

Bank of Baroda (BOB) is the third largest public sector bank (PSB) in India in terms of asset size and the fourth largest bank in terms of branches as of FY17. The bank has strong domestic presence with 5,451 branches and 10,136 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 139 overseas branches/offices, which generates close to 25% 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% in advances 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 2.7% in FY17 from 3.1% in FY12.

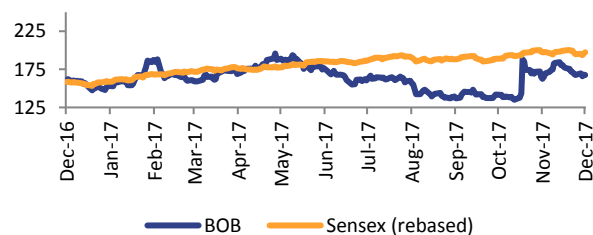
Market Data

CMP (Rs.)	168
Face Value	2.0
52 week H/L (Rs.)	207/134
Decline from 52WH (%)	18.5
Rise from 52WL (%)	26.0
Beta	2.7
Mkt. Cap (Rs.Cr)	38,779

Fiscal Year Ended

	FY15	FY16	FY17
Net Interest Income (Rs.Cr)	13,187	12,740	13,513
Pre Pro Profit (Rs. Cr)	9,915	8,816	10,975
Net Profit (Rs. Cr)	3,398	(5,396)	1,383
EPS (Rs.)	15.8	(23.9)	6.0
P/E (x)	10.6	-	28.1
P/BV (x)	0.9	1.0	1.0
P/ABV (x)	1.2	1.9	1.7
ROE (%)	9.0	-	3.4
ROA (%)	0.5	-	0.2

One year Price Chart



Shareholding	Dec'17	Sep'17	Diff.
Promoters (%)	59.2	59.2	-
Public (%)	40.8	40.8	-
Others (%)	-	-	-

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

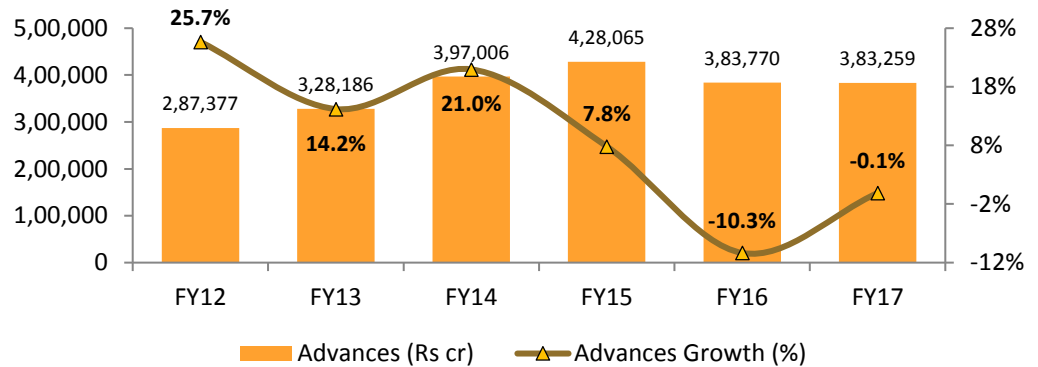
Bank of Baroda (BOB): Business overview

Bank of Baroda (BOB) is the third largest public sector bank (PSB) in India in terms of asset size and the fourth largest bank in terms of branches as of FY17. The bank has strong domestic presence with 5,451 branches and 10,136 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 139 overseas branches/offices, which generates close to 27% of its total business.

Advances

BOB consistently showed impressive advances growth 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%. However, BOB's loan book declined by 10% in FY16 and remained almost flat in FY17 as the bank decided to consolidate its balance sheet to limit stressed exposures. The bank went through a business transformation, whereby it re-aligned its loan book towards better yielding products with an optimal risk profile. In Q2FY18, BOB's loan book grew at a modest pace of 9% YoY mainly led by domestic advances. Domestic loan book witnessed healthy trends (↑14% YoY) aided by strong growth in retail advances (↑26% YoY) and stable growth in wholesale credit (↑15% YoY). Within retail, home loans outperformed (↑34% YoY) aided by portfolio buyouts. However, the bank continues to curtail its low yielding international loan book (↓1% YoY).

Advances grew at a CAGR of 6% over FY12-17

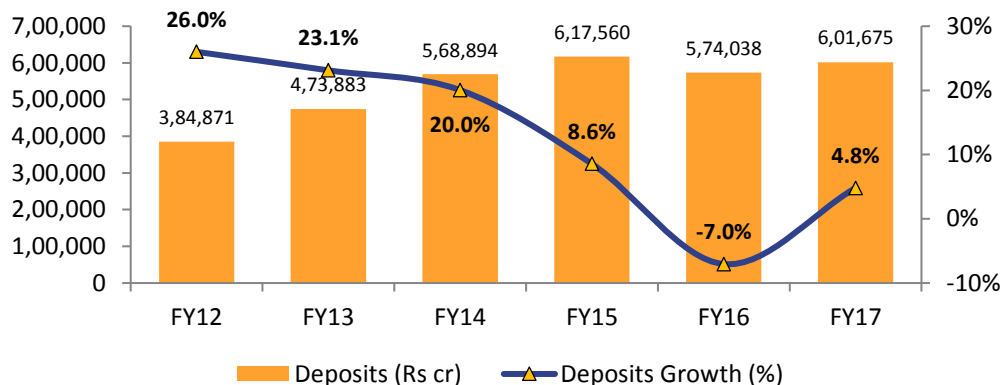


Source: Company, In-house research

Healthy retail liability franchise

BOB has registered a healthy CAGR of 21% in deposits over FY10-15 mainly led by 30% CAGR in overseas deposits (33% of total deposits) while domestic advances registered a CAGR of 17%. However, the bank reported only 1% CAGR in deposits over FY15-17 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, while total deposits increased at a muted pace of 3% YoY but CASA ratio improved by 580 bps YoY to 33.4% in Q2FY18.

Deposits grew at a CAGR of 9% over FY12-17

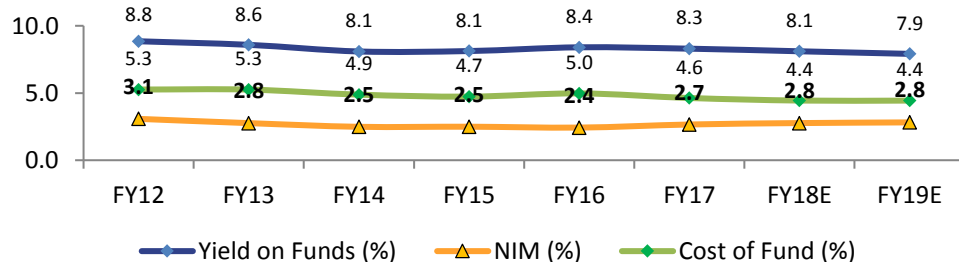


Source: Company, In-house research

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 2.7% in FY17 from 3.1% in FY12. Domestic margins have improved by 20 bps QoQ to 2.7% in Q2FY18 on account of benefit of lower re-pricing of deposits and increase in the CD ratio.

NIM started improving from FY17



Source: Company, In-house research

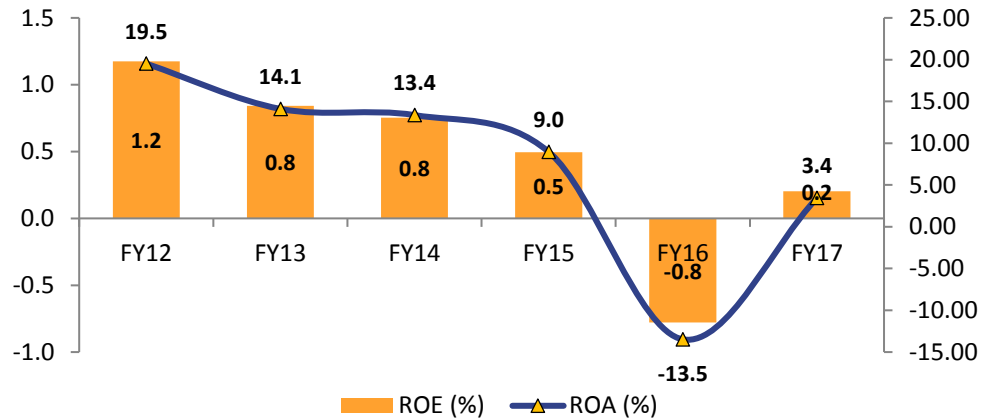
Declining trend in slippages

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 11.2%/5.1% in Q2FY18 from 1.5%/0.5% in FY12. However, fresh slippages declined by 41% QoQ in Q2FY18 Provision coverage ratio also (PCR) improved by 90 bps QoQ to 67.2% as the bank continues to make provisions judiciously. The Bank has total exposure to the tune of Rs77bn towards first list of loan accounts referred to IBC/NCLT. Notably, all these loans have already been classified as NPAs and currently the Bank holds PCR of ~54% for these accounts.

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. However, the bank has taken several measures to address the concern.

Return ratios improved in FY17

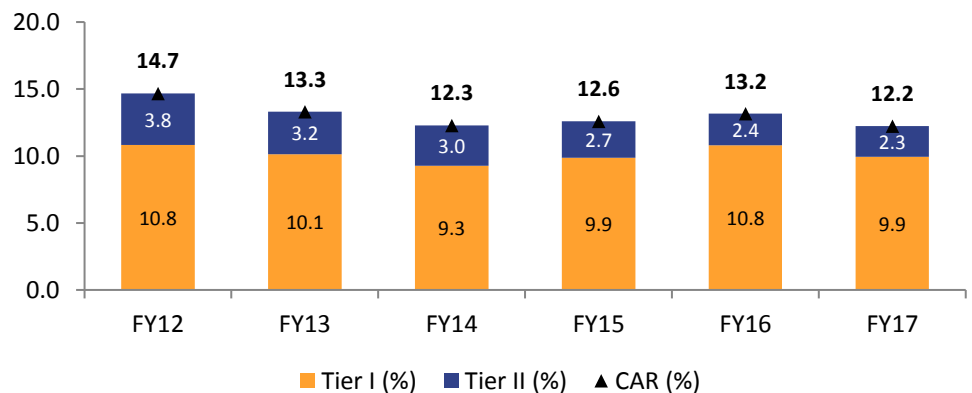


Source: Company, In-house research

Comfortable capital adequacy ratio

While most of its PSB peers have seen a decline in their tier-1 ratios, BOB has managed to maintain its tier 1 capital ratio at 9%+ for the past six years despite challenging macros. This is important aspect as many PSU banks have witnessed heavy dilution over the last 2-3 years due to the new Basel III requirements. The Bank's capital adequacy ratio (CAR) as per Basel III norms continues to remain strong at 11.6% with Tier-I capital ratio of 9.6% as of Q2FY18.

Asset quality stress over the years



Source: Company, In-house research

Financial performance

Net interest income (NII) increased at a moderate pace of 9% YoY (in line with our expectation) on the back of healthy growth in domestic loan book. However, net interest margin (NIM) declined by 27 bps YoY to 2.5% as incremental exposure to good quality accounts suppressed the yield on advances (↓125 bps YoY). Provisions increased at a much faster pace of 30% YoY as BOB continued to provide aggressively against stressed accounts. As a result, net profit declined by 35.6% YoY.

Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Liabilities			
Capital	444	462	462
Reserves and surplus	39,392	39,737	39,841
Deposits	617,560	574,038	601,675
Borrowings	35,264	33,472	30,611
Other Liabilities & Provisions	22,329	23,668	22,286
Total Liabilities	714,989	671,376	694,875
Assets			
Cash & Balances	148,353	133,900	150,470
Investments	116,812	120,451	129,631
Advances	428,065	383,770	383,259
Fixed assets	2,875	6,254	5,758
Other assets	18,883	27,002	25,757
Total Assets	714,989	671,376	694,875

Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	42,964	44,061	42,200
Interest Expense	29,776	31,321	28,687
Net Interest Income	13,187	12,740	13,513
Non Interest Income	4,401	4,999	6,758
Net Income	17,589	17,739	20,271
Operating Expenses	7,674	8,923	9,296
Total Income	47,365	49,060	48,958
Total Expenditure	37,450	40,245	37,983
Pre Provisioning Profit	9,915	8,816	10,975
Provisions	4,495	15,514	8,502
Profit Before Tax	5,420	-6,698	2,473
Tax	2,022	-1,303	1,090
Net Profit	3,398	(5,396)	1,383

Key Ratios (Standalone)

	FY15	FY16	FY17
Per share data (Rs.)			
EPS	15.8	(23.9)	6.0
DPS	3.2	0.0	1.2
BV	179.6	174.0	174.4
ABV	143.2	90.0	96.2
Valuation (%)			
P/E	10.6	-	28.1
P/BV	0.9	1.0	1.0
P/ABV	1.2	1.9	1.8
Div. Yield	1.9	0.0	0.7
Capital (%)			
CAR	12.6	13.2	12.2
Tier I	9.9	10.8	9.9
Tier II	2.7	2.4	2.3
Asset (%)			
GNPA	3.7	10.0	10.5
NNPA	1.9	5.1	4.7
PCR	65.0	60.1	66.8
Management (%)			
Credit/ Deposit	69.3	66.9	63.7
Cost/ Income	43.6	50.3	45.9
CASA	26.4	26.4	32.2
Earnings (%)			
NIM	2.5	2.4	2.7
ROE	9.0	-	3.4
ROA	0.5	-	0.2



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