

31 July 2024

Bank of Baroda

Decent quarter, strong earnings to endure; maintaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.293

Share Price: Rs.254

Decent operating performance (a ~49% C/I ratio), combined with modest provisions (~40bps) led to Bank of Baroda's strong profitability in Q1, its RoA coming at 1.13% (up 2bps y/y). Asset quality broadly was stable. Key positives were 1) lower slippages (in a seasonally weak quarter), 2) 1%+ RoA (continuously for eight quarters), 3) strong traction in retail loans (up 21% y/y, 4% q/q) and 4) robust liquidity and capitalisation. Ahead, with a pick-up in credit growth, stable margins and modest credit costs, earnings are likely to be strong. We maintain a Buy, with a TP of Rs293, 1.1x P/ABV on the FY26e book.

Asset quality stable. Headline asset quality was stable, driven by lower overall slippages and higher write-offs. The slippage run rate was ~1.1% of loans, lower than that of the last quarter and our estimate. Slippages in the retail segment increased due to seasonality and are expected to normalise in the near term. Collection efficiency (excl. agri) was 98.98% as of Jun'24. SMA 1 & 2 (Rs50m+) were at 18bps (15bps in Q4), one of the lowest of peers. Ahead, with the low stress pipeline and normal collection efficiency, slippages would hold below 1.5%. We expect GNPA to be below 3%.

Earnings to be strong through FY25/26. With credit growth likely to pick up (14%) and a modest slippage run rate, medium-term credit costs are expected to be beneficial. Higher business growth, stable margins and favourable credit cost would lead to strong medium-term profitability. We estimate a ~1.2% RoA and ~16% RoE through FY25/26.

Valuation. Our Rs293 TP stems from the two-stage DDM model. This implies a ~1.1x P/ABV multiple on its FY26e book. **Risks:** Lumpy slippages in the corporate book; less-than-expected credit growth.

Key financials (YE Mar) (Rs bn)	FY22	FY23	FY24	FY25e	FY26e
Net interest income	326	414	447	502	575
Pre-provisioning profit	224	269	310	348	403
PAT	73	141	178	191	217
EPS (Rs)	14.0	27.3	34.4	37.0	42.0
NIM (%)	3.0	3.3	3.2	3.2	3.3
Cost-Income (%)	49.2	47.7	47.7	47.6	46.8
RoE (%)	8.9	15.3	16.9	16.0	16.1
RoA (%)	0.6	1.0	1.2	1.1	1.2
Advances growth (%)	10.0	21.1	13.3	14.0	14.0
GNPA (%)	6.6	3.8	2.9	2.4	1.9
CRAR (%)	15.6	16.2	16.3	16.0	15.6
P / E (x)	18.1	9.3	7.4	6.9	6.0
P / BV (x)	1.5	1.3	1.2	1.0	0.9
P / ABV (x)	1.7	1.4	1.2	1.1	1.0

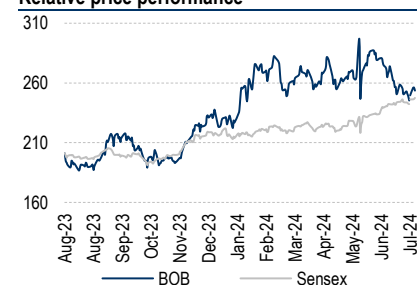
Source: Company, Anand Rathi Research

Key data	BOB IN
52-week high / low	Rs300 / 186
Sensex / Nifty	81741 / 24951
3-m average volume	\$71.7m
Market cap	Rs1312bn / \$15666.5m
Shares outstanding	5171m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	64.0	64.0	64.0
- of which, Pledged	-	-	-
Free float	36.0	36.0	36.0
- Foreign institutions	11.5	12.4	12.3
- Domestic institutions	16.0	16.3	16.0
- Public	8.5	7.3	7.8

Estimates revision (%)	FY25e	FY26e
Net interest income	(1.9)	(1.6)
Pre-provisioning profit	(3.5)	(3.8)
PAT	(2.5)	(0.7)

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA
Research Analyst

Kaitav Shah, CFA
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	326	414	447	502	575
<i>NII growth (%)</i>	13.2	26.8	8.1	12.3	14.5
Non-interest income	115	100	145	162	182
Income	441	514	592	664	757
<i>Income growth (%)</i>	5.7	16.5	15.2	12.2	13.9
Operating expenses	217	245	283	316	354
PPoP	224	269	310	348	403
<i>PPoP growth (%)</i>	5.6	20.0	15.3	12.4	15.7
Provisions	130	71	61	91	111
PBT	94	197	249	257	292
Tax	21	56	71	66	74
PAT	73	141	178	191	217
<i>PAT growth (%)</i>	777.3	94.0	26.1	7.6	13.5
EPS (Rs)	14.0	27.3	34.4	37.0	42.0
DPS (Rs)	2.9	2.9	7.6	9.2	10.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	10	10	10	10	10
Reserves & surplus	849	972	1,112	1,255	1,418
Deposits	10,459	12,037	13,270	14,862	16,794
Borrowings	1,039	1,019	944	991	942
Other Liabilities & Prov.	423	547	522	559	566
Total liabilities	12,780	14,586	15,858	17,678	19,730
Advances	7,772	9,410	10,658	12,150	13,851
Investments	3,158	3,625	3,698	3,920	4,155
Cash & bank balance	1,227	957	951	1,046	1,151
Fixed & other assets	624	594	551	562	573
Total assets	12,780	14,586	15,858	17,678	19,730
No. of shares (m)	5,178	5,178	5,178	5,178	5,178
<i>Deposits growth (%)</i>	8.2	15.1	10.2	12.0	13.0
<i>Advances growth (%)</i>	10.0	21.1	13.3	14.0	14.0

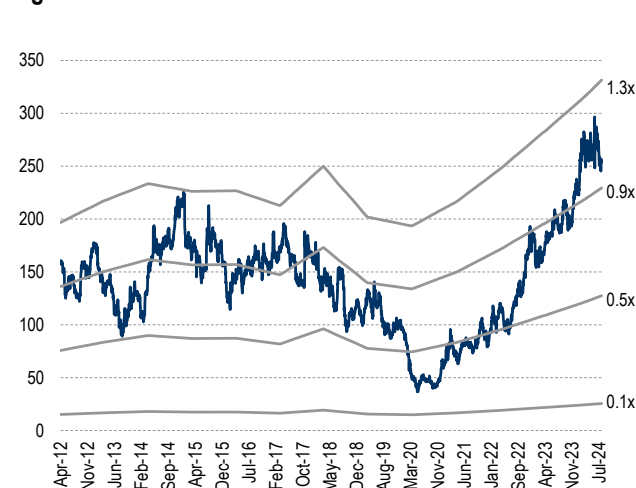
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
NIM	3.0	3.3	3.2	3.2	3.3
Other inc. / total inc.	26.0	19.5	24.5	24.4	24.0
Cost-income	49.2	47.7	47.7	47.6	46.8
DPS (Rs)	2.9	2.9	7.6	9.2	10.5
Credit-deposit	74.3	78.2	80.3	81.8	82.5
Investment-deposit	30.2	30.1	27.9	26.4	24.7
Gross NPA	6.6	3.8	2.9	2.4	1.9
Net NPA	1.7	0.9	0.7	0.6	0.5
Provision coverage	75.3	77.2	77.3	75.0	75.0
BV (Rs)	165.9	189.7	216.7	244.5	275.9
Adj. BV (Rs)	147.9	178.4	207.0	234.5	266.9
CRAR (%)	15.6	16.2	16.3	16.0	15.6
- Tier 1	13.1	14.0	14.1	14.0	13.9
RoE	8.9	15.3	16.9	16.0	16.1
RoA	0.6	1.0	1.2	1.1	1.2

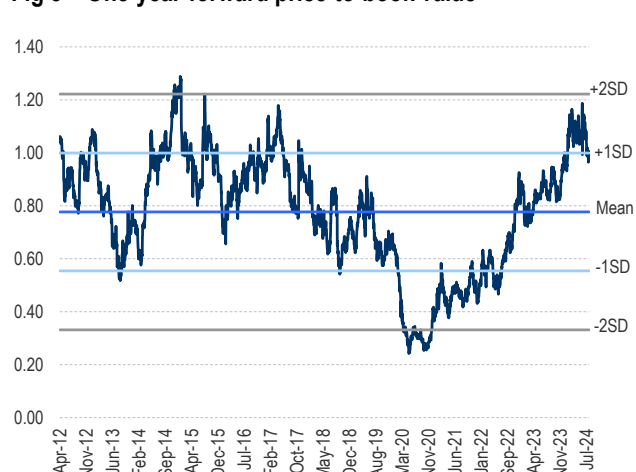
Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



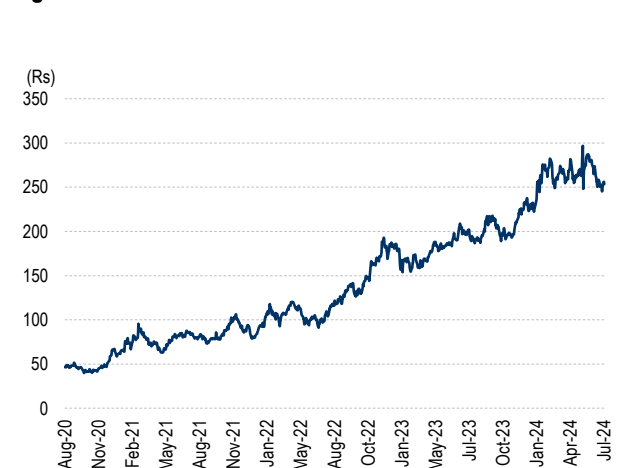
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Earnings Call KTAs

Guidance for FY25

- Credit growth: 12-14%
- Deposit growth: 12%
- NIM: 3.15% (+/- 5bps)
- Slippage: below 1.2%
- Credit cost: less than 0.75%
- RoA: 1.1%

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs bn)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Interest income	259	266	279	286	296	296
Interest expense	143	156	170	175	178	180
NII	115	110	108	111	118	116
<i>Y/Y growth</i>	33.8	24.4	6.4	2.6	2.3	5.5
Non-interest income	35	33	42	28	42	25
Total Income	150	143	150	139	160	141
<i>Y/Y growth</i>	34.6	42.9	25.0	(3.2)	6.6	(1.6)
Operating expenses	69	65	70	69	79	69
of which, staff cost	38	38	37	38	45	40
PPoP	81	78	80	70	81	72
<i>Y/Y growth</i>	43.3	72.8	33.0	(14.8)	0.4	(8.5)
Total provisions	14	19	22	7	13	10
PBT	67	59	59	63	68	62
Tax	19	18	16	18	19	17
PAT	48	41	43	46	49	45
<i>Y/Y growth</i>	1.7	0.9	0.3	0.2	0.0	0.1

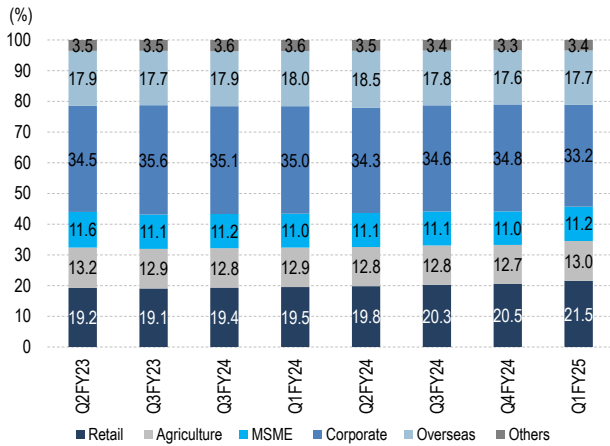
Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs bn)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Equity capital	10	10	10	10	10	10
Reserves & Surplus	972	1,014	1,057	1,102	1,112	1,191
Deposits	12,037	11,999	12,496	12,453	13,270	13,070
Borrowings	1,019	1,165	1,193	1,284	944	920
Other liabilities	547	546	479	545	522	578
Total Liabilities	14,586	14,734	15,235	15,395	15,858	15,770
<i>Deposits y/y growth</i>	15.1	16.2	14.6	8.3	10.2	8.9
<i>Deposits q/q growth</i>	4.7	-0.3	4.1	-0.3	6.6	-1.5
Cash and cash balances	957	939	978	881	951	991
Advances	9,410	9,635	9,980	10,241	10,658	10,479
Investments	3,625	3,582	3,701	3,698	3,698	3,744
Other assets	594	579	577	575	551	555
Total Assets	14,586	14,734	15,235	15,395	15,858	15,770
<i>Advances y/y growth</i>	21.1	20.5	19.3	15.0	13.3	8.8
<i>Advances q/q growth</i>	5.6	2.4	3.6	2.6	4.1	-1.7

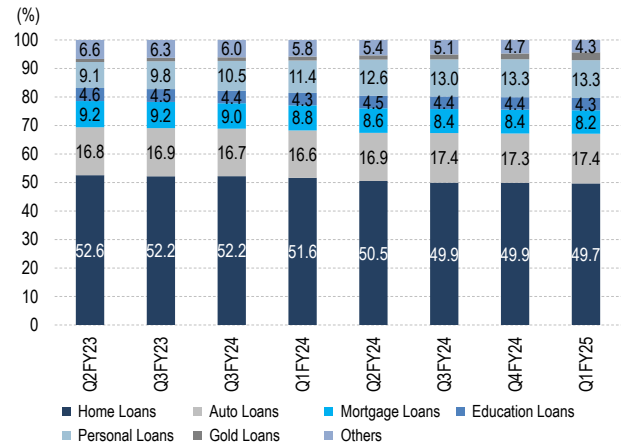
Source: Company, Anand Rathi Research

Fig 9 – Loan break-up (%)



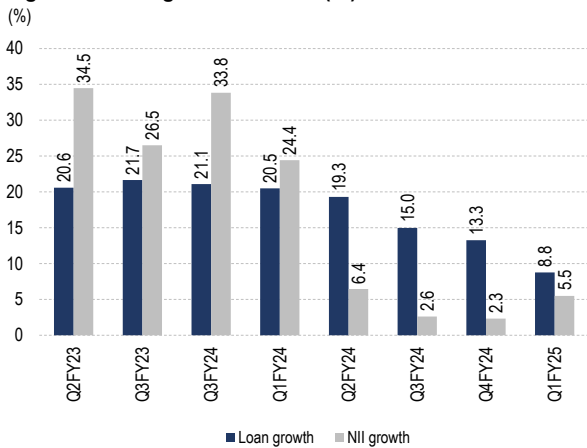
Source: Company, Anand Rathi Research

Fig 10 – Retail portfolio break-up (%)



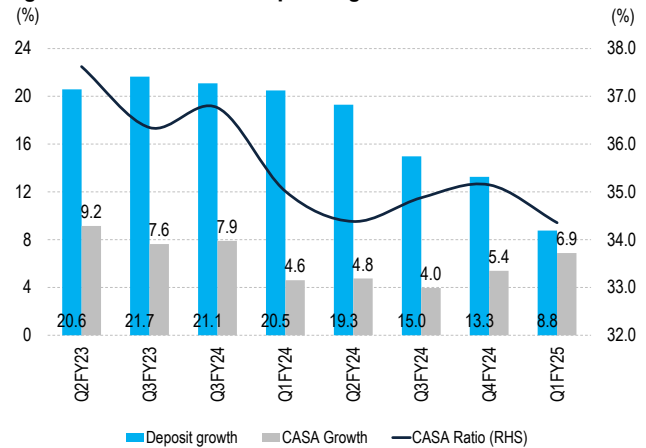
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



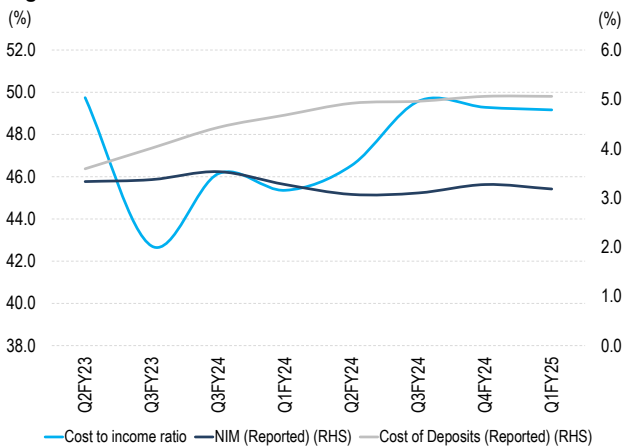
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



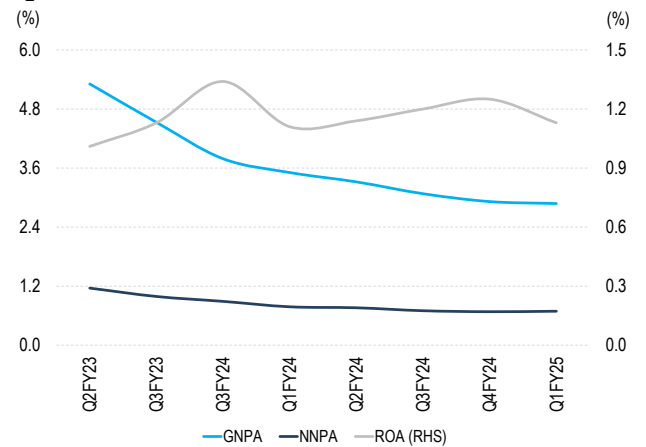
Source: Company, Anand Rathi Research

Fig 13 – C/I vs. NIM vs. Cost of funds



Source: Company, Anand Rathi Research

Fig 14 – GNPA, NNPA, RoA



Source: Company, Anand Rathi Research

Valuation

Our target price of Rs293 is based on the two-stage DDM model. This implies a ~1.1x P/ABV multiple on the FY26e book.

Fig 15 – du Pont analysis

(%)	FY22	FY23	FY24	FY25e	FY26e
Interest Income / Assets	5.7	6.5	7.4	7.6	7.7
Interest Expense / Assets	3.1	3.5	4.5	4.6	4.6
Net interest income / Assets	2.7	3.0	2.9	3.0	3.1
Non-interest income / Assets	0.9	0.7	1.0	1.0	1.0
Net revenues / Assets	3.6	3.8	3.9	4.0	4.0
Operating expense / Assets	1.8	1.8	1.9	1.9	1.9
PPoP / Assets	1.8	2.0	2.0	2.1	2.2
Provision / Assets	1.1	0.5	0.4	0.5	0.6
Taxes / Assets	0.2	0.4	0.5	0.4	0.4
RoA	0.6	1.0	1.2	1.1	1.2
RoAE	8.9	15.3	16.9	16.0	16.1

Source: Company, Anand Rathi Research

Fig 16 – Estimates revision

(Rs bn)	FY24e			FY25e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	502	512	(1.9)	575	585	(1.6)
Pre-provisioning profit	348	361	(3.5)	403	419	(3.8)
PAT	191	196	(2.5)	217	219	(0.7)

Source: Anand Rathi Research

Risks

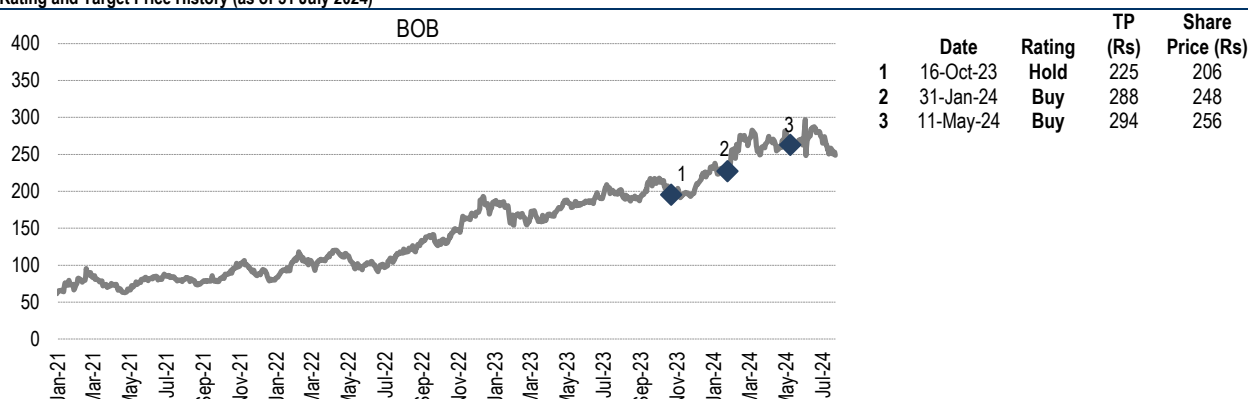
- Lumpy slippages from the corporate book. Though unexpected, these would scar our forecasts.
- Less-than-expected credit growth could eat into our estimates.

Appendix

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