

August 11, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	65		83	
NII (Rs. m)	3,21,023	3,43,400	3,49,715	4,01,887
% Chng.	(8.2)	(14.6)		
Op. Profit (Rs. m)	2,19,836	2,29,447	2,28,360	2,60,375
% Chng.	(3.7)	(11.9)		
EPS (Rs.)	5.3	12.6	15.8	19.5
% Chng.	(66.3)	(35.5)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs m)	2,74,513	2,95,329	3,21,023	3,43,400
Op. Profit (Rs m)	1,96,914	2,01,397	2,19,836	2,29,447
PAT (Rs m)	14,504	9,515	24,615	58,229
EPS (Rs.)	1.5	2.1	5.3	12.6
Gr. (%)	(8.2)	37.0	158.7	136.6
DPS (Rs.)	-	-	2.4	2.8
Yield (%)	-	-	4.9	5.8
NIM (%)	3.0	2.6	2.7	2.7
RoAE (%)	2.4	1.3	3.3	7.6
RoAA (%)	0.1	0.1	0.2	0.4
P/BV (x)	0.3	0.3	0.3	0.3
P/ABV (x)	0.4	0.4	0.4	0.4
PE (x)	32.3	23.6	9.1	3.9
CAR (%)	13.3	13.2	12.8	12.6

Key Data

BOB.BO | BOB IN

52-W High / Low	Rs.108 / Rs.36
Sensex / Nifty	38,182 / 11,270
Market Cap	Rs.224bn/ \$ 2,995m
Shares Outstanding	4,621m
3M Avg. Daily Value	Rs.3968.3m

Shareholding Pattern (%)

Promoter's	71.60
Foreign	4.09
Domestic Institution	12.66
Public & Others	11.65
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.9)	(46.1)	(51.4)
Relative	(9.8)	(42.2)	(52.1)

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Weak quarter; mixed outlook ahead

Quick Pointers:

- 21% of the Book is under Moratorium down from 55% as on May'20.
- Slippages come off to Rs27.4bn though watchlist rose to Rs 130bn v/s Rs 125bn

BOB's earnings saw sharp miss and reported Rs8.64bn of loss on back of high provisioning, although asset quality improved with continued PCR enhancement. 21% of the loan book was under moratorium falling significantly as offering morat on selected basis. NII performance was decent but lower other income & higher staff opex led to mediocre PPOP. Concerns have remained from high NBFC share, while high mix of corporate/SME book can see higher restructuring and hence we believe, high credit cost will continue to remain a challenge to profitability. Decent flow in low cost liabilities and strong PCR of 72% provides some comfort to B/s. Retain BUY with revised PT of Rs65 (from 83) based on 0.6x Mar-22 ABV.

- PPOP has remained under pressure:** NII growth was 5% YoY as lowering cost of funds benefit accrue although yields continue to remain under pressure on excess liquidity, reversals on slippages & chasing higher rated secured assets. Bank targets to re-jig the portfolio so as to push declining NIMs to 3.0% from current 2.63% (domestic). PPOP was mediocre as fee income was slower, lower treasury gains booked and higher provisioning in staff opex.
- Asset quality stable; risks remain ahead:** Asset quality remained more or less steady though still remaining at elevated levels with PCR at 72%. Bank reported low fresh slippages of Rs 27.5bn largely coming from International book. The international slippages comprised of Rs11bn from middle east based group and the balance from one large diversified Indian group headquartered in Singapore of which Rs6bn is expected to be fully recovered by 2Q21 and Rs2.25bn from an Indian group based in Australia which is being regularly serviced but was restructured and hence slipped. Downgrades to watchlist were mainly from an Infra leasing/financing NBFC company. Moratorium book has come off to 21% from 55% in May'20, although considering over due in only last installment moratorium stood at 17%. Bank has ~Rs20bn of COVID standard asset provisioning held in b/s.
- Business momentum slower, CASA growth was good:** Loan book grew by 8% YoY with growth mainly from Retail book. Going ahead, Bank expects to bring down Infra book. Bank emphasized that Mortgage/Home loan book will be targeted with renewed focus and aided by it's extremely competitive home loan rates. Deposits grew at a slower rate of 4% YoY though CASA did well growing 12% YoY supported by good growth in SA deposits.
- Back to capital issue:** With CET-I of 9.1%, bank plans to raise Rs13.5bn of which Rs9bn would be in the form of pure equity and Rs4.5bn in the form of AT-1 capital. Capital burn has been high due to non-loan linked factors which is added risk for further dilution below book value.

Exhibit 1: Slower operating performance & high provisions impact earnings

P&L (Rs m)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Interest Income	1,84,944	1,89,453	(2.4)	1,86,984	(1.1)
Interest Expense	1,16,781	1,24,472	(6.2)	1,19,003	(1.9)
Net Interest Income (NII)	68,163	64,981	4.9	67,982	0.3
- Treasury income	5,410	3,380	60.1	8,750	(38.2)
Other income	18,183	19,176	(5.2)	28,347	(35.9)
Total income	86,346	84,157	2.6	96,328	(10.4)
Operating expenses	43,144	41,370	4.3	45,120	(4.4)
-Staff expenses	22,418	19,390	15.6	19,545	14.7
-Other expenses	20,726	21,980	(5.7)	25,576	(19.0)
Operating profit	43,202	42,787	1.0	51,208	(15.6)
Core operating profit	37,792	38,847	(2.7)	41,018	(7.9)
Total provisions	56,277	32,849	71.3	68,441	(17.8)
Profit before tax	(13,075)	9,938	n/a	(17,233)	n/a
Tax	(4,435)	2,815	n/a	(22,299)	n/a
Profit after tax	(8,640)	7,123	n/a	5,066	n/a
Balance sheet (Rs m)					
Deposits	93,44,613	89,55,420	4.3	94,59,844	(1.2)
Advances	68,66,718	63,31,809	8.4	69,01,207	(0.5)
Profitability ratios					
RoaA	(0.3)	0.3	(61)	0.2	(48)
NIM	2.6	2.6	(7)	2.7	(12)
Yield on Advances	7.3	8.0	(74)	7.7	(39)
Cost of Deposits	4.5	5.1	(62)	4.8	(28)
Asset Quality					
Gross NPA (Rs m)	6,91,320	6,97,140	(0.8)	6,93,814	(0.4)
Net NPA (Rs m)	1,94,500	2,50,303	(22.3)	2,15,766	(9.9)
Gross NPL ratio	9.4	10.3	(89)	9.4	(1)
Net NPL ratio	2.8	4.0	(112)	3.1	(30)
Coverage ratio	71.9	64.1	777	68.9	296
Business & Other Ratios					
Low-cost deposit mix	39.5	36.6	294	39.1	42
Cost-income ratio	50.0	49.2	81	46.8	313
Non int. inc / total income	21.1	22.8	(173)	29.4	(837)
Credit deposit ratio	73.5	70.7	278	73.0	53
CAR	12.8	11.5	134	13.3	(46)
Tier-I	10.3	9.6	77	10.7	(38)

Source: Company, PL

Q1FY21 Analyst Meet Highlights

Business outlook & growth

- **Advances:** Overall Loan growth remains in single digits with Retail being the major driver. Going ahead, focus is to be on Mortgage/Home Loan book which will be aggressively targeted. Bank expects to grow book by 7%-8% for FY21.
- **Liability:** On the Deposits front, the growth has been muted as Bank has adapted a very calibrated approach to ensure inflow of best quality deposits. Bank remains focused on CASA led deposits growth and has achieved the same during 1Q21. Bank expects to grow deposits by 7%-8% for FY21. RBI mandated current account framework is expected to have invaluable gains for the bank in terms of credit discipline but Bank clarifies that it will not directly push up quantum of current accounts
- **Exposure to ECGL-MSME funding:** Bank has sanctioned Rs80bn viz. 94% of eligible accounts and out of which Rs55.64bn has been disbursed.
- **Moratorium:** 21.42% of the loan book was under moratorium of which 15.7% is by borrowers with outstanding >Rs1mn who were given an option to opt-in and remaining 5.7% is by borrowers with outstanding <Rs1mn who were given an option to opt-out. This change in strategy of only selectively providing opt-out option has helped the Bank to bring down its moratorium book from ~60%. Book under morat would have gone further down to 17% had bank not adopted the conservative view of including those accounts that have not paid even 1 installment. Bank expects that regarding the recent Restructuring scheme provided by the RBI, the biggest share under the same will be of the Corporate book.

Opex/Margins/Treasury

- NIMs were impacted by lower yields and excess liquidity and are expected to fall further by ~5bps. Bank aims to push the NIMs back to 3% by re-jig of the loan book towards better yielding products
- Shift to new corporate tax rate has still not been adopted.

Asset Quality

- Bank has provided Rs9.96bn on accounts under moratorium that haven been extended asset classification benefits viz. Rs143.6bn.
- Rs9bn (viz ~50%) of standard asset provisioning is on account of a government-guaranteed loan the bank has for which total amount due is Rs76bn, of that about Rs56bn is a guarantee by the government. The bank has now made a total of Rs25bn provision on this loan.
- Fresh slippages came off to Rs 27.5bn with Rs 0.44bn from Agri, Rs 3bn from MSME, Rs 0.88bn from Retail, Rs1.65bn from Corporate and Rs21.2bn from International Book. The international slippages comprised of Rs11bn from middle east based group and the balance from 1 large diversified Indian group headquartered in Singapore of which Rs6bn is expected to be fully recovered by 2Q21 and Rs2.25bn from an Indian group based in Australia which is being

regularly serviced but was restructured and hence slipped. Slippage ratio has been on the lower side due to benefits from moratoriums and RBI's restructuring scheme

- Additions to the watchlist are mainly on account of a NBFC account (infra leasing/financing segment) which is standard and well rated but showed high levels of stress. Bank's exposure to COVID affected/sensitive sectors is only 2.8% of its loan book
- Exposure to NCLT List 1 stood at Rs48.9bn with 99.57% provisioning and to NCLT List 2 stood at Rs60.2bn with 98.35% provisioning.

Others

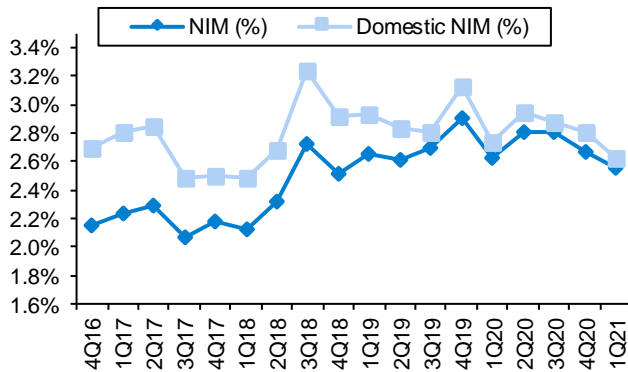
- CET-1 ratio has been adversely impacted by losses, revaluation reserves and deferred tax items
- Bank plans to Rs13.5bn during FY21 of which Rs9bn will be pure equity and Rs4.5bn will be At-1 capital.
- Bank faced covid related disruption in the merger process though should be able to complete it well within FY21 and still expects further significant synergies to be extracted from the merger

Exhibit 2: Overall Loan growth remains tepid

Loan break up (Rs mn)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Domestic Advances	61,50,380	57,14,840	7.6	61,10,450	0.7
Corporate	29,30,070	26,84,280	9.2	29,15,430	0.5
SME	8,75,820	8,49,530	3.1	8,73,280	0.3
Retail	12,25,280	11,22,330	9.2	12,06,570	1.6
Agri	8,85,880	8,02,010	10.5	8,79,210	0.8
Other/Misc	2,33,330	2,56,690	(9.1)	2,35,960	(1.1)
Advances Mix					
Domestic Advances	90	90	(69)	89	1
Corporate	43	42	28	42	1
SME	13	13	(66)	13	1
Retail	18	18	12	17	2
Agri	13	13	23	13	1
Other/Misc	3	4	(66)	3	(1)

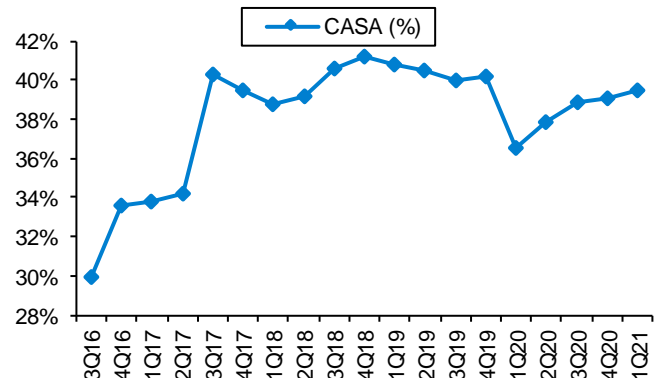
Source: Company,

Exhibit 3: Margins remain on a downtrend



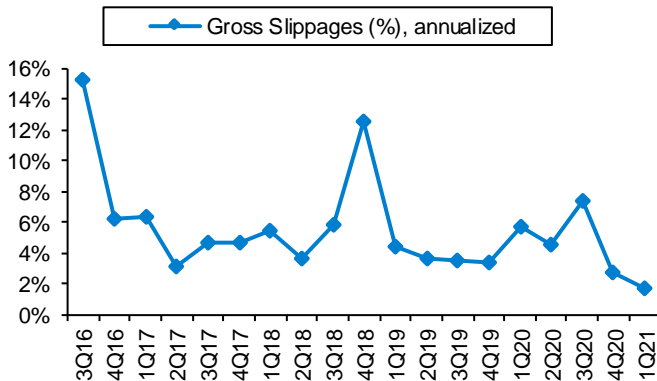
Source: Company, PL; Note: Fig. older than 1Q20 are for the unamalgamated entity, hence not comparable

Exhibit 4: CASA Ratio continues to grow decently



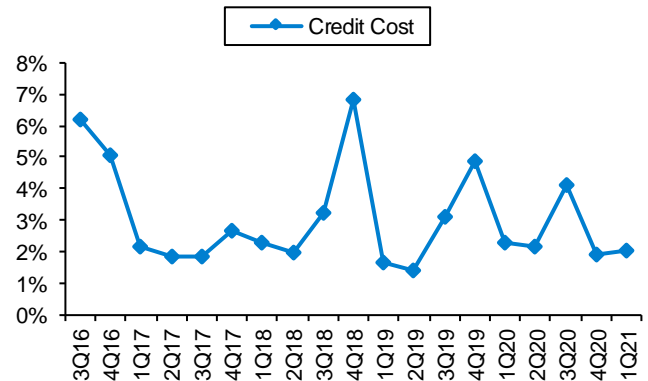
Source: Company, PL; Note: Fig. older than 1Q20 are for the unamalgamated entity, hence not comparable

Exhibit 5: Slippage rate remains stunted on moratorium



Source: Company, PL; Note: Fig. older than 1Q20 are for the unamalgamated entity, hence not comparable

Exhibit 6: Credit costs remain more or less steady



Source: Company, PL; Note: Fig. older than 1Q20 are for the unamalgamated entity, hence not comparable

Exhibit 7: Sector wise watch list data – NBFC gets addition

Sector	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Iron & Steel	1,230	1,500	3,750	5,760	2,970	2,850	2,580
Power	25,810	26,150	23,510	24,140	12,440	9,270	14,200
Road	13,630	16,100	24,600	31,520	30,630	31,190	35,340
Textile	4,500	9,250	25,000	15,000	14,240	12,850	11,780
NBFC			44,060	29,780		790	18,220
Others			39,090	33,800	39,720	42,050	34,880
Others International			5,000	5,000	5,000	26,000	13,000
Total	85,000	1,04,100	1,65,010	1,45,000	1,05,000	1,25,000	1,30,000
Watchlist as % of Loans	1.3%	1.6%	2.6%	2.3%	1.6%	1.8%	1.9%

Source: Company, PL

Exhibit 8: Return ratios – Return ratios will remain dismal due to higher credit cost

ROAE decomposition	2016	2017	2018	2019	2020	2021E	2022E
NII/Assets	1.91%	2.08%	2.30%	2.62%	3.01%	2.64%	2.70%
Fees/Assets	0.57%	0.64%	0.70%	0.71%	0.83%	0.61%	0.70%
Investment profits/Assets	0.18%	0.40%	0.29%	0.14%	0.30%	0.27%	0.20%
Net revenues/Assets	2.66%	3.12%	3.29%	3.48%	4.13%	3.52%	3.60%
OpEx/Assets	-1.34%	-1.43%	-1.51%	-1.59%	-1.98%	-1.72%	-1.75%
Provisions/Assets	-2.33%	-1.31%	-2.20%	-1.80%	-2.35%	-1.69%	-1.57%
Taxes/Assets	0.20%	-0.17%	0.05%	-0.04%	0.26%	-0.03%	-0.07%
Total Costs/Assets	-2.15%	-1.22%	-1.87%	-1.52%	-1.92%	-1.63%	-1.54%
ROAA	-0.81%	0.21%	-0.36%	0.06%	0.06%	0.09%	0.21%
Equity/Assets	6.01%	6.19%	6.21%	6.63%	6.72%	6.47%	6.19%
ROAE	-14.4%	3.8%	-6.3%	1.0%	1.0%	1.4%	3.7%

Source: Company, PL Note – FY20 represents merged numbers

Exhibit 9: Change in earnings estimates – We adjust NII lower and increase credit cost assumptions, we also adjust slippages for FY22

Rs (mn)	Old		Revised		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	305,786	349,715	295,329	321,023	(3.4)	(8.2)
Operating profit	201,816	228,360	201,397	219,836	(0.2)	(3.7)
Net profit	36,685	73,094	9,515	24,615	(74.1)	(66.3)
Loan Growth (%)	4.7	5.2	7.0	6.1	2.3	0.8
Credit Cost (bps)	200.0	160.0	240.0	230.0	40.0	70.0
EPS, Rs.	7.9	15.8	2.1	5.3	(74.1)	(66.3)
ABVPS, Rs.	119.2	135.0	114.5	111.8	(3.9)	(17.2)
Price target, Rs.	83		65		(21.5)	
Recommendation	BUY		BUY			

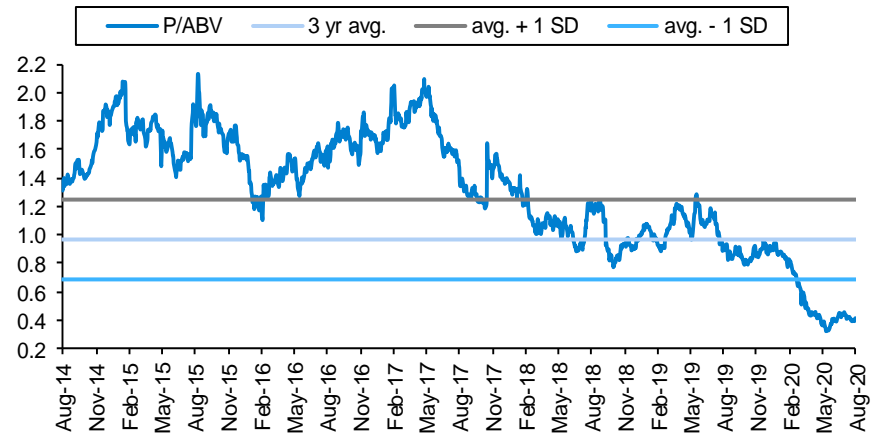
Source: Company, PL

Exhibit 10: We revise our TP to Rs65 (from Rs83) based on 0.6x P/ABV

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	7.3%
Risk-free rate	6.8%
Adjusted beta	1.10
Cost of equity	14.7%
Fair price - P/ABV	65
Target P/ABV	0.6
Target P/E	12.2
Current price, Rs	49
Upside (%)	34%
Dividend yield (%)	5%
Total return (%)	39%

Source: Company, PL

Exhibit 11: BOB - One year forward P/ABV trends



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Earned from Adv.	5,41,158	5,42,849	5,78,042	6,18,674
Int. Earned from invt.	1,80,974	1,90,146	2,07,329	2,23,523
Others	20,018	19,745	14,151	15,076
Total Interest Income	7,59,837	7,70,655	8,22,577	8,81,086
Interest Expenses	4,85,324	4,75,327	5,01,554	5,37,686
Net Interest Income	2,74,513	2,95,329	3,21,023	3,43,400
Growth(%)	46.9	7.6	8.7	7.0
Non Interest Income	1,03,173	98,015	1,06,836	1,15,383
Net Total Income	3,77,686	3,93,343	4,27,859	4,58,783
Growth(%)	53.9	0.7	7.0	7.2
Employee Expenses	87,695	98,219	1,06,076	1,16,684
Other Expenses	76,480	77,245	84,970	95,166
Operating Expenses	1,80,772	1,91,946	2,08,022	2,29,336
Operating Profit	1,96,914	2,01,397	2,19,836	2,29,447
Growth(%)	46.0	2.3	9.2	4.4
NPA Provision	1,65,171	1,71,426	1,74,934	1,38,388
Total Provisions	2,05,893	1,88,540	1,86,574	1,50,760
PBT	(8,979)	12,858	33,263	78,688
Tax Provision	(23,483)	3,343	8,648	20,459
Effective tax rate (%)	261.5	26.0	26.0	26.0
PAT	14,504	9,515	24,615	58,229
Growth(%)	84.6	(34.4)	158.7	136.6

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Face value	2	2	2	2
No. of equity shares	4,627	4,627	4,627	4,627
Equity	9,254	9,254	9,254	9,254
Networth	7,18,562	7,28,077	7,41,587	7,86,861
Growth(%)	40.9	1.3	1.9	6.1
Adj. Networth to NNPA's	2,15,766	1,96,367	2,33,417	2,17,242
Deposits	94,59,844	1,00,74,734	1,07,79,966	1,16,42,363
Growth(%)	48.1	6.5	7.0	8.0
CASA Deposits	33,38,237	35,08,709	37,86,659	40,89,591
% of total deposits	35.3	34.8	35.1	35.1
Total Liabilities	1,15,79,155	1,22,19,374	1,30,38,734	1,40,57,815
Net Advances	69,01,207	73,84,292	78,27,349	84,53,537
Growth(%)	47.2	7.0	6.0	8.0
Investments	27,46,146	29,76,801	32,63,318	35,14,025
Total Assets	1,15,79,155	1,22,19,374	1,30,38,734	1,40,57,815
Growth (%)	48.3	5.5	6.7	7.8

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs (Rs m)	6,93,814	7,11,987	7,69,285	7,30,737
Net NPAs (Rs m)	2,15,766	1,96,367	2,33,417	2,17,242
Gr. NPAs to Gross Adv.(%)	9.4	9.0	9.2	8.1
Net NPAs to Net Adv. (%)	3.1	2.7	3.0	2.6
NPA Coverage %	68.9	72.4	69.7	70.3

Profitability (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	3.0	2.6	2.7	2.7
RoAA	0.1	0.1	0.2	0.4
RoAE	2.4	1.3	3.3	7.6
Tier I	10.7	10.7	10.4	10.4
CRAR	13.3	13.2	12.8	12.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Interest Income	1,92,740	1,90,679	1,86,984	1,84,944
Interest Expenses	1,22,460	1,19,389	1,19,003	1,16,781
Net Interest Income	70,279	71,291	67,982	68,163
YoY growth (%)	56.4	50.3	34.2	4.9
CEB	12,530	13,800	13,930	8,680
Treasury	-	-	-	-
Non Interest Income	28,239	27,412	28,347	18,183
Total Income	2,20,979	2,18,091	2,15,331	2,03,127
Employee Expenses	22,815	25,941	19,545	22,418
Other expenses	22,345	23,176	25,576	20,726
Operating Expenses	45,160	49,117	45,120	43,144
Operating Profit	53,359	49,585	51,208	43,202
YoY growth (%)	73.1	40.1	32.6	1.0
Core Operating Profits	-	-	-	-
NPA Provision	34,250	66,206	31,900	34,575
Others Provisions	42,092	71,554	68,441	56,277
Total Provisions	42,092	71,554	68,441	56,277
Profit Before Tax	11,268	(21,969)	(17,233)	(13,075)
Tax	3,901	(7,900)	(22,299)	(4,435)
PAT	7,367	(14,069)	5,066	(8,640)
YoY growth (%)	73.2	(398.6)	(151.1)	(221.3)
Deposits	89,41,298	89,61,616	94,59,844	93,44,613
YoY growth (%)	47.3	46.8	48.1	4.3
Advances	63,73,402	65,44,651	69,01,207	68,66,718
YoY growth (%)	47.0	45.9	47.2	8.4

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	49	49	49	49
EPS (Rs)	1.5	2.1	5.3	12.6
Book Value (Rs)	142	144	147	157
Adj. BV (70%)(Rs)	110	115	112	124
P/E (x)	32.3	23.6	9.1	3.9
P/BV (x)	0.3	0.3	0.3	0.3
P/ABV (x)	0.4	0.4	0.4	0.4
DPS (Rs)	-	-	2.4	2.8
Dividend Payout Ratio (%)	-	-	45.1	22.2
Dividend Yield (%)	-	-	4.9	5.8

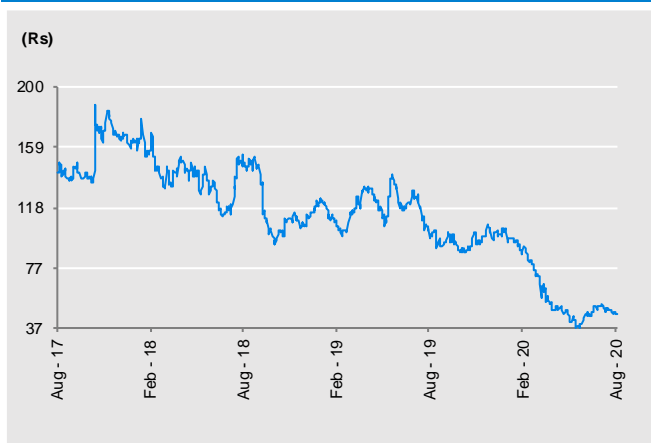
Efficiency

Y/e Mar	FY20	FY21E	FY22E	FY23E
Cost-Income Ratio (%)	47.9	48.8	48.6	50.0
C-D Ratio (%)	73.0	73.3	72.6	72.6
Business per Emp. (Rs m)	194	205	217	232
Profit per Emp. (Rs lacs)	2	1	3	7
Business per Branch (Rs m)	1,725	1,828	1,934	2,073
Profit per Branch (Rs m)	2	1	3	6

Du-Pont

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	2.66	2.34	2.40	2.40
Total Income	3.66	3.12	3.20	3.21
Operating Expenses	1.75	1.52	1.56	1.60
PPoP	1.91	1.60	1.65	1.60
Total provisions	2.08	1.49	1.40	1.05
RoAA	0.05	0.08	0.18	0.41
RoAE	0.97	1.44	3.65	8.28

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	83	53
2	14-Apr-20	BUY	83	50
3	25-Jan-20	BUY	107	96
4	03-Jan-20	BUY	115	102
5	03-Oct-19	BUY	115	91

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	446
2	Bank of Baroda	BUY	83	53
3	Federal Bank	BUY	67	50
4	HDFC Bank	BUY	1,265	1,098
5	HDFC Life Insurance Company	Reduce	522	627
6	ICICI Bank	BUY	462	383
7	ICICI Prudential Life Insurance Company	Reduce	402	443
8	IDFC First Bank	Sell	21	28
9	IndusInd Bank	BUY	680	527
10	Kotak Mahindra Bank	Accumulate	1,389	1,323
11	Max Financial Services	Hold	545	563
12	Punjab National Bank	BUY	40	37
13	SBI Life Insurance Company	Hold	880	888
14	South Indian Bank	BUY	11	8
15	State Bank of India	BUY	276	191

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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