

February 5, 2023

## Q3FY23 Result 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)	4,48,711	5,06,860	4,33,819	4,85,557
% Chng.	3.4	4.4		
Op. Profit (Rs. m)	2,83,991	3,21,496	2,82,733	3,16,422
% Chng.	0.4	1.6		
EPS (Rs.)	27.1	30.3	27.0	30.1
% Chng.	0.3	0.6		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs m)	3,26,213	4,11,663	4,48,711	5,06,860
Op. Profit (Rs m)	2,23,888	2,59,867	2,83,991	3,21,496
PAT (Rs m)	72,723	1,30,552	1,40,216	1,56,800
EPS (Rs.)	14.0	25.2	27.1	30.3
Gr. (%)	777.3	79.5	7.4	11.8
DPS (Rs.)	2.8	4.3	4.9	5.5
Yield (%)	1.7	2.6	3.0	3.3
NIM (%)	3.0	3.3	3.1	3.1
RoAE (%)	9.6	15.2	14.5	14.7
RoAA (%)	0.6	1.0	0.9	0.9
P/BV (x)	1.1	0.9	0.8	0.8
P/ABV (x)	1.3	1.0	0.9	0.8
PE (x)	11.6	6.5	6.0	5.4
CAR (%)	15.6	16.9	15.9	15.3

### Key Data

### BOB.BO | BOB IN

52-W High / Low	Rs.197 / Rs.90
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.846bn/ \$ 10,338m
Shares Outstanding	5,171m
3M Avg. Daily Value	Rs.5583.57m

### Shareholding Pattern (%)

Promoter's	63.97
Foreign	9.97
Domestic Institution	17.95
Public & Others	8.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(12.7)	35.2	49.3
Relative	(12.1)	29.6	44.3

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# Bank of Baroda (BOB IN)

Rating: BUY | CMP: Rs164 | TP: Rs220

## Core profitability surprises yet again

### Quick Pointers:

- Core PPOP beat by 14% led by better NII, TWO recovery and lower opex.
- Asset quality further improved; Adani exposure could be 0.6%.

**We raise FY23E earnings by ~4% due to higher NII, although PAT change is immaterial in FY24/25E. Bank of Baroda (BoB) saw another strong quarter with core PPOP at Rs73bn (beat PLe by ~14%) led by higher NII, better TWO recovery and lower opex while asset quality was better. Stronger NII was led by higher NIM at 3.65% (PLe 3.51%) and loan growth at +6.5% QoQ (PLe 3.5%), driven by domestic corporate and retail credit. BoB guided for a ~15% YoY loan growth in FY24E. Loan mix which is 57:43 retail/wholesale could shift to 60:40. Bank indicated that increasing retail share, expanding corporate yields and higher MCLR share (50%) could drive further NIM expansion. Adani Group exposure could be 0.6% of loans, although entire credit is secured and 30% of exposure is towards JVs having large PSUs as partners. Valuation at 0.9x is attractive; we maintain a 1.2x multiple on Sep'24 ABV and TP at Rs220. Retain 'BUY'.**

- Strong quarter with NII beat:** NII was ahead at Rs108bn (PLe Rs103bn), led by stronger NIM and loan growth. NIM was a beat at 3.65% (PLe 3.51%), led by higher rise in yields compared to cost of funds. Loan growth was stronger at 21.7% YoY (PLe. 18.3%), while deposit growth too was better at 17.5% YoY (PLe 15.7%). Other income saw a sharp jump QoQ from Rs18.3bn to Rs35.5bn, due to treasury gain at Rs9.6bn (loss of Rs2.4bn in Q2). Opex was lower at Rs61bn (PLe. Rs64n). Core PPOP was a beat at Rs72.6bn (PLe. Rs63.5bn). GNPA/NNPA fell by 78/16bps QoQ to 4.53%/0.99, as slippages were lower at Rs28.8bn (PLe Rs55bn). Provisions were higher at Rs24bn (PLe Rs20bn), due to NPI provision of Rs14bn. PAT was a beat at Rs38.5bn (PLe.Rs33.8bn).
- Domestic corporate drives credit growth:** Loan growth was 6.5% QoQ led by domestic corporate (+9.1%) and retail (+5.3%). Wholesale grew without diluting credit standards and corporate credit profile is improving each quarter. Home, personal and auto drove the retail growth. There is more scope to increase PL share as it can be offered to NTB customers (currently 100% ETB). Due to focus on granular loans, domestic retail/wholesale credit mix which is 57:43 could shift to 60:40. Commentary suggests that achieving 15% YoY growth in FY24E may not be challenging; while retail growth could be 1.5x of overall, corporate could grow by 0.7x. As per bank, margins can improve given 1) retail share could increase also led by PL 2) corporate yields can expand more as they have not fully repriced and 3) higher MCLR share at 50%.
- Commentary suggests Adani exposure could be ~0.6%:** While bank did not explicitly quantify Adani group exposure, commentary suggested that it did not figure in Top-15 as per LEF of RBI and is 25% of maximum single counterparty exposure (limit is 25% of tier-1 capital). Also, all loans are secured and 30% of overall exposure is towards JVs, in which large PSUs are partners. Hence total exposure could be 0.6%, although outstanding credit share could be lower. Asset quality was stronger owing to lower slippages; Bank is targeting to keep provisions between 100-125bps; we see provisions at ~93bps in FY24/25E.

NII grew 26.5% YoY/6.3% QoQ led by stronger NIM and loan growth. Other income grew sharply by 415 YoY due to higher treasury gains of Rs. 9.6bn. Opex growth was slightly lower at 9.8% YoY/2.8% QoQ. Provisions increased 47.7% YoY due to higher provisions for investments. Advances and deposits grew strong at 20.6% YoY/13.6% YoY respectively. NIM improved marginally by 24bps YoY/4bps QoQ. Asset quality saw stark improvement with GNPA/NNPA at 4.53%/0.99%. CASA came at 41.6%

### Exhibit 1: Overall strong performance with core PPOP beat at ~14%

Financial Statement (Rs m)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	235,401	179,630	31.0	212,542	10.8
Interest Expense	127,218	94,110	35.2	110,798	14.8
<b>Net Interest Income (NII)</b>	<b>108,182</b>	<b>85,520</b>	<b>26.5</b>	<b>101,745</b>	<b>6.3</b>
- Treasury income	9,630	4,460	115.9	(2,390)	NA
Other income	35,520	25,193	41.0	18,258	94.5
<b>Total income</b>	<b>143,702</b>	<b>110,713</b>	<b>29.8</b>	<b>120,003</b>	<b>19.7</b>
Operating expenses	61,381	55,880	9.8	59,693	2.8
-Staff expenses	33,470	31,027	7.9	31,834	5.1
-Other expenses	27,911	24,853	12.3	27,859	0.2
<b>Operating profit</b>	<b>82,321</b>	<b>54,833</b>	<b>50.1</b>	<b>60,310</b>	<b>36.5</b>
<b>Core operating profit</b>	<b>72,691</b>	<b>50,373</b>	<b>44.3</b>	<b>62,700</b>	<b>15.9</b>
Total provisions	24,039	25,070	(4.1)	16,275	47.7
<b>Profit before tax</b>	<b>58,282</b>	<b>29,763</b>	<b>95.8</b>	<b>44,035</b>	<b>32.4</b>
Tax	19,755	7,793	153.5	10,901	81.2
<b>Profit after tax</b>	<b>38,527</b>	<b>21,970</b>	<b>75.4</b>	<b>33,134</b>	<b>16.3</b>
<b>Balance sheet (Rs m)</b>					
Deposits	11,495,070	9,780,343	17.5	10,901,716	5.4
Advances	8,906,823	7,321,638	21.7	8,365,914	6.5
<b>Profitability ratios</b>					
RoaA	1.2	0.7	45	1.1	14
<b>NIM</b>	<b>3.4</b>	<b>3.1</b>	<b>24</b>	<b>3.3</b>	<b>4</b>
Yield on Advances	8.4	7.1	137	7.8	68
Cost of Deposits	4.4	3.6	83	3.9	46
<b>Asset Quality</b>					
Gross NPA (Rs m)	418,575	559,968	(25.3)	463,744	(9.7)
Net NPA (Rs m)	88,538	164,649	(46.2)	96,722	(8.5)
<b>Gross NPL ratio</b>	<b>4.5</b>	<b>7.3</b>	<b>(272)</b>	<b>5.3</b>	<b>(78)</b>
<b>Net NPL ratio</b>	<b>1.0</b>	<b>2.2</b>	<b>(125)</b>	<b>1.2</b>	<b>(16)</b>
Coverage ratio	78.8	70.6	825	79.1	(30)
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	41.6	42.0	(35)	42.8	(114)
Cost-income ratio	42.7	50.5	(776)	49.7	(703)
Non int. inc / total income	24.7	22.8	196	15.2	950
Credit deposit ratio	77.5	74.9	262	76.7	74
CAR	14.9	15.5	(54)	15.2	(26)
Tier-I	12.6	13.2	(62)	12.8	(19)

Source: Company, PL

## Q3FY23 Analyst Meet Highlights

### Assets/Liabilities Outlook & Commentary:

- **Organic retail loan growth at 30% YoY & home loans growth at 20% YoY.** Growth is likely to continue in near to medium term. Retail wholesale mix target is 60:40. Retail growth target is 1.5x vs overall growth, while corporate growth should be 0.7x. Unsecured personal loans continue to grow at faster pace of >100% YoY on a smaller base. Currently, pre-approved personal loans are offered only to ETB, management plans to extend these to NTB as well.
- **Wholesale grew (+9.1 QoQ/13.3% YoY) without diluting credit standards** and corporate credit profile is improving each quarter. Management believes scope exists to improve yields in this segment as corporate loans are not fully repriced.
- **Adani group exposure did not figure in Top-15** as per large exposure framework (LEF) of RBI and is 25% of maximum single counterparty exposure (limit is 25% of tier-1 capital). Also, all loans are secured and 30% of overall exposure is towards JVs in which large PSUs are partners.
- **More headroom to grow loans vs deposits**, as CD Ratio is moderate at 77.5%.
- There is some scope for moderation in loan growth for the next year; hence internal accruals would be sufficient to fund growth.
- **Overall strategy would be** 1) growth while protecting margins 2) control costs and 3) improve asset quality.

### NIMs/Opex

- **In Q3 bank's NIM stood at 3.37% vs 3.33% in Q2FY23.** NIM continues to expand, due to lead lag benefit of loans and funds repricing. Management expects the same continue for couple of quarters.
- Margins can further improve given 1) retail share could increase also led by PL 2) corporate yields can expand more, as they have not fully repriced and 3) MCLR share is higher 50%.
- **Treasury income came at Rs9.6bn**, due to write back of MTM losses.

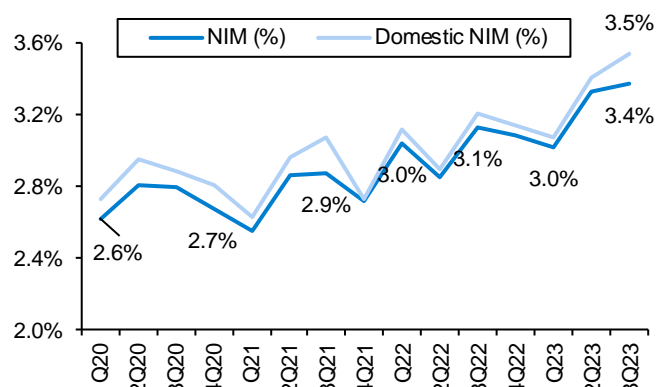
### Asset Quality

- **Slippages were lower at Rs.28.8bn in Q3FY23.** Management guides credit cost in the range of 1%-1.25% with decline in slippages.
- **Total outstanding restructured book stood at Rs177bn**, i.e 1.87% of the book, against which bank holds provisions of Rs20bn. SMA 1 & 2 is stable at 0.4% as on December 31, 2022.
- **Made provisions on non-performing investments of Rs6.3bn and Rs6.8bn** on reclassification of SR provision.

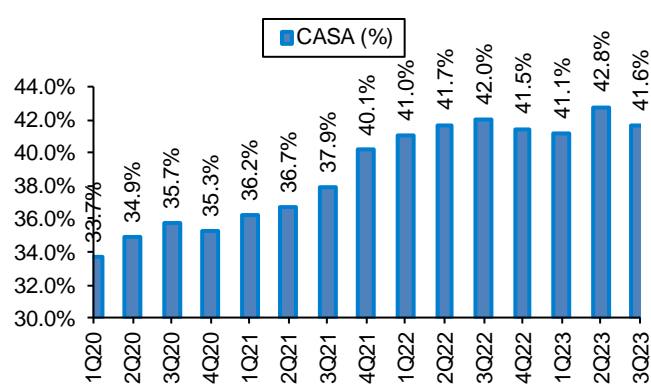
**Exhibit 2: Corporate growth strong with 9.1% QoQ, retail strong at 5/3% YoY**

Loan break up (Rs mn)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
<b>Domestic Advances</b>	<b>7,602,490</b>	<b>6,543,150</b>	<b>16.2</b>	<b>7,167,370</b>	<b>6.1</b>
Corporate	3,292,120	2,906,010	13.3	3,016,630	9.1
SME	1,030,030	926,880	11.1	1,012,780	1.7
Retail	1,668,610	1,289,600	29.4	1,585,060	5.3
Agri	1,191,970	1,056,940	12.8	1,149,640	3.7
Other/Misc	419,760	363,720	15.4	403,260	4.1
<b>Advances Mix</b>					
<b>Domestic Advances</b>	<b>82</b>	<b>85</b>	<b>(3)</b>	<b>82</b>	<b>0</b>
Corporate	36	38	(5)	35	3
SME	11	12	(7)	12	(4)
Retail	18	17	8	18	(0)
Agri	13	14	(6)	13	(2)
Other/Misc	5	5	(4)	5	(2)

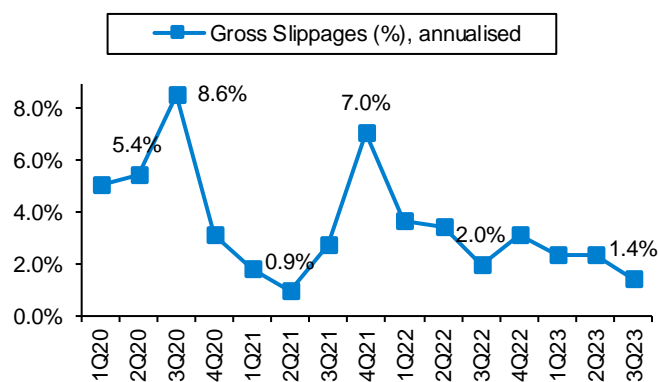
Source: Company, PL

**Exhibit 3: Domestic NIM improve to 3.5%**


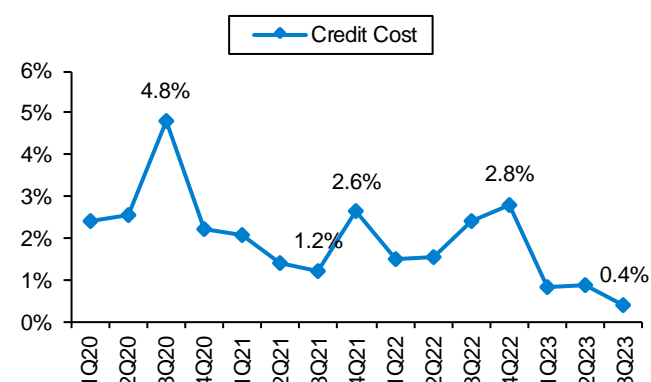
Source: Company, PL

**Exhibit 4: CASA ratio remains range bound in 41-42%**


Source: Company, PL

**Exhibit 5: Gross slippages continue to trend down at 1.4%..**


Source: Company, PL

**Exhibit 6: ...resulting in declining credit costs at 0.4%**


Source: Company, PL

**Exhibit 7: Return ratios to improve to +14% on normalized basis**

ROAE decomposition	2018	2019	2020	2021	2022	2023E	2024E	2025E
<b>NII/Assets</b>	2.2	2.5	2.8	2.5	2.7	3.0	2.9	2.9
Other Income/Assets	0.9	0.8	1.1	1.1	0.9	0.7	0.7	0.7
<b>Net revenues/Assets</b>	3.1	3.3	3.9	3.6	3.6	3.7	3.5	3.5
Opex/Assets	1.4	1.5	1.9	1.8	1.8	1.8	1.7	1.7
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	0.4	0.3	0.3
<b>ROAA</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.6</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>
<b>ROAE</b>	<b>-6.3</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>	<b>9.6</b>	<b>15.2</b>	<b>14.5</b>	<b>14.7</b>

Source: Company, PL      Note – FY20 represents merged numbers

### Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	4,92,785	6,39,198	7,82,544	9,11,560
Int. Earned from invt.	1,76,172	2,21,612	2,75,087	3,23,555
Others	19,699	19,743	32,862	37,120
Total Interest Income	6,98,808	8,94,032	11,00,543	12,82,492
Interest Expenses	3,72,594	4,82,369	6,51,831	7,75,632
<b>Net Interest Income</b>	<b>3,26,213</b>	<b>4,11,663</b>	<b>4,48,711</b>	<b>5,06,860</b>
Growth(%)	13.2	26.2	9.0	13.0
Non Interest Income	1,14,840	91,419	1,03,129	1,14,917
Net Total Income	4,41,053	5,03,082	5,51,840	6,21,777
Growth(%)	(2.5)	21.1	22.1	16.1
Employee Expenses	1,19,787	1,31,550	1,44,705	1,62,386
Other Expenses	97,377	1,11,666	1,23,144	1,37,895
Operating Expenses	2,17,164	2,43,215	2,67,849	3,00,281
<b>Operating Profit</b>	<b>2,23,888</b>	<b>2,59,867</b>	<b>2,83,991</b>	<b>3,21,496</b>
Growth(%)	5.6	16.1	9.3	13.2
NPA Provision	1,21,473	56,610	82,288	95,997
Total Provisions	1,30,024	80,163	96,786	1,12,150
<b>PBT</b>	<b>93,864</b>	<b>1,79,704</b>	<b>1,87,204</b>	<b>2,09,345</b>
Tax Provision	21,142	49,152	46,988	52,546
Effective tax rate (%)	22.5	27.4	25.1	25.1
<b>PAT</b>	<b>72,723</b>	<b>1,30,552</b>	<b>1,40,216</b>	<b>1,56,800</b>
Growth(%)	777.3	79.5	7.4	11.8

### 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	10,00,029	10,71,102	11,99,678
Growth(%)	11.5	16.4	7.1	12.0
Adj. Networth to NNPA's	1,33,646	85,675	90,336	99,037
Deposits	1,04,59,386	1,19,40,890	1,33,78,235	1,52,81,050
Growth(%)	8.2	14.2	12.0	14.2
CASA Deposits	43,36,052	47,00,447	53,58,760	62,29,789
% of total deposits	41.5	39.4	40.1	40.8
<b>Total Liabilities</b>	<b>1,27,79,998</b>	<b>1,46,21,068</b>	<b>1,64,70,387</b>	<b>1,86,13,963</b>
Net Advances	77,71,552	92,54,189	1,04,57,234	1,18,16,674
Growth(%)	10.0	19.1	13.0	13.0
Investments	31,57,954	37,01,676	41,57,955	47,06,563
<b>Total Assets</b>	<b>1,27,79,998</b>	<b>1,46,21,068</b>	<b>1,64,70,387</b>	<b>1,86,13,963</b>
Growth (%)	10.6	14.4	12.6	13.0

### Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	5,40,594	4,08,180	4,16,656	4,34,057
Net NPAs (Rs m)	1,33,646	85,675	90,336	99,037
Gr. NPAs to Gross Adv.(%)	6.6	4.3	3.9	3.6
Net NPAs to Net Adv. (%)	1.7	0.9	0.9	0.8
NPA Coverage %	75.3	79.0	78.3	77.2

### Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	3.0	3.3	3.1	3.1
RoAA	0.6	1.0	0.9	0.9
RoAE	9.6	15.2	14.5	14.7
Tier I	13.1	13.8	13.2	12.8
CRAR	15.6	16.9	15.9	15.3

Source: Company Data, PL Research

### Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Interest Income	1,81,736	1,89,375	2,12,542	2,35,401
Interest Expenses	95,619	1,00,991	1,10,798	1,27,218
<b>Net Interest Income</b>	<b>86,117</b>	<b>88,384</b>	<b>1,01,745</b>	<b>1,08,182</b>
YoY growth (%)	21.2	12.0	34.5	26.5
CEB	16,390	12,770	15,150	15,390
Treasury	-	-	-	-
Non Interest Income	25,223	11,820	18,258	35,520
<b>Total Income</b>	<b>2,06,959</b>	<b>2,01,195</b>	<b>2,30,800</b>	<b>2,70,920</b>
Employee Expenses	27,024	30,433	31,834	33,470
Other expenses	27,965	24,497	27,859	27,911
Operating Expenses	54,988	54,929	59,693	61,381
<b>Operating Profit</b>	<b>56,351</b>	<b>45,275</b>	<b>60,310</b>	<b>82,321</b>
YoY growth (%)	(9.6)	(19.2)	6.4	50.1
Core Operating Profits	63,181	53,005	62,700	72,691
NPA Provision	52,000	15,600	16,540	8,170
Others Provisions	37,364	16,848	16,275	24,039
Total Provisions	37,364	16,848	16,275	24,039
<b>Profit Before Tax</b>	<b>18,988</b>	<b>28,427</b>	<b>44,035</b>	<b>58,282</b>
Tax	1,200	6,746	10,901	19,755
<b>PAT</b>	<b>17,788</b>	<b>21,681</b>	<b>33,134</b>	<b>38,527</b>
YoY growth (%)	(269.9)	79.4	58.7	75.4
<b>Deposits</b>	<b>1,04,59,386</b>	<b>1,03,27,140</b>	<b>1,09,01,716</b>	<b>1,14,95,070</b>
YoY growth (%)	8.2	10.9	13.6	17.5
<b>Advances</b>	<b>77,71,552</b>	<b>79,96,157</b>	<b>83,65,914</b>	<b>89,06,823</b>
YoY growth (%)	10.0	19.6	20.6	21.7

### Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	164	164	164	164
EPS (Rs)	14.0	25.2	27.1	30.3
Book Value (Rs)	152	179	193	218
Adj. BV (Rs)	126	163	176	199
P/E (x)	11.6	6.5	6.0	5.4
P/BV (x)	1.1	0.9	0.8	0.8
P/ABV (x)	1.3	1.0	0.9	0.8
DPS (Rs)	2.8	4.3	4.9	5.5
Dividend Payout Ratio (%)	20.3	17.0	18.0	18.0
Dividend Yield (%)	1.7	2.6	3.0	3.3

### Efficiency

Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	49.2	48.3	48.5	48.3
C-D Ratio (%)	74.3	77.5	78.2	77.3
Business per Emp. (Rs m)	230	258	282	311
Profit per Emp. (Rs lacs)	9	16	17	18
Business per Branch (Rs m)	2,194	2,514	2,803	3,158
Profit per Branch (Rs m)	9	15	16	18

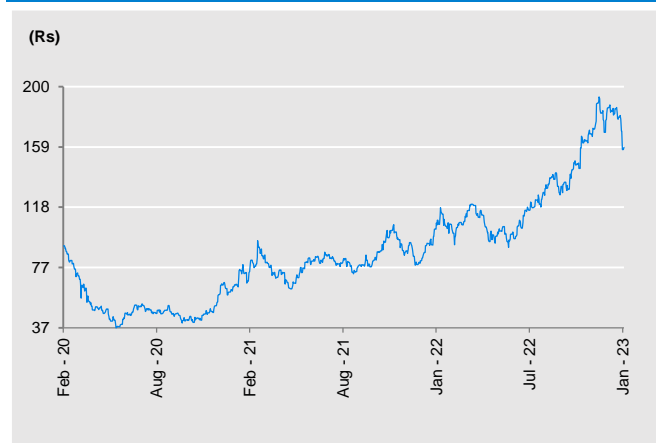
### Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.68	3.00	2.89	2.89
Total Income	3.63	3.67	3.55	3.54
Operating Expenses	1.78	1.78	1.72	1.71
PPoP	1.84	1.90	1.83	1.83
Total provisions	1.07	0.59	0.62	0.64
RoAA	0.60	0.95	0.90	0.89
RoAE	7.02	15.84	14.41	14.26

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-23	BUY	220	181
2	05-Jan-23	BUY	220	184
3	06-Nov-22	BUY	190	145
4	05-Oct-22	Accumulate	130	133
5	01-Aug-22	Accumulate	130	116
6	08-Jul-22	BUY	125	105
7	14-May-22	BUY	125	95
8	09-Apr-22	BUY	150	120

## 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	933
3	Bank of Baroda	BUY	220	181
4	Can Fin Homes	BUY	700	521
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	140
8	HDFC	BUY	3,000	2,613
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	870
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,500	1,223
13	Kotak Mahindra Bank	BUY	2,100	1,763
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)

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



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