

# Bank of Baroda

Refer to important disclosures at the end of this report

## All-round strong beat in 2Q; outlook also upbeat

- Bank of Baroda (BoB) reported a strong beat on PAT at Rs33.1bn (vs our est of Rs23.7bn), mainly led by robust growth, sharp 31bps QoQ jump in margins (including one-off interest recovery on upgradation of lumpy account and swap unwinding) to 3.3% and lower LLP, as NPA ratio declined 94bps QoQ due to higher recoveries/w-offs.
- Strong credit growth at 21% YoY/5% QoQ was supported by continued strong traction in the retail and overseas book. Bank expects domestic corporate growth to accelerate too, more so in the seasonally-strong Q4. This, coupled with continued asset re-pricing, should keep margins healthy.
- Bank guides for ~0.9% RoA in FY23 and ~1% in FY24 on the back of better growth/moderation in LLP, partly offset by increase in staff cost (Rs2.5bn per quarter) due to the impending new wage negotiations. The MD's current term is likely to expire in Jan-23, but could be extended by 6 months by the government.
- We have revised our earnings for FY23-25E by 18%-22% and the rollover TP to 0.8x Sep-24E ABV, leading to revision in TP to Rs175/share (up from Rs140). We retain our BUY rating on the stock.

- What we liked:** Strong credit growth (21% YoY) coupled with margin uptick (31bps QoQ) and improvement in headline NPA ratios (94bps QoQ). **What we did not like:** Rising share of the low-margin overseas book and moderation in CASA ratio.
- Strong credit growth, asset re-pricing and one-off interest recovery leads to sharp margin uptick:** Overall credit growth was strong at 21% YoY/ 5% QoQ, led by robust traction in the retail and overseas book. Retail growth was, in turn, backed by strong growth in Housing, PL and Auto loans. But growth in agri, MSME was relatively moderate, while the domestic corporate book witnessed de-growth. However, NIMs improved by 31bps QoQ to 3.3% bolstered by strong growth, asset re-pricing, one-off interest recovery on upgradation of lumpy account and swap unwinding. Bank expects margins to remain healthy, as the full impact of asset re-pricing is yet to be seen.
- Elevated slippages, but sharp reduction in NPAs due to higher recoveries/w-offs:** Fresh slippages were elevated at Rs44.7bn/2.6% of loans, but higher recoveries/upgrades and w-offs led to a sharp 94bps reduction in overall GNPA ratio to 5.3%. The restructured pool sharply moderated to Rs177bn/2.1% of loans vs 2.5% of loans in Q1. Given the improving repayments, the RSA pool should trend down further. Bank has increased its specific PCR during the quarter to a high of 79% and, thus, reduced its LLP guidance to 1%-1.25% with a positive bias. Bank is largely compliant with standard asset provisioning requirement on stressed public-sector enterprises and, in fact, had a marginal reversal during Q2.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	417,430	441,053	473,541	560,318	640,258
Net profit	8,290	72,723	117,506	147,550	174,169
EPS (Rs)	1.7	14.0	22.7	28.5	33.6
ABV (Rs)	117.4	146.6	169.9	194.6	223.5
RoA (%)	0.1	0.6	0.9	0.9	1.0
RoE (%)	1.1	8.9	12.9	14.4	14.9
P/E (x)	85.5	10.3	6.4	5.1	4.3
P/ABV	1.2	1.0	0.9	0.7	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 145 as of (November 5, 2022)	Rs 175 (▲) 12 months
Rating	Upside
BUY (■)	21.1 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	18.2/22.2
Target Price change (%)	25.0
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	22.7	28.5
Consensus	19.0	22.7
Mean Consensus TP (12M)	Rs 152	

### Stock Details

Bloomberg Code	BOB IN
Face Value (Rs)	2
Shares outstanding (mn)	5,171
52 Week H/L	152 / 77
M Cap (Rs bn/USD bn)	748 / 9.07
Daily Avg Volume (nos.)	25,856,300
Daily Avg Turnover (USD mn)	41.6

### Shareholding Pattern Sep '22

Promoters	64.0%
FIIs	8.9%
DIIIs	18.9%
Public and Others	8.2%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	22	34	41
Rel. to Nifty	3	17	23	39

### Relative price trend



Source: Bloomberg

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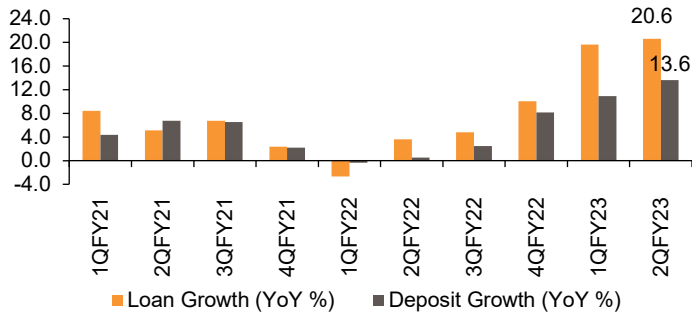
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# Story in Charts

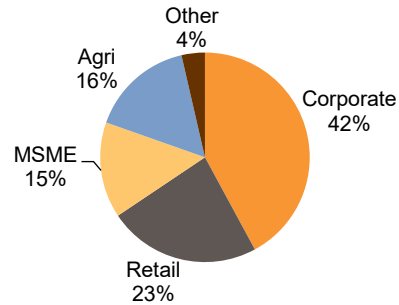
**Exhibit 1: Credit growth accelerates, led by strong traction in retail/overseas loans**



Source: Company, Emkay Research

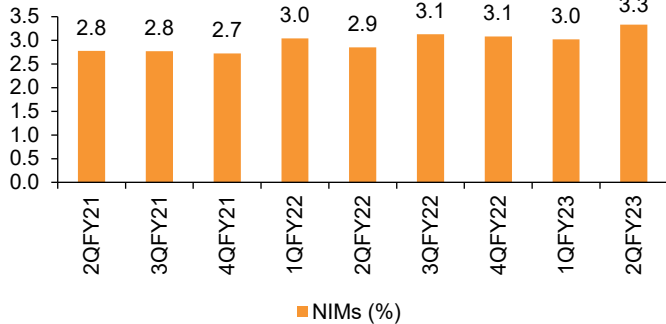
**Exhibit 2: The bank carries a relatively healthy share of the retail portfolio among PSBs (barring SBI)**

**% share in Gross Domestic Credit**



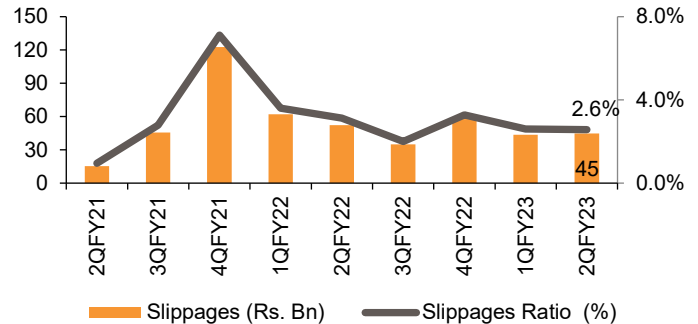
Source: Company, Emkay Research

**Exhibit 3: Margins increased owing to better growth, asset re-pricing and one-off benefit from swap unwinding/lumpy recovery**



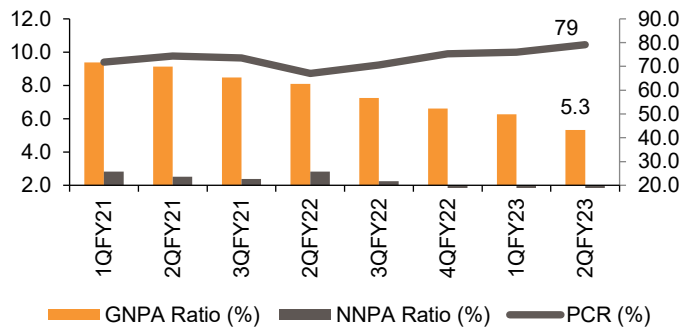
Source: Company, Emkay Research

**Exhibit 4: Slippages remained largely flat QoQ**



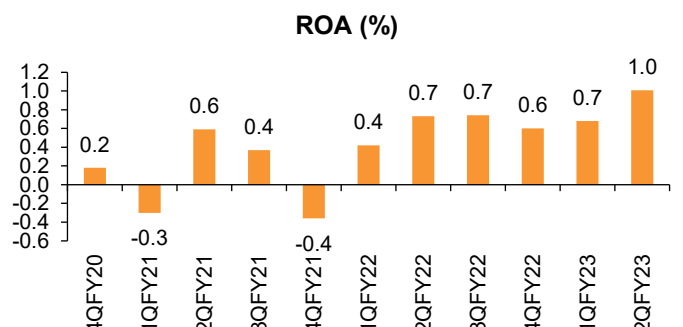
Source: Company, Emkay Research

**Exhibit 5: Better recoveries/upgrades and w-offs led to 94bps reduction in GNPA ratio**



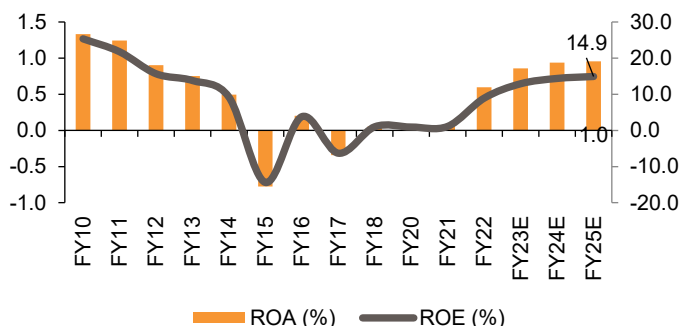
Source: Company, Emkay Research

**Exhibit 6: Better NIM and contained LLP led to 1% RoA**



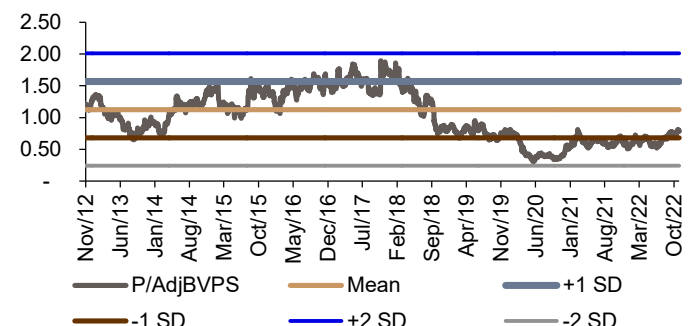
Source: Company, Emkay Research

**Exhibit 7: We expect return ratios to improve, led by better growth and lower LLP**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 0.8x one-year forward ABV**



Source: Company, Emkay Research

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**Exhibit 9: Actual vs Estimate (Q2FY23)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	120,003	109,437	112,196	10%	7%	Better margins and higher other income led to a beat
PPOP	60,310	51,815	60,683	16%	-1%	Higher net income led to a beat
PAT	33,134	23,720	22,701	40%	46%	Contained LLP led a PAT beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	170,526	166,914	179,630	181,736	189,375	212,542	27	12	698,808	852,774	22
Interest Exp	91,610	91,256	94,110	95,619	100,991	110,798	21	10	372,594	459,601	23
Net Interest Income	78,917	75,659	85,520	86,117	88,384	101,745	34	15	326,213	393,173	21
Global NIMs (reported)	3.04	2.85	3.13	3.08	3.02	3.33	48bps	31bps	2.88	3.04	16bps
Non-interest Income	28,632	35,792	25,193	25,223	11,820	18,258	-49	54	114,840	80,368	-30
Operating Expenses	51,540	54,756	55,880	54,988	54,929	59,693	9	9	217,164	242,221	12
Pre Provisioning Profit	56,008	56,695	54,833	56,351	45,275	60,310	6	33	223,888	231,320	3
Provision & Contingencies	40,054	27,536	25,070	37,364	16,848	16,275	-41	-3	130,024	76,707	-41
PBT	15,954	29,159	29,763	18,988	28,427	44,035	51	55	93,864	154,613	65
Income Tax Expense (Gain)	3,868	8,281	7,793	1,200	6,746	10,901	32	62	21,142	37,107	76
Net Profit/(Loss)	12,086	20,878	21,970	17,788	21,681	33,134	59	53	72,723	117,506	62
Gross NPA (%)	8.86	8.10	7.25	6.61	6.26	5.32	-278bps	-94bps	6.61	4.59	-202bps
Net NPA (%)	3.03	2.83	2.25	1.72	1.58	1.16	-167bps	-42bps	1.72	1.19	-53bps
Deposits (Rs in bn)	9,313	9,595	9,780	10,459	10,327	10,902	14	6	10,459	11,768	13
Net Advances (Rs in bn)	6,684	6,938	7,322	7,772	7,996	8,366	21	5	7,772	9,161	18

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	458,565	473,541	3.27%	528,834	560,318	5.95%	601,762	640,258	6.40%
PPOP	225,911	231,320	2.4%	270,029	286,152	6.0%	306,953	330,016	7.5%
PAT	99,385	117,506	18.2%	120,723	147,550	22.2%	145,311	174,169	19.9%
EPS (Rs)	19.2	22.7	18.2%	23.3	28.5	22.2%	28.1	33.6	19.9%
BV (Rs)	182.7	185.6	1.6%	202.8	210.7	3.9%	226.9	240.4	5.9%

Source: Company, Emkay Research

**Exhibit 12: Key assumptions**

(%)	FY22E	FY23E	FY24E	FY25E
Loan Growth	10.0	17.9	18.0	17.6
Deposit Growth	8.2	12.5	14.8	17.0
NIM	2.9	3.0	3.1	3.1
GNPA	6.6	4.6	3.6	3.0
Credit Cost	1.5	1.0	0.9	0.8

Source: Company, Emkay Research

**Exhibit 13: Key ratios and trends**

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs mn)	7,187,541	7,451,654	7,511,716	7,111,503	7,337,221	7,716,958	8,178,499	8,395,537	8,732,936
<b>Balance Sheet</b>									
Loans (Rs bn)	7,188	7,452	7,512	7,112	7,337	7,717	8,178	8,396	8,733
-growth (YoY) %	5.3	6.3	1.8	-3.4	2.1	3.6	8.9	18.1	19.0
-growth (QoQ) %	-2.4	3.7	0.8	-5.3	3.2	5.2	6.0	2.7	4.0
<b>Liability Profile</b>									
Deposit (Rs bn)	9,543	9,546	9,670	9,313	9,595	9,780	10,459	10,327	10,902
-growth (YoY) %	6.7	6.5	2.2	-0.3	0.5	2.5	8.2	10.9	13.6
-growth (QoQ) %	2.1	0.0	1.3	-3.7	3.0	1.9	6.9	-1.3	5.6
CASA (%)	36.7	37.9	40.2	40.2	39.2	42.0	41.5	41.1	39.8
<b>Capital Adequacy</b>									
CAR (%)	13.3	12.9	15.0	15.4	15.6	15.5	16.0	15.5	15.3
Tier I (%)	10.8	10.6	12.7	13.1	13.1	13.2	13.5	13.0	12.8
<b>Asset Quality</b>									
GNPA (%)	9.1	8.5	8.9	8.9	8.1	7.3	6.6	6.3	5.3
NNPA (%)	2.5	2.4	3.1	3.0	2.8	2.2	1.7	1.6	1.2
PCR (%)	74.4	73.6	67.3	73.6	67.1	70.6	75.3	75.9	79.1
Slippages %	1.0	2.8	7.1	3.0	3.1	2.0	3.3	2.6	2.6
NIM – Global (%)	2.8	2.8	2.7	3.0	2.9	3.1	3.1	3.0	3.3
NIM – Domestic (%)	2.9	3.0	2.7	3.1	2.9	3.2	3.1	3.1	3.4
Cost-to-Income (%)	45.7	47.5	47.7	47.9	49.1	50.5	49.4	54.8	49.7
<b>ROE Decomposition (%)</b>									
NII	3.0	3.1	2.8	3.1	3.0	3.4	3.2	3.1	3.5
Other Income (Ex Treasury)	0.8	0.8	1.6	0.8	0.9	0.8	0.9	0.3	0.6
Treasury	0.4	0.4	0.4	0.4	0.5	0.2	0.1	0.1	0.1
Opex	1.9	2.0	2.3	2.1	2.2	2.2	2.0	1.9	2.0
PPOP	2.3	2.2	2.5	2.2	2.3	2.1	2.1	1.6	2.1
Provisioning Cost	1.1	1.6	1.4	1.6	1.1	1.0	1.4	0.6	0.6
PBT	1.1	0.7	1.1	0.6	1.2	1.2	0.7	1.0	1.5
Tax	0.3	0.2	1.5	0.2	0.3	0.3	0.0	0.2	0.4
ROA	0.7	0.4	-0.4	0.4	0.7	0.7	0.6	0.7	1.0
Leverage (x)	15.8	15.8	15.4	14.6	14.4	14.5	14.7	14.7	14.5
ROE	11.0	5.8	-5.5	6.2	10.5	10.8	8.4	10.0	14.7

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>288,091</b>	<b>326,213</b>	<b>393,173</b>	<b>467,777</b>	<b>540,488</b>
<b>Other income</b>	<b>129,340</b>	<b>114,840</b>	<b>80,368</b>	<b>92,540</b>	<b>99,770</b>
Fee income	25,209	27,710	30,758	35,064	41,375
<b>Net income</b>	<b>417,430</b>	<b>441,053</b>	<b>473,541</b>	<b>560,318</b>	<b>640,258</b>
Operating expenses	205,437	217,164	242,221	274,165	310,242
<b>Pre provision profit</b>	<b>211,994</b>	<b>223,888</b>	<b>231,320</b>	<b>286,152</b>	<b>330,016</b>
<b>PPP excl treasury</b>	<b>172,539</b>	<b>206,154</b>	<b>220,405</b>	<b>275,783</b>	<b>318,091</b>
Provisions	156,433	130,024	76,707	88,893	97,169
<b>Profit before tax</b>	<b>55,560</b>	<b>93,864</b>	<b>154,613</b>	<b>197,260</b>	<b>232,846</b>
Tax	47,271	21,142	37,107	49,709	58,677
Tax rate	85	23	24	25	25
<b>Profit after tax</b>	<b>8,290</b>	<b>72,723</b>	<b>117,506</b>	<b>147,550</b>	<b>174,169</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	10,355	10,355	10,355	10,355	10,355
Reserves	760,102	848,742	950,715	1,080,661	1,234,119
<b>Net worth</b>	<b>770,457</b>	<b>859,097</b>	<b>961,070</b>	<b>1,091,016</b>	<b>1,244,474</b>
Deposits	9,669,968	10,459,386	11,768,030	13,509,318	15,807,669
Borrowings	444,344	810,618	1,013,272	1,093,936	1,147,133
<b>Total liabilities</b>	<b>11,553,646</b>	<b>12,779,998</b>	<b>14,641,431</b>	<b>16,864,521</b>	<b>19,583,145</b>
Cash and bank	388,410	551,844	569,864	620,886	812,300
Investments	2,612,201	3,157,954	3,514,079	3,925,204	4,446,724
Loans	7,063,005	7,771,552	9,160,753	10,813,811	12,715,588
Others	594,149	524,724	578,156	638,058	707,039
<b>Total assets</b>	<b>11,553,646</b>	<b>12,779,998</b>	<b>14,641,431</b>	<b>16,834,521</b>	<b>19,553,145</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.7	2.9	3.0	3.1	3.1
Non-ll/avg assets	1.1	0.9	0.6	0.6	0.5
Fee income/avg assets	0.2	0.2	0.2	0.2	0.2
Opex/avg assets	1.8	1.8	1.8	1.7	1.7
Provisions/avg assets	1.4	1.1	0.6	0.6	0.5
PBT/avg assets	0.5	0.8	1.1	1.3	1.3
Tax/avg assets	0.4	0.2	0.3	0.3	0.3
RoA	0.1	0.6	0.9	0.9	1.0
RoAE	1.1	8.9	12.9	14.4	14.9
GNPA (%)	8.9	6.6	4.6	3.6	3.0
NNPA (%)	3.1	1.7	1.2	1.0	0.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	1.7	14.0	22.7	28.5	33.6
BVPS	148.8	165.9	185.6	210.7	240.4
ABVPS	117.4	146.6	169.9	194.6	223.5
DPS	0.0	2.9	3.0	3.4	4.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	85.5	10.3	6.4	5.1	4.3
P/BV	1.2	1.0	0.9	0.7	0.6
P/ABV	1.2	1.0	0.9	0.7	0.6
P/PPOP	3.5	3.3	3.2	2.6	2.3
Dividend Yield (%)	0.0	2.0	2.1	2.4	2.8

Source: Company, Emkay Research

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<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
NII	4.9	13.2	20.5	19.0	15.5
PPOP	7.7	5.6	3.3	23.7	15.3
PAT	51.6	777.2	61.6	25.6	18.0
Loans	2.3	10.0	17.9	18.0	17.6

<b>Quarterly (Rs mn)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
NII	75,659	85,520	86,117	88,384	101,745
NIM (%)	2.9	3.1	3.1	3.0	3.3
PPOP	56,695	54,833	56,351	45,275	60,310
PAT	20,878	21,970	17,788	21,681	33,134
EPS (Rs)	4.03	4.24	3.44	4.19	6.40

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>
Promoters	64.0	64.0	64.0	64.0	64.0
FII	7.8	7.4	9.1	8.2	8.9
DII	14.7	14.7	15.1	16.9	18.9
Public and Others	13.5	14.0	11.8	11.0	8.2

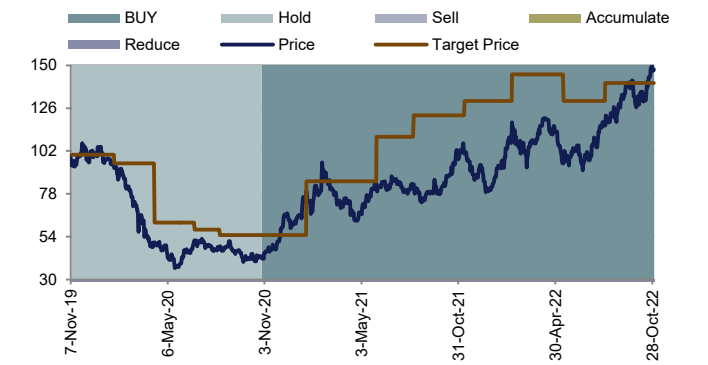
Source: Capitaline

## RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
1-Aug-22	116	140	12m	Buy	Anand Dama
15-May-22	95	130	12m	Buy	Anand Dama
8-Feb-22	118	145	12m	Buy	Anand Dama
11-Nov-21	101	130	12m	Buy	Anand Dama
8-Aug-21	83	122	12m	Buy	Anand Dama
31-May-21	81	110	12m	Buy	Anand Dama
28-May-21	84	85	12m	Buy	Anand Dama
28-Jan-21	67	85	12m	Buy	Anand Dama
20-Jan-21	79	85	12m	Buy	Anand Dama
29-Oct-20	43	55	12m	Buy	Anand Dama
11-Aug-20	47	55	12m	Hold	Anand Dama
25-Jun-20	52	58	12m	Hold	Anand Dama
11-Apr-20	51	62	12m	Hold	Anand Dama
27-Jan-20	92	95	12m	Hold	Anand Dama
9-Nov-19	94	100	12m	Hold	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-Banks</b>	<b>20.87</b>	<b>20.82</b>	<b>-0.2%</b>	<b>-4</b>	<b>100.00</b>	
Axis Bank	2.22	2.34	5%	12	11.21	0
AU Small Finance Bank	0.27	0.25	-7%	-2	1.20	0
Bandhan Bank	0.16	0.17	1%	0	0.79	0
Bank of Baroda	0.26	0.24	-6%	-2	1.15	0
Canara Bank	0.18	0.23	27%	5	1.12	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20	0
Federal Bank	0.25	0.25	0%	0	1.22	0
HDFC Bank	6.16	6.21	1%	5	29.75	0
ICICI Bank	5.88	6.03	3%	15	28.90	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.70	0.82	18%	12	3.92	0
Karur Vysya Bank	0.00	0.10	NA	10	0.47	0
Kotak Mahindra Bank	2.53	2.00	-21%	-52	9.60	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.04	2.04	0%	0	9.78	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.06	0.06	0%	0	0.28	0
Yes Bank	0.05	0.05	1%	0	0.22	0
<b>Cash</b>	<b>0.00</b>	<b>0.04</b>	<b>NA</b>	<b>4</b>	<b>0.21</b>	<b>0</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Nov-21	4-May-22	3-Aug-22	3-Oct-22	3-Nov-22
EAP - BFSI-Banks	100.0	134.8	120.5	130.0	129.9	141.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	132.1	118.2	127.5	127.2	138.2

\*Performance measurement base date 1<sup>st</sup> April 2019

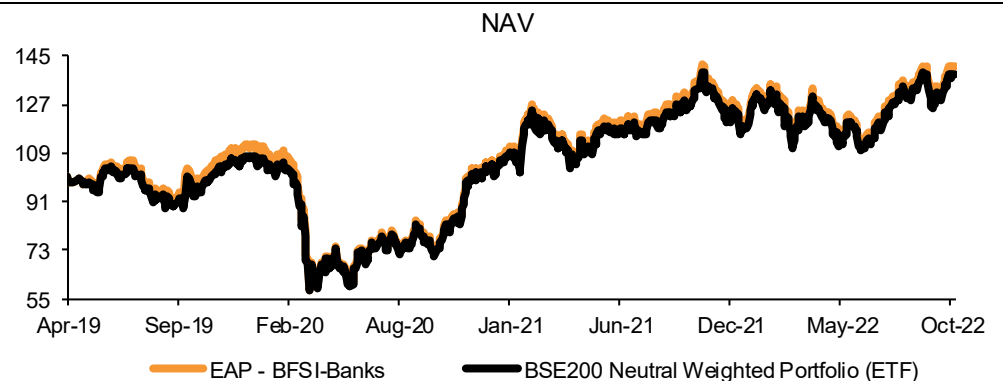
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.8%	8.6%	17.3%	4.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.7%	8.4%	17.0%	4.7%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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