



Re-Instating Coverage (Short Report)

BANK OF BARODA

Market Cap.
Rs. 62,050 Cr.
52 Week H/L
Rs.123 / 62
CMP
Rs.120
Target Price
Rs.146

BFSI

STOCK DATA

BUY

Reuters Code	BOB.BO	
Bloomberg Code	BOB IN	
BSE Code	532134	
NSE Symbol	BANKBARODA	
Face Value	Rs.2	
Shares Outstanding	517 Cr	
Avg. Daily Vol. (6m)	4,60,01,604	
Price Performance (%)		
1M	3M	6M
15	30	37

200 Days EMA Rs.94

SHARE HOLDING (%)

Promoters	64.0
FII	9.1
FI/MF	14.8
Body Corporate	0.3
Public & Others	11.8

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Asset quality to be better

Asset quality for Bank of Baroda (BOB) has improved with Gross non performing asset and Net non performing asset declining from 12.3% and 5.5% in FY18 to 7.3% and 2.3% respectively in Q3FY22 on account of resolutions in large corporate accounts. Special mention account 1 and Special mention account 2 as percent of standard advances (Accounts with outstanding above Rs.5 cr) stands at 1.1% in the current quarter as compared to 3.8% in Dec-20. Slippages as percent of advances have dropped from 2.8% in FY21 to 1.7% as on Q3FY22 and management expects slippages to be lower and recoveries in MSME and retail, resulting in lower credit cost going forward.

Loan growth to be steady

Loan growth has been around system loan growth (5-6%) with retail growth at healthy pace at double digits. Corporate loan growth has been muted mainly on account of lower interest rate in the system, thereby leading to competition in the corporate loans. With increasing interest rates in the system and reduction in competition, we expect loans for BOB to grow at ~9% in FY22-24E

Well capitalized to grow

The bank is well capitalized with the total capital adequacy ratio at 15.5% as on Q3FY22 as compared to regulatory requirement of 11.5%. This would enable BOB to grow in future without raising any capital and thereby avoiding any dilution.

OUTLOOK & VALUATION

We forecast Bank of Baroda's revenue/PAT to grow at 9%/120% CAGR over FY21-24E. With the improvement in the operating environment and lower credit cost, we expect ROE to increase from 1.1% in FY21 to 8.2% by FY24E. Going forward, we expect the bank to deliver an adjusted book value of Rs.215 in FY24; assigning a target multiple of 0.7x, we arrive at a target price of Rs.146, showcasing an upside potential of 22% from current levels with an investment horizon of 18-24 mths.

Y/E	Net Income (Rs cr)	PAT (Rs cr)	AEPS (Rs)	NIM (%)	P/E (x)	P/ABV (%)	ROE (%)	ROA (%)
Mar.								
FY21	41,173	829	1.6	2.8	75.0	1.1	1.1	0.1
FY22E	42,329	5,477	10.6	2.7	11.3	0.8	6.6	0.4
FY23E	46,391	7,597	14.7	2.6	8.2	0.7	7.8	0.6
FY24E	50,882	9,365	18.1	2.7	6.6	0.6	8.2	0.6

CHART



RISKS & CONCERNS

Increasing Competition

With private sector banks like HDFC Bank gaining market share focusing on rural & semi-urban areas and new entrants like Bandhan Bank and IDFC Bank in banking space, the competition is set to get intense for the PSU banks like BOB. However with consolidation phase expected to be over for BOB and lending expected to bounce back with improvement in capital, we don't see competition as a major risk for the bank.

Prolonged Economic Slowdown

Banking is directly impacted by the state of economy. India has witnessed slowdown over the last few years impacting various sectors like Power, Infra, etc. which in turn have affected the growth of the banks. Also with rising crude oil prices and commodity prices, inflation is expected to inch up thereby reducing the chances of interest rate cut. We don't expect slowdown as a major risk as economy is expected to revive owing to government spending on capex and fading effects of GST.

Asset quality

A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provision high and return ratio compressed for a long time.

PROFIT & LOSS STATEMENT

(Rs.cr)

Y/E Mar.	FY21	FY22E	FY23E	FY24E
Net interest income	28809	29168	32248	35654
Growth %	4.9%	1.2%	10.6%	10.6%
Other income	12364	13160	14143	15229
Total income	41173	42329	46391	50882
Operating expenses	20544	21946	23639	25504
Pre-provision Profit	20630	20383	22752	25378
Total Provision	12916	13080	12622	12892
PBT	5556	7302	10130	12486
Provision for Tax	4727	1826	2532	3122
PAT	829	5477	7597	9365

BALANCE SHEET STATEMENT

(Rs.cr)

As on 31 st Mar.	FY21	FY22E	FY23E	FY24E
Cash balances	120413	168382	198382	231979
Advances	706301	769433	841473	920850
Investments	261220	283454	307749	334299
Fixed assets	8016	7615	7235	6873
Current assets	59415	53473	48126	43313
Total Assets	1155365	1282358	1402965	1537315
Equity Capital	1036	1036	1036	1036
Reserves & Surplus	76010	88939	104152	122089
Shareholders' funds	77046	89975	105187	123125
Deposits	966997	1047846	1135475	1230455
Borrowings	55241	77338	81205	85265
Current liabilities	44474	55593	69491	86864
Total Liabilities	1155365	1282358	1402965	1537315

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY21	FY22E	FY23E	FY24E
Profitability Ratios				
EPS	1.6	10.6	14.7	18.1
Earnings growth (%)	35.6%	560.7%	38.7%	23.3%
PPP / Share	39.8	39.4	43.9	49.0
ROAA (%)	0.07%	0.45%	0.57%	0.64%
ROE (%)	1.1%	6.6%	7.8%	8.2%
Efficiency Ratios (%)				
C-I Ratio	54%	56%	55%	54%
Other Inc/Total Inc	23.8%	25.1%	25.0%	24.9%
Cost Asset Ratio	1.8%	1.8%	1.8%	1.7%
Asset Quality Ratios (%)				
Gross NPLs	8.9%	7.4%	6.4%	5.8%
Net NPLs	3.1%	2.1%	1.6%	1.3%
PCR (excl. Tech W/Off)	82%	86%	88%	89%
Provision/ Loans	1.72%	1.70%	1.50%	1.40%

Y/E Mar.	FY21	FY22E	FY23E	FY24E
Asset-Liab.Profile (%)				
Cap. Adequacy Ratio	15.7%	15.4%	16.1%	16.9%
- Tier I CAR	13.5%	13.2%	14.1%	15.0%
Loan Growth	2%	9%	9%	9%
B/S Growth	0%	11%	9%	10%
Spreads Analysis (%)				
Yield on Advances	7.2%	7.3%	7.4%	7.5%
Cost of funds	4.1%	4.2%	4.3%	4.3%
Net Interest Margin	2.79%	2.66%	2.65%	2.65%
Valuation				
BV / Share	139	162	189	221
Adjusted BV / Share	107	142	178	215
P/E (x)	75.0	11.3	8.2	6.6
P/PPP (x)	3.0	3.0	2.7	2.4
P/ABV (x)	1.12	0.84	0.68	0.56

Source: Company, Sushil Finance Research Estimates

Rating Scale : This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

Total Expected Return Matrix (Rating and Return)

BUY : Over 12%

HOLD : -12% to 12%

SELL : Below -12%

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Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No