

BUY Bank of Baroda

Margin slips yet again

BFSI - Banks ▶ Result Update ▶ November 5, 2023

TARGET PRICE (Rs): 250

Despite margin contraction and higher provisions, Bank of Baroda (BoB) reported a slight 2% beat on PAT at Rs42.5bn due to higher fees and recovery from written-off accounts. Credit growth remains healthy at 19% YoY/4% QoQ, with deposit growth also robust, at 15% YoY/4% QoQ; but Domestic CASA ratio slipped this quarter to 40%. This, coupled with rising CoF, continued to pressure NIMs (down 20bps QoQ/26bps YoY to 3.1%). Slippages too were higher, at Rs47.5bn/2.3% of loans, including GoAir (100% provided) and one UAE-based real estate account. Going forward, the bank expects growth to remain resilient, but has revised FY24 NIM guidance to 3.1% (+/-5bps) from the earlier 3.3%. Customer onboarding on BOB World remains suspended—the bank expects this to resume in due course.

We cut our earnings for FY24-26E, factoring-in the lower NIMs, but expect the bank to deliver a healthy 1-1.1% RoA/15-16% RoE, with CET-1 at 12% providing added comfort. We retain BUY on the stock, with revised TP of Rs250/share (earlier Rs260), valuing the bank at 1x its Sep-25E ABV and subs/inv. value at Rs6/share.

Bank of Baroda: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	72,723	1,41,096	1,71,341	1,88,924	2,01,261
Loan growth (%)	10.0	21.1	13.9	15.5	16.3
NII growth (%)	13.2	26.8	8.0	10.6	13.4
NIM (%)	2.9	3.2	3.0	2.9	2.9
PPOP growth (%)	5.6	20.0	16.1	6.9	14.4
Adj. EPS (Rs)	14.0	27.3	33.1	36.5	38.9
Adj. EPS growth (%)	730.6	94.0	21.4	10.3	6.5
Adj. BV (INR)	146.6	177.6	207.4	234.4	262.5
Adj. BVPS growth (%)	24.9	21.1	16.8	13.0	12.0
RoA (%)	0.6	1.0	1.1	1.1	1.0
RoE (%)	8.9	15.3	16.3	15.8	14.9
P/E (x)	14.5	7.5	6.2	5.6	5.2
P/ABV (x)	1.3	1.1	1.0	0.8	0.8

Source: Company, Emkay Research

Healthy growth, but margins slips even more than peers

BoB continued to report robust net credit growth (better than SBI's) at 19% YoY/4% QoQ, led by healthy growth in retail which, in turn, was led by broad-based growth in auto, housing and PL loans. Deposit growth too was healthy, at 15% YoY/4% QoQ, while Domestic CASA ratio slipped further to 40%, leading to a 24bps QoQ jump in CoD. This coupled with the ICRR impact resulted in a sharp 20bps QoQ/26bps YoY decline in NIM to 3.1%. Going forward, the bank expects growth to remain healthy, but has its revised FY24 NIM guidance to 3.1% (+/-5bps) from 3.3% earlier.

Slippages surge, but higher w-offs lead to lower NPA ratio

Fresh slippages were elevated at Rs43.5bn/2.3% of loans, mainly due to recognition of GoAir and one real estate account based in the UAE; but higher w-offs led to reduction in GNPA ratio by 20bps QoQ to 3.3%/NNPA at 0.8%. Bank had already made part provisions on GoAir and, with the probability of recovery dimming with buyers backing out, the bank has made additional provisions, taking the overall provisions to 100%. Bank indicates that it carries strong tangible security, apart from a corporate guarantee of Rs10bn on GoAir. On UAE-based NA, the bank remains hopeful of a recovery in the near future, as the group is facing a temporary liquidity issue, which should soon resolve.

We retain BUY, with revised TP of Rs250/share

We cut our earnings for FY24-26E, factoring-in the lower NIMs, but expect the bank to deliver a healthy 1-1.1% RoA/15-16% RoE, with CET-1 at 12% providing additional comfort. We retain BUY on BoB, with revised TP of Rs250/share (earlier Rs260), valuing the bank at 1x its Sep-25E ABV and subs/inv. value at Rs6/share. Customer onboarding on BOB World remains suspended, and the bank expects this to resume in due course. Additionally, value unlocking in the insurance subsidiary and strategic tie-up in BoB cards are likely to be near-term catalysts. **Key risks:** Macro slowdown leading to slower credit growth/margin contraction and asset-quality disruption.

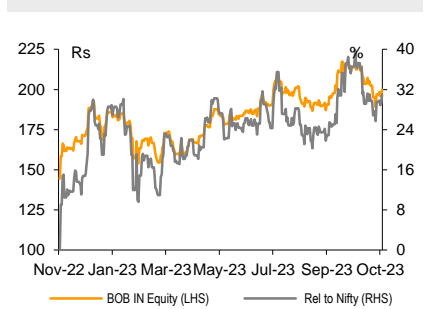
Target Price – 12M	Sep-24
Change in TP (%)	(3.8)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	22.7
CMP (03-Nov-23) (Rs)	203.8

Stock Data	Ticker
52-week High (Rs)	220
52-week Low (Rs)	144
Shares outstanding (mn)	5,171.4
Market-cap (Rs bn)	1,054
Market-cap (USD mn)	12,654
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	20
ADTV-3M (Rs mn)	3,996.7
ADTV-3M (USD mn)	48.0
Free float (%)	36.0
Nifty-50	19,231
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	64.0
FPIs/MFs (%)	12.4/16.0

Price Performance

(%)	1M	3M	12M
Absolute	(6.4)	5.4	37.6
Rel. to Nifty	(5.0)	6.3	29.1

1-Year share price trend (Rs)



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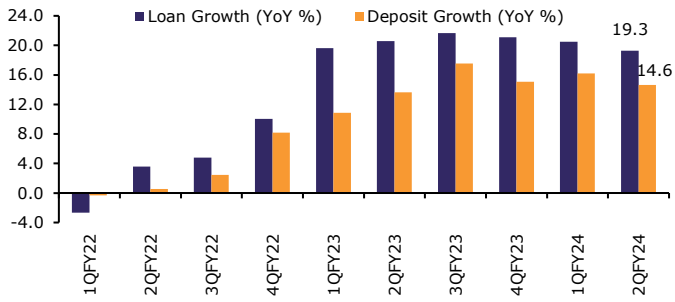
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Story in Charts

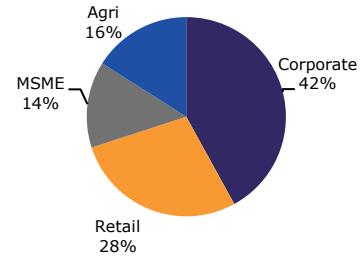
Exhibit 1: Robust credit growth led by strong traction in the retail/overseas book



Source: Company, Emkay Research

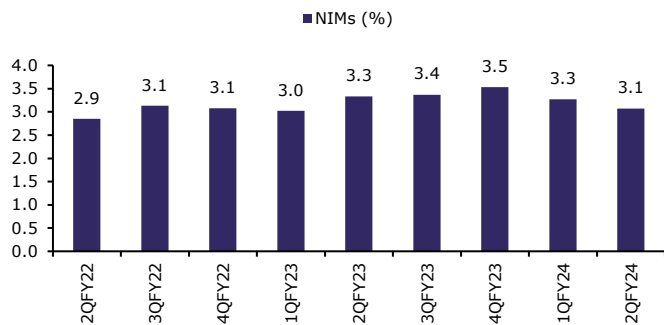
Exhibit 2: BoB carries higher retail share among PSBs (barring SBI)

% share in Gross Domestic Credit



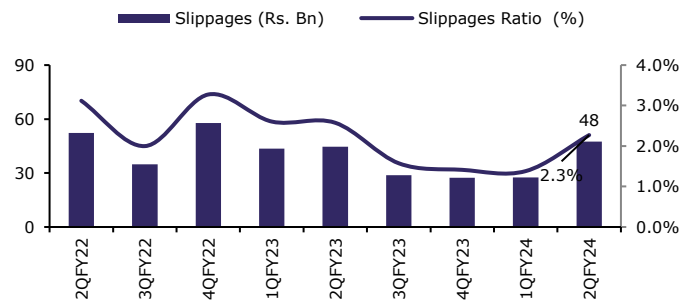
Source: Company, Emkay Research

Exhibit 3: NIM declines yet again, due to rising CoF



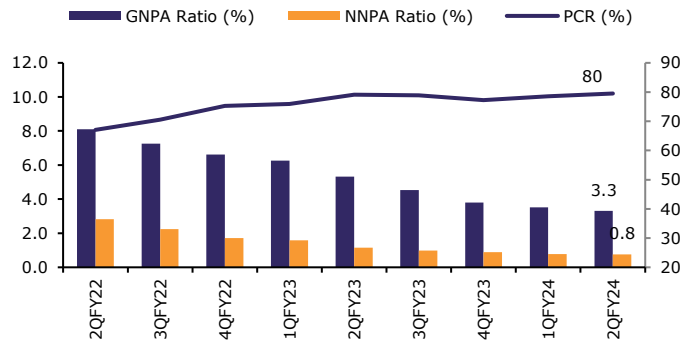
Source: Company, Emkay Research

Exhibit 4: Slippages were elevated due to recognition of GoAir and UAE-based real estate exposure



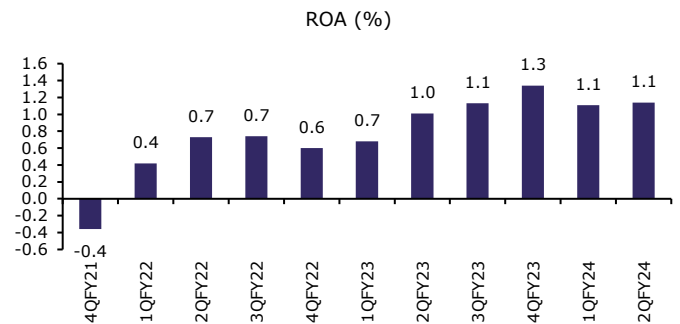
Source: Company, Emkay Research

Exhibit 5: Higher w-offs led to reduction in GNPA ratio



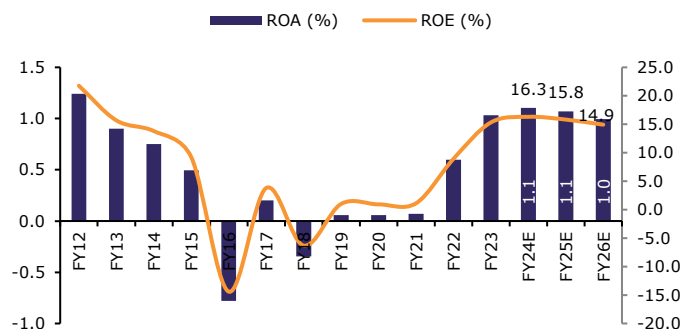
Source: Company, Emkay Research

Exhibit 6: Lower margins and higher tax rate led to slightly lower RoA



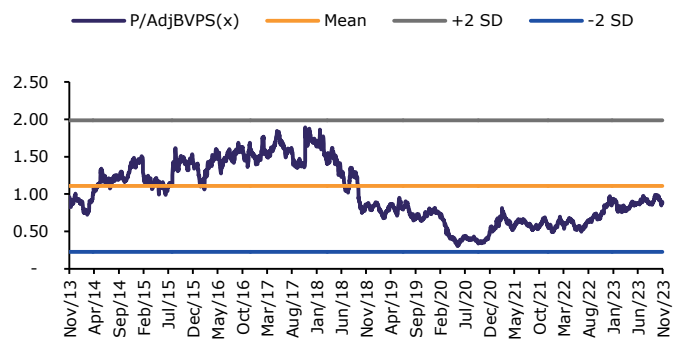
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to remain healthy, led by contained LLP



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,50,019	1,43,289	1,38,576	5%	8%	Lower margins offset by higher other income led to a beat
PPOP	80,197	74,164	78,784	8%	2%	Lower opex and higher Net total income led to a beat
PAT	42,529	41,650	39,931	2%	7%	Higher PPOP partly offset by higher provisions and tax led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	2,12,542	2,35,401	2,58,567	2,65,558	2,78,616	31	5	8,95,885	11,42,829	28
Interest Exp	1,10,798	1,27,218	1,43,318	1,55,591	1,70,309	54	9	4,82,325	6,96,180	44
Net Interest Income	1,01,745	1,08,183	1,15,249	1,09,967	1,08,307	6	-2	4,13,560	4,46,649	8
Global NIMs (reported)	3.33	3.37	3.53	3.27	3.07	-26bps	-20bps	3.19	3.02	-17bps
Non-interest Income	18,258	35,520	34,661	33,223	41,712	128	26	1,00,258	1,48,167	48
Operating Expenses	59,693	61,381	69,180	64,946	69,821	17	8	2,45,183	2,82,816	15
Pre Provisioning Profit	60,310	82,322	80,729	78,243	80,197	33	2	2,68,635	3,11,999	16
Provision & Contingencies	16,275	24,039	14,207	19,468	21,606	33	11	71,369	77,286	8
PBT	44,035	58,283	66,522	58,775	58,592	33	0	1,97,266	2,34,713	19
Income Tax Expense (Gain)	10,901	19,755	18,768	18,075	16,063	47	-11	56,170	63,373	13
Net Profit/(Loss)	33,134	38,527	47,753	40,701	42,529	28	4	1,41,096	1,71,341	21
Gross NPA (%)	5.32	4.53	3.79	3.52	3.32	-200bps	-20bps	3.79	2.75	-105bps
Net NPA (%)	1.16	0.99	0.89	0.78	0.76	-40bps	-2bps	0.89	0.56	-33bps
Deposits (Rs bn)	10,902	11,495	12,037	11,999	12,496	15	4	12,037	13,628	13
Net Advances (Rs bn)	8,366	8,907	9,410	9,635	9,980	19	4	9,410	10,713	14

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	5,96,619	5,94,815	-0.30%	6,69,507	6,45,051	-3.65%	7,64,941	7,23,830	-5.37%
PPOP	3,13,803	3,11,999	-0.6%	3,56,133	3,33,587	-6.3%	4,15,493	3,81,653	-8.1%
PAT	1,75,924	1,71,341	-2.6%	1,99,561	1,88,924	-5.3%	2,14,151	2,01,261	-6.0%
EPS (Rs)	34.0	33.1	-2.6%	38.5	36.5	-5.3%	41.4	38.9	-6.0%
BV (Rs)	217.0	216.1	-0.4%	247.9	245.0	-1.2%	281.1	275.7	-1.9%

Source: Emkay Research

Exhibit 12: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	21.1	13.9	15.5	16.3
Deposit Growth	15.1	13.2	15.3	16.1
NIM	3.2	3.0	2.9	2.9
GNPA	3.8	2.7	2.3	2.1
Credit Cost	0.5	0.7	0.7	0.9

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs mn)	73,37,221	77,16,958	81,78,499	83,95,537	87,32,936	92,36,860	96,93,776	99,08,406	1,02,45,010
Balance Sheet									
Loans (Rs bn)	7,337	7,717	8,178	8,396	8,733	9,237	9,694	9,908	10,245
-growth YoY (%)	2.1	3.6	8.9	18.1	19.0	19.7	18.5	18.0	17.3
-growth QoQ (%)	3.2	5.2	6.0	2.7	4.0	5.8	4.9	2.2	3.4
Liability Profile									
Deposit (Rs bn)	9,595	9,780	10,459	10,327	10,902	11,495	12,037	11,999	12,496
-growth YoY (%)	0.5	2.5	8.2	10.9	13.6	17.5	15.1	16.2	14.6
-growth QoQ (%)	3.0	1.9	6.9	-1.3	5.6	5.4	4.7	-0.3	4.1
CASA %	39.2	42.0	41.5	41.1	39.8	38.6	39.1	37.2	39.8
Capital Adequacy									
CAR (%)	15.6	15.5	16.0	15.5	15.3	14.9	16.2	15.8	15.3
Tier I (%)	13.1	13.2	13.5	13.0	12.8	12.6	14.0	13.6	13.2
Asset Quality									
GNPA (%)	8.1	7.3	6.6	6.3	5.3	4.5	3.8	3.5	3.3
NNPA (%)	2.8	2.2	1.7	1.6	1.2	1.0	0.9	0.8	0.8
PCR (%)	67.1	70.6	75.3	75.9	79.1	78.9	77.2	78.5	79.5
Slippages (%)	3.1	2.0	3.3	2.6	2.6	1.6	1.4	1.4	2.3
NIM - Global (%)	2.9	3.1	3.1	3.0	3.3	3.4	3.5	3.3	3.1
NIM - Domestic (%)	2.9	3.2	3.1	3.1	3.4	3.5	3.7	3.3	3.2
Cost/Income (%)	49.1	50.5	49.4	54.8	49.7	42.7	46.1	45.4	46.5
ROE Decomposition (%)									
NII	3.0	3.4	3.2	3.1	3.5	3.5	3.6	3.3	3.2
Other Income (Ex Treasury)	0.9	0.8	0.9	0.3	0.6	1.1	1.0	0.9	1.1
Treasury	0.5	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Opex	2.2	2.2	2.0	1.9	2.0	2.0	2.2	2.0	2.1
PPOP	2.3	2.1	2.1	1.6	2.1	2.7	2.5	2.4	2.4
Provisioning Cost	1.1	1.0	1.4	0.6	0.6	0.8	0.4	0.6	0.6
PBT	1.2	1.2	0.7	1.0	1.5	1.9	2.1	1.8	1.7
Tax	0.3	0.3	0.0	0.2	0.4	0.6	0.6	0.5	0.5
ROA	0.7	0.7	0.6	0.7	1.0	1.1	1.3	1.1	1.1
Leverage (x)	14.4	14.5	14.7	14.7	14.5	14.5	14.7	14.6	14.3
ROE	10.5	10.8	8.4	10.0	14.7	16.4	19.6	16.2	16.3

Source: Company, Emkay Research

Bank of Baroda: Standalone Financials and Valuations

Profit and Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6,98,808	8,95,885	11,42,829	12,55,854	13,81,760
Interest Expense	3,72,594	4,82,325	6,96,180	7,62,040	8,21,558
Net interest income	3,26,213	4,13,560	4,46,649	4,93,814	5,60,202
NII growth (%)	13.2	26.8	8.0	10.6	13.4
Other income	1,14,840	1,00,258	1,48,167	1,51,237	1,63,628
Total Income	4,41,053	5,13,819	5,94,815	6,45,051	7,23,830
Operating expenses	2,17,164	2,45,183	2,82,816	3,11,464	3,42,177
PPOP	2,23,888	2,68,635	3,11,999	3,33,587	3,81,653
PPOP growth (%)	5.6	20.0	16.1	6.9	14.4
Core PPOP	2,06,154	2,67,895	2,92,865	3,07,756	3,48,073
Provisions & contingencies	1,30,024	71,369	77,286	81,015	1,12,588
PBT	93,864	1,97,266	2,34,713	2,52,572	2,69,065
Extraordinary items	0	0	0	0	0
Tax expense	21,142	56,170	63,373	63,648	67,804
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	72,723	1,41,096	1,71,341	1,88,924	2,01,261
PAT growth (%)	777.2	94.0	21.4	10.3	6.5
Adjusted PAT	72,723	1,41,096	1,71,341	1,88,924	2,01,261
Diluted EPS (Rs)	14.0	27.3	33.1	36.5	38.9
Diluted EPS growth (%)	777.2	94.0	21.4	10.3	6.5
DPS (Rs)	2.9	5.5	6.7	7.6	8.2
Dividend payout (%)	20.3	20.2	22.8	23.5	23.8
Effective tax rate (%)	22.5	28.5	27.0	25.2	25.2
Net interest margins (%)	2.9	3.2	3.0	2.9	2.9
Cost-income ratio (%)	49.2	47.7	47.5	48.3	47.3
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 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	5,40,593.6	3,67,636.6	3,00,817.4	2,92,629.3	3,03,223.4
Net NPLs	1,33,510.2	83,843.2	60,163.5	73,157.3	90,967.0
GNPA ratio (%)	6.6	3.8	2.7	2.3	2.1
NNPA ratio (%)	1.7	0.9	0.6	0.6	0.6
Provision coverage (%)	75.3	77.2	80.0	75.0	70.0
Gross slippages	1,42,553.3	1,11,503.9	1,33,638.4	1,63,761.8	2,11,882.6
Gross slippage ratio (%)	1.7	1.2	1.2	1.3	1.5
LLP ratio (%)	2.0	1.5	0.5	0.7	0.7
NNPA to networth (%)	14.4	7.9	5.0	5.4	6.0
Capital adequacy					
Total CAR (%)	15.8	16.2	15.4	15.2	14.8
Tier-1 (%)	13.3	14.0	13.5	13.4	13.1
CET-1 (%)	11.7	11.7	12.1	12.1	12.0
RWA-to-Total Assets (%)	49.5	47.8	50.0	50.0	50.0
Miscellaneous					
Total income growth (%)	(2.5)	22.4	29.6	9.0	9.8
Opex growth (%)	5.7	12.9	15.3	10.1	9.9
Core PPOP growth (%)	19.5	29.9	9.3	5.1	13.1
PPOP margin (%)	27.5	27.0	24.2	23.7	24.7
PAT/PPOP (%)	32.5	52.5	54.9	56.6	52.7
LLP-to-Core PPOP (%)	63.1	26.6	26.4	26.3	32.3
Yield on advances (%)	6.8	7.6	8.5	8.2	7.9
Cost of funds (%)	3.4	3.9	5.0	4.8	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	10,355	10,355	10,355	10,355	10,355
Reserves & surplus	8,48,742	9,71,874	11,08,524	12,58,097	14,16,901
Net worth	8,59,097	9,82,229	11,18,879	12,68,453	14,27,257
Deposits	1,04,59,386	1,20,36,878	1,36,27,735	1,57,19,253	1,82,42,262
Borrowings	10,38,993	10,19,105	10,70,060	11,23,563	11,79,741
Interest bearing liab.	1,14,98,378	1,30,55,983	1,46,97,795	1,68,42,816	1,94,22,003
Other liabilities & prov.	4,22,523	5,47,404	6,19,306	7,47,953	7,79,817
Total liabilities & equity	1,27,79,998	1,45,85,615	1,64,35,981	1,88,59,221	2,16,29,077
Net advances	77,71,552	94,09,983	1,07,13,313	1,23,77,590	1,44,00,336
Investments	31,57,954	36,24,854	40,11,953	45,03,197	50,79,345
Cash, other balances	12,26,550	9,57,032	10,28,846	11,78,997	12,62,430
Interest earning assets	1,21,56,056	1,39,91,869	1,57,54,112	1,80,59,784	2,07,42,111
Fixed assets	99,219	87,066	1,04,497	1,16,078	1,28,949
Other assets	5,24,724	5,06,681	5,77,372	6,83,358	7,58,017
Total assets	1,27,79,998	1,45,85,615	1,64,35,981	1,88,59,221	2,16,29,077
BVPS (Rs)	165.9	189.7	216.1	245.0	275.7
Adj. BVPS (INR)	146.6	177.6	207.4	234.4	262.5
Gross advances	81,78,635	96,93,776	1,09,53,967	1,25,97,062	1,46,12,592
Credit to deposit (%)	74.3	78.2	78.6	78.7	78.9
CASA ratio (%)	41.5	39.5	38.1	37.3	37.3
Cost of deposits (%)	3.3	3.7	4.8	4.7	4.4
Loans-to-Assets (%)	60.8	64.5	65.2	65.6	66.6
Net advances growth (%)	10.0	21.1	13.9	15.5	16.3
Deposit growth (%)	8.2	15.1	13.2	15.3	16.1
Book value growth (%)	11.5	14.3	13.9	13.4	12.5

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	14.5	7.5	6.2	5.6	5.2
P/B (x)	1.4	1.1	1.0	0.9	0.8
P/ABV (x)	1.3	1.1	1.0	0.8	0.8
P/PPOP (x)	4.7	3.9	3.4	3.2	2.8
Dividend yield (%)	1.4	2.7	3.3	3.7	4.0
DuPont-RoE split (%)					
NII/avg assets	2.7	3.0	2.9	2.8	2.8
Other income	0.9	0.7	1.0	0.9	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
PPOP	1.8	2.0	2.0	1.9	1.9
Core PPOP	1.7	2.0	1.9	1.7	1.7
Provisions	1.1	0.5	0.5	0.5	0.6
Tax expense	0.2	0.4	0.4	0.4	0.3
RoA (%)	0.6	1.0	1.1	1.1	1.0
Leverage ratio (x)	15.5	14.9	14.9	14.8	14.8
RoE (%)	8.9	15.3	16.3	15.8	14.9

Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	1,01,745	1,08,183	1,15,249	1,09,967	1,08,307
NIM (%)	3.3	3.4	3.5	3.3	3.1
PPOP	60,310	82,322	80,729	78,243	80,197
PAT	33,134	38,527	47,753	40,701	42,529
EPS (Rs)	6.40	7.44	9.22	7.86	8.21

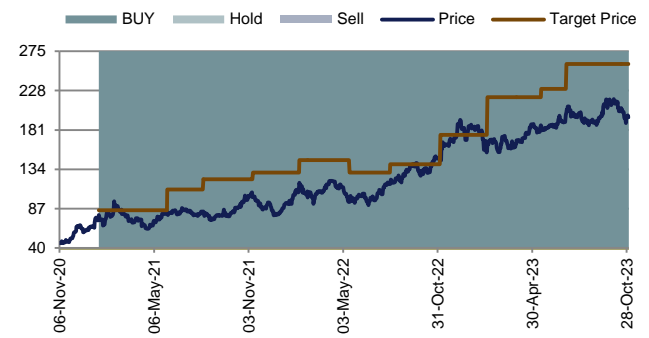
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
05-Aug-23	191	260	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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