

## Picture improving but still not time to BUY

Bank of Baroda (BoB) reported an improved performance on the operating as well as business front compared to the previous quarter. Asset quality also improved sequentially but clarity over quantum of restructuring that could take place needs to be watched.

NII increased 6.8% YoY and 10.1% QoQ to ₹ 7508 crore on the back of an improvement in net interest margin (NIM). NIMs during the quarter increased 31 bps QoQ to 2.86% on account of a steeper decline in cost of funds than yields. Other income jumped 54.1% QoQ to ₹ 2802 crore, on account of 22.2% QoQ rise in fee income while trading gains were up 85.9% QoQ. Recovery from written-off account also improved from ₹ 94 crore in the previous quarter to ₹ 341 crore in Q2FY21. Provisions declined 49% QoQ as a result of lower slippages. This coupled with higher income led the bank to post a profit of ₹ 1679 crore vs. loss of ₹ 864 crore in the previous quarter.

Asset quality for the quarter improved on a sequential basis as GNPA, NNPA ratio declined 25 bps, 32 bps QoQ to 9.14%, 2.51%, respectively. Even excluding standstill asset classification benefit, asset quality saw QoQ improvement of ~6 bps, ~16 bps in GNPA, NNPA at 9.33%, 2.67%, respectively. **The quantum of accounts that did not slip into NPA due to the Supreme Court's order was at ~ ₹ 1500 crore. Also, ~ ₹ 15000 crore of loans were provided moratorium/deferral benefits as on September 20 with bank having 12% provisions against the same. Collections efficiency during the quarter has improved while on overall basis it was at 91%. Collections in non-moratorium book are at 94% while morat book collections were at 87%.**

Provisioning for Q2FY21 was down 28.7% YoY to ₹ 3002 crore. Total Covid-19 related provisions were at ₹ 1748 crore. In Q2FY21, the bank prudently made provisions worth ₹ 195 crore towards accounts that were not classified as NPA due to deferment. PCR remains healthy at 85.3% as of Q2FY21.

Overall loan growth for the quarter was at 5.32% with domestic growth at 5.81%. This was largely driven by healthy 16.8% YoY growth in the retail loans and 16.5% YoY growth in agri segment. The bank remains cautious over lending to corporates and this growth in this segment was flat. Within the retail segment auto loans jumped 34% YoY while home loans increased 13% YoY. The management has indicated that overall loan and deposit growth would be around 7%. During the quarter, the bank has disbursed ECLGS loans to the tune of ₹ 7300 crore.

## Valuation & Outlook

The management has guided for sustaining current margins and some improvement in loan growth, going ahead. Return ratios are still significantly low and capital raising may be in the pipeline in two quarters. However, we believe lack of clarity on restructuring part warrants slight caution as this could considerably impact overall performance. Thus, we maintain **HOLD** on the stock with a revised TP of ₹ 48 valuing the bank at 0.4x FY22E ABV.



### Particulars

| Particulars           | Amount       |
|-----------------------|--------------|
| Market Capitalisation | ₹19822 Crore |
| GNPA (Q2FY21)         | ₹65698 Crore |
| GNPA (Q2FY21)         | ₹16794 Crore |
| NIM (Q2FY21) %        | 2.86%        |
| 52 week H/L           | 108/36       |
| Networth              | 71,834.0     |
| Face value            | ₹2           |
| DII Holding (%)       | 11.4         |
| FII Holding (%)       | 3.9          |

### Key Highlights

- Asset quality improved sequentially but restructuring details need clarity
- Covid-19 related provisions now stand at ₹ 1748 crore
- Maintain HOLD with revised target price of ₹ 48

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## Key Financial Summary

| ₹Crore  | FY18    | FY19   | FY20   | FY21E  | FY22E  | CAGR (FY20-22E) |
|---------|---------|--------|--------|--------|--------|-----------------|
| NII     | 15,522  | 18,684 | 27,451 | 31,447 | 32,892 | 9.5%            |
| PPP     | 12,006  | 13,487 | 19,691 | 21,978 | 22,365 | 6.6%            |
| PAT     | (2,432) | 434    | 547    | 1,989  | 3,289  | 145.2%          |
| ABV (₹) | 75.0    | 82.7   | 108.6  | 118.7  | 121.0  |                 |
| P/E     | -4.7    | 26.3   | 36.4   | 10.0   | 6.0    |                 |
| P/ABV   | 0.6     | 0.5    | 0.4    | 0.4    | 0.4    |                 |
| RoA     | -0.3    | 0.4    | 0.1    | 0.2    | 0.3    |                 |
| RoE     | (5.8)   | 0.9    | 0.9    | 2.7    | 4.4    |                 |

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

|                          | Q2FY21  | Q2FY21E | Q2FY20  | YoY (%) | Q1FY21  | QoQ (%) | Comments   |
|--------------------------|---------|---------|---------|---------|---------|---------|--|
| NII                      | 7,508   | 6,862   | 7,028   | 6.8     | 6,816   | 10.1    | Improved on the back o sequential rise in NIMs   |
| NIM (%)                  | 2.9     | 2.6     | 2.8     | 5 bps   | 2.6     | 31 bps  | Steeper decline in CoF helped NIM expansion  |
| Other Income             | 2,802   | 1,873   | 2,824   | -0.8    | 1,818   | 54.1    | Boosted by treasury gains and recovery from wr-off account                                     |
| Net Total Income         | 10,310  | 8,735   | 9,852   | 4.6     | 8,634   | 19.4    |  |
| Staff cost               | 2,550   | 2,354   | 2,281   | 11.8    | 2,242   | 13.8    |  |
| Other Operating Expenses | 2,208   | 2,047   | 2,234   | -1.2    | 2,073   | 6.5     | Modest business growth leading to lower other expenses   |
| PPP                      | 5,552   | 4,334   | 5,336   | 4.0     | 4,320   | 28.5    |  |
| Provision                | 3,002   | 3,792   | 4,209   | -28.7   | 5,628   | -46.7   | Provisions declined due to lower slippages   |
| PBT                      | 2,550   | 542     | 1,127   | 126.3   | -1,308  | -295.0  |  |
| Tax Outgo                | 872     | 138     | 390     | 123.4   | -444    | -296.5  |  |
| PAT                      | 1,679   | 404     | 737     | 127.9   | -864    | -294.2  | Boosted by improved income and lower provisions  |
| <b>Key Metrics</b>       |         |         |         |         |         |         |  |
| GNPA                     | 65,698  | 70,515  | 69,969  | -6.1    | 69,132  | -5.0    | Improved on sequentially and also on standstill basis  |
| NNPA                     | 16,795  | 18,672  | 24,894  | -32.5   | 19,450  | -13.6   | Decline on account of lower delinquencies while recoveries and upgrades increased sequentially |
| Advances                 | 669,851 | 689,418 | 637,340 | 5.1     | 686,672 | -2.4    | Modest growth with cautious approach in corporate  |
| Deposits                 | 954,340 | 962,495 | 894,130 | 6.7     | 934,461 | 2.1     | Driven by % YoY rise in CASA   |

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

| (₹ Crore)            | FY21E    |          |          | FY22E    |          |          |
|----------------------|----------|----------|----------|----------|----------|----------|
|                      | Old      | New      | % Change | Old      | New      | % Change |
| Net Interest Income  | 28,211.7 | 31,447.1 | 11.5     | 29,714.9 | 32,891.6 | 10.7     |
| Pre Provision Profit | 19,506   | 21,977.6 | 12.7     | 20,251   | 22,364.7 | 10.4     |
| NIM Global (%)       | 2.87     | 2.89     | 2 bps    | 2.88     | 2.90     | 2 bps    |
| PAT                  | 844      | 1,989    | 135.6    | 2,698    | 3,289    | 21.9     |

Source: Company, ICICI Direct Research

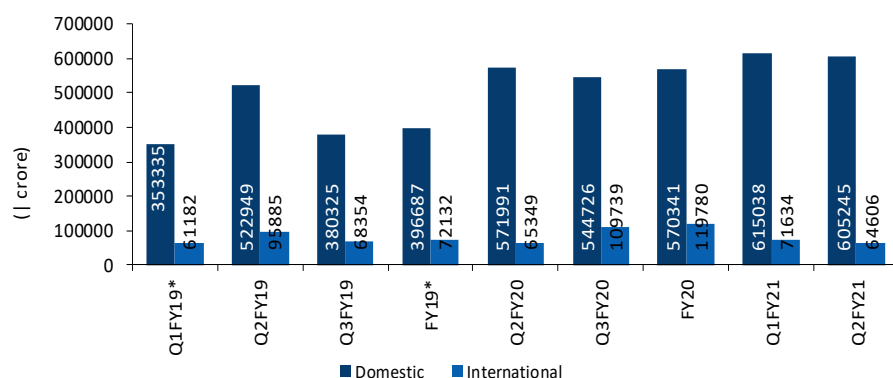
**Exhibit 3: Assumptions**

|                          | Current |      |       |       | Earlier |       |
|--------------------------|---------|------|-------|-------|---------|-------|
|                          | FY19    | FY20 | FY21E | FY22E | FY21E   | FY22E |
| Credit growth (%)        | 6.9     | 5.9  | 5.0   | 10.1  | 2.0     | 5.0   |
| Deposit Growth (%)       | 7.1     | 3.4  | 6.2   | 7.9   | 4.0     | 6.0   |
| NIM Calculated (%)       | 2.4     | 2.8  | 2.9   | 2.9   | 2.9     | 2.9   |
| Cost to income ratio (%) | 46.6    | 47.9 | 45.9  | 47.6  | 47.7    | 48.4  |

Source: Company, ICICI Direct Research

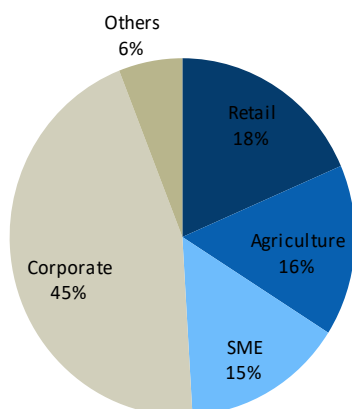
## Story in Charts

Exhibit 4: Gradual pick-up in domestic advances in Q2FY21



Source: Company, ICICI Direct Research, \* Merged entity

Exhibit 5: Retail to lead growth with cautious approach in corporate



Source: Company, ICICI Direct Research

Exhibit 6: Deposit franchisee

| ₹ crore             | Q1FY20* | Q2FY20* | Q3FY20* | Q4FY20* | Q1FY21* | Q2FY21* | YoY (%) | QoQ (%) |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Global Deposits     | 895542  | 894130  | 896162  | 945985  | 934461  | 954340  | 4.3     | -1.2    |
| Global CASA ratio   | 34      | 35      | 35      | 35      | 35      | 37      | 4.8     | 0.0     |
| Domestic Deposits   | 785861  | 783492  | 782070  | 808706  | 813530  | 835894  | 3.5     | 0.6     |
| Domestic CASA ratio | 37      | 38      | 39      | 39      | 39      | 40      | 6.9     | 0.0     |
| Overseas Deposits   | 109681  | 110638  | 114092  | 137279  | 120931  | 118446  | 10.3    | -11.9   |

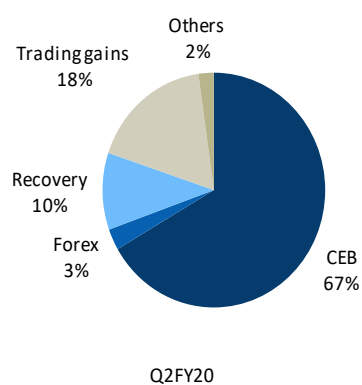
Source: Company, ICICI Direct Research, \*- Merged Bank

Exhibit 7: Margin profile

|                            | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19* | Q2FY19* | Q3FY19 | Q4FY19* | Q1FY20* | Q2FY20* | Q3FY20* | Q4FY20* | Q1FY21* | Q2FY21* |
|----------------------------|--------|--------|--------|---------|---------|--------|---------|---------|---------|---------|---------|---------|---------|
| Global NIM                 | 2.3    | 2.7    | 2.5    | 2.7     | 2.6     | 2.7    | 2.9     | 2.6     | 2.8     | 2.8     | 2.7     | 2.6     | 2.9     |
| Domestic NIM               | 2.7    | 3.2    | 2.9    | 2.9     | 2.8     | 2.8    | 3.1     | 2.7     | 3.0     | 2.9     | 2.8     | 2.6     | 3.0     |
| 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     | 1.3     |
| Global Yield on advances   | 6.9    | 7.2    | 7.1    | 7.5     | 7.4     | 7.7    | 7.9     | 8.0     | 8.2     | 7.9     | 7.8     | 7.3     | 7.1     |
| Domestic Yield on advances | 8.6    | 8.8    | 8.7    | 8.7     | 8.5     | 8.6    | 8.9     | 8.7     | 9.0     | 8.7     | 8.8     | 8.1     | 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     | 2.5     |
| Global Cost of deposits    | 4.5    | 4.5    | 4.5    | 4.5     | 4.5     | 4.5    | 4.5     | 4.5     | 4.5     | 4.5     | 4.5     | 4.5     | 4.5     |

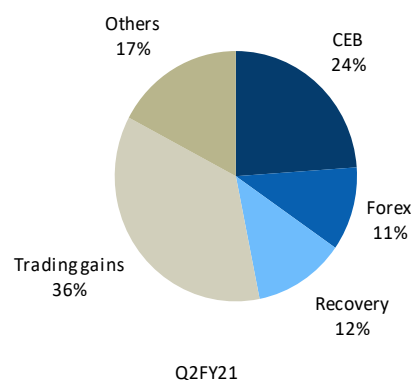
Source: Company, ICICI Direct Research

**Exhibit 8: Other income break-up**



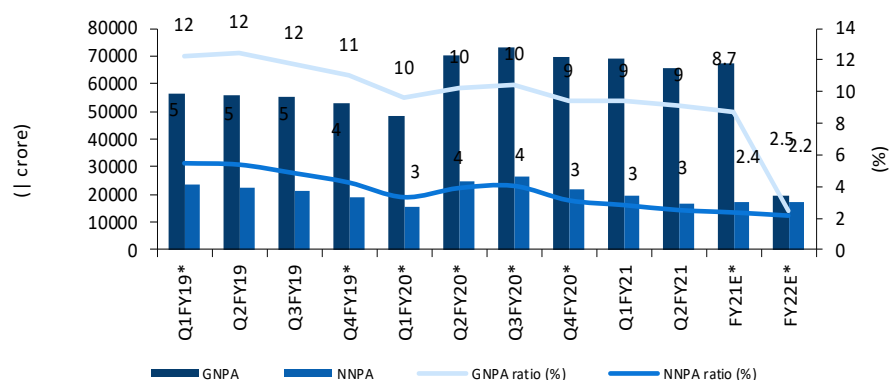
Source: Company, ICICI Direct Research

**Exhibit 9: Trading gains boost other income in Q2FY21**



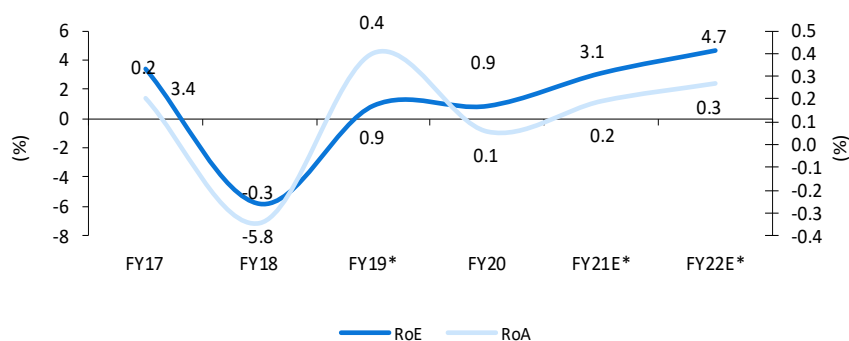
Source: Company, ICICI Direct Research

**Exhibit 10: Restructuring details awaited**



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

**Exhibit 11: Return ratios trend**

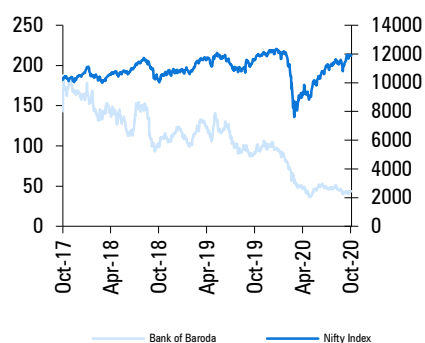


Source: Company, ICICI Direct Research, \* Merged Bank

**Exhibit 12: Shareholding Pattern**

| (in %)   | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 69.2   | 71.6   | 71.6   | 71.6   | 71.6   |
| FII      | 6.2    | 4.8    | 4.6    | 4.1    | 3.9    |
| DII      | 16.1   | 13.9   | 14.0   | 12.7   | 11.4   |
| Others   | 8.5    | 9.7    | 9.8    | 11.7   | 13.1   |

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               | 49974.1        | 75983.7        | 78339.8        | 81629.6        |
| Interest Expended             | 31290.3        | 48532.4        | 46892.7        | 48738.0        |
| <b>Net Interest Income</b>    | <b>18683.8</b> | <b>27451.3</b> | <b>31447.1</b> | <b>32891.6</b> |
| growth (%)                    |                | 46.9           | 14.6           | 4.6            |
| Non Interest Income           | 6091.0         | 10317.3        | 9150.1         | 9768.3         |
| Fees and advisory             | 1989.0         | 2590.3         | 2978.8         | 3336.3         |
| Treasury Income /sale of Inv. | 989.0          | 2750.7         | 3438.4         | 4126.1         |
| Other income                  | 3113.0         | 4976.3         | 2732.9         | 2306.0         |
| <b>Net Income</b>             | <b>24774.8</b> | <b>37768.6</b> | <b>40597.1</b> | <b>42659.9</b> |
| Employee cost                 | 5039.1         | 8769.5         | 9144.5         | 9535.5         |
| Other operating Exp.          | 6248.9         | 9307.7         | 9475.0         | 10759.8        |
| <b>Operating Income</b>       | <b>13486.8</b> | <b>19691.4</b> | <b>21977.6</b> | <b>22364.7</b> |
| Provisions                    | 12788.7        | 21492.8        | 19136.8        | 17666.2        |
| <b>PBT</b>                    | <b>698.2</b>   | <b>-1801.4</b> | <b>2840.8</b>  | <b>4698.5</b>  |
| Taxes                         | 264.6          | -2348.3        | 852.2          | 1409.6         |
| <b>Net Profit</b>             | <b>433.5</b>   | <b>546.9</b>   | <b>1988.5</b>  | <b>3289.0</b>  |
| growth (%)                    | LP             | 26.2           | 263.6          | 65.4           |
| EPS                           | 1.6            | 1.2            | 4.3            | 7.1            |

Source: Company, ICICI Direct Research

**Exhibit 15: Key Ratios**

| (Year-end March)     | FY19  | FY20  | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|
| Valuation            |       |       |       |       |
| No. of Equity Shares | 265.2 | 462.7 | 462.7 | 462.7 |
| BV (₹)               | 198.5 | 155.3 | 159.1 | 161.4 |
| ABV (₹)              | 82.7  | 108.6 | 118.7 | 121.0 |
| P/BV                 | 0.2   | 0.3   | 0.3   | 0.3   |
| P/ABV                | 0.5   | 0.4   | 0.4   | 0.4   |
| GNPA                 | 9.6   | 9.4   | 9.4   | 8.4   |
| NNPA                 | 3.3   | 3.1   | 2.6   | 2.3   |
| ROE                  | 0.9   | 0.9   | 2.7   | 4.4   |
| ROA                  | 0.4   | 0.1   | 0.2   | 0.3   |

Source: Company, ICICI Direct Research

**Exhibit 16: Balance sheet** ₹ Crore

| (Year-end March)                 | FY19            | FY20             | FY21E            | FY22E            |
|----------------------------------|-----------------|------------------|------------------|------------------|
| <b>Sources of Funds</b>          |                 |                  |                  |                  |
| Capital                          | 530.4           | 925.4            | 925.4            | 925.4            |
| Reserves and Surplus             | 50452.7         | 70909.4          | 72695.9          | 73746.0          |
| <b>Networth</b>                  | <b>50983.1</b>  | <b>71834.7</b>   | <b>73621.3</b>   | <b>74671.4</b>   |
| Deposits                         | 638689.7        | 945984.4         | 1004686.8        | 1084433.1        |
| Borrowings                       | 67201.3         | 93069.3          | 97722.8          | 105933.2         |
| Other Liab & Prov (incl sub-deb) | 24113.3         | 47005.6          | 51706.1          | 56876.7          |
| <b>Total</b>                     | <b>780987.4</b> | <b>1157894.0</b> | <b>1227737.0</b> | <b>1321914.4</b> |
| <b>Application of Funds</b>      |                 |                  |                  |                  |
| Fixed Assets                     | 6990.3          | 8889.3           | 9156.0           | 9430.6           |
| Investments                      | 182298.1        | 274614.6         | 279490.1         | 284693.9         |
| Advances                         | 468818.7        | 690120.7         | 724626.8         | 797611.8         |
| Other Assets                     | 33650.7         | 62389.5          | 89407.0          | 97943.7          |
| Cash with RBI & call money       | 89229.6         | 121901.1         | 125057.3         | 132234.4         |
| <b>Total</b>                     | <b>780987.4</b> | <b>1157915.2</b> | <b>1227737.1</b> | <b>1321914.5</b> |

Source: Company, ICICI Direct Research

**Exhibit 17: Key ratios (%)**

| (Year-end March)    | FY19 | FY20  | FY21E | FY21E |
|---------------------|------|-------|-------|-------|
| Total assets        | 8.5  | 48.3  | 6.0   | 7.7   |
| Advances            | 9.7  | 47.2  | 5.0   | 10.1  |
| Deposits            | 8.0  | 48.1  | 6.2   | 7.9   |
| Total Income        | 11.4 | 53.9  | 1.4   | 4.5   |
| Net interest income | 19.1 | 48.5  | 14.6  | 4.6   |
| Operating expenses  | 11.0 | 60.1  | 3.0   | 9.0   |
| Operating profit    | 12.3 | 46.0  | 11.6  | 1.8   |
| Net profit          | NA   | 26.2  | 263.6 | 65.4  |
| Book value          | 17.5 | 41.0  | 2.5   | 1.4   |
| EPS                 | NA   | -27.7 | 263.6 | 65.4  |

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct coverage universe (BFSI)**

| Sector / Company              | CMP   |        |        | M Cap<br>(₹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)       | 43    | 48     | Hold   | 19,429.0       | 1.2     | 4.9   | 7.3   | 36.4    | 8.8   | 5.9   | 0.3       | 0.4   | 0.4   | 0.1     | 0.2   | 0.3   | 0.9     | 3.1   | 4.7   |
| State Bank of India (STABAN)  | 190   | 215    | Hold   | 170,013        | 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)          | 59    | 70     | Hold   | 6,697          | -27.2   | 8.5   | 13.0  | -2.2    | 6.9   | 4.5   | 0.4       | 0.4   | 0.3   | -0.8    | 0.2   | 0.3   | -11.6   | 3.5   | 5.1   |
| Axis Bank (UTIBAN)            | 510   | 600    | Buy    | 154,492        | 5.8     | 20.8  | 34.0  | 88.4    | 24.5  | 15.0  | 1.9       | 1.5   | 1.4   | 0.2     | 0.6   | 0.9   | 2.1     | 6.4   | 8.8   |
| City Union Bank (CITUNI)      | 153   | 130    | Hold   | 11,330         | 6.5     | 7.5   | 9.7   | 23.7    | 20.3  | 15.7  | 2.5       | 2.3   | 2.0   | 1.0     | 1.1   | 1.3   | 9.4     | 10.2  | 11.8  |
| DCB Bank (DCB)                | 78    | 90     | Hold   | 2,413          | 10.9    | 9.8   | 13.5  | 7.2     | 8.0   | 5.8   | 0.8       | 0.8   | 0.7   | 0.9     | 0.8   | 1.0   | 11.3    | 9.1   | 11.2  |
| Federal Bank (FEDBAN)         | 52    | 60     | Buy    | 10,406         | 7.7     | 7.0   | 9.0   | 6.7     | 7.4   | 5.8   | 0.8       | 0.8   | 0.7   | 0.9     | 0.7   | 0.8   | 11.1    | 9.3   | 10.9  |
| HDFC Bank (HDFBAN)            | 1,205 | 1,450  | Buy    | 663,388        | 47.9    | 52.3  | 63.3  | 25.2    | 23.0  | 19.0  | 3.9       | 3.5   | 3.2   | 1.9     | 1.8   | 1.9   | 16.4    | 15.7  | 17.0  |
| Indusind Bank (INDBA)         | 593   | 580    | Hold   | 44,839         | 63.7    | 33.7  | 52.2  | 9.3     | 17.6  | 11.4  | 1.3       | 1.2   | 1.1   | 1.5     | 0.8   | 1.1   | 13.5    | 6.8   | 9.4   |
| Jammu & Kashmir Bank (JAMKAS) | 15    | 18     | Hold   | 1,053          | -11.3   | 2.5   | 4.6   | -1.3    | NA    | NA    | 0.2       | 0.2   | 0.2   | -0.6    | 0.2   | 0.3   | -8.9    | 2.5   | 4.5   |
| Kotak Mahindra Bank (KOTMAH)  | 1,552 | 1,634  | Buy    | 307,241        | 31.1    | 26.0  | 32.1  | 49.9    | 59.6  | 48.3  | 6.2       | 5.1   | 4.7   | 1.8     | 1.4   | 1.5   | 12.9    | 9.2   | 9.7   |
| Bandhan Bank (BANBAN)         | 289   | 400    | Hold   | 46,499         | 18.1    | 17.7  | 25.2  | 16.0    | 16.3  | 11.4  | 3.1       | 2.9   | 2.4   | 3.9     | 2.9   | 3.4   | 22.1    | 17.8  | 21.7  |
| IDFC First (IDFBAN)           | 31    | 34     | Buy    | 17,527         | -4.6    | 0.7   | 2.1   | NA      | 45.4  | 14.4  | 1.0       | 1.0   | 1.0   | -1.3    | 0.2   | 0.7   | -13.1   | 2.3   | 6.7   |

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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