

## Safeguarding margins over growth; guidance unchanged..

About the stock: Bank of Baroda is the third largest public sector bank with a global loan book of ~₹ 10.7 lakh crore and strong operating metrics among PSBs

- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Total ~16% of total business comes from overseas

**Q1FY25 performance:** Bank of Baroda Q1FY25 performance were mixed. Moderation was seen in credit growth (8.1% YoY) led by de-growth in corporate segment. Deposits grew at 8.9% YoY, with relatively better CASA growth at 6% YoY. Margin declined 9 bps, both QoQ and YoY to 3.27%, resulting in muted growth in NII at 5.5%. Other income declined 25% YoY, owing to accounting change in treasury income and lower recoveries. Thus, operating profit declined 8.5% YoY while PAT grew 10% YoY to ₹4458 crore, led by lower provision. GNPA declined 4 bps QoQ to 2.88% while slippages remained steady at 1.05%. However, the management maintained guidance to deliver 12-14% growth in advances and RoA at ~1-1.1%.

### Investment Rationale

- Outlook on growth and margins remains steady:** In Q1FY25, advances growth witnessed moderation at 8.1% YoY, with de-growth in corporate segment. Conscious strategy to decline dependence on bulk deposit and safeguard margins led to slower traction in advances. However, management remains confident of delivering 12-14% growth in FY25E, with continued strategy to focus on retail portfolio. Strong franchise and customer base is seen to aid deposit flows thereby aiding credit growth. Margins came at 3.27%, down 9 bps QoQ, with outlook remaining steady (guidance at 3.15%) with CD ratio at 80-82% (currently at ~82%) and maturity of low yield corporate exposure.
- Asset quality remains steady:** Asset quality remained broadly steady with slippages at 1.05% and decline in GNPA ratio from 2.92% in Q4FY24 to 2.88% in Q1FY25. MSME and retail witnessed higher slippages, however, moderation in unsecured retail credit growth is underway. Going ahead, management guides for slippages at 1-1.25% and credit cost at <1%

### Rating and Target Price

- Bank of Baroda has delivered steady performance in terms of healthy business growth, improvement in margins and asset quality resulting in uptick in earnings.
- Continued in-line industry growth (12-14%) coupled with steady margin (~3.15%) and benign credit cost (<1%) is expected to enable the bank to deliver RoA at 1-1.1% ahead. We maintain multiple at ~1.1x FY26E BV thereby keeping our target unchanged at ₹300. Recommend Buy.



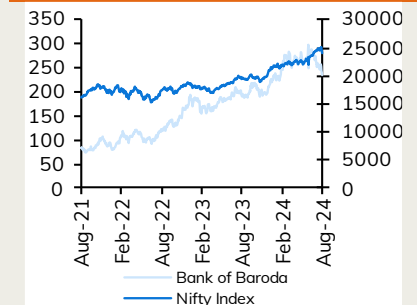
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1,21,346 crore
Networth	₹ 1,12,224 crore
52 week H/L	300/ 186
Face value	2
DII Holding (%)	15.8
FII Holding (%)	11.5

### Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	64.0	64.0	64.0	64.0
FII	12.4	12.3	12.4	11.5
DII	15.7	15.8	16.0	15.8
Others	7.9	8.0	7.6	8.8

### Price Chart



### Key risks

- Moderation in retail credit growth
- Erosion in margins led by higher cost of deposit

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### Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	28,809	32,621	41,356	44,722	15.8%	47,950	52,647	8.5%
PPP	21,199	22,389	26,864	30,965	13.5%	31,389	33,860	4.6%
PAT	829	7,272	14,110	17,789	177.9%	18,256	19,545	4.8%
ABV (₹)	106.7	140.1	173.2	202.1		230.6	263.5	
P/E	-12.4	16.7	8.6	6.8		6.7	6.2	
P/ABV	2.2	1.7	1.4	1.2		1.0	0.9	
RoA	-0.8	0.6	1.0	1.2		1.1	1.1	
RoE (%)	-13.1	8.9	15.3	16.9		15.2	14.2	

## Concall highlights and outlook

### Highlights

- The bank saw muted advance growth of 8% for the quarter against the guidance given. The management acknowledged this and cited Q1 to be sluggish quarter and they prioritized margin preservation over growth.
- Growth was compressed due to higher concentration of low-yielding assets which matured in Q1FY25
- The management stated moderation in PL growth was another reason for lower growth this quarter. Guidance going ahead for PL growth to be at a normalized rate of 30% to 35%.
- There is consistent and conscious effort to lower concentration of bulk deposits, which was highlighted in the previous 2 quarters. Going ahead, the bank will focus on retail deposit and further reduction of dependence on bulk deposits.
- The operating profit took a hit mainly due to lower other income due to 1) Moderation in fee-based income (slower wealth management activity owing to implementation of additional control mechanism), 2) lower recoveries (management kept recovery target unchanged) and 3) change in accounting of treasury income.
- The bank reported NPAs in line with previous guidance and are pretty comfortable with the asset quality.
- There was a write-back of depreciation of around ₹ 625 crore, which was an additional depreciation to the extent of ₹ 76 crore.
- LDR to remain in the range of 80% to 82%, while being watchful of advances & deposits growth.
- MSME segment has been pretty stable since the past few quarters and outlook for the same is positive.
- This quarter saw emphasized focus on retail gold loans rather than agri gold loans since they are higher yielding/ higher margin products.

### Guidance

- Credit growth – 12% to 14%
- Deposit growth – 10% to 12%
- NIM – 3.15% (+/- 5 bps)
- Slippages – < 1.2%
- Credit cost – < 0.75%
- RoA – ~1.1%

**Exhibit 1: Variance Analysis**

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	11,600	10,997	5.5	11,793	-1.6	NII momentum impacted due to slower business growth
NIM (%)	3.2	3.3	-9 bps	3.3	-9 bps	10 bps decline in margin with positive one-off
Other Income	2,487	3,322	-25.1	4,191	-40.7	Lower recoveries and investment income accounting impacted other income
Net Total	14,087	14,319	-1.6	15,984	-11.9	
Staff cost	4,014	3,754	6.9	4,547	-11.7	
Other Operating Expenses	2,912	2,740	6.3	3,331	-12.6	
PPP	7,161	7,824	-8.5	8,106	-11.7	
Provision	1,011	1,947	-48.1	1,302	-22.4	Credit cost steady at 47 bps
PBT	6,151	5,878	4.6	6,804	-9.6	
Tax Outgo	1,692	1,807	-6.4	1,918	-11.7	
PAT	4,458	4,070	9.5	4,886	-8.8	Slower business growth impacted earning momentum
<b>Key Metrics</b>						
GNPA	30,873	34,832	-11.4	31,834	-3.0	Slippages ratio steady at 1.05%
NNPA	7,232	7,482	-3.4	7,213	0.3	NNPA ratio at 0.69%
Advances	10,47,949	9,63,491	8.8	10,65,782	-1.7	Retail segment witnessed growth; corporate de-grew
Deposits	13,06,994	11,99,908	8.9	13,26,958	-1.5	CASA ratio trend relatively better at 40.6%

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	69881	89589	112606	121734	132264
Interest Expended	37259	48233	67884	73784	79617
<b>Net Interest Income</b>	<b>32621</b>	<b>41356</b>	<b>44722</b>	<b>47950</b>	<b>52647</b>
growth (%)	13.2	26.8	8.1	7.2	9.8
Non Interest Income	11484	10026	14495	13787	15045
<b>Net Income</b>	<b>44105</b>	<b>51382</b>	<b>59217</b>	<b>61737</b>	<b>67691</b>
Employee cost	11979	13357	15816	17125	19215
Other operating Exp.	9738	11161	12436	13222	14616
<b>Operating Income</b>	<b>22389</b>	<b>26864</b>	<b>30965</b>	<b>31389</b>	<b>33860</b>
Provisions	13002	7137	6076	7048	7799
<b>PBT</b>	<b>9386</b>	<b>19727</b>	<b>24890</b>	<b>24342</b>	<b>26061</b>
Taxes	2114	5617	7101	6085	6515
<b>Net Profit</b>	<b>7272</b>	<b>14110</b>	<b>17789</b>	<b>18256</b>	<b>19545</b>
growth (%)	777.3	94.0	26.1	2.6	7.1
EPS	14.0	27.3	34.4	35.3	37.7

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
<b>Valuation</b>					
No. of Equity Shares	517.8	517.8	517.8	517.8	517.8
BV (₹)	165.9	189.7	216.7	248.3	282.1
ABV (₹)	140.1	173.2	202.1	230.6	263.5
P/E	16.7	8.6	6.8	6.7	6.2
P/BV	1.4	1.2	1.1	0.9	0.8
P/ABV	1.7	1.4	1.2	1.0	0.9
<b>Yields &amp; Margins (%)</b>					
Net Interest Margins	2.8	3.2	3.2	3.1	3.1
Avg. Cost of Deposits	3.3	3.7	4.7	4.7	4.7
Yield on average advances	6.6	7.5	8.5	8.3	8.1
<b>Quality and Efficiency (%)</b>					
Cost / Total net income	49.2	47.7	47.7	49.2	50.0
Credit/Deposit ratio	74.3	78.2	80.3	81.0	81.4
GNPA	6.6	3.8	2.9	2.6	2.3
NNPA	1.7	0.9	0.7	0.8	0.7
RoE	8.9	15.3	16.9	15.2	14.2
RoA	0.6	1.0	1.2	1.1	1.1

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
<b>Sources of Funds</b>					
Capital	1036	1036	1036	1036	1036
Reserves and Surplus	84874	97187	111188	127506	145027
<b>Networth</b>	<b>85910</b>	<b>98223</b>	<b>112224</b>	<b>128542</b>	<b>146062</b>
Deposits	1045939	1203688	1326958	1471144	1640124
Borrowings	103899	101910	94402	92864	91911
Other Liab & Prov (incl sub-debt)	42252	54740	52213	54824	57565
<b>Total</b>	<b>1278000</b>	<b>1458562</b>	<b>1585797</b>	<b>1747374</b>	<b>1935663</b>
<b>Application of Funds</b>					
Fixed Assets	9922	8707	7913	8546	9229
Investments	315795	362485	369817	396763	425866
Advances	777155	940998	1065782	1192242	1334269
Other Assets	52472	50668	47162	60141	72036
Cash with RBI & call money	122655	95703	95124	89683	94264
<b>Total</b>	<b>1278000</b>	<b>1458562</b>	<b>1585797</b>	<b>1747374</b>	<b>1935663</b>

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	10.6	14.1	8.7	10.2	10.8
Advances	10.0	21.1	13.3	11.9	11.9
Deposits	8.2	15.1	10.2	10.9	11.5
Total Income	13.3	22.4	15.2	4.3	9.6
Net interest income	13.2	26.8	8.1	7.2	9.8
Operating expenses	5.7	12.9	15.2	7.4	11.5
Operating profit	134.2	20.0	15.3	1.4	7.9
Net profit	-174.3	94.0	26.1	2.6	7.1
Book value	11.5	14.3	14.3	14.5	13.6
EPS	-174.3	94.0	26.1	2.6	7.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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