

Operationally steady, improving growth outlook...

About the stock: Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 8.1 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with over 8168 branches
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Also, ~13% of total business comes from overseas

Q4FY22 Results: Steady quarter with improvement in asset quality.

- NII up 21% YoY at ₹ 8612 crore, NIMs up 41 bps at 3.14%
- C/I down 108 bps QoQ to 49.4%; provisions up 5% YoY, PAT at ₹ 1779 crore
- Gross loans up 12.9% QoQ, deposits up 24% YoY and 14% QoQ
- GNPA down 64 bps QoQ to 6.61%, standard r/s book at ₹ 19000 crore

What should investors do? Bank of Baroda has seen its stock price rising over 2.5x in the past two years. We believe improving business outlook along with bottoming out of NPA should reflect positively on the overall operating show.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value the bank at ~0.65x FY24E ABV and revise our target price to ₹ 115 per share from ₹ 125 earlier.

Key triggers for future price performance:

- Retail & MSME to propel credit growth; gradual revival seen in corporate
- Faster repricing of loans in rising rate scenario to aid margin trajectory
- Bottoming of NPA issue to keep credit cost lower; repayment from restructured account and ECLGS scheme to remain in focus
- Impact of rising interest rate on growth & treasury income to be watched

Alternate Stock Idea: Apart from Bank of Baroda, in our coverage we also like SBI.

- SBI is the largest bank in India with a balance sheet size of ~₹ 53 lakh crore and also has among the best operating metrics in the PSU space
- BUY with target price of ₹ 605

Key Financial Summary

| Key Financials (₹ Crore) | FY19 | FY20 | FY21 | FY22 | 3 year CAGR (FY19-FY22) | FY23E | FY24E | 2 year CAGR (FY22-24E) |
|--------------------------|--------|--------|--------|--------|-------------------------|--------|--------|------------------------|
| NII | 18,684 | 27,451 | 28,809 | 32,621 | 20.4% | 36,467 | 41,146 | 12.3% |
| PPP | 13,487 | 18,896 | 21,199 | 22,389 | 18.4% | 26,038 | 29,735 | 15.2% |
| PAT | 434 | 546 | 829 | 7,272 | 156.0% | 10,103 | 11,202 | 24.1% |
| ABV (₹) | 82.7 | 108.7 | 106.7 | 133.6 | | 152.8 | 176.3 | |
| P/E | 58.1 | 80.5 | -5.0 | 6.4 | | 4.9 | 4.4 | |
| P/ABV (%) | 1.1 | 0.9 | 0.9 | 0.7 | | 0.6 | 0.5 | |
| RoA | 0.4 | 0.1 | -0.8 | 0.7 | | 0.8 | 0.8 | |
| RoE (%) | 0.9 | 0.9 | (13.1) | 9.6 | | 11.3 | 11.3 | |



Particulars

| Particulars | Amount |
|-----------------------|--------------|
| Market Capitalisation | ₹ 49102Crore |
| Networth | ₹ 86763 |
| 52 week H/L | 123 /72 |
| Face value | ₹ 2 |

Shareholding pattern

| (in %) | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 64.0 | 64.0 | 64.0 | 64.0 | 64.0 |
| FII | 6.9 | 7.9 | 7.8 | 7.4 | 9.1 |
| DII | 15.9 | 14.5 | 14.7 | 14.7 | 15.1 |
| Others | 13.2 | 13.7 | 13.5 | 14.0 | 11.8 |

Price Chart



Recent Event & Key risks

GNPA down 64 bps QoQ to 6.61%, Collection efficiency (ex-agri) at 97%

Key Risk: (i) Resurgence of pandemic could impact asset quality (ii) Sharp rise in interest rates could slower growth

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Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Asset quality performance steady; growth dismal

- Bank of Baroda posted healthy growth in net interest income at 21% YoY to ₹ 8612 crore. NII improvement was backed by 41 bps YoY uptick in NIMs to 3.14%, though sequentially margins witnessed a decline of ~7 bps. Other income was down 72% YoY and flattish QoQ to ₹ 2522 crore, mainly because of sharp decline in treasury income and base effect of higher recoveries, though fee based income increased 6% YoY to ₹ 1848 crore
- Decline in opex (by 3% YoY) and steady provisioning at ₹ 3736 crore (5% YoY) depicts steady operational performance. However, PBT declined 29% YoY to ₹ 1899 crore, primarily due to base effect of recoveries. Net profit for the bank, supported by tax benefit and growth in NII further aided by lower provisions, reported at ₹ 1.12 1779 crore vs. loss in Q4FY21
- Asset quality showed sequential improvement, GNPA and NNPA declined by 64 bps and 53 bps QoQ to 6.61% and 1.72% respectively. Slippages for the quarter increased to ₹ 4514 crore i.e. ~2.2% of advances on annualised basis. Recoveries and upgrades came in at ₹ 2136 crore and ₹ 1112 crore vs. ₹ 2032 crore and ₹ 1272 crore QoQ, respectively. SMA1&2 is now at 0.44% vs. 1.12% QoQ. Collection efficiency (ex-agri) was at 97% as of March 2022
- Overall loan growth remained healthy at domestic book up 6.7% YoY to ₹ 6.84 lakh crore. Sequential growth was respectable at ~5%. Overall global advances were at ₹ 8.18 lakh crore, up 9% YoY. Credit growth was primarily driven by 21% YoY rise in foreign loans, 16.8% YoY in retail segment. Deposit growth came in 8.2% YoY to 1.12 10.45 lakh crore, wherein CASA remained steady QoQ at 44.24%

Q4FY22 Earnings conference call highlights

- Q3FY22 had 10 bps one-time effect; removing the same margins have inched up sequentially
- Interest rate inching northwards could lead to marginal benefit on margins
- Substantial proportion at 40% of AFS book is at floating rate (with reset in June 2022). Hence, the impact of rising rate on treasury book is expected is not expected to be significant
- Break up of loan book: T-bills linked – 10%, EBLR – 26-27%, MCLR – 50%
- Exposure to large retail and construction equipment finance at ₹ 2000 crore; provided ₹ 1700 crore
- Target for co-lending journey kept at ₹ 10000 crore
- ECLGS book - Sanctioned ₹ 15000 crore, Outstanding is ₹ 11000, NPA – ₹ 276 crore
- Air India recovery of ₹ 1000 crore in Q4FY22; utilised the same to make additional provision
- Standard restructuring book (without overlap) is at ₹ 19000 crore. Slippage in restructured book at ₹ 3000 crore (including exposure to large retail group)
- Credit cost guidance for FY23E at 1.5%
- BoB world spends to continue including promotional expense and expect customers to reach from 2 crore to 3 crore in the next one year
- Outstanding SR at ₹ 1200 crore; provision at ₹ 1000 crore
- Credit growth expected at 10-12%

Peer comparison

Exhibit 1: Peer Comparison

| Sector / Company | CMP | | | M Cap (₹ Bn) | EPS (₹) | | | P/E (x) | | | P/ABV (x) | | | RoE (%) | | |
|-----------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E |
| BoB (BANBAR) | 95 | 115 | Buy | 491 | 14.9 | 19.5 | 21.6 | 6.4 | 4.9 | 4.4 | 0.7 | 0.6 | 0.5 | 9.6 | 11.3 | 11.3 |
| SBI (STABAN) | 445 | 605 | Buy | 3,971 | 35.5 | 44.4 | 52.8 | 13.6 | 10.9 | 9.2 | 1.7 | 1.5 | 1.3 | 11.9 | 13.2 | 13.7 |
| Axis Bank (AXIBAN) | 636 | 970 | Buy | 2057 | 42.4 | 52.7 | 63.7 | 15.8 | 12.7 | 10.5 | 1.9 | 1.7 | 1.6 | 12.0 | 13.3 | 14.8 |
| City Union (CITUNI) | 124 | 200 | Buy | 91 | 9.3 | 11.7 | 13.5 | 13.3 | 10.6 | 9.2 | 1.7 | 1.4 | 1.2 | 11.3 | 12.4 | 12.6 |
| Federal Bank (FEDBAN) | 83 | 100 | Hold | 175 | 9.0 | 10.5 | 12.9 | 10.5 | 8.9 | 7.3 | 1.2 | 1.1 | 1.0 | 10.8 | 11.6 | 13.1 |
| IndusInd Bank (INDBA) | 872 | 1150 | Buy | 689 | 59.5 | 82.4 | 101.0 | 14.9 | 10.8 | 8.8 | 1.5 | 1.5 | 1.3 | 10.1 | 13.1 | 15.1 |
| Kotak Bank (KOTMAH) | 1,779 | 2,150 | Buy | 3,498 | 43.0 | 49.6 | 57.8 | 41.0 | 35.5 | 30.5 | 5.1 | 4.4 | 3.8 | 12.6 | 12.9 | 13.1 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| | Q4FY22 | Q4FY22E | Q4FY21 | YoY (%) | Q3FY22 | QoQ (%) | Comments |
|--------------------------|-----------|-----------|----------|---------|----------|---------|---|
| NII | 8,612 | 8,790 | 7,107 | 21.2 | 8,552 | 0.7 | Margin improvement aid YoY NII growth |
| NIM (%) | 3.1 | 3.0 | 2.7 | 36 bps | 3.1 | -5 bps | Higher CASA aids margin expansion YoY |
| Other Income | 2,522 | 2,678 | 4,848 | -48.0 | 2,519 | 0.1 | Sharp fall in treasury income drags other income |
| Net Total Income | 11,134 | 11,468 | 11,955 | -6.9 | 11,071 | 0.6 | |
| Staff cost | 2,702 | 3,196 | 3,125 | -13.5 | 3,103 | -12.9 | Cost controll aids improvement in C/I |
| Other Operating Expenses | 2,796 | 2,535 | 2,565 | 9.0 | 2,485 | 12.5 | |
| PPP | 5,635 | 5,737 | 6,266 | -10.1 | 5,483 | 2.8 | |
| Provision | 3,736 | 2,267 | 3,586 | 4.2 | 2,507 | 49.0 | Provisions increased QoQ with rise in slippages |
| PBT | 1,899 | 3,470 | 2,680 | -29.1 | 2,976 | -36.2 | |
| Tax Outgo | 120 | 885 | 3,726 | -96.8 | 779 | -84.6 | |
| PAT | 1,779 | 2,585 | -1,047 | NA | 2,197 | -19.0 | PAT below estimates due to higher than expected credit cost |
| Key Metrics | | | | | | | |
| GNPA | 54,059 | 55,437 | 66,671 | -18.9 | 55,997 | -3.5 | Write-offs aid npa reduction |
| NNPA | 13,365 | 16,077 | 21,800 | -38.7 | 16,465 | -18.8 | |
| Advances | 7,77,155 | 7,55,742 | 7,06,301 | 10.0 | 7,32,164 | 6.1 | Fueled by strong retail segment growth |
| Deposits | 10,45,939 | 10,00,841 | 9,66,996 | 8.2 | 9,78,034 | 6.9 | |

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

| (₹ Crore) | FY23E | | | FY24E | | |
|----------------------|----------|----------|----------|----------|----------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 36,147.0 | 36,467.1 | 0.9 | 38,814.6 | 41,146.3 | 6.0 |
| Pre Provision Profit | 25,892 | 26,038.1 | 0.6 | 27,983.3 | 29,735.5 | 6.3 |
| NIM Global (%) | 3.12 | 3.07 | -5 bps | 3.2 | 3.17 | -2 bps |
| PAT | 11,085 | 10,103 | -8.9 | 11,851.3 | 11,202 | -5.5 |

Source: ICICI Direct Research

Exhibit 4: Assumptions

| | Current | | Earlier | |
|--------------------------|---------|-------|---------|-------|
| | FY23E | FY24E | FY23E | FY24E |
| Credit growth (%) | 10.3 | 9.2 | 8.0 | 8.0 |
| Deposit Growth (%) | 10.4 | 9.0 | 8.3 | 9.0 |
| NIM Calculated (%) | 3.1 | 3.2 | 3.1 | 3.2 |
| Cost to income ratio (%) | 47.3 | 46.2 | 47.3 | 47.1 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 5: Profit and loss statement | | | | | ₹ crore |
|--------------------------------------|--------------|--------------|--------------|--------------|---------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E | |
| Interest Earned | 70495 | 69881 | 84721 | 94214 | |
| Interest Expended | 41686 | 37259 | 48254 | 53068 | |
| Net Interest Income | 28809 | 32621 | 36467 | 41146 | |
| growth (%) | 4.9 | 13.2 | 11.8 | 12.8 | |
| Non Interest Income | 12934 | 11484 | 12962 | 14126 | |
| Net Income | 41743 | 44105 | 49430 | 55272 | |
| Employee cost | 11446 | 11979 | 13285 | 14249 | |
| Other operating Exp. | 9098 | 9738 | 10106 | 11287 | |
| Operating Income | 21199 | 22389 | 26038 | 29735 | |
| Provisions | 15643 | 13002 | 12567 | 14799 | |
| PBT | 5556 | 9386 | 13471 | 14937 | |
| Taxes | 4727 | 2114 | 3368 | 3734 | |
| Net Profit | 829 | 7272 | 10103 | 11202 | |
| growth (%) | 51.8 | 777.3 | 38.9 | 10.9 | |
| EPS | -18.9 | 14.9 | 19.5 | 21.6 | |

Source: Company, ICICI Direct Research

| Exhibit 6: Key Ratios | | | | |
|----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY21 | FY22E | FY23E | FY24E |
| Valuation | | | | |
| No. of Equity Shares | 517.8 | 517.8 | 517.8 | 517.8 |
| BV (₹) | 148.8 | 162.9 | 181.6 | 202.5 |
| ABV (₹) | 106.7 | 133.6 | 152.8 | 176.3 |
| P/E | -5.0 | 6.4 | 4.9 | 4.4 |
| P/BV | 0.6 | 0.6 | 0.5 | 0.5 |
| P/ABV | 0.9 | 0.7 | 0.6 | 0.5 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 2.7 | 3.0 | 3.1 | 3.2 |
| Avg. Cost of Deposits | 3.9 | 4.1 | 4.3 | 4.3 |
| Yield on average advances | 7.2 | 7.4 | 7.5 | 7.6 |
| Quality and Efficiency (%) | | | | |
| Cost / Total net income | 68.2 | 48.4 | 47.3 | 46.2 |
| Credit/Deposit ratio | 73.0 | 76.5 | 76.4 | 76.5 |
| GNPA | 8.9 | 7.0 | 6.1 | 5.3 |
| NNPA | 3.1 | 2.0 | 1.8 | 1.5 |
| ROE | -13.1 | 9.6 | 11.3 | 11.3 |
| ROA | -0.8 | 0.7 | 0.8 | 0.8 |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance Sheet | | | | | ₹ crore |
|-----------------------------|--------------|--------------|--------------|---------------|---------|
| (Year-end March) | FY21 | FY22E | FY23E | FY24E | |
| Sources of Funds | | | | | |
| Capital | 1036 | 1036 | 1036 | 1036 | |
| Reserves and Surplus | 76010 | 85727 | 92999 | 103816 | |
| Networth | 77046 | 86763 | 94035 | 104852 | |
| Deposits | 966997 | 1045939 | 1100671 | 1199766 | |
| Borrowings | 66848 | 103899 | 75763 | 81028 | |
| Other Liab & Prov (incl sub | 44474 | 41399 | 53814 | 59195 | |
| Total | 1155365 | 1278000 | 1324282 | 1444841 | |
| Application of Funds | | | | | |
| Fixed Assets | 8016 | 9922 | 8504 | 8760 | |
| Investments | 261220 | 315795 | 315259 | 346552 | |
| Advances | 706301 | 777155 | 841188 | 918205 | |
| Other Assets | 59415 | 52472 | 33323 | 38757 | |
| Cash with RBI & call mon | 120413 | 122655 | 126009 | 132568 | |
| Total | 1155365 | 1278000 | 1324282 | 1444841 | |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|-----------------------|---------|--------|-------|-------|
| (Year-end March) | FY21 | FY22E | FY23E | FY24E |
| Total assets | -0.2 | 4.0 | 10.2 | 9.1 |
| Advances | 2.3 | 8.0 | 10.3 | 9.2 |
| Deposits | 2.2 | 3.1 | 10.4 | 9.0 |
| Total Income | -16.8 | 23.4 | 10.3 | 10.9 |
| Net interest income | 4.9 | 13.5 | 11.5 | 12.8 |
| Operating expenses | 8.9 | 6.0 | 7.5 | 9.2 |
| Operating profit | -49.4 | 142.4 | 12.4 | 14.2 |
| Net profit | -1891.3 | -178.9 | 30.9 | 10.9 |
| Book value | 7.2 | 9.5 | 11.5 | 11.5 |
| EPS | -1700.7 | -178.9 | 30.9 | 10.9 |

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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