

Focus on growth; merger synergies to pan out ahead

Bank of Baroda reported numbers of merged entity. NII came in muted at ₹ 6498 crore, up 3% YoY. This was on the back of subdued credit growth of 6% YoY & contraction in margins by 7 bps YoY due to higher bulk deposit of Vijaya Bank. Other income growth came in healthy at 10% YoY led by ₹ 338 crore of trading gains & 8% YoY growth in core fee. Accordingly, operational profit was at ₹ 4276 crore. Furthermore, provisions of ₹ 3566 crore, lower QoQ & YoY aided earnings. PAT came in at ₹ 710 crore, vs. loss of ₹ 49 crore in Q1FY19. Credit growth came in at 6% YoY at ₹ 633181 crore, largely led by strong growth of 20.5% YoY in the retail book.

While asset quality deteriorated marginally with GNPA ratio increasing ~26 bps QoQ to 10.28%, GNPA, on absolute basis, remained stable at ₹ 69714 crore on the back of a reduction largely equal to slippages. Slippages were at ₹ 5583 crore, down 15% QoQ. Post higher provisioning for legacy stress, provisions on NPA declined 11% YoY & 70%QoQ. Accordingly, provision coverage continue to remain stable at 77.34%. Exposure in accounts under NCLT 1 and NCLT 2 were at ₹ 5820 crore and ₹ 6957 crore with healthy coverage at 97.42% and 84.86%, respectively.

The management has reiterated credit & deposit growth of 15% & 10%, respectively, for FY20E. Furthermore, on asset quality, the management believes recoveries will remain high while incremental slippages will moderate, going ahead. The bank has exposure to DHFL (₹ 1959 crore) & IL&FS (₹ 2873 crore) remains standard while it has exposure to ADAG (₹ 1750 crore) & Sintex (₹ 850 crore).

Management reiterates guidance aids confidence

Post merger, the management's focus continues to remain on improving asset quality through efforts towards higher recovery from 1) written-off account, 2) NCLT accounts and 3) recovery in normal course. The management believes it will succeed in keeping slippages lower than its recovery. Given anticipated focus on recoveries, they expect net NPA ratio at ~3% in FY20E. However, we expect credit growth to remain muted for H1FY20 with integration in focus while growth is to be pedalled in H2FY20 across corporate, MSME & retail.

Valuation & Outlook

Focus on building operational granularity and improvement in efficiency will enable BoB to pedal healthy growth. Balance sheet growth with focus on retail bodes well for risk adjusted returns and capital consumption. Higher recovery from legacy stress would bolster earnings & aid moderating asset quality. The management expects synergy from merger to accrue at gradual pace. Capital raising is on the cards needed for future balance sheet growth. We maintain **BUY** rating and revise our target price lower to ₹ 140 (earlier ₹ 170), valuing the stock at 1x FY21E ABV post-merger. However, ambiguity on extension of tenure of current MD& CEO remains an overhang.



Particulars	
Particulars	Amount
Market Capitalisation	₹ 43410 Crore
GNPA (Q1FY20)	₹ 69744 Crore
NNPA (Q1FY20)	₹ 25030 Crore
NIM (Q1FY20) %	2.62
52 week H/L	157/90
Networth	₹ 67146 Crore
Face value	₹ 2
DII Holding (%)	15.8
FII Holding (%)	6.4

Key Highlights

- Management reiterated 15% credit growth & 10% deposit growth guidance
- Focus on recovery to aid in NPA reduction, target net NPA of 3% by FY20 from 3.95% currently
- Maintain BUY with revised target price of ₹ 140 (earlier ₹ 170)

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Harsh Shah
shah.harsh@icicisecurities.com

Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	13,513	15,522	22,312	28,230	31,050	18.0%
PPP	10,975	12,006	18,852	18,644	20,612	4.6%
PAT	1,383	(2,431)	552	3,777	7,122	259.3%
ABV (₹)			82.7	118.2	137.4	
P/E	18.8	-12.3	63.2	9.2	4.9	
P/ABV	0.8	0.9	1.4	1.0	0.8	
RoA	0.2	-0.3	0.1	0.3	0.6	
RoE	3.4	(5.8)	0.9	5.6	9.4	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	6,498	5,770	6,331	2.6	6,791	-4.3	NII growth came in steady on the back of subdued credit growth & margin contraction
NIM (%)	2.6	2.8	2.7	-7 bps	2.8	-13 bps	Margins contracted on the back of high cost bulk deposit from Vijaya Bank
Other Income	1,916	4,029	1,735	10.4	2,522	-24.0	Trading gains of ₹ 338 crore along with 8% YoY growth in core fee income led to traction
Net Total Income	8,414	9,799	8,066	4.3	9,313	-9.7	
Staff cost	1,939	1,916	2,000	-3.0	3,617	-46.4	
Other Operating Expenses	2,198	1,916	1,947	12.9	2,538	-13.4	
PPP	4,276	5,967	4,118	3.8	3,182	34.4	
Provision	3,285	4,953	3,943	-16.7	10,341	-68.2	
PBT	991	1,014	175	466.5	-7,159	NA	
Tax Outgo	281.5	460.0	223.0	26.2	1,716.0	-83.6	
PAT	709.9	554.0	-48.0	NA	-8,875.0	NA	Steady operating profit & lower provision aided earnings growth
Key Metrics							
GNPA	69,714.0	78,681.0	79,319.0	-12.1	69,924.0	-0.3	Fresh slippages came in lower at ₹ 5583 crore vs. ₹ 20334 crore QoQ
NNPA	25,030.0	35,886.0	33,991.0	-26.4	23,794.0	5.2	PCR continued to remain steady at 77.34%
Total Watch list	16,501.0	NA	NA	NA	NA	NA	
Advances	633,181	683,767	594,896	6.4	651,384	-2.8	Retail segment continues to grow at a robust pace of 20.5% YoY largely led by growth in home loan book
Deposits	895,542	947,031	841,830	6.4	915,159	-2.1	Domestic CASA improved ~33 bps to 35.85%

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	27,474.4	28,230.3	2.8	30,796.4	31,049.9	0.8
Pre Provision Profit	26,744	18,644	-30.3	30,126	20,612	-31.6
NIM Global (%)	2.66	2.77	11 bps	2.68	2.72	4 bps
PAT	7,163	3,777	-47.3	8,920	7,122	-20.2
ABV (₹)	118.2	118.2	0.0	137.4	137.4	0.0

Source: Company, ICICI Direct Research

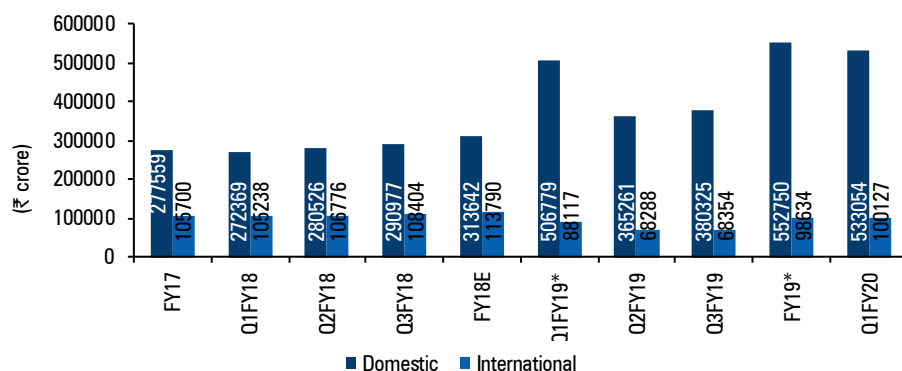
Exhibit 3: Assumptions

	FY18	FY19	Current		Earlier	
			FY20E	FY21E	FY20E	FY21E
Credit growth (%)	11.5	11.0	13.0	13.0	12.0	12.0
Deposit Growth (%)	-1.7	8.1	11.0	11.0	11.0	11.0
NIM Calculated (%)	2.4	2.7	2.8	2.7	2.7	2.7
Cost to income ratio (%)	45.9	47.1	49.1	48.9	40.6	39.9

Source: Company, ICICI Direct Research

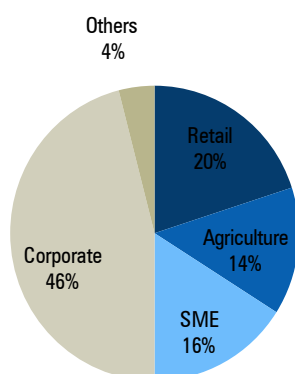
Story in Charts

Exhibit 4: Credit traction continues to remain steady; continue ahead



Source: Company, ICICI Direct Research, * Merged entity

Exhibit 5: Focus on retail segment to increase proportion in advances



Source: Company, ICICI Direct Research

Exhibit 6: Deposit profile

	Q1FY19*	Q2FY19	Q3FY19	Q4FY19*	Q1FY20*	YoY (%)	QoQ (%)
Global Deposits	841830	606973	610569	915159	895542	6.4	-2.1
Global CASA ratio	34.1	35.3	35.0	34.0	33.7	-39 bps	-35 bps
Domestic Deposits	721855	484158	496271	794435	785861	8.9	-1.1
Domestic CASA ratio	37.2	40.5	40.0	37.3	36.6	-66 bps	-71 bps
Overseas Deposits	119975	122815	114298	120724	109681	-8.6	-9.1

Source: Company, ICICI Direct Research, *- Merged Bank

Exhibit 7: Trend in margin

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19*	Q2FY19	Q3FY19	Q4FY19*	Q1FY20*
Global NIM	2.2	2.1	2.3	2.7	2.5	2.7	2.6	2.7	2.8	2.6
Domestic NIM	2.5	2.5	2.7	3.2	2.9	2.9	2.8	2.8	2.9	2.7
Overseas NIM	1.2	1.2	1.2	1.1	1.1	1.5	1.7	2.0	1.7	1.5
Global Yield on advances	7.1	6.9	6.9	7.2	7.1	7.9	7.4	7.7	8.0	7.5
Domestic Yield on advances	8.8	8.5	8.6	8.8	8.7	8.7	8.5	8.6	8.7	8.7
Overseas Yield on advances	2.8	2.8	2.6	2.7	2.9	3.5	3.8	4.6	4.4	4.1
Global Cost of deposits	4.7	4.6	4.5	4.4	4.5	4.8	4.6	4.8	5.1	4.7
Domestic Cost of deposits	5.9	5.7	5.5	5.3	5.4	5.4	5.3	5.3	5.5	5.5

Source: Company, ICICI Direct Research

Exhibit 8: Fee income traction...

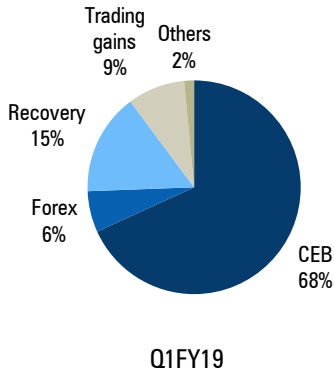
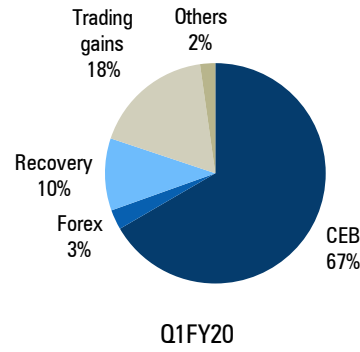


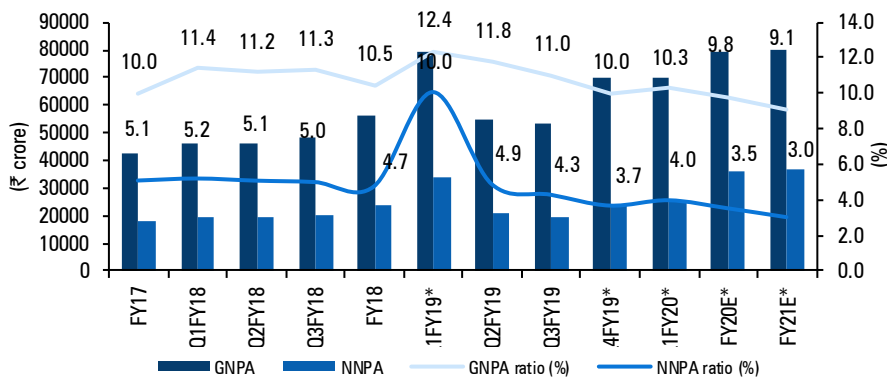
Exhibit 9: ...steady YoY



Source: Company, ICICI Direct Research

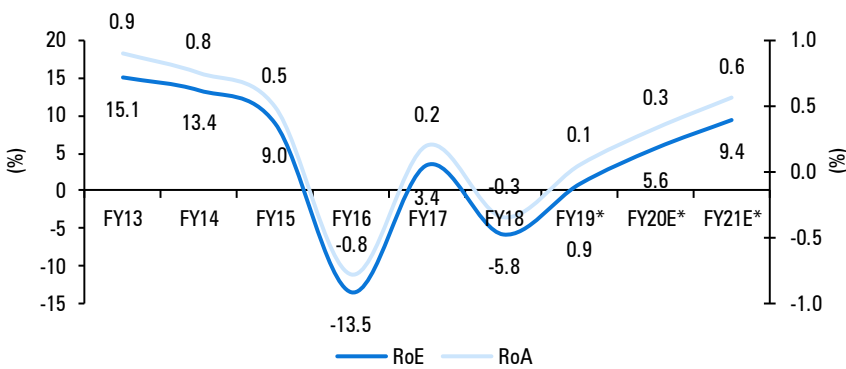
Source: Company, ICICI Direct Research

Exhibit 10: Slippages to moderate ahead



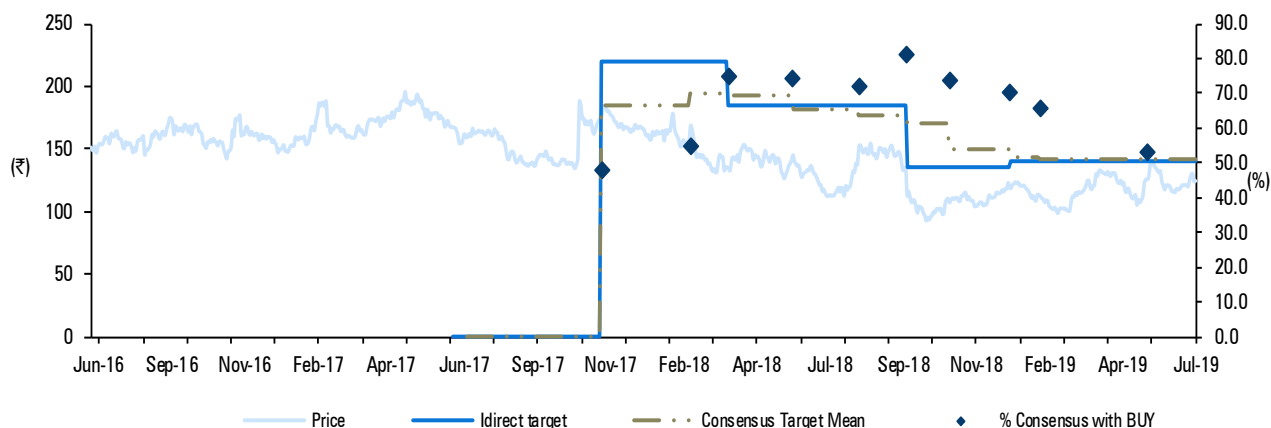
Source: Company, ICICI Direct Research, * Merged Bank

Exhibit 11: Return ratio to improve from FY20E onwards



Source: Company, ICICI Direct Research, *- Merged Bank

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Name	Last Filing Date	% Ownership	Position (m)	Change (m)
1	Government of India	30-06-2019	69.23%	2,663.18M	NULL
2	Life Insurance Corporation of India	30-06-2019	4.01%	154.31M	NULL
3	HDFC Asset Management Co., Ltd.	30-06-2019	4.00%	153.79M	-0.28M
4	Reliance Nippon Life Asset Management Limited	30-06-2019	3.43%	132.00M	NULL
5	ICICI Prudential Asset Management Co. Ltd.	30-06-2019	2.08%	80.19M	NULL
6	Edgbaston Investment Partners LLP	31-03-2019	0.76%	29.12M	+2.29M
7	The Vanguard Group, Inc.	31-05-2019	0.57%	22.07M	+0.72M
8	Kotak Mahindra Asset Management Company Ltd.	31-05-2019	0.29%	11.09M	+0.20M
9	Aditya Birla Sun Life AMC Limited	31-05-2019	0.29%	11.05M	+6.00M
10	Dimensional Fund Advisors, L.P.	31-05-2019	0.28%	10.80M	0

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys				Sells			
Investor name	Value (m)	Shares (m)	Investor name	Value(m)	Shares (m)		
Government of India	+940.0M	+561.16M	Norges Bank Investment Management (NBIM)	-5.66M	-3.31M		
Life Insurance Corporation of India	+87.22M	+52.07M	Axis Asset Management Company Limited	-4.88M	-2.55M		
Reliance Nippon Life Asset Management Limited	+92.33M	+49.65M	Fidelity International	-4.27M	-2.50M		
HDFC Asset Management Co., Ltd.	+36.95M	+19.87M	UTI Asset Management Co. Ltd.	-3.95M	-2.06M		
L&T Investment Management Limited	+14.08M	+7.57M	Wellington Management Company, LLP	-2.78M	-1.63M		

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	63.7	63.7	63.7	63.3	69.2
FII	14.9	10.8	9.4	10.3	6.4
DII	13.1	16.6	18.1	17.9	15.8
Others	8.3	8.9	8.8	8.5	8.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	65,171	64,948	76,421	85,508
Interest Expended	42,870	42635.8	48191.1	54457.6
Net Interest Income	22,301	22,312	28,230	31,050
% growth		0.1	26.5	10.0
Non Interest Income	9,421	12978.1	8387.8	9249.1
Net Income	31,722	35290.5	36618.1	40299.0
Employee cost	7,802	8111.3	8986.9	9777.6
Other operating Exp.	7,646	8327.6	8986.9	9909.7
Operating Income	16,275	18851.6	18644.3	20611.6
Provisions	21,261	18238.8	13249.2	9981.0
PBT	(4,986)	612.9	5395.1	10630.6
Taxes	(1,358)	61.3	1618.5	3508.1
Net Profit	(3,628)	552	3,777	7,122

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	4093.6	617.0	617.0	617.0
BV (₹)	15.4	198.5	235.2	255.6
ABV (₹)	6.6	82.7	118.2	137.4
P/BV	7.8	0.6	0.5	0.4
P/ABV	18.3	1.4	1.0	0.8
GNPA	10.9	11.3	9.8	9.1
NNPA	7.5	5.5	3.5	3.0
RoE	-5.7	0.9	5.6	9.4
ROA		0.1	0.3	0.6

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ Crore			
(Year-end March)-₹	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	4093.6	617.00	617.00	617.00
Reserves and Surplus	59131.2	60634.7	71934.7	78234.7
Networth	63224.6	61251.7	72551.7	78851.7
Deposits	854732.5	915159.0	1015826.5	1127567.4
Borrowings	73432.8	76370.1	79424.9	82601.9
Other Liabilities & Provisor	27101.6	28727.7	30451.3	32278.4
Total	1018491.5	1,081,508	1,198,254	1,321,299
Application of Funds				
Fixed Assets	8226	8226.2	8226.2	8226.2
Advances	609179	651384.0	736063.9	831752.2
Investments	240306	259530.2	282887.9	308347.8
Cash and balances with RI	32898	35201.0	37665.1	40301.6
Money at call, balance at l	70927	78019.7	85821.7	94403.9
Other Assets	56956	49147.3	47589.6	38267.6
Total assets	1018492	1,081,508	1,198,254	1,321,299

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY20E (%)
Total assets	-69.2	6.2	10.8	10.3
Advances	-67.4	6.9	13.0	13.0
Deposits	-66.9	7.1	11.0	11.0
Total Income	-73.1	11.2	3.8	10.1
Net interest income	-70.3	0.1	26.5	10.0
Operating expenses	-73.5	6.4	9.3	9.5
Operating profit	-72.6	15.8	-1.1	10.6
Net profit	NA	NA	584.7	88.6
Book value	-94.1	1185.5	18.4	8.7
EPS (₹)	NA	NA	584.7	88.6

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E		
Bank of Baroda (BANBAR)	112	140	Buy	43,199	-9.2	7.7	18.5	-12.2	14.6	6.1	0.9	1.4	1.1	-0.3	0.4	0.6	-5.8		9.7		
State Bank of India (STABAN)	343	400	Buy	305,980	-7.3	1.0	27.2	-47.0	353	12.6	2.8	2.4	1.8	-0.2	0.0	0.7	-3.0	0.5	12.3		
Indian Bank (INDIBA)	212	300	Buy	10,430	26.2	6.7	25.2	8.1	31.7	8.4	0.9	0.9	0.8	0.5	0.1	0.4	7.1	1.7	6.1		
Axis Bank (AXIBAN)	731	880	Buy	191,598	-1.0	22.2	37.5	-714.4	33.0	19.5	4.0	3.3	2.9	0.0	0.8	1.1	0.0	0.8	1.1		
City Union Bank (CITUNI)	195	240	Buy	14,319	8.9	9.3	10.3	21.9	21.0	18.9	3.5	3.3	2.9	1.6	1.6	1.6	15.5	15.3	14.7		
DCB Bank (DCB)	193	250	Buy	5,982	7.8	10.5	12.6	24.6	18.3	15.4	2.4	2.2	2.0	0.9	1.0	1.0	10.9	12.1	12.9		
Federal Bank (FEDBAN)	95	125	Buy	18,946	4.5	6.3	7.7	21.4	15.2	12.3	1.8	1.6	1.5	0.7	0.8	0.9	8.2	9.8	11.1		
HDFC Bank (HDFBAN)	2,277	2,400	Hold	622,125	67.4	77.4	93.7	33.8	29.4	24.3	5.7	4.3	3.8	1.8	1.8	1.9	17.9	16.5	16.0		
IndusInd Bank (INDBA)	1,416	1,550	Hold	98,129	60.1	55.0	92.3	23.6	25.7	15.4	3.7	3.5	2.9	1.8	1.3	1.8	16.2	13.1	19.0		
Jammu & Kashmir Bk(JAMKAS)	38	53	Hold	2,102	3.6	8.3	14.7	10.4	4.5	2.6	0.6	0.6	0.6	0.2	0.5	0.7	3.4	7.3	11.8		
Kotak Mahindra Bank (KOTMAH)	1,512	1,500	Hold	288,713	21.4	25.5	30.4	70.5	59.3	49.8	8.0	7.0	6.2	1.7	1.7	1.7	12.5	12.1	12.7		
Yes Bank (YESBAN)	95	UR	UR	22,122	18.3	6.4	5.8	5.2	14.9	16.4	0.9	1.0	1.1	1.7	0.4	0.4	17.6	5.6	5.5		
Bandhan Bank (BANBAN)	490	650	Buy	58,515	11.3	16.4	22.0	8.5	5.8	4.3	1.2	1.0	0.9	3.6	3.9	4.0	19.5	19.0	21.1		

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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