

Sector: Banks & Finance
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 49	
Price Target: Rs. 56	↔
↑ Upgrade ↔ No change ↓ Downgrade	

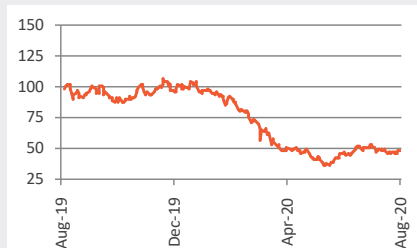
Company details

Market cap:	Rs. 22,432 cr
52-week high/low:	Rs. 108/36
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	4.1
DII	12.7
Others	11.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.9	17.9	-48.8	-52.8
Relative to Sensex	-10.2	-3.1	-41.4	-56.1

Sharekhan Research, Bloomberg

Bank of Baroda (BOB) posted weak Q1FY2021 results with operational performance coming below expectations, but sequentially asset quality saw improvement (NNPA declined) with a decrease in moratorium. Net interest income (NII) increased to Rs. 6,816 crore, up 5% y-o-y, and came in line with expectations. However, a sharp increase in employee expenses, which increased by 15.63% y-o-y, led to flat pre-provision operating profit for Q1FY2021 of Rs. 4,320 crore, which came below our expectations. Total advances grew by 8.6% YoY against deposit growth of 4.3% YoY.

However, BOB witnessed net loss of Rs. 864 crore in Q1FY2021 due to higher provision for standard advances. Margins declined, with global NIM during Q1FY2021 at 2.55% from 2.62% in Q4FY2019 and domestic NIM decreased to 2.63% from 2.73%. Domestic cost of deposits in Q1FY2021 fell to 4.95%, lower by 53 bps y-o-y, mainly due to improvement in CASA ratio, which increased by 294 bps y-o-y to 39.49% (was 39.07% in Q4FY2020). Headline asset-quality performance was stable, with credit cost at 1.87% in Q1FY2021 (1.82% in Q4FY2020). While gross NPA (GNPA%) ratio remained flat at 9.39% compared to 9.4% in Q4FY2020, higher provisions for standard assets resulted in NNPA to decline to 2.83%.

During the quarter, the bank saw a large NBFC account cause the bank to take provisions for the same, due to which provisions were high. Moratorium book dwindled to 21.4% (as a % of total loans), of which 15.7% was to borrowers with outstanding above Rs. 1 crore who were given an option to opt-in, while the remaining 5.7% was to borrowers who were given an option to opt-out. During the quarter, CET 1 declined to 9.08% (was 9.44%), which was a dampener. We believe asset quality still continues to have uncertainties and, hence, will be a key monitorable. We maintain our Hold rating with an unchanged PT of Rs. 56.

Key positives

- Book under moratorium declined to at 21.4% as of July 2020 as against 65% in the previous quarter.
- While gross NPA (GNPA%) ratio remained flat at 9.39% compared to 9.4% in Q4FY2020, higher provisions for standard assets resulted in NNPA to decline to 2.83%.

Key negatives

- NIM declined to 2.63% as compared to 2.76% quarter ago.
- During the quarter, CET 1 declined to 9.08% (was 9.44%), which was a dampener.

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 is likely to remain weak and asset-quality performance is still facing challenges. Considering the risks, we maintain our Hold rating with an unchanged PT of Rs. 56.

Key Risks

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

Valuation	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Net interest income (Rs cr)	15,521.8	18,480.3	27,451.3	30,784.2	33,361.2
Net profit (Rs cr)	-2,431.8	433.5	546.2	1,684.8	2,330.2
EPS (Rs)	-9.2	1.6	1.2	3.6	5.0
PE (x)	NA	30.2	41.5	13.5	9.7
Book value (Rs/share)	152.0	179.5	148.7	153.5	157.5
P/BV (x)	0.32	0.27	0.33	0.32	0.30
RoE (%)	NA	0.9	0.9	2.3	3.1
RoA (%)	NA	0.1	0.1	0.1	0.2

Source: Company; Sharekhan estimates

Key Conall Highlights

Business update: The bank saw comfortable position on deposits side, both CASA and deposits saw inline or better-than-industry performance. Retail term deposits (RTD) have gone up by 10% y-o-y. Pricing of deposit is comfortable; the bank sees advantage for it from the revised Reserve Bank of India (RBI) norms for the current account. During the quarter, the bank chose to grow deposits, in line with advances growth, which it intends to continue. Term loans are around 65% of the total book.

Higher provisions: Higher provision on standard advances was due to provisions that the bank has taken for one loan account (an NBFC borrower; still standard) against which total provisions held is Rs. 2,500 crore, of which Rs. 1,000 crore was done in Q1FY2021.

Moratorium book: Moratorium 1 was at ~60+%. For June, the bank decided to change the option and gave an opt-in option. Hence, the total is 21.4% of total book. If 2 instalments paid are excluded, then the moratorium book will be 17%. Around 10% of the book is corporate loans, which are under moratorium book.

Amalgamation: Rationalisation of branches will be 1,300 branches, around 900 branches have been closed/identified and balance will be done during the year.

Watchlist: Downgrades from W/List were 90% of the total slippages. Addition was mostly due to one NBFC account.

CET 1 decline: BoB saw decline in CET 1 sequentially mainly due to the loss posted during the quarter, as well as due to profitability pressure seen during the quarter.

Standard asset provisions: Total provisions for standard assets during the quarter for Rs. 1,800 crore, total outstanding standard asset provisions are at Rs. 7,900 crore.

NBFC account: Large account standard, which continues to be standard but has been put in the watchlist. That is why, the watch list went up due to this one single NBFC. Watchlist as of March was Rs. 12,500 crore, which is at Rs. 13,000 crore now.

BBB and below book: Quality of book is healthy, historically BBB book stress levels are low, and are also helped by Moratorium.

Unrealised MTM gain: The bank has unrealised MTM treasury gains of ~Rs. 8,900 crore in the HTM category.

NIM outlook: NIMs are likely to be under pressure due to high liquidity. Helped by deposit growth (from CASA) will help keep CoF low. CASA has growth to 39.5% from 36% in one-year and aims to take CASA to 42%.

Capital raising: Equity fund raise is Rs. 13,500 (Rs. 4,500 crore via AT1 issue), Rs. 9,000 crore via equity will come in H2FY2021.

Advances growth: Loan book growth expected was at 7-8% growth in FY2021E and the same deposit growth with higher CASA during the year.

Outlook on Opex: Operating cost is high but BOB expects that as cost synergies play out and fee income picks up, Opex-to-Income ratio will improve. Do not expect C/I to be <50%.

NBFC book: Total NBFC book is ~2% of watchlist, and ~90% of the total NBFC is strong. One account that has come to watchlist is a one-off.

Reason higher standard asset provision: Due to one account, expect the provision to reverse in H2FY2021.

ECLGC scheme: Has sanctioned Rs. 8,000 crore, of which Rs. 5,564 crore has been disbursed.

International book: Rs. 2,100 crore slippage from the international book. It is about Rs. 1,100 crore from one group from Middle East. Rest has two large accounts, one account in India has Rs. 600 crore slippages, BOB expects Rs. 350 crore. Another group is being restructured, which is from India, operating in Australia.

NIMs: Domestic NIM declined due to high delinquency especially the corporate segment.

Customers with liability relations with bank: Around ~90+% of customers have liability relation with the bank.

Quality of book: NBFC account impacted the watchlist. 90% of NBFC book is rated AA and above.

Results
Rs cr

Particulars	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Interest income	18,494.0	18,945.3	-2.4	18,698.4	-1.1
Interest Expense	11,678.0	12,447.2	-6.2	11,900.3	-1.9
Net Interest income	6,816.0	6,498.1	4.9	6,798.2	0.3
Non-interest income	1,818.0	1,915.6	-5.1	2,834.7	-35.9
Net total Income	8,634.0	8,413.7	2.6	9,632.8	-10.4
Operating Expenses	4,314.0	4,137.5	4.3	4,512.0	-4.4
Pre-provisioning profit	4,320.0	4,276.2	1.0	5,120.8	-15.6
Provisions	5,628.0	3,284.9	71.3	6,844.1	-17.8
Profit before tax	-1,308.0	991.4	NA	-1,723.3	NA
Tax	-444.0	281.5	NA	-2,229.9	NA
Profit after tax	-864.0	709.9	NA	506.6	NA

Source: Company; Sharekhan Research

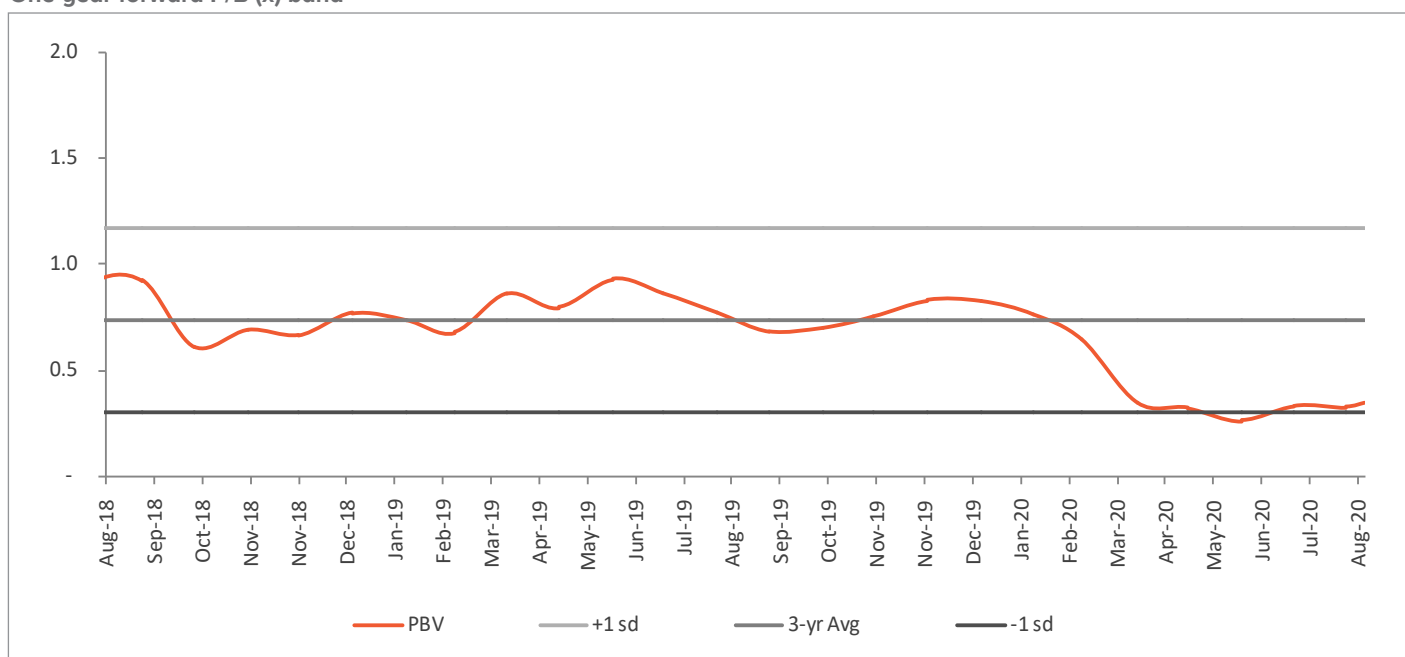
Outlook

BOB posted weak Q1FY2021 results with pressure on asset quality continuing to be a pain point. The decline in moratorium book is positive, but the watchlist continues to be 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. Integration issues will continue to be a challenge for growth, which continues to be at a back seat due to the current economic scenario as well. The bank has 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 is still facing challenges. Considering the risks, we maintain our Hold rating with an unchanged 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	49	0.3	0.3	13.5	9.7	0.1	0.2	2.3	3.1
State Bank of India	194	0.8	0.7	8.2	6.7	0.5	0.6	8.8	10.0
Bank of India	49	0.4	0.4	36.8	9.6	0.1	0.3	2.1	2.7

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 April 2018 to create an amalgamated entity.

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 also impact the outlook of BOB 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, agri 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 Subrat Kumar	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	3.5
2	Life Insurance Corp of India	3.3
3	ICICI PRUDENTIAL BANK ETF	2.6
4	Reliance Capital Trustee Co Ltd	2.5
5	ICICI Prudential Asset Management	2.1
6	Vanguard Group Inc/The	0.7
7	Dimensional Fund Advisors LP	0.4
8	Kotak Mahindra Asset Management Co	0.3
9	SBI Fund Management Ltd	0.3
10	Jupiter Investment Management Group	0.2

Source: Bloomberg

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