

Recoveries aided PAT; outlook remains steady..

About the stock: Bank of Baroda is the third largest public sector bank with a global loan book of ~₹ 11.4 lakh crore and strong operating metrics among PSBs

- The bank has a meaningful presence in international operations with its JVs and subsidiaries. Total ~17% of total business comes from overseas

Q2FY25 performance: Bank of Baroda reported steady Q2FY25 results, wherein gross advances rose 11.6% YoY (6.7% QoQ) to ₹11,43,039 crore, led by 20% YoY rise in retail book driven by auto (23% YoY), home (16.2%) & personal loans (25.2% YoY). Deposit accretion came at 9.1% YoY (4.3% QoQ) to ₹13,63,486 crore, with CASA ratio at 39.84%. NII grew moderately at 7.3% YoY, while NIM was largely stable at 3.1% (domestic NIM - 3.28%). Moderation in fee income, surge in treasury gains and increased recoveries led to PAT growth of 23.2% YoY (17.5% QoQ) to ₹5,238 crore, with RoA inching up 17 bps QoQ to 1.3%. Slippages ratio was steady at 1.07% and GNPA/NNPA ratios improved 38 bps/9 bps QoQ to 2.5%/0.6% respectively.

Investment Rationale

- Outlook on growth and margins remains steady:** In Q2FY25, advances witnessed growth at 11.6% YoY, supported by growth in RAM segments. Conscious strategy to decline dependence on bulk deposit and safeguard margins led to slower traction in advances. However, management remains confident of delivering 11-13% 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 3.1%, down 8 bps QoQ, with outlook remaining steady (guidance unchanged at 3.15% plus/minus 5 bps) with CD ratio at 80-82%. (currently at ~83.83%) and maturity of low yield corporate exposure.
- Asset quality remains steady:** Asset quality remained broadly steady with slippages at 1.07% and decline in GNPA ratio from 2.88% in Q1FY25 to 2.5% in Q2FY25. MSME and retail witnessed higher slippages, however, relatively smaller size of unsecured exposure (3-4% of advances) and moderation in unsecured retail credit growth is expected to limit possibility of any major concern. Going ahead, management guides for slippages at 1-1.25% and credit cost at <0.75%.

Rating and Target Price

- Bank of Baroda has delivered steady performance in terms of healthy business growth, stable margins and asset quality resulting in uptick in earnings.
- In-line industry growth (12-14%) coupled with steady margin (~3.15%) and benign credit cost (<0.75%) is expected to enable the bank to deliver RoA at 1-1.1% ahead. Rolling valuation to FY27E, we value the bank at ~1x FY27E BV and maintain our target price at ₹300. Maintain Buy rating.

Key Financial Summary

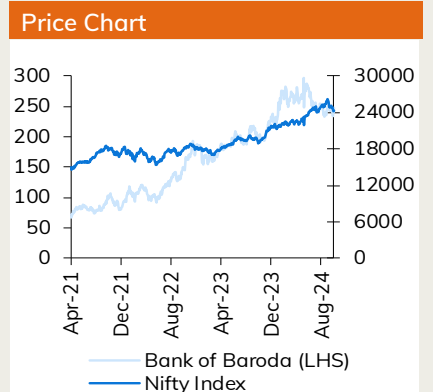
Key Financials (₹ Crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
NII	28,809	32,621	41,356	44,722	15.8%	47,386	51,865	56,514	8.1%
PPP	21,199	22,389	26,864	30,965	13.5%	31,090	33,370	35,562	4.7%
PAT	829	7,272	14,110	17,789	177.9%	18,032	19,199	20,208	4.3%
ABV (₹)	106.7	140.1	173.2	202.1		233.3	265.6	299.7	
P/E	-13.2	17.8	9.2	7.3		7.2	6.7	6.4	
P/ABV	2.3	1.8	1.4	1.2		1.1	0.9	0.8	
RoA	-0.8	0.6	1.0	1.2		1.1	1.0	1.0	
RoE (%)	-13.1	8.9	15.3	16.9		15.0	14.0	13.1	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalisation	₹ 1,29,206
Networth	₹ 1,19,712
52 week H/L	300 / 191
Face value	2

Shareholding pattern					
(in %)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	64.0	64.0	64.0	64.0	64.0
FII	12.4	12.3	12.4	11.5	9.9
DII	15.7	15.8	16.0	15.8	16.4
Others	7.9	8.0	7.6	8.8	9.8



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

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Concall highlights and outlook

- In terms of credit growth, global advances grew 11.6% YoY, while domestic advances growth came at 12.6% and international advances rose by 6.5% YoY
- To focus on sustainable growth, credit growth guidance was revised to 11-13% from previous 12-14%, with an aim to operate at upper end of the range.
- The bank plans to expand its retail book aggressively, aiming to reach 35% of the total loan portfolio in the upcoming 2-3 years
- Retail loan growth was 20% YoY, agriculture & corporate segments grew at 10.6% YoY while MSME advances increased by 11.7% YoY. Personal loan growth witnessed slowdown from 39.2% in previous quarter to 25.2% in Q2FY25 and further moderation is expected.
- With focus on liabilities accretion, total deposits accretion came at 9.1% YoY, of which domestic deposits grew 7.1% YoY while international deposits growth moderated at 21.2% YoY vs ~35% YoY in previous quarter due to repricing in international market owing to a flat rate card, with future growth expected to align more closely with domestic levels. Deposit growth guidance was also lowered from 10-12% to 9-11%, with an aim to operate at 11%, keeping in line with the revision in credit growth guidance
- Bank is focussed on prioritizing retail deposits over bulk deposits and management anticipates cost of deposits to moderate
- Guidance on margins maintained at 3.15%, plus/minus 5 bps, (NIM at 3.1% in Q2FY25). Change in regulations with respect to penal charges impacted the NIM by 5 bps
- There was prudential provisioning of ~₹300 crore, increase in standard assets provisioning as compared to Q1FY25. Slippage ratio stood at 1.07%, within the guidance of 1-1.25% which remains unchanged. Thus, credit cost came at 0.65%, well within previous quarter guidance of 1% which has been revised to 0.75%
- Surge in treasury income was mainly on account of the bond market, exposure to equity was limited relatively
- RoA guidance is to maintain above 1.1%
- The bank reported strong income in recovery from write-off during the quarter due to recovery in a large NCLT account
- Management indicated that 1/3rd of aviation exposure against guarantee has been recovered and the rest is under legal process, increasing recovery expectations for H2FY25
- Higher proportion of slippages were from ticket sizes < ₹5 crore, largely belonging to RAM segments
- Recovery is anticipated from a major account that slipped, belonging to the Middle East real estate sector
- Recovery target for FY25 is ₹12,000 crore, whereas slippages target is ₹9,000 to ₹10,000 crore, thus creating a ₹2,000 crore cushion between recoveries & slippages
- Collection efficiency ex-agri remained robust at 98.5%
- The composition of the loan book was as follows: 47% MCLR, 41% EBLR, while total floating rate book stood ~80%
- Digital banking remained a key focus area as the bank announced 'Aditi', a virtual relationship manager based on an AI-driven model to improve customer engagement.

Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	11,622	10,831	7.3	11,600	0.2	
NIM (%)	3.1	3.1	3 bps	3.2	-8 bps	5 bps impact due to changes with respect to penal interest
Other Income	5,181	4,171	24.2	2,487	108.3	Surge in recoveries while fee income moderated
Net Total	16,803	15,002	12.0	14,087	19.3	
Staff cost	4,040	3,706	9.0	4,014	0.6	
Other Operating Expenses	3,287	3,276	0.3	2,912	12.9	Cost efficiency improved 294 bps YoY to 43.6%
PPP	9,477	8,020	18.2	7,161	32.3	
Provision	2,336	2,161	8.1	1,011	131.1	Additional floating provisions of ₹230 crore in Q2FY25
PBT	7,141	5,859	21.9	6,151	16.1	
Tax Outgo	1,903	1,606	18.5	1,692	12.5	
PAT	5,238	4,253	23.2	4,458	17.5	Increased recoveries & steady operations boosted profitability
Key Metrics						
GNPA	28,551	33,968	-15.9	30,873	-7.5	Slippages ratio steady at 1.07%
NNPA	6,764	7,597	-11.0	7,232	-6.5	NNPA ratio improved 16 bps QoQ to 0.6%
Advances	11,21,171	9,97,995	12.3	10,47,949	7.0	Retail segment witnessed growth of 20% YoY
Deposits	13,63,486	12,49,647	9.1	13,06,994	4.3	CASA ratio trend relatively better at 39.84%

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	89589	112606	121170	131482	142726
Interest Expended	48233	67884	73784	79617	86212
Net Interest Income	41356	44722	47386	51865	56514
growth (%)	26.8	8.1	6.0	9.5	9.0
Non Interest Income	10026	14495	13787	15045	16421
Net Income	51382	59217	61172	66909	72935
Employee cost	13357	15816	17125	19215	21531
Other operating Exp.	11161	12436	12957	14324	15842
Operating Income	26864	30965	31090	33370	35562
Provisions	7137	6076	7048	7772	8617
PBT	19727	24890	24043	25598	26944
Taxes	5617	7101	6011	6400	6736
Net Profit	14110	17789	18032	19199	20208
growth (%)	94.0	26.1	1.4	6.5	5.3
EPS	27.3	34.4	34.8	37.1	39.0

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Valuation					
No. of Equity Shares	517.8	517.8	517.8	517.8	517.8
BV (₹)	189.7	216.7	247.9	281.2	316.4
ABV (₹)	173.2	202.1	233.3	265.6	299.7
P/E	9.2	7.3	7.2	6.7	6.4
P/BV	1.3	1.2	1.0	0.9	0.8
P/ABV	1.4	1.2	1.1	0.9	0.8
Yields & Margins (%)					
Net Interest Margins	3.2	3.2	3.1	3.0	3.0
Avg. Cost of Deposits	3.7	4.7	4.7	4.7	4.6
Yield on average advances	7.5	8.5	8.2	8.0	7.8
Quality and Efficiency (%)					
Cost / Total net income	47.7	47.7	49.2	50.1	51.2
Credit/Deposit ratio	78.2	80.3	81.0	81.1	81.4
GNPA	3.8	2.9	2.6	2.4	2.1
NNPA	0.9	0.7	0.6	0.6	0.6
RoE	15.3	16.9	15.0	14.0	13.1
RoA	1.0	1.2	1.1	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	1036	1036	1036	1036	1036
Reserves and Surplus	97187	111188	127327	144570	162810
Networth	98223	112224	128362	145606	163846
Deposits	1203688	1326958	1471144	1640124	1829926
Borrowings	101910	94402	92864	91911	91515
Other Liab & Prov (incl sub-debt)	54740	52213	54824	57565	60444
Total	1458562	1585797	1747194	1935206	2145730
Application of Funds					
Fixed Assets	8707	7913	8546	9229	9968
Investments	362485	369817	396763	425866	457315
Advances	940998	1065782	1192242	1330525	1489042
Other Assets	50668	47162	52326	67305	81857
Cash with RBI & call money	95703	95124	97318	102281	107550
Total	1458562	1585797	1747194	1935206	2145730

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	14.1	8.7	10.2	10.8	10.9
Advances	21.1	13.3	11.9	11.6	11.9
Deposits	15.1	10.2	10.9	11.5	11.6
Total Income	22.4	15.2	3.3	9.4	9.0
Net interest income	26.8	8.1	6.0	9.5	9.0
Operating expenses	12.9	15.2	6.5	11.5	11.4
Operating profit	20.0	15.3	0.4	7.3	6.6
Net profit	94.0	26.1	1.4	6.5	5.3
Book value	14.3	14.3	14.4	13.4	12.5
EPS	94.0	26.1	1.4	6.5	5.3

Source: Company, ICICI Direct Research

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Sell: <-15%



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