

Business momentum positive; NPA concerns loom

Bank of Baroda (BoB) reported a good set of numbers on the operating as well as business front compared to the previous quarter. Asset quality deteriorated marginally. However, rising concerns on stress formation proved to be a dampener.

NII was up 8.7% YoY to ₹ 7749 crore, on the back of improved margins. Global NIM improved ~7 bps YoY to 2.87%, while QoQ it was largely flat. Domestic margins posted healthy expansion of ~11 bps QoQ to 3.07%. Other income growth was miniscule at 5.6% YoY to ₹ 2896 crore, on account of 11% YoY decline in fee income. Provisions remained elevated at ₹ 3957 crore; up 31.8% QoQ. The bank said Covid related provisions were worth ₹ 1709 crore. PAT during the quarter was at ₹ 1061 crore, compared to a loss of ₹ 1407 crore in the previous quarter last year.

Asset quality performance was a slight disappointment though headline numbers indicate otherwise. GNPA and NNPA (headline) declined 66 bps and 12 bps to 8.48% and 2.39% vs. 9.14% and 2.51% QoQ, respectively. However, on a proforma basis, GNPA, NNPA ratio increased ~30 bps, 69 bps QoQ to 9.63%, 3.36%, respectively. Restructuring advances were at 1.39% of standard advances. Corporate segment accounts for 82% of total restructuring. The bank has exposure of ₹ 50626 crore towards NCLT related accounts with provision of 92.87%. SMA1 and SMA2 for accounts with over ₹ 5 crore exposure increased from 2.88% to 4.41% QoQ. Collection efficiency was at 92% against 91% in the previous quarter. Corporate segment collection efficiency was at 95%.

Of total proforma slippage of ~₹ 8000 crore, ₹ 5669 came in from corporate segment. The bank has provisions worth ₹ 1521 crore towards proforma related NPA. Total Covid-19 related provisions were at ₹ 1709 crore. Restructured book is ~₹ 9700 crore, with some overlap in proforma NPA.

Loan growth for the quarter showed improvement on a sequential basis as they were up 4.3% QoQ to ₹ 698652 crore, while yearly growth was largely in line with the industry at 6.8% YoY. Retail segment loan growth was healthy at 13.7% YoY, driven by auto loans, while agri loans also increased steadily by 14.1% YoY aided by gold loans (up 29% YoY). Deposit growth for the quarter was 6.5% YoY at ₹ 954561 crore, with domestic CASA leading the way at a growth of 13.2% YoY. Domestic CASA ratio, thus, improved ~140 bps QoQ to 41.20%

Valuation & Outlook

A sequential pick up in loan book along with stable margins is a positive for the bank but return ratios are still significantly low. The bank's plans to raise ₹ 4000 crore in Q4FY21 seems to strengthen balance sheet but will remain dilutive for existing shareholders. Lower collection and management's indication of residual strain of stress in retail and MSME book remains near term concern. We await clarity on a revival in retail book and, thus, its impact on earnings. Thus, we maintain our target price at ₹ 70, valuing the bank at ~0.6x FY23E ABV. We maintain **HOLD** rating on the stock.

Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	15,522	18,684	27,451	29,113	33,237	35,669	10.7%
PPP	12,006	13,487	19,691	20,644	23,510	25,620	11.4%
PAT	(2,432)	434	547	2,881	4,091	4,397	23.5%
ABV (₹)	75.0	82.7	108.6	115.0	119.0	122.2	
P/E	-7.3	41.0	56.7	10.8	7.6	7.1	
P/ABV	0.9	0.8	0.6	0.6	0.6	0.5	
RoA	-0.3	0.4	0.1	0.2	0.3	0.3	
RoE	(5.8)	0.9	0.9	3.9	5.4	5.7	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 31188 Crore
GNPA (Q3FY21)	63,182
NNPA (Q3FY21)	16,668
NIM (Q3FY21) %	2.87%
52 week H/L	94/36
Networth	73,867.0
Face value	₹ 2
DII Holding (%)	11.3
FII Holding (%)	4.3

Key Highlights

- Proforma GNPA at 9.63%; guidance indicates further pressure from retail and MSME
- Covid-19 related provisions now stand at ₹ 1709 crore
- Maintain HOLD rating with target price of ₹ 70

Risk to our call

- Downside risk – increased level of stress formation in retail book could hamper profitability
- Upside risk – Further gain in business traction to aid fast recovery

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	7,749	7,453	7,129	8.7	7,508	3.2	Helped by steady margins and QoQ loan pickup
NIM (%)	2.9	2.6	2.8	7 bps	2.9	1 bps	Steady on sequential basis due to better cost of funds
Other Income	2,896	2,886	2,741	5.6	2,802	3.3	
Net Total Income	10,644	10,340	9,870	7.8	10,310	3.2	
Staff cost	2,800	2,724	2,594	7.9	2,550	9.8	Rise in opex and staff cost due to increased business activity thus variable expenses
Other Operating Expenses	2,253	2,483	2,318	-2.8	2,208	2.1	
PPP	5,591	5,133	4,958	12.7	5,552	0.7	
Provision	3,957	2,775	7,155	-44.7	3,002	31.8	Higher provisions due to increase in proforma NPA
PBT	1,634	2,358	-2,197	-174.4	2,550	-35.9	
Tax Outgo	573	601	-790	-172.5	872	-34.3	
PAT	1,061	1,757	-1,407	-175.4	1,679	-36.8	Increased credit cost dents bottomline
Key Metrics							
GNPA	63,182	64,384	73,140	-13.6	65,698	-3.8	Proforma GNPA increased 30 bps QoQ to 9.63%
NNPA	16,668	16,291	26,504	-37.1	16,795	-0.8	
Advances	698,652	693,733	654,465	6.8	669,851	4.3	Healthy pickup driven by retail and agri segment
Deposits	954,561	982,970	896,162	6.5	954,340	0.0	Flattish sequentially , YoY rise due aided by CASA

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore)	FY21E			FY22E			FY23
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	31,447.1	29,113.0	-7.4	32,891.6	33,236.8	1.0	35,669.2
Pre Provision Profit	21,978	20,643.6	-6.1	22,365	23,509.9	5.1	25,619.8
NIM Global (%)	2.89	2.68	-21 bps	2.90	2.93	3 bps	2.92
PAT	1,989	2,881	44.9	3,289	4,091	24.4	4,397

Source: Company, ICICI Direct Research

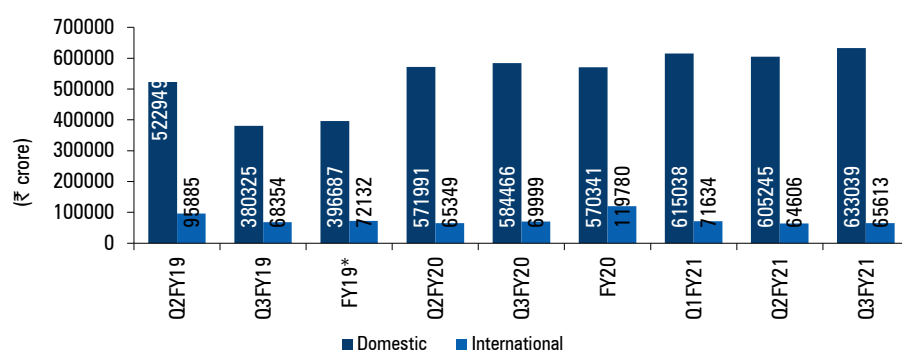
Exhibit 3: Assumptions

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	6.9	5.9	5.0	10.1	10.1	2.0	5.0
Deposit Growth (%)	7.1	3.4	5.5	7.9	7.9	4.0	6.0
NIM Calculated (%)	2.4	2.8	2.7	2.9	2.9	2.9	2.9
Cost to income ratio (%)	46.6	47.9	47.4	46.3	46.3	47.7	48.4

Source: Company, ICICI Direct Research

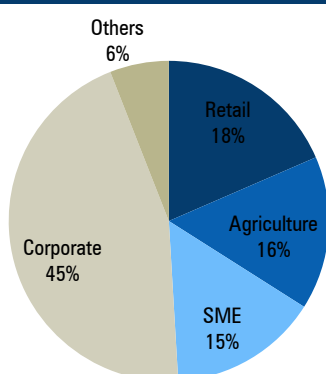
Story in Charts

Exhibit 4: Sequential rise in loan book for Q3FY21



Source: Company, ICICI Direct Research, * Merged entity

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



Source: Company, ICICI Direct Research

Exhibit 6: CASA deposits surge

₹ crore	Q3FY20*	Q4FY20*	Q1FY21*	Q2FY21*	Q3FY21*	YoY (%)	QoQ (%)
Global Deposits	896162	945985	934461	954340	954561	6.5	0.0
Global CASA ratio	34.9	35.3	35.3	36.7	37.9	303 bps	122 bps
Domestic Deposits	782070	808706	813530	835894	834811	6.7	-0.1
Domestic CASA ratio	38.8	39	39	40	41	236 bps	142 bps
Overseas Deposits	114092	137279	120931	118446	119750	5.0	1.1

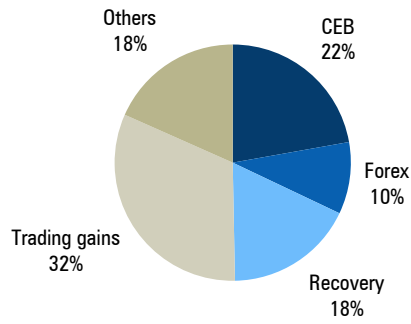
Source: Company, ICICI Direct Research, * - Merged Bank

Exhibit 7: Margin profile

	Q1FY19*	Q2FY19*	Q3FY19	Q4FY19*	Q1FY20*	Q2FY20*	Q3FY20*	Q4FY20*	Q1FY21*	Q2FY21*	Q3FY21*
Global NIM	2.7	2.6	2.7	2.9	2.6	2.8	2.8	2.7	2.6	2.9	2.9
Domestic NIM	2.9	2.8	2.8	3.1	2.7	3.0	2.9	2.8	2.6	3.0	3.1
Overseas NIM	1.5	1.7	2.0	1.7	1.5	1.3	1.5	1.2	1.4	1.3	0.8
Global Yield on advances	7.5	7.4	7.7	7.9	8.0	8.2	7.9	7.8	7.3	7.1	7.1
Domestic Yield on advances	8.7	8.5	8.6	8.9	8.7	9.0	8.7	8.8	8.1	8.1	8.1
Overseas Yield on advances	3.5	3.8	4.6	4.4	4.1	3.8	3.9	3.3	3.2	2.5	1.7
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

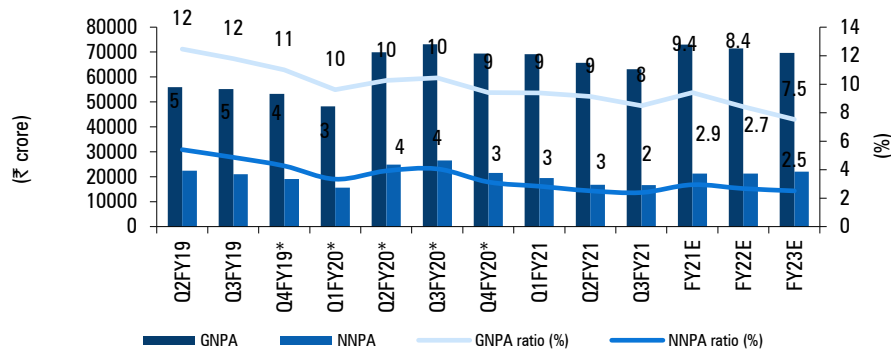
Source: Company, ICICI Direct Research

Exhibit 8: Other income break-up



Source: Company, ICICI Direct Research

Exhibit 9: Near term asset quality concerns



Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 10: Return ratios trend



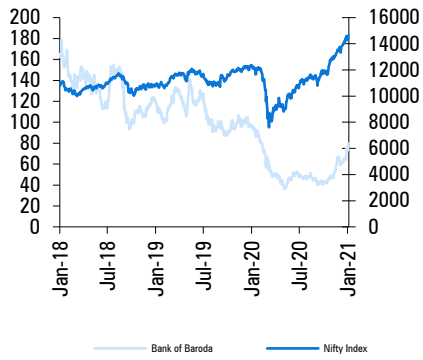
Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 11: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	71.6	71.6	71.6	71.6	71.6
FII	4.8	4.6	4.1	3.9	4.3
DII	13.9	14.0	12.7	11.4	11.3
Others	9.7	9.8	11.7	13.1	12.8

Source: Company, ICICI Direct Research

Exhibit 12: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Interest Earned	75983.7	74584.8	81629.6	87961.5
Interest Expended	48532.4	45471.8	48392.7	52292.2
Net Interest Income	27451.3	29113.0	33236.8	35669.2
growth (%)	46.9	6.1	14.2	7.3
Non Interest Income	10317.3	10150.1	10568.3	12072.4
Fees and advisory	2590.3	2978.8	3336.3	3736.6
Treasury Income /sale of Invnt.	2750.7	3438.4	4126.1	4951.3
Other income	4976.3	3732.9	3106.0	3384.5
Net Income	37768.6	39263.1	43805.1	47741.6
Employee cost	8769.5	9056.6	9443.8	9856.1
Other operating Exp.	9307.7	9562.9	10851.5	12265.7
Operating Income	19691.4	20643.6	23509.9	25619.8
Provisions	21492.8	16528.2	17666.2	19338.4
PBT	-1801.4	4115.4	5843.7	6281.4
Taxes	-2348.3	1234.6	1753.1	1884.4
Net Profit	546.9	2880.8	4090.6	4397.0
growth (%)	26.2	426.7	42.0	7.5
EPS	1.2	6.2	8.8	9.5

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Valuation				
No. of Equity Shares	462.7	462.7	462.7	462.7
BV (₹)	155.3	161.0	165.0	169.8
ABV (₹)	108.6	115.0	119.0	122.2
P/BV	0.4	0.4	0.4	0.4
P/ABV	0.6	0.6	0.6	0.5
GNPA	9.4	9.4	8.4	7.5
NNPA	3.1	2.9	2.7	2.5
ROE	0.9	3.9	5.4	5.7
ROA	0.1	0.2	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ Crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Sources of Funds				
Capital	925.4	925.4	925.4	925.4
Reserves and Surplus	70909.4	73588.2	75439.9	77616.2
Networth	71834.7	74513.5	76365.3	78541.6
Deposits	945984.4	998047.6	1077262.8	1162772.9
Borrowings	93069.3	97722.8	105933.2	114886.5
Other Liab & Prov (incl sub-debt)	47005.6	51706.1	56876.7	62564.4
Total	1157894.0	1221990.1	1316438.0	1418765.4
Application of Funds				
Fixed Assets	8889.3	9156.0	9430.6	9713.6
Investments	274614.6	279490.1	284693.9	290266.6
Advances	690120.7	724626.8	797611.8	877955.5
Other Assets	62389.5	83660.0	92467.4	100900.5
Cash with RBI & call money	121901.1	125057.3	132234.4	139929.3
Total	1157915.2	1221990.2	1316438.1	1418765.5

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21E	FY21E	FY21E
Total assets				
Total assets	48.3	5.5	7.7	7.8
Advances	47.2	5.0	10.1	10.1
Deposits	48.1	5.5	7.9	7.9
Total Income	53.9	-1.8	8.8	8.5
Net interest income	48.5	6.1	14.2	7.3
Operating expenses	60.1	3.0	9.0	9.0
Operating profit	46.0	4.8	13.9	9.0
Net profit	26.2	426.7	42.0	7.5
Book value	41.0	3.7	2.5	2.8
EPS	-27.7	426.7	42.0	7.5

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP		M Cap (₹ Bn)	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
BoB (BANBAR)	67	70	Hold	311	1.6	1.2	6.2	41.0	56.7	10.8	0.8	0.6	0.6	0.4	0.1	0.2	0.9	0.9	3.9
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	645	800	Buy	2042	5.8	25.2	47.7	112	25.6	13.5	2.4	2.3	1.9	0.2	0.8	1.3	2.1	8.1	13.8
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	940	1,050	Hold	728	63.7	32.5	50.9	14.8	28.9	18.5	2.0	1.9	1.8	1.5	0.8	1.1	14.4	6.6	9.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3527	20.4	23.5	27.2	86.2	75.0	64.6	10.8	8.8	7.8	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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