



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Company details

Market cap:	Rs. 1,23,854 cr
52-week high/low:	Rs. 298 / 188
NSE volume: (No of shares)	179.4 lakh
BSE code:	532134
NSE code:	BANKBARODA
Free float: (No of shares)	186.2 cr

Shareholding (%)

Promoters	64.0
FII	9.9
DII	16.6
Others	9.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	-4.0	-10.4	27.0
Relative to Sensex	6.0	-1.6	-18.1	2.5

Sharekhan Research, Bloomberg

Bank	Sharekhan code: BANKBARODA		
Reco/View: Buy	↔	CMP: Rs. 240	Price Target: Rs. 310 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Earnings significantly above estimates, grew by 23% y-o-y mainly driven by higher recoveries from written off accounts leading to higher RoA at 1.3%. Sustainable RoA trajectory remains at 1-1.1% for the bank.
- Total provisions were higher than expected led by higher standard asset provisioning and contingent provisions created. Core credit costs stood lower at 65 bps annualised vs 48 bps q-o-q and 93 bps y-o-y. Slippages were lower at 1.2% vs 1.3% q-o-q.
- NIMs fell by 8 bps q-o-q on expected lines to 3.1%. Loan growth picked up, grew by 12% y-o-y/ 7% q-o-q while deposits grew by 9% y-o-y/ 4% q-o-q. The bank has lowered down its guidance on loan growth marginally for FY25E citing lower deposit accretion although upside risk to guidance persist. Credit-deposit ratio stood at 82% versus 80% q-o-q.
- We maintain Buy with an unchanged PT of Rs. 310. At CMP, the stock trades at 1.0x/0.8x its FY25E/26E ABV.

Q2FY25 numbers were strong, led by robust recoveries from written off accounts. Net interest income (NII) at Rs. 11,622 crore (broadly in line) grew by 7% y-o-y/ flat q-o-q. Net interest margin (NIMs) declined by 8 bps q-o-q on expected lines to 3.1% driven by lower yields on advances and marginal increase in cost of funds. Core fee income declined by 11% y-o-y although it was higher by 20% q-o-q. Treasury gains stood at Rs. 799 crore versus Rs 295 crore q-o-q and Rs.725 crore y-o-y. Other income excluding treasury gains at Rs. 2,609 crore vs Rs 709 crore q-o-q and Rs. 1,450 crore y-o-y led by higher recoveries from written off accounts. Total operating expenses rose by 5% y-o-y / 6% q-o-q. Operating profit at Rs. 9,477 crore (above estimates) grew by 18% y-o-y /32% q-o-q. Provisions were higher by 8% y-o-y/ 131% q-o-q led by higher standard asset provisioning and contingent provisions (Rs. 230 crore) created during the quarter although core credit cost was lower, stood at 65 bps annualised vs 48 bps q-o-q and 93 bps y-o-y. PAT at Rs. 5,238 crore (above estimates) rose by 23% y-o-y / 17% q-o-q. Net advances grew by 12% y-o-y/7% q-o-q. Retail loans/ agri loans grew by 20% y-o-y/11% y-o-y. The MSME and wholesale domestic corporate book grew by 12% y-o-y/ 11% y-o-y respectively. The overseas book grew by 8% y-o-y. Deposits grew by 9% y-o-y/4% q-o-q with CASA balances growing at 7% y-o-y/ 2% q-o-q and CASA ratio at ~33.6% vs 34.4% q-o-q. Bulk deposits grew by 3% y-o-y/ 11% q-o-q and retail term deposits grew 10% y-o-y/ 3% q-o-q. Overseas deposits grew by 21% y-o-y/ 6% q-o-q. Overall asset quality trends improved q-o-q with GNPA/ NNPA at 2.5%/0.60% vs 2.88%/ 0.69%. PCR stood at ~76% vs 77% q-o-q. Slippages were lower, stood at 1.2% annualised vs 1.3% q-o-q. Net slippages were at Rs. 1,273 crore vs Rs. 1,361 crore q-o-q. Write offs were higher led technical write offs. SMA 1 and 2 book (above Rs. 5 crore) stood at 0.47% vs 0.18% of advances q-o-q.

Key positives

- Slippages were lower, stood at 1.2% annualised vs 1.2% q-o-q.
- Recovery from written off accounts were significantly higher.
- Loan growth picked up sharply, grew by 7% q-o-q.

Key negatives

- SMA 1 and 2 book (above Rs. 5 crore) rose to 0.47% vs 0.18% of advances q-o-q.
- Bulk deposits grew by 11% q-o-q and retail term deposit growth moderated to 3% q-o-q.

Management Commentary

- The bank has lowered down its guidance on loan growth marginally for FY25E from 12-14% to 11-13% citing lower deposit accretion although upside risk to guidance persist. Deposit growth is expected to be at 9-11% vs 10-12% earlier.
- Endeavor is to focus more on CASA deposits, retail term deposits and reduce reliance on bulk deposits.
- Management indicated that it expects NIMs to be at ~3.15% for FY2025E. Slippages at 1-1.25% and credit cost less than 0.75% of advances in FY2025E. Reiterated its guidance of sustaining RoA around ~1-1.1%. Total contingent provisions stands at Rs. 600 crore.
- The NPLs in unsecured PL is 3.18% while retail NPLs are at 1.5% and out of total slippages during the quarter, Rs. 250 crore were attributable towards unsecured retail segment. Slippages and credit cost have increased in unsecured retail in recent quarter but remains within the internal risk limits.
- Bank had made tweaked its underwriting model in unsecured retail segment in the past quarters, which is expected to enhance the quality of the portfolio. Management did not express any concern about portfolio and expressed confidence, given that most borrowers in this segment were from the salaried class.

Our Call

At CMP, the stock trades at 1.0x/0.8x its FY2025E/FY2026E ABV. The bank is taking continuous efforts to improve overall performance but performance is broadly holding up well with some volatility. Although guidance on loan growth has been lowered marginally but we believe there could be upside risk in loan growth. NIMs are expected to remain broadly rangebound. Credit cost is also expected to remain lower led by stable asset quality outlook. Thus, we believe the bank is likely to sustain RoA at ~1% in the near to medium term. However, we acknowledge that the bank needs to ramp up other avenues of productivity (mainly fee income) to drive RoA/RoE expansion. Given reasonable valuations, we maintain a Buy rating, with an unchanged PT of Rs. 310.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	32,621	41,356	44,722	47,796	55,417
Net profit	7,272	14,110	17,789	19,724	20,120
EPS (Rs.)	14.1	27.3	34.4	38.1	38.9
P/E (x)	17.1	8.8	7.0	6.3	6.2
P/BV (x)	1.6	1.4	1.2	1.0	0.8
RoE	8.9	15.3	16.9	16.2	14.2
RoA	0.6	1.0	1.2	1.2	1.1

Source: Company; Sharekhan estimates