

## Good performance on comprehensive scale...

**About the stock:** Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 8.3 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with over 8163 branches and 11475 ATMs
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Also, ~14% of total business comes from overseas

**Q1FY23 Results:** Strong rise in credit offtake; lower provision aided PAT.

- NII up 12% YoY at ₹ 8838 crore, NIMs down 6 bps QoQ at 3.02%
- C/I up 543 bps QoQ to 54.8%; Provisions down 55% QoQ and 58% YoY
- PAT at ₹ 2168 crore, up 79.4% YoY, ahead of our estimate
- GNPA down 35 bps QoQ to 6.26%, Standard R/s book at ₹ 19666 crore

**What should investors do?** Bank of Baroda has seen its stock price rising over 2.6x in the past two years. We believe with better growth outlook and anticipated lower credit cost, as stress assuages, should reflect positively on return ratios ahead.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** We value the bank at ~0.75x FY24E ABV and revise our target price to ₹ 135 per share from ₹ 115 earlier.

### Key triggers for future price performance:

- Gradual pick-up in corporate book coupled with healthy offtake in retail segment to lift overall growth trajectory
- Faster repricing of loans in rising rate scenario to aid margin trajectory
- Bottoming of NPA issue to keep credit cost lower; behaviour of R/s book to be watched as most of it is out of moratorium
- Expect return ratios to improve and, thus, aid valuations

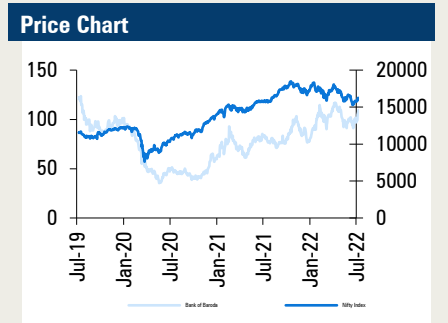
**Alternate Stock Idea:** Apart from Bank of Baroda, in our coverage we also like SBI.

- SBI is the largest bank in India with a balance sheet size of ~₹ 53 lakh crore and also has among the best operating metrics in the PSU space
- BUY with target price of ₹ 605



Particulars	
Particulars	Amount
Market Capitalisation	₹ 60530 crore
Networth	₹ 94119 crore
52 week H/L	123 / 72
Face value	₹ 2

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	64.0	64.0	64.0	63.7
FII	7.8	7.4	9.1	8.2
DII	14.7	14.7	15.1	16.9
Others	13.5	14.0	11.8	11.2



### Recent Event & Key risks

GNPA down 35 bps QoQ to 6.26%, Collection efficiency (ex-agri) at 98%

**Key Risk:** (i) Higher slippage from R/s book could dent asset quality (ii) Sluggishness in NIM improvement could impact operational outcome

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### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	27,451	28,809	32,621	20.4%	37,201	42,672	14.4%
PPP	18,896	21,199	22,389	18.4%	24,486	27,227	10.3%
PAT	546	829	7,272	156.0%	9,385	11,075	23.4%
ABV (₹)	108.7	106.7	140.1		160.6	181.6	
P/E	99.1	-6.2	8.3		6.5	5.5	
P/ABV (%)	1.1	1.1	0.8		0.7	0.6	
RoA	0.1	-0.8	0.6		0.7	0.7	
RoE (%)	0.9	(13.1)	8.9		10.2	10.6	

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Healthy overall performance

- Net interest income was up 12% YoY and 2.6% QoQ to ₹ 8838 crore; this was mainly driven by healthy credit growth as net interest margin contracted modestly by 2 bps YoY to 3.02% (declined 6 bps QoQ). Other income sharply declined by 58.7% YoY and 53.1% QoQ to ₹ 1182 crore as a result of lower treasury income. Fee based income, however, showed respectable growth of 15.6% YoY
- Opex was flattish on a sequential basis but as topline was dented due to lower non-interest income, C/I ratio jumped from 49.4% to 54.8% QoQ. Provisions declined 45.9% QoQ to ₹ 1685 crore. This, in turn, boosted net profit to ₹ 2168 crore, up 79.4% YoY and ahead of our estimates
- Asset quality showed a sequential improvement. GNPA and NNPA declined 35 bps and 14 bps QoQ to 6.26% and 1.58%, respectively. Slippages for the quarter were down to ₹ 3266 crore vs. ₹4514 crore while recoveries and upgrades were at ₹ 1740 crore and ₹ 859 crore, respectively. SMA1&2 is now at 0.48% vs. 0.44% QoQ. Collection efficiency (ex-agri) was at 98% vs. 97% recorded in the previous quarter
- Overall global loan book (gross) growth was healthy at 18.0% YoY to ₹ 8.4 lakh crore. Strong credit offtake was driven by 23% YoY rise in retail loans while international loans (17% of total book) also reported healthy growth of 30.6% YoY. Deposit book jumped 10.9% YoY in which domestic deposits were up 8.5% YoY to ₹ 9.1 lakh crore. Domestic CASA growth was at 11% YoY and its share to total domestic deposits was at 44.18%

### Q1FY23 Earnings conference call highlights

- International corporate book has higher margins. Large proportion of incremental international credit is from term loans
- Gold loans for agri are growing at ~2x higher pace than overall agri book
- Expect NIMs to improve ~10 bps in FY23E compared to previous year
- Credit cost to be in the range of 1.25-1.5% for FY23E
- May not raise pure equity for growth purpose this year
- Personal loans have ATS of ₹ 2.5 lakh and ~75% of book is contributed by the salaried segment
- Total outstanding R/s book is ₹ 19666 crore and slippage from the same is ~₹ 1000 crore
- Almost 100% of r/s book has come out of moratorium. Stress in restructured book at ~15% (~₹ 3000-4000 crore)
- Increase in greenfield activity in power sector has improved credit demand
- Loan growth to be higher than industry (expect industry growth ~12%)
- O/s loans on ECLGS ~₹ 9500 crore and NPAs are below 10%

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BoB (BANBAR)	116	135	Buy	599	-18.9	14.0	18.1	21.4	-6.1	8.3	6.4	5.4	1.1	0.8	0.7	0.6	-13.1	8.9	10.2	10.6
SBI (STABAN)	533	605	Buy	4,758	22.9	35.5	40.1	47.2	23	15.0	13.3	11.3	2.2	1.9	1.6	1.4	8.4	11.9	12.0	12.6
Axis Bank (AXIBAN)	730	970	Buy	2226	21.5	42.4	53.2	65.4	33.9	17.2	13.7	11.2	2.4	2.1	1.8	1.7	7.1	12.0	13.3	15.1
HDFC Bank (HDFBAN)	1,445	1,650	Buy	7,737	56.4	66.7	77.1	93.7	25.6	21.7	18.7	15.4	4.0	3.4	3.0	2.7	16.6	16.7	16.6	17.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	8,838	8,946	7,892	12.0	8,612	2.6	Driven by healthy credit offtake
NIM (%)	3.0	3.0	3.0	-2 bps	3.1	-6 bps	Marginal decline due to lower CASA and increased CoF
Other Income	1,182	1,766	2,863	-58.7	2,522	-53.1	Down due to lower treasury income
Net Total Income	10,020	10,711	10,755	-6.8	11,134	-10.0	
Staff cost	3,043	2,675	3,059	-0.5	2,702	12.6	Rise partly due to revision of pension liability
Other Operating Expenses	2,450	2,768	2,095	17.0	2,796	-12.4	
PPP	4,528	5,268	5,601	-19.2	5,635	-19.7	
Provision	1,685	3,409	4,005	-57.9	3,736	-54.9	Lower credit cost as stress on book reduces
PBT	2,843	1,859	1,595	78.2	1,899	49.7	
Tax Outgo	675	474	387	74.4	120	462.2	
PAT	2,168	1,385	1,209	79.4	1,779	21.9	PAT boosted by lower provisions
Key Metrics							
GNPA	52,591	53,691	63,029	-16.6	54,059	-2.7	Slippages decline aids asset quality show
NNPA	12,653	13,476	20,260	-37.5	13,365	-5.3	
Advances	799,616	792,698	669,851	19.4	777,155	2.9	Loan growth driven by retail and international book
Deposits	1,032,714	1,071,214	931,317	10.9	1,045,939	-1.3	Domestic CASA up 11% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	36,467.1	37,201.0	2.0	41,146.3	42,672.2	3.7
Pre Provision Profit	26,038	24,486.4	-6.0	29,735.5	27,227.0	-8.4
NIM Global (%)	3.1	3.0	-11 bps	3.2	3.1	-8 bps
PAT	10,103	9,385	-7.1	11,202.0	11,075	-1.1

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	13.5	13.9	10.3	9.2
Deposit Growth (%)	11.1	12.1	10.4	9.0
NIM Calculated (%)	3.0	3.1	3.1	3.2
Cost to income ratio (%)	48.7	49.4	47.3	46.2

Source: ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	75984	70495	69881	89388	101503
Interest Expended	48532	41686	37259	52187	58830
<b>Net Interest Income</b>	<b>27451</b>	<b>28809</b>	<b>32621</b>	<b>37201</b>	<b>42672</b>
growth (%)	46.9	4.9	13.2	14.0	14.7
Non Interest Income	10317	12934	11484	10539	11089
<b>Net Income</b>	<b>37769</b>	<b>41743</b>	<b>44105</b>	<b>47740</b>	<b>53761</b>
Employee cost	9565	11446	11979	12877	14200
Other operating Exp.	9308	9098	9738	10377	12334
<b>Operating Income</b>	<b>18896</b>	<b>21199</b>	<b>22389</b>	<b>24486</b>	<b>27227</b>
Provisions	20698	15643	13002	11973	12460
<b>PBT</b>	<b>-1802</b>	<b>5556</b>	<b>9386</b>	<b>12513</b>	<b>14767</b>
Taxes	-2348	4727	2114	3128	3692
<b>Net Profit</b>	<b>546</b>	<b>829</b>	<b>7272</b>	<b>9385</b>	<b>11075</b>
growth (%)	26.0	51.8	777.3	29.1	18.0
EPS	1.2	-18.9	14.0	18.1	21.4

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	462.7	517.8	517.8	517.8	517.8
BV (₹)	155.3	148.8	165.9	188.3	213.4
ABV (₹)	108.7	106.7	140.1	160.6	181.6
P/E	99.1	-6.2	8.3	6.5	5.5
P/BV	0.8	0.8	0.7	0.6	0.5
P/ABV	1.1	1.1	0.8	0.7	0.6
Yields & Margins (%)					
Net Interest Margins	3.0	2.7	2.8	3.0	3.1
Avg. Cost of Deposits	5.5	3.9	3.3	4.3	4.3
Yield on average advar	9.3	7.2	6.6	7.5	7.6
Quality and Efficiency (%)					
Cost / Total net income	50.0	68.2	49.2	48.7	49.4
Credit/Deposit ratio	73.0	73.0	74.3	75.9	77.1
GNPA	9.4	8.9	6.6	5.6	4.7
NNPA	3.1	3.1	1.7	1.6	1.6
ROE	0.9	-13.1	8.9	10.2	10.6
ROA	0.1	-0.8	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>					
Capital	925	1036	1036	1036	1036
Reserves and Surplus	70931	76010	84874	96451	109477
<b>Networth</b>	<b>71856</b>	<b>77046</b>	<b>85910</b>	<b>97486</b>	<b>110513</b>
Deposits	945984	966997	1045939	1162055	1302471
Borrowings	93069	66848	103899	109871	116276
Other Liab & Prov (incl	47006	44474	42252	46477	51125
<b>Total</b>	<b>1157916</b>	<b>1155365</b>	<b>1278000</b>	<b>1415890</b>	<b>1580385</b>
<b>Application of Funds</b>					
Fixed Assets	8889	8016	9922	10220	10526
Investments	274615	261220	315795	346905	381244
Advances	690121	706301	777155	881718	1004001
Other Assets	62390	59415	52472	49541	49990
Cash with RBI & call r	121901	120413	122655	127506	134624
<b>Total</b>	<b>1157916</b>	<b>1155365</b>	<b>1278000</b>	<b>1415890</b>	<b>1580385</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	48.3	-0.2	10.6	10.8	11.6
Advances	47.2	2.3	10.0	13.5	13.9
Deposits	48.1	2.2	8.2	11.1	12.1
Total Income	53.9	-16.8	13.3	22.8	12.7
Net interest income	48.5	4.9	13.2	14.0	14.7
Operating expenses	67.2	8.9	5.7	7.1	14.1
Operating profit	40.1	-49.4	134.2	9.4	11.2
Net profit	26.0	-1891.3	-174.3	29.1	18.0
Book value	41.0	7.2	11.5	13.5	13.4
EPS	-27.8	-1700.7	-174.3	29.1	18.0

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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