

Strong all round performance; outlook remains intact

About the stock: Bank of Baroda is among leading PSU banks with a global loan book of ~₹ 9.7 lakh crore and has better operating metrics among PSBs.

- Pan-India presence with ~8200 branches
- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Total ~18% of total business comes from overseas

Q4FY23 Results: Strong quarter led by NIM expansion and lower credit cost

- NII up 33.8% YoY at ₹ 11525 crore, NIMs up 16 bps QoQ at 3.5%
- C/I down 324 bps YoY to 46%; provisions down 40.9% QoQ
- PAT at ₹ 4775 crore, up 2.7x YoY, ahead of our estimate
- GNPA down 74 bps QoQ to 3.79%, slippage ratio below 1%

What should investors do? BoB continues to demonstrate robust growth in business and earnings led by improvement in NIMs and lower credit cost. We believe BoB will report credit growth in line with industry growth coupled with healthy margins and steady asset quality and, thus, aid RoA of ~1%.

- Hence, 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 ₹ 220/share from ₹ 200/share earlier.

Key triggers for future price performance:

- The management is confident of in line industry growth. It aims to grow retail growth at 1.5x pace of the overall book
- Levers to maintain margin steady at ~3.3% levels seen aiding earnings. Guidance on return ratios steady at ~1% RoA and 16-18% RoE in FY24
- Credit cost of ~1% in the normal cycle. ECL provisioning should be restricted to 1-1.5% of advances
- The bank has provided ₹ 500 crore and has tangible guarantee of ₹ 1000 crore in lieu of ₹ 1300 crore exposure to a stressed airline

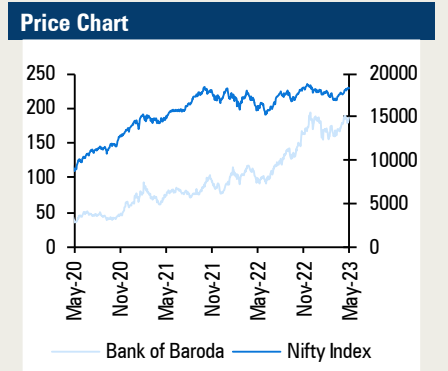
Alternate Stock Idea: Apart from Bank of Baroda, in our coverage we also like SBI.

- 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	₹ 96704 crore
Networth	₹ 102007 crore
52 week H/L	197 /89
Face value	₹ 2

Shareholding pattern					
(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	64.0	64.0	64.0	64.0	64.0
FII	9.1	8.2	8.9	10.0	10.9
DII	15.1	16.9	18.6	17.7	16.7
Others	11.8	11.0	8.5	8.4	8.4



Recent Event & Key risks

NIMs up 16 bps QoQ; slippages at ~1%.
Collection efficiency (ex-agri) at 98%

Key Risk: (i) Margin erosion amid increase in CoF (ii) Moderation in retail loan book

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	27,451	28,809	32,621	41,356	14.6%	47,283	52,937	13.1%
PPP	18,896	21,199	22,389	26,864	12.4%	31,369	35,330	14.7%
PAT	546	829	7,272	14,110	195.6%	15,420	17,434	11.2%
ABV (₹)	108.7	106.7	140.1	180.8		212.4	239.5	
P/E	138.9	-8.7	11.7	6.0		5.5	4.9	
P/ABV	1.5	1.5	1.2	0.9		0.8	0.7	
RoA	0.1	-0.8	0.6	1.0		1.0	1.0	
RoE (%)	0.9	-13.1	8.9	15.0		13.9	13.8	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Another quarter with all-round strong performance

- Net interest income was up 33.8% YoY and 6.5% QoQ to ₹ 11525 crore. This was mainly driven by strong credit growth and margin accretion of 16 bps QoQ, 45 bps YoY at 3.5%. Other income jumped 37% YoY partly driven by recovery from technical written off accounts, which increased 58% YoY QoQ to ₹ 1447 crore
- Opex was up 25.8% YoY at ₹ 6918 crore but due to high income levels, C/I ratio declined to 46% vs. 49% in Q4FY22. Provisions declined both QoQ and YoY at ₹ 1421 crore but NPA provisions declined substantially to ₹ 320 crore vs. ₹ 817 crore in Q3FY23 and ₹ 5200 crore in Q4FY22. Credit cost further declined to 0.14% vs. 0.37% in Q3FY23. The bank reported highest quarterly net profit of ₹ 4775 crore, up 2.7x YoY and 24% QoQ (ahead of our estimates). It reported all-time high RoA of 1.34% vs. 0.57% in Q4FY22
- Asset quality continued to show a sequential improvement. GNPA and NNPA declined 74 bps and 10 bps QoQ to 3.79% and 0.89%, respectively. Slippages for the quarter were at ₹ 2242 crore (~1% annualised) vs. ₹ 2172 crore in Q3FY23 while recoveries and upgrades were at ₹ 2802 crore vs. ₹ 2635 crore in Q3FY23. SMA1&2 declined from 0.4% in Q3FY23 to 0.32% in Q4FY23. Collection efficiency (ex-agri) was steady at 98%
- Overall global loan book (gross) growth was healthy at 18.5% YoY to ₹ 9.69 lakh crore. Strong credit offtake was driven by 27% YoY rise in retail loans led by growth in personal loan portfolio at 101.5%, auto loan by 24.4%, education loan by 21.8%, home loan by 19.5% on a YoY basis. Gold segment also reported strong growth of 28% YoY. International loans (~18% of total book) reported healthy growth of 30% YoY. Deposit book jumped 15.5% YoY, primarily led by 70% YoY growth in bulk deposits. Domestic deposits were up 13% YoY to ₹ 10.5 lakh crore. Domestic CASA growth was at 7.9% YoY and its share to total domestic deposits was at 42.25% vs. 41.63% in Q3FY23 and 44.24% in Q4FY22

Q4FY23 Earnings conference call highlights

- Banking system growth is expected at 12-13%. Management guidance – Credit growth to be in line with industry or ~100 bps better. NIM in FY24E is expected to be better or in line with margin in FY23, credit cost at 0.5%, RoA to be ~1% and RoE to be 16-18%
- Robust growth in international book was driven by attractive NIMs during the quarter but growth is expected to moderate a bit, going ahead. Foreign business has an RoA of ~1.5% led by healthy margin and lower credit cost
- In retail, auto, education and personal are growing at a faster pace
- Opex was higher as wage revision provision provided to the tune of additional ₹ 300 crore during the quarter. Excluding performance linked incentive, opex was up ~5%
- SMA book continued to trend downwards from 0.4% to 0.32% QoQ
- Recoveries are expected to be higher than slippages, going ahead. During the quarter, there was no sale to ARC while in FY24, the management expects four to five accounts to settle via NARCL
- The bank has made ₹ 500 crore provision towards its exposure to airline exposure though it is standard currently. In addition, the bank has tangible collateral security of ₹ 1000 crore against this exposure
- The management mentioned that even after shift to ECL provisioning norms, credit cost will be contained and there will be no impact on earnings. We expect implementation of ECL norms to result in additional provisioning of ~1-1.5% of advances
- The bank has ₹ 11000 crore standard stressed book with standard provision of ₹ 5800 crore. Restructured book was down from ₹ 18500 crore to ₹ 16000 crore
- Revaluation of fixed assets conducted once in every three years (as per board policy), which remains unchanged

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)			P/ABV (x)			RoA (%)			RoE (%)						
	(₹)	TP(₹)	Rating		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
BoB (BANBAR)	187	220	Buy	967	14.0	27.3	29.8	33.7	13.3	6.9	6.3	5.6	1.3	1.0	0.9	0.8	0.6	1.0	1.0	1.0	8.9	15.0	13.9	13.8
SBI (STABAN)	586	700	Buy	5,238	35.5	50.8	58.4	67.3	16.5	11.5	10.0	8.7	2.1	1.7	1.5	1.3	0.5	0.7	0.9	0.9	11.9	15.0	14.9	14.9
Indian Bank (INDIBA)	289	335	Hold	359	31.7	42.4	53.8	60.0	9.1	6.8	5.4	4.8	1.1	1.0	0.8	0.7	0.6	0.8	0.9	0.9	12.1	14.7	13.1	12.9
Axis Bank (AXIBAN)	917	1,100	Buy	2,823	42.4	31.1	88.9	106.1	21.6	29.5	10.3	8.6	2.6	2.4	1.8	1.6	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4
HDFC Bank (HDFBAN)	1,643	2,050	Buy	9,185	66.7	79.1	93.3	108.3	24.7	20.8	17.6	15.2	3.9	3.3	2.9	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	11,525	11,000	8,612	33.8	10,818	6.5	Driven by strong business growth and yield expansion
NIM (%)	3.5	3.5	3.1	45 bps	3.4	16 bps	Led by improvement in yields
Other Income	3,466	2,901	2,522	37.4	3,552	-2.4	Fee income up 4.6% YoY; healthy recovery support other income
Net Total	14,991	13,901	11,134	34.6	14,370	4.3	
Staff cost	3,779	3,567	2,702	39.8	3,347	12.9	
Other Operating Expenses	3,139	2,880	2,796	12.3	2,791	12.5	CI ratio better at ~46%
PPP	8,073	7,454	5,635	43.3	8,232	-1.9	
Provision	1,421	2,568	3,736	-62.0	2,404	-40.9	Credit cost declined QoQ at 0.14%
PBT	6,652	4,886	1,899	250.3	5,828	14.1	
Tax Outgo	1,877	1,270	120	1,464.2	1,976	-5.0	
PAT	4,775	3,616	1,779	168.5	3,853	23.9	PAT boosted by healthy topline and lower provisions
Key Metrics							
GNPA	36,764	42,323	54,059	-32.0	41,858	-12.2	Slippages remained below 1%
NNPA	8,384	8,712	13,365	-37.3	8,854	-5.3	
Advances	9,40,998	9,17,043	7,77,155	21.1	8,90,682	5.6	Loan growth driven by retail and foreign segment
Deposits	12,03,688	11,90,965	10,45,939	15.1	11,49,507	4.7	CASA ratio healthy at 42.2%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	46,623.2	47,282.7	1.4	52,565.5	52,937.0	0.7
Pre Provision Profit	31,162	31,369.0	0.7	35,988.9	35,330.2	-1.8
NIM Global (%)	3.3	3.3	-4 bps	3.3	3.3	-2 bps
PAT	14,504	15,420	6.3	17,061.7	17,434	2.2

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	13.4	13.1	13.9	13.1
Deposit Growth (%)	11.0	11.1	11.4	11.5
NIM Calculated (%)	3.3	3.3	3.3	3.3
Cost to income ratio (%)	46.3	45.7	45.9	44.3

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	69881	89589	103721	114840
Interest Expended	37259	48233	56439	61903
Net Interest Income	32621	41356	47283	52937
growth (%)	13.2	26.8	14.3	12.0
Non Interest Income	11484	10026	11083	12140
Net Income	44105	51382	58365	65077
Employee cost	11979	13023	14680	16153
Other operating Exp.	9738	11495	12316	13594
Operating Income	22389	26864	31369	35330
Provisions	13002	7137	10809	12085
PBT	9386	19727	20560	23245
Taxes	2114	5617	5140	5811
Net Profit	7272	14110	15420	17434
growth (%)	777.3	94.0	9.3	13.1
EPS	14.0	27.3	29.8	33.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	517.8	517.8	517.8	517.8
BV (₹)	165.9	197.0	230.6	258.9
ABV (₹)	140.1	180.8	212.4	239.5
P/E	11.7	6.0	5.5	4.9
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	4.0	4.1	4.0
Yield on average advances	6.6	7.5	7.5	7.5
Quality and Efficiency (%)				
Cost / Total net income	49.2	47.7	46.3	45.7
Credit/Deposit ratio	74.3	78.2	79.9	81.3
GNPA	6.6	3.8	3.4	3.1
NNPA	1.7	0.9	0.9	0.8
ROE	8.9	15.0	13.9	13.8
ROA	0.6	1.0	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	1036	1036	1036	1036
Reserves and Surplus	84874	100972	118343	133026
Networth	85910	102007	119378	134061
Deposits	1045939	1203688	1336596	1485447
Borrowings	103899	101910	118674	124322
Other Liab & Prov (incl sub-debt)	42252	54740	60214	66236
Total	1278000	1462346	1634863	1810066
Application of Funds				
Fixed Assets	9922	8707	8968	9237
Investments	315795	362485	382727	404401
Advances	777155	940998	1067440	1207058
Other Assets	52472	50668	52380	59091
Cash with RBI & call money	122655	95703	123348	130279
Total	1278000	1458562	1634863	1810066

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	10.6	14.1	12.1	10.7
Advances	10.0	21.1	13.4	13.1
Deposits	8.2	15.1	11.0	11.1
Total Income	13.3	22.4	15.2	10.6
Net interest income	13.2	26.8	14.3	12.0
Operating expenses	5.7	12.9	10.1	10.2
Operating profit	134.2	20.0	16.8	12.6
Net profit	-174.3	94.0	9.3	13.1
Book value	11.5	18.7	17.0	12.3
EPS	-174.3	94.0	9.3	13.1

Source: Company, ICICI Direct Research

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