

Bank of Baroda (BOB) has been delivering strong performance across parameters. The Asset Quality is witnessing continuous improvement and standard restructuring is at manageable level. Furthermore, the credit growth remains healthy and is expected to grow at a robust pace. Lower credit cost and steady margins may result in strong profitability in FY23E and is expected to beat the guidance. We believe, inexpensive valuation (P/ABVPS: 0.8x) makes BOB lucrative and we are rerating the stock with increased target price of ₹202 (₹146 earlier).

Investment Argument

Asset Quality to improve further on the back of lower slippages and steady recoveries

BOB has witnessed normalization in delinquencies post moratorium and restructuring glitches. Management guided on contained slippages during current fiscal. Moreover, as per management, steady rate of recoveries from retail and SME book will continue. However, corporate recoveries are not expected. A manageable restructuring book (₹96bn; 2.5% of book) and lower SMA pool (SMA 1/SMA 2 of 48bps and 44bps) cause no major threat to credit quality. Factoring lower slippage ratio of 1.6% in FY23E (v/s 3% in FY22), we expect the GNPA ratio to be at 6.4% and 5.9% in FY23E and FY24E respectively against 6.6% in FY22. The NNPA ratio is likely to be at 1.5% (with PCR of 76.4%) as on FY23E.

Advances are expected to grow at healthy pace with improvement in CDR

The economy is witnessing healthy credit environment as the industry credit growth was 15% YoY (as per RBI latest publication). We believe, BOB shall grow at a similar pace with industry (considering a giant balance sheet) and register a credit growth of 12% in FY23E and 14% in FY24E. Nevertheless, management guided a credit growth of 12% – 13% for FY23. High margin products such as unsecured personal loans, home loans and vehicle loans to remain key focus area for the bank. The bank's deposit is likely to grow at 11% for FY23E with improving CDR level of 74.9% v/s 74.3% in FY22. CASA ratio (44.2% in latest quarter) is at satisfactory level and we expect it to be in the same range. BOB has adequate capital cushion (CRAR: 15.5% and Tier 1 of 13%) for balance sheet growth and likely to witness no further equity dilution although, the bank may raise funds through AT-1 and Tier-2 bonds.

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 (₹)	137
12 M Price Target (₹)	202
Potential upside (%)	47

Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	710
Free Float Market Cap (₹ bn) :	256
52-Week High / Low (₹)	77 / 142
2-Year High / Low (₹) :	40 / 142
1 Year Avg. Dly Traded Volume (in lakh)	388
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

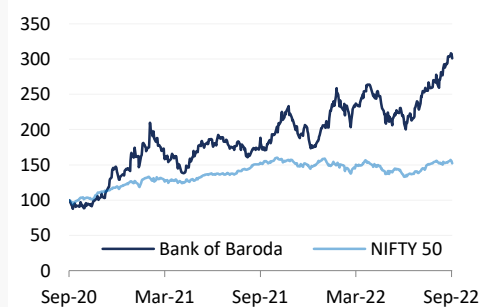
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
BOB	12.9	40.8	27.5	59.8
Nifty 50	-1.7	14.1	3.3	-0.6

* To date / current date : September 16, 2022

BOB vs Nifty 50



Margins to stay stable with improving yields

The bank carries an equal proportion of fixed and floating rate loans. The floating rate loan share is likely to increase in next few quarters. A higher share of floating rate loans may translate into higher yields on advances. NIM trend for the bank is getting stronger with increase in lending rate outpacing deposit rate hikes and favourable loan mix shift towards higher-yield segments. We have estimated the YOA (calculated) of 6.7% for FY23E v/s 6.6% in FY22. However, the interest spread to stay at 2.7% and NIMs (calculated) to improve by 10bps to 2.9% for FY23E.

Credit Cost to moderate further in FY23E

BOB reported 1QFY23 credit costs at ~75bps, much below their normalized levels, led by lower delinquencies and strong recoveries (in retail). Even as we have seen strong rebound in retail growth, especially the unsecured book, the focus is still on higher-quality segments with the share of sub-prime borrowers in new originations near its pre-covid levels. Corporate asset quality remains robust, on improved corporate profitability and large corporate deleveraging. We estimate overall FY23E credit costs of 150bps and 140bps for FY24E.

Healthy margins and lower credit cost to improve profitability

Considering 10bps improvement in NIMs, the net interest income is likely to grow at 12.6% YoY for FY23E v/s 12% credit growth. The C/I ratio is likely to improve with denominator effect of higher income; thus, translating in 10.5% YoY in PPOP growth for FY23E. A moderate credit cost (150bps) may result in 36% growth in reported profit. Hence, the ROA/ROE is likely to be at 0.7%/10.8%.

Outlook and Valuation

The bank is well equipped to overcome the next challenge of restructuring headwinds, akin to other banks. The guidance suggests credit cost of ~1.5% and slippage of ~1.6% in FY23E. We expect strong growth in earnings for FY23E driven by net-interest income and decline in credit cost, translating into ROA/ROE of 0.7%/10.8% respectively. We value BOB at 1.1x FY24E Adj. BVPS to arrive at a revised price target of ₹202 (₹146 earlier).

Asset Quality to improve further on the back of lower slippages and steady recoveries

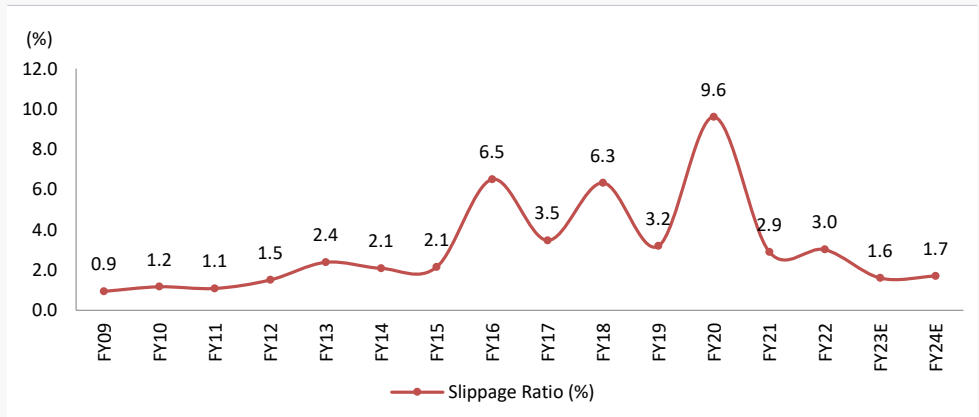
The bank has witnessed normalization in delinquencies post moratorium and restructuring glitches. Management guided on contained slippages during current fiscal. Moreover, as per management, steady rate of recoveries from retail and SME book will continue. However, corporate recoveries are not expected. A manageable restructuring book (₹96bn; 2.5% of book) and lower SMA pool (SMA 1/SMA 2 of 48bps and 44bps) cause no major threat to credit quality. Factoring lower slippage ratio of 1.6% in FY23E (v/s 3% in FY22), we expect the GNPA ratio to be at 6.4% and 5.9% in FY23E and FY24E respectively against 6.6% in FY22. The NNPA ratio is likely to be at 1.5% (with PCR of 76.4%) as on FY23E.

Exhibit 1: Credit Quality

Y/E Mar	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Slippage Ratio (%)	2.1	2.1	6.5	3.5	6.3	3.2	9.6	2.9	3.0	1.6	1.7
Gross NPA (₹ mn)	1,18,759	1,62,614	4,05,210	4,27,187	5,64,804	4,82,328	6,93,814	6,66,710	5,40,594	5,60,489	5,89,387
Net NPA (₹ mn)	60,348	80,695	1,94,065	1,80,802	2,34,827	1,56,095	2,15,766	2,17,999	1,33,647	1,32,310	1,30,987
Gross NPAs Ratio (%)	2.9	3.7	10.0	10.5	12.3	9.6	9.4	8.9	6.6	6.4	5.9
Net NPAs Ratio (%)	1.5	1.9	5.1	4.7	5.5	3.3	3.1	3.1	1.7	1.5	1.3
PCR (%)	49.2	50.4	52.1	57.7	58.4	67.6	68.9	67.3	75.3	76.4	77.8

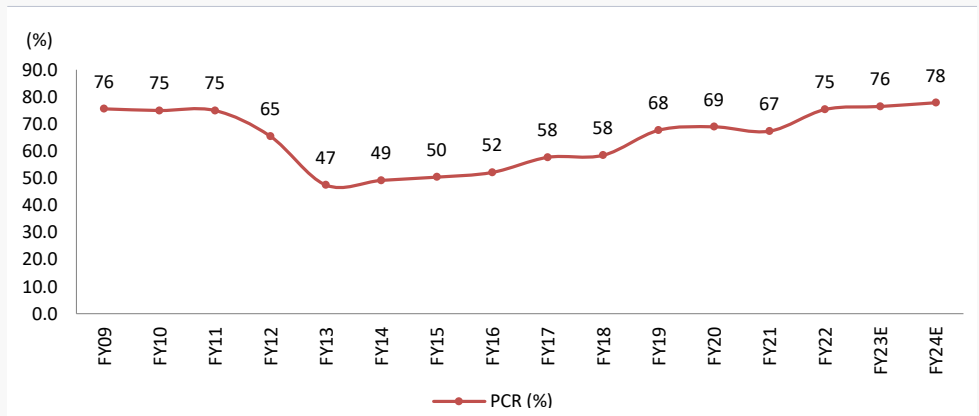
Source: Company, LKP Research

Exhibit 2: Slippages Ratio



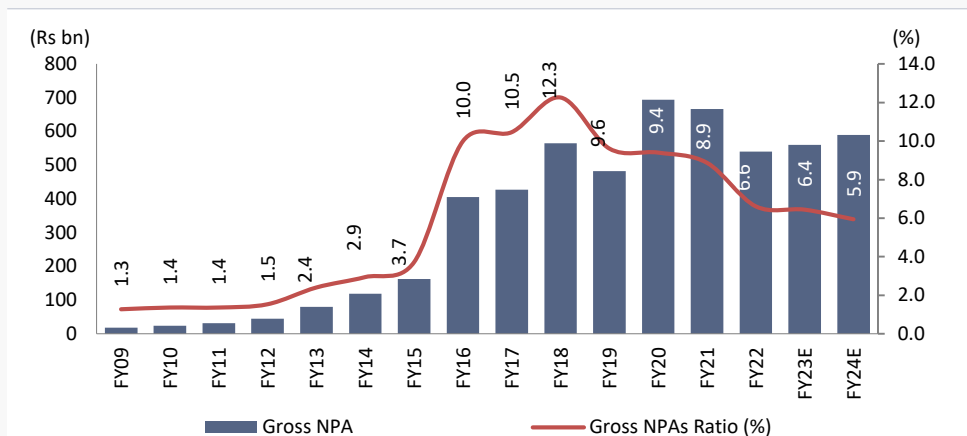
Source: Company, LKP Research

Exhibit 3: PCR Trend



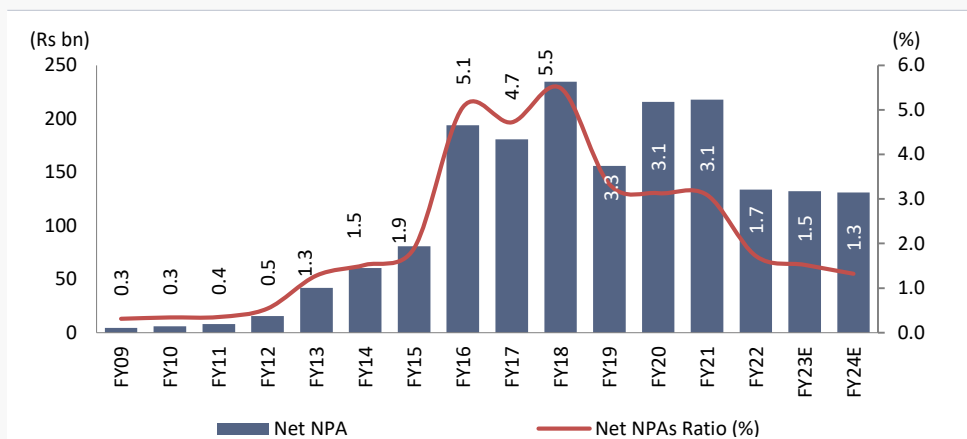
Source: Company, LKP Research

Exhibit 4: Gross NPA Trend



Source: Company, LKP Research

Exhibit 5: Net NPA Trend



Source: Company, LKP Research

Advances are expected to grow at healthy pace with improvement in CDR

The economy is witnessing healthy credit environment as the industry credit growth was 15% YoY (as per RBI latest publication). We believe, BOB shall grow at a similar pace with industry (considering its giant balance sheet) and register a credit growth of 12% in FY23E and 14% in FY24E. Nevertheless, management guided for a credit growth of 12% – 13% in FY23. High margin products such as unsecured personal loans, home loans and vehicle loans to remain key focus area for the bank. The bank’s deposit is likely to grow at 11% for FY23E with improving CDR level of 74.9% v/s 74.3% in FY22. The bank’s CASA ratio (44.2% in latest quarter) is at satisfactory level and we expect it to be in the same range. BOB has adequate capital cushion (CRAR: 15.5% and Tier 1 of 13%) for balance sheet growth and likely to witness no further equity dilution. Although, the bank may raise funds through AT -1 and Tier – 2 bonds.

Exhibit 6: Balance Sheet

(₹ mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	4,436	4,621	4,621	5,304	5,304	9,254	10,355	10,355	10,355	10,355
Growth (yoy %)	3.0	4.2	0.0	14.8	0.0	74.5	11.9	0.0	0.0	0.0
Reserves (ex Revel. Reserve)	3,84,045	3,56,107	3,62,652	3,97,081	4,08,966	6,48,513	7,08,331	7,86,407	8,85,456	10,05,430
Net Worth - Ex Revaluation	3,88,480	3,60,728	3,67,273	4,02,384	4,14,270	6,57,767	7,18,686	7,96,762	8,95,812	10,15,786
Growth (yoy %)	11.2	-7.1	1.8	9.6	3.0	58.8	9.3	10.9	12.4	13.4
Deposits	61,75,595	57,40,379	60,16,752	59,13,148	63,86,897	94,59,844	96,69,969	1,04,59,386	1,16,16,643	1,30,48,130
Growth (yoy %)	8.6	-7.0	4.8	-1.7	8.0	48.1	2.2	8.2	11.1	12.3
Borrowings	3,52,643	3,34,717	3,06,114	6,25,720	6,72,013	9,30,693	6,68,479	10,38,993	10,93,032	12,27,723
Growth (yoy %)	-4.2	-5.1	-8.5	104.4	7.4	38.5	-28.2	55.4	5.2	12.3
Interest Bearing Liabilities	65,28,238	60,75,096	63,22,866	65,38,868	70,58,910	1,03,90,537	1,03,38,449	1,14,98,379	1,27,09,675	1,42,75,853
Growth (yoy %)	7.8	-6.9	4.1	3.4	8.0	47.2	-0.5	11.2	10.5	12.3
Investments	11,68,122	12,04,505	12,96,305	16,31,845	18,22,981	27,46,146	26,12,203	31,57,954	34,09,404	36,88,889
Growth (yoy %)	0.6	3.1	7.6	25.9	11.7	50.6	-4.9	20.9	8.0	8.2
Loan & Advances	42,80,651	38,37,702	38,32,592	42,74,318	46,88,187	69,01,207	70,63,005	77,71,552	87,04,138	99,22,717
Growth (yoy %)	7.8	-10.3	-0.1	11.5	9.7	47.2	2.3	10.0	12.0	14.0
Total Assets	71,49,885	67,13,765	69,48,754	71,99,998	78,09,874	1,15,79,155	1,15,53,648	1,27,79,998	1,41,44,525	1,58,68,436
Growth (yoy %)	8.4	-6.1	3.5	3.6	8.5	48.3	-0.2	10.6	10.7	12.2

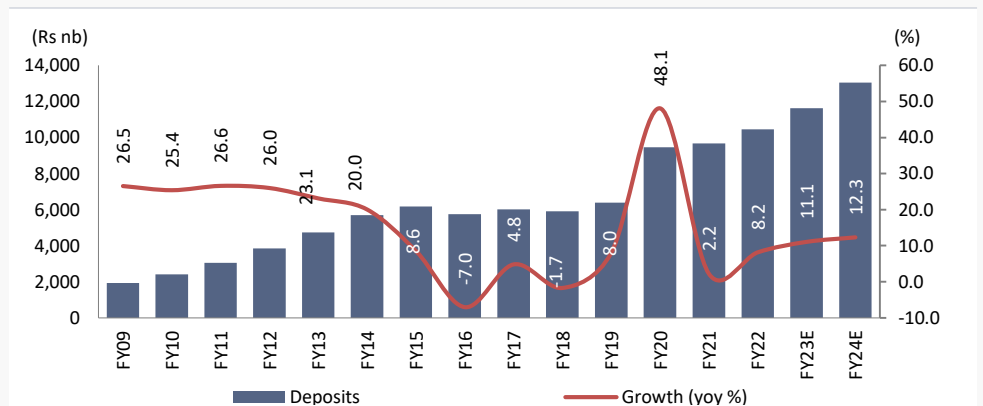
Source: Company, LKP Research

Exhibit 7: Loan Book trend



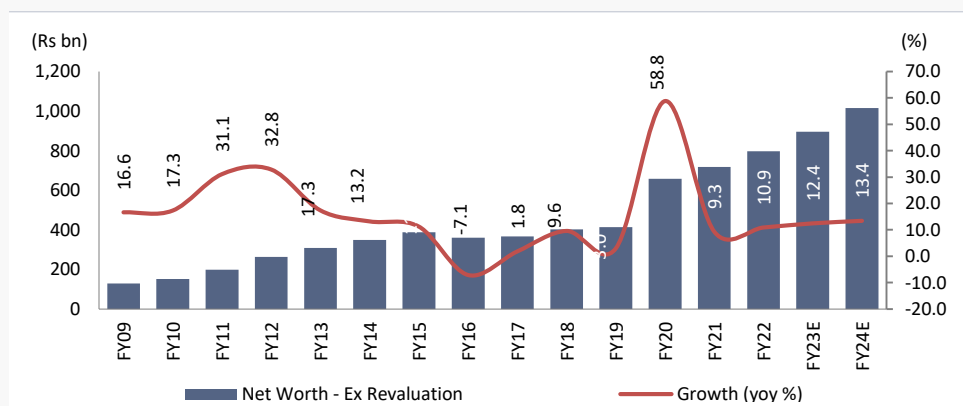
Source: Company, LKP Research

Exhibit 8: Deposit trend



Source: Company, LKP Research

Exhibit 9: Net-Worth trend



Source: Company, LKP Research

Margins to stay stable with improving yields

The bank carries an equal proportion of fixed and floating rate loans. The floating rate loan share is likely to increase in next few quarters. A higher share of floating rate loans may translate into higher yields on advances. NIM trend for the bank is getting stronger as increase in lending rates outpacing deposit rate hikes and favourable loan mix shift towards higher-yield segments. We have estimated the YOYA (calculated) of 6.7% for FY23E v/s 6.6% in FY22. However, the interest spread to stay at 2.7% and NIMs (calculated) to improve by 10bps to 2.9% for FY23E.

Exhibit 10: Income Statement

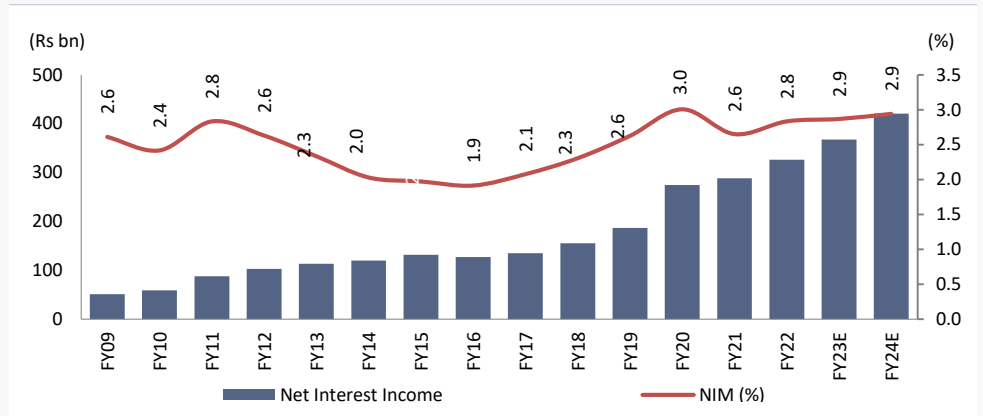
(₹ mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	1,31,872	1,27,399	1,35,134	1,55,218	1,86,838	2,74,513	2,88,090	3,26,213	3,67,304	4,20,492
Growth (yoy %)	10.2	-3.4	6.1	14.9	20.4	46.9	4.9	13.2	12.6	14.5
NIM (%)	2.0	1.9	2.1	2.3	2.6	3.0	2.6	2.8	2.9	2.9
Yield on Advance	7.5	7.3	7.2	7.2	7.7	9.3	7.2	6.6	6.7	6.8
Yield on Funds	6.4	6.6	6.5	6.5	7.0	8.3	6.5	6.1	6.1	6.2
Cost of Funds (CoF)	4.7	5.0	4.6	4.4	4.6	5.6	4.0	3.4	3.5	3.5
Interest Spread	1.7	1.6	1.9	2.1	2.4	2.8	2.5	2.7	2.7	2.7
Other Income - Total	44,020	49,989	67,581	66,572	60,910	1,03,173	1,23,644	1,14,840	1,15,988	1,17,148
Growth (yoy %)	-1.4	13.6	35.2	-1.5	-8.5	69.4	19.8	-7.1	1.0	1.0
Total Opex	76,741	89,231	92,964	1,01,734	1,12,880	1,80,772	2,05,437	2,17,164	2,35,987	2,57,807
Growth (yoy %)	7.5	16.3	4.2	9.4	11.0	60.1	13.6	5.7	8.7	9.2
C/I Ratio (%)	43.6	50.3	45.9	45.9	45.6	47.9	49.9	49.2	48.8	48.0
Pre Provision Profits	99,151	88,156	1,09,751	1,20,056	1,34,868	1,96,914	2,06,298	2,23,889	2,47,304	2,79,833
Growth (yoy %)	6.7	-11.1	24.5	9.4	12.3	46.0	4.8	8.5	10.5	13.2
Provisions as % PPP	25.6	87.5	41.9	66.7	51.6	56.9	36.6	29.5	24.7	23.2
Credit Cost (As % of Op. AUM)	1.0	3.2	2.0	3.7	2.9	3.5	2.1	1.8	1.5	1.4
Effective Tax Rate (%)	37.3	19.4	44.1	12.9	37.9	130.4	85.1	22.5	22.5	22.5
Reported Profits	33,984	-53,955	13,831	-24,318	4,335	5,469	8,290	72,723	99,050	1,19,974
Growth (yoy %)	-25.2	-258.8	-125.6	-275.8	-117.8	26.2	51.6	777.3	36.2	21.1
RoA	0.5	-0.8	0.2	-0.3	0.1	0.1	0.1	0.6	0.7	0.8
RoE	9.0	-13.5	3.4	-5.8	1.0	0.9	1.1	8.9	10.8	11.5

Source: Company, LKP Research

Healthy margins and lower credit cost to improve profitability

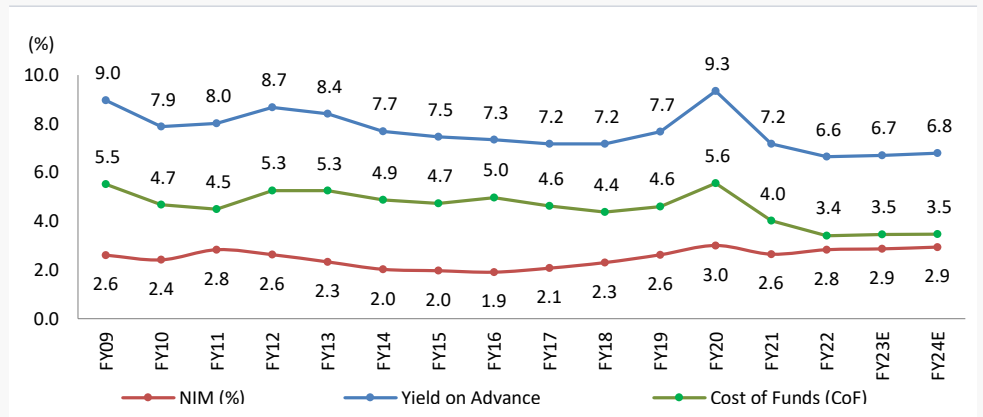
Considering 10bps improvement in NIMs, the net interest income is likely to grow at 12.6% YoY for FY23E v/s 12% credit growth. The C/I ratio is likely to improve with denominator effect of higher income; thus, translating in 10.5% YoY in PPOP growth for FY23E. A moderate credit cost (150bps) may result in 36% growth in reported profit. Hence, the ROA/ROE is likely to be at 0.7%/10.8%.

Exhibit 11: Net Interest Income Trend



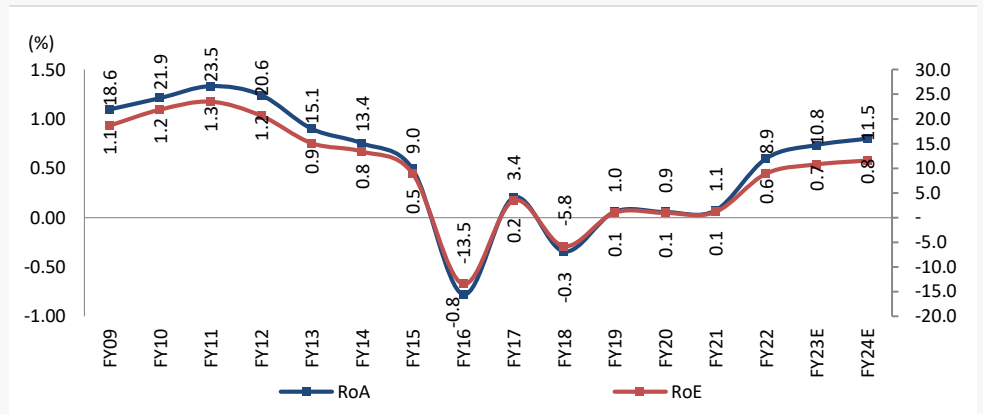
Source: Company, LKP Research

Exhibit 12: Yields and Margin Trend



Source: Company, LKP Research

Exhibit 13: Return ratio trend.



Source: Company, LKP Research

Financial Projections

Exhibit 15: 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 16: 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	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	69,01,207	70,63,005	77,71,552	87,04,138	99,22,717
<i>Growth (yoy %)</i>	47.2	2.3	10.0	12.0	14.0
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 17: 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 18: 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
P/E (x)	116.1	85.7	9.8	7.2	5.9
Book Value (₹)	142.2	138.8	153.9	173.0	196.2
BVPS (% YoY)	82.0	(2.4)	10.9	12.4	13.4
P/BV (x)	1.0	1.0	0.9	0.8	0.7
Adj. BV (₹)	118.8	117.8	141.0	160.1	183.3
Adj. BV (% YoY)	87.5	(0.9)	19.7	13.6	14.5
P/ABV (x)	1.2	1.2	1.0	0.9	0.7

Source: Company, LKP Research

Exhibit 19: 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

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