

Sector: Banks & Finance
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 52	
Price Target: Rs. 56	↓
↑ Upgrade ↔ No change ↓ Downgrade	

Company details

Market cap:	Rs. 23,842 cr
52-week high/low:	Rs. 133/36
NSE volume: (No of shares)	298.0 lakh
BSE code:	532134
NSE code:	BANKBARODA
Sharekhan code:	BANKBARODA
Free float: (No of shares)	131.2 cr

Shareholding (%)

Promoters	71.6
FII	4.6
DII	13.7
Others	10.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	39.1	-6.9	-46.0	-57.5
Relative to Sensex	25.2	-37.6	-29.8	-45.6

Sharekhan Research, Bloomberg

Bank of Baroda (BOB) posted mixed Q4FY2020 results, with improved asset quality and margin improvement; however, high moratorium book is a concern. Due to the amalgamation of Vijaya Bank and Dena Bank, Q4 numbers and prior-period (reported numbers) are not comparable. On a restated basis (as provided by the bank), NII increased to Rs. 6,798 crore, up 5% y-o-y, and came below expectations. However, sharp contraction in employee expenses, which declined by 41% y-o-y (on restated basis), helped the bank post a pre-provision operating profit of Rs. 5,121 crore for Q4FY2020, which came in line with expectations. Consequently, BOB witnessed net profit of Rs. 507 crore in Q4FY2020 (coming after loss in Q4FY2019 on restated basis). Margins improved with global NIM during Q4FY2020 at 2.67% from 2.62% in Q4FY2019 and domestic NIM increasing to 2.78% from 2.68%. Domestic cost of deposits in Q4FY2020 fell to 5.20%, lower by 33 bps y-o-y, mainly due to improvement in CASA ratio, which increased by 181 bps y-o-y to 39.1% (was 38.84% in Q3FY2020). Headline asset-quality performance improved, with credit cost declining to 1.82% in Q4FY2020 (was 3.88% in Q3FY2020) and fresh slippage for the quarter came lower sequentially at Rs. 3,050 crore, but it was still at elevated levels and would have been higher by Rs. 4,000 crore if moratorium was not there. Gross NPA (GNPA%) ratio improved to 9.4% compared to 10.4% in Q3. However, ~65% of the book is under moratorium, which is on the higher side compared to peers and is a concern. Due to COVID-19 impact and the merger process, we expect growth outlook to remain weak and asset-quality performance to keep facing challenges. We have cut our estimates for FY2021E and FY2022E, considering the risks to asset quality and uncertainty on growth. We maintain our Hold rating with a revised PT of Rs. 56.

Key positives

- ◆ Margins improved, with global NIM during Q4FY2020 at 2.67% from 2.62% in Q4FY2019 and domestic NIM increasing to 2.78% from 2.68%.
- ◆ Fresh slippage for the quarter was at Rs. 3,050 crore, lower sequentially, but still at elevated levels. Slippage ratio fell to 1.9% in Q4FY2020 compared to 6.8% in Q3FY2020.

Key negatives

- ◆ Watchlist accounts quantum increased to Rs. 12,500 crore from Rs. 10,500 crore in Q3FY2020, even as the quarter would have seen benefits from moratorium.
- ◆ However, ~65% of the book is under moratorium, which is on the higher side compared to peers and is a concern.

Our Call

Valuation: BOB currently trades at <1.0x its FY2021E book value. However, due to COVID-19 impact and the merger process, we expect growth outlook to remain weak and asset-quality performance to keep facing challenges. Considering the risks, we maintain our Hold rating with a revised PT of Rs. 56.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agriculture and/or retail segments due to the overall macroeconomic slowdown and prolonged pandemic recovery would impact growth and profitability.

Valuation

Particulars	FY19	FY20	FY21E	FY22E
Net interest income	18,480.3	27,451.3	30,784.2	33,361.2
Net profit	433.5	546.2	1,684.8	2,330.2
EPS (Rs.)	1.6	1.2	3.6	5.0
PE (x)	65.2	89.7	29.1	21.0
Book value (Rs./share)	179.5	148.7	153.5	157.5
P/BV (x)	0.6	0.7	0.7	0.7
RoE (%)	0.9	0.9	2.3	3.1
RoA (%)	0.1	0.1	0.1	0.2

Source: Company; Sharekhan estimates

Key Concall Highlights

- ◆ **Merger impact:** More efficiency in the balance sheet with CASA share has risen by 180 bps, cost efficiency has come down to <50 %, was still relatively higher mainly as one of the merging banks had higher cost structures. Credit quality has improved with GNPA and NNPA improving q-o-q. The bank has taken 20% provision for sub-standard assets compared to RBI's requirement of 5%.
- ◆ **Capital Raising:** BOB has board approval for raising Rs. 13,500 crore (Rs. 4,500 crore as AT1 and rest as equity) capital and will be explored in next few months.
- ◆ **Merger:** The integration by March 31, 2021, will be completed and merger benefits will be accruing in the long term.
- ◆ **Reasons for high moratorium:** High moratorium levels due to technology reasons. The bank had given an opt out option to its customers. Going forward, it will now change its stance and look to interact with customers and expects moratorium levels to come down by Q2FY2021E.
- ◆ **Outlook of MSME:** For the MSME segment, credit guarantee scheme announced by the union government is positive and will be supportive. For BOB, around Rs. 10,000 crore qualifies for the scheme, and the bank has already sanctioned Rs. 6,500 crore. About one-third of the sanctions have already been disbursed.
- ◆ **Linked loans:** Around 5% of the book is linked to external benchmark rates.
- ◆ **Employee cost:** The calculation and revision has been done as per IBA guidelines and actuarial calculations and had already seen higher in 9M, mainly in Q3 (due to ESPS expense in Q3) and, hence, was lower in Q4 on a sequential basis.
- ◆ **Loan book outlook:** Loan mix will be diversified. Currently, 50% is corporate, the balance is spread between retail MSME and agriculture, which the bank expects to maintain. BOB expects car loans and retail loans to grow slower in FY2021E.
- ◆ **Watchlist:** Due to moratorium benefit, Rs. 4,050 crore worth of stressed didn't slip since there was a standstill classification, and hence there were lower slippages in Q4FY2020. There was one account of Rs. 2,500 crore, which upgraded in Q4FY2020. There has been a large account in the international book, which has been added to the watchlist.
- ◆ **Rise in standard asset provisions:** There was one account that was supposed to be provided for in the earlier period, which BOB had to provide in Q4. Moreover, there was Rs. 4,000 crore books for which 20% provision was done. Hence, provisions were elevated.
- ◆ **Recovery Outlook:** Recovery will be worse in FY2021E compared to FY2020 mainly due to Q1 being impacted by the lockdown. Management expressed that it does not visualise too much concern and expects manufacturing to bounce back in six months. There is lesser pressure from legacy chunky accounts, which will help.
- ◆ **Current Provision Pool:** Provision pool is of Rs. 7,228 crore, which includes wage revision provisions.

Results	Rs cr				
Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Interest income	18,698.4	13,314.2	40.4	19,067.9	-1.9
Interest Expense	11,900.3	8,247.2	44.3	11,938.9	-0.3
Net Interest income	6,798.2	5,067.0	34.2	7,129.1	-4.6
Non-interest income	2,834.7	1,970.4	43.9	2,741.2	3.4
Net total Income	9,632.8	7,037.4	36.9	9,870.2	-2.4
Operating Expenses	4,512.0	3,176.6	42.0	4,911.8	-8.1
Pre-provisioning profit	5,120.8	3,860.8	32.6	4,958.5	3.3
Provisions	6,844.1	5,399.3	26.8	7,155.4	-4.4
Profit before tax	-1,723.3	-1,538.5	12.0	-2,197.0	-21.6
Tax	-2,229.9	-547.1	307.6	-790.0	182.3
Profit after tax	506.6	-991.4	NA	-1,407.0	NA

Source: Company, Sharekhan Research

Note: YoY and QoQ numbers are strictly not comparable

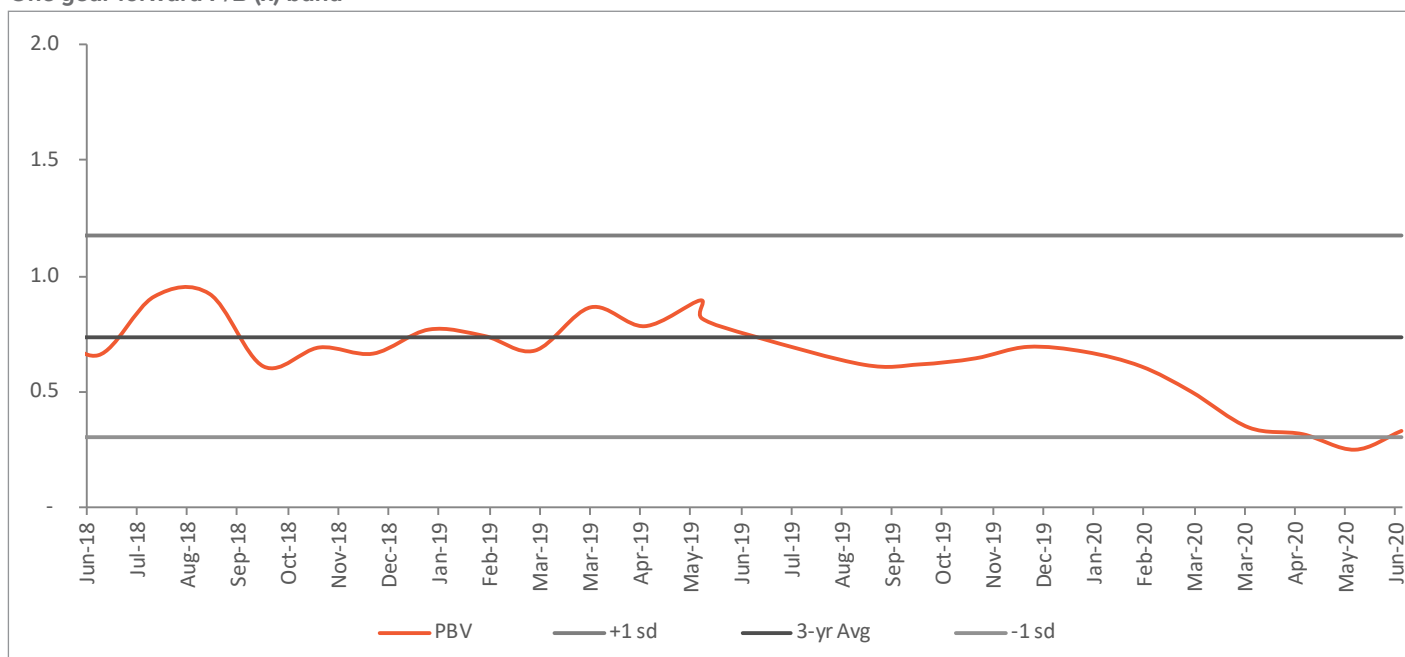
Outlook

BOB posted mixed Q4FY2020 results with improved asset quality and improvement in margins; however, high moratorium book is a concern. We expect fresh slippages to be elevated in FY2021E, driven by the merged entity’s exposure to various stressed groups and uncertainty on the outcome of resolutions and recoveries. The integration is only halfway through, and integration issues will continue to be a challenge. The overhang on asset-quality performance of the post-merger bank is another point of concern. The bank may have reduced its liability pricing, but softening yields and slow credit growth may keep NIM performance muted. Going forward, we believe asset quality is likely to be the key monitorable in the medium term for the bank.

Valuation

BOB currently trades at <1.0x its FY2021E book value. However, due to COVID-19 impact and the merger process, we expect growth outlook is likely to remain weak and asset-quality performance would keep facing challenges. Considering the risks, we maintain our Hold rating with a revised PT of Rs. 56.

One year forward P/B (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Bank of Baroda	52	0.3	0.3	14.3	10.3	0.1	0.2	2.3	3.1
State Bank of India	185	0.7	0.6	9.5	6.1	0.3	0.5	4.9	8.3
Bank of India	55	0.4	0.4	11.4	7.8	0.2	0.3	3.1	4.5

Source: Company, Sharekhan research

About company

BOB, established in 1908, is one of the oldest commercial banks in India with a substantial footprint in the domestic and international markets. BOB has a wide presence overseas with almost one-third of the total business coming from its international business. As of March 2020, BOB has a network of 9,482 domestic branches and 13,193 ATMs. The bank has a significant international presence with a network of 100+ overseas offices spanning 21 countries. BOB's subsidiaries include business in capital markets and for asset management. The bank also has joint ventures for life insurance with India First Life Insurance. BOB has recently merged with Vijaya Bank (BS Size of Rs. 1,77,847 crore) and Dena Bank (BS Size of Rs. 1,20,860 crore) as of March 2018 to create an amalgamated entity and, hence, previous quarters will not be strictly comparable.

Investment theme

BOB has a strong pan-India network of over 9,000+ branches, spread across the country and abroad, along with a diversified products and services portfolio and strong client relationships. Performance in terms of business growth as well as profitability and asset-quality improvement is gradual but in the desired direction. Moreover, the recent COVID-19 pandemic is likely to result in slower growth and higher credit costs for the banking sector and will impact the outlook of BOB as well in the medium term. Adding to that, the bank has been under integration process with two other PSU Banks, which have merged in the bank. Notwithstanding the synergies that will accrue over a longer period, we believe near-term challenges in terms of asset quality and integration issues of the merged entity may mute medium-term performance.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agriculture and/or retail segments due to the overall macroeconomic slowdown and prolonged pandemic recovery would impact growth and profitability.

Additional Data

Key management personnel

Shri Sanjiv Chadda	Managing Director & CEO
Shri Gopalrathnam Ramesh	CFO
Shri S. L. Jain	Executive Director
Shri Vikramaditya Singh Khichi	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	3.6
2	Life Insurance Corp of India	3.3
3	Reliance Capital Trustee Co Ltd	2.7
4	ICICI PRUDENTIAL BANK ETF	2.6
5	ICICI Prudential Asset Management	2.2
6	Vanguard Group Inc/The	0.6
7	Kotak Mahindra Asset Management Co	0.3
8	Dimensional Fund Advisors LP	0.3
9	Jupiter Investment Management Group	0.2
10	UTI RETIREMENT SOLUTIONS LTD	0.2

Source: Bloomberg

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