

Bank of Baroda (BOB) is one of the largest public sector bank (PSB) in India in terms of asset size and also one of the largest bank in terms of branches. The bank has strong domestic presence with 5,368 branches and 10,441 ATM's across the country. BOB has presence in over 27 countries with 107 overseas branches/offices, which generates close to 29% of its total business.

### Key Developments

#### Retail liability franchise:

The bank has decided to move away from high cost bulk term deposits to low cost retail term deposits to reduce cost of funds. As a result, the bank's share of retail deposits to total deposits increased to ~74% as on FY16 from 63% in FY15.

#### Capital adequacy:

The Bank's capital adequacy ratio (CAR) as per Basel III norms continues to remain at 13.5% with Tier-I capital ratio of 10.4%.

#### Growth in advances over the years:

BOB registered a CAGR growth of 20% over FY10-15. The growth was largely led by the overseas loan book, which increased at a strong pace of 26% CAGR (32% of total advances) whereas domestic advances registered a healthy CAGR of 17%. Of the total domestic advances, large corporate formed 52% while the share of SME and retail were 21% and 18%, respectively as of FY15.

#### Decline in Net Interest margin (NIM):

Higher NPA recognition coupled with focus on the balance sheet growth (led by international business) in the past has impacted NIMs and core profitability of the bank. Hence, NIM declined to 2.4% in FY16 from 3.1% in FY12.

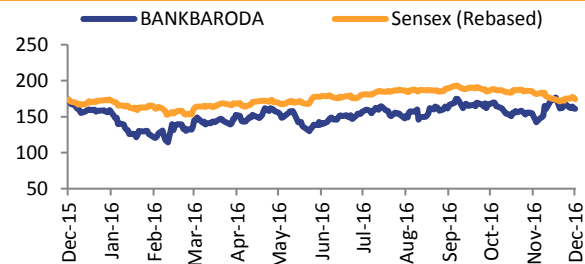
### Market Data

<b>CMP (Rs.)</b>	<b>160</b>
Face Value	2.0
52 week H/L (Rs.)	179/109
Adj. all time High (Rs.)	228
Decline from 52WH (%)	10.8
Rise from 52WL (%)	46.1
Beta	1.5
Mkt. Cap (Rs.Cr)	36,855

### Fiscal Year Ended

	FY14	FY15	FY16
<b>Net Interest Income (Rs.Cr)</b>	11,965	13,187	12,740
<b>Pre Pro Profit (Rs. Cr)</b>	9,008	9,915	8,816
<b>Net Profit (Rs. Cr)</b>	4,258	3,398	(5,396)
<b>EPS (Rs.)</b>	21.1	15.3	(23.4)
<b>P/E (x)</b>	7.6	10.4	(6.8)
<b>P/BV (x)</b>	1.0	0.9	0.9
<b>P/ABV (x)</b>	1.1	1.1	1.8
<b>ROE (%)</b>	13.4	9.0	(13.5)
<b>ROA (%)</b>	0.8	0.5	(0.8)

### One year Price Chart



Shareholding	Sep16	Jun16	Diff.
<b>Promoters (%)</b>	59.2	59.2	-
<b>Public (%)</b>	40.8	40.8	-
<b>Others (%)</b>	-	-	-

Bank of Baroda (BOB) is one of the largest public sector bank in India.

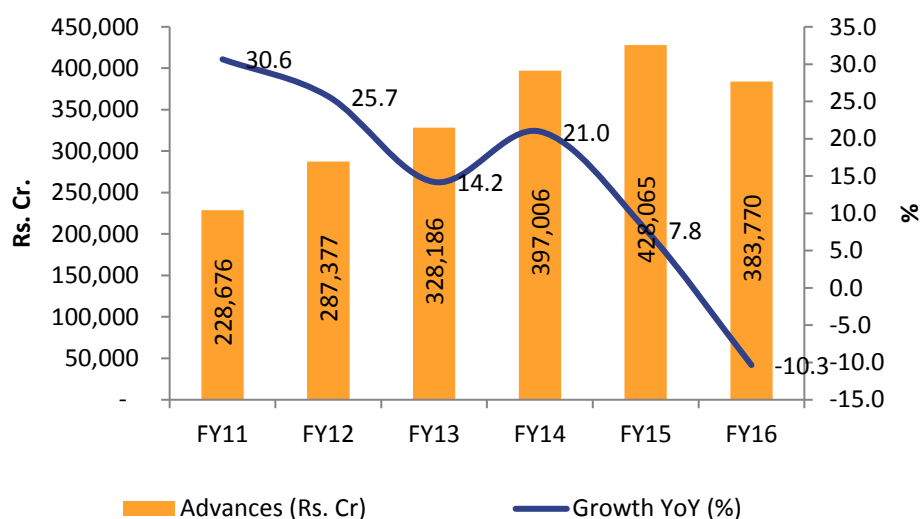
## Bank of Baroda (BOB): Business overview

Bank of Baroda (BOB) is one of the largest public sector bank (PSB) in India in terms of asset size and also one of the largest bank in terms of branches. The bank has strong domestic presence with 5,368 branches and 10,441 ATM's across the country. BOB is also known as the international bank of India as it has one of the largest branch networks in foreign countries. BOB has presence in over 27 countries with 107 overseas branches/offices, which generates close to 29% of its total business.

## Growth in the advances

BOB consistently grew by registering 20% CAGR over FY10-15. The growth was largely led by the overseas loan book, which increased at a strong pace of 26% CAGR (32% of total advances) whereas domestic advances registered a healthy CAGR of 17%. Of the total domestic advances, large corporate formed 52% while the share of SME and retail were 21% and 18%, respectively as of FY15.

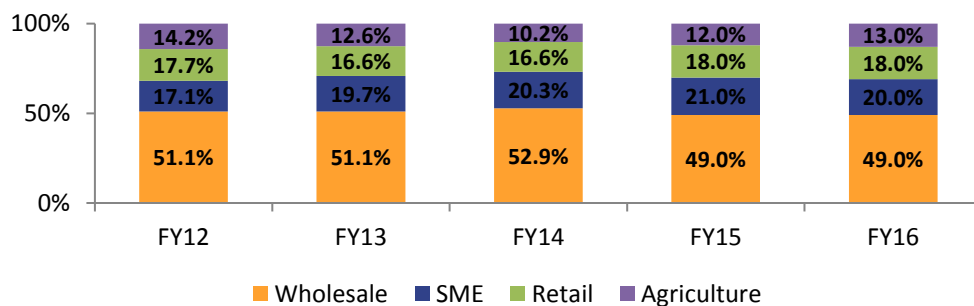
Advances grew at a CAGR of 14% over FY11-16



Source: Company, In-house research

However, considering the continued macro-economic uncertainty coupled with persistent asset quality issues, management has adopted a conscious strategy of curtailing its exposure to large corporate loans. Moreover, BOB continues to consolidate its balance sheet with selective lending and greater thrust on profitable customers. As a result, BOB's loan growth is on a decline from last 4 quarters and the bank reported 10% YoY decline in advances in FY16.

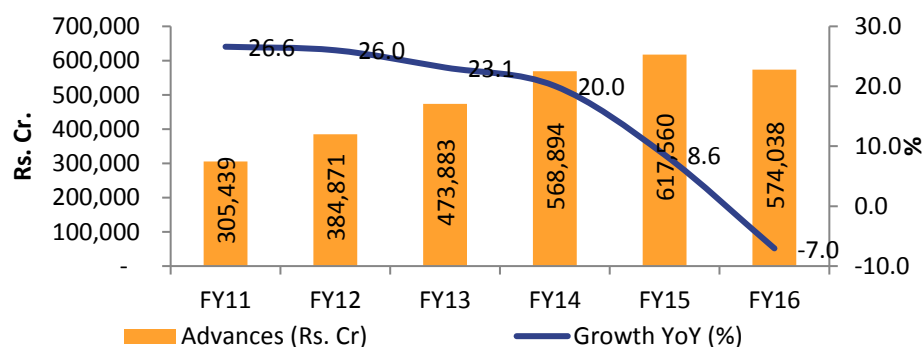
### Reshuffling portfolio towards higher yielding assets



### Retail liability franchise

BOB has registered a CAGR of 21% in deposits over FY10-15 mainly led by 33% CAGR in overseas deposits (30% of total deposits) while domestic advances registered a CAGR of 17%. However, the bank reported 7% YoY decline in deposits in FY16 as the bank has decided to move away from high cost bulk term deposits to low cost retail term deposits to reduce cost of funds. As a result, the bank's share of retail deposits to total deposits increased to ~74% as on FY16 from 63% in FY15.

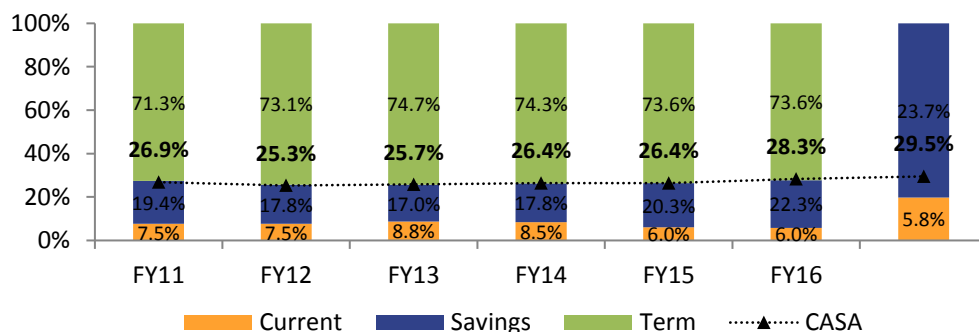
### Deposits over the years



Source: Company, In-house research

BOB has one of the strongest liability franchises, after SBIN (within the PSB space) with strong presence in CASA rich Western, Central and Northern region. Further, continuous investment in branch expansion and technology has enabled the bank to build strong retail liability franchise.

### CASA ratio trend

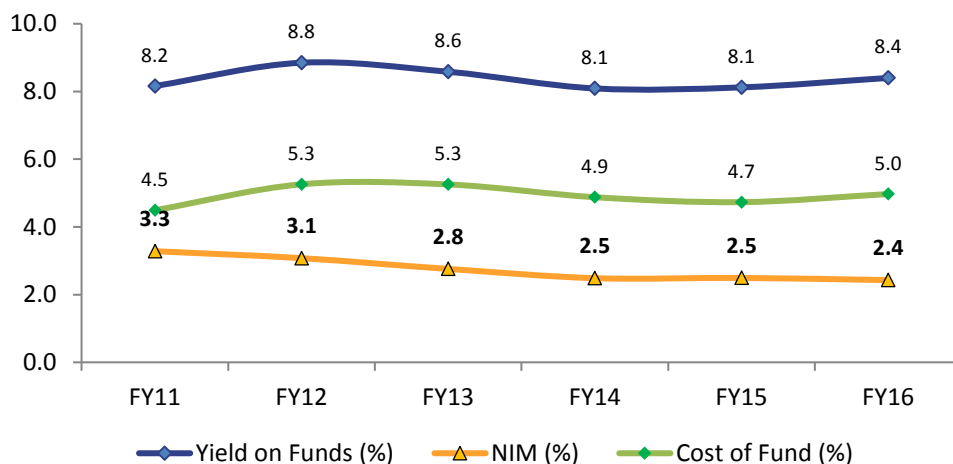


Source: Company, In-house research

## Trend in net interest margin (NIM) over the years

Higher NPA recognition coupled with focus on the balance sheet growth (led by international business) in the past has impacted NIMs and core profitability of the bank. Hence, NIM decline to 2.4% in FY16 from 3.1% in FY12. Efforts taken by management to reduce bulk deposits and focus on low-cost deposits have already started yielding results as the bank's NIM has improved to 2.7% in H1FY17.

NIM trend over the years

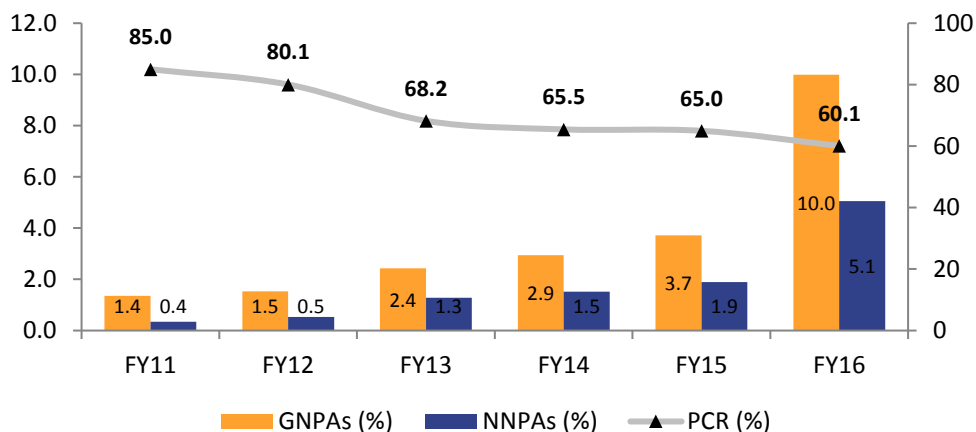


Source: Company, In-house research

## Decline in the asset quality

BOB's asset quality deteriorated significantly over the last 5 years on account of slowdown in economy along with implementation of asset quality review (AQR) by the RBI. Hence, BOB's Gross/Net NPA increased to 10.0%/5.1% in FY16 from 1.5%/0.5% in FY12. However, fresh NPA generation for the bank has already peaked out and has been on a declining trend for the last 3 quarters.

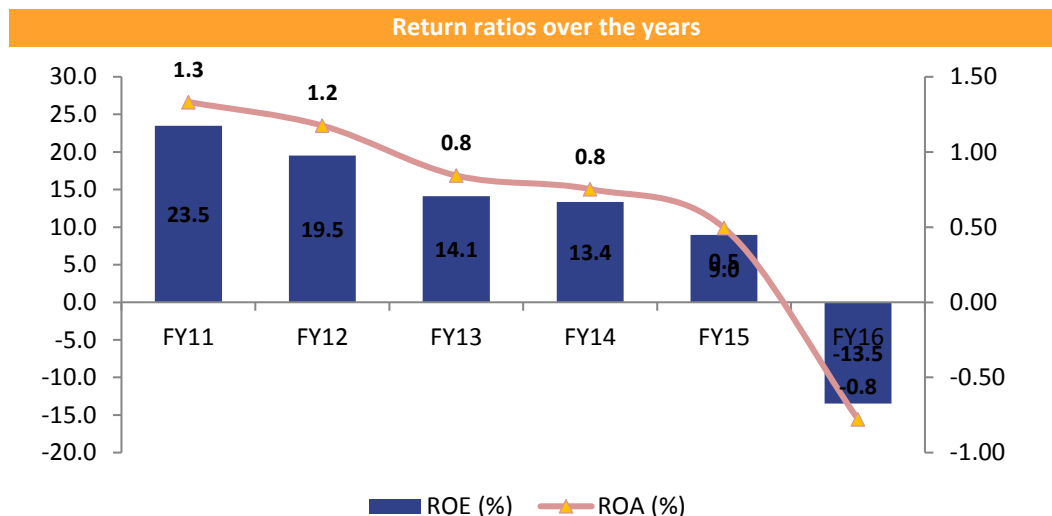
Asset quality stress over the years



Source: Company, In-house research

## Return ratios trend

BOB's return ratios declined mainly on account of higher credit cost as a result of significant deterioration in asset quality. Hence, BOB reported net loss of Rs5,396cr in FY16.

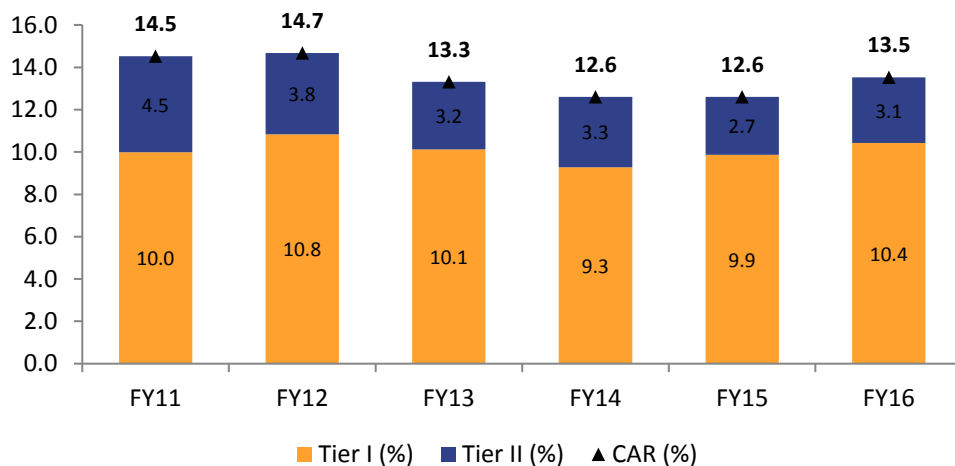


Source: Company, In-house research

## Adequately capitalized

The Bank's capital adequacy ratio (CAR) as per Basel III norms continues to remain strong at 13.5% with Tier-I capital ratio of 10.4%. BOB has one of the strongest capital positions among its peers. This is important aspect as many PSU banks are about to witness heavy dilution over the next 2-3 years due to the new Basel III requirements.

### Well capitalized to support growth momentum



Source: Company, In-house research

## Balance Sheet (Standalone)

(Rs.Cr)	FY14	FY15	FY16
<b>Liabilities</b>			
Capital	431	444	462
Reserves and surplus	35,556	39,392	39,737
Deposits	568,894	617,560	574,038
Borrowings	36,813	35,264	33,472
Other Liabilities & Provisions	17,811	22,329	23,668
<b>Total Liabilities</b>	<b>659,505</b>	<b>714,989</b>	<b>671,376</b>
<b>Assets</b>			
Cash & Balances	130,878	148,353	133,900
Investments	116,113	116,812	120,451
Advances	397,006	428,065	383,770
Fixed assets	2,734	2,875	6,254
Other assets	12,774	18,883	27,002
<b>Total Assets</b>	<b>659,505</b>	<b>714,989</b>	<b>671,376</b>

## Profit & Loss Account (Standalone)

(Rs.Cr)	FY14	FY15	FY16
<b>Interest Income</b>	<b>38,940</b>	<b>42,964</b>	<b>44,061</b>
Interest Expense	26,974	29,776	31,321
<b>Net Interest Income</b>	<b>11,965</b>	<b>13,187</b>	<b>12,740</b>
Non Interest Income	4,463	4,401	4,999
<b>Net Income</b>	<b>16,428</b>	<b>17,589</b>	<b>17,739</b>
Operating Expenses	7,420	7,674	8,923
Total Income	43,402	47,365	49,060
<b>Total Expenditure</b>	<b>34,394</b>	<b>37,450</b>	<b>40,245</b>
Pre Provisioning Profit	9,008	9,915	8,816
<b>Provisions</b>	<b>3,794</b>	<b>4,495</b>	<b>15,514</b>
Profit Before Tax	5,214	5,420	-6,698
Tax	956	2,022	-1,303
<b>Net Profit</b>	<b>4,258</b>	<b>3,398</b>	<b>(5,396)</b>

## Key Ratios (Standalone)

	FY14	FY15	FY16
<b>Per share data (Rs.)</b>			
EPS	21.1	15.3	(23.4)
DPS	4.3	3.2	0.0
BV	167.1	179.6	174.0
ABV	139.1	143.2	90.0
<b>Valuation (%)</b>			
P/E	7.6	10.4	(6.8)
P/BV	1.0	0.9	0.9
P/ABV	1.1	1.1	1.8
Div. Yield	2.7	2.0	0.0
<b>Capital (%)</b>			
CAR	12.3	12.6	13.0
Tier I	9.3	9.9	10.4
Tier II	3.0	2.7	2.6
<b>Asset (%)</b>			
GNPA	2.9	3.7	10.0
NNPA	1.5	1.9	5.1
PCR	65.5	65.0	60.1
<b>Management (%)</b>			
Credit/ Deposit	69.8	69.3	66.9
Cost/ Income	45.2	43.6	50.3
CASA	25.7	26.4	26.4
<b>Earnings (%)</b>			
NIM	2.5	2.5	2.4
ROE	13.4	9.0	(13.5)
ROA	0.8	0.5	(0.8)

## Financial performance snapshot

Net interest income of the bank stood at Rs12,740cr in FY16, a de-growth of 3.4% as compared to Rs13,187cr in FY15. The NIM (net interest margin) of the bank contracted by 6 bps to 2.4% from 2.5% during the year. The bank's pre-provisioning profit de-grew by 11.1% YoY to Rs8,816cr in FY16 from Rs9,915cr in FY15. Net profit stood at Rs(5,396)cr in FY16 as compared to Rs3,398cr in FY15. CAR (Capital Adequacy Ratio) expanded by 43 bps to 13.0% from 12.6% during the period under review.



Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

**Disclaimer**

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.