

Stock Update

Bank of Baroda

June 21, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
PSU Banks	Rs. 195	Buy in the band of Rs. 193-197 & add more on dips of Rs. 169-173 band	Rs.214	Rs.234	2-3 quarters

HDFC Scrip Code	BANBAREQNR
BSE Code	532134
NSE Code	BANKBARODA
Bloomberg	BOB IN
CMP June 20, 2023	195
Equity Capital (Rs Cr)	1034.3
Face Value (Rs)	2
Equity Share O/S (Cr)	517.2
Market Cap (Rs Cr)	100842
Adjusted Book Value (Rs)	173.5
Avg. 52 Wk Volumes	27514213
52 Week High	197.2
52 Week Low	89.8

Share holding Pattern % (March, 2023)	
Promoters	63.9
Institutions	28.0
Non Institutions	8.1
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Post the amalgamation with Vijaya Bank and Dena Bank, Bank of Baroda (BOB) has become one of the largest public sector banks with a strong domestic presence. The Bank also has significant international presence with a network of 94 overseas offices spanning 17 countries. Apart from banking, it also has presence across various financial services via Subsidiaries and JVs. The retail book has become the key focus area for the bank. The quality of the loan book is also improving with lower SMA and lower share of BB& below rated corporates. The bank remains well capitalized compared to other peer PSBs and has informed that there will be no fund raise in near term. The bank has embarked on a transformation journey which has been fueled by digital initiatives such as “BoB World” which has immensely improved customer experiences and enabled new business relationships, transitioning focus to the retail assets as against traditional corporate book focus, addressing talent recruitment problem effectively.

Industry tailwinds like PSB privatization theme, accelerated resolution program through IBC and improved scenario for credit growth has been keeping the public sector banks in lime light. The asset quality challenges of the previous corporate cycles are behind us and recoveries cycle have already started. The balance sheet quality across the banking sector has improved drastically. Strong credit growth rebound along with lower credit costs have started to inflate the earnings for PSBs. In the past few months, BoB has shown a sharp run up in line with many PSB peers, however, looking at the valuations, we believe that the steam is still left. Recently, the bank became the second PSB, only after SBI, to hit a market capitalization of Rs. 1 trillion.

Valuation & Recommendation:

The bank has reported strong set of earnings for Q4FY23 supported by improvement in NIMs and lower slippages. The credit growth has also picked up. The bank’s total business crossed Rs. 21 Trillion milestone for the first time and is up 17% YoY. Its global deposits grew by 15%/4.7% YoY/QoQ and stood at Rs. 12,03,688 crores, while its global gross advances grew by 19%/4.9% and stood at Rs. 9,69,548 crores. Going forward, we expect BoB to grow its loan book at 14% CAGR while NII and net profit are expected to grow at 19% and 23% CAGR respectively over FY23-25E. ROAA is estimated to improve to 1.2% in FY25E from current 1% in FY23 and RoE could rise to 18.8% FY25E from 15.3% in FY23. Asset quality trend of corporate and MSME will be key monitorable. BoB is trading at an inexpensive valuation of 0.9x FY25E P/ABV. We are not separately ascribing any value to the subsidiaries/associates of the Bank while valuing the stock.



We feel investors can buy the stock of the bank between Rs. 193-197 (0.9x FY25E ABV) & add more on dips of Rs. 169-173 band (0.8x FY25E ABV) for the base case fair value of Rs. 214 (1x FY25E ABV) and for the bull case fair value of Rs. 234 (1.1x FY25E ABV) over the next 2-3 quarters.

Financial Summary (Rs.Cr)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
NII	11525	8612	34	10819	7	28809	32621	41356	48005	58555
PPP	8073	5635	43	8233	-2	20630	22389	26864	30993	39274
PAT	4775	1779	168	3853	24	829	7272	14109	16597	21249
EPS (Rs)						1.6	14.0	27.2	32.1	41.0
ABV						106.7	140.1	173.5	199.3	231.5
P/E (x)						121.8	13.9	7.2	6.1	4.8
P/ABV (x)						1.8	1.4	1.1	1.0	0.8
RoAA (%)						0.1	0.6	1.0	1.1	1.2
RoAE (%)						1.1	8.9	15.3	15.9	17.8

(Source: Company, HDFC sec)

Recent Developments

Q4FY23 Result Update

- BoB has reported strong all round performance in Q4FY23. It reported total interest income to the tune of Rs. 25,857 crores which was up 43/10% YoY/QoQ. In terms of interest expenses, the bank reported Rs. 14,332 crores which was up 50/13% YoY/QoQ driven by higher interest rates. Thus, the Net Interest Income of the bank stood at Rs. 11,525 crores which is up 34/7% YoY/QoQ supported by healthy growth of loan book and improvement in margins. The Bank's NIM improved to 3.53% as against 3.37% in Q3FY23 and 3.08% in Q4FY22.
- The non-interest Income was Rs. 3,466 crores up 37% YoY but sequentially flat at -2%. This was sequentially flat on account of lower treasury income during the quarter. However, its fee based income has shown decent growth of 5/11% YoY/QoQ and recoveries from written off accounts displayed a healthy growth of 58/78%.
- The bank incurred operating expenses of Rs. 6,918 crores which is up 26/13% YoY/QoQ. Out of this, employee costs were Rs. 3,779 crores, up 40/13% YoY/QoQ on account of wage revision and performance linked bonuses accounted in Q4FY23. The cost to income ratio for the quarter stood at 46.15% as against 42.71% in Q3FY23 and 49.4% in Q4FY22. This resulted in a PPOP of Rs. 8,073 crores for the quarter, which is a healthy increase of 43% on a yearly basis but sequentially flat at -2%.



- The Bank made total provisions of Rs. 1,421 crores which are down 41% sequentially primarily due to lower provisions on NPAs and NPIs. This is equivalent to credit costs of 0.14%. After considering provisions and taxes, the company's Profit after Tax stood at Rs. 4,775 crores which is equivalent to a growth of 168/24% YoY/QoQ. This growth in net profit was primarily driven by rise in other income and lower provisions which declined 62% YoY. The EPS of the bank stood at Rs.9.23 as against Rs. 7.45 in Q3FY23 and Rs.3.44 in Q4FY22. The Return on assets stood at 1.3% and RoE of 19% for Q4FY23.
- Its global deposits grew by 15%/4.7% YoY/QoQ and stood at Rs. 12,03,688 crores, while its global gross advances increased by 19%/4.9% and stood at Rs. 9,69,548 crores.
- Cost of Deposits inched up to 4.43% in Mar-23 as against 4.01% in Dec-22. Yield on Advances improved to 8.47% vs 7.78% in last quarter. The cost of deposits of the bank is showing an increasing trend as of Q4FY23 which is in line with the rising interest rate cycle in the country and domestic yield on advances are improving with lower slippages and higher growth loan growth.

Management's Guidance & Opinions:

- Overall Loan growth for FY24 is expected to be 13-14% and retail loans are expected to grow at 1.5x of total loan growth and its share in the loan book is expected to increase to 33-35% in FY24. On the other hand, the international book is expected to grow in line with the overall book growth. Going ahead, the bank is expected to achieve growth without compromising on its underwriting standards and protecting margins
- NIMs for FY24 are expected to stay around the same level as that in FY23 (3.31%)
- RoA/RoE are expected to be around 1%/16-18% for FY24.
- Credit Costs are expected to be around 1% and ECL provisions could be around 1-1.5% of total loans for FY24.
- Going forward, the management expects recoveries to be more than slippages.
- The bank expects the wage revisions to have an impact of Rs. 1,900 crores on the coming financial year's profitability.
- Corporate loan book will be contributing more to the overall loan growth going forward even though its share in the overall mix is expected to fall.
- The domestic credit-deposit ratio as of March 2023, stood at 75% and bank expects higher utilization of deposits to cater to rising demand going forward.
- The bank is looking for strategic investors for BOB Financial Solutions Ltd. and Nainital Bank. Further, for its life insurance subsidiary- IndiaFirst Life Insurance Co Ltd., it is planning to list the same and has already filed its DRHP.
- The bank has made provision of Rs. 500 crores for the loans advanced to GoFirst airlines against an exposure of Rs. 1,300 crores. These loans are still categorized as standard assets and it holds tangible securities and guarantees to the extent of Rs. 1000 crores.



- Management expects ECL provisions to have an impact of 1-1.5% of loan book and not pressurize the profitability much. As per the MD, the bank’s low GNPA and NNPA ratios and high PCR provides it room to amortize the impact of ECL provisioning in a manner that will not affect its return ratios materially.
- The management feels that the trend of increasing deposit and lending rates has now stabilized with no rate hikes in two consecutive RBI policy meetings. It also does not expect much of an impact of Rs. 2,000 notes deposits on the deposit rates in of the banking sector.

Asset Quality

Asset quality has continued to improve for BoB. In Q4FY23, the GNPA ratio stood at 3.79% vs 4.53% QoQ, while NNPA stood at 0.89% vs 0.99% QoQ. The reduction in the GNPA were on account of higher upgrades, recoveries and write offs. Provision Coverage Ratio (PCR) (Including write offs) improved to 92.43% as at March 2023 from 92.34% as at December 2023. This high level of PCR and low levels of NPA ratios put the bank in a comfortable position to transition into the ECL provisioning norms as and when announced by the RBI. The bank reported credit costs of 0.14% for Q4FY23 v/s 0.37% in Q3FY23 and 2.69% in Q4FY22. For the entire FY23, its credit costs stood at 0.53% v/s 1.95% in FY22. In order to maintain this asset quality and underwriting standards, the bank had appointed a new Chief Risk Officer. Following table shows the sector wise loan book mix as against the contribution of each sector to the GNPA of the bank:

Sector	Advances (Rs.)	GNPA (Rs.)	Loan Book Mix %	Contribution to GNPA %
Corporate	3,40,408	3,636	35%	10%
MSME	1,08,196	10,849	11%	30%
Retail	1,78,037	3,296	18%	9%
Agriculture	1,24,247	8,656	13%	24%
Others	44,672	141	5%	0%
Total Domestic	7,95,560	26,578	82%	72%
International	1,73,988	10,185	18%	28%
Global Advances	9,69,548	36,763	100%	100%

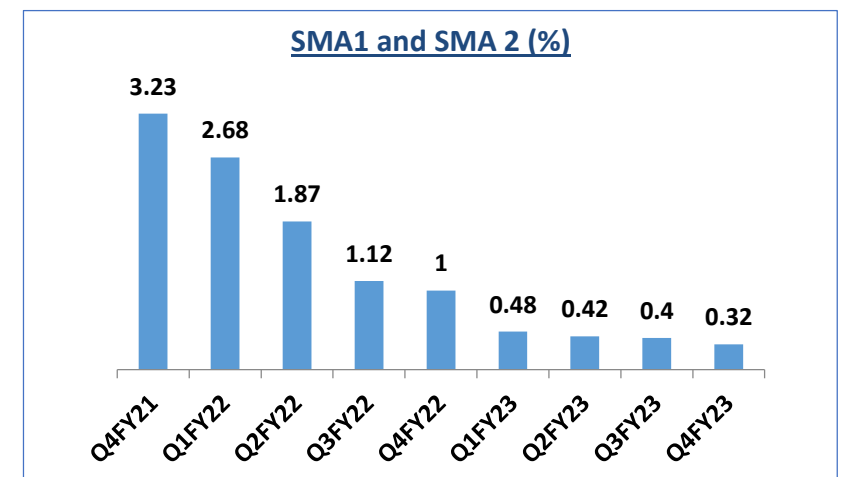
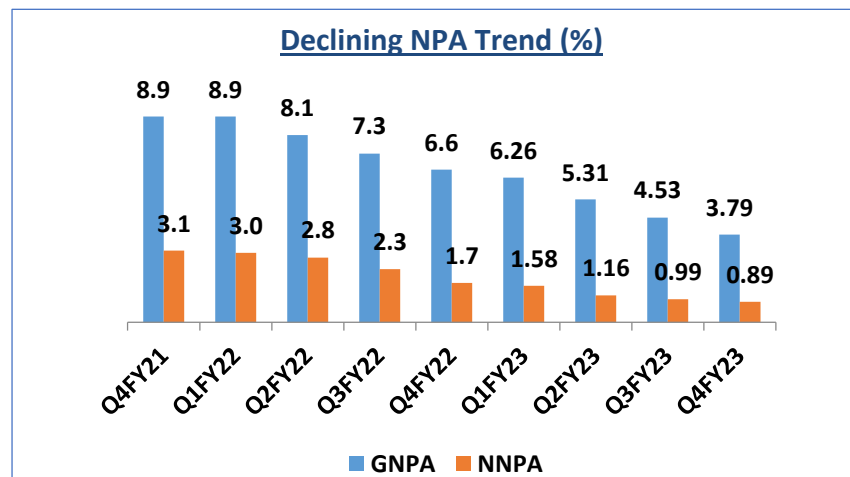
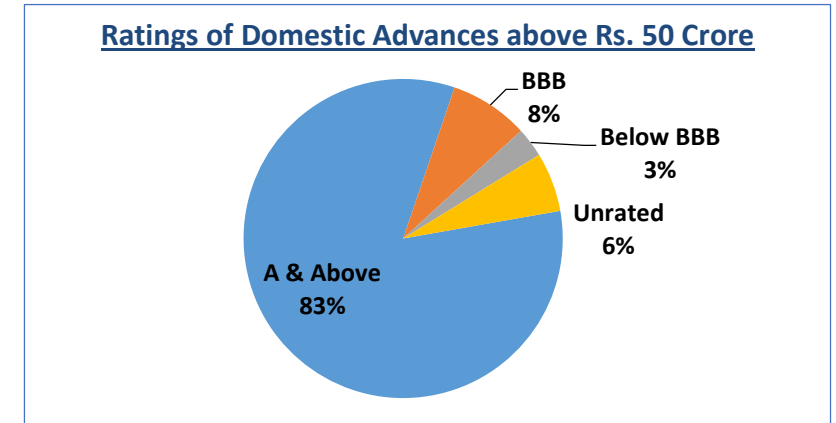
(Source: Company, HDFC sec)

As can be seen from the above table, the bank’s MSME book has contributed the most to the GNPA of the bank. The management had anticipated this and attributed it to the impact of COVID-19 and restructuring of loans. They expect the slippages from their MSME book to lower from the second half of FY24.



Slippage ratio stood at 1.02% in Q4FY23 v/s 1.05% in Q3FY23. SMA1 and SMA 2 book now stood at a negligible level of 0.32%, indicating improved quality of the book. The restructured book now stands ~1.1% of loans and stood at Rs. 16,000 crores. The bank has a total of Rs. 49,353 crores of exposure to NCLT referred accounts for which it holds provisions to the extent of 99.21%. This exposure was at Rs. 51,459 crores in the previous quarter. The collection efficiency has been again one of the things which have had a significant improvement over the last few quarters, it continued to improve and it stands at about 98% as of Q4FY23. The bank has hired lateral talent and incorporated collection verticals in order to keep collection levels healthy.

Fresh Slippages (Rs. In Cr)	Q4FY23	Q3FY23	Q4FY22
Corporate	45	13	2,055
MSME	1,220	836	1,271
Retail	424	551	466
Agriculture	540	723	636
Others	9	10	10
Total Domestic	2,238	2,133	4,438
International	4	39	76
Global Slippages	2,242	2,172	4,514





Loan growth pick up & mix

In Q4FY23, the bank has reported strong growth in loan book across segments, especially in its retail book, where it has continued the momentum. Domestic gross advances grew by 16/5% YoY/QoQ, while Global Gross Advances were up 19%/5% YoY/QoQ. Retail lending Portfolio increased 27/7% YoY/QoQ.

	Q4FY23	Q3FY23	Q4FY22	QoQ%	YoY%
Retail	1,78,037	1,66,861	1,40,399	6.7	26.8
Housing Loans	98,014	91,989	82,009	6.5	19.5
Vehicle Loans	31,261	29,821	25,130	4.8	24.4
Mortgages Loans	16,801	16,196	14,242	3.7	18.0
Education Loan	8,196	7,942	6,731	3.2	21.8
Personal Loan	19,645	17,230	9,748	14.0	101.5
Gold Loan	2,420	2,069	1,371	17.0	76.5
Other Loans	1,700	1,614	1,168	5.3	45.5
Agriculture	1,24,247	1,19,197	1,09,796	4.2	13.2
Gold Loan	35,831	33,065	27,946	8.4	28.2
MSME	1,08,196	1,03,003	96,863	5.0	11.7
Corporate	3,40,408	3,29,212	3,00,693	3.4	13.2
Other	44,672	41,976	36,402	6.4	22.7
Domestic Gross Advances	7,95,560	7,60,249	6,84,153	4.6	16.3
International Gross Advances	1,73,988	1,63,629	1,33,967	6.3	29.9
Global Gross Advance	9,69,548	9,23,878	8,18,120	4.9	18.5

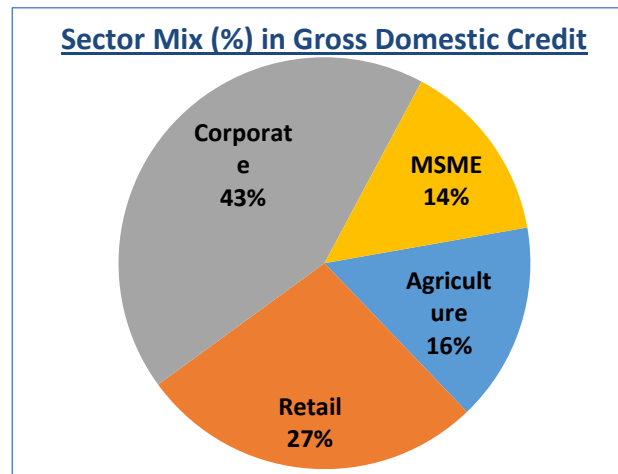
(Source: Company, HDFC sec)

Within retail advances, the unsecured personal loan category (relatively new area of emphasis) reported outstanding rise of 102%/14% YoY/QoQ; the bank expects that the trend of triple digit growth could continue for a year or so. This portfolio of the bank stands at Rs. 19,645 crores and these loans are only extended to existing bank customers with long track record. The management is of the opinion that the bank has immense potential to growth this book and would eventually even extend loans to New-To-Bank customers. Apart from this, its gold loan book also displayed strong traction, growing by 77/17% YoY/QoQ. The risk adjusted returns for these segments are attractive and its increasing share in the mix can support the overall margins of the bank. Further, auto loans which have been a strength of the bank grew by 24/5% YoY/QoQ, while the relatively safe housing and education loans reported decent growth of 20/7% and 22/3% YoY/QoQ respectively. Advances to the Agriculture sector grew by 13%/4% YoY/QoQ. In this sector, the share of loans secured with gold collaterals is increasing which is helping the bank mitigate credit quality challenges and de-risk the book.



Corporate book, which is the largest contributing segment to the global loans (35%) has grown by 13/3% YoY/QoQ. As per the management, private investment is expected to start at a broader scale as the threat of COVID have minimized and the bank is well positioned to capitalize on this opportunity while at the same time, will not dilute its underwriting standards to chase the potential growth. The bank is optimistic on the Capex led budget presented by the Finance Minister as roads segment in its infrastructure sector book has been the best performing segment and its share in the corporate book has increased. Its international book has witnessed good traction registering a growth of 30%/6% YoY/QoQ on account of syndication loans in the US markets. Going forward, the management feels that the bank has better opportunities in the domestic corporate market and hence expects the international book to grow in line with the overall loan book.

The management has guided for a 60:40 mix in its loan book between retail and corporate loans in the long run by growing the retail book at 1.5x and the corporate book at 0.7x times the overall loan growth of the bank. There is immense growth potential for the bank in its retail book as it currently offers this product only to existing to bank customers.



(Source: Company, HDFC sec)



Following table gives an industry wise outstanding loan balances as of December 2022 and 2021:

Particulars (INR crore)	Mar'22		Mar'23	
	Outstanding	Share (%)	Outstanding	Share (%)
Infrastructure of which	1,03,549	15.1	1,05,934	13.3
1. Power	50,260	7.3	49,560	6.2
2. Telecom	10,871	1.6	9,226	1.2
3. Roads & Ports	26,482	3.9	34,656	4.4
4. Other Infrastructure	15,937	2.3	12,493	1.6
Basic Metals & Metal Industry	9,801	1.4	13,675	1.7
<i>of which</i>				
Iron & Steel	7,920	1.2	11,480	1.4
Textiles	17,161	2.5	16,025	2.0
Petroleum	10,947	1.6	12,564	1.6
All Engineering	6,706	1.0	7,399	0.9
Food Processing	15,151	2.2	15,605	2.0
Chemicals and Chemical Products	11,541	1.7	12,607	1.6
NBFC	83,978	12.3	1,09,096	13.7
Other Industries / Sectors	1,65,270	24.2	1,90,722	24.0
Retail Loans	1,50,253	22.0	1,87,688	23.6
Agriculture	1,09,796	16.0	1,24,247	15.6
Gross Domestic Advances	6,84,153	100.0	7,95,560	100.0

(Source: Company, HDFC sec)

As can be seen from above table, NBFC contributes 13.7% to the domestic book of the bank, which makes it a material part of the total loan book. The bank has disclosed that, at global NBFC advances level, only 0.82% of the book is rated BB & below as of March 2023, against 0.94% in the previous quarter.



Healthy liability profile

BoB has remained disciplined in managing the liability profile at a time where liquidity was abundant. Additional deposits were not accepted which could be hard to deploy. Deposit growth in past few quarters was largely from CASA deposits and bulk deposit has been reduced significantly. In Q4FY23, the global deposits growth was strong 15/5% YoY/QoQ. Within that, international deposits have grown at 31/7% which is slightly more than the growth in international loans. Domestic deposits have grown 13/4% YoY/QoQ. Domestic CASA ratio stood at 42.25% in Q4FY23 (down 199bps YoY but up 62bps QoQ). Domestic Term deposits growth stood at 17/3% YoY/QoQ. Within bulk deposits drove the overall growth, increasing by 70/8% YoY/QoQ, while retail deposits grew by 3/1% YoY/QoQ. Given the hardening interest rates, the management expects TD growth rate to outpace CASA deposits going forward.

Further, the bank feels, the recent announcement in the Budget by the Finance Minister related to the new income tax regime being the default one, has a potential to increase the deposit growth as it gives a level playing field to the banks as against tax saving investments. It also feels that this could stimulate consumption demand which can benefit the retail loan book of the bank.

	Q4FY23	Q3FY23	Q4FY22	QoQ%	YoY%
Domestic CASA Deposits	4,42,511	4,17,812	4,10,123	5.9	7.9
Domestic Savings Deposits	3,67,400	3,52,620	3,41,343	4.2	7.6
Domestic Current Deposits	75,111	65,192	68,780	15.2	9.2
Term Deposits	6,04,864	5,85,925	5,16,888	3.2	17.0
Retail Term Deposits	4,15,211	4,09,593	4,05,187	1.4	2.5
Bulk Deposits	1,89,653	1,76,332	1,11,701	7.6	69.8
Total Domestic Deposits	10,47,375	10,03,737	9,27,011	4.3	13.0
International Deposits	1,56,313	1,45,770	1,18,928	7.2	31.4
Total Global Deposits	12,03,688	11,49,507	10,45,939	4.7	15.1
Domestic CASA (%)	42.25%	41.63%	44.24%	(199bps)	62bps

(Source: Company, HDFC sec)

It can be seen from the above table that a huge chunk of sequential increase in the bank's domestic deposits has come from term deposits. The term deposits consist of both retail and wholesale deposits. The wholesale deposits primarily span around 1 year and witnessed a sequential increase of 70%. This has majorly contributed to the 17% sequential growth in Term Deposits. In an increasing interest rate environment, the bank has done a good job by growing lower cost saving balances by 7.6% v/s 2.5% sequential growth in



higher cost retail deposits. The bank feels confident about the visibility of interest rates for the coming 12-15 months and hence does not want to commit to the interest rate cycle beyond this period. The bank will resume its focus on longer tenure deposits (as it has done in the past) once it gains confidence on the longer term interest rate cycles.

Margins expected to be sustained

The bank reported NIM of 3.53% in Q4FY23 v/s 3.08% in Q4FY22 and 3.31% for FY23 v/s 3.03% in FY22. Though the cost of deposit is rising, the management feels that the large (60%) MCLR linked loan book will support the margin by re-pricing in the coming quarters. The bank's strategic shift from international corporate to domestic corporate book, and from secured retail to unsecured retail book is expected to further aid the margins. The unsecured personal loans book stands at Rs. 19,645 crores (102/14% YoY/QoQ), which is approximately 1/5th of the housing loan book but contributes as much to the NII as contributed by the housing loan book on account of high interest rates charged for unsecured personal loans. In an interview, the existing MD and CEO Mr. Sanjiv Chadha expressed the potential of growing this book by 4x. The bank has guided for the NIM to be roughly around the level of 3.3% in FY24.

In terms of its operating margins, the bank feels that it is well placed to contain its costs. In a recent interview, the bank's MD and CEO mentioned that the bank's digital initiatives have helped it to beat the opex growth of the industry (16% v/s 12.9%) This is backed by the leveraging operational efficiency from BoB World and by outsourcing operations to its wholly owned back office subsidiary- Baroda Global Shared Services (BGSS). This company currently has approximately 5,000 employees.

Strong Capital Adequacy Ratio

As compared to other PSB peers the bank is adequately capitalized. As of Q4FY23, the total consolidated Capital Adequacy Ratio stood at 16.73% with 12.83% Tier I Capital. The CRAR and Tier I at standalone level stood at 16.24% and 12.24% respectively. Even with strong growth in FY23, the bank's capitalization has remained higher than FY22 levels and hence the bank may not need to raise any fund in the near future on account of strong internal accruals. The current domestic Credit to Deposit ratio of 75% and liquidity coverage ratio of 135.4% further allows the bank to be able to tap future growth prospects via internal accruals and excess liquidity in hand. Management believes that the subsidiaries are largely self-sufficient in meeting their capital requirements in short-to-medium-term and will require limited capital support from BoB.

Digitization efforts paying off

In 2015, Mr. P.S. Jayakumar was appointed by the Government as the CEO and Managing Director of the bank. He initiated the digital push in the bank and used the space saved in the branches to attend customers. In January 2020, Mr. P.S. Jayakumar was succeeded by Mr. Sanjiv Chadha who carried forward the transformation journey of the bank. This focus on digital initiatives led to an increased outflow

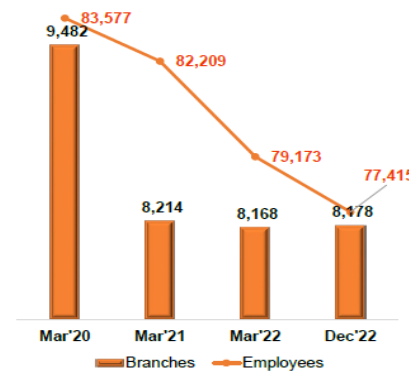


initially but now has enabled the bank to control the rate at which its opex towards branch and employee costs rise. Few of its digital milestones achieved in Q4FY23 include:

- 93% of the total transactions of the bank have been completed digitally.
- 79% of the savings accounts, 92% of the current accounts, 67% of the Fixed Deposits, 49% of the credit cards, 86% of the personal loans, 69% of the housing loans, 66% of auto loans, 65% of retail loans have been opened/issued digitally.
- As per NPCI, the bank ranks 3rd in terms of highest UPI remittances.
- As per RBI, the bank ranks second in terms of the number of debit cards issued.
- The BoB World app has seen 53 million downloads so far and has 30 million active users.
- Approximately 88% of IMPS transactions and 81% of billpay transactions are processed via BoB world.
- The bank launched international UPI remittance in Mauritius, Nepal, Bhutan, UAE, and Singapore.

The bank’s digital initiatives and outsourcing has helped bank in saving employee costs by reducing its workforce from ~84,000 in March 2020, to ~77,000 in December 2022. Following chart shows how the bank is able to reduce the number of its branches and employees while at the same time increase its business per employee:

Number of Branches & Employees



	Mar-20	Dec-22	
Retail assets (lakh crore)	1.2	1.8	↑ 46%
Retail deposits (lakh crore)	6.9	8.3	↑ 19%
Total Retail Business (lakh crore)	8.2	10	↑ 26%
Total Retail Business Per Employee (crore)	9.6	13.0	↑ 36%
Domestic advances ¹ (lakh crore)	8.1	7.6	↑ 24%
Domestic deposits ¹ (lakh crore)	14.2	10	↑ 24%
Total Business (lakh crore)	6.1	17.6	↑ 24%
Total Domestic Business Per Employee (crore)	17.0	22.8	↑ 34%

(Source: Company, HDFC sec)

However, this has not stopped the bank from hiring quality talent. The bank has been able to hire lateral talent at market salaries and has an attrition level as low as 0.1% among General Manager posts and above, primarily due to work satisfaction and employee freedom. The bank recently recruited a new CFO, CRO, CDO, Head of Collections and Head of Home Loans from the market. As per the existing MD and CEO, the bank is now able to attract lateral talent from other banks and is also able to retain them.



Risks & Concerns

- Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the Bank.
- Lower than expected business growth or sharp rise in slippages due to economic slowdown could result in deterioration in profitability and capital. Progress on recoveries will be important point to watch out in coming quarters.
- A sharp rise in interest rate could also result in MTM losses on its investment portfolio. As of March 2023, its domestic investments stood at Rs. 3,52,875 crores; 69.53% of this book is HTM in nature, 30.37% are AFS securities. The modified duration of AFS securities is 1.6 as of March 2023. This means that for every 1% increase in the interest rates, an approx. MTM loss would be Rs. 1,715 crores.
- Any further delay in the resolution of large assets due to current uncertainties and extension granted under IBC can postpone recoveries.
- The earnings profile of the bank has remained weak in the past due to high NPAs, however, situation has been improving and credit growth in the system is also notching up. We are optimistic on the growth front, though we will keep a watch on the credit costs going forward and the impact of ECL provisions on the profitability.
- As the bank is a state owned bank, it has to seek tenders for all its needs, this is avoided by private sector banks (with which BoB is now competing) which saves them time.
- Recently, the RBI had reached out to all banks and NBFCs asking them to stay cautious about extending unsecured retail loans. A CIBIL report highlighted the fall in collection efficiency in December 2022 v/s December 2021 and rise in delinquencies, in unsecured personal loans. The existing MD and CEO of the bank said that in the case of BoB, the size of the unsecured personal loans book is not as material as it is in case of other banks and NBFCs. Further, Mr. Chadha also mentioned that the granularity in the unsecured retail loans will rather help the bank to de-risk its book from the corporate loans. Going forward, we shall remain specifically watchful of the quality of the bank's unsecured retail book.
- The existing MD and CEO of the bank, Mr. Sanjiv Chadha is set to retire on 30th June 2023 and will be succeeded by Mr. Debadatta Chand for a period of 3 years commencing from 1st July 2023. He is currently serving as the bank's executive director and has a total of 27 years of experience in the banking domain. We shall remain watchful of this transition at the top level of the bank.

Company Background:

Bank of Baroda (BoB) established on July 20, 1908 is an Indian state-owned banking and financial services organization, headquartered in Vadodara, in Gujarat, India. Under the 'Alternative Mechanism' scheme, the Government announced the amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda which came into effect on April 1, 2019. The Government of India held ~64% stake in the bank as of Q4FY23. Bank of Baroda is one of India's largest banks with a strong domestic presence spanning 8,426 branches. The Bank has a significant international presence with a network of 84 overseas offices spanning 17 countries. The bank offers a wide range of banking and financial products and services to both large and mid-sized corporates and micro, small and medium enterprises as well as retail and agriculture customers.

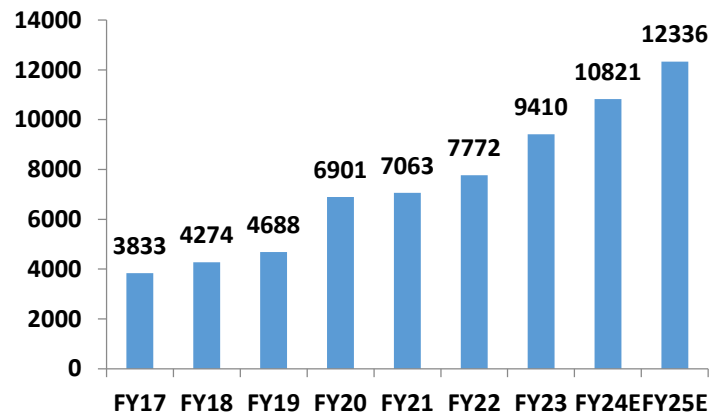


The bank has wholly owned subsidiaries including BOB Financial Solutions Limited, BOB Capital Markets, Baroda Global Shared Services Ltd., and Baroda Asset Management India Limited. BOB also has joint venture for life insurance with India First Life Insurance (stake65%). The bank has also sponsored India Infradebt Ltd along with ICICI Bank.

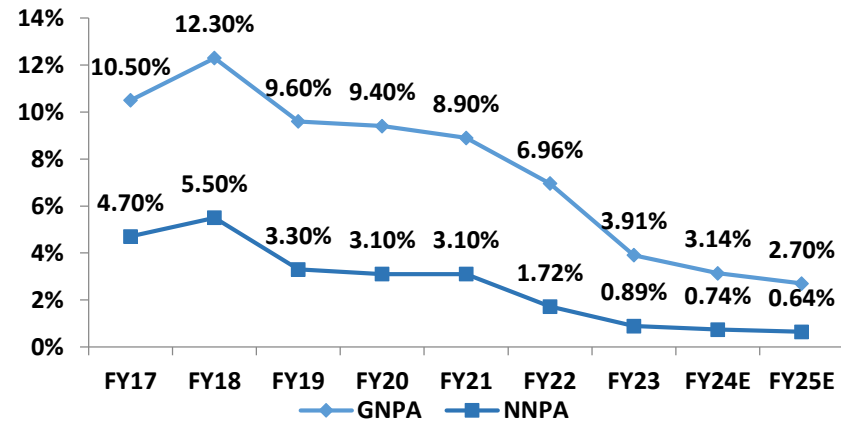
Peer comparisons

	CMP	P/BV			P/E			FY23						
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	ROAE (%)	ROAA (%)	NIM %	GNPA %	NNPA %	CASA %	Loan Book (Rs. Cr)
BOB	195	1.0	0.9	0.8	7.2	6.1	4.8	15.3	1.0	3.3	3.9	0.9	41.0	969548
SBI	567	1.4	1.3	1.2	9.1	8.9	7.9	19.4	0.9	3.4	2.7	0.7	43.8	3269242
Canara	306	0.7	1.3	1.1	5.1	14.6	12.9	19.5	0.9	3.1	5.4	1.7	33.5	862782

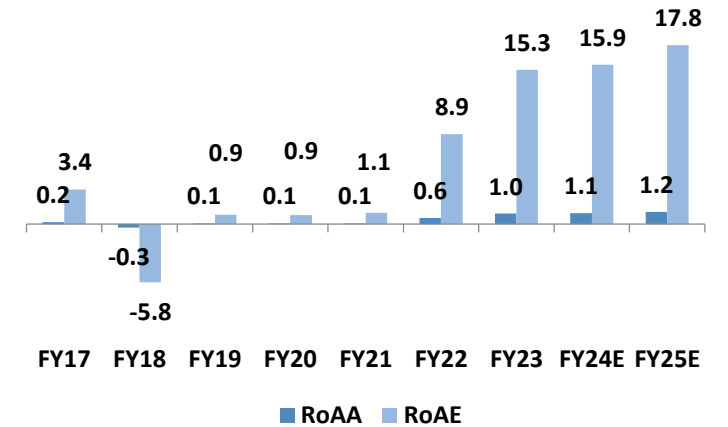
Loan Book (Rs. bn) to grow at 14% CAGR over FY23-25E



NPA trend %



Return Ratios (%)





BOB Financials Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	70495	69881	89588	104192	120421
Interest Expenses	41686	37259	48232	56187	61866
Net Interest Income	28809	32621	41356	48005	58555
Non interest income	12364	11484	10026	10824	11579
Operating Income	41173	44105	51382	58829	70134
Operating Expenses	20544	21716	24518	27836	30861
PPP	20630	22389	26864	30993	39274
Prov & Cont	15074	13002	7137	8565	10363
Profit Before Tax	5556	9386	19727	22428	28910
Tax	4727	2114	5618	5831	7661
PAT	829	7272	14109	16597	21249

Balance Sheet

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1036	1036	1036	1036	1036
Reserves & Surplus	76010	84874	97187	110160	126749
Shareholder funds	77046	85910	98223	111196	127785
Deposits	966997	1045939	1203688	1359566	1536358
Borrowings	66848	103899	101910	119036	135701
Other Liab & Prov.	44474	42252	54740	60214	66236
SOURCES OF FUNDS	1155365	1278000	1458562	1650012	1866080
Cash & Bank Balance	120413	122655	95703	87757	102606
Investment	261220	315795	362485	416858	458544
Advances	706301	777155	940998	1082148	1233649
Fixed Assets	8016	9922	8707	9142	9599
Other Assets	59415	52472	50668	54107	61682
TOTAL ASSETS	1155365	1278000	1458562	1650012	1866080



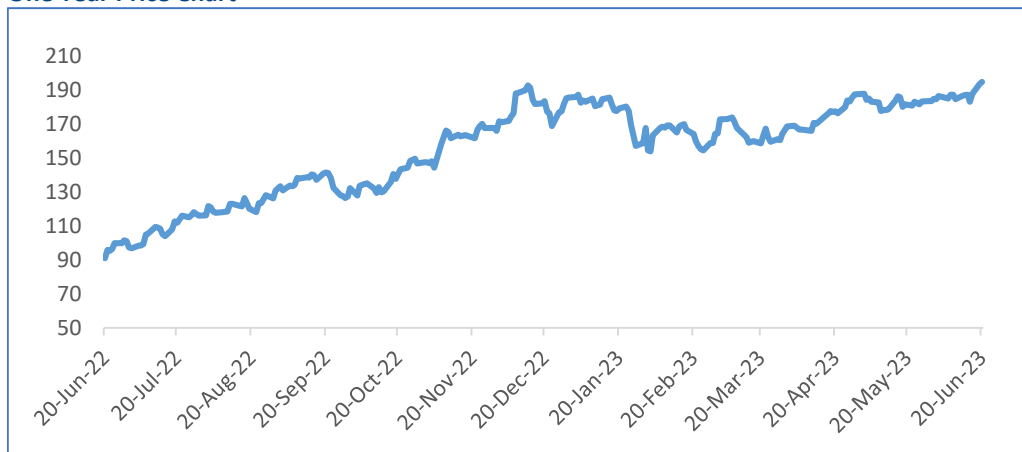
Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
Return Ratios					
Calc. Yield on adv	10.0%	9.0%	9.5%	10.3%	10.4%
Calc. Cost of funds	4.0%	3.2%	3.7%	3.8%	3.7%
NIM	2.7%	3.0%	3.3%	3.3%	3.6%
RoAE	1.1%	8.9%	15.3%	15.9%	17.8%
RoAA	0.1%	0.6%	1.0%	1.1%	1.2%
Asset Quality Ratios					
GNPA	8.9%	7.0%	3.9%	3.1%	2.7%
NNPA	3.1%	1.7%	0.9%	0.7%	0.6%
PCR	67.3%	75.3%	77.2%	76.4%	76.3%
Growth Ratios					
Advances	2.3%	10.0%	21.1%	15.0%	14.0%
Deposits	2.2%	8.2%	15.1%	13.0%	13.0%
NII	4.9%	13.2%	26.8%	16.1%	22.0%
PAT	51.8%	777.3%	94.0%	17.6%	28.0%

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratios					
EPS	1.6	14.0	27.2	32.1	41.0
P/E	121.8	13.9	7.2	6.1	4.8
Adj. BVPS	106.7	140.1	173.5	199.3	231.5
P/ABV	1.8	1.4	1.1	1.0	0.8
Dividend per share	0.0	2.9	5.5	7.0	9.0
Other Ratios					
Cost-Income	49.9	49.2	47.7	47.3	44.0
CASA	40.2	41.5	41.0	39.9	38.9
CAR	15.0	15.8	16.7	15.3	16.6
Tier 1	12.7	13.3	14.5	13.4	14.8

One Year Price Chart





HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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I, **Varun Manek**, Research Analyst, **ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Bank of Baroda



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