

Operationally steady; growth remains dampener...

About the stock: Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 7.3 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with over 8100 branches
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Also, ~12% of total business comes from overseas

Q2FY22 Results: Operational & NPA performance steady; growth disappointed.

- NII up 0.5% YoY and down 4.1% QoQ, NIMs down 19 bps QoQ to 2.85%
- C/I up 121 bps QoQ; provision down 31% QoQ aiding PAT at ₹ 2088 crore
- Gross loans up 2.1% YoY and 3.1% QoQ, deposits up 0.5% YoY
- GNPA down 75 bps QoQ to 8.11%, Standard restructured book at ~3%

What should investors do? Bank of Baroda has seen its stock price rising over 2x in the past one year. We believe improving business outlook along with containment of slippages should help the overall performance to improve.

- We retain our BUY rating on the stock.

Target Price and Valuation: We value the bank at ~0.85x FY23E ABV and maintain our target price of ₹ 120 per share.

Key triggers for future price performance:

- Resolution and thereby better recoveries to aid asset quality in H2FY22
- Margins to improve with lesser reversals ahead
- Retail segment to propel credit growth; signs of revival in corporate
- Comfortable capital position, CRAR at 15.5%, to aid business growth

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 ~₹ 47 lakh crore and also has among the best operating metrics in the PSU space
- BUY with target price of ₹ 640



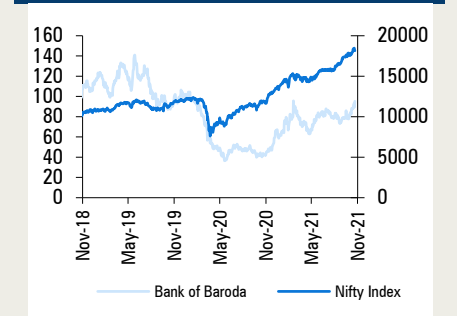
Particulars

Particulars	Amount
Market Capitalisation	₹ 52050 Crore
Networth	₹ 86021 crore
52 week H/L	108/44
Face value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	71.6	71.6	64.0	64.0	64.0
FII	3.9	4.3	6.9	7.9	7.8
DII	11.4	11.3	15.9	14.5	14.7
Others	13.1	12.8	13.2	13.7	13.5

Price Chart



Recent Event & Key risks

GNPA down 75 bps QoQ to 8.11%, Standard restructured book at 3%

Key Risk: Increased level of stress in MSME, retail due to pandemic can hurt asset quality

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Key Financial Summary

Key Financials (₹ Crore)	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	18,684	27,451	28,809	20.8%	31,310	34,326	9.2%
PPP	13,487	18,896	20,630	17.1%	22,032	23,792	7.4%
PAT	434	546	1,288	-1.8%	6,510	7,920	148.0%
ABV (₹)	82.7	108.7	106.7		124.1	140.7	
P/E	61.8	85.6	40.6		8.0	6.6	
P/ABV (%)	1.2	0.9	0.9		0.8	0.7	
RoE (%)	0.9	0.9	1.7		8.1	9.1	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Asset quality performance steady; growth dismissal

- NII was flattish on a YoY basis and down 4.1% QoQ to ₹ 7566 crore, mainly on account of 19 bps QoQ fall in NIMs to 2.85%. Other income was up 25% QoQ and 27.7% YoY to ₹ 3579 crore
- The bank has charged additional pension related expenses to the tune of ₹ 145.4 crore and has carried forward balance amount of ₹ 1308.9 crore. Provisions declined 31.3% QoQ to ₹ 2754 crore. PAT thus aided by lower provisions was up 24.4% YoY to ₹ 2088 crore
- Asset quality performance was steady as GNPA and NNPA declined 75 bps and 20 bps QoQ to 8.11% and 2.83%, respectively, while restructuring was largely stable at 3% vs. 2.9% QoQ. Slippages for the quarter were elevated at ₹ 5802 crore, led by slippage of one large account
- Domestic loans were modestly up 2.99% YoY to ₹ 6.2 lakh crore. However, sequential growth was respectable at 3.8%. Credit growth was primarily driven by 10.2% rise in retail loans and 7.3% YoY uptick in agri loans. Deposit growth was flattish at 0.5% YoY at ₹ 9.5 lakh crore, wherein CASA deposits were up by 13.01% YoY

Q2FY22 Earnings conference call highlights

- Total standard restructured book at ₹ 20500 crore with ~₹ 2500 crore provisions on the same
- Incremental interest reversal was ₹ 300 crore in Q2FY22
- Stressed NBFC exposure at ₹ 2000 crore classified as NPA and 50% provisions taken on the same
- Total recovery from DHFL at ₹ 877 crore
- Expect ~₹ 7000-8000 crore recoveries in H2FY22
- Loan growth to be around industry average
- NIMs largely impacted by slippage of one corporate NBFC account
- Out of total restructuring ~₹ 7400 crore is from large corporate, ₹ 6700 crore from MSME and ₹ 5400 crore from retail
- Slippage rate guidance for FY22E at ~2%

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	101	120	Buy	521	2.5	12.6	15.3	40.6	8.0	6.6	0.9	0.8	0.7	0.1	0.5	0.6	1.7	8.1	9.1
SBI (STABAN)	524	640	Buy	4680	22.9	45.6	44.2	23	11.5	11.9	2.2	1.9	1.7	0.5	0.9	0.8	8.4	14.9	12.7
Indian Bank (INDIBA)	176	180	Buy	219	26.6	32.9	46.7	6.6	5.3	3.8	0.8	0.9	0.7	0.6	0.6	0.8	9.9	10.4	13.5
Axis Bank (AXIBAN)	749	970	Buy	2298	21.5	41.0	52.7	34.8	18.3	14.2	2.4	2.2	1.9	0.7	1.2	1.4	7.1	11.7	13.4
City Union (CITUNI)	169	200	Buy	124	8.8	9.3	11.7	19.1	18.1	14.4	2.6	2.3	1.9	1.3	1.2	1.4	11.9	11.3	12.4
Federal Bank (FEDBAN)	100	120	Buy	211	8.0	8.8	11.3	12.6	11.4	8.9	1.4	1.3	1.2	0.8	0.9	1.0	10.4	10.9	12.7
HDFC Bank (HDFBAN)	1,555	2,000	Buy	8614	47.9	56.4	66.1	32.5	27.6	23.5	5.1	4.3	3.8	1.9	1.9	1.9	16.4	16.6	16.7
IndusInd Bank (INDBA)	1,032	1,400	Buy	799	36.7	57.4	72.9	28.1	18.0	14.2	1.9	1.7	1.8	0.8	1.2	1.3	7.3	10.0	12.3
Kotak Bank (KOTMAH)	2,077	2,550	Buy	4118	35.1	38.9	48.9	59.1	53.4	42.4	6.7	6.0	5.3	1.9	1.9	2.1	12.4	11.4	12.7
CSB Bank (CSBBAN)	297	380	Buy	51	12.6	19.7	24.7	23.6	15.0	12.0	2.8	2.4	2.0	0.1	1.0	1.4	10.5	14.6	15.8
Bandhan (BANBAN)	311	270	Hold	502	13.7	-7.0	24.7	22.7	-44.6	12.6	3.4	3.8	2.9	2.1	-0.9	2.8	13.5	-6.7	22.2
IDFC First (IDFBAN)	52	60	Buy	322	0.8	0.5	2.3	65.1	107.7	22.6	1.7	1.4	1.3	0.3	0.2	0.7	2.7	1.4	5.8

Source: Company, ICICI Direct Research

Bank of Baroda reported decent results considering the current environment. We believe with unlocking of the economy overall operational parameters will improve.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
NII	7,566	8,029	7,508	0.8	7,892	-4.1	Subdued on account of lower margins
NIM (%)	2.9	-197.5	2.8	7 bps	3.0	-19 bps	NIMs decline sequentially due to elevated slippages
Other Income	3,579	3,084	2,802	27.7	2,863	25.0	growth aided by treasury and recovery from w/off
Net Total Income	11,145	11,113	10,310	8.1	10,755	3.6	
Staff cost	3,114	3,151	2,550	22.1	3,059	1.8	
Other Operating Expenses	2,361	2,199	2,208	7.0	2,095	12.7	Opex rise due to higher business activities
PPP	5,670	5,762	5,552	2.1	5,601	1.2	
Provision	2,754	3,075	3,002	-8.3	4,005	-31.3	
PBT	2,916	2,687	2,550	14.3	1,595	82.8	
Tax Outgo	828	685	872	-5.0	387	114.1	
PAT	2,088	2,002	1,679	24.4	1,209	72.7	PAT aided by lower credit cost and other income
Key Metrics							
GNPA	59,504	63,344	65,698	-9.4	63,029	-5.6	Asset quality improvement with some write-offs
NNPA	19,602	20,270	16,795	16.7	20,260	-3.2	
Advances	693,820	683,248	669,851	3.6	669,851	3.6	Below industry average growth, retail book up 10% YoY
Deposits	959,483	973,652	954,340	0.5	931,317	3.0	CASA up 13% YoY.

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23		
	Old	New	% Change	Old	New	% Change
Net Interest Income	31,892.5	31,309.5	-1.8	35,383.6	34,325.7	-3.0
Pre Provision Profit	21,225	22,032.0	3.8	23,768.2	23,791.8	0.1
NIM Global (%)	2.90	2.87	-3 bps	3.0	3.00	-4 bps
PAT	4,589	6,510	41.8	6,946.0	7,920	14.0

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	6.1	10.0	8.3	10.9
Deposit Growth (%)	8.7	9.0	8.7	9.0
NIM Calculated (%)	2.9	3.0	2.9	3.0
Cost to income ratio (%)	49.4	49.6	50.8	50.1

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Interest Earned	75983.7	70495.1	76595.2	83267.3
Interest Expended	48532.4	41686.0	45285.7	48941.6
Net Interest Income	27451.3	28809.0	31309.5	34325.7
growth (%)	46.9	4.9	8.7	9.6
Non Interest Income	10317.3	12364.4	12239.8	12845.7
Net Income	37768.6	41173.5	43549.4	47171.3
Employee cost	9564.7	11445.5	12386.3	13161.1
Other operating Exp.	9307.7	9098.1	9131.1	10218.5
Operating Income	18896.2	20629.8	22032.0	23791.8
Provisions	20698.3	14615.2	13352.3	13231.3
PBT	-1802.1	6014.6	8679.7	10560.5
Taxes	-2348.3	4727.1	2169.9	2640.1
Net Profit	546.2	1287.6	6509.8	7920.4
growth (%)	26.0	135.7	405.6	21.7
EPS	1.2	2.5	12.6	15.3

Source: Company, ICICI Direct Research

Exhibit 6: 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	160.6	175.1
ABV (₹)	108.7	106.7	124.1	140.7
P/E	85.6	40.6	8.0	6.6
P/BV	0.7	0.7	0.6	0.6
P/ABV	0.9	0.9	0.8	0.7
Yields & Margins (%)				
Net Interest Margins	3.0	2.7	2.9	3.0
Avg. Cost of Deposits	5.5	3.9	4.2	4.2
Yield on average advances	9.3	7.2	7.5	7.8
Quality and Efficiency (%)				
Cost / Total net income	50.0	49.9	49.4	49.6
Credit/Deposit ratio	73.0	73.0	71.3	72.0
GNPA	9.4	8.9	7.9	7.0
NNPA	3.1	3.1	2.5	2.2
ROE	0.9	1.7	8.1	9.1
ROA	0.1	0.1	0.5	0.6

Source: Company, ICICI Direct Research

Exhibit 7: 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	70930.9	76010.2	82092.3	89607.1
Networth	71856.2	77045.7	83127.8	90642.6
Deposits	945984.4	966996.9	1050982.7	1145602.7
Borrowings	93069.3	66847.9	71436.9	76379.9
Other Liab & Prov (incl sub-debt)	47005.6	44474.2	48921.6	53813.8
Total	1157915.5	1155364.8	1254469.0	1366439.0
Application of Funds				
Fixed Assets	8889.3	8016.2	8256.7	8504.4
Investments	274614.6	261220.3	266500.7	272196.4
Advances	690120.7	706300.5	749329.2	824616.7
Other Assets	62389.8	59414.9	103901.4	128160.0
Cash with RBI & call money	121901.1	120412.8	126481.0	132961.4
Total	1157915.5	1155364.8	1254469.0	1366439.0

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total assets	48.3	-0.2	8.6	8.9
Advances	47.2	2.3	6.1	10.0
Deposits	48.1	2.2	8.7	9.0
Total Income	53.9	-4.0	7.2	8.2
Net interest income	48.5	4.9	8.7	9.6
Operating expenses	67.2	8.9	4.7	8.7
Operating profit	40.1	9.2	6.8	8.0
Net profit	26.0	135.7	405.6	21.7
Book value	41.0	7.2	7.9	9.0
EPS	-27.8	110.7	405.6	21.7

Source: Company, ICICI Direct Research

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