

**BUY** Bank of Baroda

## Margin upsets in Q1, but higher retailization to drive up RoAs

BFSI - Banks ▶ Result Update ▶ August 5, 2023

TARGET PRICE (Rs): 260

Bank of Baroda (BoB) reported a miss on PAT at Rs40.7bn (est. at Rs43.2bn) due to sharper-than-expected margin dip (down 26bps QoQ to 3.3% similar to SBI), leading to NII miss of 7% coupled with higher-than-usual tax rate. The bank continued to report lower slippages, leading to improved GNPA ratio to 3.5%/NNPA at 0.8%. Additionally, the bank has provided Rs1.4bn and now holds Rs6.4bn/43% on its Rs16bn exposure to troubled GoAir – though the bank remains confident on its full recovery. BoB expects growth to remain healthy at 14-15%, with retail growing at a faster pace of 18-20%, which along with MCR repricing should help sustain margins at ~3.3% (reported) in FY24.

We expect BoB to deliver superior RoA/RoE of 1.1%/16-17% over FY24-26E, while healthy CET-1 at 12% provides comfort. We retain BUY with a TP of Rs260, valuing the bank at 1x its June 25E ABV and subs/inv. value at Rs6/share. Value unlocking in the insurance subsidiary and strategic tie-up in BoB cards will be near-term catalysts.

## Bank of Baroda: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	72,723	141,096	175,924	199,561	214,152
Loan growth (%)	10.0	21.1	14.0	15.5	16.2
NII growth (%)	13.2	26.8	12.5	13.0	14.4
NIM (%)	2.9	3.2	3.1	3.1	3.1
PPOP growth (%)	5.6	20.0	16.8	13.5	16.7
Adj. EPS (Rs)	14.0	27.3	34.0	38.5	41.4
Adj. EPS growth (%)	730.6	94.0	24.7	13.4	7.3
Adj. BV (INR)	146.6	177.6	206.2	235.3	268.0
Adj. BVPS growth (%)	24.9	21.1	16.1	14.1	13.9
RoA (%)	0.6	1.0	1.1	1.1	1.1
RoE (%)	8.9	15.3	16.7	16.6	15.6
P/E (x)	13.6	7.0	5.6	5.0	4.6
P/ABV (x)	1.3	1.0	0.9	0.8	0.7

Source: Company, Emkay Research

## Healthy growth, but margins sink similar to SBI

BoB continued to report robust net credit growth (better vs. SBI) at 20.5% YoY/2.4% QoQ (gross credit growth at 18% YoY), led by healthy growth in retail at 25% YoY/3.4% QoQ. Retail growth was, in turn, broad-based, led by auto, housing and PL loans. Deposit growth was relatively soft at 16% YoY/down 0.3% QoQ, while CASA ratio slipped to 37%, leading to a 25bps QoQ jump in CoD. Add to that, loan yields declined by 7bps QoQ, while investment yields were soft, leading to a sharp 26bps QoQ decline in NIM to 3.3%. However, adjusted for Q4 one-off income, margin contraction was 14bps QoQ. Going forward, the bank expects growth to remain healthy at 14-15%, with retail growing at a faster pace of 18-20%, which coupled with MCLR repricing should help the bank sustain margins around 3.3% (reported) in FY24.

## NPA's continue on the downward trend, though the pace comes-off

Fresh slippages were lower than our expectations at Rs28bn/1.4% of loans, while recoveries were lower leading to a slower reduction in GNPA ratio by 28bps QoQ to 3.5%/NNPA at 0.8%. The restructured pool moderated to Rs130bn/1.3% of loans in Q1 vs. 1.7% of loans in Q4. BoB's exposure to GoAir stands at Rs16bn, for which the bank created additional provisions to beef up the buffer to Rs6.4bn/43% of exposure. That said, the bank expects full recovery from this account and carries strong tangible security apart from a corporate guarantee of Rs10bn.

## Retain BUY with a TP of Rs260

We like BoB among PSBs due to its strong growth/return profile with low risk of dilution, given healthy capital ratios (CET 1 ratio at 12.5%). With the existing ED, Debadatta Chand, taking over charge as the new MD ensuring strategic continuity, the bank plans to further ramp up the retail/SME book (>35%) to sustain healthy NIMs/core profitability. We retain our BUY rating with a TP of Rs260, valuing the bank at 1x its June 25E ABV and subs/inv. value at Rs6/share. Value unlocking in the insurance subsidiary and strategic tie-up in BoB cards will be near-term catalysts. Key risks: Macro slowdown leading to slower credit growth/margin contraction and asset-quality disruption.

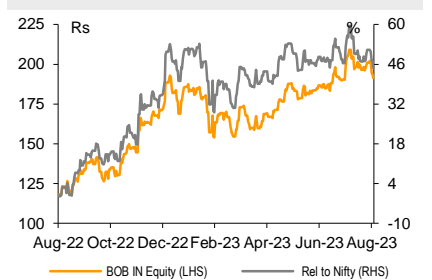
Target Price – 12M	Jun-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.9
CMP (04-Aug-23) (Rs)	191.4

Stock Data	Ticker
52-week High (Rs)	211
52-week Low (Rs)	116
Shares outstanding (mn)	5,171.4
Market-cap (Rs bn)	990
Market-cap (USD mn)	11,945
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	19
ADTV-3M (Rs mn)	3,713.8
ADTV-3M (USD mn)	44.8
Free float (%)	36.0
Nifty-50	19,517
INR/USD	82.8
<b>Shareholding, Jun-23</b>	
Promoters (%)	64.0
FPIs/MFs (%)	12.3/16.0

## Price Performance

(%)	1M	3M	12M
Absolute	(5.4)	3.3	61.3
Rel. to Nifty	(6.1)	(3.4)	43.7

## 1-Year share price trend (Rs)



## Anand Dama

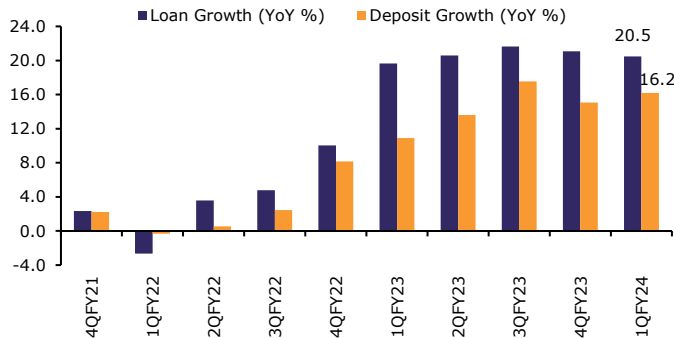
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# Story in Charts

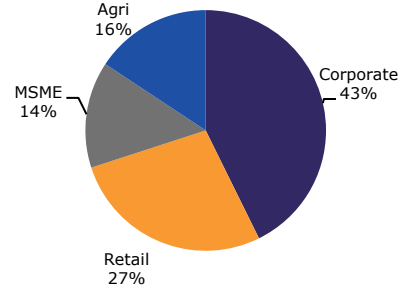
**Exhibit 1: Robust credit growth led by strong traction in the retail/overseas book**



Source: Company, Emkay Research

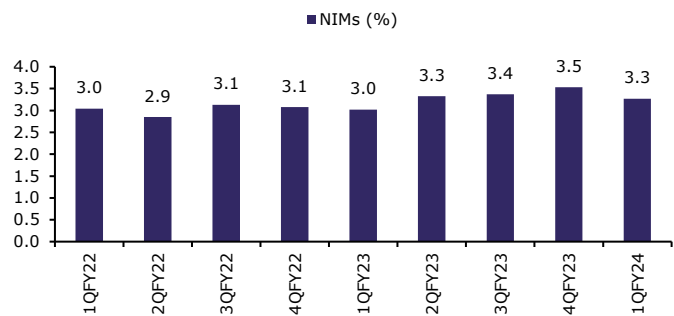
**Exhibit 2: BoB carries higher retail share among PSBs (barring SBI)**

% share in Gross Domestic Credit



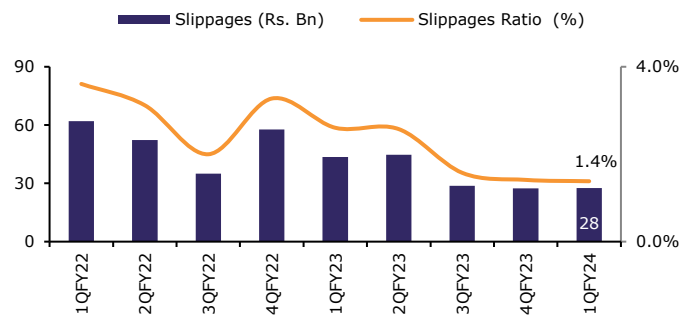
Source: Company, Emkay Research

**Exhibit 3: NIM declines sharply by 26bps QoQ to 3.3%**



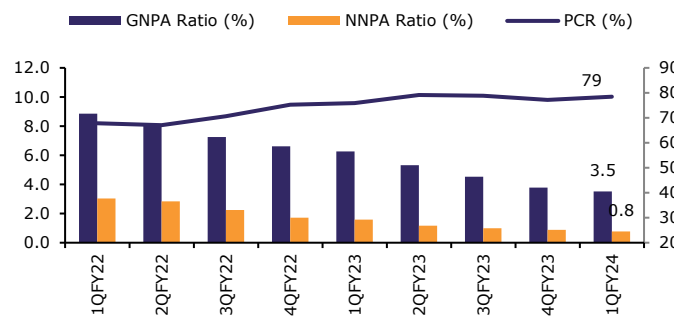
Source: Company, Emkay Research

**Exhibit 4: Slippages were lower at 1.4%**



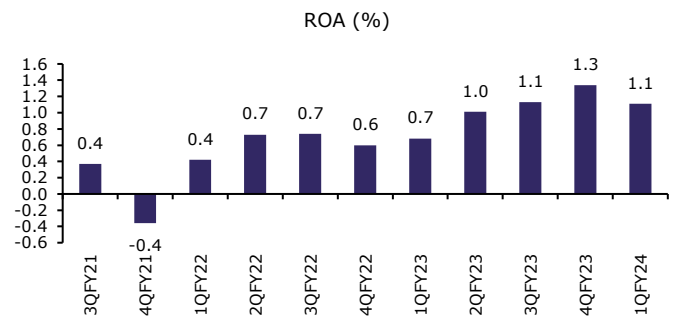
Source: Company, Emkay Research

**Exhibit 5: Lower slippages and accelerated write-offs led to a 28bps QoQ reduction in the GNPA ratio**



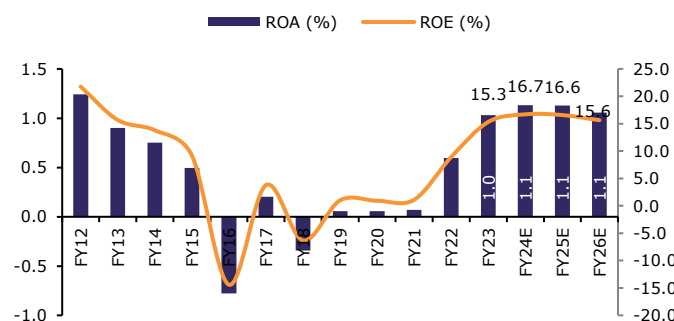
Source: Company, Emkay Research

**Exhibit 6: Lower margins and higher tax rate led to a decline in RoA to 1.1%**



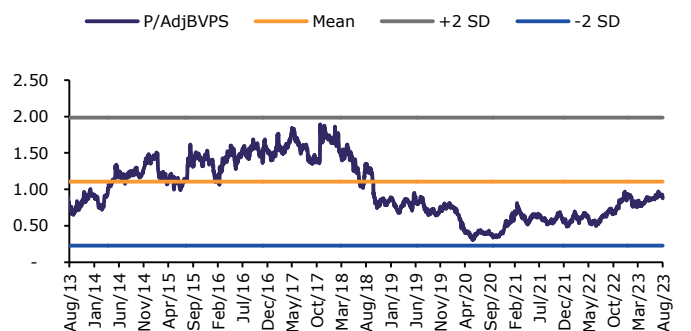
Source: Company, Emkay Research

**Exhibit 7: We expect return ratios to improve led by healthy core profitability and lower LLP**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 0.9x one-year forward ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actuals vs. Estimates (Q1FY24)**

(Rs mn)	Actuals	Estimates		Variation (%)		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	143,189	147,260	134,113	-3%	7%	Lower margins partly offset by higher other income led to a beat
PPOP	78,243	77,916	75,834	0%	3%	Lower opex led to a largely in-line number
PAT	40,701	43,193	39,636	-6%	3%	Higher tax rate led to a miss

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	189,375	212,542	235,401	258,567	265,558	40	3	895,885	1,132,599	26
Interest Exp	100,991	110,798	127,218	143,318	155,591	54	9	482,325	667,173	38
Net Interest Income	88,384	101,745	108,183	115,249	109,967	24	-5	413,560	465,426	13
Global NIMs (reported)	3.02	3.33	3.37	3.53	3.27	25bps	-26bps	3.19	3.14	-5bps
Non-interest Income	11,820	18,258	35,520	34,661	33,223	181	-4	100,258	131,193	31
Operating Expenses	54,929	59,693	61,381	69,180	64,946	18	-6	245,183	282,816	15
Pre Provisioning Profit	45,275	60,310	82,322	80,729	78,243	73	-3	268,635	313,803	17
Provision & Contingencies	16,848	16,275	24,039	14,207	19,468	16	37	71,369	76,067	7
PBT	28,427	44,035	58,283	66,522	58,775	107	-12	197,266	237,735	21
Income Tax Expense (Gain)	6,746	10,901	19,755	18,768	18,075	168	-4	56,170	61,811	10
Net Profit/(Loss)	21,681	33,134	38,527	47,753	40,701	88	-15	141,096	175,924	25
Gross NPA (%)	6.26	5.32	4.53	3.79	3.52	-274bps	-28bps	3.79	2.73	-106bps
Net NPA (%)	1.58	1.16	0.99	0.89	0.78	-80bps	-11bps	0.89	0.70	-19bps
Deposits (Rs bn)	10,327	10,902	11,495	12,037	11,999	16	0	12,037	13,628	13
Net Advances (Rs bn)	7,996	8,366	8,907	9,410	9,635	20	2	9,410	10,730	14

Source: Company, Emkay Research

**Exhibit 11: Revision in Estimates**

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Net income	596,153	596,619	0.08%	667,296	669,507	0.33%	760,549	764,942	0.58%
PPOP	312,111	313,803	0.5%	352,244	356,134	1.1%	408,789	415,494	1.6%
PAT	177,535	175,924	-0.9%	196,237	199,561	1.7%	212,128	214,152	1.0%
EPS (Rs)	34.3	34.0	-0.9%	37.9	38.5	1.7%	41.0	41.4	1.0%
BV (Rs)	217.3	217.0	-0.1%	247.6	247.9	0.1%	280.4	281.1	0.3%

Source: Emkay Research

**Exhibit 12: Key Assumptions**

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	21.1	14.0	15.5	16.2
Deposit Growth (%)	15.1	13.2	15.3	16.1
NIM (%)	3.2	3.1	3.1	3.1
GNPA (%)	3.8	2.7	2.3	2.1
Credit Cost (%)	0.5	0.7	0.7	1.0

Source: Emkay Research

## Exhibit 13: Key ratios and trends

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Loans (Rs mn)	7,111,503	7,337,221	7,716,958	8,178,499	8,395,537	8,732,936	9,236,860	9,693,776	9,908,406
<b>Balance Sheet</b>									
Loans (Rs bn)	7,112	7,337	7,717	8,178	8,396	8,733	9,237	9,694	9,908
- Growth (YoY) %	-3.4	2.1	3.6	8.9	18.1	19.0	19.7	18.5	18.0
- Growth (QoQ) %	-5.3	3.2	5.2	6.0	2.7	4.0	5.8	4.9	2.2
<b>Liability Profile</b>									
Deposit (Rs bn)	9,313	9,595	9,780	10,459	10,327	10,902	11,495	12,037	11,999
- Growth (YoY) %	-0.3	0.5	2.5	8.2	10.9	13.6	17.5	15.1	16.2
- Growth (QoQ) %	-3.7	3.0	1.9	6.9	-1.3	5.6	5.4	4.7	-0.3
CASA (%)	40.2	39.2	42.0	41.5	41.1	39.8	38.6	39.1	37.2
<b>Capital Adequacy</b>									
CAR (%)	15.4	15.6	15.5	16.0	15.5	15.3	14.9	16.2	15.8
Tier I (%)	13.1	13.1	13.2	13.5	13.0	12.8	12.6	14.0	13.6
<b>Asset Quality</b>									
GNPA (%)	8.9	8.1	7.3	6.6	6.3	5.3	4.5	3.8	3.5
NNPA (%)	3.0	2.8	2.2	1.7	1.6	1.2	1.0	0.9	0.8
PCR (%)	73.6	67.1	70.6	75.3	75.9	79.1	78.9	77.2	78.5
Slippages (%)	3.0	3.1	2.0	3.3	2.6	2.6	1.6	1.4	1.4
NIM (%) - Global	3.0	2.9	3.1	3.1	3.0	3.3	3.4	3.5	3.3
NIM (%) - Domestic	3.1	2.9	3.2	3.1	3.1	3.4	3.5	3.7	3.3
Cost/ Income (%)	47.9	49.1	50.5	49.4	54.8	49.7	42.7	46.1	45.4
<b>ROE Decomposition (%)</b>									
NII	3.1	3.0	3.4	3.2	3.1	3.5	3.5	3.6	3.3
Other Income (Ex Treasury)	0.8	0.9	0.8	0.9	0.3	0.6	1.1	1.0	0.9
Treasury	0.4	0.5	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Opex	2.1	2.2	2.2	2.0	1.9	2.0	2.0	2.2	2.0
PPOP	2.2	2.3	2.1	2.1	1.6	2.1	2.7	2.5	2.4
Provisioning Cost	1.6	1.1	1.0	1.4	0.6	0.6	0.8	0.4	0.6
PBT	0.6	1.2	1.2	0.7	1.0	1.5	1.9	2.1	1.8
Tax	0.2	0.3	0.3	0.0	0.2	0.4	0.6	0.6	0.5
ROA	0.4	0.7	0.7	0.6	0.7	1.0	1.1	1.3	1.1
Leverage (x)	14.6	14.4	14.5	14.7	14.7	14.5	14.5	14.7	14.6
ROE	6.2	10.5	10.8	8.4	10.0	14.7	16.4	19.6	16.2

Source: Company, Emkay Research

## Bank of Baroda: Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	698,808	895,885	1,132,599	1,254,011	1,405,745
Interest Expense	372,594	482,325	667,173	728,202	804,049
<b>Net interest income</b>	<b>326,213</b>	<b>413,560</b>	<b>465,426</b>	<b>525,809</b>	<b>601,697</b>
NII growth (%)	13.2	26.8	12.5	13.0	14.4
Other income	114,840	100,258	131,193	143,698	163,246
<b>Total Income</b>	<b>441,053</b>	<b>513,819</b>	<b>596,619</b>	<b>669,507</b>	<b>764,942</b>
Operating expenses	217,164	245,183	282,816	313,373	349,448
<b>PPOP</b>	<b>223,888</b>	<b>268,635</b>	<b>313,803</b>	<b>356,134</b>	<b>415,494</b>
PPOP growth (%)	5.6	20.0	16.8	13.5	16.7
<b>Core PPOP</b>	<b>206,154</b>	<b>267,895</b>	<b>294,669</b>	<b>330,303</b>	<b>380,622</b>
Provisions & contingencies	130,024	71,369	76,067	89,340	129,194
<b>PBT</b>	<b>93,864</b>	<b>197,266</b>	<b>237,735</b>	<b>266,793</b>	<b>286,300</b>
Extraordinary items	0	0	0	0	0
Tax expense	21,142	56,170	61,811	67,232	72,147
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>72,723</b>	<b>141,096</b>	<b>175,924</b>	<b>199,561</b>	<b>214,152</b>
PAT growth (%)	777.2	94.0	24.7	13.4	7.3
<b>Adjusted PAT</b>	<b>72,723</b>	<b>141,096</b>	<b>175,924</b>	<b>199,561</b>	<b>214,152</b>
<b>Diluted EPS (Rs)</b>	<b>14.0</b>	<b>27.3</b>	<b>34.0</b>	<b>38.5</b>	<b>41.4</b>
Diluted EPS growth (%)	777.2	94.0	24.7	13.4	7.3
<b>DPS (Rs)</b>	<b>2.9</b>	<b>5.5</b>	<b>6.7</b>	<b>7.6</b>	<b>8.2</b>
<b>Dividend payout (%)</b>	<b>22.9</b>	<b>22.8</b>	<b>22.2</b>	<b>22.2</b>	<b>22.4</b>
Effective tax rate (%)	22.5	28.5	26.0	25.2	25.2
Net interest margins (%)	2.9	3.2	3.1	3.1	3.1
Cost-income ratio (%)	49.2	47.7	47.4	46.8	45.7
Shares outstanding (mn)	5,177.7	5,177.7	5,177.7	5,177.7	5,177.7

Source: Company, Emkay Research

Asset Quality and Other Metrics					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	540,593.6	367,636.6	299,174.3	290,356.4	301,315.8
Net NPLs	133,510.2	83,843.2	74,793.6	87,106.9	90,394.7
GNPA ratio (%)	6.6	3.8	2.7	2.3	2.1
NNPA ratio (%)	1.7	0.9	0.7	0.7	0.6
Provision coverage (%)	75.3	77.2	75.0	70.0	70.0
Gross slippages	142,553.3	144,420.0	136,924.6	176,358.9	219,188.9
Gross slippage ratio (%)	1.7	1.5	1.3	1.4	1.5
LLP ratio (%)	2.0	1.5	0.5	0.7	0.7
NNPA to net worth (%)	14.4	7.9	6.2	6.4	5.8
<b>Capital adequacy</b>					
Total CAR (%)	15.8	16.2	15.6	15.4	15.2
Tier-1 (%)	13.3	14.0	13.6	13.5	13.4
CET-1 (%)	11.7	11.7	12.1	12.2	12.3
RWA-to-Total Assets (%)	49.5	47.8	50.0	50.0	50.0
<b>Miscellaneous</b>					
Total income growth (%)	(2.5)	22.4	26.9	10.6	12.3
Opex growth (%)	5.7	12.9	15.3	10.8	11.5
Core PPOP growth (%)	19.5	29.9	10.0	12.1	15.2
PPOP margin (%)	27.5	27.0	24.8	25.5	26.5
PAT/PPOP (%)	32.5	52.5	56.1	56.0	51.5
LLP-to-Core PPOP (%)	63.1	26.6	25.8	27.0	33.9
Yield on advances (%)	6.8	7.6	8.4	8.2	8.0
Cost of funds (%)	3.4	3.9	4.8	4.6	4.4

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	10,355	10,355	10,355	10,355	10,355
Reserves & surplus	848,742	971,874	1,113,108	1,273,319	1,445,014
<b>Net worth</b>	<b>859,097</b>	<b>982,229</b>	<b>1,123,463</b>	<b>1,283,674</b>	<b>1,455,369</b>
Deposits	10,459,386	12,036,878	13,627,735	15,719,253	18,242,263
Borrowings	1,038,993	1,019,105	1,070,060	1,123,563	1,179,741
<b>Interest-bearing liab.</b>	<b>11,498,378</b>	<b>13,055,983</b>	<b>14,697,795</b>	<b>16,842,816</b>	<b>19,422,004</b>
<b>Other liabilities &amp; prov.</b>	<b>422,523</b>	<b>547,404</b>	<b>630,994</b>	<b>748,952</b>	<b>753,037</b>
<b>Total liabilities &amp; equity</b>	<b>12,779,998</b>	<b>14,585,615</b>	<b>16,452,252</b>	<b>18,875,443</b>	<b>21,630,411</b>
Net advances	7,771,552	9,409,983	10,729,586	12,393,813	14,401,671
Investments	3,157,954	3,624,854	4,011,953	4,503,197	5,079,344
Cash, other balances	1,226,550	957,032	1,028,846	1,178,997	1,262,430
<b>Interest earning assets</b>	<b>12,156,056</b>	<b>13,991,869</b>	<b>15,770,385</b>	<b>18,076,007</b>	<b>20,743,446</b>
Fixed assets	99,219	87,066	104,496	116,078	128,948
Other assets	524,724	506,681	577,371	683,358	758,017
<b>Total assets</b>	<b>12,779,998</b>	<b>14,585,615</b>	<b>16,452,252</b>	<b>18,875,443</b>	<b>21,630,411</b>
BVPS (Rs)	165.9	189.7	217.0	247.9	281.1
Adj. BVPS (INR)	146.6	177.6	206.2	235.3	268.0
Gross advances	8,178,635	9,693,776	10,953,967	12,597,062	14,612,592
Credit to deposit (%)	74.3	78.2	78.7	78.8	78.9
CASA ratio (%)	41.5	39.1	38.1	37.3	37.3
Cost of deposits (%)	3.3	3.7	4.6	4.5	4.3
Loans-to-Assets (%)	60.8	64.5	65.2	65.7	66.6
Net advances growth (%)	10.0	21.1	14.0	15.5	16.2
Deposit growth (%)	8.2	15.1	13.2	15.3	16.1
Book value growth (%)	11.5	14.3	14.4	14.3	13.4

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	13.6	7.0	5.6	5.0	4.6
P/B (x)	1.3	1.1	0.9	0.8	0.7
P/ABV (x)	1.3	1.0	0.9	0.8	0.7
P/PPOP (x)	4.4	3.7	3.2	2.8	2.4
Dividend yield (%)	1.5	2.9	3.5	4.0	4.3
<b>DuPont-RoE split (%)</b>					
NII/avg assets	2.7	3.0	3.0	3.0	3.0
Other income	0.9	0.7	0.8	0.8	0.8
Fee income	0.2	0.2	0.2	0.2	0.2
Opex	1.8	1.8	1.8	1.8	1.7
<b>PPOP</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>
Core PPOP	1.7	2.0	1.9	1.9	1.9
Provisions	1.1	0.5	0.5	0.5	0.6
Tax expense	0.2	0.4	0.4	0.4	0.4
<b>RoA (%)</b>	<b>0.6</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
Leverage ratio (x)	15.5	14.9	14.9	14.7	14.7
<b>RoE (%)</b>	<b>8.9</b>	<b>15.3</b>	<b>16.7</b>	<b>16.6</b>	<b>15.6</b>
<b>Quarterly data</b>					
Rs mn, Y/E March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	88,384	101,745	108,183	115,249	109,967
NIM (%)	3.0	3.3	3.4	3.5	3.3
PPOP	45,275	60,310	82,322	80,729	78,243
PAT	21,681	33,134	38,527	47,753	40,701
EPS (Rs)	4.19	6.40	7.44	9.22	7.86

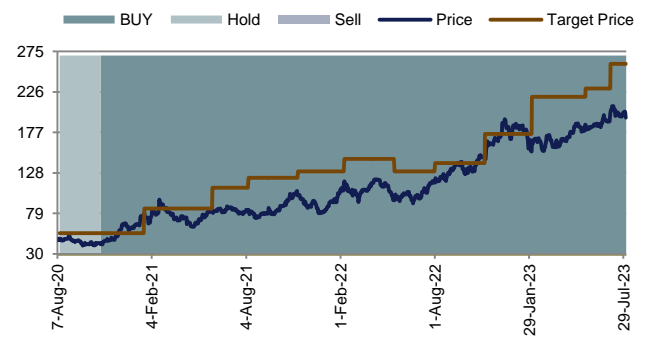
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
04-Jul-23	202	260	Buy	Anand Dama
17-May-23	186	230	Buy	Anand Dama
09-Mar-23	172	220	Buy	Anand Dama
03-Feb-23	164	220	Buy	Anand Dama
05-Nov-22	145	175	Buy	Anand Dama
01-Aug-22	116	140	Buy	Anand Dama
15-May-22	95	130	Buy	Anand Dama
08-Feb-22	118	145	Buy	Anand Dama
11-Nov-21	101	130	Buy	Anand Dama
08-Aug-21	83	122	Buy	Anand Dama
31-May-21	81	110	Buy	Anand Dama
28-May-21	84	85	Buy	Anand Dama
28-Jan-21	67	85	Buy	Anand Dama
20-Jan-21	79	85	Buy	Anand Dama
29-Oct-20	43	55	Buy	Anand Dama
11-Aug-20	47	55	Hold	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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