

Uptick in margins & one-off aid RoA; outlook remains steady

About the stock: Bank of Baroda is the third largest public sector bank with a global loan book of ~₹ 10.9 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

Q4FY24 performance: Bank of Baroda reported mixed performance. Slippages came elevated at ~1.1% of advances, led by two accounts – one aviation account (exposure of ₹1750 crore) and one international borrower (exposure of ₹500 crore). The bank made provision of ₹550 crore in Q4FY24 which led to higher credit cost thereby impacting earnings reported at 2.3% YoY growth. GNPA ratio/ NNPA ratio declined sequentially by 16/ 2 bps to 2.92%/ 0.68%. Growth in balance sheet remained steady with 12.5% YoY uptick in advances, driven by retail loans, while liabilities grew 10.2% YoY with increased dependence on bulk deposit. Margin increased 17 bps QoQ to 3.27%, including interest from IT refund. Core fee income grew 11.8% YoY, treasury gains and refund of ₹313 crore, led to 20.9% YoY in other income. Employee expense remains elevated amid ₹800 crore of wage settlement provision for retiree (including discount due to fall in yields).

Investment Rationale

- Outlook on growth and margins remains steady:** Advances growth came at 12.5% YoY, with retail segment (forming 28.3% of book) in focus growing at 20.7% YoY. Management guides for industry in-line growth at 12-14% in FY25E, with continued strategy to focus on retail portfolio. Liabilities accretion remains healthy, though dependence on bulk deposits witnessed an increase owing to continued competition on deposits. However, strong franchise and customer base is seen to aid deposit flows thereby aiding credit growth. Margins came at 3.27%, up 17 bps QoQ, however, adjusting for interest on IT refund, NIM stood at 3.15%. Going ahead, management expects margins to remain stable amid ability to reprice MCLR advances and scope to increase CD ratio (currently at 80.3%).
- Asset quality remains steady:** In Q4FY24, credit cost remained higher owing to provision of ₹550 crore in relation to exposure to an aviation sector exposure. However, given 100% provision on the account, government guarantee (one-third exposure) and healthy collateral, management remain confident on the probability of recovery. Going ahead, management guides for slippages at 1-1.25% and credit cost at <1%.
- Steady operational performance to aid RoA:** Steady opex coupled with stable margins is expected to aid RoA. Treasury gains (with anticipation of reversal in interest rates) could act as a positive surprise.

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 coupled with steady margin and benign credit cost is expected to enable the bank to deliver RoA at 1-1.1% ahead. Gains on treasury and recovery from existing stressed book to act as catalyst. Valuing the bank at ~1.1x FY26E BV, we assign target price at ₹300. Recommend Buy.



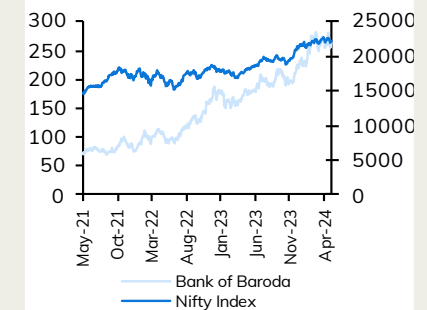
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,37,843 crore
Networth	₹ 1,12,224 crore
52 week H/L	286/ 178
Face value	2
DII Holding (%)	16.0
FII Holding (%)	12.4

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	64.0	64.0	64.0	64.0	64.0
FII	10.9	12.3	12.4	12.3	12.4
DII	17.7	15.8	15.7	15.8	16.0
Others	7.4	8.0	7.9	8.0	7.6

Price Chart



Key risks

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

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Gaurav Singh
gaurav.si@icicisecurities.com

Krishna Vyas
krishna.vyas@icicisecurities.com

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%	48,769	53,684	9.6%
PPP	21,199	22,389	26,864	30,965	13.5%	32,933	36,332	8.3%
PAT	829	7,272	14,110	17,789	177.9%	19,111	21,081	8.9%
ABV (₹)	106.7	140.1	172.3	212.0		238.5	270.1	
P/E	-13.8	18.6	9.6	7.5		7.1	6.4	
P/ABV	2.4	1.9	1.5	1.2		1.1	1.0	
RoA	-0.8	0.6	1.0	1.2		1.1	1.1	
RoE (%)	-13.1	8.9	15.3	16.9		15.4	15.1	

Concall highlights and outlook

Highlights

- Advance growth was in-line with previous guideline of 13%, though the bank delivered an overall growth of 12.5%
- Retail advances crossed INR 2 lakh crores, highlight strong retail book which has been growing at a pace of 20% for previous few quarters, expect similar momentum going forward
- Management stated pressure on deposit cost amid liquidity constraints led to increase in cost of deposits by 100 bps YoY from 3.78% in FY23 to 4.77% in FY24.
- NIMs were in-line with guidance. Excluding seasonal recoveries, normalized margins stood at 3.15% vs reported 3.27%
- Slippages were slightly higher but still below the guidance of 1.25%
- Interest rates are expected to moderate in Q2/Q3 which can give a further upside to profits

Asset Quality

- There were 2 major slippages which caused elevated provisions and costs, these includes an aviation account of ₹1750 crore and an international account of ₹500 crores. They together contributed increased slippage by ₹2,200 crores
- The aviation account was provided 100% out of which ₹1,200 crore, was provided till Q3 and remaining ₹550 crore got provided in Q4FY24. The management chose to provide fully for the account rather than the policy of only 20% provisioning
- The aviation account is heavily collateralized, 1/3rd of which is government guaranteed and thus the management is very optimistic on its recovery, legal proceedings for which are already in process.
- MSME slippages remained marginally higher, though high yield and adequate collateral provides comfort. GNPA on personal loans is well under control.
- Restructured book has reduced to ₹8,148 crore.

Profit & Loss

- Other income includes one-off income tax refund amounting to ₹313 crores
- Provision for employees doubled from ₹812 crores to ₹1,672 crore, led by ₹400 crore impact of wage settlement for retirees and another ₹400 crore due to decline in discount rate amid fall in bond yield.
- LCR fell from 135% to 120% due to realigning of business strategies

Guidance

- Advance growth: 12% - 14% YoY with focus on retail segment
- Deposit growth: ~10% - 12% with higher emphasis on CASA
- Margin: ~3.15%, +/- 5 bps
- RoA: ~1.1%
- Slippages at 1% to 1.25% and credit cost to be < 1%

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	11,793	11,525	2.3	11,101	6.2	Healthy business growth supported NII
NIM (%)	3.3	3.5	-26 bps	3.1	17 bps	Control in borrowing cost led to QoQ uptick in margins
Other Income	4,191	3,466	20.9	2,810	49.1	Core income grew 11.8%, treasury gains & refund propel other income
Net Total	15,984	14,991	6.6	13,912	14.9	
Staff cost	4,547	3,779	20.3	3,809	19.4	Additional wage related provision of ₹800 crore led by fall in yields
Other Operating Expenses	3,331	3,139	6.1	3,088	7.9	
PPP	8,106	8,073	0.4	7,015	15.6	
Provision	1,302	1,421	-8.4	666	95.4	Credit cost higher led by provision in lieu of aviation exposure
PBT	6,804	6,652	2.3	6,349	7.2	
Tax Outgo	1,918	1,877	2.2	1,769	8.4	
PAT	4,886	4,775	2.3	4,579	6.7	Treasury gains offset by higher provision
Key Metrics						
GNPA	31,834	36,764	-13.4	32,318	-1.5	Slippage of 2 accounts kept ratio higher at 1.1%
NNPA	7,213	8,384	-14.0	7,208	0.1	
Advances	10,65,782	9,40,998	13.3	10,24,099	4.1	Retail segment continue to aid advance growth
Deposits	13,26,958	12,03,688	10.2	12,45,300	6.6	CASA ratio healthy at 41.3%

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	69881	89589	112606	114788	127241
Interest Expended	37259	48233	67884	66020	73557
Net Interest Income	32621	41356	44722	48769	53684
growth (%)	13.2	26.8	8.1	9.0	10.1
Non Interest Income	11484	10026	14495	15205	16627
Net Income	44105	51382	59217	63974	70311
Employee cost	11979	13023	15816	16922	18377
Other operating Exp.	9738	11495	12436	14119	15602
Operating Income	22389	26864	30965	32933	36332
Provisions	13002	7137	6075	7453	8224
PBT	9386	19727	24890	25481	28108
Taxes	2114	5617	7101	6370	7027
Net Profit	7272	14110	17789	19111	21081
growth (%)	777.3	94.0	28.4	5.5	10.3
EPS	14.0	27.3	35.0	36.9	40.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	517.8	517.8	517.8	517.8	517.8
BV (₹)	165.9	189.7	224.3	253.8	286.4
ABV (₹)	140.1	172.3	212.0	238.5	270.1
P/E	18.6	9.6	7.5	7.1	6.4
P/BV	1.6	1.4	1.2	1.0	0.9
P/ABV	1.9	1.5	1.2	1.1	1.0
Yields & Margins (%)					
Net Interest Margins	2.8	3.2	3.2	3.0	3.0
Avg. Cost of Deposits	3.3	4.0	4.2	4.3	4.4
Yield on average advances	6.6	7.5	7.5	7.5	7.5
Quality and Efficiency (%)					
Cost / Total net income	49.2	47.7	47.4	48.5	48.3
Credit/Deposit ratio	74.3	78.2	79.9	80.8	81.3
GNPA	6.6	3.8	2.9	2.6	2.3
NNPA	1.7	1.0	0.6	0.7	0.6
ROE	8.9	15.3	16.9	15.4	15.1
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
Sources of Funds					
Capital	1036	1036	1036	1036	1036
Reserves and Surplus	84874	97187	111188	130379	147242
Networth	85910	98223	112224	131414	148277
Deposits	1045939	1203688	1326958	1485447	1652268
Borrowings	103899	101910	94402	124322	130326
Other Liab & Prov (incl sub-debt)	42252	54740	52213	63225	66386
Total	1278000	1458562	1585797	1804408	1997258
Application of Funds					
Fixed Assets	9922	8707	7913	8546	9229
Investments	315795	362485	369817	410708	441008
Advances	777155	940998	1065782	1200840	1343948
Other Assets	52472	50668	47162	65352	77168
Cash with RBI & call money	122655	95703	95124	118963	125904
Total	1278000	1458562	1585797	1804408	1997258

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	13.8	10.7
Advances	10.0	21.1	13.3	12.7	11.9
Deposits	8.2	15.1	10.2	11.9	11.2
Total Income	13.3	22.4	15.2	8.0	9.9
Net interest income	13.2	26.8	8.1	9.0	10.1
Operating expenses	5.7	12.9	15.2	9.9	9.5
Operating profit	134.2	20.0	15.3	6.4	10.3
Net profit	-174.3	94.0	26.1	7.4	10.3
Book value	11.5	14.3	18.2	13.2	12.8
EPS	-174.3	94.0	28.4	5.5	10.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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