

Robust performance; guidance remains steady...

About the stock: Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 8.7 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with over 8161 branches and 11461 ATMs
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Also, ~18% of total business comes from overseas

Q2FY23 Results: Robust earnings led by healthy topline & lower provision.

- NII up 34.5% YoY at ₹ 10174 crore, NIMs up 31 bps QoQ at 3.33%
- C/I up 61 bps YoY to 49.7%; provisions down 3.4% QoQ, 40.9% YoY
- PAT at ₹ 3313 crore, up 58.7% YoY, ahead of our estimate
- GNPA down 95 bps QoQ to 5.31%, R/s book at ₹ 17725 crore

What should investors do? Bank of Baroda has seen its stock price rising over 3x in the past two years. Healthy growth momentum coupled with improvement in margins and asset quality is expected to aid RoA and, thus, valuations.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value the bank at ~0.9x FY24E ABV and revise our target price to ₹ 170/share from ₹ 160/share earlier.

Key triggers for future price performance:

- Advantage of faster repricing of loans should continue in the next couple of quarters. Guidance maintained 10 bps higher at 3.2-3.25%
- Continued growth in advances in line with industry. Any moderation in retail loan growth to be offset by gradual pick-up in corporate book growth
- Steady CI ratio, lower credit cost to aid healthy earnings growth momentum
- Guidance continued to remain at RoA – 1% in FY24E with an upside bias

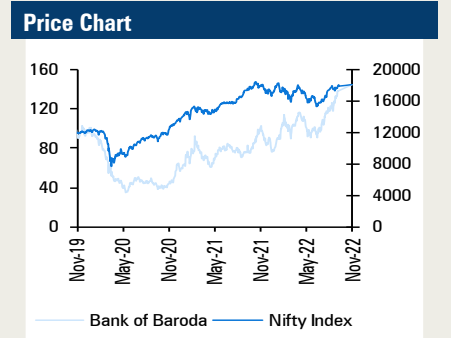
Alternate Stock Idea: Apart from Bank of Baroda, in our coverage we also like SBI.

- SBI is the largest bank in India with a balance sheet size of ~₹ 53 lakh crore and also has among the best operating metrics in the PSU space
- BUY with target price of ₹ 605



Particulars	
Particulars	Amount
Market Capitalisation	₹ 74752 crore
Networth	₹ 91849 crore
52 week H/L	151 / 77
Face value	₹ 2

Shareholding pattern					
(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	64.0	64.0	64.0	63.7	64.0
FII	7.8	7.4	9.1	8.2	8.9
DII	14.7	14.7	15.1	16.9	18.6
Others	13.5	14.0	11.8	11.2	8.5



Recent Event & Key risks

GNPA down 95 bps QoQ to 5.31%, Collection efficiency (ex-agri) at 98%

Key Risk: (i) Moderation in retail loan book growth (ii) Competitive pressure on deposit franchise

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	27,451	28,809	32,621	20.4%	36,767	41,856	13.3%
PPP	18,896	21,199	22,389	18.4%	23,723	26,340	8.5%
PAT	546	829	7,272	156.0%	10,917	11,193	24.1%
ABV (₹)	108.7	106.7	140.1		169.5	184.7	
P/E	117.5	-7.3	9.9		6.6	6.4	
P/ABV	1.3	1.3	1.0		0.8	0.8	
RoA	0.1	-0.8	0.6		0.8	0.8	
RoE (%)	0.9	(13.1)	8.9		11.8	10.6	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Robust operational and business growth

- Net interest income was up 34.5% YoY, 15.1% QoQ to ₹ 10174 crore; this was mainly driven by healthy credit growth and significant improvement in NIMs by 48 bps YoY and 31 bps QoQ to 3.33%. Other income sharply declined by 49% YoY (owing to treasury loss of ₹ 435 crore in Q2FY23) and witnessed a jump of 54.5% QoQ to ₹ 1826 crore aided by fee income
- Opex increased 9% YoY at ₹ 5969 crore; C/I ratio remained flattish YoY. Sequentially, it witnessed an improvement of 507 bps to 49.74%. Provisions declined 40.9% YoY, 3.4% QoQ to ₹ 1628 crore. Thus, higher interest income and steady credit cost boosted net profit to ₹ 3313 crore, up 58.7% YoY and ahead of our estimates
- Asset quality showed a sequential improvement. GNPA and NNPA declined 95 bps and 42 bps QoQ to 5.31% and 1.16%, respectively. Slippages for the quarter were down to ₹ 3479 crore vs. ₹ 5223 crore in Q2FY22, while recoveries and upgrades were at ₹ 2047 crore and ₹ 3313 crore, respectively. SMA1&2 declined from 0.48% in Q1FY23 to 0.42% in Q2FY23. Collection efficiency (ex-agri) was steady at 98%
- Overall global loan book (gross) growth was healthy at 19% YoY to ₹ 8.7 lakh crore. Strong credit offtake was driven by 28% YoY rise in retail loans led by growth in personal loan portfolio by 172.8%, Auto loan by 29.2%, education loan by 23.2%, home loan by 19% on a YoY basis. International loans (~18% of total book) also reported healthy growth of 41% YoY. Deposit book jumped 13.6% YoY in which domestic deposits were up 10.9% YoY to ₹ 9.6 lakh crore. Domestic CASA growth was at 9.2% YoY and its share to total domestic deposits was at 42.8%

Q2FY23 Earnings conference call highlights

- Interest income consisted of ~20 bps one off led by upgrade of one large account and benefit of swaps
- Advantage of faster repricing of loans should continue for next two quarters. NIM guided to increase 10 bps in FY23 compared to FY22
- MCLR linked loans are still to witness substantial transmission of hike in interest rate. EBLR – 28%. MCLR – 53%, Others – 19%
- Slippage ratio guided at 1.5-2% for FY23E. Accordingly, credit cost guidance revised from 1.25-1.5% earlier to 1-1.25%, led by better than expected trend in asset quality
- Guidance continued to remain at RoA – 1% in FY24E with an upside bias
- Restructured book was at ₹ 17725 crore, which is ~2.5% of total gross domestic advances. ₹ 808 crore write off in Q2FY23
- Retail loan grew at a robust pace due to pent up demand. Some moderation cannot be ruled out ahead. Corporate segment to propel growth in H2FY23
- New wage bill could have an impact of ₹ 200-300 crore per quarter
- LCR was at 135%
- ECLGS – ₹ 10,453 crore; total disbursement at ₹ 14000 crore

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BoB (BANBAR)	145	170	Buy	747	-18.9	14.0	21.1	21.6	-7.7	10.3	6.9	6.7	1.4	1.0	0.9	0.8	-13.1	8.9	11.8	10.6
SBI (STABAN)	530	650	Buy	4,733	22.9	35.5	38.6	44.1	23	14.9	13.7	12.0	2.2	1.9	1.7	1.5	8.4	11.9	11.6	11.9
Axis Bank (AXIBAN)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	10,174	9,061	7,566	34.5	8,838	15.1	Driven by strong credit growth and margin expansion
NIM (%)	3.3	3.1	2.9	48 bps	3.0	31 bps	Led by improvement in yields
Other Income	1,826	1,969	3,579	-49.0	1,182	54.5	Partially aided by fee income. Treasury loss in Q2FY23
Net Total Income	12,000	11,029	11,145	7.7	10,020	19.8	
Staff cost	3,183	3,208	3,114	2.2	3,043	4.6	CI ratio largely steady at 49.7%
Other Operating Expenses	2,786	2,621	2,361	18.0	2,450	13.7	
PPP	6,031	5,201	5,670	6.4	4,528	33.2	
Provision	1,627	1,569	2,754	-40.9	1,685	-3.4	Credit cost steady QoQ at 0.79%
PBT	4,403	3,632	2,916	51.0	2,843	54.9	
Tax Outgo	1,090	944	828	31.6	675	61.6	
PAT	3,313	2,688	2,088	58.7	2,168	52.8	PAT boosted by healthy topline and lower provisions
Key Metrics							
GNPA	46,374	51,976	59,504	-22.1	52,591	-11.8	Slippages steady QoQ at 1.77%
NNPA	9,672	12,385	19,602	-50.7	12,653	-23.6	
Advances	836,591	825,646	693,820	20.6	799,616	4.6	Loan growth driven by retail and agri book
Deposits	1,090,172	1,072,267	959,483	13.6	1,032,714	5.6	CASA ratio down to 39.83%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	37,201.0	36,767.4	-1.2	42,672.2	41,856.4	-1.9
Pre Provision Profit	24,486	23,722.6	-3.1	27,227.0	26,340.5	-3.3
NIM Global (%)	3.0	2.9	-2 bps	3.1	3.1	-4 bps
PAT	9,385	10,917	16.3	11,075.3	11,193	1.1

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY22E	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	10.0	13.9	13.9	13.5	13.9
Deposit Growth (%)	8.2	10.8	11.3	11.1	12.1
NIM Calculated (%)	2.8	2.9	3.1	3.0	3.1
Cost to income ratio (%)	49.2	49.5	50.2	48.7	49.4

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Eamed	75984	70495	69881	89041	100761
Interest Expended	48532	41686	37259	52274	58905
Net Interest Income	27451	28809	32621	36767	41856
growth (%)	46.9	4.9	13.2	12.7	13.8
Non Interest Income	10317	12934	11484	10209	11018
Net Income	37769	41743	44105	46976	52874
Employee cost	9565	11446	11979	12877	14200
Other operating Exp.	9308	9098	9738	10377	12334
Operating Income	18896	21199	22389	23723	26340
Provisions	20698	15643	13002	9166	11416
PBT	-1802	5556	9386	14557	14924
Taxes	-2348	4727	2114	3639	3731
Net Profit	546	829	7272	10917	11193
growth (%)	26.0	51.8	777.3	50.1	2.5
EPS	1.2	-18.9	14.0	21.1	21.6

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	462.7	517.8	517.8	517.8	517.8
BV (₹)	155.3	148.8	165.9	191.2	216.6
ABV (₹)	108.7	106.7	140.1	169.5	184.7
P/E	117.5	-7.3	9.9	6.6	6.4
P/BV	0.9	0.9	0.8	0.7	0.6
P/ABV	1.3	1.3	1.0	0.8	0.8
Yields & Margins (%)					
Net Interest Margins	3.0	2.7	2.8	2.9	3.1
Avg. Cost of Deposits	5.5	3.9	3.3	4.3	4.4
Yield on average advances	9.3	7.2	6.6	7.5	7.6
Quality and Efficiency (%)					
Cost / Total net income	50.0	68.2	49.2	49.5	50.2
Credit/Deposit ratio	73.0	73.0	74.3	76.4	78.1
GNPA	9.4	8.9	6.6	5.1	4.8
NNPA	3.1	3.1	1.7	1.3	1.6
ROE	0.9	-13.1	8.9	11.8	10.6
ROA	0.1	-0.8	0.6	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	925	1036	1036	1036	1036
Reserves and Surplus	70931	76010	84874	97983	111128
Networth	71856	77046	85910	99019	112163
Deposits	945984	966997	1045939	1159224	1290408
Borrowings	93069	66848	103899	109871	116276
Other Liab & Prov (incl sub-de)	47006	44474	42252	46477	51125
Total	1157916	1155365	1278000	1414592	1569972
Application of Funds					
Fixed Assets	8889	8016	9922	10220	10526
Investments	274615	261220	315795	333242	366215
Advances	690121	706301	777155	885495	1008273
Other Assets	62390	59415	52472	58130	50334
Cash with RBI & call money	121901	120413	122655	127506	134624
Total	1157916	1155365	1278000	1414592	1569972

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	48.3	-0.2	10.6	10.7	11.0
Advances	47.2	2.3	10.0	13.9	13.9
Deposits	48.1	2.2	8.2	10.8	11.3
Total Income	53.9	-16.8	13.3	22.0	12.6
Net interest income	48.5	4.9	13.2	12.7	13.8
Operating expenses	67.2	8.9	5.7	7.1	14.1
Operating profit	40.1	-49.4	134.2	6.0	11.0
Net profit	26.0	-1891.3	-174.3	50.1	2.5
Book value	41.0	7.2	11.5	15.3	13.3
EPS	-27.8	-1700.7	-174.3	50.1	2.5

Source: Company, ICICI Direct Research

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