Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Bank of Baroda (BOB IN)

Rating: BUY | CMP: Rs145 | TP: Rs190

November 6, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		ACCUMULATE	
Target Price	190		130	
NII (Rs. m)	4,32,750	4,85,524	3,78,640	4,10,685
% Chng.	*14.3*	*18.2*		
Op. Profit (Rs. m)	2,80,669	3,15,711	2,42,099	2,58,013
% Chng.	*15.9*	*22.4*		
EPS (Rs.)	26.7	30.0	16.7	17.5
% Chng.	*59.5*	*71.7*		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs m)	3,26,213	4,00,903	4,32,750	4,85,524
Op. Profit (Rs m)	2,23,888	2,32,855	2,80,669	3,15,711
PAT (Rs m)	72,723	1,16,277	1,38,154	1,55,186
EPS (Rs.)	14.0	22.5	26.7	30.0
Gr. (%)	*777.3*	*59.9*	*18.8*	*12.3*
DPS (Rs.)	2.8	3.8	4.8	5.4
Yield (%)	*2.0*	*2.6*	*3.3*	*3.7*
NIM (%)	*3.0*	*3.2*	*3.1*	*3.1*
RoAE (%)	*9.6*	*13.7*	*14.6*	*14.8*
RoAA (%)	*0.6*	*0.9*	*0.9*	*0.9*
P/BV (x)	0.9	0.8	0.8	0.7
P/ABV (x)	1.1	0.9	0.8	0.7
PE (x)	10.3	6.4	5.4	4.8
CAR (%)	15.7	17.2	15.7	15.1

Key Data

Key Data	BOB.BO | BOB IN
52-W High / Low	Rs.152 / Rs.77
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.748bn/ $ 9,068m
Shares Outstanding	5,171m
3M Avg. Daily Value	Rs.3429.97m

Shareholding Pattern (%)

Promoter's	63.97
Foreign	8.93
Domestic Institution	18.90
Public & Others	8.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.0	33.7	40.9
Relative	2.9	22.1	38.8

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Better earnings quality warrants a re-rating

Quick Pointers:

- PAT beat for Q2FY23 led by better NII and lower provisions.
- GNPA reduced by 95bps QoQ to 5.3% driven by stronger recoveries.

BoB earnings surprised positively with core PAT at Rs33bn beating estimates by ~34% driven by better NII and asset quality. Adjusting for one-off, NIM was ahead at 3.35% (PLe 3.29%). Credit growth was stronger at ~21% YoY (PLe 18.7%) largely led by overseas (+42%) retail (+18%), SME (+14%) and agri (+14%). Retail growth was led by housing and PL. GNPA declined by 95bps QoQ to 5.31% driven by stronger recoveries resulting in lower provisions. We increase PAT for FY24/25E by ~25% due to better loan growth, NIM and lower provisions. With stable earnings profile, we expect RoA/RoE near 0.9%/15% for FY24/25E. Valuation at 0.8x Sep'24 ABV is attractive suggesting a discount of 40% to SBI, which should narrow. Rolling forward to Sep'24 ABV, we raise multiple from 0.9x to 1.0x and TP from Rs130 to Rs190. Upgrade to BUY.

- **Strong all-round performance:** NII was ahead at Rs101.7bn (PLe Rs93bn) led by better NIM and loan growth. Adjusted for a one-off impact of ~20bps, NIM expanded by 11bps QoQ to 3.35% (PLe 3.29%) led by sharper rise in loan yields. Loan growth was stronger at 20.6% YoY (PLe 18.7%) while deposit growth was 13.6% YoY (PLe 8.7%). Domestic deposit growth was ~11% YoY. Other income was lower at Rs18bn (PLe Rs19.5bn) due to treasury losses. Opex was largely in-line at Rs59.6bn. PPoP was a beat at Rs60bn (PLe Rs52bn). GNPA/NNPA improved by 95/43bps QoQ to 5.31%/1.16% mainly driven by stronger recoveries. Provisions were steady at Rs16.3bn (PLe Rs19.6bn). PAT was a beat at Rs33bn(PLe.Rs.24.6bn).

- **Retail drives growth, corporate outlook better:** Sequentially loans grew by 4.0% largely led by international (+8.6%) while domestic credit growth (+3.1%) was primarily driven by retail (+7.4%), SME (+4.5%) and agri (+3.7%). Retail growth was led by housing and PL. Corporate growth was flat QoQ as there was pricing pressure. International portfolio is granular and well protected and bank chose to grow this segment on account of better returns. Domestic LDR is currently ~70% levels which provides enough cushion for growth, while international LDR is 100%. Deposit growth was 5.6% QoQ which was mainly attributable to domestic bulk deposits (+36% QoQ) while domestic RTD growth was 1.2% QoQ. Higher reliance on bulk deposits would explain the funding cost rise of 16bps QoQ as BoB has been slower to raise RTD rates.

- **Asset quality improves, credit costs to be benign:** Gross slippages were Rs44.6bn (2.3% of loans) led by MSME and overseas. GNPA/NNPA declined QoQ as recoveries were stronger at Rs53.6bn (PLe Rs26.5bn) while write offs were higher at Rs53.2bn (PLe Rs28bn). However, PCR was shored up QoQ from 76% to 79%. OTR pool stood at Rs177bn or 2.3% of loans. SMA 1+2 declined marginally to 0.42% from 0.44% in 1Q23. Bank guided to maintaining credit costs between 100-125bps led by controlled slippages and healthy recoveries. As per the bank wage revision could entail additional provisions of Rs2-2.5bn every quarter although opex growth would be controlled next year.

Exhibit 1: Overall strong performance

Financial Statement (Rs m)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Interest Income	212,542	166,915	27.3	189,375	12.2
Interest Expense	110,798	91,256	21.4	100,991	9.7
Net Interest Income (NII)	**101,745**	**75,660**	**34.5**	**88,384**	**15.1**
- Treasury income	(2,390)	12,210	(119.6)	(7,730)	(69.1)
Other income	18,258	35,792	(49.0)	11,820	54.5
Total income	**120,003**	**111,452**	**7.7**	**100,204**	**19.8**
Operating expenses	59,693	54,756	9.0	54,929	8.7
-Staff expenses	31,834	31,143	2.2	30,433	4.6
-Other expenses	27,859	23,613	18.0	24,497	13.7
Operating profit	**60,310**	**56,696**	**6.4**	**45,275**	**33.2**
Core operating profit	62,700	44,486	40.9	53,005	18.3
Total provisions	16,275	27,536	(40.9)	16,848	(3.4)
Profit before tax	**44,035**	**29,160**	**51.0**	**28,427**	**54.9**
Tax	10,901	8,281	31.6	6,746	61.6
Profit after tax	**33,134**	**20,879**	**58.7**	**21,681**	**52.8**
Balance sheet (Rs m)					
Deposits	10,901,716	9,594,843	13.6	10,327,140	5.6
Advances	8,365,914	6,938,199	20.6	7,996,157	4.6
Profitability ratios					
RoaA	1.1	0.7	33	0.7	33
NIM	**3.3**	**2.9**	**48**	**3.0**	**31**
Yield on Advances	7.8	6.8	92	7.1	65
Cost of Deposits	3.9	3.5	41	3.8	16
Asset Quality					
Gross NPA (Rs m)	463,744	595,038	(22.1)	525,908	(11.8)
Net NPA (Rs m)	96,722	196,017	(50.7)	126,527	(23.6)
Gross NPL ratio	**5.3**	**8.1**	**(280)**	**6.3**	**(95)**
Net NPL ratio	**1.2**	**2.8**	**(167)**	**1.6**	**(43)**
Coverage ratio	79.1	67.1	1,209	75.9	320
Business & Other Ratios					
Low-cost deposit mix	39.8	41.7	(187)	41.1	(131)
Cost-income ratio	49.7	49.1	61	54.8	(507)
Non int. inc / total income	15.2	32.1	(1,690)	11.8	342
Credit deposit ratio	76.7	72.3	443	77.4	(69)
CAR	15.2	15.6	(36)	15.5	(27)
Tier-I	12.8	13.2	(40)	13.0	(16)

Source: Company, PL

Q2FY23 Analyst Meet Highlights

Assets/Liabilities Outlook & Commentary:

- **Retail -** Loan growth has been led mainly from retail loans. Within the segment, higher margins products have been focus areas have been Home loans, Auto Loans, Unsecured Personal Loans. Unsecured personal loans have grown in triple digits and management expects triple digit growth in this segment for FY. However, expects some moderation in the auto loans.

- **Corporate –** Corporate growth has been the slowest growing segment for the bank with share of 40%. With improvement in pricing and demand coming back, upside for growth exists. Management believes scope exists to improve growth as well margins in this segment.

- **International book** has witnessed good traction registering a growth of 42% YoY. Higher growth in this segment was on account of depressed margins in domestic corporates, international margins (~2%), post cost margins have also been higher. The portfolio is granular and well protected. International Investment book is fully hedged with hardly any risk.

- **Deposits –** CASA growth was 8.5% YoY while higher traction TDs has been higher with rate hikes and expect the momentum to continue. Domestic LDR is currently ~70% levels, hence provides enough cushion for growth, while international LDR is 100%

- **Overall strategy:** 1) Growth while protecting margins 2) Improve asset quality and 3) Control costs. ROA would be <1% for FY23, +1% from Fy24 onwards.

NIMs/Opex

- **NIM –** During the quarter bank, NIM shot up to 3.33% from 3.02% in Q1FY23. However, it includes an impact of 18-20bps on account of interest accretion on one company's upgradation and unwinding of swaps. Barring the impact, margins saw an improvement 7-8bps, management reiterates guidance of margin expansion by 10bps for FY23.

- **Other income –** With rate hikes, management expects treasury income to remain subdued, while interest on investment book to be stronger.

- **Costs –** Other opex has been slightly elevated due to higher depreciation, however digitalization would lead to control in opex growth. With wage bill revision, expect Rs2-2.5bn provision every quarter.

Asset Quality

- **Slippages:** Slippages have been lower at Rs.44.6bn in 21FY23. Management guides for Credit Cost in the range of 1%-1.25% with decline in slippages. Management doesn't expect slippages from overseas book

- **Restructuring:** The total outstanding restructured book stood at Rs.196bn, i.e 2.51 of the book. SMA 1 & 2 has been at 0.42% v/s 0.48% in Q1FY23. **ECLGS –** Rs. 100bn is O/s,

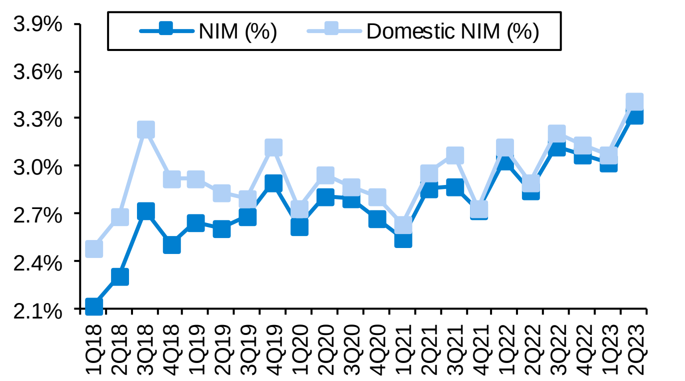
- **Provisions:** Credit costs are expected to be lower with lower slippages. On the standard assets provisioning, for the government account, higher provisioning has been made, for other accounts, adequate provisioning has been made.

Exhibit 2: Retail remains growth driver, corporate growth revives

Loan break up (Rs mn)	Q2FY23	Q2FY22	*YoY gr. (%)*	Q1FY23	*QoQ gr. (%)*
Domestic Advances	**7,167,370**	**6,233,680**	***15.0***	**6,954,930**	***3.1***
Corporate	3,016,630	2,730,680	*10.5*	3,026,770	*(0.3)*
SME	1,012,780	893,390	*13.4*	969,540	*4.5*
Retail	1,585,060	1,340,910	*18.2*	1,475,350	*7.4*
Agri	1,149,640	1,007,480	*14.1*	1,108,540	*3.7*
Other/Misc	403,260	261,220	*54.4*	374,730	*7.6*
Advances Mix					
Domestic Advances	82	85	*(3)*	83	*(1)*
Corporate	*35*	*37*	*(7)*	*36*	*(4)*
SME	*12*	*12*	*(5)*	*12*	*0*
Retail	*18*	*18*	*(1)*	*18*	*3*
Agri	*13*	*14*	*(4)*	*13*	*(0)*
Other/Misc	*5*	*4*	*30*	*4*	*3*

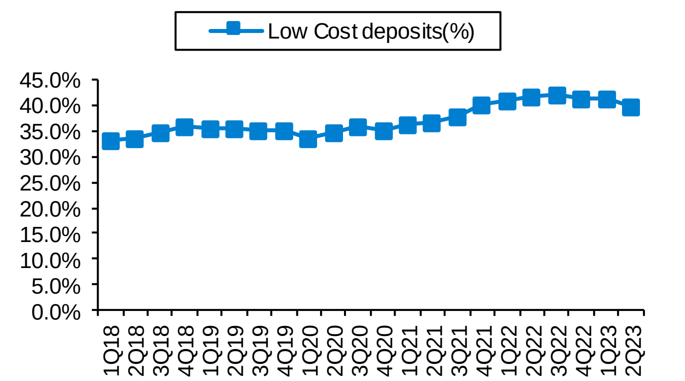
Source: Company, PL

Exhibit 3: NIMs shot up due to on-off



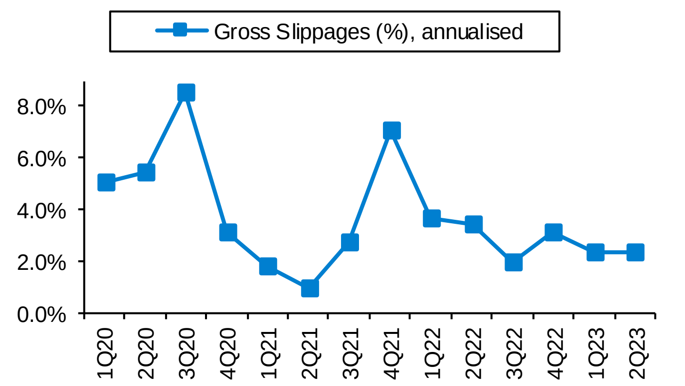
Source: Company, PL

Exhibit 4: CASA ratio slightly come off due to rate hike



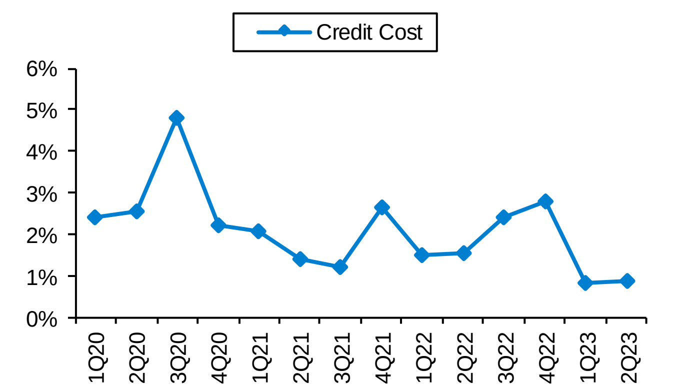
Source: Company, PL

Exhibit 5: Slippages steady…



Source: Company, PL

Exhibit 6: …resulting in steady credit costs



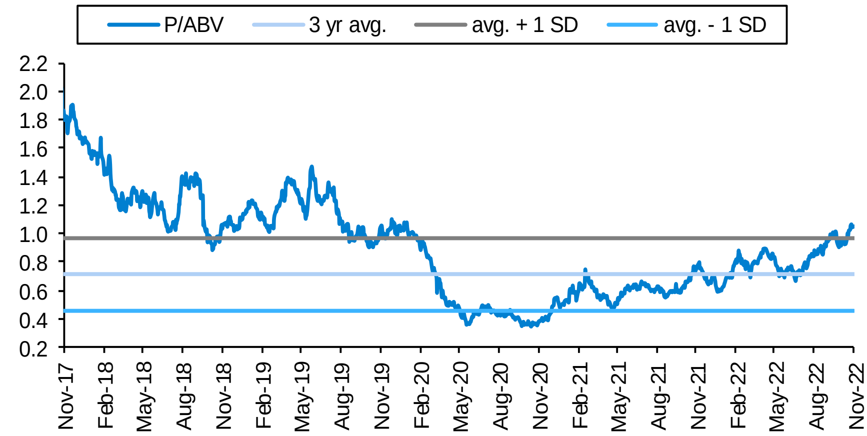
Source: Company, PL

Exhibit 7: Return ratios to improve on normalized basis

ROAE decomposition	2018	2019	2020	2021	2022	2023E	2024E	2025E
NII/Assets	2.2	2.5	2.8	2.5	2.7	2.9	2.8	2.8
Other Income/Assets	0.9	0.8	1.1	1.1	0.9	0.6	0.8	0.8
Net revenues/Assets	3.1	3.3	3.9	3.6	3.6	3.5	3.6	3.6
Opex/Assets	1.4	1.5	1.9	1.8	1.8	1.8	1.8	1.8
Provisions/Assets	2.1	1.7	2.2	1.4	1.1	0.6	0.6	0.6
Taxes/Assets	-0.1	0.0	-0.2	0.4	0.2	0.3	0.3	0.3
ROAA	**-0.3**	**0.1**	**0.1**	**0.1**	**0.6**	**0.9**	**0.9**	**0.9**
ROAE	**-6.3**	**1.0**	**1.0**	**1.2**	**9.6**	**13.7**	**14.6**	**14.8**

Source: Company, PL *Note – FY20 represents merged numbers*

Exhibit 8: BOB - One year forward P/ABV trends



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	4,92,785	6,12,943	7,79,495	9,22,050
Int. Earned from invt.	1,76,172	2,23,416	2,58,184	2,96,651
Others	19,699	26,682	32,129	36,074
Total Interest Income	6,98,808	8,76,334	10,83,428	12,68,687
Interest Expenses	3,72,594	4,75,431	6,50,678	7,83,163
Net Interest Income	**3,26,213**	**4,00,903**	**4,32,750**	**4,85,524**
Growth(%)	*13.2*	*22.9*	*7.9*	*12.2*
Non Interest Income	1,14,840	78,789	1,19,758	1,32,434
Net Total Income	4,41,053	4,79,691	5,52,508	6,17,958
Growth(%)	*(2.5)*	*17.4*	*26.0*	*16.5*
Employee Expenses	1,19,787	1,32,776	1,46,054	1,63,298
Other Expenses	97,377	1,14,060	1,25,785	1,38,949
Operating Expenses	2,17,164	2,46,836	2,71,839	3,02,247
Operating Profit	**2,23,888**	**2,32,855**	**2,80,669**	**3,15,711**
Growth(%)	*5.6*	*4.0*	*20.5*	*12.5*
NPA Provision	1,21,473	71,140	85,180	96,763
Total Provisions	1,30,024	79,523	96,217	1,08,521
PBT	**93,864**	**1,53,333**	**1,84,452**	**2,07,190**
Tax Provision	21,142	37,056	46,297	52,005
Effective tax rate (%)	*22.5*	*24.2*	*25.1*	*25.1*
PAT	**72,723**	**1,16,277**	**1,38,154**	**1,55,186**
Growth(%)	*777.3*	*59.9*	*18.8*	*12.3*

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Face value	2	2	2	2
No. of equity shares	5,178	5,178	5,178	5,178
Equity	10,355	10,355	10,355	10,355
Networth	8,59,097	9,79,955	10,57,564	11,84,816
Growth(%)	*11.5*	*14.1*	*7.9*	*12.0*
Adj. Networth to NNPAs	1,33,646	88,387	96,107	1,04,978
Deposits	1,04,59,386	1,17,06,228	1,31,38,931	1,48,47,121
Growth(%)	*8.2*	*11.9*	*12.2*	*13.0*
CASA Deposits	43,36,052	47,00,447	50,93,849	59,21,952
% of total deposits	*41.5*	*40.2*	*38.8*	*39.9*
Total Liabilities	**1,27,79,998**	**1,44,02,986**	**1,61,81,394**	**1,81,04,595**
Net Advances	77,71,552	90,13,795	1,01,85,589	1,15,09,715
Growth(%)	*10.0*	*16.0*	*13.0*	*13.0*
Investments	31,57,954	35,11,868	38,64,817	42,62,608
Total Assets	**1,27,79,998**	**1,44,02,986**	**1,61,81,394**	**1,81,04,595**
Growth (%)	*10.6*	*12.7*	*12.3*	*11.9*

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	5,40,594	4,41,340	4,58,507	4,83,401
Net NPAs (Rs m)	1,33,646	88,387	96,107	1,04,978
Gr. NPAs to Gross Adv.(%)	*6.6*	*4.7*	*4.3*	*4.1*
Net NPAs to Net Adv. (%)	*1.7*	*1.0*	*0.9*	*0.9*
NPA Coverage %	*75.3*	*80.0*	*79.0*	*78.3*

Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	3.0	3.2	3.1	3.1
RoAA	0.6	0.9	0.9	0.9
RoAE	9.6	13.7	14.6	14.8
Tier I	13.2	14.0	13.0	12.7
CRAR	15.7	17.2	15.7	15.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Interest Income	1,79,630	1,81,736	1,89,375	2,12,542
Interest Expenses	94,110	95,619	1,00,991	1,10,798
Net Interest Income	**85,520**	**86,117**	**88,384**	**1,01,745**
YoY growth (%)	*14.4*	*21.2*	*12.0*	*34.5*
CEB	15,570	16,390	12,770	15,150
Treasury	-	-	-	-
Non Interest Income	25,193	25,223	11,820	18,258
Total Income	**2,04,823**	**2,06,959**	**2,01,195**	**2,30,800**
Employee Expenses	31,027	27,024	30,433	31,834
Other expenses	24,853	27,965	24,497	27,859
Operating Expenses	55,880	54,988	54,929	59,693
Operating Profit	**54,833**	**56,351**	**45,275**	**60,310**
YoY growth (%)	*8.2*	*(9.6)*	*(19.2)*	*6.4*
Core Operating Profits	50,373	63,181	53,005	62,700
NPA Provision	42,830	52,000	15,600	16,540
Others Provisions	25,070	37,364	16,848	16,275
Total Provisions	25,070	37,364	16,848	16,275
Profit Before Tax	**29,763**	**18,988**	**28,427**	**44,035**
Tax	7,793	1,200	6,746	10,901
PAT	**21,970**	**17,788**	**21,681**	**33,134**
YoY growth (%)	*107.1*	*(269.9)*	*79.4*	*58.7*
Deposits	**97,80,343**	**1,04,59,386**	**1,03,27,140**	**1,09,01,716**
YoY growth (%)	*2.5*	*8.2*	*10.9*	*13.6*
Advances	**73,21,638**	**77,71,552**	**79,96,157**	**83,65,914**
YoY growth (%)	*4.8*	*10.0*	*19.6*	*20.6*

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	145	145	145	145
EPS (Rs)	14.0	22.5	26.7	30.0
Book Value (Rs)	152	176	191	215
Adj. BV (Rs)	126	159	172	195
P/E (x)	10.3	6.4	5.4	4.8
P/BV (x)	0.9	0.8	0.8	0.7
P/ABV (x)	1.1	0.9	0.8	0.7
DPS (Rs)	2.8	3.8	4.8	5.4
Dividend Payout Ratio (%)	*20.3*	*17.0*	*18.0*	*18.0*
Dividend Yield (%)	*2.0*	*2.6*	*3.3*	*3.7*

Efficiency

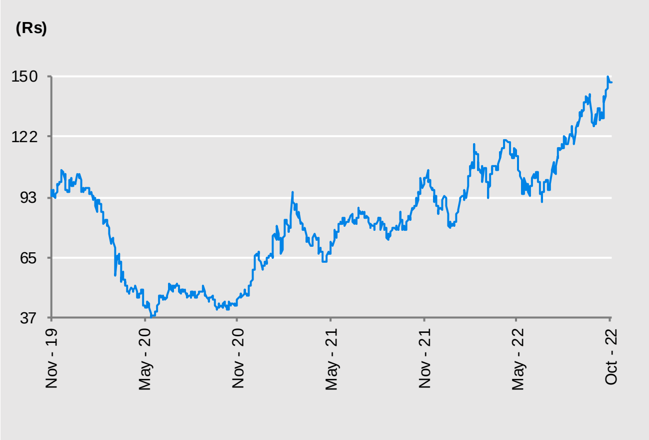
Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	*49.2*	*51.5*	*49.2*	*48.9*
C-D Ratio (%)	*74.3*	*77.0*	*77.5*	*77.5*
Business per Emp. (Rs m)	230	252	275	302
Profit per Emp. (Rs lacs)	9	14	16	18
Business per Branch (Rs m)	2,194	2,458	2,742	3,072
Profit per Branch (Rs m)	9	14	16	18

Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.68	2.95	2.83	2.83
Total Income	3.63	3.53	3.61	3.60
Operating Expenses	1.78	1.82	1.78	1.76
PPoP	1.84	1.71	1.84	1.84
Total provisions	1.07	0.59	0.63	0.63
RoAA	0.60	0.86	0.90	0.91
RoAE	7.02	14.13	14.45	14.30

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-22	Accumulate	130	133
2	01-Aug-22	Accumulate	130	116
3	08-Jul-22	BUY	125	105
4	14-May-22	BUY	125	95
5	09-Apr-22	BUY	150	120
6	12-Jan-22	BUY	105	92

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,990
2	Axis Bank	BUY	1,080	826
3	Bank of Baroda	Accumulate	130	133
4	Can Fin Homes	BUY	700	524
5	City Union Bank	BUY	220	190
6	DCB Bank	BUY	120	103
7	Federal Bank	BUY	165	130
8	HDFC	BUY	3,000	2,489
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	1,090	907
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,450	1,218
13	Kotak Mahindra Bank	Accumulate	2,100	1,903
14	LIC Housing Finance	Accumulate	410	367
15	Punjab National Bank	BUY	50	36
16	State Bank of India	BUY	650	533

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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