

Bank of Baroda

BSE SENSEX

85,572

S&P CNX

25,416

CMP: INR248

TP: INR290 (+17%)

Buy



Stock Info

Bloomberg	BOB IN
Equity Shares (m)	5171
M.Cap.(INRb)/(USDb)	1290.8 / 15.4
52-Week Range (INR)	300 / 188
1, 6, 12 Rel. Per (%)	-5/-22/-17
12M Avg Val (INR M)	4779
Free float (%)	36.0

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	447.2	471.9	511.4
OP	309.7	324.6	360.0
NP	177.9	195.5	210.2
NIM (%)	3.1	2.9	2.9
EPS (INR)	34.4	37.7	40.6
EPS Gr. (%)	26.1	9.9	7.5
BV/Sh. (INR)	211	241	273
ABV/Sh. (INR)	194	224	254

Ratios

RoE (%)	17.8	17.0	16.1
RoA (%)	1.2	1.2	1.1

Valuations

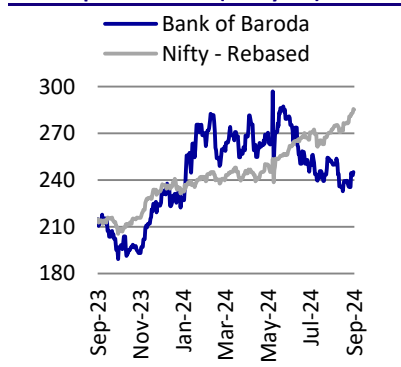
P/E(X)	7.2	6.6	6.1
P/BV (X)	1.2	1.0	0.9
P/ABV (X)	1.3	1.1	1.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	64.0	64.0	64.0
DII	16.0	16.3	16.0
FII	11.5	12.4	12.3
Others	8.6	7.3	7.7

FII Includes depository receipts

Stock's performance (one-year)



Asset quality steady; remain watchful on the pace of deposit mobilization

Earnings to clock modest ~10% CAGR; RoA steady at 1.1%

- Bank of Baroda (BOB) posted ~17% CAGR in loan growth over FY22-FY24 as it deployed excess liquidity on the balance sheet. Its CD ratio, thus, increased ~600bp over the past two years to 80.3%.
- With intense competition for deposits, we estimate BoB's deposit growth to remain broadly in line with the system at ~11%. We, thus, estimate advances growth to moderate to 11.5% CAGR over FY24-FY27 led by RAM segments, thereby resulting in a slight rise in CD ratio to 81.6%.
- NIM is expected to remain range-bound in the near term, while potential turn in the rate-cycle will likely drive slight contraction in margins.
- However, opex growth is expected to moderate after a surge in FY24, allowing for sustained improvement in the cost ratios. We estimate C/I ratio to improve to ~45% by FY27.
- Asset quality remains robust and we estimate continued improvement in GNPA ratios with credit cost staying well within the guided range (<0.75%).
- BoB reported strong RoA expansion from 0.57% in FY22 to 1.17% in FY24. We estimate earnings to clock ~10% CAGR over FY24-FY27, while RoA remains steady at 1.1%. We reiterate BUY with a TP of INR 290 (premised on 1.1x FY26E ABV).

Loan book to post 11.5% CAGR; RAM mix to increase

BoB reported a healthy loan growth of 13% YoY in FY24, driven by robust growth in RAM segments (21% YoY growth in retail). The bank's retail book forms ~21% of the total and is expected to continue leading the overall loan growth with an estimated 20% YoY growth in FY25. Overall, the bank expects RAM segments to dominate the portfolio growth with its share growing from the current 45% to 60% over the next few years. This will also help improve margins and overall profitability. We estimate a modest 11.5% CAGR in loan growth over FY24-FY27, reflecting a moderation in systemic growth and higher CD ratio for BOB compared to its peers.

Deposit accretion remains a challenge; cost of funds to tighten further

The deposit growth continues to be a challenge for the system and we estimate BOB to clock 11% CAGR in deposits over FY24-FY27. The bank has reduced its dependency on bulk deposits mix, which now stands at ~15%, down from ~17% in 1QFY24, and continues to prioritize further reductions in this area. We estimate the CD ratio to increase slightly to 81.6% by FY27. Intense competition for deposits and the upward pressure on funding costs, mainly led by deposit repricing and slower CASA growth, will keep deposit costs high over the near term. We estimate the cost of deposits to sustain at 5.3% over FY25/26 (~5.1% in 1QFY25).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

NIM to remain range-bound in the near term; expect 19bp contraction over FY26

BoB's margin contracted 35bp from the peak of 3.53% in 4QFY23 to 3.18% in 1QFY25, primarily since the cost of deposits increased 63bp over the same period. The bank's initiatives to reduce dependency on higher cost deposits while maintaining a strong control on the CASA ratio have helped protect margins. 50% of the bank's loan book is linked to MCLR while 30% is linked to repo. This will enable a calibrated progression in margins, particularly as the rate-cycle turns. A controlled growth in international book and distinct focus on RAM segments will help maintain healthy portfolio yields and limit margin contraction. We, thus, estimate NIM to moderate 19bp over FY26.

Opex growth to remain controlled; C/I ratio to improve to ~45% by FY27

Opex growth is likely to moderate after a surge in FY24, which will enable sustained improvement in cost ratios over FY25-FY27. The bank's opex is expected to post a 9% CAGR over FY26/27 (flattish in FY25 on a high base) while revenues are expected to clock 11% CAGR during the same period, with a distinct focus on driving up the traction in fee income, where BOB currently trails its peers and has significant potential for improvement. We, thus, expect C/I ratio to decline from 47.7% in FY24 to 45.1% by FY27.

Asset quality remains robust; credit cost to remain well within guidance

BoB's GNPA improved to 2.9% in FY24 from 9.4% in FY20. With no notable stress across most lending segments and healthy collection efficiency, we estimate continued improvement in GNPA ratio, projecting it to reach 2.4% by FY27. Fresh slippages are likely to stay in control (SMA 1/2 stands at 18bp) while the bank has guided for recoveries and upgrade of INR100b from GNPA. Further, the credit cost is likely to stay well within the guided range (<0.75%), while PCR sustains at healthy 77-78%. However, we remain watchful on the final ECL guidelines and resultant provisioning requirements for the PSU banking space.

Valuation & view: Reiterate BUY with a TP of INR290

BOB clocked ~17% CAGR in loan growth over FY22-FY24 as it deployed excess liquidity on the balance sheet. Its CD ratio, thus, increased ~600bp over the past two years to 80.3%. We estimate advances growth to moderate to 11.5% CAGR over FY24-FY27, led by faster growth in RAM segments. NIM is expected to remain range-bound in the near term, while potential turn in the rate-cycle will likely drive slight contraction in margins. Asset quality remains robust and we estimate continued improvement in GNPA ratio, with credit cost staying well within the guided range (<0.75%). **We estimate earnings to grow at a modest ~10% CAGR over FY24-FY27, while RoA remains steady at 1.1%. We reiterate BUY with a TP of INR 290 (premised on 1.1x FY26E ABV).**

Exhibit 1: BoB underperformed compared to other PSU banks on 1/2/3 year basis (barring SBI)

Return	6M	1 Year	2 Year	3 Year
BOB	(4.1)	15.5	35.7	46.1
CBK	(0.1)	50.8	53.9	51.0
INBK	7.1	24.0	63.2	60.1
PNB	(11.4)	33.5	69.5	39.1
SBIN	9.4	36.0	22.3	20.6
UNBK	(19.2)	19.3	68.7	54.3

As of 27th Sept, 2024; Source: MOFSL, Bloomberg

Story in charts

Exhibit 2: Loan book grew ~9% YoY (down 1.7% QoQ)

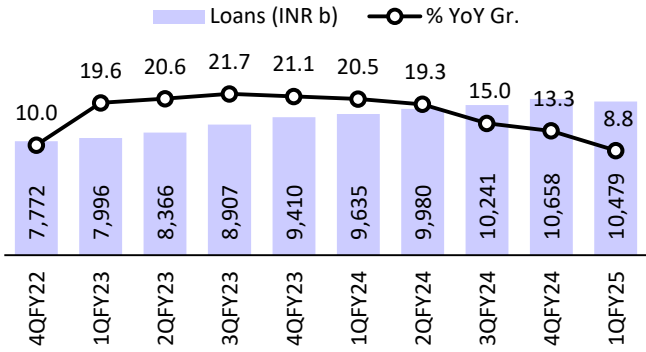


Exhibit 3: Deposit book grew 9% YoY (down 1.5% QoQ)

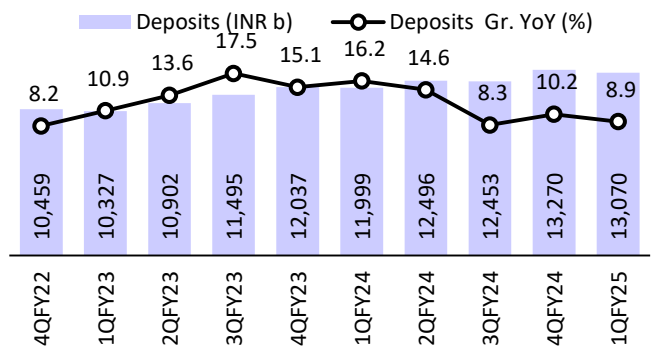


Exhibit 4: Domestic/Int. NIM contracted 15bp/expanded 28bp QoQ

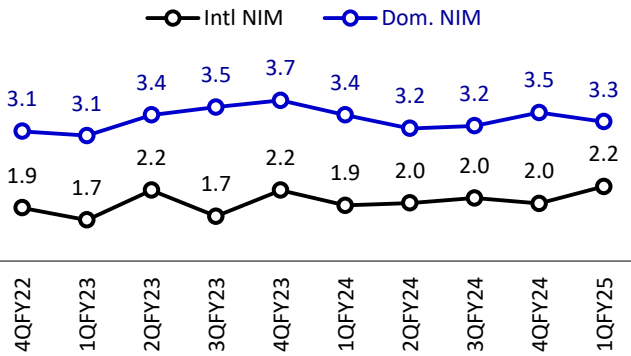


Exhibit 5: CD ratio stood stable at 80.2%

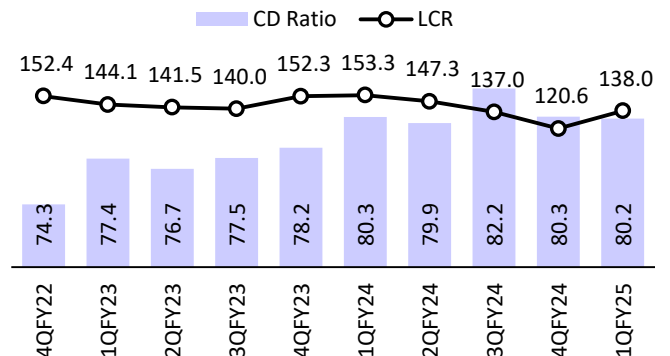


Exhibit 6: Cost-to-income stable at ~49.2%

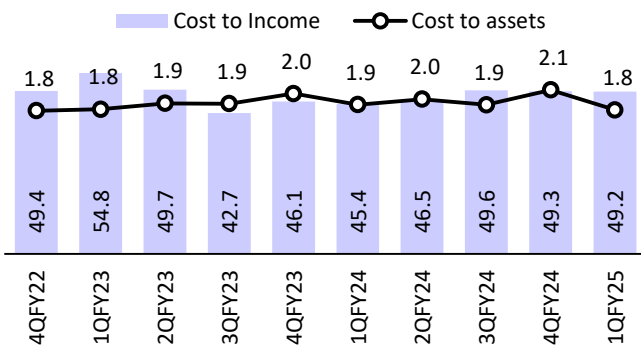


Exhibit 7: Trend in lending yield and cost of deposits

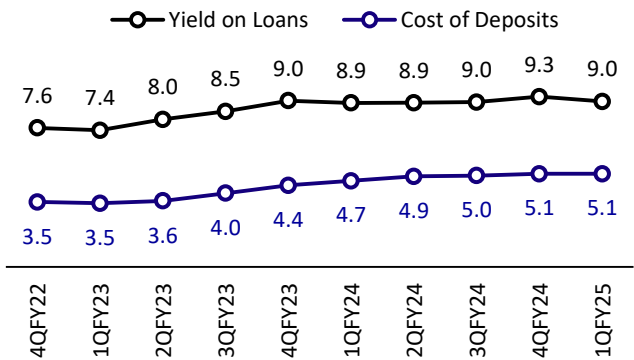


Exhibit 8: Gross slippages/SMA 1&2 stood at ~INR30b/0.2%

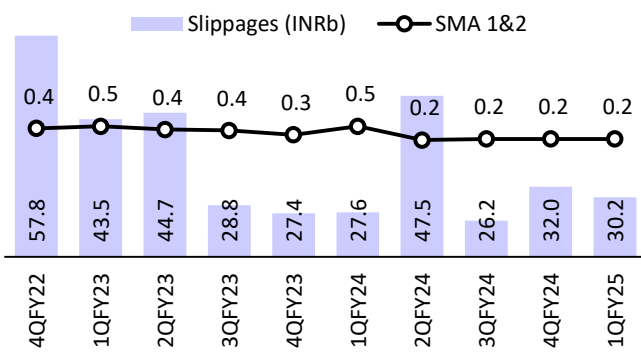
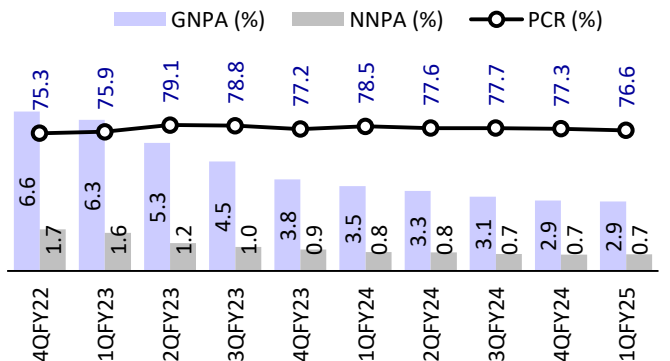


Exhibit 9: GNPA improved while PCR declined slightly



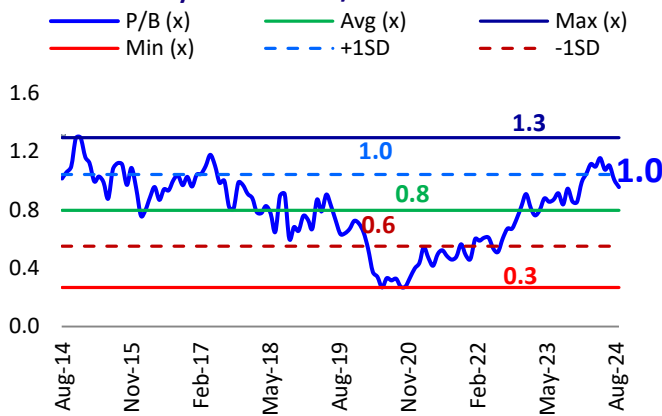
Source: MOFSL, Company

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Valuation Summary: Reiterate BUY with a TP of INR290

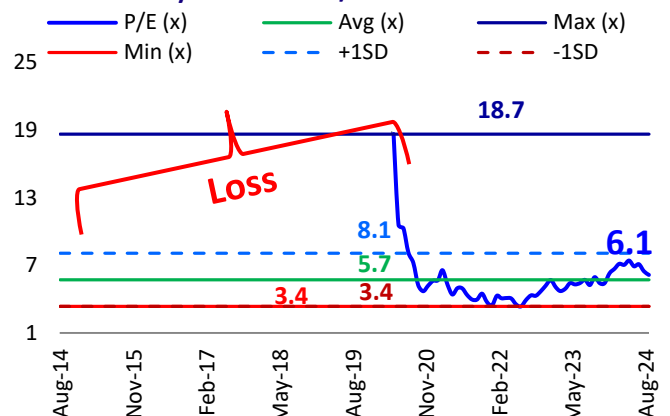
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- NIM is expected to remain range-bound in the near term, while potential turn in the rate-cycle will likely drive slight contraction in margins. However, opex growth is expected to moderate after a surge in FY24, which will enable sustained improvement in cost ratios.
- We estimate C/I ratio to improve to ~45% by FY27. BOB has been placing considerable emphasis on improving its fee income to drive healthy revenue growth.
- Asset quality remains robust and we estimate continued improvement in GNPA ratio with credit cost staying well within the guided range (<0.75%), benefitting from strong corporate balance sheets and limited unsecured exposure of the bank.
- BoB reported strong RoA expansion from 0.57% in FY22 to 1.17% in FY24. **We estimate earnings to clock ~10% CAGR over FY24-FY27, while RoA remains steady at 1.1%. We reiterate BUY with a TP of INR 290 (premised on 1.1x FY26E ABV).**

Exhibit 10: One-year forward P/B



Source: MOFSL, Company

Exhibit 11: One-year forward P/E



Source: MOFSL, Company

Exhibit 12: DuPont Analysis: Estimate return ratios to be stable over FY25-FY26

Y/E MARCH	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	6.09	5.74	6.55	7.40	7.57	7.49	7.48
Interest Expense	3.60	3.06	3.53	4.46	4.74	4.72	4.67
Net Interest Income	2.49	2.68	3.02	2.94	2.83	2.78	2.81
Other Income	1.12	0.94	0.73	0.95	0.84	0.87	0.89
Total Income	3.61	3.63	3.76	3.89	3.67	3.64	3.70
Operating Expenses	1.78	1.78	1.79	1.86	1.72	1.69	1.67
Employee Cost	0.99	0.98	1.0	1.0	0.9	0.9	0.9
Others	0.79	0.80	0.82	0.82	0.81	0.79	0.79
Operating Profits	1.83	1.84	1.96	2.03	1.95	1.95	2.03
Core Operating Profits	1.54	1.62	1.89	1.94	1.87	1.90	1.98
Provisions	1.35	1.07	0.52	0.40	0.38	0.42	0.49
PBT	0.48	0.77	1.44	1.64	1.57	1.53	1.54
Tax	0.41	0.17	0.41	0.47	0.40	0.39	0.39
RoA (%)	0.07	0.60	1.03	1.17	1.17	1.14	1.15
<i>Leverage (x)</i>	<i>16.8</i>	<i>16.1</i>	<i>16.0</i>	<i>15.3</i>	<i>14.5</i>	<i>14.1</i>	<i>13.8</i>
RoE (%)	1.2	9.7	16.5	17.8	17.0	16.1	15.9

Source: MOFSL, Company

Exhibit 13: PSU Banks' Valuation Summary

Val summary	EPS (INR)			ABV (INR)			RoA (%)			RoE (%)			P/E (x)			P/ABV (x)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
SBIN	68.4	79.9	89.9	365	431	505	1.0	1.1	1.1	18.8	18.8	18.2	8.0	6.8	6.1	1.5	1.3	1.1
PNB	7.5	12.8	15.4	84	95	106	0.5	0.9	1.0	8.7	13.6	14.5	14.5	8.5	7.1	1.3	1.1	1.0
BOB	34.4	37.5	42.6	194	224	256	1.2	1.2	1.2	17.8	16.9	16.8	6.9	6.3	5.5	1.2	1.1	0.9
CBK	16.0	18.2	20.8	80	95	110	1.0	1.1	1.1	20.2	19.5	19.3	6.5	5.8	5.0	1.3	1.1	1.0
UNBK	18.9	20.7	23.4	112	131	151	1.0	1.1	1.1	16.7	16.2	16.1	6.5	6.0	5.3	1.1	0.9	0.8
INBK	62.2	75.6	85.5	396	452	517	1.1	1.2	1.3	17.1	18.0	17.7	8.2	6.7	6.0	1.3	1.1	1.0

Source: MOFSL

Financials and Valuation

Income Statement							(INRb)
Y/E March (INR b)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	705.0	698.8	895.9	1,126.1	1,262.5	1,381.1	1,529.4
Interest Expense	416.9	372.6	482.3	678.8	790.6	869.7	954.4
Net Interest Income	288.1	326.2	413.6	447.2	471.9	511.4	575.0
- Growth (%)	4.9	13.2	26.8	8.1	5.5	8.4	12.4
Non Interest Income	129.3	114.8	100.3	145.0	139.9	159.5	181.8
Total Income	417.4	441.1	513.8	592.2	611.8	670.9	756.8
- Growth (%)	10.5	5.7	16.5	15.2	3.3	9.7	12.8
Operating Expenses	205.4	217.2	245.2	282.5	287.2	310.9	341.6
Pre Provision Profits	212.0	223.9	268.6	309.7	324.6	360.0	415.2
- Growth (%)	12.2	5.6	20.0	15.3	4.8	10.9	15.3
Core PPop	178.2	196.6	258.0	294.7	311.9	349.2	406.0
- Growth (%)	10.4	10.3	31.2	14.2	5.8	12.0	16.3
Provisions	156.4	130.0	71.4	60.8	62.6	78.3	100.2
PBT	55.6	93.9	197.3	248.9	262.0	281.7	315.0
Tax	47.3	21.1	56.2	71.0	66.5	71.6	80.0
Tax Rate (%)	85.1	22.5	28.5	28.5	25.4	25.4	25.4
PAT	8.3	72.7	141.1	177.9	195.5	210.2	235.0
- Growth (%)	51.8	777.3	94.0	26.1	9.9	7.5	11.8

Balance Sheet

Y/E March (INR b)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Preference Share Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves & Surplus	760.1	848.7	971.9	1,111.9	1,266.1	1,428.8	1,609.2
Net Worth	770.5	859.1	982.2	1,122.2	1,276.4	1,439.1	1,619.5
Deposits	9,670.0	10,459.4	12,036.9	13,269.6	14,609.8	16,216.9	18,065.6
- Growth (%)	2.2	8.2	15.1	10.2	10.1	11.0	11.4
- CASA Dep	3,882.8	4,336.1	4,751.0	5,143.7	5,288.7	5,789.4	6,341.0
- Growth (%)	16.3	11.7	9.6	8.3	2.8	9.5	9.5
Borrowings	668.5	1,039.0	1,019.1	944.0	998.0	1,051.8	1,107.9
Other Liabilities & Prov.	444.7	422.5	547.4	522.1	600.5	666.5	746.5
Total Liabilities	11,553.6	12,780.0	14,585.6	15,858.0	17,484.7	19,374.3	21,539.6
Current Assets	1,204.1	1,226.5	957.0	951.2	1,123.8	1,243.3	1,380.5
Investments	2,612.2	3,158.0	3,624.9	3,698.2	3,994.0	4,393.4	4,832.8
- Growth (%)	-4.9	20.9	14.8	2.0	8.0	10.0	10.0
Loans	7,063.0	7,771.6	9,410.0	10,657.8	11,808.9	13,155.1	14,733.7
- Growth (%)	2.3	10.0	21.1	13.3	10.8	11.4	12.0
Fixed Assets	80.2	99.2	87.1	79.1	85.5	89.7	94.2
Other Assets	594.1	524.7	506.7	471.6	472.6	492.7	498.4
Total Assets	11,553.6	12,780.0	14,585.6	15,858.0	17,484.7	19,374.3	21,539.6

Asset Quality

GNPA (INR b)	666.7	540.6	367.6	318.3	311.6	333.6	364.8
NNPA (INR b)	218.0	133.6	85.5	75.8	71.8	78.2	78.6
Slippages (INR b)	200.1	142.6	111.5	104.0	146.0	168.5	181.3
GNPA Ratio (%)	8.9	6.6	3.8	2.9	2.6	2.5	2.4
NNPA Ratio (%)	3.1	1.7	0.9	0.7	0.6	0.6	0.5
Slippage Ratio (%)	2.8	1.8	1.2	1.0	1.3	1.4	1.3
Credit Cost (%)	1.7	2.0	0.5	0.7	0.5	0.6	0.7
PCR (Excl Tech. write off) (%)	67.3	75.3	76.7	76.2	77.0	76.6	78.4

E: MOFSL Estimates

Financials and Valuation

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	6.5	5.7	6.9	7.7	7.8	7.7	7.7
Avg. Yield on Loans	7.1	6.3	7.5	8.5	8.7	8.5	8.5
Avg. Yield on Investments	6.6	5.6	6.6	6.9	6.9	6.9	6.8
Avg. Cost-Int. Bear. Liab.	4.0	3.2	3.9	5.0	5.3	5.3	5.2
Avg. Cost of Deposits	3.9	3.2	3.7	4.7	5.3	5.3	5.2
Interest Spread	2.4	2.5	2.9	2.7	2.5	2.4	2.5
Net Interest Margin	2.7	2.7	3.2	3.1	2.9	2.9	2.9

Capitalisation Ratios (%)

CAR	15.7	15.7	16.2	16.3	16.5	16.1	15.5
Tier I	13.5	13.2	14.0	14.1	14.3	14.0	13.6
-CET-1	10.9	11.4	12.2	12.5	13.9	14.6	15.3
Tier II	2.3	2.5	2.3	2.2	2.2	2.1	2.0

Business Ratios (%)

Loans/Deposit Ratio	73.0	74.3	78.2	80.3	80.8	81.1	81.6
CASA Ratio	40.2	41.5	39.5	38.8	36.2	35.7	35.1
Cost/Assets	1.8	1.7	1.7	1.8	1.6	1.6	1.6
Cost/Total Income	49.2	49.2	47.7	47.7	46.9	46.3	45.1
Cost/Core Income	53.5	52.5	48.7	48.9	47.9	47.1	45.7
Int. Expense/Int. Income	59.1	53.3	53.8	60.3	62.6	63.0	62.4
Fee Income/Total Income	22.9	19.9	17.4	22.0	20.8	22.2	22.8
Non Int. Inc./Total Income	31.0	26.0	19.5	24.5	22.9	23.8	24.0
Empl. Cost/Total Expense	55.7	55.2	54.5	56.0	52.9	53.0	52.6

Efficiency Ratios (INRm)

Employee per Branch (in nos)	10.0	9.7	9.5	9.0	9.0	9.0	9.0
Staff Cost per Employee	1.4	1.5	1.7	2.1	2.0	2.2	2.3
CASA per Branch (INR m)	470.2	528.2	576.6	624.0	635.3	688.5	746.6
Deposits per Branch (INR m)	1,171.0	1,274.1	1,460.8	1,609.8	1,754.8	1,928.6	2,127.2
Business per Emp. (INR m)	201.9	228.4	274.5	322.4	352.4	387.9	428.9
Profit per Emp. (INR m)	0.1	0.9	1.8	2.4	2.6	2.8	3.1
					9.0	9.0	9.0

Profitability Ratios and Valuation

RoE	1.2	9.7	16.5	17.8	17.0	16.1	15.9
RoA	0.1	0.6	1.0	1.2	1.2	1.1	1.1
RoRWA	0.1	1.1	2.0	2.3	2.3	2.2	2.2
Book Value (INR)	143	158	183	211	241	273	307
- Growth (%)	-3.2	10.5	15.8	15.2	14.1	13.0	12.8
Price-BV (x)	1.8	1.6	1.4	1.2	1.0	0.9	0.8
Adjusted BV (INR)	111	136	165	194	224	254	288
Price-ABV (x)	2.3	1.9	1.5	1.3	1.1	1.0	0.9
EPS (INR)	1.6	14.0	27.3	34.4	37.7	40.6	45.4
- Growth (%)	35.6	777.3	94.0	26.1	9.9	7.5	11.8
Price-Earnings (x)	154.9	17.7	9.1	7.2	6.6	6.1	5.5
Dividend Per Share (INR)	0.0	2.8	5.5	7.6	8.0	9.2	10.5
Dividend Yield (%)	0.0	1.1	2.2	3.1	3.2	3.7	4.3

E: MOFSL Estimates

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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