

Robust performance; guidance remains steady...

About the stock: Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 9.2 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with over 8178 branches
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Also, ~18% of total business comes from overseas

Q3FY23 Results: Robust earnings led by steady NIMs and lower opex.

- NII up 26.5% YoY at ₹ 10818 crore, NIMs up 4 bps QoQ at 3.4%
- C/I down 776 bps YoY to 42.7%; provisions up 47.7% QoQ
- PAT at ₹ 3853 crore, up 75.4% YoY, ahead of our estimate
- GNPA down 78 bps QoQ to 4.53%, slippage ratio improved 72 bps QoQ

What should investors do? Continued robust performance in terms of growth & profitability. Healthy growth momentum coupled with margin improvement & steady asset quality is expected to aid RoA. Thus, the stock is due for re-rating ahead.

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

Target Price and Valuation: We value the bank at ~0.9x FY25E ABV and revise our target price to ₹ 200/share from ₹ 220/share earlier.

Key triggers for future price performance:

- Advantage of faster repricing of loans should continue in Q4FY23. Margin guidance maintained at 3.2-3.25%
- The management is confident of in-line industry growth. Target to grow retail growth at 1.5x pace of overall book
- Steady CI ratio, lower credit cost to aid healthy earnings growth momentum
- Guidance continued to remain at RoA – 1% in FY24-25E with an upside bias

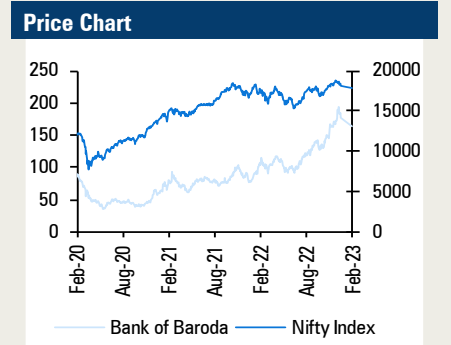
Alternate Stock Idea: Apart from Bank of Baroda, in our coverage we also like SBI.

- 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 ₹ 700



Particulars	
Particulars	Amount
Market Capitalisation	₹ 84629 crore
Networth	₹ 102587 crore
52 week H/L	197 /89
Face value	₹ 2

Shareholding pattern					
(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	64.0	64.0	64.0	64.0	64.0
FII	7.4	9.1	8.2	8.9	10.0
DII	14.7	15.1	16.9	18.6	17.7
Others	14.0	11.8	11.0	8.5	8.4



Recent Event & Key risks

Advance up 19.7%; slippages at ~1%.
Collection efficiency (ex-agri) at 98%

Key Risk: (i) Moderation in retail loan book growth (ii) Competitive pressure on deposit franchise

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	27,451	28,809	32,621	20.4%	40,330	46,623	52,566	17.2%
PPP	18,896	21,199	22,389	18.4%	26,479	31,162	35,989	17.1%
PAT	546	829	7,272	156.0%	12,383	14,504	17,062	32.9%
ABV (₹)	108.7	106.7	140.1		177.5	208.2	235.8	
P/E	138.9	-8.7	11.7		6.9	5.9	5.0	
P/ABV	1.5	1.5	1.2		0.9	0.8	0.7	
RoA	0.1	-0.8	0.6		0.9	0.9	1.0	
RoE (%)	0.9	-13.1	8.9		13.3	13.3	13.7	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Higher-than-expected topline beats PAT estimates

- Net interest income was up 26.5% YoY, 6.3% QoQ to ₹ 10818 crore. This was mainly driven by healthy credit growth and largely steady NIMs at 3.4% (up 4 bps QoQ). Other income jumped 41% YoY, 94.5% QoQ driven by treasury income (treasury gains almost doubled YoY; the bank reported treasury loss of ₹ 435 crore in Q2FY23). Recovery from technical written off accounts increased 57.1% YoY and 34.5% QoQ to ₹ 811 crore
- Opex was up 9.8% YoY at ₹ 6138 crore. However, due to high income levels, C/I ratio meaningfully declined to 42.7% vs. 50.4% in Q3FY22 (49.7% Q2FY23). Provisions increased 47.7% QoQ to ₹ 2404 crore but NPA provisions declined substantially by 51% QoQ. Credit cost declined to 0.37% vs. 0.79% in Q2FY23. The bank reported highest quarterly net profit to ₹ 3853 crore, up 75.4% YoY, 16.3% QoQ (ahead of our estimates)
- Asset quality continued to show sequential improvement. GNPA, NNPA declined 78 bps, 17 bps QoQ to 4.53%, 0.99%, respectively. Slippages for the quarter were down to ₹ 2172 crore (<1% annualised) vs. ₹ 3479 crore in Q2FY23 while recoveries and upgrades were at ₹ 1710 crore vs. ₹ 2047 crore in Q2FY23. SMA1&2 declined from 0.42% in Q2FY23 to 0.4% in Q3FY23. Collection efficiency (ex-agri) was steady at 98%
- Overall global loan book (gross) growth was healthy at 19.7% YoY to ₹ 9.23 lakh crore. Strong credit offtake was driven by 29% YoY rise in retail loans led by growth in personal loan portfolio at 169.6%, auto loan by 27.5%, education loan by 24.1%, home loan by 19.6% on a YoY basis. International loans (~18% of total book) also reported healthy growth of 39% YoY. Deposit book jumped 17.5% YoY, primarily led by 98.9% YoY growth in bulk deposits. Domestic deposits were up 14.5% YoY to ₹ 10.0 lakh crore. Domestic CASA growth was at 7.6% YoY while its share to total domestic deposits was at 41.63%

Q3FY23 Earnings conference call highlights

- Business growth should remain in line or better than industry growth. Retail growth should be nearly 1.5x of overall book growth. Push towards infra should benefit advance growth
- Exposure to a large group is not in top 15 list as per large exposure framework by RBI (includes funded, non-funded exposure and undisbursed limit). Further, ~30% of exposure to the group is either in JV or guaranteed by public sector undertaking. Exposure is at one fourth of maximum permissible limit as per large exposure framework
- No exposure to account concluded by NARCL during the quarter
- Benefit of lag effect of transmission of interest rate should continue in Q4FY23. Pricing intensity in large corporate segment is improving gradually
- Repricing benefit coupled with increasing proportion of unsecured loans should aid margins. Gradual repricing of corporate book (normally aligned to one year MCLR) is expected to support margins ahead
- Major proportion of deposits raised is with 12-months maturity including bulk and term deposit. Restructured at ₹ 16700 crore
- Total ₹ 632 crore one off provision for NPI, which is in relation to exposure to one account. The same is in provision line in P&L
- Wage revision provided from November 1, 2023
- No need to raise capital in near term given healthy incremental accrual

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
BoB (BANBAR)	163	200	Buy	846	-18.9	14.0	23.9	28.0	-8.6	11.6	6.8	5.8	1.5	1.2	0.9	0.8	-13.1	8.9	13.3	13.3
SBI (STABAN)	544	700	Buy	4,859	22.9	35.5	50.8	58.4	24	15.3	10.7	9.3	2.2	1.9	1.6	1.4	8.4	11.9	15.0	14.9
Axis Bank (AXIBAN)	882	1,100	Buy	2,714	21.5	42.4	69.3	78.8	41.0	20.8	12.7	11.2	2.9	2.5	2.1	2.0	7.1	12.0	17.1	17.3
HDFC Bank (HDFBAN)	1,658	1,920	Buy	9,251	56.4	66.7	78.7	93.7	29.4	24.9	21.1	17.7	3.9	3.4	3.0	2.5	16.7	16.9	17.5	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	10,818	10,147	8,552	26.5	10,174	6.3	Driven by strong busines growth and yield expansion
NIM (%)	3.4	3.4	3.1	24 bps	3.3	4 bps	Led by improvement in yields
Other Income	3,552	2,570	2,519	41.0	1,826	94.5	MTM gains in Q3FY23; fee income up 9% YoY
Net Total	14,370	12,717	11,071	29.8	12,000	19.7	
Staff cost	3,347	3,506	3,103	7.9	3,183	5.1	
Other Operating Expenses	2,791	3,169	2,485	12.3	2,786	0.2	CI ratio improved at 42.7%
PPP	8,232	6,042	5,483	50.1	6,031	36.5	
Provision	2,404	1,592	2,507	-4.1	1,627	47.7	Credit cost declined QoQ at 0.37%
PBT	5,828	4,451	2,976	95.8	4,403	32.4	
Tax Outgo	1,976	1,157	779	153.5	1,090	81.2	
PAT	3,853	3,294	2,197	75.4	3,313	16.3	PAT boosted by healthy topline and lower provisions
Key Metrics							
GNPA	41,858	46,188	55,997	-25.3	46,374	-9.7	Slippages declined 72bps QoQ at ~1%
NNPA	8,854	9,549	16,465	-46.2	9,672	-8.5	
Advances	890,682	860,292	732,164	21.7	836,591	6.5	Loan growth driven by retail segment
Deposits	1,149,507	1,102,939	978,034	17.5	1,090,172	5.4	CASA ratio down to 41.6%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	36,767.4	40,330.4	9.7	41,856.4	46,623.2	11.4	52,565.5
Pre Provision Profit	23,723	26,479.1	11.6	26,340.5	31,161.8	18.3	35,988.9
NIM Global (%)	2.9	3.2	28 bps	3.1	3.3	21 bps	3.3
PAT	10,917	12,383	13.4	11,193.0	14,504	29.6	17,062

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	18.7	13.9	13.1	13.9	13.9
Deposit Growth (%)	14.5	11.4	11.5	10.8	11.3
NIM Calculated (%)	3.2	3.3	3.3	2.9	3.1
Cost to income ratio (%)	47.3	45.9	44.3	49.5	50.2

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	69881	90422	103750	115414
Interest Expended	37259	50091	57127	62848
Net Interest Income	32621	40330	46623	52566
growth (%)	13.2	23.6	15.6	12.7
Non Interest Income	11484	9929	10976	12025
Net Income	44105	50259	57599	64590
Employee cost	11979	13023	14258	15151
Other operating Exp.	9738	10757	12179	13450
Operating Income	22389	26479	31162	35989
Provisions	13002	9280	11823	13240
PBT	9386	17199	19339	22749
Taxes	2114	4816	4835	5687
Net Profit	7272	12383	14504	17062
growth (%)	777.3	70.3	17.1	17.6
EPS	14.0	23.9	28.0	33.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares	517.8	517.8	517.8	517.8
BV (₹)	165.9	194.1	225.9	253.6
ABV (₹)	140.1	177.5	208.2	235.8
P/E	11.7	6.9	5.9	5.0
P/BV	1.0	0.8	0.7	0.6
P/ABV	1.2	0.9	0.8	0.7
Yields & Margins (%)				
Net Interest Margins	2.8	3.2	3.3	3.3
Avg. Cost of Deposits	3.3	4.1	4.2	4.1
Yield on average advances	6.6	7.5	7.6	7.5
Quality and Efficiency (%)				
Cost / Total net income	49.2	47.3	45.9	44.3
Credit/Deposit ratio	74.3	77.0	78.7	79.9
GNPA	6.6	4.4	3.9	3.5
NNPA	1.7	0.9	0.9	0.8
ROE	8.9	13.3	13.3	13.7
ROA	0.6	0.9	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	1036	1036	1036	1036
Reserves and Surplus	84874	99449	115904	130289
Networth	85910	100484	116940	131325
Deposits	1045939	1197611	1333892	1486885
Borrowings	103899	109871	116276	123092
Other Liab & Prov (incl sub-debt)	42252	46477	51125	56238
Total	1278000	1454444	1618233	1797540
Application of Funds				
Fixed Assets	9922	10220	10526	10842
Investments	315795	333242	366215	402620
Advances	777155	922309	1050122	1187645
Other Assets	52472	61168	56746	54189
Cash with RBI & call money	122655	127506	134624	142244
Total	1278000	1454444	1618233	1797540

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Total assets	10.6	13.8	11.3	11.1
Advances	10.0	18.7	13.9	13.1
Deposits	8.2	14.5	11.4	11.5
Total Income	13.3	23.3	14.3	11.1
Net interest income	13.2	23.6	15.6	12.7
Operating expenses	5.7	9.5	11.2	8.2
Operating profit	134.2	18.3	17.7	15.5
Net profit	-174.3	70.3	17.1	17.6
Book value	11.5	17.0	16.4	12.3
EPS	-174.3	70.3	17.1	17.6

Source: Company, ICICI Direct Research

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