

Strong Earnings, Albeit Unsustainable

- BoB reported better than expected with NII and PPOP growth of 7% and 4% YoY respectively led by elevated treasury gains (doubled QoQ to 10bn), healthy recoveries from WO pool. PAT benefitted from low provisions.
- NIM was sequentially higher by 30 bps to 2.86% due to lower slippages at 2% (including standstill NPAs) and improved spreads.
- Without standstill on NPAs, gross NPAs would be at 9.33% against 9.39% in Q1FY21. The bank made 20% provisions against standstill loans.
- The bank reported collection efficiency of 91% in Sep month (against 95% pre-COVID), including 94% for non-moratorium loans and 87% for moratorium loans.
- While BoB stands out for its conservative recognition and provisioning practices (PCR at 72%), risks to profitability from sub-par core earnings (PPOP/assets at 1.9-2%), dilution risks from weak capital position and limited provisioning cover relative to perceived risk remain key concerns.
- Tweaking our estimates and rolling over to Sep22E, we maintain REDUCE call with a TP of Rs47, valuing the bank at 0.4x of Sep-22E P/ABV.**

Provisioning superior to PSB peers, but remains low in our view

Management believes that internal accruals and COVID related provisions of ~17bn made previously should support incremental credit costs and that additional capital raise is not immediately needed. The bank also has Rs26bn provided against an airline exposure which is 75% govt guaranteed, providing further cushion. Together, these provisions make up ~0.6% of loans, though availability of Rs26bn is constrained by timing of reversal. This, along with PCR of 74% makes BoB's provision covers superior to PSB peers, but remains below private corporate banks at ~1.3-1.9%. Moreover, capital cushion is limited with CET1 at 9.2%.

Corporate stress remains a worry

With over 1/3rd of corporate loans in the 'BBB and below' category (including unrated loans), recent surprises from the bank's international book, and previously higher moratorium levels in corporate portfolio, we expect corporate slippages to pose a key risk to asset quality. Bank's SMA book at 5.5% and collections at 91% also allude that one could expect over 5-6% of loans to eventually come under stress (NPA/RSA).

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Net interest income	75,075	70,279	6.8	68,162	10.1
Other income	28,023	28,239	(0.8)	18,183	54.1
Total Net Income	103,098	98,519	4.6	86,345	19.4
Operating expenses	47,580	45,160	5.4	43,144	10.3
Pre-provision profits	55,518	53,359	4.0	43,200	28.5
Provisions	30,016	42,092	(28.7)	56,277	(46.7)
Tax expense	8,716	3,901	123.4	(4,435)	(296.5)
Reported Net Profit	16,786	7,367	127.9	(8,642)	(294.2)
			(bps)		(bps)
Advances Growth (%)	5.1	3.0*	211	8.4	(335)
NIM (%)	2.9	2.8	5	2.6	31
RoA (%)	0.6	0.3	27	(0.3)	89
RoE (%)	9.3	5.1	417	(4.8)	1413
Gross NPA (%)	9.1	10.3	(111)	9.4	(25)

* On merged basis

CMP	Rs 43
Target / Upside	Rs 47 / 9%
NIFTY	11,671

Scrip Details

Equity / FV	Rs 9,254mn / Rs 2
Market Cap	Rs 199bn
	USD 3bn
52-week High/Low	Rs 108/ 36
Avg. Volume (no)	28,747,000
Bloom Code	BOB IN

Price Performance	1M	3M	12M
Absolute (%)	5	(7)	(55)
Rel to NIFTY (%)	0	(12)	(54)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	71.6	71.6	71.6
MF/Banks/FIs	14.0	12.7	11.4
FIIIs	4.6	4.1	3.9
Public / Others	9.8	11.7	13.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	21.4	3.6	1.9
P/ABV	0.5	0.4	0.3
ROAA	0.1	0.5	0.8
ROAE	1.3	7.5	12.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	312,516	327,871	357,317
PPOP	224,411	234,896	263,061
PAT	9,266	55,061	104,011
Adj BV	95.2	103.1	130.4

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Other Important Highlights:

- Higher staff cost during the quarter was due to wage revision related provisions and provision for gratuity as long term G-sec yields have come down.
- The bank has restructured ~9bn of MSME loans during the quarter, total RSA book constitutes 0.5% of loans or Rs32bn.
- Amalgamation should be complete by 3QFY21 and synergies should to play out now onwards
- The bank has sanctioned Rs85 bn under the MSME guarantee scheme, covering over 95% of all eligible borrowers. Over Rs73bn of this has been disbursed so far.
- Loan growth at 5% YoY and -2.4% QoQ was led by a sharp sequential decline in corporate book by 7%.

Risks to the View: Higher-than-estimated credit loss from corporate segment, inability to contain opex, higher than anticipated stress on macro-economy from COVID-19, dilution risk from equity raise at below book.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	75,075	72,520	3.5	
Operating Profit	55,518	43,467	27.7	Higher treasury and fee income
PAT	16,786	329	5,006.9	Lower provisions

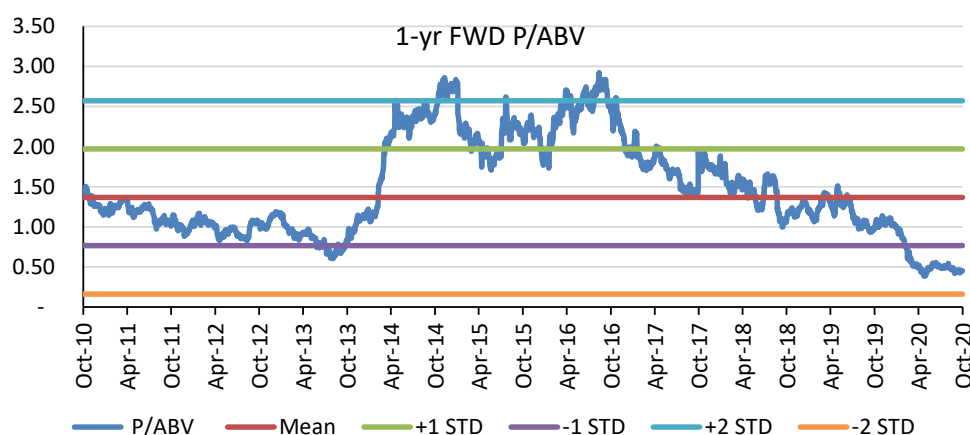
Source: Company, DART

Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Operating Revenue	4,06,734	4,32,598	4,11,267	4,32,990	1.1	0.1
Pre-Provision Profits	2,19,877	2,33,557	2,24,411	2,34,896	2.1	0.6
PAT	9,216	50,643	9,266	55,061	0.5	8.7

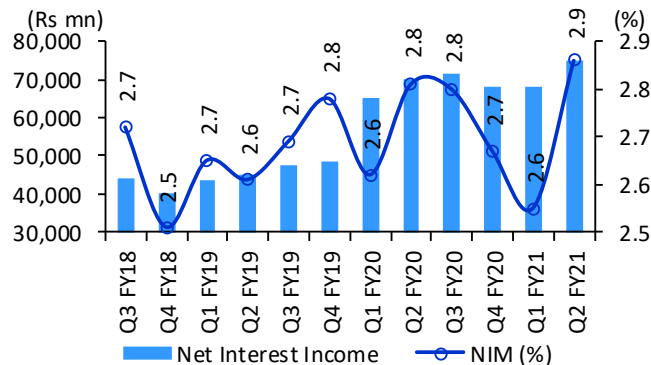
Source: Company, DART

Exhibit 3: The stock currently trades at 0.4x 1-yr forward P/ABV



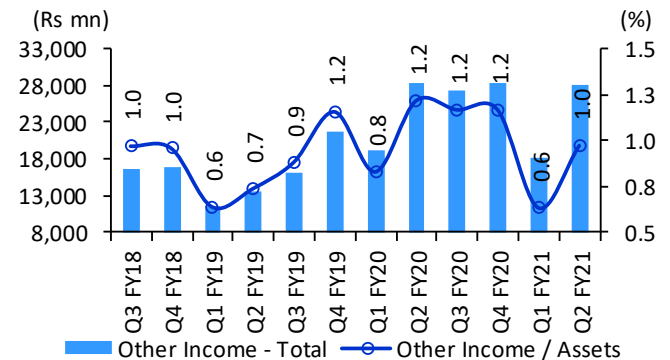
Source: DART, Company

Exhibit 4: Higher margin led by lower cost of funds and low int reversals



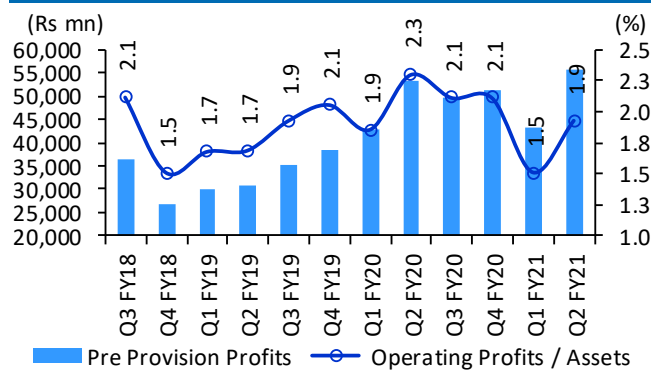
Source: Company, DART

Exhibit 5: Other income benefits from higher treasury gains and healthy fee lines



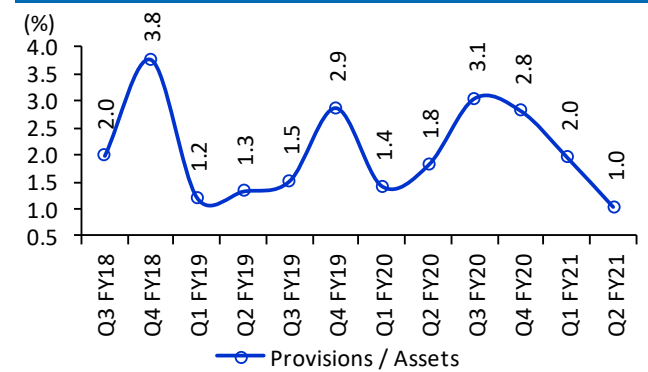
Source: Company, DART

Exhibit 6: PPOP profile continues to remain weak



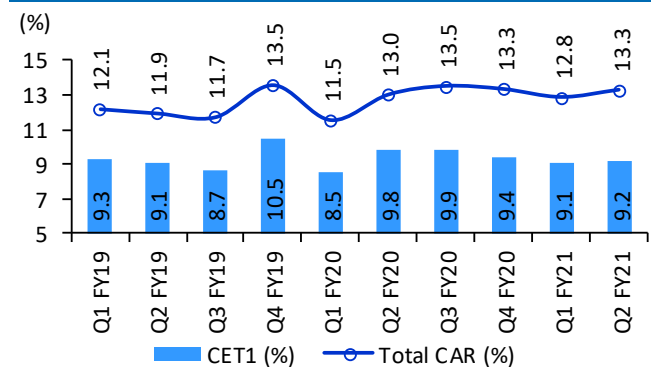
Source: Company, DART

Exhibit 7: Provisions edge lower with nil COVID provisions and low slippages



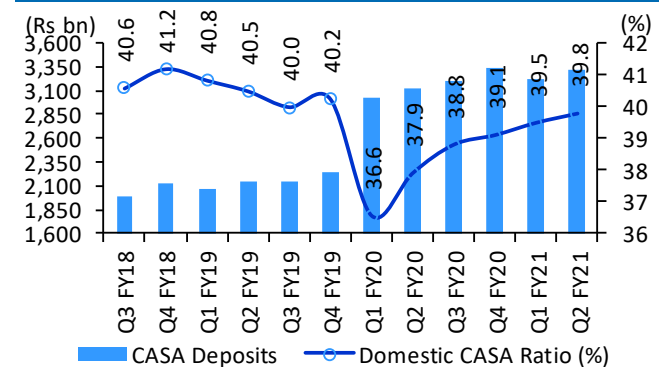
Source: Company, DART

Exhibit 8: Limited capital cushion



Source: Company, DART

Exhibit 9: CASA share steadily inching up



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q2 FY21	Q2 FY20	% yoy / bps	Q1 FY21	% qoq / bps	H1 FY21	H1 FY20	% yoy / bps
Interest Inc.	1,79,176	1,92,740	(7.0)	1,84,942	(3.1)	3,61,118	3,82,193	(5.5)
Yield on Advances (%)	7.13	8.15	(102)	7.26	(13)	7.20	8.08	(88)
Interest Expenses	1,04,101	1,22,460	(15.0)	1,16,780	(10.9)	2,20,881	2,46,933	(10.6)
Global - Cost of Dep. (%)	4.0	5.0	(103)	4.5	(49)	4.2	5.1	(82)
Net Interest Income	75,075	70,279	6.8	68,162	10.1	1,40,237	1,35,261	3.7
NII to Net Operative Income	72.8	71.3	148	78.9	(612)	75.2	74.1	117
NIM (%)	2.9	2.8	5	2.6	31	2.7	2.7	(1)
Dom. NIM (%)	3.0	3.0	1	2.6	33	2.8	2.9	(12)
Adjusted NII	70,189	65,292	7.5	63,875	9.9	1,31,064	1,25,798	4.2
Core Fee Income	14,370	12,520	14.8	11,770	22.1	26,140	25,270	3.4
Profit on Sale / Rev of Investments	10,060	9,420	6.8	5,410	86.0	15,470	12,800	20.9
Recovery from PWO	3,410	4,650	(26.7)	940	262.8	4,350	6,680	(34.9)
Non-Core Other Income	13,653	15,719	(13.1)	6,413	112.9	20,065	22,125	(9.3)
Other Income - Total	28,023	28,239	(0.8)	18,183	54.1	46,205	47,395	(2.5)
Other Inc to Net Oper. Income (%)	27.2	28.7	(148)	21.1	612	24.8	25.9	(117)
Net Operating Revenue	1,03,098	98,519	4.6	86,345	19.4	1,86,442	1,82,656	2.1
Net Operating Revenue - Adj.	98,211	93,531	5.0	82,058	19.7	1,77,270	1,73,193	2.4
Employee Expenses	25,503	22,815	11.8	22,418	13.8	47,921	42,209	13.5
Empl. Cost/Oper. Exps. (%)	24.7	23.2	158	26.0	(123)	25.7	23.1	259
Other Opex	22,077	22,345	(1.2)	20,726	6.5	42,803	44,325	(3.4)
Other Opex/ Assets (%)	0.2	0.2	(5)	0.2	1	0.4	0.5	(11)
Total Opex	47,580	45,160	5.4	43,144	10.3	90,724	86,534	4.8
Cost to Income Ratio (%)	46.2	45.8	31	50.0	(382)	48.7	47.4	128
Pre-Provision Profits	55,518	53,359	4.0	43,200	28.5	95,719	96,122	(0.4)
Provision towards NPAs	22,773	34,250	(33.5)	34,575	(34.1)	57,348	65,930	(13.0)
Provisions & Contingencies - Total	30,016	42,092	(28.7)	56,277	(46.7)	86,293	74,940	15.1
Credit Cost (%)	1.90	2.02	(12)	1.8	8	-	-	-
NPA Provisions as % PPP	54.1	78.9	(2,482)	130.3	(7,620)	90.2	78.0	1,219
Profit Before Tax	25,502	11,268	126.3	(13,077)	NA	9,426	21,181	(55.5)
Tax	8,716	3,901	123.4	(4,435)	NA	4,401	6,716	(34.5)
Effective Tax Rate (%)	34.2	34.6	(44)	33.9	26.3	46.7	31.7	1,499
Reported Profits	16,786	7,367	127.9	(8,642)	NA	5,025	14,466	(65.3)
RoA (%)	0.6	0.3	31	(0.3)	89.0	0.1	0.3	(17)
Basic EPS (Rs)	3.6	2.0	80.5	(1.9)	NA	1.8	4.1	(56.5)

Source: Company, DART

Balance Sheet Analysis	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ % / bps	YoY % / bps
Net Worth	6,40,119	7,09,953	7,18,562	7,11,005	7,26,833	2.2	13.5
CET1 (%)	9.8	9.9	9.4	9.1	9.2	13	(63)
Tier 1 (%)	10.9	11.5	10.7	10.3	10.8	42	(16)
Total CAR (%)	13.0	13.5	13.3	12.8	13.3	42	28
RWA - Total	57,40,909	57,86,869	60,81,955	60,81,542	60,62,896	(0.3)	5.6
Advances - Total	63,73,402	65,44,651	69,01,207	68,66,718	66,98,511	(2.4)	5.1
Investments	26,41,510	26,58,008	27,46,146	27,08,652	26,59,539	(1.8)	0.7
Total Assets	1,07,27,533	1,09,35,633	1,15,79,155	1,13,22,554	1,14,28,442	0.9	6.5
RoA (%)	0.28	(0.52)	0.18	(0.30)	0.59	89	31
Deposits	89,41,298	89,61,616	94,59,844	93,44,613	95,43,402	2.1	6.7
Saving Deposit	25,45,370	25,88,380	26,92,430	27,36,040	28,03,880	2.5	10.2
Current Deposit	5,74,850	6,14,260	6,45,820	4,76,250	5,21,040	9.4	(9.4)
CASA Deposits	31,20,220	32,02,640	33,38,250	32,12,290	33,24,930	3.5	6.6
Domestic CASA Ratio (%)	37.9	38.8	39.1	39.5	39.8	29	188
Term Deposits	58,21,078	57,58,976	61,21,594	61,32,323	62,18,472	1.4	6.8
Interest Bearing Liabilities - Total	97,11,181	98,59,477	1,03,90,537	1,01,12,887	1,02,08,585	0.9	5.1

Source: Company, DART

Movement of NPA (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ % / bps	YoY % / bps
Total Slippages	72,590	1,18,200	44,850	30,020	15,200	(49.4)	(79.1)
Slippages Ratio (%)	1.55	2.52	0.96	0.43	0.22	(21)	(133)
Gross NPA	6,99,690	7,31,397	6,93,814	6,91,320	6,56,980	(5.0)	(6.1)
Gross NPAs Ratio (%)	10.25	10.43	9.40	9.39	9.14	(25)	(111)
PCR - Calculated (%)	64.4	63.8	68.9	71.9	74.4	257	1,002
PCR - Inc. Tech w/o (%)	77.9	77.8	81.3	83.3	85.4	205	747
Net NPA	2,48,944	2,65,040	2,15,766	1,94,497	1,67,949	(13.6)	(32.5)
Net NPAs Ratio (%)	3.91	4.05	3.13	2.83	2.51	(32)	(140)

Source: Company, DART

Loan Book Analysis (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ % / bps	YoY % / bps
Home	8,08,590	8,17,750	8,30,120	8,39,590	8,67,930	3.4	7.3
Auto	1,31,960	1,58,710	1,64,900	1,67,720	1,77,830	6.0	34.8
Education	49,620	51,190	52,870	53,520	55,920	4.5	12.7
Other Retail loans.	1,49,040	1,63,200	1,58,680	1,64,330	1,29,220	(21.4)	(13.3)
Retail	11,39,220	11,90,850	12,06,570	12,25,160	12,69,150	3.6	11.4
Agriculture	8,05,190	8,45,480	8,79,210	8,85,880	9,38,180	5.9	16.5
SME	8,45,810	8,70,410	8,73,280	8,75,820	9,11,950	4.1	7.8
Large & Medium Corporate	27,19,010	27,08,960	29,15,430	29,30,070	27,22,190	(7.1)	0.1
Domestic Misc.	2,10,680	2,28,960	2,35,970	2,33,450	2,10,980	(9.6)	0.1
Total Domestic Advances	57,19,910	58,44,660	61,10,460	61,50,380	60,52,450	(1.6)	5.8
Overseas	6,53,492	6,99,991	7,90,747	7,36,547	7,18,957	(2.4)	10.0
Advances - Total	63,73,402	65,44,651	69,01,207	68,66,718	66,98,511	(2.4)	5.1

Source: Company, DART

Conference Call Highlights

- Deposits growth has come largely from CASA deposits and retail term deposits.
- NIMs were under pressure in the last quarter but were managed during the quarter due to low cost of deposits
- Treasury gains were elevated as the low interest rates and high liquidity regime of RBI is expected to continue for a while. However, such gains are not expected to sustain
- Cost of fund gains should be enduring. Large part of cost reduction has come from repricing of SA book despite which the bank witnessed good growth in deposits. Retail TDs also were repriced and further contributed to the fall in CoF.
- On the advances side, bank has been emphasizing on secured retail loans – especially Home loans, auto loans, and agri loans. The quality of advances growth is good and should continue into 2HFY21.
- ~74% of home loan borrowers have a score of 725+. Given the momentum, the bank should be able to maintain above industry growth in home loans
- Corporate loans were driven by good quality AAA names and with competitive pricing. The bank resisted from locking into exceptionally low yielding long term loans which ultimately led to overall contraction of the corporate book. Management expects corporate book to rebound over next 2 quarters, while maintaining the quality of the book.
- Under the ECLGS scheme, bank sanctioned Rs 85bn of which Rs 73bn has been disbursed
- Collection efficiency
 - 91% overall collection efficiency for the quarter.
 - Interest recovery of accounts under Moratorium is at 87% and excluding moratorium book stood at 94% due to which increase in SMA is marginal.
 - Moratorium numbers were higher on two accounts – one, that it was based on an opt-out mechanism, and two, that customers preferred to maintain higher liquidity and thus opted for moratorium
- The bank has an enabling resolution to raise Rs 300bn of capital. During the quarter, the bank raised Rs 17bn of AT-I capital and could raise more if need be. Management believes that internal accruals would be able to support advances growth and capital needs could be lower than anticipated.
- Restructuring commentary was largely in line with industry. The bank has not seen much demand for restructuring so far and expects clarity to emerge by end of December. Actual demand for restructuring is expected to be much lower than estimated levels and therefore the management refrained from guiding on the same.
- Amalgamation is almost complete and should be finished by 31st December. All Vijaya bank branches have been integrated with BOB. Synergy benefits are expected to start playing out going forward
- Given the high PCR, the bank is comfortable with its current level of provisions
- The bank has provided 12% on accounts that would have slipped during the quarter if not for the moratorium/standstill (~Rs 150bn).

- While NBFC exposure rated BB and below has moved up due to lending under the TLTRO 2.0, management believes that it is sufficiently risk mitigated. The bank does not wish to expand NBFC book as the book is also under margin pressure.
- The bank expects international credit costs to be lower than domestic book.
- Recoveries during the quarter were driven by NCLT recoveries, assets sales and sales under SARFESI act. Bank expects recoveries to be higher going forward as and when resolutions take place.
- The bank made additional wages related provisions due to movement in G-sec yields.

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	759,837	836,930	865,134	932,126
Interest expenses	485,324	524,414	537,263	574,809
Net interest income	274,513	312,516	327,871	357,317
Other incomes	103,173	98,752	105,119	116,783
Total expenses	180,772	186,857	198,094	211,039
- Employee cost	87,695	94,711	101,341	109,448
- Other	93,077	92,146	96,753	101,591
Pre provisioning profit	196,914	224,411	234,896	263,061
Provisions	214,935	210,784	153,924	110,104
Profit before taxes	(18,021)	13,627	80,973	152,957
Tax provision	(23,483)	4,361	25,911	48,946
Profit after tax	5,462	9,266	55,061	104,011
Adjusted profit	5,462	9,266	55,061	104,011

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	9,254	9,254	9,254	9,254
Reserves & Surplus	648,513	711,611	750,070	844,225
Minority Interest	-	0	0	0
Net worth	657,767	720,865	759,324	853,479
Borrowings	930,693	949,229	1,003,807	1,085,716
- Deposits	9,459,844	9,597,759	10,149,608	10,977,791
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	470,056	530,764	574,334	598,434
Total Liabilities	11,518,360	11,798,617	12,487,074	13,515,419
Application of Funds				
Cash and balances with RBI	1,219,011	1,092,962	1,059,937	1,040,801
Investments	2,746,146	2,758,762	2,919,702	3,116,822
Advances	6,901,207	7,177,256	7,679,663	8,447,630
Fixed assets	88,893	87,581	85,081	90,992
Other current assets, loans and advances	623,898	673,809	741,190	822,721
Total Assets	11,579,155	11,790,370	12,485,573	13,518,966

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	9.3	8.3	8.2	8.3
Yields on interest earning assets	8.3	7.6	7.6	7.7
Yield on investments	7.4		7.5	7.5
Costs of funds	5.6	5.0	5.0	5.0
Cost of deposits	4.5	5.5	5.0	4.9
NIMs	3.0	2.9	2.9	2.9
(B) Asset quality and capital ratios (%)				
GNPA	9.4	9.5	8.7	7.2
NNPA	3.1	3.1	3.0	2.4
PCR	68.9	70.0	68.0	70.0
Slippages	5.0	4.0	3.5	2.5
NNPA to NW	32.8	33.2	32.5	24.8
CASA	41.3	41.3	41.3	41.3
CAR	13.3	11.9	12.0	12.4
Tier 1	10.7	9.2	9.3	9.6
Credit - Deposit	73.0	74.8	75.7	77.0
(C) Dupont as a percentage of average assets				
Interest income	7.8	7.2	7.1	7.2
Interest expenses	5.0	4.5	4.4	4.4
Net interest income	2.8	2.7	2.7	2.7
Non interest Income	1.1	0.8	0.9	0.9
Total expenses	1.9	1.6	1.6	1.6
- cost to income	47.9	45.4	45.8	44.5
Provisions	2.2	1.8	1.3	0.8
Tax	(0.2)	0.0	0.2	0.4
RoA	0.1	0.1	0.5	0.8
Leverage	17.6	17.9	17.7	16.8
RoE	0.9	1.3	7.5	12.9
RoRwa	0.1	0.1	0.1	0.8
(D) Measures of Investments				
EPS - adjusted	1.2	2.0	11.9	22.5
BV	142.2	142.7	152.8	173.4
ABV	93.3	95.2	103.1	130.4
DPS	1.3	1.5	1.5	1.5
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	46.9	13.8	4.9	9.0
PPoP	46.0	14.0	4.7	12.0
Adj PAT	26.0	69.6	494.2	88.9
Advances	47.2	4.0	7.0	10.0
Total borrowings	38.5	2.0	5.7	8.2
Total assets	48.3	1.8	5.9	8.3
(F) Valuation Ratios				
Market Cap (Rs. mn)	198,724	198,724	198,724	198,724
CMP (Rs.)	43	43	43	43
P/E (x)	36.4	21.4	3.6	1.9
P/BV (x)	0.3	0.3	0.3	0.2
P/ABV (x)	0.5	0.5	0.4	0.3
Div Yield (%)	2.9	3.5	3.5	3.5

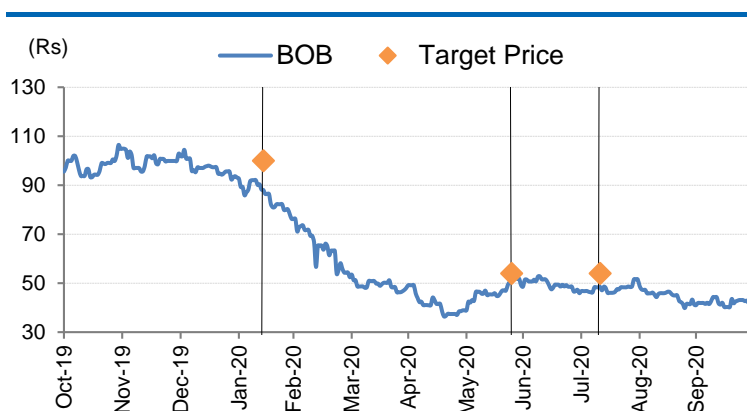
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	100	88
Jun-20	Reduce	54	52
Aug-20	Reduce	54	49

*Price as on recommendation date

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