

Asset quality burden to stay ahead...

Bank of Baroda (BoB) reported a sharp drop in its moratorium (morat) levels to ~21.4% vs. ~65% in March 2020. In terms of moratorium composition, 15.7% morat was availed by borrowers with outstanding loan amount in excess of ₹ 10 lakh while the balance (5.7%) were borrowers with an outstanding loan amount less than ₹ 10 lakh.

Total provisioning for Q1FY21 was down 17.8% YoY to ₹ 5628 crore. The bank has provided ₹ 996 crore for Covid-19 during the quarter. As on June 30, 2020, total Covid provisioning was at ₹ 1806 crore (~25 bps of advances). PCR increased from 81.3% in Q4FY20 to 83.3% in Q1FY21.

Fresh slippages slumped 10.2% QoQ to ₹ 2740 crore with ~₹ 2121 crore attributable to the international book. Amid moratorium, GNPA remained flat QoQ at ₹ 6913 crore (GNPA ratio – 9.39%), NNPA ratio declined 30 bps QoQ to 2.83%. Watchlist for the quarter was at ₹ 13000 crore, up 4% QoQ. Exposure in accounts under NCLT 1 and NCLT 2 list was at ₹ 4889 crore and ₹ 6019 crore, respectively (up ₹ 30 crore QoQ). Provision coverage under NCLT 1 and NCLT 2 list is 99.57% and 98.35%, respectively.

On a merged basis advances growth was muted at 0.6% QoQ, however up 8.5% YoY to ₹ 686672 crore led by healthy growth in corporate (up 9.2% YoY) and retail advances (up 13.5% YoY). Foreign advances came in at ₹ 121509 crore, up 13.9% YoY

NII was at ₹ 6798.2 crore, up 0.3% QoQ due to slower business growth. NIMs fell 12 bps sequentially to 2.55% on account of faster drop in yields compared to CoF. Other income growth was subdued due to a decline in fee income. Lower opex was offset by a decline in other income, which led operating profit to decline 15.6% QoQ to ₹ 4319 crore. Higher provisioning coupled with weak topline growth led the bank to report a loss of ₹ 864 crore.

Return ratios to remain capped, going forward

The bank reported a sharp drop in its moratorium levels to 21.4% against management guidance of ~35% mainly due to a change in the morat opt in process for loans above ₹ 10 lakh. The bank has done some MSME restructuring during the quarter with outstanding pool of ~₹ 23700 crore. Apart from this, the management has guided that once the moratorium is over, the corporate book would require high degree of restructuring. Although restructuring of loans would stall slippages during the medium term, maintaining higher credit costs would keep return ratios capped.

Valuation & Outlook

The ongoing nationwide lockdown coupled with the integration process underway (to be completed by the end of FY21) would keep growth muted in the near term. Going forward, moratorium book, watchlist trend and restructured book remain key monitorables. Given the capital position with CET1 ratio at 9.08%, the bank has indicated at a capital raise of ~₹ 9000 crore during H2FY21, which looks positive at this point. On the back of lower growth and muted return ratios, we value the bank at 0.5x FY22E ABV with a revised target price of ₹ 52. We maintain **HOLD**.

Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
NII	22,301	22,312	27,451	28,212	29,715	4.0%
PPP	16,275	18,852	19,691	19,506	20,251	1.4%
PAT	(3,628)	552	546	844	2,698	122.3%
ABV (₹)	13.1	82.7	92.5	92.9	98.1	
P/E	-53.6	27.4	41.5	26.9	8.4	
P/ABV	7.2	0.6	0.5	0.5	0.5	
RoA	0.0	0.1	0.0	0.1	0.2	
RoE	(5.7)	0.9	0.8	1.2	3.6	

Source: Company, ICICI Direct Research



Particulars	
Particulars	Amount
Market Capitalisation	₹21763 Crore
GNPA (Q1FY21)	69,132.0
GNPA (Q1FY21)	19,449.7
NIM (Q1FY21) %	2.55%
52 week H/L	108/36
Networth	71,856.0
Face value	₹2
DII Holding (%)	12.7
FII Holding (%)	4.1

Key Highlights

- Moratorium book reduced to 21.4% vs. 65% during March 2020
- Total Covid provisioning as on June 2020 at ₹ 1806 crore (~25 bps of advances)
- Maintain HOLD with revised target price of ₹ 52 (earlier ₹ 58)

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	6,816	6,860	6,498	4.9	6,798	0.3	NII growth muted due to slower credit growth
NIM (%)	2.6	2.7	2.6	-7 bps	2.7	-12 bps	Drop in yields led NIMs to contract sequentially
Other Income	1,818.3	1,818.3	1,916	-5.1	2,835	-35.9	Muted fee income growth impacted other income
Net Total Income	8,634	8,678	8,414	2.6	9,633	-10.4	
Staff cost	2,242	2,052	1,939	15.6	1,954	14.7	
Other Operating Expenses	2,073	2,550	2,198	-5.7	2,558	-19.0	
PPP	4,320	5,153	4,276	1.0	5,121	-15.6	
Provision	5,628	4,531	3,285	71.3	6,844	-17.8	The bank has provided ₹ 996 crore for Covid during the quarter. Total Covid provisions as on June 2020 at ₹ 1806 crore (~25 bps of advances)
PBT	-1,308	622	991	-231.9	-1,723	-24.1	
Tax Outgo	-443.5	158.6	281.5	-257.6	-2,229.9	-80.1	
PAT	-864.3	463.4	709.9	-221.7	506.6	-270.6	
Key Metrics							
GNPA	69,132.0	70,769.1	69,714.0	-0.8	69,381.4	-0.4	Lower slippages on account of standstill asset classification benefit. Majority of slippages attributable to international book
NNPA	19,449.7	21,792.4	25,030.0	-22.3	21,576.6	-9.9	
Total Watch list	13,000.0	0.0	16,501.0	-21.2	12,500.0	4.0	
Advances	736,547	697,022	633,181	16.3	690,121	6.7	Advances growth muted sequentially led by deceleration across all segments
Deposits	934,461	974,365	895,542	4.3	945,985	-1.2	CASA ratio up 39 bps QoQ to 39.49%

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	27,905.6	28,211.7	1.1	29,505.6	29,714.9	0.7
Pre Provision Profit	19,635	19,505.7	-0.7	20,725	20,251.2	-2.3
NIM Global (%)	2.83	2.87	3 bps	2.85	2.88	2 bps
PAT	1,074	844	-21.4	3,172	2,698	-14.9
ABV (₹)	100.4	92.9	-7.5	116.2	98.1	-15.5

Source: Company, ICICI Direct Research

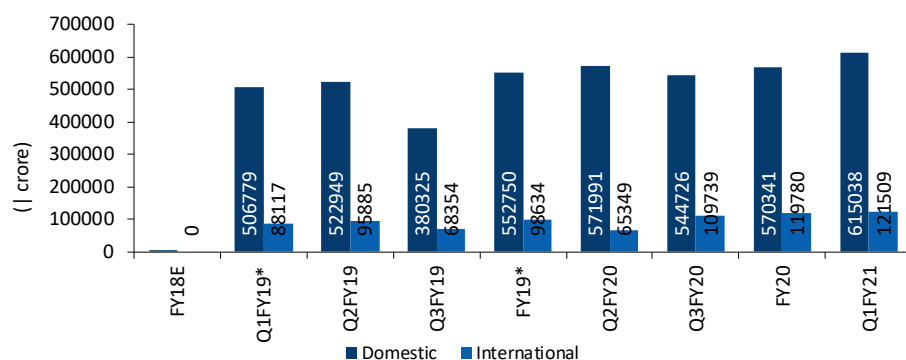
Exhibit 3: Assumptions

	FY19	FY20	Current		Earlier	
			FY21E	FY22E	FY21E	FY22E
Credit growth (%)	6.9	5.9	2.0	5.0	1.0	5.0
Deposit Growth (%)	7.1	3.4	4.0	6.0	5.0	6.0
NIM C calculated (%)	2.4	2.8	2.9	2.9	2.8	2.9
Cost to income ratio (%)	46.6	47.9	47.7	48.4	49.3	49.3

Source: Company, ICICI Direct Research

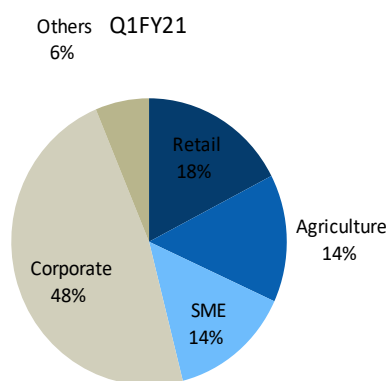
Story in Charts

Exhibit 4: Credit traction to pick up gradually from FY21E onwards



Source: Company, ICICI Direct Research, * Merged entity

Exhibit 5: Focus on retail segment to increase proportion in advances



Source: Company, ICICI Direct Research

Exhibit 6: Deposit profile

₹ crore	Q1FY20*	Q2FY20*	Q3FY20*	Q4FY20*	Q1FY21*	YoY (%)	QoQ (%)
Global Deposits	895542	894130	896162	945985	934461	4.3	-1.2
Global C ASA ratio	33.7	34.9	34.9	35.3	35.3	4.8	0.0
Domestic Deposits	785861	783492	782070	808706	813530	3.5	0.6
Domestic C ASA ratio	36.6	37.9	38.8	39	39	6.9	0.0
Overseas Deposits	109681	110638	114092	137279	120931	10.3	-11.9

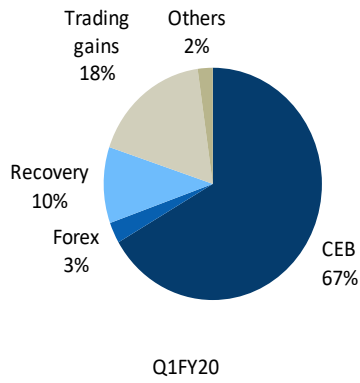
Source: Company, ICICI Direct Research, *- Merged Bank

Exhibit 7: Trend in margin

	Q2FY18	Q3FY18	Q4FY18	Q1FY19*	Q2FY19*	Q3FY19	Q4FY19*	Q1FY20*	Q2FY20*	Q3FY20*	Q4FY20*	Q1FY21
Global NIM	2.3	2.7	2.5	2.7	2.6	2.7	2.8	2.6	2.8	2.8	2.7	2.6
Domestic NIM	2.7	3.2	2.9	2.9	2.8	2.8	2.9	2.7	3.0	2.9	2.8	2.6
Overseas NIM	1.2	1.1	1.1	1.5	1.7	2.0	1.7	1.5	1.3	1.5	1.2	1.4
Global Yield on advances	6.9	7.2	7.1	7.9	7.4	7.7	8.0	8.4	8.7	8.3	7.7	7.1
Domestic Yield on advances	8.6	8.8	8.7	8.7	8.5	8.6	8.7	8.7	9.0	8.7	8.8	8.1
Overseas Yield on advances	2.6	2.7	2.9	3.5	3.8	4.6	4.4	4.1	3.8	3.9	3.3	3.2
Global Cost of deposits	4.5	4.4	4.5	4.8	4.6	4.8	5.1	5.5	5.4	5.3	5.2	5.0

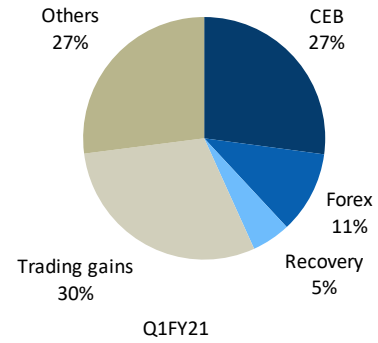
Source: Company, ICICI Direct Research

Exhibit 8: Fee income traction...



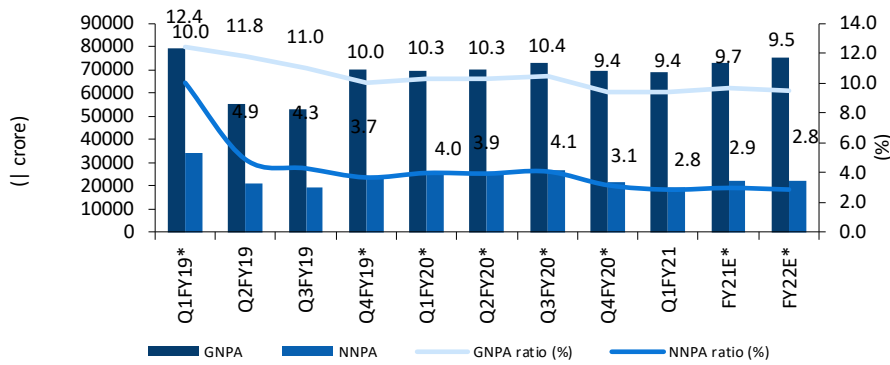
Source: Company, ICICI Direct Research

Exhibit 9: ...impacted amid lockdown



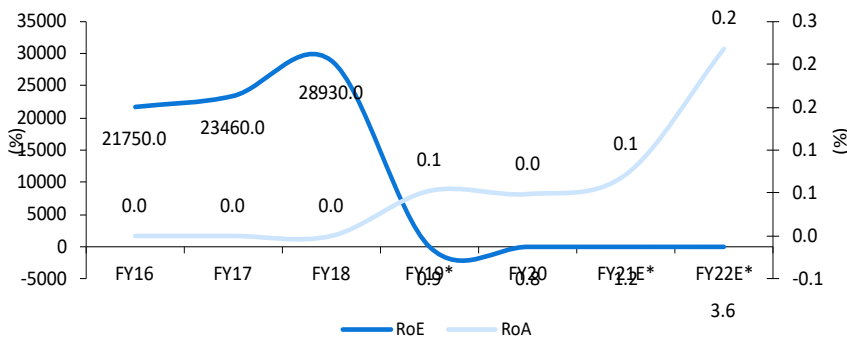
Source: Company, ICICI Direct Research

Exhibit 10: Fresh slippages to remain lower due to restructuring



Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 11: Gradual improvement in return ratio from FY21E onwards



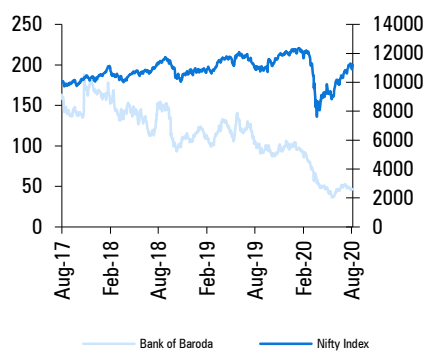
Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	69.2	69.2	71.6	71.6	71.6
FII	6.4	6.2	4.8	4.6	4.1
DII	15.8	16.1	13.9	14.0	12.7
Others	8.6	8.5	9.7	9.8	11.7

Source: Company, ICICI Direct Research

Exhibit 13: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	64,948	75,984	74,786	79,042
Interest Expended	42635.8	48532.4	46574.5	49327.3
Net Interest Income	22,312	27,451	28,212	29,715
% growth	0.1	23.0	2.8	5.3
Non Interest Income	12978.1	10317.3	9112.2	9511.5
Net Income	35290.5	37768.6	37323.9	39226.4
Employee cost	8111.3	8769.5	8630.7	9129.5
Other operating Ex	8327.6	9307.7	9187.5	9845.8
Operating Income	18851.6	19691.4	19505.7	20251.2
Provisions	18238.8	21493.6	18372.4	16630.2
PBT	612.9	-1802.2	1133.3	3621.0
Taxes	61.3	-2348.3	289.0	923.4
Net Profit	552	546	844	2,698
% growth	NA	NA	54.6	219.5
EPS	1.8	1.2	1.8	5.8

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Share	617.0	925.4	925.4	925.4
BV (₹)	198.5	155.3	157.1	162.9
ABV (₹)	82.7	92.5	92.9	98.1
P/BV	0.2	0.3	0.3	0.3
P/ABV	0.6	0.5	0.5	0.5
GNPA	11.3	9.4	9.7	9.5
NNPA	5.5	3.1	2.9	2.8
RoE	0.9	0.8	1.2	3.6
ROA	0.1	0.0	0.1	0.2

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ Crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	617.00	925.37	925.37	925.37
Reserves and Surp	60634.7	70930.8	71760.8	74431.8
Networth	61251.7	71856.2	72686.2	75357.2
Deposits	915159.0	945984.4	983823.8	1042853.2
Borrowings	76370.1	93069.3	96792.1	101631.7
Other Liabilities & I	28727.7	47005.6	49825.9	52815.4
Total	10,81,508	11,57,916	12,03,128	12,72,658
Application of Funds				
Fixed Assets	8226.2	8889.3	9333.8	9800.4
Advances	651384.0	690120.7	703923.1	739119.3
Investments	259530.2	274614.6	280106.9	294112.2
Cash and balances	35201.0	32645.9	34931.1	37376.2
Money at call, balanc	78019.7	89255.3	98180.8	107998.9
Other Assets	49147.3	62389.8	76652.3	84250.5
Total assets	10,81,508	11,57,916	12,03,128	12,72,658

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19E	FY20E	FY21E	FY22E
Total assets	6.2	7.1	3.9	5.8
Advances	6.9	5.9	2.0	5.0
Deposits	7.1	3.4	4.0	6.0
Total Income	11.2	7.0	-1.2	5.1
Net interest income	0.1	23.0	2.8	5.3
Operating expense	6.4	10.0	-1.4	6.5
Operating profit	15.8	4.5	-0.9	3.8
Net profit	NA	-1.0	54.6	219.5
Book value	542.8	-21.8	1.2	3.7
EPS (₹)	NA	(34.0)	54.6	219.5

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	47	52	Hold	21,763.0	1.2	1.8	5.8	39.8	NA	NA	0.5	0.5	0.5	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	1,66,310	16.2	15.3	26.1	11.7	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	46	50	Hold	2,810	-27.2	8.5	13.0	-1.7	5.4	3.5	0.3	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	460	530	Buy	1,10,439	5.8	23.7	38.0	79.8	19.4	12.1	1.8	1.7	1.5	0.2	0.7	1.0	2.2	7.5	11.1
City Union Bank (CITUNI)	133	171	Buy	8,711	6.5	10.1	11.4	20.5	13.2	11.6	2.1	1.8	1.6	1.0	1.4	1.4	9.4	13.0	12.9
Development Credit Bank (DCB)	83	90	Hold	2,577	10.9	11.1	12.4	7.6	7.5	6.7	0.9	0.8	0.7	0.9	0.8	0.8	11.4	10.2	10.1
Federal Bank (FEDBAN)	52	55	Hold	8,355	7.7	7.9	12.5	6.7	6.6	4.2	0.8	0.8	0.7	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	1,103	1,320	Buy	6,03,467	47.9	52.1	65.4	23.0	21.2	16.9	3.6	3.3	3.0	1.9	1.7	1.9	16.4	15.7	17.5
Indusind Bank (INDBA)	472	400	Hold	27,461	63.7	33.7	52.2	7.4	14.0	9.0	1.0	1.0	0.9	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	14	12	Sell	671	-12.7	-0.1	-6.1	-1.1	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,322	1,600	Buy	2,61,686	31.1	26.0	32.1	42.5	50.8	41.1	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	220	400	Hold	30,740	18.1	17.7	25.2	12.2	12.4	8.7	2.4	2.2	1.8	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	29	34	Buy	10,221	-5.7	1.1	2.4	NA	NA	12.1	1.0	1.0	0.9	-1.6	0.3	0.6	-15.9	3.4	7.0

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA and Yash Batra, MBA, 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. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.