

BANK OF BARODA | Banking

Growth to drive valuation; Profitability doubled yoy

LKP**Result and Price Analysis:**

In 3QFY22, Bank of Baroda (BOB) has delivered a superior result on operating and assets quality front. The fresh slippages were significantly lower at ₹28bn v/s ₹52bn in 2QFY22. Furthermore, the reduction (up-gradation & recovery) stood ₹70bn v/s ₹93bn in the previous quarter. It reported GNPA (7.25% v/s 8.11% in 2QFY22) and NNPA (2.25% v/s 2.83% in 2QFY22) declined substantially along with higher PCR (incl. TWO) of 86%. The bank has witnessed sequential growth in net advances (5% YoY, 6% QoQ) and deposit growth (2.5% YoY, 2% QoQ) with better liquidity position (LCR of 140% +). Moreover the bank has reported multi quarter high net profit of ₹22bn on the back of lower provision (₹25bn v/s ₹27.5bn in the previous quarter). Restructuring pool stood ~3% of book with provision coverage (ex. PCR) of ~0.35% of book. It seems adequate factoring 10-20% relapse rate. We believe the negatives are in the price and risk reward remain attractive with an inexpensive valuation (0.7x PBV). Thus reiterate BUY.

Gazing the core:

Delinquency level peaks; now time to witness gradual improvement: In 3QFY22, the fresh slippages were significantly lower at ₹28bn v/s ₹52bn in the previous quarter. Corporate book contributed 21% of the slippages amount where retail contribution was lower at 18%. SME book has highest slippages contribution of 36%. The slippages guidance is unchanged at 2%. The reduction (up-gradation, recovery & write-offs) stood ₹70bn v/s ₹93bn in the previous quarter. DHFL recovery is included in TWO. Total recovery from DHFL is ₹8.8bn. The Bank's SMA 1&2 book inched down to 1.12% v/s 2.87% in the previous quarter. The Bank has made provisioning of ₹25bn (Credit cost: 2.33% v/s 1.46% in 2QFY22) v/s ₹27bn in 2QFY22. The bank has utilized ₹19bn of standard asset provisions made in prior quarters. Therefore, the reported provision number was sequentially less. The contingent provisioning (for restructured book) stood ~35bps of the net advances. It seems adequate considering 10-20% relapse rate.

Key Financials (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
NII	2,74,513	2,88,090	3,37,668	3,99,628	4,74,325
Operating Profit	1,96,914	2,06,298	2,55,465	3,15,237	3,86,381
Reported Profits	5,469	8,290	1,02,643	1,43,938	1,93,016
Net Worth	6,57,767	7,18,686	8,21,329	9,65,267	11,58,283
Loan & Advances	69,01,207	70,63,005	77,12,802	84,84,082	94,17,331
Int. Bearing Liabilities	1,03,90,537	1,03,38,449	1,08,62,356	1,19,48,024	1,32,72,837

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
NIM's	3.0	2.6	3.0	3.2	3.4
C/I Ratio	47.9	49.9	46.1	42.6	39.5
Gross NPA Ratio	9.4	8.9	7.2	5.4	4.0
Tier 1 Ratio	9.4	13.4	10.8	11.3	12.0
Adj. RoA Ratio	0.1	0.1	0.8	1.1	1.3
Adj. RoE Ratio	0.9	1.1	12.5	15.1	17.2

Rating	Buy
Current Market Price (₹)	113
12 M Price Target (₹)	136
Potential upside (%)	20

Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	585
Free Float Market Cap (₹ bn) :	210
52-Week High / Low (₹) :	117 / 62
2-Year High / Low (₹) :	112 / 36
1 Year Avg. Dly Traded Volume (in lakh)	517
BSE Code / NSE Symbol	532134 / BANKBARODA
Bloomberg :	BOB IN

Shareholding Pattern (%)

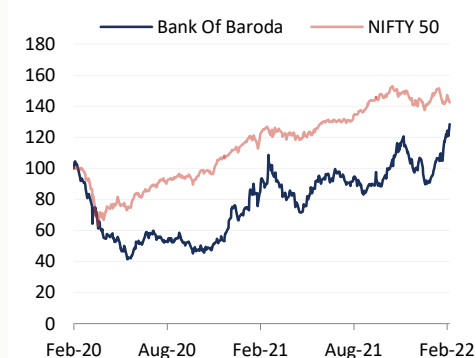
	Dec-21	Sep-21	Jun-21	Mar-21
GOI	63.97	63.97	63.97	63.97
FPIs	7.37	7.82	7.87	6.89
MFs	9.52	8.75	9.21	9.20
Insurance	4.92	5.75	5.00	6.32
Others	14.22	13.71	13.95	13.62

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
BOB	29.2	10.3	35.7	37.2
Nifty 50	-3.4	-3.9	6.0	15.3

* To date / current date : February 7, 2022

BOB vs Nifty 50

Growth on track: The bank's net advances stood at ₹7.3tn; grew by 4.8% YOY and 5.5% QOQ. Retail (17% contribution), Corporate (37% contribution) and Agriculture (14% contribution) grew by 4.5%, 6.4% and 4.9% QoQ respectively. The bank's deposit stood at ₹9.7tn grew by 2.5% YOY and 2% sequentially; the bank's CASA deposit grew by 3.3% QoQ and CASA ratio inched up sequentially and stood at 44.3%. The bank's CRAR 15.5% vs. 15.6% in the previous quarter with CET 1 of 11.3%. The RWA to assets stood at 50% with LCR well above the regulatory requirement.

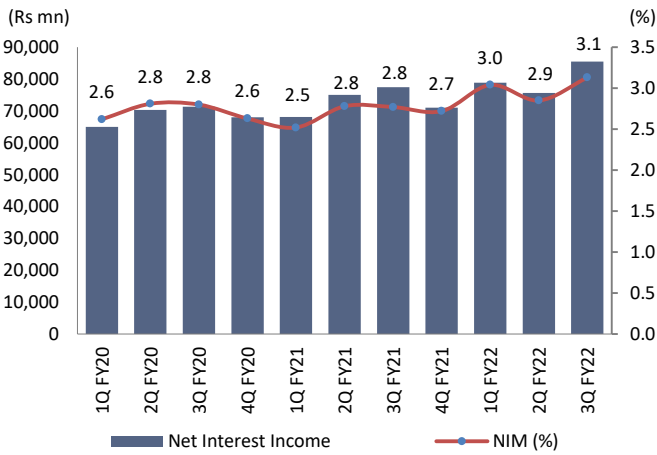
Multi quarter high profit: Domestic NIMs (3.21%) up by 31bps driven by 43bps higher domestic Yields at 7.9%. Management believes the NIMs to remain stable for FY22E. Overall YOA and COD stood at 6.92% and 3.5% against 6.55% and 3.52% in the previous quarter. Overall NIMs inched up by 28bps to 3.13% which translated in NII (₹85.5bn) growth sequentially of 13%. A NII growth, other income de-growth (-30% QoQ) and marginally higher opex have translated in PPOP de-growth of 3% QoQ. A lower provision expenses (₹25bn v/s ₹27.5bn in 2QFY22), owing specific provision utilization, has translated in 5% sequential jump and 107% YoY growth in PAT of ₹22bn.

Outlook & Valuations

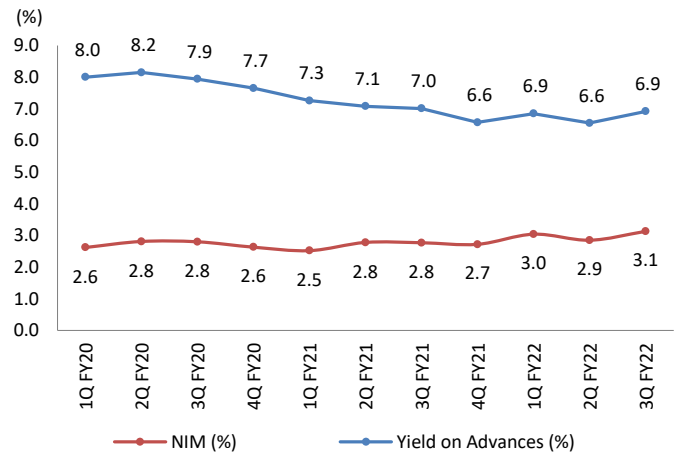
We expect the bank to post a ROA/ROE of 1%/15% by FY23E led by strong balance sheet growth along with higher PCR and steady asset quality. We value the standalone bank at PBV of 0.8x FY23E Adj. BVPS of ₹171 to arrive at a price target of ₹136 (revised upward). We recommend BUY with potential upside of 20%.

Quarterly story in charts

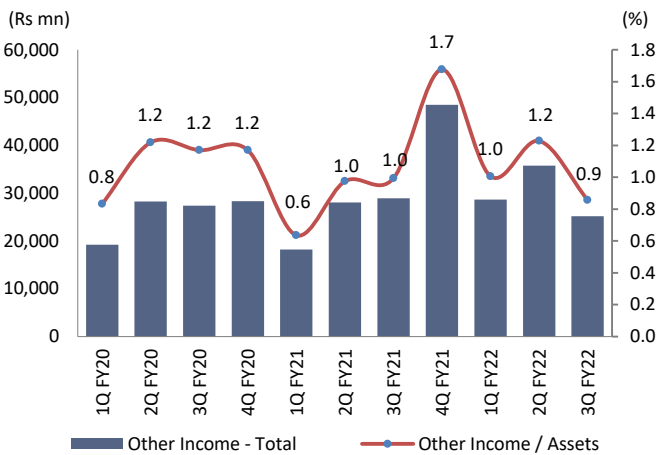
NII Trend



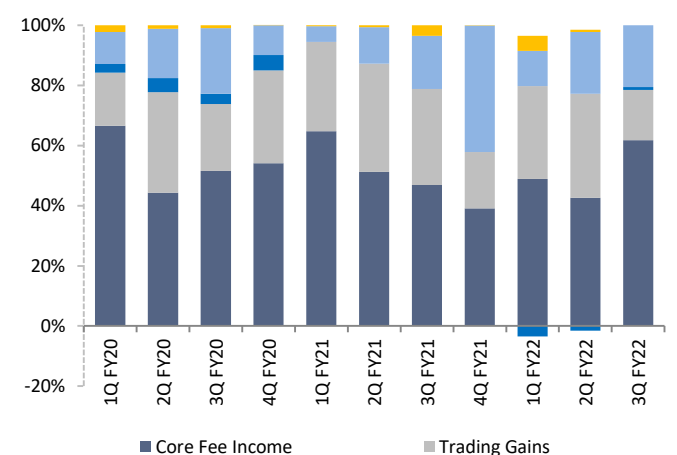
Yields and Margin Trend



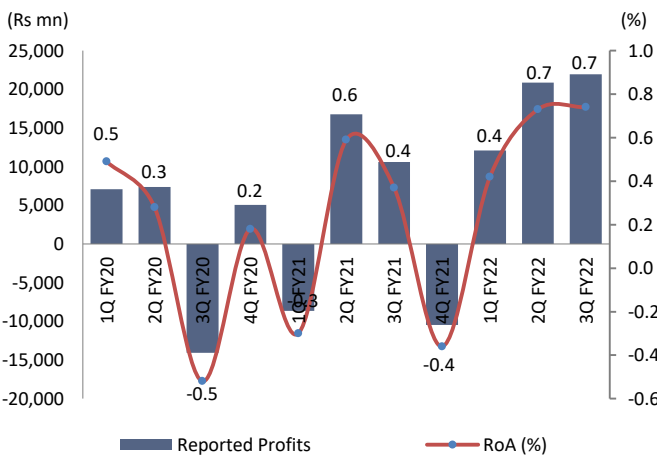
Other Income Trend



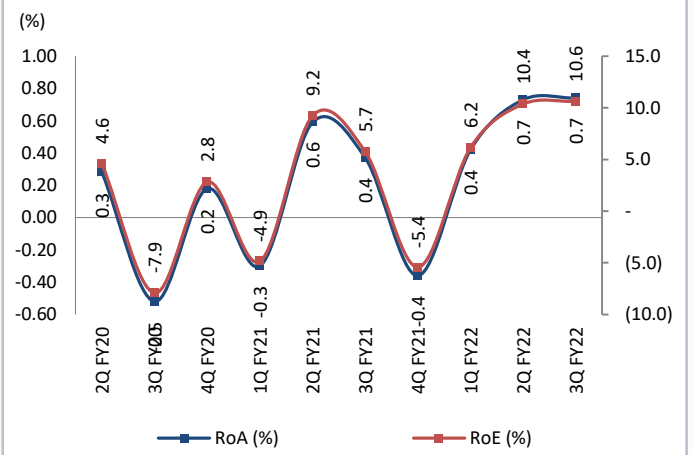
Total Opex Trend



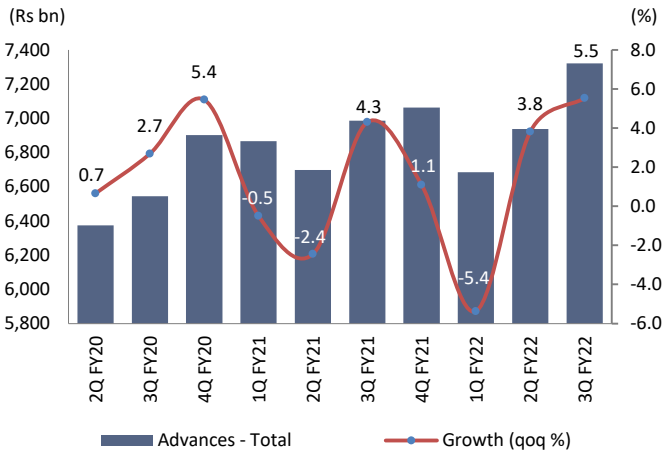
Reported Profit Trend



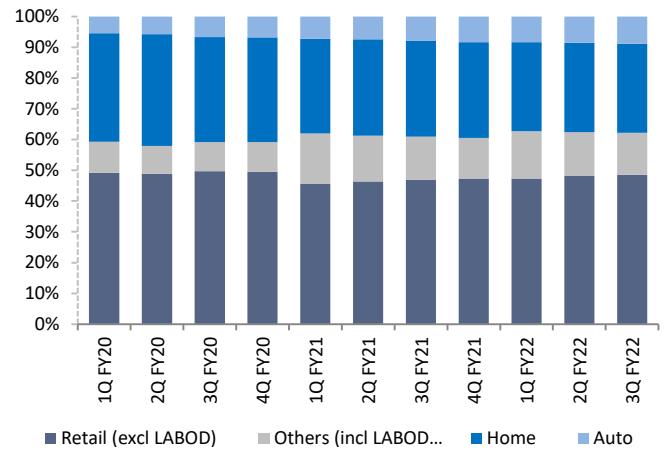
Return Ratio Trend



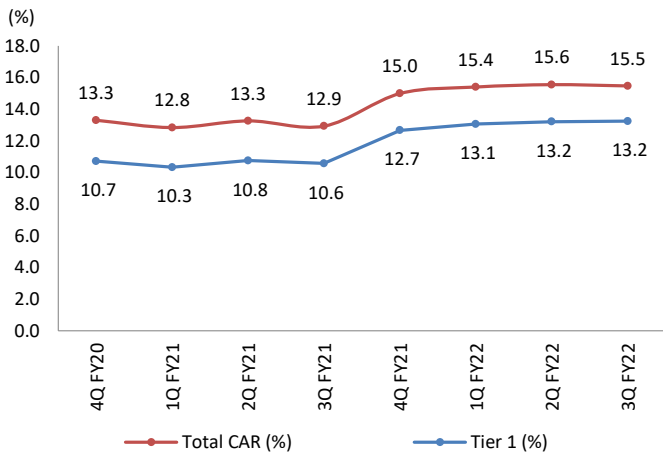
Loan Book Trend



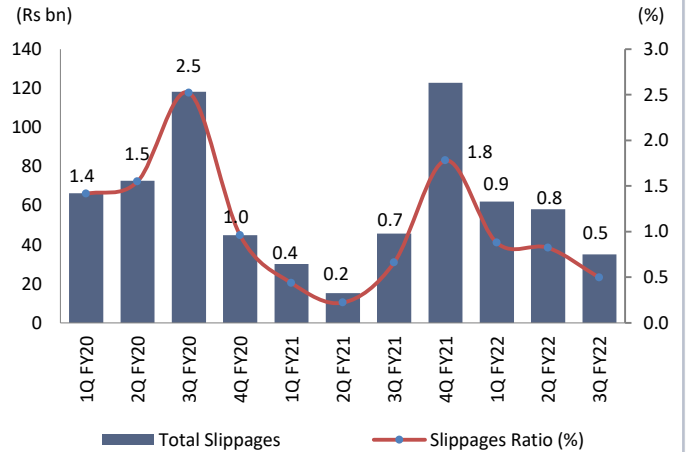
Loan Book Mix Trend



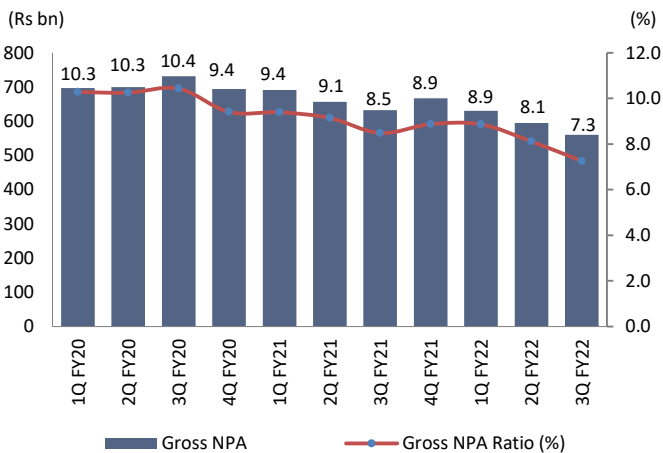
CRAR & Tier 1 Ratio Trend



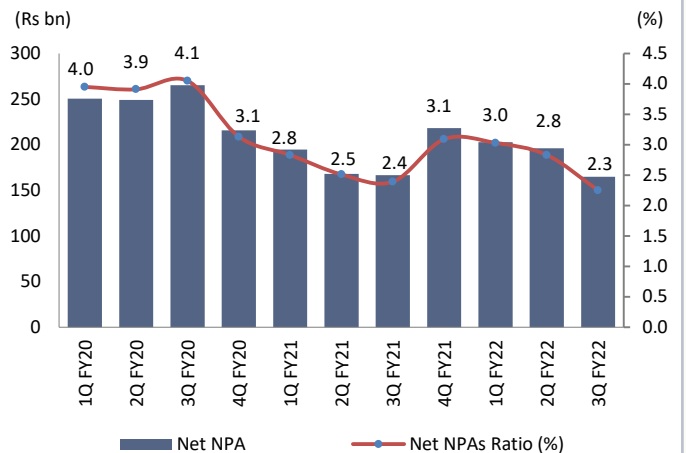
Slippages Trend



Gross NPA Trend



Net NPA Trend



Financial Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	3Q FY22	3Q FY21	% yoy / bps	2Q FY22	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc.	1,79,630	1,77,687	1.1	1,66,915	7.6	7,04,951	7,59,837	(7.2)
Interest Expenses	94,110	1,00,200	(6.1)	91,256	3.1	4,16,860	4,85,324	(14.1)
Net Interest Income	85,520	77,487	10.4	75,660	13.0	2,88,090	2,74,513	4.9
<i>NII to Net Operative Income</i>	77.2	72.8	445	67.9	936	70.0	72.7	(271)
<i>NIM (%)</i>	3.13	2.8	36	2.9	28	-	-	-
Other Income - Total	25,193	28,955	(13.0)	35,792	(29.6)	1,23,644	1,03,173	19.8
<i>Other Inc to Net Oper. Income (%)</i>	22.8	27.2	(445)	32.1	(936)	30.0	27.3	271
Net Operating Revenue	1,10,713	1,06,442	4.0	1,11,452	(0.7)	4,11,735	3,77,686	9.0
Employee Expenses	31,027	28,002	10.8	31,143	(0.4)	1,14,455	87,695	30.5
Other Opex	24,853	22,534	10.3	23,613	5.2	90,981	93,077	(2.3)
Total Opex	55,880	50,536	10.6	54,756	2.1	2,05,437	1,80,772	13.6
<i>Cost to Income Ratio (%)</i>	50.5	47.5	300	49.1	134	49.9	47.9	203
Pre Provision Profits	54,833	55,906	(1.9)	56,696	(3.3)	2,06,298	1,96,914	4.8
Provisions & Contingencies - Total	25,070	39,567	(36.6)	27,536	(9.0)	1,50,738	2,14,928	(29.9)
<i>NPA Provisions as % PPP</i>	45.7	70.8	(2,505)	48.6	(285)	73.1	109.1	(3,608)
Profit Before Tax	29,763	16,340	82.2	29,160	2.1	55,560	(18,014)	(408.4)
Tax	7,793	5,729	36.0	8,281	(5.9)	47,271	(23,483)	(301.3)
<i>Effective Tax Rate (%)</i>	26.2	35.1	(888)	28.4	(222)	85.1	130.4	(4,528)
Reported Profits	21,970	10,611	107.1	20,879	5.2	8,290	5,469	51.6
<i>RoA (%)</i>	0.7	0.4	37	0.7	1	-	-	-
<i>RoE (%)</i>	10.6	5.7	487	10.4	25	-	-	-

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	2Q FY21	3Q FY21	4Q FY21	1Q FY22	2Q FY22	3Q FY22	QoQ % / bps	YoY % / bps
Net Worth	7,26,833	7,38,676	7,70,457	7,85,196	8,05,633	8,27,719	2.7	12.1
RoE (%)	9.2	5.7	(5.4)	6.2	10.4	10.6	25	487
Tier 1 (%)	10.8	10.6	12.7	13.1	13.2	13.2	3	267
Total CAR (%)	13.3	12.9	15.0	15.4	15.6	15.5	(8)	254
RWA - Total	60,62,896	63,69,528	62,07,538	59,91,753	59,17,428	60,26,309	1.8	(5.4)
Advances - Total	66,98,511	69,86,516	70,63,005	66,83,815	69,38,199	73,21,638	5.5	4.8
Investments	26,59,540	26,71,082	26,12,203	26,09,430	28,18,095	30,68,974	8.9	14.9
Total Assets	1,14,28,443	1,17,33,963	1,15,53,648	1,12,17,829	1,17,66,640	1,19,70,537	1.7	2.0
RoA (%)	0.59	0.37	(0.36)	0.42	0.73	0.74	1	37
Deposits	95,43,402	95,45,608	96,69,969	93,13,169	95,94,843	97,80,343	1.9	2.5
CASA Deposits	33,24,930	34,39,370	36,80,270	36,20,440	37,57,660	38,81,690	3.3	12.9
CASA Ratio (%)	39.8	41.2	42.9	43.2	43.5	44.3	82	308
Interest Bearing Liabilities - Total	1,02,08,585	1,04,60,240	1,03,38,449	99,29,200	1,05,34,681	1,06,88,466	1.5	2.2

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	2Q FY21	3Q FY21	4Q FY21	1Q FY22	2Q FY22	3Q FY22	QoQ % / bps	YoY % / bps
Deposits	95,43,402	95,45,608	96,69,969	93,13,169	95,94,843	97,80,343	1.9	2.5
CASA Deposits	33,24,930	34,39,370	36,80,270	36,20,440	37,57,660	38,81,690	3.3	12.9
Saving Deposit	28,03,880	28,73,930	30,64,180	30,43,500	31,56,680	32,29,090	2.3	12.4
Current Deposit	5,21,040	5,65,440	6,16,090	5,76,940	6,00,980	6,52,600	8.6	15.4
Term Deposits	62,18,472	61,06,238	59,89,699	56,92,729	58,37,183	58,98,653	1.1	(3.4)
Borrowings	6,65,183	9,14,632	6,68,479	6,16,032	9,39,838	9,08,123	(3.4)	(0.7)
Interest Bearing Liabilities - Total	1,02,08,585	1,04,60,240	1,03,38,449	99,29,200	1,05,34,681	1,06,88,466	1.5	2.2

Source: Company, LKP Research

Exhibit 5: Asset Quality Analysis

(₹ mn)	2Q FY21	3Q FY21	4Q FY21	1Q FY22	2Q FY22	3Q FY22	QoQ % / bps	YoY % / bps
Total Slippages	15,200	45,600	1,22,740	61,940	58,020	34,910	(39.8)	(23.4)
Slippages Ratio (%)	0.22	0.66	1.78	0.88	0.82	0.49	(33)	(17)
Gross NPA	6,56,980	6,31,816	6,66,710	6,30,288	5,95,038	5,59,968	(5.9)	(11.4)
Gross NPAs Ratio (%)	9.14	8.48	8.87	8.86	8.11	7.25	(86)	(123)
PCR - Calculated (%)	74.4	73.6	67.3	67.9	67.1	70.6	354	(302)
Net NPA	1,67,949	1,66,677	2,17,999	2,02,600	1,96,017	1,64,649	(16.0)	(1.2)
Net NPAs Ratio (%)	2.51	2.39	3.09	3.03	2.83	2.25	(58)	(14)

Source: Company, LKP Research

Annual Projections

Exhibit 6: Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Int. Income / Opr. Revenue	7,59,837	7,04,951	7,16,001	8,11,344	9,22,280
Interest Expenses	4,85,324	4,16,860	3,78,333	4,11,716	4,47,955
Net Interest Income	2,74,513	2,88,090	3,37,668	3,99,628	4,74,325
<i>NIM (%)</i>	3.01	2.65	2.96	3.19	3.42
Other Income - Total	1,03,173	1,23,644	1,36,009	1,49,610	1,64,571
Net Operating Revenue	3,77,686	4,11,735	4,73,676	5,49,238	6,38,895
Employee Exp.	87,695	1,14,455	1,23,955	1,36,351	1,51,349
Other Opex	93,077	90,981	94,257	97,650	1,01,165
Total Opex	1,80,772	2,05,437	2,18,212	2,34,000	2,52,514
<i>C/I Ratio (%)</i>	47.86	49.90	46.07	42.60	39.52
Pre Provision Profits	1,96,914	2,06,298	2,55,465	3,15,237	3,86,381
<i>PPP Growth (yoy %)</i>	46.0	4.8	23.8	23.4	22.6
Provisions & Contingencies - Total	2,14,928	1,50,738	1,15,815	1,19,403	1,23,774
<i>Credit Cost (As % of Op. AUM)</i>	3.52	2.14	1.50	1.40	1.30
Profit Before Tax	(18,014)	55,560	1,39,650	1,95,834	2,62,607
Tax	(23,483)	47,271	37,007	51,896	69,591
<i>Effective Tax Rate (%)</i>	130.4	85.1	26.5	26.5	26.5
Reported Profits	5,469	8,290	1,02,643	1,43,938	1,93,016
<i>PAT Growth (yoy %)</i>	26.2	51.6	1,138.2	40.2	34.1

Source: Company, LKP Research

Exhibit 7: Balance Sheet

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	9,254	10,355	10,355	10,355	10,355
Reserves (ex Revel. Reserve)	6,48,513	7,08,331	8,10,974	9,54,912	11,47,928
Net Worth - Ex Revaluation	6,57,767	7,18,686	8,21,329	9,65,267	11,58,283
Deposits	94,59,844	96,69,969	1,01,60,001	1,11,95,298	1,24,49,921
Borrowings	9,30,693	6,68,479	7,02,355	7,52,726	8,22,916
Interest Bearing Liabilities (₹ mn)	1,03,90,537	1,03,38,449	1,08,62,356	1,19,48,024	1,32,72,837
Other Lia. & Prov.	4,70,056	4,44,742	9,03,041	9,26,762	9,38,354
Total Liabilities	1,15,79,155	1,15,53,648	1,26,41,022	1,38,99,715	1,54,35,513
Assets					
Cash & Cash Equivalent	12,19,011	12,04,128	13,72,150	15,21,204	16,91,703
Investments	27,46,146	26,12,203	28,42,199	31,28,163	34,96,429
Loan & Advances (₹ mn)	69,01,207	70,63,005	77,12,802	84,84,082	94,17,331
Growth (yoy %)	47.2	2.3	9.2	10.0	11.0
Fixed Assets	88,893	80,162	84,073	92,382	1,02,256
Other Assets	6,23,898	5,94,149	6,29,798	6,73,884	7,27,795
Total Assets	1,15,79,155	1,15,53,648	1,26,41,022	1,38,99,715	1,54,35,513

Source: Company, LKP Research

Exhibit 8: Per share data

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Face Value (₹)	2	2	2	2	2
Adjusted Share O/S (mn)	4,627	5,178	5,178	5,178	5,178
Earnings Per Share (₹)	1.2	1.6	19.8	27.8	37.3
EPS (% YoY)	44.6	35.5	1,138.2	40.2	34.1
P/E (x)	95.5	70.5	5.7	4.1	3.0
Book Value (₹)	142.2	138.8	158.6	186.4	223.7
BVPS (% YoY)	82.0	(2.4)	14.3	17.5	20.0
P/BV (x)	0.8	0.8	0.7	0.6	0.5
Adj. BV (₹)	118.8	117.8	142.7	170.5	207.8
Adj. BV (% YoY)	87.5	(0.9)	21.2	19.5	21.9
P/ABV (x)	0.9	1.0	0.8	0.7	0.5

Source: Company, LKP Research

Exhibit 9: Detailed ROA Tree

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Yields / Margins					
Yield on Advance	9.3	7.2	6.9	7.2	7.4
Yield on Funds	8.3	6.5	6.3	6.5	6.6
Cost of Funds (CoF)	5.6	4.0	3.6	3.6	3.6
Interest Spread	2.8	2.5	2.7	2.9	3.1
NIM's	3.0	2.6	3.0	3.2	3.4
Interest Income / Assets	7.8	6.1	5.9	6.1	6.3
Interest Exp. / Assets	5.0	3.6	3.1	3.1	3.1
NII / Assets	2.8	2.5	2.8	3.0	3.2
Fee Income / Assets	0.7	0.7	0.7	0.7	0.7
Other Non Core Income / Assets	0.3	0.3	0.3	0.3	0.3
Other Income / Assets	1.1	1.1	1.1	1.1	1.1
Net Operating Income / Assets	3.9	3.6	3.9	4.1	4.4
Operating Ratios					
NII to Net Operative Income	72.7	70.0	71.3	72.8	74.2
Other Income to Net Operative Income	27.3	30.0	28.7	27.2	25.8
Empl. Cost/Oper. Exps.	48.5	55.7	56.8	58.3	59.9
Other Op. Exps./Oper. Exps.	51.5	44.3	43.2	41.7	40.1
C/I Ratio (%)	47.9	49.9	46.1	42.6	39.5
Provisions as % PPP	56.9	36.6	24.5	21.7	19.4
Credit Cost (As % of Op. AUM)	3.5	2.1	1.5	1.4	1.3
Effective Tax Rate (%)	130.4	85.1	26.5	26.5	26.5
Employee Exp. / Assets	0.9	1.0	1.0	1.0	1.0
Other Opex/ Assets	1.0	0.8	0.8	0.7	0.7
Total Opex / Assets	1.9	1.8	1.8	1.8	1.7
Operating Profits / Assets	2.0	1.8	2.1	2.4	2.6
Op Profit ex Except Items / Assets	2.0	1.8	2.1	2.4	2.6
Provisions / Assets	2.2	1.3	1.0	0.9	0.8
Profit Before Tax / Assets	(0.2)	0.5	1.2	1.5	1.8
Tax Expenses / Assets	(0.2)	0.4	0.3	0.4	0.5
RoA	0.1	0.1	0.8	1.1	1.3
Leverage (x)	17.6	16.1	15.4	14.4	13.3
RoE	0.9	1.1	12.5	15.1	17.2
Adj. RoA	0.1	0.1	0.8	1.1	1.3
Adj. RoE	0.9	1.1	12.5	15.1	17.2

Source: Company, LKP Research

Exhibit 10: Balance Sheet Ratios

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
<i>Credit / Deposit Ratio</i>	73.0	73.0	75.9	75.8	75.6
<i>Incremental C/D Ratio</i>	72.0	77.0	132.6	74.5	74.4
<i>Investment Deposit Ratio</i>	29.0	27.0	28.0	27.9	28.1
<i>Dom. SLR Investment / Deposits</i>	30.2	26.4	26.7	25.6	24.4
<i>CASA Ratio</i>	41.3	45.2	46.0	46.0	46.0

Source: Company, LKP Research

Exhibit 11: Asset Quality

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
<i>Slippage Ratio (%)</i>	9.6	2.9	2.7	2.4	2.2
Gross NPA	6,93,814	6,66,710	5,56,395	4,61,733	3,76,539
<i>Gross NPAs Ratio (%)</i>	9.4	8.9	7.2	5.4	4.0
<i>PCR (%)</i>	68.9	67.3	69.6	69.7	67.0
Net NPA	2,15,766	2,17,999	1,69,054	1,39,975	1,24,083
<i>Net NPAs Ratio (%)</i>	3.1	3.1	2.2	1.6	1.3
Total Impaired Loans	6,93,814	6,66,710	5,56,395	4,61,733	3,76,539
<i>Impaired Loan as % of Loan / AUM</i>	9.9	9.2	7.0	5.2	3.8
Total Risk Reserves	4,78,048	4,48,711	3,87,341	3,21,757	2,52,456
<i>Total Risk As % of Loan Book</i>	6.8	6.2	4.9	3.6	2.5

Source: Company, LKP Research

Exhibit 12: Key Assumptions & Forecasts

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Loan & Advances (₹ mn)	69,01,207	70,63,005	77,12,802	84,84,082	94,17,331
<i>Growth (yoy %)</i>		2.3	9.2	10.0	11.0
Interest Bearing Liabilities (₹ mn)	1,03,90,537	1,03,38,449	1,08,62,356	1,19,48,024	1,32,72,837
<i>Growth (yoy %)</i>		(0.5)	5.1	10.0	11.1
<i>Yield on Funds</i>	8.3	6.5	6.3	6.5	6.6
<i>Cost of Funds (CoF)</i>	5.6	4.0	3.6	3.6	3.6
<i>Interest Spread</i>	2.8	2.5	2.7	2.9	3.1
<i>NIM's</i>	3.0	2.6	3.0	3.2	3.4
<i>Other Income Growth</i>	69.4	19.8	10.0	10.0	10.0
<i>C/I Ratio (%)</i>	47.9	49.9	46.1	42.6	39.5
<i>Effective Tax Rate (%)</i>	130.4	85.1	26.5	26.5	26.5
Return Ratios					
<i>Adj. RoA</i>	0.1	0.1	0.8	1.1	1.3
<i>Adj. RoE</i>	0.9	1.1	12.5	15.1	17.2
Asset Quality Metrics					
<i>Credit Cost (As % of Op. AUM)</i>	3.5	2.1	1.5	1.4	1.3
<i>Gross NPAs Ratio (%)</i>	9.4	8.9	7.2	5.4	4.0
<i>Net NPAs Ratio (%)</i>	3.1	3.1	2.2	1.6	1.3

Source: Company, LKP Research

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