



## 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

Updated July 08, 2022

50.24

## Severe Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 60,195 cr
52-week high/low:	Rs. 123/ 72
NSE volume: (No of shares)	343.9 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	186.1 cr

## Shareholding (%)

Promoters	64.0
FII	8.2
DII	16.9
Others	11.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	19.6	2.7	9.4	43.2
Relative to Sensex	10.0	0.8	7.8	32.8

Sharekhan Research, Bloomberg

## Bank of Baroda

Good Q1, sustaining lower credit cost is key

Banks	Sharekhan code: BANKBARODA		
Reco/View: Buy	↔	CMP: Rs. 116	Price Target: Rs. 140
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- Bank of Baroda (BOB) reported PAT at Rs. 2,168 crore (up 79% yoy/22% qoq), which was above consensus and our estimates (33%) mainly on account of lower credit cost reported during the quarter (0.9% of average advances versus 2.0% last quarter).
- BOB reported healthy loan growth of 20% y-o-y/3% q-o-q versus 10% y-o-y in the last quarter, led by strong growth in retail book (23% y-o-y), corporate book (17% y-o-y), and overseas book (31%).
- Core operating profit grew by 17.4% y-o-y but declined by 29% q-o-q. The sharp decline in core PPOp from last quarter was mainly due to lower core fee income q-o-q and lower recovery q-o-q.
- Asset quality improved with GNPA/NNPA ratios falling by 35 bps/14 bps q-o-q to 6.26%/1.58%. PCR improved by 66 bps q-o-q to 75.9%. Total slippages were down 25% q-o-q. Overall standard restructured book stood at 2.5% of net advances.
- At the CMP, the stock trades at 0.7/0.6x its FY23E/24E ABV. We maintain Buy with a revised PT of Rs. 140. Our preferred picks among PSU banks basket remains SBI and BOB.

Operationally, for Bank of Baroda (BOB), Q1FY2023 numbers lagged street's expectations. Yet, net interest income (NII) grew by 12% y-o-y/3% q-o-q (in line with consensus), led by healthy loan growth. Net interest margin (NIM) declined by 6 bps q-o-q to 3.02%. Core fee income was down 15% y-o-y/31% q-o-q. Other income was reported at negative Rs. 95 crore due to treasury losses. Total operating expenses rose by 7% y-o-y and were flat q-o-q. Operating profit was 18% below consensus, down 19% y-o-y/20% q-o-q, due to lower core fee income and treasury loss. However, core operating profit grew by 17% y-o-y. Provisions were down by 58% y-o-y/55% q-o-q. Total credit cost stood at 0.9% of average net advances during the quarter. PAT increased by 79% y-o-y/22% q-o-q, led by lower credit cost. Net advances grew by 20% y-o-y/3% q-o-q. Retail and agri grew by 23% y-o-y/14% y-o-y. MSME and wholesale domestic corporate book grew by 11% y-o-y/17% y-o-y. Overseas book grew by 31% y-o-y. In retail, majority loans are mortgages (68%), which grew by 16% y-o-y. Deposits grew by 11% y-o-y/-1% q-o-q with domestic CASA growth of 11% y-o-y and domestic CASA ratio at 44%. Asset quality improved with GNPA and NNPA declining by 35 bps/14 bps q-o-q to 6.26%/1.58%. PCR stood at 76%. Gross slippages were lower by 25% q-o-q at Rs. 4,352 crore versus Rs. 5,780 crore. SMA 1 and 2 book stood at 0.48% versus 0.44% of advances q-o-q. Restructured book stood at 2.5% versus 2.3% of net advances q-o-q.

## Key positives

- Improvement in asset quality matrix led by lower slippages
- Lower credit cost
- Robust loan growth

## Key negatives

- NIM declined and lower core fee income
- Marginally higher restructured book

## Management Commentary

- The bank expects credit growth to be over and above the industry's growth (10-12%) for FY2023E.
- The bank has guided for slippages and credit cost at 1.5-2.0% /1.25-1.5% of advances in FY2023E versus 1.9%/1.8% in FY2022. NIM is expected to improve by 10 bps over FY2022.

**Revision in estimates** – We have increased our FY2023E/FY2024E/FY2025E earnings estimates, factoring in improved loan growth outlook.

## Our Call

**Valuation** – At the CMP, BOB trades at 0.7x/0.6x its FY2023E/FY2024E ABV. Improving asset-quality matrix, higher PCR, higher capital levels (CAR at 15.5%) compared to its PSU peers, high-rated loans in the corporate segment along with moderation in slippages and credit cost augur well for the future earnings of the bank. The bank is well positioned on the business front to capture the opportunities in the growing Indian economy. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 140. Key monitorable would be slippages from restructured book.

## 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)

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	28,809	32,621	36,378	41,849
Net profit	829	7,272	8,083	10,748
EPS (Rs.)	1.8	14.1	15.6	20.8
P/E (x)	65.2	8.3	7.4	5.6
P/BV (x)	1.0	0.8	0.7	0.6
RoE	1.1%	8.9%	8.9%	10.7%
RoA	0.1%	0.6%	0.6%	0.7%

Source: Company; Sharekhan estimates

## Key Results Highlights

**Bank expects NIM to improve going forward:** NII during the quarter grew by 12% y-o-y/3% q-o-q, led by healthy loan growth. However, NIM declined by 6 bps q-o-q to 3.02%. The bank has guided that NIM is likely to improve by 10 bps over FY2022 and the bank should sustain healthy NII growth going forward led by sustainable loan growth.

**Advances growth to be over and above the industry's growth:** Net advances grew by 20% y-o-y and 3% q-o-q in Q1FY2023. This was driven by retail advances, which rose by 23% y-o-y, corporate book (17% y-o-y), and overseas book (31% y-o-y). MSME and agri portfolio rose by ~11% y-o-y and 14% y-o-y, respectively. In retail, majority loans are mortgages (68%), which grew by 16% y-o-y. Personal loans, which form only 8% of total retail loans, grew by 147% y-o-y due to smaller book as well as due to increased ticket sizes. Around 70-75% of personal loans are disbursed to salaried category. The bank also foresees higher growth in the gold loan book, which forms part of agriculture loans. Under overseas book, a large part of growth came from term loan. Short-term trade finance accounts for only 20% here. Further, there was good credit offtake seen on the domestic corporate side during the quarter. The bank has guided for overall advances growth to be higher than the industry's growth.

**Asset quality improves:** Asset quality improved with GNPA and NNPA declining by 35 bps/14 bps q-o-q to 6.26%/1.58%. PCR stood at 76%. Gross slippages were lower at Rs. 4,352 crore versus Rs. 5,780 crore q-o-q. Upgrades and recoveries stood at Rs. 2,599 crore versus Rs. 3,248 crore q-o-q. Write-offs were at Rs. 3,013 crore versus Rs. 4,425 crore q-o-q. SMA 1 and 2 book stood at 0.48% versus 0.44% of advances q-o-q. Restructured book stood at 2.5% versus 2.3% of advances q-o-q. Slippages from restructured book during the quarter amounted to Rs. 1,000 crore. Around 15% of the restructured book is under stress and is included in SMA. Under Emergency Credit Line Guarantee Scheme (ECLGS), Rs. 9,500 crore is outstanding as of June 2022. The bank foresees healthy recoveries in FY2023E. The bank has guided for slippages and credit cost at 1.5-2.0% /1.25-1.5% of advances in FY2023E versus 1.9%/1.8% in FY2022. The bank stated that lower credit should sustain because of improvement in corporate credit cycle.

**Others:** The bank would be looking to replace some quantum of AT1 bonds during the year and would be looking to raise tier-II capital (quantum not defined) during the year.

## Results

	Rs cr				
Particulars	Q1FY23	Q4FY22	Q1FY22	y-o-y	q-o-q
Interest Income	18,937	18,174	17,053	11%	4%
Interest Expenses	10,099	9,562	9,161	10%	6%
<b>Net Interest Income</b>	<b>8,838</b>	<b>8,612</b>	<b>7,892</b>	<b>12%</b>	<b>3%</b>
NIM (%)	3.02	3.08	3.04		
Core fee income	1,277	1,848	1,506	-15%	-31%
Other Income	-95	674	1,357	-107%	-114%
<b>Net Operating Revenue</b>	<b>10,020</b>	<b>11,134</b>	<b>10,755</b>	<b>-7%</b>	<b>-10%</b>
Employee Expenses	3,043	2,702	3,059	-1%	13%
Other Opex	2,450	2,796	2,095	17%	-12%
<b>Total Opex</b>	<b>5,493</b>	<b>5,499</b>	<b>5,154</b>	<b>7%</b>	<b>0%</b>
<b>Cost to Income Ratio (%)</b>	<b>54.8%</b>	<b>49.4%</b>	<b>47.9%</b>		
<b>Pre-Provision Profits</b>	<b>4,528</b>	<b>5,635</b>	<b>5,601</b>	<b>-19%</b>	<b>-20%</b>
Provisions & Contingencies - Total	1,685	3,736	4,005	-58%	-55%
<b>Profit Before Tax</b>	<b>2,843</b>	<b>1,899</b>	<b>1,595</b>	<b>78%</b>	<b>50%</b>
Tax	675	120	387	74%	462%
Effective Tax Rate (%)	23.7	6.3	24.2		
<b>Reported Profits</b>	<b>2,168</b>	<b>1,779</b>	<b>1,209</b>	<b>79%</b>	<b>22%</b>
Basic EPS (Rs.)	4.2	3.4	2.3	79%	22%
Diluted EPS (Rs.)	4.2	3.4	2.3		
RoA (%)	0.7	0.6	0.4		
Advances	7,99,616	7,77,155	6,68,382	20%	3%
Deposits	10,32,714	10,45,939	9,31,317	11%	-1%
Gross NPA	52,591	54,059	63,029	-17%	-3%
Gross NPA Ratio (%)	6.3	6.6	8.9		
PCR (%)	75.9	75.3	67.9		
Net NPA	12,653	13,365	20,260	-38%	-5%
Net NPAs Ratio (%)	1.6	1.7	3.0		

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Credit growth accelerating; Top private banks and top PSUs placed better

System-level credit offtake grew by ~13.3% y-o-y in the fortnight ending June 17, 2022, indicating loan growth has been sustaining, given distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.8%, which also reflects a healthier economic scenario but are trailing advanced growth. The bottom-up story is intact and we should see loan growth accelerate, while margins would continue to expand in a higher interest rate cycle. Asset quality is not a big issue from the end of the corporate loan, as only de-leveraging is being observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable except for the MFI segment. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, banks have been cautious on lending to BB and below, thus general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit cost. In terms of MSME, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, 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. 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 a revised PT of Rs. 140

At the CMP, BOB trades at 0.7x/0.6x its FY2023E/FY2024E ABV. Improving asset-quality matrix, higher PCR, higher capital levels (CAR at 15.5%) compared to its PSU peers, high-rated loans in the corporate segment along with moderation in slippages and credit cost augur well for the future earnings of the bank. The bank is well positioned on the business front to capture the opportunities in the growing Indian economy. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 140. Key monitorable would be slippages from restructured book.

#### Peer Comparison

Companies	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
BOB	116	60,195	7.4	5.6	0.7	0.6	8.9	10.7	0.6	0.7
SBI	534	4,76,217	8.6	7.5	1.2	1.0	13.3	15.5	0.7	0.8
PNB	33	36,722	10.8	9.8	0.5	0.5	3.5	3.7	0.3	0.3

Source: Company, Sharekhan Research

## About 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
Mr. Ajay K Khurana	Executive Director
Mr. Debadatta Chand	Executive Director
Mr. Joydeep Dutta Roy	Executive Director
Mr. Ian Desouza	CFO

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIC	4.7
2	HDFC Asset Management Co Ltd.	3.1
3	Nippon Life India Asset Management	2.3
4	ICICI Prudential Asset Management	1.6
5	BNP Paribas SA	1.4
6	Kotak Mahindra AMC	1.0
7	The Vanguard Group Inc.	0.7
8	Aditya Birla AMC	0.5
9	Sundaram Asset Management Co.	0.5
10	SBI Pension Funds Pvt. Ltd.	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 deteriorating 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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