MIRAE ASSET Sharekhan

Stock Update

Result Update

Bank of Baroda

Weak Q4

Bank	Sharekhan code: BANKBARODA		
Reco/View: Buy ⇔	CMP: **Rs. 233**	Price Target: **Rs. 260** ↓	

↑ Upgrade ⇔ Maintain ↓ Downgrade

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. 1,20,384 cr
52-week high/low:	Rs. 300 / 191
NSE volume: (No of shares)	116.9 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	184.7 cr

Shareholding (%)

Promoters	64.0
FII	9.0
DII	18.2
Others	8.8

Price chart

Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	0.0	10.4	-4.1	-10.0
Relative to Sensex	-8.0	3.9	-8.6	-21.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Despite a strong pick-up in loan growth (up 5% q-o-q), NII plunged due to lower NIMs, which weakened core operating performance (down 11% y-o-y). NIM fell by 8 bps q-o-q to 2.86% (mainly led by lower yields) and outlook on NIMs is negative.
- Asset quality improved led by higher write-offs. Higher write-offs drove up provisions, owing to which earnings missed the mark. Nevertheless, core credit cost (44 bps annualised vs 31 bps q-o-q) still remined lower below the long- term average.
- On the positive side, only treasury gains aided the profitability resulting in RoA at ~1.2% in Q4.
- The bank is confident that strong recoveries and treasury gains would continue to aid earnings/return ratios in FY26E, despite pressure on core operating profitability. We maintain a Buy with a revised PT of Rs. 260. Stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV estimates.

Q4FY25 numbers were weak as core operating performance was weak while asset quality trends improved mainly led by higher write off. Net interest income (NII) at Rs. 11,020 crore (below estimates) down by 7% y-o-y/ 3% q-o-q. Net interest margins (NIMs) declined by 8 bps q-o-q driven by lower yields on advances (down 14 bps q-o-q) and higher cost of funds. Core fee income grew by 14% y-o-y/ 26% q-o-q. Treasury gains stood at Rs. 1,559 crore versus Rs. 936 crore q-o-q and Rs. 753 crore y-o-y. Other income excluding treasury gains stood at Rs. 1,474 crore versus Rs 1,101 crore q-o-q and Rs. 1,523 crore y-o-y. Total operating expenses rose by 3% y-o-y / 8% q-o-q. Operating profit at Rs. 8,132 crore (in-line, mainly aided by treasury profits) was flat y-o-y. Core credit cost stood at 44 bps annualised versus 31 bps q-o-q and 57 bps y-o-y. PBT declined by 3% y-o-y. PAT at Rs. 5,048 crore (below estimates) rose by 3% y-o-y mainly due to lower effective tax rate. Net advances grew 13% y-o-y/5% q-o-q. Retail loans/agri loans grew by 19% y-o-y/14% y-o-y. The MSME and wholesale domestic corporate book grew by 14% y-o-y/ 9% y-o-y respectively. Overseas book grew by 9% y-o-y. Deposits grew by 11% y-o-y/6% q-o-q with CASA balances growing at 6% y-o-y/ 7% q-o-q and CASA ratio at ~33.7% versus 35.1% y-o-y. CA grew by 19% 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-grew 5% q-o-q. Overseas deposits grew by 16% y-o-y/ 1% q-o-q. Overall asset quality trends improved q-o-q led by higher write offs with GNPA/ NNPA at 2.26%/0.58% versus 2.43%/ 0.59%. PCR stood at ~75% vs 76% q-o-q. Slippages were slightly higher, stood at 1.2% annualised versus 1.1% q-o-q. Net slippages were at Rs. 1,216 crore versus Rs. 1,094 crore q-o-q. SMA-1 and -2 books (above Rs. 5 crore) stood lower at 0.33% versus 0.49% of advances q-o-q.

Key positives

- SMA-1 and -2 books (above Rs. 5 crore) stood lower at 0.33% versus 0.49% of advances q-o-q.

Key negatives

- Core PPoP declined by 11% y-o-y led by weak NII growth driven by lower NIMs.
- Write-offs were higher at Rs. 1,840 crore vs Rs. 1,167 crore q-o-q.

Management Commentary

- 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 FY26E has been broadly maintained.
- Outlook on NIMs is negative. Spreads are likely to remain under pressure in H1FY26 and improve partially in H2FY26.
- Ageing provisions drove up total provisions. Overall, the outlook on asset quality is stable.
- The bank guided that CD ratio would be maintained at 82-84%; LCR to be maintained at 120%.
- Focus is more on CASA deposits, retail term deposits and reduce reliance on bulk deposits.
- The bank is confident that strong recoveries and treasury gains would continue to aid earnings/return ratios in FY26E despite pressure on core operating profitability.

Our Call

Valuation – At CMP, the stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV. The bank highlighted that it is taking continuous efforts to improve overall performance that is broadly holding up well, but with some volatility in some of the key operating metrices. Stable asset quality outlook is likely to support return ratios and reversal in return ratio is unlikely in near term. We believe bank is likely to sustain RoA at ~1.0% in FY26 led by recoveries and higher treasury gains despite pressure on core operating profitability. 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. 260.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Net Interest Income	41,356	44,722	45,659	47,932	53,775
Net profit	14,110	17,789	19,581	19,641	20,686
EPS (Rs.)	27.3	34.4	37.9	37.9	40.0
P/E (x)	8.5	6.8	6.2	6.1	5.8
P/BV (x)	1.3	1.1	0.9	0.8	0.7
RoE	15.3	16.9	15.7	13.4	12.4
RoA	1.0	1.2	1.2	1.0	1.0

Source: Company; Mirae Asset Sharekhan estimates

Results (Standalone) Rs cr

Particulars	Q4FY25	Q4FY24	Q3FY25	y-o-y	q-o-q
Interest Income	30,642	29,583	30,908	4%	-1%
Interest Expenses	19,622	17,791	19,491	10%	1%
Net Interest Income	**11,020**	**11,793**	**11,417**	**-7%**	**-3%**
NIM (%)	2.86	3.27	2.94		
Core fee income	2,177	1,915	1,732	14%	26%
Other Income	3,033	2,276	2,037	33%	49%
Net Operating Revenue	**16,229**	**15,984**	**15,186**	**2%**	**7%**
Employee Expenses	4,347	4,547	4,207	-4%	3%
Other Opex	3,750	3,331	3,315	13%	13%
Total Opex	**8,097**	**7,878**	**7,522**	**3%**	**8%**
Cost to Income Ratio (%)	**49.9%**	**49.3%**	**49.5%**		
Pre Provision Profits	**8,132**	**8,106**	**7,664**	**0%**	**6%**
Provisions & Contingencies - Total	1,552	1,302	1,082	19%	43%
Profit Before Tax	**6,581**	**6,804**	**6,582**	**-3%**	**0%**
Tax	1,533	1,918	1,745	-20%	-12%
Effective Tax Rate (%)	23.3	28.2	26.5		
Reported Profits	**5,048**	**4,886**	**4,837**	**3%**	**4%**
Basic EPS	9.8	9.5	9.4	3%	4%
Diluted EPS	9.8	9.5	9.4		
RoA (%)	1.2	1.3	1.2		
Advances	12,09,558	10,65,782	11,51,316	13%	5%
Deposits	14,72,035	13,26,958	13,92,461	11%	6%
Gross NPA	27,835	31,834	28,471	-13%	-2%
Gross NPA Ratio (%)	2.3	2.9	2.4		
PCR - (%)	74.9	77.3	76.0		
Net NPA	6,994	7,213	6,825	-3%	2%
Net NPAs Ratio (%)	0.6	0.7	0.6		

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

System credit growth is slowing and has declined to ~11.4% 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 10.3% is lagging loan growth and stays rangebound at 10-12%. Moreover, deposit growth is mainly led by time deposits rather than CASA. Margins wbe under pressure due to the elevated cost of term deposits, while a lower interest rate cycle will lead to yield pressures. Overall, asset quality outlook is stable to positive for the sector, except unsecured retail loans and the MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Sustained improved performance is key

We believe that intermittent headwinds in terms of NIMs and volatility in asset quality are likely to managed. The balance sheet mix has been gradually improving for the bank, which we believe is positive. The bank is likely to sustain RoA at ~1.0% in FY26 led by recoveries and higher treasury gains despite pressure on core operating profitability. Sustained earnings progression holds the key.

■ Valuation – Maintain Buy with an revised PT of Rs. 260

At CMP, the stock trades at 0.8x/0.7x its FY2026E/FY2027E ABV. The bank highlighted that it is taking continuous efforts to improve overall performance that is broadly holding up well, but with some volatility in some of the key operating metrices. Stable asset quality outlook is likely to support return ratios and reversal in return ratio is unlikely in near term. We believe bank is likely to sustain RoA at ~1.0% in FY26 led by recoveries and higher treasury gains despite pressure on core operating profitability. 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. 260.

Peer valuation

Banks	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
BoB	233	1,20,384	6.1	5.8	0.8	0.7	13.4	12.4	1.0	1.0
SBI	802	7,15,710	7.0	6.6	1.0	0.9	15.3	13.9	1.0	1.0

Source: Company; Mirae Asset Sharekhan Research

About 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 healthy liability franchise.

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

Name	Designation
Mr. Debadatta Chand	Managing Director and CEO
Mr. Lalit Tyagi	Executive Director
Mr. Sanjay Mudaliar	Executive Director
Mr. Lal Singh	Executive Director
Ms. Beena Vaheed	Executive Director
Mr. Manoj Chayani	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	63.97
2	HDFC Asset Management Co Ltd	2.24
3	SBI Funds Management Ltd	1.40
4	Kotak Mahindra Asset Management Co	1.15
5	ICICI Prudential Asset Management	1.13
6	Nippon Life India Asset Management	1.02
7	Vanguard Group Inc/The	0.84
8	Blackrock Inc	0.70
9	Aditya Birla Sun Life Asset Management	0.63
10	PineBridge Investments LLP	0.56

Source: Bloomberg

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 detoriating 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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