

BANK OF BARODA | PSU Banking

...Pivoting towards a profitable journey ahead

LKP**Result and Price Analysis**

In 1QFY23, Bank of Baroda (BOB) has delivered an expected result on operating and assets quality front. The fresh slippages were lower at ₹32.6bn v/s ₹45bn in 4QFY22. Furthermore, the reduction (up-gradation & recovery) stood ₹58bn v/s ₹77bn in the previous quarter. Its reported GNPA (6.26% v/s 6.61% in 4QFY22) and NNPA (1.58% v/s 1.52% in 4QFY22) declined substantially along with stable PCR (incl. TWO) of 88%. The bank has witnessed healthy growth in net advances (19.6% YoY, 3% QoQ) and deposit growth (11% YoY, 1.3% QoQ) with better liquidity position (LCR of 140%+). Moreover the bank has reported net profit of ₹21.7bn on the back of lower provision (₹16.8bn v/s ₹37.4bn in the previous quarter). SMA1/2 pool flat sequentially at ~48bps. We expect the bank to post a ROA/ROE of 0.8%/11.5% by FY24E led by steady balance sheet growth along with higher PCR and improving asset quality. We value the standalone bank with PBV of 0.8x FY24E Adj. BVPS of ₹183 to reach a price target of ₹147 (revised from ₹128). We recommend BUY rating with potential upside of 26%.

Lower Slippages; Asset Quality improvement continues: The GNPA and NNPA ratio inched down to 6.26%/1.58% (v/s 6.61%/1.72% in 4QFY22) because of higher credit growth and lower fresh slippages. The PCR including technical write-off stood 89% of GNPLs. The absolute GNPA decreased by 2.7% sequentially. In 1QFY23, the fresh slippages were at higher level of ₹32.6bn v/s ₹45bn in the previous quarter. Corporate book contributed 17% of the slippages amount where retail contribution was at 18%. SME book has slippages contribution of 34%. The reduction (up-gradation, recovery & write-offs) stood ₹58bn v/s ₹77bn in the previous quarter. The bank expects better recovery from legacy Power accounts as the traction has improved. Aggregate NCLT exposure is ₹50bn, with coverage of 97.5%. The Bank's SMA 1&2 book was flat sequentially at around 48bps. The Bank has made provisions of ₹16.8bn (Credit cost: 0.75% v/s 2.69% in 4QFY22). The bank has utilized ₹1.2bn of standard asset provisions made in prior quarters. The management guided credit cost of 150bps for FY23.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
NII	2,74,513	2,88,090	3,26,213	3,67,304	4,20,492
Operating Profit	1,96,914	2,06,298	2,23,889	2,47,304	2,79,833
Reported Profits	5,469	8,290	72,723	99,050	1,19,974
Net Worth	6,57,767	7,18,686	7,96,762	8,95,812	10,15,786
Loan & Advances	69,01,207	70,63,005	77,71,552	87,04,138	99,22,717
Int. Bearing Liabilities	1,03,90,537	1,03,38,449	1,14,98,379	1,27,09,675	1,42,75,853

Key Ratios (%)	FY20	FY21	FY22	FY23E	FY24E
NIM's	3.0	2.6	2.8	2.9	2.9
C/I	47.9	49.9	49.2	48.8	48.0
Gross NPA	9.4	8.9	6.6	6.4	5.9
Tier 1	9.4	13.4	10.3	10.3	10.3
Adj. RoA	0.1	0.1	0.6	0.7	0.8
Adj. RoE	0.9	1.1	8.9	10.8	11.5

Rating	BUY
Current Market Price (₹)	116
12 M Price Target (₹)	147
Potential upside (%)	26

Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	602
Free Float Market Cap (₹ bn) :	216
52-Week High / Low (₹)	123 / 73
2-Year High / Low (₹) :	123 / 40
1 Year Avg. Dly Traded Volume (in lakh)	394
BSE Code / NSE Symbol	532134 / BANKBARODA
Bloomberg :	BOB IN

Shareholding Pattern

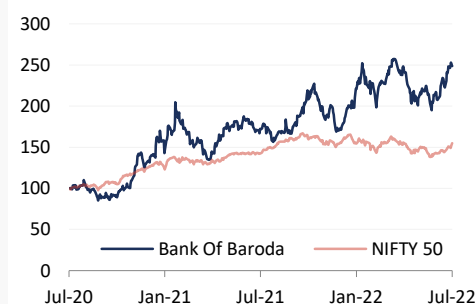
(%)	Jun-22	Mar-22	Dec-21	Sep-21
GOI	63.97	63.97	63.97	63.97
FPIs	8.23	9.14	7.37	7.82
MFs	11.66	9.92	9.52	8.75
Insurance	4.91	4.91	4.92	5.75
Others	11.23	12.06	14.22	13.71

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
BOB	14.9	3.0	12.6	44.3
Nifty 50	8.6	0.3	0.3	8.7

* To date / current date : July 29, 2022

BOB vs Nifty 50

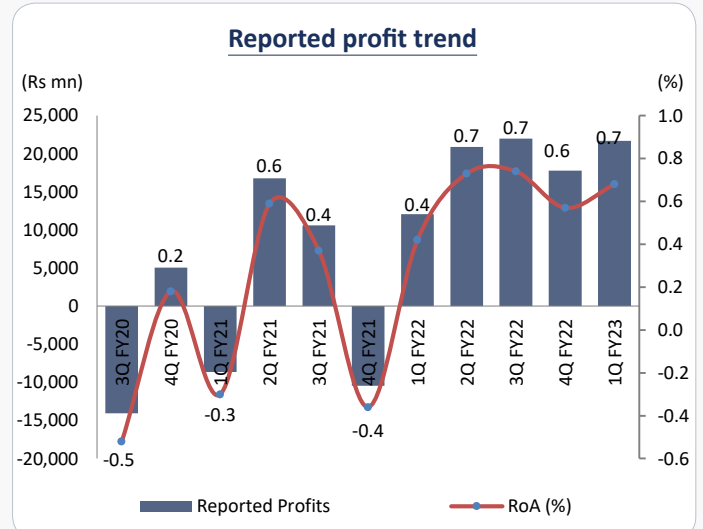
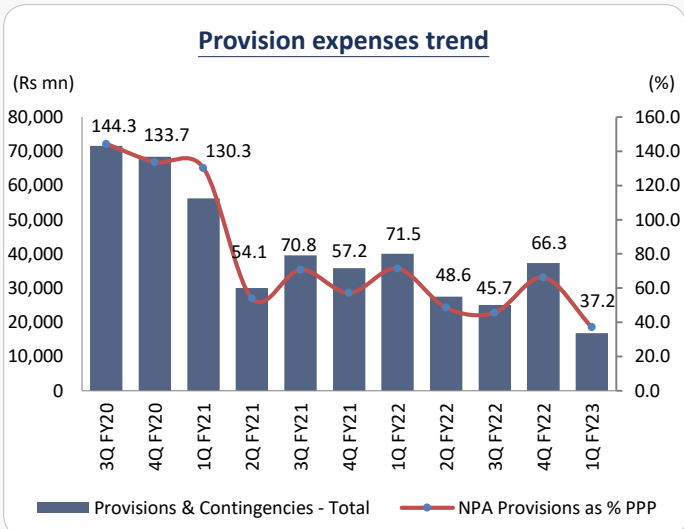
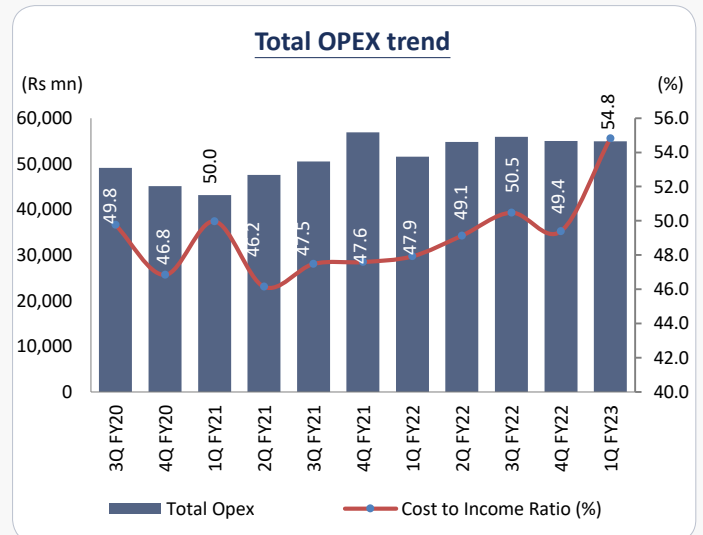
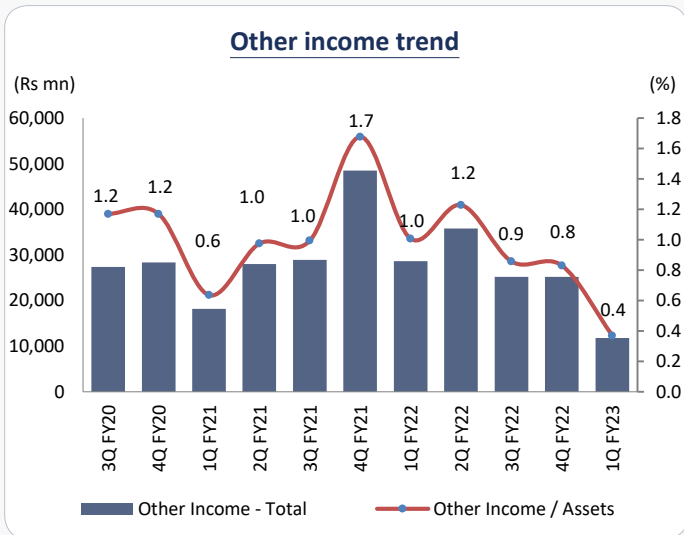
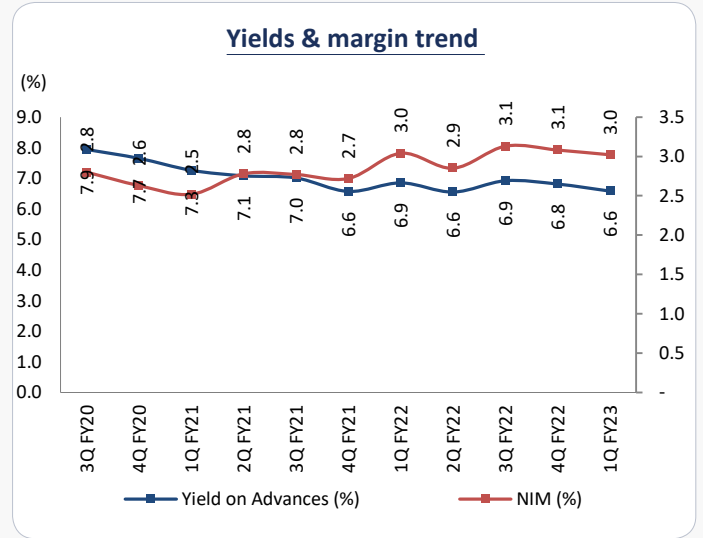
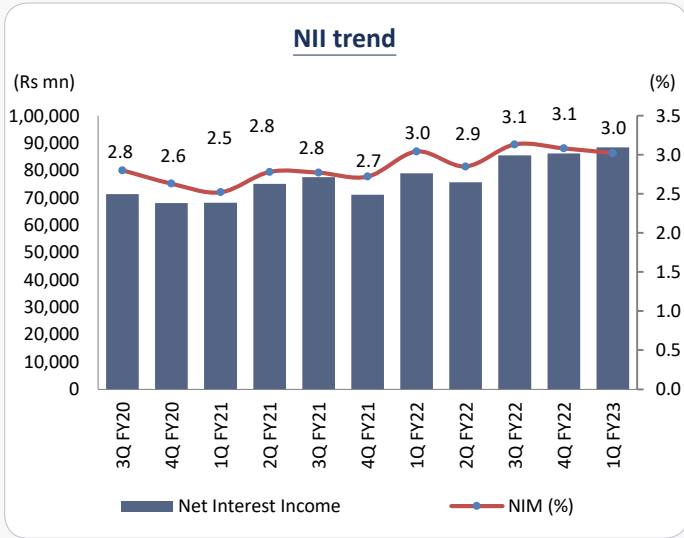
Healthy credit growth driven by retail loans: The bank's net advances stood at ~₹8tn; grew by 19.6% YOY and 3% QOQ. Retail (17.6% contribution), Corporate (36% contribution) and Agriculture (13% contribution) grew by 5.1%, 0.7% and 0.1% QoQ respectively. Loan growth guidance for FY23 was 12% and more. The bank's deposits stood at ₹10.3tn and grew by 11% YoY and de-grew by 1.3% sequentially; the bank's CASA deposit de-grew by 2.1% QoQ and CASA ratio was stable sequentially at 44.2%. The bank's CRAR was 15.46% vs. 15.98% in the previous quarter with CET 1 of 11.24%. The RWA to assets stood at ~53% with LCR well above the regulatory requirement. The bank raised Tier-1 capital in Feb-2022.

Lower provision offsets the PPOP de-growth: Domestic NIMs (3.07%) down by 7bps driven by lower domestic yields at 7.42%. Management believes NIMs to remain stable for FY23. Overall YOA and COD stood at 6.58% and 3.46% against 6.81% and 3.53% in the previous quarter. Overall NIMs inched up by 6bps to 3.02% which translated in NII (₹88.4bn) growth of 12% YoY and 2.6% sequentially. Of the total loan book, 10% linked to T-bill & G-sec, 50% MCLR. 26% EBLR coupled with higher share of CASA and significant portion of Investment book being in floating rate bonds. Hence, Management expects positive impact on margins in Short to Medium term. NIM would be watched as 26% of the loan book is EBLR linked. A stable NII growth and lower other income have translated in PPOP de-growth of 19.7% QoQ. However, PPOP de-growth was off-set by lower provision expenses (₹16.8bn v/s ₹37.4bn in 4QFY22). Thus, it resulted in 22% sequential growth in PAT of ₹21.7bn. The ROA/ROE improvement in line with 1QFY23, ROA/ROE of around 0.7%/10%.

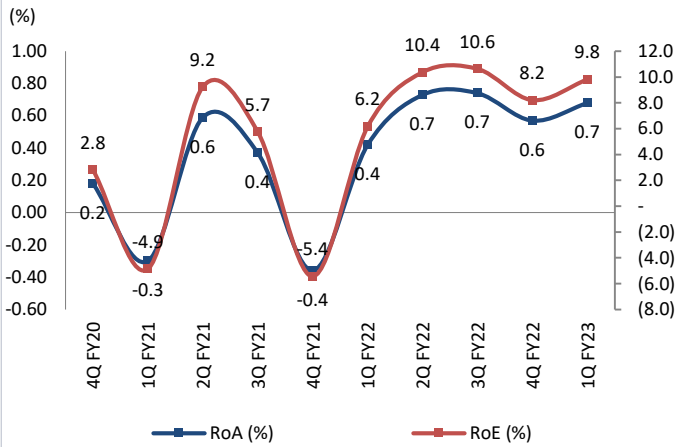
Outlook & Valuation

We expect the bank to post a ROA/ROE of 0.8%/11.5% by FY24E led by steady balance sheet growth along with higher PCR and improving asset quality. We value the standalone bank with PBV of 0.8x FY24E Adj. BVPS of ₹183 to reach a price target of ₹147 (revised from ₹128). We recommend BUY rating with potential upside of 26%.

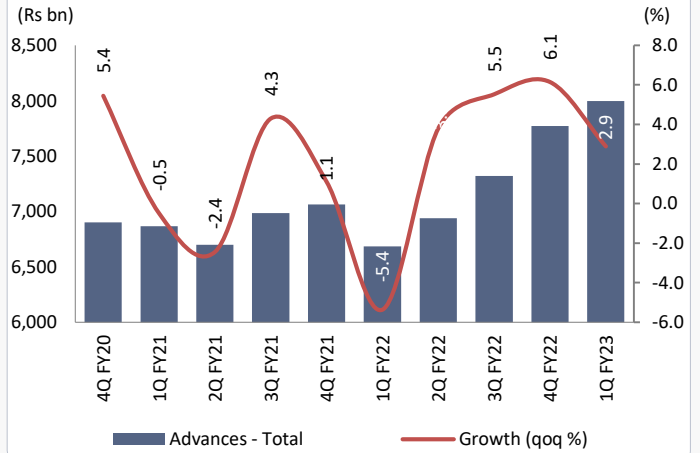
Quarterly story in charts



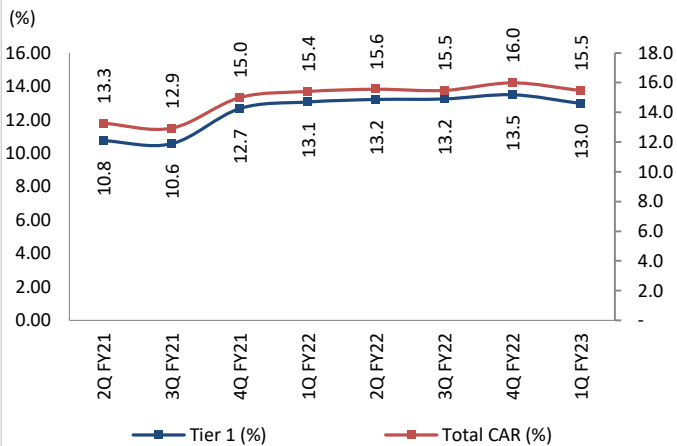
Return ratio trend



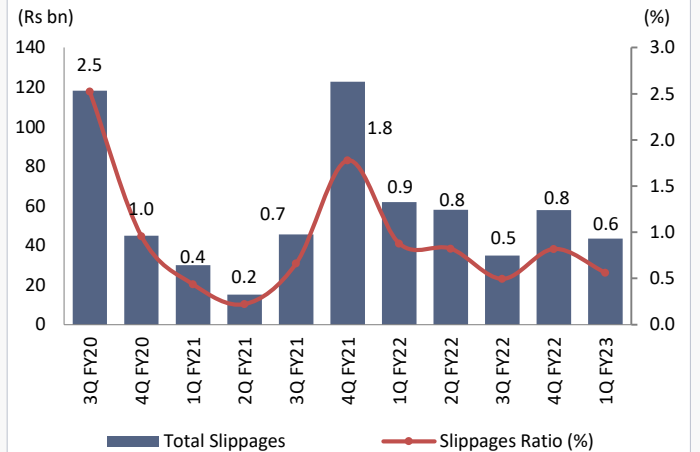
Loan book trend



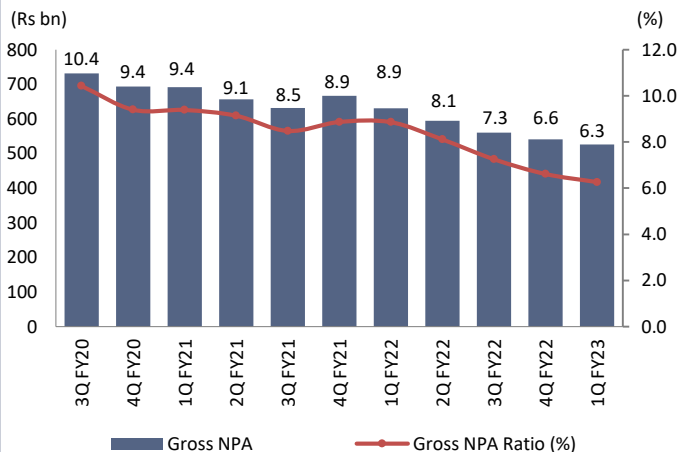
CRAR & Tier 1 ratio trend



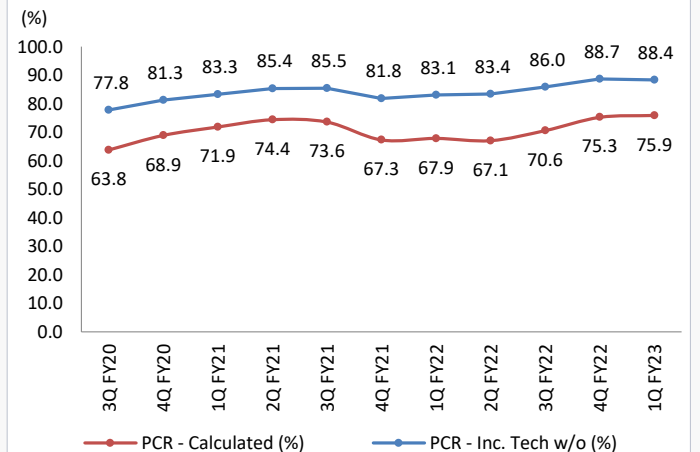
Slippages trend



Gross NPA trend



PCR Trend



Financial Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	1Q FY23	1Q FY22	% YoY / bps	4Q FY22	% QoQ / bps	FY22	FY21	% YoY / bps
Interest Inc.	1,89,375	1,70,526	11.1	1,81,736	4.2	6,98,808	7,04,951	(0.9)
Interest Expenses	1,00,991	91,610	10.2	95,619	5.6	3,72,594	4,16,860	(10.6)
Net Interest Income	88,384	78,917	12.0	86,117	2.6	3,26,213	2,88,090	13.2
NII to Net Operative Income	88.2	73.4	1,483	77.3	1,086	74.0	70.0	399
NIM (%)	3.02	3.0	(2)	3.1	(6)	2.8	-	-
Other Income - Total	11,820	28,632	(58.7)	25,223	(53.1)	1,14,840	1,23,644	(7.1)
Other Inc to Net Oper. Income (%)	11.8	26.6	(1,483)	22.7	(1,086)	26.0	30.0	(399)
Net Operating Revenue	1,00,204	1,07,549	(6.8)	1,11,340	(10.0)	4,41,053	4,11,735	7.1
Employee Expenses	30,433	30,595	(0.5)	27,024	12.6	1,19,788	1,14,455	4.7
Other Opex	24,497	20,946	17.0	27,965	(12.4)	97,376	90,981	7.0
Total Opex	54,929	51,540	6.6	54,988	(0.1)	2,17,164	2,05,437	5.7
Cost to Income Ratio (%)	54.8	47.9	689	49.4	543	49.2	49.9	(66)
Pre Provision Profits	45,275	56,008	(19.2)	56,351	(19.7)	2,23,889	2,06,298	8.5
Provisions & Contingencies - Total	16,848	40,054	(57.9)	37,364	(54.9)	1,30,024	1,50,738	(13.7)
NPA Provisions as % PPP	37.2	71.5	(3,430)	66.3	(2,909)	58.1	73.1	(1,499)
Profit Before Tax	28,427	15,954	78.2	18,988	49.7	93,864	55,560	68.9
Tax	6,746	3,868	74.4	1,200	462.2	21,142	47,271	(55.3)
Effective Tax Rate (%)	23.7	24.2	(51)	6.3	1,741	22.5	85.1	(6,256)
Reported Profits	21,681	12,086	79.4	17,788	21.9	72,723	8,290	777.3
RoA (%)	0.7	0.4	26	0.6	11	0.6	-	-
RoE (%)	9.8	6.2	365	8.2	161	8.9	-	-

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	QoQ % / bps	% YoY / bps
Net Worth	7,70,457	7,85,196	8,05,633	8,27,719	8,67,630	8,83,862	1.9	12.6
RoE (%)	(5.4)	6.2	10.4	10.6	8.2	9.8	161	365
Tier 1 (%)	12.7	13.1	13.2	13.2	13.5	13.0	(52)	(9)
Total CAR (%)	15.0	15.4	15.6	15.5	16.0	15.5	(52)	6
RWA - Total	62,07,538	59,91,753	59,17,428	60,26,309	63,32,541	68,59,767	8.3	14.5
Advances - Total	70,63,005	66,83,815	69,38,199	73,21,638	77,71,552	79,96,157	2.9	19.6
Investments	26,12,203	26,09,430	28,18,095	30,68,974	31,57,954	32,98,496	4.5	26.4
Total Assets	1,15,53,648	1,12,17,829	1,17,66,640	1,19,70,537	1,27,79,998	1,28,54,859	0.6	14.6
RoA (%)	(0.36)	0.42	0.73	0.74	0.57	0.68	11	26
Deposits	96,69,969	93,13,169	95,94,843	97,80,343	1,04,59,386	1,03,27,141	(1.3)	10.9
CASA Deposits	36,80,270	36,20,440	37,57,660	38,81,690	41,01,230	40,16,220	(2.1)	10.9
CASA Ratio (%)	42.9	43.2	43.5	44.3	44.2	44.2	(6)	97
Interest Bearing Liabilities - Total	1,03,38,449	99,29,200	1,05,34,681	1,06,88,466	1,14,98,379	1,15,21,681	0.2	16.0

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	QoQ % / bps	% YoY / bps
Interest Bearing Liabilities - Total	1,03,38,449	99,29,200	1,05,34,681	1,06,88,466	1,14,98,379	1,15,21,681	0.2	16.0
Deposits	96,69,969	93,13,169	95,94,843	97,80,343	1,04,59,386	1,03,27,141	(1.3)	10.9
CASA Deposits	36,80,270	36,20,440	37,57,660	38,81,690	41,01,230	40,16,220	(2.1)	10.9
Saving Deposit	30,64,180	30,43,500	31,56,680	32,29,090	34,13,430	33,81,820	(0.9)	11.1
Current Deposit	6,16,090	5,76,940	6,00,980	6,52,600	6,87,800	6,34,400	(7.8)	10.0
Term Deposits	59,89,699	56,92,729	58,37,183	58,98,653	63,58,156	63,10,921	(0.7)	10.9
Borrowings	6,68,479	6,16,032	9,39,838	9,08,123	10,38,993	11,94,540	15.0	93.9

Source: Company, LKP Research

Exhibit 4: Asset Quality Analysis

(₹ mn)	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	QoQ % / bps	% YoY / bps
Total Slippages	1,22,740	61,940	58,020	34,910	57,800	43,520	(24.7)	(29.7)
Slippages Ratio (%)	1.78	0.88	0.82	0.49	0.82	0.56	(26)	(32)
Gross NPA	6,66,710	6,30,288	5,95,038	5,59,968	5,40,594	5,25,908	(2.7)	(16.6)
Gross NPAs Ratio (%)	8.87	8.86	8.11	7.25	6.61	6.26	(35)	(260)
PCR - Calculated (%)	67.3	67.9	67.1	70.6	75.3	75.9	66	809
Net NPA	2,17,999	2,02,600	1,96,017	1,64,649	1,33,647	1,26,527	(5.3)	(37.5)
Net NPAs Ratio (%)	3.09	3.03	2.83	2.25	1.72	1.58	(14)	(145)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Int. Income / Opr. Revenue	7,59,837	7,04,951	6,98,808	7,85,636	8,88,807
Interest Expenses	4,85,324	4,16,860	3,72,594	4,18,332	4,68,315
Net Interest Income	2,74,513	2,88,090	3,26,213	3,67,304	4,20,492
<i>NIM (%)</i>	3.01	2.65	2.83	2.87	2.94
Other Income - Total	1,03,173	1,23,644	1,14,840	1,15,988	1,17,148
Net Operating Revenue	3,77,686	4,11,735	4,41,053	4,83,292	5,37,640
Employee Exp.	87,695	1,14,455	1,19,788	1,31,767	1,46,262
Other Opex	93,077	90,981	97,376	1,04,220	1,11,545
Total Opex	1,80,772	2,05,437	2,17,164	2,35,987	2,57,807
<i>C/I Ratio (%)</i>	47.86	49.90	49.24	48.83	47.95
Pre Provision Profits	1,96,914	2,06,298	2,23,889	2,47,304	2,79,833
<i>PPP Growth (yoy %)</i>	46.0	4.8	8.5	10.5	13.2
Provisions & Contingencies - Total	2,14,928	1,50,738	1,30,024	1,19,459	1,24,981
<i>Credit Cost (As % of Op. AUM)</i>	3.52	2.14	1.80	1.50	1.40
Profit Before Tax	(18,014)	55,560	93,864	1,27,845	1,54,852
Tax	(23,483)	47,271	21,142	28,795	34,878
<i>Effective Tax Rate (%)</i>	130.4	85.1	22.5	22.5	22.5
Reported Profits	5,469	8,290	72,723	99,050	1,19,974
<i>PAT Growth (yoy %)</i>	26.2	51.6	777.3	36.2	21.1

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY20	FY21	FY22	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	7,86,407	8,85,456	10,05,430
Net Worth - Ex Revaluation	6,57,767	7,18,686	7,96,762	8,95,812	10,15,786
Deposits	94,59,844	96,69,969	1,04,59,386	1,16,16,643	1,30,48,130
Borrowings	9,30,693	6,68,479	10,38,993	10,93,032	12,27,723
Interest Bearing Liabilities (₹ mn)	1,03,90,537	1,03,38,449	1,14,98,379	1,27,09,675	1,42,75,853
Other Lia. & Prov.	4,70,056	4,44,742	4,13,990	4,60,193	4,88,775
Total Liabilities	1,15,79,155	1,15,53,648	1,27,79,998	1,41,44,525	1,58,68,436
Assets					
Cash & Cash Equivalent	12,19,011	12,04,128	12,26,550	13,59,139	15,27,222
Investments	27,46,146	26,12,203	31,57,954	34,09,404	36,88,889
Loan & Advances (₹ mn)	69,01,207	70,63,005	77,71,552	87,04,138	99,22,717
<i>Growth (yoy %)</i>	<i>47.2</i>	<i>2.3</i>	<i>10.0</i>	<i>12.0</i>	<i>14.0</i>
Fixed Assets	88,893	80,162	99,219	1,10,389	1,23,237
Other Assets	6,23,898	5,94,149	5,24,724	5,61,454	6,06,371
Total Assets	1,15,79,155	1,15,53,648	1,27,79,998	1,41,44,525	1,58,68,436

Source: Company, LKP Research

Exhibit 7: Per share data

Y/E Mar	FY20	FY21	FY22	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	14.0	19.1	23.2
<i>EPS (% YoY)</i>	<i>44.6</i>	<i>35.5</i>	<i>777.3</i>	<i>36.2</i>	<i>21.1</i>
<i>P/E (x)</i>	<i>98.3</i>	<i>72.6</i>	<i>8.3</i>	<i>6.1</i>	<i>5.0</i>
Book Value (₹)	142.2	138.8	153.9	173.0	196.2
<i>BVPS (% YoY)</i>	<i>82.0</i>	<i>(2.4)</i>	<i>10.9</i>	<i>12.4</i>	<i>13.4</i>
<i>P/BV (x)</i>	<i>0.8</i>	<i>0.8</i>	<i>0.8</i>	<i>0.7</i>	<i>0.6</i>
Adj. BV (₹)	118.8	117.8	141.0	160.1	183.3
<i>Adj. BV (% YoY)</i>	<i>87.5</i>	<i>(0.9)</i>	<i>19.7</i>	<i>13.6</i>	<i>14.5</i>
<i>P/ABV (x)</i>	<i>1.0</i>	<i>1.0</i>	<i>0.8</i>	<i>0.7</i>	<i>0.6</i>

Source: Company, LKP Research

Exhibit 8: Detail RoA Tree (%)

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Yields / Margins					
Yield on Advance	9.3	7.2	6.6	6.7	6.8
Yield on Funds	8.3	6.5	6.1	6.1	6.2
Cost of Funds (CoF)	5.6	4.0	3.4	3.5	3.5
Interest Spread	2.8	2.5	2.7	2.7	2.7
NIM's	3.0	2.6	2.8	2.9	2.9
Interest Income / Assets	7.8	6.1	5.7	5.8	5.9
Interest Exp. / Assets	5.0	3.6	3.1	3.1	3.1
NII / Assets	2.8	2.5	2.7	2.7	2.8
Fee Income / Assets	0.7	0.7	0.6	0.5	0.5
Other Non Core Income / Assets	0.3	0.3	0.3	0.2	0.2
Other Income / Assets	1.1	1.1	0.9	0.9	0.8
Net Operating Income / Assets	3.9	3.6	3.6	3.6	3.6
Operating Ratios					
NII to Net Operative Income	72.7	70.0	74.0	76.0	78.2
Other Income to Net Operative Income	27.3	30.0	26.0	24.0	21.8
Empl. Cost/Oper. Exps.	48.5	55.7	55.2	55.8	56.7
Other Op. Exps./Oper. Exps.	51.5	44.3	44.8	44.2	43.3
C/I Ratio (%)	47.9	49.9	49.2	48.8	48.0
Provisions as % PPP	56.9	36.6	29.5	24.7	23.2
Credit Cost (As % of Op. AUM)	3.5	2.1	1.8	1.5	1.4
Effective Tax Rate (%)	130.4	85.1	22.5	22.5	22.5
Employee Exp. / Assets	0.9	1.0	1.0	1.0	1.0
Other Opex/ Assets	1.0	0.8	0.8	0.8	0.7
Total Opex / Assets	1.9	1.8	1.8	1.8	1.7
Operating Profits / Assets	2.0	1.8	1.8	1.8	1.9
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	2.0	1.8	1.8	1.8	1.9
Provisions / Assets	2.2	1.3	1.1	0.9	0.8
Profit Before Tax / Assets	(0.2)	0.5	0.8	0.9	1.0
Tax Expenses / Assets	(0.2)	0.4	0.2	0.2	0.2
RoA	0.1	0.1	0.6	0.7	0.8
Leverage (x)	17.6	16.1	16.0	15.8	15.6
RoE	0.9	1.1	8.9	10.8	11.5

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Credit / Deposit Ratio	73.0	73.0	74.3	74.9	76.0
Incremental C/D Ratio	72.0	77.0	89.8	80.6	85.1
Investment Deposit Ratio	29.0	27.0	30.2	29.3	28.3
Dom. SLR Investment / Deposits	30.2	26.4	29.5	28.2	26.6
CASA Ratio	41.3	45.2	44.2	44.2	44.2

Source: Company, LKP Research

Exhibit 10: Credit Quality

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Slippage Ratio (%)	9.6	2.9	3.0	1.6	1.7
Gross NPA	6,93,814	6,66,710	5,40,594	5,60,489	5,89,387
Gross NPAs Ratio (%)	9.4	8.9	6.6	6.4	5.9
PCR (%)	68.9	67.3	75.3	76.4	77.8
Net NPA	2,15,766	2,17,999	1,33,647	1,32,310	1,30,987
Net NPAs Ratio (%)	3.1	3.1	1.7	1.5	1.3
Total Impaired Loans	6,93,814	6,66,710	5,40,594	5,60,489	5,89,387
Impaired Loan as % of Loan / AUM	9.9	9.2	6.8	6.3	5.8
Total Risk Reserves	4,78,048	4,48,711	4,06,947	4,28,179	4,58,400
Total Risk As % of Loan Book	6.8	6.2	5.1	4.8	4.5

Source: Company, LKP Research

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Loan & Advances (₹ mn)	69,01,207	70,63,005	77,71,552	87,04,138	99,22,717
Growth (yoy %)		2.3	10.0	12.0	14.0
Interest Bearing Liabilities (₹ mn)	1,03,90,537	1,03,38,449	1,14,98,379	1,27,09,675	1,42,75,853
Growth (yoy %)		(0.5)	11.2	10.5	12.3
Yield on Funds	8.3	6.5	6.1	6.1	6.2
Cost of Funds (CoF)	5.6	4.0	3.4	3.5	3.5
Interest Spread	2.8	2.5	2.7	2.7	2.7
NIM's	3.0	2.6	2.8	2.9	2.9
Other Income Growth	69.4	19.8	(7.1)	1.0	1.0
C/I Ratio (%)	47.9	49.9	49.2	48.8	48.0
Effective Tax Rate (%)	130.4	85.1	22.5	22.5	22.5
Return Ratios					
Adj. RoA	0.1	0.1	0.6	0.7	0.8
Adj. RoE	0.9	1.1	8.9	10.8	11.5
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	3.5	2.1	1.8	1.5	1.4
Gross NPAs Ratio (%)	9.4	8.9	6.6	6.4	5.9
Net NPAs Ratio (%)	3.1	3.1	1.7	1.5	1.3

Source: Company, LKP Research

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