

CMP : Rs 114

Rating : HOLD

Target : Rs 122

STOCK INFO

INDEX	
BSE	532134
NSE	BANKBARODA
Bloomberg	BOB IN
Reuters	BOB.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	530
Mkt Cap (Rs cr.)	30,066
52w H/L (Rs)	173/91
Monthly Avg Vol (BSE+NSE)	14,727,330

SHAREHOLDING PATTERN

	%
(as on December, 2018)	
Promoters	63.7
FII	9.4
DII	18.1
Public & Other	26.9

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Bank of Baroda	-4.0	-25.1	-29.0
SENSEX	6.3	-1.7	0.1

Source: ACE Equity, Arihant Research

Bank of Baroda



Source: Moneycontrol, Arihant Research

Bank of Baroda (BoB) reported satisfactory results during the quarter in terms of assets quality and credit growth. Net income for the quarter was up by 322% at Rs. 471 cr YoY largely due to lower provisioning but provision for the NPA remained higher. PPOP registered de-growth of 3% at Rs. 3539 cr driven by rise in OPEX due to growth in employee cost and higher depreciation. Net Advance grew by 12% YoY leading to 8% rise in NII at Rs. 4743 cr. Global NIM has improved to 2.69% from 2.61% QoQ supported by improvement in international NIMs to 1.99% (+33bps QoQ) Sharp recovery seen in asset quality, with 77 bps improvement in GNPA at 11.01% and 60 bps improvement in NNPA at 4.26% on sequential basis. We have Hold rating on the stock with a target price of Rs 122.

Business traction continued to be Healthy

BOB's credit growth continued to be robust with 21% growth in domestic credit at Rs. 3.5trln driven by retail loan growth of 32.6% YoY as retail share in domestic credit expanded by ~200 bps YoY to 21%. Total (domestic + overseas) deposits grew by 6.5% YoY to Rs. 6.1trln, and CASA deposit grew by 7.63% at Rs. 2.1trln cr, taking CASA ratio at 35% a decline of 33 bps QoQ.

NPA accretion has remained in control

There was sharp improvement seen in asset quality. Fresh slippages inched up to Rs. 2933 cr, of which Rs. 1169cr was due to the IL&FS group (40% of total slippages), leading to slippage ratio of 2.84%. Ex-IL&FS NPA recovery is stronger than slippages. Write-off's for the quarter came in at Rs. 3051 cr leading to improvement in GNPA/NNPA ratio to 11.01%/4.26% down 77bps/ 60bps QoQ. Provision for NPA grew by 8% YoY as bank has made excess provision of Rs. 919 cr over and above IRAC norms leading to QoQ rise in credit cost to 2.92% from 1.31%. Bank has a total exposure of Rs. 4677 cr towards IL&FS (40% parent and rest for SPVs).

Valuation and View:

BoB's healthy traction is expected to continue in domestic credit areas mainly in retail segment going forward and some more improvement will be seen in its operating metrics with gradual recovery in asset quality. Slippages in the current quarter dent some earnings of the banks but we expect it will moderate in FY20E. At CMP of Rs 114 the stock is trading at P/ABV multiple of 0.89(x) to its FY20E. We have valued the stock on P/ABV(x) of 0.95(x) its FY 20E ABV and arrived at a fair value of Rs 122. We have 'HOLD' rating on the stock.

The merger of BoB with Dena Bank and Vijaya Bank will be key monitorable in the near term.

Q3FY19 Quarterly Snapshot:

Reported Quarterly Results					
Particulars (Rs Cr)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Interest Earned	12,942	11,303	14%	12,078	7%
Interest Expended	8,198	6,909	19%	7,586	8%
Net Interest Income	4,743	4,394	8%	4,493	6%
Other Income	1,621	1,673	-3%	1,352	20%
<i>Other income / Net Income(%)</i>	25	28		23	
Total Operating income	6,364	6,067	5%	5,844	9%
Employee Expenses	1,304	1,110	17%	1,222	7%
Non-Employee expenses	1,522	1,307	17%	1,541	-1%
Operating Expenses	2,826	2,417	17%	2,762	2%
<i>Cost-income Ratio(%)</i>	44	40		47	
PPOP	3,539	3,650	-3%	3,082	15%
Provisions & Contingencies	2,794	3,427	-18%	2,430	15%
PBT	744	224	233%	652	14%
Provisions for Tax	273	112	144%	227	20%
<i>Effective Tax Rate (%)</i>	37	50		35	
PAT (reported)	471	112	322%	425	11%
EPS Basic	1.8	0.5		1.6	
EPS Diluted	1.8	0.5		1.6	
BVPS	166	143		171	
GNPA	53,184	48,480		55,121	
NNPA	19,131	19,852		21,059	
GNPA (%)	11.01	11.31	-30 bps	11.78	-77 bps
NNPA (%)	4.26	4.97	-70 bps	4.86	-60 bps
Total CAR (%)	11.7	11.6		11.9	
NIM (%)	2.7	2.7		2.6	
Advances	448,679	399,381	12%	433,549	3%
Deposits	610,569	573,265	7%	606,973	1%

Income Statement				Balance Sheet			
Year to 31st March (Rs.Cr)	FY18	FY19E	FY20E	As on 31st March (Rs. cr)	FY18	FY19E	FY20E
Interest Income	43,649	50,015	56,945	LIABILITIES			
Interest Expenses	28,127	31,566	34,966	Capital	530	610	610
Net Interest Income	15,522	18,449	21,979	Reserves & Surplus	42,864	51,536	56,659
Fee-based Income	3,249	3,371	3,517	Deposits	591,315	652,350	728,854
Treasury Income	1,878	1,502	1,608	growth %	(2)	10	12
Other Non-interest Income	1,530	1,535	1,553	Borrowings	62,572	65,701	78,841
Total Non-Interest Income	6,657	6,409	6,678	Other liabilities & provisions	22,718	23,627	24,336
Operating Income	22,179	24,857	28,657	Total Liabilities	720,000	793,824	889,300
Operating Expenses	10,173	11,084	12,383				
- Staff Cost	5,618	5,118	5,505	ASSETS			
- Other Operating Exp.	4,555	5,966	6,878	Cash on hand & with RBI	22,700	25,472	25,982
Gross Profits	12,005	13,774	16,274	Money at call and short notice	70,198	73,920	75,399
growth %	9	15	18	Advances	427,432	483,782	565,538
Provisions	14,796	9,842	8,957	growth %	12%	13%	17%
Exceptional Item	-	-	-	Investments	163,185	173,176	183,567
Profit Before Taxes	(2,791)	3,932	7,317	Fixed assets	5,367	5,475	5,639
Taxes	(359)	1,179	2,195	Other assets	31,119	31,999	33,176
Profit After Taxes	(2,432)	2,752	5,122	Total Assets	720,000	793,824	889,300
Ratio Analysis				Spread analysis (%)			
Year to 31st March	FY18	FY19E	FY20E		FY18	FY19E	FY20E
Basic Ratio (Rs.)							
EPS	-9.8	9.7	16.8	Cost to Income	45.9	44.6	43.2
Book Value per share	163.6	170.9	187.7	Yield on advances	7.2	7.3	7.4
Adjusted Book Value	75.1	105.8	128.1	Yield on investments	7.1	7.3	7.3
Dividend per share	0.0	1.0	1.0	Cost of deposits	4.4	4.7	4.7
		41%	21%	Cost of funds	4.5	4.7	4.7
Asset Quality (%)				Spread	3.2	3.3	3.4
Gross NPAs	12.3	11.2	9.6	Net Interest Income to AWF	2.3	2.5	2.7
Net NPAs	5.3	4.2	3.8	Non Interest Income to AWF	1.0	0.9	0.8
NPA Coverage	65.0	65.0	67.2	Operating Profit to AWF	1.8	1.9	2.0
Profitability ratios (%)				Valuation ratios (x)			
RoAE	-5.8	5.8	9.4	P/E	-11.6	11.8	6.8
RoAA	-0.4	0.4	1.3	P/BV	0.7	0.7	0.6
NIM	2.46	2.66	2.82	P/ABV	1.51	1.07	0.89

Note: Financials for FY20 estimates is Pre-Merger.

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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