

BANK OF BARODA

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Result and Price Analysis

In 1QFY24, Bank of Baroda (BOB) has delivered an expected result on operating and asset quality front. The fresh slippages were slightly higher at ₹24.5bn v/s ₹22.4bn in 4QFY23. Furthermore, the reduction (up-gradation & recovery) stood ₹47bn v/s ₹78bn in the previous quarter. It reported GNPA (3.51% v/s 4.79% in 4QFY23) and NNPA (0.78% v/s 0.89% in 4QFY23) declined substantially along with higher PCR (incl. TWO) of 93%. The bank has witnessed robust growth in net advances (20.5% YoY, 2.4% QoQ) and deposit growth (16.2% YoY, flat sequentially) with better liquidity position (LCR of 143.6%+). Moreover the bank has reported net profit of ₹40.7bn on the back of higher loan loss provision (₹16.9bn v/s ₹3.2bn in the previous quarter). SMA1/2 pool reduced sequentially to ~29bps. We believe the inexpensive valuation (P/ABVPS: 1.0x) makes BOB lucrative. Thus reiterate BUY with target price of ₹239.

Gazing the core

Asset Quality stable: The GNPA and NNPA ratio inched down meaningfully to 3.51%/0.78% (v/s 3.79%/0.89% in 4QFY23) because of moderate slippages and steady upgrades and write-offs. The PCR including technical write-off stood ~93% of GNPLs. The absolute GNPA reduced by 5.3% sequentially and 34% YoY. Go-Air account is standard and has an exposure of ₹13bn. The bank has made provision of ₹5bn in the previous quarter. It has tangible collateral of more than ₹10bn against the exposure. In 1QFY24, the fresh slippages were at slightly higher level of ₹24.5bn v/s ₹22.4bn in the previous quarter. Corporate Book contributed mere 7% of the slippages amount while Retail contribution was at 25%. SME book has slippages contribution of 47%. The reduction (up-gradation, recovery & write-offs) stood ₹47bn v/s ₹78bn in the previous quarter. The Bank's SMA 1&2 book down sequentially and stood at around to 29bps. Furthermore, Restructured Book stable at ~160bn. The Bank has made provisioning of ₹19.5bn; standard asset related provisions of ₹1.4bn. The provision for NPAs were ₹17bn (Credit cost: 0.70% v/s 0.14% in 4QFY23). ECL provision are expected to be at 1% - 1.15% of loan book.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	288,090	326,213	413,560	478,195	567,448
Operating Profit	206,298	223,888	268,635	312,234	368,315
Reported Profits	8,290	72,723	141,096	161,893	192,327
Net Worth	718,686	788,229	923,622	1,085,515	1,277,841
Loan & Advances	7,063,005	7,771,552	9,409,983	11,386,079	13,549,434
Int. Bearing Liabilities	10,338,449	11,498,378	13,055,983	15,590,657	18,394,230

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	2.6	2.8	3.2	3.1	3.1
C/I	49.9	49.2	47.7	46.9	46.5
Gross NPA	8.9	6.6	3.8	3.4	2.9
PCR	67.3	75.3	77.2	80.7	83.1
Adj. RoA	0.1	0.6	1.0	1.0	1.0
Adj. RoE	1.1	8.9	15.3	15.2	15.8

Rating :	BUY
Current Market Price (₹) :	194
12M Price Target (₹) :	239
Potential upside (%) :	23

Stock Data

Sector :	PSU Banking
Face Value (₹) :	2
Total Market Cap (₹ bn) :	1,003
Free Float Market Cap (₹ bn) :	361
52-Week High / Low (₹) :	211 / 116
BSE Code / NSE Symbol :	532134 / BANKBARODA
Bloomberg :	BOB IN

Shareholding Pattern

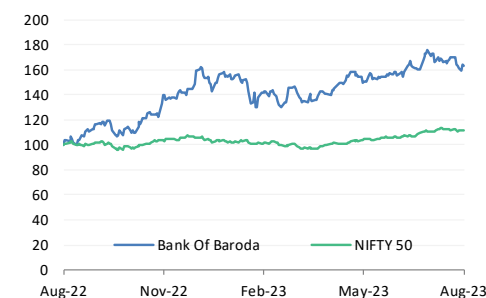
(%)	Jun-23	Mar-23	Dec-22	Sep-22
GOI	63.97	63.97	63.97	63.97
FPIs	12.29	10.93	9.97	8.93
MFs	9.82	10.11	10.87	11.55
Insurance	4.37	5.06	5.39	5.85
Others	9.55	9.93	9.80	9.70

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
BOB	-7.2	9.1	14.5	63.5
Nifty 50	1.6	7.5	9.7	12.0

* To date / current date : August 9, 2023

BOB vs Nifty 50

Healthy Credit Growth: The bank's net advances stood at ~₹9.4tn; grew by 20.5% YOY and 2.4% QOQ. Retail (18.6% contribution), Corporate (35% contribution) and Agriculture (12.9% contribution) grew by 3.4%, 1.9% and 2.7% QoQ respectively. The bank's deposit stood at ~₹12tn grew by 16.2% YOY and flat sequentially; the bank's CASA deposit de-grew by 4.3% QoQ and CASA ratio stable at 40.3%. The bank's CRAR 15.84% vs. 16.24% in the previous quarter with CET 1 of 11.94%. The RWA to assets stood at ~49% with LCR (143.6%) well above the regulatory requirement.

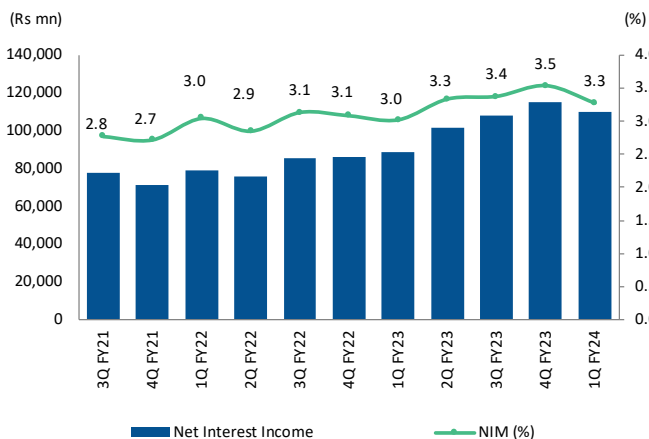
NIM guidance of 3.3% for FY24E: Domestic NIMs (3.41%) down by 24bps sequentially driven by 12bps squeeze in domestic Yields at 8.91%. Management believes the NIMs to be at 3.3% for FY24. Global YOA and COD stood at 8.4% and 4.68% against 8.47% and 4.52% in the previous quarter. Global NIMs inched down by 25bps to 3.27% which translated in NII (~₹109bn) growth of 24.4% YoY and de-growth of 4.6% sequentially. Of the total loan book, 10% linked to T-bill & G-sec, 50% MCLR. 26% EBLR coupled with higher share of CASA and significant portion of Investment book being in floating rate bonds. NIM would be watched as 26% of the loan book is EBLR linked. As expected, a muted NII growth and slow other income have translated in PPOP decline of 3% sequentially. Moreover, provision expenses were higher at ₹19.5bn v/s ₹14.2bn in 4QFY23. Thus, it resulted in 15% sequential de-growth in PAT of ₹40.7bn. The ROA/ROE (calculated) improvement is in line and stood at around 1.1%/16%.

Outlook & Valuations

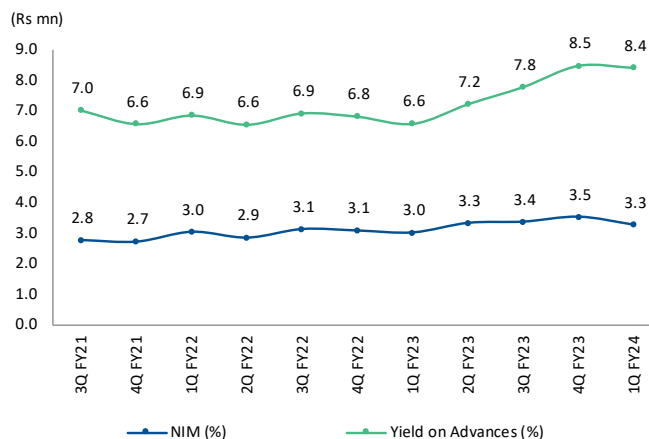
We expect BOB to post a ROA/ROE of 1%/15.2% by FY24E led by steady balance sheet growth along with higher PCR and improving asset quality. We value the standalone bank at PBV of 1.0x FY25E Adj. BVPS to arrive at a price target of ₹239. We recommend BUY with potential upside of 23%.

Quarterly story in charts

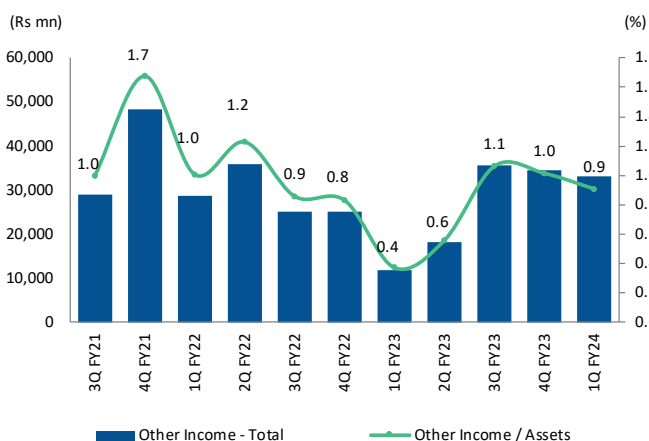
NII trend



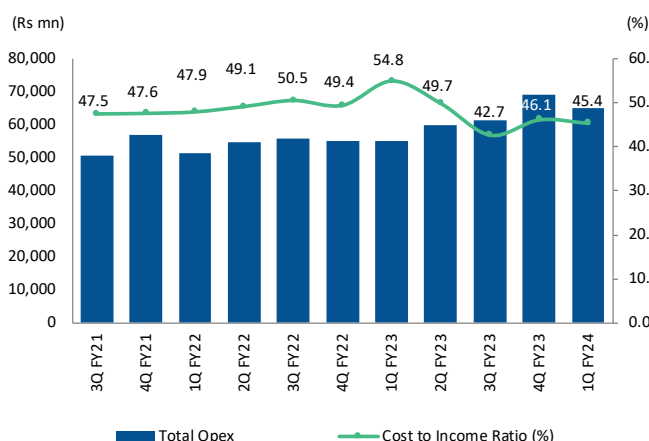
Yields & margin trend



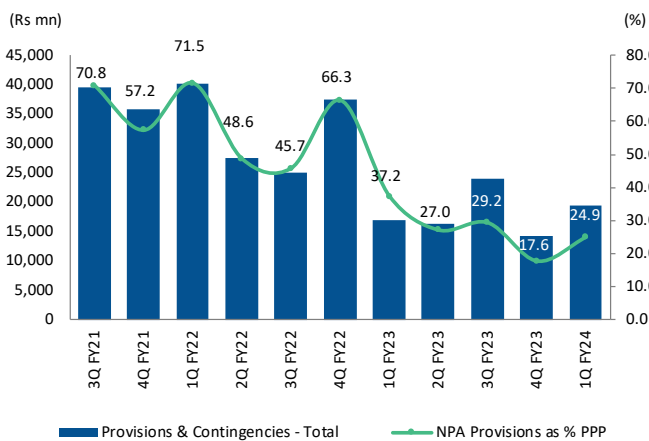
Other income trend



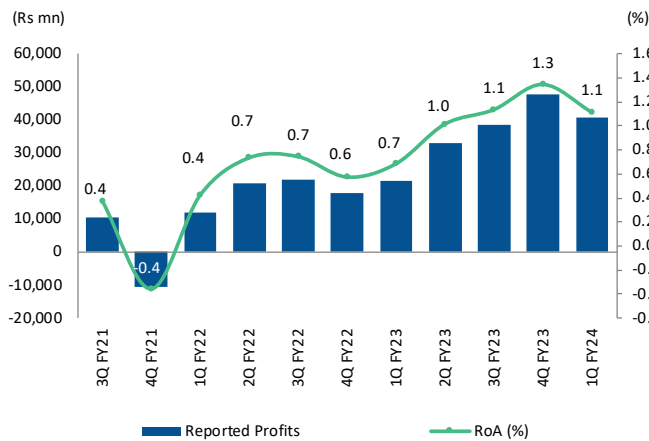
Total OPEX trend



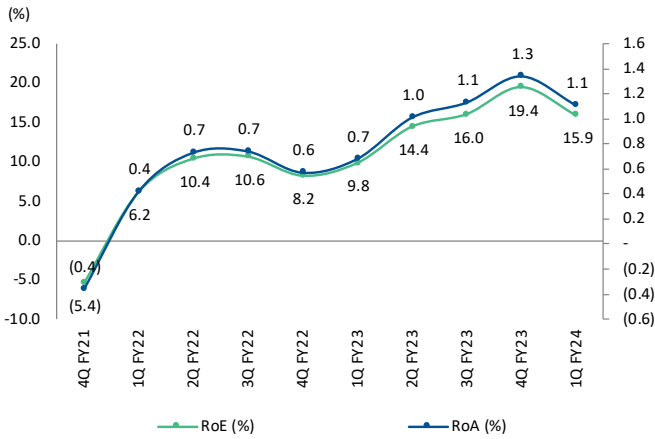
Provision expenses trend



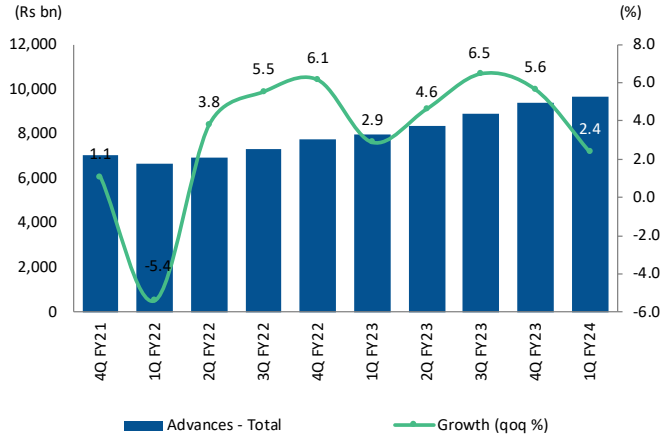
Reported profit trend



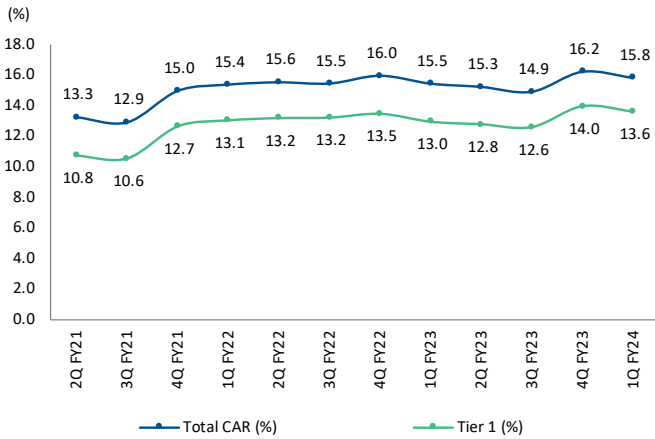
Return ratio trend



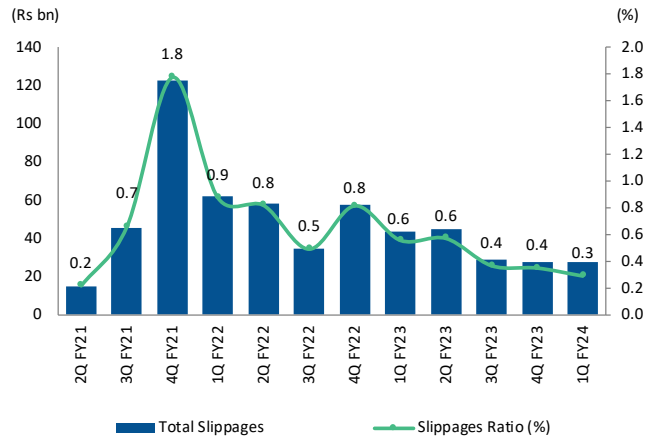
Loan book trend



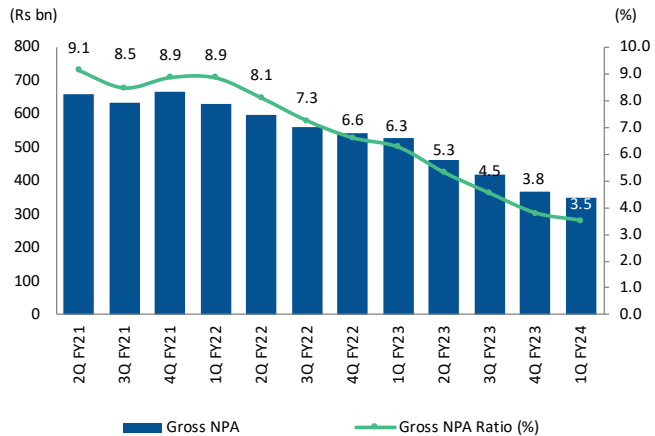
CRAR & Tier 1 ratio trend



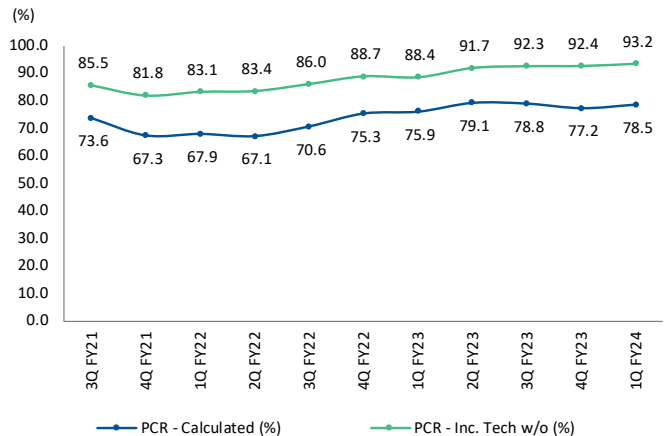
Slippages trend



Gross NPA trend



PCR Trend



Financial Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	1Q FY24	1Q FY23	% yoy / bps	4Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	265,558	189,375	40.2	258,567	2.7	895,885	698,808	28.2
Interest Expenses	155,591	100,991	54.1	143,318	8.6	482,325	372,594	29.5
Net Interest Income	109,967	88,384	24.4	115,249	(4.6)	413,560	326,213	26.8
NII to Net Operative Income	76.8	88.2	(1,141)	76.9	(8)	80.5	74.0	653
NIM (%)	3.27	3.0	25	3.5	(26)	3.2	2.8	33
Other Income - Total	33,223	11,820	181.1	34,661	(4.1)	100,258	114,840	(12.7)
Other Inc to Net Oper. Income (%)	23.2	11.8	1,141	23.1	8	19.5	26.0	(653)
Net Operating Revenue	143,189	100,204	42.9	149,909	(4.5)	513,819	441,053	16.5
Employee Expenses	37,544	30,433	23.4	37,790	(0.7)	133,527	119,788	11.5
Other Opex	27,402	24,497	11.9	31,390	(12.7)	111,657	97,376	14.7
Total Opex	64,946	54,929	18.2	69,180	(6.1)	245,183	217,164	12.9
Cost to Income Ratio (%)	45.4	54.8	(946)	46.1	(79)	47.7	49.2	(152)
Pre Provision Profits	78,243	45,275	72.8	80,729	(3.1)	268,635	223,888	20.0
Provisions & Contingencies - Total	19,468	16,848	15.5	14,207	37.0	71,369	130,024	(45.1)
NPA Provisions as % PPP	24.9	37.2	(1,233)	17.6	728	26.6	58.1	(3,151)
Profit Before Tax	58,775	28,427	106.8	66,522	(11.6)	197,266	93,864	110.2
Tax	18,075	6,746	167.9	18,768	(3.7)	56,170	21,142	165.7
Effective Tax Rate (%)	30.8	23.7	702	28.2	254	28.5	22.5	595
Reported Profits	40,701	21,681	87.7	47,753	(14.8)	141,096	72,723	94.0
RoA (%)	1.1	0.7	43	1.3	(23)	1.0	0.6	43
RoE (%)	15.9	9.8	609	19.4	(355)	15.3	8.9	640

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Net Worth	867,630	883,862	918,493	962,819	982,229	1,024,065	4.3	15.9
RoE (%)	8.2	9.8	14.4	16.0	19.4	15.9	(355)	609
Tier 1 (%)	13.5	13.0	12.8	12.6	14.0	13.6	(35)	67
Total CAR (%)	16.0	15.5	15.3	14.9	16.2	15.8	(40)	38
RWA - Total	6,332,541	6,859,767	6,571,803	6,823,778	6,975,000	7,174,874	2.9	4.6
Advances - Total	7,771,552	7,996,157	8,365,914	8,906,823	9,409,983	9,634,909	2.4	20.5
Investments	3,157,954	3,298,496	3,490,861	3,490,101	3,624,854	3,581,602	(1.2)	8.6
Total Assets	12,779,998	12,854,859	13,363,803	13,927,672	14,585,615	14,734,403	1.0	14.6
RoA (%)	0.57	0.68	1.01	1.13	1.34	1.11	(23)	43
Deposits	10,459,386	10,327,141	10,901,716	11,495,070	12,036,878	11,999,084	(0.3)	16.2
CASA Deposits	4,101,230	4,016,220	4,101,510	4,178,120	4,425,110	4,236,000	(4.3)	5.5
CASA Ratio (%)	44.2	44.2	42.8	41.6	42.2	40.3	(187)	(385)
Interest Bearing Liabilities - Total	11,498,379	11,521,681	12,013,615	12,501,939	13,055,983	13,163,910	0.8	14.3

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Deposits	10,459,386	10,327,141	10,901,716	11,495,070	12,036,878	11,999,084	(0.3)	16.2
CASA Deposits	4,101,230	4,016,220	4,101,510	4,178,120	4,425,110	4,236,000	(4.3)	5.5
Saving Deposit	3,413,430	3,381,820	3,452,780	3,526,200	3,674,000	3,605,816	(1.9)	6.6
Current Deposit	687,800	634,400	648,730	651,920	751,110	630,184	(16.1)	(0.7)
Term Deposits	6,358,156	6,310,921	6,800,206	7,316,950	7,611,768	7,763,084	2.0	23.0
Borrowings	1,038,993	1,194,540	1,111,899	1,006,870	1,019,105	1,164,826	14.3	(2.5)
Interest Bearing Liabilities - Total	11,498,379	11,521,681	12,013,615	12,501,939	13,055,983	13,163,910	0.8	14.3

Source: Company, LKP Research

Exhibit 4: Asset Quality Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	57,800	43,520	44,650	28,810	27,440	27,610	0.6	(36.6)
Slippages Ratio (%)	0.82	0.56	0.57	0.37	0.35	0.29	(6)	(27)
Gross NPA	540,594	525,908	463,744	418,575	367,637	348,322	(5.3)	(33.8)
Gross NPAs Ratio (%)	6.61	6.26	5.31	4.53	3.79	3.51	(28)	(275)
PCR - Calculated (%)	75.3	75.9	79.1	78.8	77.2	78.5	132	258
Net NPA	133,647	126,527	96,722	88,538	83,843	74,825	(10.8)	(40.9)
Net NPAs Ratio (%)	1.72	1.58	1.16	0.99	0.89	0.78	(11)	(80)
Standard Restructured	190,000	190,000	170,000	165,000	160,000	-	-	-
Std. Rest. Adv. as % of Advances	2.4	2.4	2.03	1.85	1.70	-	(170)	(238)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income / Opr. Revenue	704,951	698,808	895,885	1,050,876	1,246,847
Interest Expenses	416,860	372,594	482,325	572,681	679,399
Net Interest Income	288,090	326,213	413,560	478,195	567,448
<i>NIM (%)</i>	2.65	2.83	3.16	3.12	3.12
Other Income - Total	123,644	114,840	100,258	110,284	121,313
Net Operating Revenue	411,735	441,053	513,819	588,480	688,760
Employee Exp.	114,455	119,788	133,527	148,215	171,929
Other Opex	90,981	97,376	111,657	128,031	148,516
Total Opex	205,437	217,164	245,183	276,246	320,445
<i>C/I Ratio (%)</i>	49.90	49.24	47.72	46.94	46.52
Pre Provision Profits	206,298	223,888	268,635	312,234	368,315
<i>PPP Growth (yoy %)</i>	4.8	8.5	20.0	16.2	18.0
Provisions & Contingencies - Total	150,738	130,024	71,369	85,891	99,423
<i>Credit Cost (As % of Op. AUM)</i>	2.14	1.71	0.86	0.86	0.86
Profit Before Tax	55,560	93,864	197,266	226,343	268,892
Tax	47,271	21,142	56,170	64,449	76,565
<i>Effective Tax Rate (%)</i>	85.1	22.5	28.5	28.5	28.5
Reported Profits	8,290	72,723	141,096	161,893	192,327
<i>PAT Growth (yoy %)</i>	51.6	777.3	94.0	14.7	18.8

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	10,355	10,355	10,355	10,355	10,355
Reserves (ex Revel. Reserve)	708,331	777,874	913,266	1,075,159	1,267,486
Net Worth - Ex Revaluation	718,686	788,229	923,622	1,085,515	1,277,841
Deposits	9,669,969	10,459,386	12,036,878	14,373,705	16,958,440
Borrowings	668,479	1,038,993	1,019,105	1,216,953	1,435,790
Interest Bearing Liabilities (₹ mn)	10,338,449	11,498,378	13,055,983	15,590,657	18,394,230
Other Lia. & Prov.	444,742	422,523	547,404	534,809	658,035
Total Liabilities	11,553,648	12,779,998	14,585,615	17,279,747	20,330,106
Assets					
Cash & Cash Equivalent	1,204,128	1,226,550	957,032	1,141,468	1,345,470
Investments	2,612,203	3,157,954	3,624,854	4,160,784	4,775,951
Loan & Advances (₹ mn)	7,063,005	7,771,552	9,409,983	11,386,079	13,549,434
<i>Growth (yoy %)</i>	2.3	10.0	21.1	21.0	19.0
Fixed Assets	80,162	99,219	87,066	102,157	121,067
Other Assets	594,149	524,724	506,681	489,259	538,185
Total Assets	11,553,648	12,779,998	14,585,615	17,279,747	20,330,106

Source: Company, LKP Research

Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	2	2	2	2	2
Adjusted Share O/S (mn)	5,178	5,178	5,178	5,178	5,178
Earnings Per Share (₹)	1.6	14.0	27.3	31.3	37.1
<i>EPS (% YoY)</i>	35.5	777.3	94.0	14.7	18.8
<i>P/E (x)</i>	121.2	13.8	7.1	6.2	5.2
Book Value (₹)	138.8	152.2	178.4	209.7	246.8
<i>BVPS (% YoY)</i>	(2.4)	9.7	17.2	17.5	17.7
<i>P/BV (x)</i>	1.4	1.3	1.1	0.9	0.8
Adj. BV (₹)	117.8	139.3	170.3	201.6	238.7
<i>Adj. BV (% YoY)</i>	(0.9)	18.3	22.2	18.4	18.4
<i>P/ABV (x)</i>	1.6	1.4	1.1	1.0	0.8

Source: Company, LKP Research

Exhibit 8: Detail RoA Tree (%)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	7.2	6.6	7.5	7.4	7.4
Yield on Funds	6.5	6.1	6.9	6.9	6.9
Cost of Funds (CoF)	4.0	3.4	3.9	4.0	4.0
Interest Spread	2.5	2.7	2.9	2.9	2.9
NIM's	2.6	2.8	3.2	3.1	3.1
Interest Income / Assets	6.1	5.7	6.5	6.6	6.6
Interest Exp. / Assets	3.6	3.1	3.5	3.6	3.6
NII / Assets	2.5	2.7	3.0	3.0	3.0
Fee Income / Assets	0.7	0.7	0.5	0.5	0.5
Other Non Core Income / Assets	0.3	0.1	0.1	0.1	0.1
Other Income / Assets	1.1	0.9	0.7	0.7	0.6
Net Operating Income / Assets	3.6	3.6	3.8	3.7	3.7
Operating Ratios					
NII to Net Operative Income	70.0	74.0	80.5	81.3	82.4
Other Income to Net Operative Income	30.0	26.0	19.5	18.7	17.6
Empl. Cost/Oper. Exps.	55.7	55.2	54.5	53.7	53.7
Other Op. Exps./Oper. Exps.	44.3	44.8	45.5	46.3	46.3
C/I Ratio (%)	49.9	49.2	47.7	46.9	46.5
Provisions as % PPP	36.6	29.5	13.9	14.6	14.4
Credit Cost (As % of Op. AUM)	2.1	1.7	0.9	0.9	0.9
Effective Tax Rate (%)	85.1	22.5	28.5	28.5	28.5
Employee Exp. / Assets	1.0	1.0	1.0	0.9	0.9
Other Opex/ Assets	0.8	0.8	0.8	0.8	0.8
Total Opex / Assets	1.8	1.8	1.8	1.7	1.7
Operating Profits / Assets	1.8	1.8	2.0	2.0	2.0
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	1.8	1.8	2.0	2.0	2.0
Provisions / Assets	1.3	1.1	0.5	0.5	0.5
Profit Before Tax / Assets	0.5	0.8	1.4	1.4	1.4
Tax Expenses / Assets	0.4	0.2	0.4	0.4	0.4
RoA	0.1	0.6	1.0	1.0	1.0
Leverage (x)	16.1	16.2	15.8	15.9	15.9
RoE	1.1	8.9	15.3	15.2	15.8
Adj. RoA	0.1	0.6	1.0	1.0	1.0
Adj. RoE	1.1	8.9	15.3	15.2	15.8

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<i>Credit / Deposit Ratio</i>	73.0	74.3	78.2	79.2	79.9
<i>Incremental C/D Ratio</i>	77.0	89.8	103.9	84.6	83.7
<i>Investment Deposit Ratio</i>	27.0	30.2	30.1	28.9	28.2
<i>Dom. SLR Investment / Deposits</i>	26.4	29.5	29.4	28.3	27.5
<i>CASA Ratio</i>	45.2	46.8	41.5	41.5	41.5

Source: Company, LKP Research

Exhibit 10: Asset Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<i>Slippage Ratio (%)</i>	2.9	2.0	1.9	1.7	1.4
Gross NPA	666,710	540,594	367,637	390,974	387,785
<i>Gross NPAs Ratio (%)</i>	8.9	6.6	3.8	3.4	2.9
<i>PCR (%)</i>	67.3	75.3	77.2	80.7	83.1
Net NPA	217,999	133,647	83,843	75,459	65,711
<i>Net NPAs Ratio (%)</i>	3.1	1.7	0.9	0.7	0.5
Total Impaired Loans	666,710	540,594	367,637	390,974	387,785
<i>Impaired Loan as % of Loan / AUM</i>	9.2	6.8	3.8	3.3	2.8
Total Risk Reserves	448,711	406,947	283,794	315,515	322,074
<i>Total Risk As % of Loan Book</i>	6.2	5.1	2.9	2.7	2.3

Source: Company, LKP Research

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances (₹ mn)	7,063,005	7,771,552	9,409,983	11,386,079	13,549,434
Growth (yoy %)		10.0	21.1	21.0	19.0
Interest Bearing Liabilities (₹ mn)	10,338,449	11,498,378	13,055,983	15,590,657	18,394,230
Growth (yoy %)		11.2	13.5	19.4	18.0
Yield on Funds	6.5	6.1	6.9	6.9	6.9
Cost of Funds (CoF)	4.0	3.4	3.9	4.0	4.0
Interest Spread	2.5	2.7	2.9	2.9	2.9
NIM's	2.6	2.8	3.2	3.1	3.1
Other Income Growth	19.8	(7.1)	(12.7)	10.0	10.0
C/I Ratio (%)	49.9	49.2	47.7	46.9	46.5
Effective Tax Rate (%)	85.1	22.5	28.5	28.5	28.5
Return Ratios					
Adj. RoA	0.1	0.6	1.0	1.0	1.0
Adj. RoE	1.1	8.9	15.3	15.2	15.8
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	2.1	1.7	0.9	0.9	0.9
Gross NPAs Ratio (%)	8.9	6.6	3.8	3.4	2.9
Net NPAs Ratio (%)	3.1	1.7	0.9	0.7	0.5

Source: Company, LKP Research

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