Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bank of Baroda

Mixed bag Q4: Loan growth picks up

Bank	Sharekhan code: BANKBARODA		
Reco/View: Buy ↔	CMP: Rs. 95	Price Target: Rs. 128 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- BOB reported healthy loan growth of 10% y-o-y/6% q-o-q versus 4% y-o-y in the past quarter, led by strong growth in retail (17% y-o-y), agri book (10% y-o-y), and overseas book (21%).
- Core operating profit grew by 57%y-o-y/ 10% q-o-q due to higher net interest income, fee income, and contained opex.
- NII grew by 21% y-o-y/1% q-o-q, led by higher loan growth. NIM fell 5 bps q-o-q to 3.08%. Core fee income grew by 6% y-o-y/19% q-o-q.
- Asset quality improved sharply with GNPA and NNPA ratios falling by 64 bps/53 bps q-o-q to 6.60%/1.72%. PCR improved 468 bps q-o-q to 75%.
- We maintain Buy with an unchanged PT of Rs. 128.

Operationally, for BOB, Q4FY2022 numbers lagged street's expectations. Yet, net interest income (NII) grew by 21% y-o-y/1% q-o-q (3% below consensus), led by healthy loan growth. Net interest income (NIM) declined by 5 bps q-o-q to 3.08%. There was an impact of Rs. 100 crore due to interest reversals on NPA. Core fee income grew by 6% y-o-y/19% q-o-q. Other income fell by 78% y-o-y/30% q-o-q due to lower treasury gains and loss on revaluation of investments. Total operating expenses fell by 3% y-o-y/ 2% q-o-q. Operating profit reported was 3% below consensus, down 10% y-o-y/up 3% q-o-q due to lower other income. However, core operating profit grew by 57% y-o-y/10% q-o-q, led by higher NII and contained opex. Provisions increased 4% y-o-y/49% q-o-q. Total credit cost stood at 2.0% of average advances during the quarter. Gross slippages stood at Rs. 5,780 crore versus Rs. 3,491 crore q-o-q. PAT was 20% below consensus, down 19% q-o-q versus loss in Q4FY2021, led by higher credit cost. Advances grew by 10% y-o-y/6% q-o-q. Retail and agri grew by 17% y-o-y/10% y-o-y. MSME and wholesale domestic corporate book growth was muted at 5% y-o-y/3% y-o-y. Overseas book grew by 21% y-o-y. In retail, majority loans are mortgages (69%), which grew by 11% y-o-y. Deposits grew by 8% y-o-y/7% q-o-q with CASA growth of 11% y-o-y and CASA ratio stands at 44% versus 43% in FY2021. Asset quality saw sharp improvement with GNPA and NNPA declining by 64 bps/53 bps q-o-q to 6.60%/1.72%. PCR stood at 75%. Slippages were higher in corporate and MSME book q-o-q. SMA 1 and 2 book stood at 0.4% versus 1.1% of advances q-o-q. Restructured book stood at 2.3% of advances.

Key positives

- Asset quality sharply improved on a q-o-q basis along with PCR improving from 71% to 75%, besides reduction in SMA 1 and 2 book q-o-q.
- The bank reported healthy loan growth led by retail, agri, and overseas book.

Key negatives

- Higher credit cost dragged earnings.

Management Commentary

- The bank expects credit growth to be at 10-12% for FY2023E, with the intent to grow higher yield segments faster such as unsecured loans, gold loans, and auto loans.
- The bank has guided for slippages and credit cost at ~1.6%/~1.5% of advances in FY2023E versus 1.9%/1.8% in FY2022.

Our Call

Valuation – At the CMP, BOB trades at 0.6x/0.5x its FY2023E/FY2024E ABV. In FY2023E, there could be volatility in earnings due to MTM losses from AFS book (available for sale) in the near term. However, with improving asset quality, higher PCR, higher capital levels (CET 1 at 11.7%), high-rated loans in the corporate segment along with moderation in slippages, credit cost augurs well for the bank in future and the bank is well positioned on the business front. Hence, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 128.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost especially from corporate and SME book could affect earnings.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	28,809	32,621	35,328	40,121
Net profit	829	7,272	7,030	9,648
EPS (Rs.)	1.8	14.1	13.6	18.6
ABVPS (Rs.)	117.2	148.2	161.7	180.1
P/E (x)	53.4	6.8	7.0	5.1
P/BV (x)	0.8	0.6	0.6	0.5
RoE	1.1%	8.9%	7.8%	9.8%
RoA	0.1%	0.6%	0.5%	0.7%

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 46.62

Updated Jan 01, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

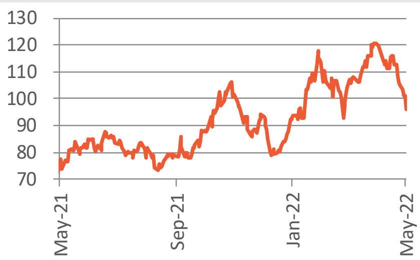
Company details

Market cap:	Rs. 49102 cr
52-week high/low:	Rs. 123 / 73
NSE volume: (No of shares)	378.4 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	186.1 cr

Shareholding (%)

Promoters	64.0
FII	9.1
DII	15.1
Others	11.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-20.8	-16.7	-5.9	23.4
Relative to Sensex	-12.7	-7.8	7.6	14.5

Sharekhan Research, Bloomberg

Key result highlights

- **Advances to grow at par with the industry or better**: Advances grew by 10% y-o-y and 6% q-o-q in Q4FY2022. This was driven by retail advances, which rose by 17% y-o-y, agri book (10% y-o-y), and overseas book (21% y-o-y). MSME and corporate portfolio rose by ~5% y-o-y and 3% y-o-y, respectively. The bank has guided for advances growth of 10-12% in FY2023E. It intends to focus on higher yield segments such as car loans and unsecured loans going ahead. The bank also foresees higher growth in the gold loan book, which forms (~25%) of agriculture loans.
- **Deposits growth to remain steady:** Deposits grew by ~8% y-o-y and ~7% q-o-q. Deposits growth for the bank would be in line with loan book growth, aided by higher CASA growth. CASA deposits grew by ~11% y-o-y and ~6% q-o-q. CASA ratio stood at 44.2% in FY2022, up 137 bps y-o-y.
- **Asset quality improves:** Asset quality improved sharply with GNPA and NNPA declining by 64 bps/53 bps q-o-q to 6.60%/1.72%. PCR stood at 75%. Gross slippages were at Rs. 5,780 crore versus Rs. 3,491 crore q-o-q. Slippages were higher in corporate and MSME book q-o-q. Upgrades and recoveries stood at Rs. 3,248 crore versus Rs. 3,304 crore q-o-q. Write-offs were at Rs. 4,425 crore versus Rs. 3,694 crore q-o-q. SMA 1 and 2 book stood at 0.4% versus 1.1% of advances q-o-q. Restructured book stood at 2.3% of advances. Under Emergency Credit Line Guarantee Scheme (ECLGS), Rs. 15,000 crore has been sanctioned, Rs. 11,000 crore is outstanding as of March 2022, and Rs. 270 crore has been delinquent. The bank foresees better recoveries in the power sector going forward. The bank has guided for slippages and credit cost at ~1.6%/~1.5% of advances in FY2023E versus 1.9%/1.8% in FY2022.
- **Dividend:** The board has recommended dividend of Rs. 1.20 per share.

Results | Rs cr

Particulars	Q4FY22	Q3FY22	Q4FY21	y-o-y	q-o-q
Interest Income	18,174	17,963	16,685	9%	1%
Interest Expenses	9,562	9,411	9,578	0%	2%
Net Interest Income	**8,612**	**8,552**	**7,107**	**21%**	**1%**
NIM (%)	3.08	3.13	2.72		
Core fee income	1,848	1,557	1,747	6%	19%
Other Income	674	962	3,101	-78%	-30%
Net Operating Revenue	**11,134**	**11,071**	**11,955**	**-7%**	**1%**
Employee Expenses	2,702	3,103	3,125	-14%	-13%
Other Opex	2,796	2,485	2,565	9%	13%
Total Opex	**5,499**	**5,588**	**5,689**	**-3%**	**-2%**
Cost to Income Ratio (%)	**49.4%**	**50.5%**	**47.6%**		
Pre-Provision Profits	**5,635**	**5,483**	**6,266**	**-10%**	**3%**
Provisions & Contingencies - Total	3,736	2,507	3,586	4%	49%
Profit Before Tax	**1,899**	**2,976**	**2,680**	**-29%**	**-36%**
Tax	120	779	3,726	-97%	-85%
Effective Tax Rate (%)	6.3	26.2	139.1		
Reported Profits	**1,779**	**2,197**	**-1,047**	**-270%**	**-19%**
Basic EPS (Rs.)	3.4	4.3	-2.2	-254%	-19%
Diluted EPS (Rs.)	3.4	4.3	-2.2		
RoA (%)	0.6	0.7	-0.4		
Advances	7,77,155	7,32,164	7,06,301	10%	6%
Deposits	10,45,939	9,78,034	9,66,997	8%	7%
Gross NPA	54,059	55,997	66,671	-19%	-3%
Gross NPA Ratio (%)	6.6	7.3	8.9		
PCR - (%)	75.3	70.6	67.3		
Net NPA	13,365	16,465	21,800	-39%	-19%
Net NPA Ratio (%)	1.7	2.3	3.1		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Credit growth has started to pick up, large banks placed better

System-level credit offtake grew by ~10% y-o-y for the fortnight ending April 22, 2022, indicating a gradual pick up in loans given the distinct signs of improved economy and revival in investments and loan demand. On the other hand, deposits rose by ~10%, which reflect a healthier economic scenario. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe the banking sector is likely to see higher risk-off behavior, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

■ Company outlook – Attractive play on the economy

BOB is an attractive play on the fast-growing Indian economy. The bank has reported healthy credit growth. With improving asset quality, moderation in slippages and credit cost would likely augur well for the bank going ahead along with higher PCR and higher capital adequacy buffers. We believe credit growth would be driven by both retail and corporate segments as private capex increases. The bank has gradually been reducing stressed assets by fully providing for it upfront. BOB's pole position in terms of liability franchise, an enviable reach, and business strength make it well placed to ride over medium-term challenges

■ Valuation – We maintain our Buy rating on BOB with an unchanged PT of Rs. 128

At the CMP, BOB trades at 0.6x/0.5x its FY2023E/FY2024E ABV. In FY2023E, there could be volatility in earnings due to MTM losses from AFS book (available for sale) in the near term. However, with improving asset quality, higher PCR, higher capital levels (CET 1 at 11.7%), high-rated loans in the corporate segment along with moderation in slippages, credit cost augurs well for the bank in future and the bank is well positioned on the business front. Hence, we maintain our Buy rating on the stock with an unchanged PT of Rs. 128.

Peer valuation

Banks	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	Rs/Share	Rs/Share	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
BOB	95	49,102	7.0	5.1	0.6	0.5	7.8	9.8	0.5	0.7
SBI	445	3,97,190	6.0	5.0	0.9	0.8	13.3	15.5	0.7	0.8

Source: Company, Sharekhan research

About the company

BOB, established in 1908, is one of the oldest commercial banks in India with a substantial footprint in domestic and international markets. BOB has a wide presence overseas with almost one-third of the total business coming from its international business. The bank has a strong domestic presence through 8,214 branches and 10,033 ATMs and cash recyclers supported by self-service channels and BC networks of 18,395. The bank has a significant international presence with a network of 100+ overseas offices spanning 21 countries. BOB's subsidiaries include business in capital markets and for asset management. The bank also has joint ventures for life insurance with India First Life Insurance. BOB has a global presence spanning 100 overseas offices across 20 countries.

Investment theme

BOB has a strong pan-India network along with diversified products and services portfolio and strong client relationships. Performance in terms of business growth as well as profitability and asset-quality improvement is gradual but in the desired direction. We believe BOB's higher retail orientation, reasonable capital position, and improving asset-quality position augur well for future.

Key Risks

- Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost especially from corporate and SME book could affect earnings.

Additional Data

Key management personnel

Mr. Sanjiv Chadda	Managing Director and CEO
Dr. Hasmukh Adhia	Non-Executive Chairman
Mr. Ian Desouza	CFO
Mr. Ajay K Khurana	Executive Director
Mr. Vikramaditya Singh Khichi	Executive Director
Mr. Debadatta Chand	Executive Director
Mr. Shanti Lal Jain	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIC	4.7
2	HDFC Asset Management Co Ltd.	2.9
3	BNP Paribas SA	1.8
4	Nippon Life India Asset Management	1.4
5	ICICI Prudential Asset Management	1.1
6	Aditya Birla Sun Life AMC	0.7
7	Kotak Mahindra AMC	0.7
8	The Vanguard Group Inc.	0.6
9	SBI Funds Management	0.4
10	Sundaram Asset Management Co.	0.4

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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