

July 30, 2018

Bank of Baroda

Q1FY19 Result Update

Improvement in yield on advances overshadowed growing cost of funds resulting in higher NIM

Yield on advances improved 37bps QoQ to 7.6%, yield on investments improved 29bps to 7.1% and cost of funds notched up 5bps to 4.5%, resulting in improving NIM from 2.4% to 2.6%.

Cost to income ratio improved on the back of low income base and fall in employee cost

Total operating income slipped 3% QoQ to 55.29bn and employee cost contracted 13% QoQ to 11bn, resulting in cost to income ratio of 46% as oppose to 53% in Q4FY18.

Improving Asset Quality

GNPA moved up from 12.26% to 12.46%, although in absolute figures, GNPA decreased from 564.8bn to 558.7bn. NNPA contracted from 5.49% to 5.40% due to provisioning of 59.9% as oppose to 58.4% in Q4FY18. Provisioning including technical write offs came at 69.1% as oppose to 67.2% in previous quarter.

Total assets fell 1% QoQ deposits shrunk 2% QoQ; Advances decreased 3% QoQ

Total assets came at 7144.02bn due to 3% QoQ de-growth in advances to 4145.17bn and 7% QoQ growth in investments to 1746.43bn. Deposits shrunk 2% QoQ to 5814.84bn. Within advances, domestic corporate book grew 6% QoQ to 1698.14bn, domestic retail book grew 5% QoQ to 721.58bn and MSME de-grew 6% QoQ to 487.13bn. Within deposits, CASA slipped 2% QoQ while term deposits squeezed 0.1% QoQ resulting in contraction of CASA from 45.4% to 44.8%.

Low non-interest income due to low fee collection

Non-interest income plunged 32% QoQ to 11.47bn due to 26% fall in fee at 9.5bn on the back of lower commissions (11% QoQ fall) and lower forex profits (47% QoQ fall).

Valuations

Bank reported net gains of 5.28bn as oppose to loss of 31.02bn in previous quarter, registering annualized ROA of 0.29%. We expect yields to improve given MCLR regime, although, we expect moderate growth in advances going forward. Also, we expect GNPA to remain in 12-13% range and provision at 60%. At INR 138, stock is trading at FY20E P/ABV of 1.4x. We assign P/ABV of 1.8x and arrive at target price of INR 173, implying upside of 26%.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	12,739.9	13,513.4	15,521.8	18,857.1	20,560.2
Growth%	-3%	6%	15%	21%	9%
Pre-provisioning profit	8,815.6	10,975.1	12,005.6	14,686.5	16,065.2
Growth%	-11%	24%	9%	22%	9%
Adjusted PAT	-5,395.5	1,383.1	-2,431.8	697.5	1,178.5
BVPS (INR)	174.5	174.9	164.0	166.7	171.1
ABVPS (INR)	111.3	116.1	97.5	97.1	99.0
P/B (x)	0.8x	1.0x	0.7x	0.8x	0.8x
P/ABV (x)	1.3x	1.5x	1.2x	1.4x	1.4x

* Read last page for disclaimer & rating rationale

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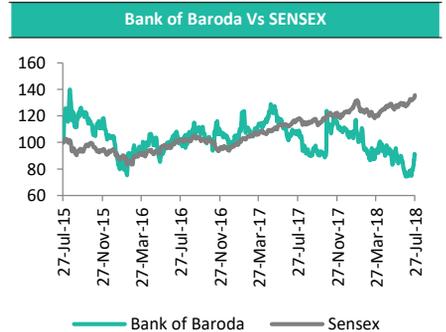
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STRONG BUY*



Stock Details	
Industry	BFSI
Sensex	37337
Nifty	11278
Bloomberg Code	BOB:IN
Eq. Cap. (Rs. Cr)	530
Face Value (Rs.)	2
52-w L/H	109/207
Market Cap (Cr)	36,521

	Valuation Data		
	FY18A	FY19E	FY20E
NIM	2.3%	2.7%	2.7%
Yield on advances	7.2%	7.8%	8.0%
Cost of funds	4.2%	4.4%	4.5%
Book value	164	167	171
Adj BV	97	97	99



	Shareholding Pattern		
	Jun'18	Mar'18	Jun'17
Promoters	63.7	64.0	59.2
FIIs	13.1	13.9	12.0
MF	11.2	11.3	10.5
Retail	5.0	4.7	4.9
Others	7.0	6.1	13.4
	100.0	100.0	100.0

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Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest on Advances/Bills	7986	6935	7457	15%	7%
Interest on Investment	2998	2427	2781	24%	8%
Interest on bal. with RBI & Others	442	845	383	-48%	15%
Other Interest	214	347	419	-38%	-49%
INTEREST EARNED	11640	10553	11039	10%	5%
NII	4381	3405	4002	29%	9%
Other Income	1148	1551	1696	-26%	-32%
Total Income	5529	4956	5698	12%	-3%
Operating Expenses	2523	2308	3033	9%	-17%
Pre-Provisional Profits	3006	2648	2665	13%	13%
Provisions & Contingencies	2166	2368	6672	-9%	-68%
PBT	840	280	-4007	200%	-
Provision for Taxes	312	77	-905	307%	-
Adjusted Net Profit	528	203	-3102	160%	-

- Bank's total operating income grew 12% YoY from 4956cr in Q1FY18 & de-grew 3% QoQ from 5698cr in Q4FY18 to 5529cr in this quarter on the back of 29% YoY growth in net interest income propelled by 10% YoY growth in advances and 27% YoY growth in investments.
- Bank's Net Interest Income grew 29% YoY from 3405cr in Q1FY18 & 9% QoQ from 4002cr in Q4FY18 to 4381cr in this quarter. Domestic yield on advances improved from 8.52% in Q1FY18 to 8.68% in Q1FY19 and global yield on advances improved from 6.93% in Q1FY18 to 7.46% in Q1FY19, although, domestic yield on investments contracted from 7.22% in Q1FY18 to 7.11% in Q1FY19 and global yield on investments contracted from 6.98% in Q1FY18 to 6.91% in Q1FY19. Domestic cost of funds slipped from 5.72% in Q1FY18 to 5.25% in Q1FY19 and Domestic cost of funds slipped from 4.61% in Q1FY18 to 4.52% in Q1FY19.
- Bank's quarterly cost to income ratio improved by 94bps YoY to 45.63% due to strategic move towards digitalization.
- Bank's quarterly pre-provisioning profit grew 13% YoY & 13% QoQ to 3006cr in this quarter.
- Bank's net profits came at 528cr in this quarter, up 307% YoY.
- Gross NPA ratio came at 12.46% (v/s 11.40% in Q1FY18) and NNPA came at 5.40% (v/s 5.17% in Q1FY18). Provision coverage ratio was 69.11% (v/s 66.28% in Q1FY18).

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Deposits	581,484	570,608	591,315	2%	-2%
Borrowings	64,015	28,438	62,572	125%	2%
Investments	174,643	137,975	163,185	27%	7%
Advances	414,517	377,607	427,432	10%	-3%
Total Assets	714,402	664,375	720,000	8%	-1%

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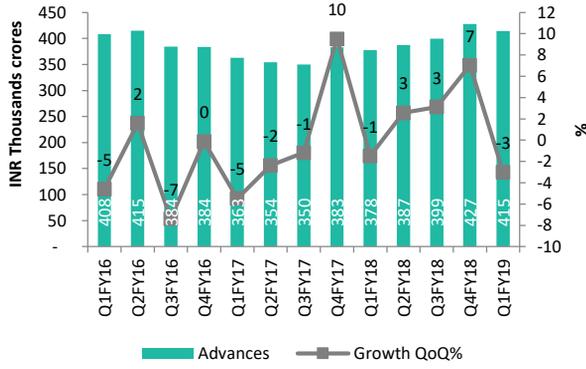
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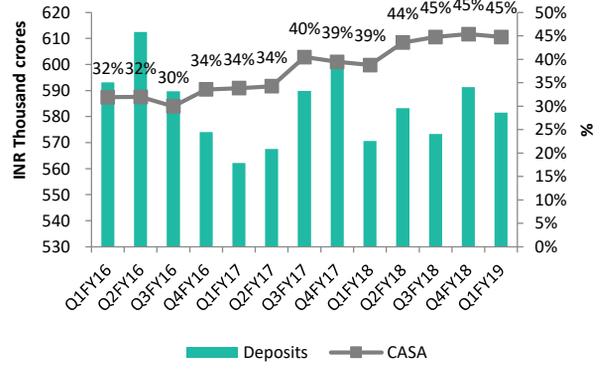
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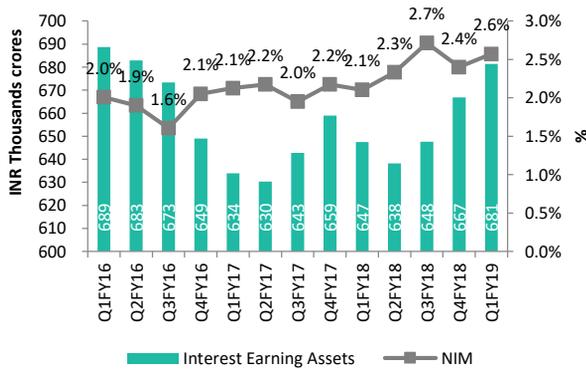
Advances Profile



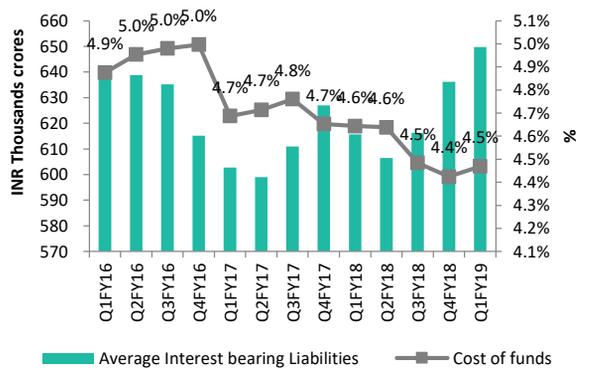
Deposits Profile



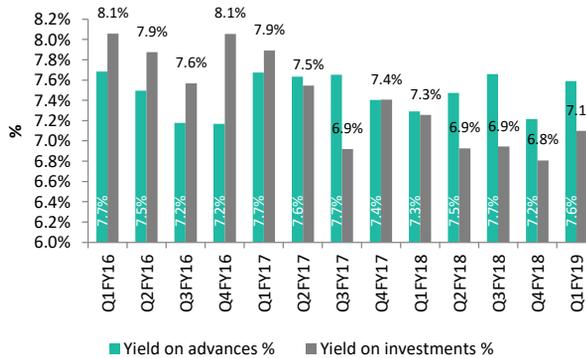
Interest Earning Assets



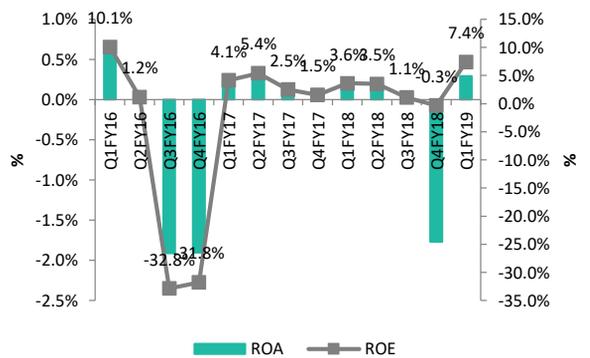
Interest Bearing Liabilities



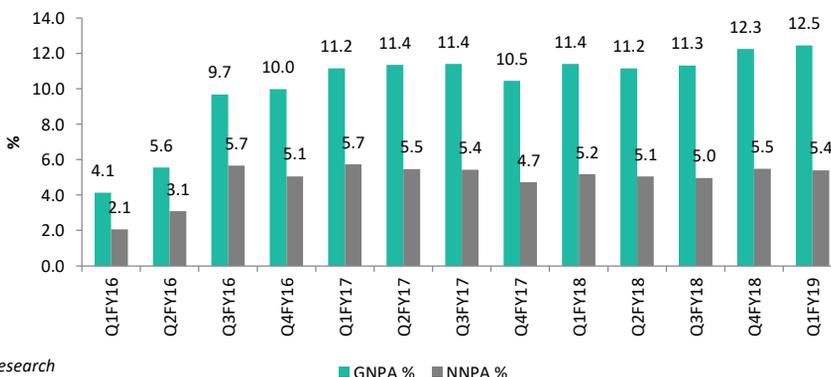
Yield Profile



Return Ratios



Asset Quality



Source: Company, NSPL Research



(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	44,061.3	42,199.9	43,648.5	49,988.6	55,244.3
Interest expended	31,321.4	28,686.5	28,126.8	31,131.6	34,684.1
Net interest income	12,739.9	13,513.4	15,521.8	18,857.1	20,560.2
Non-interest income	4,998.9	6,758.1	6,657.2	8,149.9	8,846.8
Total income	17,738.7	20,271.5	22,178.9	27,007.0	29,407.0
Operating expenses	8,923.1	9,296.4	10,173.4	12,320.5	13,341.8
Pre-provisioning profit	8,815.6	10,975.1	12,005.6	14,686.5	16,065.2
Provisions	15,513.7	8,502.4	14,796.3	13,690.1	14,381.6
Profit before tax (PBT)	-6,698.1	2,472.7	-2,790.7	996.4	1,683.6
Tax expense	-1,302.5	1,089.6	-358.9	298.9	505.1
Adjusted PAT	-5,395.5	1,383.1	-2,431.8	697.5	1,178.5

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	462.1	456.5	460.6	461.1	461.1
Shareholder's Fund	40,199.0	22,054.1	25,758.3	30,477.1	36,921.0
Deposits	574,037.9	142,874.3	200,738.2	270,996.5	357,355.8
Borrowings	33,471.7	38,606.7	74,893.6	101,106.3	115,963.1
Cash & Balances with RBI	133,900.3	19,549.4	24,734.4	25,604.8	33,286.2
Investments	120,450.5	50,031.8	68,398.9	100,125.2	130,162.7
Advances	383,770.2	132,262.7	203,533.9	274,770.7	357,201.9
Total Assets	671,376.5	215,059.9	312,445.6	421,801.6	548,342.0

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	-10.3%	-0.1%	11.5%	7.0%	10.0%
Deposits (%)	-7.0%	4.8%	-1.7%	7.0%	10.9%
Total assets (%)	-6.1%	3.5%	3.6%	7.0%	10.0%
NII (%)	-3.4%	6.1%	14.9%	21.5%	9.0%
Pre-provisioning profit (%)	-11.1%	24.5%	9.4%	22.3%	9.4%

Balance sheet ratios					
Credit/Deposit (%)	66.9%	63.7%	72.3%	72.3%	71.7%
CASA (%)	26.4%	32.2%	45.4%	44.8%	44.6%
Advances/Total assets (%)	59.9%	57.2%	55.2%	59.4%	59.4%
Leverage (x)	16.7x	9.8x	12.1x	13.8x	14.9x

Operating efficiency					
Cost/income (%)	50.3%	45.9%	45.9%	45.6%	45.4%
Opex/total assets (%)	1.3%	4.3%	3.3%	2.9%	2.4%
Opex/total interest earning assets (%)	1.4%	1.4%	1.5%	1.7%	1.6%

Profitability					
NIM (%)	1.9%	2.1%	2.3%	2.7%	2.7%
Yield on advances (%)	7.3%	7.2%	7.2%	7.8%	8.0%
Cost of funds (%)	4.7%	4.4%	4.2%	4.4%	4.5%

Asset quality					
Gross NPA (%)	10.0%	10.5%	12.3%	12.4%	12.3%
Net NPA (%)	5.1%	4.7%	5.5%	5.4%	5.1%
PCR (%)	52.1%	57.7%	58.4%	60.0%	62.0%
Credit Cost (%)	3.5%	2.1%	3.5%	3.0%	2.9%

Per share data / Valuation					
BV (Rs.)	174.5	174.9	164.0	166.7	171.1
ABV (Rs.)	111.3	116.1	97.5	97.1	99.0
P/BV (x)	0.8x	1.0x	0.7x	0.8x	0.8x
P/ABV (x)	1.3x	1.5x	1.2x	1.4x	1.4x

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Bank of Baroda				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
July 30, 2018	138	173	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Other disclosures	NO

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