

January 11, 2023

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	220		220	
NII (Rs. m)	4,33,819	4,85,557	4,33,819	4,85,557
% Chng.	-	-	-	-
Op. Profit (Rs. m)	2,82,733	3,16,422	2,82,733	3,16,422
% Chng.	-	-	-	-
EPS (Rs.)	27.0	30.1	27.0	30.1
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs m)	3,26,213	4,05,521	4,33,819	4,85,557
Op. Profit (Rs m)	2,23,888	2,38,663	2,82,733	3,16,422
PAT (Rs m)	72,723	1,25,555	1,39,812	1,55,877
EPS (Rs.)	14.0	24.2	27.0	30.1
Gr. (%)	777.3	72.6	11.4	11.5
DPS (Rs.)	2.8	4.1	4.9	5.4
Yield (%)	1.6	2.3	2.7	3.0
NIM (%)	3.0	3.3	3.1	3.1
RoAE (%)	9.6	14.7	14.6	14.7
RoAA (%)	0.6	0.9	0.9	0.9
P/BV (x)	1.2	1.0	0.9	0.8
P/ABV (x)	1.4	1.1	1.0	0.9
PE (x)	12.9	7.5	6.7	6.0
CAR (%)	15.7	16.9	15.8	15.1

Key Data

BOB.BO | BOB IN

52-W High / Low	Rs.197 / Rs.88
Sensex / Nifty	60,115 / 17,914
Market Cap	Rs.934bn / \$ 11,426m
Shares Outstanding	5,171m
3M Avg. Daily Value	Rs.5181.54m

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	(4.2)	71.1	96.1
Relative	(0.9)	55.1	97.0

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Bank of Baroda (BOB IN)

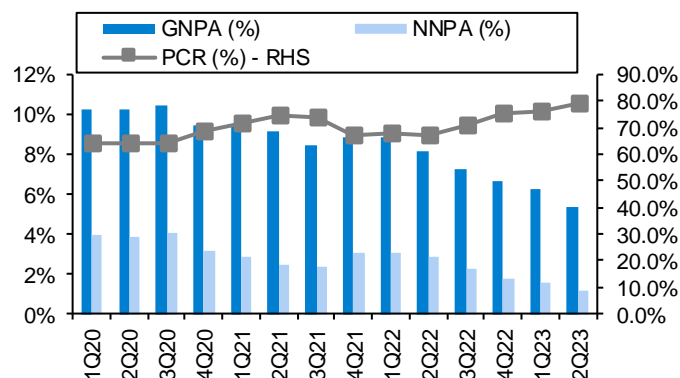
Rating: BUY | CMP: Rs181 | TP: Rs220

Scaling new heights

We remain positive on Bank of Baroda (BOB) given, 1) domestic corporate credit is reviving as growth touched an 8-yr high of +13% YoY and BoB would be a key beneficiary as corporate loan share is ~40% and market share in overall advances is sizeable at 6.6% post-merger 2) BOB could see NIM expansion for 1-2 more quarters while private bank margins might peak in Q3FY22, due to higher share of MCLR linked loans (53% vs 30% for private banks) 3) balance sheet is stronger as GNPA in Q2FY23 reduced to 5.3% from 8.1% while PCR enhanced from 67% to 79%; expect RoA/RoE to improve over FY22-25E from 0.6%/9.6% to 0.9%/14.7%. We had recently raised FY23E earnings by 8% for BoB, however, with asset quality risks abating and steady credit growth outlook, there is likelihood of further earnings upgrade. Rolling forward to Mar'25 ABV, we raise multiple from 1.0x to 1.1x and maintain TP at Rs220. Reiterate 'BUY'.

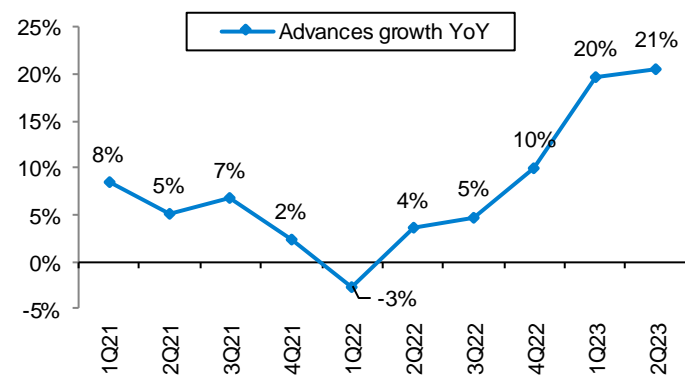
- **Key beneficiary of abating asset quality risks:** As per RBI, GNPA ratio of SCBs continued to decline and stood at 5.0% (PSU 6.5%) in Sep'22 (7-yr low). Reduction has been broad based with stress decreasing across sectors of industries, agriculture, services & personal loans. Concentration risk at system level has reduced as large borrowers' share in gross SCB loans/GNPA is falling. For BoB, gross slippage ratio was controlled in H1FY23 at 2.3% vs 2.9% in FY22 while net slippage ratio too has materially declined from 0.8% in FY22 to 0.2% led by strong recoveries. Hence, GNPA/NNPA ratio declined sharply in Q2FY23 to 5.3%/1.2% from 8.1%/2.8% a year ago. Balance sheet is stronger than ever with PCR at 79% (vs 67% in Q2FY22) and NNPA to equity ratio at multi quarter low of 10.5% which would provide leeway to grow.
- **Reducing stress providing growth impetus:** With asset quality risk reducing, lending pace in system gained further traction during H1FY23 as credit growth reached 17.3% as at 16th Dec'22 (10-yr high) also driven by corporate credit reviving to an 8-yr high (+13% YoY in Nov'22). Favorable sector dynamics has benefitted BOB (6.6% market share in credit) since loan growth enhanced from +10% YoY in FY19 to 21% in H1FY23. Growth was broad based: corporate (+19.5%), retail (+18%), SME (+13.4%) and agri (+14%). Within retail, housing and unsecured loans remain a focus area. Within corporate, as demand is picking up and pricing power is returning, BoB would be a key beneficiary as corporate loan share is ~40%. We expect credit growth to sustain for BoB and see a 13% CAGR over FY23-25.
- **Further cushion on margins; scope for earnings upgrade:** Driven by repo rate hike, adjusted NIM (calc.) in H1FY23 improved to 3.22% from 2.95% in FY22 as 93% of loans are floating. While NIM could peak for private banks in Q3FY23 owing to higher EBLR share and sharp deposit rate hikes, PSU banks could see NIM expansion for 1-2 more quarters owing to a higher proportion of MCLR linked loans. For BoB, 53% of overall book is MCLR linked (vs 30% for private banks) and we expect NIM to increase over FY22-23 from 2.95% to 3.3%. With sustained loan growth and benign asset quality environment, there could be further earnings upgrades across PSU banks. We expect RoA/RoE of 0.9%/14.7% in FY25E compared to 0.6%/9.6% in FY22.

Exhibit 1: GNPA reduced to 5.3% from peak of 10%



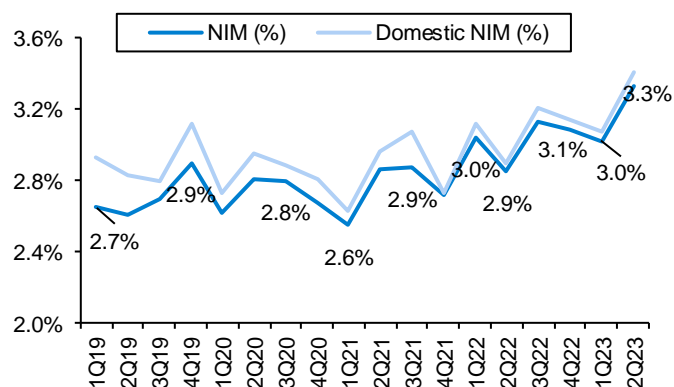
Source: Company, PL

Exhibit 2: Sharp bounce back in credit across segments



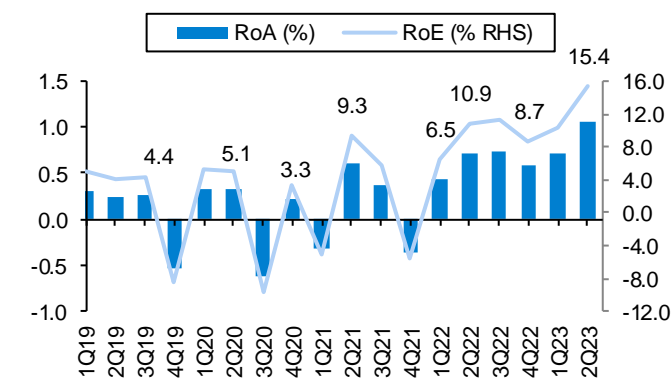
Source: Company, PL

Exhibit 3: Steady improvement in NIM



Source: Company, PL

Exhibit 4: RoA/RoE touched 0.9%/15% levels



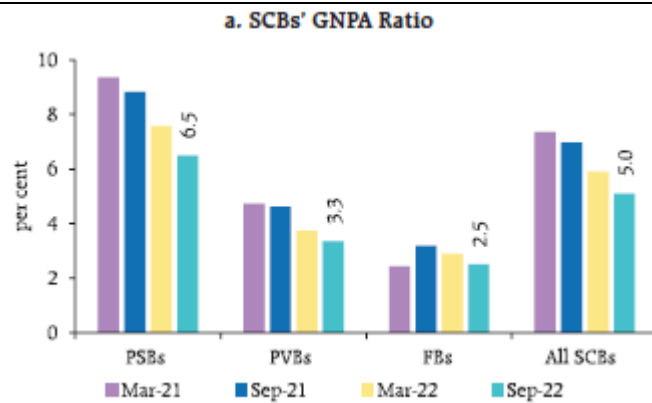
Source: Company, PL

Exhibit 5: Return ratios set to improve towards 15% RoE

Du-pont (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	6.2	6.7	7.8	6.1	5.7	6.4	7.1	7.4
Interest expenses	4.0	4.2	5.0	3.6	3.1	3.5	4.2	4.6
NII	2.2	2.5	2.8	2.5	2.7	3.0	2.8	2.8
Other income	0.9	0.8	1.1	1.1	0.9	0.6	0.8	0.8
Total income	3.1	3.3	3.9	3.6	3.6	3.5	3.6	3.6
Operating expenses	1.4	1.5	1.9	1.8	1.8	1.8	1.8	1.8
PPOP	1.7	1.8	2.0	1.8	1.8	1.7	1.8	1.9
Provisions	2.1	1.7	2.2	1.4	1.1	0.5	0.6	0.6
PBT	-0.4	0.1	-0.2	0.5	0.8	1.2	1.2	1.2
Tax	-0.1	0.0	-0.2	0.4	0.2	0.3	0.3	0.3
RoA	-0.3	0.1	0.1	0.1	0.6	0.9	0.9	0.9
RoE	-6.3	1.0	1.0	1.2	9.6	14.7	14.6	14.7

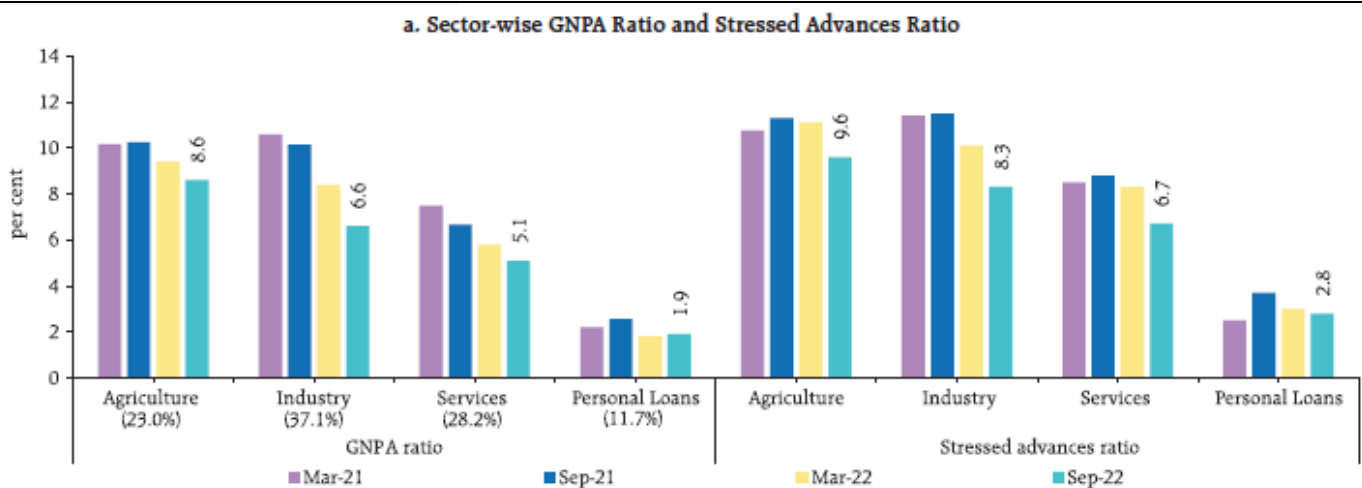
Source: Company, PL

Exhibit 6: GNPA ratio at 7-year low of 5% for SCBs



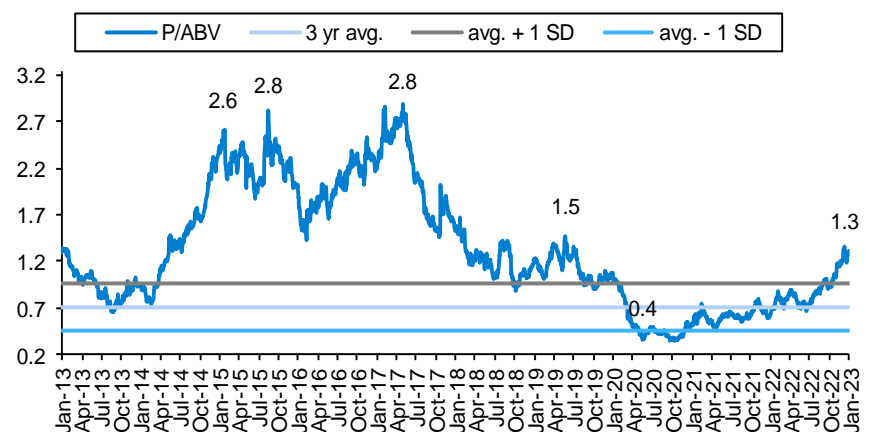
Source: RBI

Exhibit 7: GNPA's low across sectors



Source: RBI

Exhibit 8: One-year forward P/ABV



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	4,92,785	6,16,875	7,77,992	9,20,272
Int. Earned from invt.	1,76,172	2,23,920	2,59,145	2,95,747
Others	19,699	26,682	32,115	35,992
Total Interest Income	6,98,808	8,80,771	10,82,850	12,65,881
Interest Expenses	3,72,594	4,75,249	6,49,031	7,80,324
Net Interest Income	3,26,213	4,05,521	4,33,819	4,85,557
Growth(%)	13.2	24.3	7.0	11.9
Non Interest Income	1,14,840	79,289	1,19,995	1,32,268
Net Total Income	4,41,053	4,84,810	5,53,813	6,17,825
Growth(%)	(2.5)	18.0	25.3	16.2
Employee Expenses	1,19,787	1,32,408	1,45,650	1,62,846
Other Expenses	97,377	1,13,739	1,25,431	1,38,558
Operating Expenses	2,17,164	2,46,147	2,71,080	3,01,403
Operating Profit	2,23,888	2,38,663	2,82,733	3,16,422
Growth(%)	5.6	6.6	18.5	11.9
NPA Provision	1,21,473	65,740	85,016	96,576
Total Provisions	1,30,024	73,123	96,068	1,08,308
PBT	93,864	1,65,540	1,86,665	2,08,114
Tax Provision	21,142	39,985	46,853	52,237
Effective tax rate (%)	22.5	24.2	25.1	25.1
PAT	72,723	1,25,555	1,39,812	1,55,877
Growth(%)	777.3	72.6	11.4	11.5

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	9,89,232	10,66,623	11,94,443
Growth(%)	11.5	15.1	7.8	12.0
Adj. Networth to NNPA's	1,33,646	97,567	1,03,121	1,10,756
Deposits	1,04,59,386	1,18,37,383	1,30,98,524	1,48,02,269
Growth(%)	8.2	13.2	10.7	13.0
CASA Deposits	43,36,052	47,00,447	50,93,849	59,21,952
% of total deposits	41.5	39.7	38.9	40.0
Total Liabilities	1,27,79,998	1,45,57,321	1,61,43,942	1,80,63,108
Net Advances	77,71,552	89,96,411	1,01,65,944	1,14,87,517
Growth(%)	10.0	15.8	13.0	13.0
Investments	31,57,954	35,51,215	38,52,931	42,49,731
Total Assets	1,27,79,998	1,45,57,321	1,61,43,942	1,80,63,108
Growth (%)	10.6	13.9	10.9	11.9

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	5,40,594	4,50,340	4,63,632	4,86,134
Net NPAs (Rs m)	1,33,646	97,567	1,03,121	1,10,756
Gr. NPAs to Gross Adv.(%)	6.6	4.8	4.4	4.1
Net NPAs to Net Adv. (%)	1.7	1.1	1.0	1.0
NPA Coverage %	75.3	78.3	77.8	77.2

Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	3.0	3.3	3.1	3.1
RoAA	0.6	0.9	0.9	0.9
RoAE	9.6	14.7	14.6	14.7
Tier I	13.2	13.7	13.1	12.7
CRAR	15.7	16.9	15.8	15.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23E
Interest Income	1,81,736	1,89,375	2,12,542	2,24,834
Interest Expenses	95,619	1,00,991	1,10,798	1,21,319
Net Interest Income	86,117	88,384	1,01,745	1,03,515
YoY growth (%)	21.2	12.0	34.5	21.0
CEB	16,390	12,770	15,150	15,908
Treasury	-	-	-	-
Non Interest Income	25,223	11,820	18,258	24,708
Total Income	2,06,959	2,01,195	2,30,800	2,49,542
Employee Expenses	27,024	30,433	31,834	33,967
Other expenses	27,965	24,497	27,859	29,726
Operating Expenses	54,988	54,929	59,693	63,693
Operating Profit	56,351	45,275	60,310	64,530
YoY growth (%)	(9.6)	(19.2)	6.4	17.7
Core Operating Profits	63,181	53,005	62,700	63,530
NPA Provision	52,000	15,600	16,540	17,300
Others Provisions	37,364	16,848	16,275	20,000
Total Provisions	37,364	16,848	16,275	20,000
Profit Before Tax	18,988	28,427	44,035	44,530
Tax	1,200	6,746	10,901	10,687
PAT	17,788	21,681	33,134	33,843
YoY growth (%)	(269.9)	79.4	58.7	54.0
Deposits	1,04,59,386	1,03,27,140	1,09,01,716	1,13,18,589
YoY growth (%)	8.2	10.9	13.6	15.7
Advances	77,71,552	79,96,157	83,65,914	86,58,721
YoY growth (%)	10.0	19.6	20.6	18.3

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	181	181	181	181
EPS (Rs)	14.0	24.2	27.0	30.1
Book Value (Rs)	152	177	192	217
Adj. BV (Rs)	126	159	172	196
P/E (x)	12.9	7.5	6.7	6.0
P/BV (x)	1.2	1.0	0.9	0.8
P/ABV (x)	1.4	1.1	1.0	0.9
DPS (Rs)	2.8	4.1	4.9	5.4
Dividend Payout Ratio (%)	20.3	17.0	18.0	18.0
Dividend Yield (%)	1.6	2.3	2.7	3.0

Efficiency

Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	49.2	50.8	48.9	48.8
C-D Ratio (%)	74.3	76.0	77.6	77.6
Business per Emp. (Rs m)	230	254	275	302
Profit per Emp. (Rs lacs)	9	15	17	18
Business per Branch (Rs m)	2,194	2,471	2,735	3,064
Profit per Branch (Rs m)	9	15	16	18

Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.68	2.97	2.83	2.84
Total Income	3.63	3.55	3.61	3.61
Operating Expenses	1.78	1.80	1.77	1.76
PPoP	1.84	1.75	1.84	1.85
Total provisions	1.07	0.53	0.63	0.63
RoAA	0.60	0.92	0.91	0.91
RoAE	7.02	15.24	14.49	14.24

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	220	184
2	06-Nov-22	BUY	190	145
3	05-Oct-22	Accumulate	130	133
4	01-Aug-22	Accumulate	130	116
5	08-Jul-22	BUY	125	105
6	14-May-22	BUY	125	95
7	09-Apr-22	BUY	150	120
8	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	1,750
2	Axis Bank	BUY	1,100	949
3	Bank of Baroda	BUY	220	184
4	Can Fin Homes	BUY	700	545
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	130
7	Federal Bank	BUY	165	137
8	HDFC	BUY	3,000	2,622
9	HDFC Bank	BUY	1,800	1,600
10	ICICI Bank	BUY	1,090	879
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,450	1,216
13	Kotak Mahindra Bank	Accumulate	2,100	1,820
14	LIC Housing Finance	Accumulate	410	420
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	605

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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