

February 1, 2024

Q3FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	270		240	
NII (Rs. m)	4,69,976	5,13,965	4,80,777	5,40,484
% Chng.	(2.2)	(4.9)		
Op. Profit (Rs. m)	2,95,003	3,12,067	3,08,450	3,41,658
% Chng.	(4.4)	(8.7)		
EPS (Rs.)	31.2	32.6	30.7	33.6
% Chng.	1.6	(3.0)		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
NII (Rs m)	4,13,560	4,41,610	4,69,976	5,13,965
Op. Profit (Rs m)	2,68,635	2,93,480	2,95,003	3,12,067
PAT (Rs m)	1,41,096	1,65,441	1,61,526	1,68,608
EPS (Rs.)	27.3	32.0	31.2	32.6
Gr. (%)	94.0	17.3	(2.4)	4.4
DPS (Rs.)	5.5	5.8	5.6	5.9
Yield (%)	2.2	2.3	2.3	2.4
NIM (%)	3.2	3.0	2.9	2.8
RoAE (%)	16.5	16.4	14.2	13.4
RoAA (%)	1.0	1.1	1.0	0.9
P/BV (x)	1.4	1.2	1.1	1.0
P/ABV (x)	1.5	1.3	1.1	1.0
PE (x)	9.1	7.7	7.9	7.6
CAR (%)	16.2	16.7	16.6	16.5

Key Data

BOB.BO | BOB IN

52-W High / Low	Rs.250 / Rs.147
Sensex / Nifty	71,752 / 21,726
Market Cap	Rs.1,280bn / \$ 15,419m
Shares Outstanding	5,171m
3M Avg. Daily Value	Rs.4283.94m

Shareholding Pattern (%)

Promoter's	63.97
Foreign	12.27
Domestic Institution	16.00
Public & Others	7.76
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.1	22.5	47.5
Relative	7.9	13.5	22.4

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Bank of Baroda (BOB IN)

Rating: BUY | CMP: Rs248 | TP: Rs270

Balance sheet management to drive NIM

Quick Pointers:

- Core PAT beat due to better margins, softer opex and lower provisions.
- Funding cost a key monitorable and LDR targeted to be maintained.

BOB saw a good quarter; core PPOp at Rs61.2bn beat PLe by 6.5% owing to better margins and lower opex. However, fees were a miss due to moderation in unsecured loans, which may drag NIM over FY24-26E. Run-down of higher cost bulk deposits (Rs143bn) drove lower funding cost, resulting in better NIM. Full year FY24 NIM target of 3.15% is intact as management does not expect a meaningful rise in deposit cost. We expect funding cost to rise in Q4'24 since incremental LDR would reduce to accommodate credit offtake. Bank has maintained loan growth guidance of 14-16% YoY in FY24 while it aims to keep LDR at 82%. However, we are factoring lower loan accretion of 12%, since a higher loan growth may impact yields and raise funding cost, affecting NIM materially. We maintain our multiple at 1.1x but increase TP from Rs240 to Rs270 as we roll forward to Mar'26 ABV. Retain 'BUY'.

- Core PPOp beat due to higher NII/lower opex; asset quality better:** NII was a beat at Rs111bn (PLe 108.2bn) due to better margins as loan growth was in-line. NIM was ahead at 3.16% (PLe 3.08%) owing to lower cost of funds. Loan growth as expected was 2.6% QoQ/15% YoY while deposit growth was 8.3% YoY. Other income was a miss at Rs28.1bn (PLe Rs33.0bn) due to weaker fees and treasury. Opex was 5.4% below PLe at Rs68.97bn due to lower other opex. Core PPOp at Rs61.2bn was 6.5% ahead PLe; PPOp was Rs70.2bn (PLe Rs68.5bn). Asset quality was a beat; gross slippages were softer at Rs26.2bn while (PLe Rs36bn) while recoveries too were a tad lower. Hence GNPA at 3.08% was 8bps lower to PLe. Provisions were below expectations at Rs6.7bn (PLe Rs20bn) due to write-back of std. asset provisions of Rs4.2bn. Core PAT was higher at Rs39.3bn (PLe Rs27.4bn) while PAT was Rs45.8bn.
- Credit growth QoQ was broad based; aim to maintain LDR:** Sequential loan growth at 2.6% was mainly led by domestic book (3.3%) that was broad based led by retail (5.2%) and corporate (3.2%). Retail accretion was led by home, auto and personal. Focus would remain on retail and corporate while there would be moderation in unsecured growth which also impacted fee income for Q3'24. Deposit growth was muted for Q3'24 (-0.3%) as there was a rundown in wholesale funding to the tune of Rs143bn. BOB would tap either RTD, bulk deposits or bond markets to fund growth but protecting NIM is a priority. Bank maintained growth guidance of 14-16% for FY24E while it would like to keep domestic LDR between 80-81% implying that deposit growth will need to catch up. Liquidity position is comfortable with LCR at 133%.
- NIM guidance intact; fees affected due to slower accretion in unsecured:** As higher cost bulk deposits were shed, domestic cost of deposits (reported) was largely flat QoQ at 5.0%, leading to a positive surprise in reported NIM that increased by 3bps QoQ to 3.1%. Bank does not expect a major spike in funding cost since most of the repricing has been effected. However, for LDR to be at existing level of 82%, deposit growth QoQ needs to increase which may necessitate tapping the bulk deposit markets that may increase funding cost in Q4'24. Bank's FY24 NIM guidance was intact at 3.15% (vs 3.14% in 9MFY24). Fee income at Rs15.4bn negatively surprised by 23% due to slower growth in unsecured credit at +8% QoQ (vs ~16% in Q2'24).

NII grew sequentially by 2.5% and stood at Rs111bn led by higher NIM.

Other income normalized witnessing de-growth of 32.6% QoQ.

Opex was lower at Rs68.96bn decreasing 1.2% QoQ, due to lower other opex.

Advances and deposits grew strong at 8.3% YoY/15% YoY respectively.

NIM improved by 3bps QoQ as Yield on advances outpaced CoF.

Asset quality saw significant improvement with GNPA/NNPA at 3.1%/0.7%.

CASA improved sequentially and stood at 40.7%.

Exhibit 1: PAT beat led by higher NII and lower provisions.

Financial Statement (Rs m)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)
Interest Income	286,051	235,401	21.5	278,616	2.7
Interest Expense	175,038	127,218	37.6	170,309	2.8
Net Interest Income (NII)	111,013	108,182	2.6	108,307	2.5
- Treasury income	380	9,630	(96.1)	4,780	(92.1)
Other income	28,105	35,520	(20.9)	41,712	(32.6)
Total income	139,118	143,702	(3.2)	150,019	(7.3)
Operating expenses	68,967	61,381	12.4	69,821	(1.2)
-Staff expenses	38,085	33,470	13.8	37,064	2.8
-Other expenses	30,882	27,911	10.6	32,758	(5.7)
Operating profit	70,151	82,321	(14.8)	80,197	(12.5)
Core operating profit	69,771	72,691	(4.0)	75,417	(7.5)
Total provisions	6,663	24,039	(72.3)	21,606	(69.2)
Profit before tax	63,488	58,282	8.9	58,592	8.4
Tax	17,694	19,755	(10.4)	16,063	10.2
Profit after tax	45,793	38,527	18.9	42,529	7.7
Balance sheet (Rs m)					
Deposits	12,452,996	11,495,070	8.3	12,496,469	(0.3)
Advances	10,240,986	8,906,823	15.0	9,979,948	2.6
Profitability ratios					
RoaA	1.2	1.2	6	1.2	6
NIM	3.1	3.4	(27)	3.1	3
Yield on Advances	9.1	8.4	63	9.1	(2)
Cost of Deposits	5.3	4.4	95	5.3	4
Asset Quality					
Gross NPA (Rs m)	323,176	418,575	(22.8)	339,685	(4.9)
Net NPA (Rs m)	72,083	88,538	(18.6)	75,967	(5.1)
Gross NPL ratio	3.1	4.5	(145)	3.3	(24)
Net NPL ratio	0.7	1.0	(29)	0.8	(6)
Coverage ratio	77.7	78.8	(115)	77.6	6
Business & Other Ratios					
Low-cost deposit mix	40.7	41.6	(94)	39.9	81
Cost-income ratio	49.6	42.7	686	46.5	303
Non int. inc / total income	20.2	24.7	(452)	27.8	(760)
Credit deposit ratio	82.2	77.5	475	79.9	237
CAR	14.7	14.9	(21)	15.3	(58)
Tier-I	12.7	12.6	4	13.2	(53)

Source: Company, PL

Q3FY24 Analyst Meet Highlights

Assets/Liabilities Outlook & Commentary:

- **Deposits** – Bulk deposits de-grew QoQ by Rs200bn including CD and Rs140bn excluding CD. Adjusted for the same total deposit growth would have been 9.5% YoY. Overall growth guidance maintained at 6.3%-8.3%.
- **Advances** – Domestic/global loans grew by 13.4%/13.6% YoY, while corporate grew by 10% YoY. Bank maintained FY24 growth guidance of 14-16% YoY. Going ahead, focus would be to improve corporate book while there may be some moderation in personal loan growth.
- **Bank initiated new products on the liability side** viz. BOB Light, BOB Woman Power, BOB Smart, BOB Gold, Rhodium, Platinum, Diamond etc. to provide differentiated services to various customers so as to enhance RTD.
- LCR stood at 133%. CD for domestic book is 80% while overall LDR is higher due to lower deposit funding in international book. Overall CD stood at 83-84%.
- Tier 2 capital increased by Rs75bn as money was raised through bond route. Additional Rs75bn would be raised (Rs50bn already tapped).

NIMs/Fees/Opex

- **NIM stood at 3.1% in Q3FY24.** Management maintained margin guidance of 3.15% range for FY24, due to moderation in bulk deposits. Domestic NIMs stood at 3.23% for Q3'24 and 3.27% YTD. NBFC book set to see resetting leading to potential upside. Impact on deposit will be marginal going ahead.
- **Fees fell by 22.7% QoQ** since (1) last quarter had seen one-off income (underwriting bills) and (2) personal loans grew moderately leading to fall in fees. Normalized commission and interest income stood at Rs7-7.5bn.
- **Opex increased to 12.4% YoY.** Bank has provided for wages adequately throughout the FY. Provision for wages stood at Rs4.25bn/17.45bn QoQ/YTD and bank has been providing on basis 18% from Q1'24.
- **RoA guidance maintained at >1%,** RoA would be majorly driven by higher fee based income and other non-interest income. Focus is dual in nature i.e. ROA and NIMs

Asset Quality

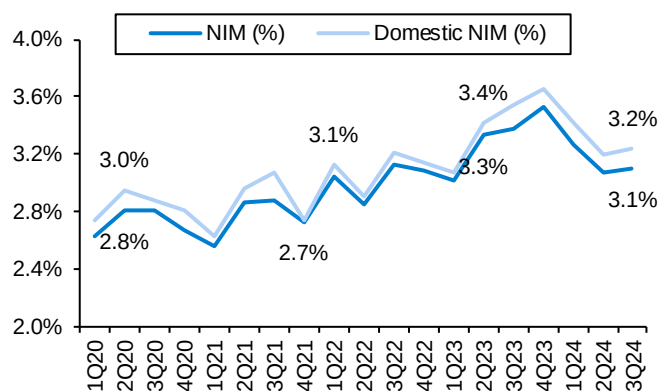
- **GNPA/NNPA in Q3FY24 improved by 24bps/6bps QoQ** and stood at 3.08%/0.7%, while PCR including TWO stood strong at 94%. SMA 1 & 2 guidance is below 40bps, that stood at ~24bps. Restructured book touched Rs99bn with 15-20% reduction per quarter, thus leading to provision reversal. Retail NPA were Rs5.53bn with no NPAs in co-lending.
- **Slippages normalised at Rs26.2bn in Q3FY24,** which were higher last quarter due to an aviation account and international mortgage loan aggregating to Rs22bn. Credit cost was for Q3'24 was 39bps. Slippages (1.06% YTD) and credit cost (69bps YTD) guided at 1.0-1.2% and <1% respectively.

Exhibit 2: Sequential loan growth led by retail (+5.2%) and Agri (2.7%)

Loan break up (Rs mn)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)
Domestic Advances	8,620,860	7,602,490	13.4	8,347,230	3.3
Corporate	3,628,130	3,292,120	10.2	3,515,680	3.2
SME	1,159,950	1,030,030	12.6	1,135,120	2.2
Retail	2,037,000	1,668,610	22.1	1,936,820	5.2
Agri	1,342,400	1,191,970	12.6	1,306,940	2.7
Other/Misc	454,120	419,760	8.2	452,670	0.3
Advances Mix					
Domestic Advances	82	82	(0)	81	1
Corporate	35	36	(3)	34	1
SME	11	11	(1)	11	(0)
Retail	19	18	7	19	3
Agri	13	13	(1)	13	0
Other/Misc	4	5	(5)	4	(2)

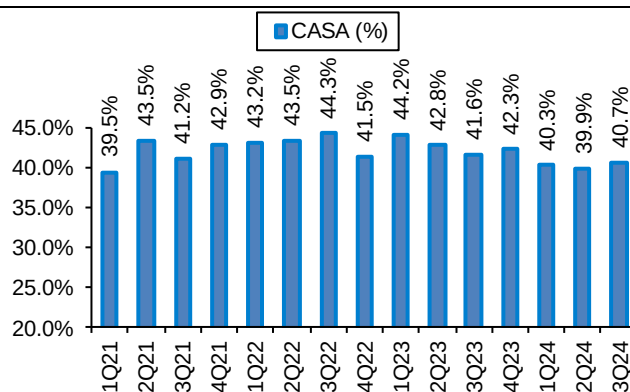
Source: Company, PL

Exhibit 3: Domestic NIM improves to 3.2%



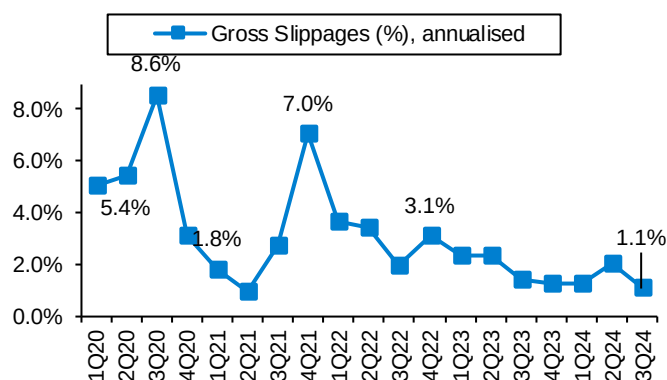
Source: Company, PL

Exhibit 4: CASA ratio improved by 81bps QoQ to 40.7%



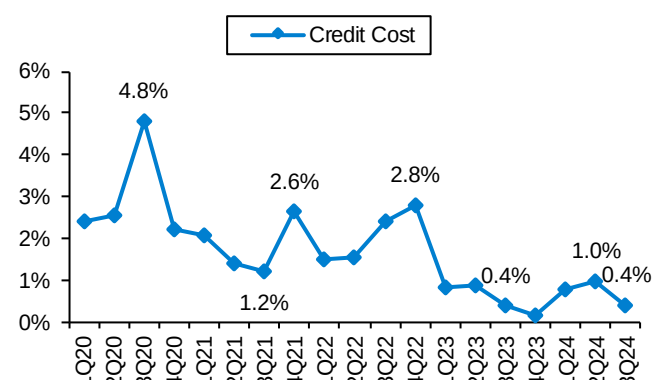
Source: Company, PL

Exhibit 5: Gross slippages declined by 98bps to 1.1%



Source: Company, PL

Exhibit 6: Credit cost declined by 60bps to 0.39%



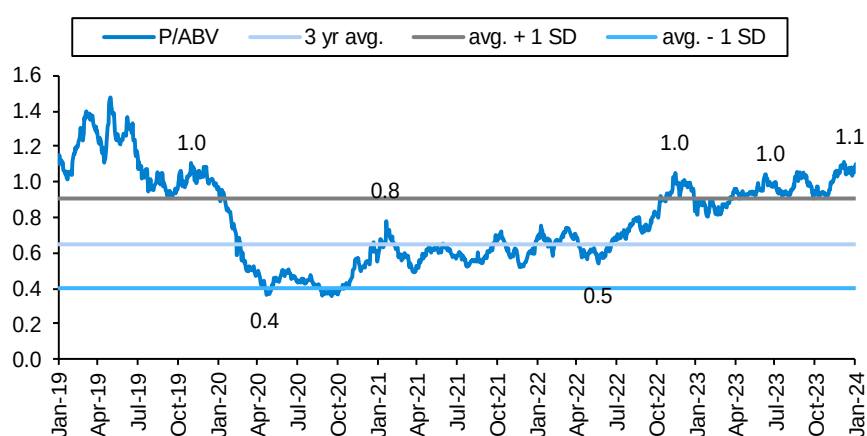
Source: Company, PL

Exhibit 7:

Exhibit 8: Return ratios to improve to +14% on normalized basis

ROAE decomposition	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Nil/Assets	2.5	2.8	2.5	2.7	3.0	2.9	2.8	2.7
Other Income/Assets	0.8	1.1	1.1	0.9	0.7	0.9	0.8	0.7
Net revenues/Assets	3.3	3.9	3.6	3.6	3.8	3.8	3.6	3.5
Opex/Assets	1.5	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Provisions/Assets	1.7	2.2	1.4	1.1	0.5	0.4	0.4	0.4
Taxes/Assets	0.0	-0.2	0.4	0.2	0.4	0.4	0.4	0.3
ROAA	0.1	0.1	0.1	0.6	1.0	1.1	1.0	0.9
ROAE	1.0	1.0	1.2	9.6	16.5	16.4	14.2	13.4

Source: Company, PL Note – FY20 represents merged numbers

Exhibit 9: One-year forward P/ABV trades at 1.1x


Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Int. Earned from Adv.	6,40,735	8,49,537	9,33,623	10,01,827
Int. Earned from invt.	2,21,560	2,50,520	2,51,156	2,78,546
Others	19,216	10,194	12,169	14,213
Total Interest Income	8,95,885	11,28,504	12,12,841	13,11,584
Interest Expenses	4,82,325	6,86,894	7,42,864	7,97,619
Net Interest Income	4,13,560	4,41,610	4,69,976	5,13,965
Growth(%)	26.8	6.8	6.4	9.4
Non Interest Income	1,00,258	1,33,012	1,32,415	1,39,498
Net Total Income	5,13,818	5,74,622	6,02,391	6,53,463
Growth(%)	22.4	26.6	6.6	7.9
Employee Expenses	1,33,527	1,54,587	1,69,024	1,87,349
Other Expenses	1,11,657	1,26,556	1,38,364	1,54,047
Operating Expenses	2,45,183	2,81,143	3,07,388	3,41,396
Operating Profit	2,68,635	2,93,480	2,95,003	3,12,067
Growth(%)	20.0	9.2	0.5	5.8
NPA Provision	44,548	47,667	53,479	58,054
Total Provisions	71,369	62,737	70,661	77,890
PBT	1,97,266	2,30,743	2,24,342	2,34,178
Tax Provision	56,170	65,301	62,816	65,570
Effective tax rate (%)	28.5	28.3	28.0	28.0
PAT	1,41,096	1,65,441	1,61,526	1,68,608
Growth(%)	94.0	17.3	(2.4)	4.4

Balance Sheet (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
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	9,82,229	11,48,899	12,50,342	13,88,601
Growth(%)	14.3	17.0	8.8	11.1
Adj. Networth to NNPA's	83,843	71,197	70,644	75,423
Deposits	1,20,36,878	1,28,24,578	1,43,66,828	1,61,05,829
Growth(%)	15.1	6.5	12.0	12.1
CASA Deposits	47,50,968	46,16,848	51,11,555	57,93,476
% of total deposits	39.5	36.0	35.6	36.0
Total Liabilities	1,45,85,615	1,58,55,421	1,78,35,408	1,99,54,354
Net Advances	94,09,983	1,05,48,216	1,18,14,001	1,32,31,682
Growth(%)	21.1	12.1	12.0	12.0
Investments	36,24,854	37,96,075	43,05,738	48,26,917
Total Assets	1,45,85,615	1,58,55,421	1,78,35,408	1,99,54,354
Growth (%)	14.1	8.7	12.5	11.9

Asset Quality

Y/e Mar	FY23	FY24E	FY25E	FY26E
Gross NPAs (Rs m)	3,67,637	3,12,177	3,21,311	3,43,156
Net NPAs (Rs m)	83,843	71,197	70,644	75,423
Gr. NPAs to Gross Adv.(%)	3.8	2.9	2.7	2.5
Net NPAs to Net Adv. (%)	0.9	0.7	0.6	0.6
NPA Coverage %	77.2	77.2	78.0	78.0

Profitability (%)

Y/e Mar	FY23	FY24E	FY25E	FY26E
NIM	3.2	3.0	2.9	2.8
RoAA	1.0	1.1	1.0	0.9
RoAE	16.5	16.4	14.2	13.4
Tier I	14.0	14.4	14.0	13.9
CRAR	16.2	16.7	16.6	16.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Interest Income	2,58,567	2,65,558	2,78,616	2,86,051
Interest Expenses	1,43,318	1,55,591	1,70,309	1,75,038
Net Interest Income	1,15,249	1,09,967	1,08,307	1,11,013
YoY growth (%)	33.8	24.4	6.4	2.6
CEB	17,140	15,070	19,960	15,430
Treasury	-	-	-	-
Non Interest Income	34,661	33,223	41,712	28,105
Total Income	2,93,227	2,98,781	3,20,328	3,14,156
Employee Expenses	37,790	37,544	37,064	38,085
Other expenses	31,390	27,402	32,758	30,882
Operating Expenses	69,180	64,946	69,821	68,967
Operating Profit	80,729	78,243	80,197	70,151
YoY growth (%)	43.3	72.8	33.0	(14.8)
Core Operating Profits	79,509	68,683	75,417	69,771
NPA Provision	3,200	16,930	22,850	10,070
Others Provisions	14,207	19,468	21,606	6,663
Total Provisions	14,207	19,468	21,606	6,663
Profit Before Tax	66,522	58,775	58,592	63,488
Tax	18,768	18,075	16,063	17,694
PAT	47,753	40,701	42,529	45,793
YoY growth (%)	168.5	87.7	28.4	18.9
Deposits	1,20,36,878	1,19,99,084	1,24,96,469	1,24,52,996
YoY growth (%)	15.1	16.2	14.6	8.3
Advances	94,09,983	96,34,909	99,79,948	1,02,40,986
YoY growth (%)	21.1	20.5	19.3	15.0

Key Ratios

Y/e Mar	FY23	FY24E	FY25E	FY26E
CMP (Rs)	248	248	248	248
EPS (Rs)	27.3	32.0	31.2	32.6
Book Value (Rs)	178	211	230	257
Adj. BV (Rs)	162	197	217	242
P/E (x)	9.1	7.7	7.9	7.6
P/BV (x)	1.4	1.2	1.1	1.0
P/ABV (x)	1.5	1.3	1.1	1.0
DPS (Rs)	5.5	5.8	5.6	5.9
Dividend Payout Ratio (%)	20.2	18.0	18.0	18.0
Dividend Yield (%)	2.2	2.3	2.3	2.4

Efficiency

Y/e Mar	FY23	FY24E	FY25E	FY26E
Cost-Income Ratio (%)	47.7	48.9	51.0	52.2
C-D Ratio (%)	78.2	82.3	82.2	82.2
Business per Emp. (Rs m)	275	290	321	355
Profit per Emp. (Rs lacs)	18	21	20	20
Business per Branch (Rs m)	2,603	2,828	3,158	3,528
Profit per Branch (Rs m)	17	20	19	20

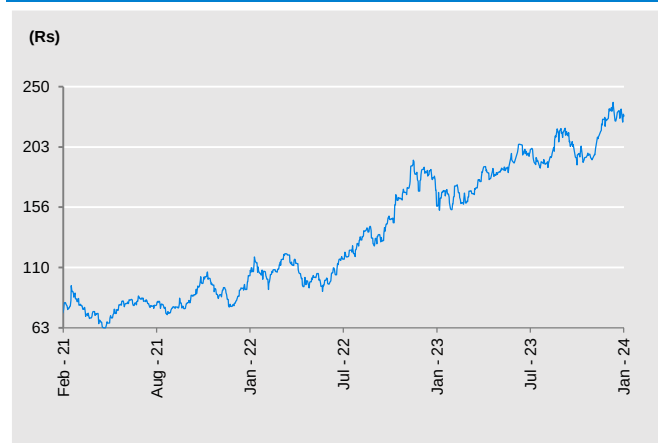
Du-Pont

Y/e Mar	FY23	FY24E	FY25E	FY26E
NII	3.02	2.90	2.79	2.72
Total Income	3.76	3.78	3.58	3.46
Operating Expenses	1.79	1.85	1.82	1.81
PPoP	1.96	1.93	1.75	1.65
Total provisions	0.52	0.41	0.42	0.41
RoAA	1.03	1.09	0.96	0.89
RoAE	16.30	16.41	13.69	12.92

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	240	235
2	05-Nov-23	BUY	240	204
3	07-Oct-23	BUY	235	215
4	06-Aug-23	BUY	235	191
5	06-Jul-23	BUY	235	205
6	17-May-23	BUY	235	187
7	11-Apr-23	BUY	220	166
8	05-Feb-23	BUY	220	164

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,566
2	Axis Bank	BUY	1,250	1,089
3	Bank of Baroda	BUY	240	235
4	Can Fin Homes	BUY	900	725
5	City Union Bank	Accumulate	160	153
6	DCB Bank	BUY	160	144
7	Federal Bank	BUY	180	150
8	HDFC Asset Management Company	BUY	3,900	3,501
9	HDFC Bank	BUY	2,000	1,679
10	ICICI Bank	BUY	1,300	1,009
11	IndusInd Bank	BUY	1,740	1,613
12	Kotak Mahindra Bank	BUY	2,250	1,807
13	LIC Housing Finance	Hold	460	575
14	State Bank of India	BUY	770	642
15	UTI Asset Management Company	BUY	900	875

PL's Recommendation Nomenclature (Absolute Performance)

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

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