>	<b>11,579,155</b>	<b>12,248,073</b>	<b>13,099,252</b>	<b>14,405,244</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.7	3.1	2.6	2.6	2.7
Non-II/avg assets	0.8	1.1	0.9	0.9	0.9
Fee income/avg assets	0.3	0.6	0.5	0.5	0.5
Opex/avg assets	1.5	1.9	1.6	1.6	1.6
Provisions/avg assets	1.7	2.2	1.8	1.6	1.3
PBT/avg assets	0.1	(0.2)	(0.1)	0.2	0.5
Tax/avg assets	0.0	(0.2)	0.0	0.0	0.1
RoA	0.1	0.1	(0.1)	0.2	0.4
RoAE	1.0	0.9	(1.1)	2.8	7.7
GNPA (%)	9.6	9.4	10.5	10.3	9.5
NNPA (%)	3.3	3.1	3.5	3.3	3.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	1.6	1.5	(1.6)	4.4	12.7
BVPS	192.3	155.3	153.3	158.2	173.1
ABVPS	153.4	120.4	111.9	116.3	130.3
DPS	0.0	0.0	0.0	0.6	1.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	31.6	34.4	(31.7)	11.7	4.1
P/BV	0.3	0.4	0.5	0.4	0.4
P/ABV	0.3	0.4	0.5	0.4	0.4
P/PPOP	1.0	1.2	1.1	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.0	1.2	1.9

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	20.4	46.9	4.2	6.6	11.5
PPOP	12.3	46.0	7.0	6.6	11.3
PAT	(117.8)	26.0	(237.8)	(372.2)	186.7
Loans	9.7	47.2	5.1	7.1	11.7

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	50,670	64,981	70,279	71,291	67,982
NIM(%)	2.9	2.6	2.8	2.8	2.7
PPOP	38,608	42,762	53,359	49,585	51,208
PAT	(9,914)	7,099	7,367	(14,070)	5,066
EPS (Rs)	(3.74)	1.84	1.91	(3.04)	1.09

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20
Promoters	69.2	69.2	71.6	71.6	71.6
FIIIs	6.4	6.2	4.8	4.9	4.6
DIIIs	15.8	16.1	13.9	13.7	14.0
Public and Others	8.6	8.5	9.7	9.8	9.9

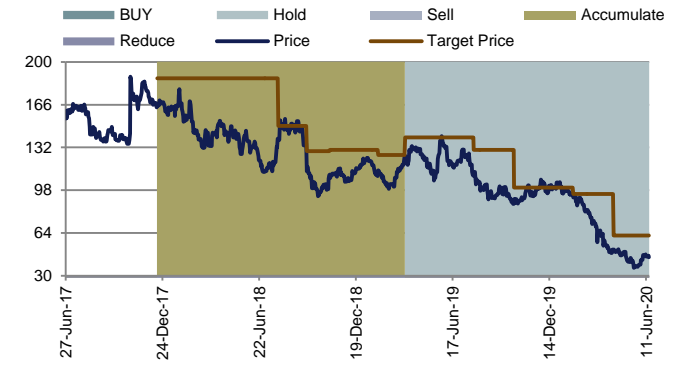
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Apr-20	51	62	12m	Hold	Aanad Dama
27-Jan-20	92	95	12m	Hold	Aanad Dama
9-Nov-19	94	100	12m	Hold	Aanad Dama
9-Oct-19	91	100	12m	Hold	Aanad Dama
23-Sep-19	101	130	12m	Hold	Aanad Dama
3-Sep-19	91	130	12m	Hold	Aanad Dama
26-Jul-19	113	130	12m	Hold	Aanad Dama
24-May-19	137	140	12m	Hold	Aanad Dama
20-Mar-19	125	140	12m	Hold	Aanad Dama
29-Jan-19	114	126	12m	Accumulate	Aanad Dama
31-Oct-18	111	130	12m	Accumulate	Jignesh Shial
18-Sep-18	113	129	12m	Accumulate	Jignesh Shial
27-Jul-18	138	149	12m	Accumulate	Jignesh Shial
21-May-18	130	187	12m	Accumulate	Ravikant Bhat
24-Jan-18	178	187	12m	Accumulate	Ravikant Bhat
14-Dec-17	166	187	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>19.75</b>	<b>19.63</b>	<b>-0.6%</b>	<b>-12</b>	<b>100.00</b>
Axis Bank	1.79	1.94	8%	15	9.82
AU Small Finance Bank	0.06	0.04	-38%	-2	0.18
Bandhan Bank	0.18	0.18	1%	0	0.92
Bank of Baroda	0.11	0.00	-100%	-11	0.00
Canara Bank	0.06	0.00	-100%	-6	0.00
City Union Bank	0.16	0.16	1%	0	0.83
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.20	0.20	2%	0	1.02
HDFC Bank	7.80	8.12	4%	32	41.10
ICICI Bank	4.26	4.45	4%	18	22.52
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.55	0.63	13%	7	3.18
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.01	2.52	-16%	-49	12.77
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.14	0.10	-24%	-3	0.52
State Bank of India	1.28	1.29	1%	2	6.54
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.12</b>	<b>NA</b>	<b>12</b>	<b>0.60</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

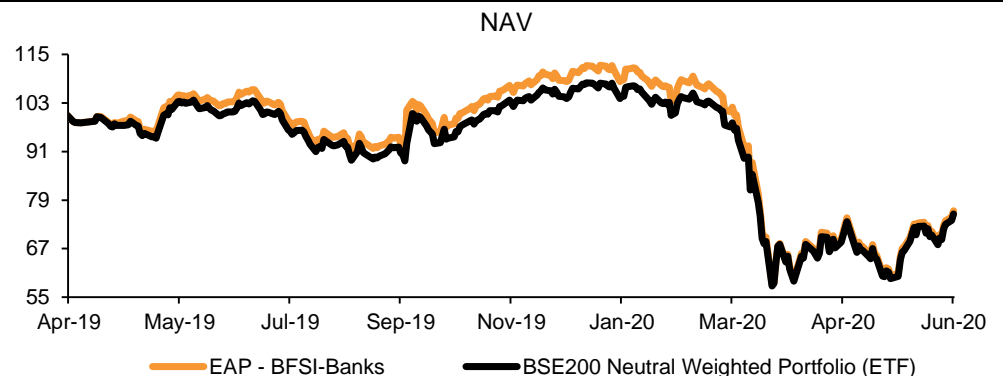
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Sep-19	24-Dec-19	24-Mar-20	22-May-20	23-Jun-20
EAP - BFSI-Banks	100.0	101.3	111.7	58.6	60.3	76.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.1	107.6	58.4	59.6	75.6

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Jun 2020 03:35:21 (SGT)

Dissemination Date: 25 Jun 2020 03:36:21 (SGT)

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