



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

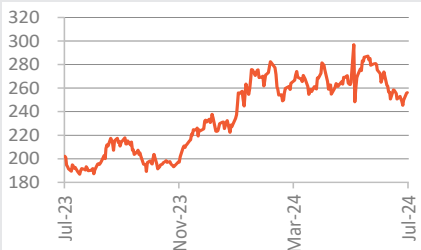
Company details

Market cap:	Rs. 1,31,275 cr
52-week high/low:	Rs. 298/186
NSE volume: (No of shares)	198.7 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	186.2 cr

Shareholding (%)

Promoters	64.0
FII	11.5
DII	16.0
Others	8.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.6	-9.9	2.4	25.7
Relative to Sensex	-11.1	-19.7	-12.5	2.9

Sharekhan Research, Bloomberg

Bank of Baroda

Mixed bag Q1, Outlook stable

Bank	Sharekhan code: BANKBARODA		
Reco/View: Buy	↔	CMP: Rs. 254	Price Target: Rs. 310 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Earnings grew 10% y-o-y mainly driven by a 48% y-o-y fall in provisions, but core operational performance was weak. Overall asset quality was broadly stable.
- Slower credit growth (9% y-o-y), weak fee income and lower recoveries from written off accounts partially offset by lower opex led to weak core PPOP growth (3% y-o-y), below estimates.
- The bank has consciously decided to slow down growth, to manage the liability mix while the bank also chose to let go business on corporate side due to higher competitive intensity.
- The bank is confident of a 12-14% loan growth in FY25 and reiterated its guidance of sustaining RoA around ~1.1%. We maintain Buy with an unchanged PT of Rs. 310 given stable outlook. At CMP, the stock trades at 1.1x/0.9x its FY25E/26E ABV.

Q1FY2025 was a mixed bag. Net interest income (NII) at Rs. 11,600 crore (in line) grew by 5% y-o-y/ down 2% q-o-q. Net interest margin (NIMs) declined by 9 bps q-o-q to 3.18% driven by lower yields on advances. Although the cost of deposits was stable q-o-q. Core fee income declined by 2% y-o-y/23% q-o-q led by lower processing fee on corporate loans due to muted growth along with lower wealth management fee earned. Treasury gains stood at Rs. 295 crore versus Rs 753 crore q-o-q and Rs. 1,152 crore y-o-y. Other income excluding treasury gains at Rs. 714 crore versus Rs 1523 crore q-o-q and Rs. 663 crore y-o-y. Total operating expenses growth moderated, rose by 7% y-o-y but were down by 12% q-o-q mainly led by one off in staff cost in last quarter along with lower other opex. Operating profit at Rs. 7,161 crore (below estimates) declined by 8% y-o-y /12% q-o-q. Core PPOP grew by 3% y-o-y. Provisions were down by 48% y-o-y/ 22% q-o-q. Core credit cost stood at 48 bps annualised vs 57 bps q-o-q and 71 bps y-o-y. PBT increased by 5% y-o-y. PAT at Rs. 4,458 crore (broadly in line) rose by 10% y-o-y mainly due to lower provisions. Net advances grew by 9% y-o-y/down 2% q-o-q. Retail loans and agri loans grew by 21% y-o-y/4% y-o-y & 9% y-o-y/ flat q-o-q respectively. The MSME and wholesale domestic corporate book grew by 10% y-o-y/ flat q-o-q & 3% y-o-y/ down 6% q-o-q respectively. The overseas book grew by 7% y-o-y/ down 1% q-o-q. Deposits grew by 9% y-o-y/down 2% q-o-q with CASA balances growing at 6% y-o-y/ down 4% q-o-q and CASA ratio at ~34.4% versus 35.3% y-o-y. Bulk term deposits declined by 5% y-o-y/ 11% q-o-q and retail term deposits grew 10% y-o-y/ 4% q-o-q. Overseas deposits grew by 35% y-o-y/ 2% q-o-q. Overall asset quality trends were broadly stable with GNPA and NNPA at 2.88%/0.69% vs 2.92%/ 0.68. PCR stood at ~77% stable q-o-q. Slippages were lower, stood at 1.3% annualised versus 1.4% q-o-q. Net slippages were at Rs. 1361 crore vs Rs. 1190 crore q-o-q mainly due to lower recovery. Write-offs were higher by 39% q-o-q. SMA 1 and 2 book (above Rs. 5 crore) stood at 0.18% versus 0.15% of advances q-o-q.

Key positives

- Slippages were lower, stood at 1.3% annualised versus 1.4% q-o-q.
- Core credit cost was lower, stood at 48 bps annualised vs 57 bps q-o-q and 71 bps y-o-y.
- Retail term deposits grew by 4% q-o-q.

Key negatives

- Loan growth was sluggish – 9% y-o-y/ down 2% q-o-q.
- Weak core fee income (down 2% y-o-y/ 23% q-o-q)

Management Commentary

- Bank is confident of ~12-14% loan growth for FY2025E driven by ~10-12% growth in corporate and higher growth in RAM advances. Deposit growth is expected to be at 10-12%.
- NIM guidance is maintained at ~3.15%. Slippages are expected at 1-1.25% and credit cost less than 0.75% of advances in FY2025E. Reiterated its guidance of sustaining RoA around ~1.1%.

Our Call

At CMP, the stock trades at 1.1x/0.9x its FY2025E/FY2026E ABV. The bank is taking continuous efforts to improve overall performance and deliver earnings on sustainable basis. The performance is broadly holding up well with some volatility. Overall outlook on loan growth is healthy and NIMs are expected to remain broadly rangebound. Credit cost is also expected to be lower led by stable asset quality outlook. Thus, we believe the bank is likely to sustain RoA over ~1% in the near to medium term. However, we acknowledge that the bank needs to ramp up other avenues of productivity (mainly fee income) to drive RoA/RoE expansion. Given reasonable valuations and stable outlook, we maintain a Buy rating, with an unchanged PT of Rs. 310.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	32,621	41,356	44,722	47,796	55,417
Net profit	7,272	14,110	17,789	18,036	19,158
EPS (Rs.)	14.1	27.3	34.4	34.8	37.0
P/E (x)	18.1	9.3	7.4	7.3	6.9
P/BV (x)	1.7	1.4	1.2	1.1	0.9
RoE	8.9	15.3	16.9	14.9	13.7
RoA	0.6	1.0	1.2	1.1	1.0

Source: Company; Sharekhan estimates

Key Results Highlights

NII growth lower: Net interest income (NII) at Rs. 11,600 crore (in line) grew by 5% y-o-y/ down 2% q-o-q led by muted loan growth and lower NIMs. NIMs declined by 9 bps q-o-q to 3.18% driven by lower yields on advances. Although, the cost of deposits was stable q-o-q. The bank expects NIMs to sustain around ~3.15% in FY25E.

Lower credit costs to sustain: Provisions were down by 48% y-o-y/ 22% q-o-q. Core credit cost stood at 48 bps annualised versus 57 bps q-o-q and 71bps y-o-y. The bank expects credit cost to be lower than 0.75% of advances in FY25.

Loan growth outlook: Net advances grew by 9% y-o-y/down 2% q-o-q. Retail loans and agri loans grew by 21% y-o-y/4% y-o-y & 9% y-o-y/ flat q-o-q respectively. The MSME and wholesale domestic corporate book grew by 10% y-o-y/ flat q-o-q & 3% y-o-y/ down 6% q-o-q respectively. The overseas loan book grew by 7% y-o-y/ down 1% q-o-q. In retail, mortgages accounts for 60% of total retail loans, which grew by 14% y-o-y. Auto & Personal loans grew by 25% y-o-y/ 39% y-o-y in Q1, respectively. It was a conscious decision of the bank to slow down growth, to manage the liability mix while the bank also chose to let go business on corporate side due to higher competitive intensity. However, the bank expects credit growth of ~12-14% for FY2025E driven by ~11-12% growth in corporate and faster growth in RAM advances. Personal loan growth would continue to moderate going forward also. Avg. LCR was at 138% versus 122% q-o-q.

Deposits growth: Deposits grew by 9% y-o-y/ down 2% q-o-q with CASA balances growing at 6% y-o-y/ down 4% q-o-q and CASA ratio at ~34.4% versus 35.3% y-o-y. Bulk term deposits declined by 5% y-o-y/ 11% q-o-q and retail term deposits grew 10% y-o-y/ 4% q-o-q. Overseas deposits grew by 35% y-o-y/ 2% q-o-q. The management is taking efforts to reduce dependency on bulk deposits and aims deposit growth around 10-12% in FY25. Credit-deposit ratio stood at a stable 80% q-o-q.

Asset quality stable: Overall asset quality trends were broadly stable with GNPA and NNPA at 2.88%/0.69% vs 2.92%/ 0.68. PCR stood at ~77% stable q-o-q. Slippages were lower, stood at 1.3% annualised versus 1.4% q-o-q. Net slippages were at Rs. 1361 crore vs Rs. 1190 crore q-o-q mainly due to lower recoveries. Write offs were higher by 39% q-o-q. SMA 1 and 2 book (above Rs. 5 crore) stood at 0.18% versus 0.15% of advances q-o-q. Slippages are expected at 1-1.25% and credit cost less than 0.75% of advances in FY2025E.

Return ratio guidance: The bank reiterated its guidance for ROA at ~ 1.1% in FY25E.

Others: Stake sale in Nainital Bank is still work in progress and divestment in IndiaFirst Life Insurance company could happen in next 12-18 months. However, stake sale plans for BOB Cards Ltd, have been put on hold.

Results

Particulars	Q1FY25	Q1FY24	Q4FY24	y-o-y	Rs cr	q-o-q
Interest Income	29,629	26,556	29,583	12%		0%
Interest Expenses	18,029	15,559	17,791	16%		1%
Net Interest Income	11,600	10,997	11,793	5%		-2%
NIM (%)	3.18	3.27	3.27			
Core fee income	1,479	1,507	1,915	-2%		-23%
Other Income	1,008	1,815	2,276	-44%		-56%
Net Operating Revenue	14,087	14,319	15,984	-2%		-12%
Employee Expenses	4,014	3,754	4,547	7%		-12%
Other Opex	2,912	2,740	3,331	6%		-13%
Total Opex	6,926	6,495	7,878	7%		-12%
Cost to Income Ratio (%)	49.2%	45.4%	49.3%			
Pre Provision Profits	7,161	7,824	8,106	-8%		-12%
Provisions & Contingencies - Total	1,011	1,947	1,302	-48%		-22%
Profit Before Tax	6,151	5,878	6,804	5%		-10%
Tax	1,692	1,807	1,918	-6%		-12%
Effective Tax Rate (%)	27.5	30.8	28.2			
Reported Profits	4,458	4,070	4,886	10%		-9%
Basic EPS	8.6	7.9	9.5	10%		-9%
Diluted EPS	8.6	7.9	9.5			
RoA (%)	1.1	1.1	1.3			
Advances	10,47,949	9,63,491	10,65,782	9%		-2%
Deposits	13,06,994	11,99,908	13,26,958	9%		-2%
Gross NPA	30,873	34,832	31,834	-11%		-3%
Gross NPA Ratio (%)	2.9	3.5	2.9			
PCR - (%)	76.6	78.5	77.3			
Net NPA	7,232	7,482	7,213	-3%		0%
Net NPAs Ratio (%)	0.7	0.8	0.7			

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake (ex-HDFC Ltd) grew by ~16% y-o-y in the fortnight ending June 14, 2024, indicating loan growth has been healthy and sustaining given distinct signs of improved macros, revival of private capex, and healthy demand. On the other hand, deposits rose by ~12%. Gap between advances & deposits growth has been reducing very gradually. We are seeing strong traction in loan growth and but deposit growth remains a constraint. Margins are expected to stay stressed due to lower CASA flows, higher deposits rates and an inability to pass on rates on asset book. Overall, asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Stable prospects

BoB is an attractive play on the fast-growing Indian economy. We believe BoB's higher retail orientation, strong balance sheet, and improving asset-quality augur well for stable earnings progression in the near to medium term.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 310

At CMP, the stock trades at 1.1x/0.9x its FY2025E/FY2026E ABV. The bank is taking continuous efforts to improve overall performance and deliver earnings on sustainable basis. The performance is broadly holding up well with some volatility. Overall outlook on loan growth is healthy and NIMs are expected to remain broadly rangebound. Credit cost is also expected to be lower led by stable asset quality outlook. Thus, we believe the bank is likely to sustain RoA over ~1% in the near to medium term. However, we acknowledge that the bank needs to ramp up other avenues of productivity (mainly fee income) to drive RoA/RoE expansion. Given reasonable valuations and stable outlook, we maintain a Buy rating, with an unchanged PT of Rs. 310.

Peer Comparison

Banks	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
BoB	254	131275	7.3	6.9	1.1	0.9	14.9	13.7	1.1	1.0
SBI	873	7,78,896	8.6	7.6	1.3	1.1	16.4	15.8	1.0	1.0

Source: Company; Sharekhan Research

About the company

BoB, established in 1908, is one of the oldest commercial banks in India with a substantial footprint in domestic and international markets. It is the second largest public-sector bank in terms of assets, deposits, branches, number of customers, and employees having a pan-India presence. The bank is well-placed to gain market share, driven by strong balance sheet strength.

Investment theme

We believe BoB's higher retail orientation, reasonable capital position, and improving asset-quality position augur well for the future earnings progression.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr. Debadatta Chand	Managing Director and CEO
Mr. Lalit Tyagi	Executive Director
Mr. Sanjay Mudaliar	Executive Director
Mr. Lal Singh	Executive Director
Mr. Manoj Chayani	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	REPUBLIC OF INDIA	63.97
2	LIFE INSURANCE CORPORATION OF INDIA	5.34
3	HDFC ASSET MANAGEMENT Co LTD	2.03
4	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	1.11
5	NPS Trust A/c Uti Retirement Solutions	1.10
6	NIPPON LIFE INDIA ASSET MANAGEMENT LTD	1.04
7	BlackRock Inc	0.78
8	Aditya Birla Sun Life AMC Ltd	0.73
9	ICICI Prudential AMC Ltd	0.63
10	Vanguard Group Inc	0.58

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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