

DTA reversal impact PAT; business outlook improves

Bank of Baroda (BoB) reported good set of numbers on the operating front with some improvement in asset quality as well. However, DTA impact due to shifting to new tax regime resulted into net loss during the quarter.

NII was up 4.5% YoY but down 5% QoQ to ₹ 7107 crore, mainly on account of interest reversals on NPA and interest on interest relief. Global net interest margin (NIM) declined ~5 bps QoQ to 2.72%, while domestic margins declined ~23 bps QoQ to 2.73%. **NIMs were impacted by 36 bps due to reversals of interest.** Other income grew 71% YoY led by recovery from written-off accounts. Provisions for the quarter remained elevated and increased QoQ to ₹ 3586 crore with ₹ 4593 crore for NPA provisions and **reversal in Covid buffer of ₹ 1663 crore.** Though, PBT came in at ₹ 2680 crore, shifting towards new tax regime had a DTA impact of ₹ 3314 crore. As a result, the bank posted a net loss of ₹ 1047 crore during the quarter.

Asset quality performance was decent with GNPA declining 76 bps QoQ to 8.87% vs. 9.63% in the previous quarter. **The bank has received restructuring request worth ₹ 9434 crore of which ₹ 2320 crore has been implemented.** BoB has exposure of ₹ 48988 crore towards NCLT related accounts with provision of 93.4%. SMA1, SMA2 for accounts with over ₹ 5 crore exposure declined from 4.4% to 3.9% QoQ. Collection efficiency for March 2021 stood at 93% vs. 92% in the previous quarter.

During the quarter, bank had overall fresh slippages worth ₹ 11656 crore, which includes proforma slippage of ₹ 8637 crore. Corporate segment saw slippages worth ₹ 5817 crore. The management has indicated that **slippages would be significantly lower from international book but domestic MSME and retail book could see some stress. Credit cost guidance has been lowered somewhat towards lower end of 1.5-2.0% range indicated earlier.**

Loan growth was tepid on a sequential basis as they were up 1.1% QoQ to ₹ 706301 crore, while yearly growth in domestic advances was at 4.9%. Retail segment loan growth was healthy at 14.3% YoY, driven by auto loans, up 28% YoY while agri loans also increased steadily by 13% YoY aided by gold loans (up 32% YoY). Deposit growth for the quarter was 2.2% YoY at ₹ 966996 crore, in which domestic CASA showed healthy growth of 16.4% YoY. Domestic CASA ratio thus improved ~167 bps QoQ to 42.87%.

Valuation & Outlook

Bank of Baroda has shown an improved asset quality performance while legacy corporate stress has been mostly dealt with. We believe lower slippages and, thus, credit costs along with pick-up in loan growth should reflect positively on the operational performance of the bank. Also, benefit of new tax regime should add to earnings improvement. Sufficient provisions on stressed book provide comfort while recent fund raising has improved overall capital position as well. Thus, we upgrade our rating from HOLD to **BUY** and revise our target price to ₹ 100 (₹ 70 earlier), valuing the bank at ~0.75x FY23E ABV.



बैंक ऑफ बड़ौदा
Bank of Baroda
India's International Bank

Particulars

Particulars	Amount
Market Capitalisation	₹ 41732 Crore
GNPA (Q4FY21)	₹ 66671 Crore
NNPA (Q4FY21)	₹ 21800 Crore
NIM (Q4FY21)	2.72%
52 week H/L	100/37
Networth	₹ 77046 crore
Face value	₹ 2
DII Holding (%)	15.9
FII Holding (%)	6.9

Key Highlights

- Proforma GNPA at 8.87% vs. 9.63% QoQ
- DTA impact of ₹ 3314 crore impacted profitability
- Upgrade from HOLD to BUY rating with target price of ₹ 100

Risk to our call

- Increased level of stress in MSME, retail due to pandemic can hurt asset quality
- Delayed pick-up in credit growth may lead to slower improvement in operating parameters

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	18,684	27,451	28,809	31,012	34,608	9.6%
PPP	13,487	18,896	20,630	20,830	22,957	5.5%
PAT	434	546	829	4,922	7,322	197.2%
ABV (₹)	82.7	108.6	107.0	118.7	132.3	
P/E	48.9	67.8	50.0	8.4	5.7	
P/ABV	1.0	0.7	0.7	0.7	0.6	
RoA	0.4	0.1	0.1	0.4	0.6	
RoE	0.9	0.9	1.1	6.2	8.6	

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
NII	7,129	6,798	4,743	50.3	7,028	1.4	NII growth in single digits on the back of muted credit growth
NIM (%)	2.8	2.6	2.7	11 bps	2.8	-1 bps	
Other Income	2,741	2,835	1,621	69.1	2,824	-2.9	Trading gains of ₹ 214 crore along with recovery of ₹ 287 crore aided other income growth
Net Total Income	9,870	9,633	6,364	55.1	9,852	0.2	
Staff cost	2,594	1,954	1,304	99.0	2,281	13.7	
Other Operating Expenses	2,318	2,558	1,522	52.2	2,234	3.7	
PPP	4,958	5,121	3,539	40.1	5,336	-7.1	
Provision	7,155	6,844	2,794	156.1	4,209	70.0	Fresh slippages at ₹ 10387 crore, led by divergence at ₹ 4509 crore and exposure to a HFC worth ₹ 2000 crore
PBT	-2,197	-1,723	744	-395.2	1,127	-295.0	
Tax Outgo	-790.0	-2,229.9	273.1	-389.3	390.1	-302.5	Bank is yet to avail benefits of lower tax rate
PAT	-1,407.0	506.6	471.2	-398.6	736.7	-291.0	Higher provisions dented earnings
Key Metrics							
GNPA	73,140.0	69,381.4	53,184.3	37.5	69,969.0	4.5	Higher slippages broadly offset by higher write back and write-offs
NNPA	26,504.0	21,576.6	19,130.5	38.5	24,894.4	6.5	Surge in provisions increased PCR to 77.77%
Total Watch list	10,500.0	12,500.0	8,500.0	23.5	14,500.0	-27.6	
Advances	654,465	690,121	448,679	45.9	637,340	2.7	Retail segment continues to grow at a robust pace of 15% YoY largely led by growth in home & auto loans
Deposits	896,162	945,985	610,569	46.8	894,130	0.2	CASA ratio improved ~100 bps led by continued focus on low cost deposit

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY22E			FY23		
	Old	New	% Change	Old	New	% Change
Net Interest Income	33,236.8	31,011.9	-6.7	35,669.2	34,607.6	-3.0
Pre Provision Profit	23,510	20,829.7	-11.4	25,619.8	22,956.9	-10.4
NIM Global (%)	2.93	2.86	-7 bps	2.9	2.97	5 bps
PAT	4,091	4,922	20.3	4,397.0	7,322	66.5

Source: Company, ICICI Direct Research

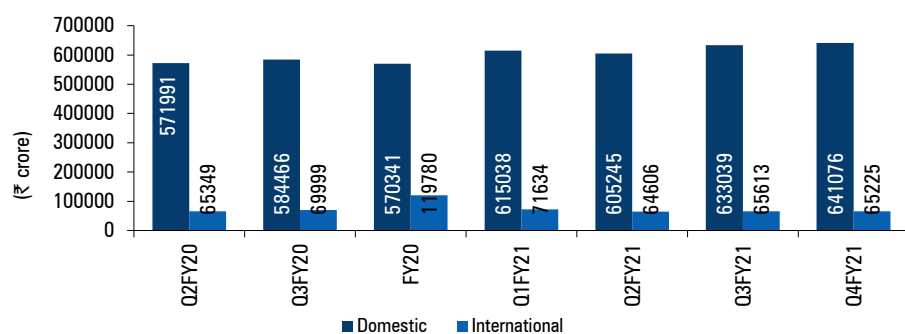
Exhibit 3: Assumptions

	Current					Earlier		
	FY19	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	6.9	5.9	2.3	9.2	10.1	5.0	10.1	10.1
Deposit Growth (%)	7.1	3.4	2.2	8.7	9.0	5.5	7.9	7.9
NIM Calculated (%)	2.4	2.8	2.7	2.9	3.0	2.7	2.9	2.9
Cost to income ratio (%)	46.6	47.9	49.9	51.8	51.3	46.7	46.3	46.3

Source: Company, ICICI Direct Research

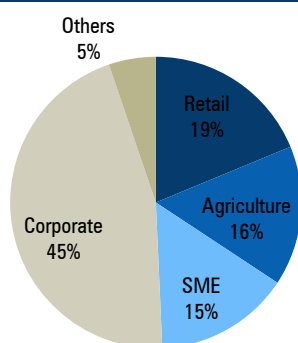
Story in Charts

Exhibit 4: Tepid loan growth in Q4FY21



Source: Company, ICICI Direct Research, * Merged entity

Exhibit 5: Retail to lead growth ahead



Source: Company, ICICI Direct Research

Exhibit 6: CASA deposits surge

₹ crore	Q4FY20*	Q1FY21*	Q2FY21*	Q3FY21*	Q4FY21*	YoY (%)	QoQ (%)
Global Deposits	945985	934461	954340	954561	966996	2.2	1.3
Global CASA ratio	35.3	35.3	36.7	37.9	37.9	264 bps	3793 bps
Domestic Deposits	808706	813530	835894	834811	858413	6.1	2.8
Domestic CASA ratio	39	39	40	41	41	213 bps	0 bps
Overseas Deposits	137279	120931	118446	119750	108583	-20.9	-9.3

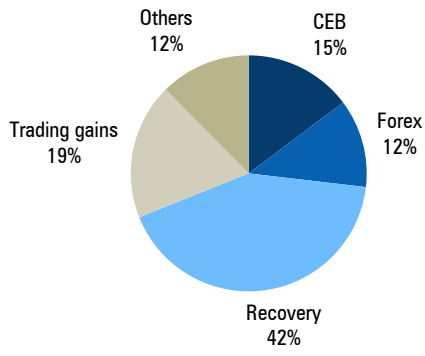
Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 7: Margin profile

	Q1FY20*	Q2FY20*	Q3FY20*	Q4FY20*	Q1FY21*	Q2FY21*	Q3FY21*	Q4FY21*
Global NIM	2.6	2.8	2.8	2.6	2.5	2.8	2.8	2.7
Domestic NIM	2.7	3.0	2.9	2.8	2.6	2.9	3.0	2.7
Overseas NIM	1.5	1.3	1.5	1.2	1.4	1.3	0.8	1.6
Global Yield on advances	8.0	8.2	7.9	7.7	7.3	7.1	7.0	6.6
Domestic Yield on advances	8.7	9.0	8.7	8.5	8.1	8.0	8.0	7.3
Overseas Yield on advances	4.1	3.8	3.9	3.3	3.2	2.5	1.7	2.5

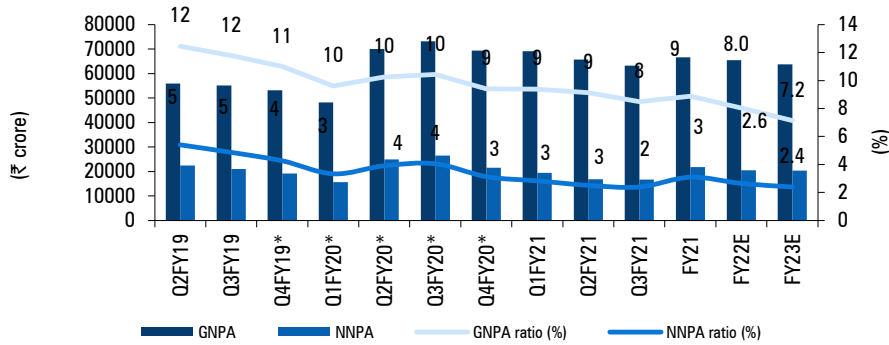
Source: Company, ICICI Direct Research

Exhibit 8: Higher recoveries boost other income



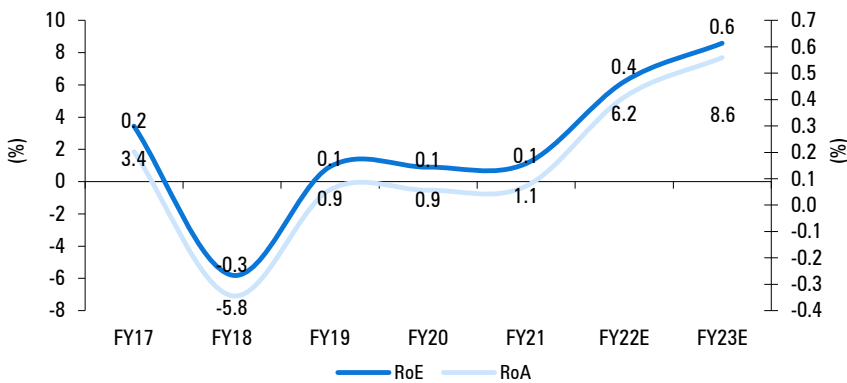
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality trend



Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 10: Return ratios to show notable improvement



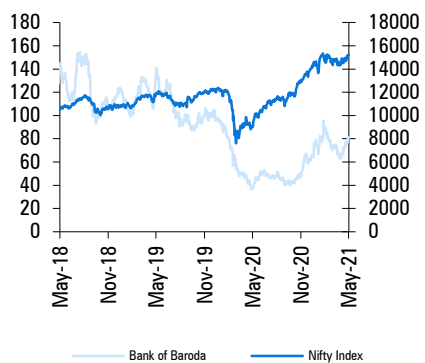
Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 11: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	71.6	71.6	71.6	71.6	64.0
FII	4.6	4.1	3.9	4.3	6.9
DII	14.0	12.7	11.4	11.3	15.9
Others	9.8	11.7	13.1	12.8	13.2

Source: Company, ICICI Direct Research

Exhibit 12: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Interest Earned	75983.7	70495.1	77516.4	84900.3
Interest Expended	48532.4	41686.0	46504.5	50292.7
Net Interest Income	27451.3	28809.0	31011.9	34607.6
growth (%)	46.9	4.9	7.6	11.6
Non Interest Income	10317.3	12364.4	12210.3	12533.3
Net Income	37768.6	41173.5	43222.2	47140.9
Employee cost	9564.7	11445.5	12022.7	12547.0
Other operating Exp.	9307.7	9098.1	10369.9	11637.0
Operating Income	18896.2	20629.8	20829.7	22956.9
Provisions	20698.3	15073.8	14267.1	13193.8
PBT	-1802.1	5556.0	6562.5	9763.2
Taxes	-2348.3	4727.1	1640.6	2440.8
Net Profit	546.2	828.9	4921.9	7322.4
growth (%)	26.0	51.8	493.8	48.8
EPS	1.2	1.6	9.5	14.1

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Valuation				
No. of Equity Shares	462.7	517.8	517.8	517.8
BV (₹)	155.3	148.8	158.1	171.6
ABV (₹)	108.6	107.0	118.7	132.3
P/E	67.8	50.0	8.4	5.7
P/BV	0.5	0.5	0.5	0.5
P/ABV	0.7	0.7	0.7	0.6
Yields & Margins (%)				
Net Interest Margins	3.0	2.7	2.9	3.0
Avg. Cost of Deposits	5.5	4.0	4.3	4.3
Yield on average advances	9.3	7.5	7.6	7.7
Quality and Efficiency (%)				
Cost / Total net income	50.0	49.9	51.8	51.3
Credit/Deposit ratio	73.0	73.0	73.4	74.1
GNPA	9.4	8.9	8.0	7.2
NNPA	3.1	3.1	2.6	2.4
ROE	0.9	1.1	6.2	8.6
ROA	0.1	0.1	0.4	0.6

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ Crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Capital	925.4	1035.5	1035.5	1035.5
Reserves and Surplus	70909.4	76010.2	80835.9	87787.6
Networth	71834.7	77045.7	81871.4	88823.1
Deposits	945984.4	966996.9	1050983.1	1145598.5
Borrowings	93069.3	66847.9	72506.2	78679.0
Other Liab & Prov (incl sub-debt)	47005.6	44474.2	48921.6	53813.8
Total	1157894.0	1155364.8	1254282.3	1366914.4
Application of Funds				
Fixed Assets	8889.3	8016.2	8256.7	8504.4
Investments	274614.6	261220.3	266128.3	271390.3
Advances	690120.7	706300.5	771221.4	848896.8
Other Assets	62389.5	59414.9	81540.1	103794.9
Cash with RBI & call money	121901.1	120412.8	127135.7	134328.0
Total	1157915.2	1155364.8	1254282.3	1366914.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total assets				
Total assets	48.3	-0.2	8.6	9.0
Advances	47.2	2.3	9.2	10.1
Deposits	48.1	2.2	8.7	9.0
Total Income	53.9	-4.0	8.3	8.6
Net interest income	48.5	4.9	7.6	11.6
Operating expenses	67.2	8.9	9.0	8.0
Operating profit	40.1	9.2	1.0	10.2
Net profit	26.0	51.8	493.8	48.8
Book value	41.0	7.3	6.3	8.5
EPS	-27.8	35.6	493.8	48.8

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
BoB (BANBAR)	80	100	Buy	417	1.6	9.5	14.1	50.0	8.4	5.7	0.7	0.7	0.6	0.1	0.4	0.6	1.1	6.2	8.6
SBI (STABAN)	425	500	Buy	3579	21.2	29.9	32.7	20	14.2	13.0	1.8	1.6	1.4	0.4	0.6	0.6	7.8	10.0	10.0
Indian Bank (INDIBA)	141	180	Buy	158	16.9	29.1	45.5	8.3	4.8	3.1	0.9	0.8	0.7	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	750	900	Buy	2239	25.2	47.7	58.7	29.8	15.7	12.8	2.6	2.2	1.9	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	174	200	Buy	129	10.0	10.0	10.0	17.4	17.4	17.4	2.6	2.2	2.2	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	105	110	Buy	32	10.8	12.3	15.6	9.7	8.5	6.7	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	88	95	Buy	169	8.0	11.2	13.7	11.1	7.9	6.4	1.2	1.1	1.0	0.8	1.0	1.1	10.4	13.2	14.7
HDFC Bank (HDFBAN)	1,483	1,700	Buy	8256	56.4	66.4	77.8	26.3	22.3	19.1	4.1	3.7	3.4	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	1,007	1,100	Buy	786	36.7	63.6	76.3	27.5	15.8	13.2	1.9	1.6	1.5	0.8	1.3	1.4	7.3	10.6	11.3
J&K (JAMKAS)	29	25	Hold	20	7.5	10.4	0.0	3.9	2.8		0.4	0.3	1.2	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,777	2,040	Buy	3456	35.1	43.2	51.4	50.6	41.2	34.6	5.8	5.1	4.4	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	295	330	Hold	482	14.7	24.7	31.4	20.1	11.9	9.4	3.4	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	58	65	Buy	345	0.8	1.6	2.9	72.7	36.6	20.1	2.1	1.6	1.5	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

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