

Bank of Baroda

Performance Highlights

Particulars (₹cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
NII	3,460	3,172	9.1	3,328	3.9
Pre-prov. profit	2,202	2,694	(18.3)	2,480	(11.2)
PAT	1,052	598	75.8	1,362	(22.7)

Source: Company, Angel Research

For 1QFY2016, Bank of Baroda (BOB)'s PAT declined by 22.7% yoy (however better than our estimates) due to decline in other income and higher opex.

Loan book growth slows; NIM improves qoq

During the quarter, the loan book and deposits grew slower than the system, ie by 7.0% and 7.3% yoy, respectively. Retail and Farm Credit segments witnessed a strong yoy growth of 16.1% and 26.4%, respectively. The overseas business contributed 32.5% to the bank's total business, with 52.5% of total overseas loan book coming from Buyers Credit/BP/BD. The bank plans to shift its focus to term credit in overseas business, as margin in Buyers Credit is low. CASA deposits grew by 10.8% yoy with domestic CASA deposits growing by 12.9% yoy during the quarter; as a result, the domestic CASA ratio improved to 31.9%. Global NIM went up by 9bp qoq with 13bp qoq improvement in Domestic NIM. Domestic NIM went up mainly on account of reduction in the cost of deposit due to repricing of domestic deposits.

On the asset quality front, the Gross NPA ratio increased sequentially to 4.1% in 1QFY2016 from 3.7% in 4QFY2015, whereas the Net NPA ratio was at 2.07% in the quarter as compared to 1.89% in 4QFY2015. Fresh Slippages were higher at ₹1,685cr as compared to ₹1,358cr in 4QFY2015 with slippages from restructured book at ₹349cr, resulting in annualized slippage ratio of 1.8% in 1QFY2016. In the quarter, there weren't any lumpy accounts that slipped into NPA. The bank restructured loans worth ₹147cr in 1QFY2016, while it has refinanced 5 accounts worth ₹4,500cr.

Outlook and valuation: BOB has traditionally been an outperformer on the asset quality front and it has delivered stable asset quality. However with challenges on asset quality front, there could be volatility in NPA going ahead. At CMP, the stock trades at a valuation of 0.9x FY2017E ABV. **We recommend Neutral rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII	11,965	13,187	14,282	16,286
% chg	5.7	10.2	8.3	14.0
Net profit	4,541	3,398	3,753	5,444
% chg	1.3	(25.2)	10.4	45.1
NIM (%)	2.0	2.0	1.9	2.0
EPS (₹)	21.1	15.3	16.9	24.5
P/E (x)	8.4	11.5	10.4	7.2
P/ABV (x)	1.1	1.1	1.0	0.9
RoA (%)	0.8	0.5	0.5	0.6
RoE (%)	13.4	9.0	9.1	12.1

Source: Company, Angel Research; Note: CMP as of August 13, 2015

NEUTRAL

CMP	₹177
Target Price	-

Investment Period	-
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Stock Info

Sector	Banking
Market Cap (₹ cr)	39,099
Beta	1.3
52 Week High / Low	229/138
Avg. Daily Volume	7,48,377
Face Value (₹)	2
BSE Sensex	27,550
Nifty	8,356
Reuters Code	BOB.BO
Bloomberg Code	BOB@IN

Shareholding Pattern (%)

Promoters	57.5
MF / Banks / Indian Fls	20.7
FII / NRIs / OCBs	13.6
Indian Public / Others	8.2

Abs. (%)	3m	1yr	3yr
Sensex	1.1	6.3	56.2
Bank of Baroda	8.8	0.6	40.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2016 performance (Standalone)

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	11,276	10,762	4.8	10,658	5.8	42,964	38,940	10.3
- on Advances / Bills	8,033	7,540	6.5	7,740	3.8	30,803	27,878	10.5
- on investments	2,651	2,629	0.8	2,261	17.3	9,701	8,696	11.6
- on balance with RBI & others	296	287	3.3	453	(34.7)	1,550	1,534	1.0
- on others	297	307	(3.2)	204	45.6	910	832	9.4
Interest Expended	7,817	7,590	3.0	7,330	6.6	29,776	26,974	10.4
Net Interest Income	3,460	3,172	9.1	3,328	3.9	13,187	11,965	10.2
Other income	967	1,295	(25.3)	1,025	(5.6)	4,402	4,463	(1.4)
Other income excl. treasury	810	935	(13.4)	800	1.2	3,395	3,719	(8.7)
- CEB	346	429	(19.2)	347	(0.3)	1,482	1,437	3.1
- Treasury Income	157	360	(56.4)	224	(29.9)	1,007	744	35.4
- Recoveries from written off a/cs	13	61	(78.5)	61	(78.6)	189	563	(66.5)
- Others	451	446	1.1	392	15.0	1,724	1,718	0.4
Operating income	4,427	4,467	(0.9)	4,353	1.7	17,589	16,428	7.1
Operating expenses	2,225	1,774	25.4	1,873	18.8	7,674	7,075	8.5
- Employee expenses	1,345	928	44.9	1,106	21.7	4,261	4,140	2.9
- Other Opex	880	845	4.1	768	14.6	3,413	2,935	16.3
Pre-provision Profit	2,202	2,694	(18.3)	2,480	(11.2)	9,915	9,353	6.0
Provisions & Contingencies	600	1,818	(67.0)	527	13.9	4,495	3,856	16.6
- Provisions for NPAs	568	1,491	(61.9)	772	(26.4)	3,997	2,968	34.7
- Provisions for Standard adv.	12	315	(96.2)	80	(84.9)	548	535	2.4
- Provisions for Investments	19	38	(50.1)	(319)	(105.9)	(149)	199	(175.2)
- Other Provisions	1	(26)	(103.5)	(6)	(115.2)	(51)	353	(114.4)
PBT	1,602	876	82.9	1,953	(18.0)	5,421	5,497	(1.4)
Provision for Tax	550	278	98.1	591	(6.9)	2,022	956	111.5
PAT	1,052	598	75.8	1,362	(22.7)	3,398	4,541	(25.2)
Effective Tax Rate (%)	34.3	31.7	263bp	30.3	407bp	37.3	17.4	1991bp

Source: Company, Angel Research

Exhibit 2: 1QFY2016 performance analysis (Standalone)

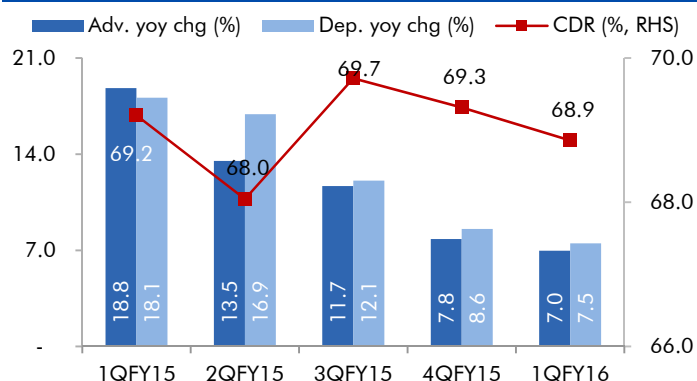
Particulars	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	4,08,388	4,28,065	(4.6)	3,81,772	7.0
Deposits (₹ cr)	5,93,087	6,17,560	(4.0)	5,51,649	7.5
Credit-to-Deposit Ratio (%)	68.9	69.3	(46)bp	69.2	(35)bp
Current deposits (₹ cr)	45,663	52,797	(13.5)	42,647	7.1
Saving deposits (₹ cr)	1,07,881	1,10,172	(2.1)	95,985	12.4
CASA deposits (₹ cr)	1,53,544	1,62,969	(5.8)	1,38,632	10.8
Global CASA ratio (%)	25.9	26.4	(50)bp	25.1	76bp
Domestic CASA ratio (%)	31.9	33.0	(112)bp	31.3	56bp
CAR (%)*	12.0	12.6	(62)bp	11.9	7bp
Tier 1 CAR (%)*	9.7	9.9	(14)bp	9.1	67bp
Profitability Ratios (%)					
Dom. Cost of deposits	6.9	7.1	(17)bp	7.1	(20)bp
Dom. Yield on advances	10.6	10.6	8bp	11.1	(42)bp
Dom. Yield on investments	8.0	8.1	(3)bp	8.1	(5)bp
Dom. Reported NIM	2.9	2.8	13bp	2.9	(5)bp
Cost-to-income ratio	50.3	39.7	1056bp	43.0	722bp
Asset quality					
Gross NPAs (₹ cr)	17,274	16,261	6.2	12,087	42.9
Gross NPAs (%)	4.1	3.7	41bp	3.1	102bp
Net NPAs (₹ cr)	8,470	8,069	5.0	6,021	40.7
Net NPAs (%)	2.1	1.9	18bp	1.6	49bp
PCR incl. tech. w/offrs (%)	64.9	65.0	(5)bp	66.7	(174)bp
Annualized slippage ratio (%)	1.8	1.8	(2)bp	1.9	(11)bp
NPA prov. to avg. assets (%)	0.3	0.9	(55)bp	0.5	(17)bp

Source: Company, Angel Research * Basel III not comparable

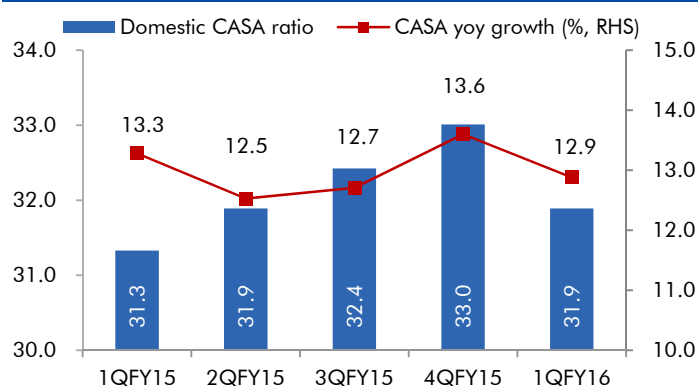
Advances growth slows

During the quarter, the loan book and deposits grew slower than the system, ie by 7.0% and 7.3% yoy respectively. Retail and Farm Credit segments witnessed a strong yoy growth of 16.1% and 26.4%, respectively. The overseas business contributed 32.5% to the bank's total business, with 52.5% of total overseas loan book coming from Buyers Credit/BP/BD. The bank plans to shift its focus to term credit in the overseas business, as margin in Buyers Credit is low.

CASA deposits grew by 10.8% yoy with domestic CASA deposits growing by 12.9% yoy during the quarter; as a result, the domestic CASA ratio improved by 56bp yoy to 31.9%. The bank has reduced its high cost domestic bulk deposits (₹1cr and above) by ₹8,228cr at the end of June 2015.

Exhibit 3: Loan book growth slows


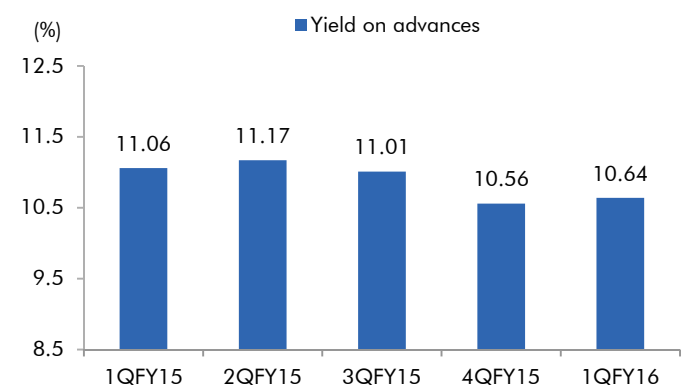
Source: Company, Angel Research

Exhibit 4: Domestic CASA ratio steady yoy


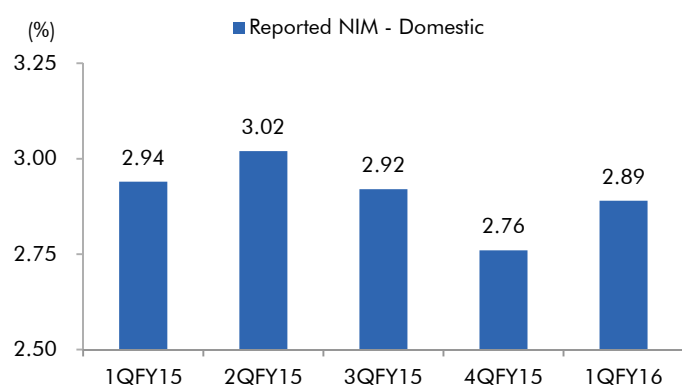
Source: Company, Angel Research

NIM improves qoq

Global NIM went up by 9bp qoq with 13bp qoq improvement in Domestic NIM. Domestic NIM went up mainly on account of reduction in cost of deposit due to repricing of domestic deposits. Going forward, the Management has guided at a domestic NIM of 3% for FY2016 with focus on retail lending.

Exhibit 5: Yield on advances improves qoq...


Source: Company, Angel Research

Exhibit 6: ...causing NIM to increase by 13bp qoq


Source: Company, Angel Research

Subdued non-interest income (excl treasury) performance

During 1QFY2016, the bank's non-interest income (excluding treasury) went up marginally by 1.2% yoy due to lower fee income. Treasury income declined by 29.9% yoy, which resulted in fall in other income by 5.6% yoy. Opex went up by 18.8% yoy due to higher provision on employee expenses. As a result, the cost to income ratio increased by 722bp yoy to 50.3%.

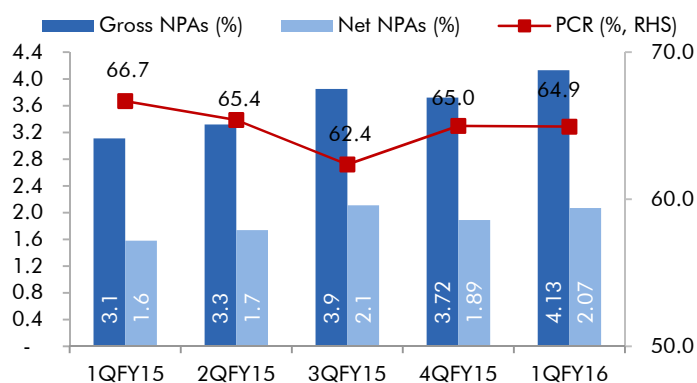
Exhibit 7: Other income de-growth due to lower treasury and recoveries

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
CEB	346	429	(19.2)	347	2.3
Treasury	157	360	(56.4)	224	303.5
Forex	278	244	13.6	256	(9.2)
Recoveries	13	61	(78.5)	61	(83.4)
Others	173	201	(14.0)	136	10.3
Other income	967	1,295	(25.3)	1,025	(2.3)
Other income excl. treasury	810	935	(13.4)	800	(24.4)

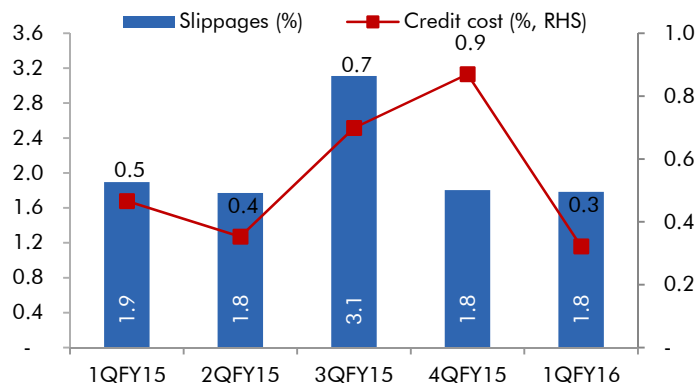
Source: Company, Angel Research

Asset quality steady

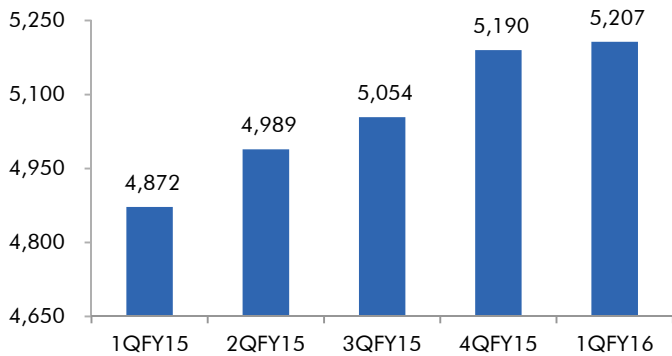
On the asset quality front, the Gross NPA ratio increased sequentially to 4.1% in 1QFY2016 from 3.7% in 4QFY2015, whereas the Net NPA ratio was at 2.07% for the quarter as compared to 1.89% in 4QFY2015. Fresh Slippages were higher at ₹1,685cr as compared to ₹1,358cr in 4QFY2015 with slippage from restructured book at ₹349cr, resulting in annualized slippage ratio of 1.8% for 1QFY2016. In the current quarter, there weren't any lumpy accounts that slipped into NPA. The bank restructured loans worth ₹147cr in 1QFY2016, while it has refinanced 5 accounts worth ₹4,500cr.

Exhibit 8: NPA ratios increases sequentially


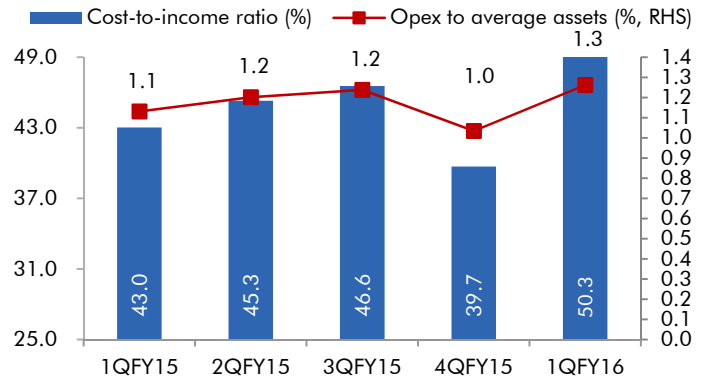
Source: Company, Angel Research

Exhibit 9: Slippages ratio at 1.8%


Source: Company, Angel Research

Exhibit 10: Steady Branch expansion


Source: Company, Angel Research

Exhibit 11: Cost to income ratio falls sequentially


Source: Company, Angel Research

Outlook and valuation: BOB has traditionally been an outperformer on the asset quality front and it has delivered stable asset quality. However with challenges on the asset quality front, there could be volatility in NPA going ahead. At the current market price, the stock trades at a valuation of 0.9x FY2017E ABV. **We recommend a Neutral rating on the stock.**

Exhibit 12: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Buy	1,076	1,255	16.6	3.2	3.8	17.2	24.1	2.0	20.2
ICICIBk*	Buy	292	370	26.7	1.9	2.2	11.2	16.9	1.6	15.6
YesBk	Buy	764	953	24.8	2.0	2.5	11.0	20.3	1.5	19.6
AxisBk	Buy	567	701	23.8	2.3	2.8	12.2	22.3	1.8	20.0
SBI*	Buy	259	307	18.2	1.2	1.3	10.3	19.6	0.7	13.1
FedBk	Neutral	65	-	-	1.2	1.2	9.7	6.7	1.1	12.7
SIB	Neutral	23	-	-	0.8	0.8	6.3	26.5	0.7	12.5
BOB	Neutral	177	-	-	0.9	0.9	7.2	26.6	0.6	12.1
PNB	Neutral	153	-	-	0.7	0.7	5.6	29.0	0.7	12.1
BOI	Neutral	158	-	-	0.4	0.4	3.9	26.2	0.4	9.1
IndBk	Neutral	141	-	-	0.4	0.4	4.4	23.9	0.7	9.3
Vijaya Bank	Neutral	38	-	-	0.5	0.5	5.4	17.7	0.4	9.3
OBC	Neutral	159	-	-	0.3	0.3	3.3	69.1	0.5	9.8
Allahabad Bank	Neutral	86	-	-	0.4	0.4	3.2	57.6	0.6	11.5
UnionBk	Neutral	197	-	-	0.6	0.6	4.9	19.3	0.6	11.6
CanBk	Neutral	289	-	-	0.5	0.5	4.1	11.7	0.5	11.0
IDBI#	Neutral	63	-	-	0.4	0.4	4.0	69.1	0.6	10.1
DenaBk	Neutral	43	-	-	0.4	0.4	4.0	50.0	0.4	8.4

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

Bank of Baroda (BoB) is the second-largest public sector bank in India, with a balance sheet size of ~₹7.0lakh cr. The bank has a network of 5,190 domestic branches and more than 8,000 ATMs, mainly in western India (~40% of total branch network). The bank has a strong presence overseas, with more than 32% of its advances coming from overseas branches.

Income statement (Standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Nil	10,317	11,315	11,965	13,187	14,282	16,286
- YoY Growth (%)	17.2	9.7	5.7	10.2	8.3	14.0
Other Income	3,422	3,631	4,463	4,402	4,744	5,450
- YoY Growth (%)	21.8	6.1	22.9	(1.4)	7.8	14.9
Operating Income	13,739	14,946	16,428	17,589	19,027	21,737
- YoY Growth (%)	18.3	8.8	9.9	7.1	8.2	14.2
Operating Expenses	5,159	5,947	7,137	7,674	8,761	9,512
- YoY Growth (%)	11.4	15.3	20.0	7.5	14.2	8.6
Pre - Provision Profit	8,581	8,999	9,291	9,915	10,265	12,225
- YoY Growth (%)	22.9	4.9	3.2	6.7	3.5	19.1
Prov. & Cont.	2,555	4,168	3,794	4,495	4,526	3,899
- YoY Growth (%)	91.9	63.1	(9.0)	18.5	0.7	(13.8)
Profit Before Tax	6,026	4,831	5,497	5,421	5,739	8,325
- YoY Growth (%)	6.6	(19.8)	13.8	(1.4)	5.9	45.1
Prov. for Taxation	1,019	351	956	2,022	1,986	2,881
- as a % of PBT	16.9	7.3	17.4	37.3	34.6	34.6
PAT	5,007	4,481	4,541	3,398	3,753	5,444
- YoY Growth (%)	18.0	(10.5)	1.3	(25.2)	10.4	45.1

Balance sheet (Standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Share Capital	412	423	431	444	444	444
Reserves & Surplus	27,064	31,547	35,555	39,391	42,412	46,792
Deposits	3,84,871	4,73,883	5,68,894	6,17,560	6,85,491	7,81,460
- Growth (%)	26.0	23.1	20.0	8.6	11.0	14.0
Borrowings	14,171	17,178	25,411	23,709	26,248	29,786
Tier 2 Capital	9,402	9,402	11,402	11,555	11,266	10,984
Other Liab & Prov.	11,400	14,703	17,812	22,330	25,699	28,764
Total Liabilities	4,47,322	5,47,135	6,59,505	7,14,989	7,91,560	8,98,230
Cash balances	21,651	13,452	18,629	22,489	34,275	39,073
Bank balances	42,517	71,947	1,12,249	1,25,865	1,14,776	1,16,770
Investments	83,209	1,21,394	1,16,113	1,22,320	1,32,339	1,46,223
Advances	2,87,377	3,28,186	3,97,006	4,28,065	4,92,275	5,75,962
- Growth (%)	25.7	14.2	21.0	7.8	15.0	17.0
Fixed Assets	2,342	2,453	2,734	2,875	3,087	3,398
Other Assets	10,225	9,704	12,774	13,376	14,808	16,804
Total Assets	4,47,322	5,47,135	6,59,505	7,14,989	7,91,560	8,98,230
- Growth (%)	24.8	22.3	20.5	8.4	10.7	13.5

Ratio analysis (Standalone)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)						
NIMs	2.6	2.3	2.0	2.0	1.9	2.0
Cost to Income Ratio	37.5	39.8	43.4	43.6	46.0	43.8
RoA	1.2	0.9	0.8	0.5	0.5	0.6
RoE	20.6	15.1	13.4	9.0	9.1	12.1
B/S ratios (%)						
CASA Ratio	26.9	25.3	25.7	26.4	26.6	26.6
Credit/Deposit Ratio	74.7	69.3	69.8	69.3	71.8	73.7
CAR	14.7	12.1	12.3	12.4	11.9	11.3
- Tier I	10.8	9.2	9.3	9.5	9.2	8.9
Asset Quality (%)						
Gross NPAs	1.5	2.4	2.9	3.7	4.1	4.2
Net NPAs	0.5	1.3	1.5	1.9	1.7	1.5
Slippages	1.5	2.4	2.1	2.1	1.9	1.6
Loan Loss Prov. /Avg. Assets	0.4	0.6	0.5	0.6	0.6	0.4
Provision Coverage	80.1	68.2	65.5	62.5	67.0	70.0
Per Share Data (₹)						
EPS	24.3	21.2	21.1	15.3	16.9	24.5
ABVPS (75% cover.)	133.3	147.1	159.4	167.5	183.9	206.4
DPS	17.0	21.5	25.2	18.3	16.5	24.0
Valuation Ratios						
PER (x)	7.3	8.3	8.4	11.5	10.4	7.2
P/ABVPS (x)	1.3	1.2	1.1	1.1	1.0	0.9
Dividend Yield	9.6	12.2	14.2	10.3	9.3	13.6
DuPont Analysis						
NII	2.6	2.3	2.0	1.9	1.9	1.9
(-) Prov. Exp.	0.6	0.8	0.6	0.7	0.6	0.5
Adj. NII	1.9	1.4	1.4	1.3	1.3	1.5
Treasury	0.2	0.1	0.1	0.1	0.1	0.1
Int. Sens. Inc.	2.1	1.6	1.5	1.4	1.4	1.6
Other Inc.	0.7	0.6	0.6	0.5	0.5	0.5
Op. Inc.	2.8	2.2	2.1	1.9	1.9	2.1
Opex	1.3	1.2	1.2	1.1	1.2	1.1
PBT	1.5	1.0	0.9	0.8	0.8	1.0
Taxes	0.3	0.1	0.2	0.3	0.3	0.3
RoA	1.2	0.9	0.8	0.5	0.5	0.6
Leverage	16.6	16.7	17.8	18.1	18.2	18.8
RoE	20.6	15.1	13.4	9.0	9.1	12.1

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 Website: www.angelbroking.com

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Disclosure of Interest Statement

Bank of Baroda

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)