

August 1, 2022

**RESULT REPORT Q1 FY23** | Sector: Banks

# Bank of Baroda

## Nothing to alter a reasonably stable outlook

### Result Highlights

- ✓ **Asset quality:** Gross NPA additions were to Rs 43.52bn (annualized NPA addition ratio of 1.7%) and recoveries and upgrades were also healthy at Rs 25.99bn
- ✓ **Margin picture:** Global NIM at 3.02% de-grew -6bps/-2bps QoQ/YoY as the fall in yield on advances QoQ was higher than the fall in cost of deposits
- ✓ **Asset growth:** Whole bank advances grew 2.6%/18% QoQ/YoY driven sequentially by domestic retail and international loans
- ✓ **Opex control:** Total opex fell/rose -0.1%/6.6% QoQ/YoY, employee expenses rose/fell 12.6%/-0.5% QoQ/YoY and other exp. fell/rose -12.4%/17% QoQ/YoY
- ✓ **Fee income:** Commission, exchange and brokerage de-grew/grew -23%/14.4% QoQ/YoY, driven sequentially lower due to seasonality in business

### Our view - Nothing to alter a reasonably stable outlook

A little less than a fourth of slippages emerged from the restructured book: The slippage from the restructured book amounts to about Rs 10bn for the quarter. The bank had guided for a fresh slippage ratio of 1.5-2% and the fresh slippage ratio for 1QFY23 has been 1.7%. Provisions were Rs 16.8bn, down by -54.9% QoQ. Provisions were under control since the bank had already made accelerated provisions last financial year. Management guided that credit cost would be 125-150 bps in FY23 and there could be improvement on this guidance but the bank would make a fresh comment only after observing improved traction. The all-inclusive standard restructured book is Rs 196.66bn and about 15% of this book is under stress and is generally tagged SMA1/2.

**There is still a substantial amount of loans that are at sub-optimal pricing and these would be repriced higher:** Furthermore, changes in loan book mix in favour higher-yielding loans such as personal loans would also aid net interest margin. NIM was at 3.02% for the quarter compared with 3.08% for 4QFY22 and 3.04% in 1QFY22. Management reiterated prior guidance of improving NIM by 10 bps from the level seen at the end of FY22.

**Management had indicated that it would be able to grow corporate loan book better, while maintaining margin, which is something that is now being seen:** Domestic corporate loan book has grown 17% YoY and 0.7% QoQ. The international loan book, which is a wholesale loan book, has grown 31% YoY and 7.7% QoQ as the bank finds it a profitable business to do. Overall, retail loans have grown 23% YoY and 5.1% QoQ whereas overall agri loan growth was 14% YoY and 1.0% QoQ. While the industry is expected to grow at 10-12%, management guided that the bank can grow at or slightly better than the industry, while maintaining or slightly improving upon margin.

**We maintain 'Buy' rating on BOB with a revised price target of Rs 150:** We value the bank at 0.7x FY24 P/BV for an FY23E/24E/25E RoE profile of 10.6/12.3/12.9%. We assign a value of Rs 9.1 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

### Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Interest Income	189,375	181,736	4.2	170,526	11.1
Interest Expense	(100,991)	(95,619)	5.6	(91,610)	10.2
Net Interest Income	88,384	86,117	2.6	78,917	12.0
Other income	11,820	25,223	(53.1)	28,632	(58.7)
Total Income	100,204	111,340	(10.0)	107,549	(6.8)
Operating expenses	(54,929)	(54,988)	(0.1)	(51,540)	6.6
PPOP	45,275	56,351	(19.7)	56,008	(19.2)
Provisions	(16,848)	(37,364)	(54.9)	(40,054)	(57.9)
PBT	28,427	18,988	49.7	15,954	78.2
Tax	(6,746)	(1,200)	462.2	(3,868)	74.4
PAT	21,681	17,788	21.9	12,086	79.4

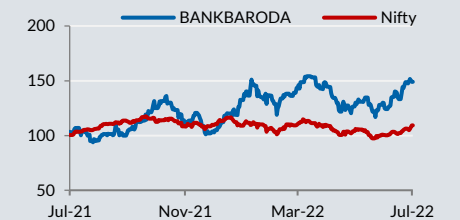
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Market Price	: Rs 116
Target Price	: Rs 150
Potential Return	: 29%

### Stock data (as on August 1, 2022)

Nifty	17,340
52 Week h/l (Rs)	123 / 73
Market cap (Rs/USD mn)	601429 / 7611
Outstanding Shares (mn)	5,171
6m Avg t/o (Rs mn):	3,699
Div yield (%):	2.5
Bloomberg code:	BOBIN
NSE code:	BANKBARODA

### Stock performance



	1M	3M	1Y
Absolute return	20.0%	6.1%	49.2%

### Shareholding pattern (As of Jun'22 end)

Promoter	64.0%
FII+DII	25.1%
Others	11.0%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	150	135

### Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
NII	369,112	412,046	464,467
PPOP	252,085	291,764	339,555
Net Profit	95,863	128,829	157,498
Growth (%)	16.5	34.4	22.3
EPS (Rs)	18.5	23.7	29.0
BVPS (Rs)	183	211	239
P/E (x)	5.8	4.5	3.7
P/BV (x)	0.6	0.5	0.4
ROE (%)	10.6	12.3	12.9
ROA (%)	0.7	0.9	0.9
Tier-1 (%)	12.8	12.8	11.8

### Δ in earnings estimates

Rs.	FY23E	FY24E	FY25E
EPS (New)	18.5	23.7	29.0
EPS (Old)	18.1	23.5	29.3
% change	2.1%	1.0%	-1.1%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Asset quality

- ✓ **Slippages and other NPA movement**
  - **Slippages**
    - Gross NPA additions amounted to Rs 43.52bn for 1QFY23, translating to an annualized gross NPA addition ratio of 2.1% for the quarter. (Gross NPA additions had amounted to Rs 57.8bn during 4QFY22.)
    - The slippage from the restructured book amounts to about Rs 10bn for the quarter.
    - The bank had guided for a fresh slippage ratio of 1.5-2% and the fresh slippage ratio for 1QFY23 has been 1.7% for the quarter.
  - **Recoveries and upgrades**
    - Recoveries and upgrades amounted to Rs 25.99bn for 1QFY23, implying net NPA addition of Rs 17.53bn for the quarter.
- ✓ **Provisions**
  - **P&L provisions**
    - Provisions were Rs 16,848mn, down by -54.9% QoQ and -57.9% YoY.
    - Provisions were under control since the bank had already made accelerated provisions last financial year.
  - **Credit cost guidance**
    - The improved corporate credit cycle is being sustained.
    - Credit cost would be 125-150 bps in FY23.
    - There could be improvement on this guidance but the bank would make a fresh comment only after observing improved traction in this regard.
- ✓ **Restructured book**
  - The all-inclusive standard restructured book is Rs 196.66bn.
  - About 15% of this book is under stress and is generally tagged SMA1 or SMA2.
  - By June-end, all restructured accounts have started repayments.
  - There have been about Rs 40bn worth of slippages from restructured book over the last 1-1.5 years, including from Covid, MSME and earlier restructured book.
- ✓ **ECLGS**
  - The ECLGS book is about Rs 95bn.
  - The NPA on this book has been less than 10%.

### Loan growth

- ✓ **Corporate lending**
  - Last year, the bank had chosen to protect margin in corporate lending due to which corporate loan growth had been slower earlier.
  - The bank had indicated that it would be able to grow corporate loan book, while maintaining margin, which is something that is now being seen.
  - Domestic corporate loan book has grown 17% YoY and 0.7% QoQ.
  - **International loan book**
    - It is profitable, overall, to grow the international loan book and hence, the bank is doing so.
    - The international loan book, which is a wholesale loan book, has grown 31% YoY and 7.7% QoQ.

(Con call takeaways continue on the next page)

- **More on international loans**
  - **Nature of loans**
    - Most of the growth is coming from term loans and not trade finance loans, the latter being short-term in nature.
    - The contribution of trade finance is about 20% and hence, there is no risk of the international book running off in the near future.
  - **Profitability of business**
    - Cost to income ratio is well below 25%.
    - Margin does not compare with domestic margin.
    - On average, the credit cost has been lower.
    - At this juncture, it makes sense to do this business.

## ✓ Retail lending

- Overall, retail loans have grown 23% YoY and 5.1% QoQ.
- Car loans have grown healthily at 26% YoY and 4.8% QoQ.
- Home loan growth was relatively slower at 15% YoY and 3.0% QoQ.
- Personal loans have grown rapidly from a low base at 147% YoY and 24% QoQ.
- **More on personal loans**
  - Earlier, the bank has restricted itself to a limit of Rs 50,000 but has now, gone up to Rs 0.5mn.
  - The average ticket size is about Rs 0.25mn.
  - The proportion of salaried customers is about 70-75%.

## ✓ Agri lending

- Overall agri loan growth was 14% YoY and 1.0% QoQ.
- Within gold loans, the quality of the gold loan growth is improving with agri gold loans growing at ~2x of non-gold loan agri.

## ✓ Overall loan growth guidance

- While the industry is expected to grow at 10-12%, the bank can grow at or slightly better than the industry, while maintaining or slightly improving upon margin.

## Deposits traction

### ✓ CASA deposits

- Domestic CASA growth has been 11% YoY, while there has been a de-growth of -2.1% QoQ.
- CASA ratio has grown from about 37% about 3 years ago to about 44% currently.
- Going forward, deposits growth will be driven by CASA and there will be little dependence on wholesale deposits.

### ✓ Overall deposits growth

- The credit to deposit ratio has moved up to about 80%.
- As deposit rates normalize higher, overall deposit growth will improve.

## Net interest margin

### ✓ Yield on advances

- There is still a substantial amount of loans that are at sub-optimal pricing and these would be repriced higher.
- Also, changes in loan book mix in favour higher-yielding loans such as personal loans would also aid net interest margin.

(Con call takeaways continue on the next page)

- ✓ **NIM level**
  - NIM was at 3.02% for the quarter compared with 3.08% for 4QFY22 and 3.04% in 1QFY22.
  - Adjusted for large recovery in 1QFY22, the NIM in 1QFY22 would have been 2.89%.
- ✓ **NIM guidance**
  - Management re-iterated prior guidance of improving NIM by 10 bps from the level seen at the end of FY22.
- ✓ **Cost of deposits**
  - While there has been a sequential decline in cost of deposits, it is expected to level off and rise.

## Capital adequacy

- ✓ Internal accruals will be sufficient to fund growth this financial year.
- ✓ The bank will replace AT1 bonds and there may be some Tier 1 issuance but there would be no equity capital raise this year.

## Operating expenses

- ✓ **Staff expenses**
  - There has been a sequential rise in staff expenses on account of provisions due to rise in dearness allowance on account of inflation.

## Treasury operations

- ✓ There has been a 60-70 bps in long-term treasury rates and the rise over the rest of the year is expected to be lesser.
- ✓ Hence, the remainder of the year could work out positively for the bank and even a writeback of provisions is possible.

## Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Global gross advances	8,397,850	8,181,200	2.6	7,114,870	18.0
International gross advances	1,442,930	1,339,680	7.7	1,105,170	30.6
Gross domestic advances	6,954,930	6,841,530	1.7	6,009,700	15.7
Retail	1,475,350	1,403,990	5.1	1,197,290	23.2
Home loans	844,500	820,090	3.0	732,280	15.3
Auto loans	263,400	251,300	4.8	209,700	25.6
Mortgages loans	147,670	142,420	3.7	125,550	17.6
Education loans	69,560	67,310	3.3	57,740	20.5
Personal loans	120,500	97,480	23.6	48,770	147.1
Gold loans	16,270	13,710	18.7	11,790	38.0
Others	13,450	11,680	15.2	11,460	17.4
Agriculture	1,108,540	1,097,960	1.0	969,410	14.4
Gold loans	291,450	279,460	4.3	232,020	25.6
MSME	969,540	968,630	0.1	872,750	11.1
Corporate	3,026,770	3,006,930	0.7	2,581,210	17.3
Others	374,730	364,020	2.9	389,040	(3.7)
Domestic deposits	9,090,950	9,270,110	(1.9)	8,378,030	8.5
CA	634,400	687,800	(7.8)	576,940	10.0
SA	3,381,820	3,413,430	(0.9)	3,043,500	11.1
Term	5,074,730	5,168,880	(1.8)	4,757,590	6.7

Source: Company, YES Sec - Research

## Exhibit 3: Key quarterly ratios

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Net interest margin - Global	3.02	3.08	-6bps	3.04	-2bps
Net interest margin - Domestic	3.07	3.14	-7bps	3.12	-5bps
Yield on advances - Global	6.58	6.81	-23bps	6.85	-27bps
Yield on advances - Domestic	7.42	7.55	-13bps	7.72	-30bps
Cost of deposits - Global	3.46	3.53	-7bps	3.55	-9bps
Cost of deposits - Domestic	3.81	3.85	-4bps	3.92	-11bps
Loan to deposit ratio	77.4	74.3	313bps	71.8	566bps
Non-interest income/Total income	11.8	22.7	-1086bps	26.6	-1483bps
Cost to Income	54.8	49.4	543bps	47.9	689bps
RoA	0.7	0.6	11bps	0.4	26bps
Annualised Slippage Ratio	1.7	2.5	-81bps	3.0	-129bps
Provision coverage	89.4	88.7	67bps	83.1	624bps
Gross NPA	6.3	6.6	-35bps	8.9	-260bps
Net NPA	1.6	1.7	-14bps	3.0	-145bps
Capital adequacy ratio	15.5	15.7	-22bps	15.4	6bps
Tier I capital ratio	13.0	13.7	-71bps	13.1	-9bps
Common equity tier 1 capital ratio	11.2	11.7	-50bps	11.3	-1bps

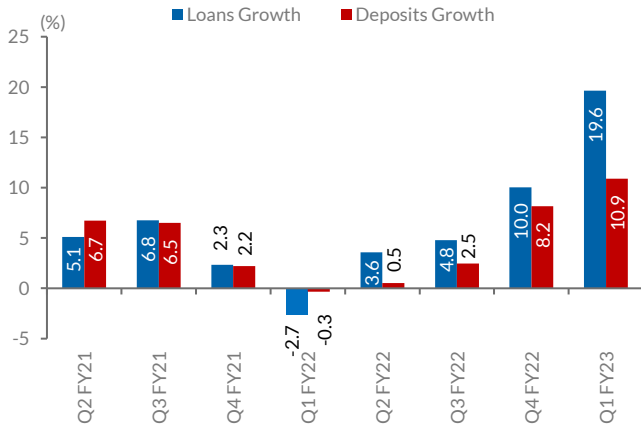
Source: Company, YES Sec - Research

## Exhibit 4: Quarterly Actuals Vs Estimates

Q1 FY23 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	88,384	87,408	1.1
Pre-Prov. Operating Profit	45,275	51,674	(12.4)
Profit After Tax	21,681	16,255	33.4

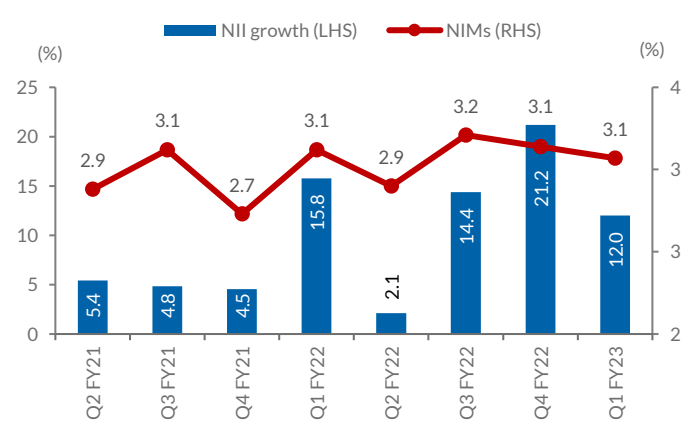
Source: Company, YES Sec - Research

**Exhibit 5: Loans and Deposits growth (YoY %)**



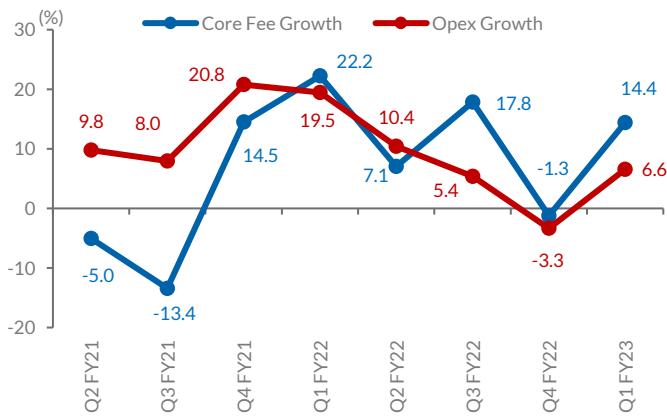
Source: Company, YES Sec – Research

**Exhibit 6: NII growth (YoY %) and NIM**



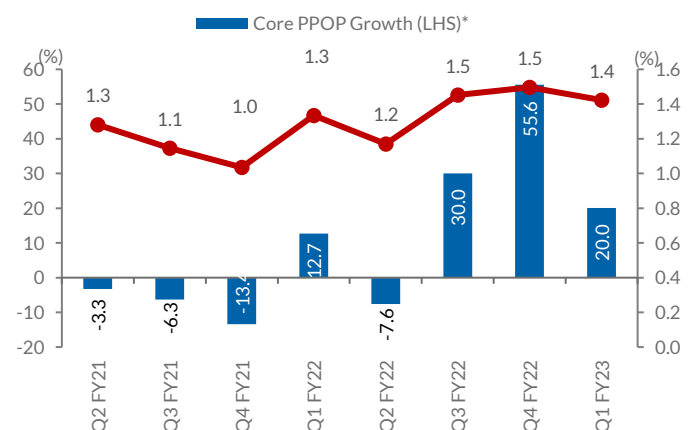
Source: Company, YES Sec – Research

**Exhibit 7: Core Fee and Opex growth (YoY %)**



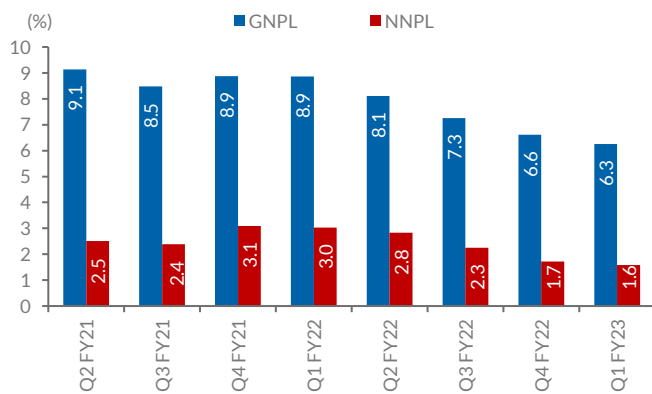
Source: Company, YES Sec – Research

**Exhibit 8: Core PPOP growth (YoY %) and Core PPOP margin**



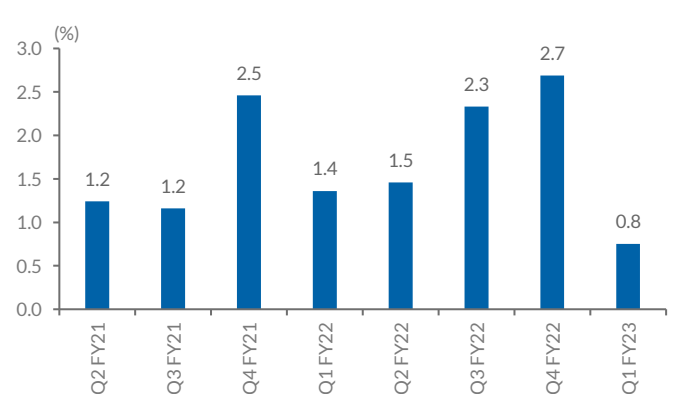
Source: Company, YES Sec – Research, \* Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

**Exhibit 9: Gross NPA and Net NPA (%)**



Source: Company, YES Sec – Research

**Exhibit 10: Credit Cost (%)**



Source: Company, YES Sec – Research

**Exhibit 11: 1-year rolling P/BV band**



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

**Exhibit 12: 1-yr rolling P/BV vis-a-vis the mean and standard deviations**



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

## ANNUAL FINANCIALS

### Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total cash & equivalents	1,204,128	1,226,550	1,811,549	2,010,819	2,252,117
Investments	2,612,203	3,157,954	3,122,758	3,459,188	3,858,728
Advances	7,063,005	7,771,552	8,626,422	9,575,329	10,724,368
Fixed assets	80,162	99,219	109,141	120,055	132,060
Other assets	594,149	524,724	577,196	634,916	698,407
<b>Total assets</b>	<b>11,553,648</b>	<b>12,779,998</b>	<b>14,247,066</b>	<b>15,800,306</b>	<b>17,665,682</b>
Net worth	770,457	859,097	948,747	1,149,545	1,300,520
Deposits	9,669,969	10,459,386	11,485,230	12,623,918	14,002,766
Borrowings	668,479	1,038,993	1,342,878	1,526,636	1,838,581
Other liabilities	444,742	422,523	470,211	500,207	523,815
<b>Total liabilities incl. Equity</b>	<b>11,553,648</b>	<b>12,779,998</b>	<b>14,247,066</b>	<b>15,800,306</b>	<b>17,665,682</b>

Source: Company, YES Sec – Research

### Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	704,951	698,808	817,877	916,850	1,037,440
Interest expense	(416,860)	(372,594)	(448,765)	(504,805)	(572,973)
<b>Net interest income</b>	<b>288,090</b>	<b>326,213</b>	<b>369,112</b>	<b>412,046</b>	<b>464,467</b>
Non-interest income	123,644	124,392	128,569	152,867	175,856
<b>Total income</b>	<b>411,735</b>	<b>450,606</b>	<b>497,681</b>	<b>564,912</b>	<b>640,323</b>
Operating expenses	(205,437)	(217,164)	(245,596)	(273,149)	(300,768)
<b>PPoP</b>	<b>206,298</b>	<b>233,441</b>	<b>252,085</b>	<b>291,764</b>	<b>339,555</b>
Provisions	(156,433)	(130,024)	(123,978)	(119,602)	(129,080)
<b>Profit before tax</b>	<b>49,865</b>	<b>103,417</b>	<b>128,108</b>	<b>172,162</b>	<b>210,475</b>
Taxes	(47,271)	(21,142)	(32,245)	(43,333)	(52,977)
<b>Net profit</b>	<b>2,594</b>	<b>82,276</b>	<b>95,863</b>	<b>128,829</b>	<b>157,498</b>

Source: Company, YES Sec – Research



## Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	6.1	5.7	6.1	6.1	6.2
Interest expense	-3.6	-3.1	-3.3	-3.4	-3.4
<b>Net interest income</b>	<b>2.5</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>
Non-interest income	1.1	1.0	1.0	1.0	1.1
<b>Total income</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>	<b>3.8</b>	<b>3.8</b>
Operating expenses	-1.8	-1.8	-1.8	-1.8	-1.8
<b>PPoP</b>	<b>1.8</b>	<b>1.9</b>	1.9	1.9	2.0
Provisions	-1.4	-1.1	-0.9	-0.8	-0.8
<b>Profit before tax</b>	<b>0.4</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>	<b>1.3</b>
Taxes	-0.4	-0.2	-0.2	-0.3	-0.3
<b>Net profit</b>	<b>0.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, YES Sec – Research

## Exhibit 16: Sum of the Parts (SOTP) - Subsidiaries

Subsidiaries/JVs	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
IndiaFirst Life Insurance	43,027	NWP	39,009	1.1x	44.0%	18,932	3.7
India Infradebt	21,278	BV	21,278	1.0	41.0%	8,722	1.7
Nainital Bank	8,619	BV	5,746	1.5	98.6%	8,496	1.6
Baroda AMC	7,172	AUM	119,535	6.0%	100.0%	7,172	1.4
BOB Financial Solutions	3,752	BV	1,876	2.0	100.0%	3,752	0.7
<b>Value of Subsidiaries</b>						<b>47,074</b>	<b>9.1</b>

Source: Company, YES Sec – Research

## Exhibit 17: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	369,112	412,046	464,467	364,119	398,690	447,013	1.4	3.3	3.9
Pre-Prov. Operating Profit	252,085	291,764	339,555	244,150	276,411	325,508	3.3	5.6	4.3
Profit after tax	95,863	128,829	157,498	93,902	121,492	151,608	2.1	6.0	3.9

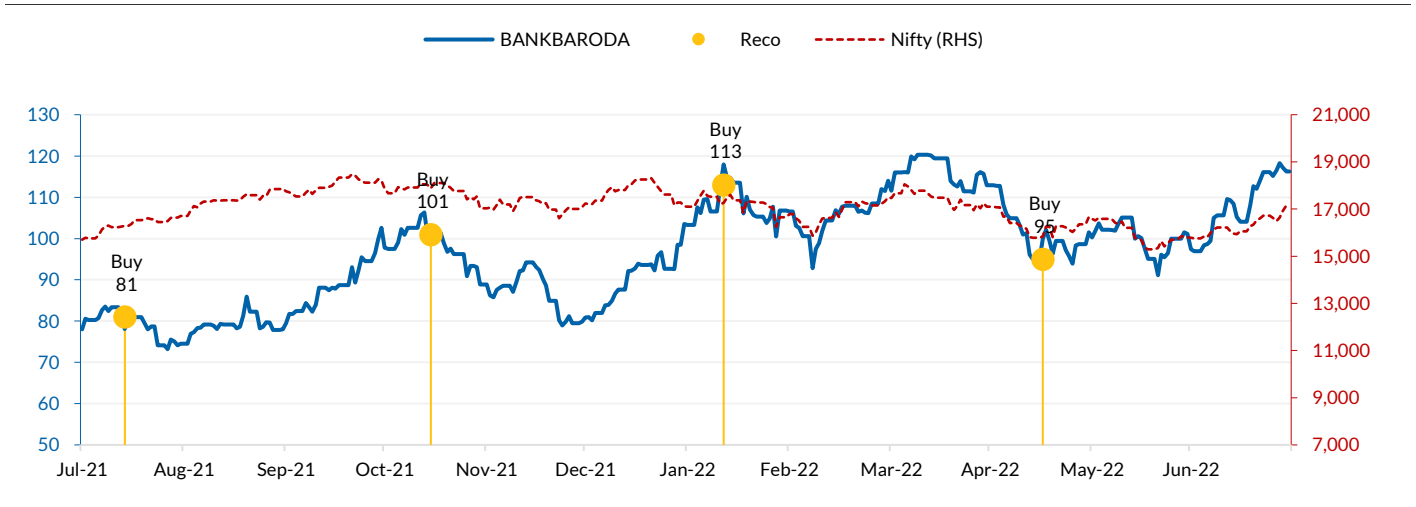
Source: Company, YES Sec – Research

## Exhibit 18: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>					
Net interest income	4.9	13.2	13.2	11.6	12.7
PPoP	9.2	13.2	8.0	15.7	16.4
Net profit	-52.5	3071.4	16.5	34.4	22.3
Loans	2.3	10.0	11.0	11.0	12.0
Deposits	2.2	8.2	9.8	9.9	10.9
<b>Profitability Ratios (%)</b>					
Net interest margin	2.7	3.0	3.1	3.1	3.2
Return on Average Equity	0.3	10.1	10.6	12.3	12.9
Return on Average Assets	0.0	0.7	0.7	0.9	0.9
<b>Per share figures (Rs)</b>					
EPS	0.5	15.9	18.5	23.7	29.0
BVPS	149	166	183	211	239
ABVPS	107	140	164	196	225
<b>Valuation multiples</b>					
P/E	214	6.7	5.8	4.5	3.7
P/BV	0.7	0.6	0.6	0.5	0.4
P/ABV	1.0	0.8	0.7	0.5	0.5
<b>NIM internals (%)</b>					
Yield on loans	7.2	6.6	7.0	7.1	7.2
Cost of deposits	3.8	2.8	2.9	3.0	3.1
Loan-deposit ratio	73.0	74.3	75.1	75.9	76.6
CASA ratio	40.2	41.5	41.0	42.0	42.5
<b>Opex control (%)</b>					
Cost/Income ratio	49.9	48.2	49.3	48.4	47.0
Cost to average assets	1.8	1.8	1.8	1.8	1.8
<b>Capital adequacy (%)</b>					
Tier 1 capital ratio	12.7	13.3	12.8	12.8	11.8
<b>Asset quality (%)</b>					
Slippage ratio	2.9	1.9	1.8	1.6	1.5
Gross NPL ratio	8.9	6.6	5.4	4.5	3.8
Credit cost	1.7	2.0	1.3	1.1	1.1
Net NPL ratio	3.1	1.7	1.2	0.9	0.7

Source: Company, YES Sec – Research; Valuations are the implied value of standalone entity net of subsidiaries

## Recommendation Tracker



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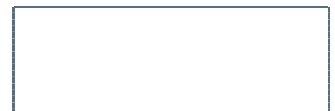
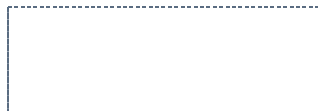
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