

# Retail Equity Research

## Bank of Baroda

Banking

BSE CODE: 532134

NSE CODE: BANKBARODA

Bloomberg CODE: BOB:IN

SENSEX: 65,539

**BUY**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 187 TARGET Rs. 217 RETURN 16% ↑  
(Closing: 16-08-23)

**KEY CHANGES:**

**TARGET ↑**

**RATING ↑**

**EARNINGS ↓**

### Healthy asset quality, positive outlook

Bank of Baroda (BoB) is a public-sector banking and financial services company in India. It has 8,205 branches in India and 93 offices in 17 foreign countries.

- Net interest income (NII) increased 24.4% YoY to Rs. 10,997cr in Q1FY24, led by strong growth in yield on advances, moderated by an increase in the cost of deposits.
- GNPA/NNPA ratios improved to 3.5%/0.8% (vs 3.8%/0.9% in Q4FY23).
- Strong growth in advances and deposits, continuous improvement in asset quality and the management's sharp focus on reducing the operating expenses augur well for the bank's future performance. Hence, we upgrade our rating on the stock to BUY, with a revised target price of Rs. 217 based on 0.87x FY25E BVPS.

### PAT soars, aided by lower cost to income and higher other income

In Q1FY24, BoB's interest income grew 40.2% YoY to Rs. 26,556cr, driven by robust growth in interest on advances (up 52.0% YoY) and income on investments (up 22.0% YoY). Interest expense rose 54.1% YoY to Rs. 15,559cr. Consequently, NII increased 24.4% YoY to Rs. 10,997cr. Cost-to-income ratio (CIR) improved to 45.4% (down 940bps YoY). Non-interest income surged 181.1% YoY to Rs. 3,322cr. Subsequently, adjusted profit after tax (PAT) jumped 87.7% YoY to Rs. 4,070cr, partially offset by a rise in provisions (up 20bps YoY) and higher taxes (up 710bps YoY).

### Major improvement in asset quality

Gross advances grew 2.2% QoQ and 18.0% YoY to Rs. 990,988cr, mainly driven by robust growth across segments. Retail loans rose 3.4% QoQ and 24.8% YoY, led by strong growth in home, auto and personal loans. Corporate, agriculture and MSME loans grew 14.6%, 15.1% and 12.7% YoY, respectively. Deposits grew 16.2% YoY to Rs. 1,199,908cr (flat QoQ), while the CASA ratio shrank 190bps QoQ and 390bps YoY to 40.3%. The bank's asset quality improved, with GNPA declining to Rs. 34,832cr (down 5.3% QoQ and 33.8% YoY). GNPA/NNPA ratios improved to 3.5%/0.8% (vs 3.8%/0.9% in Q4FY23). Provision coverage ratio stood at 93.2% vs 92.4% in Q4FY23. Capital adequacy ratio was 15.84%, and the tier-I ratio was 13.64%, well above the regulatory requirements.

### Key concall highlights

- The management expects the advances growth to range 14-15% in FY24, with an underlying 12-13% growth in corporate loans, 18-20% in retail loans and ~15% in international books.
- The fee income growth was strong at ~18% YoY, a six-quarter high. The management sees ROA above 1% going forward. In case of any moderation in NIM, fee income growth is expected to compensate to a substantial scale for ROA.

### Outlook & valuation

The bank delivered a superior performance in Q1FY24. We expect strong growth in advances, led by the retail and corporate segments. However, NIM could moderate in the near term owing to the rising cost of deposits. Major improvements in asset quality, sufficient capitalisation, and diversified loan portfolio should support the bank's future performance. We also expect a lower cost-to-income ratio to boost profitability in the coming quarters. Therefore, we upgrade our rating on the stock to BUY, with a revised target price of Rs. 217 based on 0.85x FY25E BVPS.

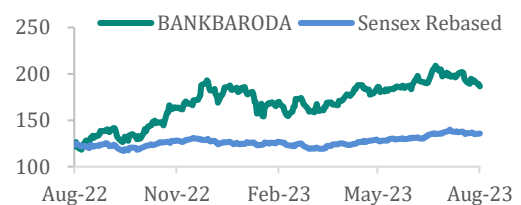
### Company Data

Market Cap (cr)	Rs.96,525
Outstanding Shares (cr)	517.1
Free Float	36.0%
Dividend Yield	14.6%
52 week high	Rs.211
52 week low	Rs.116
6m average volume	983,226
Beta	1.4
Face value	Rs.2

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	64.0	64.0	64.0
FII's	10.0	10.9	12.3
MFs/Insti	18.0	17.0	16.0
Public	7.6	7.8	7.5
Others	0.5	0.3	0.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.2%	9.8%	53.4%
Absolute Sensex	5.8%	6.9%	9.5%
Relative Return*	-5.7%	2.9%	43.9%

\*Over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Net Interest Income	41,356	46,264	53,139
Growth (%)	26.8	11.9	14.9
NIM (%)	3.5	3.3	3.3
Pre-Provision Profit	26,864	30,503	35,327
Net Profit	14,110	16,964	20,143
Growth (%)	94.0	20.2	18.7
Adj.EPS	27.3	32.8	39.0
Growth (%)	94.0	20.2	18.7
BVPS	189.9	217.2	249.6
P/E	6.0	5.7	4.8
P/B	0.9	0.9	0.7
RoE (%)	15.3	16.1	16.7
RoA (%)	1.0	1.1	1.1

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Interest Income	26,556	18,937	40.2	25,857	2.7
Interest Expense	15,559	10,099	54.1	14,332	8.6
<b>Net Interest Income (NII)</b>	<b>10,997</b>	<b>8,838</b>	24.4	<b>11,525</b>	(4.6)
Non-Interest Income	3,322	1,182	181.1	3,466	(4.1)
<b>Total Net Income</b>	<b>14,319</b>	<b>10,020</b>	42.9	<b>14,991</b>	(4.5)
<b>Total Income</b>	<b>29,878</b>	<b>20,120</b>	48.5	<b>29,323</b>	1.9
Operating Expenses	6,495	5,493	18.2	6,918	(6.1)
<b>Total Expenditure</b>	<b>22,054</b>	<b>15,592</b>	41.4	<b>21,250</b>	3.8
<b>Pre-Provision Profit</b>	<b>7,824</b>	<b>4,528</b>	72.8	<b>8,073</b>	(3.1)
Provisions	1,947	1,685	15.5	1,421	37.0
<b>Profit Before Tax</b>	<b>5,878</b>	<b>2,843</b>	106.8	<b>6,652</b>	(11.6)
Tax	1,807	675	167.9	1,877	(3.7)
Minority Interests	-	-	-	-	-
<b>Net Profit</b>	<b>4,070</b>	<b>2,168</b>	87.7	<b>4,775</b>	(14.8)
Adj.	-	-	-	-	-
<b>Adj. PAT</b>	<b>4,070</b>	<b>2,168</b>	87.7	<b>4,775</b>	(14.8)
<b>Adj. EPS (Rs.)</b>	<b>7.9</b>	<b>4.2</b>	87.7	<b>9.2</b>	(14.8)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	48,694	53,575	46,264	53,139	(5)	(0.8)
Net Interest Margin (%)	3.8	3.8	3.3	3.3	(47bps)	(47bps)
Pre-Provision Profit	32,551	36,007	30,503	35,327	(6.3)	(1.9)
Net Profit	19,243	22,857	16,964	20,143	(11.8)	(11.9)
EPS (Rs)	37.2	44.2	32.8	39.0	(11.8)	(11.9)

### Business Performance

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Advances	963,491	799,616	20.5	940,998	2.4
Deposits	1,199,908	1,032,714	16.2	1,203,688	(0.3)
<b>Business</b>	<b>2,163,399</b>	<b>1,832,330</b>	<b>18.1</b>	<b>2,144,686</b>	<b>0.9</b>
Gross NPA	34,832	52,591	(33.8)	36,764	(5.3)
Net NPA	7,482	12,653	(40.9)	8,384	(10.8)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	70,495	69,881	89,589	111,733	128,066
Interest Exp.	41686	37259	48233	65469	74926
<b>Net Int. Income</b>	<b>28,809</b>	<b>32,621</b>	<b>41,356</b>	<b>46,264</b>	<b>53,139</b>
% Change	4.9	13.2	26.8	11.9	14.9
Non-Int. Income	12,934	11,484	10,026	11,229	12,296
<b>Net Income</b>	<b>41,743</b>	<b>44,105</b>	<b>51,382</b>	<b>57,493</b>	<b>65,435</b>
<b>Total Income</b>	<b>83,429</b>	<b>81,365</b>	<b>99,614</b>	<b>122,962</b>	<b>140,361</b>
Operating Exp.	20,544	21,716	24,518	26,990	30,108
<b>Total Exp.</b>	<b>62,230</b>	<b>58,976</b>	<b>72,751</b>	<b>92,459</b>	<b>105,034</b>
<b>Pre-Prov. Profit</b>	<b>21,199</b>	<b>22,389</b>	<b>26,864</b>	<b>30,503</b>	<b>35,327</b>
Provisions	15,643	13,002	7,137	7,578	8,107
PBT	5,556	9,386	19,727	22,925	27,221
Tax	4,727	2,114	5,617	5,960	7,077
Tax Rate (%)	85.1	22.5	28.5	26.0	26.0
Minority Interests	-	-	-	-	-
<b>Net Profit</b>	<b>829</b>	<b>7,272</b>	<b>14,110</b>	<b>16,964</b>	<b>20,143</b>
% Change	51.8	777.3	94.0	20.2	18.7
Adj.	-	-	-	-	-
<b>Adj. Net Profit</b>	<b>829</b>	<b>7,272</b>	<b>14,110</b>	<b>16,964</b>	<b>20,143</b>
No. of Shares (cr)	517.1	517.1	517.1	517.1	517.1
<b>Adj. EPS (Rs.)</b>	<b>1.8</b>	<b>14.1</b>	<b>27.3</b>	<b>32.8</b>	<b>39.0</b>
% Change	74.5	690.0	94.0	20.2	18.7
DPS (Rs.)	-	2.9	5.5	6.6	7.8

## BALANCE SHEET

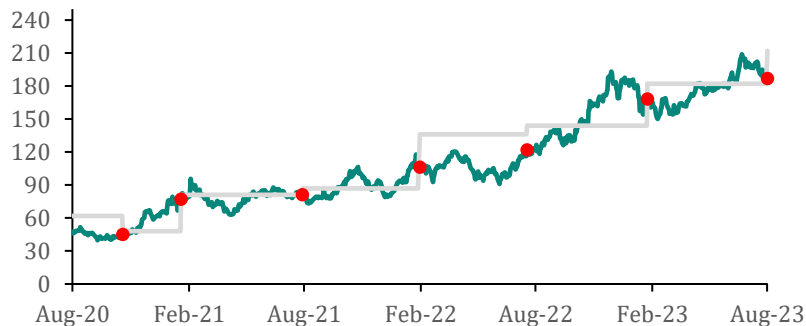
Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	120,413	122,655	95,703	110,389	128,551
Investments	261,220	315,795	362,485	405,984	450,642
Advances	706,301	777,155	940,998	1,079,796	1,236,366
Fixed Assets	8,016	9,922	8,707	8,358	8,024
Other Assets	59,415	52,472	50,668	52,188	54,276
<b>Total Assets</b>	<b>1,155,365</b>	<b>1,278,000</b>	<b>1,458,562</b>	<b>1,656,714</b>	<b>1,877,858</b>
Capital	1,036	1,036	1,036	1,036	1,036
Reserves & Surplus	76,010	84,874	97,187	111,307	128,058
Deposits	966,997	1,045,939	1,203,688	1,366,186	1,547,205
Borrowings	66,848	103,899	101,910	114,140	127,266
Other Liabilities	44,474	42,252	54,740	64,046	74,294
<b>Total Liabilities</b>	<b>1,155,365</b>	<b>1,278,000</b>	<b>1,458,562</b>	<b>1,656,714</b>	<b>1,877,858</b>
<b>BVPS (Rs.)</b>	<b>165.4</b>	<b>166.1</b>	<b>189.9</b>	<b>217.2</b>	<b>249.6</b>
Adj. BVPS (Rs.)	118.6	140.3	173.7	204.7	237.7
% Change	26.3	18.3	23.8	17.8	16.1

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	41.7	7.9	6.0	5.7	4.8
P/BV (x)	0.4	0.7	0.9	0.9	0.7
Div. Yield (%)	-	2.6	3.4	3.5	4.2
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	7.2	6.6	7.5	8.1	8.0
Cost of Deposits	4.0	3.4	3.9	4.7	4.8
Spread	3.1	3.2	3.5	3.4	3.3
NIM	3.0	3.2	3.5	3.3	3.3
ROE	1.1	8.9	15.3	16.1	16.7
ROA	0.1	0.6	1.0	1.1	1.1
<b>Capital Adequacy (%)</b>					
CAR	15.0	15.7	16.2	16.1	16.1
Tier I	12.7	13.2	14.0	14.1	14.4
Tier II	2.3	2.5	2.3	2.0	1.7
<b>Asset Quality (%)</b>					
GNPA	8.9	6.6	3.8	3.3	3.0
NNPA	3.1	1.7	0.9	0.6	0.5
<b>Operating Ratios (%)</b>					
Credit/Deposit	73.0	74.3	78.2	79.0	79.9
Cost/Income	49.2	49.2	47.7	46.9	46.0
CASA	40.2	44.2	42.3	39.3	39.0



## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
26-Jun-20	BUY	62
3-Nov-20	HOLD	48
3-Feb-21	HOLD	81
13-Aug-21	HOLD	87
14-Feb-22	BUY	136
2-Aug-22	BUY	144
8-Feb-23	HOLD	182
17-Aug-23	BUY	217

Source: Bloomberg, Geojit research

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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