



## 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	✓	↔	✓

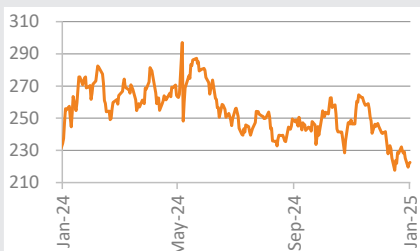
## Company details

Market cap:	Rs. 1,15,037 cr
52-week high/low:	Rs. 298 / 216
NSE volume: (No of shares)	129.7 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	186.2 cr

## Shareholding (%)

Promoters	64.0
FII	8.9
DII	18.1
Others	9.0

## Price chart



Source: NSE India, Mirae Asset Sharekhan Research

## Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	-11.6	-13.3	-6.3
Relative to Sensex	-6.0	-7.6	-7.5	-14.2

Source: Mirae Asset Sharekhan Research, Bloomberg

## Bank of Baroda

## Mixed bag Q3, asset quality stable

Bank	Sharekhan code: BANKBARODA		
Reco/View: Buy	↔	CMP: Rs. 222	Price Target: Rs. 280
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- Q3FY25 numbers were a mixed bag. Core operating performance was weak while asset quality trends were stable. Earnings were higher than estimates mainly led by lower credit cost (~31 bps annualised). Loan/deposit growth grew 12% y-o-y each.
- NIM fell by 16 bps q-o-q to 2.94% (owing to lower spreads & higher interest income on bad loans recovery in the last quarter) resulting in weak NII growth (~3% y-o-y) which largely impacted the core PPOP growth (down 2% y-o-y).
- Management is guiding for NIMs at ~3.05% (± 5 bps for FY25E). Guidance on loan/deposit growth, slippages, and credit cost for FY25E has been broadly maintained.
- We maintain a Buy with a revised PT of Rs. 280. At CMP, the stock trades at 0.9x/0.8x/0.7x its FY25E/26E/27E ABV. Valuations are reasonable given recent underperformance.

BOB reported a mixed performance in Q3FY25 as core operating performance was weak while asset quality trends were stable. Net interest income (NII) at Rs. 11,417 crore (below estimates) grew by 3% y-o-y/ down 2% q-o-q. Net interest margin (NIMs) declined by 16 bps q-o-q driven by lower yields on advances (down 13 bps q-o-q), higher cost of funds and higher interest income on bad loans recovery in the last quarter. Core fee income grew by 12% y-o-y/ down 2% q-o-q. Treasury gains stood at Rs. 936 crore versus Rs. 799 crore q-o-q and Rs. 410 crore y-o-y. Other income excluding treasury gains stood at Rs. 1,101 crore versus Rs. 2,609 crore q-o-q and Rs. 857 crore y-o-y. Total operating expenses rose by 9% y-o-y / 3% q-o-q mainly led by higher staff cost (+4% q-o-q) due to increase in retiral provisions. Operating profit at Rs. 7,664 crore (marginally below estimates) grew by 9% y-o-y. Core credit cost was lower at 31bps annualised versus 65 bps q-o-q and 26 bps y-o-y. PAT at Rs. 4,837 crore (above estimates) rose by 6% y-o-y mainly due to lower provisions. Net advances grew 12% y-o-y/3% q-o-q. Retail loans/agri loans grew by 20% y-o-y/13% q-o-y. The MSME and wholesale domestic corporate book grew by 14% y-o-y/ 7% y-o-y respectively. Overseas book grew by 11% y-o-y. Deposits grew by 12% y-o-y/2% q-o-q with CASA balances growing at 7% y-o-y/ 1% q-o-q and CASA ratio at ~33.2% versus 34.9% y-o-y. CA grew by 4% q-o-q while SA balances were flat q-o-q. Domestic bulk deposits grew 14% y-o-y/ 4% q-o-q and domestic retail term deposits grew 10% y-o-y/ flat q-o-q. Overseas deposits grew by 27% y-o-y/ 7% q-o-q. Overall asset quality trends improved q-o-q with GNPA/ NNPA at 2.43%/0.59% versus 2.50%/ 0.60%. PCR stood at ~76% stable q-o-q. Slippages were lower, stood at 1.1% annualised versus 1.2% q-o-q. Net slippages were at Rs. 1,094 crore versus Rs. 1,273 crore q-o-q. The SMA-1 and -2 books (above Rs. 5 crore) stood at 0.49% versus 0.47% of advances q-o-q. The management guided that majority of the SMA book has been pulled back.

## Key positives

- Slippages were contained at 1.1% annualised versus 1.2% q-o-q.
- LCR improved to 130% versus 124% q-o-q

## Key negatives

- Core PPOP growth was weak led by sluggish NII growth driven by lower NIMs.
- SA deposits and domestic retail term deposit accretion were muted q-o-q.

## Management Commentary

- The bank is guiding for NIMs at ~3.05% ± 5 bps for FY25E.
- Guidance on loan growth (~11-13%), deposit growth (~9-11%), slippages (~1-1.25% of advances), and credit cost less than 0.75% of advances for FY25E has been broadly maintained.
- Endeavour is to focus more on CASA deposits, retail term deposits and reduce reliance on bulk deposits.
- Personal loan portfolio has seen further increase in NPL ratios, but its lower share is resulting in negligible contribution to slippages/NPL ratio. Management expressed confidence on the book, given that most of the borrowers in this segment are from salaried class and underwriting has been tightened.
- SMA-1 and -2 books (above Rs. 5 crore) increased to 0.49% versus 0.47% of advances q-o-q. The management guided that majority of the SMA book has been pulled back.

## Our Call

**Valuation** – At CMP, the stock trades at 0.9x/0.8x/0.7x its FY2025E/FY2026E/FY2027E ABV. The bank is taking continuous efforts to improve overall performance that is broadly holding up well with some volatility in some of the key operating metrics. Stable asset quality is likely to support return ratios and reversal in return ratio is unlikely in near term. Thus, we believe the bank is likely to sustain RoA at ~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, we maintain a Buy rating, with a revised PT of Rs. 280.

## Key Risks

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

## Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	41,356	44,722	46,144	51,190	57,893
Net profit	14,110	17,789	19,901	20,682	21,193
EPS (Rs.)	27.3	34.4	38.4	39.9	40.9
P/E (x)	8.1	6.5	5.8	5.6	5.4
P/BV (x)	1.3	1.1	0.9	0.8	0.7
RoE	15.3	16.9	16.3	14.5	13.0
RoA	1.0	1.2	1.2	1.1	1.0

Source: Company; Mirae Asset Sharekhan estimates

## Result Table

Particulars	Q3FY25	Q3FY24	Q2FY25	y-o-y	Rs cr q-o-q
Interest Income	30,908	28,605	30,263	8%	2%
Interest Expenses	19,491	17,504	18,641	11%	5%
<b>Net Interest Income</b>	<b>11,417</b>	<b>11,101</b>	<b>11,622</b>	<b>3%</b>	<b>-2%</b>
NIM (%)	2.94	3.10	3.10		
Core fee income	1,732	1,543	1,773	12%	-2%
Other Income	2,037	1,267	3,408	61%	-40%
<b>Net Operating Revenue</b>	<b>15,186</b>	<b>13,912</b>	<b>16,803</b>	<b>9%</b>	<b>-10%</b>
Employee Expenses	4,207	3,809	4,040	10%	4%
Other Opex	3,315	3,088	3,287	7%	1%
<b>Total Opex</b>	<b>7,522</b>	<b>6,897</b>	<b>7,326</b>	<b>9%</b>	<b>3%</b>
<b>Cost to Income Ratio (%)</b>	<b>49.5%</b>	<b>49.6%</b>	<b>43.6%</b>		
<b>Pre Provision Profits</b>	<b>7,664</b>	<b>7,015</b>	<b>9,477</b>	<b>9%</b>	<b>-19%</b>
Provisions & Contingencies - Total	1,082	666	2,336	62%	-54%
<b>Profit Before Tax</b>	<b>6,582</b>	<b>6,349</b>	<b>7,141</b>	<b>4%</b>	<b>-8%</b>
Tax	1,745	1,769	1,903	-1%	-8%
Effective Tax Rate (%)	26.5	27.9	26.7		
<b>Reported Profits</b>	<b>4,837</b>	<b>4,579</b>	<b>5,238</b>	<b>6%</b>	<b>-8%</b>
Basic EPS	9.4	8.9	10.1	6%	-8%
Diluted EPS	9.4	8.9	10.1		
RoA (%)	1.2	1.2	1.3		
Advances	11,51,316	10,24,099	11,21,171	12%	3%
Deposits	13,92,461	12,45,300	13,63,486	12%	2%
Gross NPA	28,471	32,318	28,551	-12%	0%
Gross NPA Ratio (%)	2.4	3.1	2.5		
PCR - (%)	76.0	77.7	76.3		
Net NPA	6,825	7,208	6,764	-5%	1%
Net NPAs Ratio (%)	0.6	0.7	0.6		

Source: Company; Mirae Asset Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.5% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slowdown in unsecured retail segment and a high credit-deposit ratio. Deposit growth at 10.8% has again started to lag loan growth. However, deposit growth continues to remain rangebound at 10-12% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to higher cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe that banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

### ■ Company Outlook – Sustained performance is key

BoB is an attractive play in the current cycle given the strong balance sheet and healthy capital ratios. We believe that the bank's higher retail orientation, strong balance sheet and improved operating metrics augur well for future earnings progression. However, given strong growth in retail loans in the past 3 years its ability to differentiate itself from peers on asset quality is likely to be tested. Sustained earnings progression is key.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 280

At CMP, the stock trades at 0.9x/0.8x/0.7x its FY2025E/FY2026E/FY2027E ABV. The bank is taking continuous efforts to improve overall performance that is broadly holding up well with some volatility in some of the key operating metrics. Stable asset quality is likely to support return ratios and reversal in return ratio is unlikely in near term. Thus, we believe the bank is likely to sustain RoA at ~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, we maintain a Buy rating, with a revised PT of Rs. 280.

#### Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
BoB	222	1,15,037	5.8	5.6	0.9	0.8	16.3	14.5	1.2	1.1
SBI	762	6,80,235	7.2	6.4	1.1	0.9	16.2	15.6	1.0	1.0

Source: Company; Mirae Asset 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 and improved operating metrics in the current cycle.

## Investment theme

We believe BoB's higher retail orientation, reasonable capital position, and healthy asset-quality outlook 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 Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	63.97
2	Life Insurance Corp of India	6.34
3	HDFC Asset Management Co Ltd	2.33
4	Kotak Mahindra Asset Management Co	1.32
5	ICICI Prudential Asset Management	1.15
6	Nippon Life India Asset Management	1.00
7	Vanguard Group Inc/The	0.82
8	SBI Funds Management Ltd	0.72
9	Blackrock Inc	0.71
10	Aditya Birla Sun Life Asset Manage	0.69

Source: Bloomberg

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## Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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